

# VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## BOARD OF RETIREMENT

### BUSINESS MEETING

DECEMBER 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  
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 December 21, 2009 to order at 9:00 a.m.

**II. APPROVAL OF AGENDA**

Chairman Towner noted the Board would not be hearing Item V.A., as Ms. Calby was unable to travel from New York City because of weather conditions. Staff was directed to reschedule Guggenheim's annual investment presentation in early 2010.

Mr. Wilson moved, seconded by Mr. Harris, to approve the agenda, as amended.

Motion passed.

**III. APPROVAL OF MINUTES**

A. Disability Meeting of December 7, 2009.

Mr. Goulet requested the minutes be amended to state that the Petition for Reconsideration filed by Jose Perez was related to his application for service connected disability retirement.

Mr. Goulet moved, seconded by Mr. Harris, to approve the Minutes for the Disability Meeting of December 7, 2009, as amended.

Motion passed.

**IV. CONSENT AGENDA**

A. Regular and Deferred Retirements and Survivors Continuances for the Month of November 2009.

B. Statement of Plan Net Assets, Statement of Changes in Plan Net Assets and Summary of Investments and Cash Equivalents for the Month Ended October 31, 2009.

C. Report of Checks Disbursed in November 2009.

D. Budget Summary for the Month Ended November 30, 2009, Fiscal-Year 2009-10.

E. BlackRock Asset Management 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 November 30, 2009.

IV. **CONSENT AGENDA (continued)**

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

Motion passed.

V. **INVESTMENT INFORMATION**

- A. Guggenheim Real Estate Annual Investment Presentation, Karen McKeel Calby.

Item to be rescheduled for either January 25 or February 22, 2010.

- B. RREEF America III Real Estate Fund Annual Investment Presentation, Laura Gaylord and Jay Miller.

Laura Gaylord and Jay Miller were present from RREEF America III to discuss the fund's operations, investment returns and recent debt restructuring activity.

Ms. Gaylord noted that the last 12-18 months had been a very difficult time period for most real estate managers. In addition to the investment performance challenges over this period, the RREEF America III fund faced the challenges of a comprehensive debt restructuring that was nearly complete.

In terms of the organization, Ms. Gaylord noted that total assets under management firm wide were approximately \$65 billion, with approximately 50% of the assets invested in real estate. Over the last year, RREEF was required to layoff approximately 15% of its employees with the majority of the layoffs not impacting the operations of RREEF America III.

Ms. Gaylord identified the key drivers for economic recovery and noted that a recovery in the job market was imperative for recovery in the real estate market. At the most basic level, companies need to be adding employees in order to create demand for real estate, according to Ms. Gaylord. RREEF America III was expecting employment growth to turn positive in the second quarter of 2010.

Illustrative of the downturn in commercial real estate was the recent lack of activity in sales transactions. According to Ms. Gaylord, sales transaction in 2009 across the various market segments was approximately 10% of the 2007 sales volume. Ms. Gaylord noted that RREEF was beginning to see early signs in the market for an upcoming increase in sales volume.

V. INVESTMENT INFORMATION (continued)

B. RREEF America III Real Estate Fund Annual Investment Presentation.  
(continued)

Mr. Miller summarized the restructuring efforts made in extending the repayment terms for both the secured and unsecured debt. The overall goal, according to Mr. Miller, was to extend the near term maturities in order to improve the fund's working capital position. Mr. Miller stated that an improved working capital position provided RREEF America III with additional flexibility in terms of asset sales and allowed the fund's portfolio managers to focus on growing net operating income.

In terms of the unsecured debt, Mr. Miller described the recent increase in the debt due to Deutsche Bank's addition of \$37 million to the credit pool, the extension of the repayment terms for up 36 months, the interest costs and the expected time frame for finalizing the debt restructuring documents.

Key terms of the debt restructuring were, according to Mr. Miller, RREEF America III remaining within the established debt coverage ratios, maintaining minimum liquidity levels, distributing proceeds from asset sales with creditors and not being allowed to make shareholder distributions while there are unsecured loans outstanding.

Mr. Vandolder requested and received clarification on the cost of capital for alternative refinancing efforts RREEF had considered over the last several months.

Mr. Miller analyzed the debt repayment schedule after restructuring noting that no loans were coming due in 2009 and 2010. Mr. Miller further stated that although 41% of the fund's outstanding debt was coming due in 2012 there was an ability to extend the maturities on approximately 59% of the total debt due in that year. The liquidity profile of the fund also improved materially according to Mr. Miller.

Mr. Vandolder questioned the "useful life" of the RREEF America III fund given the circumstances that have taken place over the last 12 – 18 months.

Mr. Foy questioned and received clarification regarding the impact on supply when the current leases of unoccupied space expire and the tenants do not renew.

V. INVESTMENT INFORMATION (continued)

B. RREEF America III Real Estate Fund Annual Investment Presentation.  
(continued)

Mr. Goulet questioned the lack of interest exhibited by the Board of Directors.

Ms. Gaylord responded that the Board of Directors had been very engaged over the last 60-90 days and reminded the trustees that shareholders had the ability to vote for the directors annually. Ms. Gaylord also provided additional background on Alice Connell, who was recently added to the RREEF America III Board of Directors.

Mr. Henderson expressed concern that he was unaware of the severity of RREEF America III's financial condition and the possibility that the fund was considering bankruptcy proceedings earlier in the year.

Mr. Harris requested and received clarification on how the sales proceeds from the "Metro" property impacted the fund's cash flows.

Staff questioned Lazard's role as the fund's investment banker now that the debt restructuring was complete.

C. EnnisKnupp & Associates, Kevin Vandolder.

1. Monthly Investment Performance Update, November 2009.
2. Monthly Manager Updates/Summary, November 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 fund's asset size increased \$78 million in November to \$2.686 billion. In terms of investment performance, Mr. Vandolder described November as being "a strong month" with a total

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

return of 3.5%. In terms of individual investment manager returns, Mr. Vandolder noted the 54% return year-to-date that doubled the performance benchmark for the Western Asset Management Index Plus portfolio and the underperformance of VCERA's international equity managers during the year.

Mr. Goulet questioned the recommendation in the Capital Guardian research piece that was being considered later in the meeting (Item V 4 c). Specifically, Mr. Goulet stated he was having difficulty reconciling EnnisKnupp's advice to not recommend Capital Guardian for new investment mandates, against EnnisKnupp's advice that Capital Guardian may be retained for existing mandates.

Mr. Vandolder noted that Capital Guardian should only be removed when a better alternative manager could be identified, at a time when there would be little disruption to VCERA's overall investment program and when there was a higher probability of value being added through the hiring of a new manager. Mr. Vandolder opined that there still was an opportunity for Capital Guardian to add value and recommended the Board consider the ongoing evaluation of Capital Guardian as part of VCERA's normal governance process in 2010.

Mr. Hansen expressed his ongoing concerns with Capital Guardian's organization and performance. Mr. Hansen further added that he would be in favor of reviewing other international equity managers.

Mr. Matheney requested clarification of the phrase "portfolio disruptions" and Mr. Vandolder described those disruptions as losing the style bias provided by Capital Guardian along with the transaction costs associated with terminating a manager.

Mr. Vandolder identified the 2009 performance of Reams Asset Management as an indicator of how manager patience may pay dividends for VCERA at the total fund level.

Mr. Johnston expressed his concerns regarding Acadian Asset Management's performance.

Mr. Matheney requested staff schedule a discussion on Capital Guardian's role in the investment portfolio for the February business meeting.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Foy requested and received clarification regarding the expected costs associated with transitioning an international equity portfolio.

Mr. Wilson moved, seconded by Mr. Matheney, to receive and file items #1 and #2.

Motion Passed.

3. Private Equity Search Report and Manager Introductions – EnnisKnupp.

Mr. Vandolder briefly described the capabilities of Adams Street and Pantheon in terms of managing private equity mandates.

a. **Time Certain** – 10:15am  
Adams Street – Gary Fencik, Partner, and Kathy Wanner, Partner.

Gary Fencik and Kathy Wanner were present from Adams Street Partners to describe the firm's organization, experience and competitive advantages in managing private equity assets.

Mr. Fencik described the various stages of ownership that preceded Adams Street Partner's current employee-owned structure. The firm is dedicated exclusively to managing private equity and currently manages approximately \$20 billion in assets with offices located throughout the world. Mr. Fencik emphasized the illiquidity of the asset class, the active management decisions that are inherent in the management of private equity assets and the long-term nature of the return streams.

Adams Street offers, according to Mr. Fencik, the total array of investment opportunities within private equity including primary partnerships, direct investment and secondary partnerships. Mr. Fencik opined that Adams Street held an information advantage based upon 30 years of investment experience within the asset class, a global presence and experience in managing the investment cycles inherent to private equity investing.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Ms. Wanner reviewed the various teams that manage client investment programs. An emphasis was made on the work provided by the client support and investment accounting groups which are integral to a successful private equity relationship.

Mr. Fencik reviewed the 2010 Offering Program that included private equity partnership and direct company investments that are expected to be made over the next 3-to-4 years. The Offering Program covers all subclasses of private equity including venture capital, buyout, debt and special situations. The Offering Program also includes subscriptions to secondary partnership interests. Mr. Fencik stated the goal of the Offering Program was to generate long-term returns that out-perform private equity benchmarks and are commensurate with the risks that are taken to achieve the returns.

Mr. Fencik further reviewed the investment goals for the 2010 Offering Program that were to invest asset at the ratio of 60% in the U.S. and 40% outside the U.S. illustrating how private equity had truly become a global asset class.

Ms. Wanner detailed the targeted investment strategy by subclass, geography and vintage year. Ms. Wanner provided additional detail on how Adams Street utilized the secondary market to mitigate the J-Curve effect.

Mr. Fencik reviewed the vintage year performance of the various Adams Street partnership investments that illustrated the importance of diversifying investments over 3-to-4 year periods.

Ms. Wanner reviewed Adams Street's investment philosophy and emphasized that no one manager should dominate a portfolio. Adams Street believes that manager weighting should be consistent and should not be a function of the underlying fund size. Ms. Wanner also reviewed the process of how private equity deals are analyzed and ultimately incorporated into the investment program.

Ms. Wanner further described the ongoing monitoring of the general partnerships that occurs after an investment has been made including



V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

the attendance at annual meetings, portfolio analysis, reviewing the return calculations and reviewing the partnership's draws and distributions.

Mr. Fencik warned on attempting to "market time" the private equity asset class, but also opined that this appeared to be a great opportunity to gain exposure to the asset class.

Mr. Wilson questioned the level of "over-subscriptions" to Adams Street's funds and requested clarification on the 2010 fund targets.

Mr. Fencik stated the 2010 target levels were \$1 billion in domestic investments and \$800 million in non-U.S investments.

Mr. Goulet requested Adams Street to offer its view on CalPERS' much publicized private equity program.

Mr. Fencik opined that it was important to look at the asset class in terms of the Sharpe Ratio, rate of return per unit of risk, and commented that, at times, CalPERS' size could hinder its performance in certain illiquid asset classes such as private equity.

Mr. Wilson received clarification regarding Adams Street's use of placement agents.

b. **Time Certain** – 11:00am  
Pantheon Ventures, Inc. - Rudy Scarp, Partner, Susan Long McAndrews, Partner, and Jeff Lumbard, Vice-President of Client Services.

Susan Long McAndrews, Jeff Lumbard and Jay Pierrepont were present from Pantheon to discuss the firm's organization, experience and investment philosophy in managing private equity investments.

Ms. McAndrews reviewed the Pantheon organization and noted its formation in 1982, its global presence and its SEC registration as an investment advisor since 1988.

Ms. McAndrews highlighted how the investment team was structured, its ability to analyze deals across the globe, experience and continuity.

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Pierrepont provided additional background on the secondary market within the private equity asset class and the benefits of utilizing the secondary market. A secondary is, according to Mr. Pierrepont, the opportunity to purchase a private equity investment that was made 3-4 years earlier and provides the ability to purchase identifiable assets with visible cash flows. An investment in a secondary private equity investment may mitigate the typical J-curve associated with investing in private equity and shorten the time frame for distributions.

Mr. Pierrepont provided the Board with how the 2000 Pantheon Secondary Fund was invested by both geography and sub-class of private equity investment. In terms of investment opportunities, Mr. Pierrepont discussed the level of private equity investment that took place several years ago, the assets currently being dedicated to the secondary market and the opportunity set that was expected be available to investors going forward.

Mr. Pierrepont provided further insight into Pantheon's investment process, access to General Partnerships, risk management and performance. In terms of risk management, Mr. Pierrepont focused on the lack of leverage in the portfolio and the lack of participation in the buyout sector of the marketplace.

Ms McAndrews summarized Pantheon's fee structure and competitive advantages.

Mr. Goulet requested and received clarification on where the best opportunities for private equity investments were located given Pantheon's European presence.

Mr. Goulet requested Pantheon provide its view on CalPERS' private equity investment program.

Mr. Wilson received clarification on the impact of the recent tax placed on bonuses in the United Kingdom given Pantheon's London headquarters.

Mr. Harris requested and received clarification on Pantheon's role after investing along side its clients

V. INVESTMENT INFORMATION (continued)

C. EnnisKnupp & Associates. (continued)

Mr. Matheney questioned whether there were potential conflicts of interest created by Pantheon's participation on fund advisory committees and learned that Pantheon's role on fund advisory committees was solely to represent client capital, thereby eliminating any potential conflicts.

Mr. Vandolder requested and received clarification on the minimum capital commitment necessary to participate in Pantheon's secondary fund to funds strategy.

After Pantheon's representatives left the meeting, Mr. Vandolder recommended that VCERA commit a total of \$100 million to fund private equity mandates with both Adams Street and Pantheon, subject to contract review and approval. The recommended private equity allocation will be to commit \$75 million to the core program offered by Adams Street with \$25 million committed to Pantheon's secondary program with the expected funding of the mandates taking place over the next 3 to 4 years. Mr. Vandolder cautioned the Board regarding the expected fee levels VCERA will be charged in this asset class.

Mr. Towner recommended that onsite due diligence visits be conducted with both managers in conjunction with the review of the contracts.

Mr. Harris moved, seconded by Mr. Foy, to commit a total of \$100 million to the private equity with the commitments being allocated \$75 million to Adams Street in a core strategy with \$25 million allocated to Pantheon's dedicated secondary strategy.

Mr. Matheney requested and received clarification on VCERA's proposed commitment to the secondary private equity market.

Motion Passed.

4. EK Highlights and Research Presentation Book, December 2009.
  - a. RREEF America III Addition to the Board of Directors
  - b. RREEF America III Proxy Vote
  - c. Capital Guardian Update
  - d. EKAdvisor October 2009 Issue

V. **INVESTMENT INFORMATION (continued)**

C. EnnisKnupp & Associates. (continued)

- e. Dialing Up Exposure – Infrastructure Investor, September 09
- f. Opportunistic Strategies Third Quarter 2009 Review

Mr. Goulet moved, seconded by Mr. Harris, to receive and file Item #4.

Motion Passed.

5. Third Quarter 2009 Performance Report.

Mr. Vandolder provided a brief review of VCERA's performance for the period ending September 30, 2009.

Mr. Wilson moved, seconded by Mr. Goulet, to receive and file the performance report for the period ending September 30, 2009.

Motion passed.

VI. **OLD BUSINESS**

A. Update - RREEF America III Shareholder Call.

Staff provided a brief review of the shareholder conference call held on December 11, 2009.

Mr. Foy moved, seconded by Mr. Harris, to receive and file staff's update.

Motion passed.

VII. **NEW BUSINESS**

A. Reinstatement to Active Membership – Sylvia Borrego.

Staff noted Ms. Borrego's petition met the requirements of Government Code section 31680.4 and recommended she be reinstated to active membership.

**VII. NEW BUSINESS**

A. Reinstatement to Active Membership – Sylvia Borrego. (continued)

Mr. Wilson moved, seconded by Mr. Harris, to approve Ms. Borrego's reinstatement to active membership pursuant to Government Code sections 31680.4 and 31680.5.

Motion passed.

B. Approval of 2010 Fee Schedule for EnnisKnupp & Associates.

Staff provided a brief review of EnnisKnupp's ongoing work on behalf of the Board and recommended approval of the \$6,000 fee increase to \$233,000 annually.

Mr. Foy stated that in his opinion it was not appropriate for an investment consultant to be requesting a fee increase after the market downturn and Mr. Foy stated he would not be supporting the increase.

Mr. Hansen moved, seconded by Mr. Wilson, to approve the recommended fee increase for EnnisKnupp & Associates.

Motion passed. Mr. Foy opposed.

C. General Member Election Update.

Staff provided an update on the General Member election scheduled for the spring. In summary, only one candidate, Mr. Hansen, filed a completed candidate statement and Mr. Hansen will begin serving his new 3-year term in March.

Mr. Goulet moved, seconded by Mr. Foy, to receive and file staff's update.

Motion passed.

D. Request to Attend Public Funds Summit, January 6-8, 2010, Scottsdale, AZ.

Ms. Becker moved, seconded by Mr. Harris, to approve Mr. Goulet's attendance at the Public Funds Summit in January.

Motion passed.

**VIII. INFORMATIONAL**

- A. Publications (Available in Retirement Office)
  - 1. Institutional Investor
  - 2. Pensions and Investments
  
- B. Letter from SACRS Regarding SACRS IRS Tax Force.

**IX. PUBLIC COMMENT**

Staff noted the distribution of the June 30, 2009 actuarial valuation to the Board and all parties of interest, provided a brief summary of the report and noted the actuarial report would be considered on January 25, 2010 in accordance with the terms of the settlement agreement.

**X. BOARD MEMBER COMMENT**

Ms. Becker informed the Board that the County Counsel issued an opinion interpreting Government Code section 31522 regarding her Board service. According to Ms. Becker, the County Counsel opined that section 31522 only applied to attendance at regularly scheduled meetings, subject to approval of a supervisor, and did not apply to attending conferences. Ms. Becker stated that she had been informed that the County of Ventura did not see any reason for her attendance at the Public Fund Summit in January. Ms. Becker stated that she could not fulfill her fiduciary obligations without attending educational conferences.

Mr. Goulet and Mr. Johnston recommended the subject of 31522 be scheduled for discussion at the next meeting with consideration being given to seek an interpretation of section 31522 from outside counsel.

Mr. Goulet noted the importance of trustee education.

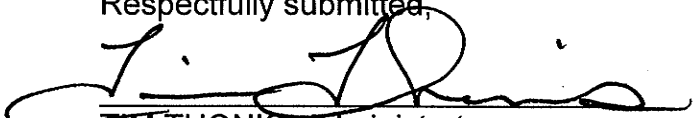
Mr. Hoag expressed his disappointment in the position taken by Human Resources department toward Ms. Becker's involvement with the Board of Retirement.

Mr. Goulet expressed disappointment with the lack of respect being shown for the fiduciary duties of the Board of Retirement.

XI. ADJOURNMENT

There being no further items of business before the Board, Chairman Towner adjourned the meeting at 12:00 p.m.

Respectfully submitted,



TIM THONIS, Administrator

Approved,



TRACY TOWNER, Chairman