MINUTES

VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
AUGUST 8, 2012
3:00 PM- 4:00 PM

VENTURA COUNTY COMMUNITY COLLEGE
DISTRICT BOARD ROOM
255 WEST STANLEY AVENUE, SUITE 150
VENTURA, CA. 93001
(805) 652-5500

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 3:03 PM by Roslyn Washington, Account Manager, Keenan Financial Services.

II. ROLL CALL

RETIREMENT BOARD OF AUTHORITY (the "Board") MEMBERS:

Vice Chancellor, Business and Administrative Services	Susan Johnson
Director of Fiscal Services	Mary Anne McNeil
Director of Human Resources Operations	Jay Wysard

PROGRAM COORDINATOR:

Account Manager	Roslyn Washington

CONSULTANTS:

Benefit Trust Company	Scott Rankin
Morgan Stanley Smith Barney	Cary Allison

OTHERS

None

ABSENT

Vice Chancellor, Human Resources	Patricia Parham
Senior Vice President	Gail Beal

III. APPROVAL OF AGENDA

A motion was made by Board member Susan Johnson to approve the Agenda as presented, seconded by Board member Mary Anne McNeil and unanimously carried by the Board.

IV. APPROVAL OF MINUTES

A motion was made by Board member Susan Johnson to approve the minutes of the previous meeting on August 8, 2012 as presented. The motion was seconded by Board member Jay Wysard and unanimously carried by the Board.

V. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided an overview of the District's Public Entity Investment Trust Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending June 30, 2012. As of June 30, 2012, the District's Investment Trust portfolio had an allocation of 53.4% in fixed income funds and 46.6% in equity funds (equity funds comprised 31.5% in domestic equity, 15.1% in international equity). The value of the portfolio as of December 31, 2011 was $10,151,531.11 and the value as of June 30, 2012 is $11,286,447.60. The June 30, 2012 portfolio value represents an annualized inception to date net rate of return of 0.40% compared to the Barclays Aggregate of 7.89% and the S&P 500 Adj for Divs of 4.42%.

In the Board materials provided, Cary presented the Asset Allocation and Portfolio Updates for the Futuris Public Entity Investment Trust Model Portfolios for period ending June 30, 2012.

Board member Susan Johnson wondered why portfolio returns did not match the returns of the Barclays Aggregate index. Cary advised Board members that international exposure was the culprit in the second quarter of 2012 although he noted that the EAFE index has been up 4.33% in July and August.

A motion was made by Board member Mary Anne McNeil to accept the Portfolio Review as presented. The motion was seconded by Board member Jay Wysard and unanimously carried by the Board.

MARKET OVERVIEW

In his overview of the capital markets, Cary noted that stocks are inexpensive now and that the fixed income markets are pretty expensive with the 10-year Treasury current yield at 1.65%. He informed Board members that Morgan Stanley Smith Barney (MSSB) has lowered their growth expectations for 2012 to 2-3%. He noted that unemployment is really affecting the markets with the current rate in the U.S. at 8.3% and probably the real rate is perhaps closer to15%. Relative to markets overseas, MSSB sees Greece perhaps leaving the European Central Bank. As European markets are big clients for China, MSSB do not believe that China will have continued growth. Cary advised Board members that the District's OPEB portfolio has no exposure to fixed income markets in Portugal, Italy, Greece, or Spain (PIGS). There is some little exposure to fixed income markets in Ireland as they have done well with their austerity program and are starting to turn their economy around. Cary noted that the typical driver of inflation is wage pressure and that does not appear to be happening at this time so that there is little concern about inflation right now.

In the Board materials, Cary Allison of Morgan Stanley Smith Barney (MSSB) also provided MSSB Consulting Group "Capital Markets Overview" for the second quarter 2012. In the second quarter, equities retreated from their first quarter advances as investors reassessed the impact of the European financial crisis on global economic growth. The Dow Jones Industrial Average was down 1.9% for the second quarter. The NASDAQ Composite was down 5.1% for the quarter, while the S&P 500 2.8% in the same period. With Europe in a recession and slowing worldwide economic growth, fiscal concerns weighed on global growth expectations. Both Morgan Stanley Smith Barney and Citi economists have lowered global growth expectations for 2012 to 3.5% and 3.0%, respectively, with about 80% of growth coming from emerging market economies. U.S. economic growth is expected by both firms to be 2.1% in 2012.

Relative to the U.S. Equity Markets, the Dow Jones Industrial Average was down 1.9% for the second quarter. The NASDAQ Composite was down 5.1% for the quarter, while the S&P 500 fell 2.8% in the same period. The Russell 2000 index, a small-cap index, fell 3.5% for the quarter. The small-cap Russell 2000 Growth index fell 3.9% for the quarter, while the Russell 100 Growth index, a large-cap index, fell 4.0%. Regarding the global equity markets, in the second quarter, emerging markets (EM) and global equities fell. The MSCI EAFE index (a benchmark for developed markets) fell 6.9% for U.S. - currency investors and fell 5.1% for local-currency investors, as the U.S. dollar appreciated in relation to the currencies of many nations on the index. This contrasts with the previous quarter, when the MSCI Emerging Markets index was up 14.1% for U.S.-dollar based investors and rose 10.8% for local-currency investors.

A flight to safety rallied U.S. Treasurys in the second quarter of 2012. As a result, the benchmark 10-year Treasury note yield fell, ending the quarter at 1.66%. The Barclays Capital U.S. Aggregate Bond index, a general measure of the fixed-income market, rose 2.1% for the second quarter. In contrast, the Barclays Capital High Yield index, a measure of lower-rated corporate bonds, rose 1.8% for the quarter.

