

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### BUSINESS MEETING

October 21, 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:**

- |             |  |                 |
|-------------|--|-----------------|
| <b>I.</b>   | <b><u>INTRODUCTION OF MEETING</u></b>        | Master Page No. |
| <b>II.</b>  | <b><u>APPROVAL OF AGENDA</u></b>             | 1 - 3           |
| <b>III.</b> | <b><u>APPROVAL OF MINUTES</u></b>            |                 |
|             | A. Investment Retreat of September 26, 2013. | 4 - 5           |
|             | B. Disability Meeting of October 7, 2013.    | 6 - 14          |
| <b>IV.</b>  | <b><u>CONSENT AGENDA</u></b>                 |                 |

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.

**IV. CONSENT AGENDA (continued)**

- |  |         |
|--|---------|
| A. Regular and Deferred Retirements and Survivors Continuances for the Month of September 2013.  | 15 – 16 |
| B. Report of Checks Disbursed in September 2013.   | 17 - 25 |
| C. Asset Allocation as of September 2013.  | 26      |
| D. Statement of Plan Net Position, Statement of Changes in Plan Net Position, Investments & Cash Equivalents for the Months Ended July 31 and August 31, 2013. | 27 - 34 |
| E. Budget Summary – Year to Date as of July and August 2013, Fiscal-Year 2013-14.  | 35 - 36 |
| F. Quarterly Administrator Report for July 1 to September 30, 2013.  | 37 - 42 |

**END OF CONSENT AGENDA**

**V. STANDING ITEM**

- |  |    |
|--|----|
| A. Receive an Oral Update on Pensionable Compensation and PEPRA. | 43 |
|--|----|

**VI. INVESTMENT INFORMATION**

- |   |           |
|---|-----------|
| A. Annual Investment Presentation, Reams Asset Management – Mark M. Egan, CFA, Managing Director and Portfolio Manager. (30 Minutes).   | 44 - 70   |
| B. Annual Investment Presentation, Western Asset Management – Karlen Powell, Client Service Executive, Jim Flick, Head of Global Client Services & Marketing, Mark Lindbloom, Portfolio Managers. (30 Minutes). | 71 - 128  |
| C. Hewitt EnnisKnupp, John J. Lee, Partner, and Kevin Chen.   |           |
| 1. Monthly Manager Performance Report, September 2013.  | 129 - 133 |
| 2. Highlights and Research, October 2013.   | 134 - 191 |

**VI. INVESTMENT INFORMATION (continued)**

- D. Approval and Execution of the NEPC Investment Consulting Agreement. 192 - 206

**VII. NEW BUSINESS**

- A. Receive and File Opal Investment Trends Summit Report - Goulet. 207 - 208

- B. Travel Authorization Request for Henry Solis. 209 - 214

- C. Request for Approval of Lease Amendment. 215 - 219

**VIII. CLOSED SESSION**

1. CONFERENCE WITH LEGAL COUNSEL - ANTICIPATED LITIGATION 220 - 225

Significant exposure to litigation pursuant to subdivision (b) of section 54956.9: 1 Potential Case.  
CLAIMANT: MICHAEL KOEVENIG

**IX. PUBLIC COMMENT**

**X. BOARD MEMBER COMMENT**

**XI. ADJOURNMENT**

# 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

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### DISABILITY MEETING

October 7, 2013

### MINUTES

**DIRECTORS**  
**PRESENT:** William W. Wilson, Chair, Public Member  
Steven Hintz, Treasurer-Tax Collector  
Mike Sedell, Public Member  
Tom Johnston, General Employee Member  
Arthur E. Goulet, Retiree Member  
Will Hoag, Alternate Retiree Member

**DIRECTORS**  
**ABSENT:** Tracy Towner, Vice Chair, Safety Employee Member  
Peter C. Foy, Public Member  
Joseph Henderson, Public Member  
Deanna McCormick, General Employee Member  
Chris Johnston, Alternate Safety Employee Member

**STAFF**  
**PRESENT:** Donald C. Kendig, Retirement Administrator  
Lori Nemiroff, Assistant County Counsel  
Glenda Jackson, Program Assistant  
Angie Tolentino, Retirement Benefits Specialist

**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 Disability Meeting of October 7, 2013, to order at 9:00 a.m.

II. **APPROVAL OF AGENDA**

MOTION: Approve the agenda as modified to move Item VII.E. Appointment of Ad Hoc Effectiveness Committee for Organizational Effectiveness Project to front of agenda.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried

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

No: -

VII. **NEW BUSINESS**

E. Appointment of Ad Hoc Effectiveness Committee for Organizational Effectiveness Project.

MOTION: Appoint Members of the Personnel Committee to the Ad Hoc Effectiveness Committee.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried

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

No: -

III. **APPROVAL OF MINUTES**

A. Business Meeting of September 16, 2013.

MOTION: Approve the Minutes.

Moved by T. Johnston, seconded by Hintz.

Vote: Motion carried

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

No: -

B. Investment Retreat of September 26, 2013.

MOTION: Approve the Minutes.

Moved by Goulet, seconded by Hintz.

Vote: Motion failed

Yes: Goulet, Hintz, Sedell, Wilson

No: -

Abstention: T. Johnston

**IV. PENDING DISABILITY APPLICATION STATUS REPORT**

MOTION: Receive and file the Pending Disability Application Status Report.

Moved by Hintz, seconded by T. Johnston.

Vote: Motion carried

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

No: -

**V. APPLICATIONS FOR DISABILITY RETIREMENT**

- A. Application for Service Connected Disability Retirement; James B. Bulger, Case No. 12-026.

Paul Hilbun was present representing the County of Ventura Risk Management. Michael Treger, Attorney at Law, was present representing the applicant. The applicant, James B. Bulger, was present.

Both parties agreed to accept into the record the application for service connected disability retirement and Risk Management's report including attachments on Master Page Numbers 59 – 253 of the Agenda.

Both parties declined to make comments.

After Board and Board Counsel comment, the following motion was made:

MOTION: Grant the application for service connected disability retirement.

Moved by T. Johnston, seconded by Hintz.

Vote: Motion carried

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

No: -

The parties agreed to waive preparation of findings of fact and conclusions of law.

- B. Application for Non-Service Connected Disability Retirement; Catherine M. Carone, Case No. 13-014.

Paul Hilbun was present representing the County of Ventura Risk Management. The applicant's brother, Michael Carone, was present representing the applicant. The applicant, Catherine M. Carone, was present.



Both parties agreed to accept into the record the application for non-service connected disability retirement and Risk Management's report including attachments on Master Page Numbers 254 – 317 of the Agenda.

Both parties declined to make comments.

MOTION: Grant the application for non-service connected disability retirement.

Moved by Goulet, seconded by Hintz.

Vote: Motion carried

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

No: -

The parties agreed to waive preparation of findings of fact and conclusions of law.

- C. Application for Service Connected Disability Retirement; John L. Glueckert, Case No. 09-031.

Paul Hilbun was present representing the County of Ventura Risk Management. Larry Grossman, Attorney at Law, was present representing the applicant. The applicant, John L. Glueckert, was present.

Both parties agreed to accept into the record the application for service connected disability retirement and Risk Management's report including attachments on Master Page Numbers 318 - 522 of the Agenda.

Both parties declined to make comments.

MOTION: Grant the application for service connected disability retirement.

Moved by T. Johnston, seconded by Hintz.

Vote: Motion carried

Yes: Hintz, T. Johnston, Sedell, Wilson

No: Goulet

The parties agreed to waive preparation of findings of fact and conclusions of law.

- D. Application for Non-Service Connected Disability Retirement; Pamela S. Waldron, Case No. 12-040.

Paul Hilbun was present representing the County of Ventura Risk Management. The applicant, Pamela S. Waldron, was present with her husband, James Waldron.

Both parties agreed to accept into the record the application for service connected disability retirement and Risk Management's report including attachments on Master Page Numbers 523 - 632 of the Agenda.

Both parties declined to make comments.

MOTION: Grant the application for non-service connected disability retirement.

Moved by T. Johnston, seconded by Hintz.

Vote: Motion carried

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

No: -

The parties agreed to waive preparation of findings of fact and conclusions of law.

- E. Application for Service Connected Disability Retirement; Alyson Kaye, Case No. 12-007.

B. Derek Straatsma, Attorney at Law, and Paul Hilburn were present representing the County of Ventura Risk Management. The applicant, Alyson Kaye, was not present.

MOTION: Adopt the recommendation of the hearing officer and deny the application for service connected disability retirement.

Moved by Goulet, seconded by Sedell.

Vote: Motion carried

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

No: -

- F. Application for Service Connected Disability Retirement; June Marsh, Case No. 08-015.

Stephen D. Roberson was present representing the County of Ventura Risk Management. The applicant, June Marsh, was present.

After statements by both parties, the following Motion was made:

MOTION: Deny the petition for reconsideration.

Moved by Hintz, seconded by Goulet.

Vote: Motion carried

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

No: -

**VI. STANDING ITEM**

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

MOTION: Receive and file the report.

Moved by Goulet, seconded by Hintz.

Vote: Motion carried

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

No: -

**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.

Received a presentation from Judy Boyette on behalf of of Hanson Bridgett.

MOTION: Approve the Power of Attorney and authorize Chair to execute documents.

Moved by Hintz, seconded by T. Johnston.

Vote: Motion carried

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

No: -

- B. Approve First Amendment to the Securities Lending Authorization Agreement with State Street Bank and Trust Company.

MOTION: Continue item to October 21, 2013 Business Meeting.

Moved by Goulet, seconded by T. Johnston.

Vote: Motion carried

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

No: -

- C. Consideration of a Request to the Board of Supervisors to adopt a Spousal Notification Resolution per Government Code Section 31760.3.

1. Resolution: Notice to Spouse of Member's Selection of Benefits or Change of Beneficiary

MOTION: Approve the Resolution as modified by Trustee Goulet for the movement of the last "Whereas" to the second position, and adding to the new last "Whereas" the following, "said section provides" and directed staff to send a request to the Board of Supervisors asking the Board of Supervisors to adopt the spousal notification resolution per Government Code Section 31760.3.

Moved by Goulet, seconded by Hintz.

Vote: Motion carried

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

No: -

After further discussion, the following Motion was made:

MOTION: Direct Board Counsel to draft a resolution to accompany or set forth the request to the Board of Supervisors.

Moved by Goulet. Withdrawn.

- D. Review and Adoption of Compensation Review Policy per Government Code Section 31542.

MOTION: Adopt the proposed compensation review policy as modified for the addition of "written" under 4) d) after "VCERA's" and the deletion of "Administrative" from the heading between paragraphs 5) and 6), and from paragraph 6) and paragraph 6) a).

Moved by Hintz, seconded by Goulet.

Vote: Motion carried

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

No: -

- F. Review and Approval of Investment Industry Service Provider Advisory Letter.

MOTION: Approve the item.

Moved by T. Johnston, seconded by Hintz.

Vote: Motion carried

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

No: -

G. Receive and File Report on Berkeley Training, July 28-31, 2013.

MOTION: Receive and file the item.

Moved by Hintz, seconded by Goulet.

Vote: Motion carried

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

No: -

H. Consideration of Western Asset Management's Commingled TRU Bond Fund, as Opposed to Separate Account.

MOTION: Approve the item and in the event review authority has not been delegated, bring the matter back to the Board.

Moved by Sedell, seconded by T. Johnston.

Vote: Motion carried

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

No: -

**X. BOARD MEMBER COMMENT**

Mr. Wilson commented regarding the public members who were absent and expressed the desire to pursue adding one to two alternate public members to the Board. Mr. Goulet commented that it would likely require the passage of legislation and volunteered to draft proposed language.

Mr. Sedell left the meeting at 10:22 am.

**IX. PUBLIC COMMENT**

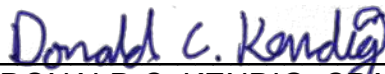
Mr. Kendig updated the Board on the Hearing Officer recruitment indicating that a notice was posted on VCERA's website; that there will be advertising in San Francisco and Los Angeles journals; that Ms. Paladino will be forwarding the notice to key contacts; and, that Mr. Kendig sent the notice to SACRS administrators to forward to their Hearing Officers.

Mr. Kendig also recapped action items for staff: determine non-challenge disability case referencing, obtain a clean copy of the IRS tax determination filing, the addition of a Board counsel review for legal sufficiency statement to Board letters reviewed, the use of resolutions for County Board requests, and the addition of budgetary appropriation for contracts carried into the new fiscal year.

XI. ADJOURNMENT

The meeting was adjourned at 10:27 a.m.

Respectfully submitted,



---

DONALD C. KENDIG, CPA, Retirement Administrator

Approved,

---

WILLIAM W. WILSON, Chairman

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REPORT OF REGULAR AND DEFERRED RETIREMENTS AND SURVIVORS CONTINUANCES**

**SEPTEMBER 2013**

FIRST NAME	LAST NAME	G/S	DATE OF MEMBERSHIP	TOTAL SERVICE	OTHER SERVICE	DEPARTMENT	EFFECTIVE DATE
<b>REGULAR RETIREMENTS:</b>							
Raquel	Cano	G	07/28/1996	16.51		Health Care Agency	08/16/13
Elaine C.	Chips	G	10/04/1998	14.87		Public Works	08/31/13
Cynthia	Cobb	G	02/01/2012	10.54		General Services Agency (Non Member Spouse)	02/01/12
Diana W.	Crane	G	01/22/2001	12.57		Resource Management Agency	08/18/13
Christine L.	Culver	G	01/25/1987	16.94	C=6.874	Library Services Agency	08/22/13
Robert A.	Dahlstedt	G	09/04/1988	14.38	C=9.800	Public Defender (From Deferred)	08/14/13
Rose M.	Elliott	G	10/08/2006	5.53	A=1.96 B=1.30	Health Care Agency (From Deferred)	08/23/13
Tamara	Girard	G	05/17/1987	26.19		Health Care Agency	08/10/13
Karen	Graves-Enders	G	05/24/1992	6.89		Health Care Agency (From Deferred)	09/05/13
Oliver G.	Hess	G	07/29/2002	11.09		County Counsel	08/31/13
Lawrence R.	House Jr.	S	10/30/1988	24.46		Sheriff's Department	08/16/13
Judith D.	Kelly	G	07/09/2000	13.08		Health Care Agency	08/17/13
Eleanor	Laird	G	05/17/1987	24.10		Sheriff's Department	08/02/13
Robert C.	Piala	G	10/09/1994	4.91		Health Care Agency (From Deferred)	08/30/13
Sylvia C.	Ramirez	G	03/13/1983	29.18		Probation Agency	07/06/13
Barbara J.	Robledo	G	05/22/1994	19.13		Human Services Agency	08/17/13
Valerie M.	Rodriguez	G	05/11/2003	9.47		County Clerk-Recorders	08/17/13
Anita D.	Smith	G	12/09/2001	11.53		Health Care Agency	08/03/13
Ing-Marie	Sundling-Currie	G	01/18/1999	12.47		Health Care Agency	08/22/13
Cathy R.	Thomason	G	10/17/1999	11.14		Library Services Agency (From Deferred)	08/26/13
Paul	Vider	G	08/05/2001	18.03	D=6.00	Sheriff's Department	08/13/13
Linda D.	Vivian	G	08/01/2013	3.96		Public Works (Non Member Spouse)	08/01/13

**DEFERRED RETIREMENTS:**

Susana	Buddenbohm	G	10/21/2007	5.71		Public Works Agency	09/07/13
Michelle	Dieterich	G	11/18/2007	4.83 *		Health Care Agency	08/02/13
Richard	Durant	G	01/02/2007	6.58	D=3.94140	Assessor	08/22/13
Linda	Finnerty	G	06/02/1996	17.25		District Attorney	09/13/13
Amanda	Getten	G	03/08/2009	3.71 *		Health Care Agency	07/26/13
Deanna	Keller	G	10/19/2008	4.83	A=2.3119	Public Works Agency	08/16/13
Karen	Monosco	G	01/06/1991	22.55		Health Care Agency	08/09/13
Edward	Lara	G	05/16/1999	14.09		Health Care Agency	08/02/13
Robert	Heaton	G	09/16/2001	11.80	C=1.4167	Fire Protection District	08/20/13
Cory	Kuepper	G	01/09/2000	9.28		Harbor Department	08/01/13
Erin K.	O'Connell	G	05/16/1999	14.01		Resource Management Agency	08/22/13
Karen	Piekarski	G	10/23/2005	7.80		Health Care Agency	09/10/13
Andres E.	Rodriguez	G	03/26/2006	6.99		Health Care Agency	08/30/13

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
REPORT OF REGULAR AND DEFERRED RETIREMENTS AND SURVIVORS CONTINUANCES**

**SEPTEMBER 2013**

<b>FIRST NAME</b>	<b>LAST NAME</b>	<b>G/S</b>	<b>DATE OF MEMBERSHIP</b>	<b>TOTAL SERVICE</b>	<b>OTHER SERVICE</b>	<b>DEPARTMENT</b>	<b>EFFECTIVE DATE</b>
Christina L.	Southwick	G	03/26/2006	7.32		Sheriff's Department	08/30/13
Susan E.	Trinidad	G	05/30/2010	3.12	C=4.0850	Human Services Agency	09/06/13
Carolyn S.	Walden	G	05/07/2006	5.48		Human Services Agency	09/11/13

**SURVIVORS' CONTINUANCES:**

Sharon L. Berg  
 Alice C. Evans  
 Joseph W. Norris  
 Ruth A. Sitton  
 Phyllis J. Wyatt

\* = Member Establishing Reciprocity  
 A = Previous Membership  
 B = Other County Service (eg Extra Help)  
 C = Reciprocal Service  
 D = Public Service



Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 1 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period To Post Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
<b>Company: VCERA</b>										
Acct / Sub:	1002		00							
022796	CK	9/4/2013	F7369 R. FAYE HALL	03-14	017597	VO	PENSION PAYMENT	9/4/2013	0.00	2,181.14
022797	CK	9/5/2013	100958 SYLVIA C. RAMIREZ	03-14	017598	VO	REFUND T2 COL	9/5/2013	0.00	12,553.03
022798	CK	9/6/2013	990004 WILL HOAG	03-14	017599	VO	TRAVEL REIMB	9/6/2013	0.00	1,124.05
022799	CK	9/6/2013	990007 DEANNA MCCORMICK	03-14	017624	VO	TRAVEL REIMB	9/6/2013	0.00	2,533.19
022800	CK	9/6/2013	SBS SBS GROUP	03-14	017625	VO	IT	9/6/2013	0.00	999.00
022801	CK	9/6/2013	BARNEY ABU COURT REPORTING INC	03-14	017626	VO	ADMIN EXP	9/6/2013	0.00	830.00
022802	CK	9/6/2013	COUNTY COUNTY COUNSEL	03-14	017627	VO	LEGAL FEES	9/6/2013	0.00	25,438.00
022803	CK	9/6/2013	BOFA BANK OF AMERICA	03-14	017628	VO	ADMIN EXP	9/6/2013	0.00	3,334.47
022804	CK	9/6/2013	CORPORATE STAPLES ADVANTAGE	03-14	017629	VO	ADMIN EXP	9/6/2013	0.00	1,527.29
022805	CK	9/6/2013	VOLT VOLT	03-14	017630	VO	ADMIN/PAS	9/6/2013	0.00	1,732.11
022806	CK	9/6/2013	F1921B1 CAPITAL BANK & TRUST COMPA	03-14	017600	VO	ROLLOVER	9/6/2013	0.00	3,096.73
022807	CK	9/6/2013	F2581S ALICE C. EVANS	03-14	017601	VO	DEATH BENEFIT	9/6/2013	0.00	3,234.42
022808	CK	9/6/2013	F3694B1 CHUN HWA ASHLEY	03-14	017602	VO	DEATH BENEFIT	9/6/2013	0.00	29.08

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 2 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period To Post Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
022809	CK	9/6/2013	F5687S JULIE A. ROUNSAVILL	03-14	017603	VO	DEATH BENEFIT	9/6/2013	0.00	2,125.13
022810	CK	9/6/2013	F1984B3 MAREE TUCKER	03-14	017604	VO	DEATH BENEFIT	9/6/2013	0.00	1,323.77
022811	CK	9/6/2013	F7128B1 DENNIS ROBERT YOUNG	03-14	017606	VO	DEATH BENEFIT	9/6/2013	0.00	4,798.34
022812	CK	9/6/2013	F7128B1R PACIFIC OAKS FEDERAL CREDIT	03-14	017607	VO	ROLLOVER	9/6/2013	0.00	3,870.39
022813	CK	9/6/2013	101849 CARMEN SAMANIEGO	03-14	017608	VO	REFUND T2 COL	9/6/2013	0.00	11,426.62
022814	CK	9/6/2013	104984 JILL L. PHILLIPS	03-14	017609	VO	REFUND T2 COL	9/6/2013	0.00	12,381.43
022815	CK	9/6/2013	117141 CRISTINA R. RANGEL	03-14	017610	VO	REFUND	9/6/2013	0.00	22,609.75
022816	CK	9/6/2013	119850 JOHN A. PINNELL	03-14	017611	VO	REFUND	9/6/2013	0.00	22,604.41
022817	CK	9/6/2013	119822 APRIL L. DUNCAN	03-14	017612	VO	REFUND	9/6/2013	0.00	3,853.27
022818	CK	9/6/2013	123312 ALICIA I. CATTONI	03-14	017613	VO	REFUND	9/6/2013	0.00	152.82
022819	CK	9/6/2013	116484 SUSAN E. BASS	03-14	017614	VO	REFUND	9/6/2013	0.00	49,635.20
022820	CK	9/6/2013	105545 TREASE S. ALLEN	03-14	017615	VO	REFUND	9/6/2013	0.00	23,244.23
022821	CK	9/6/2013	105545R FIDELITY MANAGEMENT TRUST	03-14	017616	VO	ROLLOVER	9/6/2013	0.00	37,917.96

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 3 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period		Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
				To Post	Closed						
022822	CK	9/6/2013	118492 ROXANNE M. FOX	03-14		017617	VO	REFUND	9/6/2013	0.00	31,629.82
022823	CK	9/6/2013	122808 GALDINO V. ALVAREZ	03-14		017618	VO	REFUND	9/6/2013	0.00	883.71
022824	CK	9/6/2013	117787 MARGARET R. COBB	03-14		017619	VO	REFUND	9/6/2013	0.00	3,149.26
022825	CK	9/6/2013	117787R MORGAN STANLEY	03-14		017620	VO	ROLLOVER	9/6/2013	0.00	4,204.16
022826	CK	9/6/2013	120680 GIZLE P. MANCHESTER	03-14		017621	VO	REFUND	9/6/2013	0.00	7,296.81
022827	CK	9/6/2013	118704 LA VALDA R. MARSHALL	03-14		017622	VO	REFUND	9/6/2013	0.00	39,682.15
022828	CK	9/6/2013	F4094B1 DONNA CHOHRACH	03-14		017623	VO	DEATH BENEFIT	9/6/2013	0.00	2,185.22
022829	CK	9/11/2013	XXXXX0150 GERHARD S. MUELLER	03-14		017631	VO	REFUND	9/11/2013	0.00	18,841.47
022830	CK	9/12/2013	BROWN BROWN ARMSTRONG	03-14	03-14	017641	VO	ADMIN EXP	9/12/2013	0.00	9,528.25
022830	VC	9/12/2013	BROWN BROWN ARMSTRONG	03-14	03-14	017641	VO	ADMIN EXP	9/12/2013	0.00	-9,528.25
<b>Check Total</b>										<b>0.00</b>	<b>0.00</b>
022831	CK	9/12/2013	CORPORATE STAPLES ADVANTAGE	03-14		017642	VO	ADMIN EXP	9/12/2013	0.00	602.63
022832	CK	9/12/2013	CORTEX CORTEX APPLIED RESEARCH	03-14		017643	VO	ADMIN EXP	9/12/2013	0.00	8,000.00
022833	CK	9/12/2013	SPRUCE SPRUCEGROVE INVESTMENT M	03-14		017645	VO	INVESTMENT FEES	9/12/2013	0.00	54,541.97
022834	CK	9/12/2013	VOLT VOLT	03-14		017646	VO	ADMIN EXP	9/12/2013	0.00	826.40

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 4 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period		Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
				To Post	Closed						
022835	CK	9/12/2013	F0597B1 KATRINA RAY-BARACKMAN	03-14		017633	VO	DEATH BENEFIT	9/12/2013	0.00	4,031.99
022836	CK	9/12/2013	F4275B1 DAVID GIBBONS	03-14		017634	VO	DEATH BENEFIT	9/12/2013	0.00	3,731.38
022837	CK	9/12/2013	108417 MICHELLE K. ECKHART	03-14		017635	VO	REFUND	9/12/2013	0.00	31,799.39
022838	CK	9/12/2013	122284 SHEYLA M. GONZALEZ	03-14		017636	VO	REFUND	9/12/2013	0.00	2,328.49
022839	CK	9/12/2013	122815 MARIA E. RENDEROS	03-14		017637	VO	REFUND	9/12/2013	0.00	830.81
022840	CK	9/12/2013	122917 LAURA M. QUINONEZ	03-14		017638	VO	REFUND	9/12/2013	0.00	473.12
022841	CK	9/12/2013	122930 KEITH C. DAVENPORT	03-14		017639	VO	REFUND	9/12/2013	0.00	412.32
022842	CK	9/12/2013	123202 ROBERT E. FIRE	03-14		017640	VO	REFUND	9/12/2013	0.00	1,079.41
022843	CK	9/12/2013	XXXXX9559 CYNTHIA COBB	03-14		017647	VO	PENSION PAYMENT	9/12/2013	0.00	5,500.00
022844	CK	9/12/2013	BROWN BROWN ARMSTRONG	03-14		017641	VO	ADMIN EXP	9/12/2013	0.00	9,528.25
022844	CK	9/12/2013	BROWN BROWN ARMSTRONG	03-14		017648	AD	CANCEL	9/12/2013	0.00	-9,528.25
022844	CK	9/12/2013	BROWN BROWN ARMSTRONG	03-14		017649	VO	ADMIN EXP	9/12/2013	0.00	8,008.41
								<b>Check Total</b>			<b>8,008.41</b>
022845	CK	9/19/2013	103212 BARBARA ROBLEDO	03-14		017650	VO	REFUND T2 COL	9/19/2013	0.00	11,690.44
022846	CK	9/19/2013	107898 VALERIE M. RODRIGUEZ	03-14		017651	VO	REFUND T2 COL	9/19/2013	0.00	8,926.30

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 5 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period		Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
				To Post	Closed						
022847	CK	9/19/2013	120802 JENNIFER L. BOCANEGRA	03-14		017652	VO	REFUND	9/19/2013	0.00	14,611.62
022848	CK	9/19/2013	121338 KRISTINE M. PLEIMANN	03-14		017653	VO	REFUND	9/19/2013	0.00	383.43
022849	CK	9/19/2013	121338R CHARLES SCHWAB, CUSTODIAN	03-14		017654	VO	ROLLOVER	9/19/2013	0.00	13,438.41
022850	CK	9/19/2013	F1802S RUTH A. SITTON	03-14		017655	VO	DEATH BENEFIT	9/19/2013	0.00	3,700.00
022851	CK	9/19/2013	F2021B1 JAN R. VAN ZANDT	03-14		017656	VO	DEATH BENEFIT	9/19/2013	0.00	3,467.81
022852	CK	9/19/2013	F2162S PHYLLIS J. WYATT	03-14		017657	VO	DEATH BENEFIT	9/19/2013	0.00	2,129.63
022853	CK	9/19/2013	990002 ARTHUR E. GOULET	03-14		017658	VO	MILEAGE REIMB	9/19/2013	0.00	38.42
022854	CK	9/19/2013	990002BM ARTHUR E GOULET	03-14		017659	VO	BRD MEM FEES	9/19/2013	0.00	200.00
022855	CK	9/19/2013	990003BM JOSEPH HENDERSON	03-14		017660	VO	BRD MEM FEES	9/19/2013	0.00	200.00
022856	CK	9/19/2013	990004BM WILL HOAG	03-14		017661	VO	BRD MEM FEES	9/19/2013	0.00	200.00
022857	CK	9/19/2013	990005BM WILLIAM W WILSON	03-14		017662	VO	BRD MEM FEES	9/19/2013	0.00	200.00
022858	CK	9/19/2013	990006BM MICHAEL SEDELL	03-14		017663	VO	BRD MEM FEES	9/19/2013	0.00	200.00
022859	CK	9/19/2013	ACCESS ACCESS INFORMATION MANAGE	03-14		017664	VO	ADMIN EXP	9/19/2013	0.00	335.02
022860	CK	9/19/2013	AT&T AT & T MOBILITY	03-14		017665	VO	IT	9/19/2013	0.00	216.90

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 6 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period		Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
				To Post	Closed						
022861	CK	9/19/2013	BARNEY ABU COURT REPORTING INC	03-14		017666	VO	ADMIN EXP	9/19/2013	0.00	1,230.00
022862	CK	9/19/2013	CUSTOM CUSTOM PRINTING	03-14		017667	VO	ADMIN EXP	9/19/2013	0.00	216.17
022863	CK	9/19/2013	MEGAPATH MEGAPATH INC.	03-14		017668	VO	IT	9/19/2013	0.00	164.93
022864	CK	9/19/2013	SBS SBS GROUP	03-14		017669	VO	IT	9/19/2013	0.00	306.25
022865	CK	9/19/2013	PALADINO ANNETTE A. PALADINO	03-14		017670	VO	ADMIN EXP	9/19/2013	0.00	851.48
022866	CK	9/19/2013	TWC TIME WARNER CABLE	03-14		017671	VO	IT/PAS (50/50)	9/19/2013	0.00	448.47
022867	CK	9/19/2013	VOLT VOLT	03-14		017672	VO	ADMIN EXP	9/19/2013	0.00	858.60
022868	CK	9/25/2013	ADP ADP INC	03-14		017673	VO	ADMIN EXP	9/25/2013	0.00	10,844.08
022869	CK	9/25/2013	AYALA IRENE P. AYALA	03-14		017674	VO	ADMIN EXP	9/25/2013	0.00	7,481.25
022870	CK	9/25/2013	BOFA BANK OF AMERICA	03-14		017675	VO	ADMIN EXP	9/25/2013	0.00	9,298.43
022871	CK	9/25/2013	BURSTEIN MARK BURSTEIN	03-14		017676	VO	ADMIN EXP	9/25/2013	0.00	1,487.50
022872	CK	9/25/2013	CINTAS CINTAS DOCUMENT MANAGEME	03-14		017677	VO	ADMIN EXP	9/25/2013	0.00	106.48
022873	CK	9/25/2013	CMP CMP & ASSOCIATES, INC	03-14		017678	VO	IT/PAS	9/25/2013	0.00	32,292.50

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 7 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period		Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
				To Post	Closed						
022874	CK	9/25/2013	COUNTY COUNTY COUNSEL	03-14		017679	VO	LEGAL FEES	9/25/2013	0.00	14,536.00
022875	CK	9/25/2013	CORPORATE STAPLES ADVANTAGE	03-14		017680	VO	ADMIN EXP	9/25/2013	0.00	197.26
022876	CK	9/25/2013	LINEA LINEA SOLUTIONS	03-14		017681	VO	IT/PAS	9/25/2013	0.00	69,642.15
022877	CK	9/25/2013	MBS MANAGED BUSINESS SOLUTION	03-14		017682	VO	IT/PAS	9/25/2013	0.00	12,087.50
022878	CK	9/25/2013	MF M.F. DAILY CORPORATION	03-14		017683	VO	ADMIN EXP	9/25/2013	0.00	15,102.21
022879	CK	9/25/2013	NOVANIS NOVANIS	03-14		017684	VO	IT	9/25/2013	0.00	8,530.00
022880	CK	9/25/2013	SBS SBS GROUP	03-14		017685	VO	IT	9/25/2013	0.00	87.50
022881	CK	9/25/2013	VITECH VITECH SYSTEMS GROUP INC	03-14		017686	VO	IT/PAS	9/25/2013	0.00	317,140.00
022882	CK	9/25/2013	VOLT VOLT	03-14		017687	VO	ADMIN/PAS	9/25/2013	0.00	3,247.45
022883	CK	9/25/2013	WEB SHERWEB	03-14		017688	VO	IT	9/25/2013	0.00	419.70
022884	CK	9/25/2013	CROST PAUL E CROST	03-14		017689	VO	ADMIN EXP	9/25/2013	0.00	6,912.50
022885	CK	9/30/2013	CALPERS CALPERS LONG-TERM	03-14		017690	VO	INSURANCE	9/30/2013	0.00	18,480.02
022886	CK	9/30/2013	CA SDU CALIFORNIA STATE	03-14		017691	VO	CRT ORDERED PMT	9/30/2013	0.00	1,005.01
022887	CK	9/30/2013	CVMP COUNTY OF VENTURA	03-14		017692	VO	INSURANCE	9/30/2013	0.00	579,595.98

Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 8 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period To Post Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
022888	CK	9/30/2013	CHILD5 STATE DISBURSEMENT UNIT (SI	03-14	017693	VO	CRT ORDERED PMT	9/30/2013	0.00	511.00
022889	CK	9/30/2013	CHILD9 SHERIDA SEGALL	03-14	017694	VO	CRT ORDERED PMT	9/30/2013	0.00	260.00
022890	CK	9/30/2013	CHILD21 OREGON DEPT OF JUSTICE	03-14	017695	VO	CRT ORDERED PMT	9/30/2013	0.00	171.74
022891	CK	9/30/2013	FTBCA3 FRANCHISE TAX BOARD	03-14	017696	VO	GARNISHMENT	9/30/2013	0.00	77.11
022892	CK	9/30/2013	IRS6 INTERNAL REVENUE SERVICE	03-14	017697	VO	GARNISHMENT	9/30/2013	0.00	321.00
022893	CK	9/30/2013	VCDSA VENTURA COUNTY DEPUTY	03-14	017698	VO	INSURANCE	9/30/2013	0.00	248,958.74
022894	CK	9/30/2013	VCPFF VENTURA COUNTY PROFESSIO	03-14	017699	VO	INSURANCE	9/30/2013	0.00	75,629.32
022895	CK	9/30/2013	VCREA RETIRED EMPLOYEES' ASSOCI/A	03-14	017700	VO	DUES	9/30/2013	0.00	4,264.50
022896	CK	9/30/2013	VRSD VENTURA REGIONAL	03-14	017701	VO	INSURANCE	9/30/2013	0.00	7,023.51
022897	CK	9/30/2013	VSP VISION SERVICE PLAN - (CA)	03-14	017702	VO	INSURANCE	9/30/2013	0.00	5,984.89
022898	CK	9/30/2013	SEIU SEIU LOCAL 721	03-14	017703	VO	DUES	9/30/2013	0.00	314.50
022899	CK	9/30/2013	SPOUSE2 KELLY SEARCY	03-14	017704	VO	CRT ORDERED PMT	9/30/2013	0.00	1,874.00
022900	CK	9/30/2013	SPOUSE3 ANGELINA ORTIZ	03-14	017705	VO	CRT ORDERED PMT	9/30/2013	0.00	250.00



Date: Tuesday, October 01, 2013  
 Time: 08:46AM  
 User: 108359

**Ventura County Retirement Assn**  
**Check Register - Standard**  
 Period: 03-14 As of: 10/1/2013

Page: 9 of 9  
 Report: 03630.rpt  
 Company: VCERA

Check Nbr	Check Type	Check Date	Vendor ID Vendor Name	Period To Post Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
022901	CK	9/30/2013	SPOUSE4 CATHY C. PEET	03-14	017706	VO	CRT ORDERED PMT	9/30/2013	0.00	550.00
022902	CK	9/30/2013	SPOUSE5 SUZANNA CARR	03-14	017707	VO	CRT ORDERED PMT	9/30/2013	0.00	829.00

Check Count: 108

**Acct Sub Total: 2,004,121.46**

Check Type	Count	Amount Paid
Regular	107	2,013,649.71
Hand	0	0.00
Electronic Payment	0	0.00
Void	1	-9,528.25
Stub	0	0.00
Zero	0	0.00
Mask	0	0.00
<b>Total:</b>	<b>108</b>	<b>2,004,121.46</b>

**Company Disc Total 0.00 Company Total 2,004,121.46**

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**ASSET ALLOCATION**  
**As of 09/30/2013**

Mandate	\$ Actual	% of Actual	\$ Target	% Target	Permissible Min Max		Outside Permissible	Calculated Adjustments	Proposed Adjustments	Closing Balance	Proposed Allocation	After Rebalancing
<b>BlackRock Extended Equity Index Fund</b>	<b>39,857,578</b>	1.01%	39,473,906	1.00%	0.5%	2.0%	OK	(383,672)		39,857,578	1.01%	OK
<b>Western U.S. Index Plus</b>	<b>110,426,193</b>	2.80%	118,421,718	3.00%	2.0%	4.0%	OK	7,995,525		110,426,193	2.80%	OK
<b>BlackRock Equity Market Fund</b>	<b>1,061,688,848</b>	26.90%	1,026,321,558	26.00%	22.0%	30.0%	OK	(35,367,290)		1,061,688,848	26.92%	OK
<b>Total U.S. Equities</b>	<b>1,211,972,619</b>	<b>30.70%</b>	<b>1,184,217,182</b>	<b>30.00%</b>	<b>24.5%</b>	<b>36.0%</b>	<b>OK</b>	<b>(27,755,437)</b>	<b>-</b>	<b>1,211,972,619</b>	<b>30.73%</b>	<b>OK</b>
<b>BlackRock ACWI ex-U.S. Index</b>	<b>376,886,647</b>	9.55%	236,843,436	6.00%	4.0%	8.0%	HIGH	(140,043,211)	(100,000,000)	276,886,647	7.02%	OK
<b>Sprucegrove</b>	<b>177,176,169</b>	4.49%	157,895,624	4.00%	3.0%	6.0%	OK	(19,280,545)		177,176,169	4.49%	OK
<b>Hexavest</b>	<b>76,842,723</b>	1.95%	78,947,812	2.00%	1.0%	3.0%	OK	2,105,089		76,842,723	1.95%	OK
<b>Walter Scott</b>	<b>91,530,028</b>	2.32%	78,947,812	2.00%	1.5%	4.0%	OK	(12,582,216)		91,530,028	2.32%	OK
<b>Total Non-U.S. Equities</b>	<b>722,435,567</b>	<b>18.30%</b>	<b>552,634,685</b>	<b>14.00%</b>	<b>9.5%</b>	<b>21.0%</b>	<b>OK</b>	<b>(169,800,882)</b>	<b>(100,000,000)</b>	<b>622,435,567</b>	<b>15.78%</b>	<b>OK</b>
<b>GMO (Global)</b>	<b>195,487,334</b>	4.95%	197,369,530	5.00%	3.0%	7.0%	OK	1,882,196		195,487,334	4.96%	OK
<b>BlackRock MSCI ACWI Equity Index</b>	<b>148,225,574</b>	3.76%	197,369,530	5.00%	3.0%	7.0%	OK	49,143,956	50,000,000	198,225,574	5.03%	OK
<b>Total Global Equities</b>	<b>343,712,908</b>	<b>8.71%</b>	<b>394,739,061</b>	<b>10.00%</b>	<b>6.0%</b>	<b>14.0%</b>	<b>OK</b>	<b>51,026,153</b>	<b>50,000,000</b>	<b>393,712,908</b>	<b>9.98%</b>	<b>OK</b>
<b>Total Equities</b>	<b>2,278,121,094</b>	<b>57.71%</b>	<b>2,131,590,927</b>	<b>54.00%</b>	<b>44.0%</b>	<b>64.0%</b>	<b>OK</b>	<b>(146,530,167)</b>	<b>(50,000,000)</b>	<b>2,228,121,094</b>	<b>56.50%</b>	<b>OK</b>
<b>Western (Core)</b>	<b>246,440,498</b>	6.24%	236,843,436	6.00%	3.0%	9.0%	OK	(9,597,062)	-	246,440,498	6.25%	OK
<b>BlackRock U.S. Debt Fund</b>	<b>131,280,758</b>	3.33%	118,421,718	3.00%	3.0%	6.0%	OK	(12,859,040)		131,280,758	3.33%	OK
<b>Reams (Core Plus)</b>	<b>247,024,329</b>	6.26%	276,317,342	7.00%	6.0%	9.0%	OK	29,293,013		247,024,329	6.26%	OK
<b>Loomis Sayles (Full Discretion)</b>	<b>65,384,529</b>	1.66%	118,421,718	3.00%	2.0%	4.0%	LOW	53,037,189		65,384,529	1.66%	LOW
<b>Total Domestic Fixed Income</b>	<b>690,130,114</b>	<b>17.48%</b>	<b>750,004,215</b>	<b>19.00%</b>	<b>14.0%</b>	<b>28.0%</b>	<b>OK</b>	<b>59,874,101</b>	<b>-</b>	<b>690,130,114</b>	<b>17.50%</b>	<b>OK</b>
<b>PIMCO (Global Unhedged)</b>	<b>131,042,654</b>	3.32%	118,421,718	3.00%	2.0%	4.0%	OK	(12,620,936)		131,042,654	3.32%	OK
<b>Loomis Sayles (Strategic Alpha)</b>	<b>40,049,443</b>	1.01%	-	-	-	-	HIGH	(40,049,443)		40,049,443	1.02%	OK
<b>Loomis Sayles (Global)</b>	<b>66,554,856</b>	1.69%	78,947,812	2.00%	1.0%	4.0%	OK	12,392,956	25,000,000	91,554,856	2.32%	OK
<b>Total Global Fixed Income</b>	<b>237,646,953</b>	<b>6.02%</b>	<b>197,369,530</b>	<b>5.00%</b>	<b>3.0%</b>	<b>8.0%</b>	<b>OK</b>	<b>(40,277,423)</b>	<b>25,000,000</b>	<b>262,646,953</b>	<b>6.66%</b>	<b>OK</b>
<b>Total Fixed Income</b>	<b>927,777,067</b>	<b>23.50%</b>	<b>947,373,745</b>	<b>24.00%</b>	<b>17.0%</b>	<b>36.0%</b>	<b>OK</b>	<b>19,596,678</b>	<b>25,000,000</b>	<b>952,777,067</b>	<b>24.16%</b>	<b>OK</b>
<b>Prudential Real Estate</b>	<b>88,722,665</b>	2.25%	118,421,718	3.00%	2.0%	4.0%	OK	29,699,053		88,722,665	2.25%	OK
<b>UBS Real Estate</b>	<b>182,671,174</b>	4.63%	148,027,148	3.75%	3.0%	6.0%	OK	(34,644,026)		182,671,174	4.63%	OK
<b>RREEF</b>	<b>6,350,544</b>	0.16%	9,868,477	0.25%	0.0%	1.0%	OK	3,517,933		6,350,544	0.16%	OK
<b>Real Estate</b>	<b>277,744,383</b>	<b>7.04%</b>	<b>276,317,342</b>	<b>7.00%</b>	<b>5.0%</b>	<b>11.0%</b>	<b>OK</b>	<b>(1,427,041)</b>	<b>-</b>	<b>277,744,383</b>	<b>7.04%</b>	<b>OK</b>
<b>Adams Street Partners</b>	<b>36,048,702</b>	0.91%	118,421,718	3.00%	1.0%	4.0%	LOW	82,373,016		36,048,702	0.91%	LOW
<b>Pantheon Ventures</b>	<b>8,703,475</b>	0.22%	9,868,477	0.25%	0.0%	2.0%	OK	1,165,002		8,703,475	0.22%	OK
<b>HarbourVest</b>	<b>8,968,279</b>	0.23%	69,079,336	1.75%	0.0%	2.0%	OK	60,111,057	-	8,968,279	0.23%	OK
<b>Private Equity</b>	<b>53,720,456</b>	1.36%	197,369,530	5.00%	1.0%	8.0%	OK	143,649,074	-	53,720,456	1.36%	OK
<b>Bridgewater (See Note 1)</b>	<b>252,610,108</b>	6.40%	276,317,342	7.00%	2.0%	8.0%	OK	23,707,234		252,610,108	6.41%	OK
<b>Tortoise Capital Advisors</b>	<b>113,326,497</b>	2.87%	118,421,718	3.00%	1.0%	5.0%	OK	5,095,221		113,326,497	2.87%	OK
<b>Alternatives</b>	<b>365,936,605</b>	<b>9.27%</b>	<b>394,739,061</b>	<b>10.00%</b>	<b>3.0%</b>	<b>13.0%</b>	<b>OK</b>	<b>28,802,456</b>	<b>-</b>	<b>365,936,605</b>	<b>9.28%</b>	<b>OK</b>
<b>Clifton (Cash Overlay)</b>	<b>40,086,955</b>	1.02%	-	0.00%	0.0%	3.0%	OK	(40,086,955)	25,000,000	65,086,955	1.65%	OK
<b>In-House Cash (Treasury)</b>	<b>4,004,046</b>	0.10%	-	0.00%	0.0%	3.0%	OK	(4,004,046)		4,004,046	0.10%	OK
<b>Other Assets</b>	<b>44,091,001</b>	1.12%	-	0.00%	0.0%	3.0%	OK	(44,091,001)	25,000,000	65,086,955	1.65%	OK
<b>Total Investment Portfolio</b>	<b>3,947,390,606</b>	<b>100.00%</b>	<b>3,947,390,606</b>	<b>100.00%</b>				<b>0</b>	<b>-</b>	<b>3,943,386,560</b>	<b>100.00%</b>	

Note 1 - This amount is estimated based on September performance.

General Note - The proposed adjustments were redeemed but did not settle until October 1, 2013. Balances will be reflected in October 31, 2013 report.

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT OF PLAN NET POSITION**  
**JULY 31, 2013**

**ASSETS**

**CASH & CASH EQUIVALENTS** **\$223,598,698**

**RECEIVABLES**

ACCRUED INTEREST AND DIVIDENDS	3,412,613
SECURITY SALES	15,893,166
MISCELLANEOUS	1,007
<b>TOTAL RECEIVABLES</b>	<b>19,306,787</b>

**INVESTMENTS AT FAIR VALUE**

DOMESTIC EQUITY SECURITIES	88,610,218
DOMESTIC EQUITY INDEX FUNDS	1,252,883,669
INTERNATIONAL EQUITY SECURITIES	327,492,954
INTERNATIONAL EQUITY INDEX FUNDS	356,625,118
GLOBAL EQUITY	335,303,236
PRIVATE EQUITY	46,305,600
DOMESTIC FIXED INCOME - CORE PLUS	544,539,920
DOMESTIC FIXED INCOME - U.S. INDEX	130,686,469
GLOBAL FIXED INCOME	211,884,102
REAL ESTATE	279,812,641
ALTERNATIVES	109,792,573
CASH OVERLAY - CLIFTON	(3,326)
<b>TOTAL INVESTMENTS</b>	<b>3,683,933,173</b>

**PENSION SOFTWARE DEVELOPMENT COSTS** **3,443,718**

**TOTAL ASSETS** **3,930,282,375**

**LIABILITIES**

SECURITY PURCHASES PAYABLE	32,206,647
ACCOUNTS PAYABLE	2,471,564
PREPAID CONTRIBUTIONS	152,596,757
	<b>187,274,968</b>

**TOTAL LIABILITIES** **187,274,968**

**NET POSITION HELD IN TRUST FOR PENSION BENEFITS** **\$3,743,007,407**

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF CHANGES IN PLAN NET POSITION  
FOR THE MONTH ENDED JULY 31, 2013**

**ADDITIONS**

**CONTRIBUTIONS**

EMPLOYER	\$8,324,395
EMPLOYEE	2,365,869
<b>TOTAL CONTRIBUTIONS</b>	<u>10,690,263</u>

**INVESTMENT INCOME**

NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	118,620,899
INTEREST INCOME	1,141,506
DIVIDEND INCOME	3,207,496
REAL ESTATE OPERATING INCOME, NET	
SECURITY LENDING INCOME	1,014
<b>TOTAL INVESTMENT INCOME</b>	<u>122,970,915</u>

**LESS INVESTMENT EXPENSES**

MANAGEMENT & CUSTODIAL FEES	
SECURITIES LENDING BORROWER REBATES	(3,542)
SECURITIES LENDING MANAGEMENT FEES	4,556
<b>TOTAL INVESTMENT EXPENSES</b>	<u>1,014</u>

**NET INVESTMENT INCOME** 122,969,902

**TOTAL ADDITIONS** 133,660,165

**DEDUCTIONS**

BENEFIT PAYMENTS	17,748,111
MEMBER REFUNDS	156,508
ADMINISTRATIVE EXPENSES	253,606
<b>TOTAL DEDUCTIONS</b>	<u>18,158,225</u>

**NET INCREASE/(DECREASE)** 115,501,940

**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**

**BEGINNING OF YEAR** 3,627,505,467

**ENDING BALANCE** \$3,743,007,407

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENTS AND CASH EQUIVALENTS**  
**JULY 31, 2013**

**EQUITY**

**DOMESTIC EQUITY**

WESTERN ASSET INDEX PLUS	\$88,610,218	\$18,256,280
<b>TOTAL DOMESTIC EQUITY</b>	<b>88,610,218</b>	<b>18,256,280</b>

**DOMESTIC INDEX FUNDS**

BLACKROCK - US EQUITY MARKET	1,214,172,123	0
BLACKROCK - EXTENDED EQUITY	38,711,546	1
<b>TOTAL EQUITY INDEX FUNDS</b>	<b>1,252,883,669</b>	<b>1</b>

**INTERNATIONAL EQUITY**

SPRUCEGROVE	167,801,467	0
HEXAVEST	72,998,406	0
WALTER SCOTT	86,693,080	0
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>327,492,954</b>	<b>0</b>

**INTERNATIONAL INDEX FUNDS**

BLACKROCK - ACWIXUS	356,625,118	0
<b>TOTAL INTERNATIONAL INDEX FUNDS</b>	<b>356,625,118</b>	<b>0</b>

**GLOBAL EQUITY**

GRANTHAM MAYO AND VAN OTTERLOO (GMO)	191,242,224	0
BLACKROCK - GLOBAL INDEX	144,061,012	0
<b>TOTAL GLOBAL EQUITY</b>	<b>335,303,236</b>	<b>0</b>

**PRIVATE EQUITY**

ADAMS STREET	33,575,961	0
PANTHEON	8,485,929	0
HARBOURVEST	4,243,710	0
<b>TOTAL PRIVATE EQUITY</b>	<b>46,305,600</b>	<b>0</b>

**FIXED INCOME**

**DOMESTIC**

LOOMIS SAYLES AND COMPANY	60,095,393	4,180,920
REAMS	245,927,100	1,768
WESTERN ASSET MANAGEMENT	238,517,427	13,525,976
<b>TOTAL DOMESTIC</b>	<b>544,539,920</b>	<b>17,708,663</b>

**DOMESTIC INDEX FUNDS**

BLACKROCK - US DEBT INDEX	130,686,469	0
<b>TOTAL DOMESTIC INDEX FUNDS</b>	<b>130,686,469</b>	<b>0</b>

**GLOBAL**

LOOMIS SAYLES AND COMPANY	65,858,278	0
LOOMIS ALPHA	40,200,573	0
PIMCO	105,825,250	2,270,099
<b>TOTAL GLOBAL</b>	<b>211,884,102</b>	<b>2,270,099</b>

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENTS AND CASH EQUIVALENTS**  
**JULY 31, 2013**

<b>REAL ESTATE</b>		
PRUDENTIAL REAL ESTATE	88,599,277	0
RREEF	8,542,190	0
UBS REALTY	182,671,174	0
<b>TOTAL REAL ESTATE</b>	<u>279,812,641</u>	<u>0</u>
<b>ALTERNATIVES</b>		
TORTOISE (MLP's)	109,792,573	2,148,999
<b>TOTAL ALTERNATIVES</b>	<u>109,792,573</u>	<u>2,148,999</u>
<b>CASH OVERLAY - CLIFTON GROUP</b>	(3,326)	94,840,321
<b>IN HOUSE CASH</b>		<u>88,374,335</u>
<b>TOTAL INVESTMENTS AND CASH</b>	<u><u>\$3,683,933,173</u></u>	<u><u>\$223,598,698</u></u>

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT OF PLAN NET POSITION**  
**AUGUST 31, 2013**

**ASSETS**

**CASH & CASH EQUIVALENTS** **\$118,015,482**

**RECEIVABLES**

ACCRUED INTEREST AND DIVIDENDS	3,107,367
SECURITY SALES	33,008,113
MISCELLANEOUS	365
<b>TOTAL RECEIVABLES</b>	<b>36,115,845</b>

**INVESTMENTS AT FAIR VALUE**

DOMESTIC EQUITY SECURITIES	89,813,056
DOMESTIC EQUITY INDEX FUNDS	1,056,394,076
INTERNATIONAL EQUITY SECURITIES	325,381,222
INTERNATIONAL EQUITY INDEX FUNDS	351,964,492
GLOBAL EQUITY	327,592,641
PRIVATE EQUITY	46,785,600
DOMESTIC FIXED INCOME - CORE PLUS	535,260,874
DOMESTIC FIXED INCOME - U.S. INDEX	130,021,338
GLOBAL FIXED INCOME	209,827,652
REAL ESTATE	279,812,641
ALTERNATIVES	357,186,741
CASH OVERLAY - CLIFTON	(10,729)
<b>TOTAL INVESTMENTS</b>	<b>3,710,029,605</b>

**PENSION SOFTWARE DEVELOPMENT COSTS** **3,443,718**

**TOTAL ASSETS** **3,867,604,650**

**LIABILITIES**

SECURITY PURCHASES PAYABLE	42,008,604
ACCOUNTS PAYABLE	134,295
PREPAID CONTRIBUTIONS	140,327,193
	<b>182,470,092</b>

**TOTAL LIABILITIES** **182,470,092**

**NET POSITION HELD IN TRUST FOR PENSION BENEFITS** **\$3,685,134,557**

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF CHANGES IN PLAN NET POSITION  
FOR THE TWO MONTHS ENDED AUGUST 31, 2013**

**ADDITIONS**

**CONTRIBUTIONS**

EMPLOYER	\$19,865,248
EMPLOYEE	5,865,634
<b>TOTAL CONTRIBUTIONS</b>	<u><b>25,730,882</b></u>

**INVESTMENT INCOME**

NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	62,840,852
INTEREST INCOME	2,220,590
DIVIDEND INCOME	4,028,994
REAL ESTATE OPERATING INCOME, NET	
SECURITY LENDING INCOME	13,255
<b>TOTAL INVESTMENT INCOME</b>	<u><b>69,103,690</b></u>

**LESS INVESTMENT EXPENSES**

MANAGEMENT & CUSTODIAL FEES	61,050
SECURITIES LENDING BORROWER REBATES	(4,007)
SECURITIES LENDING MANAGEMENT FEES	6,638
<b>TOTAL INVESTMENT EXPENSES</b>	<u><b>63,681</b></u>

**NET INVESTMENT INCOME** **69,040,009**

**TOTAL ADDITIONS** **94,770,891**

**DEDUCTIONS**

BENEFIT PAYMENTS	35,563,803
MEMBER REFUNDS	347,196
ADMINISTRATIVE EXPENSES	1,230,802
<b>TOTAL DEDUCTIONS</b>	<u><b>37,141,801</b></u>

**NET INCREASE/(DECREASE)** **57,629,090**

**NET ASSETS HELD IN TRUST FOR PENSION BENEFITS**

**BEGINNING OF YEAR** **3,627,505,467**

**ENDING BALANCE** **\$3,685,134,557**



**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENTS AND CASH EQUIVALENTS**  
**AUGUST 31, 2013**

<b>EQUITY</b>		
<b>DOMESTIC EQUITY</b>		
WESTERN ASSET INDEX PLUS	\$89,813,056	\$15,537,549
<b>TOTAL DOMESTIC EQUITY</b>	<b>89,813,056</b>	<b>15,537,549</b>
<b>DOMESTIC INDEX FUNDS</b>		
BLACKROCK - US EQUITY MARKET	1,018,752,731	0
BLACKROCK - EXTENDED EQUITY	37,641,345	1
<b>TOTAL EQUITY INDEX FUNDS</b>	<b>1,056,394,076</b>	<b>1</b>
<b>INTERNATIONAL EQUITY</b>		
SPRUCEGROVE	166,512,538	0
HEXAVEST	72,299,417	0
WALTER SCOTT	86,569,268	0
<b>TOTAL INTERNATIONAL EQUITY</b>	<b>325,381,222</b>	<b>0</b>
<b>INTERNATIONAL INDEX FUNDS</b>		
BLACKROCK - ACWIXUS	351,964,492	0
<b>TOTAL INTERNATIONAL INDEX FUNDS</b>	<b>351,964,492</b>	<b>0</b>
<b>GLOBAL EQUITY</b>		
GRANTHAM MAYO AND VAN OTTERLOO (GMO)	186,572,602	0
BLACKROCK - GLOBAL INDEX	141,020,039	0
<b>TOTAL GLOBAL EQUITY</b>	<b>327,592,641</b>	<b>0</b>
<b>PRIVATE EQUITY</b>		
ADAMS STREET	34,280,961	0
PANTHEON	8,260,929	0
HARBOURVEST	4,243,710	0
<b>TOTAL PRIVATE EQUITY</b>	<b>46,785,600</b>	<b>0</b>
<b>FIXED INCOME</b>		
<b>DOMESTIC</b>		
LOOMIS SAYLES AND COMPANY	57,779,713	5,685,532
REAMS	246,287,961	0
WESTERN ASSET MANAGEMENT	231,193,200	11,950,093
<b>TOTAL DOMESTIC</b>	<b>535,260,874</b>	<b>17,635,625</b>
<b>DOMESTIC INDEX FUNDS</b>		
BLACKROCK - US DEBT INDEX	130,021,338	0
<b>TOTAL DOMESTIC INDEX FUNDS</b>	<b>130,021,338</b>	<b>0</b>
<b>GLOBAL</b>		
LOOMIS SAYLES AND COMPANY	65,161,700	0
LOOMIS ALPHA	39,822,748	0
PIMCO	104,843,204	1,938,450
<b>TOTAL GLOBAL</b>	<b>209,827,652</b>	<b>1,938,450</b>

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**INVESTMENTS AND CASH EQUIVALENTS**  
**AUGUST 31, 2013**

<b>REAL ESTATE</b>		
PRUDENTIAL REAL ESTATE	88,599,277	0
RREEF	8,542,190	0
UBS REALTY	182,671,174	0
<b>TOTAL REAL ESTATE</b>	<u>279,812,641</u>	<u>0</u>
 <b>ALTERNATIVES</b>		
BRIDGEWATER	250,000,000	0
TORTOISE (MLP's)	107,186,741	3,312,028
<b>TOTAL ALTERNATIVES</b>	<u>357,186,741</u>	<u>3,312,028</u>
 <b>CASH OVERLAY - CLIFTON GROUP</b>	 (10,729)	 77,523,022
<b>IN HOUSE CASH</b>	<u>                                </u>	<u>2,068,806</u>
 <b>TOTAL INVESTMENTS AND CASH</b>	 <u><u>\$3,710,029,605</u></u>	 <u><u>\$118,015,482</u></u>

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**BUDGET SUMMARY FISCAL YEAR 2013-2014**  
**July 2013 - 8.33% of Fiscal Year Expended**

<u>EXPENDITURE DESCRIPTIONS</u>	<u>Adopted 2013/2014 Budget</u>	<u>Adjusted 2013/2014 Budget</u>	<u>Jul-13</u>	<u>Year to Date Expended</u>	<u>Available Balance</u>	<u>Percent Expended</u>
<b>Salaries &amp; Benefits:</b>						
Salaries	\$ 1,725,600.00	\$ 1,725,600.00	\$ 87,350.93	\$ 87,350.93	\$ 1,638,249.07	5.06%
Extra-Help	25,000.00	25,000.00	643.95	643.95	24,356.05	2.58%
Overtime	1,500.00	1,500.00	51.25	51.25	1,448.75	3.42%
Supplemental Payments	53,700.00	53,700.00	2,604.84	2,604.84	51,095.16	4.85%
Vacation Redemption	87,500.00	87,500.00	8,704.61	8,704.61	78,795.39	9.95%
Retirement Contributions	424,800.00	424,800.00	19,629.78	19,629.78	405,170.22	4.62%
OASDI Contributions	107,800.00	107,800.00	5,971.45	5,971.45	101,828.55	5.54%
FICA-Medicare	27,000.00	27,000.00	1,396.59	1,396.59	25,603.41	5.17%
Retiree Health Benefit	16,200.00	16,200.00	1,351.56	1,351.56	14,848.44	8.34%
Group Health Insurance	170,800.00	170,800.00	8,471.08	8,471.08	162,328.92	4.96%
Life Insurance/Mgmt	1,000.00	1,000.00	53.60	53.60	946.40	5.36%
Unemployment Insurance	2,200.00	2,200.00	94.46	94.46	2,105.54	4.29%
Management Disability Insurance	4,200.00	4,200.00	211.65	211.65	3,988.35	5.04%
Worker' Compensation Insurance	10,900.00	10,900.00	618.23	618.23	10,281.77	5.67%
401K Plan Contribution	33,800.00	33,800.00	1,469.95	1,469.95	32,330.05	4.35%
Transfers In	60,800.00	60,800.00	6,916.43	6,916.43	53,883.57	11.38%
Transfers Out	(60,800.00)	(60,800.00)	(6,916.43)	(6,916.43)	(53,883.57)	11.38%
<b>Total Salaries &amp; Benefits</b>	<b>\$ 2,692,000.00</b>	<b>\$ 2,692,000.00</b>	<b>\$ 138,623.93</b>	<b>\$ 138,623.93</b>	<b>\$ 2,553,376.07</b>	<b>5.15%</b>
<b>Services &amp; Supplies:</b>						
Telecommunication Services - ISF	\$ 46,600.00	\$ 46,600.00	\$ -	\$ -	\$ 46,600.00	0.00%
General Insurance - ISF	12,300.00	12,300.00	0.00	0.00	12,300.00	0.00%
Office Equipment Maintenance	1,000.00	1,000.00	0.00	0.00	1,000.00	0.00%
Membership and Dues	9,300.00	9,300.00	0.00	0.00	9,300.00	0.00%
Education Allowance	6,000.00	6,000.00	2,000.00	2,000.00	4,000.00	33.33%
Cost Allocation Charges	57,300.00	57,300.00	0.00	0.00	57,300.00	0.00%
Printing Services - Not ISF	6,000.00	6,000.00	0.00	0.00	6,000.00	0.00%
Books & Publications	2,000.00	2,000.00	0.00	0.00	2,000.00	0.00%
Office Supplies	20,000.00	20,000.00	0.00	0.00	20,000.00	0.00%
Postage & Express	55,000.00	55,000.00	62.13	62.13	54,937.87	0.11%
Printing Charges - ISF	12,500.00	12,500.00	0.00	0.00	12,500.00	0.00%
Copy Machine Services - ISF	7,100.00	7,100.00	0.00	0.00	7,100.00	0.00%
Board Member Fees	11,000.00	11,000.00	1,000.00	1,000.00	10,000.00	9.09%
Professional Services	960,400.00	960,400.00	88,329.15	88,329.15	872,070.85	9.20%
Storage Charges	4,000.00	4,000.00	0.00	0.00	4,000.00	0.00%
Equipment	15,000.00	15,000.00	0.00	0.00	15,000.00	0.00%
Office Lease Payments	186,400.00	186,400.00	15,102.21	15,102.21	171,297.79	8.10%
Private Vehicle Mileage	8,300.00	8,300.00	515.13	515.13	7,784.87	6.21%
Conference, Seminar and Travel	65,000.00	65,000.00	6,212.16	6,212.16	58,787.84	9.56%
Furniture	11,200.00	11,200.00	0.00	0.00	11,200.00	0.00%
Facilities Charges	62,200.00	62,200.00	0.00	0.00	62,200.00	0.00%
Transfers In	11,300.00	11,300.00	1,247.14	1,247.14	10,052.86	11.04%
Transfers Out	(11,300.00)	(11,300.00)	(1,247.14)	(1,247.14)	(10,052.86)	11.04%
<b>Total Services &amp; Supplies</b>	<b>\$ 1,558,600.00</b>	<b>\$ 1,558,600.00</b>	<b>\$ 113,220.78</b>	<b>\$ 113,220.78</b>	<b>\$ 1,445,379.22</b>	<b>7.26%</b>
<b>Total Sal, Ben, Serv &amp; Supp</b>	<b>\$ 4,250,600.00</b>	<b>\$ 4,250,600.00</b>	<b>\$ 251,844.71</b>	<b>\$ 251,844.71</b>	<b>\$ 3,998,755.29</b>	<b>5.92%</b>
<b>Technology:</b>						
Computer Hardware	\$ 22,200.00	\$ 15,200.00	\$ -	\$ -	\$ 15,200.00	0.00%
Computer Software	46,200.00	36,700.00	0.00	0.00	36,700.00	0.00%
Systems & Application Support	419,900.00	451,400.00	448.47	448.47	450,951.53	0.10%
Pension Administration System	2,494,400.00	2,692,100.00	1,152.38	1,152.38	2,690,947.62	0.04%
<b>Total Technology</b>	<b>\$ 2,982,700.00</b>	<b>\$ 3,195,400.00</b>	<b>\$ 1,600.85</b>	<b>\$ 1,600.85</b>	<b>\$ 3,193,799.15</b>	<b>0.05%</b>
<b>Contingency</b>	<b>\$ 695,900.00</b>	<b>\$ 483,200.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total Current Year</b>	<b>\$ 7,929,200.00</b>	<b>\$ 7,929,200.00</b>	<b>\$ 253,445.56</b>	<b>\$ 253,445.56</b>	<b>\$ 7,675,754.44</b>	<b>3.20%</b>

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
BUDGET SUMMARY FISCAL YEAR 2013-2014  
August 2013 - 16.67% of Fiscal Year Expended**

EXPENDITURE DESCRIPTIONS	Adopted 2013/2014 Budget	Adjusted 2013/2014 Budget	Aug-13	Year to Date Expended	Available Balance	Percent Expended
<b>Salaries &amp; Benefits:</b>						
Salaries	\$ 1,725,600.00	\$ 1,725,600.00	\$ 127,199.47	\$ 214,550.40	\$ 1,511,049.60	12.43%
Extra-Help	25,000.00	25,000.00	4,185.68	4,829.63	20,170.37	19.32%
Overtime	1,500.00	1,500.00	0.00	51.25	1,448.75	3.42%
Supplemental Payments	53,700.00	53,700.00	3,934.80	6,539.64	47,160.36	12.18%
Vacation Redemption	87,500.00	87,500.00	10,462.25	19,166.86	68,333.14	21.90%
Retirement Contributions	424,800.00	424,800.00	28,620.09	48,249.87	376,550.13	11.36%
OASDI Contributions	107,800.00	107,800.00	8,558.92	14,530.37	93,269.63	13.48%
FICA-Medicare	27,000.00	27,000.00	2,001.69	3,398.28	23,601.72	12.59%
Retiree Health Benefit	16,200.00	16,200.00	1,351.56	2,703.12	13,496.88	16.69%
Group Health Insurance	170,800.00	170,800.00	12,285.00	20,756.08	150,043.92	12.15%
Life Insurance/Mgmt	1,000.00	1,000.00	79.58	133.18	866.82	13.32%
Unemployment Insurance	2,200.00	2,200.00	152.64	247.10	1,952.90	11.23%
Management Disability Insurance	4,200.00	4,200.00	307.50	519.15	3,680.85	12.36%
Worker' Compensation Insurance	10,900.00	10,900.00	874.58	1,492.81	9,407.19	13.70%
401K Plan Contribution	33,800.00	33,800.00	2,052.89	3,522.84	30,277.16	10.42%
Transfers In	60,800.00	60,800.00	4,148.97	11,065.40	49,734.60	18.20%
Transfers Out	(60,800.00)	(60,800.00)	(4,148.97)	(11,065.40)	(49,734.60)	18.20%
<b>Total Salaries &amp; Benefits</b>	<b>\$ 2,692,000.00</b>	<b>\$ 2,692,000.00</b>	<b>\$ 202,066.65</b>	<b>\$ 340,690.58</b>	<b>\$ 2,351,309.42</b>	<b>12.66%</b>
<b>Services &amp; Supplies:</b>						
Telecommunication Services - ISF	\$ 46,600.00	\$ 46,600.00	\$ 5,415.46	\$ 5,415.46	\$ 41,184.54	11.62%
General Insurance - ISF	12,300.00	12,300.00	0.00	0.00	12,300.00	0.00%
Office Equipment Maintenance	1,000.00	1,000.00	0.00	0.00	1,000.00	0.00%
Membership and Dues	9,300.00	9,300.00	4,200.00	4,200.00	5,100.00	45.16%
Education Allowance	6,000.00	6,000.00	0.00	2,000.00	4,000.00	33.33%
Cost Allocation Charges	57,300.00	57,300.00	0.00	0.00	57,300.00	0.00%
Printing Services - Not ISF	6,000.00	6,000.00	0.00	0.00	6,000.00	0.00%
Books & Publications	2,000.00	2,000.00	50.00	50.00	1,950.00	2.50%
Office Supplies	20,000.00	20,000.00	1,984.05	1,984.05	18,015.95	9.92%
Postage & Express	55,000.00	55,000.00	6,994.35	7,056.48	47,943.52	12.83%
Printing Charges - ISF	12,500.00	12,500.00	0.20	0.20	12,499.80	0.00%
Copy Machine Services - ISF	7,100.00	7,100.00	0.00	0.00	7,100.00	0.00%
Board Member Fees	11,000.00	11,000.00	500.00	1,500.00	9,500.00	13.64%
Professional Services	960,400.00	960,400.00	45,426.15	133,755.30	826,644.70	13.93%
Storage Charges	4,000.00	4,000.00	488.09	488.09	3,511.91	12.20%
Equipment	15,000.00	15,000.00	468.69	468.69	14,531.31	3.12%
Office Lease Payments	186,400.00	186,400.00	15,102.21	30,204.42	156,195.58	16.20%
Private Vehicle Mileage	8,300.00	8,300.00	1,163.78	1,678.91	6,621.09	20.23%
Conference, Seminar and Travel	65,000.00	65,000.00	9,009.39	15,221.55	49,778.45	23.42%
Furniture	11,200.00	11,200.00	7,725.35	7,725.35	3,474.65	68.98%
Facilities Charges	62,200.00	62,200.00	0.00	0.00	62,200.00	0.00%
Transfers In	11,300.00	11,300.00	748.13	1,995.27	9,304.73	17.66%
Transfers Out	(11,300.00)	(11,300.00)	(748.13)	(1,995.27)	(9,304.73)	17.66%
<b>Total Services &amp; Supplies</b>	<b>\$ 1,558,600.00</b>	<b>\$ 1,558,600.00</b>	<b>\$ 98,527.72</b>	<b>\$ 211,748.50</b>	<b>\$ 1,346,851.50</b>	<b>13.59%</b>
<b>Total Sal, Ben, Serv &amp; Supp</b>	<b>\$ 4,250,600.00</b>	<b>\$ 4,250,600.00</b>	<b>\$ 300,594.37</b>	<b>\$ 552,439.08</b>	<b>\$ 3,698,160.92</b>	<b>13.00%</b>
<b>Technology:</b>						
Computer Hardware	\$ 22,200.00	\$ 15,200.00	\$ 2,958.47	2,958.47	\$ 12,241.53	19.46%
Computer Software	46,200.00	36,700.00	6,558.00	6,558.00	30,142.00	17.87%
Systems & Application Support	419,900.00	451,400.00	34,801.67	35,250.14	416,149.86	7.81%
Pension Administration System	2,494,400.00	2,692,100.00	632,283.88	633,436.26	2,058,663.74	23.53%
<b>Total Technology</b>	<b>\$ 2,982,700.00</b>	<b>\$ 3,195,400.00</b>	<b>\$ 676,602.02</b>	<b>\$ 678,202.87</b>	<b>\$ 2,517,197.13</b>	<b>21.22%</b>
Contingency	\$ 695,900.00	\$ 483,200.00	\$ -	\$ -	\$ -	0.00%
<b>Total Current Year</b>	<b>\$ 7,929,200.00</b>	<b>\$ 7,929,200.00</b>	<b>\$ 977,196.39</b>	<b>\$ 1,230,641.95</b>	<b>\$ 6,698,558.05</b>	<b>15.52%</b>

# 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 21, 2013

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

**SUBJECT: QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR JULY 1,  
2013 TO SEPTEMBER 30, 2013**

Dear Board Members:

VCERA's Monitoring and Reporting policy provides for "as needed reporting" from the Administrator as to any pertinent administrative items. In addition, VCERA's Chair Charter provides for a quarterly review of Administrator travel and other expenses. This quarterly report will serve to satisfy the Chair's Charter and provide a forum for presenting pertinent administrative matters that have not already been reported separately during the quarter.

Report items are for the period of July 1, 2013 to September 30, 2013 and include: 1) travel, training, and other expenses since the last report, 2) key meetings, 3) press/media communications, 4) any items the Administrator has been asked to report back to the Board on, 5) other items of interest or importance, and 6.) Fiscal Impact of any proposed actions.

## 1. Travel, Training, and Other Expenses since the Last Report

This section outlines VCERA-sponsored training and travel since the last report, along with a very brief summary of what was covered. In addition, brief summaries of contracts entered into by the Retirement Administrator, per the parameters of the Retirement Administrator Charter, will be provided below.

### *Business Travel*

- July 9-11, 2013: Staff support and participation in the Ad Hoc RFP Committee investment consultant due diligence site visits to Boston, MA. I accompanied Trustees Goulet and C. Johnston, and Ms. Nemiroff of Board Counsel on the visits of Meketa and NEPC. My costs totaled approximately \$1,966.51 and are approximate as some costs were shared, such as car rental and taxi services. The most significant portion of the costs includes airfare totaling \$948.80, hotel

## QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR JULY 1, 2013 TO SEPTEMBER 30, 2013

October 21, 2013

Page 2 of 6

totaling \$774.32, and one quarter of the rental car and related parking at \$113.00.

- July 17-19, 2013: Staff support and participation in the Ad Hoc RFP Committee investment consultant due diligence site visits to various California cities, and Seattle, WA. I accompanied trustees Goulet and C. Johnston, and Ms. Nemiroff of Board Counsel on the visits of Meketa, NEPC, SIS, and Wurts. My costs totaled approximately \$1,139.39 and are approximate as some costs were shared, such as taxi services. I did not include a cost for the mileage involved with carpooling where I was the passenger. The most significant portion of the costs includes airfare totaling \$529.70 and hotel totaling \$486.63. Other incidental costs were for meals, BART, gratuities, and mileage to and from a central meeting place for carpooling. Thanks Trustee C. Johnston for driving.

### *Training Travel and Associated Expenses*

- None

### *Other Expenses*

- None

## 2. Key Meetings

This section outlines any key meetings I have had with plan sponsors, and other key stakeholders, and does not include Board or Committee meetings, or routine Pension Administration System Steering Committee meetings.

- July 25, 2013: Held a special PAS (VCERIS) Steering Committee meeting to discuss programming options, and source code provisions, for the member self service (MSS) component of the VCERIS system. Learned that the source code is kept in escrow and is not available to an outside vendor to customize. An outside vendor could be obtained for the main programming of the member interface; however, Vitech would still be needed to program the “hooks/bridge” between the database and the Internet interface. The project team determined that the amount of time, effort, and costs required for an outside vendor to learn the database options and to write an interface would likely exceed Vitech costs completing the effort as part of the final phase of the VCERIS implementation. I will take another look closer to the start of the MSS phase to test this conclusion.
- July 26, 2013: Joined a SACRS Investment Representatives conference call primarily accompanied by 1937 Act Chief Investment Officers (CIOs), Investment Officers (IO’s) and Administrators who do not have either on staff. We discussed the OCER’s “fee banding” idea, manager fee pricing sharing, search matrix compilation (for potential economies of scale) or information sharing. I asked about custodian transitions and was advised to avoid one if at all possible. Regarding the “fee banding” participants also discussed development of potential

## QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR JULY 1, 2013 TO SEPTEMBER 30, 2013

October 21, 2013

Page 3 of 6

lower-fee share classes for pension plans, concerns of complying with anti-trust provisions, and ways to actually build the momentum and administer the approach (a joint powers type organization with subscribers possibly).

- August 16, 2013: Henry Solis and I met with Kelly Hagar and Tim Wolfe of M.F. Daily to see office space that became available at the end of the hall on the second floor. I have tasked Henry with reviewing leasing options to include, but not limited to 1) moving the PAS Project/VCERIS development team to the second floor, 2) obtaining control of the space, keeping the development team in place and utilizing the space in the short term for an offsite storage review and documents imaging project, or 3) having an adjoining tenant possibly move and expanding into that space for either of the two previous options. There will be a medium term (5 – 7) year need for the space based on current processes and associated staffing, and a potential long term need as the membership of VCERA naturally increases or as the Board considers possible enhancement to in-house investment oversight, communications, technology support. Henry is preparing a Board letter to present the Board with the option to acquire the space.
- August 16, 2013: Conference call with Yolanda Diaz of State Street's custodial services team to discuss VCERA's current contract. There has been no increase since 2002 to the \$95,000 fee, and the fee guarantee appears to have expired a number of years ago. State Street has been gracious in its postponing of the commencement of fee negotiations given our known frustration with its organizational changes, and accuracy rates, which have since been rectified. Preliminary statistics indicate a tripling of assets under custodianship, a doubling of transactions (and in increase in more costly transactions), securities lending revenue falling by 64%, and our Short Term Investment Holdings (STIF) account balance falling by 51%. What this means is that our relationship with State Street is generating less money than in 2002, and we are costing more. As a result, fee negotiations have commenced with an initial presentation of the data. Further graciousness is being extended for staff workload considerations, and to allow for VCERA's review of the Securities Lending Agreement modification to allow for non-cash collateral, slightly increasing account revenues, and the retention of a new investment consultant. This issue will likely be brought to the Board before calendar year end. On October 9, 2013 Ms. Diaz followed up with an additional request to meet. Options will be presented to the Board in the next month or two. Systems will be sent a simple survey for basic comparison data.
- August 28, 2013: Henry, Julie, and I 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. We reviewed the previous Payroll (VCHRP) system implementation and potential limitations, VCERA data needs, potential county-wide process changes that could bring about more automated

## QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR JULY 1, 2013 TO SEPTEMBER 30, 2013

October 21, 2013

Page 4 of 6

and efficient processes saving everyone time in the long run. We talked about data sticking points. We shared the best modes to communicate with each of the team members and decided to have periodic check-in's, as needed, going forward. Everyone agreed that we do not want moving targets and that we would be clear what constituted a change in scope vs. a correction.

- August 29, 2013: Henry Solis and I met with John Monroe and Paul Angelo, of Segal, via telephone to discuss the earlier timing of CAFR schedules, annual evaluation changes for the accommodation of PEPRA and various employer/employee rate schedules, and for Government Accounting Standards Board (GASB) pronouncements 67 & 68 that will significantly change the reporting of liabilities. As to be expected, the previously noted changes to the annual evaluations have a cost. Segal is aware of our current fee agreement, but has indicated these are supplemental changes to the format of the reports and it will need to change for them. Segal has proposed separately billing for the work involved with the report changes in the year of the change and then sticking to the annual cost going forward. Initial cost estimates are below \$20,000 thousand dollars for the two major modifications. Staff will bring specifics the Board when they are known. We also discussed whether or not a quarterly retainer made sense for the next fee renewal. This will likely be eliminated with staff budgeting an internal "retainer" amount for what it expects to pay for ancillary activities, with the agreement keeping to fixed pricing of the larger identifiable activities.
- August 29, 2013: Chuck Pode and Paul Hilbun, of Risk management, Lori Nemiroff, of Board counsel, Annette Paladino, the Board's disability consultant, and I had a healthy three hour discussion about Annette's disability hearing procedure recommendations. While we could not come to perfect agreement on everything, we better understood everyone's needs and Annette was able to make minor modifications to accommodate.
- August 30, 2013: Henry Solis and I met with members of the outside auditor's (Brown Armstrong's) audit team to discuss their field work, typically called an exit meeting. There were a couple remaining deliverables and we agreed to the timing. We also agreed on the effort to provide the CAFR to the auditor earlier to provide more time for review. We also shared our deadlines needed to apply for the GFOA financial reporting award. I am pleased to report that as of the last day of on-site field work, there were no reported findings and the previous year's finding were resolved. I am looking forward to a "clean" audit opinion.
- On September 3, 2013: Joined a SACRS Investment Representatives conference call primarily accompanied by 1937 Act Chief Investment Officers (CIOs), Investment Officers (IO's) and Administrators who do not have either on staff. OCERS shared an update on the fee banding effort. We discussed potential trends in soft dollars. Many systems specifically exclude the use of them. Discussed the trend towards real assets and the difficulty of finding expertise in the area. We discussed what constituted real assets (all of their



**QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR  
JULY 1, 2013 TO SEPTEMBER 30, 2013**

October 21, 2013

Page 5 of 6

incantations). I alerted participants to the posting of VCERA’s agenda containing the investment consultant search report on September 5<sup>th</sup> and to call with questions. We discussed Cortex and its support services in this area and the other services it provides. OCERS shared that it was having an investment off-site and that Girard would be able to share materials after the meeting. SBCERA’s Don Pierce was a featured speaker. Of particular note were the nuances of Pension Obligation Bond (POBs). Timing is everything.

- On September 4, 2013: Henry Solis and I met with John Muir of State Street to discuss VCERA’s securities lending program, the original agreement, and the proposed amendment to the agreement for non-cash collateral. I mentioned that while we were at it we should amend our addresses. John confirmed that lending has decreased substantially. A lot of it has to do with the Board’s transition to passive vehicle (which save fees) that are in commingled accounts and the general increase in the use of commingled accounts. There is a protective indemnification clause that should help in the decision to include non-cash collateral. I will provide the information to HEK for review and present it to the Board as soon as practical. This item was continued at the October 7, 2013 meeting to the October 21, 2013 to provide Board counsel with time to review and make further modifications.

3. Press/Media Communications

In addition to the usual and customary request for investment updates, I received the following inquiries.

- On September 16, 2013: Kathleen Wilson of the Ventura County Star inquired about PEPPRA. I relayed the update provided by Board Counsel.
- On September 17, 2013: Kathleen Wilson of the Ventura County Star inquired about my opinions on the action to obtain an organizational effectiveness coach.

4. Reports Back to the Board

- *Benefit Estimate Status Report:* At this time, Operations is pleased to report that the corrective processes, which were implemented prior to the July 2, 2012 Board meeting, have yielded results and requests for estimates are once again completed within 30 to 90 days of receipt. Presently, the status of estimate requests can be summarized as follows:

Estimate Requests	2012Q4 Avg	2013Q1 Avg	2013Q2 Avg	Jul	Aug	Sep	2013Q3 Avg
New Requests	33.3	15.3	40.7	48	60	39	49.0
Completed Requests	25.3	17.7	46.3	29	39	43	37.0
Open Requests at Month End	15.0	12.3	21.0	39	55	49	47.7
Requests Open 60+ Days	2.7	0.0	1.7	3	1	0	1.3

**QUARTERLY RETIREMENT ADMINISTRATOR REPORT FOR  
JULY 1, 2013 TO SEPTEMBER 30, 2013**

October 21, 2013

Page 6 of 6

5. Other Items of Interest or Importance

- During late August & early September, 2013, ITS Shadowing of RDBS and RIS processes commenced and is proceeding smoothly. The ITS representative is meeting with Ms. Lawson half days and completing assignments (homework). The ITS representative is also being trained on data extracts for RIS for the PAS (VCERIS) project.
- November 13 & 15, 2013, I plan on attending the SACRS Conference in Indian Wells, CA in order to meet with SACRS Administrators and learn about politics and the role of the fiduciary on Wednesday, attend the operations/disabilities break outs and legislative update on Thursday, and participate in the PEPR session on Friday morning.
- Prior to the close of September, a formal time and attendance policy was drafted by the Retirement Administrator and reviewed by executive management for implementation in November, after review by County Human Resources. The policy will be introduced to staff at the November monthly staff meeting.
- During this quarter, the Operations Manager job duties have been impacted by the increasing medical leave of the Benefits Supervisor. There is a concentration of supervisory oversight, knowledge, and authority in VCERA's organizational staffing in Operations. The Board has provided the resources needed to reduce backlogs, to accomplish the day to day workloads, and to provide for risk mitigating cross training. The Board will be called upon to consider the provision of resources to better protect against significant supervisory illnesses or other events. Staff is considering short and long term solutions to this condition.

6. Fiscal Impact

None from the receiving and filing of this report.

This report has been reviewed by Board counsel, finance, and operations. Staff would be happy to respond to any questions you may have on this report.

Sincerely,



Donald C. Kendig, CPA  
Retirement Administrator

# 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 21, 2013

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

## **SUBJECT: CalPEPRA UPDATE**

Dear Board Members:

### **Background**

On May 20, 2013 the Chair directed staff to place an item at the beginning of the June Business meeting agenda with an update on any developments surrounding pensionable compensation and CalPEPRA. On June 17, 2013, the Chair confirmed that the practice should continue with CalPEPRA updates at the beginning of the Business meetings. Depending on the activity of the preceding month, the updates could be as brief as, "nothing new to report" to as extensive as critical updates, lengthy discussion, and Board action.

### **Discussion**

Lori Nemiroff, Board Counsel, will provide an oral report at the October 21, 2013 meeting.

### **Fiscal Impact**

None.

This Board letter has been reviewed by Board Counsel and VCERA's Chief Financial Officer. Staff would be happy to answer any questions you may have.

Sincerely,



Donald C. Kendig, CPA  
Retirement Administrator

Presented to

---

# Ventura County Employees' Retirement Association

October 21, 2013

Presented by:

Mark M. Egan, CFA  
Managing Director



# Agenda

## Section

- 1 Organizational Updates
- 2 Client Relationship Overview
- 3 Performance Review
- 4 Fixed Income Market Review
- 5 Portfolio Characteristics
- 6 Appendix



# Firm Overview

---

## Reams Asset Management – \$14.2 billion in assets under management

- A trusted investment management partner since 1981
  - Exclusive focus on U.S. fixed income portfolios for institutional clients and individual investors through separate accounts and mutual funds
  - Long-term client relationships are a result of strong historical performance and attentive client service
- 

## Scout Investments – \$29.3 billion in assets under management

- Wholly owned subsidiary of UMB Financial Corporation, a multi-billion dollar diversified financial services company with roots tracing back to 1913
  - 43 investment professionals with an average of 17 years of industry experience
  - Striving to deliver relative outperformance over full market cycles
  - Committed to leveraging the unique strengths of its divisions
- 



# Reams Leadership Team

## Investment Committee

**Mark M. Egan, CFA (27)**  
*Chief Investment Officer  
Managing Director*

**Thomas M. Fink, CFA (27)**  
*Managing Director*

**Robert A. Crider, CFA (36)**  
*Managing Director*

## Operations and Administration

David B. McKinney, JD, CPA (33)  
*President, Reams Division*

Daniel P. Spurgeon (16)  
*V.P. Operations*

Greg VanDuesen (17)  
*Chief Information Officer*

Nancy Morey (31)  
*Director of Portfolio Systems  
and Accounting*

## Structured Products

**Stephen T. Vincent, CFA (22)**  
*Portfolio Manager  
Structured Products Team Leader*

## Credit

**Todd C. Thompson, CFA (19)**  
*Portfolio Manager  
Credit Research Team Leader*

## Client Services

**Deanne B. Olson, CFA (16)**  
*V.P. Client Services  
Client Services Team Leader*



Note: Names of **Key Investment Professionals** are emboldened.  
Please see Appendix for detailed biographies.

(Years of Industry Experience)

# Reams Representative Client List

## Corporate

American Honda Motor Company  
APL Limited  
Cummins Inc.  
Emerson Electric Company  
NCR Corporation  
Omaha Public Power District  
Reliance Standard Life Insurance Company  
Seaboard Corporation  
Southern California Rock Products  
VF Corporation

## Endowment/Foundation/University

Indiana State University  
Trustees of Indiana University  
Iowa Board of Regents  
University of Kentucky  
Purdue University  
University of Wisconsin System

## Hospital

CarolinaEast Medical Center  
University of Colorado Hospital  
Northwestern Memorial HealthCare  
Rehabilitation Institute of Chicago  
Rockford Health System  
SSM Health Care

## Sub-Advisory

Christian Brothers Investment Services  
Prudential Retirement Insurance and Annuity Company

## Non-Profit

Archdiocese of Miami  
Board of Pensions/Presbyterian Church, USA  
Cleveland Museum of Art  
Sisters of the Holy Cross  
Veterans of Foreign Wars of the U.S.

## Public

City of Detroit Employees' Retirement System  
Employees' Retirement System of Baltimore County  
Indiana Public Employees' Retirement Fund  
Indiana State Teachers' Retirement Fund  
Indiana State Police Pension Trust  
Los Angeles Fire & Police Pension System  
City of Milwaukee Employees' Retirement System  
Montana Board of Investments  
City of Oakland Police & Fire Retirement System  
San Francisco Bay Area Rapid Transit District  
Santa Barbara County Employees' Retirement System  
Seattle City Employees' Retirement System  
Sonoma County Employees' Retirement Association  
City of Spokane Firefighter's Pension Board  
Ventura County Employees' Retirement Association

## Taft-Hartley

Carpenters Pension Fund of Illinois  
IBEW 8<sup>th</sup> District Electrical Pension Trust  
ILWU-Pacific Maritime Association  
Inter-Local Pension Fund, GCC/IBT  
Louisiana Carpenters Regional Council Pension Plan  
Teamsters Local Union No. 716 Pension Fund



This Representative Client List includes institutional clients whose permission has been received for inclusion. It is not known whether or not the listed clients approve of the advisory services provided by Reams Asset Management or Scout Investments.



# Reams Fixed Income Products

## PRODUCTS

---

Core Plus \$4.1 billion

---

Core \$1.0 billion

---

Intermediate \$0.3 billion

---

Long Duration \$2.0 billion

---

Low Duration \$3.2 billion

---

Real Return \$0.4 billion

---

Unconstrained \$3.2 billion

---

Total Firm AUM \$14.2 billion

---

## VEHICLES

---

Separate Accounts

---

Institutional Commingled Fund:

- Reams Unconstrained Bond Fund
- 

Institutional Mutual Funds:

- Scout Core Plus Bond Fund (SCPZX)
  - Scout Core Bond Fund (SCCIX)
  - Scout Low Duration Bond Fund (SCLDX)
  - Scout Unconstrained Bond Fund (SUBFX)
- 



# Relationship Summary

## Ventura County Employees' Retirement Association

---

Relationship Inception October 1, 2001

---

Investment Style Unconstrained Fixed Income

---

Performance Benchmark Merrill Lynch 3-Month LIBOR Index

---

### Financial Data as of September 30, 2013:

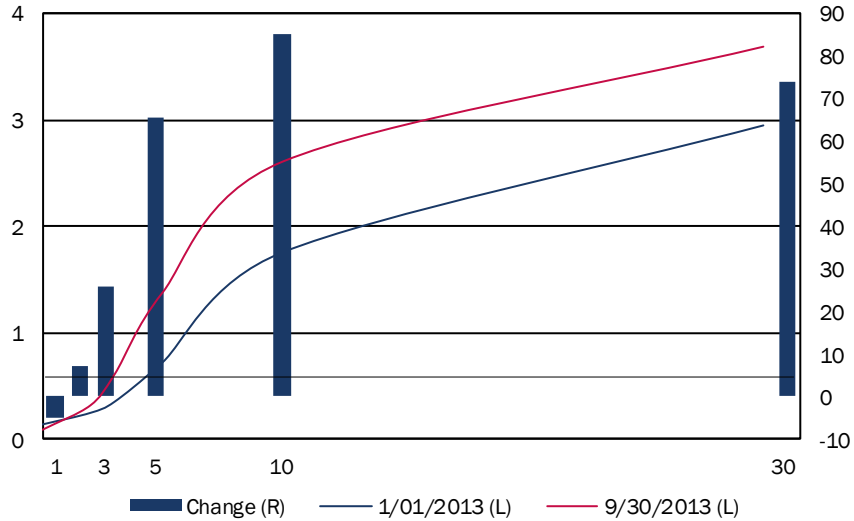
Initial Investment	\$225.7 million
Contributions	\$88.4 million
(Withdrawals)	(\$281.2 million)
Portfolio Gains	\$214.0 million
Portfolio Value	\$246.9 million

---

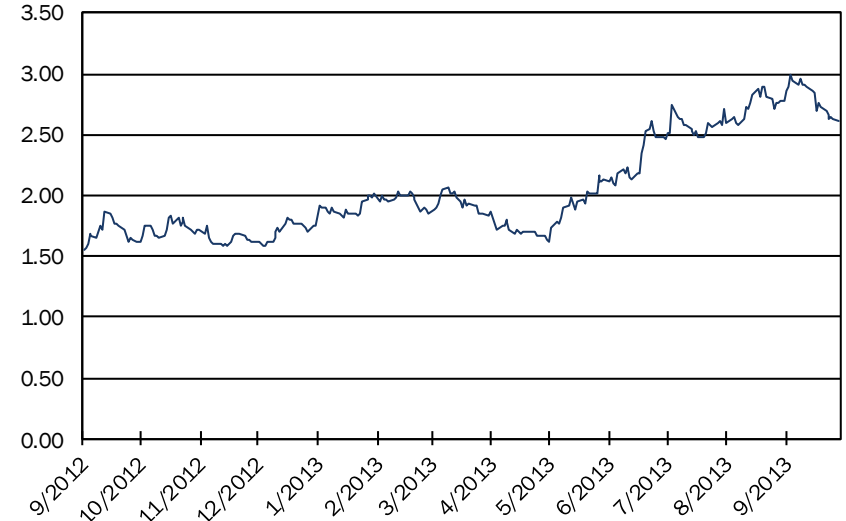


# Reams Fixed Income Review

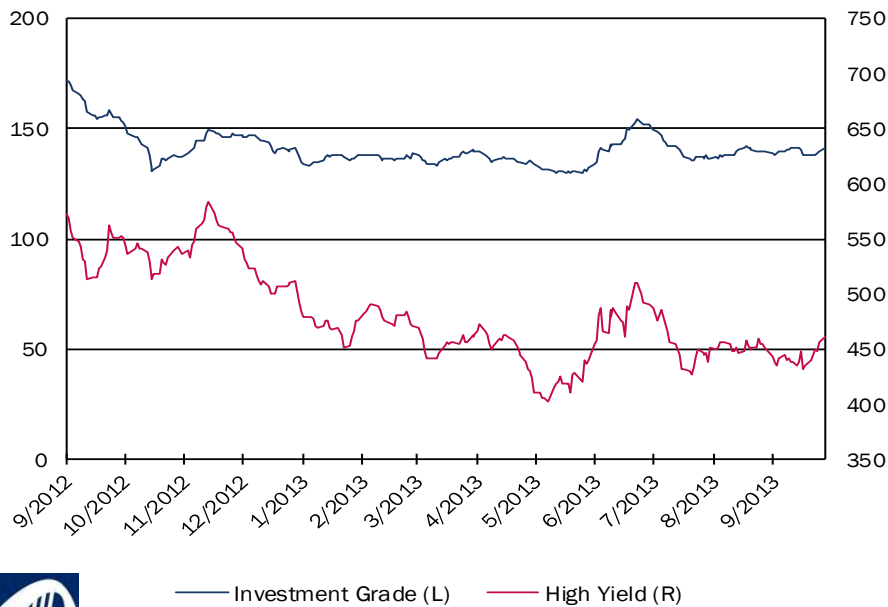
2013 YTD U.S. Treasury Yield Curve, Percent



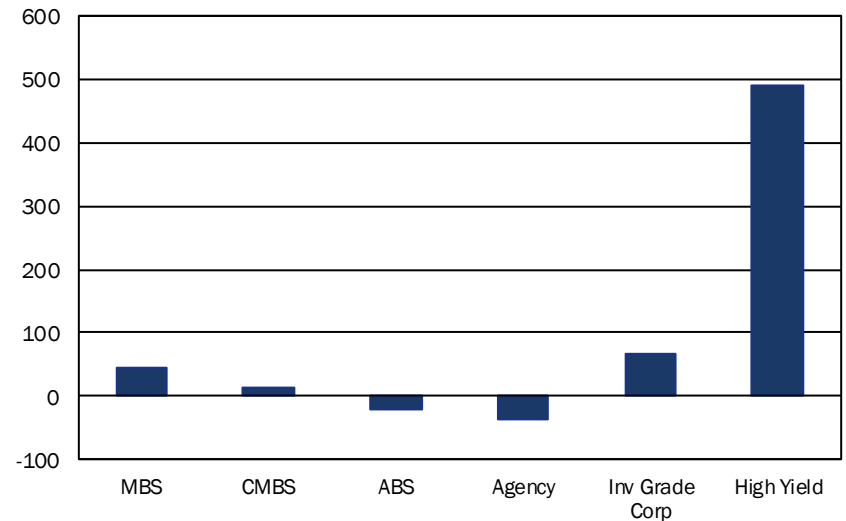
10-Year Treasury Yields (Trailing 12 Months), Percent



Corporate OAS (Trailing 12 Months), Basis Points



2013 YTD Sector Excess Returns, Basis Points



# Performance Review

For Periods Ending September 30, 2013

	Percent Gain or Loss						
	Quarter Ending	Year To Date	Last 12 Months	Two Years (annualized)	Three Years (annualized)	Five Years (annualized)	Since Inception* (annualized)
VCERA Portfolio - Gross (a)	0.61	0.78	2.06	7.03	6.21	10.96	6.93
VCERA Portfolio - Net (b)	0.56	0.65	1.86	6.84	6.02	10.76	6.74
Benchmark**	0.07	(0.58)	(0.37)	2.36	3.32	5.69	5.11
Barclays U.S. Aggregate Index	0.57	(1.89)	(1.68)	1.68	2.86	5.41	4.99
Core Plus Composite	0.57	(0.85)	0.22	5.45	5.17	9.92	6.45

\* Inception Date: 10/1/2001

(a) Gross of Investment Management Fees

(b) Net of Investment Management Fees (recorded on cash basis)

\*\*The portfolio was managed under a Core Plus mandate from 10/1/2001 - 2/5/2013. Beginning 2/6/2013, the portfolio was transitioned to an Unconstrained mandate. The benchmark consists of the Barclays U.S. Aggregate through 2/5/2013 and the BofA Merrill Lynch 3-Month LIBOR Constant Maturity Index as of 2/6/2013.



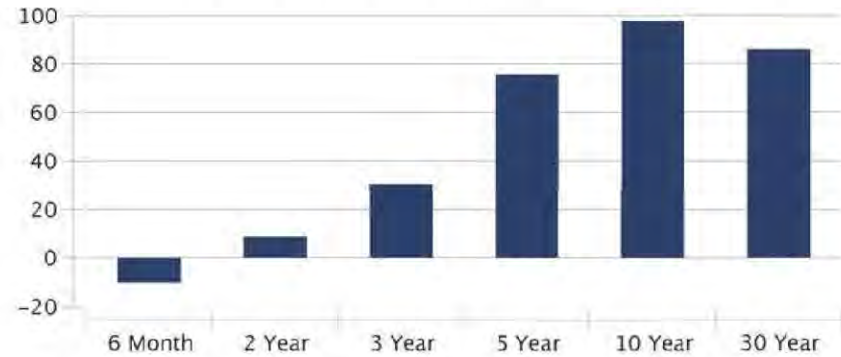
# Excess Return Detail

Ventura County Employees' Retirement Association: 10/1/2012 - 9/30/2013

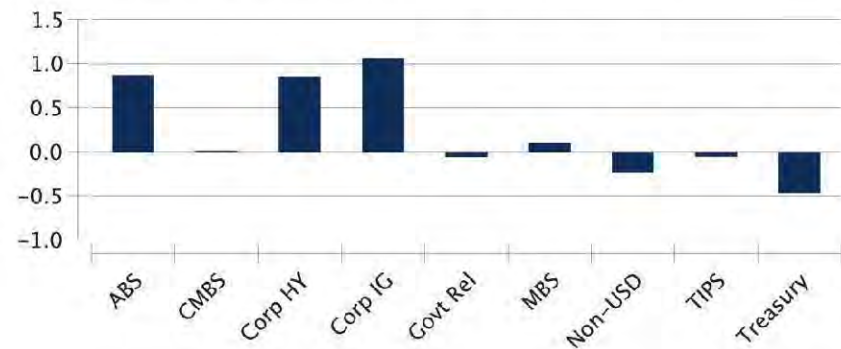
	Portfolio
Total Return	2.06%

Sector	Total Impact
ABS	0.87
CMBS	0.01
Corp HY	0.85
Corp IG	1.05
Govt Rel	-0.06
MBS	0.10
Non-USD	-0.23
TIPS	-0.06
Treasury	-0.47
	2.06

U.S. Treasury Curve Yield Change, Basis Points

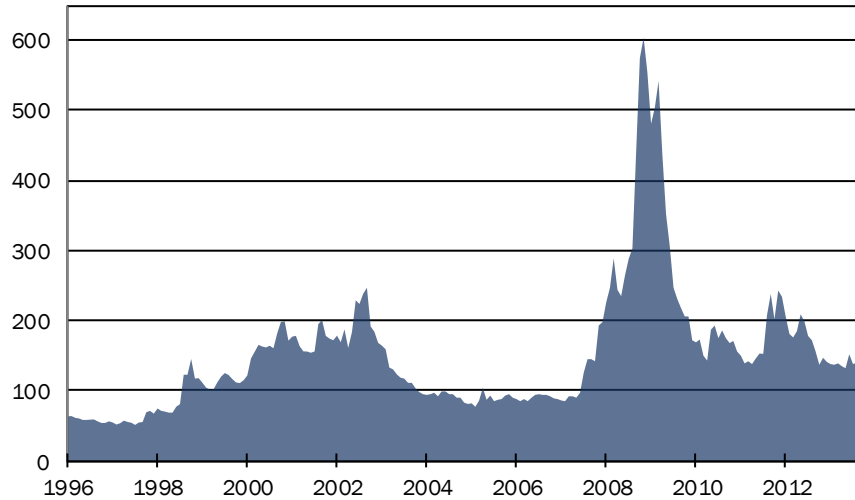


Total Sector and Security Impact, Percent

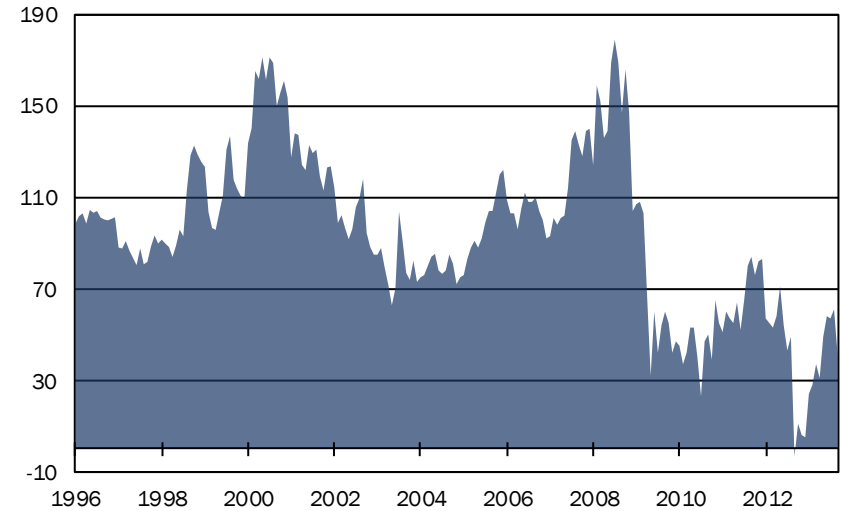


# Sector Spreads

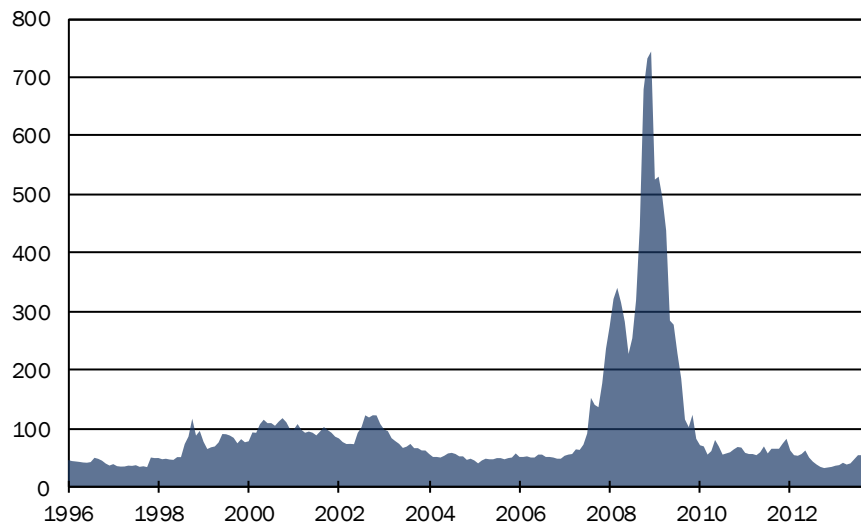
## U.S. Corporate, Basis Points



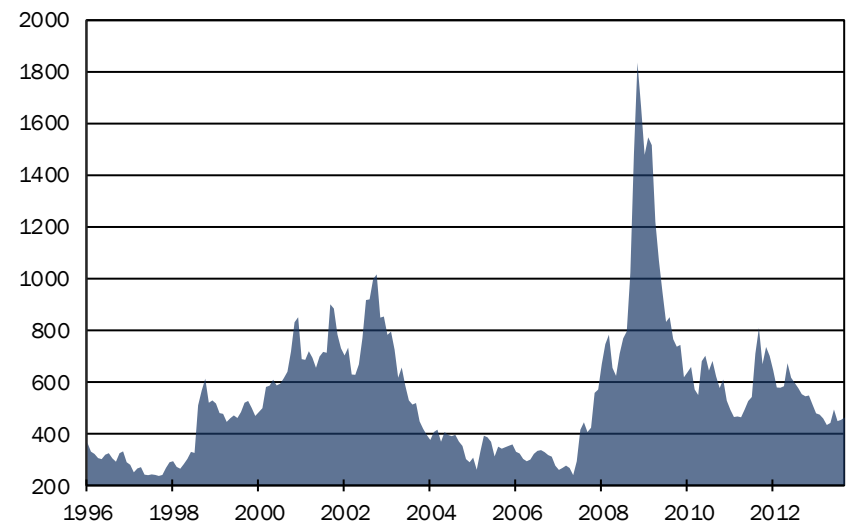
## Agency Mortgage-Backed, Basis Points



## Asset-Backed, Basis Points

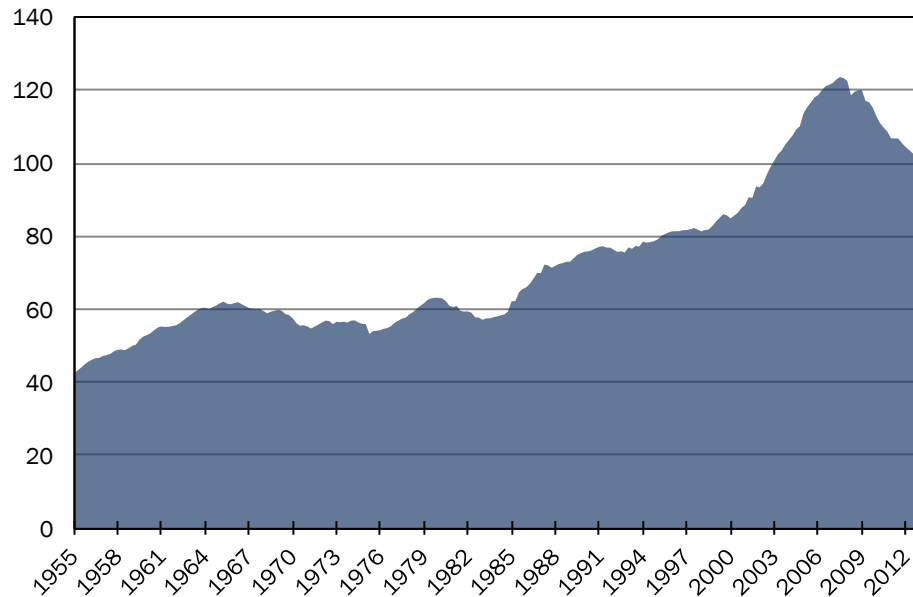


## High Yield, Basis Points



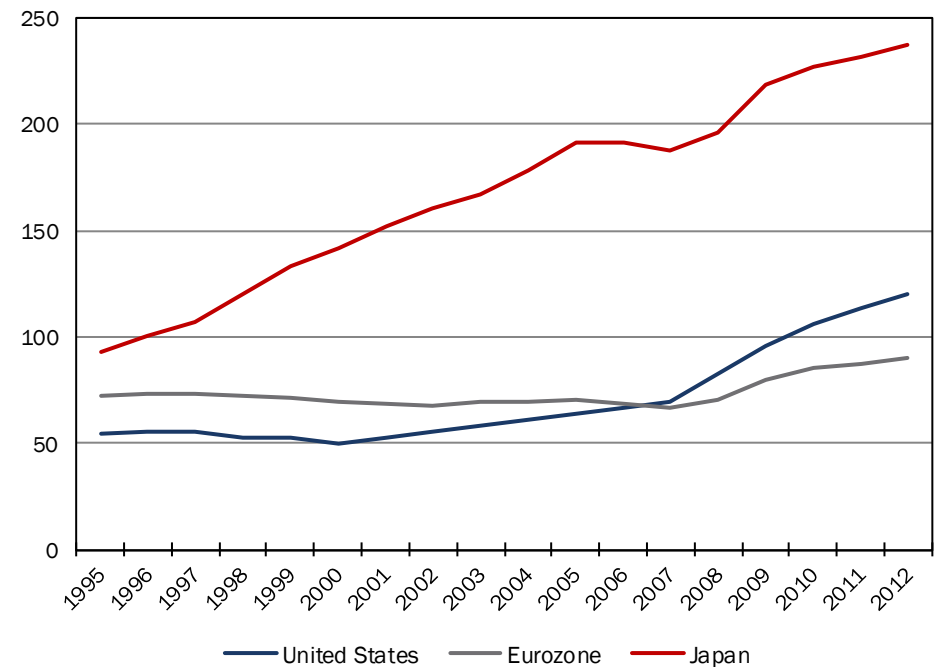
# Reams Economic Review

Household Debt, Percent of DPI



- Household debt ratios are declining from extremely high levels. Improvement here may help set the stage for a more robust economic recovery.

Gross Government Debt, Percent of Nominal GDP



- Although the U.S. and Eurozone are by no means in good condition based on this metric, Japan is in a much more dire situation, heightened by the recent rate rise.



# Portfolio Characteristics

## Ventura County Employees' Retirement Association: 9/30/2013

	Portfolio
Total Market Value (\$)	246,903,837
Avg. Duration (Years)	-1.0
Avg. Convexity	0.06
Avg. Yield (%)	1.2
Avg. Maturity (Years)	1.7
Avg. Quality	Aa3

Quality Structure (% of Portfolio)	Portfolio
AAA	55.6
AA	4.5
A	16.4
BBB	14.0
Other	9.5
Total	100.0

Sector Structure (% of Portfolio)	Portfolio
Treasury	29.2
Govt Related	0.5
Mortgage-Backed	1.0
Asset-Backed	4.9
Corporate	40.0
Non-US Dollar	-2.0
Cash and Equivalents	26.5
Total	100.0

Duration Distribution (Years)	Portfolio
0 - 1 yr.	0.1
1 - 3	0.7
3 - 4	0.0
4 - 6	0.3
6 - 8	-0.5
8 +	-1.7
Total	-1.0

Maturity Distribution (%)	Portfolio
0 - 1 yr.	41.8
1 - 3	45.0
3 - 5	6.5
5 - 7	5.5
7 - 10	0.0
10 - 20	1.1
20 +	0.1
Total	100.0





## Section

- 1 Compliance Confirmation
- 2 Unconstrained Product
- 3 Investment Professionals
- 4 Disclosures



# Compliance Confirmation

September 30, 2013

Reams Asset Management certifies that we are in compliance with the investment policy and guidelines that have been provided to us for the Ventura County Employees' Retirement Association fixed income account.



---

David B. McKinney, JD, CPA  
President



# Reams Unconstrained Product

## Objective

- To maximize risk-adjusted total return by systematically pursuing relative value opportunities throughout all sectors of the fixed income market.

## Performance Benchmark

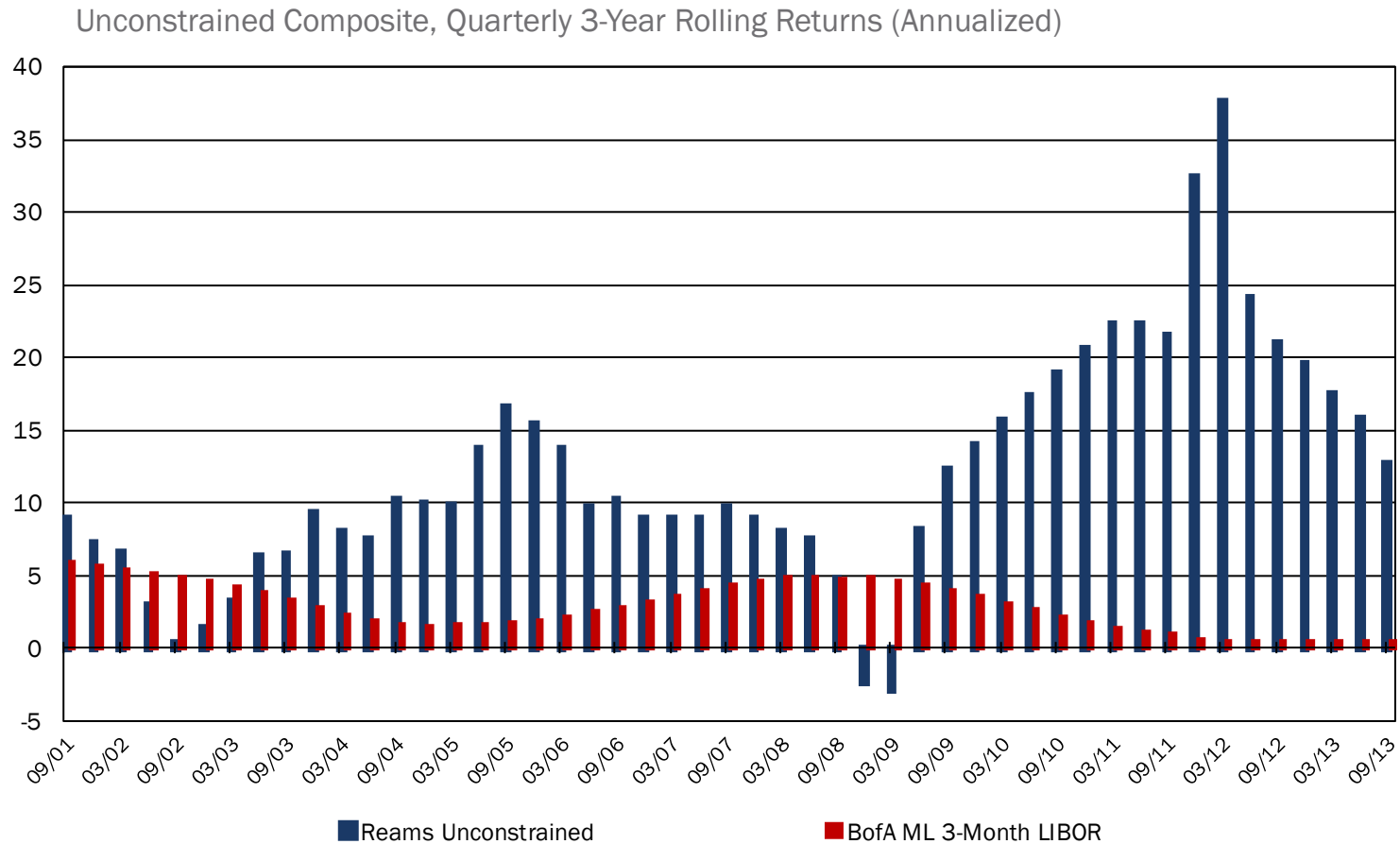
- Merrill Lynch LIBOR 3-Month Constant Maturity Index

## Guidelines

- Average portfolio duration shall be within a range of -3 to 8 years. No restriction on individual holdings.
- No limit on the ratings of individual securities.
- No single credit industry shall exceed 25% of the portfolio at purchase.
- Emerging market securities shall not exceed 30% of the portfolio at purchase.
- Non-U.S. dollar holdings shall not exceed 30% of the portfolio at purchase, including positions hedged and unhedged.
- The use of futures, forwards, options and swaps, including credit default swaps, is permitted. Such instruments shall not be used for speculative purposes. The product does not use borrowing to create leverage.



# Process Has Produced Consistent Outperformance



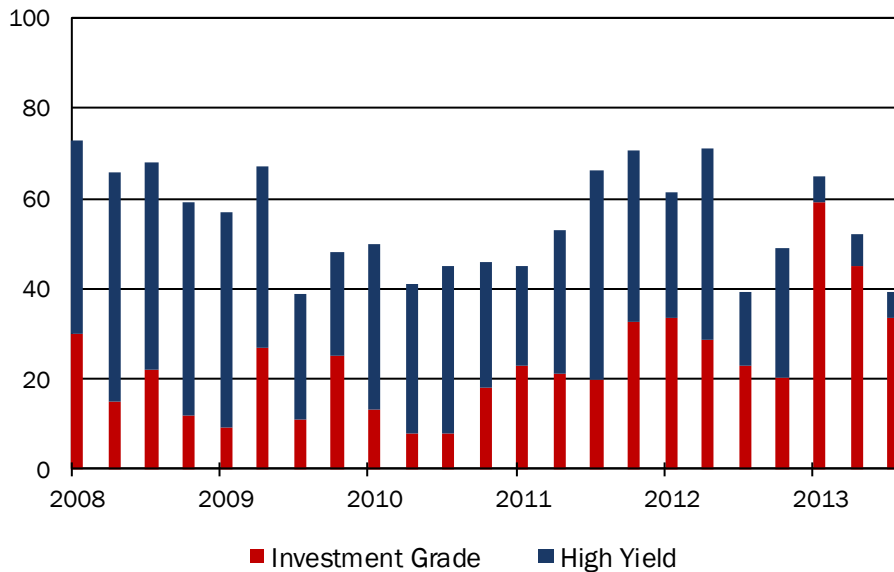
Past performance is no guarantee of future results. Performance figures are stated in U.S. dollars and assume reinvestment of dividends for the entire period. Performance for the Reams Unconstrained Fixed Income Composite is gross of fees. Each observation represents the rolling 3-year composite gross of fees return as of quarter end from December 31, 2002, through December 31, 2012. The rolling 3-year return as of quarter end for the BoA ML 3-month LIBOR Index over the same time period is also represented. The data does not represent performance for each quarter. Performance is based on the rolling 3-year observations. Please see the Important Disclosures for further information.



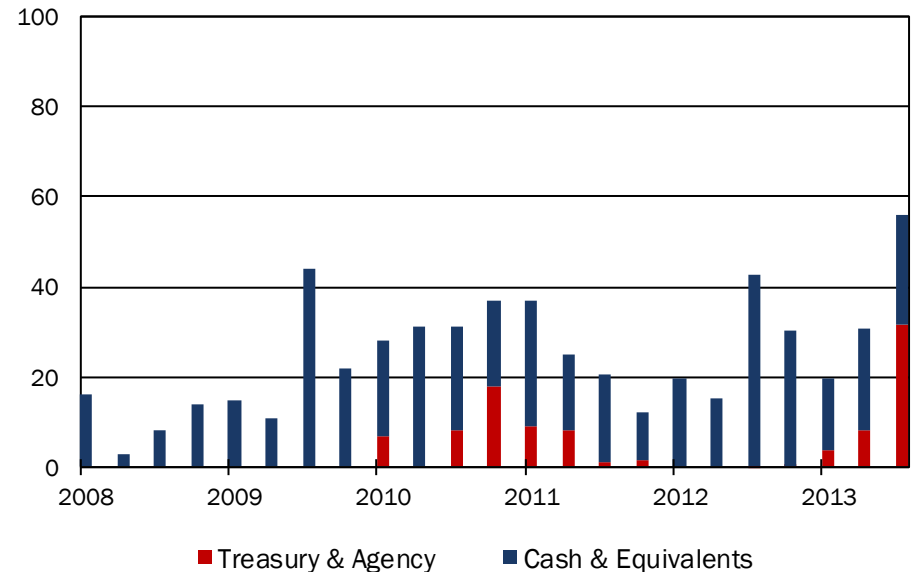
# Reams Unconstrained Product

- Historically, sector exposures have generally been within the following ranges:
  - Investment Grade Credit: 0 - 50%
  - High Yield Credit: 0 - 75%
  - Government/Agency: 0 - 50%
  - Mortgage-Backed: 0 - 50%
  - Asset-Backed: 0 - 25%
  - Emerging Markets: 0 - 5%
  - Non-Dollar: 0 - 10%
  - Bank Loans: 0 - 15%

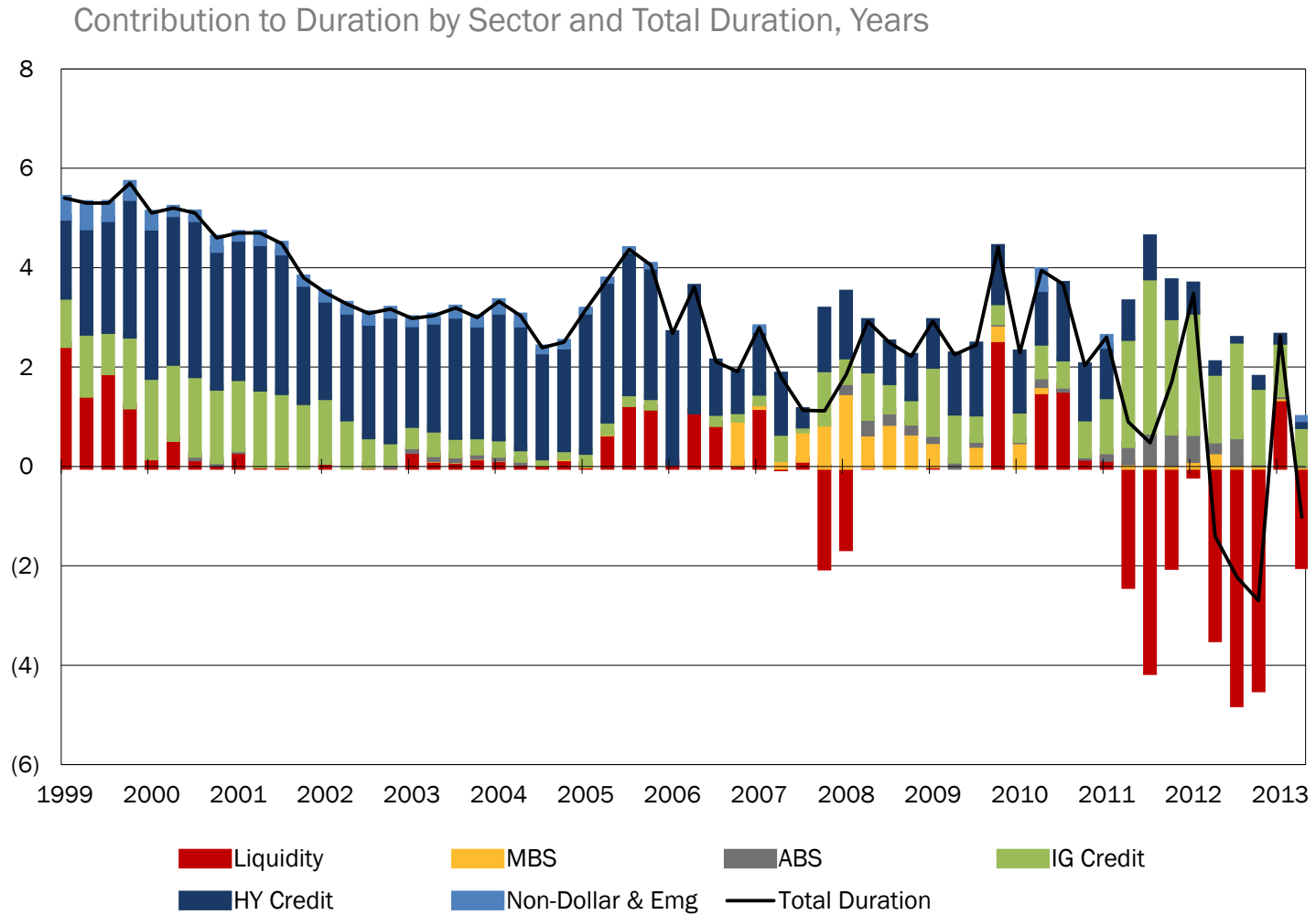
Corporate Exposure, Percent of Portfolio



Liquidity Exposure, Percent of Portfolio



# Historical Unconstrained Allocations



# Reams Unconstrained Correlation Matrix

	Barclays Aggregate	Merrill Lynch High Yield	Barclays Corporate	S&P 500	Dow Jones / Credit Suisse Hedge Fund	Reams Unconstrained
Barclays Aggregate	1.00	0.17	0.84	-0.09	0.02	0.09
Merrill Lynch High Yield		1.00	0.56	0.63	0.59	0.82
Barclays Corporate			1.00	0.20	0.30	0.40
S&P 500				1.00	0.56	0.63
Dow Jones / Credit Suisse Hedge Fund					1.00	0.42
Reams Unconstrained						1.00

Monthly data for the period 8/1998 through 9/2013



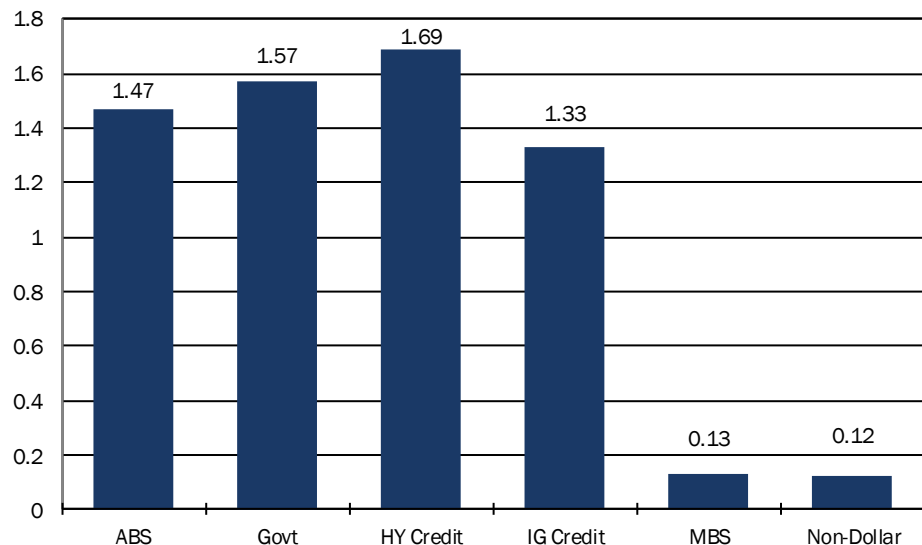
# Reams Unconstrained Composite

For Periods Ending September 30, 2013

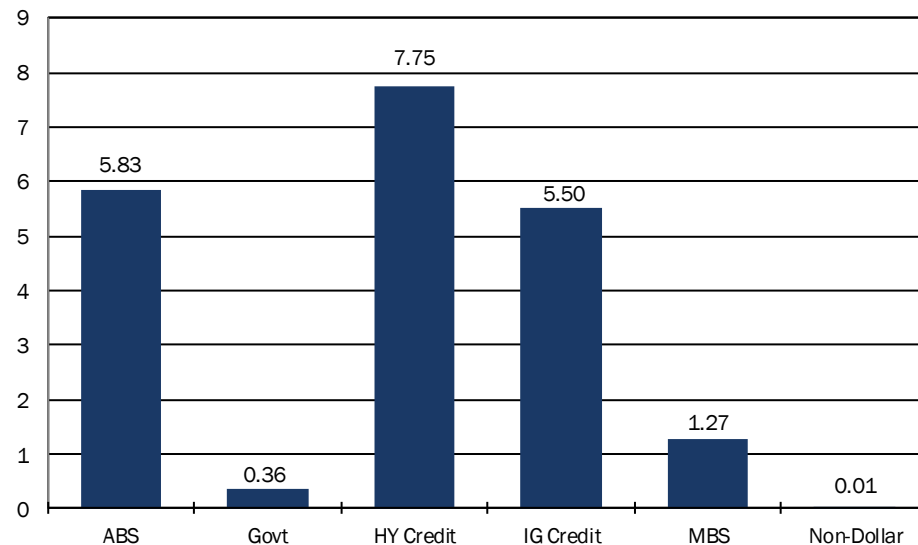
	Percent Gain or Loss					
	Last 12 Months	Two Years (annualized)	Three Years (annualized)	Five Years (annualized)	Ten Years (annualized)	Since Inception* (annualized)
Unconstrained Fixed Income Composite	6.31	19.45	12.64	20.72	13.58	12.06
ML LIBOR 3-Month Constant Maturity Index	0.32	0.40	0.36	0.74	2.15	2.88

\*Inception Date 8/1/1998

Sources of Total Return, Last 12 Months, Percent



Sources of Total Return, 5 Years Annualized, Percent

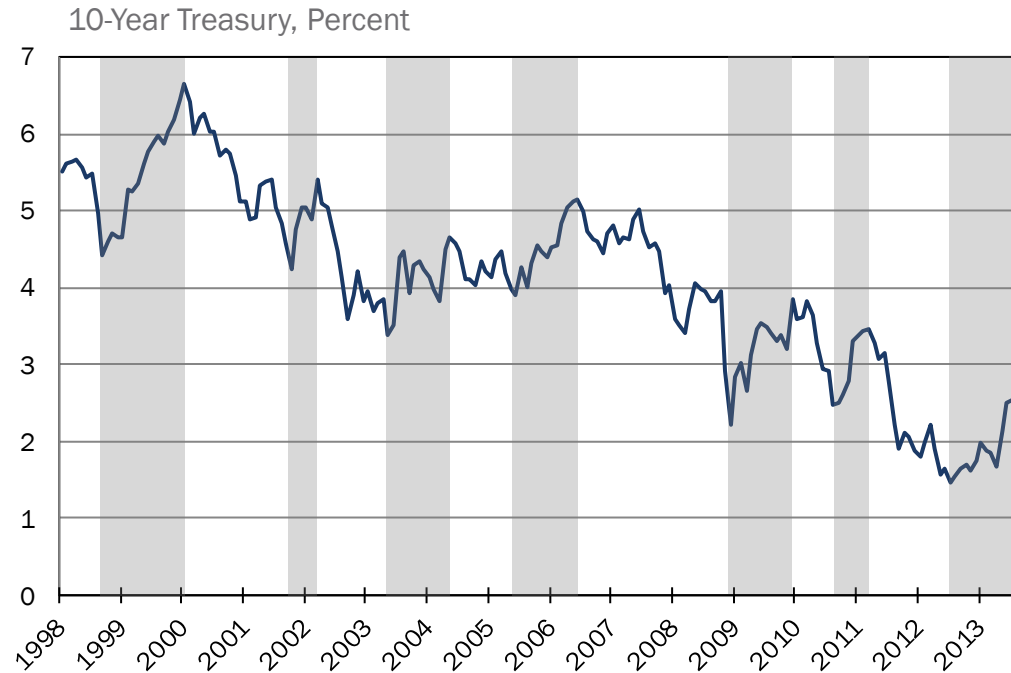


Performance data is from the Unconstrained Fixed Income Composite. Past performance is no guarantee of future results. Performance figures are stated gross of fees in U.S. Dollars, assume reinvestment of income for the entire period and do not reflect the deduction of management fees. Performance results of clients would be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of .30%, this increase would be 152%. The firm's management fees are detailed in its Form ADV Part 2. Please see the Important Disclosures for further information.





# Returns in Rising Rate Environments



Note: For the purposes of this illustration, a rising interest rate environment (highlighted in gray) is a period of time during which the 10-Year Treasury rate rose at least 100 basis points.

	Percent Gain or Loss*						
	10/1/1998 - 1/31/2000	11/1/2001 - 3/31/2002	6/1/2003 - 5/31/2004	7/1/2005 - 6/30/2006	1/1/2009 - 12/31/2009	9/1/2010 - 3/31/2011	8/1/2012 - 9/30/2013
Unconstrained Composite	17.66	1.74	15.85	6.83	76.62	12.96	12.05
Barclays U.S. Aggregate Index	(0.81)	(1.91)	(0.44)	(0.81)	5.93	(0.77)	(1.48)
Difference	18.47	3.65	16.29	7.64	70.69	13.73	13.53

\* Returns are cumulative for each time period



Performance data is from the Unconstrained Fixed Income Composite. Past performance is no guarantee of future results. Performance figures are stated gross of fees in U.S. Dollars, assume reinvestment of income for the entire period and do not reflect the deduction of management fees. Performance results of clients would be reduced by the firm's management fees. For example, an account with a compounded annual total return of 10% would have increased by 159% over ten years. Assuming an annual management fee of 0.30%, this increase would be 152%. The firm's management fees are detailed in its Form ADV Part 2. Please see the Important Disclosures for further information.

## Reams Key Investment Professionals



**Mark M. Egan, CFA**, chief investment officer, a managing director, and portfolio manager at Reams Asset Management, is the lead portfolio manager of the Scout Core Bond Fund, Scout Core Plus Bond Fund and the Scout Unconstrained Bond Fund. Mark has 27 years of experience managing fixed income portfolios. Prior to joining Reams in 1990, Mark was a Portfolio Manager at National Investment Services of America. Mr. Egan earned his master's in business administration from the University of Wisconsin – Madison and his bachelor's degree from Marquette University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



**Thomas M. Fink, CFA**, a managing director and portfolio manager at Reams Asset Management, is co-portfolio manager of the Scout Core Bond Fund, Scout Core Plus Bond Fund and the Scout Unconstrained Bond Fund. Tom has 27 years of experience managing fixed income portfolios. Prior to joining Reams in 2000, Tom was a partner with Brandes Fixed Income Partners/Hilltop Capital, and held senior portfolio management roles with Zurich Financial Services in Bermuda and First Wisconsin Asset Management Company. Mr. Fink earned his master's in business administration from the University of Wisconsin – Madison and his bachelor's degree from Marquette University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



**Robert A. Crider, CFA**, is a managing director at Reams Asset Management. Bob was a founding partner of Reams and has 36 years of experience managing fixed income portfolios. Prior to joining Reams in 1981, he worked for Cummins Engine Co., Inc. and the State Teachers Retirement System of Ohio. Mr. Crider earned his master's and bachelor's degrees from Ohio State University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



## Reams Key Investment Professionals (Cont'd.)



**Todd C. Thompson, CFA**, is a portfolio manager and leads the fixed income credit research team at Reams Asset Management. He is a co-portfolio manager of the Scout Core Bond Fund, Scout Core Plus Bond Fund and the Scout Unconstrained Bond Fund. Todd has 19 years of experience as a fixed income portfolio manager and analyst. Prior to joining Reams in 2001, Todd worked for Conseco Capital Management Company and The Ohio Public Employees' Retirement System. Mr. Thompson earned his master's in business administration from Clemson University and his bachelor's degree from Bob Jones University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



**Stephen T. Vincent, CFA**, is a portfolio manager and leads the fixed income structured products research team at Reams Asset Management. He is a co-portfolio manager of the Scout Core Bond Fund, Scout Core Plus Bond Fund and the Scout Unconstrained Bond Fund. Steve has 22 years of experience as a fixed income portfolio manager and analyst. Prior to joining Reams in 1994, Steve worked for the Federal Deposit Insurance Corp. and First Security Corporation. Mr. Vincent earned his master's in business administration from Indiana University and his bachelor's degree from Brigham Young University. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



**Deanne B. Olson, CFA**, is vice president of Client Services at Reams Asset Management. In this role, she is responsible for ensuring that Reams' clients receive personalized attention and outstanding client service. Deanne has 30 years of combined experience in relationship management, administration and community development. Prior to joining Reams in 1997, Deanne was Director of Health Promotion Services at Columbus Regional Hospital. Ms. Olson earned her master's in business administration from Indiana University and her bachelor's degree from Seattle Pacific University. She holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute.



# Reams Fixed Income Professionals

	Responsibilities	Educational Background	Years Experience
Mark M. Egan, CFA	Managing Director	University of Wisconsin, MBA Marquette University, BS	27
Thomas M. Fink, CFA	Managing Director	University of Wisconsin, MBA Marquette University, BS	27
Robert A. Crider, CFA	Managing Director	Ohio State University, BA, MA	36
Todd C. Thompson, CFA	Portfolio Manager	Clemson University, MBA Bob Jones University, BS	19
Stephen T. Vincent, CFA	Portfolio Manager	Indiana University, MBA Brigham Young University, BS	22
Clark W. Holland, CFA	Portfolio Analyst	Rice University, MBA Taylor University, BA	19
Israel Acosta	Fixed Income Analyst	Indiana State University, BA	14
Bobby P. Flynn	Associate Fixed Income Analyst	Augustana College, BA	1
Brett B. Dutton, CFA, FSA, EA	Fixed Income Analyst/Actuary	Pennsylvania State University, MM Grove City College, BS	10
Trey Harrison, CFA, ASA	Fixed Income Analyst/Actuary	Georgia State University, MAS Georgia Southern University, BS	17
Patrick T. Laughlin	Fixed Income Analyst	University of Wisconsin, BS	18
Scott A. Rosener, CFA	Fixed Income Analyst	Indiana University, BS, MBA	16
Kevin T. Salsbery, CFA	Fixed Income Analyst	Taylor University, BS	12
David B. McKinney, CPA	President	Indiana University, JD Miami University, BS	33
Deanne B. Olson, CFA	Vice President Client Services	Indiana University, MBA Seattle Pacific University, BS	30



# Important Disclosure

This presentation is intended for Institutional/Advisor use only. This material is provided for informational purposes only and contains no investment advice or recommendations to buy or sell any specific securities. You should not interpret the statements in this presentation as investment, tax, legal, or financial planning advice. Reams Asset Management obtained some information used in this presentation from third party sources it believes to be reliable, but this information is not necessarily comprehensive and Reams Asset Management does not guarantee that it is accurate. Neither Reams Asset Management nor Scout Investments, its affiliates, directors, officers, employees or agents accepts any liability for any loss or damage arising out of your use of all or any part of this presentation. All investments involve risk, including the possible loss of principal. Graphs or other illustrations are provided for illustrative purposes only and not intended as a recommendation to buy or sell securities displaying similar characteristics. Reams Asset Management is a division of Scout Investments, Inc., a registered investment advisor that offers investment management services for both managed accounts and mutual funds. Scout Investments is a wholly owned subsidiary of UMB Financial Corporation. Additional information is available at [www.reamsasset.com](http://www.reamsasset.com) or [www.scoutinv.com](http://www.scoutinv.com).

“UMB” and “Scout”—Reg. U.S. Pat. & Tm. Off. UMB Financial Corporation claims service mark right in “Scout Investments” and “Scout Distributors”. Copyright © 2013. UMB Financial Corporation. All Rights Reserved.

**NOT FDIC INSURED/ NO BANK GUARANTEE/ MAY LOSE VALUE**



# Important Disclosure

This presentation is provided for institutional/advisor use only. All investments involve risk, including the possible loss of principal.

The portfolio data represents the Unconstrained Fixed Income Composite. Portfolio characteristics and sector weights are included for informational purposes only, and should not be construed as an investment recommendation. It should not be assumed that investments in any sectors listed were or will prove to be profitable. Portfolio composition may change at any time. Individual client accounts may differ from characteristics shown. The sector weights of any particular account may vary based on any investment restrictions applicable to the account.

Past performance is no guarantee of future results. Performance figures are in U.S. Dollars and assume reinvested of income for the entire period.

On November 30, 2010, Scout Investment Advisors, Inc. acquired the advisory business of Reams Asset Management Company, LLC. The performance provided prior to this date is based upon the Unconstrained Fixed Income Composite managed by Reams Asset Management Company, LLC. The portfolio managers and the investment objectives remain the same.

On December 28, 2010, the firm changed its name from Scout Investment Advisors to Scout Investments. Reams Asset Management is a division of Scout Investments, Inc., a registered investment advisor that offers investment management services for both managed accounts and mutual funds. Scout Investments is a wholly owned subsidiary of UMB Financial Corporation. Employees of Scout Distributors receive referral fees and compensation for soliciting clients on behalf of Scout Investments, including the Reams Asset Management Division. Scout Investments claims compliance with the Global Investment Performance Standards (GIPS®).

The Unconstrained Fixed Income Composite invests in all sectors of the fixed income markets, including investment grade securities, high yield securities and foreign securities. The composite can maintain a portfolio duration of any length. The Unconstrained Fixed Income Composite may invest in derivatives, including credit default swaps and related instruments, such as credit default swap index products. These derivative securities may be used to enhance returns, increase liquidity and/or gain exposure to certain instruments in the market (such as the corporate bond market) in a more efficient or less expensive way. The composite may also invest in interest rate derivatives to manage duration and yield curve exposure and in currency forwards to hedge currency exposure when Reams chooses to establish positions in non-U.S Dollar bonds. Derivatives used are strictly constrained by client investment policy.

To receive a complete list and description of composites and/or an Annual Disclosure Presentation, please contact David B. McKinney at 812.372.6606. Additional information is available at [www.reamsasset.com](http://www.reamsasset.com) or [www.scoutinv.com](http://www.scoutinv.com).

“UMB” and “Scout” – Reg. U.S. Pat. & Tm. Off. UMB Financial Corporation claims service mark right in “Scout Investments” and “Scout Distributors”. Copyright © 2013. UMB Financial Corporation. All Rights Reserved.

## **NOT FDIC INSURED/ NO BANK GUARANTEE/ MAY LOSE VALUE**

### Index Definitions:

The BofA Merrill Lynch 3-Month LIBOR Constant Maturity Index represents the London interbank offered rate (LIBOR) with a constant 3-month average maturity. Published by the British Bankers' Association, LIBOR is a composite of the rates of interest at which banks borrow from one another in the London market.

The BofA Merrill Lynch U.S. High Yield Index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The Barclays U.S. Corporate High Yield Bond Index consists of a market value-weighted index which covers the U.S. non-investment grade fixed-rate debt market. The index is composed of U.S. dollar-denominated corporate debt in Industrial, Utility, and Finance sectors with a minimum of \$150 million par amount outstanding and a maturity greater than 1 year. The index includes reinvestment of income.

The Barclays U.S. Aggregate Bond Index measures the performance of the investment grade, fixed-rate taxable bond market.

The Standard & Poor 500® Index (S&P 500®) is an unmanaged capitalization-weighted index (weighted by the market value of the companies) of 500 stocks listed on various exchanges.

The Dow Jones/Credit Suisse Hedge Fund Index is an asset-weighted benchmark that measures hedge fund performance and seeks to provide the most accurate representation of the hedge fund universe.





## Ventura County Employees' Retirement Association

October 21, 2013

James J. Flick

Mark S. Lindbloom

Karlen R. Powell

- I. Organizational Update
- II. Market Review
- III. Portfolio Review
- IV. Addendums
- V. Appendix





# Organizational Update



*Western Asset is a global investment management firm committed to  
understanding the needs of each client,  
identifying investment solutions and  
delivering superior long-term investment results*



# We Believe in Value

## Investment Philosophy

---

### Long-term, fundamental value discipline

- Bottom-up
- Top-down

### Diversified strategies

- Depth of resources
- Global

### Integrated analytics and risk management

- Relative value analysis
- Transparency and communication



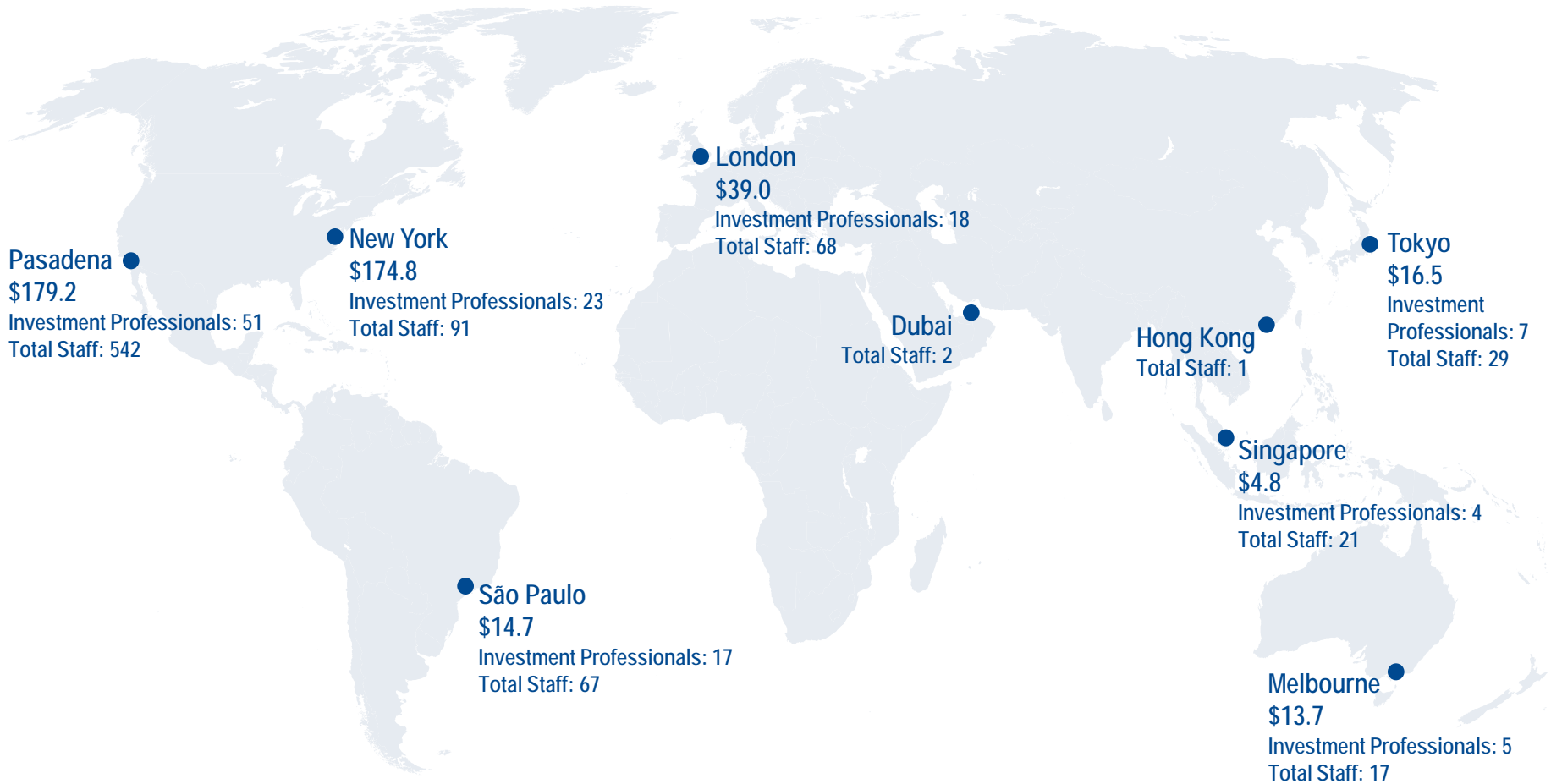
# Global Breadth and Local Depth

September 30, 2013

Total AUM: \$442.7 billion

8 Countries

Total Staff: 838

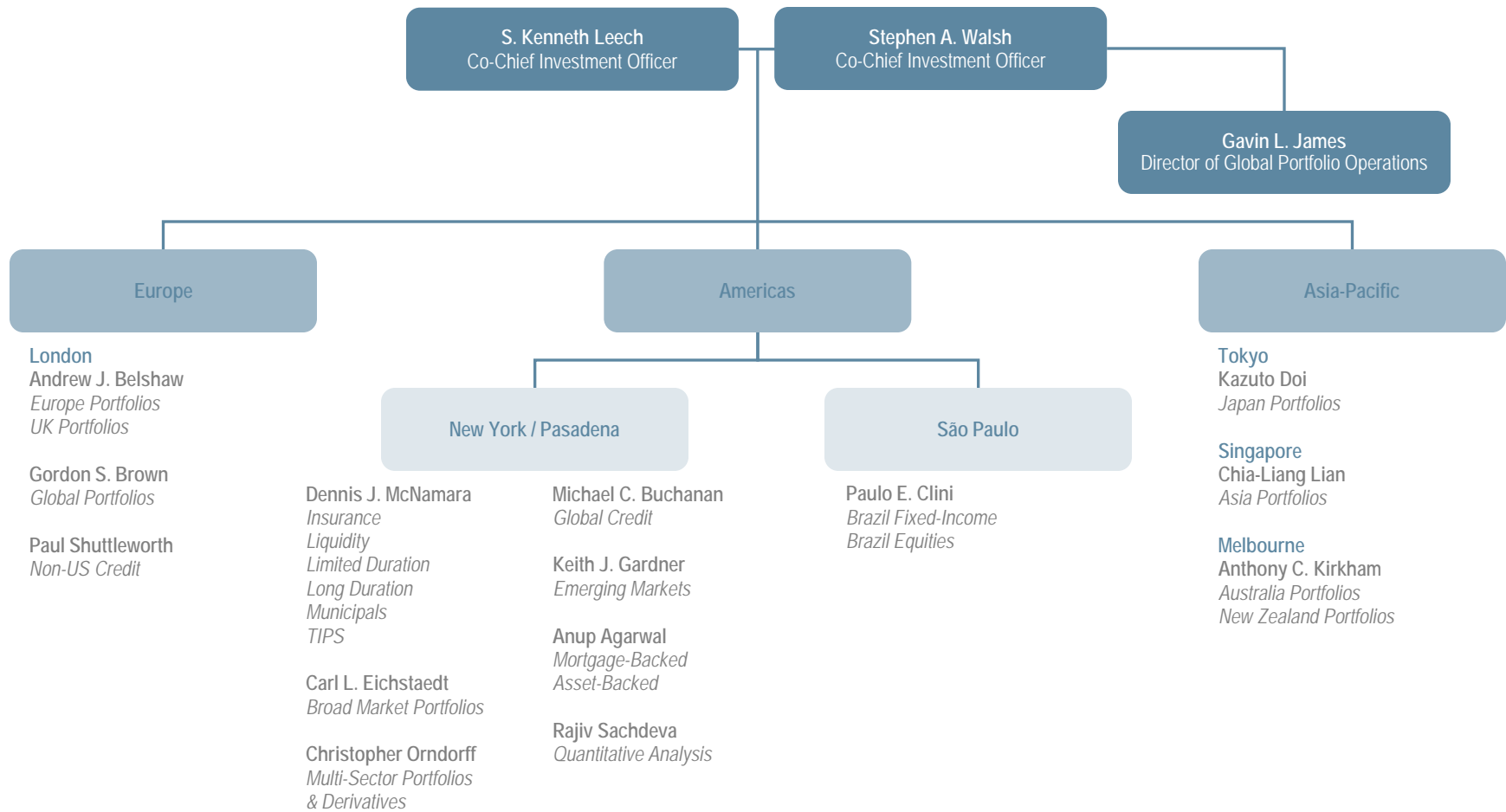


Assets under management in USD (billions)



## Objective-Driven Investing





As of 30 Sep 13

\*Illustrates direct-reporting only and does not represent the entire investment management team.



# Committed to Excellence in Client Service

## Representative Client List



Corporate	Public	Multi-Employer / Union	Insurance
Alcoa Inc.	Arkansas Local Police and Fire Retirement System	1199 SEIU National Benefit Fund	AXA
Allied Domecq Pension Fund	Arkansas Teacher Retirement System	Alaska Electrical Trust Funds	Blue Cross Blue Shield of Massachusetts
American Cast Iron Pipe Company	Baltimore County (MD) Employees Retirement System	Bert Bell / Pete Rozelle NFL Player Retirement Plan	Catalina Holdings (Bermuda) Ltd
ArcelorMittal USA Inc.	California State Teachers' Retirement System	Boilermaker Blacksmith National Pension Trust	Great-West Life & Annuity Insurance Company
AT&T Investment Management Corporation	City of Grand Rapids	Directors Guild of America-Producer Pension and Health Plans	Health Care Service Corporation
BASF Corporation	City of Orlando	Graphic Communications International Union, Inter-Local Pension Fund	Highmark Health Services
Bayer Corporation	Employees' Retirement System of the State of Rhode Island	IUOE Employers Construction Industry Retirement Plan, Locals 302 and 612	Maryland Automobile Insurance Fund
Bristol-Myers Squibb Company	Fife Council Pension Fund	Line Construction Benefit Fund	Oil Investment Corporation Ltd.
Campbell Soup Company	Fonds de compensation AVS	Major League Baseball Players Benefit Plan	Reliance Standard Life Insurance Company
Cathay Securities Investment Trust	Fresno County Employees' Retirement Association	National Education Association of the United States	United Services Automobile Association
Chrysler LLC	Gloucestershire County Council	New England Healthcare Employees Union, District 1199, AFL-CIO	WellPoint, Inc.
CNH Global N.V.	Government of Bermuda Public Funds	UAU Local No. 290 Plumber, Steamfitter & Shipfitter Industry Pension Trust	<b>Healthcare</b>
Consolidated Edison Company Of New York, Inc.	Hampshire County Council	United Food and Commercial Workers Union Local 919	Baptist Healthcare System, Inc.
Consolidated Rail Corporation	Indiana State Treasurer's Office	Western States Office & Professional Employees Pension Trust	Baylor Health Care System
Crown Cork & Seal Company, Inc.	Iowa Public Employees' Retirement System	<b>Eleemosynary</b>	Bethesda Hospital
Delta Air Lines, Inc.	Kansas Public Employees Retirement System	Abilene Christian University	Catholic Health Initiatives
Electronic Data Systems Ltd	Korea Investment Corporation	Abington Memorial Hospital	Catholic Health Investment Management Company
Energy Transfer Partners LP (formerly Sunoco, Inc.)	Los Angeles County Employees Retirement Association	Baha'i World Centre	Children's Hospital of New Orleans
Galileo & Worldspan U.S. Legacy Pension Plan Trust	Marin County Employees' Retirement Association	Battelle Memorial Institute	CHRISTUS Health
Graphic Packaging International Incorporated	Minnesota State Board of Investment	Bill & Melinda Gates Foundation Trust	Lehigh Valley Hospital
International Paper Company	Nevada Public Employees Retirement System	Board of Trustees of Southern Illinois University	Medica
Investeringsforeningen Gudme Raaschou	New Jersey Transit	Commonfund	NorthShore University HealthSystem
John Lewis Partnership Pensions Trust	North Dakota State Investment Board	Creighton University	OhioHealth Corporation
LSI Logic Corporation	Ohio Police & Fire Pension Fund	Domestic & Foreign Missionary Society ECUSA	Providence Health and Services
Macy's, Inc.	Orange County Transportation Authority	E. Rhodes & Leona B. Carpenter Foundation	St. George Corporation
National Grid USA	Oregon Investment Council	Indiana University	<b>Sub-Advisory</b>
Nestle USA, Inc.	Public Employee Retirement System of Idaho	Saint Louis University	DIAM Co., Ltd.
Nisource, Inc.	Public School Teachers' Pension and Retirement Fund of Chicago	Salk Institute for Biological Studies	Fondaco LUX S.A.
PCS Administration (USA), Inc	Salt River Project Agricultural Improvement and Power District	The Rotary Foundation of Rotary International	GuideStone Capital Management
Pensioenfond Horeca & Catering	School Employees Retirement System of Ohio	United Negro College Fund	Highbury Pacific Capital Corp.
PPG Industries	Seattle City Employees Retirement System	University of Colorado	KOKUSAI Asset Management Co., Ltd.
Southern California Edison	Sonoma County Employees' Retirement Association	University of Illinois	Legg Mason, Inc.
Stichting Pensioenfond DSM-Nederland	Surrey County Council	University of Miami	LyonRoss Capital Management LLC
Sumitomo Mitsui Asset Management Company, Limited	Tennessee Valley Authority	University of Southern California	Morgan Stanley Consulting Group
The Dun & Bradstreet Corporation	Ventura County Employees' Retirement Association	University of Wisconsin Foundation	Quaestio Investments S.A.
Unilever United States, Inc.	Virginia Retirement System	Voelcker Foundation	Russell Investment Group
Unisys Corporation	Wiltshire Council	Washington College	SEI Investments Management Corporation
YMCA Retirement Fund	Wyoming Retirement System	Washington State University	Shinko Asset Management Co., Ltd.

As of 31 Aug 13. Please see the Representative Client List Disclosure in the Appendix for more information. All have authorized the use of their names by Western Asset for marketing purposes. Such authorization does not imply approval, recommendation or otherwise of Western Asset or the advisory services provided.

## Market Review



## Outlook

- Global growth should continue to be slow
- Inflation levels should continue to be low
- Central bank policy to remain accommodative until growth and inflation accelerate
- Corporate credit fundamentals and valuations remain attractive
- Housing and mortgage fundamentals should continue to improve
- Emerging markets stabilize as market participants focus on fundamentals and value
- European recession continues to moderate

## Strategy considerations

- Recent volatility has made valuations more attractive:
  - Tactical duration management
  - Target an overweight to longer-dated UST
  - Continue a modest overweight to investment-grade corporates, especially to financials
  - Opportunistically trade agency mortgages versus UST
  - Hold moderate exposure to non-agency mortgages
  - Target moderate exposure to EM dollar corporate and quasi-sovereign names
  - Hold moderate exposure to high-yield and bank loans
  - Position for continued dollar strength versus developed markets (short yen and euro)
  - Maintain exposure to local EM bonds and currencies in selected markets

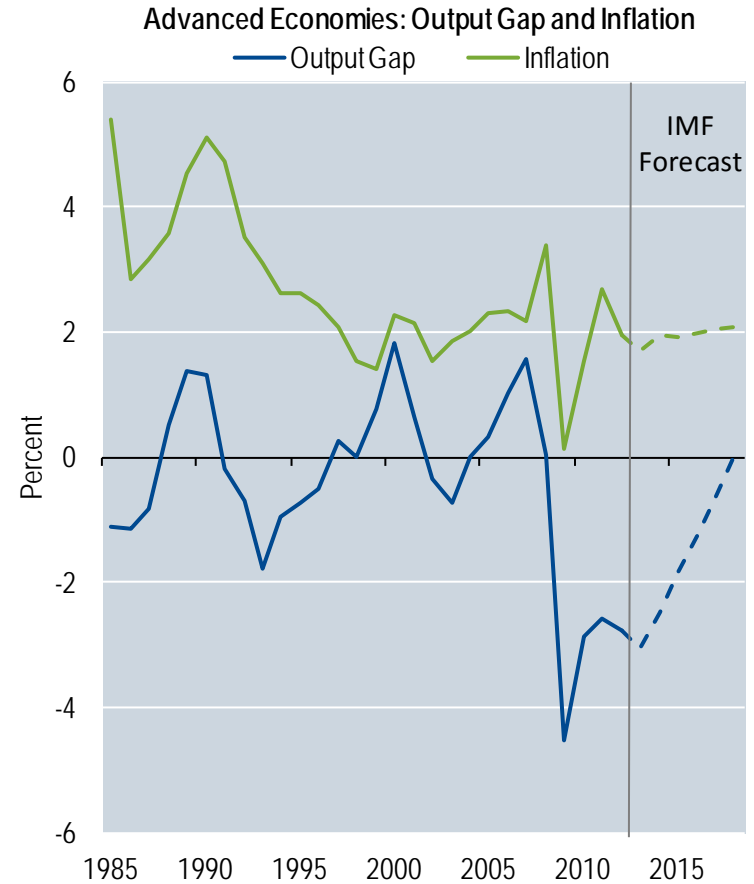
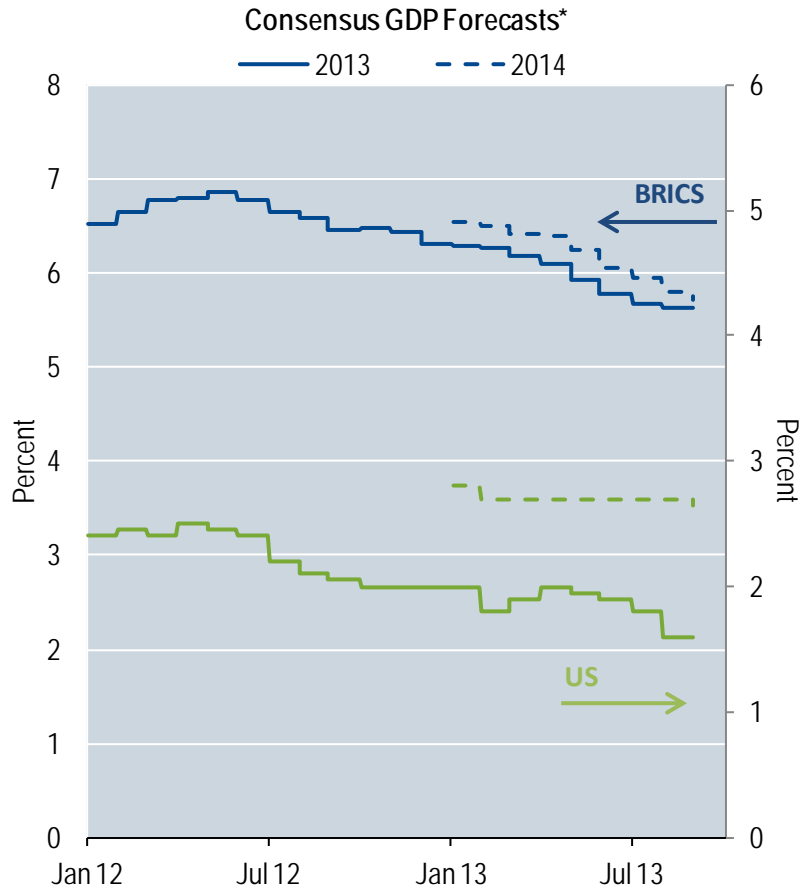


# Global Macroeconomic Outlook

## Expectations for Growth Continue to Moderate

Growth forecasts were downgraded in US and EM, although there were (tentative) signs of improvement in sentiment surveys

### Large output gaps in advanced economies should keep inflation benign



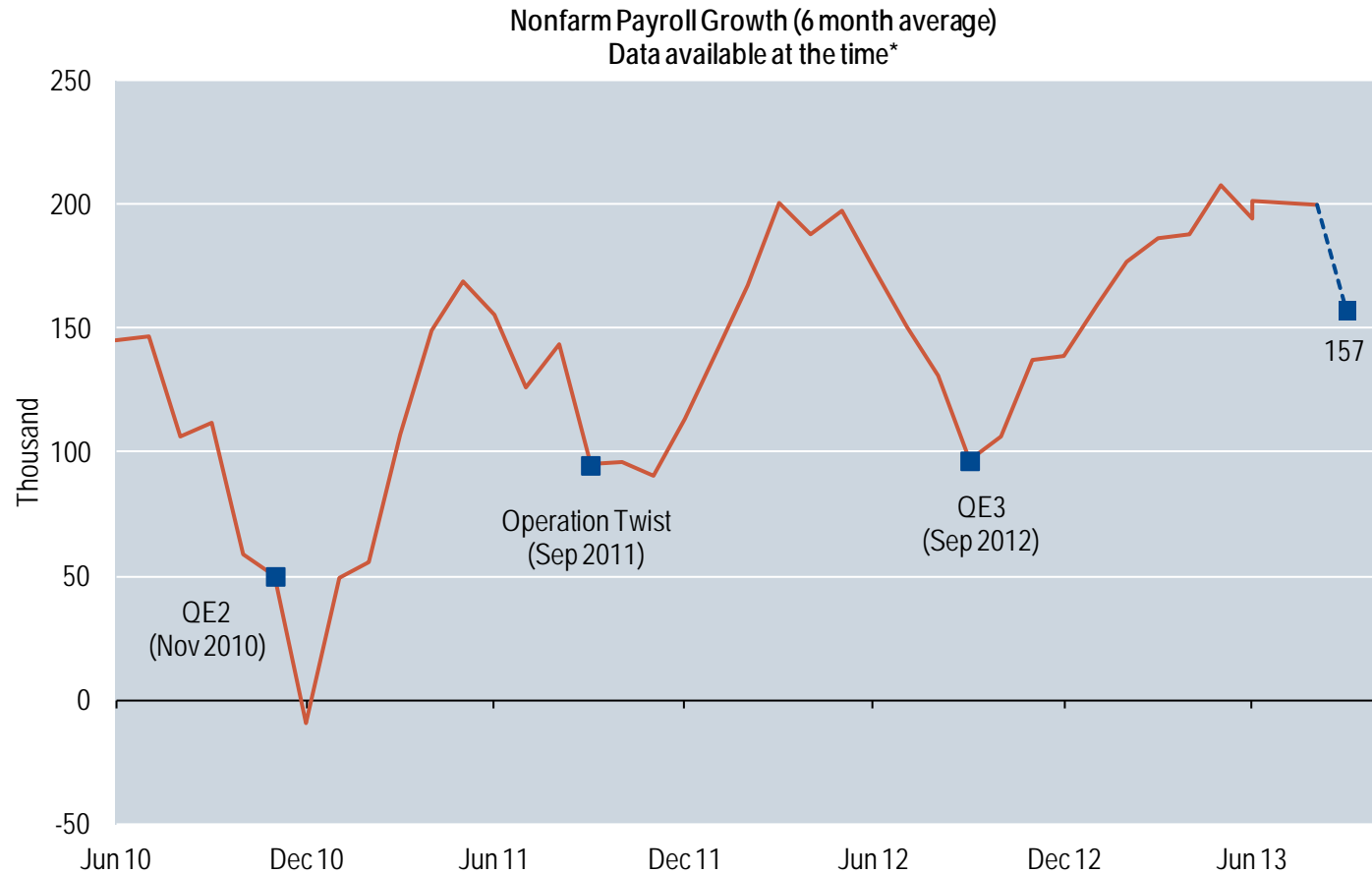
\* Consensus forecasts are year over year from Bloomberg. Forecasts represent the forwarding looking forecast for 2013 or 2014, as of the date on the lower axis. Sources: Bloomberg, IMF. As of 30 Sep 13



# Global Central Bank Policies

## Fed Policy Remains Accommodative

FOMC delayed tapering: "However, the Committee decided to await more evidence that progress will be sustained before adjusting the pace of its purchases"

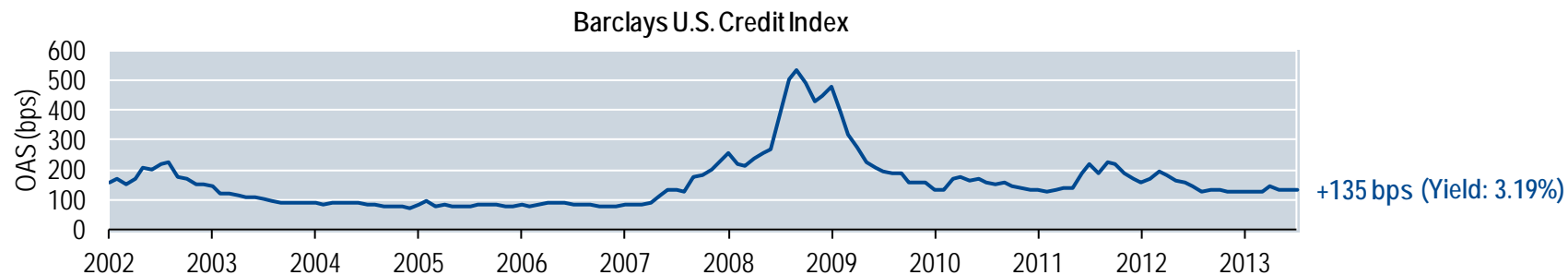


\* Data available at the time are constructed from archived releases, and will be different than revised data  
Sources: Bureau of Labor Statistics, St. Louis Federal Reserve. As of 30 Sep 13

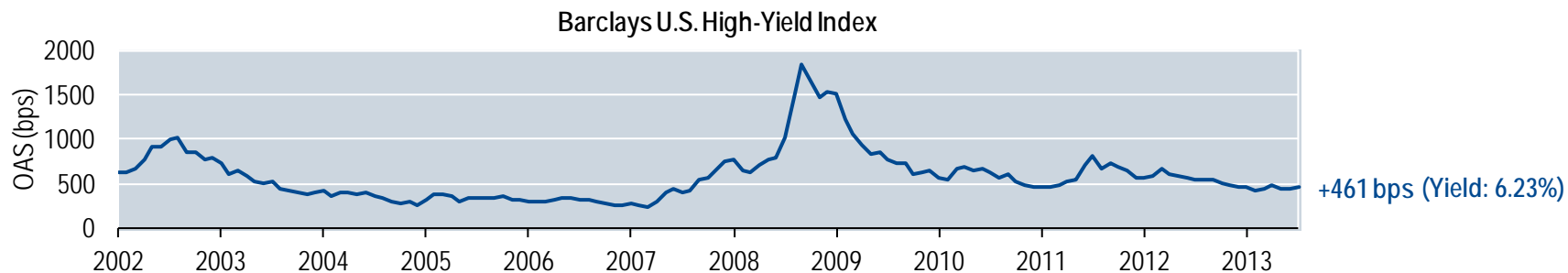


# Credit Spreads

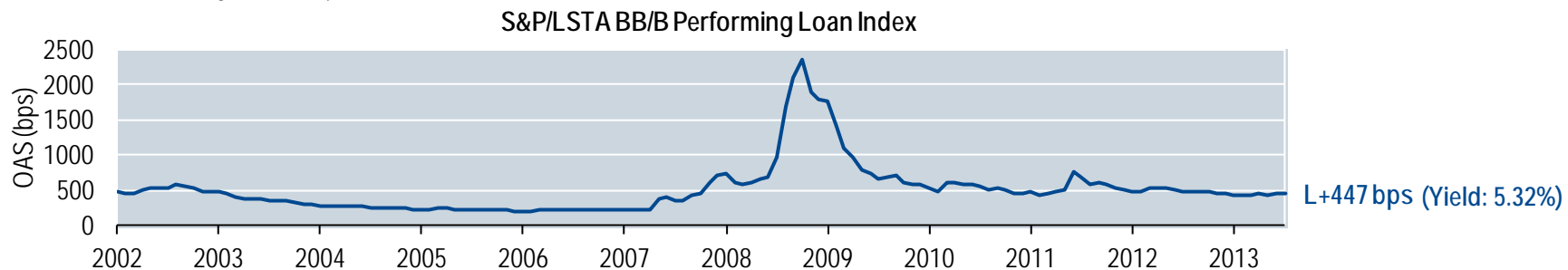
## Remain Attractive Given Fundamental Backdrop



Source: Barclays. As of 30 Sep 13



Source: Barclays. As of 30 Sep 13



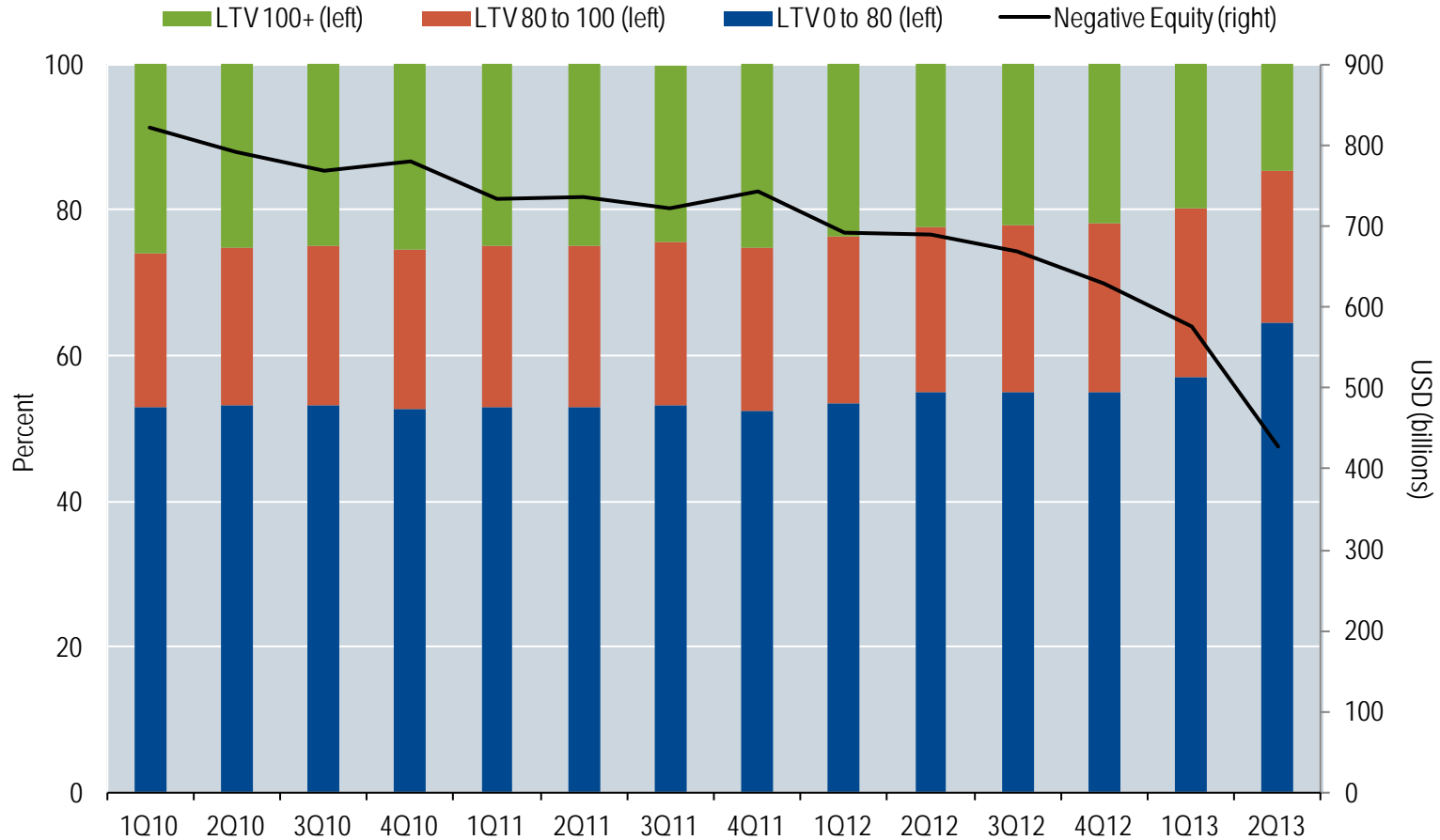
Source: S&P/LSTA. As of 27 Sep 13



# Securitized Fixed-Income

## Declining Negative Equity Has Boosted Non-Agency MBS Market

The improving housing market has decreased the number of loans with loan-to-value (LTV) ratios greater than 100, or loans with negative equity

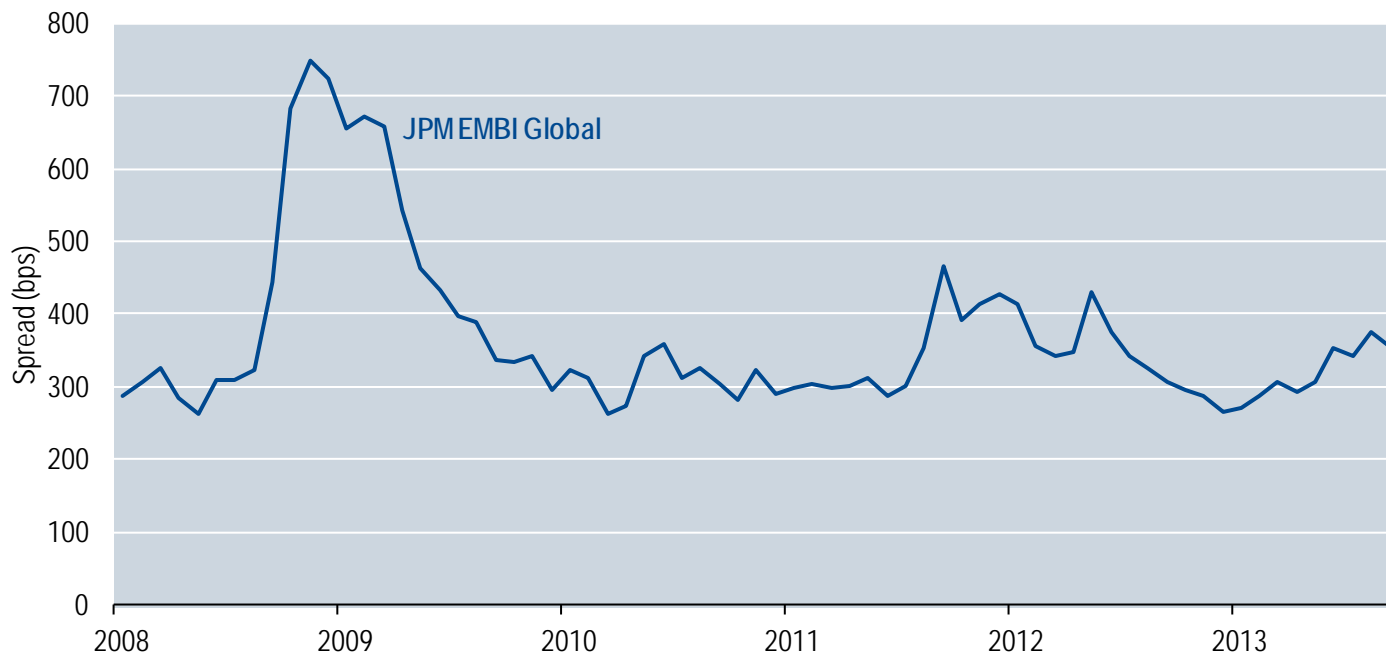


Source: Nomura, CoreLogic. As of 30 Jun 13



# Emerging Markets Debt

## Good Fundamentals in Select Markets



Source: JP Morgan. As of 30 Sep 13

Opportunities to differentiate among those EM countries that have good fundamentals and those that do not

General rise in level of global bond yields also affects EM bond prices

Primary risk to EM is the slowing in global economic growth

# 3Q13 US Performance Scorecard

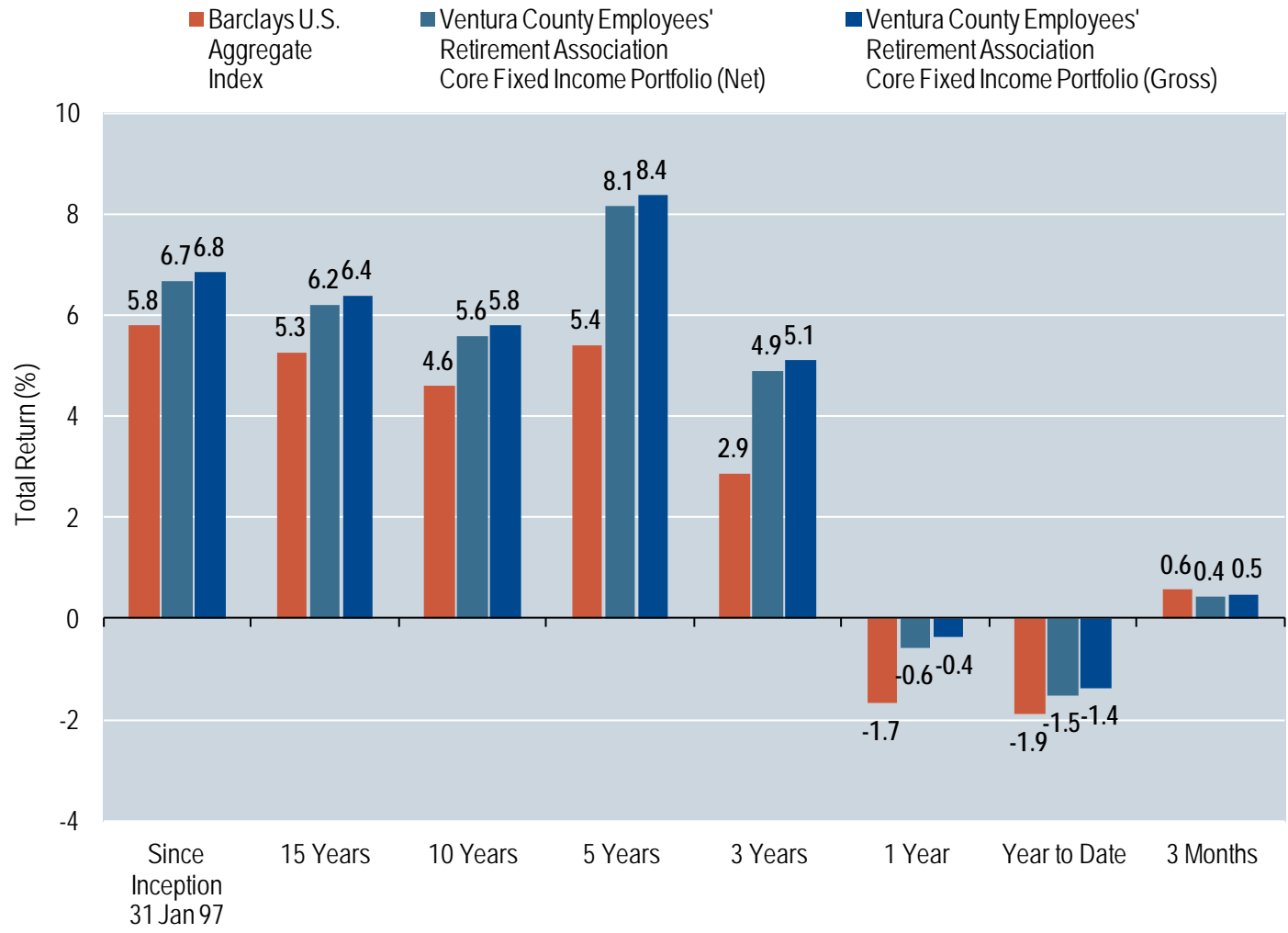
We thought that ...	Therefore, we ...	And the results ...
Investment-grade corporates would remain attractive relative to US Treasuries.	Held a modest overweight to the corporate sector, particularly in financials.	+ Spreads ended the period slightly tighter with corporate sectors generating positive excess returns.
Rates would remain contained, agency mortgage origination would wane and prepayments would slow.	Covered our underweight in higher coupon MBS. Maintained our position in call protected IO collateral.	- Mortgage spreads tightened as QE taper expectations evolved. Mortgage derivative pricing retreated somewhat after outperforming in 1Q13 and 2Q13.
Both the housing market and non-agency MBS fundamentals were improving. Fundamentals would stay positive on strong demand and limited supply.	Increased exposure to non-agency issues, with an emphasis on senior tranches and bonds with more exposure to housing turnover.	+ Benefitted from positive carry and continued principal paydowns.
High-yield corporates would be attractive given the 2Q13 selloff as well as continued low default rates and balance sheet integrity.	Where allowed, we held a modest exposure to select high-yield bonds, emphasizing certain industrial names and lower ratings.	+ High-yield spreads tightened with lower-quality issues generally outperforming higher-rated securities.
Inflation would likely remain subdued.	Held a limited exposure to TIPS for diversification and as a hedge against unexpected inflation.	+ Inflation expectations increased modestly.
Despite relative stability YTD, the potential remains for renewed volatility in Europe.	Where allowed, we held a modest short position in the euro.	- The euro appreciated versus the USD as the period was stable.
A 2Q13 EM sell off would create value opportunities for certain EM countries whose fundamentals still appeared sound.	Where allowed, we held a small exposure to USD-denominated EM corporate and quasi-sovereigns as well as to EM currencies and local bonds.	+/- EM returns stabilized after selling off over 2Q13.
Central banks would remain highly accommodative.	Increased our duration position.	+ Rates trended lower after reaching their highest point of the period in early September.
30-year US Treasuries represented a better value than shorter maturity UST and would provide some protection if volatility increased.	Held an overweight to the long-end of the yield curve.	- The yield curve ended the quarter steeper as volatility declined.

Source: Western Asset. As of 30 Sep 13

## Portfolio Review



*Core Full Portfolio*

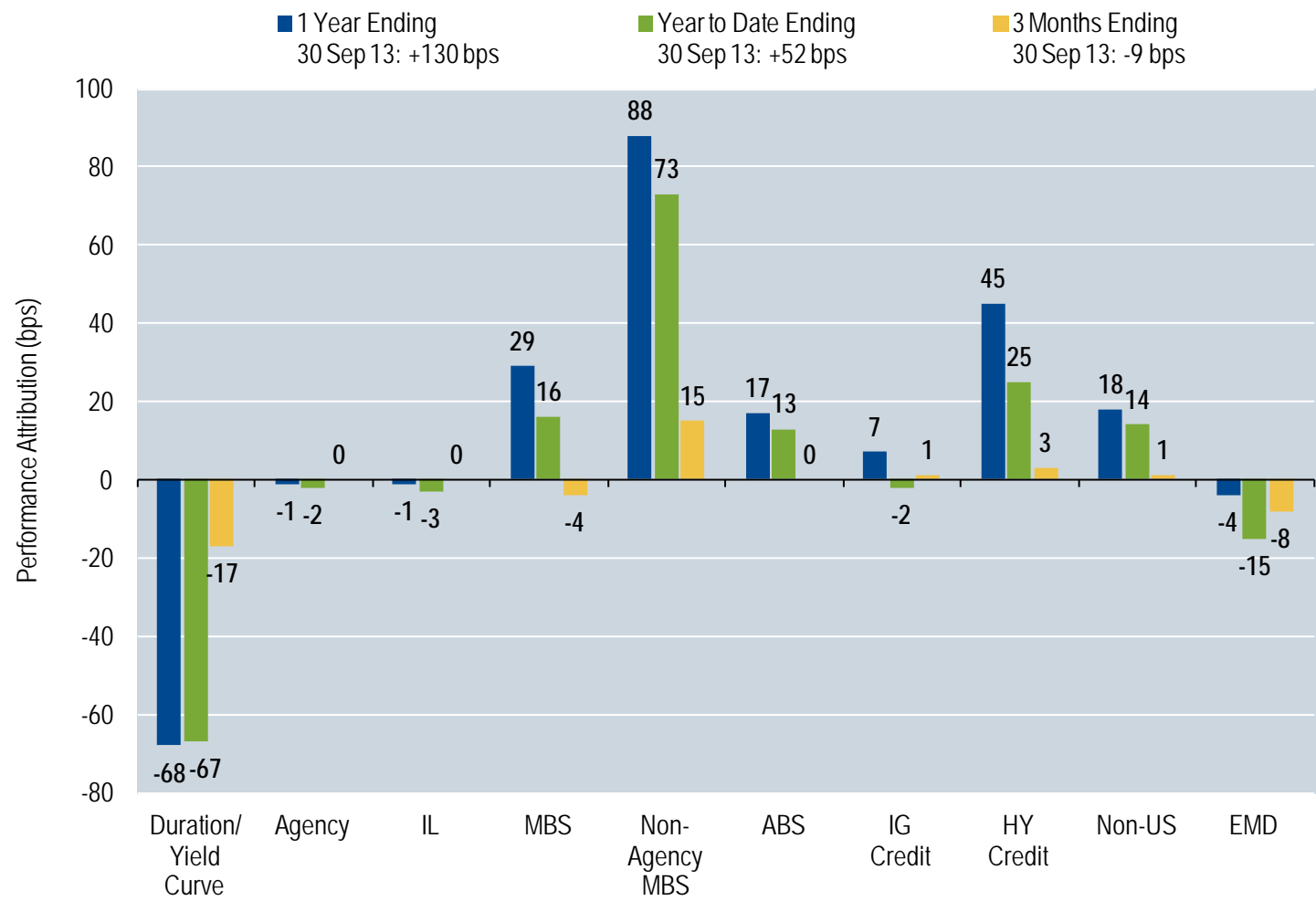


As of 30 Sep 13. Returns for periods greater than one year are annualized. Returns since inception are as of the indicated close of business day.

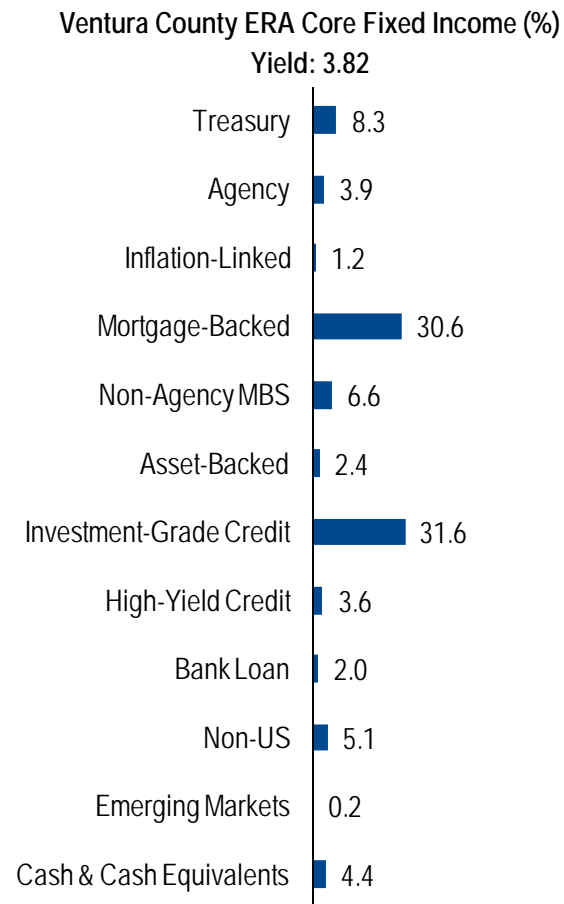
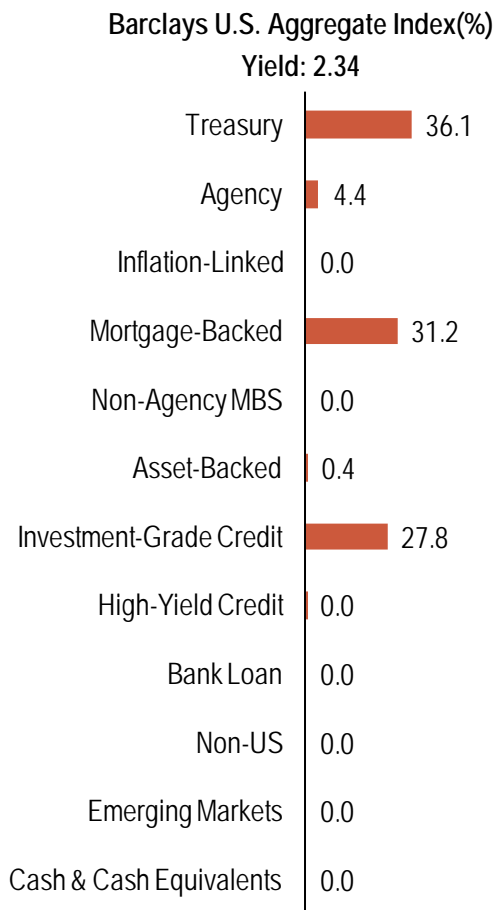


# Attribution Analysis

## Ventura County ERA Core Fixed Income vs. Barclays U.S. Aggregate Index



*Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance. The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component. Data may not sum to total due to rounding.*



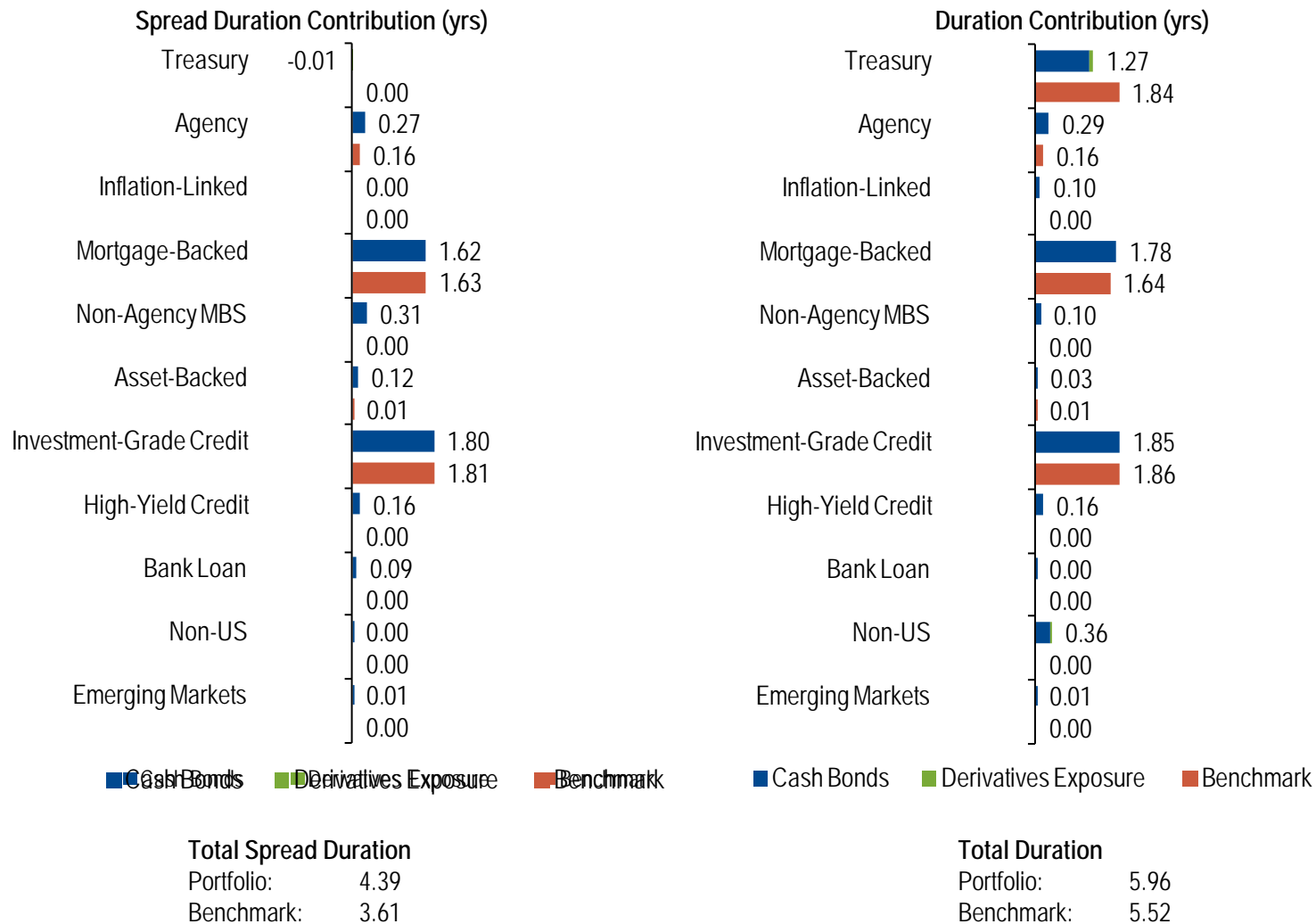
*Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.*



# Sector Exposure

## Ventura County ERA Core Fixed Income vs. Barclays U.S. Aggregate Index

September 30, 2013



Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.

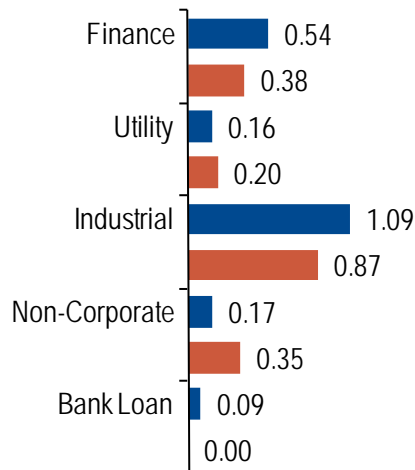


# Credit Sector Exposure

## Ventura County ERA Core Fixed Income vs. Barclays U.S. Aggregate Index

September 30, 2013

### Spread Duration Contribution (yrs)

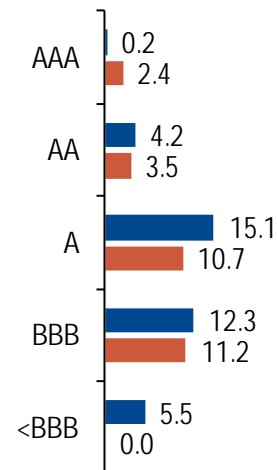


■ Cash Bonds   
 ■ Derivatives Exposure   
 ■ Benchmark

### Credit Spread Duration

Portfolio: 2.05  
 Benchmark: 1.81

### Quality Exposure (%)<sup>1</sup>



■ Portfolio   
 ■ Benchmark

37.2% of Portfolio

### Barclays U.S. Credit Index Excess Returns

	2012	2013*
Finance	12.52%	1.73%
Utility	4.67%	0.70%
Industrial	4.92%	-0.04%
Non-Corporate	5.39%	-1.16%

\*As of 30 Sep 13

	2012	2013*
AAA	1.96%	0.07%
AA	4.15%	0.05%
A	7.40%	0.51%
BBB	8.56%	0.08%
<BBB**	13.94%	4.89%

\*As of 30 Sep 13; \*\*Barclays U.S. High-Yield Index

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.

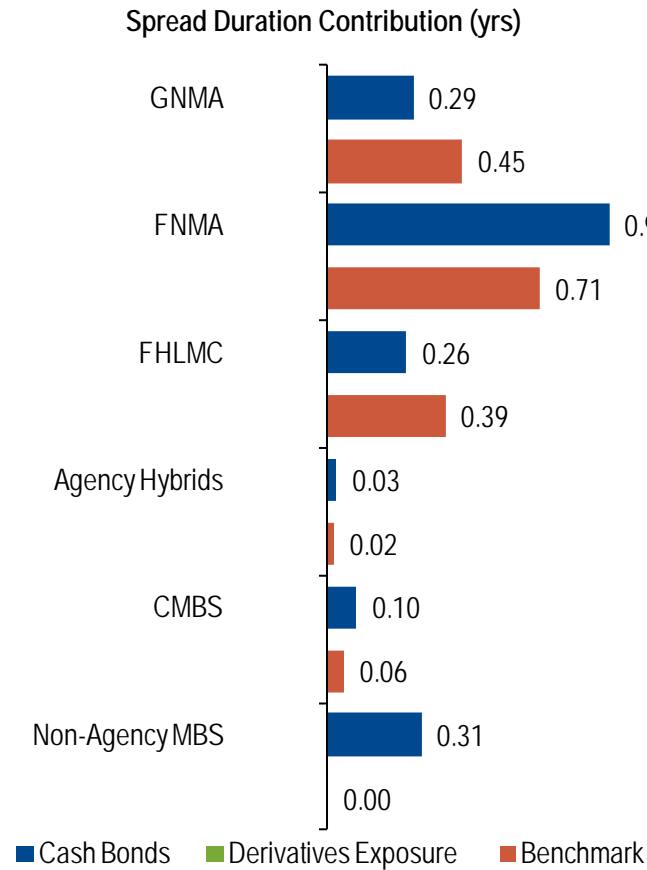
<sup>1</sup>All weightings are a percentage of total market value.



# Mortgage-Backed Sector Exposure

## Ventura County ERA Core Fixed Income vs. Barclays U.S. Aggregate Index

September 30, 2013



### MBS Spread Duration

Portfolio: 1.93

Benchmark: 1.63

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.



# Non-Agency Mortgage-Backed Exposure

## Ventura County ERA Core Fixed Income

September 30, 2013

Classification	% Portfolio
Prime	1.46%
Alt-A	1.98%
Subprime	0.68%
Option ARM	2.51%
<b>Total</b>	<b>6.63%</b>

Capital Structure	% Portfolio
Super Senior	2.14%
Senior	4.20%
Senior Support	0.02%
Subordinated	0.27%
Other - Swap	0.00%
<b>Total</b>	<b>6.63%</b>

Vintage	% Portfolio
<=2003	0.78%
2004	1.29%
2005	1.97%
2006	1.63%
2007	0.95%
<b>Total</b>	<b>6.63%</b>

Current Ratings	% Portfolio
AAA	1.79%
AA	0.94%
A	0.74%
BBB	0.83%
<BBB	2.33%
<b>Total</b>	<b>6.63%</b>

Weighted Average Yield <sup>1</sup> (%)	Weighted Average Life (yrs)
6.18	6.26

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. Data may not sum to total due to rounding.

Includes home equity asset-backed securities and notional value of ABX where held.

Source: Western Asset / Intex

Disclaimer: Any prices, sources or valuations provided are provided for information purposes only and solely for your use. Such information results from Western Asset's internal policies and, accordingly, may reflect information received from outside parties, publicly disseminated or internally developed models, our experience in executing transactions in the market, or other factors. Information based on different assumptions, sources or other factors may yield different results. Any specific prices or valuations do not necessarily represent the actual terms of new or existing transactions and are not an assurance that a particular security may be bought or sold in the market at such levels. Any information provided is provided as an accommodation to you in good faith based on Western Asset's policies. Western Asset is not a pricing service or agent and any such information may not be relied upon for such purposes. Western Asset is not responsible for errors, omissions or inaccuracies in your data if you use or otherwise rely upon this information.

<sup>1</sup>Weighted average yield is loss adjusted.



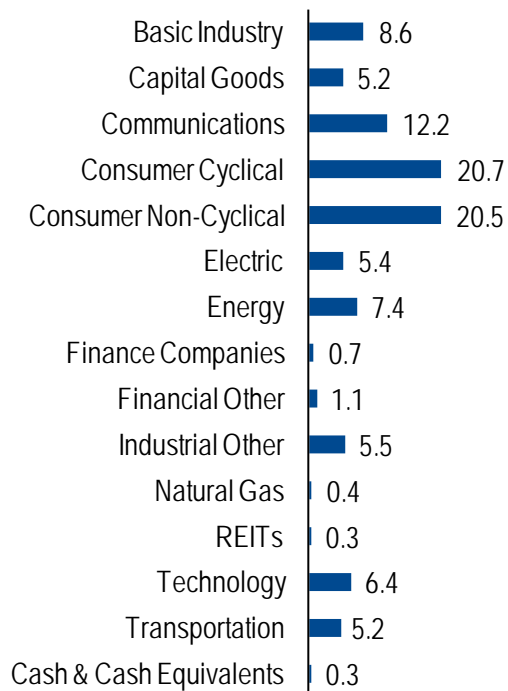


# Opportunistic Non-Benchmark Sector Allocation

## High-Yield

September 30, 2013

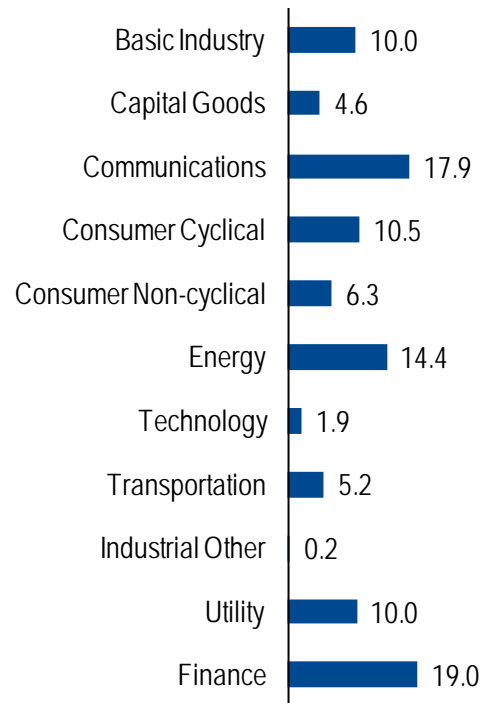
### Opportunistic Bank Loan Allocation (%)<sup>1</sup>



### Bank Loan Allocation

- Capital preservation
- Diversified approach
- Research-driven
- BB and B Focus

### Opportunistic High-Yield Allocation (%)



### High-Yield Process

- Diversified approach
- Research-driven
- Large, liquid deals

<sup>1</sup>Preliminary

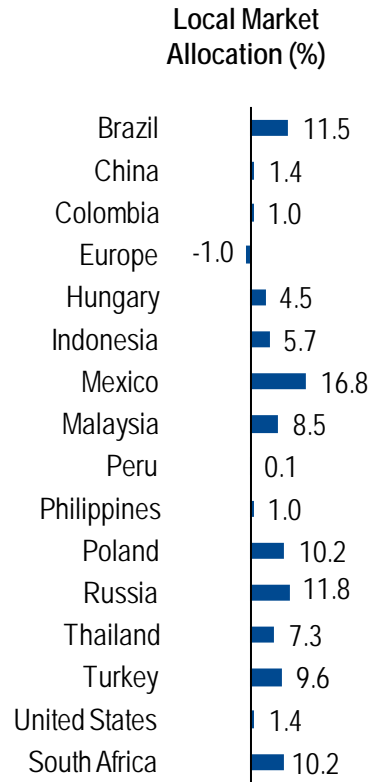
Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value.

Data may not sum to total due to rounding.



# Opportunistic Non-Benchmark Sector Allocation

September 30, 2013



## Non-US Allocation

- Positive exposure to German and UK rates
- Long Canadian dollar and Norwegian krone
- Short Australian dollar, Euro and Japanese yen

### Local Market Process

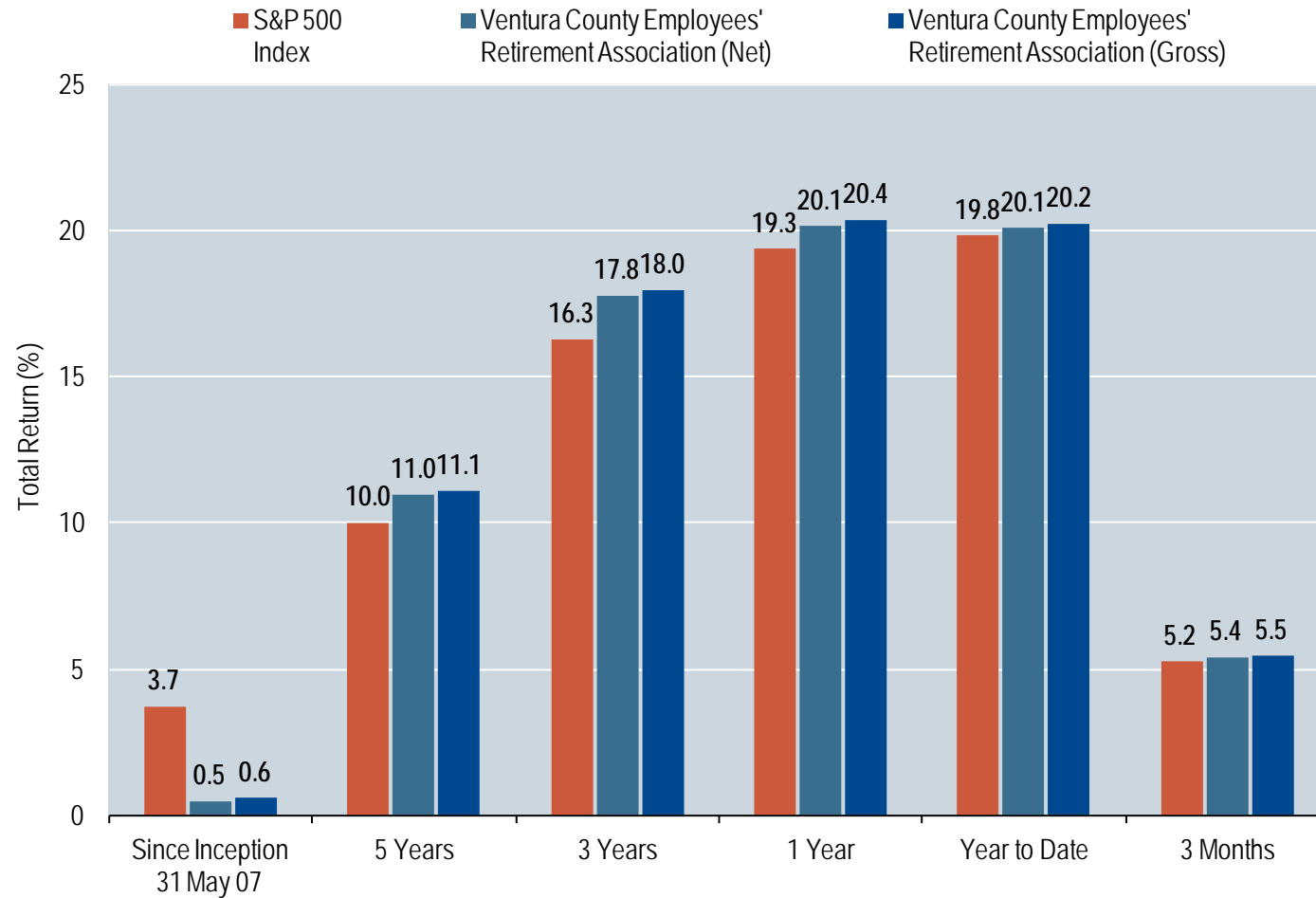
- Opportunistic allocation
- Separate rate and currency decisions
- Primarily sovereign credits

### Non-US Process

- Opportunistic allocation
- Primarily sovereign credits

*Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. Data may not sum to total due to rounding.*

*Index Plus Portfolio*

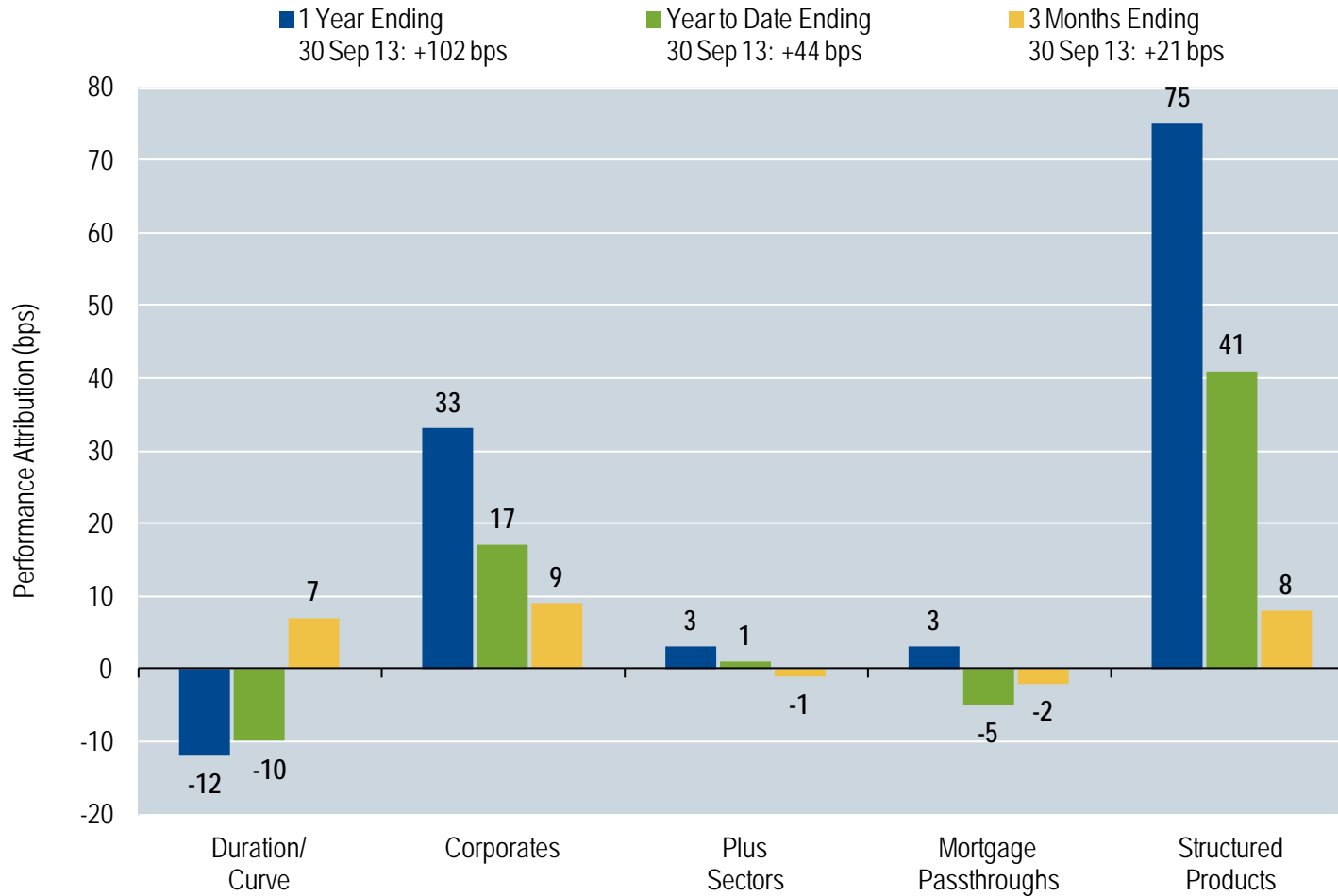


*As of 30 Sep 13. Returns for periods greater than one year are annualized. Returns since inception are as of the indicated close of business day.*

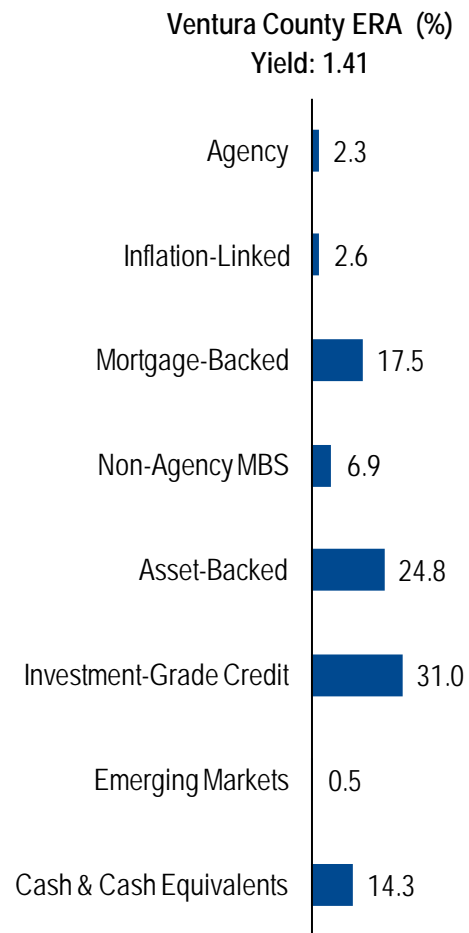


# Attribution Analysis

## Ventura County ERA Index Plus Portfolio vs. S&P 500 Index



*Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance. The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component. Data may not sum to total due to rounding.*



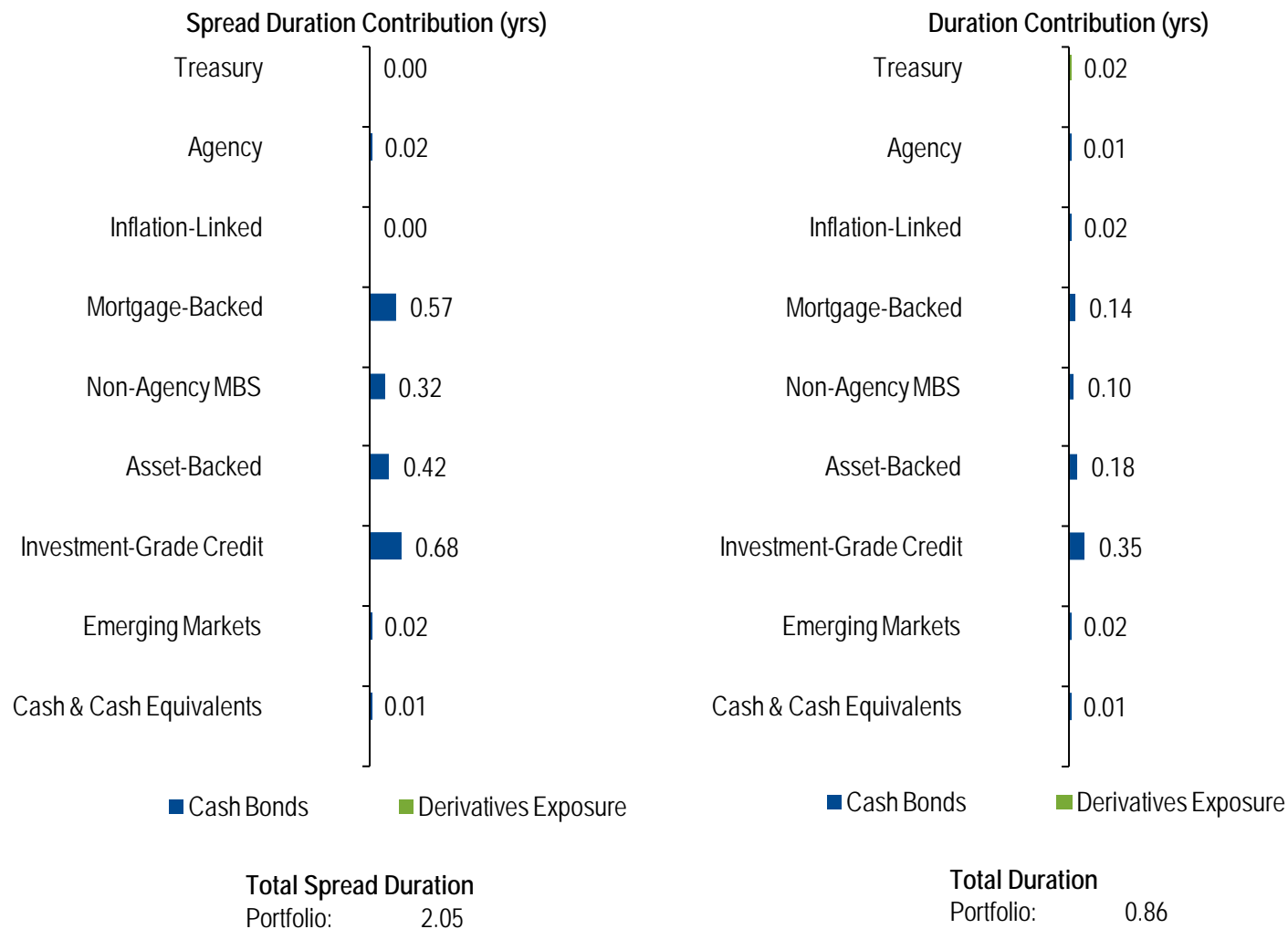
Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.



# Sector Exposure

## Ventura County ERA

September 30, 2013



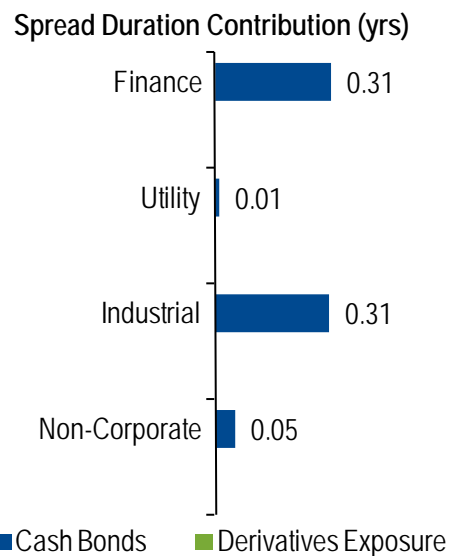
Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.



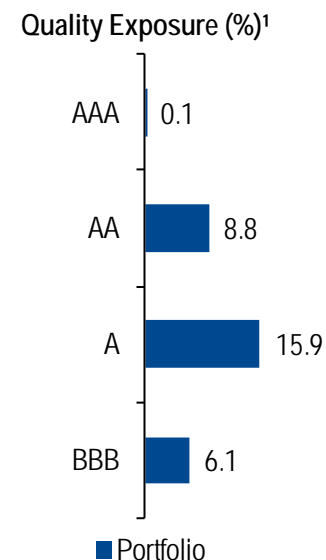
# Credit Sector Exposure

## Ventura County ERA

September 30, 2013



**Credit Spread Duration**  
Portfolio: 0.68



**31.0% of Portfolio**

### Barclays U.S. Credit Index Excess Returns

	2012	2013*
Finance	12.52%	1.73%
Utility	4.67%	0.70%
Industrial	4.92%	-0.04%
Non-Corporate	5.39%	-1.16%

\*As of 30 Sep 13

	2012	2013*
AAA	1.96%	0.07%
AA	4.15%	0.05%
A	7.40%	0.51%
BBB	8.56%	0.08%
<BBB**	13.94%	4.89%

\*As of 30 Sep 13; \*\*Barclays U.S. High-Yield Index

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.

<sup>1</sup>All weightings are a percentage of total market value.

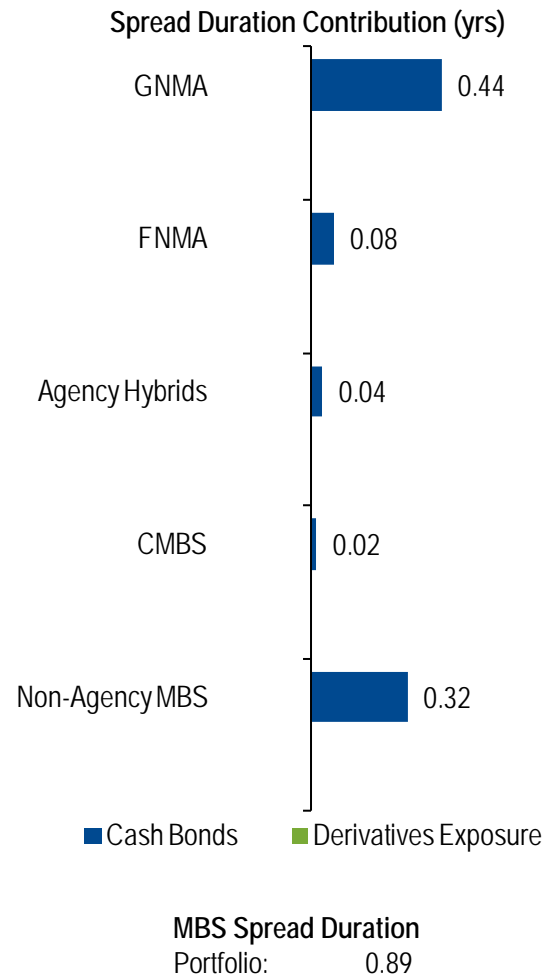




# Mortgage-Backed Sector Exposure

Ventura County ERA

September 30, 2013



Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.



# Non-Agency Mortgage-Backed Exposure

## Ventura County ERA

September 30, 2013

Classification	% Portfolio
Prime	1.06%
Alt-A	1.01%
Subprime	1.49%
Option ARM	3.37%
<b>Total</b>	<b>6.92%</b>

Capital Structure	% Portfolio
Super Senior	3.61%
Senior	2.82%
Senior Support	0.00%
Subordinated	0.50%
Other - Swap	0.00%
<b>Total</b>	<b>6.92%</b>

Vintage	% Portfolio
<=2003	1.15%
2004	1.44%
2005	2.56%
2006	1.26%
2007	0.52%
<b>Total</b>	<b>6.92%</b>

Current Ratings	% Portfolio
AAA	0.28%
AA	1.11%
A	0.56%
BBB	0.00%
<BBB	4.97%
<b>Total</b>	<b>6.92%</b>

Weighted Average Yield <sup>1</sup> (%)	Weighted Average Life (yrs)
6.03	6.13

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. Data may not sum to total due to rounding.

Includes home equity asset-backed securities and notional value of ABX where held.

Source: Western Asset / Intex

Disclaimer: Any prices, sources or valuations provided are provided for information purposes only and solely for your use. Such information results from Western Asset's internal policies and, accordingly, may reflect information received from outside parties, publicly disseminated or internally developed models, our experience in executing transactions in the market, or other factors. Information based on different assumptions, sources or other factors may yield different results. Any specific prices or valuations do not necessarily represent the actual terms of new or existing transactions and are not an assurance that a particular security may be bought or sold in the market at such levels. Any information provided is provided as an accommodation to you in good faith based on Western Asset's policies. Western Asset is not a pricing service or agent and any such information may not be relied upon for such purposes. Western Asset is not responsible for errors, omissions or inaccuracies in your data if you use or otherwise rely upon this information.

<sup>1</sup>Weighted average yield is loss adjusted.

## Addendums



October 7, 2013

Dear Ventura County Employees' Retirement Association:

Recently our Firm has come under some scrutiny by our colleagues at Hewitt Ennisknupp (HEK). While we have the utmost respect for its consultancy, we are compelled to make a case for why its downgrade of some of Western Asset's strategies—primarily strategies it believes to have a meaningful allocation to MBS—is unwarranted. One of the reasons HEK has cited is recent turnover on our MBS team. We understand that change of any kind at a long-standing firm such as Western Asset warrants further analysis. Our Firm has always aimed to evolve in ways that seek to yield long-term benefits to our clients. We believe our most recent changes are no exception.

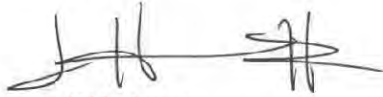
The foundation of Western Asset's success has been a steady focus on our investment philosophy and process, and an organizational commitment to hiring the best talent to deliver on client objectives. Since our founding in 1971, we have never wavered on this and never will. Our team-based approach to long-term, fundamental value investing has been the driver of strong investment performance across a spectrum of fixed-income strategies. Western Asset has always sought proactively to evolve with markets and investor appetite. This includes ensuring that we have the optimal mix of investment talent to meet market and client needs effectively. Since the financial crisis, we have made meaningful personnel and reporting line enhancements at the Firm, most notably to our credit and risk management teams, respectively. The results of these enhancements have been resoundingly positive for the Firm and for our clients.

More recently, the Firm's Agency MBS and Structured Products teams experienced two notable departures. Steve Fulton, Head of Agency MBS, announced his retirement after 30 years in the business, effective September 30, 2013. Steve had been eyeing retirement so that he could pursue his longtime passion for the mixed martial arts more exclusively. The key investment professionals who reported to Steve on the Agency MBS team are highly seasoned and remain in place. The second departure was Paul Jablansky, Head of Structured Products, who resigned on June 13, 2013. Western Asset and Paul mutually recognized that his investment approach was less congruent with the Firm's than initially expected. Paul's departure, while disappointing, was the right move for both parties. The other key investment professionals on the Structured Product team, also highly seasoned, remain in place. These two departures, while mutually exclusive, have understandably raised some questions about our MBS/ABS program given their relative timing. However, in no uncertain terms, our team is as strong as ever. Not only does the experienced core of each team remain, but with the hire and appointment of Anup Agarwal as Head of MBS/ABS—bringing both the Agency and Structured teams under his consolidated purview—the team is highly energized and committed to continue delivering the kind of performance our clients have come to expect from us. Anup is deeply experienced in MBS/ABS. During his time at Invesco, Anup was responsible for all RMBS, CMBS and ABS within the Barclays Aggregate accounts platform totaling \$60 to \$65 billion. This included more than \$25 billion in MBS/ABS assets, of which approximately \$20 billion were in Agency MBS. More recently with Stark Investments, he was responsible for \$250 million to \$500 million of risk capital in one Stark hedge fund as well as assets in two other mortgage-related funds.

The MBS/ABS team (14 professionals) is part of a larger group of 124 dedicated investment professionals at Western Asset, singularly focused on the fixed-income markets. The same philosophy and process that have guided us for the last 42 years remain in place. The vast majority of our strategies remain very attractive compared with their stated benchmarks and peer groups. This past year, Western Asset was named the 5th Best Place To Work among money managers with 100–1,000 employees by P&I Magazine. Relative to our peers in the investment management industry, Western Asset has had a historically low level of turnover.

I hope that in our years of partnership together, it has been evident that our clients always come first at Western Asset. We recognize that HEK's opinion is one you must take very seriously. We hope, however, that you take the opportunity to ascertain your own perspective and we are prepared to facilitate any kind of diligence you seek. We encourage you to be candid with us and ask the tough questions. Please contact me directly at 626-844-9515 or your Client Service Executive with any questions. In the meantime, we will continue to do our best to seek outstanding investment results for your portfolio.

Best regards,

A handwritten signature in black ink, appearing to read 'JWH', followed by a stylized flourish.

James W. Hirschmann  
President and Chief Executive Officer



October 9, 2013

Mr. Henry Solis  
Fiscal Manager  
Ventura County Employees' Retirement Association  
1190 South Victoria Avenue, Suite 200  
Ventura, CA 93003-6572

Re: Ventura County Core Full Account, WA # 851

Dear Mr. Solis:

This letter is to confirm that all investment activity during the year ending September 30, 2013 was consistent with the investment policies and restrictions set forth in the Ventura County Statement of Objectives, Guidelines and Procedures.

Should you have any questions, please contact your client service team.

Sincerely,

A handwritten signature in black ink, appearing to read "Cynthia Bui".

Cynthia Bui  
Portfolio Compliance



October 9, 2013

Mr. Henry Solis  
Fiscal Manager  
Ventura County Employees' Retirement Association  
1190 South Victoria Avenue, Suite 200  
Ventura, CA 93003-6572

Re: Ventura County Index Plus Account, WA # 2887

Dear Mr. Solis:

This letter is to confirm that all investment activity during the year ending September 30, 2013 was consistent with the investment policies and restrictions set forth in the Ventura County Statement of Objectives, Guidelines and Procedures.

Should you have any questions, please contact your client service team.

Sincerely,

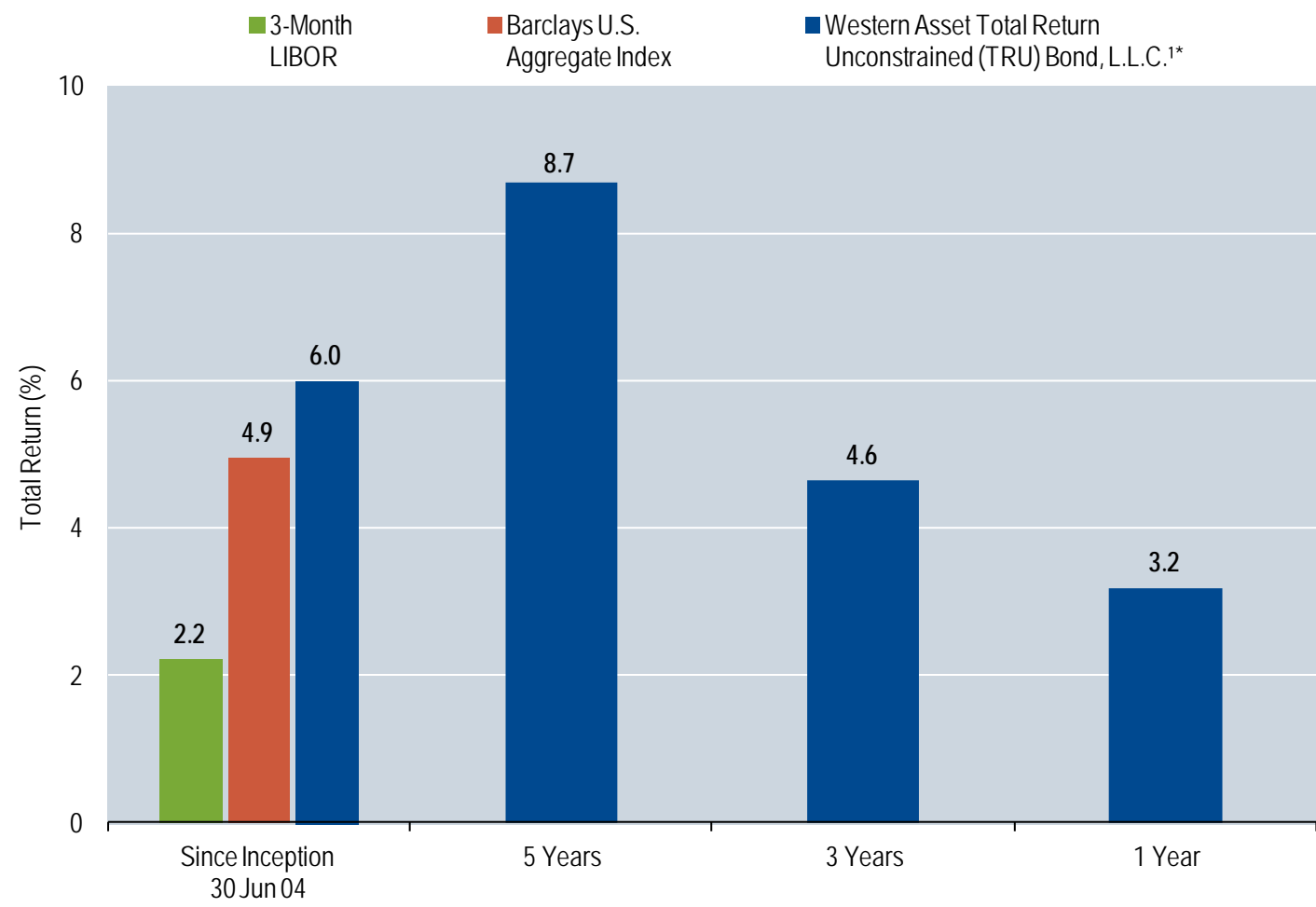
A handwritten signature in black ink, appearing to read "Cynthia Bui".

Cynthia Bui  
Portfolio Compliance

# Appendix



*Total Return Unconstrained (TRU) Bond*



*Preliminary as of 30 Sep 13. Returns for periods greater than one year are annualized. The performance calculation reflects the deduction of administrative and custodian fees only. The impact of advisory fees on performance is not reflected in this calculation.*  
<sup>1</sup>The Western Asset Total Return Unconstrained (TRU) Bond, L.L.C. is not measured against a benchmark. There is no benchmark available which appropriately reflects the strategy.  
<sup>\*</sup>Previously referenced as Western Asset Absolute Return Strategy, L.L.C.

Month Ending	Year to Month Change in Treasury (basis points)	TRU <sup>1</sup> Performance (%)	Core Plus <sup>2</sup> Performance (%)	Barclays U.S. Aggregate Index (%)	TRU <sup>1</sup> vs Core Plus <sup>2</sup> (%)	TRU <sup>1</sup> vs Barclays U.S. Aggregate Index (%)
December 2009	55	1.37	-0.05	-1.56	1.43	2.94
April 2008	49	1.65	1.48	-0.21	0.17	1.86
January 2009	40	2.44	0.81	-0.88	1.64	3.33
November 2004	39	0.80	-0.23	-0.80	1.04	1.60
July 2005	35	0.07	-0.38	-0.91	0.45	0.98
May 2008	34	0.07	-0.93	-0.73	1.00	0.81
December 2010	34	0.68	-0.46	-1.08	1.15	1.76
September 2005	33	-0.22	-0.89	-1.03	0.66	0.81
May 2007	28	-0.45	-0.83	-0.76	0.38	0.31
April 2009	28	5.90	3.53	0.48	2.37	5.42
February 2005	26	0.51	-0.34	-0.59	0.85	1.10
May 2013	25	-0.34	-1.75	-1.78	1.40	1.44
December 2006	24	-0.07	-0.50	-0.58	0.43	0.51
March 2006	23	-0.33	-1.16	-0.98	0.83	0.65
October 2005	23	-0.70	-1.08	-0.79	0.38	0.09
March 2010	23	1.35	0.82	-0.12	0.53	1.47
June 2013	19	-1.33	-2.00	-1.55	0.67	0.22
November 2010	18	-0.27	-0.46	-0.57	0.19	0.31
May 2009	17	4.95	3.33	0.73	1.61	4.22
March 2005	16	-0.68	-0.67	-0.51	-0.01	-0.17
February 2009	16	-2.71	-2.83	-0.38	0.13	-2.33
Average Return for all periods with rising rates:		0.61	-0.22	-0.70	0.82	1.30
Cumulative Return for all periods with rising rates:		13.1	-4.71	-13.68	17.81	26.77

## Methodology

- Identify all months since July 2004 when US Treasury rates increased by 15 basis points or more
- We defined US Treasury rates as the yield on the Barclays US Treasury Index
- For each month that met the rate increase criteria, compare the monthly returns of TRU, Core Plus and the Barclays U.S. Aggregate Index
- Calculate the cumulative linked (compound) returns and arithmetic average returns for both strategies over these months
- Performance shown reflects the returns for the composites

Source: Western Asset. As of 30 Sep 13

Performance shown is gross. Returns for periods greater than one year are annualized. Please see the Performance Disclosure in the Appendix for more information.

<sup>1</sup>Total Return Unconstrained (TRU) Bond Composite. Returns are since inception 01 Jul 04. The Total Return Unconstrained (TRU) Bond Composite is not measured against a benchmark. There is no benchmark available which appropriately reflects the strategy.

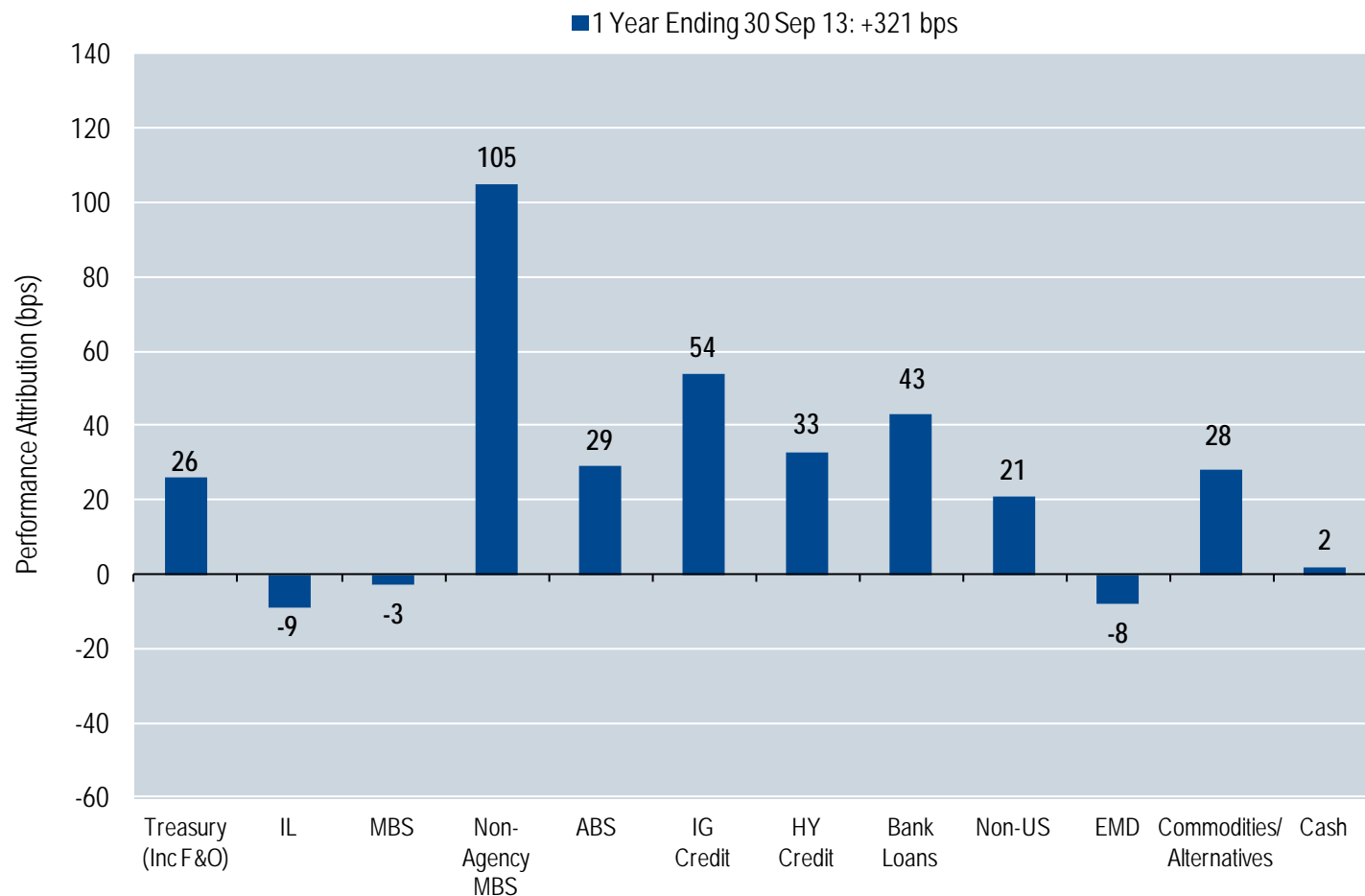
<sup>2</sup>US Core Full Discretion Portfolios allow for investments in high yield, emerging markets and non-dollar securities. Represented by the US Core Full Below Investment Grade Futures & Options Composite



# Attribution Analysis

Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary



*Western Asset believes that attribution is not a hard science, but rather a means of evaluating strategies to determine their relative impact on overall portfolio performance. The intent of the manager, therefore, is critical in the evaluation of different strategies, and the return attribution for any sector or strategy could be over or understated due to its inclusion in another component. Data may not sum to total due to rounding.*

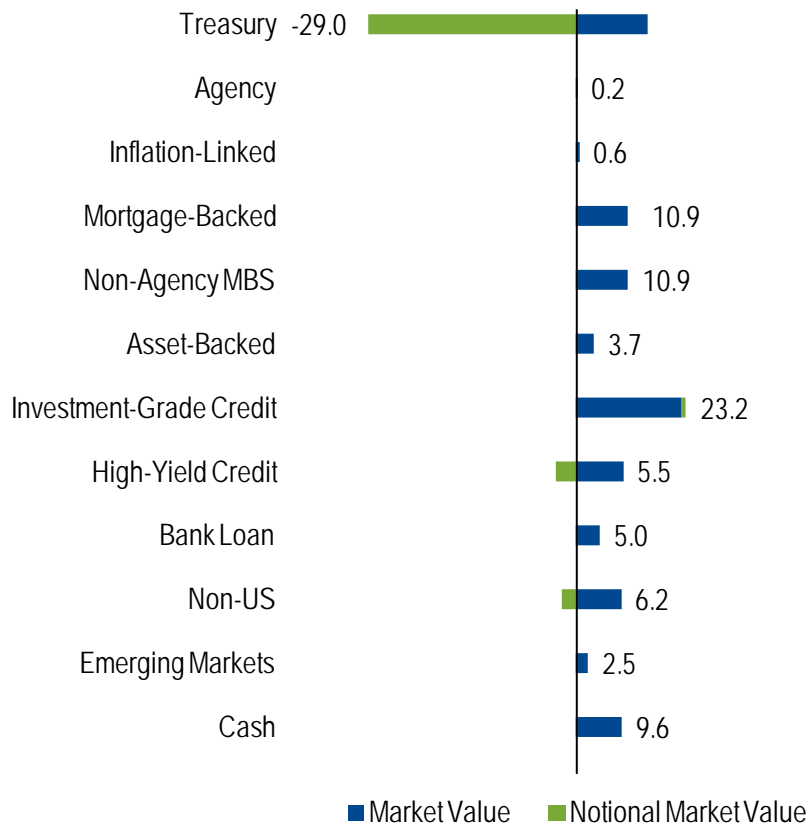


# Sector Exposure

## Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013

Market Value (%) + Notional Market Value (%)<sup>1</sup>  
Yield: 3.12



<sup>1</sup>Notional market value represents derivatives notional market value excluding interbank derivatives

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. A negative cash position may be reported, which is primarily due to the portfolio's unsettled trade activity. Data may not sum to 100% due to rounding.

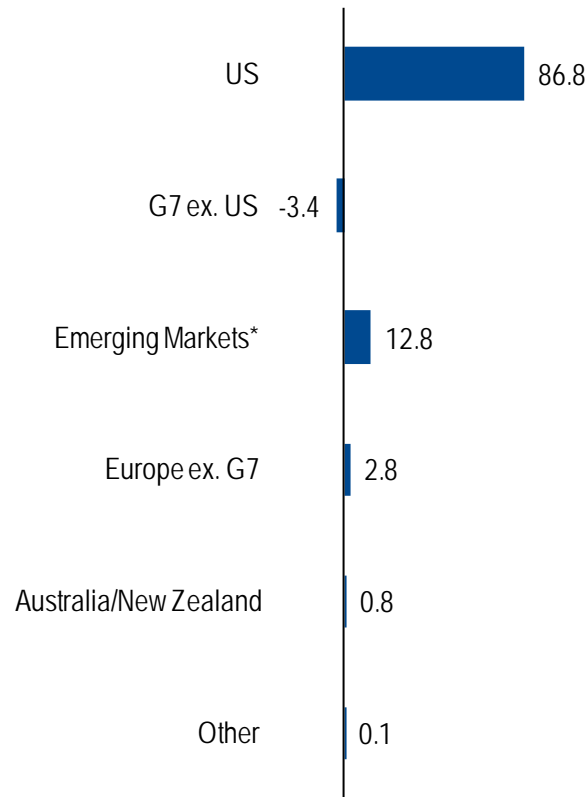


# Regional and EM Exposure

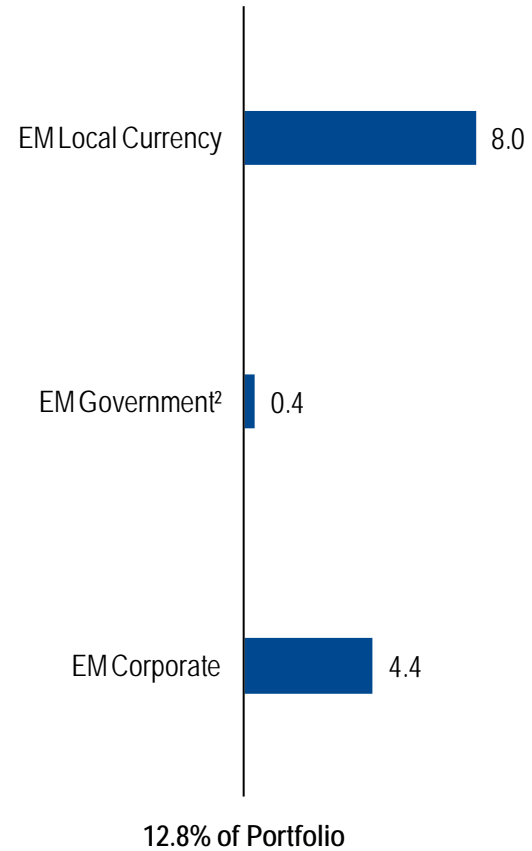
Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013

Regional Exposure (%)



Emerging Markets Exposure (%)<sup>1</sup>



\*Emerging Markets includes Cash/Cash Equivalents and FX

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.

<sup>1</sup>All weightings are a percentage of total market value.

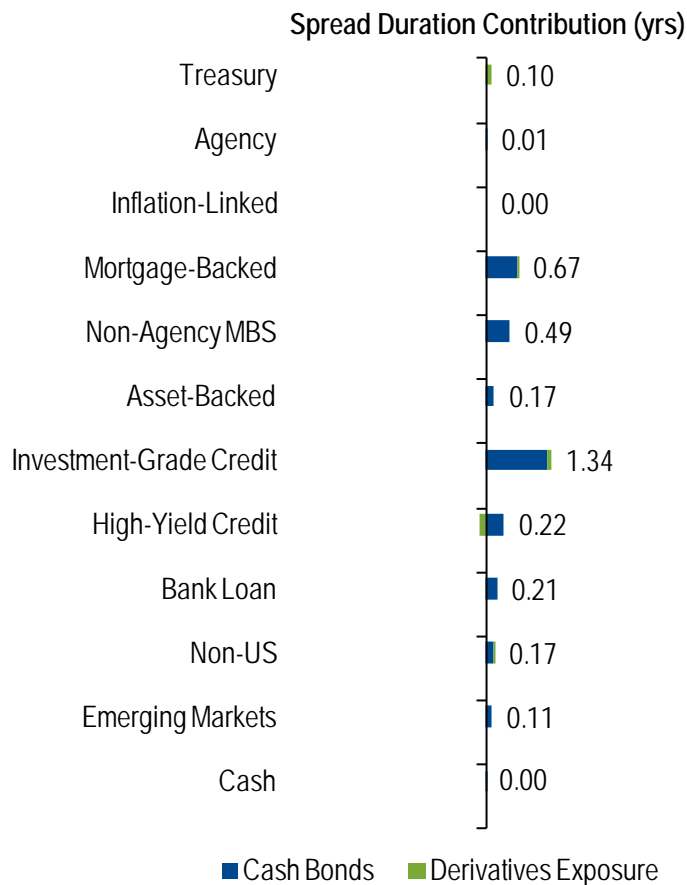
<sup>2</sup>EM Government includes Cash/Cash Equivalents and FX of Emerging Market domiciled securities.



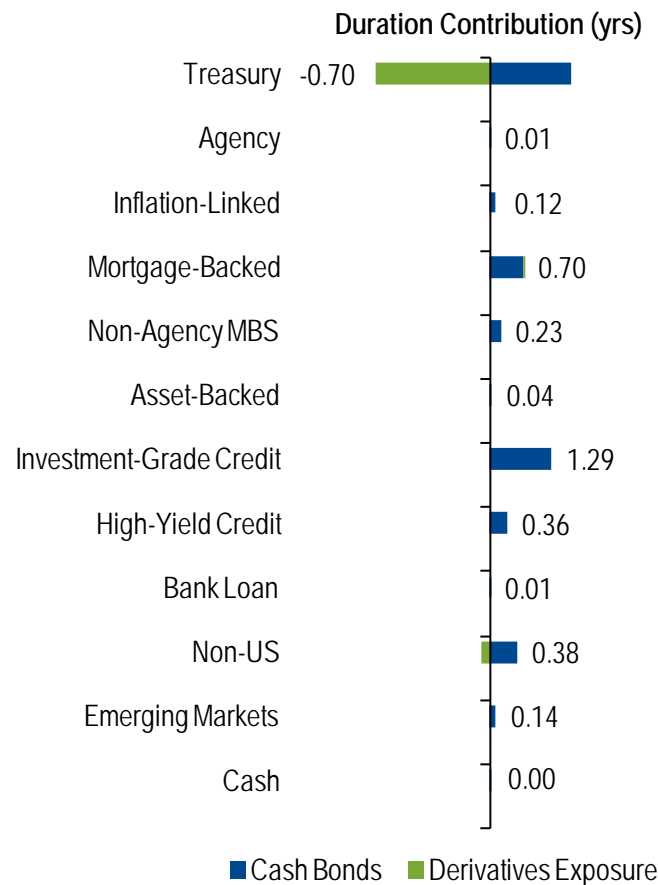
# Sector Exposure

## Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013



**Total Spread Duration**  
Portfolio: 3.49



**Total Duration**  
Portfolio: 2.59

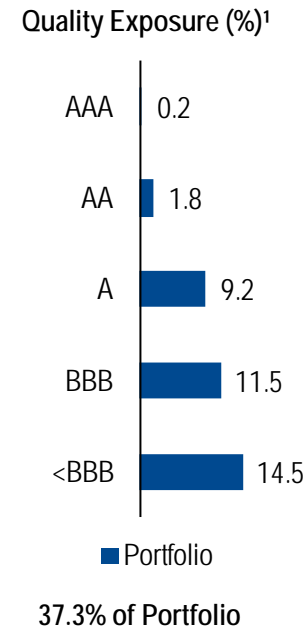
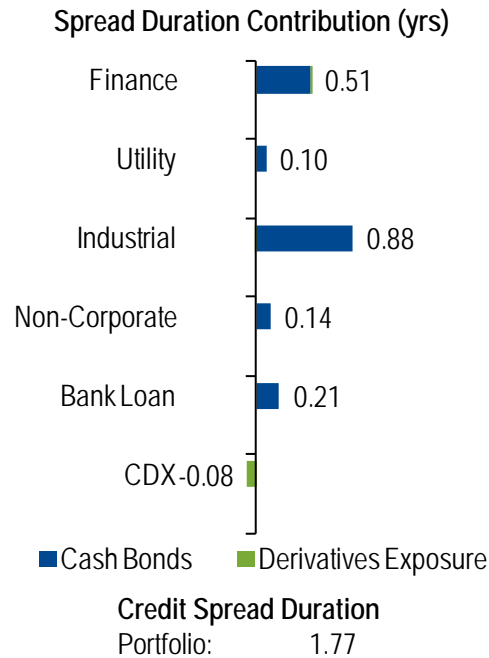
Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.



# Credit Sector Exposure

## Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013



*Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.  
<sup>1</sup>All weightings are a percentage of total market value.*

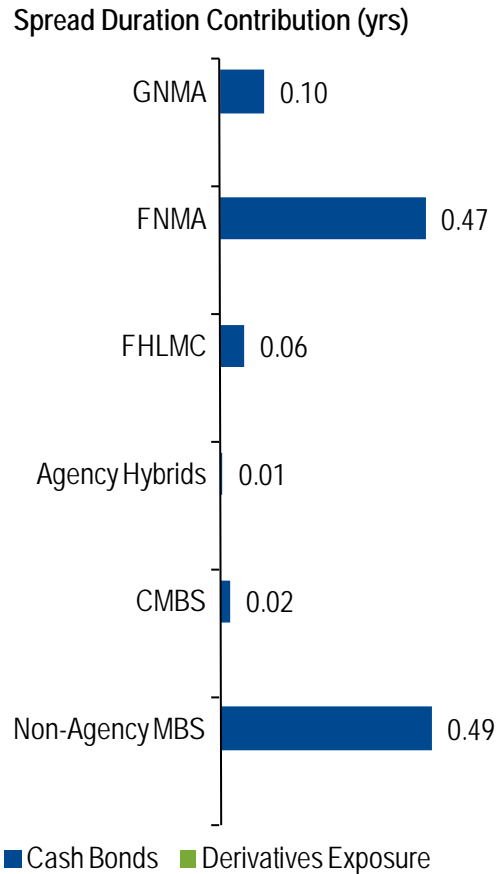




# Mortgage-Backed Sector Exposure

Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013



**MBS Spread Duration**

Portfolio: 1.15

*Note: Sector exposure includes look-through to any underlying commingled vehicles if held. Data may not sum to total due to rounding.*



# Non-Agency Mortgage-Backed Exposure

Western Asset Total Return Unconstrained (TRU) Bond, L.L.C.

Preliminary September 30, 2013

Classification	% Portfolio
Prime	2.59%
Alt-A	2.07%
Subprime	4.77%
Option ARM	1.44%
<b>Total</b>	<b>10.87%</b>

Capital Structure	% Portfolio
Super Senior	2.55%
Senior	6.36%
Senior Support	0.12%
Subordinated	1.85%
Other - Swap	0.00%
<b>Total</b>	<b>10.87%</b>

Vintage	% Portfolio
<=2003	1.92%
2004	3.18%
2005	2.78%
2006	1.52%
>=2007	1.47%
<b>Total</b>	<b>10.87%</b>

Current Ratings	% Portfolio
AAA	0.35%
AA	1.54%
A	1.69%
BBB	2.58%
<BBB	4.72%
<b>Total</b>	<b>10.87%</b>

Weighted Average Yield <sup>1</sup> (%)	Weighted Average Life (yrs)
6.00	5.60

Note: Sector exposure includes look-through to any underlying commingled vehicles if held. All weightings are a percentage of total market value. Data may not sum to total due to rounding.

Includes home equity asset-backed securities and notional value of ABX where held.

Source: Western Asset / Intex

Disclaimer: Any prices, sources or valuations provided are provided for information purposes only and solely for your use. Such information results from Western Asset's internal policies and, accordingly, may reflect information received from outside parties, publicly disseminated or internally developed models, our experience in executing transactions in the market, or other factors. Information based on different assumptions, sources or other factors may yield different results. Any specific prices or valuations do not necessarily represent the actual terms of new or existing transactions and are not an assurance that a particular security may be bought or sold in the market at such levels. Any information provided is provided as an accommodation to you in good faith based on Western Asset's policies. Western Asset is not a pricing service or agent and any such information may not be relied upon for such purposes. Western Asset is not responsible for errors, omissions or inaccuracies in your data if you use or otherwise rely upon this information.

<sup>1</sup>Weighted average yield is loss adjusted.

## JAMES J. FLICK

### *26 Years Experience*

- Western Asset Management Company – Director of Global Client Service & Marketing, 1998–
- Transamerica Investment Services – Portfolio Manager, 1996–1998
- Lehman Brothers Inc. – Senior Vice President, Fixed Income, 1994–1995
- J.P. Morgan Securities, Inc. – Senior Vice President, Fixed Income, 1993–1994
- Citicorp Securities Inc. – Vice President, Fixed Income, 1990–1992
- Goldman, Sachs & Co. – Associate, Fixed Income, 1987–1990
- *University of Chicago, M.B.A.*
- *Ohio State University, B.S.*

## MARK S. LINDBLOOM

### *35 Years Experience*

- Western Asset Management Company – Portfolio Manager, 2005–
- Citigroup Asset Management – Portfolio Manager, 1986–2005
- Brown Brothers Harriman & Co. – Portfolio Manager, 1981–1986
- New York Life Ins. – Analyst, 1978–1980
- *Pace University, M.B.A.*
- *Rider University, B.S.*

## KARLEN R. POWELL

### *7 Years Experience*

- Western Asset Management Company – Client Service Executive, 2008–
- Legg Mason Capital Management, Client Services and Marketing, Associate, 2006–2008
- *Wellesley College, B.A.*



# Representative Client List Disclosure

The clients listed in the Corporate company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$77(M) or greater.

The clients listed in the Public company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$99(M) or greater.

The clients listed in the Multi-Employer / Union company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$19(M) or greater.

The clients listed in the Eleemosynary company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$6(M) or greater.

The clients listed in the Insurance company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$39(M) or greater.

The clients listed in the Healthcare company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$47(M) or greater.

The clients listed in the Sub-Advisory company type are in all mandates, located in all countries and all regions of the United States, and with portfolios with an AUM of \$13(M) or greater.

Clients that have advised Western Asset of account terminations have been excluded from the lists.



December 31, 2012

**Western Asset claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Western Asset has been independently verified for the periods from January 1, 1993 to December 31, 2011.**

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The verification and performance examination reports are available upon request.

For GIPS® purposes, the Firm is defined as Western Asset, a primarily fixed-income investment manager comprised of Western Asset Management Company, Western Asset Management Company Limited, Western Asset Management Company Pte. Ltd., Western Asset Management Company Ltd, Western Asset Management Company Pty Ltd, and Western Asset Management Company Distribuidora de Títulos e Valores Mobiliários (DTVM) Limitada, with offices in Pasadena, New York, London, Singapore, Tokyo, Melbourne, São Paulo, Hong Kong, and Dubai. Each Western Asset company is a wholly owned subsidiary of Legg Mason, Inc. ("Legg Mason") but operates autonomously, and Western Asset, as a firm, is held out to the public as a separate entity. Western Asset Management Company was founded in 1971.

The Firm is comprised of several entities as a result of various historical acquisitions made by Western Asset and their respective performance has been integrated into the Firm in line with the portability requirements set forth by GIPS.

The Composite is valued monthly. The Composite returns are the asset-weighted average of the performance results of all the accounts in the Composite. Gross-of-fees returns are presented before management fees, but after all trading expenses. Net of fees results are calculated using a model approach whereby the highest tier of the appropriate strategy's fee schedule is used. This model fee does not reflect the deduction of performance based fees. The portfolios in the composites are all actual, fee-paying and performance fee-paying, fully discretionary accounts managed by the Firm for at least one full month. Investment results shown are for taxable and tax-exempt accounts and include the reinvestment of all earnings. Any possible tax liabilities incurred by the taxable accounts have not been reflected in the net performance. Composite performance results are time-weighted net of trading commissions and other transaction costs including non-recoverable withholding taxes. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

The returns for the accounts in the Composite are calculated using a time-weighted rate of return adjusted for weighted cash flows. The returns for commingled funds in the Composite are calculated daily using net asset value (NAV). Trade date accounting is used since inception and market values include interest income accrued on securities held within the accounts. Performance is calculated using asset values denominated in a base currency. Composite assets at year-end presented in the schedule are translated to U.S. dollars using end of year exchange rates.

Composite returns are measured against a market index. The market index is unmanaged and provided to represent the investment environment in existence during the time periods shown. For comparison purposes, its performance has been linked in the same manner as the Composite. The market index presented was obtained from third party sources deemed reliable but not guaranteed for accuracy or completeness. Benchmark returns and benchmark 3-yr standard deviation are not covered by the report of independent accountants.

Internal dispersion is calculated using the asset-weighted standard deviation of annual gross returns of those portfolios that were included in the Composite for the entire year. For each annual period, accounts with less than 12 months of returns are not represented in the dispersion calculation. Periods with five or fewer accounts are not statistically representative and are not presented. The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period. Three-year annualized ex-post standard deviation measures prior to 2011 are not covered by the report of independent accountants.

Past investment results are not indicative of future investment results.

Western Asset's list of composite descriptions is available upon request. Please contact Veronica A. Amici at 626•844•9535 or ramici@westernasset.com. All returns for strategies with inception prior to January 1, 2003 are available upon request.



### Total Return Unconstrained (TRU) Bond Composite

Composite Inception: 7/1/04 | Composite Creation: 10/1/04

	No. of Accts	Gross Total Return	Net Total Return	Benchmark Total Return	Gross Total 3-Yr St Dev	Benchmark Total 3-Yr St Dev	Internal Dispersion	Mkt. Value (US\$mil)	Percentage of Firm Assets	Firm Assets (US\$mil)
2003	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	-na-	\$148,333
2004 <sup>1</sup>	1	6.22%	5.90%	-na-	-na-	-na-	-na-	\$330	0.17%	\$197,837
2005	1	3.86%	3.24%	-na-	-na-	-na-	-na-	\$1,487	0.60%	\$249,233
2006	3	7.25%	6.62%	-na-	-na-	-na-	-na-	\$3,472	0.68%	\$510,172
2007	4	2.53%	1.92%	-na-	2.19%	-na-	-na-	\$5,410	0.87%	\$621,493
2008	4	-14.62%	-15.14%	-na-	7.18%	-na-	-na-	\$5,294	1.05%	\$505,660
2009	4	32.41%	31.64%	-na-	9.37%	-na-	-na-	\$4,585	0.95%	\$482,218
2010	4	9.42%	8.77%	-na-	9.45%	-na-	-na-	\$4,442	0.98%	\$453,909
2011	4	1.74%	1.14%	-na-	5.97%	-na-	-na-	\$4,019	0.91%	\$443,140
2012	3	9.91%	9.26%	-na-	2.99%	-na-	-na-	\$4,113	0.89%	\$461,891

**Description:** Western Asset's Total Return Unconstrained (TRU) Bond composite includes portfolios that employ actively managed, diversified fixed-income portfolios. Portfolio construction is based on Western Asset's fundamental view of the fixed-income markets and is independent of broad market benchmarks. The approach is to construct a portfolio in which the manager intends to actively manage sector, duration and term structure exposure.

**Objective:** Maximize return consistent with the current market environment and outperform the broad market over the course of a market cycle.

**Benchmark Description:** The composite is not measured against a benchmark as accounts that may comprise the composite are measured on an absolute return basis. There is no benchmark available that appropriately reflects the guidelines of all accounts within the composite.

**Base Currency:** USD | **Composite Minimum:** No minimum asset size requirement

**Fee Schedule:** .60 of 1% on first US\$100 million, .40 of 1% on amounts over US\$100 million.

**Examination Period:** The composite has been examined for the period from July 1, 2004 to December 31, 2011.

<sup>1</sup>Partial period return (July 1, 2004 to December 31, 2004).



### US Core Full Below Investment Grade Futures & Options Composite

Composite Inception: 2/1/93 | Composite Creation: 1/1/00

	No. of Accts	Gross Total Return	Net Total Return	Benchmark Total Return	Gross Total 3-Yr St Dev	Benchmark Total 3-Yr St Dev	Internal Dispersion	Mkt. Value (US\$mil)	Percentage of Firm Assets	Firm Assets (US\$mil)
2003	87	9.79%	9.46%	4.10%	5.44%	4.20%	1.56%	\$32,627	22.00%	\$148,333
2004	126	7.31%	6.99%	4.34%	5.33%	4.28%	0.77%	\$44,905	22.70%	\$197,837
2005	154	3.11%	2.81%	2.43%	4.83%	4.07%	0.46%	\$56,580	22.70%	\$249,233
2006	176	6.22%	5.91%	4.33%	3.39%	3.21%	0.69%	\$73,608	14.43%	\$510,172
2007	180	3.65%	3.35%	6.97%	2.85%	2.77%	1.10%	\$83,506	13.44%	\$621,493
2008	162	-9.95%	-10.22%	5.24%	6.39%	3.97%	3.14%	\$56,859	11.24%	\$505,660
2009	138	21.60%	21.24%	5.93%	7.69%	4.11%	4.92%	\$56,242	11.66%	\$482,218
2010	114	11.52%	11.19%	6.54%	7.83%	4.17%	1.58%	\$52,780	11.63%	\$453,909
2011	104	7.32%	7.00%	7.84%	4.55%	2.78%	0.44%	\$47,239	10.66%	\$443,140
2012	103	9.13%	8.80%	4.21%	2.63%	2.38%	0.92%	\$49,404	10.70%	\$461,891

**Description:** Western Asset's US Core Full Below Investment Grade Futures & Options composite includes portfolios that employ an active, team-managed investment approach around a long-term, value-oriented investment philosophy. These portfolios use diversified strategies and all sectors of the fixed-income market in seeking to add value while minimizing risk. The approach is to construct a portfolio using all major fixed-income sectors with a bias toward non-Treasuries. This strategy allows for opportunistic investments in high yield, emerging markets and non-dollar securities.

**Objective:** Exceed the benchmark return by 115 basis points annually over the course of a market cycle while approximating benchmark risk.

**Benchmark Description:** The current benchmark is the Barclays U.S. Aggregate Bond Index. The index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.

**Base Currency:** USD | **Composite Minimum:** US\$25 million

**Fee Schedule:** .30 of 1% on first US\$100 million, .20 of 1% on amounts over US\$100 million. This strategy is also available versus the Barclays U.S. Universal Bond Index. Fee schedule is available upon request.

**Examination Period:** The composite has been examined for the period from February 1, 1993 to December 31, 2011.



© Western Asset Management Company 2013. This presentation is the property of Western Asset Management Company and is intended for the sole use of its clients, consultants, and other intended recipients. It should not be forwarded to any other person. Contents herein should be treated as confidential and proprietary information. This material may not be reproduced or used in any form or medium without express written permission.

Past results are no guarantee of future performance. An investment in the Portfolio may be worth more or less than you originally paid for based on factors such as interest rate, credit, strategy and limited liquidity risks. Additional risks and information regarding fees, expenses and tax considerations are more fully described in the Confidential Offering Memorandum, which must precede or accompany this material. Please read the Offering Memorandum carefully before investing.





# Ventura County Employees' Retirement Association

## Monthly Manager Performance Report September 2013

# Performance Summary

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Period Ending 09/30/2013

	September	Year-to-Date	Fiscal Year-to-Date	1 Year Ending 09/30/2013	3 Years Ending 09/30/2013	5 Years Ending 09/30/2013	10 Years Ending 09/30/2013	Since Inception	Inception Date
<b>BlackRock Extended Equity</b>	5.9	27.3	10.0	30.9	18.9	13.2	10.9	12.5	10/31/02
Dow Jones U.S. Completion Total Stock Market Index	5.9	27.2	10.0	30.7	18.6	13.4	10.8	12.5	
<b>Western U.S. Index Plus</b>	3.3	20.1	5.4	20.1	17.6	10.8	--	0.3	5/31/07
S&P 500 Index	3.1	19.8	5.2	19.3	16.3	10.0	--	3.7	
<b>BlackRock Equity Market Fund</b>	3.7	21.2	6.2	21.5	16.8	10.7	--	5.4	5/31/08
Dow Jones U.S. Total Stock Market Index	3.7	21.2	6.2	21.4	16.8	10.7	--	5.4	
<b>Total U.S. Equity</b>	4.5	22.1	7.3	22.5	17.2	11.0	7.7	8.6	12/31/93
Performance Benchmark <sup>1</sup>	3.7	21.2	6.2	21.5	16.8	10.7	8.2	9.0	
<b>BlackRock All Country World ex-U.S.</b>	7.1	10.7	10.4	17.1	6.3	6.9	--	1.5	3/31/07
MSCI All Country World ex-U.S. IM Index	7.1	10.6	10.4	16.9	6.1	6.8	--	1.4	
<b>Sprucegrove</b>	7.4	12.8	11.1	19.2	8.7	8.2	9.4	8.8	3/31/02
MSCI EAFE Index	7.4	16.1	11.6	23.8	8.5	6.4	8.0	6.8	
MSCI All Country World ex-U.S. Index	6.9	10.0	10.1	16.5	6.0	6.3	8.8	7.6	
<b>Hexavest</b>	6.2	14.8	9.7	17.2	--	--	--	6.4	12/31/10
MSCI EAFE Index	7.4	16.1	11.6	23.8	--	--	--	6.8	
<b>Walter Scott</b>	5.7	9.5	8.2	14.5	--	--	--	6.7	12/31/10
MSCI All Country World ex-U.S. Index	6.9	10.0	10.1	16.5	--	--	--	3.8	
<b>Total International</b>	6.9	11.7	10.2	17.5	7.1	6.9	8.5	6.9	3/31/94
MSCI All Country World ex-U.S. Index	6.9	10.0	10.1	16.5	6.0	6.3	8.8	5.6	
<b>GMO Global Fund</b>	4.8	12.8	6.8	16.0	10.8	8.0	--	6.9	4/30/05
MSCI All Country World Index	5.2	14.4	7.9	17.7	10.2	7.7	--	6.3	
<b>BlackRock MSCI ACWI Equity Index</b>	5.1	14.6	7.7	17.9	--	--	--	20.4	6/30/12
MSCI All Country World Index	5.2	14.4	7.9	17.7	--	--	--	20.1	
<b>Total Global Equity</b>	4.9	13.6	7.2	16.9	10.5	6.3	--	5.3	4/30/05
MSCI All Country World Index	5.2	14.4	7.9	17.7	10.2	7.7	--	6.3	
<b>Loomis Sayles Global Fixed Income</b>	2.1	-2.2	2.3	-1.9	--	--	--	1.4	6/30/12
Barclays Capital Global Aggregate Bond Index	2.1	-2.2	2.8	-2.6	--	--	--	0.4	
<b>PIMCO Global Fixed Income</b>	2.0	-2.0	4.0	-2.4	--	--	--	-2.4	9/30/12
Barclays Capital Global Aggregate Bond Index	2.1	-2.2	2.8	-2.6	--	--	--	-2.6	
<b>Loomis Sayles Strategic Alpha</b>	0.6	--	--	--	--	--	--	-0.4	7/30/13
Barclays Capital Global Aggregate Bond Index	2.1	--	--	--	--	--	--	1.5	
<b>Total Global Fixed Income</b>	2.2	-1.8	3.3	-2.0	--	--	--	1.3	6/30/12
Barclays Capital Global Aggregate Bond Index	2.1	-2.2	2.8	-2.6	--	--	--	0.4	

# Performance Summary (continued)

## VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (Continued)

Period Ending 09/30/2013

	September	Year-to-Date	Fiscal Year-to-Date	1 Year Ending 09/30/2013	3 Years Ending 09/30/2013	5 Years Ending 09/30/2013	10 Years Ending 09/30/2013	Since Inception	Inception Date
<b>Western</b>	1.1	-1.5	0.5	-0.6	4.9	8.0	5.5	6.5	12/31/96
Barclays Capital Aggregate Bond Index	0.9	-1.9	0.6	-1.7	2.9	5.4	4.6	5.8	
<b>BlackRock U.S. Debt Fund</b>	0.9	-1.8	0.5	-1.6	2.9	5.5	4.7	5.8	11/30/95
Barclays Capital Aggregate Bond Index	0.9	-1.9	0.6	-1.7	2.9	5.4	4.6	5.7	
<b>Reams</b>	0.3	0.7	0.6	1.9	6.0	10.5	7.0	6.7	9/30/01
Barclays Capital Aggregate Bond Index	0.9	-1.9	0.6	-1.7	2.9	5.4	4.6	5.0	
<b>Loomis Sayles</b>	1.8	-0.6	1.1	2.8	6.9	12.1	--	7.3	7/31/05
Performance Benchmark <sup>2</sup>	0.9	-0.1	1.1	1.0	4.8	7.8	--	5.9	
<b>Total U.S. Fixed Income</b>	1.1	-0.9	1.1	0.1	5.1	9.3	6.1	6.5	2/28/94
Barclays Capital Aggregate Bond Index	0.9	-1.9	0.6	-1.7	2.9	5.4	4.6	5.9	
<b>Prudential Real Estate<sup>5</sup></b>	--	6.3	--	9.9	14.4	-2.2	--	3.1	3/31/94
NCREIF Open-End Fund Property Index	--	5.5	--	10.7	13.1	2.8	--	8.2	
<b>UBS Real Estate<sup>5</sup></b>	--	4.5	--	8.7	11.6	0.7	6.8	6.9	3/31/94
NCREIF Open-End Fund Property Index	--	5.5	--	10.7	13.1	2.8	8.5	8.5	
<b>RREEF<sup>5</sup></b>	--	7.7	--	18.0	32.3	-13.1	--	-12.8	3/31/94
NCREIF Open-End Fund Property Index	--	5.5	--	10.7	13.1	2.8	--	3.4	
<b>Total Real Estate<sup>5</sup></b>	--	5.1	--	8.9	12.7	-2.6	5.0	7.6	3/31/94
NCREIF Open-End Fund Property Index <sup>3</sup>	--	5.5	--	10.7	13.1	2.8	8.5	9.3	

# Performance Summary (continued)

## VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (Continued)

Period Ending 09/30/2013

	September	Year-to-Date	Fiscal Year-to-Date	1 Year Ending 09/30/2013	3 Years Ending 09/30/2013	5 Years Ending 09/30/2013	10 Years Ending 09/30/2013	Since Inception	Inception Date
<b>Adams Street Partners<sup>5</sup></b>	--	3.8	--	4.8	--	--	--	--	7/31/10
Dow Jones Total Stock Index + 3%	--	15.8	--	25.0	--	--	--	--	
<b>Pantheon<sup>5</sup></b>	--	10.6	--	6.9	--	--	--	--	8/31/10
Dow Jones Total Stock Index + 3%	--	15.8	--	25.0	--	--	--	--	
<b>Harbourvest<sup>5</sup></b>	--	--	--	--	--	--	--	--	5/31/13
Dow Jones Total Stock Index + 3%	--	--	--	--	--	--	--	--	
<b>Total Private Equity<sup>5</sup></b>	--	6.9	--	8.4	--	--	--	--	7/31/10
Dow Jones Total Stock Index + 3%	--	15.8	--	25.0	--	--	--	--	
<b>Tortoise Energy Infrastructure</b>	2.5	--	4.4	--	--	--	--	7.6	4/30/13
Wells Fargo MLP Index	0.2	--	-2.1	--	--	--	--	-0.9	
<b>Bridgewater All Weather Fund</b>	2.5	--	--	--	--	--	--	2.5	8/31/13
Dow Jones Total Stock Index + 3%	3.9	--	--	--	--	--	--	3.9	
<b>Total Liquid Alternatives</b>	2.5	--	4.4	--	--	--	--	7.7	4/30/13
Wells Fargo MLP Index	0.2	--	-2.1	--	--	--	--	-0.9	
<b>Total Fund</b>	3.8	12.1	5.8	14.0	11.0	8.8	7.3	8.2	3/31/94
Policy Portfolio <sup>4</sup>	3.4	10.7	5.1	12.6	10.2	8.0	7.3	8.1	
<b>Total Fund (ex-Private Equity)</b>	3.8	10.6	5.0	12.4	--	--	--	--	3/31/94
<b>Total Fund (ex-Clifton)</b>	3.7	11.5	5.5	13.4	10.8	8.5	7.2	8.1	3/31/94

\*All returns are preliminary and net of investment management fees. Separate Accounts, Asset classes, and Total Fund performance reflects the return realized by the portfolio after accounting for cash flows. Individual fund performance reflects the manager stated returns.

<sup>1</sup>Hybrid of the relative weights of U.S. Equity funds' benchmarks. Prior to May 2007, the Russell 3000 Index.

<sup>2</sup>A mix of 65% of the Barclays Capital Aggregate Bond Index, 30% of the Citigroup High Yield Market Index, and 5% of the J.P. Morgan Non-U.S. Hedged Bond Index.

<sup>3</sup>Prior to January 2006, the NCREIF Property Index.

<sup>4</sup>Policy Portfolio benchmark is currently 34% Dow Jones US Total Stock Market, 23% Barclays Aggregate Bond Index, 16 % MSCI ACWI ex-US, 10% MSCI ACWI, 2% Barclays Global Aggregate Bond Index, 5% Dow Jones + 3%, and 10 % NCREIF Real Estate Index

<sup>5</sup>Returns shown are for the period ending 6/30/13

Note: Total Fund inception date is the longest time period that Hewitt EnnisKnupp has reliable historical monthly data.

# Asset Allocations

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Period Ending 09/30/2013

(\$ in Thousands)

	U.S. Equity	Non-U.S. Equity	Fixed Income	Real Estate	Private Equity	Liquid Alternatives	Cash	Total	Percent of Total	Evolving Policy	Policy Target
BlackRock Extended Equity Index	\$39,855							\$39,855	1.0%		
Western Index Plus	\$109,614							\$109,614	2.8%		
BlackRock Equity Market Fund	\$1,065,835							\$1,065,835	26.9%		
<b>Total U.S. Equity</b>	<b>\$1,215,303</b>							<b>\$1,215,303</b>	<b>30.6%</b>	<b>34.0%</b>	<b>34.0%</b>
BlackRock ACWI ex-U.S. Index		\$376,884						\$376,884	9.5%		
Sprucegrove		\$178,818						\$178,818	4.5%		
Hexavest		\$76,811						\$76,811	1.9%		
Walter Scott		\$91,530						\$91,530	2.3%		
<b>Total Non-U.S. Equity</b>		<b>\$724,042</b>						<b>\$724,042</b>	<b>18.3%</b>	<b>16.0%</b>	<b>16.0%</b>
GMO Global Equity	\$89,730	\$105,761						\$195,491	4.9%		
BlackRock MSCI ACWI Equity Index	\$68,629	\$79,597						\$148,226	3.7%		
<b>Total Global Equity</b>	<b>\$158,359</b>	<b>\$185,358</b>						<b>\$343,717</b>	<b>8.7%</b>	<b>10.0%</b>	<b>10.0%</b>
Western			\$246,533					\$246,533	6.2%		
BlackRock U.S. Debt Fund			\$131,157					\$131,157	3.3%		
Reams			\$247,051					\$247,051	6.2%		
Loomis Sayles Global			\$66,555					\$66,555	1.7%		
Loomis Sayles			\$65,528					\$65,528	1.7%		
PIMCO Global			\$124,749					\$124,749	3.1%		
Loomis Strategic Alpha			\$40,049					\$40,049	1.0%		
<b>Total Fixed Income</b>			<b>\$921,623</b>					<b>\$921,623</b>	<b>23.2%</b>	<b>25.0%</b>	<b>25.0%</b>
Prudential Real Estate				\$88,599				\$88,599	2.2%		
UBS Real Estate				\$184,047				\$184,047	4.6%		
RREEF				\$8,542				\$8,542	0.2%		
<b>Total Real Estate</b>				<b>\$281,188</b>				<b>\$281,188</b>	<b>7.1%</b>	<b>10.0%</b>	<b>10.0%</b>
Adams Street Partners					\$34,456			\$34,456	0.9%		
Pantheon Ventures					\$8,581			\$8,581	0.2%		
Harbourvest					\$6,594			\$6,594	0.2%		
<b>Total Private Equity</b>					<b>\$49,630</b>			<b>\$49,630</b>	<b>1.3%</b>	<b>5.0%</b>	<b>5.0%</b>
Tortoise Energy Infrastructure						\$113,096		\$113,096	2.9%		
Bridgewater All Weather Fund						\$252,625		\$252,625	6.4%		
<b>Total Liquid Alternatives</b>						<b>\$365,721</b>		<b>\$365,721</b>	<b>9.2%</b>	<b>0.0%</b>	<b>0.0%</b>
Clifton Group							\$64,417	\$64,417	1.6%		
<b>Total Cash</b>							<b>\$64,417</b>	<b>\$64,417</b>	<b>1.6%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Total Assets</b>	<b>\$1,373,662</b>	<b>\$909,400</b>	<b>\$921,623</b>	<b>\$281,188</b>	<b>\$49,630</b>	<b>\$365,721</b>	<b>\$64,417</b>	<b>\$3,965,642</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Percent of Total</b>	<b>34.6%</b>	<b>22.9%</b>	<b>23.2%</b>	<b>7.1%</b>	<b>1.3%</b>	<b>9.2%</b>	<b>1.6%</b>	<b>100.0%</b>			

\* Private Equity reflects market values as of 6/30/2013 plus Capital Calls from 7/1/2013-9/30/2013

\*\*Market Value data is preliminary as final data is not yet available

**Hewitt**ennisknupp

An Aon Company

Master Page No. 133



# Highlights and Research

*Ventura County Employees' Retirement Association*

*October 2013*

**Hewitt** ennisknupp

*An Aon Company*

## Table of Contents

<b>Bridgewater and Tortoise Investment Guidelines</b>	<b>1</b>
<b>Western Update</b>	<b>2</b>
<b>Proxy Vote</b>	<b>3</b>
<b>Market Environment</b>	<b>4</b>
<b>Government Shutdown &amp; Debt Ceiling</b>	<b>5</b>
<b>US Growth vs. Value</b>	<b>6</b>
<b>Medium Term Views</b>	<b>7</b>

**Bridgewater Associates, LP (“Manager”)  
All Weather Portfolio, LLC (“Fund”)  
Description**

**The Fund is a commingled fund and the practices of the Manager and the Fund will be in accordance with the Fund’s offering documents and related Fund documents, as may be amended and supplemented from time to time.**

**Investment Objective and Strategy:**

The investment objective of the Fund is to seek to provide returns with no material bias to perform better or worse in any particular type of economic environment. In other words, the portfolio seeks to perform approximately as well in rising or falling inflation periods, or in periods of strong or weak economic growth. To achieve this objective, the Fund, directly or indirectly, holds investments in different asset classes that have different biases to economic conditions. These asset classes may include the currency, fixed-income, inflation linked bond, equity, and commodity markets, among others.

Allocations to the asset classes described above are set from time to time by the Manager in its sole discretion so that they balance each other (i.e., represent an approximately equal portion of the Fund’s risk, as determined by the Manager in its sole discretion), thereby minimizing the portfolio’s exposure to changing economic conditions. The Manager does not vary the weights of investments based on any tactical view of how particular investments will perform, but rather attempts to balance the risk of the Fund based on its understanding of the relationship between asset classes and economic environments, provided that the Manager may vary the allocations to asset classes based on its assessment of market conditions, in a manner that is consistent with the long term investment objective of the Fund. The Fund will invest primarily in exchange traded futures contracts, over-the-counter derivatives, including without limitation, credit derivatives, cash securities, and spot and forward contracts on the international, interbank currency market but may invest in other securities or instruments. Asset classes may be added to and removed from the portfolio by the Manager from time to time in its sole discretion. The Fund may invest in both listed and unlisted securities or instruments which may be investment grade or non-investment grade.

The long-term annual targeted return of the Fund is expected to be approximately 5% to 7% above cash (90-day Treasury bills) while targeting a tracking error of approximately 10%, where tracking error is measured as the standard deviation of the portfolio return of the Fund above cash. The Fund may employ leverage in the forms of trading on margin, entering into other forms of direct and indirect borrowings and investing in derivative instruments that are inherently leveraged.

Investment activity of the Fund described herein may be carried out directly or indirectly through a trading company or trading vehicle.

**Trading Policies and Restrictions:**

In order to seek to limit exposure to risk, the Fund requires the Manager to observe the following trading policies:

- The Fund will not invest directly in real estate.
- The Fund will generally not invest directly in physical commodities. However, the Fund may invest in precious metals or in derivative contracts on physical commodities.
- The Fund will not take legal or management control of the issuers of underlying investments.
- The Fund may invest in regulated or unregulated money market funds or similarly constructed business trusts or other commingled or collective investment funds, (including investment funds managed by the Manager or by an external manager acceptable to the Manager). Holdings within commingled vehicles are not subject to the specific guidelines and restrictions of the Fund but must be managed in a manner



consistent with the overall investment objectives of the Fund. When assets of the Fund are allocated to a commingled investment fund managed by the Manager, the Fund will not pay any additional investment management fees or profit participation fees within such investments.

Derivatives, repurchase agreements, reverse repurchase agreements and securities lending, among other forms of leverage, may be used by the Fund in achieving its Risk Parity strategy, and VCERA has agreed that limits thereon in Section VII and VIII (of what?) shall not apply to Risk Parity portfolios (to the extent such provisions would otherwise apply).

The Manager is retained by the Fund. Consistent with the foregoing, the Manager will provide services to the Fund as fiduciary to the Fund in the aggregate.

Without limiting the foregoing, duties of the Manager in respect of proxy voting, best execution, insurance, client communications (including such matters as are expressly referenced in "Duties of the Investment Managers" (in what)) and reporting shall be as set forth in the offering documents of the Fund.

The Manager shall promptly deliver material changes in the offering documents of the Fund to VCERA.

The guidelines and description of the Fund's investment program set forth in this exhibit (what exhibit?) shall be automatically deemed updated, without further action of the Manager, by the terms of any material changes so delivered.

VCERA Board will notify the Manager if it is determined for any reason that there is a change in VCERA's investment needs affecting the stated objectives.

Consistent with the treatment of commingled funds as set forth in Section IV (of what?), the specific terms set forth in these guidelines supersede the general terms set forth in the remainder of VCERA's Investment Policy Manual.

**Tortoise Capital Advisors (Tortoise)  
Energy Infrastructure MLP Separate Account  
Investment Guidelines**

**Single Issuer Concentrations** – Tortoise limits exposure to any single issuer to 10% of portfolio market value at the time of purchase. Occasionally, market value fluctuations may cause positions to increase above 10% of portfolio market value. Although not required by these guidelines, Tortoise will normally reduce positions to below 10% of portfolio value in a reasonable amount of time.

**Industry Concentrations** – By its nature, the Energy Infrastructure MLP Separate Account product is a strategy concentrated in energy infrastructure MLPs. Tortoise will invest up to 100% of the portfolio in securities issued by MLPs and/or their affiliates (general partners, i-shares, etc.).

**Sector Allocations** – Tortoise's strategy emphasizes more stable, fee based cash flow segments of the MLP asset class (for example - long haul, natural gas transmission, crude oil, and refined petroleum product pipelines). These MLPs tend to be the larger, better capitalized, and higher credit rated entities within the MLP sector. Generally, at least 70% of the portfolio will be invested in MLPs that derive a majority of their business from long-haul pipelines. Other segments of the MLP sector that Tortoise may invest in currently include natural gas gathering and processing, propane, coal, and shipping MLPs; however, Tortoise intends to limit aggregate exposure to these segments to 30% or less of the portfolios.

Tortoise will limit portfolio exposure to sectors with the most commodity price exposure:

- Tortoise generally will not invest in companies that have a majority of their revenues directly exposed to changes in commodity prices (e.g., exploration and production MLPs).
- Natural gas gathering and processing, propane, and coal MLPs have varying degrees of commodity price exposure. The degree of exposure varies significantly depending on the proportion of the MLP's contracts that are fee based (no commodity price exposure) as well as the degree to which the MLPs have hedged the non fee based portions of their business. In this area, Tortoise prefers MLPs who mitigate their commodity price exposure via some or all of the following: fee based contracts, hedging programs, higher distribution coverage ratios.

**Cash Balances** – Tortoise aims to limit cash and money market balances to 5% or less of portfolio value. However, Tortoise may temporarily hold higher cash balances for defensive reasons or to facilitate a trade program.

**Leverage** – Tortoise will not employ leverage in its separate account product.

**Long- Only** – This is a long-only strategy. Tortoise will not engage in short selling.

**Use of Derivatives** – Tortoise will not use any derivative strategies within separate accounts. Tortoise will only make exceptions to this guideline when specifically requested by VCERA.

**Custody of Client Assets** – Under no circumstances will Tortoise custody client assets. A qualified, independent third – party custodian must be selected by VCERA prior to establishing an account. Tortoise will have authorization to direct trades within VCERA's custody accounts; however, Tortoise will not accept authorization or responsibility for transferring cash or other assets in or out of the custody account. The only exceptions to this are investment management fee disbursement and securities trades which are typically handled on a 'delivery versus payment' basis.

**Guideline Review** – These guidelines will be reviewed on an as needed basis.

# Flash Report

Global Investment Management



## Western Asset Management

09/13/2013

### Organizational Update: Steve Fulton's Departure

#### Recommendation

On September 9, 2013 Western Asset Management (Western) announced that its head of agency Mortgage Backed Securities (MBS), Steve Fulton, would leave the firm at the end of September 2013. This news comes on the heels of a recent announcement that Paul Jablonski, who joined in September 2011 as co-head of the structured products group alongside Ron Mass, had abruptly left the firm in June 2013.

In addition, Ron Mass, who previously headed Western's entire mortgage platform, left the firm shortly after Mr. Jablonski joined the team as co-head, after spending 21 years with the organization. Then earlier this year, Steve Walsh, the firm's Chief Investment Officer, announced his intention to retire by March 2014.

Over the recent years, we have exercised a great deal of patience with Western but we are now becoming increasingly concerned by the material developments that have emerged over the last two years. Our concerns are highlighted below:

- First, the lack of stability within the broader fixed income organization gives us pause. The personnel turnover rate within the structured products team has been particularly high. Specifically, the team has lost six out of fourteen investment professionals in the last two years, which translates into a 40% turnover. More importantly, the majority of the individuals that left the group were senior level investment professionals. We believe the structured products group has been weakened as a result of these departures due to the lack of depth within the team in spite of the recent hiring of Anup Agarwal as the new head of Western's mortgage platform.
- Second, HEK believes that there could be more defections within the mortgage platform given the low morale and the lack of strong leadership within the broader organization. To that end, we firmly believe that the manager is undergoing a generational shift, which could ultimately lead to a change in the firm's culture.
- Third, there has been some implementation challenges associated with the inclusion of a top down process in combination with Western's value-oriented fundamental/bottom up research approach to analyzing mortgage credit.

**In light of all this, HEK revised the ratings of Western's benchmark-focused strategies around the globe from "Hold" to "In Review". In addition, the Western Total Return Unconstrained (TRU) strategy was moved to "In Review" status from a "Buy" rating.** The table below provides a comprehensive list of products that have been impacted by the rating change:

Western Rated Products	Previous Rating	Current Rating
Emerging Market Blend	Hold	In Review
Emerging Market Local Currency Debt	Hold	In Review
Emerging Markets Corporates	Hold	In Review
Emerging Markets External Debt	Hold	In Review
Global Aggregate Bonds	Hold	In Review
Global Full Discretion (200bps gross)	Hold	In Review
Global Inflation Linked	Hold	In Review
Global Multi Sector	Hold	In Review
Non-Dollar Fixed Income	Hold	In Review
UK Aggregate (50-100bps gross)	Hold	In Review
UK Core+ (150bps gross)	Hold	In Review
UK Credit (50-100bps gross)	Hold	In Review
Total Return Unconstrained Strategy	Buy	In Review
US Core	Hold	In Review
US Core Full Discretion	Hold	In Review
US High Yield	Hold	In Review
US Index Plus	Sell	Sell
US Intermediate Duration	Hold	In Review
US Limited Duration	Hold	In Review
US Long Duration	Hold	In Review
US TIPS	Hold	In Review

Over the next couple of weeks, the global fixed income team will conduct further due diligence on the manager with the expectation of reaching an advisory position by the end of September 2013.

## Background

- On July 22, 2013, Western announced the hiring of Anup Agarwal, to head up the structured products team following Paul Jablonski's abrupt departure a month earlier. According to Western, the firm had been in discussions with Mr. Agarwal for approximately two years, so they knew him well. Mr. Agarwal joined Western from Stark Investments; a Milwaukee based hedge fund, which closed for business. Prior to his tenure at Stark Investments, Mr. Agarwal spent the bulk of his career trading and managing mortgage related instruments at various firms, including Invesco, Prudential and Citigroup. As noted earlier, Mr. Agarwal was hired to replace Mr. Jablonski as head of the structured product team. However, he has taken on significantly more responsibilities following Steve Fulton's departure. As such, the agency MBS effort now falls under Mr. Agarwal's purview. Our initial impression of Mr. Agarwal is positive. We find him talented and he possesses a broad background across long-only and alternatives mortgage products. In addition, he seem driven and motivated to help rebuild Western's mortgage platform.
- The structured products team was comprised of 14 investment professionals at the beginning of 2012. Since then, the team has lost six key investment professionals, including the two most senior individuals; namely, Ron Mass and Paul Jablonski. The other four departures included:
  - Debbie Slogolf, a senior CMBS analyst. Joined Western in 2002 and left in July 2013

- Frank Gao, a senior non-agency MBS analyst. Joined Western in 2006 and left in September 2012
- Chris Medena, a non-agency MBS analyst. Joined Western in 2007 and left in May 2013
- Daniel Krup, an ABS analyst. Joined Western in 2009 and left in October 2012
- The agency MBS team consisted of four investment professionals at the beginning of 2012 and it recently lost Steve Fulton, its most senior investment professional. Mr. Fulton, 56, retired from the asset management industry after spending the last 13 years of his career at Western in a variety of roles, including head of the agency MBS book of business since 2010. As mentioned earlier, Mr. Fulton's responsibilities have been absorbed by Mr. Agarwal and the rest of the agency MBS team.
- Paul Jablonski, who left the firm after 18 months on the job, was the architect behind the process enhancement initiatives. Given his quantitative and macro background, he had instituted a top-down macro framework to the structured products process whereby he synthesized macro-economic factors and translated those into sector specific decisions. In addition, he augmented the technological and analytical infrastructure employed for analyzing structured product securities. Lastly, he was credited for formalizing the surveillance process. While all these enhancements to the process seemed appropriate and additive, Mr. Jablonski's style and approach to the markets was not compatible with Western's philosophy on how to analyze value, which ultimately contributed to his resignation.

## Disclaimer

This document has been produced by the Global Investment Management Team of Aon plc. Nothing in this document should be treated as an authoritative statement of the law on any particular aspect or in any specific case. It should not be taken as financial advice and action should not be taken as a result of this document alone. Consultants will be pleased to answer questions on its contents but cannot give individual financial advice. Individuals are recommended to seek independent financial advice in respect of their own personal circumstances.

Aon plc  
8 Devonshire Square  
London  
EC2M 4PL

Copyright © 2013 Aon plc

## Memo

To: **Staff and Board**  
**Ventura County Employees' Retirement Association**

---

From: John Lee  
Kevin Chen

---

Date: October 21, 2013

---

Re: **Proxy Vote Memo**

---

### Background

On an annual basis, investment managers send VCERA a report of their proxy voting activities. A brief explanation of following key elements must be included in the report from investment managers:

- Stock name, number of shares owned by the fund and meeting date
- Number of management and shareholder proposals that came to a vote
- Number of votes with management
- Number of votes against management and the rationale behind the vote
- Whether any proxies were *not* voted, why they were not voted and whether steps have been taken to ensure all proxies will be voted in the future

HEK has confirmed receipt of all reports from managers and in the case of some managers an attestation that there were no proxies to be voted. We have confirmed that all of VCERA's managers are in compliance with the proxy guidelines. This concludes the annual ongoing review that all expected proxies have been received.

We look forward to discussing this with the Board at the October 21 meeting.



# Market Environment

## Third Quarter 2013

**Hewitt** ennisknupp

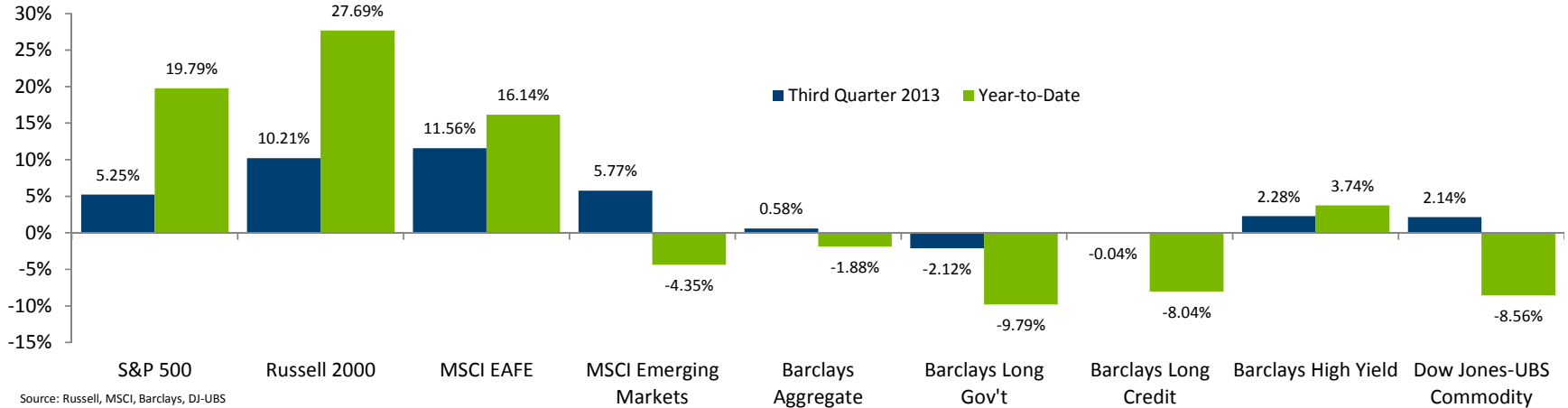
*An Aon Company*

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Aon Hewitt.

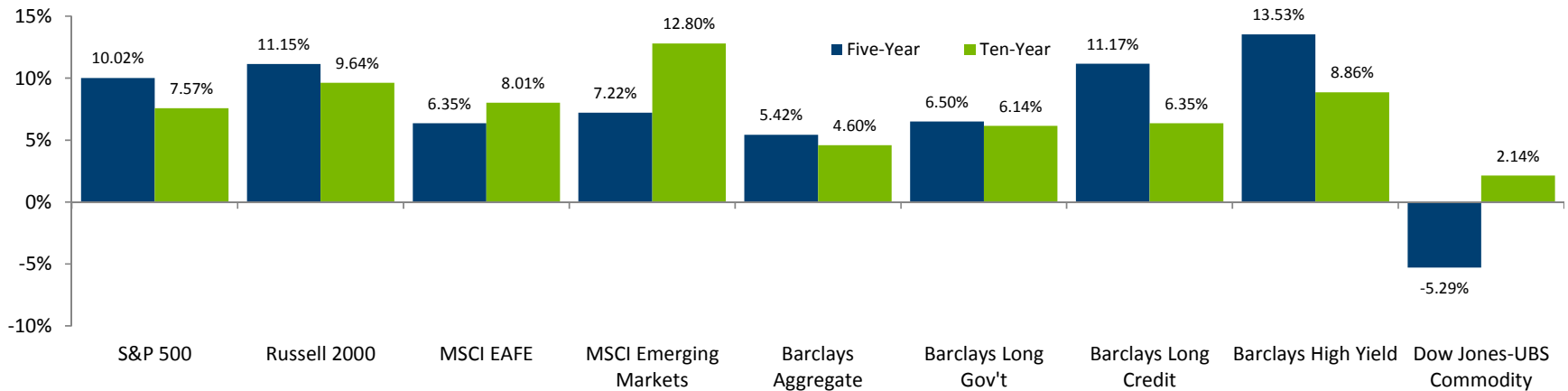


# Market Highlights

## SHORT TERM RETURNS AS OF 09/30/2013



## LONG TERM ANNUALIZED RETURNS AS OF 09/30/2013



# Market Highlights

Returns of the Major Capital Markets						
	Periods Ending 09/30/2013					
	Third Quarter	Year-to-Date	1-Year	3-Year <sup>1</sup>	5-Year <sup>1</sup>	10-Year <sup>1</sup>
<b>Equity</b>						
MSCI All Country World IMI	8.28%	15.20%	18.65%	10.53%	8.29%	8.28%
MSCI All Country World	7.90%	14.43%	17.73%	10.21%	7.71%	7.86%
Dow Jones U.S. Total Stock Market	6.16%	21.22%	21.44%	16.77%	10.69%	8.32%
Russell 3000	6.35%	21.30%	21.60%	16.76%	10.58%	8.11%
S&P 500	5.25%	19.79%	19.34%	16.26%	10.02%	7.57%
Russell 2000	10.21%	27.69%	30.06%	18.29%	11.15%	9.64%
MSCI All Country World ex-U.S. IMI	10.37%	10.57%	16.91%	6.11%	6.82%	9.07%
MSCI All Country World ex-U.S.	10.09%	10.04%	16.48%	5.95%	6.26%	8.77%
MSCI EAFE	11.56%	16.14%	23.77%	8.47%	6.35%	8.01%
MSCI EAFE (100% Hedged)	6.96%	16.37%	24.54%	5.95%	3.07%	4.09%
MSCI EAFE (Local Currency)	7.51%	19.34%	28.31%	9.11%	5.54%	6.28%
MSCI Emerging Markets	5.77%	-4.35%	0.98%	-0.33%	7.22%	12.80%
<b>Fixed Income</b>						
Barclays Global Aggregate	2.81%	-2.15%	-2.62%	2.09%	5.07%	4.92%
Barclays Aggregate	0.58%	-1.88%	-1.67%	2.88%	5.42%	4.60%
Barclays Long Gov't	-2.12%	-9.79%	-10.43%	3.64%	6.50%	6.14%
Barclays Long Credit	-0.04%	-8.04%	-6.89%	5.36%	11.17%	6.35%
Barclays Long Gov't/Credit	-0.83%	-8.74%	-8.33%	4.70%	9.07%	6.34%
Barclays US TIPS	0.71%	-6.74%	-6.09%	4.03%	5.31%	5.24%
Barclays High Yield	2.28%	3.74%	7.15%	9.19%	13.53%	8.86%
SSB Non-U.S. WGBI	4.06%	-3.37%	-5.65%	0.55%	4.27%	4.91%
JP Morgan EMBI Global (Emerging Markets)	0.87%	-7.43%	-4.34%	5.32%	9.95%	8.70%
<b>Commodities</b>						
Dow Jones-UBS Commodity	2.14%	-8.56%	-14.35%	-3.16%	-5.29%	2.14%
Goldman Sachs Commodity	4.78%	-0.89%	-4.15%	3.59%	-8.46%	1.83%
<b>Hedge Funds</b>						
HFR I Fund-Weighted Composite <sup>2</sup>	2.28%	5.58%	7.13%	3.87%	5.03%	5.92%
HFR I Fund of Funds <sup>2</sup>	2.13%	5.56%	6.96%	2.62%	2.02%	3.43%
<b>Real Estate</b>						
NAREIT U.S. Equity REITS	-3.09%	3.20%	5.87%	12.34%	5.75%	9.54%
NCREIF ODCE <sup>3</sup>	3.50%	10.38%	12.97%	14.25%	0.67%	7.07%
<b>Private Equity</b>						
Thomson Reuters VentureXpert <sup>4</sup>	4.93%	4.93%	12.71%	13.80%	6.13%	18.29%
<b>Infrastructure</b>						
Macquarie Global Infrastructure - North America	0.86%	9.64%	8.19%	12.91%	9.39%	11.12%

MSCI Indices and NCREIF ODCE show net returns.

MSCI EAFE (100% Hedged) shows price return.

All other indices show total returns.

<sup>1</sup> Periods are annualized.

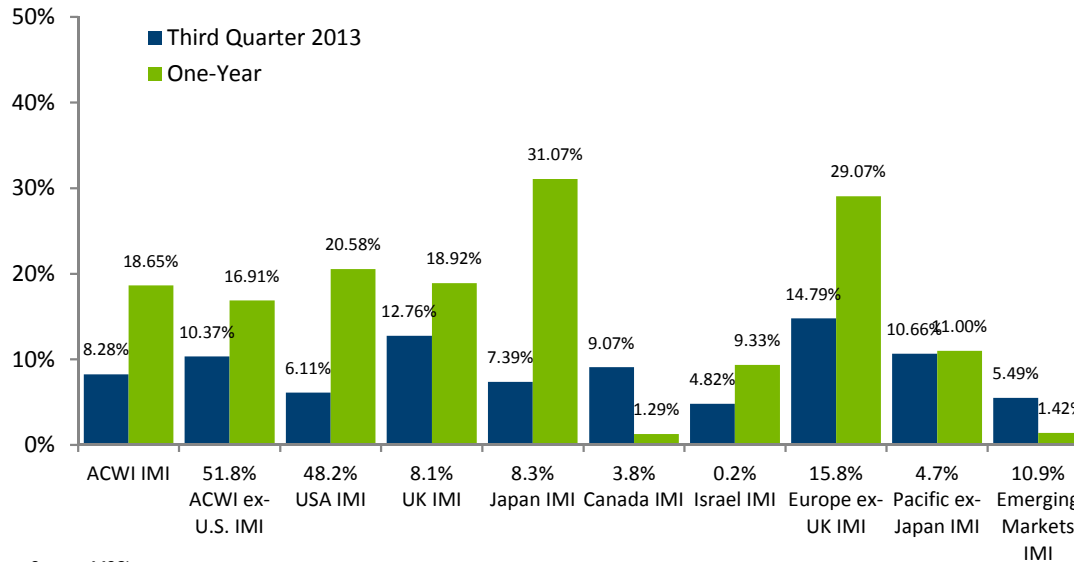
<sup>2</sup> Latest 5 months of HFR data are estimated by HFR and may change in the future.

<sup>3</sup> Third quarter results are preliminary.

<sup>4</sup> Benchmark is as of 03/31/2013.

# Global Equity Markets

**GLOBAL MSCI IMI INDEX RETURNS  
AS OF 09/30/2013**

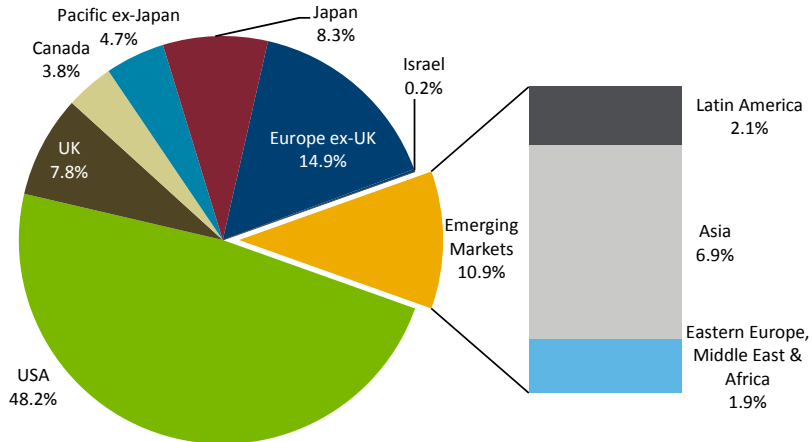


Source: MSCI

- Global equity markets increased in value over the third quarter, but progress was volatile.
- Equities started the quarter positively with markets buoyed by positive economic data, particularly from the US manufacturing sector. However, concerns over the Fed's decision whether or not to begin tapering its quantitative easing program and mounting worries of a possible military strike in Syria pushed equity markets lower through August.
- Upward revisions to second quarter GDP and lowered likelihood of military action in Syria provided investors with some respite, and the market rallied in the first half of September. But the unexpected decision by the Fed not to begin tapering QE (indicating Fed concerns about the strength of the economy) and investor apprehension over the lack of progress in the US debt ceiling and budget negotiations left equity markets falling though September.
- Europe ex-UK proved to be the best performing region; the worst performing region was the Emerging Markets.

# Global Equity Markets

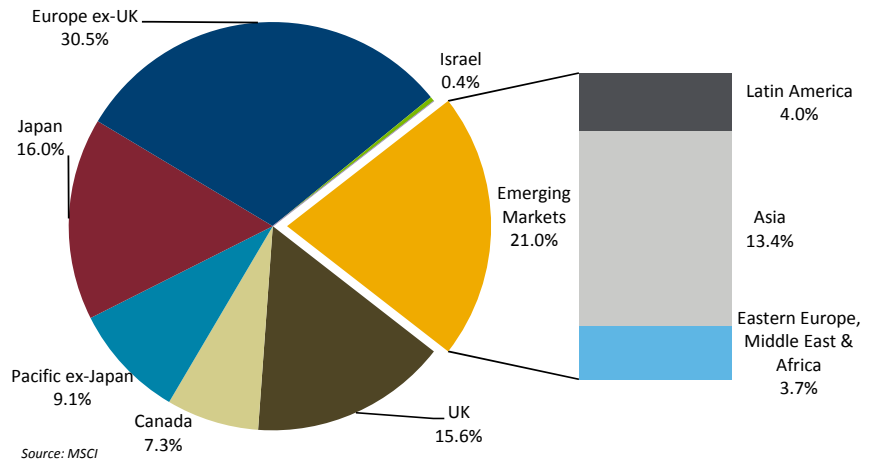
**MSCI ALL COUNTRY WORLD IMI INDEX  
GEOGRAPHIC ALLOCATION AS OF 09/30/2013**



Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

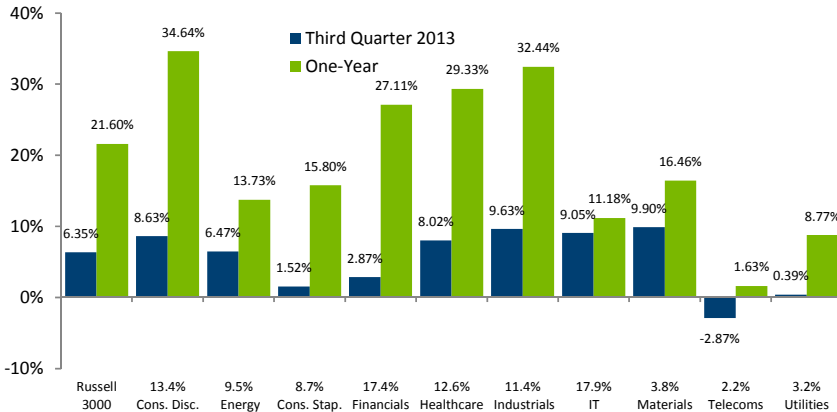
**MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX  
GEOGRAPHIC ALLOCATION AS OF 09/30/2013**



Source: MSCI

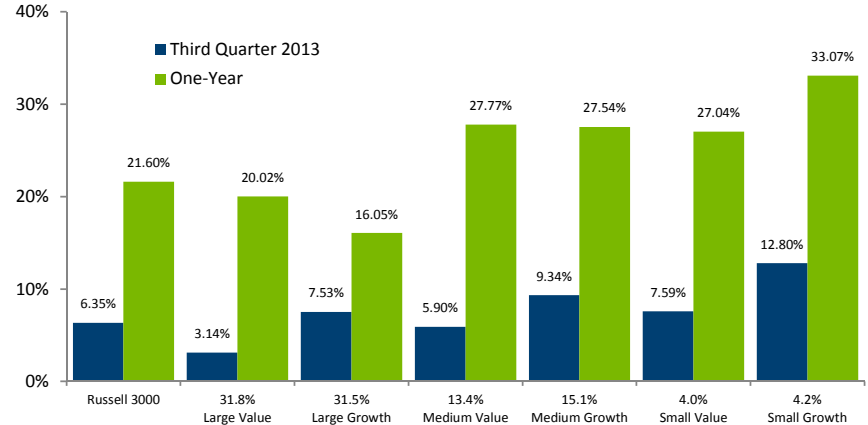
# U.S. Equity Markets

**RUSSELL GICS SECTOR RETURNS  
AS OF 09/30/2013**



Source: Russell Indexes

**RUSSELL STYLE RETURNS  
AS OF 09/30/2013**

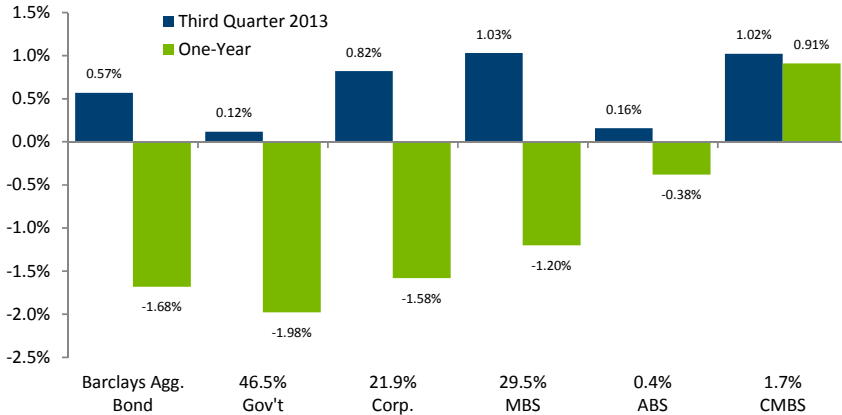


Source: Russell Indexes

- The Russell 3000 rose 6.35% during the quarter and returned 21.60% over the one-year period.
- During the third quarter, the Materials, Industrials, and IT sectors were the best performing sectors, posting returns of 9.90%, 9.63%, and 9.05%, respectively. The Telecoms and Utilities sectors were the worst performing sectors, producing returns of -2.87% and 0.39%, respectively.
- Overall, small cap outperformed both mid cap and large cap, and growth outperformed value across all size segments of the market.

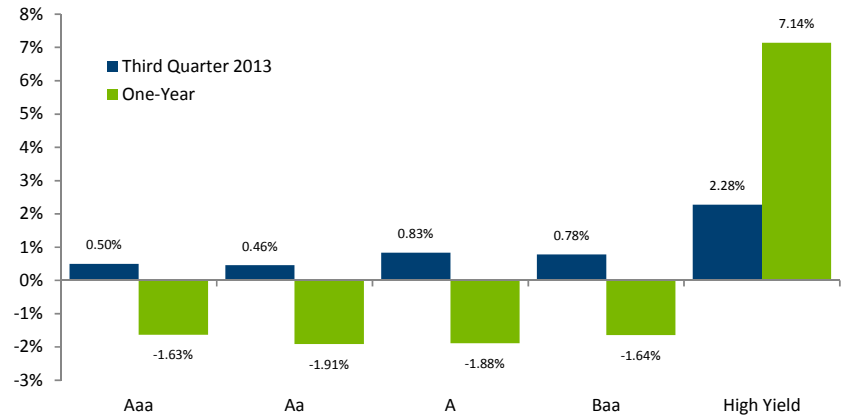
# U.S. Fixed Income Markets

**BARCLAYS AGGREGATE RETURNS BY SECTOR**  
AS OF 09/30/2013



Source: Barclays Live

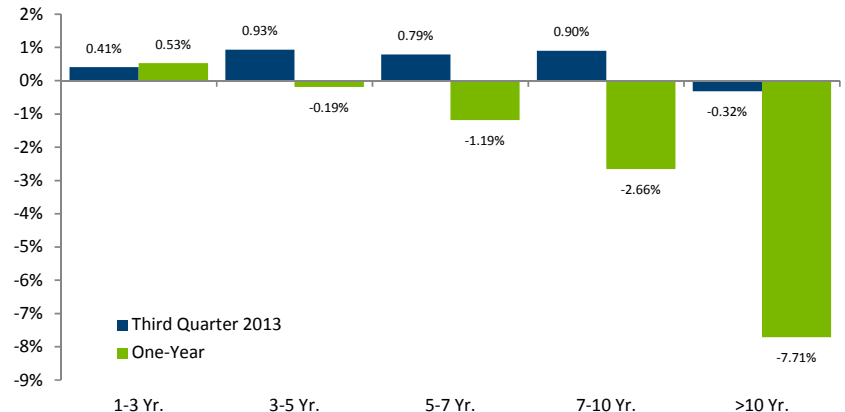
**BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS**  
AS OF 09/30/2013



Source: Barclays Live

- The Barclays Aggregate Bond Index returned 0.57% in the third quarter. Mortgage backed securities were the strongest performing bonds in the Aggregate, returning 1.03%.
- In the investment grade market, lower quality bonds outperformed higher quality bonds.
- High yield bonds significantly outperformed investment grade bonds.
- From a maturity perspective, intermediate term bonds outperformed, with the 3 - 10 year segment of the market outperforming the short and long maturity segments.

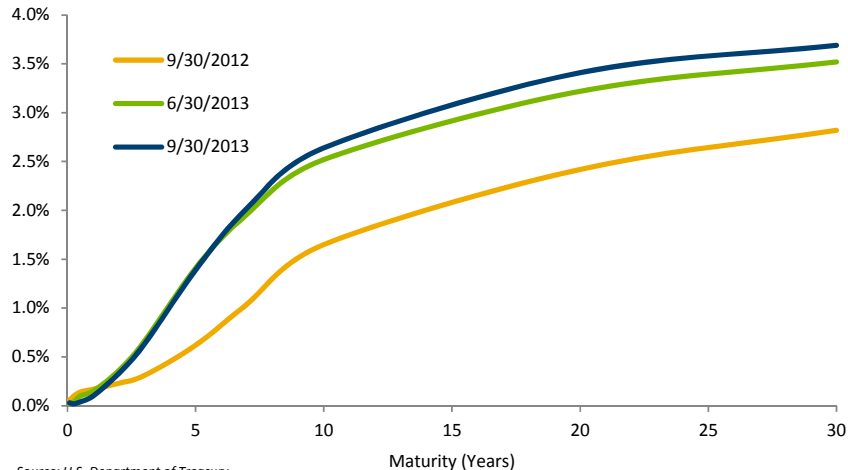
**BARCLAYS AGGREGATE RETURNS BY MATURITY**  
AS OF 09/30/2013



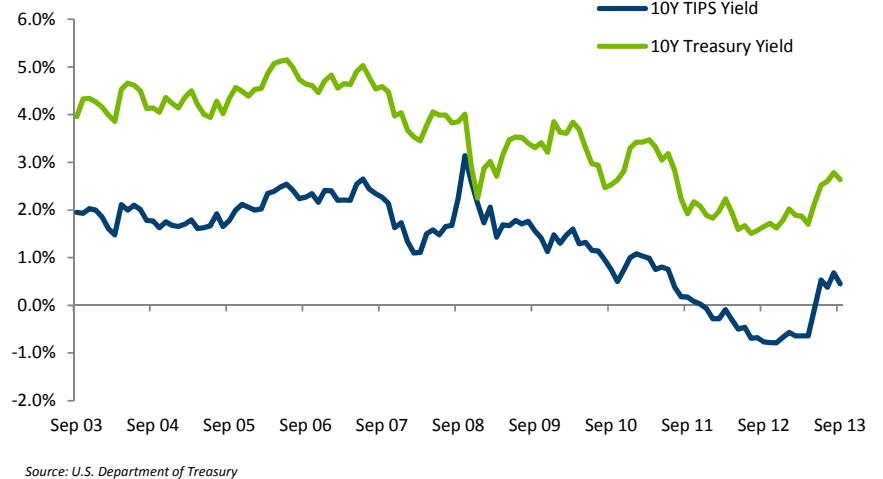
Source: Barclays Live

# U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



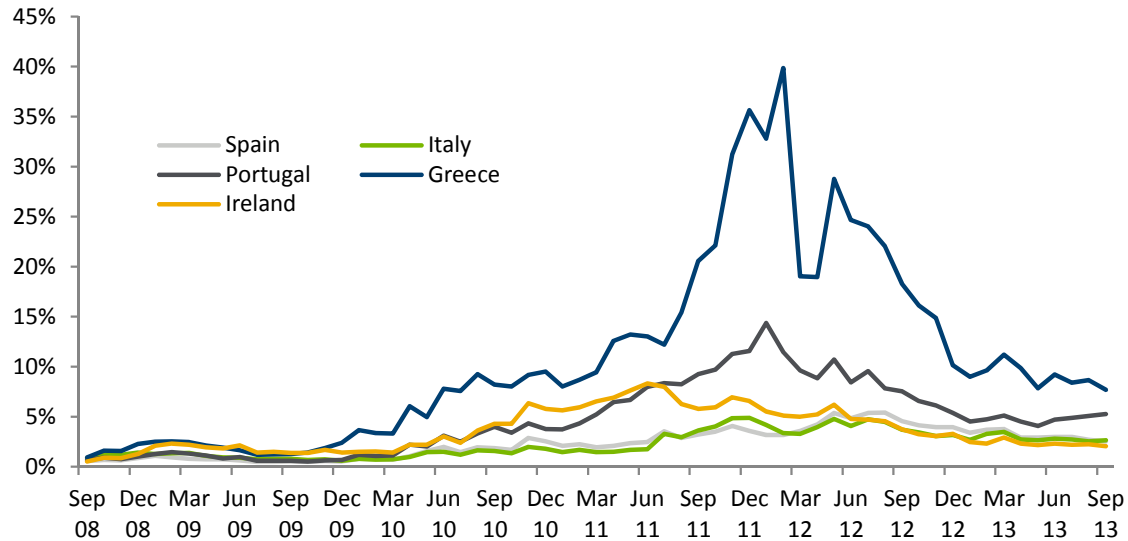
U.S. 10-YEAR TREASURY AND TIPS YIELDS



- The Treasury yield curve steepened during the quarter; the intermediate and long-term segments of the yield curve rose. Treasury yields were volatile over the quarter, with the 10 year Treasury yield breaching 3% in early September. However, yields fell sharply in late September after the Fed announced that tapering of QE would not begin in the near-term.
- The 10-year U.S. Treasury yield ended the quarter at 2.64%, 12 basis points higher than its level at the beginning of the quarter.
- 10-year TIPS yields fell by 8 basis points over the quarter, but remained firmly in positive territory with the yield at 0.45%.

# European Fixed Income Markets

**EUROZONE PERIPHERAL BOND SPREADS  
(10-YEAR SPREADS OVER GERMAN BUNDS)**



Source: DataStream

- The Eurozone showed some tentative signs of growth. Q3 GDP growth for the Eurozone was positive, breaking the streak of six consecutive quarters of negative growth (the longest on record for the bloc). However, markets were once again reminded of the fragility of the situation in the euro periphery with the stability of the Italian government coming into question at the end of the quarter. This sent Italian yield spreads higher.
- Eurozone bond spreads were broadly unchanged over the quarter.



# Credit Spreads

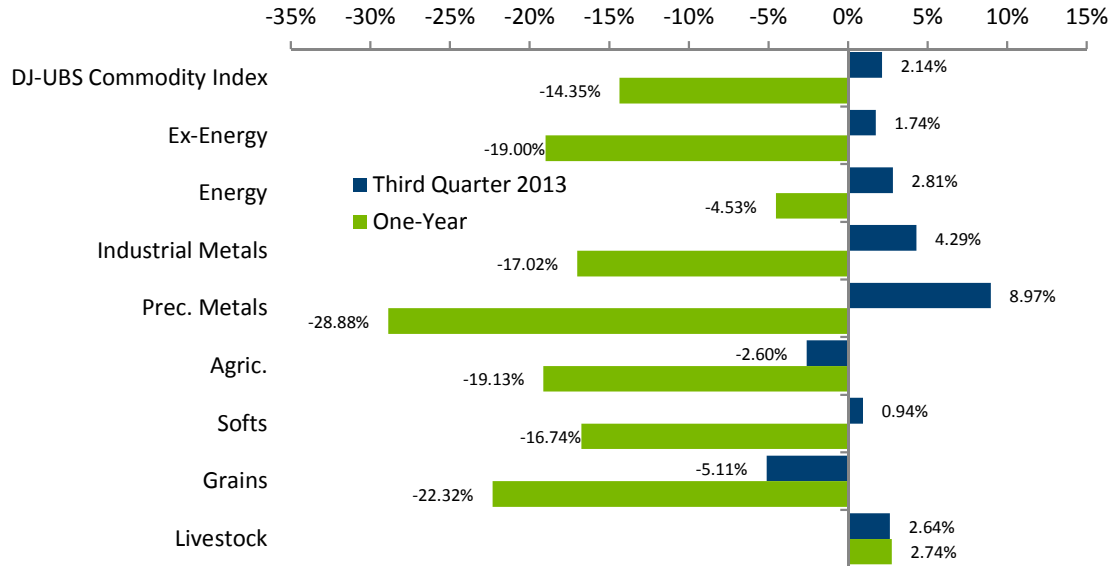
Spread (bps)	9/30/2013	6/30/2013	9/30/2012	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	54	61	49	-7	5
Long Gov't	6	6	4	0	2
Long Credit	189	198	191	-9	-2
Long Gov't/Credit	123	124	114	-1	9
MBS	43	60	24	-17	19
CMBS	141	150	155	-9	-14
ABS	64	58	44	6	20
Corporate	141	152	156	-11	-15
High Yield	461	492	551	-31	-90
Global Emerging Markets	330	345	332	-15	-2

Source: Barclays Live

- Credit spreads generally fell across fixed income markets, with the exception of the ABS market where spreads were marginally higher.
- High yield bond spreads (-31 basis points) fell by the most in the quarter, followed by MBS (-17 bps) and emerging markets (-15 bps).

# Commodities

## COMMODITY RETURNS AS OF 09/30/2013



Source: Dow Jones-UBS

- The Dow Jones-UBS Commodity Index increased by 2.14% during the third quarter.
- Over the third quarter, the best performing segments of the market were Precious Metals and Industrial Metals, returning 8.97% and 4.29%, respectively.
- Grains and Agriculture were the worst performing sectors of the market during the third quarter with returns of -5.11% and -2.60%, respectively.

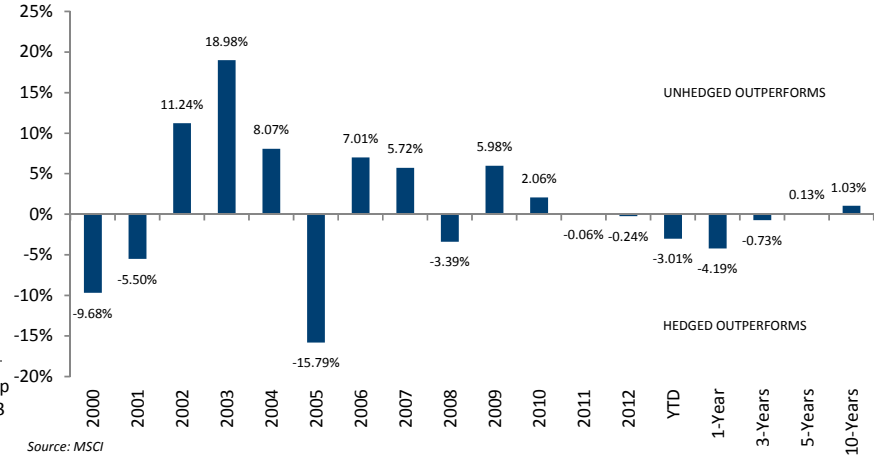
# Currency

**TRADE WEIGHTED U.S. DOLLAR INDEX  
(1997 = 100)**



Source: Federal Reserve

**DIFFERENCE BETWEEN MSCI EAFE UNHEDGED AND HEDGED INDICES  
AS OF 09/30/2013**

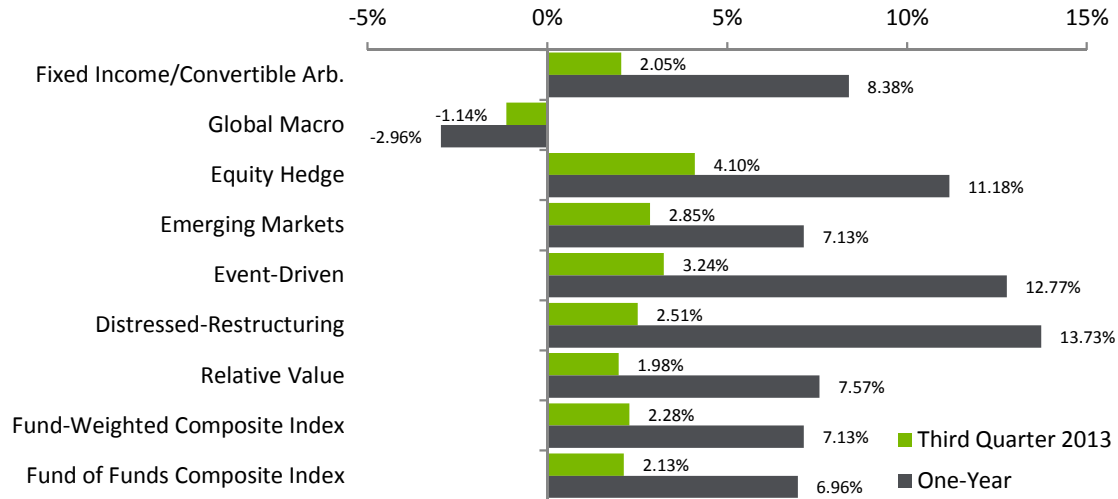


Source: MSCI

- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar appreciated during the quarter.
- The MSCI EAFE Unhedged Index significantly underperformed the MSCI EAFE 100% Hedged Index during the year-to-date period, reflecting the appreciation of the U.S. dollar. The Unhedged Index underperformed the Hedged Index over the trailing 1 and 3 year periods.

# Hedge Fund Markets Overview

## HEDGE FUND PERFORMANCE AS OF 09/30/2013



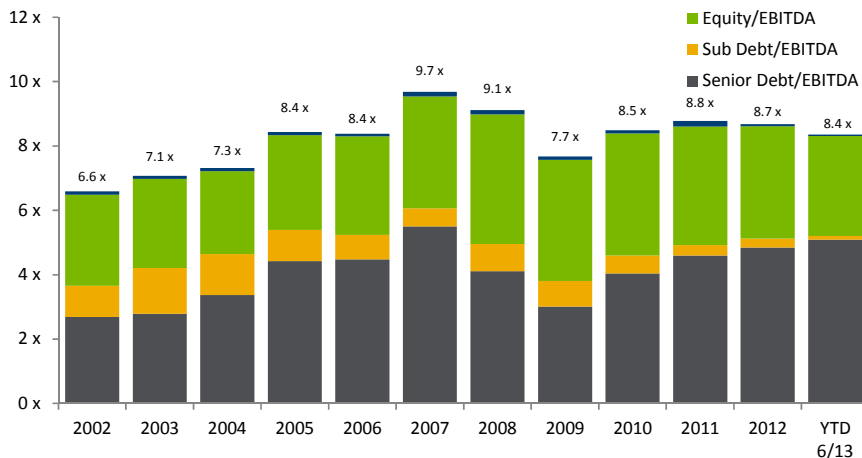
*Note: Latest 5 months of HFR data are estimated by HFR and may change in the future.*

*Source: HFR*

- Most major hedge fund strategy types posted positive returns in the third quarter and during the trailing one year period.
- The HFRI Fund-Weighted Composite Index and the HFRI Fund of Funds Composite Index produced returns of 2.28% and 2.13%, respectively, during the third quarter.
- Equity Hedge and Event-Driven strategies were the strongest performers during the quarter, gaining 4.10% and 3.24%, respectively.

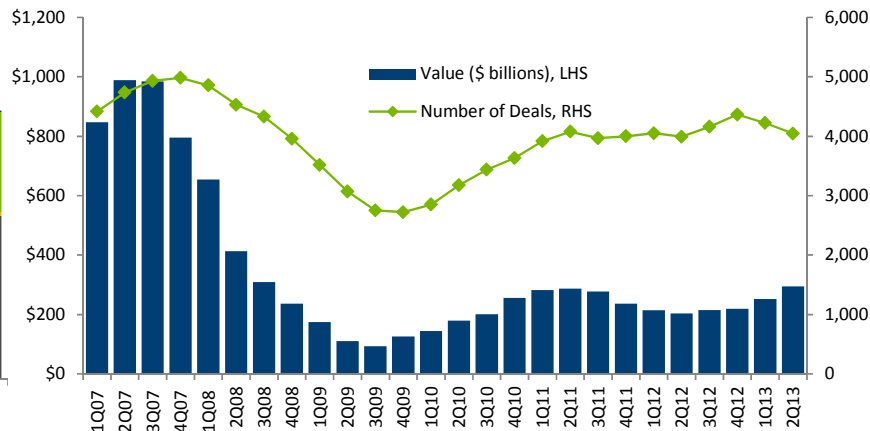
# Private Equity Market Overview – Q2 2013

PURCHASE PRICE MULTIPLES



Source: S&P

LTM GLOBAL SPONSOR M&A DEAL VOLUME AND VALUE (TRAILING 12 MONTH DATA)

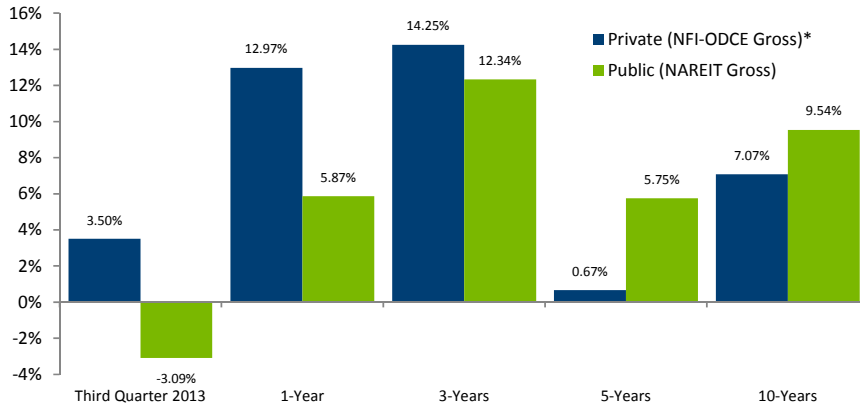


Source: ThomsonOne

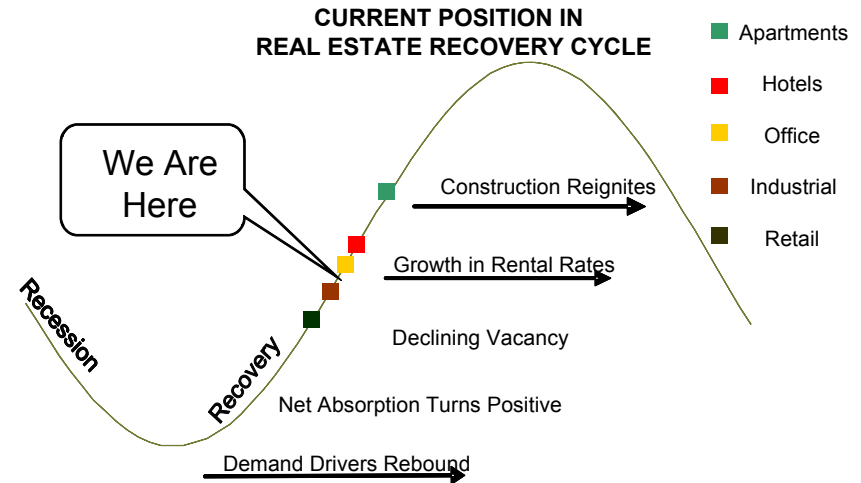
- **Fundraising:** \$276 billion closed during the LTM, a 1% increase over the prior year and just below the ten year average. This is a healthy but not excessive level and is well below the peak pre-crisis levels (\$490B). Dry powder is starting to rise, estimated at \$820 billion, 9% below the 2008 peak of \$897 billion.
- **Buyout:** Activity continues to climb. \$295 billion of LTM global sponsor-backed M&A deals closed, a 44% increase over the prior year. This is the highest LTM level post-Lehman and is only 13% below the ten year average. Purchase price multiples (PPMs) fell to a more reasonable 8.4x EBITDA from the 8.7x level at year end. European PPMs at all deal sizes were above their ten year average.
- **Venture capital:** Investment activity rose during 2Q 2013 to \$6.7 million in 913 deals vs. \$6.0 billion in 896 deals in Q1. YTD activity is on par with that of 1H 2012 by number of deals but 8% lower by capital. Exit activity continues to be low but shows some signs of improvement.
- **Mezzanine:** Mezzanine lenders continue to raise capital with levels being 29% above the ten year average on a LTM basis but are having trouble deploying capital. Estimated dry powder is \$40.4 billion, roughly 83% of the total funds raised in the last four years; funds are requesting investment period extensions.
- **Distressed Debt:** Despite the expected work-out of one of the largest distressed deals (TXU) in the second half of 2013, activity continues to be subdued and is expected to continue in this manner. According to Fitch Ratings, global corporate upgrades exceeded downgrades in all sectors, interrupting the negative trend experienced the last two years.
- **Secondaries:** Fund-raising slightly lags 2012 and activity has slowed due to improved public markets as well as delays in Dodd-Frank regulations. Non-traditional buyers have become increasingly active, bidding higher than secondary funds due to their lower costs of capital. Secondary returns will decline if prices continue to increase as was the case in 2006/2007 when some buyout funds traded at a premium to NAV.
- **Infrastructure:** Fund-raising is trending up although vacillating quarter to quarter. Activity seems to be falling or, at best, has reached a plateau given factors such as slow US market in terms of deal volume, the sovereign risk crisis, and additional regulation in Europe.

# U.S. Commercial Real Estate Markets

**PRIVATE VS. PUBLIC REAL ESTATE RETURNS  
AS OF 09/30/2013**



\*Third quarter returns are preliminary  
Sources: NCREIF, NAREIT



## 2013 U.S. Real Estate Outlook:

- Total returns in commercial real estate remain above average. For the quarter, the NFI-ODCE Index returned 3.5%\*, gross of fees. The NFI-ODCE's performance was driven by both its high average asset quality, solid gains in occupancy and rental rates, and its use of leverage--which remains highly accretive at today's interest rates. The trailing 12-month returns continue to be above the sector's long run average, though momentum is expected to resume its slowing trend, moving the sector back towards its long run average over the next year.
- Public market performance demonstrated its heightened volatility over the third quarter. The FTSE NAREIT Equity REIT Index fell -3.1% over the quarter; though registering a 5.9% gain for the year ending 3Q2013. Despite this pause, pricing multiples remains above the sector's long run average and ahead of private market valuations. Above average volatility is expected to persist in this segment for some time to come.
- Sector fundamentals continued to firm at a modest but fairly steady pace as occupancy gains and rental rate growth continued to broaden geographically.
- Core rebound is mature and returns are expected to continue to moderate (consensus NPI forecast range is 6–9%, generally in line with long-term average).
  - Still solid investment option for long term investors seeking diversification and yield.
  - Consider debt plays as a substitute for Core returns (also good alternative for fixed income).
- Non Core opportunities remain in the sector's sweet spot, with above average return potential as positive spreads exist between stabilized and non-stabilized assets.
  - Distress, recapitalization, lease up, repositioning, and even some development opportunities appear attractive.



**Global  
Asset  
Allocation**

## **The US Shutdown and Debt Limit** *How should we assess the impact?*

*October 8 2013*

### Summary

- The government shutdown and the approaching debt ceiling deadline of October 17<sup>th</sup> are now posing risks to the economy and markets.
- The economic impact of the shutdown is so far small, but combined with a failure to raise the debt ceiling then or soon after, would bring very adverse economic and market impacts.
- We discuss through scenario analysis, the impact on the economy, short term money markets and liquidity, treasury bonds and stocks, the extent to which these developments will impact investors.
- We see a deal just before or just after the October 17<sup>th</sup> deadline, which should mean no lasting adverse impact from this latest breakdown in Congress.
- If we are wrong, the consequences will be severe on the economy, stocks and other risky assets. We see mid duration US treasury yields lower from this adverse development, even though money markets will suffer.

### The Shutdown and Debt Ceiling Problem Converge

Initially, it appeared as though the shutdown and debt ceiling had a degree of separation, in time, if not about their essentials (both are ultimately about the way the US government borrows and spends). Now, they have converged, as the stalemate over the Affordable Healthcare Act and the inability to agree on further increases in Federal Debt have come together. As these two problems have converged, the risks to the economy and markets from a failure to resolve them have grown.

This latest episode of breakdown in US government can still, reasonably, be dismissed as a mere distraction. The experience of previous shutdowns reassures, as the economy has tended to suffer some impact and then recover. Even on the debt ceiling, the recent related experiences with the ceiling and the fiscal cliff where there seems to have been no lasting damage suffered by the economy and markets, have led most, including us, to the view, that this particular showdown can also be bypassed successfully.

### Higher hurdles to a deal this time around

We do see a deal, but we have to acknowledge that the hurdles to reach it have risen. For a start, a deal has to tackle both the question of reopening government and the extension of the debt ceiling. Second, there is fact that the limits to the approach of lifting the debt ceiling for a period, only to run into problems later, have become more apparent. As the Congressional deadlock over the past few years has deepened, there is a strong yearning



in the US at large for a grand fiscal bargain which would see some agreement on the broad spending/tax priorities of the US government, which would provide a lasting solution to the fiscal issues. With the current shape of US politics, however, this is not going to happen now or in the foreseeable future. With time now again very short to the deadline and the strategic dialogue on the broad role of the US government not having really taken place, all we can look for is another fix.

**In our view, a deal will be found, potentially both re-opening the government and also raising the debt ceiling.** There will be less risk of another round of uncertainty if the debt ceiling is lifted for another year rather than just a few months (to allow for the 2014 Congressional elections), but we can hardly be certain of that at this time. Even if a deal is found, it may not be till the deadline of October 17<sup>th</sup>, or even a few days after that. As we approach October 17<sup>th</sup>, however, and especially as we approach November, the risks to the economy and markets from not securing a deal rise very sharply. If we are wrong, the consequences are very much stronger than we would be allowing for.

<b>SHUTDOWN AND DEBT CEILING IMPACTS</b>			
<b>Q4 scenario</b>	<b>Shutdown ends and debt ceiling raised by October 17th</b>	<b>Shutdown ends and debt ceiling raised by end October</b>	<b>Shutdown continues and debt ceiling limit not raised till November or later</b>
<b>Economic Impact</b>	<b>GDP 1/4% impact.</b> Temporary weakness in output in Q4, but some loss of consumer/business confidence could mean losses not recouped till Q1 2014. GDP growth could be 1/4% lower on annualised basis than otherwise	<b>GDP 1/2-3/4% impact</b> A bigger effect from longer shutdown but more pronounced confidence effects, including feedback effects from weaker stocks and other risk assets -GDP impact could be 0.5% - 0.75%	Much stronger impacts - forced budgetary cuts have large economic impact. Stock price falls amplify. GDP growth could fall to below 1% with risk of recession in Q1.
<b>Treasury bill markets/liquidity</b>	<b>Impact being felt</b> Already felt in bill market - securities maturing in October avoided. Not too serious yet. If deal done, no lasting impact.	Stronger version of pre October 17th debt ceiling lifted scenario. Potential redemption from money market funds could gather pace, on or just after October 17th	Much stronger impact. Potential liquidity impacts could be very serious as repo market could seize. Large outflows from money market funds.
<b>Bonds: US Treasury yields</b>	<b>2.7- 2.9%</b> Treasury yields recover - 10 yr treasury yields move higher, but not to their previous highs	<b>2.25-2.5%</b> 10 yr Treasury yields drift lower (possibly to 2.25-2.5% range) but fiscal concerns could steepen curve, leaving 30y unchanged	<b>2% or lower</b> Risks from ratings agency action, but missed payments on bonds is not a big risk through Oct/Nov. Weak risk assets and economic impact would swamp other aspects driving yields lower.
<b>Stocks: S&amp;P 500 (range)</b>	Stocks weaken further near-term but recover lost ground soon after, but could struggle to recover back to highs quite yet - as some uncertainty over economic impact will linger. Mild negative impact overall.	Stocks could move into full-blown correction territory (S&P 500 fall - currently 3% or so, moves towards a double digit correction.	Larger correction in stocks, and limited scope for recovery as market starts to price in recession.

## Deal scenarios and their impact

As the accompanying table tries to highlight, the consequences of a deal struck well before the deadline are much more transitory than a late deal that is struck sometime after the 17<sup>th</sup>, but the dangers multiply if there is no deal going into November. We have discussed below, some of the key economic and market impacts from the three scenarios we are working with broadly – a deal on or before the 17<sup>th</sup>, a 'late' deal struck a few days later, or the failure to come up with a fix going into November. It is apparent from this that the longer we are left without a fix, the greater the economic impact – the initial impact comes from the government shutdown initially, but the business and consumer confidence effects that come through from both shutdown and the failure to lift the debt ceiling will compound the impact.





## Stocks versus Bonds in a 'no deal' environment

The impact on stocks follows directly from the more lasting and stronger economic effects of either a very late deal or no deal, as noted above. The worse case scenario, unlikely though it seems at present, carries a risk of outright recession, which explains why the impact is so much stronger.

However, the projection of lower US Treasury yields seems a bit counterintuitive at first. Why should bond yields fall in the way projected if the issue at hand is one of US government finances? Should not yields rise instead? The answer is threefold. First, we think that even in the low probability scenario of no appearance of a deal going into November, the probability of a missed interest payment on US debt is very low. Treasury cash does, likely, run out by the end of October, but revenues/spending will, likely, be reprioritised to ensure that debt payments are made in preference to say entitlement program payments (and there is a big interest payment due in early November of \$15bn). Second, though the possibility of adverse actions by ratings agencies is a risk, we have tended not to regard these as a particularly good predictor of the likely movement in US treasury yields. In any case, we do not see this latest episode as triggering another downgrade on its own (after all, sequestration and continued economic growth have been lowering budget deficits steadily). The third reason for lower yields is the most important, and that is that the adverse impact on the economy and risky assets will likely once again boost the appeal of US treasuries.

As noted in the scenario comments above, this does not mean that the bond market at large suffers no impact. The market in treasury bills and the money market at large is potentially at risk as repo and associated collateral markets suffer reduced liquidity. Since there is already an impact seen in these markets today, we can only surmise that these problems will worsen as we get nearer to October 17<sup>th</sup> without a deal. Additionally, it is quite possible that longer duration bond yields will not fall proportionately to the 10 year maturity yield, implying a steepening of the yield curve from the middle to the far end of the curve. We have already seen this in action in recent days, and it would not be surprising if this continued over the next few weeks if we continue to see no deal.



## Disclaimer

This document and any enclosures or attachments are prepared on the understanding that it is solely for the benefit of the addressee(s). Unless we provide express prior written consent, no part of this document should be reproduced, distributed or communicated to anyone else and, in providing this document, we do not accept or assume any responsibility for any other purpose or to anyone other than the addressee(s) of this document.

Notwithstanding the level of skill and care used in conducting due diligence into any organisation that is the subject of a rating in this document, it is not always possible to detect the negligence, fraud, or other misconduct of the organisation being assessed or any weaknesses in that organisation's systems and controls or operations.

This document and any due diligence conducted is based upon information available to us at the date of this document and takes no account of subsequent developments. In preparing this document we may have relied upon data supplied to us by third parties (including those that are the subject of due diligence) and therefore no warranty or guarantee of accuracy or completeness is provided. We cannot be held accountable for any error, omission or misrepresentation of any data provided to us by third parties (including those that are the subject of due diligence). This document is not intended by us to form a basis of any decision by any third party to do or omit to do anything.

Any opinions or assumptions in this document have been derived by us through a blend of economic theory, historical analysis and/or other sources. Any opinion or assumption may contain elements of subjective judgement and are not intended to imply, nor should be interpreted as conveying, any form of guarantee or assurance by us of any future performance. Views are derived from our research process and it should be noted in particular that we can not research legal, regulatory, administrative or accounting procedures and accordingly make no warranty and accept no responsibility for consequences arising from relying on this document in this regard.

Calculations may be derived from our proprietary models in use at that time. Models may be based on historical analysis of data and other methodologies and we may have incorporated their subjective judgement to complement such data as is available. It should be noted that models may change over time and they should not be relied upon to capture future uncertainty or events.

# Growth or Value in US Equities?

*We remain agnostic*

Global Asset Allocation Team

24 September 2013



## Summary of medium term views

---

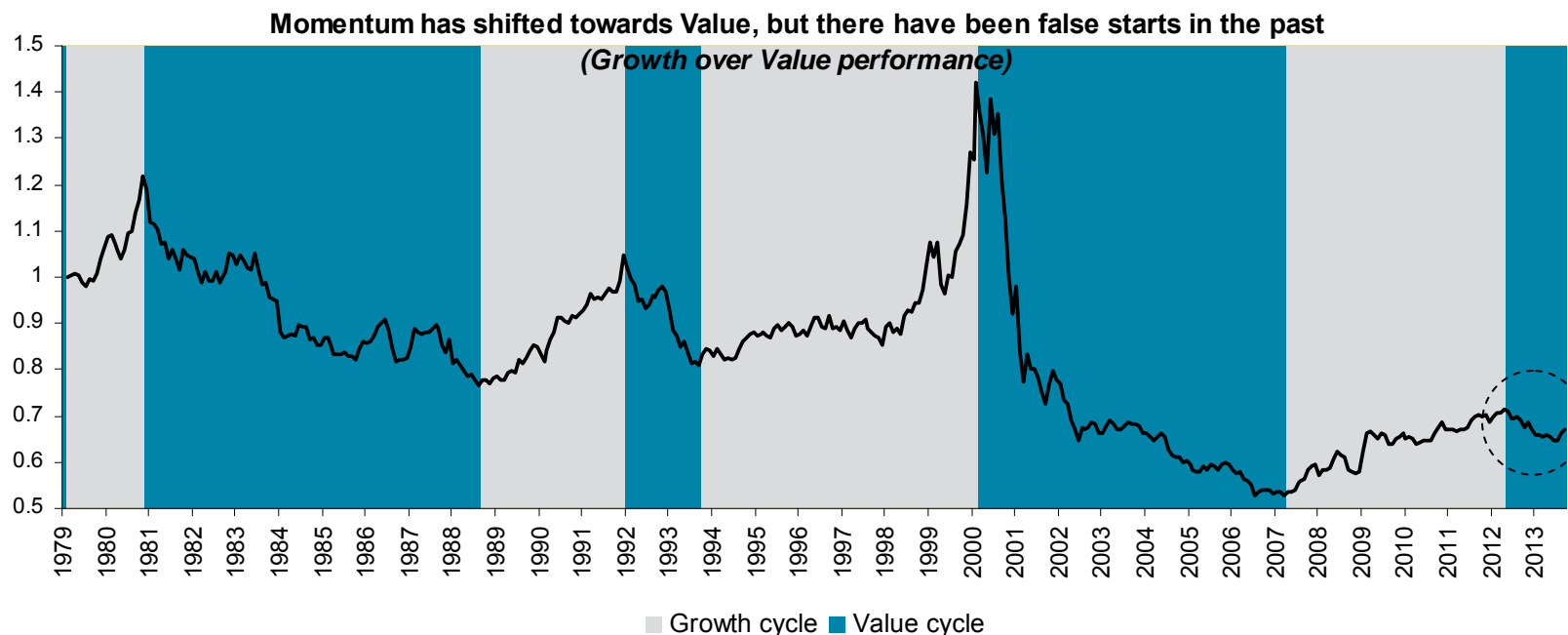
- Value has outperformed Growth over the past year but by a narrowing margin recently. We have seen such false starts before and are not convinced that a Value outperformance cycle has really begun.
- Value and Growth are behaving differently and this is influencing our view:
  - *Value depended on higher dividend yields to drive its long-term return premium. This is more difficult now as the yield differential has shrunk substantially.*
  - *Value used to lag the broader market. On our numbers it may now be leading it.*
  - *Value is now becoming the more risk-appetite and market-sensitive strategy and therefore more volatile.*
- Valuations support Growth over Value, but weak earnings momentum in Growth is concerning.
- Sector bias in Growth/Value is a big performance driver: Technology for Growth and Financials for Value.
  - *We find both Financials and Technology to be facing headwinds; Financials have deserved their good run, but much is now priced in. Technology's high profit margins are under challenge.*
  - *Energy (Value) and Consumer Discretionary (Growth) comparisons mildly favor Value.*
- Market sentiment not macroeconomic drivers are influencing Growth/Value performance. A reversal of upbeat market sentiment would once again favor Growth.
- Technical factors currently do not favor one style over another.

**We remain agnostic on Growth/Value.**

## Growth Vs Value: Recent performance and long term cycles

- For about a year now, Value has been outperforming Growth, notwithstanding some give back in August and September to date. Is Value's lead temporary or does it mark a shift towards a new cycle of outperformance? We have seen some false starts before.
- In this note, we look at what is driving this relative swing towards Value, but also why it is still a mixed picture and why it is difficult to be confident that a new Value cycle has begun in earnest.
- Over the long term, a Value based equity strategy has outperformed Growth. The journey is not smooth, however. Growth and Value have experienced extended cycles of relative out and underperformance, with the shortest cycle since 1980 lasting around two years and the longest lasting around eight years.
- The period from mid 2007 to mid 2012 saw Growth outperform Value by close to 30% and last year we had grown concerned with the significant duration of this cycle, which led us to move to a neutral stance.

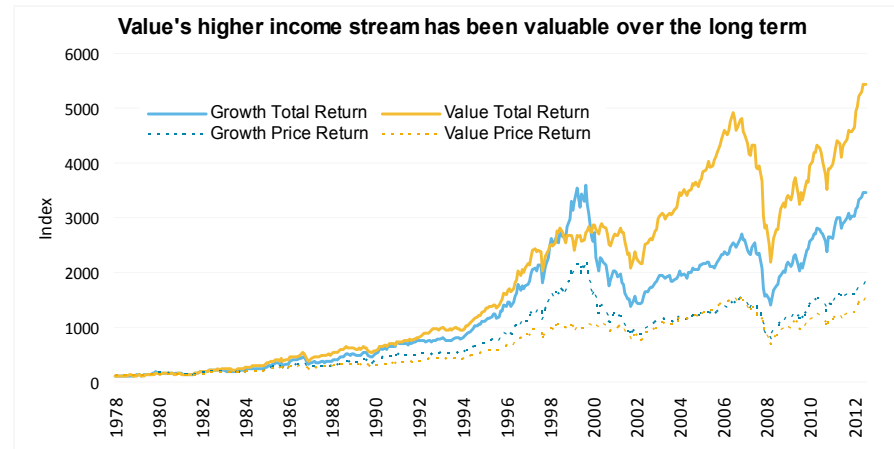
**We could be in a transition phase. Drivers are still fairly balanced between Growth and Value.**



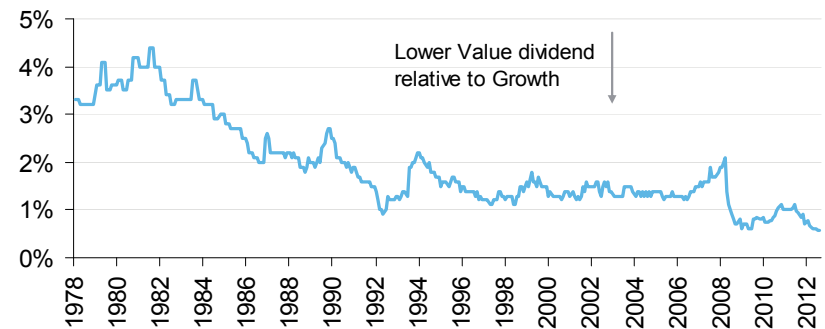
## The power of dividends

- Value stocks typically have higher dividend yields than average. Growth stocks have typically had lower dividend yields as such companies generally retain more earnings and reinvest these to realise their growth potential.
- Over the long term, dividends have been an important component of an investment's return. While Growth has outperformed Value by around 0.5% p.a. over the last 35 years in terms of price appreciation, it has significantly underperformed (by around 2% p.a.) once we account for dividends. The compounding effect of dividends over time has meant that income has been much more important for Value than Growth in terms of its contribution to total returns.
- Value's dividend yield was consistently between 1-2% higher during the 1990s until 2007. However, the differential has been narrowing since, driven mainly by an increase in Growth's dividend yield. The current gap of 0.7% is one of the lowest on record and this narrows Value's income advantage. There are two key reasons for this trend.
  - Payout ratios in Growth have been increasing since 2007 whilst Value payout ratios have held steady.
  - Growth companies have been raising dividends faster than their market prices have risen, whilst dividend growth in the Value style has been more in line with price movements.

**Dividend compounding is no longer driving Value outperformance. Price movements are now more important for relative returns.**



**Value no longer trades with the significant dividend yield premium it did before the financial crisis**  
(Value minus Growth dividend yield)



Source of charts: Datastream, Russell 1000 indices

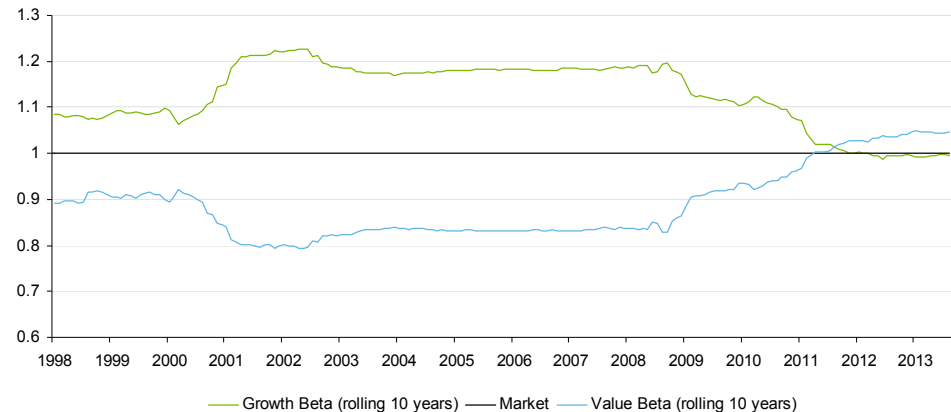
# Growth and Value performance versus the general market

## Value is now more sensitive to general market movements than Growth

- Value has tended to lag the market (Beta of less than 1). Growth has tended to outperform the market as a whole (Beta greater than 1). This relative beta explains why Growth has outperformed Value excluding dividends.
- We find that, since 2005, their betas have converged (Value rising, Growth falling). Value has moved into a small leadership position relative to the market.
- All else equal, this means that Value should be outperforming Growth when markets are rising, and vice versa. This at least partly explains why Value has done well since the middle of 2012, given equity market strength. That said, we should note that the change in betas have partly reflected the strength of Financials, much more dominant in Value. The outlook for that sector (explored on pages 9 and 10) will be critical in maintaining Value's leadership role (or not). For now, we are working with the view that Value is no longer a laggard in a market sense.
- We believe equity returns will be modest from here, with the path to higher equity market levels uneven. The impact from this change in betas may therefore not amount to much in practice.

**Value is now more sensitive to market movements and will be more volatile going forward.**

Value has become slightly more sensitive to market movements than Growth  
(Rolling 10 year beta)

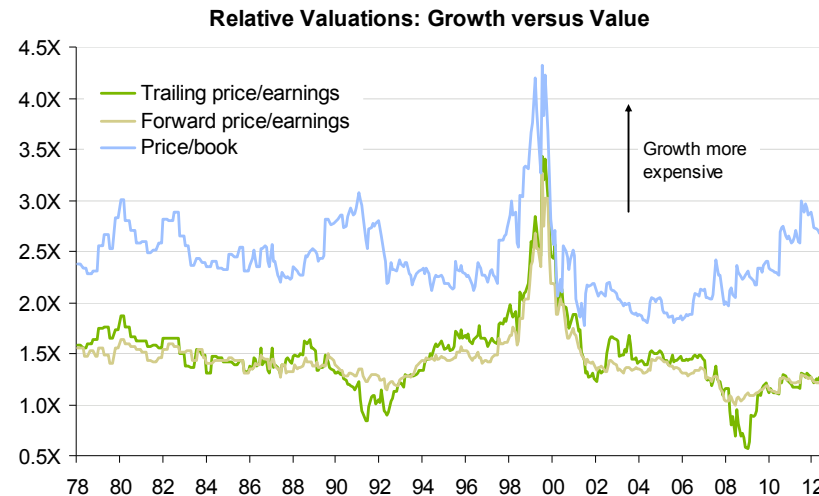


Source: Datastream, Russell 1000 indices vs S&P 500

## Growth Vs Value: How do relative valuations look?

### *Growth attractive compared to history but earnings may disappoint*

- Investors generally pay a premium for those companies with higher expected growth rates. This tends to result in Growth trading at higher PE (Price to Earnings) and PB (Price to Book Value) ratios than Value.
- Growth's trailing and forward PE ratios are currently around 1.4X and 1.2X those of Value, respectively. This premium is *low* relative to history and points to Growth being relatively cheap against this historic norm.
- We need to go behind this and look at earnings growth trends, however. Here we see that rolling 12 months earnings growth for the Growth style turned negative in late 2012 and remain so. Over the same period, Value has been growing its earnings strongly.
- Given the likelihood that these trends continue for a while yet, the risk is that Growth earnings could fall short of consensus analyst forecasts. On that basis, we would argue that Growth's PE advantage is less strong than it seems.
- On a PB basis, Growth trades at a significant premium to Value and this premium is markedly *higher* than historic norms. Of course, a higher price to book ratio may be justified by higher profitability or expectations of higher profitability over time. Although the profitability gap between Growth and Value has reduced over the last year, it remains high compared to history. Adjusting for this, Growth has a slightly cheap bias.



Source: Datastream, Russell 1000 indices

**Our view on valuations is that Growth has an edge over Value.**

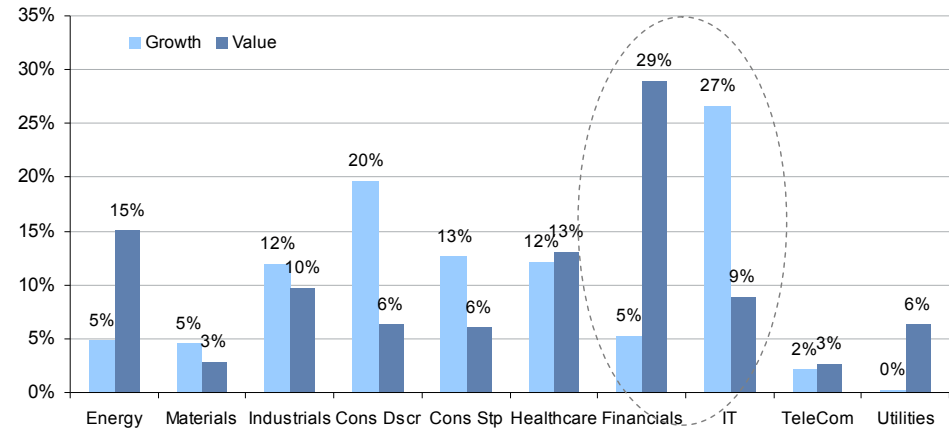


## Importance of sectors

- Growth and Value indices have significant sector biases; Growth has much more exposure to the Technology, Consumer Discretionary and Consumer Staples sectors (which make up around 60% of the Growth index compared to 20% in Value – see upper chart).
- Value is more orientated towards Financials and Energy.
- How should we allow for the performance impact of these sector biases? We chose the route of estimating what the relative performance of Growth and Value would have been if all sectors had an equal weight (see lower chart). On this measure (green line), the performance differential between the two styles over the last 10 years would have been far lower compared to the large swings we have actually seen (blue line). This suggests relative performance is being driven predominantly by the difference in sector weightings across styles.

**The implication is obvious. The relative attractiveness of Value and Growth depends very much on the outlook for the key underlying sectors.**

**Russell 1000 Growth and Value Sector Allocations**



**Growth/Value performance differential caused by relative sector biases**

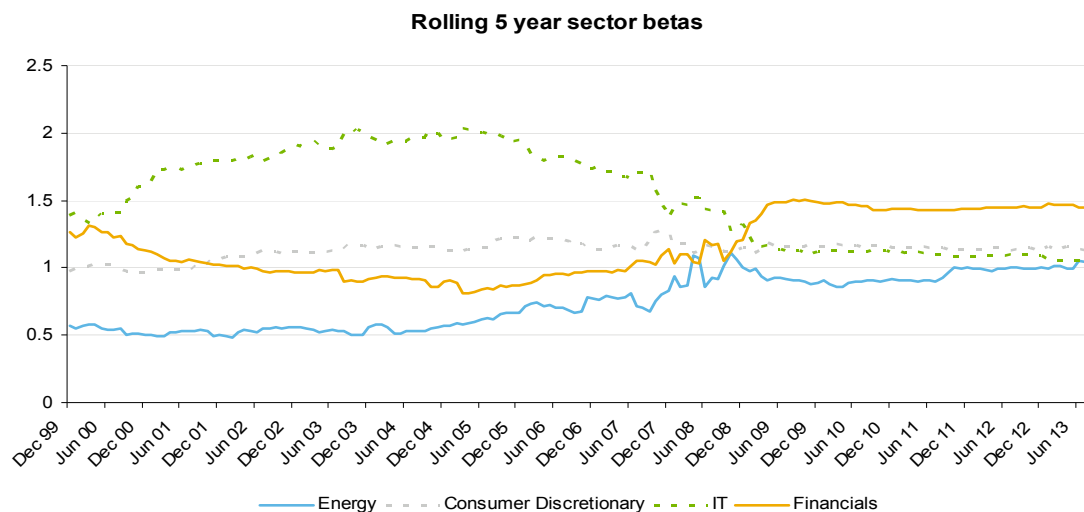


Source: Datastream, Russell 1000 indices

## Sector responsiveness to market direction

- We saw earlier that Value, traditionally a low beta style, is now showing somewhat higher market responsiveness than Growth. The reasons for this can be seen by comparing across sectors that have heavy representation in the two styles (Financials and Energy for Value, Consumer Discretionary and Technology for Growth).
- The Financials sector used to move broadly in line with the market (a beta of around 1) and was viewed as very stable. Since then, reflecting the view that the Financial sector has become riskier, these stocks have become sensitive to equity market direction, with the beta having moved to around 1.5, well above the other key sectors. The decade long rise in energy prices and high volatility surrounding prices may also have had a part to play in doubling the Energy sector's beta since about 2000.
- In contrast, Technology's market responsiveness has fallen sharply compared to its pre crisis levels, with its beta moving towards 1. Consumer Discretionary has been more stable, but also tends to outperform in rising markets (a beta of around 1.1).
- At some point, these patterns will probably change again, one factor being that the leadership of Financials will probably come to an end. The evidence is not compelling that this is going to be happening any time soon, however.

**Our current expectation is that Value will remain the more volatile strategy. We also regard it as more closely tied to confidence in broader economic/market conditions.**



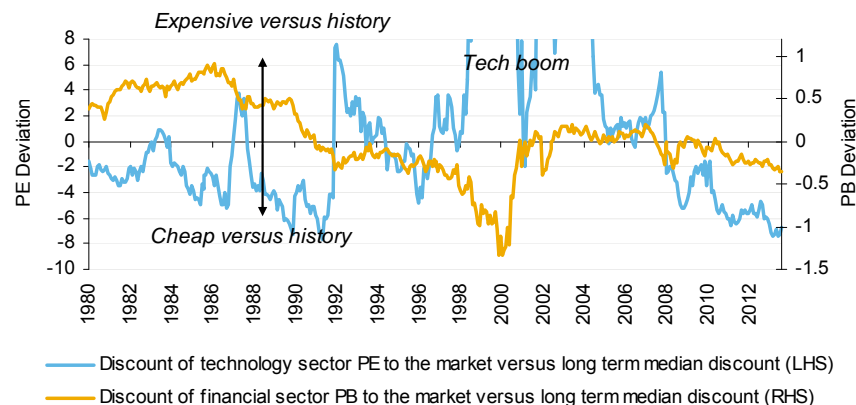
Source: Datastream, MSCI USA Indices vs S&P 500

## Technology Vs Financials: Which is more attractive?

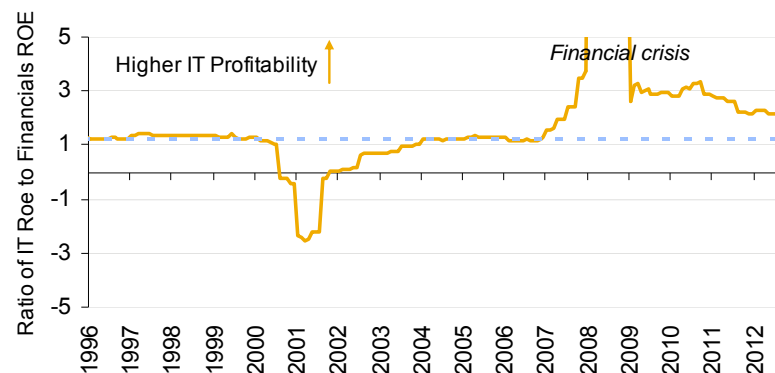
- Here we allow for our own valuation bias. We put more emphasis on price to book measures for Financials and price to earnings measures for Technology. This takes into account the different nature of the Technology and Financial sectors. The value of the Technology sector is very much determined by its patents and intellectual capital, items that may not be adequately captured by book value (unless intangibles have been properly captured). Conversely, book value in the Financials sector should better reflect its companies' underlying value.
- Our analysis suggests that both sectors have a slightly cheap bias relative to their own history. However, it looks very similar in each case.
- We can also look at where each sector is trading relative to the market. The Technology sector has tended to trade at a premium to the market on a PE basis. Currently, the sector is trading at a slight discount. On the Financials side, this sector has tended to trade at a small discount to the broad market, but even after the heavy outperformance of Financials, the current discount remains larger than historic norms. Therefore, both sectors look cheap in their own right on this measure.
- The profitability gap (which we measure here by the difference in Return on Equity) between IT and Financials has been quite erratic, with the IT sector slightly more profitable on average. The slump in Financials' profitability during the crisis and beyond flatters Technology.
- We thought last year that ROE levels in IT were peaking and ROEs have indeed fallen since then. On a historical view, ROE is now within a more normal range. We are unlikely to see significant declines from here.

**Can the profitability gap continue to narrow? It depends on whether the wounds in the Financials sector continue to heal and the burden of regulation eases.**

### Both sectors are cheap relative to how they have tended to trade versus the market in the past



### The profitability gap between the IT and Financials sectors is markedly higher than historic levels

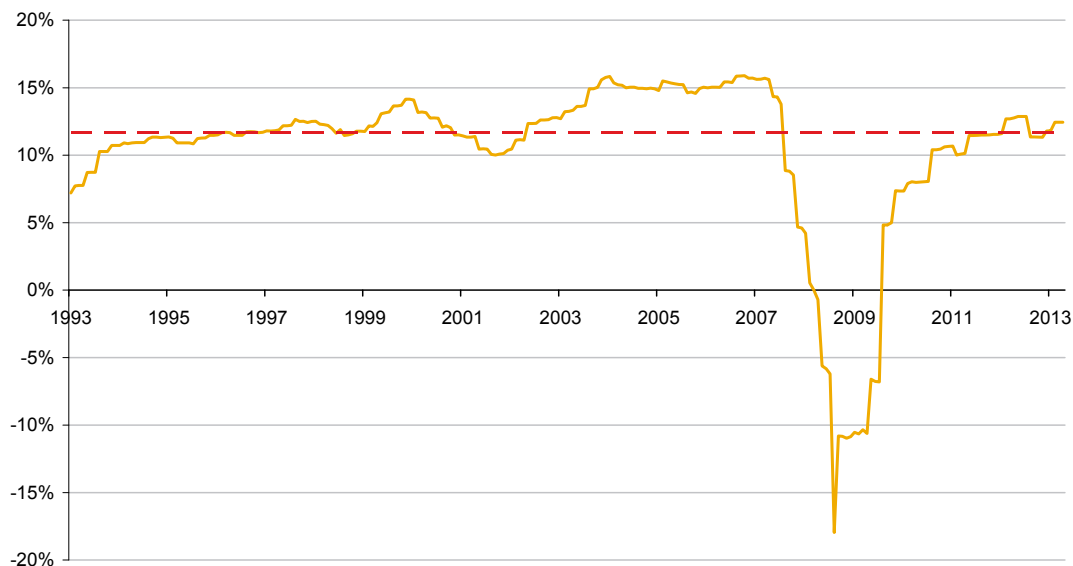


Source: Datastream, Russell 1000 indices

## Will Financials continue to perform so strongly?

- Since the upturn in Value in mid 2012, Financials have been the joint best performing sector (alongside Healthcare) and have outperformed the Russell 1000 Value Index by around 7% and the S&P500 by around 12% (to the end of August).
- Improving credit quality, a steep yield curve and recovering real estate prices have all come together to drive this. Profit margins have reverted to their long-term mean (see chart).
- The key question is whether profitability can continue to improve to take us nearer to pre-crisis levels which were of course higher (see chart)...
- We see two key headwinds which we believe will be negative for profit margins :
  - Flattening yield curves
  - Regulation

**Profit Margins for Financials close to long term median**  
(Financials, Profit Margins)



Source: Bloomberg

## Headwinds for Financials: Interest rates and regulation

### Flatter yield curves/rising short-term interest rates

- A move to higher interest rates can theoretically be helpful for profit margins:
  - Reinvestment of cashflows takes place at higher yields; and
  - Prepayment rates on mortgage portfolios reduce.
- Against this, drawbacks are that:
  - The value of fixed income portfolios held by banks falls. But not all need to be marked to market, and duration is typically not high.
  - Yield curves flattening. This is potentially more significant, but the timing is gradual.
- We see a move to a flatter yield curve over time and higher short-term interest rates will impact profitability somewhat on the downside. Timing is uncertain and extremely gradual – i.e. over a 2-5 year period.

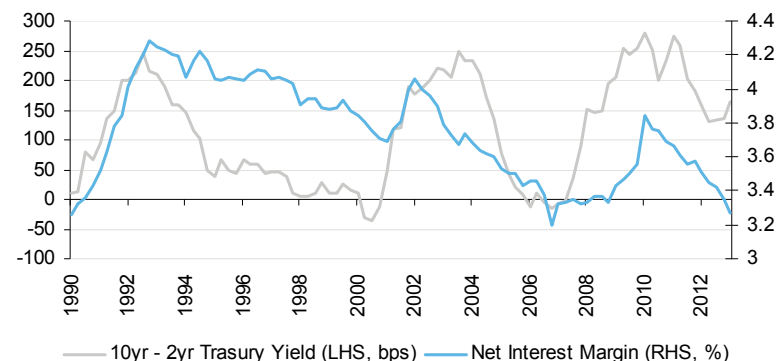
### Regulation

- The impact of regulation (particularly Dodd Frank) will be to
  - Curtail leverage – this has already fallen sharply (see chart). It could go lower still, mainly through higher and narrowly defined capital reserve requirements.
  - Restrictions on trading and banks' activities in investment banking (acting as principal) which removes certain revenue sources.
  - Increased costs over time - more investment in legal and compliance functions.

### Our overall view on Financials

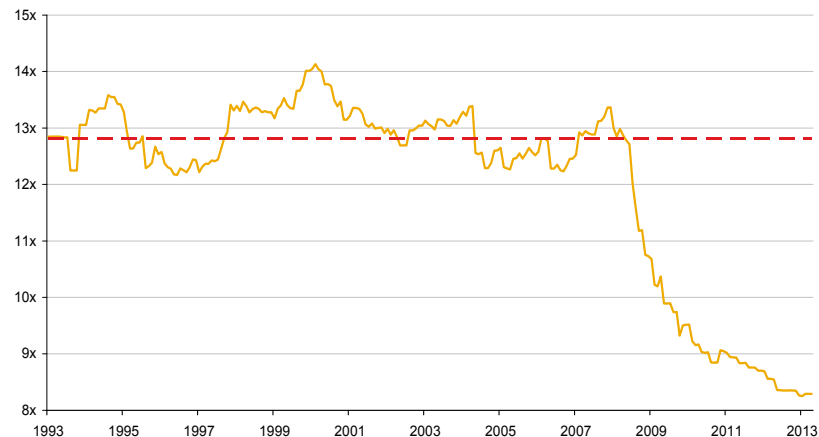
**We see mean reversion in Financials' profit margins signalling that further improvements are unlikely. Revenues should grow but at lower rates.**

**Net interest margins generally increase as the yield curve steepens**



Source: Bloomberg

**Leverage, whilst low, has limited scope to rise in the financial sector due to regulatory pressures**



Source: Bloomberg

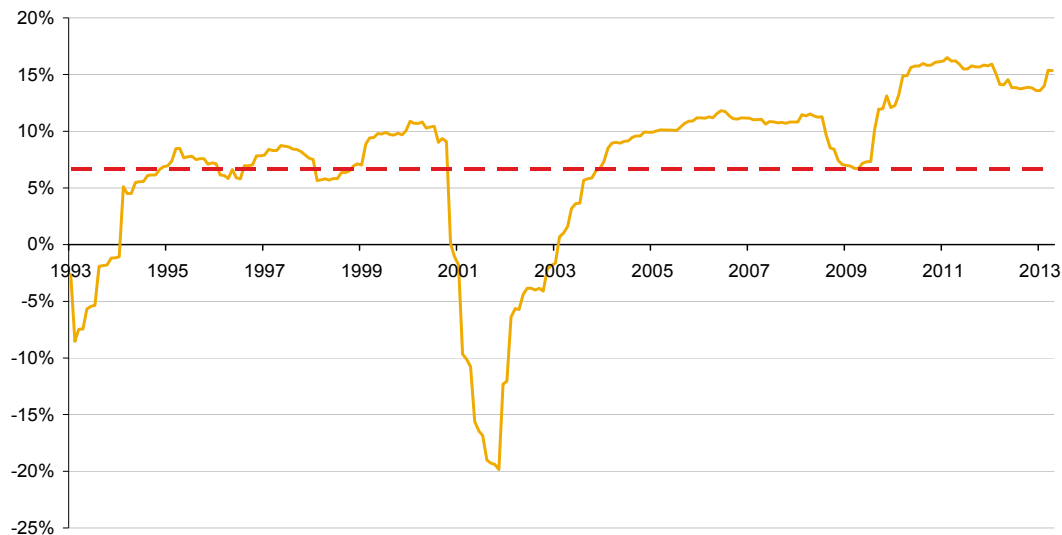
## Technology has its issues too: risks to profits

- Profit margins in the Technology sector have fallen over the last year but still remain well above levels seen in the past.
- The Technology sector has lagged Financials badly over the last 12 months. Apple's stock price has fallen sharply over concerns for its future profitability, with a knock-on impact on the Growth style given its large weight in the index. Apple's weight in the Russell 1000 Growth index has since fallen by nearly half and the style is therefore now less impacted by its performance.
- Longer term, given global competition between Technology companies, profit margins should be expected to return to more normal levels as new entry occurs in response to currently high profit margins. Branding barriers to entry can however be high and this can act to support profit margins, at least in the nearer term.
- There is some cushioning potential from depressed asset turnover to rise.

**We see profit margins in Technology as more likely to fall from here than to rise.**

### Profit Margins for IT still elevated despite recent falls

(IT, Profit Margins)



Source: Bloomberg

## The other sector bias: Energy vs Consumer Discretionary

Energy is better represented in Value and consumer discretionary companies are more strongly represented in Growth. We summarize the key drivers for the two below:

	<b>Energy (Value)</b>	<b>Consumer Discretionary (Growth)</b>	<b>Preference</b>
Profit margins	Extremely volatile over time due to nature of commodity prices. Currently above average and limited scope to grow further.	Profit margins have risen sharply since 2009 and appear to be far higher than justified by economic fundamentals.	Energy but with potential for higher volatility
Asset Turnover (revenues earned from asset base)	Collapsed during the financial crisis and remains close to all time lows.	Broadly in line with past norms	Energy assuming some mean reversion
Leverage	Use of leverage below past norms	Fell sharply during 2009 and remains at historically low levels.	Neither
Price to book value	<ol style="list-style-type: none"> <li>1. PB neutral relative to its own history</li> <li>2. Trades at a discount to the market but this has tended to be the case in the past and the discount is in line with past norms.</li> </ol>	<ol style="list-style-type: none"> <li>1. PB expensive relative to its own history</li> <li>2. Currently trading at a significant premium to the market, one of the highest on record over the last 20 years.</li> </ol>	Energy
Price to earnings ratio	PE neutral relative to its own history	<ol style="list-style-type: none"> <li>1. PE neutral relative to its own history</li> <li>2. Slightly lower premium to general market than past norms</li> </ol>	Consumer Discretionary

- We have a preference for Energy on a valuation basis, but with our downward bias to energy price expectations and high volatility, there is little conviction on this call.

**The Energy vs Consumer Discretionary sector bias does not strongly influence our Growth vs Value view.**

## The influence of macroeconomic conditions

- Our analysis generally shows that macroeconomic conditions themselves do not have a strong influence on the relative performance of the two styles.
- We found that the Growth-Value performance premium has some relationship to the following variables:
  - *An increase in M&A activity helps Value.* We expect M&A activity to continue to strengthen, which helps Value.
  - *A steeper yield curve is also relatively positive for Value due to its impact on the Financials sector.* However, we believe that the yield curve is more likely to flatten than steepen over time, so help for Value from this area is now on its way down.
  - *Higher oil prices are associated with Value outperforming.* This is because the Energy sector has a higher weighting in the Value style. However, we believe oil prices are more likely to fall from here. This would, on balance, benefit Growth.
  - *Worsening market sentiment (influenced by economic conditions) helps Growth and vice versa.* This may be because Growth companies may be perceived to be higher quality (better quality/more reliable earnings streams and growth potential). Market sentiment is, of course, indirectly influenced by economic confidence.
  - Financials are the key catalyst for performance, as obvious recently when a setback here caused Value's lead to erode substantially.
  - We also note that neither style is more cyclical or defensive than the other. Our view remains that economic activity conditions are moderate rather than strong. Neither style is strongly favored from a macroeconomic standpoint.

**The Value style is more volatile given its bias to Financials and Energy and is also more linked to economic and market sentiment. A sentiment setback could put Growth back in the lead again.**

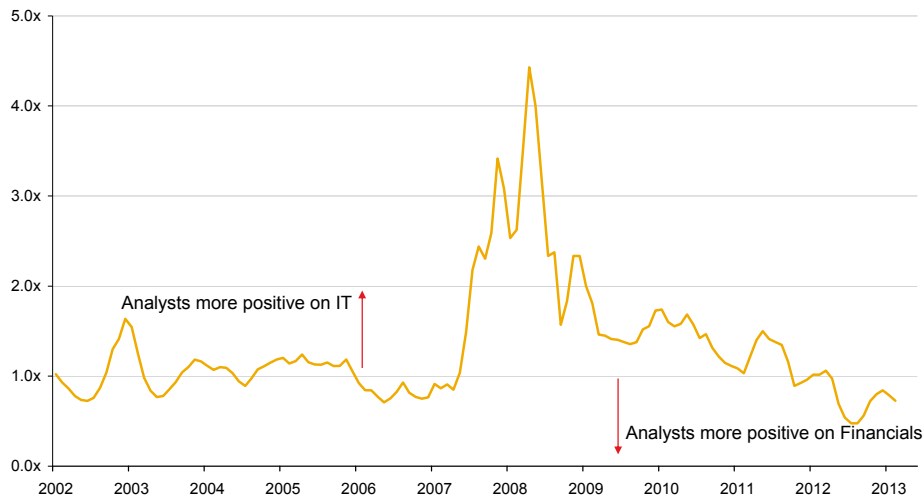


## Timing factors are mixed

- Much of the positive price momentum that supported the Growth style was due to strong relative earnings revisions and investor flows.
- The first chart below looks at the Technology and Financials sectors relative to each other in terms of net earnings revisions. Since 2007 until mid last year, net revisions for Technology had been consistently higher than Financials. However, this has since swung the other way. This is supportive of further Value outperformance.
- The second chart below looks at investor flows (positive bars represent net inflows into Growth). We had seen significant inflows into the Growth style between 2007 and 2010. Though net inflows into Growth remain positive, they have moderated significantly.

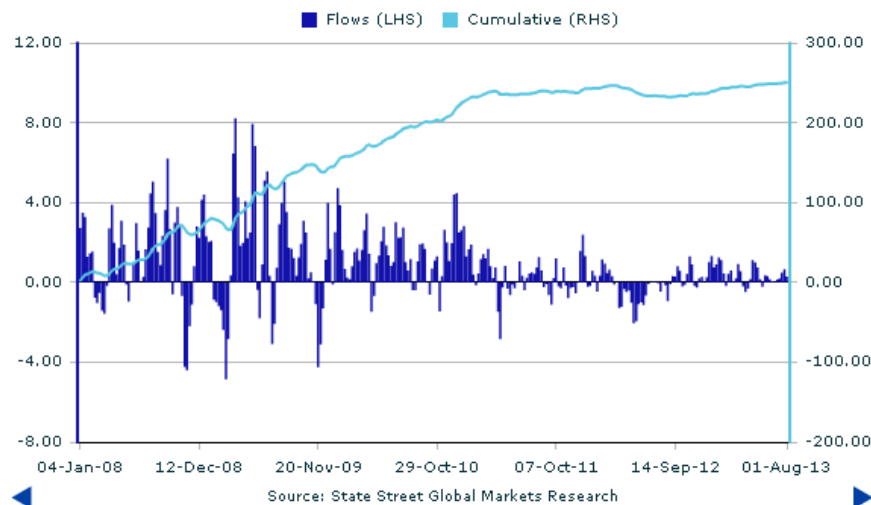
**Timing factors do not point strongly one way or the other.**

**Analysts More Positive about Financial Earnings Relative to IT**  
(IT / Financials, Net Positive Earnings Revisions)



Source: Datastream (first chart), State Street (second chart)

**Hi-Lo, United States Growth/Value Regional Linear ESFI**  
bps of Market Cap



Source: State Street Global Markets Research

## Summary: Some support for Value but insufficient to modify our neutral stance

Drivers	Comments	Preference
<b>Performance momentum</b>	The Growth cycle ran out of steam mid last year, with Value outperforming since. Some give back in August and September has however brought year to date performance broadly in line.	Value, but only narrowly.
<b>Beta</b>	Value now more sensitive to market movements than Growth, the opposite of how things were pre crisis.	Equity returns likely to be modest over the medium term. Expectation for Value to outperform from a beta perspective but Value's higher volatility increases uncertainty.
<b>Valuation metrics</b>	Generally supportive of Growth	Growth, but earnings may disappoint and the sector may find it difficult to sustain profit margins.
<b>Sector</b>	Conditions for the Financials sector have improved but it has also outperformed other sectors. Sector still faces headwinds going forward, but so does Technology.	Neutral
	Energy valuations more attractive	Value, but likely to be more volatile
<b>Macroeconomic</b>	Some support to Value from increased M&A activity but a flatter yield curve and lower oil prices would pose risks and Growth likely to outperform if sentiment wanes.	Neutral. Statistically, macroeconomic variables do not have a strong influence on the relative performance of the styles.
<b>Technical</b>	More positive earnings revisions in the Financials sector over Technology but still absence of major flows from Growth to Value.	Neutral



## Monthly Summary of Medium Term Views – U.S.

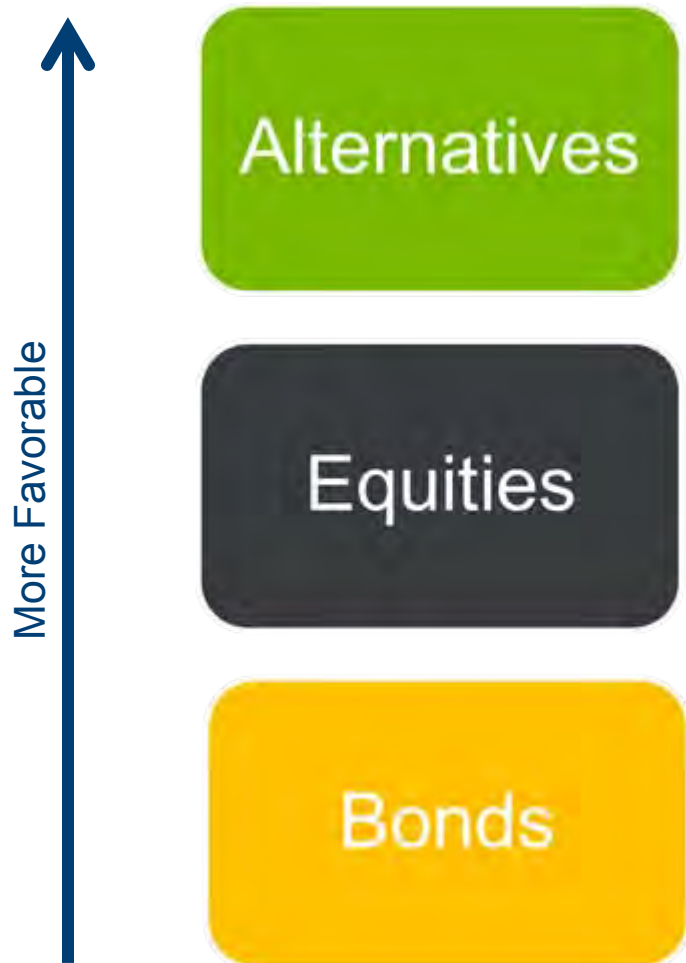
September 2013

# Medium Term Views Background

---

- **Definition: Medium term unexploited**
  - Over attention to the short term (tactical) and to the very long term (strategic) has left the medium term (~12 to 36 months) largely unexploited as a source of outperformance.
  - By not needing to focus unduly on week to week or even month to month performance we can add value from asset allocation in the medium term.
- **Opportunity: Capitalize on market dislocations**
  - We believe in mean reversion over the long term, but to parameters which change over time.
  - Our approach places considerable emphasis on valuations through taking advantage of excessive under or over valuation.
  - Beyond valuations, we carry out considerable fundamental and quantitative analysis, including on the major investment themes.
  - We use a range of timing and sentiment indicators to establish good entry and exit levels. Some of the best opportunities arise where/when we differ most from consensus.
- **Approach: Medium term views complement strategic allocations**
  - The following slides summarize our medium term views. These views are under continual review based on global economic and market developments, together with changes in market levels.
  - These views are quite separate from our long-term strategic assumptions. As such, clients should work with their consultant in determining how to capitalize on medium term opportunities in their particular portfolio.

# Relative Medium Term Views



## Alternatives:

- We continue to like alternatives, with a positive outlook on hedge funds and real estate in particular. We remain negative on the outlook for commodities.

## Equities:

- Though the postponement of Fed stimulus has given a short-term boost to equity market prospects, the medium-term questions remain. The economy is not strong enough to generate much help to earnings, and margin expansion has run its course. With valuations having normalized, earnings remain key to the story of equities moving forward, and there is not enough strength in this story to sustain a continued strong move up.

- On a relative basis we prefer non-US equities on a currency hedged basis, and have a positive stance on emerging market equities. We are agnostic on growth/value but prefer large cap.

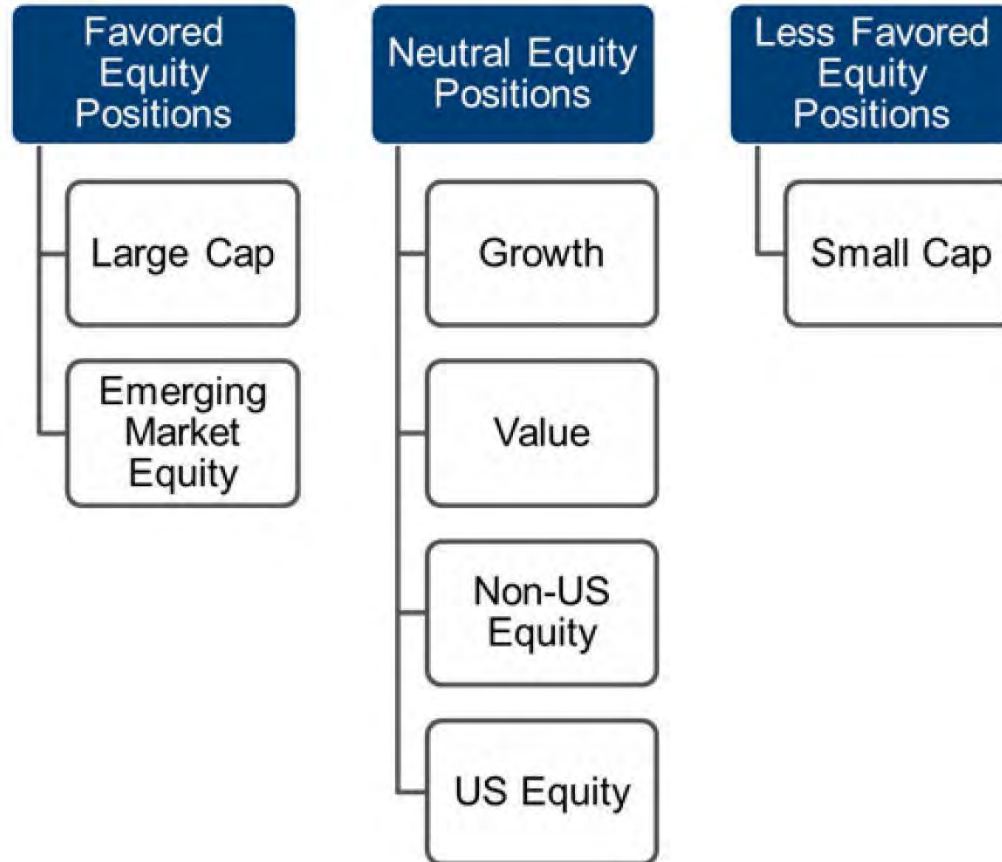
## Bonds:

- We had suspected that bond markets would have some respite, and the Fed deferral of tapering has provided that. Yields should rise much further over the medium-term, but the near-term outlook is for yields to remain relatively range-bound. We continue to be negative over the medium term.

- On a relative basis we are neutral on high yield versus investment grade, prefer loans to high yield and prefer local currency emerging market debt to dollar denominated debt.

# Relative Equity Medium Term Views

---



# Relative Equity Medium Term Views

## U.S. Equity

	Strong Preference	Modest Preference	Neutral	Modest Preference	Strong Preference	
U.S. Equity	September 2013, 1 month ago, 1 year ago					Non-U.S. Developed
Large Cap	1 year ago	September 2013, 1 month ago				Small Cap
Value			September 2013, 1 month ago,	1 year ago		Growth

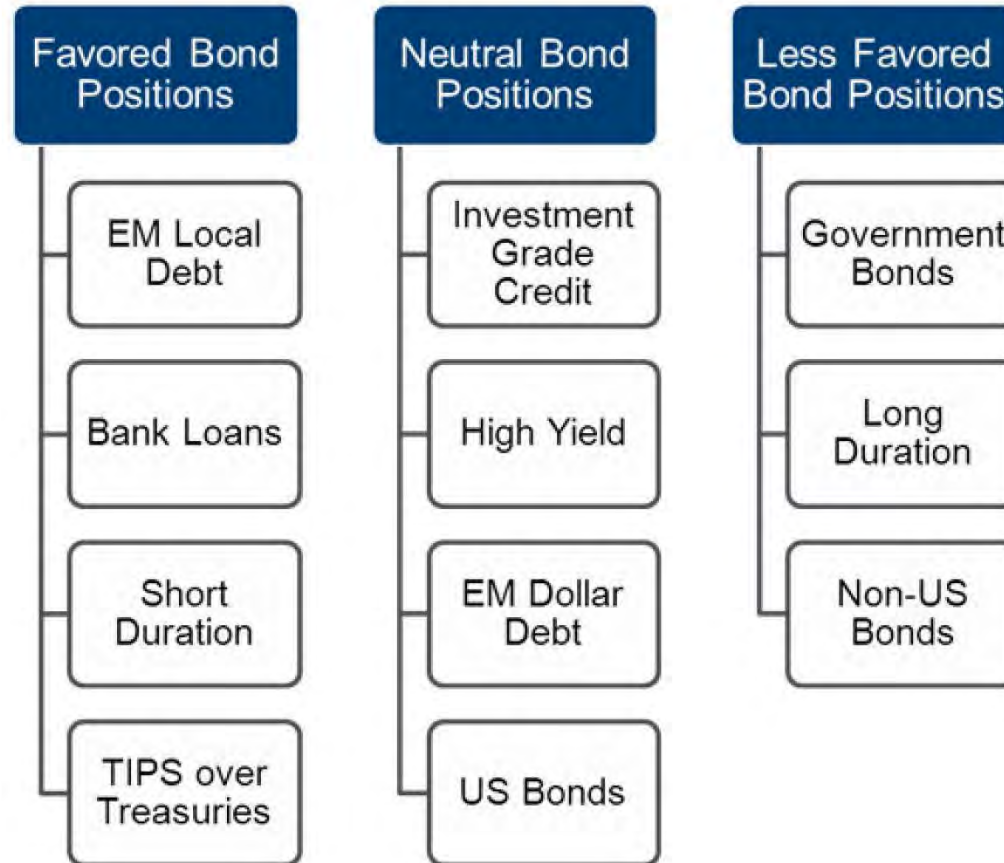
## Non-U.S. Equity

	Strong Preference	Modest Preference	Neutral	Modest Preference	Strong Preference	
Developed		1 year ago		September 2013, 1 month ago		Emerging
Large Cap	1 month ago, 1 year ago	September 2013				Small Cap

**Note:** Historical perspective given by stating our view one month and one year ago, as well as the current month.

# Relative Fixed Income Medium Term Views

---





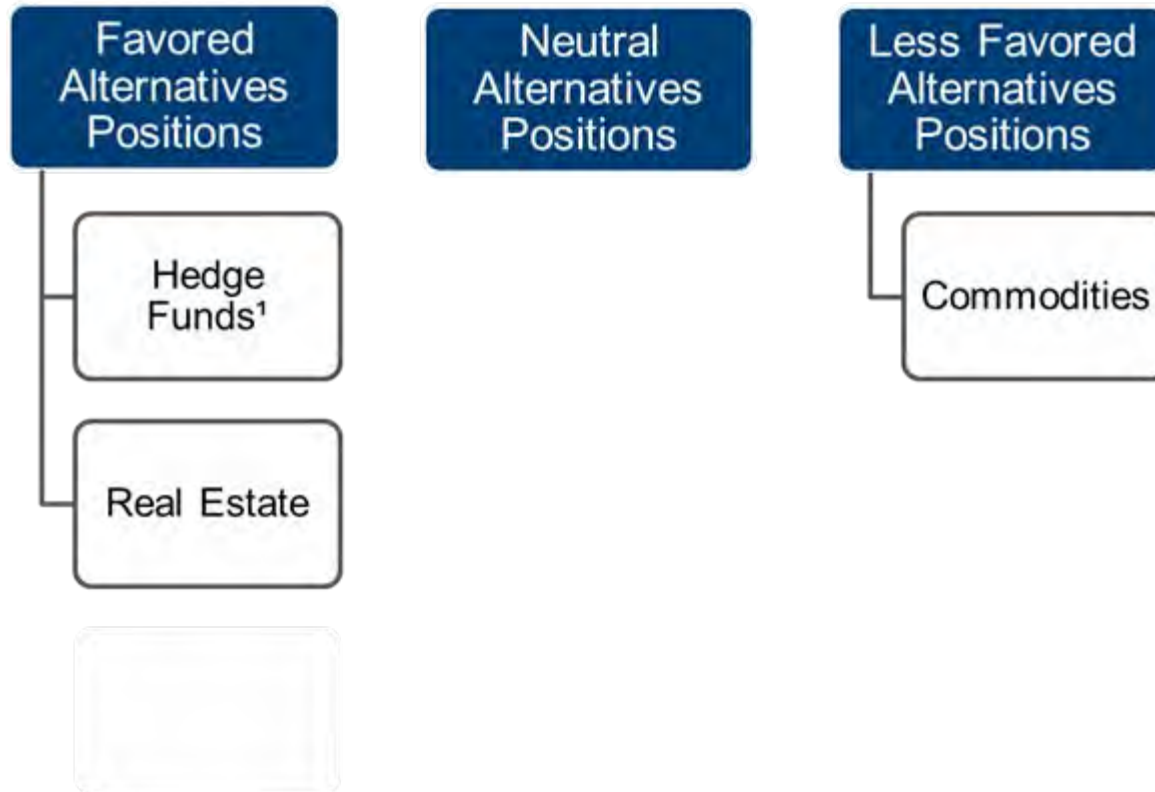
# Relative Fixed Income Medium Term Views

	Strong Preference	Modest Preference	Neutral	Modest Preference	Strong Preference	
U.S.	September 2013, 1 month ago, 1 year ago					Non-U.S.
Intermediate duration	September 2013, 1 month ago, 1 year ago					Long duration
Government	September 2013, 1 month ago, 1 year ago					Credit
U.S. Investment Grade	1 year ago	September 2013, 1 month ago				High Yield
U.S. Bonds		1 year ago	September 2013, 1 month ago			Emerging Market Debt
U.S. TIPS	September 2013, 1 month ago,	1 year ago				U.S. Treasuries

**Note:** Historical perspective given by stating our view one month and one year ago, as well as the current month.

# Relative Alternative Asset Class Views

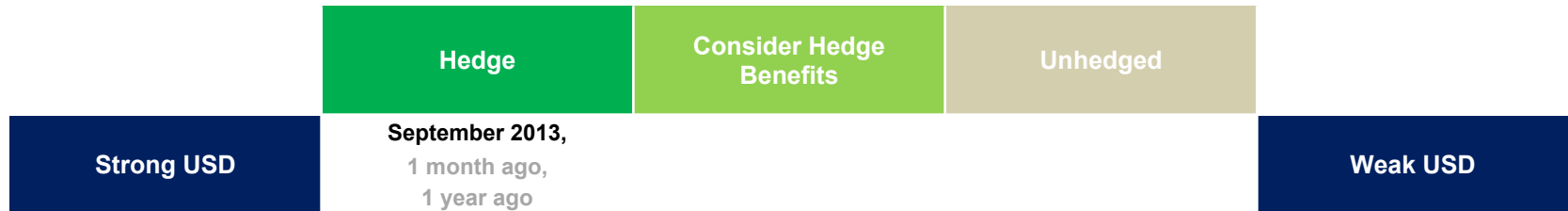
---



<sup>1</sup>Global Macro strategy is favored.

# Relative Currency Medium Term Views

---



**Note:** Historical perspective given by stating our view one month and one year ago, as well as the current month.

# Equity Market Views

Asset Class	Medium Term View	Rationale
<b>Equity Market</b>	Returns being squeezed	Though the postponement of Fed stimulus has given a short-term boost to equity market prospects, the medium-term questions remain. The economy is not strong enough to generate much help to earnings, and margin expansion has run its course. With valuations having normalized, earnings remain key to the story of equities moving forward, and there is not enough strength in this story to sustain a continued strong move up. There is downside support from valuations versus bonds, however.
<b>U.S. Large vs. Small Cap</b>	Prefer U.S. Large Cap	The delay in Fed policy tightening has provided the excuse for a further move up in small cap. Valuations are, however, now clearly testing upper limits, and relative valuations have moved more strongly towards favoring large cap. The message from the US economy is not strong enough in our view, for bullishness on small cap to take them beyond current valuation levels. A test is probably coming.
<b>Non-U.S. Large vs. Small Cap</b>	Prefer Non-U.S. Large Cap	Trends are diverging, with the weaker yen favoring large cap and the surprisingly strong recent data in the UK helping small cap. Overall, we see valuation support building for large cap and we continue to see investors favoring the global diversification and greater earnings predictability of large cap.
<b>U.S. Equities vs. EAFE</b>	Prefer non-US on currency hedged basis	The US has been going through a period of underperformance once again, and a look-back at relative performance suggests that the strong relative performance run of the US ended a year to 18 months ago. We continue to favor non-US markets on valuation differentials and narrowing macroeconomic momentum differentials, though acknowledge that currency drivers favor the US dollar.
<b>U.S. Growth vs. Value Stocks</b>	Neutral stance between growth versus value	Our recent update on US growth vs. value keeps us agnostic. We see a valuation edge for growth, but find that value has the stronger near-term earnings drivers. Allowing for strong sector bias, it is hard to make the case strongly for value just yet and recent give-back of value outperformance suggests that the resumption of a new value cycle is far from given.
<b>Developed vs. Emerging Markets</b>	Positive stance versus developed markets for the medium-term	Emerging markets have had a better month, but it remains a difficult time, given trends in global interest rates and relatively weak economic growth in the emerging world. Our positive stance is essentially driven off cheap relative valuations and a view that a lot of the bad news for emerging economies is already out and reflected in prices.

# Bond Market Views

Asset Class	Medium Term View	Rationale
<b>Global Government Bonds</b>	Negative view maintained	We had suspected that bond markets would have some respite, and the Fed deferral of tapering has provided that. Yields should rise much further over the medium-term, but the near-term outlook is for yields to remain relatively range-bound. Duration continues to need careful management.
<b>Global Corporate Bonds</b>	Prefer to government bonds	Our view is that the room for spread contraction is limited, and if economic conditions slow, spreads could widen out somewhat. This keeps our preference for credit versus government relatively mild. Given the likely move in underlying government bond yields, returns on these bonds look low and fragile. Market volatility could once again see spreads and government bond yields rising in tandem.
<b>Intermediate vs. Long Duration</b>	Extend duration only to match liabilities	We had pointed out that duration had become less of a near-term risk and that yields might in fact slip back a little. The Fed decision has triggered this give-back. We are still cautious on extending duration, but much less than before. Additionally, we need to remember that the yield curve will at a certain point stop shifting up and will begin to flatten out, reflecting rising short-term rates.
<b>U.S. vs. Non-U.S. Aggregate Bonds</b>	Prefer the US	With US bonds having increased their yield differentials with elsewhere, particularly Europe, we continue to prefer the US. 'Real' yields are also higher for the US.
<b>U.S. High Yield vs. U.S. Investment Grade Corporate Bonds</b>	Neutral	Much like small cap, Fed movements have again favored high yield. But spreads are not particularly attractive and we expect default rates to move up gradually. High yield returns are likely to be lower than consensus projections of 5-6% p.a. We continue to prefer loans to high yield, but strong demand for loan issuance points to pressure on credit quality.
<b>U.S. Bonds vs. Emerging Market Debt</b>	Prefer emerging market bonds and local to dollar debt	Emerging market spreads have tightened very recently, but remain wide against US corporate bonds for equivalent credit grades. Given the risks from rising US treasury yields, however, which still look too low, it remains hard to like dollar EM debt on a full return basis. Local currency emerging market debt more attractive than dollar-denominated debt though EM currency volatility tempers the enthusiasm.
<b>Treasury Inflation Protected Securities</b>	Prefer TIPS	TIPS yields have been falling back from recent highs, and at 1.3% yields, TIPS are now moving back out of the zone of what might be called normal (30 year TIPS yields close to 1.6%). TIPS are preferred to fixed interest treasuries.

## Other Market Views / Investment Strategy

Asset Class	Medium Term View	Rationale
<b>U.S. Commercial Real Estate</b>	Good investment opportunity for the longer term investor	Core returns are remaining stronger than expected at this point in the market cycle, though moderation is anticipated to re-commence soon. For Non-Core real estate, the bifurcation of the real estate recovery to date continues to drive attractive tactical opportunities in Value-Added and Opportunistic real estate due to the on-going recovery in underlying sector fundamentals and attractive risk premiums versus Core. Manager selection remains key.
<b>Hedge Funds</b>	Favored investment strategy	Weak upside prospects for equities alongside still fluid and volatile market conditions should allow hedge funds to add value. Selection of funds and strategies all important. Global macro strategy is favored with CTAs and a multi-strategy approach also worth considering.
<b>Commodities</b>	Unattractive	Commodities have lagged other risky assets, reflecting worries over global demand, and recent China news. Short-term rebound looks possible but our expectation of returns from this asset class are low.
<b>U.S. Dollar</b>	Gradual dollar strength against most developed market currencies	The dollar has been giving back ground again, reflecting market doubts about when the Federal Reserve does begin to rein back quantitative easing stimulus. The dollar will eventually strengthen, but the ultra-easy monetary stance of the US is a headwind.

## Primary Uses of Medium Term Views

---

- Determining the timing of moving to new strategic allocations
  - Buying/selling at the right price improves long-term returns, badly timed decisions destroy returns
  
- Rebalancing decisions
  - When and to what extent to reallocate assets
  
- Adjusting hedges
  - Pension liability – synthetic or cash market positions
  - Other hedges – equity, inflation, etc.
  
- Managing an opportunistic allocation mandate
  - Portfolio segment managed to a one- to three-year horizon

# 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 21, 2013

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

**SUBJECT: APPROVAL AND EXECUTION OF THE NEPC, INC.  
INVESTMENT CONSULTING AGREEMENT**

Dear Board Members:

**Background**

On February 4, 2013, the Board formulated an Ad Hoc RFP Committee and hired Cortex Applied Research, Inc. to conduct a search for investment consulting services. On September 9, 2013, the Board received finalist presentations from NEPC, Inc. (NEPC), Strategic Investment Solutions, and Wurts, selecting NEPC as VCERA's General Investment Consultant, replacing Hewitt EnnisKnupp, an Aon company (HEK).

**Discussion**

The commencement date of the attached agreement is November 1, 2013, for an initial annual fee of \$275,000 payable quarterly, subject to annual increases. If approved by the Board at today's meeting, staff will provide HEK with a 30 day notice pursuant to the terms of its agreement with VCERA. This will provide a small overlap for the transitioning of consulting and reporting services. HEK's last monthly report will be for the Month of October 2013, and last quarterly report for the period of July 1 to September 30, 2013. NEPC's first monthly report will be for the month of November 2013, with its first quarterly report for the period of October 1 to December 31, 2013.

This Board letter and the attached agreement have been reviewed by Board Counsel and VCERA's Chief Financial Officer. NEPC has provided evidence of insurance coverage.

**Fiscal Impact**

VCERA has a current (January 1, to December 31, 2013) contract with HEK at an annual cost of \$244,200 (or a monthly cost of \$20,350) payable in advance quarterly. In the event of termination, quarterly consulting fees shall be prorated up to and including the effective date of termination with any unearned portion of such fee refunded to VCERA. The proposed agreement with NEPC, commencing November 1, has an initial annual cost of \$275,000 (or a monthly cost of \$22,917).



**APPROVAL AND EXECUTION OF THE NEPC INC.  
INVESTMENT CONSULTING AGREEMENT**

October 21, 2013

Page 2 of 2

Investment costs are not subject to the annual administrative budgeting process; however, the costs for fiscal year 2013-14 are anticipated to be \$278,978 (\$95,645 for HEK and \$183,333 for NEPC).

**Recommendation**

Staff recommends authorizing the Chair to execute the attached letter of agreement by NEPC and would be happy to answer any questions you may have.

Sincerely,



Donald C. Kendig, CPA  
Retirement Administrator

Attachment



MICHAEL P. MANNING, CFA, CAIA  
MANAGING PARTNER

October 21, 2013

William W. Wilson  
Chairman of the Board  
**Ventura County Employees' Retirement Association**  
1190 South Victoria Ave  
Suite 200  
Ventura, CA 93003

**RE: Ventura County Employees' Retirement Association Letter of Agreement**

Dear Chairman Wilson:

This letter will serve as the letter of agreement ("Agreement") between NEPC, LLC ("NEPC" or "Consultant") and Ventura County Employees' Retirement Association ("VCERA" or the "Client") for consulting services provided by NEPC. The assets of the Client with respect to which services will be provided by NEPC under this Agreement are referred to herein as the "Account".

1. Consulting Services. Consulting Services provided by NEPC shall include:
  - a. advice with respect to the establishment or refinement of an investment policy and its periodic review thereafter;
  - b. liability-based asset allocation studies every three to five years (the length of a typical planning cycle), presented in the format normally utilized by NEPC for its other clients or in any other format agreed upon by the parties;
  - c. asset-based asset allocation studies, as reasonably requested, presented in the format normally utilized by NEPC for its other clients or in any other format mutually agreed upon by the parties;
  - d. manager and custodian searches, as reasonably requested;
  - e. advice with respect to alternative strategies, defined as hedge fund-of-funds, private equity fund-of-funds, and real estate funds (but not direct investment in hedge funds or private equity funds). Services provided include quarterly reporting, due diligence reviews, monitoring and manager searches (it being understood that for funds-of-funds, analysis is conducted at the fund-of-funds level and will not generally include a direct review of underlying funds);
  - f. the ongoing provision of quarterly Investment Performance Analysis ("IPA") Reports, presented in the format normally utilized by NEPC for its other clients or in any other format mutually agreed upon by the parties; and
  - g. monthly meetings with the Board, excluding August, at the time and place designated by the Board for its Business Board meeting, and once annually for its



full-day Investment Retreat. Consultant agrees that Consultant shall include twelve (12) on-site visits to Ventura, California for the purpose of attending these meetings per calendar year over the term of this Agreement as requested by the Board or VCERA Retirement Administrator as part of its standard service and shall not receive any additional compensation therefor.

2. Responsibility of Consultant. The Consultant shall have no responsibility or authority to (i) manage or in any way direct the investment of any assets of VCERA or (ii) enter into any agreement with any investment manager on behalf of, or otherwise bind, VCERA. Nothing contained herein shall require VCERA to engage any investment manager recommended by the Consultant or to follow any advice provided by Consultant. Consultant has no responsibility for voting any proxies solicited by or with respect to issuers of securities in which the assets of VCERA may be invested from time to time. Consultant has no responsibility for the selection of brokers or dealers to effect transactions in the VCERA account.
3. Disclosures Acknowledgement. The Client acknowledges receipt of both NEPC's disclosure statement on Form ADV Part 2 and NEPC's disclosures required by Section 408(b)(2) of ERISA prior to the date of the execution of this Agreement.
4. Effective Date. This Agreement shall be effective on November 1, 2013.
5. Fees. The annual fee will be:
  - a. Year 1: \$275,000 (equivalent for billing purposes to \$68,750 per quarter).
  - b. Year 2: \$283,000 (equivalent for billing purposes to \$70,750 per quarter).
  - c. Year 3: \$290,000 (equivalent for billing purposes to \$72,500 per quarter).
  - d. Year 4: \$300,000 (equivalent for billing purposes to \$75,000 per quarter).
  - e. Year 5: \$310,000 (equivalent for billing purposes to \$77,500 per quarter).
  - f. The total fees paid through Year 1 to 5 will be \$1,458,000.
  - g. Advice on alternative assets (as described in section 1) is included in this fee.
  - h. Should no fee agreement be reached for years subsequent to Year 5, and no notice of termination be provided, subsequent fees will be \$310,000 (equivalent for billing purposes to \$77,500 per quarter).
  - i. Fees will be billable quarterly, in arrears, net 30, on February 1, May 1, August 1, and November 1.
6. Travel, postage, and related expenses are included in the fee, unless NEPC is required to make more than twelve (12) on-site visits per calendar year over the term of this Agreement. If that occurs, NEPC shall be entitled to additional compensation on a time and expense basis, not to exceed \$ 2,000 per on-site visit. NEPC shall not be entitled to additional compensation for meetings held by conference call, regardless of number.



7. Confidentiality. All work and activities conducted by NEPC for the Client shall be strictly confidential, and NEPC shall in no instance discuss the Client's Account with the press or any other unaffiliated party, unless expressly authorized by the Client, provided that NEPC may identify the Client as an NEPC client in routine marketing material and may disclose the Client's information to the extent required by law or for regulatory compliance purposes. The Client hereby expressly authorizes NEPC to disclose to the press or any other unaffiliated party the current portfolio allocations, current or prospective manager searches, and anticipated asset allocation shifts, if any. The Client will refer all prospective investment industry service providers to NEPC, and NEPC will determine whether to consider such service providers for potential incorporation into VCERA's investment program.

The Client acknowledges that certain of the services NEPC offers and/or provides to the Client and other clients require the use and anonymous disclosure of client data, including portfolio performance and trading data ("Client Data"), in connection with the pooling of Client Data of clients of InvestorForce to form a performance universe (the "Performance Universe"). The Performance Universe is made available to clients of InvestorForce. The Client agrees that NEPC shall be deemed the owner of any Client Data relating to the Client that is pooled, or prepared by NEPC for pooling, in the Performance Universe.

The Client acknowledges and agrees that studies, analyses, reports and other materials and information provided by NEPC pursuant to this Agreement constitute proprietary data of NEPC and are being provided exclusively for use by the Client. The Client shall not disseminate or disclose any such materials or information, except as required by law or for regulatory compliance purposes or to the Client's custodians, auditors, counsel, other authorized representatives or underlying participants and beneficiaries.

NEPC acknowledges and agrees that the Client is a public agency subject to state laws, including without limitation, the California Public Records Act (California Gov. Code Sec. 6250, et seq.) and the Ralph M. Brown Act (California Gov. Code Sec. 54950 et seq.), and any regulations promulgated thereunder, as the same may be amended from time to time. Further, NEPC acknowledges that the eleven (11) Board meetings and one (1) annual full-day Investment Retreat are public meetings, and all materials presented will be considered public documents, subject to posting on the Client's website and distribution upon request, and that NEPC will not willfully provide any information in the public documents considered to be proprietary data subject to the restrictions enunciated in the previous paragraph.

8. Client Acknowledgement. The Client acknowledges and agrees that:
  - a. NEPC has not made and cannot make any promise, guarantee or other statement or representation regarding the future investment performance of the VCERA investments;



- b. the past performance of the accounts of other clients of NEPC is not necessarily indicative of the future performance of the VCERA investments;
- c. in the performance of its services under this Agreement, NEPC shall be entitled to rely on information furnished by investment managers, it being understood that NEPC shall have no liability for the accuracy or completeness of any information furnished or representation made by the investment managers, provided NEPC conducted due diligence and evaluation of such investment managers with reasonable care;
- d. to the extent permitted by applicable law, NEPC will not be liable for any losses or expenses incurred as a result of any action or omission by an investment manager, custodian or unrelated third party; and
- e. for all purposes of this Agreement, NEPC shall be deemed to be an independent contractor and shall have no authority to act for or represent VCERA in any way except as set forth expressly herein and shall not otherwise be deemed to be an agent of VCERA. Nothing in this Agreement may be interpreted or construed to create any employment, partnership, joint venture or other relationship among NEPC and VCERA.

9. Client Representations. The Client represents and warrants to NEPC that:

- a. the Client is duly organized, validly existing and in good standing under the laws of its jurisdiction of formation. The Client has full power and authority to execute and deliver this Agreement and to perform its obligations under this Agreement;
- b. this Agreement has been duly authorized, executed and delivered by the Client and constitutes its valid and binding obligation, enforceable in accordance with its terms, except that the enforceability thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights and (ii) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law);
- c. no consent, approval, authorization or order of, or declaration or filing with, any government, governmental instrumentality or court or other person is required for the performance by the Client of its duties hereunder, except such as have been duly made or obtained;
- d. neither the execution and delivery of this Agreement, nor fulfillment of the terms hereof, will violate or result in a default under the Client's constituent documents, or any other contract or agreement to which it is a party or by which it or its assets may be bound, or any statute or any rule, regulation or order of any government agency or body;
- e. the Client is not in material violation of any federal or state securities law or regulation promulgated thereunder; and



- f. no funds in the Client's Account are, directly or indirectly, derived from activities that contravene U.S. federal and/or state laws and regulations, including anti-money laundering laws, or the anti-money laundering laws of any other jurisdiction. The Client acknowledges that NEPC may request such additional information and/or documentation from the Client as is deemed necessary, in the sole discretion of NEPC, in order to comply with U.S. or other applicable anti-money laundering law. Should the Client refuse or fail to submit and verify all requested identifying information and/or documentation, NEPC may terminate this Agreement upon notice to the Client. The Client acknowledges and agrees that NEPC may disclose the Client's identity to the extent required by applicable anti-money laundering laws and regulations or orders of any government agency or body.

The representations and warranties set forth in this Section 9 shall be continuing during the term of this Agreement and if at any time any event shall occur that could make any of the foregoing representations or warranties incomplete or inaccurate, the Client shall promptly notify NEPC of the occurrence of the event causing such incompleteness or inaccuracy.

10. Consultant Representations and Warranties. Consultant makes the following representations and warranties, which are agreed to be material to and form a part of the inducement for this Agreement, and shall immediately notify VCERA in writing in the event that any of the representations and warranties contained herein cease to be true:

- a. Consultant has the expertise, support staff and facilities necessary to provide the services described in this Agreement;
- b. Consultant provides full service investment consulting services to clients with aggregate assets totaling at least \$5 billion;
- c. Consultant has been in business at least three (3) years as of December 31, 2012
- d. The Primary Consultant has a minimum of seven (7) years' experience providing investment consulting services to public and/or private pension plans, the last three years of which have been with Consultant, and possesses the skills of a seasoned investment consultant with at least 7 years of actual investment consulting experience. Therefore, over and above, and in addition to, Consultant's fiduciary obligations as provided for under this Agreement, the Primary Consultant shall at all times exercise at least that degree of care and competence as would a seasoned investment consulting professional with at least 7 years of actual investment consulting experience;



- e. Consultant has at least three (3) public pension fund clients, one of which has assets in excess of one (1) billion U.S. dollars as of December 31, 2012;
  - f. Consultant is registered as an investment advisor under the Investment Advisers Act of 1940 and shall maintain such registration at all times during the term of this Agreement;
  - g. Consultant has completed, obtained and performed all registrations, filings, approvals, authorizations, consents or examinations required by any government or governmental authority, including the State of California, for acts contemplated under this Agreement;
  - h. Consultant does not have any actual or potential interests adverse to VCERA nor does Consultant represent a person or firm with an interest adverse to VCERA with reference to the subject of this Agreement; and
  - i. Consultant shall diligently provide all required services in a timely and professional manner in accordance with the terms and conditions stated in this Agreement.
  - j. Soft Dollar Arrangements. Consultant confirms and covenants that there will not be any "soft dollar and directed brokerage arrangements" as defined in California Gov't Code §6930(b) in connection with this Agreement and its services hereunder.
11. Standard of Care. Consultant hereby represents and warrants to, and agrees with, VCERA that the Consultant is an "investment manager," a manager of public investments, and a "fiduciary," under the applicable law of the State of California, including without limitation the County Employees Retirement Law of 1937 (Cal. Gov't Code §§31450 et seq.), the Political Reform Act (Cal. Gov't Code §§ 87100 et seq., 87200 et seq.) and regulations promulgated thereunder and Article XVI, sec. 17 of the California Constitution (collectively, "California Law"), with respect to the Account. Consultant will conduct itself in accordance with the applicable standards under California Law, that it will provide services under this Agreement in a skillful and competent manner in accordance with the acceptable industry standards for professional investment consultants and shall perform all duties hereunder in accordance with the fiduciary standard required of VCERA's Board members, as provided in Government Code Section 31595.
12. Assets External to Account. The Client acknowledges and agrees that the assets of the Account may not constitute all of the assets of the Client and, therefore, NEPC cannot be and is not responsible for providing advice or services (including with respect to the diversification of assets) with respect to any assets or investments of the Client not expressly covered by this Agreement. The Client represents that all assets of VCERA as of November 1, 2013 are the assets of the Account and that there are no external assets that VCERA is managing outside of the consultant relationship. The Client agrees that the only responsibility that NEPC shall have with respect to diversification



of Client assets shall be to diversify the assets of the Client's Account as required by any investment guidelines communicated to NEPC by the Client, without regard to, or consideration of, any other assets which may be held by the Client. In the event that VCERA acquires or otherwise causes assets to be managed outside the Account subsequent to execution of this Agreement, Client agrees to identify such assets in writing, and such writing shall become an Amendment to this paragraph 12 of the Agreement upon consent of NEPC.

13. Rule 206(4)-2 and Use of Custodian. The parties acknowledge that Rule 206(4)-2 under the Advisers Act generally requires that all Client funds and securities in the Account be maintained by a "qualified custodian" (e.g., a bank that has deposits insured by the FDIC or a registered broker-dealer) in a separate account in the Client's name, such that NEPC does not take or receive physical possession of any cash, securities, financial instruments and other property (collectively "Securities") or other assets held in the Account. Having considered such requirements, the parties agree that:
- a. All Account assets with respect to which NEPC shall provide services under this Agreement will consist exclusively of Securities that are (i) held in one or more separate account(s) in the Client's name by a qualified custodian selected from time to time by the Client upon prior notice to NEPC, and in respect of which the qualified custodian provides to the Client a statement, at least quarterly, that indicates the amount of funds and of each asset in the account at the end of the period and sets forth all transactions in the account during that period, (ii) shares of open-end investment companies (i.e., mutual funds) registered under the Investment Company Act and (iii) privately placed, uncertificated securities of issuers that are not controlled by or otherwise affiliated with NEPC and that are transferable only with the consent of the issuer or its shareholders, and in respect of which the ownership is recorded solely on the books of the issuer or transfer agent thereof and in the Client's name only (such custodians, issuers or transfer agents acting in such capacity hereinafter referred to as the "Custodians"). NEPC will not at any time be required or requested to obtain any custody or possession (including transitory possession) of any such Securities, or of any cash, securities or negotiable instruments transferred or distributed at any time in connection therewith.
  - b. Sole responsibility for the safekeeping of the assets in the Account and for the consummation and settlement of all purchases, sales, deliveries and investments made pursuant to NEPC's authority under this Agreement shall rest upon the Custodians and shall be subject to any applicable agreements with the Custodians. NEPC is entitled to conclusively rely on the information contained in any statements from any Custodian and shall not be liable for any act or omission of the Custodians, including, without limitation, the accuracy of any Custodian's records with respect to the Account.
  - c. The Client recognizes and acknowledges that NEPC does not have custody of the assets of the Account under rule 206(4)-2 of the Advisers Act.





14. Limitations of Liability. Except to the extent prohibited by applicable law, including without limitation ERISA, NEPC, its officers, directors, employees and members (collectively the "NEPC Parties") shall not be liable to the Client, its trustees, or the Client's underlying participants or beneficiaries (collectively the "Client Parties") for any loss, liability, claim (whether made by a Client Party or by a third party), expense, damage or injury that arises in connection with this Agreement or with the provision of services to the Client by NEPC (collectively "Losses"), except to the extent such Losses are a direct result of NEPC's willful misconduct, negligence or violation of its fiduciary duty to the Client. For the avoidance of doubt, in no event shall the NEPC Parties be liable for any Losses attributable to the misconduct, negligence or fraud of investment managers or other third parties, or for indirect, incidental, consequential or punitive damages or any damages for lost profits or anticipated benefits, even if advised of the possibility of such damages.
  
15. Indemnification of Consultant. Except to the extent prohibited by applicable law, including without limitation ERISA, the Client shall indemnify, defend and hold harmless the NEPC Parties from and against any loss, liability, claim, expense, damage or injury (including, but not limited to, investigatory, legal or other expenses incurred in connection with, and any amount paid in, any settlement; provided that the Client shall have approved the terms of such settlement, such approval not to be unreasonably withheld) as incurred in connection with any demand, claim, lawsuit, action or proceeding relating to this Agreement or the provision of services to the Client by NEPC, unless a court of competent jurisdiction has determined in a non-appealable judgment that the conduct that was the subject of the demand, claim, lawsuit, action or proceeding constituted willful misconduct or negligence of NEPC, or a violation of its fiduciary duty to the Client. Further, except to the extent prohibited by applicable law, including without limitation ERISA, the Client shall indemnify, defend and hold harmless the NEPC Parties from and against any and all costs and expenses as incurred in connection with NEPC's response to subpoenas, investigations, audits and other inquiries made with respect to the Client by third parties (including without limitation attorneys' fees and other costs associated with reviewing and producing documents and other materials).
  
16. Indemnification of VCERA. Consultant agrees to indemnify, defend, and save harmless VCERA, its elected and appointed officials, its Board, its officers, agents and employees, and each of them, from and against any and all actions, claims, costs, demands, liabilities, losses, damages and expenses of any kind or character (including costs of defense, plus reasonable accounting and attorneys' fees) for injuries to persons, or damage to property, proximately caused by the negligence of Consultant or Consultant's officers, agents or employees. Consultant further agrees to indemnify, defend and hold harmless VCERA, its elected and appointed officials, its Board, its officers, agents and employees, and each of them, from and against any and all actions, claims, costs, demands, liabilities, losses, damages and expenses of any kind or character (including costs of defense, plus reasonable accounting and attorneys' fees) arising out of or in any way connected with any bad faith, violation of applicable law, negligent errors or omissions, willful misconduct, or material breach of this Agreement by Consultant or Consultant's officers, agents or employees in the provision



of services under this Agreement or any failure to perform in accordance with the standard required of a fiduciary as provided herein.

17. Investigations of VCERA. VCERA shall indemnify, defend and hold harmless the Consultant from and against any and all costs and expenses as incurred in connection with Consultant's response to subpoenas, investigations, audits and other inquiries made with respect to VCERA by third parties (including without limitation attorneys' fees and other costs associated with reviewing and producing documents and other materials).
18. Consultant Advice to Others. NEPC may act as investment consultant or advisor for others, and nothing in this Agreement shall in any way be deemed to restrict the right of NEPC to perform investment advisory, consulting or other services for any other person or entity, and the performance of such services for others shall not be deemed to violate or give rise to any duty or obligation to the Client or its trustees.

NEPC shall be permitted to give advice and take action with respect to the Client which differs from the advice made or recommended or actions taken with respect to such other accounts and clients even though the investment objectives may be the same or similar. NEPC shall not be obligated to give the Client treatment more favorable than or preferential to that provided to such other accounts and clients.

Nothing in this Agreement shall limit or restrict NEPC or any of its shareholders, officers, affiliates or employees from buying, selling, or trading in any securities for their own account or accounts. The Client acknowledges that NEPC and its shareholders, officers, affiliates and employees, and its other clients, may at any time have, acquire, increase, decrease, or dispose of positions in investments which are at the same time being acquired or disposed of for the account of the Client.

19. Conflicts of Interest. Consultant has read and is aware of the provisions of Section 1090 et seq. and Section 87100 et seq. of the Government Code relating to conflict of interest of public officers and employees. Consultant agrees that it is unaware of any financial or economic interest of any public officer or employee of VCERA relating to this Agreement. It is further understood and agreed that if such a financial interest does exist at the inception of this Agreement, VCERA may terminate this Agreement upon one day written notice to Consultant. Consultant and its officers, agents and employees shall comply with the requirements of Government Code Section 87100 et seq. during the term of this Agreement and understands, acknowledges and agrees that Consultant's staff providing services pursuant to this Agreement are required to file and shall timely file annual statements of economic interest pursuant to state law and VCERA's Conflict of Interest policy.

Consultant agrees that all of its directors, officers, employees and agents who provide services with respect to VCERA shall comply with applicable federal, state and VCERA Conflict of Interest and Placement Agent Disclosure requirements. Consultant represents and warrants that it has received and read a copy of VCERA's Placement Agent Policy adopted as of December 20, 2010 (the "Policy") and that it and all of its directors, officers, employees and agents who provide services with respect to VCERA are in full



compliance with such Policy. Furthermore, such parties shall comply with the Policy as it may be amended from time to time. Consultant acknowledges and agrees that it is an "External Manager" as such term is defined in the Policy. Consultant shall immediately notify VCERA in writing of any violation of the Policy or VCERA's Conflict of Interest policy.

Consultant shall not directly or indirectly receive any benefit from recommendations or advice made to VCERA and shall immediately disclose in writing to VCERA any investment or economic interest of Consultant that may be enhanced by the recommendations made to VCERA.

20. Termination. Except as provided in Section 9(f), this Agreement may be terminated at will by either party upon 30 days prior written notice. Fees and services will be prorated accordingly.
21. Applicability after Termination. The following Sections survive termination or expiration of this Agreement: 7, 8, 14, 15, 16, 17, 18, 21, 25, and 26. Any termination or expiration of this Agreement shall not represent a waiver of any rights or remedies previously accrued.
22. Insurance. At Consultant's sole cost and expense, Consultant shall obtain, and keep in force at all times during this Agreement, the following policies of insurance:
  - a. Workers' Compensation Insurance. Consultant shall submit written proof that Consultant is insured against liability for workers' compensation in accordance with the provisions of Section 3700 of the California Labor Code.
  - b. Commercial General Liability Insurance, including, but not limited to, Contractual Liability Insurance (specifically concerning the indemnity provisions of this Agreement), Personal Injury (including bodily injury and death), and Property Damage for liability arising out of Consultant's performance of work under this Agreement. Such insurance coverage shall have minimum limits for bodily injury and property damage liability of One Million Dollars (\$1,000,000) each occurrence and Five Million Dollars (\$5,000,000) in aggregate, and a deductible of not greater than Twenty Thousand Dollars (\$20,000).
  - c. Automobile Liability Insurance against claims of Personal Injury (including bodily injury and death) and Property Damage covering all owned, leased, hired and non-owned vehicles used in the performance of services pursuant to this Agreement with minimum limits for Bodily Injury and Property Damage liability of One Million Dollars (\$1,000,000) per occurrence and Five Million Dollars (\$5,000,000) in aggregate, and a deductible of not greater than One Thousand Dollars (\$1,000). Such insurance shall be provided by a business or commercial vehicle policy.



- d. Professional Liability (Errors and Omissions) Insurance, for liability arising out of, or in connection with, the performance of all required services under this Agreement, with limits of not less than Ten Million Dollars (\$10,000,000) in aggregate and a deductible of not greater than One Million Dollars (\$1,000,000).

If any of the insurance coverage required under this Agreement are written on a claims-made basis, the insurance policy shall provide an extended reporting period of not less than (i) one (1) year following the completion of all work performed by Consultant specified in this Agreement or (ii) the period of time during which any applicable statute of limitations remains unexpired, whichever is later.

All insurance shall be issued by a company or companies listed in the current "Best's Key Rating Guide" publication with a minimum of an "A / VII" rating with a "stable" or better outlook. Unless otherwise specified elsewhere in this section, all insurance coverage required to be maintained by Consultant shall be maintained until the completion of all of Consultant's obligations under this Agreement, and (except Professional Liability and Auto Liability) shall contain a provision expressly stating that the scope of coverage or limits provided thereunder shall not be reduced, modified, or canceled without thirty (30) days prior written notice to VCERA. Failure by Consultant to maintain all such insurance in effect at times required by this Agreement shall be a material breach of this Agreement by Consultant. VCERA, at its sole option, may terminate this Agreement and obtain damages from Consultant resulting from such breach. Alternatively, VCERA may purchase such required insurance coverage, and without further notice to Consultant, VCERA shall deduct from sums due to Consultant any premiums and associated costs advanced or paid by VCERA for such insurance. If sums due Consultant pursuant to this Agreement are insufficient to reimburse VCERA for the premiums and any associated costs, Consultant agrees to reimburse VCERA for the premiums and pay for all costs associated with the purchase of such insurance.

Insurance coverage in the minimum amounts set forth herein shall not be construed to relieve Consultant for any liability, whether within, outside, or in excess of such coverage, and regardless of solvency or insolvency of the insurer that issues the coverage; nor shall it preclude VCERA from taking such other actions as are available to it under any other provision of this Agreement or otherwise in law.

23. Totality of Agreement. This Agreement represents the entire agreement among the parties, shall be binding upon and inure to the benefit of the parties hereto and their respective successors. Neither party shall assign this Agreement within the meaning of the Advisers Act, without the consent of the other party. The Client hereby acknowledges that NEPC expects that its current and future employees will, over time, increase their ownership stakes in NEPC pursuant to equity incentive arrangements



adopted by NEPC. This future change in ownership may be deemed to constitute an assignment of this Agreement for purposes of the Advisers Act; however, by executing this Agreement, the Client hereby consents to any such assignment by NEPC.

Except as otherwise expressly provided herein, this Agreement shall not be amended nor shall any provision of this Agreement be considered modified or waived, unless evidenced by a writing signed by the party to be charged with such amendment, waiver or modification.

24. Interpretation. For purposes of construction and interpretation this Agreement shall be deemed to have been mutually drafted by the parties hereto and shall not be construed against any one party. In the event that there are any inconsistencies or ambiguities between the terms of this Agreement and the incorporated documents, the following precedence shall be used to interpret this Agreement's requirements:
  - a. Applicable state laws.
  - b. Terms and conditions of this Agreement, including any exhibits.
  - c. VCERA's Request for Proposal.
  - d. Consultant's response to VCERA's Request for Proposal, dated April 16, 2013.
  - e. Any other provisions, terms or materials incorporated herein by reference or otherwise incorporated herein.
25. Applicable Law. This Agreement, in its interpretation and services performed hereunder, shall be governed by the laws of the County of Ventura and the State of California.
26. Venue. If either party to this Agreement initiates any legal or equitable action to enforce the terms of this Agreement, to determine the rights, obligations and/or duties of the parties under this Agreement, or which relates to this Agreement in any manner, VCERA and Consultant agree that the proper venue for any such action shall be the Superior Court of the State of California, in and for the County of Ventura.
27. Severability. If any provision of this Agreement, or the application of any provision to any person or circumstance, shall be held to be inconsistent with any present or future law, ruling, rule or regulation of any court or governmental or regulatory authority having jurisdiction over the subject matter hereof, such provision shall be deemed to be rescinded or modified in accordance with such law, ruling, rule or regulation, and the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it shall be held inconsistent, shall not be affected thereby.



28. Counter Parts. This Agreement may be signed in any number of counterparts. Any single counterpart or a set of counterparts signed in either case by the parties hereto shall constitute a full and original agreement for all purposes.

NEPC, LLC

By:   
Michael P. Manning, CFA, CAIA  
Managing Partner

Acknowledged and agreed as of the date first written above:

Ventura County Employees' Retirement Association

By: \_\_\_\_\_  
William W. Wilson  
Chairman 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 21, 2013

Board of Retirement  
Ventura County Employees' Retirement Association  
1190 South Victoria Avenue, Suite 200  
Ventura, CA 93003-6572

Subject: Conference Report

Dear Board Members:

On September 25 and September 27, I attended the Opal Investment Trends Summit in Santa Barbara. Because of our Board's Investment Retreat on September 26, I was unable to attend the conference that day.

From my perspective, the attendance was disappointingly small. Throughout the conference, there were only 140 attendees, of whom 60 were presenters, and not all attendees attended every session. Also, I recognized very few attendees from 1937 Act counties.

There was a presentation addressing direct investing in private securities. These investments may comprise equities, equity-linked securities, debt, and limited liability partnerships, among others. The speaker opined that private securities have historically generated significant returns, but that the private placement process is highly inefficient, and there is a need for new technology. He pointed out that the JOBS Act had a significant impact on private markets, some of which flowed from new regulations thereunder; in particular, the ability of parties interested in securing investors to engage in wider solicitation than previously allowed.

Another presentation pertained to the challenges public retirement funds are now facing, not the least of which involves the fixed income market. That is, these funds need to prepare for an increase in interest rates. One means is to watch durations of bonds. The good news is that, as interest rates rise, unfunded liability will decrease. It was pointed out that many investment managers are interested in performance fees, but the problem lies in the selection of an appropriate benchmark from which to measure outperformance. On the issue of fees, one presenter suggested that public funds should use video conferencing as a means of reducing fees, since fees include the cost of travel. Another presenter noted that fees for index funds are lower than for active management, and that index funds are great in up markets, but active management is better in down markets. Accordingly, a mix of both in a portfolio is a valid strategy.

There was a very interesting presentation about convertible bonds (CBs), which can be converted into the stock of the company issuing them, and the benefit of investing in such bonds. However, in evaluating the returns, one must look at full market cycles. The presenter opined that CBs provide absolute returns, with a higher yield than equities. These returns derive from capital appreciation, capital preservation, and the fact that the value of CBs increases as interest rates rise.

In a discussion of investment styles and strategies, it was opined that finding alpha was difficult, that there was a move towards more transparency in the private equity market because of the demands of investors, and that fees of 2 & 20 were hard to justify. One of the speakers encouraged engaging in interest rate arbitrage and using leverage as a means of enhancing a portfolio's returns. He also suggested investing in what I think he described as "Bank Capitalization Trade" in Europe, which involves insured high quality loans.

The next topic was hedge funds (HFs), and it was not a particularly positive presentation. Questions were raised about whether the limited partner is earning enough to compensate for the negatives of a HF and the myth of diversification. In 2008, it was found that HFs were not really hedged. It was made clear that that, when electing to invest in HFs, one had to "do the work," including "getting under the label" to determine if the investment is equity, bond or long-short, etc. A suggestion was to look at the five worst years of the market during which the HF existed, and overlaying the HF strategy to see how it did. It appears that fees for many HFs are going down, although not for any major funds, although fees may not ultimately matter if the investor's goals are achieved.

Board of Retirement

P.2

September 25 ended with a presentation of asset allocation strategies. It was opined that there is a new "normal", including being forward looking and driven by macroeconomics, a focus on risk factor diversification, a focus on secular and cyclical investment horizon, and seeking to explicitly hedge "fat tail risk". Further, asset allocation must be variable; not constant, so that losses are "cushioned" in a crisis, and an investor must always be skeptical.

September 27 was a short day. It began with a discussion of risk management, including regulatory issues, domestic and offshore risk, avoiding fraud, allocating to new asset classes, due diligence, disclosure and liability, and how all of these were intertwined.

The subject then moved on to outsourced Chief Investment Officers (OCIOs), with differing views as to efficacy of utilization. The topic was somewhat blurred because the moderator and one of the panelists represented single and multi-family offices who manage investments for very wealthy individual and families, and whose goals may differ from those of a pension fund. Another of the panelists was a representative of NEPC. He talked about how NEPC operates as an OCIO, and emphasized that they have no investment products, so as to avoid any potential conflict. There appears to have been a rush of companies into the OCIO space, but the anticipation is there will be fallout. In selecting an OCIO, the investor must be sure there is objectivity and freedom from conflicts of interest. The advantage of an OCIO is efficiency and speed of action, which enables opportunistic and tactical investment strategies. However, it is difficult to measure comparative performance of OCIOs because asset allocations vary among clients.

Subsequently, there was an investor/consultant roundtable. One of the participants was Don Stracke, who will be the lead consultant when NEPC becomes VCERA's investment consultant. The consensus was that investors and their consultants needed to be proactive, consultants needed to avoid conflicts of interest, and consultants should not be reluctant to make recommendations because that is what they are paid to do. It was also pointed out that client dynamics affect how a consultant carries out its responsibilities.

The final presentation was on fiduciary education and orientation of new trustees. The panelists agreed there needed to be formalized orientation programs for trustees if they are to be effective. Both new and veteran trustees can benefit from continuing education regarding trustee fiduciary and investment responsibilities. In Florida, there is a public pension trustees association that provides continuing education requiring testing on the curriculum, and issues certifications to trustees. It is a large association, considering that, in Florida, there are 492 defined benefit municipal and special district retirement plans sponsored by 239 local governments, and one state plan. The local government plans have 175,719 members and have combined assets totaling \$24 billion, which appears to be a pretty small amount for so many members.

In closing, although I believe the conference provided relevant information, it was generally difficult to hear most of the speakers, since they seemed to be talking to each other rather than at the microphones and to the audience. Additionally, the slides were difficult to read, and there were no handouts. Opal had an application for iPads but, when I signed on, I found there was only the program agenda and bios for the speakers, but none of the slides so, from my perspective it had little utility. In my opinion, Opal could have done better.

Respectfully,

A handwritten signature in black ink, appearing to read "Arthur E. Gault". The signature is written in a cursive, somewhat stylized font.

Trustee



# 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 21, 2013

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

**SUBJECT: REQUEST TO ATTEND THE PUBLIC PENSION FINANCIAL FORUM IN  
SCOTTSDALE, ARIZONA**

Dear Board Members:

**Background**

The Board Education and Travel policy provides that approval for travel by a Board or staff member to an educational meeting, conference or seminar shall be made in an open meeting of the Board, except for attendance at SACRS, or in the case of an overnight stay for a staff member or one-day meetings held within the state, attended by staff or the Board's legal advisor, where the Retirement Administrator may approve the travel.

**Discussion**

I request approval for Henry Solis, Chief Financial Officer, to attend Public Pension Financial Forum in Scottsdale, AZ. Please see the attached agenda. The conference provides an educational focus on three areas: general accounting, investment accounting and employer reporting. The general accounting will focus primarily on the implementation of GASB 67 and 68 financial reporting standards that will affect financial statements of pension plans and plan sponsors. It is important to understand the impact of both standards on the respective financial statements as coordination with plan sponsors will be important when implementing the standard for VCERA. Although Henry's participation will be primarily focused on the general accounting track, several topics in the investment accounting track will be presented that educate in understanding and properly accounting for the various investments currently in our plan. The conference is scheduled for October 27 – 30, 2013, in Scottsdale, Arizona, and will provide 30 hours of continuing education toward the maintenance of his Certified Public Accountant status.

In the Education and Travel policy, the Board established a standard whereby attendance at educational meetings, conferences and seminars will be approved only if the agenda for the event contains an average of five (5) hours of substantive educational content per day. This conference request complies with the policy requirement.

**REQUEST TO ATTEND THE PUBLIC PENSION FINANCIAL FORUM IN SCOTTSDALE, AZ**

October 21, 2013

Page 2 of 2

**Fiscal Impact**

The estimated cost for Henry's participation is approximately \$1,900, which includes: airfare \$434, registration \$500 (Conference and Pre-Conference), hotel \$640, and mileage, meals & incidentals \$300.

Sufficient budgetary appropriations for the proposed educational conference are provided for in the Fiscal Year 2013-14 VCERA Budget within Conference, Seminar and Travel.

This Board letter and attachment have been reviewed by Board Counsel and VCERA's Chief Financial Officer. Staff recommends the Board's approval and would be pleased to respond to any questions you may have on this matter.

Sincerely,



Donald C. Kendig, CPA  
Retirement Administrator

Attachment

**Celebrating  
the Past -**



**Blazing Trails  
Into the Future**



**Public Pension  
Financial Forum  
10th Annual Conference  
Scottsdale, Arizona  
October 27 - 30, 2013**

# CONFERENCE INFORMATION

## ATTIRE

Business casual attire is appropriate for the conference. We encourage wearing comfortable shoes. Meeting room temperatures vary; we recommend you bring a sweater or jacket for sessions and evening events, some of which will be held outdoors. Western wear is encouraged Monday night at MacDonald's Ranch.

## SPECIAL ASSISTANCE

When you check-in at the conference, please make any special requests for assistance known with the greeters at the conference registration table.

## SPECIAL DIETARY REQUESTS

P2F2 does its best to accommodate special meal requests. Attendees who notify us about food allergies or dietary restrictions when they send in their registration will be provided a meal based on their dietary needs. Because these meals are ordered before the conference, special meal requests received onsite cannot be guaranteed; however, we will make every attempt to accommodate you.

## PEOPLE WITH DISABILITIES

If you require special assistance to fully participate in this event, please inform Dave DeJonge at (651) 201-2641 or via email at [dave.dejonge@mnpera.org](mailto:dave.dejonge@mnpera.org). Any information regarding your disability will remain confidential. Accommodations may require early planning, so please make your requests known as soon as possible.

## POWERPOINT PRESENTATIONS

Presentations will be available on the P2F2 website ([www.p2f2.org](http://www.p2f2.org)) before the conference. Registrants will have access to Wi-Fi in sleeping and meeting rooms. Hard copies will not be distributed at the conference.

## REGISTRANT LIST

Registration lists are provided as a service for conference attendees, offering a convenient way to network with colleagues. The information may not be used for any promotional purposes. A list of attendees will be included in the registration materials.

## P2F2 MEMBERSHIP/CONFERENCE FEE

P2F2 membership is open to any employee of a public pension system. The 2014 membership fee of \$150 can be paid with your registration fee.

The conference fee for P2F2 members is \$275 if registered on or before September 30, 2013 and \$350 if registered after September 30.

The conference fee for government employees who are not P2F2 members is \$350 if registered on or before September 30 and \$425 if registered after September 30.

The conference fee for non-government (corporate) attendees is \$3,000 if registered on or before September 30 and \$3,500 if registered after September 30.

The P2F2 Registration Form is found at [www.P2F2.org](http://www.P2F2.org).

## CANCELLATION POLICY

Refunds will be issued upon written notification received on or before October 18, 2013. Refund requests received after October 18 will be honored, but will be subject to a \$75 late cancellation penalty. Please address your cancellation request to: Nancy Mikola c/o OPERS, 277 E. Town St., Columbus, OH 43215 or via email at [nmikola@opers.org](mailto:nmikola@opers.org).

## NO SMOKING POLICY

For the comfort and health of all attendees, smoking is not permitted.

## RESPONSIBLE DRINKING POLICY

Networking at receptions and social events is important. However, attendees are encouraged to remember P2F2 is a professional, not a social, organization. Attendees who choose to drink are encouraged to drink responsibly. Nonalcoholic beverages will be provided at all functions. Alcohol will not be served to anyone under 21.

## CELL PHONE/PDA POLICY

As a courtesy to speakers and other attendees, please refrain from using cell phones and/or other communication devices during presentations. Kindly turn off your phone/PDA or set it to vibrate, and leave the session if you need to answer a call.

# HOTEL INFORMATION

## CHAPARRAL SUITES RESORT OF SCOTTSDALE

5001 N. Scottsdale Road | Scottsdale AZ 85250 | ph. 480.949.1414

<http://www.chaparralsuites.com>



## ABOUT THE HOTEL

Whether your travels are for business or vacation, Chaparral Suites Scottsdale offers a respite in the desert, accommodations that are both luxurious and comfortable, set in the ambience of lush courtyards, sparkling pools and cascading fountains. Located in the heart of Scottsdale, the hotel is only minutes from the best that Scottsdale has to offer - Fashion Square Mall, Native American and Southwestern curio shops, art galleries, and Old Town Scottsdale, where the Old West meets the New West.

Take a virtual tour of Chaparral Suites Scottsdale at: [www.chaparralsuites.com](http://www.chaparralsuites.com).

## HOTEL RATES & RESERVATIONS

### Room Rate:

\$139 + 14.92% tax  
(single/double occupancy)

### Reserve Your Room:

**Discounted rate is valid until 10/4/2013**

By phone: (800) 528-1456

Ask for the "Public Pension Financial Forum" block.

Online: [www.tinyurl.com/P2F2Hotel2013](http://www.tinyurl.com/P2F2Hotel2013)

The link above has all discount codes already entered in the appropriate fields.

## DINING

You don't have to travel far to find a great meal when you stay at Chaparral Suites Scottsdale. Whether you are in the mood for a crisp salad, fall-off-the-bone ribs or the Southwestern Salmon (our owner's favorite), our extensive menu has just what you want. Be sure to follow your dinner with the tempting desserts made by our in-house pastry chef!

The 4th Floor Grille is located on the fourth floor of Chaparral Suites Scottsdale. The restaurant is near the center of the hotel—just look for the bridge connecting the East and West complexes and you're almost there!

## HOTEL AMENITIES

- Two oversized heated pools and whirlpools
- Fitness center, Tennis court
- Business center
- Gift shop, dry cleaning service
- Wet bar, with microwave, refrigerator, coffee maker and in-room safe
- Complimentary full cooked-to-order breakfast daily
- Complimentary newspaper
- Complimentary evening reception
- Complimentary in-room wired and wireless Internet
- Complimentary parking



# SESSION SCHEDULE

SUNDAY, OCTOBER 27, 2013

7:30 a.m. - 6:00 p.m. | Registration Desk Open | Chaparral Conference Center West Foyer

## Pre-Conference Session:

9:00 a.m. - 11:50 a.m. **GASB 67/68 - Implementation** *OPERS & MERS* Main Ballroom

## Conference Sessions:

1:00 p.m. - 2:40 p.m. **NIRS Study on National Retirement Shortfall** *Diane Oakley* Main Ballroom  
 2:40 p.m. - 2:55 p.m. **Break** Foyer  
 2:55 p.m. - 3:45 p.m. **DC Plans** *Cathy Eitelberg* Main Ballroom  
 3:45 p.m. - 5:25 p.m. **Roll Call of the States** *Vince Prendergast and Michele Nix*  
 5:30 p.m. - 8:00 p.m. **Welcome Reception** Paloma Garden

MONDAY, OCTOBER 28, 2013

7:00 a.m. - 5:00 p.m. | Registration Desk Open | Chaparral Conference Center West Foyer

6:00 a.m. - 8:00 a.m. **Buffet Breakfast** Clubhouse  
 8:00 a.m. - 8:15 a.m. **Welcome** *Art Hewig, Dave DeJonge* Main Ballroom  
 8:15 a.m. - 9:55 a.m. **GASB 67/68 Update** *Michelle Czerkawski* Main Ballroom  
 9:55 a.m. - 10:10 a.m. **Break** North Foyer  
 10:10 a.m. - 11:50 a.m. **Shift Happens** *Rick Fungston* Main Ballroom  
 11:50 a.m. - 1:00 p.m. **Lunch** Paloma  
 1:00 p.m. - 1:50 p.m. **GASB Implementation Guide Update** *Michelle Czerkawski* Ballrooms  
**Private Equity Valuation** *TBD* Ballrooms  
**How to Communicate Difficult Messages** *Panel* Ballrooms  
**IRS Update** *TBD* Ballrooms  
 1:50 p.m. - 2:00 p.m. **Break - no refreshments**  
 2:00 p.m. - 2:50 p.m. **GASB Fair Market Value, New Exposure Drafts** *TBD* Ballrooms  
**FX Trading Cost** *Steve Glass* Ballrooms  
**Partnering with Employers to Drive Member Behavior** *TBD* Ballrooms  
**Fraud Prevention** *Paul Hall* Ballrooms  
 2:50 p.m. - 3:05 p.m. **Break with refreshments** North Foyer

# SESSION SCHEDULE

3:05 p.m. - 3:55 p.m. **GASB Roll Forward Process** *Jim Rizzo* Ballrooms  
**Unitization** *TBD* Ballrooms  
**Social Media** *Panel* Ballrooms  
 3:55 p.m. - 4:00 p.m. **Break - no refreshments**  
 4:00 p.m. - 4:50 p.m. **GASB - Special Funding Situations** *Michelle Czerkawski* Ballrooms  
**Soft Dollar Program** *TBD* Ballrooms  
**Social Media (continued)** *Panel* Ballrooms  
**Internal Controls** *Ken Kasper* Ballrooms  
 5:30 p.m. - 9:30 p.m. **Dinner & Entertainment at MacDonald's Ranch**

TUESDAY, OCTOBER 29, 2013

7:30 a.m. - 5:00 p.m. | Registration Desk Open | Chaparral Conference Center West Foyer

6:00 a.m. - 8:00 a.m. **Buffet Breakfast** Clubhouse  
 8:00 a.m. - 9:40 a.m. **Developing Funding Policies** *Paul Zorn* Main Ballroom  
 9:40 a.m. - 9:55 a.m. **Break with refreshments** North Foyer  
 9:55 a.m. - 11:35 a.m. **Ethics** *Marianne Jennings* Main Ballroom  
 11:35 a.m. - 1:00 p.m. **Lunch / P2F2 Business Meeting** Paloma  
 1:00 p.m. - 1:50 p.m. **GASB 67/68 Auditing Issues** *Jeff Markert* Ballrooms  
**Securities Lending** *Panel* Ballrooms  
**TBD** *TBD* Ballrooms  
 1:50 p.m. - 2:00 p.m. **Break - no refreshments**  
 2:00 p.m. - 2:50 p.m. **GASB SOC Audit** *Jeff Markert & Mary Folster* Ballrooms  
**Foreign Investments: Global Tax Compliance** *Danielle Clark & Tom Knoeller* Ballrooms  
**Working with Today's Media: Fundamentals** *Brad Ritter* Ballrooms  
 2:50 p.m. - 3:20 p.m. **Ice Cream Social** North Foyer  
 3:20 p.m. - 4:10 p.m. **GASB Implementation: Cost Sharing Plans** *Charlene Powell* Ballrooms  
**GASB Implementation: Agent Plans** *Luke Huelskamp* Ballrooms  
**Risk** *TBD* Ballrooms  
**Working with Today's Media: In Front of the Camera** *Brad Ritter* Ballrooms  
 4:10 p.m. - 4:15 p.m. **Break - no refreshments**  
 4:15 p.m. - 5:05 p.m. **Microsoft - Upcoming Technology** *TBD* Ballrooms  
**Excel - 50 Tips in 50 Minutes** *Karl Greve* Ballrooms  
**Performance Measurement** *TBD* Ballrooms  
**Deferred Inflows/Outflows** *Jeff Markert* Ballrooms  
**Dinner on your own** On Your Own

# SESSION SCHEDULE

WEDNESDAY, OCTOBER 30, 2013

7:30 a.m. - 3:30 p.m. | Registration Desk Open | Chaparral Conference Center West Foyer

6:00 a.m. - 8:00 a.m.	<b>Buffet Breakfast</b>		Clubhouse
8:00 a.m. - 8:50 a.m.	<b>Legislative Update</b>	<i>TBD</i>	Main Ballroom
8:55 a.m. - 9:45 a.m.	<b>Economic Update</b>	<i>TBD</i>	Main Ballroom
9:45 a.m. - 10:00 a.m.	<b>Break with refreshments</b>		
10:00 a.m. - 11:40 a.m.	<b>Tax Update</b>	<i>David Levine &amp; Mary Beth Braitman</i>	Main Ballroom
11:40 a.m. - 12:45 p.m.	<b>Lunch</b>		Paloma
12:45 p.m. - 1:35 p.m.	<b>Social Media - GASB Implications</b>	<i>Michael Pramik</i>	Main Ballrooms
1:40 p.m. - 3:20 p.m.	<b>Healthcare Update</b>	<i>Chris Sears</i>	Main Ballroom

## PUBLIC PENSION FINANCIAL FORUM

[www.p2f2.org](http://www.p2f2.org)

277 E. Town Street  
Columbus, OH 43215

518-447-2780  
[information@p2f2.org](mailto:information@p2f2.org)

# 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 21, 2013

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

## **SUBJECT: REQUEST FOR APPROVAL OF LEASE AMENDMENT**

Dear Board Members:

### **Background**

VCERA first entered into a lease in the existing building for 6,129 square feet effective March 1, 2002, for a term of five years. VCERA exercised its option to extend for an additional three years in February 2007. Subsequently, VCERA extended the lease for one additional year in December 2009, to allow the Board sufficient time to consider whether to purchase a building or continue to lease the existing premises. In March 2011, the lease was amended for a period of seven years for the existing 6,129 square feet plus an additional 1,649 square feet. Finally, in August 2012, the lease was amended to add an additional 972 square feet on the first floor, effective October 2012, specifically for the Pension Administration Project (PAS) team for three years with two one-year options to extend the lease.

### **Discussion and Analysis**

VCERA was notified by MF Daily that Suite 208 on the second floor was vacant and available pursuant to Section 6 – Right of First Offer of Amendment #3. This provision provides VCERA the first opportunity to consider any space that becomes available on the second floor. Further, this section states that in the first two years of the lease, any space on the second floor will be made available under the existing lease terms. After 24 months, the lease rent is based on fair market value.

Suite 106, where the PAS project team is currently housed, meets VCERA's immediate needs. What the space does not address is VCERA's long term space needs once the PAS project is implemented and completed. Once the project is completed, and the first floor space eliminated, the existing second floor space may be insufficient to meet our needs due to the additional staff approved by your Board.

## REQUEST FOR APPROVAL OF LEASE AMENDMENT

October 21, 2013

Page 2 of 3

In anticipation of this contingency, staff is proposing to secure Suite 208 and terminate Suite 106 for economy, efficiency and flexibility for future planning purposes. While Suite 208 is smaller than Suite 106 (835 square feet vs. 972), staff and the project team have determined that it would be satisfactory. The advantages of securing of space on the second floor are that the space is closer to the existing offices, enhancing communications, and allowing the PAS project team to continue to have the space they require for the duration of the project and secures control of adjacent space if, at the end of the project, it is determined that additional space is needed based on staffing levels at that time. If it is determined that additional space is not required, the lease for this suite would not be renewed. In addition, VCERA is obtaining in proposed lease the same terms as the master lease currently in place, lease costs would be slightly lower over the lease term, and at renewal, VCERA can opt out of this lease if it is determined that the additional space is no longer needed.

The term of the lease would be four years and four months with an effective date of December 1, 2013, aligned with our existing lease. The rate would be \$1.74, which is our current rate exclusive of Suite 106 (\$1.60). While the rate per square foot is higher, the total monthly lease cost would be \$1,452.90, a savings of approximately \$102 per month over the current lease payment. M.F. Daily would also be providing two month's free rent to help defray the cost of preparing and moving into this unit.

Staff estimates the cost to prepare this suite for occupancy at \$6,000. This includes costs to install wiring to access the County network, install telephone service, install wireless internet access, joining two offices and moving between the two suites. In July 2013, your Board approved \$3,000 for minor construction to remove a wall in Suite 106 in preparation for the additional resources that would be joining the PAS project in January 2014, which would be redirected to this suite. In addition, the savings from not paying two month's rent would be reallocated to cover the remaining expenditures of preparing and moving into this suite.

Alternatively, your Board can choose to remain in the existing suite, whereby staff will proceed and prepare Suite 106 as originally planned, and forego the opportunity to reserve additional space on the second floor closer to the main offices in the event such space is needed at a future date.

### **Fiscal Impact**

There would be an approximate net fiscal impact savings of \$400 to the FY 2013-14 budget from this action.

The lease appropriations would result in a net savings of approximately \$3,400 (two months free rent at \$1,452.90 per month, plus monthly savings of \$102 (or \$510 for five months) in the current fiscal year. This savings would be offset by the estimated costs of preparing the suite for occupancy and move in costs of approximately \$6,000, which



## REQUEST FOR APPROVAL OF LEASE AMENDMENT

October 21, 2013

Page 3 of 3

would be paid for from the lease savings of \$3,400 and \$3,000 currently included in the existing budget. The annual savings thereafter would be \$1,224 per fiscal year.

### Recommendation

Staff recommends the execution of the attached Fifth Amendment of Lease (Attachment 1) between M. F. Daily Corporation and the Ventura County Employees' Retirement Association.

This item has been reviewed by Board Counsel, and VCERA's Chief Financial Officer and Operations Manager. Staff would be happy to answer any questions you may have.

Sincerely,



Henry C. Solis, CPA  
Chief Financial Officer



Donald C. Kendig, CPA  
Retirement Administrator

Attachments

FIFTH AMENDMENT OF LEASE

This Fifth Amendment of Lease is made on October 21, 2013, between M. F. Daily Corporation, as authorized agent for the Landlord ("Landlord"), whose address is P. O. Box 151, Camarillo, California 93011-0151, and Ventura County Employees' Retirement Association ("Tenant"), whose address is 1190 South Victoria Avenue, Suite 200, Ventura, California 93003, who agree as follows:

1. Recitals. This Fifth Amendment of Lease is made with reference to the following facts and objectives:

a. Landlord and Tenant entered into a written lease dated December 4, 2001, First Extension of Lease dated February 28, 2007, Second Extension of Lease dated December 15, 2009, One Month Lease Extension dated January 26, 2011, Third Extension and Amendment of Lease dated March 29, 2011 and Fourth Amendment of Lease dated August 28, 2012 ("the Lease"), in which Landlord leased to Tenant, and Tenant leased from Landlord, premises located in the City of Ventura, County of Ventura, California, commonly known as 1190 South Victoria Building ("Premises").

b. Tenant requests to terminate the Lease for Suite 106 as of November 30, 2013, which was added in the Fourth Amendment of Lease.

c. Tenant desires to occupy Suite 208 with a Lease term of four (4) years and four (4) months with rental terms to align with the existing terms for Suite 200.

2. Monthly Rent. Commencing December 1, 2013, the monthly rent for Suite 208 shall be \$1.75, full service gross, per rentable square foot and shall be payable pursuant to the provisions of the Lease.

- Suite 205 (835 RSF) \$1,461.25 per month

3. Rent Abatement. Landlord grants two (2) months of free base rent, to be used for the first and second months (December 2013 and January 2014) of the Lease term to aid in the cost to VCERA for their move-in costs.

4. Rental Escalations. The monthly rental rate shall be increased annually by the Consumer Price Index ("CPI") (Anaheim, Long Beach, and Riverside index) with a floor of zero percent (0%) and maximum annual increase of three percent (3%), commencing December 1, 2014.

4. Option to Extend. Tenant shall have two (2), five (5) year options to extend the Lease. Tenant shall provide no less than six (6) months and no more than eight (8) months prior written notice to Landlord of its intension to extend the Lease. The rent for the option periods shall be equal to 95% of the then Fair Market Value ("FMV") in comparable buildings in the City of Ventura for renewal transactions. If Tenant and Landlord cannot agree upon the renewal terms and conditions, the three (3) appraiser system will be implemented.

5. Tenant Improvements. Landlord shall deliver the space in "as is" condition (Exhibit "A").

6. Parking. As a consideration for the Expansion Premises, Lessee's existing parking shall increase based on the Expansion Premises at a ratio of approximately four (4) spaces per 1,000 usable square feet for the term of the Lease and any extensions. Landlord shall allot an additional one (1) covered parking spaces in the basement of the building for the exclusive use of Tenant and its visitors.

7. Signage. Landlord, at Landlord's sole cost, shall provide Tenant building standard door signage and building directory signage for the Expansion Premises.

8. Termination of Existing Lease. The Lease obligations for Suite 106 will terminate on November 30, 2013.

9. Effectiveness of Lease. Except as set forth in this Fifth Amendment of Lease, all the provisions of the Lease and previous amendments thereto shall remain unchanged and in full force and effect.

TENANT

LANDLORD

VENTURA COUNTY EMPLOYEE'S  
RETIREMENT ASSOCIATION

M. F. DAILY CORPORATION,  
Authorized Agent

By: \_\_\_\_\_

By: \_\_\_\_\_

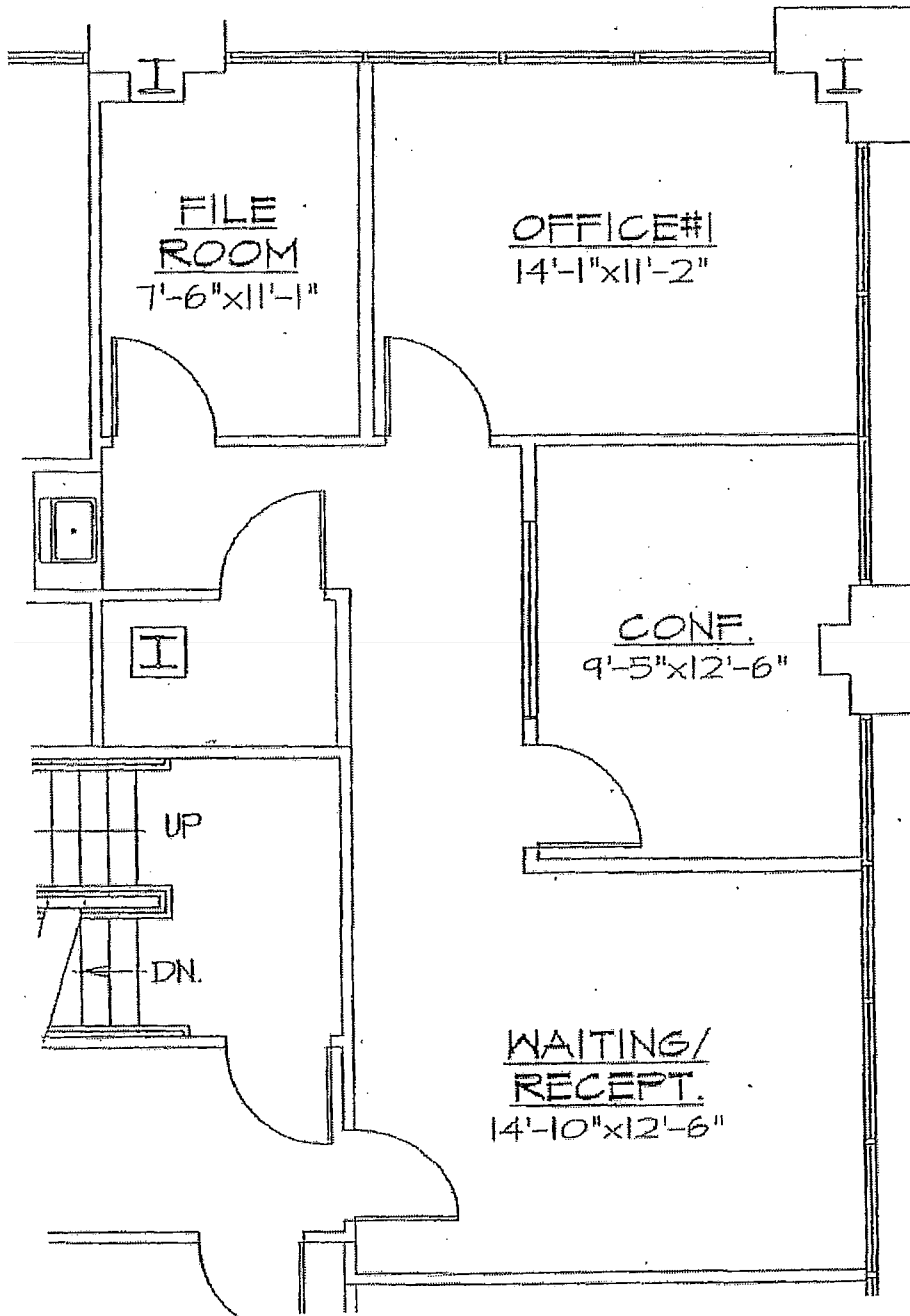
Milton F. Daily, Jr.

Its: \_\_\_\_\_

Its: President

Dated: \_\_\_\_\_

EXHIBIT A



SUITE #208  
835 R.S.F.