VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

SEPTEMBER 21, 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 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 September 21, 2009 to order at 9:00 a.m.

II. APPROVAL OF AGENDA

Mr. Towner suggested Item VIII, Public Comment, be moved to after consideration of Item IV, Consent Agenda.

Mr. Harris moved, seconded by Mr. Wilson, to approve the agenda with the recommended change.

Motion passed.

III. APPROVAL OF MINUTES

A. Disability Meeting of September 14, 2009.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of September 14, 2009.

Motion passed. Ms. Becker abstained

IV. CONSENT AGENDA

A. Regular and Deferred Retirements and Survivors Continuances for the Months of July and August 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 June 30, 2009.

C. Report of Checks Disbursed in July and August 2009.

D. 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 August 31, 2009.

E. Quarterly Real Estate Reports for Period Ending June 30, 2009.

1. UBS
2. Prudential
3. RREEF
4. Guggenheim

IV. CONSENT AGENDA (continued)

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

Motion passed.

V. INVESTMENT INFORMATION

A. Loomis Sayles & Company Annual Investment Presentation, Stephanie S. Lord, CFA, CIC, Vice President.

Stephanie Lord was present from Loomis Sayles & Company (Loomis) to provide organizational and performance updates for the Loomis fixed income portfolio.

Ms. Lord began her presentation by noting the contrast in investment performance between 2008 and 2009 for different types of fixed income investments. For example, U.S. Treasuries returned 13.7% in 2008 and were down 3.0% in 2009, while High Yield securities lost 43.5% in 2008 and were up 63.3% in 2009. Ms. Lord emphasized the strong recovery year-to-date in many areas of the fixed income market.

In a response to a question from Mr. Vandolder on Treasury Inflation Protection Securities (TIPS), Ms. Lord noted that the various federal government stimulus packages were in isolation inflationary, but Loomis Sayles did not see inflation as an imminent threat given the current existence of excess capacity in the economy. Ms. Lord further noted that one would not typically see a large allocation to government securities in the Loomis portfolio.

In terms of performance, Ms. Lord stated that through Friday, September 18th, the Loomis portfolio was up 30.38% versus 15.2% for the hybrid benchmark for 2009, thereby capturing a significant amount of the underperformance that occurred in 2008. Ms. Lord reminded the Board that Loomis' benchmark was comprised of 65% Barclays Aggregate Index, 35% Citigroup High Yield Index and 5% JP Morgan Ex-US $ Hedged Index. High yield and investment grade credits were the best performing sectors of the portfolio with 2009 returns of 49.99% and 24.92%, respectively.

Ms. Lord noted that going forward Loomis would be emphasizing the non-dollar and high yield sectors of the portfolio and would be reducing exposure to the areas within the portfolio that had experienced significant price appreciation.

V. INVESTMENT INFORMATION (continued)

A. Loomis Sayles & Company Annual Investment Presentation. (continued)

In response to a question from Mr. Towner regarding the portfolio's duration, Ms. Lord noted that the securities in the portfolio are not highly correlated with interest rate changes and thus the portfolio does not behave like a typical fixed income portfolio with seven-year duration. Ms. Lord emphasized that Loomis typically has a longer duration than the market due to their emphasis on longer-term securities/maturities.

B. Reams Asset Management Annual Investment Presentation, Thomas Fink, CFA.

Thomas Fink, CFA, was present from Reams Asset Management (Reams) to discuss the organization, performance and market outlook.

Mr. Fink reported that there had been no organization changes at Reams in the last year. Mr. Fink noted that 2009 had been, to date, a complete reversal of 2008. Mr. Fink stated that year-to-date performance was 28.7% with the index returning 4.6%. Mr. Fink reported that portfolio returns exceed 15% over the past 4 months.

Mr. Fink emphasized that one needed to examine the portfolio over the latest economic cycle and noted that Reams has outperformed the market (8.12% annualized v. 6.35% annualized) over the past three years. Mr. Fink characterized the 2005/2006 fixed income markets as "boring" since investors were not compensated for taking risk.

In terms of performance, Mr. Fink attributed the out-performance to spread tightening across all sectors. Superior returns in the corporate credit sector were the primary source of Reams' outperformance.

Currently, the portfolio maintains an overweight to investment grade credit names and a corresponding underweight to agency-backed mortgages. The portfolio is also currently invested 40% in Treasuries as Reams has been harvesting its gains and transitioning the portfolio for the next fixed income cycle.

In terms of inflation, Mr. Fink noted that there were not currently any Treasury Inflation Protected Securities (TIPS) in the portfolio, but noted the TIPS market appeared moderately attractive. Mr. Fink also opined that

V. **INVESTMENT INFORMATION (continued)**

B. Reams Asset Management Annual Investment Presentation. (continued)

Reams did not anticipate "CPI Inflation", but expected to see inflation within the commodities market. Mr. Fink stated that since wages were not expected to rise, Reams was not expecting "CPI Inflation".

In response to a question from Mr. Hansen, Mr. Fink stated that Reams did not expect the Federal Reserve to increase interest rates anytime soon, but noted that one may see strong GDP numbers in an upcoming quarter due to the inventory cycle. Mr. Fink emphasized that the increase in GDP would be a temporary one.

Mr. Vandolder noted the absence of non-dollar investments within the portfolio and Mr. Fink stated that Reams was currently finding more compelling investment opportunities in other areas of the market.

C. EnnisKnupp & Associates, Kevin Vandolder, CFA.

1. Monthly Investment Performance Update, August 2009.

2. Monthly Manager Updates/Summary, August 2009.

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

Kevin Vandolder was present from EnnisKnupp & Associates.

Mr. Vandolder noted the significant growth in VCERA's portfolio since March with assets totaling $2.6 billion at the end of August. In terms of performance, Mr. Vandolder identified the superior performance of Western's Index Plus portfolio with year-to-date returns exceeding 38%. In terms of international equity, Sprucegrove underperformed slightly due to its emerging market holdings. Capital Guardian and Artio underperformed as well. Capital Guardian's performance has shown some benefit over

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

intermediate periods and Artio underperformed due to an underweight in financial names, according to Mr. Vandolder. VCERA's global equity managers underperformed in August with Acadian's quantitative process struggling to identify outperforming companies in the current market environment. GMO underperformed during the period as the quality names within the portfolio were not rewarded. VCERA's fixed income managers continued outperforming the market in August. VCERA's year-to-date returns in fixed income were 20.8%, according to Mr. Vandolder.

3. Capital Markets Modeling Assumptions Paper.

Mr. Vandolder stated that the Capital Markets Modeling Assumption Paper formed the foundation for the scenario analysis on page 12 of the Asset Allocation and Defined Benefit Plan Structure Review (Item 5). In summary, the assumptions were derived by analyzing economic growth, inflation and changes in valuation levels, according to Mr. Vandolder.

Mr. Wilson moved, seconded by Mr. Harris to receive and file items 1 – 3 of the EnnisKnupp material.

Motion passed.

4. Capital Markets Assumptions PowerPoint.

5. Asset Allocation and Defined Benefit Plan Structure Review.

Mr. Vandolder recommended, in summary, that VCERA increase the global equity allocation from 7% to 10%, develop an opportunistic allocation with up to 5% invested in private equity, continue evaluating currency and infrastructure investment opportunities and seek preference for the Universal Asset Allocation model approach. Additionally, Mr. Vandolder recommended adopting new policy benchmarks for the international equity and global equity portfolios.

Mr. Vandolder discussed VCERA's policy allocation versus peers and noted VCERA's lack of investment in alternative investment opportunities such as private equity within the investment program.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

In a response to a question from Mr. Towner, Mr. Vandolder stated the expected beta returns of VCERA's portfolio with an allocation to currency would be approximately 7.2% on a geometric basis and 7.9% arithmetically.

Several trustees engaged in conversation on a variety of subjects including VCERA's investment returns versus peers as detailed in the R.V. Kuhns study, the impact of an alternative investment program on staff resources and how VCERA's current investment management fee structure may be impacted by an increase in alternative investments.

Mr. Wilson commented on how CalPERS recently increased its private equity allocation and added a new cash allocation in order to address future demands for liquidity.

Mr. Towner questioned the impact to the overall risk budget of adding a private equity allocation to VCERA's portfolio in order to be more like other public pension plans.

Mr. Vandolder noted that one could examine the risk of adding private equity in two ways. First, on a qualitative basis by noting that a significant number of pension plans and endowments invest in private equity. Second, in that quantitative measures, such as the Sharpe Ratio, illustrate an improvement in portfolio efficiency by investing in private equity.

Mr. Vandolder reviewed VCERA's current allocation and compared the expected results of the current program to the eight alternative scenarios presented. In summary, EnnisKnupp was recommending VCERA adopt Scenario A, thereby increasing the allocation to global equity and creating a 5% allocation to private equity. Alternatively, Mr. Vandolder noted the Board could adopt Scenario B if there was continued trustee interest in adding a 1% currency allocation. Finally, Mr. Vandolder discussed the characteristics of "Universal Asset Allocation" portfolios as described by scenarios G & H.

Mr. Goulet requested and received clarification on the changes in risk levels as detailed in the scenario analysis.

Mr. Towner questioned whether EnnisKnupp was comfortable with VCERA's current asset allocation.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

Mr. Vandolder noted EnnisKnupp's comfort with how VCERA's assets were currently deployed, but wanted the Board to be aware of the tremendous opportunities that currently existed in private equity markets.

Mr. Towner noted that each of the scenarios increased the volatility of VCERA's portfolio, thereby adding more risk to the plan sponsor, to active employees and potentially creating additional budgetary problems.

Mr. Wilson opined that every investment step made other than U.S. Treasuries increased the risk profile of VCERA's portfolio.

Mr. Hansen noted the long-term conservative nature of VCERA's investment program and opined that a private equity investment was a "big step" for the organization.

Mr. Goulet warned that at some point VCERA would reach its limit in terms of risk tolerance.

Ms. Becker noted how the Board was divided in terms of private equity and further noted how there wasn't a scenario that illustrated the quantitative changes of increasing only the global equity allocation.

Mr. Vandolder noted that such a scenario would not make a material difference relative to the scenarios presented on page 12.

Mr. Towner opined that all parties to the retirement plan cannot afford additional risk and stated he was not opposed to adding private equity, but only opposed to increasing the portfolio's risk.

Mr. Vandolder reminded the Board of the benefits derived from investing in private equity and the qualities of the Universal Asset Allocation model.

Mr. Harris questioned the length of time required to fully allocate assets to private equity and offered his support in favor of scenario A.

Mr. Hoag noted VCERA's performance relative to peers as exhibited in the R.V. Kuhns report and opined that VCERA could improve its investment performance versus peers by adding new asset classes.

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

Mr. Matheney noted that consistency in returns was important relative to peers and opined that VCERA could achieve superior returns if other measures were in place to address the illiquidity and cost of private equity.

Mr. Johnston expressed concern regarding the illiquidity of private equity, but supported the notion of investing in private equity and infrastructure.

Staff offered its view on private equity, currency and infrastructure.

Ms. Becker questioned why the Board would consider the Universal Asset Allocation model in the future when returns are expected to be lower under those scenarios.

Mr. Vandolder noted that the Universal Asset Allocation provided the Board with access to private equity without increasing the current risk profile of the portfolio.

Mr. Goulet moved, seconded by Mr. Wilson, to adopt scenario B to increase global equity to 10%, add a 5% allocation to private equity and 1% to currency with a corresponding reduction in the domestic equity allocation.

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.

Consultant and staff were directed to continue evaluating currency managers and to return with a recommended manager to be interviewed by the Board.

6. Second Quarter 2009 Performance Report.

Mr. Vandolder noted the Board's previous review of much of the information contained in the report.

7. Memorandum – RREEF America III.

Mr. Vandolder noted the offer made by Stockbridge to purchase assets from the portfolio and further observed that many of Stockbridge's principals were former employees of RREEF.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

8. Memorandum –Update on Acadian's Global Equity Strategies.

Mr. Vandolder offered a brief review and noted Mr. Hansen's and Mr. Goulet's participation in an on-site due diligence visit the last week of September.

9. Memorandum –Sprucegrove Update.

Mr. Vandolder offered a summary of the site visit he and Ms. Becker conducted in July.

10. 2nd Quarter 2009 Opportunistic Strategies Review.

11. EK Advisor.

Ms. Becker moved, seconded by Mr. Wilson, to receive and file items 4 and 6-11.

Motion passed.

VI. NEW BUSINESS

A. Contribution Projections and Asset Smoothing Study, The Segal Company, Paul Angelo, FSA, EA, MAAA, FCA.

Mr. Angelo emphasized that no action was required upon the Board's review of the Contribution Projections and Asset Smoothing Study. The goal of the review was, according to Mr. Angelo, to reaffirm VCERA's current actuarial policies given the extraordinary market events of the last two years.

Mr. Angelo reminded the Board that a negative 20% asset return translated in a negative return of 28% on the actuarial value of assets. The Segal Company (Segal) wanted the Board to have available information regarding future employer contribution rates under various investment returns scenarios. For this study, Segal modeled three different scenarios where investment returns were 8%, 0% or 16% in 2009/10 with future returns matching VCERA's long-term earnings assumption of 8%.

VI. NEW BUSINESS (continued)

A. Contribution Projections and Asset Smoothing Study. (continued)

The results of the study were shown on exhibit #1 of the study and slide #19 of the PowerPoint presentation. In summary, if VCERA's investment return equals 8% in fiscal year 2009/2010, then rates increase to 18.7% next year and plateau at 33% in 2013. Rates remain at that level for approximately 4-5 years afterwards and begin falling in 2018. Rates for the 0% return and the 16% return scenarios follow a similar pattern with correspondingly higher and lower peak rates. Mr. Angelo summarized that the study illustrated that for every 8% change in investment returns there was a corresponding 3% to 4% change in contribution rates.

Mr. Goulet questioned and received clarification on why contribution rates began to trend upward after 2021 due to the changing layers of VCERA's amortization schedule. Mr. Angelo noted that a drawback of VCERA's layered amortization schedule was the presence of "tail-end" volatility upon the full recognition of the amortization layers.

Mr. Angelo emphasized that the study was literally an "if/then" analysis and should not be used as a forecast of future contribution rates.

Mr. Angelo noted that exhibits #2 and #3 illustrated VCERA's UAAL and funding percentages under the different return assumptions.

A brief review of contribution requirements was provided and Mr. Angelo noted that the greatest source of contribution volatility was a plan's asset allocation. Pension plans managed contribution volatility by using an "Actuarial Value of Assets" that "smoothes" the difference between the "actual return on the market value of assets" and the "assumed return on the market value", according to Mr. Angelo. Most plans "smooth" this difference over five year periods. Mr. Angelo further noted that plans could lower contribution volatility by limiting asset volatility, but typically at the expense of plan costs due to lower expected long term returns.

Mr. Angelo provided an illustration of the mechanics of 5-year smoothing and offered that funding methodologies affect the timing of costs, not the ultimate cost. In summary, Mr. Angelo noted that when market value returns are greater than assumed, then UAAL and contributions are larger due to smoothing. Conversely, when market value returns are less than assumed, then UAAL and contributions are smaller due to smoothing.

VI. NEW BUSINESS (continued)

A. Contribution Projections and Asset Smoothing Study. (continued)

An important ratio for the Board to recognize is the actuarial value of assets divided by the market value of assets. Mr. Angelo noted that some pension plans, but not VCERA, limit how far the actuarial value of assets can get from the market value of assets by limiting the above ratio. For example, some plans have a "20% corridor" where the actuarial value of assets must remain between 120% and 80% of the market value of assets. When the ratio is outside the established parameters, then smoothing of assets effectively stops. For example, if VCERA maintained a 20% corridor as of June 30, 2009, and the actuarial value of asset ratio was 137%, then VCERA's employer contribution rates next year would increase 5.5% from 18.7% to 24.2%.

Mr. Johnston questioned what would occur if the market value of assets exceeded the actuarial value of assets by more than the established "corridor".

Mr. Angelo responded that more of the market value of assets would be counted thereby lowering contribution rates by more than one would expect under a "typical" smoothing policy.

Mr. Angelo provided an exhibit (#4) of projected VCERA contribution rates utilizing various "corridor" levels. Utilizing a "corridor" did not change the overall level of contribution rates, but did accelerate the increase in contribution rates. Said differently, because the "smoothing" process is stopped, contribution rate increases are greater in early periods.

Mr. Angelo offered several reasons for having a corridor including market timing (more contributions in down markets), improved plan cash flows and plan sponsor solvency concerns.

Mr. Angelo described the Actuarial Standards of Practice - #44 (Standard) that focuses on two key features. First, how close does the actuarial value of assets stay relative to the market value of assets and second, how long before the actuarial value of assets returns to the market value of assets? For example, under the Standard, if one determines that a 5-year smoothing period is "sufficiently" short, then the actuarial value of assets may be relatively far from the market value of assets and no "corridor would be required.

VI. NEW BUSINESS (continued)

A. Contribution Projections and Asset Smoothing Study. (continued)

Segal concluded that 5 years is sufficiently short and its position was supported by industry opinions, according to Mr. Angelo. One basic assumption of this position is that plan sponsors have the ability to meet future contribution requirements.

Mr. Wilson requested and received clarification from Mr. Angelo on actions taken earlier this year by CalPERS in terms of utilizing various "corridors" and 15-year smoothing of asset gains/losses.

In terms of VCERA's amortization policy, Mr. Angelo recommended deferring discussion on the subject until after the current actuarial valuation is completed.

Ramon Rubalcava and Sandra Stewart were present from SEIU to address the Board on the Asset Smoothing Study.

Ms. Stewart, SEIU's Tri-County Regional Director, noted SEIU 721's willingness to work with VCERA, the County of Ventura and other labor organizations on common concerns to ensure proper funding of the plan, maintaining a healthy employer base and avoiding unnecessary funding pressures.

Mr. Rubalcava voiced SEIU's concurrence with the actuary's recommendation that there wasn't a current need for a corridor at VCERA and that a 5-year smoothing period was sufficiently short. Mr. Rubalcava did express that SEIU was concerned with increasing plan contribution rates and requested the Board of Retirement consider lengthening its amortization policy with additional study of longer smoothing periods.

Paul Derse from the County Executive Office requested that VCERA not change any of its actuarial funding policies. Mr. Derse voiced support for both 5-year smoothing and 15-year amortization, while speaking against the implementation of a corridor. Mr. Derse noted the projected $33 million increase in contributions if a "corridor" was implemented and that amount would be in addition to the anticipated $20 million increase in contributions next fiscal year. Mr. Derse requested the Board of Retirement postpone any decision of implementing a "corridor" in order to allow the County of Ventura to prepare a formal written response.

VI. NEW BUSINESS (continued)

A. Contribution Projections and Asset Smoothing Study. (continued)

Mr. Wilson requested and received clarification on the level of the County of Ventura's current payroll.

Mr. Angelo expanded his comments on the "time value of money" concept and Segal's determination that the implementation of a "corridor" did not lead to materially lower contribution rates in future years.

Mr. Henderson requested and received clarification on Mr. Rubalcava's suggestions. Mr. Goulet commented on the potential for inter-generational transfers if amortization periods were extended.

Ms. Becker moved, seconded by Mr. Wilson, to reaffirm the Board of Retirement's current actuarial funding policies.

Motion passed.

B. Public Retirement Journal Conference Report.

Staff provided a brief summary of the Public Retirement Journal conference noting CalPERS returns and allocation changes, the discussion of "fair" benefit formulas and retirement legislative efforts.

Mr. Goulet moved, seconded by Mr. Matheney, to receive and file the Public Journal Retirement Conference Report.

Motion passed.

C. Quarterly Reporting of Travel and Other Expenses.

Mr. Goulet moved, seconded by Mr. Wilson, to receive and file the quarterly travel report.

Motion passed.

D. Request to Attend CRCEA Fall Conference.

Ms. Becker moved, seconded by Mr. Harris, to approved Mr. Goulet's attendance at CRCEA's Fall Conference.

Motion passed.

VI. NEW BUSINESS (continued)

E. Copy of Staff Letter Regarding Organizational Changes dated September 14, 2009.

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

Motion passed.

Mr. Goulet requested staff provide a copy of the letter to Mr. Rubalcava from SEIU.

VII. INFORMATIONAL

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

B. GMO 2009 Fall Conference, November 4 & 5, 2009, Boston.

C. Press Release – Initial Public Offering - Artio Global Investors.

VIII. PUBLIC COMMENT

Mr. Richard White, SACRS President and elected Safety Member for the Orange County Employees' Retirement System, was present to address the Board. Mr. White thanked VCERA for its support in the last SACRS election and discussed several issues currently being addressed by SACRS. Mr. White noted SACRS' Legislative Committee was involved in addressing changes to the budgetary formula cited in Government Code section 31580.2, that SACRS offered public comments to GASB/FASB regarding potential accounting changes for public funds and was deeply involved in the IRS Tax Determination Letter process. Mr. White emphasized the importance of fiduciary education and encouraged VCERA Board Members to attend the SACRS Fall Conference and UC Investment Conference in June of 2010.

IX. BOARD MEMBER COMMENT

None.

X. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:20 p.m. upon the motion of Mr. Henderson, seconded by Mr. Goulet.

Respectfully submitted,

TIM THONIS, Administrator

Approved,

TRACY TOWNER, Chairman