

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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September 10, 2008

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, September 10, 2008 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Terry Buck, Richard Cabral, Dave Gaynor, 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; Rick Koehler, Retirement Accounting Manager; Toni Warren, Retirement Administration Manager; Karen Levy, Counsel.

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

Other Attendees:
Luz Casas Contra Costa County Employees' Retirement Association (CCCERA) Staff
Chih-Chi Chu CCCERA
Mary Lou Williams Retirees' Association

1. Public Comment

No members of the public offered comment.

Agenda Item 1a was placed after Item 2.

2. Review of Total Portfolio Performance

Milliman - Bob Helliesen

Helliesen reported the markets had mostly negative results in the second quarter of 2008 as April and May were generally strong following the bailout of Bear Stearns, but June erased gains as fears surrounding the ongoing credit crunch returned to the forefront.

Large capitalization stocks, as measured by the S&P 500, returned -2.7% while the Russell 2000® returned 0.6% for the quarter. The median equity manager returned -0.2% and the broad market, represented by the Russell 3000® Index, returned -1.7%.

International equity markets declined in tandem with the domestic equity markets in the second quarter, with the MSCI EAFE Index returning -1.9% and the MSCI ACWI ex-US Index returning -0.9%. The U.S. bond market was negative in the second quarter of 2008, with the Lehman Universal Index returning -0.8%, the Aggregate Index returning -1.0% and the median fixed income manager returning -0.8%. The domestic private real estate market continued to post positive results in the second quarter of

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2008, with the NCREIF Index returning 0.6%. Publicly listed real estate was negative with the Dow Jones Wilshire REIT Index returning -5.4%.

CCCERA's second quarter return of -0.8% slightly trailed the median total fund and slightly beat the median public fund. CCCERA exceeded the median funds over the past year. CCCERA has out-performed both medians over all trailing time periods two years and longer, ranking in the upper quartile of both universes over the past two through ten-year periods.

CCCERA total domestic equities returned -1.1% for the quarter, better than the -1.7% return of the Russell 3000® but below the -0.2% return of the median manager. Of CCCERA's domestic equity managers, Emerald had the strongest performance with a return of 4.8%, better than the 4.5% return of the Russell 2000® Growth Index. Progress returned 4.5%, better than the 0.6% return of the Russell 2000® Index. Rothschild returned 1.9%, better than the -1.2% return of the Russell 2500™ Value Index. Wentworth returned 0.2%, better than the -2.7% return of the S&P 500. Intech Large Cap Core returned -1.6%, better than the S&P 500. Intech Enhanced Plus returned -1.9%, also better than the S&P 500. Boston Partners returned -2.3%, better than the -5.3% return of the Russell 1000® Value Index. ING returned -3.0%, below the S&P 500 and the S&P 500 ex-Tobacco Indexes. PIMCO returned -3.5%, below the S&P 500. Finally, Delaware returned -3.7%, below the 1.3% return of the Russell 1000® Growth Index.

CCCERA international equities returned 0.7%, better than the -1.9% return of the MSCI EAFE Index and the -1.6% return of the median international manager. The GMO Intrinsic Value portfolio returned -1.5%, better than the S&P Citi PMI EPAC Value Index return of -4.0% and the median international equity manager. McKinley Capital returned 2.8%, above the MSCI ACWI ex-US Growth Index return of 1.2% and the median international equity manager.

CCCERA total domestic fixed income returned -0.8% for the second quarter, matching the -0.8% return the Lehman Universal and the -0.8% return of the median fixed income manager. The ING Clarion II closed-end fund (down severely in the first quarter) had the strongest second quarter results with a return of 3.1%, better than the ML High Yield II Index and the high yield fixed income median. Nicholas Applegate returned 1.6% versus 1.8% for the ML High Yield II Index and the median high yield manager. AFL-CIO's return of -0.7% was better than the Lehman Aggregate and was above the median fixed income manager. Western Asset returned -0.8%, matching the Lehman Aggregate and the median. PIMCO returned -1.9%, below the Lehman Aggregate and the median. ING Clarion (mostly already liquidated) returned -19.4%, well below the high yield fixed income median of 1.8% and the 1.8% return of the Merrill Lynch High Yield Master II Index. Lazard Asset Management returned -2.5% in the second quarter, better than the Lehman Global Aggregate return of -2.9%, and ranked in the 48th percentile of global fixed income portfolios.

CCCERA total alternative investments returned -0.3% in the second quarter. The Bay Area Equity Fund reported a return of 4.0%, Energy Investor Fund II reported a return of 2.6%, Energy Investor Fund reported a return of 1.1%, Energy Investor Fund III reported a return of 1.0%, Hancock PT Timber Fund returned -0.8%, Adams Street Partners reported a return of -1.3%, Pathway returned -1.8%, and Nogales had a return of -5.6% for the quarter. (Due to timing constraints, all alternative portfolio returns except Hancock PT Timber Fund are for the quarter ending March 31.)

The median real estate manager returned 0.1% for the quarter while CCCERA's total real estate returned -2.4%. Prudential SPF-II returned 21.2%; DLJ's RECP I returned 21.0%; Invesco returned 4.1%; DLJ RECP II returned 4.1%; Willows Office property returned 0.4%; DLJ's RECP III returned -0.6%; BlackRock Realty returned -1.8%; Fidelity II returned -5.2%; Adelante returned -5.3%; and Invesco Fund II returned -8.0%.

Helliesen discussed the performance of various investment managers, those on the watch list, including Wentworth, Hauser & Violich's performance and leadership.

Nogales/Pimco On-Site Reports

Hally reviewed the on-site visits at Nogales and Pimco. Other participants of the on-site visit noted their impressions of the visit. Hally reported he received a proposal from PIMCO to switch to incentive fees, noting he was not anxious to attempt that route at this time.

Several complimented staff on the On-Site Visit reports.

The Board went into closed session under Gov. Code Section 54956.9(c) to decide whether to initiate litigation

Cabral was present for subsequent discussion and voting.

The Board moved into open session.

1a. Potential Litigation

No reportable action taken.

3. FPPC

Leedom reviewed her memo regarding changes in FPPC Regulation 18944.2. There was discussion on SACRS fees and if activities at SACRS are affected by this FPPC Regulation, since SACRS is a non-profit organization.

After discussion, it was *M/S/C* to accept staff's recommendations to negotiate additional language to be added as an addendum to exiting investment management contracts where appropriate, and to not accept gifts of transportation, meals or lodging

from other outside sponsors. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

Leedom will continue to work on investment manager language with counsel and return with information on SACRS fees relating to FPPC Regulation 18944.2.

4. Adams Street Partnership Fund 2009 Global Offering

Hally reviewed his memo on Adams Street Partnership Fund Program 2009 - Global Offering, and provided a firm update. After discussion, it was **M/S/C** to accept the recommendation of staff to make a capital commitment of \$50 million to the Adams Street Partnership Fund Program 2009 - Global Offering ("2009 Global Offering"), subject to successful on-site visit, legal review and authorize the CEO to sign any necessary documents. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

5. DBL Investors

Hally reviewed his recommendation to schedule DBL investors to make a presentation regarding California Equity Fund - Bay Area Equity Fund II (BAEF II), noting BAEF II is worthy of consideration as a follow-on investment. It was the consensus of the Board to accept staff's recommendation and schedule a presentation for October.

6. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of Buck, Remick and Telles at the Public Safety Employees Pension & Benefits Conference, NCPERS, October 12 - 15, 2008, Palm Springs, CA. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)

7. Miscellaneous

- (a) Staff Report - Leedom reported the Housing Authority is considering adopting 2% @ 55 effective 10/1/08. She reminded Board members there will be three meetings in October: the 8th, 16th and 22nd.

On the previous Monday, Denver City Employees' Retirement plan staff visited CCCERA to view CCCERA's pension software system.

Leedom noted she has had conversations with Daniel Borenstein from the Contra Costa Times regarding an article on three elected officials who retired before taking office.

Leedom commented on several items: Counsel is working on consolidating the '37 Act law applicable to CCCERA; the Compensation Study results will be presented by Fox Lawson at the November Board meeting; The RFP for an integrated Accounting

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System has been distributed; the Actuarial Audit preliminary results should be available for review by staff in late October.

Staff is working with the following Districts regarding potential termination issues: Moraga/Orinda Fire District, Central Sanitary District, Hercules Fire Protection District and Rodeo Sanitary District.

Hally - noted he is moving forward with the Western Asset Management transition and has contacted several firms for a pre-trade analysis.

- (b) Outside Professionals' Report - Helliesen noted the "Fannie" and "Freddie" rescues would provide some needed confidence in the market. More oversight on them in the future will be a good thing.
- (c) Trustees' Comments- Hast noted the CEO's review and evaluation will be agendized for a future meeting.

Telles - reviewed the Opal Conference he attended in Scottsdale. He noted this was the second Opal Conference he's attended and was far better than the previous conference in Alaska.

Katz - had concerns on CCCERA travel expenses and process after reading the Audit of Retirement Services' Travel Expenses for the City of San Jose. Leedom commented CCCERA does a thorough job on travel expenses; itemized receipts are required, all expenses are reviewed before processing, and travel is in compliance with CCCERA's travel policy. It does not appear that CCCERA has issues as listed in the City of San Jose's Audit.

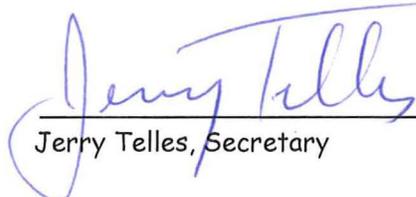
Katz asked staff if there was a policy on board members abstaining from contact with managers who are on watch. Leedom noted that CCCERA has no policy regarding this issue.

Remick - requested making the "Pledge of Allegiance" a permanent first item on the agenda.

It was M/S/C to observe a moment of silence and adjourn the meeting in memory of Paul Starzyk, the Martinez Police Officer killed in the line of duty on the previous Saturday. (Yes: Buck, Cabral, Gaynor, Hast, Holcombe, Katz, Pollacek, and Telles)



Brian Hast, Chairman



Jerry Telles, Secretary