

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JUNE 21, 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
Chris Johnston, Alternate Employee Member

**DIRECTORS
ABSENT:**

Will Hoag, Alternate Retiree Member

**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 June 21, 2010 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of June 7, 2010.

Mr. Henderson moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of June 7, 2010.

Motion passed.

IV. CONSENT AGENDA

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

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 Months Ended March 31 and April 30, 2010.

C. Report of Checks Disbursed in May 2010.

D. Budget Summary for the Month Ended April 30, 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 May 31, 2010.

Mr. Wilson moved, seconded by Mr. Harris, to approve the Consent Agenda items A – E.

Mr. Goulet requested clarification regarding a travel reimbursement made to Mr. Hansen for attending a conference and whether Mr. Hansen had offered a conference report in accordance with Board policy. Staff indicated that they would work with Mr. Hansen and a report would be provided at the meeting of July 12, 2010.

Motion Passed.

V. INVESTMENT INFORMATION

- A. Acadian Asset Management Annual Investment Presentation, Raymond F. Mui and Michael G. Randall.

Raymond Mui and Mike Randall were present from Acadian Asset Management (Acadian) to review Acadian's organizational structure, investment philosophy, investment performance and future market outlook.

Mr. Randall stated that Acadian was a global equity and fixed income manager with approximately \$45 billion currently under management. Overall, Acadian attempted to systematically capitalize on market inefficiencies and favored less expensive stocks of companies with strong balance sheets and improving business prospects.

Mr. Vandolder requested clarification regarding the volume of public fund client mandate changes over the past year.

Mr. Randall noted there had been a few mandate changes, but no public fund clients had been lost.

Mr. Mui noted the portfolio's performance matched the benchmark year-to-date in 2010 after trailing the benchmark significantly in 2009. The underperformance was attributable to the mostly "junk rally" of 2009 when investors focused on the cheapest and most underperforming stocks from 2008. Mr. Mui opined that stocks with attractive valuations and strong earnings were not rewarded in 2009, but are beginning to attract investor capital in the "stock pickers market" of 2010. Mr. Mui stated that Acadian was sticking to its investment thesis that behavioral errors could be exploited and that Acadian's quantitative methods should capture market mispricing and were adaptive to market changes.

Mr. Mui provided an attribution analysis of 2010 returns and noted that "long" positions in Japan, Thailand, consumer staples and services were positive for the portfolio. While, "short" positions in the U.S., Japan and in durables hurt performance. Mr. Mui also stated that Acadian's healthcare positions hurt performance and the U.S. market was most troublesome to Acadian's performance due to macroeconomic events such as the government organized corporate bailouts.

In summary, Mr. Mui stated that non-U.S. positions added 1.6% to Acadian's performance, while emerging market exposures added an additional 57 basis points (.57%) to overall performance.

V. INVESTMENT INFORMATION (continued)

A. Acadian Asset Management Annual Investment Presentation. (continued)

Mr. Goulet questioned how long VCERA should remain patient with Acadian given the performance challenges since May 2008.

Mr. Mui opined that Acadian's performance was beginning to turn around on a relative basis and that current market conditions were favorable to Acadian. Mr. Randall stated that Acadian would not perform well when markets "forget fundamentals" and there were three recent market inflexion points, 2007 deleveraging, 2008 financial collapse and 2009 risk seeking behavior that were all unfavorable to Acadian's systematic disciplined quantitative approach.

Mr. Towner noted that Acadian's underperformance during these periods was an argument for the merits of passive investing.

Mr. Mui conceded that Acadian had struggled recently within the domestic market and Acadian's factor models were successfully identifying stock values in the international markets.

Mr. Vandolder offered that Acadian required "predictable" markets in order for their quantitative strategy to add value.

Ms. Becker requested and received clarification regarding the number of clients within the global 130:30 strategy and the commitment levels among the 20 clients invested.

Mr. Vandolder requested and received clarification on Acadian's British Petroleum (BP) holding given the ongoing Gulf of Mexico disaster and the fact that BP comprised approximately 2% of the portfolio as of May 31, 2010, and the departure of one of Acadian's Portfolio Managers, Matt Cohen.

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

Phil Bennett, Client Relationship Manager with Grantham, Mayo, Van Otterloo & Co. (GMO) was present to discuss GMO's organization, investment process, investment results and market outlook.

Mr. Bennett stated that GMO's total assets under management were \$104 billion with approximately \$1.3 billion in the global investment strategy in

V. INVESTMENT INFORMATION (continued)

B. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation.
(continued)

which VCERA participated. Over the last year, 11 new clients had been added, including the Orange County Employees' Retirement System and the State of Alaska, with 4 clients redeeming assets. Also, GMO was able to add investment professionals during this period when most investment management firms were downsizing and Mr. Bennett confirmed that there had been no changes in how the global equity strategy was managed.

Mr. Bennett discussed the global strategy's returns and noted that overall the strategy had added value over the longer relationship periods, but had struggled over the past year. The underperformance could be attributed to the "junk rally" beginning in March of 2009. Mr. Bennett opined that GMO's focus on quality names was not rewarded and domestic companies with exposures to foreign markets were penalized during the period. Mr. Bennett believed that the portfolio was currently well positioned to take advantage of market conditions.

In terms of overall strategies and themes, GMO believes that mean reversion is a key driver in adding value, markets are inefficient and capital must be preserved in bear markets. Mr. Bennett also reviewed GMO's asset return forecasts over the next seven years which illustrated that "U.S. High Quality" stocks would be the best performing equity market sub-class domestically, that emerging market stocks and bonds looked to be strong performers and large cap international equities were expected to outperform U.S. large cap stocks.

Mr. Bennett and several trustees discussed the pros and cons of investing in emerging markets including whether one could argue that emerging markets were the "next bubble", the relative strength of some emerging market financial institutions and the demographic differences between the developed and emerging economies.

Mr. Wilson requested and received clarification on how GMO projected future stock valuations.

In closing, Mr. Bennett provided a brief review of GMO's global strategy allocation weights versus the MSCI ACWI index and also provided some insight into GMO's flexible equities strategy which attempted to identify attractive valuations in certain markets during times when other strategies

V. INVESTMENT INFORMATION (continued)

B. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation.
(continued)

within the global mandate cannot achieve a desired exposure. For example, the flexible equity strategy is currently invested in specific Japanese companies that are not available for investment through other GMO mandates.

C. EnnisKnupp & Associates, Kevin Vandolder and Eric Kuhl.

1. Monthly Investment Performance Update, May 2010.
2. Monthly Manager Updates/Summary, May 2010.
 - a. Sprucegrove
 - b. Capital Guardian
 - c. Artio
 - d. GMO
 - e. Acadian
 - f. Western
 - g. Reams
 - h. Loomis

Mr. Vandolder introduced Eric Kuhl to the trustees. Mr. Kuhl was a recent addition to the VCERA team at EnnisKnupp and Mr. Kuhl was also working with the U.S. Treasury Department on several of the federal economic stimulus programs, including the TARP program.

Mr. Vandolder stated that the month of May could be summed up by the word "uncertainty". Specifically, in terms of uncertainty surrounding the legislative financial reform package being debated in Washington DC, the uncertainty pertaining to the developments in Southern Europe and the ongoing inflation versus deflation debate domestically.

Mr. Kuhl reviewed VCERA's asset allocation and noted the plan's asset size at month-end of \$2.625 billion. In terms of performance, Western Asset Management's Index Plus strategy underperformed as non-agency mortgage holdings hindered performance and the active international equity managers, Sprucegrove, Capital Guardian and Artio, saved value in an extremely negative market. In the global equity strategy, Acadian saved value through stock selection and VCERA's active fixed income managers underperformed their respective benchmarks.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Wilson requested and received clarification on why Western Asset Management underperformed in May.

Mr. Goulet and Mr. Foy commented on the State of California's financial difficulties in comparison to the impact that Greece, Portugal and Spain have had on the capital markets.

3. Memo - Investment Alternatives for Incoming Contribution.

Mr. Vandolder outlined the four investment alternatives available to VCERA for investing the expected \$125 million receipt of employer contributions in early July. The four alternatives under consideration included the investment of the assets in a manner consistent with VCERA's Policy Portfolio, investing 100% of the proceeds in government secured debt, beginning implementation of the Universal Asset Allocation (UAA) Approach by investing one dollar in a conservative fixed income strategy for every dollar "called" by VCERA's private equity managers and aggressively investing in the UAA construct by setting aside the amount equal to VCERA's private equity commitment (\$100 million) in a conservative fixed income strategy.

Mr. Wilson discussed the merits of a Tactical Asset Allocation Strategy based upon his belief that markets may be timed in the short-term. Mr. Vandolder noted that the difficulty in attempting to time markets was two-fold because one needed to be correct both when reducing market exposure and again when deciding to increase market exposures.

Mr. Goulet requested and received clarification on the distinction between Alternative #2 and Alternative #4.

Staff provided input on the alternatives and recommended Alternative #3 based upon the long-term need to have a liquidity source within VCERA's portfolio.

Ms. Becker moved, seconded by Mr. Hansen, to adopt Alternative #3 and invest one dollar in a conservative fixed income strategy for each dollar committed to VCERA's private equity mandates.

Motion passed.

V. **INVESTMENT INFORMATION** (continued)

C. EnnisKnupp & Associates. (continued)

4. Highlights and Research Report, June 2010.

- a. Memo – Update on Acadian’s Global Equity Strategy.
- b. EKassessment – Grantham, Mayo, Van Otterloo & Company.
- c. Memo – State Street Update.
- d. Proposed Agenda for Investment Retreat.
- e. Memo – Proposed Change in Consulting Manager.
- f. EKresearch – Stable Value: Delicate Yet Durable.
- g. EKupdate – Credit & Rate Perspective.
- h. EKupdate – Potential Implications of Pending Financial Regulation: Treatment of Swaps and Fiduciary Duty.

Mr. Vandolder and Mr. Kuhl provided brief summaries of both Acadian and GMO, reviewed the proposed topics for discussion at the October retreat, discussed the various management changes and legal challenges currently being faced by State Street and provided a review of the impact of the pending financial regulation on the swaps market.

Mr. Wilson moved, seconded by Mr. Harris, to retain watch list status (Item 4a) on Acadian Asset Management until return expectations are met.

Motion passed.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file EnnisKunpp items 1 – 3 and 4b – 4h.

Motion passed.

5. Performance Report – First Quarter 2010.

Mr. Goulet requested more timely delivery of the quarterly report and Mr. Vandolder noted the report would be available within 45 days of the end of a quarter.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file VCERA’s quarterly investment report for the period ending March 31, 2010.

Motion passed.

V. **INVESTMENT INFORMATION** (continued)

D. Approval of Pantheon Ventures Secondary Fund IV Signature Page.

Staff noted that the Pantheon Ventures Secondary Fund IV required a specimen signature page in order to be in compliance with anti-money laundering regulations. Staff recommended that VCERA's Administrator and Chief Financial Officer be the authorized signatories for VCERA's account.

Mr. Wilson moved, seconded by Mr. Goulet, to authorize VCERA's Administrator and CFO to be the authorized signatories for the Pantheon Ventures Private Equity Investment.

Motion passed.

E. Staff Report – Adams Street Partners Client Conference.

Staff reported on its attendance at the Adams Street Client Conference and commented on the quality of the presentations on "Greentech" and distressed investing.

Ms. Becker moved, seconded by Mr. Goulet, to receive and file staff's conference report.

Motion passed.

VI. **OLD BUSINESS**

A. Letter from Staff Regarding Due Diligence – VCERA Real Estate Managers.

Staff reviewed the current status for VCERA's 2010 due diligence manager schedule.

Mr. Goulet moved, seconded by Mr. Wilson, to add Ms. Becker to the planned East Coast due diligence meetings with Artio, Prudential and UBS.

Motion passed.

B. Final Approval of 2010 - 2011 Travel Policy.

Staff recommended approval of the 2010-2011 Travel Policy that incorporated the changes requested on May 17, 2010. Staff discussed the new language added to the "Travel Authorization" section (page 2), the

VI. **OLD BUSINESS** (continued)

B. Final Approval of 2010 - 2011 Travel Policy. (continued)

name change in "Eligible Public Retirement System Meetings" (page 3) and the change in the "Reporting" section that now required a conference report be provided by the 2nd subsequent Board meeting.

Mr. Goulet moved, seconded by Ms. Becker, to adopt the 2010-2011 Travel Policy.

Motion passed.

VII. **NEW BUSINESS**

A. Recommendation to Hire Outside Counsel; Active Currency Manager Contract.

Staff reviewed the steps undertaken to begin the review of the Active Currency Manager contract including the decision to invest in a commingled fund that was domiciled "on-shore", that K2 Advisors had not completed preparation of the fund's documentation and that staff recommended the retention of Mr. Thomas Hickey III from Foley & Lardner to assist staff in reviewing the documents given the expected complexity of the investment documentation.

Staff noted that Mr. Hickey's proposal was to review all fund documents including the Confidential Offering Memorandum, limited partnership agreements, subscription agreements, all materials from EnnisKnupp related to the active currency mandate and negotiate a side letter on behalf of VCERA, if necessary. Mr. Hickey's proposed fee for his work would be capped at \$25,000.

Mr. Wilson moved, seconded by Mr. Harris, to approve hiring Mr. Thomas Hickey III to assist VCERA with its review of the Active Currency Manager Contract and related documentation.

Motion passed.

B. Approval of Draft Credit Card Policy.

Staff reviewed the Draft Credit Card Policy, provided two minor amendments to the Policy and recommended approval of the Policy in order to respond to the management letter from Brown Armstrong, VCERA's auditor.

VII. **NEW BUSINESS** (continued)

B. Approval of Draft Credit Card Policy. (continued)

Mr. Henderson moved, seconded by Mr. Harris, to approve the recommended Credit Card Policy, as amended.

Motion passed.

C. Administrator's Quarterly Travel Report.

Ms. Becker moved, seconded by Mr. Harris, to receive and file the Administrator's Quarterly Travel Report.

Motion passed.

VIII. **INFORMATIONAL**

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. Letter from Lawrence L. Matheney Regarding Continuity of Operations in Treasurer-Tax Collector's Office.

IX. **PUBLIC COMMENT**

Staff reminded the Board that Mr. Paul Angelo, VCERA's Consulting Actuary, was speaking to the Board of Supervisors the following day at 1:30 pm.


X. **BOARD MEMBER COMMENT**

Mr. Towner commented on the SACRS Legislative Committee's upcoming survey on budgetary limits being considered in AB 609 and the corresponding additional administrative requirements being considered for public pension plans in AB 1987.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:30 a.m., upon the motion of Mr. Henderson, seconded by Mr. Goulet.

Respectfully submitted,


TIM THONIS, Retirement Administrator

Approved,


TRACY TOWNER, Chairman