

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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July 13, 2005

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, July 13, 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, Sharon Naramore, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes 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:
Ashley Dunning
Bob Helliesen
Tim Price
Rebecca Byrnes

Representing:
Steefel, Levitt and Weiss
Milliman, USA
Milliman, USA
County Counsel

Other Attendees:

Tracy Kroll	Contra Costa County Employees Retirement Assoc Staff
Joelle Luhn	Contra Costa County Employees Retirement Assoc Staff
Luz Casas	Contra Costa County Employees Retirement Assoc Staff
Andrea Peterson	Contra Costa County Employees Retirement Assoc Staff
Dave Gaynor	Self
Jacque Salvador	Local One
Ed Irwin	Retirees' Support Group
Mary Lou Williams	Retirees' Association
Andrew Paulden	Brown Armstrong
Andrew Schroeder	Energy Investor Funds
John Buehler	Energy Investor Funds

Rey introduced and welcomed the new Retirement Administrative Assistant, Andrea Peterson.

1. Public Comment

Katz commented on the sterling job performed by Luhn, Koehler and staff on this year's Comprehensive Annual Financial Report (CAFR). He also noted his pleasure upon receiving the binder containing Contra Costa County Employees' Retirement Association's guidelines and policies compiled by Warren and her staff.

2. Board Reorganization

Wedington, Hast and Pollacek were nominated for Chair, Vice Chair, and Secretary respectively. It was M/S/C to close the nominations and cast a unanimous ballot for the

members as nominated. (Yes: Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

3. Approval of Minutes

After amending the minutes to reflect that Katz was not present at the June 22, 2004 meeting and changing the last sentence on page 3, item 8, paragraph 4, to read: "Dunning noted that legal implications of *combining deferred gains and losses and other proposed changes to reduce volatility in employer contribution rates* would need to be discussed with an ad hoc committee comprised of staff, counsel and board, it was M/S/C to approve the minutes of the June 22, 2005 meeting as amended. (Yes: Hast, Katz, Pollacek, Kroll, Rey, Telles, Viramontes, Wedington)

4. Routine Items

It was M/S/C to approve the routine items of the July 13, 2005 meeting. (Yes: Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

The Board moved into closed session pursuant to Govt. Code Section 54957 to consider the Medical Advisor and or staff's recommendation regarding disability retirement applications, to consult with counsel regarding cases currently being litigated and potential litigation.

The Board moved into open session.

5. Disability Retirements

It was M/S/C to accept the Medical Advisor's recommendation and grant the following disability benefit:

(a) Patricia Van Horn Service Connected (Yes: Hast, Katz, Kroll, Naramore, Pollacek, Rey, Telles, Viramontes, Wedington)

6. CCCERA et al. v. WorldCom Officers and Various Banks

No reportable action taken.

San Ramon Valley Fire Protection District v. CCCERA

No reportable action taken.

Gioia was present for subsequent discussion and voting.

7. Potential Litigation

No reportable action taken.

15. Contra Costa Retired Employees' Association's Request

Jacque Salvador apologized to the Retirement Board and Leedom for her enthusiasm over trying to locate members with whom the Retired Employees' Association has lost contact over the years. She is aware of the need to protect confidential addresses, but noted the retirees are dues-paying members of the retiree organization and need to receive information from their organization. Salvador requested that the Board review the "Mailings to Retirees" Policy to allow all retiree groups to provide mailings to their "sub-groups". Salvador mentioned that Local One would be more than happy to pay the salary of a temporary employee to do the mailing.

Dunning noted two issues that prevent this mailing. One is an administrative issue with staff time. The second is the "Mailings to Retiree" Policy which states mailings must have certain caveats that must include no implication of Board endorsement, and an indication that the mailing is occurring with Board cooperation, but without a release of the addresses to the requesting party.

It was questioned if the mailing could be accomplished with the requesting group paying administrative costs and providing a letter with the mentioned disclaimers. Leedom noted the issue of mailings to sub-groups has not been resolved. Because of confidentiality and the fragility of our current payroll system, she would not recommend hiring a "temp" for such issues. Discussion continued on potential changes to the policy so that issues such as these can be resolved without Board involvement. Alternatives were discussed such as notices in the retiree newsletters and messages on the website to request that retirees contact their retiree organizations if they've had a recent move.

It was M/S to direct the Administrator to revise the current "Mailings to Retirees" policy and return to the Board with the recommended changes. Leedom noted even if the policy were changed and changes were made to the letter, CCCERA's current system would not allow sub-groups of retirees to receive certain information. Her recommendation is to wait until the new software system is in place, when staff time needed to accomplish mailings of this sort will be about 1/10 of what is currently needed. Temporarily, an article will be placed in CCCERA's *New Roads* Newsletter. **The motion was withdrawn** and the issue will be added to a future agenda for possible action.

8. Auditor's Report and Financial Statements for the Year Ended December 31, 2004

Andy Paulden of Brown Armstrong introduced himself and reviewed the independent auditor's report and financial statements for the year ending December 31, 2004. He began by explaining the purpose of an audit. He noted as part of the audit, internal controls of CCCERA are considered.

Paulden noted a significant amount of time was spent auditing the actuary to make sure participant data agrees with the source for the actuary, to ensure employee and employer contribution rates are correctly calculated.

He then commented on the current year findings and recommendations, noting that Brown Armstrong has issued an unqualified or clean opinion.

Paulden reviewed certain conditions and recommendations, noting no disagreements with management and no difficulties conducting the audit. He could detect no weaknesses in controls or any other material weaknesses.

It was M/S/C to accept the independent auditor's report. (Yes: Gioia, Hast, Katz, Krull, Pollacek, Rey, Telles, Viramontes, Wedington)

9. Presentation from Energy Investor Fund on US Power Fund II - Andrew Schroeder, John Buehler

Buehler began with an overview of the Energy Investor Fund. He noted that US Power Fund I closed at \$250 million in December 2003 and was approximately 80% committed. \$105 million was distributed as of March 28, 2005 with total 2005 cash distributions projected at \$62.5 million.

US Power Fund II is targeted at \$500 million. The first closing is \$250 million in June 2005, the second closing is anticipated for July 2005 and the final closing September 2005. The targeted net pre-tax IRR is 20%.

Schroeder reviewed Energy Investor Funds investment strategy, noting that the projected cash yield for US Power Fund II was 28%, with a net IRR slightly above the 25% target. Schroeder then highlighted particular transactions of interest.

Schroeder discussed market opportunities, noting the demand is forecasted to increase through 2020. He noted while older generating plants are being retired, four times as many newer, efficient plants are required to replace generating capacity of older power plants.

The presentation concluded with questions and answers regarding any changes in contract terms, amounts of largest investments and the functions of the various office locations.

10. Energy Investor Fund, US Power Fund II

After discussion, it was M/S/C to accept the recommendation of the Chief Investment Officer to make a capital commitment of \$50 million to US Power Fund II, L.P., subject to contract review and On-Site visit, and to authorize the Administrator to sign all necessary legal documents. (Yes: Gioia, Hast, Katz, Krull, Pollacek, Rey, Telles, Viramontes, Wedington)

11. International Search

Helliesen reviewed the International Growth Equity Search Semi-Finalist Report. He noted the search has been conducted to identify an international growth equity manager to serve as a complement to the existing international value equity mandate.

Helliesen described the manager search process and listed the seventeen responding firms. Milliman's review displayed the twelve candidates that merit further discussion.

After discussion on the merits of one firm over another, there was a motion to interview the following firms: Hansberger Global Investors, Inc., McKinley Capital Management, Inc., and William Blair & Co. Discussion followed on the merits of adding Fidelity Management Trust Company.

The motion was amended to include Fidelity. The motion was *M/S/C* as amended to invite the following four firms for presentations:

- Hansberger Global Investors, Inc.
- McKinley Capital Management, Inc.
- William Blair & Co
- Fidelity Management Trust Company

(Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

The date of September 21, 2005 from 9:00 a.m. to 12:00 p.m. was set to hear presentations from the four finalist firms. The Commodities Education Meeting will be agendized to be rescheduled for another date after consulting with the trainer.

LUNCH BREAK

9. Energy Investor Fund, US Power Fund II (Revisited)

Discussion returned to Item 9. The question was asked if an on-site meeting was needed before moving forward with the investment. It was the consensus of the Board that a recent on-site visit was performed and all are satisfied with the results.

12. Benefits Software Project

Wehner provided an update on the retirement software selection, acquisition and implementation. Wehner noted the initial eight vendors have been narrowed down to three. He reviewed the vendor presentation schedule and invited the Board to attend. He noted the team's plan is to narrow down to one vendor after the presentations.

Leedom, Somsen and Wehner will proceed with an on-site visit and then move forward with contract negotiations.

It was M/S/C to authorize travel and expenses for Leedom, Somsen and Wehner for an on-site visit to the selected benefits software vendors.

13. Benefits Software Contract

Leedom reviewed her memo on the search and recommendation of hiring counsel specializing in software contracts.

It was M/S/C to accept the recommendation of the Administrator to authorize the Retirement Administrator to contract with outside counsel specializing in software contracts, including all necessary travel, with review of all contracts by Steefel, Levitt and Weiss. (Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

14. Office Space Expansion

Leedom reviewed her memo on the budget increase needed for office space expansion for relocation of the Closed Session Room and a training center to be used in the project implementation. It was M/S/C to accept the recommendation of the Administrator to extend the leased area as proposed to relocate the Closed Session Room and add a training area for future use. (Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

16. Miscellaneous

- (a) There were no requests for counsel opinions.
- (b) Administrator's Report - Leedom asked that Hally provide an update to the Board on the receipt of prepayments expected in late July. Hally noted that a large amount of cash will be coming in and he will be investing according to investment manager targets. He will be returning to the Board with rebalancing recommendations in early August.

Leedom advised the Board on recent developments at Progress Investment Management. It was M/S/C under Government Code 54954.2(b) that an item be added to today's agenda to consider and take possible action on Progress Investment Management because, as the Administrator reported:

- a. There is a need to take immediate action; and
- b. The need for action came to CCCERA's attention subsequent to the agendas being posted for this meeting.

(Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

Helliesen noted he had a meeting with Progress the previous day and there were no discussions on any personnel changes. Hally recommended that Progress be placed on "watch" and to determine the extent of personnel changes involved. It was M/S/C to place Progress Investment Management on the watch list and to

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authorize travel for an on-site visit. (Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

- (c) Trustee Comments - Telles expressed concern regarding a potential conflict of interest with having the Treasurer Tax Collector eventually as Chair of the Retirement Board. Dunning noted she had reviewed this and legally there was nothing in the statutes to prevent the Treasurer Tax Collector to serve as Chair.

Gioia requested that acronyms and abbreviations be spelled out in the minutes so all can understand.

Pollacek commented that Al Lomeli, former Tax Collector and Retirement Board Member had a mild stroke, but seems to be doing fine.

- (d) Consultants' Comments - None

It was M/S/C to adjourn. (Yes: Gioia, Hast, Katz, Kroll, Pollacek, Rey, Telles, Viramontes, Wedington)

Clifton Wedington, Chairman

Bill J. Pollacek, Secretary