ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-001
Public Comments		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The public may address the Retirement Board of Authority on any matter pertaining to the Board that is not on the agenda.

RECOMMENDATION:

The Chair reserves the right to limit the time of presentations by individual or topic.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-002
Approval of Agenda		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Under California Government Code Section §54950 (The Ralph M. Brown Act) the "Legislative Body" is required to post an agenda detailing each item of business to be discussed. The Authority posts the agenda in compliance with California Government Code Section §54954.2.

STATUS:

Unless items are added to the agenda according to G.C. §54954.2 (b) (1) (2) (3) the agenda is to be approved as posted.

RECOMMENDATION:

Subject to changes or corrections, the agenda is to be approved.

AGENDA

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
OCTOBER 15, 2015
1:00 PM–3:00 PM

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BUILDING, ROOM A140
3041 WEST AVENUE K
LANCASTER, CA 93536
PHONE (661) 722-6300

I. CALL TO ORDER

II. ROLL CALL

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

Executive Director Business Services	Diana Keelen
Vice President Human Resources	Mark Bryant
Board of Trustees Member	Michael Adams

PROGRAM COORDINATOR:

Senior Vice President	Gail Beal
Senior Account Manager	Roslyn Washington
Account Executive	Sharen Stanek-Lowe

CONSULTANTS:

Benefit Trust Company (BTC)	Scott Rankin
Morgan Stanley Wealth Management (MS)	Cary Allison
RPM Consultant group (RPM)	Chuck Thompson

OTHERS

None

III. PUBLIC COMMENTS

Information
2015/2016-001

The public may address the Retirement Board of Authority on any matter pertaining to the Agency that is not on the agenda. The Chair reserves the right to limit the time of presentations by individual or topic.

IV. APPROVAL OF AGENDA

Action
2015/2016-002

The Retirement Board of Authority retains the right to change the order in which agenda items are discussed. Subject to review by the Retirement Board of Authority the agenda is to be approved as presented. Items may be deleted or added for discussion only according to G.C. Section 54954.2.
PUBLIC COMMENTS:
BOARD CONSIDERATION

V. APPROVAL OF MINUTES

Action
2015/2016-003

The Retirement Board of Authority will review the minutes from the previous meeting on June 11, 2015 for any adjustments and adoption.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VI. INVESTMENTS

PORTFOLIO PERFORMANCE REVIEW

Action
2015/2016-004

Morgan Stanley Wealth Management (MS) will review the overall performance of the District's Public Entity Investment Trust portfolio.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

MARKET OVERVIEW

Information
2015/2016-005

Morgan Stanley Wealth Management (MS) will provide an overview of the actions of the global capital markets since the last Retirement Board of Authority meeting.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VII. EDUCATION

BENEFIT TRUST COMPANY'S DUE DILIGENCE MEETING WITH MORGAN STANLEY

Information
2015/2016-006

The Retirement Board of Authority (RBOA) membership shall analyze the results of Benefit Trusts Company's (BTC) due diligence meeting with Morgan Stanley in New York on June 5, 2015.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VIII. ADMINISTRATION

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Action
2015/2016-007

California Government Code 53216.4 requires an annual reporting of the funds held in the District's OPEB Trust to beneficiaries of the Trust. The Retirement Board of Authority shall acknowledge District procedures for Annual Report promulgation to Trust beneficiaries for fiscal year ending June 30, 2015.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

DISBURSEMENT REPORT **Action**
2015/2016-008

The Retirement Board of Authority members will acknowledge and ratify all reasonable expenses associated with the compliance, management and operational duties of the District's OPEB Investment Trust.
PUBLIC COMMENTS:
BOARD CONSIDERATIONS:

RETIREMENT BOARD OF AUTHORITY (RBOA) BYLAWS **Action**
2015/2016-009

The current Trust document provides general provisions for the operation of the District's Trust. RBOA Bylaws supply governance and operational procedures to facilitate the Board in the management of the Trust by providing additional direction for issues not discussed in the provisions of the Trust Document. There will be a discussion relative to the crafting RBOA Bylaws for the District's Public Entity Investment Trust.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

STATUS OF THE COMPREHENSIVE COMPLIANCE INCLUDING THE "SUBSTANTIVE PLAN" **Information**
2015/2016-010

The Comprehensive Compliance Plan is a summary of the State of California regulatory mandates and GASB requirements applicable to the District's Public Entity Investment program. As an essential protocol of this framework, Keenan Financial Services provides a written summary of the "Substantive Plan" for fiscal 2014/2015 which acts as both a road map and a record of the Retirement Board of Authority's compliance with its governance and fiduciary mandates.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

TRANSFER OF ASSETS INTO THE TRUST **Information**
2015/2016-011

The District's asset transfers into the Investment Trust may require a tailored funding procedure. To meet the possible tailored funding procedure, the Retirement Board of Authority (RBOA) will discuss recent transfers to the Investment Trust and provide timing and asset transfer schedules related to the District's Annual Required Contribution (ARC) and Pay-As-You-Go funding strategies.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

ACTUARIAL VALUATION STUDY UPDATE **Information**
2015/2016-012

The District's current Actuarial Valuation Study has an effective date of July 1, 2013. The Retirement Board of Authority membership will review the status of updates to the Actuarial Valuation Study and consider the implications of the recently issued GASB Standards.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

GASB ISSUES FINAL OPEB STATEMENTS **Information**
2015/2016-013

The Governmental Accounting Standards Board (GASB) has issued two final Statements detailing how state and local governments should account for and report postemployment benefits other than pensions (OPEB). Statement No.74, **Financial Reporting for Postemployment Benefits Other than Pension Plans** addresses financial reporting by plans that administer OPEB benefits and replaces the Statement No. 43. Statement No. 75, **Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans**, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for accounting and financial reporting by governments that provide OPEB to their employees or employees of other governmental units and replaces Statement No. 45.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

IX. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS **Information**
2015/2016-014

Each member of the Retirement Board of Authority may report about various matters involving the Authority. There will be no Authority discussion except to ask questions, and no action will be taken unless listed on a subsequent agenda.

PROGRAM COORDINATOR/CONSULTANT COMMENTS **Information**
2015/2016-015

The Program Coordinator and Consultants will report to the Retirement Board of Authority about various matters involving the Authority. There will be no Authority discussion except to ask questions, and no action will be taken unless listed on a subsequent agenda.

X. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING **Information**
2015/2016-016

Board members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.

XI. ADJOURNMENT

Americans with Disabilities Act: The Antelope Valley 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 Antelope Valley Community College District Retirement Board of Authority, shall be made to: Diana Keelen, Executive Director Business Services, Antelope Valley Community College District, 3041 West Avenue K, Lancaster, Ca 93536: Phone (661) 722-6300.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:	DATE: 10/15/2015
Retirement Board of Authority	
SUBJECT:	ITEM #: 2015/2016-003
Approval of Minutes	Enclosure: Yes
	Action Item: Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

As a matter of record and in accordance with the Brown Act, minutes of each meeting are kept and recorded.

STATUS:

The Board will review the minutes from the previous Retirement Board of Authority meeting on June 11, 2015.

RECOMMENDATION:

Subject to changes or corrections, the minutes are to be approved.

DRAFT OF MINUTES

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
JUNE 11, 2015
10:00 AM–12:00 PM

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BUILDING, ROOM A140
3041 WEST AVENUE K
LANCASTER, CA 93536
PHONE (661) 722 - 6300

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 10:09 AM by RBOA Chair Diana Keelen.

Roll-call was conducted with all members of the Retirement Board of Authority (RBOA) reporting their attendance. All Service Organization representatives also indicated their presence at the meeting.

II. ROLL CALL

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

Executive Director Business Services	Diana Keelen
Vice President Human Resources	Mark Bryant
Board of Trustees Member	Michael Adams

PROGRAM COORDINATOR:

Senior Vice President, Keenan Financial Services (KFS)	Gail Beal
Account Manager, Keenan Financial Services (KFS)	Roslyn Washington
Account Executive, Keenan & Associates (Keenan)	Sharen Stanek-Lowe

CONSULTANTS:

Benefit Trust Company (BTC)	Scott Rankin
Morgan Stanley Wealth Management (MS)	Cary Allison
RPM Consultant Group (RPM)	Chuck Thompson

GUESTS:
None

III. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

Responding to a question from Gail Beal of Keenan Financial Services (KFS), Retirement Board of Authority (RBOA) Chair Diana Keelen advised that going forward, the RBOA would prefer to have meeting materials presented on the Board Docs platform rather than in paper copy format.

A motion was made by RBOA member Michael Adams to approve the Agenda as presented. The motion was seconded by RBOA Chair Diana Keelen and was unanimously carried by a roll-call of the RBOA membership present.

V. APPROVAL OF MINUTES

A motion was made by RBOA member Michael Adams to approve the Minutes from the previous meeting on May 21, 2015 as presented. The motion was seconded by RBOA Chair Diana Keelen and was unanimously carried by a roll-call of the RBOA membership present.

VI. ADMINISTRATION

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

Chuck Thompson of RPM Consultant Group provided introductions of the Service Organization representatives to the Retirement Board of Authority (RBOA) membership. Gail Beal of Keenan Financial Services (KFS) presented an overview of the structural format and functionality of the District's Public Entity Investment Trust Program. Gail advised that the Program has been specifically designed to meet the requirements of GASB Statement No 43 & 45 protocols as well as complying with State of California applicable regulatory statutes. She explained that the Program has a Fiduciary and Governance structure with a strong "separation of function" through the layering of Keenan Financial Services (KFS), Benefit Trust Company (BTC) and Morgan Stanley Wealth Management (MS) with the Retirement Board of Authority (RBOA) providing monitoring and oversight duties.

The role of Keenan Financial Services (KFS) as Program Coordinator/Third Party Administrator (TPA) 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 and resolution of Action Items resulting from RBOA Meetings.
- Assisting the RBOA with administration, monitoring and oversight of the District's Public Entity Investment Trust program.

- Facilitating District compliance with GASB protocols and Regulatory compliance through the creation and maintenance of the Comprehensive Compliance Plan, including the "Substantive Plan".
- Maintenance of the District's OPEB Program documentation.

Scott Rankin of Benefit Trust Company (BTC) profiled the role of BTC as the Discretionary Trustee. Scott explained the integration of Benefit Trust Company (BTC) and its Registered Investment Advisor (RIA) Morgan Stanley Wealth Management (MS) in the Investment Trust Program's financial and fiduciary process.

The fiduciary mandate of Benefit Trust Company (BTC) as Discretionary Trustee and Program Custodian include the following activities and duties:

- 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 its Registered Investment Advisor.
- 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 accrual accounting report production reflecting 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.

Scott advised that BTC as Discretionary Trustee is implementing a new tactical cash allocation system called "in balance" that will facilitate rebalancing to the predetermined asset percentage held in various categories of the District's selected model portfolio.

Morgan Stanley Wealth Management (MS) as Registered Investment Advisor provides services as follows:

- Recommending Asset Allocation Models to Benefit Trust Company as Discretionary Trustee for the District's Target Rate of Return (TRR) portfolio.
- Recommending specific investments to Benefit Trust Company as Discretionary Trustee for the TRR 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 (BTC) as Discretionary Trustee on the status of all current investments in the District's Public Entity Investment Trust.

DESIGNATION OF RETIREMENT BOARD OF AUTHORITY MEMBERS

Chuck Thompson of RPM Consultant Group explained that the District's Governing Board of Trustees had adopted a Retirement Board of Authority (RBOA) Governance and Fiduciary structure for the management of their Public Entity OPEB Investment Trust. Chuck advised that the nomenclature "Retirement Board" will also transition to the "Retirement Board of Authority" and noted that there should be a formal ratification of this new designation.

A motion was made by RBOA member Michael Adams to ratify the designation transition from **"Retirement Board"** to **"Retirement Board of Authority"** and reaffirm the District's Executive Director Business Services **Diana Keelan** as Chair and Vice President Human Resources **Mark Bryant** as Vice-Chair of the Retirement Board of Authority (RBOA). The motion was accepted and seconded by Vice-Chair Mark Bryant and was unanimously carried by a roll-call of the RBOA members present.

REVIEW OF THE FUTURIS IMPLEMENTATION TIMELINE

Gail Beal of Keenan Financial Services (KFS) provided an overview of the District's Public Entity Investment Trust's draft implementation timeline. Gail advised that the "draft informational timeline" provided is somewhat flexible as it a guideline which incorporates multiple financial and fiduciary elements from Investment Trust account set-up to Trust funding schedules to District data collection for the creation of the "Substantive Plan". In coordination with Chuck Thompson of RPM Consultant Group (RPM) who will be completing Volume I of the "Substantive Plan" and Keenan Financial Services (KFS) will be creating Volumes II and III. A review of the current Table of Contents provided by RPM will be conducted and discussed with RPM for implementation.

THE FUTURIS INVESTMENT PROCESS

Cary Allison of Morgan Stanley Wealth Management provided an overview of the Model Public Entity Investment Trust Portfolios and discussed Retirement Board of Authority (RBOA) processes for Model Portfolio selection. Key elements in this discussion was a review of the RBOA's time horizon for investment, short-term liquidity needs as well as an analysis of the RBOAs capacity to accept investment risk as measured through the completion of Morgan Stanley's (MS) Institutional Questionnaire. Relative to the Investment Trust funding schedule, RBOA Chair Diana Keelen advised that the District anticipates an annual funding schedule and fiduciary asset accumulations commensurate with the District's OPEB liability.

Cary explained that the MS Institutional Questionnaire provides guidance towards selecting an investment portfolio Target Rate of Return (TRR) and should be viewed as a prudent process in gauging asset-allocation on the risk/return spectrum in the domestic and global capital markets. Subsequent to analyzing the portfolio questions from the MS Institutional Questionnaire, the RBOA membership reached a consensus that a **Growth Portfolio** was most appropriate for the District's long-term objective – a Growth Portfolio equates to net **7.0% Target Rate of Return (TRR)** with an additional **1%** allocated to the management and operational duties of the Investment Trust. Cary explained that Morgan Stanley Wealth Management (MS) and Benefit Trust Company (BTC) as Discretionary Trustee will manage the District's Investment Trust's portfolio to an **8.0%** annual return objective.

ESTABLISHMENT OF INVESTMENT POLICY STATEMENT

Scott Rankin of Benefit Trust Company (BTC) provided RBOA members with an overview of the Investment Policy Statement (IPS) provisions focusing attention on appropriate sections such as permitted Equity and Fixed Income investments; Benchmarks used for Equity and Fixed Income performance evaluation; Ethics and Conflict of Interest provisions and ability to modify the District's Target Rate of Return (TRR).

Scott explained that the IPS has been structured for a Retirement System under California's regulatory framework and the California Governmental Code – IPS provisions detail fiduciary and governance principles which have been extracted from the mandates of the State of California Constitution; the California Government Code and IRS Code section 115. In responding to RBOA inquiries, Scott explained the implications of the Investment Trust's irrevocability provisions under the protocols of GASB Statement No 43 & 45.He advised that the IPS incorporates fiduciary mandates related to the **"Prudent Person**

Standard"; the **"Exclusive Benefit Standard"** and the duty to diversify investments **"so as to minimize the risk of large losses"**. In this framework, Scott advised that the District's Trust portfolio investments are designated per a prudent decision-making process; selected to provide benefits exclusively to the OPEB Plan participants and invested so as to minimize risk of large losses.

Scott continued by explaining that IPS provisions addresses permitted and non-permitted investments while advising that the IPS also incorporates language to facilitate current institutional investment practices.

On the Equity side, the restrictions listed in the IPS shall be permitted in the context of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, and the investments provide for daily liquidity." Scott continued by explaining that "additionally, certain securities may not be held directly, but only in open-ended or closed-end mutual funds, comingled funds, or ETFs i.e. common stocks, preferred stocks, and securities convertible into common stocks and securities that carry the right to purchase common of non-U.S. companies traded on global exchanges, traded in any currency, as well as restricted securities of U.S. and non-U.S. companies, including securities issued through private offerings, and forward currency contracts or currency futures to hedge foreign currency exposure".

Based on investment style and capitalization range, the Investment Trust's portfolio equity performance shall be measured by indices as follows:

For domestic equity allocations: the <u>S&P 500 Index</u>.
For international equity allocations: the <u>MSCI EAFE</u> and <u>MSCI ACWI ex. U.S.</u> Indices.

On the Fixed Income side, Scott continued by advising that restrictions listed in the IPS provisions shall be permitted in the framework of "open-end or closed-end mutual-end mutual funds, comingled funds, or ETFs, if in the opinion of the Trustee these activities are consistent with fund objectives and prudent management, risk mitigation, and the investments provide for daily liquidity." He further explained that "investment in non-investment grade bonds or loans by such funds shall be permitted so long as the average aggregate rating of the funds are investment grade, and in the opinion of the Trustee the proportion of non-investment grade bonds to investment grade bonds in the portfolio is prudent."

The investment objective of the fixed income portfolio is to achieve a total return commensurate with the overall bond market as measured by indices as follows:

For domestic Fixed Income allocations: the <u>Barclay's Aggregate Bond Index.</u>
For international Fixed Income allocations: the <u>Barclay's Global Bond Index.</u>

Chuck Thompson of RPM Consultant Group advised that the Investment Trust's investment activities and asset positions are audited on an annual basis with the development and institution of audit schedules that the district's audit firm will utilize when completing their annual audit of the district's OPEB GASB Irrevocable Trust.

A motion was made by RBOA member Michael Adams to acknowledge the provisions of the Investment Policy Statement (IPS) and ratify a net **7.0%** Target Rate of Return (TRR) with an additional **1%** allocated towards expenses associated with the Trust's management/operational duties and compliance with GASB Statements No. 43/45 protocols and applicable Regulatory statutes. The motion was seconded by RBOA Vice-Chair Mark Bryant and was unanimously carried by a roll-call of the RBOA membership present.

REVIEW SAMPLE REPORTS THE BOARD WILL RECEIVE TO MONITOR THE PROGRAM

Scott Rankin of Benefit Trust Company (BTC) provided the RBOA membership with sample Investment Trust Report schedules including the Change in Portfolio; Asset Allocation Summary and Time Weighted Return (Gross and Net of Fees) for each accounting period. Scott discussed BTC's Book & Records format for Report production including the asset summary schedule; the cash receipts and disbursements schedule; the schedule of contributions; the schedules of purchases and sales etc. He explained the timelines for Trust Report production and delivery to the RBOA membership. He noted that Report statements will be available online in PDF format four (4) or five (5) days subsequent to the end of the accounting period. A notification email will be sent to the RBOA membership when District Trust Account Statements are available for their review. Retirement Board of Authority members will be provided with a pass code to be able to look up the various reports at anytime on line.

APPROVAL OF ANNUAL REPORTING PROCEDURE

Roslyn Washington of Keenan Financial Services provided an overview of the regulatory mandate for annual Report production on the Status of the Trust. Subsequent to a brief discussion, the RBOA membership determined that the Annual Report with Cover Letter will be posted on the District's website to facilitate promulgation to District OPEB Trust beneficiaries.

A motion was made by RBOA member Michael Adams to promulgate the Annual Report on the Status of the Trust via the District's website. The motion was seconded by RBOA Vice-Chair Mark Bryant and was unanimously carried by a roll-call of the RBOA membership present.

REVIEW OF THE COMPREHENSIVE COMPLIANCE PLAN, INCLUDING THE "SUBSTANTIVE PLAN"

Roslyn Washington of Keenan Financial Services provided a brief overview of the "Substantive Plan" and the environment that constitutes the Comprehensive Compliance Plan. Relative to the development and maintenance of the "Substantive Plan", Roslyn explained the data gathering process for "Substantive Plan" production and the delivery protocols to the District. Sharen Stanek-Lowe introduced herself and advised that she would be working with the District's Human Resources Department to gather the Retiree Benefit data that would go into the plan. In addition KFS will coordinate with RPM to create a written policy and procedure to be approved by the district's Retirement Board of Authority for the maintenance of the Comprehensive Compliance Plan, including the "Substantive Plan".

DESIGNATED OFFICIAL POSTING & MAILING ADDRESS (ES)

A motion was made by RBOA member Michael Adams advising that the official posting and mailing address will be the District Office @ 3041 West Avenue K, Lancaster, CA. 93536. The motion was seconded by RBOA Vice-Chair Mark Bryant and was unanimously carried by a roll-call of the RBOA membership present.

VII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

On behalf of the Retirement Board of Authority membership, Chair Diana Keelen expressed appreciation for the support provided in establishing and administrating the District's Investment Trust.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

Gail Beal of Keenan Financial Services thanked the RBOA membership for selecting the Futuris team as part of the District's goals and objectives for funding their OPEB liability. Chuck Thompson of RPM Consultant Group advised that alternative and modified RBOA Bylaws had been created and should be placed on the next agenda as an action item for the next RBOA meeting. In addition, a discussion took place concerning the use of conference calls for Retirement Board of Authority meetings for members who cannot be physically in attendance at a scheduled Retirement Board of Authority meeting but could participate in the meeting via a conference call. A recommended modification/addition to the district's current By-laws was made by Chuck Thompson RPM. The modification/addition to the By-laws requested was "In order for the use of a conference call for a member to participate in the meeting a quorum must exist at the official meeting location". The member who is not able to physically attend the meeting but is participating in the meeting via conference call his/her conference call meeting participation cannot count towards having a quorum for the meeting.

A review of the Brown Act's current guidelines for the use of conference calls by a Retirement Board of Authority, in general, was requested to be made by Chuck Thompson RPM. Conducting the review and reporting the results would be performed by KFS to obtain the current conference call use procedures and based upon the results of the Brown Act conference call use review, if necessary, KFS will provide the language to modify/add to the Retirement Board of Authority's By-laws to clarify the use of a conference call for Retirement Board of Authority members and/or others. The by-laws status will be presented at the next district's Retirement Board of Authority meeting on October 15, 2015

VIII. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next Retirement Board of Authority (RBOA) meeting is scheduled as follows:

- **October 15, 2015: 1:00 PM–3:00 PM.**

IX. ADJOURNMENT

There being no more business to conduct, the Retirement Board of Authority Meeting was adjourned @ 11:32 AM.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-004
Portfolio Performance Review		Enclosure:	Yes
		Action Item	Yes

Prepared by: Morgan Stanley Wealth Management (MS)

Requested by: Retirement Board of Authority

BACKGROUND:

As Board members of the Retirement Board of Authority you have a fiduciary responsibility as described in Government Code section 53215, et seq. As part of fulfilling your fiduciary responsibility, it is important to periodically review the District's Public Entity Investment Trust Portfolio.

STATUS:

Morgan Stanley Wealth Management (MS) will provide a review of the District's Public Entity Investment Trust Portfolio Performance Report.

RECOMMENDATION:

The Retirement Board of Authority should review and accept the District's Investment Trust Portfolio Performance Report and file as appropriate.

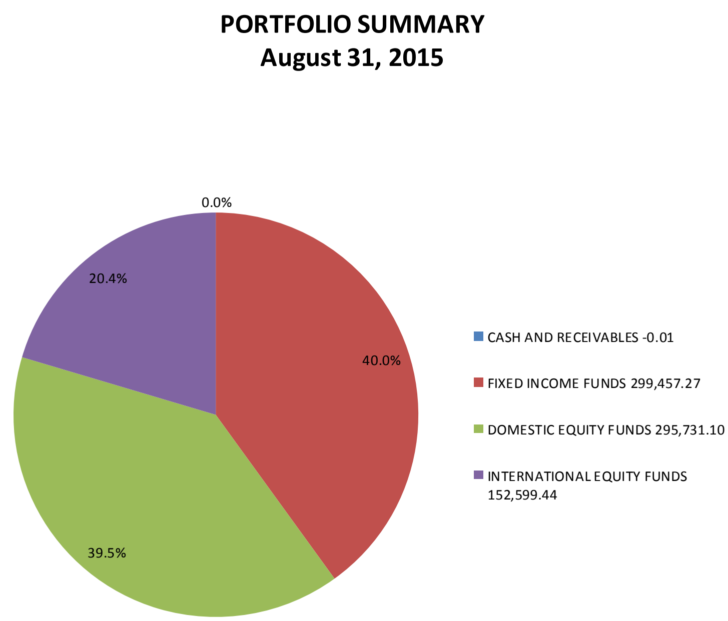
BENEFIT TRUST COMPANY AS TRUSTEE FOR ANTELOPE VALLEY COMMUNITY COLLEGE D

August 31, 2015

Change In Portfolio

Portfolio Value on 12-31-14	0.00
Contributions	778,067.57
Withdrawals	0.00
Change in Market Value	-30,541.33
Income Received	1,190.55
Portfolio Fees	-928.98
Portfolio Value on 08-31-15	747,787.81
	747,787.81

Asset Allocation



Time Weighted Return - Gross of Fees

	Month To Date	Quarter To Date	Year To Date	Latest 1 Year	Annualized Latest 3 Year	Annualized Latest 5 Year	Inception To Date
Account	-3.67	-	-	-	-	-	-3.67
S&P 500 Adj for Divs	-6.03	-4.06	-2.87	0.50	14.32	15.87	-6.03
MSCI EAFE	-7.36	-5.43	-0.21	-7.47	8.53	7.05	-7.36
MSCI ACWI Ex US Net	-7.64	-7.90	-4.18	-12.36	5.26	4.76	-7.64
Barclays Aggregate	-0.14	0.56	0.45	1.56	1.53	2.99	-0.14
Barclays Global Agg Bd Unhedged	0.12	0.34	-2.75	-6.46	-1.35	1.16	0.12
50% MSCI ACWI/ 50% Barclays Agg	-3.50	-2.74	-1.42	-2.28	5.53	6.51	-3.50

Time Weighted Return - Net of Fees

	Month To Date	Quarter To Date	Year To Date	Latest 1 Year	Annualized Latest 3 Year	Annualized Latest 5 Year	Inception To Date
Account	-3.73	-	-	-	-	-	-3.73
S&P 500 Adj for Divs	-6.03	-4.06	-2.87	0.50	14.32	15.87	-6.03
MSCI EAFE	-7.36	-5.43	-0.21	-7.47	8.53	7.05	-7.36
MSCI ACWI Ex US Net	-7.64	-7.90	-4.18	-12.36	5.26	4.76	-7.64
Barclays Aggregate	-0.14	0.56	0.45	1.56	1.53	2.99	-0.14
Barclays Global Agg Bd Unhedged	0.12	0.34	-2.75	-6.46	-1.35	1.16	0.12
50% MSCI ACWI/ 50% Barclays Agg	-3.50	-2.74	-1.42	-2.28	5.53	6.51	-3.50

PORTFOLIO APPRAISAL

August 31, 2015

Quantity	Security	Security Symbol	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
CASH AND RECEIVABLES								
	NORTHERN INSTL FUNDS GOVERNMENT SELECT	BGSX.X		-0.01		-0.01	0.0	0.0
FIXED INC MUTUAL FUNDS								
Taxable Funds								
1,925.395	BLACKROCK STRATEGIC INCOME OPPS INSTL	BSII.X	10.06	19,378.89	10.01	19,273.20	2.6	2.2
3,961.150	BLACKROCK TOTAL RETURN INSTL	MAHQ.X	11.75	46,542.98	11.70	46,345.46	6.2	3.0
4,399.059	DELAWARE DIVERSIFIED INC INSTL	DPFF.X	8.84	38,908.61	8.78	38,623.74	5.2	3.9
1,856.279	HARTFORD WORLD BOND I	HWDI.X	10.43	19,361.01	10.48	19,453.80	2.6	3.8
1,881.301	LEGG MASON BW ALT	LMAM.X	10.31	19,393.99	10.12	19,038.77	2.5	5.7
2,263.293	LEGG MASON BW GLOBAL OPPS BD IS	GOBS.X	10.29	23,287.56	10.00	22,632.93	3.0	5.0
3,259.765	PRUDENTIAL TOTAL RETURN BD FD	PTRQ.X	14.28	46,548.45	14.23	46,386.46	6.2	3.3
3,552.566	TEMPLETON GLOBAL BOND ADV	TGBA.X	12.03	42,728.61	11.62	41,280.82	5.5	3.4
4,029.696	WESTERN ASSET CORE PLUS BOND INSTL	WACP.X	11.55	46,561.99	11.52	46,422.10	6.2	3.1
				302,712.09		299,457.27	40.0	3.6
				302,712.09		299,457.27	40.0	3.6
DOMESTIC EQUITY FUNDS								
Taxable Funds								
887.258	VANGUARD INDEX FDS MD CP STK INST	VMCI.X	34.86	30,933.40	33.45	29,678.78	4.0	1.3
Large Cap Funds								
2,066.556	ALGER FDS II SPECTRA FD Z	ASPZ.X	18.71	38,664.71	17.87	36,929.36	4.9	0.0
1,701.493	COLUMBIA FDS SER TR I	COFY.X	22.72	38,664.39	21.75	37,007.47	4.9	0.9
				77,329.10		73,936.83	9.9	0.5
Mid Cap Funds								
1,950.901	COHEN & STEERS REALTY INCOME I	CSDI.X	15.01	29,288.08	13.48	26,298.15	3.5	3.1
1,008.424	HARTFORD MIDCAP Y	HMDY.X	30.68	30,933.71	29.62	29,869.52	4.0	0.0
1,147.110	OAKMARK SELECT I	OAKL.X	40.45	46,396.92	38.27	43,899.90	5.9	0.0
1,121.528	PRUDENTIAL GLOBAL REAL ESTATE	PGRQ.X	24.28	27,228.09	23.04	25,840.01	3.5	2.9
				133,846.79		125,907.57	16.8	1.3
Small Cap Funds								
1,398.993	ROYCE SPECIAL EQUITY INSTL	RSEI.X	22.11	30,936.24	21.21	29,672.64	4.0	0.7
				273,045.53		259,195.82	34.7	1.0

PORTFOLIO APPRAISAL

August 31, 2015

Quantity	Security	Security Symbol	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
INTERNATIONAL FUNDS								
Small Cap Funds								
1,459.826	BRANDES INTERNATIONAL SMALL CAP EQUITY I	BISM.X	13.26	19,362.57	12.85	18,758.76	2.5	1.5
International								
602.637	AMERICAN FUNDS NEW PERSPECTIVE F2	ANWF.X	38.50	23,199.84	36.83	22,195.12	3.0	0.9
286.168	AMERICAN FUNDS NEW WORLD F-2	NFFF.X	54.03	15,462.54	49.91	14,282.64	1.9	1.4
2,124.256	BRANDES EMERGING MARKETS I	BEMI.X	7.29	15,495.68	6.58	13,977.60	1.9	2.0
2,275.967	BRANDES INSTL INTERNATIONAL EQUITY	BIIE.X	17.06	38,836.63	15.92	36,233.39	4.8	1.9
1,161.718	CLEARBRIDGE INTERNATIONAL SMALL CAP I	LCOI.X	16.64	19,336.02	15.69	18,227.36	2.4	0.9
2,021.283	HARTFORD INTERNATIONAL VALUE I	HILI.X	15.30	30,925.64	14.31	28,924.56	3.9	0.0
				143,256.34		133,840.68	17.9	1.1
				162,618.92		152,599.44	20.4	1.2
BALANCED EQUITY FUNDS								
Balanced Funds								
1,810.470	THORNBURG INVESTMENT INCOME BUILDER I	TIBI.X	21.35	38,662.57	20.18	36,535.28	4.9	4.5
				38,662.57		36,535.28	4.9	4.5
TOTAL PORTFOLIO				**777,039.10**		**747,787.81**	**100.0**	**2.2**

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-005
Market Overview		Enclosure:	Yes
		Action Item	No

Prepared by: Morgan Stanley
Wealth Management (MS)

Requested by: Retirement Board of Authority

BACKGROUND:

As Members of the Retirement Board of Authority you have a fiduciary responsibility as described in Government Code section 53215, et seq. In fulfilling your fiduciary responsibility, it is important to understand the impact of global capital market conditions on the assets in the trust.

STATUS:

Morgan Stanley Wealth Management (MS) will provide an overview of current global capital market conditions.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information provided.

Futuris
A Keenan Solution

Asset Allocation and Portfolio Updates

Cary M. Allison, CIMA®
Senior Institutional Consultant
June 30, 2015

MODEL PORTFOLIO ALLOCATIONS	Fixed Income	Conservative	Moderate	Moderate Growth	Growth	Aggressive Growth
EQUITIES						
Large Cap Growth	0%	1%	3%	5%	5%	7%
Large Cap Value	0%	4%	7%	8%	11%	14%
Small/Mid Growth	0%	0%	1%	2%	4%	6%
Small/Mid Value	0%	2%	3%	5%	8%	10%
	0%	7%	14%	20%	28%	37%
International	0%	7%	15%	19%	26%	31%
REITs	0%	2%	4%	6%	7%	8%
Total Equities	0%	16%	33%	45%	61%	76%
FIXED INCOME						
Domestic Intermediate	77.5%	55.3%	42.5%	36.0%	24.3%	13.8%
International Intermediate	17.5%	18.3%	15.5%	12.0%	9.8%	6.8%
Total Fixed Income	95%	74%	58%	48%	34%	21%
Grand Total	95%	90%	91%	93%	95%	97%
PORTFOLIO STATISTICS						
Avg Annual Return	4.98%	5.37%	6.47%	6.99%	7.69%	8.46%
Standard Deviation (Risk)	3.94%	4.26%	6.09%	7.41%	9.48%	11.89%
Sharpe Ratio	0.76	0.79	0.73	0.67	0.60	0.54
Nominal Benchmarks						
MSCI ACWI (All County World Index)	0%	15%	30%	45%	60%	75%
Barclay's Aggregate Bond	100%	85%	70%	55%	40%	25%

NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

MODEL PORTFOLIOS

EQUITIES	Style	Ticker	Expenses	Fixed Income	Conservative	Moderate	Moderate Growth	Growth	Aggressive Growth
Domestic Equities									
Large Cap Domestic Equities									
Alger Spectra	Large Growth	ASPZX	0.97%	0%	1%	3%	5%	5%	7%
Columbia Contrarian Core	Large Blend	COFYX	0.68%	0%	2%	3%	4%	5%	7%
Oakmark Select	Large Value	OAKLX	0.95%	0%	2%	4%	4%	6%	7%
				0%	5%	10%	13%	16%	21%
Small/Mid Cap Domestic Equities									
Hartford Midcap	Mid Growth	HMDYX	0.76%	0%	0%	1%	2%	4%	6%
Vanguard Mid Cap Index	Mid Blend	VMCIX	0.08%	0%	1%	2%	3%	4%	5%
Royce Special Equity	Small Blend	RSEIX	1.02%	0%	1%	1%	2%	4%	5%
				0%	2%	4%	7%	12%	16%
Real Estate Investment Trusts									
Cohen & Steers Realty Shares	Real Estate	CSDIX	0.95%	0%	1%	2%	3%	3.5%	4%
Prudential Global Real Estate Q	Real Estate	PGRQX	0.83%	0%	1%	2%	3%	3.5%	4%
				0%	2%	4%	6%	7%	8%
Total Domestic Equities & REITs				0%	9%	18%	26%	35%	45%
International/Global Equities									
Brandes International Small Cap	Int'l SMID	BISMX	1.15%	0%	1%	1.5%	2%	2.5%	3%
Legg Mason ClearBridge International Small Cap	Int'l SMID	LCOIX	1.20%	0%	0%	1.5%	2%	2.5%	3%
American Funds New Perspectives Fund	Global Growth	ANWFX	0.46%	0%	1%	2%	2%	3%	4%
American Funds New World Fund	Emerging Markets	NFFFX	0.66%	0%	1%	1%	1.5%	2.0%	3%
Brandes Emerging Markets Fund	Emerging Markets	BEMIX	1.12%	0%	0%	1%	1.5%	2.0%	3%
Brandes International Equity	Int'l Value	BIIEX	0.99%	0%	2%	3%	4%	5%	5%
Hartford International Value	Int'l Value	HILIX	0.85%	0%	1%	2%	3%	4%	5%
Thornburg Investment Income Builder	Global Blend	TIBIX	0.86%	0%	1%	3%	3%	5%	5%
				0%	7%	15%	19%	26%	31%
Total Equities				*0%*	*16%*	*33%*	*45%*	*61%*	*76%*
FIXED INCOME									
BlackRock Total Return	Domestic Bond	MAHQX	0.53%	18%	13%	10%	8%	6%	3%
Delaware Diversified Income	Domestic Bond	DPFFX	0.65%	18%	13%	10%	8%	5%	3%
Prudential Total Return Bond Fund Q	Domestic Bond	PTRQX	0.49%	18%	13%	10%	9%	6%	4%
Western Asset Core Plus Bond	Domestic Bond	WACPX	0.49%	18%	13%	10%	9%	6%	3%
BlackRock Strategic Income Opps	Domestic Bond	BSIIX	0.60%	2.0%	6.5%	5.0%	4%	2.5%	1.5%
Hartford World Bond Fund	Global Bond	HWDIX	0.74%	11.0%	6.5%	5.0%	4%	2.5%	1.5%
Legg Mason Brandywine Global Opportunities Bond	Global Bond	GOBSX	0.58%	5%	6%	5%	4%	3%	2%
Legg Mason Brandywine Alternative Credit	Global Bond	LMAMX	1.25%	3%	4%	4%	3%	2.5%	2.0%
Templeton Global Bond Inst	Global Bond	TGBAX	0.64%	7%	9%	8%	6%	5.5%	4.0%
Total Bonds			*Subtotals*	*100%*	*84%*	*67%*	*55%*	*39%*	*24%*
SUMMARY									
Total Equities				0%	16%	33%	45%	61%	76%
Total Fixed Income				100%	84%	67%	55%	39%	24%
Grand Total				100%	100%	100%	100%	100%	100%
Expense Ratio				0.59%	0.63%	0.67%	0.69%	0.72%	0.74%
PERFORMANCE (as of 06/30/15)									
Annualized Returns									
One Year				0.60%	0.19%	0.63%	0.86%	1.04%	1.11%
Two Years				3.60%	4.37%	5.75%	6.76%	7.96%	9.15%
Three Years				3.33%	4.58%	6.31%	7.54%	9.14%	10.77%
Four Years				4.11%	4.44%	5.18%	5.67%	6.23%	6.76%
Five Years				4.92%	5.79%	6.99%	7.84%	8.86%	10.01%
Six Years				6.67%	7.36%	8.38%	9.06%	9.92%	10.91%
Seven Years				6.30%	6.25%	6.26%	6.15%	6.00%	5.58%
Annual Returns									
2008				-3.70%	-8.88%	-14.75%	-20.09%	-25.83%	-32.79%
2009				18.28%	20.03%	22.25%	24.18%	26.47%	29.88%
2010				9.71%	10.70%	11.74%	12.48%	13.39%	14.71%
2011				5.44%	3.21%	1.10%	-0.38%	-2.47%	-4.71%
2012				10.27%	11.05%	11.67%	11.94%	12.49%	12.93%
2013				-0.56%	2.49%	6.25%	8.89%	12.75%	16.92%
2014				5.54%	2.88%	3.09%	3.22%	3.06%	3.22%
2015				-0.19%	0.21%	0.84%	1.26%	1.76%	2.17%

NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

Investment Perspectives

From the Global Investment Committee

Capital Markets Overview: 2Q 2015

Introduction

As of 2Q 2015

- During the second quarter of 2015, the primary concerns among investors were the timing of Fed interest rate hikes along with economic woes in Greece, China and Puerto Rico. For the quarter, Japanese equities and diversified commodities were the top-performing asset classes, while MLPs and global REITs trailed the field. For the one-year period ended June 30, 2015, Japanese equities also were one of the strongest asset classes, in addition to US equities.

- The Dow Jones Industrial Average decreased 0.3% in the second quarter. The NASDAQ Composite Index advanced 2.1% for the quarter. The S&P 500 Index rose 0.3% for the quarter, its tenth consecutive quarterly increase.

- Five of the 10 sectors of the S&P 500 Index advanced in the second quarter. Health Care fared the best, with a 2.8% uptick. Consumer Discretionary rose 1.9% and Financials advanced 1.7%. The laggards were Utilities, which declined 5.8%, Industrials, which fell 2.2%, and Energy, which declined 1.9%.

- Morgan Stanley & Co. economists expect U.S. real GDP will be 2.4% in 2014 and 2.5% in 2015. They forecast global GDP growth to be 3.4% in both 2014 and 2015.

- Commodities were one of the top performing asset classes in the second quarter; the Bloomberg Commodity Index rose 4.7%. For the quarter, gold was down 1.1%.

- For the second quarter of 2015, global mergers and acquisitions (M&A) deal volume was $1 trillion, compared to $936 billion for the second quarter of 2014. Global M&A activity increased to $3.3 trillion in 2014 from $2.3 trillion in 2013**.**

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research

Capital Markets Overview: 2Q 2015

The US Economy

As of 2Q 2015

The Department of Commerce estimated that Gross Domestic Product decreased at an annual rate of 0.2% in the first quarter of 2015, in comparison to a 2.2% increase in the fourth quarter of 2014. Morgan Stanley & Co. economists forecast U.S. Real GDP will be 2.4% in 2014 and 2.5% in 2015.

The seasonally adjusted unemployment rate fell from 5.6% for March 2015 to 5.3% for June 2015. Job gains took place in professional and business services, health care, retail trade, financial activities, and in transportation and warehousing. The unemployment rate (5.3%) and the number of unemployed persons (8.3million) decreased in June. The number of long-term unemployed declined by 381,000 to 2.1 million in June 2015.

According to the most recent estimate from the Bureau of Economic Analysis, corporate profits fell 5.2% between the first quarter of 2015 and the fourth quarter of 2014, and decreased 4.5% between the first quarter of 2015 and the first quarter of 2014.

Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index increased 0.1% in April and 0.4% in May. Morgan Stanley & Co. economists forecast a 1.6% inflation rate for 2014 and 0.1% for 2015.

The Census Bureau reported that private-sector housing starts in May 2015 were at a seasonally adjusted annual rate of 1,036,000—5.1% above May 2014 housing starts. The rise in housing starts over the past several years indicates that despite some intermittent setbacks, the housing market is rebounding.

The Census Bureau also reported that seasonally adjusted retail and food services sales increased 1.2% between April 2015 and May 2015, and increased 2.7% between May 2014 and May 2015.

In June, the Institute for Supply Management's Purchasing Managers' Index (PMI), a manufacturing sector index, was 53.5, up 0.7 from May, and up from April's 51.5. The latest PMI data indicates an expansion in the manufacturing sector for 26 consecutive months. Overall, PMI has been above 43 for 74 consecutive months. Generally speaking, a PMI or NMI (ISM Non-Manufacturing Index) over 50 indicates that the sector is expanding and a PMI below 50 but over 43 indicates that the sector is shrinking but the overall economy is expanding.

The NMI declined 2.1 points to 55.7 between April 2015 and May 2015, and rose 0.3 to 56.0 between May and June of 2015. The index has now been above 50 for 64 consecutive months.

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research

Capital Markets Overview: 2Q 2015

US Equity Markets

As of 2Q 2015

The Dow Jones Industrial Average decreased 0.3% in the second quarter. The NASDAQ Composite Index advanced 2.1% for the quarter. The S&P 500 Index rose 0.3% for the quarter, its tenth consecutive quarterly increase.

Five of the 10 sectors of the S&P 500 Index advanced in the second quarter. Health Care fared the best, with a 2.8% uptick. Consumer Discretionary rose 1.9% and Financials advanced 1.7%. The laggards were Utilities, which declined 5.8%, Industrials, which fell 2.2%, and Energy, which declined 1.9%.

Growth-style stocks of large-cap companies rose modestly during the second quarter. The large-cap Russell 1000 Growth Index advanced 0.1%. The Russell 1000 Index, a large-cap index, also rose 0.1% for the quarter.

The Russell 1000 Value Index, also a large-cap index, increased 0.1% for the quarter. The Russell Midcap Growth Index fell 1.1% for the quarter. The Russell Midcap Index decreased 1.5% for the quarter. The Russell Midcap Value Index decreased 2.0% for the quarter. The Russell 2000 Growth Index, a small-cap index, increased 2.0% for the quarter. The small-cap Russell 2000 Index rose 0.4% for the quarter. The Russell 2000 Value Index, also a small-cap index, declined 1.2% for the quarter.

Key US Stock Market Index Returns (%) for the Period Ending 6/30/2015

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized
S&P 500	0.3%	7.4%	17.3%	9.4%
Dow Jones	-0.3%	7.2%	15.4%	9.4%
Russell 2000	0.4%	6.5%	17.1%	10.4%
Russell Midcap	-1.5%	6.6%	18.2%	10.5%
Russell 1000	0.1%	7.4%	17.6%	9.6%

Source: FactSet, Bloomberg

Capital Markets Overview: 2Q 2015

Global Equity Markets

As of 2Q 2015

In the second quarter, emerging markets (EM) and global equities had positive results. The MSCI EAFE Index (a benchmark for developed markets) rose 0.8% for U.S.-currency investors and fell 1.6% for local-currency investors, as the U.S. dollar depreciated in relation to the currencies of many nations in the index. In the first quarter of 2015, the MSCI EAFE Index increased 5.0% in U.S. dollar terms and rose 11.0% in local currency terms.

For the second quarter, the MSCI Emerging Markets Index increased 0.8% for U.S.-currency investors and also rose 0.8% for local-currency investors, as the U.S. dollar maintained parity to emerging-market currencies. In the previous quarter, the MSCI Emerging Markets Index increased 2.3% for U.S.-dollar-based investors and rose 4.9% for local-currency investors.

The MSCI Europe Index increased 0.7% for U.S.-currency investors and fell 3.6% for local-currency investors during the second quarter of 2015. In the previous quarter, the MSCI Europe Index increased 3.6% for U.S.-dollar-based investors and decreased 11.7% for local-currency investors.

The S&P 500 Index rose 0.3% for the quarter, its tenth consecutive quarterly increase.

More specific emerging economy equity market indices were mixed in the second quarter. The MSCI BRIC (Brazil, Russia, India and China) Index rose 4.7% for the quarter in U.S. dollar terms and advanced 4.0% in terms of local currencies. In comparison, for the second quarter, the MSCI EM Asia Index was flat in U.S. dollar terms and rose 0.2% in local terms.

Key Global Equity Market Index Returns (%) for the Period Ending 6/30/2015

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized)
MSCI EAFE	0.8%	-3.8%	10.0%	2.4%
MSCI EAFE Growth	1.2%	-1.0%	10.5%	2.6%
MSCI EAFE Value	0.5%	-6.6%	9.5%	2.3%
MSCI Europe	0.7%	-7.2%	10.7%	2.2%
MSCI Japan	3.1%	8.6%	9.0%	2.6%
S&P 500	0.3%	7.4%	17.3%	9.4%
MSCI Emerging Markets	0.8%	-4.8%	4.0%	1.2%

Source: FactSet, Bloomberg

Capital Markets Overview: 2Q 2015

The US Bond Market

As of 2Q 2015

In the second quarter, bond market returns decreased—the Barclays U.S. Aggregate Bond Index, a general measure of the bond market, decreased 1.7% for the quarter. Interest rates increased during the second quarter, as the yield on the 10-Year U.S. Treasury note rose to a quarter-end 2.35% from 1.92% at the end of the first quarter of 2015.

Also in the second quarter, riskier parts of the bond market such as U.S. High Yield debt fell flat. The Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, returned 0.0%.

Investors were negative on mortgage-backed securities in the second quarter. Consequently, the Barclays Capital Mortgage Backed Index fell 0.7% for the quarter. During the second quarter, the municipal bond market also declined modestly. As a result, the Barclays Capital Muni Index decreased 0.9% for the quarter.

Key US Bond Market Index Returns (%) for the Period Ending 6/30/2015

INDEX IN USD	Quarter	12 Months	5-Years (Annualized)	7-Years (Annualized)
Barclays Capital US Aggregate	-1.7%	1.9%	3.3%	4.6%
Barclays Capital High Yield	0.0%	-0.4%	8.6%	9.3%
Barclays Capital Government/Credit	-2.1%	1.7%	3.4%	4.6%
Barclays Capital Government	-1.6%	2.3%	2.7%	3.8%
Barclays Capital Intermediate Govt/Credit	-0.6%	1.7%	2.8%	3.9%
Barclays Capital Long Govt/Credit	-7.6%	1.9%	6.7%	7.9%
Barclays Capital Mortgage Backed Securities	-0.7%	2.3%	2.9%	4.5%
Barclays Capital Muni	-0.9%	3.0%	4.5%	5.1%

Source: FactSet, Bloomberg, Morgan Stanley & Co. Research

Asset Class Index Performance

Capital Market Returns

As of June 30, 2015

ASSET CLASS	INDEX IN USD	1-MONTH	YTD	1-YR	3-YR ANN	5-YR ANN
Global Equity						
Global Equity	MSCI All Country World	-2.3%	3.0%	1.2%	13.5%	12.5%
US Equity	S&P 500	-1.9%	1.2%	7.4%	17.2%	17.3%
International Equity	MSCI World ex US	-2.7%	4.3%	-4.8%	9.7%	8.2%
Emerging Markets Equity	MSCI Emerging Markets	-3.2%	1.7%	-7.5%	1.1%	1.2%
Global Fixed Income						
Investment Grade Fixed Income	Barclays Global Aggregate (H)	-1.2%	-0.4%	3.0%	3.2%	3.7%
Inflation-Linked Securities	Barclays Universal Govt Inflation-Linked	-0.2%	-2.0%	-6.0%	0.5%	4.2%
High Yield	Barclays Global High Yield (H)	-1.5%	3.4%	0.0%	7.5%	8.9%
Emerging Markets Fixed Income	JP Morgan EM Bonds (UH in USD)	-1.2%	-4.9%	-15.4%	-3.9%	0.9%
Alternative Investments						
Global REITs	FTSE EPRA/NAREIT Global REITs	-4.0%	-1.9%	1.0%	8.8%	11.5%
Commodities	Bloomberg Commodities	1.7%	-1.6%	-23.7%	-8.8%	-3.9%
MLPs	Alerian MLP	-8.3%	-11.0%	-19.8%	7.3%	11.5%
Hedged Strategies	HFRI Fund of Funds	0.0%	3.8%	5.1%	6.7%	4.3%
Managed Futures	BarclayHedge BTop50 Managed Futures	-	1.2%	13.2%	4.1%	3.0%
Private Real Estate	NCREIF Private Real Estate	-	3.6%	9.5%	10.5%	12.0%
Global Cash						
Cash	Citigroup 3-month Treasury Bill	0.0%	0.0%	0.0%	0.0%	0.1%
Other Fixed Income						
Municipal Fixed Income	Barclays Municipal Bond	-0.1%	0.1%	3.0%	3.1%	4.5%

Source: FactSet, Morgan Stanley Wealth Management GIC. For more information about the risks to Master Limited Partnerships (MLPs), please refer to the Risk Considerations section at the end of this material.

Asset Allocation Models & Insurance Products Disclosures

GLOBAL INVESTMENT COMMITTEE (GIC) ASSET ALLOCATION MODELS

The Asset Allocation Models are created by Morgan Stanley Wealth Management's GIC.

CLIENTS TO CONSIDER THEIR OWN INVESTMENT NEEDS

The GIC Asset Allocation Models are formulated based on general client characteristics such as investable assets and risk tolerance. This report is not intended to be a client-specific suitability analysis or recommendation, or offer to participate in any investment. Therefore, do not use this report as the sole basis for investment decisions.

Clients should consider all relevant information, including their existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon. Such a suitability determination may lead to asset allocation(s) results that are materially different from the asset allocation shown in this report. Clients should talk to their Financial Advisor about what would be a suitable asset allocation for them.

HYPOTHETICAL MODEL PERFORMANCE (GROSS)

Hypothetical model performance results do not reflect the investment or performance of an actual portfolio following a GIC Strategy, but simply reflect actual historical performance of selected indices on a real-time basis over the specified period of time representing the GIC's strategic and tactical allocations as of the date of this report. The past performance shown here is simulated performance based on benchmark indices, not investment results from an actual portfolio or actual trading. There can be large differences between hypothetical and actual performance results achieved by a particular asset allocation or trading strategy. Hypothetical performance results do not represent actual trading and are generally designed with the benefit of hindsight.

Actual performance results of accounts vary due to, for example, market factors (such as liquidity) and client-specific factors (such as investment vehicle selection, timing of contributions and withdrawals, restrictions and rebalancing schedules). Clients would not necessarily have obtained the performance results shown here if they had invested in accordance with any GIC Asset Allocation Model for the periods indicated.

Despite the limitations of hypothetical performance, these hypothetical performance results allow clients and Financial Advisors to obtain a sense of the risk/return trade-off of different asset allocation constructs. The hypothetical performance results in this report are calculated using the returns of benchmark indices for the asset classes, and not the returns of securities, fund or other investment products.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment a client selects.

Models may contain allocations to Hedge Funds, Private Equity and Private Real Estate. The benchmark indices for these asset classes are not issued on a daily basis. When calculating model performance on a day for which no benchmark index data is issued, we have assumed straight line growth between the index levels issued before and after that date.

Fees reduce the performance of actual accounts None of the fees or other expenses (e.g. commissions, mark-ups, mark-downs, fees) associated with actual trading or accounts are reflected in the GIC Asset Allocation Models. The GIC Asset Allocation Models and any model performance included in this presentation are intended as educational materials. Were a client to use these models in connection with investing, any investment decisions made would be subject to transaction and other costs which, when compounded over a period of years, would decrease returns. Information regarding Morgan Stanley's standard advisory fees is available in the Form ADV Part 2, which is available at www.morganstanley.com/adv. The following hypothetical illustrates the compound effect fees have on investment returns: For example, if a portfolio's annual rate of return is 15% for 5 years and the account pays 50 basis points in fees per annum, the gross cumulative five-year return would be 101.1% and the five-year return net of fees would be 96.8%. Fees and/or expenses would apply to clients who invest in investments in an account based on these asset allocations, and would reduce clients' returns. The impact of fees and/or expenses can be material.

INSURANCE PRODUCTS AND ETF DISCLOSURES

Morgan Stanley Smith Barney LLC offers **insurance products** in conjunction with its licensed insurance agency affiliates.

An investment in an **exchange-traded fund** involves risks similar to those of investing in a broadly based portfolio of equity securities traded on an exchange in the relevant securities market, such as market fluctuations caused by such factors as economic and political developments, changes in interest rates and perceived trends in stock and bond prices.

Variable annuities, mutual funds and ETFs are sold by prospectus only. The prospectus contains the investment objectives, risks, fees, charges and expenses, and other information regarding the variable annuity contract and the underlying investments, or the ETF, which should be considered carefully before investing. Prospectuses for both the variable annuity contract and the underlying investments, or the ETF, are available from your Financial Advisor. Please read the prospectus carefully before you invest.

Variable annuities are long-term investments designed for retirement purposes and may be subject to market fluctuations, investment risk, and possible loss of principal. All guarantees, including optional benefits, are based on the financial strength and claims-paying ability of the issuing insurance company and do not apply to the underlying investment options.

Optional riders may not be able to be purchased in combination and are available at an additional cost. Some optional riders must be elected at time of purchase. Optional riders may be subject to specific limitations, restrictions, holding periods, costs, and expenses as specified by the insurance company in the annuity contract.

If you are investing in a **variable annuity** through a tax-advantaged retirement plan such as an IRA, you will get no additional tax advantage from the variable annuity. Under these circumstances, you should only consider buying a variable annuity because of its other features, such as lifetime income payments and death benefits protection.

Taxable distributions (and certain deemed distributions) are subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal income tax penalty. Early withdrawals will reduce the death benefit and cash surrender value.

Asset Class Risk Considerations

For index definitions to the indices referenced in this report please visit the following: http://www.morganstanleyfa.com/public/projectfiles/id.pdf

Equity securities may fluctuate in response to news on companies, industries, market conditions and general economic environment.

Investing in foreign markets entails risks not typically associated with domestic markets, such as currency fluctuations and controls, restrictions on foreign investments, less governmental supervision and regulation, and the potential for political instability. These risks may be magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

Investing in small- to medium-sized companies entails special risks, such as limited product lines, markets and financial resources, and greater volatility than securities of larger, more established companies.

The value of **fixed income securities** will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

High yield bonds (bonds rated below investment grade) may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk, price volatility, and limited liquidity in the secondary market. High yield bonds should comprise only a limited portion of a balanced portfolio.

Interest on **municipal bonds** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Alternative investments may be either traditional alternative investment vehicles, such as hedge funds, fund of hedge funds, private equity, private real estate and managed futures or, non-traditional products such as mutual funds and exchange-traded funds that also seek alternative-like exposure but have significant differences from traditional alternative investments. The risks of traditional alternative investments may include: can be highly illiquid, speculative and not suitable for all investors, loss of all or a substantial portion of the investment due to leveraging, short-selling, or other speculative practices, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification and resulting higher risk due to concentration of trading authority when a single advisor is utilized, absence of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than open-end mutual funds, and risks associated with the operations, personnel and processes of the manager. Non-traditional alternative strategy products may employ various investment strategies and techniques for both hedging and more speculative purposes such as short-selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. **Master Limited Partnerships (MLPs)** Individual MLPs are publicly traded partnerships that have unique risks related to their structure. These include, but are not limited to, their reliance on the capital markets to fund growth, adverse ruling on the current tax treatment of distributions (typically mostly tax deferred), and commodity volume risk. The potential tax benefits from investing in MLPs depend on their being treated as partnerships for federal income tax purposes and, if the MLP is deemed to be a corporation, then its income would be subject to federal taxation at the entity level, reducing the amount of cash available for distribution to the fund which could result in a reduction of the fund's value. MLPs carry interest rate risk and may underperform in a rising interest rate environment. **Investing in commodities** entails significant risks. Commodity prices may be affected by a variety of factors at any time, including but not limited to, (i) changes in supply and demand relationships, (ii) governmental programs and policies, (iii) national and international political and economic events, war and terrorist events, (iv) changes in interest and exchange rates, (v) trading activities in commodities and related contracts, (vi) pestilence, technological change and weather, and (vii) the price volatility of a commodity. In addition, the commodities markets are subject to temporary distortions or other disruptions due to various factors, including lack of liquidity, participation of speculators and government intervention. **Physical precious metals** are non-regulated products. Precious metals are speculative investments, which may experience short-term and long term price volatility. The value of precious metals investments may fluctuate and may appreciate or decline, depending on market conditions. Unlike bonds and stocks, precious metals do not make interest or dividend payments. Therefore, precious metals may not be suitable for investors who require current income. Precious metals are commodities that should be safely stored, which may impose additional costs on the investor. **REITs** investing risks are similar to those associated with direct investments in real estate: property value fluctuations, lack of liquidity, limited diversification and sensitivity to economic factors such as interest rate changes and market recessions.

Risks of **private real estate** include: illiquidity; a long-term investment horizon with a limited or nonexistent secondary market; lack of transparency; volatility (risk of loss); and leverage.

Principal is returned on a monthly basis over the life of a **mortgage-backed security.** Principal prepayment can significantly affect the monthly income stream and the maturity of any type of MBS, including standard MBS, CMOs and Lottery Bonds.

Asset-backed securities generally decrease in value as a result of interest rate increases, but may benefit less than other fixed-income securities from declining interest rates, principally because of prepayments.

Floating-rate securities The initial interest rate on a floating-rate security may be lower than that of a fixed-rate security of the same maturity because investors expect to receive additional income due to future increases in the floating security's underlying reference rate. The reference rate could be an index or an interest rate. However, there can be no assurance that the reference rate will increase. Some floating-rate securities may be subject to call risk.

Asset Class Risk Considerations (cont'd)

Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

Credit ratings are subject to change.

Companies paying **dividends** can reduce or cut payouts at any time.

Asset allocation and diversification do not assure a profit or protect against loss in declining financial markets.

The **indices** are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only and do not represent the performance of any specific investment.

The **indices selected by Morgan Stanley Wealth Management** to measure performance are representative of broad asset classes. Morgan Stanley Wealth Management retains the right to change representative indices at any time.

Because of their narrow focus, **sector investments** tend to be more volatile than investments that diversify across many sectors and companies.

Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

Value investing does not guarantee a profit or eliminate risk. Not all companies whose stocks are considered to be value stocks are able to turn their business around or successfully employ corrective strategies which would result in stock prices that do not rise as initially expected.

Rebalancing does not protect against a loss in declining financial markets. There may be a potential tax implication with a rebalancing strategy. Investors should consult with their tax advisor before implementing such a strategy.

Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates.

Besides the general risk of holding securities that may decline in value, **closed-end funds** may have additional risks related to declining market prices relative to net asset values (NAVs), active manager underperformance, and potential leverage. Some funds also invest in foreign securities, which may involve currency risk.

