

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, September 13, 2006 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Richard Cabral, Dave Gaynor, Brian Hast, Paul Katz, Louis Kroll, Sharon Naramore, Rusty Watts for 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; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Ashley Dunning Steefel, Levitt & Weiss
Bob Helliesen Milliman, USA

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Jim Remick	Contra Costa Sheriff's Department
John Keel	San Ramon Valley Fire
Aaron Prince	AFL-CIO Housing Investment Trust
Chang Suh	AFL-CIO Housing Investment Trust
Andre Cuerington	Western Asset Management
Steve Fulton	Western Asset Management
Stephanie King	PIMCO
John Miller	PIMCO
James Lee	Patrick Hubert Partners, LLC

1. Public Comment

No members of the public offered comment.

2. Review of Total Portfolio Performance

Milliman USA - Bob Helliesen

Helliesen provided a summary of the total portfolio performance for the period ending June 30, 2006.

He began by noting, the domestic equity markets had negative returns in the second quarter of 2006, with the S&P 500 returning -1.4%. Small capitalization stocks trailed larger capitalization issues, with the Russell 2000® returning -5.0%. The median equity manager returned -2.5% and the broad market, represented by the Russell 3000®, returned -2.0%. International equity markets had better results, with the MSCI EAFE Index returning 0.9% while the median international equity manager returned -0.4%. The U.S. bond market was nearly flat in the quarter with the Lehman Aggregate Index returning -0.1% and the median fixed income manager returning 0.2%. Hedged

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international bonds were also flat, with the Citigroup Hedged Index returning 0.0%. Real estate returns were mixed, with the NAREIT Equity Index of publicly traded real estate investment trust securities returning -1.6% and the NCREIF Property Index returning 4.0%. The median real estate manager returned 3.2%.

Helliesen discussed REITs and noted in the past REITs had been very good for the fund. Significant funds have been taken from REITs over the years due to the periodic scheduled rebalancing.

He then reviewed managers previously placed on the Watch List. After noting the data in his report is 2 ½ months old, he asked, and there was a great deal of discussion, if the Board would like updated investment numbers before quarterly meetings.

CCCERA's second quarter return of -0.6% was better than both the median total fund and the median public fund. CCCERA has out-performed both medians over all trailing time periods, ranking in the upper decile of both universes over the past one through five-year periods.

CCCERA total domestic equities returned -2.8% for the quarter, below the -1.4% return of the S&P 500 and the -2.5% return of the median manager. Of CCCERA's active equity managers, Boston Partners had the strongest performance with a return of -0.9%, better than the S&P 500 but below the Russell 1000® Value Index. Rothschild returned -1.6% versus -2.5% for the Russell 2500™ Value. PIMCO returned -1.7%, slightly trailing the S&P 500. Intech returned -1.9%, below the S&P 500 return of -1.4%. ING returned -1.9%, also trailing the S&P 500. Wentworth returned -3.4%, trailing the S&P 500. Emerald returned -4.2%, better than the -7.3% return of the Russell 2000® Growth Index. Progress returned -4.7%, better than the -5.0% return of the Russell 2000® Index. Finally, Delaware returned -5.7%, below the Russell 1000® Growth return of -3.9%.

CCCERA international equities returned 0.8%, near the 0.9% return of the MSCI EAFE Index and above the -0.4% return of the median international manager. The GMO Intrinsic Value portfolio returned 0.8%, slightly below the MSCI EAFE and EAFE Value Indices but above the median international equity manager. McKinley Capital returned 0.9% in the quarter, matching the MSCI EAFE return while exceeding both the MSCI EAFE Growth Index and the median international equity manager.

CCCERA total domestic fixed income returned 0.2% for the second quarter, above -0.1% for the Lehman Aggregate and matched the median fixed income manager. AFL-CIO's return of 0.0% was better than the Lehman Aggregate and matched the Citigroup Mortgage Index but lagged the median fixed income manager. PIMCO returned -0.1%, matching the Lehman Aggregate but trailing the median. Western Asset also returned -0.1%, matching the Lehman Aggregate but trailing the median. ING Clarion returned 4.3%, well above the fixed income median. Nicholas Applegate returned 0.0% versus 0.1% for the Citigroup High Yield Index and -0.2% for the Merrill Lynch BB/B Index.

The Fischer Francis Trees & Watts international hedged fixed income portfolio returned -0.3% for the second quarter, below the 0.0% return of the Citigroup Non US Government Hedged Index.

CCCERA total alternative investments returned 3.5% in the second quarter. Adams Street Partners reported a return of 6.1%, Energy Investor Fund II reported a return of 4.2%, Pathway returned 4.0%, Energy Investor Fund reported a return of 2.8%, the PT Timber Fund reported a return of 1.5%, Nogales had a return of 1.1% and the Bay Area Equity Fund returned -8.4% for the second quarter. (Due to timing constraints, all alternative portfolio returns except PT Timber Fund are for the quarter ending March 31.)

The median real estate manager returned 3.2% for the quarter while CCCERA's total real estate returned 2.3%. Prudential SPF-II returned 28.8%; DLJ's RECP III returned 9.8%; Invesco returned 7.5%; BlackRock Realty returned 5.6%; Fidelity returned 4.7%; US Realty returned 3.7%; DLJ's RECP II returned 2.7%; Willows Office property returned 1.8%; DLJ's RECP I returned 1.8%; FFCA returned 0.8% and Adelante Capital's REIT portfolio returned -0.5%.

Katz was out for subsequent discussion and voting.

Discussion followed regarding the International Fixed Income portfolio and how it provides diversification for the portfolio.

It was M/S/C to direct the consultant and the Chief Investment Officer (CIO) to review the allocation to International Fixed income and return with a recommendation. (Yes: Cabral, Hast, Rey, Telles, Viramontes, Watts, and Wedington)

Katz was present for subsequent discussion and voting.

3. Manager Presentations

AFL-CIO HIT - Aaron Prince, Chang Suh

Prince began by noting AFL-CIO's returns for this year are very similar to last year's returns. He provided a personnel update. John Hayley, Executive Vice President, has announced his departure. Prince discussed how the firm will handle his departure, and the team to continue during the transition period.

Prince then reviewed the operation fee structure for AFL-CIO HIT, noting fees had been at 37 basis points over the last five years. Expenses have been increasing and fees will be increased to 42 basis points for 2006. In the fourth quarter, the budget will be presented for operating expenses for the upcoming year.

He provided a handout to the Board with performance as of the end of August. The 12 month return has beaten the benchmark, and performance has improved within the last

two months. Prince noted the housing downturn can help the portfolios because rental housing prices increase when single family prices decrease.

He concluded by discussing the outlook for the next year, including the probable returns in the mid-single digit area.

Western Asset Management - Andre Cuerington, Steve Fulton

Cuerington began by providing updates on Western Asset's statistics and current initiatives. He reviewed the global additions to the investment management team and the average professional experience of the team members.

Fulton noted their philosophy and process is for long-term value. Their teams look at trends that will affect the investment landscape within 12-36 months. Discussion followed on Russian securities vs. the U.S. backed mortgage securities. Fulton felt it didn't make sense to invest in Russian securities when Ginni Mae securities have less risk. U.S. securities have a higher yield than any other in the industrialized world except Australia. The biggest risk is inflation.

He then reviewed the sector allocation for the fund, noting the fund was underweight in corporate bonds. He noted Western Asset employs between six and eight strategies for a diversified risk.

Fulton concluded by commenting the rates worked against their strategy the first six months of the year, but the portfolio was doing better in July and August.

PIMCO - Stephanie King, John Miller

King began by noting PIMCO's role. For the fixed income portfolio they use a "Core Plus Bond Strategy". CCCERA's custom portfolio is actively managed employing all sectors of the bond market. Their objective is to outperform the bond market index with index-like risk.

The enhanced equity index strategy has passive exposure to the S&P 500 equity index via futures contracts. They back futures contracts with actively-managed, short-duration fixed income portfolio. Their object is to outperform the equity market index with index-like risk.

King reviewed PIMCO's performance, noting their mandate is to outperform the index. However, they recently have underperformed. She feels their track record is sustainable and they are using the same process as four years ago, which is a diversified set of strategies. She then provided an update on their performance as of the end of August, noting in hindsight they haven't gotten the interest rate call correct. She noted that July and August performance figures are better.

Some Board members expressed their concern about performance after fees and discussed PIMCO's performance against the benchmark. King stated PIMCO is not satisfied with performance over recent periods, and believes there are plenty of

strategies utilized which should add value going forward. King noted expectations are for the product to add 75 to 100 basis points above the S&P 500 (gross of fee). The team has expectations the Feds will ease interest rates. She feels going forward the portfolio will be very viable and they are well positioned for future returns; however, if the yield curve remains flat the economy may be in trouble. PIMCO feels the economy's growth may slow and believes the Fed is done raising rates, and may begin easing rates at some point in 2007.

It was noted the Board has confidence in PIMCO as a firm, but needed to reiterate their concern on PIMCO's performance. King understands the portfolio is a very significant amount for them as well and is confident with Pimco's strategy as a firm.

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2. Review of Total Portfolio Performance (cont'd)

Milliman USA - Bob Helliesen

Helliesen discussed writing a letter to AFL-CIO regarding their increased fees as an expression of concern. Staff was directed to send a letter to AFL-CIO expressing the Board's concern.

After discussing managers on the Watch List, it was M/S/C to remove Progress from the Watch List and to agendaize at a future meeting, discussion to determine if additional funds should be allocated. (Yes: Hast, Katz, Naramore, Rey, Viramontes, Watts and Wedington; Abs: Cabral),

After additional discussion it was determined that Western Asset Management was placed on the Watch list at the May meeting and this was omitted in Milliman's Report. ING Investments was on the Watch List for personnel changes. They should have been listed for performance as well. Helliesen noted this would be corrected.

There was continued discussion on placing Wentworth Hauser and Violich on watch for performance. It was the consensus of the Board to delay action until third quarter results can be assessed.

Kroll and Telles were not present for subsequent discussion and voting.

There was a great deal of discussion on whether to continue using PIMCO Stocks Plus as a parking place for funds since their strategy relies on interest rate movement. Some wondered why an SP500 Index Fund isn't used for a "parking place". After discussion on the pros and cons of investing in an SP500 Index Fund, there was a **motion** to remove the portion of funds held as a parking place from the PIMCO stocks plus and determine an appropriate fund for the money.

Hally noted that although his confidence has waned with PIMCO, he still has confidence with the firm and its ability to add value going forward. He noted PIMCO's allocation

target has been reduced long-term to allow for use as a parking place for funds. On the motion it was **M/S** to take approximately \$90 million from the PIMCO stocks plus and determine an appropriate fund for the money. (Yes: Cabral, Wedington; No: Hast, Katz, Naramore, Rey, Viramontes, and Watts) The **motion failed**. Hally recommended that PIMCO be placed on Watch. It was **M/S/C** to accept staff's recommendation to place PIMCO Stocks Plus portfolio on watch for performance. (Yes: Cabral, Hast, Katz, Naramore, Rey, Viramontes, Watts and Wedington).

Wedington and Cabral were not present for subsequent discussion and voting.

6. Commodities Search

Helliesen updated the Board on the Commodity search. He reviewed the sixteen firms that could be capable of providing a long-only fully collateralized commodity investment. These firms were sent questionnaires. He expects answers from the questionnaires by next week. One additional firm, AIS will be sent a questionnaire as well. Board members were advised they should not have discussions with any of the firms listed until action is taken on this investment.

4. Adams Street 2007 Fund

It was **M/S/C** to accept the recommendation of the Chief Investment Officer to make a capital commitment of \$50 million to the Adams Street Partners 2007 Fund Program. (Yes: Hast, Katz, Naramore, Rey, Viramontes and Watts) An on-site visit will be performed in Chicago in late October.

Cabral was present for subsequent discussion and voting.

5. Fidelity

Dunning noted her recommendation is to go forward with Fidelity's acknowledgement since this issue has been heavily negotiated. Her recommendation is to discuss Fidelity's issue with other systems to develop a procedure for similar circumstances. It was **M/S/C** accept counsel's report and place this item on future agenda to discuss. (Yes: Cabral, Hast, Katz, Naramore, Rey, Viramontes and Watts)

7. Miscellaneous

- (a) Staff Report - nothing further
- (b) Outside Professional Report - Dunning noted Steefel is moving the date of their symposium because of a conflict with the CALAPRS Attorney's Roundtable. The reception will be on January 18th and the symposium will be January 19, 2007.
- (c) Trustees' Comments - Naramore commented that her hope was to get back on schedule with investment agendas so future meetings aren't so long.

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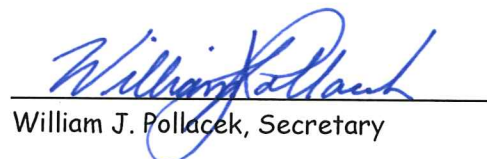
Wedington was present for subsequent discussion and voting.

Cabral commented on the Pension Protection Act, requesting CALAPRS, CII, NCPERS, and SACRS analysts provide an explanation of this Act. CCCERA should be using these tools to determine the ramifications. He realizes this is a federal issue, but feels CCCERA should be proactive and gather data. Leedom noted she is working with counsel to identify issues affecting CCCERA. In addition, Leedom noted SACRS will be holding an educational meeting in October, and will provide all Board members with the information. Cabral requested in-depth information with a verbal report at the October meeting, followed up with something in writing at a later date. He would like normal retirement age defined. Leedom noted that she and Dunning will work together on this issue.

Katz asked how Federal over State and County law is determined for tax qualification.

It was M/S/C to adjourn. (Yes: Cabral, Hast, Katz, Naramore, Rey, Viramontes, Watts and Wedington)


Clifton Wedington, Chairman


William J. Pollacek, Secretary