

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

DECEMBER 20, 2010

MINUTES

**DIRECTORS
PRESENT:**

Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Don Hansen, Assistant Treasurer – Tax Collector
Albert G. Harris, Public Member
Karen Anderson, General Employee Member
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

**DIRECTORS
ABSENT:**

Peter C. Foy, Public Member
Joseph Henderson, Public Member

**STAFF
PRESENT:**

Tim Thonis, Retirement Administrator
Henry Solis, Chief Financial Officer
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 20, 2010 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Harris moved, seconded by Ms. Anderson, to approve the agenda.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of December 6, 2010.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of December 6, 2010.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of November 2010.

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments and Cash Equivalents for the Month Ended October 31, 2010.

C. Report of Checks Disbursed in November 2010.

D. Budget Summary for the Month Ended October 31, 2010, Fiscal-Year 2010-11.

E. BlackRock Asset Management 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, 2010.

F. Guggenheim Real Estate Annual Performance Update.

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

Motion Passed.

V. INVESTMENT INFORMATION

- A. RREEF America III Annual Investment Presentation, Jay Miller, Director, Portfolio Management.

Jay Miller was present from RREEF America III to discuss the fund's organization, economic outlook and performance.

Mr. Miller noted that RREEF is 100% owned by Deutsche Bank who had been a great partner as the fund restructured its debt by providing \$37 million in working capital and keeping the management team stable. Currently, RREEF managed some \$17 billion in real estate assets with approximately 25% of the amount in value-added strategies such as the RREEF America III fund. Mr. Miller provided background on RREEF's new Executive Officer, Pierre Cherki. According to Mr. Miller, Mr. Cherki comes to RREEF after a long career with Deutsche Bank with a proven track record of strong performance growth achieved with absolute transparency.

In terms of the economic outlook, Mr. Miller noted that GDP growth will be driven by both consumers and businesses with a major hurdle for growth being uncertainty in the labor market. In terms of property types, Mr. Miller opined that the apartment sector was expected to perform well, the industrial sector was expected to stabilize, the office sector was not expected to rebound until 2014 and the retail sector would be the hardest hit because of the decline in U.S. consumption growth.

Mr. Miller reviewed RREEF America III's debt restructuring activity from 2009 and also reviewed the fund's long-term strategic goals of maximizing shareholder recovery, balancing the fund's risk/return characteristics with the liquidity requirements to meet debt maturities and shareholder distributions and to allow time for asset prices to stabilize.

As of October 1, 2010, RREEF America III had a gross market value of \$1.9 billion, \$1.4 billion in total debt, 118 investors and properties held in the fund were 78% occupied. In terms of the fund's sector diversification, office was the largest component at 36%, apartments were 13%, development projects comprised 25% with industrial, retail and land making up the balance of the fund. Geographically, the majority of fund holdings were in the Pacific, Northeast and Southern regions of the United States.

RREEF America III returned 14.3% during the third quarter of 2010, according to Mr. Miller. For the one year period ending September 30th, the fund's return was -5.8%. Mr. Miller stated the primary driver of the third quarter return was the sale of the Market Center office building in San

V. INVESTMENT INFORMATION (continued)

A. RREEF America III Annual Investment Presentation. (continued)

Francisco. Mr. Miller stated that Market Center was the fund's largest asset. The property was 17% occupied when purchased and was 90% leased at the time of sale. The property sold for \$267 million with RREEF America III recognizing \$121 million from the sale. Other property sales during the quarter that contributed to the fund's total return included Torrey Reserve West and Mill Creek.

Other achievements during the quarter were an increase in net asset value of approximately \$37 million, a \$200 million reduction in property level debt and an increase in total capital available for operations of \$31 million.

Mr. Miller reviewed RREEF America III's development projects in response to a question from Mr. Johnston. In summary, Mr. Miller stated that the Riverside Apartment/Condominium development in New York City was meeting project goals, the Domain in Austin Texas was moving forward as expected, the Sunnyvale project was a complete loss and RREEF was currently working with property lenders on restructuring the debt for the Ontario (CA) Airport Tower.

Mr. Goulet requested and received clarification on the "cost-to-date" column on page 48 of the presentation book.

In conclusion, Mr. Miller summarized the risks to the fund including the \$96 million of properties in the Silicon Valley, the Riverside Development Project in New York City and the development of new business areas given the current risk/reward spectrum of the institutional real estate market.

Mr. Towner requested and received clarification on how the recent tax law changes may impact the multi-family sector of the market.

B. Hewitt EnnisKnupp, Kevin Vandolder.

1. Monthly Investment Performance Update, November 2010.
2. Monthly Manager Updates/Summary, November 2010.
 - a. Sprucegrove
 - b. Capital Guardian
 - c. Artio
 - d. GMO
 - e. Acadian

V. INVESTMENT INFORMATION (continued)

B. Hewitt EnnisKnupp. (continued)

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

Mr. Kevin Vandolder was present to discuss VCERA's investment returns during November.

Mr. Vandolder reviewed the current market environment and commented that stocks were up some 20% since August, that there was little confidence globally in the U.S. Dollar as exhibited by current gold and currency prices, and the yield curve remained steep. Mr. Vandolder stated that the real estate sector had held up well recently and opined that we were beginning a recovery phase in the asset class. Additionally, Mr. Vandolder noted that active strategies were beginning to add value, especially in international/global strategies.

In terms of VCERA, Mr. Vandolder noted the portfolio's performance for the month was down 70 basis points (-.70%), with the Western Index Plus portfolio continuing to add to VCERA's relative performance, Sprucegrove and Artio protected value in the international equity portfolio and Acadian protected value in the global equity portfolio due to stock selection. In terms of the fixed income managers, Mr. Vandolder stated that Western and Reams protected value during a down month for fixed income.

Both Mr. R. Hansen and Mr. Hoag expressed their lack of confidence in Artio as a manager.

Mr. Johnston and Mr. Vandolder discussed the merits of investing in emerging markets.

Mr. Wilson and Mr. Vandolder discussed the role of fixed income going forward given the on-going inflation/deflation debates and current interest rate levels.

3. Highlights and Research Report, December 2010.

a. Market Environment

Mr. Vandolder incorporated his comments on the market environment during his discussion of VCERA's returns for the month of November.

V. INVESTMENT INFORMATION (continued)

B. Hewitt EnnisKnupp. (continued)

b. Global Equity Search

Mr. Vandolder provided background on Hewitt EnnisKnupp's competitive review of global equity managers including Acadian Asset Management. According to Mr. Vandolder, Acadian continues to attract significant investment talent and remains a highly regarded investment management firm. Mr. Vandolder also provided a brief review of alternative global equity managers including Arrowstreet, D.E. Shaw, Fisher and Templeton. Correlation statistics were provided, measured against the returns for GMO, for all the manager candidates with Arrowstreet and Fisher providing the desired negative correlation results.

In conclusion, Mr. Vandolder recommended that Acadian Asset Management remain on VCERA's watch list for the next six months given their recent improved relative performance.

Mr. Wilson moved, seconded by Mr. R. Hansen, to extend the "Watch List" status for Acadian Asset Management for an additional six months.

Motion passed.

Staff and investment consultant were directed to update the Board regularly on Acadian Asset Management's relative performance.

c. Mercer Report

In terms of the Mercer Report, Mr. Vandolder commented on VCERA's low percentage of active management (page #37) indicating that VCERA's investment program was very risk controlled and cost contained. Additionally, Mr. Vandolder reviewed VCERA's investment returns relative to peers over 1-year, 3-year, 5-year and 10-year periods. As was noted in November, VCERA's relative performance versus peers is strong over the near term and deteriorates relative to peers over longer periods. Mr. Vandolder opined that the difference in relative under-performance for VCERA was less than 50 basis points (.50%) over the longer periods and was driven by VCERA's policy portfolio. Mr. Vandolder argued that active management added 40 basis points (.40%) annually to VCERA's ten year return number.

