

*CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION*

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November 25, 2008

The Board of Retirement met in regular session at 9:00 a.m. on Tuesday, November 25, 2008 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, William J. Pollacek, Jim Remick, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager; Karen Levy, Counsel.

Outside Professional Support: Representing:  
Harvey Leiderman Reed Smith LLP  
Bob Helliesen Milliman  
Tim Price Milliman  
Paul Angelo Segal Company  
Nick Collier Milliman  
Karen Steffen Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Margie Breen	CCCERA Staff
Chih Chi Chu	CCCERA Staff
Joelle Luhn	CCCERA Staff
Gayle Cruz	CCCERA Staff
R.W. Kayser-Stange	Retiree
Craig Taylor	Human Resources Benefits
Leslie Lea	Grand Jury
Richard J. Olsen	Self
Bob Campbell	Auditor-Controller
Marilyn Cramlett	Contra Costa County Retired Employees' Association (CCCREA)
Satomi Cadena	CCCREA
Jim Bickert	Deputy Sheriff's Association (DSA)
Mary Lou Williams	CCCREA
Jeff Jones	Contra Costa County Superior Court
Robert Leete	San Ramon Valley Fire
John Phillips	Grand Jury
Collette Curtis-Brown	Central Sanitary District
Hugo Wildmann	AC Transit Retirement
Pete Nowicki	Moraga-Orinda Fire
Sue Casey	Moraga -Orinda Fire
Lisa Driscoll	County Administration/Finance
Randy Trumpf	Moraga-Orinda Fire
Kris Hunt	Contra Costa County Tax Payer's Association
Suzie Griffith	AFSCME

1. Pledge of Allegiance

Remick led all in the *Pledge of Allegiance*.

2. Public Comment

In public comment, Mary Lou Williams, President of the Contra Costa County Retired Employees' Association, invited staff and Board members to the retirees' luncheon on December 10<sup>th</sup> at 12:00 p.m. at Zio Fraedos restaurant in Pleasant Hill.

3. Approval of Minutes

It was M/S/C to approve the minutes of the October 29, 2008 meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Remick, and Viramontes)

After discussion, the November 5, 2008 minutes were amended on Page 3, Item 10, first sentence, after "The three SACRS legislative proposals" "and a place holder bill" was added, also Cabral changed his vote to "Abs" to abstain supporting the place holder bill; the minutes of the November 5, 2008 meeting were M/S/C as amended. (Yes: Cabral, Gaynor, Gioia, Hast, Pollacek, Remick, and Viramontes; Abs: Buck and Katz)

4. Actuarial Audit - Milliman, Nick Collier and Karen Steffen

After introductions, Steffen began by commenting, bottom line; Segal's actuarial work is reasonable and appropriate with no material issues encountered with the valuation. She stated the audit was one of the cleanest they've completed. She noted a few small differences were uncovered; however, they had no recommended changes to the current valuation.

Steffen noted the purpose of an actuarial audit is to review Segal's actuarial work and confirm that the results of the valuation are reasonable. She noted Milliman did a full independent replication of the actuarial valuation as of December 31, 2007 and the experience study from January 2004 to December 2006. Steffen then reviewed the various assumptions.

Collier noted that CCCERA may want to keep a close watch on the mortality assumption, noting the margin for the trend of people living longer would impact benefit amounts.

Collier noted Milliman performed an independent parallel valuation with data, assumptions, methods, assets and benefits. The membership data was supplied by CCCERA. The data was compared vs. the Comprehensive Annual Financial Report (CAFR) and all necessary information included was checked. They also reviewed data used in Segal's valuation and performed independent parallel data editing. They concluded data used by Segal in the valuation is reasonable. He then discussed the smoothing method, actuarial liabilities, member contribution rates, funding, and employer contribution rates.

Collier concluded by noting Milliman's recommendations and key points. They recommend using an earlier retirement commencement age for deferred Safety members; strengthening the mortality assumption depending on results of the next experience study; reflecting contributions subverted by members in the refund of benefits for inactive members; and additional disclosure in reports.

The Actuarial Audit will be available for viewing in CCCERA's library.

5. **Projection of Employer Contribution Rate Changes** - Paul Angelo, Segal Company  
Angelo began his presentation by reviewing his letter to CCCERA, noting the possible future changes on employer contribution rates based on a variety of return scenarios for 2008. He reviewed the CCCERA history regarding smoothing methodology, and noted he will be returning in February for an official discussion on asset smoothing. The current amortization period of the UAAL will also be discussed, and compared to the layered approach to amortization as discussed previously at the meeting by Milliman. He noted amortization and smoothing are equally important; however, the two are separate issues.

Angelo noted one of the first tools to control volatility is market smoothing. In February, Angelo noted he will be available to discuss alternative smoothing options and review CCCERA's current five-year smoothing method. It was suggested it would be beneficial to have discussion on the current UAAL amortization period. All agreed these are unprecedented times.

Katz was not present for subsequent discussion and voting.

6. **Review of Total Portfolio Performance**

**Milliman** - Bob Helliesen

Helliesen began by noting the third quarter markets declined, dominated by fears of a continuing credit crunch that is now spilling over into the real economy and by the failure of several large financial institutions. September alone saw the government intervene in capital markets to a degree not experienced since the Great Depression. After Fannie Mae and Freddie Mac were effectively nationalized in early September, the following week saw the failure of Lehman Brothers, the acquisition of Merrill Lynch by Bank of America and the government bailout of AIG. Congress subsequently passed the Troubled Asset Relief Program (TARP) to try to infuse banks with capital and unfreeze the credit markets. These developments and other actions taken by the Federal Reserve will continue to play out over the coming months, but the impact on markets in the third quarter (and for much of October as well) was losses and unprecedented volatility.

Large capitalization stocks, as measured by the S&P 500, returned -8.4% while the Russell 2000® returned -1.1% for the quarter. The median equity manager returned -8.7% and the broad market, represented by the Russell 3000® Index, returned -8.7%. International equity markets declined more than the domestic equity markets in the third quarter, with the MSCI EAFE Index returning -20.5% and the MSCI ACWI ex-US

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Index returning -21.8%. The U.S. bond market had negative returns in the third quarter of 2008, with the Lehman Universal Index returning -0.8%, the Aggregate Index returning -0.5% and the median fixed income manager returning -1.7%. The domestic private real estate market began to reflect the current environment with a third quarter return for the NCREIF Index of -0.2%. Publicly listed real estate was positive with the Dow Jones Wilshire REIT Index returning 4.8%.

CCCERA's third quarter return of -7.3% slightly trailed the median total fund and slightly exceeded the median public fund. CCCERA slightly trailed the median funds over the past year. CCCERA has out-performed both medians over all trailing time periods two years and longer, ranking in the upper quartile of both universes over the past two through ten-year periods.

CCCERA total domestic equities returned -8.7% for the quarter, matching the -8.7% return of the Russell 3000® and the median manager. Of CCCERA's domestic equity managers, Boston Partners had the strongest performance with a return of -1.7%, better than the -6.1% return of the Russell 1000® Value Index. Rothschild returned -4.3%, trailing the -1.2% return of the Russell 2500<sup>TM</sup> Value Index. Emerald returned -4.6%, better than the -7.0% return of the Russell 2000® Growth Index. Intech Large Cap Core returned -8.1%, better than the S&P 500 return of -8.4%. Intech Enhanced Plus returned -8.4%, matching the S&P 500. ING returned -8.4%, also matching the S&P 500 and exceeding the S&P 500 ex-Tobacco. Wentworth returned -10.7%, better than the -8.4% return of the S&P 500. Progress returned -11.7%, well below the -1.1% return of the Russell 2000® Index. PIMCO returned -11.9%, below the S&P 500. Finally, Delaware returned -14.2%, below the -12.3% return of the Russell 1000® Growth Index.

CCCERA international equities returned -24.1%, below the -20.5% return of the MSCI EAFE Index and the -20.0% return of the median international manager. The GMO Intrinsic Value portfolio returned -18.0%, better than the S&P Citi PMI EPAC Value Index return of -18.9% and the median international equity manager. McKinley Capital returned -29.9%, trailing the MSCI ACWI ex-US Growth Index return of -23.8% as well as the median international equity manager.

CCCERA total domestic fixed income returned -3.5% for the third quarter, trailing the -1.2% return the Lehman Universal and the -1.7% return of the median fixed income manager. AFL-CIO had the strongest third quarter return at 0.7% which was better than the Lehman Aggregate return of -0.5% and was well above the median fixed income manager. PIMCO returned -2.0%, below the Lehman Aggregate and the median. Western Asset returned -3.9%, below the Lehman Aggregate and the median. Nicholas Applegate returned -5.9% versus -9.5% for the ML High Yield II Index and -7.7% for the median high yield manager. The ING Clarion II closed-end fund returned -14.4%, below the ML High Yield II Index and the high yield fixed income median.

ING Clarion (mostly already liquidated) returned -50.1%, well below the high yield fixed income median and the Merrill Lynch High Yield Master II Index.

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Lazard Asset Management returned -4.2% in the third quarter, trailing the Lehman Global Aggregate return of -3.8%, but ranking in the 36<sup>th</sup> percentile of global fixed income portfolios.

CCCERA total alternative investments returned 0.7% in the third quarter. Carpenter Community Bancfund returned 6.7%, Hancock PT Timber Fund returned 6.0%, Energy Investor Fund III reported a return of 3.6%, Energy Investor Fund II reported a return of 3.2%, Nogales had a return of 1.7% for the quarter, The Bay Area Equity Fund reported a return of 1.2%, Paladin III returned 0.3%, Pathway returned -0.3%, Adams Street Partners reported a return of -1.1% and Energy Investor Fund reported a return of -10.1%. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending June 30.)

The median real estate manager returned -0.7% for the quarter while CCCERA's total real estate returned -2.2%. DLJ's RECP III returned 9.9%; DLJ's RECP I returned 2.0%; Willows Office property returned 1.5%; Invesco returned 0.4%; Fidelity III returned -0.4%; Prudential SPF-II returned -1.0%; DLJ RECP II returned -1.3%; Adelante returned -2.4%; BlackRock Realty returned -5.4%; Fidelity II returned -9.9%; and Invesco Fund II returned -22.2%.

A flash report was distributed with returns as of November 21, 2008. It was requested that an additional column be added to the report noting "Year to Date" numbers.

- a. Manager under review or placed under review - Managers currently in "under review" status were discussed.

It was **M/S/C** to place Progress on watch for performance reasons. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Viramontes)

It was **M/S/C** to place Delaware on watch for performance reasons. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Viramontes)

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

**7. Assembly Bill 2526**

Levy reviewed her memo regarding Assembly Bill 2526, sponsored by the California Retired County Employees' Association (CRCEA). This bill addresses the process for filling of vacancies on boards of retirement and boards of investments in counties operating retirement systems under the County Employees' Retirement Law of 1937. She noted the SACRS Legislative Committee has recommended co-sponsorship of this language with CRCEA.

It was **M/S/C** to support Assembly Bill 2526. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Viramontes)

**8. Rebalance of CCCERA's Assets**

Hally reviewed his memo regarding the rebalance process, noting he is seeking clarification on rebalancing CCCERA assets to the asset allocation targets if the percentage allocation has moved outside the asset class ranges.

Leedom noted changes to the Investment Guidelines will be on the agenda in January.

It was M/S/C to rebalance halfway back to asset allocation targets. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Viramontes)

**9. Miscellaneous**

- (a) Staff Report - Hally noted the onsite visit with DBL Investors will be in the next few weeks in San Francisco. He asked for volunteers for the visit.

Levy reviewed the results of a legal opinion on the value of food and beverage during the SACRS conference. She noted the fees that are paid by the Association for SACRS cover food and beverage during the official day and are not reportable on Form 700 Disclosure forms.

Leedom noted the Kuhn report distributed during the Fall SACRS Conference has been placed in Board members' in boxes. She reminded Board members the Staff Appreciation Luncheon is on December 18<sup>th</sup> at the Crowne Plaza in Concord and invitations are in Board members' in boxes.

- (b) Outside Professionals' Report - Leiderman noted he is concerned AB 2526 may conflict with the Brown Act. He will call Richard Stensrud, Chair of the SACRS Legislative Committee to discuss.
- (c) Trustees' Comments - Cabral noted the County has a new food and beverage Administrative bulletin and asked if it applied to CCCERA. Leiderman stated the food and beverage bulletin is for departments under the Board of Supervisor's jurisdiction and budget. Retirement is a separate district and has its own budget.

The Board moved into closed session pursuant to Govt. Code Section 54956.9(c) to decide whether to initiate litigation and 54956(a) to consult with counsel regarding Mayer vs. Contra Costa County and CCCERA Board.

The Board moved into open session.

**10. Potential Litigation**

No reportable action taken.

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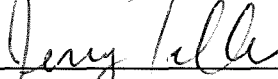
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11. Mayer vs. Contra Costa County and CCCERA Board

No reportable action taken.

It was M/S/C to adjourn the meeting in memory of Jerry Telles' Father, Matthew Telles.  
(Yes: Buck, Cabral, Gaynor, Gioia, Hast, Holcombe, Pollacek, Remick, and Viramontes)

  
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Brian Hast, Chairman

  
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Jerry Telles, Secretary