COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:	Retirement Board of Authority	DATE:	04/16/2014
SUBJECT:	Public Comments	ITEM #:	2013/2014-017
		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 Chairperson reserves the right to limit the time of presentations by individual or topic

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-018
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:

The Retirement Board of Authority will approve the agenda.

AGENDA

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
APRIL 16, 2014
9:00 AM - 11:00 AM

COMPTON COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BLDG, BOARD ROOM
1111 E. ARTESIA BLVD
COMPTON, CA. 90221
PHONE (310) 900-1600

I. CALL TO ORDER

II. ROLL CALL

MEMBERS:

Chief Business Official	Felipe R. Lopez
Dean of Human Resources	Rachelle Sasser
Director of Accounting	Steve Haigler
Certificated Staff Representative	Jose Villalobos
Classified Staff Representative	David Simmons

PROGRAM COORDINATOR:

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

CONSULTANTS:

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

GUEST

Keenan Financial Services	Dan Keenan

III. PUBLIC COMMENTS

Information
2013/2014-017

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

IV. APPROVAL OF AGENDA

Action
2013/2014-018

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
2013/2014-019

The Retirement Board of Authority will review the minutes from the previous meeting on November 20, 2013 for any adjustments and adoption.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VI. INVESTMENTS

PORTFOLIO PERFORMANCE REVIEW

Action
2013/2014-020

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

MARKET OVERVIEW

Information
2013/2014-021

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

VII. EDUCATION

Information
2013/2014-022

For OPEB plan governance, the Retirement Board of Authority is mandated to use the "prudent person" standard as codified by California's Constitution and Governmental Codes. This standard requires that plan fiduciaries be (1)"familiar with such matters" as managing investments in a plan that pays OPEB benefits and that they take into account (2) "the circumstances then prevailing" relative to keeping abreast of changes in the economy, the marketplace for investment products and services to OPEB plans. The Education Agenda is for the furtherance of these OPEB Investment Trust standards.
PUBLIC COMMENTS:
BOARD CONSIDERATIONS:

VII. ADMINISTRATION

DISBURSEMENTS — Action 2013/2014-023

The Retirement Board of Authority (RBOA) members will ratify all reimbursement expenses, account transfers and reasonable expenses associated with the management and operation of the District's OPEB Investment Trust since the last RBOA meeting.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

DIRECTORS' AND OFFICERS' INSURANCE — Action 2013/2014-024

The Retirement Board of Authority members will discuss liability insurance and decide whether to purchase supplemental insurance to cover additional liability exposures related to their role as fiduciaries.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

FUTURE TRANSFER OF ASSETS INTO THE TRUST — Information 2013/2014-025

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

RETIREMENT BOARD OF AUTHORITY (RBOA) BYLAWS — Action 2013/2014-026

The current Trust document provides provisions to operate the District's Investment Trust. RBOA Bylaws facilitate the Board in the management and operation of the Investment Trust by providing additional direction for issues not discussed in the provisions of the Trust Document. There will be a discussion to review the creation of Retirement Board of Authority (RBOA) Bylaws for the District's Public Entity Investment Trust.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

VIII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS — Information 2013/2014-027

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 2013/2014-028**

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

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING **Information 2013/2014-029**

Board Members and visitors may suggest items for consideration at the next Retirement Board of Authority meeting.
PUBLIC COMMENTS:
BOARD CONSIDERATION:

X. ADJOURNMENT

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-019
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 meeting on November 20, 2013 for any adjustments and adoption.

RECOMMENDATION:

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

MINUTES

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING
NOVEMBER 20, 2013
9:00 AM - 11:00 AM

COMPTON COMMUNITY COLLEGE DISTRICT
ADMINISTRATION BLDG, BOARD ROOM
1111 E. ARTESIA BLVD
COMPTON, CA. 90221
PHONE (310) 900-1600

I. CALL TO ORDER

The Retirement Board of Authority (RBOA) meeting was called to order at 9:09 AM by Gail Beal, Senior Vice President, Keenan Financial Services.

Roll call indicated the presence of all RBOA members at the meeting. All service organization representatives indicated their presence at the meeting.

II. ROLL CALL

MEMBERS:

Chief Business Official	Felipe R. Lopez
Dean of Human Resources	Rachelle Sasser
Director of Accounting	Steve Haigler
Certificated Staff Representative	Jose Villalobos
Classified Staff Representative	David Simmons

PROGRAM COORDINATOR:

Senior Vice President	Gail Beal
Account Manager	Roslyn Washington

CONSULTANTS:

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

OTHERS

None

III. PUBLIC COMMENTS

There were no public comments or inquiries.

IV. APPROVAL OF AGENDA

A motion was made by Board member Steve Haigler to approve the Agenda as presented. The motion was seconded by Board member Jose Villalobos and unanimously carried by the Board members present.

V. APPROVAL OF MINUTES

A motion was made by Board member Rachelle Sasser to approve the Minutes of the previous meeting on June 4, 2013 as presented. The motion was seconded by Board Chair Felipe Lopez and unanimously carried by the Board members present.

VI. INVESTMENTS

PORTFOLIO REVIEW

Cary Allison of Morgan Stanley Wealth Management (MS) provided an overview of the Compton Community College District's Public Entity Investment Trust Change in Portfolio, Asset Allocation, and Time Weighted Return (Gross and Net of Fees) for period ending October 31, 2013. As of October 31, 2013 the District's Investment Trust portfolio had an allocation of 57.1% in fixed income funds and 42.9% in equity funds (equity funds comprised 26.2% in domestic equity and 16.7% in international equity). With contributions of $200,000.00 for the reporting period, the portfolio value as of October 31, 2013 is $205,250.93. The October 31, 2013 portfolio value represents an inception to date net rate of return of 3.36% compared to the Barclays Aggregate of 1.25% and the S&P 500 Adj for Divs of 4.76. The current dividend yield on the District's portfolio fixed income investments was 3.9% while the current dividend yield on the aggregated portfolio was 3.1%.

Cary presented asset allocation and portfolio updates for the Public Entity Investment Trust Model Portfolios for period ending September 30, 2013. He advised Board members of a few allocation and manager changes in the District's model portfolio which will provide the portfolio with slightly more equity exposure going forward. He continued by reviewing the indices used in analyzing the District's Investment Trust Performance Report. Cary explained that over the past quarter, the Federal Reserve has surprised markets by continuing its bond purchase program with no taper which has allowed equity markets to continue their rally. He noted that fixed income yields have stabilized in this environment after sharp rises in the second quarter of 2013. He explained that Fed Chair Ben Bernanke is leaving at the end of the year but anticipates that new Fed Chair Janet Yellen will continue many of the Feds current fiscal policies. He believes interest rates will rise slightly but not dramatically. In the context of rising interest rates, Board member Steve Haigler asked about bond fund durations in the District's portfolio. Cary explained that duration is a very good measure of a bonds fund's sensitivity to changes in interest rates. Hence, the longer the duration, the more sensitive a bond fund will be to changes in interest rates. In this connection, he noted that in anticipation of a slight rise in interest rates, the bond fund positions in the District's portfolio have an intermediate duration (2-5 years approximately) seeking a combination of current income and capital appreciation. He feels that an annual range of 4.0%-5.0% is achievable through their fixed-income portfolio.

He expects the Fed to initiate the process of tapering in the first quarter of 2014. Cary indicated that the global and U.S. economies continue to see gradual improvement noting that China is doing well and Europe is transitioning from negative to positive growth.

A motion was made by Board member Steve Haigler to accept the District's Public Entity Investment Trust Portfolio Performance Review as presented. The motion was seconded by Board Chair Filipe Lopez and unanimously carried by the Board members present.

MARKET OVERVIEW

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

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

September, prior to the Fed's announcement. Also in September, riskier parts of the bond market, including high-yield debt and investment-grade bonds, rallied from their second quarter lull. The Barclays Capital U.S. Aggregate Bond Index, a general measure of the fixed-income market, rose 0.6% for the third quarter. In contrast, the Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, advanced 2.35 for the quarter.

VII. ADMINISTRATION

ANNUAL REPORTING ON THE STATUS OF THE TRUST

Pursuant to the regulatory requirements of California Government Code Section 53216.4, the Annual Report on the Status of the Trust reflects the total assets in the Trust, the market value, the book value, all contributions and distribution activity (including all fees and expenses associated with the Trust), income activity, purchase activity, sales activity, and realized gains and losses for fiscal year ending June 30, 2013.

A motion was made by Board member Jose Villalobos ratifying the District's process for promulgating the Annual Report to the Investment Trust's beneficiaries according to established protocols. The motion was seconded by Board member Rachelle Sasser and unanimously carried by the Board members present.

DISBURSEMENTS

Gail Beal of Keenan Financial Services presented the Board with the Disbursement Report which reflected expenses associated with the management & operation of the District's OPEB Investment Trust from August, 2013 through October, 2013.

A motion was made by Board member Rachelle Sasser to ratify the expenses associated with the management and operation of the District's OPEB Investment Trust for the period of August 2013 through October 2013. The motion was seconded by Board member Jose Villalobos and unanimously carried by the Board members present.

DIRECTORS' AND OFFICERS' INSURANCE

A Directors and Officers/OPEB Liability proposal was presented to the Board by Toni Brady, Keenan & Associates Senior Account Manager. A lively discussion ensued relative to a cost/benefit analysis and Board members trying to assess their actual liability exposure. It was finally suggested that further analysis of this Item be deferred to be brought back at the next Retirement Board of Authority meeting on April 16, 2014.

ACTUARIAL VALUATION STUDY UPDATE

The District's current Actuarial Valuation Study from actuarial service provider Total Compensation Systems, Inc was presented in the Board materials. This Actuarial Valuation Study has an effective date of March 1, 2013 and in its general findings noted that for current employees, the value of benefits "accrued" in the year beginning March 1, 2013 (the normal cost) is $662,466.00. The Study indicated that had the District begun accruing retiree health benefits when each current employee and retiree was hired, the amount that would have accumulated was estimated to be $15,366,693.00. This amount is called the "actuarial accrued liability" (AAL) and the remaining unamortized balance of the initial unfunded AAL

(Unfunded Actuarial Accrued Liability (UAAL)) is $13,396,144.00. This leaves a "residual" AAL $1,970,549.00.

The Actuarial Valuation Study noted that the District has established and is currently funding a GASB 43 trust for future OPEB benefits and has an actuarial value of $167,167.00 as of February 28, 2013. This leaves a residual unfunded actuarial accrued liability (UAAL) of negative $1,803,382.00. Using a 6% discount rate and a 30 year amortization period, the current year cost to amortize the residual unfunded actuarial accrued liability is estimated to be $90,971.00. Combining the normal cost with both the initial and residual UAAL amortization costs produces an Annual Required Contribution (ARC) of $1,517,534.00. The ARC is used as the basis for determining expenses and liabilities under GASB 43/45 and is used in lieu of (rather than in addition to) the "pay-as-you-go" cost.

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

Gail Beal of Keenan Financial Services (KFS) briefly reviewed the administrative processes and procedures for reflecting updates to the District's "Substantive Plan" for fiscal year ending June 30, 2013.

FUTURE TRANSFER OF ASSETS INTO THE TRUST

The current Actuarial Valuation Study reflects an Annual Required Contribution (ARC) of $1,517,534.00 with "Pay-as-you-go" funding in increasing form $548,697.00 in 2013 to $1,092,080.00 in 2022. In this connection, the Board members advised that the District has budgeted $250,000.00 for deposit to the Investment Trust in early 2014.

RETIREMENT BOARD OF AUTHORITY (RBOA) BYLAWS

Board members requested that the RBOA Bylaws template be brought for review and analysis at the next meeting on April 16, 2014.

A motion was made by Board member Rachelle Sasser to defer a review of the RBOA Bylaws template until the next meeting. The motion was seconded by Board member Steve Haigler and unanimously carried by the Board members present.

STAFF ON-LINE ACCESS TO OPEB TRUST ACCOUNT

No action was taken on this Agenda Item by the Retirement Board of Authority (RBOA) as Board Chair Filipe Lopez advised that he wished to download all report requirements himself.

VIII. INFORMATION

RETIREMENT BOARD OF AUTHORITY COMMENTS

There were no Retirement Board of Authority comments.

PROGRAM COORDINATOR/CONSULTANT COMMENTS

There were no Program Coordinator/Consultant comments.

IX. DATE, TIME AND AGENDA ITEMS FOR NEXT MEETING

The next RBOA meeting is scheduled as follows:

- April 16, 2014: 9:00 AM – 11:00 AM.

Agenda items for the next Retirement Board of Authority Meeting will include:

- Approval of Minutes from November 20, 2013 RBOA meeting.
- Market Overview.
- Portfolio Performance Review.
- Disbursement Report.
- Directors' and Offers' Insurance Analysis.
- Retirement Board of Authority (RBOA) Bylaws.

X. ADJOURNMENT

There being no further business to conduct, the Retirement Board of Authority meeting was adjourned at 10:37AM by Gail Beal, Senior Vice President, Keenan Financial Services.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority		DATE:	04/16/2014
SUBJECT: Portfolio Performance Review		ITEM #:	2013/2014-020
		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 OPEB Trust Portfolio Performance Report.

RECOMMENDATION:

The Retirement Board of Authority should review and accept the report and file as appropriate.

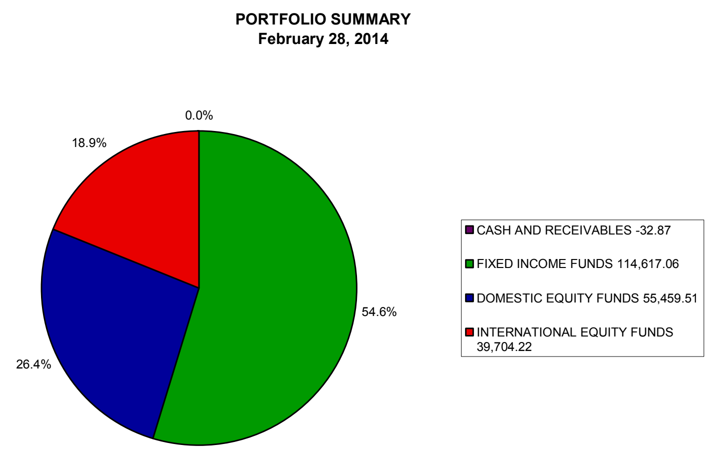
COMPTON COMMUNITY COLLEGE DISTRICT FUTURIS PUBLIC ENTITY INVESTMENT TR

February 28, 2014

Change In Portfolio

Portfolio Value on 12-31-13	206,992.60
Contributions	0.00
Withdrawals	0.00
Change in Market Value	2,435.93
Income Received	639.61
Portfolio Fees	-320.22
Portfolio Value on 02-28-14	209,747.92
	209,747.92

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	2.64	1.49	1.49	-	-	-	6.17
Barclays Aggregate	0.53	2.02	2.02	0.16	3.84	5.14	2.32
S&P 500 Adj for Divs	4.57	0.95	0.95	25.38	14.35	23.00	11.74
Barclays Global Agg Bd Unhedged	1.40	2.47	2.47	1.71	2.93	5.58	3.57
MSCI EAFE	5.56	1.31	1.31	19.28	6.63	17.60	13.49

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	2.55	1.33	1.33	-	-	-	5.63
Barclays Aggregate	0.53	2.02	2.02	0.16	3.84	5.14	2.32
S&P 500 Adj for Divs	4.57	0.95	0.95	25.38	14.35	23.00	11.74
Barclays Global Agg Bd Unhedged	1.40	2.47	2.47	1.71	2.93	5.58	3.57
MSCI EAFE	5.56	1.31	1.31	19.28	6.63	17.60	13.49

PORTFOLIO APPRAISAL

February 28, 2014

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		-32.87		-32.87	0.0	0.0
FIXED INC MUTUAL FUNDS								
Taxable Funds								
1,863.910	DELAWARE DIVERSIFIED INCOME INSTL	DPFF.X	8.96	16,695.24	9.05	16,868.39	8.0	4.0
1,548.443	HARTFORD WORLD BOND I	HWDI.X	10.66	16,505.70	10.67	16,521.89	7.9	1.4
763.154	LEGG MASON BW GLOBAL OPPS BD IS	GOBS.X	11.08	8,457.86	10.93	8,341.27	4.0	4.4
1,552.490	METROPOLITAN WEST TOTAL RETURN BOND I	MWTI.X	10.61	16,470.52	10.71	16,627.17	7.9	2.9
1,329.181	PRUDENTIAL TOTAL RETURN BOND Z	PDBZ.X	14.12	18,762.38	14.22	18,900.95	9.0	3.7
1,439.125	TEMPLETON GLOBAL BOND ADV	TGBA.X	13.08	18,818.55	12.90	18,564.71	8.9	4.0
1,647.036	WESTERN ASSET CORE PLUS BOND INSTL	WACP.X	11.30	18,607.52	11.41	18,792.68	9.0	3.2
				114,317.77		114,617.06	54.6	3.3
				114,317.77		114,617.06	54.6	3.3
DOMESTIC EQUITY FUNDS								
Large Cap Funds								
345.940	BLACKROCK EQUITY DIVIDEND INSTL	MADV.X	22.73	7,864.71	24.14	8,350.99	4.0	1.9
209.456	HARTFORD CAPITAL APPRECIATION Y	HCAY.X	46.88	9,818.48	51.60	10,807.93	5.2	0.6
347.487	JHANCOCK CLASSIC VALUE I	JCVI.X	22.42	7,791.68	24.43	8,489.11	4.0	1.1
172.312	NUVEEN TRADEWINDS VALUE OPPORTUNITIES I	NVOR.X	34.84	6,002.53	36.33	6,260.09	3.0	1.2
				31,477.41		33,908.12	16.2	1.1
Mid Cap Funds								
147.325	COHEN & STEERS INSTL REALTY SHARES	CSRI.X	45.79	6,745.91	44.51	6,557.44	3.1	2.5
148.985	HARTFORD MIDCAP Y	HMDY.X	27.20	4,052.27	30.05	4,477.00	2.1	0.0
				10,798.18		11,034.44	5.3	1.5
Small Cap Funds								
170.597	ROYCE SPECIAL EQUITY INSTL	RSEI.X	24.83	4,236.66	24.47	4,174.51	2.0	0.2
				46,512.25		49,117.07	23.4	1.1

PORTFOLIO APPRAISAL

February 28, 2014

Quantity	Security	Security Symbol	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Cur. Yield
INTERNATIONAL FUNDS								
International								
112.951	AMERICAN FUNDS NEW PERSPECTIVE F2	ANWF.X	38.23	4,318.07	38.09	4,302.30	2.1	1.0
52.859	AMERICAN FUNDS NEW WORLD F-2	NFFF.X	59.43	3,141.24	58.83	3,109.69	1.5	1.3
331.165	BRANDES EMERGING MARKETS I	BEMI.X	9.53	3,155.73	8.83	2,924.19	1.4	2.2
490.665	BRANDES INSTL INTERNATIONAL EQUITY	BIIE.X	15.09	7,406.09	17.15	8,414.90	4.0	2.8
274.222	PRUDENTIAL GLOBAL REAL ESTATE Z	PURZ.X	22.59	6,193.64	22.65	6,211.13	3.0	0.7
609.592	ROYCE GLOBAL VALUE INVMT	RGVI.X	12.81	7,807.54	14.14	8,619.63	4.1	1.1
196.608	THORNBURG INTERNATIONAL VALUE I	TGVI.X	29.71	5,842.03	31.14	6,122.37	2.9	1.3
				37,864.33		39,704.22	18.9	1.5
				37,864.33		39,704.22	18.9	1.5
BALANCED EQUITY FUNDS								
Balanced Funds								
297.209	THORNBURG INVESTMENT INCOME BUILDER I	TIBI.X	20.16	5,992.13	21.34	6,342.44	3.0	4.9
				5,992.13		6,342.44	3.0	4.9
TOTAL PORTFOLIO				**204,653.60**		**209,747.92**	**100.0**	**2.5**

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			

SUBJECT:		ITEM #:	2013/2014-021
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 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 should receive the information and file accordingly.

Futuris

A Keenan Solution

Asset Allocation and Portfolio Updates

Cary M. Allison, CIMA®
Senior Vice President, Senior Investment Management Consultant
December 31, 2013

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	78.5%	58.5%	45.0%	38.0%	25.5%	14.5%
International Intermediate	21.5%	25.5%	22.0%	17.0%	13.5%	9.5%
Total Fixed Income	100%	84%	67%	55%	39%	24%
Grand Total	100%	100%	100%	100%	100%	100%
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									
Hartford Capital Appreciation	Large Growth	HCAYX	0.70%	0%	1%	3%	5%	5%	7%
Blackrock Equity Dividend	Large Value	MADVX	0.72%	0%	2%	3%	4%	5%	7%
John Hancock Classic Value	Large Value	JCVIX	0.88%	0%	2%	4%	4%	6%	7%
			Subtotals	*0%*	*5%*	*10%*	*13%*	*16%*	*21%*
Hartford Midcap	Mid Growth	HMDYX	0.79%	0%	0%	1%	2%	4%	6%
Nuveen Tradewinds Value Opportunities	Mid Blend	NVORX	1.17%	0%	1%	2%	3%	4%	5%
Royce Special Equity	Small Blend	RSEIX	1.05%	0%	1%	1%	2%	4%	5%
			Subtotals	*0%*	*2%*	*4%*	*7%*	*12%*	*16%*
Cohen & Steers Realty Shares	Real Estate	CSRIX	0.75%	0%	1%	2%	3%	4%	4%
Prudential Global Real Estate	Real Estate	PURZX	1.07%	0%	1%	2%	3%	4%	4%
			Subtotals	*0%*	*2%*	*4%*	*6%*	*7%*	*8%*
International/Global Equities									
Royce Global Value	Global SMID	RGVIX	1.63%	0%	1%	3%	4%	5%	6%
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	1.00%	0%	2%	3%	4%	5%	5%
Thornburg International Value	Large Blend	TGVIX	0.89%	0%	1%	3%	3%	5%	5%
Thornburg Investment Income Builder	Global Blend	TIBIX	0.89%	0%	1%	2%	3%	4%	5%
			Subtotals	*0%*	*7%*	*15%*	*19%*	*26%*	*31%*
Total Equities				*0%*	*16%*	*33%*	*45%*	*61%*	*76%*
FIXED INCOME									
Metropolitan West Total Return Bond	Domestic Bond	MWTIX	0.45%	18%	13%	10%	8%	6%	3%
Delaware Diversified Income	Domestic Bond	DPFFX	0.72%	18%	13%	10%	8%	5%	3%
Prudential Total Return Bond Fund	Domestic Bond	PDBZX	0.72%	18%	13%	10%	9%	6%	4%
Western Asset Core Plus Bond	Domestic Bond	WACPX	0.46%	18%	13%	10%	9%	6%	3%
Hartford World Bond Fund	Global Bond	HWDIX	0.78%	13%	13%	10%	8%	5%	3%
Brandywine Global Opportunities Bond	Global Bond	GOBSX	0.65%	5%	6%	5%	4%	3%	2%
Templeton Global Bond Inst	Global Bond	TGBAX	0.67%	10%	13%	12%	9%	8%	6%
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%
Blended Expense Ratio				0.62%	0.68%	0.73%	0.77%	0.81%	0.86%
Performance (as of 12/31/13)									
Qtr				0.94%	1.90%	2.85%	3.43%	4.36%	5.33%
One Year				-0.56%	2.49%	6.25%	8.89%	12.75%	16.92%
Two Years				4.71%	6.68%	8.93%	10.40%	12.62%	14.90%
Three Years				4.95%	5.51%	6.25%	6.69%	7.35%	7.95%
Four Years				6.12%	6.79%	7.60%	8.11%	8.83%	9.60%
Five Years				8.45%	9.31%	10.38%	11.14%	12.15%	13.39%
Six Years				7.63%	7.30%	6.92%	6.27%	5.64%	4.72%

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

Q4 2013 Capital Markets Overview

Introduction

- In the fourth quarter, despite investor anxiety over the Federal Reserve's (the "Fed") Quantitative Ease 3 (QE3) tapering, as well as fiscal concerns in Washington, China and Europe, U.S. equities hit record highs. (QE3 allows the Fed to purchase billions of dollars in mortgage-backed securities to lower long-term interest rates and stimulate housing and other sectors dependent on borrowing.) Investors appeared unmoved by the Fed's December announcement that it will reduce its bond purchases by $10 billion a month.
- The Dow Jones Industrial Average was up 10.2% for the fourth quarter and rose 29.6% for the year. The NASDAQ Composite advanced 11.1% for the quarter and 40.1% for the year. The S&P 500 rose 10.5% for the quarter and 32.4% for the year.
- All 10 sectors of the S&P 500 advanced in the fourth quarter. Industrials rose the most, with a 13.5% uptick. Information Technology rose 13.3% and Consumer Discretionary advanced 10.8%. The laggards were Telecommunication Services, which rose 5.5%, and Utilities, which rose 2.8%.
- Morgan Stanley & Co. LLC economists expect that U.S. real GDP will expand to 1.6% in 2013, thereafter shifting to a sustained pickup in growth of 2.6% in 2014, and 2.7% in 2015. Morgan Stanley economists forecast global GDP growth to be 2.9% in 2013, 3.4% in 2014 and 3.7% in 2015.
- In the fourth quarter, the Dow Jones-UBS Commodity Index fell 1%. Gold continued to decline during the quarter, dropping 9.3%. Commodities fell throughout 2013. The Dow Jones-UBS Commodity Index declined 9.5% for the year, while gold plunged 28%, the yellow metal's worst return since 1981 and first decline since 2000.
- For the fourth quarter of 2013, global mergers-and-acquisitions deal volume was $592.9 billion, compared to $800 billion for the fourth quarter of 2012. Global M&A activity increased to $2.5 trillion in 2013 from $2.4 trillion in 2012.

The U.S. Economy

- The Department of Commerce estimated that Gross Domestic Product grew at an annual rate of 4.1% in the third quarter of 2013, in comparison to 2.5% in the second quarter of 2013. Morgan Stanley & Co. LLC economists forecast that U.S. GDP will grow 1.6% in 2013 and 2.6% in 2014.
- For the quarter, the seasonally adjusted unemployment rate fell from 7.3% for October to 7.0% for November. Job gains in the quarter took place in transportation and warehousing, manufacturing, health care, retail trade, professional and business services, food services and drinking places, and construction. The unemployment rate (7.0%) and the number of unemployed persons (10.9 million) declined in November. The number of long-term unemployed (4.1 million) remained relatively unchanged in November.
- According to the most recent estimate from the Bureau of Economic Analysis, corporate profits rose 1.9% between the second quarter of 2013 and the third quarter of 2013, and rose 5.7% between the third quarter of 2012 and the third quarter of 2013.
- Inflation remained low in the U.S. According to the Bureau of Labor Statistics, the seasonally adjusted Consumer Price Index fell 0.1% in October and was flat in November. Morgan Stanley & Co. LLC economists forecast a 1.5% inflation rate for 2013 and 1.5% for 2014.
- The Census Bureau reported that private-sector housing starts in November 2013 were at a seasonally adjusted annual rate of 1,091,000—29.6% above November 2012 housing starts. The rise in housing starts over the past year confirms that the housing market is in recovery mode.
- The Census Bureau also reported that seasonally adjusted retail and food services sales increased 0.7% between October and November 2013, and increased 4.7% between November 2012 and November 2013.
- In December, the Institute for Supply Management's Purchasing Managers' Index (PMI), a manufacturing-sector index, was 57.0, down 0.3 from November, and up from October's 56.4. The latest PMI data indicates an expansion in the manufacturing sector for seven consecutive months. Overall, PMI has been above 42 for 55 consecutive months. Generally speaking, a PMI or NMI (ISM Non-Manufacturing Index) over 50 indicates that the sector is expanding and a PMI over 42 indicates that the overall economy is expanding.
- The NMI fell 1.5 points to 53.9 between October and November of 2013, and fell 0.9 to 53.0 between November and December of 2013. The index has now been above 50 for 48 consecutive months.

The U.S. Equity Markets

- The Dow Jones Industrial Average was up 10.2% for the fourth quarter and rose 29.6% for the year. The NASDAQ Composite advanced 11.1% for the quarter and 40.1% for the year. The S&P 500 rose 10.5% for the quarter and 32.4% for the year.

- All 10 sectors of the S&P 500 advanced in the fourth quarter. Industrials rose the most, with a 13.5% uptick. Information Technology rose 13.3% and Consumer Discretionary advanced 10.8%. The laggards were Telecommunication Services, which rose 5.5%, and Utilities, which rose 2.8%.

- Both value- and growth-style stocks rose during the fourth quarter, with growth stocks faring slightly better among those of large-cap companies, whereas value performed better than growth among small- and mid-cap companies. The large-cap Russell 1000 Growth Index climbed 10.4%, with the best quarterly showing of the Russell indices referenced here; the index advanced 33.5% for the year. The Russell 1000 Index, a large-cap index, rose 10.2% for the quarter and 33.1% for the year. The large-cap Russell 1000 Value Index rose 10.0% for the quarter and 32.5% for the year. The Russell 2000 Value Index, a small-cap index, rose 9.3% for the quarter and 34.5% for the year.

- The small-cap Russell 2000 Index rose 8.7% for the quarter and 38.8% for the year. The Russell Midcap Value Index advanced 8.6% for the quarter and 33.5% for the year. The Russell Midcap Index rose 8.4% for the quarter and 34.8% for the year. The Russell Midcap Growth Index advanced 8.2% for the quarter and 35.8% for the year. The Russell 2000 Growth Index, a small-cap index, rose 8.1% for the quarter, but had the weakest showing of the quarter compared to the other Russell indices referenced here; the index climbed 43.3% for the year.

- Despite investor concerns over the Fed's QE3 tapering, the CBOE Volatility Index (VIX), the so-called "fear index," fell to 13.7 at the end of the fourth quarter, not far from its six-year low of 11.3 hit in March 2013. Overall, the index declined 22% in 2013, its largest decrease since 2009. The index's end-of-quarter calm is a distinct contrast from its August 8, 2011 high of 48.

Key U.S. Stock Market Index Returns (%) for the Period Ending 12/31/13

	Quarter	12 Months	Five Years (Annualized)	Seven Years (Annualized)
S&P 500	10.5	32.4	17.9	6.1
Dow Jones	10.2	29.6	16.7	7.0
Russell 2000	8.7	38.8	20.1	7.2
Russell Midcap	8.4	34.8	22.4	7.8
Russell 1000	10.2	33.1	18.6	6.4

Source: Morgan Stanley

Past performance is not a guarantee of future results. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes that would affect the performance of actively managed assets.

Global Equity Markets

- In the fourth quarter, emerging markets (EM) and global equities advanced. The MSCI EAFE Index (a benchmark for developed markets) rose 5.8% for U.S.-currency investors and rose 6.4% for local-currency investors, as the U.S. dollar appreciated in relation to the currencies of many nations in the index. In contrast, in the third quarter of 2013, the MSCI EAFE Index rose 11.6% in U.S. dollars and rose 7.5% in local-currency terms. For the year, the MSCI EAFE Index gained 23.3% in U.S. dollars and rose 27.5% in local currencies.

- For the fourth quarter, the MSCI Emerging Markets Index advanced 1.9% for U.S.-currency investors and rose 3.0% for local-currency investors, as the U.S. dollar appreciated in relation to many emerging-market currencies. This contrasts with the previous quarter, when the MSCI Emerging Markets Index rose 5.9% for U.S.-dollar-based investors and rose 5.8% for local-currency investors. For the year, the MSCI Emerging Markets Index fell 2.3% in U.S. dollars and rose 3.8% in local currencies.

- The MSCI Europe Index rose 7.9% for U.S.-currency investors and 6.0% for local-currency investors during the fourth quarter. For the year, the MSCI Europe Index rose 26.0% for U.S. currency investors and advanced 22.3% for local-currency investors. In comparison, the MSCI Far East Index gained 2.3% for the quarter in terms of the U.S. dollar and 8.4% in terms of local currencies. For the year, the MSCI Far East Index rose 23.4% for U.S.-currency investors and climbed 44.9% for local-currency investors.

- More specific emerging economy equity market indices advanced in the fourth quarter. The MSCI BRIC (Brazil, Russia, India and China) Index rose 1.7% for the quarter in U.S. dollars and 3.3% in terms of local currencies. For the year, the MSCI BRIC fell 3.2% in terms of the U.S. dollar and advanced 3.3% in local terms. In comparison, for the fourth quarter, the MSCI EM Asia Index rose 3.7% in U.S.-dollar terms and 3.6% in local terms. For the year, the MSCI EM Asia Index rose 2.6% in terms of the U.S. dollar and gained 5.6% in local terms.

Key Global Equity Market Indices Based on the U.S. Dollar (%) for the Period Ending 12/31/13				
	Quarter	**12 Months**	**Five Years (Annualized)**	**Seven Years (Annualized)**
MSCI EAFE	5.8	23.3	13.0	2.3
MSCI EAFE Growth	5.1	22.9	13.2	3.2
MSCI EAFE Value	6.3	23.6	12.6	1.2
MSCI Europe	7.9	26.0	14.1	2.5
MSCI Japan	2.3	27.4	7.8	(0.2)
MSCI Emerging Markets	1.9	(2.3)	15.1	4.1

Source: Morgan Stanley

Past performance is not a guarantee of future results. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes that would affect the performance of actively managed assets.

The U.S. Bond Market

- In the fourth quarter, the bond market continued to incur losses. The Barclays Capital U.S. Aggregate Bond Index, a general measure of the fixed-income market, declined 0.14% for the quarter. Interest rates climbed during the fourth quarter, as the yield on the 10-Year U.S. Treasury note rose to 3.02% from a low of 2.50% in October.

- Also in the fourth quarter, riskier parts of the bond market, including high-yield debt and corporate credit, built upon their third quarter upswing. As a result, the Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, advanced 3.6% for the quarter, and rose 7.4% for the year.

- 2013 was a difficult year for fixed-income markets; the Barclays Capital U.S. Aggregate Bond Index declined 2.0% for the year, posting its largest annual loss since 1994. Over the year, the yield on the 10-Year U.S. Treasury note increased from historically low levels, ending 2013 with a yield of 3.02%.

- Investors remained wary of mortgage-backed securities in the fourth quarter. Consequently, the Barclays Capital Mortgage Backed Index fell 0.4% for the quarter and was down 1.4% for the year.

- During the fourth quarter, investors continued to shun the municipal bond market. As a result, the Barclays Capital Muni Index rose just 0.3% for the quarter, and fell 2.6% for the year.

U.S. Bond Market Index Returns (%) for the Period Ending 12/31/13

	Quarter	12 Months	Five Years (Annualized)	Seven Years (Annualized)
Barclays Capital U.S. Aggregate	(0.1)	(2.0)	4.4	4.9
Barclays Capital High Yield	3.6	7.4	18.9	8.7
Barclays Capital Govt/Credit	0.0	(2.4)	4.4	5.0
Barclays Capital Government	(0.7)	(2.6)	2.3	4.6
Barclays Capital Intermediate Govt/Credit	0.0	(0.9)	4.0	4.6
Barclays Capital Long Govt/Credit	(0.1)	(8.8)	6.4	6.7
Barclays Capital Mortgage Backed Securities	(0.4)	(1.4)	3.7	4.8
Barclays Capital Muni	0.3	(2.6)	5.9	4.3

Source: Morgan Stanley

Past performance is not a guarantee of future results. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes that would affect the performance of actively managed assets.

