

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### BUSINESS MEETING

DECEMBER 15, 2008

### MINUTES

**DIRECTORS  
PRESENT:**

Tracy Towner, Chair, Safety Employee Member  
William W. Wilson, Vice Chair, Public Member  
Peter C. Foy, Public Member  
Albert G. Harris, Public Member  
Karen Becker, General Employee 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  
Joseph Henderson, Public 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 December 15, 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. Board Retreat of October 9, 2008.**

Mr. Goulet offered corrections to the minutes; under item 7, identifying Ms. Ulian as a representative of UBS, and on page 7, inserting a new heading for board member comments and the retreat summary.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Board Retreat of October 9, 2008 as corrected.

Motion passed.

**B. Disability Meeting of December 1, 2008.**

Mr. Wilson moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of December 1, 2008.

Motion passed.

**IV. CONSENT AGENDA**

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

**B. Statement of Plan Assets, Statement of Changes in Plan Net Assets, and Summary of Investments and Cash Equivalents for the Month Ended October 31, 2008.**

**C. Report of Checks Disbursed in November 2008.**

**D. Budget Summaries for the Months Ended October 31, 2008 and November 30, 2008, Fiscal-Year 2008-09.**

**E. Barclays Global Investors Report for the U.S. Equity Index Fund, Extended Equity Market Fund, U.S. Debt Index Fund, ACWI EX-US Fund for the Month Ended November 30, 2008.**

IV. **CONSENT AGENDA (continued)**

- F. Letter from Guggenheim Real Estate Regarding Investment in Guggenheim Real Estate Plus Trust Dated December 1, 2008.

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

Motion passed.

V. **INVESTMENT INFORMATION**

- A. Guggenheim Real Estate Annual Investment Presentation, Karen McKeel Calby, Managing Director.

Karen McKeel Calby was present from Guggenheim Real Estate to discuss Guggenheim's organization, investment strategy and performance.

Ms. Calby briefly reviewed Guggenheim's allocation of 30% invested in REITs and 70% in private real estate. Ms. Calby stated Guggenheim's performance through the first three quarters of 2008 was slightly lower than expected in terms of absolute value. There has been property softness through the third quarter which has accelerated dramatically in the fourth quarter, especially with properties in places such as Florida, southern California, Las Vegas and Phoenix. Ms. Calby attributed Guggenheim's underperformance relative to the benchmark mainly on how Guggenheim has marked direct properties relative to their market value.

Ms. Calby discussed changes in VCERA's portfolio, noting Guggenheim's process has not changed in keeping relative value as the focus. Ms. Calby highlighted that fund investments have been drawn down from 28% of the portfolio to 22%, with 1.5% being invested in commercial mortgage backed securities which are priced at historically high default rates.

Ms. Calby reviewed the current market summarizing that conditions have deteriorated markedly and economic conditions have softened. Ms. Calby stated private real estate values haven't kept pace and those changes will be seen in the fourth quarter with REITs down 45% and private real estate down 20-25%. Ms. Calby emphasized that Guggenheim is trying to reflect true pricing on their holdings. Ms. Calby noted REITs are going through an extraordinary period with trading similar to financial stocks at  $\pm 7\%$  per day. Ms. Calby also noted a lack of available financing that has halted market transactions and until the financing market comes back, there will be a lack of price discovery within the market.

V. INVESTMENT INFORMATION (continued)

A. Guggenheim Real Estate Annual Investment Presentation. (continued)

Ms. Calby reviewed Guggenheim's REIT investments noting the high market volatility, the move to CMBS – vintage year and the effect of historic high spreads and stated there were no new issues. Ms. Calby noted the direct investment side is illiquid with real estate supply being limited, which Ms. Calby believes will help in the recovery process. Ms. Calby also reviewed Guggenheims refinancing rates that average 12-13% with average loan sizes between \$20-25 million.

Ms. Calby expressed Guggenheim's desire to reduce leverage (property specific mortgage debt and any debt held by REIT companies) in 2009.

Ms. Calby described Guggenheim's cash flows as being negative due to rebalancing of the portfolio.

Ms. Calby reviewed changes to the Guggenheim team, noting five new hires and three departures.

Mr. Vandolder received clarification regarding the \$116 million in rebalancing activity.

Mr. Towner questioned the basis of the supply chart. Ms. Calby clarified that the figures are projected and may be overstated.

In response to questions from Mr. Wilson, Ms. Calby stated that Guggenheim is planning for a longer downturn of the market conditions rather than a shorter one, based on several data sources such as employment growth forecasts. Ms. Calby further stated the direct property portfolio has leverage anywhere between 0-60% with stable properties. Ms. Calby emphasized Guggenheim's intent to use liquidity to lower leverage in the upcoming year.

V. INVESTMENT INFORMATION (continued)

B. RREEF America III Real Estate Fund Annual Investment Presentation, Frank Garcia, Managing Director, Portfolio Management and Laura Gaylord, Managing Director, Head of Americas Client Relations.

Frank Garcia and Laura Gaylord were present from RREEF to discuss RREEF's organization, investment strategy and performance.

V. INVESTMENT INFORMATION (continued)

B. RREEF America III Real Estate Fund Annual Investment Presentation.  
(continued)

Ms. Gaylord reviewed RREEF's organization, stating the company is a global organization with 18 offices worldwide and \$85 billion in assets under management, of which \$40 billion is managed in the U.S. The majority of RREEF's investments in the U.S. are in private equity real estate side with \$20 billion in core real estate and \$9 billion in value-added. RREEF continues to focus on research and remains vertically integrated in their own property management.

Ms. Gaylord stated there have been no changes to RREEF's management committee; however the organization has had layoffs of 5-7% across their business units. RREEF's investment committee is made up of 13 individuals who average over 23 years of experience and benefit from several product specialists.

Ms. Gaylord described RREEF's business objectives for the coming year as maintaining focus on their people, retaining those still employed and attracting and promoting key personnel, and staying focused on performance and client objectives.

Mr. Garcia described the make up of RREEF America III as 80% value added core plus assets and 20% development properties. Mr. Garcia stated the two drivers of performance in value-added funds as being job growth and liquidity, both of which are virtually nonexistent in the current market.

Mr. Garcia discussed the historic transaction volume, which was at a record high in 2007 due to cheap debt, less than sound underwriting procedures and over projected rental growth rates. Much of that debt is coming due in 2010/2011 which may cause forced distressed sales. Mr. Garcia also discussed cap rates, which were down due to the liquidity in the market, and forecasts that cap rates are on the rise.

Mr. Garcia projected vacancy rates for their properties to peak in 2009 and recovery should take place in 2010. Office properties and retail properties have been the most affected. Apartment properties have remained stable.

Mr. Garcia reviewed RREEF America III's portfolio. Mr. Garcia stated RREEF began valuing 100% of their fund quarterly due to drastic changes in the market. They have seen large write-downs in the portfolio, with more anticipated industry-wide in the fourth quarter.

V. INVESTMENT INFORMATION (continued)

B. RREEF America III Real Estate Fund Annual Investment Presentation.  
(continued)

Mr. Garcia discussed changes in the organizational team with Ben Christian's and Elaine Wong's departures, and Ryan Madsen and Maria Trinh taking their places.

Mr. Garcia stated RREEF America III's allocation levels are 78% operating properties and 22% opportunistic properties. Mr. Garcia further broke down the fund as being invested 41% in core plus, 22% in opportunistic and 37% in value-added properties.

Mr. Garcia reviewed RREEF's performance and indicated the level of leverage at 57% with 82% of their properties having been written down.

Mr. Garcia stated there are currently 20 investors with pending redemption requests totaling \$260 million, approximately 14% of RREEF's net asset value. Mr. Garcia stated RREEF is currently in defensive mode to retain capital with the current market environment and, as such, are withholding \$220 million in redemptions until the capital markets recover.

Mr. Garcia discussed RREEF's financing status stating their debt is at an average rate of 5.31%. Mr. Garcia further stated RREEF has built in contractual obligations to extend loans as expiration dates approach.

C. The Clifton Group Annual Investment Presentation, Rick Ballsrud, CFA, Senior Portfolio Manager and Principal and Ben Lazarus, Director of Marketing and Sales.

Ben Lazarus and Rick Ballsrud were present from The Clifton Group to discuss Clifton's organization, investment strategy and performance.

Mr. Lazarus reviewed recent additions to Clifton's staffing. One of the main additions was the hiring of Kip Chaffee to run day to day operations of the firm in order to allow portfolio managers to concentrate on managing the assets.

Currently, Clifton has \$23.7 billion in assets under management, \$14.6 billion of that in PIOS where VCERA participates.

Mr. Lazarus reviewed VCERA's target policy mix encompassing liquidity needs, residual cash, transitions/reallocations, and rebalancing strategies.

V. INVESTMENT INFORMATION (continued)

C. The Clifton Group Annual Investment Presentation. (continued)

Mr. Lazarus discussed the daily monitoring Clifton accomplishes. He also described Clifton's use of tools such as financial futures which are highly regulated and marked to the market daily to avoid credit exposure to counterparties. Mr. Lazarus described the counterparty risk controls in place including clearing house measures such as performance bonds and security deposits.

Mr. Lazarus emphasized Clifton's adherence to VCERA's policy guidelines.

Mr. Ballsrud reviewed the nominal cash exposure which varies between ½-5% of the fund. Mr. Ballsrud indicated PIOS allows VCERA to maintain sufficient liquidity and at the same time the fund is fully invested through futures market exposures.

Mr. Ballsrud discussed the current tumultuous market conditions as not being seen in the past 35 years and stated the losses that took two years to occur in 2002 had only taken 8 months this year. Mr. Ballsrud stated Clifton has no losses associated with the Lehman Brothers bankruptcy, which he believes is a testament to utilizing the futures market.

In relation to returns, Mr. Ballsrud described Treasuries as a storehouse of value which Clifton uses to replicate the synthetic Lehman Aggregate. The fund outperformed the benchmark due to fixed income performing well in comparison to its benchmark. Fund performance over the past 9 months has been -.60%.

Mr. Lazarus indicated VCERA's unwanted cash exposure was dramatically reduced.

D. EnnisKnupp & Associates, Kevin Vandolder.

1. Monthly Investment Performance Update, November 2008.
2. Monthly Manager Updates/Summary, November 2008.
  - a. Sprucegrove
  - b. Capital Guardian
  - c. GMO
  - d. Acadian

V. INVESTMENT INFORMATION (continued)

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

- e. Western
- f. Reams
- g. Loomis Sayles

Mr. Vandolder questioned going forward whether the domestic economy would experience a weaker U.S. dollar or be in an inflationary environment. Mr. Vandolder noted the equity markets had performed better over the last four weeks, but quarterly results were still extremely poor. Questions going forward included the impact of the Bernie Madoff scandal, the federal bailout of the big three automakers, the CDS exposure on the big three automakers and the upcoming Federal Reserve policy decision on interest rates.

In November, Mr. Vandolder summarized that the significant detractors to VCERA's performance were Western, Reams and Sprucegrove. Mr. Vandolder noted Artio's positive performance during the month.

Mr. Towner questioned the volatility within VCERA's fixed income manager returns after comparing active manager returns to the BGI bond index product.

3. Memorandum - RREEF America II and III Funds Update.

Mr. Vandolder summarized EnnisKnupp's research memo noting the significant turn over in RREEF's management team, the new appraisal policy where 100% of the fund's properties are appraised each quarter and the growing redemption queues. Mr. Vandolder stated EnnisKnupp will continue to monitor RREEF's organization closely in the upcoming year.

4. Memorandum - Sprucegrove Update.

Mr. Vandolder discussed the turnover at Sprucegrove Investment Management involving the founding partners of the firm. Specifically, Mr. Vandolder discussed the retirement of John Watson at the end of 2008 and of Mr. Ian Fyfe at the end of 2009. The third founding member, Peter Clark, has announced that he has no intentions to retire and will stay with the organization for the foreseeable future.



V. INVESTMENT INFORMATION (continued)

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

Mr. Vandolder stated that EnnisKnupp will continue to assess the Sprucegrove organization and keep VCERA apprised of any further developments in Sprucegrove's management.

5. Opportunistic Strategies – Third Quarter Review.

6. RV Kuhns Public Fund Universe Analysis for Period Ending June 30, 2008.

Mr. Vandolder reviewed several specific pages of the RV Kuhns study noting that in most asset classes VCERA's investment returns were at or slightly below the median.

Mr. Wilson moved, seconded by Mr. Goulet, to receive and file items 1 through 6.

Motion passed.

VI. OLD BUSINESS

A. SACRS - Business Meeting Adjournment to January 23, 2009 Regarding CRCEA AB 2526 Final Revision.

1. Memorandum from Sulema H. Peterson, SACRS Administrator, dated December 1, 2008.

2. Memorandum from Counsel, dated December 15, 2008.

Ms. Nemiroff discussed her memorandum and addressed the issue of policy decisions made by the Board in changing discretionary language to mandatory language, especially in sections 31520.1(c) and 31520.5(c) dealing with the participation of alternates on committees. Ms. Nemiroff stated she sees a potential problem with the proposed change being in conflict with the Brown Act in that Board members may not attend a Committee meeting and participate as a member of the public. Ms. Nemiroff further stated she sees no reason to treat an alternate Board member any differently than a regular member; however, if that portion of the proposed language were changed she sees no reason why the Board should not support the SACRS proposal.

VI. OLD BUSINESS (continued)

- A. SACRS - Business Meeting Adjournment to January 23, 2009 Regarding CRCEA AB 2526 Final Revision. (continued)

Mr. Goulet commented that the new language came about as an outgrowth from comments made at the SACRS conference and, now that he's aware of the issues raised in Ms. Nemiroff's memo, his intention is to request at the next SACRS Legislative Committee that all the Retirement Administrators be informed of the problems that are created by changing the language to allow participation of non-committee members.

Ms. Nemiroff corrected her memo to exclude the last paragraph on page 4 and informed the Board of her intent to produce a revised copy.

Ms. Nemiroff clarified that alternate Board members may fully participate in Board discussions, and committee discussions when appointed to that individual committee.

Mr. Wilson moved, seconded by Mr. Harris, to defer discussion of this issue to the January 5, 2009 meeting.

Motion passed.

- B. Update on Search for Executive Retention Firm for Staff Counsel Position.

Staff provided an update on the retention an executive retention firm to assist in recruiting for the Staff Counsel position. Three firms have been contacted to submit proposals – Ralph Anderson, ELF and CPS. Further details will be provided at the Board's January 26, 2009 meeting.

Ms. Becker moved, seconded by Mr. Goulet, to receive and file staff's letter.

Motion passed.

VII. NEW BUSINESS

- A. Staff Recommendation to Allow VCERA's Participation with Other SACRS Member Systems in the IRS Determination Letter Process.

Staff provided background on the options available to VCERA in responding to the IRS Revenue Ruling procedure, of which joining with the SACRS group in filing for the determination letter seems to be the best option for VCERA.

**VII. NEW BUSINESS (continued)**

- A. Staff Recommendation to Allow VCERA's Participation with Other SACRS Member Systems in the IRS Determination Letter Process.

Mr. Goulet commented that several other '37 Act counties have initiated discussions with the IRS and those counties are recommending the joint approach.

Mr. Goulet moved, seconded by Mr. Harris, to approve VCERA's participation with other SACRS member retirement systems in the IRS Determination Letter Process.

Motion passed.

- B. EnnisKnupp Fee Schedule Renewal for 2009.

Staff reviewed the request for an increase in the investment consultant fees for 2009 and recommended continuing the relationship with EnnisKnupp at the new fee level.

Mr. Harris moved, seconded by Mr. Foy, to approve the EnnisKnupp Fee Schedule Renewal for 2009.

Motion passed.

- C. Quarterly Administrator's Travel Report.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the Administrator's Quarterly Travel Report.

Motion passed.

**VIII. CLOSED SESSION**

The Board of Retirement Adjourned into a Closed Session to Discuss the Evaluation of a Public Employee Pursuant to the Provisions of Government Code Section 54957; Retirement Administrator.

In open session, Chairman Towner announced that the Board had not taken any reportable action.

**IX. INFORMATIONAL**

- A. Publications (Available in Retirement Office)
  - 1. Institutional Investor
  - 2. Pensions and Investments
- B. Institutional Investors Infrastructure Investment Forum and Global Commodities Investment Forum, February 2-4, 2009, New York.
- C. Manatt, Phelps and Phillips Fiduciary Symposium, February 27, 2009, San Francisco.
- D. Pension Bridge Annual Conference, April 14-16, 2009, San Francisco.

**X. PUBLIC COMMENT**

Staff informed the Board that the June 30, 0008 Actuarial Report had been received and copies had been distributed to labor organizations as per the settlement agreement in place. The Board will be able to take action on the report at its meeting on January 26, 2009.

Staff informed the Board that CB Richard Ellis would be providing a list of properties in the area that may be for sale.

Staff relayed a comment from Ms. Gaylord from RREEF that there will be an article in the Wall Street Journal on Wednesday regarding open ended comingled funds versus closed comingled funds.

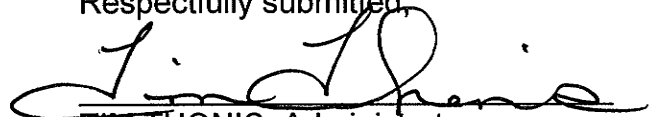
**XI. BOARD MEMBER COMMENT**

None.

XII. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:10 p.m. upon the motion of Mr. Harris, seconded by Mr. Goulet.

Respectfully submitted,



TIM THONIS, Administrator

Approved,



TRACY TOWNER, Chairman