VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

JULY 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 July 20, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Goulet requested to move item VIII.B. from Informational to item VII.G. under New Business.

Mr. Matheney moved, seconded by Mr. Goulet, to approve the agenda with the requested change.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of July 13, 2009.

Mr. Henderson moved, seconded by Ms. Becker, to approve the Minutes for the Disability Meeting of July 13, 2009.

Motion passed. Mr. Harris and Mr. Goulet abstained.

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Month of June 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 May 31, 2009

C. Report of Checks Disbursed in June 2009.

D. Preliminary Budget Summary for the Month Ended June 30, 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 June 30, 2009.

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

Motion passed.

V. INVESTMENT INFORMATION

A. The Clifton Group Annual Investment Presentation, Jack Hansen, CFA, and Ben Lazarus.

Ben Lazarus and Jack Hansen were present from The Clifton Group to provide organizational and performance updates as well as a review of their Policy Implementation Overlay Strategy (PIOS).

Mr. Lazarus provided an update on Clifton's organization noting that there had been personnel changes in the areas of investment accounting and informational technology. Mr. Lazarus also noted that Rick Ballsrud, a senior portfolio manager, left the organization effective June 30th in order to focus on his health and Clifton recently added a new portfolio manager, Jay Strohmaier, to replace Mr. Ballsrud. Mr. Lazarus indicated Clifton is well staffed to take on new clients as well as serve their existing clients.

In response to a question from Mr. Vandolder, Mr. Hansen discussed the loss of three clients during the economic downturn due to client liquidity constraints and investment mandate changes.

According to Mr. Lazarus, Clifton currently has $22.1 billion in assets under management, of which $15.8 billion is invested in PIOS. Mr. Lazarus reviewed how overlay programs are used and how they provide added value to the portfolio. The overlay program was described by Mr. Lazarus as tools and information technology that are used to run an investment program more efficiently by improving liquidity, providing better management of residual cash, an improved ability to manage transitions/reallocations and provide an effective rebalancing process. Mr. Lazarus noted the benefits of using an overlay program and it's effectiveness in earning long-term additional returns by bringing investment exposure levels at VCERA up from 98% to 100% thereby eliminating the "drag" in investment performance due to cash holdings. Mr. Hansen described risks of cash overlay programs as unanticipated market fluctuations, inadequate communication between parties, margin/liquidity risks and tracking error.

Mr. Hansen discussed the results to date of Clifton's cash overlay program and noted that VCERA's average level of cash exposure in the fund was slightly less than 2%. Mr. Hansen commented that although short term results show a negative risk premium, VCERA should expect positive performance when markets return to a more "normal state" where stock and bond returns exceed cash returns.

V. INVESTMENT INFORMATION (continued)

A. The Clifton Group Annual Investment Presentation. (continued)

In summary, Mr. Hansen noted VCERA's unwanted cash exposure had been eliminated, the difficult market hurt Clifton's performance, VCERA's liquidity and flexibility have increased and portfolio tracking is working well. According to Mr. Hansen, the cost/benefit analysis shows the potential for $2 million per year in positive returns that would be offset by Clifton's fee of approximately 4 basis points (0.04%).

Mr. Matheney requested the performance results be included at the beginning of Clifton's report. Mr. Matheney also requested that Clifton's performance results be included in the monthly manager report compiled by EnnisKnupp.

Mr. Vandolder agreed to add the performance for The Clifton Group to EnnisKnupp's monthly performance summary.

B. Artio Global Investors Annual Investment Presentation, Andrew Barker and Teri M. Smith.

Andrew Barker and Teri Smith were present from Artio Global Investors to discuss the organization, performance and market outlook.

Ms. Smith provided an update on Artio's organization noting the firm's stability and financial soundness. New to Artio's investment team was Dimitre Genov, a portfolio generalist, who is working on Artio's global equity portfolios. Ms. Smith reviewed Artio's philosophy and process in managing the international equity portfolio for VCERA. Ms. Smith noted Artio was a core manager with both value and growth type of stocks in the portfolio and invested in both developed and emerging markets. Ms. Smith further noted the different approaches were taken within the developed markets versus the emerging markets. In summary, Ms. Smith stated Artio's focus in the developed markets was more focused on industry, sectors and specific stocks, while country was the primary focus for emerging market decisions.

According to Ms. Smith, the year to date numbers show the portfolio is up 3.7% versus the 16% return of the ACWI ex-US. Ms. Smith attributed Artio's significant underperformance to a defensive positioning relative to the benchmark in the financial sector and an underestimation of the impact of government bank bailouts. Although Ms. Smith anticipated better absolute and relative performance through the balance of 2009, one should expect

V. INVESTMENT INFORMATION (continued)

B. Artio Global Investors Annual Investment Presentation. (continued)

that 2009 will be the second year in which the Artio international equity portfolio underperforms its benchmark in the last fourteen years. Ms. Smith noted that the only other year that Artio underperformed was 2003, and that many similarities in the market return patterns existed between 2003 and 2009, in particular, those highly leveraged companies with weak balance sheets outperformed.

Mr. Barker reviewed the changes Artio made during 2009 from the very defensive posture that overweighted the consumer staples and telecommunication sectors, with a corresponding underweight in financials, to a more sector neutral portfolio. Mr. Barker opined that he was comfortable that such positioning will enable the portfolio to perform better than in the first half of the year. Mr. Barker discussed in great detail Artio's difficulties in valuing European banks due to high leverage ratios and expanded on Ms. Smith's comments regarding the taxpayer's appetite for bailing out financial institutions. Artio believed, according to Mr. Barker, that taxpayer's would demand a higher price from stockholders in exchange for the additional funding to recapitalize balance sheets.

In response to a question from Mr. Foy, Mr. Barker noted, in looking forward, that Artio was skeptical with the European recapitalization process because governments will soon realize that they have no credit creation process, and without the ability to create credit, there will be limited opportunity for long-term economic recovery.

In anticipation of this circumstance, Mr. Barker commented that the portfolio has acquired the shares of a large number of large cap banks in an effort to minimize stock-specific risks. The stocks of these banks are very liquid and will enable Artio to sell these financial stocks at the first hint of trouble, according to Mr. Barker.

Mr. Towner questioned Artio's confidence in its own investment process.

Mr. Barker responded that within the core component of the portfolio, Artio was finding tremendous value in defensive areas such as European airport stocks, but risked not being rewarded for these purchases over the next 18 months. Tactically, Artio was, as mentioned previously, purchasing financial stocks and also seeking short-term opportunities in emerging markets such as China. Ms. Smith added that typically Artio's portfolio maintains these short-term, mid-term and long-term themes.

V. INVESTMENT INFORMATION (continued)

B. Artio Global Investors Annual Investment Presentation. (continued)

Mr. Goulet questioned if there were actually any entities too big to fail, to which Mr. Barker responded it was unlikely that large United Kingdom banks would be allowed to fail. Mr. Barker also believed that the Swiss bank UBS would not be allowed to fail.

In response to a question from Mr. Foy, Mr. Barker discussed his world wide view of governments' willingness to back failing financial institutions. Mr. Barker cited the lack of regulatory authority in Europe and how taxpayer money was being used to assist the banks with the restructuring of their balance sheets. Mr. Barker questioned the long-term effectiveness of the various stimulus packages being implemented worldwide.

In response to Mr. Johnston's question on Artio's cash position, Mr. Barker stated the portfolio was currently fully invested.

C. EnnisKnupp & Associates, Kevin Vandolder and Maritza Martinez.

1. Monthly Investment Performance Update, June 2009.

2. Monthly Manager Updates/Summary, June 2009.

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

Ms. Martinez reviewed VCERA's preliminary performance report in June and noted plan assets were $2.3 billion, up from the $1.9 billion level at the end of February. Total fund performance for June was 60 basis points (.60%) and outperformed the policy portfolio by 80 basis points (.80%). Overall, the portfolio returned 16% in the 2nd quarter of 2009. Mr. Vandolder stated the portfolio has recovered very well relative to the issues it faced in the latter stages of 2008. Ms. Martinez noted total fund performance for the fiscal year was -19.2%, trailing the policy portfolio by 40 basis points (.40%).

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Staff commented that the performance for the second quarter was the third best quarter for a 60:40 portfolio since 1988.

Ms. Martinez stated the main driver of performance in June, and during the second quarter, was the fixed income portfolio. Total fixed income returns were 2.3% in June and 15% for the second quarter. Positive performance in fixed income was mostly attributable to narrowing spreads, Western's high yield exposure, Reams' security selection in investment grade corporate names and Loomis' high yield exposure and securities selection in the corporate sector. Ms. Martinez commented on VCERA's global equity returns noting they were down 60 basis points (.60%), with GMO posting positive returns in June that were offset by Acadian's continued underperformance. International equity returns were down 1.3% in June trailing the benchmark by 20 basis points (.20%). Artio's performance was the main detractor in international equity performance. Capital Guardian also underperformed due to security selection within the financial sector; however, Sprucegrove provided downside protection in June. According to Ms. Martinez, U.S. equity, unlike other equity components of the portfolio, provided positive returns for June and matched the performance benchmark return of 40 basis points (.40%).

3. Memorandum - Active Currency Management Search Update – K2 Advisors Fund of Fund Offering.

Mr. Vandolder summarized EnnisKnupp's memorandum that offered an additional currency manager for the Board's consideration. The memorandum described, according to Mr. Vandolder, how a currency overlay program could be initiated by using a fund of funds platform such as the one offered by K2 Advisors. Mr. Vandolder noted that the K2 Advisors' strategy included allocations to both First Quadrant and State Street Advisors, both of whom were presenters in the original search for a currency manager. Mr. Vandolder offered his opinion, based upon his observations from the June 3, 2009 meeting, that there was little to no enthusiasm among the trustees for any of the managers that presented at the board retreat and recommended that no further discussion on the subject be held.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Wilson commented on his disappointment with the presentations made by First Quadrant, State Street and BGI at the Board retreat and stated the presentations took a strong investment concept and made it terribly complicated. Mr. Wilson expressed his initial surprise at the memorandum regarding K2 Advisors given the lack of enthusiasm garnered by the previous presentations and his current understanding that perhaps choosing a fund of funds with K2 is a way to initially participate in currency management with a much lower risk. Mr. Wilson suggested possibly inviting K2 to present to the Board rather than allowing the currency manager search to expire.

Mr. Matheney stated his confidence in the existence of an opportunity to use the currency market's inherent inefficiencies to the benefit of the plan. In sum, Mr. Matheney was interested in the fund to funds concept.

Staff commented that it would be appropriate to move forward with considering other options once there was closure to the current search process. Staff recommended that the currency manager discussion be deferred until September in order for the Board to hold discussions regarding VCERA's overall asset allocation, to consider the funding source for a currency mandate should the Board decide to move forward and whether any of the three firms that presented in June should be retained.

Mr. Wilson moved, seconded by Mr. Matheney, to defer a decision on currency management until September.

Mr. Goulet commented that he expected to see a higher manager rating for K2 from EnnisKnupp. Mr. Goulet also commented that the research paper on K2 was confusing as it referenced a different time period than the memorandum.

Mr. Vandolder responded that K2's rating of 15 is a really good score and a rating of 17 is considered fantastic. Mr. Vandolder noted fund to funds managers who are capable normally receive ratings in the 12 to 15 range out of a possible 20 and also noted that K2 was not included in the original search as the currency platform at K2 was created in early 2009 with the acquisition of ABN Amro currency team.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

Mr. Hansen received clarification that the motion was not to bring in additional currency managers for the September meeting, but rather to review VCERA's asset allocation and determine if there is a need for a currency manager.

Motion passed.

4. Memorandum - June 4, 2009 Wall Street Journal Article on Prudential PRISA.

Ms. Martinez briefly summarized the memorandum and subject Wall Street Journal article regarding Prudential's 11 Times Square development project which lost 27% in value during the fourth quarter of 2008 and the first quarter of 2009. Ms. Martinez noted that although the project represented only 5% of PRISA's total asset value, there were concerns with the fund's 2009 capital needs and the increase in the use of leverage. EnnisKnupp continues to closely monitor the Times Square project and will provide updates to VCERA as more information becomes available. No immediate action was recommended.

Mr. Goulet noted inconsistencies between the PRISA memorandum and the Redemption Queue memorandum on the levels and withdrawal queue dates for PRISA. Mr. Vandolder responded that real estate managers often report on redemption queue levels for all real estate products rather than specific funds and often report on a delayed basis.

5. Memorandum - Open-End Core Real Estate Funds – Redemption Queue Update.

Mr. Vandolder briefly reviewed the redemption queue status for funds including Prudential PRISA and UBS Trumbull Property Fund.

6. Memorandum - Capital Group Layoffs.

Mr. Vandolder discussed the sizeable level of layoffs in Capital Guardian's organization of approximately 1,400 positions, or approximately 15% of the organization. The layoffs were mainly focused on administration and IT areas within Capital Guardian, according to Mr. Vandolder.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

7. Investment Policy Manual Reflecting Proposed Changes.

Mr. Vandolder stated a review of the Investment Policy was conducted every 18 months with a focus on individual manager guidelines as well as attributes at the total fund level. Mr. Vandolder provided a snapshot of the policy manual as of June 30, 2009, that included suggested changes from EnnisKnupp along with the necessary additions/deletions of managers who have been hired/terminated since the last review. Mr. Vandolder noted several other net changes which included: Page 1.3 – long-term expected rate of return is anticipated to produce a real rate of return of 4%; Page 1.6 – changes in VCERA's performance benchmark in order to reflect changes in management structure; Page 1.11 – securities lending language detailing intrinsic income generated within the program; Page 1.12 – elimination of commission recapture language; and Page 1.19 – conclusion reflecting on policy portfolio that the Board has approved to date in VCERA's total fund (appendix A).

Mr. Goulet questioned the distinction between Real Estate and Total Real Estate in the table on page 1.19. Mr. Vandolder noted no difference and commented that the Total Real Estate line item would be removed from the table to avoid confusion.

Mr. Goulet expressed concern with tabs 5 and 7 for Artio and Acadian, noting there was no mention of compliance with VCERA's investment policies, the CFA Code of ethics or reporting requirements. Mr. Goulet offered a correction to the last line of paragraph 5 on page 11.1; the date of 03/31/09 regarding fund leverage ratios should be noted by the color red. Mr. Goulet also requested a glossary of terms and abbreviations be added to the document.

Mr. Harris moved, seconded by Mr. Matheney, to receive and file items V.C. 1, 2, and 4 - 7.

Motion passed.

8. Actuarial Assumption Comparison - July 2009.

Mr. Vandolder discussed the comparison of public fund actuarial assumptions and shared that VCERA fell right in the middle of its peer

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

group with an actuarial earnings assumption rate of 8%. Mr. Vandolder noted a continued movement of public funds moving to a 7.75% earnings assumption rate.

Mr. Wilson noticed the distinction between the real rate of return for investment purposes and the real rate of return on an actuarial basis.

9. K2 Advisors – FX Multi-Manager Strategy Investment Profile.

Mr. Goulet moved, seconded by Mr. Harris, to receive and file items V.C. 8 and 9.

Motion passed.

VI. OLD BUSINESS

A. Final Approval of Response to Grand Jury Report.

Staff recommended changes to the Grand Jury response including adding "and the swing in investment returns from very favorable levels to the recent negative markets" at the end of the first bullet of paragraph 3 of the response letter, clarification in paragraph 3 of the response to finding F-12, that the amount of excess earnings transferred saved approximately $75 million; however, the amount transferred was less as the transfer eliminated a future amortization payment schedule, changing, in paragraph 1 of the response to finding F-15, "avoid a potential lawsuit" to "reduce legal liability risk", and changing the required response to R-05 to read "The VCERA is prevented, under its fiduciary duty obligations to all members and beneficiaries, from pursuing legislation to change the plan in a manner that has potentially adverse impact on some or all of those plan participants for the purpose of benefitting the plan sponsor. The co-sponsorship of the legislation designed to change the "excess earnings" provisions of the '37 Act has the potential to be considered by certain plan participants as solely favoring the plan sponsor (County of Ventura) and creating potential legal liability. The VCERA suggests that the County of Ventura would be better served in pursuing the legislation on its own or with other organizations such as CSAC (California State Association of Counties)."

VI. OLD BUSINESS

A. Final Approval of Response to Grand Jury Report. (continued)

Mr. Goulet noted that the Presiding Judge recently changed from Colleen Toy White to Kevin J. McGee.

Mr. Goulet moved, seconded by Mr. Harris, to approve Grand Jury response inclusive of the proposed changes from Staff.

Motion passed.

B. Update on Conference – Investment Trends Summit, September 23-25, 2009, Santa Barbara.

Mr. Wilson moved, seconded by Mr. Harris, to receive and file Staff's letter regarding the Investment Trends Summit.

Motion passed.

VII. NEW BUSINESS

A. Analysis of Actuarial Experience During the Period of July 1, 2005 through June 30, 2008, The Segal Company, Paul Angelo and John Monroe.

B. Review of Economic Actuarial Assumption of June 30, 2009 Actuarial Valuation.

C. Economic Assumptions and Demographic Experience Analysis PowerPoint.

Paul Angelo and John Monroe were present from The Segal Company (Segal) to review the Demographic Experience Analysis and the Economic Actuarial Assumptions.

Mr. Angelo provided a summary of Segal's recommendation for the economic assumptions including a reduction from 3.75% to 3.50% for price inflation, a reduction from 8.0% to 7.75% for nominal investment returns and, for salary increases, an offsetting real inflation or "real across the board", increase from .50% to .75%, meaning the average payroll growth rate would remain unchanged at 4.25%. The payroll growth rate serves a dual purpose, according to Mr. Angelo, in that the rate is included as part of member individual salary growth rates and in the amortization of the unfunded accrued liability.

VII. **NEW BUSINESS (continued)**

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

In a response to a question from Mr. Foy, Mr. Angelo detailed the individual components of the salary assumption rate. Mr. Wilson questioned the change in the "real across the board" component.

Mr. Angelo discussed how Segal arrived at the recommended inflation assumption rate of 3.5%. Historically, inflation has averaged from 3.6% to 4.3% and there was no one correct methodology in determining an appropriate inflation assumption.

Mr. Angelo then reviewed how Segal arrived at the recommended investment earnings assumption rate of 7.75% using a "building block" approach based upon market (beta) returns. Mr. Angelo also noted that if the Board chose to adopt a rate relatively close to Segal's recommended rate, then VCERA would still be in compliance with the Actuarial Standard of Practice #27 (ASOP). Mr. Angelo stated Segal follows the ASOP by reviewing areas such as current yields on fixed income securities, forecasts of inflation and total returns by asset class, and historical data, but in accordance with the ASOP, Segal does not give undue weight to recent experience. Mr. Angelo noted that Segal looks at plan asset allocations and market stability in determining the timing of recommended changes in assumption rates. As part of the process, Segal surveyed 8 to 9 investment consultants that provided investment advice to '37 Act retirement systems regarding their real return expectations and then Segal factored in the weighting of VCERA's current asset allocation in order to determine an overall real rate of return. Information provided this year resulted in a weighted real rate of return of 5.77%, a 30 basis point (.30%) increase over the average real rate of return from two years ago (5.47%).

Mr. Angelo commented that most of the surveyed information was obtained after the market downturn and Segal questioned whether it was appropriate, given the current unsettled state of the capital markets, to utilize the higher real rates of return from the surveyed consultants in determining the earnings assumption rate. Given the unsettled state of the capital markets, Segal believed, as a firm, that it was more realistic to use the real rates of return obtained in 2007 to project returns over the upcoming 30 year period. In sum, Segal questioned whether the timing was right in taking the more aggressive approach for real returns going forward.

VII. **NEW BUSINESS (continued)**

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Mr. Wilson questioned if Segal was violating the statement in ASOP 27 regarding giving undue weight to recent experience, to which Mr. Angelo responded that he would agree with Mr. Wilson's question if the recommendation from Segal was to lower the real rate of return. Mr. Angelo stated that Segal's view was more agnostic based upon a lack of clear information in the marketplace.

Mr. Matheney commented that the assumption from Segal chose to ignore the information gathered from the surveyed investment community. Mr. Angelo confirmed that the current data was given low credibility.

Mr. Angelo noted VCERA's administrative and investment expenses have been stable over the period at 40 basis points (.40%) and stated that the current recommendation was based on all of the earnings assumption components being the same as in 2007. The sole exception was the lowering of the inflation assumption by 25 basis points (.25%) and with no other component changes resulted in lowering the model return by the same 25 basis points (.25%). The alternative to adopting the lower inflation assumption rate would be to take no action and leave the inflation and volatility assumptions where they currently stand or lower the inflation rate to 3.5% and stay at the nominal return at 8%.

Mr. Towner questioned what affect lowering the risk adjustment would have on the confidence level. Mr. Angelo responded that the confidence level showed how results were spread around the average, and if one believed the average return would be 5.75% above inflation then the confidence level would stay the same.

