VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

MARCH 17, 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 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:	Joseph Henderson, Public Member Albert G. Harris, Public Member
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 March 17, 2008, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of March 3, 2008.

Mr. Wilson moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of March 3, 2008.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of February 2008.

B. Report of Checks Disbursed in February 2008.

C. Budget Summary for the Month Ended February 29, 2008, Fiscal-Year 2007-08.

D. 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 February 29, 2008.

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

Motion passed.

V. INVESTMENT INFORMATION

A. Grantham, Mayo, Van Otterloo (GMO) Annual Investment Presentation, Phil Bennett.

Phil Bennett, Client Relationship Manager, from Grantham, Mayo, Van Otterloo & Co. (GMO) was present to discuss GMO's recent organizational changes and investment performance.

Mr. Bennett discussed the recently announced change in GMO's governance structure. Mr. Bennett informed the Board that GMO's Executive Committee was recently reduced to three members from eight

V. INVESTMENT INFORMATION (continued)

A. Grantham, Mayo, Van Otterloo (GMO) Annual Investment Presentation. (continued)

members in order to streamline day-to-day management and investment decisions. The governance change lead to the resignation of Ms. Ann Spruill effective June 30, 2008, according to Mr. Bennett. Ms. Spruill is the head of GMO's International Equity Team and a member of GMO's Board of Directors. Mr. Bennett informed the Board that VCERA will not be impacted by Ms. Spruill's departure because VCERA doesn't invest in any of GMO's international equity products.

Organizationally, GMO is currently managing $140 billion in assets and remains employee owned. According to Mr. Bennett, GMO is now offering an international 130:30 strategy and is considering similar "extension" strategies for their global and emerging market strategies. Mr. Bennett also discussed the recent departure of Jack Gray, co-director of Asset Allocation strategies, and the recent hiring of Edward Chancellor.

Mr. Bennett reviewed the portfolio's performance through February 29, 2008. According to Mr. Bennett, the global equity portfolio returned 0.94%, net of fees, for the one year period ending February 29, 2008 and has returned 12.09%, net of fees, since the May 2005 inception date. Mr. Bennett noted that 2007 was a challenging year for GMO because the markets rewarded riskier names and mostly ignored the quality names GMO focuses on in their multiple investment strategies.

Mr. Matheney questioned how GMO's overall performance could exceed the policy benchmark while many of the individual investment strategies, that comprise the overall portfolio, underperformed their policy benchmarks.

Mr. Bennett responded that the reason was due to the unique nature of GMO's global equity product that is benchmarked to the MSCI World Index. Mr. Bennett noted that the product is constructed in an asset allocation context and is comprised of several different funds with varying strategies. The construction allows one to determine whether GMO's outperformance was the result of allocation decisions or stock selection decisions. In 2007, GMO was more successful with asset allocation decisions than stock selection and one could make this determination by reviewing the returns and allocation weights of the individual strategies.

In response to a question from Kevin Vandolder, Mr. Bennett noted the primary difference between the MSCI All-Country World Index and the MSCI World Index is the emerging market weighting of 10% in the "All-

V. INVESTMENT INFORMATION (continued)

A. Grantham, Mayo, Van Otterloo (GMO) Annual Investment Presentation. (continued)

Country" with no weighting for emerging markets in the "World" Index. This difference between the two indices is an additional component to be utilized when comparing GMO's returns to the benchmark.

Mr. Bennett discussed how quality companies, defined as those companies with low leverage and high/stable profitability, were not rewarded during the first three quarters of 2007. According to Mr. Bennett, many investors sought riskier companies at the expense of quality companies during most of 2007. The situation turned late in 2007 and early in 2008 as investors are now looking to purchase quality companies. GMO is currently positioning the portfolio to overweight high quality companies in the U.S. and emerging markets.

B. Western Asset Management Investment Presentation on Index Plus Portfolio, Joseph Carieri and Travis Carr.

Mr. Joseph Carieri and Mr. Travis Carr were present from Western Asset Management to provide the Board with an update on the investment performance of the Index Plus Portfolio.

Mr. Carieri discussed the unprecedented performance volatility, illiquidity and credit concerns in the fixed income market that have fostered the underperformance of the Index Plus portfolio. Mr. Carieri emphasized that Western's investment philosophy has not changed and Western remains a long-term, fundamental value manager that attempts to identify undervalued sectors of the marketplace.

In terms of performance, Mr. Carieri noted that the portfolio has underperformed its benchmark by some 860 basis points (8.6%) despite the portfolio's high quality characteristics which include an overall rating of "AA" with the portfolio's duration being less than 4/10ths of one year. Mr. Carieri emphasized that, to date, the portfolio has not suffered an impairment of any principal to the individual securities but suffers from how the market is pricing the securities on a "marked to market" basis. According to Mr. Carieri, structured mortgage products in the portfolio have returned -6.35% since inception despite being rated "AAA".

Mr. Vandolder questioned how many securities in both the Core Plus and Index Plus portfolios may be subject to future principal impairment.

V. <u>INVESTMENT INFORMATION</u> (continued)

B. Western Asset Management Investment Presentation on Index Plus Portfolio. (continued)

Mr. Carr noted, in response to Mr. Vandolder's question, that there was one name in the portfolio, with a weighting of approximately .23% of the total portfolio, that Western believed there was a 50% chance of a principal impairment. Mr. Carr stated that approximately 60% of the principal on the bond had been paid previously leaving approximately 40% unpaid. Western believed that approximately 20% of the remaining principal of the bond was at risk for future impairment.

Mr. Carr further noted that there are other bonds in the portfolio that may be subject to impairment if the current economic conditions became two to three times worse. Mr. Carr stated that it will take significant time for the performance of the portfolio to turnaround, but the portfolio is currently outyielding its benchmark by approximately 520 basis points (5.20%) due to the "marked to market" writedowns. According to Mr. Carr, performance will improve as the bonds currently held in the portfolio will accrete towards par value as future payments are made. Mr. Carr cautioned that this process will take time and Western is not anticipating a quick snap back in the mortgage market.

Mr. Wilson questioned the ratings of the mortgage securities held within the portfolio.

Mr. Carieri responded that except for 4% of the holdings, all mortgage holdings were rated AAA.

Mr. Carieri reviewed the current interest rate spreads between treasuries and other fixed income products including corporate bonds and mortgages. Mr. Carieri noted how Western moved its weightings from corporate bonds to mortgages over the last two years; however, the move did not pay off as only treasuries have done well recently and the rest of the fixed income market has performed poorly.

Mr. Goulet questioned the validity of the ratings provided by the bond rating agencies.

Mr. Carr stated that although Western understands the assumptions utilized by the rating agencies, they rely more upon their own assumptions and knowledge of the underlying collateral when analyzing fixed income instruments for the portfolio.

V. <u>INVESTMENT INFORMATION</u> (continued)

B. Western Asset Management Investment Presentation on Index Plus Portfolio. (continued)

Mr. Goulet questioned the extent bond insurance impacted the portfolio and the value it adds.

Mr. Carr responded that only 4.75% of the current portfolio was in "wrap structured product" with 3% of that amount insured by an agency that was not involved in the recent problems encountered by other bond insurance providers. For the balance of the wrap structured securities, Mr. Carr noted that Western analyzed the underlying collateral as if the insurance was not in place and found little risk in principal impairment.

Mr. Wilson questioned and received a response regarding the level of detail available to Western regarding the individual mortgages within these pooled mortgage securities and the number of actual mortgages typically pooled within one of these mortgage products.

Mr. Wilson also questioned how a subprime mortgage pool could be rated AAA.

Mr. Carr discussed how the credit of such a mortgage pool could be enhanced by subordination, over-collateralization and excess interest or spread in order to achieve the higher rating. Mr. Carr also discussed how Western has adjusted its models to reflect the changes within the mortgage market in response to a question from Mr. Foy.

Mr. Carieri reviewed the yield difference between the portfolio and LIBOR and discussed the potential impact on portfolio returns if spreads narrowed.

Mr. Hansen discussed the current period in the fixed income markets. Mr. Johnston discussed the Federal Reserve's current role in the markets such as its involvement in the recent Bear Stearns bailout.

C. EnnisKnupp & Associates, Kevin Vandolder.

1. Monthly Investment Performance Update.

2. Monthly Manager Updates/Summary, February 2008.

   a. Delta
   b. LSV
   c. Wasatch

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

d. Sprucegrove
e. Capital Guardian
f. GMO
g. Wellington
h. Western
i. Reams
j. Loomis Sayles

Kevin Vandolder was present from EnnisKnupp & Associates.

Mr. Vandolder reviewed VCERA's investment performance for the month February and focused his comments on those investment managers that protected value during what turned out to be another challenging month in the financial markets. Mr. Vandolder noted that Delta protected value through their continued overweight to technology stocks and LSV outperformed the market through security selection. Both Wasatch and Western's Index Plus product performed poorly during the month relative to their respective benchmarks.

Mr. Matheney questioned the volatility of Wasatch's returns and whether EnnisKnupp had concerns regarding the level of volatility in the Wasatch portfolio. Mr. Matheney also requested an appropriate time frame one should use in assessing the volatility of the returns in Wasatch's portfolio.

