

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 27, 2004

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, October 27, 2004 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Brian Hast, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes 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:
Ashley Dunning
Bob Helliesen

Representing:
Steeffel, Levitt & Weiss
Milliman, USA

Other Attendees:

Joelle Luhn	CCCERA Staff
Luz Casas	CCCERA Staff
Stephen Ojena	Retiree Support Group
Andy Rifkin	DLJ Real Estate Capital Partners
Robert Cavanaugh	DLJ Real Estate Capital Partners
Dan Heflin	ING Clarion Capital
H. Mike Bean	ING Investment Management
Lou Jug	ING Clarion Partners
Jerry Lucey	Central Contra Costa Sanitary Dist.
Dave Gaynor	Self

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

It was M/S/ to approve the minutes of the October 8, 2004 and October 13, 2004 meetings. (Yes: Cabral, Hast, Naramore, Pollacek, Rey; Abs. Pollacek for the October 13, 2004 minutes, only). **The motion carried for October 8, 2004 and failed for October 13, 2004.**

Telles was present for subsequent discussion and voting.

3. Manager Presentations

DLJ Real Estate I and II - Andy Rifkin, Bob Cavanaugh

In an overview of RECP, Rifkin noted that RECP I closed in 1996, acquired approximately \$2.5 billion in real estate and experienced \$317 million in profits, 1.9x multiple on 37 fully realized investments and distributed 131% of invested equity.

RECP II closed in 2000, acquired in excess of \$5 billion in real estate, had a gross IRR of 40%, \$138 million in profits, 1.8x multiple on 10 fully realized investments and distributed 59% of invested equity.

RECP III has a 20% target IRR, is focusing on U.S., Japan and Western Europe, with the same investment strategy as RECP I and RECEP II.

Dunning inquired as to the confidentiality statement in the presentation packet. Rifkin confirmed the information included in the packet is no longer confidential and is now a public document.

Rifkin reviewed their investment track record noting the fund had 99 investments, in excess of \$7.5 billion gross transaction value. Of these, 47 were fully realized investments, from \$528 million invested equity, and had 30% gross equity IRR.

Rifkin concluded by reviewing the investment environment in the United States, Western Europe and Japan.

Viramontes was present for subsequent discussion and voting.

ING Clarion - Mike Bean, Lou Jug, Dan Heflin

Jug began by noting that CCCERA began investing in this fund in February 2004 to target investments in high yield CMBS, B-notes and collateralized bond obligations. The fund has capital commitments of \$282.6 million, uses leverage of up to 60% of assets, and has a legal life of eight years from the end of the investment period, subject to two one-year extensions.

Dunning inquired as to the confidentiality statement in the presentation packet. Heflin confirmed the information included in the packet is no longer confidential and is now a public document.

Heflin commented more than \$40 billion of capital has been allocated by US institutions to the real estate sector and has yet to be invested. Average acquisitions by foreign institutional investors increased by 59% from 2002 to 2003; an additional 12% increase is expected in 2004.

Heflin concluded by reviewing the factors affecting the market, the growth of the real estate sector and the collateral distribution.

Wedington was present for subsequent discussion and voting.

4. Additional Commitment to Adams Street

Helliesen reviewed his recommendation to finalize the \$15 million commitment to the Adams 2005 fund, noting Adam's Street is considered a manager in good standing. The

2005 fund is currently over subscribed and only existing investors will have the opportunity to invest in this fund.

There was discussion on developing a standard objective process to measure performance for alternative managers, including introducing the issue at SACRS. Helliesen noted that Adams Street does have vintage years, they've had outstanding returns in the past few years, and believes they are in the upper quartile of similar managers.

There was a motion to accept the recommendation of the Consultant to commit \$15 million to the Adams 2005 fund and authorize the Administrator to sign necessary documents. The motion was amended to include the commitment will be subject to contract review and on-site due diligence visit. The motion was M/S/C as amended. (Yes: Hast, Pollacek, Rey, Telles, Viramontes, and Wedington; Abs: Cabral)

It was determined, that although the new investment requires a contract, since they are not a new investment manager for CCCERA, an on-site visit would not be necessary at this time. It was M/S/C to perform an on-site visit in conjunction with attendance at the Adams Street Annual Client Conference. (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

5. Capital Guardian

Helliesen reviewed his report on the Capital Guardian on-site visit, noting he thinks it would be premature to replace Capital Guardian at this time. The firm's two portfolios were placed on the Watch List in September for performance reasons. He noted even though the fund has had a recent downturn in returns, the five-year return for the developed markets product continues to exceed benchmarks and the five year return of the emerging market fund is quite close to the index benchmark.

Hast noted that during the on-site visit the investment managers did not explain the recent downturn in returns or review a new strategy to improve returns.

There was discussion on removing the additional funds allocated in 1997 to the EAFE account. It was M/S to remove the additional funds allocated in 1997 and to consider placing those funds with Julius Baer. There was additional discussion on keeping Capital Guardian on the Watch List, continue due diligence to track performance. Discussion included number of managers in this arena and the appropriateness of Julius Baer in this allocation.

A substitute motion was offered. It was M/S/C to table any action on Capital Guardian until the February investment meeting after 4th quarter 2004 returns are available to determine if Capital Guardian's performance has improved. (Yes: Cabral, Hast, Pollacek, Rey, Telles; No: Viramontes, and Wedington)

6. Trust Company of the West (TCW)

Helliesen reviewed TCW's portfolio management change, noting that Glen Bickerstaff, the senior of three portfolio managers has decided to step back to a "senior portfolio advisor" role. An on-site visit to TCW was performed on June 2, 2004.

There was discussion on terminating TCW because many Board members felt they hired the expertise of Bickerstaff and have concerns with the ability of younger unproven portfolio managers who will be making investment decisions. It was M/S to rescind the contract for failure to disclose material information.

Discussion followed on the possibility of an on site visit during the upcoming SACRS conference, or to have TCW present at a CCCERA Board Meeting to discuss their failure to disclose material information. In addition, discussion followed regarding rescission of the contract due to the failure of TCW to disclose the material change in personnel.

A substitute motion was offered, it was M/S/C to request that those individuals who intend to assume responsibility for managing CCCERA's investment with Trust Company of the West meet with CCCERA's Board of Retirement in person to discuss information first provided to CCCERA in the September 27, 2004 letter from Glen Bickerstaff, Vice Chairman of TCW, to CCCERA's Administrator. The Board would like to conduct such a meeting, in descending order of preference, on November 17, 2004, in the afternoon, November 23, 2004, in the morning, or November 15, 2004, in the afternoon. (Yes: Cabral, Hast, Pollacek, Rey, Telles, and Viramontes; No: Wedington) Wedington noted his opposing vote was because of the material change in personnel and TCW's failure to disclose.

It was further M/S/C for CCCERA to send a letter to TCW in response to Mr. Bickerstaff's September 27, 2004 letter, indicating the purpose of meeting with CCCERA's Board. CCCERA's letter shall be prepared and/or reviewed by CCCERA's Board Chair, Administrator, Chief Investment Officer and General Counsel. (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

7. Search Research Priorities

Helliesen reviewed the list of project priorities that he believes are of importance. After discussion, two more projects were added: determine scheduled on site visits of existing investment managers and Securities Litigation monitoring.

It was determined the priorities are as follows:

1. Asset Liability Study - December/January
2. Further commitments for real estate
3. Alternative Investments, review the investment asset class and consider an alternative asset consultant - February/March
4. Hedge fund education - Spring

5. Schedule on site visits of existing investment managers
6. Securities Litigation Monitoring

8. Relational Contract

There was discussion in which the Board noted they are unwilling to place CCCERA or its Board members in jeopardy by investing with Relational if they refuse to agree they are a plan fiduciary.

It was M/S/C that the term "The general partner of the Fund shall have no fiduciary or other duties to the Limited Partners other than the duty to act in accordance with the implied covenant of good faith and fair dealing" is unacceptable to it as a board of trustees that administers a public retirement fund governed by California Law. The following terms must be added to the side letter agreement pertaining to Relational Investors IX, L.P. "The General Partner hereby acknowledges and agrees that in performing the investment functions that CCCERA's Board has delegated to it under the Fund Agreement, it is assuming fiduciary duties to the CCCERA retirement fund under applicable California law. CCCERA hereby acknowledges and agrees that compliance with the specific terms of the Fund Agreement will not constitute a breach of the General Partner's fiduciary duties." CCCERA will cease work on the Relational contract if Relational refuses to include this terminology. (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

9. SACRS 2005 Legislative Proposals

Somsen briefly reviewed the SACRS 2005 legislative proposals, including the Administrator's recommendation to have CCCERA tag onto San Bernardino County Legislation Proposal #2 requesting separate district status. It was M/S/C to support the platform, endorse all recommendations and to request that CCCERA be added to San Bernardino County Legislative Proposal #2 to allow CCCERA additional flexibility with separate district status. (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

10. SACRS Education Committee

It was M/S/C to accept the changes to the SACRS By-Law to create an Education Committee as a standing committee. (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

11. Miscellaneous

- (a) There were no requests for counsel opinions
- (b) Administrator's Report - In place of Leedom, Somsen noted that the Board's fiduciary liability insurance with Travelers deductible has increased to \$100,000 and has experienced a 7% increase in cost; however the coverage has been

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maintained at \$15 million. After reviewing several dates, the Actuary's educational presentation was tentatively rescheduled for the afternoon of January 21, 2005.

(c) Trustee Comments - Viramontes noted her interest in attending the Wharton School for the course on fiduciary duty. She will ask the City of Richmond to pay half of the tuition.

(d) Consultants Comments - None

It was M/S/C to adjourn today's meeting in memory of Robert Leedom, the Administrator's husband who passed away this morning. . (Yes: Cabral, Hast, Pollacek, Rey, Telles, Viramontes, and Wedington)

Bob Rey, Chairman

Brian Hast, Secretary