VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

OCTOBER 17, 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
Tom Johnston, General Employee Member
Arthur E. Goulet, Retiree Member
Chris Johnston, Alternate Employee Member
Will Hoag, Alternate Retiree Member

DIRECTORS ABSENT:
None

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 October 17, 2011, to order at 9:03 a.m.

II. APPROVAL OF AGENDA

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

Motion passed. Mr. Hansen and Mr. Bennett were not present.

III. APPROVAL OF MINUTES

A. Disability Meeting of October 3, 2011.

Mr. Goulet moved, seconded by Mr. Wilson, to approve the Minutes of the Disability Meeting of October 3, 2011.

Motion passed. Mr. Hansen and Mr. Bennett were not present.

IV. CONSENT AGENDA

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

B. Report of Checks Disbursed in September 2011.

C. Asset Allocation as of September, 2011.

D. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets, and Summary of Investments and Cash Equivalents for the Month Ended August 31, 2011.

E. Budget Summary – Year to Date as of August 2011, Fiscal-Year 2011-12.

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

Motion passed. Mr. Hansen and Mr. Bennett were not present.

V. INVESTMENT INFORMATION

A. BlackRock Asset Management Investment Presentation, Prentice Ng.

Mr. Prentice Ng, Vice President, was present on behalf of BlackRock Asset Management Investment ("BlackRock") to review their investment philosophy, investment results, current economic conditions, and economic outlook.

Mr. Ng stated that since inception the U.S. Equity Market Fund, VCERA's largest holding with BlackRock, has outperformed the benchmark by six basis points, with a predicted tracking error of between zero and five, and fees of approximately two basis points.

V. INVESTMENT INFORMATION (continued)

A. BlackRock Asset Management Investment Presentation. (continued)

Mr. Ng stated the Extended Equity Market Fund is part of the U.S. Equity Market Fund, but the index does not include the Standard and Poor's 500, resulting in a true small to mid cap fund and a very exhaustive benchmark, and a return of 9% since inception, with a 10 to 15 basis point tracking error.

Mr. Wilson received clarification that there are 2,391 holdings in the Extended Equity Market Fund, fewer holdings than the U.S. Equity Market Fund because the Extended Equity Market Fund holds a stratified sampling of a representative number of companies, an optimization approach, thereby offering a low cost replication of the index.

Mr. Ng stated that since inception the Extended Equity Market Fund return has been flat, relative to the benchmark, however, it has provided 11 basis points of securities lending income.

Mr. Vandolder reminded the Board that the role of this fund is to offset the large cap bias that Western Index Plus provides.

The All Country World Index is a global index fund with no U.S. large or small cap holdings, with a small cap sampling and fully replicated mid and large cap holdings; it has outperformed the benchmark by 16 basis points since inception, and has an annualized tracking error of 25 to 35 basis points, according to Mr. Ng. He stated that the tax advantage provides 15 to 20 basis points, and securities lending provides another five basis points.

Mr. Ng stated an advantage to holding one of the longest running fixed income funds is how difficult it would be to obtain the older instruments in today's market. Since inception the U.S. Debt Index Fund has outperformed the benchmark, the Barclays Capital Aggregate Index, by 9 basis points with an annualized tracking error between 5 and 10 basis points, has a return of 5 basis points for securities lending, and incurs 8 basis points in fees, according to Mr. Ng. He stated this fund also utilizes an optimization approach.

In summation, Mr. Ng stated all the funds performed as expected.

Mr. Wilson received clarification that while outperforming the benchmark may be difficult for fixed income funds in the future they continue to provide a source of risk control, cost containment, and liquidity. Mr. Vandolder stated this is a key element of the portfolio's built-in risk control which prevents the portfolio from underperforming or outperforming the benchmark by more than 80 basis points.

V. INVESTMENT INFORMATION (continued)

A. BlackRock Asset Management Investment Presentation. (continued)

Mr. Ng stated VCERA was a beneficiary of the strong demand for securities lending in 2008 and 2009, while 2007 and 2010 reflected a more normal demand. He reiterated the greater percentage yield from securities lending in the Extended Equity Market Fund relative to the other funds, and noted the greater return in absolute dollars from the U.S. Equity Market Fund.

Mr. Chris Johnston expressed his concern that absent the capital support agreements with Barclays that expire in 2013, VCERA's portfolio is exposed to an untenable amount of risk relative to the return for securities lending.

Mr. Ng stated that while the issue will have to be addressed if the situation arises, safeguards have been put in place including changes to the collateral pool, a maximum three year expected asset maturity, and mandating a minimum of 75% of the securities lending portfolio have a duration of 18 months or less. Only about 12% of VCERA's assets with BlackRock are being loaned out, the majority being loaned out overnight, according to Mr. Ng.