Mr. Angelo explained that the model is an attempt to help answer the questions that can't be answered. When the investment consultant was projecting lower returns than the figure being used by Segal, Mr. Angelo opined that was a good time for the Board to step outside the model and compare the 8.0% versus the 7.75% investment return levels. Over the past twenty years, the cluster around the average has shifted from a range between 8.0% and 8.25% to a range between 7.75% and 8.0% with more aggressive pension plans remaining at the 8.0% level and the more conservative plans moving to 7.75%.

VII. **NEW BUSINESS (continued)**

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Mr. Angelo stated Segal was well aware of the financial impact of the Board's decision and the potential increase in employer contribution rates by 2% of payroll, or approximately $12 million annually. However, the decision to change the earnings assumption rate to 7.75% would, according to Mr. Angelo, increase the confidence in achieving the plan's earnings assumption rate and thereby increase the confidence that future plan costs would not be increasing. Mr. Angelo stated that there was some "front loading" of the 2008/2009 market losses due to the lowering of the earnings assumption rate. Mr. Angelo commented, in a response to a question from Mr. Goulet, that CalPERS and LACERA use a 7.75% assumed investment return rate.

Mr. Wilson stated he didn't see a big difference between the two alternatives presented and questioned the impact due to changes in the real rates of return. Mr. Angelo clarified that a key factor is not necessarily the real return, but it is the real return above expected salary increases. Mr. Angelo stated the basis of Segal's recommendation was to narrow the spread between investments and wages by lowering investments by 25 basis points (.25%) but not lowering wages by the same amount.

Mr. Angelo discussed the three components of the salary increase assumption – price inflation, increases in the national average wage, and individuals advancing in their careers. Mr. Angelo stated there was an index for state and local government workers employment costs, developed by the Department of Labor that indicated the real across the board increases during the past 20 years averaged between .70% and 1%. Segal's recommendation of an increase of .75% was consistent with the national average. Mr. Angelo further noted pay increases for the County of Ventura over the past three years averaged 4.56% for general members and 5.43% for safety members, both of which were above the 4.25% level and was a key factor in recommending the increase of 75 basis points (.75%) in the real across the board component of the salary assumption rate.

Mr. Angelo summarized Segal's recommendations to reduce the assumption rate for inflation (investment and salary) from 3.75% to 3.50%, to increase real salary rates from .50% to .75%, leaving the overall salary assumption rate at 5.0%.

VII. NEW BUSINESS (continued)

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

In response to a question from Mr. Foy, Mr. Angelo stated that a gain would be created in a year when salary increases are lower and, without changing the assumption rate, would lower costs in the following year. However, the salary assumption rate wouldn't change automatically, unless the next 3-year experience analysis deemed it prudent to make the change.

Mr. Foy questioned and Mr. Angelo confirmed that, with the trend towards decreasing salaries and the government revenues shrinking at a dramatic rate, Segal expected to continue to use the current salary increases to determine contribution rates for the next three years. Mr. Angelo explained that Segal's normal practice was to split the difference between what has happened over the past three years and what the current assumption rate was in order to take a long term view without giving too much weight to recent history.

Mr. Angelo reviewed the demographic assumptions noting later retirement ages for both general and safety members, longer life expectancy for both service & disabled retirees, slightly lower withdrawal rates for general members, slightly higher withdrawal rates for safety members, a slight decrease in disability retirements for both general and safety members, an increase in General Tier 1 "in-service" redemptions, decrease in General Tier 2 "in-service" redemptions, no change in Safety members "in-service" redemptions and no change in entry ages for general and safety members, respectively.

Mr. Angelo discussed the mortality rate assumption and noted that people were living longer thereby requiring the use of a longer life expectancy table. Mr. Angelo noted that extending the life expectancy for plan members resulted in higher plan costs. Mr. Angelo stated the recommended mortality assumption table change resulted in a recommended ratio of assumed deaths to actual deaths of 102% versus the current ratio of 92%. The industry standard was to have an expected mortality to actual mortality ratio of 110%. The new mortality assumption translated into an increase in employer costs of approximately 1% of payroll.

In summary, Mr. Angelo stated that all the recommended assumptions changes, when taken together, would increase the employer's costs by approximately 2.6% of payroll.

VII. NEW BUSINESS (continued)

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Marty Robinson, County Executive Officer, was present to address the Board and conveyed the County's recommendation that the assumed earnings rate be kept at 8%. Ms. Robinson stated the reasons for the County's recommendation was the County's preference to calculate its pension costs based on actual results, rather than "front loading" costs to the system. Ms. Robinson further stated that the County was forecasting a $20 million increase in pension costs in 2010 -2011 based on the losses suffered by the retirement system's portfolio this past year. That increase in County costs would result in cutting payroll costs through reductions in work force and/or salaries. Ms. Robinson noted a change in the actuarial assumption rate, as recommended by The Segal Company, would result in an additional $15 million increase in County costs for FY 2010-2011. Such an increase in County costs would result in service level reductions. Ms. Robinson stated the County recommended the Board give greater weight to the real rates of return determined by the investment consultant community of 5.77% and less weight to the results as determined by Segal. Ms. Robinson further stated that the County's expectations over the next three years included that employees will postpone retirement, salary increases would be minimal to negative and emphasized that the County believed the real rates of return as determined by the investment consultant community were the better gauge. Further, Ms. Robinson opined that greater weight should be given to active management returns if a majority of VCERA's portfolio was invested in that manner.

Steve Bennett, County Supervisor, was present to discuss the earnings assumption rate. Mr. Bennett reiterated Mr. Angelo's statement that the goal of getting the assumption rates right was for plan costs to remain stable. Mr. Bennett acknowledged his respect for Mr. Angelo and for Segal's model, but expressed concern that the Board of Retirement was being asked to follow that model in all but one aspect of the process, the determination of the earnings assumption rate. Mr. Bennett noted how The Segal Company used the investment advisor's information two years ago and recommended the Board of Retirement utilize the current information provided by the investment consultant community in setting the current earnings assumption rate. Mr. Bennett discussed the risk factor in the model and commented that using a more conservative investment assumption than the one recommended by the investment advisors lessens risk and the Board should take that into consideration. Mr. Bennett commented that if the

VII. **NEW BUSINESS (continued)**

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Board follows the recommendation of Mr. Angelo in breaking from the model in one area, then the rest of the model should be open to "common sense analysis", such as changing the salary model going forward. Mr. Bennett noted his full support of not underfunding the system and his belief that the way to ensure the system was the healthiest was to remember the pension benefits are not paid by "assumed interest", but by the taxpayers and the money paid by the County.

Mr. Hansen commented that, after hearing the information presented by Mr. Angelo and the County's recommendations, he felt the assumption rate should remain at 8%.

Mr. Foy agreed with Mr. Hansen and noted stability was a key factor for the plan sponsor. The additional $15-17 million in County costs, if a lower earnings assumption rate was to be approved, would translate into approximately 400-500 workers being laid off thereby lowering the level of service taxpayers receive. All of this would take place, according to Mr. Foy, based upon an assumption of what may happen in the marketplace, rather than on what actually occurs. Mr. Foy recommended taking a longer perspective in an effort to see what occurs over the next couple of years and then reexamine the earnings assumption rate at that point, especially since the current 8% earnings assumption is within the industry norm.

Mr. Hansen moved, seconded by Mr. Foy, to keep the assumption rate at 8%.

Ms Becker requested Mr. Vandolder's view on the subject.

Mr. Vandolder commented that expected rates of return have picked up modestly in terms of capital market assumptions on equities and a widening spread between fixed income returns and equity returns. Mr. Vandolder noted that from information given to the Board in January stated EnnisKnupp's confidence was 50% that VCERA's portfolio would earn between 5.2% and 9.1% over the next fifteen years.

In response to a question from Mr. Towner, Mr. Vandolder stated that in order to increase the potential for alpha sources that is consistent on a go-forward basis, a greater degree of aggressiveness would permit a higher degree of probability of achieving an 8% rate of return.

VII. **NEW BUSINESS (continued)**

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Mr. Wilson agreed with the motion to keep the assumption at 8% and felt it was logical to accept the investment consultant's advice in order to be consistent.

Mr. Johnston commented that the earnings assumption rate should have been set and kept at 7% long ago. During his tenure on the Board, the County has requested the assumption rate be kept at a higher level each time it has been discussed, thereby making it more difficult for the County to accept a lower earnings assumption rate. Mr. Johnston also commented on a previous statement that the Board should push potential losses into the UAAL and accept paying the liability over time, thereby pushing the pension costs to future generations. Mr. Johnston questioned at what point does the current generation of decision makers say "stop" and begin making decisions to ensure the safety of the pension fund in the future. Mr. Johnston noted the economy has been in a secular bear market over the past seven years and that following the County's current recommendations to keep the assumption rate at 8% would continue in all likelihood to increase the County's costs in future years. Mr. Johnston recommended, on behalf of VCERA, the assumption rate be set at 7% and be left there for a long time.

Mr. Henderson commented that he would support the motion, against his personal conviction that it would be a sounder policy to change the earnings assumption rate.

Mr. Goulet received clarification from Mr. Angelo on how the UAAL was affected by changes in the earnings assumption rate and from Mr. Vandolder on the difference between arithmetic rates of return and geometric rates of return.

Mr. Vandolder stated two main factors in the different opinions from the actuary and the investment consultant are time horizon and the level of inflation. Mr. Vandolder, in a response to a comment from Mr. Wilson, noted that the investment world looks at CPI, while actuaries view wage inflation.

Mr. Towner requested clarification on VCERA's historical 15-year return level.

VII. <u>NEW BUSINESS</u> (continued)

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Mr. Harris commented that 70% of all public funds used the 8% rate, with only 1% of funds using a 7% earnings assumption rate. Mr. Harris further commented that staying at the 8% rate was probably the best bet at this time in order to stabilize the County's contributions.

Mr. Foy received clarification that using the 7.75% rate would result in a .5% increase in the employee contribution rate, which translated into an increase in County costs due to employer negotiated "pick-ups" of employee contributions.

Mr. Towner requested clarification on the potential increase in the portfolio's volatility associated with the introduction of less liquid asset classes such as private equity.

Mr. Hoag opined that the Board needed to continue studying alternative asset classes.

Motion passed. Mr. Henderson, Mr. Goulet, Mr. Matheney, Mr. Wilson, Mr. Foy, Mr. Hansen and Mr. Harris for the motion. Ms. Becker and Mr. Towner against the motion.

Mr. Goulet moved, seconded by Mr. Henderson, to reexamine the assumption rate in one year, notwithstanding the Board's current policy.

Mr. Hansen stated he would prefer to wait two years before reexamining the assumption rate to give time for the economic chaos to settle down.

Mr. Bennett commented that the Board shouldn't mix and match models and the real rate of returns as detailed in EnnisKnupp's analysis.

Mr. Bennett noted that when investments were performing well in the past, the County did not request that the earnings assumption rate be changed to support the County's financial position. Mr. Bennett reemphasized his request for the Board of Retirement to remain consistent in applying the assumed rates of return, use of the model, inflation rates, etc.

VII. NEW BUSINESS (continued)

C. Economic Assumptions and Demographic Experience Analysis PowerPoint. (continued)

Mr. Goulet emphasized he did not vote to keep the assumption rate at 8% because the County is in difficult financial times, but rather because he feels the 8% is a reasonable rate, and noted that adjusting the rate of return based on the County's current economic situation would be a failure of the Board's fiduciary responsibility to the trust.

Motion failed. Mr. Goulet and Mr. Henderson for the motion.

Mr. Goulet moved, seconded by Mr. Hansen, to approve balance of recommendations from The Segal Company as detailed in the demographic and economic studies.

Motion passed.

D. Letter From Staff Regarding Waiver of Recourse.

Staff informed the Board that its fiduciary liability insurance for the upcoming year had been renewed and requested the trustees pay the nominal fee to maximize the effectiveness of the fiduciary liability coverage and extend coverage to the individual trustee.

E. Administrator's Quarterly Travel Report.

Mr. Goulet moved, seconded by Mr. Wilson, to receive and file New Business items VII.D. and VII.E.

Motion passed.

F. Recognition of Albert Harris' Forty Years of Service to the Board of Retirement.

Mr. Towner presented Mr. Harris with an award commemorating his 40 years of service to the VCERA Board of Retirement.

VII. NEW BUSINESS (continued)

G. 19th Annual Northern California Retirement Seminar, August 6, 2009, Sacramento.

Mr. Wilson moved, seconded by Mr. Henderson, to approve Mr. Goulet's attendance and related travel expenses to the CalPERS seminar.

Motion passed.

VIII. INFORMATIONAL

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

C. HR1413 – Healthcare Enhancement for Local Public Servants Act of 2009.

IX. PUBLIC COMMENT

None.

X. BOARD MEMBER COMMENT

None.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 1:00 p.m. upon the motion of Mr. Foy, seconded by Mr. Henderson.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman