The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 22, 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, 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; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:

Harvey Leiderman	Steefel, Levitt & Weiss
Bob Helliesen	Milliman, USA
Tim Price	Milliman, USA

Other Attendees:

Charice Hester	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Margie Breen	CCCERA Staff
David Muller	Fischer Francis Trees & Watts (FFTW)
Jim Failor	Grantham, Mayo, Van Otterloo & Co (GMO)
Tom Rosalanko	GMO
Arthur Hidalgo	Adelante Capital Management
Bonnie Miller	Adelante Capital Management
Jeung Hyn	Adelante Capital Management
Luis Sanchez	Adelante Capital Management
Andrew Schroeder	Energy Investors Fund (EIF)
Mark Voccola	Energy Investors Fund

1. **Public Comment**

No members of the public offered comment.

2. **Approval of Minutes**

After amending Item 7, adding "A recommendation was made to separate rebalancing figures from funding transitions." at the end of the paragraph, it was M/S/C to approve the minutes of the February 8, 2006 meeting as amended. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

3. **Review of Total Portfolio Performance**

Milliman USA - Bob Helliesen

Helliesen noted any changes to U.S. Equity managers should be delayed until after Milliman's in-depth analysis of CCCERA's Equity Managers is presented to the Board. He reviewed the Board direction to review the domestic equity structure, noting their analysis would include the return of managers relative to their benchmark, analysis from 1990 to present and the historic return for what the managers would have returned using a different mix.

Helliesen provided a summary of the total portfolio performance for the period ending December 31, 2005.

He began by noting the domestic equity markets had positive returns in the fourth quarter of 2005, with the S&P 500 returning 2.1%. Small capitalization stocks under-performed larger capitalization issues, with the Russell 2000 returning 1.1%. The median equity manager returned 2.1% and the broad market, represented by the Russell 3000, returned 2.0%. International equity markets had stronger results, with the MSCI EAFE Index returning 4.1% and the median international equity manager returning 4.4%. Emerging markets posted even stronger results, with the MSCI Emerging Markets Index returning 6.6%. The U.S. bond market was slightly positive in the quarter with both the Lehman Aggregate Index and the median fixed income manager returning 0.6%. Hedged international bonds performed slightly better, with the Citigroup Hedged Index returning 0.9%. Real estate returns were positive, with the NAREIT Equity Index of publicly traded real estate investment trust securities returning 1.5% and the NCREIF Property Index returning 5.4%. The median real estate manager returned 3.9%.

CCCERA's fourth quarter return of 3.2% exceeded both the median total fund and the median public fund. CCCERA has out-performed both medians over all trailing time periods.

CCCERA total domestic equities returned 2.9% for the quarter, above the 2.1% return of the S&P 500 and the 2.1% return of the median manager. Of CCCERA's active equity managers, Wentworth had the strongest domestic equity performance with a return of 4.3%, well above the 2.1% return of the S&P 500. Emerald returned 4.0%, better than the Russell 2000 Growth Index return of 1.6%. Delaware returned 3.8%, above the Russell 1000 Growth return of 3.0%. Progress returned 2.9%, better than the 1.1% return of the Russell 2000. Intech returned 2.7%, above the S&P 500. Rothschild returned 2.6% versus 0.9% for the Russell 2500 Value. Boston Partners returned 2.4%, above the S&P 500 and the Russell 1000 Value Index. PIMCO returned 2.1%, matching the S&P 500. Finally, ING returned 1.8%, slightly trailing the S&P 500.

CCCERA international equities returned 6.5%, above the 4.1% return of the Morgan Stanley Capital International Europe, Australia, Far East Index and the 4.4% return of the median international manager. Capital Guardian's developed market portfolio return of 8.5% was better than the MSCI EAFE and the median manager. The GMO Intrinsic Value portfolio returned 3.5%, slightly trailing the MSCI EAFE and the median international equity manager. The Capital Guardian emerging market portfolio returned 10.2% versus 7.2% for the MSCI Emerging Market Free Index.

CCCERA total domestic fixed income returned 0.9% for the fourth quarter, above 0.6% for the Lehman Aggregate and 0.6% for the median fixed income manager. AFL-CIO's return of 0.6% matched the Lehman Aggregate and the median fixed income manager but slightly trailed the Citigroup Mortgage Index. PIMCO returned 0.6%, matching the Lehman Aggregate and the median. Western Asset returned 0.2%, below the Lehman Aggregate and the median. ING Clarion returned 2.4%, well above the fixed income median. Nicholas Applegate returned 1.6% versus 0.4% for the Citigroup High Yield Index and 0.8% for the Merrill Lynch BB/B Index.

The Fischer Francis Trees & Watts international hedged fixed income portfolio returned 0.8% for the fourth quarter, slightly below the 0.9% return of the Salomon Non US Government Hedged Index.

CCCERA total alternative investments returned 4.6% in the fourth quarter. Pathway returned 8.2%, Energy Investor Fund reported a return of 4.9%, Adams Street Partners reported a return of 3.7%, PruTimber reported a return of 2.6%, Nogales had a return of 2.5% for the quarter and the Bay Area Equity Fund returned 0.2%.

The median real estate manager returned 3.9% for the quarter while CCCERA's total real estate returned 5.1%. DLJ's RECP III returned 19.3% while RECP II returned 13.8%, Prudential SPF-II returned 7.7%; Invesco returned 5.7%; BlackRock Realty returned 4.3%, Adelante Capital's REIT portfolio returned 4.0%; Fidelity returned 2.1%; FFCA returned 2.1%; Willows Office property returned 1.9%; DLJ's RECP I returned 0.1%; and US Realty returned -27.3%. The poor showing of the US Realty portfolio was due to a large write-down of the remaining property in preparation of its sale.

Asset Allocation
The CCCERA fund at December 31, 2005 was over-weighted in domestic equity at 46% versus the target of 43%, and under-weight in alternatives at 3% versus the target of 5% and commodities at 0% versus the target of 2%. Other classes were near targets.

There was discussion on which Investment Managers should remain or be removed from the current Watch List. Cumulative, after fee cumulative and year-by year performances through fourth quarter 2005 were reviewed. There was discussion on the uniqueness of ING Clarion, the appropriate benchmark and placement in the current category of the allocation schedule.

Helliesen noted that FFTW has requested the ability to actively go short or long in currencies of countries in which they do not hold securities. There would continue to be a limit of 20% active currency exposure away from the US dollar. Helliesen will return to the Board with information for further discussion.

Viramontes was not present for subsequent discussion and voting.

After discussion, it was M/S/C to place ING Investments on the Watch List for changes in personnel and performance. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Wedington)

It was M/S/C to remove Boston Partners, Delaware, and Prudential Timber from the Watch List. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Wedington) Helliesen noted that Prudential Timber's name has been changed to P.T. Timber. Progress will remain on the Watch List because of personnel changes.

Viramontes was present for subsequent discussion and voting.

4. **Manager Presentations**

Grantham, Mayo, Van Otterloo & Co.(GMO) - Jim Failor, Tom Rosalanko
Failor began by providing an overview of GMO, representative clients, investment strategies, performance net of fees and expenses for the period ending December 31, 2005.

Failor reviewed their philosophy, with focus on valuation, high quality, price and earnings momentum and structured approach.

Rosalanko noted GMO's investment objective is to have annualized returns of 3%, after fees, above the benchmark; they were unable to meet their goal this year. Some of the factors that hurt returns were the under-weights in the materials and industrials sectors, stock selection in Japan and the health care sectors. Portfolio returns were helped by being underweight in telecommunications services, stock selection in the United Kingdom and stock selection in energy.

Rosalanko concluded by discussing relevant benchmarks, and processes for buying, selling and controlling stocks.

Fischer Francis Trees & Watts (FFTW) - David Muller
Muller reviewed the ownership structure, corporate structure and staff, which included recent personnel changes. He described FFTW's investment structure, and noted there has been no change in their investment strategy.

He then reviewed the exposure for the portfolio by sector. The portfolio's largest country over-weightings are in the United State (US) and the United Kingdom (UK), while the largest under-weightings continue to be in Japan and the European Zone. The portfolio contained 9% non-US collateralized securities, 9% US asset backed securities, 1% other non-US credits and 0% US Credits.

Muller notes that FFTW wants to look for opportunities in foreign exchange markets without being tied to securities in those countries in order to add further value. He noted this has been done for almost all clients. Helliesen noted that FFTW is limited in how they can manage currencies, have not gone out of the guidelines that were previously set in their contract, but would like to create a tool to enlarge their universe. Helliesen noted that the benchmark used for FFTW needs to be reviewed.

Telles and Kroll were not present for subsequent discussion and voting.

Adelante Capital Management - Bonnie Miller, Luis Sanchez, Arthur Hidalgo, Jeung Hyn Miller began by noting Adelante's offices moved November 2005, from Berkeley to Oakland and the Board will receive a formal invitation to a reception on May 3, 2006 to view the new location.

Sanchez provided a relationship overview noting there has been no change in their investment style, their benchmark is the NAREIT Equity Total Return Index, and their management buy-out was in August 2004.

He then reviewed Adelante's organization, investment philosophy, investment process, and their security selection research. He noted REITS continue to look attractive and the market has been positive for REITS in general. The REIT market's total return for 2005 exceeded most prognosticators' forecast by rising 14.0%.

Hyn reviewed CCCERA's portfolio characteristics, diversification, composition with property sector weights, investment performance and their buy and sell disciplines. He then reviewed the portfolio's 10 largest REITS, noting areas where Adelante was either under or over-weight.

Hyn concluded by reviewing Adelante's future outlook including a stable operating environment, new supply, and private market transactions. He noted the risks are the inverted yield curve, inflation and slower than expected economic growth. Expected returns are 4 - 8% in 2006.

Energy Investor Fund (EIF) - Andrew Schroeder, Mark Voccola
Schroeder began with an overview of EIF, noting they have invested over $750 million of capital in global power markets; have 22 investment, engineering, technical, analytical, financial, and legal professionals with over 200 years combined global project and corporate finance experience, and are 100% management owned.

Their investment focus is primarily in small to mid-sized generation and transmission assets with long-term contracts that provide equity returns with current income and capital appreciation.

Voccola noted that U.S. Power Fund II closed at $750 million on October 28, 2005; is 31% committed as of February 17, 2006 in three generation and three transmission projects, with a targeted net pre-tax IRR of 20%.

U.S. Power Fund closed at $250 million in December 2003; is 100% committed by early in the third quarter of 2005. Since inception, $116 million has been distributed to the limited partners as of December 31, 2005 and projected current cash distributions are 15% per annum.

Voccola agreed to waive EIF's confidentiality on their report to allow review and presentation as a public document in open session. He concluded by stating that both funds are on track to return their stated IRR's.

5. **Investment Manager Presentations**

Discussion on Investment Manager presentations was tabled until the second meeting in March.

6. **Conference Seminar Attendance**

(a) It was M/S/C to authorize the attendance of Cabral and Wedington at the Spring Meeting, CII, March 29 - 31, 2006, Washington, D.C. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Viramontes, and Wedington)

7. **Miscellaneous**

(a) Staff Report - Leedom noted the Tier staff commented in a design session that of all the systems they have worked, CCCERA is the most complicated.

With Counsel's assistance, Leedom is assisting in the process of resolving cases claimed against the County where members have had contributions in excess of the required amount taken out of their paychecks.

Hally reviewed outstanding Board priorities regarding investment items. He noted he will continue to follow-up on the domestic equity structure review and commodities education. Board members requested more education and time before an RFP was issued to determine direction on commodities. It was noted the Board received education on passive commodities in October, so future education will be on active commodities. The session will be to collect information, with education and different approaches as to how commodities can be implemented, and discussion on active vs. passive. Hally noted other items he will be presenting are appropriate benchmarks with an analysis of all benchmarks; revisit of alternative investments and Adams Street 2006 Fund; investments in real estate and securities litigation.

(b) Outside Professionals' Report - Leiderman responded to a question by Viramontes at the last meeting regarding a new law that went into effect January 1, 2006 requiring special districts to disclose all travel reimbursement for every Board in which a trustee is a member. He noted that, technically, this law is not applicable to CCCERA's Board and not specifically required right now, but language is being cleaned up on this issue. He noted CCCERA has a policy on reimbursement for travel, and the Board should make a brief report on the content of seminars.

Helliesen will return with comments on FFTW regarding their requested change. He will work with Hally to determine the best way to present more commodities education. When the commodities education is complete, Milliman will begin their search and return with five finalist firms for the Board's review.

(c) Trustees' Comments – Wedington noted SACRS plans to include Ethics Training at either the May or November SACRS Conference.

Katz asked about publicizing CCCERA's positive latest returns with the press and other entities. Leedom noted she will review and respond back to the Board.

Cabral would like to be able to determine where all of CCCERA's funds are invested at Pathway and Adams Street. He noted that Bay Area equity commented their fund would be creating jobs in Contra Costa County, but notes most of the investments have been in San Francisco and Alameda counties. He feels Bay Area Equity needs to try harder to invest in Contra Costa County. He also noted that ING Clarion is domiciled off-shore at the Cayman Islands and he does not support this. It was noted that ING Clarion is in New York and has a feeder fund out of the Cayman Islands designed to minimize risk.

Katz requested a thorough review from counsel of ING Clarion.

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

Clifton Wedington, Chairman

William J. Pollacek, Secretary