

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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November 28, 2012

The Board of Retirement met in a special session at 9:00 a.m. on Wednesday, November 28, 2012 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Debora Allen, Terry Buck, Richard Cabral, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Gabe Rodrigues, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: John Gioia

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; Karen Levy, General Counsel; and Vickie Kaplan, Retirement Accounting Manager

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Jeffrey Youngman	Milliman
Marty Dirks	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Christina Dunn	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Rossini	CCCERA Staff
Wendy Lack	Self
Bill Cullen	Retiree
William Pigeon	Local 1230
Todd Smithey	Central Contra Costa Sanitary District
Richard Fulford	PIMCO
Ashish Tiwari	PIMCO
Jason Hsu	Research Affiliates
Stephanie Ivy	Goldman Sachs
Kane Brennan	Goldman Sachs
Samantha Davidson	Goldman Sachs
Scott Geary	Wellington Management
Rick Wurster	Wellington Management
Brian Henze	Wellington Management
Scott Elliott	Wellington Management
Kenneth Baumgartner	Wellington Management
Lisa Driscoll	County Administrators Office
Laura Strobel	County Administrators Office

1. Pledge of Allegiance

Viramontes led all in the *Pledge of Allegiance*.

Allen and Hast were present for subsequent discussion and voting.

2. Public Comment

Wendy Lack, Contra Costa Taxpayers Association, urged the Board to change their policy and have the closed session portion at the beginning of the Board meeting agenda. Lack also felt the Board meetings should be audio recorded and that the recordings should be available on CCCERA's website.

3. Real Asset Manager presentations:

Introduction and overview by Milliman

Helliesen gave an overview of the search process and of the finalist firms for Real Asset Managers. He reported the Board approved placing 5% of the Plan assets into real asset strategies, half of which will be in a public mandate and the other half in a private mandate. He noted the firms presenting are in the public mandate. It was noted that 5% of the fund is currently valued at approximately \$280 million.

Youngman described the four products being presented. He described the pros and cons of each of the firms and noted that some firms have a longer history in managing these mandates than others.

The Board discussed their options if they didn't select any of the managers presenting.

PIMCO All Asset Strategy - Richard Fulford, Jason Hsu, Ashish Tiwari

Fulford gave a brief introduction of the presenters. He noted the PIMCO All Asset Fund seeks to deliver multiple concurrent benefits to investors, including access to capital on a daily basis.

Tiwari reported the All Asset Fund was created in 2002 because conventional stock/bond allocations may not provide adequate returns, high equity allocations drive the need for risk diversification, and institutions and individuals alike must earn returns that exceed future inflation. He noted they have a joint partnership with Research Affiliates which has \$110 billion of assets under management and has grown to over 40 investment professionals.

Hsu reported the All Asset Fund investment process seeks to achieve long-term characteristics of CPI + 5% annualized over a business cycle (approximately 5 years). He gave an overview of all the strategies and asset classes noting some asset classes have low correlations which provides for an opportunity for active reallocation. He reviewed the All Asset Fund investment process, noting it is value-oriented, very disciplined, uses historical data and seeks to maximize risk-adjusted real returns.

The fiscal cliff was discussed and Hsu noted the country has never been in this position, resulting in a lot of uncertainty. Fees were discussed and it was noted they were not negotiable.

Goldman Sachs - Stephanie Ivy, Kane Brennan, Samantha Davidson

Ivy introduced the team noting they are part of the core group that would be dedicated to CCCERA's investment. She stated this strategy is tailored and highly customized for each client.

Brenan reviewed Goldman Sachs experience with public pensions and addressed CCCERA's Public Real Assets goals. He reported on their commitment to managing public pension assets noting they have \$33.4 billion of public pension assets under management. He reviewed their extensive Real Assets tool kit noting they have over \$7 billion of real assets under management and have a broad platform of real assets solutions and strategies. He reported that their Real Return strategy has posted 12.5% gross returns year-to-date and 9.1% since inception. He further reported they have an experienced multi-asset class investment team with over 50 members, with 6 investment professionals dedicated to CCCERA.

He reviewed their distinctive investment approach to Real Assets; the ability to customize, their broad investment tool kit, a robust risk-based framework, tactical views and a dedicated team. He noted REITS can be included or excluded.

Davidson reviewed their proposed customized Real Asset strategy noting they are focused on risk management and regularly rebalance their portfolio. They look at what assets are more volatile and reduce them. She reviewed the interaction of team members and reviewed the application of each team member's expertise.

Brenan reported they are involved in one lawsuit which they are contesting because they feel it is without merit.

Ivy noted they are willing to negotiate fees due to their continuing relationship with CCCERA.

Wellington

Diversified Inflation Hedges - Scott Geary, Scott Elliott, Kenneth Baumgartner

Geary gave an overview of the firm noting they are headquartered in Boston with over \$700 billion in assets under management. He reported they are solely owned by employees, have a long term perspective in investing, and are diversified which provides stability to their clients. He gave an overview of the investment team and their average years of experience. He noted both the Diversified Inflation Hedge Fund and Real Total Return Fund have beat the CPI + 5% index since inception.

Baumgartner reviewed their Diversified Inflation Hedge investment timeline noting they have been investing in energies for almost 3 decades.

Elliott reviewed their investment objective and approach, noting they have a multi-asset portfolio that changes over time due to inflation risks. The portfolio is specialized in inflation sensitive equities, bonds and commodities. He stated utility prices are an important component of inflation. He also reviewed the portfolio management teams.

Baumgartner gave an overview of their allocation history noting they have become less interested in industrial metals and have removed real estate from their portfolio. He stated their investment horizon is a minimum of 3 to 5 years. He described their risk balancing process to manage changing market

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environments. He reviewed sector positioning; noting agriculture is an important hedge against inflation. He reviewed the portfolio's performance by calendar year and since inception. He also reviewed actual performance in different inflation environments.

Geary discussed the fees on this strategy, noting they are not flexible. He also reported they are not involved in any lawsuits.

Wellington Real Total Return - Brian Henze, Richard Wurster, Scott Geary

Henze gave an overview of the strategy and of the investment team.

Wurster summarized the objectives and approach of the portfolio, noting they seek to deliver a CPI +5% return with 6-10% volatility and a low correlation to equities over a full market cycle. He stated this fund has greater stability with low volatility. He stated they manage risk by creating portfolio balance and hedge against the losses.

Wurster reviewed the key characteristics of the Real Total Return approach noting they want a low correlation to equity. He also reviewed their investment process which includes identifying attractive assets, investing in active strategies and managing the risk.

Henze reviewed the investment returns for the past 6 years, noting the portfolio has consistently outperformed its custom benchmark.

Geary summarized the two products offered by Wellington, Diversified Inflation Hedges and Real Total Return, noting they can complement each other or be used as stand-alone strategies.

It was the consensus of the Board to move to item 5.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54956.9(a) and Govt. Code Section 54956.9(b).

The Board moved into open session.

5a. It was **M/S/C** to accept the tender of defense for staff. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

5b. There was no reportable action related to Govt. Code Section 54956.9(a).

6. There was no reportable action related to Govt. Code Section 54956.9(b).

It was the consensus of the Board to move to item 4.

4. Consider and take possible action on Real Asset Manager(s)

Helliesen reviewed the presentations from the managers. The Board discussed the pros and cons of each of the strategies and whether the investment should be allocated in one or two Real Asset managers.

It was **M/S/C** to select two Real Asset managers. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts. No: Cabral)

After a discussion on the presenters, it was **M/S/C** to invest \$100 million in PIMCO All Asset Strategy and \$180 million in Wellington Real Total Return subject to due diligence, on-site visits, legal review and authorize the Retirement CEO to sign the contracts. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts).

7. Methodology used for contribution rates for implementation of new PEPRAs tiers

Schneider gave an overview of the two choices of methodology for calculation of contribution rates for PEPRAs members (new members entering into the system on or after January 1, 2013). The system's actuary, The Segal Company, recommends that a single member rate be developed for each of the four PEPRAs tiers within CCCERA. Schneider reviewed the reasons the Segal Company provided for their recommendation to develop a single member rate for PEPRAs members.

After a Board discussion on the differences of whether member contribution rates for PEPRAs members should be calculated using a single member rate method or an age at entry method, it was **M/** to accept The Segal Company's recommendation to implement a single member rate method for all new PEPRAs members. The motion failed for lack of a second.

Vincent Wells, Local 1230, asked for clarification on what the employers' responsibility is regarding the new law. He also questioned the difference the single member rate method would have on the legal requirement of a 50/50 split of the normal cost compared to the age at entry rate method. Leedom requested he send his questions to her.

It was **M/S/C** to move the item to the December 12, 2012 meeting to provide time to gather more information. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts).

8. Update on miscellaneous PEPRAs implementation issues

Schneider summarized his memo on the actuarial issues regarding PEPRAs implementation noting rates will be calculated once the Board has decided between the single rate method or the age at entry method discussed in Item 7.

Leedom reported the industrial disability plan for safety members will cause an increase in the UAAL.

9. Special Board Meeting Date

There was no action on this item.

10. Miscellaneous

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(a) Staff Report -

Leedom reported the Retiree Mailing Policy will be on the December 12, 2012 board meeting agenda.

She reported memos have been sent to employers, employees and deferred members regarding the possible change in terminal pay calculations.

She has scheduled meetings with employers regarding changes caused by PEPR.

(b) Outside Professionals' Report -

Leiderman reported the Deputy Sheriff's Association (DSA) and the United Professional Fire Fighters (Local 1230), filed a lawsuit in Contra Costa County Superior Court against CCCERA regarding the implementation of AB 197. He stated a case number has not been assigned yet. He reported a hearing was held in the morning and Judge Flynn of the Superior Court entered an order requiring the retirement board to stay the implementation of AB 197 pending the outcome of the case and for 60 days after the case is decided. He stated that until further order of the court, staff will continue to calculate the pensions of its members with membership dates prior to January 1, 2011 in the same manner as it has prior to the enactment of AB 197.

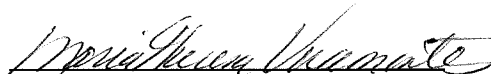
(c) Trustees' Comments -

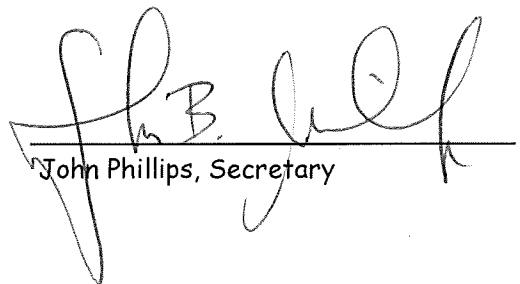
Telles requested an item be placed on the next agenda regarding sending the entire agenda packet, without confidential documents, to retiree groups at no cost to them.

Allen requested the issue of recording board meetings and the timing of the closed session be placed on a future agenda.

Viramontes requested the meeting be adjourned in memory of Donna Jean Eichelberger, Marilyn's mother. She thanked Marilyn for all her work during this difficult time.

It was **M/S/C** to adjourn the meeting in honor of Donna Jean Eichelberger. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)


Maria Theresa Viramontes, Chairman


John Phillips, Secretary