

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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October 16, 2008

The Board of Retirement met in special session at 9:00 a.m. on Wednesday, October 16, 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, Brian Hast, Jerry Holcombe, Paul Katz, 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.

Outside Professional Support: Representing:
Harvey Leiderman Reed Smith LLP
Bob Helliesen Milliman
Tim Price Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA
Al Accurso	Self
Gary Fencik	Adams Street Partners
Al Clerc	Pathway Capital
Vincent Dee	Pathway Capital
John Miller	PIMCO
Stephanie King	PIMCO
Carmine Fanelle	Credit Suisse
Andy Rifkin	Credit Suisse
Jeff Gandel	Fidelity
Michael Elizondo	Fidelity
Art Greenwood	Fidelity

1. Pledge of Allegiance

Telles led all in the *Pledge of Allegiance*.

Remick was present for subsequent discussion and voting.

2. Public Comment

Al Accurso, CCCERA retiree, provided comments relative to retiree cost of living (COL) increases, noting a letter he wrote in June before the crisis in the market started. He read his letter and CCCERA CEO's reply, noting CCCERA's reply stated COL adjustments were based on the San Francisco Bay Area index and governed by law and statutes.

He discussed the explosion of expenses that erode retiree pensions. He proposed recalculating retiree benefits and various ways to raise the funds to accomplish the increase.

Several Board members cited state statutes that govern COL increases for retirees, noting Mr. Accurso's proposal would be extremely expensive.

3. Manager Presentations

Overview from Milliman

Helliesen noted the good news is there is zero inflation and it is an exciting and interesting time. He feels the government is doing the best they can; however, there is a liquidity crisis and feels we are definitely in a recession.

He then discussed each of the various presenters, noting Pathway and Adams Street have done well; Pimco Stock Plus performance has not been good lately. He stated buying for DLJ's Fund III will be in a different market. He then discussed the changes with Pyramis, noting their name will not be Pyramis any longer; but as yet the new firm is un-named.

Price distributed a "Flash Report" as of 9/30/08 and there was discussion on how much the fund was down as of yesterday.

Several will be attending Pyramis' limited partner meeting on October 30th in Denver.

Alternative Investments

Adams Street - Gary Fencik

Fencik began by noting it is a difficult market, but with tremendous opportunity. He provided an overview of CCCERA's assets managed by Adams Street. He also noted Adams Street recently purchased UBS's interest in the firm, and now the firm is entirely employee owned. The firm has been a private equity investment manager since 1972 and currently manages \$17 billion in private equity, with 100 employee-owners. Adams Street has a global presence with offices in Chicago, London, Menlo Park and Singapore.

Fencik provided an investment summary as of March 31, 2008, noting the numbers will be worse at the end of year because of "mark to market" accounting rules. He discussed combined intra-period internal rates of return for one, three, five, ten years and since inception.

He reviewed diversification of investment commitments as of March 31, 2008, along with investment commitments by vintage year. He noted the active portfolio construction has led to a significant under-weight to mega buyout funds.

Fencik concluded by discussing CCCERA's onsite visit next Monday, and noted Adams Street is raising secondary capital for a closing in November, which is in addition to Adams Street Partnership Fund Program 2009 - Global Offering.

Viramontes was present for subsequent discussion and voting.

Pathway - Al Clerc, Vincent Dee

Clerc began by providing an overview of Pathway. Pathway was established in 1991, and has \$21.5 billion of assets under management. Ownership is 100% employee-owned, with 95 employees and 31 investment professionals. They have offices in California, Rhode Island, London and Tokyo. Their investment team has had no senior level turnover since inception.

Dee noted, gone are the days of record investment levels that existed from 2005 to mid-2007. This was fueled by favorable debt markets and a benign economic environment. Today, the subprime meltdown and ensuing credit crisis halted the leveraged buyout markets, particularly at the larger end of the market. General partners are adapting to the new environment with a greater focus on smaller transactions, growth equity investments, and special situation investments. He noted the best time to invest in private equity is in a down market.

In summary, he noted the difficult market for all asset classes; however, attractive opportunities are beginning to emerge: lower purchase multiples, stressed/distressed companies, discounted leveraged loans, and PIPEs. Private equity managers with "dry powder" to invest will be well-positioned to take advantage of a prolonged economic slowdown. The pipeline of new partnership investment opportunities remains robust.

Clerc agreed to waive the confidentiality of the report since the contents were discussed in open session.

Domestic Fixed Income

PIMCO - Stephanie King, John Miller

King began by noting PIMCO is returning this year with disappointing performance. She discussed the performance of the total return fixed income portfolio, noting PIMCO has underperformed the Lehman Aggregate in the short term; however, long term performance remains well above the benchmark.

She discussed CCCERA's recent onsite visit for Stock Plus. She discussed the issues that have driven the portfolio's underperformance, noting they are not holding assets that are impaired. She reported September's performance accounted for a significant portion of the underperformance in the second quarter.

Miller discussed the impact of the financing rate for London Inter Bank Offering Rate (LIBOR) and the economic possibilities if there is no change in the rate. Miller noted there has been an unprecedented massive deleveraging of funds on a global basis.

King stated that inflation has changed dramatically with the sell-off in assets with implications on the global economy. Globally there is very low inflation, even in China. Longer term, in the next 3-5 years, they expect continued market volatility.

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Miller noted in the last twelve months the process of raising liquidity has been a challenge. He states PIMCO is continuing to maintain a liquid portfolio with high quality names, which has been a challenge in the current market environment.

Real Estate

Credit Suisse/DLJ RECP I, II and III - Carmine Fanelle, Andy Rifkin

Rifkin began by noting RECP manages a series of global opportunistic real estate private equity funds with over \$4 billion of aggregate equity commitments. RECP has committed \$3.3 billion to 167 investments, corresponding to approximately \$14 billion in gross transaction value. He noted, now, more than ever, a disciplined investment approach focused on real estate fundamentals and large market cities is necessary. They have a seasoned team of 34 dedicated real estate private equity professionals with offices in New York, Los Angeles, Tokyo, Hong Kong and London.

Rifkin noted we are going into a tough recession and there will be slow growth. He then provided RECP's view on the financial crisis including the background and the current financial environment.

Fanelle briefly discussed RECP II, noting most of his focus would be on Funds III and IV, the funds that have most of CCCERA's capital. He summarized the investment performance as of June 30, 2008 and reviewed RECP III realizations. RECP III has realized 11 investments with a Gross IRR of 72%, 2 times investment multiple.

Rifkin reviewed RECP III's remaining portfolio representing \$958 million of invested equity valued at \$960 million as of June 30, 2008.

Viramontes was not present for subsequent discussion and voting.

Rifkin concluded by noting, as of September 30, 2008, RECP IV has approximately \$494 million committed to eighteen closed or pending investments. He noted long term the portfolio will be fine; short term the market is rough.

Pyramis Fidelity Real Estate Growth Fund II & III - Art Greenwood, Michael Elizondo, Jeff Gandel

Gandel agreed to waive the confidentiality of the presentation material.

Gandel began by noting their presentation will focus on organizational changes; however first he will discuss Fund II.

The objective is to earn 18% gross IRR through value-added investments in U.S. real estate. The final closing for Fund II was February 2004, with \$625 million of committed capital. The four-year investment period ended February 2008; the eight year term ends February 2012. As of June 30, 2008 the funds' equity is fully committed to 52 different investments; 13 investments are fully realized to date, generating 21% gross IRR; with \$184 million returned to Limited Partners (LPs).

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Gandel noted the realized investments have gone reasonably well; however, the crisis in the market is definitely affecting real estate. He reviewed the Growth Fund II characteristics by total committed equity.

Gandel continued with Fidelity Real Estate Growth Fund III, noting their objective is to earn 18% gross IRR through value-added investments in U.S. real estate. The final closing was in April 2008, with \$875 million committed capital. Six investments were closed as of June 30, 2008, representing over \$165 million of committed capital. Two additional investments closed in July totaling nearly \$20 million of equity.

Gandel reviewed the changes in the team. He noted Pyramis is a subsidiary of Fidelity Investments. He discussed the proposal for the company changes, noting the parent company has had a shift in interest. Only a small group of 25-26 employees will go to the new company. He noted Fidelity has been a great partner and has given them all the resources needed to run the business.

There will be a meeting of limited partners at the end of the month. The new company will start on January 1, 2009. However, he noted the time frame will be what works best for the client. He stated Fidelity has agreed to provide back-office support through the next year and are being very cooperative. No funds will be exchanged between Fidelity and the new fund.

Gandel concluded by distributing an organizational chart for the new company and a summary of the proposed Fidelity Real Estate group spinout, noting upon consent of each fund's limited partners (2/3 of LP interests), Fidelity will direct funds to enter into sub-advisory agreement with the new company and will take effect on January 1, 2009.

- WORKING LUNCH -

After discussion, it was **M/S/** to invite decision makers at Pyramis/Fidelity and the new company to a meeting to discuss the breakaway firm.

The motion was **withdrawn**; staff was directed to request a second meeting with decision makers of Pyramis/Fidelity to discuss the new firm.

Staff was directed to agendize this issue for discussion and possible action at the November 25, 2008 meeting. If any changes occur the issue can be discussed at that time.

4. Investment Managers Currently Under Review

There was discussion regarding keeping PIMCO Stocks Plus on watch. Many stated they have faith PIMCO will have better returns in the future. If the securities were to be liquidated at this time the portfolio would receive a realized loss, and additional transaction costs.

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It was M/S/C that PIMCO Stocks Plus remain on the watch list. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

All other remaining investment firms on the watch list will be reviewed again at the November meeting.

5. Miscellaneous

- (a) Staff Report - Leedom reported on the recent CALAPRS Administrator's Institute she attended. She noted disaster recovery was discussed, along with potential offsite servers and hot/cold sites. She will be meeting with Sungard, an offsite disaster recovery company, next week and may schedule meetings with San Diego County Retirement (SDCERA) to pursue information gathering.

She reminded all that the next Board Meeting on October 29th, begins at 8:30 a.m. (not 9:00 a.m.).

Leedom noted the actuarial audit is almost complete and a presentation of the final report is scheduled for the November 25, 2008 meeting.

Hally noted he and Chu visited Progress yesterday. He commented, on an absolute and relative basis, Progress significantly underperformed in the quarter. They are down 12% versus the benchmark which is down 1.1%. During the visit, Progress discussed their over-weighting, and commented on value and growth. This issue will be discussed at an upcoming meeting.

- (b) Outside Professionals' Report - Helliesen's only comment was: "this too shall pass".
- (c) Trustees' Comments - Buck discussed the NCPERS Public Safety Employees Pension & Benefits Conference he recently attended, noting he has hand-outs and Power Point presentations for anyone interested. He discussed proxy voting together with other retirement systems. His written report will follow. Leedom noted that we contract with an outside company for proxy voting and CCCERA would need to make changes, if needed, to our proxy voting policy.

Cabral discussed National Institute on Retirement, a new retirement organization for pension reform. He requested that CCCERA consider joining this group. The group is a national organization with an administrator and budget. The organization would be focused on defined benefit issues. Cabral believes CCCERA would benefit from being a charter member of this group. He will provide information and website.

Gaynor noted the SACRS CEO Ad Hoc Committee has a recommendation for SACRS that will include a restructure of SACRS governance in a two-step process. The recommendation will be announced during the Fall SACRS Conference.

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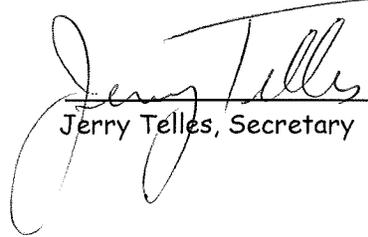
Telles discussed a meeting he had with AEW concerning real estate, and noted he may at some point refer the product to the consultant and staff for further review and consideration.

Pollacek recommended CNBC Europe to all for updates on the financial crisis. He thought it provided a unique prospective.

Hast distributed the list of accomplishments for the upcoming evaluation of the CEO. He noted the material is confidential. Any additional comments will be addressed during closed session.



Brian Hast, Chairman



Jerry Telles, Secretary