# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

# BOARD OF RETIREMENT

# BUSINESS MEETING

# FEBRUARY 28, 2011

## MINUTES

**DIRECTORS PRESENT:**
Tracy Towner, Chair, Safety Employee Member
William W. Wilson, Vice Chair, Public Member
Steven Hintz, Treasurer – Tax Collector
Steve Bennett, Public Member
Albert G. Harris, Public Member
Joseph Henderson, 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:**
None.

**STAFF PRESENT:**
Henry Solis, Interim Retirement Administrator
Brenda Cummings, Retirement Operations 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 February 28, 2011 to order at 9:00 a.m.

## II. APPROVAL OF AGENDA

Staff offered a correction to item VII.C. where the dollar amount should be $9,500 instead of $10,000.

Mr. Goulet also offered a correction to item IV.B. where the date should be January 2011 instead of January 2010.

In response to an inquiry by Mr. Goulet regarding the status of financial statements, staff stated that the semiannual interest crediting has not been completed and has delayed the production of the financial statements. Staff noted that the December 2010 financial statements would be available at the March business meeting.

Mr. Goulet moved, seconded by Mr. Henderson, to approve the agenda as amended.

Motion passed.

## III. APPROVAL OF MINUTES

A. Disability Meeting of February 7, 2011.

Ms. Anderson moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of February 7, 2011.

Motion passed.

## IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of January 2011.

B. Report of Checks Disbursed in January 2011.

C. Budget Summary – Year to Date as of December 2010, Fiscal-Year 2010-11.

D. 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 January 31, 2011.

E. Prudential Real Estate Investors Quarterly Report.

## IV. CONSENT AGENDA (continued)

Mr. Goulet moved, seconded by Ms. Anderson, to approve the items on the Consent Agenda.

Motion passed.

## V. INVESTMENT INFORMATION

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

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 account. Ms. Mulford is one of the portfolio managers on the PRISA core investments.

Mr. Oczkus described the current market as having two tales. On the capital or debt side which is important for real estate investments that are capital intensive and where availability of debt capital is important, the market is fully functioning as compared to the last two years. Although the market is fully functioning, the lenders are less aggressive with respect to loan to value ratios.

Property market fundamentals reflect a weak market with low rents. Mr. Oczkus believes that it will take time to recover due to job losses. However, apartments and hotels with short duration leases are doing well. Properties with longer term leases, such as retail and office, will take longer to recover, as it will take time to fill up space before rents can be increased.

Transaction volume is slow, with high pricing for core assets, according to Mr. Oczkus. He is cautiously optimistic.

Mr. Oczkus reviewed VCERA'S investment with PRISA. The original investment of $60 million has grown to about $63 million. Mr. Oczkus reviewed the one and three year returns, and stated it will take time to work through the worst downturn of commercial real estate in history.

Ms. Mulford discussed the strong 2010 returns of 18.4% for the PRISA fund, mostly as a result of asset appreciation. PRISA's valuations bottomed in the first quarter of 2010 and have seen appreciation in every quarter since then. The income component of the fund returned very strong, at 7.3% for the year, and outperformed the benchmark. Client activity has been stronger than anticipated with a renewed interest in core real estate.

## V. INVESTMENT INFORMATION (continued)

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

This allowed the fund to take in more than projected, $1 billion vs. $200 million, which was used to pay down debt at an accelerated level, to make new investments, and to fully payout all redemption requests. PRISA ended the year without any outstanding withdrawal requests.

Mr. Goulet clarified that the cash flows were reinvested by VCERA and that the report does not reflect that VCERA has made contributions in excess of $60 million. He further noted that the lack of earnings is not reflected in the total contributions amount reported in the "since inception to date" figures. Ms. Mulford responded by saying that on an inception to date basis VCERA is actually down relative to its total investment.

Ms. Mulford stated the fund focused on apartments in growth markets in 2010. The fund does not intend to hold these investments long term and the investments have performed as expected. The disposition activity focused on highly leveraged assets. The fund focused on deleveraging the portfolio which ended the year at 33% leveraged as compared to 46% leveraged a year ago. This is still higher than the policy limit of 30% but PRISA is a year ahead of schedule in bringing the fund into compliance with the policy limit.

PRISA made some investment guideline changes in September 2010, to bring down the volatility of the portfolio going forward. They reduced the level of non-core (value added) investing from 20% of the portfolio to 10%. They are currently at 17% and it will take several years to reach the 10% limit. The non-core assets were newly constructed assets undergoing initial lease up. Another change was to reduce the leverage to value ratio. PRISA added an additional governor to the leverage which limits total debt in dollars to five times portfolio operating income, and prevents the fund from adding leverage to the account as market values are increasing. They also added a single asset exposure limit of 5% of the gross asset value.

The fund is well diversified by property type and location and is more heavily weighted on the coasts which served the fund well during the downturn, as these areas are coming out of the economic downturn more quickly.

Total return for the fourth quarter was driven by appreciation. Urban office and apartment portfolios performed the best, realizing the most significant

V. **INVESTMENT INFORMATION (continued)**

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

value increases. This has resulted in a strong demand in the investor community for the multi-family asset type. The demographic demand for multi-family assets is very compelling as the children of baby boomers are entering the prime rental period and there has been a lack of new construction.

PRISA's relative return is good on a one year basis, significantly outperforming the benchmark; however, it underperformed the benchmark over the long term due to the 2008 downturn. Eighty percent of this underperformance was due to the increase in the leverage to value ratio. The appraisal process resulted in this increase in the leverage ratio which magnified the impact of the decline.

A review of the cash flow return reflects outperformance of the benchmark even during the downturn.

The majority of the non-core assets are newly constructed assets undergoing lease up, and will eventually move to the core category and will realize outsized appreciation. This will move the fund to 10% non-core.

The Sources and Uses report the liquidity of the fund, and how PRISA will deleverage the fund. Going forward PRISA will show how they expect to draw down on entry queue to the fund. PRISA's strategy is to only take in funds if it is of benefit to the investors and is part of their strategy.

PRISA debt maturity is moderate and they do not have any concerns about their ability to refinance maturing debt. A great deal of debt was extended with partial pay downs at the bottom of the market so much of the debt was right sized at that point. The cost of debt is 4.3%, and 72% of the debt is fixed rate. PRISA ended 2010 with no outstanding balance on their lines of credit.

Ms. Mulford projected a total return of 9% to 11% with a 6% income return. PRISA will focus on reducing leverage, new investments, reducing non-core assets, mix of retail portfolio, and adding some hotels. Ms. Mulford noted it will be job growth that will improve the office space vacancy rate.

V. **INVESTMENT INFORMATION (continued)**

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

Mr. Goulet requested that a line be added to the annual report to reflect the reinvestment of cash flow distributions, and a footnote that the investment earnings are net of fees.

Mr. Bennett asked for clarification on the long term focus of the fund. Ms. Mulford responded that the fund would focus in the urban markets such as Manhattan and Boston, where there are high barriers to entry and it is not easy to develop, supplementing with some of the growth markets.

Mr. Vandolder commented on the move from a withdrawal queue of $1.2 billion to a purchase queue in twelve months, which is something they have never experienced in such a short period of time. One of the key drivers is that public funds are rebalancing as they are overweighted in equities thus becoming underweighted in real estate.

Mr. Wilson requested clarification as to whether VCERA was fully vested in the real estate allocation. Mr. Vandolder stated that he is not recommending any change in the policy portfolio.

Mr. Goulet requested clarification as to whether the Board had approved an additional allocation to real estate. Mr. Vandolder responded that VCERA rebalanced in the month of January to UBS but this was not reflected in the market value in the performance report.

Mr. Harris requested clarification regarding the vacant land held in the fund. Ms. Mulford replied that the land was predevelopment activity which PRISA anticipates developing 20-25% for build to suit industrial or small multi-family parcels. Going forward, the fund will not be buying land unless it is part of a larger strategy or for defensive purposes.

B. UBS Realty Investors Annual Investment Presentation, Deborah A. Ulian.

Deborah Ulian was present to provide an update on UBS' organization, investment process, and the performance of the Trumbull Property Fund.

Ms. Ulian reminded the Board that the Trumbull Property fund is a core fund low risk profile. Their mission is to deliver superior risk adjusted returns. Ms. Ulian stated she believes the fund has delivered on that promise.

## V. INVESTMENT INFORMATION (continued)

B. UBS Realty Investors Annual Investment Presentation. (continued)

Ms. Ulian discussed the fund's performance indicating that the fund's one year return was 15.7%, three year return was -0.6%, and return since inception was 6%.

Mr. Vandolder compared the three year returns from UBS and PRISA to highlight the additional risk taken in PRISA as compared to the UBS fund which is more core.

Ms. Ulian discussed the characteristics which are central to the fund's strategy. The fund is a true core fund with a low risk profile with high quality well leased assets with low leverage and income focused. The Trumbull Property Fund has avoided some of the style drifts their competitors have evidenced in moving up the risk spectrum. The fund is very well diversified with over 168 investments and 15.2% leveraged, which is one of the lowest in the industry. The benchmark average is a 28% leverage ratio. The fund uses leverage to support acquisitions and operating strategies and not to engineer higher returns.

Ms. Ulian discussed the fund's characteristics toward building market capitalization and noted that UBS assigns market weights to each sector and allocates the portfolio around these market weights which assures that the portfolio achieves diversification.

Ms. Ulian reported that the fund is overweighted to apartments as they are less volatile, less capital intensive and have shorter term leases. She stated that the leases can be adjusted much more quickly than office leases, which are usually five to seven years in length. In addition, the demographics favor apartments as the children of baby boomers are reaching prime rental age and there is a decline in home purchasing, both of which are contributing factors to favorable demand for apartments.

Ms. Ulian stated that another characteristic of the fund is the underweighting to the office sector. The fund tends to average about 27% vs. 35% for the benchmark. This is because the office sector is more volatile, more capital intensive and riskier.

The fund has a focus in bi-coastal major markets where population density is the demand driver for real estate.

## V. INVESTMENT INFORMATION (continued)

B. UBS Realty Investors Annual Investment Presentation. (continued)

With respect to the positioning of the fund, the fund is 93% leased compared to the benchmark of 88%. Only 8% of the fund's commercial leases expire in 2011 as UBS works diligently to stagger the lease rollovers to minimize exposure in any one year.

Ms. Ulian identified the fund's ten largest assets with no one asset representing more than 5% of the fund.

The performance objectives of the fund are to outperform the NFI-ODCE index in any three to five year rolling period, and to deliver a five percent real return over any three to five year rolling period.

Ms. Ulian discussed the 4th quarter and one year performance of the fund. She stated that the fund has outperformed its benchmark in eight of the last ten quarters and has outperformed for all other time periods, one, three, five, and ten year performance returns.

Ms. Ulian discussed the fees of the fund and that 25% of the fees are at risk as they are tied to performance. This is unusual for a core fund to have a portion of their fees tied to performance, but UBS believes this aligns them with their clients' interests.

Mr. Goulet requested that UBS show the reinvested distributions as contributions to reflect VCERA's total contributions since inception.

Mr. Vandolder asked what UBS' outlook for returns in this core investment would be in the next three to five year. Ms. Ulian replied that they can predict the income component with a higher degree of accuracy as opposed to the appreciation component, which is determined by the appraisers. That being said, the UBS research team would anticipate an annual return of 8% over the next few years.

Mr. Hintz requested an explanation of the three levels of diversification in the portfolio. Ms. Ulian replied that they are property type, geographic, and economic drivers of the markets.

Mr. Wilson requested clarification of the 5% return stated earlier and the 8% anticipated. Ms. Ulian stated that the 8% is the nominal and the 5% is the real return.

V. **INVESTMENT INFORMATION (continued)**

C. SMART Rebalancing Presentation, Arun Muralidhar, AlphaEngine Global Investment Solutions, LLC.

Arun Muralidhar was present from AlphaEngine Global Investment Solutions to describe the firm's organization, and experience with the SMART (Systematic Management of Assets using a Rules-based Technique) Rebalancing strategy used for rebalancing and managing liquidity in a fund.

Mr. Muralidhar believes there are two fundamental questions that the Board would want answered: is what is being suggested market timing and who is Alpha Engine and are there other competitors offering the same strategy?

Mr. Muralidhar stated that all strategies may be considered market timing, but that he believes that AlphaEngine strategy is complementary to what VCERA is already doing, and does not require any change in policy, or a change in the fund managers, as the strategy fits in seamlessly with VCERA's existing investment strategy with The Clifton Group.

Mr. Muralidhar discussed using a set of processes and a discipline to assist in deciding whether to make investment changes within the portfolio as opposed to using simple arithmetic to rebalance the portfolio. He believes that by implementing this process you increase the risk management to the fund.

AlphaEngine only specializes in helping funds manage beta either in the context of a rebalancing program or in a more absolute oriented program in managing risk in alternative investments.

Mr. Muralidhar provided an example from an existing SACRS client to demonstrate how the strategy works based on what occurred in 2008. He compared rebalancing blindly based on arithmetic, back to neutral weights, with taking a tactical decision by using processes that are slightly better. The goal is to improve performance based on the rebalance but also to make sure the program performs well when the fund is performing poorly.

According to Mr. Muralidhar, in public pension plans, where the solvency is below 100%, the question is - can you take what is in the portfolio which is a risky decision and turn it into an opportunity without having to increase leverage? To earn returns above the liabilities, VCERA can either level the portfolio up, which many funds are doing, or manage the existing risks better, which is the goal of this process.

## V. INVESTMENT INFORMATION (continued)

C. SMART Rebalancing Presentation. (continued)

Mr. Muralidhar opined that rebalancing is typically not clearly assigned to the Staff, the Board, or the Investment Consultant, but by having clear ownership of the decision and clear articulation how it would be implemented, and a clear measure of the performance, there is better governance.

Mr. Muralidhar stated the single driver of performance over a period of time is an approved asset allocation and therefore the only insurance to the fund is how intelligently VCERA rebalances within each asset category allocation.

Mr. Muralidhar indicated that most portfolios have a range within each asset category but are silent on what to do when investment levels drift within these bands so in effect one has an implicit bet within the portfolio. SMART Rebalancing offers a better way to manage this implicit decision within the portfolio.

Mr. Muralidhar stated that the process starts with a basic economic hypothesis from peer review journals, and convert this into a formal rule. The software allows AlphaEngine to test the rule and make sure the model is designed for the client's objectives. The software tracks the data and makes the recommendation. AlphaEngine staff review the data and then an e-mail is sent to VCERA and Clifton.

Mr. Vandolder stated that Clifton is rebalancing the cash to the policy portfolio. The Board would decide how much excess cash would be with Clifton. The cash is equitized to the policy portfolio. The SMART Rebalancing process would be an additional overlay that would help VCERA tactically position that excess amount within tightly defined bands to take advantage of potential market movements.

The SMART Rebalancing strategy, maintains the key principles of rebalancing: simplicity, transparency and discipline.

Mr. Muralidhar discussed that the rules used in this strategy are based on economic, valuation, sentiment and momentum information, to factor and time diversification within the portfolio. AlphaEngine takes an economic hypothesis and converts it to a formal set of rules to monitor the relative attractiveness of the assets based on secular trends. The software allows them to test the rules and ensures the model is designed for the client's objectives. The software tracks the data and produces a recommendation.

## V. INVESTMENT INFORMATION (continued)

C. SMART Rebalancing Presentation. (continued)

As secular changes in assets occur during a period, Clifton and VCERA would be provided instructions on tactical positions to take such that VCERA does not miss out on an opportunity.

Mr. Muralidhar clarified that Clifton is the third party to the arrangement, will provide assurance that AlphaEngine never goes outside the bands and will make the trades and measure the performance independent of AlphaEngine. AlphaEngine's role is to insert a level of intelligence into the decisions that Clifton makes.

Mr. Goulet received clarification that AlphaEngine's process would increase Clifton's work very marginally.

Mr. Towner stated that Clifton's role is to maintain the asset allocation to the policy portfolio, and that this proposed process would involve doing it more intelligently.

Mr. Muralidhar stated that while the rules are applied daily, VCERA and Clifton would only be notified when a meaningful deviation occurs. He opined the strategy would be wrong 40% of the time, but their goal is to be right more than 50%. He anticipated the model will add value when the fund needs it the most, thus smoothing out the volatility of the cash flows.

Mr. Goulet sought clarification on the measurement of the added value. Mr. Muralidhar replied that Clifton will keep the recommendations in a separate account and book the naïve trade, and report the transactions side by side. Mr. Vandolder stated that Clifton's goal is to get back to the policy portfolio and not to add that additional intelligence.

Mr. Hansen requested that Hewitt provide an executive summary at the next Business meeting.

Mr. Muralidhar stated that the fees are 2 basis points of assets plus 20% of performance net new alpha subject to high water marks.

Mr. Goulet stated that $600,000 per year, plus performance fees is larger than most manager fees.

## V. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp, Kevin Vandolder and Eric Kuhl.

1. Fourth Quarter 2010 Performance Report.

Mr. Kuhl discussed the fourth quarter performance report and stated that the portfolio earned 6.9% for the quarter adding 50 basis points relative to the policy portfolio. Mr. Kuhl added that within the universe of peers VCERA was significantly outperforming them. Mr. Vandolder stated that the Board's patience with the managers during this period of recovery has led to significant added value relative to the portfolio.

In response to a question from Mr. Wilson, Mr. Vandolder clarified that the peer comparison was based on the Mellon group.

Mr. Towner noted that Clifton added value to the portfolio. Mr. Kuhl clarified that Clifton added 20 basis points to the fund's performance.

Mr. Vandolder stated that Clifton takes excess cash from State Street and manages and equitizes that to the policy portfolio. Clifton has between $30 million and $50 million in cash and that is how they manage the rebalancing process. When the County prefunds the contribution in July of each fiscal year, Clifton is provided significant amounts of cash that allows them to rebalance whenever the market opportunities are right.

Mr. Goulet pointed out that the fiscal year to date was missing from the report. Mr. Vandolder stated that by the next quarterly report that will be incorporated.

Mr. Vandolder reviewed the fee schedules of the managers contained in the appendix of the report.

Mr. Goulet stated that the fees in the tables and other pages do not agree. Mr. Vandolder stated that it is typo. He went on to state that Hewitt does an annual review of the fee schedules to assure that VCERA is receiving the lowest possible cost. There have been two updates as a result.

2. Monthly Investment Performance Update, January 2011.

## V. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp. (continued)

3. Monthly Manager Updates/Summary, January 2011.

   a. Sprucegrove
   b. Artio
   c. Hexavest
   d. Walter Scott
   e. GMO
   f. Acadian
   g. Western
   h. Reams
   i. Loomis Sayles
   j. K2

Mr. Vandolder reported on the January 2011 performance. Mr. Kuhl stated that for the month the fund equated the benchmark. Mr. Kuhl noted that Mr. Goulet had pointed out that the fund is understated by $30 million and explained that this was a result of drawing down $30 million from the BlackRock Equity fund, which is generally the source of liquidity and is overweighted. Since real estate is updated quarterly and the money went to UBS, the change was not reflected on this one month report. The fund would be at $3.1 billion.

The non-US asset class reflects Sprucegrove and Artio's underperformance. This is was a result of both managers having a significant allocation to emerging markets, and declining valuations due to the unrest in the middle east.

Two new managers, Hexavest and Walter Scott, were funded in December. Hexavest was up 2.9% with a benchmark of 2.4% and Walter Scott was down 10 basis points. Hexavest was a bit more conservative and not holding emerging markets.

All the actively managed fixed income managers outperformed in the month. Western was up 70 basis points; Reams was up 50 basis points; and Loomis was up 1% for the month.

Mr. Goulet encouraged Hewitt to make the report easier to read.

## V. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp. (continued)

4. Highlights and Research, February 2011.

   a. Capital Guardian Transition Update
   b. Fees Update
   c. Artio Transition Scenarios
   d. K2 Advisors Update
   e. State Street Foreign Exchange Update

Mr. Vandolder stated that the transition from Capital Guardian was well handled.

Mr. Kuhl provided an update on investment manager fees. K2 Advisors reduced their fee to 1.15% from 1.25% of assets, approximately $10,000 in savings. BlackRock, which manages almost half of the assets, is in the process of finalizing a fee savings of approximately $80,000. Mr. Vandolder stated that fees are the one thing the Board has control over. Mr. Vandolder reminded the Board of the goal to review fees annually to make sure VCERA is receiving the best possible fee structure available.

Mr. Kuhl discussed various scenarios of taking the Artio funding and investing it with an individual or combination of existing managers in the same investment universe. Mr. Kuhl provided the consequences on fees of employing these various solution sets.

Mr. Johnston clarified that although Western Assets Plus provided excess returns, his concern was the corresponding risk. Mr. Vandolder stated that they are currently tolerant of Western being out of the guidelines. This issue of fixed income will be addressed next month, and this fund may be a good source for funding global fixed income. Western contributes a lot to the risk budget.

Mr. Johnston also inquired about Acadian and questioned VCERA's continued investment with them given their poor performance in challenging market times and their average in a good market times. Mr. Vandolder stated that Acadian brought a lot of skill from a quantitative model, and he encouraged patience with this platform. Mr. Vandolder discussed the risk contribution that Acadian has within the platform.

Mr. Goulet received confirmation that Acadian is on the watch list.

V. **INVESTMENT INFORMATION (continued)**

D. Hewitt EnnisKnupp. (continued)

Mr. Wilson stated that Acadian's strategy will pay off in a more consistent market than in the short time that they have been with VCERA. Mr. Vandolder stated that the Board should let the decision ride for five years if the reasons for which they chose the fund remain. In Mr. Vandolder's experience, this will lead to a higher degree of success at the fund level.

Mr. Vandolder stated that they can bring Western up at the next meeting and continue the dialogue.

K2 continues to evolve; they are expanding risk slightly and they have reduced their fee.

Mr. Vandolder continued by discussing State Street and the foreign exchange issues they have been faced with, and stressed that Hewitt has been very concerned about transparency. Hewitt has seen significant transparency improvement in this area and they are not encouraging any of their clients to change their relationships with State Street.

5. Monthly Summary of Medium Term Views – U.S.

Mr. Vandolder explained the Mid-Term Market views memo provided a 12 – 36 months forecast horizon and Hewitt's opinion on large cap versus small cap, fixed income, TIPS and currency.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file Hewitt items 1 – 5.

Motion passed.

Mr. Hansen stated that he was pleased with the performance of Hewitt.

Mr. Vandolder stated that he reviewed the job description for the Retirement Administrator, and understood the Board was looking to Hewitt to be accountable for the investment program, and that the job description appears reasonable and logical.

Mr. Goulet received clarification that Hewitt is not VCERA's Chief Investment Officer.

## V. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp. (continued)

Mr. Vandolder confirmed that Hewitt is definitely not VCERA's Chief Investment Officer, and to serve in that capacity would require that they would seek additional levels of reward; however, they are an extension of the staff working with the Board to ensure their concerns are fully addressed.

## VI. OLD BUSINESS

A. Retirement Administrator Recruitment Update.

Kelly Shirk and Lisa Yoshimura from County of Ventura HR were present to update the Board on the status of the job description and recruitment for the Retirement Administrator.

Ms. Shirk reported that the ad hoc committee met on February 23rd to look at revising the class specification to include some of the changes the committee recommended. The revised materials were included in the packet provided to the Board.

Mr. Towner stated that at the last Board meeting he requested that County HR provide the Board with a description of what Mr. Thonis did and it was not in the packet provided. Ms. Shirk responded that she assumed performance evaluations were done and that would demonstrate what his job was. Ms. Yoshimura stated that a lot of what is in the packet came from the Charter. Mr. Towner reiterated that they still don't know exactly what he did. Ms. Yoshimura stated she did not know.

Mr. Goulet stated a copy of performance evaluations are kept in VCERA's files, and questioned whether it was appropriate to release them.

Ms. Anderson stated that the template was a public document, which is contained in the Charter. She stated that she believed the document was developed before Mr. Thonis was the Retirement Administrator, and was thus not reflective of the skill set Mr. Thonis brought to the position.

Ms. Anderson continued by stating her belief that Mr. Thonis would have been the only person to fully explain the day-to-day tasks he performed.

Mr. Hintz stated that the job description should be how the Board wants it to be going forward, not how it was done in the past. Therefore, it was not necessarily significant what it used to be.

## VI. OLD BUSINESS (continued)

A. Retirement Administrator Recruitment Update. (continued)

Mr. Henderson stated that he would be interested in reducing the salary range by $20,000.

Mr. Hintz stated that the ad hoc committee was not able to come to any decision on that issue.

Mr. Wilson received clarification that the salary range was what Mr. Thonis was operating under, but not his total compensation.

Mr. Henderson stated that he understood it was the intention of the Board to change the job description significantly.

Ms. Anderson stated that, while Mr. Thonis brought significant expertise to the position, the salary range remained the same as with VCERA's original Retirement Administrator. She further stated it was important to know what Mr. Thonis did because the Board needs to understand what gaps and risks exist.

Mr. Goulet said that he concurred. Additionally, the Board unanimously requested the County to increase the salary $20,000 and it appeared inconsistent to reduce it by $20,000.

Mr. Hintz stated that he had been prepared to go to the Board of Supervisors and lobby for an increase in the Retirement Administrator's salary range, had Mr. Thonis stayed. However, at this point in time, the Board may realize some salary savings, with the labor market in a highly disinflationary state and substantial competition anticipated at the salary range defined. He further stated that since the committee was unable to come to an agreement on the salary range, he would be willing to hire someone at the bottom of the current range.

Mr. Henderson said that he expects that the type of people the review board would be looking for would seek a salary close to the top of the range. Ms. Shirk said that it depends on the applicants' skill set and their requested salary placement.

Mr. Towner stated that he is concerned that areas may have been overlooked in developing the job specification resulting in liability exposure and questioned how that will be mitigated.

VI. **OLD BUSINESS (continued)**

A. Retirement Administrator Recruitment Update. (continued)

Mr. Hansen and Mr. Hintz stated they were comfortable with the specification. Mr. Hansen went on to state he was comfortable with the level of risk because VCERA has an actuary, consultants for investments, and referees for the cases. He stated the job requires a finance or accounting degree, good administrative or managerial skills, and someone who will provide succession planning.

Mr. Wilson stated he read the minutes to bring himself up to date, and noted there was a discussion about the investment function. He said he agreed with Mr. Hansen - Mr. Thonis was not an Investment Officer. Mr. Thonis' strength was his intelligence and ability to explain things. Mr. Wilson stated that he was comfortable with the job description drafted. He said he is looking for a professional administrator, who preferably has some experience with '37 Act organizations. Mr. Thonis' professionalism, institutional knowledge, and long term history with VCERA will be missed.

Mr. Bennett stated VCERA needs an effective manager who is familiar with '37 Act organizations, and preferably has investment experience for oversight reasons. Mr. Bennett stated he wants to keep the salary range right where it is. He said he believed the job description gives VCERA what it needs.

Mr. Goulet stated he agreed with Mr. Bennett. Additionally, in preparing the information for HR and the ad hoc meeting, he said the updated job description was made consistent with what other administrator jobs in other systems.

Mr. Hansen thanked the HR representatives.

Mr. Bennett clarified that VCERA does not have to follow the civil service act in relation to the recruitment for the Retirement Administrator as it is an at-will position.

Mr. Goulet stated the position is specifically exempted.

Mr. Harris moved, seconded by Mr. Hansen, to approve the class specification and recruitment brochure.

Motion passed. Ms. Anderson and Mr. Henderson opposed.

## VI. OLD BUSINESS (continued)

B. Office Space Lease Renewal Update.

Tom Dwyer addressed the four outstanding issues. He stated that the landlord was willing to provide two five-year options at 95% fair market value. With regard to the right of first offer, the landlord agreed to provide VCERA notice of additional space. Mr. Dwyer noted that if this right is exercised within 24 months of the new lease, the same terms and conditions in this lease will apply, and if the right is exercised after this 24 month period, then it will be based upon fair market value. The lease includes a one-time right to terminate with a penalty equal to the unamortized costs of tenant improvements, commissions and free rent. There is no interest rate associated with this termination fee, and it is approximately $142,000 or thirty cents on the dollar. The landlord refused to participate in the cost of moving furniture or installing IT cabling.

Mr. Hansen stated that he voted incorrectly last time, and thinks he should have voted for a ten year lease term.

Mr. Bennett received clarification that Mr. Dwyer had previously recommended a seven year term, and that he recommends the lease termination provision.

Mr. Hansen received clarification from Mr. Dwyer that, based upon a seven year lease with tenant improvements and additional concessions, the effective rate is $1.86 at full service gross, with the maximum CPI of 3%; and, the ten year lease, based upon the same information, is $1.82 full service gross.

Mr. Harris reiterated his rationale for a ten year lease.

Ms. Anderson stated that VCERA could be at this location for seventeen years under this lease.

Mr. Goulet commented that he had advocated VCERA owning their own building, and stated that which CPI will be used needs to be specified. Mr. Dwyer stated that it will be included in the lease amendment.

Mr. Goulet moved, seconded by Ms. Anderson, to move forward with drafting the new lease amendment.

Mr. Towner clarified that the lease is a public document.

Motion passed.

## VII. NEW BUSINESS

A. Letter from The Segal Company Regarding Cost-of-Living Adjustments as of April 1, 2011.

Ms. Anderson moved, seconded by Mr. Wilson, to approve the Cost-of-Living Adjustments recommended by The Segal Company.

Motion passed.

B. Letter from Staff Regarding Cash Flow Management.

Mr. Goulet moved, seconded by Mr. Henderson, to follow staff's recommendation to proceed with the transfer of $60 million from BlackRock to The Clifton Group.

Motion passed.

C. Letter from Staff Regarding 2010 Fiduciary Benchmarking Study.

Staff stated that in January 2010 the Board authorized participation in a survey conducted by Cortex Applied Research to assess VCERA's governance practices at a cost of $9,500. This allowed VCERA to access best practices to enhance fiduciary investment, and operational risk management practices. Mr. Thomas Iannucci has offered to present the report to the Board.

Mr. Wilson inquired whether it should be postponed for the new Administrator.

Mr. Goulet said that he could read the report and does not support paying for a formal presentation. He recommended that, once hired, the new Administrator become conversant with the material and provide an overview to the Board, perhaps at the next retreat.

Mr. Hansen moved, seconded by Mr. Henderson, to receive and file staff's letter.

Motion passed.

## VII. NEW BUSINESS (continued)

D. SACRS 2011 Spring Conference Items.

Staff requested that the Trustees return the registration form to secure lodging. Staff also requested the Board to appoint a Voting Delegate and Alternate for the upcoming SACRS Business Meeting.

Mr. Goulet stated that he was willing to be the Voting Delegate.

Mr. Towner commented that it was a local event, and that participants should be able to commute.

Mr. Wilson inquired whether people are commuting. Mr. Towner said he would be commuting, and Mr. Goulet said he would be staying there.

Mr. Hintz stated he would be willing to be the Alternate Voting Delegate.

Mr. Wilson moved, seconded by Mr. Hansen, to appoint Mr. Goulet as the Voting Delegate, and Mr. Hintz as the Alternate Voting Delegate.

Motion passed.

E. Board Member Conference Report – Arthur E. Goulet.

Ms. Anderson moved, seconded by Mr. Henderson, that Mr. Goulet's report be received and filed.

Motion passed.

## VIII. CLOSED SESSION

The Board of Retirement Adjourned into a Closed Session to Discuss the Ventura County Taxpayers' Association; and Richard Thomson, v. Ventura County Employees Retirement System, Ventura County Superior Court Case No. 56-2010-00381336-CU-WM-VTA, Pursuant to the Provisions of Government Code Section 54956.9 Subdivision (a) – Existing Litigation.

In open session, Ms. Nemiroff announced that the Board had taken no reportable action.

## IX. INFORMATIONAL

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. SACRS Letters

1. Implementation of AB1743; "Placement Agents and External Managers as Lobbyists"
2. Registration of Municipal Advisors; File No. S7-45-10

C. Organizational Updates

1. Sprucegrove Investment Management Ltd.
2. Prudential Financial, Inc.

D. The Cortex Report, "Educational Programs & Courses", February 2011.

E. Letters from Dixie J. Cargill Regarding Termination of STAR COLA Benefit.

## IX. PUBLIC COMMENT

Staff commented that Mr. Goulet had provided the Little Hoover Report.

## X. BOARD MEMBER COMMENT

None.

## XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:20 p.m., upon the motion of Ms. Anderson, seconded by Mr. Henderson.

Respectfully submitted,

HENRY SOLIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman