

134/20

POLICE AND FIRE RETIREMENT PLAN

Revised Summary of Quarterly Investment Committee of the Whole

WEDNESDAY

SAN JOSE, CALIFORNIA

NOVEMBER 19, 2008

Present:

Kenneth Heredia, Vice Chair
Bret Muncy
Scott Johnson
Forrest Williams

Not Present:

Mark Skeen, Chair – excused absence
Bill Brill
David Cortese

Also Present:

Russell Crosby	-Secretary/Director	Allan Martin	-NEPC
Carmen Racy-Choy	-Staff	Daniel LeBeau	-NEPC
Ali Amiry	-Staff	Michelle Clayman	-New Amsterdam Partners
Ron Kumar	-Staff	Christian McCormick	-INTECH
Ceara O’Fallon	-Staff		

MEETING SUMMARY

PRESENTATIONS

The following presentations were given to the Board:

■ **New Amsterdam Partners – Michelle Clayman**
Quarterly Report for quarter ending September 30, 2008

Ms. Clayman stated that New Amsterdam’s Growth at a Reasonable Price (“GARP”) model has stayed the same since they were hired. The underperformance of the model can be attributed to poor stock selection in the finance sector, but New Amsterdam has created new formats for analysts to follow and is working on the finance sector stock selections.

Mr. Scott asked, that given our portfolio has underperformed for the past three years, would we have done better if we had indexed to the benchmark.

Ms. Clayman replied that, since inception the strategy has outperformed the benchmark, but since 2005 the strategy has not worked due to companies with lower growth rates and lower quality outperforming companies with higher growth rates and higher quality. However, New Amsterdam does not believe that the portfolio should be with low quality and/or low growth companies now. There is a vast de-leveraging in the current market and they are sticking to their discipline. The strategy was underweight in finance and the portfolio would have done worse had New Amsterdam been overweight in finance.

Mr. Martin stated that New Amsterdam is a large cap growth manager and, as their benchmark is currently the S&P 500, they should more appropriately be benchmarked to the Russell 1000 Growth.

Mr. Johnson asked what New Amsterdam's plan is going forward given the rocky markets.

Mr. Clayman responded that these are unprecedented markets, but the portfolio is in good condition going forward. They have skewed the portfolio to companies with lower debt-to-capital ratios that do not have major refinancing risks and they are focusing on companies with strong cash flow bases.

▣ **INTECH – Christian McCormick**

Quarterly Report for quarter ending September 30, 2008

Mr. McCormick stated that since inception the portfolio has beat the benchmark and INTECH is still doing what they were hired to do. The strategy expects volatility in all sectors, overweighting stocks with higher volatility than the benchmark, which leads to higher than benchmark returns over time, and looks at correlation of the entire portfolio, overweighting stocks with low negative correlation. INTECH expects volatility in both directions while assuming a reversion to the mean for all stocks.

Mr. Martin stated that if there are periods where the stocks do not experience reversion to the mean or where there is excess momentum, this would lead to excessive underperformance.

Mr. McCormick stated that going forward there will be shorter periods of underperformance with the strategy, and they have risk controls in place to control the magnitude of underperformance. INTECH is successful at avoiding any major blow ups in the portfolio.

Mr. Heredia stated that the portfolio has underperformed for about six quarters and over the next few quarters, the returns need to change. It is hard to look at why the Plan would be invested with active large cap stock managers at all in the future.

▣ **Plan's Quarterly Performance Report – NEPC, LLC – Allan Martin**

Quarterly ending September 30, 2008

Mr. Martin stated that virtually every asset class was down in the third quarter 2008 and it is unlikely that the market will rebound through the next year. No one escaped the downturn in the markets. However, staff has succeeded in managing the Plan's assets to the Statement of Investment Policy. Under the current policy, the Plan is exposed to significant risk due to the high equity exposure, which is approximately 58% of the asset allocation. The focus of staff and NEPC has been to change the asset allocation to reduce the risk of the Plan. After the asset allocation is in place, work can be done on manager selection strategy and other issues.

Ms. Racy-Choy stated that historically active managers help add value in downturns, but this has not been the case with the current market woes. However, active managers have been able to spot major problems and avoid those major issues.

Mr. Heredia stated that as the Plan decreases the asset allocation to equities, it is likely that the number of active managers will decrease as well.

Mr. Martin stated that the Plan would benefit from replacing and/or reducing existing managers and indexing, but this may or may not be the time.

Investment Manager	Net Quarter Return	Percentile for Quarter	Net 1 Year Return	Percentile for 1 Year
Index Equity Rhumblin Advisers (Inception 4/92)	-8.2%	29	-21.9%	40
Growth Equity State Street Global Markets: (formerly Globalt, Inc.)	-12.0%	38	-19.8%	40
INTECH (Inception 10/03)	-13.6%	56	-22.2%	51
New Amsterdam Partners (Inception 1/95)	-10.8%	30	-22.8%	60
Value Equity UBS Global Asset Management (Inception 4/93)	-7.8%	46	-21.8%	20
Boston Partners (Inception 7/96)	-2.0%	6	-18.7%	10
Small Cap Growth Provident Investment Counsel (Inception 1/98)	-16.6%	100	-32.4%	99
Small Cap Core Rhumblin Advisers	-1.1%	42	-14.5%	55
Small Cap Value State Street Global Markets: (formerly TCW Group)	-5.7%	80	-17.7%	70
Intl Equity – Established Markets AQR Capital Management, LLC (Inception 6/06)	-25.0%	88	-35.0%	87
Brandes Investment Partners, L.P. (Inception 1/97)	-14.2%	10	-26.0%	26
William Blair & Company (Inception 3/02)	-27.3%	95	-35.7%	93
Intl Equity – Emerging Markets Alliance Capital Mgmt. (Inception 9/01)	-30.0%	85	-35.2%	76
Boston Co. Asset Mgmt. (Inception 9/01)	-20.2%	13	-26.8%	18
Domestic Fixed Income Seix Investment Advisors (Inception 10/99)	0.0%	10	3.4%	22
Western Asset Management (Inception 8/02)	-3.8%	73	-4.5%	87
Long Duration Fixed Income Income Research & Management	-6.4%	73	-2.8%	58
Opportunistic Investments PIMCO DISCO	2.6%	--	--	--
Real Estate Fund MIG Realty Advisors (Inception 12/94)	1.6%	14	5.1%	22
Kennedy Associates (Inception 10/03)	0.7%	21	1.9%	49
Multi-Employer Property Trust (Inception 6/06)	-2.4%	81	1.8%	49
Private Equity Pantheon Ventures (Inception 9/05)	0.0%	--	--	--
Portfolio Advisors (Inception 10/05)	0.0%	--	--	--
HarbourVest Partners, LLC (Inception 12/05)	0.0%	--	--	--

INFORMATION AND COMMUNICATION

- ▣ **Manager Performance Review.**
- ▣ **Quarterly Proxy Voting Report.**
- ▣ **Report on Rebalancing Transfers.**
- ▣ **Commission Recapture Report.**
- ▣ **Investment Managers' Performance Reports for the quarter.**

Approved:



**RUSSELL U. CROSBY, SECRETARY
BOARD OF ADMINISTRATION**