VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

MAY 16, 2011

MINUTES

DIRECTORS PRESENT:	Tracy Towner, Chair, Safety Employee Member William W. Wilson, Vice Chair, Public Member Steven Hintz, Treasurer – Tax Collector, Ex-officio Member 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 ABSENT:	Karen Anderson, General Employee Member
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 May 16, 2011 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Towner moved Item VII.3. of the Closed Session Items to follow Board Member Comment.

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of May 2, 2011.

Mr. Goulet clarified his statement on page nine, third paragraph from the bottom of the May 2, 2011 Disability Meeting Minutes. He stated that he wanted the record to reflect his comment that until the cases are properly addressed to show that they do not apply, the Board had no choice but to follow the Hearing Officer's recommendation.

Mr. Goulet also stated on page 10, Item VII. the Public Comment section, the paragraph should begin with Mr. Solis, rather than Staff.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of May 2, 2011, as amended.

Motion passed.

B. Special Meeting of May 9, 2011.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Special Meeting of May 9, 2011.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of April 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 February 28, 2011.

IV. **CONSENT AGENDA (continued)**

C. Report of Checks Disbursed in April 2011.

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 April 30, 2011.

E. Quarterly Real Estate Reports for Period Ending March 31, 2011.

1. Prudential
   a. Economic & Market Commentary
   b. Asset Summary
   c. Transaction Detail Statement
   d. Investment Results
   e. Portfolio Summary - PRISA
2. UBS
   a. Statement of Account
   b. Transaction Detail

Mr. Wilson moved, seconded by Mr. Bennett, to receive and file the items on the Consent Agenda.

Motion passed.

V. **INVESTMENT INFORMATION**

A. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation, Phil Bennett.

Phillip Bennett, Client Relationship Manager, was present on behalf of Grantham, Mayo, Van Otterloo & Co. (GMO) to review the firm's organization, investment process and investment results for VCERA's account.

Organizationally, Mr. P. Bennett stated GMO is an independently owned firm with stable clients and employees. He stated they have added only a few new resources in the past few years. Three of those resources are Anna Chetoukhina, a quantitative analyst, Jamie

V. **INVESTMENT INFORMATION (continued)**

A. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation, Phil Bennett. (continued)

Lee, an economist, and John Roiter. Mr. P. Bennett opined on the intellectual capital they bring to the organization.

According to Mr. P. Bennett, GMO currently has over a $100 billion in assets under management. Within the global equity mandate they have $2.6 billion.

Mr. P. Bennett reviewed GMO's investment strategy of finding quality assets in new emerging markets.

The past year and year-to-date have been challenging, Mr. P. Bennett opined, but they have seen quality beginning to make a nice rebound. He stated the performance results, as of May 13, 2011, surpass the benchmark on every time frame. The fund has outperformed the benchmark by 128 basis points since inception; year to date is now up over a percent relative to the benchmark. Mr. P. Bennett felt that these may be signs that the bubble in the overall equity market may be coming to an end. He stated that near the end of a bubble the high quality low risk stocks start to outperform.

Mr. Hintz had clarified that Mr. P. Bennett did not have the most recent returns reported in the handout. Mr. Vandolder stated that this information is reflected in the Hewitt ennisknupp report as of the end of April.

Mr. P. Bennett reviewed the 7-Year Asset Class Return Forecasts. He highlighted the forecasted annualized negative 0.1% return for US large cap, S & P 500. He stated that it is an expensive asset class, but that U.S. High Quality stocks, on a relative basis, are still attractive, with an annualized return of approximately 4.6%. Mr. P. Bennett also discussed small caps, stating that they are incredibly overpriced at this time, and they are avoiding them.

Mr. Vandolder stated that inflation would have to be added to provide a real return forecast. Mr. P. Bennett stated that the projected inflation rate is 2.5%, which will bring up the return forecast.

Mr. Goulet had clarified that the Fixed Income in the VCERA

V. **INVESTMENT INFORMATION (continued)**

A. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation, Phil Bennett. (continued)

performance table, the Alpha Only allocation, is actually a portfolio of long equity shorting out the beta; it is a cash plus vehicle that they use when they want to have a bet on their ability to generate alpha but the markets are so over valued that they would rather take the cash plus; and while it is in the category of Fixed Income, there is no fixed income in it.

