

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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August 29, 2012

The Board of Retirement met in special session at 9:00 a.m. on Wednesday, August 29, 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, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Gabe Rodrigues, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: None

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

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Jeffrey Youngman	Milliman
Paul Angelo	The Segal Company
John Monroe	The Segal Company

Other Attendees:

Chih-Chi Chu	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Gayle Cruz	CCCERA Staff
Karen Davis	CCCERA Staff
Christina Dunn	CCCERA Staff
Jessica Huffman	CCCERA Staff
Kelli Ingersoll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Rossini	CCCERA Staff
Mike Sloan	RSG & CCCREA
Todd Smithey	Central Contra Costa Sanitary District
Nancy Lefebvre	Rodeo Sanitary District
Sue Casey	Moraga-Orinda Fire District
Donna Heymans	Rodeo-Hercules Fire Protection District
Jackie Lorrekovich	Contra Costa County Fire District
Michelle Johnston	Contra Costa County Auditor-Controller's Office
Marie Rulloda	Contra Costa County Auditor-Controller's Office
Kris Hunt	Contra Costa County Taxpayers Association
Jennifer Webber	Contra Costa County Auditor-Controller's Office
Brandy Sanborn	Contra Costa County Superior Courts
Robert Leete	San Ramon Valley Fire District
Dan Borenstein	Contra Costa Times

1. Pledge of Allegiance

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Rodrigues led all in the *Pledge of Allegiance*.

Gioia was present for subsequent discussion and voting.

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 July 25, 2012 meeting. (Yes: Allen, Buck, Cabral, Gioia, Hast, Phillips, Telles, Viramontes and Watts)

It was *M/S/C* to approve the minutes of the July 26, 2012 meeting. (Yes: Allen, Buck, Cabral, Gioia, Hast, Phillips, Telles, Viramontes and Watts)

4. Educational presentation from The Segal Company regarding GASB 67 and 68 Statements

Angelo gave an overview of GASB Statements 67 and 68 noting Statement 67 replaces Statement 25 for Plan reporting and Statement 68 replaces Statement 27 for Employer reporting. He reported the effective dates are June 15, 2013 for plan reporting and June 15, 2014 for employer reporting. He also reported the major changes in the new rules are employer changes which include placing the Net Pension Liability on the Balance Sheet. He reviewed the new calculation on the blended discount rate noting the discount rate is based on projected benefits, current assets, and projected assets for current members. He stated the "blended" discount rate is not based on the plan's current funded status, but on projected benefits and assets. He noted most plans with contributions based on a written actuarial funding policy will continue to use their long-term earnings assumption as the discount rate.

Angelo reviewed the new pension expense components and the portions that should be recognized immediately, including any plan amendments. He stated the new GASB rules only redefine pension expense, not contributions. Employers and plans can still develop and adopt funding policies under current practices.

Sue Casey, Moraga-Orinda Fire district, questioned if, based on the fact that there is an 18 month delay in contribution rate implementation, would there be a difference in the employer reporting for a calendar year. Angelo deferred the question to the employer's auditor.

Dan Borenstein, Contra Costa Times, asked if the number expensed on the balance sheet will be different then the amount being contributed. Angelo confirmed the new GASB pension expense is the change in Net Pension Liability each year, with deferred recognition of only certain elements, and is not intended to be a funding target or standard.

5. Educational presentation from The Segal Company regarding the economic assumption setting process, using the March 2, 2010 report as an example

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Angelo gave an overview of the economic assumptions as of December 31, 2009. Angelo noted this report was presented at the March 10, 2010 Board meeting since it is the Board's policy to review economic assumptions every 3 years. Angelo discussed the principle economic assumptions - inflation, investment return, terminal pay and salary increases. Angelo discussed the process Segal takes to create the investment return assumption recommendation. He noted this process does not take the retirement systems historical returns into consideration; instead it focuses on the current asset allocation and information collected from nine different investment consultants to determine the relative movement of average funds.

Angelo reviewed the risk adjustment model and the confidence levels presented in the March 2, 2010 Review of Economic Actuarial Assumptions report.

Discussion followed regarding the effects of assuming a higher investment return on employer and employee contribution rates.

Dan Borenstein, Contra Costa Times, asked if by assessing the relative movement of average funds, and if the underlying premise is wrong, then could the relative movement be wrong? Borenstein also wondered if the numbers the investment consultants provide are based on a three to five year projection how is this considered when actuaries usually project at least 18 years out. Angelo confirmed the risk adjustment factor adjusts for this difference. Angelo stated it is a model to get a reasonable assumption.

Kris Hunt, Contra Costa County Taxpayer's Association, urged the Board to get the investment return assumption correct, stating if the assumed investment return is incorrect it can raise the unfunded liability and contribution rates for employers.

6. Consider and take possible action to adopt contribution rates effective July 1, 2013

It was *M/S/C* to accept the contribution rates, effective July 1, 2013 to June 30, 2014, as recommended by the actuary. (Yes: Allen, Buck, Cabral, Gioia, Hast, Phillips, Telles, Viramontes and Watts)

7. Consider and take possible action on request from County for contribution rates for new tiers as outlined in SB 1494

It was *M/S/C* to continue this item to a future meeting. (Yes: Allen, Buck, Cabral, Gioia, Hast, Phillips, Telles, Viramontes and Watts)

Gioia was not present for future subsequent discussion and voting.

8. Review of total portfolio performance - Bob Helliesen, Jeffrey Youngman

Helliesen reported on the first quarter total portfolio performance. Youngman distributed a Flash Report for the period ending July 30, 2012.

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Helliesen noted an error in past reporting of the EIF III fund, and stated the information provided in this report and the CAFR is accurate.

CCCERA's second quarter return of -1.5% was better than the median public fund at -1.9%. Performance has been strong through the past four years. CCCERA performed near the median over the past five years. CCCERA has out-performed the median over trailing time periods longer than five years.

CCCERA total domestic equities returned -4.7% for the quarter, trailing the -3.1% return of the Russell 3000® and the -4.6% return of the median manager. Of CCCERA's domestic equity managers, Intech Large Cap Core had the best absolute result with a -1.7% return, above the S&P 500® Index return of -2.8%. Robeco returned -3.7%, trailing the -2.2% return of the Russell 1000® Value Index. Ceredex returned -4.3%, below the -3.0% return of the Russell 2000 Value. Delaware returned -5.1% return, below the Russell 1000® Growth Index return of -4.0%. Emerald Advisors underperformed the Russell 2000 Growth® Index with a return of -7.5 compared to -3.9%. PIMCO returned -2.0%, exceeding the S&P 500® Index return of -2.8%, and Wentworth Hauser returned -7.2%, trailing the -2.8% return of the S&P 500.

CCCERA international equities returned -6.3% for the quarter, better than both the MSCI EAFE return of -6.9% and the MSCI ACWI ex-USA return of -7.4%, and was better than the median MSCI ACI ex-US manager return of -7.0%. The GMO Intrinsic Value Extended portfolio returned -7.3%, better than the -7.5% 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 -5.3%, better than the MSCI ACWI ex-US Growth Index return of -7.3%.

CCCERA global equities returned -6.1% in the quarter, trailing the MSCI ACWI return of -5.4%. The J.P. Morgan portfolio returned -5.3%, exceeding the -5.4% return of the MSCI ACWI Index. The First Eagle portfolio returned -3.1%, significantly better than the MSCI ACWI Index return of -5.4%. Please note that this segment had two portfolios in transition during the second quarter; the Intech Enhanced strategy was transitioned to a global low volatility portfolio, also managed by Intech, and the Tradewinds portfolio was liquidated, and the assets placed with a transition manager.

CCCERA total domestic fixed income returned 2.4% for the second quarter, better than the 2.0% return of the Barclays Universal Index and the 2.2% return of the median core fixed income manager. AFL-CIO returned 2.5% which beat the Barclays U.S. Aggregate return of 2.1% and was above the median core fixed income manager. Allianz Global returned 1.4%, which trailed the 1.8% return of the ML High Yield Master II Index and the 1.6% return of the median high yield manager. Goldman Sachs returned 2.7%, exceeding the Barclays U.S. Aggregate Index and the median fixed income manager. The workout portfolio returned 3.2%, better than the Barclays Aggregate. Lord Abbett returned 2.1%, matching the return of the Barclays U.S. Aggregate and trailed the median fixed income manager. PIMCO returned 2.5%, exceeding the Barclays U.S. Aggregate and the median. The Torchlight II fund returned 6.3%, significantly above the ML High Yield Master II Index and the high yield fixed income median. The Torchlight Fund III returned 2.8% in the second quarter, better than the Merrill Lynch High Yield Master II Index return of 1.8%.

The opportunistic allocation (almost entirely Oaktree) returned 5.4% in the second quarter.

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Lazard Asset Management returned 0.7% in the second quarter, which exceeded the Barclays Global Aggregate return of 0.6%, but trailed the median global fixed income manager return of 1.0% and ranked in the 61st percentile of global fixed income portfolios.

CCCERA total alternative investments returned 3.8% in the second quarter. Nogales returned 3.1%, Paladin III returned 1.7%, Energy Investor Fund II returned 0.7%, Carpenter Community Bancfund returned 4.4%, Energy Investor Fund returned -0.4%, Adams Street returned 5.3%, Pathway returned 4.8%, Energy Investor Fund III returned 0.9% and Bay Area Equity Fund returned 7.0%.. (Due to timing constraints, all alternative portfolio returns are for the quarter ending March 31, 2012.)

The median real estate manager returned 2.4% for the quarter while CCCERA's total real estate returned 3.5%. Adelante Capital REIT returned 4.1%, Long Wharf III returned 2.8%, Invesco Fund II returned 6.0%, DLJ's RECP IV returned 2.4%, Invesco Fund I returned 2.8%, DLJ RECP III returned 2.3%, Invesco International REIT returned 1.3%, Long Wharf II returned 1.4%, Willows Office Property returned 2.4%, Oaktree REOF V returned 3.2% and DLJ's RECP II returned 3.3%. (Due to timing constraints, the DLJ portfolio returns are for the quarter ending March 31, 2012.)

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

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

It was **M/S/C** to remove Adelante from the watch list. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

It was **M/S/C** to add GMO to the watch list due to performance. (Yes: Allen, Buck, Holcombe, Phillips, Telles, Viramontes and Watts No: Cabral and Hast)

b. Consideration of any changes in allocations to managers.

There were no changes in allocations to managers.

9. Review of Administrative Budget vs. Actual through June 30, 2012

Leedom reviewed the Administrative Budget vs. Actual through June 30, 2012, noting the year to date expenses are under budget. It was noted that Legal Fees, Investments, IT hardware/software expenses and Disaster Recovery are not included in the Administrative Budget.

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

10. Conference Seminar Attendance

(a) It was **M/S/C** to authorize the attendance of 1 Board member and 1 staff member at the 3rd Annual BancFund Partners Retreat, Carpenter Community BancFund, September 5-7, 2012, Newport Coast, CA. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

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- (b) It was **M/S/C** to authorize the attendance of 1 additional Board member at the Roundtable for Consultants and Institutional Investors, Institutional Investor, October 15-17, 2012, Chicago, IL. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

11. Miscellaneous

- (a) Staff Report -

Leedom reported a meeting she had with East Contra Costa County Fire District regarding the decline in payroll the District experienced. During this meeting she was informed the District received a grant from FEMA that will result in the reemployment of firefighters, and thus increase the payroll level.

Copies of AB 340 were distributed.

She reported Rebecca Byrnes will provide an educational presentation on disabilities at the November 7, 2012 Board meeting.

Levy reported that new pension reform language had just been released in the form of AB 340 and is pending legislature passage. The last day for the legislature to pass legislation and present it to the Governor is August 31.

- (b) Outside Professionals' Report -

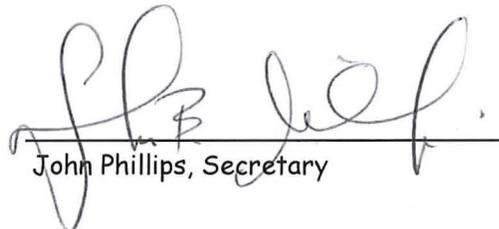
Youngman reported 15 firms responded to the RFP for the Global Real Assets Management fund. He is reviewing the RFPs and will provide the semi-finalist report at the October 10, 2012 Board meeting.

- (c) Trustees' Comments - None

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



Maria Theresa Viramontes, Chairman



John Phillips, Secretary