

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 1

June 27, 2007

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, June 27, 2007 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, Paul Katz, William J. Pollacek, Bob Rey, Jerry Telles, Maria Theresa Viramontes and Clifton Wedington.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Scott Johnson Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA
Tim Price Milliman, USA
Andy Paulden Brown Armstrong

Other Attendees:

Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Kenneth Minihan Paladin Capital Group
Michael Steed Paladin Capital Group
James Lee Patrick Hubert Partners

1. Public Comment

No members of the public offered comment.

2. Approval of Minutes

After amending Page 6, Item 13, (c) adding "in context of a multi-investor arrangement" after "available" in the first sentence in Dunning's comment, it was M/S/C to approve the minutes of the June 13, 2007 meeting, as amended. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

3. Auditor's Report for the Year Ending December 31, 2006

Andy Paulden from Brown Armstrong, the Retirement Board's independent auditor, began by describing the audit process. He stated Brown Armstrong gave CCCERA an unqualified, clean opinion, their highest quality, and that CCCERA is to be congratulated. He noted he appreciated the help of staff. He then reviewed the current year findings and recommendations, noting that recommended procedures have already been initiated by management. He stated there were no weaknesses of controls or non-compliance.

After questions on other '37 Act counties Brown Armstrong represents and discussion on preventing errors on travel demands, Paulden highlighted various areas of the Comprehensive Annual Financial Report (CAFR).

It was *M/S/C* to accept CCCERA's CAFR and the auditors report for the year ending December 31, 2006 and to thank all parties associated with the production. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

4. DLJ Real Estate Capital Partners Fund IV

Hally reviewed his memo to the Board, noting CCCERA has been invested in DLJ Real Estate Capital Partners Funds I, II, and III. He then provided history and an update on Funds I, II, and III. He included the IRR's, noting it was an opportunistic fund, higher in risk and return and has been very successful. The difference between Fund III and IV is that Fund III has a 50% cap on international investments, while Fund IV has no cap.

There was a motion to accept staff's recommendation. Cabral provided a brief overview of the Credit Suisse Conference he attended in April. There was continued discussion on over/under commitment in real estate, the organizational structure of DLJ, and hiring more investment managers to increase commitment in this area.

On the motion, it was *M/S/C* to accept the recommendation of staff to make a capital commitment of \$100 million to DLJ Real Estate Capital Partners IV, L.P. (RECP IV), subject to a successful on-site visit, contract negotiations and to authorize the Chief Executive Officer to sign any necessary documents. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

Several Board members volunteered for the on-site visit. Staff will attempt to coordinate the on-site visit at DLJ with the on-site visit with Lazard in August.

5. Paladin Fund III Presentation - Kenneth Minihan, Michael Steed

Paladin agreed to waive the confidentiality of their documents for use in a public meeting.

Steed began by noting Paladin Fund III, Homeland Security Plan, was a follow-on to Fund I. They provided a history of the firm, the investment focus, and reviewed the members of the investment team and backgrounds. Steed noted Paladin is constantly researching new products to protect the country's infrastructure to recover from terrorist's attacks and other national disasters. Their first focus is to get the highest possible return on a risk adjusted basis.

When asked about how the team interacts, Minihan stated how often they meet as a team to discuss opportunities, strategies and get advice from various members.

When asked, Minihan provided examples of a product that didn't go well and why and several successes. He then provided an overview of several products and technological

advancements. There was continued discussion on returns gross of fees and total rate of return.

6. Action on Paladin Fund III

After the Paladin Capital Group departed, there was a motion to invest \$25 million in Paladin Fund III. There was discussion on Paladin's track record, the diversification involved, other CCCERA alternative investments, and how this unique niche of investing in one partnership fits into CCCERA's portfolio. It was noted the primary job of trustees is to ensure investments make money for the fund.

It was *M/S/C* to call for the question. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

On the motion, it was *M/S/C* to make a capital commitment of \$25 million to Paladin Fund III, subject to a successful on-site visit, contract negotiations and to authorize the Chief Executive Officer to sign any necessary documents. (Yes: Cabral, Katz, Rey, Telles, and Viramontes; No: Gaynor, Pollacek, and Wedington).

Wedington, Gaynor and Pollacek voted no because there was no independent verification of Paladin's gross IRR of 27.2% if investments held over 1 year were valued at fair market value. Paladin stated verbally that valuations based upon 3rd party financings reflect a gross IRR of 9.4%, net 7.2%, but there was no verification of any performance numbers in their presentation. Of the 21 investments there was one investment with a successful partial exit, one investment with a total exit resulting in a loss, four investments which had valuation increases due to third party financings, and fifteen investments were still valued at cost. Many of the investments were considered too new to evaluate with ten made within the last two years (five within the past year).

- LUNCH -

7. Domestic Equity, CORE Equity Manager

Helliesen provided a brief history behind possibly conducting a search for a "Growth at a Reasonable Price" ("GARP") manager. Hally and Helliesen concurred it was not necessary to initiate a search at this time.

There was a motion to receive the report. An alternate motion was offered; it was *M/S/C* to not perform a search for a "Growth at a Reasonable Price" GARP manager at this time. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

8. Commodities

Helliesen provided CCCERA's educational history and interest in commodities. He noted he is now seeking direction from the Board on this asset class. There was discussion on directing the consultant to return with a report to bring Board members alternatives

for investing the 2% allocation, the diversity of the asset class and terminating any further commodities research at this time.

It was *M/S/C* to terminate the search on commodities and have the consultant and CIO return to the Board with alternative recommendations. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

9. Global REITs

There was discussion on Global versus International REITs. Discussion continued regarding using Adelante to invest in Global REITs and removing funds from their current US REIT allocation and placing into International REITs.

It was *M/S/C* to perform a search for an International REIT manager using 1% from the current US REIT allocation. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

10. Conference Seminar Attendance

- (a) It was *M/S/C* to authorize the attendance of all Board and appropriate staff at the Public Pensions: Issues and Discussion, Public Employee Post-Employment Benefits Commission, July 12, 2007, Burlingame, CA. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)

11. Miscellaneous

- (a) Staff Report - Hally stated staff will be setting up several on-site visits and urged board members to be as prompt as possible in returning calls.

Leedom - noted Benefit Statements are being mailed tomorrow, June 28th. This should be the last year Segal will be used for the process.

Leedom informed the Board that she has received a request from the County and Consolidated Fire asking for actuarial information regarding contribution rates if Consolidated Fire were to adopt the same tier as the Deputy Sheriff's Association (DSA).

- (b) Outside Professionals' Report - Nothing further to report.

- (c) Trustees' Comments - Viramontes - commented that other '37 Act funds are managing health trust funds for the plan sponsor. She feels CCCERA should have an educational meeting on this controversial issue, and be proactive so employers don't go elsewhere for this investment opportunity.

Gaynor asked if CCCERA can do this physically, and if so, do we want to do this?

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 5

June 27, 2007

Rey noted he is receiving many questions on CALPERS returns including funding ratios. There is difficulty in discussing this subject with those that are not involved in every day retirement issues. CALPERS stated they will be 100% funded even though they have granted other enhanced benefits.

Pollacek noted the funds used to subsidize the county, retirees, and employees have made the difference in CCCERA's funding. Koehler has spreadsheets regarding the subsidies.

Cabral urged the safety representatives of the Board to attend the Public Safety Employees Pension & Benefits Conference in Palm Springs October 14 - 17, 2007. He noted it was a premier conference for safety members.

Cabral suggested questioning the actuary on the "Contra" Account and to have the actuary provide an understanding on how CALPERS is able to provide pension enhancements with their stated funding status. He requested an explanation of how they've been able to use the results of the last three years, when Contra Costa has done just as well financially. He asked for a comparison of the two systems when the actuary presents the valuation at the August 8th meeting.

It was M/S/C to adjourn. (Yes: Cabral, Gaynor Katz, Pollacek, Rey, Telles, Viramontes and Wedington)


Clifton Wedington, Chairman


William J. Pollacek, Secretary