

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**BOARD OF RETIREMENT**

**BUSINESS MEETING**

**FEBRUARY 22, 2010**

**MINUTES**

**DIRECTORS  
PRESENT:**

Tracy Towner, Chair, Safety Employee Member  
William W. Wilson, Vice Chair, Public Member  
Lawrence L. Matheny, 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  
Will Hoag, Alternate Retiree Member  
Chris Johnston, Alternate Employee Member

**DIRECTORS  
ABSENT:**

None.

**STAFF  
PRESENT:**

Tim Thonis, Retirement Administrator  
Henry Solis, Fiscal Manager  
Lori Nemiroff, Assistant County Counsel

**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 February 22, 2010 to order at 9:00 a.m.

**II. APPROVAL OF AGENDA**

Mr. Harris moved, seconded by Mr. Wilson, to approve the agenda.

Motion passed.

**III. APPROVAL OF MINUTES**

A. Disability Meeting of February 1, 2010.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of February 1, 2010.

Motion passed.

**IV. CONSENT AGENDA**

A. Regular and Deferred Retirements and Survivors Continuances for the Month of January 2010.

B. BlackRock Asset Management 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, 2009.

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

Motion Passed. Ms. Becker abstained.

**V. INVESTMENT INFORMATION**

A. Prudential Real Estate Investors Annual Investment Presentation, Mark Oczkus and Joanna Mulford.

Mark Oczkus and Joanna Mulford were present from Prudential Real Estate Investors to review Prudential's organization, investment process and investment results for VCERA's PRISA account.

Mr. Oczkus noted that it had been a very tough year for commercial real estate; however, Prudential did see light at the end of the tunnel for the upcoming year.

According to Mr. Oczkus, VCERA saw a -34% reduction in the value of its PRISA portfolio with the initial \$60 million investment at March 31, 2005 reduced to a current market position of \$53.6 million, as of December 31, 2009.

V. INVESTMENT INFORMATION (continued)

- A. Prudential Real Estate Investors Annual Investment Presentation, Mark Oczkus and Joanna Mulford. (continued)

Mr. Oczkus summarized Prudential's efforts in the prior year with valuation declines nearing a bottom and noted that liquidity had stabilized via asset sales. Also, a deleveraging plan involving the sale of leveraged assets was in place to bring the leverage ratio down from 42% to the policy level of 30% over the next couple of years. According to Mr. Oczkus, the portfolio's occupancy levels were high, with modest lease rollover, and the portfolio was well positioned for the anticipated market recovery. The income return is anticipated to be 8%-8.5% in 2010.

Ms. Mulford discussed the market outlook and noted the improving economic conditions. Recovery in the real estate sector was dependent on job growth and Prudential did not see any meaningful job growth until the second half of 2010.

Ms. Mulford reviewed PRISA's investment objectives and noted that the open-end PRISA fund was PREI's largest and was focused upon generating a high proportion of total return from income. Net assets were just under \$7 billion as of December 31, 2009. Ms. Mulford noted that there were \$1.1 billion in redemption requests as of December 31, 2009, but Prudential expected a majority of the requests to be rescinded given the appreciation in most major asset classes and the decline in real estate values in 2009.

In terms of performance, Ms. Mulford stated that PRISA's total return in Q4 was -2.70%, with an appreciation return of -4.67% and an income return of 1.97%. Ms. Mulford noted that although there was a -41% appreciation/valuation loss in 2009, the income return was still strong at 7%. Moderate valuation losses were anticipated for 2010, but should be more than offset by the strong income returns, according to Ms. Mulford.

In response to a question from Mr. Vandolder, Ms. Mulford discussed the leverage embedded into the benchmark and how it affected PRISA's relative performance. Ms. Mulford noted the three factors of PRISA's underperformance in relation to the benchmark were a more rigorous appraisal policy, higher leverage in the portfolio relative to the benchmark and outperformance on the income component.

