The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 27, 2013 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Debora Allen, Terry Buck, Richard Cabral, John Gioia, Brian Hast, Jerry Holcombe, Sharon Naramore, John Phillips, Maria Theresa Viramontes and Russell Watts

Absent: Gabe Rodrigues and Jerry Telles

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer, Timothy Price, Retirement Chief Investment Officer; Karen Levy, General Counsel; and Vickie Kaplan, Retirement Accounting Manager

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Jeff Youngman	Milliman
Paul Angelo	The Segal Company
John Monroe	The Segal Company

Other Attendees:	
Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Christina Dunn	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Rossini	CCCERA Staff
Robert Leete	San Ramon Valley Fire District (SRVFD)
H. Jay Kerr	SRVFD
Lucy Fogarty	Contra Costa County Superior Court
Bill Pollacek	Retired Contra Costa County Treasurer
Lisa Driscoll	County Administrators Office
Liz Walker	AFSCME 2700
Michelle Johnston	Auditor-Controller's Office
Bill Cullen	Retiree
Brandy Sandborn	Contra Costa County Superior Court
Steve Beall	Rodeo Sanitary District
Alan Leal	Rodeo Sanitary District
Marnie Huddleston	First 5 Contra Costa
Todd Smithey	Central Contra Costa Sanitary District
Sue Casey	Moraga-Orinda Fire District (MOFD)
Ken Westermann	Contra Costa County Sheriff's Office/Deputy Sheriffs Association
Jim Bickert	Rains Lucia Stern
Mark DeWeese	MOFD
Rollie Katz	Local One
Nick Marnell	LAMORINDA WEEKLY
Wendy Lack	Contra Costa County Taxpayers Association
Kris Hunt	Contra Costa County Taxpayers Association

Viramontes reported all of the Closed Session items will be moved to the end of the meeting.

1. **Pledge of Allegiance**

   Viramontes 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 January 9, 2013 and the January 23, 2013 meetings. (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts)

4. **Presentation from The Segal Company: Review of Economic Actuarial Assumptions**

   Angelo reviewed the Economic Actuarial Assumptions for the December 31, 2012 Actuarial Valuation highlighting the following recommendations:

   Investment Return - The estimated average future net rate of return on current and future assets of the Association as of the valuation date. This rate is used to discount liabilities.

   Recommendation: Reduce the rate from 7.75% per annum to 7.25% per annum.
   Alternative Recommendation: Reduce the rate from 7.75% per annum to 7.50% per annum.

   Inflation - Future increases in the cost-of-living index which drives investment returns and active member salary increases, as well as cost-of-living adjustments (COLA's) for retirees.

   Recommendation: Reduce the rate from 3.50% to 3.25% per annum. Segal recommends decreasing the assumed COLA for those tiers with a 4.00% maximum COLA from 3.50% to 3.25% per year.

   Individual Salary Increases - Increases in the salary of a member between the date of the valuation to the date of separation from active service. This assumption has three components: inflationary salary increases, real "across the board" salary increases, and promotional and merit increases.

   Recommendation: Reduce the current inflationary salary increase assumption from 3.50% to 3.25% and maintain the current real "across the board" salary increase assumption at 0.75%. This means that the combined inflationary and real "across the board" salary increases will decrease from 4.25% to 4.00%. The promotional and merit increase assumption ranges are from 0.75% to 9.00% for General and 0.75% to 9.50% for Safety. The promotional and merit increases will be reviewed as part of the triennial experience study of non-economic assumptions.

   Terminal Pay - Additional pay elements that are expected to be received during the member's final average earnings period.

Recommendation: The recommendation will be included in the triennial experience study of non-economic assumptions.

5. **Economic Assumptions recommended by The Segal Company to be used in the December 31, 2012 valuation**

The Board discussed the effects on employers and employees of changing the assumption rate to 7.50% and 7.25%.

It was **M/S** to change the economic assumption rate to 7.50% as recommended by The Segal Company, to be used in the December 31, 2012 Valuation.

There was a lengthy discussion on decreasing the rate and how each rate would affect the risk adjusted model used by Segal. It was noted an assumed rate of return of 7.50% would not provide any risk adjustment and an assumed rate of 7.25% would imply a 0.25% risk adjustment.

Schneider reported on the range of assumption rates used by other '37 Act Systems noting in 2012 ten of the other systems used 7.75%, five systems used 7.50% and one system used 7.25%. Eight '37 Act systems are currently reviewing their assumed rate of return.

Wendy Lack, Contra Costa Taxpayers Association, asked if the risk adjustment being recommended is higher or lower than the Board previously used. Monroe stated it is lower on a historical level.

Kris Hunt, Contra Costa Taxpayers Association, questioned if the clients used in the report are influenced because they are clients of The Segal Company. Angelo reported they are not clients of The Segal Company. She felt the unfunded liability is going to get pushed to the employer and the rate should be one that would eliminate the unfunded liability.

Alan Leal, Rodeo Sanitary District, felt the Board needs to make its assumptions more realistic and collect contributions to pay for the promised benefits.

Bill Cullen, Retiree, felt CCCERA has outperformed their benchmarks year in and year out. He felt nobody benefits from higher rates and there are margins built in to prevent roller coaster rides for employers and employees.

A substitute motion was **M/S/C** to approve an economic assumption rate of 7.25% as recommended by The Segal Company to be used in the December 31, 2012 valuation. (Yes: Allen, Gioia, Phillips, Viramontes and Watts. No: Buck, Hast and Naramore. Abs.: Cabral)

Gioia was not present for subsequent discussion and voting.

7. **Review of total portfolio performance** - Bob Helliesen, Jeff Youngman

Helliesen informed the Board he will be retiring around the end of 2013.

Helliesen reported on the fourth quarter total portfolio performance and distributed a Flash Report for the period ending January 31, 2013.

CCCERA's total fund fourth quarter return of 2.2% was better than the median public fund at 1.7%. Performance has been strong against peers through the past four years, particularly over the trailing two- and three-year periods, where performance ranked in the 1st and 2nd percentile, respectively. Still, with the exception of the most recent quarter, the fund has slightly underperformed its policy benchmark over trailing time periods. CCCERA performed slightly above the peer median over the past five years. CCCERA has out-performed the median over trailing time periods longer than five years.

Domestic Equity

CCCERA total domestic equities returned 0.7% for the quarter, better than the 0.2% return of the Russell 3000® and the 1.0% return of the median manager.

Ceredex significantly outperformed its index benchmark in the fourth quarter with a return of 6.2% compared to 3.2% for the Russell 2000 Value Index. Strong stock selection in financials, and an overweight to industrials enhanced returns for Ceredex during the fourth quarter. Ceredex is above the index for the trailing year period, 19.0% vs. 18.1%, and ranks in the 38th percentile of small cap value managers.

Delaware beat the benchmark with a return of -0.5% compared to -1.3% for the Russell 1000 Growth Index. Delaware is above its index benchmark for all trailing time periods extending out to the trailing five years, and ranks very well compared to peers. Emerald Advisors trailed its benchmark in the fourth quarter with a return of -1.3% compared to 0.4% for the benchmark. Emerald is ahead of the benchmark over all trailing time periods longer than the most recent quarter, and ranks well versus other small cap growth portfolios.

The Intech Large Cap Core portfolio edged it's index in the third quarter with a return of -0.3 compared to -0.4% for the S&P 500, and ranked in the 58th percentile. Intech is close to its benchmark over all trailing time periods, and is above the median fund over the trailing two- through four-year periods. Please note that the Intech portfolio was added to the watch list due to the resignation of Jennifer Young as the Intech CEO. Dr. Adrian Banner, the current Intech CIO, will replace Jennifer Young and maintain his responsibilities as CIO while sharing the CEO responsibilities with other members of Intech's senior leadership.

The PIMCO Stocks Plus portfolio beat the S&P 500 Index in the fourth quarter with a return of 0.0% vs. -0.4%. This return ranked in the 47th percentile. PIMCO is above the benchmark over all trailing time periods extending out to ten years, and is above the median large cap core portfolio for all time periods extending out to the trailing five years. Robeco Boston Partners matched the Russell 1000 Value benchmark with a return of 1.5% in the fourth quarter. Robeco Boston Partners is above its benchmark for all trailing time periods extending out to ten years, and consistently ranks in the top quartile. The WHV large cap core portfolio outperformed the S&P 500 Index during the fourth quarter with a return of -0.2% compared to -0.4% for the S&P 500. This return ranks in the 54th percentile of large cap core equity portfolios. WHV is ahead of the benchmark over the trailing one-, five- and ten-year periods. WHV has had personnel turnover lately and we are recommending that the product be placed on watch for this reason.

International Equity

CCCERA international equities returned 6.4% for the quarter, below the MSCI EAFE return of 6.6% but better than the MSCI ACWI ex-USA return of 5.9% and the median MSCI ACI ex-US manager return of 6.1%. The GMO Intrinsic Value Extended portfolio returned 6.7%, better than the 6.5% return of the Blended Benchmark (100% MSCI EAFE Value Index from inception to February 29, 2012, 100% MSCI ACWI ex-US Value from March 1, 2012 to present). The William Blair portfolio returned 6.2%, better than the MSCI ACWI ex-US Growth Index return of 5.3%.

GMO was put on watch at the August 29, 2012 Board meeting due to poor performance relative to its benchmark. GMO is above the blended benchmark over the trailing two-, three-, five-, and seven-year time periods, but ranks well below the median fund in all trailing time periods. As of March 1, 2012, GMO increased the allocation to emerging markets in the portfolio, and Milliman is comparing GMO to peers in an all-country ex-USA universe, whereas the majority of GMO's history is in developed markets. We would expect the peer ranking of GMO to improve as the track record including emerging markets grows.

Global Equity

CCCERA global equities returned 2.3% in the quarter, trailing the MSCI ACWI return of 3.0% and the median global equity return of 3.3%. Please note that Artisan Partners was funded with assets from the transition manager in December 2012. Performance of the Artisan Partners portfolio will be reported in the first quarter 2013 performance analysis report, after a full quarter of performance. The First Eagle portfolio returned 2.3%, below the MSCI ACWI Index return. First Eagle is also below the index over the trailing year, 13.9% vs. 16.8%.

The Intech Global Low Volatility portfolio significantly trailed the MSCI ACWI with a return of -0.6% vs. 3.0%. Major detractors from performance in the fourth quarter were an overweight to financials, and poor security selection in the financials and consumer discretionary sectors. Additionally, poor security selection in and an overweight to the Asia/Pacific region hurt performance. Please note both of this firm's products have been put on watch due to the firm's change in CEOs.

The J.P. Morgan portfolio returned 4.1%, above the 3.0% return of the MSCI ACWI Index, and ranked in the 35th percentile. Strong stock selection in industrials, materials, and financials added to fourth quarter performance. Stock selection was strongest in the Asia/Pacific region. Over the trailing year, JP Morgan returned 19.2%, better than the benchmark return of 16.8%, and ranked in the 32nd percentile.

The low volatility mandates which are managed by Intech and First Eagle are expected to protect in a falling market. They have not kept up with the benchmark in the strong rising market over the trailing year, which is no unexpected.

Domestic Fixed Income

CCCERA total domestic fixed income returned 1.5% for the fourth quarter, better than the 0.6% return of the Barclays Universal Index and the 0.5% return of the median core fixed income manager. This return ranked in the 3rd percentile of US Core Fixed Income managers. Over trailing periods extending out to four years, the domestic fixed income performance ranks in the top decile, and it ranks in the 6th percentile over the trailing ten years.

AFL-CIO returned 0.2% in the quarter, which matched the Barclays U.S. Aggregate return and was below the median core fixed income manager. Performance of AFL-CIO is very close to the benchmark over longer periods, and ranks below the median core fixed income manager over all trailing time periods.

Allianz Global returned 3.0%, slightly below the 3.2% return of the ML High Yield Master II Index and the 3.1% return of the median high yield manager. Allianz outperformed the benchmark and the median for the trailing three-, five- and seven-year periods.

Goldman Sachs returned 0.9%, exceeding the Barclays U.S. Aggregate Index and the median fixed income manager. Performance of the Goldman Sachs portfolio has been very strong, beating the benchmark and the median core fixed income manager over all trailing time periods. The workout portfolio managed by Goldman Sachs returned 3.2%, significantly better than the Barclays Aggregate.

Lord Abbett returned 1.2%, exceeding the 0.2% return of the Barclays U.S. Aggregate and the 0.5% return of the median fixed income manager. Lord Abbett has beat the benchmark over all trailing time periods, and consistently ranks in the top decile of core fixed income managers.

PIMCO Total Return returned 1.0%, exceeding the Barclays U.S. Aggregate and the median. PIMCO exceeds the benchmark over all trailing time periods, and consistently ranks in the top quartile of core fixed income managers.

The Torchlight II fund returned 0.5%, significantly below the ML High Yield Master II Index and the high yield fixed income median. The Torchlight Fund III returned 4.0% in the fourth quarter, better than the Merrill Lynch High Yield Master II Index return of 3.2%, and the high yield fixed income median return of 3.1%. The first capital call for Torchlight Fund IV took place in August 2012. In its first full quarter of performance, the Torchlight IV Fund returned 0.7%, below the ML High Yield Master II Index and the high yield fixed income median. Please note that due to the unique structure of these funds, the high yield benchmark is an imperfect benchmark.

International Fixed Income

Lazard Asset Management returned 0.0% in the fourth quarter, which exceeded the Barclays Global Aggregate return of -0.5% but trailed the median global fixed income manager return of 1.9%, and ranked in the 81st percentile of global fixed income portfolios. Lazard has beat the benchmark for all trailing time periods, but ranks at or below the median manager.

Opportunistic

The opportunistic allocation returned 2.5% in the fourth quarter.

Alternative Investments

CCCERA total alternative investments returned 1.8% in the fourth quarter, above the 0.6% return of the S&P + 4% per year benchmark. CCCERA total alternatives beat the benchmark over all time periods greater than the trailing four years, but shorter periods trail the benchmark. (Please note that due to timing constraints, all alternative portfolio returns are for the quarter ending September 30, 2012). For further comments on each individual manager in the CCCERA alternatives portfolio, please refer to page 103.

Adam Street returned 4.2% for the fourth quarter, the Bay Area Equity Fund returned 0.1%, the Carpenter Bancfund returned 1.5%, Energy Investor Fund I returned 4.7%, EIF Fund II returned 2.5%, EIF III returned 1.1%, EIF IV returned 0.2%, Nogales returned 2.5%, Paladin III returned 0.9%, and Pathway returned -0.5%. All but three alternative portfolios beat the 0.6% return of the S&P + 4% per year benchmark during the fourth quarter.

Real Estate

The median real estate manager returned 2.0% for the quarter while CCCERA's total real estate returned 3.6%. CCCERA's total real estate ranks in the first quartile over all trailing time periods with the exception of the trailing two years, when performance ranks in the 40th percentile. Performance over the trailing four years is particularly strong with a return of 11.6% which ranked in the 8th percentile. For comments on each individual manager in the CCCERA real estate portfolio, please refer to page 98.

Adelante Capital REIT returned 2.4%, marginally trailing the Wilshire REIT benchmark return of 2.5%, and ranked in the 62nd percentile of US REIT managers. Over the trailing three years, Adelante returned 19.0% vs. 18.2% for the benchmark, and ranked in the 51st percentile of US REIT managers. Adelante was taken off the watch list at the August 29, 2012 Board meeting.

The INVESCO International REIT portfolio returned 10.8% compared to 8.5% for the FTSE

EPRA/NAREIT Developed ex-USA benchmark, and ranked in the 9th percentile of international REIT portfolios. INVESCO ranked in the 19th percentile of international REIT portfolios over the trailing year with a return of 42.3% compared to the benchmark return of 38.5%. Over the trailing four years, INVESCO ranked in the 37th percentile with a return of 17.4% compared to the benchmark return of 18.4%.

In the fourth quarter of 2012, Angelo Gordon returned 1.0%, DLJ RECP II returned 2.6%, DLJ RECP III returned 4.6%, and DLJ RECP IV returned 8.0%. (Due to timing constraints, the DLJ portfolio returns are for the quarter ending September 30, 2012). INVESCO Fund I returned 4.9% and INVESCO Fund II returned -1.3%. Long Wharf Fund II returned -1.3 in the fourth quarter, and Long Wharf Fund III returned 3.6%. Oaktree REOF returned 3.1%, the Sigular Guff Distressed Real Estate Opportunities portfolio returned 1.4% and the Willows Office Property returned 0.8%. Please note that the Angelo Gordon, DLJ, and Sigular Guff funds are reported on a one-quarter lag due to financial reporting constraints, while all other portfolios are reported as of the current quarter end.

It was **M/S/C** to accept the Quarterly Report presented by Milliman. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Phillips, Viramontes and Watts).

Cabral was not present for subsequent discussion and voting.

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

Helliesen recommended WHV be added to the watch list for personnel changes. It was **M/S/C** to add WHV to the watch list for personnel changes. (Yes: Allen, Buck, Hast, Holcombe, Naramore, Phillips, Viramontes and Watts)

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

There were no changes in allocations to managers.

Cabral was present for subsequent discussion and voting.

8. **Review of semi-annual rebalancing report**

Price reported the semi-annual rebalancing was split into two phases to accommodate funding real assets. He reported that $64 million was rebalanced from international and global equity to fixed income in early February. Assets were later moved from domestic equity and domestic REITs to fund real assets on February 25, 2013.

It was **M/S/C** to accept the Semi-Annual Rebalancing report. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Naramore, Phillips, Viramontes and Watts).

Gioia was present for subsequent discussion and voting.

9. **Consider and take possible action to change the March 13, 2013 Board meeting date**

Viramontes reported a conflict with the March 13, 2013 Board meeting date due to conference attendance.

It was **M/S/C** to change the March 13, 2013 to Thursday, March 14, 2013. (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts).

10. <u>Conference Seminar Attendance</u>

(a) It was **M/S/C** to authorize the attendance of 2 Board members and 1 staff member at the Client Conference, Angelo, Gordon & Co., April 10-11, 2013, New York, NY. (Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts).
(b) It was **M/S/C** to authorize the attendance of 2 Board members at the Spring Conference, CRCEA, April 15-17, 2013, Long Beach, CA. (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts).

12. <u>Miscellaneous</u>

(a) Staff Report –

<u>Leedom</u> reported CCCERA's Accounting Division received the GFOA award for "Excellence in Financial Reporting" and the "Outstanding Achievement in Popular Financial Reporting" for the year ended December 31, 2011.

She attended the NIRS conference and was very impressed with the speakers and the content of the conference.

She will be providing additional information on the audio recording and storing of Board minutes at a future meeting.

She reported changes with the property manager assigned to The Willows Office Park, which is managed by Transwestern.

The Segal Company will present the results of a preliminary Five Year Projection of Employer Contribution Rate Changes at the March 27, 2013 meeting. They will also provide an educational presentation on actuarial funding policies.

<u>Schneider</u> gave an update on the pensionable compensation analysis, noting he received the MOU's from the County. He and Levy are working towards providing the results of the review to the Board as soon as possible.

<u>Price</u> gave an update on Public Real Assets, noting we are currently funding the new mandates and will provide a full report at the next meeting.

He met with DBL to discuss internal accounting errors, solutions and the use of external accountants. He noted that DBL will review their tax and audit providers once the 2012 books have been closed. He noted both funds are performing well.

Price reported the on-site visit to INTECH is scheduled for March 8, 2013 at Princeton.

Pathway will be presenting their follow-on private equity fund of funds opportunities at an upcoming meeting.

Price noted that Robeco was sold by Rabobank to Orix, a Japanese insurance company. The legal structure and governance are unchanged. There is no current recommendation to put them on the Watch List.

(b) Outside Professionals' Report -

Helliesen gave an update on the Private Real Assets RFP. He will be presenting the results at a future meeting.

(c) Trustees' Comments –

Viramontes reported on the recent onsite to WHV, including the changes to the WHV board, investment committee and investment products.

Allen reported she attended the NCPERS Legislative Conference and felt it was very informative. She will email a summary to all the Board members.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54956.9(a) (two cases).

The Board moved into open session.

Gioia was not present for subsequent discussion and voting.

6a. There was no reportable action related to Govt. Code Section 54956.9(a).

Gioia was present for subsequent discussion and voting.

6b. There was no reportable action related to Govt. Code Section 54956.9(a).

It was **M/S/C** to adjourn the meeting. (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts)

Maria Theresa Viramontes, Chairman

John Phillips, Secretary