INDEX DESCRIPTIONS:

DOW JONES INDUSTRIAL AVERAGE: The most widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue-chip stocks, primarily industrials. The 30 stocks are chosen by the editors of The Wall Street Journal (WSJ) (which is published by Dow Jones & Company), a practice that dates back to the beginning of the century. Charles Dow officially started the Dow in 1896, at which time it consisted of only 11 stocks. The Dow is computed using a price-weighted indexing system, rather than the more common market cap-weighted indexing system. Simply put, the editors at WSJ add up the prices of all the stocks and then divide by the number of stocks in the index. (In actuality, the divisor is much higher today in order to account for stock splits that have occurred in the past.) **DOW JONES-UBS COMMODITY INDEX:** Composed of futures contracts on physical commodities which are traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). **NASDAQ COMPOSITE INDEX:** Covers 4,500 stocks traded over the counter. It represents many small company stocks but is heavily influenced by about 100 of the largest NASDAQ stocks. It is a value-weighted index calculated on price change only and does not include income. **S&P 500 INDEX:** Covers 400 industrial, 40 utility, 20 transportation and 40 financial companies in the U.S. markets (mostly NYSE issues). The index represents about 75% of NYSE market cap and 30% of NYSE issues. It is a capitalization-weighted index calculated on a total-return basis with dividends reinvested. **RUSSELL 1000 INDEX:** Measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $9.9 billion; the median market capitalization was approximately $3.7 billion. The smallest company in the index had an approximate market capitalization of $1,404.7 million. **RUSSELL 1000 GROWTH INDEX:** Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values. **RUSSELL 1000 VALUE INDEX:** Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. **RUSSELL 2000 INDEX:** Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 11% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the average market capitalization was approximately $592.0 million; the median market capitalization was approximately $500.0 million. The largest company in the index had an approximate market capitalization of $1,402.7 million. **RUSSELL 2000 GROWTH INDEX:** Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. **RUSSELL 2000 VALUE INDEX:** Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. **RUSSELL 3000 INDEX:** Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market. **RUSSELL MIDCAP INDEX:** Measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 35% of the total market capitalization of the Russell 1000 Index. As of the latest reconstitution, the average market capitalization was approximately $3.7 billion; the median market capitalization was approximately $2.9 billion. The largest company in the index had an approximate market capitalization of $10.3 billion. **RUSSELL MIDCAP GROWTH INDEX:** Measures the performance of those Russell mid-cap companies with higher price-to-book ratios and higher forecasted growth values. The stocks are also members of the Russell 1000 Growth Index. An investment cannot be made directly in a market index. **RUSSELL MIDCAP VALUE INDEX:** Measures the performance of those Russell mid-cap companies with lower price-to-book ratios and lower forecasted growth values. The stocks are also members of the Russell 1000 Value Index. An investment cannot be made directly in a market index. **VIX INDEX:** (Chicago Board Options Exchange Volatility Index) Estimates volatility in the S&P 500 Index for the next 30 days using a weighted blend of prices for various options on the S&P 500 Index.

THE BARCLAYS CAPITAL U.S. AGGREGATE BOND INDEX: A broad-based benchmark that measures the investment grade, U.S.-dollar-denominated, fixed-rate taxable bond market, including Treasurys, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS. **BARCLAYS CAPITAL GOVERNMENT INDEX:** Barclays Capital Treasury bond and agency bond indices (all publicly issued debt of agencies of the U.S. government, quasi-federal corporations and corporate debt guaranteed by the U.S. government, but no mortgage-backed securities) are combined to form the government bond index. **BARCLAYS CAPITAL U.S. INTERMEDIATE GOVERNMENT/CREDIT BOND INDEX:** The Barclays Capital U.S. Intermediate Government/Credit Bond Index is a total return index consisting of investment-grade corporate debt issues as well as debt issues of U.S. government agencies and the U.S. Treasury. The debt issues all maintain maturities within a range of 1 to 10 years. An investment cannot be made directly in a market index. **BARCLAYS CAPITAL HIGH YIELD INDEX:** The Barclays Capital U.S. High Yield Index covers the universe of fixed-rate, noninvestment-grade debt. Pay-in-kind (PIK) bonds, Eurobonds and debt issues from countries designated as emerging markets (e.g., Argentina, Mexico, Venezuela, etc.) are excluded, but Yankee and global bonds (SEC-registered) of issuers in non-EMG countries are included. Original issue zeroes and step-up coupon structures are also included. Liquidity Rules: All bonds included in the High Yield Index must be dollar-denominated and nonconvertible and have at least one year remaining to maturity and an outstanding par value of at least $150 million. Quality Rating Rules: Securities in the index must be rated Ba1 or lower. If both Moody's and S&P provide a rating for a security, the lower of the two ratings is used. A small number of unrated bonds are included in the index; to be eligible they must have previously held a high-yield rating or have been associated with a high-yield issuer, and must trade accordingly. Components: The index has several subcomponents. Intermediate indices include bonds with remaining maturities of less than 10 years; long indices include bonds with remaining maturities of 10 years or more. The index also has subdivisions by credit quality, and subindices are available that exclude securities in default**. BARCLAYS CAPITAL MUNI INDEX:** The composite measure of the total return performance of the muni bond market. The muni market contains over two million bond issues. The market is divided into seven major sectors: state G.O. debt (31%); prerefunded bonds (7.7%); electric-utility revenue bonds (7.79%); hospital revenue bonds (3.4%); state-housing revenue bonds (3.4%); industrial-development and pollution-control revenue bonds (1.8%); and transportation revenue bonds (7.1%). These weightings are reviewed annually. **BARCLAYS CAPITAL GOVT/CREDIT INDEX:** The U.S. Government/Credit Index is the nonsecuritized component of the U.S. Aggregate Index and was the first macro index launched by Barclays Capital. The U.S. Government/Credit Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year), government-related issues (i.e., agency, sovereign, supranational and local-authority debt) and U.S. dollar corporates. In order to qualify for inclusion in the U.S. Government/Credit Index, a bond or security must have at least one year to maturity; at least $250 million par amount outstanding; must be rated Baa3 by Moody's, BBB- by Standard & Poor's, and BBB- by Fitch Investor Service; must be fixed-rate, although it can carry a coupon that steps up; and it must be U.S.-dollar-denominated. **BARCLAYS CAPITAL LONG GOVERNMENT/CREDIT INDEX:** Composed of all bonds covered by BARCLAYS CAPITAL GCB Index with maturities of 10 years or greater. Total return comprises price appreciation/depreciation and income as a percent of the original investment. Indices are rebalanced monthly by market capitalization. **BARCLAYS CAPITAL MORTGAGE BACKED SECURITIES INDEX:** Includes all fixed securities issued and backed by mortgage pools of Ginnie Mae (GNMA), Fannie Mae (FNMA), Freddie Mac (FHLMC) and half-coupon securities. The index excludes buydowns, graduated equity mortgages (GEM), project loans, nonagency (whole loans), jumbos,

Please refer to important information, disclosures and qualifications at the end of this material.

collateralized mortgage obligations (CMOs), graduated payment mortgages (GPMs), adjustable rate mortgages (ARMs), manufactured home mortgages and prepayment-penalty collateral. Formed by grouping the universes of over one million individual fixed-rate MBS pools into approximately 5,500 generic aggregates. Pool aggregates must be U.S.-dollar-denominated, have at least $250 million current outstanding and average-weighted life of at least one year.

MSCI EUROPE, AUSTRALASIA AND THE FAR EAST ("EAFE") INDEX: A free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. As of May 27, 2010, the index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. **MSCI EUROPE INDEX:** A free-float-adjusted market capitalization-weighted index that is designed to measure developed market equity performance in Europe. As of June 2007, the index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. This series approximates the maximum possible dividend reinvestment. The amount reinvested is the dividend distributed to individuals resident in the country of the company, but does not include tax credits. **MSCI JAPAN INDEX:** A free-float-adjusted market capitalization index that is designed to measure equity market performance in Japan. **MSCI EAFE GROWTH INDEX:** A free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. As of May 27, 2010, the index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The MSCI Global Value and Growth Indices cover the full range of developed, emerging and All Country MSCI International Equity Indices across all size segmentations. MSCI Barra uses a two-dimensional framework for style segmentation in which value and growth securities are categorized using a multifactor approach, which uses three variables to define the value investment-style characteristics and five variables to define the growth investment-style characteristics, including forward-looking variables. The objective of the index design is to divide constituents of an underlying MSCI Equity Index into respective value and growth indices, each targeting 50% of the free-float-adjusted market capitalization of the underlying market index. **MSCI EAFE VALUE INDEX:** A free-float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. As of May 27, 2010, the index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The MSCI Value and Growth Indices cover the full range of developed, emerging and All Country MSCI Equity Indices. As of the close of May 30, 2003, MSCI implemented an enhanced methodology for the MSCI Global Value and Growth Indices, adopting a two-dimensional framework for style segmentation in which value and growth securities are categorized using different attributes: three for value and five for growth including forward-looking variables. The objective of the index design is to divide constituents of an underlying MSCI Standard Country Index into a value index and a growth index, each targeting 50% of the free-float-adjusted market capitalization of the underlying country index. Country Value/Growth indices are then aggregated into regional value/growth indices. Prior to May 30, 2003, the indices used price/book value (P/BV) ratios to divide the standard MSCI country indices into value and growth indices. All securities were classified as either "value" securities (low P/BV securities) or "growth" securities (high P/BV securities), relative to each MSCI country index. **MSCI FAR EAST INDEX:** A free-float-adjusted market capitalization weighted index that is designed to measure developed market equity performance in the Far East. As of March 2010, the index consists of the following three developed country indices: Japan, Hong Kong and Singapore. **MSCI EMERGING MARKETS INDEX:** A free-float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of May 27, 2010, the index consisted of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey. **MSCI BRIC INDEX:** A free-float-adjusted market capitalization index that measures equity market performance in larger emerging markets. The index consists of the following emerging market country indices: Brazil, Russia, India and China. **MSCI EM ASIA INDEX:** A free-float-adjusted market capitalization index that measures equity market performance in emerging markets in Asia. The index consists of the following emerging market country indices: China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan and Thailand. **MSCI ALL COUNTRY WORLD INDEX:** A free-float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The index consists of 45 country indices comprising 24 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand and Turkey.

CONSUMER PRICE INDEX (CPI) includes monthly data on changes in the prices paid by urban consumers for a representative basket of goods and services.

INSTITUTE FOR SUPPLY MANAGEMENT'S PURCHASING MANAGERS' INDEX (PMI): An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. A PMI of more than 50 represents expansion of the manufacturing sector, compared to the previous month. A reading under 50 represents a contraction, while a reading at 50 indicates no change. **ISM NON-MANUFACTURING INDEX (NMI):** An index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys that monitors economic conditions of the nation.

CBOE VOLATILITY INDEX: The CBOE Volatility Index—more commonly referred to as "VIX"—is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500® Index (SPX) option bid/ask quotes. VIX uses nearby and second nearby options with at least eight days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index.

Please refer to important information, disclosures and qualifications at the end of this material.

DISCLOSURES

Although the statements of fact and data in this report have been obtained from, and are based upon, sources the firm believes reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. All opinions included in this report constitute the firm's judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. This report may contain forward-looking statements, and there can be no guarantee that they will come to pass. Past performance is not a guarantee of future results.

The indices are unmanaged, and an investor cannot invest directly in an index. The indices are shown for illustrative purposes only and do not represent the performance of any specific investment. Index returns consist of income and capital appreciation (or depreciation) and do not take into account fees, taxes or other charges. Such fees and charges would reduce performance. Index performance is calculated on a total return basis and assumes that dividends and distributions were reinvested. Index returns do not include any expenses, fees or sales charges, which would lower performance.

To the extent the investments depicted herein represent **international securities**, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes and differences in financial and accounting standards. These risks may be magnified in **emerging markets**. International investing may not be for everyone. **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. **Small- and mid-capitalization companies** may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, 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. With respect to fixed-income securities, please note that, in general, as prevailing interest rates rise, fixed-income securities prices fall. **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. **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.

2014-PS-47
(1/2014)

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-022
Education		Enclosure:	Yes
		Action Item	No

Prepared by:	Morgan Stanley Wealth Management (MS)
Requested by:	Retirement Board of Authority

BACKGROUND:

The investment of public funds carries with it certain fiduciary duties and therefore also potential liability for fiduciaries. The District's OPEB Investment Trust Program has been designed to help the Retirement Board of Authority to mitigate its potential fiduciary liability.

STATUS:

A Morgan Stanley Analysis of the 2014/2015 US Economy entitled ***"US Economic Outlook: Hard Winter and a Spring Thaw"*** will be presented by Cary Allison of Morgan Stanley Wealth Management.

RECOMMENDATION:

The Retirement Board of Authority shall hear and receive the information presented by Cary Allison of Morgan Stanley Wealth Management (MS).

March 16, 2014

MORGAN STANLEY & CO. LLC
Vincent Reinhart
Vincent.Reinhart@morganstanley.com +1 212 761-3537
Ellen Zentner
Ellen.Zentner@morganstanley.com +1 212 296-4882
Ted Wieseman
Ted.Wieseman@morganstanley.com +1 212 761-3407
Dane M Vrabac
Dane.Vrabac@morganstanley.com +1 212 761-1929
John Abraham
John.A.Abraham@morganstanley.com +1 212 761-5629

US Economics

US Economic Outlook: Hard Winter and a Spring Thaw

The harsh winter weather in the US has been hard to bear and obscures near-term economic trends. Smoothing through these effects, we believe that domestic spending retains vigor underneath the recent crust of ice. After Q1, the economy should rebound like an uncoiling spring on the expression of pent-up demand. Over our forecast horizon, real GDP expands at a 2.7 percent pace this year (4Q/4Q) and only a touch slower in 2015.

Forecast Update (4Q/4Q)

		New Forecast		Previous	
	2013	2014	2015	2014	2015
Real GDP	**2.5**	**2.7**	**2.6**	**2.9**	**2.6**
Final Sales	1.8	3.0	2.9	2.7	2.8
Final Domestic Demand	1.5	3.1	2.7	2.9	2.9
PCE	2.2	2.8	2.7	2.5	2.6
Business Fixed Investment	3.0	6.3	4.5	6.1	5.5
Residential Fixed Investment	6.6	11.4	8.3	11.6	9.3
Exports	4.9	4.1	6.1	5.1	5.2
Imports	2.8	4.6	4.0	5.4	5.1
Government	-2.5	0.7	0.4	0.3	0.7
CPI	**1.2**	**1.8**	**1.7**	**1.6**	**1.6**
Core PCEPI	**1.2**	**1.5**	**1.8**	**1.6**	**1.9**
Unemployment Rate (End of Period)	**7.0**	**5.8**	**5.4**	**6.4**	**5.7**

Source: Morgan Stanley Research

Hard Winter and a Spring Thaw

Background and Baseline

The changeable, often harsh, weather in the US has been hard to bear and obscures near-term economic trends. At Morgan Stanley, we have the advantage of being data collectors as well as observers. Our AlphaWise Macro team cuts a wide swath through a thicket of high-frequency data on spending, activity, and employment to make calls on key macro releases and aggregate economic momentum. Their source material, which shows the geographic footprint of weather effects, inclines us to believe that **domestic spending retains vigor underneath the recent crust of ice.**

In the MS forecast, real GDP is expected to move up to a growth channel centered around 2-3/4 percent for this year and next (%Y). While weather disruptions weaken the first-quarter outcome this year, we expect the economy to rebound like an uncoiling spring on the expression of pent-up demand in the second quarter. On average, **real GDP expands at 2.7 percent this year (4Q/4Q) and only a touch slower in 2015.**

This forecast for aggregate demand does not differ much from our prior one three months ago. As was the case then, we believe that **housing activity has more room to run and personal consumption expenditures are supported by improving sentiment on the back of significant wealth creation and stronger wage and salary growth**. Over the past 1-1/2 years, households have seen their net wealth rise by the equivalent of three-quarters of a year's income, and wages and salaries are in the nascent throes of a pickup. With firms racking up sales and expecting more, capital spending should amplify this impetus.

Forecast Update (4Q/4Q)

		New Forecast		Previous	
	2013	2014	2015	2014	2015
Real GDP	**2.5**	**2.7**	**2.6**	**2.9**	**2.6**
Final Sales	1.8	3.0	2.9	2.7	2.8
Final Domestic Demand	1.5	3.1	2.7	2.9	2.9
PCE	2.2	2.8	2.7	2.5	2.6
Business Fixed Investment	3.0	6.3	4.5	6.1	5.5
Residential Fixed Investment	6.6	11.4	8.3	11.6	9.3
Exports	4.9	4.1	6.1	5.1	5.2
Imports	2.8	4.6	4.0	5.4	5.1
Government	-2.5	0.7	0.4	0.3	0.7
CPI	**1.2**	**1.8**	**1.7**	**1.6**	**1.6**
Core PCEPI	**1.2**	**1.5**	**1.8**	**1.6**	**1.9**
Unemployment Rate (End of Period)	**7.0**	**5.8**	**5.4**	**6.4**	**5.7**

Source: Morgan Stanley Research

Once past the weather disruptions, **we expect job gains to coalesce around 200,000, on net, each month.** Although our analysis resigns us to the view that a significant portion of the decline in labor force participation owes to secular forces, improvement in the cyclical forces will be just enough to slow the descent of the unemployment rate over the rest of this year. Still, with the unemployment rate around 5-3/4 percent by year-end, **the economy will have worked off labor market slack and will likely spend all of 2015 below its natural rate of unemployment**.

The Yellen-led Fed, however, will not be in any hurry to lift rates. In fact, we think 2014 will be the year that the Fed rediscovers that inflation is low. Core PCE inflation opened the year almost 1 percentage point below the Fed's long-run goal of 2 percent, and the Committee will likely judge that resource slack prevails over most of 2014. In our forecast for 2015, real GDP surpasses potential output, but **the force of excess demand exerts only weak impetus to inflation**. With the Fed showing itself to be the first G-4 central bank heading for the exit, and emerging market economies expected to stabilize at a lower growth rate, the dollar should strengthen and commodity prices stay subdued. In this recipe, **inflation moves up slowly over the next seven quarters, tracking below the Fed's goal throughout the forecast horizon**. Indeed, we have penciled in the **first rate hike for early 2016.**

Risks to the Outlook

Bull and Bear

Bear Case

The clearest downside risk to the US outlook is our call that capital spending is a constructive contributor to economic growth. The world is a riskier place and firms announcing capital expansion plans have thus far been punished, not rewarded, in equity markets. In our bear case, we assume that the economy remains stuck in its 2-percent growth channel as households and firms remain cautious and the global expansion flags.

