VENTURA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JULY 19, 2010

MINUTES

DIRECTORS PRESENT: William W. Wilson, Vice Chair, Public Member
                            Don Hansen, Assistant Treasurer – Tax Collector
                            Peter C. Foy, Public Member
                            Albert G. Harris, Public Member
                            Joseph Henderson, 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: Tracy Towner, Chair, Safety Employee Member

STAFF PRESENT: Tim Thonis, Retirement Administrator
                            Henry Solis, 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

Vice-Chairman Wilson called the Business Meeting of July 19, 2010 to order at
9:00 a.m.
II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of July 12, 2010.

Mr. Henderson moved, seconded by Mr. R. Hansen, to approve the Minutes for the Disability Meeting of July 12, 2010. Mr. Goulet abstained.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of June 2010.


F. Guggenheim Real Estate PLUS Trust Flash Report for the Quarter Ended June 30, 2010

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

Motion Passed.
V. INVESTMENT INFORMATION

A. The Clifton Group Annual Investment Presentation, Ben Lazarus and Tom Lee.

Ben Lazarus and Tom Lee were present from The Clifton Group (Clifton) to review Clifton's organizational structure, investment philosophy and investment performance.

Mr. Lazarus provided an overview of the PIOS (Policy Implementation Overlay Service) objectives that include maintaining investment policy allocation exposures, increasing day to day cash availability, eliminating or reducing cash drag on portfolio performance and adding 10 basis points (.10%), compounded annually, to VCERA's investment performance.

Mr. Vandolder offered that public plans as a whole are not required to manage duration exposure as closely as private plan peers due to differing accounting/reporting requirements and Mr. Vandolder reminded the Board that fixed income duration was a subject reviewed by EnnisKnupp every three years.

Mr. Lazarus reviewed how the portfolio is monitored daily using information from VCERA's custodian, State Street, and from staff. Based upon the information, Clifton implements the trades required to maintain VCERA's policy investment objectives and posts the results daily on to Clifton's website for review.

Mr. Lazarus reviewed how Clifton maintains VCERA's exposure to its desired indices, such as the Wilshire 5000 Index (Total Stock), through the use of "exchange traded" futures agreements. Mr. Lazarus reminded the Board that there was no "counterparty" risk in a futures agreement as the "exchange" is the counterparty to the trade, with positions settling at the close of business each day. Mr. Lazarus discussed VCERA's average daily cash balance which fluctuated between 5.31% and .24% of VCERA's investment portfolio and how Clifton assisted staff in managing the plan's average cash balance.

Mr. Lazarus noted that the Clifton program will do well when capital market returns exceed cash or money market returns. Unfortunately, over the past two years, except for the Barclays Capital Aggregate Bond Index, cash has been the best performing asset class. Over the long run, one should expect to see cash returning less than the other asset classes, according to Mr. Lazarus.
V. INVESTMENT INFORMATION (continued)

A. The Clifton Group Annual Investment Presentation. (continued)

Mr. Lazarus reviewed the manner in which Clifton managed market, information, liquidity and tracking error risks.

Mr. Wilson requested and received clarification on how Clifton managed the information and whether the portfolio was traded dynamically during the day.

Mr. Vandolder requested Clifton discuss how cash levels maintained by commingled fund vehicles were managed.

In terms of cost/benefit analysis, Clifton states that given an estimated 4% market risk premium to cash, then one should expect Clifton to add approximately $2.2 million to VCERA's investment program annually.

Mr. Vandolder discussed the flexibility afforded by the Clifton relationship in terms of utilizing the futures market to rebalance VCERA's portfolio when illiquidity exists in the traditional markets.

In terms of performance, Mr. Lee reviewed the market returns for the portfolio versus various benchmarks and noted that tracking error tended to increase in the international benchmarks as full replication is extremely difficult. Since, inception the overlay program has returned -4.68% versus a benchmark return of -5.40%. In dollar terms, the program has lost approximately $25,000 since inception relative to a passive benchmark.

In conclusion, Mr. Lee offered an update on Clifton's organization including the current ownership structure (25% employee owned), number of clients (139), staff size (43 employees) and assets under management ($34 billion).

B. Artio Global Asset Management Annual Investment Presentation, Hien Nguyen and Andrew Barker.

Hien Nguyen and Andrew Barker with Artio Global Asset Management (Artio) were present to discuss Artio's organization, investment process, investment results and market outlook.

Ms. Nguyen discussed the Initial Public Offering accomplished by Artio in September of 2009 with all employees receiving shares, clients gained and lost and staff changes. In terms of investment process, Ms. Nguyen
V. INVESTMENT INFORMATION (continued)

B. Artio Global Asset Management Annual Investment Presentation.
(continued)

reviewed Artio’s belief that developed markets should be viewed from the “bottom-up” with micro factors dominating the decision variables, that emerging markets needed to be viewed from the “top-down” with macro factors dominating and Japan needed to be viewed with a hybrid approach that merged the “top-down” and “bottom-up” themes.

VCERA invested a total of $60 million in October and November of 2008 with Artio, according to Ms. Nguyen, with the portfolio currently valued at approximately $66 million as of June 30, 2010. In terms of relative performance, Ms. Nguyen noted the difficultly faced by Artio in early 2009 as the portfolio was underweight financials, exposed to Eastern European emerging markets and owned companies with strong balance sheets. During 2009, the financial sector rallied materially, Eastern Europe emerging market countries performed poorly and low quality companies rallied, leading to Artio underperforming the MSCI ACWI (ex U.S.) index by 18.50% in 2009. Since inception in November 2008, the Artio portfolio has underperformed by some 9.4% according to Ms. Nguyen.

Mr. Barker reviewed how the massive governmental intervention worldwide impacted Artio’s relative performance, why Artio was not comfortable owning banks in the early part of 2009 and why the portfolio was not exposed to Asian emerging markets during 2009. In retrospect, Mr. Barker stated that Artio was not quick enough in changing portfolio positions in 2009, especially within the financial sector, as it took Artio longer than expected to understand the changing market fundamentals.

Mr. Vandolder requested Artio provide their forward looking view and the benchmark risks being undertaken within the portfolio.

Mr. Barker stated that Artio was pessimistic on growth opportunities within the markets due to debt levels and Artio needed to be very cautious in their stock selection, especially within the financial sector. For example, United Kingdom banks had, since the downturn, recapitalized, managed down their leverage, eliminated non-core businesses and Artio was presently adding a position in Barclays. In terms of Greece, Mr. Barker opined that the country would default and the planned stress tests for European banks were lacking because sovereign debt levels would not be included in the tests.
V. INVESTMENT INFORMATION (continued)

B. Artio Global Asset Management Annual Investment Presentation. (continued)

Mr. Wilson requested and received clarification on Artio's currency hedging strategy due to an overweight position in developed European markets.

Mr. Barker opined that an inexpensive Euro was good for the European exporters and cautioned against underestimating the strength of core European economies such as Germany. Mr. Barker argued that although consumers are under pressure, companies have undergone austerity programs and now have pent up demand for capital goods and materials. For example, Mr. Barker noted how European transportation companies had not added to their truck fleets for years and were just now beginning to add vehicles. The increased demand for vehicles should be good for automotive companies such as Volvo and BMW.

In terms of Asia, Mr. Barker discussed the increasing wealth in the region and the increased demand for goods from different regions. For example, Artio added to their position in Nestle due to increasing demand for imported goods in China.

Mr. Goulet and Mr. R. Hansen discussed with Mr. Barker the impact of Greece defaulting and the potential "domino" effect on other European countries.


   a. Sprucegrove
   b. Capital Guardian
   c. Artio
   d. GMO
   e. Acadian
   f. Western
   g. Reams
   h. Loomis

Mr. Vandolder provided additional insight on the upcoming European bank stress test and opined that the results should be positive. In addition, Mr.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Vandolder commented on the level of benchmark risk undertaken by Artio and how it was not addressed appropriately in Mr. Barker's remarks.

Mr. Vandolder noted how VCERA's active investment managers provided downside protection during June and commented on the level of risk control within the portfolio, especially within the domestic equity portfolio. For example, Western Asset Management saved value in the Index Plus portfolio by holding longer duration bonds relative to the market, Sprucegrove saved value through its Swiss and Japanese holdings and GMO saved valued through stock selection. Acadian Asset Management continued to underperform. Both fixed income and real estate returns were positive during the month. Western Asset Management and Reams Asset Management added value through duration management, exposure to non-agency mortgages, security selection and sector management. Real Estate portfolios were up as independent third party appraisers found improving market fundamentals and appraisals began to reflect the improving fundamentals.

Mr. Wilson commented that the 2009/10 fiscal year was the first time in several fiscal years where the investment portfolio outperformed VCERA's passive policy portfolio.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file EnnisKnupp's Monthly Investment Performance Report and Summary Update.

Motion passed.


Mr. Vandolder reviewed the ongoing State Street foreign exchange lawsuit with CalPERS and CalSTRs, the ongoing lawsuit regarding securities lending pool withdrawal limits and the limited impact on operations due to the retirements of senior personnel, including the CEO.

4. Memorandum – Change to State Street's Securities Lending Program.

Mr. Vandolder reviewed the impact surrounding the departures of employees from the securities lending team. Mr. Vandolder noted that the securities lending would be reviewed once again this fall in terms of program risks and rewards.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. R. Hansen moved, seconded by Mr. Harris, to receive and file the State Street Update memorandums (Items VI.C.3. and VI.C.4.).

Motion passed.


Mr. Vandolder reported on the executive change at RREEF.

Mr. R. Hansen moved, seconded by Mr. Harris, to receive and file the RREEF memorandum.

Motion passed.

D. Status Update on Private Equity Capital Calls – Adams Street Partners.

Staff provided a brief update on the pacing of capital calls since the private equity contracts were signed in May and June. Staff noted that $4 million or 4% of the commitment had been called since May.

Mr. Goulet moved, seconded by Mr. R. Hansen, to receive and file the Private Equity Status Update.

Motion passed.

VI. OLD BUSINESS

A. Due Diligence Site Visits with VCERA Real Estate Managers; GMO Client Conference.

Staff recommended the Board modify its motion of June 21, 2010, and approve Ms. Becker’s attendance at the GMO Client Conference on October 26 and 27. Additionally, staff recommended the Board approve a due diligence visit with Guggenheim Real Estate Investors in conjunction with Ms. Becker’s attendance at the GMO conference.

Mr. Goulet moved, seconded by Mr. D. Hansen, to approve Ms. Becker’s attendance at the GMO client conference and site visit with Guggenheim Realty Estate Investors.

Motion passed.
VII. NEW BUSINESS

A. Supplemental Cost-of-Living Benefit (STAR COLA).

Staff reviewed the report prepared by The Segal Company projecting STAR COLA payments for a five-year period beginning October 1, 2010. Staff also noted the projected balance in the STAR COLA reserve at October 1, 2010, and stated that additional information would be available for the Board's consideration at the September 20, 2010, business meeting after VCERA staff completed closing the financial records and credited interest to reserves.

Mr. R. Hansen moved, seconded by Mr. Henderson, to receive and file the STAR COLA report prepared by The Segal Company.

Motion passed.

B. Hansen & Bridgett Services; IRS Tax Determination Process.

Staff recommended the retention of the firm of Hansen & Bridgett to assist staff with the IRS Determination Letter process based upon Hansen & Bridgett’s previous work with the SACRS community.

At the request of Mr. Goulet, staff acknowledged that a cost ceiling of $50,000 would be placed on Hansen & Bridgett’s work on the IRS Determination Letter process. Staff was directed to return to the Board with a second request should additional services be required.

Mr. R. Hansen moved, seconded by Mr. Henderson, to approve staff’s recommendation, with the incorporation of a $50,000 cost ceiling as suggested by Mr. Goulet, to retain Hansen & Bridgett to assist with the IRS Determination Letter process.

Motion passed.

C. Fiduciary Liability Insurance; Waiver of Recourse.

Staff recommended VCERA trustees pay $9.09 apiece in order to enhance the coverage of the fiduciary liability policy.

Mr. Goulet moved, seconded by Mr. Harris, to adopt staff’s recommendation to extend liability coverage to the individual trustees.

Motion passed.
VII. **NEW BUSINESS** (continued)

D. Staff Request for Authorization to Attend EnnisKnupp Client Conference.

Mr. Hansen moved, seconded by Mr. Harris, to authorize staff’s attendance at the EnnisKnupp Client Conference.

Motion passed.

VIII. **INFORMATIONAL**

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

B. Letter from GMO Announcing Hiring of Chief Operating Officer, Dr. Jean-Pierre Mittaz.

C. Email from Pantheon Regarding Completion of AMG Transaction.

D. Email from Acadian Regarding Organizational Changes.


F. GASB Preliminary Views of the Governmental Accounting Standards Board; Plain-Language Supplement.

G. Conference Announcements:
   - GMO Fall Conference, October 26-27, 2010, Boston.

IX. **PUBLIC COMMENT**

Mr. Vandolder announced that EnnisKnupp was being acquired by Hewitt Investment Group. Mr. Vandolder stated that the acquisition with Hewitt was culturally a good fit for EnnisKnupp and Stephen Cummings, EnnisKnupp’s CEO, would be directing the new organization. Mr. Vandolder indicated that it would be incumbent on EnnisKnupp to prove to VCERA over the next six to twelve months that the acquisition did not detract from the current service level, but only enhanced services.
X. **BOARD MEMBER COMMENT**

Mr. Wilson offered his view on the GASB proposal and noted the proposed requirement to discount plan liabilities at the market discount rate.

XI. **ADJOURNMENT**

There being no further items of business before the Board, Vice-Chairman Wilson adjourned the meeting at 10:55 a.m., upon the motion of Mr. R. Hansen, seconded by Mr. Foy.

Respectfully submitted,

TIM THONIS, Retirement Administrator

Approved,

WILLIAM W. WILSON, Vice-Chairman