Mr. Vandolder commented that the key is to weigh the risk against the value to be returned, and he declared he is comfortable using securities lending.

In response to Mr. Hintz's comment regarding the timeliness of the Market Reviews report, Mr. Ng stated he would have the August 2011 market outlook sent to the Board as soon as possible.

Mr. Ng opined that the current economic landscape is a result of consumer sentiment regarding the situations in both the U.S. and developed Europe and is not reflective of the economic data. He surmised the outlook is one of slow growth based upon consumer spending and progressing industry.

B. Western Asset Management Investment Presentation, Joseph C. Carieri and Mark S. Lindbloom.

Mr. Joseph C. Carieri, the Client Service Executive, and Mr. Mark S. Lindbloom, Senior Portfolio Manager, were present from Western Asset Management to review their investment philosophy, current economic conditions, economic outlook, and investment results.

There are still opportunities in the fixed income market including opportunistic credit, bank loans, and tail protection, according to Mr. Carieri. He stated the current interests in the market are dichotomous, on one hand there is an interest in more closely tracking the benchmark, while on the other hand there is an interest in adding more alpha to the portfolio.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Investment Presentation. (continued)

Mr. Carieri stated that the Board's patience has been rewarded with the portfolio showing signs of turning around as a result of the enhancements Western has made in the last three or four months to the team, risk management, and the analytics.

Mr. Lindbloom stated that Western Asset has been derisking the portfolio. In order to be more conservative they reduced high yield and non agency mortgages during the March thru June 2011 period, according to Mr. Lindbloom. He stated they did not expect to see the volatility, similar to 2008 and early 2009, they have seen in the last two months. This has been driven in the global market by concerns over the financial situation in Europe and the potential impact on European and U.S. economic growth, and fears that there will be a repeat of 2008 and 2009, Mr. Lindbloom opined.

Mr. Hansen entered the meeting at 9:45 am.

Mr. Lindbloom stated the concerns regarding the downgrading of the U.S. debt did not impact the markets as expected, and it was difficult to justify the downgrade relative to other countries.

Mr. Goulet stated that while the S&P was rating Mortgage-Backed Securities based on subprime loans as AAA, they suddenly rated the debt of the U.S. as less than AAA, and this gave no credence to their actions.

Mr. Lindbloom stated that as a result of a conversation with Mr. Chambers prior to the action, he thought that the downgrading communicated a lot of different messages including their view on the political and the fiscal problems in the United States. Mr. Lindbloom stated that rating agencies were saying unless the government is able to comprehensively address the immediate and long term problems the country may suffer even greater fiscal problems on par with those in other countries. The flight to safety to the U.S. dollar outweighed the impact of the downgrade and served to mitigate the outcome on the markets, according to Mr. Lindbloom.

The third quarter 2011 performance was the third worst performance for both high yield and investment grade securities on record. This occurred at a time when the argument could be made from a debt point of view that the outlook for major financial institutions was positive as a result of higher capital levels, less leverage, complete changes in management, governmental and regulatory oversight, while from an equity point of view the opposite argument could be made, according to Mr. Lindbloom.

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Investment Presentation. (continued)

Mr. Lindbloom stated that though the yields are low, there will be some allocation to U.S. Treasuries to provide some downside protection. He opined that having the long end of the treasury curve has worked well because the Fed implemented "Operation Twist" and, similar to the 1960's, bought long term Treasuries to push the rates lower.

The overweight to finance, though not near the 10% allowed, resulted in the underperformance of the fund in the third quarter, according to Mr. Lindbloom.

Mr. Wilson received clarification that they expect the default rate to go up because of the low returns of the U.S. Treasuries market contrasted with the high yield and investment grade market returns.

Mr. Lindbloom reviewed the year to date returns of the Core Fixed Income Fund relative to the benchmark, having underperformed by 60 basis points, and stated that the returns did not reflect the fundamentals which are better than what is being factored into the market. He opined that fourth quarter economic growth will be 2.5% to 3%.

Mr. Carieri stated that Core Fixed Income is up 70 basis points since inception and that the portfolio has done well.

Mr. Lindbloom reviewed the allocations within the Core Fixed Income Fund and stated that while Treasuries are at 18.0% compared to the 34.3% in the benchmark because of the duration contribution they are not as underweight as they appear. Mr. Lindbloom stated that the investment grade corporate securities are approximately equal to the index; with an overweight in finance. Mr. Lindbloom stated they are not anticipating buying more Mortgage-Backed assets at this time.

Mr. Carieri stated that they made relative value trades and moved up capital structures eliminating the poorer underwriters, bought more AA, and made improvements to their current holdings.

Mr. Goulet received clarification that absent the current guidelines they would lower the fund's duration, increase their holdings in risk sectors, and decrease Treasuries.

