

DISTRICT RETIREMENT BOARD

2013 Minutes

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MINUTES

**SAN JOSE / EVERGREEN COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING**

**October 17, 2013
1:00 PM – 3:00 PM**

**District Office Conference Room
4750 San Felipe Road
San Jose, CA 95128
(408) 288-3708**

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 1:00 PM by Board Chairperson Peter Fitzsimmons.

Roll call indicated the presence of all RBOA members and alternates except for David Yancey, Faculty and President, Faculty Association, ATF 6157 who was absent from the meeting. All service organization representatives indicated their presence at the meeting.

II. ROLL CALL

RETIREMENT BOARD OF AUTHORITY (“Board”) MEMBERS

Vice Chancellor, Administrative Services	Doug Smith
Vice Chancellor, Human Resources	Kim Garcia
Director of Fiscal Services	Peter Fitzsimmons
Faculty and Member of AFT 6157	Mark Newton
Retired Faculty and Member of AFT 6157	Phil Crawford
Staff and Member CSEA, Chapter 363	Yolanda Talavera
Staff and Member CSEA, Chapter 363	Maria Holguin
Retired Staff and Former Member CSEA, Chapter 363	Arlene Amelia

PROGRAM COORDINATOR

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

CONSULTANTS

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

GUESTS

Faculty and Member AFT 6157 (Alternate)	Barbara Hanfling
Staff and Member CSEA, Chapter 363 (Alternate)	Elaine Chapman

OTHER

Nyhart/Epler	Marilyn Jones
San Jose Evergreen CCD	Linda Wilczewski

ABSENT

Faculty and President, Faculty Association, AFT 6157

David Yancey

III. PUBLIC COMMENTS

There were no Public comments or inquiries.

IV. APPROVAL OF AGENDA

The Board reconstructed the Agenda platform repositioned Agenda Item #008 "Designation of a New Member to the RBOA" subsequent to Agenda Item #003 "Approval of Minutes"

A motion was made by Board member Mark Newton to approve the Agenda as amended. The motion was seconded by Board member Kim Garcia and unanimously carried by the Board members present.

V. APPROVAL OF MINUTES

A motion was made by Board member Mark Newton to approve the Minutes from the meeting of April 25, 2013 as presented. The motion was seconded by Board member Kim Garcia and unanimously carried by the Board members present.

VI. DESIGNATION OF NEW MEMBER TO THE RETIREMENT BOARD OF AUTHORITY

The Retirement Board of Authority (RBOA) has been duly appointed by the San Jose/Evergreen Community College District Board of Trustees. In this connection, the RBOA welcomed Yolanda Talavera and Elaine Chapman, Staff and Member CSEA, Chapter 363, to its membership.

A motion was made by Board alternate Barbara Hanfling acknowledging and welcoming new members Yolanda Talavera and Elaine Chapman, Staff and Member CSEA, Chapter 363, to membership of the Retirement Board of Authority. The motion was seconded by Board member Doug Smith and unanimously carried by the Board members present.

VII. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Wealth Management (MS) 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 September 30, 2013.

1. The District's Short-Term Public Entity Investment Trust.

As of September 30, 2013 the District's Short-Term Public Entity Trust Portfolio had an allocation of 71.5% in fixed income funds and 28.5% in equity funds (equity funds comprised 16.8% in domestic equity and 11.7% in international equity). The value of the portfolio as of December 31, 2012 was \$4,649,454.74 and with withdrawals of \$2,089,436.85 the portfolio value as of September 30, 2013 is \$2,637,110.97. The September 30, 2013 portfolio value represents an annualized inception to date net rate of return of 15.13% compared to the Barclays Aggregate of 4.95% and the S&P 500 Adj for Divs of 18.50%. The investment results for the last year show a net increase of 3.77% versus the Barclays Aggregate of -1.67% and the S&P 500 Adj for Divs of 19.35%. The annualized latest three year results reflect a net increase of 13.86% versus the Barclays Aggregate of 2.88% and the S&P 500 Adj for Divs of 16.26%. The current dividend yield on the District's Short-Term Public Entity Trust Portfolio fixed income investments was 4.0% while the current dividend yield on the aggregated portfolio was 3.4%.

