

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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June 28, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, June 28, 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, Brian Hast, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Harvey Leiderman Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA
Andy Paulden Brown Armstrong

Other Attendees:
Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Jim Bickert Deputy Sheriff's Association
Bob Campbell Auditors
Jason Crapo County Administrator's Office
David Mackowiak Human Resources
Lori Gentles Human Resources
George Springman Wentworth, Hauser and Violich
Jeffrey Coburn Wentworth, Hauser and Violich

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

It was M/S/C to approve the minutes of the June 14, 2006 meeting. (Yes: Cabral, Hast, Katz, Rey, Telles, Viramontes, and Wedington; Abs: Pollacek)

3. County Administrator's Request

The Board reviewed the County's request to allow the Board of Retirement's actuary to provide revised employer and employee contribution rates for the three safety retirement benefits tiers (current tier and two new tiers) as of certain dates indicated in the County Administrator's memo.

After discussing this request and the Board's procedure, Leedom noted she had received a letter from the Deputy Sheriff's Association requesting the same study. There was a motion to allow CCCERA's actuary, at the County's expense, to provide

revised employer and employee contribution rates for the three safety retirement benefit tiers as requested.

There was discussion on assumptions to use for a closed end group, and the need to know the methodology used to set new rates. There was further discussion on making a full disclosure of the results to the Retirement Board.

Members of the Board noted requests were received from the County and the Deputy Sheriff's Association for an actuarial review, but CCCERA is not aware of any requests from fire fighters and probation. Gentles noted that the County has received consent for the study from these two groups.

After amending the motion to include that the new actuarial information will be brought back to the Retirement Board, employees and employers and made a public document, the motion was M/S/C as amended to go forward with authorizing the use of CCCERA's actuary, at County's expense, to provide revised employer and employee contribution rates for the three safety retirement benefit tiers (current tier and two new tiers) as of the dates indicated in the County Administrator's request. (Yes: Hast, Katz, Pollacek, Telles, Viramontes, and Wedington; Abs: Cabral, Rey)

Cabral and Rey noted they abstained because they were unsure all safety groups are aware of the County's request.

4. Auditor's Report and Financial Statements for the Year Ended December 31, 2005

Andy Paulden of Brown Armstrong, the Retirement Board's independent auditor, began by describing the audit process, noting the audit focused on areas that had potentially higher risk, including actuarial data.

He noted, in 2005, CCCERA adopted the provisions of GASB Statement No 40, Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3.

Paulden stated Brown Armstrong gave CCCERA an unqualified, clean, opinion, their highest quality, and that CCCERA's staff should be congratulated. He then reviewed the current year findings and recommendations, noting that recommended procedures have already been initiated. There was discussion on the Manager to Custodian Reconciliations. Helliesen noted Milliman has always reconciled investment manager balances with the global custodian. Koehler noted this is an internal control and CCCERA now does this as well.

It was M/S/C to accept the Audit Report for the year ended December 31, 2005. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Paulden then highlighted different areas of the Comprehensive Annual Financial Report (CAFR). He began with CCCERA's financial highlights. There was discussion on the fourth bullet "Employee contributions increased from \$65.3 million to \$73.5 million over

the same period primarily as the result of the reduction of the interest rate assumption from 8.0% to 7.9%." Paulden was asked if CCCERA can stand by this as a definitive statement; he responded that this is the primary reason for the increase in contribution rates.

There was discussion on participating agencies, the Contra Account, and if the 10 largest stock and bond holdings as of December 31, 2005 represented a true exposure of CCCERA's portfolio. Some members of the Board expressed pleasure with the Summary of Assumptions and Fund Methods page that provided the ability to review all basic assumptions together from 2004-2005 through 2006-2007.

It was M/S/C to accept CCCERA's CAFR for the year ended December 31, 2005 and to thank all parties associated with the production. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Paulden thanked CCCERA's staff for their participation during the course of the audit. He complimented staff on organization and willingness to work with the auditing team.

5. Wentworth, Hauser and Violich - George Springman, Jeff Coburn

After introductions from the Board, Springman introduced Jeff Coburn from his firm, noting Coburn was working on CCCERA's portfolio and provided a brief overview of Coburn's accomplishments.

Springman began by reviewing performance for the first 2 quarters of 2006 noting the underperformance was predicated on stock selection. Discussion followed on particular portfolio items.

When asked to explain Wentworth's sell discipline Springman noted it revolves around three areas: stock reaches relative over valuation; fundamentals of the company or industry indicate signs of deterioration; and concerns regarding accounting or management.

Coburn then reviewed the schedule of common stock purchases and sales and the equity sector allocation noting areas that were over or underweighted in as compared to the S&P 500.

Springman concluded by reviewing their large cap core equity strategy and key investment personnel.

After Springman and Coburn departed, the Board discussed Wentworth's investment style, low portfolio turnover and long term performance.

6. Intech

Helliesen began by reviewing the November U.S. Equity analysis, and the recommendation to move assets from the Intech Enhanced Plus strategy to the more aggressive Large Capitalization Core strategy. He explained how moving the Intech portfolio from enhanced index to core growth would affect the portfolio.

There was a motion to accept the recommendation of the investment consultant to move all but \$25 million of CCCERA's investments in Intech to the "Large Capitalization Core" strategy, leaving \$25 million in the "Enhanced Plus" strategy. After discussion, it was M/S/C to call the question. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington) On the motion, it M/S/C to accept the recommendation of the investment consultant as previously noted. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

The Board then discussed an on-site visit to Intech, noting Intech's contract was established before on-site visits were done for all new investment managers.

It was M/S/C to authorize the CEO to sign the contract subject to successful contract review and on-site visit. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

7. Real Estate Allocation

Helliesen recommended that an additional \$150 million should be allocated to closed end Real Estate funds to bring the closed end fund allocation near the target of \$280 million.

He noted two current providers, Fidelity and Invesco, are coming to market with follow-up funds and new investments could be allocated in part or in whole to these funds. CCCERA could also have a search to locate an additional fund (or funds).

There was discussion on reviewing CCCERA's real estate portfolio to determine sectors in which the portfolio might be short or have gaps, to determine if another type of fund is needed for diversification.

After discussion, it was the consensus of the Board to table the item until a future meeting, when more sector diversification information is available.

8. July and August Board Meeting Dates

After discussion, it was the consensus of the Board to leave the July and August Board meeting dates as originally scheduled.

9. Miscellaneous

- (a) Staff Report - Leedom noted Benefit Statements will be going out in early August. The statement will be the same format as the previous year.

CCCERA's website has been updated with a new look. A benefit calculator will be added later with the new benefit software system. The Imaging system has been successfully upgraded.

The office will be closed July 3rd for a network upgrade installation.

The City of Pittsburg paid off their Paulson liability and most of their UAAL with a Pension Obligation Bond (POB).

She noted the Board received a letter from a member who does not meet requirements for membership. Staff will respond to her request.

The Board is in receipt of a letter from Harvey Leiderman noting he is leaving Steefel Levitt & Weiss at the end of the month. Staff made a request to provide Leiderman with a letter that the Board authorizes him, for an interim period, to continue collaboration with Dunning for CCCERA's needs. After questioning why this is necessary, Leedom noted there are several pending matters that Dunning and Leiderman have been working on. Leiderman noted he is ethically constrained from discussing anything further regarding his move and that this is a Board decision. He is presenting this as a resolution so there is no interruption in service. He wants to make sure the Board is covered and to take care of what the Board has entrusted him to do. Unless Leiderman has something from the Retirement Association to authorize him to continue to collaborate with Dunning as of close of business Friday, he will not have access to any information to continue with pending matters. Leedom recommended that the Board provide this authorization in writing to allow Leiderman access to CCCERA's information for pending matters and to give the CEO direction to write the letter of authorization.

After discussion on whether this request constituted an emergency item, it was **M/S/C** to add an emergency agenda item since the Board was notified today and the deadline for this action is Friday and this information was not available at the time the agenda was developed and issued, to allow for discussion to authorize Leiderman access to information and collaboration with Dunning; (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington).

Emergency Agenda Item Regarding Departure of Leiderman

There was a motion to authorize the CEO to prepare a transmission to allow Leiderman access to information and to provide collaboration with Dunning on pending projects during an interim period to maintain the status quo on a list of pending items; this would not include any new items. The motion was amended to

authorize Leedom to have an interim relationship with Reed Smith, LLP, Leiderman's new firm. The motion was **M/S/C** as amended. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

9. Miscellaneous (Cont'd)

- (a) Staff Report -Cont'd - Leedom noted staff is sending an explanatory letter with a new tax form to all retirees informing them that checks for all tiers will be combined into one check in the future. Retirees may need to change their tax withholding to accommodate this change to combine tax deductions for one check. If an individual is both a survivor and a member they will still receive two checks. The software project for retiree payroll is moving forward and is still on target for October 1 payroll.

- (b) Outside Professional Report - Nothing additional.

Trustees' Comments - Cabral is concerned with the timing of benefit statements because members need to assess their retirement. He feels August is unacceptable for a year-end statement with all that's going on. He questions how the Deputy Sheriffs Association will be able to make a decision regarding going forward with new safety tiers. He noted that in the past, a comparison with a detailed worksheet would be sent to all members who would have the option of changing tiers. Cabral would like this done for DSA and other safety members.

Rey-Without making a promise he asked if he can let members know this Benefit Statement will be closely followed by another early in 2007. Leedom answered in the affirmative to his question.

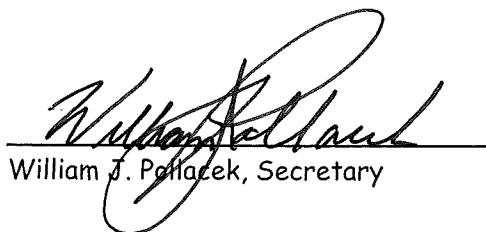
Cabral noted the new safety tiers will be an irrevocable choice. Members need to have information in writing so they know what they are giving up and walking away from. For Tier III the actuary ran formulas with comparisons for each individual affected.

Hast requested a possible change in date for the October 25, 2006 meeting be agendized for the future, noting the Institutional Investor conference is at the same time and he and several others have expressed an interest in attending the conference.

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



Clifton Wedington, Chairman



William J. Pollacek, Secretary