VENTURA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JANUARY 23, 2012

MINUTES

DIRECTORS PRESENT: William W. Wilson, Chair, Public Member
Tracy Towner, Vice Chair, Safety Employee Member
Steven Hintz, Treasurer-Tax Collector
Steve Bennett, Public Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Robert A. Hansen, General Employee Member
Tom Johnston, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Safety Employee Member
Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT: None.

STAFF PRESENT: Henry Solis, Interim Retirement Administrator
Lori Nemiroff, Assistant County Counsel
Christina Stevens, Fiscal Manager

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 Wilson called the Business Meeting of January 23, 2012, to order at 9:00 a.m.
II. APPROVAL OF AGENDA

Mr. Goulet requested that Agenda Items VII. A. 1. and 2. be continued to the Disability Meeting of February 6, 2012.

Mr. Goulet moved, seconded by Mr. T. Johnston, to approve the Agenda, as amended, for the Business Meeting of January 23, 2012.

Motion passed.

Mr. Bennett arrived.

III. APPROVAL OF MINUTES

A. Disability Meeting of December 5, 2011.

Mr. Harris moved, seconded by Mr. Henderson, to approve the Minutes for the Disability Meeting of December 5, 2011.

Motion passed. Mr. Bennett and Mr. Harris abstained.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of December 2011.


C. Asset Allocation as of December 2011.


E. Budget Summary for the Month Ended December 31, 2011, Fiscal Year 2011-12.


Mr. Harris moved, seconded by Mr. Henderson, to approve Items A. through F. of the Consent Agenda.

Motion passed.
V. INVESTMENT INFORMATION

A. Letter from Staff Regarding Approval of Loomis Sayles Global Fixed Income Trust Documents and PIMCO Global Fixed Income Fund Documents.

1. Loomis Sayles.
   a. Briefing Memorandum
   b. Draft Representation Letter
   c. Declaration of Trust and Supplemental
   d. Uniform Futures and Options on Futures Risk Disclosures

2. PIMCO.
   a. Briefing Memorandum
   b. Draft Investment Management Agreement
   c. Offering Memorandum and Supplemental
   d. Pricing Policy

Mr. Thomas A. Hickey, III, Attorney at Law, was present from Foley & Lardner LLP to provide an overview of the investment documents between VCERA and Loomis Sayles ("Loomis"), and VCERA and Pacific Investment Management Company ("PIMCO") Mr. Hickey explained the document review process, which included a risk analysis and explanation as to how those risks had been mitigated or negotiated to an acceptable level.

Mr. Hickey stated that during his thirty-eight year legal tenure representing public employee pension plans he had seen significant changes with regard to investment manager contracts. As governmental plans sought to earn greater returns to meet the unfunded actuarial liabilities obligations, the hiring of an investment manager evolved from an administrative task to a sophisticated complex transaction, according to Mr. Hickey.

Mr. Hickey reviewed his scope of work with regard to the Loomis and PIMCO transactions. He stated that he compiled the documents from the investment managers; prepared a Briefing Memorandum related to each transaction; reviewed the salient points with staff and Ms. Nemiroff (collectively referred to in Item V.A. as “staff”) to assess that what he had gleaned from the documents was in fact what staff understood the documents to represent; and, defined for staff VCERA’s areas of exposure. Mr. Hickey stated he then entered into negotiations with the investment manager(s) to better align the language of the documents with staff understanding and VCERA’s interests, and prepared a Representation Letter that addressed all of the issues, including those of the choice of law and forum selection.

Mr. Hickey provided the Board with an overview of the Loomis agreements. He stated that the Loomis Sayles Global Fixed Income Trust (the “Fund”) was a series of the Loomis Sayles Series Investment Trust (the “Umbrella Trust”), and
V. INVESTMENT INFORMATION (continued)

A. Letter from Staff Regarding Approval of Loomis Sayles Global Fixed Income Trust Documents and PIMCO Global Fixed Income Fund Documents. (continued)

Loomis Sayles Trust Company, LLC ("LSTC") was the trustee of the Fund and managed the portfolio, and while the entities were highly regulated and Loomis was a registered investment adviser with the SEC, Mr. Hickey negotiated the standard of care that was aligned with that of the VCERA Board of Retirement Members.

Mr. Hickey drew attention to various provisions of interest, including that Loomis was not using any screens to insulate the investment advisors, thereby allowing recourse for VCERA; the execution of the Subscription Agreement being directly with LSTC, the direct owner of which is Loomis Sayles & Company; and the inclusion of various provisions related to the termination and notification of Loomis' relationships, including State Street Bank and Trust Company ("State Street").

Mr. Goulet received clarification that the relationship between Loomis and State Street would not create a conflict of interest for VCERA as State Street had different contractual obligations with Loomis than it had with VCERA.

Mr. Hickey assured the Board of Retirement that Loomis would not be holding the assets in a street name, as it would expose the funds to possible undue risk; even though this exposure had, in some instances, been mitigated by the Dodd-Frank Act.

Mr. Hickey stated the investment strategy, as represented, was what Mr. Vandolder had brought to and was approved by the VCERA Board of Retirement.

The annual fees were to be paid directly by VCERA with 0.30% on the first $100 million and 0.20% on amounts over $100 million, and the Fund and LSTC would bear the operational expenses, according to Mr. Hickey.

Mr. Hickey offered the Board assurance that it was not an uncommon practice for the agreement to permit LSTC, the trustee, to temporarily suspend the calculation of net asset value and the subscription and withdrawal of Fund units, or extend the period for payment on a withdrawal, for the whole or any part of any period.

Mr. Hickey opined that there is an extremely remote possibility that unrelated business taxable income ("UBTI") will become an issue; however, he received a representation from Loomis that they do not intend to incur UBTI.
V. INVESTMENT INFORMATION (continued)

A. Letter from Staff Regarding Approval of Loomis Sayles Global Fixed Income Trust Documents and PIMCO Global Fixed Income Fund Documents. (continued)

Mr. Hickey acknowledged that the amount of insurance was not likely to be sufficient to make VCERA whole in the event of a catastrophic event, however this provision provided VCERA with a mechanism to recapture any losses.

He stated that it was standard practice to only indemnify the Board with regard to losses arising out of action or inactions in bad faith, gross negligence, or willful misfeasance.

There was the inherent possibility of conflicts of interest since the Investment Manager had other clients with analogous and disparate investment strategies but they were not extraordinary, opined Mr. Hickey.

Pursuant to the VCERA Policy Regarding Placement Agent Disclosure Information ("Placement Agent Policy"), it was disclosed by Loomis that there was a placement agent, Mr. Averill, stated Mr. Hickey. A discussion ensued regarding Placement Agents registering as lobbyists and the various other investment managers whose contracts predated the Placement Agent Policy. Mr. Vandolder stated that the policy was to provide transparency.

Mr. C. Johnston received clarification that the significance of this disclosure was with regard to a Freedom of Information Act ("FOIA") Request from a public action group.

Mr. Hickey opined that both Loomis’ legal counsel and auditor were well respected.

Mr. Hickey elaborated on those identified traditional and general risk factors and those areas of particular interest to VCERA.

Mr. Goulet received assurances from Mr. Hickey and Mr. Vandolder that Loomis would provide the monthly reporting as required by the Board. Mr. Goulet stated that, as a matter of semantics, the term “Amendment” in the Representation Letter was incorrect. Mr. Hickey stated he would change it.

Mr. Bennett moved, seconded by Mr. Harris, to approve the documents and authorize the Chairman to sign them.

Mr. Goulet received clarification that the Subscription Agreement would be completed by Mr. Hickey.

Motion passed.
V. INVESTMENT INFORMATION (continued)

A. Letter from Staff Regarding Approval of Loomis Sayles Global Fixed Income Trust Documents and PIMCO Global Fixed Income Fund Documents. (continued)

Mr. Hickey stated that PIMCO provided a separately managed account, the Global Fixed Income Mandate (the "Account"), which invested in underlying shares of the Private Account Portfolio Series of PIMCO Funds (the "Trust"), which, with the supervision of the Trust's Board of Trustees, managed the separate investment portfolios.

Mr. Hickey stated that the matters he negotiated on the Board's behalf included the alignment of PIMCO provisions with the Board Members' standard of care, the alignment of PIMCO's Investment Guidelines with those of VCERA, and favorable treatment with regard to conflict of interest and soft dollars provisions.

Mr. Vandolder recommended that VCERA consider prospectively implementing a program of operational due diligence. Though, he stated, this would not be an issue with the current Loomis and PIMCO mandates.

Mr. Hickey stated VCERA would not be liable for local taxes when the managers were buying and selling in emerging markets.

Mr. Goulet offered revisions to the Investment Management Agreement. He stated that the choice of law language was duplicated, it was in both Section 38 and in the third paragraph from the bottom of page 19; in Section 4, the second paragraph, the sentence beginning in the fourth line failed to include after the first use of the word "Manager" the words "shall disclose;" the inception date was missing on page 7; Section 34.10 made reference to Section 35.8, but the document did not contain a Section 35.8; in the Reporting Requirements and Transaction Types Section, the first paragraph, the last sentence should have the words, "shall be included." appended to it; and the investment objectives were conspicuously absent.

Mr. Goulet reiterated his concerns regarding the fees being based on a market price determined by PIMCO, and taxes. Mr. Hickey offered the Board assurance that, given the current facts, VCERA would not be liable for taxes, and he stated he would confirm his understanding with PIMCO. Mr. Chen stated he had the same understanding as Mr. Hickey. Ms. Nemiroff referred the Board to the last sentence in Section 31 of the Investment Management Agreement, in which PIMCO was to remain responsible for taxes.

Mr. Towner arrived,
V. INVESTMENT INFORMATION (continued)

A. Letter from Staff Regarding Approval of Loomis Sayles Global Fixed Income Trust Documents and PIMCO Global Fixed Income Fund Documents. (continued)

Mr. Goulet moved, seconded by Mr. Henderson, to approve the Investment Management Agreement subject to counsel making the articulated revisions.

Motion passed. Mr. C. Johnston opposed.

B. Hewitt ennisknupp, Kevin Vandolder, CFA.


   a. Monthly Investment Update
      Monthly Manager Updates
   b. Sprucegrove
   c. Artio
   d. Hexavest
   e. Walter Scott
   f. GMO
   g. Acadian
   h. Western
   i. Reams
   j. Loomis Sayles
   k. K2

Kevin Vandolder, CFA, and Kevin Chen, of Hewitt ennisknupp ("HEK"), were present to update the Board of Retirement on the December 2011 investment returns.

Mr. Vandolder opined that Jeremy Grantham of GMO was bullish and the equity market was rewarding risk taking. He stated that the Asset Liability Study would substantiate his assertion. Mr. Goulet stated he thought Mr. Grantham was bearish. Mr. Vandolder acceded that Mr. Grantham’s view that the population will be outgrowing raw materials may seem bearish.

Mr. Chen stated all of VCERA’s investments, except UBS Real Estate, were within their respective asset allocation ranges.

Artio underperformed the benchmark due to its investments in emerging markets by 270 bps, and is to be defunded by February 1st, according to Mr. Chen. He stated Total Global Equity outperformed the benchmark by 10 bps due to the Asia holding of Acadian, which is to be defunded by the end of the month. Reams outperformed the benchmark by 90 bps for the month which contributed to Fixed Income outperforming the benchmark by 50 bps,
V. INVESTMENT INFORMATION (continued)

B. Hewitt ennisknupp, Kevin Vandolder, CFA. (continued)

1. Monthly Manager Update, December 2011. (continued)

according to Mr. Chen. Mr. Chen stated that K2 Advisors, which is on the “watch list,” outperformed the benchmark.

Mr. Chen stated that VCERA’s portfolio outperformed the policy portfolio by 10 bps for the month.

Mr. Wilson stated that the portfolio had a -4.9% rate of return for the six month period, while the assumption rate of return was a 4.0%.

Mr. Vandolder stated that the current strategy with Clifton magnified the downward trend, and that he will be providing the Board with a solution set to address the issue at a future meeting.

Mr. Vandolder stated that while Western was on “watch” status for having violated policy with regard to high yield, he continued to be comfortable with their strategy and believes it will pay off. He encouraged the Board to exercise patience. Western had outperformed the benchmark since inception except for 2008 and 2009, according to Mr. Vandolder.

Mr. C. Johnston stated Western’s investment in U.S. securities rated below investment grade that exceeded the policy limit was a small percentage, but increasing.

Mr. Wilson received clarification that Western had briefly been in compliance during the Summer and early Fall of 2011.

Mr. Vandolder stated RREEF was also on “watch” status and he encouraged the Board to be patient.

Mr. Vandolder commented that VCERA’s peers who had terminated their relationships too soon had locked in their losses and were experiencing sellers’ remorse.

Mr. Vandolder stated there will be a more extensive discussion on the matter at the next Business Meeting, when he reviews the quarterly report.

Mr. Henderson moved, seconded by Mr. Harris, to receive and file the Monthly Manager Update, December 2011.

Motion passed,
V. INVESTMENT INFORMATION (continued)

B. Hewittennisknupp, Kevin Vandolder, CFA. (continued)


Mr. Chen stated that BlackRock, Mellon, and State Street Global Advisors ("State Street") all provided a commingled ACWI IMI Equity Index vehicle, with minimum fees. Mr. Chen recommended the Board choose a candidate that offered a lending option.

Mr. Chen stated that all three candidates were stable firms. This mandate would provide Mellon entry into the market, while BlackRock had $1.8 billion and State Street had $11.0 billion of product assets currently under management, according to Mr. Chen. He opined that this was reflected in their respective fees.

Mr. Vandolder stated that a passive global equity product was not available three or four years ago and over time the fees had and should continue to decrease.

Mr. Wilson received clarification that the global mandate had a 42% - 44% U.S. component.

Mr. Vandolder opined that Mellon was trying to "buy" VCERA's business by offering low fees, and HEK had worked with both BlackRock and State Street to be aggressive with containing their fees.

Mr. Goulet stated that Mellon offered VCERA a $50,000 fee savings for an index fund.

In response to Mr. Bennett's question, Mr. Vandolder stated that the tracking error difference between BlackRock and Mellon was $100,000 which more than offset the $50,000 fee difference. Mr. Vandolder stated that BlackRock used an Optimization Investment approach, while Mellon used a Stratified Sampling approach.

Mr. Vandolder stated a transition to Mellon rather than BlackRock would result in increased complexity during the transition as the documents were being reviewed, additional Board approval, and a delay in transitioning the funds out of Acadian for three months. He opined that it was highly likely that Mellon would be requesting a fee increase within the next twelve months because, relative to the market, they had underpriced the fees for their service.
V. INVESTMENT INFORMATION (continued)

B. Hewitt ennisknupp, Kevin Vandolder, CFA. (continued)

2. Memo from Kevin Vandolder, CFA and Kevin Chen, Hewitt ennisknupp, Regarding Global Passive Index Mandate. (continued)

Mr. Towner received clarification that BlackRock could also come back to the Board for a fee increase, but that it was not as likely because BlackRock was already positioned in the market and as the market continued to mature the fees had continued to decrease.

Mr. Goulet received clarification that while Mr. Vandolder could go back to BlackRock to negotiate fees, BlackRock had already reduced their fees. Mr. Vandolder proffered that he could return to negotiations with BlackRock and simultaneously request the documents from Mellon, and defund Acadian.

Mr. Wilson received clarification that Mr. Vandolder did not believe that VCERA would have undue risk as a result of concentrating funds with BlackRock because it was a passive investment and HEK had performed extensive due diligence on BlackRock.

