

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 28, 2007 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Dave Gaynor, Brian Hast, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Bob Rey, 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
Tim Price Milliman, USA

Other Attendees:
Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Terry Bruce Contra Costa County Fire Protection District (CCCFPD)

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

After amending Page 4, Item 8, 5th paragraph last line to: "Counsel reminded Board members of their fiduciary duty to administer the retirement fund for the benefit of all CCCERA members and beneficiaries rather than the benefit only of the employee/employer groups that elected or appointed them to the Board.", and changing Page 6, 15(c), first paragraph to "Cabral commented that at the AFSCME Conference he spoke with a New York City trustee and was informed that they have their money managers sign an anti-embarrassment clause that they will not do anything that causes boards to be embarrassed by the managers' actions. Dunning noted she has tried to negotiate something similar to this with some private equity managers and managers didn't accept this clause. She noted transparency by managers has become a big issue with discussion in DC regarding this topic.", it was **M/S/C** to approve the minutes of the February 14, 2007 meeting as amended. (Yes: Gaynor, Hast, Katz, Naramore, Pollacek, Remick, Rey, Viramontes and Wedington)

3. Review of Total Portfolio Performance

Milliman USA - Bob Helliesen

Helliesen began by noting the domestic equity markets were strong in the fourth quarter of 2006, with the S&P 500 returning 6.7%. Small capitalization stocks out-

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performed larger capitalization issues, with the Russell 2000® returning 8.9%. The median equity manager returned 6.8% and the broad market, represented by the Russell 3000® Index, returned 7.1%. International equity markets also had strong positive results in the fourth quarter, with the MSCI EAFE Index returning 10.4%. The U.S. bond market was positive in the fourth quarter of 2006, with the Lehman Aggregate Index returning 1.2% and the median fixed income manager returning 1.2%. Hedged international bonds were also slightly positive, with the Citigroup Hedged Index returning 0.7%. The domestic real estate market posted positive results in the fourth quarter of 2006, with the NCREIF Property Index returning 4.5% and the NAREIT Equity Index returning 9.5%.

CCCERA's fourth quarter return of 5.8% 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 6.8% for the quarter, below the 7.1% return of the Russell 3000®, but above the 6.7% return of the S&P 500 and matching the 6.8% return of the median manager. Of CCCERA's domestic equity managers, Boston Partners had the strongest performance with a return of 8.7%, better than the 6.7% return of the S&P 500. Rothschild returned 8.6% versus 9.1% for the Russell 2500™ Value. Progress returned 8.5%, trailing the 8.9% return of the Russell 2000® Index. PIMCO returned 6.8%, better than the S&P 500. ING returned 6.6%, slightly trailing the S&P 500 (but matching the S&P 500 ex-Tobacco Index). Delaware returned 6.1%, above the Russell 1000® Growth return of 5.9%. Intech Enhanced Plus returned 5.7%, below the S&P 500. Emerald returned 5.7%, trailing the 8.1% return of the Russell 2000® Growth Index. Finally, Wentworth returned 5.3%, trailing the S&P 500.

CCCERA international equities returned 9.5%, below the 10.4% return of the MSCI EAFE Index and the 10.3% return of the median international manager. The GMO Intrinsic Value portfolio returned 9.2%, below MSCI EAFE, EAFE Value Indices and the median international equity manager. McKinley Capital returned 9.9%, trailing the MSCI EAFE and median international equity manager returns while exceeding the MSCI EAFE Growth Index.

CCCERA total domestic fixed income returned 3.0% for the fourth quarter, above 1.2% for the Lehman Aggregate and 1.2% for the median fixed income manager. AFL-CIO's return of 1.4% was better than the Lehman Aggregate and the median fixed income manager. PIMCO returned 1.2%, matching the Lehman Aggregate and the median. Western Asset returned 1.5%, exceeding the Lehman Aggregate and the median. ING Clarion returned 44.4%, dwarfing the fixed income median, as the fund's assets were re-securitized as a CDO and sold during the quarter. ING Clarion II returned 3.4% in its first full quarter, above the 1.2% return of the Lehman Aggregate. Nicholas Applegate returned 4.3% versus 4.4% for the Citigroup High Yield Index and 3.8% for the Merrill Lynch BB/B Index.

The Fischer Francis Trees & Watts international hedged fixed income portfolio returned 0.7% for the fourth quarter, matching the 0.7% return of the Citigroup Non US Government Hedged Index.

CCCERA total alternative investments returned 3.4% in the fourth quarter. The PT Timber Fund reported a return of 10.8%, Energy Investor Fund reported a return of 3.4%, Adams Street Partners reported a return of 3.2%, Pathway returned 2.6%, Energy Investor Fund II reported a return of 2.5%, Nogales had a return of 1.9%, and the Bay Area Equity Fund returned -3.1% for the quarter. (Due to timing constraints, all alternative portfolio returns except PT Timber Fund are for the quarter ending September 30.)

The median real estate manager returned 3.8% for the quarter while CCCERA's total real estate returned 8.8%. Prudential SPF-II returned 22.8%; Invesco returned 11.0%; DLJ's RECP II returned 10.8%; Adelante returned 9.9%; DLJ's RECP I returned 6.1%; DLJ's RECP III returned 5.6%; BlackRock Realty returned 4.6%; FFCA returned 2.7%; Fidelity returned 2.1%; the Willows Office property returned 1.2%; and US Realty returned -41.7% as the lone remaining property was written down in preparation for its subsequent sale.

Managers Under Review

After discussion, it was *M/S/C* to remove U.S. Realty from Under Review because all assets have been sold and the relationship has been terminated, and remove Western Asset Manager from Managers Under Review because they have re-established their performance. (Yes: Gaynor, Hast, Katz, Naramore, Pollacek, Remick, Rey, Viramontes and Wedington)

Several investment managers' performances were discussed including the recent on-site visit at Wentworth, Hauser and Violich, potential changes with portfolio managers at Wentworth and the number of CCCERA core managers. It was *M/S/C* to accept the consultants' recommendation to place Wentworth, Hauser, and Violich Under Review for personnel changes and performance and to have new portfolio managers at Wentworth appear before the Board for a presentation. (Yes: Gaynor, Hast, Katz, Naramore, Pollacek, Remick, Rey, Viramontes and Wedington)

There was continued discussion on various other managers.

4. Global Bond Search

The Board received an update from the consultant on the Global Bond Search. The procedure for screening candidates and a list of managers under consideration were reviewed.

It was the consensus of the Board that PIMCO and Western Asset Management be sent request for information along with the other candidates. Discussion followed on the list

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of candidates and a reminder that Board members should not be in contact with these firms.

5. Pathway Capital Management

After discussion, it was *M/S/C* to accept staff's recommendation to make a capital commitment of \$50 million to Pathway Capital Management, subject to legal review and authorize the CEO to sign any necessary documents. (Yes: Gaynor, Hast, Katz, Naramore, Pollacek, Remick, Rey, Viramontes and Wedington)

6. Proxy Voting Guidelines

Hally reviewed recommended changes to the Proxy Voting Guidelines. After discussion, it was *M/S/C* to accept staff's recommendation to adopt the proposed changes to CCCERA's Proxy Voting Guidelines to incorporate the Institutional Shareholder Services (ISS) guidelines of when to withhold a vote from directors into CCCERA's Proxy Voting Guidelines. (Yes: Gaynor, Hast, Katz, Naramore, Pollacek, Remick, Rey, Viramontes and Wedington)

7. Miscellaneous

- (a) Staff Report - Leedom noted the benefits system implementation is going forward with COLA testing. A recent tax bill on the Willows building showed a 50% increase in the assessed value for the building. She is researching the bill and will be working with counsel for a possible appeal.

Hally commented he has been gathering information on Sudan divestment and will continue to monitor the issue.

- (b) Outside Professionals' Report - Dunning reported on a recent decision by a federal district court in Illinois invalidating a State law that mandated public pension funds to divest from companies doing business with or in Sudan. She will advise the Board further on this topic upon request.

Helliesen advised the Board that the US Power Fund recapitalization will be on a future agenda

- (c) Trustees' Comments - None

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


Clifton Wedington, Chairman


William J. Pollacek, Secretary