

VENTURA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION RETIREMENT FUND

INTRODUCTION

The Grand Jury conducted an inquiry into the administration of investment policies of the Ventura County Employees' Retirement Association (VCERA). This decision was based on:

- A review of the last five years' Ventura County Grand Jury Annual Reports indicated no inquiries had been performed.
- California Grand Juries listed County Retirement Funds as an area of interest.

The objective was to obtain information on the organizational history of VCERA and to review the Ventura County Board of Retirement (Board) policies in administering the investment of VCERA's retirement fund.

INQUIRY

The Grand Jury contacted the Treasurer-Tax Collector, Assistant Treasurer-Tax Collector, two retired employee representatives, the Auditor-Controller Office Auditing Group Manager, and the Board Retirement Manager. We then attended some Board meetings to collect information from the financial consultants on investment performances by each of the fund managers and their asset allocation strategies.

Information gathered:

- Audit schedules and financial audits of county agencies, including VCERA.
- The relationship between VCERA and the Board.
- Investments under the Board's control.
- Market risks, average yields, inflation factors and types of investments, including their allocation.
- VCERA's financial audit for FY95/96.

FINDINGS

- VCERA was established in 1946 as the result of a special election held in June of that year.
- The goal of VCERA is to provide retirement, death, and disability benefits to County employees for their service in public employment.
- The County Employees' Retirement Law of 1937 (Law) (Government Code Section 31450 et seq.), governs the benefits provided, and there are nineteen other California counties that have retirement programs which fall under this law.
- Management of VCERA is vested with the Board of Retirement, and consists of nine members and one alternate. By law the county treasurer is a member, four are appointed by the Board of Supervisors (one may be a county supervisor), two

are elected by the general membership, one is elected by the retired members, and one and an alternate are elected by the safety membership (sheriff/fire department). All members serve three year terms, with the exception of the County Treasurer whose service runs concurrent with his term of office. In addition, the treasurer is responsible for administering the daily activities of the fund, consistent with the policies and government code regulations.

- The Board meets twice monthly; one meeting is devoted to administrative business, and one hears employee disability cases.
- The Board contracts for investment management, custodial, performance evaluation and actuarial services in accordance with provisions set forth in the retirement law. Administrative expenses of the retirement system are paid from the retirement fund earnings.
- Membership in VCERA is mandatory for all regular employees of the County, and they are required to make contributions through biweekly payroll deductions.
- The County contributes to the retirement system for all VCERA members. Its contribution rate is determined by actuarial calculations and the Fund's earnings performance.
- For FY95/96 VCERA's total assets were more than \$1.4 billion, and the County's employer/employee retirement fund contributions were \$46.4 million.
- The retirement funded ratio for FY95/96 was 104.82 percent. This ratio is determined by dividing the Actuarial Value of Assets by the Actuarial Accrued Liability, Entry Age.
- The Investment Policy, Objective and Guidelines for the Ventura County Employees' Retirement System is a document providing a framework for asset management of VCERA. The purpose is to assist the Board in effectively supervising and monitoring the investments of VCERA.
- The goal for the entire investment portfolio is expected to produce a long term real (above inflation) return of 4%. VCERA's total investment portfolio produced a return of 15.8% for FY95/96 and 11.8% over the last five years. Consequently, prudent risk-taking is warranted within the context of overall portfolio diversification to meet this goal.

All transactions are strictly for the benefit of VCERA's participants and their beneficiaries, and for the sole purpose of providing benefits to them, minimizing employer contributions to the system, and defraying reasonable administrative expenses of the system. Investment actions are made consistent with "prudent person" standards.

- The Asset Allocation Policy was adopted to provide for diversification of assets in an effort to maximize investment return of VCERA, consistent with market conditions. Asset allocation modeling identifies asset classes to be used, and the percentage each class represents in the total fund.

VCERA ASSET ALLOCATION TARGETS AND RANGES

<i>ASSET CLASS</i>	<i>TARGET PERCENT</i>	<i>ALLOWABLE PERCENT RANGE</i>
US Stocks	40	32 - 45
Core Stocks	10	8 - 13
Growth Stock	10	8 - 13
Value Stocks	15	13 - 20
Small Cap Stocks	5	0 - 7
International Stocks	10	10 - 17
EAFE Equities	10	7 - 13
Fixed Income	30	20 - 30
Intermediate Bonds	10	3 - 7
Core Bonds	10	8 - 15
Global Bonds	10	5 - 12
Real Estate	5	3 - 7
Tactical Asset Allocation	15	10 - 20

- VCERA anticipates that total returns of equities will be higher than total returns of fixed income securities over the long run, but may be subject to greater volatility over shorter periods.
- The primary role of the fixed income portfolio is to provide a stable investment return and to generate income, while diversifying the VCERA's investment assets.
- Real Estate is a diversified portfolio of debt and equity and provides returns which historically have been attractive. This portfolio is also expected to provide additional diversification due to real estate's low correlation with returns on equities and fixed income.

The Tactical Asset Allocation portfolio uses domestic and international stocks and/or stock index funds, fixed instruments and/or bond index funds, and derivatives, to add value by shifting assets among the primary asset classes in proportions based on the manager's perception of the market environment. The fund manager has the authority to be 0-100% in equities, fixed income or cash, based on tactical allocation discipline.

The portfolio is intended to provide equity-like returns with lower risks.

- Performance benchmarks used for the respective asset classes

Domestic Equities

- Core Stocks - the S&P 500 Index
- Value Stocks - the S&P/BARRA Value Index
- Growth Stocks - the Russell 1000 Growth Index
- Small Stocks - the Russell 2000 Growth Index
- Composite - the Russell 3000 Index

Non U.S. Equities

- International Stocks - the MSCI EAFE Index

- Composite - the MSCI EAFE Index

Fixed Income

- Intermediate Bonds - Lehman Brothers Intermediate Gov't/Corp. Index
- Core Bonds - Lehman Brothers Aggregate Bond Index
- Global Bonds - Salomon Brothers Global Bond Index - Hedged
- Composite - Lehman Brothers Aggregate Bond Index

Real Estate

- Real Estate - Frank Russell NCREIF Index

Tactical Asset Allocation

- Custom 60% S&P 500/40% Lehman Brothers 20-plus Years
- Treasury Bond Index

Total Fund

- Inflation, as measured by the Consumer Price Index (CPI) plus 4%
- Actuarial Discount Rate
- Weighted Benchmark based on asset allocation

Prohibited transactions

- Commodities, including gold
 - Tax exempt securities, either state or federal
 - Options, including the purchase, sale or writing
 - Investments in mortgage interest only or principal only securities or other derivatives that have uncertain or volatile duration or price movements
 - Speculative or leveraged use of derivatives
 - Warrants
 - Margin buying
 - Short selling
 - Reverse repurchase agreements
- Management Review Procedures related to oversight of VCERA
 - The Board has the discretion to develop and execute VCERA's investment program.
 - A formal review of VCERA's investment structure, asset allocation, and financial performance is conducted annually, or more frequently as needed.
 - Investments are reviewed quarterly, and more often as needed to ensure that policy guidelines continue to be met.
 - The Board retains investment consultants to conduct performance review, asset allocation, manager review, and selection and topical research.
 - External investment managers manage investment assets. In accordance

with the asset allocation guidelines, external investment managers are hired who have demonstrated experience, expertise and investment styles that are consistent with the need for return and diversification. Investment guidelines are developed for each manager, and investment performance is monitored against them.

- The Board, with the assistance of staff and consultants, is responsible for taking appropriate action if investment objectives are not being met, or policies and guidelines are not being followed.
- The Retirement Administrator assists the Board in the development, implementation, and monitoring of the Investment Plan. He provides for the collection and investment of contributions, disbursement of benefits and refunds, payment of budgeted expenditures, and maintenance of accounting and internal control systems.
- Custodian's responsibilities for investment assets:
 - Provide complete global custody and depository services for the designated accounts.
 - Provide a Short Term Investment Fund to ensure that all available cash is invested.
 - Provide monthly and fiscal year-end accounting statements for the portfolio.

CONCLUSIONS

1. The administration of the County Retirement Fund appears to comply with provisions of the County Employees Retirement Law of 1937.
2. The total fund portfolio appears to have sufficient diversification to provide a safety net against adverse market conditions.
3. The Board uses professional firms for assistance in providing the necessary financial expertise to achieve its goal.
4. VCERA's total assets are well managed, and the Board exercises due diligence in administering the Fund.

RECOMMENDATION

The Board continue their prudent investment practices.

REPONSE REQUIRED

Treasurer-Tax Collector
Board of Retirement