# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

## BUSINESS MEETING

## AUGUST 20, 2007

## MINUTES

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|---|---|
| **DIRECTORS PRESENT:** | Tracy Towner, Chair, Safety Employee Member<br>William W. Wilson, Vice Chair, Public Member<br>Lawrence L. Matheney, Treasurer, Ex-officio Member<br>Karen Becker, General Employee Member<br>Robert Hansen, General Employee Member<br>Albert G. Harris, Public Member<br>Arthur E. Goulet, Retiree Member<br>Chris Johnston, Alternate Employee Member<br>Will Hoag, Alternate Retiree Member |
| **DIRECTORS ABSENT:** | Peter C. Foy, Public Member<br>Joseph Henderson, Public Member |
| **STAFF PRESENT:** | Tim Thonis, Retirement Administrator<br>Walter Lauzon, Chief Financial Officer<br>Lori Nemiroff, Assistant County Counsel |
| **PLACE:** | Ventura County Employees' Retirement Association<br>Second Floor Boardroom<br>1190 South Victoria Avenue<br>Ventura, CA 93003 |
| **TIME:** | 9:00 a.m. |

**ITEM:**

**I. INTRODUCTION OF MEETING**

Chairman Towner called the Business Meeting of August 20, 2007, to order at 9:00 a.m.

## II. APPROVAL OF AGENDA

Mr. Goulet moved, seconded by Mr. Wilson, to approve the agenda with a change to consider Items VII A and VII B immediately after the Board's consideration of Item IV.

Motion passed.

## III. APPROVAL OF MINUTES

A. Disability Meeting of August 6, 2007.

Mr. Harris moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of August 6, 2007, as submitted.

Motion passed.

## IV. CONSENT AGENDA

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

B. Preliminary 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 June 30, 2007.

C. Report of Checks Disbursed in July 2007.

D. Budget Summary for the Month Ended July 31, 2007, Fiscal-Year 07-08.

E. UBS Real Estate Report for the Quarter Ended June 30, 2007.

F. Guggenheim Real Estate Report for the Quarter Ended June 30, 2007.

G. Prudential PRISA Real Estate Report for the Quarter Ended June 30, 2007.

H. 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 June 30, 2007.

## IV. CONSENT AGENDA (continued)

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

Motion passed.

## VII. NEW BUSINESS

A. Letter from Staff Recommending Amendment of the 2003 Interest Crediting Policy.

Staff provided background on the reexamination of the 2003 Interest Crediting Policy given the significant changes that have occurred since the Board's adoption of the policy. Staff recommended the Board modify Step #6 of the existing policy and credit interest on supplemental benefit reserves at regular interest only after a determination was made regarding the impact on VCERA's actuarial based benefits, recommended the elimination of step #7, and recommended step #8 be modified in order to retain any available earnings in the undistributed earnings reserve for future interest crediting or other uses, at the Board's discretion, such as transfers to increase the STAR COLA reserve, elimination of a contra reserve balance, or the funding of additional supplemental benefits.

Mr. Wilson inquired regarding the constraint of having "excess earnings" available to transfer in order to fund supplemental benefits.

Staff reviewed fiscal year 2007 earnings focusing on the amount of realized earnings during the year, the timing of the earnings, interest credited and the increase in the contra reserve at December 31, 2006, the amount of interest to be credited at June 30, 2007 and the projected balance of the required 1% contingency reserve.

Mr. Goulet commented that in his view there were two problems with amending the interest crediting policy at this time. First, Mr. Goulet believed the Board would have already shifted funds earlier to fund the STAR COLA reserve if it were not for the "Mathews" litigation and second, he found it unusual to rely on a legal opinion that was issued to another entity as a basis for making this decision and believed that VCERA should only rely on legal opinions addressed directly to VCERA.

Staff reviewed its basis for using the legal decision as guidance as to how the board should approach fulfilling its fiduciary duties given the similar circumstances faced by both systems.

VII. **NEW BUSINESS (continued)**

A. Letter from Staff Recommending Amendment of the 2003 Interest Crediting Policy. (continued)

Ms. Becker moved, seconded by Mr. Matheney, to adopt the revised Interest Crediting Policy with the suggested changes.

Patricia Kipp addressed the Board and expressed her concern that if the STAR COLA benefit was taken away she would be forced to find a new place to live and requested, on behalf of other retirees, for the Board to take this circumstance into consideration.

Mr. Matheney questioned counsel on the scope of the Board's responsibilities and whether they were limited solely to the retirees or were the Board's responsibilities much broader.

Ms. Nemiroff responded that the Board's primary fiduciary duty was very broad and extended to all plan members including active members, retired members, beneficiaries and the system as a whole. The Board's secondary duty was to minimize employer contributions. Ms. Nemiroff stated that the Board must consider, when granting a supplemental benefit, all impacts of providing the benefit. Such impacts may include the benefit of providing a benefit to some, but not all retirees, the impact on employer contributions and the ramifications of providing the benefit on the system as a whole.

Keith Garrison spoke on behalf of retirees who receive the STAR COLA benefit and requested the benefit be maintained for those eligible retirees.

Ann Michalski spoke of the benefits of STAR COLA and focused her remarks on the fact that the group of recipients were diminishing each year, the recipients made all required employee contributions to the plan, were not recipients of the employer paying employee contributions in lieu of salary increases and stated the contributions made by STAR COLA recipients were the foundation of VCERA's current asset base. Ms. Michalski told the Board that they had adopted STAR COLA in the past because it was the right thing to do and urged the Board to continue to do the right thing by renewing the benefit today.

Staff reviewed Mr. Goulet's suggested changes to the 2003 Interest Crediting Policy including replacing the word "deposit" with "member" on page 1 in the last sentence under County Advance Reserves, eliminating

VII. **<u>NEW BUSINESS</u> (continued)**

A. Letter from Staff Recommending Amendment of the 2003 Interest Crediting Policy. (continued)

the phrase "effective with the June 30, 2003 valuation" on pages 2 and 3 in the sections titled "Vested Fixed Supplemental" and "Supplemental Death Benefit", deletion of the phrase "For example, the rate reduction from 8.25%" in the section titled "Timing of Rate Determination", and replacing the word "is" with "are" on Steps #3 and #4 in reference to "available earnings". In addition, staff reviewed the suggested changes in Step #6, Step #7 and Step #8 in order to make the Interest Crediting Policy consistent with the Board's fiduciary duties.

Mr. Wilson indicated that he wasn't comfortable making a decision without first reviewing the referenced legal opinion.

Ms. Nemiroff provided additional background on the subject and focused her remarks on the benefits of adding discretionary aspects to the policy rather than having a policy that mandated Board of Retirement action without consideration being given to other aspects of VCERA operations.

Mr. Wilson commented that he would like to continue the benefit but stated that such continuation be accomplished in a sound legal manner.

Mr. Goulet stated that in his opinion the Board needed to obtain a legal opinion directed to VCERA and suggested a continuation of the matter.

Ms. Nemiroff recommended the Board adopt the proposed changes to the Interest Crediting Policy due to the increased flexibility it provides the Board and enables the Board do to a better job in exercising its fiduciary duties.

Ms. Becker amended her prior motion to include the changes suggested by Mr. Goulet and requested the elimination of the last sentence in the sections pertaining to the Vested Fixed Supplemental Benefit Reserve and the Supplemental Death Benefit Reserve. Mr. Matheney seconded the amended motion.

Mr. Goulet indicated he would vote no on the motion due to the fact the Board already had a great many policies that tied the Board's hands and the reliance on a legal opinion that wasn't directed to VCERA.

VII. **NEW BUSINESS (continued)**

A. Letter from Staff Recommending Amendment of the 2003 Interest Crediting Policy. (continued)

Mr. Wilson requested and received clarification on the implication of not approving the Interest Crediting Policy at this time.

Motion Passed. Mr. Goulet opposed.

B. Letter from Staff Regarding Renewal of the STAR COLA Benefit.

Staff provided background on the STAR COLA benefit and referenced the letter from John Monroe of The Segal Company (Segal) that projected the amount of STAR COLA payments over the next five years. Segal's letter indicated that funding was available to pay the benefit only for the next six months. Staff discussed the options that were available to the Board including whether to allow the STAR COLA benefit to expire on September 30, 2007, to renew the benefit through March 31, 2008 based upon the funding currently available or to transfer, from excess earnings, an amount up to the $9.4 million projected to fund the benefit for five years and renew the benefit for the period October 1, 2007 through June 30, 2008.

Staff stated that prior to any transfer of available earnings the Board needed to make a finding that such a transfer would be in the best interest of all plan members and consider the impact of the transfer on the actuarial benefits provided by VCERA.

Mr. Wilson requested and received clarification on the impact of transferring available earnings to fund the STAR COLA benefit.

Mr. Goulet provided the Board with statistics on the STAR COLA recipients that included the number of recipients (492), median age (82), number of recipients over age 80 (275), average annual pension including the $108.44 and $27.50 ($14,500) and the average annual STAR COLA benefit ($3,250). Mr. Goulet stated that in his view the Board had a responsibility to these individuals to continue paying the benefit and suggested the Board fund the benefit for a five year period recognizing that the benefit needed to be approved annually

Mr. Johnston requested clarification of the impact of transferring the available earnings to fund the STAR COLA benefit with a corresponding transfer to County Advance Reserves.

## VII. NEW BUSINESS (continued)

B. Letter from Staff Regarding Renewal of the STAR COLA Benefit. (continued)

Mr. Goulet requested clarification on whether the Board of Supervisors initially adopted the STAR COLA sections and directed his fellow trustees to statements made in VCERA's draft response to the Grand Jury regarding measures of actuarial soundness.

Ms. Nemiroff responded that the STAR COLA section became operative automatically at the time the County of Ventura adopted cost-of-living provisions for its Tier I employees. Therefore, the Board of Supervisors does not have the discretion to decide whether to provide the STAR COLA benefit.

Ms. Becker discussed the inequities of the two tier system that exists and remarked on the fact that Tier II retirees did not receive a cost-of-living adjustment and many had lost the same degree of purchasing power as STAR COLA recipients

Ms. Becker moved, seconded by Mr. Matheney, to adopt staff recommendation #2 and pay the STAR COLA benefit through December 31, 2007.

Mr. Matheney requested staff to obtain formal direction from counsel on the Board's fiduciary duties on the subject of providing the STAR COLA benefit, input from VCERA's actuary of the impact on the plan's vested benefits of providing STAR COLA and input from the plan sponsor on the subject.

Mr. Goulet questioned why the benefit would cease on December 31, 2007 given the available funding through March 31, 2008.

Motion Passed. Mr. Goulet opposed.

## V. INVESTMENT INFORMATION

A. Loomis Sayles Annual Investment Report.

Richard Bruder, CFA, CEBS was present from Loomis Sayles to provide a firm overview, review investment performance and summarize the current market environment.

V. **INVESTMENT INFORMATION (continued)**

A. Loomis Sayles Annual Investment Report. (continued)

Mr. Bruder stated the Loomis Sayles is presently managing $115 billion in assets and offers a complete range of fixed income and equity products. $94 billion of the total assets managed are fixed income. VCERA's investment returns for the one year period ending July 31, 2007 were 8.03% net of fees versus the hybrid benchmark of 5.99%. VCERA's benchmark for the product is comprised of 60% of the return of the Lehman Aggregate Index, 35% of the return of the Citigroup High Yield Market Index, and 5% of the return of the JP Morgan EX US Hedged Index. Mr. Bruder indicated that non-dollar securities were the major contributing factor to Loomis Sayles' outperformance.

Mr. Bruder proposed, on behalf of Loomis Sayles, the following guideline changes be made in order to make VCERA's guidelines more consistent with other Loomis Sayles' "medium grade" portfolios:

a) Eliminate the restriction to hold up to 40% in aggregate securities not rated investment grade.
b) Change the customized benchmark to be 65% Lehman Aggregate, 30% Citigroup High Yield and 5% JP Morgan Non-US Hedged Bond Index.
c) Have the ability to utilize futures within the portfolio.

Mr. Vandolder stated the review of VCERA's guidelines applicable to Loomis Sayles is scheduled for November. Mr. Bruder requested, if possible, if such review could be made earlier.

Mr. Hansen moved, seconded by Mr. Wilson, to approve the recommended guideline changes.

Motion passed.

B. Reams Asset Management Annual Investment Report.

Thomas M. Fink, CFA, Managing Director was present from Reams Asset Management to review the organization, assets under management, performance and market outlook.

Mr. Fink indicated that Reams Asset Management remained 100% employee owned with approximately $10.4 billion in assets under

**V. INVESTMENT INFORMATION (continued)**

B. Reams Asset Management Annual Investment Report. (continued)

management. For the 12 month period ending June 30, 2007, VCERA's portfolio returned 6.30%, net of fees, versus a benchmark return of 6.12%. In terms of portfolio characteristics, Mr. Fink stated that portfolio's duration currently matched that of the benchmark at 4.7 years with the largest overweight in mortgaged-backed securities. The portfolio did not have any exposure to the "sub-prime" markets.

Mr. Fink believed, going forward, that the Federal Reserve would reduce the Fed Funds rate by approximately 1% by the end of the year. The rationale behind such a belief was the current dislocations in the market brought about by the "liquidity squeeze" that has prevented even good companies from obtaining credit.

Mr. Fink requested that VCERA's guidelines be changed to provide Reams Asset Management the potential to invest up to 20% of the allocation in high yield securities.

Mr. Hansen moved, seconded by Mr. Harris, to approve the guideline change.

Motion passed.

C. RREEF Organizational Update.

Laura Gaylord, Managing Director, Head of North American Client Relations, and Jay Miller, Director, Portfolio Management were present from RREEF North America to discuss the many organizational changes that have occurred recently and to provide an update regarding VCERA's future investment in the RREEF America III Real Estate Fund.

Ms. Gaylord indicated that most of the recent turnover was a result of the acquisition of RREEF North America five years ago by Deutsche Bank. The "earn-out" period had recently concluded and many of RREEF's senior investment professionals were taking advantage of the acquisition terms and were leaving the firm. Ten managing directors, including the RREEF America III portfolio manager had left the firm since February 2007. Most were expected to continue working in the real estate business. Ms. Gaylord stated that RREEF's investment talent pool was very deep and there were many qualified experienced professionals to take advantage of the new opportunities within the firm.

## V. INVESTMENT INFORMATION (continued)

C. RREEF Organizational Update. (continued)

Mr. Vandolder indicated that EnnisKnupp had reviewed the organizational changes at RREEF North America and were comfortable with the changes.

Ms. Gaylord informed the Board to expect a capital call for 75% of VCERA's committed capital of $25 million in September. The targeted investment date will be October 1, 2007.

Mr. Miller reviewed the 2007 Investment Objectives for the portfolio including the maintenance of the "Tri-Coastal" investment strategies, the plan to increase the occupancy levels in the properties and the targeting of the apartment sector for future investment.

D. EnnisKnupp & Associates.

Kevin Vandolder and Keith Black were present from EnnisKnupp & Associates.

1. Monthly Investment Performance Update

Mr. Vandolder provided a brief review of the monthly investment performance focusing his remarks on the economic reasons why the overall return for the month was -1.5%.

2. Monthly Manager Updates/Summary, July 2007.

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

3. Performance Report – Second Quarter 2007.

## V. INVESTMENT INFORMATION (continued)

D. EnnisKnupp & Associates. (continued)

Mr. Vandolder provided a brief summary of second quarter performance results and noted for the Board that the difference in the fiscal year return between the $2^{nd}$ quarter report of 17.2% and the preliminary return number provided in July of 16.4% was due to the use of estimated real estate returns in the July preliminary report versus the use of actual real estate returns in the $2^{nd}$ quarter report.

Mr. Harris moved, seconded by Mr. Hansen, to receive and file the Monthly Investment Performance Update, Monthly Manager Updates/Summary July 2007 and the $2^{nd}$ Quarter 2007 performance report.

Motion Passed.

4. Long-Short Strategies.

Keith Black discussed the organization structure, assets under management and investment process for the four firms presented in the Opportunistic Stategies Search Report. Mr. Black also discussed why investors may wish to "short" stocks and reviewed the fee structures for the presented firms.

Mr. Vandolder asked for clarification from the Board on how to proceed with the subject.

The Board requested that the matter be brought back in October for further discussion with a potential timeframe to interview candidates being in December.

5. Cash Equitization Overview.

Mr. Vandolder provided an overview of cash equitization strategies and discussed the potential benefits to VCERA that such a strategy would provide.

Mr. Matheney moved, seconded by Mr. Harris, to schedule an additional review on the subject in January 2008.

Motion Passed.

## V. INVESTMENT INFORMATION (continued)

D. EnnisKnupp & Associates. (continued)

6. Memorandum – Onsite Visit at Sprucegrove.

Mr. Vandolder discussed his on-site visit with Sprucegrove's senior management.

Mr. Harris moved, seconded by Mr. Matheney, to receive and file EnnisKnupp's memorandum.

Motion Passed.

## VI. OLD BUSINESS

A. Draft Cover Letter and Final Responses to the Grand Jury Report.

Staff reviewed the suggested changes made to the Grand Jury responses and recommended the Board adopt the Final Responses to the Grand Jury Report.

Mr. Wilson moved, seconded by Mr. Harris, to approve the Cover Letter and Final Responses to the Grand Jury Report.

Motion Passed.

## VII. NEW BUSINESS

C. Letter from Staff Requesting Approval to Attend Public Fund Boards Forum, December 7-11, 2007, in San Francisco, CA.

Mr. Hansen moved, seconded by Ms. Becker, to approve Mr. Towner's request to attend the Public Fund Boards Forum.

Motion Passed.

## VIII. INFORMATIONAL

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

## VIII. INFORMATIONAL

B. Letters From the Following Retired Members Requesting Continuance of the STAR COLA Benefit:

John C. Batten
Donna Boese
Eugene Bowen
Helen A. Bowles
Nancy Bowlin
James S. Carrol
Jora N. Close
William A. Cox
Larry J. Henry
Ramona B. Hensley-Sturgill
Robert E. Hindman
Frances Hunt
Charles L. McLaren
Cruz Reyna
Margaret Smoot
Clyde J. Taylor
Marie Washabaugh

C. EnnisKnupp 2007 Client Conference, October 2-3, 2007 in Chicago, IL.

D. Institutional Investors Hedge Fund Institutional Forum, October 29-31, 2007 in Chicago, IL.

## IX. PUBLIC COMMENT

None

## X. BOARD MEMBER COMMENT

None

## XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:15 p.m.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

WILLIAM W. WILSON, Vice-Chairman