The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 25, 2009 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, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, and Maria Theresa Viramontes.

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

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 Staff

1. **Pledge of Allegiance**

   Remick led all in the *Pledge of Allegiance.*

2. **Public Comment**

   Leedom noted CCCERA has again received the Government Finance Officers Association (GFOA) Certificate of Achievement in Financial Reporting for CCCERA's Comprehensive Annual Financial Report (CAFR).

3. **Approval of Minutes**

   After changing 12 a, on Page 4, from authorizing the attendance of up to ***two*** Board Members, to authorizing the attendance of up to ***four*** Board Members, it was M/S/C to approve the minutes of the February 11, 2009 meeting, as amended. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, and Viramontes)

4. **Review of Total Portfolio Performance**

   Milliman - Bob Helliesen, Tim Price

   Helliesen began by noting domestic equities continued to suffer from widespread distress originating with systemic financial sector problems that began in 2007. After the bankruptcy of Lehman Brothers and the near-bankruptcy of Merrill Lynch and AIG in September, the markets continued their sharp decline in October and November before recovering somewhat in December. The impact on markets during the fourth quarter saw severe losses and levels of volatility not seen in recent decades. The Treasury Department began to implement the Troubled Asset Relief Program by infusing banks, large and small, with billions of dollars of direct equity investments. These developments, along with the decision by the Federal Reserve to lower the Fed Funds rate target to 0-0.25%, will continue to play out over the coming months.

Large capitalization stocks, as measured by the S&P 500, returned -21.9% in the quarter while the Russell 2000®, returned -26.1% for the quarter. The median equity manager returned -22.8% as did the broad market, as measured by the Russell 3000® Index. International equity markets declined along with the domestic equity markets in the fourth quarter, with the MSCI EAFE Index returning -19.9% and the MSCI ACWI ex-US Index returning -22.3%. With Barclay Capital's partial acquisition of Lehman Brothers in September, the Lehman fixed income indices have now been renamed the Barclays Capital indices. The Barclays Capital Aggregate Index returned 4.6% during the quarter while the Barclays Capital Universal Index returned 2.7% and the median bond manager returned 3.0%. The domestic real estate market, as measured by the NCREIF property index, returned -8.3% for the fourth quarter of 2008. Publicly listed real estate was down sharply with the Dow Jones Wilshire REIT Index returning -40.0%.

Pollacek was present for subsequent discussion and voting

CCCERA's fourth quarter return of -15.9% trailed the median total fund and the median public fund. CCCERA slightly trailed the median funds over the past one through three-year periods. CCCERA has out-performed both medians over trailing time periods four years and longer, ranking in the upper quartile of both universes over the past five through ten-year periods.

CCCERA total domestic equities returned -22.5% for the quarter, exceeding the -22.8% return of the Russell 3000® and the median manager. Of CCCERA's domestic equity managers, ING Investments and Wentworth Hauser had the strongest performance with a return of -20.3%. This return was better than the -21.9% return of the S&P 500. Boston Partners returned -20.9%, better than the -22.2% return of the Russell 1000TM Value Index. Intech Large Cap Core returned -21.1%, better than the -21.9% return of the S&P500 Index. Delaware returned -21.7%, better than the Russell 1000 Growth return of -22.8%. Intech Enhanced Plus returned -21.9%, matching the S&P 500. Rothschild returned -22.2%, better than the Rothschild Benchmark return of -24.9%. PIMCO returned -25.6, below the S&P 500 return of -21.9%. Emerald returned -25.8%, better than the -27.4% return of the Russell 2000 Growth. Finally, Progress returned -28.7%, below the -26.1% return of the Russell 2000® Index.

CCCERA international equities returned -19.4%, slightly above the -19.9% return of the MSCI EAFE Index and the -21.4% return of the median international manager. The GMO Intrinsic Value portfolio returned -17.1%, better than the S&P Citi PMI EPAC

Value Index return of -20.0% and the median international equity manager. McKinley Capital returned -22.5%, near the MSCI ACWI ex-US Growth Index return of -22.4% and below the median international equity manager.

CCCERA total domestic fixed income returned -3.3% for the fourth quarter, trailing the 2.7% return the Barclays Universal and the 3.0% return of the median fixed income manager. AFL-CIO's had the strongest fourth quarter return at 3.7% which trailed the Barclays U.S. Aggregate return of 4.6% but was above the median fixed income manager. PIMCO returned 1.3%, below the Barclays U.S. Aggregate and the median. ING Clarion (mostly already liquidated) returned -5.1%, better than the high yield fixed income median and the Merrill Lynch High Yield Master II Index. Nicholas Applegate returned -15.0% versus -17.6% for the ML High Yield II Index -17.8% for the median high yield manager. The ING Clarion II closed-end fund returned -44.9%, dramatically below the ML High Yield II Index and the high yield fixed income median. Lazard Asset Management returned -1.2% in the fourth quarter, trailing the Barclays Global Aggregate return of 5.3%, and ranking in the 68th percentile of global fixed income portfolios.

CCCERA total alternative investments returned -2.5% in the fourth quarter. Energy Investor Fund reported a return of 5.7%, Hancock PT Timber Fund returned 5.1%, Energy Investor Fund II reported a return of 2.8%, Carpenter Community Bancfund returned 0.0%, Paladin III returned -0.1%, Energy Investor Fund III reported a return of -0.1%, Bay Area Equity Fund reported a return of -1.4%, Nogales had a return of -1.5% for the quarter, Adams Street Partners reported a return of -6.2% and Pathway returned -6.2%. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending September 30.)

The median real estate manager returned -7.7% for the quarter while CCCERA's total real estate returned -32.1%. DLJ RECP I returned 12.1%; Willows Office Property returned 0.3%; DLJ RECP IV returned -1.3%; DLJ's RECP II returned -3.9%; DLJ's RECP III returned -9.0%; Fidelity III returned -9.0; Black Rock Realty returned -24.2%; Invesco Fund I returned -26.2%; Fidelity II returned -33.1%; Invesco International REIT returned -34.0%; Adelante Capital REIT returned -41.2%; Prudential SPF II returned -50.4%; and Invesco Fund II returned -70.9%.

There was discussion on the underperformance of REITs, and the previous decision of waiting until the first quarter returns are in before considering action on the underperformance of Pimco Stocks Plus.

It was **M/S/C** to accept the Quarterly Review and Performance Measurement Report for the period ending December 31, 2008. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

Gioia was not present for subsequent discussion and voting.

a. Manager under review or placed under review – There was discussion on removing Wentworth, Hauser and Violich from the watch list, noting their performance had improved over the last several years. There was continued discussion and Milliman provided information on Wentworth's new Chief Executive Officer. It was **M/S/C** to remove Wentworth, Hauser and Violich from the Watch list for personnel changes and performance. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Naramore, Pollacek and Viramontes)

   It was **M/S/C** to place Adelante on watch for performance. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Naramore, Pollacek and Viramontes)

   Gioia was present for subsequent discussion and voting.

   There was a motion to terminate Pimco Stocks Plus. A substitute motion was offered, it was **M/S/C** to continue on the original six month plan voted on in October until March, until after first quarter numbers are available, direct staff to return with options on how to exit from Pimco Stocks Plus, including the temporary and permanent funds held by Pimco Stocks Plus, should a decision be made to terminate. (Yes: Buck, Gaynor, Gioia, Hast, Katz, Pollacek and Viramontes: No: Cabral, Naramore)

   Cabral noted his "no" vote was because his preference was to terminate Pimco Stocks Plus at today's meeting.

   The recent on-site visit with Progress by Price and Helliesen was discussed. Reports will be provided to Board members. Several Board members noted their interest in performing an additional on-site visit with Progress.

b. Changes in Allocations to Managers - There were no changes in allocations to managers.

5. Morgan Stanley Real Estate Fund VII Global L.P.

Hally reviewed his memo regarding Morgan Stanley Real Estate Fund VII Global L.P. He noted along with the inherent investment risk associated with investing in leveraged opportunistic global real estate, he felt there is additional organization risk associated with Morgan Stanley given all the turmoil surrounding large financial institutions in the marketplace.

Hally noted he had a conversation with Joyce Frater and Julie Wong of Morgan Stanley Real Estate (MSRE), regarding personnel issues and changes. Hally discussed the recent departures of MSRE personnel and provided biographical information for the new CEO and CIO for MSRE. Hally stated this is the reason why due diligence is completed prior to signing documents to allow for reconsideration.

It was **M/S/C** to accept the recommendation of staff to reconsider CCCERA's commitment of $75 million to Morgan Stanley Real Estate Fund (MSREF) VII Global L.P., rescinding the Board's prior action. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

6. **Semi-Annual Rebalancing**

After Hally reviewed his Semi-Annual Rebalancing Report, it was **M/S/C** to accept the Report on Semi-Annual Rebalancing. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

There was discussion that prior to the next semi-annual rebalancing; the Board should review the policy of managers in under review status, and how that policy is related to the rebalancing policy.

It was **M/S/C**, prior to the next semi-annual rebalancing, to place rebalancing on the agenda for discussion and possible action if any managers should not be included in the rebalancing process. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

7. **April 22, 2009 Board Meeting**

It was **M/S/C** to move all items from the April 22, 2009 meeting to the April 29, 2009 meeting and cancel the April 22, 2009 meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

8. ***Conference Seminar Attendance***

(a) It was **M/S/C** to authorize the attendance of Cabral, Hast, Remick and appropriate staff at the Pensions Eleven, Klausner & Kaufman, March 15 – 18, 2009, Ft. Lauderdale, FL. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

(b) It was **M/S/C** to authorize the attendance of Remick at the Private Equity Annual Limited Partners' Meeting, Credit Suisse (DLJ Real Estate), March 2-4, 2009, Palm Beach, FL. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Naramore, Pollacek and Viramontes)

9. **Miscellaneous**

(a) Staff Report – Leedom discussed the public records request by the Contra Costa Times regarding board travel. She noted a spreadsheet has been created that breaks out travel by each Board Member. Board members will receive an e-mail of the spreadsheet before distribution to the Contra Costa Times.

Leedom reported on new legislation, HR 710, and asked Hally to respond to the Bill. Hally noted the Bill was introduced by a representative from New York. The purpose of the Bill is to encourage state and local retirement plan investment in TARP approved financial institutions. In return for investment in a class of preferred stock, the retirement plans will receive infusion of non U.S. government capital into the banking system. The investments will be a direct guarantee of the Treasury, rather than a deposit guarantee through FDIC. Hally will keep the Board updated on this bill.

Pollacek stated the Bill was discussed at the SACRS Legislative Committee and the Committee feels there are a number of issues with the Bill.

Hally updated the Board on the Lord Abbett litigation discussed at a previous meeting. He reviewed an e-mail from Kristin Harper of Lord Abbett noting in 2004, six class action lawsuits were filed in Federal Court in New Jersey alleging improper receipt and distribution of management fees with respect to certain mutual funds managed by Lord Abbett. After combining into one lawsuit, the entire consolidated class action was dismissed with prejudice. The US Court of Appeal remanded the case to the District Court for further consideration and Lord Abbett petitioned for a rehearing of the January 2009 decision. The case is related to the Lord Abbett funds, and not related to institutional separate account business.

Leedom noted the policy on Interest Crediting will be on the agenda before June 30, 2009 with options and recommendations.

<u>Levy</u> reported she had placed a memo regarding amendments of the Brown Act in Board Member's mail boxes. She recently attended a Fair Political Practice Commission (FPPC) workshop in Walnut Creek. She noted their recommendation was to use a business address and not use personal addresses on Disclosure Form 700's. She stated, once the forms are submitted the document becomes a public document.

(b) Outside Professionals' Report – <u>Helliesen</u> proposed the Board include information in future Board action regarding an investment manager search to direct press to Milliman by including in the minutes "inquiries on searches should be made to the investment consultant". This information will also be included on the website.

(c) Trustees' Comments – <u>Buck</u> asked if any feedback had been received from employers regarding Market Smoothing Methodology and Amortization of Unfunded Liability discussed at the February 11, 2009 meeting. Leedom noted she has heard nothing; Paul Angelo from the Segal Company is scheduled for the March 25th Board Meeting when these subjects will be discussed further.

<u>Viramontes</u> acknowledged a possible conflict of interest. She is a member of the Richmond City Council and they have voted to go forward with an investment fund associated with Community Banks. She asked if this was an issue as both Mechanics Bank and the Carpenter Bancfund are involved with CCCERA. She asked if she would be able to participate when the vote comes up for the second stage. Leiderman

stated as long as Viramontes doesn't have a personal or financial interest and there is nothing in the Investment Guidelines prohibiting such involvement, he believes there is no conflict of interest. He stated she may want to disclose her experience before voting for all to know.

Remick asked for information on CCCERA's recent telephone problems. Leedom noted the building phones were down for several hours because of problems with a cable. This has led staff to try to determine alternatives for future phone problems. Staff is researching the installation of backup lines to use in the event of future emergency phone problems.

Brian Hast, Chairman

Jerry Telles, Secretary