

POLICE AND FIRE RETIREMENT PLAN

Special Investment Committee Summary

THURSDAY

SAN JOSE, CALIFORNIA

APRIL 17, 2008

Present:

Committee Members

Mark Skeen
Scott Johnson

Also Present:

Russell Crosby	-Director/Secretary	Udaya Rajbhandari	-Staff
Tom Webster	-Deputy Director	Ceara O'Fallon	-Staff
Donna Busse	-Staff	Allan Martin	-NEPC
Ron Kumar	-Staff		
Cristin James	-Staff		

MEETING SUMMARY

RECOMMENDATIONS

Approval for the Secretary to negotiate and execute the 11th Amendment to the custody agreement with State Street Bank and Trust Company (formerly Bankers Trust Company of California, N.A.) for contractual settlement services.

APPROVAL ITEMS

1. Recommend approval to the Board for the Secretary to negotiate and execute the 11th Amendment to the custody agreement with State Street Bank and Trust Company (Formerly Bankers Trust Company of California, N.A.) for contractual settlement services.

Motion/second/approved. (2-0)

2. Discussion and action on the transition of the Investment Consultant.

The Secretary explained that NEPC will start the process of transition prior to the completion of the new contract. The City Attorney's office is in the process of developing an agreement.

Ms. Busse stated that Mercer will be sent a 30-day Letter of Termination. Mercer will still be responsible for providing the 1st quarter performance book for the Plan.

Motion/second/approved. (2-0)

3. Discussion and action on Investment Counsel RFQ.

The Secretary reported that the Investment Counsel RFQ was posted and sent out to 17 attorney firms seeking responses.

A Committee will be formed consisting of Russell Crosby, Donna Busse, Ron Kumar, Udaya Rajbhadari, Mollie Dent and Russ Richeda to review the applications and narrow to two finalists by the May 1st meeting.

Motion/second/approved. (2-0)

4. Discussion and possible action regarding the organizational change at Seix Investment Advisors.

Mr. Martin reported that Mr. John Talty, CIO would be retiring from Seix Investment Advisors and is being replaced by Mr. James Keegan. Seix has extended the contracts of its other key personnel. NEPC views these developments to have a positive effect on the organization.

5. Educational presentation by NEPC: Evolution of the Investment Process

Mr. Martin explained that return expectations for most asset classes are historically low. Currently only modest returns are expected for the equity and bond markets. Trustees are faced with several options: lowering the Fund's return assumption, increasing contributions, reduce benefits or improve fund returns. The only possible option for this Plan is to improve fund returns.

There is a range of eligible investment options that can be used to improve and stabilize returns. Traditional portfolios are dominated by equity risk. Stocks contribute 80-90% of volatility to a portfolio. Selecting managers to outperform the index, and creating portable alpha, are methods to enhancing index returns.

There is a risk for public funds investing in Alternative Investments in case the performance is lower than other public funds. The Plans that have invested in Alternative Investments are doing well.

Mr. Martin reviewed the portfolio of one of their clients, to show how adding Alternative Investments over time has substantially increased the Plan's returns. Changes were made to the client's investment allocation at a pace comfortable for the Board and the Staff's ability to monitor it.

The Secretary explained that currently the Private Equity allocation is not fully funded. In order to meet our target Private Equity allocation, the Trustees would need to over-commit funds to the sector.

Chair Skeen stated that the Trustees may need more education in regards to over-committing in order to reach our Private Equity target.

Mr. Martin explained that the strategy going forward is to not only use alternative investments to increase return but also lower risk in the portfolio.

The Secretary stated that a priority for NEPC is the Trustee's education especially in alternative asset classes.

INFORMATIONAL ITEMS

6. Private Equity Allocation Update.
7. Manager's on Probation/Watchlist Study.
8. Update on Investment Managers on Probation & Watchlist – February 2008

<u>Probation List</u> Provident	Underperformed benchmark, the Russell 2000 Growth Index + 200 bps for the month, YTD and rolling one-year. Underperformed the index, net of fees, for the month, YTD and rolling one-year. Next Step: Continue on the Watchlist.
Boston Company	Outperformed benchmark, the MSCI Emerging Markets Index + 200 bps YTD but underperformed for the month and rolling one-year. Outperformed the index, net of fees, YTD but underperformed for the month and rolling one-year. Next Step: Continue on probation through 2Q08. Trustees will review performance on a month-to-month basis.
Seix Investment Advisors	Underperformed benchmark, the Lehman Aggregate + 50 bps, for the month, YTD and rolling one-year. Underperformed the index, net of fees, for the month, YTD and rolling one-year. Next Step: Continue on Probation.
Alliance	Underperformed benchmark, the MSCI Emerging Markets Index + 200 bps for the month, YTD and rolling one year. Outperformed the index, net of fees, YTD but underperformed for the month and rolling one-year. Next Step: Continue on Probation.

Motion to accept all Informational Items.

Motion/second/approved. (2-0)

Approved:



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