



MINUTES

RETIREMENT BOARD MEETING

SECOND MONTHLY BOARD MEETING

9:00 a.m.

February 26, 2014

Retirement Board Conference Room

The Willows Office Park

1355 Willow Way, Suite 221

Concord, California

Present: Debora Allen, Scott Gordon, Brian Hast, Jerry Holcombe, Karen Mitchoff, John Phillips, William Pigeon, Gabe Rodrigues, Jerry Telles and Russell Watts

Absent: Louie Kroll

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Deputy Retirement Chief Executive Officer; Timothy Price, Retirement Chief Investment Officer; Vickie Kaplan, Retirement Accounting Manager; and Christina Dunn, Retirement Administration Manager

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Marty Dirks	Milliman
Dorian Young	Milliman
Paul Angelo	Segal Company
John Monroe	Segal Company

1. Pledge of Allegiance

Hast led all in the *Pledge of Allegiance*.

2. Accept comments from the public

Leedom announced she would be retiring effective March 8th as the Chief Executive Officer (CEO) of CCCERA.

Hast noted that the CEO's publicly announced March 8th date of retirement did not come until after the agenda had been posted, and the Board will not be able to discuss related personnel issues until the next Board meeting, which is scheduled after the CEO's departure. Because there was a need to take immediate action before the Board could timely agendaize a closed session for its next meeting, Hast asked for a motion, to be approved by a 2/3rds vote of the Board, pursuant to Section 54954.2(b) of the Brown Act, to add a closed session to the current agenda. The closed session is authorized under Section 54957(b)(1) of the Brown Act (personnel matters).

After discussion it was **M/S/C** to add a closed session item to the agenda, as requested by the Board. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Pigeon, Rodrigues and Watts. Abs: Telles)

3. **Approval of Minutes**

It was M/S/C to approve the minutes of the January 22, 2014 meeting. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Pigeon, Rodrigues, Telles and Watts.)

4. **Consider and take possible action to adopt the CCCERA Funding Policy** – Paul Angelo and John Monroe

Paul Angelo reviewed the recommended changes to the funding policy.

The Board discussed the following additional changes to the funding policy:

- Under the Goals of Actuarial Funding Policy #1 change the wording to “To determine future contributions that, together with current plan assets, are expected to be sufficient to provide for all benefits provided by CCCERA;
- Under the Asset Smoothing Method, change the 2nd paragraph to read “This policy anticipates that future circumstances may warrant adjustments to change the pattern of the recognition of the net deferred investment gains or losses after a period of significant market change followed by a period of market correction, upon receiving an analysis from CCCERA’s actuary. Such adjustments would be appropriate when the net deferred investment gains or losses are relatively small (i.e., the actuarial and market values are very close together) and the following conditions are met:”
- Under the Amortization Policy, bullet #4 change the wording to:
“Unless the Board adopts an alternative amortization period after receiving an actuarial analysis:
 - a. with the exception noted in b., below, the increase in UAAL as a result of any plan amendments will be amortized over a period of 10 years;
 - b. the entire increase in UAAL resulting from a temporary retirement incentive will be funded in full upon adoption of the incentive. If the increase in UAAL is due to the impact of benefits resulting from additional service permitted in Section 31641.04 of the 1937 CERL (Golden Handshake), the entire increase in UAAL will be funded in full upon adoption of the Golden Handshake.”
- Under the Amortization Policy, bullet #7, 2nd paragraph change the wording to “If the surplus exceeds 20% of the AAL per Section 7522.52 of the Government Code, then the amount of such surplus in excess of 20% of the AAL (and any subsequent surpluses in excess of that amount) will be amortized over an “open” amortization period of 30 years, but only if the other conditions of Section 7522.52 have also been met. If those are not met, then the surplus will not be amortized and the full Normal Cost will be contributed.”
- Under Policy Considerations, Adjustment for 18-Month Delay in Rate Implementation, 1st paragraph, line one, to remove the word “the” before the word employers.

It was M/S/C to adopt the revised CCCERA funding policy with the requested changes listed above and the changes recommended by Segal. (Yes: Allen, Cabral, Gordon, Hast, Mitchoff, Phillips, Pigeon, Telles and Watts)

After further discussion on the funding policy it was M/S/C to amend the CCCERA funding policy by removing the word “etc.” on page 5, first line of the last paragraph. (Yes: Allen, Gordon, Hast, Mitchoff, Phillips, Pigeon, Rodrigues, Telles and Watts)

5. **Presentation regarding the application of administrative expenses under GASB 67 and GASB 68** – Paul Angelo and John Monroe

Angelo reviewed the background of GASB 67 and 68 noting GASB 67 governs the Associations financial reporting and GASB 68 governs the employers’ financial reporting. He discussed the difference between funding and GASB financial reporting noting GASB requires for financial reporting the investment return assumption be net of investment expenses but not net of administrative expenses. Currently, CCCERA’s investment return assumption used for the annual funding valuation is developed net of both investment and administrative expenses. He explained this would result in the Association having two slightly different investment return assumptions, one for funding and one for financial reporting.

Gordon was no longer present for subsequent discussion and voting.

He discussed possible approaches if the Board wished to develop a single investment return assumption for both funding and financial reporting purposes.

After discussion, the Board directed Segal Consulting to keep the investment return assumption for funding unchanged and to come back with a recommendation for the investment return assumption to use for financial reporting disclosure purposes.

It was the consensus of the Board to move to Item 7.

7. **Presentation from Adams Street regarding potential commitment to the 2014 Adams Street Global Fund** – Gary Fencik and Hanneke Smits

Prior to the presentation, Fencik waived the confidentiality disclaimer on the presentation materials, noting this is a public meeting and any information discussed will be available to the public.

Fencik provided an overview of the firm and the 2014 global private equity fund noting CCCERA has been invested in the last six Adams Street global private equity funds.

Smits discussed the investment teams and strategy noting their goal is to invest about 80% of the intended allocation within the first year.

Fencik discussed fees noting they will apply a credit for prior subscriptions reducing the average fund-of-funds management fee by 15%.

8. **Consider and take possible action on staff recommendation regarding a commitment to the 2014 Adams Street Global Fund.**

Price reviewed the staff recommendation to invest \$50 million to the Adams Street global private equity fund. He discussed the long standing relationship with Adams Street Partners and the performance of the fund.

It was M/S/C to accept the staff recommendation and invest \$50 million to the 2014 Adams Street Global Fund subject to due diligence, on-site visits and authorize the CEO or Board designee to sign the necessary contracts. (Yes: Allen, Hast, Holcombe, Mitchoff, Phillips, Pigeon, Rodrigues, Telles and Watts)

9. **Presentation from Paladin Cybersecurity Fund I** – Michael Steed, Niloofar Howe and Lt. General Kenneth Minihan

Prior to the presentation, Steed waived the confidentiality disclaimer on the presentation materials, noting this is a public meeting and any information discussed will be available to the public.

Steed discussed the thirty-one cyber related investments Paladin has invested in during the last ten years noting they are a leader in investing in homeland security. He discussed the firm's milestones and the investment team's primary focus.

Minihan discussed the need for a fund of this type. He noted this is really security in the cyber age not cybersecurity. He discussed the unique relationship Paladin has with the federal government and the deep understanding of disruptive technologies which helps them identify market drivers.

Howe discussed the investment philosophy and noted Paladin is differentiated from other investments because they live and breathe value add investments. She explained the premise of the fund is to be mission oriented and noted they focus on products, services and technologies that serve both private enterprise and governmental needs.

Steed discussed the fund performance, fund size and anticipated closing date.

10. **Consider and take possible action on commitment to Paladin Cybersecurity Fund I**

After discussion on the advantages and disadvantages of investing in a unique private equity fund of this type it was **M/S** to not make an investment with Paladin Cybersecurity Fund I.

A substitute motion was **M/S** to invest \$20 million with Paladin Cybersecurity Fund I subject to a minimum fund size of \$60 million. (Yes: Mitchoff, Pigeon, Rodrigues and Telles. No: Allen, Hast, Holcombe, Phillips and Watts). **Motion failed.**

The original motion was **M/S/C** to not make an investment with Paladin Cybersecurity Fund I. (Yes: Allen, Hast, Holcombe, Phillips and Watts No: Mitchoff, Pigeon, Rodrigues and Telles.)

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957(b)(1).

The Board moved into open session.

There was no reportable action.

Mitchoff was not present for subsequent discussion and voting.

6. **Review of total portfolio performance**

Young reviewed the market and the key points of the quarterly report noting the CCCERA total fund returned 4.9% for the fourth quarter and 16.5% for the year ending December 31, 2013. He stated the CCCERA Total Fund performance has been first quartile over the trailing three-through five-year periods. He also reviewed the cumulative performance statistics for all funds.

Pigeon and Telles were no longer present for subsequent discussion and voting.

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

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

Dirks reported on the managers on the Watch List. Dirks stated they recommend removing INTECH Large Cap and Global Portfolios, INVESCO IREF I, II and Long Wharf Real Estate Growth Fund II & III from the watch list.

It was M/S/C to remove INTECH Large Cap and Global Portfolios from the Watch List as recommended by Milliman. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)

It was M/S/C to remove INVESCO IREF I, II from the Watch List as recommended by Milliman. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)

It was M/S/C to remove Long Wharf Real Estate Growth Fund II & III from the Watch List as recommended by Milliman. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)

b. Consideration of any changes in allocations to managers

There were no changes in allocations to managers.

11. Conference Seminar Attendance

- a. It was M/S/C to authorize the attendance of two Board members at the Annual Conference, NCPERS, April 26 – May 1, 2014, Chicago, IL. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)
- b. It was M/S/C to authorize the attendance of 2 Board members and 1 staff member at the Spring Conference, Council of Institutional Investors, May 7 – 9, 2014, Washington, DC. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)
- c. It was M/S/C to authorize the attendance of 2 Board members at the Spring Conference, CRCEA, April 7 – 9, 2014, Costa Mesa, CA. (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)

12. Miscellaneous

(a) Staff Report –

Leedom reminded the Board members that their premiums for "non-recourse" coverage under their fiduciary insurance are due.

She noted 95% of the other retirement systems have pictures of their Board members in their CAFR and we would like to have the same.

She reported Rebecca Byrnes our outside Disability Counsel is retiring at the end of March. Staff will work on issuing an RFP for this service.

She also reported staff are working on a blend and extend on the current Willows Office space lease to assist with paying for the re-models needed to accommodate increased staffing.

She reported staff has invited employers to an educational meeting in March on GASB 67 and 68 presented by Segal Consulting and Brown Armstrong.

Price reported the Investment consultant committee should have an RFP released within a month.

He reported that the growth team at Delaware is forming a joint venture with the parent company that will be known as Jackson Square Partners. Jeff Van Harte will present to the Board in the near future to explain the new organization.

He also reported at the March 20th Board meeting there will be panel discussions from the investment managers. The topics will include the balance of risk and opportunities, opportunities in real assets and fixed income defense in times of rising interest rates.

He reported Bonnie Harkins is leaving Adelante and was not on the investment team so it should not affect our account.

(b) Outside Professionals' Report –

Dirks reported he and Helliesen visited Ocean Avenue capital partners, a private equity investor and was impressed. They would like them to meet with the Board at a future meeting.

(c) Trustees' comments –

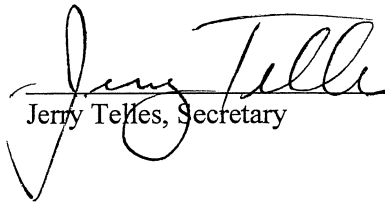
Hast reported the Board meeting on March 12th has been cancelled so the next Board meeting will be on March 20th.

The members of the Board thanked Marilyn for her service and expressed their gratitude for her assistance throughout the years.

It was **M/S/C** to adjourn the meeting (Yes: Allen, Hast, Holcombe, Phillips, Rodrigues and Watts.)



Brian Hast, Chairman



Jerry Telles, Secretary