

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Meeting Date
06/13/12
Agenda Item
#3

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May 2, 2012

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, May 2, 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, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: John Gioia and John Phillips

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

Outside Professional Support: Harvey Leiderman
Representing: Reed Smith LLP

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 Oyler	CCCERA Staff
Mike Sloan	CCCERA & RSG
James Lee	Self

1. Pledge of Allegiance

Buck led all in the *Pledge of Allegiance*.

2. Public Comment

Leedom congratulated Cabral for his more than 33 years of service to the Retirement Board.

Hast congratulated Marilyn Leedom for 10 years of service.

3. Approval of Minutes

It was **M/S/C** to approve the minutes of the April 11, 2012 Board meeting. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore and Watts)

Viramontes was present for subsequent discussion and voting.

4. Routine Items

It was **M/S/C** to approve the routine items of the May 2, 2012 meeting. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Viramontes and Watts)

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CLOSED SESSION

5. This item was removed from the agenda.

6. Board policy for Optional Settlement 4 (Govt. Code Section 31764).

Levy gave an overview of Optional Settlement 4 noting at the April 11, 2012 meeting the Board directed staff to return with a policy. Two alternative policies were presented, one that charges the cost of Segal's actuarial calculations services to the member and one that does not charge the member the additional cost.

Telles was present for subsequent discussion and voting.

After a discussion on whether or not the cost of Segal's calculations is "an additional burden" on the system, as defined in Govt. Code § 31764, it was **M/S** to adopt the Optional Settlement 4 Policy (Draft Policy 2) and to charge a fee for the initial calculation.

The Board discussed the option of adopting a policy to not allow multiple beneficiaries. Levy noted that CERL Section 31764 allows the designation of more than one person, so long as the designation does not, in the opinion of the board and the actuary, place any additional burden upon the retirement system.

After discussion of the original motion, the question was called.

A motion was made to call for the question. The motion died for a lack of a second.

A substitute motion was **M/S** to adopt Optional Settlement 4 Policy (Draft Policy 1) with no fee for the initial calculation but charging the members a fee for subsequent calculations.

The Board discussed different scenarios of when fees would need to be charged.

After discussion the question was called.

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

The Board further discussed whether to approve requests for Optional Settlement 4 on a case by case basis or as a routine item.

An amended motion was **M/S/C** to not charge members a fee for the one time final election calculation but to charge for any subsequent outside actuary calculations needed, unless the need for subsequent calculations were due to CCCERA's error or if there was a death of a proposed beneficiary before the final election period. It was noted that so long as Segal simply verifies the system's internal calculations, the cost of Segal's services for members' one time final options election would not place an additional burden upon the retirement system (Yes: Allen, Hast, Holcombe, Viramontes and Watts. No: Buck, Cabral and Telles).

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It was **M/S/C** to adopt the Optional Settlement 4 Policy (Draft Policy 1) with the amendments listed above and a review of the Optional Settlement 4 elections policy in 6 months. (Yes: Buck, Cabral, Hast, Holcombe, Telles, Viramontes and Watts. No: Allen).

Telles was not present for subsequent discussion and voting.

7. Request from Kimberly Colunga for an Optional Settlement 4

The Board questioned why Segal's determination of the actuarial equivalency of Optional Settlement 4 and the member's unmodified allowance assumes a 0% COLA.

The Board discussed having Segal attend the next meeting with a recommendation regarding the use of a COLA assumption greater than zero in the actuarial assumptions for optional settlements.

Discussion followed regarding the use of the 0% COLA in the calculation for all Optional Settlements under CERL. Staff noted that its discussion with Segal clarified that Segal inherited the practice of using a 0% COLA assumption for Optional Settlements when it became CCCERA's actuary and has not changed the practice. Segal also noted that using a COLA assumption would result in slightly lower benefit payment to the member and survivors. It was noted that at least one other 37 Act systems has incorporated a COLA assumption into this calculation.

Fiduciary counsel suggested that CCCERA consider notifying members choosing optional settlements in the future that the Board might change the calculation of their benefits under Optional Settlement allowances before they retire.

Further Board discussion resulted in the request for both counsel and The Segal Co. to advise on the subject at an upcoming meeting in June.

It was **M/S** to grant the request of Optional Settlement 4 for Kimberly Colunga, based on the actuary's finding that it is actuarially equivalent to the member's unmodified allowance, and based on the board's finding that the designation does not place any additional burden on the retirement system.

The Board noted the member, Kimberly Colunga, should not have been listed or voted on as a routine item in Agenda Item 4, since the request had to be considered under Agenda Item 7.

It was **M/S/C** to reconsider Item 4. (Yes: Allen, Hast, Holcombe, Naramore, Viramontes and Watts. No: Cabral. Abs: Buck).

It was **M/S/C** to approve Item 4 with the exception of Kimberly Colunga. (Yes: Allen, Hast, Holcombe, Naramore, Viramontes and Watts. No: Cabral. Abs: Buck)

It was **M/S/C** to approve Item 7 as recommended by staff noting the election was made prior to this meeting and prior to the board's adoption of the Optional Settlement 4 Policy today. (Yes: Buck, Cabral, Hast, Holcombe, Naramore and Viramontes. No: Allen. Abs: Watts).

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The Board directed staff to schedule a special meeting on June 6, 2012, with a study session on the COLA assumption used for optional settlement calculations and the impact of changing the COLA assumption. The Board requested additional information regarding other '37 Act systems and the use of COLA in the calculation of optional settlements.

8. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of 1 staff member at the Investment Fundamentals, PIMCO, June 7 - 8, 2012, Newport Beach, CA. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Viramontes and Watts)
- (b) It was **M/S/C** to authorize the attendance of 1 staff member at the Investing for a New Era, PIMCO, June 11 - 15, 2012, Newport Beach, CA. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Viramontes and Watts)
- (c) It was **M/S/C** to authorize the attendance of 2 Board members at the Trustees' Roundtable, CALAPRS, June 8, 2012, San Jose, CA. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Viramontes and Watts)

9. Miscellaneous

(a) Staff Report -

Leedom reported she received an amended termination agreement from the City of Pittsburg.

She reported there is a delay in signing the MOU with San Diego County for disaster recovery due to additional questions regarding HIPAA and potential CCCERA liability.

Leedom reported we will be converting from email software Groupwise to Microsoft Outlook at the end of the month.

CCCERA has received public records requests regarding Board and Staff travel, along with a request for investment information.

Leedom reported a draft policy on errors correction will be presented at a future meeting.

Price reported the Tradewinds liquidation is in process. He distributed an update on the High Conviction Global Equity Search for the replacement manager. The update contained a list of firms that received RFPs.

(b) Outside Professionals' Report -

Leiderman gave an update on his testimony on pension reform in Chino, California for the joint committee on AB 340 noting the bill includes a section on the Board auditing the employers' pay practices.

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(c) Trustees' Comments -

Cabral reported he is troubled by the disclaimer on the benefits statements that just came out. He feels we have an obligation to provide correct information to members.

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

Maria Theresa Viramontes, Chairman

John Phillips, Secretary

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May 23, 2012

Meeting Date
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Present: Terry Buck, Richard Cabral, John Gioia, Brian Hast, Jerry Holcombe, John Phillips, Jerry Telles and Russell Watts

Absent: Debora Allen, Sharon Naramore and Maria Theresa Viramontes

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:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Jeff Youngman	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Christina Dunn	CCCERA Staff
Justine Oyler	CCCERA Staff
Mike Sloan	CCCERA & RSG
Todd Smithey	Central Contra Costa Sanitary District
Kris Hunt	Contra Costa County Taxpayers' Association
Wendy Lack	Contra Costa County Taxpayers' Association
Seyonne Kang	Commonfund

1. Pledge of Allegiance

Hast led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

3. Approval of Minutes

It was **M/S/C** to approve the minutes of the April 19, 2012 meeting. (Yes: Buck, Cabral, Gioia, Hast, Phillips, Telles and Watts)

The minutes of the May 2, 2012 meeting were held for approval at a future meeting.

4. Review of total portfolio performance - Bob Helliesen, Jeff Youngman

Helliesen reported on the first quarter total portfolio performance. He distributed a Flash

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Report for the period ending April 30, 2012 and a Net of Fee Performance Comparison of the Adelante Capital REIT fund to the Vanguard REIT Index fund.

CCCERA's first quarter return of 8.1% was better than the median total fund and the median public fund at 7.2% and 7.7%, respectively. Performance has been strong through the past four years. CCCERA performed near the medians over the past five years. CCCERA has outperformed both medians over trailing time periods longer than five years.

CCCERA total domestic equities returned 14.9% for the quarter, exceeding the 12.9% return of the Russell 3000® and the 12.6% return of the median manager. Of CCCERA's domestic equity managers, Emerald had the best absolute result with a 21.0% return, significantly above the Russell 2000® Growth Index return of 13.3%. Robeco returned 15.0%, exceeding the 11.1% return of the Russell 1000® Value Index. Wentworth Hauser returned 16.1%, exceeding the 12.6% return of the S&P 500. PIMCO returned 14.2%, also exceeding the S&P 500. Intech Enhanced Plus returned 10.9%, trailing the S&P 500. Intech Large Cap Core returned 10.2%, also trailing the S&P 500 Index. Delaware returned 16.3% return, better than the Russell 1000® Growth Index return of 14.7%. In its first full quarter with CCCERA, Ceredex returned 12.1%, better than the 11.6% return of the Russell 2000 Value.

CCCERA international equities returned 10.9%, near the 11.0% return of the MSCI EAFE Index and trailing the 11.9% return of the median international manager. The GMO Intrinsic Value Extended portfolio returned 7.3%, trailing the 8.9% return of the Blended Benchmark (100% MSCI EAFE Value Index from inception to February 29, 2012, 100% MSCI ACWI ex-US Value from March 1, 2012 to present). The William Blair portfolio returned 14.4%, better than the MSCI ACWI ex-US Growth Index return of 11.9%.

CCCERA global equities returned 8.5%, trailing the 12.1% return of the MSCI ACWI benchmark and the 11.4% return of the median global equity manager. The J.P. Morgan portfolio returned 13.7%, exceeding the 12.1% return of the MSCI ACWI Index. The First Eagle portfolio returned 9.1%, trailing the MSCI ACWI Index return of 12.1%. Finally, Tradewinds returned 2.4%, significantly trailing the ACWI return of 12.1%. Tradewinds was terminated in April 2012. The assets are invested with a transition manager.

CCCERA total domestic fixed income returned 2.6% for the first quarter, better than the 0.9% return of the Barclays Universal Index and the 1.3% return of the median fixed income manager.

Allianz Global returned 4.9%, which trailed the 5.2% return of the ML High Yield II Index and the 5.3% return of the median high yield manager. The Torchlight Fund III returned 6.3% in the first quarter, better than the Merrill Lynch High Yield II Index return of 5.2%. The Torchlight II fund returned 4.6%, trailing the ML High Yield II Index and the high yield fixed income median. Lord Abbett returned 2.1%, exceeding the 0.3% return of the Barclays U.S. Aggregate as well as the median fixed income manager. PIMCO returned 1.9%, exceeding the Barclays U.S. Aggregate and the median. AFL-CIO returned 0.3% which matched the Barclays U.S. Aggregate return of 0.3% but was below the median fixed income manager. Goldman Sachs returned 1.5%, exceeding the Barclays U.S. Aggregate Index and the median fixed income manager. The workout portfolio returned 2.5%, better than the Barclays Aggregate.

The opportunistic allocation (almost entirely Oaktree) returned 3.8% in the first quarter.

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Lazard Asset Management returned 1.8% in the first quarter, which exceeded the Barclays Global Aggregate return of 0.9%, but trailed the median global fixed income manager return of 2.4% and ranked in the 63rd percentile of global fixed income portfolios.

CCCERA total alternative investments returned 4.7% in the first quarter. Nogales returned 2.0%, Paladin III returned 0.7%, Energy Investor Fund II returned -3.3%, Carpenter Community Bancfund returned 12.0%, Energy Investor Fund returned -10.3%, Adams Street returned 4.2%, Pathway returned 4.8%, Energy Investor Fund III returned 11.5% and Bay Area Equity Fund returned 20.9%. (Due to timing constraints, all alternative portfolio returns are for the quarter ending December 31, 2011.)

The median real estate manager returned 3.3% for the quarter while CCCERA's total real estate returned 6.0%. Adelante Capital REIT returned 10.9%, Long Wharf III returned 0.9%, Invesco Fund II returned 0.6%, DLJ's RECP IV returned -1.1%, Invesco Fund I returned 1.2%, DLJ RECP III returned 3.4%, Invesco International REIT returned 15.2%, Long Wharf II returned 1.5%, Willows Office Property returned 2.3%, and DLJ's RECP II returned 7.0%. (Due to timing constraints, the DLJ portfolio returns are for the quarter ending December 31, 2011.)

It was *M/S/C* to accept the Quarterly Report presented by Milliman. (Yes: Buck, Cabral, Gioia, Hast, Phillips, Telles and Watts)

a. Consideration of any managers already under review or to be placed under review.

Helliesen reported on the performance of the managers on the watch list. Helliesen recommended adding Long Wharf (formerly Fidelity) US Growth Fund II and Long Wharf (formerly Fidelity) US Growth Fund III to the watch list based on the performance at the fund level and organizational concerns at the firm level.

It was *M/S/C* to put Long Wharf US Growth Fund II and Long Wharf US Growth Fund III on the watch list based on the performance at the fund level and organizational concerns at the firm level and to schedule an onsite visit as recommended by Milliman. (Yes: Buck, Cabral, Gioia, Hast, Phillips, Telles and Watts).

b. Consideration of any changes in allocations to managers.

There were no changes in allocations to managers.

5. Consider and take possible action on staff recommendation for property management and leasing services for The Willows Office Park

Leedom gave an update on the status of the property management contract and lease brokerage contract for the Willows Office Park with Grubb & Ellis noting Grubb & Ellis filed for bankruptcy and they no longer have the resources to manage the building as of May 11, 2012. She reported the entire leasing and property management team have transitioned to Transwestern. Leedom met with Transwestern and they have agreed to assume the building management and leasing duties for the Willows Office Park with the same terms and costs as negotiated in the original contract with Grubb & Ellis.

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Leedom requested the Board's authorization to execute a Property Management Contract and Lease Brokerage Contract with Transwestern, subject to successful due diligence and legal review of the contracts.

It was **M/S/C** to execute a Property Management Contract and Lease Brokerage Contract with Transwestern effective May 11, 2012, subject to successful due diligence and legal review of the contracts. (Yes: Buck, Cabral, Gioia, Hast, Phillips, Telles and Watts).

It was the consensus of the Board to move to item 8.

8. Miscellaneous

(a) Staff Report -

Leedom reported the following positions are open at the Retirement Office: Counselor, Accounting Technician, Senior Member Services Data Specialist, Member Services Technician, Benefits Manager, Information Systems Programmer/Analyst, Office Specialist and Accountant.

Leedom has an ongoing public records request from The Bay Citizen for Board and staff travel costs.

Brown and Armstrong will present the Independent Auditor's Report and Financial Statements for the year ended December 31, 2011 at the second meeting in June.

Leedom reported an educational presentation on Optional Settlement assumptions is targeted for the June 13, 2012 meeting.

Leedom also reported there have been fewer than expected retirement applications submitted for June.

Price reported Tradewinds is fully liquidated.

Price reported Goldman Sachs has one remaining security to be closed out.

Pathway announced Albert Clerc's retirement but he does not recommend placing them on the watch list at this time.

Price reported the onsite visit to Torchlight Fund IV was successful. He will be attending the Adams Street Conference and visiting William Blair next week.

(b) Outside Professionals' Report -

Leiderman reported Russell Crosby, Executive Director, announced his retirement from the City of San Jose Retirement System.

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Helliesen reported they received 14 responses to the RFP for a high conviction Global Equity investment manager. Youngman will provide an updated list to the Board.

(c) Trustees' Comments -

Gioia reported he is unable to attend meetings on the first and third Wednesday of the month due to other obligations and requested the Board use a different day of the week when moving or adding meeting dates.

Cabral reported he attended the onsite visit to Torchlight with Buck, Price and Helliesen and felt it was a very good meeting.

Phillips reported he attended a SACRS session where there was a discussion on overseas global investments noting concerns that overseas custodians do not have the same protections as U.S. investments.

Telles reported he attended a SACRS session where there was a discussion on the advantages and disadvantages of oversea investments.

Buck reported he attended the Trustee Educational Seminar (TEDS) at the NCPERS conference. The seminar reviewed asset allocation and policies that should be in place. He felt confident CCCERA has the recommended policies in place.

It was the consensus of the Board to move to item 7.

CLOSED SESSION

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

Gioia recused himself on this matter. Levy and Schneider recused themselves from this discussion.

The Board moved into open session.

7. There was no reportable action related to Govt. Code Section 54956.9(c).

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

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

Maria Theresa Viramontes, Chairman

John Phillips, Secretary