MINUTES

DIRECTORS PRESENT: Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Lawrence L. Matheney, Treasurer, Ex-officio Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Karen Becker, General Employee Member
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT: Peter C. Foy, Public Member

STAFF PRESENT: Tim Thonis, Retirement Administrator
Lori Nemiroff, Assistant County Counsel

PLACE: Embassy Suites Hotel
Mandalay Beach Resort
2101 Mandalay Beach Road
Oxnard, CA 93035

ITEM: TOPIC:

I. Review of Agenda – Tracy Towner, Chairman

Chairman Towner called the Board Retreat to order at 9:00a.m.

II. Asset Allocation and Peer Practices

Kevin Vandolder and Maritza Martinez were present to review VCERA’s asset allocation and to review the asset allocation of VCERA’s public fund peers.

Mr. Vandolder provided an overview of the day and the events that occurred in the financial markets since the Board’s September 15, 2008 business meeting.
II. Asset Allocation and Peer Practices (continued)

Mr. Vandolder stated that Sam Gallo from EnnisKnupp's Opportunistic Strategies group was present to discuss opportunities for investing in hedge funds, that Barclays Global Investors would be present to discuss investing opportunities in currency overlay strategies, that representatives from EnnisKnupp's private equity group would be present to discuss private equity opportunities and that representatives from Prudential, RREEF and UBS would be present to update the Board on real estate market opportunities.

Mr. Vandolder discussed the causes of Lehman Brothers' bankruptcy filing noting the complexity of Lehman's mortgage holdings including material exposure to commercial real estate developments, whole loans and non-agency mortgaged-backed securities. Mr. Vandolder also discussed the Federal Reserve's authorized lending of $85 billion to AIG to assist the insurance company's continued participation as a major counterparty in the OTC derivatives market.

Mr. Vandolder also discussed Mr. Warren Buffett's $5 billion investment in Goldman Sachs and the $700 billion government bailout program known as TARP (Troubled Asset Relief Plan). Mr. Vandolder noted the unprecedented volatility in the market as measured by the VIX (blend of call and put options) and market risk as measured by the TED Ratio (spread between LIBOR and short-term Treasuries).

Mr. Vandolder reviewed the historical returns for equities and bonds and reinforced EnnisKnupp's recommendation to maintain a long-term focus and to utilize sound capital market expectations when setting and reviewing investment policy decisions. Mr. Vandolder also compared the current economic environment to the economic conditions of the Great Depression noting that 40% of the bank loans in 1929 were to leverage up stock investments, that there was no FDIC, 25% unemployment rates with no unemployment benefits and a 43% default rate in the mortgage market compared to 3% today.

Mr. Hansen noted the lack of transparency in the AIG federal loan as it was announced after the markets closed.

Mr. Wilson questioned the circumstances involving the usage of credit default swaps.
III. **Review of Opportunistic Search**

Mr. Vandolder noted the option like features of these securities and further noted the market dislocations that have caused credit events/defaults to occur in the fixed income markets. These credit events and subsequent defaults lead to the losses suffered by AIG as they were required to sell assets in order to satisfy the terms of the issued credit default swaps.

Ms. Martinez reviewed VCERA’s preliminary returns for September and discussed the investment items set for Board review at the October business meeting.

Mr. Vandolder discussed investments in opportunistic strategies such as hedge funds including how investments in hedge funds may fit into a policy allocation, the expected returns, the expected fees and the improvements in the transparency of the investment processes within the asset class.

IV. **Structuring Investments in Opportunistic Strategies**

Mr. Vandolder introduced Sam Gallo from EnnisKnupp’s Opportunistic Strategies Group who was present to provide an overview of investing in hedge funds.

Mr. Gallo noted that the term hedge fund refers to the legal and operational structure and in essence they are private funds that invest in public markets. Mr. Gallo reviewed the various types of strategies including Fund of Funds, Multi-Strategy Event Driven and Macro. In summary, Mr. Gallo described Fund of Funds strategies as multi-manager platforms that add value through manager selection and portfolio construction, Multi-Strategy Event Driven strategies as long/short strategies, arbitrage strategies and event-driven and Macro strategies as attempting to capitalize on the directional views held by the portfolio manager.

Mr. Gallo identified the risks of hedge fund investing noting the potential use of leverage, illiquidity, lack of transparency and fee structures.

Mr. Gallo then noted the positives for investing in hedge funds including a lower volatility of returns, the opportunity for return enhancement and risk reduction due to the low to negative correlations of hedge funds to traditional/broad asset classes.

Mr. Matheney questioned why the chart on page 10 of the presentation book represented that hedge fund returns were the same as those of U.S. Equity for 1, 3, 5 and 10-year periods.
IV. **Structuring Investments in Opportunistic Stratagies (continued)**

Mr. Goulet questioned what hedge fund managers did differently than other active managers.

Mr. Gallo responded by noting that hedge fund managers often have the ability, through their investment mandate, to take advantage of more opportunities through shorting over-valued names and purchasing greater amounts of under-valued names. Mr. Gallo cited that equity market neutral strategies function in this manner.

Mr. Gallo summarized the hedge fund universe as being comprised of both investable and non-investable managers with EnnisKnupp having a proven track record in identifying the managers who earn their fees.

V. **More Effective Management of Currency Exposures**

Thomas Dobler, Lee Wanie and Prentice Ng were present from Barclays Global Investors (BGI) to discuss investing in active currency strategies.

Mr. Dobler described the Global Currency Market as being inefficient due to the non-profit motivated action of many participants including corporate treasuries, central banks, tourists and international equity portfolio managers. The scale of the global currency is best measured according to Mr. Dobler by the approximate $3,200 billion that is traded daily. The scale and non-profit motivation of the market participants leads to an excellent opportunity for active management to succeed in this segment of the investment market according to Mr. Dobler.

Mr. Dobler noted that BGI's active currency management could be best characterized as quantitative with the assessment of a currency's fundamental value, the economic environment and market sentiment as the primary inputs.

In terms of the investment model, BGI ranks the various currencies based upon the "signals" generated from the quantitative model and then employs a disciplined transaction model to minimize trading costs and a currency risk management model in order to optimize the portfolios holdings.

Mr. Dobler illustrated the process by describing the current economic environment in New Zealand where increasing wool prices are requiring foreign purchasers of wool to buy more New Zealand Dollars. This increased demand for New Zealand Dollars is potentially placing upward pressure on the New Zealand Dollar.
V. **More Effective Management of Currency Exposures (continued)**

Mr. Matheney asked who BGI traded with in this strategy and how counter-party risk was allocated.

Mr. Dobler responded that BGI's trading partners were spread throughout the global market place and included many other large financial institutions and that counterparty risk was managed through BGI's risk management group that was dedicated to allocating counterpart risk over a list of prime brokers and approved financial institutions.

Mr. Wilson questioned the overall financial well being of BGI's parent company, Barclays PLC, and Mr. Wanie responded that Barclays was, as illustrated by the recent acquisition of Lehman Brothers, a strong company that maintained a strong corporate focus on risk management with a proven global banking model.

Mr. Vandolder asked Mr. Wanie to advise the Board when this investment platform becomes available.

*The Board adjourned for lunch at 12:30 and returned at 1:30 to continue the meeting.*

VI. **Is it Time for Private Equity?**

Brett Nelson and Robert Parkinson were present from EnnisKnupp's Private Equity Group to provide an update on EnnisKnupp's research and risk attributions for Private Equity.

Mr. Nelson stated that the unfavorable economic conditions affected private equity fund raising during the second quarter. Mr. Nelson noted that private equity funds raised $74 billion during 2008 Q2 compared to $93 billion in Q2 of 2007. Specifically, Mr. Nelson discussed the ongoing weakness in the buyout sector, mezzanine fundraising and distressed funds. Mr. Nelson did note that venture capital fundraising had increased over 2007 in response to the tough credit markets.

Mr. Parkinson provided the details on two infrastructure fund closings and the growing concern that the proliferation of new funds in this space was leading to the demand for infrastructure assets outpacing the supply of public auction opportunities. The increasing demand was leading to increases in purchase prices as competing funds bid up the value of available deals. Mr. Parkinson further noted that investing in infrastructure provided, because of the time horizons associated in the asset class, a good liability stream match for pension funds.
VI. Is it Time for Private Equity? (continued)

Mr. Nelson reviewed the outlook for Private Equity markets in the second half of 2008 noting the slightly improving credit markets, corporate acquisitions and the lack of activity in the IPO market.

Mr. Nelson and Mr. Parkinson discussed the reasons investors such as VCERA should invest in private equity including private equity’s outperformance of the public equity and fixed income markets over the long-term, ability to take advantage of the long-term cyclical nature of the asset class, impact on plan total returns even with a relatively small allocation and access to an investable universe that typically isn’t available to everyday investors.

Mr. Nelson and Mr. Parkinson then reviewed the reasons it would be appropriate for VCERA to begin a private equity program today including the opportunities to participate in biotechnology and heath care start-ups, mezzanine financing and private companies involved in energy exploration.

Mr. Nelson and Mr. Parkinson summarized the investment philosophy of EnnisKnupp’s global private equity team including how diversification is achieved, the selection of funds, sector allocation and management over the long-term horizon of the asset class.

Mr. Nelson and Mr. Parkinson then described the Private Equity Program Options offered by EnnisKnupp including the non-discretionary model that is a purely an advisory role with no responsibility for administrative functions, the non-discretionary hybrid model where EnnisKnupp would be responsible for all administrative tasks with a client’s legal counsel responsible for the negotiation and execution of legal documents and the discretionary model where EnnisKnupp would be responsible for all administrative tasks, execution of legal documents and investment decisions.

Discussion was held on how EnnisKnupp could evaluate itself under the discretionary mandate in response to a question from Mr. Goulet.

VII. Domestic and International Real Estate Discussion

Kevin Smith, Managing Director from Prudential, Laura Gaylord, Managing Director from RREEF, and Deborah Uliant, Client Service and Portfolio Services Officer from UBS, were present to discuss current real estate market conditions.

The panel noted that much of these presentations were, although less than one month old, stale given the market changes that have occurred since the end of September.
VII. Domestic and International Real Estate Discussion (continued)

Mr. Smith noted that the weaker economy with increasing job losses was impacting real estate. Mr. Smith stated that Prudential was hoping to take advantage of the disruptions in the capital markets when making changes to the PRISA portfolio. Mr. Smith discussed how Prudential would utilize mezzanine financing within the current market.

Ms. Gaylord discussed how the credit crisis and the lack of confidence in the markets caused the market to seize up as illustrated by the current spreads in bid/ask prices and the fact that sellers needed to take an additional 10-15% reduction in sales price in order to sell an asset. Ms. Gaylord further discussed the reasons cap rates fell over the past 7 years and noted how retail and office properties were hurt by the economic slowdown. Ms. Gaylord also noted how publicly held REITs lead the slowdown by falling 30% in value earlier in the year.

Ms. Ulian noted that UBS was not changing their fundamental approach to real estate investing and would continue to seek well leased properties with strong cash flows during these challenging economic times.

Ms. Ulian discussed the benefits of broadening real estate mandates beyond the U. S. market noting the diversification benefits, continued growth in the middle class overseas, higher return opportunities and the opening of new real estate markets to foreign investors.

The managers discussed their use of leverage within their respective portfolios and the presence of withdrawal queues at RREEF and Prudential. Ms. Ulian noted that UBS did not currently have a queue but may be establishing one in the near future as institutional investors are impacted by the “denominator effect” caused by the rapidly declining equity markets.

VIII. BOARD MEMBER AND NON-BOARD MEMBER COMMENT AND REACTION

Mr. Goulet stated that he is not opposed to private equity, but sees a problem with structure. He indicated that he favors currency management, but needs to know more about hedge funds before considering them for investment.

Mr. Henderson asked whether equity returns are likely to outpace returns of private equity, currency management and hedge funds when the markets come back, even though these areas are currently showing inefficiencies.

Mr. Vandolder responded that a diversified portfolio is the goal. Mr. Vandolder opined that private equity will recover more quickly than other types of investments.
VIII. BOARD MEMBER AND NON-BOARD MEMBER COMMENT AND REACTION (continued)

Mr. Wilson expressed his interest in currency exposure. From his banking perspective, he explained how returns on thousands of small transactions add up. Mr. Wilson further commented that with private equity, although there is no return for four to five years, it should be kept in mind that VCERA has an infinite horizon. Mr. Wilson expressed interest in beginning to invest in private equity.

Mr. Harris expressed interest in currency overlay.

Ms. Becker asked how much staff time is involved with private equity investing.

Staff responded that most systems that have a private equity allocation also have one to two professionals on staff. Staff time could, however, be mitigated with a fund to funds approach.

Staff then provided further overview on historic performance of active management through volatile and non-volatile markets and how the proposed alternative investments might fit in.

Mr. Vandolder summarized the events of the day and noted that EnnisKnupp would be providing a work plan for 2009 that incorporated a currency manager search and further discussions on hedge fund of funds mandates, private equity and infrastructure. The work plan would be discussed at the Board's November 17th business meeting.

IX. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the retreat at 3:40 p.m.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman