

**VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**BOARD OF RETIREMENT**

**BUSINESS MEETING**

**JUNE 15, 2009**

**MINUTES**

**DIRECTORS  
PRESENT:**

Tracy Towner, Chair, Safety Employee Member  
William W. Wilson, Vice Chair, 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:**

Lawrence L. Matheney, Treasurer, Ex-officio Member  
Peter C. Foy, Public Member

**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 June 15, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

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

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of June 1, 2009.

Ms. Becker moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of June 1, 2009.

Motion passed.

IV. CONSENT AGENDA

- A. Regular and Deferred Retirements and Survivors Continuances for the Month of May 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 April 30, 2009
- C. Report of Checks Disbursed in May 2009.
- D. Budget Summary for the Month Ended May 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 May 31, 2009.

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

Motion passed.

V. INVESTMENT INFORMATION

- A. Acadian Asset Management Annual Investment Presentation, Raymond F. Mui and Jack W. Gastler.

Mr. Raymond Mui and Jack Gastler were present from Acadian Asset Management to provide organizational and performance updates along with Acadian's view of the market place going forward.

V. INVESTMENT INFORMATION (continued)

A. Acadian Asset Management Annual Investment Presentation. (continued)

Organizationally, Acadian currently maintains \$47 billion under management with global equity comprising the largest component, according to Mr. Gastler. Mr. Mui discussed the performance challenges of the last 12 months for the 130:30 strategy noting how Acadian's value strategy of identifying companies with strong balance sheets, income statements and momentum was not rewarded in a market he characterized as a "junk rally". Mr. Mui also reviewed how Acadian forecasts/models companies and demonstrated how Acadian performed relative to the market in periods immediately following market downturns.

Mr. Wilson questioned the turnover within the portfolio and learned that portfolio turnover was approximately 140 – 150% annualized.

Mr. Wilson further questioned how the composition of the portfolio changed during the volatile first quarter of 2009 to which Mr. Mui responded that the 130:30 strategy typically stays within its portfolio guidelines due to a disciplined rebalancing approach.

Mr. Mui and Mr. Gastler provided additional commentary on Acadian's investment process and described the total universe of securities analyzed, the various factors that are used, how Acadian determines the efficacy of those factors and how behavioral finance was becoming more integrated within their processes. Mr. Mui noted the overall goal of Acadian's continuous research was to have more robust and dynamic models with better risk management.

Mr. Wilson requested and received clarification on the amount of securities held "short" within the 130:30 strategy.

B. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation, Phillip Bennett.

Phillip Bennett was present from Grantham, Mayo, Van Otterloo & Co to discuss the organization, performance and market outlook.

Mr. Bennett described the impact of the market downturn on GMO's asset base noting the decline from \$150 billion to \$82 billion in assets under management and described how GMO's independent ownership structure provided stability in difficult economic periods. Mr. Bennett further described

V. INVESTMENT INFORMATION (continued)

B. Grantham, Mayo, Van Otterloo & Co. Annual Investment Presentation.  
(continued)

the governance change at GMO with the hiring of a new CEO as the firm had previously been governed by an executive committee. The new CEO, Marc Mayer, came from Alliance Bernstein.

Mr. Bennett described the components of GMO's global equity strategy and noted that the new "Flexible Equities" strategy comprised 2% of the allocation. According to Mr. Bennett, the new strategy was focused on domestic stocks in Japan that were of high quality and not reliant on exports.

In terms of performance, Mr. Bennett discussed the challenging environment in which GMO operated within the past 12 months and described how GMO underperformed by 686 basis points (6.86%) as high quality stocks with strong fundamentals were out of favor during the period.

Looking forward, Mr. Bennett expressed GMO's concerns with the federal stimulus package, the debt levels in the overall economy and continued delinquency in the mortgage markets. GMO was extremely cautious about earnings in the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2009 and was looking for a market pullback later in the year.

Mr. Wilson questioned how GMO was forecasting the impact of changes in the value of the U.S. dollar and Mr. Bennett responded by describing GMO's sector, country and currency allocations. According to Mr. Bennett, approximately 50.8% of GMO's global equity product was denominated in U.S. currency. Overall, GMO was concerned with the Federal Reserves growing balance sheet and forecasted that the values of world's currencies would be merging thereby limiting opportunities.

Mr. Bennett then reviewed GMO's 7-year forecast of real returns on the S&P 500 that illustrated a 5.9% total return with the two largest components being gains from profit margin increases and dividend yield. If one added 2.5% for annual inflation, then nominal returns for the S&P would be 8.4%, according to Mr. Bennett.

Mr. Wilson requested clarification on GMO's overweight to high quality stocks and Mr. Hansen sought GMO's view on the impact of a national health care program on interest rates.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder.

Kevin Vandolder was present from EnnisKnupp & Associates to discuss VCERA's performance in May and for the quarter ending March 31, 2009.

Mr. Towner requested and received Mr. Vandolder's view on the layoffs at Acadian Asset Management.

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

Mr. Vandolder commented on current market conditions including the S&P 500 being up 5% year-to-date, emerging markets which had rallied to even greater levels than the S&P, the \$68 billion TARP repayment by several financial institutions and rising oil prices over the last six months.

In summary, Mr. Vandolder stated that Western Asset Management was a key driver in VCERA's \$2.253 billion portfolio. Mr. Vandolder noted the portfolios positive year-to-date performance of 7.2%, while fiscal year-to-date performance remained down 19.7%. Mr. Vandolder noted GMO's downside protection year-to-date, the Western Index Portfolio's significant out-performance in the calendar year period and Artio's material underperformance since January. Mr. Vandolder also indicated that EnnisKnupp would be reviewing VCERA's investment policy and investment guidelines at the July 20, 2009 business meeting.

Mr. Vandolder offered commentary on the proposed acquisition of BGI by Blackrock.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates, Kevin Vandolder.

Mr. Hansen questioned whether Blackrock would be considered in future fixed income searches and Mr. Wilson commented on the singular source of income for this large organization, rather than the diverse income streams from BGI's former parent company Barclays Bank.

3. Quarterly Performance Report for Period Ended March 31, 2009.

Mr. Vandolder focused his comments on the negative contribution of Western and Reams to the attribution of the fixed income portfolio and the negative contribution of the Western Index Plus portfolio to the attribution of the domestic equity portfolio. Positive contributors to VCERA returns on a relative basis in the first quarter of 2009 came from the non-U.S. equity portfolio and the global equity portfolio, according to Mr. Vandolder.

Mr. Goulet suggested that the quarterly performance report be presented on a timelier basis.

Mr. Vandolder noted the scheduling challenges during the 2<sup>nd</sup> quarter of 2009 and the importance of the document in terms of the board's fiduciary duties. Mr. Vandolder emphasized the monthly presentations of performance data with corresponding attribution analysis and that the quarterly report provided a good summary of the monthly presentations.

Mr. Henderson expressed concern with the predominately negative short-term views offered by Acadian and GMO earlier in the morning.

Mr. Vandolder noted VCERA's 15-year investment time horizon and the challenges of investing tactically in volatile markets.

Mr. Vandolder discussed the closing window for investment in PIMCO's TALF fund and how the fund was now oversubscribed.

Staff discussed the challenges associated with reviewing the voluminous Offering Memorandum and other associated documents for the PIMCO fund.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates, Kevin Vandolder.

4. Slides from EnnisKnupp's 2009 Client Conference.

Mr. Vandolder provided a brief review of Dr. Makiel's and Mr. Ennis' presentations from the recently concluded 2009 EnnisKnupp client conference.

5. Memo - RREEF America III Recapitalization Plan.

Mr. Vandolder provided a summary on RREEF America III's recently held client call describing the plans to deal with the concentrated debt of the fund, the planned contingent equity raise and the hiring of experts to assist the fund's management during this difficult period.

Mr. Johnston questioned whether RREEF's parent company, Deutsche Bank, was doing enough during this difficult period.

Mr. Vandolder opined that Deutsche Bank could be doing more, but noted their commitment to invest in the new equity offering in the same proportion as their current ownership level.

6. Research Paper – *Transition Management*.

7. Research Paper – *A Tactical Approach to Infrastructure*.

8. EK Advisor – April 2009.

Mr. Harris moved, seconded by Mr. Hansen, to receive and file items 1-8.

Motion passed.

VI. **OLD BUSINESS**

A. Final Approval of 2009-2010 Travel Policy.

Staff informed the Board that the recommended changes were now incorporated into the 2009 – 2010 Travel Policy and recommended final adoption of the 2009 – 2010 Travel Policy.

VI. **OLD BUSINESS (continued)**

A. Final Approval of 2009-2010 Travel Policy. (continued)

Mr. Hansen moved, seconded by Mr. Harris, to approve the 2009 – 2010 Travel Policy.

Motion Passed.

B. Update – Investment Trend Summit, September 23-25, 2009, Santa Barbara.

Staff noted that the conference sponsors were offering the option of a \$300 registration fee and requested board members contact staff should they have interest in attending the conference.

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

Motion Passed.

VII. **NEW BUSINESS**

A. Legal Review of County Employees Retirement Law for Federal Tax Compliance; Tax Determination Process Training Session.

1. SACRS Proposal

Staff recommended that VCERA participate in the SACRS sponsored review of the County Employees Retirement Law (CERL) for tax compliance and pay the assessed \$2,295 fee prior to June 30, 2009.

Mr. Goulet moved, seconded by Mr. Wilson, to authorize VCERA's participation in the legal review of the CERL.

Motion Passed.

Staff further recommended VCERA's participation in a training session offered by the law firm of Hanson Bridgett designed to assist retirement organizations in preparing for the IRS Tax Determination Letter Process. The cost of the training session is approximately \$13,000 and is tentatively scheduled for late July.

**VII. NEW BUSINESS (continued)**

- A. Legal Review of County Employees Retirement Law for Federal Tax Compliance; Tax Determination Process Training Session. (continued)

Mr. Goulet requested and received clarification on the number of participants allowed from the representative systems and the types of pension plans expected to participate in the conference.

Ms. Becker moved, seconded by Mr. Harris, to authorize VCERA's participation.

Motion Passed.

- B. Renewal of Professional Service Contract with CMP & Associates.

Staff described the technology duties provided by CMP & Associates and recommended adoption of the professional services contract.

Mr. Harris moved, seconded by Mr. Hansen, to approve the contract with CMP & Associates.

Motion Passed.

- C. Grand Jury Report – Ventura County Pension: “An Uncontrollable Cost”.

Staff offered a timetable for responding to the Grand Jury's report and offered commentary on the “Summary” section in the report. Staff noted that the Grand Jury report included POB debt service payments and the employer paid employee contributions as part of the overall total “pension cost”. Staff noted that the inclusion of these factors skewed the analysis. Staff also remarked on the comments attributed to the County of Ventura's CEO regarding the Board of Retirement's adoption of the STAR COLA benefit and reminded VCERA's trustees that the County of Ventura's Board of Supervisors voted to continue the STAR COLA benefit on December 18, 2007 by a 4:1 vote.

Mr. Goulet moved, seconded by Mr. Harris, to direct staff prepare the response to the Grand Jury in accordance with Penal Code section 933 (c) for Board review on July 13, 2009 and July 20, 2009.

Motion Passed.

**VII. NEW BUSINESS (continued)**

D. Board Member Conference Report – Art Goulet.

Mr. Goulet moved, seconded by Mr. Hansen, to receive and file the Board Member Conference report.

Motion Passed.

**VIII. INFORMATIONAL**

A. Publications (Available in Retirement Office)

1. Institutional Investor
2. Pensions and Investments

B. The McCauley Pension Recovery Act (McCauley II).

C. Sacramento Bee Article – “*Sacramento County Pension System Underfunded*”.

**IX. PUBLIC COMMENT**

Staff reminded the Board that the July disability meeting was on the July 13<sup>th</sup>, not July 6<sup>th</sup>, and noted that a copy of the response provided to the California Foundation for Fiscal Responsibility was passed out before the meeting.

**X. BOARD MEMBER COMMENT**

Mr. Wilson requested clarification on the meeting time for the due diligence trip to Western Asset Management on July 6, 2009.

Mr. Hoag commented on the high quality of the speakers at the EnnisKnupp Client Conference, in particular the professor from Michigan State University, Dr. Harm De Blij.

Mr. Goulet commented on the report from the Legislative Analyst regarding the proposed McCauley II legislation. Mr. Goulet expressed his disappointment that the Legislative Analyst’s report did not address discrimination issues, the lack of due process and equal protection rights relative to the tax levels that would be imposed on pension income.

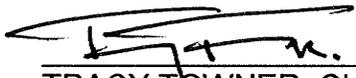
XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 11:30 a.m. upon the motion of Mr. Henderson, seconded by Mr. Harris.

Respectfully submitted,

  
TIM THONIS, Administrator

Approved,

  
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TRACY TOWNER, Chairman