2. The District's Long-Term Public Entity Investment Trust.

As of September 30, 2013 the District's Long-Term Public Entity Investment Trust Portfolio had an allocation of 30.0% in fixed income funds and 70.0% in equity funds (equity funds comprised 44.7% in domestic equity and 25.3% in international equity). The value of the portfolio as of December 31, 2012 was \$42,522,942.07 and the portfolio value as of September, 2013 is \$46,480,581.77. The September 30, 2013 portfolio value represents an annualized inception to date net rate of return of 11.92% compared to the Barclays Aggregate of 4.95% and the S&P 500 Adj for Divs of 18.50%. The investment results for the last year show a net increase of 12.10% versus the Barclays Aggregate of -1.67% and the S&P 500 Adj for Divs of 19.35%. The annualized latest three year results reflect a net increase of 7.76% versus the Barclays Aggregate of 2.88% and the S&P 500 Adj for Divs of 16.26%. The current dividend yield on the District's Public Entity Investment Trust Portfolio fixed income investments was 4.1% while the current dividend yield on the aggregated portfolio was 2.7%.

Cary presented asset allocation and portfolio updates for the Public Entity Investment Trust Model Portfolios for period ending September 30, 2013. He advised that there have not been any manager changes or changes to the asset allocation mix in the District's Investment Trust portfolio. Cary continued by advising that in the third quarter the Federal Reserve surprised markets by continuing its bond purchase program with no taper which has allowed equity markets to continue their rally. He noted that fixed income yields stabilized in this environment after sharp rises in the second quarter of 2013. Cary pointed to the current dividend yield of 2.7% on the District's long-term Investment Trust's portfolio and indicated that earnings and yields on stocks went up and are better than bond yields because they are growing yields.

A motion was made by Board member Mark Newton to accept the Portfolio Performance Review as presented. The motion was seconded by Board member Doug Smith and unanimously carried by the Board members present.

MARKET OVERVIEW

Cary Allison of Morgan Stanley Wealth Management provided Board members with a capital markets report from Morgan Stanley entitled "Capital Markets Overview". This report reviewed the global capital markets for the third quarter 2013 as follows:

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In the third quarter, equities and other risk assets advanced, even with the expectation that the Federal Reserve would announce a tapering of its assets purchases in September. Global equities, most notable in developed markets, rose for the quarter. In the U.S., equities made gains even as interest rates rose, which is not unusual in an expanding economy. The Dow Jones Industrial Average and the S&P 500 hit highs in mid-September, but pulled back before the end of the month. The Department of Commerce estimated that Gross Domestic Product grew at an annual rate of 2.5% in the second quarter of 2013, in comparison to 1.1% in the first quarter of 2013. Morgan Stanley & Co. LLC economists forecast that U.S. GDP will grow 1.6% in 2013 and 2.7% in 2014. For the quarter, the seasonally adjusted unemployment rate fell from 7.4% for July to 7.3% for August. Job gains in the quarter took place in health care, professional and business services, food services, retail trade, and wholesale trade. The unemployment rate (7.3%) and the number of unemployed persons (11.3%) changed little in August. According to the most recent estimate from the Bureau of Economic Analysis, corporate profits rose 1.0% between the first quarter of 2013 and the second quarter of 2013, and rose 1.0% between the second quarter of 2012 and the second quarter of 2013. Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index rose 0.2% in July and rose 0.1% in August. Morgan Stanley & Co. LLC economists forecast a 1.6% inflation rate for 2013 and 1.4% for 2014. The Census Bureau also reported that private-sector housing starts in August 2013 were at a seasonally adjusted annual rate of 891,000 – 19.0% above August 2012 housing starts. The rise in housing starts over the past year confirms that the housing market is in recovery mode. The Dow Jones Industrial Average was up 2.1% in the third quarter, the NASDAQ Composite advanced 11.2% and the S&P rose 5.2%. Both value-and growth-style stocks rose during the third quarter, with growth stocks faring better, especially those of small-cap companies. Concerns that the U.S. government would shut down due to a Congressional budget impasse caused the CBOE Volatility Index (VIX), the so-called “fear index,” to climb at the end of the third quarter. In the third quarter, emerging markets (EM) and global equities advanced. The MSCI EAFE Index (a benchmark for developed markets) rose 11.6% for U.S.-currency investors and rose 7.5% for local-currency investors, as the U.S. dollar depreciated in relation to the currencies of many nations on the index. In contrast, in the second quarter of 2013, the MSCI EAFE Index fell 0.7% in U.S. dollars and rose 1.4% in local currency terms. The MSCI Europe Index rose 13.7% for U.S.-currency investors and 8.2% for local-currency investors during the third quarter. In comparison, the MSCI Far East Index gained 6.8% for the quarter in terms of the dollar and 5.7% in terms of local currencies. In the third quarter, interest rates continued to rise as the Federal Reserve signaled it would begin the long process of reducing its extraordinary monetary policy known as Quantitative Ease 3 (QE3). QE3 allows the Federal Reserve to purchase billions in mortgage-backed securities in order to bring down long-term interest rates and thus stimulate housing and other economic sectors dependent on borrowing. The benchmark 10-year U.S. Treasury note rose to a quarter-end 2.62% from 2.48% at the end of the second quarter. The increase would likely have been higher had the Fed not delayed the widely expected tapering of its asset purchases. The 10-year yield was nearly 3% in early September, prior to the Fed’s announcement. Also in September, riskier parts of the bond market, including high-yield debt and investment-grade bonds, rallied from their second quarter lull. The Barclays Capital U.S. Aggregate Bond Index, a general measure of the fixed-income market, rose 0.6% for the third quarter. In contrast, the Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, advanced 2.35 for the quarter.

REVIEW OF INVESTMENT POLICY STATEMENT

Regarding the District's Trust Investment Policy Statement (IPS), Scott Rankin of Benefit Trust Company (BTC) advised that good fiduciary practice requires a periodic review of its provisions and capital market assumptions. Scott explained the role of Benefit Trust Company (BTC) and Morgan Stanley Wealth Management (MS) for new members of the Retirement Board of Authority (RBOA). He continued by explaining the purpose of the Investment Policy Statement (IPS) and the role of the RBOA in overseeing the investment of the District's Trust assets. Board Chairperson Peter Fitzsimmons advised Scott that they may need to transfer assets from the District's long-term account to the short-term account because of premium reimbursement requirements. Scott noted that the usual transfer amount is \$5,000,000.00. However, as there is currently \$2,000,000.00 + in the short-term account, it was decided that the transfer amount at this time should be \$3,000,000.00. On behalf of the RBOA, Board Chairperson Peter Fitzsimmons advised that the current provisions and capital market assumptions of the District's Investment Policy Statement should be reaffirmed.

A motion was made by Board alternate Barbara Hanfling to reaffirm the current provisions and capital market assumptions of the District's Investment Policy Statement (IPS) and to transfer \$3,000,000.00 from the District's long-term account to the short-term account to meet the premium reimbursement requirements through April 2014. The motion was seconded by Board member Kim Garcia and unanimously carried by the Board members present.

VIII. EDUCATION

A viewpoint from Cohen & Steers entitled "What History Tells Us about REITs, Inflation and Rising Rates", notes that many economists acknowledge that both inflation and interest rates will move higher as the next growth cycle unfolds and quantitative easing (QE) is withdrawn. The Cohen & Steers viewpoint suggests that one way to prepare for this outcome is to allocate a portion of assets to real asset strategies and advised that REITs offer one such choice, given their historical ability to perform in both rising-rate and inflationary environments.

To this end, Cary Allison of Morgan Stanley Wealth Management noted to the Board that the District's Investment Trust portfolio has two real estate fund positions as follows:

- Cohen & Steers Institutional Realty.
- Prudential Global Real Estate Z.

Cary advised that the current REIT Funds should be maintained and explained the Morningstar Report for each fund. He explained that REITs are required to pay out 90% of their dividends. He noted that office space is needed and REITs are starting to go up as supply is less than demand. He referenced the viewpoint material which advised that REITs have generated an annual return of 12.6% over the six monetary tightening cycles that have occurred since 1979. Also, a Bloomberg report from December 2012 is referenced and explains that in periods when U.S. Treasury yields were rising, REITs generated an annual return of 10.8%.

IX. ADMINISTRATION

RETIREMENT BOARD OF AUTHORITY – NEW CHAIRPERSON ELECTION

A motion was made by Board member Kim Garcia to designate the current Board Chair Peter Fitzsimmons as Chairperson of the Retirement Board of Authority (RBOA) for another term. The motion was seconded by Board member Mark Newton and unanimously carried by the Board members present.

RETIREMENT BOARD OF AUTHORITY – NEW VICE-CHAIRPERSON ELECTION

A motion was made by Board member Doug Smith to designate Board member David Yancey as new Vice-Chairperson of the Retirement Board of Authority (RBOA). The motion was seconded by Board member Kim Garcia and unanimously carried by the Board members 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, 2013.

A motion was made by Board member Mark Newton ratifying that the Annual Report on the Status of the Trust has been promulgated to the Trust's beneficiaries according to established District protocols. The motion was seconded by Board member Doug Smith and unanimously carried by the Board members present.

DISBURSEMENTS

Roslyn Washington of Keenan Financial Services presented the Board with the Disbursement Report which reflected expenses associated with the management & operation of the District's Investment Trust for the period February 2013 through August 2013.

A motion was made by Board member Kim Garcia to ratify the expenses associated with the management of the District's Investment Trust for the period of February 2013 through August 2013. The motion was seconded by Board member Doug Smith and unanimously carried by the Board members present.

ACTUARIAL VALUATION STUDY

Marilyn Jones, Consulting Actuary from Nyhart/Epler presented the District's Actuarial Valuation Study as of June 30, 2013. Marilyn explained many of the actuarial assumptions adopted by the study such as the Discount Rate, Mortality Rates, Retirement Rates and the Medical Trend Rates. She noted that the expected rate of return (8% on the long-term account/5% on the short-term account creating a blended rate of 7.9%) was derived from the District's Trust Investment Policy Statement (IPS). The Study determined that the actuarial liability for the District's retiree health plan, as of June 30, 2013, is \$40,681,143.00. Marilyn noted

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that this represents the present value of all contributions or benefits projected to be paid by the District for current and future retirees and should the District place this amount in a fund earning interest at the rate of 7.9%, and all other assumptions were met, the fund would have enough to pay all expected benefits. This includes benefits for the current retirees as well as the current active employees expected to retire in the future. By apportioning this amount into past service, current service and future service components; the past service component (actuarial accrued liability) is \$40,148,891.00, the current service component (normal cost or current year accrual) is \$83,879.00 and the future component (not yet accrued liability) is \$448,373.00. The District commenced funding for its retiree health program in the fiscal year ending June 30, 2009 through a GASB eligible trust administered by Benefit Trust Company. Currently, the actuarial value of assets is equal to the market value of assets in the Trust as of June 30, 2013 or \$47,450,296.00. The unfunded actuarial accrued liability (surplus) at June 30, 2013 is (\$7,301,405.00) reflecting a funded ratio of 118%.

RETIREE BENEFIT COST INCREASE DATA

The District's Vice Chancellor of Human Resources and RBOA member Kim Garcia provided the Retirement Board of Authority (RBOA) members with a report regarding Retiree Benefit Costs for fiscal year 2013/2014. Chancellor Garcia advised that there was a significant increase in participant costs from the previous fiscal year relative to Anthem Blue Cross and Kaiser.

UPDATES TO THE COMPREHENSIVE COMPLIANCE PLAN INCLUDING THE "SUBSTANTIVE PLAN"

Roslyn Washington of Keenan Financial Services (KFS) briefly reviewed the processes and procedures for reflecting updates to the District's "Substantive Plan" for fiscal year ending June 30, 2013. The OPEB Questionnaire noted that there were no significant changes relative to comparing the previous fiscal year 2011/2012 to fiscal year 2012/2013. Barbara Hanfling commented that the Question #7 on the OPEB Questionnaire regarding covered dental benefits to the Retirees, their Spouses and their dependents was misleading because they had to pay for dental benefits if they wanted them. Roslyn Washington of Keenan clarified that the question was stating that dental benefits were "provided", which was in fact true. It was not stipulating that this coverage was provided free from the District.

ANNUAL REPORT TO THE GOVERNING BOARD OF TRUSTEES UPDATE

Gail Beal of Keenan Financial Services advised the Retirement Board of Authority members that an overview of the District's Public Entity Investment Trust Program was presented to the Governing Board of Trustees on April 14, 2013. Gail reviewed that key components of the District's Public Entity Investment Trust Program such as the creation of a Retirement System, the creation of a Retirement Board of Authority (RBOA), Structure of Fiduciary Liability Management, Discretionary Trustee, Investment Education and the Current Financial Status of the Trust's portfolio.

PRIVATE LETTER RULING UPDATE

Gail Beal of Keenan Financial Services advised the Board members that Brian Johnson of Polsinelli LLC continues to maintain ongoing contact with the IRS relative to issuing a Private Letter Ruling (PLR) approving the form and operation of the District's OPEB Plan. She noted that Brian Johnson had sent out a letter indicating that the IRS has informed him that a Private Letter Ruling will be issued in the near future.

X. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

On behalf of the supporting service organization representatives, Gail Beal of Keenan Financial Services (KFS) welcomed Yolanda Talavera and Elaine Chapman as the newest members of the RBOA and stated she anticipates that working with her on the Board will be a mutually rewarding experience.

XI. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority meeting is scheduled at San Jose City College, Technology Center, Room T-112, 2100 Moorpark Avenue, San Jose, CA. 95128: Tel: (408) 288-3708.

- April 10, 2014: 1:00 PM-3:00 PM.
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XII. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority meeting was adjourned by Board Chairperson Peter Fitzsimmons at 2:45 PM.

Americans with Disabilities Act: The San Jose/Evergreen 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 modification or accommodation, in order to participate in a public meeting of the San Jose/Evergreen Community College District Retirement Board of Authority meeting, shall be made to: Peter Fitzsimmons, Director of Fiscal Services, San Jose/Evergreen Community College District, 4750 San Felipe Rd, San Jose, CA 95128.

MINUTES

**SAN JOSE / EVERGREEN COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING**

**April 25, 2013
1:00 PM – 3:00 PM**

**District Office Conference Room
4750 San Felipe Road
San Jose, CA 95128
(408) 288-3708**

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 1:10 PM by Board Chair Peter Fitzsimmons.

To streamline the Agenda platform, Board members suggested repositioning Agenda Item #43 “Designation of New Member to the RBOA” ahead of Agenda Item #41 “Portfolio Review” and Agenda Item #42 “Market Overview”

II. ROLL CALL

RETIREMENT BOARD OF AUTHORITY (“Board”) MEMBERS

Vice Chancellor, Human Resources

Kim Garcia

Director of Fiscal Services

Peter Fitzsimmons

Faculty and President, Faculty Association, AFT 6157

David Yancey

Faculty and Member of AFT 6157

Mark Newton

Retired Faculty and Member of AFT 6157

Phil Crawford

Staff and Member CSEA, Chapter 363

Maria Holguin

Retired Staff and Former Member CSEA, Chapter 363

Arlene Amelia

PROGRAM COORDINATOR

Senior Vice President

Gail Beal

Account Manager

Roslyn Washington

CONSULTANTS

Morgan Stanley Wealth Management (MS)

Cary Allison

Benefit Trust Company (BTC)

Scott Rankin

ABSENT

Vice Chancellor, Administrative Services

Doug Smith

Faculty and Member AFT 6157 (Alternate)

Barbara Hanfling

Staff and Member CSEA, Chapter 363 (Alternate)

Beverly Lynch

Staff and Member CSEA, Chapter 363

Evelyn Rojas

III. APPROVAL OF AGENDA

A motion was made by Board member Mark Newton to approve the Agenda as corrected. The motion was seconded by Board member David Yancey and unanimously carried by the Board members present.

IV. APPROVAL OF MINUTES

Chair Peter Fitzsimmons noted a correction to be made under the Actuarial Valuation Study that states the District Data given to the 3 actuarial service providers was from June 2012. Peter noted that no data was given at all. A motion was made by Board member David Yancey to approve the October 18, 2012 Minutes as amended. The motion was seconded by Board member Kim Garcia and unanimously carried by the Board members present.

V. ADMINISTRATION

DESIGNATION OF NEW MEMBER TO THE RETIREMENT BOARD OF AUTHORITY

A motion was made by Board member David Yancey to welcome Maria Holguin, CSEA Chapter 363 member representative, as a member of the Retirement Board of Authority (RBOA). The motion was seconded by Board member Mark Newton and unanimously carried by the Board members present.

