

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

Page 1

October 26, 2005

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, October 26, 2005 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: John Gioia, Brian Hast, Paul Katz, Louis Kroll, William J. Pollacek, Bob Rey, Jerry Telles, and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Administrator; 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	Steefel, Levitt & Weiss
Bob Helliesen	Milliman, USA
William R. Cottle	Milliman, USA

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Dave Gaynor	Self
Jeffrey Gandel	Fidelity Investments
Art Greenwood	Fidelity Investments
Andy Rifkin	Credit Suisse/First Boston (CSFB)
Robert Cavanaugh	CSFB
Stephanie King	Pacific Investment Management Company (PIMCO)
Bob Greer	PIMCO
Allison Nathan	Goldman, Sachs & Co.
Gary Gorton	The Wharton School
Mark A. Romano	PIMCO
Michael Keough	Goldman Sachs & Company
Betty Tse	Alameda County Employees' Retirement Association
Linda Hughes	CCCERA Staff
Nannette Mendoza	CCCERA Staff
Gary Wayne	CCCERA Staff
Janet Kutrowski	CCCERA Staff
Sheila Wendler	CCCERA Staff

**1. Public Comment**

No members of the public offered comment.

**2. Approval of Minutes**

It was M/S/C to approve the minutes of the September 21, 2005 meeting. (Yes: Hast, Katz, Kroll, Pollacek, Rey, Telles, and Wedington) After changing "ration" to ratio", Page 3, Item 8, second paragraph, last sentence, the October 12, 2005 meeting was M/S/C as amended. (Yes: Hast, Katz, Kroll, Pollacek, Rey, Telles, Wedington)

**3. Manager Presentations**

**Fidelity** - Art Greenwood, Jeffrey Gandel

Gandel began by reviewing the Fidelity value-added private equity real estate team. He noted Fidelity was in the process of establishing a core private equity team, which is completely different from the value-added team and will have no impact on CCCERA's portfolio.

Gandel noted Fidelity Real Estate Growth Fund II's objective is to earn 18%+ gross IRR through value added investments in U.S. real estate. The final closing on this fund was in February 2004. Committed capital was \$625 million, with a four-year investment period ending in February 2008 and an eight-year term ending in February 2012. He noted 27 investments closed to date representing \$327 million in committed capital. As of September 30, 2005, they have invested 60% of the fund, ahead of expectations.

Gioia was present for subsequent discussion and voting.

Gandel concluded by reviewing the characteristics by total committed capital and different investments within the fund. When asked about Fund III, he noted Fund III will not invest any capital until all funds for Fund II are allocated.

**DLJ Real Estate/Credit Suisse/First Boston** - Andy Rifkin, Robert Cavanaugh

After an agreement from Rifkin to waive DLJ/Credit Suisse/First Boston's confidentiality on their report to allow review and presentation as a public document in open session, Rifkin presented an overview of RECP.

He noted RECP I, initiated in 1996, was a \$680 million fund, acquired approximately \$2.5 billion in real estate, had a gross IRR of 21%, \$372 million in profits, 1.8x investment multiple on 43 fully realized investments and distributed 149% of invested equity to date.

RECP II, initiated in 2000, was a \$1.2 billion fund, acquired in excess of \$5 billion in real estate, with a gross IRR of 34%, \$558 million in profits, 2.2x investment multiples on 23 fully realized investments and distributed 129% of invested equity to date.

RECP III, initiated in 2005, is a \$1 billion fund, 20% target gross IRR, same investment strategy as RECP I and RECP II, with 18 acquisitions to date and \$325 million equity committed.

Rifkin reviewed the investment team noting there were 27 professionals in New York, Los Angeles, London and Tokyo. He noted the Japanese economy is improving and what is happening in China and India can't be ignored. Europe has relatively low growth, and Germany is in a recession.

He noted RECP has 118 investments, in excess of \$9 billion gross transaction value, 66 fully realized investments, \$919 million invested equity, with 25% gross IRR and 2.0x investment multiple. There has been continued strong performance over the past 15 months, \$325 million committed equity, with \$964 million in distributed proceeds. They will continue to leverage global platforms, focus on key markets in the U.S., expand opportunities in Asia and target selected markets in Europe.

He concluded by reviewing recent realizations and RECP III acquisitions. When asked about the opportunities and the risk with Government officials in China, Rifkin responded that CSFB is very careful to not enter into any questionable political circumstances; they use a tougher screen on China and India and hedge equity within all foreign investments.

#### **4. Commodities Education Session**

Helliesen introduced the panel, Board and various guests.

##### **PIMCO - Bob Greer**

Greer began by discussing the historical benefits of a Commodity Index. He noted the Commodity Index is negatively correlated to stocks, negatively correlated to bonds, positively correlated to inflation, positively correlated to changes in rate of inflation, has the magnitude of returns comparable to equities and the volatility comparable to equities.

Greer then reviewed the choices for commodity investment, described a Commodity Index, components of Dow Jones-AIG Commodity Index, a commodity futures pricing model and examples of a forward curve. He then reviewed unleveraged commodity indices basis for returns, commodity index returns, and diversification during a political crisis and financial crisis.

He concluded by reviewing how modest commodity allocations may reduce portfolio risk. He noted even passive rebalancing of a diverse portfolio can add value and asked if it is prudent to ignore this asset class.

##### **Wharton - Gary Gorton**

Gorton began by describing futures price vs. expected spot prices by giving an example of the collapse of oil prices during 1983 - 1993. He then reviewed commodity spot vs. commodity futures returns with inflation adjusted performance from 1959 to 2004. He discussed stocks and commodity futures return distributions from 1959 to 2004. Bad news for commodities can actually be good news for commodities futures.

He then reviewed the correlation of commodity futures with other financial assets, phases of the business cycle, the average returns by business cycle stage and commodity futures vs. shares in commodity companies.

Gorton summarized the long-term performance of commodity futures returns by noting the historical risk premium of commodities is comparable to the risk premium of stocks and exceeds the risk premium of bonds. He also noted that stocks of commodity companies are often a poor substitute for investments based on commodity futures.

The risks of commodity futures are less risky than stocks, both in terms of volatility and downside risk. Commodity futures are negatively correlated with stocks and bonds. The negative correlation is stronger over longer holding periods. Commodity futures perform better in periods of inflation, when stock and bond returns generally disappoint. Commodities diversify the cyclical variation in stock and bond returns.

**Goldman Sachs** - Allison Nathan

Nathan began by noting that commodity prices have risen over the past 18 months or so. Many have questioned the commodities class as a prudent investment. She responded that she sees substantial gains to be made in the commodities market.

Nathan noted her presentation will focus on energy and oil. She commented that consumer country oil taxes are much greater than producer country oil taxes, which suggest that producers will likely try to take a greater share of the revenues. Consuming countries collect a much higher tax from oil than producing countries.

Before Hurricane Katrina, demand growth was slowing due to a weaker economic environment and stocks were building, creating a cyclical bear market. Over the last year, the market has been characterized by rising long-dated oil prices reflecting changing industry economics and declining spread between spot and long-dated prices reflecting weak fundamentals. There was a great deal of emphasis placed on the effect of Katrina and Rita on crude oil and natural gas production, including the historical supply shocks: Hurricanes Katrina and Rita generated a supply shock similar to the disruption of the 1970's. Weakening U.S. gasoline demand has raised many questions about the outlook for demand going forward.

Exceptionally low inventories in the U.S. Gulf Coast suggest demand declines have largely been forced by supply scarcity. A forced decline in demand due to an absence of supply availability creates higher prices. A decline in the level of demand due to a recessionary environment, conservation efforts, or income loss generates lower prices.

Nathan concluded by discussing the Iranian revolution, recession, loss of jobs and conservation efforts that generated a downward shift in demand between 1977 and 1982. She noted we are entering the winter months with natural gas inventories at relatively low levels, and natural gas will be exceptionally tight this winter even assuming a normal winter.

**-LUNCH -**

Kroll was not present for subsequent discussion and voting.

There was a panel discussion over lunch with presenters. There was discussion on production of natural gas, shortages as a result of the hurricanes, if investing in commodities was prudent, how commodities would work with a yield curve, and that the difference in commodity weightings and energy is a large component of all commodity indices.

Gioia was not present for subsequent discussion and voting.

Wedington requested a year-by-year comparison of volatility of two main indices. Gorton noted that over time commodities will reduce overall volatility of the portfolio.

After noting that commodities is a fairly liquid class, Hast noted that in the past there have been problems getting funds invested in alternative asset classes and perhaps this asset class would be a good method to get funds invested faster.

Helliesen and the Board thanked the panel for their presentations.

**5. Miscellaneous**

(d) Consultants' Comments - Helliesen noted he had received an update by INTECH.

(a) Counsel Report - Dunning noted she has been in contact with the attorney for United Chief Officers Association regarding safety employees that are still making contributions after 30 years. She requested that Board members not respond to questions regarding this and to refer any questions to her. She noted it was better practice, after attorneys from both sides are involved, to have attorneys respond to each other.

She noted she is in receipt of the County's draft language of a proposed memorandum of understanding regarding a 415 replacement benefit plan after a five month hiatus.

Dunning noted an article in the October 17, 2005, Pension Investments, page 12, by Harvey Leiderman referring to serving on private equity advisory committees. She noted this topic should be familiar as CCCERA's Board already has considered and acted on this subject.

She noted Steefel, Levitt and Weiss' fiduciary symposium on January 20, 2006 and invited trustee attendance.

*CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

Page 6

October 26, 2005

- (b) In Leedom's absence Hally reported that he was in contact with INTECH, and although they have had no power in Florida they have a complete back-up system in New Jersey.
- (c) Trustees' Comments - Rey noted in comparing CCCERA's website with other systems he was surprised with the advertisements for lodging at hotels within LACERA's portfolio on LACERA's website.

Pollacek commented that Dunning gave a great presentation at the recent Trustee Roundtable. He also commented on a presentation from the City and County of San Francisco's Chief Investment Officer on returns and what trustees should be looking out for.

Wedington asked if the time for Board meetings should be changed to 9:00 a.m. He noted several have problems getting to the meeting on time because of traffic or various other reasons and he would like the item placed on an agenda for discussion purposes.

Katz noted the presentation and forum at this meeting was very good. He requested more speakers on general issues so trustees can be better informed in making investment decisions. This will be referred to the Administrator. Katz asked that a letter of appreciation commending the participants on their presentations be sent to the three panel experts.

It was M/S/C to adjourn the meeting. (Yes: Hast, Katz, Pollacek, Rey, Telles, and Wedington)

---

Clifton Wedington, Chairman

---

William J. Pollacek, Secretary