

MINUTES

**EL CAMINO COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
FEBRUARY 18, 2015
1:00 PM-3:00 PM**

**EL CAMINO COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BUILDING ROOM 131
16007 CRENSHAW BLVD
TORRANCE, CA. 90506
PHONE (310) 532-3670**

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 1:09 AM by RBOA Chair Jo Ann Higdon.

Roll-call was conducted with all members of the Retirement Board of Authority (RBOA) reporting their attendance at the meeting. All Service Organization representatives also indicated their presence except **Sharen Stanek-Lowe** of Keenan Financial Services who was unable to attend the meeting.

II. ROLL CALL

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

Vice President, Administrative Services & Board Chair
Director, Purchasing and Business Services
Director of Human Resources
Vice President, Human Resources
Business Manager, Fiscal Services

Jo Ann Higdon
Rocky Bonura
Lynn Lindberg
Linda Beam
Janice Ely

PROGRAM COORDINATOR:

Senior Vice President
Account Manager

Gail Beal
Roslyn Washington

CONSULTANTS:

Benefit Trust Company (BTC)
Morgan Stanley Wealth Management (MS)

Scott Rankin
Cary Allison

ABSENT

Account Executive, Keenan Financial Services (KFS)

Sharen Stanek-Lowe

III. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

A motion was made by RBOA member Rocky Bonura to approve the Agenda as presented. The motion was seconded by RBOA member Linda Beam and was unanimously carried by a roll-call of the RBOA membership present.

V. APPROVAL OF MINUTES

A motion was made by RBOA member Rocky Bonura to approve the Minutes from the previous meeting on July 8, 2014 as presented. The motion was seconded by RBOA member Lynn Lindberg and was unanimously carried by a roll-call of the RBOA membership present. RBOA Chair Jo Ann Higdon and RBOA member Linda Beam abstained as they were not present at the previous meeting in July 2014.

VI. 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 January 31, 2015. As of January 31, 2015, the District's Investment Trust portfolio had an allocation of 84.1% in fixed income funds and 15.9% in equity funds (equity funds comprised 9.0% in domestic equity and 6.9% in international equity). The value of the portfolio as of December 31, 2014 was \$22,715,006.88 and the portfolio value for period ended January 31, 2015 is \$23,004,752.34. The January 31, 2015 portfolio value represents an Annualized Inception to Date net rate of return of 4.08% compared to the Barclays Aggregate of 2.62%; the Barclays Global Agg Bd. Unhedged of -1.14%; the MSCI EAFE of 10.03%; the MSCI ACWI Ex US Net of 7.00%; the S&P 500 Adj for Divs of 17.39% and the 50% MSCI ACWI/50% Barclays Agg of 7.18%. The investment results for the last (1) year show a net increase of 5.72% versus the Barclays Aggregate of 6.60%; the Barclays Global Agg Bd. Unhedged of -0.62%; the MSCI EAFE of -0.43%; the MSCI ACWI Ex US Net of 0.55%; the S&P 500 Adj for Divs of 14.22% and the 50% MSCI ACWI/50% Barclays Agg of 6.77%. The current dividend yield on the District's Investment Trust portfolio fixed income investments was 4.1% while the current dividend yield on the aggregated portfolio was 3.7%.

Additionally, Cary provided an overview of the Model Portfolios Performance Reports as of December 31, 2014. He advised the RBOA membership of manager changes made to the Model Trust Portfolios last year explaining that the International/Global Equity platform has been enhanced by adding the following funds: 1. American Funds New Perspective Fund (ANWFX). 2. American Funds New World Fund (NFFFX). 3. Brandes Emerging Markets Fund (BEMIX). To enhance the Fixed Income platform, he explained that the Oppenheimer International Bond (OIBYX) has been replaced by Hartford's World Bond Fund (HWDIX). Cary provided a brief overview of selected Portfolio Report indices designed to measure and evaluate the Domestic and Global platforms of the Investment Trust's portfolio. In this connection, there was a review of selected capital market indices such as the MSCI EAFE and the MSCI ACWI Ex US Net for the

International Equity markets; the Barclays Aggregate and Barclays Global Agg Bd. Unhedged for the International Fixed Income markets. Looking towards 2015 Cary advised that economic growth is picking up while the employment picture is brightening. He noted that he does not see inflation as a major worry at the moment. While oil prices continue a downward trend, Cary does not believe that \$40.00 a barrel is sustainable and anticipates \$60.00-\$70.00 a barrel as more realistic. Regarding the bond markets, Cary explained that while he does see interest rates grinding upward, he does not see a dramatic uptick as there is no wage inflation in the economy. While noting that the yield on the benchmark 10-year U.S. Treasury note is at 2.1%, he advised that in 2013 Fixed Income securities went down and Equity markets were positive. In 2014 the capital markets reversed the 2013 trend with the Fixed Income markets outperforming the Equity markets. In this connection, he advised that global diversification across both Fixed Income and Equity capital markets are the dynamic that sustains a stable portfolio.

A motion was made by RBOA member Rocky Bonura accepting the Portfolio Performance Review as presented. The motion was seconded by RBOA member Janice Ely and was unanimously carried by a roll-call of the RBOA membership present.

