

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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January 24, 2007

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, January 24, 2007 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Ashley Dunning Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA

Other Attendees:
Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff

1. Public Comment

Wedington congratulated Jim Remick, elected as Safety Alternate to the Board of Trustees, and welcomed him to the Board.

2. Approval of Minutes

After amending Page one, Item two, changing Satomi Cadena's title from "Business Agent" to "Executive Director for Retirees" for Local One, and Item 3 approval of minutes, changing December 13, 2007 to December 13, 2006, it was **M/S/C** to approve the minutes of the January 10, 2007 meeting as amended. (Yes: Cabral, Gaynor, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

3. Real Estate Portfolio

a. Fidelity Real Estate Growth Fund III

Gioia was present for subsequent discussion and voting.

There was a **motion** to accept staff's recommendation to make a capital commitment of \$50 million to Fidelity Real Estate Growth Fund III (FREG III).

There was discussion on the Request for Proposal (RFP) process, the process used by CCCERA of investing in follow-on funds of previously successful managers, the illiquidity of the fund and the merits of increasing the investment to \$75 million.

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

After amending the motion to invest \$75 million, it was **M/S/C** to make a capital commitment of \$75 million to Fidelity Real Estate Growth Fund III (FREG III), subject to successful contract negotiations, negotiations resulting in acceptable fiduciary language, an on-site visit and due diligence and to authorize the Chief Executive Officer (CEO) to sign the contract. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

b. Invesco Real Estate Fund II

It was **M/S/C** to make a capital commitment of \$75 million to INVESCO Real Estate Fund II (IREF II) subject to successful contract negotiations, on site visit and due diligence and authorize the CEO to sign the contract. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

Wedington acknowledged, for the record, the great job the Chief Investment Officer did with providing thorough information in his memo to the Board.

4. ING Clarion Fund II

There was discussion that Fund I was securitized and sold. All capital to the fund has been returned except for approximately \$1 million. It was **M/S/C** to accept staff's recommendation to increase the capital commitment of \$85 million to a total commitment of \$128 million, an increase of \$43 million, for ING Clarion Commercial Mortgage Securitization Fund II. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

5. Energy Investors Fund, U.S. Power Fund III

There was discussion on the exit strategy of the US Power Fund, the possibility of looking into other funds within the spectrum, other ideas, and the liquidity of the fund. There was further discussion on the difficulty of reaching the 5% alternative investment target, the dollar amount of investments available to commit to alternative investments, and the success of the current Energy Investor Funds.

There was discussion on the process of investing in follow-on funds offered from existing CCCERA investment managers versus the process of performing a formal RFP. There was also discussion on including other type of investments within the alternative asset class. Hally noted it was not uncommon for public funds to not go through a formal RFP process when making non-traditional investments. It was the consensus of the Board to agendize discussion on this matter for a later date to discuss the process for RFP's with both traditional and non-traditional investments, discuss the process of investing in follow-on funds and to have counsel weigh-in on the Board's obligation in this process.

It was **M/S/C** to accept the recommendation of staff to make a capital commitment of \$50 million to United States Power Fund III, L.P. (USPF III), subject to successful due

diligence and legal review, and to authorize the CEO to sign the contract. (Yes: Gioia, Hast, Katz, Pollacek, Telles, Viramontes and Wedington; No: Rey; Abs: Cabral)

6. International Fixed Income to Global Fixed Income

Helliesen provided the history for his recommendation noting discussion started out with a Fischer, Francis, Trees and Watt's (FFTW) discussion, at which point he was instructed to investigate the possibility of shifting from an allocation of fully hedged international fixed income to an unhedged global fixed income mandate.

There was discussion on how a global fixed income portfolio would fit with existing fixed income portfolios such as those managed by PIMCO and Western Asset Management. Discussion then focused on conducting a global fixed income search for investing the FFTW funds. There was further discussion of other types of fixed income strategies currently in the market and how these strategies might fit into the total fixed income structure and serve as a compliment to the funds managed by ING Clarion Capital.

It was **M/S/C** to accept the consultant's recommendation to replace the current fully hedged international fixed income allocation with an unhedged global bond allocation, begin the RFP process and direct the consultant and the Chief Investment Officer to return with fixed income products. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

8. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of three people at Pensions are Forever, Klausner & Kaufman P.A., March 11 - 14, 2007, Fort Lauderdale, FL. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)
- (b) It was **M/S/C** to authorize the attendance of Cabral, Wedington and one additional person at the 2007 Spring meeting, Council of Institutional Investors, March 18 - 20, Washington, D.C. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

7. Investment Manager Presentations

It was **M/S/C** to set April 19, July 25 and October 18, 2007 for special board meetings for investment manager presentations. (Yes: Cabral, Gioia, Hast, Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

9. Miscellaneous

- (a) Staff Report - Leedom noted Rollie Katz has asked for a basic pension educational presentation for members of the union and the health care coalition. Board members requested that Leedom limit her presentation and responses to CCCERA's responsibilities only.

Leedom noted the preliminary figures from the actuary for the cost of living increase is 3.5%. Notice will be sent to all interested parties asking them to attend the February 14, 2007 meeting for the actuary's report on economic assumptions to be used for the valuation and the triennial experience study.

She noted Pension and Investments (P&I) has CCCERA in the top 1000, but showed outdated information. She has asked to have the information corrected.

A draft RFP for legal tax counsel has been completed.

Leedom noted Somsen, Koehler and Leedom have met with Moraga Orinda Fire and they are contemplating terminating their membership with CCCERA. A small district has requested information regarding joining the system. This will be an exploratory meeting only as the Board would need to consent to inclusion.

It was noted the courts are now a separate employer. Counsel was asked to review this issue.

(b) Outside Professionals' Report -

Helliesen - reported that ING Investment has made enhancements to their optimization process. He will provide the Board with further information on this change.

Dunning had two items responding to questions from the Board.

One - in response to the Board's question at the January 10, 2007 meeting regarding whether CCCERA's alternate Board members may receive the same payments for meeting attendance and other such benefits as the Board members for whom they sit receive, the alternate appointee board member is specifically authorized under Government Code section 5120.12 of the 1937 Act to receive the same compensation as the members for whom he/she attends meetings, whether or not those members attend the board meetings.

The alternate retiree board member's right to receive such compensation is less clear under the 1937 Act, which is silent on the topic. However, Section 31521 does provide the Board of Supervisors sets the compensation of retirement board members, including the retiree board member, and CCCERA's Board regulations, which are approved by the Board of Supervisors, provide in its Section 1.2.1(D) that the alternate retiree member "shall be entitled to the same compensation as the retiree member for attending a meeting . . . whether or not the retiree member is attendance at that meeting." So, in effect, that public entity with authority to set retirement board member compensation has acted to permit the alternate retiree board member to receive compensation as provided in CCCERA's Regulations. She believes that the law permits CCCERA's alternate retiree board member to receive the same payments for meeting attendance and other such benefits as the board member for whom he/she sits receives.

Two - A question was asked as to whether the '37 Act had any specific mandates with regard to retirement system proxy voting. There is nothing so specific in the '37 Act, but there are two other sections of the Government Code that appear to impose mandates on governmental bodies, including county retirement systems, both to vote their proxies (Gov. Code section 7451) and to vote in favor of any corporate resolution that will permit or authorize cumulative voting (Gov Code Section 6900). CCCERA's proxy voting guidelines are consistent with these codes.

- (c) Trustees' Comments - Viramontes requested the Wharton investment classes be added to a future agenda. She requested a presentation from Bay Area Equity Fund for February, to discuss a fund that closes at the end of March. She suggested an explanation for new Board Members on the process of investing to help them understand all the ways funds can be invested.

Telles - requested that the NCPERS conference for May 18 - 24th be agendized.

Katz - requested an update from counsel on the City of San Diego. Dunning provided an update and noted there will likely be a hearing in the State Court of Appeals in March with a decision in March or April on certain conflict of interest claims.

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

Clifton Wedington, Chairman

William J. Pollacek, Secretary