

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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September 22, 2004

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, September 22, 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, Paul Katz, Louis Kroll, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington

Staff: Pat Wiegert, Retirement Administrator; Marilyn Leedom, Assistant Retirement Administrator; Kathy Somsen, Retirement Benefits Manager; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support:
Ashley Dunning
Bob Helliesen
Cary Hally

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

Other Attendees:

Luz Casas
Dave Gaynor
Gary Fencik
John Buehler
Patricia Ter Heun
Michael Gee
Mark Mickelson
Luis Nogales
Philip Godfrey
Albert Clerc

CCCERA Staff
Self
Adams Street Partners
EIF
EIF
EIF
Nogales
Nogales
Pathway
Pathway

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

After correcting the Secretary's name to Brian Hast, it was M/S/C to approve the minutes of the September 8, 2004 meeting as amended. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

3. Manager Presentations

- a. **EIF** - John Buehler, Michael Gee, Patricia Ter Heun
Buehler reviewed the assets of the portfolio, noting the investment of funds was on target or slightly ahead of plan. Since December 2003, 80% of the capital for the fund has been committed with a three-year investment period.

EIF reported a first quarter return of -0.8%. CCCERA has a 12.0% ownership interest in EIF. In July 2004, the Fund distributed \$27.5 million to its partners, of which \$24 million is the release of cash from the Crockett project with the balance representing the distribution of earnings from portfolio companies. Since inception, USPF has distributed \$45 million to its Limited Partners.

Gee predicted the market for future investments should continue to be favorable and by the first quarter 2005 the fund will be fully committed. Wedington questioned the amount of investment management fees paid. Buehler noted that fees paid to date included the 2% of committed funds and the additional fees for organizational costs.

- b. **Adams Street** - Gary Fencik
For the benefit of newer board members Fencik reviewed the history of the fund noting Adams Street was a "spin out" of the larger Brinson Partners fund. He reviewed the organization, noting they have 14 new employees and have implemented new database and risk analytic systems.

Fencik noted that they are oversubscribed for the 2004 Fund and have limited their fund raising. Total assets under management are \$9.5 billion, with over 285 partnerships. Because of the oversubscription, if we commit funds per our letter of interest, the amount they can accept may be reduced from the \$15 million stated on the letter of interest to the \$10-\$15 million range.

Adams Street reported a first quarter return of 2.1%, with the year ending March 31, 2004 returning 15.0%. Fencik reviewed Adams Street's investment philosophy noting that blind pool risk cannot be priced in private equity.

Fencik concluded by reviewing the non-U.S. program diversification of investment commitments as of March 31, 2004 .

- d. **Nogales** - Luis Nogales, Mark Mickelson
Nogales reviewed the members of the Advisory Board and the limited partners of the fund noting the addition of one new limited partner since the report was finalized.

Nogales reviewed a new potential investment, Video King, and reviewed the investment in Graphic Press, the largest minority owned printer in the United

States. He noted the reasons for both investments and the projected growth involved.

Nogales noted that \$40 million has been committed out of the \$90 million fund and the expected rate of return is 20% after fees. He also noted that all deals are priced to have a gross return of 25 to 30%. He expressed his feelings of lower risk to this fund compared to other alternative investments because Nogales does not invest in venture capital.

e. **Pathway** - Philip Godfrey, Albert Clerc

Clerc reviewed Pathway's history, and client list noting the fund-of-funds product they developed with CCCERA is now their "bread and butter" product for nine active investors.

They reported a first quarter return of -0.6%. For the one-year period ended March 31, 2004, PPEF reported a total return of 11.9%. PPEF contains a mixture of acquisition-related, venture capital, and other special equity investments.

As of August 31, 2004, PPEF had committed \$41.5 million, with 15 experienced private equity firms. The total fund size is \$45.0 million and is a diversified portfolio of private equity partnerships.

Clerc explained the partnership life cycle or J-curve of the fund, noting that the investor's capital is committed for 10 to 12 years, through investment, development and maturity-liquidation phases. The earliest partnerships are almost at the "maturity liquidation" phase.

Clerc reviewed IRR figures for the years 1999 through 2003, noting that 1999 was a difficult generation for the universe, especially venture capital. He noted that, as of mid-August PPEFI is fully committed. However, the health of the venture capital portfolio is improving.

4. **Transaction Cost Report for 2nd Quarter 2004**

Helliesen reviewed the Transaction Cost Report for the second quarter 2004, noting that 23% fewer stocks were traded in the quarter.

After discussion, it was M/S/C to accept the Transaction Cost Report for the second quarter 2004. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

5. **Adelante Capital Management On-Site Visit**

Helliesen reviewed the on-site visit to Adelante Capital Management (former Lend Lease) by Helliesen, Leedom, Hast, Pollacek, and Hally. There are still outstanding issues on financing, and business issues are not completely resolved. Helliesen noted he has

concerns related to retention of clients and employees. He would like to see the permanent capital structure finalized.

After discussion, it was M/S/C to accept the consultant's report, keep Adelante under watch and monitor closely. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington).

Helliesen will follow-up with monthly calls and will report back to the Board on financing and assignment of clients until he receives the assurance of the client base managed by Adelante Capital Management.

6. Real Estate Rebalancing

Helliesen reviewed the amount currently invested with Adelante. Discussion followed on the high amount of funds currently with Adelante, the uncertainty involved with the company's transition, and alternatives for investing the funds from the WP Carey liquidation.

Gioia was not present for subsequent discussion and voting.

It was M/S to not allocate any additional funds to Adelante, to maintain the current commitment of approximately \$230 million, and to place Adelante on watch until all issues are settled. The motion was amended to reduce the funds to 5.4% and vigorously monitor the fund. (Yes, Cabral, Wedington; No: Hast, Katz, Pollacek, Rey, Telles and Viramontes) **The motion failed.**

There was more discussion on how to allocate the funds from WP Carey, possibly moving the \$30 million into stocks and bonds, or hiring another open-ended real estate manager. The amendment was withdrawn.

After discussion, the original motion was split into two separate motions:

1. It was M/S/C to place the \$30 million from WP Carey into stocks and bonds per the existing asset allocation, and to not allocate any more funds to Adelante when rebalancing the portfolio. (Yes: Hast, Katz, Pollacek, Rey, Telles, Wedington, and Viramontes; No: Cabral)
2. The original motion was reinstated, it was M/S/C to not allocate any additional funds, to maintain the current commitment of approximately \$230 million and to place Adelante on watch until all issues are resolved. (Yes: Hast, Katz, Pollacek, Rey, Telles, and Viramontes; No: Cabral, Wedington)

Discussion followed on future allocations to Real Estate, including future capital calls.

Gioia was present for subsequent discussion and voting.

7. Paladin Capital Management, Homeland Security Fund, LP

Wiegert reviewed CCCERA's history on Paladin's Homeland Security Fund.

After discussion, it was M/S/C to not make an investment with Paladin at this time. (Yes: Gioia, Hast, Pollacek, Viramontes, and Wedington; No: Cabral, Katz, Rey, Telles).

There was discussion on the past practice of hiring managers without 3 years of experience and developing a policy on this issue.

Gioia and Kroll were not present for subsequent discussion and voting.

8. Miscellaneous

- (a) Counsel Opinions - Dunning noted that there have been amendments to the Brown Act that will become effective January 1, 2005 that allows for closed session meetings to hire and fire investment managers.

She is continuing to negotiate the Relational contract and still has issues to negotiate. She expects to have all items negotiated and a contract ready for signature within the next week or two.

- (b) Leedom reported Rey requested an actuarial educational meeting. After discussion, the actuary's educational training presentation was set for November 19, 2004 at 12:00 p.m.

- (c) Trustee Comments - nothing further.

- (d) Consultants Comments - nothing further.

After commenting that this was Pat Wiegert's last Board Meeting as Retirement Administrator and a round of applause for her excellent service to CCCERA, it was M/S/C to adjourn. (Yes: Cabral, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Bob Rey, Chairman

Brian Hast, Secretary