

# CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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The Board of Retirement met in regular session at 9:00 a.m. on Thursday, October 18, 2007 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, Paul Katz, Sharon Naramore, Russell V. Watts for William J. Pollacek, Jim Remick, Bob Rey, and Jerry Telles.

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

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

## Other Attendees:

Margie Breen	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Carmine Fanelle	Credit Suisse
James Allen	Credit Suisse
Max Swango	INVESCO
Jay Hurley	INVESCO
Terry Buck	Contra Costa County Consolidated Fire Department
James Lee	Patrick Hubert Partners
Kevin Callahan	Adams Street Partners
Al Clerc	Pathway Capital
Vincent Dee	Pathway Capital
Andre Cuerington	Western Asset Management
Don Plotsky	Western Asset Management
Stephanie King	PIMCO
John Miller	PIMCO

## 1. Public Comment

No members of the public offered comment.

## 2. Manager Presentations

### Real Estate

Credit Suisse/DLJ RECP I, II and III - Carmine Fanelle, James Allen  
Fanelle agreed to waive the confidentiality of DLJ Real Estate Capital Partners presentation materials.

Fanelle provided an overview of RECP I (1995), a \$680 million fund, with an overall gross equity IRR of 17%. RECP II (1999), a \$1.2 billion fund, has a realized gross IRR of 36%, and RECP III (2005), a \$1.15 billion fund, has a realized gross IRR of 109%. Fanelle noted Fund I has distributed all but \$5 million of capital; which is more than 99% of total distributions. They expect the final liquidation for RECP I in 2008.

Allen reviewed 2007 RECP activity. They have committed \$507 million of equity to nineteen closed and pending investments. They have realized nine investments, generating proceeds of \$261 million and a 2.3x investment multiple. Allen noted there is a significant pipeline of investments positioned for sale in the near term and they will continue to pursue active pipeline of global investment opportunities. They anticipate a first closing of RECP IV in the fourth quarter of 2007.

Allen provided a performance summary of the remaining RECP II portfolio. He then reviewed the early realizations of RECP III, noting the strong gross IRR.

He concluded by noting the United States debt markets are in a liquidity crisis with significant credit tightening and higher underwriting standards. Allen noted overall real estate fundamentals remain stable with attractive supply/demand dynamics in most sectors (with the exception of for-sale housing). Longer term fundamentals continue to favor markets on the two coasts. There is significant equity opportunity for well capitalized investors and less competition from highly leveraged buyers.

INVESCO - Max Swango, Jay Hurley

Swango agreed to waive the confidentiality of INVESCO's presentation materials.

Hurley provided a quick snapshot of INVESCO Real Estate Fund I as of June 30, 2007, noting there would be no additional capital calls in 2007. He then reviewed various investment properties in the portfolio.

Next INVESCO Real Estate Fund II was reviewed. The targeted fund size is \$500,000,000 Equity, with maximum leverage of 65% of aggregate market value of investments.

The strategy is value-added real estate (multi-family, retail, industrial, and office) with project returns of 10-14% (leveraged after fees). The minimum investment is \$10,000,000 with a geographic focus exclusively within the United States. INVESCO's Capital commitment of \$13.8 million includes contributions from INVESCO and certain executive officers of INVESCO and its affiliates. The term is seven year live (with one-year extension options) beginning at the final fund closing.

Alternative Investments

Adams Street - Kevin Callahan

Callahan noted there was nothing confidential in Adams Street's Presentation materials. He began by providing an overview of Adams Street Partners. He noted they have been

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private equity investment manager since 1972. They currently manage \$15 billion in private equity, with 90+ employee-owners.

Callahan provided an investment summary as of March 31, 2007, combined internal rates of return and the portfolio diversification of investment commitments.

He concluded by summarizing that he believed the "golden age" for buyout managers has ended. Venture capital returns show clear signs of improvement. Recent credit market turmoil represents a significant re-pricing of risk for leveraged loans. Increased visibility of private equity industry is a negative trend and disciplined portfolio construction is critical.

### Pathway - Al Clerc, Vincent Dee

Dee agreed to waive the confidentiality of Pathway's presentation materials.

Clerc began by providing an update on Pathway. They were established in 1991, with \$18.8 billion of assets under management. Ownership is independent, 100% employee owned, with 80 employees and 29 investment professionals. They have offices in California, Rhode Island and London. He noted there has been no senior level personnel turnover since inception.

Dee provided a gross portfolio performance vs. venture economic returns, noting Pathway outperformed the benchmark by a significant amount. He compared year-by-year net performance and portfolio performance vs. the S&P 500 plus 400 basis points. After discussing annual distributions as of June 30, 2007, he noted distributions from underlying partnerships have increased significantly as the portfolio has matured.

He summarized by noting the portfolio performance continues to increase: as of June 30, 2007, one-year net return is 44.6% and since inception net IRR is 12.9%. Six out of seven vintage year generations of partnerships exceeded upper quartile benchmarks; and two-thirds of the partnerships are performing above the upper quartile benchmark. The portfolio consists of successful and experienced private equity managers and is well-diversified by strategy, generation, industry and geographic region. As of September 30, 2007, Pathway Private Equity Fund (PPEF) has committed \$95.5 million to 32 partnerships and Pathway expects to invest approximately \$31 million over 1 ½ years. He notes the pipeline of investment opportunities is strong.

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### Domestic Fixed Income

#### Western Asset Management - Andre Cuerington, Don Plotsky

Hast noted the difficulty staff has encountered with communications, not returning telephone calls, and late reports. Hast noted this cannot be tolerated and feels their client services are falling short.

Cuerington addressed communication problems noting he takes full responsibility and is aware Western Asset Management is under review for organizational changes. He noted he was not offering an excuse for the problems encountered, but noted the Administrative personnel responsible for CCCERA reports had left the firm and was replaced in August; her e-mail was supposed to be forwarded to others. He had a meeting with the head of Client Services and all Administrative personnel and assured all that this would not happen again.

Hast noted the presentation material for this meeting was late. After Western Asset Management was contacted and told the booklets were due on October 8<sup>th</sup>, Western was the only Manager to not have their booklets to CCCERA's office on time.

Cuerington provided a firm update, organizational review, representative client list, and assets under management. He then reviewed the investment management team.

Plotsky reviewed money market stress, noting the affect of sub-prime mortgages and defaults bringing a liquidity crisis to the market. He then provided a review of the growth of asset-backed commercial paper market, mortgage strategy stress, and market sector returns.

Plotsky concluded by providing the outlook for the rest of 2007. He expects moderate growth (2.0 - 2.5% GDP growth), inflation will be contained (2.0 - 2.5% core CPI) and that the Fed easing will continue.

PIMCO - Stephanie King, John Miller

King began by noting when PIMCO reported one-year ago, performance wasn't meeting expectations; however, she's happy to say PIMCO is now meeting expectations.

Miller reviewed prior assumptions made by PIMCO. Previously, they felt the monetary policy was too tight for the housing market and creative financing was problematic. The inverted nature of the yield curve was unsustainable and credit yield premiums were too low relative to underlying risk. He compared the current environment to their previous assumptions. He then compared PIMCO's 2007 strategy impact for the first and second quarter prior to June 30<sup>th</sup> and then the third quarter market developments since June 30<sup>th</sup>. The comparison included the yield curve structure, duration, credit mortgages and PIMCO's underweighting on the Dollar.

He then provided a review of PIMCO's performance as of September 30, 2007, noting PIMCO's alpha is poised to grow as the economic cycle reaches a turning point. He then discussed trends of mortgage and asset backed securities.

King discussed StocksPlus noting the changes that have taken place in the last few months. Risk premiums have widened on sub-prime fallout and market-wide unwinding of leveraged trades. King concluded by noting the strong third quarter bolstered year-to-date performance.

3. Investment Managers Currently Under Review

Several Board members expressed there was not a high comfort level that missed or late communications from Western Asset Management would not occur again. All felt late reporting is unacceptable. There was continued discussion on problems with the possible inability to make contact with Western's Client Services during emergency circumstances.

There was some discussion on allowing a few months of reporting to see if there was an improvement. There was debate on possibly re-bidding the account to determine if Western is still the best firm to handle CCCERA's portfolio. Re-bidding the portfolio would allow for a smoother transition if there is a need to terminate Western. There was continued discussion on drafting an RFP, directing the consultant to contact likely candidates and announce to Western that they will be able to bid for the account.

It was *M/S/C* to direct staff to conduct a search for a core fixed income bond manager mandate, and to invite Western Asset Management to participate. (Yes: Cabral, Gaynor, Hast, Katz, Watts, Rey, and Telles)

After discussion on a separate motion to authorize the CEO and the CIO to terminate Western Asset Management and liquidate the portfolio if they become aware of any other late communications, it was determined that instead, the issue would be brought back to the Board for further action.

4. Miscellaneous

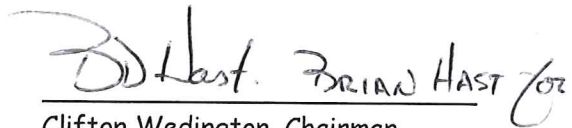
- (a) Staff Report - Leedom reminded Board members to pick up their agenda packets for the October 24, 2007 meeting.

An additional reminder was issued for the Staff Appreciation on December 13, 2007 at the Crowne Plaza in Concord.

Leedom noted that she, along with Rey, Hast, Hally and Gioia, will be interviewing candidates for the General Counsel position Friday, October 19th.

- (b) Outside Professionals' Report - Nothing further.

- (c) Trustees' Comments - Katz requested information on Viramontes health and was informed that she will be returning at the October 24<sup>th</sup> meeting.

  
Clifton Wedington, Chairman

  
William J. Pollacek, Secretary