

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 21, 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
Joseph Henderson, Public Member
Albert G. Harris, 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 April 21, 2008, to order at 9:00 a.m.

II. **APPROVAL OF AGENDA**

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

Motion passed.

III. **APPROVAL OF MINUTES**

A. Disability Meeting of April 7, 2008.

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

Motion passed. Ms. Becker and Mr. Foy abstained.

IV. **CONSENT AGENDA**

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

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 Month Ended February 29, 2008.

C. Report of Checks Disbursed in March 2008.

D. Budget Summary for the Month Ended March 31, 2008, 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 March 31, 2008.

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

Motion passed.

V. **INVESTMENT INFORMATION**

A. Prudential Annual Investment Presentation, Mark Oczkus, Principal, and Joanna Mulford, Principal.

Mark Oczkus and Joanna Mulford were present from Prudential Real Estate Investors to discuss Prudential's organization, investment strategy and performance.

V. INVESTMENT INFORMATION (continued)

A. Prudential Annual Investment Presentation. (continued)

Mr. Oczkus introduced Ms. Mulford who is a recent addition to the PRISA investment management team and reviewed the recent changes that took place at the executive level within Prudential Investment Management.

Mr. Oczkus reviewed VCERA's investment history with PRISA noting the original funding of \$60 million in March 2005 and the portfolio's value as of December 31, 2007 of \$93.7 million.

Ms. Mulford reviewed PRISA's investment characteristics that focus on generating a high proportion of total fund return from the income component of the portfolio, its relatively low level of leverage and the disciplines followed by the investment team to achieve returns that exceed the NCREIF Fund Index - Open-End Diversified Core Equity (NFI-ODCE). Ms. Mulford also noted PRISA's property and geographical diversification, the high percentage of well-leased properties and the superior property selections made by the investment group. Ms. Mulford further described how PRISA utilized forward commitments during the development phase of a property to enhance returns upon completion of the project.

The return for the PRISA portfolio in 2007 was, according to Ms. Mulford, 17.52% versus the performance objective of 9.0% – 11.0%. Appreciation in the office sector accounted for 2/3 of the performance. PRISA's 2008 return expectations are in the 4% - 7% range with the expectation for the income component of the return being in the 5% range. Ms. Mulford noted that such an expectation for the income component leaves the potential for the appreciation component to be negative.

Ms. Mulford described the market conditions in 2008 as being quite challenging with highly leveraged buyers essentially out of the market. PRISA's strategy includes increasing exposure to apartments and decreasing exposures to retail and hotels. Ms. Mulford further noted that many PRISA clients are rebalancing from real estate to equity given the market conditions and PRISA expects most new investment activity will be financed through property sales rather than from client investment. Currently, PRISA does not have an investment or redemption queue, but there may be the possibility for a redemption queue in the future.

Finally, Ms. Mulford described how PRISA was using the dislocations in the debt markets to provide mezzanine financing to enhance portfolio returns.

Mr. Matheney noted PRISA's strong cash flows.

V. INVESTMENT INFORMATION (continued)

B. UBS Annual Investment Presentation, Deborah Ulian, Director.

Deborah Ulian was present from UBS Realty Investors to discuss UBS' organization, investment strategy and performance.

Ms. Ulian began her discussion by stressing the distinction between the Global Asset Management Group, which includes UBS Realty Investors, and the Investment Bank unit of UBS that was forced recently to write-down a material amount of mortgage related securities and structured credit positions.

Ms. Ulian reviewed the various portfolios offered by UBS Realty Investors and noted the new investment strategies currently being developed for real estate investment in Brazil, China and India. According to Ms. Ulian, UBS currently manages \$17.3 billion in real estate assets and has managed real estate portfolios on behalf of its clients for 30 years. Ms. Ulian noted the depth of the UBS team which is comprised of some 181 investment professionals.

VCERA is, according to Ms. Ulian, one of 207 investors in the Trumbull Property Fund. The fund is comprised of 172 separate investments and was valued at \$12.1 billion at 12/31/2007. Ms. Ulian noted that the portfolio is well diversified geographically and by property type. Office and Apartments are the largest components of the portfolio with the greatest concentrations of assets being found in the eastern and western regions. The fund also maintains one of the lowest levels of leverage, at 14%, of the funds maintained in the NFI-ODCE index.

For the year ending December 31, 2007, the Trumbull Property Fund returned 13.9% versus 16.0% for the index. Ms. Ulian noted that UBS' valuation process appears, based upon research, to incorporate the current market conditions earlier than the index and this may be a reason for the fund's recent underperformance.

Ms. Ulian further reviewed UBS' return versus its primary performance objective of providing at least a 5% real rate of return, before fees, for any given 3-to-5 year period. Ms. Ulian noted that the fund has provided an annualized real rate of return of 6.15% since its inception in 1978.

Ms. Ulian forecasted the fund's return for the next 12-18 months to be in the 7%-8% range with 5%-5.5% of the projected return being attributable to the income component of the portfolio. Ms. Ulian stated that there were no investment or withdrawal queues at UBS currently.

V. INVESTMENT INFORMATION (continued)

B. UBS Annual Investment Presentation. (continued)

Mr. Matheney and Mr. Goulet requested that UBS provide performance results net of fees in future reports.

C. EnnisKnupp & Associates, Kevin Vandolder.

1. Monthly Investment Performance Update.
2. Monthly Manager Updates/Summary, March 2008.
 - a. Delta
 - b. LSV
 - c. Wasatch
 - 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 discussed VCERA's performance for the month of March focusing his commentary on the continuing challenges faced in Western's Index Plus portfolio due to its allocation to high quality mortgage backed securities, LSV's and Wasatch's continuing struggles in a difficult market, Delta's continuing outperformance, how Sprucegrove and GMO protected value and Ream's strong relative performance in March. Overall, VCERA's first quarter returns were, according to Mr. Vandolder, -5.9% during this very challenging period in the capital markets.

Mr. Vandolder also informed the Board that Ken Leach, CIO of Western Asset Management, will be on leave of absence for medical reasons. Mr. Vandolder noted the depth of Western's investment management team and there was no need to take immediate action. Mr. Vandolder felt it prudent for Board and staff to schedule an on-site visit with Western in the future to discuss this situation.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

3. Asset Allocation and Updated Manager Structure Discussion.

Mr. Vandolder reviewed the various asset classes within the market place available to VCERA for investment. In summary, EnnisKnupp recommends that VCERA decrease its allocation to domestic equity, increase its allocation to both international and global equity, maintain the fixed income allocation at its current level and explore investment opportunities in infrastructure, private equity and other opportunistic strategies such as GTAA and currency overlay.

Mr. Vandolder recommended that the Board consider utilizing 1% allocations to both infrastructure and private equity in order to gain the experience of investing in these asset classes and then subsequently build up that allocation as the trustees become more comfortable with characteristics of these investments.

Mr. Vandolder discussed in greater detail the investment in infrastructure assets, noting the benefits including the steady revenue stream, the protection against inflation, the long duration and the low correlation of returns to traditional asset classes.

Mr. Goulet and Mr. Wilson offered questions regarding the risks, investment vehicles and liquidity of investing in public infrastructure assets.

Mr. Vandolder noted that a more detailed discussion of these more opportunistic asset classes could be deferred and accomplished during VCERA's annual retreat.

Mr. Vandolder provided a review of the EnnisKnupp's philosophy to increase international and global equity allocations, the merits and qualities of active management and the merits and qualities of passive management. Mr. Vandolder noted that active managers must overcome their own investment management fees, trading costs and the negative impact of holding cash in a portfolio. Passive management, according to Mr. Vandolder, offers broad diversification, low fees and assured market returns. Additionally, Mr. Vandolder remarked on what he perceives to be the keys to successful active management including the employment of managers with broad mandates and not to fire managers solely due to poor performance.

V. **INVESTMENT INFORMATION** (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Goulet asked for guidance concerning the appropriate time frame for terminating a manager with poor performance.

Mr. Vandolder stated that an appropriate time frame would be 5 to 7 years.

In summary, Mr. Vandolder recommended that VCERA continue to employ a meaningful, if not total, allocation to passive management within the domestic equity portfolio, continue to devote a moderate amount of the international equity portfolio to passive management and work toward having 100% of the fixed income allocation being actively managed.

Mr. Wilson questioned the recommendation to increase active management within the fixed income allocation.

Mr. Vandolder reviewed the quantitative factors of the three scenarios being presented for the Board's consideration. Scenario A offered additional risk control by reducing funding levels to active managers and increasing passive management. Scenario B offered full risk control within the domestic equity allocation by utilizing 100% passive management while maintaining the level of active management risk within the international and global equity allocations. Scenario C offered an expansion of active risk within the international equity portfolio by adding an additional active manager to the allocation and maintaining the domestic and global allocations as described in Scenario B.

In response to an inquiry from the Chair for Staff's perspective, staff commented that scenario B makes the most sense because it provides for active management where the market is most inefficient and opportunities for outperformance are most abundant.

Mr. Goulet questioned the timing of implementing the various scenarios.

Mr. Matheney noted that he had held a favorable view of small cap managers in the past, but his patience has waned over the years and he now sees merit in the passive approach.

Ms. Becker moved, seconded by Mr. Matheney, to adopt Scenario B.

Motion Passed.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

4. Real Estate Considerations.

Mr. Vandolder discussed the potential enhancements to VCERA's real estate portfolio of broadening the mandate by adding an international component to the portfolio. Mr. Vandolder stated that VCERA currently invests 75% of its real estate assets in "core" mandates and recommended expanding the diversification benefits of the real estate portfolio by considering additional value-added/opportunistic strategies as well as international ones.

5. Memo – Re-opening of GMO Global (US+) Equity Allocation Fund and Benchmark Change.

a. Correspondence from Phil Bennett Dated April 8, 2008.

Mr. Vandolder reviewed GMO's letter regarding the reopening of the Emerging Market fund and the offer to move to a MSCI All-Country World benchmark. Mr. Vandolder recommended that VCERA accept GMO's offer to participate in the Emerging Market Fund and further recommended that GMO change the benchmark for VCERA's investment.

Mr. Wilson moved, seconded by Mr. Harris, to adopt EnnisKnupp's recommendation.

Motion Passed.

6. Memo – Thornburg Investment Management's Relationship with Thornburg Mortgage.

Mr. Vandolder reviewed EnnisKnupp's memorandum to address Mr. Johnston's concerns regarding Thornburg Investment Management's relation with Thornburg Mortgage noting that although the entities shared the same Chairman, there was no additional business related risk regarding Mr. Thornburg's dual-Chairmanship. Thornburg Investment Management was, according to Mr. Vandolder, an employee-owned independent entity managed by a capable group of investment professionals.

Mr. Harris moved, seconded by Mr. Matheney, to receive and file Items #1, #2, #4 and #6.

Motion Passed.

V. INVESTMENT INFORMATION (continued)

D. Letter from Staff Recommending Approval of Acadian 130:30 Investment Contract.

1. Side Letter #1 – Fiduciary Duties.
2. Side Letter #2 – Investment Management Fees.
3. Subscription Booklet.
4. Confidentiality Agreement.
5. LLC Agreement.
6. Private Placement Memorandum.
7. Miscellaneous Supporting Documents.

Mr. Vandolder provided background on the negotiation process with staff and EnnisKnupp requesting the Board's approval of the Acadian contract.

Mr. Goulet questioned the asset level upon which Acadian would earn its base fee.

Mr. Goulet moved, seconded by Mr. Harris, to adopt staff's recommendation and approve the Acadian Investment Management 130:30 investment contract.

Motion Passed.

VI. OLD BUSINESS

A. Final Version of the Interest Crediting Policy.

Mr. Henderson moved, seconded by Mr. Harris, to receive and file the Interest Crediting Policy.

Motion Passed. Mr. Foy opposed.

Mr. Goulet stated that he was seriously troubled by step #4 of the policy and requested the Board revisit its recently adopted Interest Crediting Policy at a future meeting.

VII. NEW BUSINESS

- A. Request to Attend CALAPRS Trustees' Roundtable.

Ms. Becker moved, seconded by Mr. Wilson, to approve Mr. Goulet's request to attend the CALAPRS Trustees' Roundtable.

Motion Passed.

- B. Quarterly Administrator's Travel Report.

Mr. Harris moved, seconded by Mr. Henderson, to receive and file the Administrator's Quarterly Travel Report.

Motion Passed.

VIII. INFORMATIONAL

- A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

- B. Letter from Delta Asset Management Regarding Robert Sandroni's Retirement.

- C. UBS Announcements Dated April 1, 2008.

- D. Guggenheim Flash Report and First Quarter 2008 Market Commentary.

IX. PUBLIC COMMENT

Mr. Thonis reminded the Board of the special meeting scheduled for April 28, 2008.

X. BOARD MEMBER COMMENT

Mr. Goulet noted his recent attendance at two conferences and deferred his report to a future meeting.

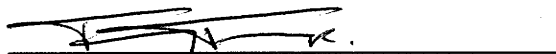
XI. ADJOURNMENT

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

Respectfully submitted,


TIM THONIS, Administrator

Approved,


TRACY TOWNER, Chairman