MEETING DATE
12/14/11
AGENDA ITEM
#4

The Board of Retirement met in special session at 9:00 a.m. on Tuesday, November 22, 2011 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, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel

Outside Professional Support:	Representing:
Bob Helliesen	Milliman
Tim Price	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Christina Dunn	CCCERA Staff
Chih-Chi Chu	CCCERA Staff
Justine Oyler	CCCERA Staff
James Corl	Siguler Guff
George Siguler	Siguler Guff
Michael Keough	Siguler Guff
Nischit Hegde	Unite Here
Hugo Wildmann	AC Transit
Ambrose Fisher	Oaktree
Francie Maletis	Oaktree
Eric Mogentale	Walton Street Capital
Jay Weaver	Walton Street Capital
Colleen Casey	Angelo Gordon & Co.
Adam Schwartz	Angelo Gordon & Co.
Patrick Kendall	Cornerstone
Thomas Dudeck	Cornerstone
Michael Gately	Cornerstone
Matthew Walley	LaSalle Investment Management
James Hutchinson	LaSalle Investment Management

1. **Pledge of Allegiance**

Viramontes led all in the *Pledge of Allegiance.*

2. **Public Comment**

Nischit Hegde of Unite Here Local 2 spoke against CCCERA investing in Walton Street and urged the Board to review Walton Street's track record.

3. **Manager Presentations:**

Introduction and overview by Milliman

Helliesen gave an overview of the search process and the finalist firms for opportunistic and value added real estate funds. A fee structure comparison was reviewed. Expected and maximum leverage as well as the type of ownership of properties were reviewed for each firm.

Opportunistic Real Estate

Siguler Guff - James Corl, George Siguler, Michael Keough

Siguler waived the confidentiality disclaimer on the presentation material.

Keogh gave an overview of the firm noting they are privately held with $10.0 billion of assets under management and have 120 employees worldwide.

Siguler reported there have been 15 funds since inception. He reviewed the firm's performance stating historical fund offerings have resulted in a net IRR of 14.9% since 1993.

Corl reviewed the firm's investment philosophy and style stating he feels timing is the most important determination of success. He also reviewed Moody's/REAL Commercial Property Price Index. Corl gave examples of distressed real estate investments.

Oaktree - Ambrose Fisher, Francie Maletis

Maletis waived the confidentiality disclaimer on the presentation material.

Maletis gave a brief overview of the firm noting they were founded in April 1995, are based in Los Angeles, and have over 600 employees. She reviewed Oaktree's investment areas and philosophy stating their focus is on inefficient markets.

Fisher reported they have done very well in the past 5 years. Fund V had its first close in February. He gave an overview of the real estate team noting there are 30 professionals. Fisher reviewed the 6 areas of real estate focus in Fund V. He also reviewed recent real estate transactions.

Maletis noted Fund V will be closing in December.

Walton Street Capital - Eric Mogentale, Jay Weaver

Mogentale waived the confidentiality disclaimer on the presentation material.

Mogentale discussed the critical and differentiating strengths of Walton Street noting it was founded in December 1994. The five founding managing principals have worked together for 24 plus years. Walton Street is 100% privately owned by its principals and there is stability within the firm. He also reviewed their organizational chart. He reported Walton Street's single investment focus is real estate. Mogentale also reviewed prior funds investment performance noting 5 out of the 6 funds are positive.

Weaver reported on the investment strategy of Fund VII noting 90% will be in U.S. investments. He also reported the fee structure of Fund VII is consistent with prior funds.

Weaver also reviewed examples of the Fund VI portfolio.

<u>Angelo Gordon</u> – Colleen Casey, Adam Schwartz

Casey waived the confidentiality disclaimer on the presentation material.

Casey gave an overview of the firm stating they are the leader in alternative investments focusing on absolute return strategies. She reported Angelo Gordon was founded in 1988, is privately held, based in New York, with an office in Los Angeles, and had over 250 employees with approximately 100 investment professionals.

Schwartz gave an overview of the market noting that commercial property values have dropped 43% since the peak and the occupancy levels have increased. He also reviewed the U.S./Europe commercial real estate group noting all but one person from the director level and up has been with the firm for 18 years.

Schwartz reported Angelo Gordon acts as a general partner with local operating partners across the United States. He reviewed the opportunistic real estate strategy for Fund VIII, where they expect target returns of 20% net, leverage of 55-65%, and a holding period of 3-5 years. The Fund will purchase sub-performing and distressed assets which often require significant capital restructuring and asset repositioning to stabilize.

Casey reviewed the targeted size, term, management fee, incentive distributions and Angelo Gordon's commitment for Fund VIII.

Allen was not present for future discussion and voting

Value Added Real Estate

<u>Cornerstone</u> – Patrick Kendall, Thomas Dudeck, Michael Gately

Kendall gave an overview of the firm, noting they have $32 billion in assets under management. He described the relationship between Cornerstone and its parent company, Mass Mutual.

Gately reviewed the search process for Cornerstone VIII. He reported the property price cycle is near the bottom and real estate prices are below replacement costs. He also reported the supply growth has dropped to historic lows. He gave an update on current occupancy and vacancy rates, noting apartment and hotel sectors lead; office, industrial and retail fundamentals are stabilizing.

Dudeck noted we are in a recovery period filled with uncertainty. He provided an investment thesis for Cornerstone Real Estate Fund VIII. He reviewed the Fund VIII portfolio team and gave a summary of the terms. He also reviewed regional employment trends. He reported Fund VIII will be closed at the end of February.

Dudeck reviewed past investments noting they have a proven track record for value added strategies. Their strategy focuses on current market opportunity, they are endorsed by major U.S. real estate consultants and they have a competitive fee schedule.

LaSalle Investment Management - James Hutchinson, Matthew Walley

Walley waived the confidentiality disclaimer on the presentation material.

Walley gave an overview of the firm ownership and structure noting they are solely focused on real estate investments, with $47.9 billion under management. Walley reported they are publicly owned with 180 markets in 60 countries spanning 5 continents. He reviewed their network of real estate professionals across the United States.

Hutchinson reviewed the team and their investment management philosophy and process. He reported their investment strategy is to invest in only four major property types; office, industrial, retail and multifamily. He reviewed their investment process, strategy, deal sourcing, portfolio management, asset management, client services, and risk management. He also reviewed Fund VI target markets and target property types.

Hutchinson reviewed past fund performance noting values have struggled but the income has been strong.

Walley gave an overview of Fund VI terms noting the commitment period, the investment period of three years and the closing date in December 2011. He recapped the benefits of selecting LaSalle Growth Fund VI because they have an experienced and dedicated team, a strong, stable parent company exclusively focused on real estate, a unique real estate platform, and a simple fee structure.

4. **Consider and take possible action on Opportunistic Real Estate Managers**

Helliesen briefly reviewed the Opportunistic and Value Added Real Estate managers. After discussion, it was **M/S** to commit $75 million to Angelo Gordon subject to a successful on-site visit, legal review and authorize the CEO to sign the contract. The Board discussed voting on all the managers at once. The question was called.

It was **M/S** to call for the question. Motion Failed (Yes: Cabral, Telles, Viramontes and Watts; No: Buck, Hast, Holcombe and Phillips).

A substitute motion was **M/S** to commit up to $70 million each to Siguler Guff, Angelo Gordon and LaSalle. After discussion, the substitute motion was withdrawn.

A substitute motion was **M/S/C** to commit $75 million to Siguler Guff, $50 million to Oaktree, $80 million to Angelo Gordon and $75 million to LaSalle subject to successful on-site visit, legal review and authorize the CEO to sign the contract. (Yes: Buck, Cabral, Hast, Holcombe, Phillips, Telles and Watts; Abs: Viramontes)

5. **Consider and take possible action on Value Added Real Estate Managers**

This item was voted on with item 4.

6. **Miscellaneous**

(a) Staff Report -

Leedom reported the Kuhns report will be made available to all trustees.

Levy reported the California Supreme Court issued an opinion in the Retired Employees' Association of Orange County v. County of Orange case. The case involves the "pooling" of the county's active and retired employees for health insurance premiums. After several years of such "pooling," the county "de-pooled" the active and retiree premiums, causing the now separate retiree health insurance premiums to rise. The lawsuit was brought on behalf of the retirees in federal court. The Ninth Circuit Court of Appeals certified to the California Supreme Court the question of whether, under California law, the county may form an *implied* contract conferring vested rights to retirees for the pooling of health benefits. The Supreme Court held in the affirmative, so long as there is no statutory provision to the contrary. The case will next return to the federal court.

(b) Outside Professionals' Report - None

(c) Trustees' Comments -

Viramontes reported a letter was received from the Contra Costa County Auditor-Controller declining the Board's request to maintain the status quo for compensation and benefits of employees appointed by CCCERA.

Telles reported he enjoyed SACRS.

Cabral reported the County gave a last, best and final offer to AFSCME Local 2700 and the Coalition on Thursday. There is a clause in the offer that states the proposal for a new retirement tier does not apply to CCCERA staff. He also reported the County has settled with DSA and there will be a new retirement tier, Tier D. A new Tier 4 for general members was accepted by Local 21 but there are no details.

Cabral would also like to have a discussion regarding Form 700 reporting requirements.

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

Maria Theresa Viramontes, Chairman

John Phillips, Secretary

November 30, 2011

MEETING DATE
12/14/11
AGENDA ITEM
#4

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, November 30, 2011 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, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel; and Vickie Kaplan, Retirement Accounting Manager

Outside Professional Support:	Representing:
Bob Helliesen	Milliman
Tim Price	Milliman

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu	CCCERA Staff
Christina Dunn	CCCERA Staff
Justine Oyler	CCCERA Staff

1. **Pledge of Allegiance**

Hast led all in the *Pledge of Allegiance.*

2. **Public Comment**

No members of the public offered comment.

3. **Review of total portfolio performance** - Bob Helliesen, Tim Price

Helliesen and Price reported on the third quarter total portfolio performance.

CCCERA's third quarter return of -8.8% nearly matched the median total fund and was better than the median public fund. Performance was strong over the past two years. CCCERA has performed near the medians over the past three, four and five-year periods. CCCERA has out-performed both medians over trailing time periods longer than five years.

Viramontes was present for future discussion and voting.

CCCERA total domestic equities returned -16.7% for the quarter, trailing the -15.3% return of the Russell 3000® and the -15.8% return of the median manager. Of CCCERA's domestic equity managers, Delaware had the best absolute results with a -10.2% return, better than the Russell 1000® Growth Index return of -13.1%. PIMCO returned -14.5%, trailing the S&P 500 return of 13.9%. Intech Enhanced Plus also returned -14.5%, trailing the S&P 500. Intech Large Cap Core returned -15.3%, also trailing the S&P 500 Index. Robeco returned -17.4%, trailing the -16.2% return of the Russell 1000® Value Index. Wentworth Hauser returned -18.5%, trailing the S&P 500. State Street (former Rothschild) returned -21.2%, better than the Russell 2000® Value return of -21.5%. Finally, Emerald returned -23.6%, trailing the -22.3% return of the Russell 2000® Growth Index.

CCCERA international equities returned -19.0%, matching the -19.0% return of the MSCI EAFE Index and better than the -20.4% return of the median international manager. The GMO Intrinsic Value portfolio returned -19.0%, matching the -19.0% return of the MSCI EAFE Value Index. The William Blair portfolio returned -18.9%, better than the MSCI ACWI ex-US Growth Index return of -20.1%.

CCCERA global equities returned -15.1%, better than the -17.3% return of the MSCI ACWI benchmark and the -19.9% return of the median international manager. The J.P. Morgan portfolio returned -20.1%, trailing the -17.3% return of the MSCI ACWI Index. The First Eagle portfolio returned -9.5%, significantly better than the MSCI ACWI Index return of -17.3%. Finally, Tradewinds returned -10.6%, also significantly better than the ACWI return of -17.3%.

CCCERA total domestic fixed income returned 1.0% for the third quarter, trailing the 2.9% return of the Barclays Universal Index and the 1.5% return of the median fixed income manager. AFL-CIO returned 3.4% which trailed the Barclays U.S. Aggregate return of 3.8% but was better than the median fixed income manager. Goldman Sachs also returned 3.4%, trailing the Barclays U.S. Aggregate Index but exceeding the median fixed income manager. Lord Abbett returned 2.8%, trailing the Barclays U.S. Aggregate but exceeding the median fixed income manager. PIMCO returned 0.5%, trailing the Barclays U.S. Aggregate and the median. The Torchlight II fund returned 0.5%, significantly exceeding the ML High Yield II Index and the high yield fixed income median. The workout portfolio returned -3.0%, trailing the Barclays Aggregate. The Torchlight Fund III returned -3.7% in the third quarter, better than the Merrill Lynch High Yield II Index return of -6.3%. Allianz Global returned -5.0%, which was better than the -6.3% return of the ML High Yield II Index and exceeded the -6.5% return of the median high yield manager.

Lazard Asset Management returned 0.6% in the third quarter, which trailed the Barclays Global Aggregate return of 1.0% and ranked in the 35th percentile of global fixed income portfolios.

CCCERA total alternative investments returned 5.5% in the third quarter. Bay Area Equity Fund returned 53.8%, Paladin III returned 9.4%, Adams Street Partners returned 5.1%, Energy Investor Fund II returned 4.8%, Nogales returned 4.5%, Pathway returned 3.0%, Carpenter Community Bancfund returned 1.5%, Energy Investor Fund returned -0.7% and Energy Investor Fund III returned -2.9%. (Due to timing constraints, all alternative portfolio returns are for the quarter ending June 30, 2011.)

The median real estate manager returned 2.0% for the quarter while CCCERA's total real estate returned -7.6%. Invesco Fund II returned 14.3%, DLJ's RECP II returned 8.8%, Long Wharf III returned 5.6%, Invesco Fund I returned 3.0%, Long Wharf II returned 2.8%, DLJ's RECP IV returned 2.1%, Willows Office Property returned 1.3%, DLJ RECP III returned -2.0%, Adelante Capital REIT returned -14.1%, Invesco International REIT returned -20.7% and BlackRock Realty returned -28.6%. (Due to timing constraints, the DLJ portfolio returns are for the quarter ending June 30, 2011.)

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 stating there has been another change in personnel at Goldman Sachs.

It was **M/S/C** to maintain the Watch List including Goldman Sachs. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

b. **Consideration of any changes in allocations to managers.**

There were no changes in allocations to managers.

4. **Request from Milliman for changes to contract fee structure**

Leedom reported Milliman's last fee adjustment was in 2002. Since that time the number of investment managers has increased by 40% and due diligence visits have been added to the tasks Milliman is expected to complete. Discussion followed, including results of a survey of consulting fees paid to investment consultants by other retirement associations in California. The Board discussed the additional workload created by an increase in both managers and fund assets, along with the additional policy of conducting on-site visits with investment managers. Board discussion expressed appreciation for the work performed by Milliman over the years.

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

It was **M/S/C** to approve the request from Milliman to accept the requested fee increase. (Yes: Allen, Buck, Cabral, Hast, Holcombe, Phillips, Telles, Viramontes and Watts)

5. **Miscellaneous**

(a) Staff Report

Leedom reported Levy will be conducting an educational session on the Form 700 at the December 14, 2011 meeting.

Leedom also reported a check was received from the City of Pittsburg as a payment towards their unfunded liability.

The Market Stabilization report will be on the January 11, 2012 meeting due to problems with the accounting computer software.

Hally reported an on-site visit to Oaktree is scheduled for December 1, 2011. An on-site visit to Siguler Guff and Angelo Gordon in New York is scheduled for December 8, 2011.

He also reported staff will meet with LaSalle before the fund closes.

(b) Outside Professionals' Report - None

(c) Trustees' Comments

Viramontes reported that the County Auditor-Controller declined the Retirement Board's request to maintain status quo for compensation and other terms and conditions of employment for all CCCERA employees.

Cabral reported a concern with an employer negotiating different retirement tiers for general members by union group, and is concerned that the law does not allow this change.

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