

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### BUSINESS MEETING

OCTOBER 18, 2010

### MINUTES

**DIRECTORS  
PRESENT:**

Tracy Towner, Chair, Safety Employee Member  
William W. Wilson, Vice Chair, Public Member  
Don Hansen, Assistant Treasurer – Tax Collector  
Albert G. Harris, Public Member  
Karen Anderson, General Employee Member  
Arthur E. Goulet, Retiree Member  
Chris Johnston, Alternate Employee Member  
Will Hoag, Alternate Retiree Member

**DIRECTORS  
ABSENT:**

Joseph Henderson, Public Member  
Robert Hansen, General Employee Member  
Peter C. Foy, Public Member

**STAFF  
PRESENT:**

Tim Thonis, Retirement Administrator  
Henry Solis, Chief Financial Officer  
Lori Nemiroff, Assistant County Counsel

**PLACE:**

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

**TIME:**

9:00 a.m.

**ITEM:**

**I. INTRODUCTION OF MEETING**

Chairman Towner called the Business Meeting of October 18, 2010 to order at 9:00 a.m.

**II. APPROVAL OF AGENDA**

Staff requested that the agenda be amended to remove Item VII, Closed Session.

Mr. Harris moved, seconded by Mr. D. Hansen, to approve the agenda, as amended.

Motion passed.

**III. APPROVAL OF MINUTES**

A. Disability Meeting of October 4, 2010.

Mr. Goulet moved, seconded by Ms. Anderson, to approve the Minutes for the Disability Meeting of October 4, 2010.

Motion passed.

B. Board Retreat of October 7, 2010.

Ms. Anderson moved, seconded by Mr. Harris, to approve the Minutes for the Board Retreat of October 7, 2010.

Motion passed.

**IV. CONSENT AGENDA**

A. Regular and Deferred Retirements and Survivors Continuances for the Month of September 2010.

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments and Cash Equivalents for the Month Ended August 31, 2010.

C. Report of Checks Disbursed in September 2010.

D. Budget Summary for the Month Ended August 31, 2010, Fiscal-Year 2010-11.

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

Motion Passed.

V. INVESTMENT INFORMATION

- A. BlackRock Asset Management Annual Investment Presentation, Lee Wanie and Prentice Ng.

Lee Wanie was present from BlackRock Asset Management (BlackRock) to review BlackRock's organizational structure, investment philosophy and investment performance.

Mr. Wanie discussed the length of BlackRock's relationship with VCERA, over 20 years, and the financial commitment VCERA makes to his organization given that BlackRock manages approximately one-half of VCERA's total assets. Mr. Wanie thanked the Board for its commitment to BlackRock and he reemphasized the importance to BlackRock of having VCERA as a client.

Mr. Wanie thanked the Board for the invitation to participate in the investment retreat on October 7<sup>th</sup> and hoped that VCERA found Ked Hogan's remarks to be both beneficial and insightful. As stated previously at the retreat, BlackRock assessed the probability of a "double dip" recession to be low, that inflation should also remain low, that the government was going to embark on a second cycle of quantitative easing, that high quality domestic stocks may be a good place to hide in the near term and that BlackRock currently favored emerging market investing over most developed market investing.

In terms of the BlackRock and Barclays Global Investor (BGI) merger, Mr. Wanie stated that the transaction was complete, that clients were insulated from the transaction as much as possible, that the number of investment products offered to clients increased tenfold and there was an abundance of investment publications being created that addressed the needs of BlackRock's diverse client base.

From a performance perspective, Mr. Wanie summarized that the four index funds currently used by VCERA all performed as anticipated with the tracking error between the fund returns and the associated index returns remaining within expected ranges. For example, in September the U.S. Equity Market Fund returned 9.42% versus 9.40% for the index, the Extended Equity Market Fund returned 11.46% versus 11.38% for the index, the ACWI IMI Index Fund matched the return of the index at 10.14% and the U.S. Debt Fund returned 0.17% versus 0.11% for the index.

V. INVESTMENT INFORMATION (continued)

A. BlackRock Asset Management Annual Investment Presentation. (continued)

Mr. Wanie offered, in response to a question by Mr. Vandolder, that the positive tracking error achieved by BlackRock was due to a combination of factors including securities lending, tax reclaim filings in the international equity index fund and the use of optimized portfolio structures in constructing the BlackRock index portfolios.

Mr. Vandolder and Mr. Wanie discussed the risks associated with securities lending, especially during periods of illiquidity such as the market experienced in the latter stages of 2008.

Mr. Wanie noted that BlackRock offered "non-lending" index products, but interest in those products has waned given that liquidity has returned to the marketplace. Mr. Wanie summarized that the securities lending programs typically added 1 basis point (.01%) of positive return to the equity index funds and 2 to 3 basis points (.02% to .03%) of positive return to the fixed income index funds.

B. Western Asset Management Annual Investment Presentation, Joe Carieri.

Joe Carieri with Western Asset Management (Western) was present to discuss Western's organization, investment process, investment results and market outlook.

Mr. Carieri thanked the Board for VCERA's two separate investments with Western that included the \$322 million investment in the Core Plus fixed income mandate and the \$90 million investment in the S & P 500 Index Plus mandate.

Organizationally, Mr. Carieri noted that Western continued to add senior investment staff to their organization.

Mr. Carieri thanked the Board for its patience in allowing Western the opportunity to reverse the previous poor performance experienced in the Core Plus mandate. Mr. Carieri stated that Western's strong relative performance in recent periods, 14.2% versus 8.2% for the benchmark over the last year, had greatly improved Western's relative performance versus the benchmark. For example, over the past ten years Western has added 80 basis points (0.80%) annually over the Barclays Capital U.S. Aggregate Index. For the three and five year periods, Western's returns, net of fees, now approximated the benchmark's return, according to Mr. Carieri.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Presentation. (continued)

From an attribution standpoint, Mr. Carieri stated that the Non-Agency MBS (Mortgage-Backed Security) sector, that was the previous cause of Western's underperformance, was the best performing sector in the portfolio and had added 243 basis points (2.43%) to Western's relative outperformance year-to-date. Other sectors that contributed positively to Western's relative performance this year included High Yield and Investment-Grade Credit, according to Mr. Carieri.

In terms of sector exposures relative to the benchmark, Mr. Carieri offered the rationale for underweighting Treasuries, overweighting Investment-Grade Credit and remaining approximately neutral in terms of MBS.

Mr. Wilson requested and received clarification on why Inflation-Linked (TIPS) and Non-Agency MBS were not included in the Barclays Capital U.S. Aggregate Index.

Mr. Towner questioned the amount of derivative exposure in the Core Plus portfolio and learned that most of the derivative exposure was in forward setting mortgage securities that are typically referred to as "TBAs".

Mr. Vandolder requested clarification on Western's underweight to Treasuries.

In response, Mr. Carieri noted that the underweight to Treasuries was primarily due to Western's strategy to underweight the front end of the yield curve. Mr. Carieri opined that there was currently little opportunity to add value through duration strategies and Western believed that an overweight to Investment Grade Credit was the better way to add value.

Mr. Carieri noted that the top five Investment-Grade Credit holdings were all from the financial sector.

Mr. Johnston expressed concern regarding the financial holdings given the recent news surrounding banks and the challenges they face with their mortgage holdings.

Mr. Carieri stated that the recent information surrounding mortgage-backed securities was already factored into the individual security prices and that although the news regarding banks may be troublesome to an equity owner, it was less troublesome to credit/bond holders.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Presentation. (continued)

Mr. Johnston opined that we were seeing "2008-like risks" in the mortgage sector.

Mr. Carieri offered that the risks were priced into the mortgage spreads and that banks were much stronger today from a capitalization standpoint than they were in 2008.

Mr. Johnston questioned whether Western was in compliance with VCERA investment guidelines as requested this past spring.

Mr. Carieri noted that the portfolios would be in full compliance by the end of October as directed by the Board.

Mr. Harris requested and received clarification on why both government sponsored loan organizations, Fannie Mae and Freddie Mac, were giving back loans. Mr. Harris also questioned how many of these loans were originally issued by Countrywide.

Mr. Carieri reviewed the specifics of the Non-Agency Mortgage-Backed holdings and noted that approximately 50% of the exposures were rated AAA, with the majority of the holdings in the "Senior to Super Senior" levels of the capital structure and most of the holdings were comprised of loans that were "older" having been issued prior to 2006. Mr. Carieri offered the rationale for why the "older" loans were superior.

Both Mr. Towner and Mr. Goulet questioned Western's reliance on ratings provided by the credit agencies.

In response, Mr. Carieri noted that Western conducted its own internal ratings on each security and characterized the ratings provided by the agencies as being a "necessary evil".

In conclusion, both Mr. Carieri and Mr. Vandolder noted that the traditional credit ratings were important from the standpoint of the establishment of investment guidelines, were a tool to be used in classifying investment opportunities and Western relied on its own internal ratings in evaluating securities rather than those offered by rating agencies such as Standard & Poors.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Presentation. (continued)

Mr. Carieri summarized the returns in the Index Plus account and described how the returns in Structured Products contributed to the 22.6% return in the portfolio versus the index return of 10.6% over the past year. Mr. Carieri also discussed the improvement in the portfolio's relative performance over longer investment time frames.

Mr. Carieri concluded by stating that the Index Plus portfolio currently maintained a significant yield advantage, 350 – 400 basis points (3.5% - 4%) over the market going forward and VCERA should expect to see positive relative performance over the next two years.

C. Hewitt EnnisKnupp, Kevin Vandolder and Eric Kuhl.

1. Monthly Investment Performance Update, September 2010.
2. Monthly Manager Updates/Summary, September 2010.
  - a. Sprucegrove
  - b. Capital Guardian
  - c. Artio
  - d. GMO
  - e. Acadian
  - f. Western
  - g. Reams
  - h. Loomis Sayles

Mr. Vandolder began his comments by noting that September 2010 was the best "September" in terms of investment performance since September 1939. For the month, VCERA earned 6.8% as all sectors of the investment portfolio were positive including returns of 9.5% in domestic equity, 10.2% in the international equity portfolio, 10.1% in the global equity portfolio and 1.0% in fixed income mandates. For the first three months of the fiscal year, VCERA's investment return was 10%, according to Mr. Vandolder. More importantly, Mr. Vandolder noted that VCERA's active managers were adding value to the program as evidenced by the one year return of 11.4% versus 9.5% for the policy portfolio.

From the individual manager standpoint, Mr. Vandolder commented on the positive relative performance delivered by Western's Index Plus portfolio, that Sprucegrove's portfolio, driven by fundamental analysis, added value

V. INVESTMENT INFORMATION (continued)

C. Hewitt EnnisKnupp. (continued)

during the month and that Acadian enjoyed a strong month due to stock selection. In terms of the fixed income managers, Mr. Vandolder described how Western, Reams and Loomis Sayles all added value to VCERA's investment program during September.

Mr. Goulet commented on the recent press accounts describing the amount of bonuses being paid to employees of investment banking firms in 2010.

3. Memorandum - Annual Investment Retreat Recap and Conclusions.

Mr. Vandolder summarized the key takeaways from the investment retreat including the planned revisiting of the asset/liability study specifically to identify the inflation component associated with VCERA's liabilities, a review of the merits of both global and core fixed income investing and the continued development of a work plan for the private equity allocation. All studies were to be delivered in the early months of 2011, according to Mr. Vandolder.

4. Memorandum - Prudential, Artio, and UBS Onsite Visits.

Mr. Vandolder discussed the due diligence site visits he conducted with Mr. R. Hansen, Mr. Hoag, and Eric Kuhl recently. Mr. Vandolder noted the positive discussions held with both real estate managers, UBS and Prudential. Mr. Vandolder stated both real estate portfolios were well positioned for the current environment and Hewitt EnnisKnupp was pleased that Prudential was reducing risk in its portfolio.

The Artio visit was described as disappointing as the consensus view of the traveling group was that Artio's recent IPO (initial public offering) had negatively affected the corporate culture. For example, one needed to question why the emerging market portfolio manager, who had previously recommended an overweight to Eastern Europe, had not traveled to the region in several years. Mr. Vandolder informed the Board that Hewitt EnnisKnupp was revisiting its assessment on Artio and would have additional information for the Board to consider at its December business meeting.

Mr. Goulet commented on the discussions held at a recent CALAPRS trustee roundtable event on the importance of due diligence visits and why it was important to visit as many areas within the manager's operation as possible.



V. **INVESTMENT INFORMATION (continued)**

C. Hewitt EnnisKnupp. (continued)

Mr. Wilson moved, seconded by Mr. Harris, to receive and file Items 1 - 4.

Motion passed.

D. Private Equity Capital Calls – Adams Street Partners and Pantheon Ventures.

Staff updated the Board on recently received private equity capital calls. Specifically, staff noted that Adams Street called another \$127,500 in capital on September 7, 2010, with Pantheon Ventures calling \$300,000 on October 14<sup>th</sup>. Staff also noted that \$4 million from the 2010/11 pre-paid employer contributions was invested in BlackRock's Debt Index Fund to match the level of private equity investment as previously directed by the Board.

Ms. Anderson moved, seconded by Mr. Goulet, to receive and file the Private Equity Capital Calls Update from staff.

Motion passed.

E. K2 Currency Fund Update.

Staff provided a brief update on work performed on the K2 currency fund mandate and identified several risks, including the fund's use of leverage, that were currently being discussed with K2 management.

Mr. Goulet moved, seconded by Mr. D. Hansen, to receive and file the K2 Currency Fund Update.

Motion passed.

VI. **NEW BUSINESS**

A. Recommendation to Utilize Foley & Lardner to Assist Staff in Reviewing International Equity Fund Documents.

Staff outlined the reasons for recommending the retention of Foley & Lardner to assist in the review of Investment Management Agreements, Offering Memoranda and Trust Agreements with Hexavest and Walter Scott. In summary, staff noted its ongoing review of "key man" provisions,

VI. NEW BUSINESS (continued)

- A. Recommendation to Utilize Foley & Lardner to Assist Staff in Reviewing International Equity Fund Documents. (continued)

fiduciary standards and trust fund management fees as just a few of the areas where VCERA would benefit from using the services of Foley & Lardner. Staff summarized the services that would be accomplished by Foley & Lardner and also requested approval to use Foley & Lardner for private equity contract amendments, subject to a cost ceiling of \$10,000.

Mr. Goulet moved, seconded by Mr. Harris, to approve the hiring of Foley & Lardner subject to the review of an engagement letter at a future meeting.

Motion passed.

- B. SACRS 2010 Fall Conference Items.

Staff provided background information on the two legislative proposals to be considered and recommended the Board nominate a voting delegate and an alternate voting delegate for the SACRS business meeting being held on Friday November 12, 2010.

Mr. Johnston requested additional information on why SACRS needed "General Placeholder Legislation" and concluded that he was not in support of this proposed legislative item.

Mr. Wilson moved, seconded by Mr. Harris, to nominate Mr. Hoag as VCERA's voting member with Mr. Goulet serving as the alternate voting member.

Motion passed.

Staff indicated that any additional information regarding the upcoming SACRS business meeting would be provided at the November 1, 2010 disability meeting.

- C. Letter from Arthur E. Goulet, President, Retired Employees Association of Ventura County, Regarding the Board's Response to the Ventura County Taxpayers' Association Request.

Mr. Harris moved, seconded by Mr. Wilson, to receive and file Mr. Goulet's letter.

Motion passed.

**VII. CLOSED SESSION**

The Board of Retirement Adjourned into a Closed Session to Discuss Ventura County Taxpayers' Association; and Richard Thomson, v. Ventura County Employees' Retirement System, Case No. 56-2010-00381336-CU-WM-VTA, Pursuant to the Provisions of Government Code Section 54956.9 Subdivision (a) – Existing Litigation.

Removed from Agenda under Item II.

**VIII. INFORMATIONAL**

- A. Publications (Available in Retirement Office)
  - 1. Institutional Investor
  - 2. Pensions and Investments
- B. Message from Greg Case, President and CEO, Aon Corporation, and Russ Fradin, Chairman and CEO, Aon Hewitt, Regarding Official Unification of Aon & Hewitt.
- C. Artio Global Investors Fact Sheet and Investment Commentary as of August 31, 2010.

**IX. PUBLIC COMMENT**

Staff provided the Board with a letter from VCERA's outside counsel representatives, Ashley Dunning and Michael Toumanoff from Manatt, Phelps and Phillips (Manatt), regarding the announcement of an Assurance of Discontinuance (AOD) between the Attorney General of the State of New York and Manatt. In conclusion, Ms. Dunning's and Mr. Toumanoff's letter stated support for the AOD, that the public pension group of which Ms. Dunning and Mr. Toumanoff are a part joined Manatt after the bulk of the matters identified in the AOD occurred, that no members of the public pension group were involved in the matters identified in the AOD and that no members of the public pension group held discussions with VCERA and its staff regarding investment opportunities.

Mr. Wilson questioned Manatt's involvement with CalPERS and was directed to the article provided by staff that described Manatt's dealings with CalPERS.

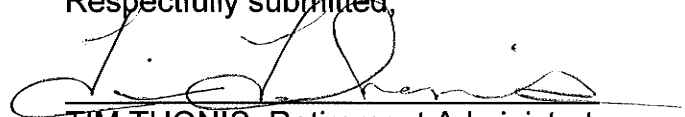
**X. BOARD MEMBER COMMENT**

None.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 10:45 a.m., upon the motion of Mr. Goulet, seconded by Mr. D. Hansen.

Respectfully submitted,

  
TIM THONIS, Retirement Administrator

Approved,

  
TRACY TOWNER, Chairman