VI. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Wealth Management 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 March 31, 2013.

1. The District's Short-Term Public Entity Investment Trust.

As of March 31, 2013 the District's Short-Term Public Entity Trust Portfolio had an allocation of 75.0% in fixed income funds and 25.0% in equity funds (equity funds comprised 14.4% in domestic equity and 10.6% in international equity). The value of the portfolio as of December 31, 2012 was \$4,649,454.74 and with withdrawals of \$808,331.35 the portfolio value as of March 31, 2013 is \$3,925,663.92. The March 31, 2013 portfolio value represents an annualized inception to date net rate of return of 17.28% compared to the Barclays Aggregate of 6.08% and the S&P 500 Adj for Divs of 18.66%. The investment results for the last year show a net increase of 7.41% versus the Barclays Aggregate of 3.79% and the S&P 500 Adj for Divs of 13.95%. The annualized latest three year results reflect a net increase of 15.77% versus the Barclays Aggregate of 5.54% and the S&P 500 Adj for Divs of 12.67%. The current dividend yield on the District's Short-Term Public Entity Trust Portfolio fixed income investments was 4.0% while the current dividend yield on the aggregated portfolio was 3.5%.

2. The District's Long-Term Public Entity Investment Trust.

As of March 31, 2013 the District's Long-Term Public Entity Trust Portfolio had an allocation of 32.1% in fixed income funds and 67.9% in equity funds (equity funds comprised 43.0% in domestic equity and 24.9% in international equity). The value of the portfolio as of December 31, 2012 was \$42,522,942.07 and the portfolio value as of March 31, 2013 is \$44,584,038.60. The March 31, 2013 portfolio value represents an annualized inception to date net rate of return of 12.35% compared to the Barclays Aggregate of 6.08% and the S&P 500 Adj for Divs of 18.66%. The investment results for the last year show a net increase of 8.61% versus the Barclays Aggregate of 3.79% and the S&P 500 Adj for Divs of 13.95%. The annualized latest three year results reflect a net increase of 7.26% versus the Barclays Aggregate of 5.54% and the S&P 500 Adj for Divs of 12.67%. The current dividend yield on the District's Public Entity Investment Trust Portfolio fixed income investments was 4.2% while the current dividend yield on the aggregated portfolio was 2.7%.

Cary presented asset allocation and portfolio updates for the Public Entity Investment Trust Model Portfolios for period ending March 31, 2013. He advised that there have not been any manager changes or changes to the asset allocation mix in the District's Investment Trust portfolio. In this connection, Board member David Yancey inquired as to what would trigger a change in the District's portfolio mix. Cary responded that generally poor performance would cause the portfolio's asset allocation mix to be changed. Cary also presented a graph reflecting the performance of multiple capital market indices from 2002 through 2012 to illustrate that it is impossible to predict which asset classes will outperform from year to year. He noted that stocks are relatively cheap and are currently trading at 14 to 15 times earnings. He advised that he is not concerned about inflation at this time and believes that domestic growth this year will be about 2%. Board member Mark Newton asked if the District's portfolio accounts are achieving the blended Target Rate of Return (TRR). Cary responded by informing the Board members that the District's portfolio performance is slightly underperforming the TRR objective for the three year mark. He noted that the portfolio Annualized Inception to Date performance is doing well with gains that exceed the District's TRR. Mark continued by inquiring as to why the bond market is down. Cary responded by indicating that bonds are doing great but yields are low because interest rates are low. The Consolidated Report showed the current yield at 2.8. David Yancey asked if the RBOA should be happy with the 2.8. Scott responded by saying that is only the dividend and it is not the total return of the portfolio. Cary added that this number is blending the stocks with the Bonds and the District is getting a greater yield on the stock side. He also said that they usually benchmark based on a 10 year treasury.

A motion was made by Board member David Yancey to accept the Portfolio Performance Review as presented. The motion was seconded by Board member Phil Crawford and unanimously carried by the Board members present.

MARKET OVERVIEW

In the Board materials provided, Cary presented Morgan Stanley's Consulting Group "Capital Markets Overview" for period ending March 31, 2013. This capital markets overview noted that in the first quarter of 2013, equities and other risk assets made gains, in part due to gradually improving global economic conditions and continued loose monetary policy in the U.S., Europe and Japan. In the U.S., both the Dow Jones Industrial Average and the S&P 500 hit record highs. The Dow Jones Industrial Average rose 11.9% in the first quarter; the S&P 500 climbed 10.6% while the NASDAQ Composite advanced 8.5%. Concerns about the Cypriot banking crisis caused the CBOE Volatility Index (VIX), the so-called "fear index" to

briefly spike in March. However, investors looked past Eurozone uncertainty, allowing the index to end the quarter at a relatively calm 12.7, which is a distinct contrast from its August 8, 2011 high of 48. For 2013, the index is down 30%, reaching its lowest level since February 2007. For the quarter, the seasonally adjusted unemployment rate fell from 7.9% for January to 7.6% for March. Job gains in the quarter took place in health care, professional and business services, construction, and food services. Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index was flat in January and rose 0.7% in February. According to the Morgan Stanley Global Macro Outlook, Morgan Stanley & Co. LLC economists forecast a 1.8% inflation rate for 2013 and 1.5% for 2014. In the first quarter, emerging markets (EM) and global equities advanced. The MSCI EAFE Index (a benchmark for developed markets) rose 5.3% for U.S.-currency investors and rose 9.8% for local-currency investors, as the U.S. dollar appreciated in relation to the currencies of many nations on the index. Accommodative central bank policy, bolstered by the continuation of Quantitative Ease 3 (QE3) in December 2012, extended a year-long rally in riskier parts of the bond market, including high-yield debt and corporate credit. QE3 allows the U.S. Federal Reserve to purchase billions in mortgage-backed securities in order to bring down long-term interest rates and thus stimulate housing and other economic sectors dependent on borrowing.

VII. ADMINISTRATION (Cont.)

DISBURSEMENTS

Roslyn Washington of Keenan Financial Services presented the Board with the Disbursement Report which reflected reimbursement withdrawals and expenses associated with the management & operation of the Trust from October 2012 through March 2013.

A motion was made by Board member David Yancey to ratify the reimbursement withdrawals and expenses associated with the management and operation of the District's OPEB Investment Trust for the period October 2012 through March 2013. The motion was seconded by Board member Phil Crawford and unanimously carried by the Board members present.

THE DISTRICT'S OPEB PLAN INDEPENDENT AUDITOR'S REPORT

Board Chair Peter Fitzsimmons presented the Independent Auditor's Report provided by Crowe Horwath LLP. The report to the District showed that the Audit was conducted in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the comptroller general of the United States. These standards require that the auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. The audit report included assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The Independent Auditor's opinion indicates that the District's OPEB Investment Trust financial statements present fairly, in all material respects, the respective financial position of the Trust for the year ended June 30, 2012. The report provided a brief overview of the various features of the Audit as follows: Management Discussion and Analysis; The Statement of Trust Net Assets as of June 30, 2012; The Statement of Changes in Trust Net Assets for the year ended June 30, 2012; Notes to Basic Financial Statements and Required Supplementary Information

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Board member David Yancey asked if this is the same audit firm used by the District. Peter informed Board members that it is the same firm used by the District, which is an outside audit firm. Relative to the Trust's portfolio investments, Peter noted the Auditors narrative on Custodial Credit Risk, Credit Risk and Concentration of Credit Risk. The Trust's Investment Policy Statement places a 5% limit on the amount it may invest in any one issuer. As of June 30, 2012, the Audit Report noted no investments where a single investor exceeded 5%. In this connection, Scott Rankin and Cary Allison assured Board members that all funds in the District's portfolio are investment grade. Relative to bond ratings, Board member Maria Holguin, inquired as to how far down the rating scale can bonds be positioned. Cary responded that the District's portfolio has high quality funds that can buy low quality bonds but the portfolio has an average of A or better. Cary continued by indicating that when lower quality is purchased, its usually a small position. Relative to the Board's discussion on the Schedule of Funding Progress, Board member Phil Crawford noted the news that the District appears to be ahead of the game.

A motion was made by Board member Phil Crawford to accept the Independent Auditor's Report as presented. The motion was seconded by Board member Mark Newton and unanimously carried by the Board members present.

FISCAL YEAR 2013/2014 RETIREE BENEFIT RATES UPDATE

Board member Kim Garcia presented the Board with information regarding retiree benefit rates for fiscal year 2013-2014. She advised the Retirement Board of Authority (RBOA) members that going forward benefit rates will be separate for active and retired employees of the District and she indicated that benefit rate changes for retirees will become effective July 1, 2013. She noted that Anthem Blue Cross anticipates a 40% increase in benefit rates for retirees in the next 13-14 years. However, should the District integrate Blue Cross with Medicare it would curtail rate increases to approximately 27.8% for that period. Kim advised that these anticipated increases may have a deleterious effect on the District's next actuarial valuation study by increasing the Unfunded Actuarial Accrued Liability.

ACTUARIAL VALUATION STUDY UPDATE

To assess the merits of RFP responses from actuarial consulting firms, the Retirement Board of Authority had created a subcommittee constituted by Board members Danny Hawkins, Mark Newton, Peter Fitzsimmons and Kim Garcia. The subcommittee reviewed proposal materials and conducted reference checks relative to actuarial consulting firms Nyhart/Epler, Nicolay Consulting Group and Total Compensation Systems, Inc. It was determined that the consulting firm Nyhart/Epler proposal represented the best fit for the District's actuarial requirements. The Retirement Board of Authority will make a recommendation to the District to engage Nyhart/Epler to conduct the actuarial valuation study.

A motion was made by Board member David Yancey to accept the actuarial consulting firm Nyhart/Epler proposal and recommend that the District engage them to meet the actuarial requirements of the District. The motion was seconded by Board member Phil Crawford and unanimously carried by the Board members present.

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

Roslyn Washington of Keenan Financial Services (KFS) explained that the District’s “Substantive Plan” (Volume III) for fiscal year ended June 30, 2012 has been updated. She advised that the updated Electronic Library Data Discs are being presented to the Board at this meeting. She noted that the updated Electronic Library Data Discs reflect Comprehensive Compliance Plan conformity with all applicable regulatory protocols for fiscal year ended June 30, 2012. Phil Crawford asked if he could have an e-copy of the library for his records as the Retired AFT 6157 Representative. David Yancey asked if he could have a digital CD copy for his records as the President of the Faculty Association AFT 6157.

ANNUAL REPORT TO THE GOVERNING BOARD OF TRUSTEES

Board member Kim Garcia advised that the District’s Governing Board of Trustees has three new members and she is concerned that the current written presentation appears rather brief relative to providing a comprehensive overview of services provided to the District’s OPEB Investment Trust. Scott Rankin of Benefit Trust Company advised that the written format will be significantly expanded in its verbal representation. Board Chair Peter Fitzsimmons indicated that he will provide a draft of public comment to Scott Rankin. Roslyn Washington of Keenan Financial Services will send Scott a copy of the District’s Board Resolution.

PRIVATE LETTER RULING UPDATE

Gail Beal of Keenan Financial Services advised the Board members that Brian Johnson of Polsinelli LLC continues to work with the IRS relative to issuing a Private Letter Ruling (PLR) approving the form and operation of the District’s OPEB Plan. She noted that the IRS has all the documentation and information required for issuance of their pending Private Letter Ruling (PLR). She anticipates a response from the IRS in the near future.

VIII. INFORMATION REPORTS

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

VISITORS COMMENTS

There were no Visitor comments.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority meeting has been scheduled as follows:

- October 17, 2013: 1:00 PM – 3:00 PM.

Additional Agenda items to be discussed should include:

- Investment Policy Statement Review (Action Item).
- Actuarial Valuation Study Review (Information Item).
- Detailed Data on Fiscal Year 2013/2014 Retiree Benefit Rates (Information Item).
- Nomination and Election of Chair and Vice-Chair for the Retirement Board of Authority (Action Item).

X. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority meeting was adjourned by Board Chair Peter Fitzsimmons at 2:50 PM.

Americans with Disabilities Act The San Jose/Evergreen 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 modification or accommodation, in order to participate in a public meeting of the San Jose/Evergreen Community College District Retirement Board of Authority meeting, shall be made to: Peter Fitzsimmons, Director of Fiscal Services, San Jose/Evergreen Community College District, 2100 Moorpark Avenue, San Jose, CA 95128.