Mr. Vandolder opined that opening discussions with Mellon could motivate BlackRock to adjust their fees, and that Mellon would like to bring other products for the Board’s consideration.

Mr. Towner moved, seconded by Mr. Henderson, to delay the decision to the next business meeting, to instruct HEK to go back to BlackRock and negotiate fees, and to obtain proposed investment documents from Mellon.

Mr. Goulet commented on and received clarification regarding the increased back-office resources required for administration and monitoring of holdings in separate accounts, including increased oversight requiring some investment management skill.

Mr. Goulet further commented on and received clarification that while there has been a role for staff with regard to managing the investments, such as rebalancing the portfolio in conjunction with HEK, with the addition of alternatives, for example private equity, there will be added levels of complexity and a much greater burden on staff to oversee the investments.
V. INVESTMENT INFORMATION (continued)

B. Hewitt ennisknupp, Kevin Vandolder, CFA. (continued)


Mr. Vandolder stated it will cost approximately 16 bps to defund Artio and fund the new managers. He opined that this is a reasonably low cost in relation to the complexity of the transaction. He stated that he will be working with staff to assist them in executing the necessary documents to terminate the relationship with Artio and position the assets into BlackRock, which can be done by the end of the month, at which time HEK will perform a post-transition review.

Mr. C. Johnston received clarification that Clifton could transition the funds, but, due to their size, they could not provide the cross transactions that BlackRock could, which reduced the cost and complexity.

Mr. Vandolder stated that, in the future, he will provide a cover letter for these types of transactions detailing what is being reviewed and why, but in this instance the researchers had been aggressively protecting VCERA’s confidentiality.

Mr. Henderson moved, seconded by Mr. Goulet, to receive and file the Pre-Transition Analysis from BlackRock for Aon Hewitt/EKA, Asset Restructuring – International Equities.

Motion passed.

VI. NEW BUSINESS

A. Review and Approval of Annual Actuarial Report as of June 30, 2011; The Segal Company; Paul Angelo and John Monroe.


Paul Angelo, FSA, Senior Vice President and Actuary, and John Monroe, ASA, Vice President and Associate Actuary, were present from The Segal Company (“Segal”) to present the results of the Actuarial Valuation and Review as of June 30, 2011.

Mr. Angelo stated that it was a relatively routine valuation. He reminded the Board of the market “roller coaster” that they had experienced which had impacted the smoothing.
VI. NEW BUSINESS (continued)

A. Review and Approval of Annual Actuarial Report as of June 30, 2011; The Segal Company; Paul Angelo and John Monroe. (continued)

Mr. Angelo directed the Board’s attention to the mandatory disclosure concerning the Board’s discretion with regard to using excess earnings to award ad hoc non-statutory benefits to the members, and that if excess earnings were routinely used to provide supplemental benefits, this would have to be factored into the funding recommendations.

Mr. Angelo stated that subsequent to June 30, 2004, any new changes in the Unfunded Actuarial Accrued Liability (“UAAL”) were amortized over separate 15-year periods.

Mr. Goulet received clarification that the market value return was calculated differently from that calculated by the Investment Advisor, HEK, and that Segal used a dollar weighted approach, while HEK used a time weighted approach.

Mr. Angelo stated another area where Segal and the Investment Advisor differed was regarding earnings, since there was an 8% assumed earnings rate Segal would state there was a 16% actuarial gain on the market value, while HEK would state there was a 24% gain on the market. In addition, with smoothing, amortizing the gain over five years, the entire 16% would not be recognized, according to Mr. Angelo.

Mr. Angelo remarked that the twelve 37 Act clients had remarkably similar returns because ultimately the plans were limited to the returns that the market provided.

Mr. Towner received clarification that while the actuarial investment loss increased the average employer contribution rate by 1.76% of compensation, this was a smaller increase than in the prior years.

Mr. Angelo stated that while the unfunded liability got larger in absolute terms, the relationship between the assets and the liabilities had not significantly changed.

Mr. Angelo reviewed the Development of Unfunded/(Overfunded) Actuarial Accrued Liability for Year Ended June 30, 2011, and stated that it detailed what would happen to the plan if all the assumptions were to come to fruition, except the twelve month time lag between the adoption of the contribution rates and the implementation of the contribution rates.

Mr. Angelo highlighted that the actuarial gain was as a result of fewer pay increases than was assumed, and the actuarial loss was as a result of the investment returns being less than assumed.
VI. NEW BUSINESS (continued)

A. Review and Approval of Annual Actuarial Report as of June 30, 2011; The Segal Company; Paul Angelo and John Monroe. (continued)

Mr. Towner stated that the number of employees had changed very little from 2010 to 2011 so it was a true reduction in pay increases.

Mr. Angelo stated that the average employer rate increased from 22.43% to 23.82% primarily because of the investment loss, while the average member rate remained 8.24%. He stated that with a reduction in salaries there was a smaller base over which to allocate the liability therefore a greater burden per salary dollar, but there is a smaller normal cost. Mr. Angelo concurred with Mr. Towner that Tier 1 is an example of this.

Mr. Angelo opined that VCERA consider actively managing the asset smoothing by accelerating the period over which it recognizes the remaining $64 million prior year losses into a single four-year smoothing layer, which would increase the average employer contribution rate to 24.7% from the 23.82%. He stated that the only decision before the Board today, however, was the adoption of the rates in the report.

Mr. Rubalcava representing SEIU Local 721 was present. He stated he supported the funding policy review recommended by Segal, and the implementation of the four year smoothing to stabilize the rate impact on the plan sponsor.

Mr. Angelo discussed the prior 10-year rolling amortization which resulted in the unfunded liability never being paid off, and the transition to the fixed period pay off. He stated that in the actuarial calculations VCERA is viewed as three subplans: Tier 1, Tier 2, and Safety; and the Tier 2 gain offset the Tier 1 and Safety losses. Mr. Monroe reiterated that the Tier 2 gain was as a result of the reduction in salaries more than offsetting the investment losses.

Mr. Goulet received clarification that it was not as a result of the Tier 2 members being paid less than the other tiers in terms of absolute dollars, but rather as a result of the percentage change in the salary.

Mr. Goulet moved, seconded by Mr. Hintz, to receive and file the report and adopt the June 30, 2011, actuarial valuation report.

Motion passed.
VI. NEW BUSINESS (continued)

A. Review and Approval of Annual Actuarial Report as of June 30, 2011; The Segal Company; Paul Angelo and John Monroe. (continued)

2. Review of Funding Policy.

Mr. Angelo stated that there will be a demographic and economic assumption experience review this year, and Segal will coordinate this with the HEK Asset Liability Study, but he also proposed a review of the funding policy. He stated a review of the funding policy would provide the Board with various solution sets providing different amortization periods for different components of the model, including any future surplus. Mr. Angelo stated if the Board would prefer not to do a general review then he can perform a more focused tactical review. He emphasized that the funding policy and the assumptions are within the control of the Board.

Mr. C. Johnston received clarification that Segal initiated the request for the funding policy review.

Mr. Angelo stated there were three items he wanted the Board to consider: the five year smoothing; the cost method entry age; and the application of the 15 year amortization period.

Mr. Bennett received clarification that the funding policy was comprised of the actuarial methods, asset smoothing, and the amortization policy.

Mr. Wilson stated that the asset allocation had substantially changed because the Board is taking greater risk to get the returns to meet the assumption rate.

Mr. C. Johnston received clarification that smoothing a surplus over a longer amortization period was to work in concert with any other strategies, including derisking the portfolio, that the Board decided to implement.

Mr. Wilson opined that if there were a surplus it may be appropriate to allocate $1 billion into government bonds, thus eliminating the surplus.

Mr. Angelo stated that the rates should never go below the normal rate.

Mr. C. Johnston stated that the Board should take action to put such a policy in place.

Mr. Towner questioned whether the political willpower to enforce the policy existed, and stated that the Board could change the policy at any time.
VI. **NEW BUSINESS** (continued)

A. Review and Approval of Annual Actuarial Report as of June 30, 2011; The Segal Company; Paul Angelo and John Monroe. (continued)

Mr. T. Johnston moved, seconded by Mr. Towner, to review the funding policy and return to the Board sometime this spring.

Mr. Goulet received clarification that no funds had been budgeted for this review, but that the contingency had been set up as a placeholder for these situations.

Motion passed.

Mr. Bennett left the meeting.

B. Review and Approval of Annual Financial Report From Brown Armstrong Accountancy Corporation; Andrew J. Paulden, CPA.


Andrew J. Paulden, CPA, partner of Brown Armstrong Accountancy Corporation (“Brown Armstrong”) was present to review the audit process and their reports related to the VCERA Comprehensive Annual Financial Reports dated June 30, 2011 (the “CAFAR”).

Mr. Paulden stated the purpose of an audit was to provide the Board and other users of the financial statements assurance that they were fairly presented in all material respects.

Mr. Paulden provided an overview of the audit process which included the development of an audit plan; a timeline for deliverables; an assessment of the strengths and weaknesses of the internal control systems; testing of the internal control systems and management’s assertions through a process of collecting, examining, and verifying internal data and confirmations with third parties including investment managers, the custodian, the investment advisor, the actuary, legal counsel, retirees and active members, and the plan sponsors.
VI. NEW BUSINESS (continued)

B. Review and Approval of Annual Financial Report From Brown Armstrong Accountancy Corporation; Andrew J. Paulden, CPA. (continued)

Mr. Paulden stated that the audit was conducted in accordance with government auditing standards, which required a risk based audit approach to detect errors, irregularities, and fraud. He stated the four greatest areas of exposure were: the correct valuation of the investments including earnings and appreciation; the timely receipt, accurate calculation, and fair presentation of the contributions; the timely disbursement; and compliance with the plan provisions in the calculation of benefit payments; and the correct and accurate delivery of participant data to the actuary.

The audit reports were the work product of Brown Armstrong, according to Mr. Paulden. He stated that the Independent Auditor’s Report expressed an unqualified opinion, the highest opinion; the Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards Dated December 30, 2011, stated that there were no instances of noncompliance or other matters that were required to be reported; and, there were no negative findings or issues would have been required to be documented in the Required Communication to the Board of Retirement in Accordance with Professional Standards Dated December 30, 2011.

Mr. Goulet received clarification that the corrections he had provided staff were revisions to the supplementary sections of the report and did not impact the Auditor’s reports.

Mr. Paulden stated that the implementation of the GASB pronouncements would impact the plan sponsor.

Mr. Henderson expressed his appreciation to Mr. Solis for his preparation of the CAFR.

Mr. Henderson moved, seconded by Mr. Hintz, to approve the CAFR subject to the changes.

Motion passed.

C. Request to Attend CALAPRS Trustees’ Roundtable, San Jose, CA - February 3, 2012.

VI. NEW BUSINESS (continued)


Mr. Towner moved, seconded by Mr. Harris, to approve Mr. Goulet to attend the CALAPRS Trustees’ Roundtable in San Jose, CA and Mr. T. Johnston to attend the LA Trustees Network “Round-Up” in Los Angeles, CA and the CALAPRS Principles of Pension Management for Trustees in Palo Alto, CA.

Motion passed.

F. Report of Administrator Travel & Other Expenses.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file Item VI. F.

Motion passed.

VII. OLD BUSINESS

A. Pension Administration System (PAS) Project,

1. Letter from Staff Recommending the Approval of the Addition of Three Fixed-Term Positions and Other Costs in Support of the Pension Administration System (PAS) Project.

Mr. Goulet moved, seconded by Mr. Henderson, to approve the addition of three fixed-term positions and other costs in support of the Pension Administration System (PAS) Project.

Motion passed.

B. Writ of Mandate Board of Retirement of the Contra Costa County Employees’ Retirement Association vs. the County of Contra Costa.

Mr. Wilson requested that VCERA ask if the County of Ventura had a legal opinion from Ventura County Counsel on the matter of the Retirement Administrator’s salary.

Mr. Wilson stated he concurred with the reasoning behind the Contra Costa County Counsel’s position.

Ms. Nemiroff stated that the Ventura County Counsel had issued an opinion to the County Executive’s Office prior to Ms. Robinson speaking to the VCERA Board of Retirement, advising her that the County of Ventura had the ultimate authority to set the salary of the Retirement Administrator, and that Ms. Robinson
VII. OLD BUSINESS (continued)

B. Writ of Mandate Board of Retirement of the Contra Costa County Employees' Retirement Association vs. the County of Contra Costa. (continued)

stated this in her comments to the Board. If the Board of Retirement would like to receive that opinion, the CEO has the authority to waive the attorney-client privilege; if the Board decided to sue the County of Ventura, they would want to consider hiring outside counsel, according to Ms. Nemiroff.

Mr. Goulet introduced the Westly case, which Ms. Nemiroff expounded upon and stated that CalPERS did not have the authority to set salaries higher than the state's legislative cap, analogous to the 1937 Act statute that states that the Retirement Administrator's salary shall be included in the County's ordinance.

Mr. Goulet distinguished the Contra Costa County position from that of the VCERA Board of Retirement in that the Board did not want to address all employees' salaries.

Ms. Nemiroff stated the CCCERA's claim of authority to set "lawful" salary makes it unclear in the Petition whether they are seeking to stay within the salary range or not.

Mr. Towner moved, seconded by Mr. Goulet, to request the Ventura County CEO waive privilege and allow the VCERA Board of Retirement to receive the opinion.

Motion passed.

VIII. INFORMATIONAL

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. SACRS Spring 2012 Election Schedule.
IX. **PUBLIC COMMENT**

Staff requested the PAS material be left at the tables for recycling.

Staff stated he will have the documents regarding Ms. Cynthia York reproduced for the Board.

With regard to the PAS Project, the PIMCO and Loomis document review, and the CAFR, staff respectively thanked Ms. Downey and Mr. Colker, Ms. Nemiroff, and Ms. Stevens for their assistance.

X. **BOARD MEMBER COMMENT**

Mr. Wilson reminded the Board that communications with the Press was governed by the VCERA Trustee Communications Policy. He expressed his preference that all issues to be discussed be brought to the Board.

Mr. Towner stated that the Retirement Administrator and the Chairman of the Board speak on behalf of the VCERA Board of Retirement.

Ms. Nemiroff stated that when Board Members speak to the Press they need to make it clear that they are expressing their personal opinion and are not speaking on behalf of the VCERA Board of Retirement.

Mr. Henderson stated anything said during a closed session should not be discussed with the Press.

Mr. Goulet stated that while he agrees, he cannot control what the paper reports.

Mr. Goulet stated he wished to prospectively congratulate Mr. Wilson, Mr. Harris, and Mr. Henderson on their reappointments by the Board of Supervisors to the VCERA Board of Retirement.
XI. CLOSED SESSION

It is the Intention of the Board of Retirement to Meet in Closed Session to Discuss the Appointment of a Public Employee; Retirement Administrator, Pursuant to the Provisions of Government Code Section 54957(b)(1).

Ms. Nemiroff reviewed those matters that should be discussed in closed session and those matters that should be discussed or announced in open session.

The Board of Retirement adjourned into closed session to discuss the appointment of a Public Employee; Retirement Administrator, pursuant to the provisions of Government Code Section 54957(b)(1).

Ms. Nemiroff announced that the Board had determined to end the second recruitment for the VCERA Retirement Administrator and the Board will be interviewing candidates that came to the Board’s attention outside of the formal recruitment process.

XII. ADJOURNMENT

Mr. Towner moved, seconded by Mr. Harris, to adjourn the meeting at 12:30 p.m.

Motion passed.

Respectfully submitted,

HENRY SOLIS, Interim Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman