

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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June 23, 2010

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, June 23, 2010 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Brian Hast, Jerry Holcombe, William J. Pollacek, Jerry Telles, and Maria Theresa Viramontes.

Staff: Silvina Leroux, Retirement Deputy Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, Counsel; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager.

Outside Professional Support: Representing:
Bob Helliesen Milliman
Tim Price Milliman
Harvey Leiderman Reed Smith LLP

Other Attendees:

Sean Jara	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Luz Casas	CCCERA Staff
Chih-Chi Chu	CCCERA Staff
Joelle Luhn	CCCERA Staff
Andy Paulden	Brown Armstrong
Andy Rifkin	DLJ Real Estate Capital Partners
Carmine Fanelle	DLJ
Jeffrey Gandel	Fidelity
Arthur Greenwood	Fidelity

1. Pledge of Allegiance

Hally 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 May 26, 2010 meeting. (Yes: Buck, Cabral, Hast, Holcombe, Pollacek, Telles, Viramontes).

It was *M/S/C* to approve the minutes of the June 9, 2010 meeting. (Yes: Buck, Cabral, Hast, Holcombe, Pollacek, Telles, Viramontes).

4. Presentation from Credit Suisse Real Estate (DLJ Real Estate Capital Partners Funds I, II, III, and IV). Rifkin, Fanelle

Andy Rifkin began with an update on rent stabilization, which typically is an indication that landlords are starting to regain some control in negotiations. New York and Washington D.C. are currently the best buying opportunities in the United States. Globally, Japan is being de-emphasized because the opportunity to buy wholesale is very limited. The shift in opportunities is moving toward China.

RECP III Overview - Rifkin noted there is limited recourse for debt in this portfolio. In focusing on the remaining 23 investments, he noted they believe a single digit return is possible. The hospitality sector has improved over the first two quarters of this year, and Rifkin noted that they will review the next quarter's performance before adjusting market values. The positive IRR is due in much part to the realized investments in China, producing great returns. The issue with RECP III is liquidity, and Rifkin noted a plan for reducing the \$130 million debt to \$70 million.

RECP IV - Rifkin reviewed the 21 existing investments, noting that 11 investments are at .90 cents on the dollar. He noted a total of \$600 million has not yet been called and is available to be deployed into the current markets. The goal is to target 1.75 times - 2.25 times multiple for remaining capital in order to realize an overall return of 1.3 times - 1.7 times multiple for the RECP IV portfolio's total return.

Board discussion included the Credit Suisse spin-off transaction. Rifkin explained that the transaction will be structured for Credit Suisse to continue its agreement with the existing RECP funds and make a capital commitment of up to \$75 million for the successor fund to the RECP IV fund. The key members of the RECP team will be the general partners of the new entity.

5. Presentation from Pyramis (Fidelity FREG II and III). Gandel, Greenwood.

Greenwood described the real estate team as strong, with the top level of the investment committee in place for 15 years. Fidelity has also increased third-party research over the past year. Greenwood noted the capital markets are beginning to show improvement as the multi-family and hotel sectors reached a bottom; while industrial, office, and retail real estate fundamentally lag.

The FREG II fund was initiated in 2003, but the bulk of the equity was invested between the years of 2005-2007. More than 50% of the fund is still yet to be realized.

Current exposure is in the multi-family and student housing sector, where financing is the richest. With annualized returns since inception at -19.5%, Fidelity is targeting returns of .70-.80 cents on the dollar. Fidelity will reserve a significant amount of liquidity, but generate enough cash to make substantial distributions through the beginning of next year.

The FREG III fund has \$270.6 million invested or 30% of the fund with the last transaction occurring in the summer of 2008. At this point, Fidelity is beginning to recover some of the value in the fund. With the real estate sector down 40% in the last 18 months, the economy and real estate fundamentals show this is now a good time to invest. Fidelity is looking at opportunities to invest in office buildings in Chicago, Cupertino, Dallas, and the Boston area.

Board discussion followed regarding the possibility of improved returns if the initial exit plan of 8 years was to be extended. Fidelity agreed that time will probably help the returns for the FREG III fund.

6. Consider and take possible action on Semi-Finalist list for International Growth Equity Manager. Helliesen, Price.

Price reviewed the direction to conduct a search for an international growth equity manager to replace McKinley, noting the focus of the search was an international growth product, with clearly defined investment processes that would serve as reasonable complement to GMO or any future value-oriented international equity manager. He presented six qualified firms as semi-finalists.

Price reviewed the database used to identify the firms suited to manage an international growth equity mandate for CCCERA. Eleven firms were initially identified as reasonable candidates and a comprehensive questionnaire was issued to that group. From the initial eleven, there were six firms identified for the Board to consider as semi-finalists, including Artisan, Baillie Gifford, Hansberger, UBS, Vontobel, and William Blair.

Following Board discussion on all 6 managers, it was *M/S/C* to conduct finalists' interviews for Baillie Gifford, UBS, Vontobel and William Blair during a special board meeting on Thursday, August 12th at 9 a.m. (Yes: Buck, Cabral, Hast, Holcombe, Pollacek, Telles, Viramontes).

7. Review the independent auditor's report and financial statements for the year ended December 31, 2009.

Andy Paulden of Brown Armstrong, the Retirement Board's independent auditor, presented the results for the 2009 audit. He began by reviewing the audit process and noted that part of an auditor's responsibility is to review controls. He expressed his appreciation for the help given to the team by staff.

He discussed the main areas reviewed, including investments, contributions and payments. Paulden stated Brown Armstrong gave CCCERA an unqualified clean opinion, their highest quality for financial statements.

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He mentioned there were no weaknesses of controls or areas of non-compliance. Paulden also discussed the financial health of CCCERA during his review of the Comprehensive Annual Financial Report (CAFR) and noted that CCCERA has a good funding ratio.

Staff was complimented on the successful outcome of the audit and production of the CAFR, including the artistic work involved.

The Board received clarification on the cost and duration of the audit.

It was *M/S/C* to accept the independent auditor's report and financial reports for the year ended December 31, 2009. (Yes: Buck, Cabral, Hast, Holcombe, Pollacek, Telles, Viramontes).

7a. Consider and take possible action on State Street Securities Lending.

Cary Hally reported on the current issues involving State Street Securities Lending and the numerous executive-level personnel leaving the unit. State Street reported that all of the individuals with day to day oversight of CCCERA's security lending program remain in place, including all traders, investment management, risk management, compliance and operational personnel.

As there were concerns regarding the departures of many executives, CCCERA instructed State Street to cap its lending exposure at the current level, approximately \$480 million in securities on loan.

Hally noted, in late 2008, custodians had meaningful losses in securities lending investment pools given the turmoil in the capital markets. State Street did not recognize large losses, but to address the market environment they imposed a "gate" to withdraw from the investment pool with a value currently set at .98 on the dollar. As State Street evaluates the appropriateness of when to remove the gate, anticipated by year end, this complicates elimination of the lending program and undesirable associated costs.

The Board requested both Hally and Helliesen to place phone calls to State Street to investigate further and report back with an update.

8. Miscellaneous

(a) Staff Report -

Levy provided an update on AB 1987, noting it was approved by the State Assembly (75:0) and is now pending with the State Senate's Public Employment & Retirement Committee.

(b) Outside Professionals' Report -

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None.

(c) Trustees' Comments -

Holcombe mentioned Brown Armstrong has been auditing for 6 years and it may be time for an RFP agenda item for CCCERA to conduct a search for a new auditor.

Pollacek mentioned his retirement on January 3, 2011 and Russell Watts will be his successor.

It was *M/S/C* to adjourn meeting at 11:13 a.m. (Yes: Buck, Cabral, Hast, Holcombe, Pollacek, Telles, Viramontes).



Jerry Telles, Chairman



Brian Hast, Secretary