

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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November 24, 2009

The Board of Retirement met in regular session at 9:00 a.m. on Tuesday, November 24, 2009 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

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

Outside Professional Support: Representing:
Bob Helliesen Milliman
Harvey Leiderman Reed Smith LLP
Tim Price Milliman

Other Attendees:

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| Luz Casas | Contra Costa County Employees' Retirement Association (CCCERA) Staff |
| Chih-Chi Chu | CCCERA Staff |
| Tracy Kroll | CCCERA Staff |
| Joelle Luhn | CCCERA Staff |
| Debbie Ratcliff | Contra Costa County Sanitary District (CCSD) |
| William Smith | Self |
| Colette Curtis-Brown | CCSD |
| John Keel | San Ramon Valley Fire |
| Satomi Cadena | Contra Costa County Retired Employees' Association (CCCREA) |
| Rollie Katz | Local 1 |
| Paul Louis | CCCSD/Self |
| Nicole Kreiden | Self |

1. Pledge of Allegiance

Pollacek led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

Gioia and Viramontes were present for subsequent discussion and voting.

3. Review of Total Portfolio Performance

Milliman - Bob Helliesen, Tim Price

Helliesen distributed a Flash Report, discussing various managers' performance. He began his report by noting, CCCERA's third quarter return of 12.2% was better than the median total fund and the median public fund. CCCERA slightly trailed the median funds over the past one through three-year periods. CCCERA has out-performed both medians over trailing time periods four years and longer, ranking well above median in both universes over the past five through ten-year periods.

CCCERA total domestic equities returned 15.8% for the quarter, trailing the 16.3% return of the Russell 3000® but slightly exceeding the 15.7% return of the median manager. Of CCCERA's domestic equity managers, PIMCO had the best absolute performance with a third quarter return of 19.8%, well above the S&P 500 return of 15.6%. Progress returned 18.3%, slightly trailing the 19.5% return of the Russell 2000® Index. Emerald returned 17.6%, better than the 16.0% return of the Russell 2000® Growth Index. Boston Partners returned 16.6%, trailing the 18.2% return of the Russell 1000® Value Index. The Legacy ING portfolio, now managed on an interim basis by State Street, returned 15.8%, better than the 15.6% return of the S&P 500 Index. Rothschild returned 15.2%, trailing the Rothschild Small/Mid Value benchmark return of 22.8%. Intech Enhanced Plus returned 14.9%, trailing the S&P 500. Intech Large Cap Core returned 14.5%, also trailing the 15.6% return of the S&P 500 Index. Wentworth Hauser returned 13.7%, below the 15.6% return of the S&P 500. Finally, Delaware returned 12.8%, trailing the Russell 1000® Growth Index return of 14.0%.

CCCERA international equities returned 15.9%, trailing the 19.5% return of the MSCI EAFE Index and the 19.5% return of the median international manager. The GMO Intrinsic Value portfolio returned 17.4%, trailing the S&P Citi PMI EPAC Value Index return of 22.1% and the median international equity manager. McKinley Capital returned 14.5%, below the MSCI ACWI ex-US Growth Index return of 17.4% and the median international equity manager.

CCCERA total domestic fixed income returned 7.2% for the third quarter, ahead of the 4.5% return the Barclays Universal and the 4.4% return of the median fixed income manager. The ING Clarion Fund III returned 15.4% in the third quarter, above the Merrill Lynch High Yield II Index. The workout portfolio overseen by Goldman Sachs returned 15.0%, well above the Barclays Aggregate return of 3.7%. Nicholas Applegate returned 12.0%, but lagged the 14.8% return of the ML High Yield II Index and 12.9% for the median high yield manager. The ING Clarion II fund returned 8.0%, below the ML High Yield II Index and the high yield fixed income median. PIMCO returned 7.3%, above the Barclays U.S. Aggregate and the median. Lord Abbett returned 6.7%, above the Barclays U.S. Aggregate and the median fixed income manager. Goldman Sachs returned 3.8%, slightly above the Barclays U.S. Aggregate Index but below the median fixed income manager. AFL-CIO returned 2.7% which trailed the Barclays U.S. Aggregate return of 3.7% and was below the median fixed income manager.

Lazard Asset Management returned 7.4% in the third quarter, better than the Barclays Global Aggregate return of 6.2% and ranking in the 46th percentile of global fixed income portfolios.

CCCERA total alternative investments returned 4.7% in the third quarter. Paladin III returned 11.9%, Adams Street Partners returned 10.3%, Pathway returned 6.1%, Nogales returned 3.6%, Energy Investor Fund returned 2.1%, Carpenter Community Bancfund returned 1.6%, Energy Investor Fund II returned 1.5%, Hancock PT Timber Fund returned 1.1%, Energy Investor Fund III returned 0.0%, and Bay Area Equity Fund returned -3.6%. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending June 30.)

The median real estate manager returned -5.9% for the quarter while CCCERA's total real estate returned 13.8%. Adelante Capital REIT returned 30.5%, Invesco International REIT returned 17.5%, Willows Office Property returned 1.2%, DLJ RECP I returned -0.4%, DLJ's RECP IV returned -0.7%, Invesco Fund I returned -1.1%, DLJ's RECP II returned -2.9%, DLJ RECP III returned -6.4%, Prudential SPF II returned -7.2%, Fidelity II returned -8.1%, Invesco Fund II returned -21.2%, Black Rock Realty returned -26.9%, and Fidelity III returned -50.4%.

There was discussion if economic assumptions should be changed, as well as asset allocation changes, including restructuring of the international allocation.

Managers Under Review

There was discussion on McKinley's performance. Helliesen noted he was more concerned with McKinley's performance than GMO. He stated since quarter end McKinley's relative performance has been mildly positive. He recommended reviewing performance at the end of the year before making a decision. Options for replacing McKinley were discussed. Helliesen will have recommendations for transition at the February quarterly meeting, in the event there isn't marked improvement in McKinley's performance.

After discussion on the performance of the PIMCO StocksPlus portfolio, it was **M/S** to terminate PIMCO StocksPlus (Yes: Cabral, Viramontes; No: Buck, Gaynor, Gioia, Hast, Katz, Pollacek, and Telles). **The motion failed.**

It was noted Rothschild has been having some problems. Helliesen recommended placing them on watch for performance. It was **M/S/C** to place Rothschild on watch for performance. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Viramontes, and Telles)

Discussion followed on the performance of managers on the watch list and whether or not there was a benefit in holding managers on the watch list.

There were no other changes to the Managers' Under Review list.

Pollacek noted CCCERA is in the upper quartile of public funds for the 5 and 10 year cumulative return and CCCERA's portfolio has outperformed CalPERS over the past 5 and 10 years.

Changes in Allocations to Managers

There were no changes in allocations to managers.

Katz was not present for subsequent discussion and voting.

It was **M/S/C** to accept the Milliman's report for the period ending September 30, 2009. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Viramontes, and Telles)

4. Goldman Sachs Opportunistic Credit Strategy

Helliesen discussed his recommendation to fund Goldman Sachs Broad Opportunistic Credit Strategy. He noted some of the funds will come from the former Western Asset Management portfolio that Goldman Sachs watches over.

It was **M/S/C** to accept staff's recommendation to fund CCCERA's first opportunistic strategy with a \$60 million investment in the Goldman Sachs Broad Opportunistic Credit strategy, pending legal review, a successful on-site visit, and to authorize the CEO to sign any necessary documents. (Yes: Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Viramontes, and Telles; No: Buck)

Katz was present for subsequent discussion and voting.

The Board moved into closed session pursuant to Govt. Code Section 54957 to consider the Medical Advisor and/or staff's recommendation regarding disability retirement applications and under Gov. Code Section 54956.9(b).

The Board moved into open session.

5. Disability Retirements

It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:

- (a) Nicole Kreiden Non-Service Connected (Yes: Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Remick, Telles, and Viramontes)

6. Gov. Code Section 54956.9(b)

No reportable action.

It was the consensus of the Board to proceed to Item 10.

10. Special Board Meeting Date

It was *M/S/C* set January 11, 2010 at 9:00 a.m. as a Special Board Meeting to discuss final compensation and retirement benefits. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Viramontes, and Telles)

After discussion regarding calls board members have received concerning this issue, there was debate on the wording for the agenda. Some asked Leiderman for clarification and he recommended that it be announced at today's meeting that no action will be taken at the January 11, 2010 meeting that will affect member's retirements. It was noted that all facets will be discussed, and this is part of a process that may lead to future changes. It was stated that the Paulson Settlement Agreement by its terms only applied to those already retired as of September 30, 1997. The Paulson Settlement is not, however, binding as to any member who retired after September 30, 1997. There was a request that the agenda for the January 11, 2010 meeting list counsel recommendations.

8. Market Stabilization Account

Koehler reviewed the Market Stabilization Account Deferred return as of June 30, 2009. After explaining several line-items, it was *M/S/C* to accept the market stabilization account. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, and Viramontes, Telles)

9. Accessibility of Records Policy

Leiderman reviewed the proposed amendments to CCCERA's Accessibility of Records Policy. He noted he has taken out language for several sections that are no longer applicable. He commented on the removal of the section notifying members that records will be disclosed unless the member obtains a court order preventing such disclosure, since he now has clarity from several court cases regarding this issue.

Leedom noted information regarding the new Accessibility of Records Policy will be placed on CCCERA's website, in newsletters, and when members retire there will be a sign-off regarding receipt of the Accessibility of Records Policy.

Some expressed their concerns regarding changes to the policy. Remick noted safety members have issues with their information being released to anyone without being notified, and expressed the need for some sort of notification.

After discussion on several areas of the policy, there was a motion to approve the policy, including the information that is not public information and shall not be disclosed: a member's, beneficiary's or annuitant's social security number, date of birth, address, telephone and facsimile numbers, e-mail addresses, age at entry into service, spouse's and/or beneficiary's names, disability application, medical records, election of retirement options, or other personal information provided by the member or beneficiary. The motion was **amended** to include all active members as well, and to have new retirees sign an acknowledgement that they have received a copy of the policy. Staff will include information in the newsletter noting the information now considered public.

The motion to adopt the recommended Accessibility of Records Policy as written was **M/S/C** as amended. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Viramontes, Pollacek, and Telles). The Board directed staff to prepare a summary report periodically regarding public information requestors.

7. 2010 Budget

Leedom reviewed the 2010 Budget. She discussed proposed new positions and the new organizational chart included in the budget that places the Deputy Retirement Chief Executive Officer over Information Technology and Administration. Leedom noted her intent to initiate educational forums at CCCERA for the Board members of individual Districts and the members of the Board of Supervisors.

Gioia was not present for subsequent discussion and voting.

Leedom noted CCCERA's budget is under the amount allowed by law and the reasons why several items will be at a lower budget level in 2010 than 2009. .

Leroux reviewed the Disaster Recovery budget, which has been included for the first time. She gave a brief update on the progress made in setting up a cold site at Sungard and the warm site at another '37 Act system.

It was **M/S/C** to accept the 2010 budget as presented. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

It was **M/S/C** to change the title for a proposed position in the budget from Accounting Clerk to Retirement Accounting Technician. (Yes: Buck, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles; Abs: Cabral)

11. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of Remick, Gioia, Cabral, and Viramontes at the Investor Summit on Climate Risk, Ceres, January 14, 2010, New York, NY. (Yes: Buck, Cabral, Gaynor, Hast, Telles, Viramontes; No: Holcombe; abs. Pollacek, Katz)

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- (b) It was **M/S/C** to authorize the attendance of Cabral, Hally, Remick, and Buck at the Public Funds Summit, Opal Financial, January 5 - 8, 2010, Scottsdale, AZ. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)
- (c) It was **M/S/C** to authorize the attendance of two staff members at the Annual Conference, GFOA, June 6 - 9, 2010, Atlanta, GA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

12. Miscellaneous

- (a) Staff Report - Leedom reported staff will contact board members in order to establish an emergency contact list.

Levy noted that attorney Robert Blum of Hanson Bridgett has been retained by SACRS to analyze the '37 Act compliance with the Internal Revenue Code for the purpose of '37 Act systems' filing for a Letter of Determination with the Internal Revenue Service. Blum will work with a SACRS committee on revising the '37 Act and also prepare proposed Board regulations. Although it is unclear at this point how the continued SACRS and Blum relationship will be billed, Levy noted that CCCERA has its own tax attorney, Ice Miller, for the purpose of preparing for the IRS Letter of Determination.

Leedom noted the Marin Independent Journal has stated Charnel Benner, from Marin County Employees' Retirement Association, has been placed on administrative leave and Tom Ford has been appointed as Acting Director of the Retirement System.

- (b) Outside Professionals' Report - nothing further
- (c) Trustees' Comments - Cabral noted according to past policy he is reporting he had lunch with a former employee of Rothschild, who is now with a new company. He stated, as a Board Member, he is making a public records request regarding the Executive Key Person differential. He requested Leiderman and Levy's input into this issue. He believes it's spiking.

There was discussion on fiduciary training ethics for the full board. Cabral noted education of the full board would result in "all being on the same page" and reinforcement of fiduciary issues. He requested that the educational presentation be on the next Board Agenda, since CCCERA's actuary will not be making their presentation.

Remick noted he abstained on behalf of CCCERA on the SACRS Tulare proposed legislation; however, the item passed. The changes to the SACRS Bylaws were deferred until the Spring SACRS Conference and may then be deferred to the Fall SACRS.


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Holcombe asked Levy about the reaction of other '37 Act systems to the Stanislaus ruling on the lawsuit relating to public information disclosure. Levy noted many systems are waiting for proper jurisdiction and information has not been released.

It was **M/S/C** to adjourn. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)



William J. Pollacek, Chairman



David Gaynor, Secretary