

POLICE AND FIRE RETIREMENT PLAN

Summary of Special Real Estate Committee

THURSDAY

SAN JOSE, CALIFORNIA

JANUARY 17, 2008

PRESENT:

Police and Fire Board

**Mark Skeen
Ken Heredia
Scott Johnson**

Also Present:

Russell U. Crosby	-Secretary/Director		
Tom Webster	-Deputy Director	Tom Lightvoet	-Mercer
Donna Busse	-Staff	Allison Yager	-Mercer
Ron Kumar	-Staff		
Judy Powell	-Staff		
Udaya Rajbhandari	-Staff		
Cristin James	-Staff		

MEETING SUMMARY

RECOMMENDATIONS

None

APPROVAL ITEMS

1. Discussion and possible action on the Plan's Real Estate Strategy – Mercer IC.

Ms. Yager explained that Mercer's review of the Plan's Real Estate Strategy included:

- Examination of existing manager relationships to determine if goals are being met.
- Determined the appropriate risk profile to provide a framework for the type of investments that should be made.
- Discussed possible new investing strategies such as value-add and opportunistic real estate strategies and publicly traded real estate securities.
- Implementation of any change should take account of the existing real estate portfolio.

Ms. Yager stated that the Plan's investment goals are to simplify the real estate oversight process by using commingled funds. Commingled Funds would increase diversification of the real estate exposure and produce a more predictable return stream.

Mercer's recommendation for Real Estate allocation:

Core Real Estate Investments	70%
Value-add Fund Investments	20%
Opportunistic Fund Investments	10%

Ms. Yager explained that the dividends from Commingled Funds could be re-invested or received as quarterly income. Fund managers would control all aspects of purchases, disposition of assets and leasing.

Mr. Heredia expressed concern that NCREIF may not be a valid benchmark to compare Real Estate Funds.

Ms. Yager stated that NCREIF is trying to put together both Value-Add and Opportunistic benchmarks but they are not ready yet. The NCREIF is created with a group of Core assets so it does not compare to Value-Add or Opportunistic Funds. The most appropriate measure of performance in closed end funds is Internal Rate of Return (IRR).

Mr. Lightvoet stated that implementation of a new real estate allocation would occur over several years to produce a more stable return.

Mr. Skeen stated that the Real Estate Committee needs to further discuss real estate allocation changes and how it would be implemented.

**2. Informational: Notification of Real Estate contract due to expire on
June 30, 2008**

**3. Approval for Secretary to negotiate and execute the First Amendment to the
Agreement with Kennedy Associates Real Estate Counsel, Inc. for real estate
advisor services.**

Mr. Heredia suggested that this item be deferred to let Staff work out the details of the contract.

Approved:



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