The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, September 9, 2009 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

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

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Tim Price	Milliman
John Monroe	Segal Company

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Margie Breen	CCCERA Staff
Chih-Chi Chu	CCCERA Staff

1. **Pledge of Allegiance**

   Naramore led all in the *Pledge of Allegiance*.

2. **Public Comment**

   No members of the public offered comment.

3. **Action on Cost Sharing** - John Monroe, Segal Company

   Leedom distributed a memo from Paul Angelo of the Segal Company. She reviewed the contents of the memo and noted she recommended a one and three year study.

   Monroe reviewed the proposed project plan for potential "depooling" of non-active liabilities. He reviewed the four rate groups: non-enhanced General (Tier 1 only); non-enhanced Safety (Tier A only); enhanced General (Tier 1 and Tier 3); and enhanced Safety (Tier A and C). He noted the most reasonable first step toward depooling would be to pool CCCERA's non-active liabilities by the same four groups for which the AAL, assets and UAAL are pooled for active members.

If this approach is taken then it would have to be determined whether or not this "depooling" of General and Safety non-active members would be done on a prospective or retroactive basis. If prospective it would be from the December 31, 2008 valuation.

If it is decided to apply this approach so as to reflect separate experience retroactively to the December 31, 2005 valuation then Segal would need to obtain contribution and benefit payment information from the Retirement Association for the 2006, 2007 and 2008 calendar years. The retroactive approach would not require recalculation of employer rates prior to December 31, 2008. Only future employer contribution rates would be affected, but now those future rates would reflect the separate experience of the four different groups back to December 31, 2005.

There was discussion that most felt the issue was not between Safety and General members, but between employers, since the County is the biggest entity and all costs are shared.

Viramontes was present for subsequent discussion and voting.

The possible legal issues regarding one entity paying more of the cost was discussed. It was the consensus of the Board that the legal issue would need to be researched before the Board can make a decision.

There was discussion regarding a retroactive study to December 31, 2001 or 2002, incorporating the benefit changes, by employer, that took place over the years. There was also discussion on cost sharing between employers as it relates to benefit levels.

Leedom recommended having Segal complete a study on all the issues, not to exceed $60,000. It was **M/S/C** to go forward with staff's recommendation, to go back retroactively seven to nine years to study cost sharing issues at a cost of up to $60,000. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, Telles, Viramontes)

The issue will be on the October 14, 2009 agenda with an invitation to interested parties. Leiderman will have a legal analysis regarding cost sharing issues by the October 14, 2009 meeting.

4. **Review of Total Portfolio Performance**

Milliman - Bob Helliesen, Tim Price
Price distributed a "Flash Report" for performance for those managers on the Watch List.

Helliesen began by noting that CCCERA's second quarter return of 11.6% was better than the median total fund and the median public fund. CCCERA slightly trailed the median funds over the past one through three-year periods. CCCERA has out-performed both medians over trailing time periods four years and longer, ranking well above median in both universes over the past five through ten-year periods.

CCCERA total domestic equities returned 17.3% for the quarter, exceeding the 16.8% return of the Russell 3000® and the 16.6% return of the median manager. Of CCCERA's domestic equity managers, PIMCO had the best absolute performance with a second quarter return of 21.9%, well above the S&P 500 return of 15.9%. Progress returned 20.5%, slightly trailing the 20.7% return of the Russell 2000® Index. Wentworth Hauser returned 19.7%, better than the 15.9% return of the S&P 500. Boston Partners returned 18.4%, better than the 16.7% return of the Russell 1000® Value Index. Emerald returned 16.5%, significantly trailing the 23.4% return of the Russell 2000® Growth Index. The Legacy ING portfolio, now managed on an interim basis by State Street, returned 16.1%, better than the 15.9% return of the S&P 500 Index. Intech Enhanced Plus returned 15.5%, trailing the S&P 500. Delaware retuned 15.1%, trailing the Russell 1000 Growth Index return of 16.3%. Intech Large Cap Core returned 15.0%, trailing the 15.9% return of the S&P 500 Index. Finally, Rothschild returned 12.2%, trailing the Rothschild Small/Mid Value benchmark return of 18.8%.

CCCERA international equities returned 19.4%, trailing the 25.9% return of the MSCI EAFE Index and the 25.0% return of the median international manager. The GMO Intrinsic Value portfolio returned 22.6%, trailing the S&P Citi PMI EPAC Value Index return of 27.2% and the median international equity manager. McKinley Capital returned 16.3%, well below the MSCI ACWI ex-US Growth Index return of 24.1% and the median international equity manager.

CCCERA total domestic fixed income returned 6.4% for the second quarter, ahead of the 1.8% return the Barclays Universal and the 3.0% return of the median fixed income manager. Nicholas Applegate had the strongest return at 15.1%, but lagged the 23.2% return of the ML High Yield II Index and 17.8% for the median high yield manager. The workout portfolio overseen by Goldman Sachs returned 13.4%, well above the Barclays Aggregate return of 1.8%. The ING Clarion II fund returned 11.3%, below the ML High Yield II Index and the high yield fixed income median. ING Clarion III returned 9.8% in the second quarter. Lord Abbett returned 6.9%, well above the Barclays U.S. Aggregate and the median fixed income manager. PIMCO returned 6.0%, above the Barclays U.S. Aggregate and the median. Goldman Sachs returned 3.0%, above the Barclays U.S. Aggregate Index and matching the median fixed income manager. AFL-CIO returned 1.0% which trailed the Barclays U.S. Aggregate return of 1.8% and was below the median fixed income manager.

Lazard Asset Management returned 7.2% in the second quarter, better than the Barclays Global Aggregate return of 4.9% and ranking in the 40th percentile of global fixed income portfolios.

CCCERA total alternative investments returned -0.1% in the second quarter. Paladin III returned 8.6%, Energy Investor Fund reported a return of 6.3%, Bay Area Equity Fund reported a return of 6.0%, Nogales had a return of 5.5% for the quarter, Energy Investor Fund II reported a return of 1.9%, Energy Investor Fund III reported a return of 0.7%, Hancock PT Timber Fund returned 0.6%, Carpenter Community Bancfund returned -0.6%, Adams Street Partners reported a return of -2.6%, and Pathway returned -3.5%. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending March 31.)

The median real estate manager returned -6.3% for the quarter while CCCERA's total real estate returned 6.3%. Invesco International REIT returned 32.7%, Adelante Capital REIT returned 32.3%, Prudential SPF II returned 5.1%, Willows Office Property returned 1.2%, DLJ RECP I returned 0.1%, DLJ's RECP III returned -0.9, DLJ's RECP II returned -10.4%, Black Rock Realty returned -14.7%, Fidelity II returned -19.0%, Invesco Fund I returned -25.7%, Fidelity III returned -36.4%, DLJ RECP IV returned -36.6% and Invesco Fund II returned -39.3%.

There was discussion on Pimco's performance, the depth of the recession and unemployment's effect on real estate. He noted real estate is still suffering, but there's not a lot that can be done. If there is an attempt to sell, the fund would take a large loss. There was discussion on "riding out the storm" and that this particular asset class most likely won't improve for three to five years.

It was **M/S/C** to accept the report. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, Telles, Viramontes)

There was discussion on performing on-site visits to Pathway and Carpenter Community Bancfund during the upcoming Fall SACRS Conference in Orange County.

<u>Managers Under Review</u>

There were no changes to the Managers Under Review list.

<u>Changes in Allocations to Managers</u>

There were no changes in allocations to managers.

5. <u>2009 Budgeted versus Actual Expenditures</u>

Leroux reviewed the budgeted versus actual expenditures through June 2009. There was discussion on timing of several budget items. It was noted the Member's Handbook is on-line on CCCERA's website. There was discussion on printing and distributing the new Member's Handbook to CCCERA's members.

Leedom noted, preparation for the 2010 budget is underway and should be on the December 9, 2009 meeting agenda, at the latest.

It was **M/S/C** to accept the 2009 budget January through June 2009. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, Telles, Viramontes)

6. 2009 Budget Change Request

Leedom reviewed staff's recommendation regarding allocating Tier-CPAS software costs to the 2009 budget, rather than capitalizing over the product life span.

It was **M/S/C** to accept staff's recommendation to adjust the 2009 budget to include the $300,000 payment postponed from 2008 due to the new *go live* system scheduling, and the second $40,000 warranty and maintenance agreement payment, to complete CCCERA's software and warranty obligations. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, Telles, Viramontes)

7. Potential Litigation

This item was tabled, with no closed session needed.

8. Miscellaneous

(a) Staff Report - Levy discussed the bill regarding disclosure of placement agents, she noted the bill was passed last week and signed into law. Levy will provide a copy to all board members. This bill will require CCCERA to have a placement agency policy in place by June 2010.

Levy noted she has received a request from Contra Costa Superior Court to confirm that retirement will not be effected by court closures one day a month. She has read the clause and the law is clear that the closure will not affect retirement benefits. This does not require board action.

Leedom reported that a law was passed last year to allow retirees to subscribe to a vision plan as part of a group through SACRS and noted she would return with more information to the Board.

(b) Outside Professionals' Report - Leiderman discussed the Lexin Case, noting the case will finally be argued before the Supreme Court on October 6th. He reminded all that CCCERA and Orange County filed an amicus brief. He stated a ruling won't be known until at least six weeks and up to four months.

(c) Trustees' Comments – Cabral noted he is challenged by the recent newspaper articles in the Contra Costa Times. Topics are blended and the 415 cap is discussed. Leedom noted Segal will provide an educational discussion on the 415(b) limits at a future meeting.

It was **M/S/C** to adjourn. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Katz, Pollacek, Telles, Viramontes)

William J. Pollacek, Chairman

David Gaynor, Secretary