

POLICE AND FIRE RETIREMENT PLAN

30

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

October 29, 2009

Present:

Committee Members

David Bacigalupi – via telephone

Scott Johnson

Keith Keesling

Also Present:

Russell Crosby

-Secretary/Director

Allan Martin

-NEPC

Carmen Racy-Choy

-Staff - via telephone

Dan LeBeau

-NEPC

Ali Amiry

-Staff

Ceara O'Fallon

-Staff

Christy DeMaria

-Staff

MEETING SUMMARY

RECOMMENDATIONS

NONE

ITEMS

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

(M.S.C. Keesling/Johnson) to approve. Motion carried 3-0-0.

- b. September 15, 2009 Committee for Investments.**

(M.S.C. Keesling/Johnson) to approve. Motion carried 3-0-0.

- 2. Approval to accept the fee structure as negotiated by staff for the custodial services with State Street and authorization for the Secretary to execute the changes to the agreement.**

Dr. Amiry stated that the negotiated fee structure has streamlined the relationship with State Street through the end of their contract, which expires July 2010, as well as established a better structure for the transition toward the new asset allocation.

(M.S.C. Keesling/Johnson) to approve. Motion carried 3-0-0.

3. Discussion and action regarding the implementation of the new asset allocation and the new domestic equity investment structure and approval for staff to select a transition manager to conduct both implementations.

Mr. Martin stated that, as the Board approved the new asset allocation, the most effective process for implementing the new asset allocation is to hire a transition overlay manager.

Member Bacigalupi asked about the process for selecting a transition manager. Mr. Martin noted that the transition process is very time sensitive and it is impractical to bring the manager selection back to the Investment Committee.

Mr. Martin stated that the process entails soliciting bids from an approved short list of transition managers, reviewing the bids, and selecting the appropriate manager for the transition. There are few managers who specialize in transitions and the bids are typically valid for 24 to 48 hours. The process moves quickly, but it is an orderly process designed to minimize costs and maintain liquidity. NEPC recommends that the Investment Committee authorize staff with guidance from NEPC to select the best transition manager from a short list approved by the Investment Committee. The short list includes the following transition managers: Russell, BNY Convergenx/The Clifton Group, Morgan Stanley, State Street, Goldman Sachs, and Northern Trust.

Member Johnson asked how the Investment Committee can ensure that there are no fire sales during the transition process.

Mr. Crosby explained that the purpose of hiring the experts is that they manage the transition with the whole picture in mind, noting what securities need to be sold and what securities can be held, so that only the securities that need to be sold are sold.

Ms. Racy-Choy added that, assuming the Investment Committee's approval, the transition process will take approximately five to six weeks. First, staff would obtain preliminary bids based on masked information from the vendors on the short list and then analyze the bids with NEPC drawing conclusions based on which vendor is best for the transition and fees. At that point, the selected vendor would go through the contracting process and, once the vendor is under contract, staff would provide them with complete information and ask them to refine their bid. The transition manager will provide a detailed plan of what securities should be transmitted and which securities should be sold. Once staff, NEPC, and transition manager are in agreement with the plan and the timing of the transition, it takes approximately five to seven business days to complete the transition.

Member Johnson asked about the cost components of the transition.

Mr. Martin stated that there are explicit costs, such as commissions, market fees, and taxes, and there are implicit costs, such as opportunity costs and liquidity costs. It is important to factor both explicit and implicit costs into the evaluation of a transition manager and in the evaluation of overall transaction costs.

Member Bacigalupi commented that the portfolios managed by State Street Global Assets and Rhumblin are passively managed already.

Mr. Lebeau stated that there will be a change in strategy within the Rhumblin account, but not a change in manager.

Ms. Racy-Choy stated that Rhumblin is a good index manager. Staff and NEPC would like to change the mandate from the S&P 500 to the Russell 1000.

(M.S.C. Keesling/Johnson) authorized staff, with guidance from NEPC, to select the transition manager from the approved short list to implement the new asset allocation and the new domestic equity investment structure and authorized the Secretary to negotiate and execute the contract. Motion carried 3-0-0.

4. Update on State Street's securities lending program by NEPC.

Mr. Martin stated that there have been no additional defaults in the portfolio and, as of September 30, 2009, the net asset value was \$0.9766 compared to the net asset value of \$0.9688 as of August 31, 2009. While the portfolio continues to move toward a net asset value of \$1, there is concern with the percentage of the portfolio with duration beyond 2012 as it contains asset backed securities.

This item is note and file.

5. Informational Item: Harbour Vest Organizational Changes.

Mr. Martin noted that Kevin Delbridge, one of three Managing Directors at the firm, will be transitioning to part time status in 2010. He will transition out of his roles on the Investment Committee and the Executive Committee at HarbourVest since the firm is well staffed with experienced senior management, NEPC does not have any concerns with this organizational change.

This item is note and file.

APPROVED:



RUSSELL U. CROSBY, SECRETARY
BOARD OF ADMINISTRATION