

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

FEBRUARY 26, 2007

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, Board of Supervisors
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Albert G. Harris, Public Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

**DIRECTORS
ABSENT:**

Karen Becker, General Employee Member
Joseph Henderson, Public Member

**STAFF
PRESENT:**

Tim Thonis, Retirement Administrator
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 26, 2007, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Thonis requested the date in Item IV. A. be changed from December 2006 to January 2007.

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of February 5, 2007.

Mr. Goulet requested the word "and" be included in the last sentence of Item III A.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of February 5, 2007 as amended.

Motion passed.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of January 2007.
- B. Statement of Plan Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, Statement of Reserves and Schedule of Investment Management Fees for the Months Ended December 31, 2006 and January 31, 2007.
- C. Report of Checks Disbursed in January 2007.
- D. Budget Summary for the Month Ended January 31, 2007, Fiscal-Year 2006-07.
- E. Barclays Global Investors Report for the U.S. Equity Index Fund, Extended Equity Market Fund, U.S. Debt Index Fund for the Month Ended January 31, 2007.
- F. UBS Global Asset Management Report for the Quarter Ended December 31, 2006.
- G. Guggenheim Real Estate Report for the Quarter Ended December 31, 2006.

IV. CONSENT AGENDA (continued)

- H. Prudential Financial (PRISA) Real Estate Report for the Quarter Ended December 31, 2006.

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

Motion passed.

V. INVESTMENT INFORMATION

- A. GMO Annual Investment Presentation, Wendy Malaspina, Relationship Manager.

Wendy Malaspina was present from Grantham, Mayo & Van Otterloo (GMO) to discuss the organization, investment philosophy and performance.

Ms. Malaspina indicated that GMO currently managed approximately \$141 billion firm-wide for 1,600 clients. In the global equity mandate in which VCERA invests, there are currently 75 clients with 3.2 billion in assets under management. Organizationally, Ms. Malaspina indicated that GMO was growing internally through the expansion of current client mandates and GMO had recently added 6 new partners to the firm.

Ms. Malaspina reviewed the fund's performance through the end of January indicating the fund underperformed the benchmark by 81 basis points net of fees. The underperformance was attributable, according to Ms. Malaspina, to a strong market that was rewarding low quality firms as global credit eased during the period. Going forward, GMO expects to be rewarded for the high quality names currently held in the portfolio.

In conclusion, Ms. Malaspina reviewed GMO's outlook for the markets over the next seven years. GMO expects high quality stocks, those with low debt and high profit margins, to do well along with emerging market equities.

- B. Wellington Management Company Annual Investment Report, Sue Bonfeld, Relationship Manager.

Sue Bonfeld, Vice President, was present from Wellington Trust Company to discuss the organization, investment philosophy and performance.

Ms. Bonfeld indicated that Wellington Management currently managed approximately \$575 billion with approximately 61% of the amount in equity

V. INVESTMENT INFORMATION (continued)

- B. Wellington Management Company Annual Investment Report, Sue Bonfeld, Relationship Manager. (continued)

strategies. Ms. Bonfeld discussed the reasons for the portfolios under performance for the past 12 months, 15.6% versus the benchmark return of 16.9%, and how Wellington Management was addressing the underperformance. Ms. Bonfeld noted that Wellington's process was a "stock picking" one based upon analyst recommendations. The firm had identified three key sectors: Industrials, Materials and Finance, where analyst stock selections accounted for much of Wellington's negative alpha over the last three years. Wellington's management has taken what Ms. Bonfeld believes to be the appropriate steps to remedy the situation by replacing several analysts in these sectors as well as increasing coverage worldwide by having dedicated analysts outside the U.S.

Ms. Bonfeld discussed a potential change to Wellington's commingled accounts, such as VCERA's, whereby Wellington Trust Company would no longer be assuming operating charges such as custodial fees and audit fees. The impact to VCERA if Wellington decides to implement this operating change will be an estimated increase in fees from 2 – 4 basis points per year, or an approximate \$20,000 to \$25,000 increase in fees annually.

Going forward, Wellington expects real returns in the U.S. to be in the 4% to 5% range, with non U.S. real returns in the 5.50% to 6% range.

- C. EnnisKnupp & Associates Presentation, Kevin Vandolder & Shane Schurter.

1. 2006 Capital Markets Review.

Mr. Vandolder summarized 2006 as being a year where value once again outperformed growth with utilities, energy, and REITS being the top performing sectors. Price/earnings multiples contracted during the year and once again active managers had a very difficult time beating passive benchmarks as median managers underperformed their respective benchmarks by typically the amount of their investment management fee. Internationally, Japan was a poor performer and the weakening of the U.S. dollar added to return levels. Mr. Vandolder also reviewed EnnisKnupp's long-term return assumptions for U.S. equity, international equity, private equity, real estate and bonds and provided an explanation for EnnisKnupp's "bearish" outlook on the markets when compared to peers.

V. INVESTMENT INFORMATION (continued)

- C. EnnisKnupp & Associates Presentation, Kevin Vandolder & Shane Schurter. (continued)

2. Monthly Investment Performance Update.

Mr. Vandolder reviewed the performance for January 2007 focusing his comments on Capital Guardian's positive relative performance in January and the Total Fund's overall return that approximated the policy portfolio return of 1% in January.

3. Monthly Manager Updates/Summary, January 2007.

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

Mr. Vandolder indicated that there were no material changes to report for VCERA's managers in January.

