

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

October 7, 2013

AGENDA

PLACE: Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME: 9:00 a.m.

ACTION ON AGENDA: When Deemed to be Appropriate, the Board of Retirement May Take Action on Any and All Items Listed Under Any Category of This Agenda, Including "Correspondence" and "Informational".

ITEM:

- | | | |
|-------------|--|-----------------|
| I. | <u>INTRODUCTION OF MEETING</u> | Master Page No. |
| II. | <u>APPROVAL OF AGENDA</u> | 1 - 4 |
| III. | <u>APPROVAL OF MINUTES</u> | |
| | A. Business Meeting of September 16, 2013. | 5 - 10 |
| | B. Investment Retreat of September 26, 2013. | 11 - 12 |
| IV. | <u>PENDING DISABILITY APPLICATION STATUS REPORT</u> | 13 - 58 |
| V. | <u>APPLICATIONS FOR DISABILITY RETIREMENT</u> | |
| | A. Application for Service Connected Disability Retirement;
James B. Bulger, Case No. 12-026. | 59 - 253 |
| | 1. Application for Service Connected Disability
Retirement and Supporting Documentation. | |

V. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

- A. Application for Service Connected Disability Retirement;
James B. Bulger, Case No. 12-026. (continued)
 - 2. Hearing Notice.

- B. Application for Non-Service Connected Disability Retirement; Catherine M. Carone, Case No. 13-014. 254 - 317
 - 1. Application for Non-Service Connected Disability Retirement and Supporting Documentation.
 - 2. Hearing Notice.

- C. Application for Service Connected Disability Retirement; John L. Glueckert, Case No. 09-031. 318 - 522
 - 1. Application for Service Connected Disability Retirement and Supporting Documentation.
 - 2. Hearing Notice.

- D. Application for Non-Service Connected Disability Retirement; Pamela S. Waldron, Case No. 12-040. 523 - 632
 - 1. Application for Non-Service Connected Disability Retirement and Supporting Documentation.
 - 2. Hearing Notice.

- E. Application for Service Connected Disability Retirement; Alyson Kaye, Case No. 12-007. 633 - 655
 - 1. Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Hearing Officer Shelley Kaufman, dated September 9, 2013.
 - 2. Applicant's Objection to the Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Alyson Kaye, dated September 24, 2013.
 - 3. Hearing Notice.

V. APPLICATIONS FOR DISABILITY RETIREMENT (continued)

- F. Application for Service Connected Disability Retirement; June Marsh, Case No. 08-015. 656 - 663
1. Petition for Reconsideration, Submitted by June Marsh, dated August 6, 2013.
 2. Respondent's Objection to the Petition for Reconsideration, submitted by Stephen D. Roberson, Attorney at Law, dated August 13, 2013.
 3. Hearing Notice.

VI. STANDING ITEM

- A. Receive and File Monthly PAS (VCERIS) Report for August 2013. 664 - 670

VII. NEW BUSINESS

- A. Receive Hanson Bridgett IRS Filing Orientation and Update, and Authorize the Chair to Execute a Power of Attorney for Hanson Bridgett to Represent VCERA. 671 - 687
- B. Approve First Amendment to the Securities Lending Authorization Agreement with State Street Bank and Trust Company. 688 - 713
1. Memorandum by Hewitt EnnisKnupp.
 2. First Amendment.
 3. Original Securities Lending Agreement (for Reference).
- C. Consideration of a Request to the Board of Supervisors to adopt a Spousal Notification Resolution per Government Code Section 31760.3. 714 - 718
1. Resolution: Notice to Spouse of Member's Selection of Benefits or Change of Beneficiary
- D. Review and Adoption of Compensation Review Policy per Government Code Section 31542. 719 - 722

VII. NEW BUSINESS (continued)

- | | |
|--|-----------|
| E. Appointment of Ad Hoc Effectiveness Committee for Organizational Effectiveness Project. | 723 |
| F. Review and Approval of Investment Industry Service Provider Advisory Letter. | 724 - 725 |
| G. Receive and File Report on Berkeley Training, July 28-31, 2013. | 726-731 |
| H. Consideration of Western Asset Management's Commingled TRU Bond Fund, as Opposed to Separate Account. | 732 |

IX. PUBLIC COMMENT

X. BOARD MEMBER COMMENT

XI. ADJOURNMENT

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

September 16, 2013

MINUTES

DIRECTORS William W. Wilson, Chair, Public Member
PRESENT: Tracy Towner, Vice Chair, Safety Employee Member
Steven Hintz, Treasurer-Tax Collector
Joseph Henderson, Public Member
Mike Sedell, Public Member
Tom Johnston, General Employee Member
Deanna McCormick, General Employee Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member
Chris Johnston, Alternate Employee Member

DIRECTORS Peter C. Foy, Public Member
ABSENT:

STAFF Donald C. Kendig, Retirement Administrator
PRESENT: Henry Solis, Chief Financial Officer
Lori Nemiroff, Assistant County Counsel
Glenda Jackson, Program Assistant

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 Wilson called the Business Meeting of September 16, 2013, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

MOTION: Approve the agenda.

Moved by Henderson, seconded by T. Johnston.

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Towner,
Wilson

No: -

III. APPROVAL OF MINUTES

A. Disability Meeting of September 9, 2013.

MOTION: Approve the Minutes.

Moved by Henderson, seconded by Goulet.

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Wilson

No: -

Abstention: Towner

IV. CONSENT AGENDA

THE FOLLOWING ITEMS ARE ANTICIPATED TO BE ROUTINE AND NON-CONTROVERSIAL. CONSENT ITEMS WILL BE APPROVED WITH ONE MOTION IF NO MEMBER OF THE BOARD WISHES TO COMMENT OR ASK QUESTIONS. IF COMMENT OR DISCUSSION IS DESIRED, THE ITEM WILL BE REMOVED FROM THE CONSENT AGENDA AND TRANSFERRED TO THAT SECTION OF THE AGENDA DEEMED APPROPRIATE BY THE CHAIR.

- A. Regular and Deferred Retirements and Survivors Continuances for the Months of July and August 2013.
- B. Report of Checks Disbursed in July and August 2013.
- C. Asset Allocation as of July and August 2013.
- D. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Investments & Cash Equivalents, and Schedule of Investment Management Fees for the Month Ended June 30, 2013.

E. Statement of Reserves as of June 30, 2013.

MOTION: Approve the Consent Agenda.

Moved by Goulet, seconded by Henderson

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Towner,
Wilson

No: -

V. STANDING ITEM

A. Receive an Oral Update on Pensionable Compensation and PEPRA.

Received an oral report from Board Counsel on the status of CalPEPRA and related bills: AB 1380 and SB 13.

No action taken.

VI. INVESTMENT INFORMATION

A. Annual Investment Presentation, Loomis Sayles – Stephanie Lord, Vice President, Client Portfolio Manager. (30 Minutes).

Stephanie Lord was present on behalf of Loomis Sayles to review the firm's organization, investment results for VCERA's accounts, investment process and outlook.

No action taken.

B. Annual Investment Presentation, PIMCO – David Blair, CFA and Todd A. Staley, CFA. (30 Minutes).

David Blair and Todd Staley were present on behalf of PIMCO to review the firm's organization, investment results for VCERA's accounts, investment process and outlook.

No action taken.

C. Hewitt EnnisKnupp, John J. Lee, Partner. and Kevin Chen.

1. Second Quarter 2013 Performance Report.

After discussion, the following Motion was made:

MOTION: Receive and file the Second Quarter 2013 Performance Report.

Moved by Towner, seconded by Goulet

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell,
Towner, Wilson

No: -

2. Monthly Manager Performance Report, July 2013.
3. Monthly Manager Performance Report, Aug 2013.

After discussion, the following Motion was made:

MOTION: Receive and file the Monthly Manager Performance Reports for July and August 2013.

Moved by Henderson, seconded by T. Johnston

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell,
Towner, Wilson

No: -

VII. NEW BUSINESS

- A. Fiscal Year 2012-13 Final Budget Adjustments.
 1. Final Budget Summary.

After discussion, the following Motion was made:

MOTION: Approve the proposed FY 2012-13 final budget adjustments increasing Services and Supplies by \$139,600 and decreasing Salaries and Employee Benefits by \$139,600.

Moved by Hintz, seconded by Henderson

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Towner,
Wilson

No: -

- B. Consider Engagement of Firm to Provide Organizational Effectiveness Coaching Services.

After discussion, the following Motion was made:

MOTION: Authorize the Personnel Committee to select an Organizational Effectiveness Coach and negotiate a contract not to exceed \$15,000 for a term not to exceed six months, and authorized the Board Chairman to execute the contract.

Moved by Sedell, seconded by McCormick

Vote: Motion carried

Yes: Goulet, Henderson, Hintz, T. Johnston, McCormick, Sedell, Towner, Wilson

No: -

VIII. PUBLIC COMMENT

Ms. Nemiroff, Board counsel, announced that there was an amendment to the Brown Act, indicating that specific votes on each item be reported in the minutes, including abstentions. Ms. Nemiroff continued with the announcement that Tom Temple and Tim Lanquist have filed a Notice of Appeal of the Court's denial of their Petition for Writ of Mandate and that Bob Blum has left Hanson Bridgett. Mr. Goulet added that the tax determination effort is a topic of the next leg committee meeting. Mr. Wilson asked about the significance of abstaining, as opposed to just voting present. Mr. Towner summarized it best that an abstention is entered on an action when a member has a conflict, is uncomfortable with his or her ability to vote on the item, or was not present for a previous Board action. Ms. Nemiroff indicated that she would look into the matter further.

IX. BOARD MEMBER COMMENT

Mr. Hoag announced that he has the materials from the August due diligence available for trustee review.

X. ADJOURNMENT

The meeting was adjourned at 10:47 a.m.

Respectfully submitted,



DONALD C. KENDIG, Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

MINUTES

BOARD OF RETIREMENT INVESTMENT RETREAT

Thursday, September 26, 2013

DIRECTORS

William W. Wilson, Chair, Public Member

PRESENT:

Tracy Towner, Vice Chair, Safety Employee Member

Steven Hintz, Treasurer-Tax Collector

Joseph Henderson, Public Member

Mike Sedell, Public Member

Deanna McCormick, General Employee Member

Arthur E. Goulet, Retiree Member

Chris Johnston, Alternate Safety Employee Member

Will Hoag, Alternate Retiree Member

DIRECTORS

Peter C. Foy, Public Member

ABSENT:

Tom Johnston, General Employee Member

STAFF

Donald C. Kendig, Retirement Administrator

PRESENT:

Henry Solis, Chief Financial Officer

Lori Nemiroff, Assistant County Counsel

PLACE:

Ventura Beach Marriott

2055 East Harbor Boulevard

Ventura, California 93001

9:00 a.m.

Introductions, Administrative Matters, and Review of Agenda

Bill Wilson (Chair), Tracy Towner (Vice Chair) and Donald Kendig (Retirement Administrator)

Chairman Wilson called the Board Retreat of September 26, 2013 to order at 9:00 a.m.

9:10 a.m.

Infrastructure/Natural Resources/Water

Kleinwort Benson Investors (leading firm in environment strategies) and *Macquarie Group* (industry's largest infrastructure and real asset manager) participated in a panel discussion on environmental and other infrastructure investment opportunities.

No action taken.

11:00 a.m.

The "Opportunistic Bucket"

Hewitt EnnisKnupp's alternatives expert discussed the idea of implementing a separate policy allocation that enables temporary investments due to market dislocations and other transient opportunities.

No action taken.

12:00 Noon **Working Lunch – Economy, Interest Rates, and Capital Markets**
PIMCO and *GMO*, presented their market forecasts, and debated their views on the economy and investments.

No action taken.

1:30 p.m. **Research on the Traditional Stock/Bond Investing**
Hewitt EnnisKnupp's head of research reviewed notable recent research on investing in the traditional asset classes and strategies for success.

No action taken.

2:45 p.m. **VCERA – General Interest Topics**
Donald Stracke of NEPC reviewed a number of general interest topics, including selected pages from the Greenwich and NCPERS 2012 public fund studies, discussed how NEPC makes its asset class return and risk assumptions, and presented a general comparison of VCERA vs. other California public funds, and some initial thoughts on starting its new relationship with VCERA and its existing investment structure.

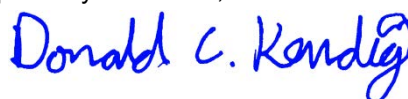
No action taken.

3:45 p.m. **Board Member Comments and Ideas for the Future**
The Board commented on the day's discussions, potential modifications to the investment information provided during Board meetings, and suggested several thoughts for future implementation.

No action taken.

The meeting was adjourned at approximately 3:55 p.m.

Respectfully submitted,



DONALD C. KENDIG, Retirement Administrator

Approved,

WILLIAM W. WILSON, Chairman



Project Status Report: PAS Project



Reporting to: VCERA
Written by: Kim Zierath

Report Date: 09/15/13
Reporting Period: 08/01/2013 – 08/31/2013

Project Segment: Deployment Phase – Rollout 1

August project activities focused on Segment D design and testing activities, completing Segment C testing activities, continuing data conversion, and preparing for the September 9th Board meeting.

The following activities were conducted in August:

Project Management:

- Julie communicated to Assistant Auditor-Controller, Jeff Burgh, the project's deadline of March 2014 for the automated solutions for the transmittal data. She also communicated that the backup solution, if an automated solution could not be identified, could be an Excel spreadsheet that the A-C's office will need to manually populate and submit each pay period along with the payroll. Mr. Burgh indicated that he understand both the deadline and the proposed backup process and he said he would communicate those things to the rest of his A-C project team.
- Vitech completed the process of upgrading VCERA from version 9.6 to version 9.9 on 8/5/13. The project team encountered a few bugs due to the upgrade, but they were relatively minor and Vitech worked quickly to resolve the issues.
- The project team prepared materials to present to the Board at the September 9th Board meeting. The materials included a brief historical timeline of significant project events that will be included on all future Board letters and suggestions for keeping the Board better informed of project activities and progress.
- Linea's intern, Kevin Choi, started participating in project activities on 8/20/13. He is working with Kim and Jerry to create data required to execute segment tests. For now, Kevin will be working on project activities two days a week at no cost to VCERA.
- Henry, Julie, and Donald met with members of the Auditor-Controller's office (Jeff Burgh, Valerie Barraza, Louise Webster & Garrick Leedy) to discuss the status of the PAS Project/VCERIS implementation. We discussed where we were in the project and the development of the interface deliverables, the manual work around options, and VCERIS configurability, how everyone felt about past progress, present status, and next steps.

Implementation Phase – Rollout 1

- Weekly build releases for Segment C and Segment D were received and Michelle and Rebekah continued creating test cases and identifying data requirements.
- Weekly test review and demo sessions continued to be held. These are very beneficial to ensuring report defects and issues are understood and adequately categorized and that new release functionality is operating as expected and understood by Michelle and Rebekah prior to them executing related tests.



Project Status Report: PAS Project



Reporting to: VCERA
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Report Date: 09/15/13
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- Michelle and Rebekah created 400 test cases for Segment C. At this time, they have executed 263 of them and only 47 of those executed failed. For all segments, they have executed 690 tests and there are 65 open defects.
- The project is on schedule per the updated project plan.
- Continued working with plan sponsors to develop the new transmittal. Both plan sponsors are making progress.
- After multiple discussions with the project team, it was determined that actuarial extracts will be developed and tested over the course of the project rather than in one single sprint. This sprint will have parallel development with other project sprints. Per the project plan the functional development for actuarial extracts is targeted to be completed by November 2014.

Data Conversion:

- Continued updating data mapping documents to reflect changes required as a result of new design requirements and data conversion issues. This will be a continual process through the end of the project.
- MBS updated/refined QA sheets for all files converted.
- MBS delivered Cycle 6 extract files on 8/1/13.
- ADP provided a sample of the "quitter's tape" for MBS and Vitech to analyze. This will help the team understand the effort required to convert the remaining data.
- Continued having weekly data scorecard review sessions for open data conversion issues. The team determined the frequency of the meetings should be changed to bi-weekly for now.
- Data cleansing continued.

Infrastructure / Hosting:

- Linea began experiencing issues with emails to VCERA. Many emails being sent from Linea to VCERA were being blocked or delayed for several days. County IT said the issue is with Linea's email service, and Linea is researching the issue to find a resolution.
- The project team continued to experience network reliability issues. Debbie and Jo are working on a diagnostics tree to help troubleshoot/isolate and resolve the issues.

Project risks are continually being assessed throughout the project duration. Risks will be added to the table below as they are identified.

ISSUES / RISKS – Explanation of Issues	MITIGATION – Explanation of Action Needed
Auditor-Controller not able to provide transmittal requirements. This may result in an impact to the project schedule and loss of automation expected with V3.	Auditor-Controller has indicated they may not be able to provide all of the requirements identified in the transmittal specifications. We are working closely with Auditor-Controller to try to determine how much time they need to thoroughly analyze and develop the system enhancements that would be necessary to meet VCERA's requirements. We anticipate being able to



Project Status Report: PAS Project



Reporting to: VCERA
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Report Date: 09/15/13
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	<p>provide the Board with the details and their time requirements at the May 6th Board meeting.</p> <p>UPDATE (9/1) – Auditor-Controller is aware of the data requirements and the proposed back-up solution. Auditor-Controller and VCERA are waiting for written County Counsel opinion supporting the requirements of Auditor-Controller to provide needed payroll data to VCERA. Both parities are open to other process alternatives that provide the necessary data. Continuing to monitor.</p> <p>UPDATE (8/1) – No change. Continuing to monitor.</p> <p>UPDATE (7/1) – Auditor-Controller has continued to work on identifying automated solutions to providing VCERA with the data required for V3. They have not provided an estimated time that they would be able to provide the data. We will continue to monitor this risk.</p> <p>UPDATE (6/1) – Auditor-Controller provided their initial response, generally indicating they would not provide the new information VCERA is requesting. The Board directed Auditor-Controller and VCERA to work together to find solutions that would work. Both offices are committed to working together. Additionally, since Auditor-Controller’s initial response was submitted, legal provided an opinion to Auditor-Controller that they are legally required to provide the data being requested so they now understand a solution is required. The change to the big bang approach will allow additional time to develop the best solutions. Auditor-Controller has contracted with the original developer for VCHRP to analyze what system changes would be needed and how long it would take to implement those changes. Once we have the results of that analysis we may be able to remove this risk.</p> <p>UPDATE (5/1) – Auditor-Controller informed us on 4/29 that they were just finishing their response to our formal request and would deliver it to VCERA on Friday, 5/3. This will not provide us adequate time to review their response and prepare options to present to the Board at the May 6th Board meeting. We will work to complete the analysis and prepare our proposed options as quickly as possible.</p> <p>UPDATE (4/1) – We are preparing a formal request for the critical data required from Auditor-Controller. The request will ask them to provide us a timeline they</p>
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Project Status Report: PAS Project



Reporting to: VCERA
Written by: Kim Zierath

Report Date: 09/15/13
Reporting Period: 08/01/2013 – 08/31/2013

	<p>would need to fully analyze/develop the system enhancements they would need to provide the data. We do not anticipate having their response in time to present to the Board at the May 6th Board meeting. We will present to the Board as soon as we have the information and can create a revised plan proposal.</p>
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Project Status Report: PAS Project



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Report Date: 09/15/13
Reporting Period: 08/01/2013 – 08/31/2013

The milestones below have been changed to reflect the new implementation plan approved 7/15/13.

Work Segments

Deployment Phase - Rollout 1 Project Plan Tasks	% Complete	Milestone Date	Date Completed
Segment A Data Mapping Documents Completed	100%	10/26/2012	11/30/2012*
Segment A Functionality Completed	100%	11/30/2012	11/30/2012
Segment B Data Mapping Documents Completed	100%	12/28/2012	1/28/2013*
Segment B Functionality Completed	100%	02/22/2013	4/5/2013
Segment C Functionality Completed	100%	04/12/2013	6/28/2013
Segment D Track 1 Functionality Delivered	100%	09/02/2013	
Segment D Track 2 Functionality Delivered	0%	12/30/2013	
Segment F Functionality Delivered	0%	3/24/2014	
Segment G Functionality Delivered	10%	7/28/2014	
Segment H Functionality Delivered	15%	8/25/2014	
Parallel Testing of Transmittal Files Begins	0%	10/20/2014	
Segment I Functionality Delivered	10%	12/29/2014	
UAT Begins	0%	3/20/2015	
VCERA Accepts System for Production	0%	7/6/2015	

*Please note that data mapping updates can occur throughout the project as a result of new functionality design. The 100% completion indicates initial data mapping efforts are complete.



Project Status Report: PAS Project



Reporting to: VCERA
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Report Date: 09/15/13
Reporting Period: 08/01/2013 – 08/31/2013

Vitech Contract Limits

Contract-Limited Item	Contract Limit	Currently Assigned to Vitech/Used	Number Remaining for Vitech
Documents / Letters	20	12	8
Reports / Queries	25	7	18
Workflows	10	11	0
Interfaces	6	3	3
Data Conversion Hours	3,500	2,559.50	940.50

Planned Tasks for Next Period

- Continue working with Auditor-Controller and VRSD to develop solutions for the transmittal files.
- Finalize Board materials and present to the Board at the 9/9/13 meeting.
- Continue analyzing data extracted from RDBS and loaded into V3.
- Continue analyzing "quitter's tape" data and determine data conversion plan.
- Continue conducting data cleansing activities.
- Finalize Segment C testing.
- Continue writing test cases for Segment D functionality and identifying data requirements.
- Continue executing Segment D testing.



Project Status Report: PAS Project



Reporting to: VCERA
Written by: Kim Zierath

Report Date: 09/15/13
Reporting Period: 08/01/2013 – 08/31/2013

Signatures

The content of this report has been reviewed and approved by:

Donald Kendig
Retirement Administrator
VCERA Project Sponsor

9/19/2013

Date

Hammad Zaigham
Vitech Project Manager

9/19/2013

Date

Kim Zierath
Linea Project Manager

9/19/2013

Date

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: RECEIVE HANSON BRIDGETT IRS FILING ORIENTATION AND UPDATE,
AND AUTHORIZE THE CHAIR TO EXECUTE A POWER OF ATTORNEY
FOR HANSON BRIDGETT TO REPRESENT VCERA**

Dear Board Members:

Background

The Internal Revenue Service (IRS) began examining Public Retirement Systems for tax qualification status a number of years ago prompting SACRS systems to consider a joint effort at filing voluntary correction plans (VCPs) for any areas of non-compliance and for protection against any unfavorable IRS audits. With the assistance of Hanson Bridgett, LLP (HB), VCERA submitted its filing, on January 31, 2011, along with many other systems during a similar time period. In coordination with this group of filings, the IRS established a special team in Washington DC to review the '37 Act filings, but experienced significant delays due to losing several key team members. Systems have been waiting patiently for the IRS to resume its review.

Discussion

The IRS has recently resumed its filing reviews and Judy Boyette, of HB, has reached out to VCERA to re-establish its power of attorney, so it can represent VCERA during the final phases of the IRS review and filing process. In addition, Ms. Boyette has offered to provide the Board with a free filing process orientation and update. Given her history and direct involvement with the VCERA plan, she will likely be able to provide you with a better background than the one provided above. Please receive her presentation and authorize the Chair to execute the power of attorney form. VCERA has a current retainer agreement of \$50,000 with \$33,718.85 billed to date.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

Attachments (2)

Ventura County Employees' Retirement Association

Current IRS Filing Process Update for VCERA as of October 2013

Prepared by Judy Boyette
Hanson Bridgett LLP
October 7, 2013



1/31/11- VCERA Made IRS Filing for Determination Letter Application

- Getting favorable determination letter—IRS says “form” of “plan document” meets tax rules
- Does not address operational issues
- Not required to apply for a letter to be tax-qualified—but VCERA still has to meet all the tax-qualification rules
- Provides “insurance” policy—with letter, IRS can’t retroactively disqualify VCERA if they audit



Public Sector Retirement Plan History

- IRS ignored public retirement systems until several years ago
- IRS has become focused on public retirement systems
 - publicity
 - where the money is
- IRS informally said it would audit systems that did not file for a determination letter



Determination Letter Issues

- Filing fee was \$1000
- Includes IRS Form 5300
- Copy of VCERA documents and the '37 Act
- SACRS Task Force produced filing on common issues for all systems under the '37 Act—that work was included in VCERA's filing
- Hanson Bridgett worked with SACRS and with VCERA representatives to produce VCERA-specific documents



VCP Filing Was Filed Along With Determination Letter

- Voluntary correction program (VCP) filing covers any issues/mistakes (called “failures”) in plan document and in “operation” of VCERA
- Explain what happened and why
- Describe corrections and steps to avoid future issues
- Every '37 Act system filing had some issues that were common to all systems and all systems did a review to determine any system-specific issues
- VCERA had very limited system-specific issues



VCP Filing Fee

- VCP filing fee was provided with the IRS filing on 1/31/11
- Fee varies by number of participants in the retirement system
- Fee for VCERA was \$25,000
- If VCERA had not made a VCP filing and IRS later discovered “failures”, then VCERA automatically would be referred to “audit cap” under which severe penalties can be assessed



Working with the IRS

- SACRS Task Force work was done in consultation with highest level of IRS and system filings were structured to assist the IRS in their review work
- As a result of that work, IRS set up special team in Washington DC to work on '37 Act filings; significant delays due to loss of members of that team
- Hanson Bridgett has been working closely with the IRS for a number of months now on completing their review of the lead '37 Act system for both VCP and determination letter filings



Filings Propose Changes to CERL

- Overall strategy—make the fewest possible changes to the CERL in order to satisfy IRS rules
- Issues deal with IRS technical requirements
- After IRS signs off on any proposed changes for all the systems, THEN '37 Act systems will work together through SACRS to get changes to CERL through legislative process



Proposed Model Regulations Included in Filings with IRS

- Filings for all '37 Act systems, including VCERA, indicate that the Board of Retirement is willing to adopt proposed model regulations
- The proposed model regulations (and proposed statutory changes) were reviewed by all '37 Act systems through SACRS process
- Regulations easier to adopt than legislative changes to CERL and allow each system to vary to extent necessary for its specific needs



Proposed Model Regulations

- Several of the regulations are long and detailed per IRS requirements for the “plan document” and are not suitable for changes to the CERL
- Can be more easily modified as the IRS rules change (IRS rules change often)
- SACRS agreed to use its committee process to monitor and propose changes as new or revised IRS requirements are issued—this was included as commitment in the filings



What Is Happening Now?

- IRS has completed review of initial '37 Act system VCP filing and is now moving to review other systems based on uniform treatment of issues that apply to all systems
- IRS likely to contact Hanson Bridgett as representative of VCERA before year-end to complete VCP filing review
- Based on experience to date, the IRS review of the VCERA filings is likely to go smoothly and quickly
- After completion of VCP process, final agreements produced will not be issued by the IRS until all '37 Act systems are reviewed—in case any further changes are needed



What Happens After VCP Review ?

- IRS is now moving to the review of the determination letter application for lead '37 Act system
- Similar process to VCP review will be followed—review of lead system will allow similar issues in determination letter applications for later systems to be treated in same manner
- Some issues have already been discussed—expect process to move forward more quickly now
- IRS has added resources—but we can't say with certainty yet how long this part of the process will take



What Should VCERA Do Now?

- When IRS response on VCERA VCP filing is received, Hanson Bridgett will work with VCERA to prepare response
- Best not to adopt model regulations before the IRS gives feedback and agreement with language
- IRS standard procedure is to make modifications to the language proposed in applications—this has already happened in the VCP process
- Further changes also may be requested to proposed language in the determination letter review process



What Should VCERA Do Now? (Continued)

- Retirement Board will be kept updated on progress with the IRS
- Ultimately, Retirement Board will need to take actions required by IRS as condition of successful outcome for VCP and determination letter filings
- VCERA has committed to work through SACRS with other systems to ultimately obtain IRS-required changes to the '37 Act
- Determination letter filings must be made every 5 years to keep protection—next one would be due 1/31/16



Power of Attorney and Declaration of Representative

OMB No. 1545-0150

For IRS Use Only

Received by: _____

Name _____

Telephone _____

Function _____

Date / / _____

▶ Type or print. ▶ See the separate instructions.

Part I Power of Attorney

Caution: A separate Form 2848 should be completed for each taxpayer. Form 2848 will not be honored for any purpose other than representation before the IRS.

1 Taxpayer information. Taxpayer must sign and date this form on page 2, line 7.

Taxpayer name and address Ventura County Employees' Retirement Association (VCERA) 1190 South Victoria Avenue, Suite 200 Ventura, CA 93003	Taxpayer identification number(s) <p style="text-align: center;">95-6380470</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Daytime telephone number 805-339-4250</td> <td style="width: 40%;">Plan number (if applicable) 001</td> </tr> </table>	Daytime telephone number 805-339-4250	Plan number (if applicable) 001
Daytime telephone number 805-339-4250	Plan number (if applicable) 001		

hereby appoints the following representative(s) as attorney(s)-in-fact:

2 Representative(s) must sign and date this form on page 2, Part II.

Name and address Judith W. Boyette Hanson Bridgett LLP 425 Market Street, 26th Floor, San Francisco, CA 94105	CAF No. 9005-09391R PTIN _____ Telephone No. 415-995-5115 Fax No. 415-995-3577
Check if to be sent notices and communications <input type="checkbox"/>	Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/>
Name and address Nancy G. Hillu Hanson Bridgett LLP 425 Market Street, 26th Floor, San Francisco, CA 94105	CAF No. 0306-20475R PTIN _____ Telephone No. 415-995-5067 Fax No. 415-995-3436
Check if to be sent notices and communications <input type="checkbox"/>	Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/>
Name and address Edward M. Bernard Hanson Bridgett LLP 425 Market Street, 26th Floor, San Francisco, CA 94105	CAF No. 0301-78474R PTIN _____ Telephone No. 415-995-5807 Fax No. 415-995-3572
Check if to be sent notices and communications <input type="checkbox"/>	Check if new: Address <input type="checkbox"/> Telephone No. <input type="checkbox"/> Fax No. <input type="checkbox"/>

to represent the taxpayer before the Internal Revenue Service for the following matters:

3 Matters

Description of Matter (Income, Employment, Payroll, Excise, Estate, Gift, Whistleblower, Practitioner Discipline, PLR, FOIA, Civil Penalty, etc.) (see instructions for line 3)	Tax Form Number (1040, 941, 720, etc.) (if applicable)	Year(s) or Period(s) (if applicable) (see instructions for line 3)
Determination letter application and VCP filing for the Ventura County Employees' Retirement Association	All forms/ matters related to the VCP and determination letter submissions	N/A

4 Specific use not recorded on Centralized Authorization File (CAF). If the power of attorney is for a specific use not recorded on CAF, check this box. See the instructions for Line 4. **Specific Uses Not Recorded on CAF**

5 Acts authorized. Unless otherwise provided below, the representatives generally are authorized to receive and inspect confidential tax information and to perform any and all acts that I can perform with respect to the tax matters described on line 3, for example, the authority to sign any agreements, consents, or other documents. The representative(s), however, is (are) not authorized to receive or negotiate any amounts paid to the client in connection with this representation (including refunds by either electronic means or paper checks). Additionally, unless the appropriate box(es) below are checked, the representative(s) is (are) not authorized to execute a request for disclosure of tax returns or return information to a third party, substitute another representative or add additional representatives, or sign certain tax returns.

Disclosure to third parties; Substitute or add representative(s); Signing a return; _____

Other acts authorized: _____
 (see instructions for more information)

Exceptions. An unenrolled return preparer cannot sign any document for a taxpayer and may only represent taxpayers in limited situations. An enrolled actuary may only represent taxpayers to the extent provided in section 10.3(d) of Treasury Department Circular No. 230 (Circular 230). An enrolled retirement plan agent may only represent taxpayers to the extent provided in section 10.3(e) of Circular 230. A registered tax return preparer may only represent taxpayers to the extent provided in section 10.3(f) of Circular 230. See the line 5 instructions for restrictions on tax matters partners. In most cases, the student practitioner's (level k) authority is limited (for example, they may only practice under the supervision of another practitioner).

List any specific deletions to the acts otherwise authorized in this power of attorney: _____

6 Retention/revocation of prior power(s) of attorney. The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the Internal Revenue Service for the same matters and years or periods covered by this document. If you **do not** want to revoke a prior power of attorney, check here **YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.**

7 Signature of taxpayer. If a tax matter concerns a year in which a joint return was filed, the husband and wife must each file a separate power of attorney even if the same representative(s) is (are) being appointed. If signed by a corporate officer, partner, guardian, tax matters partner, executor, receiver, administrator, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

▶ IF NOT SIGNED AND DATED, THIS POWER OF ATTORNEY WILL BE RETURNED TO THE TAXPAYER.

Signature	Date	Board Chairman Title (if applicable)
William W. Wilson		
Print Name	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> PIN Number	Board of Retirement of VCERA Print name of taxpayer from line 1 if other than individual

Part II Declaration of Representative

Under penalties of perjury, I declare that:

- I am not currently under suspension or disbarment from practice before the Internal Revenue Service;
- I am aware of regulations contained in Circular 230 (31 CFR, Part 10), as amended, concerning practice before the Internal Revenue Service;
- I am authorized to represent the taxpayer identified in Part I for the matter(s) specified there; and
- I am one of the following:
 - a Attorney—a member in good standing of the bar of the highest court of the jurisdiction shown below.
 - b Certified Public Accountant—duly qualified to practice as a certified public accountant in the jurisdiction shown below.
 - c Enrolled Agent—enrolled as an agent under the requirements of Circular 230.
 - d Officer—a bona fide officer of the taxpayer's organization.
 - e Full-Time Employee—a full-time employee of the taxpayer.
 - f Family Member—a member of the taxpayer's immediate family (for example, spouse, parent, child, grandparent, grandchild, step-parent, step-child, brother, or sister).
 - g Enrolled Actuary—enrolled as an actuary by the Joint Board for the Enrollment of Actuaries under 29 U.S.C. 1242 (the authority to practice before the Internal Revenue Service is limited by section 10.3(d) of Circular 230).
 - h Unenrolled Return Preparer—Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
 - i Registered Tax Return Preparer—registered as a tax return preparer under the requirements of section 10.4 of Circular 230. Your authority to practice before the Internal Revenue Service is limited. You must have been eligible to sign the return under examination and have signed the return. **See Notice 2011-6 and Special rules for registered tax return preparers and unenrolled return preparers in the instructions.**
 - k Student Attorney or CPA—receives permission to practice before the IRS by virtue of his/her status as a law, business, or accounting student working in LITC or STCP under section 10.7(d) of Circular 230. See instructions for Part II for additional information and requirements.
 - r Enrolled Retirement Plan Agent—enrolled as a retirement plan agent under the requirements of Circular 230 (the authority to practice before the Internal Revenue Service is limited by section 10.3(e)).

▶ IF THIS DECLARATION OF REPRESENTATIVE IS NOT SIGNED AND DATED, THE POWER OF ATTORNEY WILL BE RETURNED. REPRESENTATIVES MUST SIGN IN THE ORDER LISTED IN LINE 2 ABOVE. See the instructions for Part II.

Note: For designations d-f, enter your title, position, or relationship to the taxpayer in the "Licensing jurisdiction" column. See the instructions for Part II for more information.

Designation— Insert above letter (a-r)	Licensing jurisdiction (state) or other licensing authority (if applicable)	Bar, license, certification, registration, or enrollment number (if applicable). See instructions for Part II for more information.	Signature	Date
a	CA	99363		
a	CA	227803		
a	CA	227568		

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: FIRST AMENDMENT TO THE SECURITIES LENDING AUTHORIZATION AGREEMENT WITH STATE STREET BANK AND TRUST

Dear Board Members:

Background

The Board closely monitors VCERA's securities lending program and at the December 17, 2012 Board meeting, the Board received a securities lending report by Hewitt EnnisKnupp (HEK). At that time, HEK, indicated:

In general, we continue to believe that it is appropriate for most institutional investors to engage in a risk controlled securities lending program. However, we recommend that clients assess the amount of revenue that they can expect to earn and determine if this continues to be worth the risks inherent in a securities lending program. In addition, to the extent possible, clients should customize their securities lending program to suit a plan's specific circumstances.

HEK concluded its report, in reference to State Street, indicating:

Given the size and structure of the VCERA's securities lending program, we recommend retaining State Street as the securities lending agent and maintaining the current lending program. VCERA has earned at least 20 basis point spread per year and over \$1.1 million in net revenue since 2009.

On May 20, 2013 John Muir, of State Street Bank & Trust, presented its program and introduced the concept of non-cash collateral for the securities lent, possibly expanding the number of borrowers and potential revenues.

Discussion

Attached for your reference is the original securities lending agreement, executed on May 23, 1997, along with a Memorandum by HEK elaborating on the benefits and risks of agreeing to include noncash collateral, along with a recommendation to proceed, and a corresponding proposed first amendment document.

**FIRST AMENDMENT TO THE SECURITIES LENDING AUTHORIZATION AGREEMENT
WITH STATE STREET BANK AND TRUST**

October 7, 2013

Page 2 of 2

The expansion of non-cash collateral should provide VCERA with the potential opportunity for increasing revenue. By accepting non-cash collateral, VCERA avoids the reinvestment risk associated with cash collateral. It also allows the approved borrowers to retain cash on their balance sheet and pledge securities from their holdings which should increase VCERA's utilization levels. Additionally, in order to ensure the appropriate margin levels are maintained, both VCERA's securities on-loan and the non-cash collateral are priced on a daily basis. Based on the respective security valuations, additional collateral could be required from the borrower. Lastly, should a borrower fail to return VCERA's securities, State Street will purchase replacement securities equal to the shares not returned (if they are available in the market). The replacement securities will be purchased with the proceeds generated from the sale of the non-cash collateral. If the proceeds from the sale of the non-cash collateral is insufficient to purchase VCERA's outstanding replacement securities, State Street is required purchase the replacement securities at its own expense, whereby indemnifying VCERA.

Conclusion and Recommendation

Please approve the proposed first amendment to the securities lending authorization agreement with State Street Bank and Trust and authorize the Chairman to execute it.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

Attachments (3)

Memo

To: **Donald Kendig, Ventura County Employees' Retirement Association**

From: Joel Brightfield, Trust Services
Kristen Doyle, CFA, Trust Services

Date: September 27, 2013

Re: Addition of non-cash collateral to securities lending program

Executive Summary

Ventura County Employees' Retirement Association (VCERA) asked Hewitt EnnisKnupp (HEK) to provide a recommendation to adopt an amendment to the State Street securities lending contract that will expand the list of collateral from just cash to non-cash collateral. HEK is supportive of adding non-cash collateral to the list of allowable collateral for the VCERA securities lending program. Typically, the allowable types of non-cash collateral include U.S. debt, non-U.S. sovereign debt (OECD), and equities.

Benefits and Risks Associated with Non-Cash Collateral

Hewitt EnnisKnupp continues to stress that securities lending is not a risk free endeavor. However, if the risks are adequately managed, then the practice of securities lending can provide a meaningful source of incremental revenue for a plan sponsor. Non-cash collateral is one manner in which a program can address risks associated with collateral. A benefit of non-cash collateral is that it does not need to be reinvested in short-term securities like cash collateral has to be. This provides a better asset-liability profile for the overall program. For example, if an equity security is lent out, cash is received as collateral, and that cash is reinvested in a short-term fixed income security, then an asset-liability mismatch has been created. In contrast, if that same equity security is lent out and a similar equity security is pledged as collateral, then the asset-liability mismatch is mitigated.

Nevertheless, there are unique risks associated non-cash collateral. There is a risk that the securities held as collateral will become illiquid during market stress resulting in the inability to utilize the value of the collateral to purchase replacement securities. Moreover, in an extreme event, there is the possibility that the issuer of the security held as collateral will default. Overall, HEK believes that the benefits of non-cash collateral outweigh the risks.

Support for Non-Cash Collateral

Generally speaking, a broader set of acceptable collateral implies a larger potential loan volume and greater earnings. Furthermore, borrowers of non-U.S. securities tend to favor non-cash collateral. We typically find that non-U.S. domiciled borrowers prefer to pledge a security as similar as possible to the one that is lent out. General guidelines indicate that programs with a smaller lendable base and lower allocation to international equities would find cash collateral only acceptable. However, programs with larger lendable bases and more international equities might favor having a broader set of collateral guidelines that allow non-cash including U.S. debt, non-U.S. sovereign debt (OECD), and equities.

A client's legal structure will dictate the types of allowable collateral (e.g. ERISA vs. non-ERISA). State Street has clearly stated the types of non-cash collateral that will be permitted under the new guidelines. HEK does not have concerns about State Street's proposal. Furthermore, HEK recognizes that the implications of certain regulations are forcing changes to the manner in which securities lending programs are managed. The securities lending regulatory environment remains very fluid and we believe a logical evolution for clients is to accept a broader set of collateral types in order to be able to support an appropriate level of loan activity. Certain regulations may make it more difficult or expensive to operate a securities lending program strictly with cash collateral, so the addition of non-cash collateral minimizes this possibility.

FIRST AMENDMENT TO
SECURITIES LENDING AUTHORIZATION AGREEMENT
BETWEEN
VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
AND
STATE STREET BANK AND TRUST COMPANY

This First Amendment (this "Amendment") dated as of October 7, 2013 is between Ventura County Employees' Retirement Association (the "Client") and State Street Bank and Trust Company, acting either directly or through any State Street affiliates ("State Street").

Reference is made to the Securities Lending Authorization Agreement dated May 23, 1997, as amended between the Client and State Street (the "Agreement").

WHEREAS, the Client and State Street desire to amend the Agreement to modify certain provisions in respect of State Street effecting loan transactions on behalf of the Client with State Street or its affiliates.

NOW, THEREFORE, for value received, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties mutually agree to amend the Agreement in the following respects:

1. **Definitions.** All capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Agreement.

2. **Amendments.**

(A) Section 3 (Borrowers) of the Agreement is hereby deleted in its entirety and replaced with the following:

"3. **Borrowers.**

The Client hereby authorizes State Street to effect Loans of Available Securities of the Client with any person on State Street's list of approved Borrowers, including State Street Bank and Trust Company and any affiliate thereof (each acting in the capacity of a Borrower, hereafter also referred to as an "SSB Borrower") which list will be supplied to the Client on request.

In connection with any Loan pursuant hereto, the Client shall furnish, and State Street shall cause the applicable Borrower to furnish, to State Street for delivery to the other, upon request (i) the most recent available audited statement of its financial condition, and (ii) the most recent available unaudited statement of its financial condition, if more recent than the audited statement. As long as any Loan to an SSB Borrower is outstanding under this Agreement, the Client

shall, and State Street shall cause the SSB Borrower to, in either case, upon request, also promptly deliver to the other (via State Street) all such recent financial information that is subsequently available, and any other financial information or statements that the other may reasonably request.

Other than with respect to an SSB Borrower, State Street shall not be responsible for any statements, representations, warranties or covenants made by any Borrower in connection with any Loan or for any Borrower's performance of or failure to perform the terms of any Loan under the applicable Securities Loan Agreement or any related agreement, including the failure to make any required payments, except as otherwise expressly provided herein."

(B) Section 16 (Notices) of the Agreement is hereby amended by deleting the addresses included in that section only in their entirety and replacing them with the following:

If to Client:

Ventura County Employees' Retirement Association
1190 South Victoria Ave
Suite 200
Ventura, CA 93003
Attn: Administration
Fax: (805) 339-2502

If to State Street:

State Street Bank and Trust Company
Securities Finance
State Street Financial Center
One Lincoln Street
Boston, Massachusetts 02111-2900
Attn: Legal Department, 4th Floor
Fax: (617) 946-0046
SFLegal@StateStreet.com

(C) Schedule 7.1 (Acceptable Forms of Collateral) to the Agreement is hereby deleted in its entirety and replaced with the revised Schedule 7.1 attached to this Amendment.

3. **Miscellaneous**. Except to the extent specifically amended by this Amendment, the Agreement shall remain unchanged, and in full force and effect. This Amendment may be executed in counterparts. All counterparts shall collectively constitute a single agreement. Further, this Amendment may be executed by facsimile signatures and such facsimile signatures shall be deemed to be the original signatures of the parties.

IN WITNESS WHEREOF, the parties hereto execute this Amendment by affixing their duly authorized signatures below.

VENTURA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

STATE STREET BANK AND
TRUST COMPANY

By: _____

Name: William W. Wilson

Title: Chairman of the Board

By: _____

Name:

Title:

Schedule 7.1

This Schedule is attached to and made part of the Securities Lending Authorization Agreement dated the 23rd day of May, 1997 between VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ("Client") and STATE STREET BANK AND TRUST COMPANY ("State Street").

Acceptable Forms of Collateral

- Cash (U.S. and foreign currency);
- Securities issued or guaranteed by the United States government or its agencies or instrumentalities;
- Canadian Provincial Debt
- All other Sovereign Debt
- Convertible Bonds
- U.S. and non U.S. equities(which the Client agrees shall include (i) equity securities in the form of exchange-traded funds ("ETFs") and, for the avoidance of doubt, shall include, but not be limited to, ETFs of State Street Global Advisors or other State Street affiliates and (ii) American Depositary Receipts and Global Depositary Receipts);
- Covered Bonds
- Corporate Bonds
- Preferred Securities
- Certificates of Deposit
- Money Market Instruments
- Asset-Backed Securities
- Asset-Backed Commercial Paper
- Commercial Paper
- Collateralized Mortgage Obligations
- Mortgage-Backed Securities
- Supranationals
- Irrevocable bank letters of credit issued by a person other than the Borrower or an affiliate of the Borrower may be accepted as Collateral, if State Street has determined that it is appropriate to accept such letters of credit as Collateral under the securities lending programs it administers;
- Assets permissible under Rule 15c3-3 under the Exchange Act of 1934; and
- Such other Collateral as the parties may agree to in writing from time to time.

RECEIVED
JUN 3 - 1997
VENTURA COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

SECURITIES LENDING AUTHORIZATION AGREEMENT

Between

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

and

STATE STREET BANK AND TRUST COMPANY

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EXHIBITS AND SCHEDULES

**EXHIBIT 3.1
SCHEDULE A
SCHEDULE 7.1**

SECURITIES LENDING AUTHORIZATION AGREEMENT

Agreement dated the 23rd day of May, 1997 between VENTURA COUNTY EMPLOYEES RETIREMENT ASSOCIATION, organized and existing under the laws of California (the "Client"), and STATE STREET BANK AND TRUST COMPANY, a Massachusetts trust company ("State Street"), setting forth the terms and conditions under which State Street is authorized to act on behalf of the Client with respect to the lending of certain securities of the Client held by State Street as agent, trustee or custodian.

Certain capitalized terms used in this Agreement are defined in Section 14.

The Client and State Street, as the parties hereto, hereby agree as follows:

1. **Appointment of State Street.** The Client hereby authorizes State Street as its agent to lend Available Securities to Borrowers in accordance with the terms of this Agreement. State Street shall have the responsibility and authority to do or cause to be done all acts State Street shall determine to be desirable, necessary, or appropriate to implement and administer this securities lending program. The Client agrees that State Street is acting as a fully disclosed agent and not as principal in connection with the securities lending program. State Street may take action as agent of the Client on an undisclosed or a disclosed basis. State Street is hereby authorized to request a third party bank to undertake certain custodial functions in connection with holding of the Collateral provided by a Borrower hereunder. In connection therewith, State Street may instruct said third party to establish and maintain a Borrower's account and a State Street account wherein all Collateral, including cash shall be maintained by said third party in accordance with the terms of a form of custodial arrangement which shall also be consistent with the terms hereof.

2. **Securities to be Loaned.** State Street acts or will act as agent, trustee or custodian of certain securities owned by the Client. All of the Client's securities held by State Street as trustee or custodian shall be subject to this securities lending program, except those securities which the Client or the Investment Manager specifically identifies in notices to State Street as not being Available Securities. State Street shall have no authority or responsibility for determining whether any of the Client's securities should be excluded from the lending program.

3. **Borrowers.** The Available Securities may be loaned to any Borrower identified on the Schedule of Borrowers, as such Schedule may be modified from time to time by State Street and the Client.

In the event the Client approves lending to borrowers resident in the United Kingdom ("UK"), the Client shall complete Part 1 of the document known as a "MOD-2 form," which is attached hereto as Exhibit 3.1.

In the event that securities lending activity is undertaken through its London office, State Street becomes subject to additional regulation in the UK, and State Street is obliged to notify the Client of the following matters:

i. State Street shall make available to you established procedures in accordance with the requirements of the Securities and Futures Authority for the effective consideration of complaints concerning State Street's activities carried on in the UK.

ii. Where a liability in one currency is to be matched by an asset in a different currency, or where an investment transaction relates to an investment denominated in a currency other than sterling, a movement of exchange rates may have a separate effect, favorable or unfavorable, on the gain or loss which would otherwise be experienced on the investment.

iii. State Street or an affiliate may have an interest that is material to the investment or transaction concerned and neither State Street nor any such affiliate shall be obliged to disclose such interest or account to you for any profits or benefits made or derived by it or any of its associates from any such transaction.

iv. Any assets which State Street holds in the form of money shall not be treated by State Street as the Clients' Money as defined by The Financial Services (Client Money) Regulations 1991 of the United Kingdom as amended (the "Clients' Money Regulations") and will not be held in accordance with the Clients' Money Regulations or such other regulations as shall amend or replace the Clients' Money Regulations from time to time.

4. Securities Loan Agreements. The Client authorizes State Street to enter into one or more Securities Loan Agreements with such Borrowers as may be selected by State Street. Each Securities Loan Agreement shall have such terms and conditions as State Street may negotiate with the Borrower, however certain terms of individual loans, including rebate fees to be paid to the Borrower for the use of cash Collateral, shall be negotiated at the time a loan is made.

5. Loans of Available Securities. State Street shall have authority to make Loans of Available Securities to Borrowers, and to deliver such securities to Borrowers. State Street shall be responsible for determining whether any such Loan shall be made, and for negotiating and establishing the terms of each such Loan. State Street shall have the authority to terminate any Loan in its discretion, at any time and without prior notice to the Client.

The Client acknowledges that State Street administers securities lending programs for other clients of State Street. State Street will allocate securities lending opportunities among its clients, using reasonable and equitable methods established by State Street from time to time.

State Street does not represent or warrant that any amount or percentage of the Client's Available Securities will in fact be loaned to Borrowers. The Client agrees that it shall have no claim against State Street and State Street shall have no liability arising from, based on, or relating to, loans made for other clients, or loan opportunities refused hereunder, whether or not State Street has made fewer or more loans for any other client, and whether or not any loan for another client, or the opportunity refused, could have resulted in loans made under this Agreement.

The Client also acknowledges that, under the applicable Securities Loan Agreements, Borrowers will not be required to return Loaned Securities immediately upon receipt of notice from State Street terminating the applicable Loan, but instead will be required to return such Loaned Securities within such period of time following such notice as is specified in the applicable Securities Loan Agreement. Upon receiving a notice from the Client or the Investment Manager that Available Securities which have been loaned to a Borrower should no longer be considered Available Securities (whether because of the sale of such securities or otherwise), State Street shall use its reasonable efforts to notify promptly thereafter the Borrower which has borrowed such securities that the Loan of such securities is terminated and that such securities are to be returned within the time specified by the applicable Securities Loan Agreement.

6. Distributions on and Voting Rights with Respect to Loaned Securities. The Client represents and warrants that it is the beneficial owner of all Available Securities and that it is entitled to receive all distributions made by the issuer with respect to Loaned Securities. Except as provided in the next sentence, all interest, dividends, and other distributions paid with respect to Loaned Securities shall be credited to the Client's account on the date such amounts are delivered by the Borrower to State Street. Any non-cash distribution on Loaned Securities which is in the nature of a stock split or a stock dividend shall be added to the Loan (and shall be considered to constitute Loaned Securities) as of the date such non-cash distribution is received by the Borrower; provided that the Client (or Investment Manager) may, by giving State Street ten (10) Business Days' notice prior to the date of such non-cash distribution, direct State Street to request that the Borrower deliver such non-cash distribution to State Street, pursuant to the applicable Securities Loan Agreement, in which case State Street shall credit such non-cash distribution to the Client's account on the date it is delivered to State Street.

The Client acknowledges that it will not be entitled to participate in any dividend reinvestment program or to vote with respect to securities that are on loan on the applicable record date for such securities.

The Client also acknowledges that any payments of distributions from Borrower to the Client are in substitution for the interest or dividend accrued or paid in respect of Loaned Securities and that the tax treatment of such payment may differ from the tax treatment of such interest or dividend.

If an installment, call or rights issue becomes payable on or in respect of any Loaned Securities, State Street shall use all reasonable endeavors to ensure that any timely instructions from the Client are complied with, but State Street shall not be required to make any payment unless the Client has first placed it in funds to make such payment.

7. Collateral. The Client authorizes State Street to receive and to hold, on the Client's behalf, Collateral from Borrowers to secure the obligations of Borrowers with respect to any loan of securities made on behalf of the Client pursuant to the Securities Loan Agreements. All investments of cash Collateral shall be for the account and at the risk of the Client. Concurrently with the delivery of the Loaned Securities to the Borrower under any Loan, State Street shall receive from the Borrower Collateral in any of the forms listed on Schedule 7.1. Said Schedule may be amended from time to time by State Street upon written notice to the Client. With respect to foreign cash Collateral, State Street will provide the Client with a multicurrency investment vehicle through which the foreign cash will be converted to U.S. dollars and invested pursuant to Section 8 hereof (MCIV"). The Client acknowledges that State Street, in providing MCIV, may receive additional compensation by managing its interest rate exposure. State Street shall provide advance written notice to Client of any changes in the investment guidelines of the fund used for the investment of cash Collateral.

Collateral shall have a Market Value of not less than one hundred percent (100%) of the Market Value of the loaned securities. Thereafter, State Street shall take such action as is appropriate with respect to the Collateral under the applicable Securities Loan Agreement.

The Collateral shall be returned to Borrower at the termination of the Loan upon the return of the Loaned Securities by Borrower to State Street in accordance with the applicable Securities Loan Agreement. State Street shall invest cash Collateral in accordance with any directions, including any limitations established by the Client in writing identified by this Agreement and acknowledged in writing by State Street and shall exercise reasonable care, skill, diligence and prudence in the investment of Collateral. Subject to the foregoing limits and standard of care, State Street does not assume any market or investment risk of loss with respect to the investment of cash Collateral and if, at any time during the term of any Loan, the value of the cash Collateral so invested is insufficient to return the rebate fee (i.e., the return to the Borrower), the full amount of the Collateral, U.S. dollar or otherwise or any and all other amounts due to such Borrower pursuant to the Securities Loan Agreement, the Client and State Street shall be responsible for such shortfall in accordance with the fee schedule attached hereto as Schedule A. In addition, State Street shall be entitled to charge the Client's accounts for such shortfall in accordance with Section 8.

8. Compensation for the Client and State Street. To the extent that a Loan is secured by cash Collateral, such cash Collateral, including money received with respect to the investment of the same, or upon the maturity, sale, or liquidation of any such investments, shall be invested by State Street, subject to the directions referred to above, if any, in short-term instruments, short term investment funds maintained by State Street, money market mutual funds and such other

investments as State Street may from time to time select, including without limitation investments in obligations or other securities of State Street or of any State Street affiliate and investments in any short-term investment fund, mutual fund, securities lending trust or other collective investment fund with respect to which State Street and/or its affiliates provide investment management or advisory, trust, custody, transfer agency, shareholder servicing and/or other services for which they are compensated.

The Client acknowledges that interests in such mutual funds, securities lending trusts and other collective investment funds, to which State Street and/or one or more of its affiliates provide services are not guaranteed or insured by State Street or any of its affiliates or by the Federal Deposit Insurance Corporation or any government agency. The Client hereby authorizes State Street to purchase or sell investments of cash Collateral to or from other accounts held by State Street or its affiliates.

The net income generated by any investment made pursuant to the preceding paragraph of this Section 8 shall be allocated among the Borrower, State Street, and the Client, as follows: (a) a portion of such income shall be paid to the Borrower in accordance with the agreement negotiated between the Borrower and State Street; (b) the balance, if any, shall be split between State Street [as compensation for its services in connection with this securities lending program] and the Client [as such income shall be credited to the Client's account], in accordance with the fee schedule attached hereto as Schedule A.

In the event the net income generated by any investment made pursuant to the first paragraph of this Section 8 does not equal or exceed the amount due the Borrower in accordance with the agreement between Borrower and State Street, State Street shall debit the Client's account by an amount equal to seventy percent (70%) of the difference between the net income generated and the amounts to be paid to the Borrower pursuant to the Securities Loan Agreement. In the event debits to the Client's account produce a deficit therein, State Street shall sell or otherwise liquidate investments made with cash Collateral and credit the net proceeds of such sale or liquidation to satisfy the deficit. In the event the foregoing does not eliminate the deficit, State Street shall notify Client and bill Client the balance owing.

In the event of a Loan to a Borrower resident in Canada, which is made over record date for a dividend reinvestment program ("DRP") and is secured by cash Collateral, the Borrower shall pay the Client a substitute payment equal to the full amount of the cash dividend declared, and may pay a loan premium, the amount of which shall be negotiated by State Street, above the amount of the cash dividend. Such loan premium shall be allocated between State Street and the Client as follows: (a) a portion of such loan premium shall be paid to State Street as compensation for its services in connection with this securities lending program, in accordance with Schedule A and (b) the remainder of such loan premium shall be credited to the Client's account.

To the extent that a Loan is secured by non-cash Collateral, the Borrower shall be required to pay a loan premium, the amount of which shall be negotiated by State Street. Such loan premium shall be allocated between State Street and the Client as follows: (a) a portion of such loan premium shall be paid to State Street as compensation for its services in connection with this securities lending program, in accordance with Schedule A hereto; and (b) the remainder of such loan premium shall be credited to the Client's account.

The Client acknowledges that in the event that the Client's participation in securities lending generates income for the Client, State Street may be required to withhold tax or may claim such tax from the Client as is appropriate in accordance with applicable law.

The Client shall reimburse State Street for such reasonable fees and expenses that State Street may incur in connection with the performance of its obligations hereunder, including, without limitation: (i) the ordinary telecommunication charges associated with the movement of securities in connection with the securities lending activity contemplated by this Agreement; and (ii) any and all funds advanced by State Street on behalf of the Client as a consequence of the Client's obligations hereunder, including the Client's obligation to return cash Collateral to the Borrower and to pay any fees due the Borrower, all as provided in Section 7 hereof.

9. Fee Disclosure. The fees associated with the investment of cash collateral in funds maintained or advised by State Street are disclosed on Schedule A hereto. Said Schedule may be replaced from time to time by State Street only upon prior written approval of the Client. An annual report with respect to such funds is available to the Client, at no expense, upon request.

10. Recordkeeping and Reports. State Street will establish and maintain such records as are reasonably necessary to account for Loans that are made and the income derived therefrom. On a monthly basis, State Street will provide the Client with a statement describing the Loans made, and the income derived from Loans, during the period covered by such statement. Each party to this Agreement shall comply with the reasonable requests of the other for information necessary to the requester's performance of its duties in connection with this securities lending program.

11. Standard of Care Subject to the requirements of applicable law, State Street shall not be liable for any loss or damage, including counsel fees and court costs, whether or not resulting from its acts or omissions hereunder or otherwise, unless the loss damage arises out of State Street's own gross negligence. Except for any liability, loss, or expense arising from or connected with State Street's own gross negligence, the Client agrees to reimburse and hold State Street harmless from and against any liability, loss and expense, including counsel fees and expenses and court costs, arising in connection with this Agreement or any Loan or arising from or connected with claims of any third parties, including any Borrower, from and against all taxes and other governmental charges, and from and against any out-of-pocket or incidental expenses. State Street may charge any amounts to which it is entitled hereunder against the Client's account. Without limiting the generality of the foregoing, the Client agrees: (i) that State Street

shall not be responsible for any statements, representations or warranties which any Borrower makes in connection with any Loans hereunder, or for the performance by any Borrower of the terms of any Loan, or any agreement related thereto, and shall not be required to ascertain or inquire as to the performance or observance of, or a default under the terms of, a Loan or any agreement related thereto; (ii) that State Street shall be fully protected in acting in accordance with the oral or written instructions of any person believed by State Street to be authorized to execute this Agreement on behalf of the Client (an "Authorized Person"); (iii) that in the event of a default by a Borrower with respect to a Loan, State Street shall be fully protected in acting in its sole discretion in a manner it deems appropriate; and (iv) that the records of State Street shall be presumed to reflect accurately any oral instructions given by an Authorized Person or a person believed by State Street to be an Authorized Person.

State Street, in determining the Market Value of Securities, including without limitation, Collateral, may rely upon any recognized pricing service and shall not be liable for any errors made by such service.

12. Representations and Warranties. Each party hereto represents and warrants that (a) it has the power to execute and deliver this Agreement, to enter into the transactions contemplated hereby, and to perform its obligations hereunder; (b) it has taken all necessary action to authorize such execution, delivery, and performance; (c) this Agreement constitutes a legal, valid, and binding obligation enforceable against it; and (d) the execution, delivery, and performance by it of this Agreement will at all times comply with all applicable laws and regulations. The Client represents and warrants that (a) it has made its own determination as to the tax treatment of any dividends, remuneration or other funds received hereunder; and (b) the financial statements delivered to State Street pursuant to Section 3 fairly present its financial condition and there has been no material adverse change in its financial condition or the financial condition of any parent company since the date of the balance sheet included within such financial statements. Each Loan shall constitute a present representation by the Client that there has been no material adverse change in its financial condition or the financial condition of any parent company that has not been disclosed in writing to State Street since the date of the most recent financial statements furnished to State Street pursuant to Section 3.

The person executing this Agreement on behalf of the Client represents that he or she has the authority to execute this Agreement on behalf of the Client.

The Client hereby represents to State Street that it is not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") with respect to this Agreement and each Loan and it qualifies as an "accredited investor" within the meaning of Rule 501 of Regulation D under the Securities Act of 1933, as amended.

13. Indemnification.

(a) If at the time of a default by a Borrower with respect to a Loan (within the meaning of the applicable Securities Loan Agreement) some or all of the Loaned Securities under such Loan have not been returned by the Borrower, and subject to the terms of this Agreement, State Street shall indemnify the Client against the failure of the Borrower as follows.

State Street shall purchase a number of Replacement Securities equal to the number of such unreturned Loaned Securities, to the extent that such Replacement Securities are available on the open market. Such Replacement Securities shall be purchased by applying the proceeds of the Collateral with respect to such Loan to the purchase of such Replacement Securities. Subject to the Client's obligations pursuant to Section 7 hereof, if and to the extent that such proceeds are insufficient or the Collateral is unavailable, the purchase of such Replacement Securities shall be made at State Street's expense.

(b) If State Street is unable to purchase Replacement Securities pursuant to Section 6(a) hereof, State Street shall credit to the Client's account an amount equal to the Market Value of the unreturned Loaned Securities for which replacement securities are not so purchased, determined as of (i) the last day the Collateral continues to be successfully marked to market against the unreturned Loaned Securities; or (ii) the next Business Day following the day referred to in (i) above, if higher.

(c) In addition to making the purchases or credits required by Paragraphs (a) and (b) hereof, State Street shall credit to the Client's account the value of all distributions on the Loaned Securities (not otherwise credited to the Client's accounts with State Street), the record dates for which occur before the date that State Street purchases Replacement Securities pursuant to Paragraph (a) or credits the Client's account pursuant to Paragraph (b).

(d) Any credits required under Paragraphs (b) and (c) hereof shall be made by application of the proceeds of the Collateral (if any) that remains after the purchase of Replacement Securities pursuant to Paragraph (a). If and to the extent that the Collateral is unavailable or the value of the proceeds of the remaining Collateral is less than the value of the sum of the credits required to be made under Paragraphs (b) and (c), such credits shall be made at State Street's expense.

(e) If after application of Paragraphs (a) through (d) hereof, additional Collateral remains or any previously unavailable Collateral becomes available or any additional amounts owed by the Borrower with respect to such Loan are received from the Borrower, State Street shall apply the proceeds of such Collateral or such additional amounts first to reimburse itself for any amounts expended by State Street pursuant to Paragraphs (a) through (d) above, and then to credit to the Client's account all other amounts owed by the Borrower to the Client with respect to such Loan under the applicable Securities Loan Agreement.

(f) In the event that State Street is required to make any payment and/or incur any loss or expense under this Section, State Street shall, to the extent of such payment, loss, or expense, be subrogated to, and succeed to, all of the rights of the Client against the Borrower under the applicable Securities Loan Agreement.

(g) The provisions of this Section shall not apply to losses attributable to war, riot, revolution, acts of government or other causes beyond the reasonable control or apprehension of State Street.

14. Definitions. For the purposes hereof:

(a) "Available Securities" means the securities of the Client that are available for Loans pursuant to Section 2.

(b) "Borrower" means any of the entities to which Available Securities may be loaned under a Securities Loan Agreement, as described in Section 3 and may include United States registered brokers or dealers, banks and foreign borrowers, if permitted by applicable law.

(c) "Collateral" means collateral delivered by a Borrower to secure its obligations under a Securities Loan Agreement.

(d) "Investment Manager," when used in any provision, means the person or entity who has discretionary authority over the investment of the Available Securities to which the provision applies.

(e) "Loan" means a loan of Available Securities to a Borrower.

(f) "Loaned Security" shall mean any "security" which is delivered as a Loan under a Securities Loan Agreement; provided that, if any new or different security shall be exchanged for any Loaned Security by recapitalization, merger, consolidation, or other corporate action, such new or different security shall, effective upon such exchange, be deemed to become a Loaned Security in substitution for the former Loaned Security for which such exchange was made.

(g) "Market Value" of a security means the market value of such security (including, in the case of a Loaned Security that is a debt security, the accrued interest on such security) as determined by the independent pricing service designated by State Street, or such other independent sources as may be selected by State Street on a reasonable basis.

(h) "Securities Loan Agreement" means the agreement between a Borrower and State Street (on behalf of the Client) that governs Loans, as described in Section 4.

(i) "Replacement Securities" means securities of the same issuer, class and denomination as Loaned Securities.

15. **Continuing Agreement; Termination; Remedies.** It is the intention of the parties hereto that this Agreement shall constitute a continuing agreement in every respect and shall apply to each and every Loan, whether now existing or hereafter made. The Client and State Street may each at any time terminate this Agreement upon five (5) Business Days' written notice to the other to that effect. The only effects of any such termination of this Agreement will be that (a) following such termination, no further Loans shall be made hereunder by State Street on behalf of the Client, and (b) State Street shall, within a reasonable time after termination of this Agreement, terminate any and all outstanding Loans. The provisions hereof shall continue in full force and effect in all other respects until all Loans have been terminated and all obligations satisfied as herein provided.

16. **Notices.** Except as otherwise specifically provided herein, notices under this Agreement may be made orally, in writing, or by any other means mutually acceptable to the parties. If in writing, a notice shall be sufficient if delivered to the party entitled to receive such notices at the following addresses:

If to Client:

Ventura County Employees' Retirement Association
County Government Center
Hall of Administration
Treasurer's Office
800 South Victoria Avenue
Ventura, CA 93009-0005

If to State Street:

State Street Bank and Trust Company
Global Securities Lending Division
Two International Place, Floor 31
Boston, Massachusetts 02110

or to such other addresses as either party may furnish the other party by written notice under this section.

Whenever this Agreement permits or requires the Client to give notice to, direct, provide information to State Street, such notice, direction, or information shall be provided to State Street on the Client's behalf by any individual designated for such purpose by the Client in a written notice to State Street. (This Agreement shall be considered such a designation of the person executing the Agreement on the Client's behalf.) After its receipt of such a notice of designation,

and until its receipt of a notice revoking such designation, State Street shall be fully protected in relying upon the notices, directions, and information given by such designee.

17. Securities Investors Protection Act of 1970 Notice. CLIENT IS HEREBY ADVISED AND ACKNOWLEDGES THAT THE PROVISIONS OF THE SECURITIES INVESTOR PROTECTION ACT OF 1970 MAY NOT PROTECT THE CLIENT WITH RESPECT TO THE LOAN OF SECURITIES HEREUNDER AND THAT, THEREFORE, THE COLLATERAL DELIVERED TO THE CLIENT MAY CONSTITUTE THE ONLY SOURCE OF SATISFACTION OF THE BROKER'S OR DEALER'S OBLIGATION IN THE EVENT THE BROKER OR DEALER FAILS TO RETURN THE SECURITIES.

18. Miscellaneous. This Agreement supersedes any other agreement between the parties or any representations made by one party to the other, whether oral or in writing, concerning loans of securities by State Street on behalf of the Client. This Agreement shall not be assigned by either party without the prior written consent of the other party. Subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, representatives, successors, and assigns. This Agreement shall be governed and construed in accordance with the laws of the State of California. State Street agrees to submit to the jurisdiction of any California federal court sitting in the State of California in any action or proceeding arising out of or relating to this Agreement. The provisions of this Agreement are severable and the invalidity or unenforceability of any provision hereof shall not affect any other provision of this Agreement. If in the construction of this Agreement any court should deem any provision to be invalid because of scope or duration, then such court shall forthwith reduce such scope or duration to that which is appropriate and enforce this Agreement in its modified scope or duration.

[Remainder of page intentionally left blank.]

19. **Modification.** This Agreement shall not be modified, except by an instrument in writing signed by the party against whom enforcement is sought.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

By: Vernon C. Markley

Name: Vernon C. Markley
Chairman,

Title: Board of Retirement

STATE STREET BANK AND TRUST COMPANY

By: Donald Hodgman

Name: Donald Hodgman

Title: Senior Vice President

w\CLIENT\ventura1.doc (SEC2SB.DOC)



Ref No.....

(for insertion by Inland Revenue when photocopy)

APPLICATION FOR RELIEF FROM UK INCOME TAX ON MANUFACTURED OVERSEAS DIVIDENDS (Double Taxation Relief (Taxes on Income) (General) (Manufactured Overseas Dividends) Regulations S I 1993 No 1957)

Part 1 Claimant's Declaration

I declare, to the best of my knowledge and belief, that
Ventura County

..... Employees' Retirement Association

(insert name of claimant)

Claimant's address..... 800 South Victoria Avenue

Ventura, CA 93009

.....
U.S.A.
.....

is beneficially entitled to the manufactured overseas dividends receivable from approved UK intermediaries or approved UK collecting agents as defined in SI 1993 Number 2004 and claim exemption under the Other Income article of the/UK Tax Convention in respect of the manufactured overseas dividends

Vernon C. Mahley
.....
(claimant's signature)

Part 2 Certificate of Tax Authority

I certify

(a) that..... is resident inwith
(insert name of claimant)

(the meaning of the/United Kingdom Tax Convention and

(b) * is subject to tax on the manufactured dividends or interest to which it is entitled.

* delete if not required by Other Income article of convention

.....
(signature)

.....
(date)

Stamp of overseas
revenue authority

Overseas revenue
reference No.



Copy of Inland Revenue original

Issued on.....

Signature.....

Schedule A

This Schedule is attached to and made part of the Securities Lending Authorization Agreement, dated the 23rd day of May, 1997 between VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ("Client") and STATE STREET BANK AND TRUST COMPANY ("State Street").

Schedule of Fees

1. Subject to Paragraph 2 below, all proceeds collected by State Street on investment of Cash Collateral or any fee income shall be allocated as follows

- Seventy percent (70%) payable to the Client, and
- Thirty percent (30%) payable to State Street.

2. All payments to be allocated under Paragraph 1 above shall be made after deduction of such other amounts payable to State Street or to the Borrower under the terms of the attached Securities Lending Authorization Agreement.

3. Management Fees:

Pooled Short-Term Investment Trusts

On an annualized basis, the base management fee for investing cash collateral in any of the Pooled Trusts [also know as the Quality Funds] is 1.75 basis points netted out of yield. In addition, State Street may pay out of the assets of the applicable Trust all reasonable expenses and fees of applicable Trust, including professional fees or disbursements incurred in connection with the operation of the applicable Trust.

Schedule 7.1

This Schedule is attached to and made part of the Securities Lending Authorization Agreement, dated the 23rd day of May, 1997 between VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION ("Client") and STATE STREET BANK AND TRUST COMPANY ("State Street").

Acceptable Forms of Collateral

- Cash (U.S. and foreign currency);
- Irrevocable bank letters of credit issued by a person other than the Borrower or an affiliate of the Borrower may be accepted as Collateral, if State Street has determined that it is appropriate to accept such letters of credit as Collateral under the securities lending programs it administers; and
- Such other Collateral as the parties may agree to in writing from time to time.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: REQUEST TO THE VENTURA COUNTY BOARD OF SUPERVISORS
TO ADOPT A SPOUSAL NOTIFICATION RESOLUTION PER
GOVERNMENT CODE SECTION 31760.3**

Dear Board Members:

Background

Currently, spousal consent is not a requirement for changes made by members to retirement benefits or beneficiary designations. While spouses have community property rights to retirement benefits, there is nothing in place to prohibit a member from refunding employee contributions, or removing a spouse as a beneficiary without notification to a member's spouse.

Discussion

The purpose of Government Code Section 31760.3 (attached) is to ensure that any changes a member makes to his or her selection of benefits or beneficiary designation for retirement benefits is made after notice to the member's spouse. This is to ensure protection of the spouse's interest in the retirement benefits. Spousal consent would be required whenever a member requests (1) a refund of employee contributions after early separation from service; (2) a waiver of the normal benefit continuance upon retirement; or (3) the removal of the spouse as beneficiary at any time.

There are certain exceptions to the spousal consent requirement such as situations when the spouse cannot be found, where the spouse is physically or mentally incapacitated, and where there is not community property interest in the retirement benefit, etc. In these cases, the member must declare, under penalty of perjury, that the spousal notification is not needed or is not possible. Such a declaration protects both the County and the Retirement Association when legal disputes arise between the member and his/her spouse.

Furthermore, adopting a resolution making Government Code Section 31760.3 applicable and operative in Ventura County would be consistent with a number of Federal Statutes which require notification and consent from a spouse for distributions from qualified retirement plans like VCERA.

REQUEST TO THE VENTURA COUNTY BOARD OF SUPERVISORS TO ADOPT A SPOUSAL NOTIFICATION RESOLUTION PER GOVERNMENT CODE SECTION 31760.3

September 16, 2013

Page 2 of 2

Government Code Section 31760.3 is not operative in Ventura County until the Board of Supervisors adopts a resolution by majority vote making the section applicable in this county.

Recommendation

Staff recommends that the Board of Retirement request the adoption of the proposed resolution, attached, to enact this code section by the Ventura County Board of Supervisors.

We would be happy to answer any questions you may have.

Sincerely,



Julie Stallings
Operations Manager



Donald C. Kendig, CPA
Retirement Administrator

Attachment

STATUTE UNDER CONSIDERATION

31760.3 Notice to spouse of member's selection of benefits or change of beneficiary; spouse's applications for refund, etc.; exceptions; adoption by county

The sole purpose of this section is to notify the current spouse of the selection of benefits or change of beneficiary made by a member. Nothing in this section is intended to conflict with community property law. An application for a refund of member's accumulated contributions, an election of optional settlement, or a change in beneficiary designation shall contain the signature of the current spouse of the member, unless the member declares, in writing under penalty of perjury, any of the following:

- (a) The member is not married.
- (b) The current spouse has no identifiable community property interest in the benefit.
- (c) The member does not know, and has taken all reasonable steps to determine, the whereabouts of the current spouse.
- (d) The current spouse has been advised of the application and has refused to sign the written acknowledgment.
- (e) The current spouse is incapable of executing the acknowledgment because of incapacitating mental or physical condition.
- (f) The member and the current spouse have executed a marriage settlement agreement pursuant to Part 5 (commencing with Section 1500) of Division 4 of the family Code which makes the community property law inapplicable to the marriage.

This section shall not be operative in any county until such time as the board of supervisors shall, by resolution adopted by majority vote, make this section applicable in the county.

(Amended by Stats. 1992, Ch. 163, Sec. 87, Effective January 1, 1993. Operative January 1, 1994, by Sec. 161 of Ch. 163)

RESOLUTION NO. _____

RESOLUTION OF THE BOARD OF SUPERVISORS OF THE COUNTY OF VENTURA TO ADOPT THE PROVISIONS OF GOVERNMENT CODE SECTION 31760.3 TITLED IN PART "NOTICE TO SPOUSE OF MEMBER'S SELECTION OF BENEFITS OR CHANGE OF BENEFICIARY" APPLICABLE AND OPERATIVE IN VENTURA COUNTY

WHEREAS, Government Code Section 31760.3 provides that a spouse's signature be required for the selection of retirement benefits or change of beneficiary made by a member; and

WHEREAS, an application for a refund of member's accumulated contributions, an election of optional settlement, or change in beneficiary designation shall contain the signature of the current spouse of the member, unless the member declares, in writing under penalty of perjury, any of the following:

- (a) The member is not married
- (b) The current spouse has no identifiable community property interest in the benefit.
- (c) The member does not know, and has taken all reasonable steps to determine, the whereabouts of the current spouse.
- (d) The current spouse has been advised of the application and has refused to sign the written acknowledgment.
- (e) The current spouse is incapable of executing the acknowledgment because of incapacitating mental or physical condition.
- (f) The member and current spouse have executed a marriage settlement agreement pursuant to Part 5 (commencing with Section 1500) of Division 4 of the family Code which makes the community property law inapplicable to the marriage; and

WHEREAS, this section shall not be operative in any county until such time as the board of supervisors shall, by resolution adopted by majority vote, make this section applicable in the county.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED AS FOLLOWS:

The Board of Supervisors hereby adopts this resolution making the provisions of Government Code section 31760.3 applicable in the County of Ventura.

Upon motion of Supervisor _____, seconded by Supervisor _____, and duly carried, the Board hereby adopts the following resolution on this ____ day of _____, 2013.

Chair, Board of Supervisors
County of Ventura

ATTEST:

MICHAEL POWERS,
Clerk of the Board of Supervisors
County of Ventura
State of California

By: _____
Deputy Clerk of the Board

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: REVIEW AND ADOPTION OF COMPENSATION REVIEW POLICY PER
GOVERNMENT CODE SECTION 31542**

Dear Board Members:

Pursuant to the newly enacted Government Code Section 31542, effective January 1, 2013, the VCERA Board of Retirement is required to establish a procedure for assessing and determining whether an element of compensation was paid to enhance a VCERA member's benefit.

Staff reviewed a variety of policies adopted by other county employee retirement systems and has modeled the proposed Compensation Review Policy (attached) after the more streamlined and simple versions. The proposed policy contains the legal authority and requirement to review member compensation reported by the plan sponsors. The proposed policy provides for initial review and determination made at the staff level. If staff determines that any reported compensation does not comply with the governing statutes, staff will set the matter for hearing before the Board and present a report and recommendation. At the hearing, the plan sponsor and member will have an opportunity to be heard. The member will have 30 days after mailing of notice to file a petition for writ of mandate with the Superior Court.

Given that this is uncharted territory, staff cannot venture to guess how many adjustments to compensation VCERA staff will recommend; or from the adjustments recommended, how many will be approved; or from the adjustments approved, how many will be challenged through judicial review. Should a trend materialize warranting an adjustment to this new policy, staff will bring back revisions prior to the next review period. Please adopt the proposed policy as presented or as modified for your edits.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

Attachment

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

COMPENSATION REVIEW POLICY

I. Purpose and Objectives

- 1) The Ventura County Employees' Retirement Association ("VCERA") Board of Retirement ("Board") is required to establish a procedure for assessing and determining whether an element of compensation was paid to enhance a VCERA member's benefit per Government Code Section 31542, effective January 1, 2013. In keeping with this requirement, the Board has set forth this policy and the following guidelines and procedures.

II. Legal Authority:

- 2) Government Code Section 31542 provides:
 - a) The Board shall establish a procedure for assessing and determining whether an element of compensation was paid to enhance a member's retirement benefit. If the Board determines that compensation was paid to enhance a member's benefit, the member or the employer may present evidence that the compensation was not paid for that purpose. Upon receipt of sufficient evidence to the contrary, a Board may reverse its determination that compensation was paid to enhance a member's retirement benefits.
 - b) Upon a final determination by the Board that compensation was paid to enhance a member's retirement benefit, the Board shall provide notice of that determination to the member and employer. The member or employer may obtain judicial review of the Board's action by filing a petition for writ of mandate within 30 days of the mailing of that notice.
 - c) Compensation that a member was entitled to receive pursuant to a collective bargaining agreement that was subsequently deferred or otherwise modified as a result of a negotiated amendment of that agreement shall be considered compensation earnable and shall not be deemed to have been paid to enhance a member's retirement benefit.

III. Guidelines and Procedures

- 3) The following guidelines and procedures shall be effective as to the assessment and determination of whether an element of compensation was paid to enhance a member's retirement benefit.

Staff Review and Assessment

- 4) With respect to all retirement applications with an effective date of retirement on or after January 1, 2013, the Board directs VCERA staff to review all compensation included within the calculation of the member's final compensation within the

meaning of California Government Code Sections 7522.32, 7522.34, 31461, 31462, 31462.1, 31462.11, and 31462.2, as applicable, for the purpose of making an initial assessment as to whether any item of compensation included in final compensation was paid to enhance a member's retirement benefit. In conducting such review and making such initial assessment, staff shall consider:

- a) Whether the item of compensation was earned within the period during which final compensation is to be calculated;
 - b) Whether the compensation exceeds a members' base pay, and if so, whether the earnings codes reported are retirement compensable;
 - c) Any other factors that cause staff to believe that an item of compensation included in final compensation was paid to enhance a member's retirement benefit; and
 - d) Information and explanation provided by the member and the employer in response to VCERA's request as to the facts and circumstances concerning an item of compensation that staff believes may have been paid to enhance the member's retirement benefit.
- 5) A member and the employer shall be given no less than 15 days to respond to such a written request. Staff may conduct such written and oral follow-up communication as staff believes is appropriate in the exercise of reasonable diligence.

Preparation of Written Administrative Recommendation and Board Action

- 6) If after conducting the initial assessment described above, VCERA staff believes that an item, or items, of compensation was, or were, paid to enhance a member's retirement benefit, staff shall prepare a written report to the Board of Retirement making an administrative recommendation to the Board that the item, or items, not be included in the calculation of the member's retirement benefit. The report shall contain a description of the reasons for staff's recommendation, including the specific facts and circumstances supporting staff's recommendation.
 - a) The report shall be noticed and agendized for a regular meeting of the Board, at which time the Board will act upon staff's administrative recommendation.
 - i) Before the Board acts, VCERA staff, the member, and the employer shall be given an opportunity to be heard by the Board.
 - b) Written notice of the Board meeting and a copy of staff's report shall be provided to the member and the employer no later than 10 days before the recommendation is presented to the Board for action.
 - c) At the meeting, the Board will make a decision as to whether the item of compensation was paid to enhance the member's retirement benefit.

- d) VCERA will provide the member and the employer written notice of the Board's decision within 5 business days, which will inform the member and the employer of their right to seek judicial review of the Board's action by filing a petition for writ of mandate within 30 days after the mailing of that notice.
- e) If the Board finds the item of compensation should be included, staff will adjust the member's benefit to include said item, retroactive to the effective date of retirement.
- f) If the payment of the member's benefit would be delayed by seeking resolution through the administrative processes set forth herein, VCERA may process the benefit excluding the compensation in question. If it is later determined the compensation should be included, VCERA will adjust the benefit retroactive to the effective retirement date.

IV. Process Review

- 7) The Board will review the Compensation Review Policy at least once every three (3) years to ensure that it remains relevant and appropriate.

V. Process History

- 8) The Board first reviewed and approved this policy on October 7, 2013.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 S Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: APPOINTMENT OF AD HOC EFFECTIVENESS COMMITTEE FOR ORGANIZATIONAL EFFECTIVENESS PROJECT

Dear Board Members:

Recommendation

Authorize the Chair of the Board to appoint an Ad Hoc Effectiveness Committee (AHEC) to work with Consultant on VCERA's fixed term Organizational Effectiveness Project.

Discussion

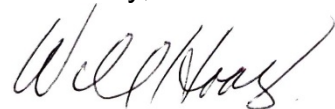
At the September 16, 2013 Business Meeting, your Board authorized the Personnel Committee to engage an organizational effectiveness coach. A firm ("Consultant") has been selected for this purpose.

Under the Board's policies, the Personnel Committee is charged with the sole duty of conducting the initial six month, and subsequent annual evaluations, of the Retirement Administrator. As such, it has a continuing jurisdiction over a single repetitive task, and has been regarded as a standing committee.

While we have stepped outside our normal duties with the Board's authorization to identify a firm, the Committee recommends that the Board establish an Ad Hoc Management Committee with no more than four members to oversee this project, which is a one-time task for a limited period of time. If desired by the Chair of the Board, the members of the Personnel Committee may be appointed to the Ad Hoc Management Committee.

If you have any questions, on this matter, please feel free to contact me at (805) 340-1331.

Sincerely,



Will Hoag
Chair, Personnel Committee

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October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: REVIEW AND APPROVAL OF INVESTMENT INDUSTRY SERVICE PROVIDER ADVISORY LETTER

Dear Board Members:

Staff proposes the attached open letter of guidance to investment industry service providers be posted on VCERA's website. Orange County Employees' Retirement System (OCERS) provides a similar web advisory.

On some weeks, staff redirects a dozen or more inquiries to VCERA's investment consultant, sometimes getting six or more on a given day, and it is hoped that the one-time posting of the attached would significantly reduce the number of phone and electronic inquiries.

Staff's investment in the attached letter was minimal and posting it will not entail a quantifiable cost, if any, and it is hoped that it will save a substantial amount of time and effort going forward. The letter intends to provide prospective service providers with the information they need in order to be more effective in the meeting of the needs of VCERA by properly directing their inquiries.

The Main and Investment Reports web pages would have the following link information:

Guidance to Investment Industry Service Providers

VCERA does not employ investment management personnel for you to contact. Please read the linked [guidance for investment industry vendors](#) seeking to market their products and services to VCERA.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

Attachment

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
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(805) 339-4250 • Fax: (805) 339-4269
<http://www.ventura.org/vcera>

To: Investment Industry Marketers and Service Providers

SUBJECT: Open Letter to Investment Industry Marketers and Service Providers

Dear Sir or Madam:

Ventura County Employees' Retirement Association (VCERA) does not employ investment management personnel and many firms in the investment industry would like to know how to market their products and services to VCERA.

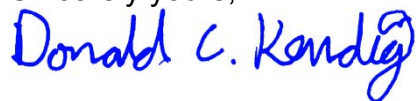
The purpose of this guidance is to help marketing representatives understand the roles of our consultant and staff, and how to obtain information about our portfolio construction process, our selection process, and how to better understand our portfolio.

VCERA's administrative staff routinely receives requests for meetings from well-meaning marketing representatives, but staff has been advised not to take meetings. Instead, the Board asks that you direct your inquiries to our general investment consultant, Don Stracke, of NEPC, who can be reached at (650) 364-7000. NEPC has been retained to provide VCERA with all of its investment advice and guidance, and Don can provide you with updates on portfolio allocations, manager searches, if any, and anticipated asset allocation shifts for VCERA.

VCERA actively monitors incumbent managers, with the assistance of NEPC, and information on any terminations or new searches would be found in the agenda materials and minutes on our [website](#) and through the trade press if performance problems arise. Found under the [Board Governance](#) page of our website, you should also be aware of our Investment Policy Manual and Placement Agent policy (and the laws associated with the policy) as you would be required to complete it at the time prospective investment discussions begin.

I wish you the best in your endeavors and encourage you to focus on the consultant channel where manager information is updated regularly, and candidate firms are monitored and evaluated analytically and systematically. If we are in need of investment services to match our investment objectives, Don Stracke will be more than happy to work with you.

Sincerely yours,



Donald C. Kendig, CPA
Retirement Administrator

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October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

Dear Board Members:

Please receive and file the following training report.

Day 1 – Sunday, July 28, 2013

The Sunday training took place in the Claremont Resort and Spa hotel where all of the out-of-town trainees were staying (Berkeley, CA). In attendance from VCERA were Trustees Tom Johnston and Deanna McCormick.

Thomas Gilbert, a finance PhD graduate from Berkeley's Hass School of Business in 2008, taught the first day of classes. He went into great detail with pension fund basics; return, risk and diversification risk simulation; and, assets, liabilities, and total investment portfolio (liability hedging and investment simulation).

Mr. Gilbert discussed how diversification should include liability hedging as well as beating a benchmark ROR (rate of return). It was pointed out that, a lot of times, expenses are not added into the equation when considering the outflow of money from the fund. He also felt it was important to tone it down; take less risk, which means less returns and requires getting more contributions from the Employees and Employers.

What type of risk leads to returns? Risk and the CAPM (Capital Asset Pricing Model). The CAPM is a model that describes the relationship between risk and expected return and is used in the pricing of risky securities. The basis for this theory is that investors need to be compensated in two ways: time value of risk and money. This is calculated when taking a risk measure (beta) comparing the returns of the asset to the market over a period of time and to the market premium. Investment managers can plot the CAPM for all different risks (beta) to show if the expected return meets or beats the required return. If it does not plot out well, the risk should not be taken. It is important to note that there is no investment or investment system that has zero risk.

REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

October 7, 2013

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Systematic Risk can be something wrong or the risk taken at a steady level all the way through an entire collapse of an industry or economy. It can also mean an inherent risk in the market that cannot be diversified. This is one way managers cover themselves when they don't produce the points promised.

Beta is the measurement of systematic risk or the measure of the volatility of the investment. A Beta of less than one (-1) will be less volatile in the market. If the Beta is greater than one ($+1$), it will be more volatile thus offering a higher return but at a higher risk. Beta equals a correlation with the market, which means (equals) the systematic risk minus exposure to the market. Expected returns are the correlation to the Beta, times the market return. Equity Risk Premium is the difference between exposure to the market plus the return from the market minus the risk free rate. Beta is exposure to risk and market return is the reward to that risk.

Day 2 – Monday, July 29, 2013

Class was held at Berkeley University at the Haas School of Business. Mr. Gilbert continued teaching all day along with Bill Hallmark, who is the consulting actuary for Cheiron, and Dan Schur who is the director of the Jesse M. Unruh Institute of Politics at USC. The subjects covered on Monday were a review of pension fundamentals such as forecasting liabilities: actuarial science, California's political landscape, active vs. passive management, and case discussions-i.e. Dimensional Fund Advisors (DFA).

According to DFA (Dimensional Fund Advisors), the goal is to invest the future value today. If there is a lot of risk in the portfolio, then there is an assumed lower present value. In addition, adding another manager does not increase diversification unless their Beta is below one. Hedging is the opposite and is used to offset bad economic states. Hedge funds were supposed to be low correlated funds, liquid assets, and opportunities to get a good value. To get high-expected returns the investor must take systematic risks and have that high-risk exposure in the market. The expected return is high while the cost is low, however, the return can be very risky.

Large caps or the top 500 firms (S&P 500) are analyzed to death constantly by a minimum of 5,000 managers every day. Small caps, including International markets, are not as efficient. They do have the opportunity of making abnormally high and low returns. Mr. Gilbert thought Trustees should be passive and let the market do the work, whether it is a loss or a win because Trustees are not in the business to make these types of decisions. He also stated there should be a balance across asset classes.

REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

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Mr. Hallmark discussed Actuarial Science. For many years, all plans expected 8+% returns, however, it is now changing and this percentage can no longer be expected. It is the Boards' responsibility to make the selection of the rate with their advisors' assistance to determine what they are more likely to get. All plans should have a benefits and expenses policy. Transparency should be the norm and must be communicated regularly. Accountability and credibility are paramount. It is necessary for the Board to identify and understand the plan, then communicate the risks to all the members.

The Actuarial Cost Method allocates contributions over an employee's career and establishes the funding target (actuarial liability) and normal cost. The Amortization Method establishes payment for the difference between funding targets and assets. The Asset Smoothing Method smoothes out a short-term investment volatility to reduce contribution volatility. Contribution equals normal cost plus payment towards the unfunded liability. Normal Cost is the present value of benefit attributable to a year of service. Plans are now advised and/or may want to drop the entry age. A shorter amortization period would result in the need for more contributions and higher volatility. Longer amortization periods take longer to return to the funding target.

The most powerful single assumption is that higher expected returns would result in lower expected contributions. However, the actual contributions will depend on actual investment returns not the expected returns. Politicians and Employers/ Employees alike need to remember that Trustees are the only people that can earnestly and honestly run a Public Pension Fund. The Campaign Finance Reform needs to be changed as it cannot continue as it is. The Affordable Care Act is another campaign finance program they are trying to use in Michigan for their employees. Check out the website FixingCA.com for other campaign finance reform discussions. NOTE – THOSE WITH THE LOUDEST VOICES WILL HAVE THE SAY IN ANY POLICY CHANGES.

Mr. Schur feels as strongly as Mr. Gilbert that passive management is the way to go. The passive approach would have no management risk, no surprises, low fees, and it cannot underperform with Beta exposure. The cons for a passive approach are no Alpha exposure and no beating the market. In addition, they felt Plans should move with the market which equals no hedging, some asset classes would be unavailable, and inefficiencies could not be exploited. The pros for active management are compensation for risk exposure, defensive moves through active hedging, and there are many options that need their expertise. The cons for having active management are higher fees, very time consuming for the Board to manage, and too many managers and choices. Additional complexity would be added to governance, headline risk, legal issues, manager risk, and the emotions behind choosing plans and managers. The key to passive management is it works best in an efficient market; there are other markets that this would not be true.

REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

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Day 3 – Tuesday, July 30, 2013

Real Estate Investment was taught by Robert Edelstein. Behavioral Finance: Overconfidence & Expertise, Alternative Investment Strategies, and Alternative Investment Strategies were taught by Gregory La Blanc. Mr. Edelstein is a Professor of Finance at USC and University of Pennsylvania's Wharton School of Business. He received his Ph.D. in Economics from Harvard University. Mr. La Blanc is a guest lecturer at UC Berkeley in their Finance, Accounting, Law and Strategy courses. He was a talented lecturer and was well versed in many areas of finance.

Real Estate investments are important for multiple reasons, i.e.: cash flow, diversity, growth, and high inflation real estate environments. Currently, the United States is in a high inflation real estate market with value appreciation. Japan's current Prime Minister, Yoshihiko Noda, is trying to stimulate Japan's economy. He is to the right of center, which worries some economists. Japan is trying to inflate their economy. However, China and Korea will counter whatever Japan does, if at all possible.

Some fundamental principles for Real Estate are: a) location, location, location; b) derived demand – where is the property located, where is it growing and what is the potential; and, c) hard to evaluate a market when it can change at any time. REIT (real estate investment trust) is a transitional asset and is a company that owns / operates income-producing real estate. A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate taxable income. A REIT cannot pass any tax losses through to its investors. One key piece of advice was to not have the same appraisers for all of your property investments.

Gregory La Blanc – Behavioral Finance. One topic was the Hot Hand – Heuristic Method – the notion that because a person has had a string of successes, s(he) will continue to succeed. This is a gambling/trading concept that depends on the track record of the fund manager. It is considered a mental shortcut to ease the cognitive load of making a decision. Humans will naturally pick someone that had a better track record than what would actually be the better course of action since the decisions are hard and the data very difficult to mentally compute.

Forecasters get through to their buyers because they are overconfident and the customer buys what they are selling. Most people think they are smarter than average. The more intelligent a person is the more overconfident they will become. Americans generally think they are above average intelligence, over optimistic, and have a grander illusion of control. Experts will have overconfident opinions and doctors are generally the worst.

REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

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Cognitive limitations via loss aversion are usually based on estimates of probabilities. Generally people lose money by holding on to their falling investments and usually selling them at bottom. When the investment is rising or high, people tend to hold on to them too long, not capturing any value. Bias and Inertia – An individual, who has the opportunity to spend their money on something that will most likely not work out, will spend that money today verses holding their money for a few months to invest in something that would be more beneficial in the future. Choice paralysis happens when there are too many choices given by money managers or in any situation. Humans will constantly do what their limbic system prompts them to do. For pension plans, the investors need to stick to the future not what feels right in the moment. Put in place a plan that restricts movement so that no matter how much the investor wants to change their plans in the future, they can't. Home Bias – California pension funds should be underweighted. They should not invest in anything in their area. Inattention blindness – Individual investors do not pay attention to the fees or the operating expenses; someone should be dedicated to review this area. Emotional contagion – Humans are affected by the emotions displayed around them. People were told about the crash, asset worth, rise, fall, etc. before it happened, yet the majority did nothing.

U.S. stocks beat most hedge funds. Hedge fund performance comes from self-reporting and only those who want to report. No one actually knows if it is an upward trend that's being reported. A lot of hedge funds show that the bigger they are, the worse they do; thus, most do not report how they are doing. It is unclear who actually reports and who does not. The people who profit the most from hedge funds are the hedge fund managers.

Day 4 – Wednesday, July 31, 2013

John O'Brien gave an overview of the prior lessons. Then, Mr. LaBlanc discussed Risk Management. Mr. LaBlanc and Mr. McCrory continued through the day teaching and discussing subjects that covered Portfolio Management Simulation with team break out sessions, team presentations, and debriefing off all discussed.

Mr. O'Brien kicked off many of the trainings and was present throughout the entire course. He is an adjunct Professor and Academic Advisor to the Master's in Finance Engineering (MFE) program at Hass School of Business. Mr. McCrory is the Principal Consulting Actuary at Cheiron. He is one of the nation's leading authorities on actuarial simulation and stochastic analysis.

The instructors felt that the Illinois State fund was suffering because less people are working, and thus, less tax is being paid and less money is going into the fund. They have a \$73 billion unfunded liability. This amount also depends on what method is being used to evaluate their fund. If the FASB (Financial

REPORT ON BERKELEY TRAINING, JULY 28-31, 2013

October 7, 2013

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Accounting Standards Board) were consulted, the unfunded liability would be \$173 billion instead of \$73 billion.

There are two different benefit plans that can be used. One is the DB (Defined Benefit) and the other is DC (Defined Contributions). The DB plan is an investment risk taken on to reduce cost whereas the DC plan is an investment risk taken on to increase the benefit. The instructors felt the DB plan was a better plan but noted that many are underfunded. On the other hand, because DC plans have higher fees, the contributions need to be much larger to get the desired results. Retirement plan funding 101 states contribution plus investment income equals benefit payments plus expenses. As far as longevity risk, the DB plan risk is on the Employer where the DC plan risk is on the Employee.

Actuaries working for retirement systems can show projections of cost and funding differences, actual and assumed returns, and establish some upper and lower limits. However, the actual decisions fall to the Trustees. Trustees cannot manage something if they don't know how it behaves. If the Trustees make the plan more risky, it could cost more due to the increased exposure to the market. The more assets a system has, and the more risk, could result in a potentially higher cost. More pension plans are maturing at a much higher rate because of baby boomers over the next 10 to 15 years. This will burden lean funds. It was advised to start coordinating funding and investment policy now by using the excess assets to maintain a reserve, and to stabilize costs and funding. Do not make the plan too large where the plan becomes too hard to budget or manage.

What I found most interesting about Mr. Gilbert is that he pays professionals to manage his retirement fund. He doesn't micro-manage; in fact, he doesn't even look at it. He just lets the asset allocation do what it's supposed to do. Mr. Gilbert was a very good teacher and after listening to him for a few hours and deciphering his speech pattern, it was easier to follow what he was teaching. Mr. La Blanc was also very talented and had a laid back, yet intense approach that was also affective.

Summary

In all, this training was very intense. There was a great deal of information in a very short amount of time. The instructors were very knowledgeable and able to get across their intended information, but it was a great deal to assimilate over 4 days.

Thank you,

VCERA Board Trustee Tom Johnston
VCERA Board Trustee Deanna McCormick

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October 7, 2013

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

**SUBJECT: CONSIDERATION OF WESTERN ASSET MANAGEMENT'S COMMINGLED
TOTAL RETURN UNCONSTRAINED BOND FUND AS OPPOSED TO
SEPARATE ACCOUNT**

Dear Board Members:

Background

On July 15, 2013, the Board received a presentation from Western Asset Management (WAM) on its WAM Total Return Unconstrained (TRU) Bond Fund and approved the transition of 100% of VCERA's WAM Core Bond Fund to the WAM TRU Bond Fund to be managed at a fee of 40 basis points (bps). On September 9, 2013 the Board authorized the Chair to execute the necessary documents to effectuation the funding, once Board Counsel and staff review is complete, and staff commented how the review involved over 1,000 pages of legal documents to set up a TRU Bond separate account.

Discussion

At the September 26 Annual Investment Retreat, staff discussed with Karlen Powell, of WAM, the amount of work required to review the documents. Ms. Powell responded sympathetically and indicated that opening up the custodial accounts can also take a substantial amount of time and effort. As it turns out, the operational requirements for a separate account are similar to PIMCO's global account requirements which necessitate custodial relationships in numerous countries, something staff was not aware of. Sensing displeasure, Ms. Karlen graciously offered that a commingled account was available and would likely better fit VCERA's current staffing and the Board's present investment objectives. Staff reflexively asked if VCERA could have the option at the same fee, and Ms. Powell indicated that she would inquire.

Staff is pleased to report that WAM has offered this investment in a commingled vehicle at the same 40bps, and asks that you approve the funding of the commingled vehicle as opposed to the separate account.

I would be happy to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA
Retirement Administrator

A model of excellence for public pension plans around the World.