

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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The Board of Retirement met in special session at 12:00 p.m. on Friday, April 1, 2005, 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, 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; Toni Warren, Retirement Administration Manager.

Outside Professional Support:
Ashley Dunning
Bob Helliesen
Tim Price

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

Other Attendees:

Joelle Luhn	CCCERA Staff
Luz Casas	CCCERA Staff
Dave Gaynor	Self
Joan Woods	SRVFP
Rich Soderholm	Self
Jerome Stark	Self
Ken Hambrick	Self
Kris Hunt	Contra Costa Taxpayers Association
Rusty Watts	Treasurers Office

1. Public Comment

No members of the public offered comment.

2. Transamerica

Helliesen summarized the information contained in his March 28, 2005 memorandum detailing the movement of Transamerica Large Capitalization Growth Investment team to Delaware Investment. He reviewed three possible options the Board could take:

- Remove assets from Transamerica temporarily to State Street Global Indexed Fund until a new manager could be hired,
- Leave the assets with Transamerica on an interim basis pending clarification of Transamerica plans,
- Move the assets to Delaware Investments at the earliest opportunity, on a temporary and perhaps eventually a permanent basis. He noted there would be no transition costs with this action.

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Helliesen recommended moving the money to Delaware Investments, following the team originally selected by the Board.

There was discussion on the conditions that caused the team to leave Transamerica and whether applicable questions had been asked during the due diligence process. Helliesen and Hally responded that these questions, and others, were asked at the meetings with Transamerica. Telles and Pollacek recalled Van Harte's syntax; "we have no plans to leave this group. We have our own money in it."

Discussion followed on a potential fee negotiation if the money were to move to Delaware. Helliesen will be getting more information in the next few days from Delaware and Transamerica. He noted Delaware has resources available to manage the portfolio, but Transamerica may not, since the principal, Gary Folle', has not been a "hands-on" manager for some time. **There was continued discussion on the parallel problem with TCW, which the Board terminated due to similar disclosure issues.**

Dunning discussed the 30-day termination clause in the Transamerica contract, and should the Board decide to terminate, notice should be given as soon as possible.

There was continued discussion regarding Delaware's rating as an investment manager, noting that Delaware was not a finalist in the original search, and whether another RFP should be issued.

There was a **motion** to table discussion and action on funds held by Transamerica until next week, schedule a special meeting, authorize the consultant and the CIO, plus any Board members who wish to meet with Delaware and Transamerica, so a proper and informed decision can be made.

A Special Board Meeting was tentatively scheduled for Friday, April 8, at 1:00 p.m. There was discussion on the procedures to be followed if Transamerica were terminated, the expertise of those remaining at Transamerica and starting the termination process now. Dunning reiterated the 30-day effective date for termination.

Viramontes was present for subsequent discussion and voting.

It was M/S/C to call for the question. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington).

It was M/S/C to table discussion and action on funds held by Transamerica until next week, schedule a special meeting, authorize the consultant and the CIO, plus any Board members who wish to meet with Delaware and Transamerica, so a proper and informed decision can be made. (Yes: Gioia, Hast, Katz, Pollacek, Rey, Viramontes and Wedington; No: Cabral, Telles).

It was M/S/C to reconsider the previous motion to table discussion and action on funds held by Transamerica until next week, schedule a special meeting, authorize the

consultant and the CIO, plus any Board members who wish to meet with Delaware and Transamerica, so a proper and informed decision can be made. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington).

An amendment was offered to add to the previous motion to start the clock on the 30-day termination period by sending a letter to Transamerica noting the Board's intention to terminate, reminding Transamerica of their duties as fiduciary to CCCERA. The amended motion was M/S/C as noted. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington).

The Board moved into closed session pursuant to Govt. Code Section 54956.9 to consult with counsel regarding cases currently being litigated and continued in closed session under Gov. Code Section 54956.9 (c) to confer with Legal Counsel and consider whether to initiate litigation.

The Board moved into open session.

3. CCCERA et al. v. WorldCom Officer and Various Banks

No reportable action taken.

San Ramon Valley Fire Protection District v. CCCERA

No reportable action taken.

4. Conference with Legal Counsel on Potential Litigation

No reportable action taken.

5. Conference with Legal Counsel on Potential Litigation

No reportable action taken.

6. Asset Allocation Study

Helliesen summarized the 2005 Asset Allocation Study including expected returns, risks and correlations. He used the current asset mix as a reference point and described the risk and reward trade-off.

He noted the current asset mix has an expected return of 7.5% which is 0.4% below the actuarial interest rate estimate of 7.9%. Interest rates on fixed income and inflation have each declined over the years, and return estimates for other assets have also declined. To continue to have an expected return of 7.9% requires either a more aggressive asset allocation than before or added return from active management.

Helliesen noted the assumed actuarial interest rate is 7.90% with 4% inflation and 3.9% real return. He then reviewed the current asset mix and compared it with his recommendation of "Mix 3", and several alternatives to the "mix".

He then reviewed the expected returns and risks of each asset class, explaining the definition of "TIPS" (Treasury Inflation Protected Series) and commodities as he proceeded. There was a great deal of discussion on Alternative Investments and the issues involved with funding the target of this particular asset class.

Discussion continued on the affect of each asset mix. Helliesen asked how comfortable the Board would be with risk versus return to attempt to make the assumed rate. He noted that his estimated returns did not account for the additional returns possible with leveraged real estate, or alpha added by active management.

7. Action on Asset Allocation Study

There was discussion on adopting "Mix 3", but to increase the amount invested in real estate and decrease the amount invested in alternative investments because of the difficulty of funding the target.

There was a **motion** to adopt Asset Mix 3. There was continued discussion that the consultant should return with different levels of aggressiveness and to show low to high risk.

After a great deal of discussion, it was M/S/C to call for the question. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

It was M/S/C to adopt Asset Mix 3, with the amendment to increase the Real Estate allocation from 7% to 9% and decrease the Alternative Investment class from 7% to 5%, and to have the consultant run his "efficient frontier" model on this mix with expected returns. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes, and Wedington)

Gioia was not present for subsequent discussion and voting.

8. Miscellaneous

(a) There were no requests for counsel opinions.

Pollacek was not present for subsequent discussion and voting.

(b) Administrator's Report - Leedom asked if Helliesen has enough time to provide the information requested from the Asset Allocation Study by the Special Meeting on April 8, 2005. Helliesen noted he would have the information available for the meeting.

Leedom noted the preliminary Market Stabilization Account Report would be on the agenda for the second meeting in April. Actuarial Economic Assumptions will be on the agenda for April 27, 2005 and the actuarial report for the study for the cost of closing a defined benefit plan will be on the first meeting in May.

- (c) **Trustee Comments - Telles** - noted he enjoyed the Pension Management course put on by CALAPRS at Stanford. He was pleased to learn that Wiegert had a great deal to do with initiating the course years ago. Assumption rates and Board independence were discussed. Telles noted he had discussions with others regarding their involvement with Capital Guardian and was anxious to share comments he received with the Board when he returned from the conference. When he learned Capital Guardian had already been terminated, he was upset that he wasn't present at a meeting when a manager with 5% of our fund was terminated. He did thank everyone for approving his attendance at the CALAPRS at the Stanford conference.

Naramore - She also noted that Wiegert was responsible for spearheading a collection of educational courses at the Stanford conference. She noted she too was upset that a retiree representative didn't have any input on the termination of Capital Guardian.

Telles - noted there was a lot of discussion on Defined Benefit versus Defined Contribution at the conference. Most Retirement systems were not planning on opposing ACA 5, but planning to focus on getting more education out regarding DC vs. DB plans.

Cabral - Cabral commented that the Elections Department has notified him that he will be a Board Member for three more years, since he was unopposed for the Retirement Board Election.

- (d) **Consultants' Comments - Helliesen** noted that some of Invesco's managers have left the company. Since Invesco is a closed-end fund the departure of personnel does not warrant placing Invesco on watch.

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

Bob Rey, Chairman

Brian Hast, Secretary