Mr. Wilson moved, seconded by Mr. Harris to receive and file EnnisKnupp's 2006 Capital Market Review, Monthly Investment Performance Update and the Monthly Manager Summaries for January 2007.

Motion Passed.

4. Memorandum - Capital Guardian Watch List.

Mr. Shurter provided his view of Capital Guardian's investment process, reasons for under-performance and organization structure. According to Mr. Shurter, Capital Guardian continues to be one of the best international equity managers available in the marketplace.

Mr. Vandolder recommended that VCERA maintain Capital Guardian on the "Watch List" for performance reasons and further recommended a re-

V. INVESTMENT INFORMATION (continued)

- C. EnnisKnupp & Associates Presentation, Kevin Vandolder & Shane Schurter. (continued)

alignment of non-U.S. equity assets so that Capital Guardian is equally-weighted with Sprucegrove.

Mr. Wilson moved, seconded by Mr. Hansen, to adopt EnnisKnupp's recommendation to maintain Capital Guardian on the "Watch List" and to re-align Capital Guardian's allocation to equal Sprucegrove's.

Motion Passed.

5. Memorandum - Passive Non-U.S. Equity Allocation.

Mr. Vandolder summarized EnnisKnupp's memorandum regarding a potential passively managed non-U.S. equity allocation and recommended the Board utilize Barclay's Global Investor's (BGI) All-Country World Ex-U.S. Index Fund to manage approximately \$110 million of VCERA's international equity assets.

Mr. Goulet moved, seconded by Mr. Hansen to adopt the recommendation.

Motion Passed.

6. Update on Portable Alpha Search.

Mr. Vandolder indicated the matter would return in April 2007 with EnnisKnupp profiling Western Asset Management, PIMCO and The Clifton Group as potential candidates. Along with this discussion, Mr. Vandolder will also be recommending a change in VCERA's policy domestic equity benchmark from the Russell 3000 to the Wilshire 5000.

Mr. Wilson moved, seconded by Mr. Goulet, to receive and file the Portable Alpha Search memorandum.

Motion Passed.

7. Fourth Quarter Performance Report.

Mr. Vandolder reviewed the Fourth Quarter performance report focusing on VCERA's asset allocation as of December 31, 2006 and manager compliance to VCERA's investment guidelines. The report indicated that

V. INVESTMENT INFORMATION (continued)

- C. EnnisKnupp & Associates Presentation, Kevin Vandolder & Shane Schurter. (continued)

LSV was out of compliance due to holding 169 stocks in the portfolio, but this particular situation was remedied by the Board's guideline change adopted in January 2007 allowing LSV to hold up to 175 stocks.

Mr. Johnston commented on Delta's, Wasatch's, and Capital Guardian's continued underperformance.

Mr. Matheney moved, seconded by Mr. Goulet, to receive and file the Fourth Quarter Performance Report.

Motion Passed.

8. Manager Guidelines/Investment Policy Manual. (Distributed on CD)

No Action Taken

9. 2006 Year-End Letter.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file EnnisKnupp's 2006 Year-End letter.

Mr. Wilson requested staff place a discussion item on Private Equity allocations on a future Board agenda.

VI. NEW BUSINESS

- A. Letter from Staff Regarding Office Lease Renewal.

Staff summarized the lease renewal process and introduced Mr. Tom Dwyer from CB Richard Ellis who was present to discuss the recently concluded lease negotiation.

Mr. Hansen moved, seconded by Mr. Goulet, to adopt the new lease proposal as prepared by M.F. Dailey Corporation.

Motion Passed.

VI. NEW BUSINESS (continued)

- B. Letter from The Segal Company Regarding Cost-of-Living Adjustments.

Mr. Hansen moved, seconded by Mr. Harris, to adopt The Segal Company's letter detailing VCERA's cost-of-living adjustment to be effective April 1, 2007.

Motion Passed.

- C. Letter from Chris Johnston Regarding Adoption of Provisions of Government Code Section 31641.55.

Mr. Johnston summarized the recently enacted legislation that permits certain firefighter members to purchase service credit due to the closing, downsizing or realignment of federal military installations. Mr. Johnston indicated that three Ventura County firefighters would be impacted.

Staff provided clarification on the various service credit purchase options allowed by the '37 Act.

Mr. Matheney moved, seconded by Mr. Johnston, to support Mr. Johnston's request and forward the matter to the Board of Supervisors for review of the cost considerations and approval.

Motion Failed.

Mr. Harris, Mr. Wilson, Mr. Goulet, Mr. Towner against the motion.

Mr. Matheney and Mr. Johnston for the motion.

Mr. Foy and Mr. Hansen abstained.

Mr. Goulet moved, seconded by Mr. Harris, to direct staff forward Mr. Johnston's letter to the Board of Supervisors for consideration.

Motion Passed.

VII. INFORMATIONAL

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

VII. INFORMATIONAL (continued)

B. SACRS Code of Conduct Model.

C. SACRS Spring 2007 Conference Travel Arrangements Memo.

VIII. PUBLIC COMMENT

None.

IX. BOARD MEMBER COMMENT

Mr. Goulet commented on his attendance at the SACRS special meeting earlier this month and informed the Board that he learned that SACRS did not have Articles of Incorporation and was now working with the Internal Revenue Service to remedy the matter.

Mr. Johnston commented on SACRS upcoming Board of Director elections.

X. ADJOURNMENT

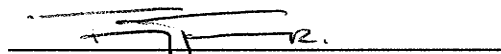
There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:15 a.m.

Respectfully submitted,



TIM THONIS, Administrator

Approved,



TRACY TOWNER, Chair