VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

APRIL 20, 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 Joseph Henderson, Public Member Karen Becker, General Employee Member Robert Hansen, General Employee Member Arthur E. Goulet, Retiree Member Will Hoag, Alternate Retiree Member Chris Johnston, Alternate Employee Member
DIRECTORS ABSENT:	None.
STAFF PRESENT:	Tim Thonis, Retirement Administrator Henry Solis, Fiscal 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 April 20, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of April 6, 2009.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of April 6, 2009.

Motion passed.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of March 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 February 28, 2009

C. Report of Checks Disbursed in March 2009.

D. Budget Summary for the Month Ended March 31, 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 March 31, 2009.

F. Guggenheim Quarterly Real Estate Report for Period Ending March 31, 2009.

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

Motion passed.

V. INVESTMENT INFORMATION

A. Sprucegrove Investment Management Annual Investment Presentation, Craig Merrigan and Mark Shevitz.

Craig Merrigan from Sprucegrove Investment Management and Mark Shevitz from Fairhaven Partners were present to review Sprucegrove's organization, investment process and investment results.

Mr. Shevitz noted the performance numbers for the past calendar year were -42% with the benchmark performance at -43%. Areas that helped over that period of time were the exposure to Japanese companies and some health care companies. Areas that hurt performance were exposure to finance areas, particularly banks, and consumer durables. In the first quarter of the current year, Sprucegrove's portfolio was -9% in comparison to the market at -14%. Since inception seven years ago, the return was slightly greater than 200 basis points ahead of the benchmark, 3.3% vs. 1.2%.

Mr. Shevitz discussed Sprucegrove's overall investment strategy, noting that the company is very much a long term value investor. There has been less than 15% turnover in the portfolio over the last year. Mr. Shevitz commented that Sprucegrove's stock picking in the financial area left something to be desired and the company has been working on reducing the exposure in that area.

Organizationally, Mr. Shevitz noted Craig Merrigan, who was a senior portfolio manager with Sprucegrove, was elected to the Board of Directors and will be working with Mr. Shevitz on VCERA's account. Mr. Shevitz stated that Sprucegrove's assets at year end were approximately $10.8 billion, whereas at peak their assets were $20 billion. Mr. Shevitz noted that the diminution of assets was mostly market related along with many of Sprucegrove's clients looking for cash. However, cash flows have become positive in this quarter. There have been no changes within the firm with regards to investment plans and layoffs, and the number of clients Sprucegrove works with has remained fairly consistent.

Mr. Vandolder questioned Sprucegrove's ownership structure and plans for moving forward to which Mr. Merrigan described the unique culture within Sprucegrove's organization. Sprucegrove is 100% employee owned, with 24 of their 28 employees being shareholders, which they believe creates a long-term ownership mentality in the firm. Mr. Merrigan noted that upon the retirement of John Watson, one of Sprucegrove's three founding partners, Mr. Watson's shares were purchased by other shareholders. Mr. Merrigan

V. INVESTMENT INFORMATION (continued)

A. Sprucegrove Investment Management Annual Investment Presentation. (continued)

also noted that since Sprucegrove's inception there has been zero employee turnover, which makes their organization unique among investment firms.

Mr. Merrigan described Sprucegrove as wonderfully uncomplicated and indicated that the founding partners intent was for Sprucegrove to remain a "plain vanilla global equity shop" which allows for its investment managers to focus 95% of their time on investment thesis and making good investment decisions. Sprucegrove remains closed in international and global equities, but is open in U.S. equity for Canadian clients.

Mr. Matheney questioned how Sprucegrove has learned from the problems and events that occurred in 2008 to which Mr. Merrigan responded that although he can't predict what will happen in the next year, Sprucegrove anticipates outstanding investment opportunities in the next three to five years. Mr. Merrigan reviewed the 15 year valuation characteristics as never being more attractive and noted that Sprucegrove does not make quarterly or annual earnings estimates, but instead, focuses on the long-term return on equity. With the all encompassing bear market, Sprucegrove's basic approach wasn't as successful in this crisis as it has been in past crises. One lesson learned was to avoid complexity and think carefully about financials. Despite disappointment with their investment results of late, Mr. Merrigan indicated Sprucegrove will continue with their current investment method, in particular buying in high quality businesses at attractive pricing.

Mr. Wilson questioned Sprucegrove's emphasis sector-wise and also questioned their Country allocation, noting the level in the Eurozone as being substantially below emerging markets which were at 12%.

Mr. Merrigan responded that Sprucegrove considers itself to be "bottom-up stock pickers" who choose to look at long term prospects for a particular business and not necessarily for the country where it is based, taking into consideration if the stock is priced within a margin of safety. Macro factors are used, but do not drive investment decisions. "Bottom-up" stock picking drives the country allocation.

Mr. Shevitz addressed the sector portion of Mr. Wilson's question and stated the bad news has been, for the most part, fairly shared among

V. INVESTMENT INFORMATION (continued)

A. Sprucegrove Investment Management Annual Investment Presentation. (continued)

sectors. Sprucegrove has been adding to companies in diverse sectors and, in rebalancing to best ideas, has found the best ideas to be in the portfolio itself. Mr. Shevitz indicated several financial are being reduced because of the change in environment. Mr. Shevitz reviewed sector weighting and compared the marketplace to a ballot box in the short-term and to a scale weighing value in the long-term. Mr. Shevitz noted that, while performance-wise the prior months have been extremely disappointing, the industrial performance of a lot of the companies has been quite noteworthy demonstrating the disconnect between the ballot box and the scale.

Mr. Goulet expressed concern over the portfolio being heavily weighted in consumer discretionary over consumer staples.

Mr. Shevitz responded that there has been overexposure in consumer discretionary for approximately five years. There is a component in Sprucegrove's investing that is correlated to contrarian investing; however, it is Sprucegrove's philosophy to ride out short term uncertainties and trust that they have been diligent in choosing companies who will have success long-term.

Mr. Henderson questioned the buy-out process that takes place when a partner leaves the firm to which Mr. Merrigan responded that there isn't a special fund set up and partners who choose to participate in buying out another partner do so independent of Sprucegrove's assets.

Mr. Henderson also questioned Sprucegrove's intent to continue with their current investment strategy when it produced -40% results this year and if there is a process to "purge" the company when less than expected results occur.

Mr. Merrigan stated that although Sprucegrove is a collegiate group, they tend to be skeptical and go against the grain, which he feels are traits of a good investor. Historically, for every 100 opportunities Sprucegrove researches, they only invest in one. Mr. Merrigan gave the example of when Technology and Telecom were heavily invested, Sprucegrove had little to no weighting in that area. Although many second guessed Sprucegrove's decision at the time, it served the organization well in the long term. Mr. Merrigan stated that Sprucegrove is disappointed in the last period's

V. INVESTMENT INFORMATION (continued)

A. Sprucegrove Investment Management Annual Investment Presentation. (continued)

performance but he felt it would be a mistake to deviate from their investment philosophy which has been successful 24 out of the last 25 periods. Mr. Merrigan emphasized that Sprucegrove's efforts are collaborative, that each portfolio manager made mistakes in the past year and that no single member deserved to be fired or purged.

Mr. Merrigan discussed businesses vs. stock and short term popularity vs. long term economics. Mr. Merrigan also reviewed Sprucegrove's top ten holdings and their projected return on equity compared to the ten-year average. Mr. Merrigan indicated that had the stock market been closed, private owners of those holdings would have been pleased due to good operating performance. In closing Mr. Merrigan stated that opportunities are very attractive and because the portfolio owns pieces of these good businesses, the three to five year percentage returns should be very good.

B. Capital Guardian Trust Company Annual Investment Presentation, John Dewey and Chris Ryder.

John Dewey and Chris Ryder were present to review Capital Guardian's organization, investment process and investment results.

Mr. Dewey gave an overview of the Capital Guardian's organization and expressed that 2008 was a tough year across all markets. Mr. Dewey indicated that Capital Guardian began their restructuring over the last three years and, while the absolute returns did not perform as well as hoped for across the portfolios, the relative results are currently more in line with client expectations.

Mr. Dewey emphasized the target allocations at 88% for non-U.S. Developed and 12% for emerging markets. Mr. Dewey pointed out that currently Capital Guardian portfolios are at about 16% in emerging markets with an underlying exposure of 84% in the non-U.S. Equity fund. The index weighting for emerging markets was currently 19.6% according to Mr. Dewey.

Mr. Dewey reviewed changes that occurred on the non-US Equity team including the retirement of one member and the promotion of another. Mr. Dewey addressed the issue of "purging" the ranks and indicated that it has

V. **INVESTMENT INFORMATION (continued)**

B. Capital Guardian Trust Company Annual Investment Presentation. (continued)

benefited Capital Guardian's organization and allowed for realignment of responsibilities among the team. Mr. Dewey state that the Emerging markets team remains unchanged.

Mr. Dewey provided an overview of sector performance, noting the prior year's difficulties and also noting good signs of recovery in the first two weeks of April. Mr. Dewey reported on investment results and stated that while the absolute numbers were not good, the relative results have outperformed by 240 basis points (2.4%) last year. Mr. Dewey emphasized his belief that Capital Guardian's changes in process, assignments and ensuring team members are in the right roles are showing signs of being a positive trend for the organization.

Mr. Ryder reviewed performance results for the last year and indicated that he would be echoing several of the same sentiments as the speakers from Sprucegrove beginning with Capital Guardian's disappointment in investment performance; however, looking forward, Capital Guardian is excited with companies they have had the opportunity to purchase with once in a lifetime prices based on valuations which will position Capital Guardian for excellent long-term performance. Mr. Ryder pointed out some positives over the past year were VCERA's portfolio was defensively positioned in anticipation of a cyclical downturn and during this time Capital Guardian had relatively high cash levels and was underweighted in financials. However, Mr. Ryder stated that the cyclical downturn turned into structural and led to disappointing performance with Capital Guardian's stock selection. Mr. Ryder gave an example of a lesson learned over the past year and described their holding of Orix, a company which Capital Guardian deemed to be credit worthy. Mr. Ryder stated that the market was focused on liquidity which caused the Orix stock to drop markedly. Mr. Ryder pointed out that this is a scenario where assistance from Capital Guardian's fixed income colleagues would have been valuable in looking at Orix's short term liquidity requirements. Mr. Ryder indicated that Capital Guardian had good stock selection in the portfolio overall with holdings in several IT and telecom companies.

In reviewing VCERA's portfolio's performance in emerging markets, Mr. Ryder stated that defensive positioning and stock selection were key drivers to performance.

V. **INVESTMENT INFORMATION (continued)**

B. Capital Guardian Trust Company Annual Investment Presentation. (continued)

Mr. Vandoloder questioned Capital Guardian's forward looking viewpoint in how VCERA's portfolio will be positioned. Mr. Ryder reviewed the top 20 holdings in the portfolio and indicated that the structure of the portfolio remains very consistent. Mr. Ryder emphasized that, similar to Sprucegrove, Capital Guardian is a "bottom-up" stock picker and is therefore looking to invest in the best companies domiciled outside the U.S. Mr. Ryder stated his belief that the economic environment in the next couple of years would be tough; however, Capital Guardian is identifying individual companies that they believe will ride out the downturn and will make market share gains as the upturn occurs.

Mr. Ryder discussed Capital Guardian's excitement structurally with emerging markets and Capital Guardian's belief that on a relative basis the secular story for emerging markets is very good. Mr. Ryder stated that the recession has shown that the western world's model, particularly the financial system, had some flaws which have been less applicable to emerging markets than it has been to the developed world. Mr. Ryder further stated that until the global economy rebounds it will be difficult for the emerging markets to make headway. Structurally, Capital Guardian believes that emerging markets are attractive, but Mr. Ryder pointed out that there are variables in excitement based upon the country involved, i.e. Brazil vs. Russia. Mr. Ryder stated that the consumer discretionary sector is underweight, but recent purchases have been in the auto sector. Mr. Ryder discussed yield, cash flow to share holders, and explained Capital Guardian's reasoning for overweighting telecoms.

In response to Mr. Wilson's questions, Mr. Ryder confirmed that Capital Guardian's cash level was currently at 8.3%, the year-end level stated in their handouts and also that Capital Guardian would encourage VCERA to give Capital Guardian complete flexibility in managing cash holdings if they chose to do so.

In response to a question from Mr. Henderson, Mr. Ryder stated there wasn't really a way to predict if another economic downturn was anticipated by September.

V. **<u>INVESTMENT INFORMATION</u> (continued)**

C. EnnisKnupp & Associates, Kevin Vandolder.

Mr. Vandolder briefly reviewed the presentations by Sprucegrove and Capital Guardian and discussed the interesting aspect that both are non-U.S. Equity managers who saved 200 basis points each, but one is apologizing for the performance and the other is pleased. Mr. Vandolder pointed out that Sprucegrove has a more conservative approach in comparison to Capital Guardian's forward looking approach. Mr. Vandolder indicated an on-site visit would be held on July 17^{th} to reexamine the skill sets within Sprucegrove, especially given the turnover in Sprucegrove's senior management.

1. Monthly Investment Performance Update, March 2009.

2. Monthly Manager Updates/Summary, March 2009.

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

Mr. Vandolder indicated that since March 6^{th} small cap stocks have returned 36% with the S&P 500 up 25%. Consumer sentiment has risen and the VIXX (measure of volatility) was at its lowest level in months. Mr. Vandolder noted there still existed many uncertainties in the market, for example the bankruptcy of General Motors, and noted that investors were focusing on several issues including PPIF. Mr. Vandolder stated the fund had risen above the $2 billion mark as of the end of March.

In terms of VCERA's international equity managers, Mr. Vandolder noted that Sprucegrove trailed its benchmark due to stock selection, Capital Guardian underperformed due to underweighting financials and unfavorable stock selection, while Artio underperformed due to minimal exposure to the financial section. In terms of VCERA's fixed income managers, Loomis Sayles benefited from its yield curve position while Reams added value due to its allocation to the CMBS sector. Overall, VCERA's fixed income return for the month was 2.2% versus 1.4% for the index.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

VCERA's total fund return was 5.1% in March versus the policy portfolio's return of 5.6% and for the fiscal year, VCERA's total fund return was -30.3% vs. -27.9% for the policy portfolio.

3. Memorandum - Hedge Fund of Funds Overview and Hedge Fund of Funds Manager Profiles.

Mr. Vandolder focused his comments regarding opportunistic strategies by first defining a hedge fund and noting why investors may choose to add hedge funds to their investment portfolio. Those attributes include reasonable transparency, reasonable use of leverage, limited derivative exposure and low correlations with core asset classes. Disadvantages include complexity, potential overuse of leverage and high fee structures. According to Mr. Vandolder, investors may expect to earn returns somewhere between those of stocks and bonds over the course of a market cycle.

Mr. Vandolder also explained how hedge fund of funds add value by having sizable insight into the markets, having the ability to identify and monitor top talent and having sophisticated operational due diligence capabilities.

Finally, Mr. Vandolder discussed the historical performance of hedge funds of funds strategies noting specifically their returns in both Bull and Bear equity markets.

Mr. Wilson requested and received clarification regarding whether the cited performance numbers fully reflected the fees for these hedge fund strategies, especially funds of funds.

Mr. Goulet requested and received further explanation regarding the target returns cited on page 5.9 of the presentation.

Mr. Wilson questioned whether it was preferable to invest in hedge fund of funds or whether it was appropriate to continue the discussions on private equity.

Mr. Hansen requested and received clarification on the percentage of hedge funds that fail.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Henderson questioned how VCERA could act more tactically within these types of market conditions.

The Board held discussions on a variety of subjects including how performance fees apply to hedge funds of funds strategies, the volatility of returns in these strategies, overall plan governance, and the overall volatility of VCERA's returns.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file items 1. through 3.

Motion passed.

4. Memorandum - Global 130/30 Fees.

Mr. Vandolder discussed EnnisKnupp's memorandum expressing concern regarding the performance fee for the Acadian Global 130/30 strategy. In summary, Mr. Vandolder recommended that VCERA move to a fixed fee arrangement of 95 basis points (.95%) on the first $25 million with 90 basis points (.90%) on the balance of assets under management by requesting an amendment to the investment management agreement.

Mr. Goulet questioned and received clarification that the new fixed fee would be applied retroactively.

Mr. Wilson moved, seconded by Mr. Harris, to approve the fixed fee structure with the new fee structure applied retroactively.

Motion passed.

5. Memorandum - Proposed Agenda for 2009 Investment Retreat.

Mr. Vandolder reviewed the proposed retreat agenda which included presentations from PIMCO and Loomis Sayles as well as additional presentations from selected currency overlay managers. Mr. Vandolder suggested that the retreat be held on Wednesday, June 3rd in VCERA's boardroom.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Matheney moved, seconded by Ms. Becker, to approve the proposed agenda for the Investment Retreat to be held June 3, 2009.

Motion passed.

VI. OLD BUSINESS

A. Status Report on Implementation of the Board's February 23, 2009 Adoption of an Updated Compensation Resolution.

Staff reviewed the history of the actions taken by the Board and staff to correct the compensation for the Retirement Administrator position and noted the response of the County HR department.

Mr. Goulet questioned how a new title came about for the Retirement Administrator. Staff responded that a discussion with HR was held and they were made aware that the Board of Retirement had not approved a change in the position title. The response from HR was that the County owned the position and therefore could change the title in connection with the amended salary range.

Mr. Goulet expressed that he has no objection to changing the position title, however, he does object to the process being used. Mr. Goulet offered that the Board needs to decide on a title, establish a new linkage and, once those two items are accomplished, decide where in the salary range to place the current administrator.

Mr. Goulet moved, seconded by Mr. Matheney, to change the Retirement Administrator title to Retirement Chief Executive Officer, link the position to the Assistant County Executive Officer position, and defer decision on the placement in the range until the title change and linkage are completed.

Motion passed.

VII. NEW BUSINESS

A. 2009 VCERA Business Plan.

B. 2009-10 Administrative Budget and Travel Policy.

Staff recommended continuing Items VII.A. and B. to the May 2009 business meeting, when there are no investment managers scheduled to make presentations.

Mr. Harris moved, seconded by Mr. Wilson, to continue Items VII.A. & B. to the May 2009 business meeting.

Motion passed.

C. SACRS 2009 Spring Conference Items.

Staff noted the one item to be voted on at the SACRS Spring Conference Business meeting is the SACRS Board of Directors' election.

Mr. Goulet moved, seconded by Mr. Matheney, to designate the Retirement Administrator as the voting delegate for the upcoming SACRS Spring Conference Business meeting and to direct the voting delegate to vote for the SACRS recommended nominees for the Board of Directors' election.

Motion passed.

D. Request to Attend Meeting at Pacific Investment Management Company (PIMCO) with EnnisKnupp and Associates.

Mr. Goulet requested he be included in the request to attend the PIMCO meeting.

Mr. Wilson moved, seconded by Mr. Henderson, to approve Mr. Johnston's and Mr. Goulet's attendance at the PIMCO meeting with EnnisKnupp.

Motion passed.

E. Quarterly Administrator Travel Report.

Mr. Goulet moved, seconded by Ms. Becker, to receive and file the quarterly Administrator's travel report.

Motion passed.

VIII. INFORMATIONAL

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

B. EnnisKnupp Client Conference, May 27-28, 2009, Chicago.

C. Western Asset Management - Is It Time to Rebalance?

D. SACRS - Public Pension Investment Management Program, June 22-24, 2009, UC Berkeley HAAS School of Business.

IX. PUBLIC COMMENT

Staff updated the Board on the status of the building search for VCERA's possible location move and noted that the list has been narrowed down to five choices. Staff invited any interested Board members to a tour of the locations. Mr. Wilson, Mr. Goulet and Ms. Becker indicated they would be available for the tour.

Staff distributed updates to the 2009 '37 Act Code book.

X. BOARD MEMBER COMMENT

None.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:35 a.m. upon the motion of Mr. Goulet, seconded by Mr. Henderson.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman