

POLICE AND FIRE RETIREMENT PLAN

Revised Summary of Real Estate Committee

THURSDAY

SAN JOSE, CALIFORNIA

OCTOBER 23, 2008

PRESENT:

Police and Fire Board

Ken Heredia
Bret Muncy
Scott Johnson

NOT PRESENT:

Mark Skeen - excused

Also Present:

Russell Crosby	-Secretary/Director	Carolyn Smith	-NEPC
Carmen Racy-Choy	-Staff	Daniel LeBeau	-NEPC
Ron Kumar	-Staff	David Kimport	-Nossaman
Ceara O'Fallon	-Staff	(via telephone)	
Cristin James	-Staff		

MEETING SUMMARY

RECOMMENDATIONS

None

ITEMS

1. Discussion and action – recap of the reason for terminating the separate account mandates of Kennedy Associates and MIG Realty Advisors.

Ms. Racy-Choy explained that performance returns of Kennedy and MIG have been very volatile. With high volatility, returns should be expected to be higher, yet the Kennedy and MIG portfolios have underperformed the NCREIF since inception. By comparison, Prudential's PRISA I Fund outperformed the benchmark with little volatility. A move away from individual properties and toward core funds, such as PRISA could increase return and decrease the volatility in the real estate portfolio.

Mr. Kimport stated that a portfolio with fewer individual properties is difficult to diversify. PRISA has 250 properties allowing it to be diversified and has much less volatility. Comingled funds provide the best exposure to the real estate market and lower risk for the portfolio and allow for diversification.

Member Johnson added that moving to comingled funds will also give the portfolio more liquidity.

The Secretary stated that some funds have a long-term lockup while others allow for withdrawals quarterly. The Plan's goal would be to find funds that have a 30-90 day window for liquidity.

Ms. Smith stated that some funds have a queue to withdraw funds if there are other investors also withdrawing funds.

Member Muncy stated that he wants to separate the issue of terminating Kennedy and MIG from terminating the individual property structure. Kennedy and MIG should be instructed to sell the individual properties as soon as reasonable.

The Secretary suggested that Trustees should allow Kennedy to complete Progress Point and start the liquidation process of the individual properties.

Member Muncy added that Trustees should set a timeline for selling the properties. If the current managers do not meet the deadlines, then the Committee can hire a new manager to dispose of the properties.

Ms. Smith explained that NEPC has been searching for a real estate fund to invest the proceeds of the Deerwood sale. The new fund will be a collective trust that has a quarterly window to make investments.

The Secretary stated that staff will ask David Kimport to review the current Kennedy and MIG contracts to see if they have a disposition incentive.

Vice-Chair Heredia stated that given the inability to complete a well diversified portfolio with individual investments, the Committee should move the proceeds of property dispositions to commingled funds.

The Committee approved a transition from separately managed accounts toward commingled funds in order to diversify the real estate portfolio. It was also approved to authorize David Kimport, the Plan's real estate counsel, to review the current contracts and, if necessary, add language to incentivize the managers for disposition of the properties held.

Motion/second/approved. (3-0)

Approved:



RUSSELL U. CROSBY, SECRETARY
BOARD OF ADMINISTRATION