VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 18, 2011

MINUTES

DIRECTORS <u>PRESENT</u>:	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 Robert Hansen, General Employee Member Arthur E. Goulet, Retiree Member Chris Johnston, Alternate Employee Member Will Hoag, Alternate Retiree Member
DIRECTORS <u>ABSENT</u>:	Karen Anderson, General Employee Member
STAFF <u>PRESENT</u>:	Henry Solis, Interim Retirement Administrator Brenda Cummings, Retirement Operations Manager Lori Nemiroff, Assistant County Counsel
<u>PLACE</u>:	Ventura County Employees' Retirement Association Second Floor Boardroom 1190 South Victoria Avenue Ventura, CA 93003
<u>TIME</u>:	9:00 a.m.

<u>ITEM</u>:

I. <u>INTRODUCTION OF MEETING</u>

Chairman Towner called the Business Meeting of April 18, 2011 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of April 4, 2011.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of April 4, 2011.

Motion passed.

IV. CONSENT AGENDA

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

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, and Schedule of Investment Management Fees for the Month Ended January 31, 2011.

C. Report of Checks Disbursed in March 2011.

D. Budget Summary – Year to Date as of February 2011, 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 March 31, 2011.

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

Motion passed.

V. INVESTMENT INFORMATION

A. Artio Global Investors Annual Investment Presentation, Andrew Barker and Melvin D. Lindsey.

Mr. Andrew Barker, one of the portfolio managers, and Mr. Melvin D. Lindsey, Director of Institutional Investments, were present from Artio Global to review the firm's organization, investment process, and investment results.

Organizationally, Artio went from a publicly traded company owned by a Swiss parent to a publicly traded company domiciled in the U.S. Mr. Lindsey stated that this allowed for the alignment of employee and client interests, because employee bonuses are being partially paid in Artio stock and Artio funds.

Mr. Lindsey reviewed Artio's investment philosophy of looking for fundamentally sound parts of the economy to invest in at a reasonable price. He stated Artio is a bottom up manager in developed markets, focusing on the companies' global effectiveness, rather than the region within which the companies are located. He further stated Artio has the opposite strategy within emerging markets, focusing on the companies' location, due to the impact of government currency regulation on the market.

Mr. Lindsey noted that Japan is a hybrid of these two markets. He cited auto manufacturers as a developed market, and banks, insurance companies, and construction as an emerging market. The philosophy of domestic Japanese companies is employees first, society at large second, and shareholders third. Therefore, Artio is underweight in Japan and is focused on those Japanese multinational companies that are global.

Mr. Lindsey reviewed Artio's performance during the years 2002-2008 when it outperformed the market. He commented that during the last two and one half years, as companies decoupled from the fundamentals as a result of government influence, Artio has had a difficult time managing money. He opined that there is evidence that the market is returning to a fundamental market, as evidenced by Artio's outperforming the benchmark index in March, 2011 by 134 basis points and thus far in April, 2011 by 65 basis points.

Mr. Barker discussed emerging markets, and the benchmark, the MSCI ACWI (ex-US). As of the end of March 2011, the portfolio had direct exposure of 31.7% in emerging markets and currently has 34.5%. He opined that with the fairly significant indirect exposure, approximately half of the portfolio is economically connected to emerging markets. Mr. Barker cited as an example that six percent of the nine percent invested in China is in consumer stocks.

In developed markets, they have few companies that are solely dependent on consumer markets.

Mr. Barker reviewed the economic environment that contributed to the fund's poor performance. He stated that it may be attributed to fundamentals not being rewarded given government intervention. Mr. Barker gave the example of the banking bailout in Europe that rewarded shareholders to an undue extent at the expense of taxpayers and the series of European liquidity programs that did not address the solvency crisis. He stated that while Artio invested in funds that performed as anticipated, unfortunately, the prices did not initially follow. However, he noted, that they have been rewarded for their patience quite nicely in the last six weeks, as the fund gained 2.5% relative to the benchmark.

With regard to the emerging markets, Mr. Barker stated that for many years companies exported their ways to growth but that now governments are looking to encourage growth domestically. Mr. Barker cited China and India as examples.

