VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JULY 18, 2011

MINUTES

DIRECTORS PRESENT:	Tracy Towner, Chair, Safety Employee Member William W. Wilson, Vice Chair, Public Member Steven Hintz, Treasurer – Tax Collector Steve Bennett, Public Member Albert G. Harris, Public Member Joseph Henderson, Public Member Robert Hansen, General Employee Member Arthur E. Goulet, Retiree Member Will Hoag, Alternate Retiree Member
DIRECTORS ABSENT:	Karen Anderson, General Employee Member Chris Johnston, Alternate 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 July 18, 2011 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of June 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 May 31, 2011.

C. Report of Checks Disbursed in June 2011.

D. Budget Summary – Year to Date as of May 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 June 30, 2011.

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

Motion passed.

IV. INVESTMENT INFORMATION

A. Walter Scott Investment Presentation, Robin Sempill.

Mrs. Robin Sempill one of the investment managers, was present from Walter Scott to review the firm's organization, investment process, and investment results. She stated she has been with the firm for about five years and she is a member of the group research team, but spends more of her time speaking with clients and prospective investors.

Mrs. Sempill noted that the inception date was in error on page eight of the material, and an erratum had been provided.

Organizationally, Walter Scott is in its third generation of management, and management change is glacial. Mrs. Sempill stated that while management took over their current roles eighteen months ago - Mr. Rodger Nisbet, Deputy Chairman, and Jane Henderson, Managing Director - have been with the firm for fifteen and sixteen years, respectively. With regard to new hires, Walter

IV. INVESTMENT INFORMATION (continued)

A. Walter Scott Investment Presentation, Robin Sempill. (continued)

Scott is seeking one to two new hires for the investment team, but with regard to the current staff there has been no change in the last year, according to Mrs. Sempill.

Mrs. Sempill stated there has been one new hire on the client service side to augment the current level of service the clients receive in the United States.

Walter Scott currently has $50 billion under management, with approximately 290 clients of which 54% is in global equities, 33% are in international, and approximately 12% are in smaller regional funds, according to Mrs. Sempill.

Mrs. Sempill stated that their investment philosophy has not changed since the appointment. Their goal is to maintain and enhance the after inflation purchasing power of their clients assets; they believe that companies create wealth by growing their profits, cash flow, and dividends, and that the stock market does not add anything in terms of value. Mrs. Sempill stated that they believe to grow an investment they need to align themselves with companies that are capable of sustainable wealth generation. Walter Scott targets a real return of seven to ten percent over a business cycle with a five percent inflation rate, according to Mrs. Sempill. Mrs. Sempill stated that they believe that they should get six out of every ten investment decisions more right than wrong; this results in a benchmark rate of about twenty percent wealth generation in the company that they look for.

Mrs. Sempill reviewed the characteristics that they look for, including cash return on investment, self funded growth rate of the business, return on equity, earnings per share growth, margin structure of the company, debt to equity, strong Balance Sheet with very little debt, and how a company is managed during a business cycle. Mrs. Sempill stated that the entire management team, all twenty four members, must agree on a new purchase.

Mrs. Sempill highlighted the return of the fund in relation to the benchmark. She noted that they are gross returns, and net returns could be determined by reducing the returns by fifty basis points. Mrs. Sempill stated that the last two weeks in 2010, as a result of some of the Japanese investments, the fund saw an increase in returns; however, in the first quarter of 2011 the Japanese companies started to give back a little bit of their performance even before the earthquake and tsunami. The companies that Walter Scott invests in are global businesses and as a result the Japanese investments will not be affected long term as a consequence of the events of March 11, 2011. Mrs. Sempill stated that another reason the fund lagged during the first quarter is a lack of exposure to the European Financials. In the second quarter the returns were enhanced by the holdings in continental Europe.

IV. **INVESTMENT INFORMATION (continued)**

A. Walter Scott Investment Presentation, Robin Sempill. (continued)

Mrs. Sempill stated that they lump together everything with the same mandate, whether or not it has slight restrictions or another benchmark and, as a result, there are forty eight portfolios in the fund. Mrs. Sempill noted that the sector distribution does not resemble the benchmark because they believe the benchmark is a view of what has done well historically rather than reflective of the drivers for future returns, such as aging demographics and health care. She stated that, with regard to Financials, they have positioned themselves to take advantage of the smaller weaker firms falling out of the market.

Mrs. Sempill stated they have added to the fund: China Shenhua, a Chinese coal company with significant vertical integration within the supply chain; Kone Corporation, a European elevator and escalator company, with great recurring revenue as a result of service contracts; Taiwan Semiconductor, leading semiconductor foundries in the world, benefitting from outsourcing; Vallourec, a seamless pipe manufacturer which meets the needs of high pressure usage. They have exited Hutchison Whampoa, a Hong Kong conglomerate, which while parts of the business are attractive, made a significant investment in its mobile telecom business resulting in weak fundamental growth prospects.

Mrs. Sempill reviewed the bottom five stock performers, particularly the negative returns on capital as a result of factory damage resulting from the Japanese earthquake and tsunami. She noted that the Japanese companies have either gotten their factories back on line more quickly than anticipated, or relocated the production.

The characteristics of Walter Scott reflect the bottom up stock picking process and that has resulted in a portfolio with typically low turnover, a smaller number of securities than the benchmark with a correspondingly higher return on equity and price to earnings ratio.

Mrs. Sempill stated, with regard to the capture ratios, in a strongly rising market they capture most but not all of the gain, but in falling markets the portfolio is more defensive and will not lose as much as the benchmark. This is where they generate their outperformance.

Mrs. Sempill stated that Walter Scott has great confidence in getting a real return through investing in companies with sustainable margin structures, robust Balance Sheets, leading market positions, and compelling prospects for growth despite turbulent political or macroeconomic conditions.

IV. INVESTMENT INFORMATION (continued)

A. Walter Scott Investment Presentation, Robin Sempill. (continued)

Mr. Hintz inquired about Walter Scott's holdings in Brazil. Mrs. Sempill stated that they look at Brazil, an emerging market, with caution. Walter Scott's only holding in Brazil is Petrobras, which has access to deep large oil reserves and the expertise to exploit that opportunity with government assistance. Mrs. Sempill stated that it is unlikely that there will be future investments in Brazil because there is a fifteen percent cap on investing in emerging markets.

Mr. Towner inquired as to why Walter Scott has a 35 percent overweight with Japan and especially with three of the five underperforming companies. Mrs. Sempill responded that the Japanese companies are global businesses that have been very good performers and have great growth prospects. Mrs. Sempill noted that Nintendo is currently under review.

Mr. Wilson received clarification regarding the return assumptions of the portfolio. Mrs. Sempill stated that the 7% to 10% real rate of return is the theoretical target. She noted that on a long term basis, ten years, the international composite has generated 8.4% compound growth rate, compared to the benchmark of 5.7%.

B. Hexavest Investment Presentation, Nadia Cesaratto, CFA.

Ms. Nadia Cesaratto was present from Hexavest Investment to review the firm's organization, investment philosophy, investment process, and investment results.

Ms. Cesaratto stated that Hexavest is a single office independent investment firm based in Montreal founded in 2004, but the team started managing equities in 1991. The firm is owned by twelve of the twenty eight employees, has one hundred nineteen clients, mostly institutional, and $7.9 billion of assets under management, according to Ms. Cesaratto. Ms. Cesaratto stated the firm only manages equity, mostly global and international. Ms. Cesaratto noted that two investment professionals have been added in the last two years, who cover emerging markets.

Ms. Cesaratto reviewed Hexavest's investment process, which is a top-down approach allocating capital among regions and countries, currencies, and sectors and industries, while stock selection is about twenty percent of what they do. The firm relies heavily upon fundamental research, which is validated with quantitative models.

Ms. Cesaratto stated that the performance objective is to outperform the MSCI EAFE Index by two percent over 4-year rolling periods. She noted that the mandate inception date is December 15, 2010 and since that date the fund has underperformed the benchmark by 2.22%. Ms. Cesaratto stated they have a

IV. INVESTMENT INFORMATION (continued)

B. Hexavest Investment Presentation, Nadia Cesaratto, CFA. (continued)

conservative view, and are positioned defensively with a slight overweight position to Japan prior to the earthquake, which was a major detractor for the period. After the earthquake the fund increased their overweight position because the markets were so attractive at that valuation, according to Ms. Cesaratto. The other position is the underweight in the Euro against the U.S. dollar. They actively manage currencies based upon a separate decision from the country decision, which is why they are currently overweight in the Japanese equity market and underweight in the Yen. They had an investment in TEPCO (Tokyo Electric Power Company) when the earthquake hit, which also detracted from performance, according to Ms. Cesaratto. Ms. Cesaratto stated the positive contributors included being overweight in health care and staples, and underweight in materials and financials.

Ms. Cesaratto reviewed their process, including the macroeconomic environment, valuation of financial markets, and sentiment of investors to which they are contrarians. She stated that the inventory rebuilding and government stimulus that were factors in 2010 growth will not be present in 2011, and they do not believe the consumer is ready to begin spending. The emerging markets are battling inflation problems and they are still very dependent on exports, and any slowdown will affect those economies. The systemic risk in Greece is still there, and prompts prudence, according to Ms. Cesaratto.

Ms. Cesaratto stated that with regard to valuation, equity valuations are in line with their historical average, though earnings growth is very optimistic in Hexavest's view, because it is based upon an expansion of margins and input costs are expected to rise, so they do not anticipate expanding profit margins.

Ms. Cesaratto noted that sentiment is very volatile, but the markets have been very resilient, so people and institutional investors are still overweight in equities. She stated they believe the markets are due for a correction of ten to fifteen percent because of the macroeconomic environment, more concentrated in the cyclical sectors.

Ms. Cesaratto stated that the current positioning in the portfolio with the regional allocation – Europe, underweight ten percent; Pacific regions are slightly overweight mostly in Japan, two percent; and a fairly large cash allocation to be defensive to protect the portfolio during an anticipated correction.

The Sector Allocation reflects the favoring of the defensive sectors, and Hexavest is lowering its exposure to sectors that are more cyclical in nature, according to Ms. Cesaratto.

IV. INVESTMENT INFORMATION (continued)

B. Hexavest Investment Presentation, Nadia Cesaratto, CFA. (continued)

Ms. Cesaratto noted that they actively manage currencies. The Currency Allocation reflects their underweight in the Euro and Yen, and overweight the U.S. dollar, according to Ms. Cesaratto. She stated that there is concern with the job market in the U.S.; however, it is better than what is going on in Europe and in Japan.

Mr. Wilson received clarification that Hexavest's pessimistic perspective is based upon their macro view.

Ms. Cesaratto stated that they expect the market to be more volatile, but overall there will be a positive trend with most of it in the emerging market.

Mr. Goulet received clarification regarding the potential default of Italy, which is another reason Hexavest is underweight in the Euro.

In response to Mr. Vandolder's inquiry, Ms. Cesaratto explained how Hexavest is managing its growth in business, from $1 billion to now over $7 billion in assets under management.

C. Clifton Group Investment Presentation, Jack Hansen, CFA and Ben Lazarus, CFA.

Mr. Ben Lazarus, CFA, Director of Institutional Relationships, and Jack Hansen, CFA, Chief Investment Officer and Principal, were present from Clifton to review the firm's organization, investment process, investment results, and a discussion regarding rebalancing.

Mr. Lazarus reviewed Assets Under Management, noted that the Representative Client List shows six SACRS members as clients and Clifton has just added Imperial County. Clifton's Program Objective is to put cash to work providing economic exposure on the cash that is consistent with the policy allocation, and assist VCERA in managing cash flows that come in once a year. The objective is to add ten basis points of excess return on the fund over an annual basis through being more efficient, according to Mr. Lazarus.

Mr. Lazarus noted that Clifton has added almost $20 million dollars since inception, which is 25 basis points compounded annually.

Mr. Lazarus stated that VCERA has just funded $120 million to run the overlay program, this cash decreases over time so that there has been an average cash balance of 1.68% with a high of 5.43% and a low of 0.24%.

IV. INVESTMENT INFORMATION (continued)

C. Clifton Group Investment Presentation, Jack Hansen, CFA and Ben Lazarus, CFA. (continued)

Mr. J. Hansen noted that they hold a constant mix of the Wilshire 5000, All Country World Index ex. US, and Barclays Capital Aggregate assets classes on the cash positions that are present within the fund.

Mr. Lazarus noted that since inception they have exceeded the benchmark by 58 basis points.

Mr. J. Hansen stated that VCERA is currently utilizing Clifton's services in securitizing liquidity needs, securitizing residual manager cash, and managing transition market exposure. Mr. Hansen described Clifton as an advanced checking account; they provide the liquidity and flexibility as well as the policy mix return. He stated that for every million dollars of transactional balances VCERA can expect $40 to $50 thousand dollars of incremental return. Mr. J. Hansen stated that VCERA is currently not using Clifton's services in maintaining the fund's target allocation, also referred to as the rebalancing component.

Mr. Towner received clarification that while the option was made available when VCERA contracted with Clifton, staff has not exercised the option to implement the rebalancing component.

Mr. J. Hansen stated that a daily comprehensive report is available on line for staff and Mr. Vandolder's review so VCERA staff can know where the portfolio is overweight and underweight. Mr. Hansen stated that the Board has directed Clifton to invest the cash in a constant mix consistent with long term policy objectives. Mr. J. Hansen opined that the Board's constant mix approach is not a bad approach; however, there are other ways to run the program, one of which uses the cash to seek to minimize those imbalances.

Mr. Goulet received clarification regarding the discrepancy between the policy target allocation figures in the Hewitt EnnisKnupp HEK reports and the Clifton Group figures, such discrepancy being attributable to the way private equity is reported.

Mr. J. Hansen reviewed an alternate cash flow or mini rebalancing method wherein they do not commit cash to an overweight asset class. He stated that they do not trade every day and the adjustments are made when there is a cash flow. In the liquid markets they would buy a mix that would eliminate any imbalances relative to the Board's long term policy objectives, according to Mr. J. Hansen. He noted that it would significantly control policy risk which is the tracking error that is observed versus the policy target. Mr. J. Hansen stated that

IV. **INVESTMENT INFORMATION (continued)**

C. Clifton Group Investment Presentation, Jack Hansen, CFA and Ben Lazarus, CFA. (continued)

the current methodology is more of a control function for the Trustee's staff, the alternate cash flow or mini rebalancing method is more of a corrective method on an ongoing basis to correct for market changes.

Mr. J. Hansen stated there is no additional cost for the service, so Clifton is indifferent to the Board's decision. He also noted that some of his clients have him short out excess Beta, and remove exposure, which is another level of risk control and a higher level application.

Mr. Bennett received clarification that with the removal of exposure there may be an additional fee.

Mr. J. Hansen stated that bands are set up so that there are two types of rebalancing going on; one is what is called, "mini rebalancing," and the other is called, "band based rebalancing." He stated that the bands are established plus or minus a percentage of the target figure and the rebalancing occurs when the movement is outside the bands, which does not happen very often but are typically a bigger move, depending upon how wide the bands are.

Mr. Lazarus stated that some clients do it on a time basis, for example, at month end.

Mr. J. Hansen stated there is little debate that rebalancing does produce incremental returns, and it is also about risk control.

Mr. J. Hansen stated that the process is all done by guidelines with information provided to the Board, HEK and staff. The guidelines advise Clifton to deploy cash in a manner consistent with the mini rebalancing approach, so the portfolio is always being pushed back to targets.

Mr. J. Hansen stated that VCERA is like most of the funds they work with, 98% efficiency. With this rebalancing strategy there is an expected annual benefit of over $3 million, about a 40 to 1 benefit-to-cost relationship, according to Mr. Hansen.

Mr. J. Hansen stated he thought the mini-balancing approach would improve efficiency and would get the portfolio closer to the Board mandated target asset allocations

IV. **INVESTMENT INFORMATION (continued)**

C. Clifton Group Investment Presentation, Jack Hansen, CFA and Ben Lazarus, CFA. (continued)

In response to an inquiry by Mr. Harris concerning Clifton's need for information on daily cash balances, Mr. J. Hansen stated that Clifton has had access to a web page that shows a Balance Sheet showing every asset of the pool, how much it is worth through the previous night's close, how much cash is at the fund level, how much of that cash is with Clifton, and a lot of different details since the relationship began.

Mr. J. Hansen stated that information becomes more critical with the new program, so it is important that any new targets are communicated to Clifton in a timely manner.

