

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 18, 2012

MEETING DATE

NOV 20 2012

AGENDA ITEM

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The Board of Retirement met in special session at 9:00 a.m. on Thursday, October 18, 2012 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

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

Absent: Debora Allen, John Gioia and Brian Hast

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

Outside Professional Support: Bob Helliesen
Representing: Milliman

Other Attendees:

Chih-Chi Chu	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Christina Dunn	CCCERA Staff
Rhonda Jones	CCCERA Staff
Justine Rossini	CCCERA Staff
Bill Pollacek	Retired County Treasurer
Michael Goosay	Goldman Sachs
Stephanie Ivy	Goldman Sachs
Patricia Lynn	Lord Abbett
Yvette Klevan	Lazard
Anthony Dote	Lazard
Doug Forsyth	Allianz
Katherine Rich	Allianz
Michael Chandra	PIMCO
Richard Fulford	PIMCO

1. Pledge of Allegiance

Viramontes led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

3. Discussion with consultant regarding managers scheduled to present

Helliesen distributed a Flash Report for the quarter ended September 30, 2012 noting the numbers are preliminary. He reviewed the performance of the managers scheduled for presentations.

4. Manager Presentations:

Goldman Sachs - Stephanie Ivy, Michael Goosay

Ivy reported Goldman Sachs has over \$321 billion in Assets under Management in fixed income.

Goosay gave an overview of the firm noting there are over 225 investment professionals employed globally by Goldman Sachs. He reviewed office locations and specialist teams including the top-down strategy team, the bottom-up strategy team and the fixed income strategy group.

He also gave an overview of the market noting interest rates were lower in the 3rd quarter. He reported on CCCERA's portfolio performance vs. the benchmark and also CCCERA's current positioning noting assets have performed exceptionally well. He reviewed the primary drivers of excess returns noting that wherever they took risk value was added. He also reviewed CCCERA's portfolio positioning by sector allocation, sector contribution to duration and country duration. He noted their office in London works solely on country allocation. He stated they have reduced the amount of emerging markets in CCCERA's portfolio.

Goosay reported on Goldman Sachs investment forecast vs. market consensus noting they believe growth will be sluggish in the 4th quarter partly due to the election.

Lord Abbett - Patricia Lynn

Lynn gave an update on the firm noting they have been privately held since their founding in 1929 and are committed to remaining private. They have \$126 billion in Assets under Management of which \$80.4 billion are in fixed income and \$45.7 billion are in equity. She reviewed the Core Plus Investment Team including the tenure of the senior members. She reviewed their investment philosophy noting they believe interest rate forecasting is inherently unreliable and therefore avoided. They believe a thematic approach to sector rotation adds value over the course of the year and quantitative research is essential to identifying investment opportunities and managing risk.

Lynn reviewed their investment process noting they use a top-down bottom-up approach. She reviewed sector allocations stating they are underweight in government related sectors and overweight in grade high yield corporate bonds, commercial mortgage backed securities and asset-backed securities.

Lazard - Anthony Dote, Yvette Klevan

Dote gave an overview of the firm noting Lazard is a global manager with most of the opportunities off shore and 30% of the portfolio in emerging markets. They have \$134.8 billion in assets under management and over 650 employees worldwide, including more than 280 investment personnel and over 50 people in emerging markets. Dote reported there were no changes to the team. He stated they are a compliment to U.S. managers.

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Klevan reviewed securities and allocations that helped and hurt CCCERA's portfolio in 2012. She reviewed CCCERA's portfolio characteristics and also reviewed country and sector allocations. She gave an overview of CCCERA's portfolio positioning noting short to intermediate yield curve is more attractive and they are keeping exposure to the shorter term maturities. She reviewed ownership of government bonds by main sector. She also reviewed the historical yields for Spain, Italy, France and Germany for the past 10 years.

Cabral and Phillips were no longer present for subsequent discussion and voting.

Allianz - Doug Forsyth, Katherine Rich

Rich reported Heracio Valeris in their San Diego office will retire at the end of the year.

Forsyth gave an overview of the firm noting they have \$11.8 billion of assets under management. He stated they have a stable team with strong leadership and a unique approach to identifying investment opportunities. He reported they still have an active sales group in Europe

Cabral was present for subsequent discussion and voting.

Forsyth reviewed the management team noting they are one of the most tenured teams in the industry. He reviewed CCCERA's account profile and characteristics noting the average coupon in the portfolio and the benchmark are basically the same. He reviewed CCCERA's annual performance since inception. He also reviewed performance relative to yield spreads noting both are outperforming. He reviewed default rates, leverage on the balance sheet and weights by coupon. He stated CCCERA's performance is up for the month of October.

PIMCO - Michael Chandra, Richard Fulford

Fulford reviewed CCCERA's relationship with PIMCO noting they manage 2 mandates for CCCERA for a total of \$484 million. The Core Plus account has been in place since the founding of the firm. He noted both the StocksPLUS account and the Core Plus account have outperformed the index for the past 12 month period.

He reported mortgages and corporates outperformed U.S. Treasuries in the core fixed income category. High yield and CMBS outperformed in the non-core fixed income categories as additional quantitative easing was announced.

Fulford reviewed CCCERA's performance noting experience has been better than expected and returns have been consistent. He reviewed CCCERA's portfolio positioning noting not much has changed in the last three quarters. He reviewed portfolio characteristics and performance for the StocksPLUS account noting it has outperformed the index.

Chandry reviewed their top-down investing and their cyclical framework for their global economic outlook. He reported global monetary policy is building a cyclical bridge to uncertain secular outcome. He reported on some of the factors banks have been considering. He noted central banks are boosting markets.

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5. Miscellaneous

(a) Staff Report -

Levy reported that after a lengthy discussion at the previous board meeting on the pension reform legislation, Assembly Bills 340 and 197, there are still several unanswered questions on implementation. Staff will continue to update the board on these issues. She also noted that CCCERA staff has been inundated with inquiries from members wanting to know whether terminal pay would or would not be included in their pension if they retire on or after 1/1/2013.

The Board discussed upcoming agenda items, implementation of policies based on the new legislation and how members will be notified of decisions that are made. The Board directed to hold both October 30 as well as November 9 for possible public meeting dates regarding implementation issues, including terminal pay.

(b) Outside Professionals' Report - None

(c) Trustees' Comments -

Cabral reported on a past settlement agreement with elected department heads and asked if the new legislation effects the terms of the settlement and wants to make sure the Board is consistent in their application of the law.

Telles asked to have an educational session on cyber security on an upcoming agenda. He feels the Board needs to be educated. Viramontes stated she will try to have it on an agenda in December.

It was **M/S/C** to adjourn the meeting. (Yes: Buck, Cabral, Holcombe, Telles, Viramontes and Watts)

Maria Theresa Viramontes, Chairman

John Phillips, Secretary