V. INVESTMENT INFORMATION (continued)

B. Hewitt EnnisKnupp. (continued)

d. Artio Global Memorandum

Mr. Vandolder reviewed VCERA's Watch List Policy and discussed the parameters for placing an investment manager on "Watch". In conclusion, Mr. Vandolder recommended that Artio Global Investors be placed on "Watch" for failure to meet performance objectives or goals. Since inception, Artio Global Investors trails the benchmark return by 790 basis points (7.90%) annualized through November 30, 2010.

Mr. R. Hansen moved, seconded by Mr. Harris, to place Artio Global Investors on VCERA's "Watch" list.

Motion passed.

Staff and investment consultant were directed to update the Board regularly on Artio Global Management's relative performance.

e. AlphaEngine Global Investment Solutions Memorandum

Mr. Vandolder reviewed the tactical rebalancing strategy employed by AlphaEngine including the factors used in making recommendations. Mr. Vandolder discussed how risk for the strategy could be controlled by using "tight/strict" bands around the Policy Portfolio asset allocation weightings. Mr. Vandolder also noted that Hewitt EnnisKnupp had not recommended AlphaEngine to any clients. In conclusion, Mr. Vandolder recommended the Board invite AlphaEngine to make a presentation in either February or March as part of VCERA's ongoing due diligence.

Mr. Goulet requested Hewitt EnnisKnupp identify other investment management firms who offer tactical rebalancing strategies to clients.

Mr. D. Hansen moved, seconded by Mr. R. Hansen, to invite AlphaEngine to make a Board presentation in either February or March of 2011.

Motion passed.

f. CAFR Memorandum

Mr. R. Hansen moved, seconded by Mr. Harris, to receive and file Items A, C, and F of Hewitt EnnisKnupp's December 2010 Highlights and Research book.

Motion passed.

V. INVESTMENT INFORMATION (continued)

C. Authorized Signatories – Hexavest, Inc.

Staff recommended the Chairman be authorized to sign the Hexavest letter detailing VCERA's authority to open an investment account, and the VCERA individuals authorized to provide account instructions.

Staff expressed its frustration with the continuing documentation requests from the new international equity managers, Hexavest and Walter Scott.

Mr. R. Hansen moved, seconded by Mr. Goulet, to authorize the Chairman to sign the letter to Hexavest detailing VCERA's statutory authority to open an investment account and the VCERA representatives authorized to provide account instructions.

Motion passed.

VI. NEW BUSINESS

A. Staff Update on Office Space Lease Renewal Process.

Staff provided a brief update on the recently initiated lease renewal negotiations and offered to keep the Board updated on the negotiations.

Mr. Goulet questioned whether the cost of additional furniture had been factored into the tenant improvement/construction costs.

Mr. R. Hansen moved, seconded by Mr. Harris, to receive and file staff's update on the Office Space Lease Renewal Process.

Motion passed.

B. Staff Recommendation to Retain Brown Armstrong Accountancy Corporation.

Staff reviewed Brown Armstrong Accountancy Corporation's (Brown Armstrong) contract renewal offer for auditing services. In summary, Brown Armstrong offered to audit VCERA's annual financial statements over the next three years at the existing annual rate of \$42,240 and staff recommended the Board renew VCERA's agreement with Brown Armstrong.

VI. NEW BUSINESS (continued)

- B. Staff Recommendation to Retain Brown Armstrong Accountancy Corporation. (continued)

Mr. R. Hansen moved, seconded by Mr. Harris, to extend the service agreement for auditing services with Brown Armstrong.

Motion passed.

- C. Letter from Kevin Vandolder Regarding Hewitt EnnisKnupp 2011 Fee Proposal.

Mr. Vandolder proposed a renewal of the Hewitt EnnisKnupp consulting arrangement for 2011 with a 1% fee increase due to rising overhead costs and the increasing complexity of VCERA's portfolio.

Mr. Towner requested and received clarification on how wage inflation was impacting Hewitt EnnisKnupp's costs.

Mr. R. Hansen moved, seconded by Mr. Harris, to approve Hewitt EnnisKnupp's fee proposal for 2011.

Motion passed. Mr. Towner opposed.

- D. Recommendation to Amend VCERA's Placement Agent Policy Due to the Passage of AB 1743.

Staff recommended the approval of an amendment to VCERA's Placement Agent Policy as a result of the passage of AB 1743.

Staff provided background information on the passage of AB 1743 and discussed the specific change to VCERA's Placement Agent Policy regarding marketing personnel from VCERA's external investment managers as required by the new legislation.

Mr. Goulet suggested that the reference to AB 1743 in the glossary section of the Placement Agent Policy be changed to Government Code section #82047.3.

Mr. R. Hansen moved, seconded by Mr. Goulet, to approve the recommended change to VCERA's Placement Agent Policy incorporating the reference change to the California Government Code.

Motion passed.

VI. NEW BUSINESS (continued)

E. Proposed VCERA Special District Legislation.

Staff discussed how obtaining "Special District" status may provide the Board with additional discretion in establishing employment terms for specified VCERA employees. Additionally, staff identified the Government Code sections (#31468 and #31522.5) authorizing "Special District" status and provided suggested language to amend Government Code sections #31468 and #31522.5 to make VCERA a "Special District".

Mr. Wilson requested and received clarification on whether VCERA employees would still be eligible to participate in the retirement system if "Special District" status was achieved.

Mr. Goulet and Ms. Anderson expressed support for the concept and recommended, due to time constraints, that VCERA identify a legislator willing to assist VCERA in sponsoring the required legislative changes.

Mr. R. Hansen reminded the Board that Supervisor Foy indicated, at a previous meeting, that he would be offering the County of Ventura's view on the subject and recommended the Board defer any action on the subject until after hearing from Supervisor Foy.

Mr. Wilson questioned whether or not VCERA could find a legislator to assist with sponsoring the legislation if the County of Ventura was not in favor of VCERA obtaining "Special District" status.

Mr. Goulet moved, seconded by Mr. R. Hansen, to defer discussions on "Special District" status until January 3, 2011, in order to allow the County of Ventura an opportunity to provide input on the subject.

Motion passed.

F. Request to Attend CALAPRS Trustees' Roundtable.

Ms. Anderson moved, seconded by Mr. Wilson, to approve Mr. Goulet's travel to attend the CALAPRS Trustees' Roundtable.

Motion passed.

VI. NEW BUSINESS (continued)

G. Administrator's Quarterly Reporting of Travel and Other Expenses.

Ms. Anderson moved, seconded by Mr. Goulet, to receive and file the Administrator's Quarterly Reporting of Travel and Other Expenses.

Motion passed.

VII. INFORMATIONAL

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. RREEF Americas Conference Announcement, March 29-30, 2011, San Francisco, CA.

C. UBS Global Asset Management 2011 Client Conference Announcement, April 9-13, 2011, Newport Beach, CA.

D. Pension Bridge Annual Conference Announcement, April 12-14, 2011, San Francisco, CA.

VIII. PUBLIC COMMENT

Staff provided the June 30, 2010 actuarial valuation and reminded the Board that consideration of the valuation must be deferred for twenty days in order to allow the County of Ventura's labor groups the opportunity to review the report. Staff requested that any specific questions related to the valuation be provided prior to the January 24, 2011 business meeting.

IX. BOARD MEMBER COMMENT

Mr. Goulet requested staff provide VCERA's newest trustee, Mr. Hintz, with copies of pertinent board policies.

Mr. Hansen requested that consideration of "Special District" status be set for "time certain" on January 3, 2011.

Mr. Towner reported on VCERA's recent meeting with Western Asset Management. Mr. Towner noted how Western's CIO, Stephen Walsh, spent close to two hours discussing performance and organizational issues with

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

VCERA representatives, including Mr. Johnston and Mr. Thonis. Mr. Towner characterized Mr. Walsh's comments as being very candid and straightforward and discussed how Mr. Walsh took full responsibility for Western Asset Management's underperformance in 2008/09.

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. R. Hansen, seconded by Mr. Harris.

Respectfully submitted,


TIM THONIS, Retirement Administrator

Approved,


TRACY TOWNER, Chairman