

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JANUARY 28, 2008

MINUTES

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

DIRECTORS ABSENT: None.

STAFF PRESENT: Tim Thonis, Retirement Administrator
Lori Nemiroff, Assistant County Counsel
Walter Lauzon, Chief Financial Officer

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 28, 2008, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Towner suggested that the Board consider Item A of New Business –Review and Approval of Annual Actuarial Report - prior to the consideration of Item A of Old Business –Review of Reserving, Interest Crediting and Excess Earnings- for the fluidity of the meeting.

Mr. Henderson moved, seconded by Mr. Harris, to approve the agenda, with the Chairman's suggested amendment.

Motion passed.

III. APPROVAL OF MINUTES

- A. Disability Meeting of January 7, 2008.

Mr. Harris moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of January 7, 2008.

Motion passed. Mr. Hansen abstained.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of December 2007.
- B. Statement of Plan Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents and Schedule of Investment Manager Fees for the Months Ending November 30, 2007 and December 31, 2007.
- C. Report of Checks Disbursed in December 2007.
- D. Budget Summary for the Month Ended December 31, 2007, Fiscal-Year 2007-08.
- E. Barclays Global Investors Report for the U.S. Equity Index Fund, Extended Equity Market Fund, U.S. Debt Index Fund, ACWI EX-US Fund for the Month Ended December 31, 2007.

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

Motion passed.

V. INVESTMENT INFORMATION

A. EnnisKnupp & Associates.

1. Monthly Investment Performance Update.
2. Monthly Manager Updates/Summary, December 2007.
 - a. Delta
 - b. LSV
 - c. Wasatch
 - d. Sprucegrove
 - e. Capital Guardian
 - f. GMO
 - g. Wellington
 - h. Western
 - i. Reams
 - j. Loomis Sayles

Staff provided a brief summary of the investment performance for the month of December focusing its comments on the negative returns experienced in the equity markets, Delta's outperformance during the month and the outperformance of VCERA's active international equity managers, Capital Guardian and Sprucegrove, during December. VCERA's active fixed income managers, Western, Reams and Loomis Sayles, all underperformed their respective benchmarks during the month. VCERA's total return for the month was -0.40% which matched the policy portfolio return.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file the Monthly Investment Performance Update and the Manager Updates for December 2007.

Motion Passed.

3. Memorandum – MSCI Global Investable Market Indices - Update.

Staff reviewed the EnnisKnupp memorandum regarding the MSCI Global Investable Market Indices, noting the proposed changes to the index, the current status of Barclays Global Investors' provisional indices, and recommended, due to the transaction costs involved, that VCERA wait, until the final reconstitution of the indices occurred in May before transitioning the passive international equity investments to the GIMI MSCI All Country World ex-US Index.

V. **INVESTMENT INFORMATION** (continued)

A. EnnisKnupp & Associates. (continued)

4. Memorandum – Update on Western Asset’s Core Plus Performance.

Staff summarized Western Asset Management’s 2007 investment results noting the significant underperformance of 220 basis points relative to the benchmark and cited Western’s material overweighting to the mortgage sector as the primary reason for the underperformance. Staff recommended, based upon VCERA’s longstanding relationship with Western, to be patient as the historically wide credit spreads that currently exist within the mortgage sector should tighten going forward resulting in a turnaround in Western’s performance.

Mr. Wilson moved, seconded by Mr. Matheney, to approve the recommendations contained in the EnnisKnupp memoranda.

Motion Passed.

VI. **OLD BUSINESS**

A. Review of Reserving, Interest Crediting and Excess Earnings Policies, The Segal Company; Paul Angelo and John Monroe.

1. Letter from The Segal Company Dated January 18, 2008.
2. Letter from Staff Recommending Changing Methodology for Determining Earnings for Interest Crediting.
3. Presentation Materials.
 - Slideshow
 - Charts
4. Steeffel, Levitt & Weiss Analysis Dated January 2, 2008.
(Attorney – Client Privileged)
5. Letter from The Segal Company Dated October 9, 2007.

Paul Angelo and John Monroe were present from The Segal Company to discuss reserving, excess earnings and interest crediting policies.

Mr. Angelo outlined the goals of the presentation which were to focus on interest crediting and excess earnings mechanics with a resulting policy

VI. OLD BUSINESS (continued)

A. Review of Reserving, Interest Crediting and Excess Earnings Policies.
(continued)

recommendation to change the "available earnings" measure for interest crediting to one based upon VCERA's actuarial value of assets rather than the current "available earnings" measure based upon book value.

Mr. Angelo reviewed the actuarial cost methods and the basis for determining a plan's annual cost. Mr. Angelo reminded the Board of the fact that contributions + investment income equals benefit payments + expenses.

According to Mr. Angelo, VCERA's consideration of "undistributed earnings" as a valuation reserve is atypical amongst '37 Act systems. Most systems consider "undistributed earnings" as a non-valuation reserve until that point in time when the earnings are transferred by board action to County Advance Reserves in accordance with the provisions of the '37 Act. Mr. Angelo stated that the majority of systems exclude "undistributed earnings" from valuation reserves preventing a decrease in amortization costs and, if later, the retirement board decides to "spend" excess earnings on a supplemental benefit there is no impact on contribution rates. Mr. Angelo terms this scenario a form of "forced budgeting". VCERA, by contrast, includes "undistributed earnings" in its valuation reserves thereby lowering plan amortization costs, but causing an increase in employer contribution rates should the board decide to later "spend" undistributed earnings on supplemental benefits.

Mr. Matheney questioned the impact of earnings on "non-valuation" reserves.

Mr. Angelo responded that in effect the plan would have "earnings" on all plan assets, including nonvaluation reserves, and these "earnings" may in fact assist in the crediting of interest to valuation reserves in a "down" investment year.

Mr. Angelo also provided a historical perspective on excess earnings that noted the domination of fixed income investments in the past, when it was possible to lock in gains and produce "excess earnings," and contrasted that practice with the relatively recent acceptance of equity investments, where there is more volatility in earnings. Mr. Angelo explained that this volatility is dealt with by asset smoothing. Mr. Angelo discussed the weaknesses associated with utilizing a "book value" measure of earnings

VI. OLD BUSINESS (continued)

A. Review of Reserving, Interest Crediting and Excess Earnings Policies (continued)

and noted that using the "actuarial value" was the favorite among '37 Act systems. The benefits of utilizing "actuarial value" for measuring earnings include consistency between actuarial gains/losses and the interest crediting measurement. Segal's recommendation would be for VCERA to utilize the "actuarial value" as the basis for determining "available earnings" in the interest crediting process.

Mr. Angelo reviewed the ideal '37 Act reserve structure and contrasted VCERA's current reserve structure with the model or ideal structure. Mr. Angelo then discussed how VCERA's reserves would be disclosed utilizing the "actuarial value" based approach noting the recommendation to move the transitional amount of \$484 million into an employer reserve in order for the valuation value of assets to be equal to the valuation reserves, resulting in a "no impact" transition to the new methodology for measuring available earnings. Mr. Angelo explained that one basis for the "no impact" recommendation is that the transitional \$484 million is not currently subject to Board discretion, and this amount would retain that characteristic if it were used in restating the County Advance Reserve. Mr. Angelo noted that, as an alternative, the Board could consider the creation of a separate valuation reserve to use for the transitional amount.

In response to a question regarding the impact on the STAR COLA reserve, staff explained that with use of book value for measuring reserves, it is unknown as to whether VCERA would have excess earnings for the current year, but if the fund earns 8% going forward, there will be excess earnings in the pipeline.

Staff provided an endorsement to Segal's recommendation citing the contemplated increase in commingled and indexed investment products as a reason that VCERA could see lower amounts of available earnings for interest crediting purposes in future periods. Staff's view was that the "actuarial method" would provide a more correlated approach between the return on investments and the measure of "Available Earnings".

Mr. Matheney moved, seconded by Mr. Wilson, to adopt the recommendations contained in The Segal Company's January 18, 2008 letter to change the "Available Earnings" measure in VCERA's Interest Crediting Policy from earnings on book value of assets to the net investment income on the actuarial value of assets with the change being

VI. OLD BUSINESS (continued)

- A. Review of Reserving, Interest Crediting and Excess Earnings Policies (continued)

accomplished on a "no impact basis" by restating the County Advance Reserve to include the difference between the current Market Stabilization Reserve and the deferred gains yet to be recognized under the asset smoothing method.

Motion Passed.

Mr. Goulet questioned whether the change would have an impact on the 1% contingency reserve and discussed how the utilization of the actuarial value "raises the bar" in terms of the amount of earnings necessary to be earned prior to there being "excess earnings".

Mr. Angelo corrected the amounts shown as the Contingency Reserve and Total Non-Valuation Reserves on the charts, based on legal advice concerning the annual, not semi-annual, measurement of earnings after interest crediting.

- B. Review of Notice to be Sent to Recipients of the \$27.50 Supplemental Benefit and Recognized Labor Groups.

accomplished on a "no impact basis" by restating the County Advance Reserve to include the difference between the current Market Stabilization Reserve and the deferred gains yet to be recognized under the asset smoothing method.

Motion Passed.

Mr. Goulet questioned whether the change would have an impact on the 1% contingency reserve and discussed how the utilization of the actuarial value "raises the bar" in terms of the amount of earnings necessary to be earned prior to there being "excess earnings".

Mr. Angelo corrected the amounts shown as the Contingency Reserve and Total Non-Valuation Reserves on the charts, based on legal advice concerning the annual, not semi-annual, measurement of earnings after interest crediting.

Staff recommended approval of the draft notice, subject to input from Board Members and Counsel, and further recommended the Board

VI. **OLD BUSINESS** (continued)

- B. Review of Notice to be Sent to Recipients of the \$27.50 Supplemental Benefit and Recognized Labor Groups.

schedule a special meeting on April 28, 2008 to take final action on the STAR COLA matter.

Mr. Matheney provided copies of his suggested changes to the Notice and read into the record his suggested change.

Mr. Goulet and Ms. Dunning offered suggested changes to the Notice.

Ms. Becker moved, seconded by Mr. Matheney, to schedule a special meeting to consider the continuation of the STAR COLA supplemental benefit on April 28, 2008.

Motion Passed.

Ms. Becker suggested a language change to Mr. Matheney's proposal, and asked whether unrepresented employee groups would be included in the notice. Ms. Dunning responded that the resolution establishing the reserve for the payment of the \$27.50 supplemental benefit specified the recipients of the notice and the unrepresented groups were not among the recipients. Staff expressed that an effort was being made to shorten the time for distribution of VCERA's newsletter which will contain the notice.

Mr. Matheney moved, seconded by Mr. Wilson, to approve the Notice with the changes suggested by Mr. Matheney, Ms. Becker, Mr. Goulet and Ms. Dunning.

Motion Passed.

VII. **NEW BUSINESS**

- A. Review and Approval of Annual Actuarial Report as of June 30, 2007; The Segal Company; Paul Angelo and John Monroe.

(ITEM HEARD PRIOR TO ITEM A OF OLD BUSINESS)

Paul Angelo and John Monroe were present from The Segal Company (Segal) to present the June 30, 2007 Annual Actuarial Report.

VII. NEW BUSINESS (continued)

- A. Review and Approval of Annual Actuarial Report as of June 30, 2007.
(continued)

Mr. Angelo noted this was the fifth valuation prepared by Segal and the 2007 report illustrated the concept of level funding as the recommended rates from the 2007 valuation would be lower than in prior years. Mr. Angelo noted this was a normal occurrence as one should expect rates to rise and fall over periods due to the actuarial gains and losses that occur over time. The decrease in rates in 2007 could be attributed to investment returns on actuarial value that exceeded the 8.0% assumed rate.

Mr. Angelo reviewed section #1 of the report that provided a summary of the valuation results. Mr. Angelo noted that employer contributions were comprised of two parts, normal cost and unfunded actuarial accrued liability (UAAL), and discussed how VCERA amortized annual actuarial gains and losses over fixed fifteen year periods. The Board was directed to review page #32 where the amortization schedules for each year were provided.

Mr. Angelo noted that the funding ratio, actuarial value of assets less actuarial value of liabilities, improved to 87.9% from 83.5% in 2007. The improvement was attributable to greater than anticipated investment performance. According to Mr. Angelo, actuaries as a group tend to focus more on the amount of UAAL rather than the funded ratio and Mr. Angelo reviewed page #31 of the report that illustrated the \$112 million decrease in UAAL during 2007.

Mr. Towner questioned why VCERA has experienced so much volatility in the amount of actual vs. assumed individual salary increases.

Mr. Angelo noted that the individual salary assumption had not changed over the years and attributed elements of the volatility to the salary negotiation process. A comparison of the actuarial gain in 2007 attributable to lower than expected individual salary increases to the UAAL and total plan liabilities was also provided illustrating that the actuarial gain was relatively small when compared to the UAAL and plan liabilities.

Mr. Goulet offered a correction to the formula on line #4 of page 31.

Mr. Angelo noted the reduction in the composite employer contribution rate from 19.36% to 17.48% due to greater than expected investment

VII. NEW BUSINESS (continued)

- A. Review and Approval of Annual Actuarial Report as of June 30, 2007.
(continued)

performance and the reconciliation of the employer contribution rate on page #17 of the report. Average employee rates, which are not affected by investment performance, remained roughly the same in 2007 according to Mr. Angelo.

A review of the 5-year smoothing process, as illustrated on page #5 of the report, was provided by Mr. Angelo and it was noted that if VCERA earns exactly 8% over the next 5 years, then the UAAL will be reduced by the \$288 million in unrecognized gains as of 6/30/2007 over that 5 year period.

Mr. Angelo provided a detailed review of the employer contribution rates by tier and plan and noted the reduction in rates was due to the systematic recognition of investment gains greater than assumed over the last several years. The plan was, according to Mr. Angelo, in the "maturing phase" given the continued growth in the number of retirees.

Mr. Angelo reviewed the historical investment performance on page #10 and #11 noting that the negative investment year of 2002 was now fully recognized within the smoothing process. The chart on page #11, according to Mr. Angelo, illustrated how the 5-year smoothing process dampened the volatility of the market returns when compared to the returns on the actuarial and valuation value of assets.

Mr. Angelo explained that the report shows undistributed excess earnings of approximately \$20 million because Segal measured earnings separately for each semi-annual interest crediting period, prior to learning of counsel's advice that earnings must be measured on an annual, rather than semi-annual, basis. Mr. Toumanoff offered further explanation that the Contingency Reserve would reflect a smaller amount had an annual measurement period been used.

Mr. Goulet questioned whether the Board should be concerned regarding the disparity in the percentage of disability retirees among VCERA's various retirement classifications.

Mr. Angelo noted that from an actuarial perspective disability retirements do not necessarily increase plan costs and Segal is "passive" in terms of the data. Additionally, Mr. Angelo stated that Segal had not compared VCERA's disability experience to the experience of other '37 Act plans.

VII. NEW BUSINESS (continued)

- A. Review and Approval of Annual Actuarial Report as of June 30, 2007.
(continued)

Staff also explained that the difference in rates of disability retirements among the two Tiers may also be attributable to demographics, in that there have been very few new members to Tier 1 after 1979 and there are fewer Tier 2 retirees. Staff offered that the current 42% disability retirement rate for safety is lower than it was 10 years ago at approximately 50%.

Mr. Goulet moved, seconded by Mr. Hansen, to approve the June 30, 2007 actuarial report.

Motion Passed.

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

1. VCERA Comprehensive Annual Financial Report Dated June 30, 2007.
2. Presentation of the June 30, 2007 Audit Results.
3. Independent Auditor's Report Dated November 30, 2007.
4. 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 November 30, 2007.
5. Required Communication to the Board of Retirement in Accordance with Professional Standards.

Andrew Paulden, CPA was present from Brown Armstrong Accountancy Corporation (Brown Armstrong) to discuss VCERA's June 30, 2007 audit.

Mr. Paulden reviewed the audit process noting Brown Armstrong's risk management approach to the audit that emphasized the independent confirmation of investment information, actuarial data, contributions and benefit payments.

VII. NEW BUSINESS (continued)

B. Review and Approval of Annual Financial Report From Brown Armstrong.
(continued)

Mr. Paulden informed the Board that VCERA received an unqualified opinion on its financial statements meaning that the statements were fairly presented in accordance with generally accepted accounting principles. Mr. Paulden also reviewed two ancillary reports required by Governmental Auditing Standards on internal controls and required communication in accordance with professional accounting standards. According to Mr. Paulden, there were no observed weaknesses in internal controls or noncompliance with internal controls and there were no disagreements with management in terms of the audit process.

Mr. Matheney ^{COMMENTED} ~~questioned~~ how the responsibilities within Brown Armstrong are assigned for the audit and how those responsibilities are rotated.

Mr. Paulden described the peer review process required by the professional standards and the additional level of technical review required within Brown Armstrong. Mr. Paulden noted that many governmental clients are requiring a rotation of the audit team and partner after five to six years of work.

Mr. Matheney expressed an interest in having the Board consider a rotation of auditors within Brown Armstrong.

Mr. Goulet questioned the importance of having an audit committee.

Mr. Henderson moved, seconded by Mr. Harris, to approve VCERA's Comprehensive Annual Financial Report dated June 30, 2007 and the Presentation of June 30, 2007 Audit Results.

Motion Passed.

Mr. Goulet moved, seconded by Mr. Henderson, to approve the Independent Auditor's report, the Report on Internal Controls and the Required communication with the Board of Retirement.

Motion Passed.

VII. NEW BUSINESS (continued)

- C. Letter from Staff Recommending Approval of The Clifton Group Contract to Provide Cash Equitization Services.

Staff reviewed the rationale for hiring The Clifton Group (Clifton), summarized the contract negotiation process and recommended the Board approve the contract with Clifton.

Mr. Matheney moved, seconded by Mr. Harris, to approve The Clifton Group Contract.

Motion Passed

- D. Letter from Staff Recommending Approval of Novanis and DAT Contracts Relating to Document Imaging Project.

Staff recommended approval of the Novanis and the DAT (Digital Archive Technologies) contract and summarized the services to be provided by the vendors.

Brian Colker from Linea Solutions, Inc. was present to provide additional background on the Novanis contract negotiations and to describe the process followed in the selection of DAT. Mr. Colker stated that he was able to negotiate a \$29,000 price reduction with Novanis placing VCERA's contract in line with work Novanis provided to a previous '37 Act system client. Additional termination language was included in the contract to provide increased protection to VCERA should it become apparent that Novanis isn't providing the agreed upon service level. Mr. Colker then described the procurement process followed in the selection of DAT and provided additional background on DAT.

Mr. Hoag questioned the scanning features and search capabilities of the document management system.

Mr. Goulet provided several edits to the Novanis contract and questioned why additional rates in item 3B were being quoted given the nature of the work to be performed.

Mr. Henderson moved, seconded by Mr. Harris, to approve the Novanis and DAT contracts with the suggested corrections.

Motion Passed.

VII. NEW BUSINESS (continued)

- E. Appointment of Personnel Review Committee.

Mr. Goulet moved, seconded by Mr. Henderson, to reappoint the members of the 2007 Personnel Review Committee.

Motion Passed.

VIII. INFORMATIONAL

- A. Publications (Available in Retirement Office)
1. Institutional Investor
2. Pensions and Investments
- B. Institutional Investor Institute Public Funds Roundtable and Hedge Fund Institutional Forum, April 23-25, 2008, New Orleans, LA.

VIII. INFORMATIONAL (continued)

- C. CALAPRS General Assembly, March 2-4, 2008, Palm Springs, CA.
- D. Executive Summary – OPEB Commission Report.
- E. Letter from SACRS Regarding the Creation of an Ad-Hoc Committee.

IX. PUBLIC COMMENT

Mr. Thonis provided a summary of the meetings and education symposium Ms. Nemiroff and he attended in San Francisco with Barclays Global Investors, The Segal Company and Steefel, Levitt & Weiss.

X. BOARD MEMBER COMMENT

Mr. Goulet expressed an interest in participating on the SACRS Ad Hoc Committee.

Mr. Matheney expressed interest in attending the CALAPRS General Assembly and also commented favorably on his recent participation at the Steefel, Levitt and Weiss symposium.

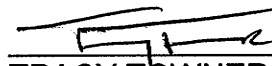
XI. ADJOURNMENT

There being no further items of business before the Board and upon the motion of Mr. Henderson, seconded by Mr. Matheney, Chairman Towner adjourned the meeting at 11:30 a.m.

Respectfully submitted,


TIM THONIS, Administrator

Approved,



TRACY TOWNER, Chairman