MARKET OVERVIEW

As we move into 2015, there have been dramatic changes in the global economy and the capital markets climate since mid-2014. Oil prices have fallen significantly. The U.S. economy has picked up a head of steam while other major economies have sputtered. The dollar has surged. Bond yields have fallen. The Fed has ended quantitative easing, and its next step looks to be an increase in interest rates, even as the European Central Bank (ECB) starts its own QE program. The changing economic dynamic prompts the question. Where do the capital markets and the global economy go from here?

In this connection, Cary Allison provided a Morgan Stanley Wealth Management (MS) overview graphically charting economic components that reflect a gradual improvement in the U.S. and Global economies as we move into a new year.

- **Consumer Confidence continues to Pick-up** illustrated by the US Nominal GDP chart which portrays a gradual expansion over the last decade as of third quarter 2014.
- **Limited Risk of Recession in the near Term** as illustrated in the Duncan Leading Indicator (DLI) chart as of third quarter 2014 and the Morgan Stanley Recession Risk Model (MSRISK) chart as of November 2014.
- **Inflation Remains Dormant** as illustrated by the Year-over-Year percent Change chart as of November 2014 and the Inflation Expectations chart as of December 31, 2014.
- **Global risk aversion back to “Fearful” Levels** as illustrated by the Morgan Stanley Standardized Global Risk Demand Index chart as of January 7, 2015.
- **Consumer is the key Driver of US Economy** as reflected by the Components of Trailing four quarters Nominal GDP chart as of third quarter 2014.
- **Labor Picture Improves Dramatically** as illustrated by the US Unemployment Rate chart as of December 31, 2014 and the Labor Force Participation Rate and Total Employment chart as of December 31, 2014.
- **Housing Indicators: Home Prices and Inventories** continue to improve as reflected by the US Home Prices chart as of November 30, 2014 and the Inventory of Homes for Sale chart as of November 30, 2014.

- **US Budget Deficit Decreased Substantially Due to Higher Tax Receipts and Spending Cuts** as illustrated by the US Federal Budget Deficit/Surplus as a percent of GDP chart as of December 31, 2014 and Tax Receipts as a percent of GDP chart as of December 31, 2014.
- **While Government Deleveraging Has yet to Begin, Households Have already Lowered Debt Significantly** illustrated by the Federal Government and Household Debt chart as of third quarter 2014 and Total US Debt as a percent of GDP chart as of third quarter 2014.
- **Global Central Bank Liquidity remains Robust** as illustrated by the Global Central Bank Balance Sheet Assets as a percent of GDP chart as of third quarter 2014 and the Size of Global Monetary Bases chart as of December 31, 2014.
- **US Stocks appear reasonably Valued** as profiled in the 12-month forward PE Ratio of S&P 500 chart as of December 31, 2014 and the S&P 500 Equity Risk Premium chart as of December 31, 2014.
- **Earnings Remain Supportive of US Equities** as illustrated by the S&P 500 Index Level Vs S&P 500 Operating Earnings chart as of December 31, 2014.
- **The Secular Bull Market is only a Few Years old** as profiled in the S&P 500 in Gold Price Terms Vs Consumer Sentiment chart as of December 31, 2014.
- **European Equities very Cheap Relative to US** as illustrated in the MSCI Europe relative to S&P 500 chart as of December 31, 2014 and the Cyclically Adjusted P/E ratio (CAPE) Vs MSCI Europe chart as of December 31, 2014.
- **Earnings Growth and Revisions support Japanese Equities** as illustrated in the Global Earnings Revisions Breadth chart as of December 31, 2014.
- **Equity Returns: Global Diversification Supports a Stable Portfolio** chart as of December 31, 2014.
- **In Global Fixed Income, Long-Duration Produced Strongest YTD Total Return** chart as of December 31, 2014.
- **Interest Rates follow Nominal GDP Growth** as illustrated in the US 10-year Treasury Yield Vs Nominal GDP chart as of December 31, 2014.
- **Global Rates have fallen over last 30 Years** as profiled in the 10-year Sovereign Bond Yields chart as of December 31, 2014.
- **Long-Duration Bonds can be Risky When Rates Rise** as profiled in the Total Return Impact of a 1% Rise/Fall in Interest Rates chart as of December 31, 2014.
- **US Bond Valuations Rich Vs Stocks** as profiled in the 10-Year US Treasury chart as of December 31, 2014.
- **Fixed Income Returns:** Chart illustrates that while High Yield has had better returns than equities over the last decade, the Morgan Stanley Global Investment Committee (GIC) recommends staying selective in fixed income and favor shorter-duration credit.

REVIEW OF INVESTMENT POLICY STATEMENT

Scott Rankin of Benefit Trust Company (BTC) provided the RBOA membership with an overview of the Investment Policy Statement (IPS) provisions focusing attention on appropriate sections such as permitted Equity and Fixed Income investments; Benchmarks used for Equity and Fixed Income performance evaluation; Ethics and Conflict of Interest provisions and ability to modify the District's Target Rate of Return (TRR).

In providing an overview of the IPS format, Scott explained that the IPS has been structured for a Retirement System under California's regulatory framework and the California Governmental Code – IPS provisions detail fiduciary and governance principles which have been extracted from the mandates of the State of California Constitution and the California Government Code which in turn draw extensively from the Employee Retirement Income Security Act (ERISA). He explained that the IPS incorporates fiduciary mandates related to the **“Prudent Person Standard”**; the **“Exclusive Benefit Standard”** and the duty to diversify investments **“so as to minimize the risk of large losses”**. In this framework, Scott advised that the District's Trust portfolio investments are designated per a prudent decision-making process; selected to provide benefits exclusively to the OPEB Plan participants and invested so as to minimize risk of large losses. Scott also explained the Trust's portfolio regulatory requirement to have **“a broad range of investment choices that have distinctly different risk/return characteristics”**.

Scott continued by explaining that IPS provisions address permitted and non-permitted investments while advising that IPS provisions must also incorporate language to facilitate current institutional investment practices.

On the Equity side, 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.” Scott 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”.

The District Trust's portfolio equity performance shall be measured by the following benchmarks: For domestic equity allocations, IPS provisions include the S&P 500 Index. For international equity allocations, the IPS provisions include the MSCIEAFE and MSCIACWI ex. U.S. Indices.

On the Fixed Income side, Scott continued by advising that restrictions listed in the IPS provisions 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.”

The District Trust's portfolio fixed income performance shall be measured by the following benchmarks: For domestic Fixed Income allocations, IPS provisions include the Barclay's Aggregate Bond Index. For international Fixed Income allocations, IPS provisions include the Barclay's Global Bond Index.

A motion was made by RBOA member Rocky Bonura to accept and approve the additional provisions of the Investment Policy Statement (IPS) as presented. The motion was seconded by RBOA member Lynn Lindberg and was unanimously carried by a roll-call of the RBOA membership present.

VII. ADMINISTRATION

ELECTION OF A CHAIR OF THE RETIREMENT BOARD OF AUTHORITY

In accordance with District RBOA Bylaw provisions, a motion was made by RBOA member Rocky Bonura to reaffirm **Jo Ann Higdon** as Chair of the Retirement Board of Authority. The motion was seconded by RBOA member Janice Ely and was unanimously carried by the RBOA membership present.

ELECTION OF A VICE-CHAIR OF THE RETIREMENT BOARD OF AUTHORITY

In accordance with District RBOA Bylaw provisions a motion was made by RBOA member Janice Ely to nominate **Rocky Bonura** as Vice-Chair of the Retirement Board of Authority. The nomination was seconded by RBOA member Linda Beam and was unanimously carried by a roll-call of the RBOA membership present.

DISBURSEMENT REPORT

A motion was made by RBOA member Linda Beam ratifying the fees associated with GASB 43/45 & Regulatory compliance and the Management/Operation of the District's OPEB Investment Trust for the period of February 19, 2014 through January 13, 2015. The motion was seconded by RBOA Vice-Chair Rocky Bonura 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) advised that the "**OPEB Questionnaire & Due Diligence Form**" in the Board materials is part of a dedicated process designed towards updating the "Substantive Plan" for the 2013/2014 fiscal year end. RBOA member Linda Beam advised that the "**OPEB Questionnaire & Due Diligence Form**" had been updated and completed by the district on September 18, 2014. Roslyn noted that the "e-Library" has also been updated and has been delivered to the District. This administrative process provides affirmation that the District's OPEB Investment Trust is in compliance with GASB Statement 43/45 protocols and applicable Regulatory requirements for fiscal year ending June 30, 2014.

TRANSFER OF ASSETS INTO THE TRUST

District transfers for **\$2,400,000.00** and **\$1,006,913.00** to the OPEB Investment Trust on July 9, 2014 and September 10, 2014 respectively were acknowledged by the RBOA membership.

A motion was made by RBOA member Linda Beam to ratify District transfers to the Investment Trust as profiled. The motion was seconded by RBOA Vice-Chair Rocky Bonura and was unanimously carried by the RBOA membership present.

ACTUARIAL VALUATION STUDY UPDATE

The current Actuarial Valuation Study with an effective date of October 1, 2013, was completed by the District's consulting actuary Geoff Kischuk of Total Compensation Systems, Inc. (TCS). The District is working on the procurement of a new Actuarial Valuation Study with an anticipated completion date of June/July 2015.

VIII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority (RBOA) comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

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

- **October 20, 2015: 1:00 PM–3:00 PM.**

X. ADJOURNMENT

There being no further business to conduct, a motion was made by RBOA Vice-Chair Rocky Bonura to adjourn the Retirement Board of Authority (RBOA) meeting at 1:53 PM. The motion was seconded by RBOA member Janice Ely and was unanimously carried by a roll-call of the RBOA membership present.

Americans with Disabilities Act: The El Camino 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 El Camino Community College District Retirement Board of Authority, shall be made to: Jo Ann Higdon, Vice President, Administrative Services, El Camino Community College District, 16007 Crenshaw Blvd, Torrance CA. 90506.