

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

NOVEMBER 21, 2011

MINUTES

DIRECTORS Tracy Towner, Chair, Safety Employee Member
PRESENT: William W. Wilson, Vice Chair, Public Member
Steven Hintz, Treasurer-Tax Collector
Steve Bennett, Public Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Tom Johnston, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

DIRECTORS Robert Hansen, General Employee Member
ABSENT:

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

ITEM:

I. INTRODUCTION OF MEETING

Chairman Towner called the Business Meeting of November 21, 2011, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Harris moved, seconded by Mr. Henderson, to approve the Agenda.

Motion passed. Mr. Bennett was not present.

III. APPROVAL OF MINUTES

A. Board Retreat of October 6, 2011.

III. APPROVAL OF MINUTES (continued)

- A. Mr. Goulet offered the following corrections: page 3, paragraph 4 should be changed to indicate that Mr. Orndorff concurred with "Mr. Vandolder"; page 5, paragraph 6 should be changed to read, "...fund of funds manager."

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Retreat of October 6, 2011, as amended.

Motion passed. Mr. Bennett was not present.

- B. Disability Meeting of November 7, 2011.

Mr. Goulet offered the following corrections: page 3, the next to the last paragraph should reflect Mr. Goulet's statement that he believed the applicant was entitled to a non-service connected disability and he would dismiss the application for a service connected disability without prejudice, which would allow Mr. Nagy the opportunity to return and present more medical evidence to substantiate a service connected disability; page 8, the statement, "Motion passed" Should be added before the statement that Mr. Hansen abstained; and page 13, Item X. the term, "Interim," should be deleted.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of November 7, 2011, as amended.

Motion passed. Mr. Bennett was not present.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of October 2011.
- B. Report of Checks Disbursed in October 2011.
- C. Asset Allocation as of October 2011.
- D. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, and Schedule of Investment Management Fees for the Month Ended September 30, 2011.
- E. Budget Summary – Year to Date as of September 2011, Fiscal-Year 2011-12.

IV. CONSENT AGENDA (continued)

F. Real Estate Investment Managers Third Quarter 2011 Information.

1. UBS
2. Prudential
3. Guggenheim
4. RREEF

G. BlackRock Asset Management Report for the U.S. Equity Index Fund, Extended Equity Market Fund, ACWI ex-US Fund, U.S. Debt Index Fund for the Month Ended October 31, 2011.

Mr. Wilson moved, seconded by Mr. Harris, to approve the items on the Consent Agenda.

Motion passed. Mr. Bennett was not present.

Mr. Bennett entered the meeting.

V. INVESTMENT INFORMATION

A. Hewitt ennisknupp.

1. Third Quarter 2011 Performance Report.

Staff stated that the fund was down for the third quarter by 10.4% and it had lost 50 basis points (bps) relative to the policy portfolio. Those items in the economic landscape that most greatly impacted the portfolio included: globally weak economic data; European and U.S. political gridlock; downgrades in sovereign debt; fears of escalating contagion in the Euro zone debt crisis; and the search for yield, which was prevalent for several quarters, shifted to a focus on capital preservation resulting in selling some of the riskier assets.

Staff stated that U.S. Equity lost 15.3%, and was down 10 bps relative to the benchmark. Western Index, due to its concentration in investment grade securities, and the fact that it lost 130 bps relative to the benchmark, was a major contributor.

Staff stated that the International allocation lost 19.2% for the quarter but added 70 bps of value relative to the benchmark index. While Sprucegrove, Hexavest, and Walter Scott, which were positioned to offer

V. INVESTMENT INFORMATION (continued)

A. Hewitt ennisknupp. (continued)

1. Third Quarter 2011 Performance Report. (continued)

downside protection, saved value relative to the benchmark, Artio lost 470 bps, due to being overweight in Emerging Markets and poor stock selection.

Staff noted that the Global allocation was down 15.8% for the quarter, but outperformed its benchmark by 160 bps; GMO contributed 420 bps, but Acadian underperformed by 140 bps, due to an overweight in Emerging Markets, and poor stock selection.

Staff stated that the fixed income portfolio earned 1.4% for the quarter, but had lost 240 bps relative to the benchmark, with all the managers, except BlackRock U.S. Debt Index, trailing the benchmark. Loomis Sayles lost 480 bps due to its significant exposure in high yield and non U.S. bonds.

Staff stated that the real estate portfolio earned 2.7% for the quarter, but trailed the benchmark 100 bps, with UBS underperforming, and Prudential outperforming the benchmark.

Mr. Towner stated Mr. Vandolder needs to add net of fees or gross of fees on the quarterly performance report.

2. Monthly Manager Updates/Summary, October 2011.

- a. Sprucegrove
- b. Artio
- c. Hexavest
- d. Walter Scott
- e. GMO
- f. Acadian
- g. Western
- h. Reams
- i. Loomis Sayles
- j. K2

Staff stated the net assets of the portfolio increased from \$2.9 million to \$3.1 million for the month. Staff noted that October was one of the best months in the stock market since the 1970's.

V. INVESTMENT INFORMATION (continued)

A. Hewitt ennisknupp. (continued)

2. Monthly Manager Updates/Summary, October 2011. (continued)

The equity managers positioned themselves with downside protection, so the funds earned 6.9% for the month but trailed the policy portfolio by 40 bps, according to staff.

Staff stated that the total U.S. Equity gained 11.6% for the month and added 10 bps relative to benchmark.

Staff noted that the International allocation gained 9.7%, but trailed the benchmark by 80 bps. Artio added 90 bps relative to benchmark however, over the last year they have continued to significantly underperform relative to the benchmark, as did Hexavest and Walter Scott.

Staff stated that the Global allocation gained 8.4% for the month but trailed the benchmark by 230 bps, with both GMO, due to underperformance in the sub-strategies, and Acadian, due to poor stock selection in emerging markets, performing poorly.

Fixed income was up by 1.4%, outperforming the benchmark by 130 bps, with all the managers contributing, according to staff.

Staff commented that K2 continued to struggle and underperform for the year.

Mr. Chris Johnston moved, seconded by Mr. Goulet, to put K2 on the "Watch List."

Motion passed

Mr. Chris Johnston moved, seconded by Mr. Henderson, to agendize a discussion, regarding whether to retain Artio or Acadian, at the December Board meeting. Mr. Wilson commented on Artio's low ranking in the third quarter report.

Motion passed

Staff stated that direction would be given to Mr. Vandolder to provide the Board with a recommendation regarding whether or not to retain Artio or Acadian at the December meeting.

V. **INVESTMENT INFORMATION (continued)**

A. Hewitt ennisknupp. (continued)

2. Monthly Manager Updates/Summary, October 2011. (continued)

Motion passed.

Mr. Hintz moved, seconded by Mr. Goulet, to receive and file Items 1. and 2.

Motion passed.

VI. **NEW BUSINESS**

A. Request to Consider Board of Retirement Meeting on Day Other Than Monday.

Mr. Goulet stated that preparing for the Monday Board Meeting over a weekend is difficult, and he speculated it was difficult for those members who had to prepare for the Board of Supervisor's Meeting. Mr. Goulet acknowledged that Tuesdays would not work due to the Board of Supervisors meetings.

Mr. Bennett stated he did not feel strongly about it.

Mr. Wilson stated that it can't be on Tuesdays.

Mr. Goulet offered that a number of systems meet on Thursday.

Staff stated there may be an issue with the availability of Mr. Vandolder, but there would be minimal impact from a staff perspective.

Mr. Bennett stated he preferred that it wasn't on Friday.

Mr. Hintz stated that he has a conflict on Wednesday, and Mr. Hansen telecommutes on both Thursday and Friday.

Mr. Wilson stated he uses the weekend to prepare for the meeting.

Mr. Towner stated that he would like the information in electronic form expediting receipt of the materials so there is more time to prepare for the meeting.

Staff stated a presentation on the electronic meeting packet is planned for the December Disability Meeting.

VI. NEW BUSINESS (continued)

- A. Request to Consider Board of Retirement Meeting on Day Other Than Monday. (continued)

Mr. Towner suggested that the discussion be continued for sometime after the Board considers staff's presentation concerning the electronic meeting packet.

Mr. Bennett concurred.

VII. OLD BUSINESS

- A. Revised 2012 Board of Retirement Meeting Calendar.

Staff stated that the September date correction was made on the 2012 Board of Retirement Meeting Calendar.

Mr. Harris moved, seconded by Mr. Hintz, to receive and file the Revised 2012 Board of Retirement Meeting Calendar.

Motion passed.

VIII. INFORMATIONAL

- A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

IX. PUBLIC COMMENT

Staff requested that the Board Members remain after the meeting to have a picture taken with Ms. Brenda Cummings to memorialize her last VCERA Board of Retirement Meeting.

X. BOARD MEMBER COMMENT

Mr. Hintz stated he attended the SACRS meeting and requested that staff get copies of the R.V. Kuhns report for the Board Members. Mr. Hintz noted, with regard to the report, that VCERA is doing well compared to the other funds.

Mr. Hintz stated he observed that many of the investment firm representatives were discussing alternative investments, and that he thought they should be avoided, particularly in light of Acadian's performance.

X. **BOARD MEMBER COMMENT (continued)**

Mr. Goulet elaborated on VCERA's ranking third in the R.V. Kuhns report. He stated the graphs on risk and return surprised him.

Mr. Hintz stated VCERA is 7% above the average in risk and 15% above the average in return.

Mr. Hintz stated that the largest area of risk is in the fixed income allocation; except for San Bernardino. He contrasted VCERA's asset allocation with that of San Bernardino.

Mr. Hintz stated that the report does not distinguish the 1937 Act Retirement Associations.

Mr. Goulet stated that San Diego pays \$1.7 million annually to an outside CIO to whom they just gave a \$723,000 bonus for performance, and they are at the bottom.

Mr. Bennett left the meeting.

Mr. Goulet stated that in his discussions with Mr. Tom Hickey, he became aware of a problem with Adams Street.

Ms. Nemiroff stated that she had asked Mr. Vandolder to report to the Board on the SEC indictment of a former Adams Street partner, and that she had asked Mr. Vandolder to explain how HEK's process did not discover the investigation and whether any changes could be made to the due diligence process to identify such matters in the future. She expounded on the topic and the SEC indictment of a prior partner at Adams Street who had formed a limited partnership to invest in a fund that Adams Street was investing in, and had not disclosed this to Adams Street, and as result he paid \$2 million in restitution.

Ms. Nemiroff reported that she and staff had a telephone conference with Adams Street personnel in which they reported that Adams Street's counsel advised that the former partner's actions were not material. Ms. Nemiroff relayed that she expressed to Adams Street that such actions were material because it was the type of information an investor would want to know before investing. She stated that Adams Street explained that it discovered the matter internally, fired the partner in question, reported it to the SEC, and considered it a closed matter. Finally, Ms. Nemiroff stated that Adams Street claimed to have been unaware that the SEC had a pending investigation during the period when the investment was being considered by the Board.

X. BOARD MEMBER COMMENT (continued)

Mr. Goulet stated that, in the monthly management report, in the format Mr. Vandolder developed, every manager is required to inform the Board of regulatory developments.

Ms. Nemiroff stated it was the position of Adams Street that it was not a regulatory issue because they heard nothing subsequent to reporting it to the SEC.

Mr. Towner stated that the SEC is public information so this would be part of due diligence.

Mr. Goulet stated that he did not find the SACRS Advanced Trustee Training seminar useful because they only discussed media relations, they expected the Retirement Boards to defend the Sponsor's plans, and they spent too much time on the Governor's plan, which is a Sponsor issue.

Mr. Towner opined that VCERA has a good relationship with the media due to clear delineation of VCERA's role and the County's role.

Mr. Wilson received clarification on the discussion regarding the impact of the passage of the Governor's plan on 1937 Act plans, and the potential litigation.

Mr. Harris received clarification regarding the discussion of the Governor's plan and the Little Hoover Commission Report, and the recommendation that future benefits for current employees should be reduced.

Mr. Goulet stated that the consensus regarding the rate of return assumption was 7.5%. Mr. Wilson received clarification that the bond yield was one of the options. Mr. Wilson stated that, in CalPERS system withdrawals, they only credit the bond rate.

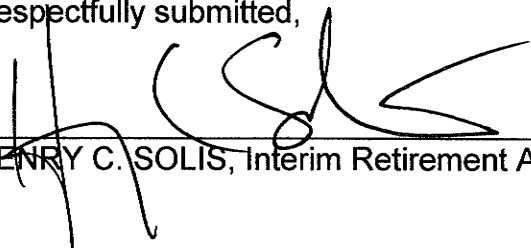
Mr. Tom Johnston stated he was disappointed by the SACRS conference.

XI. CLOSED SESSION

The Board of Retirement adjourned into a closed session pursuant to Government Code Section 54956.9(a) - Existing Litigation, to discuss the Ventura County Taxpayers' Association; and Richard Thomason, v. Ventura County Employees Retirement System, Ventura County Superior Court Case No. 56-2010-00381336-CU*WM-VTA; and pursuant to Government Code Section 54957 (b) (1) to discuss the appointment of a public employee; Retirement Administrator.

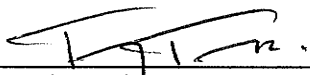
The Board adjourned while in closed session.

Respectfully submitted,



HENRY C. SOLIS, Interim Retirement Administrator

Approved,



TRACY TOWNER, Chairman