VENTURA COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
BUSINESS MEETING
NOVEMBER 17, 2008

MINUTES

DIRECTORS PRESENT:
Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member
Chris Johnston, Alternate Employee Member

DIRECTORS ABSENT:
Lawrence L. Matheney, Treasurer, Ex-officio Member
Peter C. Foy, Public Member
Karen Becker, General Employee Member
Robert Hansen, General Employee Member

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

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

TIME:
9:00 a.m.

ITEM:

I. INTRODUCTION OF MEETING

Chairman Towner called the Business Meeting of November 17, 2008, to order at 9:00 a.m.
II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of November 3, 2008.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of November 3, 2008.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of October 2008.


F. Quarterly Real Estate Reports for Period Ending September 30, 2008.

1. UBS

2. Prudential

3. RREEF

4. Guggenheim
IV. CONSENT AGENDA (continued)

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

Motion passed.

V. INVESTMENT INFORMATION

A. Acadian Asset Management Annual Investment Manager Presentation, Michael Randall and Brian Wolahan.

Michael Randall, Senior Relationship Manager, and Brian Wolahan, Senior Portfolio Manager, were present from Acadian Asset Management to provide a summary of Acadian’s organization, investment process and performance since inception of its relationship with VCERA in May 2008.

Mr. Randall stated Acadian Asset Management is a global equity manager based in Boston, with offices in Singapore and London. The combination of offices in Boston and Singapore gives Acadian 24-hour access to markets around the world for research and trading. Acadian primarily works with institutional plan sponsors, with half of their client base in North America and the other half from outside the U.S.

Mr. Wolahan explained Acadian’s investment process for VCERA’s portfolio which includes review of 40,000 companies globally each day for return forecasts which drives Acadian’s buy/sell decisions. Mr. Wolahan discussed two key components to Acadian’s review of companies; “bottom up” which is peer group forecast relative to other names and “top down” being a macro view of relative values of peer groups. Mr. Wolahan stated that Acadian does not only consider returns, but also looks at risk and cost involved in adding each company to the portfolio.

In response to a question from Mr. Vandolder, Mr. Wolahan explained why Acadian shorted Norwegian energy stocks in the month of October. Acadian looked at the peer group in the European market and found better energy companies within continental Europe based on value, earnings growth and the sustainability of the earnings.

Mr. Wolahan emphasized that Acadian’s review of 40,000 companies each day is an automated process; however, a final quality assurance review is conducted by a senior portfolio manager before any trades are executed on VCERA’s behalf.
V. INVESTMENT INFORMATION (continued)

A. Acadian Asset Management Annual Investment Manager Presentation, Michael Randall and Brian Wolahan. (continued)

Mr. Wolahan discussed Acadian's lack of exposure to companies such as G.E. and Bank of America which was due to the high volatility of those groups and less favorable analyst expectations. Overall, Acadian aims to be within 3-4% of the benchmark for each of the financial groups.

In response to a question from Mr. Wilson, Mr. Wolahan stated that Acadian's mission is to be fully invested in VCERA's portfolio with cash holdings limited to 1-3% for operational concerns.

Mr. Wolahan reviewed Acadian's market outlook for global equities. Trading is currently at 6x earnings, with valuations at levels not seen since the late 1970's. Acadian believes much of the negative information regarding global equities has been priced into the market.

Mr. Wolahan reviewed returns since May as being -38% for the benchmark (MSCI All-Country World) and -37.7% for the portfolio. Mr. Wolahan stated Acadian's investment process has suffered with the volatile market conditions where long term fundamentals are ignored; however, relative performance has seen some improvement. Long-only portfolios at Acadian have underperformed the benchmark.

Mr. Towner requested that future portfolio returns be presented net of fees.

B. Western Asset Management Annual Investment Manager Presentation, Joseph C. Carieri and James J. Flick.

Joseph Carieri was present from Western Asset Management and was joined by James Flick via conference call to discuss Western's organization, investment strategy and performance.

Mr. Carieri began by apologizing to the Board for Western's poor performance over the last year. Mr. Carieri stated it has been a very challenging market, not only for the global financial market, but for Western as a whole.

Mr. Flick provided an overview of the market beginning with a review of TED ratio, Treasury rates compared to Euro dollar rates. Mr. Flick stated the TED ratio is a very good measure of overall risk in the system.
V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Manager Presentation, Joseph C. Carieri and James J. Flick. (continued)

Historically, the TED ratio widens during periods of disruption as it has over the past couple of months; however, with the recent infusion of capital from the Federal government, the ratio is compressing and is leading to credit markets working better, especially in the money market sector. Mr. Flick further stated that Western feels the unprecedented liquidity put into the system over the previous 6-8 weeks will have a positive effect on credit markets.

Mr. Flick provided a brief summary of market challenges due to the credit crisis. Normal function of the credit market has not occurred for 6-9 months and has negatively impacted financial company balance sheets. Western anticipated this to change, but it will take patience. Banks are more cautious to lend with assets on their balance sheets that continue to be written down. Mr. Flick stated volatility in the capital markets remains extremely high. Mr. Flick further stated that although there has been progress made in the liquidity crisis, almost every sector is priced for the most dire outcome.

Mr. Flick summarized the performance of spread products compared to prior years as being the worst ever, with the past two months being twice as bad. Mr. Flick discussed the Lehman Aggregate index's underperformance of Treasuries by 6%, with most of the spread sectors underperforming Treasuries by 15-20%. Mr. Flick also reviewed the subprime AAA market performance, which had poor showing in 2007, prices have fallen an additional 20-25%.

Mr. Flick stated underperformance in credit has been mostly felt in banking. The one-year default rate is approximately 8.9% showing market pricing far worse than has been seen historically. Mr. Flick expects that there will be more defaults, but nothing close to an 8% default rate in this economy. Mr. Flick discussed a study in the high yield market with 19% default rates where it would take two thirds defaulting before it would be better to have held treasuries.

Mr. Goulet questioned the implications of the Treasury's decision to not purchase troubled assets. Mr. Goulet also questioned the credibility of the rating agencies.
V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Annual Investment Manager Presentation, Joseph C. Carieri and James J. Flick. (continued)

Mr. Flick responded with a discussion on TARP and the Treasury's decision to use the first $250 million as an injection into the banking system and Treasury's subsequent decision that, because the mechanism for purchasing troubled assets was so wrought with problems, there wasn't confidence in the system that such purchases would benefit the economy. Mr. Flick expressed his feeling that overall this was better for the economy. Mr. Flick addressed the ratings question and described that although Western has lost faith in the credit agencies' ability to rate structured product, Western hasn't lost faith in their ability to rate corporate credits.

Mr. Flick gave a historical perspective using credit card rates as an example. Standard deviation in that market is approximately 11.5 basis points. Because of the uncertainty in the economy and the stress of the financial system overall, with sellers being forced to sell, there is a downward spiral of prices.

Mr. Flick stated the catalyst for the current financial crisis was the performance of subprime borrowers.

In summary, Mr. Flick emphasized the following points: 1) Western expects that we will experience a recession, but not the extreme of the Great Depression. 2) Western expects negative GDP growth over the next three quarters. 3) Policy response has been extraordinary. 4) Policymakers in the U.S. have been very proactive. 5) Fixed Income markets are still not functioning correctly. 6) Worst case scenario is priced in.

Mr. Flick addressed Western's Core Plus performance which is down for the year by 900 basis points. The negative return is coming from the mortgage backed, investment grade credit and high yield sectors. Approximately 16% of the portfolio is in non-agency structured product which has declined 15-25%. Mr. Flick stated the good news is only 2% of that is permanently impaired. In investment grade credits, the portfolio is down approximately 500 basis points and there have been some defaults, with approximately 200 basis points permanently impaired. However, Western has taken this opportunity to purchase securities well below par which will be a benefit in the future.
V. INVESTMENT INFORMATION (continued)

B. Western Asset Managament Annual Investment Manager Presentation, Joseph C. Carieri and James J. Flick. (continued)

Mr. Flick also summarized Western's Index Plus performance which has underperformed by 16%, with permanent impairment of 200 basis points mostly from allocation to structured product. Performance has been very similar to the scenario with the Core Plus performance.

Mr. Carieri discussed the portfolio's current yield of 15.91% and attributed it to distressed pricing. Mr. Carieri described the models Western is running, emphasizing average purchase price of $99.17, current pricing at $71.37 and model pricing at $98.36. Marked to market loss is at 18.73%, due to fundamentals and technicals not being in synch.

C. EnnisKnupp & Associates, Kevin Vandolder.


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


Mr. Vandolder discussed performance for the quarter and stated the largest relative detractor in VCERA's portfolio has been on the fixed income side with the Index Plus being the biggest detractor. Positive tracking has taken place with Barclays and is helping to offset the losses on the fixed income side. Also, Sprucegrove, Capital Guardian and GMO have added value by providing downside protection.

Mr. Vandolder reviewed RREEF's decision to appraise all of their assets at one time rather than on a quarterly basis. This decision has led to a large write down in the asset value of the RREEF America III portfolio.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder. (continued)

Mr. Wilson questioned if moving the fixed income portfolio more towards passive management should be further discussed.

Mr. Vandolder provided a brief market update and discussed volatility as measured by the VIX which was up to 80 on October 9th and has since leveled out closer to normal at approximately 40. Mr. Vandolder reviewed the strengthening of the U.S. dollar, attributed to the U.S’s ability to tax its citizens to repay its debt. Mr. Vandolder emphasized non-U.S. markets are having the worst year since 1970. He also reviewed the real estate outlook and the returns of the opportunistic strategies.

Mr. Vandolder discussed the fiscal year results stating VCERA’s investments were down 22%, however, GMO and Acadian provided downside protection in outperforming their benchmarks.

Mr. Vandolder stated EnnisKnupp is diligently monitoring the guideline violations in Western’s portfolio and is working with Western to remedy the situations.


5. Memorandum – Open-End Core Real Estate Funds – Redemption Queue Implementation.

Mr. Vandolder noted that staff has begun the process to place VCERA in the redemption queue for UBS and Prudential.


Mr. Vandolder updated the information from an error on slide #2 provided to the Board at their investment retreat. Mr. Vandolder stated the message remains the same and will be holding further discussions with the Board on this issue in mid 2009.
V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder. (continued)


Mr. Vandolder provided an update on State Street's Securities Lending Cash Collateral Pool stating there are no impaired assets presently and current yield is 3.5%. Mr. Vandolder emphasized this is a program VCERA should continue with as part of their investment program. Staff provided the net benefit to the program as approximately $400K for FY08-09.


Mr. Vandolder reviewed the strategy going forward after the retreat. Mr. Vandolder will be present at the Board's January 2009 meeting with the Actuary to discuss the level of assets to be placed outside the fixed income markets in the investment program. Mr. Vandolder will also continue discussions on currencies and bringing in a currency overlay manager. Mr. Vandolder anticipates providing a competitive analysis on opportunistic strategies in April 2009. In mid-2009, he will be discussing looking at infrastructure. And in Fall 2009, he will discuss with the Board fund to fund private equity mandates.

Mr. Goulet received confirmation that the currency overlay search report will be delivered in February.

Mr. Wilson expressed his appreciation for EnnisKnupp's plan to consider more alternatives in the portfolio.


Mr. Wilson moved, seconded by Mr. Harris, to receive and file item 1-7, 9 and 10, and to approve item 8 and the investment program strategy.

Motion passed.
VI. NEW BUSINESS

A. Approval of Travel to Attend the 2009 Public Funds Roundtable, April 22-24, 2009, in San Diego, CA.

Mr. Wilson moved, seconded by Mr. Harris, to approve Mr. Hansen's travel related to attending the 2009 Public Funds Roundtable.

Motion passed.

B. Consideration of Presentation by Manatt, Phelps and Phillips on Fiduciary Issues.

Mr. Wilson moved, seconded by Mr. Harris, to have staff schedule a Fiduciary Issues presentation by Ashley Dunning during the Board's regularly scheduled business meeting in November 2009.

Motion passed.

VII. INFORMATIONAL

A. Publications (Available in Retirement Office)
   1. Institutional Investor
   2. Pensions and Investments

B. 2009-10 SACRS Board of Directors Election Notification.


VIII. PUBLIC COMMENT

None.

IX. BOARD MEMBER COMMENT

Mr. Goulet commented on money managers at SACRS echoing the comments of VCERA's investment managers in projecting a recovery period beginning mid-2009 due to historically short bear markets followed by strong rebounds.

Mr. Goulet discussed a SACRS Conference session he attended relating to the effective date of disability retirements and expressed his distress that the four counties who presented all handled it differently. Mr. Goulet commented if the
IX. BOARD MEMBER COMMENT (continued)

discrepancies were due to ambiguity in the law, perhaps it should be brought to the SACRS Legislative Committee for clarification.

Mr. Goulet reported on the voting at the SACRS Fall business meeting and stated there was one item that was not voted upon for which voting delegates were asked to send a letter to SACRS in January indicating their vote.

Mr. Wilson requested and received the R.V. Kuhns performance report.

Mr. Harris commented on the additional performance reports provided at the SACRS Fall conference for the periods ending September 30 and October 31, 2008.

Mr. Towner received clarification regarding the lag in pricing and the appraisal-based process in alternative investments.

Mr. Goulet reported on two looming issues discussed at the SACRS Fall business meeting. The first is a move by the American Academy of Actuaries to require public funds disclose the actuarial liability and funding levels by using a market-based interest/discount rate. The second issue is the IRS tax determination and a task force put together by system administrators to meet with the IRS as a group.

X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:20 a.m. upon the motion of Mr. Wilson, seconded by Mr. Harris.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman