

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

Page 1

November 23, 2004

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, November 23, 2004 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, John Gioia, Brian Hast, Louis Kroll, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, and Clifton Wedington

Staff: Marilyn Leedom, Retirement Administrator; Cary Hally, Retirement Chief Investment Officer; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support:  
Ashley Dunning  
Bob Helliesen  
Brandon Baxter

Representing:  
Steeffel, Levitt & Weiss  
Milliman, USA  
Milliman, USA

**Other Attendees:**

Luz Casas	CCCERA Staff
Dave Gaynor	Self
Andrew Tawil	Ryan ALM
Jeff Gandel	Fidelity
Art Greenwood	Fidelity
Max Swango	INVESCO
Mike Keogh	INVESCO
Paul Smith	INVESCO
Robert Beyer	TCW
Glen Bickerstaff	TCW
Stephen Burlingame	TCW
Craig Blum	TCW
Steve McDonald	TCW
Brian Beitner	TCW
Betty Tse	Alameda County Retirement

**1. Public Comment**

No members of the public offered comment.

**2. Total Portfolio Performance**

**Milliman USA** - Bob Helliesen

Helliesen began by noting that in the second quarter 2004 domestic equities were moderately negative, with the S&P 500 returning -1.9%. Small capitalization stocks trailed larger capitalization issues with the Russell 2000 returning -2.9%. The median equity manager returned -1.9% and the broad U.S. stock market as measured by the Russell 3000 returned -1.9%. The international equity markets also had negative returns, with the MSCI EAFE Index returning -.2%. The U.S. bond market was positive

## *CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

Page 2

November 23, 2004

in the third quarter of 2004 with the Lehman Aggregate Index returning 3.2% and the median fixed income manager returning 3.0%. Hedged international bonds were also positive, with the Citigroup Hedged Index returning 2.4%. Real estate returns were positive with the median real estate manager up 2.9% for the quarter. The NAREIT Equity Index (an index of publicly traded real estate investment trust securities) returned 8.2% while the NCREIF Property Index returned 3.4% for the quarter.

The median total fund returned 0.3% and the median public fund returned 0.4% for the third quarter. CCCERA's third quarter return of 1.1% was above the median total fund and the median public fund. CCCERA has out-performed both medians over longer periods.

CCCERA's total domestic equities returned -1.7% for the quarter, slightly better than the -1.9% return of the S&P 500 and the median equity manager. Of CCCERA's active equity managers, Boston Partners was highest with a return of 1.4% and Intech returned -0.4%, both outperforming the -1.9% return of the S&P 500.

CCCERA's total international equities returned -0.1% for the quarter, slightly above -0.2% for the Morgan Stanley Capital International Europe, Australia, Far East (MSCI EAFE) Index but below 0.2% for the median international equity manager. Helliesen reviewed Capital Guardian's developed market portfolio return and the Capital Guardian emerging market portfolio return. The GDP-weighted EAFE index product managed by Northern Trust returned -1.2%, trailing -0.7% for the GDP-weighted MSCI EAFE Index.

The CCCERA total domestic fixed income returned 3.5% for the third quarter, above 3.2% for the Lehman Aggregate and 3.0% for the median fixed income manager. PIMCO returned 3.2%, matching the Lehman Aggregate and above median. Western Asset returned 3.8%, above the Lehman Aggregate and the median. AFL-CIO's return of 3.4% was above the Lehman Aggregate, the fixed income median and the Citigroup Mortgage Index. Fountain Capital and Nicholas Applegate returned 4.1% and 3.8% respectively, versus 4.6% for the Citigroup High Yield Index and 4.9% for the Merrill Lynch BB/B Index. ING Clarion returned 3.8%, above the fixed income median of 3.0%.

The Fischer Francis Trees & Watts international hedged fixed income portfolio returned 2.3% for the third quarter, slightly below the 2.4% return of the Salomon Non-US Government Hedged Index.

The median real estate manager returned 2.9% for the quarter. CCCERA's total real estate returned 5.6%, while CCCERA alternative investments returned 1.8% for the quarter.

Discussion followed on managers, including the returns for Progress and Emerald. In addition, Helliesen provided an update on Adelante, noting they are closer to completion of financing and have retained most of their clients.

Hally reviewed his memo to the Board, noting that Prudential is considering selling PruTimber to another organization. In addition, Doug Charles, one of the co-founders of Pru-Timber has left the company. It was M/S/C to accept the recommendation of the CIO to place PruTimber under review for anticipated ownership and personnel changes. (Yes: Cabral, Hast, Rey, Telles, and Wedington)

Because performance has been excellent, it was M/S/C to remove both DLJ funds from under review status. (Yes: Cabral, Hast, Rey, Telles, and Wedington)

**3. Manager Presentations**

**Fidelity Real Estate** - Art Greenwood, Jeff Gandel

Greenwood began with an overview noting that Fidelity was established in 1993 to invest in real estate on behalf of institutional investors. They have 73 institutional clients with over 100 different accounts, over \$6 billion of institutional and retail capital under management and 33 investment professionals with 14 support professionals.

