

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Meeting Date 08/29/12 Agenda Item #3
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July 25, 2012

The Board of Retirement met in special session at 9:00 a.m. on Wednesday, July 25, 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, Brian Hast, Jerry Holcombe, John Phillips, Gabe Rodrigues, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: John Gioia and Sharon Naramore

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer, Tim 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 Heliessen	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Karen Davis	CCCERA Staff
Christina Dunn	CCCERA Staff
Tracy Kroll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Marge Rosenberg	CCCERA Staff
Justine Rossini	CCCERA Staff
Todd Smithey	Central Contra Costa Sanitary District
Mike Sloan	CCCERA & RSG
George Greig	William Blair
John McLaughlin	William Blair
Wendy Malaspina	GMO
Tom Rosalanko	GMO
Jeffrey Van Harte	Delaware Investments
Daniel Prislin	Delaware Investments
Trevor Blum	Delaware Investments
Carolyn Margiotti	Robeco
David Pyle	Robeco
Scott Pyle	Robeco

1. Pledge of Allegiance

Rodrigues led all in the *Pledge of Allegiance*.

Gabe Rodrigues, Deputy Sheriff and newly elected Trustee, introduced himself and gave a brief summary of his career and personal life.

2. Recognition of Marge Rosenberg for 15 years of service

Viramontes recognized and congratulated Marge Rosenberg for her 15 years of service.

3. Public Comment

No members of the public offered comment.

4. Approve minutes from the June 13 and June 27, 2012 Board Meetings.

It was *M/S/C* to approve the minutes of the June 13, 2012 Board meeting. (Yes: Allen, Buck, Cabral, Hast, Phillips, Telles, Viramontes and Watts).

It was *M/S/C* to approve the minutes of the June 27, 2012 Board meeting with a correction to Item 6.(a) under Price's comment adding "Telles and Helliesen attended the onsite visits with GMO and Long Wharf" and Item 6.(c) adding Telles comments regarding the onsite visits under Trustees' Comments. (Yes: Allen, Buck, Cabral, Hast, Phillips, Telles, Viramontes and Watts).

5. Discussion with consultant regarding managers scheduled to present

Helliesen distributed a Flash Report for the quarter ended June 30, 2012 and reviewed the performance of the managers scheduled for presentations.

6. Manager Presentations:

William Blair - George Greig, John McLaughlin

McLaughlin gave an overview of the firm noting it was founded by William Blair in 1939 in Chicago. He gave a brief review of their international and global portfolio strategies stating they have \$13.3 billion in assets under management in the All Cap International Growth Fund. McLaughlin also stated that the product had closed to new assets in June 2012, though existing clients will be able to continue to allocate funds as needed.

Greig gave an overview of the international investment team noting there are 5 portfolio managers. He reviewed the fundamental research team stating it is divided by sector, global and systematic research. He also reviewed the trading team and their investment philosophy.

McLaughlin reviewed William Blair's International Growth CIT portfolio's performance noting the year to date return is up 8.33% compared to its benchmark, the MSCI AC World, which is 2.93%.

Greig reviewed the portfolio positioning noting they are overweight in insurance and underweight in banks. He also noted emerging markets have become more popular and there is less interest in developed markets, particularly in Europe.

GMO - Wendy Malaspina, Tom Rosalanko

Malaspina reviewed CCCERA's performance, noting the international intrinsic value extended market strategy has added 88 basis points in alpha from inception to date.

Rosalanko reported that quality adjusted value, intrinsic value and momentum within value stocks have done well. He reviewed the top 5 contributors and the bottom 5 contributors to performance. He noted 3 of the best stocks were in pharmaceuticals and the worst 5 included banks and oil/energy companies.

Rosalanko reviewed country and sector allocation. He also reviewed the strategy vs. benchmark weights for country and region. The biggest underweight by sector is in financials while they are overweight in energy companies.

Malaspina reviewed European banks vs. Japanese banks. She also reviewed the attractiveness of owning undervalued stock noting that now is a good time for buying them.

Delaware Investments - Jeffrey Van Harte, Daniel Prislin, Trevor Blum

Blum gave a brief update on the firm, noting they had \$172 billion in assets under management as of March 31, 2012. He also gave an overview of the teams' operating structure which includes shared resources, aligned financial interests and synergistic opportunities for growth and distribution.

Van Harte reviewed the focus growth equity investment team, noting the average level of experience in the industry is 19 years. He also reviewed the team philosophy, noting they are growth investors who believe attractive returns can be realized by maintaining a concentrated portfolio of companies that have enhanced business models.

Prislin reviewed the top five contributors and bottom five contributors to relative performance noting wireless and mobile have been top performers. Van Harte reviewed the portfolio construction, stating it is a concentrated portfolio with a consistent turnover rate of 20-30%.

Prislin reviewed CCCERA's relationship with Delaware Investments. Blum noted that Delaware settled a Wells Notice with the SEC (without admitting any wrongdoing). This related to another Delaware affiliate and did not directly impact Delaware Investments.

Robeco - David Pyle, Carolyn Margiotti

Margiotti gave an overview of the firm's structure, noting Robeco Investment Management is a subsidiary of Robeco which is owned by Rabobank. Rabobank is in the process of selling Robeco as a whole and expects prospective bidders in August. She will keep the Board up to date on the sale.

Pyle reviewed CCCERA's investment performance through June 30, 2012, noting we have reached the benchmark in most years. He reviewed performance for the second quarter 2012 noting returns trailed largely due to being underweight in utilities, telecom stocks and REITS, which had significant positive returns.

Pyle reviewed the three characteristics used in selecting stock; valuation, business fundamentals, and catalyst for change. He noted portfolios with all three characteristics tend to outperform over time. He also reviewed how the characteristics have worked for CCCERA's portfolio. He reviewed CCCERA's portfolio characteristics and portfolio holdings as of June 30, 2012 as well as the performance attribution for a one year period ending June 30, 2012.

It was the consensus of the Board to move to Item 8.

8. Miscellaneous

(a) Staff Report -

Leedom reported she received the signed amended Employer Termination Agreement from the City of Pittsburg.

She reported there will be an educational presentation on GASB 67 and GASB 68 by The Segal Company at the August 29, 2012 Board meeting.

Leedom reported a section in Board Regulations deals with an employer's reportable payroll level dropping below 70% of its payroll during the same period of the preceding year and states the Board may investigate the cause and determine if the employer needs to make additional contributions to pay its share of unfunded liability. Leedom noted that staff will review this issue and will send a letter to the East Contra Costa Fire District to inform them we are looking into the matter.

The pre-payment contribution for the County is between \$155-157 million. The re-balancing report will be presented at the August 8, 2012 Board meeting.

Leedom reported on a situation where a member named her son as her beneficiary in 1982. The member passed away in 1993. The members' file was inadvertently labeled inactive and destroyed with no money paid to the beneficiary, as staff was unable to locate the beneficiary. The son has claimed the funds and it appears he is owed the money retroactive. It was the consensus of the Board to handle the matter administratively.

She reported during another retirement system's committee meeting, it was publicly discussed that they were advised by their counsel to not include the COLA in their calculations for optional settlements at retirement.

Leedom reported the five year projection of contribution rates will be presented at a meeting in August. Contribution rates effective July 1, 2013 will be on the agenda for adoption at the August 8, 2012 Board meeting.

Price reported he will be completing the semi-annual rebalancing of the portfolio in accordance with the investment policy after the County and other employer's retirement contribution prepayments are received.

He also reported the CEO of LaSalle announced his retirement but it is not expected to impact the CCCERA investment.

He reported he met with Invesco regarding the Invesco Fund III product and informed Invesco we were not currently looking for another fund of this type.

(b) Outside Professionals' Report - None

(c) Trustees' Comments -

Phillips reported he attended the SACRS Public Pension program and felt it was excellent. He reported there was discussion on interest rates, investing in hedge funds and reducing assumption rates.

Allen reported she attended Wharton's Conference on hedge funds and real estate investments and felt there was a very good discussion on alpha vs. beta. She also attended portfolio concepts and felt the first day was very basic but the conference was good overall.

#### CLOSED SESSION

The Board moved into Closed Session pursuant to Govt. Code Section 54956.9(a).

The Board moved into open session.

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

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

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Maria Theresa Viramontes, Chairman

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John Phillips, Secretary

The Board of Retirement met in special session at 9:00 a.m. on Thursday, July 26, 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, Brian Hast, Jerry Holcombe, John Phillips, Gabe Rodrigues, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Absent: Richard Cabral, John Gioia and Sharon Naramore

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Kurt Schneider, Retirement Deputy Chief Executive Officer; Tim Price, Retirement Chief Investment Officer; and Karen Levy, General Counsel

Outside Professional Support:	Representing:
Bob Helliesen	Milliman
Jeffrey Youngman	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Christina Dunn	CCCERA Staff
Justine Rossini	CCCERA Staff
Jim Hamel	Artisan Partners
Chip Ridley	Artisan Partners
Robert Fortin	Self
Peter Baughan	Harding Loevner
Stephen Gannon	Harding Loevner
Brett Fleishman	MFS
Karen Jordan	MFS

1. Pledge of Allegiance

Viramontes led all in the *Pledge of Allegiance*.

2. Public Comment

No members of the public offered comment.

Hast was present for subsequent discussion and voting.

3. Discussion with consultant regarding Global Equity High Conviction managers scheduled to present.

Helliesen reported due to terminating Tradewinds as a money manager, Milliman was instructed to search for a global high conviction equity manager to replace Tradewinds and to complement the low volatility strategy managed by First Eagle.

Helliesen gave an overview of the finalists scheduled to present. Youngman reviewed the finalists' three-year rolling returns in excess of the MSCI ACWI Index. He also reviewed the correlation of their excess returns to First Eagle.

4. Manager Presentations:

Artisan - Chip Ridley, Jim Hamel

Ridley waived the confidentiality disclaimer on the presentation material.

Ridley gave an overview of the firm noting the only reason portfolio managers left the firm was for retirement. He reported the firm was founded in 1994 with approximately \$64 billion of assets under management. He stated they have 5 autonomous investment teams managing twelve investment strategies for institutional investors.

Hamel gave an overview of the team noting they are all dedicated to the strategy. The team consists of experienced portfolio managers and Hamel noted that the analysts have been sector specialists for over a decade. He reviewed their investment philosophy, noting they seek to compound client assets by exposing their portfolio to growth and to avoid permanent capital losses. He also reviewed their investment process and the key elements to their security selections. He reviewed their capital allocation and portfolio holdings.

Hamel reviewed their portfolio construction, noting they invest a maximum of 35% in countries outside the U.S. and a maximum of 25% in any one industry. He also reviewed regional and sector weights noting they are overweight in emerging markets and the U.S. He also noted they are currently biased to the U.S. due to the attractiveness of technology and healthcare. Hamel provided an example of their investment process.

Harding Loevner - Peter Baughan, Stephen Gannon

Gannon gave an overview of the firm, noting it was founded in 1989 and the first strategy was in global equities. He stated half of their clients are now based outside the U.S. Gannon reported they have approximately \$20 billion in assets under management.

Baughan reported Harding Loevner is a boutique type firm and is 40% employee owned. The other 60% is owned by Affiliated Managers Group (AMG). He described Harding Loevner as a global, long-term disciplined and transparent firm with very little employee turnover. He reviewed their philosophy, noting that they believe investing in shares of high-quality growth businesses at fair prices leads to superior risk-adjusted returns.

Baughan reviewed the investment team, noting they have an average of 19 years experience in the industry. He reviewed their investment process and described the four-stage process to narrow the investable universe, first according to their fundamental insights, and then according to valuation. He also reviewed the key criteria used in buying and selling stocks noting their portfolio decision-making structure promotes transparency and accountability.

He reviewed how they managed risk, their portfolio performance and their portfolio profile.

MFS - Brett Fleishman, Karen Jordan

Jordan waived the confidentiality disclaimer on the presentation material.

Jordan reported corrections on pages 6 and 16 of the presentation material. On page 6, the average quarterly relative performance total should be +1.2% and on page 16, the Portfolio and MSCI World Index for the IBES long-term EPS growth should be 0%.

Jordan gave an overview of the firm noting they manage \$283 billion in assets for clients in 75 countries. She noted the firm is 78% owned by Sun Life with a main office is in Boston. She reviewed the firm's assets and global equity performance.

Fleishman described the distinguishing characteristics of the team. He reviewed the consistent historical performance in diverse market environments. He also reviewed the firm's philosophy, investment approach and investment process. He reported there are 78 research analysts in 8 global sector teams. He reviewed the top 10 portfolio holdings and sector weights noting they do not own utilities and communications or energy because they are not sustainable. He reviewed their portfolio characteristics stating they use a high quality bias consistent through every strategy over a long period of time.

Jordan reported they have consistently outperformed the MSCI World benchmark on rolling 3 year annualized excess returns since inception. She also reviewed their global concentrated equity composite peer universe rankings as of March 31, 2012.

5. Consider and take possible action on Global Equity High Conviction managers

After the Board discussed the managers presentations, it was *M/S/C* to select Artisan Partners as the global high conviction equity manager subject to on-site visits and due diligence and to authorize the CEO to sign the contracts. (Yes: Allen, Buck, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

6. Miscellaneous

(a) Staff Report -

Leedom reported the common areas in the Willows Office building will be recarpeted this year.

(b) Outside Professionals' Report - None

(c) Trustees' Comments - None



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

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Maria Theresa Viramontes, Chairman

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John Phillips, Secretary