

MINUTES

**EL CAMINO COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
FEBRUARY 8, 2012
11:00 AM-1:00 PM**

**EL CAMINO COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BUILDING, ROOM 127
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 11:15 AM by Gail Beal, Senior Vice President of Keenan Financial Services.

Board member Jo Ann Higdon joined the RBOA Meeting at 11:25 AM.

II. ROLL CALL

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

Director, Purchasing and Business Services
Vice President, Administrative Services
Interim Vice President, Human Resources
Director of Human Resources

Rocky Bonura
Jo Ann Higdon
Lynn Solomita
Lynn Lindberg

PROGRAM COORDINATOR:

Senior Vice President
Account Manager

Gail Beal
Roslyn Washington

CONSULTANTS:

Benefit Trust Company
Morgan Stanley Smith Barney

Scott Rankin
Cary Allison

OTHERS

None

Those absent were:

Business Manager, Fiscal Services

Janice Ely

III. APPROVAL OF AGENDA

A motion was made to approve the Agenda as presented by Board member Rocky Bonura, seconded by Board member Lynn Solomita and unanimously carried by the Board members present.

IV. CORRESPONDENCE

There was no correspondence presented.

V. ADMINISTRATION

REVIEW OF THE FUTURIS PROGRAM AND THE ROLES OF THE PROGRAM COORDINATOR AND CONSULTANTS

Gail Beal of Keenan Financial Services reviewed the structure of the Fururis Public Entity Investment Trust Program. Gail noted the Program's strong "separation of function" through the layering of Keenan Financial Services (KFS), Benefit Trust Company (BTC) and Morgan Stanley Smith Barney (MSSB) with the Retirement Board of Authority (RBOA) providing oversight duties.

The role Keenan Financial Services as Program Coordinator includes the following:

- Preparation of the Retirement Board of Authority (RBOA) Meeting Agendas, Cover Pages and Board Packages.
- Preparation of the RBOA Meeting Minutes and assisting with the District's OPEB responsibilities as necessary.
- Facilitating Action Items resulting from RBOA Meetings.
- Assist the Board with oversight of the District's OPEB Trust Program.
- Creation of the Comprehensive Compliance Plan, including the "Substantive Plan".
- Maintenance of the District's OPEB Program documentation.

Pursuant to an inquiry from Board member Lynn Solomita as to whether Benefit Trust Company (BTC) is a Directed Trustee or a Discretionary Trustee, Scott Rankin explained the difference and reviewed the role of BTC as Discretionary Trustee. Scott advised that in obtaining an Investment Advisor, BTC did a nationwide Request for Proposal (RFP) and acquired Morgan Stanley Smith Barney (MSSB) as the Registered Investment Advisor (RIA) for the Futuris Program.

The role of Benefit Trust Company (BTC) as Discretionary Trustee and Program Custodian include the following:

- As Discretionary Trustee, BTC will select of the District's OPEB Trust investments pursuant to the provisions of the Investment Policy Statement (IPS) and advice received from the Registered Investment

Advisor, Morgan Stanley Smith Barney.

- As Program Custodian, BTC will safe-keep the District's Public Entity Investment Trust securities.
- As Program Custodian, BTC will maintain accurate records of all financial transactions.
- As Program Custodian, BTC will provide periodic reports showing all deposits or receipts, disbursements, purchases, sales and income transactions, current asset holdings and the market value of the District's Investment Trust's portfolio.

Morgan Stanley Smith Barney (MSSB) as Registered Investment Advisor provides services as follows:

- Recommending Asset Allocation models to Benefit Trust Company as Discretionary Trustee for the Target Portfolios
- Recommending specific investments to Benefit Trust Company as Discretionary Trustee for the Target Portfolios.
- Perform due diligence on all potential and recommended investments for the District's Public Entity Investment Trust.
- Provide a quarterly report to Benefit Trust Company as Discretionary Trustee on the status of all current investments in the District's Public Entity Investment Trust.

REVIEW OF RETIREMENT BOARD OF AUTHORITY RESPONSIBILITIES

Gail Beal of Keenan Financial Services (KFS) provided an overview of the role and responsibilities of the Retirement Board of Authority (RBOA). Roslyn Washington of Keenan Financial Services assisted Gail by gathering all the required signatures on each Agreement and Authorization Form.

The roles and responsibilities of the Retirement Board of Authority (RBOA) include the following:

- Execute and adopt the terms of the OPEB Trust, through signing of the Adoption Agreement, as well as adopt the Investment Policy Statement (IPS) and provide copies of the documents to Benefit Trust Company and Morgan Stanley Smith Barney as Registered Investment Advisor.
- Facilitate the processes necessary to ensure the Plan Administrator executes applicable written agreements.
- Deliver contributions and allocation instructions to Benefit Trust Company in a timely manner.
- Hold periodic meetings of the Retirement Board of Authority, for the purpose of reviewing investment performance and compliance with Investment Policy Statement (IPS) provisions.
- Engage in an annual review and analysis of any applicable modifications to the Investment Policy Statement (IPS) through meetings and discussions with the Discretionary Trustee and Registered Investment Advisor.
- Provide on a timely basis any necessary OPEB Plan participant information to Benefit Trust Company to include personal identification information (including Social Security numbers).
- Provide names of individuals authorized to act on behalf of the District's OPEB Trust in writing.
- Benefit Trust Company and any delegated Investment Advisor shall be entitled to rely upon the accuracy and completeness of all information furnished to them by the Retirement Board of Authority (RBOA) or any person designated to act on behalf of the RBOA.

The provisions of California's Governmental Code and the Constitution of the State of California entrust the Retirement Board of Authority (RBOA) with certain fiduciary and governance mandates as follows:

- Determine the anticipated liability for future benefits.
- Prudently invest the funds in order to safeguard principal, meet liquidity needs and achieve an appropriate investment return.
- Administer the program for the exclusive purpose of providing benefits to participants and their beneficiaries; and
- Engage in a prudent process for making all decisions related to the operation of the plan, including (1) the selection of investments and services for the program, (2) monitoring of the decisions periodically to ensure that they remain prudent and (3) documenting the process used to make the decisions.

Board member Jo Ann Higdon wishes to present the Investment Trust portfolio results to the District's Governing Board of Trustees on a regular basis -- a quarterly presentation schedule would be preferred.

DESIGNATION OF RETIREMENT BOARD OF AUTHORITY MEMBERS AND ELECTION OF CHAIRPERSON

A motion was made by Board member Lynn Solomita to nominate Jo Ann Higdon as Chair of the Board, seconded by Board member Rocky Bonura and unanimously carried by the Board members present.

Board Chair Jo Ann Higdon inquired about additional liability insurance for the Board members. Gail Beal of Keenan Financial Services advised that they are covered by SWAAC liability coverage. However, they could purchase additional liability insurance inexpensively if they wished.

Rossanne Wetzel of Keenan & Associates advised that she will email a liability insurance proposal to Board Chair Jo Ann Higdon.

THE FUTURIS INVESTMENT PROCESS

Cary Allison of Morgan Stanley Smith Barney (MSSB) provided the Board with an overview of the investment process for portfolio selection. Central to the Futuris investment portfolio selection process is the Risk Tolerance Questionnaire. The Risk Tolerance Questionnaire provides guidance in the selection of a Target Rate portfolio and should be viewed as an essential tool to gauge the risk attitude and risk capacity of the Board. Risk Tolerance Questionnaire protocols require Board members respond to each question independent of each other.

Using a Monte Carlo simulation risk analysis, Cary discussed the Target Rate Portfolio 4.5% versus the Target Rate Portfolio 6.0% in terms of the range of returns covering the best case to worst case outcomes over a projected period of time. Using Morningstar analysis, Cary also reviewed the Futuris Portfolio Fixed Income and Equity Managers. In this connection, Cary discussed the fear in the Global Bond markets when the U.S. lost its esteemed AAA credit rating which was cut to AA+ because of the prolonged controversy over raising the statutory debt ceiling.

Scott Rankin of Benefit Trust Company (BTC) advised Board members that BTC as Discretionary Trustee

has a strict due diligence process. Before changes can be made to the District's Investment Trust portfolio, BTC has a Trust Investment Committee dedicated to reviewing all portfolio modifications suggested by Morgan Stanley Smith Barney (MSSB). In this connection, Scott discussed the process of switching from the PIMCO Total Return Fund (PTTRX) to the Prudential Total Return Bond Fund (PDBZX). They found that the Prudential Total Return Bond Fund was in the top 10% of its peers while the PIMCO Total Return Fund had drifted to the bottom 10% of the same peer group because of its growth in assets. Scott advised that the assets in the Futuris Program are also continually monitored by managers at Morgan Stanley Smith Barney

Board Chair Jo Ann Higdon wanted assurances that no proprietary assets of Benefit Trust Company (BTC) or Morgan Stanley Smith Barney (MSSB) are used as funding vehicles for the District's Investment Trust. Scott Rankin of BTC and Cary Allison of MSSB provided assurances that there are no proprietary assets being used to fund the District's Investment Trust and no revenue sharing or undisclosed fees are accepted. There is full transparency relative to all fee schedules being applied.

In response to an inquiry from Board member Rocky Bonura, Cary indicated that the funds were not pooled. Board Chair Jo Ann Higdon wondered if the investment process is similar to SWAAC? Cary responded by indicating that while SWAAC holds individual bonds, the Futuris Investment Trust is funded through the use of mutual funds. Board member Lynn Solomita wondered about outcomes if Board members wanted to remove a fund that is being used. Scott Rankin of Benefit Trust Company indicated that if this was done, the Board would be assuming additional fiduciary liability and he noted that since we are investing in mutual funds, we have no control over what they are invested in. Board Chair Jo Ann Higdon wondered if the Futuris Program is covered by ERISA. Scott Rankin indicated that the Futuris Program is qualified under Section 115 of the tax code and although it is not an ERISA Plan, it operates in similar fashion with mandates coming from the State of California rather than from Federal law. Scott noted that the Futuris Program is an Irrevocable Trust and withdrawals from the Trust can only cover Retiree Healthcare Expenses. Board Chair Jo Ann Higdon inquired as to the time framework for selecting an alternative portfolio. How much time does the Board need to make a change? Scott responded by indicating that the Risk Tolerance Questionnaire (RTQ) process can be conducted again and from the answers on the RTQ, a new Target Rate of Return can be established. The change can be made very quickly, perhaps one day.

ESTABLISHMENT OF INVESTMENT POLICY STATEMENT

Scott Rankin of Benefit Trust Company provided the Board with an overview of the Investment Policy Statement (IPS) focusing the Board's attention on sections such as Investment Objectives; Periodic Analysis and Evaluation; Ethics and Conflict of Interest.

Board member Lynn Solomita wondered if personal investing in the Trust fund investments by Board members would constitute a conflict of interest. Scott advised that the funds used as funding vehicles for the Futuris Program are chosen by a Discretionary Trustee and if Board members wish to use them for personal investing, its ok. Board member Rocky Bonura wondered if the funds can be viewed online. Cary Allison indicated that when Board members log into the District's account, they will see each fund and the dollar amount allocated to each fund. Cary added that the success of investments has a lot to do with conviction. Scott Rankin advised that per the provisions of the Investment Policy Statement, no more than 5% of Investment Trust assets shall be invested in any single security or issuer. Board Chair Jo Ann Higdon

wondered if there needs to be synchronization between the discount rate assumed by the District's actuary and the rate of return targeted by Benefit Trust Company. Scott responded by indicating that the discount rate assumed by the actuary was not required to be in sync with the Target Rate used by BTC. Jo Ann continued by advising that the current discount rate assumed in the Actuarial Valuation Study is 4.5%.

A motion was made by Board member Lynn Solomita that the District's Public Entity Investment Trust shall be invested with the objective of achieving a target net rate of return of **4.5%** to meet the Plan's Actuarial Valuation assumption (as determined by the RBOA Actuarial Consultant) as well as an additional **.5%** to offset the costs of the Trust's administration and GASB 43 and GASB 45 compliance. The motion was seconded by Board member Rocky Bonura and unanimously carried by the Board members present.

REVIEW OF THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE SUBSTANTIVE PLAN

There was a brief discussion regarding the development of the Comprehensive Compliance Plan, including the "Substantive Plan". Board Chair Jo Ann Higdon noted that they wish to have hard copies of the "Substantive Plan" which will be displayed in the Administration Building. Electronic posting will be done at a later date.

DESIGNATED OFFICIAL POSTING & MAILING ADDRESS(ES)

A motion was made by Board Chair Jo Ann Higdon indicating that the official posting and mailing address will be the District's Administration Building. The motion was seconded by Board member Rocky Bonura and unanimously carried by the Board members present.

VI. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

Board Chair Jo Ann Higdon requested a timeline of the Futuris process.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no program Coordinator/Consultant comments.

VISITOR COMMENTS

There were no Visitor comments.

VII. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

No date was scheduled for the next Retirement Board of Authority meeting.

VIII. ADJOURNMENT

A motion was made to adjourn the meeting at 1:15 PM by Board Chair Jo Ann Higdon, seconded by Board member Lynn Solomita and unanimously carried by the Board members 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.