Gandel again noted the personnel changes previously reported, Lee Sandwen is leaving and is being replaced by Michael Elizondo.

Fidelity Investments reported a return of 1.7% for the third quarter of 2004.

As of September 30, the fund has called over \$88 million of capital and has made a total of twelve investments. During the third quarter, three new investments were added to Growth Fund II, including a \$6.4 million equity investment in Estates at Heritage Harbour, in Manatee County Florida, a \$16.0 million mezzanine debt investment in Village Green, in Las Vegas, Nevada, and a \$6.8 million in Fountains at Clermont, in Clermont, Florida.

Hally noted the high percentage of condos and apartments in the portfolio and asked if this would change. Gandel commented that residential properties are in the portfolio at this early point, but the total portfolio will hold no more than 40% in residential properties.

Discussion followed on the leverage level in use and whether it would continue at the current rate of approximately 70%. Gandel noted that if interest rates continue to be favorable, the leverage level will remain approximately the same. Gandel concluded by reviewing several of the individual initial investments.

**INVESCO Real Estate** - Max Swango, Mike Keogh, Paul Smith

Swango began by noting that INVESCO is owned by AMVESCAP, but AMVESCAP does not interfere with any INVESCO decisions. They have \$19 billion under management and 183 employees in the U.S. and Europe.

He noted that INVESCO is no longer taking any separate clients. All future accounts will be co-mingled.

Smith reviewed fund investments and commitments to date, including a site plan for a shopping center in Texas. He noted that they feel the market has stabilized and the pipeline of future investments looks better.

Pollacek was present for subsequent discussion and voting.

He concluded by reviewing their strategic plan for 2005. Current fund commitments total 22% of available equity. Their goal is to acquire 4 to 5 assets in the next 12 months, committing equity of \$100 million. Their focus is on multifamily and industrial investments. The initial capital call (5% - 10% of total commitment) is scheduled to occur in early 2005. Returns in the near term may be below overall target of 14%. Diversification will continue to be a focus, and investment efforts will focus on target markets.

**4. Manager Presentations for 2005**

Hally reviewed the proposed 2005 Investment Manager Meeting Schedule, noting the proposed schedule includes all investment managers with an allocation target of 4% or greater, as well as alternative investment and real estate managers with a sizeable commitment.

After moving meetings with PIMCO and Western Asset Management from the August 24, 2005 quarterly meeting to report on September 14, 2005 and Adams Street Partners and Pathway Capital Management to report on September 28, 2005, it was M/S/C to accept the 2005 Investment Manager Meeting Schedule as amended. (Yes: Cabral, Hast, Pollacek, Rey, Telles, and Wedington)

**5. Trust Company of the West Presentation-**

Items 5 and 6 were tabled until later in the meeting.

**7. Conference/Seminar Attendance**

(a) It was M/S/C to authorize the attendance of Cabral at the Public Pension Fund Trustees Conference, AFSCME, Miami, FL, December 16-17, 2004. (Yes: Cabral, Hast, Pollacek, Rey, Telles, and Wedington)

Gioia was present for subsequent discussion and voting.

**5. Trust Company of the West Presentation**- Robert Beyer, Glen Bickerstaff, Craig Blum, Brian Beitner, Stephen Burlingame, Steve McDonald

After introductions, Robert Beyer, President of TCW since 1995, noted that he understood the concerns of CCCERA regarding changes at TCW. He noted that Bickerstaff came to TCW 6 years ago and the current transition began 2 years ago. The style of TCW is to pass knowledge on from generation to generation. Bickerstaff will now become the Senior Portfolio Adviser and will remain on the Board of Directors. He notes that he realizes now that Bickerstaff was 'larger than life' and feels that TCW didn't do as well as they could have to communicate how their product is managed. He noted his confidential conversations with Bickerstaff over the summer regarding his intent to pursue outside interests, and the announcement that CCCERA received came one day after the announcement to internal staff.

Beyer noted the entire team was present to review their role going forward.

Bickerstaff began by noting that he has been the Senior Portfolio Manager of the Concentrated Core product since May 1998 and has been building the investment team since that time. Beitner joined the team first; Blum and Burlingame a few years later. All share the job of co-portfolio manager for the fund.

Bickerstaff will have access to all products through an office set up in his home. He will respond to the team in much the same manner he has in the past through e-mail, although he noted that he has the ability to continue at his discretion. He will be in the office on an irregular basis and will meet with the team at least once a quarter at a collective meeting. He noted he will retain an economic interest and has a significant amount of personal and family assets invested in the fund. He will retain an oversight role and will have some say in the team investment approach.

Bickerstaff commented on his confidence in Blum and Burlingame, noting he handpicked them because of their investment philosophy, and they have demonstrated their expertise on a daily basis.

Telles commented on CCCERA's timeline with the transition, noting the contract was signed in September and soon after notice was received that Bickerstaff would be pursuing other interests.

Beyer noted that TCW didn't make the decision, but Bickerstaff made the final decision approximately one week prior to their announcement. An announcement was then made to all clients at the same time. Beyer noted that the CCCERA contract negotiations had been in progress for some time.

A question was asked of TCW regarding the article by Masters' Select Funds that was in the Board's agenda backup. TCW stated that Masters' Select had been a client of TCW's and had, in that context, asked specific questions about Bickerstaff's future participation with TCW. TCW reported that it had responded to those questions

honestly. TCW explained that Bickerstaff had signed a five-year employment agreement with TCW in 1998, which lapsed in May 2003. At that time, Bickerstaff had told TCW that he had no intention of signing a further employment agreement, and therefore he became an at-will employee. TCW stated that it then did succession planning.

In response, Pollacek stated that no one on CCCERA's Board is a professional analyst and expressed concerned that TCW did not provide this significant information to the Board simply because it was not asked the direct question. Pollacek noted that such information could have changed the Board's vote as to TCW. Other Board members noted that it was Bickerstaff's name and reputation that had been a key factor in selecting TCW rather than other qualified investment managers who responded to CCCERA's RFP. Bickerstaff acknowledged that if the Board's decision was anchored in his prior participation with the portfolio, then this change may make a difference.

There was discussion on the importance of being apprised of significant events and questions from Board members regarding any other clients that were anticipating leaving the fund. In addition, there was concern expressed on the fact that Blum and Burlingame were promoted in 2004 to co-portfolio managers and lack a track record for management of the fund.

Beyer concluded by noting that CCCERA's fund is up 6.1% since inception compared to the Russell 1000 Growth at 3.9%.

**6. Trust Company of the West**

Discussion began with Hast asking if the Board would hire this firm today given the information disclosed in September. He noted he did not originally vote in the affirmative to hire TCW because of the risk and fees involved.

Discussion followed on the inexperience and lack of track record of the two remaining team members compared to Bickerstaff's excellent reputation and longevity. There was further debate on the sequence of events and the fact that Bickerstaff's name was mentioned 24 times in the presentation booklet, compared to the word 'team' mentioned only once. Wedington noted the original difficulty in scheduling the on-site meeting in an attempt to meet with Bickerstaff.

Alternatives were discussed, including placing TCW on watch for change in personnel, a possible termination and where to place the funds if TCW were terminated.

After discussion it was M/S to place TCW on watch for change in personnel.

A substitute motion was offered. It was M/S to terminate TCW and to place on the next agenda as a closed session item because of potential litigation.

There was further discussion on considering other options, the expense of terminating TCW, placing funds in a Russell 1000 growth account and the process for considering the finalist and semi finalist from the original search again.

Kroll was not present for subsequent discussion and voting.

Gioia requested to table the item and to have the Board go into immediate closed session to make a decision. Dunning noted the Board is able to go into closed session not previously agendized if there is a need for immediate action and that need arose after the agenda was posted and there is an affirmative vote of six or more Board members.

Another substitute motion was offered. It was M/S to go into closed session with CCCERA's counsel to decide whether to initiate litigation because there was a need to take immediate action regarding potential litigation in light of a pending motion to terminate CCCERA's contract with TCW, noting the need for action came to the attention of the Board after the agenda for the meeting was posted. There was further discussion as to whether this item met the criteria for closed session. (Yes: Gioia, Hast, Pollacek, and Wedington; No: Cabral, Rey, Telles). **The motion failed for lack of the requisite 2/3 vote of the Board members.**

An additional substitute motion was offered to table this item and place on the next agenda as a closed session item for confidential discussion regarding potential litigation and then as an open session item for action and to place TCW on immediate watch for change in personnel. There was further discussion to not include placing on watch, as the vote should be either to retain or terminate. After amending the motion to remove placing TCW on watch, the motion was M/S/C as amended. (Yes: Gioia, Hast, Pollacek, Telles, and Wedington; No: Cabral, Rey)

Staff will communicate with TCW that CCCERA's investment with TCW will be reconsidered at the December meeting.

**8. Miscellaneous**

- (a) There were no requests for counsel opinions
- (b) The Administrator had nothing further to report. Hally reported that Kern County is considering liquidating their partnership in the FFCA fund. He will report back to the Board with information as it is received.
- (c) Trustee Comments - **Cabral** asked Board members to e-mail additional questions for the on-site review with Grantham Mayo, scheduled for December 6, 2004.

**Gioia** explained his earlier referral to courtesy between Board members, noting that at times more information is needed for Board members to be able to fulfill their fiduciary responsibilities.

*CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

Page 8

November 23, 2004

(d) Consultants Comments - none

---

Bob Rey, Chairman

---

Brian Hast, Secretary