



CalTRUST Board of Trustees Meeting

September 14, 2011
La Valencia, La Jolla, CA

MINUTES

The meeting was called to order by President Lomeli at 8:00 a.m.

1. Roll Call

- List of attendees with checkboxes: Lomeli, Charles (President), Duncan, Glenn (Vice President), Ciapponi, Dave, Colville, John, Dole, Rod, Kent, Don, McAllister, Dan, Watts, Russell, Zeeb, Mary, Nancy Parrish, Steven Woodside, Chris Feusahrens.

Other Attendees:

- List of other attendees: Bird, Mike; Carthen, Erin; Defenbaugh, Lyle; Di Nicola, Daren; Fernandez, Larry; Gray, Joni; Harrison, Dan; Harris, Lisa Marie; Labanieh, Laura; McCormick, Neil; Meadows, Kip; Melville, Tony; Oropeza, Kelli; Rodgers, Mike; Weaver, Jeff; Wells Capital Management; Union Bank of California; Santa Barbara County, CSAC Finance Corporation; League of California Cities; San Diego County; California Special Districts Association; Nottingham Investment Administration; California State Association of Counties.

2. Welcome and Introductions

President Lomeli welcomed everyone and self-introductions ensued.

3. Consider the Minutes from Previous Board Meetings

The Board approved the Minutes from the CalTRUST Board of Trustees Annual Meeting of April 27, 2011.

Motion: G. Duncan
Second: R. Watts

The Board approved the Minutes of the CalTRUST Board of Trustees the Teleconference Meeting of June 21, 2011.

Motion: G. Duncan

Second: D. McAllister

4. Union Bank Update

Daren DiNicola provided an update of Union Bank activities. Union Bank has been the custodian of CalTRUST for over three years. They average 44 transactions a week (approximately 500 transactions a year) on behalf of CalTRUST. Union Bank is the custodian for 25 California counties, and 1,900 municipal agencies throughout the west coast.

5. Nottingham Investment Administration Update

Kip Meadows addressed the latest discussion regarding Nottingham's disaster recovery plan and how they successfully implemented it in a recent power loss. Meadows also reviewed three notable changes to the program: more emphasis on on-line processing, orders now going directly to Nottingham instead of through Wells Capitol, and establishment of a single DDA so all three portfolios have one set of wire instructions. Having orders going directly to Nottingham and with a single DDA provides a more automated process allowing for instant notification, greater efficiency, and less room for error.

6. Investment Update and 2011-12 Strategy

Mike Rodgers, Jeff Weaver and Tony Melville from Wells Capital Management provided an overview of the market and the CalTRUST portfolios. The Short-Term portfolio is achieving a competitive return versus the Local Agency Investment Fund (LAIF). The Short-Term portfolio has outperformed LAIF by 3 bps over 3 months, 7 bps over 6 months, and 11 bps over one year. It was clarified that we do not hold any exposure to Bank of America. The duration of the Short-Term portfolio has increased over the last 6 months. The Medium-Term portfolio has been underperforming its benchmark, the Merrill Lynch U.S. Corporate & Government 1-5 Years. However, the portfolio is more aligned with the Merrill Lynch U.S. Corporate & Government 1-3 Years index both in yield and activity so Rodgers asked the Board to consider changing the benchmark for the Medium Term portfolio to the Merrill Lynch U.S. Corporate & Government 1-3 Years. The Board of Trustees approved a motion to change the Medium-Term portfolio's duration, advertising, function, and benchmark to the Merrill Lynch U.S. Corporate & Government 1-3 Years.

Motion: G. Duncan

Second: D. Ciapponi

Dan McAllister inquired if we should obtain an S&P rating for the Medium-Term portfolio and it was determined that the rating is not as important for that portfolio as the cost would come out of the yield and would not necessarily help with the marketing. The portfolio will assume more credit risk instead of increasing the duration in order to chase yield. The net asset value (NAV) sensitivity analysis was presented.

Mike Bird, of Wells Capital Management provided an overview of the Heritage Money Market Fund. Two handouts were distributed to the board, Wells Fargo Advantage Money Market Funds and the Portfolio Manager Commentary. As of August 31, 2011, there was \$38 Billion in the Heritage Money Market Fund. The Funds only invest in U.S. Dollar-denominated obligations and have no obligations to sovereign debt, such as Greece. any exposure to debt obligations in Greece, Ireland, Italy, Spain, or Portugal. The Wells Fargo Funds have a short weighted average maturity and weighted average life, which will help to minimize the effects of any short-term price volatility.

7. Client Update & Marketing

Lyle Defenbaugh reviewed the total assets in the program of mid August 2011 at \$807 million versus April 2011 at \$940 million – a drop of \$133 million. The drop in assets is mainly from county assets in the Money Market Fund. Lomeli clarified that this time of the year is the lowpoint of county cash flows and schools are also taking loans from counties as they are out of cash. Defenbaugh feels

confident that we will still hit our goal of 120 participants by year end but not of \$1.2 Billion in assets. We currently have 115 participant accounts.

Larry Fernandez clarified that Wells currently has two employees focused on CalTRUST service and business development full time, Defenbaugh and Erin Carthen. He also updated the Board that they are working with other internal groups at Wells to identify new opportunities with CalTRUST.

Dan McAllister offered marketing suggestions including targeting high net worth groups at Wells, holding an annual CalTRUST Stakeholder's meeting, and surveying public agencies on upcoming bond issuances so we can get CalTRUST included on the acceptable investment list for bond proceeds. Jony Gray suggested that a good marketing tool would be to identify two treasurers a year from the CalTRUST target list and invite them to attend the CalTRUST Board Meetings. Dave Ciapponi requested that a list of LAIF participants be provided to the Board.

Defenbaugh concluded his update by presenting the list of target agencies and those who are currently participants but should be targeted for greater participation.

8. CalTRUST Disaster Recovery Plan

President Lomeli directed CalTRUST staff to create a CalTRUST Disaster Recovery Plan and bring it back to the Board for approval at the April 2012 Annual Meeting. The plan would be based off of our business partner's disaster plans, ie: Wells Capitol and Nottingham. Steven Woodside advised staff to incorporate emergency provisions in accordance to the Brown Act that allow for a designated person to make decision pending Board approval during a disaster.

Mike Rodgers reported to the Board that Wells Capital benefits in a disaster from having multiple trading facilities across the U.S. The Money Market team is split between Minneapolis and San Francisco and they have backup servers in San Francisco, Boston, and Milwaukee. Kip Meadows reported that Nottingham has had a plan in place for the last seven years as required by their SAS 70 with backup sites in Raleigh and Boston.

9. Consider Update of the CalTRUST Information Statement

Laura Labanieh presented recommended revisions to the CalTRUST Information Statement to bring it up-to-date. Revisions included:

- Updating the references of seven Board Members to nine;
- Updating the Investment Advisor from Wachovia Portfolio Services to Wells Capital Management;
- Updating the listing of the CalTRUST Trustees and Officers;
- Updating the profile of the CSAC Finance Corporation; and
- Updating the benchmark for the medium-term portfolio.

Don Kent suggested that the revision also includes removing the wiring instructions from the Information Statement to protect against fraud.

Dave Ciapponi inquired if CalTRUST was giving LAIF too much credence by referring to them in official documents and questioned if we should be considering an alternative benchmark for the short-term portfolio. Wells Capital staff recommended that CalTRUST could consider using the 6 month bill index, LIBOR, or Barclays Short-Term Government Index as a benchmark. Lomeli requested that this item be further addressed and brought to the Board for possible action at the CalTRUST 2012 Annual Meeting in April.

The Board accepted the recommended revisions to the CalTRUST Information Statement as presented with the addition change of removing the wiring instructions.

Motion: G. Duncan

Second: R. Watts

10. Consider JPA Requirement for Treasurer Bond

The current JPA requires that CalTRUST maintain a \$10 million bond for the Treasurer. Woodside reported that many counties have a single master bond to cover all staff and officers. There were three suggested ways to rectify the current situation where the CalTRUST Treasurer does not have a master bond; move forward with purchasing a bond, revise the Joint Powers Agreement (JPA), or appoint a Treasurer who is already bonded by their agency. Nancy Parrish suggested that we consider purchasing one bond that covers all staff and officers and then revise the JPA to either lower the required amount or remove the requirement altogether. Lomeli requested that staff work with him to further investigate the options regarding the JPA requirement for a Treasurer bond and report back to the full Board within a reasonable timeframe.

11. Consider Proposals for CalTRUST Custodial Service

Per the Board's direction during the CalTRUST Special Meeting on June 21, 2011 an ad hoc committee was formed and a Request for Proposal (RFP) for custodial services was distributed. The ad hoc committee members were John Colville, Rod Dole & Chuck Lomeli. The RFP was sent to at nine institutions and six responded. Colville presented the recommendation of the ad hoc committee to terminate the current custodial services contract with Union Bank and select Wells Fargo, N.A. as the new custodial services provider for CalTRUST. The contract should be for a term of two years and in two years CalTRUST should send out an RFP for both investment management and custodial services. The Board accepted the recommendation to terminate the custodial services agreement with Union Bank and select Wells Fargo, N.A. as the new custodial services provider for CalTRUST.

Motion: G. Duncan

Second: D. McAllister

Dan McAllister commented that he was supportive of the RFP process and the prudent business practices that CalTRUST is putting in place by limiting contract terms and issuing RFPs on a regular basis. He recommended that we adopt a CalTRUST Policies Manual with such prudent business practices.

12. Consider Audited Financial Statements for 2010-11 Fiscal Year

Dave Ciapponi presented the audited financial statements for the 2010-11 Fiscal Year. He reported that the auditor issued an unqualified clean opinion of the CalTRUST Audit and there was no knowledge of fraud. The Board accepted the audited financial statements for Fiscal Year 2010-11.

Motion: J. Colville

Second: D. Kent

13. Profit / Loss Statement Update

Kelli Oropeza reviewed the CalTRUST profit/loss statement and noted that the first page presented was incorrect. In the coming year CalTRUST will realize greater net income as we will no longer have Union Bank custodial fees.

14. Future Meetings

Laura Labanieh presented the future meetings calendar:

- 2012 Annual Meeting – April 25 at The Clement Intercontinental, Monterey, CA
- 2012 Fall Meeting – September 12 at La Valencia Hotel, La Jolla, CA
- 2013 Annual Meeting – April – To Be Determined
- 2013 Fall Meeting – September 11 – La Valencia Hotel, La Jolla, CA

15. Other Business

There was no other business.

16. Public Comment

There was no public comment.

17. Adjourn

The meeting was adjourned at 10:53 a.m.