VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

NOVEMBER 15, 2010

MINUTES

DIRECTORS PRESENT:	Tracy Towner, Chair, Safety Employee Member William W. Wilson, Vice Chair, Public Member Don Hansen, Assistant Treasurer – Tax Collector Peter C. Foy, 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:	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 November 15, 2010 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Staff requested that Item V.C.2. be amended to include the Hexavest, Inc. Subscription and Adoption Agreement which was distributed with the agenda packets but was not listed on the agenda.

Mr. D. Hansen moved, seconded by Mr. Harris, to approve the agenda, as amended.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of November 1, 2010.

Mr. Goulet moved, seconded by Mr. D. Hansen, to approve the Minutes for the Disability Meeting of November 1, 2010.

Motion passed.

IV. CONSENT AGENDA

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

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments and Cash Equivalents for the Month Ended September 30, 2010.

C. Report of Checks Disbursed in October 2010.

D. Budget Summary for the Month Ended September 30, 2010, 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 October 31, 2010.

F. Adams Street Partners Quarterly Performance Review.

G. Real Estate Managers Quarterly Information.

1. Guggenheim

   a. Flash Report for the Quarter Ended September 30, 2010.

IV. CONSENT AGENDA (continued)

G. Real Estate Managers Quarterly Information. (continued)

2. Prudential

   a. Economic & Market Commentary, 3rd Quarter 2010.
   b. Asset Summary, 3rd Quarter 2010.

3. RREEF

   a. Statement of Account for Quarter Ended September 30, 2010.

4. UBS

   a. Flash Report, 3rd Quarter 2010.

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

Motion Passed.

V. INVESTMENT INFORMATION

A. Hewitt EnnisKnupp.

1. Monthly Investment Performance Update, October 2010.

2. Monthly Manager Updates/Summary, October 2010.

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

Staff pointed out a correction to Tab 1 – Asset Allocation. The total assets line should be $2.986 billion, $30 million more than shown due to the October 1, 2010 investment in the UBS Trumbull Property Fund. In terms of allocations and ranges, staff noted that allocations were within approved ranges with real estate currently at 6.5% and the private equity target allocation being 5%.

V. INVESTMENT INFORMATION (continued)

A. Hewitt EnnisKnupp. (continued)

Staff reviewed the portfolio's monthly performance and stated that the Western Index Plus portfolio added 20 basis points (.20%) for the month. Staff noted that Western, since inception, was trailing the benchmark by approximately 350 basis points (3.5%) which was a significant improvement from the numbers in February 2009 when the Index Plus portfolio trailed the benchmark by 1300 basis points (13%). The international equity managers struggled during the month, trailing the benchmark by 20 basis points (.20%) with Sprucegrove being a detractor due to stock selection. Artio also continued to struggle, trailing by 80 basis points (.80%). According to staff, the global equity portfolio had a strong month with Acadian adding 130 basis points (1.3%) on a relative basis. Staff stated that Hewitt EnnisKnupp (Hewitt) would be present at the December meeting to provide a competitive review of global equity managers. The fixed income portfolio added 20 basis points (.20%) for the month. Staff continues to be astounded by the year-to-date and one-year numbers for VCERA's fixed income managers, 11.8% and 12.4% respectively, both on a relative and absolute basis especially given that many experts were forecasting future fixed income returns to be in the 2.5% range.

Staff commented on the monthly compliance letter from Western Asset Management noting that Western met the Board's requirement to remedy compliance issues in the Index Plus account by October 31, 2010.

Mr. Johnston questioned the reason why Artio's information was submitted in a different format than the rest of the investment managers to which staff responded that it was due to Artio's continued organizational issues.

1. Performance Report – Third Quarter 2010.

Staff reviewed the quarterly performance report showing a 10.5% increase for the quarter which exceeded the policy portfolio by 70 basis points (.70%) and the public fund index by 180 basis points (1.8%). Fixed income was the strongest performing asset class adding 150 basis points (1.5%) over the index. The weakest performing asset class was international equity where all three active managers underperformed. For the quarter, Capital Guardian trailed its benchmark by 110 basis points (1.1%), Sprucegrove by 160 basis points (1.6%) and Artio by 120 basis points (1.2%) on a relative basis. The managers' underperformance was mostly due to poor stock selections relative to a strong benchmark return of 16.8% for the quarter. Staff noted that Clifton added 50 basis points (.50%) to VCERA's total return for the quarter.

