

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### BUSINESS MEETING

FEBRUARY 23, 2009

### 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  
Chris Johnston, Alternate Employee Member

**DIRECTORS ABSENT:** None.

**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 February 23, 2009 to order at 9:00 a.m.

**II. APPROVAL OF AGENDA**

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

Motion passed.

**III. APPROVAL OF MINUTES**

**A. Disability Meeting of February 2, 2009.**

Ms. Becker moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of February 2, 2009.

Motion passed.

**IV. CONSENT AGENDA**

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of January 2009.**
- B. Statement of Plan Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, and Schedule of Investment Management Fees for the Month Ended December 31, 2008.**
- C. Report of Checks Disbursed in January 2009.**
- D. Budget Summary for the Month Ended January 31, 2009, 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 January 31, 2009.**
- F. Quarterly Real Estate Reports for Period Ending December 31, 2008.**
  - 1. UBS**
  - 2. Prudential**
  - 3. RREEF**
  - 4. Guggenheim**

IV. CONSENT AGENDA (continued)

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

Motion passed.

V. INVESTMENT INFORMATION

- A. Prudential Real Estate Investors Annual Investment Presentation, Mark Oczkus, Principal and Joanna Mulford, Principal.

Mark Oczkus and Joanna Mulford were present from Prudential Real Estate Investors to review Prudential's organization, investment process and investment results for VCERA's PRISA Core Real Estate account.

Mr. Oczkus stated that the "soft landing" Prudential wished for in the fourth quarter failed to materialize as evidenced by PRISA's -14.5% negative return during the period.

According to Mr. Oczkus, VCERA has earned an annualized return of 7.9% since investing in PRISA and seen its initial \$60 million investment at March 31, 2005 grow to \$81.6 million as of December 31, 2008.

Ms. Mulford noted significant deterioration within the total real estate market in 2008 as transaction activity fell off, financing became scarce and there was continued ongoing pressure on valuations. The valuation declines were very broad based with no significant variations among property types or locations. Additionally, Ms. Mulford stated there was no new construction taking place within the market.

Mr. Foy questioned whether Prudential was caught off guard by the economic downturn and Ms. Mulford responded that Prudential was not surprised by the decline, but was surprised by its magnitude.

Ms. Mulford explained how PRISA was focused upon the income return component generated by its holdings and noted that leverage was currently 31% of the portfolio. The leverage within the portfolio is typically 20-25% according to Ms. Mulford, but was currently higher due to valuation declines.

In terms of performance during 2008, PRISA's income return was 5.27% while the appreciation component was -18.25%, translating to a total return

V. INVESTMENT INFORMATION (continued)

A. Prudential Real Estate Investors Annual Investment Presentation.  
(continued)

of -12.98% according to Ms. Mulford. The declines in the portfolio were attributed to higher cap rates, aggressive appraisals and the lack of investors within the marketplace.

Mr. Wilson questioned the effect of inflation on PRISA's returns. Ms. Mulford responded that inflation, although increasing rents, typically raises cap rates resulting in absolute income returns being flat to negative.

On a relative basis, PRISA underperformed its NFI-ODCE benchmark by approximately 300 basis points (3%) for the one year period, but has outperformed over the five and ten year periods.

Mr. Vandolder questioned PRISA's use of forward commitments to which Ms. Mulford replied that such commitments were limited to 15% of the portfolio and were based upon development opportunities within the marketplace. Ms. Mulford noted that PRISA does not accept construction risks within these commitments, but does accept leasing risks and, at a minimum, requires 100 basis points (1%) premium on total expected returns. Further, such commitments have no impact on PRISA's liquidity. Ms. Mulford also noted that there was value deterioration within PRISA's forward commitments in 2008.

Going forward, Ms. Mulford stated that PRISA's focus would be on tenant retention, lease renewals with low capital expenditures and tax relief in areas where property values have fallen.

In terms of debt, Ms. Mulford stated that approximately 16% of PRISA's debt was coming due in 2009 with another 13% in 2010. Ms. Mulford noted that PRISA is working with lenders to arrange some extensions and partial pay downs of the 2009 and 2010 maturities.

Mr. Wilson questioned the cost to refinance in 2009 to which Ms. Mulford responded that rates were approximately 300 basis points (3%) over LIBOR.

Mr. Oczkus noted that many PRISA clients are rebalancing portfolios due to underperformance of other asset classes. Current client requests total

V. INVESTMENT INFORMATION (continued)

- A. Prudential Real Estate Investors Annual Investment Presentation.  
(continued)

approximately \$1.4 billion which is approximately 14% of the portfolio. Prudential will not be making any capital disbursements in the first quarter of 2009.

Going forward, PRISA expects 2009 total returns to be -7% to -12% with the income component being 6% and appreciation being -13% to -18%.

- B. UBS Global Asset Management Annual Investment Presentation, Deborah Ulian, Client & Portfolio Services.

Deborah Ulian was present from UBS Global Asset Management to review UBS' organization, investment process and investment results.

Organizationally, Ms. Ulian noted the distinctions within UBS between the Global Asset Management group, which includes the Trumbull Property Fund, and other areas such as the Investment Bank and Global Wealth Management divisions that have recently been in the headlines.

Ms. Ulian noted the global real estate presence of UBS along with the multiple real estate strategies UBS maintains on the risk/reward spectrum. Ms. Ulian stated that the Trumbull Property Fund was within the UBS core strategy group.

Ms. Ulian noted that a contributor to the economic slow down in 2008 was the decline in commercial mortgage originations and a corresponding slight rise in bank and mortgage delinquencies. Ms. Ulian opined that the fundamentals of the mortgage industry are intact and not as worrisome as the market makes it appear.

Going forward in 2009, UBS expects a sliding economy with real estate performance being similar to that of 2008. UBS also expects cap rates to rise and total returns to be in the -5% range.

Ms. Ulian reviewed VCERA's current portfolio which is valued at \$96.3 million with strong long term performance. The Trumbull Property Fund focuses on income appreciation with low debt levels and no forward commitments. Currently, 94% of the properties are leased with only 7% lease expirations in 2009.

V. INVESTMENT INFORMATION (continued)

B. UBS Global Asset Management Annual Investment Presentation.  
(continued)

In terms of performance, the Trumbull Property Fund outperformed the NFI-ODCE in 2008 by 250 basis points (2.5%) and has outperformed the NFI-ODCE over the last three, five and ten year periods.

Ms. Ulian also noted that since inception, the Trumbull Property Fund has provided a real rate of return in excess of 5% before management fees.

Mr. Wilson questioned the Trumbull Property Funds appraisal policy to which Ms. Ulian responded that typically 25% of the properties are appraised each quarter with the balance subject to a "stress test".

Ms. Ulian noted that during the fourth quarter 80-85% of the properties were appraised due to market conditions.

Going forward, Ms. Ulian anticipated returns in 2009 to be in the -4% to -6% range with the income component being approximately 5% and appreciation being -9% to -11%.

Mr. Towner questioned the high turnover within employees at the Director level over the past two years to which Ms. Ulian responded many were due to planned retirements and changes within the valuation group at UBS.

C. EnnisKnupp & Associates, Kevin Vandolder and Shane Shurter.

Kevin Vandolder and Shane Shurter were present from EnnisKnupp to review the materials provided by EnnisKnupp and to assist the Board with a review of Currency Manager candidates.

1. Monthly Investment Performance Update, January 2009.
2. Monthly Manager Updates/Summary, January 2009.
  - a. Sprucegrove
  - b. Capital Guardian
  - c. GMO
  - d. Acadian
  - e. Western
  - f. Reams
  - g. Loomis Sayles

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Vandolder reviewed VCERA's preliminary investment performance for the month of January and noted VCERA's total return of -5.1% versus a -5.9% for VCERA's policy portfolio. The relative out-performance of VCERA's portfolio was attributable to Western Asset Management within the domestic equity portfolio, Sprucegrove and GMO within the international and global equity portfolios and Western Asset Management within the fixed income portfolio.

As of January 31, 2009, VCERA's assets were \$2.06 billion.

3. Quarterly Performance Report for Period Ended December 31, 2008.

Mr. Shurter noted the total plan value of \$2.2 billion as of December 31, 2008 and further noted the plan's over allocation to fixed income that was attributable to the relative underperformance of the equity portfolios.

Mr. Vandolder noted that EnnisKnupp and staff were working on this issue with The Clifton Group and BGI and have since rebalanced within policy ranges.

Mr. Goulet questioned whether it was appropriate to be applying a traditional asset allocation model today given the extraordinary market conditions that exist today. Mr. Vandolder responded that the traditional asset allocation model was still appropriate, but he would be discussing various market dislocation strategies later in the meeting.

For the quarter, VCERA's return was, according to Mr. Shurter, -16.9%. For the year ending December 31, 2008 VCERA's total return was -30.7% which underperformed VCERA's policy portfolio by 3.5%. The underperformance was attributable to Western Asset Management's equity allocation and VCERA's active fixed income managers.

Mr. Wilson questioned the level of patience VCERA should maintain in its review of fixed income managers. Mr. Vandolder opined that three to four years would be appropriate and EnnisKnupp would be concerned should the active managers change their investment philosophies.

Mr. Wilson also questioned whether VCERA had the ability to "lock in" some of the attractive fixed income streams that are available in today's market to

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

which Mr. Vandolder responded that such income streams would be very attractive if the plan were closed, but would not be recommended today due to the plan's current funded status.

4. Currency Manager Candidates for Ventura County Employees' Retirement Association.

Mr. Shurter stated that VCERA's investment in an active currency strategy would be accomplished in order to produce Alpha and the investment would not be related to the underlying portfolio.

According to Mr. Shurter, the primary reasons for investing in currency include taking advantage of market inefficiencies that exist due to forced market participants, such as companies buying/selling goods in foreign markets, as well as other structural inefficiencies that exist within currency markets. An example of a structural inefficiency would be the use of forward contracts by currency traders that typically are not a good indicator of actual future exchange rates:

Mr. Shurter noted that active currency managers could be characterized in three ways: trend/momentum, carry/yield and valuation/purchasing power parity. Additionally, certain managers may employ volatility strategies as a compliment to their primary strategy.

Mr. Shurter provided a brief summary of separately managed active currency strategies that involve the concepts of notional amounts and risk budgets. Typically, separately managed strategies are implemented with no invested capital, with exposures obtained by using lines of credit with counterparties and when gains and/or losses exist an investor either sends or receives capital. A primary risk is unplanned cash outflows.

In terms of comingled fund structures, the liability of an investor is limited to the initial capital outlay. Other benefits include minimal administration. Mr. Shurter recommended VCERA pursue a comingled investment vehicle structure should a decision be made to allocate assets for an active currency strategy.

Mr. Shurter then provided a summary of the strengths and weaknesses of Barclay's Global Investors (BGI), State Street Associates, Millennium Global Investments and First Quadrant.



V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

According to Mr. Shurter, BGI employs elements of the carry trade, momentum and purchasing power parity in managing currencies and would be a good fit should VCERA decide to hire one currency manager. In terms of weakness, Mr. Shurter cited BGI's large organizational structure.

First Quadrant was characterized as a smaller BGI with fewer people involved in the decision making process. Further, Mr. Shurter noted that First Quadrant did not currently offer a comingled investment vehicle for currencies, but was willing to start with a seed investor such as VCERA. A benefit to being the initial investor would be a favorable fee agreement.

Mr. Shurter characterized Millennium as a discretionary manager that focused upon fundamentals to extract value from the currency markets.

Finally, Mr. Shurter reviewed State Street Associates noting their quantitative and technical style that was designed to exploit the forward rate bias in currency markets. Organizationally, State Street Associates is a combination of State Street and Wyndham Capital with Mark Kritzman leading their efforts. Mr. Kritzman is one of the industry leaders in currency management and Mr. Shurter opined that State Street Associates should be hired as a complement to one of the other three managers and should not be hired as VCERA's sole currency manager.

Mr. Goulet questioned and received clarification regarding the score assigned to State Street Associates, specifically regarding past performance.

Mr. Wilson questioned the advantage within the trading room of large global investors such as BGI.

Mr. Goulet questioned and received clarification regarding how performance fees are calculated for active currency managers.

Mr. Wilson summarized that active currency management is a difficult area, but there are opportunities for successful active management. Further, Mr. Wilson stated he would like to see VCERA pursue hiring a couple of managers with small allocations.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Wilson moved, seconded by Mr. Henderson, to invite BGI, First Quadrant and State Street Associates to make presentations to the Board at a future date.

Mr. Henderson questioned whether there were political considerations regarding investing in this type of non-traditional investment given the extraordinary market conditions.

Mr. Johnston stated he shared Mr. Henderson's concerns but noted the lack of correlation to VCERA's other investments as being the reason for his present support.

Mr. Hansen indicated his concern for making changes within VCERA's investment program at this time given the present market conditions.

Motion passed. Mr. Hanson and Mr. Harris opposed the motion.

5. Opportunities from the Market Dislocation.

Mr. Vandolder provided a brief discussion regarding certain investment opportunities that have arisen within these challenging markets, for example, investments in firms that are involved in the lending process such as Direct Lending and Mezzanine Funds. Other strategies discussed by Mr. Vandolder included investing in private equity secondary sale funds and distressed debt funds.

6. 2008 Capital Markets Review.

Mr. Vandolder characterized 2008 as a market driven by a flight to quality as illustrated by the prices and the yield of the ten year treasury note. Further, Mr. Vandolder noted the volatility within the markets during 2008 as measured by the VIX. In terms of returns, 2008 was one of the three worst years in U.S. equity markets with a return of -37.2%, international equity markets suffered its worst year since 1970 with returns of -43.3% and fixed income returns were within the expected range of 5.2%.

Ms. Becker moved, seconded by Mr. Wilson, to receive and file items 1., 2., 3., 5. and 6.

Motion passed.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

7. Memo – Open-End Core Real Estate Fund - Redemption Queue Update.

Mr. Vandolder summarized the investment queues for real estate redemptions for open-end active real estate funds

Mr. Wilson moved, seconded by Mr. Henderson, to receive and file the memo.

Motion passed.

8. Memo – RREEF America III Fund Update & Watch Status Recommendation.

Mr. Vandolder summarized the various issues being faced within the RREEF America III Fund including the negative absolute returns, 40% of the debt structure maturing in the short term, and the challenges faced in certain development projects such as the one in Sunnyvale, CA.

Mr. Vandolder recommended the Board place RREEF on its watch list per VCERA's investment policy.

Mr. Hanson moved, seconded by Mr. Wilson, to place RREEF on VCERA's watch list.

Motion passed.

9. Memo – Inflation Rate Forecast Inquiry.

10. Research Paper – *A Top Ten Checklist for Alternative Asset Investors. Madoff Securities, A Predictable Catastrophe.*

Mr. Goulet moved, seconded by Mr. Harris, to receive and file items 9. and 10.

Motion passed.

**VI. OLD BUSINESS**

- A. SACRS Fall Business Meeting; Co-Sponsorship of CRCEA Legislation.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file Staff's letter regarding SACRS co-sponsorship of CRCEA legislation.

Motion passed.

- B. Office Space Considerations.

Staff summarized their recent search efforts for office space in the Camarillo and Oxnard areas. Staff also provided a brief summary on a property located near the County Government Center and recommended that VCERA focus the search on the area with the greatest concentration of VCERA members during business hours.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file Staff's letter and to limit the search to areas that provide the greatest access to VCERA members.

Motion passed.

**VII. NEW BUSINESS**

- A. Letter from The Segal Company Regarding Ventura County Employees' Retirement Association Cost-of-Living (COLA) as of April 1, 2009.

Staff summarized The Segal Company letter and recommended approval of the Cost-of-Living Adjustments as detailed in the letter.

Mr. Wilson moved, seconded by Mr. Hansen, to approve the Cost-of-Living Adjustments provided by The Segal Company effective as of April 1, 2009.

Motion passed.

- B. Approval of the Contract Amendment; Western Asset Management.

Staff recommended approval of an amendment to Western Asset Management's (Western) management contract in order to permit Western execute on behalf of VCERA certain agreements and documents necessary in the establishment of a brokerage account. The request for the

VII. NEW BUSINESS (continued)

- B. Approval of the Contract Amendment; Western Asset Management.  
(continued)

amendment was made by Western due to the Lehman Brothers bankruptcy and Western will be contracting with Goldman Sachs for the brokerage services.

Mr. Hanson moved, seconded by Mr. Wilson, to approve the amendment to Western's management contract.

Motion passed.

- C. Approval of Updated VCERA Compensation Resolution.

Staff provided background and explanation for amending the January 3, 2005 VCERA Compensation Resolution and recommended the Board update the resolution as of February 23, 2009. Additionally, staff recommended the Board change its policy in examining future compensation levels.

Ms. Becker moved, seconded by Mr. Wilson, to amend VCERA's January 3, 2005 compensation resolution and adopt staff's recommendation.

Motion passed.

- D. Request to Attend Manatt, Phelps and Phillips Public Pension Fund Fiduciary Forum.

Mr. Hansen moved, seconded by Mr. Wilson, to approve staff's attendance at the Manatt Fiduciary Forum.

Motion passed.

- E. Board Member Conference Report – Art Goulet.

Mr. Wilson moved, seconded by Ms. Becker, to receive and file Mr. Goulet's conference report.

Motion passed.

VIII. INFORMATIONAL

- A. Publications (Available in Retirement Office)
  - 1. Institutional Investor
  - 2. Pensions and Investments
- B. Memorandum from GMO Introducing Marc Mayer as Chief Executive Officer and Board Member Effective March 2, 2009.
- C. Memorandum from SACRS Naming Robert Palmer as Interim Executive Director.

IX. PUBLIC COMMENT

None.

X. BOARD MEMBER COMMENT

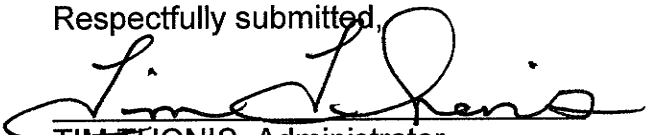
Mr. Wilson questioned whether any large investment management firms were going out of business given the current market conditions to which Mr. Vandolder responded that he was unaware of any large organizations leaving the industry.

Mr. Hansen expressed concern regarding the length of the meetings.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:30 p.m. upon the motion of Mr. Goulet, seconded by Mr. Henderson.

Respectfully submitted,

  
TIM THONIS, Administrator

Approved,

  
TRACY TOWNER, Chairman