

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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June 1, 2011

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, June 1, 2011 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel; Kathy Somsen, Retirement Benefits Manager; and Rick Koehler, Retirement Accounting Manager

Outside Professional Support:	Representing:
Bob Helliesen	Milliman
Tim Price	Milliman
Harvey Leiderman	Reed Smith LLP

Other Attendees:	
Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Christina Dunn	CCCERA Staff
Tracy Kroll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Oyler	CCCERA Staff
Mike Sloan	Contra Costa County Retired Employees Association/RS6
Darrell Burnett	Self
Rick Radin	Contra Costa Times

1. Pledge of Allegiance

Holcombe 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 March 4, 2011 meeting. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

4. Fox Lawson & Associates - CCCERA 2011 Total Compensation Analysis - Bruce Lawson

Based on a prior request by Gioia, Fox Lawson and Associates was contracted to complete a total benefit and compensation study on all unrepresented positions.

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Lawson reported the data used in the study represents the maximum total compensation to which CCCERA employees are currently entitled compared to the median level of the competitive labor market. He also reported three different calculations were used in the study: Private vs. Public Sector, Difference from Market Median, and 50th and 75th Percentiles. Corrected worksheets were distributed which included private sector comparable data for the Chief Investment Officer position.

Lawson reviewed the list of published private sector salary surveys and the list of specific organizations within CCCERA's defined labor market from which they collected the data for the study. He noted all data was brought current up to May 1, 2011, and geographic differentials were used. He described the cost of labor differentials and how the geographic area comparison factors were derived.

Based on the analysis, Lawson recommended that CCCERA establish new salary ranges that utilize a total of eight steps for all unrepresented staff. He noted CCCERA's total compensation levels are generally more competitive with the median labor market than base salaries alone.

Naramore was present for subsequent discussion and voting.

It was **M/S/C** to agendize and discuss the Board's authority to restructure the steps and to take action on the study. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

5. Review of total portfolio performance - Bob Helliesen, Tim Price

Helliesen reported on the first quarter total portfolio performance.

CCCERA's first quarter return of 4.5% was above the median total fund and the median public fund. Performance was strong over the past year. CCCERA slightly trailed the median funds over the past three and four-year periods. CCCERA has out-performed both medians over trailing time periods longer than five years.

CCCERA total domestic equities returned 7.4% for the quarter, better than the 6.4% return of the Russell 3000® and the 6.3% return of the median manager. Of CCCERA's domestic equity managers, Emerald had the best absolute return at 13.4%, better than the 9.2% return of the Russell 2000® Growth Index. State Street/Rothschild returned 12.9%, well above the Rothschild Small/Mid Value benchmark return of 7.7%. Robeco returned 7.3%, better than the 6.5% return of the Russell 1000® Value Index. Intech Large Cap Core returned 6.8%, above the 5.9% return of the S&P 500 Index. PIMCO returned 6.6%, above the S&P 500 return of 5.9%. Intech Enhanced Plus returned 6.5%, also better than the S&P 500 Index. Delaware returned 6.3%, better than the Russell 1000® Growth Index return of 6.0%. Finally, Wentworth Hauser returned 5.1%, trailing the S&P 500 of 5.9%.

CCCERA international equities returned 2.3%, trailing the 3.5% return of the MSCI EAFE Index and the 3.2% return of the median international manager. The GMO Intrinsic Value portfolio

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returned 4.4%, slightly trailing the 4.6% return of the MSCI EAFE Value Index. The William Blair portfolio returned 0.2%, below the MSCI ACWI ex-US Growth Index return of 2.4%.

CCCERA total domestic fixed income returned 2.0% for the first quarter, better than the 0.7% return of the Barclays Universal Index and the 0.8% return of the median fixed income manager. The Torchlight II fund returned 20.0%, better than the ML High Yield II Index return of 3.9% and the high yield fixed income median return of 3.6%. Allianz Global returned 4.1%, which was better than 3.9% return of the ML High Yield II Index and exceeded the 3.6% return of the median high yield manager. The workout portfolio returned 3.1%, better than the Barclays Aggregate return of 0.4%. The Torchlight Fund III returned 2.4% in the first quarter, trailing the Merrill Lynch High Yield II Index. Lord Abbett returned 1.1%, better than the Barclays U.S. Aggregate and the median fixed income manager. AFL-CIO returned 0.9% which was better than the Barclays U.S. Aggregate and the median fixed income manager. PIMCO returned 0.9%, better than the Barclays U.S. Aggregate and the median. Goldman Sachs returned 0.5%, better than the Barclays U.S. Aggregate Index but trailing the median fixed income manager.

Lazard Asset Management returned 2.7% in the first quarter, which was better than the Barclays Global Aggregate return of 1.2%, and ranked in the 11th percentile of global fixed income portfolios.

CCCERA total alternative investments returned 4.7% in the first quarter. Bay Area Equity Fund returned 17.2%, Adams Street Partners returned 8.8%, Pathway returned 5.5%, Carpenter Community Bancfund returned 4.2%, Nogales returned 3.4%, Energy Investor Fund III returned 2.7%, Energy Investor Fund II returned -2.0%, Paladin III returned -2.9% and Energy Investor Fund returned -14.6%. (Due to timing constraints, all alternative portfolio returns are for the quarter ending December 31, 2010.)

The median real estate manager returned 3.1% for the quarter while CCCERA's total real estate returned 5.2%. BlackRock Realty returned 13.2%, DLJ's RECP IV returned 13.0%, Adelante Capital REIT returned 6.6%, DLJ's RECP II returned 5.4%, Invesco Fund II returned 3.2%, Fidelity II returned 2.9%, Fidelity III returned 2.8%, Willows Office Property returned 2.2% Invesco Fund I returned 1.7%, DLJ RECP I returned 1.1%, Invesco International REIT returned -0.3% and DLJ RECP III returned -1.2%. Also, please refer to the internal rate of return (IRR) table for closed-end funds on page 15, which is the preferred measurement for the individual closed-end debt, real estate and private equity funds.

It was **M/S/C** to accept the Quarterly Report presented by Milliman. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, 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 stating Adelante is slightly below the benchmark for the quarter and Goldman Sachs continues to have personnel changes. Both should remain on the watch list.

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Helliesen reviewed the remaining managers on the watch list and recommended removing Emerald Advisors and PIMCO StocksPLUS from the watch list.

The Board questioned how long managers should remain on the watch list when the reason listed is personnel changes. Price stated the most recent personnel change at Goldman Sachs was in January 2011. Helliesen stated they are going to meet with Goldman Sachs.

It was **M/S/C** to remove Emerald Advisors and PIMCO StocksPLUS from the watch list. (Yes: Buck, Gaynor, Hast, Holcombe, Phillips, Telles, Watts. No: Cabral, Viramontes)

b. Consideration of any changes in allocations to managers.

There were no changes in allocations to managers.

Helliesen recommended an on-site visit with Delaware in San Francisco.

6. Fidelity Sub-Advisory Agreement with Long Wharf Real Estate Partners, LLC.

Hally summarized the history of Fidelity and Long Wharf Real Estate Partners, LLC. He noted that this sub-advisory agreement will officially delegate all the management duties of both funds (Fidelity Real Estate Growth Fund II & Fund III) to Long Wharf Real Estate Partners, LLC, and Fidelity will remain as General Partner.

It was **M/S/C** to approve the request from Fidelity to enter into a sub-advisory agreement with Long Wharf Real Estate Partners, LLC to manage Fidelity Real Estate Growth Fund II & III, subject to legal review. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

7. Request from City of Pittsburg to amend employer termination agreement.

Levy reported the City of Pittsburg has requested that CCCERA amend the City's Termination Agreement to (1) allow the calculation to be prepared on an Actuarial rather than a Market value of assets basis, and (2) create an 18-month lag between the valuation date and the date the contribution is due.

Levy reported The Segal Company has analyzed the proposed changes and noted it would be actuarially sound to use the City's proposed method but the City's total liability would increase. Leiderman reviewed his May 18, 2011 memo noting it would be prudent for the City to demonstrate its financial ability to meet its obligations to CCCERA under the proposed revisions before Board approval of the requested contract changes.

The Board discussed options to obtain information on the City of Pittsburg's financial ability to meet its obligations and methods to ensure the City understood it would create a long term liability.

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Discussion followed on the process of securing funds if the City of Pittsburg failed to meet its pension obligations.

It was **M/S/C** to invite the City of Pittsburg to attend a Board meeting and discuss the City's ability to meet its proposed increased total liability to CCCERA, review the City's most recent audited financial statements and request that the City of Pittsburg adopt a resolution outlining this requested change and acknowledging the long term effect of the change on the amount due to CCCERA. (Yes: Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes, Watts. No: Gaynor)

Cabral updated the Board on current County negotiations regarding establishing a new retirement tier. The Board discussed Cabral's update and the urgency of the matter as it relates to whether a new proposed retirement tier would affect Retirement employees. Cabral reported the timing is that the current contracts expire at the end of June. The timing of this issue did not come to the Board's attention until today. The next Board meeting is June 15, 2011 and this would not give the Board time to meet with County officials to discuss the proposed retirement tier before negotiations are potentially finalized.

It was **M/S/C** to hold a closed session pursuant to Govt. Code Section 54954.2(b)(2) because there is a need for the Board to take immediate action and the need for action came to the attention of the Board subsequent to the agenda being posted. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

CLOSED SESSION

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

The Board moved into open session.

8. Disability Retirements

It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:

- a. James Remick - Service Connected (Yes: Buck, Cabral, Gaynor, Holcombe, Phillips, Telles, Viramontes, Watts; Abs. Hast)
- b. Kirk Haskell - Service Connected (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

There was no reportable action related to Govt. Section Code 54956.9(c), conference with legal counsel - deciding whether to initiate litigation - One Case.

Cabral was not present for subsequent discussion and voting.

9. Conference Seminar Attendance

- (a) It was M/S/C to authorize the attendance of 1 Board member at the Advanced Investments Management, The Wharton School, September 12-15, 2011, Philadelphia, PA. (Yes: Buck, Gaynor, Hast, Holcombe, Phillips, Telles, Viramontes, Watts)

10. Miscellaneous

- (a) Staff Report

Leedom discussed the current recruitment for a Deputy CEO and noted the salary range compared to other systems recruiting for the same position. The recruitment has extended to June 10, 2011 in order to expand the recruitment group.

Leedom received public information requests from the Contra Costa Times regarding the City of Pittsburg and for all retiree gross pay data.

Leedom will be issuing an RFP in the next few months for auditing services.

Meetings were held with employers to discuss changes in payroll reporting for new members after December 31, 2010.

Cabral was present for subsequent discussion and voting.

Levy reported the Sacramento County Employees' Retirement System (SCERS) Board decided that SCERS will comply with the ruling of the Court of Appeals in the case brought by the Sacramento Bee and the First Amendment Coalition seeking disclosure of certain information about the pension benefits paid to SCERS retirees and beneficiaries. There is an official letter on the SCERS website stating that the retirement system will be seeking clarification from the Court of Appeals about the items to be disclosed.

Levy reported Ventura County retirement system will not be appealing their case. San Diego County and Sonoma County Retirement Systems are pending appeal. San Bernardino County Retirement received a ruling from the superior court ordering disclosure and may appeal.

- (b) Outside Professionals' Report

Helliesen reported the Asset Allocation Study is in the final steps and will be presented at the June 15, 2011 meeting.

Price reported the semi-finalists for the small cap search will be presented at a July meeting.

- (c) Trustees' Comments

Watts reported he attended the Wharton Business School Portfolio Concepts and Management. He thought it was a great class, and very well put together.

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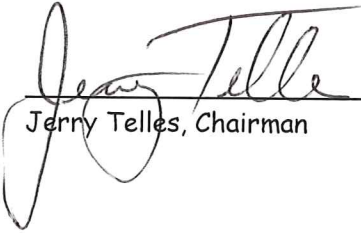
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Buck reported he is unable to attend the Adams Street conference. He attended NCPERS and noted there were several bills and discussion related to corporate governance and the Dodd-Frank Act.

Holcombe reported the Grand Jury issued Grand Jury report 1107, regarding County pensions.

Cabral also attended NCPERS and discussed interaction with attorneys at the conference.

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



Jerry Telles, Chairman



Brian Hast, Secretary