In this scenario, the unemployment rate levels out at year-end at 6 percent, its natural rate. Inflation moves sideways at about 1-1/2 percent over the duration of our forecast. As a result, asset purchases level out around midyear at half their original pace of $85 billion.

With even more white space between inflation and the Fed's goal, the onset of tightening is pushed one-half year further into 2016. This is consistent with the rule of thumb from the Fed staff's model that a 1/4 percentage point lower initial inflation rate delays the date of the first rate hike by two quarters.

Bull Case

The 3/4 percentage point pickup in real GDP growth of our baseline forecast in 2014 is tepid by historical standards. An alternative to consider is the more historically relevant reaction to extraordinary increases in wealth. Consumer spending typically surges. CEOs get bulled up to the point that their enthusiasm is hard to contain. Our bull case, therefore, is our base case on fast forward.

Households become emboldened to re-leverage and Capex steps up smartly in anticipation of greater sales. Real GDP expands at a 3 3/4 percent rate over the four quarters of 2014 and 2015. The unemployment rate pierces the lower bound of the Fed's overly sanguine estimate of its natural rate this year and moves further south into late-1990's territory next year.

While inflation is not very responsive to excess demand, there would be a tremendous amount of excess demand under this scenario. By the end of the forecast horizon, PCE inflation would be running at a 2-1/2 percent pace. The Yellen-led Fed is forced to bow to the evidence of stronger growth and higher inflation and starts to hike rates aggressively in early 2015.

Exhibit 1: Base-Bull-Bear Scenarios

	2013		2014			2015	
(Year over Year)	Base	Bear	Base	Bull	Bear	Base	Bull
Real GDP	1.9	2.3	2.7	3.2	2.3	2.8	4.1
Final Sales	1.7	2.3	2.6	3.1	2.5	3.0	4.1
Final Domestic Demand	1.5	2.3	2.5	2.8	2.5	2.9	3.6
PCE	2.0	2.4	2.5	2.9	2.3	2.7	3.1
Business Fixed Investment	2.8	4.9	6.1	6.6	4.0	5.2	9.6
Residential Fixed Investment	12.2	5.6	6.3	6.7	11.8	10.7	9.5
Exports	2.7	3.5	4.7	6.5	5.1	5.8	7.1
Imports	1.4	3.3	3.6	3.6	4.7	4.7	3.6
Government	-2.3	-0.5	-0.5	-0.5	0.4	0.4	0.4
CPI	1.5	1.4	1.6	2.0	1.4	1.6	2.6
Unemployment Rate (End of Period)	7.0	6.1	5.8	5.3	6.0	5.4	4.4

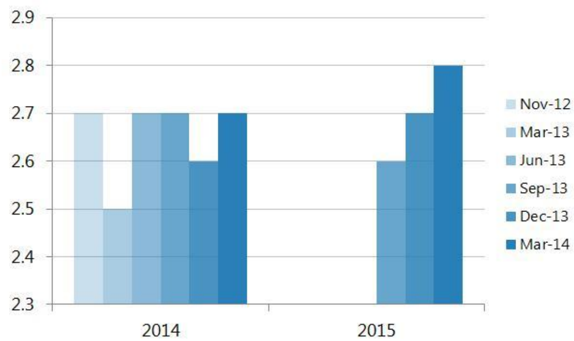
Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Morgan Stanley Research

Forecast Vintages and How We Compare to Consensus

The next few charts put our latest forecast in perspective. As can be seen in Exhibit 2, the vintages of our real GDP outlook for 2014 and 2015 cluster in a narrow channel centered a touch above 2-1/2% (note the compressed scale). Essentially, we have stuck to the view that the waning drag of the financial crisis allows a modest cyclical pickup.

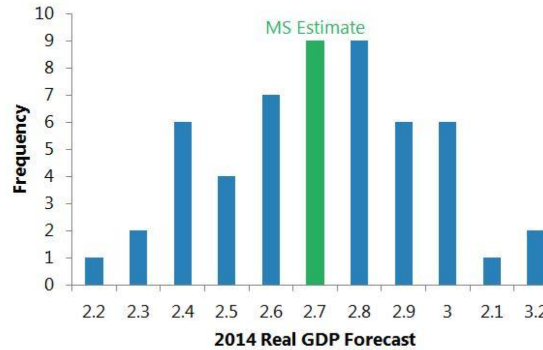
This outcome for 2014 real GDP growth is squarely in the middle of the pack for respondents to the Bloomberg survey of economists (Exhibit 3). We appear a little less fearful of inflation (Exhibit 4) and downright lonely in our view about how far the unemployment rate will fall (Exhibit 5). We believe that the forces of domestic and external impetus to inflation will be modest in 2014 and that there is a significant secular limit on the expansion of the workforce.

Exhibit 2: How has our Real GDP forecast changed?



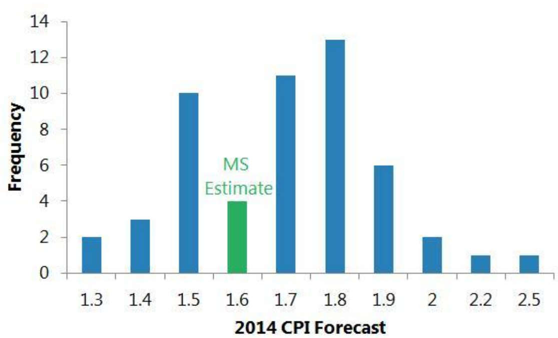
Source: Morgan Stanley Research

Exhibit 3: 2014 GDP: Morgan Stanley vs Consensus



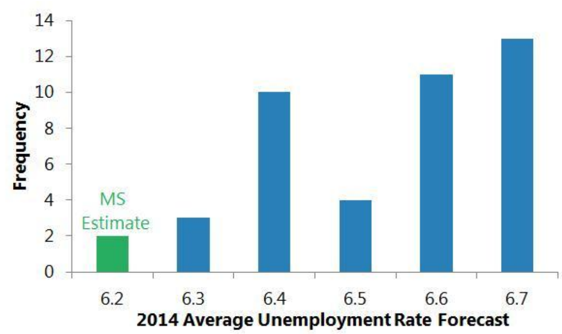
Source: Bloomberg, Morgan Stanley Research

Exhibit 4: 2014 CPI: Morgan Stanley vs Consensus



Source: Bloomberg, Morgan Stanley Research

Exhibit 5: 2014 Unemployment (EOP): Morgan Stanley vs Consensus



Source: Bloomberg, Morgan Stanley Research

Business Investment

Corporate Financial Health

Flow of Funds data from the Federal Reserve show that the **net worth of the nonfinancial corporate sector rose to a record $20.0 trillion** in 4Q13. Furthermore, corporate book value gained 10.9% over the year, the highest since 2007. Corporate debt as a share of net worth dipped to 47.1% in the final quarter of 2013, a five-year low. **Companies continued to hold a tremendous amount of cash – a bit above $2 trillion in 4Q13 –** as the aggregate corporate sector continued an unprecedented run of negative financing gaps, meaning that investment spending was less than internal company cash flow. After paying taxes and dividends, the nonfinancial corporate sector had $1.8 trillion in annualized retained profits in 4Q13 and only invested $1.65 trillion, leaving a financing gap of -$154 billion.

We've seen an unprecedented twenty straight quarters of aggregate corporate free cash flow generation. The only other time historically anywhere close to that was in the late 1950's and early 1960's. **When companies s ee the pickup in aggregate demand we are anticipating, they certainly have the wherewithal to respond by investing more and hiring additional workers.**

Capex historically swings in a high arc relative to headline GDP, consistent with the idea that managements of nonfinancial firms travel in a tightly packed herd. **Cash on their balance sheets is ample to fund any newfound enthusiasm for fixed investment.**

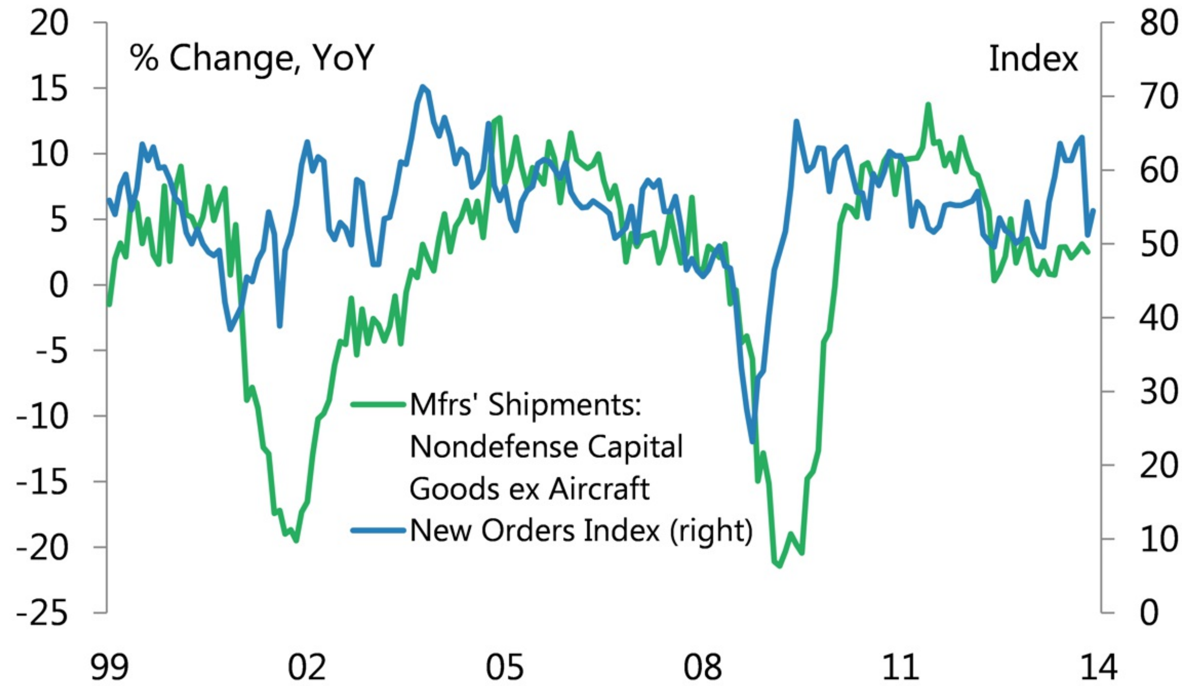
Playing Catch-Up

Investment activity began picking up materially toward the end of 2013 before getting snagged by severe weather ("Countdown Complete: Ready for Launch", January 3, 2014). As we've discussed previously, activity has been delayed, not derailed. Our freight transportation analysts have noted that sentiment around current demand, supply, and rates has been trending higher, "mainly driven by weather-related backlogs and supply disruptions." **Freight transportation is a high-frequency indicator of overall investment and industrial activity and provides evidence of the coming rebound in investment as the weather normalizes**.

Similar sentiment could be found in the February ISM report on manufacturing. After plummeting by an alarming five points in January, the manufacturing index rebounded by a mere two points in February. ISM survey head Bradley Holcomb called some of the results "convoluted" and said weather likely played a role in the moves in inventories, supplier deliveries, and production while noting "broad based optimism" about underlying order trends. **As weather conditions normalize, we expect the ISM will further rebound with a better component mix moving into the spring**.

Not only does the current ISM survey release date precede data on durable goods orders by nearly one month, survey results also tend to reflect expectations even though participants are asked about current activity. As a result, **the ISM index for new orders tends to lead core capital goods shipments** (which is when orders are counted in GDP) by about 3 months.

Exhibit 6: ISM New Orders Index vs Core Capital Goods Shipments



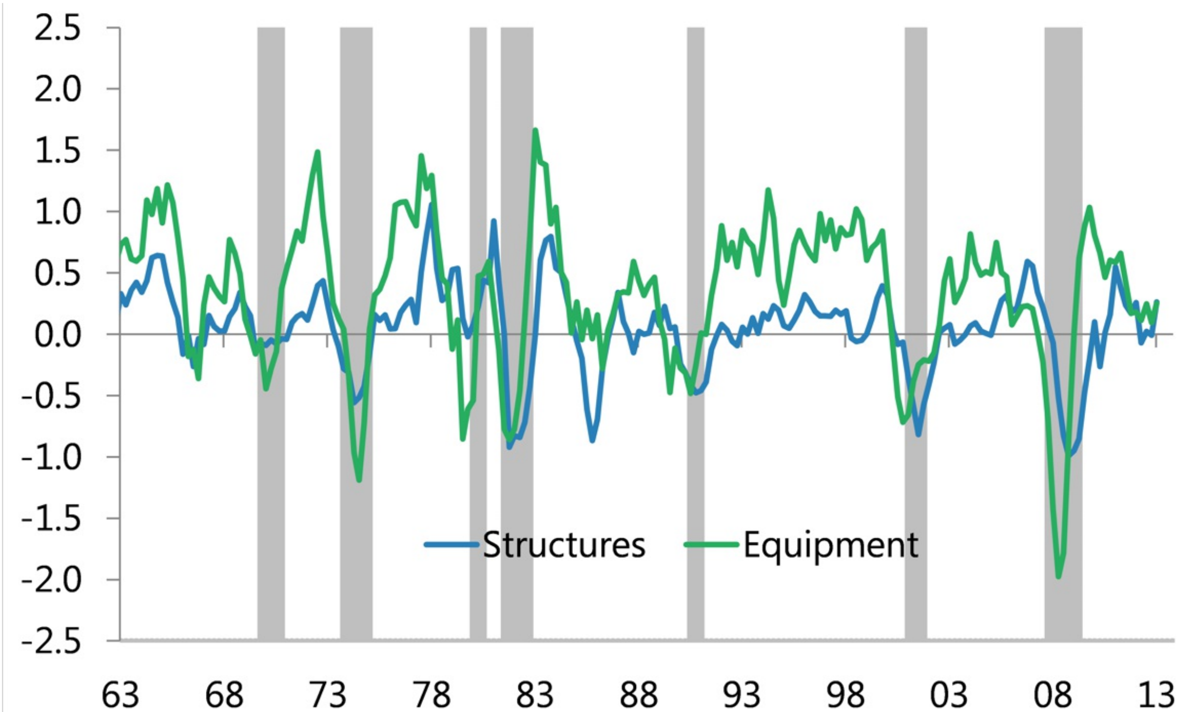
Source: Census Bureau, ISM, Morgan Stanley Research

At the start of the year, unfilled capital goods orders experienced the biggest gain in five months as temporary weather disruptions slowed January shipments in relation to the pace of orders. Moreover, a recovery in the new orders index in February and March (expected) suggests **the pace of real investment in equipment will average an annual growth rate of 8.0% in 1H14 (with particular emphasis on the 2Q rebound) compared with 5.4% in 2H13**.

The Business Cycle

Looking at investment in the context of the business cycle provides a useful framework for analyzing specific sectors. For example, being highly interest rate sensitive, residential investment tends to lead the business cycle while investment in equipment tends to be coincident and spending on structures (commercial real estate) tends to lag. While troubles with mortgage financing delayed the turnaround in housing after the most recent recession and financial crisis, movements in equipment and structures investment have followed their prescribed path. The exhibit below depicts the equipment and structures contribution to growth in real GDP over the business cycle.

Exhibit 7: Investment in Structures and Equipment: Contribution to Real GDP Growth



Source: Bureau of Economic Analysis, Morgan Stanley Research

Following the most recent recession, growth in spending on equipment soared at double-digit rates in 2010 and 2011, then slowed as the recovery matured. In 2013, the contribution to GDP growth from equipment slowed sharply to just 0.2 percentage points (pp) after averaging 0.6pp over the past three years. Looking at the quarterly pattern we can see that the contribution was damaged around the time of the fiscal cliff (0.09 in 1Q) and again at the start of the sequester (0.02 in 3Q), **implying that both uncertainty around fiscal policy and government spending cuts were influential factors affecting business activity and investment decisions**. By the final quarter of the year, the contribution to growth from equipment investment jumped to 0.6pp, well above its long-term historical average of 0.3pp. **Over our forecast horizon, we expect growth in equipment investment to return to pre-fiscal-contraction rates and continue to be an above-trend contributor to GDP.**

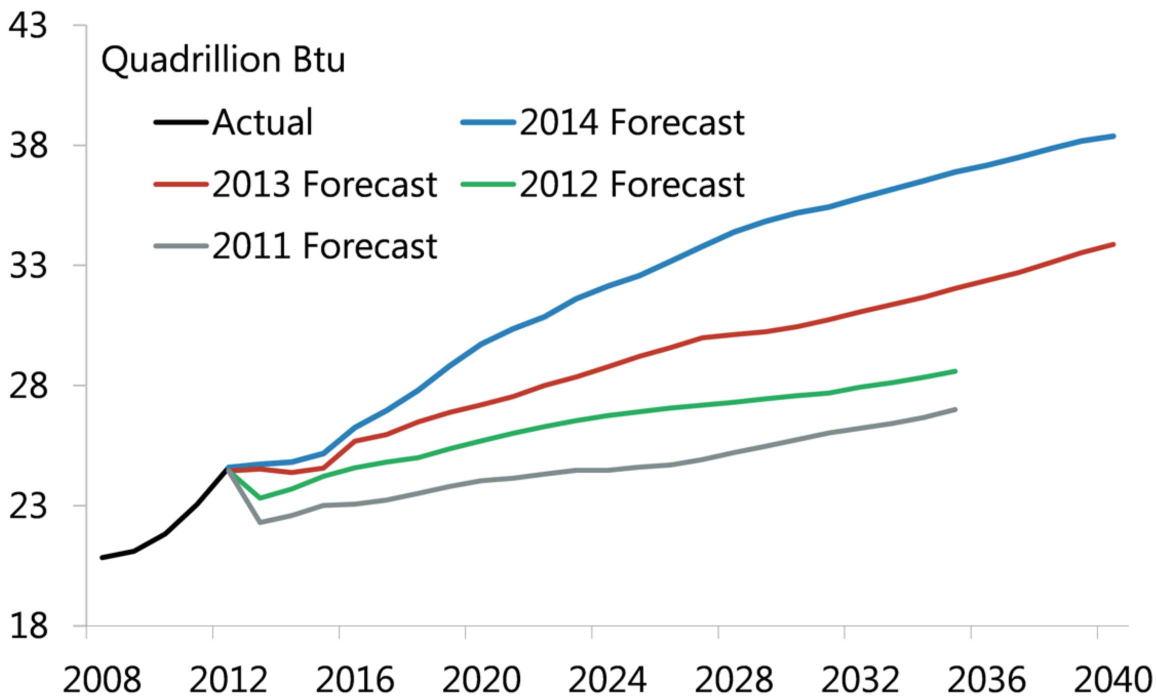
Spending on structures, and its quarterly contribution to GDP, has been more volatile. Historically, this category has contributed 0.07pp to GDP growth on average and came in just below that, at 0.04pp, in 2013. **Lending conditions and demand for commercial real estate loans, as reported in the Federal Reserve's quarterly Senior Loan Officer Opinion Survey, continue to trend higher and remain supportive of growth.** Looking ahead, we expect investment in structures to be an on-trend contributor to GDP growth, accounting for an annual average 0.1pp over our forecast horizon.

Energy Infrastructure

In its early 2014 release of the Annual Energy Outlook, the Energy Information Administration (EIA) concluded that, "Growing domestic production of natural gas and crude oil continues to reshape the U.S. energy economy."

To be sure, in just 10 years the balance of natural gas reserves has doubled in the US and **rising production and investment in the area of natural gas extraction have been important contributors to growth in US GDP**. Moreover, forecasts for annual production of natural gas by the EIA continue to move higher.

Exhibit 8: EIA Projections of Dry Natural Gas Production



Source: EIA, Morgan Stanley Research

Notwithstanding the transitory impact from the unusually severe 2013-14 winter, natural gas prices are expected to remain favorable over the long run and provide an economic lift to natural gas intensive industries. **Chemicals, manufacturing, and power generation are the biggest users of natural gas and stand to benefit most from low, affordable, and stable prices**. In addition, the supply chain for energy infrastructure spending is heavily domestic; in other words, the technology and manufacturing used is home grown.

Housing

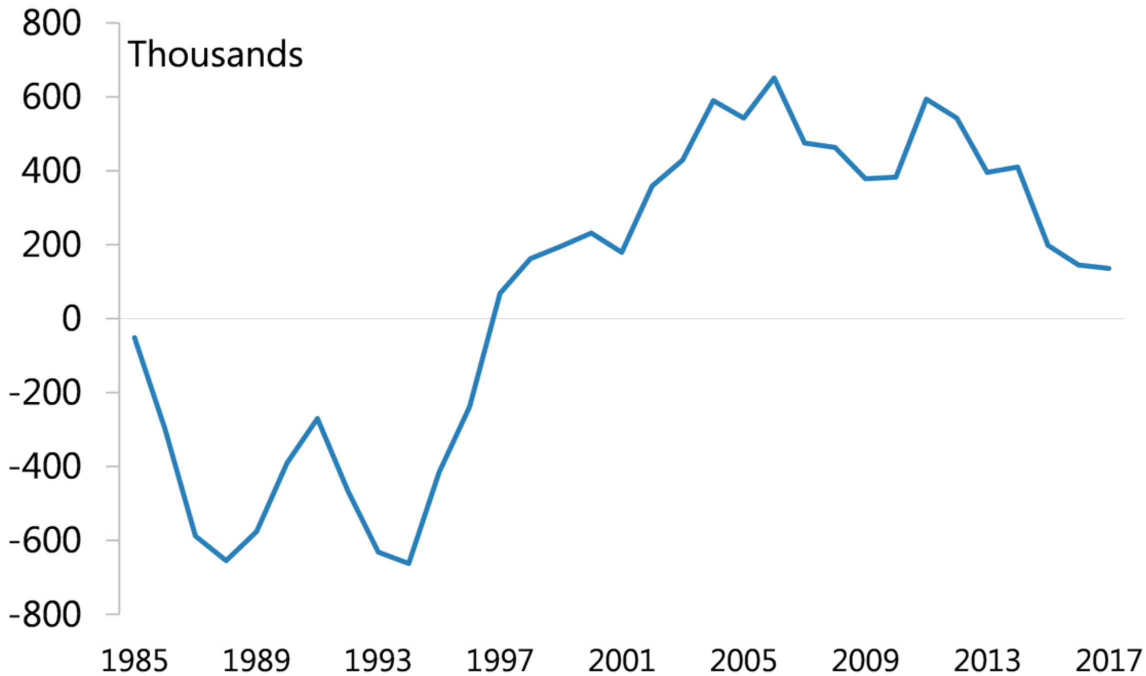
How Much Room to Run?

Residential investment has been a steady, solid contributor to the economic recovery in recent years, adding 0.15 percentage points to GDP growth in 2011, 0.4pp in 2012, and 0.2pp in 2013. In the past three years, real residential investment has risen at a better than 9 percent annual rate, the strongest run since the early 1990's. Over that time, housing starts have doubled. **With such an impressive, albeit lagged, recovery, has housing run out of steam? We don't think so.** Simply put, as much as new construction has rebounded from the record lows, **we're still not building nearly enough new homes to accommodate the likely number of new households in coming years**.

Demographic Trends

Growth in the number of households is determined by growth in the number of adults and the rate at which adults form independent households. Most important is growth in the number of people in their 20's, who are most likely to form new households, as these young adults move out from their parents' homes into their own, or stop living with roommates to live on their own. **Underlying growth in this key demographic for the housing market has been robust recently in the US and will likely remain so for a number of years to come**, as the large "echo boomers" generation moves into adulthood. The total age 16+ population grew by 2.4 million in 2012, of which the 20-29 year-olds represented 542,000 (1.3% growth for this group), while most of the rest was in the 65 and older group. Despite strong growth in recent years in the number of young adults, **the number of households headed by people less than 30 years old has plummeted in recent years**, falling by nearly a million from the end of 2007 to the end of 2012.

Exhibit 9: Growth in the 20-29 Year-Old Population



Source: Census Bureau, Morgan Stanley Research

The substantial decline in the household headship rate of young adults in recent years is a cyclical phenomenon. College and high school graduates unable to find work, or who are forced to work part-time because they can't find full-time work, have remained with or moved back in with their parents (or grouped with roommates) in significantly greater numbers and for longer than normal. That was a major reason for growth in households trailing far behind growth in adults since the most recent recession ended. From the fourth quarter of 2007 to the fourth quarter of 2013 the number of households grew by 0.5% annualized, only half of the 1.0% a year growth in the adult population. Over this same period, the number of household formations was only 542,000, though underlying demographics indicted a trend twice as high. **But more recently, as the labor market is starting to show more pronounced improvement, that trend has gradually started to turn**.

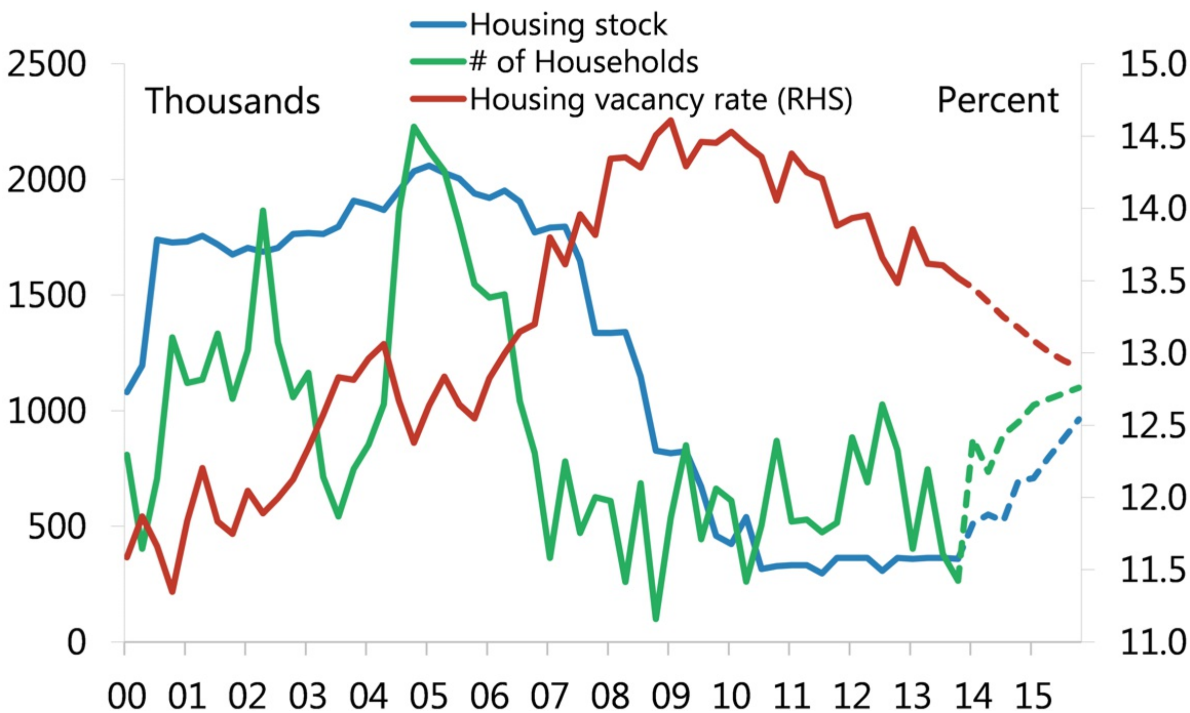
Labor Market Strength Helps

In the key young adults demographic, the number of household heads less than 30 years old rose by 177,000 in 2013 after a nearly 1 million drop in the prior five years. As the job market continues to improve and we move closer to full employment by the end of this year, **we expect household formation rates to normalize more in line with the underlying demographic trend**. We're assuming growth in new households of 950,000 over the four quarters of 2014 and 1.1 million in 2015, moving closer to the long-run underlying demographic trend (estimated at 1.2 to 1.3 million a year through 2020 by the Joint Center for Housing Studies at Harvard University, see "The State of the Nation's Housing, 2013").

Even at recent cyclically depressed rates of household formation, **not enough new houses are currently being built to keep up with the expanding population**, and that's been the case for several years now. The housing stock grew by a mere 362,000 units in 2013 and an average of only 361,000 a year over the past four years. Housing starts have seen a large but only partial recovery from record lows reached during the recession, rising to 1.02 million in 4Q 2013 from as low as 526,000 in 1Q 2009. Yet **under-building has been so pronounced in recent years that the existing housing stock seems to be falling**

apart, and depreciation rates are hitting record high levels. There were 862,000 (annualized) new housing units completed in the fourth quarter of 2013 – 587,000 single-family homes, 219,000 multi-family units, and 56,000 mobile home placements – but the housing stock grew at only a 360,000 unit annual rate, an implied scrappage/demolition rate of over 500,000 old homes a year - well in excess of historical norms.

Exhibit 10: Fundamental Drivers of Housing Demand



Source: Census Bureau, Morgan Stanley Research

As the economic recovery continues and household formations start to pace more in line with underlying demographics, **the rebound in residential investment should have further room to run**. Relative to the 1 million pace of starts reached in Q4 2013 before recent weather disruptions, a trend pace of household formations in coming years that reaches 1.2 to 1.3 million per year and scrappage of the existing housing stock moderating to a somewhat more historically normal 200,000 units per year, should support **a further 50 percent rise in starts in coming years - to a sustainable annual 1.4 to 1.5 million units.**

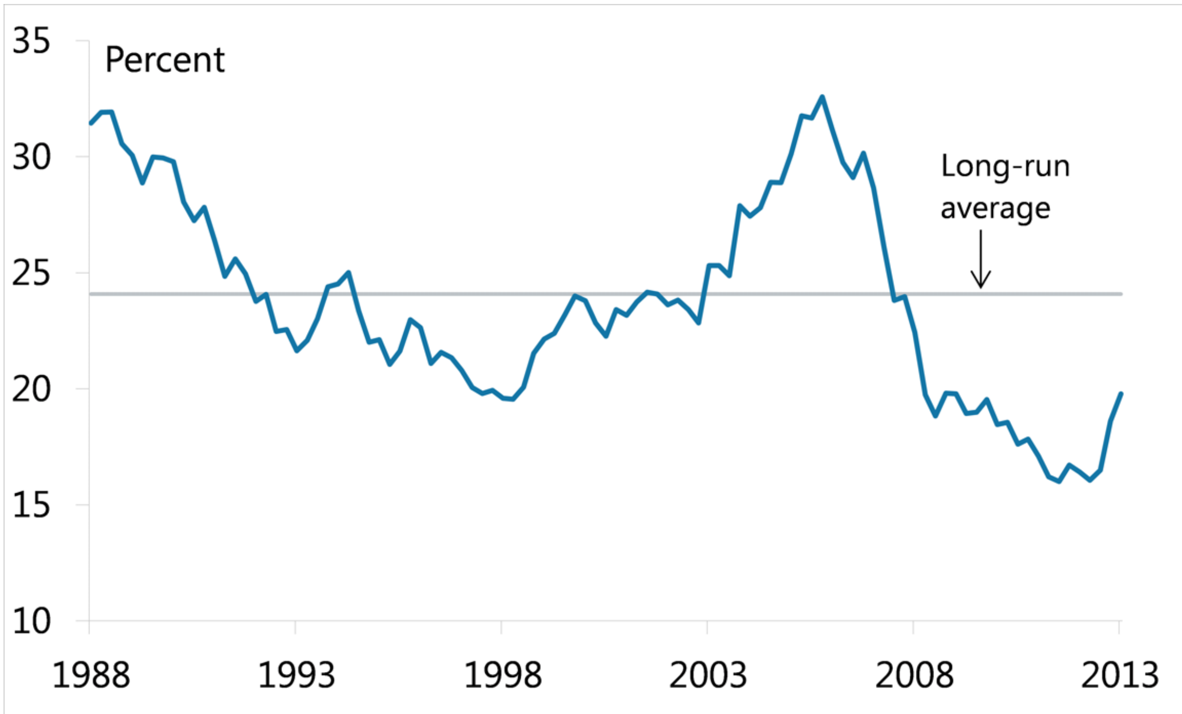
This estimate does not include the upside possibility of a temporary period of stronger pace of household formations if the large undershoot in recent years among young adults in particular were to experience a catch-up reversal as those people move into their 30's. Our baseline forecasts show a gradual move towards the longer-run sustainable trend over our forecast horizon once we get through current weather noise. **We look for the annualized pace of housing starts to rise from 1.0 million in 4Q 2013 to 1.1 million in 4Q 2014 and 1.3 million in 4Q 2015.**

Home Prices and Affordability

The housing recovery is maturing, and as such, home price growth will naturally slow. Morgan Stanley's Housing and Securitized Products Strategy team expects **home prices to grow by an additional 5-7 percent in 2014** compared with 8-10 percent in 2013, and slowing further over 2015 (see "Housing: Room to Run", 19 February, 2014). Our housing team also views affordability as remaining favorable in the aggregate.

Mortgage rates increased sharply in summer 2013 and as such, mortgage payments are less affordable today than they were just 6 months ago. However, **mortgage payments as a percentage of income remain substantially more affordable compared with the historical norms**.

Exhibit 11: Monthly Mortgage Payment as a Share of Income



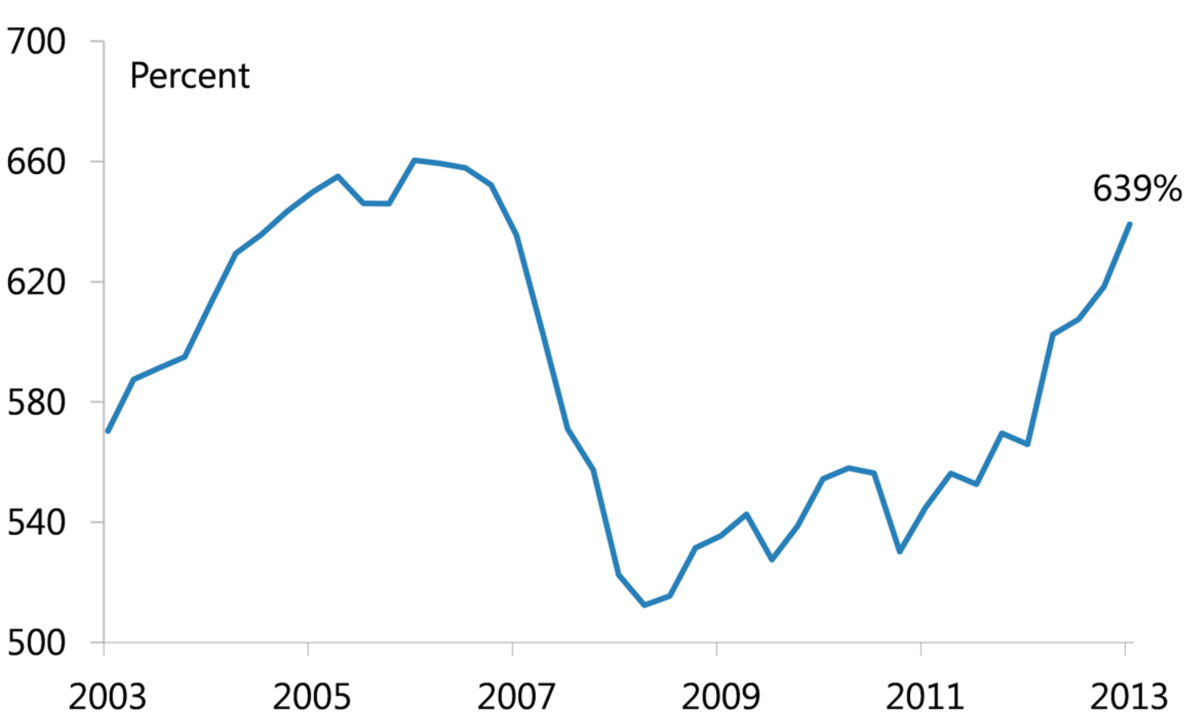
Source: Case-Shiller, National Association of Realtors, Freddie Mac, Tax Foundation, Morgan Stanley Research

Consumer

The Hand-Off

Owing to gains in residential real estate and equity prices over the past few years, as well as a more prudent consumer, household net worth has climbed to new highs. Indeed, as a share of disposable income, net worth has risen by 127 percentage points since the cyclical low in 1Q 2009. Moreover, gasoline prices have remained fairly stable, and still-low levels of interest rates have further eased financial burdens. Indeed, five years following the financial crisis, household balance sheet adjustments - outside of mortgages - are largely complete and measures of consumer confidence have finally risen into the territory of "normal" levels seen in past recoveries.

Exhibit 12: Household Net Worth as a Share of Disposable Personal Income



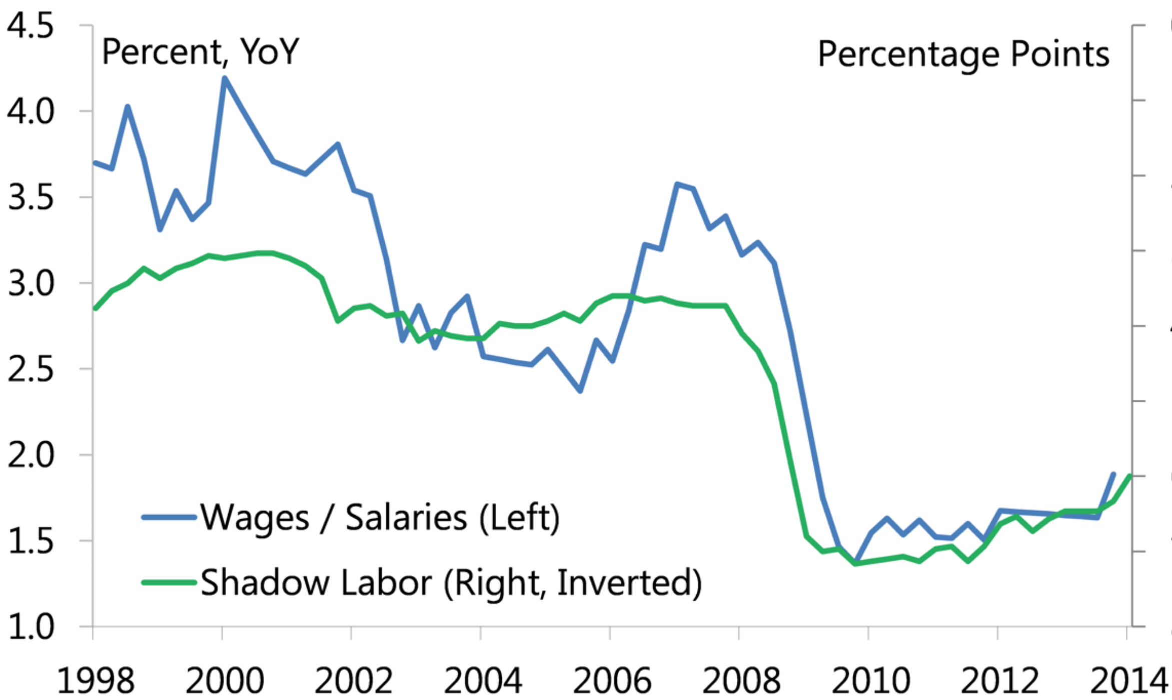
Source: Federal Reserve Bank, Morgan Stanley Research

These are favorable trends that the Federal Open Market Committee (FOMC) anticipates to continue "and be accompanied by stronger real disposable income as labor market conditions improve and inflation remains low." We agree. **The gains in wealth, which have spurred stronger aggregate demand on the part of higher-income households since late 2012, should translate into stronger investment and hiring, lifting wages and spending among a larger swath of households across the income spectrum.** This passing of the baton, so to speak, is a normal transition in the business cycle but has been delayed by the lingering effects of the financial crisis and changes in tax policy last year.

Slow Creep Quickens

Despite being several years into a labor market recovery, **wage and salary growth has remained sluggish, owing in no small part to a good deal of overhang in available labor.** So-called "shadow labor", which we measure as the spread between the broadest unemployment rate (U6) that more fully captures underutilization of labor, and the more narrowly measured, official unemployment rate (U3), is slowly improving. The relationship between shadow labor and wage and salary growth is depicted in the chart below. For this analysis, we use wage and salary data included in the Bureau of Labor Statistics' (BLS) quarterly Employment Cost Index report.

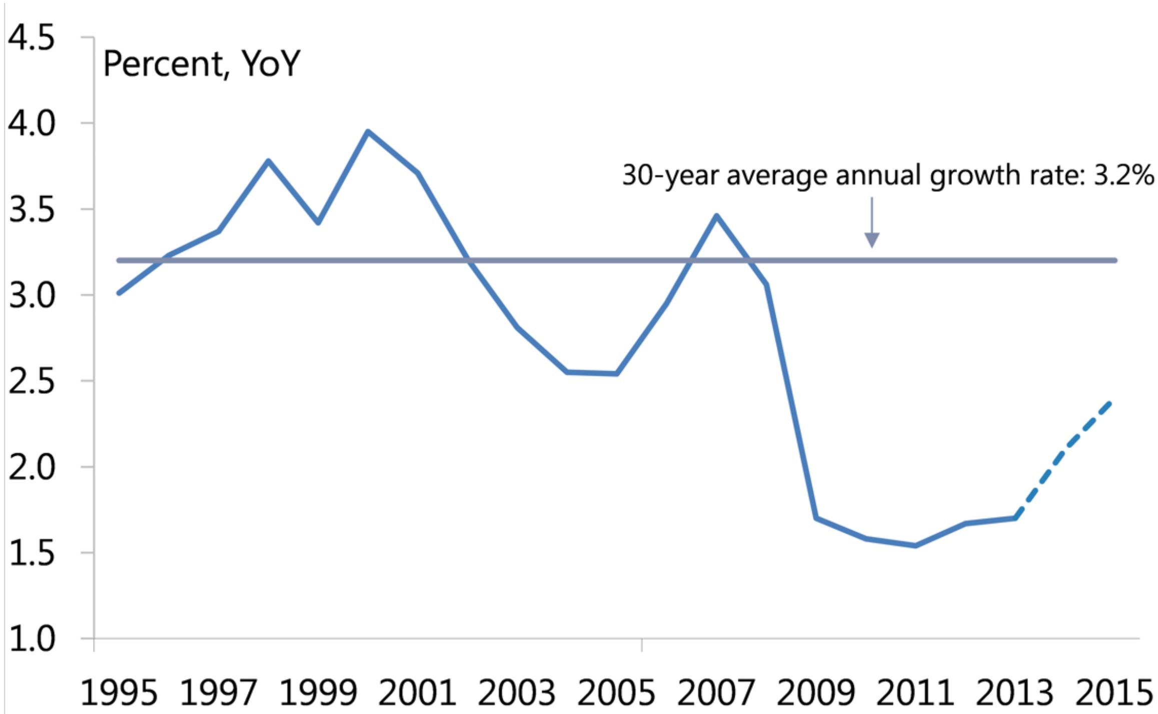
Exhibit 13: Shadow Labor (U6 less U3) vs Wage and Salary Growth



Source: BLS, Morgan Stanley Research

To be sure, the unemployment rate has fallen more quickly than most market participants, including members of the FOMC, had expected. At 6.7% unemployment in February, the labor market is *tighter*, but you'd be hard pressed to argue that it is *tight*. Nevertheless, as more slack is squeezed out of the labor market, the pace of wage growth should quicken. **A simple extrapolation of our shadow labor measure implies that wage and salary growth will pick up pace** to 2.1% this year, and 2.4% in 2015, compared with 1.7% in 2013 and an average 3.2% over the past 30 years.

Exhibit 14: Wage and Salary Growth - 2014 and 2015 Projected



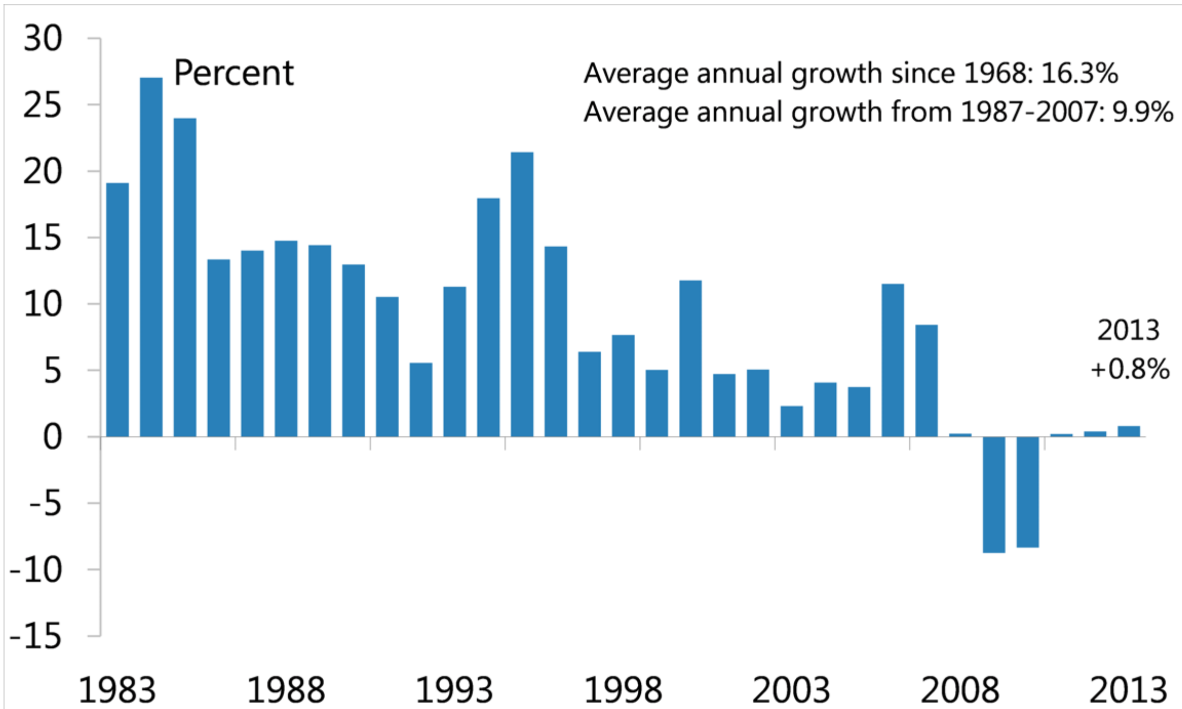
Source: Bureau of Labor Statistics, Morgan Stanley Research. 2014-2015 figures represent Morgan Stanley Research estimates.

For lower-income households in the US, personal spending tends to track growth in personal disposable income. These same households also tend to rely on the labor market (wages and salaries) for their primary source of income and have very low rates of personal savings [1]. In other words, pay them more and they will spend more, pay them less and they spend less. Another year of jobs gains in 2014, coupled with a further decline in the unemployment rate, will lift the pace of wage growth and spending for this cohort. **For spending to accelerate beyond that, households must be willing to releverage - an unlikely prospect.**

A Distaste for Debt

Years of little to no wage growth, a keen focus on repairing balance sheets, and an aging demographic have led to a general eschewing of credit on the part of US households. **After peaking at a record high 135% in Q4 2007, debt as a share of disposable income has fallen sharply and appears to have stabilized around 109%** (remaining steady for three straight quarters through 4Q13). Of course, the need to replace an aging fleet of vehicles and increased commuting as more jobs are created has led to net increases in auto loan balances, and increased demands on higher education have led to a worrisome explosion in student loans, but **revolving credit (primarily credit cards) is where debt levels dropped precipitously after the financial crisis, with little sign as yet of measurable recovery**.

Exhibit 15: Annual Growth in Revolving Credit Balances

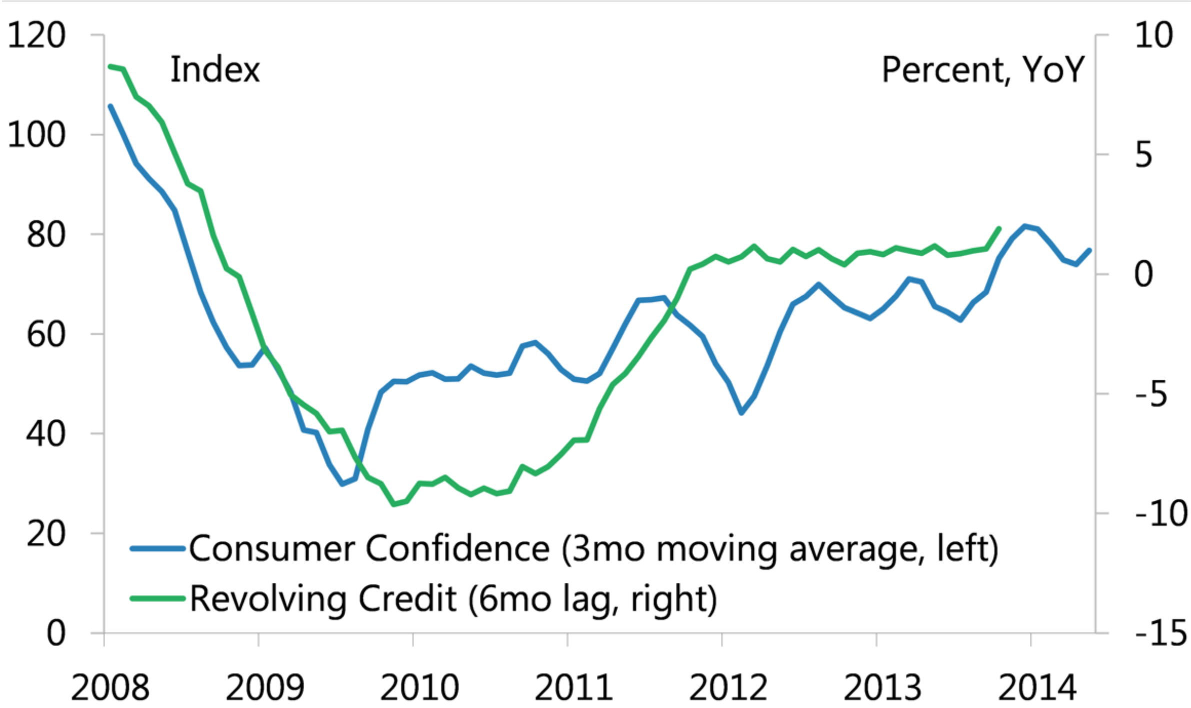


Source: Federal Reserve, Morgan Stanley Research

Data on credit flows in the Federal Reserve's monthly consumer credit report show that consumers are using credit cards, but by and large are not leaving balances. This likely points to use by a growing share of the population that has moved into the age cohorts not traditionally associated with rising credit card balances, as well as use by higher income households whom also tend not to be "revolvers" (i.e. leave balances). Indeed, America's nearly 50-year love affair with credit cards has soured, **removing a source of funding that provided a powerful uplift to consumer spending prior to the financial crisis**.

Though not nearly in line with previous growth rates, balances on credit cards have increased for three consecutive years, as depicted in Exhibit 3 above. And **we expect growth to further accelerate over our forecast horizon as a stronger labor market lifts confidence and financial expectations.** Consumer confidence tends to lead growth in revolving credit by about six months and **increases in confidence since spring 2013 presaged a quickening in revolving credit growth** that began late last year.

Exhibit 16: Growth in Revolving Credit vs Consumer Confidence (adjusted for 6-month lead-time)



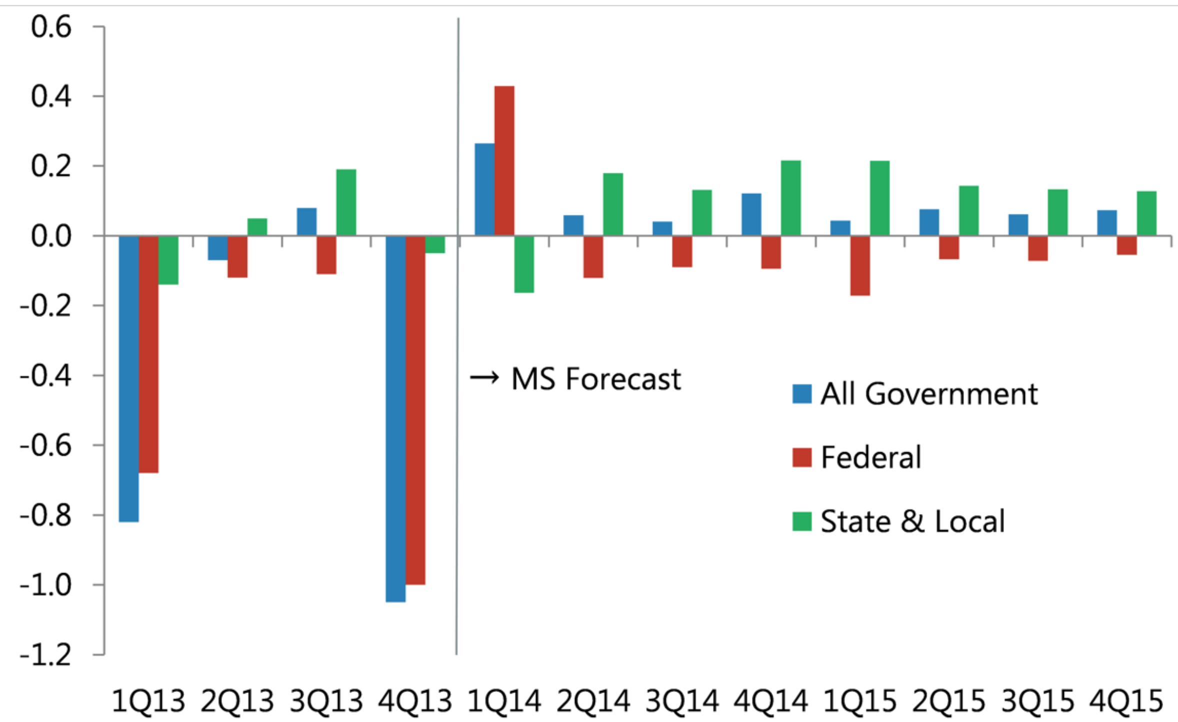
Source: Conference Board, Federal Reserve, Morgan Stanley Research

With prior gains in wealth providing a lift to spending among higher-income households, improvement in wage and salaries coupled with higher consumer confidence will work to not only lift the pace of overall consumer spending, but encourage households across a broader swath of the income spectrum to participate**. After slowing to just under 2.0% average annual growth in 2013, we expect real consumer spending to average 2.6% growth over the forecast horizon (2.7% Q4/Q4).**

Government

Fiscal-induced headwinds to growth will have mostly abated as we move further into 2014. On the Federal side, the government shutdown is long behind us and the threat of another has been removed from our forecast horizon. Though another debate over the debt ceiling is slated to return around year-end, the bulk of **fiscal tightening has been absorbed and is being more than outpaced by private demand. Moreover, state and local governments continue to see dramatic budget improvements as tax collections surpass projections, further enabling a rebound in spending**.

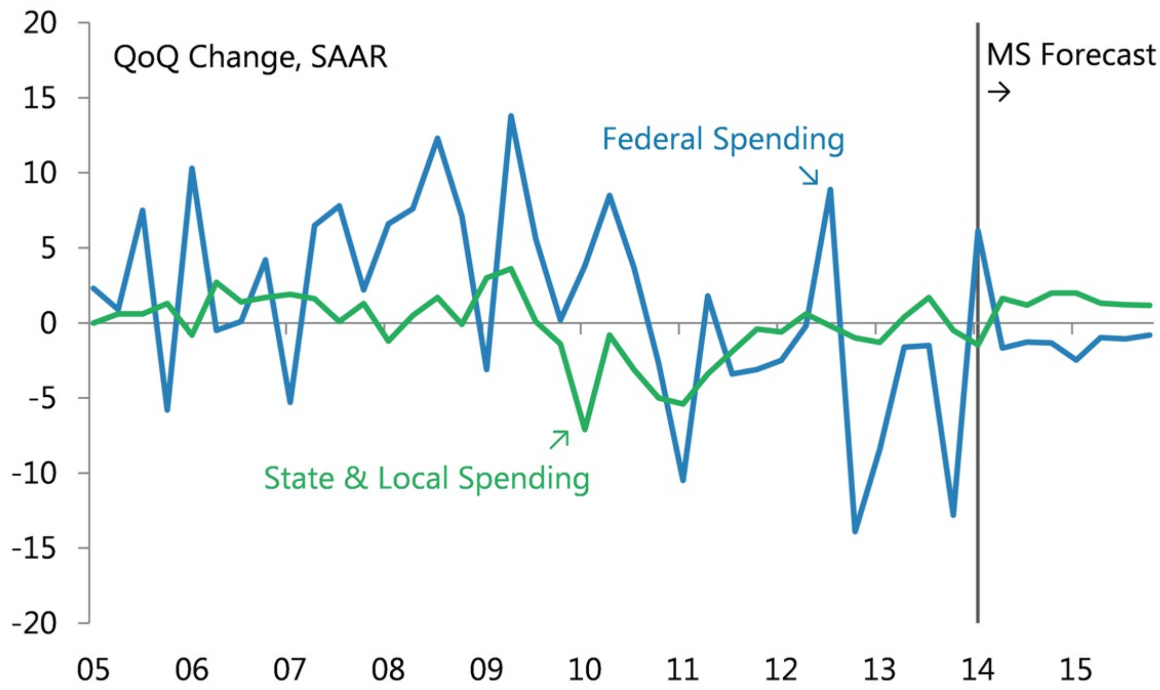
Exhibit 17: Government Contribution to Percent Change in Real GDP



Source: Bureau of Economic Analysis, Morgan Stanley Research. Note: 1Q14 to 4Q15 values are Morgan Stanley Research estimates.

In 2013, the US economy experienced significant fiscal tightening near 1 3/4 percent of GDP which we estimate to have subtracted one full percentage point from real GDP growth. **In 2014, we project material improvement as the federal fiscal drag falls to less than 0.5 percent of GDP and has little, if any, material impact on growth**. The exhibit below illustrates a continued decrease in federal spending going forward, but this decline is more than made up for by an influx of state and local government spending. For perspective, the level of real spending by state and local governments ($1,741.1bn) is about one and a half times more than federal spending ($1,124.7bn).

Exhibit 18: Government Spending

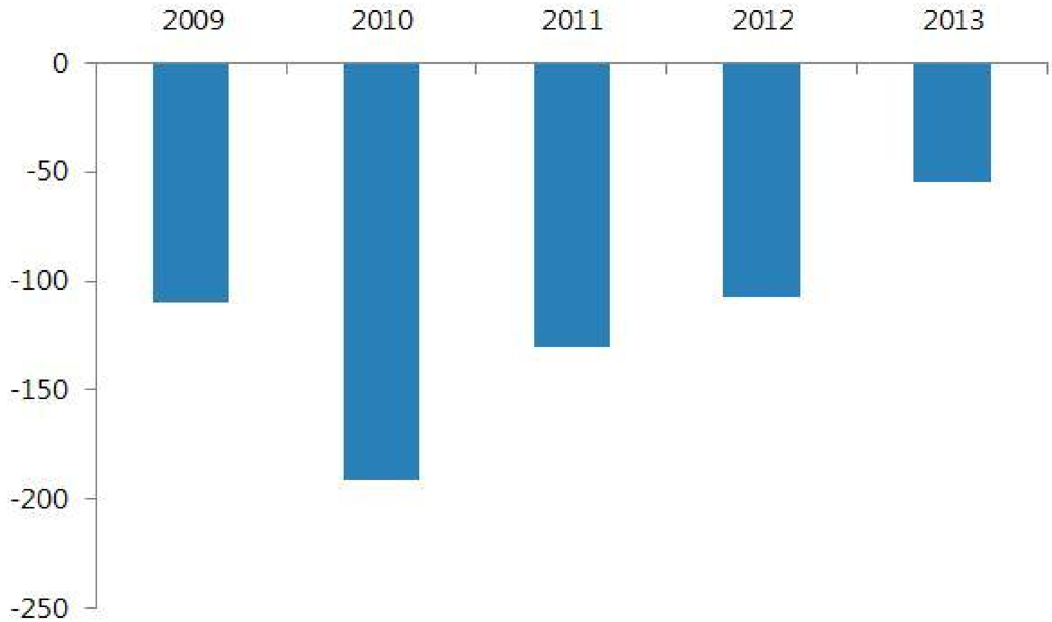


Source: Bureau of Economic Analysis, Morgan Stanley Research. Note: 1Q14 to 4Q15 represents Morgan Stanley Research Estimates

The federal deficit shrunk by a nearly unprecedented 2.7pp to -4.1 percent of GDP in fiscal 2013 as a result of the fiscal tightening. We expect additional cutbacks in 2014 to reduce the deficit by an additional 0.9pp to -3.2 percent of GDP in fiscal 2014. The bulk of tightening having already been felt, we expect the deficit will remain mostly flat at -3.1 percent of GDP in fiscal 2015. To fill these expected budget gaps, federal debt is expected to increase to 71.5 percent of GDP in 2014, 71.6 percent in 2015 and 72.0 percent in 2016.

State and local fiscal conditions are expected to modestly improve in 2014, with spending and revenues projected to rise above fiscal 2013 levels, but both remain below their pre-recession peaks. Still, budget cuts have sharply reduced deficits, and tax collections have outpaced projections. As a result, the aggregate state budget shortfall has been reduced from -$191bn in fiscal 2010 to -$55bn in fiscal 2013. We expect the rate of improvement to moderate, but overall stability to strengthen over the forecast horizon.

Exhibit 19: Total State Budget Shortfall in each Fiscal Year



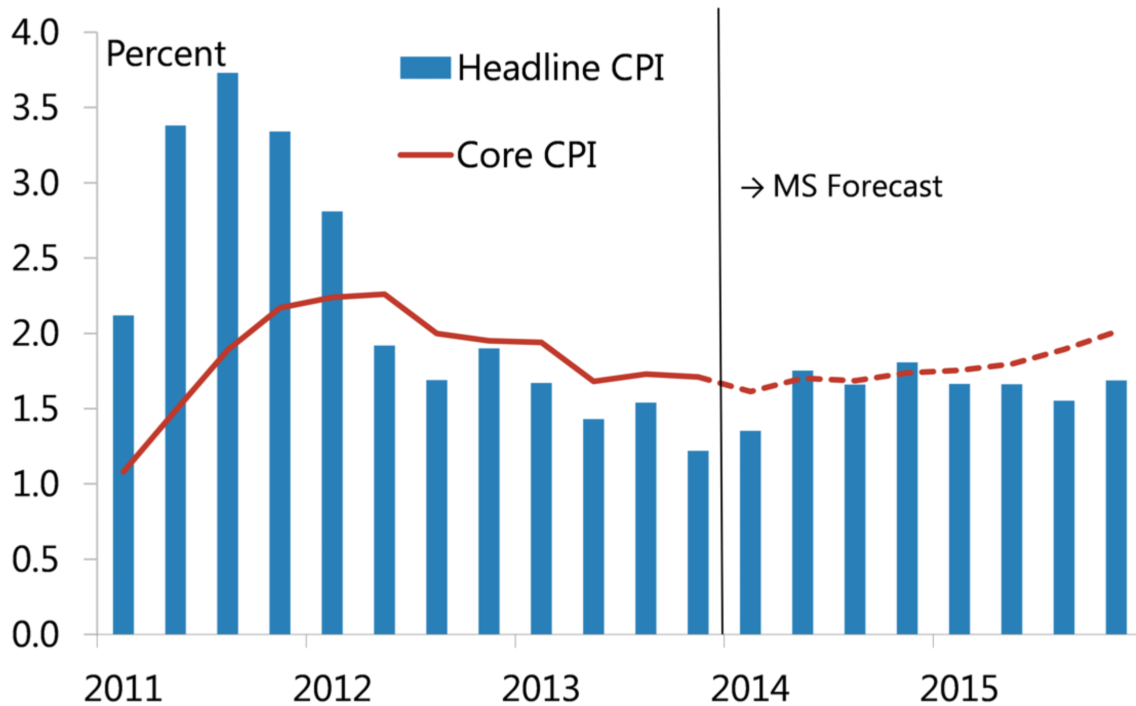
Source: Morgan Stanley Research, Center on Budget and Policy Priorities

Potential Growth and Monetary Policy

Central to the conversation about the economy in 2014 will be the assessment of the level and growth rate of aggregate supply. The former drives the Fed's tactical decision on the path of the policy rate and the latter sets where that path ultimately ends—the equilibrium real federal funds rate. There is no way to get around the conclusion that the financial crisis and subsequent poor economic performance has taken a long-lasting toll on both. **Our reading is that real GDP is about 12 percent below the trend predicted by the experience of the ten years prior to the crisis. About 8 percentage points of that is permanent loss to potential output and the remainder is a cyclical gap. This is consistent with a rise in the natural rate of unemployment to 6 percent.** In addition, we believe about 1/2 percentage point was shaved from the longer-term growth rate of the economy, lowering the growth rate of potential output to 2 percent (Potential GDP and Its Implications, March 10, 2014). In models of the sort that Fed officials rely upon, trimming 1/2 percentage point from longer-run growth lowers the equilibrium real federal funds rate by at least as much. So, **we think the terminal real federal funds rate is 1-1/2 percent and expect to see the dots in the FOMC's Summary of Economic Projections continue to push lower over the course of this year and next.**

The Yellen-led Fed, however, will not be in any hurry to get there. In fact, **2014 will likely be the year that the Fed rediscovers that inflation is low**. Core PCE inflation opened the year almost 1 percentage point below the Fed's long-run goal of 2 percent. While Fed officials almost surely think aggregate supply is more ample than we do, they are right that **resource slack should prevail over most of 2014. In our forecast for 2015, real GDP surpasses potential output, but the force of excess demand exerts only weak impetus to inflation.** With the Fed showing itself to be the first G-4 central bank heading for the exit and emerging market economies expected to stabilize at a lower growth rate, the dollar should strengthen and commodity prices stay subdued. In this recipe, **inflation moves up slowly over the next seven quarters, tracking below the Fed's goal throughout the forecast horizon**.

Exhibit 20: Inflation Indicators

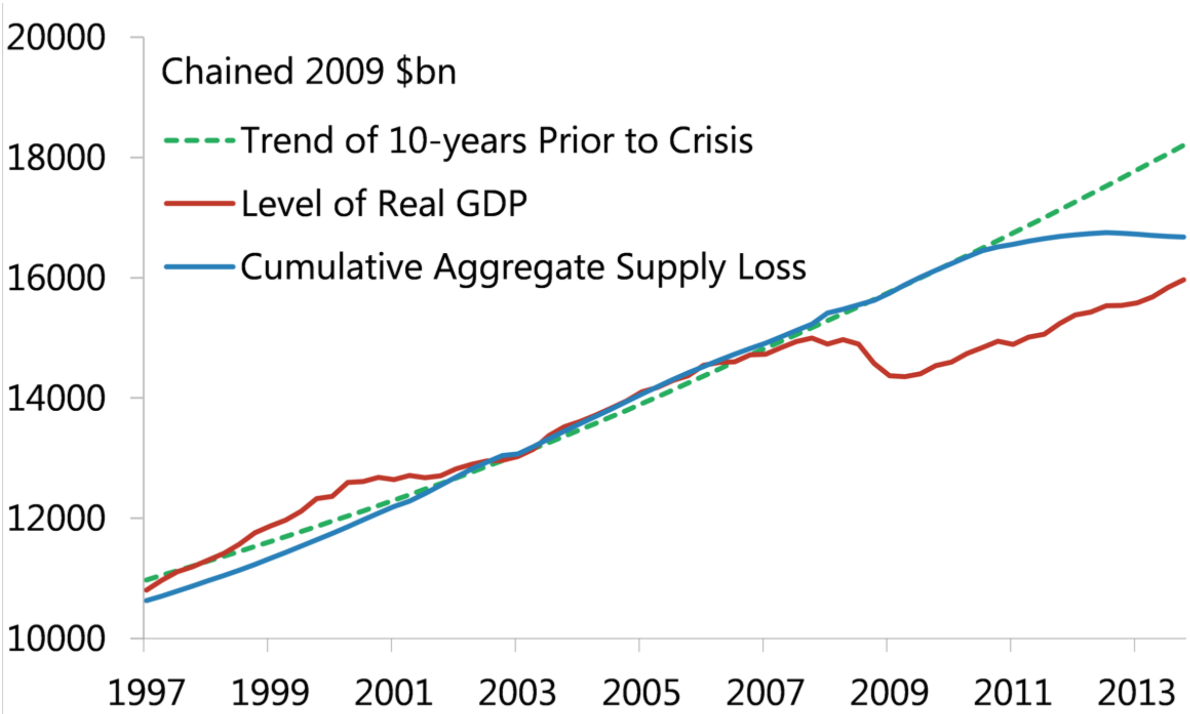


Source: Bureau of Labor Statistics, Morgan Stanley Research

With the Fed short of its inflation goal and too low in its assessment of maximum employment, the nominal fed funds rate remains pinned to its zero lower bound through this year and next. Indeed, **we continue to expect the first rate hike to come in early (1Q) 2016**.

When the Fed raises the policy rate, its balance sheet will be massive. Our economic forecast provides a smooth runway for declining asset purchases of $10 billion per FOMC meeting, i.e. the taper. The reality is that a majority of Fed officials had already lost their faith in quantitative easing by early 2013, in that its marginal benefits did not exceed its marginal costs and any signal it sends could be better accomplished with assertive forward interest rate guidance. **By October, net purchases should end, with the Fed's balance sheet leveling out at around $4-1/2 billion. The Fed holds steady thereafter, with maturing and prepaying proceeds reinvested and sales taken off the table. A few meetings before the end of 2015, the Fed may stop reinvestments to let the balance sheet shrink organically and glacially, in part to mollify the hawks about the stance of policy. Operationally, the rate rise we expect in early 2016 will be engineered by hiking the rate on the fixed-rate allotment repurchase facility and the interest rate paid on excess reserves.**

Exhibit 21: Real GDP Relative to Trend



Source: Bureau of Economic Analysis, Morgan Stanley Research

Forecast Tables

PDF version here

Exhibit 22: US Economic Forecast Table

	Year over Year			4th Qtr/4th Qtr			from Prior Quarter+									
	2013A	**2014E**	**2015E**	**2013A**	**2014E**	**2015E**	**3Q13A**	**4Q13A**	**1Q14E**	**2Q14E**	**3Q14E**	**4Q14E**	**1Q15E**	**2Q15E**	**3Q15E**	**4Q15E**
Real GDP	1.9	2.7	2.8	2.5	2.7	2.6	4.1	2.4	1.4	3.6	2.6	3.1	2.8	2.6	2.5	2.5
Final Sales	1.7	2.6	3.0	1.8	3.0	2.9	2.5	2.3	2.1	3.7	2.8	3.3	2.8	2.7	3.0	3.2
Final Domestic Demand	1.5	2.5	2.9	1.5	3.1	2.7	2.3	1.2	2.2	3.8	3.3	3.1	2.7	2.6	2.7	2.8
Personal Consumption Expenditures	2.0	2.5	2.7	2.2	2.8	2.7	2.0	2.6	2.1	3.2	3.1	2.7	2.6	2.5	2.7	2.8
Business Fixed Investment	2.8	6.1	5.2	3.0	6.3	4.5	4.8	7.3	4.7	8.3	6.1	5.9	4.6	4.5	4.4	4.6
-- Structures	1.4	5.4	4.4	-0.2	4.8	3.6	13.4	0.2	2.6	6.0	5.2	5.3	4.2	3.7	3.3	3.2
-- Equipment	3.1	7.0	6.1	3.8	7.9	5.0	0.2	10.5	5.2	10.8	8.8	7.0	4.9	4.9	4.9	5.3
-- IPP	3.4	5.0	4.4	4.0	4.5	4.5	5.8	8.0	4.4	6.4	4.5	4.5	4.5	4.5	4.5	4.5
Residential Investment	12.2	6.3	10.7	6.6	11.4	8.3	10.3	-8.8	-0.8	19.6	15.4	12.6	9.8	7.6	7.8	7.8
Exports	2.7	4.7	5.8	4.9	4.1	6.1	3.9	9.4	0.6	4.5	5.2	6.2	5.7	5.6	6.2	7.1
Imports	1.4	3.6	4.7	2.8	4.6	4.0	2.4	1.5	1.8	4.8	7.6	4.5	4.4	4.1	3.9	3.6
Government	-2.3	-0.5	0.4	-2.5	0.7	0.4	0.4	-5.6	1.5	0.3	0.2	0.7	0.2	0.4	0.3	0.4
-- Federal Government	-5.2	-1.9	-1.5	-6.2	0.4	-1.3	-1.5	-12.8	6.1	-1.7	-1.3	-1.3	-2.5	-1.0	-1.1	-0.8
-- State & Local Government	-0.2	0.4	1.6	0.1	0.8	1.4	1.7	-0.5	-1.5	1.6	1.2	2.0	2.0	1.3	1.2	1.2
Business Indicators																
Real Net Exports of Goods & Services (Billions)	-412.3	-348.4	-342.2				-419.8	-382.8	-336.7	-341.7	-359.7	-355.4	-353.1	-349.0	-340.7	-326.0
Current Account as a % of GDP	-2.2	-2.0	-1.5													
Surplus / Deficit as % of GDP	-4.1	-3.1	-3.0													
Housing Starts (Thous)	931	1034	1225				882	1016	906	1023	1077	1128	1170	1206	1243	1280
Light Vehicle Sales (Millions)	15.5	16.5	17.0				15.7	15.6	15.7	16.2	16.6	16.9	17.0	17.0	17.1	17.1
Industrial Production (Pct Chg)^	2.6	3.3	3.7	3.3	3.4	3.5	2.5	3.3	1.5	4.9	3.5	3.8	4.0	3.6	3.2	3.0
Civilian Unemployment Rate (Percent)#	7.0	5.8	5.4				7.2	7.0	6.5	6.2	6.0	5.8	5.7	5.5	5.4	5.4
After-tax corporate profits@	6.5	2.0	6.0				9.8	2.0	-12.0	9.5	5.0	8.3	5.9	5.7	3.9	3.6
Real Disposable Personal Income (Pct Chg)	0.7	2.0	3.1	-0.2	2.3	3.0	3.0	0.7	0.7	2.7	2.6	3.3	3.8	3.0	2.7	2.6
Personal Saving Rate (Pct)	4.6	3.5	3.2				4.9	4.5	4.0	3.9	3.9	4.0	4.3	4.4	4.4	4.4
Inflation (Percent Change^)																
Consumer Price Index	1.5	1.6	1.6	1.2	1.8	1.7	1.5	1.2	1.4	1.8	1.7	1.8	1.7	1.7	1.6	1.7
CPI ex Food & Energy	1.8	1.7	1.9	1.7	1.7	2.0	1.7	1.7	1.6	1.7	1.7	1.7	1.8	1.8	1.9	2.0
PCE Price Index	1.1	1.2	1.5	1.0	1.4	1.6	1.1	1.0	1.0	1.3	1.3	1.4	1.4	1.5	1.5	1.6
PCEPI ex Food & Energy	1.2	1.3	1.7	1.2	1.5	1.8	1.2	1.2	1.1	1.3	1.4	1.5	1.5	1.6	1.7	1.8

E = Morgan Stanley estimates, A = Actual, R = Expected Revision *+Annualized percent change from prior period, unless noted*

@Including inventory valuation & capital consumption adjustments *^ Quarterly figures denote year-over-year change*

Forecast as of March 17, 2014 *# Annual figures denote end of period*

Source: Morgan Stanley Research, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board, Census Bureau, U.S. Dept of Treasury

Exhibit 23: Bull-Bear Scenarios (YoY)

Bull-Bear Scenarios

	2013	2014			2015		
(Year over Year)	Actual	Bear	Base	Bull	Bear	Base	Bull
Real GDP	**1.9**	**2.3**	**2.7**	**3.2**	**2.3**	**2.8**	**4.1**
Final Sales	1.7	2.3	2.6	3.1	2.5	3.0	4.1
Final Domestic Demand	1.5	2.3	2.5	2.8	2.5	2.9	3.6
PCE	2.0	2.4	2.5	2.9	2.3	2.7	3.1
Business Fixed Investment	2.8	4.9	6.1	6.6	4.0	5.2	9.6
Residential Fixed Investment	12.2	5.6	6.3	6.7	11.8	10.7	9.5
Exports	2.7	3.5	4.7	6.5	5.1	5.8	7.1
Imports	1.4	3.3	3.6	3.6	4.7	4.7	3.6
Government	-2.3	-0.5	-0.5	-0.5	0.4	0.4	0.4
CPI	**1.5**	**1.4**	**1.6**	**2.0**	**1.4**	**1.6**	**2.6**
Unemployment Rate (End of Period)	**7.0**	**6.1**	**5.8**	**5.3**	**6.0**	**5.4**	**4.4**

Source: Morgan Stanley Research

Source: Morgan Stanley Research, Bureau of Economic Analysis, Bureau of Labor Statistics

Exhibit 24: New vs Old Forecast (4Q/4Q)

Forecast Update (4Q/4Q)

		New Forecast		Previous	
	2013	2014	2015	2014	2015
Real GDP	**2.5**	**2.7**	**2.6**	**2.9**	**2.6**
Final Sales	1.8	3.0	2.9	2.7	2.8
Final Domestic Demand	1.5	3.1	2.7	2.9	2.9
PCE	2.2	2.8	2.7	2.5	2.6
Business Fixed Investment	3.0	6.3	4.5	6.1	5.5
Residential Fixed Investment	6.6	11.4	8.3	11.6	9.3
Exports	4.9	4.1	6.1	5.1	5.2
Imports	2.8	4.6	4.0	5.4	5.1
Government	-2.5	0.7	0.4	0.3	0.7
CPI	**1.2**	**1.8**	**1.7**	**1.6**	**1.6**
Core PCEPI	**1.2**	**1.5**	**1.8**	**1.6**	**1.9**
Unemployment Rate (End of Period)	**7.0**	**5.8**	**5.4**	**6.4**	**5.7**

Source: Morgan Stanley Research

Source: Morgan Stanley Research, Bureau of Economic Analysis, Bureau of Labor Statistics

Footnotes

[1] "Disentangling the Wealth Effect: a Cohort Analysis of Household Saving in the 1990s," Dean M. Maki and Michael G. Palumbo, Finance and Economics Discussion Series, Board of Governors of the Federal Reserve System, Washington, DC, 2001-21, page 21.

Disclosure Section

The information and opinions in Morgan Stanley Research were prepared by Morgan Stanley & Co. LLC, and/or Morgan Stanley C.T.V.M. S.A., and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., and/or Morgan Stanley Canada Limited. As used in this disclosure section, "Morgan Stanley" includes Morgan Stanley & Co. LLC, Morgan Stanley C.T.V.M. S.A., Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V., Morgan Stanley Canada Limited and their affiliates as necessary.

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at www.morganstanley.com/researchdisclosures, or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any price targets referenced in this research report, please contact the Client Support Team as follows: US/Canada +1 800 303-2495; Hong Kong +852 2848-5999; Latin America +1 718 754-5444 (U.S.); London +44 (0)20-7425-8169; Singapore +65 6834-6860; Sydney +61 (0)2-9770-1505; Tokyo +81 (0)3-6836-9000. Alternatively you may contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at www.morganstanley.com/institutional/research/conflictpolicies.

Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell or the solicitation of an offer to buy or sell any security/instrument or to participate in any particular trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents; in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Vietnam this report is issued by Morgan Stanley Singapore Holdings; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley Private Wealth Management Limited, authorized and regulated by the Financial Conduct Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-023
Disbursements		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's Public Entity Investment Trust is able to pay for all expenses related to the reimbursement of retiree benefits for eligible participants and reasonable fees associated with the management and operation of the trust.

STATUS:

The Retirement Board of Authority shall ratify all period and reasonable expenses associated with the management and operation of the District's Investment Trust.

RECOMMENDATION:

The Retirement Board of Authority should ratify period and reasonable expenses associated with the management and operation of the District's Investment Trust and takes appropriate action as deemed necessary.

	DISBURSEMENT	
11/26/2013	FEE TO BENEFIT TRUST COMPANY	-96.67
11/26/2013	FEE TO KEENAN & ASSOCIATES ATTN ROSLYN WASHINGTON FUTURIS	-33.19
11/26/2013	FEE TO MORGAN STANLEY SMITH BARNEY ATTN CARY ALLISON	-29.90
12/23/2013	FEE TO BENEFIT TRUST COMPANY	-96.73
12/23/2013	FEE TO MORGAN STANLEY SMITH BARNEY ATTN CARY ALLISON	-29.95
12/23/2013	FEE TO KEENAN & ASSOCIATES ATTN ROSLYN WASHINGTON FUTURIS	-33.34
01/22/2014	FEE TO MORGAN STANLEY SMITH BARNEY ATTN CARY ALLISON	-30.13
01/23/2014	FEE TO BENEFIT TRUST COMPANY	-96.94
02/19/2014	FEE TO MORGAN STANLEY SMITH BARNEY ATTN CARY ALLISON	-29.80
02/21/2014	FEE TO BENEFIT TRUST COMPANY	-96.56
02/26/2014	FEE TO KEENAN & ASSOCIATES ATTN ROSLYN WASHINGTON FUTURIS	-33.92
02/28/2014	FEE TO KEENAN & ASSOCIATES ATTN ROSLYN WASHINGTON FUTURIS	-32.87
03/20/2014	FEE TO KEENAN & ASSOCIATES ATTN ROSLYN WASHINGTON FUTURIS	-35.36
03/20/2014	FEE TO MORGAN STANLEY SMITH BARNEY ATTN CARY ALLISON	-30.58
03/24/2014	FEE TO BENEFIT TRUST COMPANY *	-97.45
	TOTAL FOR DISBURSEMENT	-803.39

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-024
Directors' and Officers' Insurance		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The ongoing management of a Trust that invests assets for the long term creates a fiduciary liability for the Retirement Board of Authority members. Directors' and Officers' Insurance can be purchased to cover certain exposures related to any liability incurred.

STATUS:

The Retirement Board of Authority will receive information regarding Directors' and Officers' insurance and decide whether to purchase supplemental insurance to cover additional liability exposures related to their role as fiduciaries.

RECOMMENDATION:

The Retirement Board of Authority will discuss the information provided and take appropriate action as deemed necessary.

PROPOSAL

COMPTON COMMUNITY COLLEGE DISTRICT RETIREMENT BOARD OF AUTHORITY

Directors and Officers / OPEB Liability

Proposal for the 2013-2014 Program Year

Presented By:

Keenan & Associates

TONI BRADY
Senior Account Manager
901 Calle Amanecer, Suite #200
San Clemente, CA 92673
Phone: (949) 940-1760 x 5186 Fax: (949) 369-0324
E-mail: tbrady@keenan.com

Table of Contents

Markets Approached 3

Directors and Officers Liability with OPEB: 4

Summary of Options 6

MARKETS APPROACHED

In the process of marketing your program needs, we approached the following companies to obtain quotes for Directors and Officers with OPEB liability coverage.

Name of Carrier	A.M. Best Rating	Admitted / Non-Admitted	Comments
Altru-Old Republic Insurance Co	A+	Admitted	Declined: No Appetite
Allied World	A	Admitted	Declined: Industry: Nature of Services
ERisk	A +XV	Admitted	Declined; Nature of Services
Hiscox	A XI	Admitted	Declined: Outside UW Guidelines
Great American	A	Admitted	Declined: No Appetite
RSUI	A XIII	Admitted	Quoted
5 Star Liberty	A	Admitted	Declined: Class of Business

DIRECTORS AND OFFICERS LIABILITY WITH OPEB:

CARRIER:	**RSUI Indemnity Company** Admitted – Best Rated: A XIII		
Covering:	Compton Community College District Retirement Board of Authority		
Policy Term:	TBD 2013-2014		
Policy Type	Claims Made		
Limits of Insurance:	$1,000,000		
Retention:	Insuring Agreement A: $0 Insuring Agreement B: $15,000 or $25,000 Insuring Agreement C: $15,000 or $25,000 Employment Practices Claim: Not Covered		
Annual Premium: **$15k Retention**	$1,000,000 Limit: $ 15,000 Retention $ 13,510 Premium $ 300 Broker Fee $ 13,810 Total Cost	$2,000,000 Limit $ 15,000 Retention $ 20,940 Premium $ 300 Broker Fee $ 21,240 Total Cost	$3,000,000 Limit $ 15,000 Retention $ 25,000 Premium $ 300 Broker Fee $ 25,300 Total Cost
Annual Premium: **$25k Retention:**	$1,000,000 Limit: $ 25,000 Retention $ 12,870 Premium $ 300 Broker Fee $ 13,170 Total Cost	$2,000,000 Limit $ 25,000 Retention $ 19,950 Premium $ 300 Broker Fee $ 20,250 Total Cost	$3,000,000 Limit $ 25,000 Retention $ 23,820 Premium $ 300 Broker Fee $ 24,120 Total Cost
Commission:	Keenan's Commission is 10%		
Retro Active Date	N/A		
Exclusions:	• Employment Practices Claim • Pollution (Modified Management Carve Back) • Sexual Misconduct and Child Abuse • Modified Insured vs Insured Exclusion (Carve Back Former D&O's 3 years		

CARRIER:	**RSUI Indemnity Company** Admitted – Best Rated: A XIII
Endorsements	• RSG 204151 0911 Amended Notice of Claim or Circumstance- Specific Position Trigger • RGS 204148 1210 Amended Settlement Clause 70 – 30 • RSG 203005 0611 California Changes – Cancellation and Nonrenewal • RSG 204081 0108 Cap on Losses From Certified Acts of Terrorism • RSG 214034 0210 **Coverage Extension – OPEB Liability** • RSG 214039 0911 Defense Expense in Addition to the Limit of Liability • RSG 2014123 0108 Disclosure Pursuant to Terrorism Risk Insurance Act • RSG 204099 0204 Excess Benefit Penalty Coverage • RSG 214044 0204 Full Severability • RSG 204157 0808 Fully Non-Rescindable Coverage • RSG 204154 0509 Insuring Agreement A **Separate Limit- $500k** • RSG 204144 0407 Severability of All Exclusions • RSG 204132 0205 Predetermined Allocation • RSG 214049 0407 Severability of the Entity • RSG 207002 0204 Six (6) Year Bilateral Discovery Period – 75%, 125% 150%, $170, 185% & 200%
Subjectives:	• **Signed/Dated Application**

SUMMARY OF OPTIONS

This indication provides a summary of coverages. In the event of a conflict, the actual terms, conditions, limitations and exclusions of the policy shall prevail. The quotes provided by RSUI are valid until 11/21/13.

Please bind the above coverage quoted with RSUI Indemnity Company by filling in terms desired:

______________ Limit

______________ Retention

______________ Premium

____ ____________________
Signature/Title of Authorized Representative Date

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:	DATE: 04/16/2014
Retirement Board of Authority	

SUBJECT:	ITEM #: 2013/2014-025
Future Transfer of Assets into the Trust	Enclosure: No
	Action Item: No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The District's transfer of assets into the Investment Trust may require a tailored funding procedure. To meet the possibly tailored funding procedure, the Retirement Board of Authority (RBOA) will provide timing and asset transfer schedules related to the District's Annual Required Contribution (ARC) and Pay-As-You-Go funding strategies based on current District financial considerations.

STATUS:

To meet recommended funding requirements, the Retirement Board of Authority (RBOA) will review future District transfer schedules to the Investment Trust for fiscal year ending June 30, 2014.

RECOMMENDATION:

The Retirement Board of Authority should acknowledge District transfers to the OPEB Trust and file the information accordingly.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority		DATE:	04/16/2014
SUBJECT: Retirement Board of Authority (RBOA) Bylaws		ITEM #:	2013/2014-026
		Enclosure:	Yes
		Action Item	Yes

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The current Trust document provides provisions to operate the Trust. Bylaws can provide additional direction for issues not discussed in the provisions of the Trust Document.

STATUS:

The Retirement Board of Authority will discuss the need and process to create Bylaws for the District's Public Entity Investment Trust.

RECOMMENDATION:

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

COMPTON COMMUNITY COLLEGE DISTRICT RETIREMENT BOARD OF AUTHORITY BYLAWS

PREAMBLE

The objectives of the Compton Community College District (COMPTON CCD) 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 COMPTON CCD.

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 COMPTON CCD'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 COMPTON CCD's Comprehensive Compliance Plan. To aid the COMPTON CCD 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 COMPTON CCD 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.

2: Retirement Board of Authority – Member Appointments

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

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 COMPTON CCD, the Board member will no longer be a Board member unless there is a new resolution from the governing body of the COMPTON CCD.

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

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: 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: As Board meetings and agendas are subject to the terms and provisions of The Ralph M. Brown Act, all Board 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.

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.

Retirement Board of Authority – Actuarial, Contribution & Withdrawal Parameters

4.1: The Board will acknowledge the amount of any contributions from the COMPTON CCD 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 COMPTON CCD'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 COMPTON CCD.

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 COMPTON CCD'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 COMPTON CCD'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 COMPTON CCD'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 COMPTON CCD 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 COMPTON CCD Investment Trust.

12.8: "Retirement Board of Authority" is established by the governing body of the COMPTON CCD and shall mean the entity charged with the discretion, responsibility and authority to oversee the management of the COMPTON CCD 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 COMPTON CCD'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.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO: Retirement Board of Authority	DATE: 04/16/2014
SUBJECT: Retirement Board of Authority Member Comments	ITEM #: 2013/2014-027 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.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-028
Program Coordinator/Consultant Comments		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

The Program Consultant may address the Retirement Board of Authority on any matter pertaining to the Board 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.

COMPTON COMMUNITY COLLEGE DISTRICT
RETIREMENT BOARD OF AUTHORITY MEETING

PRESENTED TO:		DATE:	04/16/2014
Retirement Board of Authority			
SUBJECT:		ITEM #:	2013/2014-029
Date, Time and Agenda Items for Next Meeting		Enclosure:	No
		Action Item	No

Prepared by: Keenan Financial Services

Requested by: Retirement Board of Authority

BACKGROUND:

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

RECOMMENDATION:

The Retirement Board of Authority will determine Agenda Items for the next meeting.