Mr. P. Bennett stated that while it is difficult to define quality in an emerging market, they look for stability of ROE (Return On Equity) and level of ROE. Within emerging markets, there is also a momentum stream. The new fund that they released is called Domestic Consumption with about a ten percent stream within the emerging portfolio. With those international portfolios there is a momentum component to them. That momentum component varies by the strategy. This has created a small overweight to small cap, though they have completely removed the US small cap allocation in this portfolio.

Mr. P. Bennett had clarified that they are overweight in both India and China; with the biggest overweight in domestic consumption in China. From an exporter standpoint GMO does not like China.

Mr. P. Bennett stated that the portfolio bets are underweight to US equities by about nine and one-half percent. On the international side a little bit of overweight because of quality. Quality refers to stocks that have low leverage, but high and stable ROE. Companies are using the low interest rates to sustain questionable costs right now. They continue to come out with earning announcements that are hitting on earnings, but missing on sales. Mr. P. Bennett opined that at some point rates are going to go up and the debt cost for a lot of these companies will go up without the sales to cover those costs. This is in the US and the global developed side. Mr. P. Bennett noted that emerging governments attempt to prevent bubbles much quicker than the developed economies. He stated that the one concern with emerging markets is food inflation because the governments act by raising interest rates, which puts a damper on stock prices, but does prevent the bubbles.

Mr. P. Bennett stated that with quality stocks, because they are

V. INVESTMENT INFORMATION (continued)

A. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation, Phil Bennett. (continued)

global in nature, many of their sales have a higher exposure to emerging markets than the standard; even S & P stocks. Mr. P. Bennett clarified that the domestic demand story is one of demographics, and the growing middle class. When the income moves from $2,000 per year to the $3,000 to $10,000 per year range, there is a huge pool of individuals who can buy durables.

Mr. P. Bennett reviewed the elasticity of consumption relative to the $3,000 to $10,000 range. Mr. P. Bennett opined that 463 million consumers in the emerging markets will be moving into the middle class within the next five years, they will move into "that sweet spot of consumption." Mr. P. Bennett noted that in countries, like Korea, where income is relatively high, when income goes up, consumers will start to save again.

Mr. P. Bennett had clarified that in developed markets there will be trouble over time because the ratio of non-working to working people will be going up; while in the emerging markets the opposite will be occurring. From a demographic perspective a lower dependency ratio is better. Mr. P. Bennett stated that this is an argument for domestic and overall growth within emerging markets.

Mr. P. Bennett concluded by stating that the bets are quality and emerging.

B. Acadian Annual Investment Presentation, Raymond F. Mui and Douglas C. Coughlin.

Douglas C. Coughlin, CFA, Senior Vice President, Director, North American Client Service, and Raymond F. Mui, Senior Vice President and Portfolio Manager, were present from Acadian to provide an update on Acadian's organization, investment performance and investment results for VCERA's account.

Mr. Coughlin noted that organizationally there haven't been many changes and that last year two portfolio managers left the organization and two more have left this year. All four have been replaced with PhD caliber individuals, according to Mr. Coughlin.

V. INVESTMENT INFORMATION (continued)

B. Acadian Annual Investment Presentation, Raymond F. Mui and Douglas C. Coughlin. (continued)

Mr. Coughlin stated that from a client standpoint they continue to win sizeable amounts of new business, but are also seeing some flows away from the fund; they have lost about $500 million dollars in client assets. He opined that this is as a result of the emerging markets, and the European debt crisis.

Mr. Coughlin stated that the fund is a global equity portfolio that opportunistically takes a short position of up to a 30% and a long position of up to 130% of the portfolio, and it benchmarks against MSCI All-Country World Index. According to Mr. Coughlin, Acadian has $53.0 billion under management at the end of April, up $4 billion from the end of 2010.

Mr. Mui addressed the portfolio performance and noted that it has been positive in 2010, up 13.7 compared to 12.7 for the benchmark. For 2011 through April the fund has outperformed the market by 90 basis points. According to Mr. Mui, May continues to be quite positive, outperforming the benchmark by 140 basis points. For the year to date performance through May 13, 2011, they have been able to outperform the benchmark by 2.3%.

Mr. Mui stated that the attributes that drive equity returns have returned to normal and become more stable and predictable. He noted that this is not the environment of 2009, when returns were driven by macro issues. Mr. Mui stated that within the purview of their mandate they would go long companies they find attractive, and short companies that are not attractive.

Mr. Mui noted that there have been some favorable aspects to the market. Value worked in the non-US market. He stated they favored cheap companies, with good earnings prospects, and quality, which until now has been underpriced. Mr. Mui opined that quality will be driving the equity returns. Mr. Mui noted that Acadian dissects the two different components of the portfolio; the long component being more attractive at 1.5 price/book relative to a benchmark of 1.9., while shorting the less attractive stock from a valuation perspective at 2.9. Within that context the number of securities does not necessarily correlate to the mandate, but in terms of value it does,

V. **INVESTMENT INFORMATION (continued)**

B. Acadian Annual Investment Presentation, Raymond F. Mui and Douglas C. Coughlin. (continued)

according to Mr. Mui. Mr. Mui opined that what added value to the portfolio was the US for the first quarter in contrast to 2009; it added 3.4% of portfolio value.

Mr. Mui highlighted the fact that Acadian tracks 40,000 securities throughout the world, all of which are eligible for this portfolio, and that the portfolio is well positioned going forward.

Mr. Wilson received clarification that the amount of turnover within the portfolio by value is approximately 120-140%, with a little bit more turnover on the short side on a relative basis. Acadian considers the cost of trades and nets them against the expected return and considers the cost to borrow the stock as part of the decision making process, according to Mr. Mui.

Mr. Bennett received clarification regarding the normalization of the market and the insignificant impact, as a consequence of the market already having corrected for the ending of QE2.

Mr. Hintz had clarified that Acadian maintains a certain amount of balance in any sector, including the short position in energy that hurt the portfolio year to date through April 2011. Mr. Mui stated that the correlation of returns between all energy stocks had been relatively high and that is why energy was a detractor. In terms of overall characteristics the contribution of the energy stocks was somewhat modest on the long side, so it does balance out, according to Mr. Mui. He noted that in terms of the energy positioning, they have increased it by 2.6%. A number of stocks on the long side did well: Royal Dutch Shell had a 16.6% increase in stock price; Chevron was up almost 20%; and, Total was up 21%. They aggregate the longs and the shorts.

Mr. Towner sought clarification on the differences, which were a result of fees, between the Acadian reports and Hewitt ennisknupp (HEK) reports. Mr. Towner and Mr. Goulet requested that the returns be reported net of fees in the future.

Mr. Vandolder stated that the managers have been encouraged to report returns net of fees, but that many investment managers continue to

V. **INVESTMENT INFORMATION (continued)**

B. Acadian Annual Investment Presentation, Raymond F. Mui and Douglas C. Coughlin. (continued)

report gross of fees because that is standard in the industry. The consensus was to report both before fees and net of fees.

Mr. Johnston received clarification regarding market corrections and what protection Acadian offers. With regard to protection, Mr. Mui stated that Acadian has made a number of changes, the most significant being the security level where they limit the amount of exposure. The maximum long position is 2.25% over benchmark weight and the largest short position is a -2.25% absolute, and the industry exposure and country exposure are very well limited, according to Mr. Mui. Prior to this it had been benchmark +5% on the long side, and 1 percentage point on the short side.

Mr. Goulet had clarified that this is a fixed fee manager. Mr. Vandolder opined that if they don't like the manager they should close out the relationship because the portfolio will remain the same whether they are on a fixed fee or performance basis.

C. Hewitt ennisknupp (HEK)

1. First Quarter 2011 Performance Report.

2. Monthly Investment Performance Update, April 2011.

3. Monthly Manager Updates/Summary, April 2011.

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

4. Highlights and Research, May 2011.

V. **<u>INVESTMENT INFORMATION</u> (continued)**

C. Hewitt ennisknupp (HEK) (continued)

a. Fixed Income Structure Review
b. 2011 Work Plan
c. Performance Report Tutorial

Kevin Vandolder, CFA, of HEK was present to provide a review of the performance reports, and updates.

Mr. Vandolder reviewed the First Quarter 2011 investment performance. He stated that the amount of variance relative to the index funds was as a result of the active bets the Board made with the portfolio.

Mr. Vandolder stated that the period subsequent to the 2008-09 has added significant value to the portfolio. He stated the Board's patience has been rewarded with strong absolute returns and strong relative results.

Mr. Vandolder reviewed the Risk Profile of Total U.S. Fixed Income. He stated that on a risk adjusted basis VCERA has added value, but that Western's current results were overwhelmed by the 2008 and 2009 results. Mr. Vandolder stated that the funding strategy relative to the risk profile would have produced a different result.

Mr. Johnston stated that the risk was underpinned by the Federal Government, and the market going forward may not reflect this.

Mr. Vandolder highlighted the Manager "Watch" List and Western's modest overweight with regard to the maximum of 5% of the portfolio invested in U.S. securities rated below investment grade.

Mr. Vandolder stated that the Securities Lending activity has contributed a total of approximately $860,000 and he will go into more detail during the annual review.

Mr. Goulet stated that the Board should consider setting up guidelines, regarding the Securities Lending activity.

Mr. Johnston received clarification that BlackRock has not contractually indemnified VCERA, with regard to Securities Lending.

V. **INVESTMENT INFORMATION (continued)**

C. Hewitt ennisknupp (HEK) (continued)

In response to Mr. Wilson's question, Mr. Vandolder discussed the status of the Securities Lending lawsuits, and stated that State Street is still working through the issue.

Mr. Towner received clarification that the Manager "Watch" List represents a means to communicate to external parties that the Board is monitoring the managers. Mr. Vandolder opined that the Board should continue to retain the four managers on watch. Additionally, he stated that the broad consensus of the Board at the last meeting was that Artio offered an interesting positioning within the portfolio that could be successful in the next six months, and that the issue will be readdressed at the September Board Meeting.

Mr. Johnston stated that he thinks Artio should be liquidated, and he is concerned that in a mild market correction or recessionary period Artio could negatively impact the portfolio.

Mr. Hansen received clarification on the number of days for the retreat. Mr. Vandolder provided his reasoning as to why he preferred a day and a half retreat, with the actuary on the second day. Mr. Vandolder stated he would work closely with staff to have an Agenda for a day and a half retreat ready for the June Business Meeting.

Mr. Henderson requested that they not exclude the one day option.

Mr. Vandolder reviewed the three global fixed income managers that the Board will meet with in June: PIMCO, Rogge, and Loomis Sayles. Mr. Vandolder stated that these mandates are typically a little bit more expensive, and that after the managers make their presentations he will provide the Board with a risk model, and various scenarios with which to make their decision.

Mr. Vandolder reviewed the remaining 2011 Business Meeting Schedule and stated that he will provide it with each quarterly report.

Mr. Goulet stated he would like the Third Quarter 2011 Performance Report delivered in November rather than December.

Mr. Vandolder reviewed the Performance Report Tutorial.

V. **INVESTMENT INFORMATION (continued)**

C. Hewitt ennisknupp (HEK) (continued)

Mr. Wilson moved, seconded by Mr. Harris, to receive and file items 1 through 4.

Motion passed.

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions.

Mr. Vandolder stated that the purpose of this Item is to clarify, for the Board, what Clifton does, and what Mr. Muralidhar's value proposition adds to the investment program.

Mr. Towner noted that Clifton is more cash equitization than rebalancing. Mr. Towner stated that as a Board Member he has an obligation to mitigate the funds' losses, and that the Board needs to have a clear understanding of Clifton's role and therefore he had invited Mr. Muralidhar to help educate the Board.

Mr. Wilson stated that Clifton is daily determining cash balances and investing the cash by buying instruments that mimic the policy portfolio, they do not rebalance the portfolio or make investment decisions. He noted that when they are investing the cash, in a normal market, the market goes up by investing the cash and that therefore, by its very nature, when the market goes down by investing the cash that will also go down, and if that is not what the Board wants then perhaps they should not be 100% invested. On a number of occasions he stated he has expressed discomfort with the amount of money in debt instruments, with the expectation of increasing interest rates that will naturally mean some losses in the bond portfolio. Mr. Wilson noted that he was interested in making short term decisions that might minimize that and as a result he had previously mentioned a tactical asset allocation where a manager with a wide open mandate that could go between short and long, bonds and equity, based upon what he thought the trend was.

Mr. Vandolder stated that the Board had previously hired Mellon but there was a lack of patience and unanimous support for the platform from the Board.

V. **INVESTMENT INFORMATION (continued)**

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

Mr. Goulet received clarification that the only rebalancing that has been done is when an asset class gets outside of its boundary, and that the previous Retirement Administrator (Tim Thonis) handled that, with an exception being the occasion Mr. Thonis came to the Board and requested that they not rebalance, this was when real estate had lost significant value.

Mr. Wilson stated that the previous Retirement Administrator would rebalance the portfolio on a monthly basis, moving funds between managers.

Mr. Hansen stated that the rebalancing was a CFO job.

Mr. Towner and Mr. Hansen received clarification that there is no decision made within the bands, there is a policy asset allocation which Clifton uses to buy and sell futures to replicate those classes. When money comes in Clifton applies percentages to the notional value to determine what buys they are going to be making, and as money flows out they proportionally remove exposure based on those percentages.

Mr. Muralidhar stated that this is fundamentally a governance issue because it affects the entire portfolio. He stated that the portfolio is drifting within the ranges and no one owns the bet in the range between being precisely on the percentage and the variance, it is only when the boundary is breached that any action occurs. Mr. Muralidhar noted that since no one has been authorized to own the decision, the positive or negative value that affects the portfolio as a result of this drift is the Board's responsibility and it cannot be Clifton's. He commented that since this drift is not being measured, it is not being monitored, and it is not being managed. It is an issue of governance. Someone should own it and a strategy should be employed, whether this is his model, "lazy rebalancing," or a strategy of just going back to neutral.

Mr. Wilson stated that VCERA has been doing a lazy rebalancing. The previous Retirement Administrator was making tactical decisions, but felt resource-constrained, so he became interested in Mr. Muralidhar's services. He stated that the Board would look at the

V. **INVESTMENT INFORMATION (continued)**

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

portfolio monthly to see if it was within the policy ranges. He noted that the investment horizon is a long term and in the past they have not felt the need to be so precise with the rebalancing.

Mr. Muralidhar noted that the Board is making active bets, because if today the portfolio is underweight stocks because the market drifted down last week they are naively buying back in, which is a tactical decision.

Mr. Muralidhar stated that the previous Retirement Administrator had invited Mr. Muralidhar to speak to the Board not because he was interested in making money, though San Bernardino is making 77 basis points a year since 2006, about $150 million on total assets, but because he sought to have better governance, and liquidity. Mr. Muralidhar stated that the prior Retirement Administrator saw the potential to raise cash by having the fund go to the lower end of the range, allowing for a less volatile cash string.

Mr. Muralidhar noted that in 2008 the portfolio was down $825 million relative to the benchmark which was down $750 million.

Mr. Vandolder stated he agreed with Mr. Muralidhar that it is an implementation issue. He stated that the Board would need to decide who to hire, how will they be compensated, how do they put risk controls around them, and whether they would have the patience to weather the ups and downs. Mr. Vandolder stated he believed that the termination of Mellon was premature.

Mr. Goulet stated that Robert M. Maynard is the CIO of the Public Employee Retirement System of Idaho, and Mr. Maynard believes in "lazy rebalancing."

Mr. Muralidhar stated that the unanimous decision to continue with the passive process is a unanimous decision to have no one in charge.

V. **INVESTMENT INFORMATION (continued)**

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

Mr. Towner stated that it is the Board's responsibility.

Mr. Muralidhar stated that the day to day responsibility is not that of the Board.

Mr. Vandolder stated that there is a time line into perpetuity.

Mr. Muralidhar stated the skill to do better than the current policy is to do better than a coin toss, because it is yesterday's market movement that determines if the portfolio is overweight or underweight today. So fundamentally, for anyone to establish skill the bar is so low, it is to beat what the market did yesterday, Mr. Muralidhar opined. He noted that this is not the same as tactical asset allocation. Mr. Muralidhar stated that the skill hurdle is to have lower volatility of the portfolio and a slightly higher return and that the past five years has been a zero value added. He commented that he will be wrong 40% of the time, but this is better governance because there will be someone that is managing and someone that will need to explain it.

Mr. Hintz stated that Mr. Maynard's case was compelling.

Mr. Muralidhar stated that Mr. Maynard was waiting for the fat pitch and he did not talk about risk management, no one in Idaho is there to do it when he was gone. Mr. Muralidhar opined that what Mr. Maynard was doing was an active process; it was not a passive operation.

Mr. Goulet stated the Board sets a policy that if they are out of the range, then the staff, the CFO, takes money out where they are over the range and puts money in when they are under.

Mr. Muralidhar stated that there is a whole spectrum of decisions; for example, does the rebalancing take VCERA back to the range or back to neutral? He noted that choosing and anchoring is a tactical decision and will have consequences over the long term and if this is not based on any market intelligence there will be a lot of volatility.

V. INVESTMENT INFORMATION (continued)

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

Mr. Muralidhar noted that based upon the research, if there is a passive strategy, at least 60% of the months will underperform, and at least 50% of the years will have a negative consequence to the total return because they would be buying the losing asset. Mr. Muralidhar contrasted his strategy, Mr. Maynard's and HEK's.

Mr. Johnston stated that previous Retirement Administrator used an intuitive process and that is what the Board is missing because they only meet once a month. He stated that in 2008 the Board was paralyzed because there was no mechanism in place with which to deal with the situation but that he did not think that the Board should be actively adding onto their losses. Mr. Johnston stated he likes the concept and is still in full agreement in going in that direction, but was shocked by the fees.

Mr. Muralidhar stated that the updated fixed fee was $450,000. He stated that for smaller mandates, $100 million, they, Cap Guardian, Sprucegrove, Artio, Acadian, are being paid more than that.

Mr. Muralidhar stated that for any of those managers to provide the same return, they would have to outperform the benchmarks by as much as 15%. He noted that at the VCERA level a dollar of value added doesn't matter if it came from Acadian, GMO, or himself. Mr. Muralidhar stated that Mr. Goulet had a good point when he said he hires the managers to be able to make $15 million in total, in which case all their fees need to be combined. While the fee looks high, when it is considered at the fund level the value added component is the cheapest.

Mr. Vandolder opined that he could appreciate the value proposition in relation to results, and the fees when viewed from that perspective appear reasonable.

Mr. Goulet stated that when he reviewed the table that it was not a fair comparison, but the $15 million needed to be apportioned amongst the various managers.

Mr. Muralidhar stated that the issue really is the governance, not fees.

V. **INVESTMENT INFORMATION (continued)**

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

Mr. Towner stated he was not sure that the Board has the best governance as was evidenced with the departure of the prior Retirement Administrator.

Mr. Bennett stated that it has just become more evident but the issue existed when the previous Retirement Administrator was here.

Mr. Goulet opined that the previous Retirement Administrator served this function to some degree when he was here.

Mr. Towner stated that the strategy is to dampen the volatility on the cash flow which became of particular concern in 2008.

Mr. Bennett summarized by stating there are three issues. He stated that the first issue, what Clifton does, has been answered, and two other issues are what the policy should be, and how to implement it. He noted that while the discussion has been helpful, the next two questions would be appropriate to entertain when they have a new Retirement Administrator.

Mr. Towner stated that he was not comfortable waiting until October to discuss the issue if, as they stated, there has been no ownership of the decisions subsequent to the prior Retirement Administrator's departure.

Mr. Hansen noted his concern about the new Administrator being involved.

Mr. Wilson received clarification regarding how Mr. Muralidhar's strategy has worked at other pension systems, and how it might be implemented at VCERA. Mr. Muralidhar emphasized transparency of expectations

Mr. Hintz stated that the Board had previously decided the issue.

Mr. Vandolder stated his position, at Mr. Bennett's request, which

V. INVESTMENT INFORMATION (continued)

D. Letter from Kevin Vandolder, Hewitt ennisknupp in Response to Cash Rebalancing Questions. (continued)

was that close to unanimous support is necessary for this type of strategy to be successful and that a certain level of patience is required. He stated that, while he might have philosophical differences on whether this is tactical or not, he agreed with Mr. Muralidhar on almost every item that he mentioned. He stated that he understands the value proposition and he supports it at other public entities and at VCERA, and that it is worthy of additional review at a time when the new Retirement Administrator is available. He suggested that the Board might make a decision by October, one way or the other.

VI. OLD BUSINESS

A. Report from CPAS, David Rive, Chairman & CEO.

Ms. Nemiroff stated that after she and Ms. Dunning met with Mr. Rive, he decided not to appear. She stated the issue would be addressed in closed session.

Mr. Towner stated that Mr. Rive did provide a written document.

Mr. Colker, from Linea Solutions, stated that, given Mr. Rive referred to his company by name, he had prepared a two page memo in response, and he would like to have it put into the record.

Mr. Goulet moved, seconded by Mr. Hintz, to receive and file Mr. Rive's correspondence, and Mr. Colker's response to the correspondence.

Motion passed.

B. Pension Administration System Project Update.

Brian Colker of Linea Solutions was present to update the Board on alternate vendors for VCERA's PAS project.

Mr. Colker stated that they originally contacted five vendors from the 2009 procurement, but subsequently decided to publish a new RFP. As a result, he extended the procurement timeline, with the

VI. OLD BUSINESS (continued)

B. Pension Administration System Project Update. (continued)

responses due on June 14, 2011. He stated four vendor demonstrations have been conducted already, and any new vendor demonstrations would be conducted at the end of June.

Mr. Colker stated that he anticipates the reference and site visits to be the last week of June and the first week of July, so that a recommendation may be made to the Board on July 18, 2011, and a finalized contract in September.

Mr. Henderson had clarified that because the Board does not meet in August the contract was anticipated to be finalized in September.

Mr. Towner commented that a Special Meeting could be called.

Mr. Bennett stated his concern about the contract terms, in light of past experience, and the amount of experience of the vendors have with pension systems. Mr. Colker assured him he had spoken to Ms. Nemiroff and that these concerns have been addressed by counsel.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the Linea's May 16, 2011 Letter updating the Board.

Motion passed.

VII. CLOSED SESSION

It is the Intention of the Board of Retirement to Meet in Closed Session to Discuss Those Items 1. And 2. Listed on Attachment A to This Agenda

The Board of Retirement Adjourned into a Closed Session to Discuss whether to initiate litigation Pursuant to the provisions of Government Code Section 54956.9 Subdivision (c), (Name of potential defendant withheld, as authorized under government code section 54956.9 Subdivision (c)), and Pursuant to Government Code Section 54956.9 Subdivision (a) – Existing Litigation to Discuss the Ventura County Taxpayers' Association; and Richard Thomson, v. Ventura County Employees Retirement System, Ventura County

VII. CLOSED SESSION (continued)

It is the Intention of the Board of Retirement to Meet in Closed Session to Discuss Those Items 1. And 2. Listed on Attachment A to This Agenda (continued)

Superior Court Case No. 56-2010-00381366-CU-WM-VTA.

Ms. Nemiroff announced that as a result of the Court of Appeal decision issued on May 11, 2011, Sacramento County Employees Retirement System v Sacramento Bee, the Board of Retirement will be releasing names and pension amounts, as soon as possible.

VIII. NEW BUSINESS

A. Authorization for Expenditure for Staff Travel to Conduct Site Visits for PAS Selection Process

B. Request to Attend Pension Risk Management in a New Era Conference. June 7, 2011, San Francisco.

Mr. Goulet moved, seconded by Mr. Wilson, to approve Authorization for Expenditures for Staff Travel to Conduct Site Visits for PAS Selection Process, and to approve the Request to Attend Pension Risk Management in a New Era Conference.

Motion passed.

IX. INFORMATIONAL

A. Publications (Available in Retirement Office)

1. Pensions and Investments
2. Private Equity Exclusive

X. PUBLIC COMMENT

None.

XI. BOARD MEMBER COMMENT

There was a consensus of the attendees that the SACRS conference was very informative.

XII. CLOSED SESSION

It is the Intention of the Board of Retirement to Meet in Closed Session to Discuss Item 3. Listed on Attachment A to This Agenda.

The Board of Retirement Adjourned into a Closed Session to Discuss the Appointment of a Public Employee; Retirement Administrator, Pursuant to the Provisions of Government Code Section 54957 (b) (1).

Ms. Nemiroff stated that there would be no announcement at the end of the closed session and the Board would adjourn while in closed session.

Respectfully submitted,

HENRY SOLIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman