

MINUTES

**VENTURA COUNTY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
NOVEMBER 20, 2014
11:00 AM- 1:00 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 11.09 AM by RBOA Chair Brian Fahnestock.

Roll call was conducted with all members of the Retirement Board of Authority (RBOA) reporting their presence. All Service Organization representatives indicated their presence except Gail Beal of Keenan Financial Services who was absent from the meeting.

II. ROLL CALL

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

Vice Chancellor, Business and Administrative Services	Brian Fahnestock
Vice Chancellor, Human Resources	Michael Shanahan
Director of Fiscal Services	Emily Day
Director of Human Resources Operations	Gary Maehara
American Federation of Teachers Local 1828/AFL-CIO	Steve Hall
Service Employee International Union Local 99	Larry Maher

PROGRAM COORDINATOR:

Account Manager	Roslyn Washington
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CONSULTANTS:

Morgan Stanley Wealth Management (MS)	Cary Allison
Benefit Trust Company (BTC)	Scott Rankin

ABSENT:

Senior Vice President, Keenan Financial Services	Gail Beal
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II. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

A motion was made by RBOA member Gary Maehara to adjust the Administration Item “Designation of New Members to the Retirement Board of Authority” subsequent to the “Approval of Agenda” on the Agenda platform. The motion was seconded by RBOA member Michael Shanahan and was unanimously carried by a roll call of the RBOA members present.

V. ADMINISTRATION

DESIGNATION OF NEW MEMBERS TO THE RETIREMENT BOARD OF AUTHORITY

A motion was made by RBOA Chair Brian Fahnestock to acknowledge and welcome **Emily Day**, Director of Fiscal Services; **Steve Hall**, American Federation of Teachers Local 1828/AFL-CIO; **Larry Maher**, Service Employee International Union Local 99 as Retirement Board of Authority members. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA membership present.

VI. APPROVAL OF MINUTES

A motion was made by RBOA member Gary Maehara to approve the Minutes of the previous meeting pursuant to correcting the spelling of Michael Shanahan name under the ‘Approval of Agenda’ motion in the Minutes. The motion was seconded by RBOA member Michael Shanahan and was unanimously carried by a roll call of the RBOA membership present.

VII. INVESTMENTS

PORTFOLIO PERFORMANCE REVIEW

Cary Allison of Morgan Stanley Wealth Management (MS), provided an overview of the District’s Public Entity Investment Trust Account Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending October 31, 2014. As of October 31, 2014, the District’s Investment Trust portfolio had an allocation of 38.6% in fixed income funds and 61.4% in equity funds (equity funds comprised 38.7% in domestic equity and 35.7% in international equity). The value of the portfolio as of December 31, 2013 was \$14,864,971.30 and the portfolio value as of October 31, 2014 is \$16,061,220.56. The October 31, 2014 portfolio value represents an Annualized Inception to Date net rate of return of 6.30% compared to the Barclays Aggregate of 4.05%; the Barclays Global Aggregate Bd. Unhedged of 2.09%; the S&P 500 Adj for Divs of 14.85%; the MSCI EAFE of 4.97 and the 50% MSCI ACWI/50% of 6.31. The investment results for the last year show a net increase of 6.01% versus the Barclays Aggregate of 4.12%; the Barclays Global Agg Bd. Unhedged of 0.23%; the S&P 500 Adj for Divs of 17.26%; the MSCI EAFE of -0.60% and the 50% MSCI ACWI/50% of 6.03%. The annualized latest three year results reflect a net increase of 8.29% versus the Barclays Aggregate of 2.73%; the Barclays Global Agg Bd. Unhedged of 0.69%; the S&P 500 Adj for Divs of 19.77%; the MSCI EAFE of 9.68% and the 50% MSCI ACWI/50% of 7.91%. The current dividend yield on the District’s Investment Trust portfolio fixed income investments was 3.1% while the current dividend yield on the aggregated portfolio was 2.1%.

Cary also provided an overview of the District’s Public Entity Investment Trust Portfolio Performance Report as of September 30, 2014. In his commentary to the Retirement Board of Authority (RBOA)

membership relative to the District's Investment Trust portfolio, Cary provided a brief overview relative to the current status of economies in Japan and Europe. He noted that the in a discussion with Wellington Capital Management, they had advised him that Japan's economy is better than recently presented in the press. Cary advised that economic growth in Europe is flat to negative. He noted that that if each country in Europe had their own currencies, the stronger economies would do better. In this connection, there is some tension developing and Germany is embracing the fact that they will be required to subsidize the weaker economies as Germany is benefiting from the Euro's status as a single currency. Cary also advised the RBOA membership that the District's Investment Trust's portfolio positions were recently rebalanced. He advised that the Trust's portfolio International/Global Equity platform were bolstered by the inclusion of the following funds:

1. BRANDES International Small Cap Equity I (BISMX).
2. CLEARBRIDGE International Small Cap I (LCOLX).

In this connection, Royce Global Value (RGVIX) was removed from the District's Investment Trust platform.

Cary advised that while stocks valuations are not historically expensive as they are trading at 16 times earnings. Relative to inflation, it is still not a concern as it moves with wage increases and there is not much wage growth at the moment. Cary finally advised that while he does see interest rates going up, he does not see a dramatic uptick.

A motion was made by RBOA member Michael Shanahan to accept the Portfolio Performance Review as presented. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA members present.

MARKET OVERVIEW

Cary Allison of Morgan Stanley Wealth Management (MS) presented the Retirement Board of Authority (RBOA) with Morgan Stanley's Capital Markets Overview ("Markets Overview") for the third quarter of 2014. In the third quarter, equity performance in the United States was mixed, in part due to an uptick in volatility spurred by geopolitical concerns in Ukraine/Russia and the Middle East. Ongoing monetary stimulus by major central banks throughout the world helped keep equities afloat. Investor confidence was also bolstered by the Federal Reserve's (the "Fed") indication that short-term interest rates could remain in their current low range for some time after Quantitative Ease 3 (QE3) tapering is completed (QE3 allows the Fed to purchase billions of dollars in mortgage-backed securities to lower long-term interest rates and stimulate housing and other sectors dependent on borrowing). Relative to the U.S. Equity markets, the Markets Overview noted that Dow Jones Industrial Average rose 1.9% in the third quarter, The NASDAQ Composite Index advanced 2.2% and the S&P 500 Index rose 1.1% for the quarter, its seventh consecutive quarterly increase. Morgan Stanley and Co. LLC economists expect that U.S. real GDP will be 2.1% in 2014 and 2.8% in 2015. Morgan Stanley economists forecast global GDP growth to be 3.1% in 2014 and 3.5% in 2015. For the quarter, the seasonally adjusted unemployment rate fell from 6.2% for July to 5.9% for September. Job gains in the quarter took place in retail trade, health care, and professional and business services. The unemployment rate (5.9%) and the number of unemployed persons (9.3 million) decreased in September. The number of long-term unemployed (3.0 million) was unchanged in September. Inflation remained low in the U.S. Morgan Stanley & Co. LLC economists forecast a 2.0% inflation rate for 2014 and 1.8% for 2015. The Census Bureau reported that private-sector housing starts in August 2014 were at a seasonally adjusted annual rate of 956,000—8.0% above August 2013 housing starts. The rise in housing

starts over the past year indicates that despite some intermittent setbacks, the housing market is rebounding. Regarding to Global Equity, in the third quarter, emerging markets (EM) and global equities generally declined. The MSCI EAFE Index (a benchmark for developed markets) fell 5.8% for U.S.-currency investors and rose 1.0% for local-currency investors as the U.S. dollar appreciated in relation to the currencies of many nations in the index. The MSCI Europe Index fell 7.0% for U.S.-currency investors and fell 0.2% for local-currency investors during the quarter. Emerging economy equity market indices were mixed in the third quarter. The MSCI BRIC (Brazil, Russia, India and China) Index fell 3.1% for the quarter in U.S. dollar terms and advanced 1.4% in terms of local currencies. Regarding the U.S Bond Market, in the third quarter the bond market returns increased slightly – the Barclays U.S. Aggregate Bond Index, a general measure of the bond market rose 0.2% for the quarter. Interest rates declined during the quarter, as the yield on the 10-year U.S. Treasury note fell to a quarter-end 2.49% from 2.53% at the end of the second quarter.

INVESTMENT POLICY STATEMENT REVIEW

Scott Rankin of Benefit Trust Company (BTC) advised that fiduciary best practices require ongoing adjustments to certain provisions of the District’s Investment Policy Statement (IPS). In a brief background overview, Scott noted that the IPS is constituted of two parts – the first part details governance principles which are mandated pursuant to the California Government Code Sections 53620 through 53622 which draws extensively from the Employee Retirement Income Security Act (ERISA). He explained that this part of the IPS incorporates fiduciary and governance mandates related to the “Prudent Person Standard”; the “Exclusive Benefit Standard”; the delegation to qualified experts and the duty to diversify investments “so as to minimize the risk of large losses”. Within this fiduciary and governance structure, Scott explained that the District’s Trust portfolio investments are designed per a prudent decision-making process; selected by qualified expertise to provide benefits exclusively to the OPEB Plan participants and invested so as to minimize the risk of large losses. Scott also discussed the Trust’s portfolio regulatory requirement to have “a broad range of investment choices that have distinctly different risk return characteristics”.

Cary Allison of Morgan Stanley Wealth Management (MS) explained that the second part of the IPS addresses permitted and non-permitted investments and strategies. He advised that additional language is required to detail the Trust’s portfolio Equity and Fixed Income restrictions in tracking current institutional investment practices.

On the Equity side, Cary advised that the restrictions listed in the IPS shall be permitted in the context of “open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, and the investments provide for daily liquidity.” He continued by explaining that “additionally, certain securities may not be held directly, but only in open-ended or closed-end mutual funds, comingled funds, or ETFs i.e. common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common of non-U.S. companies traded on global exchanges, traded in any currency, as well as restricted securities of U.S. and non-U.S. companies, including securities issued through private offerings, and forward currency contracts or currency futures to hedge foreign currency exposure”. Cray explained that the Benchmarks included for the measurement of the District’s Investment Trust equity performance oversight are being simplified. He advised that the S&P 500 is included for Domestic Equities and MSCI EAFE and ACWI ex. U.S for International Equities. Cary explained that this latter benchmark tracks developed & emerging markets globally excluding the U.S. domestic markets.

On the Fixed Income side, Cary continued by advising that the restrictions listed in the IPS shall be permitted in the framework of “open-end or closed-end mutual-end mutual funds, comingled funds, or

ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, risk mitigation, and the investments provide for daily liquidity.” He further explained that “investment in non-investment grade bonds or loans by such funds shall be permitted so long as the average aggregate rating of the funds are investment grade, and in the opinion of the Trustee the proportion of non-investment grade bonds to investment grade bonds in the portfolio is prudent.” Again Cary explained that the Benchmarks included for the measurement of the District’s Investment Trust Fixed Income performance oversight are being simplified. He advised that the Barclay’s Aggregate Bond Index is included for Domestic Fixed Income Securities and the Barclay’s Global Bond Index for International Fixed Income Securities.

A motion was made by RBOA member Gary Maehara to approve the additional provisions of the Investment Policy Statement (IPS) as presented. The motion was seconded by RBOA member Steve Hall and was unanimously carried by a roll call of the RBOA membership present.

VIII. EDUCATION

Roslyn Washington of Keenan Financial Services discussed the Governmental Accounting Standards Board (GASB) approval of two new draft standards that, when finalized, will impact the financial accounting and reporting of OPEB for state and local agencies. She advised that the proposed standards are intended to bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

The **Employer Draft Standard** is entitled “*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*” and is intended to supersede GASB standard No. 45.

The **Plan Draft Standard** is entitled “*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*” and is intended to supersede GASB standard No.43.

Roslyn presented a ‘Keenan Briefing’ to the RBOA membership which explains that the “**Employer Draft Standard**” proposes using a discount rate that applies: (a) the expected long-term rate of return on OPEB Plan investments for which plan assets **are expected to be available to make projected benefit payments** and (b) the use of an interest rate on a 20-year tax-exempt, high-quality general obligation municipal bond yield or index to project benefit payments for which **plan assets are not expected to be available for long-term investment in a qualified trust** (c) the use of a single actuarial cost allocation method – “entry age normal” – rather than the current choice among six actuarial cost methods. The “**Plan Draft Standard**” addresses financial reporting for *defined benefit* OPEB plans that are administered through a qualified trust. The proposed standards would require governmental employers and OPEB plans to present much more extensive note disclosure and Required Supplementary Information (RSI) about their OPEB liabilities.

Roslyn informed the RBOA membership that GASB has set effective dates for the new standards as follows:

- December 15, 2016 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*
- December 15, 2015 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*

IX. ADMINISTRATION (Cont.)

ELECTION OF VICE-CHAIR FOR THE RETIREMENT BOARD OF AUTHORITY

Roslyn Washington of Keenan Financial Services (KFS) advised that under the provisions of section 2.4 of the RBOA Bylaws, the position of Vice-Chair is a voted position by the Retirement Board of Authority membership. Pursuant to a brief discussion, RBOA member Steve Hall volunteered to embrace the duties of this position.

A motion was made by RBOA member Gary Maehara to affirm and ratify Steve Hall as Vice-Chair of the Retirement Board of Authority. The motion was seconded by RBOA member Michael Shanahan and was unanimously carried by a roll call of the RBOA membership present.

AMENDMENT TO RBOA BYLAWS

As the Retirement Board of Authority membership did not wish to limit the time served by the designated representatives appointed by the AFT Local 1828, AFL-CIO and SEIU Local 99, RBOA Chair Brian Fahnestock suggested that the provision that “the two appointees that are based on representation instead of title will have a one-year term limit with members rotated on an annual basis” be removed from section 2.2 of the RBOA Bylaws.

A motion was made by RBOA Vice-Chair Steve Hall to approve the Bylaws as amended. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA membership present.

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 reflects 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, 2014.

A motion was made by RBOA Vice-Chair Steve Hall acknowledging that the Annual Report and District Cover Letter had been promulgated to the Trust’s beneficiaries, in July 2014, according to established District protocols. The motion was seconded by RBOA member Gary Maehara and was unanimously carried by a roll call of the RBOA membership present.

DISBURSEMENT REPORT

Roslyn Washington of Keenan Financial Services presented the RBOA membership with the Disbursement Report which reflected the expenses associated with GASB/Regulatory compliance and the management/operation of the District’s Investment Trust for the period June 2014 through November 2014.

A motion was made by RBOA member Gary Maehara to ratify the expenses associated with GASB/Regulatory compliance and the management/operation of the District’s OPEB Investment Trust for the period of June 2014 through November 2014. The motion was seconded by RBOA member Emily

Day and was unanimously carried by a roll call of the RBOA membership present.

UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE “SUBSTANTIVE PLAN”

Roslyn Washington of Keenan Financial Services (KFS) explained that the **“OPEB Questionnaire & Due Diligence Form”** in the RBOA meeting materials is a significant part of a dedicated process designed to provide updates to the “Substantive Plan” for the 2013/2014 fiscal year end. In this connection, she noted that the “OPEB Questionnaire & Due Diligence Form” has been already populated with the required updated district data so that the “Substantive Plan” can be readily brought current and delivered for fiscal 2013/2014. Roslyn advised that the “e-Library” will also be updated and delivered before calendar year end to reflect the District’s OPEB Investment Trust compliance with GASB protocols and regulatory requirements for fiscal year ending June 30, 2014.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

RBOA Chair Brian Fahnestock advised the he anticipates another \$500,000.00 deposit to the District’s Investment Trust for the current fiscal year. Relative to the District’s future Investment Trust funding schedule, he noted that they are asking their consulting actuary a lot of questions relative to understanding their budgetary requirements going forward. RBOA Vice-Chair Steve Hall asked if the District’s deposit would be positioned into the capital markets as a lump sum. A brief discussion ensued relative to positioning deposits to the capital markets via a dollar-cost-averaging strategy. RBOA Chair Brian Fahnestock anticipates that going forward; District payments will be remitted quarterly rather than on a yearly basis in order to facilitate a dollar-cost averaging strategy vis-à-vis the capital markets.

ACTUARIAL VALUATION STUDY UPDATE

RBOA Chair Brian Fahnestock noted that they have been working with the District’s consulting actuary Geoff Kischuck of Total Compensation Systems, Inc. Brian advised that the Actuarial Valuation process has been completed and they are waiting to receive the final draft from their consulting actuary.

X. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

Led by RBOA member Michael Shanahan, the Board acknowledged and welcomed new members **Emily Hall, Steve Hall and Larry Maher**. In response, new RBOA members Emily, Steve and Larry signified that they were pleased to be positioned on the Board.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

As to the next meeting date, a tentative schedule was set for April 21, 2015 as noted below. In this connection, Scott Rankin of Benefit Trust Company noted that RBOA meetings are subject to Brown Act provisions which has a 72 hour notice requirement – however, he advised that a meeting can be scheduled very quickly should a need arise

XI. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

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

- April 21, 2015: 2:00 PM – 4:00 PM.

XII. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority (RBOA) meeting was adjourned at 12:25 PM by Board Chair Brian Fahnestock.

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: Brian Fahnestock, Vice Chancellor, Business and Administrative Services, Ventura County Community College District, 255 West Stanley Avenue, Suite 150, Ventura, CA. 93001.