MINUTES

DIRECTORS PRESENT:
Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Lawrence L. Matheney, Treasurer, Ex-officio Member
Karen Becker, General Employee Member
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT:
Chris Johnston, Alternate Employee Member

STAFF PRESENT:
Tim Thonis, Retirement Administrator
Lori Nemiroff, Assistant County Counsel
Michelle Hernandez, Retirement Specialist

PLACE:
Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME:
9:00 a.m.

ITEM:

I. INTRODUCTION OF MEETING
Chairman Towner called the Business Meeting of January 22, 2007, to order at 9:00a.m.
II. APPROVAL OF AGENDA

Mr. Harris moved, seconded by Mr. Henderson, to approve the Agenda.

Motion passed.

III. APPROVAL OF MINUTES


Mr. Henderson moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of January 8, 2007.

Motion passed.

IV. APPLICATION FOR DISABILITY RETIREMENT

A. Application for Service Connected Disability Retirement; Melinda Siemens, Case No. 05-029. (continued from January 8, 2007 Disability Meeting.)

1. Application for Disability Retirement and Supporting Documentation.


4. Hearing Notice.

Mr. Towner recused himself due to his supervision of the applicant in the District Attorney's office. Mr. Wilson assumed the role of the Chairman for the item.

Marshall Graves, Attorney at Law, and Paul Hilbun were present on behalf of the County of Ventura, Risk Management. Mark Singer, Attorney at Law, appeared telephonically on behalf of the applicant, Melinda Siemens.

Mr. Wilson introduced into evidence the Application for Disability Retirement and Supporting Documentation consisting of 30 pages without objection from either party.

Mr. Graves and Mr. Singer submitted on the written stipulations.
IV. APPLICATION FOR DISABILITY RETIREMENT (continued)

A. Application for Service Connected Disability Retirement; Melinda Siemens, Case No. 05-029. (continued)

Mr. Goulet expressed concern that the Board did not have the full record in the case including the application filed by the employer for nonservice connected disability.

Staff provided input regarding the documentation before the Board and also informed the Board that the application for nonservice connected disability was granted in early 2006.

Mr. Goulet questioned the nature of the applicant's injury due to slipping on pine needles.

Mr. Graves provided clarification on the applicant's injury and the employer filed disability application.

Ms. Nemiroff provided additional background on the distinction between the employer-filed application for nonservice connected disability retirement and the application for service connected disability retirement.

Mr. Matheney moved, seconded by Mr. Harris, to adopt the stipulations and grant the applicant, Melinda Siemens, a service connected disability retirement.

Motion passed. Mr. Goulet abstained.

Parties waived findings of fact.

V. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of December 2006.


V. **CONSENT AGENDA (continued)**


Mr. Harris moved, seconded by Mr. Goulet, to approve the Consent Agenda.

Motion passed.

VI. **INVESTMENT INFORMATION**

A. Western Asset Management Investment Presentation on Portable Alpha Strategies, Joseph C. Carieri and Stephen P. Fulton.

Joe Carieri and Stephen Fulton were present from Western Asset Management.

Mr. Carieri provided background information on Western's U.S. Index Plus product that replicates the return of the S&P 500 index and provides an incremental return through the management of a risk controlled short-term bond portfolio. Over the last ten years, the strategy has beaten the S&P 500 index by an average of 90 basis points per year.

Mr. Fulton reviewed the mechanics of the strategy detailing how Western replicates the S&P 500 index utilizing futures contracts and manages the incremental cash to provide returns greater than the London Interbank Offering Rate (LIBOR).

Western currently manages approximately $16 billion in the strategy and is seeing many institutional investors utilizing the strategy as a hybrid type strategy between pure active and pure passive strategies.

Mr. Wilson moved, seconded by Mr. Matheney, to direct EnnisKnupp to deliver a search report in April to identify managers for the Board to interview. The report would profile the Western Asset Management platform.

Motion passed.
VI. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates Presentation, Kevin Vandolder & Justin Mier.

1. Monthly Investment Performance Update.

Mr. Mier reviewed VCERA’s investment performance through December 2006 focusing on the fiscal year to-date performance of 10.3%, and the good relative performance in the domestic and international markets produced by Wasatch and Sprucegrove. Wasatch’s performance was aided by the under-weighting of energy stocks while Sprucegrove continued to benefit by under-weighting Japan. Loomis Sayles continued to provide good relative out-performance for the fiscal year.


   a. Delta
   b. LSV
   c. Wasatch
   d. Sprucegrove
   e. Capital Guardian
   f. GMO
   g. Wellington
   h. Western
   i. Reams
   j. Loomis Sayles

Mr. Vandolder commented regarding Delta’s recent hiring of a portfolio manager with experience managing long/short strategies.

Mr. Wilson moved, seconded by Mr. Hansen, to receive and file the monthly investment report and monthly investment manager update.

Motion Passed.


   (items #3 & #4 were considered jointly)

Mr. Vandolder indicated that these items reflected the Board’s annual review of investment guidelines that served as a risk control tool and method of communication with VCERA’s managers. Mr. Mier reviewed the
VI. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates Presentation, Kevin Vandolder & Justin Mier. (continued)

four substantive changes requested by the managers. The four key changes to the policy sought were:

1. LSV requesting to increase total number of issues in the portfolio to be increased from 145 to 175.
2. Sprucegrove requesting to lower the minimum limit on Japan holdings from 10% to 5%.
3. GMO requesting an opportunity to add an additional fund to its global equity mandate, the “Alpha Only” strategy, and being allowed to invest up to 10% of the total allocation. The fund attempts to add value shorting equity futures and generating incremental return through security selection and money market rates on short positions.
4. Western requesting to be allowed to utilize two additional LLCs, Western Asset Bank Loans and Local Market Debt Securities subject to legal and administrative review of the LLC documents.

Mr. Goulet requested and received clarification on the manager’s reporting requirements.

Mr. Henderson moved, seconded by Mr. Matheney, to adopt the four recommended guideline changes.

Motion Passed.


Mr. Vandolder updated the Board regarding EnnisKnupp’s misapplication of BGI’s marginal pricing on VCERA’s various portfolios. EnnisKnupp was applying the marginal pricing construct to the equity portfolios and not including the debt index product. The incorporation of the debt product in the marginal pricing resulted in an overestimating of fees by approximately .60 of 1 basis point. Historical BGI returns have been restated to reflect the adjustment and were not materially impacted.

Mr. Harris moved, seconded by Mr. Hansen, to receive and file EnnisKnupp’s memorandum.

Motion Passed.
VI. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates Presentation, Kevin Vandolder & Justin Mier.
   (continued)

6. Infrastructure Overview.
   a. An Introduction to Infrastructure Investing.
   b. Research Draft - “Exploring Infrastructure”.

Mr. Vandolder informed the Board that he would like to place this subject
matter on the Board’s next investment retreat agenda. Mr. Vandolder
believes the asset class would be beneficial to VCERA given that
infrastructure returns show low correlation to traditional asset classes,
compelling yields and Mr. Vandolder believed that early implementers
would benefit the most. Additionally, Mr. Vandolder indicated that
infrastructure investing was now 15%-20% of pension plan portfolios in
Canada and the U.K.

Mr. Henderson moved, seconded by Mr. Hansen, to receive and file the
EnnisKnupp papers on Infrastructure Investing.

Motion passed.

C. Recommendation and Approval for Participation in Reams Columbus
   Extended Market Fund LLC.

1. Letter from Staff.


4. Columbus LLC Offering Memorandum.

Staff updated the Board regarding efforts in obtaining a side letter on the
use of leverage in the fund and requested the Board approve VCERA’s
participation in the Columbus Extended Market Fund with the Chairman
authorized to sign the necessary documents.

Mr. Hansen moved, seconded by Mr. Harris, to approve VCERA’s
participation in the Columbus Extended Market Fund.

Motion passed.
VII. NEW BUSINESS


2. Presentation of the June 30, 2006 Audit Results.


5. Required Communication to the Board of Retirement in Accordance with Professional Standards.

Mr. Andrew Paulden, CPA, was present from Brown Armstrong to discuss the results of the June 30, 2006 audit. Mr. Paulden reviewed the timelines, internal controls and confirmation process utilized in the audit process. Mr. Paulden indicated Brown Armstrong utilized a risk-based approach to the engagement leading to most of the audit process being spent in the investment, participant data, benefit payments and contribution areas of VCERA's operation.

Mr. Paulden stated that Brown Armstrong issued an unqualified opinion and that VCERA's financial statements were presented fairly in accordance with generally accepted accounting principles. In addition, Mr. Paulden informed the Board that there were no identified weaknesses in internal control and compliance with laws and regulations. Further, Mr. Paulden stated that Brown Armstrong did not have any disagreements with VCERA management on the treatment of accounting transactions.

Mr. Matheney questioned, as a client, where VCERA ranks in terms of importance within Brown Armstrong's client list.

Mr. Paulden informed the Board that revenue generated from the VCERA engagement is not material in terms of Brown Armstrong's total revenues. Further, Mr. Paulden discussed the quality control and peer review process maintained at the firm.
VII. **NEW BUSINESS (continued)**

A. Review and Approval of Annual Financial Report From Brown Armstrong; Andrew J. Paulden. (continued)

Ms. Becker moved, seconded by Mr. Goulet, to approve VCERA's Comprehensive Annual Financial Report dated June 30, 2006 along with additional required communication from Brown Armstrong.

Motion passed.

B. Review and Approval of Annual Actuarial Report as of June 30, 2006; The Segal Company; Paul Angelo and John Monroe. (Materials were distributed at 12/18/06 meeting.)

John Monroe, Consulting Actuary, was present from The Segal Company.

Mr. Monroe discussed the purpose of the valuation report which was to summarize the actuarial data used, establish the funding requirements for the 2007/2008 fiscal year and analyze the preceding year actuarial experience.

Mr. Monroe described the actuarial process utilized to develop the actuarial value of assets that smooths investment gains and losses over and above the assumed earnings rate of 8% over a 5-year period. Mr. Monroe directed the Board's attention to page #5 of the report to illustrate the development of the actuarial value of assets.

For the year, VCERA's funding status fell from approximately 86% to 83.5% with a corresponding increase in the Unfunded Actuarial Accrued Liability (UAAL) of $133 million.

Mr. Monroe stated that the decrease in funding status and increase in UAAL was attributable to two factors: implementation of new actuarial assumptions as a result of VCERA's 2005 actuarial experience study and the change in plan provisions to assimilate the liability for the Tier II COLA provisions previously adopted.

Mr. Matheney questioned why the Tier II COLA would be an additional cost to the plan sponsors and was informed that the cost increase was attributable to lowering of the earnings assumption, change in the plan's mortality assumption and the 2 years of benefit coverage that were provided without contributions.
VII. NEW BUSINESS (continued)

B. Review and Approval of Annual Actuarial Report as of June 30, 2006; The Segal Company; Paul Angelo and John Monroe. (continued)

Mr. Goulet questioned the impact of the salary increases and why such increases were not included in Mr. Monroe’s analysis of the factors causing the UAAL increase.

Mr. Monroe stated, that in his opinion, the increase in the employer contribution rate of approximately 2.4% could be attributed to the approximate 2% increase attributable to the mortality assumption change and approximate .40% due to the inclusion of the Tier II COLA benefit. The increase due to salary changes was offset by the investment gain; therefore, absent the assumption and benefit changes the employer contribution rate would have remained unchanged and perhaps decreased slightly.

In terms of employee rates, Mr. Monroe indicated that rates will be increasing slightly as a result of the mortality assumption change.

Mr. Monroe stated that there was good news in terms of there being $175 million in investment gains to be recognized in the actuarial process over the next four years and the very bad investment year of 2002 had now been fully assimilated into the actuarial value of assets.

The Board held additional discussion as to why Tier 1 rates were so volatile, the reconciliation of actual annual required contributions to those projected in the actuarial valuation report and how the results of the actuarial valuation were communicated to plan sponsors and incorporated into the budget process.

Mr. Hansen moved, seconded by Mr. Wilson, to adopt the June 30, 2006 actuarial report.

Motion passed.

B. Review and Approval of Annual Actuarial Report as of June 30, 2006; The Segal Company; Paul Angelo and John Monroe. (continued)

C. Recommendation from Staff to Approve The Segal Company’s Proposed Determination of Ventura Regional Sanitation District’s Actuarial Value of Assets.

1. Letter from Staff.
VII. NEW BUSINESS (continued)

C. Recommendation from Staff to Approve The Segal Company's Proposed Determination of Ventura Regional Sanitation District's Actuarial Value of Assets. (continued)


Staff reviewed the reasons behind the Ventura Regional Sanitation District's request to determine the actuarial value of assets attributable to District, staff's preference to work with outside fiduciary counsel on the matter and the process to be followed by The Segal Company in arriving at the District's actuarial asset value.

Mr. Hansen moved, seconded by Mr. Wilson, to approve staff's recommendation to direct The Segal Company perform the required analysis, subject to staff obtaining written confirmation from the District to reimburse VCERA for the study's cost, and to engage outside fiduciary counsel to assist staff with the legal issues involved in a district withdrawal from the system and in determining whether VCERA should develop a termination policy to deal with similar issues should they arise in the future.

Motion passed.

D. Recommendation from Staff to Approve the Amendment of Sprucegrove Investment Management Guidelines.

1. Letter from Staff.


Staff reviewed Sprucegrove's request to reduce the minimum security holdings in Japan from 10% to 5% in its international commingled equity strategy.

Mr. Matheney moved, seconded by Mr. Hansen, to approve staff's recommendation.

Motion passed.
VII. NEW BUSINESS (continued)

E. Letter from Staff Requesting Approval of Travel to the Institutional Investors The Search for Alpha Forum.

Mr. Hansen moved, seconded by Mr. Harris, to approve Mr. Towner's attendance at the Institutional Investor, Search for Alpha Forum.

Motion passed.

F. Letter from Staff Requesting Approval of Travel to the SACRS Public Pension Investment Management Program.

Mr. Goulet moved, seconded by Mr. Harris, to approve the participation of all trustees wishing to attend the SACRS Public Investment Management Program.

Motion passed.

VIII. OLD BUSINESS

A. Recommendation from Staff Regarding Technology Consultant.

Staff reviewed the process followed in preparing the Request for Information, summarized the strengths and weaknesses of the candidates that submitted responses to VCERA's request and provided the basis for staff's recommendation of Linea Solutions, Inc. to provide consulting services to assist staff in implementing VCERA's technology plan.

Mr. Hansen moved, seconded by Mr. Wilson, to approve staff's recommendation.

Motion passed.

VII. INFORMATIONAL

A. Publications (Available in Retirement Office)
   1. Institutional Investor
   2. Pensions and Investments
   4. EnnisKnupp EK Advisor Newsletter.

VIII. PUBLIC COMMENT

Mr. Thonis indicated that the planned discussion on providing trustees with agendas electronically scheduled for today’s meeting will be placed on the agenda for a future meeting.

IX. BOARD MEMBER COMMENT

Mr. Wilson stated that he reviewed the December 18, 2006 agenda provided on CD and found it difficult to move easily between agenda items and was not convinced personally that the preparation of agendas electronically was a step forward.

X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:35 a.m.

Respectfully submitted,

[Signature]
TIM THONIS, Administrator

Approved,

[Signature]
TRACY TOWNER, Chair