

CONTRA COSTA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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August 10, 2011

The Board of Retirement met in regular session at 9:00 a.m. on Wednesday, August 10, 2011 in the Conference Room of the Contra Costa County Employees' Retirement Association, 1355 Willow Way, Suite 221, Concord, CA.

Present: Debora Allen, Terry Buck, Richard Cabral, John Gioia, Jerry Holcombe, Sharon Naramore, John Phillips, Jerry Telles, Maria Theresa Viramontes and Russell Watts

Staff: Marilyn Leedom, Retirement Chief Executive Officer; Cary Hally, Retirement Chief Investment Officer; Karen Levy, General Counsel; and Kathy Somsen, Retirement Benefits Manager

Outside Professional Support:	Representing:
Harvey Leiderman	Reed Smith LLP
Paul Angelo	The Segal Company
John Monroe	The Segal Company
Tim Price	Milliman
Rebecca Byrnes	County Counsel

Other Attendees:

Luz Casas	Contra Costa County Employees' Retirement Association (CCCERA) Staff
Gayle Cruz	CCCERA Staff
Christina Dunn	CCCERA Staff
Tracy Knoll	CCCERA Staff
Joelle Luhn	CCCERA Staff
Justine Oyler	CCCERA Staff
Randy Musgraves	Central Contra Costa Sanitary District (CCCSD)
Vickie Kaplan	Employment & Human Services
Bill Pollacek	Retired Treasurer-Tax Collector
Michelle Johnston	Auditor-Controller's Office
Lucy Fogarty	Contra Costa County Superior Court (CCCSC)
Brandy Sanborn	CCCSC
Donna Heymans	Rodeo Hercules Fire District
Robert Leete	San Ramon Valley Fire Protection District (SRVFPD)
Lisa Driscoll	County Administrators Office (CAO)
Laura Strobel	CAO
Ray Waletzko	Contra Costa Mosquito & Vector Control District
Colette Curtis-Brown	CCCSD
Todd Smithey	Central Contra Costa Sanitary District
Marie Rulloda	Auditor-Controller's Office
Joanne Bohren	Auditor-Controller's Office
Shawn Garcia	First 5 Contra Costa
Haj Nahal	Auditor-Controller's Office
Sue Casey	Moraga-Orinda Fire Department
Randy Bradley	Moraga-Orinda Fire Department
Kris Hunt	Contra Costa County Taxpayers' Association
Vincent Wells	Local 1230

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1. Pledge of Allegiance

Viramontes led all in the *Pledge of Allegiance*.

2. Public Comment

Vince Maiorana, General Public, felt CCCERA needs to be looking at long term rates, not short term rates. Requested CCCERA provide an actuarial report at 4.5% growth, 5.5% growth, 6.5% growth, 7.5% growth. Maiorana felt funding should be looked at over the last 50 years.

3. Approval of Minutes

It was *M/S/C* to approve the minutes of the July 27, 2011 meeting. (Yes: Allen, Buck, Cabral, Gioia, Phillips, Telles, Viramontes and Watts)

4. Routine Items

It was *M/S/C* to approve the routine items of the August 10, 2011 meeting. (Yes: Allen, Buck, Cabral, Gioia, Phillips, Telles, Viramontes and Watts)

5. Presentation from Segal - December 31, 2010 Valuation Report - Paul Angelo, John Monroe

Angelo presented the December 31, 2010 valuation report. The contribution rates requirements in the report are based on the benefit provisions of the Retirement Association as administered by the Board, the characteristics of covered active members, terminated members, and retired members and beneficiaries as of December 31, 2010. The report is also based on the assets of the Plan as of December 31, 2010, economic assumptions regarding future salary increases and investment earnings, and other actuarial assumptions, regarding employee terminations, retirement, death, etc.

The aggregate employer rate calculated in this valuation (before considering any employer subvention of member rates or member subvention of employer rates) has increased from 30.49% of payroll to 34.49% of payroll.

The aggregate member rate calculated in this valuation (before considering any employer subvention of these rates or member subvention of employer rates) has increased from 10.99% of payroll to 11.00% of payroll.

The valuation reflects one change in the plan provision. In March 2010, the Board adopted a change to their policy that determines which pay items are considered compensation for retirement purposes. This amended policy applies to members with membership dates on or after January 1, 2011. Under this amended policy, certain terminal pay elements are no longer included in the determination of compensation for retirement purposes. As of the date of this valuation there were no active members in this category.

The results also reflect the Board adopted change in terminal pay assumptions by cost group. The proposed terminal pay assumptions by cost group are based on a combination of the current assumptions by tier and actual terminal pay experience for retirements during the period from January 1, 2008 through December 31, 2010. There are also different sets of terminal pay assumptions that depend on membership dates. This change in actuarial assumptions increased the Plan's UAAL by \$16 million and the average employer contribution rate by 0.28% of payroll.

Angelo reported the total unrecognized investment loss as of December 31, 2010 is about \$329 million as compared to \$828 million in the previous valuation. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will offset any investment gains that may occur after December 31, 2010.

Angelo noted if there are future salary changes due to negotiations the results would be included in the next experience study.

It was **M/S/C** to accept the December 31, 2010 Valuation Report. (Yes: Allen, Buck, Cabral, Gioia, Phillips, Telles, Viramontes and Watts).

6. Contribution rates effective July 1, 2012

Viramontes reported this is the first Valuation Report that includes depooling. The Board received a letter from Central Contra Costa Sanitary District requesting the Board postpone adopting the contribution rates in order to allow employers time to review the report.

In public comment, Randy Musgraves, Central Contra Costa Sanitary District (CCCSD), expressed his district's frustration in fully understanding the impact of depooling and is concerned with the information being received from CCCERA and Segal. He requested Segal provide a five year forecast of assets, liabilities, and UAAL at the cost group or employer level. He would like the Board to consider providing information based on various rates (4.5%, 5.5%, 6.5% and 7.5%) in order for them to see the worst situation to the best situation. CCCSD also requested an educational meeting with Segal and CCCERA to ensure an understanding of the data and findings.

Segal confirmed that the annual five year projection will be provided to all employers and their respective Boards within the month.

It was **M/S/C** to move the adoption of the contribution rates to the first meeting in October. (Yes: Allen, Buck, Cabral, Gioia, Phillips, Telles, Viramontes and Watts).

7. Policy on Requests for Actuarial Information

Leedom reviewed the draft policy on Requests for Actuarial Information. The Board discussed the need for availability of information and the types of information needed by the other actuaries.

After discussion, it was **M/S/C** to adopt the Policy on Handling Requests for Actuarial Information with the addition of "Third Party Actuary agrees to destroy any and all Protected Information in

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its possession within 180 days" after completion of the project, and to capitalize "Confidential Agreement" on paragraph 2 of page 2. (Yes: Allen, Buck, Cabral, Gioia, Phillips, Telles, Viramontes and Watts).

Gioia was not present for subsequent discussion and voting.

8. Update from Board Chair on meeting with Central Contra Costa Sanitary District

Viramontes recommended the Board hold study sessions on items that would have a major financial impact on member employers before adding to the agenda for a final vote.

Buck was not present for subsequent discussion and voting.

The Board directed staff to create a policy for approval to have a study session and 2 hearings before a final vote so all groups that have a financial impact on an item can have time to review the item prior to the Board voting on the item.

She further stated we have 16 employers with elected officials and they need to understand the retirement system and the costs. Viramontes felt certain types of information should be given to the district's boards and there should be an annual educational seminar for elected officials.

Buck was present for subsequent discussion and voting.

The Board discussed the possibility of having an educational seminar each year for elected officials to help them understand the retirement system and the costs involved.

CLOSED SESSION

The Board moved into closed session pursuant to Govt. Code Section 54957 and Govt. Code Section 54956.9(c).

The Board moved into open session.

9. Disability Retirements

It was **M/S/C** to accept the Medical Advisor's recommendation and grant the following disability benefits:

- a. Tracy Hudson - Non-service Connected (Yes: Allen, Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)
- b. James Mulhern - Service Connected (Yes: Allen, Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)
- c. Kevin Mariolle - Service Connected (Yes: Allen, Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)
- d. Charlene Barnes - Non-service Connected (Yes: Allen, Buck, Cabral, Holcombe, Phillips, Telles, Viramontes and Watts)

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10. It was **M/S/C** to accept the Medical Advisor's recommendation and accept the service connected disability retirement for Linda Wells. (Yes: Buck, Holcombe, Telles, Viramontes and Watts; Abs: Allen, Cabral, Phillips).
11. There was no reportable action related to Govt. Code Section 54956.9(c).

Phillips was not present for subsequent discussion and voting.

12. **Staff recommendation on Goldman Sachs Credit Opportunity Portfolio**

Hally gave an overview of the history of funding of the opportunistic credit portfolio. Staff's recommendation is to transfer the money into the high yield fixed income portfolio. Staff will work with *GSAM* on the timing to liquidate the securities and transfer to a high yield account.

It was **M/S/C** to liquidate the Opportunistic Credit portfolio managed by Goldman Sachs Asset Management (*GSAM*) and to transition the proceeds into the high yield fixed income portfolio managed by Allianz Global Investors. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts).

13. **Milliman recommendation regarding Medley Opportunity Fund II LP**

Hally reviewed the market opportunity allocation, and the Board direction to bring opportunities to the Board when appropriate.

Price gave an overview of the Medley Opportunity Fund II LP noting this is a non-standard type investment that is allowed under CCCERA's Investment Policy. Price reviewed how this investment would fit into the market opportunity allocation. The partnership will be making loans to small-mid size companies, seeking high current income and possible equity participation.

After Board discussion, it was **M/S** to have Medley present this product to the Board for further consideration. (Yes: Buck, Holcombe, Viramontes and Watts. No: Allen, Cabral and Telles) Motion failed.

14. **Milliman recommendation regarding an investment in Selene Residential Mortgage Opportunity Fund II LP**

Price gave an overview of the Selene Residential Mortgage Opportunity Fund II LP noting this is a non-standard type investment that is allowed under CCCERA's Investment Policy. Price reported this fund invests in distressed opportunities in residential mortgages. Selene purchases non-performing mortgages, works with borrowers to modify the loans if possible, and sells the restructured loans. Fees for the partnership were discussed, as well as other unique characteristics such as regulatory risks.

It was **M/S** to have Selene present this product to the Board for further consideration. (Yes: Allen and Telles. No: Buck, Cabral, Holcombe, Viramontes and Watts). Motion failed.

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15. Report from staff on semi-annual rebalancing

Hally reported all of the rebalancing has been implemented except AFL-CIO, due to timing issues with the fund.

It was **M/S/C** to accept the report. Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts).

16. Conference Seminar Attendance

- (a) It was **M/S/C** to authorize the attendance of 4 Board members and 2 staff members at the Roundtable for Consultants and Institutional Investors, Institutional Investor, October 17-19, 2011, Chicago, IL. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts)
- (b) It was **M/S/C** to authorize the attendance of 3 Board members at the 57th Annual Conference, IFEBP, October 29-November 2, 2011, New Orleans, LA. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts)
- (c) No action was taken on the Certificate of Achievement in Public Plan Policy Part 1, IFEBP, October 29-30, 2011, New Orleans, LA.
- (d) It was **M/S/C** to authorize the attendance of 4 Board members and 2 staff members at the PIMCO Conference, PIMCO, September 8, 2011, San Francisco, CA. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts)
- (e) It was **M/S/C** to authorize the attendance of 1 staff member at the Annual Conference, Public Pension Financial Forum, October 2-5, 2011, Portland, OR. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts)
- (f) It was **M/S/C** to authorize the attendance of 2 Board members and 2 staff members at the 21st Annual Northern California Public Retirement Seminar, Public Agency Coalition, October 13, 2011, Sacramento, CA. (Yes: Allen, Buck, Cabral, Holcombe, Telles, Viramontes and Watts)

17. Miscellaneous

- (a) Staff Report -

Leedom noted she provided the Board with an update from SACRS regarding the SEC definition of municipal advisors.

During the August 9, 2011 Board of Supervisor's meeting Mr. Twa reported CCCERA's fund lost 14% year to date due to the recent stock market losses. CCCERA's approximate return for the 2nd quarter was 1.5% and for the year ending on June 30, 2011 was 23%. CCCERA does not have the exact year to date return at this time, the best approximation is -2%. Leedom will send a brief response to Mr. Twa clarifying CCCREA's returns. A copy of the letter will go to the Board of Supervisors and the CCCERA Board.

Leedom is currently working with a new partner from Alliance Consulting for the Deputy CEO.

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Leedom reported the new Accounting Manager will start in 2 weeks and the new Benefits Manager will start at the end of August.

Leedom reported on the County's pre-payment contribution for the period of July 2010 to June 2011 noting there was a true up amount from the year ended June 2011 of \$1.5 million.

Holcombe was not present for subsequent discussion and voting.

(b) Outside Professionals' Report -

Leiderman reported the City of Vallejo exited from bankruptcy without making any changes to their retirement benefits.

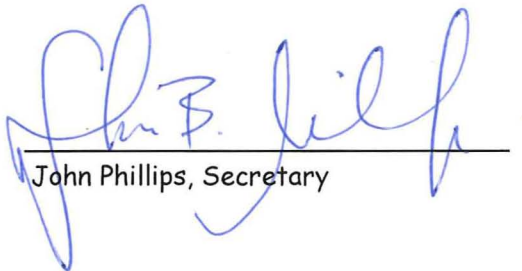
(c) Trustees' Comments -

Viramontes reported all Board members should have their new mileage forms. The new mileage forms should be signed and returned to receive payment. A copy of AB340 was distributed to all employers and their respective boards. A discussion on AB340 may be on a future agenda.

It was **M/S/C** to adjourn the meeting. (Yes: Allen, Buck, Cabral, Telles, Viramontes and Watts)



Maria Theresa Viramontes, Chairman



John Phillips, Secretary