

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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May 26, 2010

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, May 26, 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, Brian Hast, Jerry Holcombe, Sharon Naramore, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Silvina Leroux, Retirement Deputy Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer ; Karen Levy, Counsel; Rick Koehler, Retirement Accounting Manager.

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

Other Attendees:
Sean Jara Contra Costa County Employees' Retirement Association (CCCERA) Staff
Tracy Kroll CCCERA Staff
Chih-Chi Chu CCCERA Staff
Luz Casas CCCERA Staff

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

It was **M/S/C** to approve the minutes of the April 28th, 2010 meeting. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

It was **M/S/C** to approve the minutes of the May 5th, 2010 meeting. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

4. Review of total portfolio performance

Milliman - Bob Helliesen, Tim Price

CCCERA's first quarter return of 3.6% was better than the median total fund and the median public fund. CCCERA slightly trailed the median funds over the past two through

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four-year periods. CCCERA has out-performed both medians over trailing time periods five years and longer.

CCCERA total domestic equities returned 5.7% for the quarter, trailing the 6.0% return of the Russell 3000 and the 5.8% return of the median manager. Of CCCERA's domestic equity managers, Progress had the best absolute return at 7.7% though this lagged the 8.9 return of the Russell 2000 Index. PIMCO returned 7.0%, above the S&P 500 return of 5.4%. Boston Partners returned 6.7%, slightly below the 6.8% return of the Russell 1000 Value Index. Rothschild returned 6.7%, trailing the Rothschild Small/Mid Value benchmark return of 9.6%. Emerald returned 6.6%, trailing the 7.6% return of the Russell 2000 Growth Index. Intech Enhanced Plus returned 5.6%, better than the 5.4% return of the S&P 500 Index. Wentworth Hauser returned 3.8%, trailing the S&P 500. Finally, Delaware returned 2.5%, trailing the Russell 1000 Growth Index return of 4.7%.

CCCERA international equities returned 0.8%, trailing the 0.9% return of the MSCI EAFE Index and the 1.7% return of the median international manager. The GMO Intrinsic Value portfolio returned 1.4%, better than the S&P Citi PMI EPAC Value Index return of 1.2%. McKinley Capital returned 0.3%, trailing the MSCI ACWI ex-US Growth Index return of 2.1%. McKinley has been terminated and Milliman is in the process of conducting an international growth equity search to identify a replacement.

CCCERA total domestic fixed income returned 3.4% for the first quarter, ahead of the 2.0% return the Barclays Universal and the 2.0% return of the median fixed income manager. The ING Clarion II fund returned 11.0%, better than the ML High Yield II Index return of 4.8% and the high yield fixed income median return of 4.1%. The workout portfolio overseen by Goldman Sachs returned 10.6%, well above the Barclays Aggregate return of 1.8%. The ING Clarion Fund III returned 4.0% in the first quarter, trailing the Merrill Lynch High Yield II Index. Nicholas Applegate returned 3.9%, which lagged the 4.8% return of the ML High Yield II Index and the 4.1% return of the median high yield manager. PIMCO returned 2.9%, above the Barclays US Aggregate and the median. Lord Abbett returned 2.7% above the Barclays US Aggregate and the median fixed income manager. AFL-CIO returned 2.2% which exceeded the Barclays US Aggregate and the median fixed income manager.

Lazard Asset Management returned 0.9% in the first quarter, better than the Barclays Global Aggregate return of -0.3% but ranked in the 67th percentile of global fixed income portfolios.

CCCERA total alternative investments returned 3.9% in the first quarter. Energy Investor Fund returned 24.8%, Bay Area Equity Fund returned 7.9%, Pathway returned 7.0%, Adams Street Partners returned 5.0%, Nogales returned 4.9%, Carpenter Community Bancfund returned 0.2%, Paladin III returned -0.1%, Hancock PT Timber Fund returned -0.3% Energy Investor Fund II returned -0.7% and Energy Investor Fund III returned -8.0% (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending December 31, 2009).

The median real estate manager returned 0.4% for the quarter while CCCERA's total real estate returned 3.9%. Adelante Capital REIT returned 10.5%, Invesco Fund II returned 9.3%, Fidelity III returned 7.9%, Invesco Fund I returned 5.2%, BlackRock Realty returned 2.1%, Willows Office Property returned 1.5%, DLJ RECP I returned 0.3%, Invesco International REIT returned 0.2%, Fidelity II returned -0.6%, DLJ RECP IV returned -18.0%, DLJ RECP III returned -18.4%, and DLJ's RECP II returned -19.7%. Also, please refer to the internal rate of return (IRR) table for closed-end funds on page 15, which is the preferred measurement for the individual closed-end debt, real estate and private equity funds.

4a. Consideration of any managers already under review or to be placed under review.

Board directed staff to investigate the 25% loss of total assets in the Rothschild SMID product near the timing of the CCCERA board presentation. The Board plans to schedule an on-site visit in the next 30 to 60 days.

Discussion followed on other managers on the watch list. Milliman did not recommend the addition of any other managers to the watch list at this time, but suggested on-site visits to Fidelity, Rothschild, Emerald, and GMO.

Hally noted that Fidelity will be presenting at the June 23rd, 2010 CCCERA Board meeting.

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

5. Update from Milliman on International Growth Equity Search.

Price provided an update on the International Growth Equity manager search. He gave a brief update of the review of the investment process, risk profile, and other portfolio characteristics to produce 11 candidate responses. This led Milliman to focus on seven managers for final review. The semifinalist report will be issued to Board at the June 23, 2010 Board meeting.

5a. The Board will go into closed session under Gov. Code Section 54956.81.

No reportable action taken.

The Board returned to open session.

6. Consider and take possible action on Market Stabilization Account.

Koehler provided the preliminary report on the Market Stabilization account. Board discussion and questions followed regarding various items on the report. Koehler noted this report will be finalized following completion of the audit.

7. Consider and take possible action on staff recommendation for change to Disability Medical Consultancy Service Provider

Leedom reviewed the staff recommendation to make changes to CCCERA's current medical disability review group, and identified two possible options.

It was **M/S/C** to give CEO authority for options #1 or #2 with a preference for option #2 to contract with Dr. Robert Blink through WorkSite Partners to review disability medical files, subject to legal review of contract. (Yes: Buck, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes; Abstain: Cabral).

8. Consider authorizing the attendance of Board and/or staff:

(a) User's Group Meeting, Multiview, June 22-25, 2010, Lansdowne, VA.

It was **M/S/C** to send one staff member to the User's Group Meeting, Multiview, June 22 - 25, in Lansdowne, VA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Pollacek, Telles, Viramontes)

9. Miscellaneous

(a) Staff Report -

Leedom discussed the future retirement of the current leasing agent for the Willows and will come back to the Board in June to recommend the issuance of a RFP for leasing agent and building management for the Willows Office Building.

Hally reported that Chu met with Invesco and will have a report to the Board shortly.

Leedom noted the auditors will present to the Board at the upcoming June 23rd meeting.

(b) Outside Professionals' Report -

None.

(c) Trustees' Comments -

Cabral attended the Board of Supervisor's Pension 101 presentation; he requested clarification on the COLA and the effects of deflation. Leedom noted she would ask counsel for clarification on the matter. Cabral also requested additional information on who has the authority on final pay items that are included in final average salary.

Viramontes noted she attended a meeting for the California Foundation on water infrastructure, noting other local systems were investing in this type of projects.

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

William J. Pollacek, Chairman

David Gaynor, Secretary