V. INVESTMENT INFORMATION (continued)

- A. Prudential Real Estate Investors Annual Investment Presentation, Mark Oczkus and Joanna Mulford. (continued)

Ms. Mulford stated that PRISA had not made any new forward commitments over the past few years and would not be committing any more than 15% of the portfolio to these types of investment projects. Mr. Oczkus noted that there was not an influx of capital currently; however, going forward, Prudential conservatively anticipated seeing \$200 million deposited from their clients towards mid-year as institutional investors began to rebalance into real estate.

In terms of return attribution in Q4, Ms. Mumford noted that the hotel sector was the worst performing sector and the residential sector declined the least. Other areas in the portfolio contributing to the decline were mezzanine investments and forward commitments/pipeline assets. Cap rates increased some 109 basis points (1.09%) during the period. Ms. Mulford stated that PRISA's current valuations represented an opportunity for PRISA to realize the embedded gains within the portfolio and participate in the anticipated market recovery.

Looking forward for 2010, Ms. Mulford expected the property income to fall by -3%, consistent with 2009 numbers. Residential income is projected to go up due to initial lease ups of properties acquired in 2009.

Ms. Mulford again noted the fund's projected sources and uses of capital and discussed the deleveraging plan in place. Ms. Mulford also noted that no payouts were expected to be made on the withdrawal queue.

Ms. Mulford discussed the portfolio's debt and stated the average weighted cost of debt is 4%. Most of the debt for the portfolio assets falls under non-recourse debt. Recourse obligations are largely from forward commitments/pipeline investments.

Ms. Mulford described ways that Prudential was participating in the market recovery including taking advantage of investment opportunities such as PRISA's development pipeline, regular meetings with their new Advisory Council and modest non-pipeline acquisitions.

In response to a question from Mr. Harris, Ms. Mulford stated approximately 20% of the properties in the development pipeline are residential.

V. INVESTMENT INFORMATION (continued)

- A. Prudential Real Estate Investors Annual Investment Presentation, Mark Oczkus and Joanna Mulford. (continued)

Mr. Foy questioned Prudential's expectation with debt renegotiations in the future. Ms. Mulford responded that Prudential extended debt fairly easily through the renegotiation process. Ms. Mulford reiterated Prudential's belief that the bottom is coming in terms of valuation declines; however, that may not be the case with vacancy rates. Prudential believed there would also be more distress seen in the market with property owners who must dispose of their assets.

- B. K2 Advisors Investment Presentation, David Saunders, Robert Rodman and Matthew Annenberg.

David Saunders, Matt Annenberg and Robert Rodman were present to provide an overview of K2 Advisor's (K2) organization and currency management program. Mr. Saunders stated K2 was founded in 1994, currently had \$8.3 billion in assets under management, and had a global presence with 92 employees in offices worldwide. K2 had a great deal of regulatory oversight and focused on investing strictly in money managers, predominately hedge funds and currency managers.

Mr. Saunders discussed the strengths of K2 including the breadth and experience of the management team, their extensive resource network, and their focus on risk management and transparency requirements.

Mr. Saunders noted that investing in currency management (FX) provided a vast opportunity set with \$1 trillion traded daily in the sector.

Mr. Annenberg discussed how systematic styles can profit from inefficiencies in the market. The three main styles discussed were carry trade, value trade and trend following. Diversification between the styles is important as all the styles can profit over time, but there tends to be dispersion in the returns, according to Mr. Annenberg. Mr. Annenberg noted that a benefit of an FX allocation in VCERA's portfolio would be uncorrelated returns generated by the currency allocation relative to the balance of VCERA's portfolio.

V. INVESTMENT INFORMATION (continued)

- B. K2 Advisors Investment Presentation, David Saunders, Robert Rodman and Matthew Annenberg.

Mr. Annenberg reviewed K2's investment process which includes finding, categorizing and ranking FX-only managers to determine the "best of breed". Potential currency managers are evaluated by five separate K2 teams before becoming part of the K2 portfolio. Ongoing due diligence is part of the continual evaluation of K2's managers. Mr. Annenberg noted that K2 has the ability to customize their reports as needed by the Board.

Mr. Annenberg stated that the market performance in 2008 created fantastic opportunities for currency managers and noted K2's total return on investments since inception on October 1, 2005 was 13.28%.

In response to a question from Mr. Matheney, Mr. Saunders stated that typically K2 is a relatively small percentage of their managers' business. K2 monitors each manager to ensure that they are operated within pre-established boundaries. Unlike in hedge funds where there are lock-ups, currency management relationships can be ended easily because of the liquidity of the underlying assets.

Mr. Saunders stated that the minimum investment with K2 was \$10 million. The fees based on a sliding scale for a \$0-\$25 million portfolio are of 90 basis points (.9%) with a 10% performance fee, or for a flat fee of 125 basis points (1.25%).

In response to a question from Mr. Vandolder, Mr. Saunders noted that K2's is managed to a risk target range between 7-8%, which is adjustable based on the volatility of the market. Returns are expected to be 300 – 400 basis points (3% - 4%) over cash.

- C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

Kevin Vandolder from EnnisKnupp & Associates was present to review VCERA's investment performance and monthly investment manager updates.

Mr. Vandolder requested the Board bring closure to the currency manager issue prior to considering the other investment matters.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

In summary, Mr. Vandolder stated that an investment with K2 maximized diversification and the diversification was accomplished immediately. Investing in this type of strategy minimized single manager risk and VCERA would be able to customize the targeted volatility level. Mr. Vandolder recommended an initial opportunistic investment of \$10 million.

Mr. Wilson suggested VCERA move forward with the recommended investment.

Mr. Goulet requested and received clarification regarding the expected fee levels in a fund of funds strategy.

Mr. Foy questioned why VCERA would invest in a strategy that has an expected return target of less than the actuarial assumed earnings rate.

Mr. Vandolder reminded the Board that 27% of the portfolio is invested in fixed income that has an expected return level in the 5% - 6% range.

Mr. Goulet requested clarification on whether the recommendation would be to use a performance fee or a fixed fee arrangement. Mr. Vandolder recommended the fixed fee alternative.

Mr. Goulet questioned the recommendation of K2 given that EnnisKnupp's manager rating system showed First Quadrant as being the highest rated manager. Especially, given the high fees associated with investing in the K2 platform.

Mr. Foy received clarification from Mr. Vandolder and staff on why VCERA should be considering investing in this type of opportunistic strategy.

Mr. Matheney expressed a preference for K2 based upon the firm's business model.

Mr. Goulet stated that he would be comfortable delegating the decision to staff.

Mr. Henderson expressed reservations given the limited return opportunities as he believed VCERA should be reviewing different types of investment strategies.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

Mr. Wilson moved, seconded by Mr. Matheney, to hire K2 with a \$10 million capital commitment.

Motion passed. Ms. Becker, Mr. Matheney, Mr. Wilson, Mr. Harris and Mr. Towner for the motion. Mr. Henderson, Mr. Goulet, Mr. Foy and Mr. Hanson against the motion.

Mr. Goulet clarified that his vote against the motion was due to K2's high fee structure.

1. Monthly Investment Performance Update, January 2010.
2. Monthly Manager Updates/Summary, January 2010.
  - a. Sprucegrove
  - b. Capital Guardian
  - c. Artio
  - d. GMO
  - e. Acadian
  - f. Western
  - g. Reams
  - h. Loomis Sayles

Mr. Vandolder noted the fund's performance was down 2% in January as investors paused to consider market risks such as the debt levels in Greece, employment numbers and inflation risks. Mr. Vandolder also noted that VCERA's real estate portfolio was some 2.5% under its allocation and that EnnisKnupp would be preparing a memorandum, including a recommendation, for the Board's consideration at the March business meeting.

On a relative basis, VCERA's equity portfolio saved value across domestic, international and global markets. In terms of the fixed income portfolio, all VCERA active managers added value relative to the benchmark during the month.

Mr. Johnston requested clarification on how long VCERA should allow Western Asset Management's Index Plus portfolio to remain in violation of the investment guidelines.



V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

In response, Mr. Vandolder noted that the underlying securities have performed well and that EnnisKnupp would prepare a memorandum on the subject for the March business meeting.

3. International Equity Manager Search – February 2010.

Mr. Vandolder discussed the long-term performance of VCERA's international equity portfolio and provided a list of 5 potential managers for consideration at the April business meeting.

Mr. Vandolder provided an overview of the five firms describing Arrowstreet's quantitative focus, Fisher Investment's traditional research and analyst approach, Hexavest's "GMO-type" approach to international equity investing, Trilogy's investment process and recent performance challenges and Walter Scott's long-term successful track record.

Mr. Vandolder then summarized the individual manager fee levels, risk/return profiles, product minimums and account types.

Mr. Wilson discussed the merits of continuing with active managers within the international equity portfolio and whether VCERA should increase the commitment to passive investing given the returns of the ACWI-exUS IMI index.

Mr. Wilson moved, seconded by Mr. Goulet, to invite Arrowstreet, Hexavest and Walter Scott to make presentations on April 19, 2010.

Motion passed. Ms. Becker abstained.

4. Highlights and Research, February 2010.

- a. Market Environment
- b. Active Currency Management Search Update
- c. Acquisition of Pantheon Ventures
- d. EnnisKnupp 2009 Client Letter

5. Fourth Quarter 2009 Performance Report.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file Items 1, 2, 4 & 5.

Motion passed. Ms. Becker abstained.

VI. OLD BUSINESS

A. Draft Letter to the Board of Supervisors Regarding Implementation of VCERA Compensation Resolutions.

Staff noted that the draft letter incorporated the Board's suggestions from the meeting on February 1, 2010, to simplify the letter and emphasize the Board's long standing policy on determining salaries.

Mr. Goulet moved, seconded by Mr. Matheney, to change the reference to the "maximum cost increase" on the second page of the letter to "annual salary increase".

Mr. Foy recused himself from the vote. Motion passed.

Mr. Henderson questioned if the Board had the authority to sue the Board of Supervisors should the Board's request not be honored.

Mr. Foy suggested that a representative from the CEO be invited to speak with the Board to clarify the CEO's position.

Mr. Towner noted that this issue has been ongoing for the past two years and all avenues have been exhausted to ensure VCERA management employees are properly compensated. The only remaining course of action is to send a letter to the Board of Supervisors.

Ms. Becker stated that the Board of Supervisors may honor the request, despite it not being supported by the CEO.

Mr. Wilson noted that the salary surveys show that the compensation for VCERA managers had fallen behind the median. Mr. Wilson stated it was important for the Board to express concern to the CEO regarding the compensation issue and now that that there has been no support from the CEO, it was important to take it to the next level with the Board of Supervisors.

VI. **OLD BUSINESS (continued)**

- A. Draft Letter to the Board of Supervisors Regarding Implementation of VCERA Compensation Resolutions. (continued)

Mr. Wilson moved, seconded by Mr. Henderson, to table the matter until the Board's March 1, 2010, meeting and Mr. Foy will request a CEO representative to participate in an open discussion.

Motion passed. Mr. Goulet and Ms. Becker opposed.

VII. **NEW BUSINESS**

- A. Letter from The Segal Company Regarding Cost-of-Living Adjustments as of April 1, 2010.

Mr. Wilson moved, seconded by Mr. Harris, to approve the Cost-of-Living adjustments detailed in the letter from The Segal Company.

Motion passed.

- B. Recommendation to Hire Outside Counsel; Private Equity Contracts.

Staff recommended the retention of Thomas A. Hickey, III, of K&L Gates, LLP to assist in the review of the private equity limited partnership agreements, offering memoranda and other associated documentation related to investments with Adams Street Partners and Pantheon Ventures.

Mr. Hansen moved, seconded by Mr. Wilson, to approve Staff's recommendation to hire Mr. Hickey.

Mr. Goulet received clarification that Mr. Hickey's fee was \$15,000 per transaction, totaling \$30,000.

In response to a question from Mr. Matheney, staff also confirmed that a written fee agreement would be in place and would be presented to the Board for approval should there be a material change to the agreement outside the description provided in Staff's letter.

Motion passed.

VII. **NEW BUSINESS (continued)**

- C. Reinstatement to Active Membership; Ruby Perez-Reyes.

Staff recommended Ms. Perez-Reyes be reinstated to active membership pursuant to Government Code Sections 31680.4 and 31680.5.

Mr. Hansen moved, seconded by Mr. Harris, to approve Ms. Perez-Reyes' reinstatement to active membership.

Motion passed.

- D. Authorization for Trustee and Staff Attendance at Manatt Public Pension Fund Fiduciary Forum, March 26, 2010, San Francisco.

Mr. Hansen moved, seconded by Mr. Matheney, to approve trustee and staff attendance at the Manatt Fiduciary Forum.

Motion passed.

- E. Board Member Conference Report – Art Goulet.

Mr. Hansen moved, seconded by Mr. Harris, to receive and file the conference report from Mr. Goulet.

Motion passed.

- F. Recommendation to Reimburse Mr. Goulet for Expenses Related to Participation on SACRS Task Force.

Mr. Wilson moved, seconded by Mr. Harris, to approve Mr. Goulet's expenses related to his participation on the SACRS Task Force.

Motion passed.

Mr. Goulet noted that there would be no retroactive reimbursement as his participation to date was conducted via email.

VIII. **INFORMATIONAL**

- A. Publications (Available in Retirement Office)  
1. Institutional Investor  
2. Pensions and Investments

**VIII. INFORMATIONAL (continued)**

- B. 2010 Board of Supervisor Assignments.
- C. Organizational Update Letter from Sprucegrove.
- D. Invitation to Corporate Governance Roundup Sponsored by Los Angeles Pension Trustees Network, March 1-2, 2010.

**IX. PUBLIC COMMENT**

Staff noted that a letter from the Coalition of Unions had been distributed to each Board member expressing continued interest in the Board's actuarial assumptions. Staff further noted that a response from The Segal Company was anticipated to be available for the Board's consideration by March 15<sup>th</sup>.

Staff stated that Supervisor Foy had been reappointed to the Board of Retirement. Staff noted that Mr. Wilson's term ended in January and that no action has been taken on the request made to the CEO's office to reappoint Mr. Wilson. Staff requested that Supervisor Foy encourage the CEO's office to move forward with the Mr. Wilson's reappointment to the Board of Retirement.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file the letter under item VIII.B. regarding the 2010 Board of Supervisor assignments.

Motion passed.

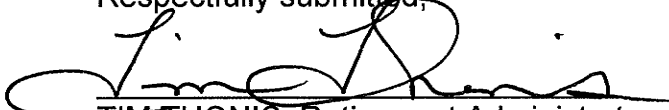
**X. BOARD MEMBER COMMENT**

Ms. Becker offered an explanation as to her abstentions from voting on several of the motions before the Board. Ms. Becker noted that she was granted permission to attend the February 22, 2010, meeting and was specifically given an hour between 8:00-9:00 a.m. that morning to review the agenda items. The time allotted did not allow for sufficient preparation to participate in all of the votes.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:55 a.m., upon the motion of Mr. Matheney, seconded by Mr. Goulet.

Respectfully submitted,

  
TIM THONIS, Retirement Administrator

Approved,

  
TRACY TOWNER, Chairman