

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 29, 2008

The Board of Retirement met in regular session at 8:30 a.m. on Wednesday, October 29, 2008 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager; Karen Levy, Counsel.

Outside Professional Support: Representing:
Bob Helliesen Milliman
Tim Price Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Cynthia Ringo	DBL Investors
Nancy Pfund	DBL Investors
Seth Miller	DBL Investors
Mark Perutz	DBL Investors
Robert Leete	San Ramon Valley Fire
Craig Bowen	San Ramon Valley Fire
Sue Casey	Moraga Orinda Fire
Richard Olsen	Self

1. Pledge of Allegiance

Pollacek led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

3. Approval of Minutes

After removing "Rick" from staff in attendance, it was **M/S/C** to approve the minutes of the October 8, 2008 meeting as amended. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Viramontes)

Helliesen provided a brief overview before the presentation by DBL Investors.

4. **DBL Investors, California Equity Fund/Bay Area Equity Fund II** - Cynthia Ringo, Nancy Pfund, Seth Miller, Mark Perutz

Pfund provided an update on the current fund. She reviewed the team, noting DBL Investors team has over 35 years of venture capital experience. A former employee, Mike Dorsey, left the firm last January; Cynthia Ringo is his replacement. Pfund reviewed Bay Area Equity Fund I (BAEF I) investment portfolio by sector.

Perutz reviewed BAEF I financial performance as of June 30, 2008. BAEF I invested \$59.5MM in 18 companies with another \$2-3MM reserved for follow-on investments for an approximate total of \$62MM invested and reserved to date. The IRR to limited partners to date, including fees, as of June 30, 2008, is 12.1%.

Perutz provided a geographic focus for BAEF I, noting 1,163 total jobs have been created by BAEF I companies as of March 31, 2008 (628 of which are entry level jobs).

Pfund reviewed the projected life-of-fund returns for BAEF I. She stated some companies aren't doing well; however, some are exceeding expectations. She noted they've had to make some tough decisions and have had to write down companies even though they are well managed.

Ringo reviewed DBL Equity Fund BAEF II, noting the fund was a \$150 million venture capital fund with a double bottom line focus. Their focus is on regional strengths. They are a woman-owned firm with a commitment to diversity. The first close of \$50 - \$75 million will be in November 2008 with current and new limited partners. The second fund will be a continuation of work done in Fund I.

Pfund concluded by discussing JP Morgan's relationship with the fund. The fee structure was discussed at length, along with the reasons why the fees are 2 ½% of committed capital. When asked, Pfund discussed the firm's liability insurance. Pfund noted they will be focusing on expanding beyond the Bay Area into the rest of California.

5. **DBL Investors, California Equity Fund/Bay Area Equity Fund II - Action**

There was discussion on the fees in direct venture capital funds, noting they usually tend to be higher; the average fee is 2 - 2 ½%. It was noted the fee for this fund is on the higher side. There was discussion on Adams Street and Pathway fees.

Hally noted investing in a direct fund is riskier than investing in a fund-of-funds. There was discussion on negotiating the fees and adding a "most favored nation" clause. There was discussion on the pros and cons of waiting for the second closing of the fund and if the geographic diversification will be changed for Fund II.

There was a **motion** to make a commitment of \$10 million, subject to successful onsite visit, contract negotiation, and authorize the CEO to sign any necessary documents.

The motion was amended to include adding a "most favored nation" clause and to negotiate the fee structure. The motion was **M/S/C**, as amended, to invest \$10 million with Bay Area Equity Fund II; staff will negotiate the fee structure including a "most favored nation" clause, subject to successful onsite visit, contract negotiation and authorize the CEO to sign any necessary documents. If there is no movement on the fee structure, staff is directed to return to the Board for discussion. (Yes: Buck, Gaynor, Gioia, Hast, Holcombe, Pollacek, Telles, and Viramontes; No: Cabral)

6. Adams Street Global Opportunities Secondary Fund II and Adams Street Partnership Fund Program 2009 - Global Offering.

Hally provided an overview of Adams Street Global Opportunities Secondary Fund II and reviewed his recommendation. Discussion followed on the secondary market, including how the fund was created and the needs for other investors to gain liquidity.

It was **M/S/C** to make a capital commitment of \$30 million to the Adams Street Global Opportunities Secondary Fund II, L.P., subject to final contract negotiations, and authorize the CEO to sign any necessary documents. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Telles, Viramontes)

It was decided that another onsite visit was not necessary at this time, since staff and board members had a successful onsite visit earlier in the month.

7. Global Equity Structure

Helliesen noted Milliman is in the process of conducting a review to determine the most effective way to implement the global approach, focusing on equities. They have gathered data regarding the split between US, Developed non-US (International) and Emerging Market allocations in different global equity indexes. Most of these benchmarks have had long-term average allocations of 50% US, 45% developed non-US and 5% emerging markets.

Helliesen noted, currently CCCERA is heavily invested in the US. He noted the Board will probably want to bring this down a bit, but does not expect to recommend investing more than 50% outside of the US.

The Global Equity Implementation Study report will be on the December 10, 2008 agenda.

8. Current Market Environment

Helliesen noted it is an exciting time in the market place and that the US and much of the world is definitely in a recession. He discussed the change in London Inter Bank

Offering Rate (LIBOR) since September. He commented the economy is depressed, consumer confidence has gone down and commodities are now more attractive.

He discussed the current environment, noting there have been substantial challenges to the economy and to the markets in recent months. The combination of bad loans and high leverage has driven brokerage firms and banks into defaults. This has caused banks to be unwilling to lend to each other. This has caused meaningful declines in equity markets, caused investors to prefer Treasury debt, and to demand far more from "spread" product. Part of investors' discomfort with "spread" product is due to distrust of rating agencies' ratings, many of which have proven to be very optimistic.

There was discussion on asset allocation, rebalancing, and the rare market we are currently in, when the asset allocation has fallen outside the range in less than six months.

In public comment Richard Olsen, Moraga resident, noted he has an extensive background in investments. He noted Moraga/Orinda Fire is investigating withdrawing from CCCERA and going to CALPERS. He distributed a report he found on the CALPERS website indicating the effect of the market on future contributions. He had hoped CCCERA would have a similar report.

There was discussion on developing a report noting the effect of the market on contributions. There was continued discussion on five-year smoothing and CALPERS amortization period. Staff was directed to develop a report with 5-year projections. It was felt this report would be helpful to all employers.

9. Action on Current Market Environment

This item will be continued to the November 25, 2008 agenda for discussion.

10. Market Stabilization Account

Koehler reviewed the Market Stabilization Account as of June 30, 2008. He noted he ran "what if" scenarios with different smoothing on different factors. There was discussion on the "Contra Account" and the effect on market stabilization.

Koehler noted the "Contra Account" was a recommendation by CCCERA's actuary, Paul Angelo. Discussion on the traditional method (unfunded liability) and the "Contra Account" method can be discussed when Segal makes their presentation to the Board in early 2009.

The Board moved into closed session pursuant to Govt. Code Section 54956.9(a) to consult with counsel regarding Mayer vs. Contra Costa County and CCCERA Board.

The Board moved into open session.

11. Mayer vs. Contra Costa County and CCCERA Board

No reportable action taken.

12. Miscellaneous

- (a) Staff Report - Leedom noted the results of the Compensation Study will be presented at the November 5, 2008 Board meeting. She also noted that she and Hally would be attending a presentation at Marin County Retirement regarding Independent District status.
- (b) Outside Professionals' Report - Nothing further to report.
- (c) Trustees' Comments - Telles reported on the CRCEA conference recently held in Concord, noting the quality of the speakers and the information provided.

Brian Hast, Chairman

Jerry Telles, Secretary