

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 1

February 11, 2009

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, February 11, 2009 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, John Gioia, Brian Hast, Jerry Holcombe, Paul Katz, Sharon Naramore, William J. Pollacek, Jim Remick, Jerry Telles, and Maria Theresa Viramontes.

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Rick Koehler, Retirement Accounting Manager; Kathy Somsen, Retirement Benefits Manager; Toni Warren, Retirement Administration Manager; Karen Levy, Counsel.

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

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Joelle Luhn	CCCERA Staff
Margie Breen	CCCERA Staff
Charice Hester	CCCERA Staff
Gi Ochang	CCCERA Staff
Gayle Cruz	CCCERA Staff
Krista Nuxoll	CCCERA Staff
Chih-Chi Chu	CCCERA Staff
Walt Houtz	Self
Richard J. Olsen	Self
Bryan Collins	San Ramon Valley Fire Protection District (SRVFPD)
Leslie Lea	Grand Jury
John Phillips	Grand Jury
Ron Tervezt	Grand Jury
Lisa Driscoll	County Administrator's Office (CAO)
Tim Ewell	CAO
Hugo Wildman	AC Transit
Robert Rey	Self
Bob Campbell	Auditor-Controller
Haj Nahal	Auditor-Controller
Jim Bickert	Deputy Sheriff's Association (DSA)
Pete Nowicki	Moraga Orinda Fire Department (MOFD)
Debbie Ratcliff	Contra Costa County Sanitary District (CCCSD)
Mary Lou Williams	Retirees' Association
Sue Casey	MOFD
Gary Boyles	Rodeo-Hercules Fire

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 2

February 11, 2009

Marie Rulloda	Auditor Controller
Steve Huebner	MOFD
Dan Borenstein	Contra Costa Times
Satomi Cadena	Contra Costa County Retired Employees' Association (CCCREA)
Matthias Gafi	Contra Costa Times
Kris Hunt	Contra Costa County Tax Payers Association
Richard Price	SRVFPD
Yadira Vazquez	Merced County
Keith Richter	Contra Costa Fire

1. Pledge of Allegiance

Remick led all in the *Pledge of Allegiance*.

2. Gi Ochang, 10 Year Service Award

Hast congratulated CCCERA employee Gi Ochang on the occasion of her 10th Anniversary and thanked her for her years of dedicated service to the Retirement Association.

3. Public Comment

No members of the public offered comment.

4. Approval of Minutes

After amending the minutes at the bottom of Page 3, changing the last sentence to: "He noted the key is to be consistent in the methodology used and to always use the same method for measuring the annual change.", it was **M/S/C** to approve the minutes of the January 28, 2009 meeting, as amended. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)

5. Presentation on Amortization of Unfunded Liability Methods - Segal Company

Angelo began the presentation by explaining Asset Smoothing and Unfunded Actuarial Accrued Liability (UAAL) Amortization; noting each year's gain/loss gets amortized in UAAL, so Market Value of Assets (MVA) cost volatility is dampened twice. Much of the volatility is removed by asset smoothing. The remaining Actuarial Value of Assets (AVA) volatility is amortized with other gains and losses.

Angelo provided the role of assumptions and methods with the formula " $C + I = B + E$ " (Contributions + Investment Income equals Benefit Payments + Expenses). The Actuarial Valuation determines the current or "measured" cost, not the ultimate cost. He discussed the source of unfunded liability: plan changes, assumption or method changes or gains/losses. Also discussed were methods of amortizing the UAAL through a fixed amortization period, as well as one or multiple layers. He noted CCCERA has a single layer, fixed, (decreasing) period, with a 15-year remaining amortization period, as

of December 31, 2007. The UAAL payment is currently about 9% of the UAAL amount. He recommended consideration of a layered approach to the amortization of the UAAL, with a new layer created every year amortized over a Board approved length of time.

He then provided an illustration of amortization methods, discussed negative amortization, amortization policy choices and treatment of existing UAAL.

7. Presentation on Market Smoothing Methodology - Segal Company

Angelo noted market smoothing is in place to reduce the impact of short term asset volatility; plans use an Actuarial Value of Assets (AVA) which "smoothes" returns. This reduces volatility without reducing long-term expected return.

He provided examples regarding potential returns on the effect on AVA return with asset smoothing. He discussed asset smoothing mechanics, practical and political insights and asset smoothing methods. Angelo reviewed CCCERA's Actuarial Value of Assets from December 31, 1999 through December 31, 2008 (estimated); noting, the market value of assets, gains and losses not yet recognized, the actuarial value of assets and the AVA/MVA ratio.

Angelo reviewed longer asset smoothing periods, possible systemic reasons and discussed if there should be special treatment for 2008 losses. He provided four smoothing period scenarios: the current five-year method, seven, ten and twelve year methods.

Angelo concluded by discussing asset smoothing and "the MVA Corridor". He stated, many plans, not CCCERA, limit how far the AVA can get from the MVA. The typical 20% "Corridor" means the AVA must be between 120% and 80% of MVA, and the maximum deferred gain or loss is 20% of MVA. Hitting the limits for a plan with a corridor effectively stops smoothing.

Cabral commented the audience was heavy with employers and asked others to weigh-in, noting the information received at today's meeting was most likely overwhelming for all.

In public comment Gary Boyles, of Rodeo-Hercules Fire, noted their agency, because of the prohibitive costs involved, was the only agency with Safety employees still at 2% @ 50. He commented the agency has looked into moving to PERS; however the costs are extremely high. He noted he prefers a longer asset smoothing period.

6. Action on Amortization of Unfunded Liability

There was discussion on waiting to act until future meetings to allow employers to weigh-in on the different methods and to allow all to think through the issues. Discussion followed on considering the layered approach to amortization and longer asset smoothing periods, noting this would allow an increase in transparency.

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 4

February 11, 2009

Several scenarios were discussed including seven to ten-year smoothing, with a layered approach. It was noted it is the responsibility of trustees to determine what is best for the fund. A seventeen-year amortization period for the UAAL would probably not include a negative amortization.

It was the consensus of the Board to table action on this item until the March 25, 2009 Board Meeting. Segal's report will be placed on CCCERA's website for all to review. It was noted there will be more information on 2008 returns by the March 25, 2009 meeting.

8. Action on Market Smoothing Methodology

Action on this item was tabled until the March 25, 2009 meeting.

9. Cost of Living for Retirees, Effective April 1, 2009

This item was tabled until the March 11, 2009 meeting.

10. Routine Items

It was *M/S/C* to approve the routine items of the February 11, 2009 meeting. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)

The Board moved into closed session pursuant to Govt. Code Section 54956.9(c) to consider whether to initiate litigation.

The Board moved into open session.

11. Potential Litigation

No reportable action taken.

12. Conference Seminar Attendance

- (a) It was *M/S/C* to authorize the attendance of up to four Board members at the Public Funds Roundtable, Institutional Investor, April 22 - 24, 2009, San Diego, CA (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)
- (b) It was *M/S/C* to authorize the attendance of Buck and Holcombe at the Portfolio Concepts and Management, The Wharton School, June 1 - 4, 2009, Philadelphia, PA (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)
- (c) It was *M/S/C* to authorize the attendance of Pollacek at Public Funds Summit, Information Management Network, March 16 - 18, 2009, Dana Point, CA. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)
- (d) It was *M/S/C* to authorize the attendance of Telles, Naramore, Remick, and Cabral at the Annual Conference, NCPERS, May 1 -7, 2009, Beverly Hills, CA. (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)

- (e) It was **M/S/C** to authorize the attendance of one staff member at the Benefits Conference for Public Employees, International Foundation, March 30 - 31, 2009, Carlsbad, CA (Yes: Buck, Cabral, Gaynor, Gioia, Hast, Katz, Pollacek, Telles, and Viramontes)

Gioia was not present for subsequent discussion and voting.

13. Miscellaneous

- (a) Staff Report - Leedom discussed a public information request, from the Contra Costa Times requesting a breakdown of all board travel for 2008, including costs involved for each trustee. The Times has also requested copies of all Disclosure Form 700s for each trustee. There was discussion on responding to the latest Contra Costa Times news articles and it was determined it probably wouldn't be necessary to respond.

Leedom noted the Quarterly Investment Manager packets are ready in Board Member's in-boxes.

Hally commented on a recent article on Elephant Pharmacy, one of DBL's holdings with Bay Area Equity Fund I. He noted in October, the Board approved investing in Fund II. All documents have been finalized and the contract is ready for signatures. The Elephant Pharmacy was discussed in October and he received updated information on June numbers in December. This investment has already been written down. The Elephant Pharmacy is ready to go into Chapter 7 bankruptcy. He asked if the Board wanted to give direction before the documents were signed. Hally noted he has discussed the Elephant Pharmacy with Nancy Pfund of DBL. DBL has been forthcoming and given very detailed information. The net IRR has dropped from 12% into the 10% range and is now coming down to 7% range. Hally was directed to go forward with signing the paperwork and request DBL to have more communication, especially with local portfolio companies. Leiderman noted CCCERA needs to know all holdings within the County for conflict of interest purposes.

Hally noted he will be returning to the Board with the Morgan Stanley Real Estate fund. He noted the terms in the document commitments and reserve commitments are not typical. He will also be updating the Board on the changes at Morgan Stanley.

Hally noted Wentworth Hauser and Violich has a new Chief Investment Officer, Reiner Triltsch.

- (b) Outside Professionals' Report - Leiderman discussed Orange County's suit against the "3% @ 50" safety members' benefit, stating that the Judge has tentatively ruled against the County's claims, concluding that granting the enhanced benefit for past years' service was not unconstitutional. The court's decision is expected

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Page 6

February 11, 2009

to become final shortly. The County can file an appeal; however, the case is basically over at this point unless a higher court rules differently.

- (c) Trustees' Comments - Katz asked if Lord Abbot has any legal proceedings against them. Hally noted he will have something to report to the Board in two weeks.

Cabral requested a new procedure for due diligence trips. He requested having staff members write a report and all Board members attending the on-site visit to write an addendum to staff's report. He noted all would have the report and each would remember things that were said that weren't in the report. This procedure would be for due diligence reports only and would include insight that attendees at the due diligence felt. He noted he felt the due diligence was good, and that staff and Board are asking the right questions. He wants to make it a requirement for all to write an addendum.

Hast suggested that Hally or Chu email reports to all attendees to see if there are any additions. He stated he doesn't feel it is necessary to be redundant, Board members will add information if needed. Leiderman noted proprietary information or strategies should not be included.

Brian Hast

Brian Hast, Chairman

Jerry Telles
Jerry Telles, Secretary