

MINUTES

**EL CAMINO COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
JULY 8, 2014
11:30 AM – 1:30 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 11:40 AM by Gail Beal, Senior Vice President, Keenan Financial Services.

Gail explained that effective January 1, 2014 new regulatory protocols require that individual votes and abstentions be recorded for every action taken at future RBOA Meetings.

Roll call was conducted with all members of the Retirement Board of Authority (RBOA) reporting their presence except **Jo Ann Higdon** and **Linda Beam** who were absent from the meeting. All Service Organization representatives indicated their presence at the meeting.

II. ROLL CALL

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

Director, Purchasing and Business Services
Director of Human Resources
Business Manager, Fiscal Services

Rocky Bonura
Lynn Lindberg
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(via telephone)
Cary Allison

GUEST

Service Coordinator, Keenan Financial Services

Kristin Cooper

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ABSENT

Vice President, Administrative Services
Interim Vice President, Human Resources

Jo Ann Higdon
Linda Beam

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 Janice Ely 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 October 22, 2013 as presented. The motion was seconded by RBOA member Janice Ely and was unanimously carried by a roll call of the RBOA membership present.

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 May 31, 2014. As of May 31, 2014, the District's Investment Trust portfolio had an allocation of 83.7% in fixed income funds and 16.3% in equity funds (equity funds comprised 9.2% in domestic equity and 7.1% in international equity). The value of the portfolio as of December 31, 2013 was \$17,515,071.13 and with contributions of \$1,023,597.27 the market value of the portfolio as of May 31, 2014 is \$19,258,961.83. The May 31, 2014 portfolio value represents an Annualized Inception to Date net rate of return of 4.77% compared to the Barclays Aggregate of 1.20% and the S&P 500 Adj for Divs of 21.57%. The investment results for the last year show a net increase of 4.81% versus the Barclays Aggregate of 2.71% and the S&P 500 Adj for Divs of 20.45%. The current dividend yield on the District's Investment Trust portfolio fixed income investments was 3.2% while the current dividend yield on the aggregated portfolio was 3.0%. Cary noted to the RBOA membership the value of the District's portfolio had increased to \$19,385,321.36 as of June 30, 2014.

Cary also provided an overview of the District's Public Entity Investment Trust Portfolio Performance Report as of March 31, 2014. He noted that the District's Trust portfolio currently has an 84% fixed income allocation but the portfolio has done better than the Barclays Aggregate because of its exposure to global bonds. He explained that the global bond exposure has been largely responsible for obtaining a portfolio return of approximately 5%. He advised that the Investment Trust's Model Portfolios Fixed Income

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platform was enhanced in November 2013 by replacing the Oppenheimer International Bond (OIBYX) with the Hartford's World Bond Fund (HWDIX). Relative to Trust's portfolio equity allocation, he explained that the International/Global Equity platform was also enhanced by incorporating the following funds: 1. American Funds New Perspective Fund (ANWFX). 2. American Funds New World Fund (NFFFX). 3. Brandes Emerging Markets Fund (BEMIX). In providing a general commentary regarding the impact of the capital markets on the Investment Trust's portfolio, Cary noted that the first quarter of 2014 performance was a reversal of equity performance in 2013 – bonds rallied while equities backed off their 2013 highs in the first quarter. He believed that fixed income outperformed because growth has not been as strong as anticipated this year – however, long-term Morgan Stanley analysts favor stocks over bonds. He noted that while stocks are not expensive they are not cheap. Inflation is not a concern at the moment as inflation goes with wage increases and that is not happening. He is anticipating an upward shift in interest rates but the uptick will not be dramatic.

A motion was made by RBOA member Janice Ely to accept the Portfolio Performance Review as presented. The motion was seconded by RBOA member Rocky Bonura and was unanimously carried by a roll call of the RBOA membership 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 first quarter of 2014. Relative to the U.S. economy, the Capital Markets Overview noted that job gains and a slight improvement in the labor force participation rate have kept unemployment steady at 6.7 nationally. The number of long-term unemployed (3.7 million) remained relatively unchanged in March. Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index rose 0.1% in both January and February. Morgan Stanley & Co. LLC economists forecast a 1.6% inflation rate for 2014/2015. The Census Bureau reported that private-sector housing starts in February 2014 were at a seasonally adjusted annual rate of 907,000 – 6.4% below February 2013 housing starts. The decline in housing starts over the past year indicates that the housing market has cooled due to rising mortgage rates and climbing house prices. Relative to the U.S. Equity markets, the Markets Overview noted that Dow Jones Industrial Average fell 0.2% in the first quarter, The NASDAQ Composite advanced 0.8% and the S&P 500 rose 1.8% for the quarter. Accordingly, Cary advised that S&P 500 stocks are trading at 16-16.5 time earnings noting that they are not expensive but not really cheap either. Regarding to Global Equity, in the first quarter, emerging markets (EM) and global equities mostly declined. The MSCI EAFE Index (a benchmarks foe developed markets) rose 0.8. In Europe, austerity programs have created a drag on GDP growth and European corporate profit margins and earnings per share have lagged U.S. companies by a widening margin since 2011. China lost 5.86% during the quarter as a result of slowing growth and concerns about weakness in the financial sector. Regarding the U.S Bond Market, in the first quarter the bond market benefited from weak economic news – the Barclays U.S. Aggregate Bond Index, a general measure of the bond market, increased 1.8% 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 2.7% from 3.03% at the end of December 2013.

REVIEW OF INVESTMENT POLICY STATEMENT

Scott Rankin of Benefit Trust Company (BTC) noted that during the October meeting, the RBOA membership advised that the District's Investment Trust is in an accumulation phase and he wanted to ensure that the Target Rate of Return (TRR) is in the appropriate range for the Trust's accumulation cycle.

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He advised that the Trust's portfolio has a Target Rate of Return (TRR) of 4.5% and an additional 0.5% allocated to expenses related to the GASB compliance as well as the management and operation of the District's Trust. Relative to the parameters of the Target Rate of Return, the RBOA conducted a lively discussion centered on achieving fully funded status for the Trust; the date when benefits will be paid from the Trust and Trust account bifurcation to meet District withdrawal requirements. In this connection, it was agreed that RBOA should reaffirm the current provisions of the Investment Policy Statement (IPS) and conduct a reassessment in six months.

Subject to a reassessment of the IPS in six months, a motion was made by RBOA member Janice Ely to reaffirm the current provisions and Target Rate of Return parameters reflected in the District's Investment Policy Statement (IPS). The motion was seconded by RBOA member Rocky Bonura and was unanimously carried by a roll call of the RBOA membership present.

It should be noted that RBOA member Janice Ely needed to excuse herself from the meeting. As such, a Quorum was not available for action items through the balance of the agenda.

VII. EDUCATION

Gail Beal of Keenan Financial Services (KFS) focused the attention of the RBOA membership on the fact that GASB approved the issuance of two OPEB Exposure Drafts designed to enhance accounting and financial reporting by state and local governments. The **OPEB Employer Exposure Draft** is entitled "*Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*". The **OPEB Plan Exposure Draft** is entitled "*Financial Reporting for Postemployment Benefit Plans other than Pension Plans*".

Gail provided a handout to the RBOA membership which explained that the "**OPEB Employer Exposure Draft**" 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. She noted that governmental entities in all types of OPEB plans will be expected to present more extensive note disclosures and required supplementary information relative to their OPEB liabilities. The "**OPEB Plan Exposure Draft**" addresses financial reporting for *defined benefit* OPEB plans that are administered through a qualified trust. It also details proposed note disclosure requirements for *defined contribution* OPEB plans.

VIII. ADMINISTRATION

DISBURSEMENT REPORT

As the RBOA did not have a Quorum at this point of the meeting, there was **No Action** on this Agenda Item and the RBOA membership present requested it be brought back for review at the next meeting.

ANNUAL REPORTING ON THE STATUS OF THE TRUST

As the RBOA did not have a Quorum at this stage of the meeting, there was *No Action* on this Agenda Item and the RBOA membership present requested it be brought back for review at the next meeting.

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

Roslyn Washington of Keenan Financial Services (KFS) advised that the Questionnaire for updating the “Substantive Plan” is being revised and when completed it will be sent to the District. Roslyn noted that the “Electronic Library” will also be updated and delivered to the District by the end of the calendar year.

TRANSFER OF ASSETS INTO THE TRUST

The current Actuarial Valuation Study has an effective date of October 1, 2013 and estimated the District’s actuarial accrued liability to be **\$22,214,690.00**. A transfer to the Investment Trust of \$1,023,597.27 (March 26, 2014) and an anticipated transfer of \$2,400,000.00 in July 2014 positions the District’s Investment Trust portfolio with a market value in excess 21.3 million. The current market value of the Trust’s portfolio is well positioned to achieve fully funded status for the District’s OPEB program.

ACTUARIAL VALUATION STUDY UPDATE

A current copy of the Actuarial Valuation Study was completed by the District’s consulting actuary Geoff Kischuck of Total Compensation Systems, Inc. and has an effective date of October 1, 2013. The consulting actuary narrative estimated that the “pay-as-you-go” cost of providing retiree health benefits in the year beginning October 1, 2013 to be **\$741,306.00**. He noted that the “pay-as-you-go” cost is the cost of benefits for current retirees. His actuarial narrative explained that for current employees, the value of benefits “accrued” in the year beginning October 1, 2013 (the normal cost) is **\$1,593,851.00**. This normal cost would increase each year based on covered payroll. Had El Camino CCD begun accruing retiree health benefits when each current employee and retiree was hired, a substantial liability would have accumulated. The consulting actuary estimated that the amount would have accumulated to be **\$22,214,690.00**. This amount is called the “**actuarial accrued liability**” (AAL). Of this amount, **\$18,329,526.00** is the remaining unamortized balance of the initial unfunded AAL (UAAL). This leaves a “residual” of **\$3,885,164.00**. The actuarial narrative continues by noting that El Camino CCD has established a GASB 43 qualifying trust for future OPEB obligations.

IX. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority meeting schedule will be decided at a later date.

XI. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority (RBOA) meeting was adjourned by RBOA? Gail Beal, Keenan at 12:27 PM.

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.