

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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July 23, 2008

The Board of Retirement met in special session at 9:00 a.m. on Wednesday, July 23, 2008 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Dave Gaynor, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, William J. Pollacek, Jim Remick, and Jerry Telles.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager.

Outside Professional Support: Representing:
Harvey Leiderman Reed Smith LLP
Paul Angelo Segal Company
John Monroe Segal Company

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Margie Breen	CCCERA Staff
Chih-Chi Chu	CCCERA Staff
Joelle Luhn	CCCERA Staff
Gayle Cruz	CCCERA Staff
Lucy Fogarty	Contra Costa Superior Court
Jim Wagner	Contra Costa Grand Jury
Ron Tervelt	Contra Costa Grand Jury
Karen Levy	Self
Mike George	Contra Costa County Fire Protection District
Tina Kaufmann	Auditor Controller
Michelle Johnston	Auditor Controller
Analiza Alejandrino	Auditor Controller
Debbie Ratcliff	Contra Costa County Sanitation Department
Marie Rulloda	Auditor Controller
John Cullen	Contra Costa County Administrators Office
Mary Lou Williams	Local 1 Retirees
Craig Bowen	San Ramon Valley Fire Protection District
Jim Bickert	Deputy Sheriffs Association
Satomi Cadena	Contra Costa County Retired Employees' Association
Kim Aspenleider	Delaware Investments
Jeff Van Harte	Delaware Investments
Dan Prislín	Delaware Investments
Tom Neukranz	ING
Vincent Costa	ING
Omar Aguilar	ING
David Pyle	Robeco
Bob Starke	Robeco
Carolyn Margiotti	Robeco

1. Public Comment

No members of the public offered comment. Hast welcomed new Board of Supervisors' Appointed Alternate Board Member, Jerry Holcombe.

2. Approval of Minutes

It was *M/S/C* to approve the minutes of the June 27, 2008 meeting. (Yes: Buck, Gaynor, Gioia, Hast, Holcombe, Katz, Pollacek, Remick, and Telles)

3. Valuation Report for the Period Ending 12/31/07 - Paul Angelo, John Monroe

Angelo began by noting the report summarizes the actuarial data used in the valuation, establishes the funding requirements for the fiscal year beginning July 1, 2009 and analyzes the preceding year's experience. The Association's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. The Association's unfunded actuarial accrued liability (UAAL) is being amortized over a decreasing 20-year period starting with the December 31, 2002 valuation. There are 15 years left in the amortization period as of December 31, 2007. Angelo commented that it may be time to review CCCERA's Amortization Policy.

He summarized the key valuation results noting the ratio of the valuation value of assets to actuarial accrued liabilities increased from 84.3% to 89.9%. The Association's UAAL has decreased from \$833 million to \$565 million. This decrease is primarily due to an investment return on actuarial value that exceeded the 7.80% assumed rate.

The aggregate employer rate calculated in the valuation has decreased from 28.18% of payroll to 24.17% of payroll. This decrease is primarily due to the investment gain as previously mentioned. The aggregate member rate calculated in the valuation has decreased from 10.68% of payroll to 10.66% of payroll.

Angelo suggested the Board review the Amortization of the UAAL and the Asset Smoothing methodology at the same time. He suggested the Board may want to review the possibility of moving to a 7 or 10 year market smoothing method.

The total unrecognized investment gain as of December 31, 2007 is about \$170 million. This investment gain will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will serve to offset any investment losses that may occur after December 31, 2007.

Monroe noted Safety Tier C members are included in this valuation for the first time. Last year no one was in this Tier. All County Sheriff's Department Safety members hired on or after January 1, 2007 have been placed into Safety Tier C.

Angelo concluded the presentation by reviewing the Board's Contra Tracking Account and summarized total allocated reserves.

4. Contribution Rates, Effective July 1, 2009

It was **M/S/C** to accept the contribution rates effective July 1, 2009 to June 30, 2010 as recommended by the actuary. (Yes: Buck, Gaynor, Gioia, Hast, Holcombe, Katz, Pollacek, Remick, and Telles)

5. Manager Presentations

Helliesen provided a brief update on the performance of the presenting managers, along with any items of concern.

Domestic Equity

Delaware Investment Advisors - Jeff Van Harte, Daniel Prislín, Kimberly Aspenleider

Aspenleider began by providing an overview of the firm, highlighting a brief history of the organization and the current composition of assets under management. She also provided an overview of CCCERA's account including account inception, benchmark, net contributions and net gains.

Van Harte discussed performance over the last few years, noting this year he had hoped materials and energy would settle down and produce less head wind for them; however, the market is difficult right now. He noted not rotating into sectors makes Delaware's portfolio contrarian and they tend to consolidate the portfolio around the best performing areas. After a quick review of the credit market, he noted his belief that the market turnaround will be closer to 24 months from now.