V. INVESTMENT INFORMATION (continued)

A. Hewitt EnnisKnupp. (continued)

Mr. Goulet received clarification on the method used to calculate the return of the policy portfolio.

Mr. Wilson received clarification on the allocation effect.

Mr. Harris moved, seconded by Mr. Goulet, to receive and file the Hewitt items.

Motion passed.

B. Mercer Investment Consulting, Inc.'s VCERA Public Fund Universe Analysis Report as of June 30, 2010.

Staff stated that the Mercer Report had been reviewed at the recent SACRS conference and was on the agenda to benefit those trustees who were unable to attend the conference. Staff reviewed VCERA's total return numbers over several time horizons relative to peers. For example, VCERA's performance was above the median for the one-year period, average to below median in three-year and five-year periods and significantly underperformed over the ten-year period. According to staff's view, a reason for VCERA's underperformance over the 10-year period was due to the poor relative performance within VCERA's equity portfolio. However, VCERA did perform well relative to peers within the fixed income portfolio. Staff also reviewed VCERA's median-like risk return measures (Sharpe Ratio) of .11%. Further, staff noted VCERA's above-median funded status relative to peers which was rather unexpected due to VCERA's below-median investment performance. Staff attributed the above-median funded status to three factors: management of plan liabilities, contained investment management fees due to a high proportion of indexed assets, and strong budgetary management.

Mr. Goulet commented that VCERA's portfolio performance over the past year was outstanding, especially given that VCERA does not have a full-time investment officer and doesn't pay bonuses as do other systems such as San Bernardino CERA.

Mr. Wilson commented on the bond bubble mentioned on page 10 of the Mercer report. He expressed concern regarding VCERA's bond portfolio and questioned the impact over the next couple of years that the large allocation to the bond sector may have.

V. **INVESTMENT INFORMATION (continued)**

B. Mercer Investment Consulting, Inc.'s VCERA Public Fund Universe Analysis Report as of June 30, 2010.

Mr. Towner questioned the length of VCERA's relationship with Hewitt and requested that Mr. Vandolder address the long-term performance numbers shown in the Mercer Report.

Mr. Wilson questioned the existence of policies regarding changing of investment consultants which led to discussion amongst Board members regarding the possibility of reviewing VCERA's relationship with Hewitt.

Mr. Wilson moved, seconded by Mr. D. Hansen, to receive and file the Mercer Report.

Motion passed.

C. Letter from Staff Regarding Approval of Investment Management Agreements for Walter Scott & Partners LTD, K2 Advisors and Hexavest, Inc.

1. Walter Scott & Partners LTD.

   a. Briefing Memorandum
   b. Side Letter
   c. Confidential Offering Memorandum
   d. Amended and Restated Group Trust Agreement
   e. Adoption Agreement

2. K2 Advisors.

   a. Briefing Memorandum
   b. Side Letter
   c. Confidential Private Offering Memorandum
   d. Limited Liability Company Operating Agreement
   e. Subscription Agreement
   f. Investment Management Agreement

V. **INVESTMENT INFORMATION (continued)**

C. Letter from Staff Regarding Approval of Investment Management Agreements for Walter Scott & Partners LTD, K2 Advisors and Hexavest, Inc. (continued)

3. Hexavest, Inc.

a. Briefing Memorandum
b. Side Letter
c. Agreement and Declaration of Trust
d. Confidential Private Placement Memorandum
e. Subscription and Adoption Agreement
f. Investment Advisory Agreement
g. Solicitor Agreement
h. Opening of Account Form

Staff reviewed the Investment Management Agreement (IMA) documents recommended for approval which included contracts with associated side letters, two related to International Equity Mandates {Walter Scott & Partners LTD (Walter Scott) and Hexavest, Inc. (Hexavest)} and one related to an Active Currency Mandate {K2 Advisors (K2)}. Staff introduced Mr. Thomas Hickey who was present to summarize the legal risks that were identified for each investment and how those risks were remedied within the IMAs and the side letter negotiation process. Staff recommended approval of the IMA documents and requested the Chairman be authorized to sign the documents on behalf of VCERA once Mr. Hickey addressed the Board.

Mr. Hickey provided a brief summary of his background noting that his experience working with pension plans began in 1973 when he was in law school through the present where he is a senior partner in a firm of 1,000 attorneys, with 67 of those working under his direction.

Mr. Hickey noted that included within each manager's documentation were Briefing Memoranda, one for each manager. Mr. Hickey described his approach in reviewing the fund documents and preparing each Briefing Memorandum.

In summarizing the briefing memorandum related to Walter Scott, Mr. Hickey noted that Walter Scott's structure was created by forming a group trust in Illinois, their fiduciary responsibility (standard of care) was regulated by the SEC and FSA (Financial Services Authority), and assets would be valued by the trust custodian. Mr. Hickey further noted an area that he addressed in his briefing memorandum as being Walter Scott's investment

V. **INVESTMENT INFORMATION (continued)**

C. Letter from Staff Regarding Approval of Investment Management Agreements for Walter Scott & Partners LTD, K2 Advisors and Hexavest, Inc. (continued)

strategy and how the briefing memorandum can be used in a due diligence discussion at a later date. In addressing indemnification, Mr. Hickey recommended no less than a standard of gross negligence and no less than a violation of security laws. Risks regarding key persons were addressed by identifying an affirmative obligation for notification should a person or group of people leave the organization that were critical to the Board's decision to initially hire that manager. Conflicts of interest were also identified and addressed in the briefing memoranda. For example ensuring that Walter Scott, which is owned by Bank of New York Mellon (BONY), would have the same ethical guidelines as if VCERA were dealing directly with BONY. Mr. Hickey reviewed the Placement Agent/Transaction Fees section noting that it ensured that Client assets were not used to pay placement agents and VCERA's Placement Agent Policy was added as an exhibit to the Side Letter/Comfort Letter. Upon consideration of all items in the Briefing Memoranda, Mr. Hickey stated that the Side/Comfort Letter was prepared.

All Side/Comfort Letters include a Notice of Legal Proceedings requiring a manager to report to VCERA, as soon as reasonably practicable, any legal actions. Mr. Hickey also discussed his practice of "3-year look back" to identify up front any financial dealings between the manager and staff or the Board. Additional areas of disclosure and compliance addressed in the Side/Comfort Letters include Fiduciary Self Dealing, Insurance, and Ethical Guidelines. Mr. Hickey summarized other key areas covered in the Side/Comfort Letters as being Seminar Training Programs, Confidentiality including Public Records Requests, the 11th Amendment, Tax Withholding, Placement Fees, Accounting Reports and, Transaction Fees, Brokerage/Soft Dollar Commissions, and Jurisdiction.

Mr. Hickey noted that Key Person at Walter Scott is Dr. Ken Lyall.

Mr. Goulet received clarification from Mr. Hickey that the first paragraph of the Walter Scott's Comfort Letter related to Standard of Care was in conformance with ERISA and was in actuality at higher level than with the Strict Prudent Person Standard.

Mr. Goulet questioned the amount of insurance coverage in the Walter Scott Comfort Letter. Mr. Hickey responded that he did not judge the levels, but rather identified them for the Board to address if they so desired. Mr.

V. INVESTMENT INFORMATION (continued)

C. Letter from Staff Regarding Approval of Investment Management Agreements for Walter Scott & Partners LTD, K2 Advisors and Hexavest, Inc. (continued)

Hickey also noted that the Side Letters for K2 and Hexavest did not disclose specific insurance amounts as copies of the managers' insurance certificates were provided. In response to a question from Mr. Goulet, Mr. Hickey stated that he could request that VCERA be listed as an additional insured.

Mr. Goulet received clarification that the legal jurisdiction for dispute settlement with Walter Scott is the state of New York.

Mr. Wilson moved, seconded by Mr. Goulet, to approve the fund documents related to the investment with Walter Scott & Partners LTD.

Motion passed.

Mr. Hickey reviewed his Briefing Memorandum for K2. Mr. Hickey noted a particular concern he had regarding K2's fund documents related to a previous SEC investigation concerning investment consultants and their vetting/recommendation practices. K2's documents specifically highlighted that K2 would be making payments to consultants, some of which were affiliated with investors coming into the fund. Mr. Hickey stated that it took six weeks to receive a response to a requests sent to K2 and Hewitt for affirmative representation that K2 was not making any payment to Hewitt in exchange for the recommendation to VCERA to go forward with investment in K2's fund. Written acknowledgement was received from Mr. Vandolder at Hewitt and from Ben Browning, Chief Counsel at K2, that there were no such payments. Mr. Hickey referred to the K2 Side Letter and noted that, similar to the Comfort Letter with Walter Scott, it contained all the requested disclosures and compliance levels sought by VCERA. Mr. Hickey noted that VCERA was in receipt of K2's insurance binders and the Key Person at K2 is Matthew Annenberg.