MODEL PORTFOLIO ALLOCATIONS	Fixed Income	Conservative	Moderate	Moderate Growth	Growth	Aggressive Growth
EQUITIES						
Large Cap Growth	0%	1%	3%	5%	5%	7%
Large Cap Value	0%	4%	7%	8%	11%	14%
Small/Mid Growth	0%	0%	1%	2%	4%	6%
Small/Mid Value	0%	2%	3%	5%	8%	10%
	0%	7%	14%	20%	28%	37%
International	0%	7%	15%	19%	26%	31%
REITs	0%	2%	4%	6%	7%	8%
Total Equities	0%	16%	33%	45%	61%	76%
FIXED INCOME						
Domestic Intermediate	77.5%	55.3%	42.5%	36.0%	24.3%	13.8%
International Intermediate	17.5%	18.3%	15.5%	12.0%	9.8%	6.8%
Total Fixed Income	95%	74%	58%	48%	34%	21%
Grand Total	95%	90%	91%	93%	95%	97%
PORTFOLIO STATISTICS						
Avg Annual Return	4.98%	5.37%	6.47%	6.99%	7.69%	8.46%
Standard Deviation (Risk)	3.94%	4.26%	6.09%	7.41%	9.48%	11.89%
Sharpe Ratio	0.76	0.79	0.73	0.67	0.60	0.54
Nominal Benchmarks						
MSCI ACWI (All County World Index)	0%	15%	30%	45%	60%	75%
Barclay's Aggregate Bond	100%	85%	70%	55%	40%	25%

NOTE: The Futuris portfolios listed above are sample representations only and may be altered from time to time at the discretion of the Trustee.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority		DATE:	10/15/2015
SUBJECT: Benefit Trust Company's due diligence meeting with Morgan Stanley in New York-June 2015.		ITEM #:	2015/2016-006
		Enclosure:	Yes
		Action Item	No

Prepared by: Benefit Trust Company (BTC)

Requested by: Retirement Board of Authority

BACKGROUND:

The Morgan Stanley's Consulting Group Investment Advisor Research (CG IAR) process scours a universe of over 14,000 stand-alone mutual funds, separately managed accounts and ETFs and through selection and monitoring disciplines developed and refined over four decades narrows the universe to a menu of high quality mutual funds suitable for client fiduciary objectives. In this connection, CG IAR provides continual oversight of the investment managers on the CG IAR platform in an effort to ensure that their strategies meet high investment, business and operations/compliance oversight standards. This selection and monitoring framework facilitates the CG IAR mutual fund platform in maintaining the highest conviction strategies that CG IAR believe can outperform appropriate indices and peers over a full market cycle.

STATUS:

The Retirement Board of Authority (RBOA) members shall analyze the results of Benefit Trust Company's Due Diligence Meeting with Morgan Stanley in New York on June 5, 2015.

RECOMMENDATION:

The Retirement Board of Authority shall received the information presented and file accordingly.

Morgan Stanley

BRIEFING AGENDA

FRIDAY, JUNE 5, 2015

Morgan Stanley Global Headquarters
1585 Broadway, New York City
41st Floor, Executive Dining Room

GUESTS	HOST
Scott Rankin, Senior Vice President **Benefit Trust Company**	**Cary Allison, Senior Vice President** Roseville, CA Morgan Stanley Wealth Management
Glenn Coyle, Senior Vice President **Benefit Trust Company**	
Gail Beal, Senior Vice President **Keenan & Associates**	

TIME	TOPICS	PRESENTERS
9:00 AM – 10:00 AM	Market Update *Breakfast*	**Lisa Shalett, Managing Director** Head of Investment & Portfolio Strategies Global Investment Committee Member Morgan Stanley Wealth Management
10:00 AM – 10:15 AM	*Break*	
10:15 AM – 11:00 AM	Global Market & Fixed Income Update	**Jon Mackay, Managing Director** Senior Markets Strategist Morgan Stanley Wealth Management
11:00 AM – 11:45 AM	CG Due Diligence	**Paul Ricciardelli, Executive Director** Co-head of Global Investment Manager Analysis Morgan Stanley Wealth Management
11:45 PM – 12:00 PM	*Break*	
12:00 PM – 1:00 PM	*Lunch*	

WEALTH MANAGEMENT

Morgan Stanley

Consulting Group Investment Advisor Research: Manager Selection Process

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SUMMARY

- Given the considerable number of investment choices available and the increasingly complex market environment facing investors today, the importance of a sound investment manager selection process becomes abundantly clear.
- Consulting Group Investment Advisor Research (CG IAR) provides comprehensive manager research on a wide range of investment strategies, including separately managed accounts (SMAs), mutual funds and exchange-traded funds (ETFs) in the equity, fixed income and alternative investment spaces.
- By continually analyzing and monitoring the investment strategies on our platform and scouring the investment universe for new products, our goal is to offer clients a menu of high quality investments suitable for their objectives. And through our Focus List, we provide clients with our highest conviction strategies that we believe can outperform appropriate indexes and/or peers over a full market cycle.
- The following paper details CG IAR's manager selection process and the related resources available to Financial Advisor by focusing on the following topics:
  - The CG IAR Value Proposition: Why It Pays To Have A Manager Research Process
  - The CG IAR Investment Process
  - What Does CG IAR Look For In A Manager?
  - Active Versus Passive
  - Adverse Active Alpha℠ Manager Ranking and Screening Tool
  - How To Pick A Manager
  - Available Resources and Where To Find Them

INTRODUCTION

Given the thousands of separate accounts, mutual funds and ETFs available in the marketplace, investors can be excused for feeling a bit overwhelmed. In addition, the vast and varied securities markets and financial instruments make it more difficult for investors to anticipate actions that could affect the health of their holdings. With this backdrop in place, the importance of a sound investment manager selection process becomes all the more imperative and the benefit of utilizing a proven leader in managed money services such as Consulting Group is clear.

CG IAR's Value Proposition: Why It Pays To Have A Manager Research Process Versus Throwing Darts

Consulting Group has a long history of providing investors with high quality products and resources while delivering unbiased, objective investment advice to clients. In fact, Consulting Group celebrated its 40th anniversary in 2013. Looking back over the past 40 years, the number of investment options available has grown dramatically along with the complexity of the global financial system and the proliferation of investment advice by various financial intermediaries.

Forty years ago, there were only about 360 mutual funds in existence compared to today's 6,000+[1] and ETFs, which now number over 1,400, did not exist. In total, there are now more more than 6,100 unique stand-alone mutual funds, more than 6,400 separately managed accounts and more than 1,400 ETFs from which investors can choose in the U.S.[2]

Given this backdrop, the importance of partnering with a proven leader in managed money services such as Consulting Group is evident, as is the importance of a sound investment manager selection process. Consulting Group Investment Advisor Research (CG IAR) continues to believe that active management plays an important role in investment management and that the added value afforded through sound manager selection can better help investors reach their goals.

CG IAR narrows down the list of more than 14,000 separately managed accounts, mutual funds and ETFs to about 1,100 approved for use in our advisory programs. We also offer a more concentrated Focus List of our highest conviction strategies to further help advisors with manager selection.

	Number of Investment Options in U.S.(ex Money Markets)	Number of CG IAR Covered Investment Options
Mutual Funds	6,100+ Unique Funds	460+
Separately Managed Accounts	6,400+	510+
ETFs	1,400+	150+
Total	Approximately 14,000	About 1,100

Using a manager search, selection and monitoring process that CG IAR has developed over decades and refined as necessary, we provide continual oversight of the investment managers on the Consulting Group platform in an effort to ensure that the strategies meet high investment, business and operations/compliance oversight standards. We also continually search for high conviction investment options among the thousands available in the investment universe. Additionally, our Focus List provides clients with our highest conviction strategies that we believe can outperform appropriate indexes and peers over a full market cycle.

We also provide investors with on-going analysis of each investment strategy on our platform through written research reports and quarterly performance updates. In this way, investors will always know where we stand in relation to our opinion of a manager.

In case you wonder whether our decades of experience in the investment business make us complacent, we would suggest just the opposite. Our extensive experience allows us to make appropriate and timely changes to our investment process as necessary. As times change and the investment landscape evolves, our manager research process will evolve in response.

THE CG IAR INVESTMENT PROCESS

CG IAR has a comprehensive manager research process incorporating a long history of researching investment managers to find high quality investment options.

Although CG IAR has a robust list of researched investment products, we may initiate a manager search or otherwise add a manager to the platform for various reasons including product closures or a desire to increase exposure in a certain asset class. We may also decide to add to our lineup because we find a compelling strategy that we believe offers the potential to add value for clients. Potential strategy additions may come from managers we already cover, our knowledge of the existing or new entrants in an asset class and/or screening of the various investment universe categories.

MANAGER SEARCH

Once CG IAR decides to evaluate an investment strategy, we perform a comprehensive review that may span up to 40 hours or more and includes multiple touch points with the firm under review. The first step is to obtain a completed request for proposal (RFP) from the investment manager. The RFP questionnaire includes a great deal of qualitative and quantitative information about the manager, such as the firm's assets under management, details of the manager's investment process, firm personnel and ownership details, legal and compliance procedures and issues and composite performance and dispersion information.

Although receiving a completed RFP is an important step in the search process, CG IAR analyzes many other factors when deciding on the merits of an investment strategy. As detailed below, we spend a considerable amount of time deconstructing the investment process, always trying to decipher which strategies have proven, consistent and repeatable processes with the ability to outperform in a variety of market environments. The ultimate goal is to find strategies which we believe have the ability to outperform over a full market cycle. At the same time, we look for investment firms with business strength and established operational and compliance controls. We also prefer firms with strong investment cultures and incentives for professionals to deliver above-average investment performance.

One of CG IAR's competitive strengths is that due to our size and status in the industry, we have exceptional access to investment management firms throughout the industry. In researching possible additions to our platform, CG IAR has multiple points of contact with the candidates. Interactions include conference calls to review managers' investment personnel, processes, investment management competitive strengths, business and operational procedures, performance and attribution. Additionally, we conduct comprehensive on-site visits with potential Focus List candidates. All along the way, CG IAR has access to the primary decision makers and business leaders at each of the firms.

Once CG IAR completes a review, investment strategies may receive one of three statuses: Not Approved, Approved List or Focus List. Not Approved managers do not meet our overall investment standards. Investment strategies that qualify for the Approved List or Focus List are approved for advisor use and are placed on the appropriate Consulting Group advisory platform. Additionally, the Tactical Opportunities List further identifies investment products that may benefit from shorter-term market trends.

FOCUS LIST

The Focus List includes investment products where CG IAR has a high degree of conviction in the overall investment strategy and its ability to outperform its market benchmark and/or peer group category over a full market cycle. While there is no overall quantitative formula for determining which managers make it to the Focus List, CG IAR typically only includes managers on this list when there is a high degree of confidence in the strategy's personnel, investment process, business fundamentals and ability to outperform appropriate benchmarks over the long term.

Prior to a manager being placed on the Focus List, CG IAR normally performs an on-site visit at the manager's office. The on-site visit consists of detailed meetings with a firm's investment, business, trading, operations and compliance personnel.

On the investment side, we meet with lead portfolio manager(s) for each strategy, as well as supporting analysts and traders in order to gain a thorough understanding regarding the firm's investment process and assess the skills of the investment personnel.

From a business perspective, we typically meet with a firm's CEO or an individual in a similar leadership position and/or other appropriate business representatives in order to assess the health of the organization and the investment culture the firm fosters. We also meet with key operations and compliance personnel, including the firm's chief compliance officer.

Once CG IAR places a manager on the Focus List, we commit to a higher level of on-going due diligence whereby our analysts typically conduct an annual on-site visit, prepare a detailed research report highlighting our opinion of the manager, perform quarterly attribution focusing on short- and long-term performance and portfolio characteristics and have frequent contact with the manager to ensure the strategy continues to meet our standards.

Focus List	The Focus List is our high conviction list of managers approved for use in advisory programs. Focus List status indicates CG IAR's high confidence level in the overall quality of the investment option and its ability to outperform applicable benchmarks over a full market cycle.
Approved List	Approved List managers meet an acceptable due diligence standard based upon CG IAR's evaluation and are approved for use in advisory programs. There is a fairly wide range included on the list from those managers meeting minimum standards up to managers that CG IAR considers close to Focus List quality.
Tactical Opportunities List	Draws from the Focus List and the Approved List and looks for managers that may benefit from expected market trends, such as outperformance by a particular style, factor, or asset class over a somewhat shorter time period – typically defined as one to three years.

APPROVED LIST

The Approved List identifies investment products that meet acceptable CG IAR research standards and thus qualify as suitable investments for advisory clients. Although managers on the Approved List are considered acceptable for use by investors, there is a fairly wide band included on the list from managers meeting what we consider minimum standards up to managers that CG IAR considers as potential upgrades to Focus List status.

CG IAR typically has multiple points of contact with firms whose strategies are on the Approved List and we formally conduct an annual due diligence conference call or on-site visit and prepare a written research report. As part of our manager review, CG IAR may also utilize a proprietary algorithm that ranks investment strategies based on quantitative and qualitative information obtained from the investment managers.

TACTICAL OPPORTUNITIES LIST

The Tactical Opportunities List (TOL) identifies investment products that Consulting Group Investment Advisor Research (CG IAR) believes may benefit from expected market trends, such as outperformance by a particular asset class, style, sector or factor. The products typically are sourced from the Focus List, but may also come from the Approved List. These investment products are added to the Tactical Opportunities List, indicating that CG IAR believes they may deliver above-average relative performance over a shorter period, typically defined as a term of one to three years. CG IAR considers the views and tactical asset allocation of the Morgan Stanley Wealth Management Global Investment Committee (GIC) as well as Alpha Driver analysis (factor analysis) from Global Investment Solutions (GIS) in creating the TOL.

Traditional manager research opinions are formulated with time horizons that last at least a full market cycle with an expectation of outperformance and reflect a view on the manager's qualitative strength. The TOL provides an additional layer of advice beyond the Focus List and Approved List by overlaying an opinion about current and expected market conditions to the traditional research qualitative strength analysis.

The TOL is designed to improve client returns by expanding the manager hire/fire decisions beyond historical performance. Historical manager returns relative to benchmarks and peers are driven by three main factors – skill, luck and favorable or unfavorable market conditions for the manager's investment philosophy. Manager hiring/firing decisions based on historical "alpha" may attribute excess returns to skill. The role played by luck and favorable or unfavorable market conditions are far too often ignored but may be more important than skill over shorter time-periods. With the TOL, we try to answer the following questions:

- "Are the market conditions we expect likely to create tailwinds for a manager?"
- "Who should I hire now?"
- "Should I continue to hold manager XYZ who has underperformed?"

TOL PHILOSOPHY

- Manager investment strategies come in and out of favor.
- Manager selection and client returns can be greatly improved by selecting managers that have exposures to factors or styles that are in favor or likely to "come into favor."
- The probability of discovering a factor or management style that is likely to be rewarded can be greatly enhanced by focusing on relative valuation metrics and relative strength.
- GIC tactical asset allocation advice, outlook and views can be used to help find attractive tactical opportunities and enhance manager selection within investment styles.

TOL INVESTMENT PROCESS

The goal of the TOL is to highlight products with outsized exposures to favorable factors, asset classes, sectors or styles that are in favor or expected to come into favor. The two key inputs are the Alpha Driver analysis (factor analysis) from GIS and the views and tactical asset allocation advice from the GIC.

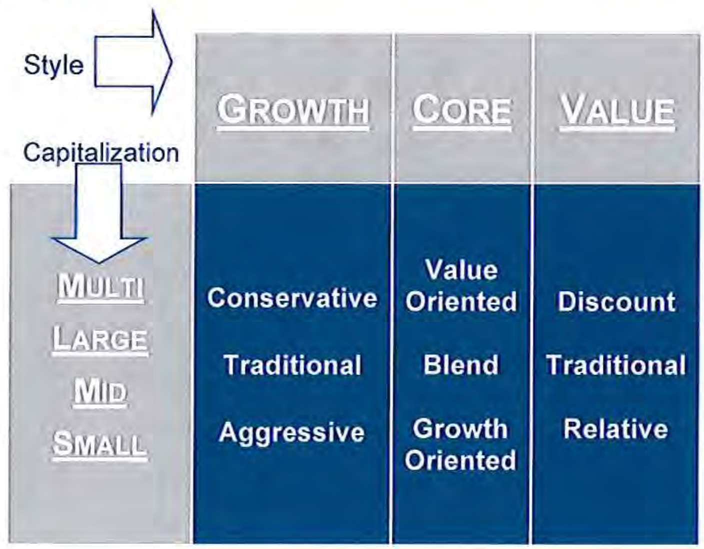
The Alpha Drivers identify and model factors that drive portfolio returns. These Alpha Drivers include items such as quality, beta, dividend yield, value and momentum. In each case, GIS determines the current attractiveness of each specific Alpha Driver using a valuation composite of value-oriented factors, relative strength analysis and an analysis of growth prospects. Alpha Driver analysis is a key input for domestic equity product selection along with the views and tactical positioning of the GIC. The GIC's tactical asset allocation advice and outlook are key inputs in global equity and global fixed income TOL product selection.

CG IAR reviews the outlook and views of the GIC and determines manager portfolio positioning. For example, GIC advice regarding regional preferences in global equity, style and sector preferences in U.S. equity and sector preferences in global fixed income are often key inputs to TOL product selection.

STYLES AND SUB-STYLES

We also want to understand how investment products should perform in various market environments so that we have appropriate performance expectations. To this end, we assign each Focus List investment strategy to an investment style. For equity strategies, we also assign sub styles. Equity styles and sub styles are primarily based on an evaluation of a strategy's investment process, as well as historical holdings, investment characteristics and performance patterns. These classifications can assist advisors in making portfolio asset allocation decisions and in determining the most appropriate strategies for specific client needs.

DOMESTIC EQUITY INVESTMENT STYLES AND SUB STYLES



International Equity Investment Styles and Sub Styles

Value-Oriented	Blend	Growth-Oriented
	International Equity	
	International Small/Mid Cap	
	Global Equity	
	Global Small/Mid Cap	
	Emerging Markets	

Given the different investment characteristics of the international and global markets, the investment styles are broken down somewhat differently from those of the domestic strategies. However, the categorizations are still primarily based on an evaluation of a strategy's investment process, as well as historical holdings, investment characteristics and performance patterns, as well as whether or not the products invest internationally or globally, or in emerging markets. Additionally, the small and mid capitalization categories are combined and include small cap, mid cap and small/mid cap strategies.

Fixed Income Investment Styles

Short	Intermediate	Long
Cash Management		Corporate
Stable Value		Absolute Return
Bank Loan		Opportunistic
Inflation Linked		High Yield
Mortgage Backed		Municipal High Yield
Municipal		Global
Core		International
Core Plus		Emerging Markets

Fixed income strategies receive a style designation primarily based on the types of securities held and the duration and credit quality of the portfolios. Given the myriad types of fixed income securities, the strategies do not receive a sub style, but instead receive a specific style – as noted in the table above – that identifies the type of bonds in which the product invests.

What Does CG IAR Look For In A Manager?

Investment strategies vary widely based on numerous factors and one process is not appropriate for every manager. Therefore, although CG IAR does not have one blueprint that we think each Focus List manager should adhere to, we do have preferred attributes that we like to see in an investment strategy. The table below lists some of these attributes.

	CG IAR Preferred Attributes For Active Strategies
Investment Process & Characteristics	Talented and Deep Investment Team
	Clearly Articulated Process
	Repeatable and Consistent Process
	Strong Security/Credit Selection
	High Active Share
	High Conviction Portfolio
	Additive Top Down Process
	Strong Risk Controls
	Duration and Yield Curve Management
	Disciplined Buy & Sell Process
	Strong Relative & Risk Adjusted Performance
	Outperformance Driven by Security Selection
	Style and Performance Pattern Consistency
Business	Equitable Distribution of Employee Ownership
	Strong Business Leadership
	Strong Investment Culture
	Low Personnel Turnover
	Reasonable Succession Planning
	Diversified, Stable Asset Base
	Extensive Resources
	Investment Professional Incentives
	Investment Professional Contracts
	Alignment of Interests with Clients
Operations & Compliance	Documented Policies and Procedures
	Clear and Equitable Trade Rotation
	Representative Composite Performance
	Minimum Composite Dispersion
	Reasonable Asset Levels
	Reasonable Mutual Fund Fees
	Clean Regulatory History
	Documented Code of Ethics
	Disaster Recovery Procedures
	Offsite Disaster Recovery

Investment Process

As one might expect, CG IAR spends a great deal of time examining the investment processes of the managers and prospective managers on our platform. Our ultimate goal is to find high conviction strategies with the ability to outperform over a full market cycle. However, we also want to understand how each investment strategy will perform in various market environments and in which investment style the strategy belongs.

Money managers' investment processes vary considerably across the spectrum of investment products. And so while one process does not fit all, we generally like to find managers with well defined, proven, consistent and repeatable investment processes that can outperform in a variety of market environments. Repeatable processes more often than not are fundamentally based and produce results that our analysts can quantify as to their efficacy by looking at how and why a manager selects the investments in its portfolio. However, we also realize that different managers may have different types of investment processes that are successful.

While CG IAR does include certain managers with a top-down focus on our Focus List, equity money managers that rely more on top-down forecasts may not be as likely to have a consistently repeatable investment process and they run the risk that their forecasts could be wrong. Top-down managers also often make large factor bets, such as placing a large percentage of assets in one or two sectors. While these types of bets can be successful, oftentimes the success of large factor bets is reversed in subsequent periods, which leads to disappointing relative performance.

Successful equity managers often emphasize fundamental investment characteristics such as return on equity or return on capital and often emphasize companies with strong competitive advantages and clean balance sheets. A strong valuation discipline is also typically associated with the managers on our platform. At the same time, many successful money managers additionally have a top-down overlay as an additive part of their process.

On the fixed income side, we also look for well-defined, repeatable investment processes with the ability to perform well in various environments. Additionally, many successful fixed income managers possess a strong top-down component based on longer-term secular trends that inform the investment decision making process. Generally, we prefer fixed income managers with the ability to add alpha through multiple sources, including duration and yield curve positioning, sector rotation, security selection and currency management. This is viewed positively because the use of multiple sources may reduce the possibility of any single source dragging down performance.

Risk Management

In both the equity and fixed income arenas, we additionally seek managers with both strong risk management skills and a record of generating attractive risk-adjusted returns. For equity managers, risk management often takes the form of appropriate sector, industry and individual stock weighting constraints, as well as style consistency and strong buy and sell disciplines.

For fixed income managers, risk management is also about appropriate position sizing, but incorporates additional factors such as duration, yield curve, credit selection, counterparty risk and, if applicable, currency risk. Successful fixed income managers should have devoted resources to evaluate risk measures at both the individual security level and the portfolio level. Often, these quantitative tools are used to assess market risk factors, conduct stress test scenarios and help manage credit risk.

Past Performance

CG IAR believes that it is important to examine past performance of active managers. However, blindly looking at past performance can be dangerous because managers that outperformed in the past often are not the same managers that outperform in the future. In fact, manager relative returns often experience a reversion to the mean in which outperformers become the average performers or underperformers going forward. Thus, when examining performance track records, CG IAR prefers managers with a long record of consistency.

One way to determine performance consistency is to look at historical annual returns. Another method CG IAR prefers is to look at rolling three- and five-year returns. In this way, we are able to determine performance consistency over longer time periods that span different and changing market conditions.

Additionally, as discussed in the Active Versus Passive section below, CG IAR looks at performance track records in the context of varying market environments and how difficult it can be to outperform during given time periods. In this way, we search for managers that have outperformed in a variety of market environments as evidence of investment skill rather than luck.

Active Share

As believers in active management, CG IAR generally prefers managers that are truly active in terms of managing portfolios that look different from the index. After all, in order to outperform an index, a manager must have holdings and/or weightings that are different from the benchmark. One way to measure how different a manager's portfolio is from a given index is called "active share." Active share is a concept that has gained considerable attention as a potential predictor of outperformance.

Active share quantifies the degree of active management in a portfolio by measuring the percentage a portfolio differs from a passive benchmark. The formula sums the absolute values of each portfolio holding weight minus the benchmark weight and divides by two. This measure is a useful indicator of how active a portfolio is compared to an index. If an investment manager endeavors to beat an index, it must take bets against it.

CG IAR believes that the concept has merit, although as with many investment concepts, we believe that it should be used in conjunction with other information. Additionally, although active share can be a useful tool, it does not lessen the importance of our qualitative and quantitative manager research process.

While we believe that active share is useful, we also believe that the measure should be used along with other quantitative data, such as tracking error. Tracking error measures how closely a portfolio follows its benchmark index. CG IAR believes that if active share and tracking error are both high, it could be an indication that a manager is making large factor bets, such as concentrated sector bets or macro calls on the market that might be excessively risky in the short run and over time. It may be more difficult to verify the predictability and reliability of top-down investment processes because they can be based on infrequent events and/or more subjective investment criteria. CG IAR looks for managers with high active share and moderate to low tracking error indicators believing that these managers have a greater potential to outperform over the long run.

Active Versus Passive

CG IAR believes that active management plays an important role in investment management and that it is possible to outperform passive market indexes over time. The active versus passive discussion has important implications for investors – not just as a theoretical concept, but as a determinant in portfolio construction and how portfolios perform over time.

The ability of an active manager to outperform ebbs and flows over shorter time frames with varying percentages of managers outperforming from year to year. Active management goes through periods when it is more difficult to outperform due to a variety of reasons, which inevitably prompts some investors to question the value of active management.

Admittedly, only a relatively small percentage of managers outperform in some years, but in other years a large percentage outperform. The percentage is highly variable over short periods. Often, investors focus too narrowly on short-term, one- or two-year relative performance. Over longer time periods, active managers have a better track record.

According to research conducted by CG IAR, on average, between 50% and 60% of active large cap growth and large cap value SMA managers outperformed their respective benchmarks on a calendar-year basis before fees. However, if we expand the time frame to incorporate more of a full market cycle – say five years – the percentage of managers that outperformed increases. As can be seen in the table below, a similar story holds for small cap and international managers as well.

PERCENTAGE OF SMA ACTIVE MANAGERS THAT OUTPERFORMED

Calendar Years 1999 Through 2013, Gross of Fees

Style	Calendar Year Average	Five-Year Average
Large Growth	61%	71%
Large Value	56%	73%
Small Growth	62%	72%
Small Value	64%	80%
International	59%	60%

Source: CG IAR, FactSet and Morningstar.

While CG IAR believes it is important to analyze short-term performance, we are continually focused on finding managers that can outperform over a full market cycle.

ADVERSE ACTIVE ALPHA℠

In 2013, CG IAR introduced the proprietary Adverse Active Alpha℠ manager screening and scoring tool, which was subsequently granted a patent from the United States Patent and Trademark Office. The tool attempts to identify active equity money managers with strong stock picking skills and the ability to outperform indices and peers. CG IAR believes the tool points toward managers with characteristics indicating a greater likelihood of outperformance.

ACTIVE SHARE. Adverse Active Alpha builds upon academic and industry research that indicates higher active-share managers outperform lower active-share managers over time. Active share measures how different a portfolio looks from its benchmark based on its security weightings, so one component of the tool looks for managers with high active share relative to peers.

Managers with low-to-moderate tracking error also score more favorably. Tracking error measures how closely a portfolio's return follows its index return. By limiting tracking error, we attempt to find managers that are not seeking to outperform based on factor bets such as large overweight positions in particular sectors or industries, such as a 30% allocation to a sector that makes up 15% of the benchmark index. While such trades may at times be profitable, they tend to be more unpredictable and can often turn around quickly. Additionally, we find that processes emphasizing factor bets are often less repeatable.

MAKING BETS. Of course, it only makes sense that a manager must make bets against an index in order to outperform it, but simply looking different does not improve the likelihood of strong results. The bets must be profitable. As such, the screening tool awards higher scores to managers with demonstrated stock-picking skill relative to peers. The difficulty is how to measure stock-selection skill—as past performance does not guarantee future results and managers with strong performance often trail going forward as returns eventually revert to the mean.

Intuitively, one would imagine that managers able to outperform when the majority of their peers are struggling likely possess investment skill. With this in mind, the "adverse" component of the screening tool awards managers that performed well in markets that were difficult for active managers, such as periods when the majority of managers underperformed. We do this by breaking down track records into snapshots of time and scoring each period based on factors indicative of how difficult the environment made it for active managers to outperform, such as correlation, the relative performance of small-cap stocks, the relative performance of growth and value stocks and market volatility. By scoring a manager's ability to outperform his/her peers based on the degree of difficulty, the rankings reward managers able to rise to the top in adverse environments.

How To Pick A Manager

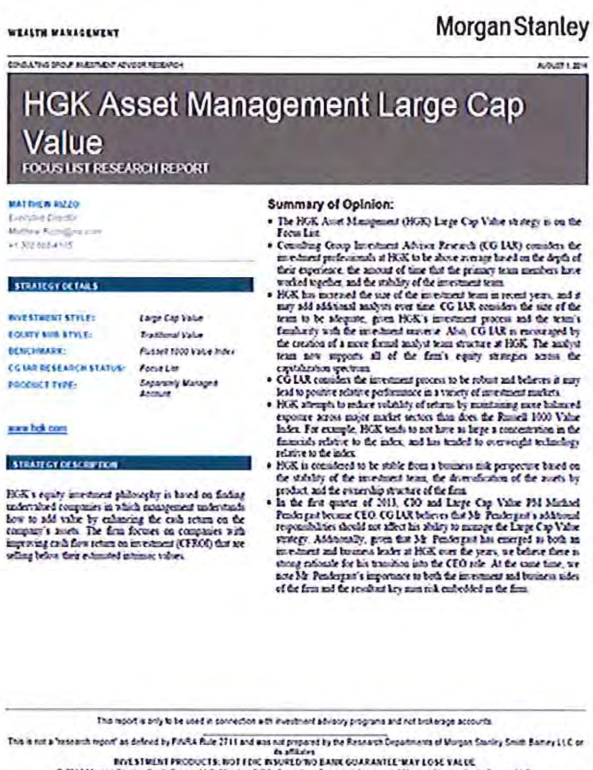
So now you have learned about how we pick managers, but how do you go about picking a manager suitable for your circumstances? Luckily, we can help with that as well.

Each strategy on our platform is assigned to an asset class and a style category. Additionally, each of the Focus List equity managers is assigned a sub style. These categorizations can help with selecting the appropriate manager either as a standalone strategy or as part of a diversified portfolio.

Once you have honed in on a specific asset class and/or style, we have a number of reports available to help you decide which managers to utilize. The main documents we publish for nearly every individual strategy are the research report and performance summary. We also publish sector summaries, status lists and performance exhibits that organize strategies by style category.

Research Reports

The research report provides detailed information about each strategy's investment process, performance expectations, personnel, business structure and performance composite, as well as our analysts' opinions about the strategy.



WEALTH MANAGEMENT

Morgan Stanley

CONSULTING GROUP INVESTMENT ADVISOR RESEARCH

AUGUST 1, 2014

HGK Asset Management Large Cap Value

FOCUS LIST RESEARCH REPORT

MATTHEW RIZZO
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STRATEGY DETAILS

INVESTMENT STYLE:	Large Cap Value
EQUITY SUB STYLE:	Traditional Value
BENCHMARK:	Russell 1000 Value Index
CG IAR RESEARCH STATUS:	Focus List
PRODUCT TYPE:	Separately Managed Account

www.hgk.com

STRATEGY DESCRIPTION

HGK's equity investment philosophy is based on finding undervalued companies in which management understands how to add value by enhancing the cash return on the company's assets. The firm focuses on companies with improving cash flow return on investment (CFROI) that are selling below their estimated intrinsic values.

Summary of Opinion:

- The HGK Asset Management (HGK) Large Cap Value strategy is on the Focus List.
- Consulting Group Investment Advisor Research (CG IAR) considers the investment professionals at HGK to be above average based on the depth of their experience, the amount of time that the primary team members have worked together, and the stability of the investment team.
- HGK has increased the size of the investment team in recent years, and it may add additional analysts over time. CG IAR considers the size of the team to be adequate, given HGK's investment process and the team's familiarity with the investment universe. Also, CG IAR is encouraged by the creation of a more formal analyst team structure at HGK. The analyst team now supports all of the firm's equity strategies across the capitalization spectrum.
- CG IAR considers the investment process to be robust and believes it may lead to positive relative performance in a variety of investment markets.
- HGK attempts to reduce volatility of returns by maintaining more balanced exposure across major market sectors than does the Russell 1000 Value Index. For example, HGK tends to not have as large a concentration in the financials relative to the index, and has tended to overweight technology relative to the index.
- HGK is considered to be stable from a business risk perspective based on the stability of the investment team, the diversification of the assets by product, and the ownership structure of the firm.
- In the first quarter of 2013, CIO and Large Cap Value PM Michael Pendergast became CEO. CG IAR believes that Mr. Pendergast's additional responsibilities should not affect his ability to manage the Large Cap Value strategy. Additionally, given that Mr. Pendergast has emerged as both an investment and business leader at HGK over the years, we believe there is strong rationale for his transition into the CEO role. At the same time, we note Mr. Pendergast's importance to both the investment and business sides of the firm and the resultant key man risk embedded in the firm.

This report is only to be used in connection with investment advisory programs and not brokerage accounts.

This is not a "research report" as defined by FINRA Rule 2711 and was not prepared by the Research Departments of Morgan Stanley Smith Barney LLC or its affiliates.

INVESTMENT PRODUCTS: NOT FDIC INSURED/NO BANK GUARANTEE/MAY LOSE VALUE

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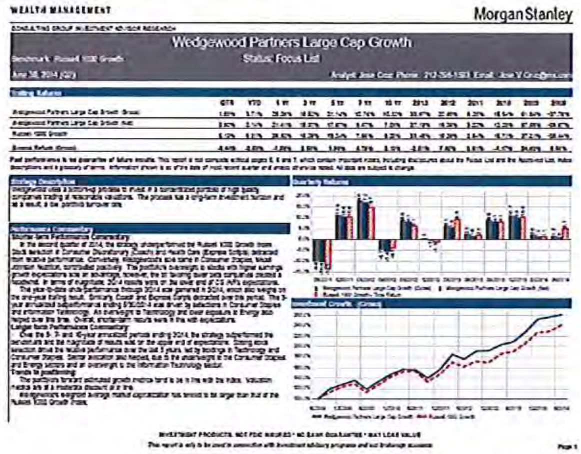
Research Report Sections

Summary	Strategy Description Summary of Opinion Style & Benchmark Information Analyst Contact Information
Snapshot Ratings	Investment Capabilities Business Evaluation Performance Analysis Positive & Negative Traits Performance Opinion News Summary
Additional Analyst Comments	Additional Comments & News Portfolio Traits
Investment Capabilities Overview	Portfolio Management Team Investment Philosophy & Process Decision Making Sell Process Track Record Reliability
Key Investment & Business Professionals Overview	Position Education/Credentials Experience
Business Structure Overview	History Ownership Legal/Compliance Key Professional Incentives

Focus List research reports generally are updated twice a year, while Approved List research reports generally are updated on an annual basis. Additionally, Focus List and Approved List research reports can be updated at any time if a significant event occurs.

PERFORMANCE SUMMARIES

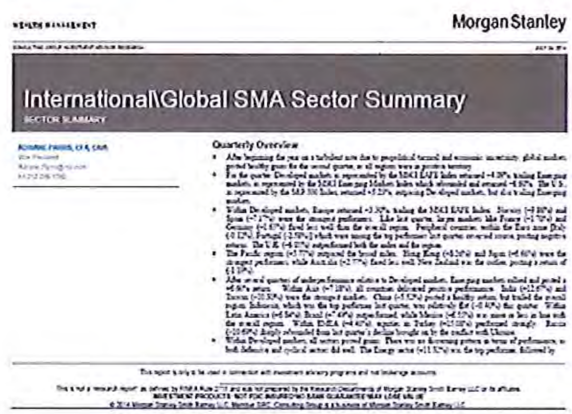

Morgan Stanley

Wedgewood Partners Large Cap Growth

Status: Focus List

We publish performance summaries on a quarterly basis for most strategies. Performance summaries include detailed performance analysis, portfolio characteristics and risk statistics. They also include attribution information showing areas that added or detracted value, as well as performance commentary and portfolio positioning commentary from the analyst for Focus List strategies.

SECTOR SUMMARIES


Morgan Stanley

International\Global SMA Sector Summary

SECTOR SUMMARY

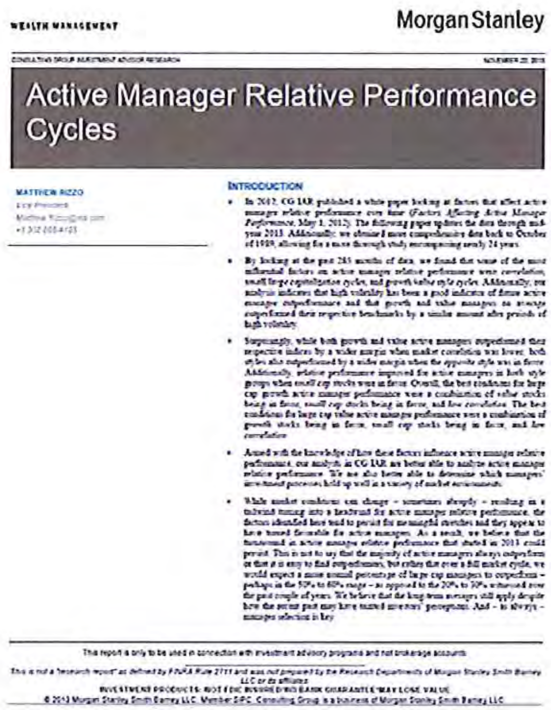
Quarterly Overview

We also provide quarterly sector summaries for each of the major capitalization and style categories that we cover across the domestic and international traditional asset classes – for example, large cap growth, large cap value, international, fixed income, etc. The sector summary includes performance analysis detailing the major factors affecting performance over the past quarter, as well as year-to-date and longer time periods when relevant. The sector summary also includes a performance, risk statistics and investment characteristics comparison of the strategies included on our Focus List. In this way, the sector summary can be utilized as a "one stop shop" for comparing and contrasting all of the Focus List managers within each style category.

WHITE PAPERS

To help advisors and their clients better utilize our manager research and assist with manager and portfolio selection, CG IAR provides timely thought leadership white papers centered on relevant investment topics and actionable ideas.

CG IAR's white papers are typically written by research analysts that specialize in certain asset classes and/or asset categories (i.e., growth or value equity) and therefore have detailed knowledge of the subject matter and know which topics are most relevant. Some of the white paper topics thus far have included factors affecting active manager relative returns, alternative mutual funds, diversifying portfolios with low correlation assets, the relative attractiveness of stocks versus bonds, emerging market debt, value managers taking advantage of changing market conditions, managers finding opportunities in financials and a primer on MLPs.


Morgan Stanley

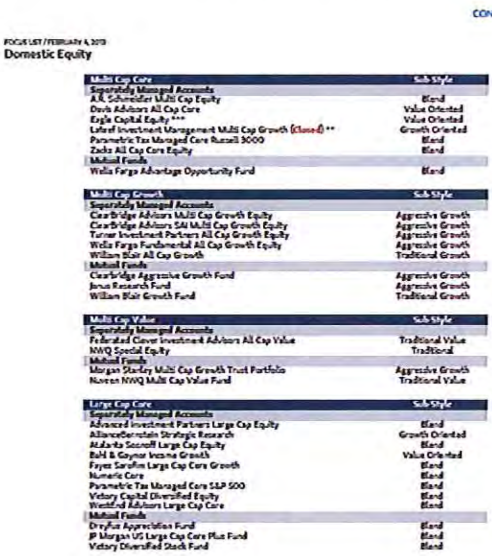
Active Manager Relative Performance Cycles

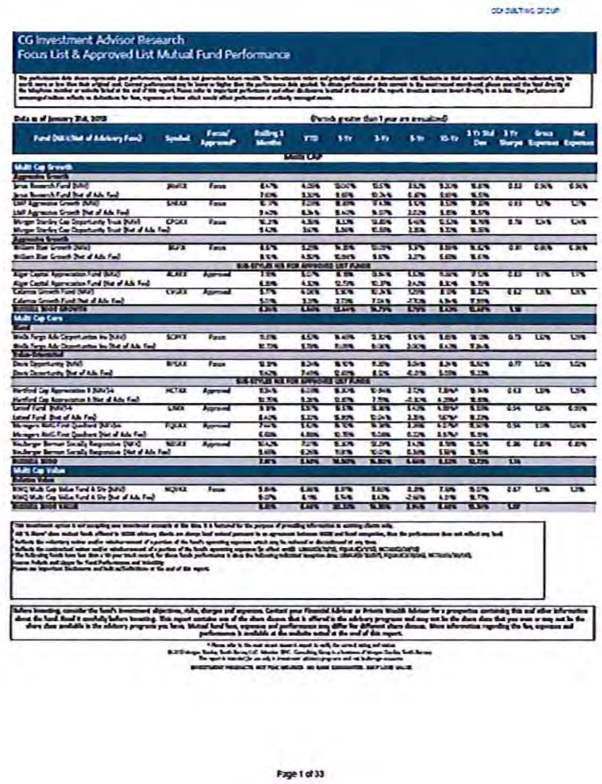
MATTHEW RIZZO

INTRODUCTION

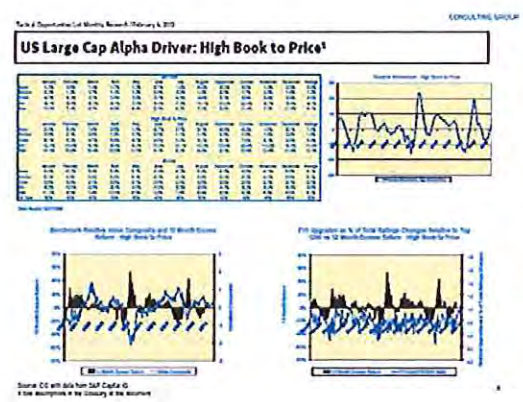
Status Lists

Status lists are comprehensive directories of all investment products within their respective categories for our Focus List, Approved List, Not Approved List and Tactical Opportunities List. These lists are updated on an as-needed basis when there is a status change for one of the products on our platform.





** Product may be closed to new accounts in one or more platforms
*** Minimum over $1 Million
**** CG IAR plans to drop coverage of this product in the near future.



Performance Exhibits

Monthly performance exhibits provide return information for all of our Focus and Approved List strategies, as well as volatility statistics and risk-adjusted return data. Additionally, the Tactical Opportunities Monthly Research performance exhibit provides a review of current tactical positioning based on the Morgan Stanley Wealth Management Global Investment Committee outlook and the relative positioning of the alpha drivers.

CG IAR Analyst Teams

CG IAR's published resources equip you to make much more informed investment decisions. Additionally, our dedicated team of research analysts that specialize in each asset class is also available to answer money manager related questions. Each research analyst is assigned to one of the following teams, allowing for specialized knowledge in a specific asset class and also enabling analysts to more effectively assist clients with style- or asset class category-specific questions.

- U.S. Growth Equity
- U.S. Value Equity
- International Equity
- Commodities and Quantitative
- Fixed Income

[1] Fink, Matthew P. (2008). ***The Rise of Mutual Funds.*** Oxford University Press. p. 9.
[2] Source: Morningstar Direct, excluding money market mutual funds.

SUB-STYLE DEFINITIONS

Sub-Styles: Subjective classifications designed to assist with manager selection and performance evaluation based on Consulting Group Investment Advisor Research ("CG IAR") understanding of a manager's long-term investment philosophy and portfolio structuring biases and techniques. At points in time managers may display attributes of other sub-style classifications, and these classifications may change due to changes in the capital markets, evolution of performance benchmarks, industry trends, or changes involving a manager's personnel or process.

Conservative Growth: Growth managers that generally follow a more valuation-sensitive approach and focus on more established companies that frequently have longer earnings histories and greater visibility and perceived sustainability in earnings. Portfolios may display lower valuation levels and less exposure to the highest growth and more speculative companies and performance may display less volatility than the benchmark and peers.

Traditional Growth: Generally invest in a mix of lower and higher growth companies, portfolios and performance likely to be more highly correlated to the respective growth benchmark than peers and may demonstrate the flexibility at times to take on characteristics of more Conservative or Aggressive growth peers.

Aggressive Growth: Generally seek higher growth-rate companies, may place less emphasis on valuations and more emphasis on shorter-term and possibly momentum factors, and may demonstrate a greater willingness to invest in more speculative companies. Valuations are generally at a premium to the growth benchmark and volatility and turnover are frequently higher than peers.

Discount Value: Tend to search for companies that are trading at a substantial discount to estimates of intrinsic value and may demonstrate a longer average holding period to realize the value of an investment. These managers may hold more turnaround stories and names that are generally perceived as deeper value stocks that may have suffered some form of business impairment. Portfolio valuations may at times appear high due to investments in companies with depressed earnings in expectation of a cyclical recovery. Performance can go through long spells of underperformance and could at times be more volatile than peers.

Traditional Value: Tend to search for what they believe to be undervalued companies based on traditional valuation measures such as P/E ("Price/Earnings"), P/CF ("Price/Cash Flow") and P/B ("Price/Book") and typically have a greater awareness of and correlation to the benchmark although not necessarily strict constraints.

Relative Value: Generally search for what they believe to be undervalued companies based on analysis relative to the market, industry and historical norms leading to portfolios that may at times maintain broader market exposure to more growth-oriented names and may appear to have higher valuations using traditional valuation metrics.

Value-Oriented: Tend to have a more value-oriented investment philosophy and portfolio orientation often placing valuation concerns above either benchmark structure or growth characteristics and may exhibit less volatility than peers.

Blend: Flexible managers that may invest in a blend of growth and value stocks at different times and in differing proportions due to a lack of a significant long-term bias in either style direction, and may have benchmark-constraints and tracking error guidelines such that performance and characteristics are similar to the respective benchmark.

Growth-Oriented: Tend to have a more growth-oriented investment philosophy and portfolio orientation often placing growth concerns above those associated with either benchmark structure or value characteristics and may exhibit more volatility than peers.

TOL DEFINITIONS

Benchmark-Relative Value Composite - The Composite is constructed using factors that correlate with 12-month forward excess returns.

Relative Momentum - The Relative Momentum indicator is constructed using excess returns to judge trends in relative returns between an Alpha Driver (for example: High Price to Book) and universe of 3000 (or 1200) largest US Stocks.

Growth Indicators - Represents the ratio of Fiscal Year 1 analyst upgrades to total ratings (upgrades + downgrades) changes. A higher number indicates that for a given stock there a more upgrades than downgrades.

High Beta - 1st and 2nd decile stocks ranked by trailing 52 week beta of 1200 largest US Equity Stocks for US Alpha Drivers.

Low Beta - 9th and 10th decile stocks ranked by trailing 52 week beta of 1200 largest US Equity Stocks for US Alpha Drivers.

High Dividend Yield - 1st and 2nd decile stocks ranked by dividend yield of 1200 largest US Equity Stocks for US Alpha Drivers.

High Book to Price - 1st and 2nd decile stocks ranked by Book to Price of 1200 largest US Equity Stocks for US Alpha Drivers.

S&P High Quality Stocks - Consists of stocks with S&P Stock Rankings of A and above from universe of 1200 largest US Stocks.

S&P Low Quality Stocks - Consists of stocks with S&P Stock Rankings of B- and below from universe of 1200 largest US Stocks.

Low Volatility - 9th and 10th decile stocks ranked by Consulting Group's Volatility Score of 1200 largest US Equity Stocks for US Alpha Drivers.

High Price Momentum - 1st and 2nd decile stocks ranked by Consulting Group's Price Momentum Score of 1200 largest US Equity Stocks for US Alpha Drivers.

GLOSSARY OF TERMS

ADRs – American Depositary Receipts are U.S. dollar denominated forms of equity ownership in non-U.S. companies. These shares are issued against the local market shares held in the home market. ADRs are typically listed on U.S. exchanges such as NYSE, AMEX and NASDAQ.

Beta – measures a portfolio's volatility relative to its benchmark. A portfolio with a Beta higher than 1.0 has historically been more volatile than the benchmark, while a portfolio with a Beta lower than 1.0 has been less volatile. The accuracy of the Beta is dependent on R-Squared.

Credit Quality Rating – weighted average of the assessments of credit worthiness given by credit rating agencies such as Standard & Poor's Ratings Services, Moody's Investors Service, and Fitch Ratings to bonds in the portfolio. Credit rating agencies evaluate issuers and assign ratings based of their opinions of the issuer's ability to pay interest and principal as scheduled.

Dividend Yield – annual dividend per share divided by price per share. Dividend Yield for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Effective Duration – a duration calculation for bonds with embedded options. Effective duration takes into account that expected cash flows will fluctuate as interest rates change.

EPS Growth – Forecast – a measure of one year earnings (cash flow or dividends) per share growth from the prior fiscal year (FY0) to the current fiscal year (FY1) using analyst consensus forecasts. Growth is expressed as a percent. The FY1 EPS (earnings per share) growth rate for the portfolio is a weighted average of the forecasts for the individual stocks in the portfolio.

EPS Growth – 5 Year Historical – The weighted average annualized earnings per share growth for a portfolio over the past five years.

Excess Return – represents the average quarterly total return of the portfolio relative to its benchmark. A portfolio with a positive Excess Return has on average outperformed its benchmark on a quarterly basis. This statistic is obtained by subtracting the benchmark return from the portfolio's return.

Historical EPS Growth - calculated by regressing over time the quarterly earnings per share for the past 20 quarters to determine the share's historical growth rate in earnings. The quarterly historical growth rate for each share is then annualized and the Historical EPS Growth shown in this report is the weighted average of these results.

Market Cap ($M) – the average portfolio market capitalization (market price multiplied by shares outstanding), weighted by the proportion of the portfolio's assets invested in each stock.

Maturity – the weighted average portfolio length of time until the principal amount of a bond must be repaid.

Median Cap by Portfolio Weight – the midpoint of market capitalization (market price multiplied by shares outstanding) of a portfolio's stock holdings, weighted by the proportion of the portfolio's assets invested in each stock. Stocks representing half of the portfolio's holdings are above the median, while the rest are below it.

Modified Adjusted Duration – measures the sensitivity of the percentage change in the price of a bond portfolio for a given change in yield, shown as a number of years to maturity. This figure is calculated as the weighted average of the durations of the securities in the portfolio.

Mortgage-backed securities (MBS) – securities backed by a mortgage loan or a pool of mortgage loans secured by real property. Investors receive payments of interest and principal that are derived from payments received on the underlying mortgage loans.

Pass-Through Security – security backed by a package of assets. A servicing intermediary collects the monthly payments from issuers and, after deducting a fee, remits or passes them through to the holders of the pass-through security.

P/E - Forecast 12-Mo. – The price/earnings ratio for the stock based on the most recent closing price divided by the annual mean expected earnings for the current fiscal year (FY1 EPS forecast). P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

P/E – Trailing 12-Mo. – the current price of a stock divided by the most recent 12 months trailing earnings per share. P/E for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Price-to-Book – price per share divided by book value per share. Price-to-Book for the portfolio is a weighted average of the results for the individual stocks in the portfolio.

Quality – Based upon per-share earnings and dividend records of the most recent 10 years, this ranking system attempts to capture the growth and stability of earnings and dividends for individual stocks. For a portfolio, the quality ranking is a weighted average. The quality rankings classification is as follows: A+ (highest), A (high), A- (above avg.), B+ (average), B (below avg.), B- (lower), C (lowest), D (in reorganization), and LIQ (liquidation).

R-Squared (R^2) – represents the percentage of the volatility of returns that is attributable to movements of the benchmark. It is a measure of "co-movement" between portfolio returns and benchmark returns. The closer the portfolio's R^2 is to 100%, the more closely the portfolio correlates to, or follows, the benchmark. Generally, highly diversified portfolios have higher R^2 percentages.

Standard Deviation – quantifies the volatility associated with a portfolio's returns. The statistic measures the variation in returns around the mean return. Unlike Beta, which measures volatility relative to the aggregate market, Standard Deviation measures the absolute volatility of a portfolio's return.

Tracking Error – represents the Standard Deviation of the Excess Return. This provides a historical measure of the variability of the portfolio's returns relative to its benchmark. A portfolio with a low Tracking Error would have quarterly Excess Returns that have exhibited very low volatility.

VIX Index the Chicago Board Options Exchange (CBOE) Volatility Index expresses the market's expectation of 30-day volatility and is constructed using implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk.

IMPORTANT DISCLOSURES

Report for Use Only in Investment Advisory Programs

This report is only to be used in Morgan Stanley Smith Barney LLC investment advisory programs and not in connection with brokerage accounts.

CG IAR Services Only Apply to Certain Investment Advisory Programs

CG IAR evaluates certain investment products for the purposes of some – but not all – of Morgan Stanley Smith Barney LLC's investment advisory programs (as described in more detail in the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC). If you do not invest through one of these investment advisory programs, Morgan Stanley Smith Barney LLC is not obligated to provide you notice of any CG IAR status changes even though it may give notice to clients in other programs.

Focus List, Approved List and Tactical Opportunities List; Watch Policy

CG IAR uses two methods to evaluate investment products in applicable advisory programs: Opinion Research (and investment products meeting this research standard are described as being on the Focus List) and Access Research (and investment products meeting this research standard are described as being on the Approved List). In general, Opinion Research entails a more thorough evaluation of an investment product than Access Research. Sometimes an investment product may be evaluated using the Opinion Research process but then placed on the Approved List instead of the Focus List.

Investment products may move from the Focus List to the Approved List, or vice versa. CG IAR may also determine that an investment product no longer meets the criteria under either research process and will no longer be recommended in investment advisory programs (in which case the investment product is given a "Not Approved" status).

CG IAR has a 'Watch" policy and may describe a Focus List or Approved List investment product as being on "Watch" if CG IAR identifies specific areas that (a) merit further evaluation by CG IAR and (b) may, but are not certain to, result in the investment product becoming "Not Approved." The Watch period depends on the length of time needed for CG IAR to conduct its evaluation and for the investment manager or fund to address any concerns. CG IAR may, but is not obligated to, note the Watch status in this report with a "W" or "Watch" next to the "Status" on the cover page.

Certain investment products on either the Focus List or Approved List may also be recommended for the Tactical Opportunities List based in part on tactical opportunities existing at a given time. The investment products on the Tactical Opportunities List change over time.

For more information on the Focus List, Approved List, Tactical Opportunities List and Watch processes, please see the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC. Your Financial Advisor, Private Wealth Advisor or Private Banker can also provide upon request a copy of a paper entitled "Manager Research and Selection: A Disciplined Process."

No Obligation to Update
Morgan Stanley Smith Barney LLC has no obligation to update you when any information or opinion in this report changes.

Strategy May Be Available as a Separately Managed Account or Mutual Fund
Strategies are sometimes available in Morgan Stanley Smith Barney LLC investment advisory programs both in the form of a separately managed account ("SMA") and a mutual fund. These may have different expenses and investment minimums. Your Financial Advisor, Private Wealth Advisor or Private Banker can provide more information on whether any particular strategy is available in more than one form in a particular investment advisory program.

Consider Your Own Investment Needs
This report is not intended to be a client-specific suitability analysis or recommendation, an offer to participate in any investment, or a recommendation to buy, hold or sell securities (includes securities of Citigroup, Morgan Stanley, and/or their affiliates if shown in this report). Do not use this report as the sole basis for investment decisions. Do not select an asset class or investment product based on performance alone. Consider all relevant information, including your existing portfolio, investment objectives, risk tolerance, liquidity needs and investment time horizon.

Performance and Other Portfolio Information
General
Past performance does not guarantee future results. There is no guarantee that this investment strategy will work under all market conditions. As a result of recent market activity, current performance may vary from the performance referenced in this report.

For mutual funds, the investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. To obtain performance information, current to the most recent month-end, please contact the fund directly at the website set out on the cover page of this report.

Benchmark index
Depending on the composition of your account and your investment objectives, any indices shown in this report may not be an appropriate measure for comparison purposes and are therefore presented for illustration only.

Indices are unmanaged. They do not reflect any management, custody, transaction or other expenses, and generally assume reinvestment of dividends, accrued income and capital gains. Past performance of indices does not guarantee future results. You cannot invest directly in an index.

Performance of indices may be more or less volatile than any investment product. The risk of loss in value of a specific investment (such as with an investment manager or in a fund) is not the same as the risk of loss in a broad market index. Therefore, the historical returns of an index will not be the same as the historical returns of a particular investment product.

Other data
Portfolio analysis may be based on information on less than all of the securities held in the portfolio. For equity portfolios, the analysis typically reflects securities representing at least 95% of portfolio assets. This may differ for other strategies, including those in the fixed income and specialty asset classes, due to availability of portfolio information.

Other data in this report is accurate as of the date this report was prepared unless stated otherwise. Data in this report may be calculated by the investment manager, Morgan Stanley Smith Barney LLC or a third party service provider, and may be based on a representative account or a composite of accounts.
Securities holdings
Holdings are subject to change daily, so any securities discussed in this report may or may not be included in your portfolio if you invest in this investment product. Your portfolio may also include other securities in addition to or instead of any securities discussed in this report. Do not assume that any holdings mentioned were, or will be, profitable.

Sources of Data
Material in this report has been obtained from sources that we believe to be reliable, but we do not guarantee its accuracy, completeness or timeliness. Third party data providers make no warranties or representations relating to the accuracy, completeness or timeliness of the data they provide and are not liable for any damages relating to this data.

Asset Class and Other Risks
Investing in ***stocks, mutual funds*** and ***exchange-traded funds ("ETFs")*** entails the risks of market volatility. The value of all types of investments may increase or decrease over varying time periods.

Nondiversification: For a portfolio that holds a concentrated or limited number of securities, a decline in the value of these investments would cause the portfolio's overall value to decline to a greater degree than a less concentrated portfolio. Portfolios that invest a large percentage of assets in only one industry sector (or in only a few sectors) are more vulnerable to price fluctuation than those that diversify among a broad range of sectors.

Value and ***growth investing*** also carry risks. Value investing involves the risk that the market may not recognize that securities are undervalued and they may not appreciate as anticipated. Growth investing does not guarantee a profit or eliminate risk. The stocks of these companies can have relatively high valuations. Because of these high valuations, an investment in a growth stock can be more risky than an investment in a company with more modest growth expectations.

International securities may carry additional risks, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. International investing may not be for everyone. These risks may be magnified in ***emerging markets***.

Small- and mid- capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. The securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

Bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Ultra-short bond funds generally invest in fixed income securities with very short maturities, typically less than one year. They are not money market funds. While money market funds attempt to maintain a stable net asset value, an ultra-short bond fund's net asset value will fluctuate, which may result in the loss of the principal amount invested. They are therefore subject to the risks associated with debt securities such as credit and interest rate risk.

High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues.

Real estate investments: property values can fall due to environmental, economic or other reasons, and changes in interest rates can negatively impact the performance of real estate companies.

Derivatives, in general, involve special risks and costs that may result in losses. The successful use of derivatives requires sophisticated management, in order to manage and analyze derivatives transactions. The prices of derivatives may move in unexpected ways, especially in abnormal market conditions. In addition, correlation between the particular derivative and an asset or liability of the manager may not be what the investment manager expected. Some derivatives are "leveraged" and therefore may magnify or otherwise increase investment losses. Other risks include the potential inability to terminate or sell derivative positions, as a result of counterparty failure to settle or other reasons.

Mortgage-backed securities ("MBS"), which include collateralized mortgage obligations ("CMOs"), also referred to as real estate mortgage investment conduits ("REMICs"), may not be suitable for all investors. There is the possibility of early return of principal due to mortgage prepayments, which can reduce expected yield and result in reinvestment risk. Conversely, return of principal may be slower than initial prepayment speed assumptions, extending the average life of the security up to its listed maturity date (also referred to as extension risk). Additionally, the underlying collateral supporting MBS may default on principal and interest payments. Investments in subordinated MBS involve greater credit risk of default than the senior classes of the same issue. MBS are also sensitive to interest rate changes which can negatively impact the market value of the security. During times of heightened volatility, MBS can experience greater levels of illiquidity and larger price movements.

Commodities: The commodities markets may fluctuate widely based on a variety of factors including, but not limited to, changes in supply and demand relationships; governmental programs and policies; national and international political and economic events, war and terrorist events; changes in interest and exchange rates; trading activities in commodities and related contracts; pestilence, technological change and weather; and the price volatility of a commodity.

Alternative/hedged strategies may use various investment strategies and techniques for both hedging and more speculative purposes such as short selling, leverage, derivatives and options, which can increase volatility and the risk of investment loss. Alternative/hedged strategies are not appropriate for all investors. A short sales strategy includes the risk of loss due to an increase in the market value of borrowed securities. Such a strategy may be combined with purchasing long positions in an attempt to improve portfolio performance. A short sales strategy may result in greater losses or lower positive returns than if the portfolio held only long positions, and the portfolio's loss on a short sale is potentially unlimited. The use of leverage can magnify the impact of adverse issuer, political, regulatory, market, or economic developments on a company. A decrease in the credit quality of a highly leveraged company can lead to a significant decrease in the value of the company's securities. In a liquidation or bankruptcy, a company's creditors take precedence over the company's stockholders.

Bank loans are generally rated below investment-grade by rating agencies, and entail greater credit risk than higher quality, investment-grade securities such as U.S. Treasuries. In the event a borrower stops paying interest or principal on a loan, the collateral used to secure the loan may not be entirely sufficient to satisfy the borrower's obligations and, in some cases, may be difficult to liquidate on a timely basis. While bank loans offer higher interest income when interest rates rise, they also will generate less income when interest rates decline.

Interest on ***municipal bonds*** is generally exempt from federal income tax; however, some bonds may be subject to the alternative minimum tax (AMT). Typically, state tax-exemption applies if securities are issued within one's state of residence and, if applicable, local tax-exemption applies if securities are issued within one's city of residence.

Treasury Inflation Protection Securities' (TIPS) coupon payments and underlying principal are automatically increased to compensate for inflation by tracking the consumer price index (CPI). While the real rate of return is guaranteed, TIPS tend to offer a low return. Because the return of TIPS is linked to inflation, TIPS may significantly underperform versus conventional U.S. Treasuries in times of low inflation.

Investments in securities of ***MLPs*** involve risks that differ from an investment in common stock. MLPs are controlled by their general partners, which generally have conflicts of interest and limited fiduciary duties to the MLP, which may permit the general partner to favor its own interests over the MLPs. The potential return of MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. Therefore, treatment of one or more MLPs as a corporation for federal income tax purposes could affect the portfolio's ability to meet its investment objective and would reduce the amount of cash available to pay or distribute to you. Legislative, judicial, or administrative changes and differing interpretations, possibly on a retroactive basis, could negatively impact the value of an investment in MLPs and therefore the value of your investment.

No Tax Advice
Morgan Stanley Smith Barney LLC and its affiliates do not render advice on tax and tax accounting matters to clients. This material was not intended or written to be used, and it cannot be used or relied upon by any recipient, for any purpose, including the purpose of avoiding penalties that may be imposed on the taxpayer under U.S. federal tax laws.

If any investments in this report are described as "tax free", the income from these investments may be subject to state and local taxes and (if applicable) the federal Alternative Minimum Tax. Realized capital gains on these investments may be subject to federal, state and local capital gains tax.

Please consult your personal tax and/or legal advisor to learn about any potential tax or other implications that may result from acting on a particular recommendation.

Conflicts of Interest
CG IAR's goal is to provide professional, objective evaluations in support of the Morgan Stanley Smith Barney LLC investment advisory programs. We have policies and procedures to help us meet this goal. However, our business is subject to various conflicts of interest. For example, ideas and suggestions for which investment products should be evaluated by CG IAR come from a variety of sources, including our Morgan Stanley Financial Advisors and their direct or indirect managers, and other business persons within Morgan Stanley Smith Barney LLC or its affiliates. Such persons may have an ongoing business relationship with certain investment managers or mutual fund companies whereby they, Morgan Stanley Smith Barney LLC or its affiliates receive compensation from, or otherwise related to, those investment managers or mutual funds. For example, a Financial Advisor may suggest that CG IAR evaluates an investment manager or fund in which a portion of his or her clients' assets are already invested. While such a recommendation is permissible, CG IAR is responsible for the opinions expressed by CG IAR. See the conflicts of interest section in the applicable Form ADV Disclosure Document for Morgan Stanley Smith Barney LLC for a discussion of other types of conflicts that may be relevant to CG IAR's evaluation of managers and funds.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-007
Annual Reporting on the Status of the Trust		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

California Government Code 53216.4 requires an annual reporting of the funds held in the Investment Trust to participants and their beneficiaries.

STATUS:

The Retirement Board of Authority approved the method of how the promulgation of Annual Reports on the status of funds held in trust will be made in compliance with California Government Code 53216.4. The Retirement Board of Authority should ratify promulgation of the Annual Report to Trust beneficiaries for fiscal year ending June 30, 2015.

RECOMMENDATION:

The Retirement Board of Authority will make decisions and take appropriate action as deemed necessary.

ANTELOPE VALLEY COLLEGE

SUMMARY ANNUAL REPORT FOR THE ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT FUTURIS TRUST JULY 2015

The Antelope Valley Community College District has established the Futuris Public Entity Investment Trust. This Trust is an IRS Section 115 Trust that is used for the purposes of investment and disbursement of funds irrevocably designated by the District for the payment of its obligations to eligible employees (and former employees) of the District and their eligible dependents and beneficiaries for Medical, Dental, and Vision (sometimes referred to as "other post-employment benefits," or "OPEB"), in compliance with governmental Accounting Statement Nos. 43 and 45.

The Governmental Accounting Standards Board (GASB) adopted Statements 43 and 45 for public sector employers to identify and report their Other Post-Employment Benefits (OPEB) liabilities. GASB Statements 43 and 45 establish uniform financial reporting standards for OPEB and improve relevance and usefulness of the reporting. In particular, the statements require systematic, accrual-based measurement and recognition of OPEB expenses over the employees' years of service as well as providing information regarding the progress being made toward funding the plan.

GASB 43 establishes uniform financial reporting standards for OPEB Plans, while GASB 45 establishes uniform financial reporting standards for Employers. Both of these standards provide instructions for calculating expenses and liabilities as well as requiring supplementary information schedules to be added to the year–end financial reports.

The District has created a Retirement Board of Authority consisting of District personnel to oversee and run the Futuris Trust. Benefit Trust Company is the qualified Discretionary Trustee for asset and fiduciary management and investment policy development. Keenan & Associates is the Program Coordinator for the Futuris Trust providing oversight of the Futuris program and guidance to the District.

Attached to this notice is the most recent annual statement for the Trust. This statement shows (as of the date of the statement); the total assets in the Trust, the market value, the book value, all contribution and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sale activity, and realized gains and losses. Please note that the Trust is not itself an employee benefit plan. Rather, the assets in the Trust are irrevocably designated for the funding of employee benefit plans. You are being provided this information pursuant to California Government Code Section 53216.4.

For more information regarding the Futuris Public Entity Investment Trust, please contact Diana Keelen, Executive Director Business Services at (661)722-6319 with the Antelope Valley Community College District.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-008
Disbursement Report		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's OPEB Investment Trust is able to pay for all expenses relating to the reimbursement of Retiree Benefits for eligible participants and the reasonable fees associated with the compliance, management and operational duties of the Trust.

STATUS:

The Retirement Board of Authority (RBOA) members shall ratify all reasonable expenses associated with compliance, management and operational duties of the District's OPEB Trust since the last RBOA meeting.

RECOMMENDATION:

The Retirement Board of Authority should ratify the payment of reasonable fees expenses as profiled.

DISBURSEMENT TRANSACTIONS

08/03/2015	MONTHLY FEE TO BENEFIT TRUST COMPANY EFFECTIVE 07/31/2015 JUNE 2015	($126.71)

Benefit Trust
Fiduciary Passport Services

Posting Date Range: 7/1/2015 - 9/28/2015
Account Number: 115150007300

Transactions Report
Generated: 9/28/2015 11:16:11 AM CT

Posting Date	Trade Date	Description	CUSIP	Cash	Price	Units
08/03/2015		MONTHLY FEE TO KEENAN AND ASSOCIATES EFFECTIVE 07/31/2015 JUNE 2015		($279.80)		
08/03/2015		MONTHLY FEE TO MORGAN STANLEY EFFECTIVE 07/31/2015 JUNE 2015		($56.19)		
08/20/2015		MONTHLY FEE TO KEENAN AND ASSOCIATES JUNE 2015		($281.94)		
08/20/2015		MONTHLY FEE TO BENEFIT TRUST COMPANY JULY 2015		($127.48)		
08/20/2015		MONTHLY FEE TO MORGAN STANLEY JULY 2015		($56.86)		
09/15/2015		MONTHLY FEE TO BENEFIT TRUST COMPANY AUGUST 2015		($187.12)		
09/15/2015		MONTHLY FEE TO KEENAN AND ASSOCIATES AUGUST 2015		($448.93)		
09/15/2015		MONTHLY FEE TO MORGAN STANLEY AUGUST 2015		($109.04)		
		TOTAL FOR DISBURSEMENT		**($1,674.07)**		

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: DATE: 10/15/2014

Retirement Board of Authority

SUBJECT: ITEM #: 2015/2016-009

Retirement Board of Authority (RBOA) Bylaws

Enclosure: Yes
Action Item Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's Investment Trust Document provides general provisions for the operation of the Trust. RBOA Bylaws supply governance and operational procedures that facilitate the Board in the management of the Trust by providing additional direction for issues not discussed in the provisions of the Trust Document.

STATUS:

The Retirement Board of Authority (RBOA) membership will review the processes required for crafting Bylaws to facilitate the Management and Operational duties of the District's Investment Trust.

RECOMMENDATION:

The Retirement Board of Authority shall take appropriate action as deemed necessary.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT RETIREMENT BOARD OF AUTHORITY BYLAWS

PREAMBLE

The objectives of the Antelope Valley Community College District (AVCCD) in establishing a Trust for the pre-funding of its OPEB liabilities is to comply with the requirements of GASB Statements No. 43 & No. 45 and to create a retirement system that complies with the California Constitution and Government Code provisions related to such systems with a Governing Board (referred to as the "Retirement Board of Authority") consisting of officials of the AVCCD.

The Trust is to be managed in accordance with the following principles:

- **Trust assets are managed in accordance with all applicable laws, Trust documents, and a written Investment Policy Statement (IPS).**
- **Trust assets are diversified to a specific risk/return profile.**
- **A written Investment Policy Statement (IPS) contains the detail to define, implement, and monitor the Trust's investment strategy.**
- **Appropriate fiduciary standards are applied in the management of Trust assets and the supervision of persons hired to assist in the management of the Trust.**
- **Due diligence is documented.**
- **Control procedures are in place to monitor and account for Trust investment and administrative expenses.**
- **There are safeguards to avoid conflicts of interest, such as the use of funding instruments that are non-proprietary funds of any service provider to the Trust.**

1: A Retirement Board of Authority

1.1: The AVCCD's governing body has established by resolution a Retirement Board of Authority (the "Board") to supervise the Trust.

1.2: The Board has been established to manage, direct and control the Fiduciary, Trust Settlor and Administrative functions, such as Consultants, Actuaries, Auditors and Accountants, Legal Counsel, Financial Advisors of the Trust.

1.3: The Board will sign such documents as are necessary to adopt and maintain an irrevocable Trust which complies with the California Constitution, California Government Code, GASB No. 43 & No. 45 and Section 115 of the Internal Revenue Code.

1.4: As mandated by the California Government Code, the Board shall perform all its duties with the care, skill, and diligence that a prudent person would utilize.

1.5: The Board shall also act solely in the interest of plan participants and beneficiaries with the sole purpose of providing benefits to them and paying only necessary and reasonable expenses for administrating the Trust.

1.6: The Board shall oversee that the Trust's assets are diversified in order to minimize the risk of large investment losses.

1.7: The Board shall adhere to the terms of the written documents governing the Trust and ensure that they comply with all applicable laws, rules and regulations that may impact the Trust.

1.8: The Board shall facilitate and oversee the preparation and centralized maintenance of the AVCCD's Comprehensive Compliance Plan. To aid the AVCCD in meeting its fiduciary requirements, the Substantive Plan, as described in GASB 43 and 45, will be set forth as an essential element in the development of a Comprehensive Compliance Plan.

1.9: The Board will have the exclusive authority to establish, execute and interpret the Trust's written Investment Policy Statement (IPS) which profiles the long-term investment objectives of the Trust.

1.10: The Board shall facilitate any efforts and processes necessary to ensure the AVCCD executes applicable written agreements providing any required consent to compliance with the terms of the Trust.

1.11: The Board will require that compensation paid to the Trust's service providers is identifiable, transparent, and reasonable and adheres to the terms of the written documents governing the Trust.

1.12: The Board shall abide by all applicable reporting requirements imposed by Sections 7500 through 7514.5 of the California Government Code, including but not limited to the preparation of an annual financial report of the Trust and retirement system of the Public Entity, and the preparation of valuations of the Trust assets by qualified actuaries.

1.13: The Board shall present to the Public Entity's Board of Trustees, in public session, an annual written report within 90 days of the completion of the annual audit of the retirement system, which shall include a summary of the investments and earnings of the system and other related matters, as well as the Board's proceedings and activities for the preceding year.

2: Retirement Board of Authority – Member Appointments

2.1: The members of the Board are appointed by resolution of the governing body of the AVCCD. Board members may be replaced or terminated by the governing body of the AVCCD at any time as Board members serve at the pleasure of the AVCCD.

2.2: Board members shall be appointed to the Board based solely on their titles. If the Title of an existing Board member changes and that new title is not one of the designated titles included in the resolution of the governing body of the AVCCD, the Board member will no longer be a Board member unless there is a new resolution from the governing body of the AVCCD.

2.3: The number of Board members will consist of such number of individuals that are deemed necessary by the governing body of the AVCCD.

2.4: The Board will designate one of its members by majority vote to serve as Chairperson and a second member as Vice Chairperson.

2.5 The Chairperson and Vice Chairperson will serve in this capacity for two years at which time the Board will act again to select a Chairperson and Vice Chairperson for a second term. The Chairperson and Vice Chairperson can serve multiple terms.

2.6: The Chairperson will act as the presiding officer for Board meetings.

2.7: Based on the minimum number of signatures required therein and/or specific people required by the Board, authorizations for withdrawals, distributions, benefit payments and reasonable fees are restricted to individuals with specimen signatures listed on the Trust's Signature Authorization Form.

2.8: Board meetings shall be conducted by the Chairperson. When the Chairperson is not present, the Vice Chairperson will conduct the meeting.

2.9: A majority of the Board members must be present or attend by teleconference, per the provisions of the Ralph M. Brown Act, in order to conduct a Board meeting and is considered a quorum. A vote, under the protocols of the Ralph M. Brown Act, of the majority of the Board members, shall be sufficient to transact business.

2.10: Each Board member shall have one vote in accordance with the protocols of the Ralph M. Brown Act. No proxy votes shall be permitted. If a member is attending by teleconference, all votes must be by roll-call.

2.11: In recognition of the importance of the work of the Board, regular attendance at Board meetings is expected from all members.

2.12: No Board member shall have the authority to bind the Board to any contract or endeavor without the approval of the Board.

2.13: No member serving on the Board will receive a salary or compensation from the Board.

2.14: The Board may approve reimbursement for reasonable expenses incurred by Board members. All expenditures of funds shall be subject to Board approval.

2.15:In addition to the reporting requirements of Section 1.13 hereof, the Board shall designate a specific location at which it will receive notices, correspondence, and other communications and shall designate one of its members as an officer for the purpose of receiving service on behalf of the Retirement Board of Authority.

3: Retirement Board of Authority – Meeting Agendas

3.1: Board meetings and agendas are subject to the terms and provisions of The Ralph M. Brown Act. All Board regular meeting agendas shall be prepared and posted in a public location, as approved by the Board, at least 72 hours prior to the date and time of the scheduled meeting. Meeting agendas for any special meetings of the Board shall be prepared and posted in a public location at least 24 hours prior to the date and time of the scheduled meeting.

3.2: Per the provisions of the Ralph M. Brown Act, the Board shall hold their meetings at a minimum of once a year, giving advanced notice of 24 hours for special meetings to the media and certain others who request it.

3.3: The Board shall engage, at least annually, in analysis of any applicable modifications to the Investment Policy Statement (IPS) through meetings and consulting with the Trustee and Registered Investment Advisor (RIA), as applicable.

3.4: In compliance with the Ralph M. Brown Act, an agenda shall be prepared for each regular and special meeting of the Board. The Agenda shall set forth those items which the Board anticipates taking action or discussing. Each Agenda item shall have attached backup material necessary for discussion or action by the Board.

3.5: Full and complete minutes detailing records of deliberations and decisions from each meeting of the Board shall be maintained. Such records and documents shall be available to the public in accordance with the provisions of the Ralph M. Brown Act.

4: Retirement Board of Authority – Actuarial, Contribution & Withdrawal Parameters

4.1: The Board will acknowledge the amount of any contributions from the AVCCD and deliver contributions and allocation instructions to the Trustee. Such contributions and allocation instructions shall be delivered in accordance with the Trust's written provisions and agreements.

4.2 The Board will establish procedures to review all expenditures and disbursements from the Trust.

4.3: In accordance with GASB Statement No. 45 schedules, the Board will work with an actuary engaged by the AVCCD's Governing Board in obtaining the necessary calculations to identify the "Actuarial Present Value of Total Projected Benefits" (APVTPB), the "Unfunded Actuarial Accrued Liability" (UAAL) and the "Annual Required Contribution"(ARC).

4.4: The Board will provide any necessary plan participant information to the Trustee on a timely basis. The Board shall provide response to all information requested by the Trustee in a timely fashion.

5: Retirement Board of Authority -- Disclosure & Conflict of Interest

5.1: No Board member shall vote or participate in a determination of any matter in which the Board member shall receive a special compensation or gain.

5.2: Board members have a duty of loyalty precluding them from being influenced by motives other than the accomplishment of the Trust's objectives.

5.3: Board members, in the performance of their duties, must act pursuant to the documents and instruments establishing and governing the Trust.

6: Retirement Board of Authority -- Rules of Order/Bylaws

6.1: Amendment of these Bylaws may be proposed by any member of the Board.

6.2: All amendments to the Bylaws must be approved by a majority vote of the Board members present, before the amendment shall become effective.

6.3: Such amendments shall be binding upon all members of the Board.

6.4: The effective date of any amendment shall be on the first day of the month following adoption, unless otherwise stated.

7: Retirement Board of Authority -- Appearance before the Board

7.1: All persons who wish to make appearances before the Board shall be scheduled in compliance with the provisions of the Ralph M. Brown Act.

7.2: Appearances before the Board may be in person or through a representative.

7.3: Communications with the Board may be in any form that complies with the provisions of the Ralph M. Brown Act.

8: Retirement Board of Authority – Fiduciary & Governance Parameters

8.1: The Trust will be structured so that the Board shall reduce its legal liability for investment risk by appropriately delegating investment decision-making.

8.2: The Board shall delegate investment decision-making to the Trustee with a mandate and thereafter monitor the performance of the Trustee. For the management of the Trust's assets, an appropriate Registered Investment Advisor (RIA) shall be appointed and monitored by the Trustee.

8.3: The Board will monitor the performance and acts of the Trustee in accordance with the limits and constraints of applicable laws, Trust documents and the written Investment Policy Statement (IPS) as well as the Trust's investment goals, objectives, fees and expenses.

8.4: The Board shall monitor the Trustee to determine that Trust assets are diversified as directed by the Investment Policy Statement (IPS) and applicable laws.

8.5: The Board through periodic reports will compare investment performance against appropriate indices, peer groups and Investment Policy Statement (IPS) objectives.

8.6: The Board will require that all service agreements and contracts are in writing, and do not contain provisions that conflict with fiduciary standards. Fees paid to each service provider shall be consistent with agreements, contracts and with all applicable laws.

9: Trustee & Investment Management

9.1: The agreement engaging the Trustee shall require the Trustee to invest Trust assets in compliance with applicable laws, Trust documents, and the written Investment Policy Statement (IPS).

9.2: The agreement engaging the Trustee shall require the Trustee document the specific duties and requirements of the parties involved in the investment process.

9.3: The Board shall require the Trustee to acknowledge, in writing, that it is a fiduciary to the Trust and to the AVCCD.

9.4: The Board shall prohibit the Trustee from investing Trust assets in its own proprietary investment products or those of its Registered Investment Adviser so as to avoid any potential conflicts of interest.

9.5: The Board shall require the Trustee to manage Trust assets with the care, skill and diligence of a prudent person under California law.

10: Registered Investment Advisor (RIA):

10.1: The RIA engaged by the Trustee must have the following qualifications and responsibilities:

(a) It shall work with the Trustee to establish a long-term, target net rate of return objective for the Trust, constructing an investment portfolio which gives due consideration to the AVCCD's time horizon of investment, as well as its attitudes and capacity for risk.

(b) It shall recommend the appropriate combination of asset classes that optimizes the Trust's return objectives, while minimizing risk consistent with the Trust's constraints.

(c) It shall provide investment recommendations derived from a disciplined approach to investment selection; considering risk-adjusted performance comparable to managers with similar style; a long-term superior performance profile; an analysis of investment expenses with a preference for investments with no-load, no redemption charges, and no transaction fees or revenue-sharing schedules.

(d) It shall have access to appropriate databases and external research, and shall be supported with adequate technology and report production tools.

11: Program Coordinator

11.1: The agreement shall engage the Program Coordinator with responsibility to assist the Board with the processes, procedures and protocols of the Trust's fiduciary decision making.

11.2: The Board shall require the Program Coordinator to facilitate all aspects of the Board's Fiduciary and Administrative mandates, and work to assist the Board in ensuring that Trust assets are managed in accordance with all applicable laws, Trust documents and the written Investment Policy Statement (IPS).

11.3: The Board shall require the Program Coordinator to provide comprehensive assistance in conducting Board meetings and agendas in compliance with the provisions of the Ralph M. Brown Act.

11.4: The Program Coordinator will provide support to the Board in the preparation and centralized maintenance of the AVCCD's Comprehensive Compliance Plan, including the Substantive Plan.

12: Program Definitions:

12.1: "Actuarial Present Value of Total Projected Benefits" (APVTPB) shall mean the total projected costs to finance benefits payable in the future based on members' service through the valuation date and their future service, discounted to reflect the expected effects of the

time value of money. It is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay the total projected benefits when due.

12.2: "Annual Required Contribution" (ARC) is the actuarially-determined level of employer contribution that would be required on a sustained, ongoing basis to systematically fund the normal cost and to amortize the Unfunded Actuarial Accrued Liability (UAAL) attributed to past service over a period not to exceed thirty years. It is the amount needed to pay benefits as they come due plus amortize the UAAL. The ARC has two components: Normal cost and amortization of the UAAL for both active employees and retirees.

12.3: "Comprehensive Compliance Plan" shall mean a broad compliance and fiduciary process incorporating the AVCCD's substantive plan obligations; the actuarial cost of those obligations; the plan for meeting those costs; the fiduciary strategies and steps in meeting plan requirements.

12.4: "Trustee" shall mean a corporation authorized under state or federal law, which has accepted the delegation of investment duties and work as the sole authority in the selection, monitoring and disposition of Trust's assets.

12.5: "Investment Policy Statement"(IPS) shall mean a written statement that establishes the AVCCD Investment Trust's investment related policies, goals, objectives and criteria for evaluating investment performance that are critical for the successful management of the Trust's investments.

12.6: "Quorum" shall mean the majority of the Board members in compliance with the provisions of the Ralph M. Brown Act.

12.7: "Registered Investment Advisor" (RIA) shall mean the investment entity charged with the responsibility for recommending to the Trustee comprehensive and continuous investment advice for the Futuris AVCCD Investment Trust.

12.8: "Retirement Board of Authority" is established by the governing body of the AVCCD and shall mean the entity charged with the discretion, responsibility and authority to oversee the management of the AVCCD Investment Trust. Specifically, the Retirement Board of Authority shall determine the investment policy and strategy for the Trust and is empowered to inquire and resolve any matter it considers appropriate to carry out its responsibilities.

12.9: "Substantive Plan" shall mean the plan through which assets are accumulated and benefits are paid as they come due in accordance with the commitments or understandings between the employer, eligible employees and their beneficiaries.

12.10: "The Trust" shall mean the AVCCD's Investment Trust established for the pre-funding of its OPEB liabilities and maintained in compliance with GASB Statement No. 43 and No. 45, the California Constitution, and the California Government Code with a governing Retirement Board of Authority.

12.11: "Unfunded Actuarial Accrued Liability" (UAAL) shall mean the excess of the Actuarial Accrued Liability (AAL) over the Actuarial Value of Assets (AVA). The UAAL can derive from three sources: unfunded past Normal costs, actuarial gains and losses (differences between actuarial assumptions and actual experience), and changes to the level of benefits promised.

ANTELOPE VALLEY COMMUNITY COLLEGE DISRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-010
Status of the Comprehensive Compliance Plan including the Substantive Plan.		Enclosure:	Yes
		Action Item	No

Prepared by:	Keenan Financial Services
Requested by:	Retirement Board of Authority

BACKGROUND:

Under the Antelope Valley Community College District Public Entity Investment Trust program, Keenan Financial Services prepares a written summary of the "Substantive Plan", as part of an overall Comprehensive Compliance Plan, which acts as both a road map and a record of the Retirement Board of Authority's compliance with its governance and fiduciary mandates.

STATUS:

The Retirement Board of Authority will discuss the processes of completing the Antelope Valley Community College District "Substantive Plan" as an essential component of the Comprehensive Compliance Plan for Plan Year ending June 30, 2015.

RECOMMENDATION:

The Retirement Board of Authority will review the information presented and file accordingly.

Futuris
A Keenan Solution

The Great GASB Alternative

Other Post Employment Benefits (OPEB) Questionnaire

PUBLIC ENTITY EMPLOYER NAME: Antelope Valley College

To help us get an understanding of the Other Post Employment Benefits (OPEB) provided for retirees of the Public Entity Employer, please complete the following questionnaire.

		Yes	No
1	Are Health Benefits provided to retirees of the Employer?	☒ Yes	☐ No
2	Are the Health Benefits provided to retirees of the Employer the same as the benefits provided for active employees?	☒ Yes	☐ No
3	Are Dependents covered under this arrangement?	☒ Yes	☐ No
4	Are Dental Benefits provided to retirees of the Employer?	☒ Yes	☐ No
5	Are the Dental Benefits provided to retirees of the Employer the same as the benefits provided for active employees?	☒ Yes	☐ No
6	Are Dependents covered under this arrangement?	☒ Yes	☐ No
7	Is there a separate Prescription Drug Plan provided for retirees of the Employer (including benefits for dependents)?	☐ Yes	☒ No
8	Are there any Benefits provided for disabled employees? only if retiring	☒ Yes	☐ No
9	Are Long Term Care Benefits provided for retirees of the Employer?	☐ Yes	☒ No
10	Are there any other insurance coverage provided for retirees of the Employer, including their dependents?	☒ Yes	☐ No

If the answer to No.10 is Yes, please list additional insurance coverage here or on a separate page.

____

____

11	Are there any other arrangements or commitments for the Employer to pay for the cost of any post retirement benefits (other than pension benefits). This would be applicable to any employee or employee contract or bargaining agreement that may be in place between the employee(s), the bargaining unit and the Employer.	☒ Yes	☐ No
12	Are there any other arrangements or commitments for the Employer to pay for the costs, of any dependent of a retired Employee of the Employer?	☒ Yes	☐ No

If the answer to No.12 is Yes, please list additional costs, benefits, etc. here or on a separate page.

QUESTIONNAIRE
COMPLETED BY: Ana Patin, Human Resources Technician

DATE: **August 20, 2015**

OTHER POST EMPLOYMENT BENEFITS QUESTIONNAIRE

Copies of Benefit Information Needed *Please provide copies of the following materials for any items that are marked Yes or that has been listed in response to a question on this questionnaire*	**Received**
Plan Documents and Summary Plan Descriptions (SPDs)	☐ Yes send
Current copies of Benefit booklets or handouts that are provided to employees or retirees	☐ Yes send
Copies of any employment contract that obligates the Employer to any Other Post Employment Benefit (OPEB) to any employee, dependent after the employee retires from the Employer send a copy of Admin + Faculty contracts	☐ Yes
Copies of any Bargaining Agreement that obligates the Employer to any Other Post Employment Benefit (OPEB) to any employee, dependent after the employee retires from the Employer	☐ Yes
Copies of Board Meeting Notes that outline benefits to be provided to any current or future retiree of the Employer	☐ Yes
Description of benefits provided to non-bargained employees (e.g. management, confidential, etc.)	☐ Yes

Financials	**Received**
Most recent Actuary Report (if available) ✓ w/Diana	☐ Yes
Investment Policy Statement (if available) approved Investment Policy Statement	☐ Yes

Keenan
Financial Services

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-011
Transfer of Assets into the Trust		Enclosure:	Yes
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's Investment Trust was created for the exclusive purpose of prefunding unfunded retiree OPEB liabilities.

STATUS:

The Retirement Board of Authority will acknowledge previous District transfers to the Trust and provide updates for anticipated prefunding transfers for the current fiscal year.

RECOMMENDATION:

The Retirement Board of Authority shall hear the discussion and file the information accordingly.

ANTELOPE VALLEY CCD Deposit Date 8/11/15

Transactions

Account: 115150007300 - ANTELOPE VAL

Include closed accounts?

Time Period: Month to Date

Posting Date From: 08/01/2015 Posting Date To: 08/27/2015 Go PDF Download

Filter Type: Contains Exact Filter By: Description Filter Term: Filter Clear

Posting Date	Trade Date	Description	CUSIP	Cash	Price	Units
08/03/2015	07/31/2015	SOLD .355 SHS AMERICAN FUNDS NEW PERSPECTIVE F2 ON 07/31/2015 AT 39.08	648018828	$13.88	39.08	(0.355)
08/03/2015	07/31/2015	SOLD 2.392 SHS LEGG MASON WESTERN ASSET CORE PLUS BOND ON 07/31/2015 AT 11.60	957663503	$27.75	11.60	(2.392)
08/03/2015	07/31/2015	SOLD .843 SHS ROYCE FUNDS SPECIAL EQUITY ON 07/31/2015 AT 21.95	780905535	$18.51	21.95	(0.843)
08/03/2015	07/31/2015	SOLD 2.614 SHS DELAWARE FUNDS DIVERSIFIED INCOME ON 07/31/2015 AT 8.85	246248587	$23.13	8.85	(2.614)
08/03/2015	07/31/2015	SOLD 2.109 SHS FRANKLIN TEMPLETON MUTUAL FDS. GLOBAL BOND FUND ADV CLASS ON 07/31/2015 AT 12.08	880208400	$25.48	12.08	(2.109)
08/03/2015	07/31/2015	SOLD 1.357 SHS LEGG MASON BW GLOBAL OPPORTUNITIES BOND IS ON 07/31/2015 AT 10.23	524686318	$13.88	10.23	(1.357)
08/03/2015	07/31/2015	SOLD 1.204 SHS ALGER FUNDS SPECTRA Z ON 07/31/2015 AT 19.21	015566763	$23.13	19.21	(1.204)
08/03/2015	07/31/2015	SOLD 1.13 SHS LEGG MASON BW ALTERNATIVE CREDIT ON 07/31/2015 AT 10.24	52471E811	$11.57	10.24	(1.13)
08/03/2015	07/31/2015	SOLD .171 SHS AMERICAN FUNDS NEW WORLD F2 ON 07/31/2015 AT 54.09	649280823	$9.25	54.09	(0.171)
08/03/2015	07/31/2015	SOLD 1.072 SHS THORNBURG INVESTMENT INCOME BUILDER I ON 07/31/2015 AT 21.57	885215467	$23.13	21.57	(1.072)
08/03/2015	07/31/2015	SOLD 1.107 SHS HARTFORD WORLD BOND I ON 07/31/2015 AT 10.45	41664M235	$11.57	10.45	(1.107)
08/03/2015	07/31/2015	SOLD 1.297 SHS BRANDES FUNDS EMERGING MARKETS FUND CLASS I ON 07/31/2015 AT 7.13	105262752	$9.25	7.13	(1.297)
08/03/2015	07/31/2015	SOLD .593 SHS HARTFORD FUNDS MIDCAP CLASS Y ON 07/31/2015 AT 31.19	416645687	$18.51	31.19	(0.593)
08/03/2015	07/31/2015	SOLD 1.149 SHS BLACKROCK STRATEGIC INCOME FUND ON 07/31/2015 AT 10.07	09256H286	$11.57	10.07	(1.149)
08/03/2015	07/31/2015	SOLD .867 SHS BRANDES FUNDS INTERNATIONAL SMALL CAP EQUITY ON 07/31/2015 AT 13.34	105262737	$11.57	13.34	(0.867)

1 2 3 4 5 ... Last

Results 1 - 15 of 98

Totals

Tranasaction Type	Total Cash
CASH DIVIDENDS	**$435.26**
DISBURSEMENT	**($928.98)**
PURCHASE SECURITY	**($387,548.26)**
RECEIPT OF CASH	**$387,113.00**
SALE OF SECURITY	**$928.97**

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-012
Actuarial Valuation Study Update		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Paragraph 12, of GASB Statement 45, states that an Actuarial Valuation Study should be performed at least biannually. The Retirement Board of Authority should discuss the need for obtaining an updated study.

STATUS:

The District's most recent Actuarial Valuation Study has an effective date of July 1, 2013. The Retirement Board of Authority shall review the status of updates to the Actuarial Valuation Study and consider anticipated implications from GASB's recently issued Standards.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information presented.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 10/15/2015
SUBJECT: GASB Issues Final OPEB Statements No. 74 and No. 75.	ITEM #: 2015/2016-013
	Enclosure: Yes
	Action Item: No

Prepared by: Keenan Financial Services (KFS)

Requested by: Retirement Board of Authority

BACKGROUND:

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement No 43 and No 45, which established standards for OPEB accounting. These statements covered postemployment healthcare benefits as well as other forms of benefits such as life insurance and disability benefits, if such benefits were provided outside of a defined benefit pension plan. In May 2014, GASB issued two Exposure Drafts that would change the OPEB standards to parallel the changes that had been made for pension plans. In June 2015, GASB issued **Statement No. 74** which will replace Statement No. 43 and effective for periods beginning after **June 15, 2016** (effective date noted in the Exposure Draft was December 15, 2015) and **Statement No. 75** which will replace Statement No 45 and effective for fiscal years beginning after **June 15, 2017**(effective date noted in the Exposure Draft was December 15, 2016).

STATUS:

Implications: 1.**Discount Rate**-Projected benefits expected to be provided through trust assets are to be discounted at long-term expected rate of return. Projected benefits not expected to be covered by trust assets are to be discounted at a 20-year tax exempt, high quality municipal bond index rate. 2. **Actuarial Cost Method**-Entry age normal cost method is mandated for all plans. 3. **Balance Sheet Liability**-The unfunded actuarial liability moves from the financial statement notes to the balance sheet. 4. **Annual Required Contribution (ARC)**-Eliminated and replaced with OPEB expense which will be determined by using shorter amortized periods for actuarial gains/losses and changes in actuarial assumptions.

RECOMMENDATION:

The Retirement Board of Authority shall received the information presented and file accordingly.

GASB: NEW STANDARDS REGARDING ACCOUNTING AND REPORTING OF OPEB

In June of 2015, the Government Accounting Standards Board (GASB) finalized two new standards affecting the financial accounting and reporting of other postemployment benefits (OPEB) for state and local agencies. These new standards are intended to supersede prior guidance and bring OPEB accounting and reporting in line with the standards GASB issued for public pensions in 2012.

- **GASB Statement No. 74**, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans," will replace the requirements of GASB standard No. 43, updating the accounting standards to be used by OPEB plans in their financial reporting.

- **GASB Statement No. 75,** "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," will replace the requirements of GASB Standard No. 45 and GASB Statement No. 57, updating guidance for financial reporting by agencies that provide OPEB to their employees.

Together, these new standards will change how governmental employers calculate and report the costs and obligations associated with OPEB.

FREQUENCY OF ACTUARIAL VALUATION

Actuarial valuations will be more frequent under the new Statements. Under both Statements every plan, regardless of size, will have to conduct an actuarial valuation (or a calculation based on the alternative measurement method for employers with fewer than 100 employees) at least every two years.

RECOGNIZING OPEB LIABILITY

In one of the most important changes from GASB Statement No. 45, Statement No. 75 will require a local agency to recognize its OPEB liability on the face of its financial statements.

If the agency provides OPEB through a plan that is administered through a GASB-qualifying trust (with irrevocable contributions, assets dedicated to providing OPEB in accordance with benefit terms, and assets protected from creditors), then it may report its "net OPEB liability"—its total liability net of the OPEB plan fiduciary's net position available for paying benefits. If, however, the agency does not have a trust meeting the requirements above, it is required to report its total OPEB liability.

MEASURING OPEB LIABILITY

Statement No. 74 makes several changes to the process for calculating net OPEB liability including:

- The projection of future benefit payments will include discretionary ad hoc benefit changes and COLAs, to the extent such changes are made regularly, and they also will include certain taxes or other assessments expected to be imposed on the benefit payment.

- The discount rate used to discount future payments to present value will be the long-term expected rate of return in cases where plan assets meet the qualifications for a GASB-qualified trust, relate to current employees (and their beneficiaries), and are projected to be sufficient to make projected benefit payments. Otherwise, the agency must use a discount rate based on a tax-exempt, AA or higher, 20-year general obligation municipal bond yield or index rate, which would typically be much lower than the long-term expected rate of return.

- For allocating the present value over past and future periods of employee service, the GASB will require all agencies to use the same method—the entry age actuarial cost method to allocate present value as a level percentage of payroll.

Calculating OPEB Expense

Statement No. 75 will change the time horizon over which certain factors are incorporated into the calculation of OPEB expense. The time horizons for inclusion of factors into the calculation of OPEB expense are summarized in the chart below.

Factors Included in OPEB Expense

Immediately	Over average remaining years of employment	Over 5 years
Employees working and earning additional benefits.	Actual economic and demographic changes differing from assumptions.	Changes in the measurement of plan net position due to the difference between expectations and actual investment earnings.
Interest on outstanding liability.	Changes in the assumptions about economic and demographic factors.	
Changes in the measurement of plan net position due to expected investment earnings.		
Changes in the terms of OPEB benefits.		
Effects other than investment earnings.		

Note Disclosures and Required Supplementary Information

Both Statements will require governmental employers to present much more extensive note disclosure and Required Supplementary Information (RSI) about their OPEB liabilities. Some of the requirements will differ depending on what type of OPEB plan the agency participates in.

EFFECTIVE DATES

The new Statements will become effective as follows, although the GASB encourages earlier compliance:

- **GASB 74:** Effective for financial statements for fiscal years beginning after June 15, 2016. This means that for most California public agencies, this standard will go into effect on July 1, 2016.

- **GASB 75:** Effective for fiscal years beginning after June 15, 2017. This means that for most California public agencies, this standard will go into effect on July 1, 2017.

The requirements of these Statements will make it more important than ever to have a plan to prefund your OPEB obligation through a GASB-qualified trust. For more information on OPEB planning, please contact your Keenan Account Manager.

Keenan & Associates is not a law firm and no opinion, suggestion, or recommendation of the firm or its employees shall constitute legal advice. Clients are advised to consult with their own attorney for a determination of their legal rights, responsibilities and liabilities, including the interpretation of any statute or regulation, or its application to the clients' business activities.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			

SUBJECT:		ITEM #:	2015/2016-014
Retirement Board of Authority Comments		Enclosure:	No
		Action Item	No

Prepared by:	Keenan Financial Services
Requested by:	Retirement Board of Authority

BACKGROUND:

Each member may report about various matters involving the Retirement Board of Authority.

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	10/15/2015
Retirement Board of Authority			
SUBJECT:		ITEM #:	2015/2016-015
Program Coordinator/Consultant Comments		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Program Coordinator may address the Board of Authority on any matter pertaining to the Retirement Board of Authority that is not on the agenda.

RECOMMENDATION:

There will be no Retirement Board of Authority discussion except to ask questions or refer matters to staff, and no action will be taken unless listed on a subsequent agenda.

ANTELOPE VALLEY COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 10/15/2015
SUBJECT: Date, Time and Agenda Items for Next Meeting	ITEM #: 2015/2016-016 Enclosure: No Action Item: No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

Board members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.

RECOMMENDATION:

The Board will determine Agenda Items for the next meeting.