

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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August 9, 2006

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, August 9, 2006, in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Dave Gaynor, John Gioia, Paul Katz, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles and Clifton Wedington.

Staff: 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	Steeffel, Levitt and Weiss
Bob Helliesen	Milliman USA
Paul Angelo	Segal Company

Other Attendees:

Tracy Kroll	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Joelle Luhn	CCCERA Staff
Luz Casas	CCCERA Staff
Kelli Ingersoll	CCCERA Staff
Mary Lou Williams	Retirees' Association
Jason Crapo	County Administrators Office
Mark O'Connell	Contra Costa County Deputy Sheriffs Association (DSA)
Joan Woods	San Ramon Valley Fire Protection District (SRVFPD)
John Keel	SRVFPD
Jim Bickert	DSA
John Walker Jr.	Local 1230
Bob Campbell	Auditors Office
Lori Gentles	Human Resources
David Mackowiah	Human Resources
Stacey Allen	Retirees' Association and Local #1
Mike Ross	DSA
Lisa Driscoss	County Administrators Office

1. Kelli Ingersoll, 15 Year Service Award

Wedington congratulated CCCERA employee Kelli Ingersoll on the occasion of her 15th Anniversary and thanked her for her years of dedicated service to the Retirement Association.

2. Public Comment

Mary Lou Williams commented that she wanted to apologize for a recent article that appeared in the Retirees' Association newsletter. She apologized for the verbiage used and to any that may have been upset by the article or staff members that may have had

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to track down information that was discussed in the article. She noted she didn't see the article until she received the newsletter, and in the future this process will be changed so that she will review all articles before publication. Later in the meeting she will introduce Stacey Allen, Executive Director of the Contra Costa County Retirees' Association.

3. Approval of Minutes

After amending the July 12, 2006 minutes on Page 3, Item 7, second paragraph, adding after the second sentence "The increase in funded ratio and the decrease in the aggregate employer rate was due primarily to the receipt of \$153.1 million in pension obligation bond proceeds from the Contra Costa County Fire District and Moraga/Orinda Fire District"; on Page 5, changing the "\$ Power" to "Dollar Power" noted twice in the last paragraph and adding ", from a legal prospective," on Page 6, first paragraph last sentence, it was M/S/C to approve the minutes of the July 12, 2006 as amended and July 19, 2006 meetings. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

4. Routine Items

It was M/S/C to approve the routine items of the August 9, 2006 meeting. (Yes: Gaynor, Gioia, Katz, Kroll, 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 and Gov. Code Section 54956.9 (c) to consult with counsel to consider whether to initiate litigation for two potential cases.

The Board moved into open session.

5. Disability Retirements

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

- (a) Allen Garbarino Service Connected (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

6. Potential Litigation

No reportable action taken

7. Segal Report Regarding Safety Contribution Rates

Angelo reviewed his report regarding the County's request for safety contribution rates. He noted it was challenging to attempt to predict employee behavior regarding Safety Tier election.

He noted the rates in the report do not include any employer subvention of member contributions or member subvention of employer contributions. The numbers reflect the normal cost for only the active Safety members and employers included in this study. The rates are based on the highly subjective, non-empirical assumptions as to whether Safety members will either stay in Tier 1 or elect future service in Tier 2 or 3. Actual rates will depend on the actual number and characteristics of members who transfer. The rates given represent the expected long-term normal cost rate based on the demographics of all Safety members included in the study. The short-term normal cost of Tier 2 could be volatile as it will depend on the actual demographics of the new hires over the next several years. He noted since it is unknown how many people will decide to elect a new tier, the numbers given in this report are "soft".

He noted the differences between the tiers, noting that Safety Tiers 1 and 3 have one-year final average salary, where Safety Tier 2 has a three year final average salary. He reviewed the effect on employer normal cost and member contribution rates for all Safety tiers analyzed.

He then reviewed for each tier the County contribution rates, District with Pension Obligation Bond (POB) rates and District without POB rates, noting that each of the three requesters of the study fell into different groups.

When asked how many experience studies it would take to determine the impact of this change, Angelo responded that information regarding which members elected to switch tiers would be available by next spring after the three month window for Safety Tier election has taken place.

Jason Crapo in public comment requested that the Board consider the request of the County Administrator for additional information concerning the study.

After discussion, it was noted at the July 12, 2006 meeting the authority was delegated to the Chief Executive Officer to work out all details between the County and the actuary.

Ron Walker of Local 1230 continued with public comment noting he performed an unofficial poll of his members and perceived 30% might elect a different tier not 50%. He asked if this decrease would change the results.

Angelo responded the 50% noted in his report was from a smaller group: anyone with less than 10 years service.

Ron Walker asked if the rates go up or down if the number electing certain tiers are different from the assumed numbers in the study.

Angelo responded he wasn't able to answer that question, because the contribution rate is based on entry age.

It was the consensus of the Board to go forward and allow the CEO to work out any additional details with the County and the actuary. If Leedom has any concerns she will return to the Board for further discussion.

8. Securities Lending

Hally reviewed his recommendation regarding Securities Lending. Helliesen noted he independently reviewed securities lending, coming to the same recommendation. There was a motion to accept staff's recommendation to include the international equity account managed by McKinley Capital in the securities lending program. There was discussion on continuing to use State Street and if CCCERA was getting the best rate possible.

Hally will attempt to negotiate a better split of revenues for the securities lending program. The current split of revenue is 60% to CCCERA and 40% to State Street. Hally will continue research and report back to the board hopefully with a better rate. It was M/S/C to except staff's recommendation to include the international equity account managed by McKinley Capital in the securities lending program. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

9. Alternative Investments

Dunning began by reviewing her memo on the status of negotiations regarding Adams Street 2007 Fund, noting the document would remain confidential attorney-client communication. Negotiations on this fund remain confidential.

When asked for staff's recommendation on this issue, Hally noted he believes the risk is minimal to giving up rights to potentially receive certain information in the future, since it is unlikely the information in question will be needed from an investment perspective. The information is more detailed company and partnership specific information. He noted that CCCERA currently receives all information necessary to prudently monitor the investments with Adams Street, and does not anticipate the legal concern to impact the ability to prudently monitor the investments in foreseeable circumstances. It is expected CCCERA will receive all information needed to adequately monitor the investments with Adams Street from an investment standpoint, since all that is needed is top line information. It was also noted Adams Street has agreed to fully update the CIO on a quarterly basis regarding the activities of the Partnership.

Hally continued by noting he believed access to top private equity funds is critical to a successful alternative investment program, and CCCERA needs top quality firms to

identify and gain access to top private equity funds. He stated, based on the 10 year relationship between Adams Street and CCCERA, he has a high degree of confidence and trust with Adams Street.

Hally noted investment risks with Adams Street are minimized due to several factors. Any partnership investment in the Adams Street portfolio is small in relation to the total CCCERA portfolio. Further, on a portfolio basis, there is small exposure to any one partnership and an insignificant exposure to any one company, which leads to a high level of diversification which minimizes risks. He noted one attraction of a fund-of-funds approach is that ownership is in an interest in the Adams Street, LP, and it is questionable if there is legal ownership with the portfolio companies or individual partnerships.

He requested the Board accept, in general, the legal concern brought to its attention regarding a commitment to the 2007 Fund. If this is acceptable, the next steps will be to determine the final dollar commitment, and negotiate the best possible terms. There was a **motion** to accept staff's recommendation to allow CCCERA to accept this issue in general, to continue to negotiate the best terms possible, and if something materially significant regarding the issue arises, bring the issue back before the Board. It was M/S/C to call for the question. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington) It was M/S/C to accept staff's recommendation as noted. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

10. Budget, Second Quarter 2006

Hally reviewed the CCCERA 2nd quarter Budget vs. Actual expenditures, January through June 2006. It was noted that salaries are under budget, but are expected to increase once union contracts are settled. CCCERA is under budget on some items due to timing of conversion and implementation of the Tier project. Board members complimented and thanked staff for their effort on always being under budget. It was M/S/C to receive the Budget vs. Actual January through June 2006. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

11. Semi-Annual Rebalancing

Hally reviewed his report on semi-annual rebalancing, noting the timing coincided with prepayment of contributions received by CCCERA to minimize transaction costs. It was M/S/C to receive staff's report on semi-annual rebalancing. (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey, Telles, and Wedington)

Mary Lou Williams introduced Stacey Allen, and representing Contra Costa County Retirees' Association, noting she was a CAL graduate. Ms. Allen provided a brief description of her duties at Local One.

Telles was not present for subsequent discussion and voting.

12. Conference Seminar Attendance

- (a) No one was able to attend the Trustees' Roundtable, CALAPRS, October 13, 2006, Santa Barbara, CA
- (b) It was M/S/C to authorize the attendance of Dunning at the Attorney's Roundtable, CALAPRS, September 8, 2006, Ontario, (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey and Wedington)
- (c) It was M/S/C to authorize the attendance of Hast at the Fundamental of Fixed Income Management, PIMCO, October 12 - 13, 2006, Newport Beach, CA (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey and Wedington)
- (d) It was M/S/C to authorize the attendance of Pollacek, Telles, Hally, Rey, and Viramontes at the Educational Retreat, ING Clarion, October 3- 5, 2006, St. Helena, CA (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey and Wedington)
- (e) It was M/S/C to authorize the attendance of Hally at the Fall Real Estate Forum, Fidelity, September 17-19, 2006, Chatham, MA (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey and Wedington)
- (f) It was M/S/C to authorize the attendance of Hally, Leedom, and Gaynor at the Investment Conference, Nicholas Applegate, October 15 - 17, 2006, Carlsbad, CA (Yes: Gaynor, Gioia, Katz, Kroll, Pollacek, Rey and Wedington)

13. Miscellaneous

- (a) Staff Report - Hally updated the Board on INTECH. The INTECH contract is being reviewed by counsel, and Hally will be arranging an on-site visit in September or October.

On behalf of Leedom, Hally provided an update on new systems. Everything is progressing as planned. Imaging software, the network infrastructure and GroupWise programs have all been updated.

A resolution authorizing a ballot measure to allow an alternate to serve for a County Supervisor on the Retirement Board was requested by the Board of Supervisors to be put on the ballot for the November 7, 2006 general election. Gioia noted this would allow the board of supervisor alternate appointed member to vote for any of the appointed members in their absence to give more flexibility.

Hally noted Segal valuations have been posted on the website and staff is now working on posting the quarterly performance reports to the website. He noted Leedom checked with the County regarding their 415 Excess plan and county counsel commented the plan has not been completed and will probably go before the Board of Supervisors in September.

Hally noted he is working on performing more on-site visits. His intention is to do an on-site visit with Nicholas Applegate during the SACRS Conference. He requested volunteers from the Board. He will be arranging another on-site in coming months to Los Angeles with PIMCO and Western Asset Management. His

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goal is to do three or four before the end of the year and asked for trustee participation.

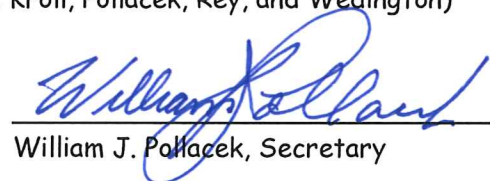
- (b) Outside Professionals' Report - Dunning related that Michael Toumanoff is joining the Steefel Los Angeles office to work with their public pension plan clients. Dunning will continue to serve CCCERA as board counsel. She relayed that attorneys from her firm will be speaking at the CALAPRS Attorney's Roundtable on different topics. Lastly, she requested the Board save Friday, January 26, 2007 for the Steefel Fiduciary Symposium.
- (c) Trustees' Comments - Katz commented on what he felt was an inaccurate action from the June 28th meeting. The Board acted on a letter from Harvey Leiderman regarding supervisory activity with litigation. During the following meeting words were changed. He noted minutes are supposed to accurately reflect what happened at meetings. He would like this issue placed on the next agenda for corrective action.

Wedington commented the meeting on September 13th will be long with five managers and six products. He requested that staff meet with Adams Street and Pathway Capital Management in Hally's office. Board members can be present, subject to a limit of four board members. He feels this is a better utilization of time. The Board and Hally concurred. Hally will provide Board members with a report on the meeting.

Pollacek noted the County elections have been certified and that he and Gioia will be around for another four years.

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


Clifton Wedington, Chairman


William J. Pollacek, Secretary