In response to a question from Mr. Goulet, Mr. Hickey stated that K2 made the representation that there were no soft dollar transactions and therefore this issue was not addressed in the Side Letter.

Mr. Wilson moved, seconded by Mr. Harris, to approve the fund documents related to the investment with K2 Advisors.

Motion passed.

V. **INVESTMENT INFORMATION (continued)**

C. Letter from Staff Regarding Approval of Investment Management Agreements for Walter Scott & Partners LTD, K2 Advisors and Hexavest, Inc. (continued)

Mr. Hickey reviewed his Briefing Memorandum for Hexavest. He noted that similar to Walter Scott, Hexavest was structured under a New Hampshire Trust. Mr. Hickey stated that all the concerns noted in his Briefing Memorandum had been discussed with Hexavest and were addressed satisfactorily in the Side Letter.

Mr. Goulet noted the usage of "client" instead of "investor" in several instances in the Side Letter. Mr. Hickey indicated he would discuss the matter with Hexavest and have them make the corrections to the final Side Letter.

Mr. Goulet moved, seconded by Mr. D. Hansen, to approve the fund documents related to the investment with Hexavest, Inc.

Motion passed.

D. Staff Letter Requesting Ratification of Change in International Equity Manager Transition Plan.

Staff stated that due to the termination of VCERA's relationship with Capital Guardian, a transition plan was approved by the Board in April. At that time, the Board decided to allocate the international equity assets previously managed by Capital Guardian to Walter Scott in the amount of $50 million and to Hexavest in the amount of $30 million, with the residual assets allocated to Artio (approximately $38 million based upon current assets under management). Over the past several months, staff observed a general decline in the Board's level of confidence with Artio's investment process, which was reinforced by a less than satisfactory on-site due diligence meeting. During the last business meeting, Mr. Vandolder recommended that staff not rebalance to Artio. Given Mr. Vandolder's recommendation, staff tentatively modified the original transition plan by excluding Artio and instead allocating those funds to BlackRock's International Equity Index Fund. Staff requested the Board's ratification of the transition plan change.

Mr. R. Hansen moved, seconded by Mr. Wilson, to approve the modified transition plan.

Motion passed.

V. INVESTMENT INFORMATION (continued)

D. Staff Letter Requesting Ratification of Change in International Equity Manager Transition Plan.

Mr. Johnston suggested that Artio be placed on the Watch List. Staff indicated they will place an item on the next business meeting agenda to address the issues with Artio.

E. Staff Letter Regarding RREEF America III and Prudential Quarterly Conference Calls.

Staff reviewed its participation in the conference calls regarding RREEF America II and PRISA. Staff stated that RREEF had a very strong quarter with a return of 14.3%, primarily due to the sale of the Market Center in San Francisco. RREEF realized approximately $121 million in proceeds from the sale which was used to pay down current debt obligations. Distributions to shareholders were anticipated to begin in 2013. Staff noted that RREEF would be present at the December business meeting for their annual investment presentation.

Staff discussed PRISA's 3% return which was divided approximately equally between income and appreciation. Although PRISA was currently above the leverage ratio guideline, they made significant progress in lowering the leverage ratio from 46% to 36% in the quarter. Going forward, staff expects to see less leverage used in the fund, fewer forward commitments, and more quality holdings in the portfolio in response to a recommendation from PRISA's Investment Advisory Council to be more "core-like".

Mr. Wilson moved, seconded by Mr. Harris, to receive and file staff's letter.

Motion passed.

VI. OLD BUSINESS

A. Letter from Arthur Goulet, REAVC President, Regarding Clarification of and Correction to the President's Letter in the REAVC September – October 2010 Newsletter.

Mr. Goulet moved, seconded by Mr. Henderson, to receive and file the REAVC letter.

VI. OLD BUSINESS (continued)

A. Letter from Arthur Goulet, REAVC President, Regarding Clarification of and Correction to the President's Letter in the REAVC September – October 2010 Newsletter. (continued)

Mr. R. Hansen thanked the Board members who expressed concern regarding personal attacks amongst the Board members. Mr. Hansen also discussed Mr. Goulet's conflicting roles as REAVC President and a trustee on VCERA's Board of Retirement. In relation to the President's Letter and Board of Retirement News article in the REAVC newsletter, Mr. R. Hansen suggested perhaps the Retirement Administrator would be a more suitable author in fairly representing all eleven trustees in the Board of Retirement article. Mr. R. Hansen opined that his suggestion would better serve the recipients of the REAVC newsletter and provide for full unbiased disclosure. Mr. R. Hansen emphasized that he represented VCERA's membership as a whole, not just one particular sector of the membership, and that is his basis for voting on all isues.

Motion passed.

B. CRCEA Conference Report – Mr. Arthur Goulet.

Mr. Henderson moved, seconded by Mr. Wilson, to receive and file Mr. Goulet's conference report.

VII. NEW BUSINESS

A. Staff Letter Regarding Proposal for Enhanced Portfolio Rebalancing Strategy.

Staff stated one of its goals is to identify investment ideas which provide an opportunity to add incremental value to VCERA's investment program. Over the course of several months, staff held discussions with Arun Murahildar from Alpha Engine regarding their disciplined tactical rebalancing strategy. Recognizing that VCERA's portfolio will always be overweight or underweight in a given asset class based on the existing market conditions, it may better serve VCERA to tilt towards specific asset classes using daily recommendations from Alpha Engine based on economic, sentimental, valuation and technical factors. The recommendations from Alpha Engine would be implemented though the cash equitization program at Clifton by the purchasing and selling of futures contracts.

VII. NEW BUSINESS (continued)

A. Staff Letter Regarding Proposal for Enhanced Portfolio Rebalancing Strategy. (continued)

Staff noted the benefits of utilizing Alpha Engine's strategy were projected to be approximately 45-70 basis points annualized of additional incremental return to VCERA's investment program, which equates to approximately $13 million annually at the 45 basis point level. Benefits also include limited maximum drawdown with maximum drawdown measuring the decline in absolute value of the portfolio. According to staff, and based upon back tested data, had VCERA been utilizing Alpha Engine's strategy during the latest economic downturn, maximum drawdown would have been 37% instead of 40% (approximately $75 million in savings). Those types of savings would translate into a higher funded status for the plan and lower employer contribution rates.

Staff requested the Board's direction on pursuing participation with Alpha Engine's strategy. Staff noted that Hewitt was aware of the program and was neutral to the strategy; however, staff believes the strategy provided an opportunity for VCERA to be more tactical and to add value to the fund.

Mr. Goulet expressed concern with market timing and the lack of a better analysis from Hewitt. Staff clarified for Mr. Goulet that the transaction costs referred to in the documents were related to stock trading from an investment manager perspective, where VCERA would be utilizing Clifton and not be subject to those types of transaction costs. Mr. Goulet also received clarification from staff on the process of valuing assets under management for real estate and private equity.

Mr. Wilson moved, seconded by Mr. Harris, to have Alpha Engine and Hewitt address the Board on the Rebalancing Strategy.

Motion passed.

VIII. INFORMATIONAL

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

B. Letters from Victor L. Lopez, Marcia Jo Clinton and Russell Noragon Regarding Termination of STAR COLA Benefit.

VIII. INFORMATIONAL (continued)

C. Letter from Governmental Accounting Standards Board to Mr. Towner Regarding VCERA's Comments on the Preliminary Views.

D. Letter from Western Asset Management Regarding New Professional Staff.

E. Payden & Rygel – Economic & Market Update: "What the Fed is Doing, How and Why it Matters for Investors (And Will it Work?)".

F. Research Affiliates – October 2010 Newsletter Article: "Hope Is Not A Strategy".

G. Announcement of 21st Annual Southern California Public Retirement Seminar, February 9, 2011, Lakewood, CA.

IX. PUBLIC COMMENT

None.

X. BOARD MEMBER COMMENT

Mr. Towner commented on receiving his disability agenda packet through electronic means for the November disability meeting and the ease and efficiency of viewing it on an iPad.

Mr. Goulet expressed his desire to pursue an electronic means of receiving agenda packets.

Mr. Goulet discussed the recent SACRS conference, stating that many presentations were quite good including a geographer who spoke on China's influence throughout the world especially with infrastructure investments and an item during the Business meeting regarding a holistic approach to Risk Management. Mr. Goulet noted that there were three appellate districts (Sonoma, Sacramento and San Diego) opining on the Public Records Act requests for names and pension amounts.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:05 a.m., upon the motion of Mr. Henderson, seconded by Mr. Wilson.

Respectfully submitted,

TIM THONIS, Retirement Administrator

Approved,

TRACY TOWNER, Chairman