

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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April 26, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, April 26, 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, John Gioia, Brian Hast, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:  
Ashley Dunning Steefel, Levitt & Weiss  
Tim Price Milliman, USA

**Other Attendees:**

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Tracy Kroll	CCCERA Staff
Mike Boehrer	Deputy Sheriffs' Association
Jeff Harding	Rothschild Asset Management
Radey Johnson	Rothschild Asset Management
Ken Mertz	Emerald Advisers
Serena Tenant	Emerald Advisers
Jason Crapo	County Administrator's Office
Ranjit Sufi	Nicholas Applegate
Doug Forsyth	Nicholas Applegate
James Lee	Patrick Hubert Partners

**1. Public Comment**

No members of the public offered comment.

**2. Approval of Minutes**

After changing Item 14 (b), Page 6, first sentence to "National Association of Public Pension Attorneys", and adding "as this was the best place" at the end of the third sentence on Wedington's comments in Item 14 (c), it was M/S/C to approve the minutes of the April 12, 2006 meeting as amended. (Yes: Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Rey, Telles, and Wedington)

The Board moved into closed session pursuant to Govt. Code Section 54957 to consider the Medical Advisor and or staff's recommendation regarding disability retirement applications.

The Board moved into open session.

**3. Disability Retirements**

- (a) Paul Lozada --No reportable action taken

**5. County Administrator's Request to Release Actuarial Information**

It was M/S to accept the request by the County Administrator that the Board of Retirement authorize its actuary, The Segal Company, to provide necessary actuarial data, and information regarding the assumptions and methods used in its calculations to the County's pension consultant, Public Pension Professionals.

Jason Crapo, from the County Administrator's Office, provided a brief explanation of the request noting the County was attempting to estimate the costs of various changes being discussed for Retirement. The County's request is for Segal to share information with the County's actuary, Public Pension Professionals, to allow a mirror approach for retirement benefits to estimate the impact of any changes. Crapo noted the County is asking for the most recent actuarial data available, including demographics.

There was discussion from Board members regarding releasing December 31, 2005 actuarial information before the 2005 actuarial valuation results are published. It was noted the December 31, 2005 data is not complete and valuation results based on that data will not be available until July 2006.

Leedom suggested a compromise of sharing the December 2004 data, since the Board has not been presented with the valuation results based on the 2005 data.

Crapo noted the County would like to estimate, as closely as possible, rates that would be likely if changes were made to retirement benefits, with the understanding that final rates will be determined by The Segal Company and the CCCERA Board. He requested the most recent data available. Leedom noted that providing the 2004 data makes sense because contribution rates for July 2006 - June 2007 are based on this data.

The motion was amended to direct The Segal Company to release the December 31, 2004 data to the County's actuary, Public Pension Professionals, with the County bearing any associated costs, and without releasing any confidential information such as name, employee identification number and social security number. The motion was M/S/C as amended. (Yes: Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Rey, Telles, and Wedington)

Kroll introduced Mike Boehrer, the new President of the Deputy Sheriff's Association.

It was the consensus of the Board to allow the County's actuary to contact Segal for any questions needed with the request, with any costs associated to be billed to the County.

**4. Manager Presentations**

**Rothschild** - Jeff Harding, Radey Johnson

Harding began with an organization chart of Rothschild North America, a summary of their clients, and professional team. He noted he received the April 11<sup>th</sup> memo advising investment managers of the Board's request for a change in presentation content.

When asked to explain what their firm does for CCCERA, Harding commented they provide small/mid cap value. Rothschild was hired as a value manager and as a complement to the Emerald small cap growth allocation. Rothschild small/mid cap fund has a value orientation with a goal to outperform the Russell 2500 Value Index.

He then reviewed their firm's proprietary stock ranking system, the enhancements involved, their ranking system comparisons, and a fundamental review on each "buy candidate".

He then reviewed the contribution history and account performance through March 31, 2006, noting that 2004 was quite disappointing. He commented the fund was 100 basis points ahead of the benchmark for the first quarter of 2006. He concluded by reviewing the stocks that contributed positively and negatively to the performance of the fund.

**Emerald** - Kenneth G. Mertz, Serena Tenant

Tenant began by noting one of her main objectives was building communications. She noted she had been a trustee in Pennsylvania.

Mertz reviewed a partial list of clients and the small-cap investment process. He noted Emerald's in-house research team focuses on providing intense fundamental bottom-up research and analysis of small and mid-cap growth companies in a wide range of industries. He reviewed the 10-step process each individual company or security goes through during research.

He noted their firm meets with approximately 1500 companies per year; employees have been added to accomplish this objective. The visits are split in three parts: on-site visits, visits from the company at their facility and meetings at conferences. Companies are evaluated on their own risk reward basis. Compensation for analysts comes from performance and idea generation and is reviewed on a quarterly basis.

Mertz stated that small growth is back in favor. The combination of the changing of the market's risk aversion beginning in May of 2005, and robust corporate profits which are near a record share of the economy as a percentage of Real GDP (12.7%), were the ingredients for the best quarterly results since the 1999-2000 market.

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

Nicholas Applegate -Doug Forsyth, Ranjit Sufi

Sufi began by updating the Board on the Nicholas Applegate team, noting the addition of one team member. There was discussion on the investment grade of US high yield bonds chosen, Forsyth noted they invest primarily in B or BB bonds and avoid CCC graded bonds.

Hally noted he is addressing the comparison benchmark with all investment managers and asked if, in their opinion, the fund was being compared to the correct benchmark. Forsyth discussed various pros and cons of the benchmarks available for comparison. Hally asked if the benchmark would influence what they buy and sell, and Forsyth commented the benchmark would not change the investment process.

Sufi noted the asset class remains a compelling investment versus other fixed income options. The economy is healthy, corporate balance sheets are solid, and defaults are low. As they continue to see the credit environment on stable footing, other risks for the market include interest-rate and yield curve risk. The ten-year treasury rate moved higher in the last month. Equity market returns for the first quarter were very strong.

He stated the focus will continue to be on the auto industry as GM and Ford represent 11% of the Merrill Lynch Master II Index. For the balance of 2006, the high yield market should produce positive returns, but less than coupon. High Yield spreads should not widen materially based on positive fundamentals.

After the manager presentations, there was discussion on the excellent quality of the presenting managers at this meeting; they knew their portfolios and were able to answer all questions.

#### **6. Adams Street Partners 2007 Fund**

Hally began by reviewing his memo, with the recommendation to the Board regarding expressing a level of interest of \$50 million to Adams Street Partners 2007 Fund Program.

There was discussion on the reasons the Board decided not to go forward with the 2006 fund. Hally noted a vote at this point in the 2007 fund would not be a binding commitment, but would only express a level of interest. He noted, given the legal concerns with the 2006 offering in regards to confidentiality and disclosure provisions, he would recommend having Adams Street meet with the Board well before the final closing to address this legal issue upfront. The final closing for commitments is expected to be in December 2006.

There was continued discussion on having Adams Street present for discussions in June and options for the alternative investment allocation if this hurdle can't be overcome. Hally will ask Bon French to be present in June to fully address the Board's concerns.

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There was a motion to enter into a \$50 million non-binding letter of intent for Adams Street 2007 Global Fund.

It was M/S/C to call the question. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Wedington)

It was M/S/C to enter into a \$50 million letter of intent for Adams Street 2007 Global Fund. (Yes: Gaynor, Hast, Katz, Pollacek, Rey, and Wedington; No: Cabral, Telles)

**7. Commodity Education**

Commodity training was set for July 19, 2006 at 1:00 p.m.

**8. SACRS Resolution**

It was M/S/C to take no action at this time and to authorize CCCERA's representative to make a decision after listening to discussions at the Spring SACRS Conference. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, and Wedington)

**9. Miscellaneous**

- (a) Staff Report - Hally reported he received a call from Delaware Investments. They are closing down their product at \$15 billion, which was the accumulation for just one year.

Hally noted a letter was sent to all managers letting them know what the Board expects in quarterly presentations.

- (b) Outside Professional Report - Tim Price of Milliman noted the two miscellaneous items in the Board packet from Milliman describing their visit to ING Clarion Capital and ING Investment Management on February 27, 2006. He commented all meetings went well, especially the meeting with the ING Enhanced Core Equity group. ING had been placed on watch because of a change in personnel. The team came away from the meeting feeling that the new Head of Quantitative Equity, Omar Aguilar, is capable of leading the quantitative team, and that the analysis described and the changes made seem quite reasonable.
- (c) Trustees' Comments - Katz commented it would be helpful if a letter with a synopsis of the Excess Earnings Policy were sent to all interested parties to clarify the policy and to get feedback. It was suggested that a copy of the draft policy be distributed. Dunning noted that the Board packet would include bullet points describing the changes with two or three alternatives to consider.

Telles noted the confidential parts of the Excess Earnings Policy from the last meeting. He would like a summary of what is not confidential so they have an idea

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of the changes. He asked why we did not revise the current Excess Earnings Policy by including the Contra Tracking Account.

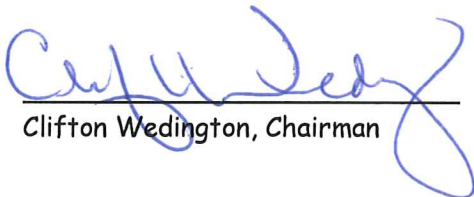
Dunning noted she feels less comfortable inserting a paragraph and feels the policy needed to be changed.

Cabral is concerned about the order of distribution of excess earnings and requests a compromise.

He noted a Master's program scheduled for June 26<sup>th</sup> in Chicago. They only allow 75 people and attendees must have 5 years as a trustee. He requested registration prior to approval as a place holder.

Wedington commented on a CALPERS and CALSTRS Diversity Conference with over 600 people in attendance. The conference focused on the ability to add more value to funds. The conference was packed with great information, showing where alpha can be found in new places. He noted the conference is worth attending and he hopes others attend next year.

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

  
Clifton Wedington, Chairman

  
William J. Pollacek, Secretary