

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

MARCH 16, 2009

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
Robert Hansen, General Employee Member
Arthur E. Goulet, Retiree Member
Will Hoag, Alternate Retiree Member
Chris Johnston, Alternate Employee Member

**DIRECTORS
ABSENT:**

Joseph Henderson, Public Member
Karen Becker, General Employee Member

**STAFF
PRESENT:**

Tim Thonis, Retirement Administrator
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 March 16, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Staff offered a correction to the numbering of the item under Investment Information.

Mr. Goulet moved, seconded by Mr. Harris, to approve the agenda as corrected.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of March 2, 2009.

Mr. Goulet offered an amendment to the second paragraph of Item V.F. to clarify that the Hearing Officer's findings and recommendation were accepted into the record.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of March 2, 2009, as amended.

Motion passed.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of February 2009.**
- 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 January 31, 2009 and Statement of Reserves for the Month Ended December 31, 2008.**
- C. Report of Checks Disbursed in February 2009.**
- D. Budget Summary for the Month Ended February 28, 2009, Fiscal-Year 2008-09.**
- E. Barclays Global Investors 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 February 28, 2009.**

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

Motion passed.

V. INVESTMENT INFORMATION

A. EnnisKnupp & Associates.

1. Monthly Investment Performance Update, February 2009.
2. Monthly Manager Updates/Summary, February 2009.
 - a. Sprucegrove
 - b. Capital Guardian
 - c. GMO
 - d. Acadian
 - e. Western
 - f. Reams
 - g. Loomis Sayles

Staff commented on VCERA's current asset allocation, February returns and the fiscal year-to-date and one-year returns. The asset allocation has fallen below the \$2 billion mark and is at approximately \$1.9 billion. Equity allocation is 10% under target, with fixed income at 7% over target and real estate at 3% over target allocations. Staff has attempted to rebalance the portfolio and will continue its rebalancing efforts in the future. Staff stated that recent returns in the equity markets will benefit VCERA's asset allocation immensely in bringing the portfolio closer to target ranges.

Staff summarized that February was another bad month for the capital markets. Equity market returns ranged from -9.3% internationally and -9.8% in global markets, with domestic equity returns at -10.4%. Western's continued underperformance and negative tracking error in the BGI products were key factors in the equity allocation underperforming the benchmark by 50 basis points (.50%). Staff stated international equity managers did well in saving value at approximately 90 basis points (.90%), with stock selection and Artio's cash position being the main factors. VCERA's global equity returns were -10.5% primarily due to Acadian's overweighting of U.S. stocks, which was the worst performing equity market in February. Staff stated February was also a tough month for the fixed income market which was down 40 basis points (.40%). VCERA's managers weren't able to protect any value in this area with a -2.6% return for the month, mostly attributable to Loomis' high-yield positions, Western's holding of mortgages and Ream's investment grade credit holdings.

Overall, staff summarized that the fiscal year to date return at -33.5% and, when compared it to the one-year return of -35%, illustrated the market challenges of the last eight months.

V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

Mr. Matheney moved, seconded by Mr. Harris, to receive and file items 1. & 2.

Motion passed.

3. Memorandum - Loomis Sayles Debt Restructuring.

Staff reviewed Loomis' request for direction on how to proceed should any of their debt securities, through a restructuring process, be converted to preferred shares or common equity, which would be a guideline violation. Staff stated there are two choices for the Board. One would be to allow Loomis to hold those securities in the portfolio and dispose of them later. The second choice would be to not allow Loomis to hold those securities, which would essentially force them to sell in a distressed market where the securities may not be priced fairly. Staff and EnnisKnupp recommend the Board authorize Loomis to hold common equity or preferred shares due to a restructuring.

Mr. Wilson moved, seconded by Mr. Matheney, to adopt the recommendation and authorize the Chairman to sign the letter granting permission to Loomis Sayles to hold equity securities due to a corporate restructuring.

Motion passed.

4. Memorandum - Prudential PRISA Update.

Staff commented that the update on Prudential PRISA was a follow up from the meeting on February 23rd and illustrates that Prudential is suffering the same affliction as many other funds. PRISA's 2008 fourth quarter performance was the worst in the fund's 38-year history. Staff stated PRISA capital needs budget was of particular concern, especially with debt maturities, forward purchase commitments and redemption queue taken into consideration. Staff recommended that the Board continue to closely monitor with EnnisKnupp what has been transpiring industry-wide within the commercial real estate market and it's affect on Prudential.

Board members commented on the possibility of changing to a marked to market alternative and questioned the positive impact should people start valuing their assets properly. Staff responded that marked to market doesn't

V. INVESTMENT INFORMATION (continued)

A. EnnisKnupp & Associates. (continued)

allow for financial institutions to grow over time, so an alternative to marked to market may be helpful for financial institutions in these times.

Mr. Harris moved, seconded by Mr. Foy, to receive and file the Prudential PRISA Update memorandum.

Motion passed.

5. Memorandum - GMO Governance Structure Update – New CEO.

Staff gave an overview of the GMO management structure and indicated that GMO announced a new CEO, Marc Mayer. Staff commented that EnnisKnupp feels the change is a good one, allowing the investment managers to focus on the portfolio while the administrative side is handled by the CEO. GMO also announced that Scott Eston, COO, will be retiring. Staff commented that it is a bit troublesome that GMO's executive management has had frequent changes over a short period of time, but is hoping the creation of the CEO position will bring some stability to GMO's management team.

Mr. Harris moved, seconded by Mr. Matheney, to receive and file the GMO Governance Structure Update memorandum.

Motion passed.

6. Opportunistic Strategies 2008 Fourth Quarter Review.

Staff commented that the Opportunistic Strategies review is a preview to what the Board may be seeing from EnnisKnupp on April 20th when they bring a competitive analysis of hedge fund funded mandates as discussed at the Board's retreat in October 2008.

Mr. Wilson questioned the figures given on the Barclays Aggregate Bond Index. Staff responded that they will research the issue and return with an answer to the Board.

Mr. Goulet moved, seconded by Mr. Foy, to receive and file the Opportunistic Strategies review.

Motion passed.

VI. NEW BUSINESS

A. 2009 Due Diligence Site Visit Recommendations.

Staff stated that the Board adopted a schedule of due diligence site visits in January and gave staff the direction to make specific recommendations. Several Board members expressed preference as to which trips their schedules would permit. Staff expressed that, given the climate of trustee travel, it was important to leverage as many visits as possible in one trip and, if practicable, combine visits with travel already being performed for conferences and seminars. Taking into consideration the preferences of the Board members and the schedules for due diligence visits and conferences/seminars, staff recommended that Mr. Matheney and Mr. Hoag visit EnnisKnupp, The Clifton Group and Reams Asset Management in conjunction with their attendance of the EnnisKnupp Client Conference at the end of May; Ms. Becker and Mr. Hansen visit Sprucegrove in July; Mr. Hansen visit Loomis Sayles in September; and Ms. Becker and Mr. Hoag visit GMO and Acadian Asset Management in conjunction with their attendance of the GMO Client Conference in November.

Mr. Hansen stated that in light of the scrutiny he is under because of his position, he would like to delete his name from the trip to visit Sprucegrove. Mr. Hansen commented that he is withdrawing from the trip to the Institutional Investor conference in April. Mr. Hansen further commented that he had previously informed the Board he would be in Boston in September on other matters and offered to visit Acadian and GMO at that time. Mr. Hansen emphasized that the only expense involved would be a couple of nights of hotel accommodations, versus airfare and hotel if a special trip were made. Mr. Hansen requested the Board's permission to visit Acadian and GMO on his trip and stated his visit didn't preclude anyone else from doing site visits as well.

Mr. Goulet expressed his desire to be able to learn from the due diligence visits Mr. Hansen will be conducting in Boston and requested that he be added to the trip should it be rescheduled to September.

Mr. Matheney stated he could most likely include the visit to Reams with his trip to the EnnisKnupp conference.

Mr. Foy commented on the articles staff provided regarding the scrutiny trustee travel is receiving and stated it's important to keep that in mind when scheduling trips.

VI. NEW BUSINESS (continued)

A. 2009 Due Diligence Site Visit Recommendations. (continued)

Mr. Wilson commented on the Board's fiduciary requirement to perform the due diligence visits and agreed that all trips that aren't related to due diligence should be looked at carefully.

Mr. Goulet supported Mr. Wilson's comments and further commented that the Board has only utilized 18% of its travel budget as of the end of February.

Mr. Wilson moved, seconded by Mr. Harris, to approve the due diligence site visit schedule with Mr. Matheney and Mr. Hoag to visit EnnisKnupp and Reams in May, Ms. Becker to visit Sprucegrove in July and Mr. Hansen and Mr. Goulet to visit Loomis Sayles, GMO and Acadian in September.

Motion passed.

B. Draft Letter to Board of Supervisors Requesting Approval of June 30, 2008 Annual Actuarial Valuation.

At its meeting in January, the Board requested the opportunity to review and comment on staff's letter to the Board of Supervisors regarding VCERA's annual actuarial valuation. Staff reviewed the draft letter and charts and explained that projections were made assuming the number of County employees and amount of payroll remained the same.

Discussion was held regarding the impact of inflation on the projected figures to which staff responded that the projections were developed using Monte Carlo simulations using various scenarios and economic conditions including high inflation periods.

Discussion was held regarding including a statement addressing the assumption of the number of county employees and covered payroll remaining constant.

Mr. Wilson moved, seconded by Mr. Harris, to have staff move forward with sending the letter, including the assumption of unchanged number of county employees and covered payroll, and attachments to the Board of Supervisors.

Motion passed.

VI. NEW BUSINESS (continued)

- C. 2009 Barclays Global Investors and RREEF America III Due Diligence Visits; Manatt Phelps and Phillips Conference Summary.

Staff reported on the due diligence visits conducted with Ms. Nemiroff and Mr. Johnston at BGI and RREEF in conjunction with attendance at the Manatt Fiduciary Symposium.

Staff summarized the meeting with BGI stating that overall BGI is a good service provider for VCERA providing beta returns, augmented slightly by securities lending income, in a cost efficient manner. Staff recommended close monitoring of how BGI's parent company, Barclays PCL, stock price impacts BGI.

Staff also summarized the meeting with RREEF stating that RREEF's management was not surprised when they were notified they had been placed on the VCERA's watch list. Although staff made a request, RREEF declined to provide an estimate of portfolio returns for 2009.

Mr. Johnston stated he believed RREEF's management was concerned with the information provided regarding cross-covenants with loans. Mr. Johnston also stated that it was possible RREEF was going to fail on their Sunnyvale loan and there was a good chance the fund would disappear.

Staff emphasized that the investments with RREEF require close monitoring and future developments will be brought to the Board's attention in accordance with the watch list policy.

Mr. Matheney moved, seconded by Mr. Harris, that the consideration of terminating RREEF be put on the Board's April 6th agenda to have a full discussion as to the pros and cons of staying with the fund or getting into the redemption queue.

Motion passed.

Mr. Johnston requested that trustees be provided with annual reports and SEC filings relating to individual investment managers one to two weeks prior to scheduled due diligence visits.

Mr. Matheney moved, seconded by Mr. Harris, to receive and file staff's due diligence and conference summary.

Motion passed.

VI. NEW BUSINESS (continued)

D. Update on Pension Administration Project and Disaster Recovery.

Brian Colker was present from Linea Solutions, Inc. to provide an update on the Pension Administration System project (PAS) and disaster recovery. Mr. Colker stated the PAS project is on schedule and a draft RFP has been completed and is scheduled to be released in late April. A two step process will be utilized to evaluate the vendors. The first is the financial stability of the software vendor itself and, once a vendor passes the first review, their proposal will be evaluated including demonstrations, reference checks and site visits. Mr. Colker anticipates a recommendation before the Board in September.

Mr. Goulet commented that the process seems odd and offered that a prequalification may be a good idea to do first to limit the number of proposals received.

Mr. Colker responded that the market for this type of project is very specialized and he anticipates receiving no more than six proposals.

Mr. Goulet suggested prequalifying interested vendors and, once they've been prequalified, inviting them to submit a proposal.

Mr. Wilson agreed with Mr. Goulet and expressed his belief that the vendors would likely appreciate that process.

Staff stated that option would be discussed and brought back before the Board as part of the Business Plan discussions in April.

Mr. Colker reviewed VCERA's current level of disaster recovery and indicated that VCERA utilizes IT Services and ADP for those functions for RDBS and retiree payroll, but VCERA itself is responsible for the disaster recovery function of Liberty, its electronic document management system. Mr. Colker stated that ITS is subject to industry standard back up procedures and they have multiple storage sites in different regions of the country. ADP is the largest provider of outsourced payroll and utilizes rigorous disaster recovery practices. Linea has implemented several layers of disaster recover protection for the Liberty system including the real time back up of the server by having it mirrored by a second server; off-site, encrypted storage of weekly information; and storage of historical member records on CD and in paper files in a secure records management facility.

VI. NEW BUSINESS (continued)

- D. Update on Pension Administration Project and Disaster Recovery.
(continued)

Mr. Colker stated that a comprehensive business continuity plan will be put in place as part of the IT program and they are hoping to have it in place at the same time the PAS project would begin operations.

Mr. Hoag suggested housing the CDs and paper files in separate locations.

Mr. Matheney suggested keeping abreast of the latest medium for back ups and the benefit of keeping VCERA's records in that way.

Mr. Colker expects that the future seems to be headed to online backups; however, he is not aware of any pension systems using online backups currently.

Mr. Matheney moved, seconded by Mr. Harris, to receive and file the update on the PAS project and disaster recovery.

Motion passed.

VII. INFORMATIONAL

- A. Publications (Available in Retirement Office)
1. Institutional Investor
2. Pensions and Investments
- B. Contra Costa Times Article – "*Contra Costa Retirement Fund Board OKs Junkets While Portfolio Tanks*".
- C. Annual CRCEA Spring Conference, April 20-22, 2009 in Ventura, CA.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file the Informational items on the agenda.

Motion passed.

VIII. PUBLIC COMMENT

Staff reminded the Board that Western Asset Management would be present at the Board's meeting on April 6th.


IX. BOARD MEMBER COMMENT

Mr. Wilson suggested a push towards video conferencing for SACRS events and stated it would be beneficial for those members who can't expend a whole day to travel to/from the location, but would like to participate in the meetings.


X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:15 a.m. upon the motion of Mr. Harris, seconded by Mr. Matheney.

Respectfully submitted,


TIM THONIS, Administrator

Approved,


TRACY TOWNER, Chairman