

POLICE AND FIRE RETIREMENT PLAN

10

Summary of Quarterly Investment Committee of the Whole

MONDAY

SAN JOSE, CALIFORNIA

February 25, 2008

Present:

Mark Skeen, Chair
Kenneth Heredia, Vice Chair
Scott Johnson
Forrest Williams

Not Present:

Bret Muncy
Bill Brill
David Cortese

Also Present:

Russell Crosby	-Secretary/Director	Tom Lightvoet	-Mercer
Tom Webster	-Deputy Director	Scott Crossley	-UBS
Donna Busse	-Staff	Tom Digenan	-UBS
Ron Kumar	-Staff	Michael Stuart	-UBS
Udaya Rajbhandari	-Staff	Carolyn Margiotti	-Boston Partners
Cristin James	-Staff	David Pyle	-Boston Partners
Marcus Alexis	-Pantheon	Todd Hughes	-Portfolio Advisors
David Braman	-Pantheon	Peter Lipson	-HarbourVest
Joe Kim	-Mercer		

MEETING SUMMARY

PRESENTATIONS

The following presentations were given to the Board:

- **UBS Global Asset Management** – Scott Crossley, Tom Digenan and Michael Stuart
Quarterly Report for quarter ending December 31, 2007.

Mr. Digenan explained that it was a rough 4th quarter for the US Equity Market. The UBS portfolio was underweighted in Energy and Materials, while overweighted in Financials which hurt the performance. UBS feels their portfolio is set up to outperform the benchmark in 2008 with key positions in banks, drugs and oil refining securities.

- **Boston Partners** – Carolyn Margiotti and David Pyle
Quarterly Report for quarter ending December 31, 2007.

Mr. Pyle stated that Boston Partners is focused on buying strong companies valued very close to their actual value. In 2008, banks and retail companies that were undervalued are increasing “value opportunities”. Turnover for the portfolio is generally 40-60% per year depending on the opportunities. In 2007, turnover was high at 55%.

■ **Pantheon Ventures – Marcus Alexis and David Braman**
Quarterly Report for quarter ending September 30, 2007.

Mr. Alexis explained that 2 of the 3 secondary funds were committed early in the life of the fund which helps cover fees and expenses going forward. As of February 1, 2008, 52% of the Police and Fire Fund's commitment has been drawn. Most of the distributions are currently reinvested and will be until the fund reaches 110% of total commitment.

Member Williams asked if there are any opportunities in the sub-prime market.

Mr. Alexis stated that the Fund is reviewing distressed opportunities as they appear and any other opportunities that present themselves.

Ms. Busse stated that generally the Plan's strategy is to overallocate to Private Equity to stay at the 5% investment. It is probably time to start looking for the next opportunity since distributions could be made in the near future.

Mr. Alexis stated that Pantheon has three funds that are currently open.

Mr. Lightvoet explained that it would be logical for the Police and Fire Fund to invest in the Pantheon 2008 Fund VIII. Due diligence has already been done on Pantheon and he is comfortable with performance of the manager.

■ **Portfolio Advisors – Todd Hughes**
Quarterly Report for quarter ending September 30, 2007.

Mr. Hughes stated that PAPEF III has drawn 66.6% of the initial commitment made by the Plan as of December 31, 2007. Approximately 21% committed to secondary investments. Distributions (\$3.2M) have been made from investments that have closed early and returned to the Plan.

PAPEF V, which is currently open for investors through 3Q08, is a "menu-driven" structure. Trustees of the Plan could choose to participate in one or more of the Core Sectors (Buyout, Venture Capital and Special Situations). This Fund has already purchased many investments so if the Plan was to buy in, the Trustees would be investing in a known portfolio.

Mr. Hughes explained that Portfolio Advisors invests in secondary markets, not just primary, and charges lower fees compared to other Private Equity managers in order to increase the performance of the Fund.

■ **HarbourVest Partners – Peter Lipson**
Quarterly Report for quarter ending December 31, 2007.

Mr. Lipson stated that Private Equity Funds, being time diversified, will continue to perform well even if the market struggles in 2008. There may be some companies that lose money but many others will outperform the market.

HarbourVest is slowing down committing the funds to new investments waiting for better investments to be available. Usually 85% of commitment would be invested by year 4.

HarbourVest advocates investing in Non-US companies in the Buyout sector but not in the Venture sector. In Fund VIII, at least 50% of Buyout Sector has companies with Non-US offices or manufacturing plants

■ **Mercer Investment Consulting** – Tom Lightvoet

Mr. Lightvoet reviewed manager performance for the 4th quarter of 2007. He stated that the Plan was first funded 37 years ago and it has a 9.9% inception to date performance which is ahead of the actuarial assumption of 8%.

Managers with exceptional performance are Boston Partners, Provident, and Income Research & Management. Managers that are doing well are Rhumblin, Brandes, William Blair, Seix and MEPT. Managers on Mercer Watchlist are INTECH, New Amsterdam, UBS, AQR, and Alliance.

State Street is outperforming Globalt on the transition portfolio that they are currently managing. The TCW portfolio has also been transferred to State Street for management.

Managers on Mercer Probation are MIG, Kennedy and Boston Company. Boston Company has had a problem keeping good staff and a key analyst left. There is a possible problem with personnel. Mercer recommends terminating after 1st quarter 2008 if no improvement.

Member Johnson asked what the difference is between Probation/Watchlist for our Staff versus Mercer.

Mr. Lightvoet explained that Mercer looks at both quantitative and qualitative data quarterly. Staff waits for four quarters before moving a manager to Watchlist or Probation, as per the Investment Policy for the Plan.

Vice-Chair Heredia observed that 9% of the Plan's total portfolio is currently indexed and most of our active managers are outperforming the index. Mr. Heredia asked if it would be more beneficial to move that 9% to other investment strategies.

Mr. Lightvoet explained that it is hard to generate alpha and there is a need to index some of the money for stability. Adding a 130/30 investment strategy would make sense. Currently the Plan is in the process of adding additional Real Estate investments.

Member Johnson asked if there is a process where the Plan can start divesting the funds at Boston Company to soften the impact of their poor performance.

Mr. Lightvoet explained that a new company that we would hire to manage the Boston Company portfolio would most likely cherry pick out good stocks and sell the rest. It would be better to find a new manager first then move the money to cut down on fees.

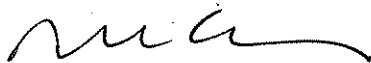
Chair Skeen asked about the \$100 million sitting in Private Equity allocation that is un-invested and how that is affecting performance.

Mr. Lightvoet stated that the un-invested monies put aside for Private Equity are hurting returns and those funds could be invested immediately in Secondaries. Mr. Lightvoet suggested that the Plan start a search for a manager that invests in secondary markets.

Investment Manager	Net Quarter Return	Percentile for Quarter	Net 1 Year Return	Percentile for 1 Year
Index Equity Rhumbline Advisers (Inception 4/92)	-3.4%	53	5.4%	56
Growth Equity State Street : Globalt, Inc.	0.5%	41	12.1%	62
INTECH (Inception 10/03)	1.4%	30	11.0%	68
New Amsterdam Partners (Inception 1/95)	-2.6%	83	4.4%	95
Value Equity UBS Global Asset Management (Inception 4/93)	-4.3%	50	1.6%	63
Boston Partners (Inception 7/96)	-3.5%	38	4.9%	38
Small Cap Growth Provident Investment Counsel (Inception 1/98)	-2.6%	45	14.9%	33
Small Cap Core Rhumbline Advisers	-4.6%	38	-1.5%	59
Small Cap Value TCW Group (Inception 11/01)	-6.8%	54	-8.7%	74
Intl Equity – Established Markets AQR Capital Management, LLC (Inception 6/06)	-4.2%	89	7.9%	87
Brandes Investment Partners, L.P. (Inception 1/97)	-0.9%	51	9.1%	80
William Blair & Company (Inception 3/02)	-0.1%	38	19.5%	19
Intl Equity – Emerging Markets Alliance Capital Mgmt. (Inception 9/01)	3.7%	54	37.7%	68
Boston Co. Asset Mgmt. (Inception 9/01)	2.8%	76	26.9%	96
Domestic Fixed Income Seix Investment Advisors (Inception 10/99)	2.7%	46	6.8%	39
Western Asset Management (Inception 8/02)	1.4%	89	3.7%	95
Long Duration Fixed Income Income Research & Management	4.1%	27	6.7%	39
Real Estate Fund MIG Realty Advisors (Inception 12/94)	1.7%	61	8.1%	96
Kennedy Associates (Inception 10/03)	1.1%	91	18.7%	14
Multi-Employer Property Trust (Inception 6/06)	2.1%	37	15.2%	52
Private Equity 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**