Mr. Hintz received clarification that the Board sets up guidelines with Clifton and Clifton applies those guidelines in a self directed manner. Clifton provides a monthly report that is posted about three weeks after month end on the web page.

Mr. R. Hansen moved, seconded by Mr. Henderson to approve Clifton's recommendation.

Mr. Goulet received clarification that the State Street information is considered generally very accurate even though it is not audited, but Clifton does scrub the information daily.

Mr. Bennett received clarification that Clifton's clients that go beyond the mini rebalancing have targets with reasonable bands, which are typically five to ten percent proportional.

Mr. Goulet received clarification that the rebalancing with the bands is a second level of rebalancing and not the motion on the floor. Cash flow rebalancing deals with flows in and out where the cash is put into the underweight asset classes and taken from the overweight asset classes, not giving consideration to how far away you are.

Mr. Wilson requested clarification of the motion, as it was his understanding, based on the agenda, that this matter would be discussed as part of the next agenda item under HEK's agenda items.

Mr. Towner received clarification that Market Risk, Communication/Information Risk, Margin/Liquidity Risk and Tracking Error Risk already exist within the program and are the risks the Board accepts.

IV. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp, Kevin Vandolder.

1. Highlights and Research, July 2011

a. Clifton Group Recommendation

Mr. Vandolder started the discussion with the carry-over item concerning Clifton and discussed HEK's recommendation regarding the Clifton Group. Mr. Vandolder stated that HEK thought the mini-rebalancing function had been "turned on" at Clifton. Staff requested clarification of the prior motion to adopt Clifton's recommendation. Mr. Vandolder clarified that the motion was to "maintain target allocation," as set forth in HEK's memorandum regarding Clifton Recommendation.

Mr. R. Hansen moved, seconded by Mr. Wilson to maintain target allocation with Clifton.

Motion passed.

b. Global Fixed Income Funding Scenarios

Mr. Vandolder stated that this addresses the desire of the Board to provide diversification within the fixed income allocation. Mr. Vandolder reviewed the three global fixed income funding scenarios. He noted that the disadvantage of allocating the entire mandate to PIMCO is their high fees, and risk; adding Loomis decreases risk and decreases fees, and; the disadvantage of adding Rogge is that they are off shore, and have a different approach, but the advantage is decreased risk. Mr. Vandolder stated that HEK is working on the contracting process with PIMCO.

Mr. Harris received clarification that an advantage to having Rogge present is their different perspective because they build from the bottom up, as opposed to PIMCO which builds from the top down; however, Rogge's performance has not been stellar, but benchmark like.

Mr. Wilson stated his concern that Rogge is an offshore company with added administrative burdens and that it had no track record, while Loomis has a current mandate and has consistently exceeded the market. Mr. Wilson further stated that Scenario 2, which includes allocations to PIMCO and Loomis, is more in keeping with the Board's approach.

Mr. Goulet stated that he was also more comfortable with Scenario 2 since Loomis is more conservative.

IV. **INVESTMENT INFORMATION (continued)**

D. Hewitt EnnisKnupp, Kevin Vandolder. (continued)

1. Highlights and Research, July 2011 (continued)

Mr. Goulet moved, seconded by Mr. Henderson, to approve Scenario 2.

Motion passed.

Mr. Harris clarified that adding Rogge did not present more risk than adding Loomis, and Mr. Bennett also stated that he thought Rogge was less risky than Loomis Sayles based upon the Annualized Active Risk in the Memo. Mr. Vandolder clarified that Scenario 2 is in between the two extremes.

c. Investment Retreat Agenda

Mr. Vandolder reviewed the Investment Retreat Agenda, highlighting the De-Risking the Policy Portfolio item.

Mr. Goulet stated that the issue of the glide path approach is not a current issue with VCERA.

Mr. Vandolder stated he agreed with Mr. Goulet but that the item preserves VCERA's culture of planning for the future.

Mr. Bennett stated he went to the hedge fund presentation at the Santa Barbara retreat and he was impressed with quite a few funds trying to take risk out and offering greater assurance on hitting their target and giving up big returns; he was hoping to hear more on this topic.

Mr. Vandolder stated that PIMCO does a good job managing tail risk, trimming the up side and the down side of the return patterns and is much more focused on getting the 8% rate of return. Mr. Vandolder noted that because the hedge fund market place is too expensive, lacks transparency, and employs leverage, it is trying to get back into the public fund portfolios by this absolute return thinking.

Mr. Bennett stated that a lot of the presentation was how San Bernardino has created a very tailored, transparent, and controlled process, and as a fiduciary he would like to receive more information on that.

Mr. Vandolder stated that the credit basket, a fixed income hedge fund approach that allows the managers to long and short bonds to reach a six or seven percent total return number, pertains to the issues of transparency and control with regard to hedge funds, but the fees are still high, and the level of

IV. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp, Kevin Vandolder. (continued)

1. Highlights and Research, July 2011 (continued)

transparency that the Board is used to seeing with Clifton and State Street is not there. He noted that risk models can only be as good as the manager's ability to anticipate future market events.

Mr. Vandolder stated that the issue of the tail hedging can be added to the de-risking discussion at the retreat, and PIMCO can be added as the manager to speak to this.

Mr. Vandolder stated that with managing tail risk, benchmarking becomes a lot more difficult, and peer comparisons are not as widely used because everyone is doing so many different things by trying to meet their income streams rather than trying to make the benchmark. This is the spirit of these discussions; these are trendy, but if VCERA's peers are up twenty seven percent and VCERA is up only nineteen, this must be explained to the market place.

Mr. Goulet, Mr. Hansen and Mr. Bennett confirmed their interest in discussing the issue of managing tail risk at the retreat. Mr. Goulet pointed out, however, that San Bernardino's retirement system, which has a process along these lines, has a substantial investment staff relative to its fund size.

d. GMO CEO Change Flash Report

Mr. Vandolder stated that he feels very comfortable with the change of leadership at GMO.

e. Monthly Summary of Medium Term Views – U.S.
f. Capital Markets Assumptions

Mr. Vandolder stated that there is still an equity risk premium which is why HEK is comfortable with only 27% of the investment in bonds. They expect bonds to take a hit, and they are more bullish on equities because all the fiscal and monetary planners are encouraging people to take risk and stay away from bonds.

Mr. Wilson inquired as to where precious metals fit into an investment strategy. Mr. Vandolder explained that gold is an alternative investment since there is no yield and it is an inflation hedge; they cannot provide a

IV. **INVESTMENT INFORMATION (continued)**

D. Hewitt EnnisKnupp, Kevin Vandolder. (continued)

1. Highlights and Research, July 2011 (continued)

target on it; they see this in broad mandates that allow an investment in gold. Mr. Wilson said that if they had put some of the cash allocation in gold they would have received a return.

g. Is This a “Soft Patch” Like Mid 2010?

Mr. Vandolder stated that they have come off the most significant bull market that he has ever experienced in his lifetime, impacted by fiscal and monetary planners, and he is hopeful that in the future, fundamentals will come through as opposed from people that are elected.

Mr. Vandolder stated that this is a forever plan and so their forever time horizon should be maintained. He noted that the lack of clarity coming from the elected officials is reflected in the lack of hiring, resulting in the current macro environment.

2. PIMCO Global Bond Memorandum

Mr. Vandolder stated that PIMCO, via pricing, is saying they do not want a commingled account but rather a separate account. Mr. Vandolder stated HEK’s advice remains the same, seek the best skill possible and then try to find the most efficient vehicle to fulfill that. Mr. Vandolder stated he took his lead from staff to make this memo regarding the Board’s desire to have commingled accounts rather than separate accounts when possible, due to the administrative burden placed upon staff from having a separate account.

3. Monthly Investment Update, June 2011.

4. Monthly Manager Updates/Summary, June 2011.

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

IV. INVESTMENT INFORMATION (continued)

D. Hewitt EnnisKnupp, Kevin Vandolder. (continued)

4. Monthly Manager Updates/Summary, June 2011. (continued)

Mr. Vandolder highlighted the investment returns for the month of June. Although the fund lost 1.1% for the month it saved 10 basis points relative to the policy return. Mr. Vandolder stated that Western has had a second month of decline because they are not positioned well to provide down side protection, and Western is overweight to Financials.

Mr. Vandolder commented that Sprucegrove, Artio, GMO, and Hexavest have provided down side protection; and Acadian added some significant value for the month.

Mr. Vandolder summarized by stating that the fund showed for the fiscal year a return of 23.9% as a rough estimate without private equity or real estate; added approximately 170 basis points over the policy portfolio return; a very good fiscal year.

Mr. Vandolder noted that K2 continues to disappoint and he will request that they present to the Board prior to their current scheduled date.

Mr. Wilson received clarification that the fund is at $3.3 billion, as of the middle of July as a result of market movement and the plan sponsor's prefunding its contribution to the fund.

Mr. Bennett sought clarification regarding the unfunded liability of the fund. Staff stated he would provide Mr. Bennett with the appropriate figures.

Mr. Vandolder stated Mr. Angelo will be at the retreat this year.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file items 1, 2, 3 and 4, with the exception of 1a, and 1b.

Motion passed.

V. OLD BUSINESS

A. Pension Administration System Project Update.

Mr. Brian Colker of Linea Solutions was present to update the Board. Mr. Colker stated that over the last month the team has been reviewing and scoring the bids, narrowing the pool from eight candidates to three.

V. **OLD BUSINESS (continued)**

A. Pension Administration System Project Update. (continued)

Mr. Colker stated that VCERA's project team needs the vendors to conduct extensive demonstrations of their products so that the team may reduce the candidates to two finalists for site visits.

Mr. Colker stated the team will present to the Board their rationale for its decision and the finalist at the September meeting; have a contract by the October meeting; and begin the implementation in November.

Mr. Wilson inquired as to what went wrong with the last vendor selection and whether that has been addressed in the new selection process. Mr. Colker clarified that the termination of the CPAS contract was the result of a rapidly deteriorating situation and was not predictable in the selection process. Mr. Wilson stated he got the impression that CPAS took on too many projects, and that the project team should institute something to preclude that going forward.

Mr. Colker stated that they are scrutinizing the current book of business of these vendors, the resources the vendor will be committing to the project, and the team will be conducting extensive screening regarding how they are supporting their customers. He stated there will be contractual provisions to cover these areas of concerns.

Mr. Goulet stated he would prefer that the team make a complete comparison of all three.

Mr. Henderson inquired as to the benefit of the demonstrations. Mr. Colker explained that the advantage of seeing an implementation is to: hear from the retirement system itself, how the software operates, talk to non-project team users throughout the organization as to whether they like the software and why or why not, and talk to people about the maintenance and support; secondarily, the team will be able to discuss how the vendor supports changes.

Mr. Henderson concurred that the process may be expedited if the team reviewed all three in the final evaluation.

Mr. Harris asked whether any of the three vendors had '37 Act projects completed. Mr. Colker stated that LRF has several 37 Act systems in operation, Vitech has one in development, and Tegrit does not have any 37 Act systems.

Mr. Bennett received clarification LRS has implementations from small systems up to state systems, Vitech does as well, and Tegrit serves smaller municipalities.

V. OLD BUSINESS (continued)

A. Pension Administration System Project Update. (continued)

Mr. Henderson received clarification that the vendors that have not done a 37 Act system have strong references elsewhere with the same business processes and have 75% similarities.

Mr. Hintz moved, seconded by Mr. Goulet, to approve a third site visit.

Motion passed.

VI. NEW BUSINESS

A. Fiduciary Liability Insurance; Waiver of Recourse.

Mr. Goulet moved, seconded by Mr. Hansen, to receive and file.

Motion passed.

VII. CLOSED SESSION

Pursuant to the provisions of Government Code Section 54957 the Board of Retirement adjourned into a closed session to discuss the evaluation of a public employee; Interim Retirement Administrator.

The Chair stated there was no announcement as a result of the Closed Session.

VIII. INFORMATIONAL

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. 2011 GMO Fall Conference, October 26 & 27, 2011; Boston MA

IX. PUBLIC COMMENT

Staff stated the only candidates for the upcoming Retirement Board elections were the incumbents and there will be no elections. He stated that the swearing in ceremony will be at the September meeting.

X. BOARD MEMBER COMMENT

None.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:18 upon the motion of Mr.Harris, seconded by Mr. Henderson.

Respectfully submitted,

HENRY C. SOLIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman