



## AGENDA

### RETIREMENT BOARD MEETING

SECOND MONTHLY MEETING  
September 28, 2016  
9:00 a.m.

Retirement Board Conference Room  
The Willows Office Park  
1355 Willow Way, Suite 221  
Concord, California

THE RETIREMENT BOARD MAY DISCUSS AND TAKE ACTION ON THE FOLLOWING:

1. Pledge of Allegiance.
2. Accept comments from the public.
3. Approve minutes from the August 24, 2016 meeting.

#### *CLOSED SESSION*

4. The Board will meet in closed session pursuant to Govt. Code Section 54956.9(d)(1) to confer with legal counsel regarding pending litigation:
  - a. *Jon Wilmot v. CCCERA Board of Retirement, et al.*, Contra Costa County Superior Court, Case No. N16-1730.
  - b. *Contra Costa County Deputy Sheriffs Association, et al., v. Board of Retirement of Contra Costa County Employees' Retirement Association, et al.*, Court of Appeal, 1<sup>st</sup> Appellate District, Case No. A141913.

#### *OPEN SESSION*

5. Presentation of updated Investment Policy Statement.
6. Consider and take possible action to adopt updated Investment Policy Statement.
7. Consider and take possible action to rescind the Investment Manager On Site Policy.
8. Review of Implementation Plan for new asset allocation.
9. Presentation from staff and Long Wharf Investment managers regarding a potential commitment to Long Wharf Real Estate Partners Fund V.
10. Consider and take possible action regarding a commitment to Long Wharf Real Estate Partners Fund V.
11. Presentation from staff and LaSalle regarding a commitment to LaSalle Income & Growth Fund VII.

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.

12. Consider and take possible action regarding a commitment to LaSalle Income & Growth Fund VII.
13. Consider and take possible action to update CCCERA's Conflict of Interest Code.
14. Consider and take possible action to update CCCERA's Procurement of Products and Services Policy.
15. Consider and take possible action on SACRS Voting Proxy Form.
16. Miscellaneous
  - a. Staff Report
  - b. Outside Professionals' Report
  - c. Trustees' Comments

The Retirement Board will provide reasonable accommodations for persons with disabilities planning to attend Board meetings who contact the Retirement Office at least 24 hours before a meeting.



## MINUTES

### RETIREMENT BOARD MEETING MINUTES

SECOND MONTHLY MEETING

August 24, 2016

9:00 a.m.

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

Present: Debora Allen, Candace Andersen, Scott Gordon, Jerry Holcombe, Louie Kroll, David MacDonald, John Phillips, Gabe Rodrigues, Todd Smithey, Jerry Telles and Russell Watts

Absent: None

Staff: Gail Strohl, Chief Executive Officer; Timothy Price, Chief Investment Officer; Karen Levy, General Counsel; Wrally Dutkiewicz, Compliance Officer; Henry Gudino, Accounting Manager; Christina Dunn, Administrative/HR Manager; Tim Hoppe, Retirement Services Manager; and Alexis Cox, Member Services Manager

Outside Professional Support:  
Ed Hoffman  
Maytak Chin

Representing:  
Verus Consulting Group  
Reed Smith LLP

#### **1. Pledge of Allegiance**

Phillips led all in the *Pledge of Allegiance*.

#### **2. Accept comments from the public**

Michael Pineschi, Unite Here, distributed two reports on Ares Energy Funds III, IV and V, stating they have all underperformed below their peers and the benchmark. He noted CCCERA is the only public pension fund that has made a commitment to Fund V in 2015. Unite Here urged CCCERA to re-evaluate their decision to invest in Ares Energy Funds.

#### **3. Approval of Minutes**

It was M/S/C to approve the minutes of the June 8, 2016 meeting with a correction taking William Pigeon off the present list. (Yes: Allen, Andersen, Gordon, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

It was M/S/C to approve the minutes of the June 22, 2016 meeting as presented. (Yes: Allen, Andersen, Gordon, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

#### **CLOSED SESSION**

The Board did not move into Closed Session.

4. This item was not discussed.
5. **Consider and take possible action to implement forfeiture of Jon Wilmot's pension in accordance with felony forfeiture provision Government Code Section 7522.72**

- a. Presentation by CCCERA; Board questions

Karen Levy, General Counsel for CCCERA, Tim Hoppe, Retirement Services Manager, and Maytak Chin, attorney from Reed Smith, the Board's fiduciary counsel, presented on behalf of CCCERA.

Levy summarized the CCCERA memorandum including the background on the PEPRA felony forfeiture provision found in Government Code Sections 7522.72; Wilmot's job-related felony conviction for embezzlement from his employer, the Contra Costa County Fire Protection District; Penal Code Sections 503 and 508 defining embezzlement; Wilmot's membership with CCCERA and his retirement; and explained that Wilmot's job-related felony conviction met all of the necessary conditions set forth in PEPRA. Levy explained how the PEPRA forfeiture provisions would be implemented if the Board takes action to implement them, including a return of certain member retirement contributions to the member.

Hoppe reviewed the forfeiture calculations set forth in Exhibit L to CCCERA's memorandum. Hoppe noted that the member's service credit would be reduced by 13 years; contributions in the amount of \$249,937.64 made by the member since the first commission of the felony would be refunded; and the monthly retirement allowance of \$9,667.64 would be reduced to \$3,155.23 as of September 1, 2016. He also stated the member's monthly retirement allowance would be further reduced by \$603.33 per month for three years to repay the net total overpayment \$19,539.79.

- b. Opportunity for member Jon Wilmot to present to the Board his position and any information or records relevant to the issue; Board questions

Timothy Talbot of the Rains Lucia Stern firm, representing Jon Wilmot, responded to issues brought up by CCCERA. He stated that the documentation presented around Wilmot's felony conviction is irrelevant and the application of the statute is open for interpretation. The reference to the felony forfeiture of former PERS executive director Buenrostro is completely irrelevant. The felony forfeiture provision found in Section 7522.72 simply does not apply to Wilmot. The statute is not ambiguous, but he believes the PEPRA definition of a member does not include retirees. He addressed the legislature's 2014 amendment changing the term "public employee" to "member" in order to clarify to whom the felony forfeiture statute applies. He also questioned the intent of the law and applying the law retroactively to a retiree. If you can't find clear intent to apply it to somebody who is already retired, you can't.

- c. Public Comment

Gill Caravantes, Contra Costa County Fire Protection District employee and good friend of Jon Wilmot, stated he read CCCERA's charges and felt they didn't include that the felony Wilmot was convicted of would be converted to a misdemeanor. He asked the Board to consider Wilmot's position and rule in his favor.

- d. Board deliberations and action

After a discussion, it was **M/S/C** to implement the felony forfeiture provision as to CCCERA member Jon Wilmot's retirement benefits, in accordance with Government Code Section 7522.72, starting with the September 1, 2016 retiree payroll. (Yes: Allen, Andersen, Gordon, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

**6. Review of total portfolio performance for the period ending June 30, 2016**

Hoffman reviewed what drove the market in the second quarter including the labor market, oil prices, U.S. Treasury yields and the Brexit price impact. He reviewed U.S. earnings noting that for five consecutive quarters earnings have come in on a year over year growth rate that is negative which is mostly attributed to the energy sector.

He reviewed CCCERA's investment performance for the period ending June 30, 2016 noting the ending market value of the total fund portfolio is \$7,139,804,873. He reviewed the total fund asset allocation history noting the current targets are in compliance with CCCERA's investment policy. He reported the total fund gross of fees QTD is 1.7% and YTD is 3.0% and the total fund net of fees QTD 1.6% and YTD is 2.8%. He reviewed the total fund risk analysis for 5 years gross of fees stating the annualized return is 8.07% with a standard deviation of 7.62%.

**7. Consider and take possible action to add or remove investment managers from the watch list**

Price reported staff is recommending no changes to the watch list at this time.

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

- a. It was M/S/C to authorize the attendance of 3 Board members at the Annual Employee Benefits Conference, IFEBP, November 12-16, 2016, Orlando, FL. (Yes: Allen, Andersen, Gordon, MacDonald, Phillips, Rodrigues, Smithy, Telles and Watts)

**9. Miscellaneous**

- (a) Staff Report –

Strohl Reported the IT team met with each department to see how technology could improve processes; there will be a Subledger decommissioning project update at the next meeting; the Procurement Policy and the Conflict of Interest Policy will return to the Board in September with recommended revisions; a draft strategic plan will be brought to the Board. She reported on new hires: a Compliance Business Analyst, an Office Specialist, a Member Services Supervisor, and a Member Services Technician.

Levy reported the appellate court in the Marin AB197 case issued a published opinion and although it is published, it is still not final and can be appealed. The case has to do with the Marin Board's decision to implement AB197 and prospectively exclude from compensation earnable for legacy members certain pay items including on call pay, standby pay, call back pay, and other pay items. The appellate court upheld the exclusion of these pay items from "compensation earnable". She noted that the appellate court concluded that this is not a violation of the members' vested rights.

Price reported that at the September 14 meeting he will have the recommendation for the liquidity manager structure and the investment policy statement will be on the agenda at the end of September.

- (b) Outside Professionals' Report -

Hoffman reported that he will be sending a memo soon on the use of Vertas as an investment transition manager going forward in light of the August 8 SEC charges filed against the prior firm, GTS, as well as three individuals. He noted that currently there are no transitions in process.

(c) Trustees' comments –

Rodrigues reported he attended the NCPERS Public Funds Forum and there was a session on funding using the FFP model and complimented Price.

It was **M/S/C** to adjourn the meeting. (Yes: Allen, Andersen, Gordon, MacDonald, Phillips, Rodrigues, Smithey, Telles and Watts)

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John Phillips, Chairman

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Scott Gordon, Secretary



## ***MEMORANDUM***

**Date:** September 28, 2016

**To:** CCCERA Board of Retirement

**From:** Timothy Price, Chief Investment Officer

**Subject:** Consider and take possible action to adopt updated Investment Policy Statement.

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### ***Overview***

The Board reviewed a first draft of a newly restated Investment Policy Statement (IPS) on August 10, 2016. At that meeting, the Board confirmed that they would like to keep the IPS focused on policy-level decision and move operational practices to a set of internal procedures. Supplemental Board decisions that would impact the investment portfolio will be contained in duly adopted Board investment resolutions. For example, Board action setting or modifying target asset allocation will occur by Board investment resolutions.

The Board discussed including various positions adopted in the past, including Economically Targeted Investments, emerging managers and a restriction against investing in domestic tobacco-related companies. The Board directed staff and Verus to exclude these provisions from the new Investment Policy Statement.

If approved today, the next step will be for the Board to adopt an investment resolution in October detailing the first implementation step of the new asset allocation and review other investment resolutions as needed.

### ***Recommendation***

Consider and take possible action to adopt updated Investment Policy Statement.

Contra Costa County Employees' Retirement Association  
Investment Policy Statement

Adopted: January 14, 1986

Restated: [                    ]

# CCCERA INVESTMENT POLICY STATEMENT

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# CCCERA INVESTMENT POLICY STATEMENT

## Contra Costa County Employees' Retirement Association

### Investment Policy Statement

Adopted: January 14, 1986

Restated: [\_\_\_\_\_]

AMENDED: 1/14/86, 2/27/86, 10/13/87, 8/9/88, 6/13/89, 8/8/89, 1/8/91, 10/13/92, 2/9/93, 5/2/94, 10/14/97, 5/4/99, 1/9/01, 2/12/02, 06/11/02, 11/06/02, 1/28/04, 5/26/04, 7/28/04, 12/14/05, 10/24/07, 4/08/09, 10/30/13

The Contra Costa County Employees' Retirement Association (CCCERA) is a public employee retirement system that was established by the County of Contra Costa on July 1, 1945. CCCERA is administered by the CCCERA Board of Retirement (Board) to provide service retirement, disability, death and survivor benefits for county employees and sixteen other participating agencies under the County Employees Retirement Law of 1937, California Government Code Section 31450 *et. seq.* (CERL), the California Public Employees' Pension Reform Act of 2013, California Government Code Section 7522 *et. seq.* (PEPRA) and other applicable laws.

#### 1. PURPOSE

CCCERA has established an investment program (Investment Program) designed to provide sufficient assets in a timely manner to pay the benefits due to participants today and in the future, over the long-term. The purpose of this Investment Policy Statement (IPS) is to establish the policies that will guide the Investment Program. This IPS is intended to provide guidance to the Board and to its delegates, the Staff and third-party professionals. This IPS is supported by the Board's Investment Resolutions, the Investment Procedures (Procedures), and Board policies that reflect the needs of the defined benefit plan (Plan) that the Board administers. The Investment Resolutions, policies and other Board documents identified in Appendix 1 hereto are incorporated into this IPS and made a part hereof by this reference.

#### 2. AUTHORITY

The Investment Program shall be managed in accordance with applicable law, including but not limited to the following:

- The assets of the Plan are trust funds and shall be held for the exclusive purposes of providing benefits to the participants in the Plan and their beneficiaries and defraying reasonable expenses of administering the Plan (Cal. Const. art. XVI, sec. 17(b); Cal. Govt. Code sec. 31595).

## CCCERA INVESTMENT POLICY STATEMENT

- The board and its officers and employees shall discharge their duties with respect to the system:
    - (a) Solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.
    - (b) With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.
    - (c) Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.
- (Cal. Const. art. XVI sec. 17(b), (c) and (d); Cal. Gov. Code Sec. 31595 (a), (b) and (c)).

### 3. GOVERNANCE

The Board hereby adopts a governance model whereby specific authority, responsibility, and accountability are either retained by the Board or delegated to others based on areas of expertise and appropriate oversight. The Board retains sole responsibility governing the Plan, setting investment policy, and monitoring the Investment Program. It may choose to delegate specific areas of responsibility provided it retains appropriate oversight of the delegated activity.

#### A. Roles and Responsibilities

##### 1. BOARD OF RETIREMENT

The Board maintains the sole and plenary authority and fiduciary responsibility for the Investment Program. The Board also understands it may delegate certain responsibilities under the Investment Program for purposes of administrative efficiency and expertise. The areas of the Investment Program the Board may not delegate include:

- The governance model of the Investment Program
- Establishing and maintaining investment policy, including:
  - Investment philosophy
  - This IPS
  - Investment objectives
  - Strategic asset allocation
  - Allocation-level performance benchmarks
  - Risk philosophy
- Engaging Board consultants and service providers
- Monitoring the Investment Program

## CCCERA INVESTMENT POLICY STATEMENT

### 2. STAFF

CCCERA Staff (Staff), including the Chief Executive Officer (CEO) and Chief Investment Officer (CIO), is broadly responsible for supporting the Board in the effective execution of the Investment Program. The CEO provides general direction and supervision to the CIO. The CEO and the CIO have been delegated authority to execute specific elements of the Investment Program as outlined herein as well as in the Investment Resolutions. The CEO has the authority to execute and terminate contracts between CCCERA and investment managers or other service providers as approved by the Board. The CIO has the authority to rebalance the portfolio under Section 3.B.1. of this IPS. The CIO also has the authority to manage the investment managers within the Plan under Section 3.B.2 of this IPS.

### 3. GENERAL INVESTMENT CONSULTANT

The General Investment Consultant (Consultant) is engaged by the Board to provide independent, objective investment advice. The Consultant is and shall agree to be a fiduciary to the Plan under California law. The Consultant works with Staff in the development of recommendations while recognizing its fiduciary duty is to provide prudent investment advice to the Board. The Consultant provides advice without discretionary authority to execute on its advice. The specific duties of the Consultant are contained in an Agreement for Professional Investment Consulting Services, and generally include providing advice with respect to:

- Investment strategy development and implementation
- Investment policy development
- Asset allocation among classes and subclasses
- Investment manager selection, evaluation and termination
- Investment performance monitoring
- Investment risk monitoring
- Capital markets projections
- Coordination with the Plan's actuary in conducting periodic asset/liability studies and other required reporting
- Board education

### 4. SPECIALTY INVESTMENT CONSULTANTS

Specialty consultants may be hired by the Board to work with Staff, the Consultant, and/or the Board. These will typically be asset class consultants (e.g., real estate, private equity, hedge funds) that may operate on a discretionary or non-discretionary basis, as directed by the Board, to meet the objectives of the Investment Program.

## CCCERA INVESTMENT POLICY STATEMENT

### 5. INVESTMENT MANAGERS

Investment Managers are delegated the responsibility of investing and managing Plan assets in accordance with this IPS and all other applicable laws and the terms of the applicable investment documents evidencing CCCERA's acquisition of an interest in an investment vehicle, and other controlling documents. Each Investment Manager must be (1) an investment advisor registered under the Investment Advisors Act of 1940; (2) a bank, as defined in that Act; (3) an insurance company qualified under the laws of more than one state to perform the services of managing, acquiring or disposing of the Plans' assets; (4) a trust operating as an investment company under the Investment Company Act of 1940; or (5) a state-chartered trust company authorized to carry on a trust banking business. Each Investment Manager shall agree that it is a fiduciary of the Plan under California law. Subject to this IPS and their specific contractual obligations to the Plan, Investment Managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their jurisdiction and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell investments in amounts and proportions that are reflective of the stated investment mandate.

### 6. CUSTODIAN BANK

The Custodian Bank, selected by the Board to act as the principal custodian of assets of the trust, is delegated the responsibility of holding the assets and evidence of interests owned by CCCERA in investment vehicles and cash (and equivalents). The Board may authorize the Custodian Bank to invest in temporary short-term fixed income investments both for the investment strategies and as a part of the cash portion of Plan assets. Such investments will be managed in general accordance with short-term fixed income investment guidelines as detailed in the Custodial Agreement. Cash managed for investment strategies shall be considered to be sub-portions of the assets managed by the directing Investment Managers.

The Custodian Bank shall be authorized to conduct a securities lending program within liquidity and risk constraints as established by the Board

### **B. Delegation of Authority**

The Board has delegated authority to the CIO for certain functions as detailed below. Delegation of authority will be coordinated with workflow, compliance and reporting procedures that are clearly defined, reviewed, and approved. This IPS is used to describe the delegation of authority generally with the Investment Resolutions providing additional requirements and processes. The Board shall be notified timely of all investment decisions made by the CIO and their implications to the Plan.

## CCCERA INVESTMENT POLICY STATEMENT

### 1. REBALANCING

The Board recognizes there may be a cost to maintaining strict adherence to a target asset allocation in terms of both transaction costs and opportunity costs. The Board also recognizes that the benefit of cost minimization must be balanced against the assumption of active risk associated with allowing variances to asset allocation targets.

The CIO is delegated the authority to conduct portfolio rebalancing in order to meet two distinct objectives. The first is to maintain the long-term strategic asset allocation targets approved by the Board. The second is to capture valuation-based opportunities by deviating from the long-term strategic asset allocation targets within Zones 1 and 2 as follows:

#### **i. Zone 1**

The CIO may periodically rebalance the portfolio within Zone 1 ranges as set forth in the Investment Resolutions. When such rebalancing activity occurs, the CIO shall notify the Board at the next regularly scheduled meeting.

#### **ii. Zone 2**

With prior approval of the Board, the CIO may rebalance the portfolio within Zone 2 ranges as set forth in the Investment Resolutions. When such rebalancing activity occurs, the CIO shall notify the Board at the next regularly scheduled meeting.

For each of the zones listed above, special consideration will be given to illiquid asset classes recognizing that their funding and redemption processes are different than those of the liquid asset classes. As such, each illiquid asset class is assigned a liquid asset class to function as a holding place while the corresponding illiquid strategies are being invested.

Portfolio rebalancing may occur by adjusting allocations to individual investment strategies or managers or through the use of an overlay provider using derivatives.

### 2. INVESTMENT PORTFOLIO MANAGEMENT

While the Board believes the vast majority of investment return over the long term is dependent on the asset allocation decision and ongoing due diligence, it recognizes additional risk and return may be generated by how the asset allocation is implemented. These implementation decisions will largely be delegated to the CIO to be executed within the Investment Resolutions.

#### **i. Hiring a new manager**

The CIO shall have the authority to hire new managers (i.e., purchase interests in new investment vehicles) in accordance with the Plan's active risk budget and up to an investment amount of \$100 million. The \$100 million shall represent the

## CCCERA INVESTMENT POLICY STATEMENT

cumulative total amount of originally committed capital under the management of a single investment manager and its affiliates. (By way of example, two vintage year funds under one manager with a commitment of \$50 million each would reach the total of \$100 million.) The CEO shall have authority to execute the contracts, consistent with the delegation of authority outlined in this IPS . Any cumulative commitment above \$100 million shall require explicit Board approval. In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents, including but not limited to the Code of Fiduciary Conduct and Ethics, Conflict of Interest Code, Placement Agent Disclosure Policy and Procurement of Products and Services Policy.

Subject to the foregoing limitations, the CIO, with the assistance of the Consultant and Specialty Consultants, shall conduct all due diligence activities in connection with hiring new managers. The CIO shall invite the involvement of one or more Board members in the due diligence process.

Quiet period. During the process of hiring a new manager, a quiet period will apply during the evaluation process, during which time no Board member may knowingly have any communication with any actual or potential candidate for the mandate, unless authorized by the Board in connection with the due diligence process in selecting managers. The quiet period shall cease upon the Board entering into a contract with the Investment Manager(s) selected for the mandate. The CIO is responsible for alerting the candidates and the Board to the quiet period and its restrictions. A violation of the quiet period rule may result in disqualification of the candidate or other appropriate Board action.

### **ii. Investing in a new closed-end fund with an existing manager**

In the case of closed-end funds with a limited investment lifecycle, additional investments are periodically required to maintain asset allocation targets. For such follow-on investments, Staff shall have the authority to make additional investments in an amount necessary to maintain the intended exposure, as estimated by a detailed funding analysis. Any additional investment beyond that which is required to maintain the intended exposure must be pre-approved by the Board.

In all cases, the hiring process must be consistent with the requirements for vendor selection detailed in the Procedures and other Plan policy documents (e.g., Procurement of Products and Services Policy, Placement Agent Disclosure Policy, Conflict of Interest Code).

## CCCERA INVESTMENT POLICY STATEMENT

### iii. Terminating existing managers

The Board recognizes investments may need to be adjusted or removed from the Plan portfolio from time to time for a variety of reasons, including:

- Organizational changes including those to the people and processes in place
- A manager's style has deviated from the initial investment thesis
- A manager's style, strategy, ethics, or philosophy is no longer appropriate for the Investment Program
- Underperformance relative to benchmark or other expectations
- Uncompetitive pricing vis-à-vis available alternatives

The CIO shall have the authority to terminate investment managers. Absent emergency circumstances (described below), prior to terminating a manager, the CIO shall present a detailed termination memo to the Board that includes:

- Purpose of the mandate
- Reason(s) for termination
- Specific plan to replace or temporarily invest the assets

Although the Board's explicit approval is not required, it shall maintain veto authority should a majority of the Board decide the planned termination is not in the best interest of the Plan.

Emergency termination. An emergency will be deemed to exist when an investment strategy suffers the resignation or other loss of its portfolio manager(s) and no appropriate replacement is available; when an investment management firm dissolves, ceases to exist, or is otherwise incapable of carrying out its activities in the ordinary course of its business; when an investment management firm is actually or effectively shut down by a regulatory agency of a state or the Federal government or is accused of theft or fraud by a regulatory agency or other government body; when the Plan's investment is in jeopardy of material loss; or when such other developments with the investment management firm give concern to the CIO that the investment is no longer prudent for the Investment Program. Staff shall take action to transfer management of the affected investment strategy as soon as possible after CCCERA learns of the emergency. In the case of an emergency, the CEO, or in the CEO's absence, the Deputy CEO or the CIO will attempt to notify the Chair and Vice Chair of the Board immediately; notify the Custodian Bank that the Investment Manager's Managed Account is to be frozen and, except for those trades which are pending, no further trading is authorized; and may call a special meeting of the Board to take further action.

# CCCERA INVESTMENT POLICY STATEMENT

## 4. INVESTMENT PHILOSOPHY

The Investment Philosophy represents the foundational principles on which the Investment Program is based. Every investment decision should be made with these foundational principles in mind to promote the fulfillment of the fiduciary obligations. The statements below set forth the Board's Investment Philosophy:

### **Plan objectives should guide all decision making**

The Investment Program is designed to provide benefits to participants over a long term without accepting undue risks that could be detrimental to the participants or Plan sponsors. The Investment Program, therefore, must be managed in a prudent manner recognizing the relationships between the benefits promised to participants and their beneficiaries, the financial health of the Plan sponsors, and the exposures within the Investment Program.

### **Asset allocation drives portfolio volatility and returns**

It is impossible to accurately and consistently predict the future; therefore, the Plan is required to be prudently diversified across and within asset classes in anticipation of various economic conditions. In a well-diversified portfolio, the overall volatility of investment returns is principally driven by the asset allocation and secondarily driven by the individual investment strategies. As such, asset allocation is the primary tool by which the Board can manage the expected risk/return profile of the Plan.

### **Short-term investing**

Over shorter investment periods of up to five (5) years, volatility can be more detrimental to the success of the Investment Program. Because paying benefits to participants and their beneficiaries occurs continuously, the forced selling of assets during broad market corrections to meet these payments could result in the long-term impairment of investable capital. By maintaining a portion of the portfolio invested in low-volatility, highly liquid securities and investment strategies, the Investment Program will be able to mitigate or avoid the forced selling of assets during broad market corrections.

### **Long-term investing**

Over longer investment periods, volatility can be managed more effectively to produce beneficial results for the Investment Program. Market corrections will occur and when they do, patient and well-capitalized investors are able to wait until the market recovery takes place. Additionally, broad market corrections have historically provided investment opportunities for those with available capital and the foresight to make additional investments.

### **Fees**

Fees directly impact the investment results of the Investment Program but are necessary to appropriately compensate the investment management of the Investment Program. Fees

## CCCERA INVESTMENT POLICY STATEMENT

must, therefore, be measured closely against the value the Investment Program expects to earn and aligned to ensure incentives are consistent with the objectives of the Plan.

### 5. INVESTMENT OBJECTIVES

The investment objectives of the Investment Program are:

- To provide liquidity to meet retiree benefit payments in a timely manner;
- To produce long-term growth to meet future retiree benefit payments and maintain a funding surplus or closing a funding gap over time; and
- To protect the assets against the adverse impacts of rising inflation and investment market volatility.

Investment objectives specific to the individual investment strategies are further defined in the Board's Investment Strategy portion of this IPS.

### 6. INVESTMENT STRATEGY

The Board has chosen to employ an investment strategy that seeks to align the Investment Program with the investment objectives listed in Section 5 of this IPS. The strategy divides the portfolio into three functional sub-portfolios—Liquidity, Growth, and Diversifying—to address each investment objective highlighted in Section 5. The Liquidity Sub-portfolio is dedicated to funding near-term benefit payments. It is joined with the longer-term Growth Sub-portfolio as well as the Diversifying Sub-portfolio, which is intended to offset some of the investment risks embedded in the Growth Sub-portfolio. While the three sub-portfolios are aligned with the investment objectives individually, collectively they allow the Investment Program to provide appropriate risk and return characteristics.

#### A. Asset Allocation

The Board has adopted a strategic asset allocation based on the Plan's projected actuarial liabilities, liquidity needs, risk tolerance and the risk/return expectations for various asset classes. This asset allocation seeks to optimize long-term returns for the level of risk the Board considers appropriate. The current asset allocation table may be found in Investment Directive 610: Asset Allocation.

Since projected liability and risk/return expectations will change over time, the Board will conduct a periodic review of the strategic asset allocation to maintain an expected optimal allocation. The Board may also revise the asset allocation in response to significantly changing conditions that have affected valuations and forward-looking expected returns of asset classes. The Board will review capital market expectations annually. The result of this review will be used to update the Investment Resolutions as needed.

## CCCERA INVESTMENT POLICY STATEMENT

### B. Functional Sub-portfolios

As noted previously, the investment strategy for the Investment Program employs three functional sub-portfolios to construct the comprehensive asset allocation. The allocation to the Liquidity Sub-portfolio is assessed annually and is based on the projected benefit payments and expenses of the Plan. The remaining assets are invested in the Growth and Diversifying sub-portfolios. Annually the Board shall review the relative size and composition of these sub-portfolios and revise them as necessary through Investment Resolutions. The functional sub-portfolios are set forth below:

#### 1. LIQUIDITY SUB-PORTFOLIO

The purpose of the Liquidity Sub-portfolio is to ensure adequate assets are available to pay benefits over an extended timeframe as outlined in the Investment Resolutions. The Board has established a target allocation amount of 48 months' worth of projected benefit payments in the Liquidity Sub-portfolio, which will be drawn down and replenished annually. The assets will be invested in highly liquid, low volatility securities expected to generate modest levels of return while preserving capital throughout a market cycle. This portfolio will contain assets such as cash, short-term bonds, laddered government bonds, derivatives, and other investments that provide fixed, contractual cash flows with a minimum level of credit risk. As a secondary purpose, a portion of the Liquidity Sub-portfolio may be allocated to the Growth Sub-portfolio during broad market corrections so long as at least 24 months of projected benefit payments and expenses are maintained in the Liquidity Sub-portfolio.

The success of the Liquidity Sub-portfolio will be measured by its ability to directly fund benefit payments through low-risk, cash flowing investments, as well as providing a stable offset to the rest of the portfolio during periods of severe market stress.

#### 2. GROWTH SUB-PORTFOLIO

The purpose of the Growth Sub-portfolio is to grow invested assets over the long term in order to pay future benefits. Assets from the Growth Sub-portfolio may be sold over time and transferred to the Liquidity Sub-portfolio as needed. This portfolio is characterized by a long investment horizon and can, therefore, accept a higher level of volatility. Assets in this portfolio may be volatile, have reduced liquidity, and derive the bulk of their return from capital appreciation. These assets include public and private equity, corporate and other debt with credit risk premiums, private real estate and other private assets.

The success of this portfolio will be measured primarily by compounded annual growth rates in conjunction with the annualized standard deviation of returns as the

## CCCERA INVESTMENT POLICY STATEMENT

primary measure of risk. Performance evaluation will, therefore, focus on the long-term total risk-adjusted return of the portfolio.

### 3. DIVERSIFYING SUB-PORTFOLIO

The purpose of the Diversifying Sub-portfolio is to offset the investment risk of the Growth Sub-portfolio. Investment strategies in the Diversifying Sub-portfolio are expected to have return profiles that have a low correlation to those in the Growth Sub-portfolio. This is expected to effectively dampen the market volatility across the entire portfolio. As a secondary objective, the investment strategies in the Diversifying Sub-portfolio will offer additional sources of return to those in the Liquidity and Growth sub-portfolios. Assets in the Diversifying Sub-portfolio may be sold during times of market stress or when the assets in the Growth Sub-portfolio are impaired in order to fund the Liquidity Sub-portfolio.

The success of the Diversifying Sub-portfolio will be measured by its ability to offset declines in value in the Growth Sub-portfolio, as well as its ability to provide liquidity during times of market stress.

### 4. INTERACTION BETWEEN THE FUNCTIONAL SUB-PORTFOLIOS

The allocations to the Liquidity, Growth, and Diversifying sub-portfolios will vary over time. The Liquidity Sub-portfolio will operate as a drawdown vehicle to pay benefits and expenses. The Growth and Diversifying sub-portfolios will be subject to the volatility of the markets in which each functional sub-portfolio invests. In order to reallocate between the functional sub-portfolios, the Board will conduct two annual reviews: an annual capital review to assess the relative value and risks associated with each asset class; and an annual funding plan to determine how to replenish the Liquidity Sub-portfolio.

Annually the CIO and Consultant jointly shall deliver a review of the capital markets to the Board. The Consultant will provide the Board current forward-looking risk and return assumptions for all major asset classes. In conjunction with this review, the CIO will provide a recommendation of how best to allocate assets within each functional sub-portfolio. If necessary, the CIO will recommend changes in target allocations to the underlying asset classes in order to deploy the Investment Program's assets effectively in the upcoming year.

Additionally and subsequent to the capital markets review, the CIO will present an annual funding plan, which will provide a recommendation of how best to replenish the Liquidity Sub-portfolio for the next projected 48 months of benefits payments and expenses. The CIO will provide a monthly report to the Board on the progress of funding the Liquidity Sub-portfolio through a combination of harvesting income from the Growth and Diversifying sub-portfolios, asset sales in the Growth and/or

## CCCERA INVESTMENT POLICY STATEMENT

Diversifying sub-portfolios or the use of contributions. Under normal market conditions, the balance in the Liquidity Sub-portfolio is expected to vary between 36 and 48 months of projected benefit payments and expenses.

### C. Investment Strategy Attributes

All investment strategies, whether currently used by the Investment Program or being considered for inclusion in the Investment Program, will be evaluated on their own unique risk and return characteristics as well as their contribution to the overall Investment Program's risk and return characteristics. Other risks pertaining to the individual investment strategies and/or the firm managing the strategy will also be considered.

Fees and expenses of the investment strategies will be closely evaluated against competitive strategies and the value provided for the services rendered. While lower fees are clearly preferred over higher fees, the Plan seeks to identify investment strategies capable of providing value for participants by generating investment returns in excess of benchmark returns plus fees. Fee structures will be evaluated to ensure appropriate incentives are provided to achieve the desired outcomes for the Investment Program.

## 7. RISK PHILOSOPHY

The Board recognizes that the assumption of investment risk is necessary to meet the Plan's objectives. Investment risk is viewed as both the annualized standard deviation of investment returns (volatility) and drawdown exposure. Drawdown exposure measures the expected investment loss during a market correction. Additional sources of risk include regulatory, governmental, counterparty, environmental, social and currency. Investment risk, in and of itself, is intrinsically neither good nor bad; it is a condition accepted in the pursuit of investment returns. The goal in managing investment risk is to ensure that an acceptable level of risk is being taken at the total Plan portfolio level. To accomplish this goal, the Plan invests in broad asset classes, via specific investment strategies within those asset classes, which have desirable expected return, risk, and correlation characteristics. While the individual strategies have a wide range of risk and return characteristics, the correlations between the strategies allows for effective portfolio diversification.

The approach used in constructing the portfolio further focuses on the risk characteristics by ensuring the preservation of the Liquidity Sub-portfolio assets as detailed previously in this IPS. Because these assets are invested in lower risk and lower return investments, the assets are well protected. This then allows for the Growth Sub-portfolio to assume greater investment risk in pursuit of higher expected returns. The Diversifying Sub-portfolio then offsets a portion of the investment risk embedded in the Growth Sub-portfolio to protect against drawdown risks.

## CCCERA INVESTMENT POLICY STATEMENT

### 8. PORTFOLIO MONITORING

In discharging its fiduciary duty to prudently manage the Investment Program, the Board has developed the following structure for ongoing monitoring of existing investment managers. Reporting processes are, therefore, designed to provide the Board with the information needed to execute this oversight function. Accurate, timely, and clear reporting to the Board of the Plan's assets, investment risks and returns, portfolio costs, and investment decisions are essential to assisting the Board in discharging its fiduciary duties.

The CIO and General Investment Consultant will monitor individual investment managers' performance quarterly and annually. The managers' organizations and operations will be qualitatively monitored on a continual basis.

The General Investment Consultant will present a portfolio investment performance report to the Board on a quarterly basis. Performance will be measured for the total portfolio as well as sub-portfolios and individual portfolios. Each investment manager shall have a clear role within the total fund. The quarterly report will highlight any variance from that role.

The CIO, with the assistance of the General Investment Consultant and Specialty Consultants, shall conduct periodic on-site due diligence activities in connection with evaluating managers. The CIO shall invite the involvement of one or more Board members in the due diligence process. Additionally, the Board may from time to time determine that it is in the best interest of the participants and beneficiaries for one or more Board members to visit the offices of an investment manager, in order to further the Board members' understanding of the manager's strategy and its role in the CCCERA portfolio.

# CCCERA INVESTMENT POLICY STATEMENT

## APPENDIX 1: REFERENCED INCORPORATED DOCUMENTS

The documents referenced in the Investment Policy Statement are listed below and incorporated by reference into this IPS:

- CCCERA Board Investment Resolutions
- Placement Agent Disclosure Policy
- Code of Fiduciary Conduct and Ethics
- Conflict of Interest Code
- Procurement of Products and Services Policy
- Other Investment-Related Board Actions



## ***MEMORANDUM***

**Date:** September 28, 2016  
**To:** CCCERA Board of Retirement  
**From:** Gail Strohl, Chief Executive Officer  
**Subject:** Recommendation to Rescind On Site Policy

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### ***Recommendation***

On April 2, 2003, the Board adopted an Investment Manager On Site Policy (“On Site Policy”) for the purpose of establishing guidelines and procedures for visits by Board members to the offices of investment managers already hired or under consideration for hiring by the Board. A copy of the On Site Policy is enclosed. On August 10, 2016, the Board received an update from Verus and staff regarding the draft Investment Policy Statement (“IPS”).

The new IPS and accompanying procedures will cover the area of ongoing due diligence and on site visits for new and existing investment managers, rendering the On Site Policy redundant. Specifically, the guidelines and procedures pertaining to on site visits can be found in the new IPS on pages 6 and 13, Sections 3.B.2 and 8 and in Procedure No. 230.10. These on site guidelines and procedures reflect the governance model adopted by the Board whereby specific authority, responsibility, and accountability are either retained by the Board or delegated. The guidelines also incorporate Board feedback received on August 10, 2016. As to on site visits, the IPS states that the CIO will invite trustees to due diligence manager visits, for the purpose of trustee education and general oversight of the Investment Program.

## CCCERA

### INVESTMENT MANAGER ON SITE VISITS POLICY

Adopted: 04/02/03

#### PURPOSE

The Board adopts this policy to establish guideline and procedures for visits by Board members to the offices of such investment managers as the Board may have hired or may be considering hiring.

#### PRINCIPLES

In the course of hiring and reviewing the performance of investment managers, the Board invites managers to make presentations to the Board at its meetings.

In addition to such presentations, the Board may from time to time determine that it is in the best interest of the participants and beneficiaries for one or more Board members to visit the offices of the investment manager, in order to engage in an on site investigation and review of the investment manager.

This policy describes how, when, and under what circumstances the Board may choose to better protect the interests of the members and their beneficiaries by engaging in such on site visits.

#### PROCEDURES

1. Either immediately before selecting a new manager, or as soon thereafter as may be reasonably possible, the Board may select one or more of its members to engage in an on site visit of said new manager, in order to better determine whether the investment manager's offices appear competent and able to properly serve the Association.
2. The Board may determine, from time to time, that an on site visit to an investment manager would provide further information concerning the competence and ability of such investment manager. In such an event, the Board will select one or more of its members to conduct such an on site visit.
3. The Board members who conduct such on site visits will provide written reports concerning such visits, including any recommendations they may deem important for the Board to consider.



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**



SEPTEMBER 28, 2016

Asset Allocation Implementation Plan

**Contra Costa County Employees' Retirement Association**

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VERUSINVESTMENTS.COM

SEATTLE 206-622-3700

LOS ANGELES 310-297-1777

SAN FRANCISCO 415-362-3484

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***Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended.*

# Executive summary

# Executive Summary

- At the December 2015 Board Meeting, the Board selected the “FFP 4-yr” asset allocation
- At the September 14th, 2016 Board Meeting, Liquidity sub-portfolio finalists were selected, signifying the first step in implementing the new asset allocation
- This presentation focuses on the next steps towards implementation to ensure:
  1. Appropriate fulfillment of fiduciary duties in making changes to the investment program;
  2. Consistency with the overall investment objectives throughout the transition; and
  3. Coordination of activities across Board, Staff, consultants, and investment managers.
- This implementation plan includes 3 phases:
  - Phase 1: The Liquidity sub-portfolio implementation;
  - Phase 2: Growth and Risk Diversifying sub-portfolios realignment
  - Phase 3: Risk Diversifying sub-portfolio completion and Annual Funding Plan

# Liquidity sub-portfolio

# Phase 1: Liquidity sub-portfolio implementation

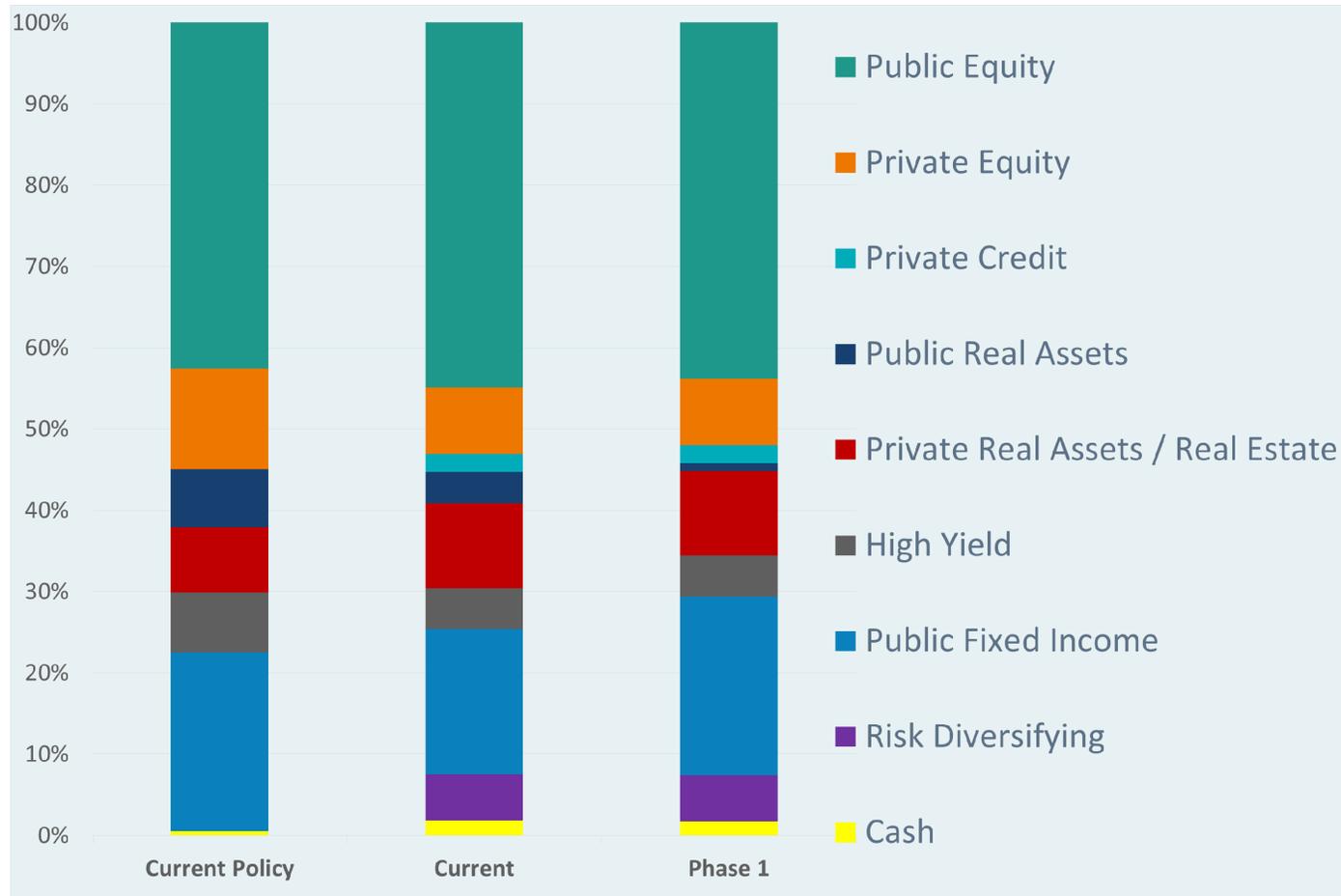
## Restructuring the public fixed income portfolio

The first phase of implementation will be completed in the following steps:

- Insight, DFA, and Sit selected by Board during September meeting
- Liquidity Program (~24% of Plan assets, \$1.7 bn) will be funded by liquidating Core and Core Plus fixed income strategies (except for AFL-CIO) and certain public equity portfolios that no longer have strategic roles in the new asset allocation
- Staff to finalize contracts in October; Expected funding date on or about November 15<sup>th</sup>
- First benefit payment to be made from Liquidity portfolio January 2017

# Phase 1: Liquidity sub-portfolio implementation

## Restructuring the public fixed income portfolio



The shift from “Current Policy” to “Phase 1”:

- Decreases expected return from 7.1% to 6.6%
- Decreases expected standard deviation from 12.1% to 11.0%
- Decreases Sharpe Ratio from 0.48 to 0.45\*

\* Based on Verus' 2016 Capital Market Assumptions.

# Phase 1: Liquidity implementation

## Phase 1: Implement Liquidity Program

Market values as of July 31st, 2016

Asset Class Strategy	Actual		November 2016 Target		Re-Balance	New		Variance
<b>Growth</b>	<b>5,580,908,000</b>	<b>74.5%</b>	<b>5,288,085,000</b>	<b>70.6%</b>	<b>(292,823,000)</b>	<b>\$5,288,085,000</b>	<b>70.6%</b>	<b>0.0%</b>
Intech Large Cap	288,158,000	3.8%	288,158,000	3.8%	-	288,158,000	3.8%	0.0%
PIMCO Stocks+	321,876,000	4.3%	321,876,000	4.3%	-	321,876,000	4.3%	0.0%
Jackson Square	305,480,000	4.1%	305,480,000	4.1%	-	305,480,000	4.1%	0.0%
Robeco Boston Partners	305,774,000	4.1%	305,774,000	4.1%	-	305,774,000	4.1%	0.0%
Emerald	220,204,000	2.9%	220,204,000	2.9%	-	220,204,000	2.9%	0.0%
Ceredex	216,648,000	2.9%	216,648,000	2.9%	-	216,648,000	2.9%	0.0%
Pyrford	402,771,000	5.4%	402,771,000	5.4%	-	402,771,000	5.4%	0.0%
William Blair	394,587,000	5.3%	394,587,000	5.3%	-	394,587,000	5.3%	0.0%
Artisan	307,247,000	4.1%	307,247,000	4.1%	-	307,247,000	4.1%	0.0%
First Eagle	312,234,000	4.2%	312,234,000	4.2%	-	312,234,000	4.2%	0.0%
Intech Global Low Vol	24,181,000	0.3%	24,181,000	0.3%	-	24,181,000	0.3%	0.0%
JP Morgan	261,751,000	3.5%	180,042,630	2.4%	(81,708,370)	180,042,630	2.4%	0.0%
PIMCO All Asset	124,588,000	1.7%	-	0.0%	(124,588,000)	-	0.0%	0.0%
Adelante	101,709,000	1.4%	74,902,370	1.0%	(26,806,630)	74,902,370	1.0%	0.0%
Invesco	59,720,000	0.8%	-	0.0%	(59,720,000)	-	0.0%	0.0%
Private Real Estate	702,276,000	9.4%	702,276,000	9.4%	-	702,276,000	9.4%	0.0%
Private Real Assets	76,664,000	1.0%	76,664,000	1.0%	-	76,664,000	1.0%	0.0%
Private Equity	613,287,000	8.2%	613,287,000	8.2%	-	613,287,000	8.2%	0.0%
Opportunistic	33,455,000	0.4%	33,455,000	0.4%	-	33,455,000	0.4%	0.0%
Torchlight	135,689,000	1.8%	135,689,000	1.8%	-	135,689,000	1.8%	0.0%
Allianz	372,609,000	5.0%	372,609,000	5.0%	-	372,609,000	5.0%	0.0%

For illustrative purposes only, not for final approval

# Phase 1: Liquidity implementation (continued)

## Phase 1: Implement Liquidity Program

Market values as of July 31st, 2016

Asset Class Strategy	Actual		November 2016 Target		Re-Balance	New		Variance
<b>Liquidity</b>	<b>1,343,948,000</b>	<b>17.9%</b>	<b>1,650,000,000</b>	<b>22.0%</b>	<b>306,052,000</b>	<b>1,650,000,000</b>	<b>22.0%</b>	<b>0.0%</b>
GSAM Core Plus	327,924,000	4.4%	-	0.0%	(327,924,000)	-	0.0%	0.0%
Lord Abbett Core Plus	330,701,000	4.4%	-	0.0%	(330,701,000)	-	0.0%	0.0%
PIMCO Total Return	442,292,000	5.9%	-	0.0%	(442,292,000)	-	0.0%	0.0%
Lazard Global	243,031,000	3.2%	-	0.0%	(243,031,000)	-	0.0%	0.0%
Insight	-	0.0%	800,000,000	10.7%	800,000,000	800,000,000	10.7%	0.0%
DFA	-	0.0%	400,000,000	5.3%	400,000,000	400,000,000	5.3%	0.0%
Sit	-	0.0%	450,000,000	6.0%	450,000,000	450,000,000	6.0%	0.0%
<b>Risk Diversifying</b>	<b>427,152,000</b>	<b>5.7%</b>	<b>427,152,000</b>	<b>5.7%</b>	<b>-</b>	<b>427,152,000</b>	<b>5.7%</b>	<b>0.0%</b>
AFL-CIO HIT	245,682,000	3.3%	245,682,000	3.3%	-	245,682,000	3.3%	0.0%
Wellington Real Total Return	181,470,000	2.4%	181,470,000	2.4%	-	181,470,000	2.4%	0.0%
<b>Cash</b>	<b>138,229,000</b>	<b>1.8%</b>	<b>125,000,000</b>	<b>1.7%</b>	<b>(13,229,000)</b>	<b>125,000,000</b>	<b>1.7%</b>	<b>0.0%</b>
<b>Total</b>	<b>7,490,237,000</b>	<b>100%</b>	<b>7,490,237,000</b>	<b>100%</b>	<b>-</b>	<b>7,490,237,000</b>	<b>100%</b>	<b>0.0%</b>

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# Growth and Risk Diversifying sub-portfolios

# Phase 2: Growth and Risk Diversifying sub-portfolios

- The second phase of implementation will be comprised of the following steps:
  - Restructuring exposures across the publicly traded markets;
  - Identifying and allocating to private market proxies; and
  - Restructuring exposures across risk diversifying strategies.
  
- Phase 2 implementation is expected to take place in March of 2017

# Phase 2: Growth sub-portfolio

## Public market exposures

- Restructuring the public market exposures will include:
  - Identifying and selecting a method to gain S&P 500 exposure
    - May include index and/or overlay providers for lost-cost implementation
  - Selecting manager(s) for emerging market equity exposure
    - Search to be launched in October; results to be presented in December
  - Realigning allocations across select strategies already in the Plan

# Phase 2: Growth sub-portfolio

## Private market exposures

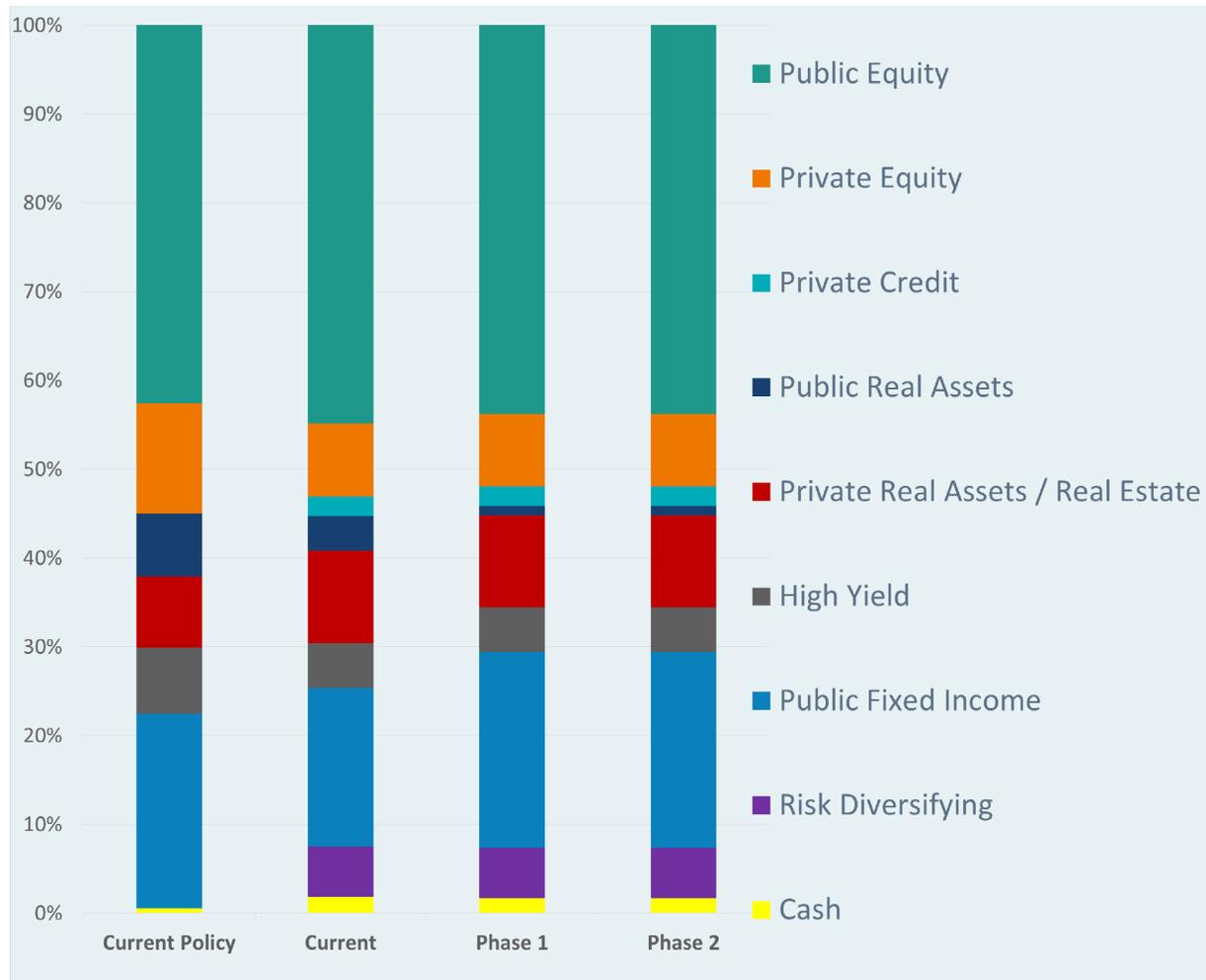
- Fully developed private markets exposures will take years to implement
  - Investment periods, vintage year diversification, distribution schedules, etc. combined with the growth of the Plan and other factors require patience and prudence to successfully build a private markets portfolio
- Proxies will be used to achieve asset allocation targets while investment managers call capital
  - Private equity target allocation = 12% (~\$925mm)
  - Private credit target allocation = 16% (~\$1.2B)
- Identifying appropriate proxies should be based on the goals and constraints of the Plan
  - Small cap domestic equities are often used for private equities
    - Small cap volatility can be a concern if capital is called while the markets are depressed
  - Domestic high yield is often used for private credit
    - High yield liquidity can cause forced selling at depressed prices if capital is called at an inconvenient time
  - Further analysis to be conducted to select best proxies for each; results to be presented in December

# Phase 2: Risk Diversifying sub-portfolio

## Risk Diversifying exposures

- Realigning existing strategies
  - Maintain the Wellington Real Total Return as an interim solution to help achieve target weight
  - Utilize the AFL-CIO Housing Investment Trust strategy as the US Treasury exposure given its government guaranteed holdings
- Structure of Risk Diversifying sub-portfolio to be presented at the January Board meeting
  - Search process for Risk Diversifying strategies targeted to begin in February 2017
  - Funding of strategies to coincide with annual funding plan in the summer of 2017

# Phase 2: Growth and Risk Diversifying sub-portfolios



The shift from “Phase 1” to “Phase 2”:

- Increases expected return from 6.6% to 6.9%
- Increases expected standard deviation from 11.0% to 11.3%
- Increases Sharpe Ratio from 0.45 to 0.51\*

\*Based on Verus' 2016 Capital Market Assumptions.

# Phase 2 implementation

## Phase 2: Restructure Public Equity Portfolio

Market values as of July 31st, 2016

Asset Class Strategy	Actual		March 2017 Target		Re-Balance	New		Variance
<b>Growth</b>	<b>5,288,085,000</b>	<b>70.6%</b>	<b>5,288,085,000</b>	<b>70.6%</b>	-	<b>\$5,288,085,000</b>	<b>70.6%</b>	<b>0.0%</b>
Intech Large Cap	288,158,000	3.8%	-	0.0%	(288,158,000)	-	0.0%	0.0%
PIMCO Stocks+	321,876,000	4.3%	-	0.0%	(321,876,000)	-	0.0%	0.0%
Jackson Square	305,480,000	4.1%	283,477,898	3.8%	(22,002,102)	283,477,898	3.8%	0.0%
Robeco Boston Partners	305,774,000	4.1%	283,477,898	3.8%	(22,296,102)	283,477,898	3.8%	0.0%
Emerald	220,204,000	2.9%	179,765,688	2.4%	(40,438,312)	179,765,688	2.4%	0.0%
Ceredex	216,648,000	2.9%	179,765,688	2.4%	(36,882,312)	179,765,688	2.4%	0.0%
Pyrford	402,771,000	5.4%	307,099,717	4.1%	(95,671,283)	307,099,717	4.1%	0.0%
William Blair	394,587,000	5.3%	307,099,717	4.1%	(87,487,283)	307,099,717	4.1%	0.0%
Artisan	307,247,000	4.1%	307,099,717	4.1%	(147,283)	307,099,717	4.1%	0.0%
First Eagle	312,234,000	4.2%	307,099,717	4.1%	(5,134,283)	307,099,717	4.1%	0.0%
Intech Global Low Vol	24,181,000	0.3%	-	0.0%	(24,181,000)	-	0.0%	0.0%
JP Morgan	180,042,630	2.4%	-	0.0%	(180,042,630)	-	0.0%	0.0%
EM Equity (TBD)	-	0.0%	600,000,000	8.0%	600,000,000	600,000,000	8.0%	0.0%
US Low Vol (TBD)	-	0.0%	524,316,590	7.0%	524,316,590	524,316,590	7.0%	0.0%
PIMCO All Asset	-	0.0%	-	0.0%	-	-	0.0%	0.0%
Adelante	74,902,370	1.0%	74,902,370	1.0%	-	74,902,370	1.0%	0.0%
Invesco	-	0.0%	-	0.0%	-	-	0.0%	0.0%
Private Real Estate	702,276,000	9.4%	702,276,000	9.4%	-	702,276,000	9.4%	0.0%
Private Real Assets	76,664,000	1.0%	76,664,000	1.0%	-	76,664,000	1.0%	0.0%
Private Equity	613,287,000	8.2%	613,287,000	8.2%	-	613,287,000	8.2%	0.0%
Opportunistic	33,455,000	0.4%	33,455,000	0.4%	-	33,455,000	0.4%	0.0%
Torchlight	135,689,000	1.8%	135,689,000	1.8%	-	135,689,000	1.8%	0.0%
Allianz	372,609,000	5.0%	372,609,000	5.0%	-	372,609,000	5.0%	0.0%

For illustrative purposes only, not for final approval

# Phase 2 implementation

## Phase 2: Restructure Public Equity Portfolio

Market values as of July 31st, 2016

Asset Class Strategy	Actual		March 2017 Target		Re-Balance	New		Variance
<b>Liquidity</b>	<b>1,650,000,000</b>	<b>22.0%</b>	<b>1,650,000,000</b>	<b>22.0%</b>	-	<b>1,650,000,000</b>	<b>22.0%</b>	<b>0.0%</b>
Insight	800,000,000	10.7%	800,000,000	10.7%	-	800,000,000	10.7%	0.0%
DFA	400,000,000	5.3%	400,000,000	5.3%	-	400,000,000	5.3%	0.0%
Sit	450,000,000	6.0%	450,000,000	6.0%	-	450,000,000	6.0%	0.0%
<b>Risk Diversifying</b>	<b>427,152,000</b>	<b>5.7%</b>	<b>427,152,000</b>	<b>5.7%</b>	-	<b>427,152,000</b>	<b>5.7%</b>	<b>0.0%</b>
AFL-CIO HIT	245,682,000	3.3%	245,682,000	3.3%	-	245,682,000	3.3%	0.0%
Wellington Real Total Return	181,470,000	2.4%	181,470,000	2.4%	-	181,470,000	2.4%	0.0%
<b>Cash</b>	<b>125,000,000</b>	<b>1.7%</b>	<b>125,000,000</b>	<b>1.7%</b>	-	<b>125,000,000</b>	<b>1.7%</b>	<b>0.0%</b>
<b>Total</b>	<b>7,490,237,000</b>	<b>100%</b>	<b>7,490,237,000</b>	<b>100%</b>	-	<b>7,490,237,000</b>	<b>100%</b>	<b>0.0%</b>

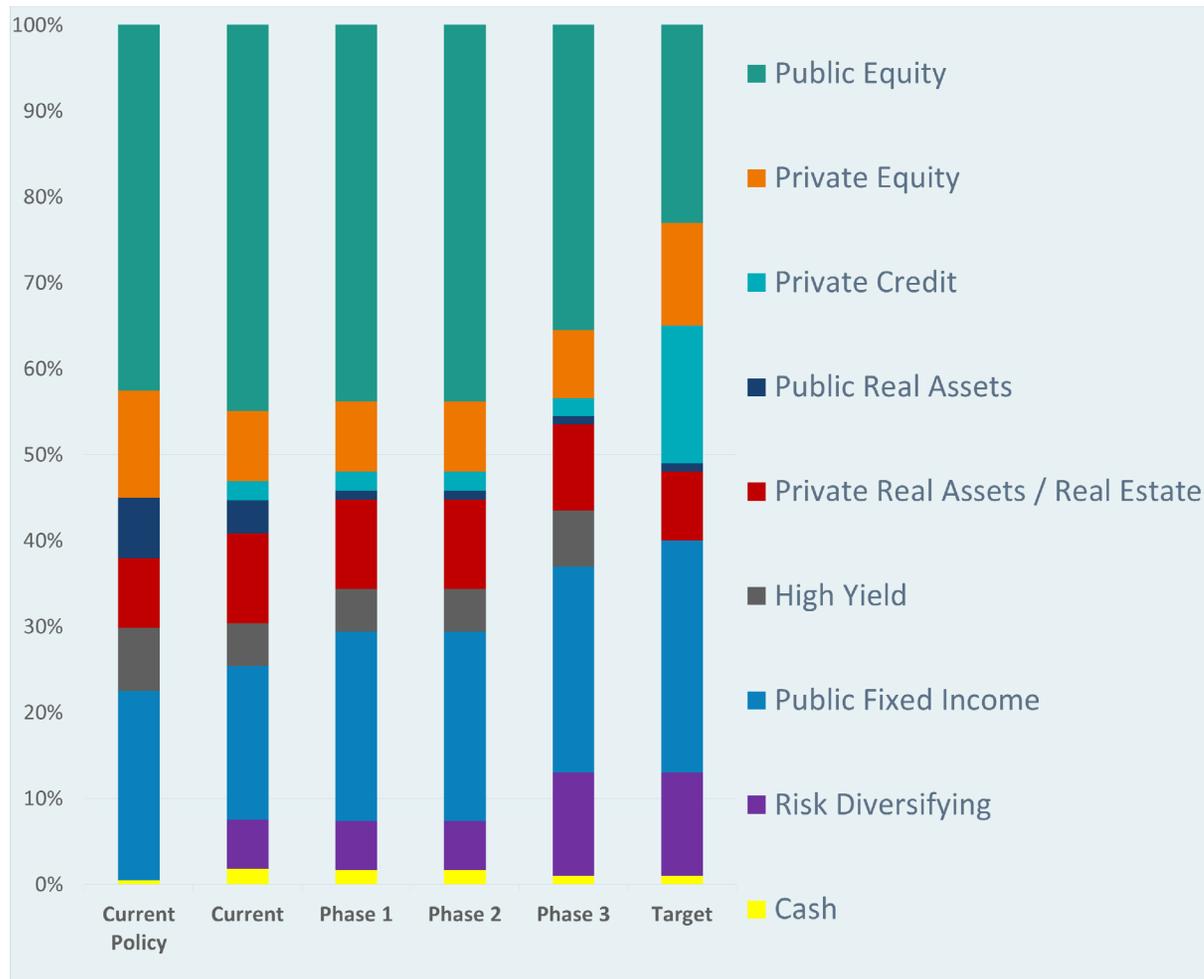
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# Annual Funding Plan

# Phase 3: Annual Funding Plan

- The annual contribution to the Plan will be used to:
  - Refresh the Liquidity sub-portfolio,
  - Fund the selected risk diversifying strategies, and
  - Rebalance the portfolio to target
  
- Selected Risk Diversifying strategies are to be presented at the April, 2017 Board meeting

# Phase 3: Annual Funding Plan



The shift from “Phase 2” to “Phase 3”:

- Decreases expected return from 6.9% to 6.8%
- Decreases expected standard deviation from 11.3% to 10.5%
- Increases Sharpe Ratio from 0.51 to 0.53\*

The shift from “Phase 3” to “Target”:

- Increases expected return from 6.8% to 7.5%
- Decreases expected standard deviation from 10.5% to 9.8%
- Increases Sharpe Ratio from 0.53 to 0.61\*

\*Based on Verus' 2016 Capital Market Assumptions.

# Phase 3 implementation

## Phase 3: Implement Risk Diversifying Program

Market values as of July 31st, 2016

Asset Class Strategy	Actual		July 2017 Target		Re-Balance	New		Variance
<b>Growth</b>	<b>5,288,085,000</b>	<b>70.6%</b>	<b>4,910,408,560</b>	<b>63.0%</b>	<b>(377,676,440)</b>	<b>\$4,910,408,560</b>	<b>63.0%</b>	<b>0.0%</b>
Jackson Square	283,477,898	3.8%	-	0.0%	(283,477,898)	-	0.0%	0.0%
Robeco Boston Partners	283,477,898	3.8%	-	0.0%	(283,477,898)	-	0.0%	0.0%
Emerald	179,765,688	2.4%	100,000,000	1.3%	(79,765,688)	100,000,000	1.3%	0.0%
Ceredex	179,765,688	2.4%	-	0.0%	(179,765,688)	-	0.0%	0.0%
Pyrford	307,099,717	4.1%	307,099,717	3.9%	-	307,099,717	3.9%	0.0%
William Blair	307,099,717	4.1%	307,099,717	3.9%	-	307,099,717	3.9%	0.0%
Artisan	307,099,717	4.1%	307,099,717	3.9%	-	307,099,717	3.9%	0.0%
First Eagle	307,099,717	4.1%	307,099,717	3.9%	-	307,099,717	3.9%	0.0%
EM Equity (TBD)	600,000,000	8.0%	600,000,000	7.7%	-	600,000,000	7.7%	0.0%
US Low Vol (TBD)	524,316,590	7.0%	550,000,000	7.1%	25,683,410	550,000,000	7.1%	0.0%
S&P 500 (TBD)	-	0.0%	289,370,917	3.7%	289,370,917	289,370,917	3.7%	0.0%
Adelante	74,902,370	1.0%	74,902,370	1.0%	-	74,902,370	1.0%	0.0%
Private Real Estate	702,276,000	9.4%	702,276,000	9.0%	-	702,276,000	9.0%	0.0%
Private Real Assets	76,664,000	1.0%	76,664,000	1.0%	-	76,664,000	1.0%	0.0%
Private Equity	613,287,000	8.2%	613,287,000	7.9%	-	613,287,000	7.9%	0.0%
Opportunistic	33,455,000	0.4%	33,455,000	0.4%	-	33,455,000	0.4%	0.0%
Torchlight	135,689,000	1.8%	135,689,000	1.7%	-	135,689,000	1.7%	0.0%
Allianz	372,609,000	5.0%	506,365,405	6.5%	133,756,405	506,365,405	6.5%	0.0%

For illustrative purposes only, not for final approval

# Phase 3 implementation

## Phase 3: Implement Risk Diversifying Program

Market values as of July 31st, 2016

Asset Class Strategy	Actual		July 2017 Target		Re-Balance	New		Variance
<b>Liquidity</b>	<b>1,650,000,000</b>	<b>22.0%</b>	<b>1,870,000,000</b>	<b>24.0%</b>	<b>220,000,000</b>	<b>1,870,000,000</b>	<b>24.0%</b>	<b>0.0%</b>
Insight	800,000,000	10.7%	930,000,000	11.9%	130,000,000	930,000,000	11.9%	0.0%
DFA	400,000,000	5.3%	470,000,000	6.0%	70,000,000	470,000,000	6.0%	0.0%
Sit	450,000,000	6.0%	470,000,000	6.0%	20,000,000	470,000,000	6.0%	0.0%
<b>Risk Diversifying</b>	<b>427,152,000</b>	<b>5.7%</b>	<b>934,828,440</b>	<b>12.0%</b>	<b>507,676,440</b>	<b>934,828,440</b>	<b>12.0%</b>	<b>0.0%</b>
AFL-CIO HIT	245,682,000	3.3%	245,682,000	3.2%	-	245,682,000	3.2%	0.0%
Wellington Real Total Return	181,470,000	2.4%	181,470,000	2.3%	-	181,470,000	2.3%	0.0%
Risk Diversifying Managers (TBD)	-	0.0%	507,676,440	6.5%	507,676,440	507,676,440	6.5%	0.0%
<b>Cash</b>	<b>125,000,000</b>	<b>1.7%</b>	<b>75,000,000</b>	<b>1.0%</b>	<b>(50,000,000)</b>	<b>75,000,000</b>	<b>1.0%</b>	<b>0.0%</b>
Contribution			300,000,000					
<b>Total</b>	<b>7,490,237,000</b>	<b>100%</b>	<b>7,790,237,000</b>	<b>100%</b>	<b>300,000,000</b>	<b>7,790,237,000</b>	<b>100%</b>	<b>0.0%</b>

For illustrative purposes only, not for final approval

# Appendix

# Schedule of topics by meeting (continued)

Topic	Lead
<b>October</b>	
Internal	
Conduct on-sites with Liquidity providers, if needed	Staff, Board
Finalize contracting with Liquidity providers	Staff
Begin interviews/on-site visits with private market advisors	Staff
10/26 Board meeting	
Structure of public equities portfolio	Verus
Launch emerging markets equity search	Verus
<b>November</b>	
Internal	
Establish and test communication protocols with Liquidity providers	Staff
Receive updated 4-yr projections	Segal
Terminate selected strategies in fixed income and public equities	Staff
Phase 1 Implementation: funding the Liquidity sub-portfolio	Staff
11/22 Board meeting	
Quarterly performance review	Verus
<b>December</b>	
12/14 Board meeting	
Test first monthly report of Liquidity providers	Staff
Select Emerging Market Equity strategies	Verus
Finalize public market proxies for private markets; launch searches if needed	Verus
Present recommendations for private markets advisor(s)	Staff

# Schedule of topics by meeting

Topic	Lead
<b>January</b>	
Internal	
Make first benefit payment from Liquidity sub-portfolio	Staff
Contract with Emerging Market Equity managers	Staff
1/25 Board meeting	
Structure of Diversifying sub-portfolio	Verus
Select S&P 500 strategy	Verus
<b>February</b>	
2/22 Board meeting	
Review 2017 Capital Market Assumptions for FFP	Verus
Select private market proxy strategies	Verus
Launch search for risk diversifying strategies	Verus
<b>March</b>	
Internal	
Phase 2 Implementation: fund EM Equity and private market proxy strategies	Staff
<b>April</b>	
4/25 Board meeting	
Select risk diversifying strategies	Verus
<b>Summer 2017</b>	
Phase 3 Implementation and Portfolio Rebalance for S&P500 and risk diversifying strategies	Staff
Refresh Liquidity sub-portfolio	All

# Policy index glide path

	Current Policy	Current	Phase 1	Phase 2	Phase 3	New Targets
<b>Risk / Return Characteristics</b>						
<b>Forecast 10 Year Return</b>	<b>7.1</b>	<b>6.8</b>	<b>6.6</b>	<b>6.9</b>	<b>6.8</b>	<b>7.5</b>
<b>Forecast 10 Year Real Return</b>	<b>5.0</b>	<b>4.7</b>	<b>4.5</b>	<b>4.8</b>	<b>4.7</b>	<b>5.4</b>
Standard Deviation	12.1	11.7	11.0	11.3	10.5	9.8
Return/Std. Deviation	0.6	0.6	0.6	0.6	0.7	0.8
Sharpe Ratio	0.48	0.45	0.45	0.51	0.53	0.61

Based on Verus' 2016 Capital Market Assumptions

# Notices & disclosures

**Past performance is no guarantee of future results.** *The information presented in this report is provided pursuant to the contractual agreement (the “Contract”) by and between Contra Costa Employees’ Retirement Association (“Client”) and Verus Advisory, Inc. (“Company”). In the event of conflict between the terms of this disclosure and the Contract, the Contract shall take precedence. Client is an institutional counter-party and in no event should the information presented be relied upon by a retail investor.*

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*The material may include estimates, outlooks, projections and other “forward-looking statements.” Such statements can be identified by the use of terminology such as “believes,” “expects,” “may,” “will,” “should,” “anticipates,” or the negative of any of the foregoing or comparable terminology, or by discussion of strategy, or assumptions such as economic conditions underlying other statements. No assurance can be given that future results described or implied by any forward-looking information will be achieved. Actual events may differ significantly from those presented. Investing entails risks, including possible loss of principal. Risk controls and models do not promise any level of performance or guarantee against loss of principal.*



## ***MEMORANDUM***

**Date:** September 16, 2016

**To:** CCCERA Board of Retirement

**From:** Timothy Price, Chief Investment Officer; Chih-chi Chu, Investment Analyst

**Subject:** Long Wharf Real Estate Partners V

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### **Recommendation**

We recommend the Board make a capital commitment of \$50 million to Long Wharf Real Estate Partners V (LREP V), subject to satisfactory due diligence and legal review. Forty percent of LREP V's equity has been committed (to nine properties), very similar to the circumstance of CCCERA's 2013 commitment to Long Wharf Real Estate Partners IV.

This recommendation is based upon the following factors:

1. CCCERA remains constructive, albeit cautious, on the value-add real estate segment.
2. CCCERA has a 4% target allocation and needs to make new commitments to maintain the target exposure.
3. CCCERA Investment Staff have increased our confidence in the organization stability and investment capabilities of Long Wharf Real Estate Partners.

Below is CCCERA's exposure to Long Wharf Real Estate Partners and its predecessor Fidelity Real Estate Group.

*Table: CCCERA's Total Exposure to Long Wharf Real Estate Partner and its Predecessor*

Fund	Vintage Year	Fund Size	CCCERA Commitment	Stage
Fidelity Real Estate Growth Fund II	2004	\$625 million	\$50 million	Closed

<b>Fidelity Real Estate Growth Fund III</b>	2008	\$782 million	\$75 million (only \$68M called)	Harvesting
<b>Long Wharf Real Estate Partners IV</b>	2013	\$254 million	\$25 million	Harvesting

## Commercial Real Estate Market Environment

The values of commercial real estate properties (such as office, retail, multi-family, Industrial, etc.) have come back steadily since the great recession, aided first by loose monetary policies then supported by the improvement of real estate fundamentals discussed below:

### Office

For office demand, since the fourth quarter, 2010 (the first such quarter to see all three months with net gain on employment), U.S. non-farm payroll has added more than 14 million jobs, more than offsetting the 8 million jobs lost from the first quarter, 2008 to the third quarter, 2010 (source: Bureau of Labor Statistics). Below is the monthly total non-farm employee net gain (loss if negative) since 2006, number in thousands:

Table: U.S. Total Nonfarm Payroll Monthly Gain, 2006 to 2016

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	278	316	281	183	23	82	207	181	158	4	208	171
2007	240	90	189	79	143	78	-33	-24	88	85	115	97
2008	19	-86	-78	-210	-185	-165	-209	-266	-452	-473	-769	-695
2009	-791	-703	-823	-686	-351	-470	-329	-212	-219	-200	-7	-279
2010	28	-69	163	243	522	-133	-70	-34	-52	257	123	88
2011	42	188	225	346	73	235	70	107	246	202	146	207
2012	338	257	239	75	115	87	143	190	181	132	149	243
2013	190	311	135	192	218	146	140	269	185	189	291	45
2014	187	168	272	310	213	306	232	218	286	200	331	292
2015	221	265	84	251	273	228	277	150	149	295	280	271
2016	168	233	186	144	24	292	255	151				

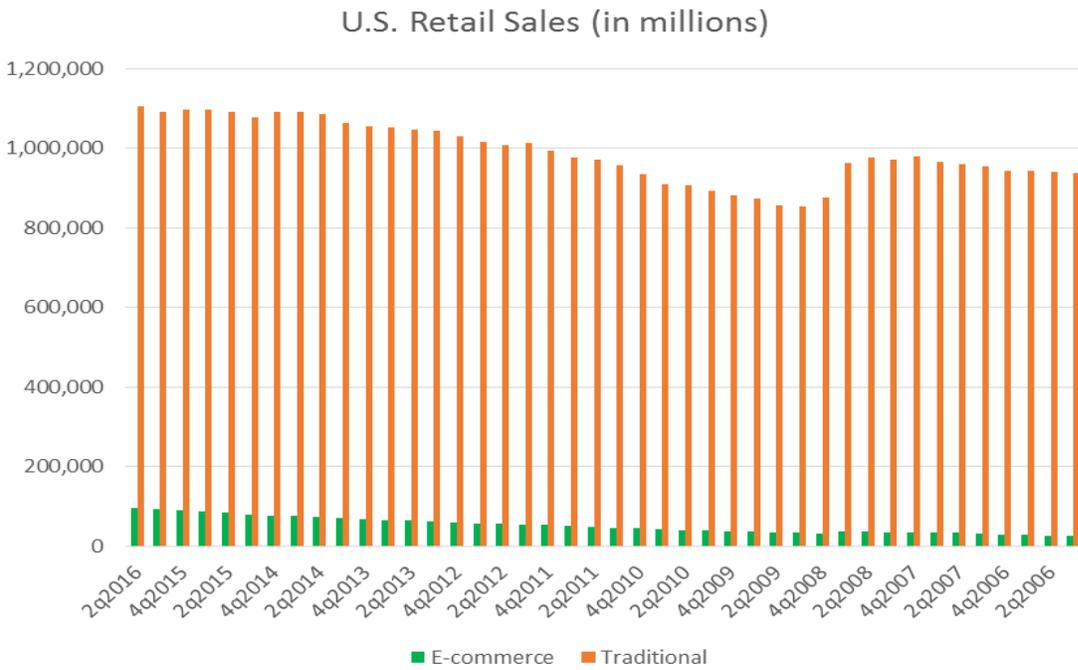
Source: BLS

Meanwhile the average annual new office supply from 2011 to 2015 was down 65% from the prior 10 years (source: CoStar Portfolio Strategy). This mismatch of demand and supply during the recovery stage has caused a decrease in office vacancy and a corresponding increase in rent in strongly recovering cities, although the overall annual net absorption (in square footage) in U.S. has come down in 2016 from the post great recession high in 2015. As the supply of new offices catches up, unique properties with low or reasonable cost bases will compete better.

### Retail

On the retail front, the U.S. retail sales are stronger than pre-recession levels, exceeding \$1 trillion in the first quarter of 2011 since the third quarter of 2008. The most recent 2<sup>nd</sup> quarter's (of 2016) number is \$1.2 trillion, including \$97 billion from E-commerce sales, surpassing the previous high of \$1.012 trillion (including \$37 billion from E-commerce) in the second quarter of 2008. Below is the chart from U.S. Census Bureau tracking the quarterly retail sales in U.S.

Chart: Resilient U.S. Retail Sector, from 2006 to 2016



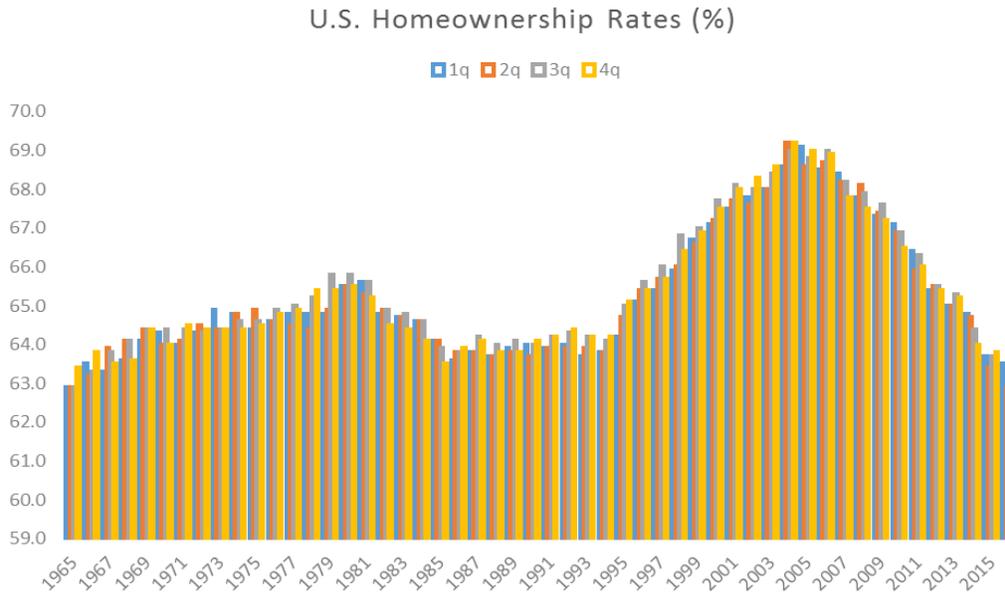
Source: U.S. Census Bureau

The overall retail growth since 2009 can be characterized as steady, between low and mid-single digit. Although the traditional retail growth is outshined by the double digit growth rate from E-commerce, the traditional retail has defied popular sentiment as a dying breed. In fact many population centers are running out of retail space, and urban redevelopment incorporating walk-friendly, events-laden retail environment continues to gather strong momentum from local constituents.

### Apartments

Multi-family (apartments) has been the strongest performing sector in commercial real estate since the great recession, aided by the declining homeownership rate. Homeownership rate peaked at 69.2% in the fourth quarter of 2004 but sank to the historical lows of 62.9% in the second quarter of 2016, equaling the first three quarters of 1965, the first year such data was tracked. See the chart below:

Chart: U.S. Homeownership Rate All Time Low

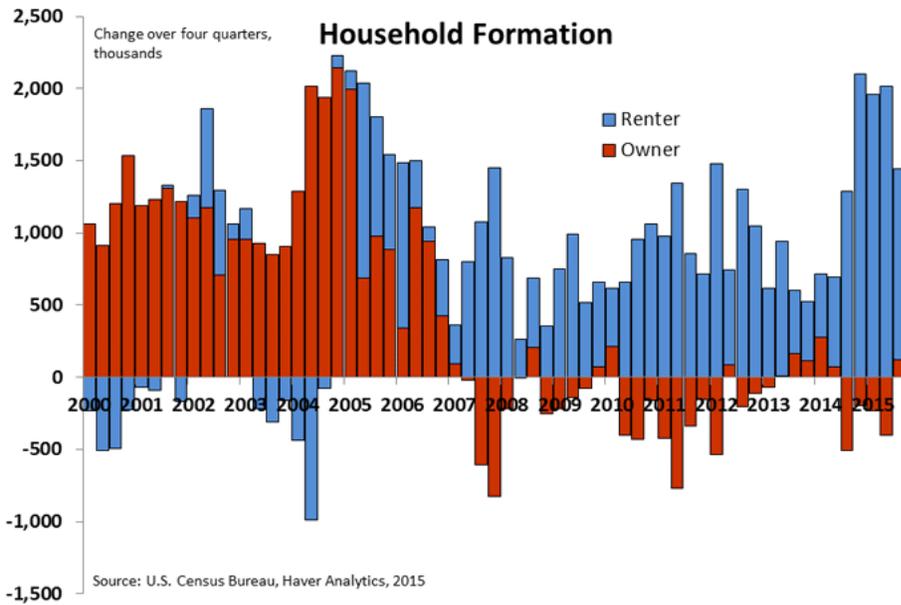


Source: U.S. Census Bureau

The homeownership rate's decline continues despite the bounce of household formation since the great recession, as more newly formed households are renting (see the chart below).

Chart: "Rent" triumphs "Own" since Recovery

An increase of 1.3 million rental households over past 4 quarters.



Source: reit.com



The homeownership rate decline can be attributed by the affordability of houses, evolving living arrangements, and the availability of mortgages and moderate-paying jobs. For example, Census Bureau published a study comparing 30-year-olds then (1975) and now (2015). In 2015 more 30-year-olds have earned at least a high school diploma and are in the labor force, yet fewer (55% in 2015 v 71% in 1975) are earning a moderate income (between 66% and 200% of or are homeowners).

With the surge of supply for new construction of apartments, the demand is being answered quickly. But supply-demand dynamics remains favorable to apartments owners in areas with excellent school districts, job growth, and access to public transit systems.

*Industrial*

Last but not the least is the industrial sector, which actually has the highest net property absorption growth rate since the recovery (source: CoStar Portfolio Strategy), stimulated by the strong demand on warehouses, in large part due to the rapid growth of E-commerce. Similar to office, there wasn't a whole lot of new construction of warehouses during the great recession, creating more supply-demand imbalance during the recovery stage. Although the overall net absorption of industrial has come down from the post great recession high in 2015, the "last mile" locations to large urban centers continue to be in demand.

**Uneven Recovery**

The real estate recovery that first happened in the gateway cities is now spilling over to large cities that have strong job growth. Below is a list of the top population growth cities from 2014 to 2015, among which Long Wharf has scored very well, either directly in the mentioned metropolis or nearby areas.

**Table: Top 15 Population Growth Cities in U.S., 2014 - 2015**

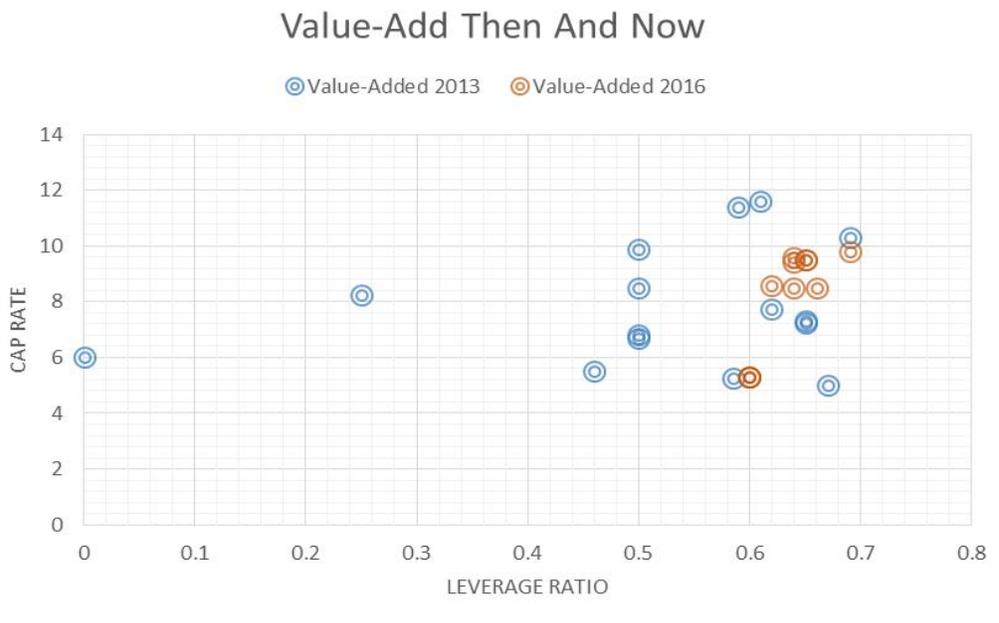
City	Population Growth	Total Population	Notes
1, Houston-Woodlands-Sugar Land, TX	+159,083	6.66 million	LW IV has two properties: Willowbrook and Woodpark Plaza.
2, Dallas-Fort Worth-Arlington, TX	+144,704	7.1 million	LW IV has three properties: Richardson Office, Village at Camp Bowie, and Southeast GP; LW V has West End portfolio.
3, Atlanta-Sandy Springs-Roswell, GA	+95,431	5.71 million	LW IV has four properties: Atlanta TPA, Atlanta Industrial, and Atlanta Residential I&II; LW V has three properties: Sugarloaf office, Georgia 400 ctr, and the hotel at Avalon
4, Phoenix-Mesa-Scottsdale, AZ	+87,988	4.57 million	

5, New York-Newark-Jersey City, NY-NJ	+87,186	20.18 million	LW IV has two properties: 195 Montague and 133 West 52nd Street.
6, Los Angeles-Long Beach-Anaheim, CA	+85,671	13.34 million	LW IV has 3131 Katella.
7, Miami-Fort Lauderdale-West Palm Beach, FL	+75,231	6.01 million	LW IV has Sawgrass Lake Ctr.
8, Washington-Arlington-Alexandria, DC-VA-WV	+63,793	6.09 million	LW IV has 2800 Alexandria Tech Ctr.
9, Seattle-Tacoma-Bellevue, WA	+60,714	3.73 million	
10, Orlando-Kissimmee-Sanford, FL	+60,409	2.38 million	
11, San Francisco-Oakland-Hayward, CA	+60,152	4.65 million	LW IV has 1050 Northgate.
12, Denver-Aurora-Lakewood, CO	+58,474	2.81 million	LW IV has Park 1200
13, Tampa-St. Petersburg-Clearwater, FL	+57,412	2.97 million	LW IV has The Slade
14, Austin-Round Rock, TX	+57,395	2 million	LW V has Austin Office portfolio.
15, San Antonio-New Braunfels, TX	+51,285	2.38 million	LW V has The Forum.

### Where We Are In Real Estate Cycle And Capital Markets

Back in 2013 staff surveyed CCCERA’s value-add managers for their pipelines’ (prospective investments) cap rates/stabilized yields on cost (SYOC) and debts planned to purchase these properties. We did the same this year. Below is the chart that shows the comparison.

Chart: Comparing CCCERA’s Internal Surveys from Value-Add Managers



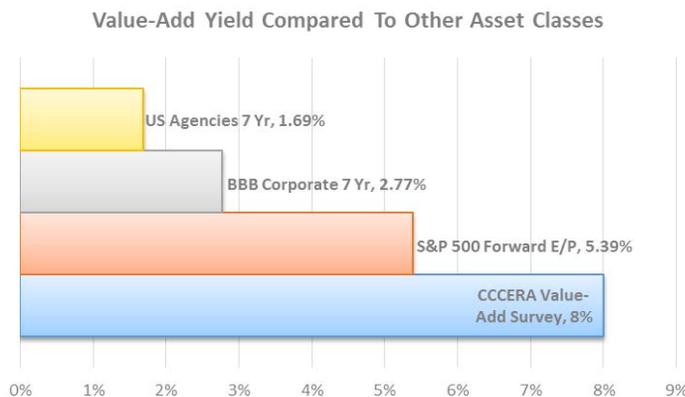
Source: CCCERA Value-Add Managers

The higher cap rate/SYOC implies lower purchase cost; the higher leverage implies more financial risk. While our managers can still locate select attractive entry points today (around 8% cap rate/SYOC), the financial leverage planned is higher than before. The higher leverage, however, is supported by the higher certainty on properties' cash flows, such as in-place low vacancy rate or new leases signed.

On the operational risk scale, the value-add work today is less risky because the investment emphasis has shifted from heavy construction (for example, only refreshing, not remodeling the whole lobby) to property management such as bringing the in-place rent to markets.

Compared to other asset classes, the cap rate/SYOC from CCCERA's recent value-add survey is very attractive at around 8%. The S&P 500 forward P/E is 18.56, which implies an earning/price yield of 5.4%. The 7-year (roughly the same investment horizon as LREP V) bond yield on triple-B U.S. corporates is 2.77%, only 108 bps above the risk-free U.S. Agencies. Below is the chart that shows the comparison (data: Bloomberg).

Chart: Where The Yields Are Today



Source: CCCERA, Bloomberg

### Long Wharf Real Estate Partners V Introduction

Long Wharf Real Estate Partners is finishing raising Fund V (LREP V), with a target size of \$425 million on September 30, 2016. LREP V has committed over \$160 million of fund equity to nine properties, some of which will likely face mark-up (on valuations) following the final close. The fund's target return is 12%-15% net and the preferred return is 9% for investors.

LREP V will invest in four major property types of commercial real estate: office, retail, multifamily, and industrial. They like *unique properties that can compete well (or have no competition) in the local real estate scene yet very mindful on stabilized yield on cost (SYOC)*. Of the nine properties already acquired by the fund, below is their profiles grouped by location:

**Table: LREP V Existing Property Preview**

Location	Property Sector	Brief Profile	Fund Equity
Atlanta	2 offices, 1 hotel	Upscale office cluster with land upside (already to be realized by LREP V) purged by insurance co via year-end sale; One and only 1-story office in Sugarloaf; One and only modern hotel in the highly successful Avalon development	\$50-70M
Dallas	2 offices	Traditional high end office tower near toll road; Highly sought-after turn-of-the-century brick and timber offices	\$30-50M
San Antonio	1 office	Plain vanilla low cost alternative with food truck drive-thru, very predictable range of outcomes	\$20-40M
Chicago	1 Apartment	Condo-convert that was done, 20 minutes from the airport	\$20-30M
King of Prussia	1 Office	a "B" property in "A" location, another 1-story office in the fund but in a much denser location than Sugarloaf	\$10-20M
Austin	1 Office	Same local partner as San Antonio but with more upside potential	\$10-20M

Long Wharf was spun out of Fidelity Real Estate Group in 2008 when Fidelity decided to exit the institutional real estate markets. After the exit decision by Fidelity, the real estate group began operating autonomously in 2009 and formally formed Long Wharf Real Estate Partners in 2011. Through the process a couple senior members at Fidelity Real Estate Group were not invited to join the new firm. Since operating autonomously in 2009, the real estate team has formed its own investment committee and generated strong performance results. Below is a table summarizing those activities and results, as of June 30, 2016:

**Table: Results of Investments Made Since Group Began Operating Independently**

	No. of Deals	Equity Invested	Realized Proceeds	Current Fair MV	Gross Multiple	Gross IRR	Proj. Net IRR	Proj. Net Multiple
Realized	18	\$382M	\$729M	-----	1.9x	29%	-----	-----
Unrealized	33	\$478M	\$ 68M	\$507M	1.2x	10%	15%	1.8x
Total	51	\$860M	\$797M	\$507M	1.5x	22%	16%	1.6x

Long Wharf is a 100% employees-owned firm. The firm is managed by Michael Elizondo and Jeffrey Gandel, whose bios are below:

Michael was the Executive Managing Director at Fidelity Real Estate Group before he formed Long Wharf Real Estate Partners. Prior to Fidelity he was a Principal at Colony Capital, responsible for many different types of real estate transactions. Michael began his real estate career at Trammell Crow Company and rose up to Executive Vice President at Trammell Crow.

He earned his B.B.A. from Emory University. During his senior year he initiated and helped set up a local racquetball franchise in Atlanta. Later he sold his “sweat” shares of the franchise to the funding partners, then went to Harvard Business School. Michael has over 30 years of real estate experience.

Jeff Gandel is a Managing Director and founding partner of Long Wharf Real Estate Partners. He is also a substantial owner of the firm. Prior to joining Fidelity Real Estate Group in 1995 Jeff was an Associate at Merrill Lynch’s Real Estate Investment Banking Group. Although Jeff’s primary focus is raising capital and client relationships, he is a seasoned real estate investor and sits on the investment committee. Jeff has over 20 years of real estate experience.

### **CCCERA’s Investments in Fidelity Real Estate Funds and Long Wharf Real Estate Fund**

CCCERA has invested in the predecessor funds of LREP V including the funds managed by Fidelity Real Estate Group. Below is a summary table:

*Table: CCCERA’s Investments in Fidelity/Long Wharf Real Estate Funds*

<b>Fund</b>	<b>Vintage Year</b>	<b>Fund Size</b>	<b>CCCERA Commitment</b>	<b>Stage</b>	<b>DPI</b>	<b>TVPI</b>	<b>Net IRR</b>
<b>Fidelity Real Estate Growth Fund II</b>	2004	\$625 million	\$50 million	Closed	0.7x	0.7x	-8%
<b>Fidelity Real Estate Growth Fund III</b>	2008	\$782 million	\$75 million (only \$68M called)	Harvesting	1.1x	1.3x	6.8% (CCCERA internal)
<b>Long Wharf Real Estate Partners IV</b>	2013	\$254 million	\$25 million	Harvesting	0.3x	1.3x	17.4% (CCCERA internal)

#### *Fidelity Real Estate Growth Fund II (FREG II)*

FREG II was fully liquidated in early 2015. This portfolio carried the most legacy transactions from the Fidelity Real Estate Group. Its 49 properties were originated from October, 2003 to January, 2008. The earlier investments were successful (multiple of 1.4x), but the transactions from mid-2005 and on were not, as the team pursued more aggressive deals in the secondary markets in trying to generate higher returns.

#### *Fidelity Real Estate Growth Fund III (FREG III)*

FREG III is the transitional fund from the legacy Fidelity Real Estate Group to Long Wharf Real Estate Partners. There are 12 acquisitions in this fund that the legacy group was responsible for, 11 of which were liquidated to an aggregate investment multiple of 0.9x. FREG III is currently in the final harvesting stage. There are six properties left in the portfolio, with one

marked below 1.0x multiple, one around break-even, the rest all above 1.0x. Long Wharf is projecting distributions of more than \$10 million to CCCERA by liquidating the existing properties by the end of 2017. Below is the table summarizing FREG III's activities:

*Table: Results of FREG III, as of June 30, 2016*

	No. of Deals	Equity Invested	Realized Proceeds	Current Fair MV	Gross Multiple	Gross IRR	Proj. Net IRR	Proj. Net Multiple
<b>Realized</b>	27	\$684M	\$988M	-----	1.4x	11%	-----	-----
<b>Unrealized</b>	6	\$135M	\$ 33M	\$140M	1.3x	5%	7%	1.4x
<b>Total</b>	33	\$819M	\$1,021M	\$140M	1.4x	10%	9%	1.4x

#### *Long Wharf Real Estate Partners IV (LREP IV)*

LREP IV is the first fund launched by the current real estate team since they formed Long Wharf Real Estate Partners. It is a small fund of \$254 million and CCCERA made its commitment before the final close when the fund already committed one-third of its equity to known properties. The fund acquired 22 properties, two of which were realized to a 2.4x multiple and 62% IRR. The existing portfolio has distributed \$33 million and is currently marked at 1.2x multiple and 14% IRR. Long Wharf is projecting distributions of \$25 to \$30 million to CCCERA by liquidating the existing properties by the end of 2018. Below is the table summarizing LREP IV:

*Table: Results of LREP IV, as of June 30, 2016*

	No. of Deals	Equity Invested	Realized Proceeds	Current Fair MV	Gross Multiple	Gross IRR	Proj. Net IRR	Proj. Net Multiple
<b>Realized</b>	2	\$28M	\$65M	-----	2.4x	62%	-----	-----
<b>Unrealized</b>	20	\$235M	\$33M	\$253M	1.2x	14%	19%	1.8x
<b>Total</b>	22	\$263M	\$98M	\$253M	1.3x	23%	18%	1.7x

#### **CCCERA Value-Add Real Estate**

Based on the FFP asset allocation chosen by the Board earlier this year and CCCERA's July 31, 2016 market value of \$7.7 billion, CCCERA has a 4% target allocation, or \$307 million, to value-add real estate. CCCERA's current value-add real estate investments had a market value of approximately \$179 million, and the outstanding commitment is only \$44 million. Given the lagged nature of investing in closed-end real estate, CCCERA historically over-commits 75% relative to the desired target to closed-end real estate in order to achieve the target allocation over time. Based on this analysis, the total amount currently available for CCCERA to commit to value-add real estate funds is approximately \$313 million. These figures are illustrated below:

Table: CCCERA's Availability To Commit to Value-Add Real Estate

	<u>Value (Millions)</u>
CCCERA Total Fund as of 7/31/2016	\$7,664
Value-Add Real Estate @ 4%	\$307
Plus 75% over-commitment	\$230
less	
Closed End Value-Add	\$179
Outstanding Commitment	\$44
<b>Available for Value-Add Real Estate</b>	<b>\$313</b>

CCCERA currently has three value-add real estate managers: Long Wharf, LaSalle, and Invesco. Long Wharf has called all CCCERA's committed capital, and LaSalle has only \$4 million left to call. As CCCERA's total assets grow larger, staff may look into niche strategies and additional GPs as complement to the current three diversified managers to fulfill FFP's Value-Add real estate allocation.

### Risk Discussion

The next table displays the characteristics of closed end real estate funds with CCCERA's representative managers. Value-Added funds target IRRs from high single digit to low-teens, while opportunity and distressed funds target returns in the mid-teens and above. Value-Added funds generally use lower leverage than opportunistic funds, depending on the type of investments and the debt availabilities in the market. The risk displayed here includes both financial risk and operating risk.

Table: Closed End Real Estate Risk Spectrum\*

Strategy	CCCERA Manager	Investment Theme Example	Operating Risk	Financial Leverage	Target Return
Core	None	Office, Retail, Apartment with low vacancy in prime markets	Low	30-50%	Mid-to-High Single
Value-Added	Invesco, Long Wharf, LaSalle	Lease-Up	Medium	50-65%	High Single to Low Teens
Opportunistic	DLJ, Angelo Gordon	Development project	High	60% and above	Mid-Teens and Up
Distressed	Oaktree, Siguler Guff, Paulson	Recapitalization	Medium-High	0-80%	Mid-Teens and Up

\*For illustration of overall industry, does not convey the exact risk and return guidelines of CCCERA's managers. For LREP V, the investment risks may include (but not limit to):

- **Tenant Risk:** Existing tenants may choose to leave instead of paying up rents. Corporate restructuring also creates less demand for working space. Big Box retailers going out of business will cause affected retail properties to lose their anchors;
- **Regional Economy Risk:** Some regions may be "hot" due to cluster effects from certain industries (such as technology, energy) when properties are acquired or built. The "hot" trend may turn "cool" and continue so to the time properties face exit;
- **Interest Rate Risk:** Rate increase, although anticipated, may impact capital markets and real estate values.

### **Summary of Key Terms of LREP V**

Target Return:	12%-15% Net IRR to Limited Partners
Expected Size:	\$425 million
GP Commitment:	\$5 million, pro rata in all transactions
Final Close:	September 30, 2016
Commitment Period:	3 years after the initial closing
Maturity:	Eighth Anniversary after the final closing, with one 1-year extension by GP and another 1-year extension to be approved by the majority interests of Limited Partners
Management Fee:	1.5% of Committed Capital During the Commitment Period; thereafter 1.5% of Invested Capital less Disposed Investments
Key Person:	Either Michael Elizondo Or Jeff Gandel will trigger the clause
Preferred Return:	9% compounded annual return to Limited Partners
Distributions:	i) 100% to LP until it received a 9% compounded annual return on its capital invested; ii) 100% to LP until it has received a return of its capital contributed; iii) 50% GP/50% LP (GP catch up until it received 20% of net distributions); iv) 80% LP/20% GP split.

*Table: Fee Projections of A \$50 Million Commitment to LREP V Over Seven and Half Years*

<i>Net IRR Scenario</i>	<i>9%</i>	<i>12%</i>	<i>15%</i>
<i>Gross Economics to CCCERA</i>	\$77.1 million	\$93 million	\$105 million
<i>M'gmt Fees</i>	\$4.5 million	\$4.5 million	\$4.5 million
<i>Carried Interest</i>	---	\$7.6 million	\$10.1 million
<i>Net CCCERA Distribution</i>	\$22.6 million	\$30.4 million	\$40.4 million



LONG WHARF  
REAL ESTATE PARTNERS



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**LONG WHARF REAL ESTATE PARTNERS V, L.P.**

**Contra Costa County Employees' Retirement Association**

September 28, 2016





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- Section 6: LREP V – Summary of Key Terms
- Section 7: Conclusion
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  - Biographies
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## LREP V – KEY HIGHLIGHTS

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# LREP V – KEY HIGHLIGHTS

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As of September 2, 2016

- **Continuation of Long Wharf’s value-added investment approach**
  - Strategy designed to capture broad array of opportunities
  - Focus on uncovering special situations with intrinsic value
  
- **Modest fund size offers competitive advantage in current market**
  - Provides flexibility to target middle-market assets while selectively considering larger properties
  
- **Strong alignment of interests between CCCERA and Long Wharf**
  - Senior employees making substantial personal investment in LREP V
  
- **Attractive time for CCCERA to invest in LREP V**
  - \$350 million of commitments closed to date
  - 45% of fund’s capital already invested in assets with attractive risk/return profile



## FIRM OVERVIEW

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# LONG WHARF TIMELINE

As of June 30, 2016

**Group begins investing on behalf of institutional clients in 1995**

**Long Wharf team has invested over \$860 million of equity in 51 transactions<sup>1</sup>**

Fidelity Real Estate Group invests in value-added real estate through funds and separate accounts

**1995-2000**

FREG I closes in 2001; FREG II closes in 2004; FREG III closes in early 2008  
  
Spin-out process begins in late 2008

**2001-2008**

Group running as stand-alone business  
  
Spin-out completed; Long Wharf Real Estate Partners legally formed  
  
Fully independent investment manager

**2009-2011**

FREG III investment activity completed in 2012  
  
LREP IV closes in 2013; fully invested by 2015

**2012-2014**

LREP V capital raising begins in 2015  
  
Investment activity begins in second half of 2015  
  
LREP V is sole investment vehicle for Long Wharf

**2015-2016**



**\$2.9 billion of equity invested over 20 years**

<sup>1</sup> Group began operating autonomously as stand-alone business within Fidelity Investments in January 2009 and was legally formed as Long Wharf Real Estate Partners in July 2011.



# LONG WHARF PROFILE

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*An experienced investment manager motivated solely to perform for our clients*

## Experienced

- » Team has been investing in value-added real estate for over 20 years
- » Investment Committee members average 23 years of experience and 16 years working together

## Focused

- » Entire team is dedicated to value-added investment strategy, one fund at a time
- » No competing mandates or portfolios

## Aligned

- » Senior principals make substantial personal investment in LREP V
- » Carried interest distributed across entire organization

## Independent

- » Management company and LREP V general partner are 100% employee-owned
- » No parent company or outside capital partners

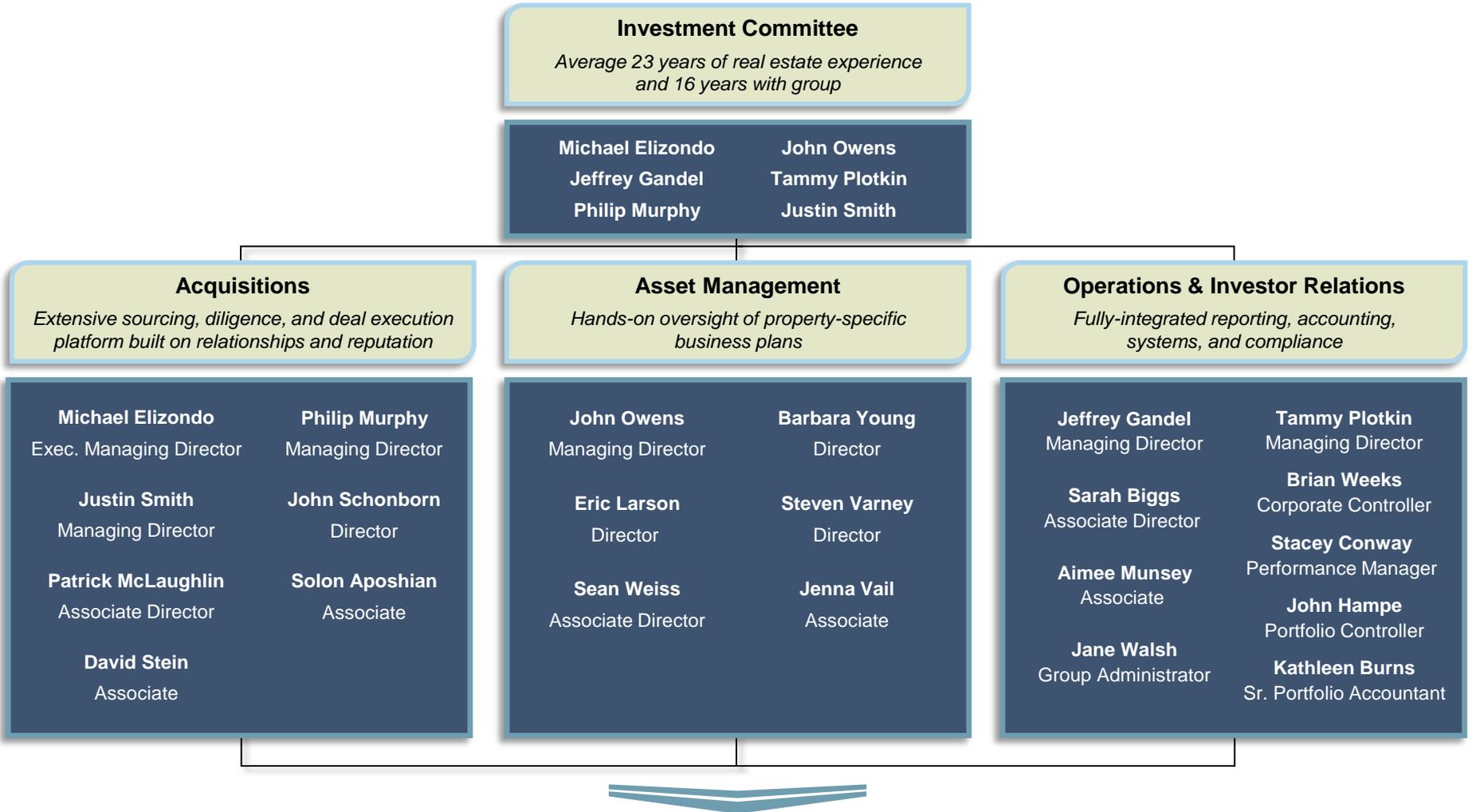
## Resourced

- » Best-in-class systems for accounting, asset management, compliance and client reporting
- » Institutional “DNA” instilled from 14 years inside one of world’s largest money managers



# LONG WHARF ORGANIZATIONAL CHART

As of August 1, 2016



**Entire team 100% dedicated to value-added investing**



# FREG III & LREP IV UPDATE

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# FREG III – CURRENT STATUS

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As of June 30, 2016

- **With most assets fully stabilized, fund actively harvesting investments**
  - 19 investments totaling \$819 million of realized proceeds sold over past three years
  
- **All contributed capital plus portion of profit has been returned**
  - \$908 million distributed to investors to date
  
- **Strong recovery in performance**
  - 20.0% annualized net IRR over past five years; 7.9% annualized net IRR since inception
  
- **Six remaining assets in process of being sold**
  - Substantial distributions to CCCERA projected over next three months



# LREP IV – CURRENT STATUS

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As of June 30, 2016

- **Fund is fully invested**
  - All committed capital has been drawn and invested
  
- **Positive leasing and operational momentum across portfolio**
  - Seasoned holdings are generally on track or ahead of pro forma
  
- **Successful realizations of Richardson Office Portfolio, Willowbrook Plaza and Atlanta TPA Portfolio (first three properties)**
  - Generated 62.5% gross IRR and 2.36x gross equity multiple
  
- **Fund continues to exhibit strong performance**
  - 13.8% annualized net IRR since inception
  
- **Realizations should accelerate in 4Q 2016 and going forward**
  - Substantial distributions to CCCERA projected over next three to six months



# INVESTMENT APPROACH

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Our overall philosophy is built upon these key tenets:

- **Value-oriented approach to real estate investing**
  - Focus on cost basis relative to asset quality, location, and competing properties
  
- **Emphasis on stabilized unlevered yield-on-cost**
  - Reduce reliance on capital markets to achieve return objectives
  
- **Flexibility and experience to invest across sectors and markets**
  - Adapt to changes in relative pricing
  
- **Ability to employ multiple value-creation strategies**
  - Proven experience executing broad array of property-specific strategies
  
- **Focus on middle-market assets**
  - Smaller properties generally offer more attractive relative value
  
- **Consideration of opportunities across value-added return spectrum**
  - Focus on risk-adjusted returns rather than strict nominal return threshold

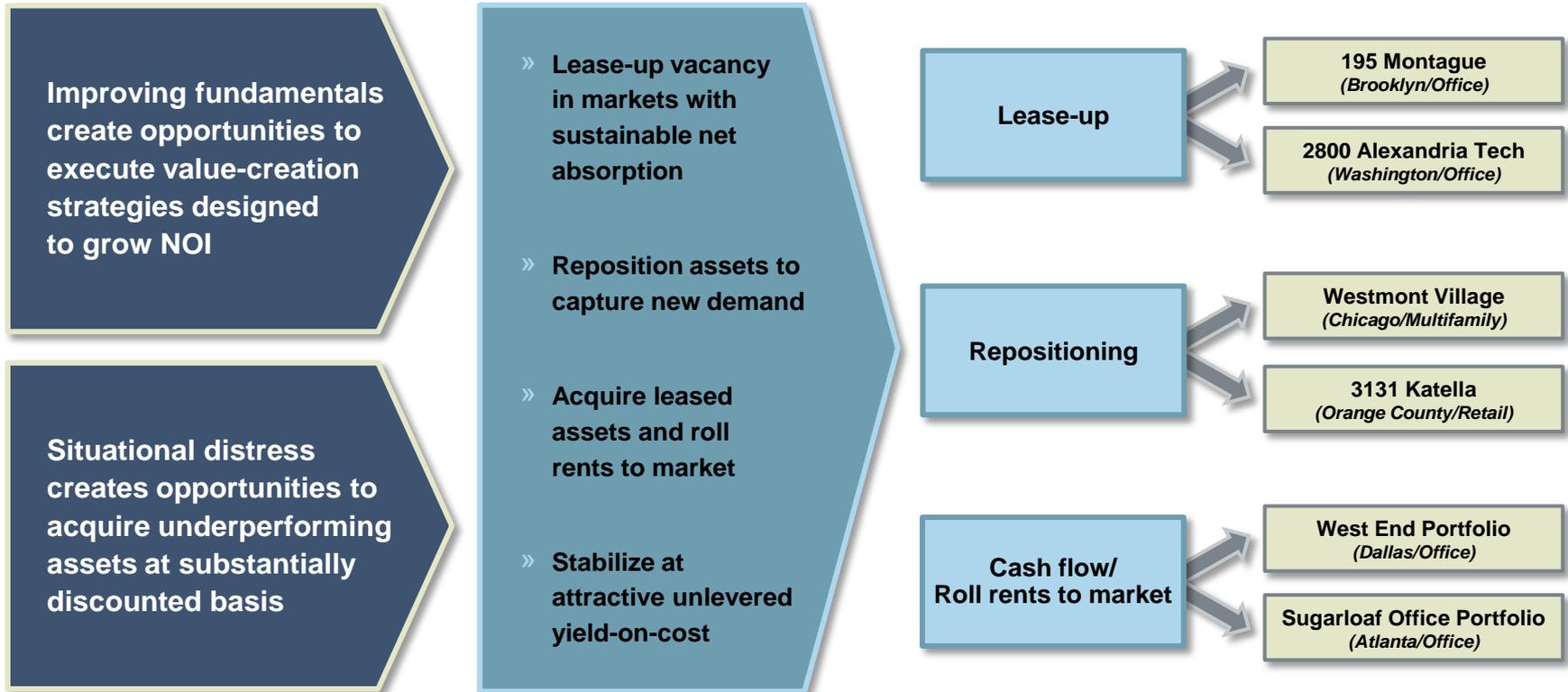


# CURRENT INVESTMENT STRATEGY

Opportunity created by improving fundamentals and pockets of situational distress

Create value through multiple property-specific strategies

Bottom-up approach seeking most attractive risk-adjusted opportunities





LONG WHARF REAL ESTATE PARTNERS V, L.P.

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# LREP V – KEY HIGHLIGHTS

As of August 1, 2016

## Key Highlights<sup>1</sup>

- » Target size of \$350 million
- » Target IRR of 12-15% (net)
- » U.S.-only value-added strategy
- » Portfolio leverage ceiling of 65%
- » Limitations on asset/sector/market exposure
- » \$5 million investment from GP

### Value-added strategy designed to capture broad array of opportunities

- » Flexibility to invest across sectors/markets to find attractive relative value
- » Proven experience executing multiple value-creation strategies

### Modest fund size provides advantage in current market

- » Allows flexibility to focus on middle-market assets while selectively considering larger properties
- » Reduces “weight of capital” in market with rising asset prices

### Portfolio of existing assets with attractive risk/return profile

- » Over \$160 million of equity invested in nine transactions closed to date
- » In-place pipeline of attractive investment opportunities

### Strong alignment of interests between GP and LPs

- » Senior principals investing \$5 million in fund
- » Performance-oriented fee structure; no ancillary/affiliate fees

<sup>1</sup> Please see slide titled “LREP V – Summary of Key Terms” for more information on the fund’s key terms.



# LREP V – CURRENT STATUS

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As of August 1, 2016

- **\$350 million of capital commitments closed to date**
  - Target size of \$350 million
  
- **Nine investments closed to date representing \$160 million of invested equity**
  - 45% of fund's capital already put to work
  
- **Attractive mix of properties in portfolio**
  - Compelling balance of current cash-flow and capital appreciation potential
  
- **Robust pipeline of investment opportunities in-place**
  - Three additional investments expected to close in 4Q 2016



## Description:

<b>Market:</b>	Atlanta, GA
<b>Property Type:</b>	Office
<b>Size:</b>	416,000 sf
<b>LREP V Equity:</b>	\$27.5 million
<b>Occupancy at Purchase:</b>	85%
<b>Purchase Price as % of Estimated Replacement Cost:</b>	60%
<b>Investment Date:</b>	December 2015

## Overview:

- Acquisition of 416,000 sf, three-building Class A office complex and 55 acres of mixed-use zoned land in North Fulton submarket
- 85% occupied at acquisition with global and national tenants
- Exceptional interstate access and surrounded by rich amenity base
- Acquired at 60% of replacement cost or \$173/sf
- Hurried sale process by motivated seller narrowed buyer pool and dampened pricing; land purchased at substantial discount to current market value

## Strategy:

- Modest lease-up and roll rents to market (in-place rents 10-15% below market)
- Execute proactive leasing and management plan with highly experienced local partner
- Evaluate options to unlock embedded value in land

## Status Update<sup>1</sup>:

- Executed P&S to sell 22 acres of land at substantial profit
- Currently 90% leased
- Commenced lobby and common area improvements
- Signed 25,000 sf expansion with existing tenant and extended lease term by seven years

<sup>1</sup> As of June 30, 2016.  
Please see Case Study Disclosures in Important Information.



# CHICAGO APARTMENTS



## Description:

<b>Market:</b>	Chicago, IL
<b>Property Type:</b>	Multifamily
<b>Size:</b>	558 units
<b>LREP V Equity:</b>	\$20.2 million
<b>Occupancy at Purchase:</b>	95%
<b>Purchase Price as % of Estimated Replacement Cost:</b>	45%
<b>Investment Date:</b>	October 2015

## Overview:

- Off-market acquisition of 558-unit multifamily project in Westmont, IL
- Ownership structure consisted of 93 individual ownership interests of six apartments each
- In-fill location with high barriers-to-entry and surrounded by high-quality middle class neighborhoods

## Strategy:

- Take control of HOA and collapse to one ownership interest
- Execute exterior and interior capital improvement plan
- Install institutional quality property management and leasing

## Status Update<sup>1</sup>:

- Acquired all 93 individual ownership interests as of January 2016
- Gained control of HOA and completed renaming and rebranding of asset
- Replatting as one multifamily parcel expected to be completed by October 2016
- 95% of available units are leased
- New property management team in place; opened temporary leasing center
- Commenced capital improvement program

<sup>1</sup> As of June 30, 2016.

Please see Case Study Disclosures in Important Information.



# DALLAS CREATIVE OFFICE PORTFOLIO



## Description:

<b>Market:</b>	Dallas, TX
<b>Property Type:</b>	Office
<b>Size:</b>	223,000 sf
<b>LREP V Equity:</b>	\$12.5 million
<b>Occupancy at Purchase:</b>	88%
<b>Purchase Price as % of Estimated Replacement Cost:</b>	60%
<b>Investment Date:</b>	November 2015

## Overview:

- Acquisition of 223,000 sf, four-building creative office portfolio in historic West End district of downtown Dallas
- Off-market acquisition provides compelling entry basis of \$158/sf vs. recent sale comps of ~\$200/sf
- All buildings proximate to public transportation, highway access, and retail amenities
- Going-in yield of 6.8% on 88% occupancy at acquisition
- Portfolio represents critical mass in fragmented submarket with unsophisticated ownership

## Strategy:

- Capitalize on rapidly growing demand for creative office space in market with extremely limited inventory
- Roll rents to market as leases expire; in-place rents 40% below market

## Status Update<sup>1</sup>:

- 88% leased and occupied
- Engaged leasing broker for retail spaces and completed marketing brochure for portfolio
- Executed 4,800 sf lease at rent 32% higher than pro forma
- Leasing pipeline remains active with number of prospects ranging from 8,000 – 20,000 sf

<sup>1</sup> As of June 30, 2016.

Please see Case Study Disclosures in Important Information.



## LREP V – SUMMARY OF KEY TERMS

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# LREP V – SUMMARY OF KEY TERMS

As of June 30, 2016

<b>Target Size</b>	» \$350 million
<b>Target Return</b>	» 12-15% annualized IRR net of all fees and expenses
<b>Investment Period</b>	» Three years from final closing date
<b>Term</b>	» Eight years from final closing date
<b>Management Fee</b>	» 1.5% per annum on committed capital during investment period; 1.5% per annum on invested equity thereafter
<b>Other Fees</b>	» None
<b>Carried Interest</b>	» Based on following distribution schedule of aggregate proceeds: (i) first, 9% preferred return on contributed capital, (ii) return of contributed capital, (iii) 50% to LPs and 50% to GP until GP receives 20% of distributions above contributed capital, and (iv) 80% to LPs and 20% to GP
<b>Long Wharf Investment</b>	» \$5 million (entirely from Long Wharf principals)

Please see Important Information for additional disclaimers.



## CONCLUSION

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## WHY SHOULD CCCERA INVEST IN LREP V?

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- Investment strategy designed to capitalize on current market opportunities
- Focus on stabilized unlevered yield-on-cost reduces reliance on capital markets to achieve return objectives
- 100% employee ownership of Long Wharf and general partner creates true alignment of interest with our limited partners
- Fee structure designed to reward performance (no ancillary fees of any kind)
- Existing portfolio of assets that offer potential for attractive risk-adjusted returns
- Proven investment performance as an independent firm
- ***Strong motivation to perform for CCCERA to reward your long-term trust in Long Wharf***



# APPENDIX

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# BIOGRAPHIES

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**Michael L. Elizondo****EXECUTIVE MANAGING DIRECTOR**

Michael is the Executive Managing Director of Long Wharf Real Estate Partners. In this role, he is responsible for the strategic direction and investment strategy of the firm. Prior to the founding of Long Wharf, Michael was the Executive Managing Director of the Fidelity Real Estate Group, where he spent over 16 years. In addition to being responsible for the overall strategy of the group, he was directly involved in over 55 value-added investments with a gross real estate value of more than \$2.5 billion.

Prior to joining Fidelity in 1995, Michael was a Principal at Colony Capital. At Colony, he was responsible for managing, originating, structuring, and consummating various types of real estate transactions, including portfolio acquisitions of performing, sub-performing, and non-performing debt, REO assets, single asset acquisitions, and development joint ventures. Michael began his real estate career in 1983 leasing, developing and owning many projects with Trammell Crow Company. He later became a Partner, Managing Director and Executive Vice President of Trammell Crow Company in Southern California. He has 33 years of experience in real estate investment management. Michael earned his B.B.A. from Emory University and his M.B.A. from Harvard University.

**Jeffrey S. Gandel****MANAGING DIRECTOR**

Jeff is a Managing Director of Long Wharf Real Estate Partners, with primary responsibility for fund development, capital raising and investor relations. He is also a member of Long Wharf's Investment Committee and works closely with the acquisitions, asset management and finance teams on portfolio management and capital markets activities. Previously, Jeff was a Managing Director of the Fidelity Real Estate Group. He worked at Fidelity Investments for over 16 years where he developed investment vehicles and raised institutional capital for a wide range of real estate strategies, including value-added private equity funds, high yield real estate debt portfolios and U.S. and global real estate equity securities accounts.

Prior to joining Fidelity in 1995, Jeff was an Associate in the Investment Banking Group at Merrill Lynch, working with general partners to structure and raise capital for real estate and private equity funds. Jeff has 24 years of experience in the real estate and alternative investments markets. Jeff earned his B.A. in Economics from Tufts University.

**Sarah U. Biggs****ASSOCIATE DIRECTOR**

Sarah is an Associate Director at Long Wharf Real Estate Partners, with primary responsibility for investor relations and capital raising. Prior to joining Long Wharf in 2013, Sarah was a Senior Associate on the Investor Relations team at Bain Capital. In that role, she focused on fundraising, marketing, and communications for their private equity and venture capital funds.

Previously, Sarah was a Financial Analyst in the Private Wealth Management group at Goldman Sachs in New York, working with high net worth families, individuals, and endowments and foundations. Sarah earned her B.A. in English from Princeton University.



## IMPORTANT INFORMATION

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# IMPORTANT INFORMATION

## **Forward-Looking Statements**

The Projected Multiples and IRRs are as of June 30, 2016, unless otherwise noted. Projected Multiples and IRRs for unrealized investments are based on actual cash flows to date plus currently projected cash flows throughout the expected life of each investment. Current projections are based on key assumptions made by Long Wharf at the time of initial underwriting or as of a particular date. While Long Wharf believes these assumptions to be reasonable and sound under the circumstances, the actual performance of unrealized investments may differ materially from the projections based on the performance of a real estate investment and its actual value on the date of disposition. Thus, no assurance can be made that Long Wharf's projections will be achieved. Projected Multiples and IRRs are gross of fund-level fees and expenses and inclusive of leverage unless otherwise noted. Investment Level Performance shown is calculated by using the Internal Rate of Return method (IRR), taking into consideration net cash flows and investment costs. Investment level performance data does not reflect the deduction of fund level fees (inclusive of investment advisory fees) and expenses. Returns will be reduced by such fees and any other expenses the funds may incur in the management of its investments. By way of example, investment management fees of 1% compounded over a 10-year period would reduce a 10% return to an annual 8.9% annual return. Investment advisory fees are described in Part 2A of the adviser's Form ADV. The private fund is not required by law to follow any standard methodology when calculating and representing performance data; and the performance of the fund may not be directly comparable to the performance of other private or registered funds. The Fund is only available to accredited investors; the Fund would be exempt from the registration requirements of the Securities Act and therefore would not have to comply with specific disclosure requirements under the Securities Act; The SEC has not passed on the merits of the securities, the offering, or the accuracy or completeness of any offering material. The Fund will be subject to legal restrictions on transfer and resale. Investing in the Fund involves risk, and investors should be able to bear the loss of their investment. Additional information on Long Wharf's prior performance, and its valuation and performance calculation methodologies, is available upon request.

## *Past Performance Not a Predictor of Future Results*

The presentation of the track record of Long Wharf is not intended to imply and does not predict (directly or indirectly) any level of future performance of Long Wharf or the Fund. Long Wharf's current and future performance and the performance of the Fund is dependent on future events and is, therefore, inherently uncertain. Past performance cannot be relied upon to predict future events for a variety of reasons, including, without limitation, varying business strategies, different Investments, local and national economic circumstances, supply and demand characteristics, degrees of competition and other circumstances pertaining to the capital markets.

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## **Case Study Disclosures**

There is no assurance that the representative strategies put forth in these case studies will be successful for future investments or that Long Wharf will be able to participate in comparable opportunities with similar terms in the future. Past performance is no guarantee of future results.

## **Company Names**

"Long Wharf" or "LWREP" refers to Long Wharf Real Estate Partners LLC.

"Fidelity Investments" refers collectively to FMR LLC, a U.S. company, and its subsidiaries, including but not limited to Fidelity Management & Research Company (FMR Co.), Fidelity Management & Research Company, Inc. (FMR Co. Inc.) and Fidelity Institutional Asset Management Trust (FIAM) formerly known as Pyramis Global Advisors Trust Company. "Fidelity" refers collectively to Pyramis and/or Fidelity Investments. All trademarks and service marks, which belong to their respective owners.

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## ***MEMORANDUM***

**Date:** September 16, 2016

**To:** CCCERA Board of Retirement

**From:** Timothy Price, Chief Investment Officer; Chih-chi Chu, Investment Analyst

**Subject:** LaSalle Income & Growth Fund VII

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### **Recommendation**

We recommend the Board make a capital commitment of \$75 million to LaSalle Income & Growth Fund VII (LIGF VII, or Fund VII), subject to satisfactory due diligence and legal review.

This recommendation is based upon the following factors:

1. CCCERA remains constructive, albeit cautious, on the value-add real estate segment.
2. CCCERA has a 4% target allocation to value-add real estate and needs to make new commitments to maintain the target exposure.
3. CCCERA Investment Staff remain confident on LaSalle Investment Management's ability to find quality assets in this fair valuation environment.

LIGF VII is sponsored by LaSalle Investment Management, whose parent company, JLL, is a global premier commercial real estate services company. LaSalle targets to raise \$750 million for LIGF VII by October, 2016. Below is CCCERA's current exposure to LaSalle Investment Management:

*Table: CCCERA's Total Exposure to LaSalle Investment Management*

<b>Fund</b>	<b>Vintage Year</b>	<b>Fund Size</b>	<b>CCCERA Commitment</b>	<b>Stage</b>
<b>LaSalle Income &amp; Growth Fund VI (Fund VI)</b>	2012	\$363 million	\$75 million (only \$71 million called)	Harvesting

When CCCERA committed to Fund VI, there was no investment made by the fund. As of the date of this memo Fund VII has invested in two income-producing properties (one in Walnut Creek, the other in downtown San Diego) with a total equity commitment of \$120 million. Additionally, Fund VII will charge the management fee based on invested amount, a departure from previous funds' charge on investors' commitment amount.

**Commercial Real Estate Market Overview**

The values of commercial real estate properties (such as office, retail, multi-family, Industrial, etc.) have come back steadily since the great recession, aided first by loose monetary policies then supported by the improvement of real estate fundamentals discussed below:

*Office*

For office demand, since the fourth quarter, 2010 (the first such quarter to see all three months with net gain on employment), U.S. non-farm payroll has added more than 14 million jobs, more than offsetting the 8 million jobs lost from the first quarter, 2008 to the third quarter, 2010 (source: Bureau of Labor Statistics). Below is the monthly total non-farm employee net gain (loss if negative) since 2006, number in thousands:

*Table: U.S. Total Nonfarm Payroll Monthly Gain, 2006 to 2016*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	278	316	281	183	23	82	207	181	158	4	208	171
2007	240	90	189	79	143	78	-33	-24	88	85	115	97
2008	19	-86	-78	-210	-185	-165	-209	-266	-452	-473	-769	-695
2009	-791	-703	-823	-686	-351	-470	-329	-212	-219	-200	-7	-279
2010	28	-69	163	243	522	-133	-70	-34	-52	257	123	88
2011	42	188	225	346	73	235	70	107	246	202	146	207
2012	338	257	239	75	115	87	143	190	181	132	149	243
2013	190	311	135	192	218	146	140	269	185	189	291	45
2014	187	168	272	310	213	306	232	218	286	200	331	292
2015	221	265	84	251	273	228	277	150	149	295	280	271
2016	168	233	186	144	24	292	255	151				

Source: BLS

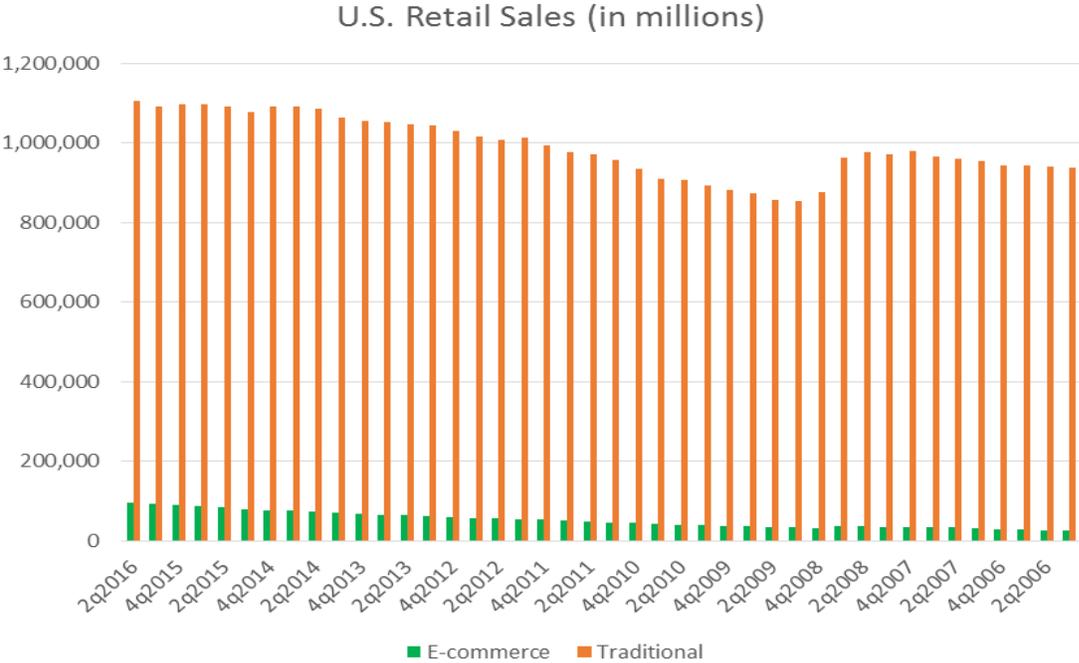
Meanwhile the average annual new office supply from 2011 to 2015 was down 65% from the prior 10 years (source: CoStar Portfolio Strategy). This mismatch of demand and supply during the recovery stage has caused the decrease of office vacancy and the increase of rent in strongly recovering cities, although the overall annual net absorption (in square footage) in U.S. has come down in 2016 from the post great recession high in 2015. As the supply of new offices catches on, unique properties with low or reasonable cost bases will compete better.

*Retail*

On the retail front, the U.S. retail sales are stronger than pre-recession levels, exceeding \$1 trillion in the first quarter of 2011 since the third quarter of 2008. The most recent 2<sup>nd</sup>

quarter's (of 2016) number is \$1.2 trillion, including \$97 billion from E-commerce sales, surpassing the previous high of \$1.012 trillion (including \$37 billion from E-commerce) in the second quarter of 2008. Below is the chart from U.S. Census Bureau tracking the quarterly retail sales in U.S.

Chart: Resilient U.S. Retail Sector, from 2006 to 2016



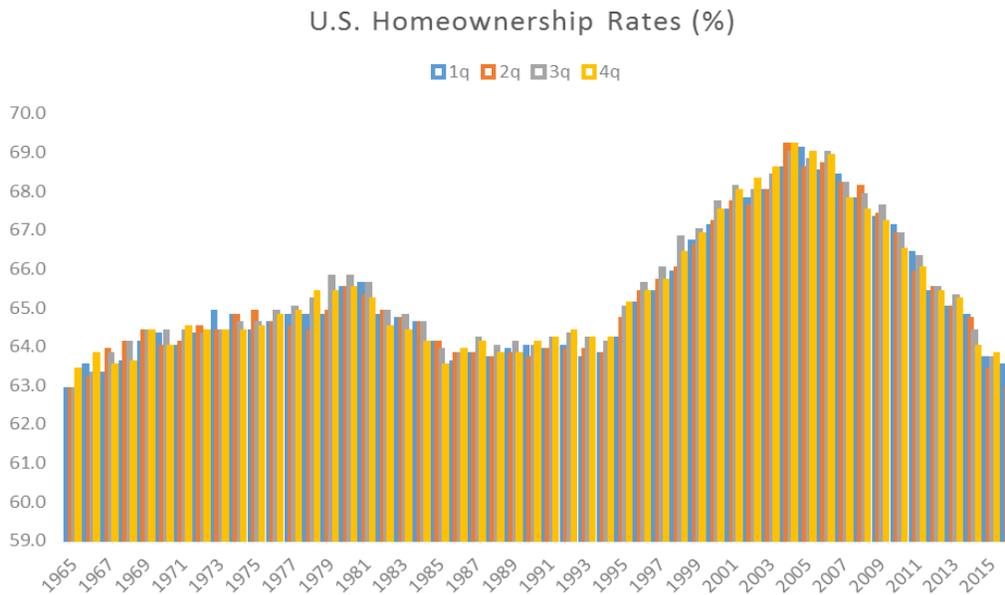
Source: U.S. Census Bureau

The overall retail growth since 2009 can be characterized as steady, between low and mid-single digit. Although the traditional retail growth is outshined by the double digit growth rate from E-commerce, the traditional retail has defied popular sentiment as a dying breed. In fact many population centers are running out of retail space, and urban redevelopment incorporating walk-friendly, events-laden retail environment continues to gather strong momentum from local constituents.

**Apartments**

Multi-family (apartments) has been the strongest performing sector in commercial real estate since the great recession, aided by the declining homeownership rate. Homeownership rate peaked at 69.2% in the fourth quarter of 2004 but sank to the historical lows of 62.9% in the second quarter of 2016, equaling the first three quarters of 1965, the first year such data was tracked. See the chart below:

Chart: U.S. Homeownership Rate All Time Low

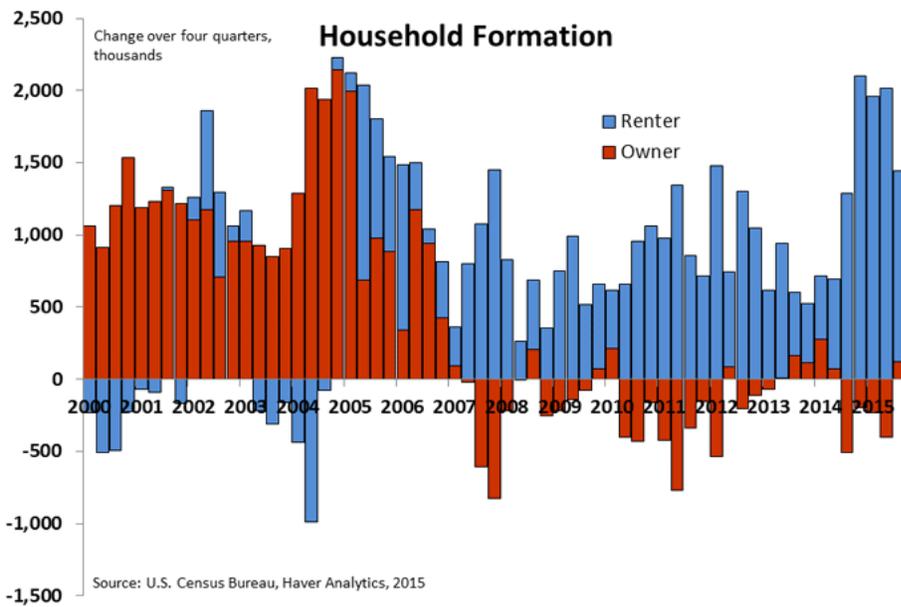


Source: U.S. Census Bureau

The homeownership rate's decline continues despite the bounce of household formation since the great recession, as more newly formed households are renting (see the chart below).

Chart: "Rent" triumphs "Own" since Recovery

An increase of 1.3 million rental households over past 4 quarters.



Source: reit.com



The homeownership rate decline can be attributed by the affordability of houses, evolving living arrangements, and the availability of mortgages and moderate-paying jobs. For example, Census Bureau published a study comparing “30-year-olds then (1975) and now (2015)”. In 2015 more 30-year-olds have earned at least a high school diploma and are in the labor force, yet fewer (55% in 2015 v 71% in 1975) are earning a moderate income (between 66% and 200% of or are homeowners).

With the surge of supply for new construction of apartments, the demand is being answered quickly. But supply-demand dynamics remains favorable to apartment owners in areas with excellent school districts, job growth, and access to public transit systems.

### *Industrial*

Last but not the least is the industrial sector, which actually has the highest net property absorption growth rate since the recovery (source: CoStar Portfolio Strategy), stimulated by the strong demand on warehouses, in large part due to the rapid growth of e-commerce. Similar to office, there wasn’t a whole lot of new construction of warehouses during the great recession, creating more supply-demand imbalance during the recovery stage. Although the overall net absorption of industrial has come down from the post great recession high in 2015, the “last mile” locations to large urban centers continue to be in demand.

### **Uneven Recovery**

The real estate recovery that first happened in the gateway cities is now spilling over to large cities that have strong job growth. Below is a list of the top population growth cities from 2014 to 2015, among which LaSalle Income & Growth Funds have scored very well, either directly in the mentioned metropolis or nearby areas.

**Table: Top 15 Population Growth Cities in U.S., 2014 - 2015**

City	Population Growth	Total Population	Notes
1, Houston-Woodlands-Sugar Land, TX	+159,083	6.66 million	LaSalle V has NATMI Truck Terminal.
2, Dallas-Fort Worth-Arlington, TX	+144,704	7.1 million	LaSalle V has two properties: Las Collinas and 925 Main Street; LaSalle VI has Alesio Urban Ctr.
3, Atlanta-Sandy Springs-Roswell, GA	+95,431	5.71 million	
4, Phoenix-Mesa-Scottsdale, AZ	+87,988	4.57 million	LaSalle V has two properties: NATMI Truck Terminal and Shade at Desert Ridge.
5, New York-Newark-Jersey City, NY-NJ	+87,186	20.18 million	LW IV has two properties: 195 Montague and 133 West 52nd Street. LaSalle V has NATMI Truck Terminal.

6, Los Angeles-Long Beach-Anaheim, CA	+85,671	13.34 million	LW IV has 3131 Katella. LaSalle V has NATMI Truck terminal; LaSalle VI has South Park Ctr.
7, Miami-Fort Lauderdale-West Palm Beach, FL	+75,231	6.01 million	LaSalle V has NATMI Truck Terminal and Miami Tower.
8, Washington-Arlington-Alexandria, DC-VA-WV	+63,793	6.09 million	LaSalle V has three properties: NATMI Truck Terminal, Orchard Pond apt, and Mission Ridge; LaSalle VI has 1620 L street NW.
9, Seattle-Tacoma-Bellevue, WA	+60,714	3.73 million	LaSalle V has three properties: NATMI Truck Terminal, Broadway Market, and Puyallup Distri ctr; VI has Sumner Industrial.
10, Orlando-Kissimmee-Sanford, FL	+60,409	2.38 million	LaSalle V has NATMI Truck Terminal portfolio.
11, San Francisco-Oakland-Hayward, CA	+60,152	4.65 million	LaSalle V has Waterfront Plaza and Bay Street Emeryville; VI has Crossing @880; VII has Ygnacio Ctr.
12, Denver-Aurora-Lakewood, CO	+58,474	2.81 million	LaSalle V has three properties: NATMI Truck Terminal, Denver WTC, and Observatory Park; LaSalle VI has Writer Square.
13, Tampa-St. Petersburg-Clearwater, FL	+57,412	2.97 million	
14, Austin-Round Rock, TX	+57,395	2 million	LaSalle VI has the Summit at Lantana.
15, San Antonio-New Braunfels, TX	+51,285	2.38 million	LaSalle V has Vantage at Fair Oaks.

### LaSalle Income & Growth Fund VII Preview

LaSalle Investment Management is finishing raising LaSalle Income & Growth Fund VII (LIGF VII), with a target size of \$750 million on October 31, 2016. LIGF VII has committed \$120 million of fund equity to two properties, both with high occupancy rates and strong current incomes. The fund's target return is 14%-16% gross and the preferred return is 9% for investors. Below is the table that summarizes Fund VII's two investments:

*Table: LIGF VII Existing Property Preview*

Location	Property Sector	Brief Profile	Fund Equity
Walnut Creek	1 office	Pressured seller lacking TI (tenant improvement) capital resulted an underperforming asset in a rising neighborhood.	\$50-70M
San Diego	1 office	Trending up downtown area provides this class-A property with excellent NOI growth potential.	\$50-70M

LIGF VII will invest in four major property types of commercial real estate: office, retail, multifamily, and industrial. Below are Fund VII’s investment directions on these properties:

For office investments LIGF VII will focus on market with the best prospects for job growth, buy properties with below replacement cost and good in-place rent income. They like transit oriented or amenity rich properties that bode well for future office trends. Office is projected to represent the largest share of Fund VII’s investments.

For multi-family LIGF VII will focus on apartment properties in infill/urban areas, preferably with smaller unit sizes but a full set of amenities. Multifamily is projected to trail only office in share of Fund VII’S investments.

For retail LIGF VII will target mix-use opportunities where it can add medical offices or food/entertainment component. It will avoid spaces without anchors, but open to well-located centers that have a high risk of anchor departure priced in. Retail is likely to be a minority of fund VII’s investments, as its outcome is more binary with failure often hard to fix.

For industrial LIGF VII will target properties in in-fill locations. This type of industrial property is key component to same-day logistics spurred by surging e-commerce. The industrial is likely to be a small share of Fund VII’s investments, as value-add properties are harder to find and development is increasingly targeted by build-to-core investors.

### **LaSalle Investment Management Introduction**

LaSalle Investment Management is a wholly-owned but operationally independent subsidiary of Jones Lang LaSalle (JLL). JLL is a recognized global real estate services provider. Its vast commercial real estate brokerage networks gives LaSalle Investment Management excellent read on real estate market pulses, as the first hand rent data and trends from both real estate suppliers and users flow into LaSalle’s research group quickly. In fact both Fund VII’s fund level and firm level investment committees include senior members from LaSalle’s research group, and the results have been consistent performance over the cycles. Below is a table summarizing LaSalle Income & Growth Fund franchise’s results, as of June 30, 2016:

*Table: Results of LaSalle Income & Growth Funds*

	Vintage	Equity Invested	Gross IRR	Gross Multiple	Income Return	Fund Status
<b>Fund VI</b>	2012	\$363M	19.2%	1.5x	5.7%	Liquidating
Fund V	2007	\$729M	15.4%	1.8x	8.4%	Finished
Fund IV	2005	\$509M	-4.2%	0.8x	3.6%	Finished
Fund III	2002	\$168M	10.5%	1.6x	6.8%	Finished
Fund II	1999	\$199M	23.3%	2.0x	9.2%	Finished d
Fund I	1996	\$109M	11.5%	1.6x	7.4%	Finished

LaSalle Income & Growth Fund VII is managed by Jim Hutchinson and Joe Munoz, whose bios are below:

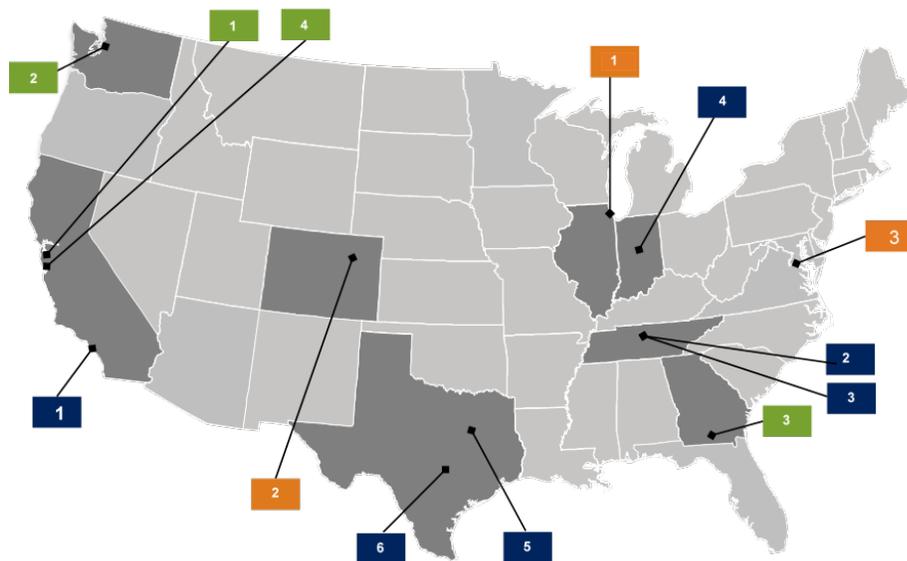
Jim has been with LaSalle for 30 years. He leads the Income & Growth Funds since the beginning. Prior to LaSalle Jim was a senior member in the audit division of Deloitte & Touche’s Chicago practices. He earned a BA in Mathematics from Brown University and MBA from Indiana University. Jim is well known in the institutional real estate community. He plans to retire in 2020 and pass the torch to Joe.

Joe started his career in LaSalle Investment Management’s Acquisition Group that does real estate acquisitions for the whole LaSalle Group. He specializes in the retail sector. Joe has been fully engaged with LaSalle Income & Growth franchise since the beginning of Fund V. Prior to LaSalle Joe was a real estate lending officer in Chicago. Joe earned his BA from University of Pennsylvania and MBA from Northwestern University while working at LaSalle.

### **CCCERA’s Investment in LaSalle Income & Growth Fund VI**

LaSalle Income & Growth Fund VI is CCCERA’s first LaSalle commitment. Fund VI was selected by CCCERA Board through an open RFP process in 2011. CCCERA made Fund VI’s first closing therefore received a fee discount. Eventually Fund VI acquired 13 properties, four of which were realized, returning more than \$29 million to CCCERA. LaSalle is projecting distributions of another \$30 million to CCCERA by the end of this year. Below is the property map of LaSalle Income & Growth Fund VI’s investments:

Chart: LaSalle Income & Growth Fund VI Property Map by Stage



**SOLD – OWNED – ON THE MARKET**

Overall, Fund VI’s gross IRR based on June 30, 2016’s fair market value is 19%; the gross multiple is 1.5x. The projected net IRR of Fund VI is 15%, and the net multiple is 1.7x.

**CCCERA Value-Add Real Estate**

Based on the FFP asset allocation chosen by the Board earlier this year and CCCERA’s July 31, 2016 market value of \$7.7 billion, CCCERA has a 4% target allocation, or \$307 million, to value-add real estate. CCCERA’s current value-add real estate investments had a market value of approximately \$179 million, and the outstanding commitment is only \$44 million. Given the lagged nature of investing in closed-end real estate, CCCERA historically over-commits 75% relative to the desired target to closed-end real estate in order to achieve the target allocation over time. Based on this analysis, the total amount currently available for CCCERA to commit to value-add real estate funds is approximately \$313 million. These figures are illustrated below:

Table: CCCERA’s Availability To Commit to Value-Add Real Estate

	<u>Value (Millions)</u>
CCCERA Total Fund as of 7/31/2016	\$7,664
Value-Add Real Estate @ 4%	\$307
Plus 75% over-commitment	\$230
less	
Closed End Value-Add	\$179
Outstanding Commitment	\$44
<b>Available for Value-Add Real Estate</b>	<b>\$313</b>

CCCERA currently has three value-add real estate managers: Long Wharf, LaSalle, and Invesco. Long Wharf has called all CCCERA’s committed capital, and LaSalle has only \$4 million left to call. As CCCERA’s total assets grow larger, staff may look into niche strategies and additional GPs as complement to the current three diversified managers to fulfill FFP’s Value-Add real estate allocation.

**Risk Discussion**

The next table displays the characteristics of closed end real estate funds with CCCERA’s representative managers. Value-Added funds target IRRs from high single digit to low-teens, while opportunity and distressed funds target returns in the mid-teens and above. Value-Added funds generally use lower leverage than opportunistic funds, depending on the type of investments and the debt availabilities in the market. The risk displayed here includes both financial risk and operating risk.

*Table: Closed End Real Estate Risk Spectrum\**

Strategy	CCCERA Manager	Investment Theme Example	Operating Risk	Financial Leverage	Target Return
Core	None	Office, Retail, Apartment with low vacancy in prime markets	Low	30-50%	Mid-to-High Single
Value-Added	Invesco, Long Wharf, LaSalle	Lease-Up	Medium	50-65%	High Single to Low Teens
Opportunistic	DLJ, Angelo Gordon	Development project	High	60-75%	Mid-Teens and Up
Distressed	Oaktree, Siguler Guff, Paulson	Recapitalization	Medium-High	0-80%	Mid-Teens and Up

\*For illustration of overall industry, does not convey the exact risk and return guidelines of CCCERA’s managers.

For LIGF VI, the investment risks may include (but is not limited to):

- Tenant Risk: Existing tenants may choose to leave instead of paying up rents. Corporate restructuring also creates less demand for working space;

- Regional Economy Risk: Some regions may be “hot” due to cluster effects from certain industries (such as technology, energy) when properties are acquired or built. The “hot” trend may turn “cool” and continue so to the time properties face exit;
- Interest Rate Risk: Rate increase, although anticipated, may impact capital markets and real estate values.

### **Summary of Key Terms of LIGF VI**

Target Return:	14%-16% Gross IRR to Limited Partners
Expected Size:	\$750 million
GP Commitment:	Greater of \$15 million or 3% of the fund up to \$22.5 million
Final Close:	October 31, 2016
Investment Period:	3 years after the initial closing
Maturity:	Five years after the end of the investment, with one 1-year extension by GP and another 1-year extension to be approved by Advisory Committee
Management Fee:	1.15% of Invested Capital Base
Key Person:	Both Jim Hutchinson and Joe Munoz
Preferred Return:	9% compounded annual return to Limited Partners
Distributions:	<ul style="list-style-type: none"> <li>i) 100% to LP until it has received a return of its capital contributed;</li> <li>ii) 100% to LP until it received a 9% annual preferred return on its capital invested;</li> <li>iii) 80% LP/20% GP until LP received 13% of annual preferred return;</li> <li>iv) 60% LP/40% GP until GP received 20% of distributions to LP;</li> <li>v) 80% LP/20% GP</li> </ul>

*Table: Fee Projections of A \$75 Million Commitment to LREP VII*

<i>Net IRR Scenario</i>	<i>9%</i>	<i>12%</i>	<i>15%</i>
<i>Gross Economics to CCCERA</i>	\$110 million	\$127 million	\$146 million
<i>M'gmt Fees</i>	\$4.8 million	\$4.8 million	\$4.8 million
<i>Carried Interest</i>	--	\$4.2 million	\$8.4 million
<i>Net CCCERA Distribution</i>	\$30 million	\$43 million	\$58 million



# LASALLE INCOME & GROWTH FUND VII

September 2016

Presenters

Jim Hutchinson, President  
Joe Munoz, Investment Officer  
Matthew Walley, Client Services

# Executive Summary

## LaSalle Income & Growth Fund VII

- The 7<sup>th</sup> fund in a series of US value-add real estate funds that started in 1996
  - A continuation of a successful investment practice in the 4 major property types across the US
  
- Strong and proven performance
  - Funds V and VI are top performers
  
- LaSalle Advantages
  - Extensive Operating Experience
  - Better Information, Smarter Decisions
  - Emphasis on Income
  
- Fund Status
  - Fund VII first closing with \$300 million in Dec 2015
  - Immediate visibility to over \$500 million, expectation is to reach \$750 million target
  - 41% of first closing commitments have been deployed
  - Robust acquisition pipeline of over 2x of remaining equity

# Fund VII Investment Strategy

Invest in non-core US properties that can be made into core properties through a combination of capital upgrades, creative property repositioning and active leasing.

- Primarily office, apartment, retail and warehouse
- Emphasis on major markets
- Limited ground-up development (20% limit) of apartments and warehouses

Still good opportunities from a broad set of markets and property types:

- Significant off-market opportunities
- Especially office and apartment upgrade



# Investment Performance (through 6/30/2016)

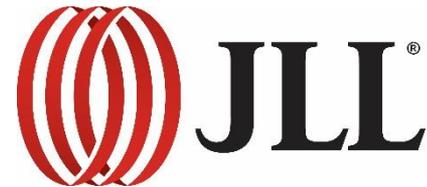
## **Fund VI (2012 vintage)**

- Leveraged gross IRR 19.2% (15.6% net IRR)
- 1.5x gross equity multiple (1.4x net equity multiple)
- Income return since inception of 5.7%

<sup>1</sup> All IRRs and returns shown are leveraged. Pre-fee returns do not reflect advisory fees, carried interest or other fees, which have the effect of reducing returns to investors. Historical returns are not a prediction of future performance or a guaranty of future results, and there can be no assurance that these or comparable returns will be achieved by investments individually or in the aggregate made. IRR and EM are calculated assuming a liquidation at carrying value as of June 30, 2016.

# Supported by the LaSalle and JLL Global Platforms

**Operationally independent subsidiary of:**



- Solely focused on real estate investment management
- \$59B in assets under management
- 24 offices in 17 countries
- 170 US private equity professionals

- Global professional real estate services and advisory firm
- 60,000 employees in 230 offices in 80 countries
- 6000+ US employees
- Listed on NYSE

# Highly Experienced Team

## Dedicated to the LaSalle Income & Growth Fund Series

*Over \$5 billion in Fund series investments since inception in 1996*



**Jim Hutchinson**  
Fund President

**31**  
YEARS



**Brian Gorz**  
Portfolio  
Controller

**24**  
YEARS



**Joe Munoz**  
Fund Investment  
Officer

**12**  
YEARS



**Ty Spearing**  
Asset  
Management

**23**  
YEARS



**Amanda Hassan**  
Investments

**6**  
YEARS



**Michelle Gottlieb**  
Asset Management

**8**  
YEARS

### LaSalle U.S. Platform<sup>1</sup>

**LaSalle U.S. Private  
Real Estate Staff**

**170**  
professionals

**Asset Management**  
39 professionals

**Acquisitions / Due Diligence**  
25 professionals

**Client Capital Group**  
9 professionals

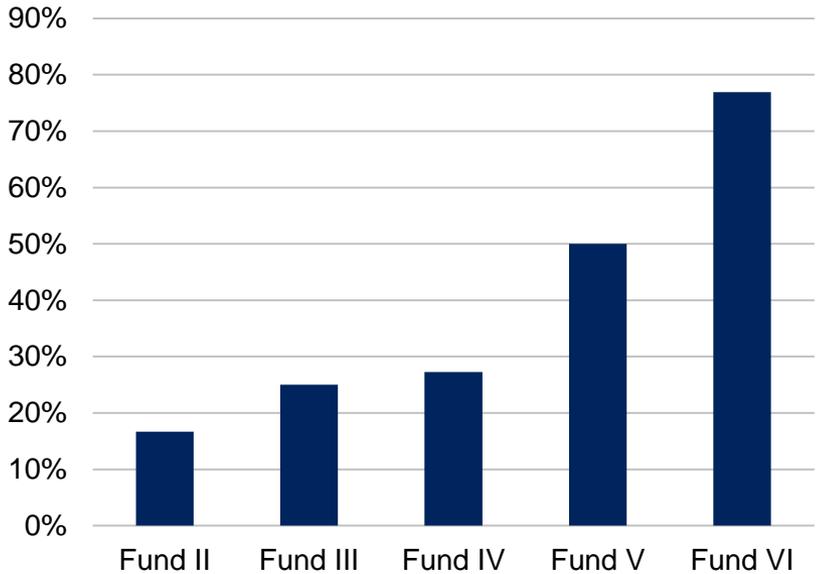
**Research & Strategy**  
7 professionals

**Financial Analysis**  
Accounting / Reporting  
Fund Structuring  
Legal & Compliance  
Marketing

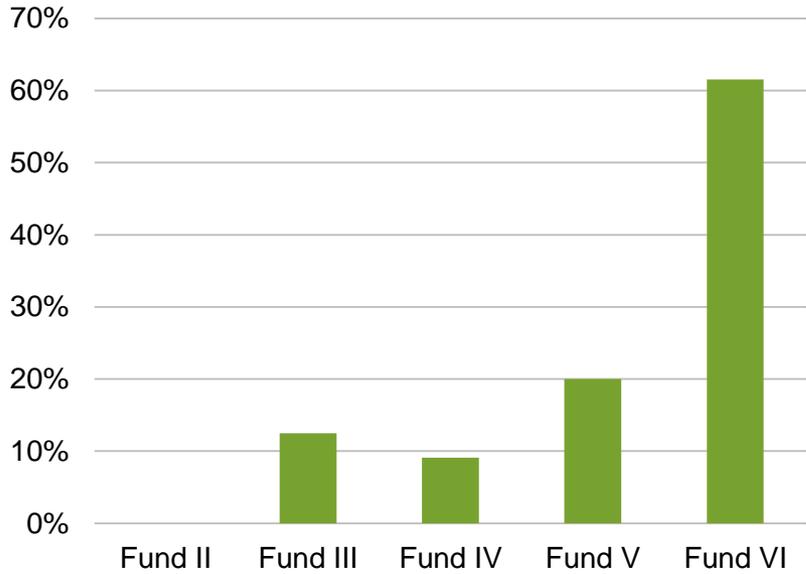
<sup>1</sup> As of June 30, 2016

# Deep Relationships Have Yielded Better Deal Flow

### Off Market & Negotiated Deals



### New Deals via Old Relationships



## Leveraging Deep Sourcing Relationships

Investing in on- and off-market properties

More targeted acquisitions to build out the portfolio

Taking advantage of off-market and limited bid opportunities from motivated sellers

Note: Figures above are based on number of investments by the LaSalle Income & Growth Fund series starting with LaSalle Income & Growth Fund II (1999). Data for Fund I is unavailable. There can be no guarantee that LaSalle Income & Growth Fund VII will achieve similar results.

# Fund VII – Procopio Tower, San Diego, CA

Strong in-place cash flow with ability to mark existing rents to market



## Our Investment Rationale

- Building in the Downtown Core submarket of San Diego at approximately half of replacement cost. Located on light rail station. Property has walk score of 99 out of 100.
- Leases for more than 15% of the building expire in the next two years. Opportunity to upgrade common areas and amenities. Potential opportunity for accelerated mark to market through exercise of landlord lease termination options.
- Recent job growth in office-using sectors combined with limited new supply during the recovery may create an attractive environment for NOI growth. CBD office rents are still ~15% below long-term trend levels, indicating room for upside.
- Apartment development downtown is attracting employers who want to hire new residents.

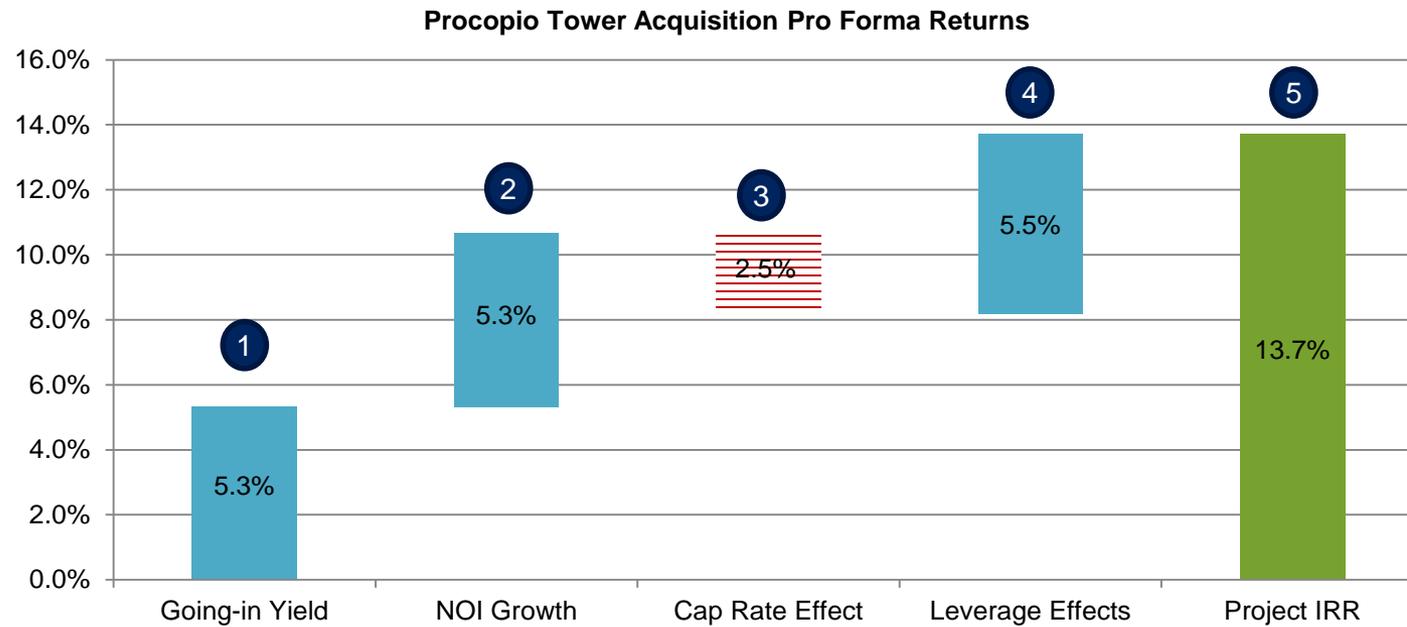
## Pipeline Investment Details

Year Built	1969, renovated 1998
Closing Date	March 2016
Purchase Price	\$122.0m (\$272 / SF), 5.3% cap rate
Occupancy at Acquisition	91%
Underwritten Gross Returns	8.0% leveraged income, 13.7% IRR, 1.8x multiple
Leverage	60% loan to cost

Note: The Underwritten Returns are the final projected gross income return, IRR and equity multiple used in the base case pro forma presented to LaSalle's Americas Investment Committee for final deal approval. The above investment summary is provided as an example of the type of investments being pursued by LaSalle to execute its strategy for the Fund, which is subject to change without notice. This investment should not be considered to be representative of the investment portfolio attributable to the Fund as a whole. A summary of the returns relating to each of the investments acquired in connection with the Fund is available on request from LaSalle. Past performance is not indicative of future results. Information provided above is as of June 2016.

# Procopio Tower (San Diego, CA): IRR attribution for 5-year hold

<p><b>1</b> Acquired March 2016 at 5.3% cap rate, \$272 psf. 91% occupied.</p>	<p><b>2</b> Grow NOI:</p> <ul style="list-style-type: none"> <li>• Increase occupancy to 95%</li> <li>• Upgrade amenities, especially outdoor areas</li> <li>• Raise rents and capture upside upon lease</li> </ul>	<p><b>3</b> Assume exit cap rate .75% above going in</p>
<p><b>4</b> 60% LTC at L + 180%</p>	<p><b>5</b> Exit to core-plus to core buyers</p>	



Note: The Underwritten Returns are the final projected gross income return, IRR and equity multiple used in the base case pro forma presented to LaSalle's Americas Investment Committee for final deal approval. The above investment summary is provided as an example of the type of investments being pursued by LaSalle to execute its strategy for the Fund, which is subject to change without notice. This investment should not be considered to be representative of the investment portfolio attributable to the Fund as a whole. A summary of the returns relating to each of the investments acquired in connection with the Fund is available on request from LaSalle. Past performance is not indicative of future results. Information provided above is as of June 2016.

# Fund VII – Ygnacio Center, Walnut Creek, CA

## Near-term ability to capture strong office leasing demand



### Our Investment Rationale

- Three-building office property in downtown Walnut Creek, a preferred office location due to amenities, access to transportation, and proximity to desirable residential areas. Pricing is significantly below estimated replacement cost.
- Seller was capital constrained fund operator with limited fund life remaining.
- Adjacent to Walnut Creek BART station with high visibility to I-680 and amenities of downtown Walnut Creek.
- Ability to attract a diverse tenant base as existing tenants continue to expand space needs and new tenant migration from other locations in San Francisco Bay area.
- There is upside through leasing remaining vacancy (14%) and renewing existing tenants (10% below market rents with approximately 50% lease roll in first two years).



### Pipeline Investment Details

Year Built / Renovated	Bldg 1 1978/2008, Bldg 2 1985/2003, Bldg 3 2002
Closing Date	May 2016
Purchase Price	\$158.0m (\$307 / SF), 5.3% cap rate
Occupancy at Acquisition	86%
Underwritten Gross Returns	9.7% leveraged income, 16.3% IRR, 1.6x multiple
Projected Leverage	60% loan to cost

Note: The Underwritten Returns are the final projected gross income return, IRR and equity multiple used in the base case pro forma presented to LaSalle's Americas Investment Committee for final deal approval. The above investment summary is provided as an example of the type of investments being pursued by LaSalle to execute its strategy for the Fund, which is subject to change without notice. This investment should not be considered to be representative of the investment portfolio attributable to the Fund as a whole. A summary of the returns relating to each of the investments acquired in connection with the Fund is available on request from LaSalle. Past performance is not indicative of future results. Information provided above is as of June 2016.

# Local Example Transactions – prior funds



## 60 South Market, San Jose (Fund VI)

- Acquired at discount to replacement cost, 63% leased
- Upgraded lobby and amenities and leased to 90%
- Sold July 2016 achieving 22.8% IRR, 1.6x multiple



## Bay Street Marketplace – Emeryville (Fund V)

- Acquired pre-GFC with significant pending lease maturity
- Increased sales for tenants from \$470 to \$700 psf by changing tenant mix
- Sold August 2014 for 16% IRR and 2.2x multiple

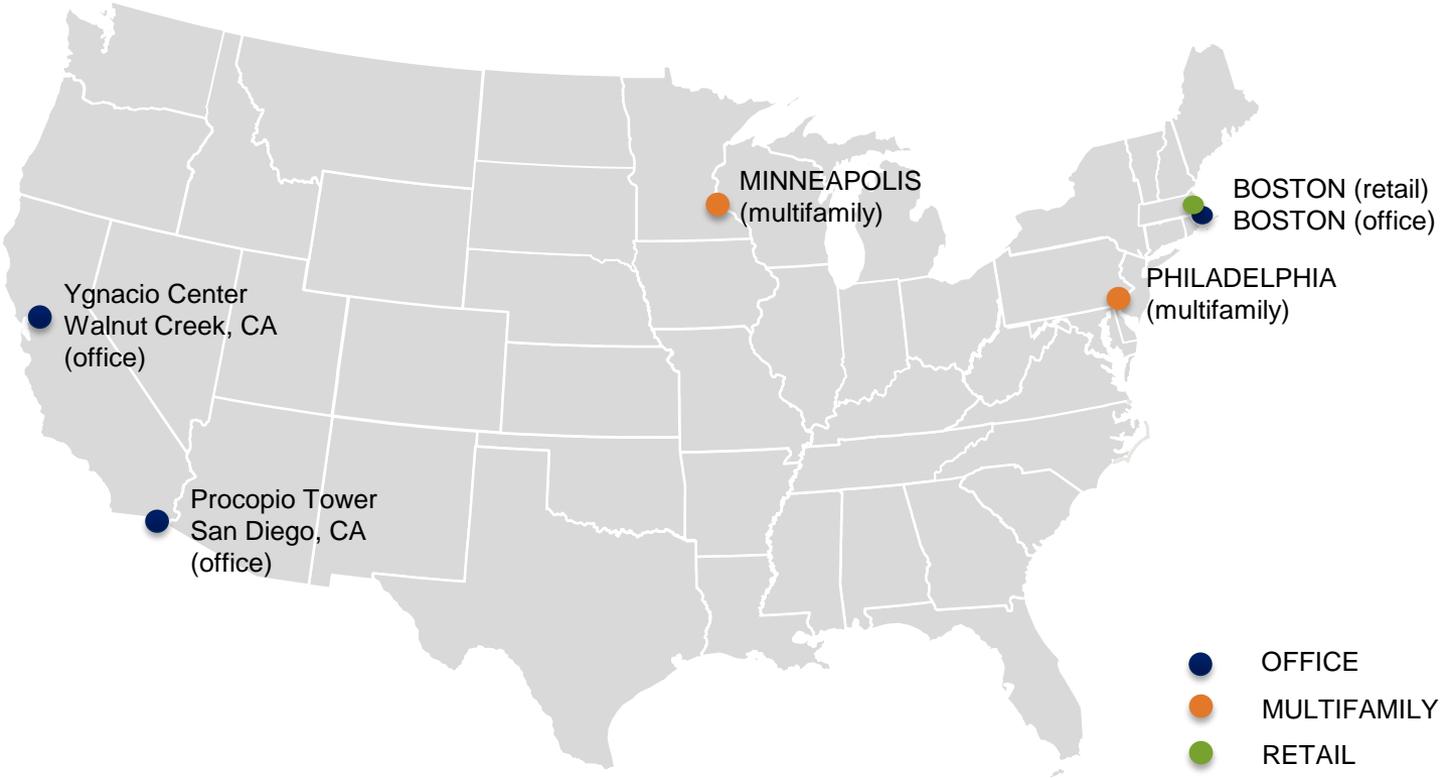


## Crossings @ 880 – Fremont (Fund VI)

- Ground-up development of three large warehouse buildings fronting I-880
- Construction completed in 1Q 2015. 100% leased prior to construction completion to three tenants, including Apple (25% of property), at rents well above pro forma
- Sold August 2015 to a core fund for 57.5% IRR and 2.2x equity multiple

Note: The properties above are examples of investments made by LaSalle Income & Growth Fund V and VI and are for illustrative purposes only. Historical returns are not a prediction of future performance or a guaranty of future results, and there can be no assurance that these or comparable returns will be achieved by investments individually or in the aggregate. Unless otherwise specified all dollar figures above are in USD. Gross IRR and EM figures are based on actual sale price.

# Fund VII Portfolio Construction & Pipeline



## OWNED

**2** owned office investments.

**\$120** million in equity requirements.

## PIPELINE

**8** Investments in advanced stages.

**\$150** million in equity

Source: LaSalle Investment Management at September 1, 2016.

# Conclusion

## LaSalle Income & Growth Fund VII

- The 7<sup>th</sup> fund in a series of US value-add real estate funds that started in 1996
    - Improved Fund terms for Fund VII, 15% discount for \$75 million commitment
    - Expect to reach \$750 million target size
  
  - Strong and proven performance
    - We believe it is still a good time to invest
  
  - LaSalle Advantages
    - Extensive Operating Experience
    - Better Information, Smarter Decisions
    - Emphasis on Income
  
  - We appreciate the continuing relationship with CCCERA
-

## Important Notice and Disclaimer

This confidential presentation and the information set out herein (the "Presentation") is summary in nature only and is qualified in its entirety by the information set out in the confidential private placement memorandum (the "Placement Memorandum") relating to LaSalle Income & Growth Fund VII (the "Fund").

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## Target Returns

The Fund target return is derived by the Sponsor from analyses based upon market experience, market expectations and historical averages related to the risk/return profile and generally accepted criteria for making investments in core real estate properties and represent possible returns that may be achieved only for the Fund investment period referred to herein. The Sponsor's targets are based on the expected cumulative returns generated by a series of real estate investments across a multi-year investment period. When structuring and pricing a transaction, the Sponsor may take numerous factors into consideration including, but not limited to, an evaluation of the property's expected cash flows, expected going-in and exit prices, real estate location and hold period. Target returns are also based on certain assumptions, including, but not limited to, market conditions, default rates, tenant credit stability and turnover, exit strategies and availability and cost of financing. The Sponsor makes no guarantee that the Fund will be able to achieve these targets in the long term. Targets are objectives and should not be construed as providing any assurance as to the results that may be realized in the future from investments in the Fund. Many factors affect Fund performance including changes in market conditions and interest rates and changes in response to other economic, political or financial developments. These targets are being shown for information purposes only and should not be relied upon to make predictions of actual future performances. The information underlying any targets or other forecasts has been obtained from or is based upon sources believed to be reliable, but the Sponsor assumes any responsibility for, or makes any representation or warranty, express or implied as to the adequacy, accuracy or completeness of, any such information.

## Past Performance

The information relating to previous funds in the LaSalle Income & Growth series of funds set forth in this presentation reflects performance and characteristics of other funds sponsored by LaSalle Investment Management, Inc. (collectively, the "Prior Income & Growth Funds"). There may be material differences between the Fund and the Prior Income & Growth Funds and the manner in which their respective investment strategies are pursued, including the economic environment, the type and location of assets comprising the Fund as compared to the Prior Income & Growth Funds. Therefore, information from the Prior Income & Growth Funds is included for informational and illustrative purposes only and should not be relied upon when making an investment decision. Past performance is not indicative of future results. You should not assume that investment decisions we make in the future will be profitable or will equal the investment performance of the past. No investment strategy or risk management technique can guarantee return or eliminate risk in any market environment.

## Calculation of IRR

Internal rates of return ("IRR") are calculated on a before and after fee leveraged basis using cash flows in accordance with the investment level and property level IRR methodologies specified in the REIS Performance Measurement Resource Manual.

## Property Images

Photographs of properties used herein represent properties that are either currently owned or have been owned in the past by a fund in the LaSalle Income & Growth Fund series.

## Risks and Other Considerations

Set forth below are certain risks involved with investing in the Fund. A comprehensive list of potential risk factors is outlined in the Fund's Private Placement Memorandum. Investors should independently investigate any investment strategy or manager, and consult with qualified investment, legal, and tax professionals before making an investment.

The Fund does not have an operating history. The success of the Fund depends on the ability and experience of the Sponsor and there can be no assurance that the Sponsor will generate any gains or profits for the Fund. Investments in private real estate funds are speculative and involve special risks,

and there can be no assurance that a fund's investment objectives will be realized or that suitable investments may be identified. An investor could lose all or a substantial portion of his or her investment, and successfully overcoming barriers to entry (e.g., legal and regulatory enterprise) does not guarantee successful investment performance. Private funds are generally not subject to the same regulatory oversight and/or regulatory requirements as a mutual fund. Investments may involve complex tax structures resulting in delays in distributing important tax information. Private funds may not be required to provide periodic pricing or valuation information to investors. Performance may be volatile as underlying managers may employ leverage and other speculative investment practices that may increase the risk of investment loss, and adherence to risk control mechanisms does not guarantee investment returns. The investment adviser may have total discretion over underlying manager and strategy selection and allocation decisions. A lack of manager and/or strategy diversification may result in higher risk. A fund may reserve the right to limit transparency and other notification to investors, there may be restrictions on transferring interests in the private fund vehicle, and there is generally no secondary market for an investor's interest in a privately-offered fund. This is not an inclusive list of all risk factors, and investments in private funds may be suitable only for certain investors.

The securities of issuers that are principally engaged in the real estate sector may be subject to risks similar to those associated with the direct ownership of real estate. These include: declines in real estate values, defaults by mortgagors or other borrowers and tenants, increases in property taxes and operating expenses, overbuilding, fluctuations in rental income, changes in interest rates, possible lack of availability of mortgage funds or financing, extended vacancies of properties, changes in tax and regulatory requirements (including zoning laws and environmental restrictions), losses due to costs resulting from the clean-up of environmental problems, liability to third parties for damages resulting from environmental problems, and casualty or condemnation losses. In addition, the performance of the local economy in each of the regions in which the real estate owned by a portfolio company is located affects occupancy, market rental rates and expenses and, consequently, has an impact on the income from such properties and their underlying values.

The Fund's interests are not registered under the United States Securities Act of 1933, any state securities laws or any other applicable securities laws and are not transferable; accordingly there will be no public or secondary market in the interests. As such any investor in the Fund would be required to bear the economic risk of their investment for an indefinite period, including the risk of a total loss of the investment in the Fund.

## Important Notice to Potential Investors Located in European Economic Area (“EEA”)

The Fund is an alternative investment fund for the purpose of the European Union Alternative Investment Fund Managers Directive (Directive 2011/61/EU) (“AIFMD”). LaSalle Income & Growth Fund VII GP, L.L.C. is the alternative investment fund manager of the Fund (the “AIFM”).

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The Fund is an unregulated collective investment scheme whose promotion is restricted by the United Kingdom’s Financial Services and Markets Act 2000. Accordingly, interests in the Fund shall only be addressed by LaSalle to persons (A) outside the UK receiving it non-electronically; (B) falling within one or more categories of exempt persons under the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemption) Order 2001 (the “**CIS Promotion Order**”), including (i) professional investors in accordance with article 16(2) of the CIS Promotion Order, (ii) investment professionals (as defined in article 14 of the CIS Promotion Order, as applicable), (iii) high net worth entities (as defined in article 22 of the CIS Promotion Order, as applicable), and (iv) any other persons to whom it may be lawfully communicated (all such persons together being referred to as “**relevant persons**”). Persons who are not relevant persons must not act on or rely on this document or any of its contents. Interests in the Fund are only available to relevant persons.

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\* Investors in Australia must note:

- (i) LaSalle is exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 (Cth) in respect of the financial services; and
- (ii) LaSalle is regulated by the FSA under UK laws, which differ from Australian laws.

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Meeting Date  
**09/28/16**  
Agenda Item  
**#13**

## **MEMORANDUM**

Date: September 28, 2016  
To: CCCERA Board of Retirement  
Copy: Gail Strohl, Chief Executive Officer  
From: Karen Levy, General Counsel  
Subject: Consider and Take Possible Action to Update CCCERA's Conflict of Interest Code

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### ***Background***

The CCCERA Board of Retirement is required to adopt a Conflict of Interest Code pursuant to the provisions of the California Political Reform Act of 1974. CCCERA's Conflict of Interest Code was first adopted in 1976 and amended over the years. The Code designates agency employees and consultants with obligations to file an annual disclosure in accordance with the applicable disclosure category set forth in the Conflict of Interest Code. The disclosure must be made by filing Statement of Economic Interest, Fair Political Practices Commission (FPPC) Form 700. (See Appendix A to the Code.) The Code also lists Board members and agency staff with Form 700 filing obligations as public officials who manage public investments as defined in Government Code Section 87200. (See Appendix B to the Code.) Revisions to the Code must first be approved by the Retirement Board and subsequently approved by the Contra Costa County Board of Supervisors, who is the Code Reviewing Body.

### ***Proposed Updates to CCCERA's Conflict of Interest Code***

After a review of CCCERA's Conflict of Interest Code, we recommend the following updates be considered by the Board:

- I. Update the employee position titles to conform to current titles already approved by the Board and implemented. (See Appendix A.)
- II. Add the position of "Investment Officer" to the list of Designated Positions with filing obligations as this position is deemed to participate in the making of decisions which could affect the employee's personal economic interests. (See Appendix A.)
- III. Incorporate by reference FPPC Regulation 18730 and include a copy of the Regulation in Appendix C. Currently, certain portions of the Regulation appear in the body of the Code. We recommend removing them from the body of the Code, incorporating the

entire Regulation by reference, and including a copy of the Regulation as an attachment to the Code. The FPPC Regulations provide that agencies may incorporate by reference Regulation 18730 in their Conflict of Interest Code.<sup>1</sup> While the inclusion of the full text of the Regulation is not required, we suggest doing so for ease of reference. (See Appendix C.)

The updated Conflict of Interest Code is enclosed for the Board's review and consideration, along with a copy of the current Code.

***Recommendation***

Consider and take possible action to adopt the foregoing updates to CCCERA's Conflict of Interest Code.

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<sup>1</sup> "Incorporation by reference of the terms of this regulation along with the designation of employees and the formulation of disclosure categories in the Appendix referred to below constitute the adoption and promulgation of a conflict of interest code within the meaning of Section 87300 . . . ." (FPPC Regulation 18730.)

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
BOARD OF RETIREMENT

**CONFLICT OF INTEREST CODE**

**DRAFT**

Adopted: 02/24/76

Amended: 11/06/02, 11/17/04, 4/8/09, 12/8/10, 09/10/14, \_\_/\_\_/16

**I. AUTHORITY**

Pursuant to the provisions of Government Code Sections 87300, *et seq.*, the Board of Retirement of the Contra Costa County Employees' Retirement Association adopts this Conflict of Interest Code. This Conflict of Interest Code and any amendments thereto become effective upon approval by the Contra Costa County Board of Supervisors. (Government Code Sections 87303 and 82011(b).)

**II. DESIGNATED POSITIONS AND EMPLOYEES**

The positions listed in Appendix "A" attached hereto are "designated positions". Every person holding any designated position is deemed to make, or participate in the making of, decisions which could affect his or her personal economic interests. Designated positions are assigned the disclosure categories set forth in Appendix "A". Each person holding any designated position shall file an annual statement of economic interest disclosing that person's interest in investments, business positions, real property and income designated as reportable under the category to which the employee's position is assigned.

The positions listed in Appendix "B" attached hereto manage public investments for purposes of Section 87200 of the Government Code and are "Code filers." Each Code filer shall file an annual statement of economic interest.

**III. INCORPORATION OF FPPC REGULATION 18730**

The California Fair Political Practices Commission (FPPC) has adopted Regulation 18730, which contains the terms of a standard conflict of interest code. (2 Cal. Code of Regs. 18730.) Regulation 18730 may be amended from time to time. The terms of Regulation 18730, and any amendments to it duly adopted by the FPPC, are hereby incorporated by reference as Appendix "C".

**IV. FPPC FORM 700 – STATEMENT OF ECONOMIC INTEREST**

Disclosure statements shall be made on FPPC Form 700 – Statement of Economic Interest. The Form 700 is published annually by the FPPC, available on the FPPC website at [fppc.ca.gov](http://fppc.ca.gov) and supplied by the Contra Costa County Clerk of the Board of Supervisors. The place and time of filing shall be as follows:

- (a) Every person holding any designated position listed in Appendix "A" shall file the original of his or her statement of financial interests with the Contra Costa County Clerk of the Board of Supervisors.

- (b) Every person holding a position listed in Appendix “B” shall file the original of his or her statement of financial interests with the Contra Costa County Clerk - Elections Division.
- (c) All Form 700 filers must file the Form 700 at the times prescribed by law. Failure to file statements on time may result in penalties including but not limited to late fines.

## APPENDIX A

<u>Designated Positions</u>	<u>Disclosure Category</u>
Deputy Chief Executive Officer	General
Accounting Manager	1
Administrative/Human Resources Manager	2
General Counsel and Deputy General Counsel	1
Investment Analyst and Investment Officer	1
Outside fiduciary counsel	1
Outside investment consultant and other consultants	1

- Consultants shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code subject to the following limitation: The Chief Executive Officer may determine in writing that a particular consultant, although a “designated position”, is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements described in this code. Such written determination shall include a description of the consultant’s duties and, based upon that description, a statement of the extent of disclosure requirements. The Chief Executive Officer’s determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code.

Disclosure CategoriesGeneral:

Employees designated in Disclosure Category “General” above shall complete all schedules of Form 700. An investment, interest in real property, or income is reportable if the business entity in which the investment is held, the interest in real property, or the income or source of income may foreseeably be affected materially by any decision made or participated in by the designated employee by virtue of the employee’s position.

Designated Employees in Category 1:

Employees designated in Disclosure Category 1 above shall complete all schedules of Form 700 unless there are no reportable interests for that schedule. A “reportable interest” shall be any business entity or source of income of a type in which the Board is authorized to invest.

Designated Employees in Category 2:

Employees designated in Disclosure Category 2 above shall complete all schedules of Form 700 except those relating to interests in real property (Form 700, Schedules B and C), unless there are no reportable interests for a schedule. A “reportable interest” shall be any business entity or source of income which, within the filing period has contracted, or in the foreseeable future may contract with the Board to provide products or services, to the Retirement System or the Retirement Office.

**APPENDIX B**

Agency Positions that Manage Public Investments  
For Purposes of Section 87200 of the Government Code

Pursuant to Government Code Section 87314, the following is a list of each position with the Retirement Board and CCCERA for which an individual occupying the position is required to file a Form 700 - Statement of Economic Interests as a public official who manages public investments within the meaning of Government Code Section 87200:

Members of the Board of Retirement, including Alternate Members  
Chief Executive Officer  
Chief Investment Officer



(Regulations of the Fair Political Practices Commission, Title 2, Division 6, California Code of Regulations.)

**§ 18730. Provisions of Conflict of Interest Codes.**

(a) Incorporation by reference of the terms of this regulation along with the designation of employees and the formulation of disclosure categories in the Appendix referred to below constitute the adoption and promulgation of a conflict of interest code within the meaning of Section 87300 or the amendment of a conflict of interest code within the meaning of Section 87306 if the terms of this regulation are substituted for terms of a conflict of interest code already in effect. A code so amended or adopted and promulgated requires the reporting of reportable items in a manner substantially equivalent to the requirements of article 2 of chapter 7 of the Political Reform Act, Sections 81000, et seq . The requirements of a conflict of interest code are in addition to other requirements of the Political Reform Act, such as the general prohibition against conflicts of interest contained in Section 87100, and to other state or local laws pertaining to conflicts of interest.

(b) The terms of a conflict of interest code amended or adopted and promulgated pursuant to this regulation are as follows:

(1) Section 1. Definitions.

The definitions contained in the Political Reform Act of 1974, regulations of the Fair Political Practices Commission (Regulations 18110, et seq.), and any amendments to the Act or regulations, are incorporated by reference into this conflict of interest code.

(2) Section 2. Designated Employees.

The persons holding positions listed in the Appendix are designated employees. It has been determined that these persons make or participate in the making of decisions which may foreseeably have a material effect on economic interests.

(3) Section 3. Disclosure Categories.

This code does not establish any disclosure obligation for those designated employees who are also specified in Section 87200 if they are designated in this code in that same capacity or if the geographical jurisdiction of this agency is the same as or is wholly included within the jurisdiction in which those persons must report their economic interests pursuant to article 2 of chapter 7 of the Political Reform Act, Sections 87200, et seq .

In addition, this code does not establish any disclosure obligation for any designated employees who are designated in a conflict of interest code for another agency, if all of the following apply:

(A) The geographical jurisdiction of this agency is the same as or is wholly included within the jurisdiction of the other agency;

(B) The disclosure assigned in the code of the other agency is the same as that required under article 2 of chapter 7 of the Political Reform Act, Section 87200; and

(C) The filing officer is the same for both agencies. <sup>1</sup>

Such persons are covered by this code for disqualification purposes only. With respect to all other designated employees, the disclosure categories set forth in the Appendix specify which kinds of economic interests are reportable. Such a designated employee shall disclose in his or her statement of economic interests those economic interests he or she has which are of the kind described in the disclosure categories to which he or she is assigned in the Appendix. It has been determined that the economic interests set forth in a designated employee's disclosure categories

are the kinds of economic interests which he or she foreseeably can affect materially through the conduct of his or her office.

(4) Section 4. Statements of Economic Interests: Place of Filing.

The code reviewing body shall instruct all designated employees within its code to file statements of economic interests with the agency or with the code reviewing body, as provided by the code reviewing body in the agency's conflict of interest code. <sup>2</sup>

(5) Section 5. Statements of Economic Interests: Time of Filing.

(A) Initial Statements. All designated employees employed by the agency on the effective date of this code, as originally adopted, promulgated and approved by the code reviewing body, shall file statements within 30 days after the effective date of this code. Thereafter, each person already in a position when it is designated by an amendment to this code shall file an initial statement within 30 days after the effective date of the amendment.

(B) Assuming Office Statements. All persons assuming designated positions after the effective date of this code shall file statements within 30 days after assuming the designated positions, or if subject to State Senate confirmation, 30 days after being nominated or appointed.

(C) Annual Statements. All designated employees shall file statements no later than April 1. If a person reports for military service as defined in the Servicemember's Civil Relief Act, the deadline for the annual statement of economic interests is 30 days following his or her return to office, provided the person, or someone authorized to represent the person's interests, notifies the filing officer in writing prior to the applicable filing deadline that he or she is subject to that federal statute and is unable to meet the applicable deadline, and provides the filing officer verification of his or her military status.

(D) Leaving Office Statements. All persons who leave designated positions shall file statements within 30 days after leaving office.

(5.5) Section 5.5. Statements for Persons Who Resign Prior to Assuming Office.

Any person who resigns within 12 months of initial appointment, or within 30 days of the date of notice provided by the filing officer to file an assuming office statement, is not deemed to have assumed office or left office, provided he or she did not make or participate in the making of, or use his or her position to influence any decision and did not receive or become entitled to receive any form of payment as a result of his or her appointment. Such persons shall not file either an assuming or leaving office statement.

(A) Any person who resigns a position within 30 days of the date of a notice from the filing officer shall do both of the following:

(1) File a written resignation with the appointing power; and

(2) File a written statement with the filing officer declaring under penalty of perjury that during the period between appointment and resignation he or she did not make, participate in the making, or use the position to influence any decision of the agency or receive, or become entitled to receive, any form of payment by virtue of being appointed to the position.

(6) Section 6. Contents of and Period Covered by Statements of Economic Interests.

(A) Contents of Initial Statements.

Initial statements shall disclose any reportable investments, interests in real property and business positions held on the effective date of the code and income received during the 12 months prior to the effective date of the code.

(B) Contents of Assuming Office Statements.

Assuming office statements shall disclose any reportable investments, interests in real property and business positions held on the date of assuming office or, if subject to State Senate confirmation or appointment, on the date of nomination, and income received during the 12 months prior to the date of assuming office or the date of being appointed or nominated, respectively.

(C) Contents of Annual Statements. Annual statements shall disclose any reportable investments, interests in real property, income and business positions held or received during the previous calendar year provided, however, that the period covered by an employee's first annual statement shall begin on the effective date of the code or the date of assuming office whichever is later, or for a board or commission member subject to Section 87302.6, the day after the closing date of the most recent statement filed by the member pursuant to Regulation 18754.

(D) Contents of Leaving Office Statements.

Leaving office statements shall disclose reportable investments, interests in real property, income and business positions held or received during the period between the closing date of the last statement filed and the date of leaving office.

(7) Section 7. Manner of Reporting.

Statements of economic interests shall be made on forms prescribed by the Fair Political Practices Commission and supplied by the agency, and shall contain the following information:

(A) Investment and Real Property Disclosure.

When an investment or an interest in real property<sup>3</sup> is required to be reported,<sup>4</sup> the statement shall contain the following:

1. A statement of the nature of the investment or interest;

2. The name of the business entity in which each investment is held, and a general description of the business activity in which the business entity is engaged;
3. The address or other precise location of the real property;
4. A statement whether the fair market value of the investment or interest in real property equals or exceeds \$2,000, exceeds \$10,000, exceeds \$100,000, or exceeds \$1,000,000.

(B) Personal Income Disclosure. When personal income is required to be reported,<sup>5</sup> the statement shall contain:

1. The name and address of each source of income aggregating \$500 or more in value, or \$50 or more in value if the income was a gift, and a general description of the business activity, if any, of each source;
2. A statement whether the aggregate value of income from each source, or in the case of a loan, the highest amount owed to each source, was \$1,000 or less, greater than \$1,000, greater than \$10,000, or greater than \$100,000;
3. A description of the consideration, if any, for which the income was received;
4. In the case of a gift, the name, address and business activity of the donor and any intermediary through which the gift was made; a description of the gift; the amount or value of the gift; and the date on which the gift was received;
5. In the case of a loan, the annual interest rate and the security, if any, given for the loan and the term of the loan.

(C) Business Entity Income Disclosure. When income of a business entity, including income of a sole proprietorship, is required to be reported,<sup>6</sup> the statement shall contain:

1. The name, address, and a general description of the business activity of the business entity;

2. The name of every person from whom the business entity received payments if the filer's pro rata share of gross receipts from such person was equal to or greater than \$10,000.

(D) Business Position Disclosure. When business positions are required to be reported, a designated employee shall list the name and address of each business entity in which he or she is a director, officer, partner, trustee, employee, or in which he or she holds any position of management, a description of the business activity in which the business entity is engaged, and the designated employee's position with the business entity.

(E) Acquisition or Disposal During Reporting Period. In the case of an annual or leaving office statement, if an investment or an interest in real property was partially or wholly acquired or disposed of during the period covered by the statement, the statement shall contain the date of acquisition or disposal.

(8) Section 8. Prohibition on Receipt of Honoraria.

(A) No member of a state board or commission, and no designated employee of a state or local government agency, shall accept any honorarium from any source, if the member or employee would be required to report the receipt of income or gifts from that source on his or her statement of economic interests. This section shall not apply to any part-time member of the governing board of any public institution of higher education, unless the member is also an elected official.

Subdivisions (a), (b), and (c) of Section 89501 shall apply to the prohibitions in this section.

This section shall not limit or prohibit payments, advances, or reimbursements for travel and related lodging and subsistence authorized by Section 89506.

(8.1) Section 8.1. Prohibition on Receipt of Gifts in Excess of \$460.

(A) No member of a state board or commission, and no designated employee of a state or local government agency, shall accept gifts with a total value of more than \$460 in a calendar year from any single source, if the member or employee would be required to report the receipt of income or gifts from that source on his or her statement of economic interests. This section shall not apply to any part-time member of the governing board of any public institution of higher education, unless the member is also an elected official.

Subdivisions (e), (f), and (g) of Section 89503 shall apply to the prohibitions in this section.

(8.2) Section 8.2. Loans to Public Officials.

(A) No elected officer of a state or local government agency shall, from the date of his or her election to office through the date that he or she vacates office, receive a personal loan from any officer, employee, member, or consultant of the state or local government agency in which the elected officer holds office or over which the elected officer's agency has direction and control.

(B) No public official who is exempt from the state civil service system pursuant to subdivisions (c), (d), (e), (f), and (g) of Section 4 of Article VII of the Constitution shall, while he or she holds office, receive a personal loan from any officer, employee, member, or consultant of the state or local government agency in which the public official holds office or over which the public official's agency has direction and control. This subdivision shall not apply to loans made to a public official whose duties are solely secretarial, clerical, or manual.

(C) No elected officer of a state or local government agency shall, from the date of his or her election to office through the date that he or she vacates office, receive a personal loan from any person who has a contract with the state or local government agency to which that elected

officer has been elected or over which that elected officer's agency has direction and control. This subdivision shall not apply to loans made by banks or other financial institutions or to any indebtedness created as part of a retail installment or credit card transaction, if the loan is made or the indebtedness created in the lender's regular course of business on terms available to members of the public without regard to the elected officer's official status.

(D) No public official who is exempt from the state civil service system pursuant to subdivisions (c), (d), (e), (f), and (g) of Section 4 of Article VII of the Constitution shall, while he or she holds office, receive a personal loan from any person who has a contract with the state or local government agency to which that elected officer has been elected or over which that elected officer's agency has direction and control. This subdivision shall not apply to loans made by banks or other financial institutions or to any indebtedness created as part of a retail installment or credit card transaction, if the loan is made or the indebtedness created in the lender's regular course of business on terms available to members of the public without regard to the elected officer's official status. This subdivision shall not apply to loans made to a public official whose duties are solely secretarial, clerical, or manual.

(E) This section shall not apply to the following:

1. Loans made to the campaign committee of an elected officer or candidate for elective office.
2. Loans made by a public official's spouse, child, parent, grandparent, grandchild, brother, sister, parent-in-law, brother-in-law, sister-in-law, nephew, niece, aunt, uncle, or first cousin, or the spouse of any such persons, provided that the person making the loan is not acting as an agent or intermediary for any person not otherwise exempted under this section.
3. Loans from a person which, in the aggregate, do not exceed \$500 at any given time.

4. Loans made, or offered in writing, before January 1, 1998.

(8.3) Section 8.3. Loan Terms.

(A) Except as set forth in subdivision (B), no elected officer of a state or local government agency shall, from the date of his or her election to office through the date he or she vacates office, receive a personal loan of \$500 or more, except when the loan is in writing and clearly states the terms of the loan, including the parties to the loan agreement, date of the loan, amount of the loan, term of the loan, date or dates when payments shall be due on the loan and the amount of the payments, and the rate of interest paid on the loan.

(B) This section shall not apply to the following types of loans:

1. Loans made to the campaign committee of the elected officer.

2. Loans made to the elected officer by his or her spouse, child, parent, grandparent, grandchild, brother, sister, parent-in-law, brother-in-law, sister-in-law, nephew, niece, aunt, uncle, or first cousin, or the spouse of any such person, provided that the person making the loan is not acting as an agent or intermediary for any person not otherwise exempted under this section.

3. Loans made, or offered in writing, before January 1, 1998.

(C) Nothing in this section shall exempt any person from any other provision of Title 9 of the Government Code.

(8.4) Section 8.4. Personal Loans.

(A) Except as set forth in subdivision (B), a personal loan received by any designated employee shall become a gift to the designated employee for the purposes of this section in the following circumstances:

1. If the loan has a defined date or dates for repayment, when the statute of limitations for filing an action for default has expired.

2. If the loan has no defined date or dates for repayment, when one year has elapsed from the later of the following:

a. The date the loan was made.

b. The date the last payment of \$100 or more was made on the loan.

c. The date upon which the debtor has made payments on the loan aggregating to less than \$250 during the previous 12 months.

(B) This section shall not apply to the following types of loans:

1. A loan made to the campaign committee of an elected officer or a candidate for elective office.

2. A loan that would otherwise not be a gift as defined in this title.

3. A loan that would otherwise be a gift as set forth under subdivision (A), but on which the creditor has taken reasonable action to collect the balance due.

4. A loan that would otherwise be a gift as set forth under subdivision (A), but on which the creditor, based on reasonable business considerations, has not undertaken collection action.

Except in a criminal action, a creditor who claims that a loan is not a gift on the basis of this paragraph has the burden of proving that the decision for not taking collection action was based on reasonable business considerations.

5. A loan made to a debtor who has filed for bankruptcy and the loan is ultimately discharged in bankruptcy.

(C) Nothing in this section shall exempt any person from any other provisions of Title 9 of the Government Code.

(9) Section 9. Disqualification.

No designated employee shall make, participate in making, or in any way attempt to use his or her official position to influence the making of any governmental decision which he or she knows or has reason to know will have a reasonably foreseeable material financial effect, distinguishable from its effect on the public generally, on the official or a member of his or her immediate family or on:

(A) Any business entity in which the designated employee has a direct or indirect investment worth \$2,000 or more;

(B) Any real property in which the designated employee has a direct or indirect interest worth \$2,000 or more;

(C) Any source of income, other than gifts and other than loans by a commercial lending institution in the regular course of business on terms available to the public without regard to official status, aggregating \$500 or more in value provided to, received by or promised to the designated employee within 12 months prior to the time when the decision is made;

(D) Any business entity in which the designated employee is a director, officer, partner, trustee, employee, or holds any position of management; or

(E) Any donor of, or any intermediary or agent for a donor of, a gift or gifts aggregating \$460 or more provided to, received by, or promised to the designated employee within 12 months prior to the time when the decision is made.

(9.3) Section 9.3. Legally Required Participation.

No designated employee shall be prevented from making or participating in the making of any decision to the extent his or her participation is legally required for the decision to be

made. The fact that the vote of a designated employee who is on a voting body is needed to break a tie does not make his or her participation legally required for purposes of this section.

(9.5) Section 9.5. Disqualification of State Officers and Employees.

In addition to the general disqualification provisions of section 9, no state administrative official shall make, participate in making, or use his or her official position to influence any governmental decision directly relating to any contract where the state administrative official knows or has reason to know that any party to the contract is a person with whom the state administrative official, or any member of his or her immediate family has, within 12 months prior to the time when the official action is to be taken:

(A) Engaged in a business transaction or transactions on terms not available to members of the public, regarding any investment or interest in real property; or

(B) Engaged in a business transaction or transactions on terms not available to members of the public regarding the rendering of goods or services totaling in value \$1,000 or more.

(10) Section 10. Disclosure of Disqualifying Interest.

When a designated employee determines that he or she should not make a governmental decision because he or she has a disqualifying interest in it, the determination not to act may be accompanied by disclosure of the disqualifying interest.

(11) Section 11. Assistance of the Commission and Counsel.

Any designated employee who is unsure of his or her duties under this code may request assistance from the Fair Political Practices Commission pursuant to Section 83114 and Regulations 18329 and 18329.5 or from the attorney for his or her agency, provided that nothing in this section requires the attorney for the agency to issue any formal or informal opinion.

(12) Section 12. Violations.

This code has the force and effect of law. Designated employees violating any provision of this code are subject to the administrative, criminal and civil sanctions provided in the Political Reform Act, Sections 81000-91014. In addition, a decision in relation to which a violation of the disqualification provisions of this code or of Section 87100 or 87450 has occurred may be set aside as void pursuant to Section 91003.

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<sup>1</sup> Designated employees who are required to file statements of economic interests under any other agency's conflict of interest code, or under article 2 for a different jurisdiction, may expand their statement of economic interests to cover reportable interests in both jurisdictions, and file copies of this expanded statement with both entities in lieu of filing separate and distinct statements, provided that each copy of such expanded statement filed in place of an original is signed and verified by the designated employee as if it were an original. See Section 81004.

<sup>2</sup> See Section 81010 and Regulation 18115 for the duties of filing officers and persons in agencies who make and retain copies of statements and forward the originals to the filing officer.

<sup>3</sup> For the purpose of disclosure only (not disqualification), an interest in real property does not include the principal residence of the filer.

<sup>4</sup> Investments and interests in real property which have a fair market value of less than \$2,000 are not investments and interests in real property within the meaning of the Political Reform Act. However, investments or interests in real property of an individual include those held by the individual's spouse and dependent children as well as a pro rata share of any investment or interest in real property of any business entity or trust in which the individual, spouse and

dependent children own, in the aggregate, a direct, indirect or beneficial interest of 10 percent or greater.

<sup>5</sup> A designated employee's income includes his or her community property interest in the income of his or her spouse but does not include salary or reimbursement for expenses received from a state, local or federal government agency.

<sup>6</sup> Income of a business entity is reportable if the direct, indirect or beneficial interest of the filer and the filer's spouse in the business entity aggregates a 10 percent or greater interest. In addition, the disclosure of persons who are clients or customers of a business entity is required only if the clients or customers are within one of the disclosure categories of the filer.

Note: Authority cited: Section 83112, Government Code. Reference: Sections 87103(e), 87300-87302, 89501, 89502 and 89503, Government Code.

#### HISTORY

1. New section filed 4-2-80 as an emergency; effective upon filing (Register 80, No. 14).  
Certificate of Compliance included.
2. Editorial correction (Register 80, No. 29).
3. Amendment of subsection (b) filed 1-9-81; effective thirtieth day thereafter (Register 81, No. 2).
4. Amendment of subsection (b)(7)(B)1. filed 1-26-83; effective thirtieth day thereafter (Register 83, No. 5).
5. Amendment of subsection (b)(7)(A) filed 11-10-83; effective thirtieth day thereafter (Register 83, No. 46).
6. Amendment filed 4-13-87; operative 5-13-87 (Register 87, No. 16).

7. Amendment of subsection (b) filed 10-21-88; operative 11-20-88 (Register 88, No. 46).
8. Amendment of subsections (b)(8)(A) and (b)(8)(B) and numerous editorial changes filed 8-28-90; operative 9-27-90 (Reg. 90, No. 42).
9. Amendment of subsections (b)(3), (b)(8) and renumbering of following subsections and amendment of Note filed 8-7-92; operative 9-7-92 (Register 92, No. 32).
10. Amendment of subsection (b)(5.5) and new subsections (b)(5.5)(A)-(A)(2) filed 2-4-93; operative 2-4-93 (Register 93, No. 6).
11. Change without regulatory effect adopting Conflict of Interest Code for California Mental Health Planning Council filed 11-22-93 pursuant to title 1, section 100, California Code of Regulations (Register 93, No. 48). Approved by Fair Political Practices Commission 9-21-93.
12. Change without regulatory effect redesignating Conflict of Interest Code for California Mental Health Planning Council as chapter 62, section 55100 filed 1-4-94 pursuant to title 1, section 100, California Code of Regulations (Register 94, No. 1).
13. Editorial correction adding History 11 and 12 and deleting duplicate section number (Register 94, No. 17).
14. Amendment of subsection (b)(8), designation of subsection (b)(8)(A), new subsection (b)(8)(B), and amendment of subsections (b)(8.1)-(b)(8.1)(B), (b)(9)(E) and Note filed 3-14-95; operative 3-14-95 pursuant to Government Code section 11343.4(d) (Register 95, No. 11).
15. Editorial correction inserting inadvertently omitted language in footnote 4 (Register 96, No. 13).

16. Amendment of subsections (b)(8)(A)-(B) and (b)(8.1)(A), repealer of subsection (b)(8.1)(B), and amendment of subsection (b)(12) filed 10-23-96; operative 10-23-96 pursuant to Government Code section 11343.4(d) (Register 96, No. 43).
17. Amendment of subsections (b)(8.1) and (9)(E) filed 4-9-97; operative 4-9-97 pursuant to Government Code section 11343.4(d) (Register 97, No. 15).
18. Amendment of subsections (b)(7)(B)5., new subsections (b)(8.2)-(b)(8.4)(C) and amendment of Note filed 8-24-98; operative 8-24-98 pursuant to Government Code section 11343.4(d) (Register 98, No. 35).
19. Editorial correction of subsection (a) (Register 98, No. 47).
20. Amendment of subsections (b)(8.1), (b)(8.1)(A) and (b)(9)(E) filed 5-11-99; operative 5-11-99 pursuant to Government Code section 11343.4(d) (Register 99, No. 20).
21. Amendment of subsections (b)(8.1)-(b)(8.1)(A) and (b)(9)(E) filed 12-6-2000; operative 1-1-2001 pursuant to the 1974 version of Government Code section 11380.2 and Title 2, California Code of Regulations, section 18312(d) and (e) (Register 2000, No. 49).
22. Amendment of subsections (b)(3) and (b)(10) filed 1-10-2001; operative 2-1-2001. Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements) (Register 2001, No. 2).
23. Amendment of subsections (b)(7)(A)4., (b)(7)(B)1.-2., (b)(8.2)(E)3., (b)(9)(A)-(C) and footnote 4. filed 2-13-2001. Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third

Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements) (Register 2001, No. 7).

24. Amendment of subsections (b)(8.1)-(b)(8.1)(A) filed 1-16-2003; operative 1-1-2003.

Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements) (Register 2003, No. 3).

25. Editorial correction of History 24 (Register 2003, No. 12).

26. Editorial correction removing extraneous phrase in subsection (b)(9.5)(B) (Register 2004, No. 33).

27. Amendment of subsections (b)(2)-(3), (b)(3)(C), (b)(6)(C), (b)(8.1)-(b)(8.1)(A), (b)(9)(E) and (b)(11)-(12) filed 1-4-2005; operative 1-1-2005 pursuant to Government Code section 11343.4 (Register 2005, No. 1).

28. Amendment of subsection (b)(7)(A)4. filed 10-11-2005; operative 11-10-2005 (Register 2005, No. 41).

29. Amendment of subsections (a), (b)(1), (b)(3), (b)(8.1), (b)(8.1)(A) and (b)(9)(E) filed 12-18-2006; operative 1-1-2007. Submitted to OAL pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements) (Register 2006, No. 51).

30. Amendment of subsections (b)(8.1)-(b)(8.1)(A) and (b)(9)(E) filed 10-31-2008; operative 11-30-2008. Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate

District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements and not subject to procedural or substantive review by OAL) (Register 2008, No. 44).

31. Amendment of section heading and section filed 11-15-2010; operative 12-15-2010. Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements and not subject to procedural or substantive review by OAL) (Register 2010, No. 47).

32. Amendment of section heading and subsections (a)-(b)(1), (b)(3)-(4), (b)(5)(C), (b)(8.1)-(b)(8.1)(A) and (b)(9)(E) and amendment of footnote 1 filed 1-8-2013; operative 2-7-2013. Submitted to OAL for filing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements and not subject to procedural or substantive review by OAL) (Register 2013, No. 2).

33. Amendment of subsections (b)(8.1)-(b)(8.1)(A), (b)(8.2)(E)3. and (b)(9)(E) filed 12-15-2014; operative 1-1-2015 pursuant to section 18312(e)(1)(A), title 2, California Code of Regulations. Submitted to OAL for filing and printing pursuant to *Fair Political Practices Commission v. Office of Administrative Law*, 3 Civil C010924, California Court of Appeal, Third Appellate District, nonpublished decision, April 27, 1992 (FPPC regulations only subject to 1974 Administrative Procedure Act rulemaking requirements) (Register 2014, No. 51).

**BOARD OF RETIREMENT  
OF THE  
CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
CONFLICT OF INTEREST CODE**

Adopted: 02/24/76

Amended: 11/06/02, 11/17/04, 4/8/09, 12/8/10, 09/10/14

Section 100, Purpose

Pursuant to the provisions of Government Code Sections 87300, et seq., the Board of Retirement of the Contra Costa County Employees' Retirement Association adopts this Conflict of Interest Code. Nothing contained herein is intended to modify or abridge the provisions of the Political Reform Act of 1974 (Government Code Secs. 81000 et seq.) The provisions of this Code are in addition to the laws pertaining to conflicts of interest, including but not limited to Government Code Section 87100 which provides that: "No public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest." Except as otherwise indicated, the definitions of the Political Reform Act and regulations adopted pursuant thereto, including specifically but not limited to FPPC Regulation 18730, are incorporated herein, and this Code shall be interpreted consistently therewith. Pursuant to Government Code sections 87303 and 82011(b), this Conflict of Interest Code and any amendments thereto become effective upon approval by the Contra Costa County Board of Supervisors.

Section 200, Designated Positions and Employees

The positions listed in Exhibit "A" (attached hereto) are "designated positions". Every incumbent of these is a "designated employee", and is deemed to make, or participate in the making of, decisions which could affect his or her personal economic interests.

Section 300, Disclosure, Statements

Designated positions shall be assigned to one or more of the disclosure categories set forth in Exhibit "B". Each designated employee shall file an annual statement disclosing that employee's interest in investments, business positions, real property and income designated as reportable under the category to which the employee's position is assigned.

Agency positions that manage public investments for purposes of Section 87200 of the Government Code are listed in Exhibit "C", as required pursuant to Government Code section 87314. Each Retirement Board member and CCCERA employee listed as a Section 87200 filer must file an annual statement of economic interest with the Contra Costa County Clerk – Elections Division.

Disclosure statements are public records pursuant to Government Code section 81008(a).

#### Section 400, Place and Time of Filing

- (a) Every designated employee shall file the original of his or her statement of financial interests with the Contra Costa County Clerk of the Board of Supervisors.
- (b) Every position listed in Exhibit "C" shall file the original of his or her statement of financial interests with the Contra Costa County Clerk-Recorder.
- (c) Employees appointed, promoted or transferred to designated positions shall file initial statements within 30 days thereafter, and shall disclose any reportable investments, business positions and interests in real property held on, and income received during the 12 months before the effective date of the amendment, appointment, transfer or promotion.
- (d) Every designated employee shall file annual statements during March covering the preceding calendar year.
- (e) A designated employee required to file a statement of financial interest under any other agency's conflict of interest code, or under Article 2 of Chapter 7 of the Political Reform Act for a jurisdiction contained within the territorial jurisdiction of this agency may comply with the provisions of this Code by filing a duplicate copy of that statement and an expanded statement which covers reportable interests in that portion of this agency's jurisdiction which differs from the jurisdiction described in the other statement.

#### Section 500, Disclosure Statement, Form and Content

- (a) Forms. Disclosure statements shall be made on forms supplied by the Clerk of the Board of Supervisors or the Clerk-Recorder.
- (b) Content. The disclosure statement shall contain the following information:
  - (1) Investment or Interest in Real Property. When an investment or an interest in real property is required to be reported, the statement shall contain: a statement of the nature of the investment or interest, the name of the business entity in which each investment is held, a general description of the business activity in which the business entity is engaged, and the address or other precise location of the real property. The statement shall also contain a statement whether the fair market value of the investment or interest in real property equals or exceeds two thousand dollars (\$2,000) but does not exceed ten thousand dollars (\$10,000), whether it exceeds ten thousand dollars (\$10,000) but does not exceed one hundred thousand dollars (\$100,000), or whether it exceeds one hundred thousand dollars (\$100,000). This information need not be provided with respect to an interest in real property which is solely the principal residence of the filer or any other property which the filer utilizes exclusively as the personal residence of the filer.
  - (2) Personal Income. When income is required to be reported under this article, the statement shall contain: the name and address of each source of income aggregating five hundred dollars (\$500) or more in value, or fifty dollars (\$50) or more in value if the income was a gift, and a general description of the business activity, if any, of each source. The statement shall also contain a statement whether the aggregate value of income from each source, or in the case of a loan,

the highest amount owed to each source, was \$1,000 or less, greater than \$1,000, greater than \$10,000, or greater than \$100,000; and a description of the consideration, if any, for which the income was received. In the case of a loan, the statement shall contain the annual interest rate and the security, if any, given for the loan.

- (3) In the case of a gift, the name, address and business activity of the donor and any intermediary through which the gift was made, a description of the gift, the amount or value of the gift, and the date on which the gift was received.
- (4) Business Entity. When income of a business entity, including income of a sole proprietorship, is required to be reported, the statement shall contain: the name, address, and a general description of the business activity of the business entity, and the name of every person from whom the business entity received payments if the filer's pro rata share of gross receipts from such person was equal to or greater than ten thousand dollars (\$10,000).
- (5) Business Position. When business positions are required to be reported, a designated person shall list the name and address of each business entity in which he or she is a director, officer, partner, trustee, employee, or in which he or she holds any position of management, a description of the business activity in which the business entity is engaged, and the designated person's position with the business entity.
- (6) Acquisition or Disposal During Period. In the case of an annual or leaving office statement, if an investment or an interest in real property was partially or wholly acquired or disposed of during the period covered by the statement, the statement shall contain the date of acquisition or disposal.

#### Section 600, Disqualifications.

Designated employees must disqualify themselves from making or participating in the making of any decisions or using their official position to influence the making of any decision in which they have a reportable financial interest, when it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the employee, a member of his or her immediate family or on any other interest indicated in Government Code section 87103. No designated employee shall be required to disqualify him or herself with respect to any matter which could not be legally acted upon or decided without his or her participation, provided the "rule of necessity" appropriately applies to the circumstances.

All other provisions of this Code notwithstanding, the following provisions hereafter apply:

1. No designated person shall accept any honorarium.

Government Code Section 89502 shall apply to the prohibitions in this section. This section shall not limit or prohibit payments, advances, or reimbursements for travel and related lodging and subsistence authorized by Government Code section 89506 or other provision of law.

2. No designated employee shall accept any gifts with a total value in a calendar year from any single source that exceeds the limitations set forth in Government Code section 89503.

**EXHIBIT "A"**

Position Categories

<u>Designated Positions</u>	<u>Disclosure Category</u>
Retirement Deputy Chief Executive Officer	General
Retirement Accounting Manager	1
Retirement Administration Manager	2
Retirement General Counsel	1
Retirement Assistant General Counsel	1
Retirement Investment Analyst	1
Outside fiduciary counsel	1
Outside investment consultant	1

- Consultants shall be included in the list of designated positions and shall disclose pursuant to the broadest disclosure category in the code subject to the following limitation:

The Chief Executive Officer may determine in writing that a particular consultant, although a "designated position", is hired to perform a range of duties that is limited in scope and thus is not required to fully comply with the disclosure requirements described in this code. Such written determination shall include a description of the consultant's duties and, based upon that description, a statement of the extent of disclosure requirements. The Chief Executive Officer's determination is a public record and shall be retained for public inspection in the same manner and location as this conflict of interest code.

## **EXHIBIT "B"**

### Disclosure Categories

#### General:

An investment, interest in real property, or income is reportable if the business entity in which the investment is held, the interest in real property, or the income or source of income may foreseeably be affected materially by any decision made or participated in by the designated employee by virtue of the employee's position.

#### Designated Employees in Category 1:

Employees designated in Category 1 of Exhibit A shall complete all schedules of Form 700 unless there are no reportable interests for that schedule. A "reportable interest" shall be any business entity or source of income of a type in which the Board is authorized to invest.

#### Designated Employees in Category 2:

Employees designated in Category 2 of Exhibit A shall complete all schedules of Form 700 except those relating to interests in real property (Form 700, Schedules B and C), unless there are no reportable interests for a schedule. A "reportable interest" shall be any business entity or source of income which, within the filing period has contracted, or in the foreseeable future may contract with the Board to provide products or services, to the Retirement System or the Retirement Office.

**EXHIBIT "C"**

**Agency Positions that Manage Public Investments**  
**For Purposes of Section 87200 of the Government Code**

The following is a list of each position with the Retirement Board and CCCERA for which an individual occupying the position is required to file a Statement of Economic Interests as a public official who manages public investments within the meaning of Government Code Section 87200:

Members of the Board of Retirement, including Alternate Members  
Retirement Chief Executive Officer  
Retirement Chief Investment Officer



## **MEMORANDUM**

Date: September 28, 2016  
To: CCCERA Board of Retirement  
From: Gail Strohl, Chief Executive Officer  
Subject: Consider and take possible action to update the Procurement of Products and Services Policy.

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### ***Background***

On October 7, 2015, the Board adopted the Procurement of Products and Services Policy. Within this policy, it states that a review shall occur within one year following the initial adoption. In assessing the experience of past items requiring action by the Board, it is recommended that the expenditure limit for items requiring specific Board approval be increased. In addition, an exception is included concerning services and goods necessary for day-to-day operational administration of CCCERA.

### ***Recommendation***

Consider and take possible action to update the Procurement of Products and Services Policy.

**CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
BOARD OF RETIREMENT  
PROCUREMENT OF PRODUCTS AND SERVICES POLICY**

Adopted: October 7, 2015

Amended:

**I. PURPOSE**

This policy is intended to establish guidelines by which the Contra Costa County Employees' Association (CCCERA) will acquire products and services.

**II. OBJECTIVES**

- A. The objectives of the Procurement of Products and Services Policy are to ensure that:
  - 1. The acquisition of products and services are made in the best interests of CCCERA, its members and beneficiaries.
  - 2. The process of selecting providers is diligent, fair and open.
  - 3. Quality products and services are obtained at reasonable cost.

**III. APPLICABLE LAW**

The CCCERA Board has plenary authority and fiduciary responsibility for the administration of the CCCERA system. (California Constitution, Article XVI, Sec. 17.) In addition, the Board is the governing body of CCCERA, an independent district and the direct employer of all its staff, effective January 1, 2015. (Senate Bill 673, Statutes 2014, Chapter 244; Government Code Section 31522.9 and 31468.) The Board has the authority to delegate administrative responsibility to CCCERA personnel to carry out the necessary work of the board. (Government Code Section 31522.9.)

**IV. POLICY**

- A. The general role of the Chief Executive Officer in the selection of service providers requiring Board approval is to provide sound research and analysis concerning potential service providers, to develop clear and appropriate screening criteria, and to recommend candidates for appointment by the Board.
- B. In accordance with its fiduciary duty, the general role of the Board in the selection process is to determine that the recommendations and accompanying analysis provided by the Chief Executive Officer have been prepared with the requisite level of skill, diligence and care, and reflect the mission and goals of CCCERA; and to exercise its best judgment as to the service providers that will assist the Board in carrying out its fiduciary responsibilities.

C. Service providers shall be divided into two broad categories: Core service providers and non-core service providers. Core service providers include, but are not limited to:

1. The actuary;
2. The auditor;
3. The custodian bank;
4. General and specialty investment consultants;
5. Investment managers and vehicles;
6. Fiduciary counsel;
7. Labor and Employment legal counsel;
8. Chief labor negotiator; and
9. Other service providers, where the cost of providing the service sought is expected to exceed \$50,000 in total or where the term of the contract exceeds five years.

D. Non-core service providers include, but are not limited to:

1. Ad hoc consultants; and
2. Information technology services

E. Selection Guidelines

1. All service providers shall be selected in the best interests of CCCERA, its members and beneficiaries.
2. The selection of all service providers shall be subject to a level of due diligence that is appropriate to the materiality of the service in question.
3. Contracts or similar arrangements clearly defining the terms and scope of engagement and CCCERA's expectations shall be established for all service providers engaged by CCCERA.
4. All service providers engaged by CCCERA shall be subject to periodic review in accordance with CCCERA's Professional Consultant Evaluation Policy. The frequency and depth of such reviews shall be commensurate with the materiality of the services provided.
5. The Chief Executive Officer shall present annually to the Board a multi-year time-line depicting all scheduled performance of CCCERA service providers, and will report to the Board annually on progress achieved.

F. Core Service Providers

1. The search for a core service provider shall generally be initiated by an action of the Board, acting on its own initiative or on the recommendation of the Chief Executive Officer.
2. The Chief Executive Officer, with the assistance of staff, consultants and advisors as appropriate, shall develop appropriate selection criteria to ensure that all candidates are accorded a fair and thorough review. Such criteria may include, but are not limited to:

- a. Provider experience and track record;
  - b. Quality of individuals assigned to work with and provide service to CCCERA;
  - c. Ability to communicate successfully with the Board and staff;
  - d. Client references;
  - e. Costs;
  - f. Sound business and ethical practices;
  - g. Liability coverage; and
  - h. CCCERA satisfaction with past service, in the case of incumbent providers.
3. The Chief Executive Officer shall provide the Board with periodic reports on the status of all search processes.
  4. Except as stated in Par. 9 below, based on the selection criteria, the Chief Executive Officer shall select a short list of potential candidates. The Chief Executive Officer shall interview the short-listed candidates and may conduct due diligence visits in order to identify the most suitable candidate(s). The Chief Executive Officer will inform the Board of the interview schedule and invite Board members to participate as appropriate.
  5. The Chief Executive Officer shall prepare a report and recommendation for the Board which will include:
    - a. The criteria used to select potential candidates;
    - b. A list of candidates that were considered; and
    - c. A recommendation as to the candidate(s) who would best fulfill the needs identified by CCCERA, and the rationale behind the recommendation.
  6. The Board shall consider the analysis and recommendation of the Chief Executive Officer. In reviewing the recommendation, the Board shall determine that the recommendations and accompanying analysis provided by the Chief Executive Officer have been prepared with the requisite level of skill, diligence and care, and reflect the mission and goals of the CCCERA. In the event the Board is not satisfied with the analysis or the search process undertaken, the Board may direct the Chief Executive Officer to address any areas of concern regarding the analysis or the search process. Once such additional efforts are complete, the Chief Executive Officer shall resubmit a recommendation.
  7. The Board may, at its option, interview the Chief Executive Officer's recommended candidate(s) and any other candidates that were considered.
  8. Following the actions described in Pars. 6 and 7, above, the Board shall proceed to vote on the selection of service providers. The Board shall exercise its best judgment as to the service providers that will assist the Board in carrying out its fiduciary responsibilities.
  9. With regard to the selection of the Board's Fiduciary Counsel, the selection and recommendation process detailed in Pars. 2-7 above shall be conducted

jointly by one or more Board members appointed by majority vote of the full Board for that purpose and the Chief Executive Officer.

#### G. Guidelines for the Use of Requests for Proposal

1. Requests for proposal (RFP) shall generally be used in searching for service providers where the project is material in scope or financial costs.
2. All CCCERA RFPs shall clearly state that contracts will not necessarily be awarded to the lowest bidder.
3. When an RFP is issued, CCCERA shall ensure that all candidates are provided with identical information and requirements. Candidates shall have the opportunity to request additional information during the process and such additional information shall be made available publicly on CCCERA's website in advance of to the deadline for responding to the RFP.

#### H. Quiet Periods

1. The Board and/or the Chief Executive Officer shall declare a "quiet" (black-out) period when initiating a Core Service Provider search process.
2. During quiet periods, Board members shall not communicate with service providers known to the Board or staff as likely candidates in the search on matters pertaining to CCCERA, except during open and public Board meetings. Furthermore, during quiet periods, individual Board members or groups of Board members will not meet with such service providers for entertainment or social purposes. Exceptions may be made in the case of industry conferences such as SACRS, where CCCERA Board members may socialize with specified service providers during open social events that are also attended by Trustees or staff of other systems, provided CCCERA Board members do not discuss matters pertaining to CCCERA business.
3. For the purpose of quiet periods, prohibited communications include those conducted through telephone conversations, letters, e-mails, and social media.
4. Quiet periods will cease when the subject contract becomes effective or the search process is otherwise concluded or suspended by the Board.
5. CCCERA service providers shall be provided with a copy of these quiet period provisions.
6. All RFPs shall include reference to these quiet period provisions; require that prospective service providers comply with its provisions during the selection process; and advise prospective service providers that violation of these quiet period provisions shall require their disqualification from consideration.

#### I. Non-Core Service Providers

The Chief Executive Officer may engage non-core service providers for up to a total contract value of \$50,000 without the prior approval of the Board, provided that the cost

of the service does not exceed the amount allocated of such service in the CCCERA's annual budget. The Chief Executive Officer shall notify the Board of the engagement of service providers with a cost \$10,000 or more at the next following regular meeting of the Board.

J. Contracts for the Procurement of Products

Contracts for the procurement of products shall be divided into two basis categories: Contracts requiring an expenditure of \$50,000 or less and those requiring an expenditure of more than \$50,000. The Chief Executive Officer has the authority to enter into contracts requiring an expenditure of \$50,000 or less without Board authorization. Contracts requiring an expenditure in excess of \$50,000 require Board approval.

K. Exceptions to Expenditure Limit

The acquisition of certain operational services serve as exceptions to the \$50,000 limit. These services include the acquisition of insurance and physical and data security measures at CCCERA. In addition, renewals of services with long standing vendors are included.

L. Publication

These Guidelines and Policy shall be made a part of the Board's official policies and shall be prominently posted to the CCCERA internet website.

M. Review

These Guidelines and Policy shall be subject to Board review within one year following their initial adoption by the Board, and thereafter, not less than every three years.



## SACRS VOTING PROXY FORM

The following are authorized by the \_\_\_\_\_ County Retirement Board to vote on behalf of the County Retirement System at the upcoming SACRS Conference (*if you have more than one alternate, please attach the list of alternates in priority order*):

\_\_\_\_\_ Voting Delegate

\_\_\_\_\_ Alternate Voting Delegate

These delegates were approved by the Retirement Board on \_\_\_\_ / \_\_\_\_ / \_\_\_\_.

The person authorized to fill out this form on behalf of the Retirement Board:

Signature: \_\_\_\_\_

Print Name: \_\_\_\_\_

Position: \_\_\_\_\_

Date: \_\_\_\_\_

Please send your system's voting proxy by **October 1, 2016** to:

SACRS  
Attn: Sulema H. Peterson, SACRS Administrator  
1415 L Street, Suite 1000  
Sacramento, CA 95814

E-mail: [sacrs@sacrs.org](mailto:sacrs@sacrs.org)