The Board of Retirement met in regular session at 9:00 a.m. on Tuesday, November 20, 2012 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

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

Absent: None

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

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Bob Helliesen	Milliman
Marty Dirks	Milliman
Rebecca Byrnes	County Counsel

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Christina Dunn	CCCERA Staff
Tracy Kroll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Rossini	CCCERA Staff
Todd Smithey	Central Contra Costa Sanitary District
Mike Sloan	CCCREA & RSG
Barbara Bogans	Self
Janie Smith	Self
Bill Cullen	Retiree
Bill Pollacek	Retired Contra Costa County Treasurer
Kris Hunt	Contra Costa County Taxpayers Association

1. **Pledge of Allegiance**

   Viramontes led all in the *Pledge of Allegiance.*

2. **Public Comment**

   No members of the public offered comment.

3. **Approval of Minutes**

It was **M/S/C** to approve the minutes of the October 18, 2012 meeting. (Yes: Buck, Cabral, Gioia, Hast, Holcombe, Naramore, Phillips, Viramontes and Watts)

Allen was present for subsequent discussion and voting.

4. **Routine Items**

It was **M/S/C** to approve the routine items of the November 20, 2012 meeting. (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts)

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957, 54956.9(a) and Govt. Code Section 54956.9(b).

The Board moved into open session.

5. **Disability Retirements**

It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:

a. Gordon Trapp – Service Connected (Yes: Allen, Buck, Cabral, Gioia, Hast, Naramore, Phillips, Viramontes and Watts)

6. It was **M/S** to accept the Medical Advisor's recommendation and approve the non-service connected disability retirement for Barbara Bogans. (Yes: Buck, Cabral, Naramore, Viramontes. No: Allen, Gioia, Phillips and Watts. Abs: Hast). **Motion Failed.**

It was **M/S/C** to refer the item back to the Hearing Officer for further review pursuant to Government Code Section 31534(c). (Yes: Allen, Gioia, Hast, Phillips and Watts. No: Buck, Cabral, Naramore and Viramontes).

Telles was present for subsequent discussion and voting.

7a. There was no reportable action related to Govt. Code Section 54956.9(a).

Leedom recused herself from Item 7b.

7b. There was no reportable action related to Govt. Code Section 54956.9(a).

Gioia recused himself from Item 7c and was not present for subsequent discussion and voting.

7c. There was no reportable action related to Govt. Code Section 54956.9(a).

Gioia was present for subsequent discussion and voting.

7d. There was no reportable action related to Govt. Code Section 54956.9(b).

8. **Review of total portfolio performance** - Bob Helliesen, Marty Dirks

Helliesen reported on the third quarter total portfolio performance noting the book has a new format.

CCCERA's third quarter return of 4.9% was better than the median public fund at 4.6%. Performance has been strong against peers through the past four years, particularly over the trailing two- and three-year periods, where performance ranked in the 3rd and 2nd percentile, respectively. Still, with the exception of the most recent quarter, the fund has underperformed its policy benchmark over trailing time periods (please see below for the fund's policy benchmark). CCCERA performed slightly above the median over the past five years. CCCERA has out-performed the median over trailing time periods longer than five years.

The Total Fund Policy Benchmark referred to above was constructed by weighting the various asset class benchmarks by their target allocations.

- From the 3rd quarter of 2009 through the 1st quarter of 2010, the benchmark was 40.6% Russell 3000, 10.4% MSCI EAFE (Gross), 25% Barclays U.S. Aggregate, 3% Bank of America High Yield Master II, 4% Barclays Global Aggregate, 8.4% Dow Jones Wilshire REIT, 3.1% NCREIF, 5% S&P 500 + 4% (Quarter Lag) and 0.5% 91-Day T-Bills.
- From the 2nd quarter of 2010 through the 1st quarter of 2011, the benchmark was 35.6% Russell 3000, 10.4% MSCI EAFE (Gross), 5% MSCI ACWI (Net), 25% Barclays U.S. Aggregate, 3% Bank of America High Yield Master II, 4% Barclays Global Aggregate, 8.4% Dow Jones Wilshire REIT, 3.1% NCREIF, 5% S&P 500 + 4% (Quarter Lag) and 0.5% 91-Day T-Bills.
- From the 2nd quarter of 2011 through the 1st quarter of 2012, the benchmark was 31% Russell 3000, 10.4% MSCI EAFE (Gross), 9.6% MSCI ACWI (Net), 25% Barclays U.S. Aggregate, 3% Bank of America High Yield Master II, 4% Barclays Global Aggregate, 8.4% Dow Jones Wilshire REIT, 3.1% NCREIF, 5% S&P 500 + 4% (Quarter Lag) and 0.5% 91-Day T-Bills.
- Beginning the 2nd quarter of 2012, the benchmark was 27.7% Russell 3000, 10.6% MSCI ACWI ex-USA (Gross), 12.3% MSCI ACWI (Net), 19.6% Barclays U.S. Aggregate, 5% Bank of America High Yield Master II, 4% Barclays Global Aggregate, 9% Wilshire REIT, 3.5% NCREIF, 6% S&P 500 + 4% (Quarter Lag) and 0.5% 91-Day T-Bills.

Domestic Equity

CCCERA total domestic equities returned 7.1% for the quarter, better than the 6.2% return of the Russell 3000® and the 5.9% return of the median manager. Boston Partners performed much better than its benchmark with a return of 8.1% compared to 6.5% for the Russell 1000 Value. Sector allocation in the Materials, Information Technology, and Financials sectors greatly helped third quarter performance. Boston Partners is above its benchmark for all trailing time periods extending out to ten years.

Ceredex trailed its benchmark in the third quarter with a return of 4.4% compared to 5.7% for the Russell 2000 Value Index. Ceredex is also below the index for the year-to-date period, 12.0% vs. 14.4%, and ranks in the 60th percentile of small cap value managers. Delaware modestly exceeded the benchmark with a return of 6.4% compared to 6.1% for the Russell 1000 Growth Index. Delaware is above its benchmark for all trailing time periods extending out to the trailing five years, and ranks very well compared to peers.

Emerald Advisors significantly outperformed its benchmark in the third quarter with a return of 7.2% compared to 4.8% for the benchmark. Strong performance in the information technology sector enhanced returns for the Emerald portfolio during the third quarter. Emerald has outperformed its benchmark for all trailing time periods extending out to the trailing seven years, and ranks well versus other small cap growth portfolios.

The Intech Large Cap Core portfolio beat it's index in the third quarter with a return of 6.7% compared to 6.4% for the S&P 500. Intech is close to its benchmark over all trailing time periods, and consistently outperforms the median large cap core equity portfolio. The PIMCO Stocks+ portfolio also beat the S&P 500 in the third quarter, returning 7.9% compared to 6.4% for the index. PIMCO is now above the benchmark over all trailing time periods extending out to ten years, and is above the median large cap core portfolio for all time periods extending out to the trailing five years.

The WHV large cap core portfolio significantly outperformed the S&P 500 Index during the third quarter with a return of 8.8% compared to 6.4% for the S&P 500. Strong performance in WHV's Energy, Materials, and Information Technology sectors enhanced returns for the portfolio in the third quarter. This return ranks in the 3rd percentile of large cap core equity portfolios.

International Equity

CCCERA international equities returned 7.1% for the quarter, better than the MSCI EAFE return of 7.0% but below the MSCI ACWI ex-USA return of 7.5%, and was below the median MSCI ACI ex-US manager return of 7.4%. The GMO Intrinsic Value Extended portfolio returned 6.2%, below the 7.8% return of the Blended Benchmark (100% MSCI EAFE Value Index from inception to February 29, 2012, 100% MSCI ACWI ex-US Value from March 1, 2012 to present). The William Blair portfolio returned 8.0%, better than the MSCI ACWI ex-US Growth Index return of 7.2%.

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

Gioia was not present for subsequent discussion and voting.

Global Equity

CCCERA global equities returned 6.1% in the quarter, trailing the MSCI ACWI return of 7.0% and the median global equity return of 6.8%. The J.P. Morgan portfolio returned 6.4%, trailing the 7.0% return of the MSCI ACWI Index. The First Eagle portfolio returned 5.3%, also below the MSCI ACWI Index return. In its first full quarter of performance, the Intech Global Low Volatility portfolio trailed the MSCI ACWI with a return of 4.7%. Assets from the Tradewinds liquidation are held in a transition account, with a return of 6.6% during the third quarter of 2012. It is anticipated that Artisan Partners will be funded with assets from the transition manager in the fourth quarter of 2012.

Short term performance for all global equity managers is below the MSCI ACWI benchmark and the median. JP Morgan, which has the longest track record of the global equity managers, has outperformed the benchmark over the trailing year (23.8% vs. 21.7%), and ranked in the 36th percentile. The low volatility mandates which are managed by Intech and First Eagle are expected to protect in a falling market, and have not kept up with the benchmark in the strong rising market over the trailing year.

Domestic Fixed Income

CCCERA total domestic fixed income returned 3.2% for the third quarter, better than the 2.0% return of the Barclays Universal Index and the 2.2% return of the median core fixed income manager. This return ranked in the 6th percentile of US Core Fixed Income managers. Over trailing periods extending out to four years, the domestic fixed income performance ranks in the top docile, and ranks in the 5th percentile over the trailing ten years.

AFL-CIO returned 1.6%, which matched the Barclays U.S. Aggregate return and was below the median core fixed income manager. Performance of AFL-CIO is very close to the benchmark over longer periods, and ranks below the median core fixed income manager over all trailing time periods.

Allianz Global returned 4.1%, which trailed the 4.6% return of the ML High Yield Master II Index and the 4.4% return of the median high yield manager. Allianz outperformed the benchmark and the median for the trailing two- through seven year periods.

Goldman Sachs returned 2.6%, exceeding the Barclays U.S. Aggregate Index and the median fixed income manager. Performance of the Goldman Sachs portfolio has been very strong, beating the benchmark and the median core fixed income manager of all trailing time periods. The workout portfolio managed by Goldman Sachs returned 9.0%, significantly better than the Barclays Aggregate.

Lord Abbett returned 2.9%, exceeding the 1.6% return of the Barclays U.S. Aggregate and the 2.2% return of the median fixed income manager. Lord Abbett has beat the benchmark over all trailing time periods, and consistently ranks in the top quartile of core fixed income managers.

PIMCO Total Return returned 2.8%, exceeding the Barclays U.S. Aggregate and the median. PIMCO exceeds the benchmark over all trailing time periods, and consistently ranks in the top quartile of core fixed income managers.

The Torchlight II fund returned 11.2%, significantly above the ML High Yield Master II Index and the high yield fixed income median. The Torchlight Fund III returned 3.8% in the third quarter, below the Merrill Lynch High Yield Master II Index return of 4.6%. The first capital call for Torchlight Fund IV took place in August 2012, and performance for this fund will be reported in the fourth quarter 2012 report, after a full quarter of performance. Please note that due to the unique structure of these funds, the high yield benchmark is an imperfect benchmark.

International Fixed Income

Lazard Asset Management returned 4.1% in the third quarter, which exceeded the Barclays Global Aggregate return of 3.3% and the median global fixed income manager return of 3.9%, and ranked in the 47th percentile of global fixed income portfolios. Lazard has beat the benchmark for all trailing time periods, performing similarly to the median global fixed income manager.

Opportunistic

The opportunistic allocation (almost entirely Oaktree) returned 1.3% in the third quarter.

Alternative Investments

CCCERA total alternative investments returned 0.8% in the third quarter, significantly below the 7.4% return of the S&P + 4% per year benchmark. CCCERA total alternatives trail the benchmark over all time periods excluding the trailing five- and seven- year periods. (Please note that due to timing constraints, all alternative portfolio returns are for the quarter ending June 30, 2012). For further comments on each individual manager in the CCCERA real estate portfolio, please refer to page 101.

Adam Street returned -0.6% for the third quarter, the Bay Area Equity Fund returned 1.1%, the Carpenter Bancfund returned 3.7%, Energy Investor Fund I returned -1.8%, EIF Fund II returned 0.3%, EIF III returned 0.1%, EIF IV returned 1.2%, Nogales returned 2.1%, Paladin III returned 0.3%, and Pathway returned 2.3%. All alternative portfolios trailed the 7.4% return of the S&P + 4% per year benchmark during the third quarter.

Real Estate

The median real estate manager returned 2.5% for the quarter while CCCERA's total real estate returned 2.8%. CCCERA's total real estate ranks well above the median over all trailing time periods with the exception of the trailing five years, when performance ranks in the 56th percentile. Performance over the trailing three years is particularly strong with a return of 16.3% which ranked in the 4th percentile. For comments on each individual manager in the CCCERA real estate portfolio, please refer to page 96.

Adelante Capital REIT returned -0.3%, trailing the Wilshire REIT benchmark return of -0.1%, and ranked in the 81st percentile of US REIT managers. Over the trailing three years, Adelante returned 21.5% vs. 20.7% for the benchmark, and ranked in the 48th percentile of US REIT managers. Adelante was taken off the watch list at the August 29, 2012 Board meeting.

The INVESCO International REIT portfolio returned 9.9% compared to 10.5% for the FTSE EPRA/NAREIT Developed ex-USA benchmark, and ranked in the 69th percentile of international REIT portfolios. INVESCO ranked in the 1st percentile of international REIT portfolios over the trailing year with a return of 31.5% compared to the benchmark return of 29.2%. Over the trailing four years, INVESCO ranked in the 99th percentile with a return of 3.2% compared to the benchmark return of 7.5%.

DLJ RECP II returned 0.1%, DLJ RECP II returned 0.2%, and DLJ RECP IV returned -0.3%. (Due to timing constraints, the DLJ portfolio returns are for the quarter ending June 30, 2012). INVESCO Fund I returned 5.3% and INVESCO Fund II returned 10.6%. Long Wharf Fund II returned 0.6 in the third quarter, and Long Wharf Fund III returned 4.2%. Oaktree REOF returned 4.7%, and the Willows Office Property returned 0.7%. In their first full quarters with CCCERA, the Sigular Guff Distressed Real Estate Opportunities portfolio returned 0.3% and Angelo Gordon returned 4.4%.

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

a. **<u>Consideration of any managers already under review or to be placed under review</u>**

Helliesen reported on the performance of the managers on the watch list. There were no changes to managers already under review or new managers to be placed under review.

b. **<u>Consideration of any changes in allocations to managers</u>**

There were no changes in allocations to managers.

9. **<u>Presentation on Market Stabilization Account report</u>**

Kaplan reviewed the Market Stabilization Account's deferred return as of June 30, 2012.

It was **M/S/C** to accept the Market Stabilization Account report as of June 30, 2012. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts).

10. <u>2013 Budget</u>

Leedom presented the recommended 2013 Budget, noting the accomplishments of CCCERA's divisions and the organizational strategies.

Leedom reviewed staffing requirements and the organizational chart, noting the new Public Employees' Pension Reform Act of 2013 (PEPRA) poses implementation questions for all public retirement systems in California. The law will require changes to information system programming, staff training, forms design, internal and external communication, accounting, benefit statements, and actuarial studies. In order to maintain our existing level of service and improve workflow she requested five additional staff positions for this budget, a Retirement Counselor, a Retirement Assistant General Counsel, a Retirement Member Services Data Specialist, a Retirement Administration Manager and a Retirement Member Services Technician. Most of these classifications are existing positions, so task descriptions, salary steps, and other recruitment materials are currently available.

Preliminary analysis of PEPRA 2013's impact on CCCERA has created the need for a new Retirement Compliance Officer classification. Retirement systems will now be charged with monitoring, verifying, and reporting individual member and employer data according to specific compliance regulations. The Retirement Compliance Officer Job Description and salary survey will be under development in early 2013. The new single classification has an expected salary up to $110,000 annually.

It was **M/S/C** to approve six new positions including a Retirement Counselor, a Retirement Assistant General Counsel, a Retirement Compliance Officer, a Retirement Member Services Data Specialist, a Retirement Administration Manager and a Retirement Member Services Technician. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts, Abstain: Cabral)

Leedom noted with the changes mandated by PEPRA and the additional personnel needed, the office space will be reconfigured and updated to accommodate the additional staff.

It was **M/S/C** to adopt the 2013 Administrative Budget as presented. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts, Abstain: Cabral)

The 2013 Budget was reviewed noting the actual administrative budget is $8.3 million. The law provides that the entire expense of the administration can be up to 21 basis points of CCCERA's total Accrued Actuarial Liability, which is approximately $14.5 million. The recommended budget of $8.3 million does not include the IT, Investments, and Legal Budget that are not subject to the administrative budget cap.

Leedom also reviewed the IT, Investments and Legal Budget for 2013 including the release of an RFI to identify a pool of specialized legal counsel as needed.

It was **M/S/C** to adopt the IT, Investments and Legal Budget for 2013 as presented. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts, Abstain: Cabral)

11. **Conference Seminar Attendance**

(a) It was **M/S/C** to authorize the attendance of 1 Board member at the Fall Conference, CRCEA, October 22-24, 2012, Modesto, CA. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

(b) It was **M/S/C** to authorize the attendance of 1 Board member and 1 staff member at the Public Funds Conference, Opal Group, January 8-10, 2013, Scottsdale, AZ. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Viramontes, Telles and Watts)

12. **Miscellaneous**

(a) Staff Report -

Leedom reported active members have been notified of AB 197 and the changes that may affect their future retirement. She noted letters will be sent to retirement eligible deferred members.

In December the Board will be presented with the revised retiree mailings policy. She mentioned staff is working on an iPad policy, which will be presented to the Board at a future meeting.

She noted new carpet will be installed in the common areas of the building in the next month.

The Kuhns report will be made available to all Board members.

Price mentioned he conducted onsite visits to Allianz and Oaktree. He felt that Allianz was very stable and noted the team is becoming more conservative.

(b) Outside Professionals' Report - None

(c) Trustees' Comments –

Telles asked that the revised retiree mailings policy be presented to the retiree support groups prior to the Board meeting. Leedom noted it would be available on the website as a link in the agenda packet the Friday before the Board meeting.

Rodrigues asked if the travel policy could be amended to include reimbursement for Wi-Fi.

Cabral asked how soon we would know which pay codes would be affected by the changes mandated by AB 197. He felt there may be several hundred members that will be retiring by December 31, 2012.

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

Maria Theresa Viramontes, Chairman

John Phillips, Secretary