Mr. Carieri discussed the fact that Barclay's Capital U.S. Aggregate has extended its duration to almost five years. Mr. Lindbloom stated that as the Fed buys the Treasuries over the next six to nine months the duration will be shortened. To go

V. INVESTMENT INFORMATION (continued)

B. Western Asset Management Investment Presentation. (continued)

beyond approximately 90% of the benchmark duration is an easy way to add a lot of risk or tracking error to the portfolio, but a difficult way to add a lot of value, according to Mr. Lindbloom. He noted that there is more discussion regarding incremental additions of high yield and non-finance investment grade securities as spreads have widened in the past three months.

Mr. Lindbloom stated that these factors are also reflected in the Index Plus returns, and the underperformance was as a result of the overweight to finance and Non-Agency Mortgage Backed securities. He detailed the composition of the fund.

If there is no double dip and the modest growth accelerates with job growth and interest rates do rise it will benefit both of the funds, opined Mr. Lindbloom.

C. Hewitt ennisKnupp, Kevin Vandolder and Kevin Chen.

1. Monthly Manager Updates/Summary, September 2011.

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

Mr. Goulet and Mr. Vandolder enumerated the many benefits of receiving the Board Meeting materials electronically.

Mr. Chen reviewed the portfolio policy guideline totals, and noted that rebalancing is not indicated at this time. Mr. Vandolder concurred.

Mr. Chen stated that for the month of September the S&P was down 7% and close to 9% for the year; however, the S&P was up about 6% for the month of October. He stated, with regard to the U.S. Equity markets, large cap outperformed small cap, and growth outperformed value; and, the U.S. Equity funds tied the benchmark for the month.

V. INVESTMENT INFORMATION (continued)

C. Hewitt ennisKnupp (continued)

1. Monthly Manager Updates/Summary, September 2011. (continued)

The International markets added value to the portfolio with the exception of Artio, which lost 15.5% for the month, largely due to holding 40% in emerging markets which had a 14.6% loss for the month. He highlighted the contributions made by Hexavest, Walter Scott, and Sprucegrove. Mr. Vandolder noted that these more conservative managers, who share many of the Board's sentiments outside of the U.S., did well.

Global equity was also positive and added 50 basis points for the month of September, according to Mr. Chen.

Mr. Chen stated that the fixed income markets outperformed the equity markets with a market return of 0.7%, however, Western's, Reams', and Loomis' underperformance contributed to VCERA underperforming relative to the benchmark for the month of September.

Mr. Vandolder opined that he feels good about the controls that Western has instituted in the last 36 months and they are beginning to show results.

Mr. Chen stated that, while K2 has showed poor performance up to now, the Board's patience has been rewarded with a 4.1% return relative to the benchmark of 0.3%.

Mr. Chen summarized by stating that, overall, VCERA had a very successful month.

Mr. Vandolder stated that the Asset Liability Study the Board will be discussing in 2012 will look at different economic scenarios. He opined that he does not think the current economic landscape is indicative of a repeat of 2008 and that there will be a return to the fundamentals when investors start seeing northern European countries taking action.

2. Update to Investment Manager Ratings, October 2011.

Mr. Vandolder reviewed the definitions of the four possible manager ratings: "buy," "capable," "hold," and "sell." Mr. Chen stated that there are 8 managers rated "buy," 8 managers rated "capable," and 4 managers rated "hold."

Mr. Goulet requested that the explanation of the terms be included in the report and the report contain a Table of Contents. Mr. Vandolder stated HEK will be shipping reports for the November Board Meeting incorporating

V. INVESTMENT INFORMATION (continued)

C. Hewitt ennisKnupp (continued)

2. Update to Investment Manager Ratings, October 2011. (continued)

changes made pursuant to the Board Members' requests but he will not be available for the meeting.

Mr. Chris Johnston stated that Artio and Acadian should both be a "sell."

Mr. Vandolder expounded upon the rationale for the "hold" rating for Artio including their strategy which combines a bottom-up industry and company analysis with top-down macroeconomic research, a stable portfolio management team, and few portfolio construction restrictions. He stated that Artio is just crossing the three year threshold. In response to Mr. Chris Johnston's query, Mr. Vandolder stated that unless something changes with a manager, for example key talent leaves, ownership changes, or a change to the underlying discipline, culture, or philosophy, a manager should be retained for seven years.

Mr. Goulet received clarification that the Artio staff reductions are to the administrative staff, and not to the portfolio managers, research analysts, or client service professionals. Mr. Goulet noted Mr. Wisher, the President, is also leaving. Mr. Vandolder stated that when he performed site visits he was never introduced to Mr. Wisher, and he believed Mr. Wisher was involved with the IPO and administrative and regulatory matters.

Mr. Chris Johnston stated his concerns regarding Acadian's poor performance, and their "buy" rating. Mr. Vandolder highlighted the manager's deep academic resources, well developed quantitative model, strong investment team, and stated that his onsite visit was very positive. However, he did concede that a weakness of quantitative tools is their ability to respond to such a volatile market in a timely manner.

Mr. Wilson stated that he shares Mr. Chris Johnston's sentiments regarding Artio and he sees no signs of improvement; with regard to Acadian, they outperformed the benchmark by almost 200 basis points and added value last year, and outperformed the benchmark by almost 100 basis points year-to-date. He stated that the Board has historically retained managers through a cycle, which is a number of years.

Mr. Hintz expressed continued concern with RREEF. Mr. Vandolder explained that lack of liquidity limited VCERA's actions with regard to this manager. Mr. Vandolder advised against liquidating without a secondary market, as VCERA would be forced to take an expensive haircut.

V. INVESTMENT INFORMATION (continued)

C. Hewitt ennisKnupp (continued)

2. Update to Investment Manager Ratings, October 2011. (continued)

   Mr. Vandolder declared that what has led to the success of VCERA's investment program the last three to five years has been the Board's patience and focus on manager structure, risk control, cost containment, and the low Member turnover on the VCERA Board. Mr. Vandolder opined that when there is high turnover on a board there is a lack of stability and inefficient manager decisions because with the lack of continuity the Board does not know the reasoning for hiring the manager in the first place.

   Mr. Vandolder opined that if the Board has lost confidence in a manager they need to terminate the relationship, but that the topic may best be addressed, in toto, during the Asset Liability Study discussion. He stated he will work with Staff to provide various solution sets for the Board at the December Board Meeting to elucidate the options before the Board with regard to Artio and Acadian, and how the managers fit within the overall strategy of VCERA's portfolio.

3. Memo from Kevin Vandolder, Hewitt ennisknupp, Regarding Investment Policy Retreat Follow-up.

   Mr. Vandolder reviewed the five Investment Policy Retreat key conclusions and action points including an evaluation of the non-U.S. equity managers along with the manager structure including different funding scenarios; an updated report of the investment manager guidelines and the total fund policy statement; a competitive review of State Street; a re-examination of the three private equity funding scenarios; and, a full Asset Liability Study.

   Mr. Goulet received clarification that Mr. Vandolder will provide the Board with the Investment Policies but he will not be providing a compendium of VCERA's policies.

   Mr. Vandolder stated that the finalization of the implementation of global fixed income mandate will be at the December Board Meeting

   Mr. Wilson moved, seconded by Mr. Hansen, to receive and file Items 1, 2, and 3.

   Motion passed. Mr. Bennett was not present.

   Mr. Bennett entered the meeting at 11:10 am.

VI. NEW BUSINESS

A. Proposed 2012 Board of Retirement Meeting Calendar.

Mr. Goulet received clarification that the Retreat is not reflected on the Board of Retirement Meeting Calendar; Mr. Vandolder explained that due to inevitable changes in the Retreat date, he has advised against including the Retreat on the calendar at this time.

Mr. Goulet requested that any reference to Hewitt be changed to Hewitt ennisknupp.

Mr. Hansen moved, seconded by Mr. Goulet, to approve the 2012 Board of Retirement Meeting Calendar, as amended.

Motion passed.

B. Report of Administrator Travel & Other Expenses.

Mr. Hansen moved, seconded by Mr. Harris, to receive and file the Report of Administrator Travel and Other Expenses.

Motion passed.

VII. INFORMATIONAL

A. Artio Global Investors Inc. Announces Organizational Changes.

B. Acadian's Succession Plan Update.

C. Prudential Names David Hunt CEO of Prudential Investment Management.

D. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

VIII. PUBLIC COMMENT

Ms. Brenda Cummings, VCERA Retirement Operations Manager, stated that her last day will be December 2, 2011.

IX. BOARD MEMBER COMMENT

None.

X. CLOSED SESSION

The Board of Retirement adjourned into a closed session to discuss the Ventura County Taxpayers' Association; and Richard Thomson, v. Ventura County Employees Retirement System, Ventura County Superior Court Case No. 56-2010-00381336-CU-WM-VTA, pursuant to the provisions of Government Code Section 54956.9 Subdivision (a) – Pending Litigation; and pursuant to Government Code Section 54957(b)(1) to discuss the appointment of a public employee; Interim Retirement Administrator.

Mr. Wilson recused himself from the discussion regarding pending litigation.

The Board adjourned while in closed session.

Respectfully submitted,

HENRY C. SOLIS, Interim Retirement Administrator

Approved,

TRACY TOWNER, Chairman