VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JULY 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
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:
Peter C. Foy, Public Member
Joseph Henderson, Public Member

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 July 21, 2008, to order at 9:00 a.m.
I. INTRODUCTION OF MEETING (continued)

Mr. Jim Becker, Assistant Ventura County Clerk, delivered the Oath of Office to Tracy Towner and Chris Johnston for terms of three years on the Board of Retirement.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of July 7, 2008.

Staff offered a correction to Page #1 of the minutes in order to properly reflect Mr. Johnston's absence from the meeting.

Ms. Becker moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of July 7, 2008, as corrected.

Motion passed.

IV. CONSENT AGENDA

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


IV. CONSENT AGENDA (continued)

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

Motion passed.

V. INVESTMENT INFORMATION


1. Monthly Investment Performance Update.

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

Mr. Kevin Vandolder, CFA, and Mr. Daniel Pawlish were present from EnnisKnupp & Associates to review VCERA's investment performance for the month of June.

Mr. Vandolder reviewed the depths of the market downturn from the prior week noting that the S&P 500 Index was at approximately the same level in July 2008 as in July 1998. Mr. Vandolder noted the continuing outperformance of the policy portfolio versus the actual portfolio and the magnitude of equity market downturn since last October as illustrated by the -22% returns of the NASDAQ, S&P 500 and Dow Jones Industrial Average.

Mr. Vandolder also reviewed briefly the performance of several prominent financial companies including J.P. Morgan, "Fannie Mae" and "Freddie Mac". Mr. Vandolder also provided insight into recent trends in oil prices, U.S. exports and the shape of the yield curve.

Mr. Hansen discussed the "implied guarantee" of Fannie Mae and Freddie Mac mortgages.

Mr. Goulet questioned whether there would be follow-up regarding the limiting of executive compensation packages.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Hansen opined that the financial turmoil was worse than reported and noted that non-bank dealers were now being provided the opportunity to borrow from the Federal Reserve.

Mr. Towner observed that VCERA’s active managers have underperformed during this recent down market period and noted that VCERA’s active managers did not do well during the technology bubble of the late 1990s either.

Mr. Vandolder observed that VCERA’s active managers performed well during 2001/2002 down market period.

Mr. Pawlish reviewed the performance of VCERA’s portfolio in the month of June noting the actual return of -5.8% versus the policy portfolio’s return of 5.3%. During the month, Mr. Pawlish noted that VCERA completed several of the manager transitions that were initiated in May. Mr. Pawlish further noted that the Western Index Plus portfolio continued to detract from performance, that Capital Guardian’s performance was less than expected due to its Japanese holdings and emerging market allocation, that GMO added to relative performance through superior stock selection and that all of VCERA’s fixed income managers underperformed the market during the month.

Mr. Wilson questioned the discrepancies in the reporting of returns for Acadian Asset Management.

Mr. Vandolder explained that the reporting discrepancies were the result of the transition in building the portfolio. He explained that VCERA’s portion earned a different rate of return than the commingled pool because VCERA was being transitioned into the commingled portfolio.

Mr. Vandolder provided additional insight into the performance of VCERA’s fixed income managers including views on economic stagflation, levels of default in high yield bonds and the likelihood of an economic recession.

Mr. Wilson commented on the economic challenges currently faced in other areas of the world including the housing bubble in the United Kingdom and slowing economies in the European Union as well as India and China.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Matheney moved, seconded by Mr. Goulet, to receive and file Items #1 and #2 from EnnisKnupp & Associates.

Motion passed.

3. Memorandum — Proposed Revision to the Total Fund Policy Portfolio.

Mr. Pawlish identified the new recommended Total Fund Policy Portfolio weights and provided a comparison to the previous weights. According to Mr. Pawlish, VCERA's recommended equity allocations will be 40% to domestic equity, 18% to international equity and 7% to global equity. Mr. Pawlish recommended no changes to the deviations or spreads for the rebalancing ranges.

Mr. Wilson moved, seconded by Mr. Harris, to adopt the proposed revisions to the Total Fund Policy Portfolio.

Motion passed.

4. Non-U.S. Equity Restructuring Discussion.

Mr. Vandolder and Mr. Pawlish provided background information for the four international equity scenarios presented and noted the expected changes in investment management fees, returns and information ratios under each alternative.

Mr. Matheney questioned the derivation of the expected value figure in the summary statistics provided by EnnisKnupp.

Mr. Wilson questioned why Sprucegrove was not being considered for replacement given their extended period of underperformance relative to the benchmark.

Mr. Vandolder noted Sprucegrove's role in the portfolio as a deep value manager.

Mr. Vandolder informed the Board that staff, Mr. Pawlish and he all held differing views on a recommended course of action.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Hansen noted that if Scenario B were chosen, then Capital Guardian and Sprucegrove could continue to be monitored.

Mr. Towner requested that the differing views held by EnnisKnupp and staff be expressed.

Staff recommended the status quo be maintained (Scenario A) because the hiring of an additional international equity manager with a similar approach as Capital Guardian was not cost effective and the likelihood of success for active managers investing in international equities had declined materially over the last ten years. Mr. Pawlish recommended the termination of Capital Guardian (Scenario B) given its extended period of underperformance relative to the benchmark and the hiring of Artio (Julius Baer) as a replacement with no change in funding level. Mr. Vandolder recommended the hiring of Artio (Scenario C) with the same funding level currently allocated to Capital Guardian and Sprucegrove because VCERA's current risk budget was very low given the recent increase in passively managed assets.

Mr. Goulet requested and received clarification on the course of events leading up to the decision on whether to add an additional active international equity manager.

Mr. Wilson noted that he is an ardent supporter of passive management, but considered international equity as being an inefficient component of the equity market and one in which active management should provide excess return. Mr. Wilson questioned if VCERA was selecting the wrong active managers or was fooling itself in believing active management paid off in international equity investing.

Mr. Hansen moved, seconded by Mr. Harris, to select Scenario C and hire Artio (Julius Baer) and to fund the new mandate at the same level as Capital Guardian and Sprucegrove.

Mr. Matheney indicated he would vote against the motion as he favored either scenario "B" or "D" because, in his opinion, something needed to be accomplished in terms of assets managed by Capital Guardian.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Goulet noted that Scenario C seemed contradictory to VCERA's recent move to increase the level of passive management and advocated Scenario D to add Artio, but at the lower funding level.

Mr. Wilson noted his support for either Scenario "A" or Scenario "D" given his desire to maintain VCERA's level of passive management.

Mr. Hansen withdrew his motion. Mr. Harris withdrew his second.

Mr. Hansen moved, seconded by Mr. Matheney, to select Scenario D and hire Artio (Julius Baer) Investment Management with a $100 million funding level.

Motion passed.


Mr. Pawlish reviewed EnnisKnupp's memorandum regarding the most cost effective manner to fund Artio Global Management and recommended the Board utilize Artio's commingled investment pool.

Mr. Wilson moved, seconded by Mr. Matheney, to utilize Artio's commingled investment vehicle for management of VCERA's international equity investment.

Motion passed.

6. Memorandum—Mid-Year Update of Western Asset's Core Plus Performance and On-Site Due Diligence Visit.

Mr. Vandolder reviewed EnnisKnupp's memorandum regarding the site visit recently completed with Western Asset Management and discussed the impact on Western's performance due to the risk aversion, deleveraging and illiquidity taking place within the fixed income markets. Mr. Vandolder noted EnnisKnupp's continued confidence in Western Asset Management as a fixed income manager and recommended VCERA remain patient during this volatile period within the fixed income markets.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Hansen updated the Board regarding the health condition of Western Asset Management’s CIO and expressed confidence in the management of the company.

Mr. Goulet moved, seconded by Mr. Matheney, to receive and file EnnisKnupp’s memorandum.

Motion Passed.


Mr. Vandolder reviewed the proposed agenda for VCERA’s 2008 Investment Retreat. Mr. Vandolder informed the Board that the proposed agenda focused upon three themes that included Opportunistic Investment Strategies such as Currency Management, Real Estate and Private Equity.

The Board held discussion on the attendance of VCERA investment managers and directed staff to invite an investment professional from Barclays Global Investors (BGI) to discuss currency management.

Mr. Goulet moved, seconded by Mr. Hansen, to approve the Proposed Agenda for the 2008 Investment Retreat and include a presentation from BGI on currency management.

Motion passed.

8. EnnisKnupp Article on the Role of Institutional Investing in Rising Commodity Prices.

Mr. Vandolder provided a brief summary on the EnnisKnupp article given the recent discussion on whether demand or speculation is driving the recent increase in various commodity prices.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file EnnisKnupp’s article on the Role of Institutional Investing in Rising Commodity Prices.

Motion passed.
VI. OLD BUSINESS

A. Approval of 2008 Educational Meetings, Conferences and Seminars Attendance and Board Travel Policy.

Staff reviewed the changes to the Board Travel Policy including the revised language to the “On-Site Due Diligence” evaluation section, new language in the “Travel Authorization” section regarding the due diligence visits without prior Board approval and the addition of a section detailing board member reimbursements for attendance at regularly scheduled meetings. Staff suggested the Board may consider requesting the matter be addressed by the Board of Supervisors given the language in Government Code Section 31521.

Ms. Nemiroff provided additional background on Section 31521 and recommended the Board follow a conservative path on the issue by requesting that the Board of Supervisors consider adding language to a resolution permitting reimbursement for “actual and necessary” expenses. Ms. Nemiroff noted that she researched the topic two years ago and found that only LACERA reimbursed trustees for “actual and necessary” expenses, but LACERA’s counsel was not able, at that time, to provide background as to the legal authority for its policy.

Mr. Goulet noted that the resolution adopted by the Board of Supervisors was passed prior to the passage of Proposition 162 and it was Mr. Goulet’s understanding the “plenary authority” described in Proposition 162 did not allow raising the $100 fee, but there was some argument for independent authority to allow reimbursement for “actual and necessary” expenses. Mr. Goulet also noted that trustees in Tulare County were reimbursed for “actual and necessary” expenses.

Mr. Goulet expressed disappointment that the Travel Policy did not exempt the Manatt conference from the travel limit due to the importance of establishing a relationship with outside counsel, recommended that the language regarding trustee reimbursements for “actual and necessary” expenses be detailed in a separate section of the Travel Policy and requested clarification regarding the Administrator’s role in the approval of Board member travel.

Mr. Hansen noted that in his view it was not a negative if due diligence visits were conducted by individual board members and requested that it be the Investment Consultant, rather than the Administrator, who proposes the schedule for Board due diligence trips.
VI. OLD BUSINESS (continued)

A. Approval of 2008 Educational Meetings, Conferences and Seminars Attendance and Board Travel Policy. (continued)

Mr. Goulet suggested the Administrator be directed to schedule the due diligence trips in cooperation or consultation with the Investment Consultant.

Mr. Hansen requested a schedule of trips be prepared for the next three years.

Mr. Matheney offered support for Mr. Goulet's suggestion regarding the Administrator consulting with VCERA's Investment Consultant in proposing due diligence trips.

The Board held discussions regarding various aspects of the Travel Policy including the Administrator's role in approving travel reimbursement claims, the role of VCERA's investment consultant in proposing schedules for due diligence travel and the request to have a formal schedule be presented to the Board for its consideration at the beginning of the calendar year.

Mr. Goulet moved, seconded by Mr. Wilson, to include the language "The Administrator shall, in consultation with the Investment Consultant, agendize..." in the second sentence of the second paragraph in the "On-Site Due Diligence" section of the Travel Policy, and to include the "Board Meeting" section, describing Board member compensation rates and reimbursements, in VCERA's Board of Retirement Governance Charter rather than in VCERA's Travel Policy.

Motion passed.

VII. NEW BUSINESS

A. Recommendation for Personnel Review Committee to Revisit the Issue of Staff Counsel.

Staff reviewed the rationale for its request and recommended the Board request its Personnel Review Committee to evaluate the subject of adding staff counsel.

Mr. Goulet indicated he would like the Committee to also consider having outside counsel serve as the Board's legal advisor.
VII. **NEW BUSINESS** (continued)

A. Recommendation for Personnel Review Committee to Revisit the Issue of Staff Counsel. (continued)

Mr. Goulet moved, seconded by Mr. Wilson, to endorse the concept of adding staff counsel and requested the Personnel Review Committee also explore the concept of utilizing outside counsel as the Board’s legal advisor.

Motion passed. Mr. Matheney and Ms. Becker opposed.

B. Letter from Staff Regarding Fiduciary Liability Insurance; Waiver of Recourse.

Staff informed the Board that its fiduciary liability insurance for the upcoming year had been renewed and requested the trustees pay the nominal fee to maximize the effectiveness of the fiduciary liability coverage and extend coverage to the individual trustee.

Mr. Becker moved, seconded by Mr. Wilson, to adopt staff’s recommendation.

Motion passed.

C. Letter from Staff Regarding Agenda Delivery Options.

Staff offered several alternatives for the Board’s consideration regarding the delivery of meeting agendas.

Mr. Goulet inquired regarding the availability of computers to utilize during meetings.

Mr. Wilson and Mr. Matheney expressed their desire to maintain the existing practice of having the Board’s agenda delivered via courier.

Mr. Wilson moved, seconded by Mr. Matheney, to maintain VCERA’s current practice for the delivery of meeting agenda packets.

Motion passed. Mr. Towner, Mr. Goulet and Ms. Becker opposed.
VII. **NEW BUSINESS (continued)**

D. Board Member Conference Report.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file Mr. Goulet's report of his attendance at the Public Retirement Seminar in Sacramento.

Motion passed.

VIII. **INFORMATIONAL**

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

B. The 2008 Pension Bridge Alternative Conference.

C. Memorandum from Noel Klebaum, County Counsel, Regarding New Regulation Concerning Gifts to an Agency.

IX. **PUBLIC COMMENT**

None.

X. **BOARD MEMBER COMMENT**

Mr. Goulet noted that the registration fee for trustees attending Pension Bridge sponsored conferences is complementary, but trustees must be sure to report the value on their Form 700. Mr. Goulet stated, in response to a question from Mr. Wilson, that the agenda for the Pension Bridge sponsored conference he attended earlier in the year contained almost too much information for the time period allotted for the conference.
XI.  

ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:10 a.m. upon the motion of Mr. Harris, seconded by Mr. Matheney.

Respectfully submitted,

[Signature]
TIM THONIS, Administrator

Approved,

[Signature]
TRACY TOWNER, Chairman