

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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November 28, 2007

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, November 28, 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, John Gioia, Brian Hast, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; 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
Terry Buck	Local 1230 (Fire)
Susan Porth	Steefel, Levitt & Weiss
Mary Lou Williams	CCC Retirees' Association
Arthur Hidalgo	Carpenter BancFund
Edward Carpenter	Carpenter BancFund
John Flemming	Carpenter BancFund
Howard Gould	Carpenter BancFund
Tom Neukranz	ING Investment Management

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

It was **M/S/C** to approve the minutes of the October 24, 2007 meeting. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Viramontes and Wedington)

It was **M/S/C** to approve the minutes of the November 7, 2007 meeting. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Viramontes and Wedington)

3. Carpenter Community BancFund - Arthur Hidalgo, Ed Carpenter, John Flemming, Howard Gould
Carpenter began with a discussion of area banks and answered questions on the affect of the sub-prime mortgage issue. Carpenter also discussed the expected impact on small community banks when the economy goes into a recession. Carpenter stated that a recession can actually be advantageous for small banks. He explained that bigger banks tend to pull back and cut services during a recession, and small banks will take market share from big banks.

When asked about the process for investments, Fleming noted their fund will work with developing small size community banks, including areas such as recruiting management and boards, developing business plans, analyzing the market area, obtaining regulatory approvals and raising the initial capital. They provide "best practices" to the banks, strategic business management, mentorship, coaching and enhance the value for Carpenter & Company and the investors.

They then discussed their involvement with minority and women owned banks, the benefits for communities and the opportunities involved. Fleming noted there have been 183 new community banks formed in California since 1987: 0% have failed, 97% achieved consistent profitability at maturity and 94% of publicly-traded banks have increased in value.

Telles was present for subsequent discussion and voting.

Fleming then discussed how funds are generated, and how they might cope with the possibility of a recession or depression.

Carpenter noted the firm's headquarters is in Irvine, CA. The targeted IRR for the Carpenter Community BancFund is 25% net of fees. The investment period for the fund is 5 years, and Carpenter expects all the capital will be committed by year three or four. The first closing for the fund is scheduled for December 31, 2007.

When asked by counsel, Carpenter agreed to waive the confidentiality of their presentation booklet.

4. Carpenter Community BancFund Action

There was discussion on smaller vs. larger banks, the unique opportunity offered, and Carpenter's management group.

Hally noted that this is a direct private equity investment, which is a higher risk investment compared to committing capital to a private equity fund of funds. After discussing how a commitment to the Carpenter Community BancFund would impact the overall alternative investment allocation and reviewing the capital available to commit, there was a **motion** to commit \$30 million to The Carpenter Community BancFund, subject to a successful legal review and on-site visit, and to authorize the Chief Executive Officer to sign any necessary documents.

Fees were discussed in relation to other direct private equity investments and private equity fund of funds investments, and it was noted the fees are similar to other direct private equity partnerships. The lack of a track record was discussed and it was noted Carpenters management team's expertise has been to create Community Banks. There was continued discussion on waiting to make a decision until the information is absorbed and some noted there was a lack of information in the presentation book.

It was M/S/C to call for the question. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

On the motion, it was **M/S/C**, subject to successful legal review and on-site visit, to commit \$30 million to The Carpenter Community BancFund and to authorize the Chief Executive Officer to sign any necessary documents. (Yes: Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington; Abs: Cabral)

5. Review of Total Portfolio Performance

Milliman USA - Bob Helliesen

Helliesen began by noting things look better today than on September 30 and there was a general flight to quality during the third quarter. Larger capitalization stocks outperformed mid and small capitalization securities. Large capitalization stocks, as measured by the S&P 500, returned 2.1% in the third quarter while the Russell 2000® Index returned -3.1%. The median equity manager returned 0.8% and the broad market, represented by the Russell 3000® Index, returned 1.6%. International equity markets had positive results in the third quarter, with the MSCI EAFE Index returning 2.2% and the MSCI ACWI ex-US Index returning 4.7%. The U.S. bond market was positive in the third quarter of 2007, with the Lehman Universal Index returning 2.6%, the Aggregate Index returning 2.9% and the median fixed income manager returning 2.6%. Hedged international bonds were also positive, with the Citigroup Hedged Index returning 2.9%. The domestic private real estate market continued to post positive results in the third quarter of 2007, with the NCREIF Property Index returning 3.6%, while the publicly traded real estate market was up modestly with the Dow Jones Wilshire REIT Index returning 1.4%.

CCCERA's third quarter return of 2.5% was above both the median total fund and the median public fund. CCCERA has outperformed both medians over all longer trailing time periods, ranking in the upper quintile of both universes over the past two through five-year periods.

CCCERA total domestic equities returned 2.0% for the quarter, above the 1.6% return of the Russell 3000® and the 0.8% return of the median manager. Of CCCERA's domestic equity managers, Delaware had the strongest performance with a return of 8.1%, well above the 4.2% return of the Russell 1000® Growth Index. Intech Large Cap Core returned 2.1%, matching the S&P 500. Intech Enhanced Plus returned 2.0%, marginally below the S&P 500. Wentworth returned 2.0%, marginally below the 2.1% return of the S&P 500. PIMCO returned 2.0%, also marginally trailing the S&P 500. Emerald returned 1.6%, exceeding the 0.0% return of the Russell 2000® Growth Index. ING returned 1.4%, trailing the S&P 500 and the S&P 500 ex-Tobacco Indexes. Boston Partners returned 0.8%, better than the -0.2% return of the Russell 1000® Value Index. Progress returned -0.9%, better than the -3.1% return of the Russell 2000® Index. Finally, Rothschild returned -4.2%, better than the -6.1% return of the Russell 2500® Value Index.

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CCCERA international equities returned 3.1%, above the 2.2% return of the MSCI EAFE Index and the 1.9% return of the median international manager. The GMO Intrinsic Value portfolio returned 2.4%, slightly below the S&P Citi PMI EPAC Value Index return of 2.5% but above the median international equity manager. McKinley Capital returned 3.8%, below the MSCI ACWI ex-US Growth Index return of 6.4%, but above the median international equity manager.

CCCERA total domestic fixed income returned 2.9% for the third quarter, above the 2.6% return the Lehman Universal and the 2.6% return of the median fixed income manager. AFL-CIO's return of 3.1% exceeded the Lehman Aggregate and the median fixed income manager. PIMCO returned 4.0%, well above the Lehman Aggregate and the median. Western Asset returned 2.5%, slightly under the Lehman Aggregate and the median. ING Clarion returned -7.2%, well below the high yield fixed income median of 0.3% and the 0.3% return of the Merrill Lynch High Yield Master II Index. ING Clarion II returned -4.7% in the third quarter, also below the ML High Yield II Index and the high yield fixed income median. Nicholas Applegate returned 1.2% versus 0.3% for the ML High Yield II Index and exceeded the high yield median manager.

The Fischer Francis Trees & Watts international fixed income portfolio returned 2.7% for the third quarter, trailing the 2.9% return of the Citigroup Non-US Government Hedged Index.

CCCERA total alternative investments returned 6.5% in the third quarter. The Bay Area Equity Fund reported a return of 18.0%, Pathway returned 10.8%, Adams Street Partners reported a return of 7.9%, Energy Investor Fund II reported a return of 4.4%, the Hancock PT Timber Fund returned 1.6%, Nogales had a return of 0.8% for the quarter and Energy Investor Fund reported a return of 0.2%. (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 3.1% for the quarter while CCCERA's total real estate returned 1.6%. The vast bulk of this underperformance is attributable to the overweight to REIT securities, as these were up only slightly in the quarter, following an extensive sell off in the second quarter. DLJ's RECP I returned 21.1%; DLJ's RECP III returned 5.0%; BlackRock Realty returned 3.0%; Prudential SPF-II returned 2.8%; Adelante returned 1.6%; Fidelity II returned 1.4%; DLJ's RECP II returned 0.6%; the Willows Office property returned 0.4%; FFCA returned -0.5%; and Invesco returned -5.1%.

Helliesen noted an asset allocation study will be provided to the Board in the Spring. It was also noted the Willows Office Park will show strong performance in the fourth quarter as a result of a recent appraisal.

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When asked about Western Asset Management, Leedom noted Western is adding more client service employees. Discussion continued on Western Asset Management and the upcoming search to re-bid the core plus bond mandate managed by Western.

It was M/S/C to accept the report. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

a. Managers Under Review

It was M/S/C to remove PIMCO from the under review. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

No additional managers were added to the Under Review List.

b. Allocations to Managers

No action taken.

Gioia was not present for subsequent discussion and voting.

6. Bay Area Equity Fund

There were questions on Bay Area Equity Fund's separation from JP Morgan and their liability coverage.

There was discussion on performing an on-site visit with the firm to get more information to make an informed decision.

It was M/S/C to perform an on-site visit at Bay Area Equity Fund and return to the Board at the December 12, 2007 meeting for action. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

7. Miscellaneous

- (a) Staff Report - Leedom reviewed a note to the Association from one of CCCERA's members thanking staff for the great job they do, noting they change people's lives forever, everyday for the better.

Leedom noted the Willows Office Building appraised for \$15.56 million. The County has assessed the building at \$16 million. She will be contacting the assessor and informing him of the appraisal amount.

She noted the Retirement Board Regulations and contribution rates for July 1, 2008 were approved at the November 27, 2007 Board of Supervisor's Meeting.

Before directing Leedom to put Ice Miller on hold for an IRS letter regarding the OPEB Commission, Leedom was requested to get more information and to determine the action of other '37 Act Retirement systems.

Leedom will get more copies of the Kuhn's report distributed at the Fall SACRS Conference for Board members if needed.

Before the end of the year, a newsletter will be mailed to CCCERA members regarding pre-funding for healthcare and Normal Retirement Age. The newsletter will inform Safety members of the 1040 line item deduction for healthcare on their retirement checks. This item will be only for those members whose last tier was Safety. She noted Ice Miller did agree with all the classifications that fall under CCCERA's Safety category. The newsletter will have the section of law referring to this from the Pension Protection Act of 2006.

- (b) Outside Professionals' Report- Helliesen noted CCCERA is in possession of three sets of presentation materials from ING for the December 5, 2007 meeting: the packet from Fed Ex had been sitting in San Jose; Helliesen printed a packet and someone from ING hand-delivered another set from Sacramento.

Dunning had nothing further to report.

- (c) Trustees' Comments - There were various discussions on the recent SACRS Conference.

The Board will go into closed session under Gov. Code Section 54957 to evaluate the Retirement Chief Executive Officer's performance.

The Board moved into open session.

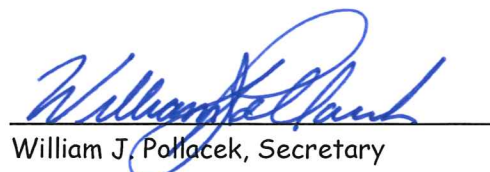
7. Chief Executive Officer's Evaluation

After returning from the Retirement Chief Executive Officer's evaluation in closed session, it was **M/S/C** the Retirement Chief Executive Officer (CEO) performance has exceeded expectations and all are pleased with her performance and in accordance with her contract upon successful annual performance, the CEO will be awarded a 6% increase. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

Viramontes was not present for subsequent discussion and voting.

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


Clifton Wedington, Chairman


William J. Pollacek, Secretary