

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 1

November 21, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Tuesday, November 21, 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, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington.

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

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

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Jim Remick	Contra Costa County Sheriffs' Department
Andy Rifkin	Credit Suisse/DLJ Real Estate Capital Partners
Carmine Fanelle	Credit Suisse/DLJ Real Estate Capital Partners

1. Public Comment

No members of the public offered comment.

2. Review of Total Portfolio Performance

Milliman USA - Bob Helliesen

Helliesen began by discussing managers currently under review. He then reviewed his report noting the domestic equity markets were positive in the third quarter of 2006, with the S&P 500 returning a strong 5.7%. Small capitalization stocks markedly trailed larger capitalization issues, with the Russell 2000® returning only 0.4%. The median equity manager returned 3.2% and the broad market, represented by the Russell 3000® Index, returned 4.7%. International equity markets also had positive results in the third quarter, with the MSCI EAFE Index returning 4.0%. The U.S. bond market was positive in the third quarter of 2006, with the Lehman Aggregate Index returning 3.8% and the median fixed income manager returning 3.3%. Hedged international bonds were also positive, with the Citigroup World Government ex-US Bond Hedged Index returning 3.3%. The domestic real estate market posted positive results in the third quarter of 2006, with the NCREIF Property Index returning 3.5% and the NAREIT Equity Index returning 9.3%.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 2

November 21, 2006

CCCERA's third quarter return of 3.9% was better than both the median total fund and the median public fund. CCCERA has out-performed both medians over all trailing time periods, ranking in the upper quintile of both universes over the past one through five-year periods.

CCCERA total domestic equities returned 3.0% for the quarter, below the 4.7% return of the Russell 3000®, the 5.7% return of the S&P 500 and the 3.2% return of the median manager. Of CCCERA's domestic equity managers, ING had the strongest performance with a return of 6.1%, better than the 5.7% return of the S&P 500. PIMCO returned 6.0%, also better than the S&P 500. Boston Partners returned of 5.7%, matching the S&P 500 but trailing the Russell 1000® Value Index. Intech returned 5.1%, below the S&P 500. Wentworth returned 3.2%, also trailing the S&P 500.

Rothschild returned 1.6% versus 2.3% for the Russell 2500TM Value. Delaware returned -0.9%, well below the Russell 1000® Growth return of 3.9%. Emerald returned -3.6%, trailing the -1.8% return of the Russell 2000® Growth Index. Finally, Progress returned -3.8%, trailing the 0.4% return of the Russell 2000® Index.

CCCERA international equities returned 3.7%, below the 4.0% return of the MSCI EAFE Index and the 4.1% return of the median international manager. The GMO Intrinsic Value portfolio returned 3.7%, slightly below MSCI EAFE, EAFE Value Indices and the median international equity manager. McKinley Capital returned 3.7%, trailing the MSCI EAFE and median international equity manager returns while exceeding the MSCI EAFE Growth Index.

CCCERA total domestic fixed income returned 4.0% for the third quarter, above 3.8% for the Lehman Aggregate and 3.3% for the median fixed income manager. AFL-CIO's return of 4.0% was better than the Lehman Aggregate, the Citigroup Mortgage Index and the median fixed income manager. PIMCO returned 4.1%, exceeding the Lehman Aggregate and the median. Western Asset returned 4.3%, exceeding the Lehman Aggregate and the median. ING Clarion returned 2.2%, below the fixed income median. Nicholas Applegate returned 3.6% versus 4.2% for the Citigroup High Yield Index and 4.1% for the Merrill Lynch BB/B Index.

The Fischer Francis Trees & Watts international hedged fixed income portfolio returned 3.3% for the third quarter, matching the 3.3% return of the Citigroup Non US Government Hedged Index.

CCCERA total alternative investments returned 6.1% in the third quarter. Energy Investor Fund II reported a return of 21.1%, Adams Street Partners reported a return of 5.9%, Pathway returned 5.7%, Energy Investor Fund reported a return of 2.9%, Nogales had a return of 0.8%, the PT Timber Fund reported a return of 0.0%, and the Bay Area Equity Fund returned -0.1% for the quarter. (Due to timing constraints, all alternative portfolio returns except PT Timber Fund are for the quarter ending June 30.)

The median real estate manager returned 3.6% for the quarter while CCCERA's total real estate returned 6.3%. DLJ's RECP I returned 33.5%; Adelante returned 8.7%; Prudential SPF-II returned 8.1%; US Realty returned 4.8%; FFCA returned 2.2%; Fidelity returned 2.2%; Black Rock Realty returned 2.0%; DLJ's RECP II returned 1.4%; Invesco returned 1.3%; DLJ's RECP III returned 0.4%; and the Willows Office property returned 1.9%.

When questioned, Helliesen provided an explanation and differences of the Russell 1000, 2000, 2500 and 3000 indexes, noting benchmarks will be discussed at the next meeting.

Managers Under Review

There was a motion to place Wentworth, Hauser and Violich on Watch and perform an on-site visit. After discussion, the motion was amended to only perform an on-site visit with Wentworth, Hauser and Violich at this time. The motion was **M/S/C** as amended. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Allocation to Managers

There was discussion on the funds to be received from ING Clarion in late November and where the funds will be placed. It was noted rebalancing will not be done until early February. Hally noted the Investment Guidelines dictate where incoming monies are transferred; the funds will most likely remain in the fixed income allocation, split between PIMCO and Western.

3. Manager Presentations

Credit Suisse First Boston/DLJ Real Estate -. Andy Rifkin, Carmine Fanelle
Rifkin reviewed RECP I, a \$680 million fund with 49 investments, and \$2.5 billion gross transaction value. The fund has expected overall gross equity IRR of 17%, with \$405 million profits and 1.65x multiple on 49 realized investments. He noted this was a good fund, but not great.

RECP II, a \$1.2 billion fund, has 51 investments with approximately \$5 billion gross transaction value. The fund has a gross IRR of 36%, with \$790 in profits and 2.34x proceeds multiple on 35 fully realized investments. The fund has distributed 152% of invested equity to date. Rifkin noted the fund was a strong performer.

RECP III, a \$1.15 billion fund, has the same investment strategy as RECP I and RECP II. There are 31 acquisitions to date, eight pending or in late stage due diligence, with \$796 million equity requirement. He noted five realizations to date, with 101% gross IRR, 2.1x proceeds multiple.

Rifkin noted the global boom has created opportunities to use a broad investment backing platform and their global philosophy allows participation in markets in China and India.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 4

November 21, 2006

He then spent some time discussing the benefits of being involved in investments in China, India, Japan and the U.S., particularly Manhattan.

Rifkin concluded by discussing risks and rewards and noting that RECP III is limited to 50% in international investments. He will provide information to the Board when RECP IV becomes available.

The Board moved into closed session pursuant to Govt. Code Section 54956.9 (c) to consult with counsel to consider whether to initiate litigation.

The Board moved into open session.

4. Potential Litigation

Wedington announced in open session the motion made in closed session: it was **M/S/C** that in September 2005, the Contra Costa County Employees' Retirement Association and two other public retirement systems began an investigation into circumstances surrounding the sale by U.S. Realty Advisors of a property in which the three retirement systems had invested. CCCERA participated in this investigation because the Board and staff believed that USRA may not have handled the sale in a manner to afford the retirement system investors the highest rate of return. In response to this investigation and the retirement systems' threat of litigation against USRA, the retirement systems received substantive responses from USRA to their questions. The Board has determined in light of the likely cost of litigation against USRA compared with the minimal return CCCERA would expect even if it were to prevail, to close the investigation. (Yes: Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington; No: Cabral)

5. Budget 2007

Leedom presented and reviewed CCCERA's 2007 budget. After discussion, it was **M/S/C** to accept the 2007 Budget. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Discussion followed regarding possible uses of the unallocated expense reserve.

Pollacek and Viramontes were not present for subsequent discussion and voting.

6. Progress Investment

Helliesen reviewed his memo regarding Progress Investment. A motion was made to adopt the recommendation of the consultant. After discussion, it was **M/S/C** to call the question. (Yes: Cabral, Gaynor, Hast, Katz, Rey, Telles, and Wedington) It was **M/S/C** to accept the recommendation of the consultant to increase the Progress' CAT Fund (small cap fund) allocation from its current 1.0% to 3.0% of the CCCERA Total Fund, with the addition coming from both Emerald and Rothschild (which will go from 3.9%

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 5

November 21, 2006

each to 3.0%), and the remaining 0.2% coming from PIMCO Stocks Plus. (Yes: Gaynor, Katz, Rey, Telles, and Wedington; Abs: Cabral, Hast)

Hast noted he abstained based on recent performance; he would like to wait until Progress is back on track.

Hally noted implementation would occur in the first part of February when semi-annual rebalancing occurs.

7. Miscellaneous

- (a) Staff Report - Leedom noted the County's 415 Excess Plan has been adopted. A newsletter reviewing the changes due to the new benefit system will be mailed to all retirees.

The Board of Supervisors has been contacted regarding the Alternate Safety Trustee Election. Notice of the election will be on the Board of Supervisor's agenda for December 5, 2006. Nominations will be from December 11, 2006 until January 5, 2007. If more than one safety member is nominated, ballots will be mailed March 5, 2007 and the winner for the Alternate Safety Election declared April 4, 2007.

Leedom noted the Staff Appreciation Luncheon is December 8, 2006 at the Crowne Plaza in Concord.

- (b) Outside Professional Report - Dunning commented on the session she and Toumanoff presented at the Fall SACRS Conference regarding criminal law used against former trustees. A copy of the presentation "Theft of Honest Government Services" will be placed in board member's mail.
- (c) Trustees' Comments - Naramore - expressed her pleasure with the topics at the SACRS Conference.

Rey noted the new program presented by SACRS at the University of California, Berkeley will be high quality and comparable to the course at Stanford.

Cabral commented he received a copy of the Kuhn's Report, noting the ten-year number validates that CCCERA is in the top quartile of public funds and feels the impressive results should be made known.

Wedington commented it was helpful having the Kuhn's Report presentation at SACRS on Wednesday rather than Friday. He suggested having the Kuhn's Report as an agenda item. He asked for Board input regarding quarterly reporting for the future and asked that comments be referred to Hally.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 6

November 21, 2006

Gaynor suggested publicizing how well CCCERA's investments have done. Leedom noted the results can be placed on the website and in newsletters.

Katz commented he listened to a dynamic speaker describing the problems at San Diego City. The Kuhn report shows how well CCCERA is doing, but feels San Diego City should be a warning for all trustees.

It was M/S/C to adjourn in honor of Louis Kroll as he retires. (Yes: Cabral, Gaynor, Hast, Katz, Rey, Telles, and Wedington)


Clifton Wedington, Chairman


William J. Pollacek, Secretary