2012

Retirement Board Quarterly Report

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Peralta Community College District
2/28/2012

Preface

This report is being provided to the Board of Trustees of the Peralta Community College District in accordance with article 2.16 of the Other Post-Employment Benefits (OPEB) Retirement Board Bylaws, which states, "The Board (Retirement Board) shall provide information and copies of investment statements and other similar reports regarding the Trust and its applicable investment performance to the governing body on a not-less-than quarterly basis".

Executive Summary

The Retirement Board (RB) has accomplished much over the last nine months. Within this time frame the RB has:

- Redesigned the plan structure of the Trust as well as the long-term funding mechanisms.
- Adopted new Bylaws, Charter, and Investment Policy Statement (IPS)
- Appointed a Chair and Vice Chair
- Appointed Advisory Members to the RB
- Conducted an open and competitive process for selecting an Underwriter
- Conducted an open and competitive process for selecting a Bond and Disclosure Counsel
- Approved the inclusion of a socially responsive investment policy statement within the IPS
- Selected a Discretionary Trustee that will serve the RB as both the Trustee, Custodian, as well as Investment Manager
- Reviewed on a monthly basis the investment performance and activities within the trust portfolio. As of December 31, 2011 the total trust value was $162.1 million and the quarterly return through December 31, 2011 was 6.03%.

For the first quarter of the 2012 calendar year the goal of the RB is to complete the implementation of the Discretionary Trustee structure. The next RB quarterly report will be provided to the Board of Trustees at the May 8, 2012 Board of Trustees meeting.

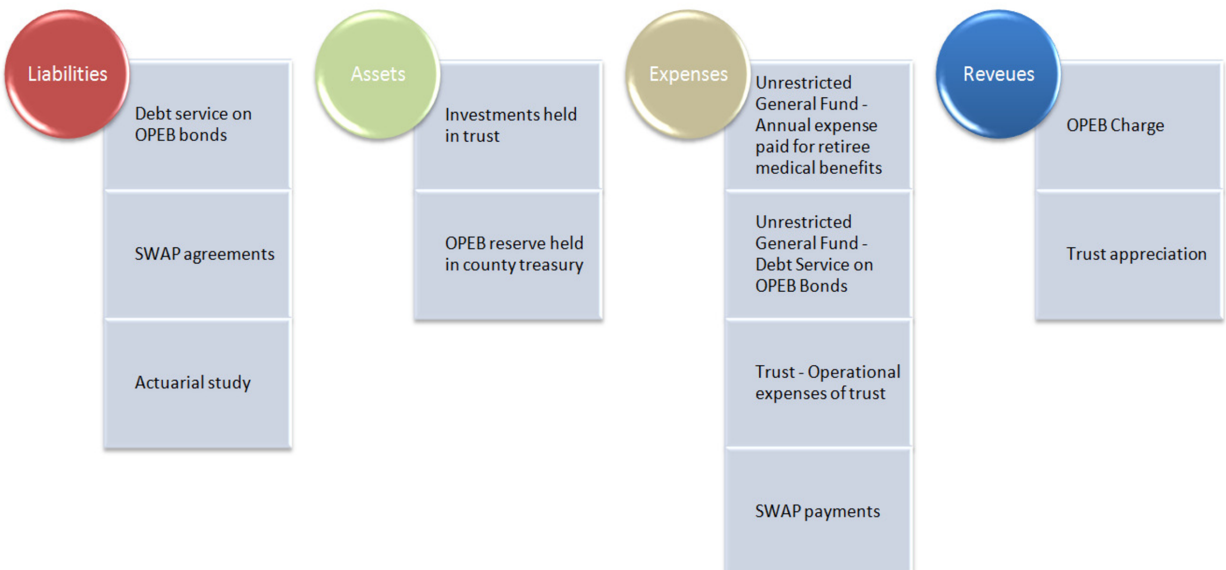
Redesigned Plan Structure

The revised OPEB plan structure consists of four basic elements. The first element is the associated liabilities. These liabilities consist of the debt service associated with the bonds sold to fund the revocable trust, the six tranches of SWAP agreements, and lastly the actuarial study projecting the actuarial accrued liability directly related to the existing OPEB obligation.

