

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION Agenda Item
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March 21, 2013

The Board of Retirement met in special session at 9:00 a.m. on Thursday, March 21, 2013 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, John Phillips, Gabe Rodrigues, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: John Gioia and Sharon Naramore

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

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| Outside Professional Support: | Representing: |
| Bob Helliesen | Milliman |
| Marty Dirks | Milliman |

Other Attendees:

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| 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 |
| Reid Liffmann | Angelo Gordon |
| Alana Spungen | Angelo Gordon |
| Michael Keough | Siguler Guff |
| James Corl | Siguler Guff |
| Nestor Weigand | Siguler Guff |
| Max Swango | Invesco Real Estate |
| Jay Hurley | Invesco Real Estate |
| Ambrose Fisher | Oaktree Capital Management |
| Mati Adler | Oaktree Capital Management |
| Russ Romero | Oaktree Capital Management |
| Michael Elizondo | Long Wharf Real Estate Partners |
| Jeff Gandel | Long Wharf Real Estate Partners |

1. Pledge of Allegiance

Telles led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

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3. Discussion with consultant and staff regarding managers scheduled to present

Price gave an overview of the managers scheduled for presentations.

Helliesen reviewed the performance of the managers scheduled for presentations.

4. Manager Presentations:

Angelo Gordon - Reid Liffmann, Aliana Spungen

Spungen gave an overview of the privately held firm, noting they were founded in 1988, are privately held and have been investing in real estate since 1993. She noted that Angelo Gordon's products include alternative investments, real estate, debt, opportunistic funds, and net lease products.

Reed reviewed the economic outlook, noting growth is slow and thus underwriting is conservative. He stated the pricing of real estate asset markets has rebounded.

Spungen reviewed the status of Realty Fund VIII stating the Fund has raised \$1.265 billion with CCCERA committing \$80M. She noted leverage is currently tracking at 52%. Spungen reviewed an unaudited transactions list as of 12/31/12.

Reed reviewed properties that were recently acquired.

Siguler Guff - Michael Keough, James Corl, Nestor Weigand

Keough reviewed CCCERA's investment in the Distressed Real Estate Opportunities Fund (DREOF) noting the Fund is almost fully committed. There is an estimated net IRR of 8.3% for the DREOF as of December 31, 2012.

Cabral was present for subsequent discussion and voting.

Corl reported all of the strategies are performing well. He reviewed the gap between core real estate and opportunistic properties, along with the upcoming schedule of commercial real estate debt maturities. He also reviewed the distressed commercial real estate opportunity cycle noting the structure is very flexible. Corl reviewed the manager profiles that were used to construct CCCERA's portfolio.

Weigand reviewed two investments in the Fund, the NYC Office-Focused Sharpshooter Fund and the Southeast Warehouse Specialist Fund & Joint Venture fund.

Corl reviewed a Non-Performing Construction Loan Workout Fund.

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Long Wharf Real Estate Partners - Michael Elizondo, Jeff Gandel

Prior to their presentation, Long Wharf waived the confidentiality disclaimer on the presentation materials, noting this is a public meeting and any information discussed will be available to the public.

Gandel gave an overview of the firm, noting they became fully independent from Fidelity Real Estate Group in July 2011. They are 100% employee-owned and have approximately \$800 million in assets under management. He reported CCCERA invested \$50 million in Fidelity Real Estate Growth Fund II (FREG II) and \$75 million in Fidelity Real Estate Growth Fund III (FREG III).

Elizondo reviewed the organizational chart and noted the additions to the team.

Gandel gave an overview of FREG II. He reviewed invested equity by year, noting 25% of the proceeds are yet to be realized. He stated their priority is to maximize the proceeds of the remaining portfolio and realize the assets as quickly as possible. He reported the Net Operating Income (NOI) grew by 10% from 2011 to 2012. He also reported there will be no management fees (or fees of any kind) to be charged in 2013 on FREG II.

He reviewed current sector exposures and the top 5 assets in the fund. He also reviewed the projected timetable for selling the remaining assets.

Gandel reviewed the changes from inception to new investments in FREG III. He also reviewed the current status of the first part of the Fund noting it is similar to FREG II.

Elizondo reviewed current market conditions, current investment strategy and market and sector focus noting they are more focused on office and retail investments. He also reviewed the investment transactions from 2010-2012.

Gandel reviewed the next 3 year projected distributions from FREG II and FREG III to CCCERA.

INVESCO Real Estate - Max Swango, Jay Hurley

Prior to their presentation, Invesco waived the confidentiality disclaimer on the presentation materials noting this is a public meeting and any information discussed will be available to the public.

Swango gave an overview of the firm. He reviewed CCCERA's portfolio and exposures by country. He also reviewed yields from global REIT's.

Hurley gave an overview of Fund I noting they have made a total of 15 investments to date and there are 3 investments remaining, the largest being an apartment building. The Fund distributed \$22 million at the end of 2012 and expects 2.5% gross IRR in 2014 when the Fund is completed.

Hurley gave an overview of Fund II, noting there is just under 3 years until the Fund reaches maturity. There are extension options but they do not intend to use them. He reported 16 investments have been

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made, 12 are currently held and 6 are in the process of being liquidated. He also reported this will be a very active distribution year for CCCERA.

Swango reported they are currently raising capital for Fund III and there is a final close date of July 1, 2013.

Oaktree Capital Management - Ambrose Fisher, Mati Adler, Russ Romero

Prior to their presentation, Oaktree waived the confidentiality disclaimer on the presentation materials noting this is a public meeting and any information discussed will be available to the public.

Ambrose gave an overview of Fund V noting the Fund has earned a gross return of 18.2% year to date and a 9.5% net IRR since inception. He reviewed the portfolio characteristics including asset type, investment categories, geographic exposure and property types. He noted there are 80 investments in the Fund and the Fund is fully invested. He reviewed the top 10 holdings based on long market value.

Adler gave an overview of Fund VIII noting the Fund has earned a gross return of 23.0% year to date and a gross return of 14.7% IRR since inception. He reviewed the top holdings based on long market value.

Adler gave an overview of Mezzanine Fund III noting the Fund began on March 15, 2010 and will close out in 2013. He stated 2012 was a very good year for middle market buyout. He noted 35% of invested capital has been committed and the Fund has been drawn down almost 70%. He also reviewed the portfolio performance and characteristics.

Watts was no longer present for subsequent discussion and voting.

5. Miscellaneous

(a) Staff Report -

Leedom reported she, Price, Allen, Buck and Youngman attended an on-site visit with INTECH and was impressed and optimistic about the new INTECH structure. They also met with Emerald and felt very positive with their investments this year.

Schneider reported there will be an update on pay items at the first meeting in April.

Price echoed Leedom's comment on the INTECH on-site visit and added that the Princeton office of INTECH was primarily research and development and would like to be more active in the investment side.

(b) Outside Professionals' Report -

Helliesen reported they no longer have the Merced Retirement System as a client but have added the Modesto Water District as a client.

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(c) Trustees' Comments -

Buck felt the Princeton office of INTECH is quieter then the West Palm Beach office and may allow the research staff to have a work environment conducive to research.

Allen felt the INTECH environment provides a relaxed way of life.

Cabral questioned if the recent ban on retiree's returning to work is being enforced. Leedom stated she will look into it. Schneider stated it is up to the employer to enforce.

Viramontes reported she received a letter from the County Administrator's Office stating their preference to not phase-in the increased contribution rates effective July 1, 2013 due to the implementation of the lowered assumed rate of return.

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

Maria Theresa Viramontes, Chairman

John B. Phillips, Secretary

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The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, March 27, 2013 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, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: Gabe Rodrigues

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

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|--------------------------------------|----------------------|
| Outside Professional Support: | Representing: |
| Harvey Leiderman | Reed Smith LLP |
| Paul Angelo | The Segal Company |
| John Monroe | The Segal Company |

Other Attendees:

| | |
|--------------------|--|
| Luz Casas | Contra Costa County Employees' Retirement Association (CCCERA) Staff |
| Karen Davis | CCCERA Staff |
| Christina Dunn | CCCERA Staff |
| Jessica Huffman | CCCERA Staff |
| Joelle Luhn | CCCERA Staff |
| Justine Rossini | CCCERA Staff |
| Lisa Driscoll | County Administrators Office |
| Laura Strobel | County Administrators Office |
| Paul Louis | Retiree |
| Todd Smithey | Central Contra Costa Sanitary District |
| Michelle Johnston | Auditor-Controller's Office |
| Joanne Bohren | Auditor-Controller's Office |
| Lori Epstein | Auditor-Controller's Office |
| Marie Rulloda | Auditor-Controller's Office |
| Thea Vassallo | Central Contra Costa Sanitary District |
| Vito Impastato | Local 1230 |
| Gloriann Sasser | San Ramon Valley Fire District |
| Robert Leete | San Ramon Valley Fire District |
| Bill Cullen | Retiree |
| Jackie Lorrekovich | Contra Costa County Fire District |
| Sue Casey | Moraga-Orinda Fire District |
| Pat Pattersen | RSG of Contra Costa County |
| John Bartel | First 5 Contra Costa |
| Haj Nahal | Auditor-Controller's Office |
| Ray Waletzko | Contra Costa Mosquito & Vector Control |
| Marnie Huddleston | First 5 Contra Costa |

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|--------------------|------------------------------------|
| Ken Westermann | Deputy Sheriff's Association |
| Rollie Katz | Local 1 |
| Sean Casey | First 5 Contra Costa |
| Jacqueline Rhoades | Institutional Shareholder Services |
| Fassil Michael | Institutional Shareholder Services |

1. Pledge of Allegiance

Buck led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

3. Presentation from The Segal Company on Actuarial Funding Policy

Angelo reported one of the reasons for reviewing and discussing CCCERA's Actuarial Funding Policy relates to the Governmental Accounting Standards Board (GASB) recently adopting Statements No. 67 and 68 that substantially revise financial reporting requirements for governmental pension plans and their sponsors. The revisions are for accounting purposes, not funding, but are instructive for funding policies.

He reported that in 2009 the CCCERA Board did a comprehensive review of the Actuarial Funding Policy components. He reviewed the Actuarial Cost Method, the Asset Smoothing Method, and the Unfunded Liability Amortization Policy, noting they will not be recommending changes to the Actuarial Cost Method or the Asset Smoothing Method. He also reviewed the general policy objectives, funding policy recommendations, asset smoothing methods and income smoothing methods. He reviewed asset smoothing and the Market Value of Assets (MVA) corridor, noting smoothing manages market volatility.

Angelo reviewed the amortization policy and the sources of the unfunded liability. He recommends no changes to current Unfunded Accrued Actuarial Liability (UAAL) layers already established as of December 31, 2011.

He recommended three changes to the current funding policy. The first change Segal recommended would be to adopt a shorter amortization period for plan amendments for a period not to exceed 15 years. He also recommended using a shorter amortization period for Golden Handshakes or early retirement incentive type programs (ERIP) of up to 5 years along with a statement that a recommendation by the actuary to the Board on the amortization period be included as part of the required actuarial cost study for any such ERIP. After discussion about amortizing a surplus as a credit to the contribution requirement and pointing out that PEPR Section 7522.52 could be interpreted to mean no such credit is allowed, the final recommendation is to increase the amortization period for any actuarial surplus from 18 years to 30 years, if allowed under the law. He noted these recommendations apply to future changes in the UAAL and there would not be an impact on current UAAL layers or current contribution rates.

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Bill Cullen, retiree, asked if the recommended plan amendments could be paid for with excess earnings. Angelo confirmed that would be discussed separately since these changes would affect benefits that are funded by future contributions.

The Board discussed "contribution holidays", and the pay down of UAAL. He noted the UAAL is paid for through employer contributions and investment earnings and is not part of the employee contributions.

4. Presentation from The Segal Company regarding projected five year employer contribution rates based on the changes to economic assumptions

Monroe reported Segal has updated their five-year projection of estimated employer contribution rate changes for CCCERA. He stated the projection is derived from the December 31, 2011 actuarial valuation results and incorporates an estimated gross market value investment return of 14.1% for the 2012 calendar year. The rate changes include the asset gains and losses that are funded as a level percentage of the Association's total active payroll base as well as contribution increases from the changes in economic assumptions starting with the December 31, 2012 valuation. He noted the rate change projections are for the period beginning 18 months after the December 31, 2012 actuarial valuation.

He reviewed the assumptions and methods used to estimate the contribution rates as well as the projected contribution rates.

Lisa Driscoll, County Administrators Office, read a letter from the Board of Supervisors requesting that the CCCERA Board implement the entire contribution rate change resulting from decreasing the investment return assumption from 7.75% to 7.25% in the first year, rather than phasing in the new economic impacts over several years.

Jackie Lorrekovich, Contra Costa County Fire District, stated she was not speaking on behalf of the Fire District's governing board although their board has made the same recommendation as the County. She spoke to the impact of the assumption rate change stating their rates will increase an estimated 19.77% on a small amount of payroll which will have a direct impact on service reductions.

Leedom reported on the timeframe noting the triennial study will be completed in May and the annual actuarial valuation will be presented to the Board in late August/early September. The final decision to approve the July 1, 2014 rates will be in the fall.

Cabral was not present for subsequent discussion and voting.

5. Request from First Five Contra Costa regarding payment of their Unfunded Actuarial Accrued Liability (UAAL)

Sean Casey, Executive Director of First Five Contra Costa, gave an overview of the organization. He stated they are an independent public agency, fully funded by a tobacco tax. The organization's funding is decreasing at approximately 3% per year and the revenue continues to drop.

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First Five is proposing a \$2 million payment towards their unfunded liability in exchange for a reduction in the amortization payment based on an 11 year level dollar amount at 7.75%.

Gioia was not present for subsequent discussion and voting.

The Board discussed whether it is appropriate to grant the exception for this employer as compared to the other employers who have previously made UAAL prepayments or those that may make future UAAL prepayments.

Angelo stated the Board can outline in their funding policy a provision that addresses how to collect UAAL from an employer that is in a similar situation.

It was **M/S/C** to approve the request from First Five and allow a \$2 million prepayment towards their Unfunded Actuarial Accrued Liability (UAAL), with a level dollar amortization method, subject to legal review. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

Cabral was present for subsequent discussion and voting.

6. Presentation from Institutional Shareholder Services (ISS) on Proxy Voting Guidelines - Jacqueline Rhoades, Fasil Michael

Price gave an overview of proxy voting, noting the staff recommendation to move away from the using CCCERA's individual proxy voting guidelines and move forward with one of the ISS benchmark policies.

Rhoades reviewed ISS's policy formulation process and the benefits of ISS's benchmark policies, noting their guidelines are updated on an annual basis. ISS also solicits feedback annually with a policy survey followed by roundtable discussions that strike the right balance between shareholder interests and economic practicality.

Michael compared current CCCERA policies to both the ISS Public Fund policy and the ISS Benchmark policy.

7. Staff recommendation for changes to Proxy Voting Guidelines

The Board discussed Dodd Frank legislation requirements, noting there have been new rules written that pertain directly to plan sponsors, specifically in the areas of corporate governance and disclosure.

Price stated CCCERA's current guidelines are not specific or comprehensive enough to comply with the Dodd Frank requirements and we lack the staff necessary to stay fully apprised of the new rules. Staff believes this role is best outsourced to an expert in the field, such as ISS. The advantage of the ISS guidelines is that they encompass additional issues and their language is much more specific. The projected cost savings is approximately \$5,000 per year. The total paid last year was \$40,000.

It was **M/S** to adopt the Benchmark set of proxy voting guidelines offered by Institutional Shareholder Services (ISS).

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After a lengthy discussion on the differences between ISS Benchmark and ISS Public Fund proxy voting guidelines, the question was called.

It was **M/S/C** to call for the question. (Yes: Allen, Hast, Holcombe and Phillips, Telles and Watts. No: Buck, Cabral, Viramontes).

It was **M/S** to adopt the Benchmark set of proxy voting guidelines offered by Institutional Shareholder Services (ISS) (Yes: Allen, Hast, Holcombe, Phillips. No: Cabral, Telles, Watts. Abs: Buck, Viramontes) Motion failed.

It was **M/S/C** to adopt the Public Fund Policy set of proxy voting guidelines offered by Institutional Shareholder Services (ISS). (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54956.9(a) (two cases) and Govt. Code Section 54956.9(b)(1) (one case).

The Board moved into open session.

8a. There was no reportable action related to Govt. Code Section 54956.9(a).

8b. There was no reportable action related to Govt. Code Section 54956.9(a).

9. There was no reportable action related to Govt. Code Section 54956.9(b)(1).

Hast was not present for subsequent discussion and voting.

10. Miscellaneous

(a) Staff Report -

Leedom gave an update on the status of elections for Board members whose terms are expiring on June 30, 2013.

She reported pay code items will be presented at the April 10, 2013 meeting.

Schneider reported the DSA has asked for clarification on the retirement tier for DSA staff if hired in August but not members of CCCERA until April after completing the academy and being sworn in. He stated legal will review this.

(b) Outside Professionals' Report -

None

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(c) Trustees' Comments -

Holcombe reported an article on CCCERA in the Central Contra Costa Sanitary District newsletter (The Pipeline) contains incorrect information. Leedom stated she has had a conversation with Central Contra Costa Sanitary District.

Telles expressed his concern with not having a process for situations when there is not a candidate for the alternate retiree position on the CCCERA Board

He attended the onsite visit to WHV Investments and feels confident with the new CEO, noting our investment team has not changed.

Naramore stated the alternate retiree position is unlike the other alternate positions as they can only vote for the retiree trustee. The alternate retiree position also can only apply for either the alternate position or the retiree position, not both. She stated she has enjoyed her time on the Board and feels the process should be changed.

Viramontes reported she and Rodrigues attended Manatt's 2013 Public Pension Fiduciary Forum and felt it was a great conference.

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

Maria Theresa Viramontes, Chairman

John Phillips, Secretary