MINUTES

DIRECTORS PRESENT: Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Lawrence L. Matheney, Treasurer, Ex-officio Member
Peter C. Foy, Public Member
Albert G. Harris, Public Member
Joseph Henderson, Public Member
Karen Becker, General Employee Member
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT: Chris Johnston, Alternate Employee Member

STAFF PRESENT: Tim Thonis, Retirement Administrator
Lori Nemiroff, Assistant County Counsel
Walter Lauzon, Chief Financial Officer

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 17, 2007, to order at 9:00 a.m.
II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES


Ms. Becker moved, seconded by Mr. Goulet, to approve the Minutes for the Disability Meeting of December 3, 2007.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of November 2007.


Mr. Goulet moved, seconded by Mr. Matheney, to approve the Consent Agenda.

Motion passed.

V. INVESTMENT INFORMATION


1. Monthly Investment Performance Update.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

   a. Delta
   b. LSV
   c. Wasatch
   d. Sprucegrove
   e. Capital Guardian
   f. GMO
   g. Wellington
   h. Western
   i. Reams
   j. Loomis Sayles


Kevin Vandolder from EnnisKnupp was present to provide an update on VCERA’s investment performance for the month of November and to provide a summary of VCERA’s 3rd quarter investment performance. Daniel Pawlish from EnnisKnupp was not present.

Mr. Vandolder reviewed VCERA’s asset allocation as of September 30, 2007 noting that allocations were well within targeted ranges as established by VCERA’s investment policy. For the quarter, VCERA’s investment portfolio underperformed the policy portfolio by 60 basis points (.60%). The underperformance was attributable to less-than-benchmark performance of the domestic equity, international equity and real estate components of the portfolio. VCERA experienced strong relative performance in the global equity and fixed income components. Overall, the portfolio returned 2.0% for the quarter and had a value of $3.26 billion as of September 30, 2007.

Mr. Vandolder also discussed the performance of several of VCERA’s investment managers noting Delta Asset Management’s strong relative quarter due to their overweighting of technology stocks in the portfolio. LSV Asset Management’s weakness during the quarter was attributable to overweighting financial companies and REITS. Wasatch Advisors enjoyed a strong quarter due to strong stock selection in the health care industry.
V. **INVESTMENT INFORMATION** (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Vandolder noted that VCERA's actively managed international equity portfolios underperformed in the quarter. Capital Guardian's relative returns were hurt by a continued overweighting to the Japanese market while Sprucegrove Investment Management's returns slipped relative to the market due to poor stock selection.

Mr. Vandolder informed the Board of the planned competitive review of VCERA's international equity managers at the February business meeting.

Mr. Wilson noted that with passive management, VCERA's returns do not suffer extreme ups and downs. With a risk adverse style, however, VCERA may need to be an early adopter.

VCERA's fixed income portfolios outperformed the market slightly during the quarter due to Reams Asset Management's and Loomis Sayles' strong relative returns. Mr. Vandolder attributed Western Asset Management's underperformance to the overweighting of government secured mortgages that have been trading at historically high levels over Treasuries. Western Asset Management sees these abnormal spread levels as a buying opportunity and expects its investors will be rewarded going forward.

Mr. Towner noted the turnaround in performance achieved by Reams Asset Management since 2002.

Mr. Vandolder provided additional commentary on the performance of GMO and Wellington Asset Management in VCERA's global equity platforms.

Mr. Vandolder reported on the status of discussions with Acadian concerning performance-based fees. Board members expressed support for pursuing the fee arrangement represented by Acadian during the October 11, 2007 Board Retreat.

Mr. Vandolder discussed several economic themes that have occurred recently including the slowdown in the real estate market, the falling dollar, the potential for the manufacturing sector to improve due to the falling dollar and the upcoming national election in 2008. Mr. Vandolder
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

noted that the stock market was currently trading at a relative low historic multiple (15.6) and also indicated that several economists were worried about “stagflation” where the economy was experiencing a slowdown during a period of rising prices.

Mr. Vandolder also addressed investment performance during the month of November noting that the S&P 500 returned -4.2% during the month. November was, according to Mr. Vandolder, the worst month for equity returns in the last five years. Overall, VCERA’s domestic equity portfolio was down 4.7% during the month as LSV Asset Management and the Western U.S. Index Plus account underperformed their respective benchmarks. VCERA’s global equity strategy outperformed the market during the month; however, the out-performance in global equity was offset by underperformance in VCERA’s international equity and fixed income portfolios.

The Board held discussions on the value of due diligence visits with Chairman Towne noting similar discussions taking place at the recently concluded Public Funds Board Forum that was held in San Francisco December 9 -11.

Mr. Hansen moved, seconded by Mr. Matheney, to receive and file the Monthly Investment Performance Update and Monthly Manager Updates/Summary.

Motion Passed.

Mr. Harris moved, seconded by Mr. Matheney, to receive and file the Performance Report for the quarter ending September 30, 2007.

Motion Passed.

4. International and Domestic Equity Allocation Presentation.

Mr. Vandolder began his presentation by referencing Professor William Sharpe’s statement regarding how investors with little or no knowledge regarding market conditions should default to the weightings of the world markets as a default position.

Mr. Vandolder discussed his recommendation to transition a portion of domestic equity assets into international equity positions. Reasons cited
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

for the transition include the elimination of the “home country bias”, risk reduction, greater optimism for international markets when compared to the domestic market, similar strategies being adopted by VCERA’s peers and financial theory that recommends investing in-line with the global opportunity set. Mr. Vandolder noted that the United States is currently 44% of the global opportunity set, yet VCERA invests 75% of its assets domestically. The recommendation being set forth would be to move forward, in two steps, to a 50:50 equity split between domestic and international equity.

Mr. Matheney questioned the regulatory environment in overseas markets.

Mr. Vandolder reviewed the effects the value of the U.S. Dollar has had on international equity returns since 1996.

Mr. Wilson observed that actual returns overseas have been less than domestic returns after factoring in the effects of currency translation and VCERA would be taking a “bet” against U.S. currency with the strategy.

Mr. Vandolder discussed the risk and return characteristics of different mixes between international and domestic equities and how VCERA could implement the transition between domestic and international equities in two phases.

Mr. Goulet questioned why VCERA would want to change at all given the expected returns on page 10 of the presentation were virtually the same at the different allocation levels.

Chairman Towner noted that the one of the basic tenets of this discussion was the level of active management versus passive management to be maintained in the equity allocations and once that level was determined then the Board could move forward with implementing the transition.

Mr. Goulet noted Delta’s consistent investment performance over the years and the disappointing results achieved by LSV and Wasatch.

Mr. Vandolder discussed how the transition was designed to remove equal amounts from the managers in proportion to the market as a whole.

Mr. Hansen reflected on Delta’s organizational changes.
V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Matheney stated that he was looking for a compelling argument to make this change and cited the unknown risks of investing internationally and the patience we have showed with many of our investment managers. Mr. Matheney also questioned whether VCERA should take money away from Delta after VCERA has shown patience and it is now paying off.

Mr. Hoag noted the “fair” manager rating assigned by EnnisKnupp to Delta Asset Management.

Mr. Wilson recalled that Delta’s performance over the years was for the most part mediocre and under the principles of rebalancing saw this as an opportune time to remove funding given their recent out-performance. Mr. Wilson also expressed reservations regarding increasing the international equity portion of VCERA’s portfolio after the recent five-year period of positive results.

Mr. Harris questioned whether the transition could be accomplished by moving funding from one index fund to another and Mr. Vandolder indicated that VCERA certainly could do this. Mr. Vandolder also indicated, in response to Mr. Wilson’s concerns regarding market-timing, that VCERA should dollar cost average when increasing international investments.

Mr. Harris asked if this was a step toward getting away from active management, and Mr. Vandolder indicated that it was such a step. Mr. Towner stated that investment performance is driving VCERA toward passive management and he identified factors in the foreign markets that make the recommended action a natural progression.

Mr. Hansen questioned Mr. Vandolder’s outlook for international markets and Mr. Matheney questioned whether this discussion warranted inclusion on the agenda for the next board investment retreat.

Mr. Wilson and staff discussed the reasons for increasing VCERA’s international investments.

Ms. Becker summarized that the Board faced two decisions. First, whether to allocate VCERA’s equity assets in the ratio of 65% domestic equity and 35% international equity and second, how to implement such a decision.
V. **INVESTMENT INFORMATION (continued)**

A. EnnisKnupp & Associates. (continued)

Ms. Becker moved, seconded by Mr. Harris, to target VCERA’s equity allocation to be a 65:35 split between domestic and international equity from the current 75:25 allocation.

Motion Passed. Mr. Matheney opposed.

Mr. Goulet noted the fees paid to VCERA’s domestic active managers and noted his support to remove funding from LSV and Wasatch given their performance and fee levels.

Mr. Wilson stated support for Mr. Goulet’s position and noted that the Board may be reaching a decision point regarding the retention of LSV Wasatch and Delta due to increasing difficulty in adding value in the market segment in which these managers invest. Mr. Wilson noted that VCERA can cover this market segment with a passive index.

Staff and consultant suggested that the issue regarding the level of active management to be maintained in the domestic and international equity portfolios could be addressed at the February 25, 2008 business meeting.

Mr. Wilson moved, seconded by Mr. Matheney, to follow staff’s suggestion to utilize the indexed assets to move to the 65:35 allocation and continue the discussion on the level of active management to the February business meeting.

Motion Passed.

5. Memorandum – Due Diligence Site Visit to LSV.

Mr. Goulet moved, seconded by Mr. Matheney, to receive and file the EnnisKnupp memorandum on the LSV site visit.

Motion Passed.

VI. **NEW BUSINESS**

A. Letter from Staff Recommending Approval of the 2008 Fee Schedule for EnnisKnupp.

Mr. Goulet moved, seconded by Mr. Harris, to approve the 2008 fee schedule for EnnisKnupp & Associates.
VI. **NEW BUSINESS** (continued)

A. Letter from Staff Recommending Approval of the 2008 Fee Schedule for EnnisKnupp. (continued

Motion Passed.

Mr. Goulet requested that staff annotate that the investment agreement had been previously modified to include 8 site visits rather than the 12 site visits stated in the agreement.

B. Quarterly Administrator's Travel Report.

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

Motion Passed.

VII. **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.

VIII. **INFORMATIONAL**

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

IX. **PUBLIC COMMENT**

Staff reminded the Board that the review of the June 30, 2007 actuarial report was scheduled for January 28, 2008. Staff also provided copies of the County of Ventura's response to the Board of Retirement regarding STAR COLA and the recently issued IRS Private Letter Ruling discussing disabilities granted under Government Code section 31720.5.

Ms. Nemiroff provided an update on the Lexin case. Ms. Nemiroff provided further explanation of the PLR concerning taxability of benefits granted under 31720.5, and announced that the Supreme Court has granted the petition for review in the Lexin case.
X. BOARD MEMBER COMMENT

Mr. Towner commented further on his participation in the Public Board Forum in San Francisco the previous week.

XI. ADJOURNMENT

There being no further items of business before the Board and upon the motion of Mr. Henderson, seconded by Mr. Harris, Chairman Towner adjourned the meeting at 11:40 a.m.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman