VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

BUSINESS MEETING

April 20, 2015

AGENDA

PLACE: Ventura County Employees' Retirement Association
Second Floor Boardroom
1190 South Victoria Avenue
Ventura, CA 93003

TIME: 9:00 a.m.

ITEM:

I.	**CALL TO ORDER**	Master Page No.
II.	**APPROVAL OF AGENDA**	1 – 3
III.	**APPROVAL OF MINUTES**	
	A. Disability Meeting of April 6, 2015.	4 – 13
IV.	**CONSENT AGENDA**	
	A. Approve Regular and Deferred Retirements and Survivors Continuances for the Month of March 2015	14 – 15
	B. Receive and File Report of Checks Disbursed in March 2015	16 – 24
	C. Receive and File Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Schedule of Investment Management Fees, and Investments and Cash Equivalents for the Period Ending February 28, 2015	25 – 30
	D. Receive and File Budget Summary for FY 2014-15 Month Ending March 31, 2015	31

VIII. INVESTMENT INFORMATION (continued)

B. Consideration of Quiet Period Per Trustee Communications Policy

1.	Staff Letter	275
2.	Trustee Communications Policy	276 – 280

IX. NEW BUSINESS

A.	Recommendation to Approve Trustee Goulet's Attendance at Nossaman LLP Public Pensions & Investments Fiduciaries Forum, September 24 – 25, 2015, San Francisco, CA.	281 – 282
B.	Recommendation to Approve Ms. Nemiroff's Attendance at the NAPPA Legal Education Conference, June 23 – 26, 2015, Austin, TX.	283 – 299

C. Ventura County Employees' Retirement Information System (VCERIS) Pension Administration Project

1. VCERIS Project Monthly Status Report — 300
RECOMMENDED ACTION: Receive and file.

X. INFORMATIONAL

A.	Letter from Chair Towner to Assembly Member Das Williams for AB 1291	301
B.	Invitation to Walter Scott Global Investment Management Lecture Series.	302

XI. PUBLIC COMMENT

XII. STAFF COMMENT

XIII. BOARD MEMBER COMMENT

XIV. ADJOURNMENT

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

BOARD OF RETIREMENT

DISABILITY MEETING

April 6, 2015

MINUTES

DIRECTORS PRESENT:	Tracy Towner, Chair, Alternate Safety Employee Member William W. Wilson, Vice Chair, Public Member Steven Hintz, Treasurer-Tax Collector Peter C. Foy, Public Member Joseph Henderson, Public Member Mike Sedell, Public Member Deanna McCormick, General Employee Member Craig Winter, General Employee Member Chris Johnston, Safety Employee Member Arthur E. Goulet, Retiree Member Will Hoag, Alternate Retiree Member
DIRECTORS ABSENT:	None.
STAFF PRESENT:	Linda Webb, Retirement Administrator Henry Solis, Chief Financial Officer Lori Nemiroff, Assistant County Counsel Julie Stallings, Chief Operations Officer Vickie Williams, Retirement Benefits Manager Donna Edwards, Retirement Benefits Specialist Stephanie Caiazza, Program Assistant
PLACE:	Ventura County Employees' Retirement Association Second Floor Boardroom 1190 South Victoria Avenue Ventura, CA 93003
TIME:	9:00 a.m.

ITEM:

I. CALL TO ORDER

Chair Towner called the Disability Meeting of April 6, 2015, to order at 9:00 a.m.

II. APPROVAL OF AGENDA

MOTION: Approve the Agenda.

Moved by Johnston, seconded by Henderson.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

III. APPROVAL OF MINUTES

A. Business Meeting of March 16, 2015.

The following motion was made:

MOTION: Approve.

Moved by Henderson, seconded by Johnston.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

B. Special Meeting of March 30, 2015.

Ms. Webb offered two corrections to the March 30, 2015 minutes under "New Business Item III.A.2. AB 1291 with Proposed Amendments". Ms. Webb recommended correcting the motion by replacing "co-sponsorship" with "formal approval", and removing the phrase "before submission to legislative counsel".

The following motion was made:

MOTION: Approve the minutes as amended.

Moved by Goulet, seconded by Henderson.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

IV. RECEIVE AND FILE PENDING DISABILITY APPLICATION STATUS REPORT

MOTION: Approve.

Moved by Wilson, seconded by Henderson.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

V. APPLICATIONS FOR DISABILITY RETIREMENT

A. Application for Service Connected Disability Retirement, Robert Ameche; Case No. 12-034.

1. Application for Service Connected Disability Retirement and Supporting Documentation.

2. Hearing Notice Served on March 16, 2015.

Paul Hilbun and Stephen D. Roberson, Attorney at Law, were present on behalf of County of Ventura Risk Management. Michael Treger, Attorney at Law, was present on behalf of the applicant.

Both parties declined to make a statement.

Trustee Goulet requested the name of the author of one of the documents within the medical record, as it was not listed in the report.

After clarification from Risk Management, the following motion was made:

MOTION: Grant the applicant, Robert Ameche, a service connected disability retirement.

Moved by Johnston, seconded by McCormick.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

The parties agreed to waive preparations of Findings of Fact and Conclusions of Law.

B. Application for Service Connected Disability Retirement, Lawrence House; Case No. 13-029.

1. Application for Service Connected Disability Retirement and Supporting Documentation.

2. Hearing Notice Served on March 24, 2015.

Paul Hilbun and Stephen D. Roberson, Attorney at Law, were present on behalf of County of Ventura Risk Management. David G. Schumaker, Attorney at Law, was present on behalf of the applicant.

Both parties declined to make a statement.

After discussion by the Board and Risk Management, the following motion was made:

<u>MOTION</u>: Grant the applicant, Lawrence House, a service connected disability retirement.

Moved by Hintz, seconded by Johnston.

Vote: Motion carried
Yes: Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -
Abstain: Goulet

Trustee Goulet stated that he abstained from the vote on this application because he found the report from Risk Management to be deficient.

The parties agreed to waive preparations of Findings of Fact and Conclusions of Law.

C. Application for Service Connected Disability Retirement, Thomas Law; Case No. 12-043.

1. Application for Service Connected Disability Retirement and Supporting Documentation.

2. Hearing Notice Served on March 26, 2015.

Paul Hilbun and Derek Straatsma, Attorney at Law, were present on behalf of County of Ventura Risk Management. Michael Treger, Attorney at Law, was present on behalf of the applicant.

Both parties declined to make a statement.

The following motion was made:

MOTION: Grant the applicant, Thomas Law, a service connected disability retirement.

Moved by Johnston, seconded by Henderson.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

The parties agreed to waive preparations of Findings of Fact and Conclusions of Law.

D. Application for Service Connected Disability Retirement, Jeffrey Norcott; Case No. 12-038.

1. Application for Service Connected Disability Retirement and Supporting Documentation.

2. Hearing Notice Served on March 16, 2015.

Paul Hilbun and John I. Gilman, Attorney at Law, were present on behalf of County of Ventura Risk Management. Michael Treger, Attorney at Law, was present on behalf of the applicant.

Mr. Treger requested that the Board adopt the Hearing Officer's recommendation. Risk Management declined to make a statement.

Trustee Goulet commented that reports stating that no reasonable accommodation could be found should include a written statement from the employee's department to support that claim.

After discussion by the Board and Risk Management, the following motion was made:

MOTION: Grant the applicant, Jeffrey Norcott, a service connected disability retirement.

Moved by Goulet, seconded by Johnston.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

The parties agreed to waive preparations of Findings of Fact and Conclusions of Law.

E. Application for Service Connected Disability Retirement, William Ackerman; Case No. 12-035.

1. Summary of Evidence, Findings of Fact, Conclusions of Law and Recommendation, Submitted by Hearing Officer Louis M. Zigman, Dated February 12, 2015.

2. Hearing Notice Served on March 16, 2015.

Paul Hilbun and John I. Gilman, Attorney at Law, were present on behalf of County of Ventura Risk Management. Michael Treger, Attorney at Law, was present on behalf of the applicant.

Mr. Treger requested that the Board adopt the Hearing Officer's recommendation. Mr. Gilman stated that Risk Management had no objection.

After discussion by the Board, the following motion was made:

MOTION: Adopt the Hearing Officer's recommendation and grant the applicant, William Ackerman, a service connected disability retirement.

Moved by Johnston, seconded by McCormick.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

VI. OLD BUSINESS

A. AB 1291 Report and Update from Chair, and Consideration of Approval to Submit Proposed Amendment to Legislative Counsel.

1. AB 1291 with Proposed Amendments

Chair Towner stated that the Ventura County Board of Supervisors did not take a formal position on the legislation.

After discussion by the Board, the following motion was made:

MOTION: Approve proposed changes to AB 1291 and approve expenses related to the Chair traveling to Sacramento to attend hearings or meetings as necessary to carry out the VCERA Board's interest in passage of the bill.

Moved by Wilson, seconded by Foy.

Vote: Motion carried
Yes: Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -
Abstain: Goulet

B. Distribution of SACRS Board of Directors Final Voting Slate 2015-16

1. Staff Letter

2. SACRS Board of Directors Elections 2015-16 – Final Ballot

The following motion was made:

MOTION: Approve San Joaquin CERA and Sacramento CERS proposed 2015-16 slate.

Moved by Wilson. Motion failed for lack of a second.

After discussion by the Board, the following motion was made:

MOTION: Approve SACRS Nominating Committee recommended 2015-16 slate.

Moved by McCormick, seconded by Johnston.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

VII. CLOSED SESSION

A. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION (Gov. Code section 54956.9) PURSUANT TO GOVERNMENT CODE SECTION 54956.9, SUBDIVISION (d)(1): NAME OF CASE: *LANQUIST ET AL. v. VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*; 2d Civil No. B251179 (Super. Ct. No. 56-2011-404515-CU-WM-VTA)

VIII. NEW BUSINESS

A. Appointment of Chief Investment Officer

Chair Towner announced that Mr. Dan Gallagher accepted the position of Chief Investment Officer, subject to confirmation by the Board of Retirement and final negotiation of salary and benefits.

Staff distributed a revised version of the letter outlining the benefits of the position with the following corrections: the Cafeteria Plan was corrected to the 2015 rate of $297 per pay period; the Auto Allowance was removed because it was not applicable; and the CEBS Certification pay was corrected to 3.5% of base salary.

After discussion by the Board, the following motion was made:

MOTION: Confirm the appointment of Mr. Gallagher to the position of Chief Investment Officer; approve a base salary at a bi-weekly rate of $5,576.92 ($145,000 annually) with revised listed benefits; and approve the scheduling of an employee performance evaluation on Mr. Gallagher's 6th, 12th, and 24th month anniversary dates, at which times the Board will consider granting merit based increases.

Moved by Goulet, seconded by Henderson.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

B. 26th Annual Southern California Public Retirement Seminar Report, Submitted by Trustee McCormick

The following motion was made:

MOTION: Receive and file.

Moved by Goulet, seconded by Hintz.

Vote: Motion carried
Yes: Goulet, Foy, Johnston, Sedell, Winter, Hintz, Henderson, McCormick, Wilson
No: -

IX. INFORMATIONAL

A. SACRS Spring Conference Agenda; May 12 – 15, 2015; Anaheim, CA.

B. CALAPRS Principles of Pension Management for Trustees 2015; August 25 – 28, 2015; Pepperdine University in Malibu, CA.

C. GMO Roundtable Discussion; April 22, 2015; Beverly Hills, CA.

D. Opal Financial Group Annual Investment Trends Summit; September 28-30, 2015; Santa Barbara, CA.

E. PIMCO 2015 Alternatives Investor Day; April 29-30, 2015; Newport Beach, CA.

F. Letter from SACRS Affiliate Chair Michael Bowman.

G. Letter to SACRS System Trustees Regarding SACRS Affiliate Committee.

X. PUBLIC COMMENT

None.

XI. STAFF COMMENT

Ms. Webb requested that the Board submit any suggestions that they may have for improvements to the VCERA website. These recommendations will be incorporated into a future proposal.

XII. BOARD MEMBER COMMENT

Chair Towner informed the Board that the Business Meeting of April 20, 2015 will likely be a long meeting.

XIII. ADJOURNMENT

Upon completion of all other items on the agenda, the Board adjourned into Closed Session at 9:42 a.m. Upon returning to open session, Chair Towner announced that the Board had taken no reportable action. The meeting was adjourned at 11:00 a.m.

Respectfully submitted,

LINDA WEBB, Retirement Administrator

Approved,

TRACY TOWNER, Chairman

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REPORT OF REGULAR AND DEFERRED RETIREMENTS AND SURVIVORS CONTINUANCES

MARCH 2015

FIRST NAME	LAST NAME	G/S	DATE OF MEMBERSHIP	TOTAL SERVICE	OTHER SERVICE	DEPARTMENT	EFFECTIVE DATE
REGULAR RETIREMENTS:							
Milton B.	Bagley	G	7/21/1991	23.00		Health Care Agency	02/21/15
Philip	Bohan	G	3/9/1997	18.90	A=0.70510 B=0.2351	Human Services Agency	02/14/15
Charlotte	Carbone	G	12/20/1981	33.10		Health Care Agency	02/28/15
Sarah L.	Craig	G	7/17/1997	2.50	C=33.3205	Public Works Agency (deferred)	02/16/15
Connie A.	De La Rosa	G	11/20/2005	18.70	A=10.82650	Human Services Agency	03/05/15
Teresa	Del Castillo	G	3/17/1991	23.90		Human Services Agency	02/04/15
Sylvia	Escalante	G	12/4/1994	26.00	A=5.6791 B=0.1134	Superior Courts	02/28/15
Jon M.	Gatewood	G	2/25/1996	19.00		General Services Agency	02/27/15
Ines V.	Gonzalez	G	4/1/1990	14.40	C=10.525	Resource Management Agency (deferred)	12/31/14
Nancy J.	Gray	G	12/12/1976	38.00		Health Care Agency	02/14/15
Robert A.	Hartley	G	2/16/1992	22.60		Resource Management Agency	02/14/15
Daniel D.	Jordan	G	6/29/1986	24.90	B=0.09210 C=5.66670 D=0.34700	Health Care Agency	02/28/15
Lauretta A.	Kail	G	8/11/1996	17.60	B=0.1150	Health Care Agency (deferred)	02/11/15
Brent L.	Kerr	S	08/29/1982	32.50		Sheriff's Department	02/14/15
Margaret	Kimbell-Drewry	G	02/26/1995	20.00		CEO	02/28/15
David	King	S	10/14/1990	3.00		Sheriff's Department (deferred)	10/01/06
Maria L.	Landeros	G	07/22/2001	12.50		Health Care Agency	01/30/15
Alice L.	Lopez	G	08/19/1979	22.80		Superior Courts (deferred)	12/27/14
Faith L.	Lugo	G	02/05/89	27.20	A=1.2719	Human Services Agency	02/13/205
Nancy J.	Mahon	G	08/02/10	10.00	A=5.4415	Health Care Agency	02/28/15
Gladys V.	Mena	G	12/05/04	10.20		Human Serivces Agency	02/13/15
John E.	Miller	S	07/08/84	30.60		Sheriff's Department	02/28/15
Denise	Mindoro	S	04/13/10	6.03		Fire Protection (non-member, deferred)	02/12/15
Alicia	Pascua	G	3/5/1989	26.60	B=0.69590	Human Services Agency	02/14/15
Gilberto	Puno	G	5/4/1997	17.80		Human Services Agency	02/28/15
Marta G.	Rea	G	5/27/1990	24.60		Human Serivces Agency	02/28/15
Ronna L.	Robledo	S	12/29/1985	28.60		Probabtion Agency	02/12/15
Raymond	Rodriguez	G	9/29/2002	5.40		Board of Supervisors (deferred)	02/27/15
Kelly	Shirk	G	03/09/1986	29.30	B=0.4334	CEO	03/07/15
Charles	Singer	G	10/01/1989	23.80		General Services Agency	02/23/15
Star	Soto	G	12/09/1990	24.10		Library Services Agency	01/31/15
Gary L.	Stallings	G	11/20/1983	31.30	B=0.11340	Sheriff's Department	02/01/15
Linda	Torres	G	05/11/1980	34.70		Human Services Agency	02/21/15
Ernesto G.	Vasquez	G	11/29/1976	40.20	D=1.9797	General Services Agency	02/07/15
DEFERRED RETIREMENTS:							
Maneet	Bhatti	G	05/13/2012	2.80	C=6.3490	Human Services Agency	02/27/2015
Jessica	Carson	G	10/08/2006	7.51		Health Care Agency	02/21/2015
Dana	Chavolla	G	12/16/2002	9.29		Health Care Agency	02/14/2015
Kenneth	Hamilton	G	01/27/2008	7.07		Public Defender	02/19/2015
Rebecca	Nelson	G	05/21/1995	20.01		Public Defender	03/10/2015
Joshua K.	Scott	G	09/07/2008	6.48		Assessor	03/03/2015
Kirk M.	Seitz	G	10/18/2009	5.31		Health Care Agency	02/19/2015
Mary K.	Stanistreet	G	12/16/2002	7.04		Health Care Agency	02/26/2015
SURVIVORS' CONTINUANCES:							

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REPORT OF REGULAR AND DEFERRED RETIREMENTS AND SURVIVORS CONTINUANCES

MARCH 2015

FIRST NAME	LAST NAME	G/S	DATE OF MEMBERSHIP	TOTAL SERVICE	OTHER SERVICE	DEPARTMENT	EFFECTIVE DATE
Barbara J.	Gerber						
Evelyn F.	James						
Evelyn B.	Parks						

*** = Member Establishing Reciprocity**
A = Previous Membership
B = Other County Service (eg Extra Help)
C = Reciprocal Service
D = Public Service

Ventura County Retirement Assn

Check Register - Standard

Period: 09-15 As of: 4/2/2015

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
Company:	**VCERA**										
Acct / Sub:	1002		00								
024825	VC	3/5/2015	F3729B1 KEVIN SHEPHARD	09-15	09-15	019691	VO	DEATH BENEFIT	2/18/2015	0.00	-5,365.90
									Check Total		**-5,365.90**
024826	-	024880	Missing								
024881	CK	3/5/2015	F3729B1 KEVIN SHEPHARD	09-15		019691	VO	DEATH BENEFIT	2/18/2015	0.00	5,365.90
024882	CK	3/5/2015	121118 DAVID B. SELMAN	09-15		019746	VO	REFUND CONTRIB	3/5/2015	0.00	27,213.26
024883	CK	3/5/2015	121818 JOSIE SALINAS	09-15		019747	VO	REFUND CONTRIB	3/5/2015	0.00	7,039.58
024884	CK	3/5/2015	124014R CHARLES SCHWAB & CO., INC.	09-15		019748	VO	ROLLOVER	3/5/2015	0.00	428.11
024885	CK	3/5/2015	124217 EFRAIN SANDOVAL	09-15		019749	VO	REFUND CONTRIB	3/5/2015	0.00	649.96
024886	CK	3/5/2015	124542 AMY L. LANSTRA	09-15		019750	VO	REFUND CONTRIB	3/5/2015	0.00	1,214.77
024887	CK	3/5/2015	124583 KIMBERLY A. KAGY	09-15		019751	VO	REFUND CONTRIB	3/5/2015	0.00	701.47
024888	CK	3/5/2015	F0921B1 STEPHEN D. JAMES	09-15		019752	VO	DEATH BENEFIT	3/5/2015	0.00	2,262.48
024889	CK	3/5/2015	F0921B2 REGAN D. JAMES	09-15		019753	VO	DEATH BENEFIT	3/5/2015	0.00	2,092.79
024890	CK	3/5/2015	F1145S DONALD E. ASHLEY	09-15		019754	VO	DEATH BENEFIT	3/5/2015	0.00	3,685.91
024891	CK	3/5/2015	F1420B1 MIKIO MUKAE	09-15		019755	VO	DEATH BENEFIT	3/5/2015	0.00	2,030.13

Ventura County Retirement Assn

Check Register - Standard

Period: 09-15 As of: 4/2/2015

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024892	CK	3/5/2015	F1420B2 HISAKO M. MUKAE	09-15		019756	VO	DEATH BENEFIT	3/5/2015	0.00	1,877.88
024893	CK	3/5/2015	F1446S DOROTHY J. NICHOLS	09-15		019757	VO	DEATH BENEFIT	3/5/2015	0.00	2,769.49
024894	CK	3/5/2015	F2795B1 VIRGINIA CRETAL	09-15		019758	VO	DEATH BENEFIT	3/5/2015	0.00	2,041.38
024895	CK	3/5/2015	F6775B1 VIRGINIA CRETAL	09-15		019759	VO	DEATH BENEFIT	3/5/2015	0.00	118.01
024896	VC	3/5/2015	102661 LORI NEMIROFF	09-15	09-15						
024897	VC	3/5/2015	990002 ARTHUR E. GOULET	09-15	09-15						
024898	VC	3/5/2015	BLACKROCK BLACKROCK INSTL TRUST CO, N	09-15	09-15						
024899	VC	3/5/2015	CPS COOPERATIVE PERSONNEL SEF	09-15	09-15						
024900	VC	3/5/2015	SPRUCE SPRUCEGROVE INVESTMENT M	09-15	09-15						
024901	CK	3/5/2015	102661 LORI NEMIROFF	09-15		019760	VO	TRAVEL REIMB	3/5/2015	0.00	1,048.15
024902	CK	3/5/2015	990002 ARTHUR E. GOULET	09-15		019761	VO	TRAVEL REIMB	3/5/2015	0.00	329.05
024903	CK	3/5/2015	BLACKROCK BLACKROCK INSTL TRUST CO, N	09-15		019762	VO	INVESTMENT FEES	3/5/2015	0.00	177,289.43
024904	CK	3/5/2015	CPS COOPERATIVE PERSONNEL SEF	09-15		019763	VO	ADMIN EXP	3/5/2015	0.00	5,862.57
024905	CK	3/5/2015	SPRUCE SPRUCEGROVE INVESTMENT M	09-15		019764	VO	INVESTMENT FEES	3/5/2015	0.00	57,067.91

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024906	CK	3/11/2015	101887 ALICIA PASCUA	09-15		019765	VO	REFUND T2 COL	3/11/2015	0.00	13,162.24
024907	CK	3/11/2015	114152 CONNIE A. DE LA ROSA	09-15		019766	VO	REFUND T2 COL	3/11/2015	0.00	10,763.75
024908	CK	3/11/2015	115834 GLADYS V. MENA	09-15		019767	VO	REFUND T2 COL	3/11/2015	0.00	13,409.13
024909	CK	3/11/2015	119658 MARIA GENINNA G. ILANGA	09-15		019769	VO	REFUND CONTRIB	3/11/2015	0.00	971.28
024910	CK	3/11/2015	119658R NAVY FEDERAL CREDIT UNION	09-15		019770	VO	ROLLOVER	3/11/2015	0.00	1,914.99
024911	CK	3/11/2015	120158 ELIZABETH A. HERRING	09-15		019771	VO	REFUND CONTRIB	3/11/2015	0.00	18,296.57
024912	CK	3/11/2015	F0776S BARBARA J. GERBER	09-15		019772	VO	DEATH BENEFIT	3/11/2015	0.00	4,614.48
024913	CK	3/11/2015	F2703 RAYMOND T. PHILLIPS	09-15		019773	VO	PENSION PAYMENT	3/11/2015	0.00	2,616.11
024914	CK	3/11/2015	F5652 JUDITH CARTIER	09-15		019774	VO	PENSION PAYMENT	3/11/2015	0.00	318.40
024915	CK	3/11/2015	F7769B1 KAITLYN R. JONES	09-15		019775	VO	DEATH BENEFIT	3/11/2015	0.00	4,552.71
024916	CK	3/11/2015	117705 MARIELA E. MURILLO	09-15		019785	VO	REFUND CONTRIB	3/11/2015	0.00	17,622.75
024917	CK	3/11/2015	ADP ADP LLC	09-15		019776	VO	ADMIN EXP	3/11/2015	0.00	11,708.00
024918	CK	3/11/2015	CMP CMP & ASSOCIATES, INC	09-15		019777	VO	IT/PAS	3/11/2015	0.00	25,136.88

Ventura County Retirement Assn

Check Register - Standard

Period: 09-15 As of: 4/2/2015

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024919	CK	3/11/2015	CORPORATE STAPLES ADVANTAGE	09-15		019778	VO	ADMIN EXP	3/11/2015	0.00	1,528.55
024920	CK	3/11/2015	FOLEY FOLEY AND LARDNER LLP	09-15		019779	VO	LEGAL FEES	3/11/2015	0.00	11,867.50
024921	CK	3/11/2015	HARRIS HARRIS WATER CONDITIONING	09-15		019780	VO	ADMIN EXP	3/11/2015	0.00	119.50
024922	CK	3/11/2015	IF INTERNATIONAL FOUNDATION	09-15		019781	VO	CONF SEM & TRAV	3/11/2015	0.00	4,695.00
024923	CK	3/11/2015	LINEA LINEA SOLUTIONS	09-15		019782	VO	IT/PAS	3/11/2015	0.00	68,947.50
024924	CK	3/11/2015	VOLT VOLT	09-15		019783	VO	ADMIN EXP/PAS	3/11/2015	0.00	3,226.23
024925	CK	3/11/2015	VSG VSG HOSTING, INC	09-15		019784	VO	PAS	3/11/2015	0.00	19,500.00
024926	CK	3/18/2015	102267 MARTA G. REA	09-15		019786	VO	REFUND T2 COL	3/18/2015	0.00	17,658.93
024927	CK	3/18/2015	102628 MILTON G. BAGLEY	09-15		019787	VO	REFUND T2 COL	3/18/2015	0.00	17,837.03
024928	CK	3/18/2015	102753 ROBERT A. HARTLEY	09-15		019788	VO	REFUND T2 COL	3/18/2015	0.00	23,672.04
024929	CK	3/18/2015	103798 JON M. GATEWOOD	09-15		019789	VO	REFUND T2 COL	3/18/2015	0.00	6,773.19
024930	CK	3/18/2015	107747 CHRISTOPHER J. GILLESPIE	09-15		019790	VO	REFUND CONTRIB	3/18/2015	0.00	178.14
024931	CK	3/18/2015	119976 MONIQUE A. QUALLS	09-15		019791	VO	REFUND CONTRIB	3/18/2015	0.00	13,012.31
024932	CK	3/18/2015	119997 YVONNE SEGURA	09-15		019792	VO	REFUND CONTRIB	3/18/2015	0.00	19,110.35

Ventura County Retirement Assn

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Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024933	CK	3/18/2015	121012 JANEY L. DUNN	09-15		019793	VO	REFUND CONTRIB	3/18/2015	0.00	20,595.65
024934	CK	3/18/2015	122037R KNIGHTS OF COLUMBUS	09-15		019794	VO	ROLLOVER	3/18/2015	0.00	682.13
024935	CK	3/18/2015	F0129B1 AMRHINE 1985 FAMILY TRUST O	09-15		019795	VO	DEATH BENEFIT	3/18/2015	0.00	4,464.75
024936	CK	3/18/2015	F1015S EVELYN F. JAMES	09-15		019796	VO	DEATH BENEFIT	3/18/2015	0.00	3,829.74
024937	CK	3/18/2015	F1509S EVELYN B. PARKS	09-15		019797	VO	DEATH BENEFIT	3/18/2015	0.00	2,607.42
024938	CK	3/18/2015	F2795B2 ELAINE D. KINGSLEY	09-15		019798	VO	DEATH BENEFIT	3/18/2015	0.00	2,206.89
024939	CK	3/18/2015	F3216 CONNIE L. RICHARDSON	09-15		019799	VO	PENSION PAYMENT	3/18/2015	0.00	351.70
024940	CK	3/18/2015	F6443B2 SALVADOR ESTRELLA JR.	09-15		019800	VO	DEATH BENEFIT	3/18/2015	0.00	1,291.44
024941	CK	3/18/2015	F6775B2 ELAINE D. KINGSLEY	09-15		019801	VO	DEATH BENEFIT	3/18/2015	0.00	118.00
024942	CK	3/18/2015	XXX3404B1 WILFRED R. DOTTS	09-15		019802	VO	DEATH BENEFIT	3/18/2015	0.00	27,755.51
024943	CK	3/18/2015	124709 LINDA WEBB	09-15		019803	VO	TRAVEL REIMB	3/18/2015	0.00	1,000.00
024944	CK	3/18/2015	990007 DEANNA MCCORMICK	09-15		019804	VO	TRAVEL REIMB	3/18/2015	0.00	374.20
024945	CK	3/26/2015	ACCESS ACCESS INFORMATION MANAGI	09-15		019805	VO	ADMIN EXP	3/26/2015	0.00	331.34

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024946	CK	3/26/2015	AT&T AT & T MOBILITY	09-15		019806	VO	IT	3/26/2015	0.00	289.05
024947	CK	3/26/2015	BOFA BUSINESS CARD	09-15		019807	VO	ADMIN EX/PAS/IT	3/26/2015	0.00	1,727.13
024948	CK	3/26/2015	COMPUWAVE COMPUWAVE	09-15		019808	VO	IT	3/26/2015	0.00	655.45
024949	CK	3/26/2015	CORPORATE STAPLES ADVANTAGE	09-15		019809	VO	ADMIN EXP	3/26/2015	0.00	558.96
024950	CK	3/26/2015	MEGAPATH GLOBAL CAPACITY	09-15		019810	VO	IT/PAS	3/26/2015	0.00	603.63
024951	CK	3/26/2015	MF M.F. DAILY CORPORATION	09-15		019811	VO	ADMIN EXP	3/26/2015	0.00	16,558.14
024952	CK	3/26/2015	NEPC NEPC, LLC	09-15		019812	VO	INVESTMENT FEES	3/26/2015	0.00	70,750.00
024953	CK	3/26/2015	RETJOURNAL THE PUBLIC RETIREMENT JOUR	09-15		019813	VO	ADMIN EXP	3/26/2015	0.00	195.00
024954	CK	3/26/2015	S&L ADV SCHOTT & LITES ADVOCATES	09-15		019814	VO	ADMIN EXP	3/26/2015	0.00	2,500.00
024955	CK	3/26/2015	SEGAL SEGAL CONSULTING	09-15		019815	VO	ACTUARY FEES	3/26/2015	0.00	22,365.00
024956	CK	3/26/2015	SHRED-IT SHRED-IT USA	09-15		019816	VO	ADMIN EXP	3/26/2015	0.00	130.40
024957	CK	3/26/2015	SMARTBEAR SMARTBEAR SOFTWARE, INC	09-15		019817	VO	PAS	3/26/2015	0.00	1,482.30
024958	CK	3/26/2015	STAR VENTURA COUNTY STAR	09-15		019818	VO	ADMIN EXP	3/26/2015	0.00	283.03
024959	CK	3/26/2015	STATE STATE STREET BANK AND TRUS	09-15		019819	VO	INVESTMENT FEES	3/26/2015	0.00	8,049.86

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Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024960	CK	3/26/2015	TWC TIME WARNER CABLE	09-15		019820	VO	IT	3/26/2015	0.00	481.97
024961	CK	3/26/2015	VOLT VOLT	09-15		019821	VO	ADMIN EXP/PAS	3/26/2015	0.00	2,724.84
024962	CK	3/27/2015	CA SDU CALIFORNIA STATE	09-15		019822	VO	CRT ORDERED PMT	3/27/2015	0.00	1,052.47
024963	CK	3/27/2015	CALPERS CALPERS LONG-TERM	09-15		019823	VO	INSURANCE	3/27/2015	0.00	18,263.04
024964	CK	3/27/2015	CHILD21 OREGON DEPT OF JUSTICE	09-15		019824	VO	CRT ORDERED PMT	3/27/2015	0.00	171.74
024965	CK	3/27/2015	CHILD5 STATE DISBURSEMENT UNIT (SI	09-15		019825	VO	CRT ORDERED PMT	3/27/2015	0.00	511.00
024966	CK	3/27/2015	CHILD9 SHERIDA SEGALL	09-15		019826	VO	CRT ORDERED PMT	3/27/2015	0.00	260.00
024967	CK	3/27/2015	CVMP COUNTY OF VENTURA	09-15		019827	VO	INSURANCE	3/27/2015	0.00	587,982.30
024968	CK	3/27/2015	FTBCA3 FRANCHISE TAX BOARD	09-15		019828	VO	GARNISHMENT	3/27/2015	0.00	137.26
024969	CK	3/27/2015	IRS6 INTERNAL REVENUE SERVICE	09-15		019829	VO	GARNISHMENT	3/27/2015	0.00	321.00
024970	CK	3/27/2015	IRS7 INTERNAL REVENUE SERVICE	09-15		019830	VO	GARNISHMENT	3/27/2015	0.00	500.00
024971	CK	3/27/2015	REAVC RETIRED EMPLOYEES' ASSOCIA	09-15		019831	VO	DUES	3/27/2015	0.00	4,278.00
024972	CK	3/27/2015	SEIU SEIU LOCAL 721	09-15		019832	VO	DUES	3/27/2015	0.00	303.50

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid
024973	CK	3/27/2015	SPOUSE2 KELLY SEARCY	09-15		019833	VO	CRT ORDERED PMT	3/27/2015	0.00	1,874.00
024974	CK	3/27/2015	SPOUSE3 ANGELINA ORTIZ	09-15		019834	VO	CRT ORDERED PMT	3/27/2015	0.00	250.00
024975	CK	3/27/2015	SPOUSE4 CATHY C. PEET	09-15		019835	VO	CRT ORDERED PMT	3/27/2015	0.00	550.00
024976	CK	3/27/2015	SPOUSE5 SUZANNA CARR	09-15		019836	VO	CRT ORDERED PMT	3/27/2015	0.00	829.00
024977	CK	3/27/2015	SPOUSE6 BARBARA JO GREENE	09-15		019837	VO	CRT ORDERED PMT	3/27/2015	0.00	675.00
024978	CK	3/27/2015	SPOUSE7 MARIA G. SANCHEZ	09-15		019838	VO	CRT ORDERED PMT	3/27/2015	0.00	104.00
024979	CK	3/27/2015	VCDSA VENTURA COUNTY DEPUTY	09-15		019839	VO	INSURANCE	3/27/2015	0.00	247,216.01
024980	CK	3/27/2015	VCPFF VENTURA COUNTY PROFESSIOI	09-15		019840	VO	INSURANCE	3/27/2015	0.00	70,853.29
024981	CK	3/27/2015	VRSD VENTURA REGIONAL	09-15		019841	VO	INSURANCE	3/27/2015	0.00	8,278.43
024982	CK	3/27/2015	VSP VISION SERVICE PLAN - (CA)	09-15		019842	VO	INSURANCE	3/27/2015	0.00	10,258.16
024983	CK	3/31/2015	F3191 WILLIAM D. BETTIS	09-15		019843	VO	PENSION PAYMENT	3/31/2015	0.00	2,751.27
024984	CK	3/31/2015	SPOUSE8 DEBBIE ANN BETTIS	09-15		019844	VO	CRT ORDERED PMT	3/31/2015	0.00	1,358.00

Ventura County Retirement Assn

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Period: 09-15 As of: 4/2/2015

Check Nbr	Check Type	Check Date	Vendor ID / Vendor Name	Period To Post	Period Closed	Ref Nbr	Doc Type	Invoice Number	Invoice Date	Discount Taken	Amount Paid

Check Count: 105

Acct Sub Total: **1,782,676.89**

Check Type	Count	Amount Paid
Regular	99	1,788,042.79
Hand	0	0.00
Electronic Payment	0	0.00
Void	6	-5,365.90
Stub	0	0.00
Zero	0	0.00
Mask	0	0.00
Total:	**105**	**1,782,676.89**

Company Disc Total **0.00** **Company Total** **1,782,676.89**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF FIDUCIARY NET POSITION
FEBRUARY 28, 2015

ASSETS

CASH & CASH EQUIVALENTS	$93,884,079
RECEIVABLES	
ACCRUED INTEREST AND DIVIDENDS	3,569,507
SECURITY SALES	46,714,380
MISCELLANEOUS	4,950
TOTAL RECEIVABLES	50,288,837
INVESTMENTS AT FAIR VALUE	
DOMESTIC EQUITY SECURITIES	121,742,453
DOMESTIC EQUITY INDEX FUNDS	1,231,656,994
INTERNATIONAL EQUITY SECURITIES	366,087,195
INTERNATIONAL EQUITY INDEX FUNDS	262,062,994
GLOBAL EQUITY	449,912,822
PRIVATE EQUITY	118,455,268
DOMESTIC FIXED INCOME - CORE PLUS	617,497,299
DOMESTIC FIXED INCOME - U.S. INDEX	140,868,094
GLOBAL FIXED INCOME	260,478,260
REAL ESTATE	322,351,195
ALTERNATIVES	422,464,866
TOTAL INVESTMENTS	4,313,577,441
PENSION SOFTWARE DEVELOPMENT COSTS	6,459,436
TOTAL ASSETS	4,464,209,793

LIABILITIES

SECURITY PURCHASES PAYABLE	46,599,653
ACCOUNTS PAYABLE	781,977
PREPAID CONTRIBUTIONS	44,633,335
TOTAL LIABILITIES	92,014,966
NET POSITION RESTRICTED FOR PENSIONS	$4,372,194,827

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2015

ADDITIONS	
CONTRIBUTIONS	
EMPLOYER	$109,565,933
EMPLOYEE	39,097,753
TOTAL CONTRIBUTIONS	**148,663,686**
INVESTMENT INCOME	
NET APPRECIATION IN FAIR VALUE OF INVESTMENTS	67,713,993
INTEREST INCOME	9,552,879
DIVIDEND INCOME	28,320,473
REAL ESTATE OPERATING INCOME, NET	7,805,020
SECURITY LENDING INCOME	103,061
TOTAL INVESTMENT INCOME	**113,495,425**
LESS INVESTMENT EXPENSES	
MANAGEMENT & CUSTODIAL FEES	7,319,646
SECURITIES LENDING BORROWER REBATES	(1,242)
SECURITIES LENDING MANAGEMENT FEES	38,842
TOTAL INVESTMENT EXPENSES	**7,357,246**
NET INVESTMENT INCOME	**106,138,179**
TOTAL ADDITIONS	**254,801,865**
DEDUCTIONS	
BENEFIT PAYMENTS	150,612,315
MEMBER REFUNDS	3,095,856
ADMINISTRATIVE EXPENSES	3,784,732
TOTAL DEDUCTIONS	**157,492,902**
NET INCREASE/(DECREASE)	**97,308,963**
NET POSITION RESTRICTED FOR PENSIONS	
BEGINNING OF YEAR	**4,274,885,864**
ENDING BALANCE	**$4,372,194,827**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT MANAGEMENT FEES
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2015

EQUITY MANAGERS	
DOMESTIC	
BLACKROCK - US EQUITY	$123,220
BLACKROCK - EXTENDED EQUITY	9,071
WESTERN ASSET INDEX PLUS	126,755
TOTAL	**259,046**
INTERNATIONAL	
BLACKROCK - ACWIXUS	130,440
SPRUCEGROVE	351,055
HEXAVEST	185,830
WALTER SCOTT	412,189
TOTAL	**1,079,514**
GLOBAL	
GRANTHAM MAYO VAN OTTERLOO (GMO)	793,616
BLACKROCK - GLOBAL INDEX	44,853
TOTAL	**838,469**
PRIVATE EQUITY	
ADAMS STREET	821,608
HARBOURVEST	183,456
PANTHEON	75,000
TOTAL	**1,080,064**
FIXED INCOME MANAGERS	
DOMESTIC	
BLACKROCK - US DEBT INDEX	47,558
LOOMIS, SAYLES AND COMPANY	142,503
REAMS ASSET MANAGEMENT	358,124
WESTERN ASSET MANAGEMENT	247,911
TOTAL	**796,097**
GLOBAL	
LOOMIS, SAYLES AND COMPANY	142,414
LOOMIS ALPHA	84,438
PIMCO	213,961
TOTAL	**440,813**
REAL ESTATE	
PRUDENTIAL REAL ESTATE ADVISORS	396,586
RREEF	69,094
UBS REALTY	982,634
TOTAL	**1,448,314**
ALTERNATIVES	
BRIDGEWATER	547,561
TORTOISE	467,608
TOTAL	**1,015,169**
CASH OVERLAY - CLIFTON	**53,911**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
SCHEDULE OF INVESTMENT MANAGEMENT FEES
FOR THE EIGHT MONTHS ENDED FEBRUARY 28, 2015

SECURITIES LENDING	
BORROWERS REBATE	(1,242)
MANAGEMENT FEES	38,842
TOTAL	37,599
OTHER	
INVESTMENT CONSULTANT	138,826
INVESTMENT CUSTODIAN	169,424
TOTAL	308,250
TOTAL INVESTMENT MANAGMENT FEES	$7,357,246

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENTS AND CASH EQUIVALENTS
FEBRUARY 28, 2015

EQUITY		
DOMESTIC EQUITY		
WESTERN ASSET INDEX PLUS	$121,742,453	$16,392,151
TOTAL DOMESTIC EQUITY	**121,742,453**	**16,392,151**
DOMESTIC INDEX FUNDS		
BLACKROCK - US EQUITY MARKET	1,183,186,091	0
BLACKROCK - EXTENDED EQUITY	48,470,903	1
TOTAL EQUITY INDEX FUNDS	**1,231,656,994**	**1**
INTERNATIONAL EQUITY		
SPRUCEGROVE	189,037,387	0
HEXAVEST	81,772,863	0
WALTER SCOTT	95,276,945	0
TOTAL INTERNATIONAL EQUITY	**366,087,195**	**0**
INTERNATIONAL INDEX FUNDS		
BLACKROCK - ACWIXUS	262,062,994	0
TOTAL INTERNATIONAL INDEX FUNDS	**262,062,994**	**0**
GLOBAL EQUITY		
GRANTHAM MAYO AND VAN OTTERLOO (GMO)	218,655,943	0
BLACKROCK - GLOBAL INDEX	231,256,880	0
TOTAL GLOBAL EQUITY	**449,912,822**	**0**
PRIVATE EQUITY		
ADAMS STREET	73,489,418	0
PANTHEON	14,654,838	0
HARBOURVEST	30,311,012	0
TOTAL PRIVATE EQUITY	**118,455,268**	**0**
FIXED INCOME		
DOMESTIC		
LOOMIS SAYLES AND COMPANY	71,891,428	568,904
REAMS	281,987,958	1
WESTERN ASSET MANAGEMENT	263,617,913	6,359,797
TOTAL DOMESTIC	**617,497,299**	**6,928,703**
DOMESTIC INDEX FUNDS		
BLACKROCK - US DEBT INDEX	140,868,094	0
TOTAL DOMESTIC INDEX FUNDS	**140,868,094**	**0**
GLOBAL		
LOOMIS SAYLES AND COMPANY	91,444,002	0
LOOMIS ALPHA	42,769,783	0
PIMCO	126,264,475	1,738,677
TOTAL GLOBAL	**260,478,260**	**1,738,677**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENTS AND CASH EQUIVALENTS
FEBRUARY 28, 2015

REAL ESTATE		
PRUDENTIAL REAL ESTATE	107,886,266	0
RREEF	6,240,585	0
UBS REALTY	208,224,343	0
TOTAL REAL ESTATE	**322,351,195**	**0**
ALTERNATIVES		
BRIDGEWATER	282,096,525	0
TORTOISE (MLP's)	140,368,341	5,815,767
TOTAL ALTERNATIVES	**422,464,866**	**5,815,767**
CASH OVERLAY - CLIFTON GROUP	**0**	**57,843,802**
IN HOUSE CASH		**5,164,977**
TOTAL INVESTMENTS AND CASH	**$4,313,577,441**	**$93,884,079**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BUDGET SUMMARY FISCAL YEAR 2014-2015
March 2015 - 75% of Fiscal Year Expended

EXPENDITURE DESCRIPTIONS	Adopted 2014/2015 Budget	Adjusted 2014/2015 Budget	Mar-15	Year to Date Expended	Available Balance	Percent Expended
Salaries & Benefits:						
Salaries	$ 1,842,500.00	$ 1,842,500.00	$ 142,674.31	$ 1,128,722.73	$ 713,777.27	61.26%
Extra-Help	62,600.00	62,600.00	5,951.07	57,939.03	4,660.97	92.55%
Overtime	1,000.00	1,000.00	38.78	2,155.44	(1,155.44)	215.54%
Supplemental Payments	59,600.00	59,600.00	4,373.41	33,795.18	25,804.82	56.70%
Vacation Redemption	102,500.00	102,500.00	8,903.78	55,904.34	46,595.66	54.54%
Retirement Contributions	366,000.00	366,000.00	30,084.77	231,788.77	134,211.23	63.33%
OASDI Contributions	115,600.00	115,600.00	9,481.11	70,129.76	45,470.24	60.67%
FICA-Medicare	29,100.00	29,100.00	2,217.33	17,287.33	11,812.67	59.41%
Retiree Health Benefit	13,300.00	13,300.00	1,447.20	16,924.40	(3,624.40)	127.25%
Group Health Insurance	182,100.00	182,100.00	13,662.00	110,411.40	71,688.60	60.63%
Life Insurance/Mgmt	1,100.00	1,100.00	79.58	683.02	416.98	62.09%
Unemployment Insurance	2,300.00	2,300.00	172.38	1,364.41	935.59	59.32%
Management Disability Insurance	4,500.00	4,500.00	1,025.40	5,921.59	(1,421.59)	131.59%
Worker' Compensation Insurance	13,400.00	13,400.00	1,209.35	9,044.89	4,355.11	67.50%
401K Plan Contribution	33,100.00	33,100.00	2,508.44	18,452.65	14,647.35	55.75%
Transfers In	150,700.00	150,700.00	4,995.03	57,887.76	92,812.24	38.41%
Transfers Out	(150,700.00)	(150,700.00)	(4,995.03)	(57,887.76)	(92,812.24)	38.41%
Total Salaries & Benefits	$ 2,828,700.00	$ 2,828,700.00	$ 223,828.91	$ 1,760,524.94	$ 1,068,175.06	62.24%
Services & Supplies:						
Telecommunication Services - ISF	$ 37,800.00	$ 37,800.00	$ 2,856.24	$ 28,327.97	$ 9,472.03	74.94%
General Insurance - ISF	12,200.00	12,200.00	0.00	6,104.00	6,096.00	50.03%
Office Equipment Maintenance	1,000.00	1,000.00	98.51	539.80	460.20	53.98%
Membership and Dues	9,500.00	9,500.00	115.00	8,359.00	1,141.00	87.99%
Education Allowance	10,000.00	10,000.00	0.00	4,000.00	6,000.00	40.00%
Cost Allocation Charges	(35,400.00)	(35,400.00)	0.00	(17,498.00)	(17,902.00)	49.43%
Printing Services - Not ISF	3,000.00	3,000.00	0.00	2,275.47	724.53	75.85%
Books & Publications	2,500.00	2,500.00	478.03	1,556.07	943.93	62.24%
Office Supplies	20,000.00	20,000.00	2,124.35	10,265.73	9,734.27	51.33%
Postage & Express	59,700.00	59,700.00	50.24	36,187.88	23,512.12	60.62%
Printing Charges - ISF	10,000.00	10,000.00	0.00	11,092.93	(1,092.93)	110.93%
Copy Machine Services - ISF	6,500.00	6,500.00	0.00	291.15	6,208.85	4.48%
Board Member Fees	12,000.00	12,000.00	600.00	8,400.00	3,600.00	70.00%
Professional Services	1,074,000.00	1,091,500.00	54,978.65	661,058.36	430,441.64	60.56%
Storage Charges	5,500.00	5,500.00	0.00	2,705.18	2,794.82	49.19%
Equipment	0.00	0.00	0.00	8,277.50	(8,277.50)	#DIV/0!
Office Lease Payments	186,000.00	196,700.00	16,558.14	141,901.83	54,798.17	72.14%
Private Vehicle Mileage	9,000.00	9,000.00	836.15	4,574.64	4,425.36	50.83%
Conference, Seminar and Travel	63,000.00	63,000.00	7,768.06	39,158.91	23,841.09	62.16%
Furniture	5,000.00	5,000.00	0.00	2,802.20	2,197.80	56.04%
Facilities Charges	3,900.00	3,900.00	246.00	3,949.47	(49.47)	101.27%
Transfers In	16,000.00	16,000.00	530.45	6,147.41	9,852.59	38.42%
Transfers Out	(16,000.00)	(16,000.00)	(530.45)	(6,147.41)	(9,852.59)	38.42%
Total Services & Supplies	$ 1,495,200.00	$ 1,523,400.00	$ 86,709.37	$ 964,330.09	$ 559,069.91	63.30%
Total Sal, Ben, Serv & Supp	$ 4,323,900.00	$ 4,352,100.00	$ 310,538.28	$ 2,724,855.03	$ 1,627,244.97	62.61%
Technology:						
Computer Hardware	$ 32,600.00	$ 32,600.00	$ 1,031.30	2,188.55	$ 30,411.45	6.71%
Computer Software	193,000.00	193,000.00	1,902.00	49,019.27	143,980.73	25.40%
Systems & Application Support	670,200.00	670,200.00	58,975.99	378,289.07	291,910.93	56.44%
Pension Administration System	1,621,400.00	1,972,800.00	62,651.05	1,174,013.83	798,786.17	59.51%
Total Technology	$ 2,517,200.00	$ 2,868,600.00	$ 124,560.34	$ 1,603,510.72	$ 1,265,089.28	55.90%
Contingency	$ 615,200.00	$ 235,600.00	$ -	$ -	$ 235,600.00	0.00%
Total Current Year	$ 7,456,300.00	$ 7,456,300.00	$ 435,098.62	$ 4,328,365.75	$ 3,127,934.25	58.05%

Segal Consulting

Ventura County Employees' Retirement Association

Actuarial Experience Study

April 20, 2015

Paul Angelo, FSA

John Monroe, ASA

Segal Consulting, San Francisco

Actuarial Assumptions

- Actuarial assumptions – two kinds
  - Demographic
    - When benefits will be payable
    - Amount of benefits
  - Economic
    - How assets grow
    - How salaries increase

Demographic Assumptions

- Rates of "decrement"
  - Termination, mortality, disability, retirement
  - Termination
    - Withdrawal
    - Deferred vested
  - Mortality:
    - Before and after retirement
    - Service connected or not
    - Service, disability, beneficiary
- Percent married
- Member/spouse age difference
- Reciprocity
- Assumptions can be distinct for General and Safety

Economic Assumptions

- Inflation - component, plus COLA
- Investment return
  - Real return
- Salary increases
  - Real wage increases (“across the board”)
  - Merit and promotion (included with demographic assumptions)
- In-Service Redemptions: also “demographic”

Selection of Actuarial Assumptions

- Objective, long term
- Recent experience of future expectations
  - Demographic: recent experience
  - Economic: not necessarily!
- Client specific or not
- Consistency among assumptions
- Desired pattern of cost incidence
  - Good assumptions produce level cost
  - Beware “results based” assumptions!

Always remember

$$C + I = B + E$$

<u>C</u>ontributions + <u>I</u>nvestment Income

equals

<u>B</u>enefit Payments + <u>E</u>xpenses

- Actuarial valuation determines the current or "measured" cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

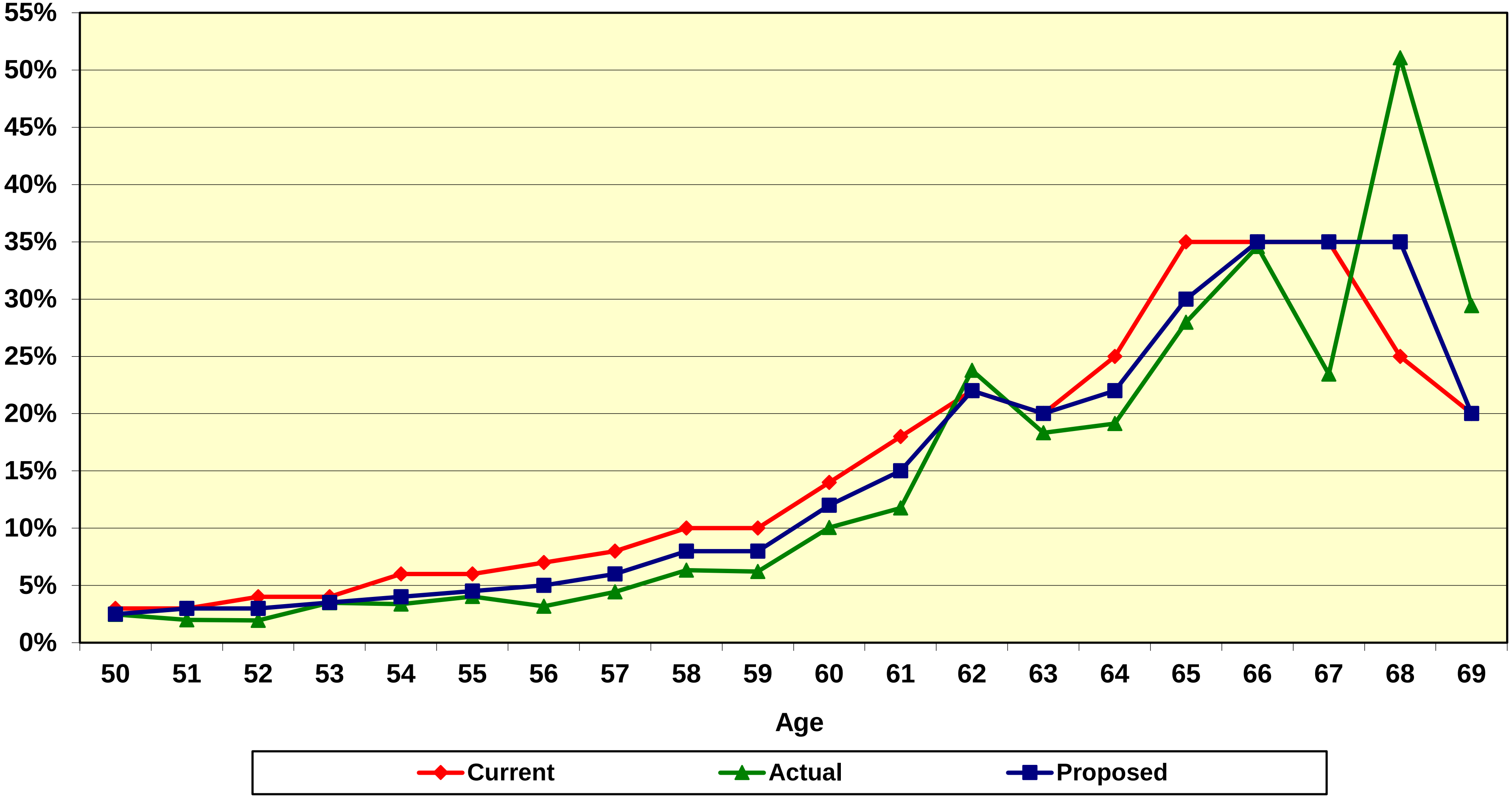
Setting Demographic Assumptions

- To determine rates for each assumption we count the "decrements" and "exposures" for that event
  - Exposures = Number of employees who could have terminated, retired, etc.
  - Decrements = Number of employees who actually terminated, retired, etc.
  - This gives the "actual" decrement rates during the period
- Compare to the "current" assumed rates (or to expected number of decrements based on those current rates)
- Develop "proposed" new assumption based on both "current" assumption and recent "actual" experience
  - Weight the "actual" based on "credibility"

Setting Demographic Assumption – Retirement Rates

- Retirement Rates from Experience Study

Chart 1
Retirement Rates – Non-PEPRA General Members



Recommendations - Demographic

- Retirement rates:
  - Slightly later retirements for both General and Safety
- Termination rates:
  - Change from service/age based to service based
    - Decrease termination rates for both General and Safety
  - Maintain current assumption that member will choose a refund or deferred benefit based on which option is more valuable
- Disability incidence:
  - Decreased for both General and Safety
- In-Service Redemptions:
  - Decreased the assumptions for both non-PEPRA General Tier 1 and non-PEPRA Safety

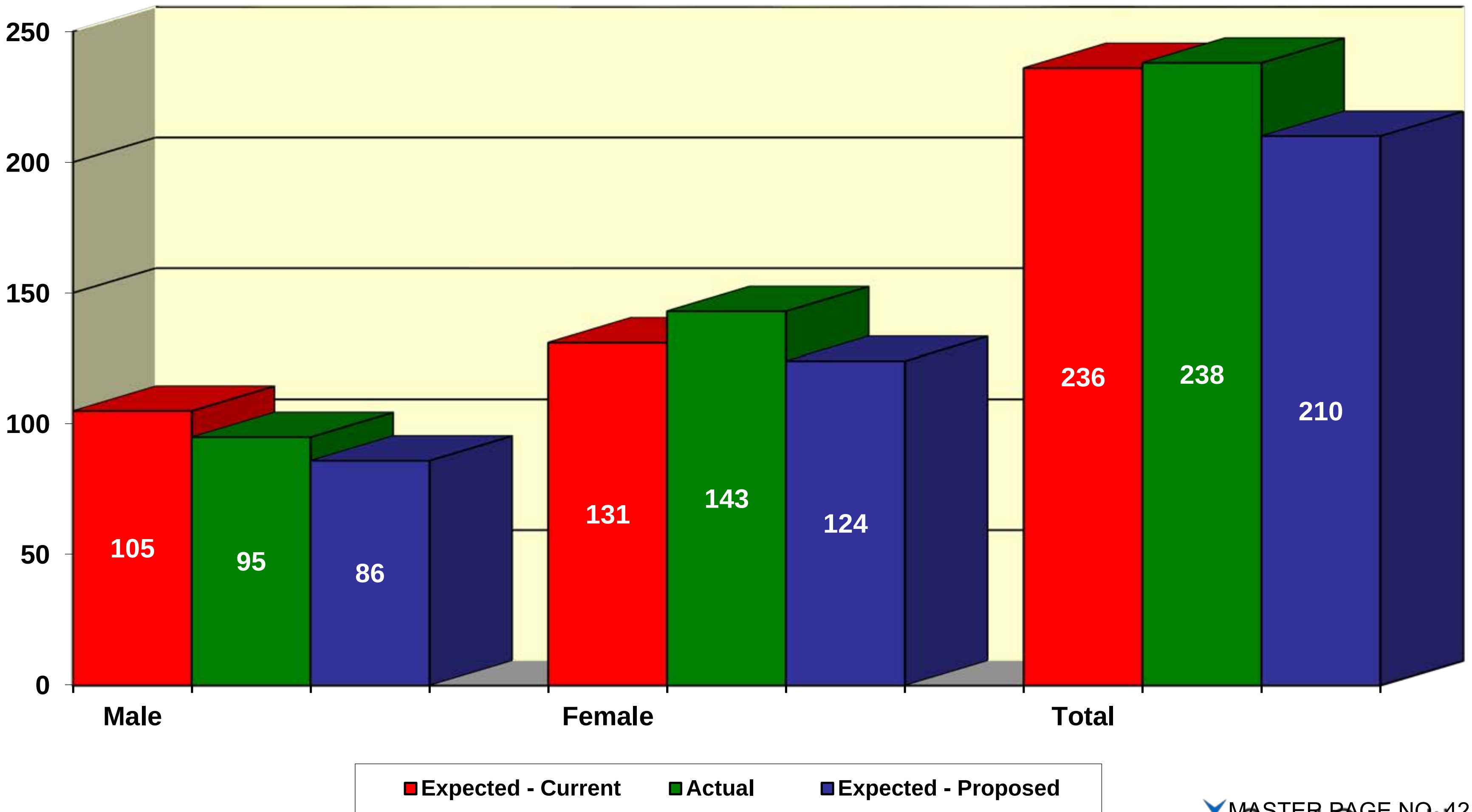
Setting Demographic Assumptions – Mortality

- Mortality Rates
  - Service retirement – Longer life expectancies
  - Disabled retirement – Longer life expectancies for General and shorter for Safety
  - Preferable to have a margin of around 10%
    - Actual deaths during the study period should be around 10% greater than the expected deaths
  - Can allow for margin using "age setbacks", mortality improvement scales or both
  - The Society of Actuaries has published scales to estimate future mortality improvements:
    - Scale AA - Has been standard since around 2000
      - Does not accurately reflect recent improvements in mortality
    - Scale BB - Interim standard scale issued in 2012
    - Scale MP-2014 – Issued in October 2014

Setting Demographic Assumptions – Mortality Rates

- Mortality Experience from Experience Study

Chart 5
Post - Retirement Deaths
Non - Disabled General Members



Setting Demographic Assumptions – Mortality

- Two ways to use mortality improvement scales to project future mortality improvements: Static or Generational
- Static projection to a future year - reflect mortality at a future date, not as of today
  - Recommend use of static mortality projection to achieve approximately 10% margin for future mortality improvement
    - RP-2000 with Scale BB projection to 2035
- Future studies might include a recommendation for generational mortality
  - Each future year has its own mortality table that reflects the forecasted improvements at every age
    - Younger participants have more future mortality improvement built in than for older participants
- CalPERS has adopted a static projection

Economic Assumptions

- Price Inflation (CPI):
  - Investment Return, Salary Increases, COLA
- Salary Increases
  - "Across the board" increases (wage inflation)
    - Includes price inflation plus real wage growth
  - Promotional & Merit: based on experience
    - Really is a "demographic" assumption
- Investment Return (Investment Earnings)
  - Components include price inflation, real return, expenses (administrative and/or investment)
  - Generally based on passive returns

Current Economic Assumptions

- Last full review was for 6/30/2012
  - Price inflation (CPI): 3.25%
  - Wage inflation: 4.00%
    - So real wage growth is 0.75%
  - Investment return: 7.75%
    - So net real return is 4.50%

Economic Assumptions - Recommended

- Price inflation (CPI)
  - Decrease from 3.25% to 3.00%
- Salary increases
  - Decrease price inflation from 3.25% to 3.00%
  - Reduce the real wage growth from 0.75% to 0.50%
  - Total wage inflation reduced from 4.00% to 3.50%
  - Merit and promotional: slight increases to rates overall
  - Net impact is a reduction in assumed future salary increases
- Investment return: Decrease from 7.75% to 7.50%
  - Change from net of administrative expenses to gross
- Explicit Administrative Expenses
  - 0.7% of payroll allocated between the employer and member

Economic Assumptions - Recommended

	6/30/2012 Val'n		Recommended	
	Return	Pay	Return	Pay
Price Inflation	3.25%	3.25%	3.00%	3.00%
Real Wages	n/a	0.75%	n/a	0.50%
Merit (16+ years)	n/a	0.50%	n/a	0.50%
Net Real Return	4.50%	n/a	4.50%*	n/a
Total	7.75%	4.50%	7.50%	4.00%

* Recommended return is gross of administrative expense

Price Inflation (CPI)

- Historical Consumer Price Index
  - Median 15-year moving average = 3.4%
  - Median 30-year moving average = 4.1%
- 15-year averages have been declining due to recent low inflation
- NASRA Survey
  - Median inflation assumption is 3.00%
- Social Security Forecast = 2.7%
- Recommend reducing from 3.25% to 3.00%

Salary Increase Assumption - Recommended

- Three components
- Price inflation: decrease from 3.25% to 3.00%
- Real increases: decrease from 0.75% to 0.50%
  - Department of Labor: Annual State and Local Government real productivity increase: 0.5% - 0.7% over 10 - 20 years
- Promotional & Merit: from experience study
  - Based on years of service
  - General: Currently 5.00% (0-1 years) to 0.50% (9+ years)
    - Overall minor increase at most years of service
  - Safety: Currently 8.50% (0-1 years) to 0.50% (16+ years)
    - Overall minor increase at most years of service
- Net reduction in assumed future salary increases

Payroll Growth Assumption

- Active member payroll based on wage inflation
- Includes price inflation and real wage increases
  - Price inflation: reduce from 3.25% to 3.00%
  - Real increases: decrease from 0.75% to 0.50%
  - Total is reduced from 4.00% to 3.50%
- Used to project total payroll for UAAL amortization

Investment Earnings Assumption

- Also called the discount rate
- Used for contribution requirements
- Affects timing of Plan cost
  - Lower assumed rate means higher current cost
  - Ultimately, actual earnings determine cost
    - **C + I = B + E**
  - "Can't pay benefits with assumed earnings!"

Setting the Earnings Assumption

- Four components
  - Inflation: consistent with salary increase assumption
  - Real returns by asset class
    - Weighted by asset allocation
  - Reduced by assumed expenses
    - Currently both investment and administrative
    - Recommend reflecting only investment expenses, with separate assumption for administrative expenses
  - Reduced by "risk adjustment"
    - Margin for adverse deviation
    - Expressed as confidence level above 50%

VCERA Earnings Assumption

Preview: Components of Preliminary Investment Return Assumption

	Current	Recommended
Assumed Inflation	3.25%	3.00%
Portfolio Real Rate of Return	5.31%	5.26%
Assumed Expenses *	(0.40%)	(0.40%)
Risk Adjustment	(0.41%)	(0.36%)
Assumed Investment Return	7.75%	7.50%
Confidence level	54%	54%

** Includes both investment and administrative expenses*

When to Change Earnings Assumption?

- Easy: change in asset allocation
- Hard: change in estimated future real returns for asset classes
- Source of data:
  - Investment consultants (industry)
  - Investment consultant (your Fund)
- Actuaries are neither economists nor investment consultants

Real Returns by Asset Class

- Segal uses an average of 9 investment advisory firms retained by Segal public clients
  - Used results from NEPC for asset categories unique to VCERA
- Decrease in real return is due to a combination of:
  - Changes in the target asset allocation (+0.38%)
  - Changes in real return assumptions in survey (-0.33%)

VCERA Real Rate of Return

Asset Class	Target Allocation	Real Return	Weighted Return*
Large Cap U.S. Equity	27.74%	5.90%	1.64%
Small Cap U.S. Equity	3.41%	6.60%	0.23%
Developed Int'l Equity	14.73%	6.95%	1.02%
Emerging Market Equity	3.12%	8.44%	0.26%
U.S. Core Fixed Income	14.00%	0.71%	0.10%
Real Estate	7.00%	4.65%	0.33%
Private Debt/Credit Strategie	5.00%	6.01%	0.30%
Absolute Return (Risk Parity)	16.00%	4.13%	0.66%
Real Assets (MLPs)	4.00%	6.51%	0.26%
Private Equity	5.00%	9.25%	0.46%
Total	100.00%		5.26%

* Results may not add due to rounding

Administrative and Investment Expenses

Administrative and Investment Expenses
as a Percentage of Actuarial Value of Assets
(All dollars in 000's)

FYE	Actuarial Value of Assets	Administrative Expenses	Investment Expenses	Administrative %	Investment %	Total %
2010	$3,134,978	$4,081	$6,256	0.13%	0.20%	0.33%
2011	3,236,217	4,387	7,404	0.14	0.23	0.36
2012	3,411,149	3,505	9,103	0.10	0.27	0.37
2013	3,633,626	3,944	9,901	0.11	0.27	0.38
2014	3,964,814	4,045	12,877	0.10	0.32	0.43
Average				0.12%	0.26%	0.37%

- Based on this experience, we have maintained the future expense component at 0.40% for investment and administrative expenses.

Risk Adjustment Model and Confidence Level

- Compares the Association's risk position over time
- Confidence level is a relative, not absolute measure
  - Can be reevaluated and reset for future comparisons
- Confidence level is based on standard deviation
  - Measure of volatility based on portfolio assumptions
- Results should be evaluated for reasonableness

Risk Adjustment Model and Confidence Level

- Most useful for comparing risk position over time
  - 6/30/2009: 8.00% assumption gave 57% confidence
  - 6/30/2012: 7.75% assumption gave 54% confidence
  - 6/30/2015: 7.50% recommendation still gives confidence level of 54%
  - Maintaining 7.75% assumption would give 51% confidence
    - » Inflation decrease from 3.25% to 3.00%
    - » Portfolio real return down from 5.31% to 5.26%

VCERA Earnings Assumption

Components of <u>Preliminary</u> Investment Return Assumption

	Current	Recommended
Assumed Inflation	3.25%	3.00%
Portfolio Real Rate of Return	5.31%	5.26%
Assumed Expenses *	(0.40%)	(0.40%)
Risk Adjustment	(0.41%)	(0.36%)
Assumed Investment Return	7.75%	7.50%
Confidence level	54%	54%

** Includes both investment and administrative expenses*

Earnings Assumption - 2015

- Comparison with other systems
  - Median is 7.90% but trending down nationwide
  - California public systems – most at 7.25% to 7.50%
  - Orange CERS, Contra Costa CERA, Fresno CERA, Mendocino CERA and San Mateo CERA recently adopted 7.25%

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- For funding, current investment return assumption is net of both investment and administrative expenses
- For financial reporting, GASB 67 and 68 require this assumption to be gross of administrative expense
- Advantages to using same assumption for funding and for financial reporting
  - Take advantage of consistency between new GASB rules and current funding practices
    - Entry Age cost method
    - Discount rate based on expected investment return
  - Consistency of liability and normal cost measures
    - The only difference is in how <u>changes</u> in liability are recognized

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- Complication associated with eliminating administrative expenses from this assumption
- Administrative expense funded implicitly by employer and employees
  - Difficult to precisely reproduce current implicit cost sharing
- Allocate explicit load to employer/employees based on portion of contributions paid by each
  - Employee NC, Employer NC, Employer UAAL payment
- Current implicit method may “overcharge” for admin expenses
  - 0.12% of assets not the same as a 0.12% change in investment return assumption
    - 0.12% of assets is about $5 million annually or 0.7% of payroll
    - 0.12% change in return assumption increases contributions by about $7 million annually or 1.1% of payroll

Developing an Investment Return Assumption for use in GASB 67 and 68 Financial Reporting

- Review: Advantages to using same assumption for funding and for financial reporting
  - Consistency of liability and normal cost measures
- Two ways to do this:
  - Option "A" – Set the investment return assumption for funding on a gross of administrative expenses basis
    - Use same assumption for financial reporting
    - Add and allocate explicit contribution load for admin. expenses
  - Option "B" – Continue to set investment return assumption for funding on a net of administrative expenses basis
    - Use same value for assumption for financial reporting gross of administrative expenses
      - That return is net of administrative expenses for funding
      - Same return is gross of administrative expenses for financial reporting

Option A – Investment Return Assumption for Funding on a Gross of Administrative Expenses Basis

- <u>Same</u> investment return assumption for both funding and financial reporting that is <u>gross</u> of administrative expenses
- Introduce explicit administrative expenses loading of 0.7% of payroll or $5 million annually (allocated 0.55% employer and 0.15% employee)

	Recommended if Used only for Funding	Recommended for both Funding and Financial Reporting
Assumed Inflation	3.00%	3.00%
Portfolio Real Rate of Return	5.26%	5.26%
Assumed Expenses	(0.40%)	(0.28%)
Risk Adjustment	<u>(0.36%)</u>	<u>(0.48%)</u>
Assumed Investment Return	7.50%	7.50%
Confidence level	54%	55%
Administrative Expense Load	Not Applicable	0.70% of pay

Option B – Investment Return Assumption for Funding on a Net of Administrative Expenses Basis

- "Same" investment return assumption for both funding and financial reporting
  - Recommended 7.50% return is net of administrative expenses for funding
  - Recommended 7.50% return is gross of administrative expenses for financial reporting

	Recommended if Used only for Funding	Recommended for Financial Reporting
Assumed Inflation	3.00%	3.00%
Portfolio Real Rate of Return	5.26%	5.26%
Assumed Expenses	(0.40%)	(0.28%)
Risk Adjustment	(0.36%)	(0.48%)
Assumed Investment Return	7.50%	7.50%
Confidence level	54%	55%
Administrative Expense Load	Not Applicable	Not Applicable

Anticipated Impact on Valuation Results

- Modeled as of June 30, 2014 for illustration
- Increase in Actuarial Accrued Liability ($224 million)
- Total increase in average employer rate (3.45% of payroll)
  - Increase in average employer Normal Cost (0.20% of pay)
  - Increase in average employer UAAL rate (2.70% of pay)
  - Portion of explicit administrative expense allocated to employer (0.55% of payroll)
  - Primarily due to updating the mortality table, changing investment return assumption and introducing explicit administrative expense
- Increase in average member rate (0.20% of payroll)
  - Includes explicit administrative expense allocated to member (0.15% of payroll)
- Results are before 50/50 Normal sharing for non-PEPRA tiers
  - 50/50 sharing shifts 0.07% of the cost impact from employer to member

Asset Allocation and Earnings Assumption

- Investment return assumption is based on the asset allocation
  - Asset allocation results from a balance of risk and return, reflecting a plan's tolerance for risk
- Asset allocation is NOT based on the earnings assumption!
  - Earnings assumption is NOT a target, benchmark, hurdle or goal that the allocation seeks to achieve
  - Do not set asset allocation to "chase" your current earnings assumption

Always remember

C + I = B + E

<u>C</u>ontributions + <u>I</u>nvestment Income

equals

<u>B</u>enefit Payments + <u>E</u>xpenses

- Actuarial valuation determines the current or "measured" cost, not the ultimate cost
- Assumptions and funding methods affect only the timing of costs

Ventura County Employees' Retirement Association

ACTUARIAL EXPERIENCE STUDY

Analysis of Actuarial Experience During the Period July 1, 2011 through June 30, 2014

Segal Consulting

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San Francisco, CA 94104

MARCH 2015

Segal Consulting

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April 14, 2015

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

Re: Review of Non-economic Actuarial Assumptions for the June 30, 2015 Actuarial Valuation

Dear Members of the Board:

We are pleased to submit this report of our review of the actuarial experience of the Ventura County Employees' Retirement Association. This study utilizes the census data of the last four actuarial valuations to review plan experience during the period from July 1, 2011 through June 30, 2014. The study develops the proposed actuarial assumptions to be used in future actuarial valuations starting with the June 30, 2015 actuarial valuation.

Please note that we have also reviewed the economic assumptions. The economic actuarial assumption recommendations for the June 30, 2015 valuation are provided in a separate report.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

Paul Angelo, FSA, MAAA, FCA, EA Senior Vice President and Actuary	John W. Monroe, ASA, MAAA, EA Vice President and Actuary

AW/bqb

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I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

To project the cost and liabilities of the pension plan, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are modified, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions means that that year's experience is treated as temporary and that, over the long run, experience will return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important in maintaining adequate funding, while paying the promised benefit amounts to participants already retired and to those near retirement. The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the demographic actuarial assumptions and to compare the actual experience with that expected under the current assumptions during the three-year experience period from July 1, 2011 through June 30, 2014. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 35, "Selection of Demographic and Other Non-economic Assumptions for Measuring Pension Obligations" and ASOP No. 27 "Selection of Economic Assumptions for Measuring Pension Obligations." These Standards of Practice put forth guidelines for the selection of the various actuarial assumptions utilized in a pension plan actuarial valuation. Based on the study's results and expected future experience, we are recommending various changes in the current actuarial assumptions.

The economic assumptions are currently reviewed every three years at the same time as the non-economic assumptions. See the "Review of Economic Actuarial Assumptions for the June 30, 2015 Actuarial Valuation" that is provided in a separate report.

In this report we are recommending changes in the assumptions for retirement from active employment, percent married at retirement, average entry age for active members, average retirement age for deferred vested members, percent of members assumed to go on to work for a reciprocal system, reciprocal salary increases, pre-retirement mortality, healthy life post-retirement mortality, disabled life post-retirement mortality, turnover, disability (ordinary and duty), promotional and merit salary increases, and in-service redemptions.

Our recommendations for the major actuarial assumption categories are as follows:

Ref: Pg. 5 **Retirement Rates –** The probability of retirement at each age at which participants are eligible to retire.

Recommendation: Adjust the current retirement rates to those developed in Section III(B). Both General and Safety members are assumed to retire at slightly later ages.

Ref: Pg. 15
Pg. 23 **Mortality Rates –** The probability of dying at each age. Mortality rates are used to project life expectancies.

Recommendation: Decrease pre- and post-retirement mortality rates for non-disabled General and Safety members as developed in Section III(C). Increase mortality rates for disabled Safety members and decrease mortality rates for disabled General members as developed in Section III(D).

Ref: Pg. 28 **Termination Rates –** The probability of leaving employment at each age and receiving either a refund of contributions or a deferred vested retirement benefit.

Recommendation: Change the termination rates for both General and Safety members to those developed in Section III(E). Overall, the termination rates have been decreased. In addition, maintain the assumption that a member will choose between a refund of contributions and a deferred vested benefit based on which option is more valuable.

Ref: Pg. 36 **Disability Incidence Rates –** The probability of becoming disabled at each age.

Recommendation: Decrease the current disability rates for General and Safety members to those developed in Section III(F).

Ref: Pg. 41 **Individual Salary Increases –** Increases in the salary of a member between the date of the valuation to the date of separation from active service.

Recommendation: Change the promotional and merit increases to those developed in Section III(G). In general, future promotional and merit salary increases are slightly higher under the new assumptions. Overall, salary increase are slightly lower for both General and Safety members due to the lower price inflation assumption (as recommended in our separate review of economic assumptions).

Ref: Pg. 47 **In-Service Redemptions –** Additional pay elements that are expected to be received during the member's final average earnings period.

Recommendation: Decrease the current in-service redemption assumptions for non-PEPRA General Tier 1 and non-PEPRA Safety to those developed in Section III(H).

Ref: Pg. 48 **Average Entry Age (for member contributions) –** Used for determining contribution rates for members hired after November 1974.

Recommendation: Decrease the current average entry age assumption for General members and maintain the current average entry age assumption for Safety members as developed in Section III(I).

We have estimated the impact of proposed assumption changes as if they were applied to the June 30, 2014 actuarial valuation. Please note that the rates shown below do not reflect the 50/50 sharing of Normal Cost for non-PEPRA Tiers. If all of the proposed demographic assumption changes were implemented, the average employer rate would have increased by 1.57% of compensation. The average member rate would have increased by 0.05% of compensation. Of the various demographic assumption changes, the most significant cost impact is from the mortality assumption change.

If all of the proposed economic assumptions (recommended in a separate report) were implemented (including the proposed change to an explicit administrative expense load), the average employer rate would have increased by 1.88% of compensation and the average member rate would have been increased by 0.15%. Of the various economic assumption changes, the most significant cost impact is from the investment return assumption change from 7.75% net of administrative expenses to 7.50% gross of administrative expenses.

Therefore, the estimated cost impact of all proposed assumption changes (both demographic and economic) is 3.45% of compensation for the average employer rate, where the Normal Cost rate increased by 0.20%, the UAAL amortization rate increased by 2.70% and the explicit administrative expense load is 0.55%. The average member rate would have increased by 0.20% of compensation, including the explicit administrative load of 0.15%. The allocation of the explicit administrative expense load between employers and members is discussed in the economic assumptions report.

Section II provides some background on basic principles and the methodology used for the experience study and for the review of the demographic actuarial assumptions. A detailed discussion of each assumption and reasons for the proposed changes is found in Section III. Section IV shows the cost impact of the proposed assumption changes.

II. BACKGROUND AND METHODOLOGY

In this report, we analyzed the “demographic” or “non-economic” assumptions only. Our analysis of the “economic” assumptions for the June 30, 2015 valuation is provided in a separate report. Demographic assumptions include the probabilities of certain events occurring in the population of members, referred to as “decrements,” e.g., termination from service, disability retirement, service retirement, and death after retirement. We also review the individual salary increases net of inflation (i.e., the promotional and merit assumptions) in this report.

Demographic Assumptions

In order to determine the probability of an event occurring, we examine the “decrements” and “exposures” of that event. For example, taking termination from service, we compare the number of employees who actually terminate in a certain age and/or service category (i.e., the number of “decrements”) with those “who could have terminated” (i.e., the number of “exposures”). For example, if there were 500 active employees in the 20-24 age group at the beginning of the year and 50 of them terminate during the year, we would say the probability of termination in that age group is 50 ÷ 500 or 10%.

The reliability of the resulting probability is highly dependent on both the number of decrements and the number of exposures. For example, if there are only a few people in a high age category at the beginning of the year (number of exposures), we would not lend as much credibility to the probability of termination developed for that age category, especially if it is out of line with the pattern shown for the other age groups. Similarly, if we are considering the death decrement, there may be a large number of exposures in, say, the age 20-24 category, but very few decrements (actual deaths); therefore, we would not be able to rely heavily on the probability developed for that category.

One reason we use several years of experience for such a study is to have more exposures and decrements, and therefore more statistical reliability. Another reason for using several years of data is to smooth out fluctuations that may occur from one year to the next. However, we also calculate the rates on a year-to-year basis to check for any trend that may be developing in the later years.

III. ACTUARIAL ASSUMPTIONS

A. ECONOMIC ASSUMPTIONS

The economic assumptions are currently reviewed every three years at the same time as the non-economic assumptions. See the separate reported titled “Review of Economic Actuarial Assumptions for the June 30, 2015 Actuarial Valuation”.

B. RETIREMENT RATES

The age at which a member retires from service (i.e., who did not retire on a disability pension) will affect both the amount of the benefits that will be paid to that member as well as the period over which funding must take place.

The table on the following page shows the observed service retirement rates for non-PEPRA General members based on the actual experience over the past three years. The observed service retirement rates were determined by comparing those members who actually retired from service to those eligible to retire from service. This same methodology is followed throughout this report and was described in Section II. Also shown are the current assumed rates and the rates we propose:

Non-PEPRA General Tiers

Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
Under 50	0.00%	66.67%	0.00%
50	3.00	2.46	2.50
51	3.00	1.93	2.50
52	4.00	1.94	3.00
53	4.00	3.49	3.50
54	6.00	3.38	4.00
55	6.00	4.02	4.50
56	7.00	3.17	5.00
57	8.00	4.44	6.00
58	10.00	6.34	8.00
59	10.00	6.21	8.00
60	14.00	10.06	12.00
61	18.00	11.76	15.00
62	22.00	23.77	22.00
63	20.00	18.33	20.00
64	25.00	19.14	22.00
65	35.00	27.97	30.00
66	35.00	34.58	35.00
67	35.00	23.44	35.00
68	25.00	51.06	35.00
69	20.00	29.41	20.00
70	20.00	27.27	20.00
71	20.00	14.71	20.00
72	20.00	13.64	20.00
73	20.00	7.14	20.00
74	40.00	0.00	30.00
75 & Over	100.00	16.00	100.00

As shown above, we are recommending decreases in most of the retirement rates for non-PEPRA General members.

Chart 1 that follows later in this section compares actual experience with the current and proposed rates of retirement for non-PEPRA General members.

The following table shows the observed retirement rates for non-PEPRA Safety members over the past three years. Also shown are the current assumed rates and the rates we propose:

Non-PEPRA Safety Tiers

Age	Current Rate of Retirement	Actual Rate of Retirement	Proposed Rate of Retirement
Under 40	0.00%	0.00%	0.00%
40	1.00	50.00	1.00
41	1.00	0.00	1.00
42	1.00	4.00	1.00
43	1.00	2.86	1.00
44	1.00	0.00	1.00
45	1.00	0.00	1.00
46	1.00	0.00	1.00
47	1.00	0.00	1.00
48	1.00	0.00	1.00
49	1.00	2.56	1.50
50	2.00	3.36	2.50
51	2.00	1.64	2.00
52	4.00	1.61	3.00
53	6.00	1.92	4.00
54	18.00	16.35	17.00
55	25.00	16.84	22.00
56	20.00	25.00	22.00
57	20.00	21.28	20.00
58	18.00	21.88	19.00
59	25.00	19.35	22.00
60	25.00	18.18	22.00
61	30.00	21.43	25.00
62	40.00	36.36	35.00
63	50.00	16.67	40.00
64	50.00	14.29	40.00
65 & Over	100.00	100.00	100.00

Overall, we are recommending decreases in the retirement rates for non-PEPRA Safety members.

Chart 2 compares actual experience with the current and proposed rates for non-PEPRA Safety members.

Note that effective January 1, 2013, new PEPRA formulas were implemented for PEPRA General and PEPRA Safety Tiers. For these new tiers we do not have any experience from the past three years to propose new rates based on actual retirements from members of those tiers. However, we have recommended changes to the retirement assumptions at some ages for PEPRA members based on our recommended assumptions for non-PEPRA members.

The following are the current and proposed rates of retirement for PEPRA General and Safety members:

General and Safety PEPRA Tiers

Age	Current General PEPRA Tiers	Proposed General PEPRA Tiers	Current Safety PEPRA Tiers	Proposed Safety PEPRA Tiers
50	0.00%	0.00%	4.00%	5.00%
51	0.00	0.00	2.00	2.00
52	2.00	2.00	5.00	4.00
53	2.00	2.00	8.00	6.00
54	3.00	2.50	18.00	16.00
55	5.00	4.00	20.00	20.00
56	5.00	4.50	20.00	20.00
57	6.00	5.00	18.00	18.00
58	7.00	6.00	18.00	18.00
59	8.00	7.00	30.00	25.00
60	10.00	9.00	30.00	25.00
61	12.50	11.00	30.00	25.00
62	20.00	20.00	50.00	40.00
63	20.00	20.00	50.00	40.00
64	20.00	18.00	50.00	40.00
65	25.00	20.00	100.00	100.00
66	30.00	30.00	100.00	100.00
67	30.00	30.00	100.00	100.00
68	30.00	30.00	100.00	100.00
69	30.00	30.00	100.00	100.00
70	50.00	50.00	100.00	100.00
71	50.00	50.00	100.00	100.00
72	50.00	50.00	100.00	100.00
73	50.00	50.00	100.00	100.00
74	50.00	50.00	100.00	100.00
75 & Over	100.00	100.00	100.00	100.00

Chart 3 compares the current rates with the proposed rates of retirement for PEPRA General members.

Chart 4 compares the current rates with the proposed rates of retirement for PEPRA Safety members.

Deferred Vested Members

In prior valuations, deferred vested General and Safety members were assumed to retire at age 58 and 54, respectively. The average age at retirement over the prior three years was 59 for General and 54 for Safety. We recommend increasing the General assumption to age 59 and maintaining the Safety assumption at age 54.

Reciprocity

It was also assumed that 50% of inactive General and 65% of inactive Safety deferred vested participants would be covered under a reciprocal retirement system and receive 4.50% annual salary increases from termination until their date of retirement. As of June 30, 2014, about 52% of the total General deferred vested members and 63% of the total Safety deferred vested members have gone on to be covered by a reciprocal retirement system. As a result, we recommend maintaining the reciprocal assumption at 50% for General members and decreasing the assumption to 60% for Safety members. This recommendation takes into account the experience of all deferred vested members as of June 30, 2014 instead of just new deferred vested members during the three-year period. This is because there is a lag between a member's date of termination and the time that it is known if they have reciprocity with a reciprocal retirement system.

Based on our recommended salary increase assumptions, we propose that the current 4.50% annual salary increase assumption for reciprocal members be reduced from 4.50% to 4.00% to anticipate salary increases from termination from VCERA to the expected date of retirement.

Survivor Continuance Under Unmodified Option

In prior valuations, it was assumed that 70% of all active male members and 50% of all active female members would be married or have an eligible domestic partner when they retired. We reviewed experience for new retirees during the three-year period and determined the actual percentage of these new retirees that had an eligible spouse or eligible domestic partner at the time of retirement. The results of that analysis are shown below.

New Retirees – Actual Percent with Eligible Spouse or Domestic Partner

Year Ending June 30	Male	Female
2012	71%	55%
2013	64%	52%
2014	53%	58%
Total	63%	55%

According to experience of members who retired during the last three years, about 63% of all male members and 55% of all female members were married or had a domestic partner at retirement. However, we note that the 2014 percentage for males of 53% appears to be unusually low. We recommend maintaining the assumption at 70% for male members and increasing the assumption to 55% for female members.

Since the value of the survivor's benefit is dependent on the survivor's age and sex, we must also have assumptions for the age and sex of the survivor. Based on the experience during the three-year period and studies done for other retirement systems, we believe that it is reasonable to continue to assume a three-year age difference for the survivors age as compared to the member's age.

Since the majority of survivors are expected to be of the opposite sex, even with the inclusion of domestic partners, we will continue to assume that the survivor's sex is the opposite of the member.

The proposed assumption for the age of the survivor and recommended assumption are shown below. These assumptions will continue to be monitored in future experience studies.

Survivor Ages – Current Assumptions

	Survivor's Age as Compared to Member's Age	
Beneficiary Sex	Current Assumption	Recommended Assumption
Male	3 years older	No change
Female	3 years younger	No change

Chart 1
Retirement Rates - Non-PEPRA General Members

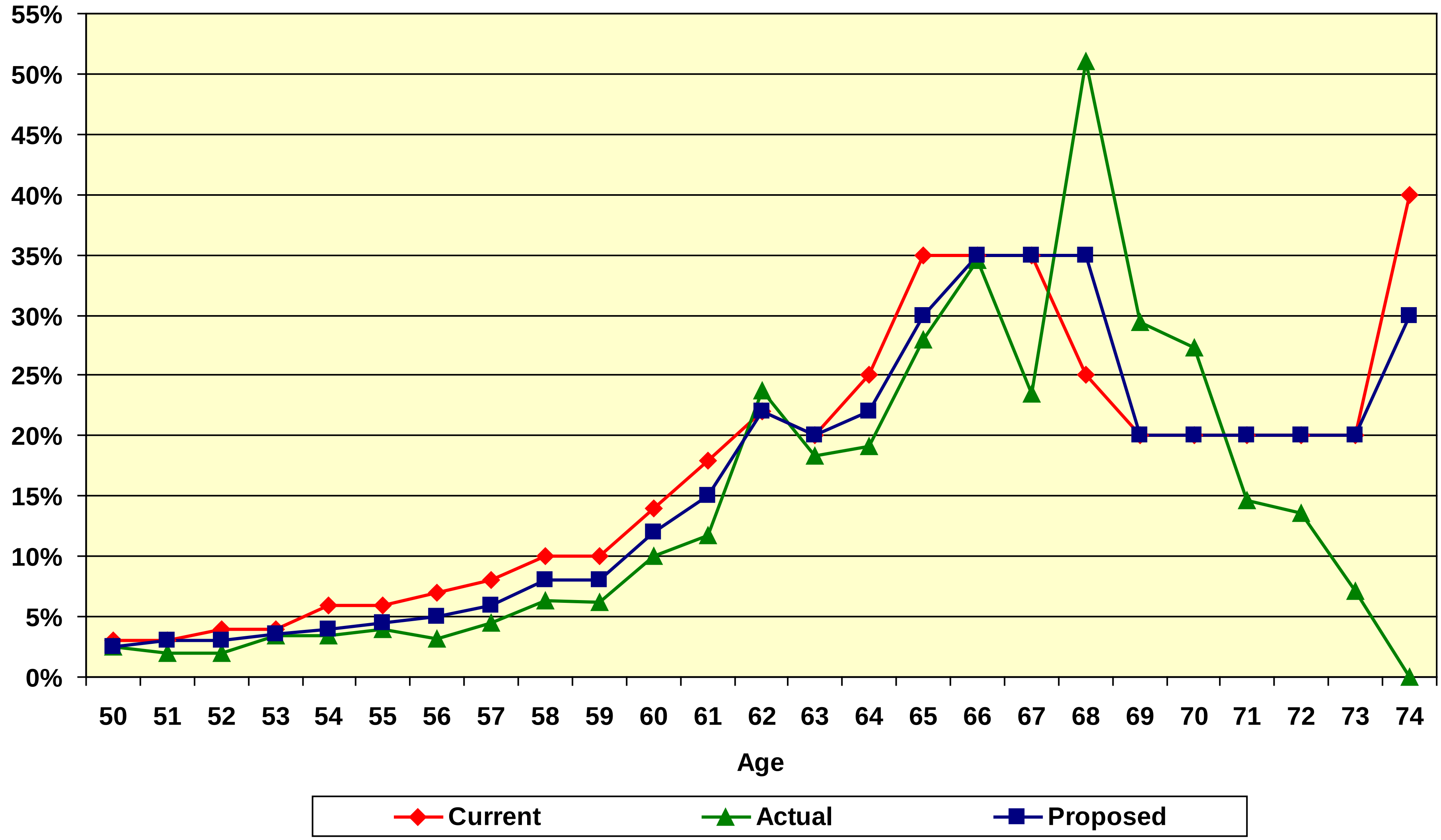


Chart 2
Retirement Rates - Non-PEPRA Safety Members

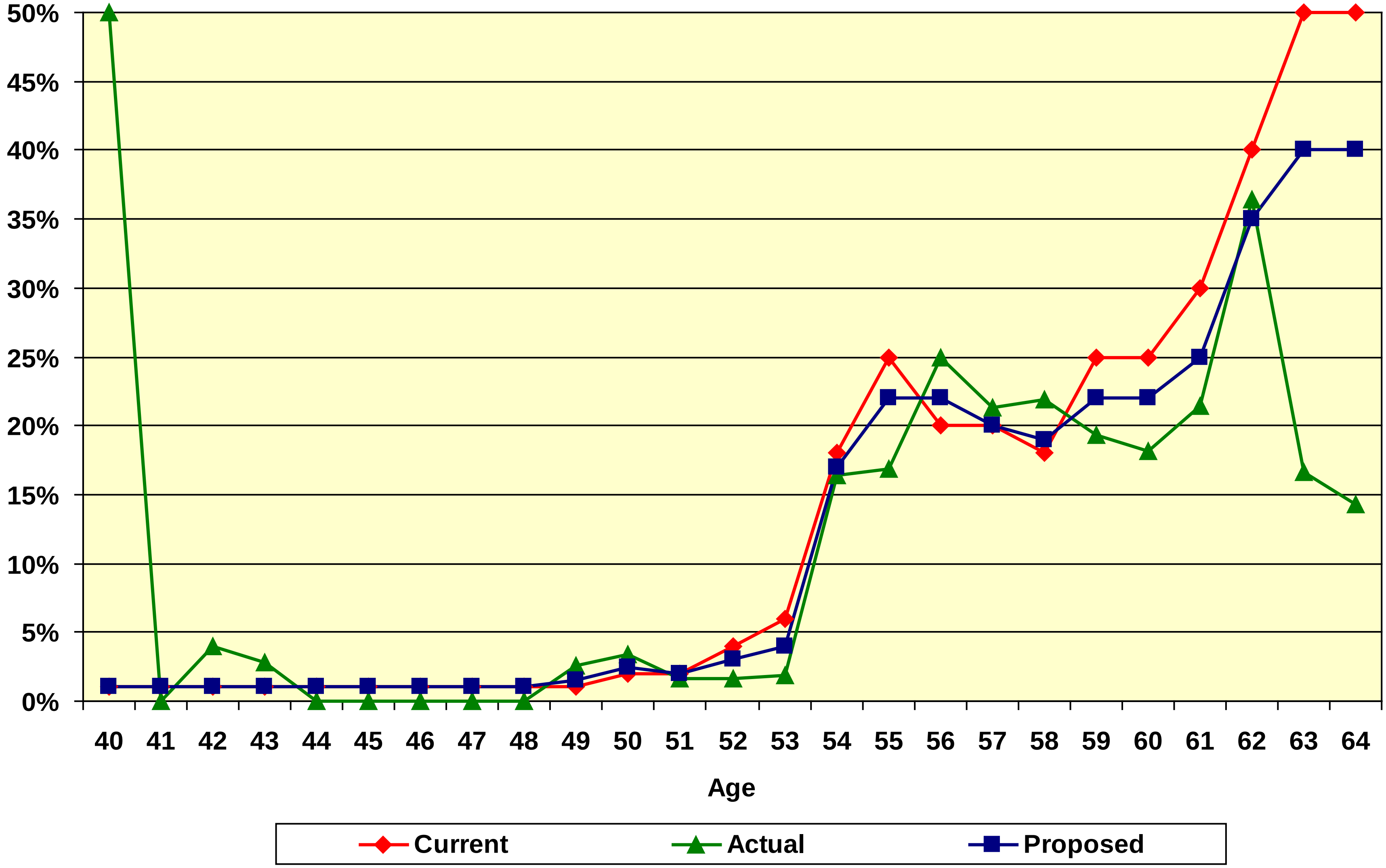


Chart 3
Retirement Rates - PEPRA General Members

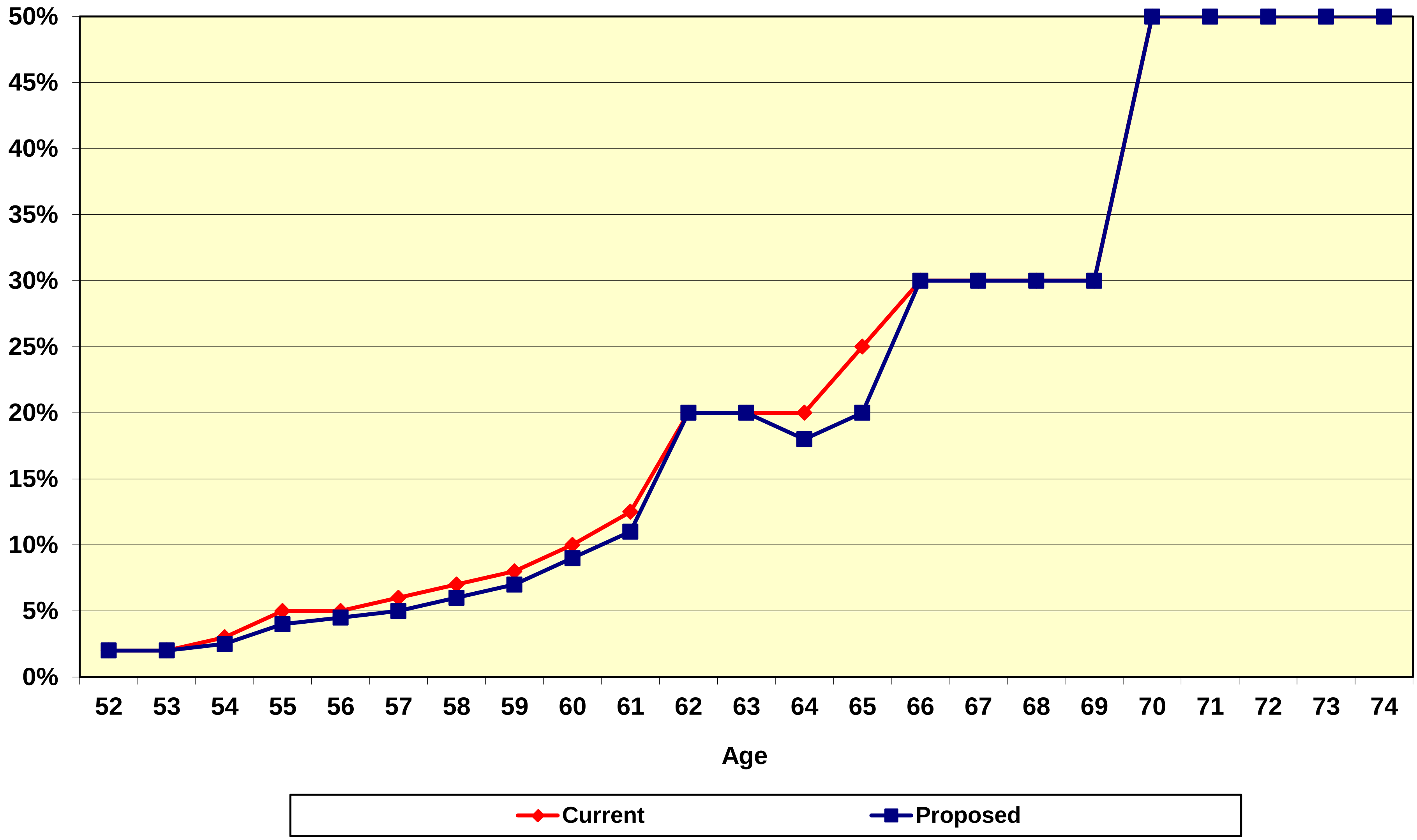
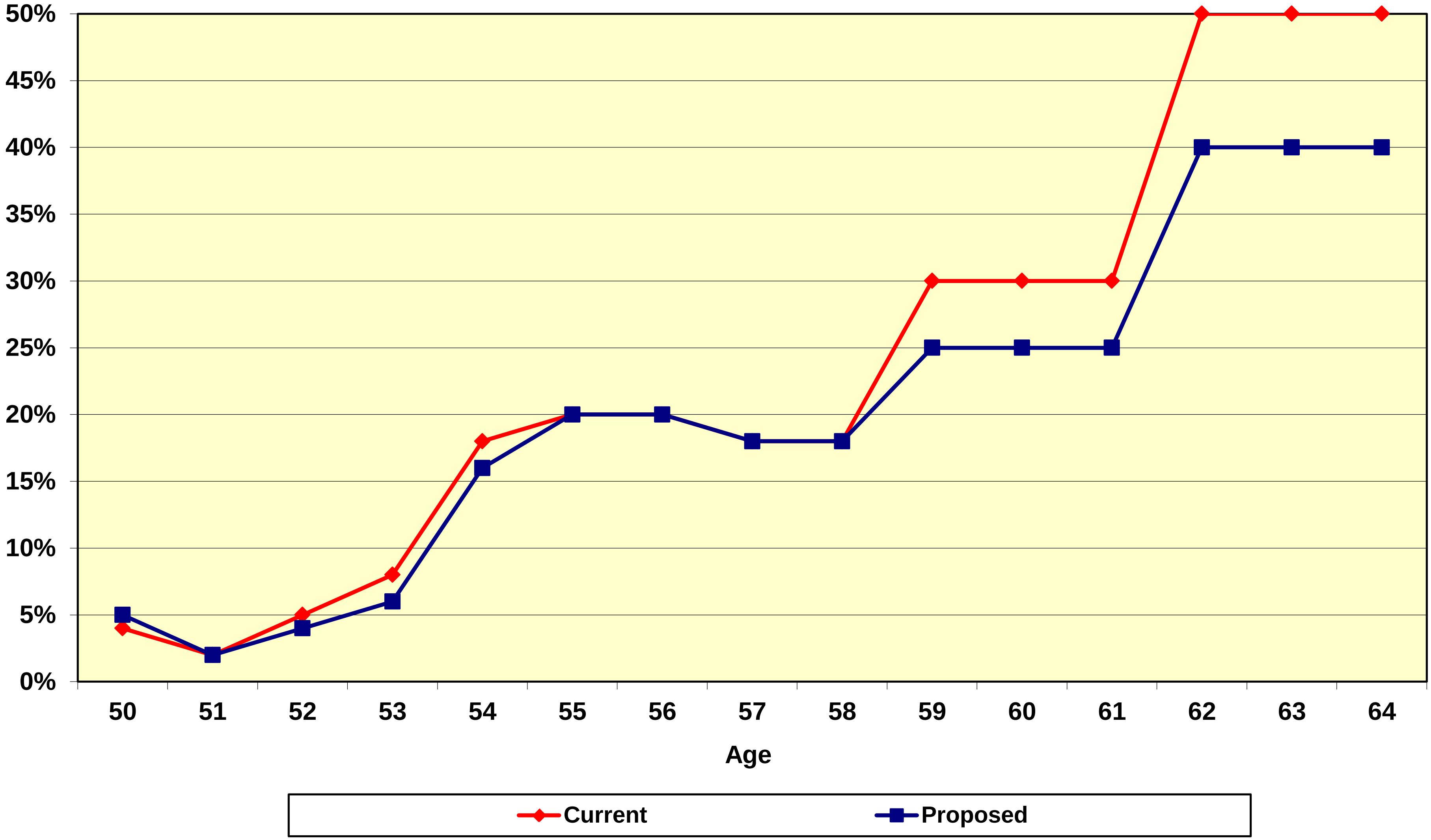


Chart 4
Retirement Rates - PEPRA Safety Members



C. MORTALITY RATES - HEALTHY

The "healthy" mortality rates project what proportion of members will die before retirement as well as the life expectancy of a member who retires from service (i.e., who did not retire on a disability pension). The table currently being used for both General and Safety post-service retirement mortality rates is the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale AA to 2025 with ages set back one year. Beneficiaries are assumed to have the same mortality of a General member of the opposite sex who has taken a service (non-disability) retirement.

Recent changes to ASOP 35 have increased the actuary's responsibility to reflect and to disclose an allowance for future mortality improvement in this assumption. Ways to reflect anticipated future mortality improvement include:

- Age adjustments – A standard table is used without projection but with age adjustments ("set back" or "set forward") chosen as to forecast fewer deaths than the current experience level, thus implicitly allowing for future mortality improvement.
- Projection to a future year – The same mortality table is used for future years, but that table is intended to be reflective of mortality at some particular future year, not as of the current year.
- Generational mortality – Each future year has its own mortality table that reflects the forecasted improvements. In effect, this means that younger participants have more future mortality improvement built in than older participants do.

Historically, we have used age adjustments, but in the previous study we also included a projection to a future year when setting mortality assumptions for VCERA. In particular, the RP-2000 Combined Healthy Mortality Table was projected to the year 2025 and then we applied an age adjustment similar to the one described in the first bullet so that actual deaths would be at least 10% greater than those assumed.

Pre-Retirement Mortality

The number of deaths among active and deferred vested members is not large enough to provide a statistically credible basis for a specific pre-retirement mortality analysis. Therefore, we continue to propose that pre-retirement mortality follow the same tables used for post-retirement mortality. In addition, based on experience from the last three years of 23 total deaths, none were due to service connected (duty) causes. For that reason, we recommend maintaining the current assumption that all pre-retirement deaths are assumed to be ordinary (non-duty) based on recent data.

Post-Retirement Mortality (Service Retirements)

Our analysis starts with a table that shows among all service retired members, the actual deaths compared to the expected deaths under the current assumptions for the last three years. We also show the deaths under proposed assumptions based on using a methodology generally consistent with prior years. As noted above, in prior years we have generally set the mortality assumption so that actual deaths will be at least 10% greater than those assumed. We are recommending continuation of that methodology in this experience study. However, as discussed later in this section, the Board should be aware that a future recommendation may include the use of a generational mortality table.

	General – Healthy			**Safety – Healthy**		
	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths
Male	106	95	86	21	15	15
Female	131	143	124	1	1	1
Total	237	238	210	22	16	16
Actual / Expected	100%		113%	73%		100%

Chart 5 compares actual to expected deaths for General members under the current and proposed assumptions over the last three years. Experience shows that there was one more death than predicted by the current table.

Chart 6 has the same comparison for Safety members. Experience shows that there were fewer deaths than predicted by the current table.

For General service retirees the ratio of actual to expected deaths was 100%. We recommend changing the current table to the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale BB to 2035 with ages set back one year for males and set forward one year for females. This will bring the actual to expected ratio to 113%. This is consistent with ASOP 35 as we are continuing to include about a 10% margin in the rates to anticipate expected future improvement in life expectancy.

For Safety service retirees the ratio of actual to expected deaths was 73%. We recommend changing the current table to the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale BB to 2035 with ages set back three years for both males and females. This will bring the actual to expected ratio to 100%. The aggregate actual to expected ratio is 112% when combining with General members. We will continue to closely monitor this assumption in future studies.

Chart 7 shows the life expectancies (i.e., expected future lifetime) under the current and the proposed tables for General members.

Chart 8 shows the same information for Safety members.

As mentioned earlier, we want to make the Board aware that a future recommendation might be for the use of a generational mortality table. While the use of generational mortality tables is under considerable discussion as an emerging practice within the actuarial profession, to date it is still uncommon for public sector retirement plans to actually use a generational mortality table. However, we anticipate that actuarial practice will continue to move in this direction, for reasons we will now discuss.

A generational mortality table provides dynamic projections of mortality experience for each cohort of retirees. For example, the mortality rate for someone who is 65 next year will be slightly less than for someone who is 65 this year. In general, using generational mortality anticipates increases in the cost of the Plan over time as participants' life expectancies are projected to increase. This is in contrast to updating a static mortality assumption with each experience study as we have proposed in this and prior experience studies.

Using generational mortality rather than static mortality incorporates a more explicit assumption for future mortality improvement. Accordingly, the goal is to start with a mortality table that closely matches the current experience (without a margin for future mortality improvement), and then reflect mortality improvement by projecting lower mortality rates in future years. That is why, for an illustrative generational mortality table that we developed for the Plan, the current actual to expected ratio shown in the tables below is only around 100%. In future years these ratios would remain around 100%, as long as actual mortality improved at the same rates as anticipated in the generational mortality tables.

	General – Healthy			**Safety – Healthy**		
	Expected Deaths	Actual Deaths	Proposed Expected Deaths*	Expected Deaths	Actual Deaths	Proposed Expected Deaths**
Male	106	95	93	21	15	16
Female	131	143	143	1	1	1
Total	237	238	236	22	16	17
Actual / Expected	100%		101%	73%		94%

* *For illustration purposes only and shown for the RP-2000 Combined Healthy Mortality Table projected to 2013 (middle year of the experience study period) with Scale BB, with age set back three years for males and no age set back for females.*

** *For illustration purposes only and shown for the RP-2000 Combined Healthy Mortality Table projected to 2013 (middle year of the experience study period) with Scale BB, with ages set back five years for males and females.*

Note that using generational mortality increases current liabilities and costs more than using static mortality but should result in fewer changes (and cost increases) in later years. For example, the generational mortality table developed above would increase the total (employer and member) contribution rate by about 1.5% of compensation more than the updated static table that we are recommending.[1]

Note that there are currently unresolved issues regarding how generational mortality tables would be used in determining member contribution rates, optional forms of payments and reserve values. These issues would need to be addressed for VCERA before using a generational mortality table.

Mortality Table for Member Contributions

We recommend that the mortality table used for determining contributions for General members be changed from RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year weighted 35% male and 65% female to the RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back one year for males and set forward one year for females weighted one-third male and two-third female. This is based on the proposed valuation mortality table for General members and the actual sex distribution of General members.

For Safety members, we recommend the mortality table be changed from the RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year weighted 80% male and 20% female to the RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back three years weighted 80% male and 20% female. This is based on the proposed valuation mortality table for Safety members and the actual sex distribution of Safety members.

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1 These cost increases reflect the hypothetical adoption of generational mortality for both healthy and disabled retirees.

Chart 5
Post - Retirement Deaths
Non - Disabled General Members

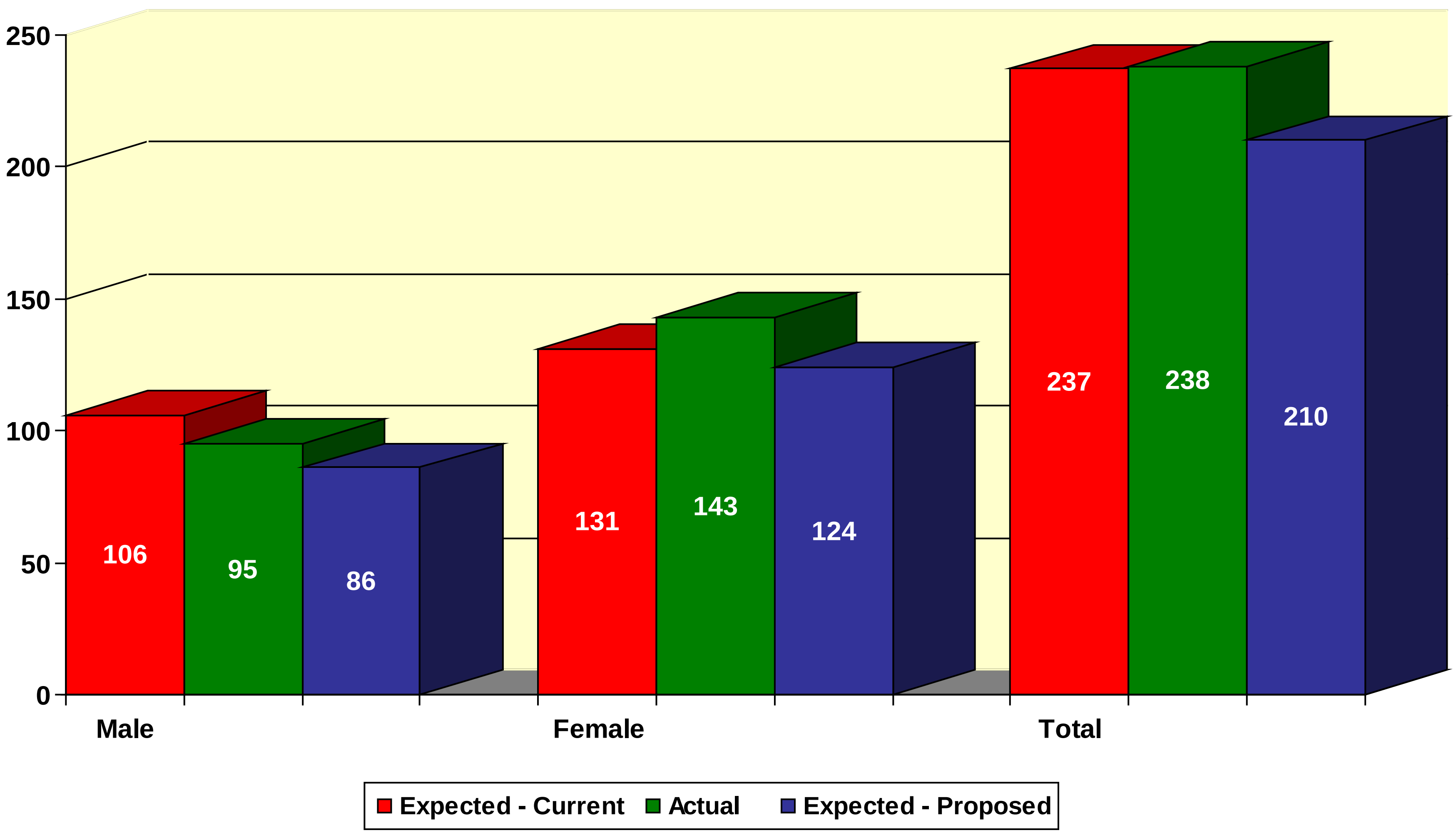


Chart 6
Post - Retirement Deaths
Non - Disabled Safety Members

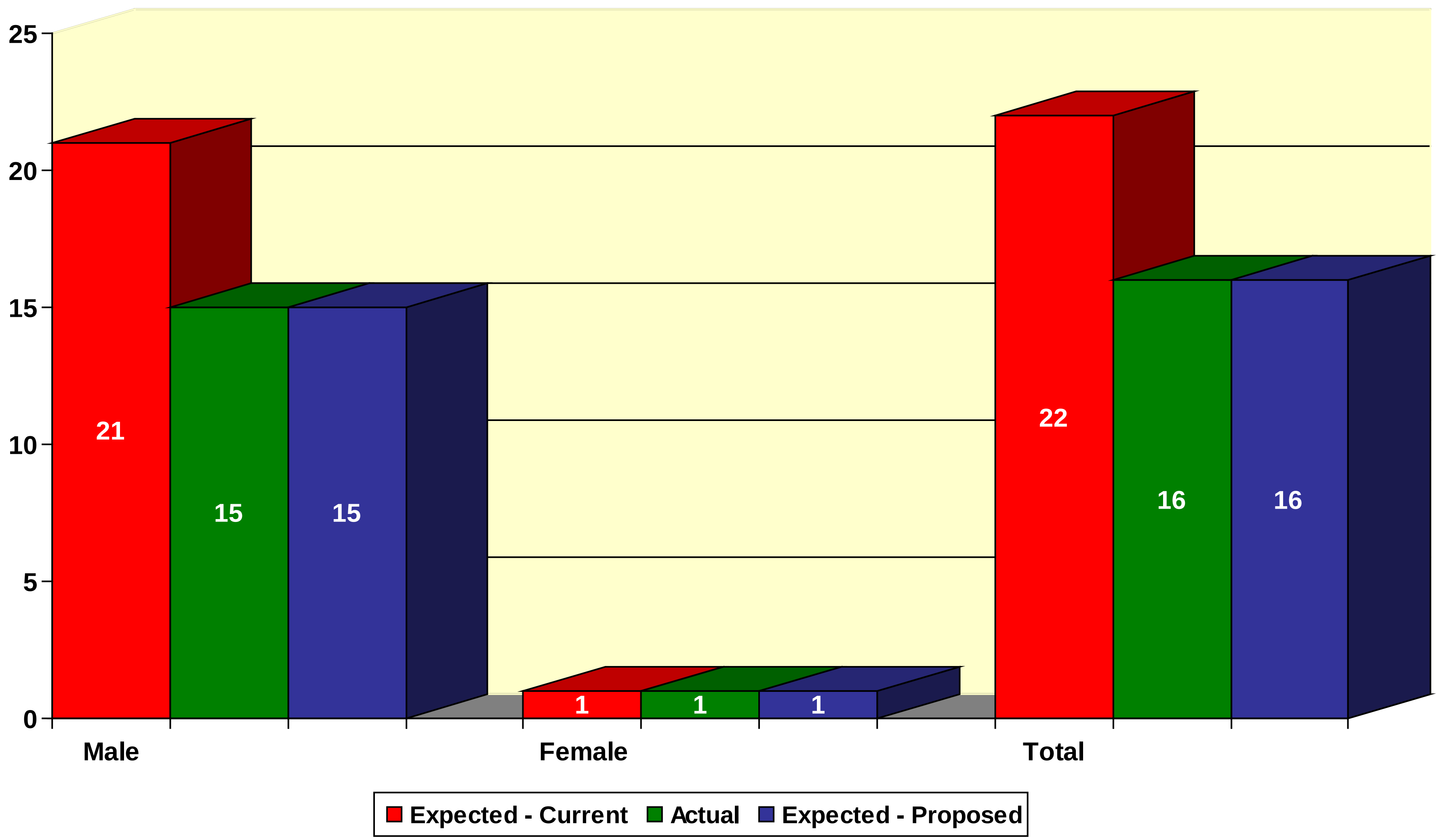


Chart 7
Life Expectancies
Non - Disabled General Members

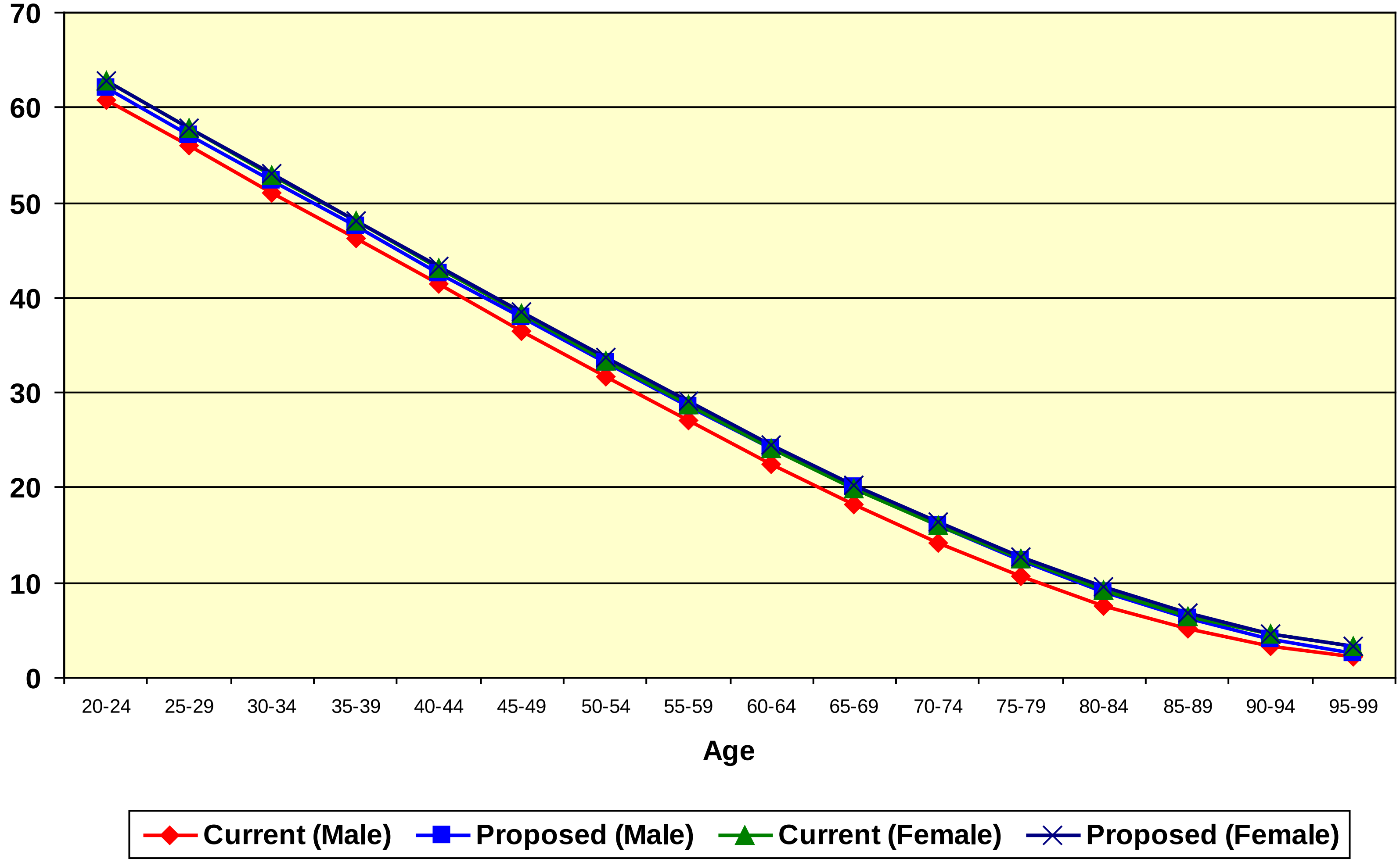
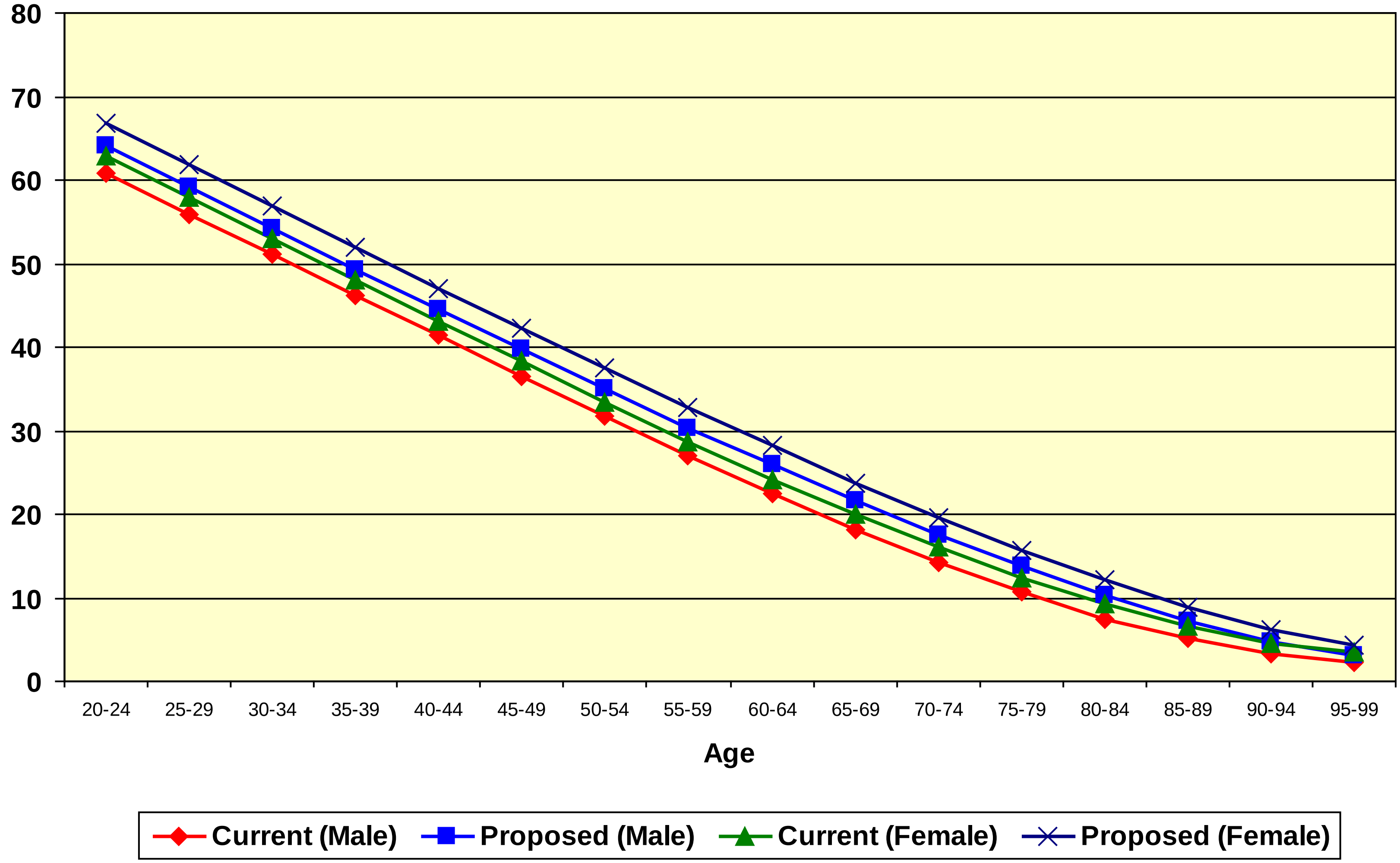


Chart 8
Life Expectancies
Non - Disabled Safety Members



D. MORTALITY RATES - DISABLED

Since mortality rates for disabled members can vary from those of healthy members, a different mortality assumption is often used. For General members, the table currently being used is the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale AA to 2025 with ages set forward five years for males and seven years for females. For Safety members, the table currently being used is the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale AA to 2025 with ages set back one year for both males and females.

The number of actual deaths compared to the number expected for the last three years has been as follows:

	General – Disabled			**Safety – Disabled**		
	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths
Male	17	17	16	13	19	15
Female	26	26	23	1	1	1
Total	43	43	39	14	20	16
Actual / Expected	100%		110%	143%		125%

Based on this experience, we recommend that the mortality table for General members be changed to the RP-2000 Combined Healthy Mortality Table (separate tables for males and females) projected with Scale BB to 2035 with ages set forward six years for males and set forward eight years for females. We recommend that the mortality table for Safety members be changed to the RP-2000 Combined Table (separate tables for males and females) projected with Scale BB to 2035 with ages set forward two years.

Chart 9 compares actual to expected deaths under both the current and proposed assumptions for disabled General members over the last three years. Experience shows that there were exactly the same number of deaths as predicted by the current table. Our recommendation for General members incorporates a margin for future mortality improvement.

Chart 10 has the same comparison for Safety members. Although experience shows that there were more deaths than predicted by the current table, our recommendation for Safety members still incorporates a reduced but sufficient margin for future mortality improvement.

Chart 11 shows the life expectancies under both the current and proposed tables for General members.

Chart 12 shows the same information for Safety members.

