

# POLICE AND FIRE RETIREMENT PLAN

## Revised Investment Committee Summary

THURSDAY

SAN JOSE, CALIFORNIA

OCTOBER 23, 2008

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**Present:**

Committee Members

Ken Heredia  
Bret Muncy  
Scott Johnson

**Not Present:**

Mark Skeen - excused

Also Present:

Russell Crosby -Secretary/Director  
Carmen Racy-Choy -Staff  
Ron Kumar -Staff  
Ceara O'Fallon -Staff  
Cristin James -Staff

Carolyn Smith -NEPC  
Daniel LeBeau -NEPC  
Edward O'Donnell -NEPC  
(via telephone)

## MEETING SUMMARY

### RECOMMENDATIONS

- Approval of Investment Committee Minutes:
  - July 15, 2008
  - August 27, 2008
  - September 18, 2008
- Approval of the Committee of the Whole Minutes:
  - August 27, 2008

### ITEMS

1. Approval of Investment Committee Minutes
  - a. July 15, 2008
  - b. August 27, 2008
  - c. September 18, 2008.

Motion/second/approved. (3-0)

2. Education session regarding the Real Asset allocation.

Mr. O'Donnell explained that during times of rising inflation, stocks and bonds underperform, however Real Assets have intrinsic value of their own, which is less eroded by inflation. Some examples of Real Assets are Real Estate, Energy, Infrastructure, Agribusiness, Commodities, Timber, and Inflation-linked bonds such as Treasury Inflation Protected Securities (TIPS).

Real Assets provide diversification and have low correlation to traditional asset classes, which is the key to earning risk-adjusted return. The potential risk is that when the equity market generates significant returns, the best bets are investments that are highly correlated with the equity market instead of inflation hedges.

Mr. O'Donnell explained that the Plan's strategy would be to start by investing in mostly liquid assets and work gradually toward a core/satellite approach. Satellite investments might include hedge funds or private equity that invest in real assets.

Ms. Smith stated that NEPC is working with staff to put together some investment choices.

Ms. Racy-Choy explained that NEPC will come back with a structure for Real Assets.

### **3. Approval for the Secretary to execute an agreement with NEPC, LLC.**

The Secretary stated that NEPC originally proposed a flat annual fee for traditional asset classes, however the fees for alternative investments would be calculated based on the assets invested. In other words, the fees for alternatives would increase as the Plan's alternative investment portfolio grows. Both the City Attorney's office and the Plan's Investment Counsel perceived a conflict of interest in asset based fees. Staff renegotiated the alternative asset class fees with NEPC to a hard dollar fee schedule. These amounts are consistent with the total dollar amounts in NEPC's response to the Plan's RFP.

Motion/second/approved. (3-0)

This item will be placed on the November 6, 2008 Board agenda for approval.

### **4. Discussion regarding "Mark to Market" of the Plan's assets.**

Vice-Chair Heredia stated that while attending a recent conference, he heard that "Mark to Market" valuation is used in corporate plans and may be imposed on public plans.

The Secretary explained that the Financial Accounting Standard's Board's (FASB) new requirements statement number 157 (FAS 157) is still under debate. CalPers now uses 15 year smoothing in order to keep their contribution rates stable.

Ms. Racy-Choy stated that NEPC will be conducting a study to project liabilities with different rates of return, which will include "Mark to Market" for Trustee's review.

### **5. Discussion regarding the Plan's Securities Lending Program managed by State Street.**

This item was deferred to a future meeting.

**6. Informational Item: Soundness of the Plan.**

**7. Informational Item: Update on Investment Managers on Probation & Watchlist – August 2008.**

<b><u>Probation List</u></b> <b>The Boston Company</b>	Outperformed their benchmark, the MSCI Emerging Markets Index + 200 bps, for the month, YTD, and rolling one-year. They outperformed the index, net of fees, for the month, YTD, and rolling one-year. Next Step: Continue on Probation pending NEPC review.
<b>Seix Investment Advisors</b>	Underperformed their benchmark, the Lehman Aggregate + 50 bps, for the month, YTD, and rolling one-year. They underperformed the index, net of fees, for the month, YTD, and rolling one-year. Next Step: Continue on Probation pending NEPC review.
<b>Alliance Capital Management Corporation</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 and rolling one-year, but underperformed for YTD. Next Step: Continue on Probation pending NEPC review.

**8. Information Item: WAMCO Organizational Update.**

**9. Approval of the Committee of the Whole Minutes:  
a. August 27, 2008**

Motion/second/approved. (3-0)

**Approved:**

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