VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JANUARY 25, 2010

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 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:	Lawrence L. Matheney, Treasurer, Ex-officio Member
STAFF PRESENT:	Tim Thonis, Retirement Administrator Henry Solis, Fiscal Manager 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 January 25, 2010 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 January 4, 2010.

Mr. Goulet requested the following changes be made to the minutes:

1) Eliminate the comma in the next to last line of paragraph #1 on page 3
2) Correct the reference to Government Code section in paragraph #3 on page 4 to 3208.31b from 3280.31b.
3) Insert language in paragraph #3 on page 7 to document that Mr. Goulet did not know the applicant personally.

Mr. Goulet moved, seconded by Ms. Becker, to approve the Minutes for the Disability Meeting of January 4, 2010, as amended.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of December 2009.

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments, Cash Equivalents and Schedule of Investment Management Fees for the Month Ended November 30, 2009.

C. Report of Checks Disbursed in December 2009.

D. Budget Summary for the Month Ended December 31, 2009, Fiscal-Year 2009-10.

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 December 31, 2009.

IV. CONSENT AGENDA (continued)

F. Quarterly Real Estate Reports for Period Ending December 31, 2009.

1. Prudential

2. Guggenheim

3. RREEF

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

Motion passed.

V. INVESTMENT INFORMATION

A. EnnisKnupp & Associates, Kevin Vandolder.

1. Monthly Investment Performance Update, December 2009.

2. Monthly Manager Updates/Summary, December 2009.

   a. Sprucegrove
   b. Capital Guardian
   c. Artio
   d. GMO
   e. Acadian
   f. Western
   g. Reams
   h. Loomis Sayles

Kevin Vandolder from EnnisKnupp & Associates was present to review VCERA's investment performance and monthly investment manager updates.

Mr. Vandolder noted the risks associated with the Chinese banking industry, the Obama Administration's yet to be determined policies for regulating the financial industry and the uncertainty regarding Mr. Bernanke's reappointment as the Federal Reserve Chairman as factors in the 5% decline in investment markets during the previous week.

V. INVESTMENT INFORMATION (continued)

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

As of December 31, 2009, VCERA's assets had grown to more than \$2.7 billion, according to Mr. Vandolder. The asset growth, from the low water mark earlier in 2009 of approximately \$1.9 billion, was fueled by sensational returns in both the equity and fixed income portfolios. For example, Western Asset Management's Index Plus strategy returned approximately 60% in 2009 and VCERA's total fixed income portfolio returned more than 25%. During the month of December, the portfolio returned 1.6% in the aggregate matching the return of the policy portfolio on a relative basis. In terms of individual managers, Sprucegrove outperformed during the month on a relative basis due to stock selection. Capital Guardian and Artio underperformed due to stock selection and country allocations. Western's fixed income portfolio outperformed due to its allocation to non-agency mortgages.

Mr. Vandolder directed the Board's attention to the Reams Asset Management monthly commentary, specifically to the language related to the threat of "deflation" and the "ever-present suffocating force" of the present debt levels in the developed world's economies. Mr. Vandolder noted the changes taking place within Reams Asset Management's portfolio related to this viewpoint, specifically in the portfolio's allocation to U.S. Treasuries.

3. Memorandum – Non-U.S. Equity Manager Search.

Mr. Vandolder provided the Board with a preview of the upcoming international equity review scheduled for February 22, 2010. In summary, Mr. Vandolder noted that the international equity discussion would include reviews of the investment capabilities of Arrowstreet, Fisher, Hexavest, Trilogy and Walter Scott.

4. Memorandum – Acadian Watch List Recommendation.

Mr. Vandolder reviewed VCERA's Watch List Policy and recommended that Acadian Asset Management be placed on VCERA's Watch List due to continued underperformance relative to their performance benchmark.

Mr. Hansen moved, seconded by Mr. Wilson, to approve EnnisKnupp's recommendation.

Motion passed.

V. INVESTMENT INFORMATION (continued)

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

5. Capital Market Assumptions – January 2010 Update.

Mr. Vandolder provided EnnisKnupp's semi-annual review of the firm's capital market assumptions. Mr. Vandolder described the components of the 8.5% U.S. equity stock return assumption noting the expected 4.3% growth in corporate earnings, the 2.4% inflation assumption and the 1.8% dividend yield. Mr. Vandolder also provided a brief review of the fixed income component assumptions and opined that VCERA's current 65% equity allocation was well supported by the current capital market assumptions.

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

Motion passed.

VI. NEW BUSINESS

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe.

Paul Angelo and John Monroe were present from The Segal Company (Segal) to present the results of the June 30, 2009 actuarial valuation.

Mr. Angelo noted the earlier work accomplished by the Board relative to the June 30, 2009 valuation. Specifically, Mr. Angelo referenced the Board's review of alternative investment return assumptions and alternative actuarial values of assets that were developed last September. In the September study, Segal projected an investment loss of 20% in fiscal year 2009 and an associated employer contribution increase of approximately 2.9%. The actual results of the valuation showed a 3.16% increase in employer contributions with the difference between the projected and actual results being attributed to an actual investment loss of 22%.

Mr. Angelo reviewed the plan's 15-year amortization of actuarial gains and losses, the 5-year smoothing of investment gains and losses, the decrease in the plan's funding status from 91% to 84%, the increase in the composite employer contribution rate from 16.03% to 19.19%, the increase in the average employee rate and the amount of total unrecognized losses remaining to be recognized over the next 5 years.

VI. **<u>NEW BUSINESS</u> (continued)**

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe. (continued)

As detailed on page #5 of the report, Mr. Angelo noted the $864 million of investment losses that will be recognized over the next five years and reminded the Board of the contribution rate projection graphs presented in September that illustrated the impact on employer contributions due to the future recognition of investment losses. Mr. Angelo further noted that approximately $200 million in investment losses per year will be recognized assuming the plan's return does not exceed 8% annually.

Mr. Angelo also described new disclosures related to the plan's funding status should the deferred losses be recognized immediately. In summary, Mr. Angelo stated the plan's funded status would be approximately 60% with an associated employer contribution rate of approximately 31%. Mr. Angelo then reminded the Board of the projections developed last September illustrating the plan's employer contributions reaching the 36% level due to investment losses. Mr. Angelo noted that the difference between the two rate levels may be attributed to the time value of money.

Mr. Towner requested and received clarification regarding the continuing growth in plan membership.

Mr. Goulet requested clarification regarding the material financial impact of plan assumption changes.

Mr. Angelo described how a change in the mortality assumption impacts plan liabilities. Specifically, that pension boards could choose not reset an actuarial assumption such as member mortality and continue to recognize actuarial losses year after year. Alternatively, pension boards could choose to change the assumptions today and recognize the present value of the cost increase immediately, rather than continuing to pay for the losses into the foreseeable future.

Mr. Goulet requested and received clarification on the impact of the refundabillity of the Tier II "COLA" benefit.

Mr. Towner requested appearances by the members of the public to speak on item VI.A.1.

VI. **NEW BUSINESS (continued)**

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe. (continued)

After listening to all public speakers and an oral response from Mr. Angelo relating to Item VI.A.1., Mr. Hansen moved, seconded by Mr. Harris, to adopt the June 30, 2009 actuarial report.

Motion passed.

1. Memorandum from SEIU Local 721's Actuary, Rael & Letson, Regarding VCERA Funding Policy Options.

Dera Saenz-Belden spoke on behalf of SEIU 721 and the Coalition of County Unions. Ms. Saenz-Belden stated that she had been employed by the County of Ventura Human Services Department for the past 10 years. Ms. Saenz-Belden offered her support of the memorandum prepared by Rael & Letson as it offered viable alternatives to the Board of Retirement in managing current pension costs given the economic conditions of declining revenues, increasing expenses and the ever increasing demands for social services.

Mike Kaplan, FSA, the author of the memorandum offered his background and experience as a consulting actuary. Mr. Kaplan recommended, in summary, that the Board of Retirement adopt either option #7 or option #8 as described in the memorandum. Option #7 offered to reset the amortization period to a 20-year layered period with a corresponding 10-year smoothing of the fiscal year 2008 & 2009 investment losses. Option #8 offered to reset the amortization period to a 20-year layered period plus proposed amortizing the investment losses from fiscal years 2008 and 2009 over 30 years. Option #8 also proposed to smooth the investment losses from fiscal year 2008 and 2009 over 10 years. Option #7 would potentially reduce employer contributions by an estimated 4.84%, while option #8 would reduce rates by an estimated 5.02%, according to Mr. Kaplan.

Mr. Kaplan opined that the Board of Retirement's adoption of either option would provide the County of Ventura's General Fund the necessary flexibility to meet its financial obligations on a long-term basis.

Diane Hubbard, a County of Ventura Probation Officer, spoke on behalf of the County Coalition of Unions. Ms. Hubbard requested the Board of

VI. **NEW BUSINESS (continued)**

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe. (continued)

Retirement direct its own actuary to review the options provided in the Rael & Letson memorandum. Ms. Hubbard opined that the current actuarial assumptions did not adequately address the recent economic crisis and further opined that the Board of Retirement should incur the modest expense of studying the alternatives in an effort to lower pension obligation costs.

Paul Derse, from the County of Executive Office, spoke in support of the Board of Retirement's established actuarial assumptions. Mr. Derse opined that the Rael & Letson memorandum offered short-term cost reductions that lead only to increasing costs in the long-term. Mr. Derse offered that the County of Ventura could absorb the expected retirement cost increases and reiterated the County of Ventura's support of the Board of Retirement's diligence in the establishment of VCERA's investment principles and actuarial assumptions. Mr. Derse noted the Board of Retirement's extensive discussion in September 2009 regarding VCERA's actuarial assumptions.

Lupe Grimaldo from SEIU Local 721, questioned if there were better alternatives available in balancing out pension costs. Ms. Grimaldo described her own personal and professional struggles relating to the costs of pension benefits and the impact of those increasing pension costs on labor negotiations.

Mr. Towner noted the public speaker's requests for VCERA to conduct additional analysis of VCERA's actuarial assumptions and to consider options #7 and #8 of the Rael & Letson memorandum. Mr. Towner then requested Mr. Angelo to offer his professional view of the requests.

Mr. Angelo described how actuarial assumptions are reviewed and noted how boards must consider the alternative actuarial methods, alternative assumption policies and what makes good sense from a fiduciary perspective. Mr. Angelo noted the two previous occasions VCERA undertook this process during his tenure as VCERA's actuary.

Mr. Angelo opined that the Rael & Letson memorandum was written in the context of "what can we do to reduce costs". Mr. Angelo opined that the alternatives presented will reduce current costs, but the alternatives must

VI. **NEW BUSINESS (continued)**

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe. (continued)

be reviewed in a broader or large context. Mr. Angelo noted how the County of Ventura requested that the current actuarial assumptions be maintained and that the memorandum was flawed in its focus solely on current costs.

Mr. Angelo reviewed the basic actuarial formula that contributions plus investment earnings must equal benefits paid plus plan expenses. In the formula's context, the consideration of options #7 & #8 equated to lowering current contributions and only served to increase plan costs in the future. Mr. Angelo described the presented options as being the equivalent of the plan sponsor borrowing the funds at an 8% interest rate. Given the current interest rate environment, Mr. Angelo opined that such a borrowing was at a much higher rate than the current cost of available capital.

Mr. Angelo further described how the implementing options #7 and #8 of the memorandum shifted the contribution projections associated with the economic downturn. In summary, the adoption would extend the timeframe associated with the recognition of the losses and would require the plan sponsors to pay higher levels of contributions for longer periods.

Mr. Angelo also offered that Segal was open to future discussions with the Board of Retirement regarding the reconsideration of the amortization period and opined that amortization periods in the 15 – 20 year range are optimal.

In summary, Mr. Angelo offered that the Rael & Letson memorandum was based upon "results based" assumption setting, the memorandum did not contain information relating to the long-term costs associated with the proposed actuarial assumption changes, contained a technical flaw in that different smoothing periods were recommended for investment gains and investment losses, did not consider the actuarial standards requiring contribution corridors if a selected smoothing period was not "sufficiently short" and the presented options did not improve the funding of the plan as stated in the memorandum's final paragraph.

Mr. Goulet questioned whether the actuarial losses associated with actuarial assumption changes could be separated and amortized over different time periods.

VI. **NEW BUSINESS (continued)**

A. Review and Approval of Annual Actuarial Report as of June 30, 2009; The Segal Company; Paul Angelo and John Monroe. (continued)

Mr. Angelo offered that one needed to consider assumption changes in the context of the relationship with plan's liabilities and Segal was, as mentioned previously, prepared to review VCERA's amortization period, but was not interested in moving to a 30-year period due to the potential for "negative amortization" resulting from amortization periods longer than 20 years.

Mr. Goulet recommended Segal respond, in writing, to the public member requests for VCERA's consideration of the Rael & Letson memorandum at a future Board meeting.

Mr. Foy questioned the cost of such a written report and learned that the cost would be approximately $5,000.

Mr. Goulet moved, seconded by Ms. Becker, to have Segal prepare a formal written response to the Rael & Letson memorandum.

Motion passed. Mr. Foy opposed.

B. Review and Approval of Annual Financial Report From Brown Armstrong; Steven R. Starbuck, CPA.

1. VCERA Comprehensive Annual Financial Report Dated June 30, 2009.

2. Independent Auditor's Report Dated December 22, 2009.

3. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* Dated December 22, 2009.

4. Required Communication to the Board of Retirement in Accordance with Professional Standards.

5. Report to Management for the Year Ended June 30, 2009.

Steven Starbuck, CPA and Amanda Dickerson, CPA were present from Brown Armstrong to present the results of the June 30, 2009 financial audit.

VI. **NEW BUSINESS (continued)**

B. Review and Approval of Annual Financial Report From Brown Armstrong; Steven R. Starbuck, CPA.

Mr. Starbuck explained the audit's purpose, objectives and process. Mr. Starbuck further explained how Brown Armstrong reviewed and documented VCERA's internal control structure and the process followed in confirming with 3rd parties VCERA's actuarial, investment and benefit data.

Mr. Starbuck described the significant audit areas that were tested and reported that VCERA had received the highest level of assurance offered by the issuance of Brown Armstrong's unqualified opinion.

Mr. Starbuck further described the purpose for the additional required reporting related to internal controls, the communication required by professional standards and the management letter relating to the recommended establishment of a credit card policy by VCERA.

Mr. Goulet expressed concern regarding language in the reports that indicated Brown Armstrong was not expressing an opinion on a matter such as VCERA's internal controls, but did subsequently state that no material weaknesses were identified.

In response, Mr. Starbuck described how the audit profession used "negative assurance" in these instances and also expressed his own personal frustration in being required to use the industry's mandatory language.

Mr. Henderson moved, seconded by Mr. Harris, to approve VCERA's Comprehensive Annual Report, Independent Audit Report, Report on Internal Controls, Required Communication to the Board, and the Management Report (Items 1-5).

Motion passed.

C. VCERA Participation in Fiduciary and Plan Administration Surveys.

Staff recommended VCERA's participation in the fiduciary governance survey being conducted by Cortex and in the SACRS sponsored benefits administration services survey being conducted by CEM Benchmarking Services.

VI. NEW BUSINESS (continued)

C. VCERA Participation in Fiduciary and Plan Administration Surveys.

Mr. Wilson requested and received clarification on the purpose of the CEM benchmarking survey.

Ms. Becker moved, seconded by Mr. Wilson, to approve staff's recommendation for VCERA's participation in the fiduciary and plan benefit services benchmarking study.

Motion passed.

D. Approval of 2010 Due Diligence Schedule.

Staff provided a brief review of the proposed schedule and noted the Board's progress in conducting due diligence visits with VCERA's investment managers.

Mr. Hansen noted his previously planned trip to Minneapolis and New York City on behalf of the Treasurer. Mr.Hansen offered that the cost of the trip could be shared and also noted the new date of the EnnisKnupp client conference in early September.

Mr. Hoag expressed his desire to participate in the Artio site visit in New York City.

Mr. Harris moved, seconded by Mr. Hansen, to approve the proposed on-site due diligence schedule for 2010.

Motion passed.

E. Authorization for Due Diligence Trip; Adams Street Partners and Pantheon Ventures, Inc.

Mr. Hansen moved, seconded by Mr. Harris, to approve staff's participation with EnnisKnupp & Associates in conducting site visits with Adams Street Partners and Pantheon Ventures, Inc.

Motion passed.

VI. NEW BUSINESS (continued)

F. Appointment of Personnel Review Committee.

Mr. Goulet moved, seconded by Mr. Harris, to reappoint Ms. Becker, Mr. Hansen and Mr. Hoag to the personnel review committee.

Motion passed.

G. Authorization to Attend Pension Bridge Annual Conference; April 6-8, 2010, San Francisco.

Mr. Wilson moved, seconded by Mr. Harris, to approve Mr. Goulet's attendance at the 2010 Pension Bridge Annual Conference.

Motion passed.

VII. INFORMATIONAL

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

B. Letter from Acadian Asset Management Regarding Management and Governance Changes dated December 28, 2009.

C. Article by Richard M. Ennis, CFA, from *Financial Analysts Journal*, November/December 2009.

D. RREEF Americas Real Estate Fund Conference, March 17-18, 2010, San Francisco.

E. Manatt, Phelps & Phillips Public Pension Fund Fiduciary Forum, March 25-26, 2010, San Francisco.

VIII. PUBLIC COMMENT

None.

IX. BOARD MEMBER COMMENT

None.

X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:10 a.m., upon the motion of Mr. Wilson, seconded by Mr. Harris.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman