

# POLICE AND FIRE RETIREMENT PLAN

## Summary of Quarterly Investment Committee of the Whole

THURSDAY

SAN JOSE, CALIFORNIA

December 17, 2009

**Present:**

Keith Keesling

**Not Present:**

David Bacigalupi

Scott Johnson

Conrad Taylor

Bill Brill

Sam Liccardo

Rose Herrera

**Also Present:**

<b>Russell Crosby</b>	-Secretary/Director	Kevin Tatlow	-NEPC
Carmen Racy-Choy	-Staff	Carolyn Smith	-NEPC
Ali Amiry	-Staff	Daniel LeBeau	-NEPC
Stuart Bennett	-Staff	James Thyne	-Alliance
Ron Kumar	-Staff	Richard Chow	-Alliance
Ceara O'Fallon	-Staff		
Christy DeMaria	-Staff		

### MEETING SUMMARY

#### PRESENTATIONS

The following presentations were given to the Board:

- **Plan's Quarterly Performance Report – NEPC – Carolyn Smith**  
Quarterly ending September 30, 2009.

Ms. Smith reported that the total fund performance for the third quarter 2009 was positive 11.9% gross of fees and 11.8% net of investment manager fees, which is slightly above the total fund benchmark return of 11.7% and ranked in the 34<sup>th</sup> percentile in its peer group. The S&P 500 returned 15.6% and Barclays Aggregate Bond Index returned 3.7% for the same period. She noted that the Plan's private equity and real estate allocations were under target, which had a positive effect on the total Plan performance. The international equity, long duration fixed income, and opportunistic strategies allocations all added significant value to the portfolio over the quarter.

Member Keesling asked NEPC to expand on private equity, as there appears to be a major disconnect between the investment manager returns and their benchmark returns.

Mr. Tatlow explained that the benchmark NEPC is using only fits over long periods and is linked to the goal of the private equity program, which is to outperform the public equity index over the long run. A benchmark of a public equity index such as the Russell 2000 is appropriate, but, over short periods, the two will behave quite differently. The Plan's private equity results are consistent with peer groups of private equity managers.

Ms. Racy-Choy added that staff and NEPC are looking at the possibility of a replacement benchmark on a quarter-to-quarter basis.

Ms. Smith added that the third quarter 2009 performance report does not reflect the new asset allocation and the transition. In addition, NEPC has added an estimate of the Plan's liabilities and the funded ratio of the Plan to the quarterly performance reports, which provides information regarding how the Plan's performance affects the Plan's liabilities.

Ms. Racy-Choy explained that the 12.7% return for the third quarter 2009 of the Citigroup Pension Liability Index illustrates the growth in Plan liabilities had they been marked to market. This information is for illustrative purposes. Currently, the Plan does not have an asset allocation designed to match its liabilities, but staff and NEPC are reviewing this methodology.

Mr. Crosby added that over the last year the Plan's assets grew 1.4% whereas its liabilities grew 43.0%. Over the 10-year period, assets grew 5.6% but liabilities grew 10.1%.

■ **Alliance Bernstein – James Thyne and Richard Chow**  
Quarterly Report for quarter ending September 30, 2009.

Mr. Chow stated that their approach, driven by stock selection, follows a growth-investment philosophy. With the recent global financial crisis, their performance has struggled, especially over the past 12 months. For the third quarter 2009, stock selection was a major detractor while country selection was positive. The portfolio returned 20.8% gross and 20.5% net of fees for the third quarter 2009 compared to the benchmark return of 20.9%.

Ms. Racy-Choy noted that the portfolio has underperformed its benchmark for all periods through September 30, 2009 and asked for an explanation of the underperformance and how it will be different in the future.

Mr. Chow explained that the performance is very end-point sensitive. The last six months have been a difficult environment favoring value over growth and have hurt performance. It is their perspective that the market is changing and will be more favorable to growth investors.

Mr. Thyne added that, over the last year in the United States and overseas, the stocks that have rebounded massively have been the cheapest stocks, which is not the focus of growth investing. Since inception, the portfolio has outperformed the growth benchmark, but underperformed the broad benchmark, which comprises growth and value stocks.

Dr. Amiry noted that they mentioned that the last six months have been bad; however, looking at the annual returns since 2003, the portfolio only had one year where it outperformed its gross benchmark, which was in 2004.

Mr. Chow stated that, between 2005 and 2008, Alliance Bernstein had an increase in assets and turnover within the analyst team, which hurt performance. They are functioning with a low rate of analysts, but have strengthened their quantitative tools. The portfolio's performance compared to the growth benchmark is not as bad as against the broader benchmark.

Ms. Racy-Choy added that, over the last five years, there has been no added value and five years is enough time and emerging markets is a sector where there should be added value. Staff and NEPC will bring recommendations back to the Committee.

## **INFORMATION AND COMMUNICATION**

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

*The above reports are note and file.*

**Approved:**

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