
LOS RIOS COMMUNITY COLLEGE DISTRICT
RETIREE HEALTH BENEFITS OVERSIGHT COMMITTEE

May 6, 2013

Business Services Conference Room

1:00 p.m.

(Approved 8/12/13)

Present: LRCCD: Kathleen Kirklin, Tracy Clark, Katie DeLeon, Theresa Matista, Jon Sharpe
WFB: Eric Lee

Absent: None

Guests: None

Welcome:

Theresa called the meeting to order at 1:00 p.m. and welcomed everyone.

February 4, 2013 Minutes

The February 4, 2013 minutes were considered for approval. A motion was made by Kathleen Kirklin for approval of the February minutes, and Katie DeLeon seconded the motion.

Motion carried, 5:0

Review of 1st Quarter (Calendar Year) Results

Eric Lee reviewed the investment report prepared by Wells Fargo Bank for the first quarter of the calendar year 2013. As of March 31, 2013, the portfolio market value was \$88,470,635. Eric reminded the Committee that at the last meeting he recommended moving the District from its target allocations of 25% in stocks and 75% in fixed income investments (bonds) to invest 30% in stocks and 70% in bonds. That change has started.

Asset Allocation

Eric briefly reviewed the investment guidelines contained on pages four and five of the Investment Report and discussed what the District's portfolio would look like going forward. As noted, the targets for stocks had increased from 25% to 30% and the target for fixed income Investments had reduced from 75% to 70%. The stock investment portfolio has small cap and foreign equity funds for better diversification. For the foreign stock holdings, the fund has changed its benchmark to the All-Country World Index because the prior benchmark had no emerging markets. The old benchmark had a lower correlation and the new index fund has broader diversification. Eric noted a good benchmark allows the District to better see what type of work the investment manager is doing.

Total Portfolio

Eric reviewed the total portfolio performance, focusing on the period ending March 31, 2013. On Page 8 of the Investment Report, Eric pointed out the quarterly market values and portfolio flows. He noted the portfolio had distributions in the second quarter and fourth quarter of last

year. He also commented that the District made no contributions last year. Theresa said we will be making this year's contribution in the next few weeks. Based on the Z budget, the District will contribute \$3.2M.

Eric moved to page 10 of the Investment Report which compares the portfolio's tactical weightings for the quarter that ended March 31, 2013 versus the quarter that ended December 31, 2012. Eric pointed out there was very little difference in the two weightings and the portfolio still is over-weighted in stocks versus bonds. There has been a pattern in the last four years with the uncertain economy. In the last year, for example, the market went up and down quite a bit. We had a weak fourth quarter, but then the first quarter of this year was quite good. Eric is hoping for a good overall year. He focused on the Federated Total Return Bond Fund versus Wells Fargo. The Federated Fund is a more aggressive fund and has more corporate bonds and high yield bonds. Even though it is a bond fund, it is tracking more closely with the stock market. Eric informed the Committee he is trying to balance out between the bond funds. Eric stated the portfolio is still overweight in growth stocks and needs to balance that with value stocks.

Eric reviewed page 11 of the Investment Report. That page shows how the portfolio stands from a compliance standpoint. The portfolio is slightly below the minimum allocation for the fixed income investments. The main reason for this is that the portfolio is holding cash.

On page 13 of the Investment Report, Eric reviewed the performance of the portfolio including the net returns and the policy and standard benchmarks. These benchmarks will be preserved as we go forward. With the change to the 30%/70% targets, there will be new benchmarks going forward. Eric noted that we had a solid quarter from a performance standpoint. Due to the weakness in the economy, the value funds did better than the growth funds, and the growth funds dragged back the total returns for the quarter. With interest rates moving around, the fixed income investments did relatively well too. Eric reminded the Committee that we have had long decline in interest rates over the last 20 years. With the portfolio's new targets, Eric believes the portfolio is a little more balanced. He foresees the portfolio making gains and performing well. Eric's not looking to change anything significant besides the benchmark. He still likes the growth funds, but we have moderated a little bit due to the seasonal activity not the economic cycle. He sees the portfolio as being well diversified.

Eric turned to page 14 of the Investment Report. He went over the performance of the individual bond funds. These funds turned in a solid performance and are more conservative by nature. He noted the funds highlighted in green were funds that the portfolio moved into and that those funds have lower expenses. In the international funds, the returns are based on fair value pricing. The index funds are doing what they are supposed to do. Eric is looking to lower the investment in index funds. Page 15 of the Investment Report shows that calendar year returns have been solid over the past four years. Eric pointed out that page 16 of the Investment Report compares active managers against the indexes and page 17 compares Vanguard against the American Funds EuroPacific funds. The rest of the report contains fund fact sheets for the investments and other information.

Collective Investment Funds

In April, we saw the move to the Collective Investment Funds in light of the recent policy change with the District. The September deposit will be the benchmark for these funds. On a going forward basis we will note this as the fund's "mile marker".

Future Meeting Dates/Agenda Items

The next meeting will be August 12, 2013.