The second element is the restricted assets set aside to fund the ongoing expenses and liabilities within the OPEB program. The two assets within the program are the investments currently held in the revocable trust originating from the bond sale in 2005 and the OPEB reserve fund held in the Alameda County Treasurer's Office.

The third element is the annual expenses incurred related to the operations of the OPEB program. These expenses are a result of fulfilling the OPEB obligations to existing retirees, setting aside funds to pay for future obligations for current employees for when they retire, annual debt service payments associated with the bonds (short-term portion of the liability previously discussed), operational expenses related to maintaining the trust, and periodic payments that are contractually required under the existing B-1 SWAP to Morgan Stanley (short-term portion of the total SWAP liability previously discussed).

The fourth element is the revenues that have been and will continue to be transferred into the revocable trust to fund the expenses and liabilities. These revenues include the OPEB Charge that is now being applied to all budgets that support positions eligible for OPEB, in addition any appreciation in market value of the portfolio within the revocable trust.



The key for the long term sustainability of the OPEB Program is for the revenues to support the annual expenses of the trust in addition to funding the long term liabilities, i.e. Actuarial Accrued Liability (AAL). The following sections provide the evaluation team with a more focused explanation on the long term sustainability of the OPEB program and the revenues identified to support the liability associated with the OPEB.

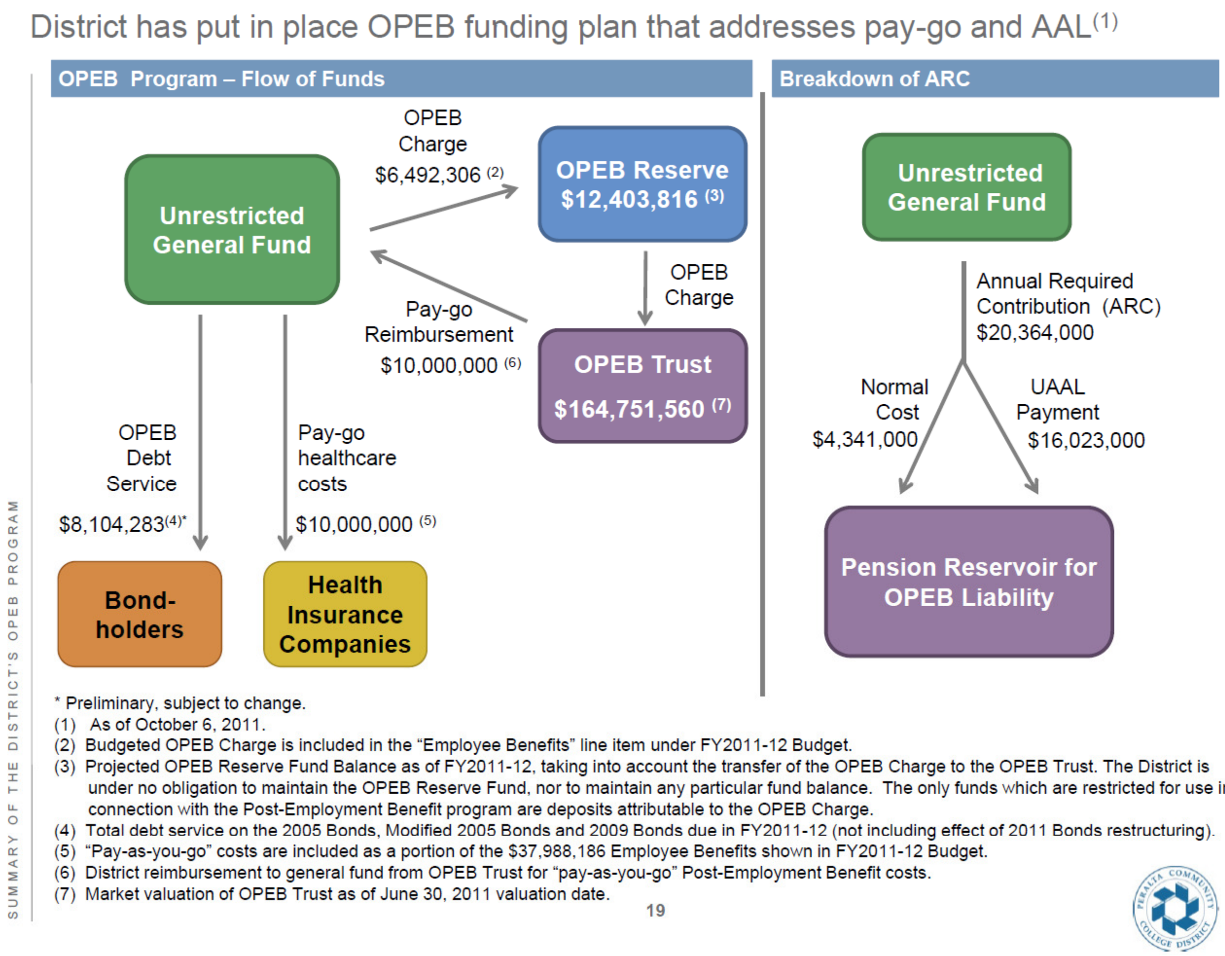
The District has appropriated additional resources to fund the gap between the OPEB Trust assets and the District's Actuarial Accrued Liability (AAL). As a result of a multi-year savings plan, the estimated actual balance held in the District's OPEB Reserve Fund, as of June 30, 2011, exceeded $14,000,000. Amounts on deposit in an unrestricted OPEB Reserve Fund (other than amounts attributable to the OPEB Charge) are available to pay for any lawful expenditures of the District, including but not limited to Swap Agreement termination payments, debt service on the 2005 Bonds, or Other Post-Employment Benefits. However, amounts in the OPEB Reserve

Fund (other than amounts attributable to the OPEB Charge) may be withdrawn from and spent on expenses unrelated to the Other Post-Employment Benefit program without any legal obligation of the District to replenish such amounts. Although the OPEB Reserve Fund is available to pay debt service on the Bonds (except for funds attributable to the OPEB Charge), the District has budgeted, for fiscal year 2011-12, sufficient amounts from the General Fund to satisfy debt service obligations on the 2005 Bonds.

Beginning in fiscal year 2010-11, the District implemented an OPEB Charge to supplement funds available in the OPEB Trust to pay Other Post-Employment Benefits. The OPEB Charge is a uniformly applied District-paid charge to all programs and is a function of the currently projected Annual Required Contribution (ARC), calculated as a percentage of payroll for all OPEB eligible active employees. Based on the then current actuarial study, the OPEB Charge was initially calculated at 12.5%.

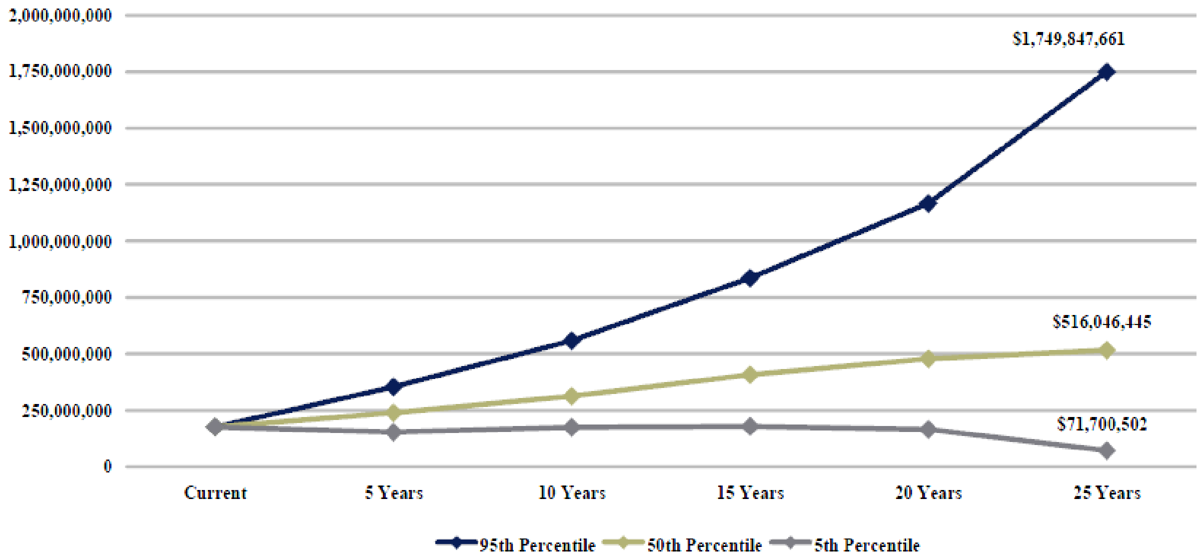
The funds, to which the OPEB Charge applies during each fiscal year, will be accounted for in the OPEB Reserve Fund. At the end of the fiscal year, such amounts will be transferred to the OPEB Trust to be invested in accordance with its Investment Policy Statement and applied to satisfy the Normal Cost and the unfunded past-service liability of active employees of the District. For fiscal year 2010-11, the OPEB Charge resulted in approximately $7.1 million of additional deposits into the OPEB Trust. Based upon the most recent actuarial study, effective July 1, 2011, the OPEB Charge was increased from 12.5% to 12.9% and is expected to result in approximately $7 million in deposits to the OPEB Trust during fiscal year 2011-12. The District estimates that the OPEB Charge will, over the course of a 25-year period, result in approximately $150 million of deposits to the OPEB Trust, net of any interest earnings. The District will continue to collect the OPEB Charge, as well as implementing a long-term plan of debt management and finance for the Other Post-Employment Benefit Program, including the conversion of the CARS to a more affordable form of debt.

The illustration below displays the relationships between the General Fund, OPEB Reserve Fund, and the OPEB Trust. The arrows and values represent the flow of funds for the fiscal year ending June 30, 2011. This illustration was also presented to the bond rating agencies as well as and the accreditation commission.



The District has taken great strides over the last year to address the issues and concerns raised by the PCCD Governing Board and ACCJC about the long-term sustainability and solvency of the OPEB Program. Two of the major achievements that will aid in the long-term sustainability of the program are the debt service restructuring that was completed on October 28, 2011 and the implementation of the OPEB Charge. As previously noted, the debt service restructuring will provide the District with budgetary relief of approximately $27 million over the next 5 fiscal years and the OPEB Charge has created an ongoing and dedicated revenue stream that will over time fund the Actuarial Accrued Liability (AAL).

In an effort to project and measure the impact of the restructuring on the long-term fiscal solvency of the District's OPEB program, Neuberger Berman, the District's Investment Managers conducted a series of simulations with the purpose of projecting the value of the assets held within the Revocable Trust at the end of 25 years. A summary of the results are shown below.



Nominal $

	Current	5 Years	10 Years	15 Years	20 Years	25 Years
95th Percentile	$175,770,516	$353,851,171	$558,648,121	$836,310,143	$1,166,498,127	$1,749,847,661
50th Percentile	$175,770,516	$239,080,757	$313,176,165	$407,036,118	$477,961,700	$516,046,445
5th Percentile	$175,770,516	$153,337,095	$174,634,353	$179,162,671	$165,463,371	$71,700,502

Real $, Adjusted for 2.5% Expected Inflation

	Current	5 Year	10 Year	15 Year	20 Year	25 Year
95th Percentile	$175,770,516	$312,752,874	$436,415,020	$577,443,349	$711,879,912	$943,861,362
50th Percentile	$175,770,516	$211,312,552	$244,652,720	$281,044,420	$291,686,138	$278,350,596
5th Percentile	$175,770,516	$135,527,649	$136,424,077	$123,705,653	$100,977,488	$38,074,576

Assuming a 7.1% average annual return on the assets held within the trust, an annual medical expense costs increase between 6.2 and 7.2% over the next 25 years (consistent with the most recent actuarial study), and the OPEB Charge is consistently applied, the estimated current value of the assets held in the trust is $278,350,596. This is $57 million greater than the AAL of $221,198,000 as of June 30, 2011. It is anticipated that any valuation in excess of the AAL will be used to satisfy the OPEB bond debt service obligations.

Bylaws and Management Structure

At its April 2011 meeting, the RB approved bylaws and a charter that clearly articulated the mission and purpose of the RB in addition to laying the framework on how business was to be conducted. In terms of facilitating meetings and conducting operations, the RB has appointed Ronald Gerhard as Chair and Trustee Bill Withrow as Vice Chair. As called for within the bylaws, the Chair and Vice Chair will serve in their respective capacity for two years at which time the RB will again make new appointments.

In addition, the RB solicited nominations from the various constituent groups that are beneficiaries of the trust to serve as Advisory RB members. These members have access to all information provided to the five regular RB members and participate in open discussion and dialog during the meetings. In total, there are six advisory members; each of the three collective bargaining groups within the Peralta District have an advisory seat and the Peralta Retiree Organization (PRO) has three seats.

Underwriters and Bond Counsel

To assist the District and the RB with restructuring and refinancing certain outstanding debt obligations, the RB conducted an open and competitive search for new underwriters and bond counsel. At the conclusion of this search, JP Morgan was selected as Underwriters and Stradling, Yocca, Carlson, and Rauth was selected as Bond Counsel. These firms were instrumental in the October 2011 refinancing that resulted in both savings to the District as well as providing a new debt service schedule that is moderate and consistent.

Socially Responsible Investment Policy

Through the critical evaluation of the existing Investment Policy Statement (IPS), a desire was expressed to incorporate Socially Responsible Investing (SRI). This desire was also expressed by the Board of Trustees. As a result, the RB went through an extensive evaluative process that examined various SRI policies currently employed by similar organizations and simulated what the actual portfolio performance would have been if a SRI policy had been implemented in the previous year. At the conclusion of these discussions, the following SRI policy statement was unanimously approved by the RB and incorporated into the IPS:

> The primary responsibility of the Board is to act in the best long-term interests of the beneficiaries. We believe that environmental, social, and corporate governance (ESG) issues can at times positively or negatively impact the performance of investment portfolios and that it may be possible and desirable to apply these principles to better align our goals as investors with the broader objectives of society. Therefore we commit to these principles in our decision-making process and to implementation where consistent with our fiduciary responsibilities.
>
> Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose to the Board any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

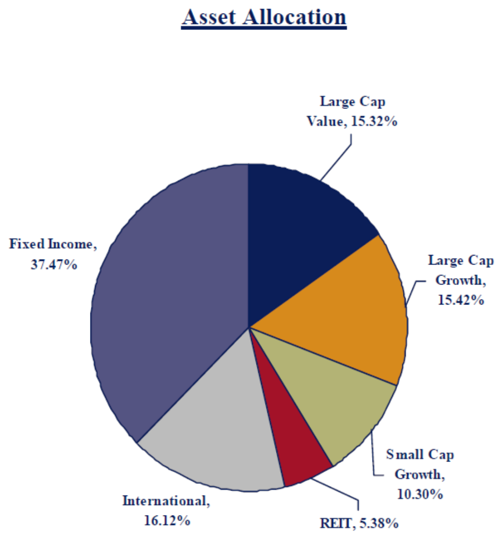
Discretionary Trustee

Prior to the RB approving the Discretionary Trustee contract with Neuberger Berman, the RB members were exposed to a tremendous amount of risk from a fiduciary perspective. That is, the RB members had a fiduciary responsibility to evaluate and monitor the investment managers on an ongoing basis to make sure that investments were placed and held within the parameters of the IPS. This very technical, tedious administrative task is often outside of the level of investment skill of most RB members. Customarily, due to the nature and very detail level of investment knowledge needed to carry out this task, other comparable RB bodies hire a Discretionary Trustee whose primary role is to act as the fiduciary agent and directly advise the RB on all investment matters. Furthermore, with the inclusion of a Discretionary Trustee, the fiduciary liability exposure to the RB and its members are reduced significantly.

At the January 26, 2012 RB meeting, Neuberger Berman was selected to serve as the Discretionary Trustee of the OPEB trust. Functioning in this role, the Discretionary Trustee will ensure that the IPS is adhered to by the investment managers, constantly monitor the investment managers and evaluate them against their established benchmarks, and recommend to the RB changes to the IPS as circumstances and markets change. In addition, Neuberger Berman will also function as the custodian of the plan assets.

Overview of Portfolio Performance

Please find below a summary of the asset allocation within the trust portfolio as of December 31, 2011 and summary of the portfolio performance for the same time period.



Peralta Community College District

Asset Allocation Review

Performance as of December 31, 2011

Performance Summary[1]

	1 Month %	3 Months %	Year-to-Date %	1 Year %	Annualized 3 Year %	Annualized Since Inception %[2]
Peralta Community College	0.48	6.03	0.18	0.18	12.30	3.17
Benchmark[3]	0.81	6.95	1.22	1.22	11.50	3.49

	Market Value (12/31/2011)	Weight %	1 Month %	3 Months %	Year-to-Date %	1 Year %	Since Inception (annualized) %	Inception Date
Equities	**$101,390,066**	**62.53**	**-0.05**	**8.60**	**-3.23**	**-3.23**	**1.35**	**01/31/2006**
US Equities	75,258,063	46.42	0.72	10.72	0.08	0.08	*2.19*	
Large Cap Dis Growth	24,999,580	15.42	-1.21	6.96	-3.80	-3.80	*3.50*	
RUSSELL 1000 GROWTH INDEX			*-0.32*	*10.61*	2.64	*2.64*	*3.31*	
Large Cap Value	24,845,661	15.32	1.95	12.88	2.02	2.02	*0.98*	*01/20/2006*
RUSSELL 1000 VALUE INDEX			*2.02*	*13.11*	*0.39*	*0.39*	*0.83*	
REITS	8,717,224	5.38	4.63	16.87	8.62	8.62	*5.36*	*01/31/2006*
NAREIT ALL EQUITY REIT INDEX			*4.79*	*15.26*	*8.28*	*8.28*	*2.72*	
Small Cap Growth	16,695,599	10.30	-0.10	10.35	0.08	0.08	*-1.14*	*01/31/2006*
RUSSELL 2000 INDEX			*0.66*	*15.47*	*-4.18*	*-4.18*	*1.54*	
INTERNATIONAL EQUITY	26,132,003	16.12	-2.21	2.95	-11.67	-11.67	*-0.86*	*01/31/2006*
International Mutual Fund	26,132,003	16.12	-2.21	2.95	-11.67	-11.67	*-0.16*	
MSCI EAFE INDEX (USD)			*-0.94*	*3.38*	*-11.73*	*-11.73*	*-0.67*	
Fixed Income	**60,751,536**	**37.47**	**1.39**	**1.57**	**6.85**	**6.85**	**6.19**	
US FIXED INCOME	60,751,536	37.47	1.39	1.57	6.85	6.85	*6.19*	
Fixed Income	60,751,536	37.47	1.39	1.57	6.85	6.85	*6.19*	*01/31/2006*
BarCap US Aggregate Bond Index			*1.10*	*1.12*	*7.84*	*7.84*	*6.22*	
TOTAL PORTFOLIO	**$162,141,602**	**100.00**	**0.48**	**6.03**	**0.18**	**0.18**	**3.17**	**01/31/2006**

Past performance does not predict or guarantee future results. Returns shown are gross of fees.
(1) Earned includes realized and unrealized gains and losses, dividend income and interest income earned, principal pay-downs, less fees paid.
(2) Inception date 1/31/06.
(3) Returns shown are gross of fees.
(4) Benchmark consists of 20% MSCI EAFE, 30% S&P 500, 10% Russell 2000, 5% NAREIT Equity REIT and 35% Barclays Capital Aggregate.