Mr. Vandolder noted that Wasatch comprised approximately 30% of VCERA's active risk budget despite being only 3% of the total portfolio. Mr. Vandolder stated that any assessment must be made in the context of the how much confidence one had in the skill of a manager and noted that Wasatch has added significant value relative to the benchmark over a long period.

Mr. Towner observed the relative underpeformance of Wasatch's returns for three and five year periods.

Mr. Vandolder noted, while continuing his review of VCERA's monthly performance, EnnisKnupp's disappointment in GMO's stock selection and its impact on performance. According to Mr. Vandolder, VCERA's poor investment returns in the fixed income allocation on a relative basis illustrated the unprecedented events that have occurred within the bond market as a whole. VCERA's portfolio has returned a -4.3% during the current fiscal year.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

Mr. Johnston and Mr. Hansen expressed their concerns regarding Wasatch's performance.

Mr. Goulet moved, seconded by Mr. Hansen, to direct the consultant inform Wasatch Advisors that they will be placed on VCERA's watch list for performance reasons in accordance with VCERA policy.

Motion Passed.

3. Currency Management Overview.

Mr. Vandolder reviewed EnnisKnupp's philosophy that U.S. investors should invest 50% of their equity assets internationally. Mr. Vandolder noted that this level of investment often leads to institutional investors expressing concerns regarding the level of currency risk that will be added to a portfolio structured in this fashion. EnnisKnupp believes that the currency exposure adds a level of diversification to the portfolio and Mr. Vandolder cited academics who note that there is not an optimum hedge ratio for currency management. The decision to hedge is entirely up to the risk tolerance of the individual investor and the longer the investment time horizon the less risky currency exposure will appear, according to Mr. Vandolder.

In summary, Mr. Vandolder stated that there is no meaningful reduction in risk for hedging currency if one is investing for the long-term.

Mr. Wilson questioned the role of active currency management in an investment portfolio.

Mr. Vandolder noted that elements of the currency market are less efficient and may be exploited by skilled active management. For example, one could allocate the notional amount of one's international equity portfolio to an active currency manager through the use of an overlay strategy in order add value through currency management.

4. Memorandum - Update on Non-U.S. Manager Structure.

Mr. Vandolder briefly reviewed EnnisKnupp's memorandum regarding the Non-U.S. Manager Structure and informed the Board of the planned presentations at the June 16, 2008 business meeting by Julius Baer and Thornburg Investment Management.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

Mr. Johnston questioned if there was any impact on Thornburg Investment Management from the recent fallout regarding Garrett Thornburg's mortgage investment business.

5. Memorandum - GMO Governance and International Active Team Changes.

Mr. Vandolder noted that this item had been thoroughly addressed during the GMO presentation and EnnisKnupp was comfortable with the recent governance and management changes at GMO.

6. Proposed Agenda for 2008 Investment Retreat.

Mr. Vandolder reviewed the proposed retreat agenda and recommended the event be held in the early fall.

Mr. Towner requested the Board discuss its asset allocation prior to the scheduled international equity manager presentations in June. Mr. Matheney added that he would like to discuss VCERA's risk allocations in tandem with the discussion on asset allocation.

Mr. Matheney moved, seconded by Mr. Hansen, to receive and file Items 1 - 6.

Motion Passed.

VI. **OLD BUSINESS**

A. Recommendation to Adopt Revised Interest Crediting Policy.

Staff introduced Paul Angelo from The Segal Company and Michael Toumanoff from Manatt, Phelps & Phillips who were present to assist in the presentation.

Staff reviewed the Board's previous work in the development of the Interest Crediting Policy and reviewed the more significant changes to the policy. Recommended changes to the policy included amendments to the descriptions of the Vested Fixed Supplemental Benefit Reserve, Death Benefit Reserve, the STAR COLA Reserve, $27.50 Reserve and Market Stabilization Reserve. In addition, staff recommended changes to Step #1, Step #5, Step #6 and Step #7 in the "Crediting of Interest Section" of the policy.

VI. **OLD BUSINESS (continued)**

A. Recommendation to Adopt Revised Interest Crediting Policy. (continued)

Board and staff held discussion regarding the changes to Steps #6 and #7 of the "Crediting of Interest" section noting the distinction between the crediting of interest from available earnings and the transfer of available earnings to fund or maintain additional supplemental benefits in terms of the proposed language in Step #6. Staff explained the practical considerations from an administrative standpoint in directing the crediting of interest as set forth in Step #6, and Mr. Angelo explained that crediting interest to supplemental benefit reserves would have no effect on assumptions because the assumption is 8% on total system assets. Mr. Angelo characterized this as a 'break even' event, and a 'maintenance action', as distinguished from a new transfer. The suggested change to Step #7 required, as proposed, that the Board make a determination, when deciding on the use of any undistributed earnings, as to what would be in the best interest of all VCERA members and obtain from its actuary a statement regarding the impact on future employer and employee contributions regarding the use of an amount of undistributed earnings.

Mr. Toumanoff and Mr. Angelo discussed the proposed language in Step #7 from a legal and actuarial perspective focusing their comments on the impact a potential transfer may have on employee and employer contributions. Mr. Toumanoff explained that if the Board exercises its discretion with a transfer of excess earnings for supplemental benefits, the Board should assess the impact on the underlying foundation. Mr. Angelo added that the way to do this was through a cost study, to determine the impact on the funding structure. Mr. Angelo also explained that the actuary would look at whether there was a pattern of transfers to fund supplemental benefits which would cause the actuary to recommend changes to the Board's funding policy, including assumptions.

Mr. Goulet offered several clarifications to the language in the policy.

Mr. Angelo and Mr. Toumanoff provided explanation on the functioning of the Contra Reserve.

Mr. Wilson requested and received clarification of the Board's role under Step #7.

Mr. Matheney moved, seconded by Mr. Goulet, to adopt the revised Interest Crediting Policy including all changes suggested by the Board and Staff.

Motion Passed. Mr. Foy opposed.

VI. OLD BUSINESS (continued)

A. Recommendation to Adopt Revised Interest Crediting Policy. (continued)

The Board requested staff provide a final version of the Interest Crediting Policy for review at a future Board meeting.

B. Staff Update on STAR COLA/$27.50 Issue.

Staff provided an update on the communication received from VCERA members regarding the Board's expressed intent to transfer funds from the $27.50 supplemental benefit reserve to continue STAR COLA funding.

Ms. Becker and Mr. Foy expressed their reservations on utilizing the $27.50 reserve as a source to continue the funding the STAR COLA benefit. Ms. Becker asked if there were any other funding source for the transfer, such as from undistributed earnings. Staff explained, per the recent legal analysis provided by the Board's outside counsel, that the determination of available earnings must be made on an annual basis, at the end of each fiscal year. Therefore, there are currently no earnings available for such a transfer.

Mr. Wilson moved, seconded by Mr. Goulet, to receive and file the Staff update.

Motion Passed.

VII. NEW BUSINESS

A. Recommendation from Staff to Retain Brown Armstrong to Provide Auditing Services.

Mr. Hansen moved, seconded by Mr. Wilson, to adopt staff's recommendation to retain Brown Armstrong as VCERA's auditors.

Motion Passed.

B. Report on Proxy Voting for Delta Asset Management, LSV Asset Management and Wasatch Advisors.

Staff provided a brief review of VCERA's policies relating to proxy voting and requested the reports from Delta Asset Management, LSV Asset Management and Wastach Advisors be filed in accordance with VCERA's policy.

VII. NEW BUSINESS (continued)

B. Report on Proxy Voting for Delta Asset Management, LSV Asset Management and Wasatch Advisors. (continued)

Mr. Goulet moved, seconded by Mr. Hansen, to receive and file the Proxy Voting Reports.

Motion Passed.

C. SACRS Spring 2008 Conference Items.

Staff requested the Board appoint a voting delegate for the SACRS business meeting to be held on May 16, 2008.

Ms. Becker moved, seconded by Mr. Matheney, to name Mr. Goulet the voting delegate and Mr. Hoag the alternate voting delegate for the SACRS business meeting.

Motion Passed.

D. Request to Attend Wharton School Investment Course.

Mr. Goulet moved, seconded by Mr. Hansen, to approve Mr. Towner's attendance at the Wharton School Investment Course.

Motion Passed.

E. Request to Attend California Retired County Employees Association Conference.

Mr. Hansen moved, seconded by Mr. Matheney, to approve Mr. Goulet's attendance at the California Retired County Employees Association Conference.

Motion Passed.

VIII. INFORMATIONAL

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

B. Role of Commodities and Timberland in an Institutional Portfolio, EnnisKnupp.

VIII. INFORMATIONAL (continued)

C. Letter from Jeremy Grantham, GMO, Regarding Leadership and Management at GMO.

D. Letter from SACRS Regarding Ad-Hoc CEO Review Committee.

IX. PUBLIC COMMENT

None.

X. BOARD MEMBER COMMENT

Mr. Matheney commented on his recent attendance at the CALAPRS General Assembly earlier in the month.

XI. ADJOURNMENT

There being no further items of business before the Board and upon the motion of Mr. Matheney, seconded by Ms. Becker, Chairman Towner adjourned the meeting at 11:25 a.m.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman