

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

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November 23, 2010

The Board of Retirement met in regular session at 9:00 a.m. on Tuesday, November 23, 2010 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, Jerry Holcombe, William J. Pollacek and Jerry Telles.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Silvina Leroux, Retirement Deputy Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager

Outside Professional Support:	Representing:
Bob Helliesen	Milliman
Tim Price	Milliman
Harvey Leiderman	Reed Smith LLP
Paul Angelo	The Segal Company

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Christina Dunn	CCCERA Staff
Chih-Chi Chu	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Oyler	CCCERA Staff
Jackie Lorrekovich	Contra Costa County Fire Protection
Kris Hunt	Contra Costa County Taxpayers Association
Colette Curtis-Brown	Central Contra Costa Sanitary District (CCCSD)
Debbie Ratcliff	CCCSD
Mike McGill	CCCSD
Randy Musgraves	CCCSD
Robert Leete	San Ramon Valley Fire District (SRVFD)
John Keel	SRVFD
Marilyn Oliver	Bartel Associates
Donna Heymans	Rodeo Hercules Fire
Michael Sloan	Contra Costa County Retired Employees Association (CCCREA)
Satomi Cadena	CCCREA/Local 1
Cheryl Rhodes	Alexander Delta Diablo Sanitation District

**1. Pledge of Allegiance**

Paul Angelo led all in the *Pledge of Allegiance*.

**2. Public Comment**

Kris Hunt, of the CCC Taxpayers Association (CCCTA), spoke of receiving copies of articles on Board travel to Hawaii from CCCTA members and feels Board travel is an issue of perception.

**3. Approval of Minutes**

It was **M/S/C** to approve the minutes of the October 21, 2010 meeting. (Yes: Buck, Cabral, Gaynor, Holcombe, Pollacek, Telles)

It was **M/S/C** to approve the minutes of the November 3, 2010 meeting. (Yes: Buck, Cabral, Gaynor, Holcombe, Pollacek, Telles)

**4. Consider and take possible action on Central Contra Costa Sanitary District's and San Ramon Valley Fire District's request for additional actuarial information regarding depooling**

Leedom reported on the request from Central Contra Costa Sanitary District (CCCSD) and San Ramon Valley Fire District (SRVFD) for further actuarial information on the depooling study and the actuarial valuation for the period ended December 31, 2009. The Board discussed the amount of information available and who will pay for the additional calculations. Angelo stated that the information previously provided is sufficient to determine if the methods used by The Segal Company were reasonable.

In public comment, Randy Musgraves, from CCCSD, stated the reason for the request is to complete their analysis of depooling. They are not objecting to depooling, but they want to understand it better. He feels CCCERA approved depooling and should bear the costs for employers to further understand it.

Mike McGill, from CCCSD, stated that he would like to reiterate Randy's request.

It was **M/S/C** for CCCERA to provide the additional information to all employers and bear the costs associated with it. (Yes: Buck, Cabral, Gaynor, Pollacek, Telles. Abstain: Holcombe)

**5. Update from The Segal Company regarding timing on requested information regarding a phase-in of employer contribution rates.**

Angelo reported they will have a report on the phase-in of new contribution rates due to the depooling for the December 8, 2010 meeting.

**6. Consider and take possible action to set a Special Meeting to discuss employer contribution rates.**

The Board agreed there was no need to set a special meeting for this issue.

**7. Review of total portfolio performance - Bob Helliesen, Tim Price**

CCCERA's third quarter return of 9.4% was above the median total fund and median public fund. Performance was strong over the past year. CCCERA slightly trailed the median funds over the past two through four-year periods. CCCERA has out-performed both medians over trailing time periods five years and longer.

CCCERA total domestic equities returned 12.0% for the quarter, better than the 11.5% return of the Russell 3000 and the 11.2% return of the median manager. Of CCCERA's domestic equity managers, Delaware had the best absolute return at 14.9%, better than the Russell 1000 Growth Index return of 13.0%. Emerald returned 13.3%, better than the 12.8% return of the Russell 2000 Growth Index. Rothschild returned 12.7%, better than the Rothschild Small/Mid Value benchmark return of 11.4%. Wentworth Hauser returned 12.6%, better than the S&P 500 of 11.3%. PIMCO returned 12.5%, above the S&P 500 return of 11.3%. Intech Enhanced Plus returned 11.3%, matching the S&P 500 Index. Intech Large Cap Core returned 10.9%, slightly trailing the 11.3% return of the S&P 500 Index. Progress returned 10.6%, below the 11.3% return of the Russell 2000 Index. Finally, Robeco Boston Partners returned 8.9%, below the 10.1% return of the Russell 1000 Value Index.

CCCERA international equities returned 16.9%, better than the 16.5% return of the MSCI EAFE Index and the 16.8% return of the median international manager. The GMO Intrinsic Value portfolio returned 17.1%, slightly better than the 17.0% return of the S&P Citi PMI EPAC Value Index. The legacy McKinley Capital portfolio (managed on an interim basis by State Street) returned 16.7%, trailing the MSCI ACWI ex-US Growth Index return of 17.1%.

CCCERA total domestic fixed income returned 4.0% for the third quarter, better than the 2.9% return of the Barclays Universal Index and the median fixed income manager. The Torchlight II fund (formerly ING Clarion) returned 11.1%, better than the ML High Yield II Index return of 6.7% and the high yield fixed income median return of 6.4%. Allianz Global (formerly Nicholas Applegate) returned 6.7%, which matched the 6.7% return of the ML High Yield II Index and exceeded the 6.4% return of the median high yield manager. The workout portfolio overseen by Goldman Sachs returned 5.7%, better than the Barclays Aggregate return of 2.5%. PIMCO returned 3.8%, above both the Barclays U.S. Aggregate and the median. The Torchlight Fund III returned 3.5% in the third quarter, trailing the Merrill Lynch High Yield II Index. Lord Abbett returned 3.5%, better than the Barclays U.S. Aggregate and the median fixed income manager. Goldman Sachs returned 2.8%, better than the Barclays U.S. Aggregate Index, but

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trailing the median fixed income manager. AFL-CIO also returned 2.8% which exceeded the Barclays U.S. Aggregate, but trailed the median fixed income manager.

Lazard Asset Management returned 8.8% in the third quarter, exceeding the Barclays Global Aggregate return of 7.3%, and ranked in the 12<sup>th</sup> percentile of global fixed income portfolios.

CCCERA total alternative investments returned 0.5% in the third quarter. Bay Area Equity Fund returned 22.8%, Paladin III returned 4.2%, Nogales returned 3.9%, Carpenter Community Bancfund returned 2.9%, Hancock PT Timber Fund returned 1.0%, Adams Street Partners returned 0.3%, Energy Investor Fund II returned -0.1%, Pathway returned -0.1%, Energy Investor Fund III returned -2.9% and Energy Investor Fund returned -10.0%. (Due to timing constraints, all alternative portfolio returns, except Hancock PT Timber Fund, are for the quarter ending June 30, 2010.)

The median real estate manager returned 5.8% for the quarter while CCCERA's total real estate returned 12.5%. Invesco International REIT returned 22.9%, Fidelity III returned 15.8%, Adelante Capital REIT returned 13.7%, Invesco Fund I returned 11.7%, DLJ RECP III returned 4.8%, DLJ's RECP IV returned 3.7%, Fidelity II returned 3.3%, Willows Office Property returned 0.9%, BlackRock Realty returned 0.7%, DLJ RECP I returned 0.7% and DLJ's RECP II returned -0.9%.

It was **M/S/C** to accept the report. (Yes: Buck, Cabral, Gaynor, Holcombe, Pollacek, Telles)

**a. Consideration of any managers already under review or to be placed under review.**

Helliesen distributed an updated investment return report for Managers on the watch list. There were no changes to the Managers under review list.

**b. Consideration of any changes in allocations to managers Quarterly review.**

There were no changes in allocations to managers.

**CLOSED SESSION**

The Board moved into closed session pursuant to Govt. Code Section 54956.9(b).

The Board moved into open session.

**8. Closed session**

There was no reportable action.

**9. Consider and take possible action on Administrative Budget for 2011.**

Leroux reviewed the Organizational Strategies. She discussed staffing requirements, including the designation of up to 3 Lead Workers in the Benefits Department with a 5% differential for increased responsibility, a Retirement Communications Technician with a salary up to \$5,084, and a Retirement Programmer/Analyst, to be on contract for six to eight months to determine the needs of the department.

She reviewed the 2010-2011 budget comparison. She noted this budget is different due to the revised Government Code Section 31580.2(b) which removes the costs related to IT hardware, software and consulting services from the Administrative Budget.

Leroux stated that medical, dental and life insurance increases are due to rate premium changes and the addition of new positions. There was further discussion on the increase to workers compensation rates. She also gave a brief update on the Disaster Recovery Budget and progress to date.

Leroux thanked Luhn for all her work on the budget. Holcombe added the accomplishments were to be noted. Cabral requested a summary of salaries and benefits totaled for all departments.

It was **M/S/C** to adopt the Administrative Budget for 2011 as presented. (Yes: Buck, Cabral, Gaynor, Holcombe, Pollacek, Telles)

**10. Miscellaneous**

(a) Staff Report

Leedom reported Ice Miller will be at the December 8, 2010 Board meeting to discuss the IRS determination letter and proposed IRS compliance policies.

Copies of the Mercer Survey of Public Retirement Systems for the period ending June 30, 2010 were made available to Board members.

She noted she has been elected to the CALAPRS Board for another two year term.

Hally reported Carpenter Community Bancfund contacted all limited partners regarding changes to their current fund. They are proposing to open their fund up to new commitments. Hally will review and bring back to the Board if appropriate.

He added that he received the appraisal on The Willows Office Park, noting the new value had dropped considerably.

He is currently in the process of completing the contracts with First Eagle and Tradewinds.

(b) Outside Professionals' Report

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Leiderman provided a brief update on the status of the OCERS IRS Determination Letter filing.

(c) Trustees' Comments

Buck reported he attended the Progress Investment Management Client Conference and felt it was more of a meeting for their managers.

Cabral attended the International Foundation Employee Benefits Conference and thought it was very interesting.

Pollacek reported there were a lot of good speakers at the SACRS Conference. He particularly enjoyed Harm De Blij, who recommended the book "When China Rules the World." A copy will be purchased for the library.

Telles commented on a SACRS speaker, Dr. Arthur Laffer, who he felt was interesting and really stimulated conversation.

Telles announced he would not be here for the second meeting in January.

It was **M/S/C** to adjourn the meeting. (Yes: Buck, Cabral, Gaynor, Holcombe, Pollacek, Telles)

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Jerry Telles, Chairman

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Dave Gaynor, Vice Chairman