

POLICE AND FIRE RETIREMENT PLAN

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

September 15, 2009

Present:

Committee Members

David Bacigalupi

Scott Johnson

Keith Keesling

Also Present:

Russell Crosby

-Secretary/Director

Allan Martin

-NEPC

Carmen Racy-Choy

-Staff

Christopher Levell

-NEPC

Ali Amiry

-Staff

Dan LeBeau

-NEPC

Ceara O'Fallon

-Staff

Lynda Ramirez Jones

-Staff

MEETING SUMMARY

RECOMMENDATIONS

- 1. Adopt NEPC's Mix B of the Asset/Liability Modeling Study as recommended by NEPC, and direct NEPC to prepare a historic synopsis of the portfolio and staff to present a strategy for implementing Mix B.**

ITEMS

- 1. Approval of the August 20, 2009 Investment Committee Summary**

It was noted that NEPC's acronym was transposed in the document. Motion was made, seconded (Keesling/Bacigalupi), and unanimously carried to approve the minutes as revised with the acronym to read "NEPC."

- 2. Discussion and action regarding the Asset Liability Modeling Study**

Mr. Martin recollected that NEPC's presentation on the Asset/Liability Modeling Study last month generated a detailed discussion of liability and inflation sensitivity. He reiterated that the focus of the asset allocation is to get the best possible return and then examine the risk return implications on a strategy that is liability-influenced as opposed to liability-driven. He said that the discussion addresses NEPC's recommendation for the best asset mix.

Mr. Martin referred to the Alternate Asset Allocations on page 11 of NEPC's report dated September 2009, a chart showing current allocation; current target; and two alternative allocations referred to as Mix A and Mix B. He reported that the current target is expected to generate a 7.7% return, before manager contribution, with a standard deviation of 10.4%.

Mr. Martin stated that NEPC recommends alternate asset allocation Mix B, which reduces the equity exposure from 49% to 40% and private equity from 8% to 5%. The 12% reduction would be redistributed as follows: 2% to fixed income, 5% to inflation-linked assets (TIPS), and 5% to opportunistic assets. Mix B could significantly reduce the dependence of the portfolio on the performance of equity markets by further diversifying the portfolio into asset classes that are uncorrelated with equities. Mix B significantly lowers the standard deviation to 9.0% while slightly increasing the median rate of return.

Member Johnson arrived at 9:15 a.m.

Responding to a question from Member Keesling, Mr. Martin said that NEPC could review historic periods, analyze how the portfolio would have performed at the current target and at Mix B, and present results to the Committee.

A motion was made, seconded (Johnson/Keesling), and unanimously carried to adopt NEPC's Mix B recommendation on page 11 of the Asset/Liability Modeling Study dated September 2009, and direct NEPC to prepare a historic synopsis of the portfolio and staff to present a strategy for implementing Mix B.

3. Update on State Street's Securities Lending program by NEPC

Mr. Martin reported there were no defaults in the portfolio. He noted that the net asset value was \$0.9612 at the end of July 2009 and \$0.9688 at the end of August 2009, continuing to move toward \$1.

4. Educational presentation on inflation linked assets by NEPC

Mr. Levell described inflation-linked assets as assets with intrinsic value, such as real estate, energy, commodities, TIPS (Treasury Inflation Protected Securities), and timber. These assets are inflation-sensitive; as inflation moves higher, the value of these assets also moves higher.

Mr. Levell explained the benefits and risks associated with investing in TIPS and Commodities. He noted that the information in the report will be incorporated into the strategy plan for implementing Mix B of the Asset/Liability Modeling Study.

APPROVED:



RUSSELL U. CROSBY, SECRETARY/DIRECTOR
BOARD OF ADMINISTRATION