VENTURA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 16, 2007

MINUTES

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

DIRECTORS ABSENT: Peter C. Foy, Board of Supervisors

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 April 16, 2007, to order at 9:00 a.m.
II. APPROVAL OF AGENDA

Mr. Towner informed the Board that Karen Calby from Guggenheim was unable to attend the meeting due to travel delays.

Mr. Matheney moved, seconded by Mr. Harris, to approve the Agenda without the scheduled Guggenheim presentation.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of April 2, 2007.

Mr. Johnston requested a correction to Item V. B. on page 4 to reflect his statement to be the attorney, not the Board, would be “report fishing” in the event an additional medical examination was requested.

Mr. Harris moved, seconded by Mr. Johnston, to approve the Minutes for the Disability Meeting of April 2, 2007 as submitted.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of March 2007.


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

Motion passed.
V. INVESTMENT INFORMATION

A. Guggenheim Real Estate Annual Investment Presentation, Karen Calby, Principal.

Ms. Calby was unable to participate as scheduled due to travel problems and staff will reschedule the presentation at a future date.

B. Prudential Real Estate Annual Investment Presentation, Mark Ockzus and Catherine Marcus, Principals.

Mr. Ockzus discussed a change in Prudential’s organizational structure as Allen Smith was promoted to head all of Prudential’s U.S. businesses with Kevin Smith and Catherine Marcus remaining to manage the PRISA investment portfolio. Mr. Ockzus also detailed PRISA’s 1-year and 3-year investment returns of 15.22% and 17.18% and discussed PRISA’s recent benchmark change to the NCREIF Open-End Fund Property Index.

Ms. Marcus reviewed Prudential’s investment approach and objectives focusing her remarks on Prudential’s 2007 plan to increase office and residential properties with a decrease in retail properties. Ms. Marcus emphasized that Prudential’s participation in the residential market is in multi-family apartment buildings, not single family homes, thus Prudential was not exposed to the recent sub-prime lending issue. Additionally, Ms. Marcus reviewed the qualities of several properties purchased by Prudential in 2006.


1. Monthly Investment Performance Update.

Kevin Vandolder introduced Daniel Pawlish who has taken over for Justin Mier as VCERA’s consulting manager.

Mr. Pawlish reviewed VCERA’s investment performance in March focusing on managers such as Capital Guardian, Wasatch, GMO and Wellington who detracted from VCERA’s relative performance and the managers who added relative value such as Sprucegrove and Reams. Overall, performance for the month was .9% versus the return of the policy portfolio of 1.0%. For the fiscal year, VCERA’s investment return was 11.8% versus a policy portfolio return of 12.1%.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates Materials. (continued)

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

Mr. Goulet moved, seconded by Mr. Hansen, to receive and file the Monthly Investment Report and Monthly Manager Updates/Summary.

Motion Passed.


(Items 3 & 4 were considered together.)

Mr. Vandolder reviewed the rationale behind EnnisKnupp's recommendation to change the overall domestic equity benchmark to the Dow Jones Wilshire 5000 from the Russell 3000. The reasons include that the Dow Jones Wilshire 5000 represents the full opportunity set for the domestic equity market, is bias free, and is investable. Mr. Vandolder discussed several differences between the benchmarks including the weighted average capitalization, total capitalization of the benchmark as a percentage of the U.S. equity market and the capitalization represented by the top 10, top 50 and top 100 companies. Additionally, Mr. Vandolder discussed the deviation in historical returns between the two indexes.

Mr. Hansen moved, seconded by Mr. Wilson, to adopt the Dow Jones Wilshire 5000 Index as the U.S. Equity policy benchmark.

Motion passed.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates Materials. (continued)

Staff was directed to make the change when it is determined to be the most appropriate on a cost efficient basis.

Mr. Vandolder discussed the mechanics of utilizing a synthetic enhanced index approach to create alpha or excess return over and above the returns of the S&P 500. Fundamentally, the synthetic enhanced index product replicates the return of the S&P 500 index by buying futures contracts and holding the cash as collateral. To add value, the alpha, the cash is managed more aggressively in a short-term fixed income portfolio thereby providing the S&P 500 returns with the excess return on the cash collateral. In conclusion, Mr. Vandolder stated that VCERA could add an incremental return of some 60 – 80 basis points, net of fees, over the return of the S&P 500 by employing such a strategy.

Mr. Vandolder continued by reviewing the approaches of three investment management companies, Western Asset Management, PIMCO, and The Clifton Group and discussed how these firms added value to the S&P 500 return by utilizing this strategy.

Mr. Hansen moved, seconded by Mr. Wilson, to hire Western Asset Management to manage a portable alpha synthetic enhanced index mandate.

The rationale for hiring Western Asset Management to manage an enhanced S&P 500 index product without an interview was based upon the Board’s satisfaction with Western Asset Management’s past performance, the tenure of the Board’s relationship with Western Asset Management and the presentations on the subject made by Western Asset Management in January 2007 and at a previous Board retreat.

Motion passed.

Mr. Vandolder also provided a review of Barclays Global Investor’s (BGI’s) previously proposed Asset Trust investment vehicle whereby VCERA would be the "preferred" investor and receive 10 basis points above the S&P 500 index return in exchange for investing up to $300 million in the trust for up to three years. Positive characteristics of the investment include the 10 basis points of excess return guaranteed over the S&P 500 and a decline in management fees. Negative characteristics include the illiquidity of the investment and a potential risk of loss if the pooled investment falls precipitously.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates Materials. (continued)

Mr. Goulet questioned whether we needed to employ outside counsel to review any trust agreement, while Mr. Matheney expressed concerns regarding the potential for bankruptcy of the "ordinary" investor and impact on VCERA's cash flows. Mr. Wilson questioned whether the additional work on this project was worth the expected incremental return.

Mr. Wilson moved, seconded by Mr. Henderson, to instruct staff and consultant to work with BGI to identify an appropriate ordinary investor for adoption of an Asset Trust. VCERA would be the preferred investor/shareholder and finalized contract details will be reviewed by the Board of Retirement before finalization.

Motion passed.

Mr. Vandolder's concluding remarks focused on the optimal manager structure within VCERA's domestic equity allocation given the direction received from the Board on portable alpha strategies and the Asset Trust construct. Mr. Vandolder discussed two separate options in terms of restructuring the domestic equity allocation with one of the main decision points being how much to allocate to the portable alpha strategy.

Mr. Towner called upon Carl Goldsmith, Chief Investment Officer, from Delta Asset Management (Delta) to discuss his firm's underperformance given that Delta was being considered a funding source for the new portable alpha strategy.

Mr. Goldsmith stated that over the last several years Delta has underperformed because of overweighting "Mega" capitalization firms and technology. "Mega Caps" and technology companies have underperformed relative to the performance of the S&P 500. Mr. Goldsmith continued to believe that the technology, capital spending and financial companies in Delta's portfolio would deliver superior performance relative to the S&P 500 going forward over the next 6 – 12 months.

Staff recommended, in response to Mr. Wilson's question, to begin funding the portable alpha strategy at the $100 million level with the potential to increase the allocation over time.
V. **INVESTMENT INFORMATION** (continued)

C. EnnisKnupp & Associates Materials. (continued)

Mr. Wilson moved, seconded by Mr. Goulet, to fund the new synthetic index portable alpha strategy with Western Asset Management at the $100 million level with the assets to be transferred from Delta Asset Management.

Motion passed.

5. Memorandum - Proposed Change in Consulting Manager.


(items #5 & #6 were considered together)

Mr. Vandolder provided a brief overview of EnnisKnupp’s capital marketing assumptions within the context to provide more detailed observations at a future retreat that may include discussions on a future work plan, opportunistic investment strategies and private equity.

Mr. Goulet moved, seconded by Mr. Matheney, to receive and file the memorandum on the consulting manager change and the Capital Markets Assumption article.

Motion Passed.

VII. **NEW BUSINESS**

A. Administrative Budget for Fiscal Year 2007-2008 and Annual Review of Educational and Travel Policy.

Staff provided an overview of the fiscal year 2007-2008 requested budget that reflected a 2.6% increase over the prior year budget due to higher salaries, retirement contributions and requested professional services. Staff budgeted lower amounts for cost allocation and legal expenses in comparison to budgeted amounts in the previous year.

Staff also discussed several minor revisions to the travel policy with the most material revision being a change in the amount for travel to conferences, site visits and educational meetings that do not count toward the trustee travel limitation to $350 from $250.
VII. NEW BUSINESS (continued)

A. Administrative Budget for Fiscal Year 2007-2008 and Annual Review of Educational and Travel Policy. (continued)

Ms. Becker moved, seconded by Mr. Goulet, to adopt the Fiscal Year 2007-2008 budget as recommended.

Motion passed.

B. Change in Wellington Trust Company Fee Arrangement.

Staff reviewed the Wellington Trust Company letter that discussed a change in how administrative fees would be assessed to trust participants and requested the Board receive and file the letter.

Mr. Henderson moved, seconded by Mr. Harris, to receive and file the Wellington Trust Company letter.

Motion passed.

C. Recommendation to Approve SACRS Officer Nominations and By-Law Amendments.

Staff reviewed the SACRS' Nominating Committee recommendations and the proposed by-law amendments to the SACRS Constitution and recommended VCERA's voting delegate support the nominations and amendments.

Mr. Goulet moved, seconded by Mr. Harris, to support the nominations for SACRS officers and by-law amendments.

Motion passed.

D. Requests to Attend CALAPRS Communication and Benefit Conference and Annual Government Finance Officer's Conference.

Ms. Becker moved, seconded by Mr. Harris, approve staff travel to the CALAPRS communication and benefits roundtable and Government Finance Officer's Conference.

Motion passed.
VII. INFORMATIONAL

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

VIII. PUBLIC COMMENT

None.

IX. BOARD MEMBER COMMENT

Mr. Goulet commented that Assemblyman Torrico submitted another bill this year aimed at preventing investment professionals who are trustees from marketing investment products to other trustees. Mr. Goulet discussed the fact that Assemblyman Torrico introduced similar legislation last year that was vetoed by the Governor. Mr. Torrico has now addressed the Governor’s concern in this latest bill and one could expect this bill to be passed later this year.

X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:25 a.m.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chair