

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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March 26, 2008

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, March 26, 2008 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, John Gioia, Brian Hast, Sharon Naramore, William J. Pollacek, Jim Remick, Bob Rey, Jerry Telles, 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.

Outside Professional Support: Representing:
Scott Johnson Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Kenneth Leech	Western Asset Management
Aaron Prince	Western Asset Management
Terry Buck	Local 1230 Fire
Martin McNair	Self
Kristin Harper	Lord Abbett & Co.
Robert Gerber	Lord Abbett & Co.
Robert Lee	Lord Abbett & Co.
Art Greenwood	Pyramis Global Advisors
Chris Pariseault	Pyramis Global Advisors
Mike Keough	Goldman Sachs Asset Management
Chris Sullivan	Goldman Sachs Asset Management
John Dewey	Capital Guardian Trust Company
Christine Cronin	Capital Guardian Trust Company
Andy Barth	Capital Guardian Trust Company
Luke Farrell	Capital Guardian Trust Company

1. Public Comment

No members of the public offered comment.

Viramontes was present for subsequent discussion and voting.

2. Approval of Minutes

After noting Cabral abstained on Page 2, Item 7, it was **M/S/C** to approve the minutes of the March 13, 2008 meeting as amended. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)

3. Core Plus Fixed Income Investment Manager Presentations

Milliman Introduction and Overview

Helliesen began by noting Western was previously placed on watch for failure to meet reporting requirements. The consensus of staff was that there has been an improvement in client services provided to CCCERA. There was discussion on Western's performance over the last five years as compared to the other presenters. Discussion continued with the possible transition costs and liquidity issues depending upon the manager chosen.

Risk and reward for all presenting managers was reviewed along with a comparison of product by manager. The various attributes and potential negatives of each firm were discussed along with suggestions on questions to ask each manager during their presentation.

Western Asset Management - Kenneth Leech, Aaron Prince

Prince began by discussing client services and changes initiated within the firm. Leech apologized for the problems incurred with Western's client services.

Leech noted Western's recent underperformance was associated with not holding a lot of treasuries, but instead focusing on mortgages, while being over-weight in corporate bonds.

He then reviewed Western's investment philosophy, process and the yield curve. Viramontes asked if the recent poor performance was attributed to the credit and mortgage crisis, noting that CCCERA had not experienced this sort of underperformance from Western before. Leech noted Viramontes was correct; there has been a bizarre sequence of events with the mortgage crisis and they have more tracking errors than desired. Leech stated they will re-assess going forward, noting this is the most unbelievable recession since World War II.

Leech concluded by reviewing historical sector allocations and noting they are trying to live through a 5 $\frac{1}{2}$ year bear market.

Lord Abbett & Co - Robert Gerber, Robert Lee, Kristin Harper

Harper began by noting Lord Abbett was founded in 1929 and is one of the nation's longest existing investment managers, is privately owned by 48 partners, and has managed fixed income since 1971.

Gerber reviewed Lord Abbett's fixed income investment team and the number of years the senior members of the team have worked together.

Lee commented that their firm is small and nimble allowing them to take advantage of strategies; however, they have the deep resources of a large firm. He then reviewed

their fundamental investing beliefs, and key principles. He continued with how Lord Abbett adds value, their risk management and sector rotation.

Lee concluded by noting their firm has the advantage of being the best of both worlds, small, but with large firm resources, which he feels is a good combination.

Pyramis Global Advisors - Christian Pariseault, Dan Tremblay, Art Greenwood
Greenwood began by providing Pyramis' history, and its relationship with Fidelity. The firm was founded in 1946 with a long history of entrepreneurship and success. Pyramis Global Advisors was established in 2005.

Pariseault noted Pyramis has over 200 fixed income investment professionals supporting Core Plus, exposure to five diversified plus sectors, with over \$17 billion in assets under management, including \$8 billion in institutional assets. He noted they have 58 clients, with 39 gained and only two lost in the last two years. He then reviewed the U.S. Fixed Income team structure.

Tremblay reviewed Pyramis' core plus investment approach and the historical core plus account asset allocation. He noted the use of pools provides diversification and more efficient asset allocation. Their portfolio is designed to outperform the benchmark.

Tremblay concluded by reviewing the core plus investment process, providing a portfolio overview and fixed income performance by peer universe

Goldman Sachs Asset Management - Chris Sullivan, Mike Keough
Keough began by noting Goldman Sachs Asset Management was established in 1988. They have approximately \$765 billion in assets under management, with over 1,600 professionals based in twenty-six locations.

He reviewed a representative Goldman Sachs public fund client list and provided a composite performance since inception, noting year-to-date they were behind the benchmark.

Sullivan commented on the four main points that sets Goldman Sachs apart from others. He reviewed Core Plus composite risk return and their team consisting of over 130 investment professionals around the world. He then reviewed Goldman Sachs investment process and how the risk budget is established.

Sullivan concluded with discussion on their current portfolio positioning and investment management fees

Capital Guardian Trust Company - John Dewey, Christine Cronin, Andy Barth, Luke Farrell
Dewey began by noting Capital Guardian has reviewed the correlation and feels they would be a strong complement to PIMCO and a great replacement to Western Asset Management.

Barth noted Capital Guardian is privately owned and they intend to stay that way. They have been managing fixed income since 1973, with 169.7 billion in assets. They have consistent long-term results relative to the benchmark, with an integrated global research platform and unique investment process within a stable organization.

Farrell reviewed Capital's fixed-income investment professionals, their in-depth top-down research and their integrated global research effort.

Cronin reviewed how they determine relative value in corporate bonds noting they take their risk management systems very seriously. She then reviewed Capital's U.S. Core Plus fixed-income strategy, investment process and team.

4. Action on Core Plus Fixed Income Manager(s)

It was noted that Western Asset Management is on watch for failure to meet reporting requirements. There was discussion on placing Western on watch for performance as well. There was debate regarding the losses, if any, that would be incurred if assets were transferred from Western to a new manager.

Hally noted there would need to be more flexibility with this transition relative to normal transitions, and we would be evaluating the possibility of utilizing other transition services. If the securities are illiquid, it may take a period of time to transition the assets.

There was discussion on splitting the funds between Goldman Sachs and Lord Abbett and perhaps taking some of the funds from PIMCO, since there has been concern with the amount of assets held by PIMCO.

There was continued discussion on the potential losses involved with transferring Western's assets, their poor performance and comments on the long-term affect of either keeping or replacing Western.

There was discussion on keeping Western on watch for performance and failure to meet reporting requirements for one year, removing some of their funds and moving forward with Lord Abbett.

It was M/S to terminate the relationship with Western and to transition out at the most reasonable rate possible, at the discretion of the CIO. (Yes: Cabral, Rey, Telles, Viramontes; Abs: Gaynor, Hast, Pollacek) **The motion failed.**

It was M/S/C to place Western Asset Management on watch for performance and client services. (Yes: Gaynor, Hast, Pollacek, Rey, and Viramontes; Abs: Cabral, Telles)

It was M/S to hire Lord Abbett subject to a successful on-site visit, contract negotiations and authorize the CEO to sign any necessary documents. Staff will return with the recommended dollar amounts.

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A **substitute motion** was offered: it was **M/S** to hire Goldman Sachs subject to a successful on-site visit, contract negotiations and authorize the CEO to sign any necessary documents. Staff will return with the recommended dollar amounts.

After discussion on performing on-site visits on both firms, **the original and substitute motions were withdrawn.**

Cabral was not present for subsequent discussion and voting,

All firms were reviewed with board members noting their first and second choices of the finalist firms. All chose Goldman Sachs or Lord Abbett as either their first or second choices. All commented on why they chose each particular firm.

Cabral was present for subsequent discussion and voting.

Since Pollacek abstained on the original vote to terminate Western Asset Management, he offered a motion to rescind the vote to terminate Western. It was **M/S/C** to terminate Western Asset Management, transfer funds to Goldman Sachs, subject to a successful on-site visit, contract negotiations, and authorize the CEO to sign any necessary documents. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)

It was **M/S/C** to hire Lord Abbett, subject to a successful on-site visit, contract negotiations, and to authorize the CEO to sign any necessary documents. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)

It was **M/S/C** that funding for PIMCO, Goldman Sachs and Lord Abbett be determined at a later meeting after considering recommendations from staff. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)

5. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of Gaynor and Gioia at the Public Funds Roundtable, Institutional Investor Institute, April 24 - 25, 2008, New Orleans, LA. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)
- (b) It was **M/S/C** to authorize the attendance of Pollacek at the Principles of Pension Management for Trustees, CALAPRS, March 25 - 28, 2008, Palo Alto, CA. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)
- (c) It was **M/S/C** to authorize the attendance of Hast, Telles, Remick, Leedom, Cabral and Hally at the Partners Client Conference, Adams Street Partners, June 3 -4, 2008, Chicago, IL. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)
- (d) It was **M/S/C** to authorize the attendance of Pollacek and Gaynor at the Hedge Funds, Real Estate, Alternatives, Wharton (IFEFP), June 23 - 25, 2008, San Francisco, CA. (Yes: Cabral, Gaynor, Hast, Pollacek, Rey, Telles, and Viramontes)

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6. Miscellaneous

- (a) Staff Report - Hally reported staff has received two responses to the Request for Proposal (RFP) for actuarial audit services: Milliman and Mercer. He asked that members of the ad hoc committee pick up the copies of the proposals on the way out of today's meeting.

Hally noted that Rodeo Hercules Fire has authorized funds for termination study. Moraga Orinda Fire's study for termination is still in progress.

Hally reminded Board members that Disclosure Statement, Form 700, is due by April 1, 2008.

The on-site visit with Reed Smith has been completed and staff will be moving forward with the contract.


- (b) Outside Professionals' Report - None

- (c) Trustees' Comments - Cabral noted the on-site visit with Reed Smith was remarkable and wishes all members of the Board could have been present.

It was M/S/C to adjourn in honor of safety trustee Bob Rey's retirement.



Brian Hast, Chairman



Jerry Talles, Secretary