VI. EDUCATION

In the Board materials, Cary Allison of Morgan Stanley Smith Barney (MSSB) provided a positive equity perspective for Summer/Fall 2012 from Tobias M. Levkovich of Citi Investment Research & Analysis entitled "Monday Morning Musings – A Positive Inflection seems Imminent" Equity markets move on trends. The Panic/Euphoria Model brings a better equity market as prices drop and at that point savvy investors tend to buy more. The following market indicators for a positive rally this summer into fall are profiled:

- **Too many indicators signal a likely inflection in stock price trend:** A variety of both short and intermediate term gauges suggest that markets are poised to rally this summer into the fall, despite all the anxiety surrounding European sovereign credit issues, slowing global economic and the US elections as well as fiscal cliff.
- **Sentiment, valuation, credit standards and implied earnings growth are sending out a positive vibe:** The Panic/Euphoria Model, normalized earnings yield gap analysis and implied long-term Earnings-Per-Share (EPS) growth approaches all suggest a better than 94% chance of market gains in the next year, while credit conditions and hiring intentions imply that no US recession is likely. Further, data highlights a 90% or better probability of gains within the next six months.
- **Earnings estimates revision momentum intimates a market low point:** The overall trend in S&P EPS growth estimates have been to the downside since April and many investors blame areas like Energy and Materials as commodity prices have slumped, but the same trend holds true for Consumer Staples

which are typically defensive areas. The good news is that estimate revision momentum has plummeted to historically non-recession lows, where equity markets generally bottom.

- **The Citi Economic Surprise Index and intra-stock price correlation are at intriguing levels:** Investors appear to have decided that macro events move all stocks and there should be no distinction between companies with good balance sheets, strong management and earnings growth, for example, and those that have the opposite characteristics. When this development was seen in the past, it was a sign of capitulation and stock indices began to change direction.
- **Pre-announcement trends already demonstrate an expectation of lower forward guidance:** The negative-to-positive pre-announcement ratio have surged to 3.5x, surpassing forth quarter 2011's 3.3x and rising to proportions last seen in late 2008/early 2009, even as the overall business environment is far better currently. While further negative news is possible, particularly when it comes to excessive forth quarter 2012 profit expectations, it seems as if the investment community is well aware of the risk at this juncture as opposed to being complacent in second quarter 2008 when the emerging economy's "decoupling" was projected to save the day.

VII. ADMINISTRATION

ACTUARIAL VALUATION STUDY UPDATE

The Board advised that the current Actuarial Valuation Study is scheduled for completion in January 2013. The process of updating the Actuarial Valuation Study has been started by the District's actuarial service provider Total Compensation Systems, Inc. and is expected to be completed in early 2013.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

The Board advised that they are keeping the same quarterly transfer schedule currently in place.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Pursuant to the regulatory requirements of California Government Code Section 53216.4, the Annual Report on the status of the Trust reflected the total assets in the Trust, the market value, the book value, all contributions and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sales activity, and realized gains and losses for fiscal year ending June 30, 2012. The District has confirmed that this information was promulgated to the OPEB plan participants and their beneficiaries.

Relative to Report production, Board members were advised that Benefit Trust Company (BTC), the District's OPEB Trustee, changed Trust accounting systems effective August 1, 2011. Unfortunately, transaction history was not converted from the old trust accounting system to the new one. In order to review the books and records of the District's OPEB Trust for the entire fiscal year two report statements will need to be referenced. They will have to reference the July 2011 monthly statement and the 11 month statement that covers periods August 1, 2011 thru June 30, 2012.

In addition, Board members were advised that the ending balance on the July 31st report statement does not match the beginning balance of the August 1st statement. The old trust accounting system used by BTC calculates accruals differently than the new system. By taking the ending balance from the July report statement and subtracting the accrual number from the July report statement and then adding in the "prior accrual" number from the bottom left column of the second report statement, the two statements can be easily reconciled.

At the time of conversion, all accounts were carefully reviewed to ensure that all investment fund units held for clients were reconciled and transferred properly.

A motion was made by Board member Susan Johnson acknowledging the promulgation of the Annual Report to the District's OPEB plan participants and their beneficiaries. The motion was seconded by Board member Mary Anne McNeil and unanimously carried by the Board.

STATUS OF UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN

Roslyn Washington of Keenan Financial Services (KFS) reviewed the Forms, Processes and Protocols associated with updating the District's "Substantive Plan" for fiscal year ending June 30, 2012. Board member Jay Wysard advised that the "Ongoing OPEB Questionnaire & Due Diligence" Forms be sent to him for signature.

VIII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

Roslyn Washington of Keenan Financial Services advised Board members that the annual Investment Workshops are scheduled on October 16, 2012 in Pasadena, CA, and on October 17, 2012 in Walnut Creek, CA. All Board members will be informed via a "Hold that Date" notification and by Invitation to the Investment Workshop in the near future.

VISITOR COMMENTS

There were no Visitor comments.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority (RBOA) meeting is scheduled as follows:

- February 5, 2013: 3:00 PM-4:00 PM.

Agenda Items to be reviewed at the next RBOA meeting should include.

- Items that require the District's Governing Board Resolution/Conflict of Interest presentation.

X. ADJOURNMENT

The Retirement Board of Authority meeting was adjourned by Roslyn Washington, Account Manager, Keenan Financial Services at 3:41 PM

Americans with Disabilities Act: The Ventura County Community College District Retirement Board of Authority conforms to the protections and prohibitions contained in Section 202 of the Americans with Disabilities Act of 1990 and the federal rules and regulations adopted in implementation thereof. A request for disability-related modifications or accommodation, in order to participate in a public meeting of the Ventura County Community College District Retirement Board of Authority, shall be made to: Susan Johnson, Vice Chancellor, Business and Administrative Services, Ventura County Community College District, 255 West Stanley Avenue, Suite 150, Ventura, CA. 93001.