Van Harte concluded by discussing performance as compared to their benchmark, the Russell 1000.

ING Investment Management - Omar Aguilar, Vincent Costa, Tom Neukranz

Neukranz began by providing an organizational overview, noting, as planned, Robert Leary was appointed as CEO on September 4, 2007 and succeeded Bob Crispin as Chairman, December 31, 2007.

Aguilar discussed ING's "under review" status, noting the quantitative approach for investing has resulted in volatility. Their goal is to stick to their discipline while expanding their investments into places that hadn't been attempted before.

Costa explained there has been a period of volatility since ING last presented, with changes of market leadership from value to growth. He noted during this period of

transition, it is difficult for models to adjust to relatively quick changes in market leadership.

He then provided 2008 monthly performance gross of fees, year-to-date performance attribution and portfolio characteristics. The portfolio characteristics included sector allocations, top 10 overweights and bottom 10 underweights.

Costa concluded with an outlook for the fund, noting historically, quantitative models have not been good at reacting to rapid transitions in market leadership driven by external interventions like the one in January of this year. He stated, however, in the long run, the stock fundamentals that ING's models focus on prevail over temporary market overreactions. As factor performance stabilizes, ING's factor weighting process will enable the models to take advantage of any sustained trends in the equity markets.

Remick was not present for subsequent discussion and voting.

Boston Partners - David Pyle, Carolyn Margiotti, Bob Starke

Margiotti began by noting in the second quarter, CCCERA's large cap value portfolio outperformed the Russell 1000 Value Index by 3%, gross of fees, by staying the course with the portfolio's large active positions: Technology, Health Care and Finance. She stated valuation spreads are extraordinarily wide. This condition typically occurs when there is stress in the capital markets, a situation which is clearly in place today. The cause of the stress is well-known: the confluence of both commodity price increases (led by energy) and a collapsing credit bubble.

Pyle discussed investment performance through June 30, 2008, the world changes since December of 1997 that affected the stock market, and the characteristics of a recession. He noted Growth has a long history of underperforming Value during both recessions and bear markets. Value is a way to avoid earnings risk and performs well when earnings are depressed and during recessions.

Pyle concluded by reviewing the number of recessions since 1857, with the average contraction in months. Since 1945, the U.S. economy has expanded 85% of the time and contracted only 15% of the time. He noted recessions have become shorter since World War II, with the average recession now less than one year versus nearly two years before World War II.

6. Action on August 13, 2008 Meeting

No action taken.

7. Conference Seminar Attendance

- (a) No action was taken on the 2008 Pension Fund Forum, New America Alliance, August 13 - 15, 2008, Albuquerque, NM, since Henry Cisneros is on the Board of Directors and the consideration of Cisneros' firm, CityView, is in process of being contemplated as an investment manager for CCCERA.
- (b) It was **M/S/C** to authorize the attendance of Buck and one staff member at the Los Angeles Regional Conference, ING Investments, September 16 - 17, 2008, Los Angeles, CA. (Yes: Buck, Gaynor, Gioia, Hast, Holcombe, Katz, Pollacek, and Telles)

8. Miscellaneous

- (a) Staff Report - Leedom commented on an article in the SACRS magazine currently in Board member's in-boxes. She noted the article indicates CCCERA retirees have no healthcare. Leedom noted she contacted SACRS to correct the record.

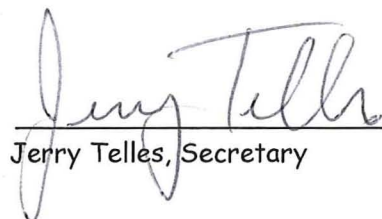
Leedom noted staff counsel has been hired; Karen Levy will begin July 31st. Levy comes from an insurance/litigation background.

Hally - noted letters requesting more information were sent to CityView and BlackRock, and copies of the letters were placed in Board members' in-boxes. CityView previously provided a response to a request of information. The initial response to the request was sent by e-mail before the previous meeting, and Hally feels it's very possible the initial e-mail was filtered out through the County's spam firewall. He noted staff is looking into this to determine a solution for future situations. He noted CityView has addressed some of the original questions.

- (b) Outside Professionals' Report - Leiderman discussed the recent meetings regarding Board members and Morgan Stanley. There was discussion on best practices for the investment manager selection process, including directing potential presenters through an initial due diligence process with Hally and staff, and Board reporting of prior communications with prospective Manager. After discussion, staff will work with fiduciary counsel to propose appropriate revisions to the Board's investment manager selection process, and will return with a draft procedure for the Board's consideration.
- (c) Trustees' Comments - Telles noted that along with Helliesen and Buck he discussed a product with Peter Chung.

Gioia - requested a list of potential on-site visits to occur over the next few months.


Brian Hast, Chairman *Vice Chair*


Jerry Telles, Secretary