

# POLICE AND FIRE RETIREMENT PLAN

16

## Investment Committee Summary

WEDNESDAY

SAN JOSE, CALIFORNIA

AUGUST 27, 2008

### Present:

#### Committee Members

Ken Heredia

Bret Muncy

Mark Skeen - absent

#### Also Present:

Russell Crosby -Director/Secretary

Carmen Racy-Choy -Staff

Ron Kumar -Staff

Ceara O'Fallon -Staff

Cristin James -Staff

Carolyn Smith -NEPC

Kevin Tatlow -NEPC

Casey Jones -Public Member

Allan Martin -NEPC

Daniel LeBeau -NEPC

Kimberly Grant -TCW

Jerome Egan -TCW

Bhavika Vyas -Siguler Guff

Thomas McGowan -Siguler Guff

## MEETING SUMMARY

### RECOMMENDATIONS

None

### ITEMS

#### 1. Presentation on the Siguler Guff Distressed Opportunities Fund III (fund of funds) ~ Siguler Guff.

Mr. Tatlow explained that the portfolio strategy for the distressed sector is best filled by a fund such as Siguler Guff Distressed Opportunities Fund III which is a "fund of funds". This is Siguler Guff's third fund and they have access in the marketplace and an impressive track record.

Mr. McGowan defined a distressed opportunity as investment in debt oriented securities where the current holders of those securities believe the borrowers may not be able to make all the payments.

Ms. Vyas explained that there are four niches for investing in Distressed debt:

1. Short term/long term credit for value opportunities;
2. Influence the reorganization of the company;
3. Control a class of securities;
4. Acquire the issuer in the event there is a default on the loan.

Siguler Guff has a long history in of distressed investing, access to in-demand fund managers, the proven ability to negotiate favorable investment terms, strong relationships with existing managers and an opportunistic approach with downside protection.

The Sigular Guff Distressed Opportunities Fund III has \$600 million committed with 22% already called from investors. Mr. McGowan reported on investments the fund has already made.

Mr. McGowan stated that Siguler Guff expects to collect 80-90% of the \$2 billion target by the end of 2009.

Mr. Martin asked if the fund will be making non-U.S. investments.

Ms. Vyas explained that the fund will invest mainly in U.S. and European investments. Most of the European investments will also have a U.S. presence. Possibly a few Asian distressed investments would be made if an opportunity arises.

## **2. Presentation on the TCW/Crescent Mezzanine Partners Fund V ~ TCW.**

Ms. Grant stated that TCW has a 16-year track record of disciplined investing, an experienced team, global investment platform, focus on high quality companies with strong credit fundamentals, extensive relationships with leading private equity sponsors and are well-positioned for current market opportunities. A large independent fund like TCW leads to a broader transaction flow and reduced conflicts for investors.

TCW has a proven strategy:

- Principal preservation is a key criteria;
- Focus on high quality companies with strong fundamentals;
- Utilize extensive credit research;
- Structure transactions creatively to minimize risk;
- Invest with established sponsors and management teams who are often contributing meaningful equity capital.

Mr. Egan explained that there is an equity up-side in all deals. Focus is on high quality companies in mature industries with predictable demand and stable cash flows.

TCW/Crescent Mezzanine Partners Fund V was opened in November 2007 and will close in about a month.

## **3. Approval to invest \$30 million in the Siguler Guff Distressed Opportunities Fund III and for the Secretary to negotiate and execute the agreement.**

Vice-Chair Heredia asked how a "fund of funds" does direct investing.

Mr. Martin explained that a "fund of funds" will co-invest with other investors if additional capital is needed and the fund will end up owning a portion of the investment.

Mr. Martin stated that Siguler Guff is a premier "fund of funds" distressed manager.

**The Committee** approved investing \$30 million in the Siguler Guff Distressed Opportunities Fund III and to allow the Secretary to negotiate and execute the agreement as recommended by NEPC.

Motion/second/approved. (2-0)

**4. Approval to invest \$20 million in the TCW/Crescent Mezzanine Partners Fund V and for the Secretary to negotiate and execute the agreement.**

Ms. Racy-Choy stated that if the Trustees invest in the TCW/Crescent Mezzanine Partners Fund V, a 17-18% IRR could reasonably be expected based on the initial investments already made in the Fund.

The Committee approved investing \$20 million in the TCW/Crescent Mezzanine Partners Fund V and to allow the Secretary to negotiate and execute the agreement as recommended by NEPC.

Motion/second/approved. (2-0)

**5. Informational Item: Update on Investment Managers on Probation & Watchlist – June 2008.**

<b><u>Watchlist</u> Provident</b>	Underperformed their benchmark, the Russell 2000 Growth Index + 200 bps, for the month, YTD and rolling one-year. They also underperformed the index, net of fees, for the month, YTD and rolling one-year. Next Step: Continue on the Watchlist while NEPC conducts manager search.
<b><u>Probation List</u> Boston Company</b>	Outperformed their benchmark, the MSCI Emerging Markets Index + 200 bps, for the month but underperformed YTD and rolling one-year. They outperformed the index, net of fees for the month and YTD but underperformed rolling one-year. Next Step: Continue on Probation pending NEPC review.
<b>Seix Investment Advisors</b>	Outperformed their benchmark, the Lehman Aggregate + 50 bps, for the month but underperformed YTD and rolling one-year. They outperformed the index, net of fees, for the month but underperformed YTD and rolling one-year. Next Step: Continue on Probation pending NEPC review.
<b>Alliance</b>	Outperformed their benchmark, the MSCI Emerging Markets Index + 200 bps, for the month but underperformed YTD and rolling one year. They also outperformed the index, net of fees, for the month, YTD and rolling one-year. Next Step: Continue on Probation while NEPC conducts a manager search.

**6. Discussion and action on NEPC's manager critique and recommendation.  
a. Informational Item: Provident's Small Cap Team Update.**

The Secretary stated that Provident has been performing poorly, 1,500 basis points below the benchmark for the last month.

The Committee approved terminating Provident Investment Counsel as the Plan's Small Cap Growth manager. The Committee also approved that the Secretary negotiate and execute an agreement with State Street Global Advisors to manage the Provident portfolio against the Russell 2000 Index with a pre-determined tracking error selected by Staff until a search is completed as recommended by NEPC and Staff.

Motion/second/approved. (2-0)

---

**7. Discussion on the COW report entitled "Manager Performance Review".**

The Secretary stated that Staff would like to stop producing the performance report that is done for the COW meeting and rely on NEPC's performance report going forward. The performance report is a product of both NEPC and our Staff. Over the next few months, Staff will work with NEPC to incorporate all the reports into one performance report with all the information combined.

**Approved:**



---

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