VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

SEPTEMBER 15, 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 Albert G. Harris, Public Member Joseph Henderson, Public Member Arthur E. Goulet, Retiree Member Will Hoag, Alternate Retiree Member
DIRECTORS ABSENT:	Karen Becker, General Employee Member Robert Hansen, General Employee Member Chris Johnston, Alternate Employee 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

Vice-Chairman Wilson called the Business Meeting of September 15, 2008, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of September 8, 2008.

Mr. Henderson moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of September 8, 2008.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Months of July and August 2008.

B. Statement of Plan Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, Schedule of Investment Manager Fees and Statement of Reserves for the Month Ended June 30, 2008.

C. Report of Checks Disbursed in July and August 2008.

D. Final Budget Summary for the Month Ended June 30, 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 August 31, 2008.

F. Guggenheim Investment Summary & Quarterly Report to Investors for the Period Ended June 30, 2008.

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

Motion passed.

V. INVESTMENT INFORMATION

A. Reams Asset Management Annual Investment Manager Presentation, Thomas M. Fink, CFA, Managing Director.

Thomas M. Fink, CFA, was present from Reams Asset Management to discuss Reams' organization, investment strategy and performance.

Mr. Fink remarked on the volatility in the market resulting from Lehman Brothers filing for bankruptcy. The initial reaction has been, on the fixed income side, spreads widening dramatically with little trading volume as the market tried to determine the impact of the bankruptcy filing.

Mr. Wilson questioned Reams' position on whether investors are better off given Lehman's bankruptcy filing.

Mr. Fink responded that Lehman was a good firm but the idea of moral hazard is one that needs to be reinforced in the marketplace. Mr. Fink noted that Reams does not have any exposure to Lehman Brothers and therefore there is no issue within VCERA's portfolio. Mr. Fink stated confidence needs to be restored in the US financial system and there won't be a recovery until a clearing price is found for the impaired assets that are on the balance sheets of many financial firms.

Mr. Foy questioned the affect of AIG's troubles on the marketplace.

Mr. Fink discussed AIG's heavy involvement in credit default swaps, the question of the extent AIG's real losses given the opaque nature of these securities and the likelihood that their valuable operating companies will be split up and sold.

Mr. Fink also discussed the repricing of risk and the common mistake made by investors of extrapolating current market conditions too far into the future.

Mr. Fink stated that there have been no organizational changes to Reams.

Mr. Fink summarized VCERA's investment relationship with Reams noting VCERA's $225 million investment on October 1, 2001 in the Core Plus product and Mr. Fink summarized the account activity over the last seven years that lead to the current portfolio value of approximately $270 million.

V. INVESTMENT INFORMATION (continued)

A. Reams Asset Management Annual Investment Manager Presentation, Thomas M. Fink, CFA, Managing Director. (continued)

Mr. Fink reviewed market conditions over the past year noting the greater volatility levels in the market since the summer of 2007. Mr. Fink noted that a mini-rally took place from April to early June of 2008, however since then spreads have widened and prices have dropped which lead to the current market environment.

Mr. Fink discussed the portfolio's relative underperformance for the 2nd quarter of 2008 of 5 basis points (.05%), and stated that the 3rd quarter, barring a significant turnaround, will be a negative return quarter as well. VCERA's portfolio has not appreciated in price during the 3rd quarter, whereas the benchmark (Lehman Aggregate) has appreciated in price due to the existence of Treasuries in the index.

Mr. Fink noted that through June 30, 2008 VCERA's portfolio has kept pace with the benchmark and was up approximately 7%. Reams is currently increasing its exposure to non-Treasury product, which on a short term basis will lead to greater performance variances relative to the benchmark, but Reams believes the increased non-Treasury exposures will lead to superior investment results over the next 12-18 months.

Mr. Vandolder questioned Reams' holdings in Fannie Mae, Freddie Mac and Lehman.

Mr. Fink responded that VCERA's portfolio does have two small preferred stock positions in Fannie Mae and Freddie Mac, that when combined equal just under 1% of the total portfolio. The losses related to the positions have not been realized as of yet, but are anticipated due to the recent government takeover of Fannie Mae & Freddie Mac. The losses may be offset by the portfolio's holding of debentures of the two companies. Mr. Fink noted that a greater effect on the portfolio recently was the underweighting of Agency Pass-Thru's which did well in the early part of September.

B. Loomis Sayles & Company Annual Investment Manager Presentation, Richard J. Bruder, CFA.

Richard J. Bruder was present from Loomis Sayles & Company to discuss Loomis Sayles' organization, investment strategy and performance.

V. **INVESTMENT INFORMATION (continued)**

B. Loomis Sayles & Company Annual Investment Manager Presentation, Richard J. Bruder, CFA. (continued)

Mr. Bruder began his discussion by briefly reviewing the past year where there have been significant changes in the market and Loomis Sayles has been "weathering the storm". Their feeling is that there is a lot of value in the investment grade market, but there is also fear and volatility.

Mr. Bruder noted that benchmark guidelines are now 65% Lehman Aggregate, 30% High Yield and 5% non-U.S. hedged and provides Loomis Sayles with the necessary discretion to operate the portfolio.

Mr. Bruder reviewed performance stating that Loomis has underperformed by approximately 300 basis points (3.0%) in a virtually flat market year-to-date. Due to renewed fear in the credit markets there was a pushback in the markets during July. Mr. Bruder stated that Loomis outperformed its benchmark in 2007 by approximately 200 basis points net of fees (2.0%). Since inception (past three years), Mr. Bruder noted that Loomis has out-performed its benchmark both gross & net fees.

Mr. Bruder discussed the construction of the portfolio stating the current yield is approximately 9.3% with the benchmark yielding slightly more than 7%, leaving a 200 bp (2.0%) cushion on yield in the portfolio. The portfolio's duration is currently 7.15 years versus 4.8 years on the benchmark. The portfolio is heavily weighted in investment grade credit. Loomis will typically look for the best value long term which normally leads to a longer duration statistic. The average price of the portfolio is $78, $17 below the market, and Loomis is anticipating market appreciation as the assets flow to par value.

Mr. Bruder compared the make up of the portfolio over the last two years noting the move from Treasury allocations to investment grade credit. Investment grade credit has faltered in the past couple of months which lead to underperformance in the portfolio. Also, Lehman Brothers was part of the portfolio and the expected impact on the portfolio's performance is expected to be approximately 80 basis points (.80%).

Mr. Bruder explained Loomis' positive outlook on their positioning in the marketplace given that investment grade credit is currently priced very inexpensively relative to other fixed income securities. Current default rates in the overall market are also fairly low at 6-7% when compared to the 11%

V. INVESTMENT INFORMATION (continued)

B. Loomis Sayles & Company Annual Investment Manager Presentation, Richard J. Bruder, CFA. (continued)

default rate in the previous market downturn. Going forward, Mr. Bruder stated that there is a yield differential in the portfolio which will assist the portfolio's performance and he expects that there will be some volatility, but Loomis is well positioned for a market turn-around.

Mr. Wilson questioned the Non-U.S. portion of the portfolio being "unhedged". Mr. Bruder confirmed this fact and stated that Loomis has recently pulled back from this sector in the last couple of months. They believe there are still pockets of opportunity for the U.S. dollar denominated securities in certain markets such as Asia and South America.

Mr. Matheney questioned the yield to maturity for the portfolio and if that figure includes all of the Lehman holdings. Mr. Bruder clarified that the figure was as of July 31st, but would currently be yielding a greater amount given the recent market events.

Mr. Bruder reviewed the holdings of the portfolio and noted that Bear-Stearns, purchased just before the J.P. Morgan takeover in March, comprised .44% of the portfolio. The price of the Bear-Stearns securities has risen over the holding period. Lehman Brother holdings comprised 1.3% of the portfolio, with approximately 2/3 of the amount written-down on September 12. Loomis was analyzing Lehman's senior debt instruments before making any sell decisions. Mr. Bruder noted that there was liquidity in the senior debt and the possibility remains that those may be sold. Mr. Bruder will notify the Board what happens with that particular investment once it has been determined. Merrill Lynch made up 1% of the portfolio, and, with Merrill Lynch being purchased by Bank of America, Merrill's bonds were expected to maintain value. Bank of America accounted for .75% of the portfolio and because of the purchase of Merrill Lynch was expected to be downgraded and automatically put on watch. Mr. Bruder noted the overall strength of Bank of America and Loomis expected the Bank of America investment to perform well in the long run.

Mr. Bruder concluded his presentation by describing the attribution of the portfolio's performance. In summary, mortgage-backed securities, convertibles, preferreds, and Treasuries underperformed, while non-dollar outperformed. Mr. Bruder expects that, going forward, investment grade will lead the recovery.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder and Maritza Martinez.

1. Monthly Investment Performance Update, July and August 2008.

2. Monthly Manager Updates/Summary, July and August 2008.

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

Kevin Vandolder and Maritza Martinez were present from EnnisKnupp.

Mr. Vandolder discussed the market environment noting that commodities were trading down and the U.S. dollar was rebounding due to the significant global economic slowdown.

Ms. Martinez reviewed VCERA's asset allocation as of August 31st, stating total net assets were approximately $2.9 billion, down approximately $12.8 million from July. Western Asset Management's U.S. Index Plus portfolio modestly underperformed the S&P 500 Index due to its emphasis in the financial issues. Sprucegrove Asset Management rebounded nicely from previous underperformance due to strong stock selection in the U.K. and Japan as well as within the industrial and consumer discretionary sectors; however, Capital Guardian underperformed their benchmark due to adverse stock selection in Japan and Canada and an overweight to emerging markets in a month where the developed markets outperformed.

Mr. Wilson commented on the unusual 400 basis point difference in performance between Sprucegrove and Capital Guardian during the month.

Ms. Martinez continued her review discussing global equity and how the outperformance in the U.S. stock market has helped Acadian and GMO outperform. Fixed income performance was one of the detractors from total fund performance with Reams Asset Management and Loomis Sayles having below benchmark returns. The underperformance was attributed to unfavorable securities selection and sector allocation. Western Asset Management modestly outperformed the Lehman aggregate due an overweight to mortgages.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates, Kevin Vandolder and Maritza Martinez. (continued)

The total return for the fund for in August matched the policy portfolio return of -.1%.

3. Quarterly Performance Report for Period Ended June 30, 2008.

Mr. Wilson expressed concern regarding the recent downward sloping trend of the Ratio of Cumulative Wealth graph.

In response, Mr. Vandolder discussed the historical experience of the portfolio. Two of the biggest drivers of the downward slope to the graph have been the active managers employed in the U.S. equity portfolio, in particular Wasatch and Delta. This area of the portfolio has been reevaluated and the Board decided to put the majority of U.S. equity assets in extremely low cost, 2.3 basis point expense ratio, Wilshire 5000 platform and maintain additional exposure with Western's index plus strategy. The second detractor has been Western's Core Plus strategy in the fixed income portfolio which has underperformed. EnnisKnupp noted that the Board has maintained confidence in Western and there is an expectation that Western's performance going forward will be more in line with its historical levels. Mr. Vandolder noted that VCERA's portfolio is on par with the performance levels of the 2001-2002 period and Mr. Vandolder stated that approximately 20 basis points of value has been added over the last ten years. Mr. Vandolder noted that this subject will be addressed in more depth at the Board's retreat in October.

Mr. Goulet commented on the statement on page 4. "although negative in absolute returns in terms of the global equity and fixed income portfolio added value to the fund", he doesn't view it that way. His view is that the returns from those two sectors operate to reduce the magnitude of the decline; he doesn't see how value is added. Mr. Goulet also commented on the last paragraph statement regarding underperformance in the 5 year period and outperformance over the 10 year period and stated he'd rather the portfolio underperform and beat the assumption rate than outperform and not beat the assumption rate and he would like to see the statement qualified in terms of assumption rate.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder and Maritza Martinez. (continued)

4. Memorandum – RREEF America III Performance Update.

Ms. Martinez reviewed the memo stating that RREEF was down 6.9%, which is the first quarter since inception of this fund that RREEF has produced a negative return. The negative return was due to RREEF's decision, in light of recent volatility, to value the total portfolio when normally 25% of their total portfolio is valued every quarter. Ms. Martinez noted RREEF's performance in comparison to other comparable funds showing RREEF having one of the highest net income returns despite having a low appreciation.

Mr. Vandolder commented that this illustrates the strength of RREEF's income components.

Mr. Matheney moved, seconded by Mr. Goulet, to receive and file items C.1. through C.4.

Motion passed.

5. Memorandum – GMO Flexible Equities Fund.

   a. Letter from GMO dated July 22, 2008.
   b. Subscription Documents

Ms. Martinez explained that VCERA has been afforded the opportunity to invest in the GMO Flexible Equities Fund through the GMO Global asset allocation strategy, which seeks to invest opportunistically in parts of the market where risk versus returns are favorable with an allocation of 2-5% of the total global asset allocation strategy.

Ms. Martinez recommended that the Board give GMO the opportunity to invest in the GMO Flexible Equities Fund for VCERA.

Mr. Henderson moved, seconded by Mr. Harris, to adopt and approve the GMO subscription documents.

Motion passed.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates, Kevin Vandolder and Maritza Martinez. (continued)

6. Letter from Staff Recommending Approval of Adoption Agreement, Agreement of Trust and Confidential Private Placement Memorandum for Artio International Equity II Strategy.

Mr. Vandolder briefly reviewed the Artio Agreements and recommended the Board's approval.

(*Mr. Towner arrived and chaired the balance of the meeting.*)

Mr. Goulet moved, seconded by Mr. Wilson, to approve the Artio International Equity II Strategy agreements and side letter.

Motion passed.

7. Research Paper – *The SEC Short Order.*

Mr. Henderson moved, seconded by Mr. Harris, to receive and file the EnnisKnupp research paper.

Motion passed.

D. Western Asset Management Regarding Organizational Update.

Mr. Vandolder commented on Western's modest talent adjustment and recommended the Board retain confidence with Western in the face of adverse performance.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the update from Western Asset Management.

Motion passed.

VI. OLD BUSINESS

A. Final Approval of 2008 Educational Meetings, Conferences and Seminars Attendance and Travel Policy, Board of Retirement Charter and Proposed On-Site Due Diligence Schedule.

Staff reviewed changes made to the Travel Policy and Board of Retirement Charter and presented the proposed on-site due diligence schedule.

Mr. Goulet questioned if there was an intentional distinction in using the words "designate" in the last paragraph on page one and "direction" in the first paragraph under Annual Travel Budget. Staff responded that the Board's designation of a board member to participate in a site visit, as referenced on page 1 under "On-Site Due Diligence," is indistinguishable from site visits made at the direction of the board, under the section entitled "Annual Travel Budget," and that such site visits are excluded from the three conference per year limit.

Mr. Wilson moved, seconded by Mr. Harris, to approve the 2008 Travel Policy, Board of Retirement Charter and Proposed Due Diligence Schedule.

Motion passed.

B. Interest Crediting Policy Review.

Paul Angelo from The Segal Company and Ashley Dunning from Manatt Phelps & Phillips were on hand to address any questions the Board had regarding the Interest Crediting Policy.

Mr. Goulet stated that he has come to grips with a lower interest rate to be credited to the member contribution reserve and he no longer has any problem with that issue as it doesn't affect the retirement benefit of any members. Mr. Goulet noted that the lower interest rate only affects those who refund from VCERA and those members earn what they would have earned in the market. However, Mr. Goulet expressed continued concern with the portion of Step 4 which directs staff to credit the difference between the member crediting rate and the assumption rate to the County Advance reserve. Mr. Goulet believes that is a poor policy as it may artificially increase the County Advance reserve if the assumption rate hasn't been earned while at the same time potentially increasing the contra reserve. Mr. Goulet noted that if there were excess earnings at the end of the year, then those could be transferred to the County Advance reserve.

VI. **OLD BUSINESS (continued)**

B. Interest Crediting Policy Review. (continued)

Mr. Angelo clarified that from an actuarial standpoint it is not a matter of artificially increasing the crediting to the County Advance reserve, but rather it's avoiding artificially undercrediting the total of valuation reserves. Mr. Angelo stressed that the principal purpose of the recent action in terms of now measuring available earnings using the actuarial smoothing method, that is using the same approach for reserving, is to have these two move in concert and Mr. Angelo provided an example of how the crediting should work and possible valuation reserves to be utilized in order to avoid an interest deficit.

Ms. Dunning responded that she had examined the legislative history of the Government Code section 31453 and the history appears to support the crediting of interest to reserves at lower than the assumed rate of return. Ms. Dunning stated that Mr. Goulet raised an interesting fiduciary issue of the duty of loyalty to all members, even those members who withdraw from the system. Ms. Dunning stated that Manatt's previous review of the interest crediting policy looked at the way in which the policy preserved actuarial soundness. Ms. Dunning explained that the interplay between the decision to credit member reserves with less than the assumed rate of return and then have the following offset to the County Advance reserve through Step 4 preserves the policy's actuarial neutrality. Ms. Dunning stated that there is no perceived downside to the system for following that process from an actuarial standpoint.

Mr. Wilson commented that he does not see an issue of latent fiduciary responsibility in this case because the assumed rate is not a real rate. He believes paying at the assumed rate is illogical because that is not the rate that is actually earned by the fund.

Ms. Dunning responded that the Board has discretion when setting what the assumed rate of return will be as to all valuation reserves, but when comparing the handling of reserves in relation to each other is where the latent fiduciary responsibility exists. Ms. Dunning recommended the Board consider the fiduciary issue now that it's been raised and determine if a change to the policy is warranted, and commented further that the policy could withstand legal challenge as currently written.

VI. OLD BUSINESS (continued)

B. Interest Crediting Policy Review. (continued)

Mr. Goulet commented on the idea of having a separate reserve for crediting the difference in rates rather than using the County Advance reserve. Especially, before the Board knew if there were excess earnings. Mr. Goulet also commented on the latent fiduciary responsibility, stating that the way the member crediting rate portion of the policy is written saves the plan to some degree because the Board can, if there are earnings, credit the member accounts at the assumed rated.

Mr. Angelo observed that there are two different decisions that need to be made, plan design and financing, and one affects the other. Reserves are determined by whether or not there are enough earnings and from an actuarial view there is no distinction made between the titles of the valuation reserves.

Mr. Goulet requested and received clarification on what transpires when earnings are available to fully credit valuation reserves.

Mr. Wilson expressed his understanding of the value of keeping the process as is, but questioned the crediting for vested versus non-vested members who leave the plan.

Staff responded that the distinction between vested members and non-vested members has been blurred by the passage of Government Code section 31629.5 which allows members with less than 5 years of retirement service credit to leave their funds on deposit with VCERA.

Mr. Goulet moved to change the language in Step 4 of the policy to credit the difference between the member crediting rate and the assumed rate to a "differential reserve" rather than to the County Advance reserve. A second to the motion was not offered.

The Interest Crediting Policy to remain as previously adopted.

VII. NEW BUSINESS

A. Options Available to the Board Under Step #7 of the Interest Crediting Policy.

1. Letter from County Executive Officer Regarding Uses of Undistributed Earnings.

VII. NEW BUSINESS (continued)

A. Options Available to the Board Under Step #7 of the Interest Crediting Policy. (continued)

Staff reviewed the correspondence received from the CEO.

John Nicoll was present from the CEO and expressed that the County is not in support of increasing the amounts excluded from assets available for benefits in order to provide a non-vested supplemental benefit. Besides the fact that it is an employer paid cost, the timing makes it difficult for the County to consider at this time. Mr. Nicoll requested the Board defer action until the June 30, 2008 actuarial report is available for additional information.

Mr. Goulet moved, seconded by Mr. Harris, to have the actuary provide, in addition to the June 30, 2008 actuarial report, an analysis on each of the three potential transfers: $4.7 million back to $27.50 reserve, $3.73 million to the STAR COLA reserve and transferring $69.34 million to eliminate the Contra Reserve.

Motion failed. Mr. Goulet and Mr. Harris for the motion. Mr. Foy, Mr. Wilson, Mr. Matheney and Mr. Henderson against the motion.

Mr. Hoag questioned VCERA's obligation with providing the $27.50 supplemental benefit into perpetuity. Ms. Nemiroff responded VCERA is not legally bound in that regard.

B. STAR COLA Study.

1. Letter from The Segal Company dated August 27, 2008.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the STAR COLA study letter from The Segal Company.

Motion passed.

C. 2008 SACRS Fall Conference Registration and Designation of Voting Delegate.

Mr. Goulet informed the Board that he has attended several SACRS Ad Hoc Committee meetings to discuss the possible appointment of an Executive Director for SACRS and Mr. Goulet expected the appointment of an Executive Director to be on the fall conference election ballot.

VII. NEW BUSINESS (continued)

C. 2008 SACRS Fall Conference Registration and Designation of Voting Delegate. (continued)

Mr. Henderson moved, seconded by Mr. Wilson, to approve Mr. Goulet and Mr. Hoag as the Voting Delegate and Alternate Voting Delegate, respectively, for the Fall SACRS Business Meeting.

Motion passed.

D. Retirement Administrator's Quarterly Travel Report.

Mr. Goulet 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 SACRS to the Public Interest Committee of the American Academy of Actuaries dated August 27, 2008.

C. Letter from Barclays Global Investors Regarding Changes in BGI's Advanced Strategy and Research Group.

D. Invitation to Annual CRCEA Fall Conference, October 20-22, 2008, in Concord, CA.

E. Invitation to EnnisKnupp Client Education Session – Essentials of Pension Plan Investments, October 15-16, 2008, 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 11:40 a.m. upon the motion of Mr. Wilson, seconded by Mr. Foy.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman