VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 19, 2010

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
Henry Solis, Chief Financial Officer
Lori Nemiroff, Assistant County Counsel

PLACE:
Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME:
9:00 a.m.

ITEM:

I. **INTRODUCTION OF MEETING**

Chairman Towner called the Business Meeting of April 19, 2010 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of April 5, 2010.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of April 5, 2010.

Motion passed.

IV. CONSENT AGENDA

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

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, Summary of Investments and Cash Equivalents, Schedule of Investment Management Fees and Statement of Reserves for the Months Ended January 31 and February 28, 2010.

C. Report of Checks Disbursed in February and March 2010.

D. Budget Summary for the Month Ended January 31, 2010, 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 March 31, 2010.

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

Motion Passed.

V. INVESTMENT INFORMATION

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

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

Mr. Shevitz stated that investment results from recent periods were especially gratifying for Sprucegrove because clients were finally being rewarded for the long term holdings in the portfolio. Mr. Shevitz cited the consumer discretionary sector as an example where there has been little to no turnover within the portfolio and was an area of underperformance in the portfolio during the economic downturn. Now Sprucegrove clients are being rewarded by owning these same companies during the economic resurgence, according to Mr. Shevitz. On a relative basis, Sprucegrove's returns were 5% during the first quarter of 2010 versus 1% for the EAFE benchmark. During 2009, Sprucegrove's portfolio returned 37% versus 32% for the benchmark. Since inception of the relationship in 2002, the Sprucegrove portfolio has an annualized return of 9% versus an annualized return of 6% for the benchmark, according to Mr. Shervitz.

Organizationally, Ian Fyfe, one of Sprucegrove's founding partners, retired as planned in 2009. Additionally, Sprucegrove reopened all investment mandates for new clients in order to address the heightened business risks brought forward by the economic downturn. Sprucegrove's long term organizational plan is to remain a small firm and management once again expects to close Sprucegrove's products to new client investments in the future. During the latest cycle, Sprucegrove has lost approximately 10 clients for various reasons and added 5 new relationships.

Mr. Merrigan reviewed Sprucegrove's investment philosophy of attempting to identify quality companies at attractive valuations, their focus on in-depth stock analysis and philosophy to hold companies in the portfolio for extended periods.

Mr. Merrigan provided the example of Sprucegrove's purchase of Singapore Air as an example of their investment philosophy. Mr. Merrigan cited the rationale for purchasing Singapore Air including its strong balance sheet and top level management.

Mr. Merrigan also reviewed the transaction summary during the first quarter of 2010 to illustrate how Sprucegrove improved the quality characteristics of the portfolio.

V. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates, Kevin Vandolder.

Mr. Vandolder reviewed exhibit #1 of Ennis Knupp's April 6, 2010 memorandum. The exhibit illustrated 8 alternative approaches for VCERA to consider in terms of manager structure, asset allocations and investment management fee schedules.

1. International Equity Manager Search.

a. Arrowstreet Capital, L.P.

Mr. Neil Garceau and Mr. Jim Thames, CFA, were present from Arrowstreet Capital to provide an overview of the firm, a review of the investment process, fee structure and to identify the qualities that differentiate Arrowstreet Capital as an investment manager.

Mr. Garceau characterized Arrowstreet Capital as a specialist in the management of international and global equity portfolios. Mr. Garceau noted Arrowstreet Capital's research driven process, assisted by an association with Harvard University, and 100% employee ownership as differentiators in favor of Arrowstreet Capital when compared to other international equity managers.

As of March 31, 2010, Arrowstreet Capital managed approximately $26 billion in assets. All portfolios are managed by the same investment team and use the same quantitative model.

In terms of style, Arrowstreet Capital focuses on maintaining a core role, but also tactically tilt the portfolio toward growth, value or small capitalization names depending upon market conditions.

Mr. Thames discussed Arrowstreet Capital's investment philosophy of adding value by identifying investment signals that are relevant, but not obvious, to prices, reflect slowly in stock prices and typically are derived from behavioral and information mispricings.

