

# POLICE AND FIRE RETIREMENT PLAN

## Revised Summary of Quarterly Investment Committee of the Whole

WEDNESDAY

SAN JOSE, CALIFORNIA

August 27, 2008

### Present:

Kenneth Heredia, Vice Chair

Bret Muncy

### Not Present:

Mark Skeen - excused

Bill Brill

Scott Johnson

David Cortese

Forrest Williams

### Also Present:

Russell Crosby -Secretary/Director

Carmen Racy-Choy -Staff

Ron Kumar -Staff

Ceara O'Fallon -Staff

Cristin James -Staff

Allan Martin -NEPC

Daniel LeBeau -NEPC

Carla Leslie -Seix

James Keegan -Seix

Joseph Carieri -WAMCO

Jennifer Lindenmayer -Income Research

Carolyn Smith -NEPC

Kevin Tatlow -NEPC

## MEETING SUMMARY

### PRESENTATIONS

The following presentations were given to the Board:

- ▣ **Seix Investment Advisors** – Carla Leslie and James Keegan  
Quarterly Report for quarter ending June 30, 2008.

Mr. Keegan stated that Seix has a defensive orientation against the market. The portfolio is overweight in large multinational corporations, with a higher percentage allocated to AAA. Also, the portfolio is overweight in healthcare and pharmaceuticals since the medical industry is relatively unaffected by the current economic condition. It is underweight in the financial sector and government related securities. The treasury position was increased in July 2008 since bonds provide the portfolio an anchor during this volatile market.

- ▣ **Western Asset Management** – Joseph Carieri  
Quarterly Report for quarter ending June 30, 2008.

Mr. Carieri explained that the portfolio's recent poor performance has been due to the mortgage positions held being priced down. These assets continue to be held since they should rebound. WAMCO is comfortable with the overweight positions in AAA mortgages held at this time and expects them to do well.

Mr. Martin asked if making the mistake of putting too much money in mortgages has made WAMCO rethink their investment strategy.

Mr. Carieri stated that, in hindsight, WAMCO would have held less FNMA but did not anticipate the extreme collapse of the mortgage industry.

■ **Income Research & Management – Jennifer Lindenmayer**  
Quarterly Report for quarter ending June 30, 2008.

Ms. Lindenmayer explained that what worked for the portfolio in the last quarter was the allocation to corporate mortgages, which led securitized sector in excess return. What didn't work was the overweight in financials within the corporate sector.

IRM is looking at niche markets for overlooked opportunities that can produce attractive return profiles going forward. One example is Small Business Administration certificates that have the full faith and credit of the U.S. government with potential yield.

■ **Plan's Quarterly Performance Report – NEPC, LLC – Allan Martin**  
Quarterly ending June 30, 2008.

Mr. Martin stated that, in some instances, the prior data in the report does not equal the data from Mercer because NEPC was unable to reconcile.

On June 30, 2008 all major markets showed large negatives/losses. The portfolio's overweight in large equities hurt performance.

Over the last 12 months, the Fund experienced a gross investment loss of \$165 million, including a loss of \$10.3 million for the quarter. Over the past five years, the Fund returned 10.3% per annum, outperforming the total benchmark by 0.2%. Active management for that five-year period added 50 basis points of value, but has increased volatility for the period by 70 basis points.

The current portfolio has produced high returns with high risk. The goal of the new asset allocation is to produce the same high returns with much lower risk.

Investment Manager	Net Quarter Return	Percentile for Quarter	Net 1 Year Return	Percentile for 1 Year
<b>Index Equity</b> Rhumbline Advisers (Inception 4/92)	-2.7%	69	-13.1%	55
<b>Growth Equity</b> State Street Global Markets: (formerly Globalt, Inc.)	-0.2%	79	-4.4%	52
INTECH (Inception 10/03)	-1.9%	48	-6.9%	70
New Amsterdam Partners (Inception 1/95)	0.1%	79	-13.1%	93
<b>Value Equity</b> UBS Global Asset Management (Inception 4/93)	-1.9%	23	-16.3%	23
Boston Partners (Inception 7/96)	-1.9%	22	-16.3%	23
<b>Small Cap Growth</b> Provident Investment Counsel (Inception 1/98)	4.3%	34	-13.9%	51
<b>Small Cap Core</b> Rhumbline Advisers	0.6%	56	-16.2%	49
<b>Small Cap Value</b> State Street Global Markets: (formerly TCW Group)	5.4%	17	-20.8%	83

<b>Intl Equity – Established Markets</b>				
AQR Capital Management, LLC (Inception 6/06)	-0.6%	15	-13.5%	23
Brandes Investment Partners, L.P. (Inception 1/97)	-1.0%	28	-13.7%	83
William Blair & Company (Inception 3/02)	-1.1%	29	-5.9%	23
<b>Intl Equity – Emerging Markets</b>				
Alliance Capital Mgmt. (Inception 9/01)	0.4%	23	4.6%	31
Boston Co. Asset Mgmt. (Inception 9/01)	-2.2%	75	-1.7%	73
<b>Domestic Fixed Income</b>				
Seix Investment Advisors (Inception 10/99)	-0.6%	24	6.6%	47
Western Asset Management (Inception 8/02)	-0.9%	48	1.7%	90
<b>Long Duration Fixed Income</b>				
Income Research & Management	-1.5%	70	7.2%	44
<b>Real Estate Fund</b>				
MIG Realty Advisors (Inception 12/94)	1.0%	21	7.7%	35
Kennedy Associates (Inception 10/03)	-0.8%	66	13.0%	14
Multi-Employer Property Trust (Inception 6/06)	0.4%	35	7.2%	35
<b>Private Equity</b>				
Pantheon Ventures (Inception 9/05)	0.0%	--	--	--
Portfolio Advisors (Inception 10/05)	0.0%	--	--	--
HarbourVest Partners, LLC (Inception 12/05)	0.0%	--	--	--

- **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**