

POLICE AND FIRE RETIREMENT PLAN

Summary of Quarterly Investment Committee of the Whole

THURSDAY

SAN JOSE, CALIFORNIA

MARCH 5, 2009

Present:

David Bacigalupi
Scott Johnson
Sam Liccardo
Rose Herrera

Not Present:

Bill Brill

Also Present:

| | | | |
|------------------|---------------------|-----------------|-----------|
| Russell Crosby | -Secretary/Director | Allan Martin | -NEPC |
| Carmen Racy-Choy | -Staff | Carolyn Smith | -NEPC |
| Ali Amiry | -Staff | Daniel LeBeau | -NEPC |
| Ron Kumar | -Staff | David Kimport | -Nossaman |
| Ceara O'Fallon | -Staff | Danielle Gensch | -Nossaman |
| Cristin James | -Staff | | |

MEETING SUMMARY

PRESENTATIONS

- ▣ **Plan's Quarterly Performance Report – NEPC, LLC – Allan Martin**
Quarterly ending December 31, 2008.

Mr. Martin explained that the problem with 2008, especially the fourth quarter of 2008, was that every asset class performed poorly. Those portfolios that had large allocations to equities had the largest losses. In 2009, it is likely that the global recession, the deleveraging process, and the market volatility will continue. There are low short-term inflation expectations, with a risk of deflation. As markets stabilize, there will be opportunities for attractive returns. There will need to be a recovery in the credit market before equities will begin to recover.

Mr. Martin stated that during the last 12 months, the portfolio experienced a gross investment loss of \$774.8 million, including a loss of \$314.9 million during the fourth quarter of 2008. Total assets decreased from \$2.35 billion at the beginning of the quarter to \$2.0 billion on December 31, 2008, with \$43.3 million in net contributions. For the year, the Plan returned -27.3%, trailing the total fund benchmark by 0.5%, and ranking in the 78th percentile of public funds. For the quarter, the Plan posted a -13.3% return, trailing the total fund benchmark by 0.6% and ranking in the 60th percentile of public funds.

Member Johnson asked if market timing is something that would be beneficial for the Plan.

Ms. Racy-Choy explained that when professionals attempt to time the market, the result is seldom positive. It is more efficient and less costly to set a target allocation at the right risk level and then weather the storm.

Mr. Martin added that every time a change is made to the portfolio, there are transition costs. In the long run, the increased cost of market timing usually negates any additional gain that might result.

Ms. Racy-Choy stated that the new asset allocation targets, which were adopted in June 2008, will become effective as the portfolio moves towards the new policy target. The portfolio will invest in more alternative investments to add diversification and to reduce the risk of the Plan. Our goal is to move new cash (i.e. contributions) into the appropriate asset classes to gradually balance the portfolio to the target allocation. With an asset class like real assets, it takes longer to enter the market and to find appropriate managers.

Mr. Martin explained that adding more alternative investments reduces the volatility of the portfolio. The Plan may not earn more, but it will raise the long-term average performance. Usually in a down market, real estate will hold value, unlike what has happened in the current market. There has never been a total market collapse and de-leveraging is not a normal process. Alternative investments would have helped performance in 2008.

Member Johnson asked what the assumptions should be for the Plan and what the returns should be.

Ms. Racy-Choy explained that staff and NEPC will be working on an Asset Liability Modeling Study ("ALM"), which will analyze capital market assumptions to project some reasonable scenarios as to how the market might perform, so that actuarial assumptions can be calculated.

Mr. Martin reviewed the performance of the managers for the fourth quarter of 2008. Mr. Martin added that January 2009 has shown a little improvement, with the portfolio down 4.1% and the benchmark down 6.1%. WAMCO, Seix, Robeco, and New Amsterdam have all had very good months. The Board may want to look at revising the benchmarks for some of the managers since the current policy targets for managers, which is net of fees versus the benchmark plus a hurdle, are unrealistic.

| Investment Manager | Net Quarter Return | Percentile for Quarter | Net 1 Year Return | Percentile for 1 Year |
|---|--------------------|------------------------|-------------------|-----------------------|
| Index Equity Rhumbline Advisers (Inception 4/92) | -21.8% | 39 | -36.7% | 46 |
| Growth Equity State Street Global Markets: (formerly Globalt, Inc.) | -22.7% | 46 | -38.4% | 42 |
| INTECH (Inception 10/03) | -25.0% | 66 | -42.4% | 66 |
| New Amsterdam Partners (Inception 1/95) | -20.7% | 24 | -37.1% | 35 |
| Value Equity UBS Global Asset Management (Inception 4/93) | -26.4% | 94 | -39.9% | 64 |
| Boston Partners (Inception 7/96) | -20.6% | 30 | -33.1% | 9 |

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|--|--------|----|--------|-----|
| Small Cap Growth Provident Investment Counsel (Inception 1/98) | -28.6% | 82 | -50.4% | 100 |
| Small Cap Core Rhumbline Advisers | -25.9% | 54 | -33.5% | 60 |
| Small Cap Value State Street Global Markets: (formerly TCW Group) | -29.5% | 90 | -37.8% | 80 |
| Intl Equity – Established Markets AQR Capital Management, LLC (Inception 6/06) | -19.8% | 47 | -45.5% | 73 |
| Brandes Investment Partners, L.P. (Inception 1/97) | -16.7% | 23 | -37.8% | 20 |
| William Blair & Company (Inception 3/02) | -25.6% | 87 | -52.1% | 96 |
| Intl Equity – Emerging Markets Alliance Capital Mgmt. (Inception 9/01) | -29.7% | 70 | -56.1% | 79 |
| Boston Co. Asset Mgmt. (Inception 9/01) | -23.6% | 15 | -45.6% | 19 |
| Domestic Fixed Income Seix Investment Advisors (Inception 10/99) | 4.4% | 25 | 5.2% | 14 |
| Western Asset Management (Inception 8/02) | -1.3% | 78 | -7.0% | 82 |
| Long Duration Fixed Income Income Research & Management | 12.2% | 17 | 4.7% | 26 |
| Opportunistic Investments PIMCO DISCO | -12.1% | -- | -- | -- |
| Real Estate Fund MIG Realty Advisors (Inception 12/94) | -7.7% | 62 | -4.6% | 45 |
| Kennedy Associates (Inception 10/03) | 1.2% | 9 | 2.0% | 19 |
| Multi-Employer Property Trust (Inception 6/06) | -10.1% | 75 | -10.4% | 63 |
| Private Equity Total | -2.1% | -- | 7.1% | -- |

Approved:


RUSSELL U. CROSBY, SECRETARY
BOARD OF ADMINISTRATION