Mr. Thames also discussed the economic relationships that exist for companies in terms of sector, country, competitors and non-related industries and how those linkages were reflected within Arrowstreet Capital's portfolios. An example using STMicroelectronics, a French information technology company was used to illustrate Arrowstreet Capital's process.

V. **INVESTMENT INFORMATION (continued)**

B. EnnisKnupp & Associates. (continued)

Mr. Thames described how Arrowstreet Capital built stock forecasts using sector, country, specific stock information and other sources. Portfolios were built, according to Mr. Thames by simultaneously evaluating forecasts, risk, style exposure and transaction costs. A typical Arrowstreet Captial portfolio will be style neutral with anywhere from 150 -275 stocks.

Mr. Wilson requested and received clarification on the portfolio's turnover rate (120% per year) and whether Arrowstreet Capital paid fees to placement agents.

Mr. Vandolder requested additional background regarding Arrowstreet Capital's participation in CalPERS' manager development program and the current ownership level of Arrowstreet maintained by CalPERS.

b. Hexavest Inc.

Vital Prouix, CFA, and Robert Brunelle, CFA, were present to discuss Hexavest's organization, investment philosophy, investment process and the distinguishing characteristics of their firm.

Mr. Brunelle provided a brief review of the organization and noted Hexavest's $2.4 billion under management, their 19-year investment performance track record and the stability of the organization. Mr. Brunelle noted that Hexavest managed approximately $800 million of client assets in international equity mandates.

Mr. Brunelle further described the investment process that focuses on a "top-down" approach where country, sector and currency decisions generate approximately 80% of the firm's excess returns. 20% of the alpha, or excess returns, were generated by "bottom-up" or stock selection decisions historically, according to Mr. Brunelle.

Mr. Prouix provided additional detail on how Hexavest makes macro-economic decisions, monitors portfolio risks and decides on the composition of the approximately 250 stock names within the portfolio. Mr. Prouix acknowledged that investment mistakes would be made building the portfolio, but Hexavest had a long-term record of achieving higher returns at low volatility levels and protected capital during market downturns.

V. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates. (continued)

Overviews were provided of the investment process including how Hexavest evaluated the Japanese market, the yen and the European energy sector utilizing screens for the specific macroeconomic environment, valuation metrics for the financial markets and investor sentiment. A quantitative model is used to validate Hexavest's internal research.

In conclusion, Mr. Brunelle summarized Hexavest's distinguishing characteristics to include a well tested and rigorous investment process, a stable experienced highly motivated investment team and the ability to offer exceptional performance with a risk/return profile that offers great downside protection.

c. Walter Scott Global Investment Management.

Mr. Frances Sample was present to discuss Walter Scott's organization structure, investment philosophy, investment capabilities and the characteristics that distinguish Walter Scott as a firm.

Mr. Sample noted Walter Scott's global client base with 40% of clients being in the United States, 15% in Canada and 12% in Australia. Walter Scott's culture is to "grow" investment professionals within the organization and one may view this characteristic in the tenure of Walter Scott's senior management that averages 23 years in the industry with an average of 18 years with the firm.

In terms of investment philosophy, Mr. Sample stated that Walter Scott believes company wealth generation drives investor return and Walter Scott identifies companies generating wealth through a fundamental bottom-up research driven approach. The typical holding period for stocks in Walter Scott portfolios is 5 to 7 years, according to Mr. Sample.

The investment process involves screening the global universe of stocks for those companies capable of 20% wealth generation in terms of cash returns on investment, returns on equity and earnings per share growth. Targeted companies are then subjected to seven areas of investigation including market position, sustainable margins, profitability, management and marketability. A typical portfolio includes some 40-60 stocks and stocks are only added to the portfolio by

V. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates. (continued)

unanimous team decision. Stocks are sold when there is one dissenter on the team or when there has been a fundamental breakdown in the purchase rationale, 5% single stock exposure in the portfolio and when there are better ideas for the portfolio.

In terms of portfolio attributes, geographically Walter Scott is currently overweighting Japan and underweighting the U.K. In terms of sectors, Walter Scott is overweighting information technology, energy and consumer discretionary while underweighting financials and materials.

The top ten holdings of the portfolio, comprising approximately 20% of the portfolio's value, include Nestle, L'Oreal and Petrobras. Other characteristics include a turnover rate of 7.6%, average return on equity for the holdings of 16.2% and a price/earnings multiple of 22.

Over the past ten years, Walter Scott's portfolios have risen in 90% of the months when the index return was positive and fell in 79% of the negative return months illustrating the downside protection offered by the Walter Scott investment strategy.

Mr. Wilson requested and received clarification regarding Walter Scott's utilization of currency hedging.

Mr. Goulet noted Walter Scott's ownership structure (100% ownership by BNY Mellon) relative to the firm's current material underweight to the financial sector.

2. Memorandum – Non-U.S. Equity Asset Allocation Modeling.

Mr. Vandloder reviewed Ennis Knupp's memorandum containing 8 funding/allocation and manager structure scenarios for VCERA's consideration. The memorandum included expected out-performance, benchmark risk, information ratios and projected fee basis.

Mr. Vandolder offered a brief review of the manager presentations and summarized the distinguishing characteristics of each manager.

Mr. Wilson questioned whether VCERA should be attempting to maximize the information ratio or perhaps be looking to control costs.

V. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates. (continued)

Mr. Vandolder stated that all presented scenarios were acceptable to EnnisKnupp.

Mr. Harris indicated a preference for Scenario D where Sprucegrove and Artio were provided additional funding and Hexavest was hired to manage $30 million.

Mr. Hoag requested and received clarification on why Hexavest was not on the "approved" manager list at EnnisKnupp.

Discussions were held on the merits of providing additional funding to Artio given their performance since being hired in late 2008.

Mr. Wilson noted the uniqueness of Hexavest's investment philosophy and Walter Scott's process. Mr. Wilson offered his support for Scenario F where funding was provided to Artio, Hexavest and Walter Scott.

Ms. Becker requested clarification on the funding levels for Scenario F.

Mr. Towner offered support for Scenario F.

Mr. Foy moved, seconded by Mr. Matheney, to adopt Scenario F and provide approximately $30 million in additional funding to Artio, $30 million in funding to Hexavest and $50 million to Walter Scott with the funding derived from the termination of VCERA'S relationship with Capital Guardian Trust Company.

Motion passed.

3. Monthly Investment Performance Update, March 2010.

4. Monthly Manager Updates/Summary, March 2010.

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

V. INVESTMENT INFORMATION (continued)

B. EnnisKnupp & Associates. (continued)

Mr. Vandolder provided a brief review of the investment performance in March 2010, noting the 4.6% return of the portfolio and the current asset size of $2.8 billion.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file Items #3 and #4.

Motion passed.

5. Opportunistic Strategies – Fourth Quarter Review 2009.

Mr. Goulet moved, seconded by Mr. Matheney, to receive and file EnnisKnupp's Fourth Quarter Review of Opportunistic Strategies.

Motion passed.

C. Letter from Western Asset Management Regarding LLC Agreement Amendments.

Staff provided additional background on VCERA's use of LLCs within the Core Plus product and noted that no formal action of the Board was required.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the letter from Western Asset Management regarding amendments to the LLC agreements.

Motion passed.

VI. OLD BUSINESS

A. Proposed Letter to the Board of Supervisors Regarding Implementation of VCERA Compensation Resolutions.

Staff discussed the subject matter of a meeting held during the week prior to the April 19, 2010 business meeting with the County Executive Office. Additional research into the linkage between VCERA management positions and benchmarked County of Ventura positions disclosed that VCERA salaries were modified in accordance with the January 3, 2005

VI. OLD BUSINESS (continued)

A. Proposed Letter to the Board of Supervisors Regarding Implementation of VCERA Compensation Resolutions. (continued)

compensation resolution in late 2006/early 2007. Consequently, the County Executive Office would be recognizing the linkage and modifying the compensation levels of three VCERA management positions.

The Retirement Administrator withdrew his letter of resignation and offered to delay his decisions until year end in order for additional communication to take place between VCERA and the County of Ventura on VCERA's governance issues.

Mr. Goulet moved, seconded by Mr. Harris, to defer action on the subject until December during the Administrator review process.

Motion passed.

VII. NEW BUSINESS

A. Letter from Staff Regarding Offer to Lease Adjacent Office Space.

Staff disclosed that adjacent office space had recently become available, noted the terms regarding available space in the current lease agreement and recommended the matter be discussed in greater detail with Tom Dwyer of CB Richard Ellis on May 17, 2010.

Mr. Goulet moved, seconded by Mr. Henderson, to adopt staffs recommendation.

Motion passed.

B. Letter from Staff Regarding RREEF America III Shareholder Meeting.

Staff reported on attending the RREEF America III Shareholder meeting in March and expressed an opinion that the fund would begin to soon operate more as a closed-end vehicle rather than under the current open-end structure. Staff also identified specific areas within the portfolio where risks remained and noted that staff would continue to participate in all available investor calls and investor meetings.

Ms. Becker moved, seconded by Mr. Foy, to receive and file Staffs letter.

Motion passed.

C. Request to Attend the NCPERS Harvard Law School Program for Advanced Trustee Studies, July 26-28, 2010, Boston.

Mr. Matheney moved, seconded by Mr. Goulet, to approve Ms. Becker's attendance.

Motion passed.

D. Retirement Administrator's Quarterly Reporting of Travel and Other Expenses.

Mr. Matheney moved, seconded by Mr. Foy, to receive and file the Administrator's Travel and Other Expense report.

Motion passed.

VIII. CLOSED SESSION

The Board of Retirement Adjourned into a Closed Session to Discuss Pending Litigation Pursuant to the Provisions of Government Code Section 54956.9 – The People of the State of California Ex Rel Edmund G. Brown, Jr. v. State Street Corporation, Sacramento County Superior Court Case No. 34-2008-00008457-CU-MC-GDS.

In open session, Chairman Towner announced that the Board had not taken any reportable action.

IX. INFORMATIONAL

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

B. *The Wall Street Journal* - Gurus Urge Bigger Pension Cushion, dated March 29, 2010.

C. Stanford Institute for Economic Policy Research Policy Brief – Going For Broke: Reforming California's Public Employee Pension Systems, dated April 2010.

D. CalPERS Response to Stanford Policy Brief, dated April 6, 2010.

E. *The Sacramento Bee* – The Public Eye: Pension Promises Threaten California Cities, Counties, dated April 11, 2010.

IX. INFORMATIONAL (continued)

F. *The Sacramento Bee* – Editorial: Perks of the Past Return to Haunt, dated April 12, 2010.

G. Adams Street Partners Client Conference, June 9-10, 2010, Chicago, IL.

H. Opal Financial Group Investment Trends Summit, June 16-18, 2010, Santa Barbara, CA.

I. Stanford Law School Directors' College, June 20-22, 2010, Stanford, CA.

X. PUBLIC COMMENT

Staff informed the Board that Mr. Solis was promoted to Chief Financial Officer and reminded the Board of the scheduled tour of the Chestnut Street property after the May 3, 2010 disability meeting.

XI. BOARD MEMBER COMMENT

Mr. Goulet provided his written Pension Bridge Conference report.

Mr. Foy and Mr. Henderson commented on the progress with the compensation resolution.

XII. ADJOURNMENT

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

Respectfully submitted,

TIM THONIS, Retirement Administrator

Approved,

TRACY TOWNER, Chairman