

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

MAY 21, 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
Peter C. Foy, Public 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:**

none.

**STAFF
PRESENT:**

Tim Thonis, Retirement Administrator
Walter Lauzon, Chief Financial Officer
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 May 21, 2007, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Thonis suggested the Board amend Item V. E. to read "Approval of Amendment", rather than "Ratification of Amendment".

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of May 7, 2007.

Mr. Thonis requested the Minutes be amended to reflect that Ms. Becker was not present at the May 7, 2007 disability meeting.

Mr. Goulet moved, seconded by Mr. Foy, to approve the Minutes for the Disability Meeting of May 7, 2007, as amended.

Motion passed. Ms. Becker abstained.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of April 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 Month Ended March 31, 2007.**
- C. Report of Checks Disbursed in April 2007.**
- D. Budget Summary for the Month Ended April 30, 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 April 30, 2007.**

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

Motion passed.

V. INVESTMENT INFORMATION

- A. Sprucegrove Annual Investment Presentation, John Watson, Founding Partner, and Mark Shevitz, Fair Haven Partners.

Mark Shevitz compared Sprucegrove's year-to-date performance of 6.7% to the MSCI EAFE index return of 8.7% and focused on longer time frames to illustrate the benefits of Sprucegrove's investment performance. Since inception, Sprucegrove's annualized return is 19.6% versus an annualized return of the benchmark of 16.5%. Mr. Shevitz commented that Sprucegrove expects, due to its investment process, to typically add value during down markets but has been able to outperform the benchmark over the last several years in a strong market environment.

Mr. Watson reviewed the organizational changes that have been taking place due to his announced retirement in 2008 and discussed the process followed in analyzing companies and the characteristics of the companies that are ultimately included in Sprucegrove's portfolio.

- B. Capital Guardian Annual Investment Presentation, Michael Nyeholt, Relationship Manager, and Lionel Sauvage, Portfolio Manager.

Greg Garrett from Capital Guardian was present in place of Lionel Sauvage. Mr. Nyeholt reviewed Capital Guardian's investment process, investment management team, current allocation to emerging markets and the performance for the period ending 12/31/2006 of 23.2% versus a benchmark return of 26.65%. Since inception, Capital Guardian's annualized return is 5.64% versus the benchmark's of 7.05%

Mr. Garrett focused his remarks on the reasons why Capital Guardian was underperforming. Mr. Garrett noted that Capital Guardian typically performed better in those periods when the benchmark returned less than 20% in a year. Over the course of the last three years, the benchmark's annualized return has been 21.32% and Capital Guardian has underperformed by 73 basis points. Mr. Garrett noted that Capital Guardian believes that the valuations in many of the better performing sectors, such as materials and utilities have become too expensive and Capital Guardian has avoided the sectors contributing to the underperformance. Mr. Garrett stated that private equity firms have been investing in these "old economy" sectors thereby perpetuating the cycle. Capital Guardian has been focusing on companies with stable free cash flows such as in the telecom industry and believe that these decisions will be rewarded going forward. Mr. Garrett also reviewed Capital Guardian's country decisions and discussed in detail the reasons behind the Japanese investments and the portfolio's overall characteristics.

V. INVESTMENT INFORMATION (continued)

C. UBS Realty Annual Investment Presentation, Deborah Ulian, Director.

Ms. Ulian provided an update on the organization, investment strategy and performance for the core commingled real estate fund managed by UBS. For the period ending March 31, 2007 the return, net of fees, was 16.10%. The fund's overall investment objective is to provide at least a 5% real return over three-year to five-year periods. The real return of the fund was 14.79% over the last three years and 11.55% over the last five years. UBS attempts to add value by underweighting or overweighting property types and regions depending on outlook.

Ms. Ulian informed the Board that UBS recently launched a new core-plus open-end fund with \$75 million in seed money. The fund has a leverage target of 50% and was targeted to beat the NCREIF index by 200 basis points. Ms. Ulian also discussed the upcoming change in the core fund's investment structure to be a private REIT thereby allowing a broader spectrum of investors.

D. EnnisKnupp & Associates, Kevin Vandolder.

The Board considered items 1-4 together along with items 6-7. Item 5 was considered separately.

1. Monthly Investment Performance Update.

Mr. Vandolder reviewed the monthly performance report focusing on the strong absolute return of 2.8% that matched the return of the policy portfolio. Mr. Vandolder expressed disappointment in the fact that on a fiscal year basis the total return lagged that of the policy portfolio due to the poor relative returns of many of VCERA's equity managers.

Mr. Wilson commented on Delta's continued underperformance.

2. Monthly Manager Updates/Summary, April 2007.

- a. Delta
- b. LSV
- c. Wasatch
- d. Sprucegrove
- e. Capital Guardian
- f. GMO
- g. Wellington
- h. Western

V. INVESTMENT INFORMATION (continued)

D. EnnisKnupp & Associates Materials. (continued)

- i. Reams
- j. Loomis Sayles

Mr. Vandolder stated that there were no compliance violations or material organizational changes to report.

3. 2007 – 1st Quarter Performance Report.

Mr. Vandolder reviewed the asset allocation of the portfolio as of March 31, 2007 indicating that the allocations were within target ranges. In addition, Mr. Vandolder reviewed the total fund quarterly return of 1.6% focusing on the attribution analysis indicating that the underperformance could be attributable primarily to the active domestic equity managers as well as Capital Guardian.

Mr. Wilson expressed concern over VCERA's poor ranking relative to peers and Mr. Vandolder attributed the less than desirable rankings to the investment by peers in private equity and other alternative investments.

4. 2007 Work Plan.

Mr. Vandolder reviewed the proposed work plan for the upcoming six months including scheduled discussion on the BGI "Asset Trust" investment structure, cash equitization strategies, and relaxing the "long-only" constraint through the use of 130/30 strategies.

Mr. Matheney requested if EnnisKnupp had a research paper comparing the current investment environment to those of the past. Specifically, on how the traditional investment markets, such as the S&P 500, are impacted by the fund flows to the ever increasing alternative markets.

Mr. Towner questioned whether there was truly a need to move away from the traditional markets.

Mr. Hansen moved, seconded by Mr. Harris, to receive and file the monthly investment performance update, the monthly manager updates, the 2007 – 1st Quarter report and 2007 work plan.

Motion passed.

V. INVESTMENT INFORMATION (continued)

D. EnnisKnupp & Associates Materials. (continued)

5. Memorandum - Wellington Global Equity Research Update.

Mr. Vandolder discussed EnnisKnupp's concerns surrounding Wellington's performance, organizational changes and upcoming fee increase. Mr. Vandolder indicated that in sum the events met the Board's watch list criterion of any actual or potentially adverse information, trends, or developments that the Board feels might impair the investment manager's ability to deliver successful outcomes.

Mr. Wilson moved, seconded by Mr. Harris, to place Wellington Global Equity on VCERA's watch list.

Motion passed.

6. Memorandum - Domestic Equity Benchmark Sector Allocation.

Mr. Vandolder reviewed the memorandum and commented on the correct weighting illustrated for the health care sector.

7. Research Paper – What Ails Public Pensions.

Mr. Vandolder reviewed EnnisKnupp's research paper and focused on the conclusions being offered by Mr. Ennis including a recommendation to focus on the Accumulated Benefit Obligation (ABO) and market discount rates to measure for plan liabilities, conducting regular asset/liability studies, resist economically targeted investments and having better funding policies and awareness of the multiple generations impacted in the investment planning process.

Mr. Wilson stated the paper made him reconsider VCERA's past performance and his thinking on the impact of "contribution holidays" and providing additional supplemental benefits.

Mr. Matheney stated that he viewed the system as having the overall goal of being 100% funded and when assets exceeded liabilities there was a mechanism to slow down the funding to maintain the level and conversely a mechanism to add funding when assets were less than liabilities. Mr. Matheney cautioned that a change in the dynamics may result in unintended consequences.

V. INVESTMENT INFORMATION (continued)

D. EnnisKnupp & Associates Materials. (continued)

The Board held discussions on several governance issues and consultant and staff were requested to return in July with a memorandum on the subject.

Mr. Hansen moved, seconded by Mr. Harris, to receive and file the domestic equity benchmark memorandum and EnnisKnupp research paper.

Motion Passed.

E. Memorandum from Staff Regarding Ratification of Amendment to Agreement for Western Asset Management.

1. Amendment to Agreement.
2. Investment Guidelines.
3. Schedule of Fees.
4. Investment Management Agreement dated December 6, 1996.

Staff recommended the approval of an amendment to the agreement for Western Asset Management, investment guidelines for the portable alpha synthetic enhanced index product and schedule of fees.

Mr. Goulet moved, seconded by Mr. Matheney, to approve the amendment of the Western Asset Management investment agreement, the approval of investment guidelines and a fee schedule for the portable alpha synthetic enhanced index product.

Motion Passed.

VI. NEW BUSINESS

A. Memorandum from Staff Regarding Reinstatement to Active Membership for Leilani C. O'Neill-Lopez.

Staff reviewed the requirements for reinstatement to active membership pursuant to Government Code sections 31680.4 and 31680.5 and recommended Mrs. O'Neill-Lopez be reinstated.

VI. **NEW BUSINESS (continued)**

- A. Memorandum from Staff Regarding Reinstatement to Active Membership for Leilani C. O'Neill-Lopez. (continued)

Mr. Wilson moved, seconded by Mr. Harris, to approve the reinstatement of Ms. O'Neill-Lopez.

Motion Passed.

- B. New Capital Guardian Fee Agreement.

1. Letter from Capital Guardian dated April 26, 2007, Regarding ACWEXUS Fee Reduction.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file the April 26, 2007 letter from Capital Guardian.

Motion Passed.

VII. **INFORMATIONAL**

- A. Publications (Available in Retirement Office)
1. Institutional Investor
2. Pensions and Investments
- B. Press Release – SACRS Elections 2007-2008.

No action taken.

VIII. **PUBLIC COMMENT**

None.

IX. **BOARD MEMBER COMMENT**

None.

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