

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 1

September 12, 2007

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, September 12, 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, Brian Hast, Paul Katz, Sharon Naramore, Russell V. Watts for William J. Pollacek, Bob Rey, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; 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
Tim Price Milliman, USA
Rebecca Byrnes County Counsel

Other Attendees:

Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Tracy Kroll CCCERA Staff
Joelle Luhn CCCERA Staff
Gayle Cruz CCCERA Staff
Terry Buck Contra Costa County Consolidated Fire Department

1. Public Comment

No members of the public offered comment.

The Board moved into closed session pursuant to Govt. Code Section 5496.9 (b) for potential litigation.

The Board moved into open session.

1a. Potential Litigation

No reportable action taken.

2. Review of Total Portfolio Performance

Milliman USA - Bob Helliesen

Helliesen began by noting the domestic equity market produced strong performance results in the second quarter of 2007. The S&P 500 returned 6.3% in the second quarter. Small capitalization stocks lagged larger capitalization issues, with the Russell 2000® returning 4.4%. The median equity manager returned 6.2% and the broad

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 2

September 12, 2007

market, represented by the Russell 3000® Index, returned 5.8%. International equity markets had strong results in the second quarter, with the MSCI EAFE Index returning 6.7% and the MSCI ACWI ex-US Index returning 8.4%. The U.S. bond market was negative in the second quarter of 2007, with the Lehman Universal Index returning -0.5%, the Aggregate Index returning -0.5% and the median fixed income manager returning -0.3%. Hedged international bonds were also negative, with the Citigroup Hedged Index returning -0.9%. The domestic private real estate market continued to post positive results in the second quarter of 2007, with the NCREIF Property Index returning 4.6%, while the publicly traded real estate market was down sharply with the Dow Jones Wilshire REIT Index returning -9.4%.

CCCERA's second quarter return of 2.9% was below both the median total fund and the median public fund. CCCERA has out-performed both medians over all longer trailing time periods, ranking in the upper quintile of both universes over the past two through five-year periods.

CCCERA total domestic equities returned 5.5% for the quarter, below the 5.8% return of the Russell 3000®, the 6.7% return of the S&P 500 and the 6.2% return of the median manager. Of CCCERA's domestic equity managers, Progress had the strongest performance with a return of 7.6%, well above the 4.4% return of the Russell 2000® Index. Boston Partners returned 7.1%, above 4.9% for the Russell 1000® Value. Emerald returned 6.8%, exceeding the 6.7% return of the Russell 2000® Growth Index. ING returned 6.2%, trailing the S&P 500 and the S&P 500 ex-Tobacco Index. Wentworth returned 5.9%, below the 6.3% return of the S&P 500. PIMCO returned 5.7%, also trailing the S&P 500. Rothschild returned 4.9%, better than the 2.9% return of the Russell 2500® Value Index. Delaware returned 4.3%, below the Russell 1000® Growth return of 6.9%. Intech Enhanced Plus returned 3.9%, below the S&P 500. Finally, Intech Large Cap Core returned 2.2%, well below the S&P 500.

CCCERA international equities returned 8.0%, above the 6.7% return of the MSCI EAFE Index and the 7.2% return of the median international manager. The GMO Intrinsic Value portfolio returned 7.0%, slightly below the S&P Citi PMI EPAC Value index as well as the median international equity manager. McKinley Capital returned 9.0%, above the MSCI ACWI ex-US Growth index as well as the median international equity manager.

CCCERA total domestic fixed income returned -1.0% for the second quarter, trailing the -0.5% return the Lehman Universal and the -0.3% return of the median fixed income manager. AFL-CIO's return of -0.8% trailed the Lehman Aggregate and the median fixed income manager. PIMCO returned -1.2%, below the Lehman Aggregate and the median. Western Asset returned -1.3%, also trailing the Lehman Aggregate and the median. ING Clarion returned 2.3%, well above the high yield fixed income median of 0.0% and the 0.3% return of the Merrill Lynch High Yield Master II Index. ING Clarion II returned 1.4% in the second quarter, above the 0.3% return of the ML High Yield II Index and the high yield fixed income median. Nicholas Applegate returned

0.0% versus 0.3% for the ML High Yield II Index and slightly exceeded the high yield median manager.

The Fischer Francis Trees & Watts international fixed income portfolio returned -0.7% for the second quarter, better than the -0.9% return of the Citigroup Non-US Government Hedged Index.

CCCERA total alternative investments returned 4.1% in the second quarter. Pathway returned 9.8%, the Bay Area Equity Fund reported a return of 5.0%, Adams Street Partners reported a return of 4.1%, the Hancock PT Timber Fund returned 3.4%, Energy Investor Fund II reported a return of 1.8%, Energy Investor Fund reported a return of 1.6%, and Nogales had a return of 0.6% for the quarter. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending March 31.)

The median real estate manager returned 3.5% for the quarter while CCCERA's total real estate returned -4.2%. The vast bulk of this underperformance is attributable to the overweight to REIT securities, as these were down sharply in the quarter. Prudential SPF-II returned 10.6%; Invesco returned 8.1%; BlackRock Realty returned 3.4%; DLJ's RECP II returned 2.1%; the Willows Office property returned 0.9%; DLJ's RECP I returned 0.9%; DLJ's RECP III returned -0.6%; FFCA returned -0.9%; Fidelity II returned -2.2%; and Adelante returned -8.4%.

After discussion, it was noted that Page 5 of Milliman's report contained an error; a corrected page will be distributed.

Hally provided an update on the liquidation of FFCA. He noted a problem with Western Asset Management's reporting and that the firm was non-responsive to telephone calls.

Managers Under Review

After discussion, it was M/S/C to place Western Asset Management under review for not meeting Board requirements and lack of appropriate communication. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

It was M/S/C to accept the report. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

6. Disability Retirement Application and Hearing Policy

It was M/S/C to accept the Disability Retirement Application and Hearing Policy as amended. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

Leedom noted that the Retirement Board Regulations with amendments for Normal Retirement Age can now be submitted for Board of Supervisors' approval. Also, the

Board Regulations will no longer include the Disability Retirement Application and Hearing Policy, but will include a reference to this in the document.

3. International REIT Manager

Price reviewed progress on the International REIT Manager search including the background and history. He provided Milliman's methods for screening investment managers and the process used to identify products, noting there is not much historical data since the product is so new. This review will be much more qualitative than those submitted in the past. Milliman will return to the Board with a semi-finalist list by the October 24, 2007 meeting.

It was M/S/C to accept the report. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

4. Cash Flow Report through June 30, 2007

Koehler reviewed the report for Cash Flow as of June 30, 2007. Discussion followed on various inflow and outflow items, contributions and timing.

It was M/S/C to accept the Cash Flow through June 30, 2007 report. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

5. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of Pollacek, Gaynor and two additional Board members at the Trustee Roundtable, CALAPRS, October 12, 2007, San Jose, CA (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

7. Miscellaneous

- (a) Staff Report -
Leedom distributed a memo regarding security within the office to board and staff, noting it was imperative to get more security for the office. She noted that the current 2007 budget will probably already be sufficient for security upgrades and will return to the board for additional funds if needed.

She asked Board members to notify staff of their intent to attend the Fall SACRS Conference in November.

Paul Angelo, from Segal Company, will provide an educational presentation on the Market Stabilization Account in November.

She noted that Segal had finalized the "true-up" figures for the terminated employers, and this resulted in an additional amount due from the City of Pittsburg.

Leedom is considering obtaining identification cards for Board and staff for use while traveling.

She gave an update on two tenant issues in the Willows, noting two mortgage related businesses were having problems and the property manager is in the process of marketing the spaces.

Hally - discussed an upcoming on-site visit with Western Asset Manager and PIMCO. Two or three trustees are needed for the visit within a two-day window of October 15, 16, or 17th.

Hally discussed the Nicholas Applegate CLO deal, noting the complicated legal structure. The market for this type of investment has changed drastically since he originally brought this to the Board. He will meet again with Nicholas Applegate and will return to the Board in October with a further recommendation.

(b) Outside Professionals' Report

Dunning noted that in the criminal conflict of interest case against former trustees on the Board of the San Diego City Employees' Retirement System, the Court of Appeals has denied the former trustees' request to dismiss the case against them. Dunning stated that the former trustees will be petitioning for California Supreme Court review of that decision. She noted she will be providing more information about the case at the SACRS Fall Conference. Board members asked for a copy of the decision, which Dunning stated she will provide.

Dunning also advised the Board of two recent California Supreme Court rulings determining that salary amounts received by public employees, and the identities of those employees, are not confidential and that, absent a showing of a unique need to maintain the confidentiality of such information as to a particular individual, public records showing the information must be disclosed. Dunning noted that in light of these decisions, the Board will need to revisit its Accessibility of Records policy and may need to make certain revisions to it. Dunning will return to the Board with further advice on this topic and with proposed revisions to the policy.

Helliesen - noted he has performed due diligence visits with both Paladin and DLJ. He then discussed ULLICO noting Michael Stead, currently of Paladin, formerly Chief Investment Officer of ULLICO, was not involved in the controversy.

(b) Trustees' Comments -

Cabral - noted his desire to discuss member contribution rates with Segal. Significant changes occurred with the rates effective July 2008 and he wants to understand the changes.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 6

September 12, 2007

Rey - requested an explanation by Segal on the contribution changes. He noted the changes are significant depending upon the age at which a member started employment. The new methodology used for contribution rates has created an anomaly. He wondered when CCCERA's annual report will be sent to CCCERA's Membership. Leedom noted the annual report will be included in the next newsletter.

Katz - requested a public meeting with Segal to explain the changes with the adoption of the rates for July 2008.

Gaynor - noted, obviously setting the rate has a major impact on members; however, the Board's concern should be the Fund.

Naramore - requested a public document that can be released to the members explaining the process.

It was M/S/C to adjourn in memory of Wedington's Grandmother, Betsy Rooks. (Yes: Cabral, Gaynor, Hast, Katz, Naramore, Rey, Viramontes and Watts)

Clifton Wedington, Chairman

William J. Pollacek, Secretary