Chart 9
Post - Retirement Deaths
Disabled General Members

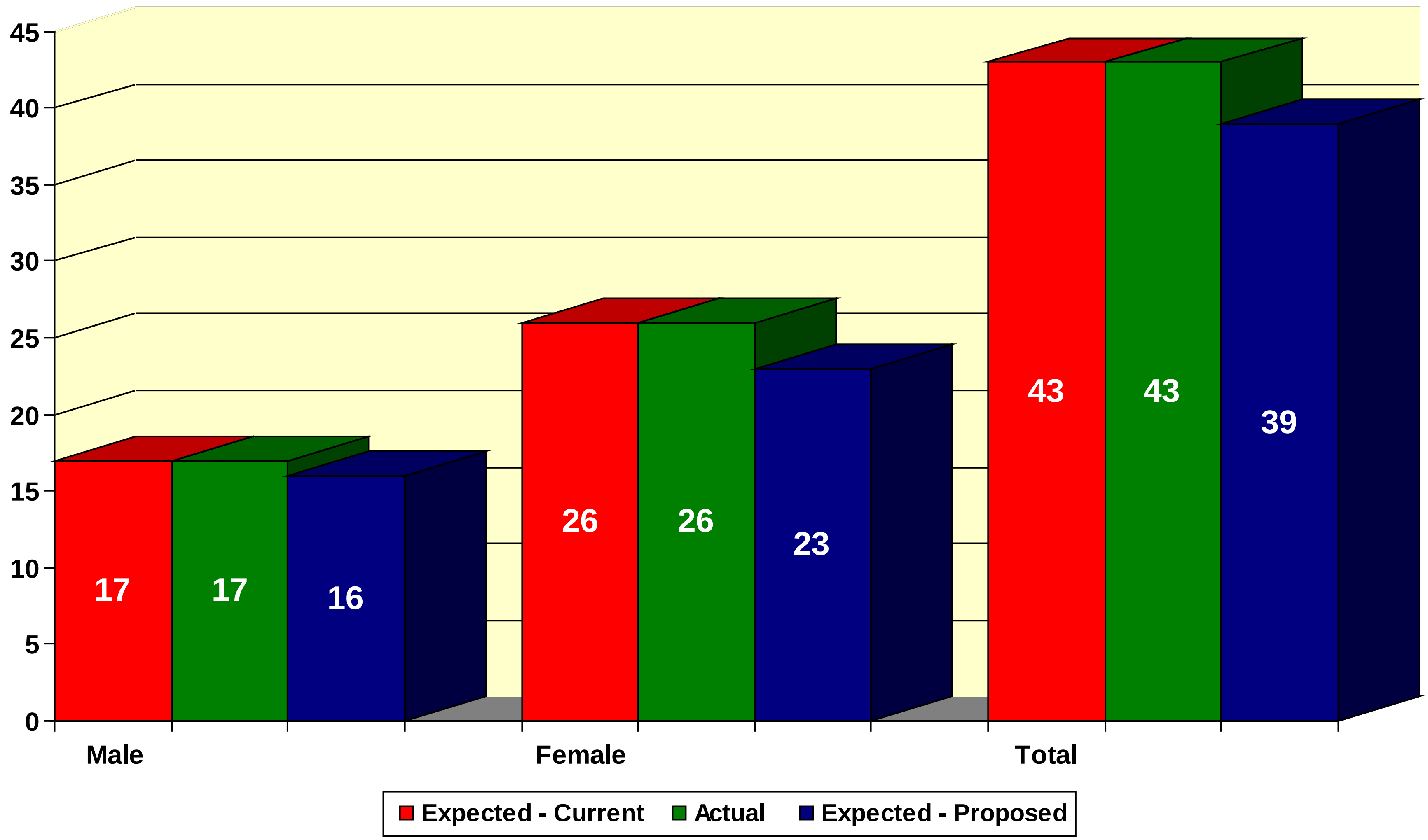


Chart 10
Post - Retirement Deaths
Disabled Safety Members

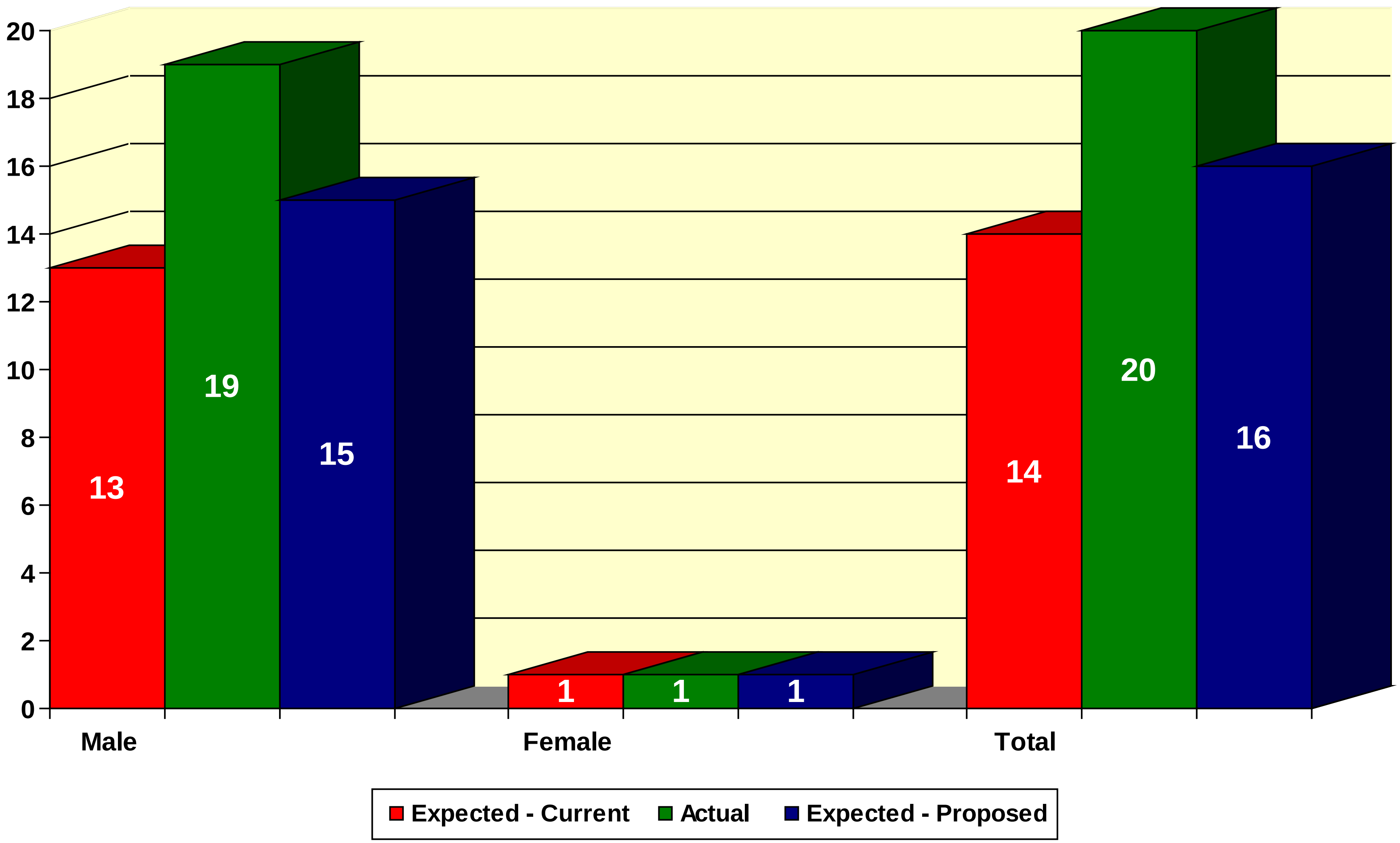


Chart 11
Life Expectancies
Disabled General Members

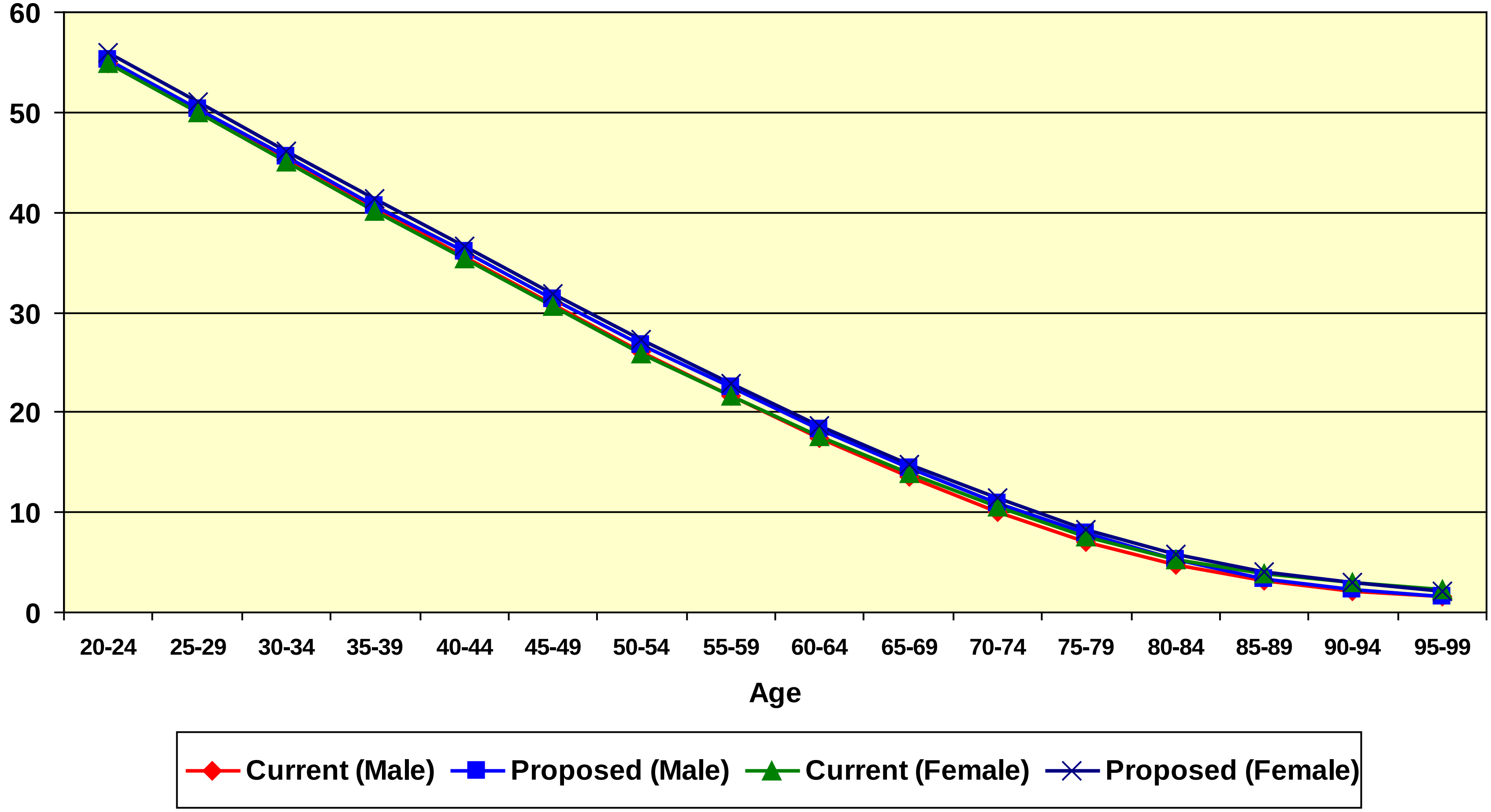
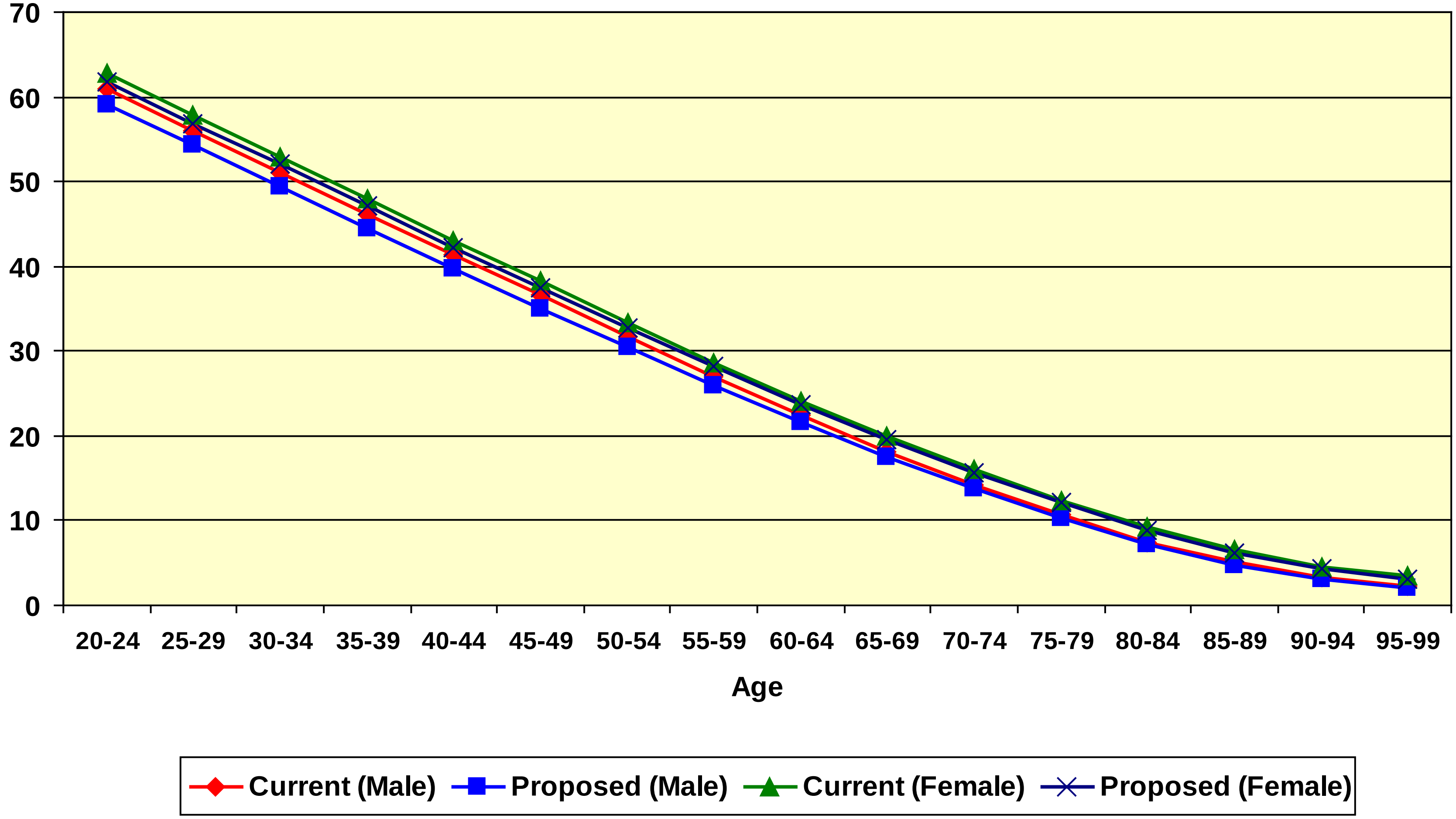


Chart 12
Life Expectancies
Disabled Safety Members



E. TERMINATION RATES

Termination rates include all terminations for reasons other than death, disability, or retirement. Under the current assumptions there is an overall incidence of termination assumed, combined with an assumption that a member will choose between a refund of contributions and a deferred vested benefit based on which option is more valuable. With this study, we continue to recommend that this same assumption structure be used.

Currently, the assumed termination rates are a function of a member's age for members with five or more years of service. Our experience review analyzed terminations both as a function of age and as a function of years of service. Our review found that while termination rates correlate with both years of service and age, we believe there is a stronger correlation with years of service. This is consistent with our experience from other systems.

As a result of this review, we recommend that the termination rate assumption be structured solely as a function of years of service.

The termination experience over the last three years for General and Safety members is shown by years of service in the following tables. Please note that we have excluded any members that were eligible for retirement. We also show the current and proposed assumptions.

Rates of Termination (General)

Years of Service	Current Rate*	Observed Rate	Proposed Rate
Less than 1	15.00%	12.80%	14.00%
1	10.00	9.81	10.00
2	8.00	8.20	8.00
3	7.00	6.16	7.00
4	6.00	6.15	6.00
5	3.56	4.32	4.00
6	3.38	2.76	3.75
7	3.21	4.03	3.50
8	3.07	2.44	3.50
9	3.30	2.28	3.25
10	3.75	3.68	3.25
11	3.65	2.66	3.00
12	3.55	3.21	3.00
13	3.49	1.82	2.75
14	3.38	2.53	2.75
15	3.22	2.89	2.50
16	3.17	3.07	2.50
17	2.99	1.31	2.25
18	2.93	0.76	2.00
19	2.81	0.85	2.00
20 or more	2.71	4.41	2.00

* *The rate shown for five or more years of service is an average rate developed from the current age based assumption for members in that service category.*

Rates of Termination (Safety)

Years of Service	Current Rate*	Observed Rate	Proposed Rate
Less than 1	12.00%	3.42%	10.00%
1	6.00	6.90	6.00
2	5.50	4.83	5.50
3	5.00	4.92	5.00
4	4.00	3.56	4.00
5	2.79	2.61	2.75
6	2.62	1.98	2.50
7	2.48	1.32	2.00
8	2.08	1.47	1.80
9	1.98	0.79	1.60
10	1.81	0.59	1.40
11	1.67	0.61	1.20
12	1.54	0.88	1.00
13	1.42	1.10	0.95
14	1.27	0.61	0.90
15	1.21	0.00	0.85
16	1.11	0.69	0.80
17	1.01	0.00	0.75
18	0.91	0.88	0.70
19	0.92	0.00	0.65
20 or more	0.54	100.00	0.60

* *The rate shown for or more five years of service is an average rate developed from the current age based assumption for members in that service category.*

It is important to note that not every service category has enough exposures and/or decrements such that the results in that category are statistically credible. This is mainly the case at the highest service categories since most members in those categories are eligible to retire and so have been excluded from our review of this experience. It is also the case in the tables that follow due to the even more limited experience regarding actual terminations.

Chart 13 compares actual to expected terminations over the past three years for both the current and proposed assumptions for General members.

Chart 14 graphs the same information as Chart 13, but for Safety members.

Chart 15 shows the actual termination rates over the past three years compared to the current and proposed assumptions for General members.

Chart 16 shows the same information as Chart 15, but for Safety members.

Based upon the recent experience, the termination rates for General members have been increased for those with 5 to 8 years of service and decreased for all other years of service categories. For Safety, we have decreased the termination rates at most years of service categories. Overall, for both General and Safety members, the proposed termination rates are lower than those under the current assumptions.

It is our understanding that General Tier 2 COLA members can elect a refund of all or a portion of their Tier 2 COLA member contributions and forgo the Tier 2 COLA upon retirement. Based on the data, about 97% of General Tier 2 COLA retirees during the three-experience period are receiving a COLA on their Tier 2 benefits. We will continue to assume that all members retiring with the Tier 2 COLA will elect to have the COLA applied to their benefit.

We will also continue to assume that termination rates are zero at any age where members are assumed to retire. In other words, at those ages, members will either retire in accordance with the retirement rate assumptions or continue working, rather than terminate and defer their benefit.

Chart 13
Actual Number of Terminations Compared to Expected - General Members

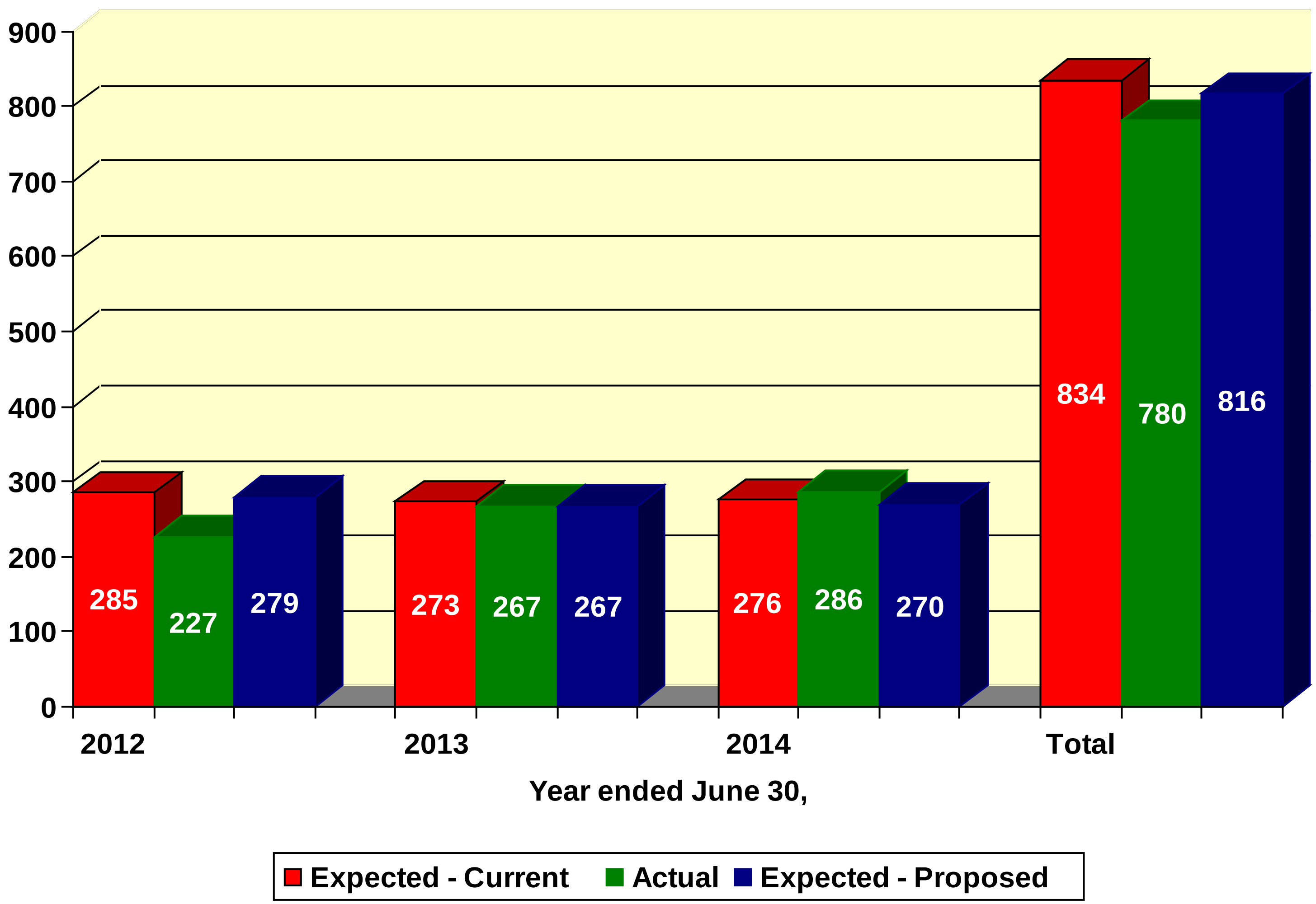


Chart 14
Actual Number of Terminations Compared to Expected - Safety members

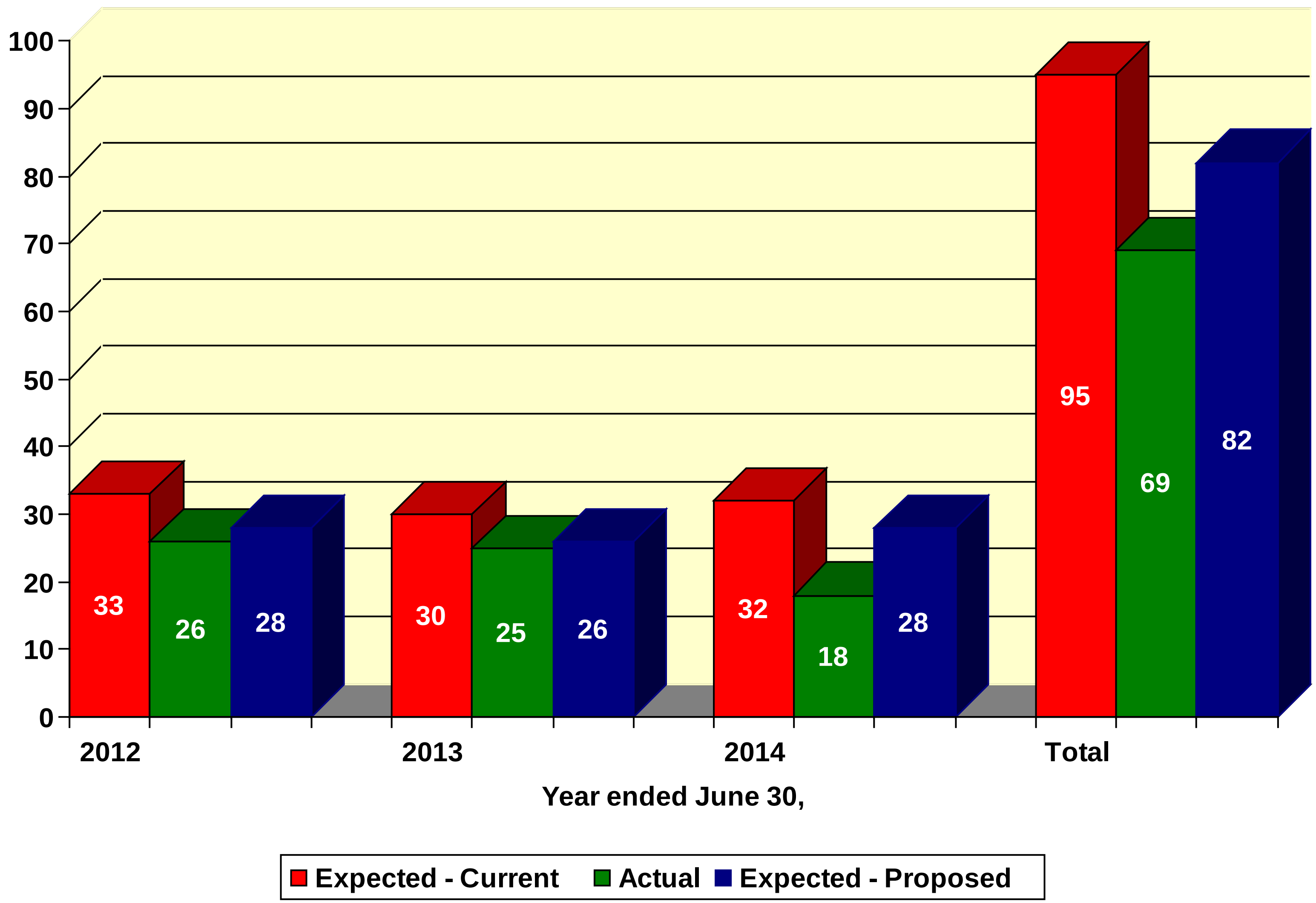


Chart 15
Termination Rates - General Members

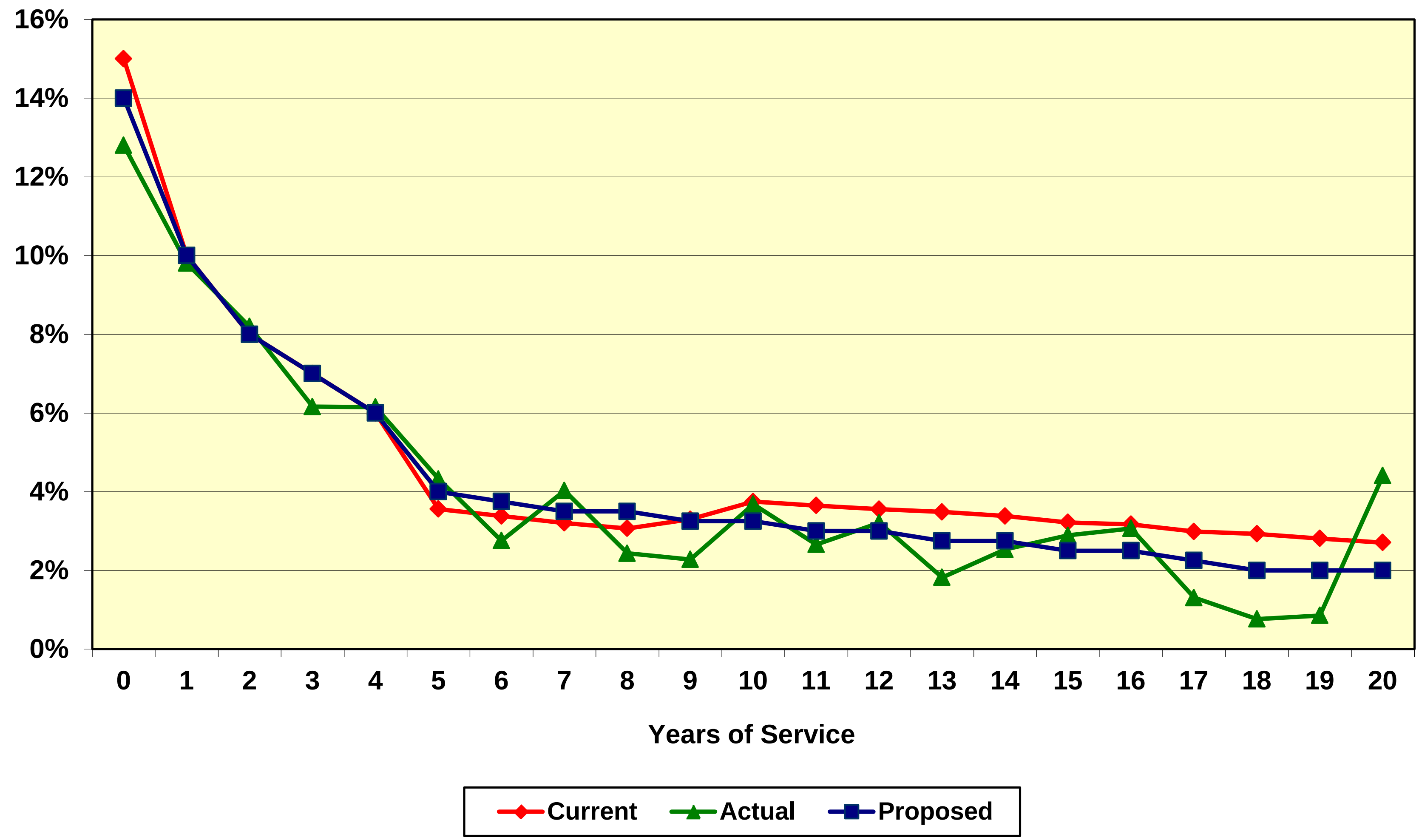
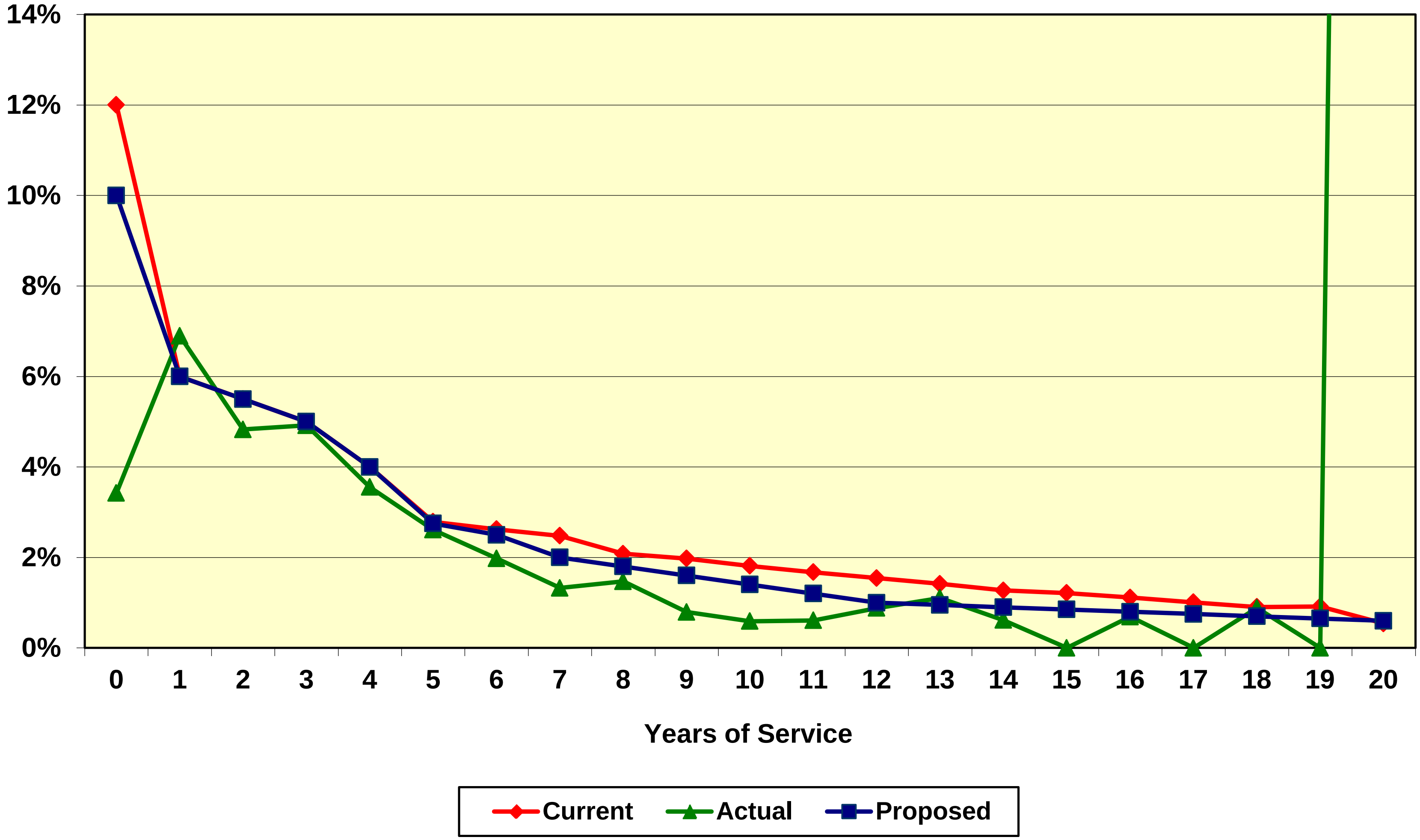


Chart 16
Termination Rates - Safety Members



F. DISABILITY INCIDENCE RATES

When a member becomes disabled, he or she may be entitled to at least a 50% pension (service connected disability), or a pension that depends upon the member's years of service (non-service connected disability). The following summarizes the actual incidence of combined service and non-service connected disabilities over the past three years compared to the current and proposed assumptions for both service connected and non-service connected disability incidence:

Rates of Disability Incidence (General)

Age	Current Rate*	Observed Rate	Proposed Rate
20 – 24	0.01%	0.00%	0.01%
25 – 29	0.02	0.00	0.02
30 – 34	0.05	0.00	0.05
35 – 39	0.10	0.05	0.10
40 – 44	0.15	0.12	0.15
45 – 49	0.25	0.26	0.25
50 – 54	0.50	0.22	0.35
55 – 59	0.60	0.25	0.45
60 – 64	0.75	0.50	0.60
65 – 69	1.00	0.18	0.75
70 – 74	1.00	0.80	1.00

***** *Total current rate for duty and non-duty disabilities.*

Rates of Disability Incidence (Safety)

Age	Current Rate*	Observed Rate	Proposed Rate
20 – 24	0.05%	0.00%	0.05%
25 – 29	0.20	0.00	0.15
30 – 34	0.30	0.29	0.30
35 – 39	0.60	0.13	0.40
40 – 44	1.10	0.23	0.70
45 – 49	1.20	0.90	1.00
50 – 54	2.50	0.51	1.80
55 – 59	4.00	3.51	3.60
60 – 64	5.00	7.89	6.00

***** *Total current rate for duty and non-duty disabilities.*

Chart 17 compares the actual number of duty and ordinary disabilities over the past three years to that expected under both the current and proposed assumptions. The proposed disability rates were adjusted to reflect the past three years experience. Overall, there are decreases in the rates proposed for both General and Safety members.

Chart 18 shows actual disability incidence rates, compared to the assumed and proposed rates for General members. Since 25% of disabled General members received a duty disability, we recommend reducing the current assumption from 40% to 35% of disabilities being entitled to a duty disability retirement. The remaining 65% of disabled General members are assumed to receive an ordinary disability retirement.

Chart 19 graphs the same information as Charts 18, but for Safety members. Since 97% of disabled Safety members received a duty disability, we recommend maintaining the current assumption that 90% of disabilities will receive a duty disability retirement. This recommendation is based partially on the fact that 79% of Safety members received a duty disability in the prior experience study period. The remaining 10% of disabled Safety members are assumed to receive an ordinary disability retirement.

Chart 17
Actual Number of Disabilities Compared to Expected

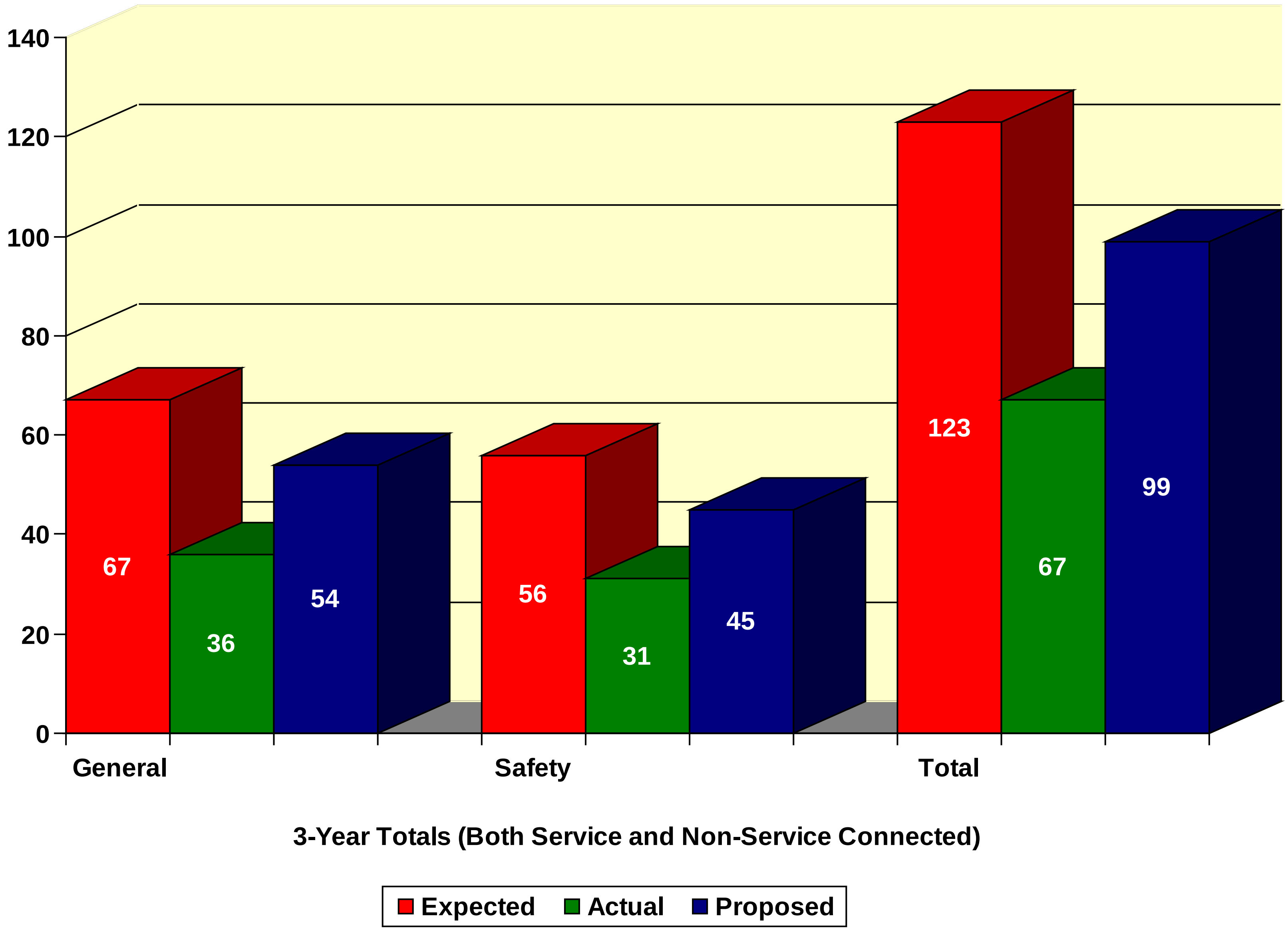


Chart 18
Disability Incidence Rates for General Members

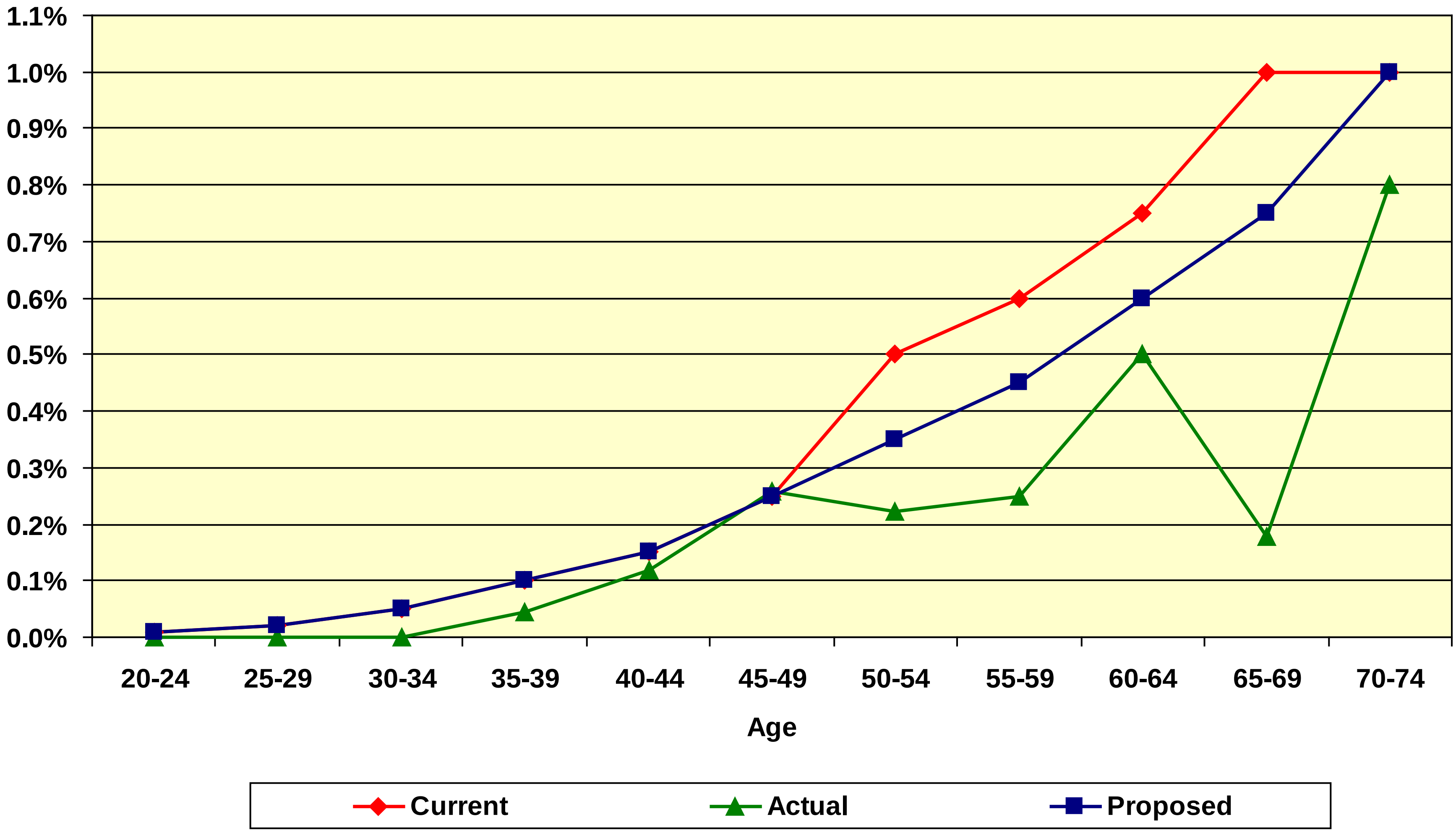
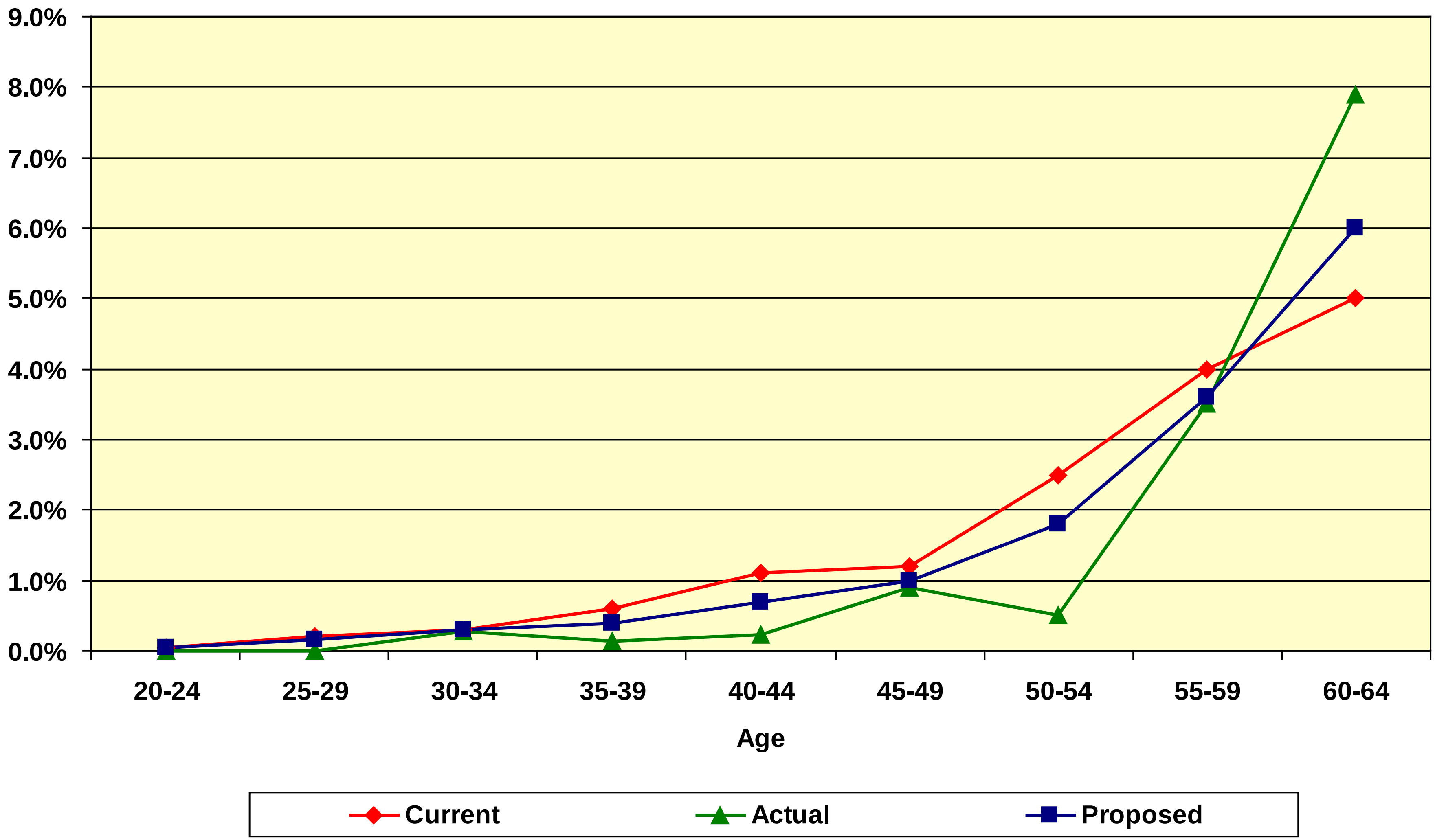


Chart 19
Disability Incidence Rates for Safety Members



G. PROMOTIONAL AND MERIT SALARY INCREASES

The Association's retirement benefits are determined in large part by a member's compensation just prior to retirement. For that reason, it is important to anticipate salary increases that employees will receive over their careers. These salary increases are made up of three components:

- Inflationary increases;
- Real "across the board" increases; and
- Promotional and merit increases.

The inflationary increases are assumed to follow the general annual price inflation assumption discussed in our separate economic assumptions report where we recommended a decrease in the inflation assumption from 3.25% to 3.00%. We also discussed in that report decreasing the annual "across the board" pay increase assumptions from 0.75% to 0.50%. Therefore, the total assumed inflation and real "across the board" pay increase (i.e., wage inflation) decreases from 4.00% to 3.50%. This is the annual rate of payroll growth at which payments to amortize the Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase.

The annual promotional and merit increases are determined by measuring the actual increases received by members over the experience period, net of the inflationary and real "across the board" pay increases. Increases are measured separately for General and Safety members. This is accomplished by:

- Measuring each continuing member's actual salary increase over each year of the experience period;
- Excluding any members with increases of more than 50% or decreases of more than 10% during any particular year;
- Categorizing these increases according to member demographics;
- Removing the wage inflation component from these increases (assumed to be equal to the increase in the members' average salary during the year);
- Averaging these annual increases over the three-year experience period; and
- Modifying current assumptions to reflect some portion of these measured increases reflective of their "credibility."

Note that, to be consistent with other economic assumptions, these merit and promotional assumptions should be used in combination with the proposed 3.50% inflation and real "across the board" increases shown in our economic assumptions report.

The following table shows the General members' actual average promotional and merit increases by years of service over the three-year period from July 1, 2011 through June 30, 2014 along with the actual average increases based on a combination of increases in the current three-year period and those shown in the prior experience study. The current and proposed assumptions are also shown. The actual increases for the most recent three-year period and the prior three-year period were reduced by the actual average inflation plus "across the board" increase (i.e., wage inflation, estimated as the increase in average salaries) for each year over the three-year experience period (0.8% and 3.8% respectively, on average).

General

Years of Service	Current Assumptions	July 1, 2011 Through June 30, 2014 Average Promotional and Merit Increases	Actual Average Increases from Current and Prior Study	Proposed Assumptions
Less than 1	5.00%	7.65%	7.14%	6.00%
1	3.75	5.35	4.82	4.25
2	3.00	3.77	3.38	3.25
3	2.50	2.97	2.92	2.75
4	2.00	2.54	2.35	2.25
5	1.50	2.04	1.90	1.75
6	1.00	2.46	1.77	1.25
7	1.00	1.72	1.35	1.00
8	0.75	1.18	0.79	0.75
9	0.50	0.62	0.43	0.50
10	0.50	0.86	0.31	0.50
11	0.50	0.90	0.77	0.50
12	0.50	0.93	0.70	0.50
13	0.50	1.21	0.34	0.50
14	0.50	1.45	0.67	0.50
15	0.50	1.25	0.60	0.50
16	0.50	0.87	0.42	0.50
17	0.50	0.68	0.42	0.50
18	0.50	1.21	0.43	0.50
19	0.50	0.33	0.14	0.50
20 & over	0.50	0.33	-0.21	0.50

The following table provides the same information for Safety members. The actual average promotional and merit increases for the most recent three-year period and the prior three-year period were determined by reducing the actual average total salary increases by the actual average inflation plus "across the board" increase (i.e., wage inflation, estimated as the increase in average salaries) for each year over the three-year experience period (0.2% and 5.4% respectively, on average).

Safety

Years of Service	Current Assumptions	July 1, 2011 Through June 30, 2014 Average Promotional and Merit Increases	Actual Average Increases from Current and Prior Study	Proposed Assumptions
Less than 1	8.50%	7.29%	7.36%	8.00%
1	6.25	6.31	5.96	6.25
2	4.75	4.91	4.92	4.75
3	4.00	3.83	4.53	4.00
4	3.00	5.06	3.67	3.25
5	2.50	3.99	3.42	3.00
6	2.00	2.68	2.81	2.25
7	1.50	1.38	0.65	1.50
8	1.25	1.86	0.98	1.25
9	1.00	1.65	1.33	1.00
10	0.75	-0.21	0.51	0.75
11	0.75	0.88	0.53	0.75
12	0.75	0.24	0.70	0.75
13	0.75	1.03	1.08	0.75
14	0.75	0.93	0.63	0.75
15	0.75	1.32	1.37	0.75
16	0.50	0.64	0.04	0.50
17	0.50	0.91	0.14	0.50
18	0.50	1.46	0.88	0.50
19	0.50	1.36	0.22	0.50
20 & over	0.50	0.70	-0.29	0.50

Charts 20 and 21 provide a graphical comparison of the actual promotional and merit increases, compared to the proposed and current assumptions. The charts also show the actual promotional and merit increases based on an average of both the current and previous experience periods. This is discussed below. Chart 20 shows this information for General members and Chart 21 for Safety members.

We realize that the most recent three-year experience period may not be typically indicative of future long-term promotional and merit salary increases. This appears to be the case for both General and Safety members as they received virtually no “across the board” salary increases (based on the very low increase in average wages). Note that, in this situation, our model may lead to higher estimated promotional and merit increases. Therefore, we also examined the promotional and merit salary experience used in the prior experience study (which actually consisted of two years of experience). We believe that when the experience from the last two studies are combined into an average result it provides a more reasonable representation of potential future promotional and merit salary increases over the long term. Nevertheless, in our proposed changes to the promotional and merit increases, we have still given relatively less weight to the actual average increases experience during the last two studies.

Based on this experience, we are proposing slight increases in the promotional and merit salary increases for both General and Safety members. Overall, salary increases are lower for General and Safety members due to the lower price inflation and real “across the board” pay increase assumptions.

Chart 20
Promotional and Merit Salary Increase Rates - General Members

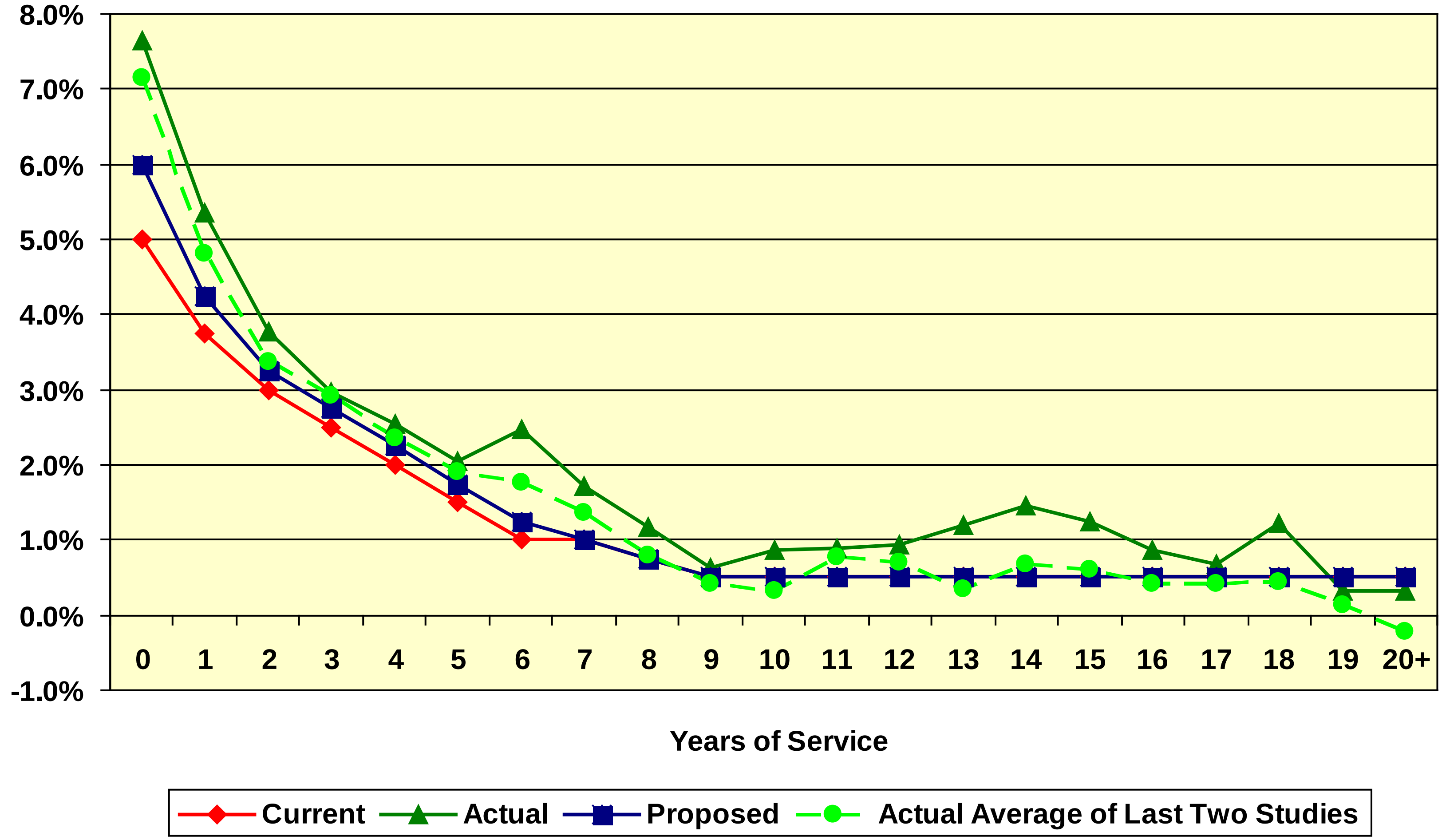
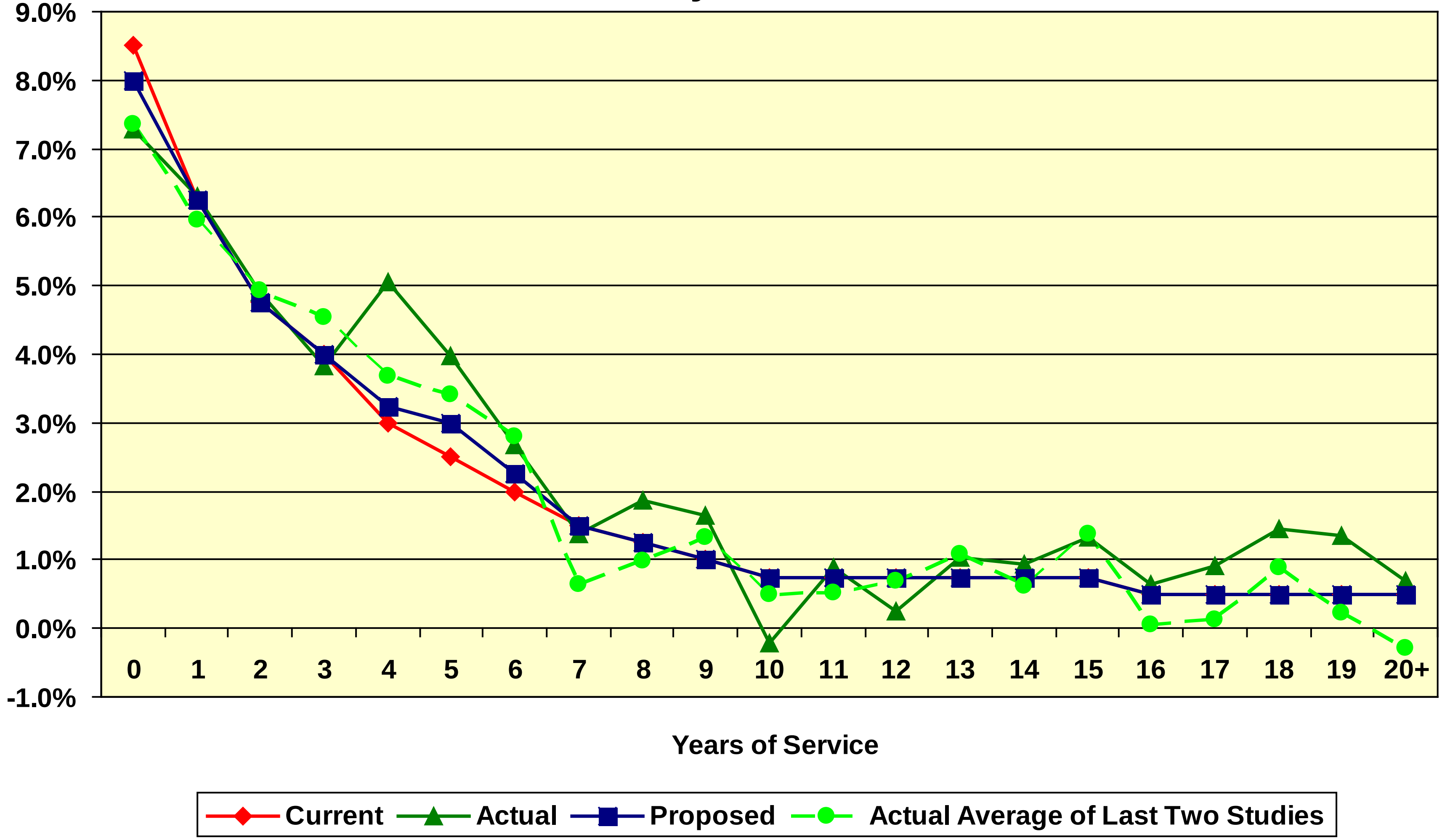


Chart 21
Promotional and Merit Salary Increase Rates - Safety Members



H. IN-SERVICE REDEMPTIONS

In 1998, the Board of Retirement, in the course of actions related to the Ventura Settlement, determined that several additional pay elements should be included as Earnable Compensation. These additional pay elements fall into two categories:

Ongoing Pay Elements – Those that are expected to be received relatively uniformly over a member's employment years; and

In-Service Redemption Elements – Those that are expected to be received only during the member's final average earnings pay period.

The first category is recognized in the actuarial calculations by virtue of being included in the current pay of active members. The second category requires a separate actuarial assumption to anticipate its impact on a member's retirement benefit.

In this study, we have collected data for the last three years to estimate in-service redemptions for non-PEPRA active members as a percentage of final average pay. The results are summarized in the following table:

	Actual Average In-Service Redemptions for Non-PEPRA Members		
Year	**General Tier 1**	**General Tier 2**	**Safety**
2012	9.42%	3.42%	6.92%
2013	6.63%	3.84%	7.73%
2014	5.38%	3.04%	7.63%
Average	7.13%	3.42%	7.38%
Current Assumptions	8.00%	3.50%	7.50%
Proposed Assumption	7.50%	3.50%	7.25%

For determining the cost of the basic benefit (i.e., non-COLA component), the cost of this pay element is currently recognized in the valuation as an employer only cost and does not affect member contribution rates.

Based on the data in the above table, the in-service redemption assumption has been maintained for General Tier 2 members and decreased for General Tier 1 members and Safety members.

I. AVERAGE ENTRY AGE (FOR MEMBER CONTRIBUTIONS)

The assumption for average entry age of active members is used in determining the rate at which members who were hired after November 1974 contribute. The current assumption is age 36 for General members and age 27 for Safety members. The actual average entry ages for all active members as of June 30, 2014 is age 35.2 for General members and age 27.1 for Safety members.

Based on this experience we recommend that the average entry age for General members used for determining member contribution rates be decreased from age 36 to age 35. For Safety members we recommend that the average entry age used for determining member contribution rates be maintained at age 27.

IV. COST IMPACT OF ASSUMPTION CHANGES

The tables below show the changes in the employer and member contribution rates due to the proposed assumption changes as if they were applied in the June 30, 2014 actuarial valuation. Please note that the rates shown below do not reflect the 50/50 sharing of Normal Cost for non-PEPRA Tiers. If all of the proposed assumption changes (both economic and demographic) were implemented, the Plan's average employer rate would have increased by 3.45% of compensation. The average member rate would have increased by 0.20% of compensation. The Plan's UAAL would have increased by $224 million. The results include the impact of the proposed change to an explicit administrative expense load that would increase total costs by 0.7% of payroll or $5 million annually. As discussed in the economic assumptions report, the cost associated with the administrative expense load has been allocated to both the employer and the member based on the components of the total contribution rate (before expenses) for the member and the employer.

Employer Contribution Rate Impact (% of Compensation)

Contributions	General Tier 1	General Tier 2	PEPRA General Tier 2	General Tier 2C	PEPRA General Tier 2C	Safety	PEPRA Safety	Overall
Normal Cost	0.44%	0.30%	0.15%	0.44%	0.27%	-0.30%	0.16%	0.20%
UAAL	2.11%	1.21%	1.21%	2.11%	2.11%	5.66%	5.66%	2.70%
Admin Expense	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%
Total	3.10%	2.06%	1.91%	3.10%	2.93%	5.91%	6.37%	3.45%

Employer Contribution Rate Impact
(Estimated Annual Dollar Amounts in Thousands)

Contributions	General Tier 1	General Tier 2	PEPRA General Tier 2	General Tier 2C	PEPRA General Tier 2C	Safety	PEPRA Safety	Overall
Total	$305	$4,233	$222	$6,951	$689	$9,225	$237	$21,862

Member Contribution Rate Impact (% of Compensation)

Contributions	General Tier 1	General Tier 2	PEPRA General Tier 2	General Tier 2C	PEPRA General Tier 2C	Safety	PEPRA Safety	Overall
Total	0.16%	0.10%	0.30%	0.10%	0.30%	0.45%	0.31%	0.20%

Member Contribution Rate Impact
(Estimated Annual Dollar Amounts in Thousands)

Contributions	General Tier 1	General Tier 2	PEPRA General Tier 2	General Tier 2C	PEPRA General Tier 2C	Safety	PEPRA Safety	Overall
Total	$16	$209	$36	$228	$72	$719	$12	$1,292

If all of the proposed demographic assumption changes were implemented, the average employer rate would have increased by 1.57% of compensation. The average member rate would have increased by 0.05% of compensation. Of the various demographic assumption changes, the most significant cost impact is from the mortality assumption change.

If all of the proposed economic assumptions (recommended in a separate report) were implemented (including the proposed change to an explicit administrative expense load), the average employer rate would have increased by 1.88% of compensation and the average member rate would have been increased by 0.15%. Of the various economic assumption changes, the most significant cost impact is from the investment return assumption change from 7.75% net of administrative expenses to 7.50% gross of administrative expenses.

Therefore, the estimated cost impact of all proposed assumption changes (both demographic and economic) is 3.45% of compensation for the average employer rate, where the Normal Cost rate increased by 0.20%, the UAAL amortization rate increased by 2.70% and the explicit administrative expense load is 0.55%. The average member rate would have increased by 0.20% of compensation, including the explicit administrative load of 0.15%. The allocation of the explicit administrative expense load between employers and members is discussed in the economic assumptions report.

As noted earlier, the above results do not include 50/50 sharing of Normal Cost for non-PEPRA Tiers. If we include that provision, then the total increase in the Normal Cost of 0.25% would be shared 50/50 between the employers and the members (with the cost of the cessation of member contributions after 30 years of service allocated to the employer) and the allocation of the administrative expense load would be slightly different. This would shift about 0.07% of the average cost increase from the employers to the members.

APPENDIX A

CURRENT ACTUARIAL ASSUMPTIONS

Mortality Rates

Healthy:	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year. For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year.
Disabled:	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set forward five years for males and seven years for females. For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year.
Beneficiaries:	Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who has taken a service (non-disability) retirement.
Member Contribution Rates:	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year weighted 35% male and 65% female. For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale AA to 2025 set back one year weighted 80% male and 20% female.

Termination Rates Before Retirement:

Rate (%)

Mortality

	General		Safety	
Age	**Male**	**Female**	**Male**	**Female**
25	0.03	0.01	0.03	0.01
30	0.04	0.02	0.04	0.02
35	0.06	0.03	0.06	0.03
40	0.09	0.04	0.09	0.04
45	0.10	0.07	0.10	0.07
50	0.13	0.10	0.13	0.10
55	0.19	0.19	0.19	0.19
60	0.40	0.39	0.40	0.39
65	0.79	0.76	0.79	0.76

All pre-retirement deaths are assumed to be non-duty related.

Termination Rates Before Retirement (continued):

	Rate (%)	
	Disability	
Age	General[1]	Safety[2]
25	0.02	0.14
30	0.04	0.26
35	0.08	0.48
40	0.13	0.90
45	0.21	1.16
50	0.40	1.98
55	0.56	3.40
60	0.69	4.60
65	0.90	0.00
70	1.00	0.00

(1) 40% of General disabilities are assumed to be duty disabilities and the other 60% are assumed to be ordinary disabilities.

(2) 90% of Safety disabilities are assumed to be duty disabilities and the other 10% are assumed to be ordinary disabilities.

Termination Rates Before Retirement (continued):

Rate (%)

Withdrawal (< 5 Years of Service) *

Years of Service	General	Safety
0	15.00	12.00
1	10.00	6.00
2	8.00	5.50
3	7.00	5.00
4	6.00	4.00

Withdrawal (5+ Years of Service) *

Age	General	Safety
20	6.00	4.00
25	6.00	4.00
30	5.70	3.40
35	4.90	2.40
40	3.90	1.40
45	2.90	0.70
50	2.20	0.20
55	1.70	0.00
60	1.20	0.00
65	1.00	0.00
70	0.00	0.00

* The greater of a refund of member contributions and a deferred annuity is valued when a member withdraws.

No withdrawal is assumed after a member is first assumed to retire.

Retirement Rates:

	Rate (%)			
Age	General Tier 1 and 2	PEPRA General Tier 1 and 2	Safety	PEPRA Safety
40	0.00	0.00	1.00	0.00
41	0.00	0.00	1.00	0.00
42	0.00	0.00	1.00	0.00
43	0.00	0.00	1.00	0.00
44	0.00	0.00	1.00	0.00
45	0.00	0.00	1.00	0.00
46	0.00	0.00	1.00	0.00
47	0.00	0.00	1.00	0.00
48	0.00	0.00	1.00	0.00
49	0.00	0.00	1.00	0.00
50	3.00	0.00	2.00	4.00
51	3.00	0.00	2.00	2.00
52	4.00	2.00	4.00	5.00
53	4.00	2.00	6.00	8.00
54	6.00	3.00	18.00	18.00
55	6.00	5.00	25.00	20.00
56	7.00	5.00	20.00	20.00
57	8.00	6.00	20.00	18.00
58	10.00	7.00	18.00	18.00
59	10.00	8.00	25.00	30.00
60	14.00	10.00	25.00	30.00
61	18.00	12.50	30.00	30.00
62	22.00	20.00	40.00	50.00
63	20.00	20.00	50.00	50.00
64	25.00	20.00	50.00	50.00
65	35.00	25.00	100.00	100.00
66	35.00	30.00	100.00	100.00
67	35.00	30.00	100.00	100.00
68	25.00	30.00	100.00	100.00
69	20.00	30.00	100.00	100.00
70	20.00	50.00	100.00	100.00
71	20.00	50.00	100.00	100.00
72	20.00	50.00	100.00	100.00
73	20.00	50.00	100.00	100.00
74	40.00	50.00	100.00	100.00
75	100.00	100.00	100.00	100.00

Retirement Age and Benefit for Deferred Vested Members:	For deferred vested members, we make the following retirement assumption: General Age: 58 Safety Age: 54 We assume that 50% and 65% of future General and Safety deferred vested members, respectively, will continue to work for a reciprocal employer. For reciprocals, we assume 4.50% compensation increases per annum.

Future Benefit Accruals: 1.0 year of service per year.

Unknown Data for Members: Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

Definition of Active Members: All active members of VCERA as of the valuation date.

Percent Married: 70% of male members and 50% of female members are assumed to be married at pre-retirement death or retirement. There is no explicit assumption for children's benefits.

Age of Spouse: Female (or male) spouses are 3 years younger (or older) than their spouses.

Net Investment Return: 7.75%, net of investment and administration expenses.

Member Contribution Crediting Rate: 3.25% (actual increase is based on projected long term ten-year Treasury rate).

Consumer Price Index: Increase of 3.25% per year; retiree COLA increases due to CPI are subject to a 3.0% maximum change per year for General Tier 1 and Safety. For General Tier 2, SEIU members receive a fixed 2% cost-of-living adjustment, not subject to changes in the CPI, that applies to future service after March 2003.

In-Service Redemptions:

Non-PEPRA Formulas The following assumptions for in-service redemptions pay as a percentage of final average pay are used:

General Tier 1	8.00%
General Tier 2	3.50%
Safety	7.50%

For determining the cost of the basic benefit (i.e., non-COLA component), the cost of this pay element is currently recognized in the valuation as an employer only cost and does not affect member contribution rates.

PEPRA Formulas None

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.25% per year; plus "across the board" salary increases of 0.75% per year; plus the following promotional and merit increases:

Years of Service	General	Safety
Less than 1	5.00%	8.50%
1	3.75	6.25
2	3.00	4.75
3	2.50	4.00
4	2.00	3.00
5	1.50	2.50
6	1.00	2.00
7	1.00	1.50
8	0.75	1.25
9	0.50	1.00
10	0.50	0.75
11	0.50	0.75
12	0.50	0.75
13	0.50	0.75
14	0.50	0.75
15	0.50	0.75
16	0.50	0.50
17	0.50	0.50
18	0.50	0.50
19	0.50	0.50
20 and Over	0.50	0.50

Increase in the Internal Revenue

Code Section 401(a)(17)
Compensation Limit: Increase of 3.25% per year from the valuation date.

Increase in Section 7522.10
Compensation Limit: Increase of 3.25% per year from the valuation date.

Average Entry Age for
Member Contribution Rates: For non-PEPRA members hired after November 1974, they will pay a contribution corresponding to a General and Safety member hired at entry age 36 and 27, respectively.

APPENDIX B

PROPOSED ACTUARIAL ASSUMPTIONS

Mortality Rates

Healthy: For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back one year for males and set forward one year for females.

For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back three years.

Disabled: For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set forward six years for males and eight years for females.

For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set forward two years.

Beneficiaries: Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who has taken a service (non-disability) retirement.

Member Contribution Rates: For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back one year for males and set forward one year for female weighted one-third male and two-third female.

For Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2035 set back three years weighted 80% male and 20% female.

Termination Rates Before Retirement:

Rate (%)

Mortality

	General		Safety	
Age	**Male**	**Female**	**Male**	**Female**
25	0.03	0.02	0.03	0.02
30	0.04	0.03	0.03	0.02
35	0.06	0.05	0.05	0.03
40	0.09	0.07	0.08	0.05
45	0.13	0.11	0.11	0.08
50	0.18	0.17	0.16	0.12
55	0.29	0.25	0.24	0.18
60	0.48	0.39	0.41	0.27
65	0.77	0.72	0.64	0.44

All pre-retirement deaths are assumed to be non-duty related.

Termination Rates Before Retirement (continued):

	Rate (%) Disability	
Age	General[1]	Safety[2]
25	0.02	0.11
30	0.04	0.24
35	0.08	0.36
40	0.13	0.58
45	0.21	0.88
50	0.31	1.48
55	0.41	2.88
60	0.54	5.04
65	0.69	0.00
70	0.90	0.00

(1) 35% of General disabilities are assumed to be duty disabilities and the other 65% are assumed to be ordinary disabilities.

(2) 90% of Safety disabilities are assumed to be duty disabilities and the other 10% are assumed to be ordinary disabilities.

Termination Rates Before Retirement (continued):

	Rate (%)	
	Withdrawal *	
Years of Service	General	Safety
Less than 1	14.00	10.00
1	10.00	6.00
2	8.00	5.50
3	7.00	5.00
4	6.00	4.00
5	4.00	2.75
6	3.75	2.50
7	3.50	2.00
8	3.50	1.80
9	3.25	1.60
10	3.25	1.40
11	3.00	1.20
12	3.00	1.00
13	2.75	0.95
14	2.75	0.90
15	2.50	0.85
16	2.50	0.80
17	2.25	0.75
18	2.00	0.70
19	2.00	0.65
20 or more	2.00	0.60

* The greater of a refund of member contributions and a deferred annuity is valued when a member withdraws.

No withdrawal is assumed after a member is first assumed to retire.

Retirement Rates:

	Rate (%)			
Age	General Tier 1 and 2	PEPRA General Tier 1 and 2	Safety	PEPRA Safety
40	0.00	0.00	1.00	0.00
41	0.00	0.00	1.00	0.00
42	0.00	0.00	1.00	0.00
43	0.00	0.00	1.00	0.00
44	0.00	0.00	1.00	0.00
45	0.00	0.00	1.00	0.00
46	0.00	0.00	1.00	0.00
47	0.00	0.00	1.00	0.00
48	0.00	0.00	1.00	0.00
49	0.00	0.00	1.50	0.00
50	2.50	0.00	2.50	5.00
51	2.50	0.00	2.00	2.00
52	3.00	2.00	3.00	4.00
53	3.50	2.00	4.00	6.00
54	4.00	2.50	17.00	16.00
55	4.50	4.00	22.00	20.00
56	5.00	4.50	22.00	20.00
57	6.00	5.00	20.00	18.00
58	8.00	6.00	19.00	18.00
59	8.00	7.00	22.00	25.00
60	12.00	9.00	22.00	25.00
61	15.00	11.00	25.00	25.00
62	22.00	20.00	35.00	40.00
63	20.00	20.00	40.00	40.00
64	22.00	18.00	40.00	40.00
65	30.00	20.00	100.00	100.00
66	35.00	30.00	100.00	100.00
67	35.00	30.00	100.00	100.00
68	35.00	30.00	100.00	100.00
69	20.00	30.00	100.00	100.00
70	20.00	50.00	100.00	100.00
71	20.00	50.00	100.00	100.00
72	20.00	50.00	100.00	100.00
73	20.00	50.00	100.00	100.00
74	30.00	50.00	100.00	100.00
75	100.00	100.00	100.00	100.00

Retirement Age and Benefit for Deferred Vested Members: For deferred vested members, we make the following retirement assumption:

General Age:	59
Safety Age:	54

We assume that 50% and 60% of future General and Safety deferred vested members, respectively, will continue to work for a reciprocal employer. For reciprocals, we assume 4.00% compensation increases per annum.

Future Benefit Accruals: 1.0 year of service per year.

Unknown Data for Members: Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

Definition of Active Members: All active members of VCERA as of the valuation date.

Percent Married: 70% of male members and 55% of female members are assumed to be married at pre-retirement death or retirement. There is no explicit assumption for children's benefits.

Age of Spouse: Female (or male) spouses are 3 years younger (or older) than their spouses.

Net Investment Return: 7.50%, net of investment expenses.

Administrative Expenses: 0.70% of payroll allocated to both employer and member based on the components of the total contribution rate (before expenses) for the employer and member.

Member Contribution Crediting Rate: 3.00% (actual increase is based on projected long term ten-year Treasury rate).

Consumer Price Index: Increase of 3.00% per year; retiree COLA increases due to CPI are subject to a 3.0% maximum change per year for General Tier 1 and Safety. For General Tier 2, SEIU members receive a fixed 2% cost-of-living adjustment, not subject to changes in the CPI, that applies to future service after March 2003.

In-Service Redemptions:

Non-PEPRA Formulas The following assumptions for in-service redemptions pay as a percentage of final average pay are used:

General Tier 1	7.50%
General Tier 2	3.50%
Safety	7.25%

For determining the cost of the basic benefit (i.e., non-COLA component), the cost of this pay element is currently recognized in the valuation as an employer only cost and does not affect member contribution rates.

PEPRA Formulas None

Salary Increases:

Annual Rate of Compensation Increase

Inflation: 3.00% per year; plus "across the board" salary increases of 0.50% per year; plus the following promotional and merit increases:

Years of Service	General	Safety
Less than 1	6.00%	8.00%
1	4.25	6.25
2	3.25	4.75
3	2.75	4.00
4	2.25	3.25
5	1.75	3.00
6	1.25	2.25
7	1.00	1.50
8	0.75	1.25
9	0.50	1.00
10	0.50	0.75
11	0.50	0.75
12	0.50	0.75
13	0.50	0.75
14	0.50	0.75
15	0.50	0.75
16	0.50	0.50
17	0.50	0.50
18	0.50	0.50
19	0.50	0.50
20 and Over	0.50	0.50

Increase in the Internal Revenue

Code Section 401(a)(17)
Compensation Limit: Increase of 3.00% per year from the valuation date.

Increase in Section 7522.10
Compensation Limit: Increase of 3.00% per year from the valuation date.

Average Entry Age for
Member Contribution Rates: For non-PEPRA members hired after November 1974, they will pay a contribution corresponding to a General and Safety member hired at entry age 35 and 27, respectively.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Review of Economic Actuarial Assumptions for the June 30, 2015 Actuarial Valuation

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MARCH 2015

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April 14, 2015

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

Re: Review of Economic Actuarial Assumptions For the June 30, 2015 Actuarial Valuation

Dear Members of the Board:

We are pleased to submit this report of our review of the June 30, 2015 economic actuarial assumptions for the Ventura County Employees' Retirement Association. This report includes our recommendations and the analysis supporting their development.

Please note that we have also reviewed the non-economic actuarial experience for the three-year period from July 1, 2011 to June 30, 2014. The non-economic actuarial assumption recommendations are provided in a separate report.

We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

We look forward to reviewing this report with you and answering any questions you may have.

Sincerely,

Paul Angelo, FSA, EA, MAAA, FCA Senior Vice President and Actuary	John Monroe, ASA, EA, MAAA Vice President and Actuary

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I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

To project the cost and liabilities of the pension fund, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the projected experience, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are changed, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions in effect assumes that the experience is treated as temporary and that, over the long run, experience is expected to return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current contribution requirements than the gain or loss for a single year.

The use of realistic actuarial assumptions is important to maintain adequate funding, while fulfilling benefit commitments to participants already retired and to those near retirement. The actuarial assumptions do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the economic actuarial assumptions. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 27,[1] "Selection of Economic Assumptions for Measuring Pension Obligations." This Standard of Practice puts forth guidelines for the selection of the economic actuarial assumptions utilized in a pension plan actuarial valuation.

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1 ASOP No. 27 was revised in September 2013 effective for measurement dates on or after September 30, 2014. Since the recommendations developed herein are intended for use starting with the June 30, 2015 valuation, this study was performed in accordance with ASOP 27 as constituted after the 2013 revisions to the ASOP.

We are recommending changes in the investment return, inflation and "across the board" salary increase assumptions. Our recommendations for the economic actuarial assumptions for the June 30, 2015 Actuarial Valuation are as follows:

Inflation – Future increases in the Consumer Price Index (CPI) which drives investment returns and active member salary increases, as well as cost-of-living adjustments (COLAs) for retirees.
Recommendation: Reduce the assumed rate of price inflation from 3.25% to 3.00% per annum.

Investment Return – The estimated average future net rate of return on current and future assets of the Association as of the valuation date. This rate is used to discount liabilities.
Recommendation: Reduce the current investment return assumption from 7.75% per annum to 7.50% per annum. The 7.50% recommendation would be consistent with the Board's past practice of having a margin for adverse deviation under the risk adjusted model used by Segal. We further recommend changing to an explicit treatment of administrative expenses in the selection of an investment return assumption for use both in funding and in financial reporting required by the Governmental Accounting Standards Board (GASB).

Individual Salary Increases – Increases in the salary of a member between the date of the valuation to the date of separation from active service. This assumption has three components:

- Inflationary salary increases,
- Real "across the board" salary increases, and
- Promotional and merit increases.

Recommendation: Reduce the current inflationary salary increase assumption from 3.25% to 3.00% and reduce the current real "across the board" salary increase assumption from 0.75% to 0.50%. This means that the combined inflationary and real "across the board" salary increases will decrease from 4.00% to 3.50%. Please note that the promotional and merit increase assumption currently ranges from 0.50% to 8.00% and is a function of a member's years of service. The proposed promotional and merit increase assumptions are provided as part of our triennial experience study of non-economic assumptions, along with the other recommended non-economic assumptions for the June 30, 2015 valuation.

Section II provides some background on basic principles and the methodology used for the review of the economic actuarial assumptions. A detailed discussion of each of the economic assumptions and reasons behind the recommendations is found in Section III. The cost impact of these proposed changes is included in our separate analysis of the "non-economic" assumptions for the June 30, 2015 valuation.

II. BACKGROUND AND METHODOLOGY

For this study, we analyzed “economic” assumptions only. Our analysis of the “non-economic” assumptions for the June 30, 2015 valuation is provided in a separate report. The primary economic assumptions are inflation, investment return and salary increases.

Economic Assumptions

Economic assumptions consist of:

Inflation – Increases in the price of goods and services. The inflation assumption reflects the basic return that investors expect from securities markets. It also reflects the expected basic salary increase for active employees and drives increases in the allowances of retired members.

Investment Return – Expected long term rate of return on the Association’s investments after expenses. This assumption has a significant impact on contribution rates.

Salary Increases – In addition to inflationary increases, it is assumed that salaries will also grow by “across the board” real pay increases in excess of price inflation. It is also assumed that employees will receive raises above these average increases as they advance in their careers. These are commonly referred to as promotional and merit increases. Payments to amortize any Unfunded Actuarial Accrued Liability (UAAL) are assumed to increase each year by the price inflation rate plus any “across the board” real pay increases that are assumed.

The setting of these assumptions is described in Section III.

III. ECONOMIC ASSUMPTIONS

A. INFLATION

Unless an investment grows at least as fast as prices increase, investors will experience a reduction in the inflation-adjusted value of their investment. There may be times when "riskless" investments return more or less than inflation, but over the long term, investment market forces will generally require an issuer of fixed income securities to maintain a minimum return which protects investors from inflation.

The inflation assumption is long term in nature, so it is set using primarily historical information. Following is an analysis of 15 and 30 year moving averages of historical inflation rates:

Historical Consumer Price Index – 1930 to 2014

(U.S. City Average - All Urban Consumers)

	25th Percentile	Median	75th Percentile
15-year moving averages	2.6%	3.4%	4.6%
30-year moving averages	3.2%	4.1%	4.9%

The average inflation rates have continued to decline gradually over the last several years due to the relatively low inflationary period over the past two decades. Also, the later of the 15-year averages during the period are lower as they do not include the high inflation years of the mid-1970s and early 1980s.

In the 2013 public fund survey published by the National Association of State Retirement Administrators, the median inflation assumption used by 126 large public retirement funds in their 2012 valuations has decreased to 3.00% from the 3.25% used in the 2011 valuations. In California, CalPERS and LACERA have recently reduced their inflation assumptions to 2.75% and 3.00%, respectively.

VCERA's investment consultant, New England Pension Consultants (NEPC), anticipates an annual inflation rate of 3.25%. Note that, in general, the investment consultants' time horizon for this assumption is shorter than the time horizon we use for the actuarial valuation. We also note that the average inflation rate used by a sample of nine investment advisory firms is 2.53%.

To find a forecast of inflation based on a longer time horizon, we referred to the 2014 report on the financial status of the Social Security program. The projected average increase in the Consumer Price Index (CPI) over the next 75 years under the intermediate cost assumptions used in that report was 2.70%. We also compared the yields on the thirty-year inflation indexed U.S. Treasury bonds to comparable traditional U.S. Treasury bonds. As of January 2015, the difference in yields is 1.92%, which provides a measure of market expectations of inflation.

Based on all of the above information, we recommend that the current 3.25% annual inflation assumption be reduced to 3.00% for the June 30, 2015 actuarial valuation.

Retiree Cost-of-Living Increases

We also recommend maintaining the current assumptions to value the post-retirement COLA benefit at 3.00% per year for all General Tier 1 and Safety members. Note that General Tier 2 members with COLA provision are entitled to receive a fixed 2% COLA, not limited to actual changes in the CPI, that applies to future service after March 2003. The current and proposed COLA assumptions are shown below:

Maximum COLA for all General Tier 1 and Safety Members	Current Assumption	Proposed Assumption
3.00%	3.00%	3.00%

Note that in developing the COLA assumption, we also considered the results of a stochastic approach that would attempt to account for the possible impact of low inflation that could occur before COLA banks are able to be established for the member. Although the results of this type of analysis might justify the use of a lower COLA assumption, we are not recommending that at this time. The reasons for this conclusion include the following:

- The results of the stochastic modeling are significantly dependent on assuming that lower levels of inflation will persist in the early years of the projections. If this is not assumed, then the stochastic modeling will produce results similar to our proposed COLA assumptions.
- Using a lower long-term COLA assumption based on a stochastic analysis would mean that an actuarial loss would occur even when the inflation assumption of 3.00% is met in a year. We question the reasonableness of this result.

We do not see the stochastic possibility of COLAs averaging less than those predicted by the assumed rate of inflation as a reliable source of cost savings that should be anticipated in our COLA assumptions. Therefore, we continue to recommend setting the COLA assumptions based on the long-term annual inflation assumption, as we have in prior years.

B. INVESTMENT RETURN

The investment return assumption is comprised of two primary components, inflation and real rate of investment return, with adjustments for expenses and risk.

Real Rate of Investment Return

This component represents the portfolio's incremental investment market returns over inflation. Theory has it that, as an investor takes a greater investment risk, the return on the investment is expected to also be greater, at least in the long run. This additional return is expected to vary by asset class and empirical data supports that expectation. For that reason, the real rate of return assumptions are developed by asset class. Therefore, the real rate of return assumption for a retirement system's portfolio will vary with the Board's asset allocation among asset classes.

The following is the Association's current target asset allocation and the assumed real rate of return assumptions by asset class. The first column of real rate of return assumptions are determined by reducing NEPC's total return assumptions by their assumed 3.25% for inflation. The second column of returns (except for Private Debt/Credit Strategies, Absolute Return, Real Assets and Private Equity) represents the average of a sample of real rate of return assumptions. The sample includes the expected annual real rate of returns provided to us by NEPC and by eight other investment advisory firms retained by Segal's California public sector clients. We believe these assumptions reasonably reflect a consensus forecast of long term future real market returns.[2]

[2] Note that, just as for the inflation assumption, in general the time horizon used by the investment consultants in determining the real rate of return assumption is shorter than the time horizon encompassed by the actuarial valuation.

VCERA's Target Asset Allocation and Assumed Arithmetic Real Rate of Return Assumptions by Asset Class and for the Portfolio

Asset Class	Percentage of Portfolio	NEPC's Assumed Real Rate of Return[1]	Average Real Rate of Return from a Sample of Consultants to Segal's California Public Sector Clients[2]
Large Cap U.S. Equity	27.74%	5.58%	5.90%
Small Cap U.S. Equity	3.41%	6.39%	6.60%
Developed International Equity	14.73%	6.60%	6.95%
Emerging Market Equity	3.12%	8.80%	8.44%
U.S. Core Fixed Income	14.00%	0.97%	0.71%
Real Estate	7.00%	4.25%	4.65%
Private Debt/Credit Strategies	5.00%	6.01%	6.01%[3]
Absolute Return (Risk Parity)[4]	16.00%	4.13%	4.13%[3]
Real Assets (Master Limited Partnerships)[4]	4.00%	6.51%	6.51%[3]
Private Equity	5.00%	9.25%	9.25%[3]
Total Portfolio	100.00%	5.13%	5.26%

(1) *Derived by reducing NEPC's nominal rate of return assumptions by their assumed 3.25% inflation rate.*

(2) *These are based on the projected arithmetic real returns provided by the investment advisory firms serving the county retirement systems of Ventura, Alameda, Contra Costa, Sonoma, Mendocino, Kern, the LA City Employees' Retirement System, LA Department of Water and Power and the LA Fire & Police Pensions. These return assumptions are gross of any applicable investment expenses.*

(3) *For these asset classes, NEPC's assumption is applied in lieu of the average because there is a larger disparity in returns for these asset classes among the firms surveyed and using NEPC's assumption should more closely reflect the underlying investments made specifically for VCERA.*

(4) *These are categorized as "Liquid Alternatives" when reported to VCERA by NEPC.*

Please note that the above are representative of "indexed" returns and do not include any additional returns ("alpha") from active management. This is consistent with the revised Actuarial Standard of Practice No. 27, Section 3.8.3.d, which states:

> "Investment Manager Performance – Anticipating superior (or inferior) investment manager performance may be unduly optimistic (or pessimistic). The actuary should not assume that superior or inferior returns will be achieved, net of investment expenses, from an active investment management strategy compared to a passive investment management strategy unless the actuary

believes, based on relevant supporting data, that such superior or inferior returns represent a reasonable expectation over the measurement period."

The following are some observations about the returns provided above:

1. The investment consultants to our California public sector clients have each provided us with their expected real rates of return for each asset class, over various future periods of time. However, in general, the returns available from investment consultants are projected over time periods shorter than the durations of a retirement plan's liabilities.

2. Using a sample average of expected real rate of returns allows the Association's investment return assumption to reflect a broader range of capital market information and should help reduce year to year volatility in the investment return assumption.

3. Therefore, we recommend that the 5.26% portfolio real rate of return be used to determine the Association's investment return assumption. This is 0.05% lower than the return we used in 2012 to prepare the recommended investment return assumption. This difference is due to changes in the Association's target asset allocation (+0.33%) and changes in the real rate of return assumptions provided to us by the investment advisory firms (-0.38%).

Association Expenses

For funding purposes, the real rate of return assumption for the portfolio needs to be adjusted for investment expenses expected to be paid from investment income. As further discussed later in this report, current practice for VCERA also adjusts for expected administrative expenses. The following table provides these expenses in relation to the actuarial value of assets for the five years ending June 30, 2014.

Administrative and Investment Expenses as a Percentage of Actuarial Value of Assets
(All dollars in 000's)

FYE	Actuarial Value of Assets[1]	Administrative Expenses	Investment Expenses[2]	Administrative %	Investment %	Total %
2010	$3,134,978	$4,081	$6,256	0.13%	0.20%	0.33%
2011	3,236,217	4,387	7,404	0.14	0.23	0.36
2012	3,411,149	3,505	9,103	0.10	0.27	0.37
2013	3,633,626	3,944	9,901	0.11	0.27	0.38
2014	3,964,814	4,045	12,877	0.10	0.32	0.43
Average				0.12%	0.26%	0.37%

(1) *As of end of plan year.*

(2) *Excludes securities lending expenses. Because we do not assume any additional net return for this program, we effectively assume that any securities lending expenses will be offset by related income.*

The average expense percentage over this five-year period is 0.37%. Based on this experience, we have maintained the future expense assumption component at 0.40%. This assumption will be re-examined in subsequent assumption reviews as new data becomes available.

Note related to investment expenses paid to active managers – As cited in footnote 3, the 2014 revision to ASOP No. 27 indicates that the effect of an active investment management strategy should be considered "net of investment expenses".

We have not performed a detailed analysis to measure how much of the investment expenses paid to active managers might have been offset by additional returns ("alpha") earned by that active management. We do not believe that such a review would have a significant impact on the recommended investment return assumption developed using the above expense assumption. For now, we propose that any alpha that may be identified would be treated as an increase in the risk adjustment and corresponding confidence level. For example, 0.25% of alpha would increase the confidence level by 3% (see discussions that follow on definitions of risk adjustment and confidence level).

Adjustment to Exclude Administrative Expenses in Developing Investment Return Assumption for use in GASB Financial Reporting

In 2012, GASB adopted Statements 67 and 68 that replace Statements 25 and 27 for financial reporting purposes. GASB Statements 67 and 68 are effective for plan year 2013/2014 for the Retirement Association and fiscal year 2014/2015 for the employer.[3]

According to GASB, the investment return assumption for use in financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments and should be net of investment expenses but not of administrative expenses (i.e., without reduction for administrative expenses). As can be observed from the above development of the expense assumption, if the Board wishes to develop a single investment return assumption for both funding and financial reporting purposes, then it would be necessary to exclude the roughly 0.12% administrative expense from the above development and to develop a separate treatment of administrative expenses.

The issues associated with eliminating the consideration of administrative expenses when developing the investment return assumption used for funding, and the alternatives that are available to the Board in developing the investment return assumption for use in GASB financial reporting purposes are provided at the end of this Section. While we do recommend that the Board adopt an investment return for funding that is gross of administrative expenses (as discussed in the end of this Section), the preliminary discussion that follows has first been completed on a net of administrative expenses basis, to allow an "apples to apples" comparison with the current assumption.

Risk Adjustment

The real rate of return assumption for the portfolio generally is adjusted to reflect the potential risk of shortfalls in the return assumptions. The Association's asset allocation also determines this portfolio risk, since risk levels are driven by the variability of returns for the various asset classes and the correlation of returns among those asset classes. This portfolio risk is incorporated into the real rate of return assumption through a risk adjustment.

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3 The new Statements (67 and 68) will require more rapid recognition for investment gains or losses and much shorter amortization for actuarial gains or losses. Because of the more rapid recognition of those changes, retirement systems that have generally utilized the previous Statements (25 and 27) as a guideline to establish the employer's contribution amounts for both funding and financial reporting purposes would now have to prepare two sets of cost results, one for contributions and one for financial reporting under the new Statements.

The purpose of the risk adjustment (as measured by the corresponding confidence level) is to increase the likelihood of achieving the actuarial investment return assumption in the long term.[4] The 5.26% expected real rate of return developed earlier in this report was based on expected mean or average arithmetic returns. This means there is a 50% chance of the actual return in each year being at least as great as the average (assuming a symmetrical distribution of future returns). The risk adjustment is intended to increase that probability. This is consistent with our experience that retirement plan fiduciaries would generally prefer that returns exceed the assumed rate more often than not.

Three years ago, the Board adopted an investment return assumption of 7.75%. That return implied a risk adjustment of 0.41%, reflecting a confidence level of 54% that the actual average return over 15 years would not fall below the assumed return, assuming that the distribution of returns over that period follows the normal statistical distribution.[5]

In our model, the confidence level associated with a particular risk adjustment represents the likelihood that the actual average return would equal or exceed the assumed value over a 15-year period. For example, if we set our real rate of return assumption using a risk adjustment that produces a confidence level of 60%, then there would be a 60% chance (6 out of 10) that the average return over 15 years will be equal to or greater than the assumed value. The 15-year time horizon represents an approximation of the "duration" of the fund's liabilities, where the duration of a liability represents the sensitivity of that liability to interest rate variations.

If we use the same confidence level of 54% to set this year's risk adjustment, based on the current long-term portfolio standard deviation of 12.69% provided by NEPC, the corresponding risk adjustment would be 0.34%. Together with the other investment return components, this produces a net investment return assumption of 7.52%, which is lower than the current assumption of 7.75%.

Based on the general practice of using one-quarter percentage point increments for economic assumptions, we evaluated the effect on the confidence level of an alternative investment return assumption. In particular, a net investment return assumption of 7.50%, together with the other investment return components, would produce a risk adjustment of 0.36%, which corresponds to a confidence level of 54%.

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4 This type of risk adjustment is sometimes referred to as a "margin for adverse deviation".

5 Based on an annual portfolio return standard deviation of 13.50% provided by Hewitt Ennis Knupp in 2012. Strictly speaking, future compounded long-term investment returns will tend to follow a log-normal distribution. However, we believe the Normal distribution assumption is reasonable for purposes of setting this type of risk adjustment.

As we have discussed in prior years, the risk adjustment model and associated confidence level is most useful as a means for comparing how the Association has positioned itself relative to risk over periods of time.[6] The use of a 54% confidence level should be considered in context with other factors, including:

- As noted above, the confidence level is more of a relative measure than an absolute measure, and so can be reevaluated and reset for future comparisons.

- The confidence level is based on the standard deviation of the portfolio that is determined and provided to us by NEPC. The standard deviation is a statistical measure of the future volatility of the portfolio and so is itself based on assumptions about future portfolio volatility and can be considered somewhat of a “soft” number.

- A lower assumed level of inflation should reduce the overall risk of failing to meet the investment return assumption. Maintaining or even lowering the confidence level to some extent could be justified as consistent with the change in the inflation assumption.

- As with any model, the results of the risk adjustment model should be evaluated for reasonableness and consistency. This is discussed in the later section on “Comparison with Other Public Retirement Systems”.

Taking into account the factors above, our preliminary recommendation is to reduce the net investment return assumption from 7.75% to 7.50%. As noted above, this return implies a 0.36% risk adjustment, reflecting a confidence level of 54% that the actual average return over 15 years would not fall below the assumed return.

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6 In particular, it would not be appropriate to use this type of risk adjustment as a measure of determining an investment return rate that is “risk-free.”

Preliminary Recommended Investment Return Assumption

The following table summarizes the components of the preliminary investment return assumption developed in the previous discussion. For comparison purposes, we have also included similar values from the last study.

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2015 Preliminary Recommended Value	June 30, 2012 Adopted Value
Inflation	3.00%	3.25%
Plus Portfolio Real Rate of Return	5.26%	5.31%
Minus Expense Adjustment	(0.40%)	(0.40%)
Minus Risk Adjustment	(0.36%)	(0.41%)
Total	7.50%	7.75%
Confidence Level	54%	54%

Based on this analysis, our preliminary recommendation is that the investment return assumption be reduced from 7.75% per annum to 7.50% per annum. Our final recommendation follows later in this section after discussion regarding a change in how expected administration expenses are handled.

Comparison with Other Public Retirement Systems

One final test of the recommended investment return assumption is to compare it against those used by other public retirement systems, both in California and nationwide.

We note that a 7.50% investment return assumption is emerging as the common assumption among those California public sector retirement systems that have studied this assumption recently. In particular two of the largest California systems, CalPERS and LACERA, adopted a 7.50% earnings assumption. Note that CalPERS uses a lower inflation assumption of 2.75% while LACERA uses an inflation assumption of 3.00%. However, five County employees retirement systems (Orange, Contra Costa, Fresno, Mendocino and San Mateo) have recently adopted a 7.25% earnings assumption.

The following table compares the VCERA recommended net investment return assumptions against those of the nationwide public retirement systems that participated in the National Association of State Retirement Administrators (NASRA) 2013 Public Fund Survey:

Assumption	VCERA	NASRA 2013 Public Fund Survey		
		Low	Median	High
Net Investment Return	7.50%	6.50%	7.90%	8.50%

The detailed survey results show that of the systems that have an investment return assumption in the range of 7.50% to 7.90%, almost half of those systems have used an assumption of 7.50%. The survey also notes that several plans have reduced their investment return assumption during the last year, and others are considering doing so. State systems outside of California tend to change their economic assumptions slowly and so may lag behind emerging practices in this area.

In summary, we believe that both the risk adjustment model and other considerations indicate a lower earnings assumption. The recommended assumption of 7.50% continues to provide for some risk margin within the risk adjustment model as compared to three years ago and is consistent with the Association's current practice relative to other public systems.

Developing an Investment Return Assumption for use in Accounting and Financial Reporting under GASB Statement 67 and 68

The Governmental Accounting Standards Board (GASB) has adopted Statements 67 and 68 that replace Statements 25 and 27 for financial reporting purposes. We now discuss the issues and policy alternatives available to VCERA in developing its investment return assumptions in a manner that will allow the Plan to maintain consistency in its liability measurements for funding and financial reporting purposes.

Background

GASB Statement 67 governs the Plan's financial reporting and is effective for plan year 2013/2014, while GASB Statement 68 governs the employers' financial reporting and is effective for fiscal year 2014/2015. The new Statements specify requirements for measuring both the pension liability and the annual pension expense incurred by the employers. The new GASB requirements are only for financial reporting and do not affect how the Plan determines funding requirements for its employer. Nonetheless, it is important to understand how the new financial reporting results will compare with the funding requirement results. The comparison between funding and GASB financial reporting results will differ dramatically depending on whether one is considering measures of the accumulated pension liability or measures of the current year annual pension contribution/expense:

- When measuring pension liability GASB will use the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as VCERA uses for funding. This means that the GASB "Total Pension Liability" measure for financial reporting will be determined on generally the same basis as VCERA's "Actuarial Accrued Liability" measure for funding. This is a generally favorable feature of the new GASB rules that should largely preclude the need to explain why VCERA has two different measures of pension liability. We note that the same is generally true for the "Normal Cost" component of the annual plan cost for both funding and financial reporting.

- When measuring annual pension expense, GASB will require more rapid recognition of investment gains or losses and much shorter amortization of changes in the pension liability (whether due to actuarial gains or losses, actuarial assumption changes or plan amendments). Because of GASB's more rapid recognition of those changes, retirement systems that have generally used the same "annual required contribution" amount for both funding (contributions) and financial reporting (pension expense) will now have to prepare and disclose two different annual cost results, one for contributions and one for financial reporting under the new GASB Statements.

This situation will facilitate the explanation of why the funding and financial reporting results are different: the liabilities and Normal Costs are generally the same, and the differences in annual costs are due to differences in how changes in liability are recognized. However, there is one other feature that will make the liability and Normal Cost measures different unless action is taken by VCERA.

<u>Treatment of Expected Administrative Expenses when Measuring Liabilities</u>

As noted above, according to GASB, the discount rate used for financial reporting purposes should be based on the long-term expected rate of return on a retirement system's investments, just as it is for funding. However, GASB requires that this assumption should be net of <u>investment</u> expenses but <u>not</u> net of <u>administrative</u> expenses (i.e., without reduction for administrative expenses). Currently, VCERA's investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses.

While VCERA could continue to develop its funding investment return assumption net of both investment and administrative expenses, that would mean that the Association would then have two slightly different investment return assumptions, one for funding and one for financial reporting. To avoid this apparent discrepancy and to maintain the consistency of liability and Normal Cost measures described above, we believe that it would be preferable to use the same investment return assumption for both funding and financial reporting purposes. This means that the assumption for funding purposes would be developed on a basis that is net of only investment expenses, with an explicit assumption for administrative expenses.

To review, using the same investment return assumption for both purposes would be easier for VCERA's stakeholders to understand and should result in being able to report VCERA's Actuarial Accrued Liability (AAL) for funding purposes as the Total Pension Liability (TPL) for financial reporting purposes.

<u>Development of Investment Return Assumption For Funding on a Gross of Administrative Expenses Basis so the Same Assumption Can Also Be Used for Financial Reporting ("Option A")</u>

If the Board wishes to develop a single investment return assumption for both funding and financial reporting purposes, then it would be necessary to exclude the administrative expense component of about 0.12% from development of the 7.50% investment return preliminary recommendation. Under this approach, because these economic assumptions are generally changed in ¼% increments, there would be no change in the recommended investment return assumption as developed earlier in this report. Instead, there would be an increase in the risk adjustment of 0.12%, with a corresponding increase in the confidence level from 54% to 55%.

Under this approach, there would also be an explicit loading for administrative expenses. There are various ways to set the explicit administrative expense load assumption, but ultimately the method should result in an assumption that is approximately equivalent to about $5 million annually, or 0.7% of payroll.

This approach and our final recommendation for the investment return assumption is presented in the following table.

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2015 Recommended Values if Used only for Funding (Net of Admin. Expenses)	June 30, 2015 Recommended Values for both Funding and Financial Reporting (Gross of Admin. Expenses)
Inflation	3.00%	3.00%
Plus Portfolio Real Rate of Return	5.26%	5.26%
Minus Expense Adjustment	(0.40%)	(0.28%)
Minus Risk Adjustment	(0.36%)	(0.48%)
Total	7.50%	7.50%
Confidence Level	54%	55%
Increase in combined Employer and Employee Contributions Due to Explicit Load for Administrative Expenses (Cost as % of Payroll)	Not Applicable	0.70% of pay

There is an additional complication associated with eliminating the administrative expenses in developing the investment return assumption used for funding that relates to the allocation of administrative expenses between the employers and employees:

1. Even though GASB requires the exclusion of the administrative expenses from the investment return assumption, such expense would continue to accrue for a retirement system. For private sector retirement plans, where the investment return is developed using an approach similar to that required by GASB (i.e., without deducting administrative expenses), contribution requirements are increased explicitly by the anticipated annual administrative expense. That approach is illustrated in the table above.

2. Under VCERA's current approach of subtracting the administrative expense in the development of the investment return assumption, such annual administrative expense is funded implicitly by effectively deducting it from future expected investment returns. Since an investment return

assumption net of investment and administrative expenses has been used historically to establish both the employer's and the employee's contribution requirements, these administrative expenses have been funded implicitly by both the employer and the employees.

3. A switch from the method described in (2) to the method described in (1) may require a new discussion on how to allocate administrative expenses between employers and employees, including possibly establishing a new method to allocate the anticipated annual administrative expense between them. Under current practice, part of the implicit funding of administrative expenses is in the Normal Cost and so is shared between the employer and the employees. However, the rest of the implicit expense funding is in the (Unfunded) Actuarial Accrued Liability, which is funded solely by the employers.

4. It is not straightforward to quantify precisely the current implicit sharing of administrative expenses between employers and employees. This means that an exact reproduction of that allocation on an explicit basis will be difficult to develop. This in turn means that VCERA would need to develop a new basis for sharing the cost of administrative expenses, one that if desired, approximately reproduces the current allocation. Alternatively, VCERA could decide to treat administrative expenses as a loading applied only to the employer contribution rates, which is the practice followed by private plans, both single employer and multi-employer.

5. As the Board is aware, legislative changes under AB 340 imposed major modifications to both the level of benefits and the cost-sharing of the funding of those benefits for county employees' retirement systems. Included in such modifications is the requirement (for future hires) to fund the Normal Cost on a 50:50 basis between the employer and the employee. As noted in (3) above, under current practice, part of the implicit funding of administrative expenses is in the Normal Cost and so would be shared between the employer and the employees. This would not necessarily continue when the administrative expense loading is developed separate from the Normal Cost.

If, as we recommend, the Board wishes to continue to develop a single investment return assumption for both funding and financial reporting purposes, it is our recommendation that the Board adopt a change in the funding of administrative expenses from the method described in (2) above with an implicit allocation of administrative expenses to the method described in (1) above with an explicit allocation of administrative expenses.

In addition, we recommend that the total explicit administrative expense load assumption be set at 0.70% of payroll, which is approximately equivalent to about 0.12% of assets or $5 million

annually. This assumption would be reviewed with each triennial experience study, along with the other economic assumptions.

The more significant issues mentioned in (3), (4) and (5) above concern whether or not the costs associated with the administrative expenses should continue to be allocated to both the employers and the employees. Unless the Board wishes to charge administrative expenses only to the employers, we propose a method whereby the costs associated with the explicit assumption for administrative expenses continue to be allocated to both employers and employees. We recommend a straightforward way to do that in a manner generally consistent with current practice, which is to allocate expenses based on the components of the total contribution rate (before expenses) for employers and employees. These components would be employee Normal Cost contributions, employer Normal Cost contributions and employer UAAL contributions. **Under this recommended approach, of the total administrative expenses of about $5 million or 0.70% of payroll, about $1.1 million or 0.15% of payroll would be allocated to the employees and $3.9 million or 0.55% of payroll would be allocated to the employers in the aggregate. This allocation would be based on the actual components in each valuation and could change slightly each year.**

Development of Investment Return Assumption for Funding on a Net of Administrative Expenses Basis but use that Same Assumption for Financial Disclosure Development ("Option B")

If the Board decides to leave the recommended investment return assumption of 7.50% on a net of administrative expense basis for funding purposes, we believe there still is a way to use that same 7.50% for financial reporting purposes under GASB. Under this approach, what appears to be the same 7.50% assumption would actually be used as two slightly different assumptions: 7.50% net of administrative expenses for funding, and 7.50% gross of administrative expenses for financial reporting. This would indirectly result in an increase in the margin for adverse deviation or "confidence level" associated with the use of the recommended 7.50% assumption from 54% as used for funding purposes to 55% only as used for financial reporting purposes.

The Board had previously adopted this Option B on an interim basis last year for use in performing the June 30, 2014 actuarial valuation and the June 30, 2014 GASB 67 report.

The following table summarizes the components of the investment return assumption under this approach, using the recommended 7.50% assumption for both funding (net of administration expenses) and financial reporting (gross of administration expenses), but with differing treatment of administrative expenses:

Calculation of Net Investment Return Assumption

Assumption Component	June 30, 2015 Recommended Values if Used only for Funding (Net of Admin. Expenses)	June 30, 2015 Alternative Values for Financial Reporting (Gross of Admin. Expenses)
Inflation	3.00%	3.00%
Plus Portfolio Real Rate of Return	5.26%	5.26%
Minus Expense Adjustment	(0.40%)	(0.28%)
Minus Risk Adjustment	(0.36%)	(0.48%)
Total	7.50%	7.50%
Confidence Level	54%	55%

Note that under both Option A and Option B the confidence level for financial reporting increases from 54% to 55% (because the risk adjustment increases from 0.36% to 0.48%). The difference is that under Option A the same confidence level increase would apply for funding purposes, along with the addition of an explicit loading on the contribution rates for administrative expenses.

C. SALARY INCREASE

Salary increases impact plan costs in two ways: (i) by increasing members' benefits (since benefits are a function of the members' highest average pay) and future normal cost collections; and (ii) by increasing total active member payroll which in turn generates lower UAAL contribution rates. These two impacts are discussed separately below.

As an employee progresses through his or her career, increases in pay are expected to come from three sources:

1. Inflation – Unless pay grows at least as fast as consumer prices grow, employees will experience a reduction in their standard of living. There may be times when pay increases lag or exceed inflation, but over the long term, labor market forces may require an employer to maintain its employees' standards of living.

   As discussed earlier in this report, we are recommending that the assumed rate of inflation be reduced from 3.25% to 3.00%. This inflation component is used as part of the salary increase assumption.

2. Real "Across the Board" Pay Increases – These increases are typically termed productivity increases since they are considered to be derived from the ability of an organization or an economy to produce goods and services in a more efficient manner. As that occurs, at least some portion of the value of these improvements can provide a source for pay increases. These increases are typically assumed to extend to all employees "across the board." The State and Local Government Workers Employment Cost Index produced by the Department of Labor provides evidence that real "across the board" pay increases have averaged about 0.5% - 0.7% annually during the last ten to twenty years.

   We also referred to the annual report on the financial status of the Social Security program published in July 2014. In that report, real "across the board" pay increases are forecast to be 1.1% per year under the intermediate assumptions.

   The real pay increase assumption is generally considered a more "macroeconomic" assumption, that is not necessarily based on individual plan experience. However, recent salary experience with public systems in California as well as anecdotal discussions with plans and plan sponsors indicate lower future real wage growth expectations for public sector employees.

Considering these factors, we recommend reducing the real "across the board" salary increase assumption from 0.75% to 0.50%. This means that the combined inflation and "across the board" salary increase assumption will decrease from 4.00% to 3.50%.

3. Promotional and Merit Increases – As the name implies, these increases come from an employee's career advances. This form of pay increase differs from the previous two, since it is specific to the individual. For VCERA, there are service-specific merit and promotional increases. These assumptions have been reviewed as part of our triennial experience study as of June 30, 2015.

Recommended promotional and merit assumptions are provided as part of our triennial experience analysis.

All three of these forces will be incorporated into a salary increase assumption which is applied in the actuarial valuation to project future benefits and future normal cost contribution collections.

Active Member Payroll

Projected active member payrolls are used to develop the UAAL contribution rate. Future values are determined as a product of the number of employees in the workforce and the average pay for all employees. The average pay for all employees increases only by inflation and real "across the board" pay increases. The promotional and merit increases are not an influence, because this average pay is not specific to an individual.

We recommend that the active member payroll increase assumption be decreased from 4.00% to 3.50% annually, consistent with the combined inflation plus real "across the board" salary increase assumptions.

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VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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April 20, 2015

Board of Retirement
Ventura County Employee Retirement Association
1190 South Victoria Avenue
Ventura, CA 93003

SUBJECT: REVIEW AND RECOMMENDATIONS REGARDING INTEREST CREDITING POLICY

Dear Board Members,

VCERA's current Interest Crediting Policy provides for the semiannual crediting of interest to designated reserves. While interest crediting occurs semiannually, the Board may recall that in early 2008, outside counsel recommended determining the existence of Excess Earnings on an annual basis at the end of each fiscal year. Shortly thereafter on March 17, 2008, the Board approved amendments to its interest crediting policy. At the end of FY 2013-2014, VCERA had Excess Earnings and the Board elected to leave those funds in the Undistributed Earnings Reserve.

Staff has reviewed the existing policy and recommends the amendments provided in the draft document, to be in place for the end of the fiscal year. The proposed changes have been developed through collaboration with both Legal Counsel and VCERA's actuary. Primarily, the changes address the topic of excess earnings, and set forth a priority of discretionary use of excess earnings. Below is a summary of the issues addressed in the proposed changes.

<u>Policy Name</u>
We recommend changing the name of the policy to reflect the excess earnings component, by calling it, "Interest Crediting and Excess Earnings Policy." This change is recommended because the policy governs both the semiannual crediting of interest, and the fiscal year-end determination of excess earnings and potential uses of those earnings.

<u>Terminology Update</u>
The existing policy lists the STAR COLA reserve, which no longer exists due to the Board's termination of that benefit when there were no longer sufficient excess earnings to continue funding it.

<u>Prioritizing the Contra Reserve</u>
Per the policy, interest is credited regularly regardless of the applicable year's earnings. If the year's earnings are less than the required amount to be credited, Steps 2 through 4 of the current policy specify that the Contra Reserve be charged with the shortfall. The Contra Reserve serves as an offset to the County Advance Reserves.

For this reason, Staff recommends when excess earnings are available at the end of a fiscal year, replenishing the Contra Reserve to a zero balance should be the first priority before funding supplemental discretionary benefits. Counsel agrees this is a sound fiduciary practice, and the actuary agrees it serves as a best practice. The draft policy provided therefore inserts reducing the balance of the Contra Reserve as Step 5, and leaves the remaining steps in the same order as they were previously.

The remaining changes to the document generally clarify the timing of determining excess earnings (per outside counsel's 2008 recommendation) or are in support of the items mentioned above.

I would be pleased to respond to any questions you may have on this matter at the April 20, 2014 business meeting.

Sincerely,

Linda Webb
Retirement Administrator

Attachments

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

INTEREST CREDITING AND EXCESS EARNINGS POLICY

PURPOSE OF POLICY:

The purpose of this policy is to establish the process to be used by the Ventura County Employees' Retirement Association ("VCERA") to credit semi-annual interest to reserves and to determine the use of excess earnings. This policy shall include, but may not be limited to, the following:

(1) defining the reserves maintained by VCERA,

(2) determining the rates of interest at which reserves are to be credited,

(3) determining the priorities and sequence by which interest will be credited to the reserves, and

~~(3)~~(4) determining the use of excess earnings.

CURRENT RESERVES:

VCERA maintains the following reserves:

Valuation Reserves:

Member Deposit Reserves - The reserves to which member contributions are credited, including those contributions made by the employer on behalf of the member pursuant to Government Code section 31581.2. Contributions may be refunded to the member upon separation from service or left on deposit by the member upon separation from service (deferred retirement). Upon the retirement of a member a transfer is made to Retiree Member Reserves (Annuity).

County Advance Reserves - The reserves to which employer contributions are credited, including those contributions made by the employer on behalf of the member pursuant to Government Code section 31581.1. Contributions are not refunded to the member at the time of separation. Upon the retirement of a member a transfer is made to the Retiree Member Reserves (Pension).

Retiree Member Reserves (Annuity & Pension) - The reserves to which transfers are made from Member Deposit Reserves and County Advance Reserves at the time of a member's retirement. The total of these reserves should equal the present value of the total benefit due to all retirees and eligible beneficiaries.

Vested Fixed Supplemental Benefit ($108.44 Supplement) Reserve - The reserve for the payment of the vested fixed $108.44 monthly supplemental benefit provided pursuant to Government Code section 31682.

Supplemental Death Benefit ($5000 Death) Reserve - This reserve is used for the payment of the $5,000 lump sum death benefit.

Contra Reserve - For accounting and valuation purposes the Contra Reserve shall be maintained as an offset to the County Advance Reserves.

Undistributed Earnings Reserve - The amount of earnings from current and prior years not previously credited to other Valuation, Non-valuation, and Supplemental Benefit Reserves, in excess of the Statutory 1.0% Contingency Reserve and Additional Contingency Reserve, if any.

Non-valuation Reserves:

Statutory Contingency Reserve - This~~e~~ reserve is an amount up to 1.0% of the total market value of assets to provide for future deficiencies in interest earnings, losses on investments**,** and other contingencies**.**

Additional Contingency Reserve – Any additional reserve maintained at the discretion of the Board to further provide for future deficiencies in interest earnings**,** losses on investments and other contingencies. Current Board policy is not to maintain an Additional Contingency Reserve

Supplemental Benefit Reserve~~s~~:

~~Supplemental Targeted Adjustment for Retirees Cost-of-Living Benefit (STAR COLA) Reserve - This reserve is used for the payment of a supplemental cost-of-living benefit pursuant to the provisions of Government Code section 31874.3(b) to those retirees whose cost-of-living accumulations (banks) equal or exceed 20.0%. The reserve was funded for a five-year period in September 1999 by a transfer from Undistributed Earnings. Benefit funding is reviewed annually, with an additional transfer, if authorized in accordance with Step #7 below, from Undistributed Earnings in order to maintain sufficient funding to provide STAR COLA benefits for up to five years, or any other time period as determined by the Board.~~

Fixed Supplemental Benefit ($27.50 Supplement) Reserve - This reserve was established in March 2003 for the payment of the fixed monthly $27.50 monthly payment to those retirees and surviving beneficiaries eligible to receive the vested $108.44 monthly benefit. This reserve was funded by an initial discretionary transfer of $25 million from Undistributed Earnings, which would have been sufficient to continue to pay the benefit in perpetuity only if sufficient

Excess Earnings in future years were to exist at a level that would permit future Boards to credit the Reserve with interest at the then-assumed 8.25% per year rate, and even then, only if future Boards decide to continue to make such discretionary interest credits at such assumed rates.

Financial Statement Reserves:

Market Stabilization Reserve - The difference between the current market value of assets and the actuarial value of assets used to establish the above reserves.

RATES OF INTEREST AT WHICH RESERVES ARE CREDITED:

Regular Interest Rate – This is the target rate to be credited to all Valuation Reserves except the Member Deposit Reserves and the Undistributed Earnings Reserve. By statute, this rate means interest at 2 1/2 percent a year until otherwise determined by the Board compounded semiannually on June 30th and December 31st (Government Code section 31472). Regular interest shall be credited semiannually on June 30th and December 31st to all contributions in the retirement fund which have been on deposit for six months immediately prior to that date (Government Code section 31591). With respect to the rates of interest to be credited to members and to the County or District, the Board may, in its sound discretion, recommend a rate that is higher or lower than the actuarial interest assumption rate adopted by the Board. Board policy is to set the semiannual regular interest rate equal to one half of the current actuarial interest assumption rate adopted by the Board.

Member Crediting Rate - Member accounts shall be credited each June 30 and December 31 in an amount equal to one-half the rate of return on the United States ten (10) year Treasury note as quoted in the Wall Street Journal. Interest shall be credited to those contributions on deposit six months prior using the rate of the ten year U.S Treasury note on that June 30 or December 31 interest crediting date (or the last business day of the month if earlier). In no event shall the semiannual rate of interest credited exceed one-half of the prevailing actuarial interest assumption rate adopted by the Board.

Timing of Rate Determination - The actuarial interest rate used for crediting interest to non-member reserves on December 31 and June 30 shall be the rate that corresponds to the actuarial interest rate used to calculate the current employer and employee contribution rates.

CREDITING OF INTEREST:

Designated Reserves shall be credited semiannually as follows:

Step 1 - Determine "Available Earnings" for accounting period as the sum of:

a. Earnings of the retirement fund based on the actuarial value of assets, expressed in dollars. This could be a negative amount.

b. Balance in the Statutory Contingency Reserve

c. Balance in any Additional Contingency Reserve

d. Balance in Undistributed Earnings Reserve

Step 2 - Credit interest to Member Deposit Reserve (MDR) at the Member Crediting Rate

Deduct this MDR Interest amount from Available Earnings. If this amount of MDR

Interest is more than Available Earnings, charge the shortfall to the Contra Reserve.

Step 3 - Credit interest on Non-Member Valuation Reserves at Regular Interest Rate

This includes interest on any Contra Reserve balances. If Available Earnings are not sufficient, charge the shortfall to the Contra Reserve.

Step 4 - Additional Credit for Valuation Reserve

This Additional Credit is the difference between the amount of interest credited at Step 2 and the amount that would have been credited using the Regular Interest Rate. Transfer this Additional Credit, if any, from Available Earnings to the County Advance Reserve. If Available Earnings are not sufficient, charge the shortfall to the Contra Reserve.

USE OF EXCESS EARNINGS

These steps only apply to Available Earnings remaining at the end of each measuring year, after the second semi-annual interest crediting.

Step 5 – Reduce the Balance in the Contra Reserve

Transfer from remaining Available Earnings into the Contra Reserve an amount sufficient to bring the balance to zero, to make up for any cumulative earnings shortfall.

Step 6~~5~~ - Restore the Statutory and Additional Contingency Reserves to target levels

Transfer from remaining Available Earnings~~, if any,~~ into Statutory Contingency Reserve the amount required to maintain the Statutory Contingency Reserve balance at 1% of total market value~~, but not more that the Available Earnings remaining from Step 4~~. Transfer from remaining Available Earnings~~, if any,~~ into any Additional Contingency Reserve the amount required to maintain the percentage of market value set by the Board~~, but not more that the Available Earnings remaining from Step 4~~.

Step 7~~6~~ - Credit Interest on Supplemental Benefit Reserve(s)

Remaining Available Earnings, if any, ~~may~~ shall be used to credit interest to the Supplemental Benefit Reserves at the regular interest rate, for the full current year**.** If remaining Available Earnings are not sufficient, prorate among the Supplemental Benefit Reserve(s)**.**

Step 8~~7~~ - Determine use(s) of any remaining Available Earnings in the Undistributed Earnings Reserve.

Remaining Available ~~Undistributed~~ Earnings, if any ~~remain~~, shall be maintained in the Undistributed Earnings Reserve and shall be available for other uses at the Board's discretion, after the Board reasonably and in good faith determines that such uses are in the overall best interests of VCERA's members and beneficiaries. Potential uses may include transfers necessary to fund the Fixed Supplemental Benefit ($27.50 Supplement) Reserve, ~~STAR COLA benefit at its five year target level, or other time period as determined by the Board, transfers to County Advance Reserves, transfers to reduce any Contra Reserve Balances,~~ transfers to other Valuation Reserves, and/or funding of new supplemental benefits including, but not limited to, a Supplemental Targeted Adjustment for Retirees Cost-of-Living Benefit (historically, STAR COLA). ~~transfers to other Valuation Reserves, and/or funding of new supplemental benefits.~~ Prior to any transfer to Non-valuation Reserves, the Board shall obtain from its actuary a statement of the impact of the transfer on current and future employer and employee contributions determined in accordance with the Board's current funding policy. The actuary shall also advise the Board of any changes to its current funding policy that should be considered as a result of the proposed transfer.

This policy approved, as amended, by the Board of Retirement on ~~**March 17, 2008.**~~ **April 20, 2015.**

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Tracy Towner,
Chairman

Sprucegrove
INVESTMENT MANAGEMENT LTD.

Ventura County Employees' Retirement Association

April 20, 2015

Brad Haughey

Craig Merrigan

Mark Shevitz

Executive Summary

Sprucegrove INVESTMENT MANAGEMENT LTD.

Firm Update

- Assets under management as of December 31, 2014 were $22.7 billion.
- Firm-wide we have 113 clients. There were no clients gained and three were lost in the fourth quarter of 2014. For the full year, one client was gained and eight were lost.
- The International and Global segregated mandates are closed to new investors. The U.S. Global Pooled Fund and U.S. Equity mandates remain open.
- Sabu Mehta was appointed to the Business Management Committee.
- Sprucegrove will assume responsibility for marketing and client servicing in the U.S. over the course of 2015. Fair Haven Partners will continue to provide its excellent services through the transition period.
- Our total number of employees is 34.

Investment Results[1]

- For the **fourth quarter of 2014**, the Sprucegrove U.S. International Pooled Fund, in which Ventura County Employees' Retirement Association participates, had an investment return of -2.7% vs. MSCI EAFE -3.6%.
- For the **one-year ending December 31, 2014**, the Fund's investment return was -2.9% vs. MSCI EAFE -4.9%.
- Since your **inception** on April 1, 2002, through March 31, 2015, the Fund's annualized return was +8.5% vs. MSCI EAFE +6.5%.

Investment Strategy

- **As a bottom-up value investor, stock selection drives sector and country weightings.**
- The largest sector exposures are Industrials and Financials.
- The largest country exposures are the U.K., Japan and Switzerland.
- During the fourth quarter, there was one new holding added to the Fund, Spectris (U.K./Information Technology), and there were no eliminations.

[1] Returns are gross of fees in U.S. dollars

Assets Under Management, as at December 31, 2014

	USD$	Number of Portfolios	Number of Clients[1]
Pooled Funds			
For Canadian Clients:			
▪ International	$5,121.6 million	1	28
▪ Global	$2,753.0 million	2	32
▪ U.S.	$515.1 million	1	0
For U.S. Clients:			
▪ International	$2,140.8 million	2	34
▪ Global	$85.4 million	1	1
Separate Accounts			
For Canadian Clients:			
▪ International	$203.2 million	1	1
▪ Global	$1,948.5 million	5	4
▪ U.S.	$1,391.7 million	1	0
For U.S. Clients:			
▪ International	$7,906.5 million	18	12
▪ Global	$587.8 million	4	1
TOTAL	**$22,653.6 million**	**36**	**113**

[1] Clients with multiple mandates, accounted for in another category.

Cash Flow History by Year –
Ventura County Employees' Retirement Association[1]

Year	Net Deposits / (Withdrawals)	Market Value[1]
(partial year) 2002[2]	$110,000,000	$101,303,979
2003	$1,000,000	$140,978,965
2004	$(12,000,000)	$162,248,685
2005	$(37,000,000)	$144,262,606
2006	$(25,000,000)	$157,829,518
2007	$(14,000,000)	$153,658,751
2008	$(13,000,000)	$76,198,869
2009	-	$104,342,897
2010	-	$124,558,513
2011	-	$111,672,929
2012	$23,725,000	$157,961,770
2013	-	$185,640,498
2014	-	$180,309,142
YTD 2015[3]	-	$184,158,765[3]

[1] Participation in the Sprucegrove U.S. International Pooled Fund. Market values shown are as at December 31, unless otherwise noted.
[2] Ventura County Employees' Retirement Association Inception date: April 1, 2002
[3] Period ending March 31, 2015

Organization

Sprucegrove Investment Management Ltd.

Board of Directors
Craig Merrigan
Blake Murphy
Shirley Woo

Business Management
Tasleem Jamal
Sabu Mehta
Craig Merrigan
Blake Murphy
Mark Wolff
Shirley Woo

Research
Alanna Marshall Lizzola, Research Director

Senior Investment Analyst
Sabu Mehta

Investment Analysts
Matthew Bellis
Michael Jiang
Alex Limion
Christine McLean
Matthew O'Meara
Christopher Rankin
Jonathan Singer
Rafael Tricta

Research Assistants
Zoe Luo
Hugh Nowers

Portfolio Management
Arjun Kumar
Alanna Marshall Lizzola
Craig Merrigan, President
Erik Parnoja
Shirley Woo

Marketing & Client Services
Stefan Bencini, Associate
Shayne Hansson, Manager
Brad Haughey, Vice President
Tasleem Jamal, Vice President
Sebastien Roy, Vice President

Operations
Blake Murphy, Chief Operating Officer

Finance & Compliance
Mark Wolff, Chief Financial Officer

Investment Operations
Doriana Bardhi
Taj Haji
Neil MacLeod
Dale O'Connor, Manager
Wain Quan
Raji Singh
Stacey Thorogood
Angie Visentin

Equity Trader
Erik Searle

Accounting
Paul Fucili

Administration
Janine Croteau

U.S. Marketing
Fair Haven Partners, LLC

Edward Caffrey
Scott Caffrey
Mark Shevitz

All data as at January 1, 2015

Investment Professionals and Client Services

Name	Title	Education	Years Investment Experience	Years with Sprucegrove / Confed
Craig Merrigan	President, Portfolio Manager	B.B.A., M.B.A., CFA	27	27
Shirley Woo	Portfolio Manager	B.A., CFA	27	27
Sabu Mehta	Senior Investment Analyst	B.Comm.	27	23
Erik Parnoja	Portfolio Manager	B.A., M.B.A., CFA	19	19
Alanna Marshall Lizzola	Portfolio Manager & Research Director	B.A., M.I.M., CFA	18	18
Alex Limion	Investment Analyst	B.A., M.B.A., CFA	13	13
Arjun Kumar	Portfolio Manager	B.A., M.B.A., CFA	12	12
Chris Rankin	Investment Analyst	B.A., B.Sc., CFA	9	11
Christine McLean	Investment Analyst	B.S.B.A.	10	10
Michael Jiang	Investment Analyst	B.Sc., M.M.I.B., M.B.A.	8	8
Matthew Bellis	Investment Analyst	B.Comm., CFA	7	7
Jonathan Singer	Investment Analyst	B.A., CFA	6	6
Rafael Tricta	Investment Analyst	B.Comm., M.B.A., CFA	2	2
Matthew O'Meara	Investment Analyst	B.A., M.B.A.	2	<1
Tasleem Jamal	Vice President, Marketing & Client Servicing	B.Comm., M.B.A., CFA	16	4
Sebastien Roy	Vice President, Marketing & Client Servicing	B.A., CFA	17	1
Brad Haughey	Vice President, Marketing & Client Servicing	B.A., B.Comm., CFA	15	<1
		Total	***235***	***188***
		Average	***13.8***	***11.1***

All data as at January 1, 2015

Investment Philosophy

Ownership of Value

- Quality Companies at Attractive Valuations

Emphasis on Stock Selection

- Bottom-up Process

Long-Term Investors

- Low Portfolio Turnover

Internal Research

- "Working List" of Quality Companies

Investment Process

Portfolio Selections

Quality Companies, Attractively Priced

"Working List" / Investable Companies

Research Candidates

MSCI EAFE "plus" Universe

Bottom-up

Investment Process - Research

Characteristics of "Working List" Companies

- Record of High and Consistent Profitability
- Market Leadership/Competitive Advantage
- Financial Strength
- Opportunity to Grow the Business
- Capable Management

Portfolio Characteristics, as at December 31, 2014
Sprucegrove U.S. International Pooled Fund

		Ventura County Employees' Retirement Association[1]	MSCI EAFE	Difference
Quality				
Projected ROE	(%)	15.0	11.0	+36%
Financial Leverage[2]	(X)	2.1	2.7	-22%
Valuation				
Normalized P/E	(X)	13.4	15.0	-11%
Price/Book	(X)	2.0	1.6	+25%
Dividend Yield	(%)	3.1	3.1	0%

[1] Participation in the Sprucegrove U.S. International Pooled Fund.

[2] Financial Leverage weighted average excludes companies in the Financials sector.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here.
Refer to Performance Footnotes in the appendix for additional details.

Historical Portfolio Characteristics
Sprucegrove U.S. International Pooled Fund

		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
SPRUCEGROVE U.S. INTERNATIONAL POOLED FUND																				
Projected ROE	(%)	13.1	13.0	13.8	13.9	13.6	14.6	14.6	14.5	14.5	14.8	16.4	17.5	17.0	15.8	15.4	15.2	15.0	15.1	15.0
Financial Leverage[1]	(x)	2.2	2.1	2.1	2.0	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.0	2.0	2.1	2.1
Normalized P/E	(x)	15.2	17.6	16.7	19.9	17.7	15.0	12.8	14.4	15.8	17.3	17.3	14.4	9.8	12.8	13.5	11.4	12.5	13.7	13.4
P/B	(x)	2.0	2.3	2.3	2.9	2.4	2.2	1.9	2.1	2.3	2.5	2.8	2.5	1.7	2.0	2.1	1.7	1.9	2.1	2.0
Dividend Yield	(%)	2.9	2.6	2.7	2.4	2.8	3.0	3.6	3.2	2.9	2.6	2.6	3.2	4.2	2.7	2.6	3.3	3.1	3.0	3.1
MSCI EAFE																				
Projected ROE	(%)	9.5	9.5	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	11.0	11.0	12.0	11.0	11.0	11.0	11.0	11.0	11.0
Financial Leverage[1]	(x)	3.1	3.1	3.2	3.2	3.2	3.1	3.1	3.2	3.2	3.1	3.0	2.8	2.8	2.8	2.8	2.7	2.8	2.7	2.7
Normalized P/E	(x)	23.5	24.1	26.0	31.7	28.0	21.5	16.1	19.9	20.9	23.6	22.3	20.0	10.1	14.6	14.0	11.5	13.0	15.6	15.0
P/B	(x)	2.2	2.3	2.6	3.2	2.8	2.2	1.6	2.0	2.1	2.4	2.5	2.2	1.2	1.6	1.5	1.3	1.4	1.7	1.6
Dividend Yield	(%)	2.0	2.1	1.8	1.5	1.7	2.2	2.8	2.4	2.5	2.3	2.4	2.7	5.0	2.9	2.9	3.9	3.4	2.9	3.1

All data as at December 31 unless stated otherwise.

[1] Financial Leverage weighted average excludes companies in the Financials sector

It should not be assumed that investments made in the future will be profitable or will equal any results shown here.
Refer to Performance Footnotes in the appendix for additional details.

Annual Performance Results, ending December 31
Sprucegrove U.S. International Pooled Fund

Year	Ventura County Employees' Retirement Association[1,2] Gross (%)	Net (%)	MSCI EAFE[2] (%)	Difference[5] (%)
(partial year) 2002[3]	**-7.7**	**-8.0**	**-16.4**	**+8.4**
2003	34.5	33.9	38.6	-4.7
2004	25.2	24.7	20.3	+4.4
2005	14.7	14.2	13.5	+0.7
2006	30.4	29.8	26.3	+3.5
2007	6.2	5.8	11.2	-5.4
2008	**-42.2**	**-42.4**	**-43.4**	**+1.0**
2009	36.9	36.2	31.8	+4.4
2010	19.4	18.8	7.8	+11.0
2011	**-10.3**	**-10.7**	**-12.1**	**+1.4**
2012	17.7	17.2	17.3	-0.1
2013	17.5	17.1	22.8	-5.7
2014	**-2.9**	**-3.2**	**-4.9**	**+1.7**
YTD 2015[4]	2.1	2.0	4.9	-2.9
Since inception[3, 4]	8.5	8.0	6.5	+1.5

Market Value as of March 31, 2015: **$184,158,765.35**

[1] Participation in the Sprucegrove U.S. International Pooled Fund.
[2] Bold blue numbers indicate down markets (negative Index return). Returns shorter than a 1-year period are arithmetic returns and have not been annualized. Returns greater than a 1-year period have been annualized. Returns are gross of fees in U.S. dollars.
[3] Ventura County Employees' Retirement Association Inception date: April 1, 2002
[4] Period ending March 31, 2015
[5] Difference between Fund net return and MSCI EAFE net return

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Investment performance will be reduced by investment management fees. Refer to Performance Footnotes in the appendix for additional details.

Sprucegrove U.S. International Pooled Fund

	Fiscal YTD to March 31, 2015[3] (%)	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	7 Years (%)	10 Years (%)	Since Inception[2] (%)
Ventura County Employees' Retirement Association - Gross Return[1]	**-6.6**	**22.6**	**18.4**	**8.4**	**14.3**	**2.9**	**8.7**	**9.6**
Ventura County Employees' Retirement Association – Net Return[1]	**-6.8**	**22.1**	**17.9**	**8.0**	**13.8**	**2.4**	**8.2**	**9.1**
MSCI EAFE	-4.8	23.6	21.1	8.1	11.8	1.0	6.9	7.3

[1] Participation in the Sprucegrove U.S. International Pooled Fund.
[2] Ventura County Employees' Retirement Association Inception date: March 31, 2002.
[3] Ventura County Employees' Retirement Association fiscal year-end is June 30th. Fiscal YTD performance is from July 01, 2014 through March 31, 2015.

Returns shorter than a 1-year period are arithmetic returns and have not been annualized. Returns greater than a 1-year period have been annualized. Returns are in U.S. dollars.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Investment performance will be reduced by investment management fees. Refer to Performance Footnotes in the appendix for additional details.

Annualized Performance Results, ending March 31, 2015
Sprucegrove U.S. International Pooled Fund

	Fiscal YTD[3] (%)	1 Year (%)	2 Years (%)	3 Years (%)	5 Years (%)	7 Years (%)	10 Years (%)	Since Inception[2] (%)
Ventura County Employees' Retirement Association - Gross Return[1]	**-6.6**	**-2.8**	**5.7**	**7.4**	**6.9**	**3.1**	**6.2**	**8.5**
Ventura County Employees' Retirement Association - Net Return[1]	**-6.8**	**-3.2**	**5.3**	**7.0**	**6.5**	**2.7**	**5.8**	**8.0**
MSCI EAFE	-4.8	-0.9	7.9	9.0	6.2	1.6	4.9	6.5

[1] Participation in the Sprucegrove U.S. International Pooled Fund.
[2] Ventura County Employees' Retirement Association Inception date: March 31, 2002.
[3] Ventura County Employees' Retirement Association fiscal year-end is June 30th. Fiscal YTD performance is from July 01, 2014 through March 31, 2015.

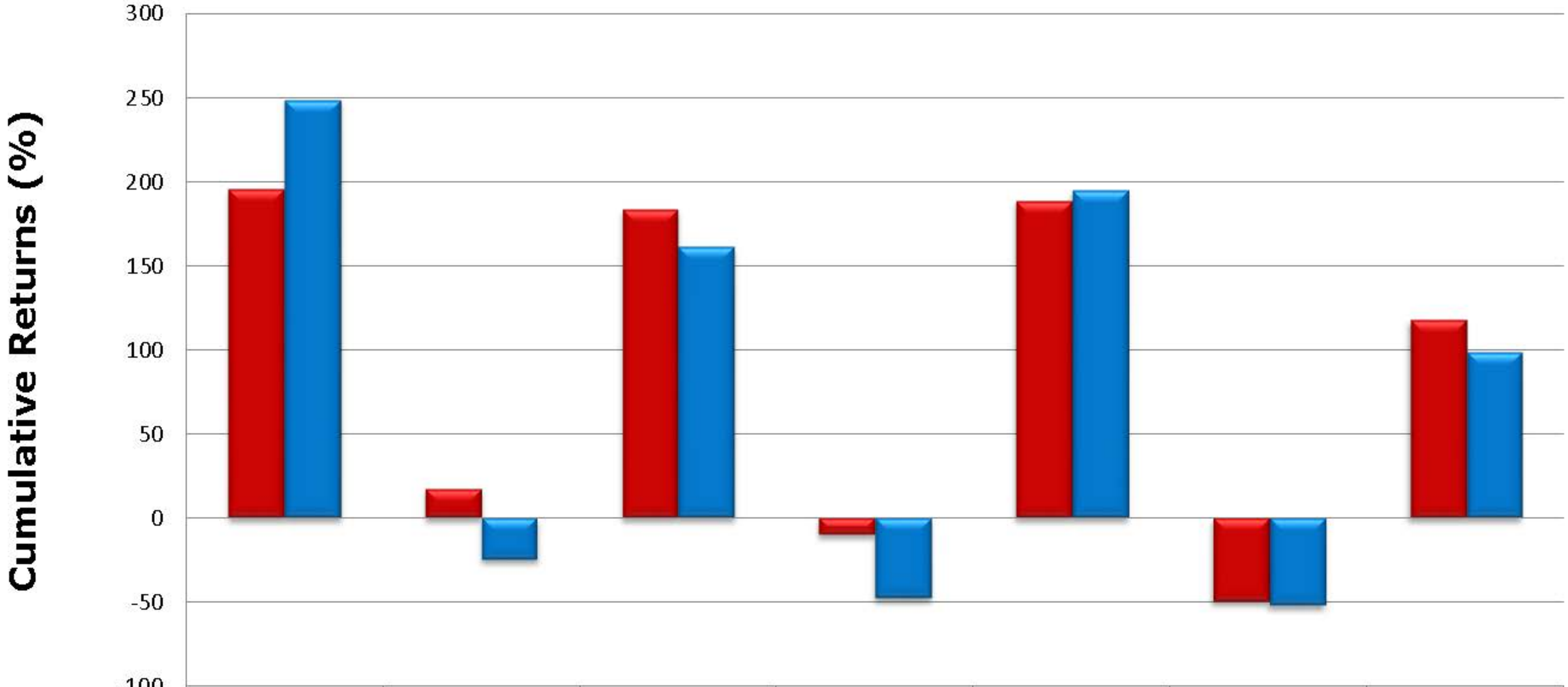
Returns shorter than a 1-year period are arithmetic returns and have not been annualized. Returns greater than a 1-year period have been annualized. Returns are in U.S. dollars.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Investment performance will be reduced by investment management fees. Refer to Performance Footnotes in the appendix for additional details.

Up and Down Market Cycle Performance
Sprucegrove EAFE – U.S. Clients Composite

Sprucegrove INVESTMENT MANAGEMENT LTD.

Sprucegrove EAFE - U.S. Client Composite* vs. MSCI EAFE Index



	4Q1985-1989	1990-1992	1993 -1999	2000-1Q2003	2Q2003-3Q2007	4Q2007-1Q2009	2Q2009-2014
Sprucegrove*	195.5	17.0	183.9	-9.8	188.7	-49.5	118.0
EAFE	248.8	-24.6	161.3	-48.0	194.7	-52.1	98.5

Creation date for the Sprucegrove – EAFE U.S. Clients Composite: October 1, 1985

A down market is defined as any group of returns that start and end with negative performing quarters, does not have more than 4 consecutive (1 year) positive quarters and the total combined cumulative return is less than -20%.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here.
Refer to Performance Footnotes in the appendix for additional details.

Sector Weightings/Returns – Q4 2014
Sprucegrove U.S. International Pooled Fund

Sprucegrove INVESTMENT MANAGEMENT LTD.

	Performance Q4 2014[1,2] (%)		Weighting, as at December 31, 2014[1] (%)	
Sector	**Ventura County Employees' Retirement Association[3,4]**	**MSCI EAFE**	**Ventura County Employees' Retirement Association[4]**	**MSCI EAFE**
Energy	**-19.9**	**-19.1**	**10.0**	**5.7**
Materials	-6.8	-5.3	11.7	7.6
Industrials	**1.8**	**-3.4**	**19.0**	**12.6**
Consumer Discretionary	**0.2**	**3.0**	**12.4**	**12.4**
Consumer Staples	2.7	-1.6	4.6	11.1
Health Care	-1.8	-5.3	6.1	11.0
Financials	-2.3	-3.1	15.4	25.9
Information Technology	**2.3**	**-0.5**	**11.4**	**4.8**
Telecomm. Services	0.8	-0.5	3.0	5.0
Utilities	-1.6	-4.0	3.2	3.9

1 Bold blue numbers indicate primary contributors to relative performance vs. the Index.
2 Period ending December 31, 2014.
3 Returns are gross of fees in U.S. dollars.
4 Participation in the Sprucegrove U.S. International Pooled Fund.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Investment performance will be reduced by investment management fees. Refer to Performance Footnotes in the appendix for additional details.

Impact Stocks – Q4 2014
Sprucegrove U.S. International Pooled Fund

Top 5 Contributors	Country	Sector	Average Weighting (%)*	Estimated Contribution (bps)
Carnival	United Kingdom	Consumer Discretionary	1.9	+27
State Bank of India	India	Financials	1.0	+20
Yue Yuen	Hong Kong	Consumer Discretionary	1.1	+18
Misumi	Japan	Industrials	1.6	+16
Tiger Brands	South Africa	Consumer Staples	1.1	+16

Bottom 5 Contributors				
Petrobras	Brazil	Energy	0.8	-51
Total	France	Energy	2.2	-49
Sasol	South Africa	Energy	1.0	-34
Banco Santander	Spain	Financials	2.7	-30
Royal Dutch Shell	United Kingdom	Energy	2.5	-27

* Average weighting is calculated as the average daily weight of the equity in the portfolio. Contribution to Fund Return is calculated using the geometric daily linking of the return multiplied by the beginning of day weight. A list of all holdings' contributions is available upon request.

Sector Weightings/Returns – 2014
Sprucegrove U.S. International Pooled Fund

	Performance 2014[1,2] (%)		Weighting, as at December 31, 2014[1] (%)	
Sector	**Ventura County Employees' Retirement Association[3,4]**	**MSCI EAFE**	**Ventura County Employees' Retirement Association[4]**	**MSCI EAFE**
Energy	**-22.5**	**-18.7**	**10.0**	**5.7**
Materials	-4.9	-10.7	11.7	7.6
Industrials	**1.3**	**-7.7**	**19.0**	**12.6**
Consumer Discretionary	**-12.0**	**-4.6**	**12.4**	**12.4**
Consumer Staples	-12.5	-2.4	4.6	11.1
Health Care	11.7	6.0	6.1	11.0
Financials	**4.9**	**-5.7**	**15.4**	**25.9**
Information Technology	2.3	-0.7	11.4	4.8
Telecomm. Services	14.5	-4.3	3.0	5.0
Utilities	10.0	3.8	3.2	3.9

[1] Bold blue numbers indicate primary contributors to relative performance vs. the Index.
[2] Period ending December 31, 2014.
[3] Returns are gross of fees in U.S. dollars.
[4] Participation in the Sprucegrove U.S. International Pooled Fund.

Impact Stocks – 2014
Sprucegrove U.S. International Pooled Fund

Top 5 Contributors	Country	Sector	Average Weighting (%)*	Estimated Contribution (bps)
Novartis	Switzerland	Health Care	3.8	+72
State Bank of India	India	Financials	0.8	+43
China Mobile	China	Telecommunication Services	2.0	+33
Hoya	Japan	Information Technology	1.4	+30
Ryanair	Ireland	Industrials	0.6	+28

Bottom 5 Contributors				
Tesco	United Kingdom	Consumer Staples	1.7	-94
Fugro	Holland	Energy	1.2	-93
SBM Offshore	Holland	Energy	1.3	-70
Honda Motor	Japan	Consumer Discretionary	1.5	-50
adidas	Germany	Consumer Discretionary	0.8	-47

* Average weighting is calculated as the average daily weight of the equity in the portfolio. Contribution to Fund Return is calculated using the geometric daily linking of the return multiplied by the beginning of day weight. A list of all holdings' contributions is available upon request.

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Refer to Performance Footnotes in the appendix for additional details.

Transaction Summary – Q4 2014
Sprucegrove U.S. International Pooled Fund

Eliminations/Reductions

	Normalized P/E (x)	Projected ROE (%)
Materials		
Sika	19.9	17.0
Industrials		
Ryanair	20.0	16.0
Vopak	19.4	16.0
Consumer Staples		
Tiger Brands	17.9	25.0
Health Care		
Novartis	19.4	16.0
Straumann	30.9	19.0
Information Technology		
Hoya	17.7	15.0
Keyence	34.3	11.0
Omron	22.5	10.0
Average	***22.4***	***16.1***
MSCI EAFE	***15.0***	***11.0***

New Holdings/Additions

	Normalized P/E (x)	Projected ROE (%)
Energy		
Fugro	6.7	12.0
Sasol	7.6	20.0
SBM Offshore	7.3	18.0
TGS	9.9	20.0
Materials		
BHP	7.6	25.0
Yara International	11.0	14.0
Industrials		
Boskalis Westminster	11.4	16.0
Consumer Discretionary		
Honda Motor	9.7	11.0
Nokian Tyres	12.5	18.0
Consumer Staples		
Tesco	7.9	14.0
Financials		
Lloyds Banking Group	10.9	12.0
Information Technology		
SAP	14.9	24.0
Spectris	**14.9**	**17.0**
Average	***10.2***	***17.0***
MSCI EAFE	***15.0***	***11.0***

Note: Valuation characteristics are at the time of the transaction.

Exceptional Values, as at December 31, 2014
Sprucegrove U.S. International Pooled Fund

Low Price/Book (Less Than 1.0x)

MSCI EAFE Index	1.6
Energy	
Fugro	0.8
Petrobras	0.3
Materials	
Anglo American	0.9
Hindalco	0.8
Impala Platinum	0.9
POSCO	0.5
Industrials	
Jardine Strategic	0.9
Ushio	0.8
Financials	
Hongkong Land	0.6
Information Technology	
Ricoh	0.9

Low Normalized P/E (Less Than 10.0x)

MSCI EAFE Index	15.0
Energy	
Fugro	6.9
Petrobras	2.1
Royal Dutch Shell	7.4
Sasol	7.7
SBM Offshore	7.2
TGS	9.7
Total	7.2
Materials	
Anglo American	6.3
BHP	6.4
Hindalco	8.1
Impala Platinum	5.4
POSCO	4.3
Industrials	
Jardine Matheson	6.6
Jardine Strategic	5.7
Sembcorp Industries	9.2
Consumer Discretionary	
Honda Motor	9.2
Komeri	9.8
Singapore Press	8.4
Yue Yuen	9.0
Consumer Staples	
Tesco	8.1
Financials	
Banco Santander	7.7
Hongkong Land	4.9
HSBC	7.6
Information Technology	
Ricoh	9.7
Samsung Electronics	7.7
Utilities	
GAIL	8.7

High Dividend Yield (More Than 5%)

MSCI EAFE Index	3.1
Energy	
Fugro	8.7
Petrobras	6.0
Royal Dutch Shell	5.2
TGS	5.6
Total	5.6
Materials	
BHP	5.1
Consumer Discretionary	
Nokian	7.1
TVB	5.7
Consumer Staples	
Tesco	6.0
Financials	
ANZ Bank	5.5
Banco Santander	8.6
HSBC	5.1
National Australia Bank	5.9
Information Technology	
Electrocomponents	5.5
Venture Corp.	6.3
Utilities	
Snam	6.1

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. The information presented as an example of investment technique and should not be construed as representative of investment performance. A list of all securities purchased and sold within the past year together with dates and prices is available upon request. Refer to Performance Footnotes in the appendix for additional details.

New Holding – Q4 2014
SPECTRIS – U.K.

Sprucegrove INVESTMENT MANAGEMENT LTD.

LEADERSHIP POSITION

- A leading supplier of high-tech measurement & control instruments (e.g. particle analysis, x-ray analysis, noise monitoring, high-tech thermometers)

RECORD OF HIGH AND CONSISTENT PROFITABILITY

- Operating margin has averaged 13% over 10 years
- ROE has averaged 19% over 10 years

FINANCIAL POSITION

- Net debt to equity of 12%
- Interest coverage of 14x

GROWTH OPPORTUNITY

- New product launches
- Bolt-on acquisitions
- Growth in emerging markets

MANAGEMENT

- Focused, conservative and dedicated to research and development

VALUATION (12/31/14) **Market Cap. $3.9 B. U.S.**		Spectris	MSCI U.K.	MSCI EAFE
Quality				
Projected Return on Equity	(%)	17.0	14.0	11.0
Financial Leverage	(X)	1.5	2.4	2.7
Valuation				
Normalized P/E	(X)	17.7	12.9	15.0
Price/Book Value	(X)	3.0	1.8	1.6
Dividend Yield	(%)	2.1	3.8	3.1

Sprucegrove INVESTMENT MANAGEMENT LTD.

A Security is Sold When:

- The Company No Longer Meets Our Quality Criteria
- Price Appreciates Above What We Believe Is Reasonable Value

Recent Reduction – Q4 2014
HOYA – Japan

Sprucegrove INVESTMENT MANAGEMENT LTD.

LEADERSHIP POSITION

- Global leader with a 65% market share of mask blanks which are used in the production of semiconductors
- A leading supplier of intra-ocular lenses, eye glass lenses and endoscopes
- Leading eyeglass retailer in Japan

RECORD OF HIGH AND CONSISTENT PROFITABILITY

- Operating margin has averaged 21% over 10 years
- ROE has averaged 17% over 10 years

FINANCIAL POSITION

- Net cash equal to 38% of total assets

GROWTH OPPORTUNITY

- Growth in more advanced semiconductors, and in health and vision care products

MANAGEMENT

- Forward-looking management team with a record of securing a dominant position in niche markets

VALUATION (12/31/14) **Market Cap. $14.6 B. U.S.**		**Hoya**	**MSCI Japan**	**MSCI EAFE**
Quality				
Projected Return on Equity	(%)	15.0	7.0	11.0
Financial Leverage	(X)	1.3	2.5	2.7
Valuation				
Normalized P/E	(X)	21.4	20.5	15.0
Price/Book Value	(X)	3.2	1.4	1.6
Dividend Yield	(%)	1.8	1.7	3.1

Top 10 Holdings, as at December 31, 2014
Sprucegrove U.S. International Pooled Fund

Stock	Country	Sector	% of Fund	Normalized P/E (x)	P/B (x)	Projected ROE (%)	Financial Leverage[1] (x)
Novartis	Switzerland	Health Care	3.5	20.5	3.3	16.0	1.7
HSBC	U.K.	Financials	2.7	7.6	1.0	13.0	14.3
Banco Santander	Spain	Financials	2.6	7.7	1.1	14.0	15.8
Royal Dutch Shell	U.K.	Energy	2.5	7.4	1.3	18.0	2.0
CRH	Ireland	Materials	2.5	12.2	1.6	13.0	2.1
United Overseas Bank	Singapore	Financials	2.4	10.6	1.4	13.0	10.2
China Mobile	China	Telecom. Services	2.3	10.0	1.8	18.0	1.5
Nestlé	Switzerland	Consumer Staples	2.2	22.1	4.0	18.0	1.9
Carnival	U.K.	Consumer Discretionary	2.1	13.6	1.5	11.0	1.6
BMW	Germany	Consumer Discretionary	2.1	12.4	1.6	13.0	4.1
			24.9				
Weighted Average				***12.6***	***1.9***	***14.8***	***2.1***
MSCI EAFE				***15.0***	***1.6***	***11.0***	***2.7***

[1] Financial Leverage weighted average excludes companies in the Financials sector.

Historical Country Weightings
Sprucegrove U.S. International Pooled Fund

	Weightings (%)						
	Ventura County Employees' Retirement Association[1]						MSCI EAFE
	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/14
Australia	2.3	2.5	2.7	2.8	2.5	2.3	7.5
Hong Kong	4.2	5.0	5.4	5.4	5.7	6.7	3.1
Japan	20.2	20.8	20.8	19.5	16.7	15.5	21.2
Singapore	4.9	5.2	5.6	6.4	6.0	6.6	1.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Pacific	***31.6***	***33.4***	***34.5***	***34.1***	***30.9***	***31.1***	***33.6***
Finland	1.4	0.9	0.0	0.0	0.3	0.8	0.9
France	3.7	3.0	3.4	3.6	3.6	3.3	9.7
Germany	3.8	4.2	3.7	4.3	3.4	3.2	9.2
Holland	2.7	3.5	4.1	4.1	4.9	4.3	2.8
Ireland	4.9	4.3	4.5	4.4	4.0	3.5	0.3
Italy	2.7	2.6	1.0	1.0	1.1	1.0	2.3
Spain	1.2	1.7	1.6	2.0	2.5	2.6	3.5
Other	0.0	0.0	0.0	0.0	0.0	0.0	1.6
Euro Zone	***20.4***	***20.3***	***18.2***	***19.2***	***19.7***	***18.7***	***30.2***
Denmark	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Norway	0.0	0.0	0.0	0.4	0.8	1.9	0.7
Sweden	0.0	0.0	0.0	0.0	0.0	0.0	3.1
Switzerland	12.7	11.0	12.0	11.7	11.3	8.8	9.3
U.K.	17.7	18.7	17.6	18.1	18.9	19.1	21.1
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Non-Euro Zone	***30.4***	***29.7***	***29.7***	***30.2***	***31.0***	***29.8***	***36.2***
Europe	***50.8***	***50.0***	***47.9***	***49.4***	***50.8***	***48.5***	***66.4***
Brazil	1.7	1.5	1.2	0.9	1.5	1.3	0.0
China	0.4	1.1	1.6	1.7	1.8	2.3	0.0
Hungary	0.7	0.6	0.4	0.4	0.5	0.3	0.0
India	2.1	1.3	1.4	1.7	2.9	4.0	0.0
Korea	3.9	3.8	3.5	3.5	3.3	3.1	0.0
Malaysia	0.6	0.6	0.4	0.2	0.3	0.4	0.0
Mexico	0.2	0.0	0.0	0.0	0.0	0.0	0.0
South Africa	1.8	2.4	2.8	2.5	2.3	2.3	0.0
Emerging Markets	***11.4***	***11.3***	***11.2***	***11.0***	***12.5***	***13.6***	***0.0***
Canada	***2.3***	***2.4***	***2.8***	***3.0***	***3.5***	***3.6***	***0.0***
Cash	***3.9***	***2.8***	***3.6***	***2.5***	***2.4***	***3.2***	***0.0***
Total	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***	***100.0***

[1] Participation in the Sprucegrove U.S. International Pooled Fund.

Summary

- Sprucegrove's approach remains **bottom-up**, with a focus on **quality** and **value**.
- The Fund is **different** than the benchmark with respect to its exposures and weightings of **securities**, **sectors** and **countries**.
- Sprucegrove remains **consistent** in terms of our **people**, **philosophy** and **process**.

Appendices

Annual Performance Results, ending December 31
Sprucegrove EAFE U.S. Clients Composite

Year[1]	Composite Gross Return $US (%)	EAFE $US Benchmark Return (%)	Composite 3-Yr St Dev (%)	Benchmark 3-Yr St Dev (%)	# of Portfolios	Internal Dispersion (%)	Composite Assets ($M)	Firm Assets ($M)
2004	24.9	20.3	12.4	15.4	19	2.0	7,603	14,711
2005	14.4	13.5	9.9	11.4	20	2.9	8,500	17,141
2006	30.4	26.3	8.9	9.3	20	3.9	10,808	22,650
2007	5.0	11.2	9.3	9.4	22	5.0	9,573	21,222
2008	-42.2	-43.4	18.2	19.2	20	2.2	4,906	11,861
2009	36.6	31.8	21.8	23.6	17	4.4	6,561	15,555
2010	19.6	7.8	24.6	26.2	18	2.8	8,512	19,364
2011	-10.3	-12.1	20.5	22.4	18	2.2	7,341	17,788
2012	18.1	17.3	17.8	19.4	18	1.2	8,977	21,421
2013	17.8	22.8	14.2	16.3	20	3.7	10,655	24,572
2014*	-3.4	-4.9	11.6	13.0	20	2.4	10,046	22,650

Composite creation date: October 1, 1985

[1] For the years ending December 31

* Preliminary

It should not be assumed that investments made in the future will be profitable or will equal any results shown here. Investment performance will be reduced by investment advisory fees and impact fees when applicable. Refer to Performance Footnotes in the appendix for additional details.

Methodology:	Value approach using a bottom-up, stock selection process with an emphasis on owning quality companies at attractive valuations.	
Mandate:	International equities	
Benchmark:	MSCI EAFE Index (U.S. Dollars)	

RESTRICTIONS / LIMITS

Asset Mix:	Cash & Short Term	0% - 10%
	Equities	90% - 100%
Region:	Minimum three countries from EAFE Europe region and three countries from EAFE Asia/Pacific region.	
Country:	The Fund will be subject to the following minimum - maximum country weightings:	
	Japan	5% - 50%
	United Kingdom	10% - 50%
	Canada	0% - 10%
	United States	excluded
	Other EAFE countries	0% - 15%
	Total non-EAFE countries, excluding Canada	0% - 15%
	Total non-EAFE countries	0% - 20%
Sector:	Minimum 7 of 10 MSCI sectors Maximum individual sector 30%	
Company Holdings:	Minimum 40 companies Maximum company weighting 5% Maximum ownership, lesser of outstanding shares 5%; free float 10%	
Other:	In unusual circumstances, the Fund may exceed the above guidelines for short periods of time.	

Performance Notes

Sprucegrove Investment Returns

Investment performance returns exclude any investment management fees paid by the investor. Investment advisory fees will reduce stated returns. Performance returns are calculated on a time weighted, total return basis which includes dividend net of withholding taxes and interest income, realized and unrealized gains or losses, transaction costs and other expenses, if any. For example, a 90 basis point investment advisory fee applied to an investment with an annual gross return of 10% will provide a compounded gross return of 10.0% after 1 year and a 61.1% return after 5 years while the compounded net return after investment advisory fees would result in a return of 9.04% after 1 year and a 54.16% after 5 years.

Impact fees are charged to a unitholder to reimburse a Fund for investment expenses incurred related to significant unitholder cash flows. A maximum impact fee of 50 basis points may be applied to a unitholder's deposit or withdrawal of funds. A further description of investment management fees are detailed in Form ADV Part 2. Pursuant to the Securities and Exchange Commission's no action letter in Investment Company Institute (1988), financial consultants to whom Sprucegrove Investment Management Ltd. supplies before-fee performance data may utilize the data only in one-on-one presentations.

MSCI EAFE, World & EM Indices

The Morgan Stanley Capital International (MSCI) EAFE and World Indices are presented as benchmarks for investment performance. The Indices are the arithmetical average, weighted by market value of the performance of companies representing the stock markets of Canada, the U.S., Europe, Australasia, and the Far East. Returns shown assume reinvestment of dividends. The MSCI EAFE Index includes a selection of stocks from 22 developed markets and is designed to measure the equity performance of developed markets, excluding Canada and the United States. MSCI World Index includes the 22 countries that make up the EAFE Index along with Canada and the U.S. The MSCI Emerging Markets (EM) Index includes a selection of stocks from 21 emerging markets and is designed to measure the equity performance of emerging markets. Throughout this report MSCI data is provided as a comparative reference only and may not be used in any way without the express permission of MSCI.

The MSCI information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. (www.msci.com)

Specific Recommendations

Examples of specific holdings are intended to demonstrate our investment process and should not be construed as representative of investment performance. It should not be assumed that investments made in the future will be profitable or will equal any results presented. A list of all securities purchased and sold within the past year (together with dates and prices) is available upon request.

Possibility of Loss

Investors should be aware that market conditions affect performance and that investment programs carry with them the possibility of loss. It should not be assumed that investments made in the future will be profitable or will equal any results shown in this document.

Continued on next page

Performance Notes continued

Sprucegrove INVESTMENT MANAGEMENT LTD.

GIPS Compliance Notes

Sprucegrove Investment Management Ltd. (Sprucegrove) claims compliance with the Global Investment Performance Standards (GIPS®). Sprucegrove has been independently verified for the periods May 1, 1985 to December 31, 2013. The composites have been examined for the periods May 1, 1985 to December 31, 2013.

Definition of the Firm

Sprucegrove is registered in most provinces in Canada as Investment Fund Manager and Portfolio Manager and with the SEC as an Investment Advisor. It manages fully discretionary accounts for fee paying clients. All portfolios with a market value greater than $15 million are included in a composite.

Composite and Benchmark Definition

Composites and their corresponding benchmarks are determined by equity mandate (EAFE, Global or U.S.) and by the country in which the respective account is domiciled (Canada or the United States). The following is a list of the composites and their benchmarks:

Composite	Inception Date of Composite	Benchmark
EAFE - Canadian Clients Composite	May 1985	MSCI EAFE Net Index - CAD
Global - Canadian Clients Composite	July 1992	MSCI World Net Index - CAD
U.S. Equities - Canadian Clients Composite	November 2001	S&P 500 Net Index - CAD
EAFE - U.S. Clients Composite	October 1985	MSCI EAFE Net Index – USD
Global - U.S. Clients Composite	October 2010	MSCI World Net Index – USD

Fee Schedules

The following are the standard fee schedules based on the market value of assets managed.

Pooled Fund Accounts

	Assets Managed	Rate
First	5,000,000.00	0.90%
Next	10,000,000.00	0.65%
Next	25,000,000.00	0.55%
Next	35,000,000.00	0.50%
Next	225,000,000.00	0.25%
Balance		0.20%

Separate Fund Accounts

	Assets Managed	Rate
First	25,000,000.00	0.70%
Next	25,000,000.00	0.60%
Next	25,000,000.00	0.50%
Next	225,000,000.00	0.25%
Balance		0.20%

Composite Dispersion

Composite dispersion is calculated as the difference in percentage in performance between the highest and lowest performing portfolios in the composite.

Policies

Sprucegrove's policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request.

Withholding Taxes

Composite and benchmark returns are stated net of withholding taxes on dividends.

Past Performance

Prior to Sprucegrove commencing operations in 1993, the Sprucegrove team managed two EAFE portfolios at Confederation Life Insurance, from their inception in 1985, until the portfolios were acquired by Sprucegrove in 1994. Accordingly the performance of these portfolios are linked to their continuation at Sprucegrove as follows: The EAFE Canadian Clients composite includes the performance of the Confederation Life International Pooled Fund from 1985 to 1994; The EAFE U.S. Clients composite includes the performance of the Confederation Life American International Pooled Fund from 1985 to 1994. Prior to December 31, 2011, the name of each composite included the term "Pooled and Separate Accounts Combined." This term was removed from the composite names as of December 31, 2011.

Further Information

To obtain a presentation that complies with GIPS requirements, and/or a list of composite description, please contact your client service representative.

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Parametric™
Engineered Portfolio Solutions

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Currency Hedging Program

TABLE OF CONTENTS

CURRENCY HEDGING MECHANICS

POTENTIAL CURRENCY OVERLAY APPLICATIONS

Overlay Applications

- Excess/lack of foreign currency exposure
- "Reserve Currency" hedge position[1]
- Defensive action (e.g. European debt problems)
- Cross currency preference (e.g. emerging vs. developed)

Managing Currency via Overlay

- Purchase/sale of **futures or forwards** contracts to add or remove foreign currency exposure
- Capital Efficient: Transaction may require no/minimal initial funding
- Profit/losses are accrued over the term of the contract and settled at expiration (forwards) or cash settled via mark-to-market process each day (futures)

[1] "Global Currency Hedging: What Role Should Foreign Currency Play in a Diversified Investment Portfolio," Campbell and Olshan, 2010

PROCESS: CONSTRUCTION

The following items are considered when building currency portfolios:

- **Investment Selection:** the process of evaluating the appropriate instruments to minimize tracking error while controlling trading costs.
- **Maturity Selection:** customized maturity selection based on client needs, constraints, and market liquidity.
- **Evaluation:** ongoing evaluation of instruments and exposures as appropriate.
- **Exchange-traded Currency Futures:** are available for most developed market currencies (i.e. MSCI EAFE Constituents).
- **Currency Forwards:** are needed to manage less-liquid developed market and nearly all emerging market currency exposure.

Instrument selection, maturity selection, and exposure management can contribute to low cost and tight tracking error versus a benchmark

STEPS TO ESTABLISH CURRENCY HEDGING PROGRAM

VCERA is establishing a currency hedging program which seeks to hedge 50% of the developed foreign currency exposure embedded in the International Equity and Global Equity asset classes.

- The current cash overlay program managed by Parametric Minneapolis allows the efficient and quick implementation of a futures based currency hedging program.

Items to be completed to initiate a currency hedging program:

1. Parametric will create the updated overlay guidelines.
2. VCERA will need to sign the updated guidelines.
3. VCERA will need to open a new custodial account if separate performance measurement is required.
4. Parametric will need to open new futures account if separate performance measurement is required.
5. Cash to support the currency hedge program will need to be deposited in the newly established custodial account.

CURRENCY HEDGE FRAMEWORK

- **Each day, Parametric will estimate the total market value of each of the managers subject to the currency hedging program.**
  - For commingled managers, Parametric will receive periodic updates (typically monthly) and use the benchmark index to proxy the values daily.
    - This is already occurring each day via the existing overlay program.
- **The currency hedge program will be 50% of the estimated developed foreign currency exposure for each manager included in the program.**
  - Parametric will use the estimated market value of each manager and the currency makeup of the benchmark index to determine the amount of foreign currency subject to the hedging program.

CURRENCY HEDGE FRAMEWORK

Managers included in the currency hedging program:

International Equity*

Manager	Benchmark	Total Estimated Equity Market Value (as of 3/20/15)	Total Estimated Developed Foreign Currency Exposure (as of 3/20/2015)
BlackRock ACWI ex U.S.	MSCI ACWI ex U.S.	$261.1mm	$205.5mm
Sprucegrove	MSCI ACWI ex U.S.	$183.9mm	$144.7mm
Walter Scott	MSCI ACWI ex U.S.	$95.6mm	$75.2mm
Parametric Overlay	MSCI ACWI ex U.S.	$18.0mm	$14.2mm

Global Equity

Manager	Benchmark	Total Estimated Equity Market Value (as of 3/20/15)	Total Estimated Developed Foreign Currency Exposure (as of 3/20/2015)
BlackRock ACWI	MSCI ACWI	$231.1mm	$88.1mm
GMO Global	MSCI ACWI	$216.1mm	$82.3mm
Parametric Overlay	MSCI ACWI	$5.8mm	$2.2mm

Total Estimated Developed Foreign Currency Exposure	**$612.2mm**
50% Currency Hedge Target	**$306.2mm**

*Hexavest is excluded from the currency hedging program.

MSCI WORLD EX. U.S. CURRENCY WEIGHTINGS

Parametric Minneapolis' Approach to Hedging MSCI World ex. U.S. Currency[1]

Currency	Weight
EUR - Euro	31.64%
JPY - Japanese Yen	20.50%
GBP - British Pound	20.74%
CAD – Canadian Dollar	10.66%
CHF - Swiss Franc	9.33%
AUD - Australian Dollar	7.13%
HKD - Hong Kong Dollar	
SEK - Swedish Krona	
SGD - Singapore Dollar	
DKK - Danish Krone	
NOK - Norwegian Krone	
ILS - Israeli Shekel	
NZD - New Zealand Dollar	
CNY - Chinese Renminbi	
% Currency Coverage	90.34%
Expected Annual Tracking Error	0.30%

Key Points:

- Parametric Minneapolis can provide exposure to the currency portion of the MSCI World ex. U.S. index using exchange traded futures contracts.
- Using futures, Parametric Minneapolis can provide exposure to 90% of the currency portion of the index using 6 futures contracts. Annualized tracking error is expected to be 0.30%, while transaction costs are expected to be 0.03% - 0.05% annually.

Tracking Error is a measure of how closely a portfolio follows the index to which it is benchmarked. It measures the standard deviation of the difference between the portfolio and index returns over a given time period.

[1]As of February 24, 2014
[2] Tracking error also provided gross of management fees as the tracking error relates to MSCI World ex. U.S. Replication only.
Please reference other currency weightings models in the Appendix.
For illustrative purposes only, may not be considered for investing purposes. Please refer to the Disclosure in the Appendices for further information. Investments are subject to loss. Past performance is not indicative of future returns. It is not possible to invest directly in an index. Information subject to change.
Source: Goldman Sachs, Axioma, Parametric Minneapolis; Date created: March 26, 2015.

CURRENCY HEDGE – MARGIN REQUIREMENTS

Margin Requirements

- In order to support the currency futures positions, cash will be needed in the newly established custodial account.
  - Based on a currency hedge target of $306.2 mm, approximately $31mm of cash will be needed.
- It may be possible to use a portion of the cash in the existing overlay account to satisfy the currency hedge margin needs.
- All cash, including the gain/loss in the currency hedge account, will be deployed to the capital markets via the existing overlay program. Therefore, no cash drag is introduced as a result of the implementing the currency hedging program.

CURRENCY HEDGE – COSTS AND FEES

Costs and Fees

- Estimated annual transaction costs for a developed currency hedge are expected to be 0.03% - 0.05%.
- The currency hedging program assets will be grouped with the existing overlay assets. This total value will be applied to the current fee schedule in place:
  - First $25mm at 0.15%
  - Next $75mm at 0.10%
  - Above $100mm at 0.04%
- The average overlay balance in 2014 totaled approximately $120mm.
  - Therefore, assuming the existing overlay totals at least $100mm, the currency hedge will be billed at 0.04%.
  - Based on a hedge target of $306.2mm, the estimated incremental fee totals approximately $122k.

WHY PARAMETRIC MINNEAPOLIS?

EXPERTISE

With nearly **29 years of exposure management experience**, Parametric Minneapolis has developed the investment management, back office, and accounting expertise that we believe exceeds client expectations.

FLEXIBILITY

Unique risk management capabilities, utilizing a universe of both physical and derivative instruments with **daily transparency.**

PEOPLE

Parametric Minneapolis' people are smart, dedicated, focused and hard-working. They truly **want to do the right thing for Parametric Minneapolis clients.**

PROCESS

Parametric Minneapolis has developed **proprietary methodology** which provides an efficient and controlled means for managing clients' unique needs in a transparent manner. Detailed exposure positions, up to and including fund-wide reporting are **compiled and delivered daily.**

Parametric Minneapolis strives to provide custom strategies and is uniquely qualified as an Investment Risk Manager.

RISKS

OVERLAY SERVICES: WHAT ARE THE RISKS?

Risk	Description	How Parametric Minneapolis Mitigates
Market	Market performs in a way that was not anticipated. For example, cash outperforms capital markets.	Systematic market risk is an inherent part of the PIOS® program and can neither be diversified away nor mitigated. Client specific policy guidelines are established to clearly define desired market risk based on client asset allocation targets.
Communication/ Information	Overlay index exposures are maintained based on underlying investment values provided by one or more third parties. There are often delays in the receipt of updated information which can lead to exposure imbalance risks. Inadequate communication regarding cash flow moves into and out of fund and manager changes can lead to unwanted asset class exposures and loss.	Parametric Minneapolis establishes communication links with custodial, manager, and other sources to obtain and verify positions and cash flow data as soon as it is available. Suspect data may be researched and staff notified.
Leverage	Creation of market exposure in excess of underlying collateral value may lead to significant capital losses and result in position liquidation.	Parametric Minneapolis obtains daily collateral pool values and adjusts beta overlay positions to maintain the ratio of total exposure to collateral within a pre-defined client determined band.
Margin/Liquidity	Potential that the market moves in a manner adverse to the overlay position causing a mark-to-market loss of capital to the fund and a resulting need to raise liquidity or to close positions; this situation could happen at a time when underlying fund or positions are also declining in value.	Parametric Minneapolis strives to be aware of potential collateral and cash requirements to reduce the risk of needing to remove positions. Additional margin requirements are communicated via electronic mail and margin adequacy is available to the client daily.
Tracking Error	Futures (synthetic) index returns do not perfectly track benchmark index returns. This divergence between the price behavior of a position or portfolio and the price behavior of a benchmark is tracking error and impacts performance.	Parametric Minneapolis seeks to minimize tracking error by utilizing liquid futures contracts with sufficient daily trading volume and open interest. All derivative contracts will have some tracking error that cannot be mitigated by an overlay manager.
Collateral	The program may experience losses on the underlying designated assets in addition to potential losses on the index market exposure overlaying these assets.	This risk cannot be mitigated by an overlay manager. Parametric Minneapolis discusses the potential for negative performance in the collateral used for the overlay prior to alpha transport applications with client.

APPENDICES

Currency Exposure Strategy Assets Under Management – 12/31/14

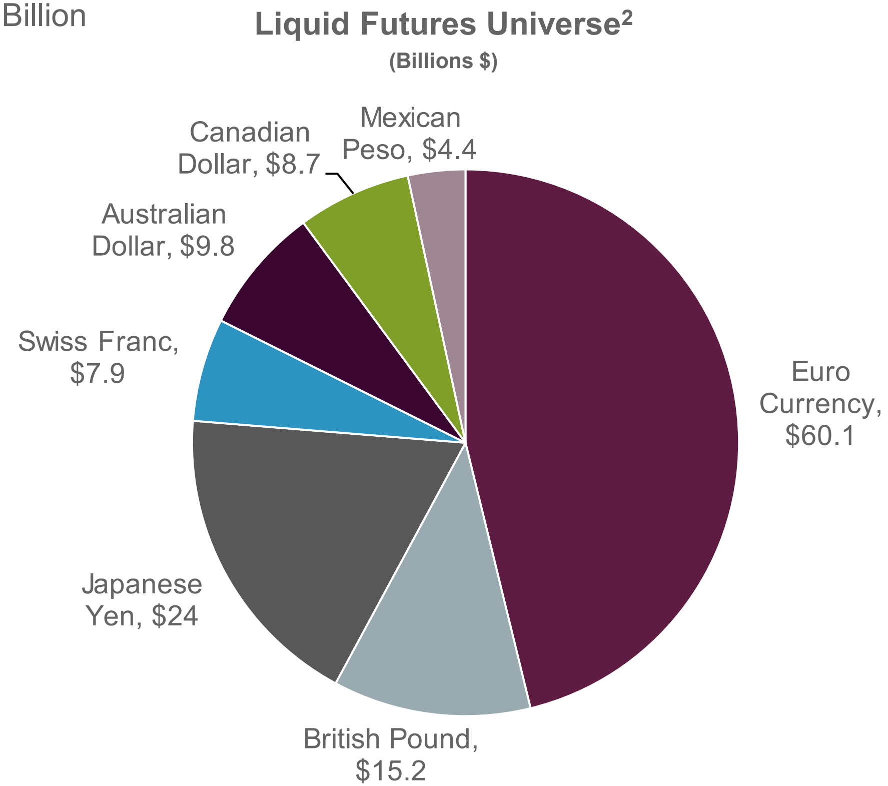
Client	Currency Exposure		Strategy/Index	Objective
Corporation	$	191,507,180	Custom	Hedging
Corporation	$	133,540,551	Custom	Hedging
Endowment	$	529,180,939	Custom	Tactical Tilting
Endowment	$	18,765,850	Single Currency	Hedging
Endowment	$	108,906,015	MSCI EAFE	Hedging
Endowment	$	120,837,367	Custom	Hedging
Endowment	$	429,725,933	Custom	Tactical Tilting/Hedging
Government (Public)	$	206,676,375	EAFE/ACWI ex US	Hedging
Government (Public)	$	32,665,463	Single Currency	Hedging
Government (Public)	$	218,985,363	Single Currency	Hedging
Sub-Advised (Other Managers)	$	327,979	Custom	Hedging
Sub-Advised (Other Managers)	$	18,614,513	Single Currency	Hedging
Union (Taft-Hartley)	$	26,784,620	MSCI EAFE	Hedging
Total:	**$**	**2,036,518,146**		

In addition to the above, Parametric Minneapolis runs additional currency exposure linked to international equity/fixed income benchmarks.

Note: For overlay services programs, the absolute value of futures and swap based synthetic index exposure is included as assets under management. For Enhancement/Risk Control programs, the notional hedge target value of the options positions held for clients is included in assets under management. Currency exposure reflected in USD. Foreign Currency converted back to USD on date referenced above. For illustrative purposes. Information subject to change. Investors cannot invest directly in an index.
Source: Parametric Minneapolis   Date created: February 2, 2015.

LIQUID CURRENCY FUTURES[1]

Total Open Interest: $130.2 Billion



The Universe above is utilized by Parametric Minneapolis and is available through the exchange-traded market.

[1] As of December 31, 2014
[2] Other contracts exist but are not deemed to be viable/cost effective at this time.
For illustrative purposes only. Information may change without notice. Source: Bloomberg; Date created: January 15, 2015.

BIOGRAPHIES: PARAMETRIC MINNEAPOLIS INVESTMENT CENTER

Orison "Kip" Chaffee, CFA
Managing Principal
Mr. Chaffee joined Parametric in 2008* as Managing Principal. His responsibilities include formulating strategic direction and day-to-day management of the Minneapolis Investment Center. Kip has held a number of executive positions within the financial services industry including VP of Corporate Strategy and Development for Ameriprise Financial Services and President and COO of Hantz Financial Services. Kip earned his BS in Economics from Harvard University and an MBA with a finance concentration from The Wharton School of Business. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Jack Hansen, CFA
Chief Investment Officer
Mr. Hansen joined Parametric in 1985*. As Chief Investment Officer, his responsibilities include the management of investment operations and portfolio management. Jack has managed futures, swaps, options, and other derivative based programs since 1986. Jack earned a BS degree in finance and economics from Marquette University and a MS in finance from the University of Wisconsin, Madison. He is a CFA charterholder and member of the CFA Society of Minnesota. Jack writes and lectures on the use of derivatives in portfolio management.

Thomas Lee, CFA
Managing Director - Investment Strategy and Research
Mr. Lee joined Parametric in 1994*. Tom is currently responsible for managing a team that oversees all of the Parametric Minneapolis Investment Center's investment strategies. In his current position, he chairs the Investment Committee that has oversight responsibility of all the Parametric Minneapolis Investment Center's investment strategies and leads the research efforts that support all existing and new strategies. He was instrumental in the creation and development of the firm's implementation service. Tom took the lead developing customized solutions for many of the firm's clients. The solutions ranged from custom liability driven mandates to creation of fund wide risk balanced allocations. Tom has co-authored articles on topics ranging from liability driven investments to risk parity. Prior to joining Parametric, he spent two years working for the Federal Reserve in Washington, D.C. In this position, he gained experience in modeling and forecasting interest rates and related monetary variables. Tom earned a BS in economics and an MBA in finance from the University of Minnesota. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Justin Henne, CFA
Managing Director – Customized Exposure Management
Mr. Henne joined Parametric in 2004*. Justin leads the investment team responsible for the implementation and enhancement of Parametric's Customized Exposure Management product. Justin has extensive experience trading a wide variety of derivative instruments in order to meet each client's unique exposure and risk management objectives. He continues to have responsibility to design, trade, and manage overlay programs. Justin holds a BA in Financial Management from the University of St. Thomas. He is a CFA charterholder and a member of the CFA Society of Minnesota.

*Reflects the year employee was hired by The Clifton Group, which was acquired by Parametric Portfolio Associates LLC on December 31, 2012.

BIOGRAPHIES: PARAMETRIC MINNEAPOLIS INVESTMENT CENTER

Jay Strohmaier, CFA
Senior Portfolio Manager
Mr. Strohmaier returned to Parametric in 2009*. Jay has extensive experience with futures and options-based strategies and has been active in the investment industry since 1984. As a Sr. Portfolio Manager, Jay leads a team of investment professionals responsible for designing, trading and managing overlay portfolios with an emphasis on Defensive Equity, hedging, and other asymmetric strategies. Prior to rejoining Parametric, Jay worked for Cargill, Peregrine Capital Management, and Advantus Capital Management where his responsibilities included research, portfolio management, trading, marketing, and client service. He holds a BS degree in Agricultural Economics from Washington State University and MS in Applied Economics from the University of Minnesota. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Daniel Wamre, CFA
Senior Portfolio Manager
Mr. Wamre joined Parametric in 1995* working part-time in the company's internship program and started full-time in 1998. As Senior Portfolio Manager, he is responsible for leading a team of investment professionals responsible for designing, trading, and managing overlay portfolios. Dan has extensive experience helping clients and consultants manage portfolio exposures and risk through futures and options-based strategies. Dan earned a BS from North Dakota State University and an MBA in finance from the University of Minnesota. Prior to joining Parametric, Dan spent four years as a Platoon Commander/Executive Officer in the United States Marine Corps. Upon completion of graduate school, Dan spent ten months working as a commercial banking credit analyst for U.S. Bank in Minneapolis. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Amanda Barhite Carter, CFA
Portfolio Manager
Ms. Barhite Carter joined Parametric in 2004* as the Project Manager. In that role, she coordinated over-the-counter documentation, served as the Dodd-Frank implementation manager, and led the Risk Management Committee. In 2013, she was promoted to Portfolio Manager where she works primarily on overlay programs used to meet client risk management needs. Prior to joining Parametric, Amanda was a Senior Consultant with Global Markets Consultants Ltd. training investment banking clients in the areas of derivatives and capital markets. Previously, Amanda worked at JP Morgan as a Vice President in Global Derivatives Sales and Trading where she executed over-the-counter transactions for institutional clients. Amanda has a BA in Economics from Yale and an MBA with a concentration in Finance from Wharton. She is a CFA charterholder and a member of the CFA Society of Minnesota.

Richard Fong, CFA
Portfolio Manager
Mr. Fong joined Parametric in 2010* as an Investment Analyst, and in 2014 he was promoted to Portfolio Manager. His current responsibilities include designing, trading, and managing overlay portfolios. He also has experience with LDI and options-based risk management solutions. Mr. Fong holds a BA in Financial Economics from Gustavus Adolphus College. He is a CFA charterholder and a member of the CFA Society of Minnesota.

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BIOGRAPHIES: PARAMETRIC MINNEAPOLIS INVESTMENT CENTER

Alex Gomelsky, CFA
Portfolio Manager
Mr. Gomelsky joined Parametric in 2009* as an Investment & Corporate Finance Analyst, and in 2013 he was promoted to Portfolio Manager. His current responsibilities include designing, trading and managing overlay portfolios as well as serving as an IT leader for the investment area. Mr. Gomelsky holds a BS degree in Finance and History from Boston College. Prior to joining Parametric, Alex worked for Johnson Controls as a Business Analyst within Global Operations and FP&A departments. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Chris Haskamp, CFA
Portfolio Manager
Mr. Haskamp joined Parametric in 2006*. Chris is dedicated to portfolio management and leading research projects in the area of risk management. Chris manages portfolios for the risk parity program as well as for the enhanced index programs. Chris functions as part of the team that developed and launched Parametric's risk parity strategy, Global Balanced Risk, and continues to manage and enhance the strategy. Prior to joining Parametric, he spent three years as a scientist at the medical device firm Beckman Coulter Inc. Chris earned a BS in Biochemistry from the University of Minnesota and a MS in chemistry from the University of California, San Diego. Chris earned an MBA in finance from the University of Minnesota, Carlson School of Management in May of 2007 and started full time at Parametric in June of 2007. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Gregory Liebl, CFA
Portfolio Manager
Mr. Liebl joined Parametric in 2010*. Greg is currently the Portfolio Manager for all Parametric proprietary and non-discretionary commodity strategies. Previously, Greg had been dedicated to providing Portfolio Management in the areas of risk and exposure management and customized implementation solutions. In this capacity, he was responsible for managing and trading overlay and physical portfolios designed to meet specific client risk management needs. Greg functions as part of the team that developed and launched Parametric's initial commodity programs, including index strategies, custom solutions, and Parametric's proprietary offerings. Greg holds a B.S. in Business Administration with a Finance concentration from North Dakota State University. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Matthew Liebl, CFA
Portfolio Manager
Mr. Liebl joined Parametric in May 2007* as an Investment Analyst. In 2012, he was promoted to Portfolio Manager working primarily in PIOS® (Policy Implementation Overlay Service). His current responsibilities include designing, trading and managing overlay portfolios with an emphasis on international index strategies. He also assists in the currency and commodities areas as necessary. Mr. Liebl holds a BA in Finance from the University of Minnesota Duluth. He is a CFA charterholder and a member of the CFA Society of Minnesota.

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BIOGRAPHIES: PARAMETRIC MINNEAPOLIS INVESTMENT CENTER

Clint Talmo, CFA
Portfolio Manager
Mr. Talmo joined Parametric in 2014 as an Assistant Portfolio Manager and shortly after was promoted to Portfolio Manager. His current responsibilities include designing, trading, and managing overlay portfolios with an emphasis on options and OTC swaps. Prior to joining Parametric, Clint was a Partner at Aerwulf Asset Management. Previously, he worked for Interlachen Capital Group and EBF & Associates where his responsibilities included research, trading, and portfolio management. Mr. Talmo holds a BS in Finance from the University of Colorado. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Alex Zweber, CFA
Portfolio Manager
Mr. Zweber joined Parametric in 2006*. As a Portfolio Manager, Alex is responsible for the design and implementation of several of Parametric's options-based risk management solutions, including the Defensive Equity strategy. Additionally, he conducts research in the areas of option modeling, scenario analysis, stress testing and portfolio construction in support of existing investment strategies, as well as potential new product offerings. Alex has considerable experience with both futures and options-based solutions, and works closely with institutional clients and consultants to address investment and overlay servicing needs. Alex holds a BA in Economics from Macalester College. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Wei Ge, Ph.D., CFA
Senior Researcher
Mr. Ge joined Parametric in 2014 as a senior researcher. He is responsible for leading all quantitative modeling and analysis to support the company's investment products and new product development. He oversees and plans the long-term research agenda of the firm, works closely with portfolio managers conducting research to improve product design and management, and serves as a liaison between the Minneapolis office and Parametric's research team in Seattle. Prior to joining Parametric, Wei was a quantitative research analyst at UBS Global Asset Management, where he worked on quantitative modeling and analysis, multi-asset portfolio construction and management, analytics systems development, and manager research, focusing on equity, quantitative, and alternative asset managers. Before entering the investment industry, Wei served as a senior researcher in the biotechnology industry working on quantitative modeling to address biomedical problems. Wei holds an MBA in Analytic Finance and Economics from the University of Chicago Booth School of Business and a Ph.D. in Computational Molecular Biology from Rutgers University. He is a CFA charter holder and a member of the CFA Society of Minnesota.

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BIOGRAPHIES: PARAMETRIC INSTITUTIONAL INVESTMENT SOLUTIONS

Gregory Baranivsky, CFA
Director, Institutional Relationships – Central North America
Mr. Baranivsky joined the firm in 2010*. He is responsible for developing, coordinating, and executing the sales and marketing strategies for Parametric's unique family of products in the Central sales territory. Prior to joining Parametric, Greg spent 12 years at First American Funds/FAF Advisors (now Nuveen Asset Management) in various sales, national accounts, and product management leadership roles. Before joining First American Funds in 1998, he spent over three years at Van Kampen Investments (today INVESCO) finishing in the product management department. Greg holds a B.A. from Benedictine University and an M.B.A. from the Illinois Institute of Technology. Greg is a CFA charterholder, is a member of the CFA Institute and the CFA Society of Minnesota where he previously served as a member of its board of directors.

Benjamin Lazarus, CFA
Director, Institutional Relationships – Western North America
Mr. Lazarus joined the firm in 2004*. He is responsible for developing, coordinating, and executing the business development and client services plan for Parametric's unique family of products with emphasis on the Western region of the United States and Canada. In addition, Ben works on developing new strategies for Parametric and has presented on the use of derivatives at different industry events. Prior to joining Parametric, he was the Director of Sales Strategy at Deluxe Corporation in St. Paul, Minnesota. Ben holds a B.A. in Psychology from the University of California, San Diego and an M.B.A. in Marketing and Strategic Management from the University of Minnesota. He is a CFA charterholder and a member of the CFA Society of Minnesota.

Doug Miller
Director, Institutional Relationships – Southeast North America
Mr. Miller is responsible for institutional business development and relationships in the U.S. Southeast region. Prior to joining Parametric in 2014, Doug was a regional director for Russell Investments' Americas institutional business. Before that, he was a Regional Director of U.S. Sales for several different business units within Bank of New York Mellon Corporation. Doug holds a B.A. in Political Science from the University of Washington.

Christopher Uhas, CFA
Director, Institutional Relationships – Eastern North America
Mr. Uhas joined the firm in 2007*. He is responsible for developing, coordinating, and executing the sales and marketing strategies for Parametric's unique family of products with special emphasis on business development in the Eastern region of the United States and Canada. Prior to joining Parametric, Chris was involved in public and private equity portfolio management with a boutique asset management firm. Before entering the investment management field Chris served as the Director of New Product Launch for Seagate Technology, based in Singapore. Additionally, he spent five years as a nuclear-trained submarine officer in the United States Navy. Chris holds a B.S. in Electrical Engineering from the University of Notre Dame, and an M.B.A. from the University of Chicago Booth School of Business. He is a CFA charterholder and a member of the CFA Society of Minnesota.

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BIOGRAPHIES: PARAMETRIC INSTITUTIONAL INVESTMENT SOLUTIONS

Michi McDonough, CFA
Director – Consultant Relations
Ms. McDonough is a Director on the Consultant Relations team. In this capacity, Michi is responsible for developing and maintaining relationships within the institutional investment consultant community. She serves as a key contact for consultant inquiries and coordinates new business opportunities, working in conjunction with the Sales and Portfolio Management teams. Prior to joining Parametric, Michi was previously Vice President and Consultant Relations Manager at Wellington Management and began her professional career at MFS Investment Management. She holds a B.A. in Economics from Emory University and an M.B.A., magna cum laude, from Babson College. She is a CFA charterholder and a member of the CFA Society of Boston.

Christopher Wisdom, CFA
Director – Consultant Relations
Mr. Wisdom is a Director on the Consultant Relations team. In this capacity, he is responsible for developing and maintaining relationships within the institutional investment consultant community. He serves as a key contact for consultant inquiries and coordinates new business opportunities, working in conjunction with the Sales and Portfolio Management teams. Prior to joining Parametric, Chris held various roles at Dimensional Fund Advisors, MSCI, and Towers Watson. Chris holds a B.A. in Mathematics and Statistics from the University of Windsor. He is a CFA charterholder and a member of the CFA Society of Seattle.

Jason Chalmers
Director – Client Relationship Management
Mr. Chalmers is a Director on the institutional Client Relationship Management team. Jason is based in Boston and is responsible for managing client relationships throughout the Eastern United States. He joined Parametric after 15 years at Acadian Asset Management LLC. Jason earned a B.S., Economics, Northeastern University, and a M.S., Finance, Boston College Carroll School of Management.

Daniel Ryan
Director – Client Relationship Management
Mr. Ryan is a Director on the Client Relationship Management team. In this capacity, Dan is responsible for managing client relationships throughout the western U.S. Prior to joining Parametric, Dan was Vice President and Senior Relationship Manager at State Street Global Advisors. He holds a B.A. in History from the University of Michigan.

DISCLOSURE

Parametric, headquartered in Seattle, WA, is a leading global asset management firm, providing investment strategies and customized exposure management to institutions and individual investors around the world. Parametric offers a variety of rules-based, risk-controlled investment strategies, including alpha-seeking equity, alternative and options strategies, as well as implementation services, including customized equity, traditional overlay and centralized portfolio management. Parametric is a majority-owned subsidiary of Eaton Vance Corp. and offers these capabilities through investment centers in Seattle, WA, Minneapolis, MN and Westport, CT (home to Parametric subsidiary Parametric Risk Advisors LLC, an SEC-registered investment adviser).

Parametric is divided into two segments: Parametric Investment & Overlay Strategies and Parametric Custom Tax-Managed & Centralized Portfolio Management. For compliance with the Global Investment Performance Standards (GIPS®), the Firm is defined and held out to the public as Parametric Investment & Overlay Strategies. Parametric Investment & Overlay Strategies provides rules-based investment management services to institutional investors, individual clients and registered investment vehicles, including Engineered Alpha Strategies, Specialty Index, and PIOS® Policy Implementation Overlay Service (PIOS). The Firm has complied with the GIPS standards retroactive to January 1, 2000."

This information is intended solely to report on investment strategies and opportunities identified by Parametric. Opinions and estimates offered constitute our judgment and are subject to change without notice, as are statements of financial market trends, which are based on current market conditions. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. Past performance is not indicative of future results. The views and strategies described may not be suitable for all investors. Investing entails risks and there can be no assurance that Parametric will achieve profits or avoid incurring losses. Parametric does not provide legal, tax and/or accounting advice or services. Clients should consult with their own tax or legal advisor prior to entering into any transaction or strategy described herein.

Charts, graphs and other visual presentations and text information were derived from internal, proprietary, and/or service vendor technology sources and/or may have been extracted from other firm data bases. As a result, the tabulation of certain reports may not precisely match other published data. Data may have originated from various sources including, but not limited to, Bloomberg, MSCI/Barra, FactSet, and/or other systems and programs. Parametric makes no representation or endorsement concerning the accuracy or propriety of information received from any other third party.

Benchmark/index information provided is for illustrative purposes only. Indexes are unmanaged and cannot be invested in directly. Deviations from the benchmarks provided herein may include, but are not limited to, factors such as: the purchase of higher risk securities, over/under-weighting specific sectors and countries, limitations in market capitalization, company revenue sources, and/or client restrictions. Parametric's proprietary investment process considers factors such as additional guidelines, restrictions, weightings, allocations, market conditions and other investment characteristics. Thus returns may at times materially differ from the stated benchmark and/or other disciplines provided for comparison.

The **MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of global developed markets.

The **MSCI Emerging Markets Index** is broad-based and is a free float-adjusted market capitalization index calculated total return and net of foreign withholding taxes that is designed to measure equity market performance in the global emerging markets.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

DISCLOSURE (CONTINUED)

References to specific securities and their issuers are for illustrative purposes only and are not intended to be, and should not be interpreted as, recommendations to purchase or sell such securities. Any specific securities mentioned are not representative of all securities purchased, sold or recommended for advisory clients. Actual portfolio holdings vary for each client and there is no guarantee that a particular client's account will hold any, or all, of the securities identified. It should not be assumed that any of the securities or recommendations made in the future will be profitable or will equal the performance of the listed securities.

Parametric is headquartered at 1918 8th Avenue, Suite 3100, Seattle, WA 98101. Parametric's Minneapolis investment center is located at 3600 Minnesota Drive, Suite 325, Minneapolis, MN 55435. For more information regarding Parametric and its investment strategies, or to request a copy of Parametric's Form ADV, please contact us at 206.694.5575 (Seattle) or 612.870.8800 (Minneapolis), or visit our website, www.parametricportfolio.com.

NEPC, LLC

YOU DEMAND MORE. So do we.SM

Ventura County Employees' Retirement Association

Private Equity Program Review & 2015 Strategic Investment Plan

April 20, 2015

Allan Martin, Partner
Dan LeBeau, Consultant
Chris Hill, CFA, CAIA, Research Consultant

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VCERA Private Equity Plan

NEPC Recommendation

- **NEPC recommends VCERA give consideration to committing approximately $50 million to private equity in the coming year.**
  - Target a diversified private equity fund-of-funds

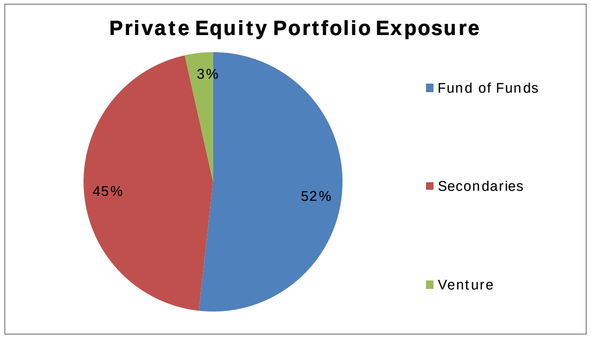
- **VCERA should maintain an active, annual commitment pace, being mindful of the Plan's liquidity needs.**
  - Annual commitments need to be assessed carefully so as to not over-allocate to illiquid investments.
  - Strategies that provide a combination of capital appreciation as well as near-term income or distributions can provide a balanced approach for maintaining PE exposure while also providing some liquidity.

- **Current Investment Status**
  - As of December 31, 2014, VCERA had made $292.5 million in commitments to three FoF managers
    - Adams Street Partners (“ASP”) –
      - $42.5 million commitment in 2010 to ASP U.S. Fund 2010
      - $25.5 million commitment in 2010 to ASP Non-U.S. Developed Fund 2010
      - $8.5 million commitment in 2010 to ASP Emerging Markets Fund 2010
      - $8.5 million commitment in 2010 to ASP Direct Fund 2010
      - $75 million commitment in 2013 to ASP Global Fund 2013
    - Harbourvest –
      - $67.5 million commitment in 2013 to Dover Street VIII (Secondaries Fund)
    - Pantheon –
      - $15.0 million in 2010 to Pantheon Global Secondary Fund IV
      - $50.0 million in 2014 to Pantheon Global Secondary Fund V
  - Private Equity NAV of $106 million represents approximately 2.4% of the total VCERA portfolio
  - The portfolio is well diversified, with commitments to both U.S. and non-U.S. funds that includes a mix of primary, secondary and direct funds
- **Private Equity Target Allocation**
  - Policy target of 5% of the total portfolio
  - Current exposure of $300 million (current private equity NAV + uncalled commitments) represents approximately 6.9% of the total VCERA portfolio
    - We typically recommend clients overcommit to private equity at 1.5x the target weight, which suggests exposure of approximately 7.5%

Current Investment Program & Allocation

Private Equity NAVs and Exposures

Investment Strategy	Current Valuation (NAV)	Capital to be Funded	Total Current Exposure	% of Total Exposure
Fund of Funds	$54.6	$100.8	$155.4	52%
Secondaries	$41.5	$92.9	$134.4	45%
Venture	$9.5	$1.0	$10.5	3%
Total / Wtd. Avg.	$105.5	$194.7	$300.2	100%



Private Equity Investments by Vintage Year

Vintage Year	Commitment	Paid In Capital	Capital to be Funded	Cumulative Distributed	Current Valuation (NAV)	Total Value	Net Benefit	Call Ratio	DPI Ratio	TVPI Ratio
2010	$100	$55	$45	$12	$61	$72	$17	55%	0.21x	1.31x
2012	$68	$30	$38	$7	$31	$39	$9	44%	0.24x	1.30x
2013	$75	$13	$62	$0	$14	$14	$0	17%	0.00x	1.04x
2014	$50	$0	$50	$0	$0	$0	$0	0%	NA	NA
Total	$293	$98	$195	$19	$106	$124	$26	33%	0.19x	1.27x

VCERA Private Equity Pacing Model
General Assumptions
($ in millions)

General Plan Assumptions

Total Plan Assets	$4,328
Total Private Equity Assets	$106
Private Equity Capital to be Funded	$195
Total Private Equity Exposure	$300
Total Private Equity Assets / Total Plan Assets	2.4%
Total Private Equity Exposure / Total Plan Assets	6.9%
Target Private Equity Allocation % (Current Target)	5.0%

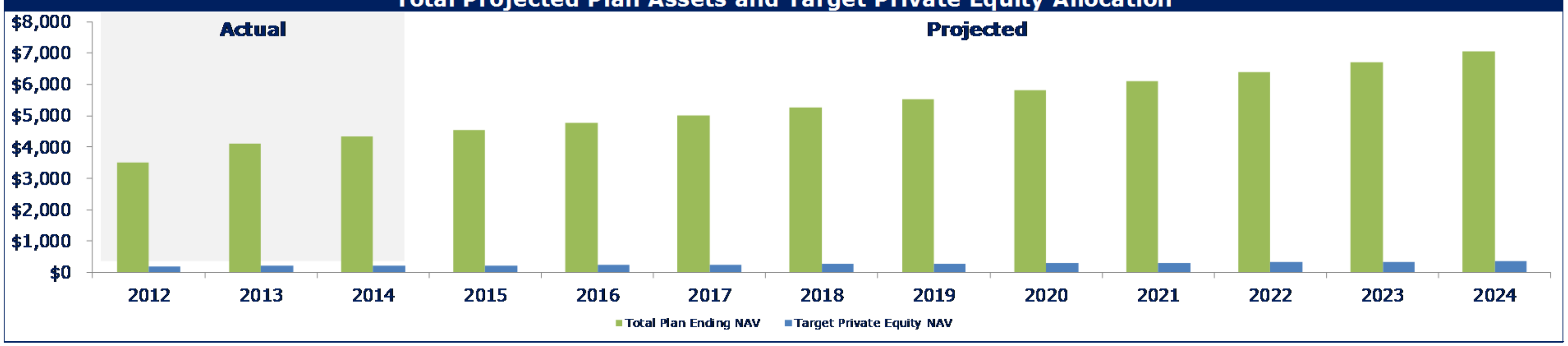
Plan Return Assumptions	2015	2016	2017
Target Investment Return	5.0%	5.0%	5.0%
Net Growth Rate	5.0%	5.0%	5.0%

Plan Data as of	12/31/2014
PE Data as of	9/30/2014

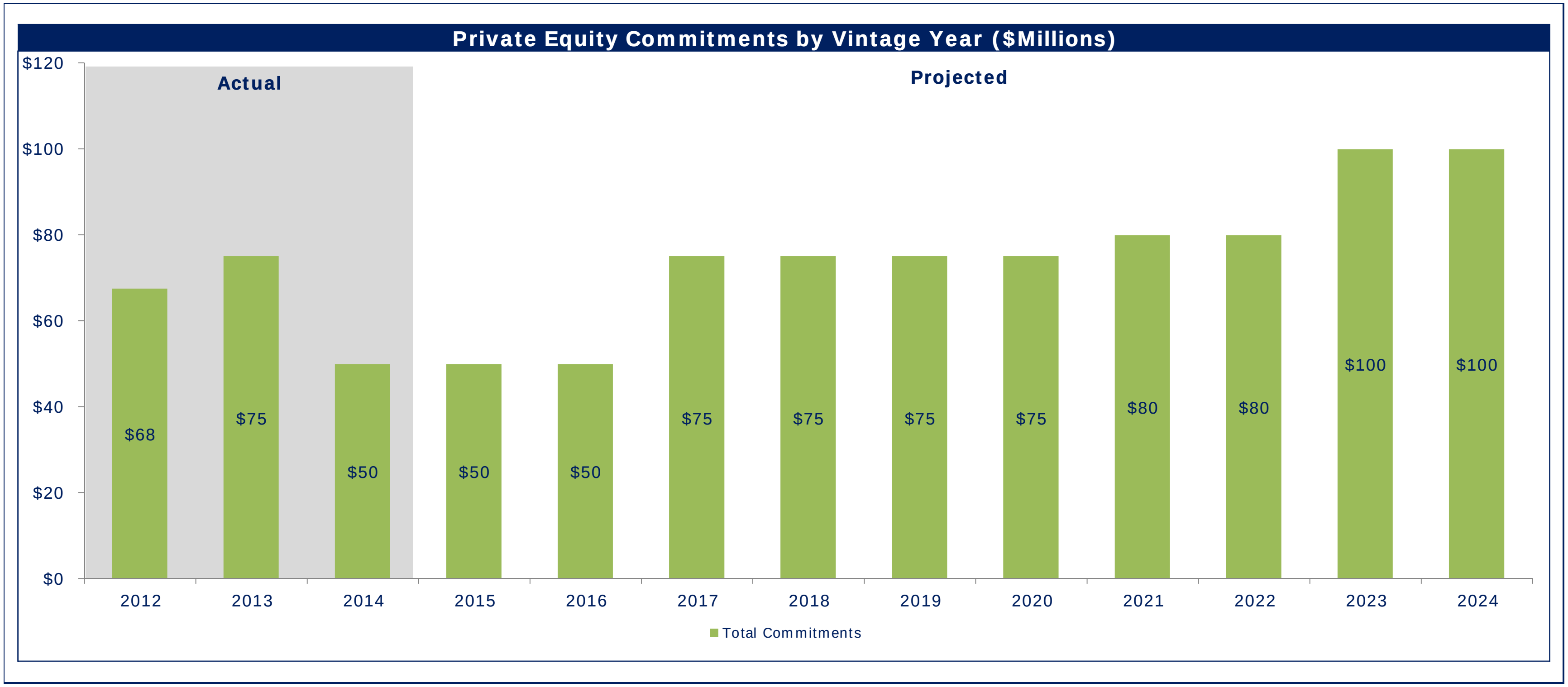
Total Projected Plan Assets

	Actual			Projected									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Plan Net Growth Rate	14.0%	17.0%	5.8%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Plan Beginning NAV	$3,070	$3,499	$4,092	$4,328	$4,545	$4,772	$5,010	$5,261	$5,524	$5,800	$6,090	$6,395	$6,715
Yearly Net Growth	$429	$593	$236	$216	$227	$239	$251	$263	$276	$290	$305	$320	$336
Total Plan Ending NAV	$3,499	$4,092	$4,328	$4,545	$4,772	$5,010	$5,261	$5,524	$5,800	$6,090	$6,395	$6,715	$7,050
Target Private Equity Allocation	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Target Private Equity NAV	$175	$205	$216	$227	$239	$251	$263	$276	$290	$305	$320	$336	$353

Total Projected Plan Assets and Target Private Equity Allocation



Projected Commitment Pace



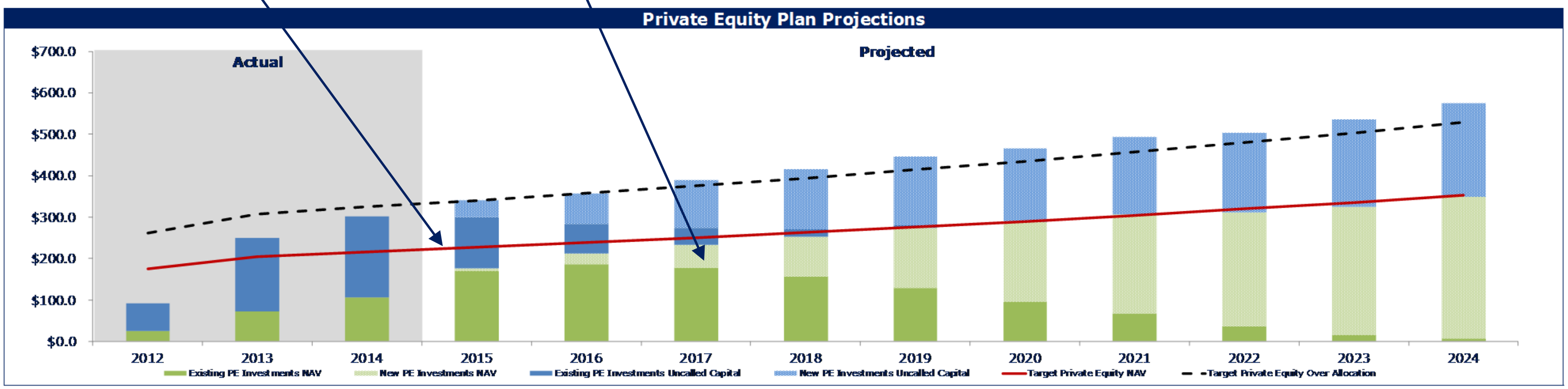
Fund and Private Equity Portfolio Projections

- **Red line** is the 5% target Private Equity allocation based on projected plan total NAV; **Black dashed line** is the 1.5x over-commitment.
- Goal is to keep private equity NAV (**green bars**) plus uncalled capital commitments (**blue bars**), between red line and black dashed line.

VCERA Private Equity Pacing Model

Private Equity Plan Projections

($ in millions)



	Actual			Projected									
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Private Equity NAV	$24	$71	$106	$176	$211	$232	$253	$273	$287	$305	$311	$324	$348
Uncalled Capital Commitments	$67	$177	$195	$165	$146	$156	$163	$173	$178	$187	$193	$212	$225
Private Equity NAV + Uncalled Capital Commitments	$90	$248	$300	$341	$356	$388	$416	$446	$465	$493	$503	$535	$574
Target Private Equity NAV	$175	$205	$216	$227	$239	$251	$263	$276	$290	$305	$320	$336	$353
Over-Commitment Pace	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x	1.5x
Target Private Equity Over Allocation	$262	$307	$325	$341	$358	$376	$395	$414	$435	$457	$480	$504	$529
Beginning Plan NAV	$3,070	$3,499	$4,092	$4,328	$4,545	$4,772	$5,010	$5,261	$5,524	$5,800	$6,090	$6,395	$6,715
Yearly Return	$429	$593	$236	$216	$227	$239	$251	$263	$276	$290	$305	$320	$336
Ending Plan NAV	$3,499	$4,092	$4,328	$4,545	$4,772	$5,010	$5,261	$5,524	$5,800	$6,090	$6,395	$6,715	$7,050
Percent of Total Plan Assets													
Private Equity NAV	0.7%	1.7%	2.4%	3.9%	4.4%	4.6%	4.8%	4.9%	4.9%	5.0%	4.9%	4.8%	4.9%
Private Equity Uncalled Capital Commitments	1.9%	4.3%	4.5%	3.6%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.0%	3.2%	3.2%
NAV + Uncalled Capital Commitments	2.6%	6.1%	6.9%	7.5%	7.5%	7.8%	7.9%	8.1%	8.0%	8.1%	7.9%	8.0%	8.1%
Target Private Equity Allocation	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Disclaimers & Disclosures

- This report contains summary information regarding the investment management approaches described herein but is not a complete description of the investment objectives, policies or portfolio management and research that supports these approaches.
- Past performance is no guarantee of future results.
- The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.
- This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

In addition, it is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds, real estate and private equity:

1. Performance can be volatile and investors could lose all or a substantial portion of their investment.
2. Leverage and other speculative practices may increase the risk of loss.
3. Past performance may be revised due to the revaluation of investments.
4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms.
5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value.
6. These funds are not subject to the same regulatory requirements as registered investment vehicles.
7. Managers may not be required to provide periodic pricing or valuation information to investors.
8. These funds may have complex tax structures and delays in distributing important tax information.
9. These funds often charge high fees.
10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy.

Private Equity Manager Information

Adams Street Partners

General Firm Information	
General Partner	Adams Street Partners, LLC (“ASP” or “Adams Street” or “the Firm”)
Main Address	One North Wacker Drive, Suite 2200 Chicago, IL 60606

Firm Overview	
Investment Style	Diversified fund of funds (buyout, venture, mezzanine, distressed, special situations, co-investments), secondary funds, energy fund of funds, and direct funds
Target Asset Types	Primary and Secondary Private Equity LP Interests, Equity Securities
Target Geographies	Global (US, non-US Developed Markets, Emerging Markets)
Investment Strategy	• Each year Adams Street Partners raises an annual fund-of-funds program. For 2015, the Global Fund program consists of a Direct Venture/Growth Fund, a U.S. Partnership Fund, and a Non-U.S. Partnership Fund. The 2015 Global Fund provides administrative convenience by investing in pre-determined percentages in the underlying 2015 U.S. Fund (55%), 2015 Non-U.S. Fund (35%), and the Direct Venture/Growth Fund (10%). • In addition to the core fund-of-funds programs, ASP manages separate secondary funds, energy & natural resources funds, co-investment funds and also builds and manages customized separate accounts.
Firm Experience	• Adams Street's predecessor firm was founded in 1972 as the growth equity and co-investment group within First National Bank of Chicago. Through a series of corporate events, ASP operated as part of UBS Asset Management until 2001. • Following the initiation of a management buyout in 2001, employees of the Firm bought out the remaining stake in 2008. ASP has been 100% employee owned since that date, with 83 individuals holding an equity stake in the Firm. • Since its inception, Adams Street Partners has grown to over 130 employees with six global offices in Chicago, London, Menlo Park, Singapore, Beijing and Tokyo. • Adams Street has been investing directly into operating companies since 1972 and has been investing in private equity partnerships since 1979.
Fund Team	• Adams Street experienced the departure of Chief Investment Officer Hanneke Smits in 2014. Ms. Smits joined the Firm in 1997 and was responsible for formulating global investment strategy and managing relationships with several of Adams Street's managers. • Ms. Smits duties on the Primary Investment Team were assumed by Kelly Meldrum. Ms. Meldrum worked closely with Ms. Smits to ensure a smooth transition of the Primary Investment Team responsibilities during the latter half of 2014. Jeff Diehl, a partner on the Direct Venture Capital and Growth Equity Team, joined the Executive Committee to backfill Ms. Smits' seat. Mr. Diehl is a partner in the firm who joined in 2000. • There are over 50 investment professionals dedicated to the investment activities across the firm. • An Executive Committee and an Operations Committee were formed in 2008 to facilitate the management governance of the growing organization. The Board and the Executive Committee will discuss and recommend the future leadership and reporting structure for the Firm that will be in place upon Bon French's anticipated retirement in 2017.
Sourcing Capabilities	• ASP's tenure in the industry and the global networks its professionals have built provide the Firm with a large set of investment opportunities. • ASP's deal flow typically generates 400-600 partnership opportunities and over 1,000 direct investment opportunities annually. • ASP's involvement in all aspects of the private equity industry globally (primaries, secondaries, co-investment and direct investing) enable the team to leverage firm-wide relationships developed around the world.

HarbourVest Partners

General Firm Information	
General Partner	HarbourVest Partners, LLC ("HarbourVest" or "the Firm")
Main Address	One Financial Center 44th Floor Boston, MA 02111

Firm Overview	
Investment Style	Diversified fund of funds (buyout, venture, private debt, distressed, special situations), secondary funds, direct investments in buyout, growth equity and mezzanine transactions, and cleantech investments
Target Asset Types	Primary and Secondary Private Equity LP Interests and Direct Co-Investments
Target Geographies	Global (U.S., Developed Europe, Eastern Europe, South Africa and Latin America)
Investment Strategy	• HarbourVest's investment strategy has been developed over the multiple investment, capital market, credit, and macroeconomic cycles of the past three decades. • Several strategic elements have been consistently developed over consecutive investment programs, including: leveraging the HarbourVest platform of an integrated approach to private equity through primary, secondary and direct investments; building diversified portfolios across geography, size, stage, and time; applying a disciplined and active approach to investing; utilizing flexible asset allocation; maintaining selectivity. • The Firm has raised U.S. funds every three to five years dating back to the 1980s. The HIPEP international program dates back to the 1990s, and funds have been raised every three to five years. HarbourVest's Dover Street secondary line of funds dates back over 20 years and has raised eight funds. • In addition to the core fund of funds programs named above, HarbourVest has historically done co-investments alongside fund managers. The Firm can co-invest anywhere from $10 million to $100 million per transaction.
Firm Experience	• HarbourVest Partners is the largest private equity fund of funds manager by amount of capital managed for third parties. • The Firm manages approximately $35 billion in discretionary private equity assets. • HarbourVest was founded in 1982 as a subsidiary of John Hancock Insurance, formerly known as Hancock Venture Partners. The two founders, Edward Kane and Brooks Zug, were both members of the corporate finance department at John Hancock before forming Hancock Venture Partners. • Today, the Firm is independent and privately owned by 30 individuals including 26 managing directors and four senior advisors.
Fund Team	• The HarbourVest team is comprised of more than 300 employees. The 80 investment professionals are spread across Boston, Hong Kong, London, Tokyo, Bogotà, and Beijing. • HarbourVest is led by 30 managing directors with an average firm tenure of 17 years. • The team is divided generally by investment focus (primary, secondary, or direct co-investments). • All investments, regardless of type or geographical location, are vetted at weekly staff meetings which are attended by senior members of the Firm from each office and approved by the Investment Committee.
Sourcing Capabilities	• HarbourVest evaluates numerous economic and private equity market factors when forming and building a fund-of-funds program. • The process begins with sourcing the best private equity partnership opportunities available. • The Firm determines the size of each fund raised, as well as the number of managers to whom they expect to make commitments, commensurate with the size of the market and the expected availability of the top managers. • HarbourVest maintains a comprehensive database to track managers. The Firm also proactively contacts managers who may not rank high on their target list but are believed to be future top performers.

Pantheon Ventures

General Firm Information	
General Partner	Pantheon Ventures, LP ("Pantheon" or "the Firm")
Main Address	600 Montgomery Street, 23rd Floor San Francisco, CA 94111

Firm Overview	
Investment Style	Diversified primary fund of funds (buyout, venture, distressed, special situations, growth equity), secondary funds, and direct co-investments
Target Asset Types	Primary and Secondary Private Equity LP Interests
Target Geographies	Global (U.S., Europe, and Asia/ROW)
Investment Strategy	• Historically, Pantheon has raised funds of a similar ilk every two to four years. • There are four general categories into which most of Pantheon's funds belong: the U.S. line of funds began in 1993 and these funds are focused on creating a diversified portfolio of high quality private equity funds operating primarily in the U.S.; the European family of funds began in 1997 and are focused on primary and secondary fund investments in buyout, venture capital and special situation vehicles in the UK and Europe; the Asian line of funds began in 1994 with an objective of making primary and secondary fund investments in a diversified basket of underlying funds, primarily in Asia. • In addition to the core set of primary fund of funds programs, Pantheon manages a separate family of secondary funds that began in 2000. The Firm has also recently developed a Global Multi-Strategy product.
Firm Experience	• Pantheon was founded in 1982 in London and is still headquartered there today. • The Firm now has offices in San Francisco, Hong Kong, New York, Seoul and Bogotà and manages approximately US $27 billion. • In 2004 the Firm was sold to Russell in what was generally seen as a liquidity event for the founders. In 2008, the management of Pantheon in conjunction with Affiliated Managers Group (NYSE: AMG) executed a management buyout. • Today, approximately 30% of the economic interests in Pantheon are held by Pantheon's senior team members, with the balance of the interest owned by AMG. • 72 investment professionals within the 190 total employee count are spread across the various Pantheon offices.
Fund Team	• Pantheon's investment teams are divided by geography and strategy, and an investment committee overseas each team. • Pantheon has 33 senior investment professionals (those at Partner and Principal level) with an average 16 years of private equity experience who have been at Pantheon for an average of 10 years. • The investment committees are as follows, with associated number of partners/principals who sit on the committee: U.S. – 4, Europe – 6, Asia – 5, Global Secondaries – 7, Global Co-investment – 7. • The firm continues to grow, having expanded by 40 employees over the last five years.
Sourcing Capabilities	• Pantheon's tenure in the industry and the global networks its professionals have built provide the Firm with a large set of investment opportunities. • Pantheon maintains a proprietary database of over 8,000 GPs. Since 2007, over 2,200 GPs have been screened and 178 commitments have been made. • The Firm has also held advisory board seats on over 270 funds.

NEPC Private Equity Themes for 2015

NEPC, LLC

Private Equity - 2015 Investment Themes

- **Fundraising pace for high demand managers continues to be quick**
  - Investors need to make early and quick decisions when capital demand exceeds fundraising targets for select managers
- **Look for buyout and growth equity exposure with value orientation to protect down-side risk**
  - Seek managers with operational expertise, sector focus and which have demonstrated the ability to drive top and bottom line growth through improved operations
  - US = price discipline; EUR = currency & economic rebound; Asia & EM = attractive growth
- **Dramatic drop in oil prices provides opportunity to invest in energy PE at more attractive valuations and benefit from long-term price rebound**
  - Potential for near term financial distress from highly levered businesses or underperforming assets should create new investment opportunities at attractive terms or valuations
- **Distressed turnarounds or multi-strategy distressed funds can capitalize on the choppiness of the economic recovery and market volatility**
  - Turnaround equity strategies can capitalize on businesses that have struggled; Multi-strategy funds can dynamically capitalize on pockets of opportunity as they arise
- **Secondary transaction showing signs of frothiness – seek deal complexity or small transactions for better pricing**
- **Access constraints and soaring valuations adds to risk of venture capital investing**

NEPC Views of Current Private Markets Investment Landscape – Equity Oriented Strategies

Strategy	Viewpoints	2015 Tactical Outlook
Buyouts & Growth Equity	• With transaction multiples high, focus on those managers that have demonstrated an ability to remain disciplined on price • Seek managers with operational expertise, sector focus and which have demonstrated the ability to drive top and bottom line growth through improved operations • Near term USD strengthening followed by EURO recovery could lead to FX gains on new EURO PE commitments • Asia and emerging market PE environment reflects attractive relative valuations to the US with higher expected growth; consumer and rising middle class themes should benefit from major country reforms	Neutral (US & Europe) More Attractive (Asia & EM)
Energy	• Dramatic drop in oil prices provides opportunity to invest in energy PE at more attractive valuations and benefit from long-term price rebound • Potential for near term financial distress from highly levered businesses or underperforming assets should create new investment opportunities at attractive terms or valuations	More Attractive
Distressed - Turnarounds & Special Situations	• Distressed turnarounds or special situation funds can capitalize on the choppiness of the economic recovery and should be able to perform reasonably well in all economic cycles • Focus on those managers that have demonstrated an ability to remain disciplined on price • Consider managers who focus on smaller companies that may have difficulty financing their way out of problems	More Attractive
Secondaries	• With record volumes of transactions, increasing use of fund leverage and rising public equity valuations, opportunities to acquire portfolios at large discounts are shrinking • Invest with managers can minimize competition through complexity or small transactions for more attractive pricing	Neutral
Venture Capital	• De-emphasize traditional VC due to high valuation environment and long exit horizon • Continue relationships with out-performing managers and opportunistically build relationships • Better risk adjusted returns may exist via venture secondaries or late stage venture/growth equity investments	Less Attractive

NEPC Views of Current Private Markets Investment Landscape – Credit Oriented Strategies

Strategy	Viewpoints	2015 Tactical Outlook
Distressed - Control & Non-Control	• With leveraged loans continuing to trade close to par coupled with a distressed ratio of ~1% (% of loans trading below 80% of par) , continue to de-emphasize trading-focused strategies • Focus on multi-strategy managers to capitalize on choppy economic recovery or control oriented managers who can flex to buyout strategies should economic growth improve • Continued low oil prices and/or rising interest rates may lead to financial distress in over levered energy businesses and related service companies	Neutral
Mezzanine	• Sourcing is a key differentiator as deal flow for many mezz funds are challenged by active high yield and senior debt/unitranche lenders • Prioritize experienced managers that have transaction flexibility across the capital structure and low historic loss rates • Focus on managers who have rationalized fund economics to reflect competitive subordinated lending environment and lower return expectations	Less Attractive
Direct Lending	• Yields remain relatively attractive to traditional fixed income, but credit underwriting standards are loosening as more capital is raised for lending funds • Relative pricing inefficiencies with the US market make European middle market more attractive. Seek managers that have strong credit skills, deep relationship networks for sourcing and multi-jurisdictional transaction experience • For US exposure, focus on managers that are originating unsponsored transactions or sourcing sponsored transactions from less efficient channels	More Attractive
Opportunistic Credit	• Emphasize managers with flexible and opportunistic strategies allowing for investments in an assortment of securities, assets, and situations, and allowing them to dynamically react to changing market conditions • Managers who have a global footprint and can root out credit opportunities in complex situations should be able to generate attractive returns in the current low yield environment	More Attractive

Appendix: Private Equity Market Information

Looking Back at 2014

- **A robust market for private equity realizations**
  - High portfolio company valuations & readily available debt
  - PE firms and strategic acquirers paying up for high quality companies
- **Bifurcation in fundraising**
  - Rapid, oversubscribed fundraises for top managers
  - Continued prolonged fundraises for many
- **Venture capital valuations rise on social media and robust IPO market**
  - Venture-backed IPO activity near 10 year highs
  - Led by biotech and social media
  - Rapid rise in valuations and quality of IPOs have raised questions about a new venture bubble
- **Secondary deal flow hits record level**
  - Discounts compressed as public equity valuations rose & funds bid up prices using leverage
  - Banks methodically selling PE due to tighter regulatory requirements
- **Distressed debt activity in real estate deals but less so in corporate debt**
  - Leveraged loans trading near par for most of the year
  - Turnaround equity funds were in high demand
- **Search for yield led to increased investment in private debt**
  - Senior and unitranche lending was an attractive alternative to traditional fixed income
  - Mezzanine debt faced deal competition from unitranche and high equity contributions

- **Fundraising pace for high demand managers continues to be quick**
  - Investors need to make early and quick decisions when capital demand exceeds fundraising targets for select managers
- **Look for buyout and growth equity exposure with value orientation to protect down-side risk**
  - Seek managers with operational expertise, sector focus and which have demonstrated the ability to drive top and bottom line growth through improved operations
  - US = price discipline; EUR = currency & economic rebound; Asia & EM = attractive growth
- **Dramatic drop in oil prices provides opportunity to invest in energy PE at more attractive valuations and benefit from long-term price rebound**
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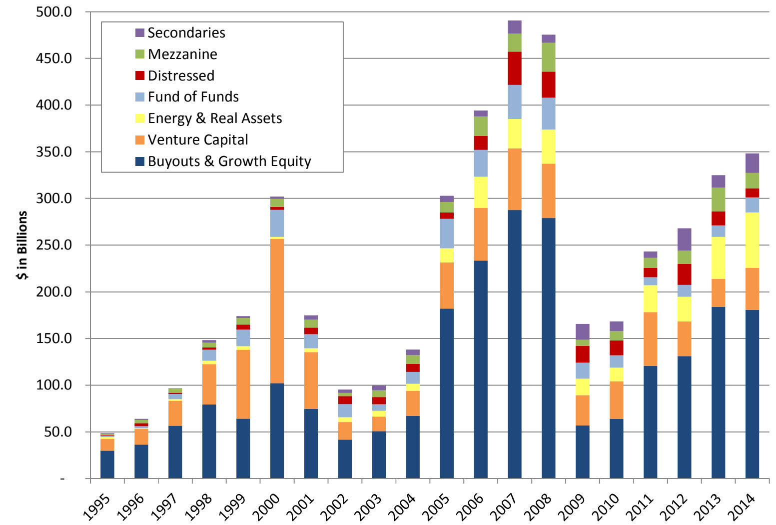
- **Secondary transaction showing signs of frothiness – seek deal complexity or small transactions for better pricing**
- **Access constraints and soaring valuations adds to risk of venture capital investing**

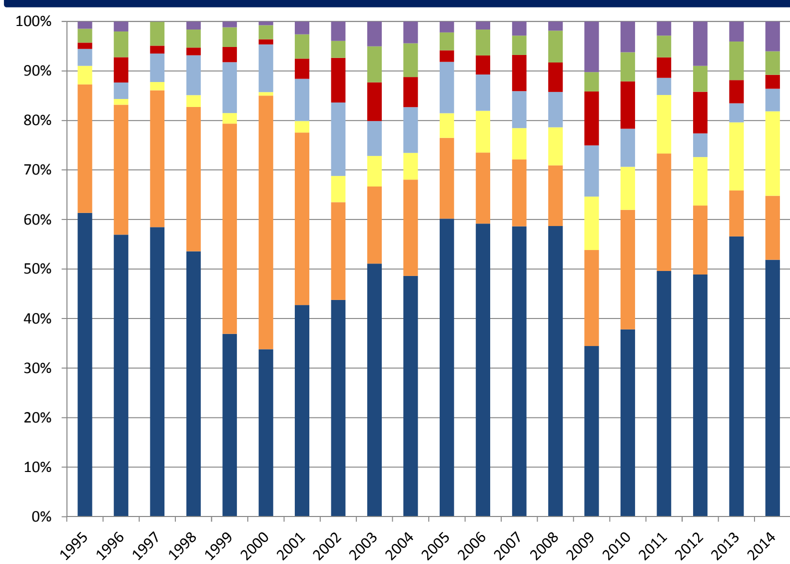
Private equity fundraising for 2014 was $348 billion, exceeding the $325 billion raised in 2013

- **$348 billion was raised by new funds in 2014**
  - Represents a 7% increase over the $325 billion that was raised in 2013
  - Quarterly fundraising pace has declined over the last two quarters of 2014, a trend to watch in 2015
- **Buyout and growth equity funds raised $180.8 billion (52% of total PE) in 2014**
  - 2014 buyout and growth equity commitments were approximately $3.0 billion less than in 2013
- **Energy funds raised $34.9 billion in 2014, more than half of the Energy and Real Asset total**
  - Energy funds increased by $11.6 billion over 2013
- **Venture Capital raised $44.9 billion (13%) in 2014, increasing by 33% over 2013**
  - Higher venture capital commitments resulted from high VC valuation and deal activity environment
- **Mezzanine funds raised $16.5 billion (5%) in 2014, $8.8 billion less than in 2013**
  - Mezzanine deal flow is facing competition from high yield, senior and unitranche lenders
- **Secondary funds raised $21.0 billion (6%) in 2014, $7.8 billion more than in 2013**
  - Axa's $10.0 billion fund was 48% of the 2014 total

Global Private Equity Funds Raised



Allocation of Global Private Equity Funds Raised



Source: Thomson Reuters

NEPC, LLC

US & Europe fund raising increases slightly while Asia & EM surge

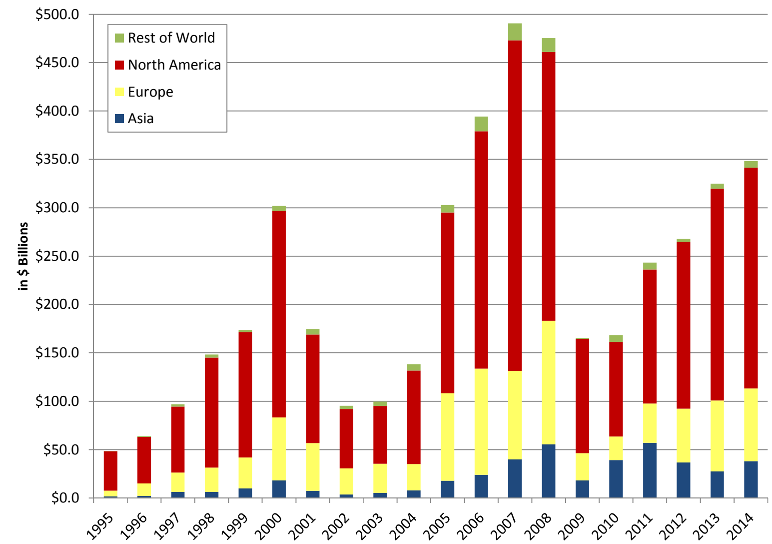
- **$228.5 billion of new commitments were to US funds 2014**
  - Exceeded 2013 US PE fundraising totals by $9.4 billion, or 4%
  - Consistent with 2013, US PE funds represented approximately two-thirds of all new PE funds raised in 2014

- **$74.9 billion of European commitments comprised 22% of all new PE commitments in 2014**
  - Approximately 58% of European commitments were made to buyout/growth equity funds
  - 4 funds account for 32% of 2014 total (Axa, Bain, Permira and Pamplona)

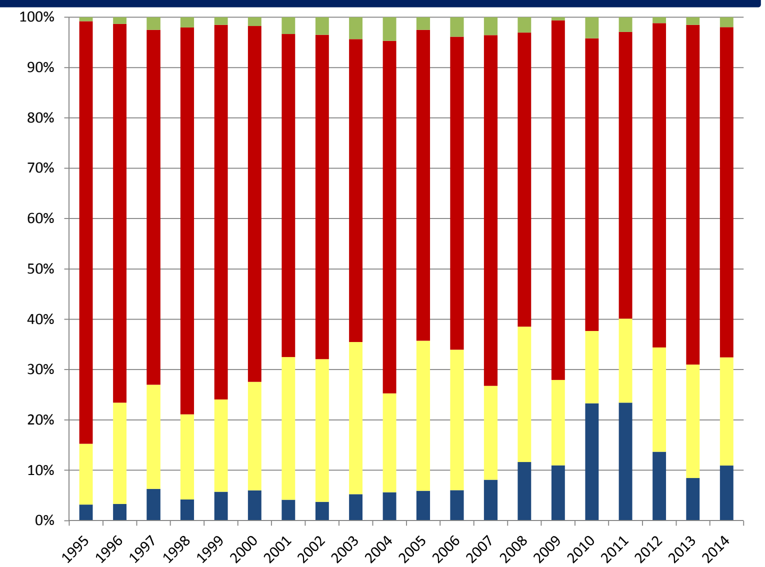
- **Asian private equity commitments accelerated in 2014 to $38.1 billion**
  - Represents 11% of 2014 total across all geographies and has surpassed the $27.5 billion of Asian funds raised in 2013
  - Approximately 70% of Asia PE raised in 2014 was by China-based firms
  - Buyouts & Growth Equity (61%) and VC (26%) were the majority of new Asia funds in 2014

- **Nearly 90% of the $6.8 billion of rest of world commitments were to Latin American based funds**

Global Private Equity Funds Raised



Allocation of Global Private Equity Funds Raised



Source: Thomson Reuters

For the past year, private equity funds outperformed public equity markets in each region

- **Global PE generated a 16.2% return for the year**
  - Asia and US led the way with European PE lagging
  - All GEOs outperformed public market equities
- **Buyout returns were 14.5% for the past year**
  - Larger size = higher correlation to public markets
  - Smaller funds have outperformed over long term
- **Venture capital returns were 23.7% for the past year**
  - Highest of any strategy
  - Long-term return approaching 10%
- **10-year return for global PE is 14.1%**
  - Outperforming public equity indices over the long term across all geographies

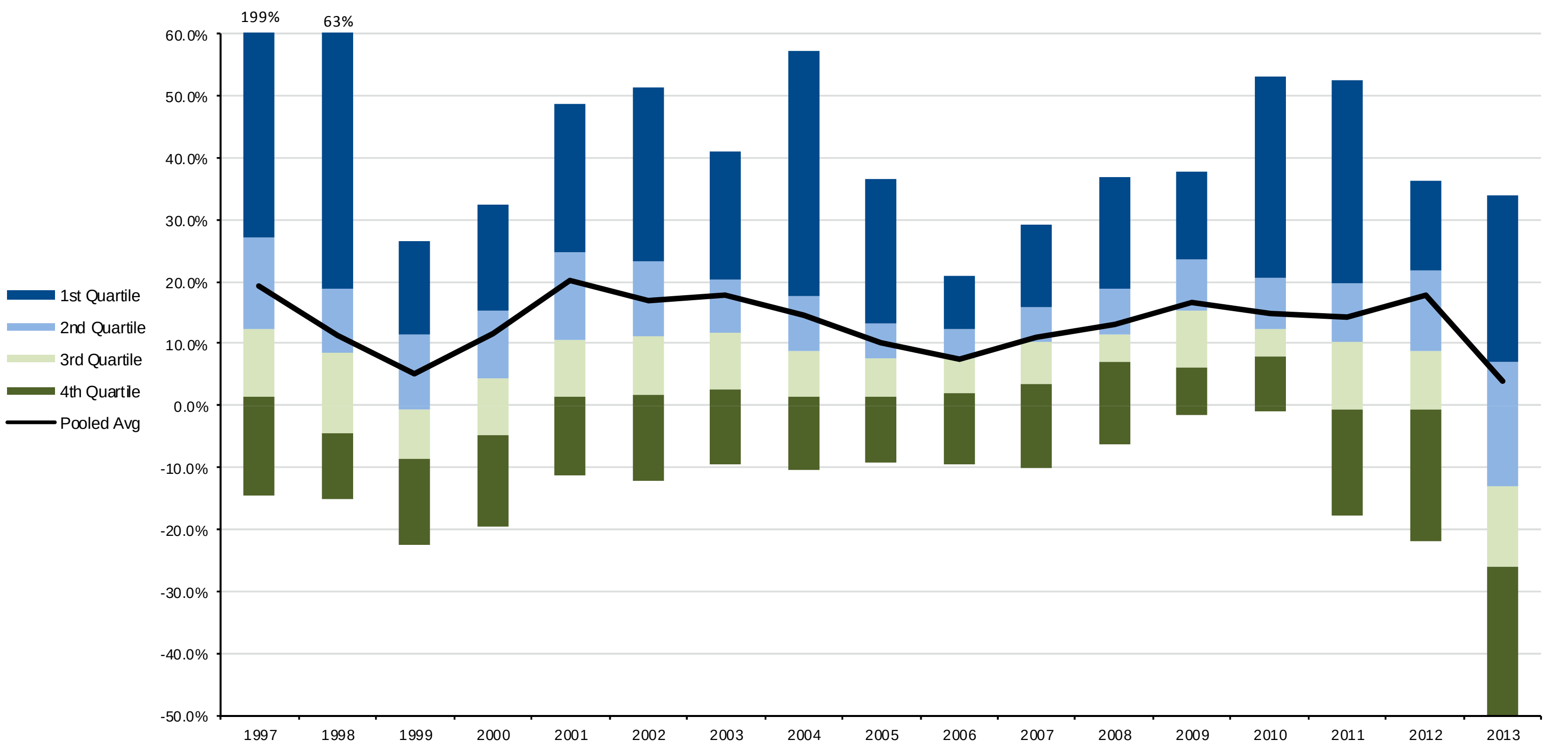
All Private Equity	Q3 2014	1 Year	3 Year	5 Year	7 Year	10 Year
Global	0.1%	16.2%	15.0%	14.9%	7.8%	14.1%
United States	1.7%	18.4%	16.7%	16.3%	9.1%	13.8%
Europe	-6.8%	7.8%	10.7%	11.6%	3.3%	14.5%
Asia	2.9%	22.8%	13.1%	15.1%	9.3%	14.6%
Global by Strategy	**Q3 2014**	**1 Year**	**3 Year**	**5 Year**	**7 Year**	**10 Year**
Buyouts	-0.9%	14.5%	15.2%	15.4%	7.1%	15.0%
Small (<$500M)	-0.3%	11.5%	11.9%	13.2%	8.4%	16.4%
Medium ($500M-$3.5B)	-1.5%	12.8%	13.0%	13.8%	6.8%	15.2%
Large & Mega (>$3.5B)	-0.5%	16.1%	17.3%	17.0%	6.7%	14.4%
Growth Equity	1.7%	19.9%	15.0%	15.2%	9.2%	14.5%
Venture Capital	2.1%	23.7%	15.4%	15.0%	8.1%	9.8%
Mezzanine	3.2%	12.8%	13.2%	11.9%	9.2%	10.7%
Distressed	0.4%	12.8%	15.6%	13.7%	8.5%	12.5%
Energy	-0.1%	14.6%	11.5%	12.9%	9.4%	19.8%
Secondaries[1]	4.1%	17.3%	10.3%	14.7%	7.9%	13.8%
Primary FOFs[1]	3.7%	21.3%	10.5%	13.7%	7.0%	11.1%
Public Indices	**Q3 2014**	**1 Year**	**3 Year**	**5 Year**	**7 Year**	**10 Year**
Russell 3000	0.0%	17.8%	23.1%	15.8%	6.2%	8.4%
MSCI EAFE	-5.8%	4.7%	14.2%	7.0%	0.3%	6.8%
MSCI EM	-3.4%	4.7%	7.6%	4.8%	0.1%	11.0%
Barclays High Yield	-1.9%	7.2%	11.1%	10.6%	8.7%	8.3%

[1] As of Q2 2014 – latest data available due to reporting lags for secondary & primary FOFs

Source: Pooled average and quartile IRRs from Cambridge Associates as of September 30, 2014, preliminary data as of 01/07/15; Bloomberg for public indices

Global Private Equity IRRs by Vintage year as of Q3 2014 (preliminary)

IRR Quartile Analysis



Vintage Year:	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
95th Percentile	199.2%	63.2%	26.6%	32.4%	48.7%	51.2%	41.0%	57.4%	36.5%	20.9%	29.1%	36.9%	37.8%	53.2%	52.4%	36.2%	33.9%
Upper Quartile	27.0%	18.7%	11.6%	15.3%	24.8%	23.2%	20.4%	17.6%	13.2%	12.3%	15.9%	18.7%	23.5%	20.5%	19.7%	21.7%	6.9%
Median	12.2%	8.4%	-0.7%	4.3%	10.6%	11.0%	11.9%	8.8%	7.5%	7.8%	10.3%	11.6%	15.2%	12.2%	10.3%	8.7%	-13.2%
Lower Quartile	1.4%	-4.5%	-8.5%	-4.9%	1.5%	1.8%	2.5%	1.4%	1.5%	2.1%	3.5%	6.9%	6.2%	7.9%	-0.7%	-0.6%	-26.1%
5th Percentile	-14.5%	-15.0%	-22.5%	-19.6%	-11.4%	-12.1%	-9.6%	-10.5%	-9.1%	-9.7%	-10.1%	-6.2%	-1.7%	-0.9%	-17.8%	-22.1%	-50.3%
Number of Funds	139	153	165	222	121	68	76	120	176	197	207	166	81	88	121	111	87
Pooled Average	19.4%	11.3%	5.0%	11.7%	20.1%	17.0%	17.7%	14.4%	10.0%	7.6%	11.0%	13.0%	16.6%	14.7%	14.3%	17.9%	3.9%

Source: Pooled average and quartile IRRs from Cambridge Associates as of September30, 2014, preliminary data as of 1/5/2015

Buyouts/Growth

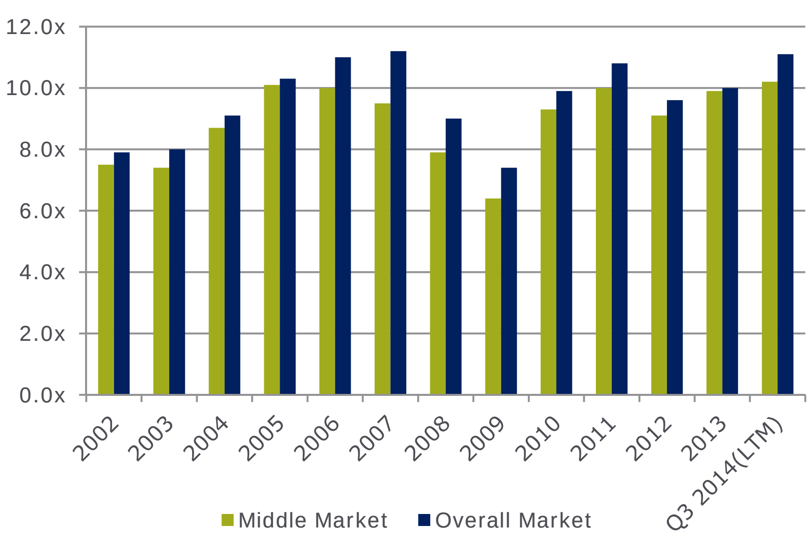
2015 NEPC Assessment

Neutral

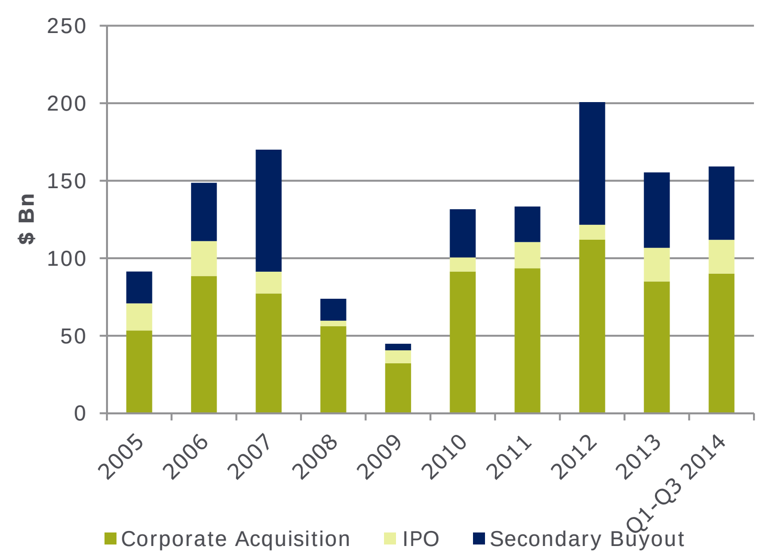
2014 Recap

- Multiples of EV/EBITDA in the U.S. have returned to levels reminiscent of pre-2008, making it difficult to find quality companies at attractive prices
- Add-on activity continued to climb relative to platform acquisitions
  - Emphasis is being placed on consolidating fragmented industries and expanding companies into new geographies
- Transactions in the $100 million to $1 billion range accounted for 85% of all capital invested through 3Q 2014 as deals over $1 billion were deemphasized
- The exit environment remained robust as 2014 has already seen more capital exited through Q3 than all of 2013

Median EV/EBITDA Multiples



Exit Activity



Source: William Blair & Co., Pitchbook

Buyouts/Growth

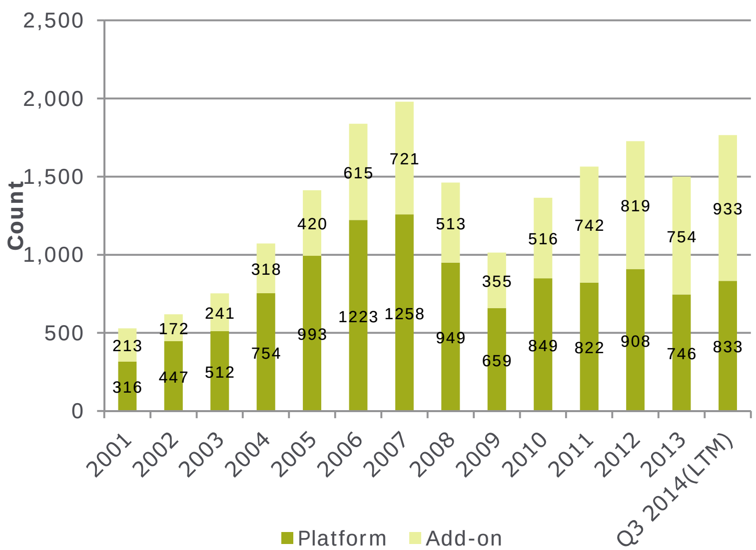
2015 NEPC Assessment

Neutral

2015 Looking Forward

- Expect fundraising market to remain bifurcated; those who haven't been able to return significant capital to investors in the recent buoyant market will face challenges in raising a new fund while high performers will be difficult to access
  - Be cautious of fund size creep as recent performance has led some firms to raise a disproportionate amount of capital relative to prior funds
- As multiples have risen, focus on those managers that have demonstrated an ability to remain disciplined on price
- In an uncertain growth environment, seek managers with operational expertise, sector focus and which have demonstrated the ability to drive top and bottom line growth through improved operations
  - Particularly in small and middle market companies where growth and value add opportunities are greater
- Add-on acquisitions activity may continue to increase purchase share as they are typically cheaper and attract less competition

Add-on Acquisitions Versus Platform Purchases



Private Equity Dry Powder

Source: William Blair & Company, Preqin

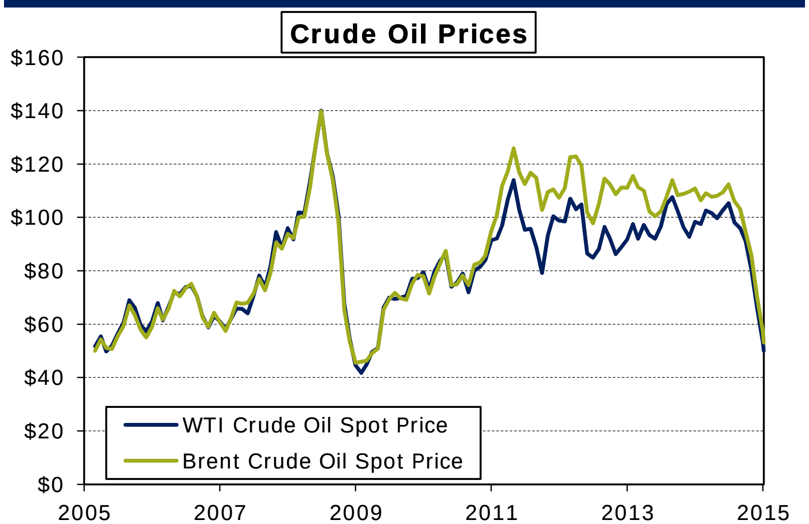
2015 NEPC Assessment

More Attractive

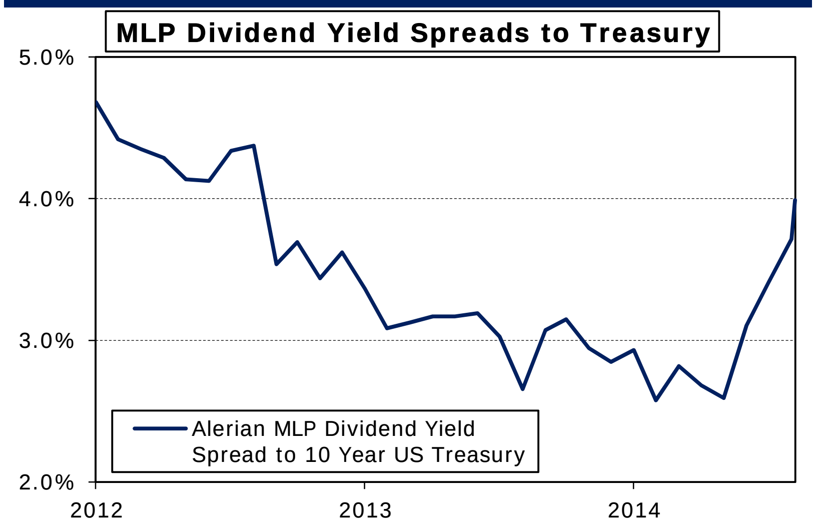
2014 Recap

- Massive decline in crude oil prices (>50%) occurred through the end of 2014 and into early 2015
  - Global oversupply, demand growth slowdown and strengthening dollar have contributed to decline as OPEC has maintained production targets despite price weakness
- Public market equity valuations are down significantly from the peak in the upstream E&P sector (-24%), energy services (-35%) and MLPs (-16%) and unrealized private equity valuations will likely be down once Q4 2014 market values are released
- Energy capital markets are constrained and effectively closed for sub-investment grade issuers
- High leverage levels have been exacerbated by falling EBITDAX (EBITDA - CapEx)
- Increasing default rates are expected in energy high yield should low oil prices persist

Oil Prices Down More than 50%



Declining Energy HY Values



Source: Bloomberg; data as of January 5, 2015.

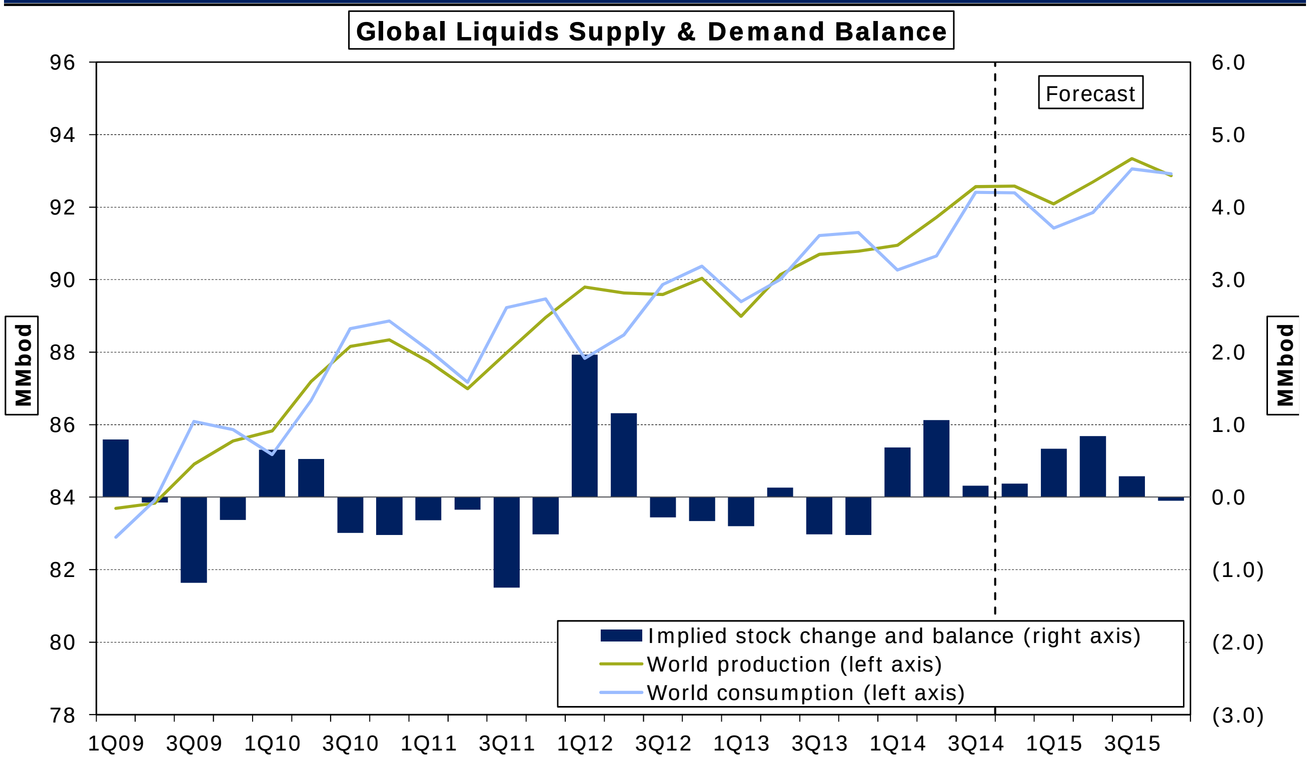
2015 NEPC Assessment

More Attractive

2015 Looking Forward

- Current oil demand of 92.4 million barrels of oil per day ("MMbod")
- Current oversupply of 1 to 2 MMbod (~2% of current demand)
- Global oil supply is expected to peak in the first half 2015
- Supply response and continued demand growth support higher prices in the long-term as supply and demand re-balance

Putting the Oil Supply and Demand Balance in Perspective



Source: EIA Short-Term Energy Outlook; data as of December 2014

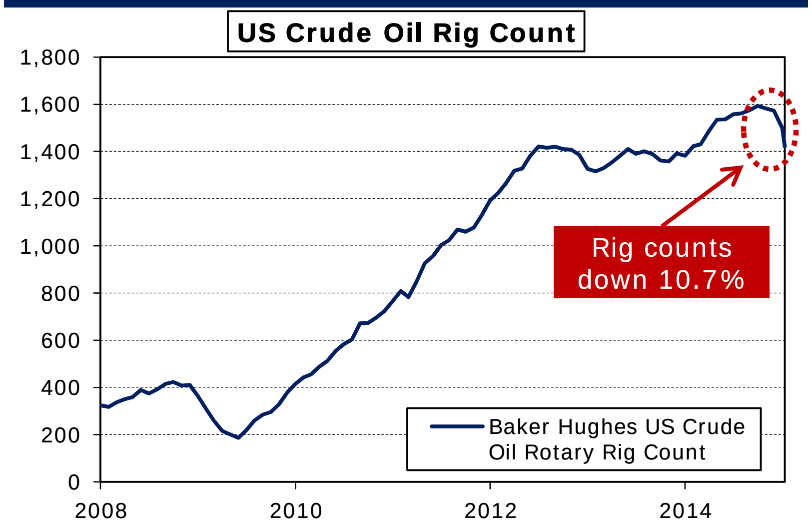
2015 NEPC Assessment

More Attractive

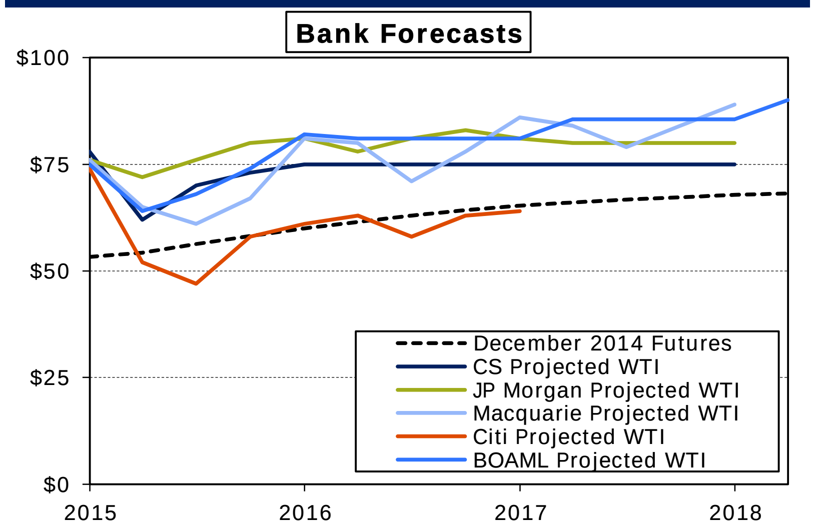
2015 Looking Forward

- Massive energy sector dislocation that has occurred as a result of falling oil prices is likely to create attractive private capital opportunities at lower valuations
  - Existing and currently raising fund managers with dry powder should M&A activity accelerate once prices settle over the course of the year
- Distressed debt opportunities are also attractive as balance sheets deteriorate
  - Debt investments in public companies with highly levered balance sheets through unique deal structures at attractive valuations that should benefit from a price rebound in the long-term
- Natural gas-weighted asset sales may accelerate as oil & gas companies seek to raise cash to offset drop in oil prices
  - Provides an opportunity to acquire productive gas assets, generating near-term cash flow from production with upside related to potential natural gas price appreciation that may occur later this decade

Supply Response Already Occurring



Crude Oil Futures Below Long-Term Expectations



Source: Bloomberg, Baker Hughes; data as of January 9, 2015 (Left). Source: Bloomberg, Credit Suisse, JP Morgan, Macquarie, Citi, BOAML; data as of December 2014 (Right).

Distressed

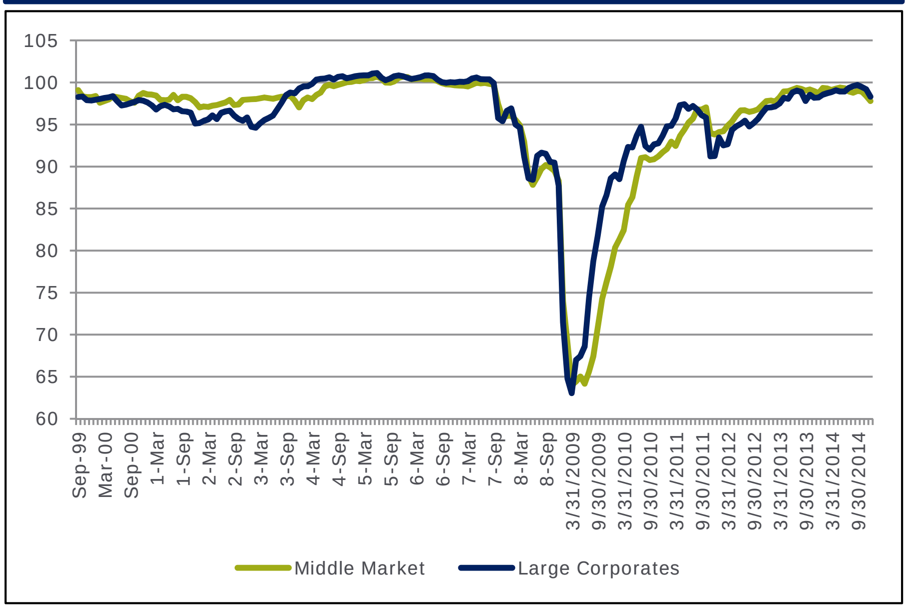
2015 NEPC Assessment

Neutral

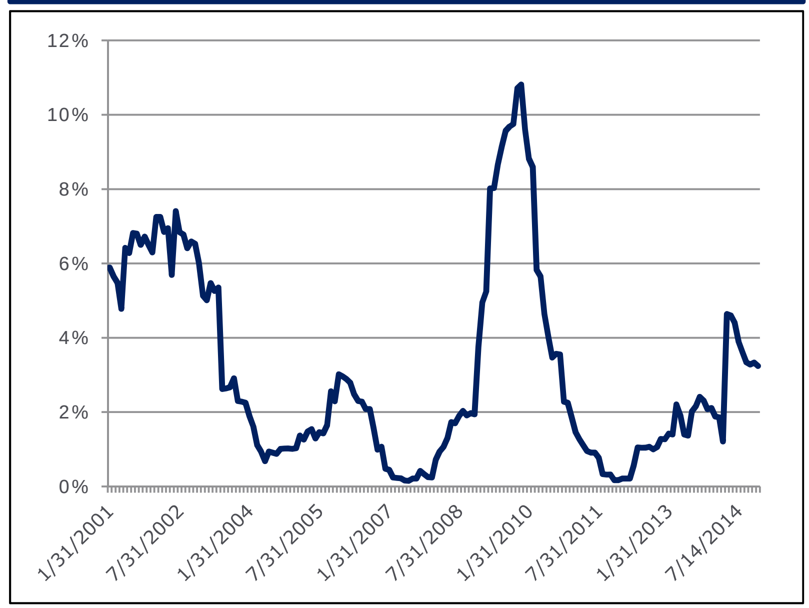
2014 Recap

- With leveraged loans continuing to trade close to par coupled with a distressed ratio (% of loans trading below 80 cents) of ~1%, there has been a dearth of interesting opportunities in illiquid corporate credit.
- TXU's bankruptcy on April 29 resulted in a spiking of the US default rate to nearly 4% with the par value of leveraged loans in default or bankruptcy at ~$24B at the end of 2014. In Europe, the default rate reached 5.4% primarily driven off of the bankruptcy of French-retailer Vivarte.
- In Europe, there was a pickup of non-performing and non-core asset sales stemming from regulatory requirements (Basel III), the Asset Quality Review and an improving banking sector. Asset sales exceeded €87 billion, a 36% increase over 2013.

Average Bid of Leveraged Loans



Lagging 12-Month Default Rate in US



Source: PwC, S&P Capital IQ LCD and S&P/LSTA Leveraged Loan Index

NEPC, LLC

Distressed

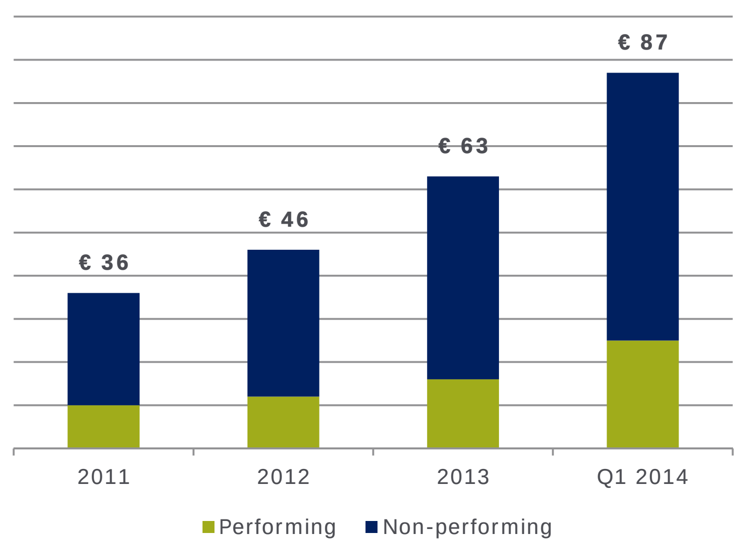
2015 NEPC Assessment

Neutral

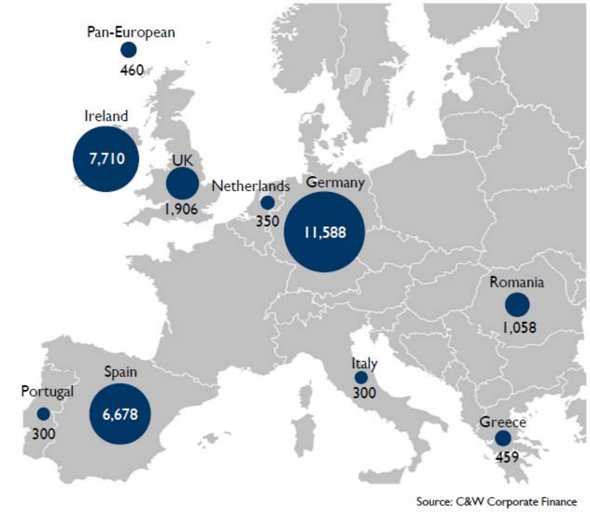
2015 Looking Forward

- Continued low oil prices and/or rising interest rates may lead to opportunities for energy-related companies and those with precarious capital structures
- Financial institutions in Southern and Eastern European are expected to become more active sellers of non-performing and non-core assets in order to comply with regulatory requirements
- Managers who have a global footprint and can root out credit opportunities in complex situations should be able to generate decent returns in the current low yield environment
- Seek managers employing a value-oriented investment approach with an emphasis on turnaround situations whose strategies can perform in both bull and bear markets

European Asset Sales



R/E NPL Live Transactions by Geography



Source: PwC, Cushman & Wakefield

Secondaries

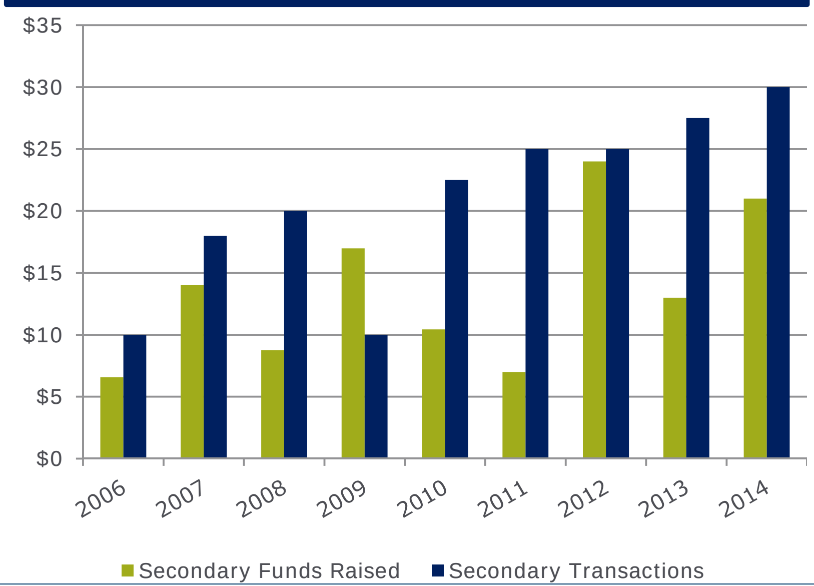
2015 NEPC Assessment

Neutral

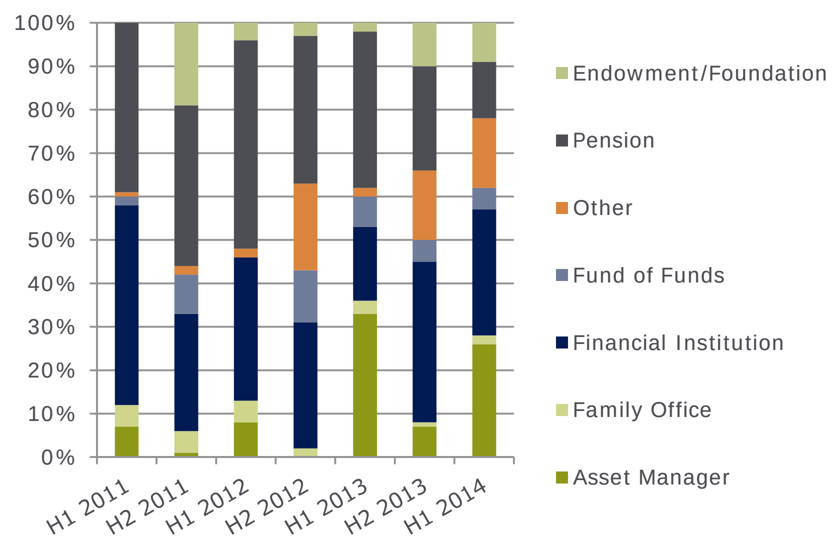
2014 Recap

- 2014 secondary transaction volume is estimated to have been between $30-$35 billion, marking the largest year of activity.
- With continued implementation of post-GFC regulatory reforms, financial institutions (e.g., banks and insurance companies) were the largest sellers of private equity assets during the year.
- Secondary sales by asset managers, particularly GP led fund restructurings, were a large portion of secondary volume in 2014, as managers of older funds seek alternative methods to alleviate timing pressures and expedite the return of capital.
- Fund managers are using deferred payments and fund leverage as ways to enhance return expectations as deal prices have been rising.

Secondary Deal Activity & Fundraising



Secondary Market Sellers by Transaction Value



Source: Cogent Partners

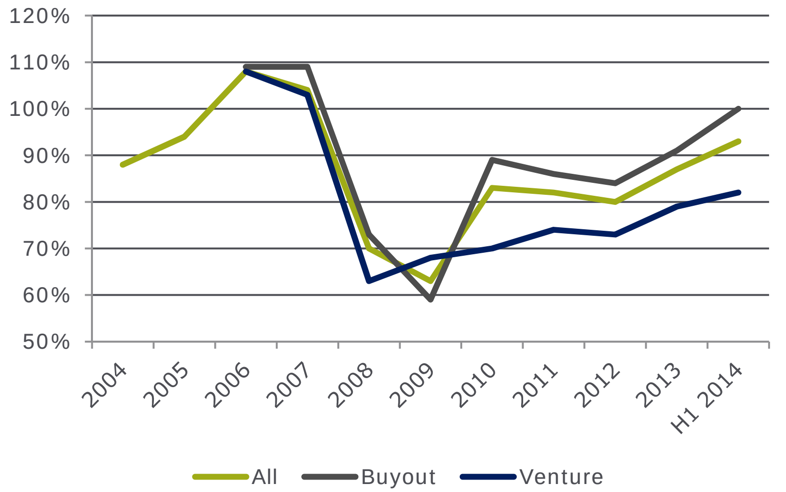
2015 NEPC Assessment

Neutral

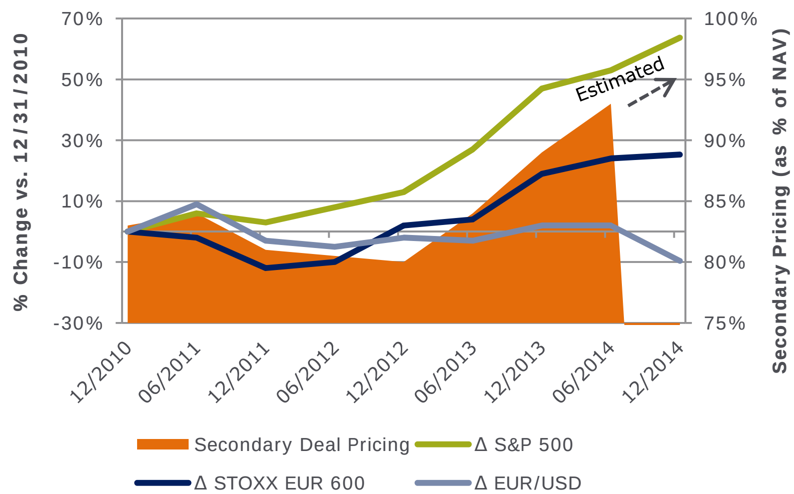
2015 Looking Forward

- Secondary market pricing increased across all strategies to 93% of NAV in the first half of 2014. Much of the increase in pricing was driven by buyout funds, where pricing rose to 100% of NAV.
- Secondary valuations have a strong correlation with public equity market valuations. As discounts compress, a greater portion of secondary fund returns are expected to come from appreciation.
- With competition rising and discounts falling for easier to value portfolios of well known limited partnership interests, sourcing transactions away from competition is critically important.
- Invest with managers that have expertise in executing creative, structured transactions, have strong relationships with banks (Europe), or are focused on small transactions (i.e., <$15 million per transaction)

Secondary Market Pricing (as a % of NAV)



Secondary Pricing & Public Equity Performance



Source: Thomson Reuters, Cogent

Venture Capital

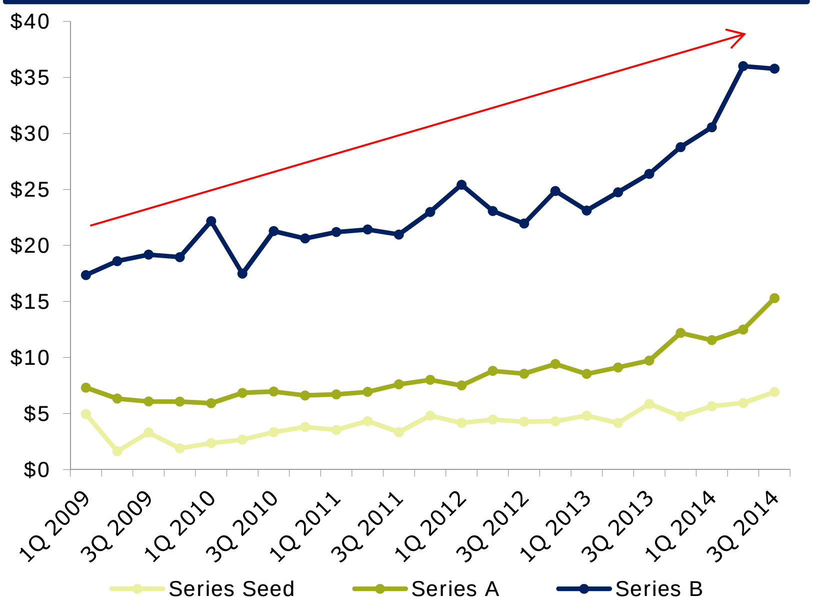
2015 NEPC Assessment

Less Attractive

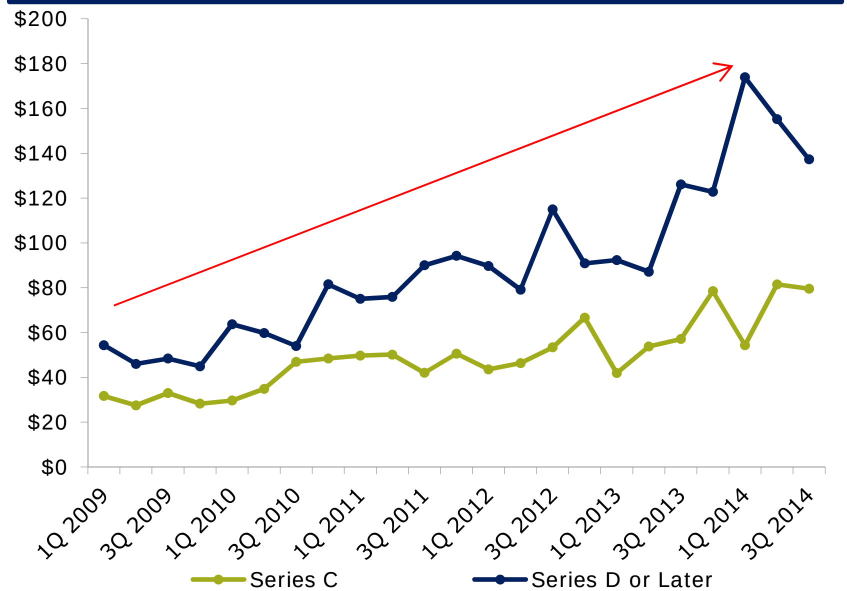
2014 Recap

- VC space has become crowded and frothy
  - "The tourists have arrived." – Jim Goetz, Sequoia Capital
- Dollars invested and the number of deals steadily increasing
  - According to PricewaterhouseCoopers and the National Venture Capital Association, 3Q14 is the sixth consecutive quarter with more than 1,000 companies receiving VC money in a single quarter
  - $33 billion invested through 3Q14 eclipses all dollars invested in 2013, which eclipsed 2012
- Heavy valuation increases in both early and late stage
- The "no revenue, high valuation" phenomenon has returned with higher frequency
- The fraction of IPOs with negative earnings has increased to over 70% in 2014 from a low of 29% in 2009 (1999 = 76%, 2000 = 80%)
- The percentage of financing "up" rounds has increased from below 40% in 2009 to 65% in 2014

US Early Stage Valuations ($MM)



US Late Stage Valuations ($MM)



Source: National Venture Capital Association, PWC Moneytree, Thomson Reuters , University of Florida, Jay Ritter, Pitchbook

Venture Capital

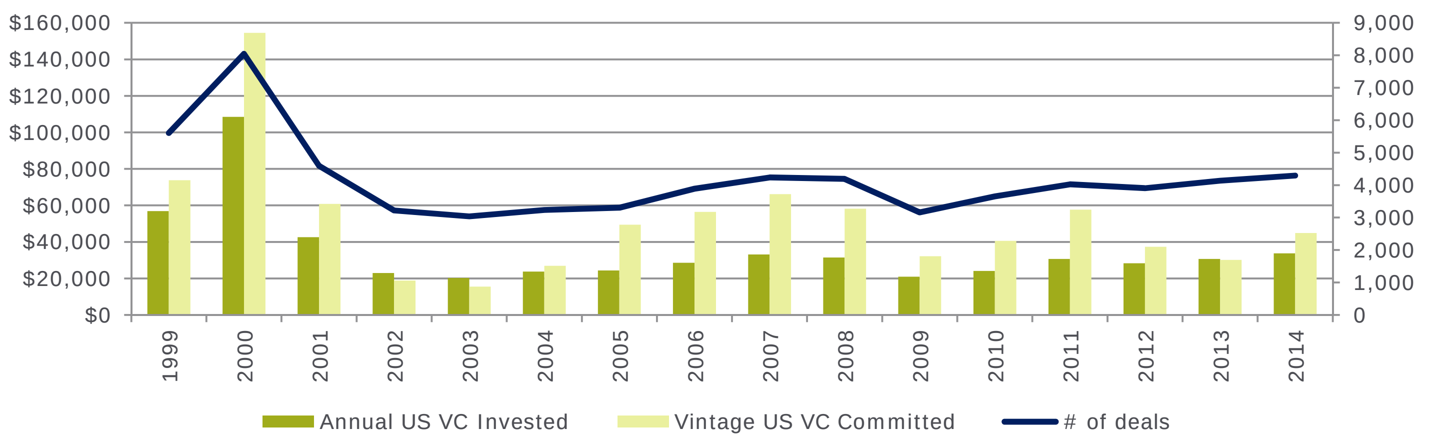
2015 NEPC Assessment

Less Attractive

2015 Looking Forward

- Outside of limited access managers, risk-adjusted returns are broadly less attractive relative to other private market opportunities.
  - Continue relationships with out-performing managers and opportunistically build relationships with out-performing managers that have may have LP challenges
- With many companies opting to stay private longer, the average time to exit for IPOs has slowly crept up, adding to already lengthy time to liquidity/fund lives.
  - Secondary venture funds could present an attractive way to access the space, as the technology risk is often reduced and these funds tend to deliver earlier liquidity to investors.
  - Secondary venture funds also have the ability to take advantage of increased demand for employee liquidity through secondary direct investments.
- Stay clear of diversified, primary "venture only" fund of funds as their net performance tends to disappoint
  - High performing, access-constrained funds generally represent a minority of a fund-of-funds' commitments.

Global Venture Capital Investing (1999 – 2014)



Source: PWC Moneytree, Thomson Reuters

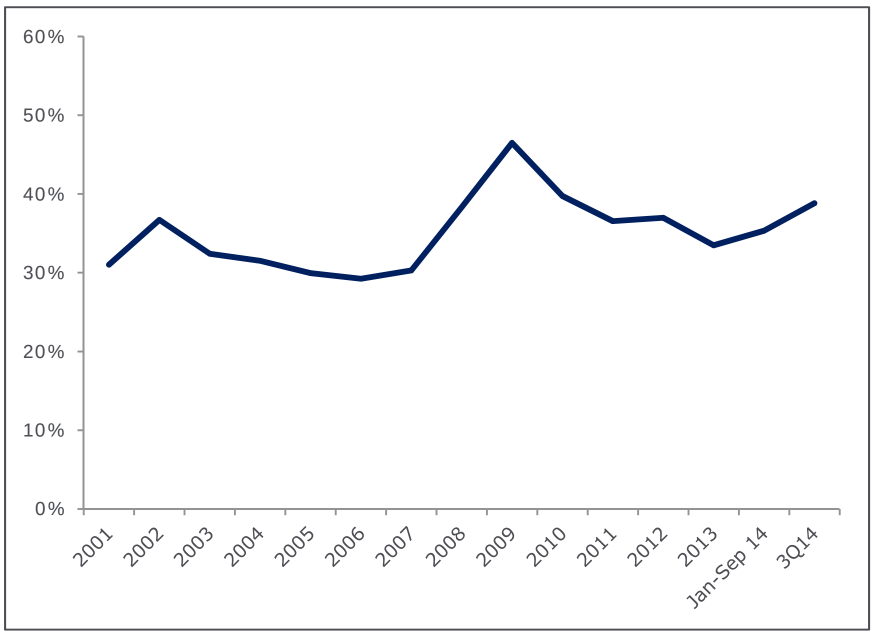
2015 NEPC Assessment

Less Attractive

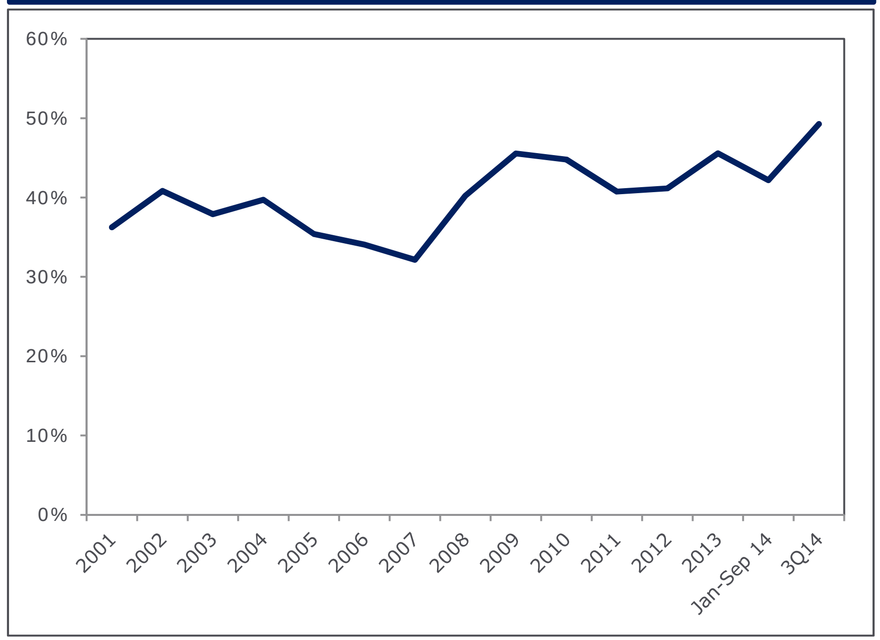
2014 Recap

- Mezzanine managers continued to get squeezed as a result of high equity contributions and the increased use of unitranche debt structures
- Equity contributions to deals has remained elevated as pressure mounts for sponsors to deploy capital in a low-volume market
- Alternative capital sources continue to encroach mezzanine finance, primarily from unitranche lending where senior and junior debt is provided in a single product
- Fund of Funds have increased their participation in mezzanine financing, offering products with lower fees and carry resulting in cheaper cost of capital to sponsors

Average Sponsor Equity >$50M EBITDA



Average Sponsor Equity <$50M EBITDA



Source: S&P Capital IQ LCD and S&P/LSTA Leveraged Loan Commentary

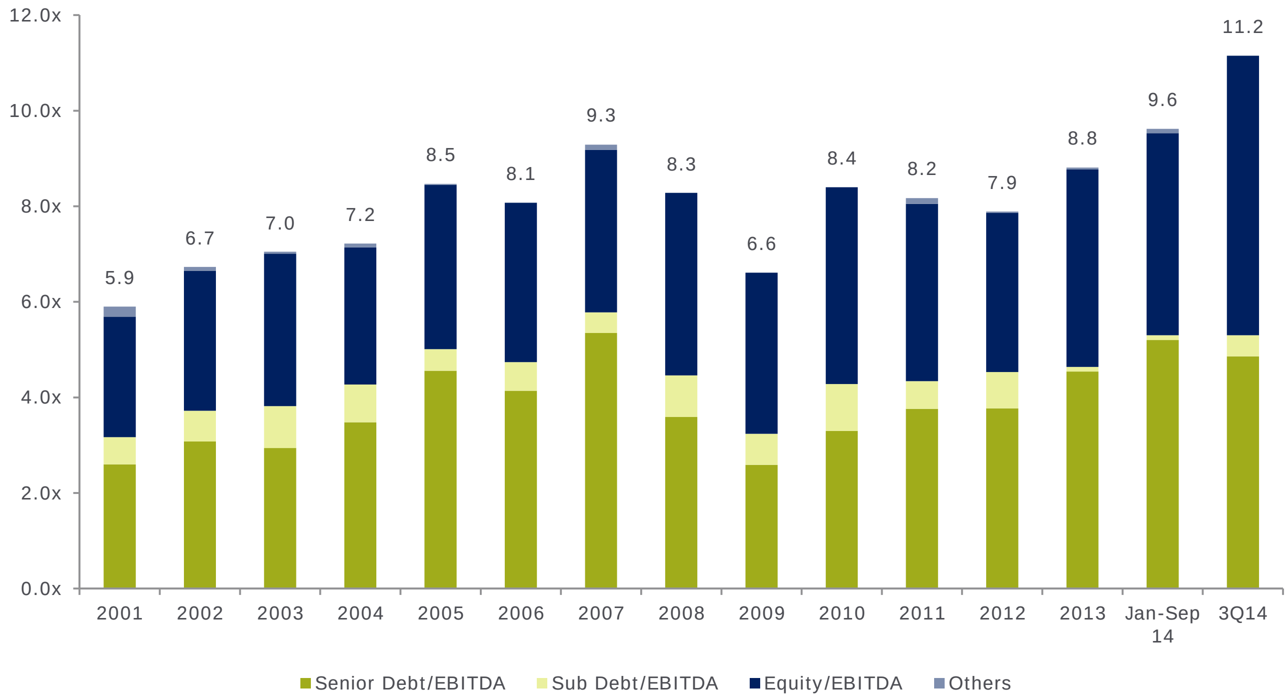
2015 NEPC Assessment

Less Attractive

2015 Looking Forward

- If the current market environment continues, it will be difficult to deploy capital for dedicated mezzanine funds
- Sourcing is a key differentiator as deal flow for many mezzanine funds are challenged by active high yield and senior debt/unitranche lenders
- Focus on managers that have appropriate fee structures, flexibility throughout the capital structure and established track records with low loss rates

Average Purchase Price Multiples



Source: S&P Capital IQ LCD and S&P/LSTA Leveraged Loan Commentary

Direct Lending

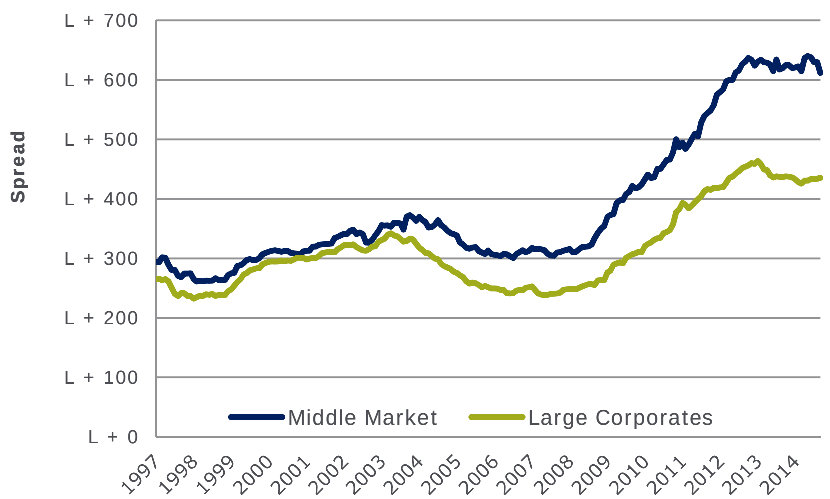
2015 NEPC Assessment

More Attractive

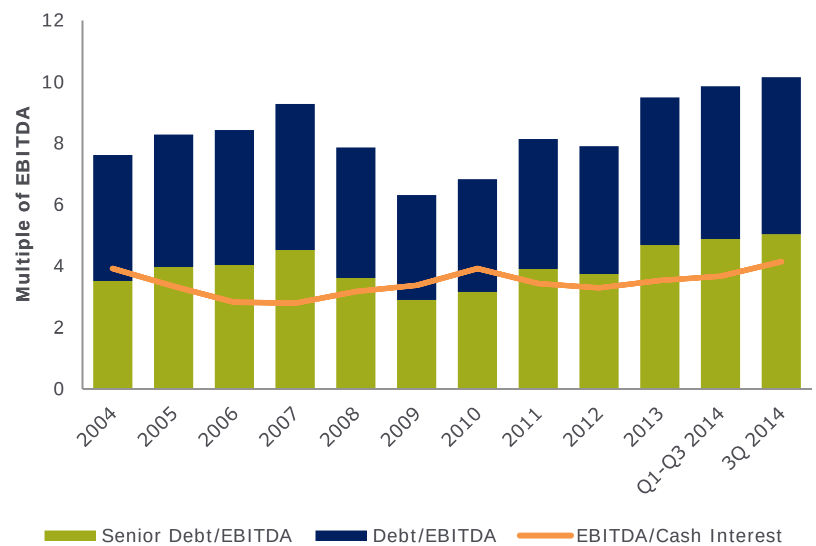
2014 Recap

- Finance companies and institutional investors now account for 87% of middle-market leveraged loan volume up from 78% in 2012
- Covenant-lite loans gaining ground down market, over 20% of new issue loans $200 million or less in size are cov-lite
- Banks remain Europe's largest credit investors, but are under increasing regulatory pressure to shrink their balance sheets.
- Growing importance of non-bank arrangers (e.g., private debt funds, CLOs, etc.)

Average Nominal Spread of Leveraged Loans



Pro Forma Credit Statistics of Mid-Market Transactions



Source: S&P Capital IQ LCD and S&P/LSTA Leveraged Loan Commentary

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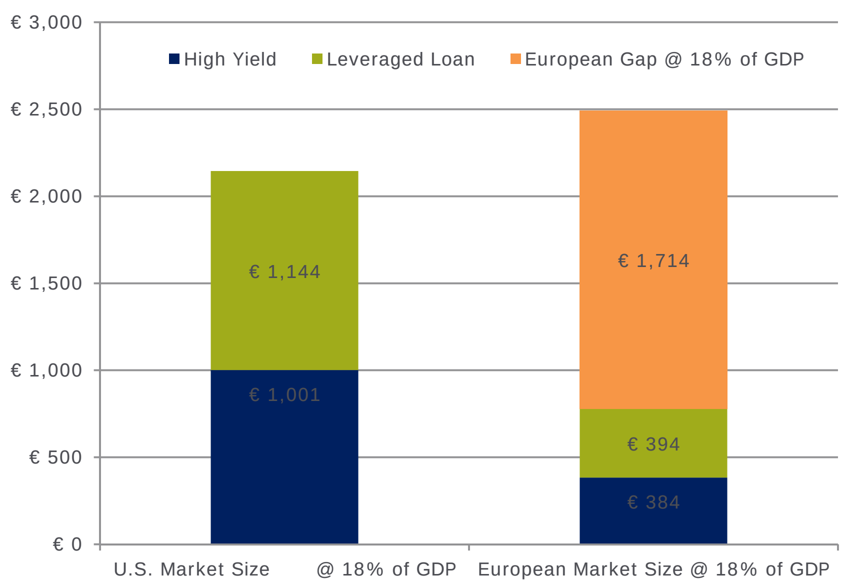
2015 NEPC Assessment

More Attractive

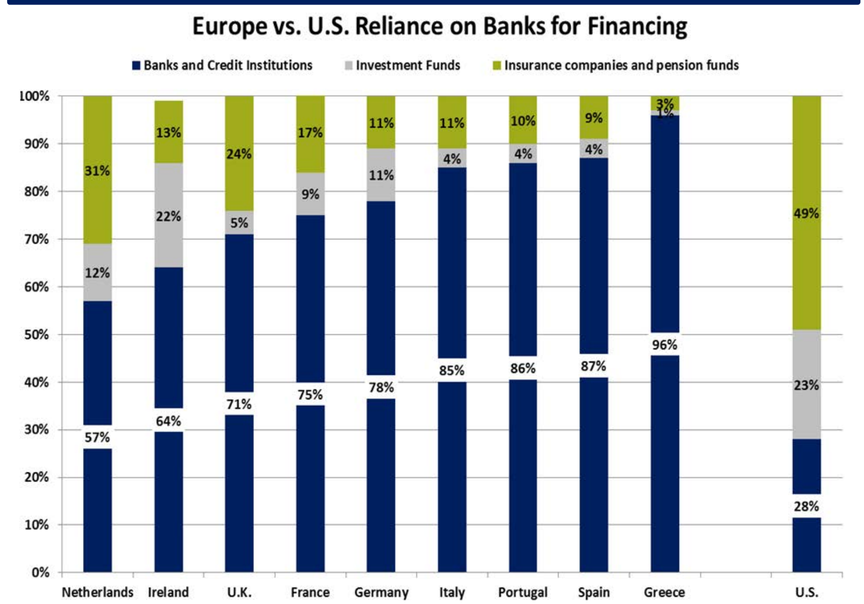
2015 Looking Forward

- Yields remain relatively attractive to traditional fixed income, but credit underwriting standards are loosening as more capital is raised for lending funds
- For US exposure, focus on managers that are originating transactions outside of more efficient channels
- European middle market is more inefficient than the U.S.
  - Relationships more important to build trust for non-bank lenders
  - Not homogenous
  - Middle market pricing data less available

US vs European Relative Market Size (€s in Billions)



Reliance on Bank Funding



Source: S&P Capital IQ LCD and S&P/LSTA Leveraged Loan Commentary, GSO

Pacing Plan Disclaimers

- **NEPC's private markets pacing analysis projects a potential level of future assets and cash flows for a single scenario based on a series of assumptions. This analysis is intended to help estimate future exposure levels. It is not a guarantee of future cash flows, appreciation or returns.**

- **The timing and amounts of projected future cash flows and market values of investments could vary significantly from the amounts projected in this pacing analysis due to manager-specific and industry-wide macroeconomic factors.**

- **Estimates of projected cash flows and market values for existing private markets commitments were made at the Fund level and do not incorporate any underlying portfolio company projections or analysis.**

- **The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.**

- **Data used to prepare this report was obtained directly from the investment managers and other third parties. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**

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It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

1. **Performance can be volatile and investors could lose all or a substantial portion of their investment**
2. **Leverage and other speculative practices may increase the risk of loss**
3. **Past performance may be revised due to the revaluation of investments**
4. **These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms**
5. **A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value**
6. **These funds are not subject to the same regulatory requirements as registered investment vehicles**
7. **Managers may not be required to provide periodic pricing or valuation information to investors**
8. **These funds may have complex tax structures and delays in distributing important tax information**
9. **These funds often charge high fees**
10. **Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager’s realm of expertise or contemplated investment strategy**

NEPC, LLC

YOU DEMAND MORE. So do we.SM

Ventura County Employees' Retirement Association

Preliminary Performance Report
Month Ending March 31, 2015

Daniel LeBeau, Consultant
Allan Martin, Partner,
Anthony Ferrara, CAIA, Senior Analyst

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Total Fund Performance Detail Net of Fees

Performance Summary

	Market Value ($)	% of Portfolio	Policy %	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total Fund	**4,357,228,014**	**100.0**	**100.0**	**-0.8**	**1.7**	**1.7**	**1.6**	**6.0**	**10.2**	**10.0**	**6.8**	**8.2**	**Apr-94**
Policy Index				-0.6	1.8	1.8	2.9	6.8	10.0	9.6	6.9	8.2	*Apr-94*
Over/Under				-0.2	-0.1	-0.1	-1.3	-0.8	0.2	0.4	-0.1	0.0	
Total Fund ex Parametric	**4,318,394,565**	**99.1**	**--**	**-0.8**	**1.7**	**1.7**	**1.6**	**6.0**	**10.1**	**9.9**	**6.7**	**8.2**	**Apr-94**
Total Fund ex Private Equity	**4,230,766,570**	**97.1**	**--**	**-0.9**	**1.7**	**1.7**	**1.3**	**5.7**	**9.3**	**--**	**--**	**11.4**	**Jan-12**
Policy Index				-0.6	1.8	1.8	2.9	6.8	10.0	9.6	6.9	11.9	*Jan-12*
Over/Under				-0.3	-0.1	-0.1	-1.6	-1.1	-0.7			-0.5	
Total US Equity	**1,360,896,365**	**31.2**	**30.0**	**-1.0**	**1.9**	**1.9**	**7.1**	**12.3**	**16.7**	**15.1**	**8.0**	**9.1**	**Dec-93**
Total U.S. Equity Benchmark				-1.0	1.8	1.8	7.1	12.2	16.4	14.8	8.5	9.5	*Dec-93*
Over/Under				0.0	0.1	0.1	0.0	0.1	0.3	0.3	-0.5	-0.4	
BlackRock Equity Market Fund	1,171,040,708	26.9		-1.0	1.8	1.8	7.1	12.3	16.4	14.8	--	7.7	Dec-07
Dow Jones U.S. Total Stock Market				-1.0	1.8	1.8	7.1	12.2	16.4	14.7	8.5	7.6	*Dec-07*
Over/Under				0.0	0.0	0.0	0.0	0.1	0.0	0.1		0.1	
Western U.S. Index Plus	140,787,690	3.2		-1.4	1.2	1.2	7.3	13.2	17.4	16.4	--	3.6	May-07
S&P 500				-1.6	1.0	1.0	7.1	12.7	16.1	14.5	8.0	6.2	*May-07*
Over/Under				0.2	0.2	0.2	0.2	0.5	1.3	1.9		-2.6	
BlackRock Extended Equity Index	49,067,966	1.1		1.2	5.3	5.3	6.7	10.3	17.4	16.0	10.3	12.8	Oct-02
Dow Jones U.S. Completion Total Stock Market				1.2	5.3	5.3	6.7	10.2	17.2	15.8	10.2	12.8	*Oct-02*
Over/Under				0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.0	

Policy Index: Uses an estimated CPI+4% index due to CPI monthly lag

Policy Index: Currently, 30% Total U.S. Equity Benchmark, 19% Barclays Aggregate, 14% MSCI ACWI ex U.S., 10% MSCI ACWI, 5% Barclays Global Aggregate, 5% DJ U.S. Total Stock Market Index + 3%, 10% CPI+4% Index, and 7% NCREIF ODCE Real Estate Index

Total U.S. Equity Benchmark: The Benchmark is a dynamic hybrid using the respective managers' market value weights within the U.S. Equity component toward their benchmark. Prior to May 2013, the Dow Jones U.S. Total Stock Market Index. Prior to May 2007, the Russell 3000 Index

CPI+4% is estimated for latest month.

Total Fund Performance Detail Net of Fees

	Market Value ($)	% of Portfolio	Policy %	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total Non-US Equity	**617,229,438**	**14.2**	**14.0**	**-1.8**	**3.1**	**3.1**	**-5.5**	**-1.1**	**6.9**	**5.5**	**5.5**	**6.6**	**Mar-94**
Total Non-US Equity Benchmark				-1.6	3.5	3.5	-5.8	-1.0	6.4	4.8	5.5	5.4	Mar-94
Over/Under				-0.2	-0.4	-0.4	0.3	-0.1	0.5	0.7	0.0	1.2	
BlackRock ACWI ex-U.S. Index	258,178,876	5.9		-1.5	3.6	3.6	-5.8	-1.2	6.7	5.2	--	1.8	Mar-07
MSCI ACWI ex USA				-1.6	3.5	3.5	-5.8	-1.0	6.4	4.8	5.5	1.4	Mar-07
Over/Under				0.1	0.1	0.1	0.0	-0.2	0.3	0.4		0.4	
Sprucegrove	184,158,765	4.2		-2.6	2.0	2.0	-6.8	-3.2	7.0	6.5	5.8	8.0	Mar-02
MSCI EAFE				-1.5	4.9	4.9	-4.8	-0.9	9.0	6.2	4.9	6.5	Mar-02
Over/Under				-1.1	-2.9	-2.9	-2.0	-2.3	-2.0	0.3	0.9	1.5	
MSCI ACWI ex USA				-1.6	3.5	3.5	-5.8	-1.0	6.4	4.8	5.5	7.1	Mar-02
Hexavest	80,358,439	1.8		-1.8	3.7	3.7	-4.3	0.0	7.6	--	--	4.9	Dec-10
MSCI EAFE				-1.5	4.9	4.9	-4.8	-0.9	9.0	6.2	4.9	5.6	Dec-10
Over/Under				-0.3	-1.2	-1.2	0.5	0.9	-1.4			-0.7	
Walter Scott	94,533,357	2.2		-0.9	3.4	3.4	-2.6	2.5	6.2	--	--	4.8	Dec-10
MSCI ACWI ex USA				-1.6	3.5	3.5	-5.8	-1.0	6.4	4.8	5.5	3.5	Dec-10
Over/Under				0.7	-0.1	-0.1	3.2	3.5	-0.2			1.3	
Total Global Equity	**440,946,810**	**10.1**	**10.0**	**-2.0**	**2.5**	**2.5**	**-2.2**	**2.7**	**9.7**	**8.8**	**--**	**5.7**	**May-05**
MSCI ACWI				-1.5	2.3	2.3	0.4	5.4	10.7	9.0	6.4	6.7	May-05
Over/Under				-0.5	0.2	0.2	-2.6	-2.7	-1.0	-0.2		-1.0	
BlackRock MSCI ACWI Equity Index	227,794,793	5.2		-1.5	2.4	2.4	0.6	5.8	--	--	--	--	May-12
MSCI ACWI				-1.5	2.3	2.3	0.4	5.4	10.7	9.0	6.4	15.6	May-12
Over/Under				0.0	0.1	0.1	0.2	0.4					
GMO Global Equity	213,152,017	4.9		-2.5	2.5	2.5	-5.0	-0.4	8.8	8.4	--	6.7	Apr-05
MSCI ACWI				-1.5	2.3	2.3	0.4	5.4	10.7	9.0	6.4	6.7	Apr-05
Over/Under				-1.0	0.2	0.2	-5.4	-5.8	-1.9	-0.6		0.0	

Total Non-U.S. Equity Benchmark: MSCI ACWI ex US Free, prior to May 2002, the MSCI EAFE

Total Fund Performance Detail Net of Fees

	Market Value ($)	% of Portfolio	Policy %	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total US Fixed Income	**767,452,669**	**17.6**	**19.0**	**0.0**	**1.0**	**1.0**	**1.0**	**2.4**	**3.4**	**5.5**	**6.1**	**6.3**	**Feb-94**
Barclays Aggregate				*0.5*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*	*4.9*	*5.8*	*Feb-94*
Over/Under				-0.5	-0.6	-0.6	-2.6	-3.3	0.3	1.1	1.2	0.5	
BlackRock U.S. Debt Fund	141,505,104	3.2		0.4	1.6	1.6	3.7	5.9	3.2	4.5	5.0	5.7	Nov-95
Barclays Aggregate				*0.5*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*	*4.9*	*5.7*	*Nov-95*
Over/Under				-0.1	0.0	0.0	0.1	0.2	0.1	0.1	0.1	0.0	
Western	272,269,339	6.2		0.5	2.2	2.2	3.9	6.7	5.0	6.5	5.8	6.7	Dec-96
Barclays Aggregate				*0.5*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*	*4.9*	*5.7*	*Dec-96*
Over/Under				0.0	0.6	0.6	0.3	1.0	1.9	2.1	0.9	1.0	
Reams	280,328,425	6.4		-0.6	-0.7	-0.7	-3.1	-4.1	1.5	4.5	6.1	5.8	Sep-01
Reams Custom Index				*0.0*	*0.1*	*0.1*	*0.2*	*0.2*	*1.2*	*3.3*	*4.4*	*4.6*	*Sep-01*
Over/Under				-0.6	-0.8	-0.8	-3.3	-4.3	0.3	1.2	1.7	1.2	
Barclays Aggregate				*0.5*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*	*4.9*	*5.0*	*Sep-01*
Loomis Sayles Multi Strategy	73,349,802	1.7		-0.3	2.1	2.1	1.5	5.1	6.9	7.9	--	7.3	Jul-05
Loomis Custom Index				*0.1*	*1.8*	*1.8*	*2.2*	*4.3*	*4.3*	*5.6*	--	*5.8*	*Jul-05*
Over/Under				-0.4	0.3	0.3	-0.7	0.8	2.6	2.3		1.5	
Barclays Aggregate				*0.5*	*1.6*	*1.6*	*3.6*	*5.7*	*3.1*	*4.4*	*4.9*	*4.9*	*Jul-05*
Total Global Fixed Income	**258,135,292**	**5.9**	**5.0**	**-0.8**	**-0.8**	**-0.8**	**-3.7**	**-1.4**	**--**	**--**	**--**	**0.7**	**Jun-12**
Barclays Global Aggregate				*-1.0*	*-1.9*	*-1.9*	*-6.0*	*-3.7*	*-0.2*	*2.3*	*3.6*	*-0.5*	*Jun-12*
Over/Under				0.2	1.1	1.1	2.3	2.3				1.2	
Loomis Sayles Global Fixed Income	90,486,017	2.1		-1.1	-1.9	-1.9	-6.2	-3.8	--	--	--	0.0	Jun-12
Barclays Global Aggregate				*-1.0*	*-1.9*	*-1.9*	*-6.0*	*-3.7*	*-0.2*	*2.3*	*3.6*	*-0.5*	*Jun-12*
Over/Under				-0.1	0.0	0.0	-0.2	-0.1				0.5	
PIMCO Global Fixed Income	124,955,057	2.9		-0.8	-0.8	-0.8	-3.6	-1.2	--	--	--	-1.0	Sep-12
Barclays Global Aggregate				*-1.0*	*-1.9*	*-1.9*	*-6.0*	*-3.7*	*-0.2*	*2.3*	*3.6*	*-1.8*	*Sep-12*
Over/Under				0.2	1.1	1.1	2.4	2.5				0.8	
Loomis Strategic Alpha	42,694,218	1.0		-0.2	1.6	1.6	2.0	3.4	--	--	--	3.3	Jul-13
Barclays Global Aggregate				*-1.0*	*-1.9*	*-1.9*	*-6.0*	*-3.7*	*-0.2*	*2.3*	*3.6*	*-0.2*	*Jul-13*
Over/Under				0.8	3.5	3.5	8.0	7.1				3.5	

Reams Custom Index: Merrill Lynch 3 Month Libor Constant Maturity Index, prior to February 2013 the Barclays Aggregate
Loomis Custom Index: 65% Barclays Aggregate, 30% Citigroup High Yield Market Index and 5% JPM Non-US Hedged Bond Index
Reams performance is preliminary
Pimco is preliminary

Total Fund Performance Detail Net of Fees

	Market Value ($)	% of Portfolio	Policy %	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Total Real Estate	**322,351,195**	**7.4**	**7.0**	**0.0**	**0.0**	**0.0**	**6.2**	**9.1**	**9.4**	**12.1**	**4.7**	**7.7**	**Mar-94**
Total Real Estate Benchmark				*0.0*	*0.0*	*0.0*	*6.6*	*9.7*	*11.4*	*13.8*	*6.6*	*8.7*	*Mar-94*
Over/Under				0.0	0.0	0.0	-0.4	-0.6	-2.0	-1.7	-1.9	-1.0	
Prudential Real Estate	107,886,266	2.5		0.0	0.0	0.0	6.9	10.2	10.6	14.2	5.6	5.1	Jun-04
UBS Real Estate	208,224,343	4.8		0.0	0.0	0.0	5.8	8.1	8.7	11.0	6.1	7.2	Mar-03
RREEF	6,240,585	0.1		0.0	0.0	0.0	7.3	21.3	20.0	26.2	--	-6.3	Sep-07
Total Liquid Alternatives	**424,921,353**	**9.8**	**10.0**	**-1.3**	**1.7**	**1.7**	**-2.5**	**6.5**	**--**	**--**	**--**	**12.1**	**Apr-13**
CPI + 4% (Unadjusted)				*0.8*	*1.4*	*1.4*	*1.9*	*3.8*	*4.9*	*5.7*	*6.1*	*4.7*	*Apr-13*
Over/Under				-2.1	0.3	0.3	-4.4	2.7				7.4	
Bridgewater All Weather Fund	284,498,548	6.5		-0.4	3.7	3.7	1.9	7.6	--	--	--	9.5	Aug-13
CPI + 5% (Unadjusted)				*0.8*	*1.6*	*1.6*	*2.6*	*4.8*	--	--	--	*5.5*	*Aug-13*
Over/Under				-1.2	2.1	2.1	-0.7	2.8				4.0	
Tortoise Energy Infrastructure	140,422,805	3.2		-3.1	-2.2	-2.2	-10.5	4.3	--	--	--	13.4	Apr-13
Wells Fargo MLP Index				*-3.6*	*-3.7*	*-3.7*	*-13.3*	*-0.7*	*10.5*	--	--	*4.3*	*Apr-13*
Over/Under				0.5	1.5	1.5	2.8	5.0				9.1	

Total Real Estate Benchmark: NCREIF ODCE; prior to January 2006, the NCREIF Property Index
Real Estate managers and NCREIF ODCE are valued on a quarterly basis. Performance is not applicable in mid-quarter months, therefore 0% return is shown.
Total Liquid Alternatives index, the CPI+4% is estimated by carrying the last available month forward
CPI+5% and CPI+4% are estimated by carrying the last available month forward
Real Estate Valuation is as of 12/31/2014

Total Fund Performance Detail Net of Fees

	Market Value ($)	% of Portfolio	Policy %	1 Mo (%)	3 Mo (%)	YTD (%)	Fiscal YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Return (%)	Since
Overlay	**38,833,449**	**0.9**	**0.0**										
Parametric	38,833,449	0.9											
Total Private Equity	**126,461,444**	**2.9**	**5.0**	**2.2**	**4.5**	**4.5**	**12.3**	**18.5**	**16.0**	**--**	**--**	**--**	**Jul-10**
DJ U.S. Total Stock Market Index + 3%				*-0.8*	*2.6*	*2.6*	*9.4*	*15.6*	*19.8*	*18.2*	--	*20.6*	*Jul-10*
Over/Under				3.0	1.9	1.9	2.9	2.9	-3.8				
Adams Street Partners	77,594,905	1.8		3.2	3.2	3.2	10.5	16.5	14.8	--	--	--	Jul-10
DJ U.S. Total Stock Market Index + 3%				*-0.8*	*2.6*	*2.6*	*9.4*	*15.6*	*19.8*	*18.2*	--	*20.6*	*Jul-10*
Over/Under				4.0	0.6	0.6	1.1	0.9	-5.0				
Panteon Ventures	14,663,333	0.3		2.1	2.2	2.2	5.5	12.7	12.1	--	--	--	Aug-10
DJ U.S. Total Stock Market Index + 3%				*-0.8*	*2.6*	*2.6*	*9.4*	*15.6*	*19.8*	*18.2*	--	*22.2*	*Aug-10*
Over/Under				2.9	-0.4	-0.4	-3.9	-2.9	-7.7				
Harbourvest	34,203,207	0.8		0.0	7.9	7.9	19.1	25.9	--	--	--	--	May-13
DJ U.S. Total Stock Market Index + 3%				*-0.8*	*2.6*	*2.6*	*9.4*	*15.6*	*19.8*	*18.2*	--	*19.9*	*May-13*
Over/Under				0.8	5.3	5.3	9.7	10.3					

Please Note:
Private Equity performance is shown on a time-weighted return basis. Values are cash adjusted with current month cash flows.

Total Fund

Cash Flow Summary

Month Ending March 31, 2015

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Fees	Net Investment Change	Ending Market Value
Adams Street Partners	$73,489,424	-$306,373	$2,013,500	$1,707,127	$0	$2,398,354	$77,594,905
BlackRock ACWI ex-U.S. Index	$262,062,994	$0	$0	$0	-$23,182	-$3,884,118	$258,178,876
BlackRock Equity Market Fund	$1,183,186,091	$0	$0	$0	-$21,601	-$12,145,383	$1,171,040,708
BlackRock Extended Equity Index	$48,470,904	$0	$0	$0	-$3,271	$597,063	$49,067,966
BlackRock MSCI ACWI Equity Index	$231,256,880	$0	$0	$0	-$9,260	-$3,462,087	$227,794,793
BlackRock U.S. Debt Fund	$140,868,095	$0	$0	$0	-$8,050	$637,009	$141,505,104
Bridgewater All Weather Fund	$285,579,042	$0	$0	$0	-$92,604	-$1,080,495	$284,498,548
GMO Global Equity	$218,655,943	$0	$0	$0	-$97,695	-$5,503,926	$213,152,017
Harbourvest	$31,995,060	-$1,841,868	$4,050,000	$2,208,132	$0	$15	$34,203,207
Hexavest	$81,772,863	$0	$0	$0	-$30,953	-$1,414,424	$80,358,439
Loomis Sayles Global Fixed Income	$91,444,002	$0	$0	$0	-$22,622	-$957,985	$90,486,017
Loomis Sayles Multi Strategy	$73,550,365	$0	$0	$0	-$24,171	-$200,564	$73,349,802
Loomis Strategic Alpha	$42,769,783	$0	$0	$0	-$14,231	-$75,565	$42,694,218
Panteon Ventures	$14,663,333	-$300,822	$0	-$300,822	$0	$300,822	$14,663,333
Parametric	$58,122,732	-$23,813,135	$2,995,923	-$20,817,212	-$4,278	$1,527,929	$38,833,449
PIMCO Global Fixed Income	$125,958,271	$0	$0	$0	-$35,405	-$1,003,214	$124,955,057
Prudential Real Estate	$107,886,266	$0	$0	$0	$0	$0	$107,886,266
Reams	$281,987,959	$0	$0	$0	-$41,291	-$1,659,534	$280,328,425
RREEF	$6,240,585	$0	$0	$0	$0	$0	$6,240,585
Sprucegrove	$189,037,387	$0	$0	$0	-$57,950	-$4,878,621	$184,158,765
Tortoise Energy Infrastructure	$144,880,920	$0	$0	$0	-$83,554	-$4,458,115	$140,422,805
UBS Real Estate	$208,224,343	$0	$0	$0	$0	$0	$208,224,343
Walter Scott	$95,276,945	$0	$0	$0	-$69,142	-$743,588	$94,533,357
Western	$270,969,459	$0	$0	$0	-$46,534	$1,299,880	$272,269,339
Western U.S. Index Plus	$142,806,196	$0	$0	$0	-$30,098	-$2,018,506	$140,787,690
Total	**$4,411,155,841**	**-$26,262,198**	**$9,059,423**	**-$17,202,775**	**-$715,890**	**-$36,725,052**	**$4,357,228,014**

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
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http://www.ventura.org/vcera

April 20, 2015

Board of Retirement
Ventura County Employee Retirement Association
1190 South Victoria Avenue
Ventura, CA 93003

SUBJECT: CONSIDERATION OF QUIET PERIOD PER TRUSTEE COMMUNICATIONS POLICY

Dear Board Members,

VCERA's current Trustee Communication Policy provides that the Board may institute a "quiet period" when the Board initiates a search process that may result in the appointment of a new service provider or in the expansion of its relationship with an existing service provider.

The Board is scheduled to hear presentations from 3 GTAA managers at the May 18th business meeting. These managers are GMO, PIMCO and Standard Life. The meeting will take place shortly after several trustees will be attending the SACRS conference which will also be attended by a good number of investment managers.

To ensure compliance with the Trustee Communication Policy, staff recommends consideration of a quiet period for these 3 managers. If the Board chooses to initiate such a quiet period, it must take action to do so. The quiet period will cease when a service provider has been appointed by the Board or the search process is otherwise ended, or if the Board ends the quiet period by later action.

VCERA staff will be pleased to respond to any questions you may have on this matter at April 20, 2015 business meeting.

Sincerely,

Linda Webb
Retirement Administrator

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

TRUSTEE COMMUNICATIONS POLICY

I. Background and Objectives

1) The Board recognizes that effective communication is an integral part of the Board's role. To carry out its role effectively, the Board must establish effective processes and mechanisms for communicating with senior management, the plan sponsor, plan members and external parties, and among Board members themselves.

2) The primary objectives of this policy are to:

   a) Provide the Board, individual Board members, and senior management with guidelines for executing the communications function of the Board.

   b) Encourage and facilitate open, accurate, timely, and effective communications with all interested parties.

II. Principles and Assumptions

3) Poorly executed or controlled communications by Board members may expose VCERA to significant legal or operational risks involving member services, staff and Board relations, and general public or media relations.

4) A communications policy should mitigate communications risk, while still enabling trustees to communicate freely and efficiently, subject to applicable laws.

III. Policy Guidelines

<u>Communications Among Trustees</u>

5) The Board shall carry out its activities in accordance with the spirit of open governance, including the provisions of the Brown Act, which include, but are not limited to:

   a) Properly noticing and posting an agenda for Board and standing committee meetings, excluding the Personnel Committee (section 54954.2 of the Brown Act); and

   b) Allowing public comment on agenda items before or during consideration by the Board (Section 54954.3 of the Brown Act); and

   c) Properly describing all items to be considered in closed session in the notice or agenda for the meeting (Section 54954.5 of the Brown Act); and

d) Not conducting, or participating in, a series of communications one at a time or in a group that in total constitutes a quorum of the Board or committee either directly or through intermediaries or electronic devices, for the purpose of developing a concurrence as to action to be taken (where prohibited by Section 54953 of the Brown Act); and

e) Ensuring materials are properly made available to members of the public, upon request, without delay (Section 54957.5 of the Brown Act).

6) Trustees shall disclose any information they may have that is pertinent to the affairs of VCERA to the rest of the Board in a timely manner.

7) During meetings of the Board and committees, trustees shall communicate in a straightforward, constructive manner.

<u>Trustee Communications With Plan Members</u>

8) Trustees will refrain from providing explicit advice or education to plan members with respect to the technicalities of the plan provisions, where there is a risk that:

a) the advice or information conveyed may be inappropriate, inaccurate, or misunderstood by the member; and

b) the member may act on the advice or information conveyed to his or her detriment, thereby creating potential liability for VCERA.

9) In the event a plan member requests that a trustee provide explicit advice or education with respect to the technicalities of the plan provisions, the trustee is encouraged to assist the plan member by either:

a) Referring the plan member to the Retirement Administrator; or

b) Providing the plan member's contact information to the Retirement Administrator for follow-up.

<u>Trustee Communications with VCERA Management</u>

10) Trustees with concerns or questions concerning any aspect of VCERA operations shall direct them to the Retirement Administrator, who shall in turn direct staff as required in order to provide the trustee with a suitable response.

11) Requests for information that require significant expenditure of staff time or external resources, including those of County Counsel, shall:

a) Be consistent with the role and responsibilities of the Board;

b) Be requested at Board or committee meetings; and

c) Be directed to the Retirement Administrator.

12) The Retirement Administrator shall ensure that all information requested by individual trustees is made available to the entire Board. Trustees shall share any significant information pertinent to the affairs of VCERA with the Retirement Administrator in a timely manner. Similarly, the Retirement Administrator shall make every effort to ensure that all relevant and pertinent information is disclosed to all trustees in a timely manner.

<u>Trustee Communications With Retained Service Providers</u>

13) In conjunction with the Service Provider Policy, the Board may institute a "quiet period" when:

   a) The Board initiates a search process that may result in the appointment of a new service provider or in the expansion of its relationship with an existing service provider;

   b) A current service provider is placed on an official "watch list" signifying that the service provider's performance has fallen below expectations and warrants closer scrutiny; or

   c) The Board deems it is in the best interest of VCERA to require that, for a limited period of time, communications between trustees and specified service providers be restricted to Board and committee meetings only.

14) The initiation of a quiet period will be recorded in the minutes of the Board meeting at which it occurred.

15) During quiet periods, trustees shall neither communicate with the specified service providers, except during Board or committee meetings, nor accept meals, travel, hotel, or other gifts from the specified service providers.

16) A quiet period will cease:

   a) when a service provider has been appointed by the Board or the search process is otherwise ended; or

   b) when a service provider on an official "watch list," which has had a quiet period implemented, is subsequently removed from the watch list; or

   c) when the quiet period is ended by action of the Board; or

   d) when otherwise determined by action of the Board.

Trustee Communications With External Parties

17) In general, when communicating with external parties, the following guidelines will apply:

   a) When communicating in their fiduciary capacities, trustees will ensure that all communications are consistent with their sole and exclusive fiduciary duty to represent the interests of all plan members;

   b) Trustees will not communicate on behalf of the Board unless authorized by the Board to do so;

   c) Trustees may voice their disagreement with decisions or policies of the Board, but shall do so in a respectful and professional manner; and

   d) Trustees are expected to disclose when they are representing a personal position and clearly indicate if their position does not reflect the official position or policy of the Board.

18) The Retirement Administrator shall serve as official spokesperson for VCERA. The Retirement Administrator will, however, discuss with the Chair any public relations matters that are potentially sensitive or controversial to determine the most appropriate response and to determine whether the Retirement Administrator or the Chair should act as spokesperson on the matter.

19) If it would be inappropriate for the Retirement Administrator to serve as spokesperson on a particular matter (for example, if the issue pertains to the conduct of the Retirement Administrator), then the Chair shall serve as spokesperson.

20) Trustees are encouraged to direct all media enquiries to the Retirement Administrator for a response. Should trustees choose to respond to the enquiry themselves, they shall refrain from making unilateral commitments on behalf of the Board or VCERA and shall disclose when they are not representing an approved position of the Board or VCERA.

21) Trustees who wish to publish articles, letters or similar communication materials pertaining to VCERA and containing technical information concerning benefit provisions, will submit them in advance to the Retirement Administrator who will review them for technical accuracy. All such communications will contain a disclaimer indicating that the views expressed are those of the author and do not necessarily reflect the official position of the Board.

IV. Policy Review

22) The Board shall review this policy at least every three (3) years to ensure that it remains relevant and appropriate.

V. Policy History

1) The Board last reviewed and approved this policy on June 17, 2013. This policy was adopted by the Board on June 2, 2003.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
http://www.ventura.org/vcera

April 20, 2015

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: AUTHORIZATION FOR TRUSTEE GOULET TO ATTEND THE NOSSAMAN LLP PUBLIC PENSIONS & INVESTMENTS FIDUCIARIES FORUM SEPTEMBER 24TH – 25TH, IN SAN FRANCISCO.

Dear Board Members:

Staff recommends authorization for Trustee Goulet to attend the Nossaman LLP Public Pensions & Investments Fiduciaries Forum September 24th & 25th in San Francisco. The cost to attend will be approximately $1,000, including registration, airfare, lodging and other related expenses.

VCERA staff will be pleased to respond to any questions you may have on this matter at April 20, 2015 business meeting.

Sincerely,

Linda Webb

Linda Webb
Retirement Administrator

Nossaman LLP's
Public Pensions and Investments Fiduciaries' Forum

September 24-25, 2015 | San Francisco, CA

You are invited to Nossaman's First Annual Public Pensions and Investments Fiduciaries' Forum!

Nossaman is pleased to announce the continuation of the **Public Pension Fiduciaries' Forum – a nearly decade-long tradition –** hosted by **Ashley Dunning** and **Michael Toumanoff.**

Please join us in San Francisco this September (details to follow this summer) to discuss current and emerging public pension topics of 2015 and 2016, including:

- Court cases on PEPRA and vested rights
- Current trends in alternative investment documentation and diligence
- Employment issues in a civil service world
- A bird's eye view of real asset investing
- Lunchtime speaker to be announced

Sept. 24, 2015	Dinner Reception, guest speaker on "What to expect from Sacramento in 2016"
Sept. 25, 2015	All-day Fiduciaries' Forum

Attendance is limited to trustees (less than a quorum), executive staff, and in-house counsel. Clients and prior participating plans have priority for registration. Conference is limited to 50 attendees.

Cost: $250.00 per person (covers the cost of meals and incidentals).

For more information or to RSVP, please contact Jennifer Barry-Smith, jbarry-smith@nossaman.com, or 415.438.7232.

NOSSAMAN LLP
nossaman.com

NOSSAMAN PRESENTERS


Ashley Dunning
Partner


Yuliya Oryol
Partner


Michael Toumanoff
Of Counsel


John Kennedy
Partner


David Kimport
Partner


Clothilde Hewlett
Partner


Danielle Gensch
Partner

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572

(805) 339-4250 • Fax: (805) 339-4269
http://www.ventura.org/vcera

April 20, 2015

Board of Retirement
Ventura County Employees' Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

SUBJECT: AUTHORIZATION FOR MS. NEMIROFF TO ATTEND THE NATIONAL ASSOCIATION OF PUBLIC PENSION ATTORNEYS (NAPPA) LEGAL EDUCATION CONFERENCE JUNE 23RD – 25TH, IN AUSTIN, TX.

Dear Board Members:

Staff recommends authorization for Ms. Nemiroff to attend the National Association of Public Pension Attorney's Legal Education Conference in Austin, Texas, June 23rd – 25th. The cost to attend is approximately $2300, including registration, airfare, lodging and other related expenses.

VCERA staff will be pleased to respond to any questions you may have on this matter at April 20, 2015 business meeting.

Sincerely,

Linda Webb

Linda Webb
Retirement Administrator

NAPPA

National Association of Public Pension Attorneys

Legal Education Conference

2015

Photo Courtesy of Austin Convention & Visitors Bureau

June 23-26, 2015
New Attorney Session June 23rd

Austin Hilton
Austin, TX

Conference At A Glance

Tuesday, June 23, 2015 *(1:00 p.m. - 5:00 p.m. Early Conference Registration)*

1:00 p.m. - 3:00 p.m.	**New Member and Associate Counsel Session: The Basics**
3:00 p.m. - 3:15 p.m.	**Break**
3:15 p.m. - 4:45 p.m.	**New Member and Associate Counsel Session: Roundtable Discussion**
5:15 p.m. - 6:30 p.m.	**Early Bird Reception** *(provided by NAPPA)*

Wednesday, June 24, 2015 *(7:00 a.m. - 5:00 p.m. Conference Registration)*

7:00 a.m. - 8:00 a.m.	**Breakfast** *(provided by NAPPA)*
7:00 a.m. - 8:00 a.m.	**Emeritus Board Breakfast** *(provided by NAPPA)*
7:00 a.m. - 8:00 a.m.	**Administrators' Roundtable Breakfast** *(provided by NAPPA)*
8:00 a.m. - 8:30 a.m.	**Welcome and Introduction: Welcome to Austin, Texas**
8:30 a.m. - 9:30 a.m.	***General Session:*** **Federal Legislative Update**
9:30 a.m. - 10:30 a.m.	***General Session:*** Benefit Reform Litigation
10:30 a.m. - 10:45 a.m.	**Break**
10:45 a.m. - 12:15 p.m.	***General Session:*** **Electronically Stored Information (E-Discovery)**
12:15 p.m. - 1:30 p.m.	**Lunch** *(on your own)*
1:30 p.m. - 2:30 p.m.	***Concurrent Workshops:*** *(choose one)* **Session A: Doing Well by Doing Good - Emerging Manager and Directed Investment Programs** **Session B: Terminating Employers and Outsourcing of Employees**
2:30 p.m. - 2:45 p.m.	**Break**
2:45 p.m. - 4:15 p.m.	***Concurrent Workshops:*** *(choose one)* **Session A: The Role of the General Counsel in Investment Transactions** **Session B: Tax Hot Topics**
4:15 p.m. - 4:30 p.m.	**Break**
4:30 p.m. - 5:30 p.m.	***Concurrent Sessions:*** *(choose one)* Health Plan Affinity Group: Catching Up on Notices, Regulations and Other Hot Topics Small/Medium Fund Affinity Group
7:00 p.m. - 9:00 p.m.	**NAPPA Dinner** *(Uncle Julio's)*

Conference At A Glance

Thursday, June 25, 2015 *(7:00 a.m. - 5:00 p.m. Conference Registration)*

7:00 a.m. - 8:00 a.m.	**Breakfast** *(provided by NAPPA)*
7:00 a.m. - 8:00 a.m.	**General Counsel Only Breakfast** *(provided by NAPPA)*
8:00 a.m. - 8:30 a.m.	**NAPPA 2015 Annual Business Meeting**
8:30 a.m. - 9:30 a.m.	***General Session:*** **Ethics (Part 1)**
9:30 a.m. - 10:30 a.m.	***General Session:*** **Ethics (Part 2)**
10:30 a.m. - 10:45 a.m.	**Break**
10:45 a.m. - 12:15 p.m.	***Concurrent Workshops:*** *(choose one)* **Session A: Protecting Data and Cyber Security** **Session B: A Lawyer, an Auditor and an Actuary Walk into a Bar (Funding Policy and GASB Implementation Tales From the Street)**
12:15 p.m. - 1:30 p.m.	**Lunch** *(on your own)*
1:30 p.m. - 2:30 p.m.	***Concurrent Workshops:*** *(choose one)* **Session A: Funds, Fees and Affiliates (Oh, My!) - SEC OCIE's Examination of the Private Fund World (What They Found and What it Means for Public Plans)** **Session B: "Age-Old and Newer Risks: What Every Retirement System Attorney Should Know About Insurance"**
2:30 p.m. - 2:45 p.m.	**Break**
2:45 p.m. - 4:15 p.m.	***Concurrent Workshops:*** *(choose one)* **Session A: Securities Litigation Review: A Fiduciary's Guide to Making the Best of a Bad Situation** **Session B: DB vs. Alternative Plans, Part II - A Discussion on the Pros and Cons**
4:15 p.m. - 4:30 p.m.	**Break**
4:30 p.m. - 5:30 p.m.	***Concurrent Sessions:*** *(choose one)* **Public Safety Affinity Group: The Rise and Psychological Disability Claims in Public Safety Plans: A Psychiatrist's View and Suggested Processes to Ensure Legitimate Awards** **DC Plan Affinity Group: Fiduciary Duty Hot Topics**
	Dinner *(on your own)*

Friday, June 26, 2015 *(7:00 a.m. - noon Conference Registration)*

7:00 a.m. - 8:00 a.m.	**Breakfast** *(provided by NAPPA)*
8:00 a.m. - 9:30 a.m.	***General Session:*** **Municipal Bankruptcy: Perspectives From Either Side of the Bench**
9:30 a.m. - 10:30 a.m.	***General Session:*** **Communications: Pondering the Potential and the Pitfalls**
10:30 a.m. - 10:45 a.m.	**Break**
10:45 a.m. - 11:45 a.m.	***General Session:*** **Litigation Update**

Registration and Hotel Information

Registration Information

Online registration begins Wednesday, April 1, 2015.

To register for the conference:

- Go to **www.nappa.org**
- Click on Register Now for the 2015 Legal Education Conference
- Visa, MasterCard, and American Express accep*ted*
- If paying by check, please send payment to:

NAPPA
2410 Hyde Park Road, Suite B
Jefferson City, MO 65109

Reminder: 2015 NAPPA dues must be paid prior to attending the June Legal Education Conference.

Conference Registration Deadlines

April 1 - May 29, 2015	Legal Education Conference registration open **Conference Fee: $895** **(if registered before 5/30)**
May 30 - June 10, 2015	Late registration fee applied **Conference Fee: $995** **Includes late fee of $100**
June 10, 2015	Last day to register for conference

Conference Cancellation Policy

Prior to May 29, 2015	Full Refund
May 30 - June 10, 2015	$150 Administrative Fee Charged
June 11, 2015 or after	No Refund

Conference Room Block Information

The room rate for the NAPPA block is available **until the block is filled or May 25, 2015, whichever comes first.**	The NAPPA block rate is $220. **Please note:** One night's deposit will be charged at the time of booking. There is a 72-hour cancellation policy at the hotel.

Sponsors and marketing are prohibited at all NAPPA conferences.

Location of the Meeting

Hilton Austin
500 E. 4th St.
Austin, TX 78701
Phone: (512) 482-8000
Fax: (512) 469-0078

www.Austin.hilton.com

Hotel and Airfare

You are responsible for your own airfare and hotel accommodations.

Reservations: (800) 236-1592

If calling, please reference the Group Code of **NAP** when making reservations.

https://resweb.passkey.com/go/2015NAPPA

$220 per night + tax (single or double occupancy)

- **After May 25, 2015 or when the block is full,** the hotel will **not** guarantee you a room **nor** the special rate.

CLE Credits

The NAPPA Legal Education Conference qualifies for CLE credits. Applications will be made by the NAPPA office for all attendees that practice in states requiring continuing legal education.

As a Reminder

- There is a "**No Smoking**" policy at all sessions.
- Dress is business casual for the conference. Most meeting rooms tend to be on the chilly side, so a sweater or jacket is recommended.

Questions

If you have questions regarding the conference or encounter problems with online registration, please call (573) 616-1895.

Karen Holterman .... Karen@nappa.org
Brenda Faken .... Brenda@nappa.org
Doris Dorge .... Doris@nappa.org

Conference Agenda

Tuesday, June 23, 2015

1:00 p.m. - 5:00 p.m. **Early Conference Registration**

1:00 p.m. - 3:00 p.m. **New Member and Associate Counsel Session: The Basics**

Moderator:
Michael Jordan - Partner, Ice Miller LLP

Presenters:
Bill Ackerman - Of Counsel, Klausner Kaufman Jensen & Levinson
Brian J. Goodman - Legal Affairs & Compliance Coordinator, Virginia Retirement System
Lisa Erb Harrison - Of Counsel, Ice Miller LLP
David B. Parrish - Partner, Jackson Walker, LLP

This New Member and Associate Counsel Session will cover basic provisions and concepts in the "core" public pension plan legal issue areas of Fiduciary Duty, Benefits, Tax and Investments. It is designed as an introductory session for those with little or no experience advising a public pension plan. However, the session is also useful for the experienced attorney who may be called on to advise a plan in a new area or who would just like a good review of these important topics.

3:00 p.m. - 3:15 p.m. **Break**

3:15 p.m. - 4:45 p.m. **New Member and Associate Counsel Session: Roundtable Discussion**

Moderator:
Michael Jordan - Partner, Ice Miller LLP

Presenters:
Dennis Smith - General Counsel, Ohio Highway Patrol Retirement System
Laura Gilson - General Counsel, Arkansas Teacher Retirement System
William Neville - General Counsel, Ohio Teachers Retirement System
Cynthia Collins - Co-Chair Institutional Investment Group, Robinson, Bradshaw & Hinson, P.A.

The New Member and Associate Counsel Roundtable Discussion will provide an opportunity for NAPPA members to discuss (with General Counsel at public pension plans of various sizes, as well as outside counsel who represent public pension plans), issues that might arise in a member's practice, such as: ethics issues, board and management issues, open meetings and public records requests, plan operations, investment matters and headline risks. This is a great opportunity to bring up an issue and kick it around in an informal and relaxed setting, while hearing practical advice from experienced attorneys who navigate these issues on a daily basis.

5:15 p.m. - 6:45 p.m. **Early Bird Reception** *(provided by NAPPA)*

Conference Agenda

Wednesday, June 24, 2015

7:00 a.m. - 5:00 p.m.	**Conference Registration**
7:00 a.m. - 8:00 a.m.	**Breakfast** *(provided by NAPPA)*
7:00 a.m. - 8:00 a.m.	**Emeritus Board Breakfast** *(provided by NAPPA)*

Moderator:
Michael Toumanoff - Of Counsel, Nossaman LLP

The NAPPA Emeritus Board is composed of active members of NAPPA who have previously served as Executive Board members. The Emeritus Breakfast is an opportunity for former Executive Board members to meet and discuss issues and to provide the current Board with historical knowledge and perspective to help preserve the original institutional vision for the organization.

7:00 a.m. - 8:00 a.m. **Administrators' Roundtable Breakfast** *(provided by NAPPA)*

Moderators:
Eric Wampler - Deputy Executive Secretary, Kentucky Teachers' Retirement System
David Gavia - Executive Director, Texas Municipal Retirement System

Have you transitioned from "pension attorney" to "pension administrator"? Have you considered making the change? Please join us for a discussion over breakfast.

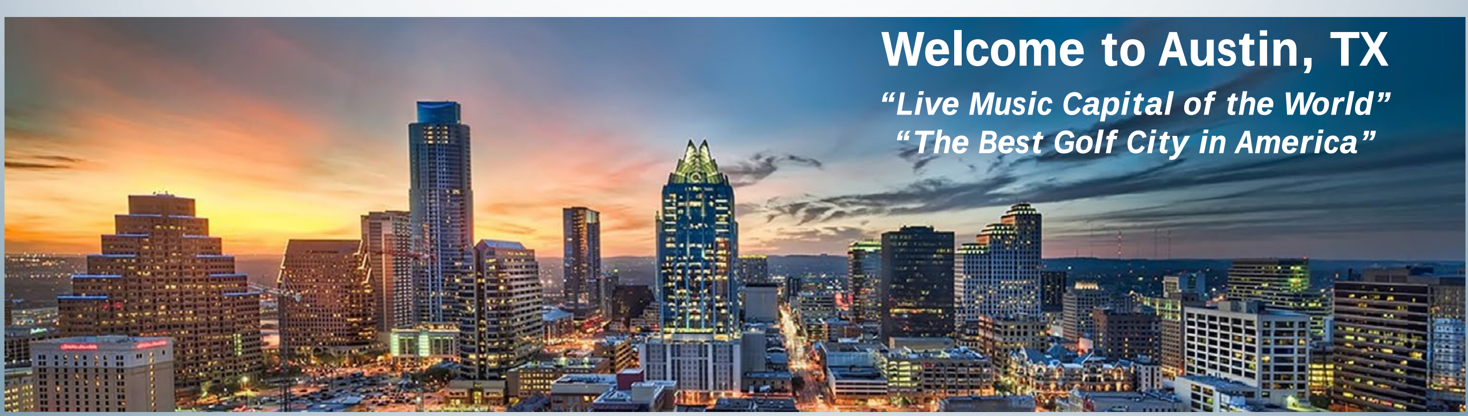
8:00 a.m. - 8:30 a.m. **Welcome and Introduction: Welcome to Austin, Texas**

Kevin Lindahl - General Counsel, Colorado Fire and Police Pension Association
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System

Presenter:
Harrison Eppright - Manager of Visitor Services, Austin Convention and Visitor's Bureau

Conference Host Committee:
Carolina C. de Onís' - Texas Teacher Retirement System
Christine Mullen Sweeney - Texas Municipal Retirement System
Ann McGeehan - Texas County and District Retirement System

The NAPPA President and Vice President will provide an overview of the conference for attendees, and the Host Committee will provide information about Austin, Texas for the conference participants.



Conference Agenda

Wednesday, June 24, 2015 continued…

8:30 a.m. - 9:30 a.m. ***General Session:***

Federal Legislative Update

Moderator:
Eric Wampler - Deputy Executive Secretary, Kentucky Teachers' Retirement System

Presenter:
Leigh Snell - Director of Federal Relations, National Council on Teacher Retirement (NCTR)

The session provides an update on legislative and regulatory activities at the federal level that affect public pension plans.

9:30 a.m. - 10:30 a.m. ***General Session:***

Benefit Reform Litigation

Moderator:
Adam Franklin - General Counsel, Colorado Public Employees' Retirement Association

Presenters:
Caleb Durling - Partner, Reilly Pozner, LLP
Robert Klausner - Principal, Klausner, Kaufman, Jensen & Levinson

This session will focus on the benefit reform litigation around the country that resulted from various plan changes. We will review the cases and legal tests in various jurisdictions for changes in benefits.

10:30 a.m. - 10:45 a.m. **Break**

10:45 a.m. - 12:15 p.m. ***General Session:***

Electronically Stored Information (E-Discovery)

Moderator:
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System

Presenters:
Margaret Daun - Assistant City Attorney, City of Milwaukee Office of the City Attorney
Matt Stippich - General Counsel/President of Professional Services, Digital Intelligence, Inc.
Kelly Twigger - Principal, ESI Attorneys

It can be very challenging to respond to detailed discovery requests in connection with litigation or sunshine law requests that require staff at a public pension fund to locate and review large amounts of electronically stored information. This session will explore the steps that funds can take to be better prepared to produce information in an efficient and accurate manner.

12:15 p.m. - 1:30 p.m. **Lunch** *(on your own)*

Conference Agenda

Wednesday, June 24, 2015 continued…

1:30 p.m. - 2:30 p.m.

Concurrent Workshops: *(choose one)*

Session A: Doing Well by Doing Good - Emerging Manager and Directed Investment Programs

Moderator:
Dulcie D. Brand - Partner, Pillsbury Winthrop Shaw Pittman LLP

Presenters:
Robert D. Klausner - Principal, Klausner, Kaufman, Jensen & Levinson
Michael J. Moy - Managing Director, Pension Consulting Alliance, Inc.
Norman M. Levedahl - Senior Staff Attorney, California Public Employees' Retirement System

Our state has a number of needs. Shouldn't the pension system's investments support local needs? How will we find the newest, best in class investment managers? And shouldn't we support those upcoming new managers? What happens when performance lags? This panel will address the fiduciary, investment and other considerations in adopting and implementing certain investment programs.

Session B: Terminating Employers and Outsourcing of Employees

Moderator:
Adam Franklin - General Counsel, Colorado Public Employees' Retirement Association

Presenter:
Gina Ratto - Deputy General Counsel, California Public Employees' Retirement System

As GASB 68 is implemented, plans may receive requests from employers who would like to leave the plan. This session will examine different laws around the country dealing with the process for employers who wish to leave. In addition, the session will discuss the issues faced by plans when employers outsource employment for positions that have traditionally been held by employees covered by the plan.

2:30 p.m. - 2:45 p.m. **Break**

2:45 p.m. - 4:15 p.m.

Concurrent Workshops: *(choose one)*

Session A: The Role of the General Counsel in Investment Transactions

Moderator:
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System

Presenters:
Omar Davis - Internal Investment and Compliance Counsel, Missouri State Employees' Retirement System
Sharmila Chatterjee Kassam - Deputy Chief Investment Officer, Texas Employees' Retirement System
David B. Parrish - Partner, Jackson Walker, LLP

The general counsel (or internal investment counsel) plays an important role under a pension plan's investment program. However, that role may vary depending on whether outside legal counsel is part of the process and what the needs are of the investment staff. This session will explore the working relationships between the internal counsel, outside counsel, and investment staff, and the different roles each can play in addressing legal issues during the investment process.

Wednesday, June 24, 2015 continued…

2:45 p.m. - 4:15 p.m.

Session B: Tax Hot Topics

Moderator:
Paul W. Madden - Partner, Whiteford, Taylor & Preston

Presenters:
John A. Nixon - Partner, Duane Morris LLP
Don Wellington - Partner, Steptoe & Johnson, LLP
Pamela Kinard - Associate Chief Counsel, Internal Revenue Service (Invited)

The panel will address tax issues relating to funding retiree health plans and pension obligation bonds; unrelated business taxable income on governmental plan investments; recent and anticipated IRS and Treasury guidance.

4:15 p.m. - 4:30 p.m. **Break**

4:30 p.m. - 5:30 p.m.

Concurrent Sessions: *(choose one)*

Health Plan Affinity Group: Catching Up on Notices, Regulations and Other Hot Topics

Moderators:
Julie Borisov - Staff Attorney, Colorado Public Employees' Retirement Association
Stephen Van Camp - General Counsel, South Carolina Public Employee Benefit Authority

Presenters:
Joni Andrioff - Partner, Steptoe & Johnson, LLP
Christopher S. Sears - Partner, Ice Miller LLP

In this session, we will discuss the IRS Notice regarding the excise tax on high cost employer-sponsored health coverage, as well as IRC Sections 6055-6056 reporting. The session will include a discussion centering on pertinent legal considerations when implementing on-site health clinics. It will also review ongoing cases relevant to health care and the implementation of the Affordable Care Act.

Small/Medium Fund Affinity Group

Moderator:
Lydia Lee - Of Counsel, Lieff, Cabraser, Heimann & Bernstein

Presenters:
Joshua Mond - General Counsel, Dallas Police & Fire Pension System
Jaye Pershing Johnson - Assistant Attorney General, Vermont State Office of the Attorney General
Amy Moskowitz - Associate County Attorney, Montgomery County, Maryland Retirement System

The Small/Medium Fund Affinity Group focuses on a broad array of issues that a "general counsel" (whether in-house or outside) may face with regard to a small or medium sized pension fund with limited legal resources. Topics for discussion during this workshop include:

1. Advising your Board on determining the "comparable universe" for performance measures and accessing alternative investments for a smaller fund;
2. Succession planning in the event of loss of key staff members;

Conference Agenda

Wednesday, June 24, 2015 continued…

4:30 p.m. - 5:30 p.m.

3. Forming alliances and working successfully with stakeholders, participants, plan sponsors and other agencies of government; and
4. Advising your Board on appropriate action when the plan sponsor suggests/adopts benefit cuts.

Speakers will share personal experience with these topics and audience participation is highly encouraged.

7:00 p.m. - 9:00 p.m. **NAPPA Dinner** *(Uncle Julio's)*

NAPPA will be hosting a dinner at Uncle Julio's Restaurant located in downtown Austin on the corner of 3rd and San Jacinto. The restaurant is within walking distance of the Hilton. Please plan to join us for authentic, border-style Mexican food made with fresh, locally grown Texan ingredients. Uncle Julio's is proud to stay close to its Mexican heritage by offering high-quality fare that mirrors the original cooked up by cowboys on the plains a century ago. This unique taste is paired with unparalleled customer service and a welcoming atmosphere to create an experience that will be remembered. A reception will precede the dinner.

Uncle Julio's
301 Brazos St.

Thursday, June 25, 2015

7:00 a.m. - 5:00 p.m. **Conference Registration**

7:00 a.m. - 8:00 a.m. **General Counsel Only Breakfast** *(provided by NAPPA)*

Moderators:
Kevin Lindahl - General Counsel, Colorado Fire and Police Pension Association
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System

This General Counsel breakfast is intended to be a time for those serving as General Counsel to a public pension fund to meet and discuss topics of interest.

7:00 a.m. - 8:00 a.m. **Breakfast For All Other Attendees** *(provided by NAPPA)*

8:00 a.m. - 8:30 a.m. **NAPPA 2015 Annual Business Meeting**

Kevin Lindahl - General Counsel, Colorado Fire and Police Pension Association
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System

The session will update NAPPA members on the status of the organization and will provide a preview of 2016.

Thursday, June 25, 2015 continued…

8:30 a.m. - 9:30 a.m.

General Session:

Ethics (Part 1)

Moderator:
James Salvie - General Counsel, Massachusetts Teachers' Retirement System

Presenters:
Erin Perales - General Counsel, Houston Municipal Employees Pension System
John A. Nixon - Partner, Duane Morris LLP

The session will review ethical standards that guide our practice from a practical and theoretical point of view, drawing on ethical rules from other fields, and with an emphasis on preparing for the role of the SEC.

9:30 a.m. - 10:30 a.m.

General Session:

Ethics (Part 2)

Moderator:
Luke Bierman - Dean and Professor of Law, Elon University School of Law and Cohen, Milstein, Sellers & Toll PLLC

Presenters:
Peter Mixon - Partner, K&L Gates, LLP
Blake Thomas - Deputy General Counsel, North Carolina Department of State Treasurer

This session will offer insight into important ethics questions likely to face pension plan attorneys. Building on Ethics (Part I), this session will expand on some of the topics covered and address some new topics while also offering attendees the opportunity to stump the panelists with questions and concerns.

10:30 a.m. - 10:45 a.m. **Break**

10:45 a.m. - 12:15 p.m.

Concurrent Workshops: *(choose one)*

Session A: Protecting Data and Cyber Security

Moderator:
Brian J. Goodman - Legal Affairs and Compliance Coordinator, Virginia Retirement System

Presenters:
Jake McMahon - Chief Counsel, Missouri State Employees' Retirement System
Brian Farrar - Network Operations Manager, Texas Municipal Retirement System
Nathan Sportsman - Founder & CEO, Praetorian Group, Inc.

It is a rare week when there isn't a security breach of some sort reported by the media. When a pension fund experiences a data breach, a number of challenges are presented for legal counsel and the IT department. This session will provide an overview of a breach that occurred at a statewide system and how security risks may be proactively addressed by the internal IT department and an IT consultant.

Thursday, June 25, 2015 continued…

10:45 a.m. - 12:15 p.m. **Session B: A Lawyer, an Auditor and an Actuary Walk into a Bar (Funding Policy and GASB Implementation Tales From the Street)**

Moderator:
Michael D. Herrera - Senior Staff Counsel, Los Angeles County Employees' Retirement Association

Presenters:
Paul Angelo, FSA - Senior Vice President & Actuary, Segal Consulting
Jeffrey Markert - Partner, KPMG

Since the great recession of 2008, state and local governments have undertaken various efforts to manage pension costs and reduce unfunded liabilities. Nonetheless, unfunded liabilities remain, and funding continues to be a challenge for governmental pension funds and their plan sponsors. The first part of this panel will focus on developments and challenges governmental pension plans and plan sponsors are facing with regard to system funding policies, and the strategies and efforts many are undertaking to meet them.

Further complicating these challenges, the Governmental Accounting Standards Board (GASB) adopted sweeping changes to their financial reporting requirements. These changes take effect for fiscal years beginning after June 15, 2014 and are widely viewed as game changers. They require governments that participate in defined benefit pension plans to report their net pension liabilities on their basic financial statements (balance sheets) rather than just in note disclosures, and, for cost-sharing employers, to report for the first time their proportionate share of the collective net pension liability and pension expense. The second part of the panel will therefore focus on these new GASB requirements, and the implications, strategies, and efforts by pension plans and plan sponsors to implement and comply with them.

12:15 p.m. - 1:30 p.m. **Lunch** *(on your own)*

1:30 p.m. - 2:30 p.m. ***Concurrent Workshops:*** *(choose one)*

Session A: Funds, Fees and Affiliates (Oh, My!) - SEC OCIE's Examination of the Private Fund World (What They Found and What it Means for Public Plans)

Moderators:
James Van Horn, Jr. - Partner, Hirschler Fleischer, PC
Marc R. Lieberman - Chair, Public Pensions and Alternative Investment Group, Kutak Rock LLP

Presenters:
Matthew D. Harris - Exam Manager, OCIE Private Funds Unit, Securities Exchange Commission, Chicago Office
Edward Schwartz - Principal, ORG Portfolio Management

What does the SEC's Office of Compliance Inspections and Examinations (OCIE) see in the private fund world, what they are doing about it and how can public plans respond.

- SEC OCIE examination of private funds – what they found
- Fee allocations, affiliate compensation, disclosure and transparency
- Private fund managers – duties of GPs and managers under the Advisers Act
- Expanding roles of Fund Administrators vs. Auditors
- Independent Debt Monitors

Thursday, June 25, 2015 continued…

1:30 p.m. - 2:30 p.m.

Session B: "Age-Old and Newer Risks: What Every Retirement System Attorney Should Know About Insurance"

Moderator:
Ashley Dunning - Partner, Co-Chair, Public Pensions & Investments Group, Nossaman LLP

Presenters:
Kelly A. Jenkins - Assistant Retirement Administrator, Sonoma County Employees' Retirement Association
Bridget Sakach - AIG Underwriting Specialist, Speciality Professional Liability, AIG
Tom Long - Partner, Nossaman LLP

This panel will discuss the longstanding question of how to best insure public retirement systems. In addition to covering the basics of what should (or need not) be insured and how, and particular risks when negotiating policy terms, the panel will tackle the newer topic of cyber insurance. The panel includes experts with diverse perspectives on this topic, who will present and discuss with one another and the audience the big picture, and the many nuances, of this challenging topic.

2:30 p.m. - 2:45 p.m. **Break**

2:45 p.m. - 4:15 p.m.

Concurrent Workshops: *(choose one)*

Session A: Securities Litigation Review: A Fiduciary's Guide to Making the Best of a Bad Situation

Moderator:
Adam Franklin - General Counsel, Colorado Public Employees' Retirement Association

Presenters:
Michael D. Herrera - Senior Staff Counsel, Los Angeles County Employees' Retirement Association
Blake Thomas - Deputy General Counsel, North Carolina Department of the State Treasurer
Chris Supple - Deputy Executive Director and General Counsel, Massachusetts Pension Reserves Investment Management Board

Sadly, it's not if corporate wrongdoing will strike, but whether and how prudent investors and fiduciaries are prepared to act when it does. In the wake of well-publicized corporate wrongdoing and record recoveries by institutional investors in equally noteworthy securities cases, interest and involvement by institutional investors in these cases, including public pension funds, has steadily increased over the past decade. The panelists for this session will provide an overview of why, how and what public pension funds are (and are not) doing with regard to securities litigation. They will also discuss significant court decisions and legislative efforts that are changing the securities litigation landscape and affecting investors' ability to recover losses stemming from corporate wrongdoing. They will discuss the rise and pitfalls of pursuing cases outside the United States in the aftermath of the U.S. Supreme Court's decision in Morrison vs. National Australia Bank, which has left U.S. investors little to no ability to seek redress in U.S. courts for foreign investment losses, even when those losses stem from corporate fraud or wrongdoing.

Thursday, June 25, 2015 continued…

2:45 p.m. - 4:15 p.m. **Session B: DB vs. Alternative Plans, Part II - A Discussion on the Pros and Cons**

Moderator:
Paul Neal - Senior Research and Policy Manager, Law Enforcement Officers' & Fire Fighters' Plan 2 Retirement Board (LEOFF 2)

Presenters:
Chuck R. Reed - Former Mayor, City of San Jose, California
Hank Kim - Executive Director, National Conference on Public Employee Retirement Systems (NCPERS)
William (Flick) Fornia - President, Pension Trustee Advisors
Michelle Welch - Public Accountability Research & Policy Manager, Laura and John Arnold Foundation

A frank conversation between those who advocate for and against the elimination of defined benefit plans and the consequences of both paths.

4:15 p.m. - 4:30 p.m. **Break**

4:30 p.m. - 5:30 p.m. ***Concurrent Sessions:*** *(choose one)*

Public Safety Affinity Group: The Rise in Psychological Disability Claims in Public Safety Plans: A Psychiatrist's View and Suggested Processes to Ensure Legitimate Awards

Moderator:
Mary Beth Foley - General Counsel, Ohio Police and Fire Pension Fund

Presenters:
Dr. Joel S. Steinberg, MD - Medical Advisor, Disability Evaluating Panel, Ohio Police and Fire Pension Fund
Carolyn Clifford - Partner, Ottosen Britz Kelly Cooper Gilbert & DiNolfo, Ltd.
Michael Sutherland - Benefits Counsel, Colorado Fire and Police Pension Association

Dr. Joel S. Steinberg is Board certified in psychiatry, neurology, and forensic psychiatry, a fellow with the American Academy of Disability Evaluating Physicians and certified by the American Board of Independent Medical Examiners. Dr. Steinberg will present his best advice for the evaluation of psychological disabilities in police and fire personnel and discuss tools and policies, public funds can use to ensure legitimate awards.

DC Plan Affinity Group: Fiduciary Duty Hot Topics

Moderator:
Jennifer Schreck - Senior Staff Attorney, Colorado Public Employees' Retirement Association

Presenters:
Mary Beth Braitman - Partner, Ice Miller LLP
Lisa Erb Harrison - Of Counsel, Ice Miller LLP
Melanie Symons - Chief Legal Counsel, Montana Public Employee Retirement Administration

This session will explore a plan's fiduciary duties as they relate to requiring minimum contributions, monitoring contributions in a multi-employer plan, choosing default investment options (QDIA) and offering automatic enrollment.

Dinner *(on your own)*

Conference Agenda

Friday, June 26, 2015

7:00 a.m. - 8:00 a.m. **Breakfast** *(provided by NAPPA)*

8:00 a.m. - 9:30 a.m. ***General Session:***

Municipal Bankruptcy: Perspectives From Either Side of the Bench

Moderator:
Kristin Bellar - Senior Deputy General Counsel - Municipal Employees' Retirement System of Michigan

Presenters:
Honorable Thomas B. Bennett - Chief Judge, Unites States Bankruptcy Court for the Northern District of Alabama
Robert D. Gordon - Member, Clark Hill PLC
Peter Mixon - Partner, K&L Gates, LLP
Harvey L. Leiderman - Partner, Reed Smith LLP

A lively panel discussion with experienced practitioners, including bankruptcy counsel for the Retirement Systems of the City of Detroit, and the Honorable Thomas B. Bennett, the bankruptcy judge who presided over the Jefferson County, Alabama proceedings, which was the nation's largest municipal bankruptcy until Detroit's filing in 2013. Topics will include preparing for an employer bankruptcy, advocating for the trust as a creditor, constitutional issues, current trends and debates in the world of municipal bankruptcy and true-life stories.

9:30 a.m. - 10:30 a.m. ***General Session:***

Communications: Pondering the Potential and the Pitfalls

Moderator:
Eric Wampler - Deputy Executive Secretary, Kentucky Teachers' Retirement System

Presenters:
Greg Smith - Executive Director, Colorado Public Employees' Retirement Association
Christopher Waddell - Senior Attorney, Olson, Hagel & Fishburn, LLP

This panel will cover evolving legal issues related to a retirement plan's communications with members, the press, political leaders, and the general public. The panel will cover communications plans, fiduciary issues associated with using trust assets for communications, and examples from the front lines of the war on pensions.

10:30 a.m. - 10:45 a.m. **Break**

10:45 a.m. - 11:45 a.m. ***General Session:***

Litigation Update

Presenter:
Laurie McKinnon - General Counsel, Kansas Public Employees Retirement System

The session will provide participants with an opportunity to hear about and understand the various issues affecting public pension plans that have been the subject of litigation, and how different courts have viewed those issues.

NAPPA Executive Board

Kevin Lindahl, *President*
Colorado Fire & Police Pension Association

Jake McMahon, *Vice President*
Missouri State Employees' Retirement System

Dulcie D. Brand
Pillsbury Winthrop Shaw Pittman LLP

Ashley Dunning
Nossaman LLP

Adam Franklin
Colorado Public Employees' Retirement Association

Brian J. Goodman
Virginia Retirement System

Michael Herrera
Los Angeles County Employees' Retirement Association

Paul W. Madden
Whiteford, Taylor & Preston

Eric Wampler
Kentucky Teachers' Retirement System

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2015 Conference Host Committee

Carolina C. de Onís', *Committee Co-Chair*
Texas Teacher Retirement System

Christine Mullen Sweeney, *Committee Co-Chair*
Texas Municipal Retirement System

Ann McGeehan
Texas County and District Retirement System

Kevin Lindahl, *Board Liaison*
Colorado Fire & Police Pension Association

Lyndon B. Johnson
Presidential Library

Mark Your Calendar

2016 Winter Seminar
Washington, DC
Omni Shoreham
February 17 - February 19, 2016

2016 Legal Education Conference
New Orleans, LA
Astor Crowne Plaza
June 21 - June 24, 2016
New Attorney Session on June 21st

2017 Legal Education Conference
Monterey, CA
Portola Hotel
June 27 - June 30, 2017
New Attorney Session on June 27th

NAPPA
2410 Hyde Park Rd., Suite B
Jefferson City, MO 65109
Phone: (573) 616-1895
Fax: (573) 616-1897

www.nappa.org

Ventura County Employees' Retirement Information System
Project Status Report
Month Ending: March 2015

L

Reporting to: Board of Retirement	Report Date:	04/15/15
Written by: Brian Colker		

PROJECT STATUS SUMMARY

Actual Percentage Complete: 74.47%*	
Planned Percentage Complete: 74.47%*	

**Note: The updated Sprint Schedule went into effect with the approval of the change orders presented to the Board 01/05/2015. The completion percentages have been adjusted to take into account the updates and changes per the new sprint schedule.*

Scope	Schedule	Cost	Risks	Quality

Risks

- Plan sponsor payroll transmittal – Parallel testing began as scheduled even though scenario-based testing was not complete. VCERA agreed to accept the first two parallel test files and then stop parallel testing until scenario-based testing is completed. The project team is analyzing the first parallel test file and providing feedback to the Auditor-Controller. There are currently six issues that have been identified that must be resolved prior to completing parallel testing. Weekly meetings are held to discuss issues and project status.

KEY ACCOMPLISHMENTS LAST MONTH

- Received additional test files from Auditor-Controller.
- Delivered additional functionality in:
  - Disability
  - Active Death Processing
  - Retired Death Processing
  - DRO Processing – Alt Payee
  - 1099R Processing
  - Annual Benefit Statements
  - Actuarial Extracts
  - Year-End Processing
  - Member Correspondence
- Wrote 173 test cases and executed 269 tests. There have been 2,906 tests executed to date and there are currently 468 defects in an open status – 43 high priority, 337 medium priority, 88 low priority.

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003-6572
(805) 339-4250 • Fax: (805) 339-4269
http://www.ventura.org/vcera

April 20, 2015

The Honorable Das Williams
Assembly Member, 37th District
State Capitol, Room 4005
Sacramento, CA 95814

Dear Assembly Member Williams:

On behalf of the Ventura County Employees Retirement Association (VCERA), we are pleased to sponsor AB 1291, which will add our retirement system to those county systems, including Orange, San Bernardino and Contra Costa that are authorized to hire key executive personnel as employees of the retirement system, rather than employees of the county. Also, in order for such employees to become members of the retirement system, AB 1291 adds the Ventura County retirement system to the definition of "district" in the County Employees Retirement Law (CERL).

This bill will assist our retirement system in the implementation of the Public Employee Pension Reform Act of 2012 (PEPRA). Among other things, PEPRA authorizes retirement systems to monitor and enforce the anti-spiking provisions of the measure. With its own key employees, VCERA will have increased ability to follow and enforce the anti-spiking mandates. In addition, it will assist our local retirement system in attracting and retaining the kind of highly-talented human capital necessary to effectively manage a retirement system and an investment portfolio in today's marketplace. AB 1291 will help VCERA achieve these goals.

Again, thank you for introducing AB 1291 and we look forward to working with you. Please do not hesitate to contact me should you need anything at all.

Sincerely,

Tracy Towner,
Board Chairman

Walter Scott
Global Investment Management

The Lecture Series

We are delighted to invite you to our second Lecture Series, bringing together the firm's management, members of the investment team and guest speakers.

With a long-term investment outlook, the success of Walter Scott's approach relies upon identifying companies capable of meaningful growth, not simply over the next quarter or two, but over many years to come. In turn, companies must align themselves to socio-economic trends, demographic shifts as well as innovation and advancement.

These lunchtime lectures are an opportunity to consider some of these opportunities and challenges in the context of these companies that Walter Scott's team analyse every day.

In April, Executive Chairman Rodger Nisbet will be joined by Bronwen Maddox, editor of *Prospect* magazine.

New York
The Pierre, 2 East 61st Street at Fifth Avenue
Tuesday 21 April | 12:00 noon – 2:00pm

Chicago
The Peninsula, 108 East Superior Street
Wednesday 22 April | 12:00 noon – 2:00pm

Toronto
Four Seasons, 60 Yorkville Avenue
Thursday 23 April | 12:00 noon – 2:00pm

In May, Managing Director Jane Henderson will be joined by Christian Le Mière, co-author of *Arctic Opening: insecurity and opportunity*.

Los Angeles
The Peninsula, 9882 South Santa Monica Boulevard
Tuesday 19 May | 12:00 noon – 2:00pm

San Francisco
The St Regis, 125 3rd Street
Wednesday 20 May | 12:00 noon – 2:00pm

Vancouver
Shangri-La, 1128 West Georgia Street
Thursday 21 May | 12:00 noon – 2:00pm

Please RSVP through the events page on the Walter Scott website at www.walterscott.com (password: Spring2015)

Should you require more details please contact Inga Dowds or Joanna Newman
Tel: +44 (0)131 225 1357 | Email: wsevents@walterscott.com

ATTACHMENT A

county of ventura

COUNTY EXECUTIVE OFFICE
MICHAEL POWERS
County Executive Officer

J. Matthew Carroll
Assistant County Executive Officer

Paul Derse
Assistant County Executive Officer/
Chief Financial Officer

Catherine Rodriguez
Assistant County Executive Officer/
Labor Relations & Strategic Development

April 17, 2015

Tracy Towner, Chair
Board of Directors
Ventura County Employees Retirement Association
1190 South Victoria Avenue, Suite 200
Ventura, CA 93003

Subject: The Segal Company's (Segal) Actuarial Experience Study for the three year period ending June 30, 2014 and Segal's Review of Economic Actuarial Assumptions for the June 30, 2015 Actuarial Valuation.

Dear Chair Towner and Board Members:

Thank you for allowing our office the opportunity to comment on the subject reports. We appreciate the information and effort to identify demographic and economic data that will enhance the County's ability to continue to fund the retirement system at an appropriate level. We also appreciate your Board's understanding and share your concern that the decisions your Board makes have an impact on both the County and our employee contribution rates.

As your Board evaluates the reports, we would appreciate your consideration of two requests regarding the administrative expenses and should your Board decide to reduce the Investment Return Assumption, the possibility of phasing the reduction over a two year period.

Administrative Expenses:

Our office requests and recommends VCERA continue to use Segal's alternative "Option B" and use the investment return assumption net of administrative expenses for funding and the investment return assumption gross of administrative expenses for financial reporting purposes.

We understand that GASB requires that financial reporting exclude administrative expenses from the investment return assumption. However, VCERA investment return assumption has historically included administrative expenses in its investment return assumption. Segal believes that it is preferable to use the same investment return assumption for both funding and financial reporting purposes. However, our office respectfully requests that your Board not implement the new Administrative Cost Method preferred by Segal. We view the current "Option B" as a good compromise that complies with GASB requirements without the impact of significantly increasing employer costs by $4 million and employee costs by $1 million.

Investment Return Assumption:

While we do not object to Segal's recommendation, and are not taking a specific position on the Investment Return Assumption, we would like to highlight a few areas that reinforce VCERA's strong financial condition:

- The retirement fund is well funded and not in danger of insolvency.
- VCERA has a very long time horizon.
- Last 20 years of investment returns have averaged in excess of 8%.
- National Association of State Retirement Administrators Median return rate is 7.9%.
- Most recent actuarial valuation (June 30, 2014) funding level is in excess of 82%.
- We project that the funding level will increase over the next several years.
- VCERA has adopted conservative smoothing and amortization periods.
- Investment Return Assumption assumes no additional returns from active management.

In light of this strong financial condition, we request your Board's consideration of phasing in the decrease in Investment Return Assumption over a two year period resulting in a $1/8^{th}$ percent reduction per year. This will enable the County to better prepare and budget for the significant cost impact without accruing any unfunded liability caused by phasing in the only the contribution. In addition, since we have negotiated 50-50 normal cost sharing with our employees, phasing in the Investment Return Assumption would also create less of an immediate impact on employees.

We also believe that VCERA is not comparable to CalPERS or LACERA for several reasons. We believe VCERA is better governed, is in much stronger financial condition, and has more fiscally conservative actuarial assumptions. For example, both CalPERS and LACERA have 30-year unfunded liability amortization periods compared to VCERA's 15 or 20 years, which may be a good reason for those systems having a lower Investment Return Assumption. The most recent actuarial valuation for VCERA requires an employer contribution of $174 million, of which $112 million is dedicated solely to the amortization of the unfunded liability. A 30-year amortization similar to CalPERS and LACERA would reduce the County's contribution to the unfunded liability by tens of millions of dollars. However, at the same time it would, in our opinion, weaken VCERA's overall financial condition. Other factors that may also make VCERA not comparable with CalPERS and LACERA are asset smoothing periods, funding levels, and risk profiles.

The use of realistic actuarial assumptions is important in maintaining adequate funding. However, assumptions are limited by their attempt to predict the future. Although every attempt is made to make reasonable assumptions, ultimately payments will be made on actual results.

Normal Cost 50-50 Sharing:

Our office has completed negotiations to include a 50-50 normal cost share with all of the employee unions that have members in the retirement system. As the largest employer in the system, it would be helpful to us if the basis of the actuarial study assumed a 50-50 share of normal costs. Supplemental schedules could be provided for member agencies that do not have a 50-50 split of normal costs.

Contribution Impact Detail:

We recognize that the evaluation of a retirement systems demographic experience is complex and interrelated. However, we believe it would add to our understanding if the actuary could provide more detail in their report regarding the employer contribution rate increase or decrease from each of the demographic factors. This information could potentially help us improve in areas over which we may have some control.

Thank you again for your consideration. If you have any questions please contact Paul Derse at 662-6792.

Respectfully,

Paul Derse
Assistant County Executive Officer/
Chief Financial Officer

Michael Powers
County Executive Officer

c: Board Members
Board of Supervisors
Linda Webb, Retirement Administrator

ATTACHMENT B

April 2015
A Report by UNITE HERE
Contact: Michael Pineschi
mpineschi@unitehere.org
916.390.0261

UBS Trumbull Property Fund:
Sitting out the real estate recovery

Some investors have exited as UBS-TPF has fallen short of the ODCE benchmark in recent periods

UBS Realty Investors LLC currently manages $26.2 billion in real estate in the US on behalf of institutional investors.[1] With $19.0 billion in AUM as of December 31, 2014, the UBS Trumbull Property Fund is the largest real estate product UBS offers.[2]

The UBS Trumbull Property Fund — which UBS describes as their actively managed core real estate product[3] — has lagged the NFI-ODCE benchmark in short- and medium-term measurements.

Since 2012, some limited partners have reduced or redeemed their UBS-TPF investment. At least one limited partner has put UBS-TPF on the watch list due to poor performance. Analysis shows that UBS-TPF performance has been below the NFI-ODCE benchmark in several recent and longer term measurements. The underperformance raises questions regarding UBS-TPF's investment strategy. During the great recession, performance was slightly better than the benchmark, albeit with negative returns. However, over the past four years of market recovery, the UBS-TPF has lagged relative to its peers in core, open-end real estate.

Moreover, at a time when institutional investors are rigorously examining the benefits and costs associated with fees, UBS-TPF offers a complicated fee structure that may not be competitive compared to peers.

Take Aways:

- Several LPs have drawn down their UBS commitment since 2012
- At least one LP has placed UBS-TPF on the watch list for underperformance
- During the post-recession real estate recovery, UBS-TPF has lagged peers
- The UBS-TPF has underperformed the NFI-ODCE benchmark in 1-, 3-, and 5-year measurements
- The UBS-TPF has underperformed the NFI-ODCE benchmark in 16 of the past 18 quarters
- UBS-TPF has a complicated fee structure that may not be competitive relative to peers
- It appears UBS would have received an "incentive fee" for each of the past four years despite underperforming the ODCE index during each of those years.[4]

Recent UBS-TPF Redemptions: 2012 - 2014

Source: Various reports on UBS-TPF from limited partners, and Real Estate IPE news reports.

quarters over a five-year rolling period. Second, it performed below the 50th percentile relative to the ODCE peer group for two consecutive quarters over a five-year rolling period.

Relative to peer funds, Townsend reported the UBS-TPF was in the 25th percentile as of the third quarter 2014.[12] Of the 17 funds examined for the 3Q14 5-year rolling period performance, 12 beat the benchmark, while UBS-TPF was among the 5 that did not.[13]

Townsend noted that UBS-TPF had been on the watch list in 2Q14 and 3Q14 for ongoing underperformance.[14] Townsend recommended the CTPF "Address potential weaknesses in Core portfolio; determine whether to rebalance existing funds or consider a new fund."[15] As a result, this fund may be halving its commitment to UBS-TPF.[16]

- **What recommendations are real estate consultants making to clients regarding UBS-TPF?**
- **For underperformance, what is a reasonable period of underperformance before placing a core manager on a watch list or reallocating funds to a different manager?**
- **In the current market how might the rebalancing of a real estate portfolio be advantageous for limited partners?**
- **Given the underperformance, how many limited partners have recently redeemed or are considering redeeming their investment?**
- **What is the exit queue for TPF? If investors opt to redeem, how long before they can reallocate those funds?**

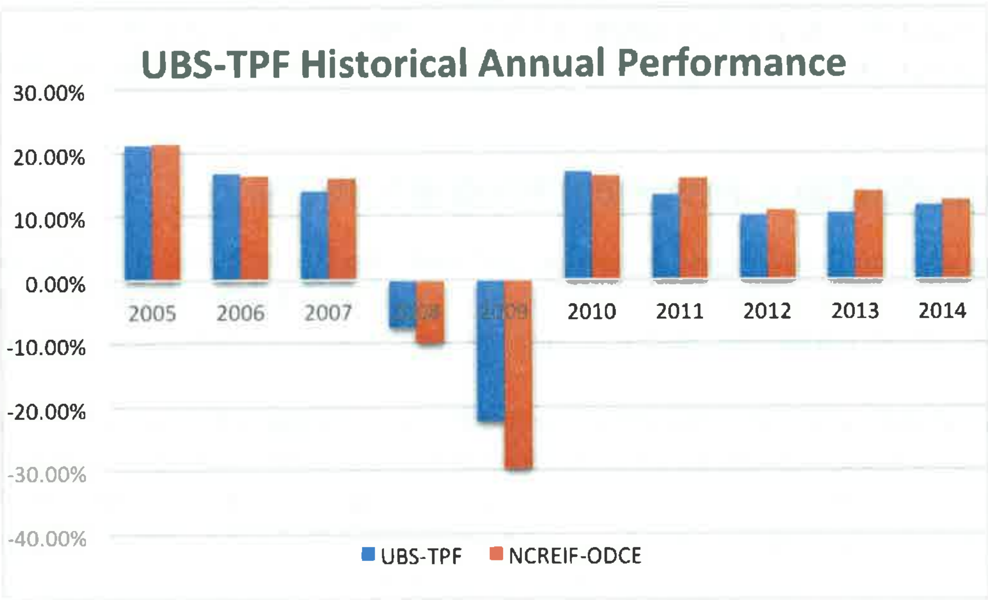
UBS Trumbull Property Fund Lagged Benchmarks

According to UBS, the TPF's "performance objective is to outperform the NFI-ODCE index over any given three- to five-year period."[17] Recently, it has not met that objective.

Does the UBS-TPF Investment Strategy Provide Enough Upside for LPs?

UBS has structured the fund with a strategy of using lower leverage as a way to mitigate risk.[23] The fund underperformed during the real estate market recovery, while also failing to provide more than a minimum buffer during the downturn of the recent financial crisis.

UBS stated that "much of the recent poor performance can be attributed to low leverage. However, it is difficult to judge private equity funds over the shorter time periods, especially given the recent economic recession and recovery. Longer time periods are required to more accurately assess performance."[24] However, several measurements of performance show UBS-TPF underperforming the benchmark in the longer term as well as in the shorter term.



Source: UBS report given to LPs in February of 2015.

UBS-TPF's use of leverage remains one of the lowest in the NFI-ODCE peer group — 13% as of April 2014.[25] In the boom year of 2007, before the great recession, UBS-TPF underperformed the ODCE by a little more than 2.0%.[26] UBS-TPF's performance in the downturn year of 2008 was -7.5%, beating the benchmark by 2.5%. In 2009 UBS-TPF's total return was -22.3% beating the benchmark by 7.5%.[27] 2008 and 2009 represent two of the best recent years of market outperformance for UBS-TPF, but both years yielded negative returns for LPs.

In a core real estate search for an LP, UBS reported to Milliman Investment Consulting that total real estate assets lost in 2007 - 2009 were greater than assets gained.[28]

- **Are UBS-TPF management fees competitive compared to peers with better performance?**
- **After the management and incentive fee are calculated, how does UBS-TPF's fee structure compare to peers?**
- **How are management and incentive fees disclosed to UBS-TPF investors?**
- **How are other costs outside of the management and incentive fees disclosed to UBS-TPF investors?**
- **What performance fees did UBS collect from the Trumbull Property Fund during 2011-2015?**
- **Why is UBS able to collect a performance fee even when it underperforms the ODCE index?**

Endnotes

1 UBS. *About Global Real Estate*. Accessed on April, 1 2015. *https://www.ubs.com/global/en/asset_management/gre/us/realty/about_realty.html*

2 UBS. *UBS Trumbull Property Fund (UBS-TPF): Ventura County Employees' Retirement Association*. February 23, 2015.

3 UBS. *UBS Trumbull Property Fund: Flash Report 3Q 2013*.

4 Based on CPI increases of 3.2%, 2.1%, 1.5%, 1.6% in 2011, 2012, 2013, and 2014 respectively.

5 The Minnesota State Board of Investment 2013 Annual Report shows an allocation of $320 million. UBS is not present in the 2014 Annual Report. Accessed March 2015. http://mn.gov/sbi/Publications.html

6 Information found comparing the 2013 and 2014 Annual Reports. Accessed March 2015. http://www.sptrfa.org/index.php/publications/reports-2/

7 Jon Peterson. *Ohio PERS Takes Capital Out of Core Real Estate Funds*. IP Real Estate. July 27, 2012. Accessed March 2015. http://realestate.ipe.com/ohio-pers-takes-capital-out-of-core-real-estate-funds/46759.fullarticle

8 Jon Peterson. *Ohio PERS takes capital out of core real estate funds*. July 27, 2012. Accessed March 2015. http://realestate.ipe.com/ohio-pers-takes-capital-out-of-core-real-estate-funds/46759.fullarticle

9 Park Employees' Annuity and Benefit Fund. Minutes from April 17, 2014. P 4.

10 Park Employees' Annuity and Benefit Fund. Minutes from April 17, 2014. P 4.

11 The Townsend Group. Chicago Teachers Pension Fund Real Estate Portfolio Overview. Third Quarter 2014 P 17

12 The Townsend Group. Chicago Teachers Pension Fund Real Estate Portfolio Overview. Third Quarter 2014 P 17.

13 The Townsend Group. Chicago Teachers Pension Fund Real Estate Portfolio Overview. Third Quarter 2014 P 17.

14 The Townsend Group. Chicago Teachers Pension Fund Real Estate Portfolio Overview. Third Quarter 2014. P 26.

15 The Townsend Group. Chicago Teachers Pension Fund Real Estate Portfolio Overview. Third Quarter 2014 P 17.

16 Board Meeting, Public School Teachers' Pension and Retirement Fund of Chicago. January 29, 2015.

17 UBS. *UBS Trumbull Property Fund (UBS-TPF): Ventura County Employees' Retirement Association*. February 23, 2015.

18 Milliman Consulting. City of Miami Beach Open End Real Estate Search. P. 18 (date)

19 UBS. *UBS Trumbull Property Fund (UBS-TPF): Ventura County Employees' Retirement Association*. February 23, 2015. P224, 226.

20 UBS. *UBS Trumbull Property Fund (UBS-TPF): Ventura County Employees' Retirement Association*. February 23, 2015. P 226.

21 UBS. *UBS Trumbull Property Fund (UBS-TPF): Ventura County Employees' Retirement Association*. February 23, 2015. P. 213

22 According to compiled data from UBS reports and NCREIF NFI-ODCE Snapshots.

23 UBS. *UBS Trumbull Property Fund Quarterly Report: For the Quarter ended June 30, 2014*.

24 Employees' Retirement System of the County of Milwaukee. *UBS Realty Investors*. Minutes of the January 15, 2014 Pension Board Meeting. Accessed March 2015. http://county.milwaukee.gov/ImageLibrary/Groups/cntyHR/PDFdocs/ERS/Final-January152014PensionBoar.pdf

ATTACHMENT C

February 2015

Sustainable Private Equity/Real Estate Investment in the Hospitality Industry

Over the past several years, private equity and private equity real estate managers have come to play a growing role in the hospitality industry.

Rather than dealing with managers solely when issues or disputes arise, UNITE HERE is undertaking a more proactive approach to achieving labor harmony at private equity-owned companies and properties by reaching out to managers to identify opportunities to work together.

Responsible managers below are managers that have reached an agreement ensuring labor peace at hospitality-related properties or companies, creating a basis for cooperation.

Irresponsible managers below are managers that have refused multiple requests to meet, have refused to identify places to work together, or have had a long-standing, unresolved dispute at a hospitality-related property or portfolio company.

RESPONSIBLE
Rockpoint Group
Angelo, Gordon & Co
Blackstone Group
CIM Group
Apollo Global Management
TPG Capital
PCCP LLC
Stockbridge Capital
AFL-CIO BIT/ HIT
HEI Hotels & Resorts

IRRESPONSIBLE
Walton Street Capital
Ares Management
Lone Star Funds
Carlyle Group
Prudential
KSL Capital
Lowe Enterprises
UBS Realty
Garrison Investment Group
Olympus Partners
Crow Holdings
Cornerstone RE Advisors
Northwood Investors
Clarion Partners
Dune Capital

UNITE HERE is the union of hospitality employees throughout North America.

UNITE HERE!

Contact: Jim Baker, 312-933-0230
jbaker@unitehere.org