Mr. Barker opined in response to Mr. Wilson's inquiry regarding the impact of the European banking bailouts, that the dollar may become weaker and that some countries may consider breaking away from the Euro in the next year to 18 months

Mr. Barker promulgated in response to Mr. Hansen's question with regard to the Euro, that to the extent that Spain is asked to participate in a bailout of Portugal and Greece, Spain is weakened. Mr. Barker predicts they will go through difficult recessions. He further stated that Artio has little economic exposure with domestic stock in Greece or Spain.

Mr. Bennett sought clarification regarding China managing its growth. Mr. Barker stated that Artio expects China to use a combination of strategies including price controls and administrative controls. China is trying to improve agricultural output because of crop failures and steadily increasing demand. The one area they won't want to limit growth is domestic consumer spending by the broad mass of workers.

In response to Mr. Bennett's question regarding India, Mr. Barker commented that India has a lot of fundamental strengths. It is entrepreneurial in a true capitalist sense. They understand a need for a return on equity; they understand who a shareholder is; and, there is both a legal system, and an educational framework. Mr. Barker continued by stating that India's weaknesses include government bureaucracy that has led to corruption and a very poor infrastructure.

Mr. Hintz sought clarification regarding the fund underperforming the index by a ratio of 1.7:1 from 2009 to the present. Mr. Barker noted that a lot of the damage to the relative performance occurred in a six or seven week period following the market turn in 2009. Artio lost approximately 15%

relative performance in a matter of a few weeks. Mr. Barker said that this has been a difficult period for a fundamental manager, and within the last six weeks the return reflects a more normal market.

Mr. Lindsey interjected that since the fund was started in 1995 the annualized return has been approximately 12.46%, the benchmark has been 5.67%, and Artio has outperformed the market by almost 700 basis points. He also stated that in the last sixteen years Artio has outperformed the benchmark for all but three of those years. Mr. Lindsey noted that every manager has a period of underperformance and, unfortunately, VCERA funded the portfolio during that period.

Mr. Goulet had clarified when government intervention is positive for the long run and when it is too intrusive.

B. Sprucegrove Investment Management Ltd. Annual Investment Presentation, Craig Merrigan and Mark Shevitz.

Mr. Craig Merrigan and Mr. Mark Shevitz were present on behalf of Sprucegrove Investment Management Ltd. to review Sprucegrove's organization, investment process, and investment results.

Mr. Shevitz reminded the Board that Sprucegrove has been with VCERA over 9 years and that they, too, are fundamental investors.

Mr. Shevitz stated that Sprucegrove's assets are just under $20 billion for 112 clients. About two years ago they reopened all investment mandates for new clients, having been closed the prior eight years. They have added 12 to 14 clients, and lost 2 in the first quarter of 2011 (both Canadian clients). The portfolio turnover is under ten percent. Approximately one-third to one-half of the portfolio is the same as when VCERA hired Sprucegrove.

Organizationally, Peter Clark, the third of the original founders, will be retiring in two years. Beginning next year his responsibilities will be split amongst co-Presidents. Mr. Shevitz noted, with regard to employee turnover in the last nine years, Sprucegrove has lost only one analyst, an analyst in training.

Mr. Shevitz stated that since inception the portfolio has returned 10% gross versus 7% for the index. On a net of fee basis, this is an annualized premium of 2 ½%. Mr. Shevitz opined that the investment results from 2010 were very good. On a relative basis, the portfolio was up over 19% gross vs. just under 8% for the benchmark during this period. Mr. Shevitz highlighted those sectors that performed well, and also noted that they were the largest exposures of the portfolio.

Mr. Shevitz reviewed the 2.5% relative underperformance compared to the benchmark for the first quarter. He stated that these were the same sectors that provided the positive performance in 2010 and that fundamentally Sprucegrove still likes them and is still holding them.

Mr. Shevitz updated the Board regarding the portfolio holdings in Japan and their status as a result of the disaster. He stated that there are global supply chain disruptions; however, the portfolio has no financial, insurance or any utility company exposure and that their holdings outperformed the index strongly during this time due to the focus on quality.

Mr. Shevitz reviewed Sprucegrove's philosophy of being a long term owner of quality businesses priced with a margin of safety. They have a bottom up stock selection process that looks for terrific businesses with a margin of safety in their balance sheets, well run from a management standpoint, and having long term growth opportunities, almost regardless of the macro environment, and because of this the portfolio turnover is exceptionally low.

Mr. Shevitz reviewed the factors that Sprucegrove considers in analyzing a company. Mr. Shevitz stated that the activity during the quarter included adding a health care company in Switzerland, and a consumer staples company in South Africa and eliminating four holdings, because of quality.

Mr. Goulet requested and received clarification that the analysis includes a review of executive compensation.

Mr. Bennett received clarification from Mr. Merrigan on how Sprucegrove manages their relationship with a company that makes changes and moves themselves outside of the acquisition criteria.

Mr. Wilson had clarified that the trending down in the portfolio in India is not related to the issue of the quality of the financial information that they get out of the country. Mr. Merrigan stated that Sprucegrove's weighting in India is purely due to valuations.

In response to Mr. Wilson's inquiry, Mr. Merrigan cited the rationale for acquiring HSBC and Banco Santander was that they are high quality global financial institutions that are well positioned for the long run.

Mr. Goulet stated that he had asked for the cash flow history. Mr. Vandolder stated that while he consistently asks for net of fee performance, gross of fees is what is required by CFA.

C. Hewitt EnnisKnupp, Kevin Vandolder and Eric Kuhl.

1. Monthly Investment Performance Update, March 2011.

2. Monthly Manager Updates/Summary, March 2011.

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

3. Highlights and Research, April 2011.

   a. Artio Presentation
   b. Sprucegrove Presentation
   c. International Equity Search
   d. GIM Research Update
   e. RREEF Flash Report
   f. A Core-Satellite Approach to Managing Private Equity Programs
   g. Invitation to HEK University

Mr. Vandolder provided a review of investment performance, and noted VCERA was up two tenth of a percentage point versus the policy portfolio which was up one tenth of a percentage point. He noted that these returns do not include real estate performance, which is delayed for three to six months. He opined that it was a flat month.

Mr. Vandolder stated that the rate of return for the fiscal year for the Western Index Plus has been 36.4% compared to the benchmark of 30.6%. The strategy is still down 7.3% since inception compared to the S&P 500 Index.

Mr. Johnston received clarification that Western contributes a meaningful percentage of risk, approximately 22%, to the overall investment program. Mr. Vandolder noted that based upon the global mandates VCERA may use Western as a funding source to further diversify away from this type of investment.

Mr. Goulet stated VCERA should have the same concerns with Loomis

Sayles, as they have outperformed their benchmark. Mr. Vandolder distinguished Loomis from Western in that they had different entry points, and different levels of global awareness; but he agreed that while Loomis has a smaller allocation they are contributing significant amounts of fixed income risk.

Mr. Bennett had clarified that if in six months the interest rates were significantly higher VCERA could expect Western to lose as much as 5 percentage points, but more likely 3 percentage points due to credit protection, relative to the benchmark.

Mr. Hansen stated that UBS is projecting the ten year rate to be 4 ½% by the end of 2011, and 6% by the end of 2012.

Mr. Vandolder stated that in terms of the non-US equity managers, the success of Artio reflects the underweighting in Japan. He noted half of the portfolio has direct and indirect exposure to emerging markets. He opined that if emerging markets start to perform well VCERA should expect Artio to deliver well and that he encourages VCERA to be patient with Artio, but maintain them on watch.

Mr. Vandolder noted that Sprucegrove and Artio have complementary strategies.

Mr. Vandolder stated that Walter Scott and Hexavest are collectively bearish; one from a valuation perspective, and the other from a growth perspective. Mr. Vandolder noted that one of the key drivers for the month for Hexavest returns was that at the time of the disaster it had 60 basis points in Tokyo Electric, which it immediately sold at a sizable discount. Mr. Vandolder stated Hexavest is at a loss why the market is going up, and as a result they have been conservatively positioning the portfolio. Walter Scott has a similar assessment, but they are focused on the fundamentals.

Mr. Vandolder stated that Acadian came back strongly because of the stock selection in Japan and that GMO also added some value.

Mr. Vandolder noted that while VCERA is in the early stages of its investment in K2 there are some early signs of success, especially in the last two weeks of the month of March due to the significant underweight to the U.S. dollar.

Several Trustees commented that they find this new investment report format more difficult to read than the old format. Mr. Vandolder stated that he will work with staff and the Board to fine tune the report; however, one of the benefits of this new report format is that it reduces administrative errors due to being automated.

Mr. Vandolder stated that if the Board decides to terminate its relationship with Artio he would prefer they move the allocation to the existing managers. He noted that if VCERA decides to expand its manager structure it would be more expensive, more complex, and more managers to meet with.

Mr. Vandolder provided four options for international managers in the event the Board decided to terminate its relationship with Artio and add a new manager. He stated that Aberdeen is a very strong performing manager. He was concerned about some capacity issues and fees, which as a result of their success, are high.

Mr. Vandolder opined that if the Board had to personally rank the international managers based upon VCERA's risk profile, Harding would be ranked in the top two managers to meet with. He noted that Harding has the most success on a historical standpoint; however, recently, they are no longer one hundred percent employee owned which is a concern.

Mr. Vandolder commented on the fact that Vontobel has fifty percent of their portfolio in consumer staples, and they have one lead portfolio manager, which leads to key person risk. They had also recently had some significant hiring decisions.

Mr. Vandolder stated that William Blair is a one hundred percent employee owned organization. It has a significant emerging market bet that has led to significant success over a long period of time. Mr. Vandolder opined that William Blair is one of the top two organizations to consider. It also has a favorable fee of 61 basis points.

Mr. Vandolder summarized the Board's three options: to retain Artio for a period of time and do nothing; to continue to consider, to the extent that the Board wants to close out its relationship with Artio, sprinkling Artio's assets among existing managers; or, to interview managers before the Board that Hewitt EnnisKnupp has profiled on the Board's behalf.

After much discussion amongst the Board Members, Mr. Towner stated that the consensus was to retain Artio and reevaluate their performance in six months.

Mr. Vandolder reviewed the changes at Hewitt EnnisKnupp. He stated that the advice, managers, and performance metrics, the Expert System Discipline, have not changed, or have been enhanced, but that the partnership makeup and his responsibilities have changed. Mr. Vandolder cited as an example of an enhancement, metrics on how the liability streams are performing in relation to the assets on a quarterly basis, rather than annually like the Board now receives from Segal.

Mr. Goulet had clarified that it is Mr. Vandolder's responsibility to assess whether a product fits well in relation to VCERA's risk tolerance, patience and existing manager structure, and what VCERA is attempting to achieve from an investment perspective. It is the researchers' job to find positive alpha.

Mr. Wilson expressed his concern that the researchers may be emphasizing finding positive alpha when it would be advantageous to go passive. Mr. Vandolder stated that it is more about the benefits of managing risk.

Mr. Goulet and Mr. Wilson stated they objected to the terminology regarding buying, selling or holding a manager, when what the Board does is contract with one.

Mr. Goulet had clarified that Mr. Vandolder would provide the Board with his recommendation regarding hiring a manager, but he understood that the Board preferred he wait until after they discuss it. He stated that the reason for this was that the Board's actions are in the news and if the Board chose to go another direction than that offered by Hewitt EnnisKnupp it would create an apparent awkward tension. Mr. Goulet and Mr. Johnston stated they would still prefer Mr. Vandolder state his opinion.

Mr. Vandolder offered to meet with Board Members outside of the meeting. Mr. Towner stated that Mr. Vandolder would need to be careful having one on one meetings. Ms. Nemiroff stated that Mr. Vandolder would need to be careful to not discuss what he has discussed with other Board members prior to the Board meeting to avoid creating a daisy chain effect of having a serial meeting, and any kind of consensus building before the Board meeting.

Mr. Bennett had clarified that the manner with which the Board would be receiving Mr. Vandolder's recommendation would be made by all the Board members at some meeting.

Mr. Henderson opined that he would like Mr. Vandolder's opinion in advance, that the Board members rely upon it, and that is what Mr. Vandolder is getting paid for.

Mr. Vandolder stated that they can experiment with it at the next meeting.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file items 1, 2, and 3.

Motion passed.

VI. OLD BUSINESS

A. Letter from County CEO and CEO-HR Regarding Retirement Administrator Recruitment Update; Approval of, and Authorization by VCERA to Pay Costs Associated with Candidate Travel.

Ms. Kelly Shirk, County of Ventura CEO-HR, and Ms. Lisa Yoshimura, County of Ventura CEO-HR, were present to discuss the status of the Retirement Administrator recruitment.

Ms. Shirk updated the Board on the status of the recruitment. She stated that they continue to receive applications after the deadline, and the total has been modified to 57. She noted that the Recruitment Committee had identified nine applicants, from the twenty four from last week, that were to move forward.

Ms. Shirk noted that County HR has spent just under five hundred dollars for advertising, recruitment, and brochures.

A discussion ensued regarding the interview dates and times.

Mr. Wilson had clarified that the Committee has come up with a list of nine candidates, and that the Board would meet with them after the meeting on May 2nd, and in the morning on May 3rd.

The Board revised the interview dates to Monday May 2nd in the afternoon after the Disability Meeting, and Monday, May 9th at 9:00 a.m. in the Board Room.

Mr. Wilson moved, second by Mr. Hansen to schedule the interviews for Monday May 2nd after the Disability Meeting, and Monday May 9th at 9:00 a.m. in the Board room.

Motion passed.

Ms. Shirk sought authorization to reimburse the applicants for travel, including lodging, airfare, meals and car rental, up to a combined total of $5,000.

Mr. Henderson questioned whether it was normal to pay for candidate travel. Mr. Shirk replied that at the level being recruited, it would be.

Mr. Hansen and Mr. Wilson stated their experience was the organization would pay.

Mr. Goulet stated it was a County practice to pay at this level.

Mr. Hansen moved, seconded by Mr. Wilson, to approve and authorize the travel costs (including air, lodging, auto and meals) associated with those candidates interviewing with VCERA for the Retirement Administrator position up to a combined total of $5,000.

Motion passed.

B. State Association of County Retirement Systems (SACRS) Board of Directors Elections.

Mr. Goulet stated that Orange County has offered Richard White as the replacement for Darryl Walker on the ballot. Mr. Goulet questioned whether SACRS By-Laws allows three years of consecutive terms.

Mr. Towner stated that he believed SACRS should have vetted that out before they submitted the candidates.

Mr. Hintz moved, seconded by Mr. Wilson, to direct Mr. Goulet to vote for the ballot.

Motion passed.

Mr. Johnston opposed.

VII. NEW BUSINESS

A. Authorized Signatories – Bank of America.

Mr. Hansen moved, seconded by Mr. Harris, to authorize the Chairman to sign the Banking Resolution and Certificate of Incumbency certifying that Henry Solis, as Interim Retirement Administrator, be authorized to sign and manage VCERA's account relationship with Bank of America.

Motion passed.

B. Certificate of Appreciation – Jennifer Rendon.

Mr. Henderson moved, seconded by Mr. Wilson, to have the Chairman and

Vice-Chairman sign the Certificate of Appreciation recognizing Ms. Rendon's eight years of service to VCERA.

Motion passed.

C. Conference Report – Arthur E. Goulet.

Mr. Harris moved, seconded by Mr. Henderson, to receive and file the Conference Report from Mr. Goulet.

Motion approved.

VIII. CLOSED SESSION

Pursuant to the Provisions of Government Code Section 54956.9 Subdivision (c), the Board of Retirement Adjourned into a Closed Session to Determine Whether to Initiate Litigation (Name of Potential Defendant Withheld, as Authorized Under Government Code Section 54956.9 Subdivision (c)); and Pursuant to Government Code Section 54957(b)(1) to Discuss the Appointment of a Public Employee; Retirement Administrator.

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

X. PUBLIC COMMENT

None.

XI. BOARD MEMBER COMMENT

Mr. Hansen stated that the UBS Real Estate was up year after year with $1.8 billion in additional properties. He stated that UBS opined that the economy will grow at 3.3% this year, with unemployment at 9%, and the average price of oil to be $100 a barrel and that oil will be one of the most important factors going forward. Mr. Hansen stated that the greatest challenge UBS sees is the widening gap in the federal government between expenditures and revenue. Mr. Hansen took some property tours. UBS is in the process of acquiring $1.6 billion of properties. Their net earnings are 3.19% for the first quarter.

XII. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:10p.m., upon the motion of Mr. Wilson, seconded by Mr. Harris..

Respectfully submitted,

HENRY C. SOLIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman