

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 18, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, October 18, 2006 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, Brian Hast, Louis Kroll, Sharon Naramore, Rusty Watts for William J. Pollacek, Bob Rey, Maria Theresa Viramontes and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Ashley Dunning Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA
Tim Price Milliman, USA

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Joelle Luhn	CCCERA Staff
Max Swango	INVESCO
Jay Hurley	INVESCO
Jeff Gandel	Fidelity
Megan Sorensen	Fidelity
Loren Balsam	Fidelity
James Remick	Contra Costa County Sheriff's Department

1. Rick Koehler, 20 Year Service Award

Wedington congratulated CCCERA employee, Rick Koehler, on the occasion of his 20th Anniversary and thanked him for his years of dedicated service to the Retirement Association.

2. Public Comment

No members of the public offered comment.

3. Manager Presentations

Fidelity Real Estate - Jeff Gandel, Megan Sorensen, Loren Balsam
Gandel began by providing a brief update on the Fidelity team, noting they continue to grow the team with several new additions since last year.

Fidelity Real Estate Growth Fund II's objective is to earn 18% gross IRR through value added investments in U.S. real estate. They have active investments across all

property types and in different parts of the country with small to medium sized investments.

He then reviewed Growth Fund II investment level performance, describing various investments including Bella Vista Apartments in Richmond, CA.

Viramontes was present for subsequent discussion and voting.

Balsam continued discussion on several sample investments and provided a synopsis of an investment that went well and another that was worse than expected.

He concluded by reviewing the characteristics of Growth Fund II by total committed capital.

INVESCO Real Estate - Max Swango, Jay Hurley

Swango began by noting INVESCO has \$27.2 billion under management with 189 employees worldwide. As of June 30, 2006 INVESCO's U.S. direct real estates closed-end value-added fund was \$600 million. The open-end core fund was \$1.30 billion. Separate accounts were \$6.1 billion for core and \$2.0 billion for value-added.

He then reviewed the return and risk attributes for investment strategies as of September 30, 2006. The value-added process is typically a one to four year process. INVESCO attempts to add value through re-capitalization, lease-up, re-tenanting or renovation, exploiting inefficiencies and development. Once stabilization for each asset is achieved, it is sold to maximize full value.

Hurley then reviewed fund specifics, including performance of various investments. He concluded by summarizing an investment that went well and another in which he had concerns.

4. International Fixed Income

Helliesen reviewed his memo on International Fixed Income, which attempted to answer the Board's question: "Does CCCERA really need international fixed income?" He noted expected returns from the asset class are expected to be the same as domestic fixed income, and he is dubious of the ability of investment managers to add value in this area. He believes there are more opportunities for active managers to add value in US fixed income.

Discussion followed on the impact of the Hedged International Fixed Income class on diversification. Hally noted that CCCERA currently has some international bond exposure through its core plus fixed income managers. It was also noted that the correlation between hedged international fixed income and domestic fixed income is relatively high, limiting its diversification benefit.

It was **M/S**, based on the consultant's statement of the inability to add value with this asset class to take funds from Fischer, Francis, Trees and Watts (FFTW) and transfer to PIMCO and Western Asset Management. There was continued discussion on various alternatives, including a search for a global bond manager as a replacement to a fully hedged international bond manager. Wedington noted for the future he would like a recommendation from the consultant included in the memo.

Some Board members were uncomfortable in placing more funds with the fixed income portfolios managed by PIMCO and Western Asset Management.

The initial motion was withdrawn. A substitute motion was offered, it was **M/S/C** to direct the consultant to return with a recommendation for global and/or U.S. managers for possible transfer of the hedged international fixed income portfolio managed by FFTW. (Yes: Cabral, Gaynor, Hast, Naramore, Rey, Viramontes, Watts, and Wedington)

5. Investment Manager Benchmark

Helliesen reviewed the progress of Milliman's review of manager benchmarks. He noted he will have recommendations at the November meeting.

6. Commodities Search

Helliesen provided an update on the Commodities search. He reviewed the list of candidates and noted the reasons seven firms were eliminated in the process. Several of the excluded managers noted they would not be a fiduciary to CCCERA. There was a **motion** to take PIMCO off the semi-final list. After discussion, the **motion was withdrawn**. It was **M/S** to exclude PIMCO and Western Asset Management from the list and to eliminate any manager not agreeing to be a fiduciary to the fund.

There was discussion on delaying action on this item to provide time to thoroughly read the Commodities Search Semi-Finalist Report. There was continued discussion on the amount of education the Board has received on Commodities, whether to invest actively or passively, and if the Board is comfortable making this investment. **The motion was withdrawn.** It was the consensus of the Board to hold over this item until a future investment meeting.

7. Conference/Seminar Attendance

- (a) No one was able to attend the Executive Compensation Summit, Council of Institutional Investors, November 8-9, 2006, Washington, D.C.

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8. Miscellaneous

- (a) Staff Report - Leedom commented on the Pension Protection Act Seminar she attended on October 17th. The speakers at the seminar commented on many things including pre-tax safety health care, forms needed and normal retirement age. Lots of work needs to be done and she noted it is not necessary to finish all procedures by January 1, 2007. She feels it is realistic to have many of the questions answered and strategy for procedures by the first quarter of 2007.

Hally noted the on-site visit for INTECH was successful. He will be performing an on-site visit with Cabral and Hast at Adams Street at the end of October.

- (b) Outside Professional Report - Dunning noted she is completing a written report on several items including fiduciary insurance. The information will be distributed at the next meeting.

Helliesen noted he and Hally provided an on-site visit at INTECH in Florida. He then distributed a flash report with preliminary returns for the quarter.

- (c) Trustees' Comments - Kroll announced he will retire at the end of November, 2006. He has been a trustee since 1997. He introduced Jim Remick from the Sheriff's office who is interested in assuming his seat on the Board.

It was M/S/C to adjourn (Yes: Cabral, Gaynor, Hast, Naramore, Rey, Viramontes, Watts, and Wedington)


Clifton Wedington, Chairman


William J. Pollacek, Secretary