

February 2008

**Pension Plan  
Presentation Report  
Fourth Quarter 2007**

San José Police and Fire Retirement System

**MERCER**



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# Executive Summary

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## **Executive Summary**

### **Asset Allocation**

The San José Police and Fire Department Retirement Plan had a market value of \$2,782.6 at December 31, 2007, a \$22.9 million decrease from the value at the end of the third quarter. At year-end, the Plan's assets were allocated across domestic equity (37.1%), international equity (22.4%), international emerging markets equity (6.6%), domestic core fixed income (20.3%), long-duration fixed income (3.9%), real estate (7.7%), private market equity (1.8%), and cash (0.1%). At December 31, 2007, the asset class allocations were within the guidelines and generally close to their targets. Domestic equity was 3.1% above its target allocation of 34.0%, international equity was 2.4% above its target allocation of 20.0%, international emerging market equity was 1.6% above its target allocation of 5.0%, domestic core fixed income was 0.3% above its target allocation of 20.0%, long-duration fixed income was 0.1% below its target allocation of 4.0%, private equity was 3.2% below its target allocation of 5.0%, and real estate was 4.3% below its target allocation of 12.0%.

### **Total Fund Performance**

The Total Fund matched or outperformed the return of the Total Fund Benchmark for the quarter, 1 year and 5 years. It underperformed the benchmark for 3 years only. The Total Fund placed above the Russell/Mellon Total Funds Billion Dollar–Public Universe median for all periods shown.

Concerns about a recession crept into investors' minds after a bevy of negative economic news hit the markets: a continuously weakening housing market, the impact of sub-prime exposure on financial institutions, oil prices nearly reaching \$100/barrel, increasing unemployment rates, slowing

economic growth, and high inflation measures. In response, the Federal Open Market Committee made two 25 basis point cuts to the Federal Funds Target Rate during the quarter, bringing it down to 4.25% from 5.25% at the beginning of the year. The advance estimate of annualized fourth-quarter GDP growth was 0.6%, following 4.9% growth in the third quarter and 3.8% in the second quarter.

Consumer prices rose at an annual rate of 5.6% in the fourth quarter and 4.1% over the past 12 months as measured by the Consumer Price Index. Excluding food and energy, the measure rose 2.7% during the quarter and 2.4% over the past 12 months. The Producer Prices Index for finished goods increased 6.3% during the year. The Federal Reserve Board reported that preliminary production capacity utilization was 81.4% at the end of December, a decrease of 0.5% since the end of the third quarter and 0.4% above the average for the period from 1972 – 2006. The unemployment rate rose to 5.0% from 4.7% at the end of September and from 4.4% a year earlier.

Sub-prime lending continued to impact the economy, as numerous financial institutions and investment banks announced write-downs related to the sub-prime crisis. Oil prices reached nearly \$100/barrel in November and December before finishing the year in the mid-\$90s. The housing market, as measured by the National Association of Home Builders/Wells Fargo Housing Market Index, declined further, reaching its lowest point since inception in 1985. The yield curve dropped as 3-month Treasuries fell from 3.82% at the end of September to 3.36% at the end of December. Ten-year Treasuries experienced a similar decline, falling from 4.59% to 4.04%.

The large cap domestic equity market struggled during the fourth quarter, declining 3.2% as measured by the Russell 1000 Index. Despite a weak quarter, the index advanced 5.8% over the course of 2007. The financial services (–12.6%), autos & transportation (–7.1%), and consumer discretionary (–5.0%) sectors were hit hardest during the quarter. During the year, only the financial services (–16.2%) and consumer discretionary (–2.6%) sectors declined in value. The energy sector outpaced all other sectors over the quarter and one-year periods, returning 6.5% and 43.1% respectively. Small cap stocks, as measured by the Russell 2000 Index, declined 4.6% during the quarter and 1.6% during the year, trailing large cap equity over both periods. Growth significantly outperformed value in both the large cap and small cap markets during the fourth quarter and the year.

The international equity markets displayed more resilience during the fourth quarter than did domestic markets, falling 1.7% in U.S. dollar terms as measured by the MSCI EAFE Index. The dollar depreciated further and added value during the period, as the index returned –2.9% in local currency terms. In 2007, the index returned 11.6% in U.S. dollar terms and 4.0% in local currency terms. The weakest performers during the quarter included Sweden (–12.8% in U.S. dollar terms) and Ireland (–11.1% in U.S. dollar terms). Over the course of the year, Ireland was the worst-performing market, declining 19.6% in U.S. dollar terms and 27.5% in local currency terms. Spain (8.4%) was the top-performing market in U.S. dollar terms during the quarter while Finland and Hong Kong were the top performers for the year, returning 50.1% and 41.2%, respectively. Emerging markets continued to significantly outperform their developed counterparts during the fourth quarter, appreciating 3.7% in U.S. dollar terms and 2.9% in local currency terms as measured by the MSCI EM Index. Emerging markets considerably outperformed other equity

markets during the year, advancing 39.8% in U.S. dollar terms and 33.6% in local currency terms. India and Jordan generated returns over 20% during the quarter. The top-performing market in 2007 was Peru, appreciating 94.7% in U.S. dollar terms and 90.8% in local currency terms. The Chinese market cooled off in the fourth quarter, returning –3.7% in U.S. dollar terms compared to 41.9% in the third quarter.

The fixed income market, as measured by the Lehman Brothers Aggregate Bond Index, appreciated 3.0% during the fourth quarter and outpaced domestic equity markets in 2007, returning 7.0%. Longer-term issues outperformed shorter-term issues during the quarter, as the Lehman Brothers Long-Term Government/Credit Bond Index returned 3.9%. Corporate bonds gained 2.0% during the quarter and 4.6% during the year as measured by the Lehman Brothers U.S. Corporate Bond Index. In 2007, AAA issues outperformed lower-quality issues in the investment grade credit space, while low-grade junk bonds depreciated 6.7%. High-yield bonds continued to lag and declined 1.3% during the quarter but advanced 1.9% during the year, as measured by the Lehman Brothers U.S. Corporate High Yield Bond Index. Mortgages, as measured by the Lehman Brothers Mortgage-Backed Securities Index, returned 3.1% during the quarter and 6.9% during the year, while Treasuries, as measured by the Lehman Brothers Treasury Bond Index, appreciated 4.0% during the quarter and 9.0% during the year.

### **Large Cap Index Equity – Rhumblin Advisers**

Rhumblin held \$246.3 million at quarter-end. This represented a decrease of \$8.5 million from the end of the third quarter.

For all periods shown, Rhumblin tracked the S&P 500 Index within 20 basis points.

### **Large Cap Growth Equity – State Street Global Markets (Formerly Globalt, Inc.)**

A large cap growth manager search was conducted to replace Globalt, Inc., with assets invested in a temporary SSGM fund. At quarter-end, the fund held \$47.8 million. This represented a decrease of \$0.3 million from the end of the third quarter.

State Street outperformed the Russell 1000 Growth Index for all periods shown except 3 years and inception-to-date. The portfolio placed below the Mercer U.S. Equity Large Cap Growth Universe median for all periods shown except the recent quarter.

Favorable stock selection within consumer discretionary was the greatest contributor to outperformance. Security selection in the health care, financial services and producer durables sectors also contributed.

Unfavorable stock selection in utilities and technology detracted, although the portfolio's overweight position within technology offset losses. Security selection and an underweight to the top-performing materials & processing sector also detracted.

### **Large Cap Growth Equity – INTECH**

INTECH held \$56.9 million at December 31, 2007. This represented an increase of \$5.8 million from the end of the third quarter. The portfolio had a cash inflow of \$5.0 million during the quarter.

The portfolio outperformed the Russell 1000 Growth Index for all periods except 1 year. The portfolio placed above the Mercer U.S. Equity Large Cap Growth Universe median for the recent quarter only.

Strong security selection in the technology and financial services sectors was the greatest contributor to outperformance for the quarter. The portfolio's holdings in producer durables also helped returns.

The largest detractor from performance was the portfolio's unfavorable stock selection in the health care and consumer discretionary sectors. Unfavorable stock selection in the other energy and materials & processing sectors also detracted; however, an overweight allocation in these strong-performing sectors offset losses somewhat.

### ***News Item Dated January 24, 2008***

INTECH recently promoted Senior Investment Officer Dr. Cary Maguire to co-chief investment officer as part of the firm's long-term succession plan. Current CIO Dr. Robert Fernholz will assume a co-CIO role with Maguire, who signed a 10-year employment agreement with the firm.

Maguire has been with INTECH since November 1991 and has over 16 years of investment experience. Throughout his tenure, he has played an integral role in the firm's research and trading efforts and the implementation of its mathematical process in client portfolios. Maguire made significant contributions to INTECH's enhancements to the investment process and led the research and development of the firm's first non-U.S. product. He has a PhD in physics from Princeton University and an MBA from Southern Methodist University, and possesses several academic honors from both Princeton and Stanford.

### ***Mercer View***

While Robert Fernholz holds an employment agreement with the firm until 2012, we view this promotion as the next step to ensuring a well-devised succession plan. Maguire has worked with Fernholz for the past 16 years and, according to INTECH, is the ideal successor to Fernholz, who is expected to remain

involved with the mathematical research process subsequent to his contract expiration, albeit to a lesser degree. Maguire is expected to fully assume the role of CIO when Fernholz steps down. This announcement does not impact the firm's investment process or the management of the strategies; therefore, we are not changing our ratings.

### **Large Cap Growth Equity – New Amsterdam Partners**

New Amsterdam held \$167.0 at December 31, 2007. Assets increased by \$0.9 million from the end of the second quarter. The portfolio had a cash inflow of \$5.0 million during the quarter.

The portfolio placed below the Mercer U.S. Equity Large Cap Growth Universe median for all periods shown, but outperformed the S&P 500 Index for the quarter, 5 years and inception-to-date.

Favorable security selection in producer durables and health care contributed most to outperformance. Above-index exposure to financial services more than offset unfavorable stock selection in the sector. Favorable allocation in other energy and materials & processing also helped returns.

Detracting from performance was stock selection in consumer staples coupled with an unfavorable underweight position within the sector. Security selection in technology also detracted.

### **Large Cap Value Equity – UBS Global Asset Management**

At December 31, 2007, UBS managed \$131.0 million in assets, \$10.9 million less than at the previous quarter-end. The portfolio had a cash outflow of \$5.0 million during the quarter.

The portfolio outperformed the Russell 3000 Index for all periods shown except the recent quarter and 1 year. The portfolio placed below the Mercer U.S. Equity Large Cap Value Universe median for all periods evaluated except the recent quarter, when it placed just above the universe median.

Unfavorable security selection and a slight overweight within the financial services sector – particularly to banks – was the greatest detractor from performance. Underweight allocation and unfavorable stock selection within the consumer staples and materials & processing sectors also negatively impacted results, as did below-index exposure to the strong-performing integrated oils sector.

Security selection in health care coupled with a slight overweight position in the sector contributed to performance; favorable stock picks in the other energy and autos & transportation sectors helped also.

### **Large Cap Value Equity – Boston Partners Asset Mgmt**

At December 31, 2007, Boston Partners managed \$144.4 million in assets, a decrease of \$10.2 million since the prior quarter-end. The portfolio had a cash outflow of \$5.0 million during the quarter.

The portfolio outperformed the Russell 1000 Value Index and Mercer U.S. Equity Large Cap Value Universe median for all periods evaluated.

Benefiting performance was favorable security selection in health care coupled with an overweight position in the sector. Also contributing were stock selection in the “other” sector and below-index exposure to financial services.

Unfavorable allocation and security selection within technology and integrated oils detracted, as did an underweight position in the materials & processing sector.

#### **Small Cap Growth Equity – Provident Investment Counsel**

At December 31, 2007, Provident managed \$77.5 million in assets, a decrease of \$1.9 million since the end of the third quarter.

Provident placed above the Mercer US Equity Small Cap Growth universe median for all periods shown, and outperformed the Russell 2000 Growth Index for all periods except the recent quarter.

Detracting from performance for the quarter were security selection and above-index exposure to the technology sector. Unfavorable stock selection in consumer discretionary and utilities negatively impacted results also.

Security selection coupled with favorable allocation in financial services and materials & processing contributed to performance.

#### **Small Cap Index Equity – Rhumblin Advisers**

At December 31, 2007, Rhumblin managed \$98.9 million in assets. This represented a \$5.8 million decrease from the end of the third quarter.

For all periods shown, the fund tracked the Russell 2000 Index within 30 basis points.

#### **Small Cap Value Equity – TCW Group**

At December 31, 2007, TCW Group managed \$63.9 million in assets, a decrease of \$4.5 million from the previous quarter-end.

TCW underperformed the Russell 2000 Index for all periods evaluated. It placed below the Mercer U.S. Equity Small Cap Value Universe median for all periods except the recent quarter, where it placed at the median.

Unfavorable security selection in producer durables was the greatest detractor from performance, more than offsetting the portfolio's favorable overweight allocation in the sector. Stock selection in other energy and materials and processing, as well as a significant underweight position in the strong-performing health care sector, also detracted from results.

Security selection in technology and a favorable underweight position in financial services mitigated losses somewhat.

#### **International Equity – AQR Capital Management**

At December 31, 2007, AQR held \$119.2 million, marking a decrease of \$5.2 million from the previous quarter-end.

For the recent quarter, 1 year and inception-to-date, AQR underperformed the MSCI EAFE Net Index and placed in the bottom quartile of the Mercer International Equity Universe.

The greatest detractor from performance was the fund's unfavorable stock selection in Japan. Holdings in Germany, Italy and Finland also hurt results. Favorable stock selection in Australia helped performance, as did a lack of exposure to poor-performing Ireland.



## ***Research Note Dated December 14, 2007***

### **Issues to watch**

Although recent efforts at an IPO were nixed, will issues of firm ownership become a distraction to senior managers at AQR?

In August, when the firm had a period of underperformance, several large investors in the hedge fund withdrew their capital from the funds. With so much of its revenues coming from hedge funds, how stable can we expect the firm to be if another such market event occurs?

### **Highlights**

Earlier in 2007, AQR had hired an investment bank to discuss plans to sell shares in the firm. Asness viewed this as a way to attract and retain talent and also as a statement that AQR felt asset management firms were overvalued. In July, AQR tabled discussions of an IPO as the market environment became more difficult. While this most recent attempt at changing the ownership structure did not go forward, we believe that the issues driving this attempt have not gone away and that AQR may still enact some change in the future.

In the third quarter of 2007, AQR experienced significant underperformance in its non-U.S. equity strategies, similar to many other quantitatively based managers. This does not change our view of AQR, and we affirm our ratings of the long-only equity strategies. AQR's dedication to the research of new factors and maintaining factor efficacy has been a key advantage of the firm, and we expect this to continue to be the case going forward.

Because of the greater levels of risk undertaken AQR's hedge funds had even worse performance than the long-only strategies during this period of market turmoil. For 2007, AQR had \$800 million in redemptions in its hedge funds. In a good year, the hedge funds account for the bulk of firm wide

revenues. If redemptions continue to occur, it may put firm stability at risk. However, this has not been the case, and as long-only assets grow, AQR should become less dependent on its hedge funds to keep the firm going. Currently, only 30% of the firm's assets are in hedge fund strategies.

In the third quarter of 2007, AQR observed that the more commonly used factors were hit harder than the proprietary, internally developed ones. An advantage for AQR was the flexibility around strict industry neutrality, which differentiated them from other quant managers, as these industry factors performed relatively better. This trend reaffirmed for AQR the importance of innovation. AQR looks to focus research on areas like industry-specific factors and unique data sources to help maintain its edge. We should also look for AQR to keep specific research efforts and details proprietary and not distribute or publish work more broadly.

### **International Equity – Brandes Investment Partners**

Brandes had \$242.7 million under management at December 31, 2007. This represented a decrease in assets of \$1.9 million from the previous quarter-end.

For all periods shown except 1 and 3 years, Brandes outperformed the MSCI EAFE Net Index and placed above the Mercer International Equity Universe median.

The portfolio's favorable stock selection in Japan contributed most to outperformance. Holdings in Netherlands and Switzerland, as well as emerging market exposure to South Korea, also helped. Exposure to U.K. and Germany coupled with unfavorable security selection in these countries detracted most from performance. Underweight allocation in Hong Kong and out-of-benchmark exposure to Brazil also negatively impacted results.

### ***Research Note Dated November 13, 2007***

In November, Mercer IC attended Brandes's Firm wide Investment Consulting Seminar in San Diego.

### **Rating Expectation**

This was a firm wide event, and we did not meet on strategies specifically. However, we were impressed with several aspects of Brandes's business, and we believe that this seminar was a good forum to allow our research team the ample resources and transparency to become more comfortable with the firm.

### **Meeting Highlights**

We had the opportunity to meet Charles Brandes and Glenn Carlson in a designated question and answer session that provided color on several firm topics. Both Carlson and Brandes emphasized the firm's reliance on the Graham and Dodd method of investing and how the firm looks at longer time horizons and digs deep into company fundamentals to find value. They both stressed how important firm culture is within the Brandes organization and that they have attempted to build a competitive business infrastructure while creating a family-like environment for all employees.

Brandes spoke on the current economic environment emphasizing that he felt the current turmoil in subprime loans is just a blip on the radar. Saying that "the more things change, the more they stay the same," he felt that this current situation is similar to several other market events that have dominated headlines in prior time periods (for example, the savings & loan hiccups in the 1980s). In time, he contended, all things will revert back to normal. In the meantime, the firm is looking for value in the areas that are getting hit the hardest and attempting to find fundamentals that can possibly lead companies when things turn around.

Carlson brought up product development and how the firm will

build new ideas internally for five to seven years before releasing them. Because of time constraints, he did not discuss how capacity can be affected given the firm's tendency to introduce new strategies, and this is something we would have liked more color on.

There was a detailed session that focused on how the industry is shifting from defined benefit to defined contribution structures and the trend toward "liability driven investing" (LDI). The session summarized the firm's findings on methods used for calculating equity duration. In short, equities may appear to be short-duration assets (using monthly in S&P 500 Index versus 10-year Treasury Bond changes over a 54-year period in support of the argument). However, upon further research that Brandes has conducted using a variety of analysis, the firm feels that the short duration of equities is reliant on a questionable assumption that "price sensitivity can be heavily affected by interest rate moves." Given the uncertainty of equity payment streams, this relationship does not necessarily always hold, and the firm feels that using a modified Macaulay approach helps solve this discrepancy and ultimately identifies equities as much longer-duration assets. Thus, pensions should consider using higher equity allocations when considering their liabilities.

One of the sessions overviewed how Brandes looks at small companies on a global scale and how the growth profiles of non-U.S. stocks are completely different from those of U.S. stocks. The firm feels that U.S. stocks are a lot younger in their growth cycles versus the more established global small capitalization companies. Brandes conducted an extensive life cycle analysis regarding this issue and has found some supportive results.

The seminar also allowed the opportunity for breakout sessions

with equity research analysts from the firm. In these sessions, groups would perform mock analyses on a designated set of companies and have investment committee meetings with groups of analysts to demonstrate how the team communicates its research ideas. All members of the committee (including the guests) were given extended research reports and industry reviews before the meeting, and everybody was encouraged to join in on the conversation. The companies under discussion were part of the home building industry, and the discussion stemmed around the current market environment and how the two companies positioned themselves to weather recent volatility. The session was extremely valuable, and it was very interesting to see Mark Costa, Juan Benito, and Brent Woods exchange ideas regarding the companies we were given. It was an excellent opportunity to look into how ideas are discussed among the group and how opinions are accepted or rejected among team members. Overall, the group discussion was extended, thorough, and extremely informative.

### **Issues to Watch**

Product Proliferation/Asset Growth: We were not able to become comfortable with how the firm approaches capacity and its introduction of new products into an already healthy stable. We would need to expand this point in further detail upon our next visit.

### **International Equity – William Blair & Company**

At December 31, 2007, William Blair managed \$261.1, decreasing \$0.1 million from the end of the previous quarter.

For all periods evaluated, the portfolio outperformed the MSCI AC World Free ex-U.S. Net Index and placed above the Mercer International Equity Universe median.

The portfolio's security selection in U.K. contributed most to outperformance. Security selection in Switzerland and Australia, along with favorable allocation in Sweden and emerging markets of Brazil and Egypt, also contributed. Security selection coupled with an underweight in Spain detracted most from performance. Holdings in U.S. and Italy also hurt results, as did emerging markets exposure to Taiwan and Russia.

### ***Preliminary Research View Dated January 10, 2008***

#### **Strategy/Asset Class/Current Rating**

International Growth (All Cap)/ World ex US/EAFE Equity – Growth/ A(T)

#### **Rating Expectation**

For the products that are currently rated, we do not anticipate recommending a change in the current rating.

#### **Meeting Highlights**

Blair's non-U.S. team continues to gain prominence within the asset management arm as it now manages over half of the firm's assets. In addition to providing Greig's team with additional research personnel, the firm has reorganized its research team to better facilitate a global equity product. The research team is now organized into global sector teams with team leaders reporting directly to Greig. Another indication of the non-U.S. team's standing at Blair is that both portfolio managers for the new global equity strategy hail from the non-U.S. team. The U.S. portfolio management team has little input into the global equity product.

The non-U.S. equity strategies continue to hum along with no changes to the process and no team departures. Blair continues to add research resources to allow it to extend capacity in its portfolios. In 2007, Blair added a small cap analyst and two

research associates to the team. While we view the addition of research staff to be positive, we are not completely convinced that three junior hires are enough, especially with the introduction of two new products.

In mid-2007, Blair seeded a global equity product managed by Greig and McAtamney. This strategy is a concentrated stock-picking portfolio with all decisions made by the two portfolio managers. Greig and McAtamney manage the strategy with very little input from the U.S. team. While they rely on the research generated by the U.S. analysts, not all of the stock recommendations are heeded. For example, with the exception of one stock, all the non-U.S. names are held in one of the standalone international products, but only 60% of the U.S. names in Global Growth Equity are held by the domestic portfolios. This indicates to us that Greig and McAtamney do quite a bit of research on their own and that this strategy is not merely an extension of the non-U.S. products. McAtamney did admit that his research responsibilities have been cut so that he can focus on portfolio management duties.

Blair is also introducing a large cap emerging markets product. The current emerging markets strategy is all cap, with a strong focus on smaller cap names. With a dedicated large cap product, the team will now have a larger universe of stocks that have to be followed and researched. Urbina also indicated that Blair may introduce a frontier markets strategy in the future.

Neither Greig nor Urbina indicated that he was looking to expand the non-U.S. team, believing that the current team had the capacity to support all the products. We are concerned that product proliferation may detract from the quality of research that is currently produced by the analysts. This is an issue we will continue to monitor going forward.

With expansion in the market and a better-resourced team, Blair has decided to reopen the International Core Growth strategy to new separate accounts. Blair has not evaluated capacity formally but will monitor liquidity to ensure that it can effectively manage new assets.

### **Issues to Watch**

Is the team sufficient to support all the products?

### **Emerging Markets Equity – Alliance Capital Management**

At quarter-end, Alliance managed \$95.3 million in assets, marking a decrease of \$1.4 million from the end of the previous quarter. There was a cash outflow of \$5.2 million during the quarter.

Excluding the 1- and 3-year periods, the portfolio outperformed the MSCI Emerging Markets Free Index for all periods shown. The portfolio placed below the Mercer Emerging Markets Equity Universe median for all periods evaluated except the recent quarter, when it placed at the median.

### **Emerging Markets Equity – Boston Company Asset Mgmt**

Boston Company managed \$87.2 million in assets at December 31, 2007. This represented a \$2.4 million decrease from the end of the previous quarter. There was a \$5.0 million cash outflow during the quarter.

The portfolio underperformed the MSCI Emerging Markets Free Index and the Mercer Emerging Markets Equity Universe median for all periods evaluated.

An underweight allocation in China, as well as favorable

exposure and stock selection in Malaysia, contributed to performance. Security selection in Taiwan, India, South Africa and Mexico also helped results.

Detracting from performance was security selection in Brazil, as well as an overweight coupled with stock selection in South Korea. Stock picks and an underweight allocation in Russia also negatively impacted performance.

### ***Research Note Dated October 17-26, 2007***

#### **Rationale for Change in Recommended Rating: A(P) to B+**

The past five years, BCAM's non-U.S. value strategies have underperformed their respective indices. With a flexible value process, the style drifts somewhere between core and value. For the 5-year period ended September 30, 2007, the EAFE and Non-US Value strategies have underperformed both the core EAFE and EAFE Value indices by at least 200 basis points per year. While BCAM has insisted that market environments were to blame for underperformance, the strategies have not performed as expected given the established style of the products. What we find even more troubling is that recently, stock selection has been responsible for the preponderance of underperformance. Historically, stock picking has been the forte of the team. The portfolio managers indicated to us that they are instituting enhancements to the process to improve the research process and to tighten the sell discipline. While we believe the members of the team are reasonably skilled and the process is consistent, we no longer have the requisite confidence that the strategies will outperform when they are expected to. We are also proposing the same B+ rating for Concentrated EAFE Value as the team and the process are identical to those of the other strategies in the suite.

#### **Issues to Watch**

In August 2007, Remi Browne and his non-U.S. core equity

team left BCAM en masse to join Munder Capital Management. According to Corey Griffin, CEO, the compensation structure has been changed to ensure that investment performance is rewarded at the team level. Will this be enough to keep investment professionals at BCAM or are there other issues leading to whole-team departures?

Performance for Kirk Henry's team has been poor for the last five years. Will recent process enhancements be enough to turn performance around or are other weaknesses still present?

As the team has grown larger, additional processes have been put into place that were unnecessary when the team was smaller. This has already led to the departure of one long-term analyst; will these new procedures lead to other departures?

#### **Highlights**

In a previous meeting, we had expressed concerns about the team dynamics possibly being the cause of performance issues, but we came away from the meeting confident that the team members enjoy working together and share the same philosophy regarding value equity management.

As the team has grown, it has had to do things that were previously unnecessary, such as formal communications procedures. In the case of Andrew Johnson, a long-time analyst on the team who was asked to leave in early 2007, he did not like this aspect and did not comply with team policies. Johnson seems to have been an anomaly as others on the team did not appear to have major issues with these procedures.

Since Johnson's departure, former team leader Sandor Cseh has returned on a part-time basis. He is covering Japan stocks until BCAM can find a replacement for Johnson. Cseh has a 20-hour per week obligation to the firm. Once a new Japan analyst is hired, BCAM expects that Cseh will continue to

work with the team, mentoring younger analysts. While Cseh's involvement is positive, we wonder how long he will remain part of the team since he did retire in 2002.

Performance in all the strategies has been disappointing since early 2003. BCAM attributes this to the market environment and isolated stock issues in Japan. Because of these disappointing results, the team refined aspects of its process. The enhancements included greater commitment by the analysts to set price targets and a formal stock price review for underperforming stocks. This leads us to believe that the sell discipline was not as rigorous as we had once believed.

Another point of concern is poor stock selection within the portfolios. In attribution shared by BCAM, stock selection is the main culprit of underperformance. BCAM points to Johnson and his Japan stocks as the reason, but the analysis indicates that Japan stock selection accounted for less than half of the underperformance. BCAM had either neutral or negative stock selection in all of the other EAFE countries.

During this period, we would not have expected BCAM to outperform deeper value managers, but the strategies should have outperformed core benchmarks owing to the strategies' value bias. BCAM has not been able to outperform either the core or value benchmarks over the past five years. We have given BCAM the benefit of the doubt the past few years, but we are no longer confident that the strategies will perform as they are expected to.

#### **Core Fixed Income – Seix Investment Advisors, Inc.**

At quarter-end, Seix managed \$282.0 million in assets, an increase of \$7.4 million from the previous quarter-end.

Seix matched or outperformed the Lehman Brothers Aggregate Bond Index for all periods evaluated except the recent quarter. The portfolio placed above the Mercer U.S. Fixed Core Universe median for all periods evaluated except 3 years.

An underweight allocation in treasuries and overweight in asset-backed securities and mortgages hurt performance. A slight underweight to the struggling corporate sector helped results.

#### **Core Fixed Income – Western Asset Management Company**

At December 31, 2007, WAMCo held \$282.9 million, increasing \$4.0 million from the previous quarter-end.

The portfolio underperformed the Lehman Brothers Aggregate Bond Index and placed in the bottom quartile of the Mercer US Fixed Core Universe for the quarter, 1 year and 3 years. For 5 years, it placed in the top quartile of the Mercer U.S. Fixed Core Universe and outperformed the index.

A significant underweight to strong-performing treasuries hurt results, as did above-index exposure to asset-backed securities and mortgages. Underweight allocation to corporates helped results.

#### ***News Item Dated January 29, 2008***

Legg Mason Inc announced on January 28, 2008 that the firm's Board of Directors appointed Mark R. Fetting resident and chief executive officer and member of the Board, effective immediately. Chip Mason, Legg Mason's founder and long-time chairman, president and CEO, will serve as non-executive chairman and remain a member of the Board. Fetting, who joined Legg Mason in 2000, was most recently a senior executive vice president with responsibility for the firm's

Global Managed Investments. He has 29 years of investment management industry experience and has served in several strategic and operating roles.

#### **Mercer View**

Mason is 71 years old and has been the only CEO in the firm's 26-year history. The firm was in the search process for a new CEO for some time, so this news does not come as a surprise. We do not anticipate an impact to the investment subsidiaries of Legg Mason, Inc. from the new appointment. The investment subsidiaries operate autonomously, and therefore the change in CEO at the parent-company level should not affect the investment process.

#### ***News Item Dated January 22, 2008***

On January 14, 2008, Legg Mason, Inc. (parent company of WAMCo) announced that it increased its capital base by \$1.25 billion through the sale of convertible senior notes to an affiliate of Kohlberg Kravis Roberts & Co (KKR). KKR will be a minority shareholder. The proceeds will strengthen Legg Mason's balance sheet and will be used to support business initiatives including the potential for future acquisitions. Legg Mason, Inc. will also use a portion of the capital to purchase preferred stock convertible into 2.5 million shares of Legg Mason common stock from Citigroup Inc, which it will then retire. The transaction is expected to close by February 5, 2008.

#### **Mercer View**

We do not believe this news will directly affect the investment management subsidiaries of Legg Mason, Inc., and therefore, there will not be any impact to the strategy ratings of Legg Mason Inc.'s subsidiaries at this time. We do, however, have plans for an on-site visit to LMCM in spring of 2008 and will inquire about any impact this transaction would have at the subsidiary level.

### **Long Duration Fixed Income – Income Research & Management**

Income Research & Management held \$109.8 million at quarter-end. Assets increased \$4.2 million during the quarter.

For all periods evaluated except 3 years and inception-to-date, the portfolio outperformed the Lehman Brothers US Government/Credit Long Term Index. The portfolio placed above the Mercer U.S. Fixed Long Duration Universe median for all periods except 3 years.

The portfolio's lack of exposure to subprime issues and positive convexity bias relative to the benchmark contributed most to performance, as did an underweight in credits.

Detracting from performance was above-index exposure to financials (a result of the portfolio's exposure to credits viewed as protected from leveraged-buyout risk). An underweight to agencies, coupled with an overweight allocation in MBS, ABS & CMBS, which were impacted by a general lack of demand for all mortgage-related issues, also hindered gains.

### **Real Estate – MIG Realty Advisors**

MIG managed \$49.9 million in assets at December 31, 2007.

For all periods shown, the portfolio underperformed the NCREIF Property – EWB Calc Index. It placed in the bottom decile of the Mercer U.S. Real Estate Open End Universe for all periods shown except the recent quarter, where it placed at the 61<sup>st</sup> percentile.

### **Real Estate – Kennedy Associates**

Kennedy managed \$104.0 million in assets at December 31, 2007.

For all periods except 1 year, the portfolio underperformed the NCREIF Property – EWB Calc Index and placed in the bottom quartile of the Mercer U.S. Real Estate Open End Universe. For 1 year, the portfolio outperformed the index and universe median.

### **Real Estate – Multi-Employer Property Trust**

MEPT managed \$61.4 million in assets at December 31, 2007.

The portfolio outperformed the NCREIF Property Index for all periods except 1 year. It ranked above the Mercer U.S. Real Estate Open End Universe median for the quarter and just below the median for 3 years.

### **Private Market Equity – Pantheon Ventures**

Pantheon was funded September 23, 2005. Pantheon held \$19.4 million at quarter-end.

### **Private Market Equity – Portfolio Advisors**

Portfolio Advisors was funded October 17, 2005. Portfolio Advisors held \$18.6 million at quarter-end.

### **Private Market Equity – HarbourVest Partners**

HarbourVest was funded December 23, 2005. HarbourVest held \$12.6 million at quarter-end.

*Research Note Dated October 25, 2007*

### **Rationale for Change in Recommended Rating**

Although we still hold HVP in high regard, we recommend decreasing its rating to a B+ because of the firm's increased difficulty in implementing its portfolio strategy at its current asset level. We are not questioning HVP's idea generation capabilities; however, we have concerns with its ability to execute its portfolios successfully going forward. As HVP has raised successively larger funds, it has increased the number of investments in each fund, which we believe may be diluting meaningful performance from its top investments. The firm's last fund, HVP VIII, had a total capitalization of \$4.5 billion, which was a modest increase relative to HVP VII, giving us some comfort that the firm is conscious of its size.

### **Issues to Watch**

As HVP continues to garner additional assets, will it experience difficulty with the implementation of its funds, particularly as it relates to constructing a meaningfully invested portfolio?

### **Highlights**

HVP continues to focus exclusively on investing in the private equity market and has maintained the same investment strategy. The investment team has experienced very little turnover over the life of the firm and has remained stable over the past year. In the past year, the firm promoted seven investment professionals. Jeffrey Keay and Christopher Walker were named principals, and Laura Thaxter was named senior vice president. Additionally, Valérie Handal, John Nelson, Sandra Pasquale and Michael Pugatch were promoted to vice president.

Because we had concerns with the large amount of assets that HVP has raised over time, we decided to analyze the firm's investment history by fund, sector and vintage. With Fund IV,



HVP invested in a total of 30 funds over 5 vintage years, 17 of which were venture funds. For Fund V, the firm invested in a total of 49 funds over 5 vintage years, but nearly doubled its venture fund exposure. Although Fund VII was invested over 7 vintage years, HVP made 110 total investments, 65 of which were venture funds. Although HVP continued to have access to some of the top funds, its exposure to some of the best funds has been watered down over time.

Although HVP contends that about 60% of the time it is able to acquire more than its pro rata allocation in the funds in which it has invested, we do not believe it will continue to be effective in allocating to some of the best funds, particularly in the venture capital space.

# Recommendations

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## **Recommendations**

### **Large Cap Index Equity – Rhumblin Advisers**

- Rhumblin is tracking the S&P 500 Index as expected. Retention recommended.

### **Large Cap Growth Equity – SSgA Global Markets, Inc. (formerly Globalt)**

- A large cap growth manager search was conducted to replace Globalt, with assets mapped on to an interim temporary SSGA fund.
- State Street outperformed the Russell 1000 Growth Index for all periods shown except 3 years and inception-to-date. The portfolio placed below the Mercer U.S. Equity Large Cap Growth Universe median for all periods shown except the recent quarter.

### **Large Cap Growth Equity – INTECH**

- The portfolio outperformed the Russell 1000 Growth Index for all periods except 1 year but placed above the Mercer U.S. Equity Large Cap Growth Universe median for the recent quarter only. Performance has improved but we recommend keeping them on the Watch List pending further improvements. Please see news item in the Executive Summary.

### **Large Cap Growth Equity – New Amsterdam Partners**

- The portfolio placed below the Mercer U.S. Equity Large Cap Growth Universe median for all periods shown, but outperformed the S&P 500 Index for the quarter, 5 years and inception-to-date. Retention recommended.

### **Large Cap Value Equity – UBS Global Asset Management**

- Performance has improved, with the portfolio outperforming the Russell 3000 Index for all periods shown except 1 year. The portfolio placed below the Mercer U.S. Equity Large Cap Value Universe median for all periods evaluated except the recent quarter, when it placed just above the universe median. We recommend placing the fund on the Watch List.

### **Large Cap Value Equity – Boston Partners Asset Management**

- The portfolio outperformed the Russell 1000 Value Index and Mercer U.S. Equity Large Cap Value Universe median for all periods evaluated. Retention recommended.

### **Small Cap Growth Equity – Provident Investment Counsel**

- Provident placed above the Mercer US Equity Small Cap Growth universe median for all periods shown, and outperformed the Russell 2000 Growth Index for all periods except the recent quarter. Retention recommended.

### **Small Cap Index Equity – Rhumblin Advisers**

- Rhumblin is tracking the Russell 2000 Index as expected. Retention recommended.

### **Small Cap Value Equity – TCW Group**

- TCW underperformed the Russell 2000 Index for all periods evaluated. It placed below the Mercer U.S. Equity Small Cap Value Universe median for all periods except the recent quarter, where it placed at the median. After monitoring the fund for several periods, we have not seen meaningful improvement, especially for the long-term periods. Our recommendation is to terminate the relationship.

### **International Equity – AQR Capital Management**

- For the recent quarter, 1 year and inception-to-date, AQR underperformed the MSCI EAFE Net Index and placed in the bottom quartile of the Mercer International Equity Universe. This is a relatively new relationship so we recommend monitoring for improvements in performance in the next few quarters. Please see the manager research note in the executive summary.

### **International Equity – Brandes Investment Partners**

- For all periods shown except 1 and 3 years, Brandes outperformed the MSCI EAFE Net Index and placed above the Mercer International Equity Universe median. Retention recommended. Please see the manager research note in the Executive Summary.

### **International Equity – William Blair & Company**

- For all periods evaluated, the portfolio outperformed the MSCI AC World Free ex-U.S. Net Index and placed above the Mercer International Equity Universe median. Retention recommended. Please see the manager research note in the Executive Summary.

### **Emerging Markets Equity – Alliance Capital Management**

- Excluding the 1- and 3-year periods, the portfolio outperformed the MSCI Emerging Markets Free Index for all periods shown. The portfolio placed below the Mercer Emerging Markets Equity Universe median for all periods evaluated except the recent quarter, when it placed at the median. We recommend keeping the firm on the Watch List.

### **Emerging Markets Equity – Boston Company Asset Management**

- The portfolio underperformed the MSCI Emerging Markets Free Index and the Mercer Emerging Markets Equity Universe median for all periods evaluated. Mercer recently downgraded the strategy from A(P) to B+. Please see the manager research note in the Executive Summary. We recommendation terminating the relationship.

### **Core Fixed Income – Seix Investment Advisors, Inc.**

- Seix matched or outperformed the Lehman Brothers Aggregate Bond Index for all periods evaluated except the recent quarter. The portfolio placed above the Mercer U.S. Fixed Core Universe median for all periods evaluated except 3 years. Retention recommended.

### **Core Fixed Income – Western Asset Management Company**

- The portfolio underperformed the Lehman Brothers Aggregate Bond Index and placed in the bottom quartile of the Mercer US Fixed Core Universe for the quarter, 1 year and 3 years. For 5 years, it placed in the top quartile of the Mercer U.S. Fixed Core Universe and outperformed the index. Mercer is closely monitoring the impact of Andre Cuerington's resignation so we recommend keeping the firm on the Watch List. Please see the news item in the Executive Summary.

### **Long Duration Fixed Income – Income Research & Management**

- For all periods evaluated except 3 years and inception-to-date, the portfolio outperformed the Lehman Brothers US Government/Credit Long Term Index. The portfolio placed above the Mercer U.S. Fixed Long Duration Universe median for all periods except 3 years. Retention recommended.

### **Real Estate – MIG Realty Advisors**

- For all periods shown, the portfolio underperformed the NCREIF Property – EWB Calc Index. It placed in the bottom decile of the Mercer U.S. Real Estate Open End Universe for all periods shown except the recent quarter, where it placed at the 61st percentile. We recommend keeping the firm on Probation.

### **Real Estate – Kennedy Associates**

- For all periods except 1 year, the portfolio underperformed the NCREIF Property – EWB Calc Index and placed in the bottom quartile of the Mercer U.S. Real Estate Open End Universe. For 1 year, the portfolio outperformed the index and universe median. We recommend keeping the firm on Probation.

### **Real Estate – Multi-Employer Property Trust**

- The portfolio outperformed the NCREIF Property Index for 1 year only. It ranked above the Mercer U.S. Real Estate Open End Universe median for the quarter, and just below the median for 1 year. Retention recommended.

### **Private Market Equity – Pantheon Ventures**

- Pantheon was funded September 23, 2005.

### **Private Market Equity – Portfolio Advisors**

- Portfolio Advisors was funded October 17, 2005.

### **Private Market Equity – HarbourVest Partners**

- HarbourVest was funded December 23, 2005. Please see the manager research note in the Executive Summary.

### **Comments on Asset Allocation**

- It shall be the policy of the Plan to invest its assets in accordance with the maximum and minimum range, valued at market, for each asset as stated below:

<u>Asset Class</u>	<u>Minimum %</u>	<u>Target %</u>	<u>Actual %</u>	<u>Maximum %</u>
Domestic Equity	29	34	37.1	39
International Equity	10	20	22.4	25
Emerging Markets Equity	0	5	6.6	8
Domestic Core Fixed Income	15	20	20.3	25
Long-Duration Fixed Income	0	4	3.9	7
Real Estate	0	12	7.7	17
Private Equity	0	5	1.8	8
Cash			0.1	

At December 31, 2007, the asset class allocations were within the guidelines and generally close to their targets. Domestic equity was 3.1% above its target allocation of 34.0%, international equity was 2.4% above its target allocation of 20.0%, international emerging market equity was 1.6% above its target allocation of 5.0%, domestic core fixed income was 0.3% above its target allocation of 20.0%, long-duration fixed income was 0.1% below its target allocation of 4.0%, private equity was 4.3% below its target allocation of 5.0%, and real estate was 3.2% below its target allocation of 12.0%. We anticipate that, as opportunities present themselves, the allocations to real estate and private equity will be funded from domestic and international equities.

## **Watch List/Probation**

- Globalt placed on the Watch List in the fourth quarter of 2001. Placed on Probation in the first quarter of 2002. Removed from Probation but kept on the Watch List in the fourth quarter of 2004. Placed on Probation in the third quarter of 2006. Placed on Termination status in the fourth quarter of 2006. Termination recommended in the second quarter of 2007.
- INTECH placed on the Watch List in the second quarter of 2007.
- New Amsterdam placed on the Watch List in the first quarter of 1999 and was put on Probation in the third quarter of 1999. Removed from Probation but kept on the Watch List in the fourth quarter of 2000. Removed from the Watch List in the first quarter of 2001.
- UBS placed on the Watch List in the third quarter of 1999. Placed on Probation in the first quarter of 2000. UBS placed on the Watch List in the first quarter of 2002. Removed from the Watch List in the fourth quarter of 2002. Placed on the Watch List in the fourth quarter of 2007.
- Boston Partners put on Probation during the fourth quarter of 1998 and moved to the Watch List in the third quarter of 2000, then removed from the Watch List in the second quarter of 2001. Placed on the Watch List in the fourth quarter of 2002. Placed on Probation in the first quarter of 2005. Removed from Probation but kept on the Watch List in the third quarter of 2005. Taken off the Watch List in the third quarter of 2007.
- Provident placed on the Watch List in the second quarter of 2000. Removed from the Watch List in the third quarter of 2003. Placed on the Watch List in the fourth quarter of 2004. Removed from the Watch List in the third quarter of 2007.
- TCW placed on the Watch List in the fourth quarter of 2004. Placed on Probation in the second quarter of 2005. Termination recommended in the third quarter of 2007.
- Alliance Capital (Emerging Markets Equity) placed on the Watch List in the third quarter of 2003. Removed from the Watch List in the second quarter of 2004. Placed on the Watch List in the second quarter of 2007.
- Boston Company Asset Management placed on the Watch List in the third quarter of 2002. Removed from the Watch List in the second quarter of 2003. Placed on the Watch List in the third quarter of 2005. Placed on Probation in the third quarter of 2006. Termination recommended in the fourth quarter of 2007.
- Seix placed on the Watch List in the third quarter of 2002. Removed from the Watch List in the fourth quarter of 2003. Placed on the Watch List in the third quarter of 2004. Taken off the Watch List in the third quarter of 2007.



- WAMCo placed on the Watch List in the second quarter of 2005. Removed from the Watch List in the fourth quarter of 2005. Placed on the Watch List in the fourth quarter of 2007.
- MIG was on Probation from the second quarter of 1998 until third quarter of 1999, when they were removed from Probation and placed on the Watch List. MIG was removed from the Watch List in the first quarter of 2002. Placed on the Watch List in the third quarter of 2004. Placed on Probation in the fourth quarter of 2005.
- Kennedy Associates was placed on the Watch List in the fourth quarter of 2006. Kennedy Associates was placed on Probation in the second quarter of 2007.

# Asset Allocation

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# San Jose Police and Fire Retirement System

Asset Summary  
As of December 31, 2007

	Total Market Value	% of Total Fund	% of Asset Class	Equity & Convertible		Fixed Income		Cash & Equivalents		Alternative	
<b>Total Fund</b>	\$ 2,782.6	100.0%	100.0%	\$ --	-- %	\$ --	-- %	\$ --	-- %	\$ --	-- %
<b>Domestic Equity</b>	1,033.6	37.1	100.0	1,021.7	98.8	--	--	11.9	1.2	--	--
<b>Index Equity</b>											
RhumbLine Advisers - Large Cap Index Equity	246.3	8.9	23.8	245.8	99.8	--	--	0.5	0.2	--	--
<b>Growth Equity</b>	271.6	9.8	26.3	266.5	98.1	--	--	5.1	1.9	--	--
State Street Corp Global Markets - Formerly Globalt	47.8	1.7	4.6	47.7	99.8	--	--	0.1	0.2	--	--
INTECH - Large Cap Growth Equity	56.9	2.0	5.5	56.5	99.4	--	--	0.3	0.6	--	--
New Amsterdam Partners - Large Cap Growth Equity	167.0	6.0	16.2	162.3	97.2	--	--	4.6	2.8	--	--
<b>Value Equity</b>	275.4	9.9	26.6	272.8	99.0	--	--	2.6	1.0	--	--
UBS Global Asset Management - Large Cap Value Equity	131.0	4.7	12.7	128.8	98.3	--	--	2.2	1.7	--	--
Boston Partners Asset Mgmt. - Large Cap Value Equity	144.4	5.2	14.0	144.0	99.7	--	--	0.4	0.3	--	--
<b>Small Cap Growth</b>											
Provident Investment Counsel - Small Cap Growth Equity	77.5	2.8	7.5	74.8	96.4	--	--	2.8	3.6	--	--
<b>Small Cap Core</b>											
RhumbLine Advisers	98.9	3.6	9.6	98.5	99.6	--	--	0.4	0.4	--	--

All dollars in millions, numbers may not add due to rounding

# San Jose Police and Fire Retirement System

Asset Summary  
As of December 31, 2007

	Total Market Value	% of Total Fund	% of Asset Class	Equity & Convertible		Fixed Income		Cash & Equivalents		Alternative	
Small Cap Value											
TCW Group - Small Cap Value Equity	\$ 63.9	2.3%	6.2%	\$ 63.4	99.2%	\$ --	-- %	\$ 0.5	0.8%	\$ --	-- %
International Established Markets	623.0	22.4	100.0	611.3	98.1	0.0	0.0	11.7	1.9	--	--
AQR Capital Management, LLC International Equity	119.2	4.3	19.1	119.2	100.0	--	--	0.0	0.0	--	--
Brandes Investment Partners - International Equity	242.7	8.7	39.0	241.7	99.6	0.0	0.0	1.0	0.4	--	--
William Blair & Company - International Equity	261.1	9.4	41.9	250.4	95.9	0.0	0.0	10.7	4.1	--	--
International Emerging Markets	182.6	6.6	100.0	95.3	52.2	--	--	--	--	87.2	47.8
Alliance Capital Mgmt Emerging Markets Equity	95.3	3.4	52.2	95.3	100.0	--	--	--	--	--	--
Boston Company Asset Mgmt. Emerging Markets Equity	87.2	3.1	47.8	--	--	--	--	--	--	87.2	100.0
Domestic Core Fixed Income	564.9	20.3	100.0	0.0	0.0	622.9	110.3	(58.0)	(10.3)	--	--
Seix Investment Advisors, Inc - Fixed Income	282.0	10.1	49.9	0.0	0.0	272.7	96.7	9.2	3.3	--	--
Western Asset Management - Fixed Income	282.9	10.2	50.1	--	--	350.1	123.8	(67.2)	(23.8)	--	--
Long Duration Fixed Income											
Income Research & Mgmt., Inc. Long Duration	109.8	3.9	100.0	--	--	109.7	99.9	0.1	0.1	--	--

All dollars in millions, numbers may not add due to rounding

# San Jose Police and Fire Retirement System

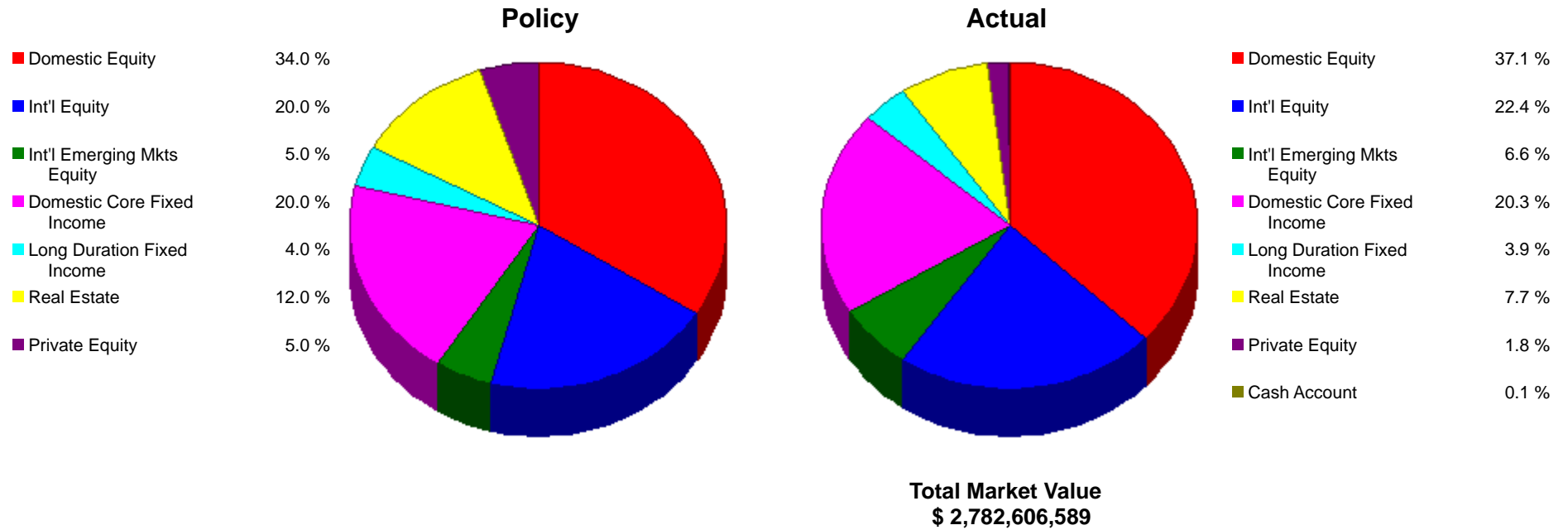
Asset Summary  
As of December 31, 2007

	<u>Total Market Value</u>	<u>% of Total Fund</u>	<u>% of Asset Class</u>	<u>Equity &amp; Convertible</u>	<u>Cash &amp; Equivalents</u>	<u>Alternative</u>
<b>Real Estate</b>	<b>\$ 215.3</b>	<b>7.7%</b>	<b>100.0%</b>	<b>\$ -- -- %</b>	<b>\$ -- -- %</b>	<b>\$ -- -- %</b>
Kennedy Associate Real Estate - Real Estate	104.0	3.7	48.3	-- --	-- --	-- --
MIG Realty Advisors - Real Estate	49.9	1.8	23.2	-- --	-- --	-- --
Dummy Record MEPT	61.4	2.2	28.5	-- --	-- --	-- --
<b>Private Equity</b>	<b>50.6</b>	<b>1.8</b>	<b>100.0</b>	<b>-- --</b>	<b>0.0 0.0</b>	<b>50.6 100.0</b>
Pantheon Ventures	19.4	0.7	38.3	-- --	0.0 0.0	19.4 100.0
Portfolio Advisors	18.6	0.7	36.7	-- --	0.0 0.0	18.6 100.0
HarbourVest Partners, LLC	12.6	0.5	25.0	-- --	0.0 0.0	12.6 100.0
<b>Cash Account</b>						
Cash Account	2.8	0.1	100.0	0.0 0.2	2.8 99.8	-- --

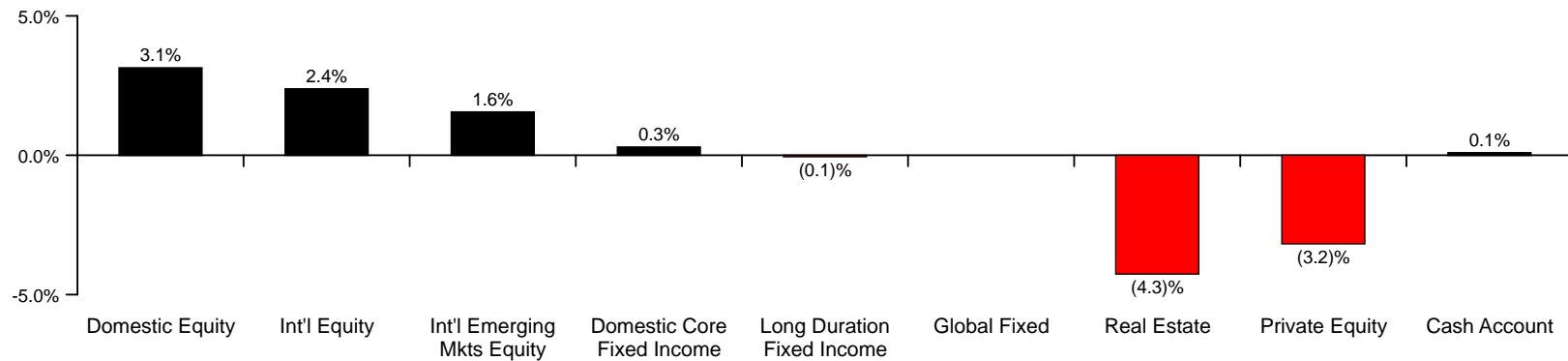
All dollars in millions, numbers may not add due to rounding

# San Jose Police and Fire Retirement System

Asset Allocation  
As of December 31, 2007



## Asset Allocation vs. Policy



Numbers may not add due to rounding

## San Jose Police and Fire Retirement System

Asset Allocation  
As of December 31, 2007

### Prior Asset Allocation - September 30, 2007

Domestic Equity	38.1 %
Int'l Equity	22.5 %
Int'l Emerging Mkts Equity	6.6 %
Domestic Core Fixed Income	19.7 %
Long Duration Fixed Income	3.8 %
Real Estate	7.5 %
Private Equity	1.6 %
Cash Account	0.3 %



Total Market Value  
\$ 2,805,503,018

### Current Asset Allocation - December 31, 2007

Domestic Equity	37.1 %
Int'l Equity	22.4 %
Int'l Emerging Mkts Equity	6.6 %
Domestic Core Fixed Income	20.3 %
Long Duration Fixed Income	3.9 %
Real Estate	7.7 %
Private Equity	1.8 %
Cash Account	0.1 %



Total Market Value  
\$ 2,782,606,589

# San Jose Police and Fire Retirement System

Financial Reconciliation  
Quarter Ending December 31, 2007

Manager	Beginning Market Value	Net Cash Flow	Investment Income	Capital Gain/Loss	Net Investment Gain/Loss	Ending Market Value
State Street Corp Global Markets - Formerly Globalt	47,510,310	--	117,971	138,125	256,096	47,766,406
INTECH - Large Cap Growth Equity	51,093,818	5,000,470	128,537	662,151	790,687	56,884,976
TCW Group - Small Cap Value Equity	68,400,993	--	112,798	(4,618,614)	(4,505,817)	63,895,176
Provident Investment Counsel - Small Cap Growth Equity	79,419,745	--	73,438	(1,946,461)	(1,873,024)	77,546,721
RhumbLine Advisers	104,689,095	(1,000,000)	392,149	(5,195,958)	(4,803,809)	98,885,286
UBS Global Asset Management - Large Cap Value Equity	141,865,090	(5,043,223)	663,480	(6,465,895)	(5,802,415)	131,019,452
Boston Partners Asset Mgmt. - Large Cap Value Equity	154,625,198	(5,000,000)	810,442	(6,028,128)	(5,217,687)	144,407,511
New Amsterdam Partners - Large Cap Growth Equity	166,131,846	5,000,000	582,143	(4,747,921)	(4,165,778)	166,966,068
RhumbLine Advisers - Large Cap Index Equity	254,792,966	98,308	1,242,018	(9,856,528)	(8,614,510)	246,276,764
Boston Company Asset Mgmt. Emerging Markets Equity	89,604,365	(5,000,000)	--	2,634,237	2,634,237	87,238,602
Alliance Capital Mgmt Emerging Markets Equity	96,690,009	(5,206,009)	--	3,849,727	3,849,727	95,333,727
AQR Capital Management, LLC International Equity	124,432,709	(211,479)	211,479	(5,243,734)	(5,032,255)	119,188,975
Brandes Investment Partners - International Equity	244,573,679	38,581	963,510	(2,892,171)	(1,928,662)	242,683,599
William Blair & Company - International Equity	261,224,160	(52,238)	1,139,918	(1,175,783)	(35,865)	261,136,057
Income Research & Mgmt., Inc. Long Duration	105,604,204	--	1,075,250	3,121,767	4,197,017	109,801,221
Seix Investment Advisors, Inc - Fixed Income	274,562,728	--	4,027,011	3,390,066	7,417,077	281,979,805
Western Asset Management - Fixed Income	278,914,559	(1,565)	3,827,920	164,794	3,992,714	282,905,708
HarbourVest Partners, LLC	10,341,581	1,612,192	37,808	647,677	685,485	12,639,257
Portfolio Advisors	16,084,163	958,945	18,750	1,535,100	1,553,850	18,596,958
Pantheon Ventures	17,494,954	1,535,000	65,000	300,149	365,149	19,395,103



# San Jose Police and Fire Retirement System

Financial Reconciliation

Quarter Ending December 31, 2007

Manager	Beginning Market Value	Net Cash Flow	Investment Income	Capital Gain/Loss	Net Investment Gain/Loss	Ending Market Value
MIG Realty Advisors - Real Estate	49,691,999	--	--	200,693	200,693	49,892,692
Dummy Record MEPT	60,123,966	--	--	1,261,677	1,261,677	61,385,643
Kennedy Associate Real Estate - Real Estate	99,645,941	--	--	4,361,239	4,361,239	104,007,180
Cash Account	7,984,940	(6,166,735)	961,297	(5,800)	955,498	2,773,703
<b>Total</b>	<b>\$2,805,503,018</b>	<b>(\$13,437,754)</b>	<b>\$16,450,917</b>	<b>(\$25,909,592)</b>	<b>(\$9,458,675)</b>	<b>\$2,782,606,589</b>

# Performance

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# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

					Annualized						
	Market Value	% of Total Fund	Quarter		1 Year		3 Years		5 Years		Inception to Date
Total Fund	\$ 2,782.6	100.0 %	(0.4)	% 28	9.7 %	30	11.2 %	36	14.0 %	39	9.9 %
Rank vs. Total Funds Billion Dollar - Public											
Total Funds Billion Dollar - Public Med			(0.8)		8.6		10.2		13.7		--
Total Fund Benchmark			(0.4)		9.5		11.6		13.4		--
Total Domestic Equity Fund	1,033.6	37.1	(3.2)	51	4.5	61	8.6	67	14.2	70	11.7
Rank vs. Mercer US Equity Combined Universe											
Mercer US Equity Combined Universe Med			(3.1)		6.5		10.0		15.9		--
S&P 500 - Total Return Index			(3.3)		5.5		8.6		12.8		12.2
Index Equity											
RhumbLine Advisers - Large Cap Index Equity	246.3	8.9	(3.4)	53	5.5	56	8.6	68	12.8	85	10.9
RhumbLine Advisers - Large Cap Index Equity-Net	246.3	8.9	(3.4)	53	5.4	56	8.5	68	12.7	86	10.9
Rank vs. Mercer US Equity Combined Universe											
Mercer US Equity Combined Universe Med			(3.1)		6.5		10.0		15.9		--
S&P 500 - Total Return Index			(3.3)		5.5		8.6		12.8		10.7
Growth Equity											
State Street Global Advisors - Formerly Globalt	47.8	1.7	0.5	41	12.4	60	7.0	86	12.4	67	0.7
State Street Global Advisors - Formerly Globalt-Net	47.8	1.7	0.5	41	12.1	62	6.5	89	12.0	75	0.2
Rank vs. Mercer US Equity Large Cap Growth Universe											
Mercer US Equity Large Cap Growth Universe Med			0.1		14.6		10.5		13.7		--
Russell 1000 Growth Index			(0.8)		11.8		8.7		12.1		2.0
Russell 1000 Growth + 1%			(0.7)		12.8		9.7		13.1		3.0
INTECH - Large Cap Growth Equity	56.9	2.0	1.5	28	11.6	65	9.3	63	--		12.3
INTECH - Large Cap Growth Equity-Net	56.9	2.0	1.4	30	11.0	68	8.7	69	--		11.7
Rank vs. Mercer US Equity Large Cap Growth Universe											
Mercer US Equity Large Cap Growth Universe Med			0.1		14.6		10.5		13.7		--
Russell 1000 Growth Index			(0.8)		11.8		8.7		12.1		10.1
Russell 1000 Growth + 1%			(0.7)		12.8		9.7		13.1		11.1

# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

					Annualized						
	Market Value	% of Total Fund	Quarter		1 Year		3 Years		5 Years		Inception to Date
New Amsterdam Partners - Large Cap Growth Equity	\$ 167.0	6.0 %	(2.6)%	82	4.7 %	95	7.4 %	82	13.3 %	55	13.2 %
New Amsterdam Partners - Large Cap Growth Equity-Net	167.0	6.0	(2.6)	83	4.4	95	7.1	86	13.0	60	12.8
Rank vs. Mercer US Equity Large Cap Growth Universe											
Mercer US Equity Large Cap Growth Universe Med			0.1		14.6		10.5		13.7		--
S&P 500 - Total Return Index			(3.3)		5.5		8.6		12.8		11.3
S&P 500 + 1.0%			(3.1)		6.5		9.6		13.8		12.3
Value Equity											
UBS Global Asset Management - Large Cap Value Equity	131.0	4.7	(4.2)	49	1.9	61	9.1	67	14.2	69	11.5
UBS Global Asset Management - Large Cap Value Equity-Net	131.0	4.7	(4.3)	50	1.6	63	8.7	71	13.9	74	11.2
Rank vs. Mercer US Equity Large Cap Value Universe											
Mercer US Equity Large Cap Value Universe Med			(4.2)		3.6		9.9		15.1		--
Russell 3000 Index			(3.3)		5.1		8.9		13.6		10.4
Russell 3000 + 1%			(3.2)		6.1		9.9		14.6		11.4
Boston Partners Asset Mgmt. - Large Cap Value Equity	144.4	5.2	(3.4)	37	5.2	36	12.2	21	15.9	37	11.3
Boston Partners Asset Mgmt. - Large Cap Value Equity-Net	144.4	5.2	(3.5)	38	4.9	38	11.9	24	15.6	42	10.9
Rank vs. Mercer US Equity Large Cap Value Universe											
Mercer US Equity Large Cap Value Universe Med			(4.2)		3.6		9.9		15.1		--
Russell 1000 Value Index			(5.8)		(0.2)		9.3		14.6		10.7
Russell 1000 Value + 1.0%			(5.6)		0.8		10.3		15.6		11.7
Small Cap Growth											
Provident Investment Counsel - Small Cap Growth Equity	77.5	2.8	(2.4)	43	16.0	25	11.2	40	17.9	42	9.0
Provident Investment Counsel - Small Cap Growth Equity-Net	77.5	2.8	(2.6)	45	14.9	33	10.1	54	16.7	57	7.9
Rank vs. Mercer US Equity Small Cap Growth Universe											
Mercer US Equity Small Cap Growth Universe Med			(3.0)		11.4		10.4		17.4		--
Russell 2000 Growth Index			(2.1)		7.0		8.1		16.5		4.3
Russell 2000 Growth + 2%			(2.2)		9.0		10.1		18.5		6.4
Small Cap Core											
RhumbLine Advisers	98.9	3.6	(4.6)	38	(1.5)	59	6.9	62	--		7.9
RhumbLine Advisers-Net	98.9	3.6	(4.6)	38	(1.5)	59	6.9	62	--		7.8
Rank vs. Mercer US Equity Small Cap Core Universe											
Mercer US Equity Small Cap Core Universe Med			(5.6)		(0.6)		8.1		17.2		--
Russell 2000 Index			(4.6)		(1.6)		6.8		16.2		7.6

# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized				Inception to Date
				1 Year	3 Years	5 Years		
<b>Small Cap Value</b>								
TCW Group - Small Cap Value Equity	\$ 63.9	2.3 %	(6.6) % 50	(8.0) % 71	3.0 % 91	14.0 % 91		8.4 %
TCW Group - Small Cap Value Equity-Net	63.9	2.3	(6.8) 54	(8.7) 74	2.2 95	13.1 95		7.5
Rank vs. Mercer US Equity Small Cap Value Universe								
Mercer US Equity Small Cap Value Universe Med			(6.6)	(3.0)	7.6	17.3		--
Russell 2000 Index			(4.6)	(1.6)	6.8	16.2		11.3
Russell 2000 + 2.0%			(4.3)	0.4	8.8	18.3		13.3

# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

				Annualized						
	Market Value	% of Total Fund	Quarter	1 Year		3 Years		5 Years		Inception to Date
Total Intl Equity - Established Markets	\$ 623.0	22.4 %	(1.1)% 54	13.6 %	49	18.2 %	60	23.5 %	45	12.0 %
Rank vs. Mercer Intl Equity Universe										
Mercer Intl Equity Universe Med			(0.8)	13.3		18.9		23.1		--
MSCI EAFE Net Dividend Index			(1.8)	11.2		16.8		21.6		7.9
AQR Capital Management, LLC International Equity	119.2	4.3	(4.0) 88	8.7	83	--		--		17.2
AQR Capital Management, LLC International Equity-Net	119.2	4.3	(4.2) 89	7.9	87	--		--		16.5
Rank vs. Mercer Intl Equity Universe										
Mercer Intl Equity Universe Med			(0.8)	13.3		18.9		23.1		--
MSCI EAFE Net Dividend Index			(1.8)	11.2		16.8		21.6		17.6
MSCI EAFE NET +1.5%			(1.6)	12.7		18.3		23.1		19.3
Brandes Investment Partners - International Equity	242.7	8.7	(0.8) 49	9.6	75	16.6	79	24.2	30	15.4
Brandes Investment Partners - International Equity-Net	242.7	8.7	(0.9) 51	9.1	80	16.1	83	23.6	42	14.8
Rank vs. Mercer Intl Equity Universe										
Mercer Intl Equity Universe Med			(0.8)	13.3		18.9		23.1		--
MSCI EAFE Net Dividend Index			(1.8)	11.2		16.8		21.6		8.0
MSCI EAFE NET +1.5%			(1.6)	12.7		18.3		23.1		9.5
William Blair & Company - International Equity	261.1	9.4	(0.0) 36	20.1	17	22.6	13	26.3	11	19.2
William Blair & Company - International Equity-Net	261.1	9.4	(0.1) 38	19.5	19	21.9	20	25.5	20	18.4
Rank vs. Mercer Intl Equity Universe										
Mercer Intl Equity Universe Med			(0.8)	13.3		18.9		23.1		--
MSCI All Country World Ex United States Net Index			(0.7)	16.7		19.9		24.0		17.7
MSCI AC World x US Net + 1.5%			(0.1)	18.2		21.4		25.5		19.2
Total Intl Equity - Emerging Markets	182.6	6.6	3.5 60	33.6	83	31.4	91	35.8	87	29.0
Alliance Capital Mgmt Emerging Markets Equity	95.3	3.4	4.0 50	38.9	60	34.6	73	37.8	69	30.6
Alliance Capital Mgmt Emerging Markets Equity-Net	95.3	3.4	3.7 54	37.7	68	33.4	80	36.5	83	29.3
Boston Company Asset Mgmt. Emerging Markets Equity	87.2	3.1	3.0 71	28.3	95	28.2	97	33.7	96	27.6
Boston Company Asset Mgmt. Emerging Markets Equity-Net	87.2	3.1	2.8 76	26.9	96	26.9	98	32.3	100	26.3
Rank vs. Mercer Emerging Markets Equity Universe										
Mercer Emerging Markets Equity Universe Med			4.0	40.4		36.4		39.4		--
MSCI Emerging Markets Index			3.7	39.8		35.6		37.5		28.7
MSCI Emerging Markets + 2%			3.7	41.8		37.6		39.5		30.6

# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized					
				1 Year	3 Years	5 Years	Inception to Date		
<b>Total Domestic Core Fixed Income Fund</b>	<b>\$ 564.9</b>	<b>20.3 %</b>	<b>2.1 % 74</b>	<b>5.4 % 82</b>	<b>4.7 % 45</b>	<b>5.3 % 22</b>	<b>8.7 %</b>		
Rank vs. Mercer US Fixed Core Universe									
Mercer US Fixed Core Universe Med			2.6	6.7	4.7	4.8	--		
Lehman Brothers Aggregate Bond			3.0	7.0	4.6	4.4	--		
Seix Investment Advisors, Inc - Fixed Income	282.0	10.1	2.7 46	7.0 39	4.6 67	5.1 32	6.4		
Seix Investment Advisors, Inc - Fixed Income-Net	282.0	10.1	2.7	6.8	4.4	5.0	6.2		
Rank vs. Mercer US Fixed Core Universe									
Mercer US Fixed Core Universe Med			2.6	6.7	4.7	4.8	--		
Lehman Brothers Aggregate Bond			3.0	7.0	4.6	4.4	6.3		
LB Aggregate + 0.5%			3.1	7.5	5.1	4.9	6.8		
Western Asset Management Company	282.9	10.2	1.4 89	3.9 95	4.5 77	5.8 12	6.6		
Western Asset Management Company-Net	282.9	10.2	1.4	3.7	4.2	5.5	6.4		
Rank vs. Mercer US Fixed Core Universe									
Mercer US Fixed Core Universe Med			2.6	6.7	4.7	4.8	--		
Lehman Brothers Aggregate Bond			3.0	7.0	4.6	4.4	5.0		
LB Aggregate + 0.5%			3.1	7.5	5.1	4.9	5.5		
<b>Long Duration Fixed Income</b>	<b>109.8</b>	<b>3.9</b>	<b>4.2 27</b>	<b>7.0 39</b>	<b>4.7 79</b>	<b>--</b>	<b>4.7</b>		
Income Research & Mgmt., Inc. Long Duration	109.8	3.9	4.2 27	7.0 39	4.7 79	--	4.7		
Income Research & Mgmt., Inc. Long Duration-Net	109.8	3.9	4.1	6.7	4.4	--	4.4		
Rank vs. Mercer US Fixed Long Duration Universe									
Mercer US Fixed Long Duration Universe Med			3.9	6.6	5.1	6.2	--		
Lehman Brothers U.S. Gov/Credit-Long Term			3.9	6.6	4.9	5.8	4.9		
Lehman Brothers U.S. Gov/Credit-Long Term +0.5%			3.9	7.1	5.4	6.3	5.4		

# San Jose Police and Fire Retirement System

## Performance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized				Inception to Date
				1 Year	3 Years	5 Years		
<b>Total Real Estate Fund</b>	<b>\$ 215.3</b>	<b>7.7 %</b>	<b>1.7 % 74</b>	<b>15.7 % 58</b>	<b>13.8 % 93</b>	<b>10.6 % 100</b>		<b>7.9 %</b>
<i>Rank vs. Mercer US Real Estate Open End Universe</i>								
<i>Mercer US Real Estate Open End Universe Med</i>			2.0	16.3	17.5	15.0		--
<i>NCREIF Property Index - EWB Calc</i>			3.2	15.8	17.5	15.1		8.7
MIG Realty Advisors - Real Estate	49.9	1.8	1.9 61	8.6 96	9.8 100	10.3 100		8.2
MIG Realty Advisors - Real Estate-Net	49.9	1.8	1.7	8.1	9.4	9.8		7.3
<i>Rank vs. Mercer US Real Estate Open End Universe</i>								
<i>Mercer US Real Estate Open End Universe Med</i>			2.0	16.3	17.5	15.0		--
<i>NCREIF Property Index - EWB Calc</i>			3.2	15.8	17.5	15.1		8.7
<i>NCREIF PROPERTY + 1.5%</i>			3.6	17.3	19.0	16.6		10.2
Kennedy Associate Real Estate - Real Estate	104.0	3.7	1.2 91	19.2 14	15.7 86	--		14.4
Kennedy Associate Real Estate - Real Estate-Net	104.0	3.7	1.1	18.7	15.1	--		13.8
<i>Rank vs. Mercer US Real Estate Open End Universe</i>								
<i>Mercer US Real Estate Open End Universe Med</i>			2.0	16.3	17.5	15.0		--
<i>NCREIF Property Index - EWB Calc</i>			3.2	15.8	17.5	15.1		16.4
<i>NCREIF PROPERTY + 1.5%</i>			3.6	17.3	19.0	16.6		17.9
MEPT	61.4	2.2	2.3 37	16.2 52	--	--		15.4
MEPT-Net	61.4	2.2	2.1	15.2	--	--		14.5
<i>Rank vs. Mercer US Real Estate Open End Universe</i>								
<i>Mercer US Real Estate Open End Universe Med</i>			2.0	16.3	17.5	15.0		--
<i>NCREIF Property Index - EWB Calc</i>			3.2	15.8	17.5	15.1		16.2
<i>NCREIF PROPERTY + 1.5%</i>			3.6	17.3	19.0	16.6		17.7
<b>Total Private Equity</b>	<b>50.6</b>	<b>1.8</b>						
Pantheon Ventures	19.4	0.7						
S&P 500 + 3%								
S&P 500 + 3%								
Portfolio Advisors	18.6	0.7						
S&P 500 + 3%								
HarbourVest Partners, LLC	12.6	0.5						
S&P 500 + 3%								



## REPORT NOTES

1. The Russell/Mellon Trust Total Funds Billion Dollar – Public Universe median includes all assets of public funds.
2. The Total Fund Benchmark Index consists of 34% S&P 500 Index, 20% MSCI EAFE Index, 5% MSCI Emerging Markets Free Index, 20% Lehman Brothers Aggregate Index, 4% Lehman Brothers Long Government/Credit Index, 12% NCREIF Property Index, and 5% Russell 2000 Index to reflect the transition to private equity market as stated in the Investment Policy.
  - Prior to 01/05, the Index consisted of 35% S&P 500, 15% MSCI EAFE, 5% MSCI Emerging Markets, 28% LB Aggregate, 5% Citigroup WG Bond, and 12% NCREIF.
  - Prior to 10/01, the Index consisted of 35% S&P 500, 10% MSCI EAFE, 35% LB Aggregate, 10% Citigroup WG Bond and 10% NCREIF.
3. Total Fund inception data is from January 1971.
4. Total Domestic Fixed Income Fund inception data is from January 1970.
5. Total Global Fixed Income Fund inception data is from January 1991.
6. Total Domestic Equity Fund inception data is from August 1985.
7. Total International Equity Established Markets Fund inception data is from April 1991.
8. Total International Equity Emerging Markets Fund inception data is from September 2001.
5. Total Real Estate Fund inception data is from January 1986.
6. Seix Investment Advisors inception data is from October 1999.
7. Western Asset Management inception data is from August 2002.
8. Rhumblin Advisers (Large Cap Equity) inception data is from April 1992. In February 2007, the manager's return of 1.13% was used because of a \$15 million inflow that occurred during the month. The manager can revalue their portfolio daily, while Mercer uses custodial statements that are valued monthly.
9. UBS Global Asset Management inception data is from April 1993.
10. Boston Partners inception data is from July 1996.
11. Globalt, Inc. inception data is from July 1998. In the fourth quarter of 2007, Globalt was terminated with assets transferred to an interim State Street Global Markets strategy.
12. New Amsterdam Partners inception data is from January 1995.
13. TCW Group inception data is from November 2001.
14. Provident Investment Counsel inception data is from January 1998.
15. Brandes Investment Partners, L.P. inception data is from January 1997.
16. William Blair & Company inception data is from March 2002.
17. Alliance Capital Management and Boston Company Asset Management inception data is from September 2001.
18. MIG Realty Advisors inception data is from January 1986.
19. INTECH inception date is from October 1, 2003.
20. Kennedy Associates inception date is from October 1, 2003. For the fourth quarter of 2007, Kennedy's reported market value was \$108.3 million. By contrast, the custodial statement reported a market value of \$104.0 million, as it did not capture the appreciated value of the portfolio. Per San Jose's request, the performance summary will only reflect the manager's income return, excluding the appreciation portion. That appreciation will be captured retroactively in the first quarter of 2008: the fourth quarter 2007 return will be revised to reflect the total return.

21. Rhumblin Advisers (Small Cap Equity) inception data is from December 2004.
22. Income Research & Management inception date is January 3, 2005. For the first quarter 2007, Mercer calculated a gross return of 1.22% and a net return of 1.15% versus the manager's gross return of 1.03% and net return of 0.96%. For the third quarter 2007, Mercer calculated a gross return of 3.66% and a net return of 3.59% versus the manager's gross return of 3.34% and net return of 3.27%. In the fourth quarter of 2007, Mercer calculated a gross return of 4.0% and a net return of 3.9% versus the manager's gross return of 4.2% and net return of 4.1%; per San Jose's request, the performance summary reflects the manager's returns. Mercer uses custodial statement pricing for performance calculation, which may differ from the investment manager.
23. Pantheon Ventures inception date is September 23, 2005.
24. Portfolio Advisors inception date is October 17, 2005.
25. HarbourVest inception date is December 23, 2005.
26. AQR Capital Management inception date is June 30, 2006.
27. Multi-Employer Property Trust inception date is June 30, 2006.
28. Kennedy Custom Benchmark was provided by Kennedy Associates Real Estate.
29. Attribution analysis is a monthly, static calculation of the portfolio holdings. Because of the time-bias with the holdings, there can be variances in total returns, especially in more volatile markets. Portfolio total returns include monthly transactions for the holdings, while total returns in the attribution analysis do not. The variance between the portfolio and attribution is required to be within a tolerable range. Static attribution holdings are based on the prior month-end positions and on returns that are calculated at the security level (i.e., the percent of change between the prior month's price and the current month's price plus dividends). The security level returns are then rolled up to the sector level, using a weight times return methodology. In summation, all of the sector level returns form the total attribution return.

## Important Information, Datasource Acknowledgements and Disclaimers

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Percentile rankings for managers, funds or indices in performance floating bar exhibits may not match Universe percentiles due to rounding. Only performance composites submitted by investment managers by Mercer's deadline for a particular quarter are included in that quarter's Manager Universe calculation. Composites submitted after the deadlines are included in the Manager Universe at Mercer's discretion. Because Mercer Manager Universes are based upon information

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Total Fund

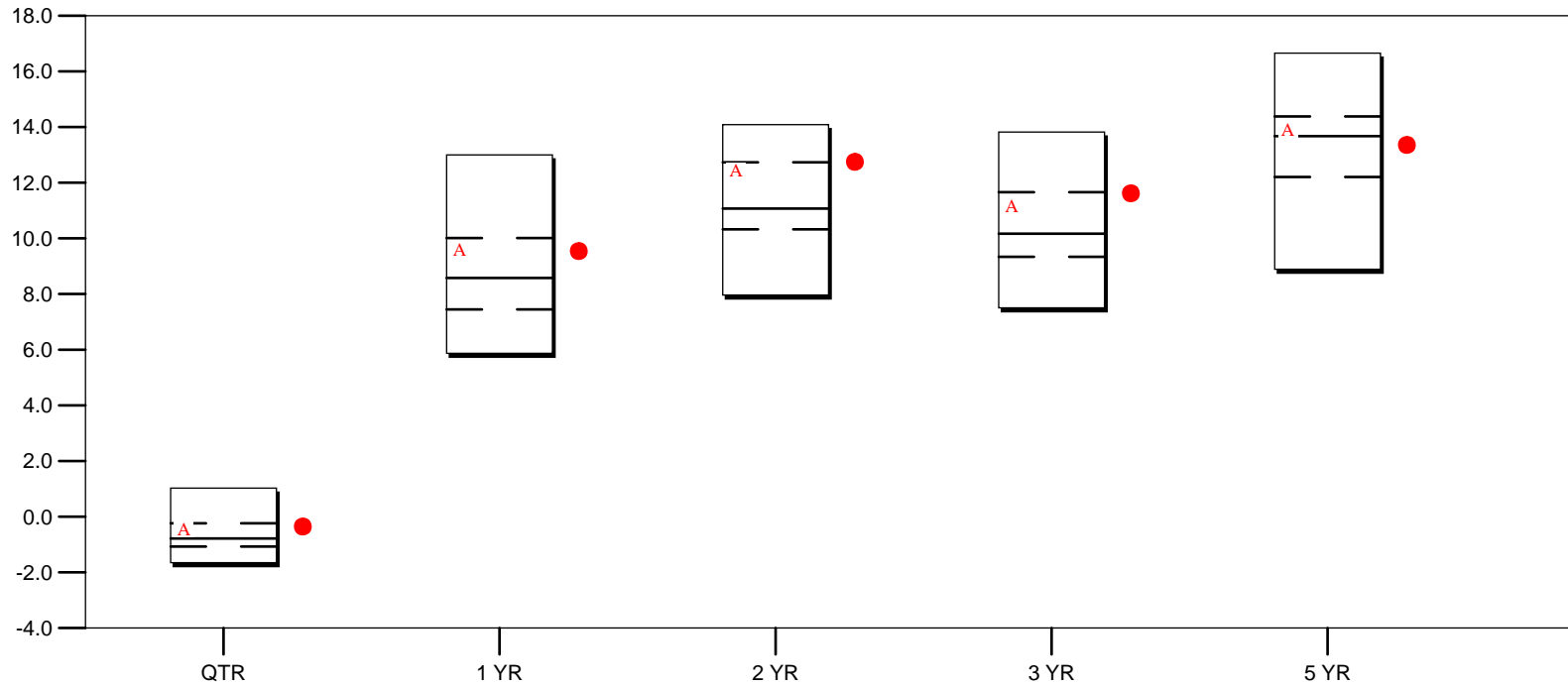
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# Total Funds Billion Dollar - Public

Return Quartiles

Periods Ending December 31, 2007

Annualized Rate of Return %



5th Percentile	1.02	13.00	14.09	13.82	16.65
25th Percentile	(0.24)	10.01	12.73	11.66	14.38
Median	(0.79)	8.58	11.07	10.17	13.67
75th Percentile	(1.07)	7.45	10.32	9.34	12.20
95th Percentile	(1.66)	5.87	7.96	7.50	8.89
# of Participants	54	49	49	48	46
TF BENCHMARK	(0.36)	9.54	12.75	11.62	13.36
Total Fund	(0.42), 29	9.65, 31	12.49, 30	11.22, 37	13.95, 39



**Performance & Risk Analytics Trust Universe**  
**Asset Allocation**  
**Quarter Ending December 31, 2007**  
**Market Value in Millions**

	Total Fund	US Equity	US Fixed Income	Non-US Equity	Non-US Fixed	Alternative Inv.	Real Estate	Cash	Total								
Market Value in US Dollars																	
Total Funds Billion Dollar - Public																	
Total Average	969,606.56 22,548.99	350,471.80 8,150.51	36%	252,325.22 5,868.03	26%	200,852.32 4,782.20	21%	13,275.22 737.51	1%	43,291.97 2,164.60	4%	26,637.94 1,402.00	3%	12,868.70 857.91	1%	93%	
Maximum		76.88%		73.10%		30.27%		10.89%		15.19%		11.66%		10.88%			
5th		58.70%		41.61%		28.34%		7.57%		13.18%		8.36%		10.38%			
25th		44.01%		28.06%		22.65%		4.99%		8.03%		6.87%		3.99%			
Median		37.43%		24.43%		19.52%		2.74%		6.16%		4.82%		2.91%			
75th		31.58%		21.29%		17.37%		1.34%		3.45%		3.85%		1.75%			
95th		20.88%		14.05%		13.15%		0.00%		1.28%		0.00%		.80%			
Minimum		16.69%		2.10%		7.17%		0.00%		1.02%		0.00%		0.00%			

Report is based upon plans that have submitted asset class data greater than 70% of the total market value. 43 out of 54 accounts represented from the universe run.

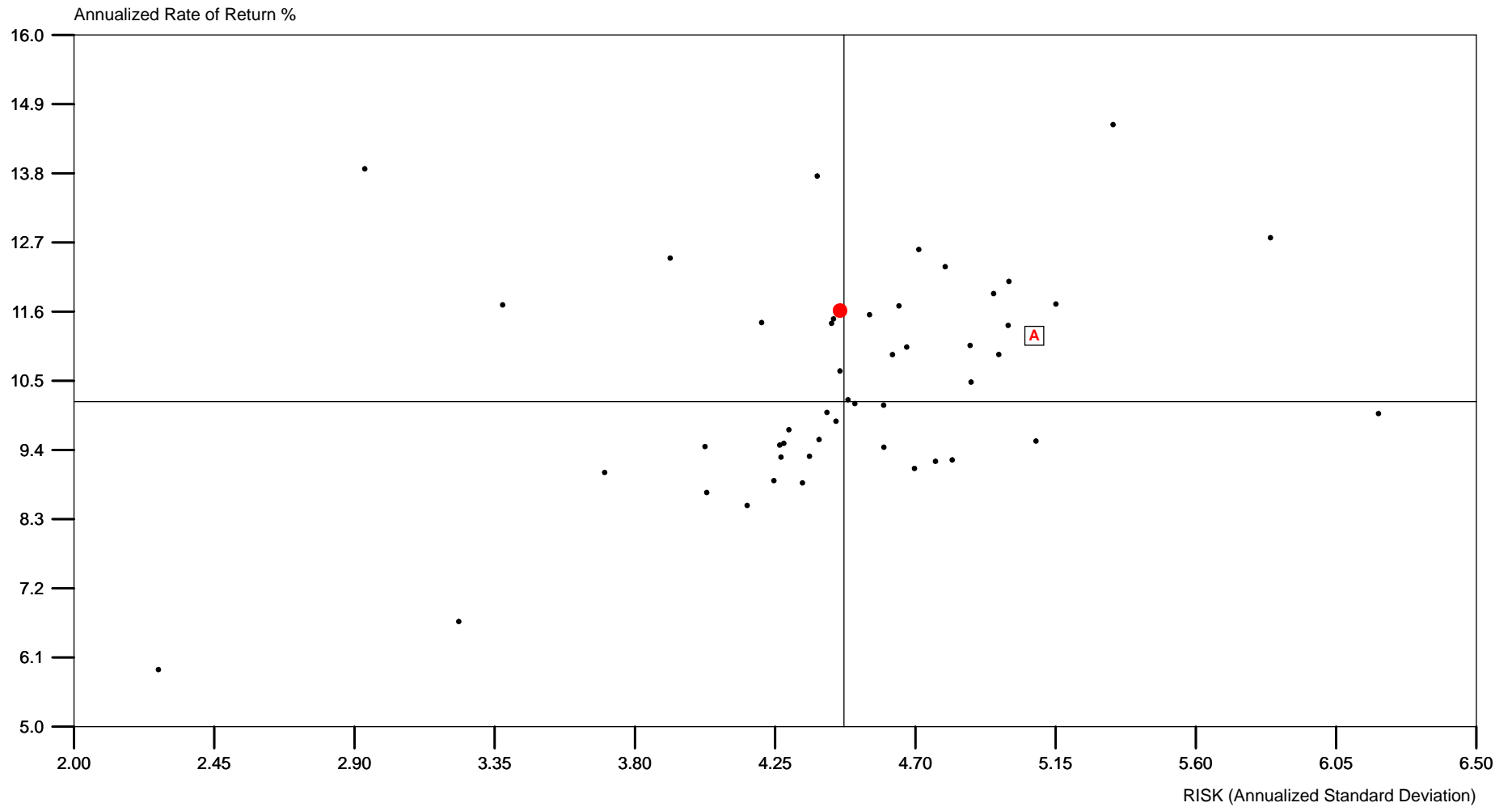
Total does not equal 100% due to asset class market values not reported.  
Mercer

# Total Funds Billion Dollar - Public

Risk-Return Comparisons

3 Years Ending December 31, 2007

48 Portfolios



A Total Fund 11.22, 37  
● TF BENCHMARK

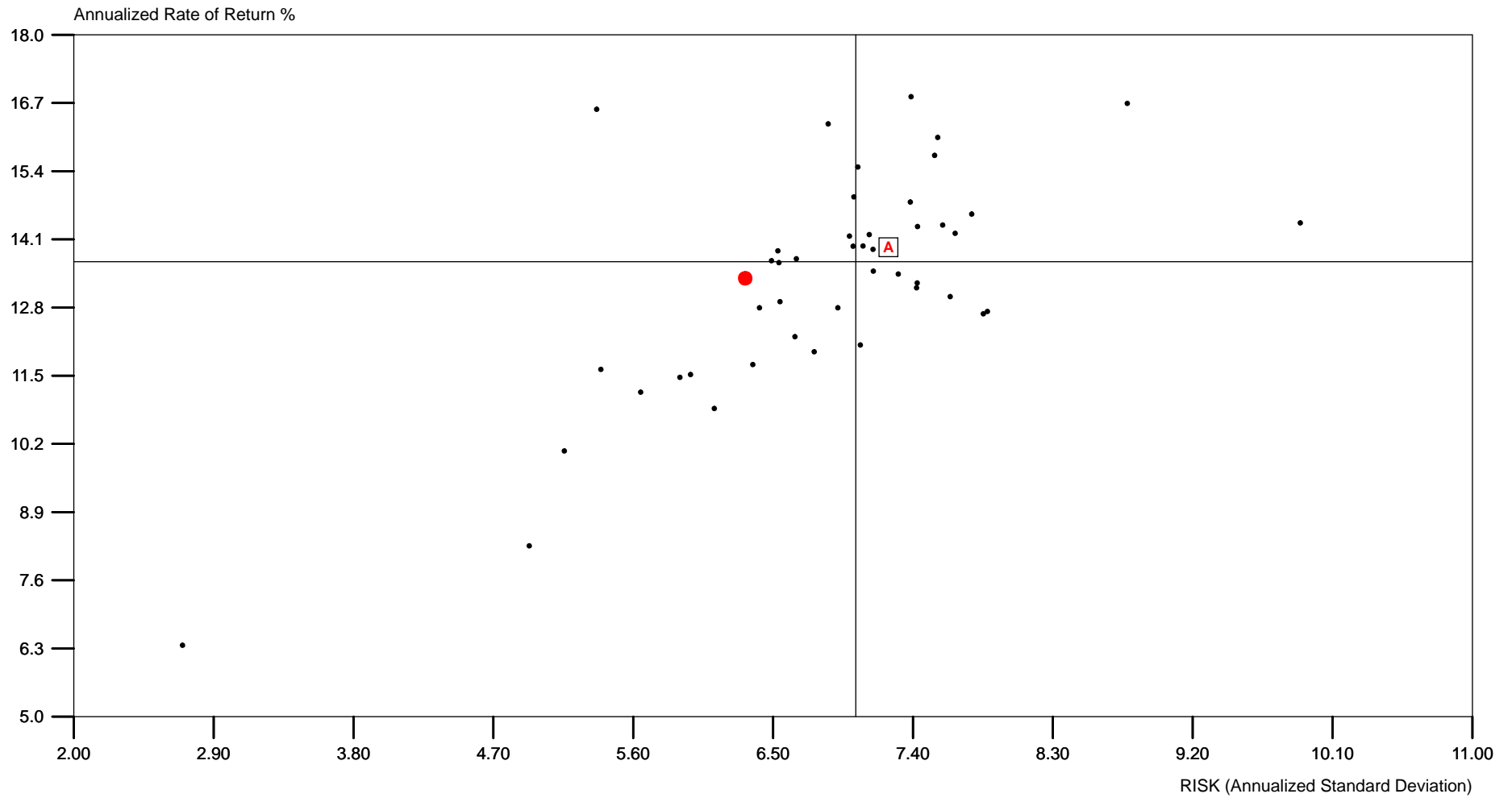
Mercer

# Total Funds Billion Dollar - Public

Risk-Return Comparisons

5 Years Ending December 31, 2007

46 Portfolios



A Total Fund 13.95, 39  
● TF BENCHMARK

Mercer

## ATTRIBUTION DETAIL

San Jose

Total Fund

Annualized 1 Year Ending December 31, 2007

	<u>Portfolio</u>		<u>Policy</u>		<u>Net Management Effect</u>			
	<u>Weight</u>	<u>Return</u>	<u>Weight</u>	<u>Return</u>	<u>Alloc</u>	<u>Select</u>	<u>Inter</u>	<u>Total</u>
TOTAL	100.0	9.6	100.0	9.5	0.1	(0.1)	0.0	0.1
US Equity	38.2	4.5	39.0	4.6	0.0	0.0	0.0	0.0
Non-US Equity	29.3	17.7	25.0	16.5	0.2	0.3	0.0	0.6
Fixed Income	23.4	5.7	24.0	6.9	0.0	(0.3)	0.0	(0.3)
Real Estate	7.5	15.7	12.0	15.8	(0.3)	0.0	0.0	(0.3)
Cash	0.3	34.3	---	---	0.1	0.0	0.0	0.1
Other	1.3	12.6	---	---	0.1	0.0	0.0	0.1

Currency USD

Policy Benchamrk is 34% S&P 500, 20% LB Aggregate, 20% MSCI EAFE, 12% NCREIF Property, 5% Russell 2000 Index, 5% MSCI Emerging Markets Free, and 4% LB US Govt/Credit Index- Long Term.

Mercer

## ATTRIBUTION DETAIL

San Jose

Total Fund

Annualized 2 Years Ending December 31, 2007

	<u>Portfolio</u>		<u>Policy</u>		<u>Net Management Effect</u>			
	<u>Weight</u>	<u>Return</u>	<u>Weight</u>	<u>Return</u>	<u>Alloc</u>	<u>Select</u>	<u>Inter</u>	<u>Total</u>
TOTAL	100.0	12.5	100.0	12.7	0.1	(0.6)	0.2	(0.3)
US Equity	38.3	9.5	39.0	10.2	0.0	(0.3)	0.0	(0.3)
Non-US Equity	29.3	22.5	25.0	22.0	0.3	0.1	0.0	0.5
Fixed Income	24.1	5.3	24.0	5.5	(0.1)	0.0	0.0	(0.1)
Real Estate	7.1	13.4	12.0	16.2	(0.2)	(0.3)	0.2	(0.4)
Cash	0.3	32.9	---	---	0.1	0.0	0.0	0.1
Other	0.9	13.2	---	---	0.0	0.0	0.0	0.0

Currency USD

Policy Benchamrk is 34% S&P 500, 20% LB Aggregate, 20% MSCI EAFE, 12% NCREIF Property, 5% Russell 2000 Index, 5% MSCI Emerging Markets Free, and 4% LB US Govt/Credit Index- Long Term.

Mercer

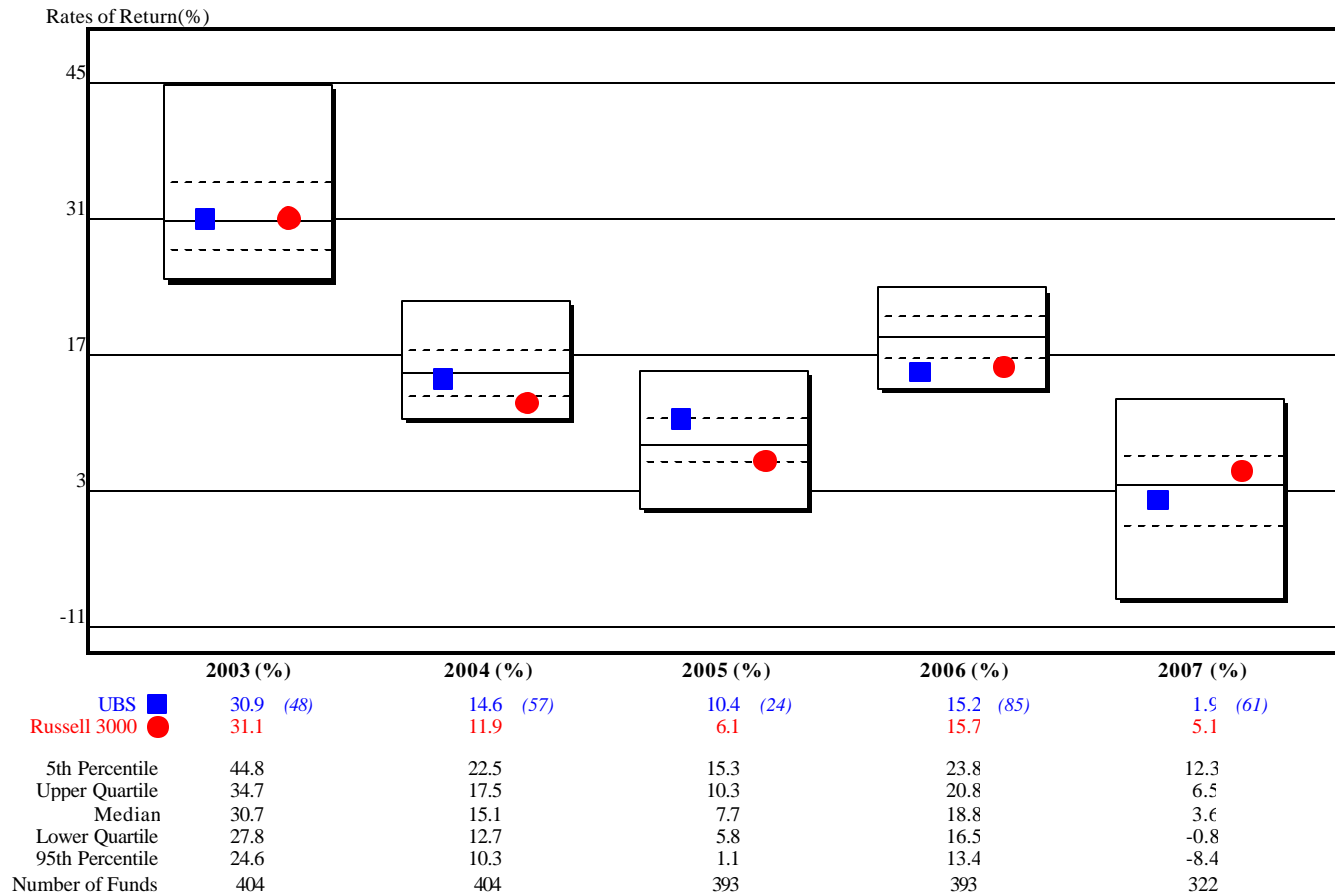
# Presentation

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# UBS Global Asset Management

## Comparison with the Mercer US Equity Large Cap Value Universe

Performance before fees for Calendar Years ended December 2007



- Excluding 2003 and 2005, UBS underperformed the Russell 3000 Index for all periods shown and ranked below the Mercer U.S. Equity Large Cap Value Universe median.

## Returns Consistency Analysis

US Equity Large Cap Value (all funds) Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
UBS	20	3	15%	5	25%	9	45%	3	15%	53	10	50%

### Benchmark:

Russell 3000	20	2	10%	7	35%	7	35%	4	20%	56
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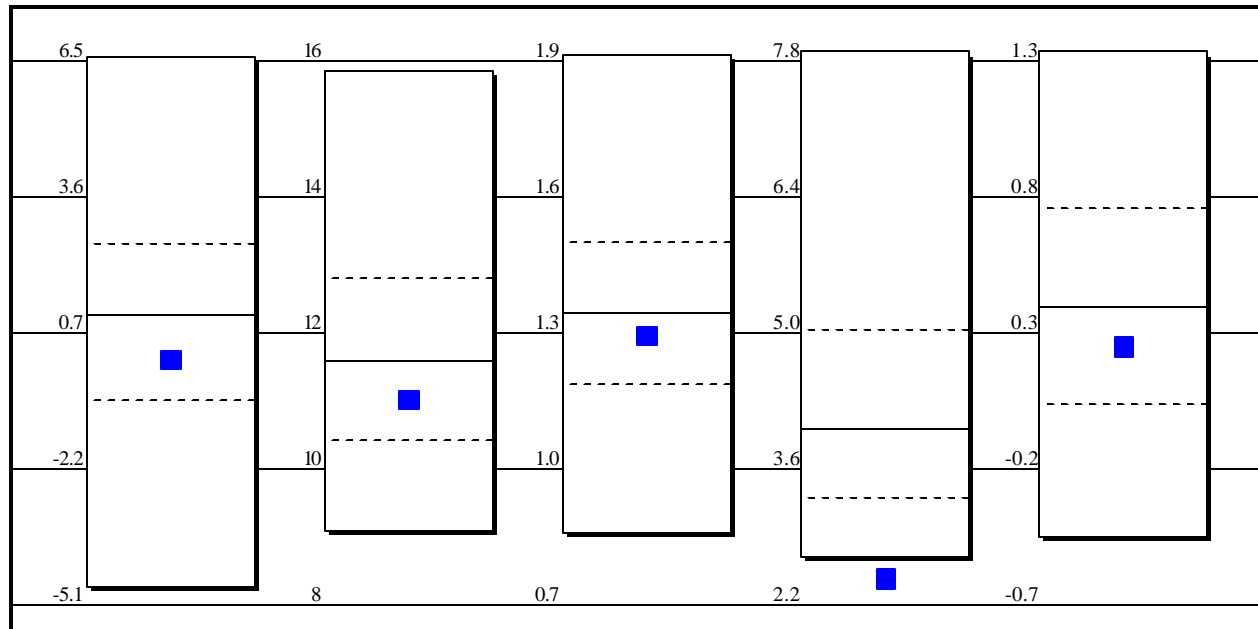
- For the 5-year period, UBS placed below the universe median 60% of the time, with 3 quarters in the bottom quartile.



# UBS Global Asset Management

## Comparison with the Mercer US Equity Large Cap Value Universe

Risk and Return Characteristics (calculated quarterly) versus Russell 3000 for the period from Mar 2003 to Dec 2007



Alpha (%pa)

Std Deviation (%pa)

Reward to Risk

Tracking Error (%pa)

Information Ratio

UBS ■

0.1 (66)

11.0 (61)

1.3 (58)

2.5 (97)

0.2 (61)

5th Percentile

6.6

15.8

1.9

7.9

1.3

Upper Quartile

2.6

12.8

1.5

5.0

0.8

Median

1.1

11.6

1.3

4.0

0.4

Lower Quartile

-0.7

10.4

1.2

3.3

0.0

95th Percentile

-4.8

9.1

0.9

2.7

-0.5

Number of Funds

267

267

267

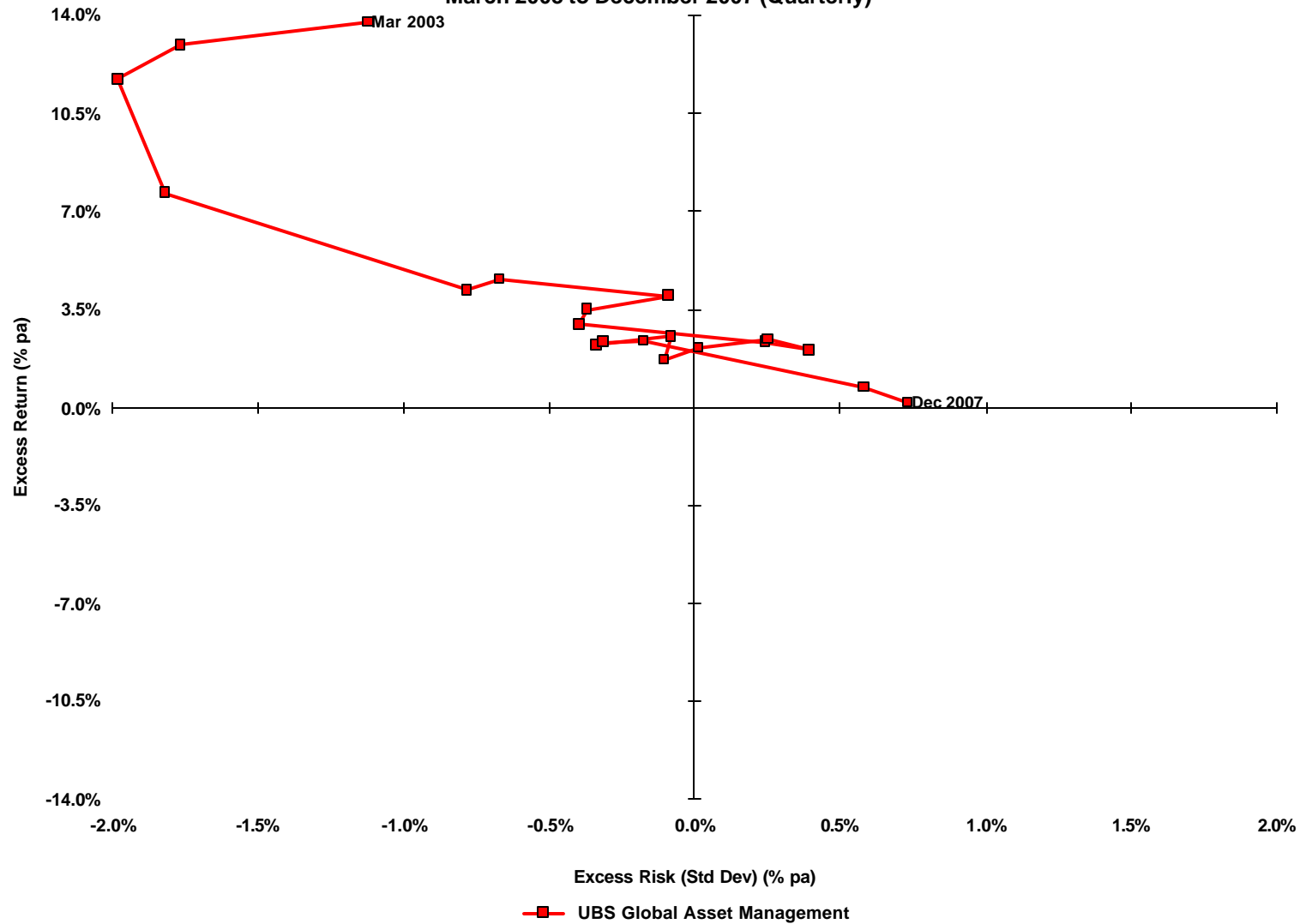
267

267

- For 5 years, UBS has a positive alpha and has taken less risk than the median manager.

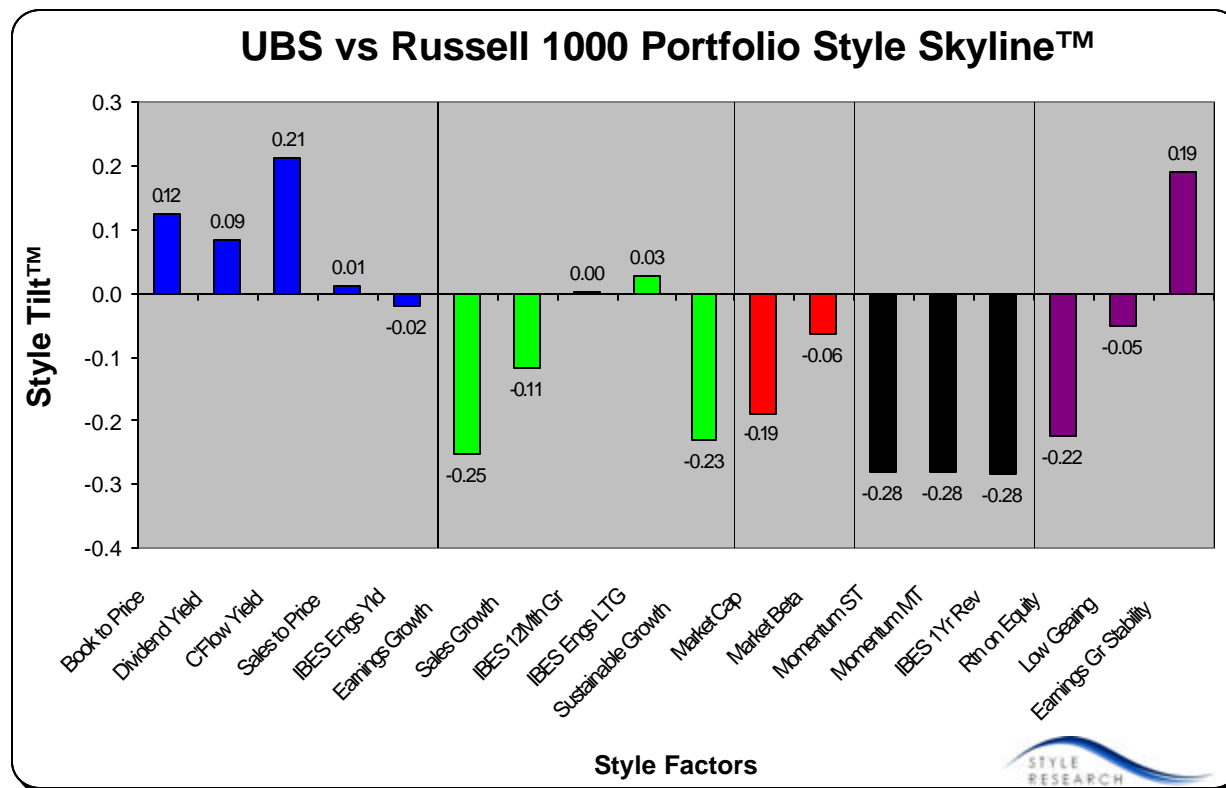
# UBS Global Asset Management

Rolling 3 Year Risk / Return versus the Russell 3000 Index  
March 2003 to December 2007 (Quarterly)



- In recent periods, UBS has resided in the northeast quadrant.

Mercer



- In general, the portfolio's value and quality tilts reflect its value/intrinsic value process.
- Negative short-term and medium-term momentum factors indicate that the fund may drag in speculative markets.
- A slight positive tilt to IBES earnings long-term growth reflects the 10-year forward normalized earnings estimates, which are a factor in the security selection process.

## ATTRIBUTION DETAIL

UBS Global Asset Management

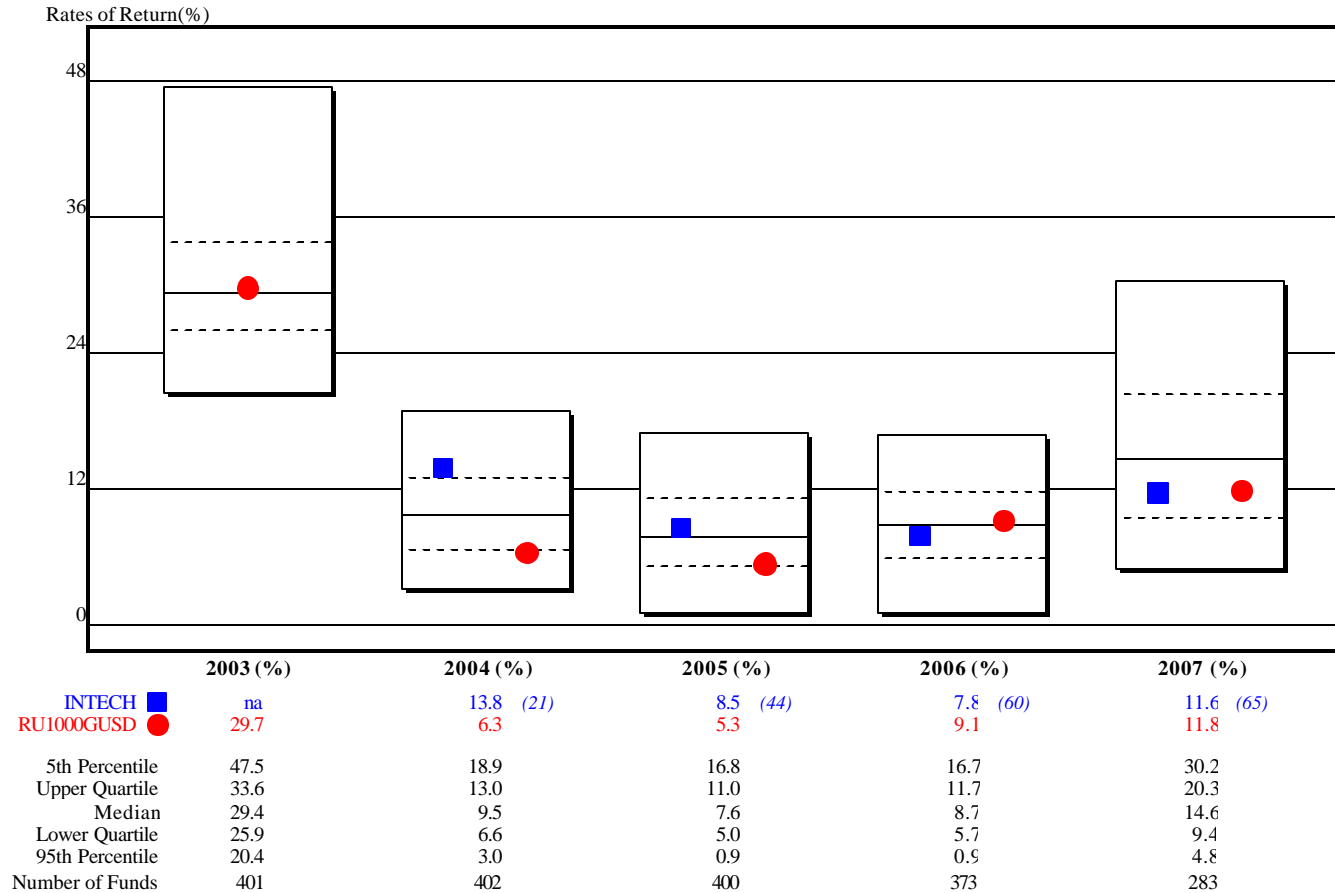
3 Months Ending December 31, 2007

	<u>Portfolio</u>		<u>Policy</u>		<u>Currency</u>		<u>Net Management Effect</u>		
	<u>Weight</u>	<u>Return</u>	<u>Weight</u>	<u>Return</u>	<u>Return</u>	<u>Ccy</u>	<u>Alloc</u>	<u>Select</u>	<u>Total</u>
TOTAL	100.0	(4.2)	100.0	(3.4)	0.0	0.0	(0.6)	(0.2)	(0.8)
EQUITY	98.0	(4.3)	100.0	(3.4)	0.0	0.0	(0.7)	(0.2)	(0.9)
Technology	13.2	(1.5)	13.5	(1.1)	0.0	0.0	0.0	(0.1)	(0.1)
Health Care	16.5	5.0	11.9	(0.1)	0.0	0.0	0.1	0.8	0.9
Consumer Discretionary	10.2	(6.6)	12.7	(5.5)	0.0	0.0	0.1	(0.1)	0.0
Consumer Staples	2.8	(5.0)	6.8	2.2	0.0	0.0	(0.2)	(0.2)	(0.4)
Integrated Oils	1.7	0.9	5.9	3.7	0.0	0.0	(0.3)	0.0	(0.4)
Other Energy	5.3	13.1	5.1	6.3	0.0	0.0	0.0	0.3	0.3
Materials and Processing	1.6	(5.9)	5.2	1.5	0.0	0.0	(0.2)	(0.1)	(0.3)
Producer Durables	2.4	(10.8)	5.3	(2.7)	0.0	0.0	0.0	(0.2)	(0.2)
Autos and Transportation	6.6	(1.9)	2.5	(7.9)	0.0	0.0	(0.2)	0.4	0.2
Financial Services	20.6	(14.6)	20.0	(12.3)	0.0	0.0	(0.1)	(0.5)	(0.6)
Utilities	10.6	(4.6)	7.2	(1.4)	0.0	0.0	0.1	(0.3)	(0.3)
Other	6.3	(9.1)	4.0	(7.2)	0.0	0.0	(0.1)	(0.1)	(0.2)
CASH	2.0	1.1	---	---	0.0	0.0	0.1	0.0	0.1

- Unfavorable security selection and a slight overweight within the financial services sector was the greatest detractor from performance.
- Underweight allocation and unfavorable stock selection within the consumer staples and materials & processing sectors negatively impacted results. Below-index exposure to the strong-performing integrated oils sector also detracted.
- Security selection in health care coupled with a slight overweight position in the sector contributed to performance; favorable stock picks in the other energy and autos & transportation sectors helped also.

# INTECH

## Comparison with the Mercer US Equity Large Cap Growth Universe Performance before fees for Calendar Years ended December 2007



- INTECH outperformed the Russell 1000 Growth Index for all periods shown except 2006 and 2007; in 2007, INTECH slightly underperformed the index (by 20 basis points).
- Performance was also below the Mercer U.S. Equity Large Cap Growth Universe median in 2006 and 2007.

## Returns Consistency Analysis

US Equity Large Cap Growth (all funds) Quarterly Returns - before fees

Quarterly returns from Dec 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
INTECH	17	2	12%	5	29%	9	53%	1	6%	49	9	53%

### Benchmark:

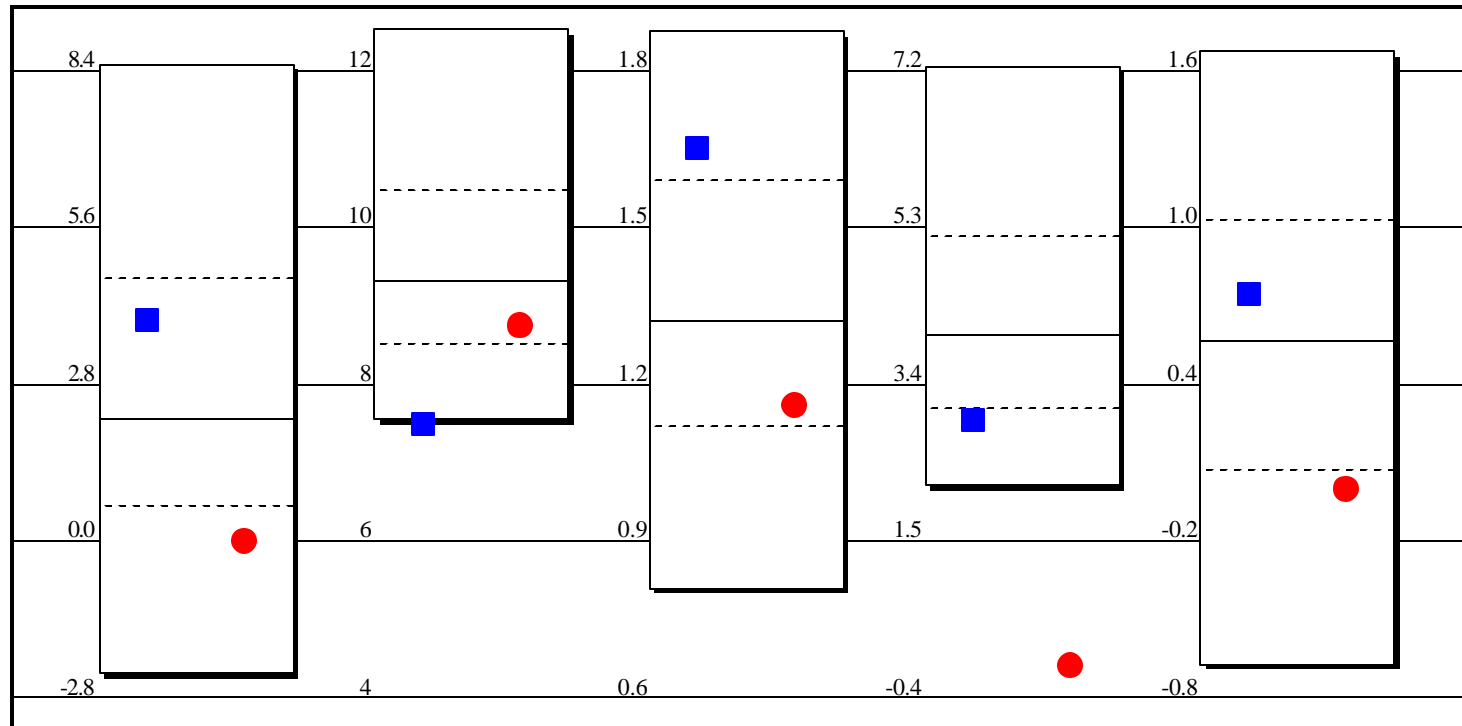
RU1000GUSD	17	0	0%	5	29%	11	65%	1	6%	58
------------	----	---	----	---	-----	----	-----	---	----	----

- For the 51-month period, INTECH has placed below the universe median 59% of the time, with 1 quarter in the bottom quartile.

# INTECH

## Comparison with the Mercer US Equity Large Cap Growth Universe

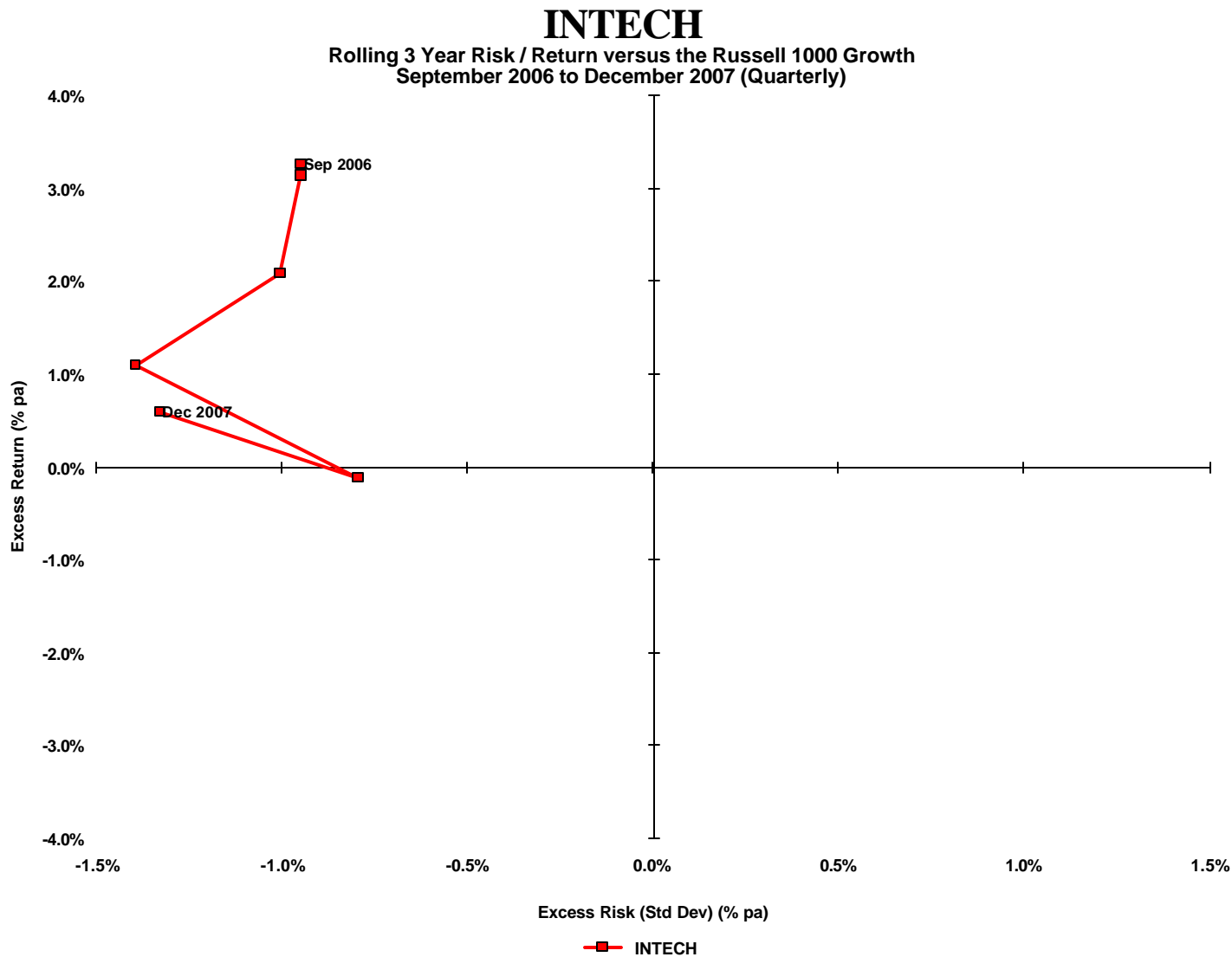
Risk and Return Characteristics (calculated quarterly) versus RU1000GUSD for the period from Dec 2003 to Dec 2007



	Alpha (%pa)	Std Deviation (%pa)	Reward to Risk	Tracking Error (%pa)	Information Ratio
INTECH ■	3.9 (31)	7.5 (95)	1.7 (20)	3.0 (80)	0.7 (37)
RU1000GUSD ●	0.0 (81)	8.7 (68)	1.2 (69)	0.0 (100)	0.0 (78)
5th Percentile	8.5	12.5	1.9	7.2	1.7
Upper Quartile	4.7	10.5	1.6	5.2	1.0
Median	2.2	9.3	1.3	4.0	0.6
Lower Quartile	0.6	8.5	1.1	3.1	0.1
95th Percentile	-2.4	7.5	0.8	2.2	-0.7
Number of Funds	247	247	247	247	247

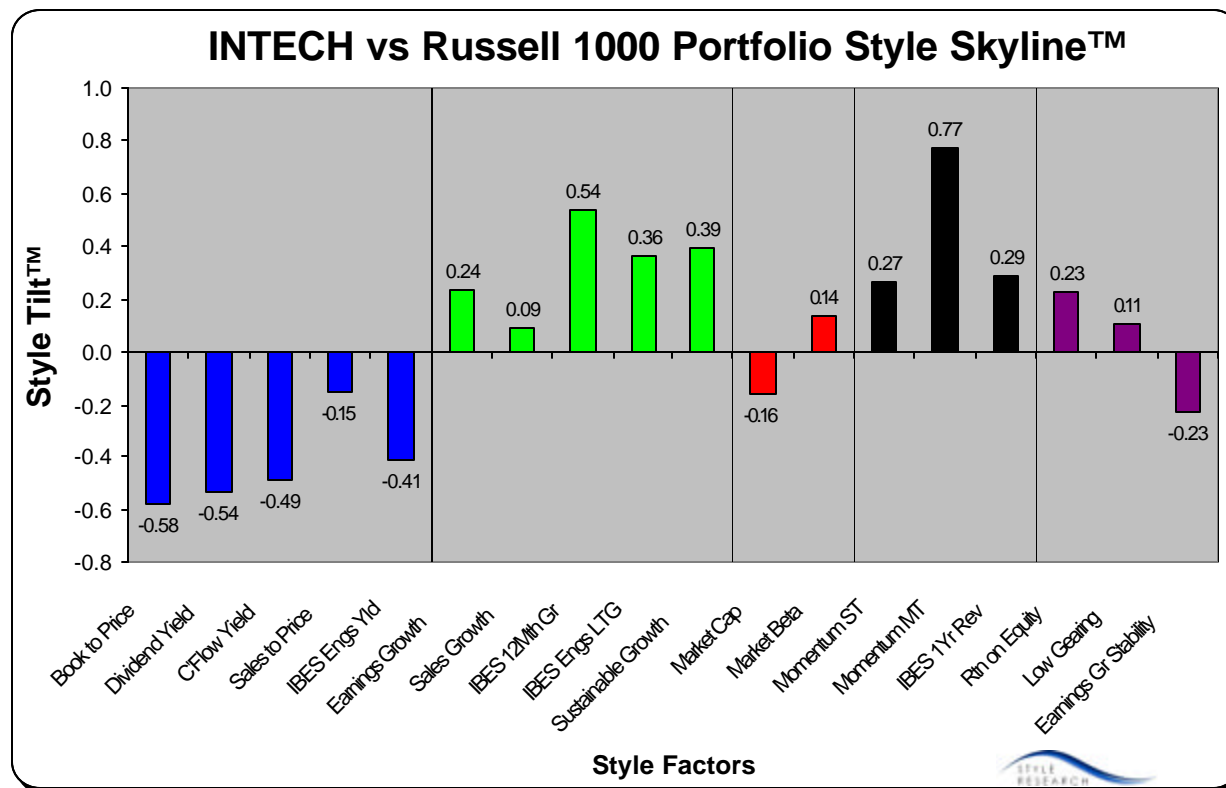
- Since inception, INTECH has had a positive alpha and taken considerably less risk than the median manager.

Mercer



- In recent periods, INTECH's risk/return profile has returned to the northeast quadrant.





- While the portfolio's security selection process does not incorporate fundamental variables, it exhibits a positive growth score and negative value score.

## ATTRIBUTION DETAIL

INTECH  
3 Months Ending December 31, 2007

	<u>Portfolio</u>		<u>Policy</u>		<u>Currency</u>	<u>Net Management Effect</u>			
	<u>Weight</u>	<u>Return</u>	<u>Weight</u>	<u>Return</u>	<u>Return</u>	<u>Ccy</u>	<u>Alloc</u>	<u>Select</u>	<u>Total</u>
TOTAL	100.0	1.5	100.0	(0.8)	0.0	0.0	0.5	1.8	2.3
EQUITY	98.9	1.5	100.0	(0.8)	0.0	0.0	0.5	1.8	2.3
Technology	17.9	16.4	22.5	0.8	0.0	0.0	(0.1)	2.6	2.6
Health Care	16.6	(7.3)	16.0	0.3	0.0	0.0	0.0	(1.2)	(1.2)
Consumer Discretionary	17.4	(6.8)	16.9	(4.6)	0.0	0.0	0.0	(0.4)	(0.4)
Consumer Staples	7.7	3.9	7.8	2.0	0.0	0.0	0.0	0.1	0.1
Integrated Oils	1.2	1.9	1.3	1.6	0.0	0.0	0.0	0.0	0.0
Other Energy	9.4	1.7	7.1	4.6	0.0	0.0	0.2	(0.3)	(0.1)
Materials and Processing	9.3	1.2	4.5	4.8	0.0	0.0	0.3	(0.3)	(0.1)
Producer Durables	4.4	(1.7)	7.0	(4.6)	0.0	0.0	0.1	0.1	0.3
Autos and Transportation	1.9	(4.4)	3.2	(5.1)	0.0	0.0	0.1	0.0	0.1
Financial Services	5.5	13.6	9.0	(2.1)	0.0	0.0	0.1	0.8	0.9
Utilities	3.8	(3.5)	2.1	(7.6)	0.0	0.0	(0.1)	0.2	0.0
Other	3.7	(1.6)	2.5	(3.7)	0.0	0.0	0.0	0.1	0.1
CASH	1.1	1.6	---	---	0.0	0.0	0.0	0.0	0.0

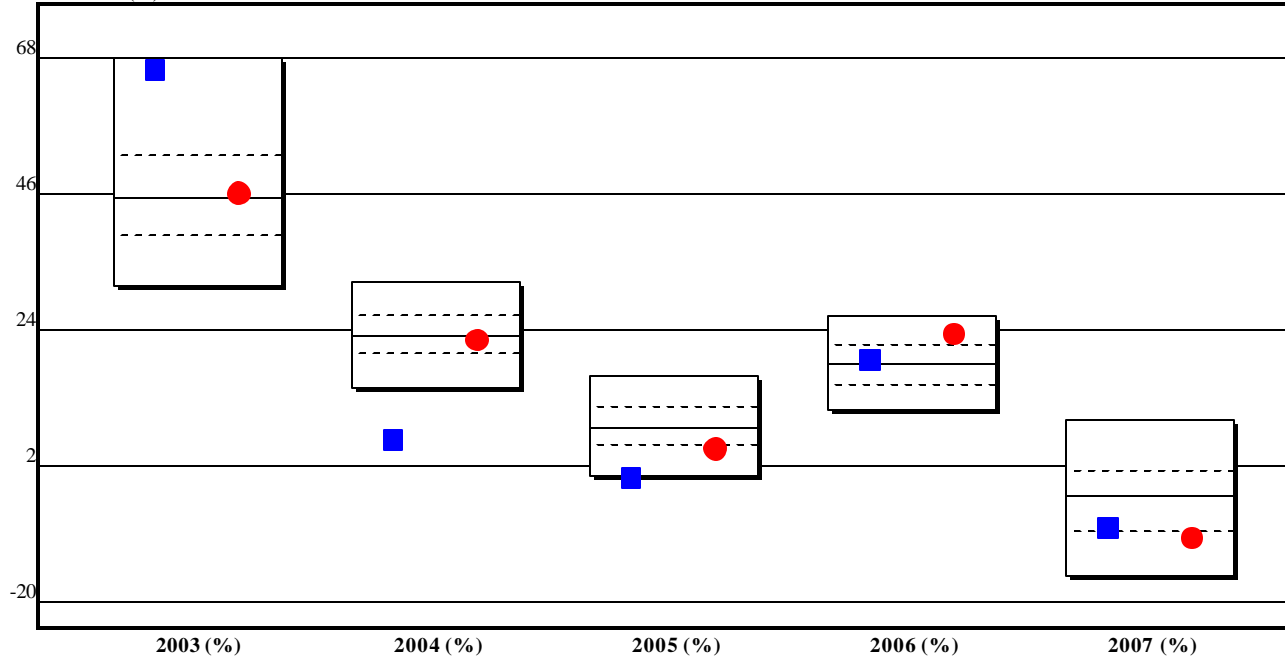
- Strong security selection in the technology and financial services sectors was the greatest contributor to outperformance for the quarter.
- The portfolio's holdings in producer durables also helped returns.
- The largest detractor from performance was the portfolio's unfavorable stock selection in the health care and consumer discretionary sectors.
- Poor stock selection in other energy and materials & processing also detracted; however, an overweight allocation in these strong-performing sectors offset losses somewhat.

# TCW Group

## Comparison with the Mercer US Equity Small Cap Value Universe

Performance before fees for Calendar Years ended December 2007

Rates of Return(%)



	<b>2003 (%)</b>	<b>2004 (%)</b>	<b>2005 (%)</b>	<b>2006 (%)</b>	<b>2007 (%)</b>
TCW	66.1 (6)	6.1 (99)	-0.2 (95)	19.1 (43)	-8.0 (71)
RU2000VUSD	46.0	22.2	4.7	23.5	-9.8
5th Percentile	67.9	31.6	16.4	26.2	9.3
Upper Quartile	52.0	26.3	11.5	21.4	1.0
Median	45.0	22.8	8.2	18.4	-3.0
Lower Quartile	39.1	19.9	5.2	15.0	-8.8
95th Percentile	30.7	14.5	0.0	11.0	-16.2
Number of Funds	203	208	210	201	172

- TCW outperformed the Russell 2000 Value Index in 2003 and 2007 only.
- Excluding 2003 and 2006, the portfolio placed in the bottom half of the Mercer U.S. Equity Small Cap Value Universe for all periods shown.

Mercer

## Returns Consistency Analysis

US Equity Small Cap Value Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
TCW	20	5	25%	4	20%	3	15%	8	40%	55	10	50%

### Benchmark:

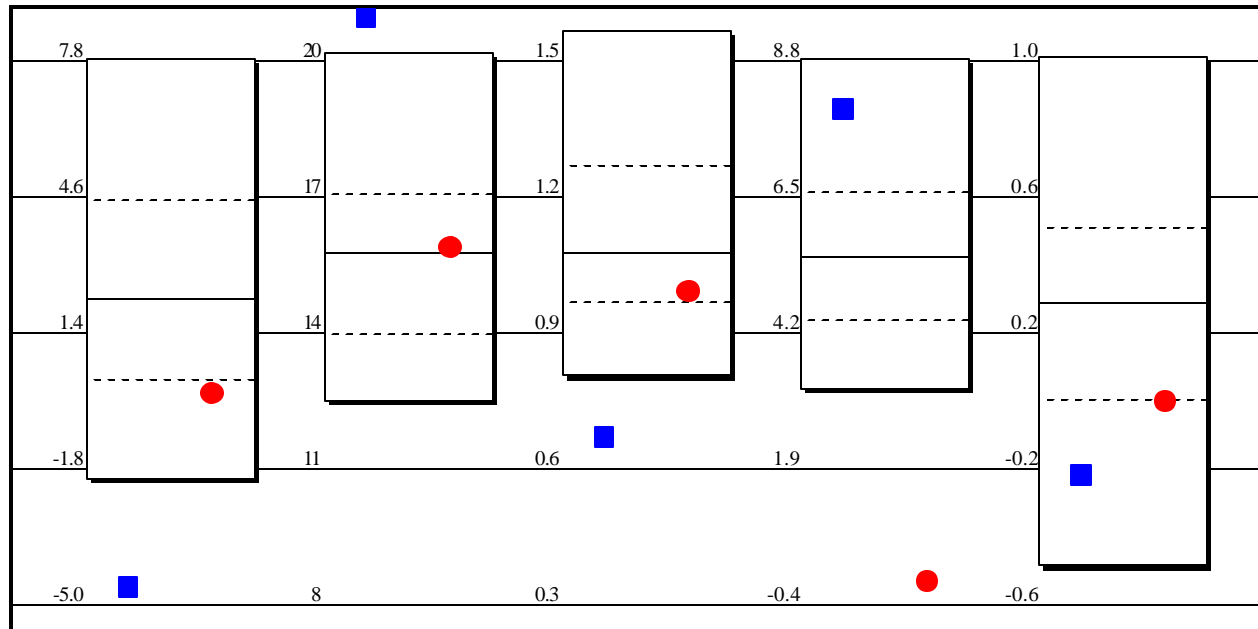
RU2000VUSD	20	2	10%	8	40%	6	30%	4	20%	54
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- For the 5-year period, TCW placed below the universe median 55% of the time, with 8 quarters in the bottom quartile.

# TCW Group

## Comparison with the Mercer US Equity Small Cap Value Universe

Risk and Return Characteristics (calculated quarterly) versus RU2000VUSD for the period from Mar 2003 to Dec 2007

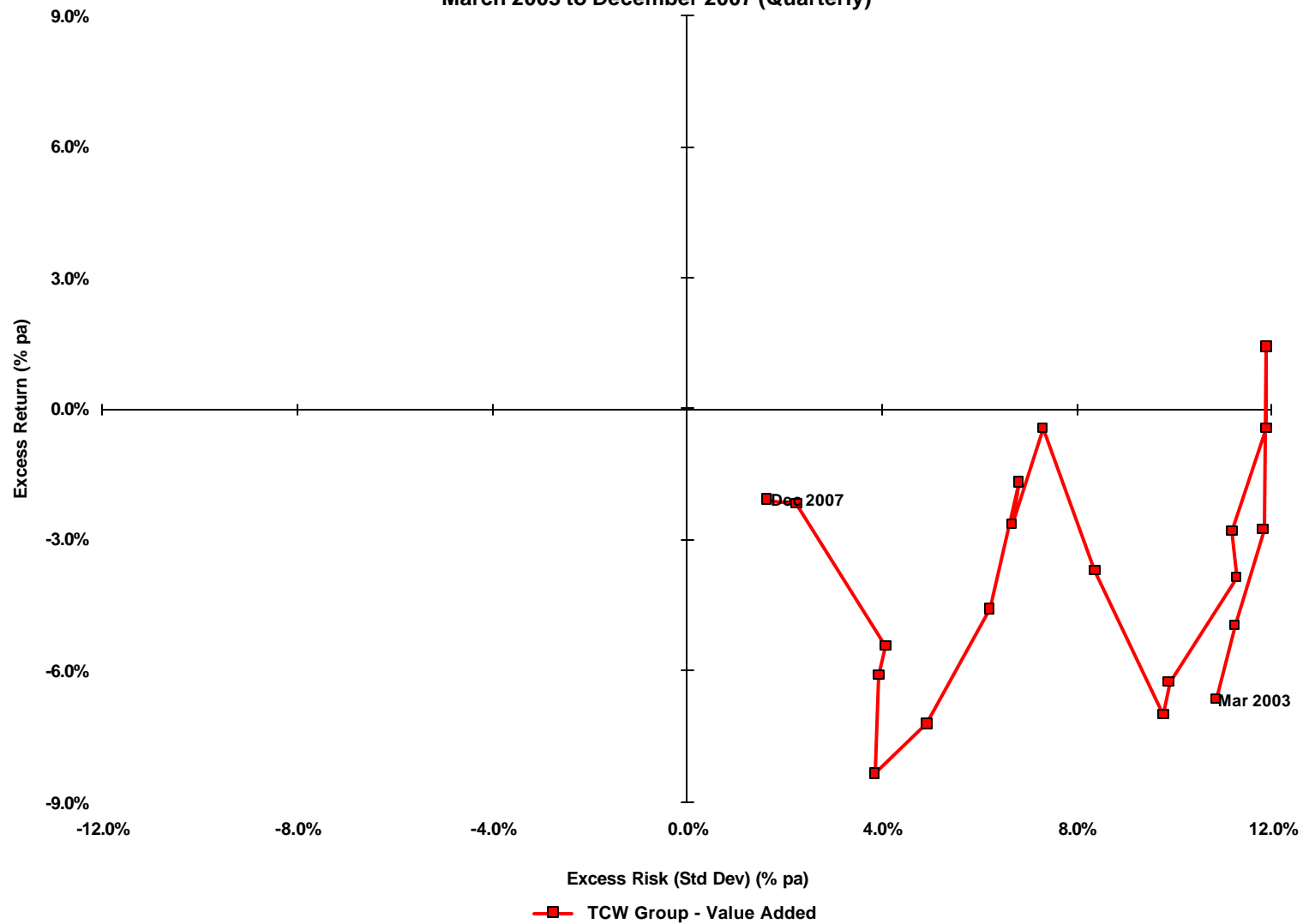


	Alpha (%pa)	Std Deviation (%pa)	Reward to Risk	Tracking Error (%pa)	Information Ratio
TCW	-4.6 (98)	20.9 (4)	0.7 (98)	8.0 (10)	-0.2 (87)
RU2000VUSD	0.0 (78)	15.9 (48)	1.0 (70)	0.0 (100)	0.0 (75)
5th Percentile	7.9	20.2	1.6	8.8	1.0
Upper Quartile	4.5	17.0	1.3	6.6	0.5
Median	2.2	15.7	1.1	5.5	0.3
Lower Quartile	0.3	14.0	1.0	4.4	0.0
95th Percentile	-2.0	12.5	0.8	3.2	-0.5
Number of Funds	146	146	146	146	146

- For 5 years, TCW has had a significantly negative alpha – ranking near the bottom of the universe – and placed in the top decile of the universe for risk taken.

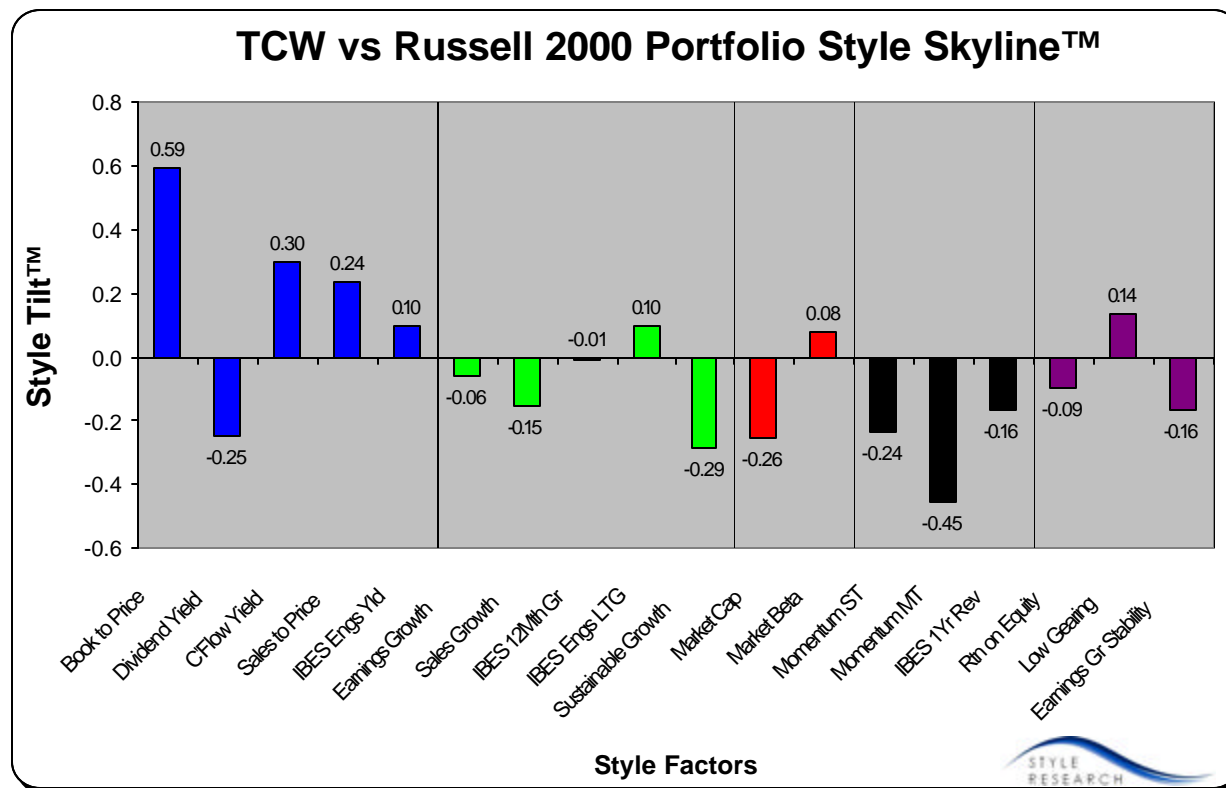
# TCW Group - Value Added

Rolling 3 Year Risk / Return versus the Russell 2000 Value  
March 2003 to December 2007 (Quarterly)



- TCW composite's risk/return profile has improved in recent quarters, but remains in the southeast quadrant.

Mercer



- The portfolio's low past growth, momentum and return on equity factors reflects its contrarian approach. The portfolio also exhibits a focus on valuations.

## ATTRIBUTION DETAIL

TCW Group

3 Months Ending December 31, 2007

	<u>Portfolio</u>		<u>Policy</u>		<u>Currency</u>	<u>Net Management Effect</u>			
	<u>Weight</u>	<u>Return</u>	<u>Weight</u>	<u>Return</u>	<u>Return</u>	<u>Ccy</u>	<u>Alloc</u>	<u>Select</u>	<u>Total</u>
TOTAL	100.0	(6.6)	100.0	(4.6)	0.0	0.0	(0.1)	(1.9)	(2.0)
EQUITY	99.0	(6.7)	100.0	(4.6)	0.0	0.0	(0.1)	(1.9)	(2.0)
Technology	27.7	(3.4)	14.4	(6.4)	0.0	0.0	(0.2)	0.8	0.6
Health Care	5.1	10.4	13.1	3.2	0.0	0.0	(0.6)	0.3	(0.3)
Consumer Discretionary	16.8	(9.9)	17.9	(9.2)	0.0	0.0	0.0	(0.1)	(0.1)
Consumer Staples	0.0	---	2.2	(2.6)	0.0	0.0	0.0	0.0	0.0
Integrated Oils	---	---	0.1	3.6	0.0	0.0	0.0	0.0	0.0
Other Energy	7.0	(3.8)	5.5	4.4	0.0	0.0	0.1	(0.6)	(0.4)
Materials and Processing	8.7	(8.7)	9.8	(3.3)	0.0	0.0	0.0	(0.5)	(0.5)
Producer Durables	16.9	(8.7)	7.3	0.2	0.0	0.0	0.4	(1.5)	(1.0)
Autos and Transportation	3.2	(20.7)	3.8	(13.6)	0.0	0.0	0.1	(0.3)	(0.2)
Financial Services	13.0	(8.5)	21.0	(8.7)	0.0	0.0	0.3	0.0	0.3
Utilities	0.2	(4.2)	4.2	0.7	0.0	0.0	(0.2)	0.0	(0.2)
Other	0.4	(25.6)	0.6	9.0	0.0	0.0	0.0	(0.2)	(0.2)
CASH	1.0	1.1	---	---	0.0	0.0	0.0	0.0	0.0

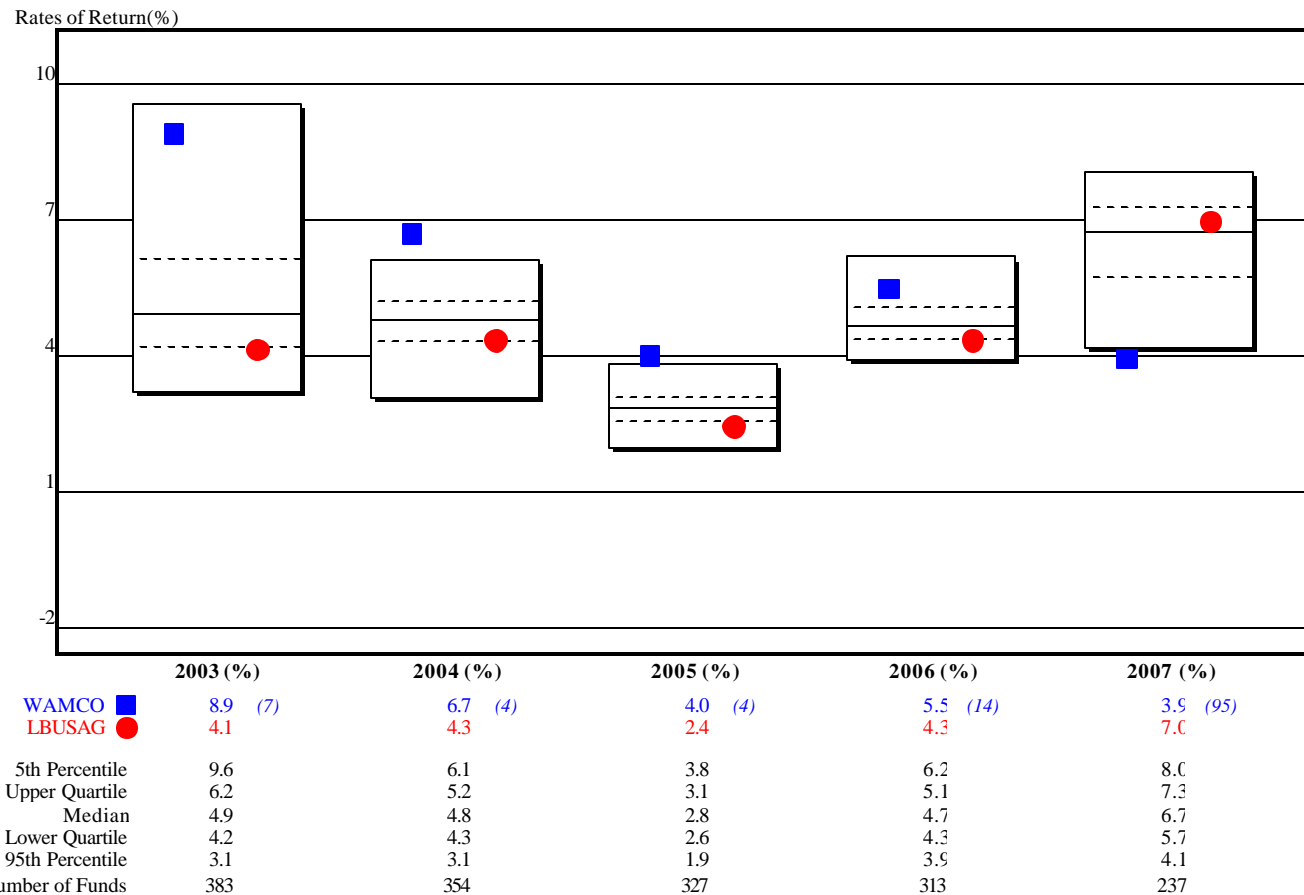
- Unfavorable security selection in producer durables was the greatest detractor from performance, more than offsetting the portfolio's favorable overweight allocation in the sector.
- Stock selection in other energy and materials and processing, as well as a significant underweight position in the strong-performing health care sector, detracted from results.
- Security selection in technology and a favorable underweight in financial services contributed to performance.



# Western Asset Mgt (WAMCO)

## Comparison with the Mercer US Fixed Core Universe

Performance before fees for Calendar Years ended December 2007



- Western Asset Management Co. outperformed the Lehman Brothers U.S. Aggregate Index and placed in the top quartile of the Mercer U.S. Fixed Core Universe for all periods shown except 2007. In 2007, it underperformed the index and ranked in the bottom decile of the universe.

## Returns Consistency Analysis

US Fixed Core Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
WAMCO	20	13	65%	1	5%	0	0%	6	30%	35	14	70%

### Benchmark:

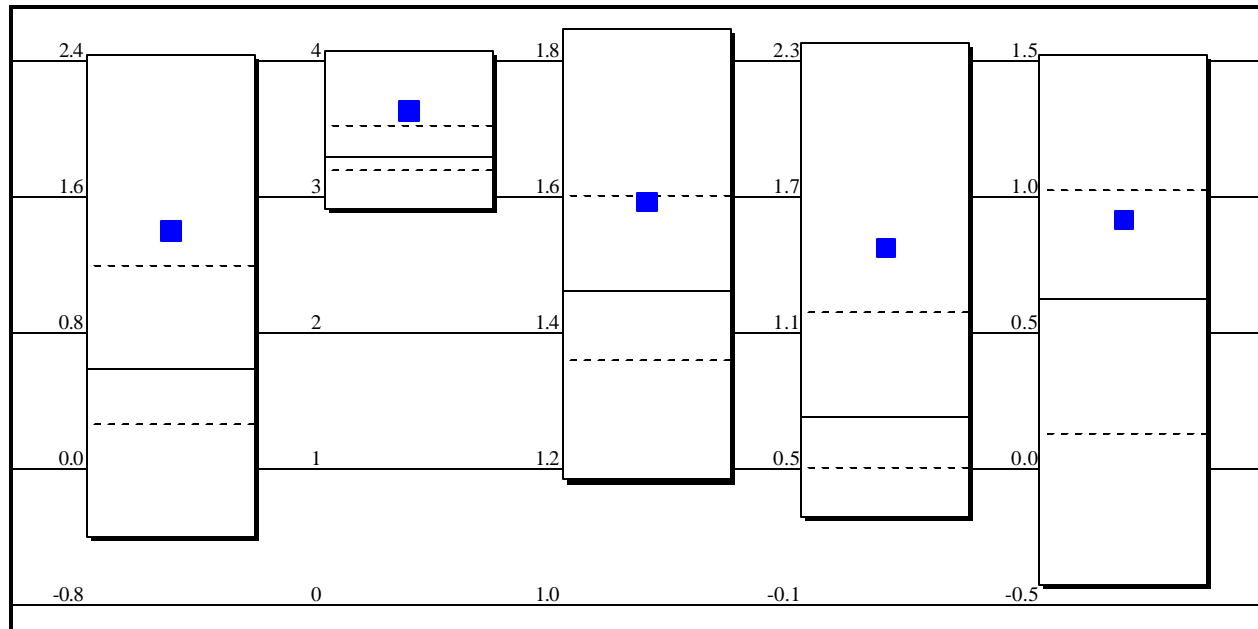
LBUSAG	20	1	5%	2	10%	12	60%	5	25%	63
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- For 5 years, Western Asset Management Co. placed in the bottom quartile of the universe 30% of the time (6 quarters).

# Western Asset Mgt (WAMCO)

## Comparison with the Mercer US Fixed Core Universe

Risk and Return Characteristics (calculated quarterly) versus LBUSAG for the period from Mar 2003 to Dec 2007

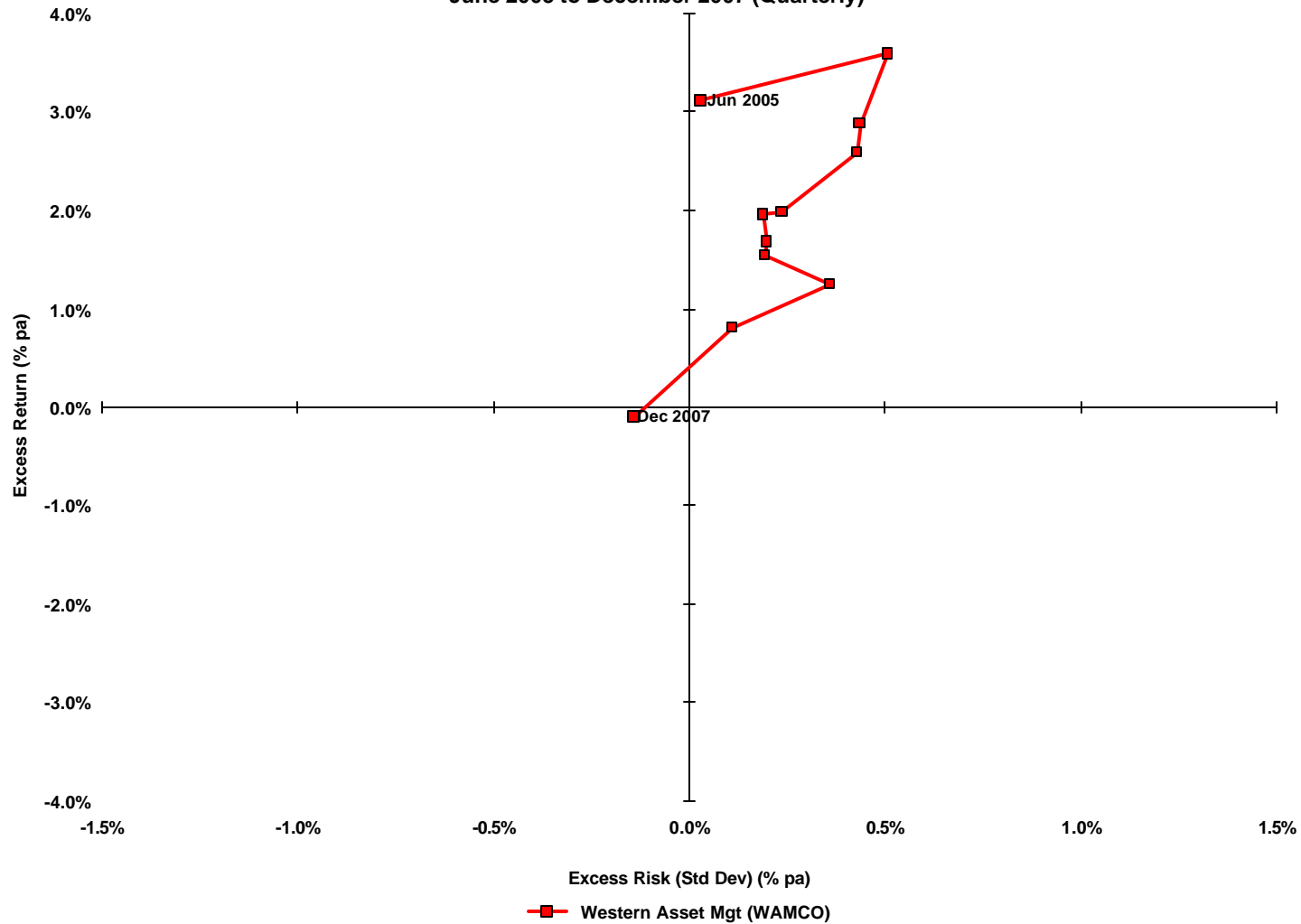


	Alpha (%pa)	Std Deviation (%pa)	Reward to Risk	Tracking Error (%pa)	Information Ratio
WAMCO	1.4 (17)	3.6 (19)	1.6 (26)	1.5 (14)	0.5 (29)
5th Percentile	2.4	4.1	1.8	2.4	1.5
Upper Quartile	1.2	3.5	1.6	1.2	1.0
Median	0.6	3.3	1.5	0.7	0.6
Lower Quartile	0.3	3.2	1.4	0.5	0.1
95th Percentile	-0.4	2.9	1.2	0.3	-0.4
Number of Funds	224	224	224	224	224

- For 5 years, Western Asset Management Co. has a positive alpha and has taken more risk than the median manager.

# Western Asset Mgt (WAMCO)

Rolling 3 Year Risk / Return versus the Lehman Bros US Aggregate  
June 2005 to December 2007 (Quarterly)

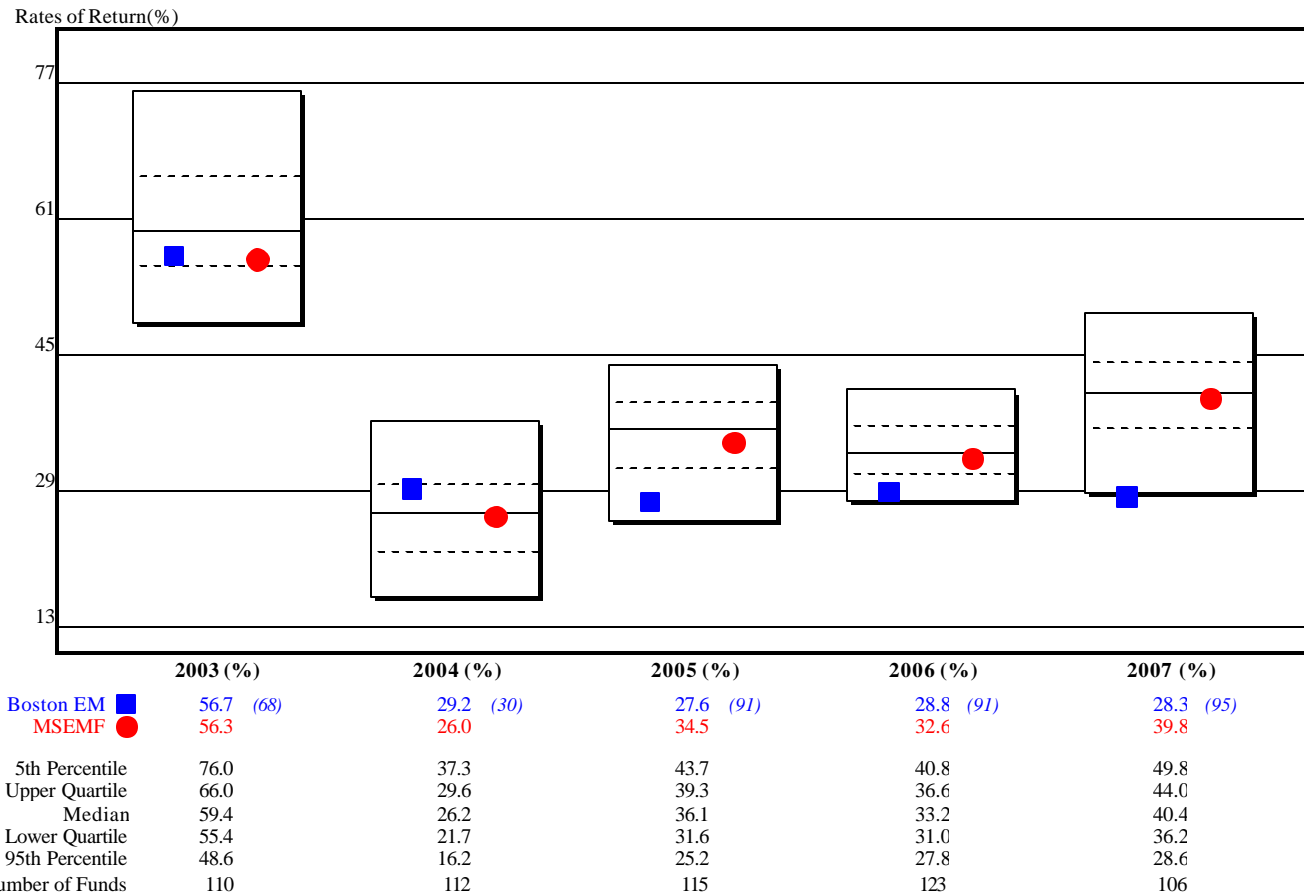


Western Asset Management Co. 's risk/return profile has migrated into the southwest quadrant.

# Boston Company Asset Management

## Comparison with the Mercer Emerging Markets Equity Universe

Performance before fees for Calendar Years ended December 2007



- Boston Company underperformed the MSCI Emerging Markets Index in 2005, 2006 and 2007.
- The portfolio underperformed the Mercer Emerging Markets Equity Universe median for all periods except 2004, and ranked in the bottom decile of the universe for 2005, 2006 and 2007.

## Returns Consistency Analysis

Emerging Markets Equity (all funds) Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
Boston EM	20	2	10%	2	10%	9	45%	7	35%	67	6	30%

### Benchmark:

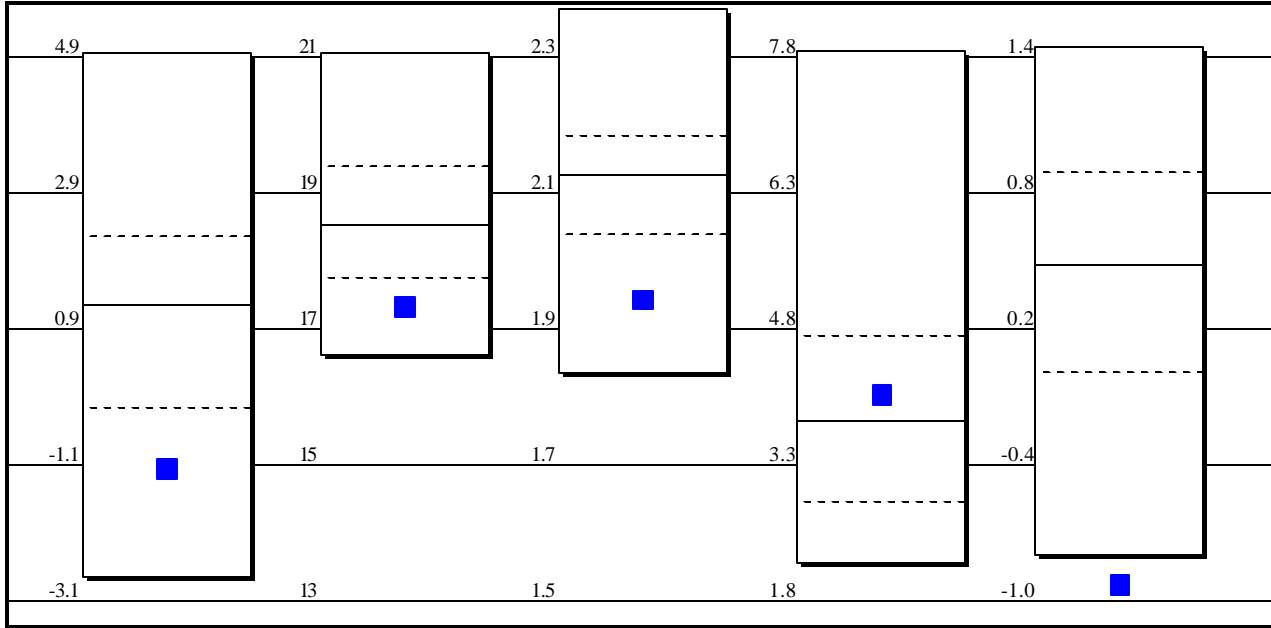
MSEMF	20	0	0%	6	30%	14	70%	0	0%	55
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- For 5 years, Boston Company has placed in the bottom half of the universe 80% of the time, with 7 quarters in the bottom quartile.

# Boston Company Asset Management

## Comparison with the Mercer Emerging Markets Equity Universe

Risk and Return Characteristics (calculated quarterly) versus MSEM for the period from Mar 2003 to Dec 2007

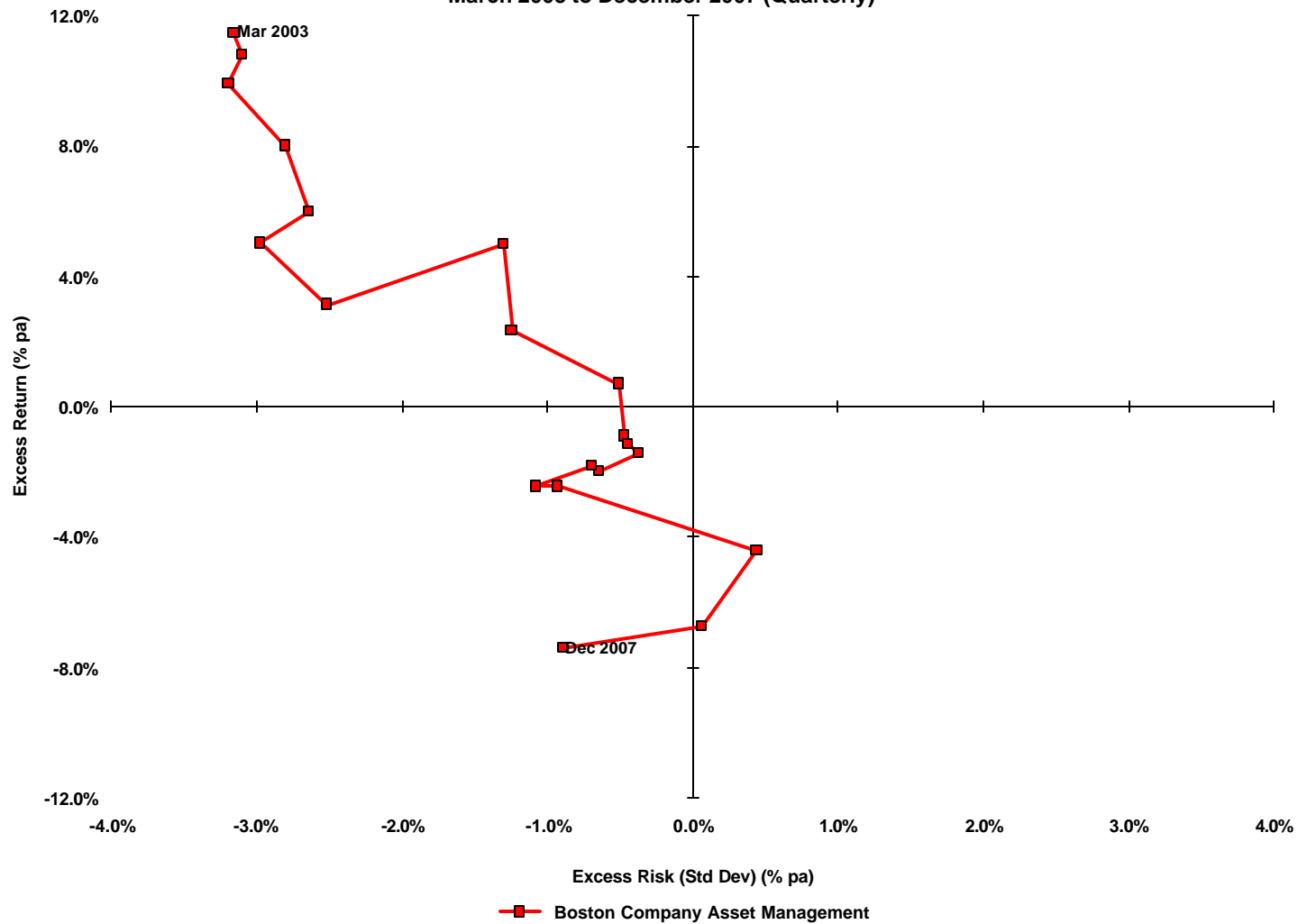


	Alpha (%pa)	Std Deviation (%pa)	Reward to Risk	Tracking Error (%pa)	Information Ratio
Boston EM	-1.2 (85)	17.3 (83)	1.9 (89)	4.1 (42)	-0.9 (98)
5th Percentile	5.0	21.1	2.4	7.9	1.4
Upper Quartile	2.2	19.4	2.2	4.7	0.9
Median	1.2	18.5	2.1	3.8	0.5
Lower Quartile	-0.3	17.7	2.0	2.9	0.0
95th Percentile	-2.8	16.6	1.8	2.2	-0.8
Number of Funds	81	81	81	81	81

- Boston Company has a negative alpha and has taken less risk than the median manager.

# Boston Company Asset Management

Rolling 3 Year Risk / Return versus the MSCI EM  
March 2003 to December 2007 (Quarterly)



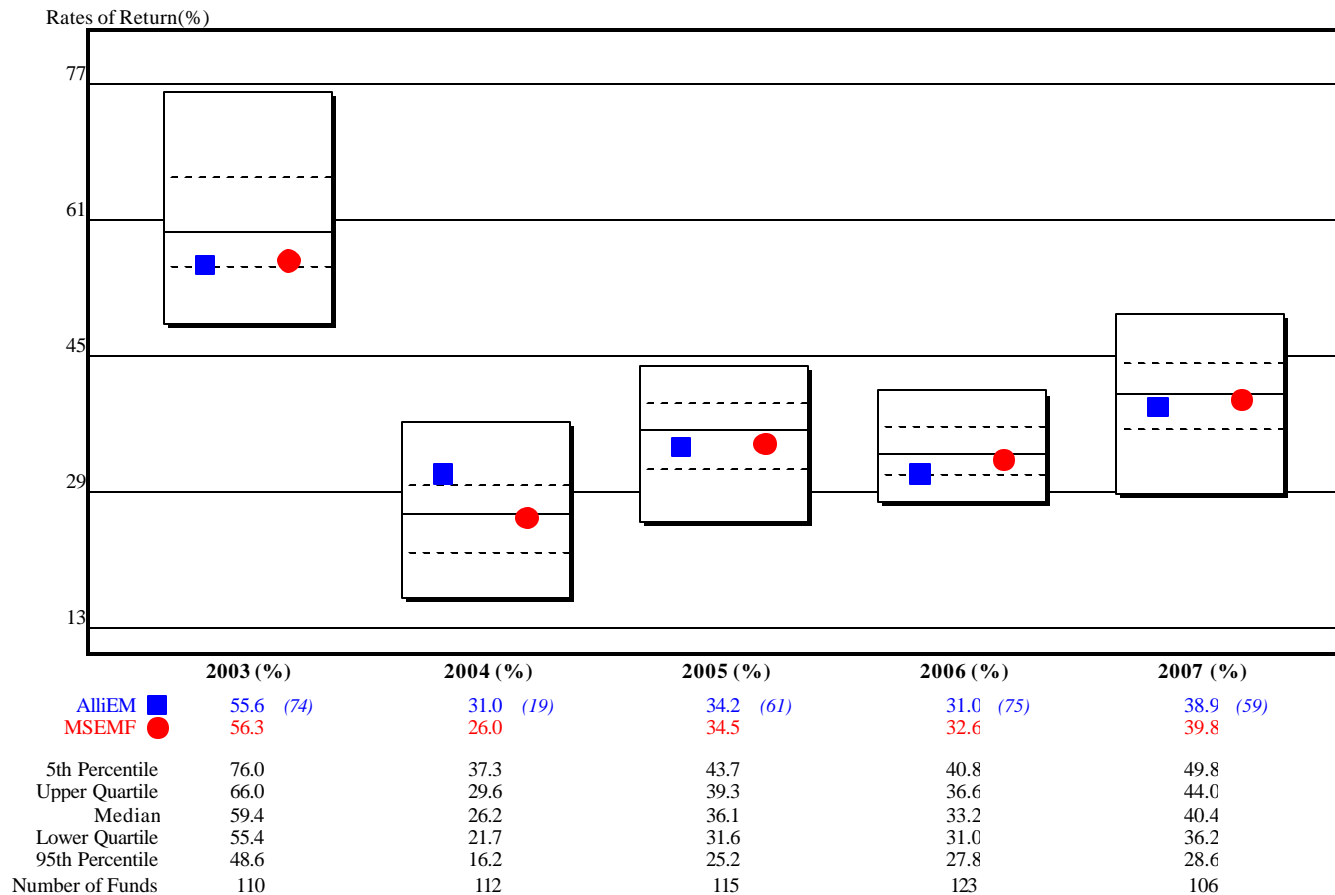
- Boston Company's rolling 3-year risk/return profile has migrated to the southwest quadrant in recent quarters.



# Alliance Capital Management EM

## Comparison with the Mercer Emerging Markets Equity Universe

Performance before fees for Calendar Years ended December 2007



- Alliance outperformed the MSCI Emerging Markets Index and ranked above the Mercer Emerging Markets Equity Universe median in 2004 only.

## Returns Consistency Analysis

Emerging Markets Equity (all funds) Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
AlliEM	20	2	10%	8	40%	7	35%	3	15%	53	11	55%

### Benchmark:

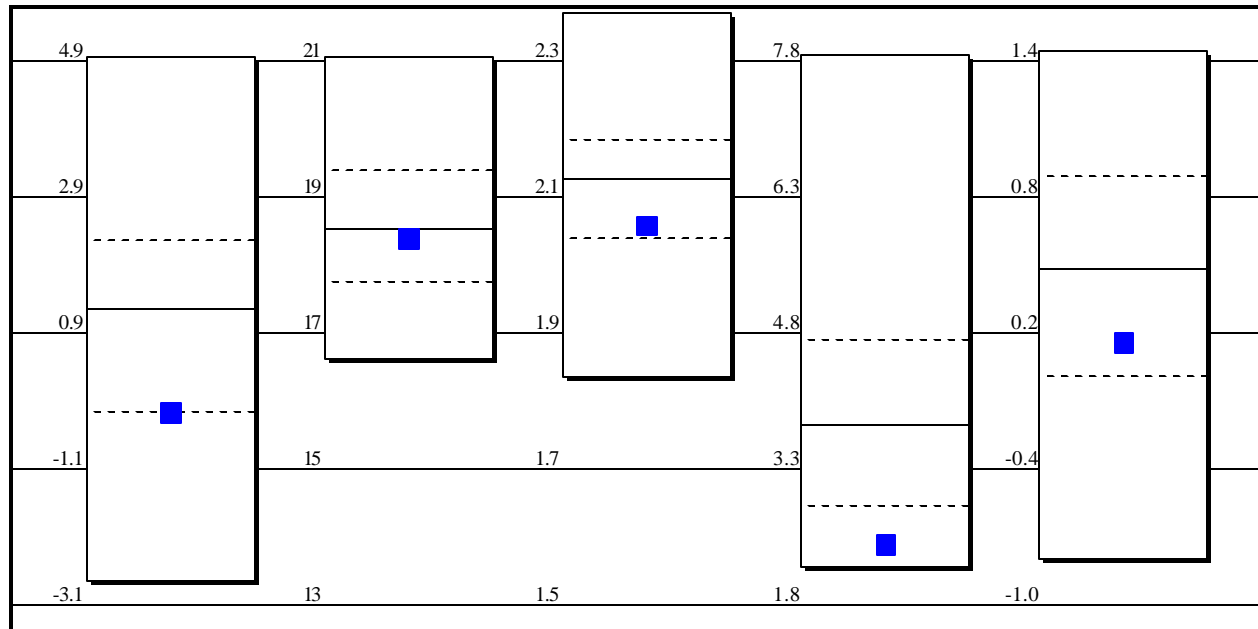
MSEMF	20	0	0%	6	30%	14	70%	0	0%	55
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- For 5 years, Alliance placed in the bottom half of the universe 50% of the time, with 3 quarters in the bottom quartile.

# Alliance Capital Management EM

## Comparison with the Mercer Emerging Markets Equity Universe

Risk and Return Characteristics (calculated quarterly) versus MSEM for the period from Mar 2003 to Dec 2007

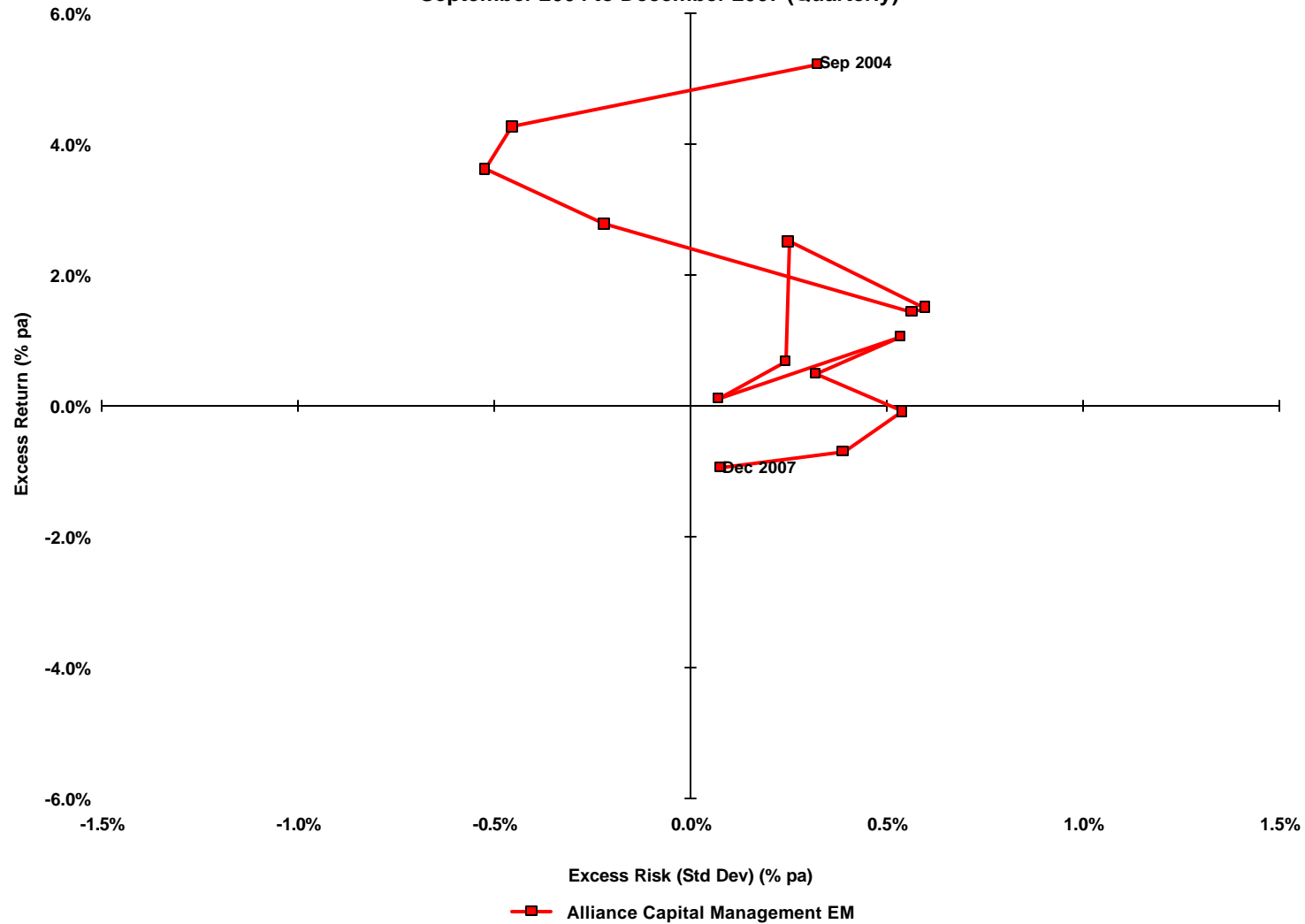


	Alpha (%pa)	Std Deviation (%pa)	Reward to Risk	Tracking Error (%pa)	Information Ratio
AlliEM	-0.3 (76)	18.4 (56)	2.1 (69)	2.5 (92)	0.2 (67)
5th Percentile	5.0	21.1	2.4	7.9	1.4
Upper Quartile	2.2	19.4	2.2	4.7	0.9
Median	1.2	18.5	2.1	3.8	0.5
Lower Quartile	-0.3	17.7	2.0	2.9	0.0
95th Percentile	-2.8	16.6	1.8	2.2	-0.8
Number of Funds	81	81	81	81	81

- For 5 years, Alliance has a negative alpha and has taken slightly less risk than the median manager.

# Alliance Capital Management EM

Rolling 3 Year Risk / Return versus the MSCI EM  
September 2004 to December 2007 (Quarterly)



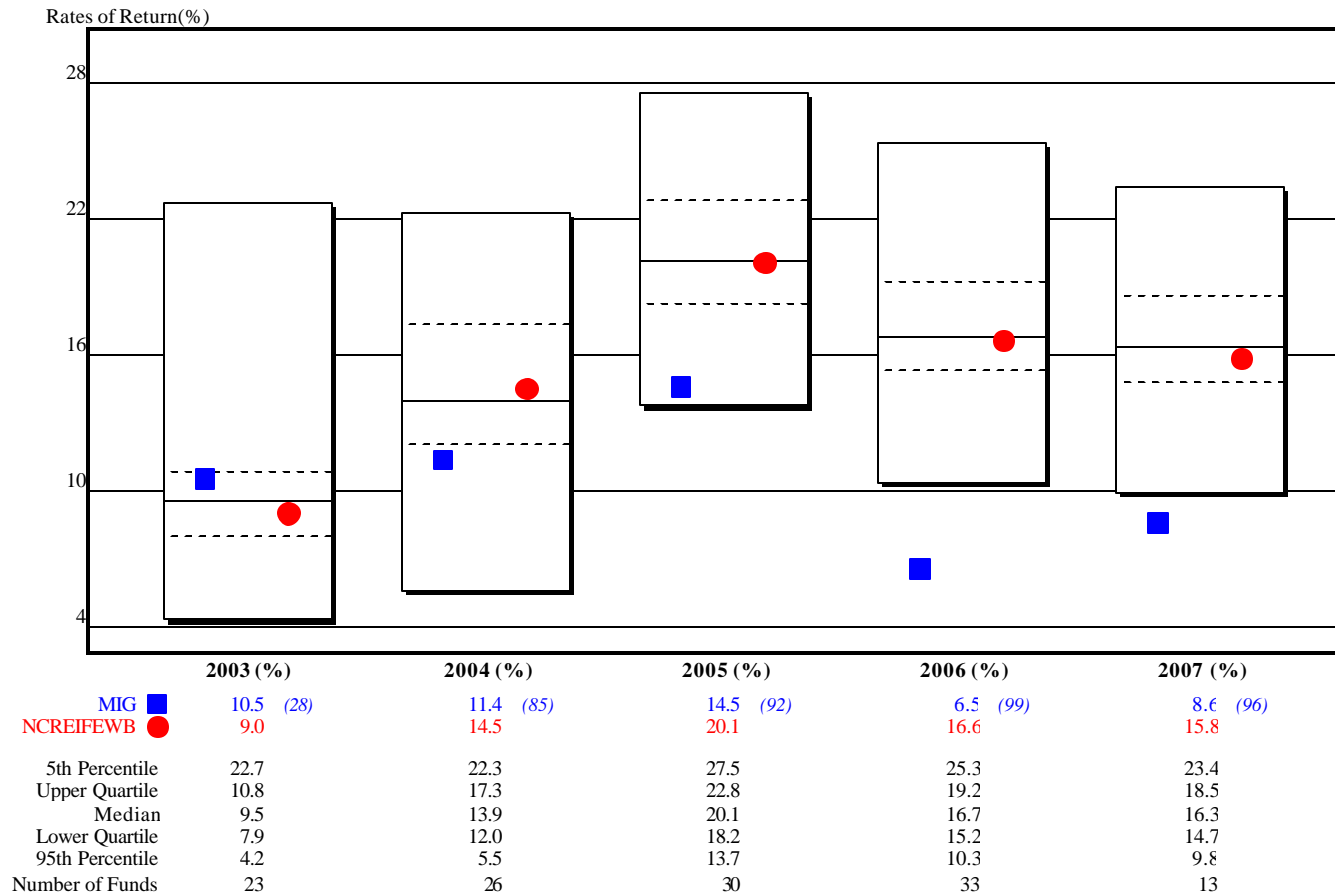
- Alliance's risk/return profile has migrated into the southeast quadrant.

Mercer

# MIG Realty Advisors

## Comparison with the Mercer US Real Estate Open End Universe

Performance before fees for Calendar Years ended December 2007



- Excluding 2003, MIG underperformed the NCREIF (EWB Calc) Index and placed in the bottom quartile of the Mercer U.S. Real Estate Open End Universe for all periods shown.

## Returns Consistency Analysis

US Real Estate Open End Quarterly Returns - before fees

Quarterly returns from Mar 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
MIG	20	3	15%	1	5%	4	20%	12	60%	73	4	20%

### Benchmark:

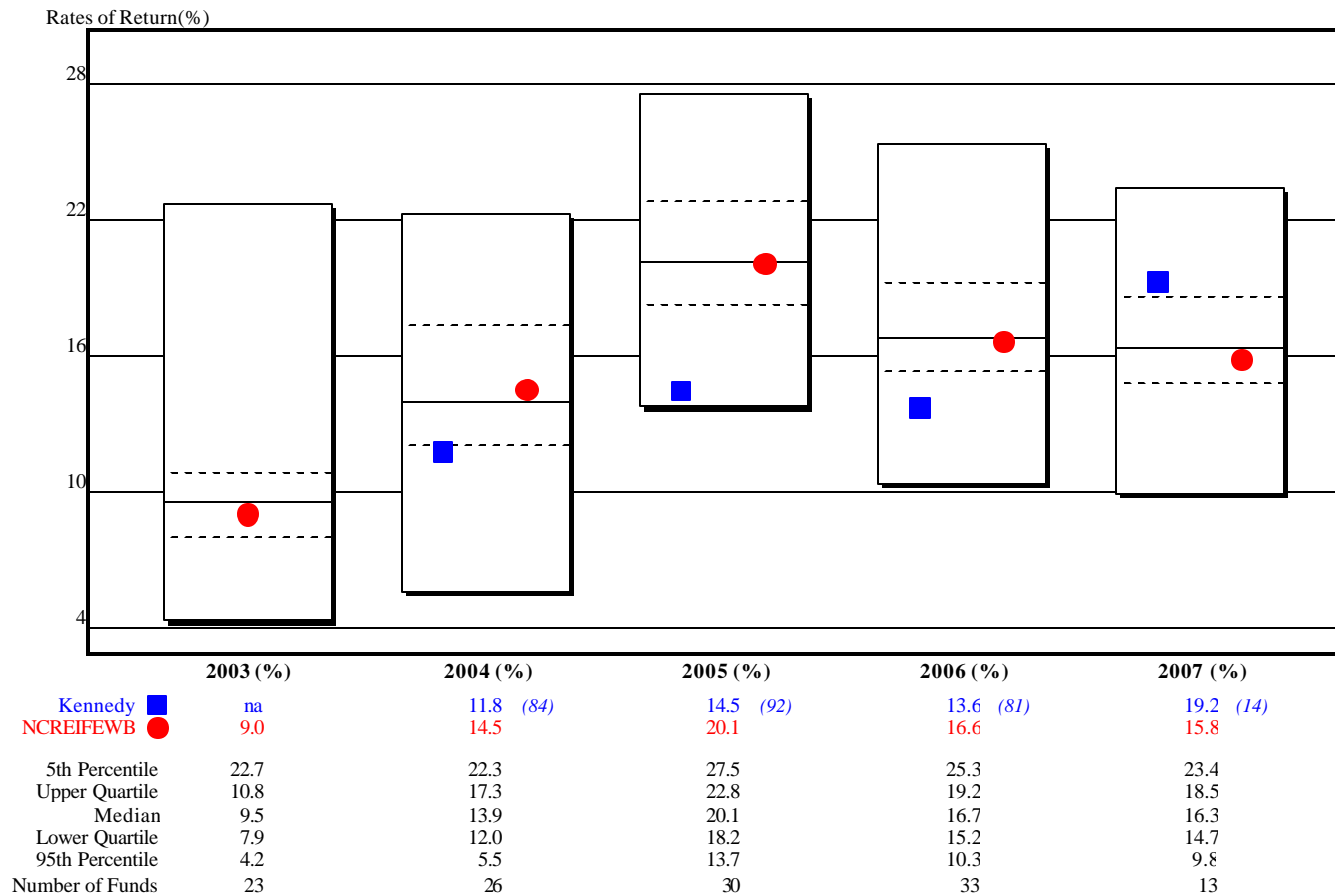
NCREIFEWB	20	1	5%	9	45%	10	50%	0	0%	48
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- For 5 years, MIG placed in the bottom half of the universe 80% of the time, with 12 quarters in the bottom quartile.

# Kennedy Associates

## Comparison with the Mercer US Real Estate Open End Universe

Performance before fees for Calendar Years ended December 2007



- Kennedy underperformed the NCREIF (EWB Calc) Index and placed in the bottom quartile of the Mercer U.S. Real Estate Open End Universe for all periods except 2007.

## Returns Consistency Analysis

US Real Estate Open End Quarterly Returns - before fees

Quarterly returns from Dec 2003 to Dec 2007

Manager	Number of Obs	First Quartile		Second Quartile		Third Quartile		Fourth Quartile		Avg Percentile Ranking	> Benchmark	
		Number	%	Number	%	Number	%	Number	%		Number	%
Kennedy	17	3	18%	1	6%	5	29%	8	47%	66	5	29%

### Benchmark:

NCREIFEWB	17	1	6%	8	47%	8	47%	0	0%	45
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- For the 51-month period, Kennedy has placed in the bottom half of the universe 76% of the time, with 8 quarters in the bottom quartile.



# Investment Policy Compliance

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# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
<b>Total Fund</b>	<b>\$ 2,782.6</b>	<b>100.0 %</b>				
<i>Rank vs. Total Funds Billion Dollar - Public</i>						
<i>Total Funds Billion Dollar - Public Med</i>			Yes	Yes	Yes	Yes
<i>Total Fund Benchmark</i>			No	Yes	No	Yes
<b>Total Domestic Equity Fund</b>	<b>1,033.6</b>	<b>37.1</b>				
<i>Rank vs. Mercer US Equity Combined Universe</i>						
<i>Mercer US Equity Combined Universe Med</i>			No	No	No	No
<i>S&amp;P 500 - Total Return Index</i>			Yes	No	No	Yes
<b>Index Equity</b>						
<i>RhumbLine Advisers - Large Cap Index Equity</i>	246.3	8.9				
<i>Rank vs. Mercer US Equity Combined Universe</i>						
<i>Mercer US Equity Combined Universe Med</i>			No	No	No	No
<i>S&amp;P 500 - Total Return Index</i>			No	No	No	No
<i>RhumbLine Advisers - Large Cap Index Equity-Net</i>	246.3	8.9				
<i>Rank vs. Mercer US Equity Combined Universe</i>						
<i>Mercer US Equity Combined Universe Med</i>			No	No	No	No
<i>S&amp;P 500 - Total Return Index</i>			No	No	No	No
<b>Growth Equity</b>						
<i>State Street Corp Global Markets - Formerly Globalt</i>	47.8	1.7				
<i>Rank vs. Mercer US Equity Large Cap Growth Universe</i>						
<i>Mercer US Equity Large Cap Growth Universe Med</i>			Yes	No	No	No
<i>Russell 1000 Growth Index</i>			Yes	Yes	No	Yes
<i>Russell 1000 Growth + 1%</i>			Yes	No	No	No
<i>State Street Corp Global Markets - Formerly Globalt-Net</i>	47.8	1.7				
<i>Rank vs. Mercer US Equity Large Cap Growth Universe</i>						
<i>Mercer US Equity Large Cap Growth Universe Med</i>			Yes	No	No	No
<i>Russell 1000 Growth Index</i>			Yes	Yes	No	No
<i>Russell 1000 Growth + 1%</i>			Yes	No	No	No

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
INTECH - Large Cap Growth Equity	\$ 56.9	2.0 %				
Rank vs. Mercer US Equity Large Cap Growth Universe						
Mercer US Equity Large Cap Growth Universe Med			Yes	No	No	
Russell 1000 Growth Index			Yes	No	Yes	
Russell 1000 Growth + 1%			Yes	No	No	
INTECH - Large Cap Growth Equity-Net	56.9	2.0				
Rank vs. Mercer US Equity Large Cap Growth Universe						
Mercer US Equity Large Cap Growth Universe Med			Yes	No	No	
Russell 1000 Growth Index			Yes	No	No	
Russell 1000 Growth + 1%			Yes	No	No	
New Amsterdam Partners - Large Cap Growth Equity	167.0	6.0				
Rank vs. Mercer US Equity Large Cap Growth Universe						
Mercer US Equity Large Cap Growth Universe Med			No	No	No	No
S&P 500 - Total Return Index			Yes	No	No	Yes
S&P 500 + 1.0%			Yes	No	No	No
New Amsterdam Partners - Large Cap Growth Equity-Net	167.0	6.0				
Rank vs. Mercer US Equity Large Cap Growth Universe						
Mercer US Equity Large Cap Growth Universe Med			No	No	No	No
S&P 500 - Total Return Index			Yes	No	No	Yes
S&P 500 + 1.0%			Yes	No	No	No
UBS Global Asset Management - Large Cap Value Equity	131.0	4.7				
Rank vs. Mercer US Equity Large Cap Value Universe						
Mercer US Equity Large Cap Value Universe Med			Yes	No	No	No
Russell 3000 Index			No	No	Yes	Yes
Russell 3000 + 1%			No	No	No	No
UBS Global Asset Management - Large Cap Value Equity-Net	131.0	4.7				
Rank vs. Mercer US Equity Large Cap Value Universe						
Mercer US Equity Large Cap Value Universe Med			No	No	No	No
Russell 3000 Index			No	No	No	Yes
Russell 3000 + 1%			No	No	No	No

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
<b>Value Equity</b>						
Boston Partners Asset Mgmt. - Large Cap Value Equity	\$ 144.4	5.2 %				
<i>Rank vs. Mercer US Equity Large Cap Value Universe</i>						
<i>Mercer US Equity Large Cap Value Universe Med</i>			Yes	Yes	Yes	Yes
<i>Russell 1000 Value Index</i>			Yes	Yes	Yes	Yes
<i>Russell 1000 Value + 1.0%</i>			Yes	Yes	Yes	Yes
 Boston Partners Asset Mgmt. - Large Cap Value Equity-Net	 144.4	 5.2				
<i>Rank vs. Mercer US Equity Large Cap Value Universe</i>						
<i>Mercer US Equity Large Cap Value Universe Med</i>			Yes	Yes	Yes	Yes
<i>Russell 1000 Value Index</i>			Yes	Yes	Yes	Yes
<i>Russell 1000 Value + 1.0%</i>			Yes	Yes	Yes	No
 Provident Investment Counsel - Small Cap Growth Equity	 77.5	 2.8				
<i>Rank vs. Mercer US Equity Small Cap Growth Universe</i>						
<i>Mercer US Equity Small Cap Growth Universe Med</i>			Yes	Yes	Yes	Yes
<i>Russell 2000 Growth Index</i>			No	Yes	Yes	Yes
<i>Russell 2000 Growth + 2%</i>			No	Yes	Yes	No
 Provident Investment Counsel - Small Cap Growth Equity-Net	 77.5	 2.8				
<i>Rank vs. Mercer US Equity Small Cap Growth Universe</i>						
<i>Mercer US Equity Small Cap Growth Universe Med</i>			Yes	Yes	No	No
<i>Russell 2000 Growth Index</i>			No	Yes	Yes	Yes
<i>Russell 2000 Growth + 2%</i>			No	Yes	No	No
 RhumbLine Advisers	 98.9	 3.6				
<i>Rank vs. Mercer US Equity Small Cap Core Universe</i>						
<i>Mercer US Equity Small Cap Core Universe Med</i>			Yes	No	No	
<i>Russell 2000 Index</i>			No	Yes	Yes	
 RhumbLine Advisers-Net	 98.9	 3.6				
<i>Rank vs. Mercer US Equity Small Cap Core Universe</i>						
<i>Mercer US Equity Small Cap Core Universe Med</i>			Yes	No	No	
<i>Russell 2000 Index</i>			No	Yes	Yes	

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
<b>Small Cap Value</b>						
TCW Group - Small Cap Value Equity	\$ 63.9	2.3 %				
Rank vs. Mercer US Equity Small Cap Value Universe						
Mercer US Equity Small Cap Value Universe Med			Yes	No	No	No
Russell 2000 Index			No	No	No	No
Russell 2000 + 2.0%			No	No	No	No
TCW Group - Small Cap Value Equity-Net	63.9	2.3				
Rank vs. Mercer US Equity Small Cap Value Universe						
Mercer US Equity Small Cap Value Universe Med			No	No	No	No
Russell 2000 Index			No	No	No	No
Russell 2000 + 2.0%			No	No	No	No
<b>Total Intl Equity - Established Markets</b>	<b>623.0</b>	<b>22.4</b>				
Rank vs. Mercer Intl Equity Universe						
Mercer Intl Equity Universe Med			No	Yes	No	Yes
MSCI EAFE Net Dividend Index			Yes	Yes	Yes	Yes
AQR Capital Management, LLC International Equity	119.2	4.3				
Rank vs. Mercer Intl Equity Universe						
Mercer Intl Equity Universe Med			No	No		
MSCI EAFE Net Dividend Index			No	No		
MSCI EAFE NET +1.5%			No	No		
AQR Capital Management, LLC International Equity-Net	119.2	4.3				
Rank vs. Mercer Intl Equity Universe						
Mercer Intl Equity Universe Med			No	No		
MSCI EAFE Net Dividend Index			No	No		
MSCI EAFE NET +1.5%			No	No		

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
Brandes Investment Partners - International Equity	\$ 242.7	8.7 %				
<i>Rank vs. Mercer Intl Equity Universe</i>						
<i>Mercer Intl Equity Universe Med</i>			Yes	No	No	Yes
<i>MSCI EAFE Net Dividend Index</i>			Yes	No	No	Yes
<i>MSCI EAFE NET +1.5%</i>			Yes	No	No	Yes
Brandes Investment Partners - International Equity-Net	242.7	8.7				
<i>Rank vs. Mercer Intl Equity Universe</i>						
<i>Mercer Intl Equity Universe Med</i>			No	No	No	Yes
<i>MSCI EAFE Net Dividend Index</i>			Yes	No	No	Yes
<i>MSCI EAFE NET +1.5%</i>			Yes	No	No	Yes
William Blair & Company - International Equity	261.1	9.4				
<i>Rank vs. Mercer Intl Equity Universe</i>						
<i>Mercer Intl Equity Universe Med</i>			Yes	Yes	Yes	Yes
<i>MSCI All Country World Ex United States Net Index</i>			Yes	Yes	Yes	Yes
<i>MSCI AC World x US Net + 1.5%</i>			Yes	Yes	Yes	Yes
William Blair & Company - International Equity-Net	261.1	9.4				
<i>Rank vs. Mercer Intl Equity Universe</i>						
<i>Mercer Intl Equity Universe Med</i>			Yes	Yes	Yes	Yes
<i>MSCI All Country World Ex United States Net Index</i>			Yes	Yes	Yes	Yes
<i>MSCI AC World x US Net + 1.5%</i>			No	Yes	Yes	Yes
<b>Total Intl Equity - Emerging Markets</b>	<b>182.6</b>	<b>6.6</b>				
<i>Rank vs. Mercer Emerging Markets Equity Universe</i>						
<i>Mercer Emerging Markets Equity Universe Med</i>			No	No	No	No
<i>MSCI Emerging Markets Index</i>			No	No	No	No

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
Alliance Capital Mgmt Emerging Markets Equity	\$ 95.3	3.4 %				
Rank vs. Mercer Emerging Markets Equity Universe						
Mercer Emerging Markets Equity Universe Med			No	No	No	No
MSCI Emerging Markets Index			Yes	No	No	Yes
MSCI Emerging Markets + 2%			Yes	No	No	No
Alliance Capital Mgmt Emerging Markets Equity-Net	95.3	3.4				
Rank vs. Mercer Emerging Markets Equity Universe						
Mercer Emerging Markets Equity Universe Med			No	No	No	No
MSCI Emerging Markets Index			Yes	No	No	No
MSCI Emerging Markets + 2%			Yes	No	No	No
Boston Company Asset Mgmt. Emerging Markets Equity	87.2	3.1				
Rank vs. Mercer Emerging Markets Equity Universe						
Mercer Emerging Markets Equity Universe Med			No	No	No	No
MSCI Emerging Markets Index			No	No	No	No
MSCI Emerging Markets + 2%			No	No	No	No
Boston Company Asset Mgmt. Emerging Markets Equity-Net	87.2	3.1				
Rank vs. Mercer Emerging Markets Equity Universe						
Mercer Emerging Markets Equity Universe Med			No	No	No	No
MSCI Emerging Markets Index			No	No	No	No
MSCI Emerging Markets + 2%			No	No	No	No
<b>Total Domestic Core Fixed Income Fund</b>	<b>564.9</b>	<b>20.3</b>				
Rank vs. Mercer US Fixed Core Universe						
Mercer US Fixed Core Universe Med			No	No	Yes	Yes
Lehman Brothers Aggregate Bond			No	No	Yes	Yes

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
Seix Investment Advisors, Inc - Fixed Income	\$ 282.0	10.1 %				
<i>Rank vs. Mercer US Fixed Core Universe</i>						
<i>Mercer US Fixed Core Universe Med</i>			Yes	Yes	No	Yes
<i>LB Aggregate + 0.5%</i>			No	No	No	Yes
Seix Investment Advisors, Inc - Fixed Income-Net	282.0	10.1				
<i>Rank vs. Mercer US Fixed Core Universe</i>						
<i>Mercer US Fixed Core Universe Med</i>			Yes	Yes	No	Yes
<i>LB Aggregate + 0.5%</i>			No	No	No	Yes



# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
Western Asset Management Company	\$ 282.9	10.2 %				
<i>Rank vs. Mercer US Fixed Core Universe</i>						
<i>Mercer US Fixed Core Universe Med</i>			No	No	No	Yes
<i>Lehman Brothers Aggregate Bond</i>			No	No	No	Yes
<i>LB Aggregate + 0.5%</i>			No	No	No	Yes
Western Asset Management Company-Net	282.9	10.2				
<i>Rank vs. Mercer US Fixed Core Universe</i>						
<i>Mercer US Fixed Core Universe Med</i>			No	No	No	Yes
<i>Lehman Brothers Aggregate Bond</i>			No	No	No	Yes
<i>LB Aggregate + 0.5%</i>			No	No	No	Yes
Income Research & Mgmt., Inc. Long Duration	109.8	3.9				
<i>Rank vs. Mercer US Fixed Long Duration Universe</i>						
<i>Mercer US Fixed Long Duration Universe Med</i>			Yes	Yes	No	
<i>Lehman Brothers U.S. Gov/Credit-Long Term</i>			Yes	Yes	No	
<i>Lehman Brothers U.S. Gov/Credit-Long Term +0.5%</i>			Yes	No	No	
Income Research & Mgmt., Inc. Long Duration-Net	109.8	3.9				
<i>Rank vs. Mercer US Fixed Long Duration Universe</i>						
<i>Mercer US Fixed Long Duration Universe Med</i>			Yes	Yes	No	
<i>Lehman Brothers U.S. Gov/Credit-Long Term</i>			Yes	Yes	No	
<i>Lehman Brothers U.S. Gov/Credit-Long Term +0.5%</i>			Yes	No	No	
Total Real Estate Fund	215.3	7.7				
<i>Rank vs. Mercer US Real Estate Open End Universe</i>						
<i>Mercer US Real Estate Open End Universe Med</i>			No	No	No	No
<i>NCREIF Property Index - EWB Calc</i>			No	No	No	No

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
MIG Realty Advisors - Real Estate	\$ 49.9	1.8 %				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			No	No	No	No
NCREIF Property Index - EWB Calc			No	No	No	No
NCREIF PROPERTY + 1.5%			No	No	No	No
MIG Realty Advisors - Real Estate-Net	49.9	1.8				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			No	No	No	No
NCREIF Property Index - EWB Calc			No	No	No	No
NCREIF PROPERTY + 1.5%			No	No	No	No
Kennedy Associate Real Estate - Real Estate	104.0	3.7				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			No	Yes	No	
NCREIF Property Index - EWB Calc			No	Yes	No	
NCREIF PROPERTY + 1.5%			No	Yes	No	
Kennedy Associate Real Estate - Real Estate-Net	104.0	3.7				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			No	Yes	No	
NCREIF Property Index - EWB Calc			No	Yes	No	
NCREIF PROPERTY + 1.5%			No	Yes	No	
MEPT	61.4	2.2				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			Yes	No		
NCREIF Property Index - EWB Calc			No	Yes		
NCREIF PROPERTY + 1.5%			No	No		
MEPT-Net	61.4	2.2				
Rank vs. Mercer US Real Estate Open End Universe						
Mercer US Real Estate Open End Universe Med			Yes	No		
NCREIF Property Index - EWB Calc			No	No		
NCREIF PROPERTY + 1.5%			No	No		

# San Jose Police and Fire Retirement System

## Compliance Summary

Period Ending December 31, 2007

	Market Value	% of Total Fund	Quarter	Annualized		
				1 Year	3 Years	5 Years
Pantheon Ventures S&P 500 + 3%	\$ 19.4	0.7 %	Yes	No		
Pantheon Ventures-Net S&P 500 + 3%	19.4	0.7	Yes	No		
Portfolio Advisors S&P 500 + 3%	18.6	0.7	Yes	Yes		
Portfolio Advisors-Net S&P 500 + 3%	18.6	0.7	Yes	Yes		
HarbourVest Partners, LLC S&P 500 + 3%	12.6	0.5	Yes	Yes		
HarbourVest Partners, LLC-Net S&P 500 + 3%	12.6	0.5	Yes	Yes		

# Appendix

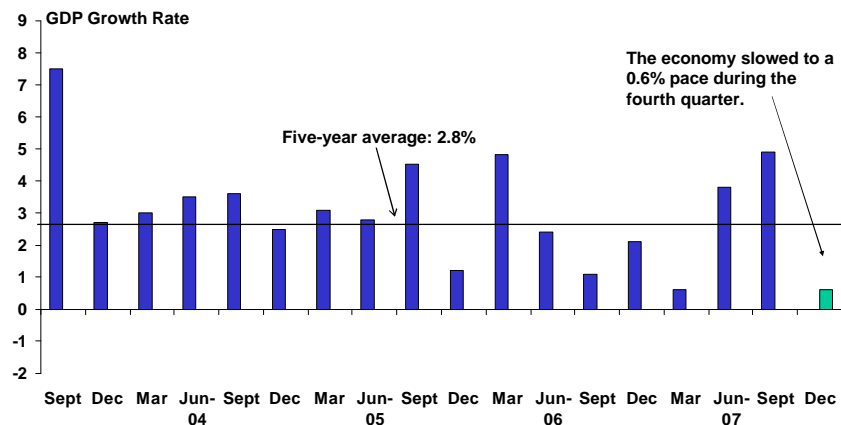
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# Economic Environment

For Periods Ending December 2007

## Economic Profile

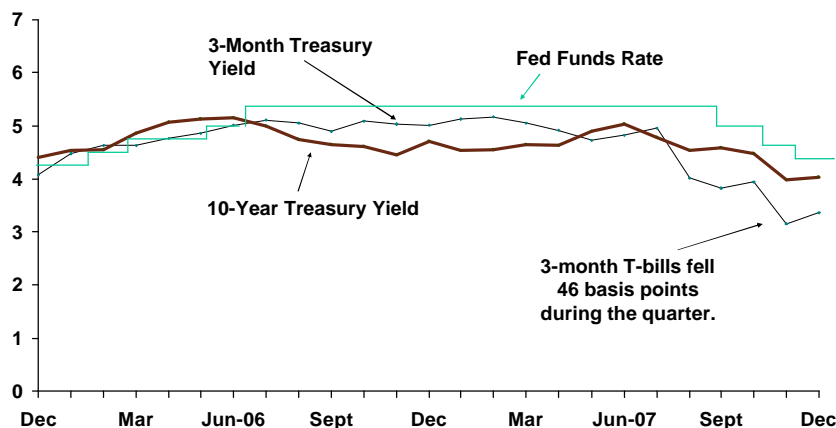
### GDP Growth Rate



- Economic growth slowed during the quarter amid weak consumer spending, lackluster payroll growth and the ongoing credit turmoil. The initial government estimate of fourth-quarter GDP growth was 0.6%.
- The labor market worsened in December to the weakest level since November 2005 as the unemployment rate jumped up to 5.0%.
- Consumer confidence remained low amid concerns over higher energy prices, jobs and the overall economy. Consumer spending slowed during the quarter as holiday sales rose at a 3% annual rate, the slowest pace of growth since 2002.
- The housing market remained bleak. Unsold-home inventories surged to record highs and home prices fell at a 12% annual rate over the last three months.

## Interest Rates and Inflation

### Treasury Yields



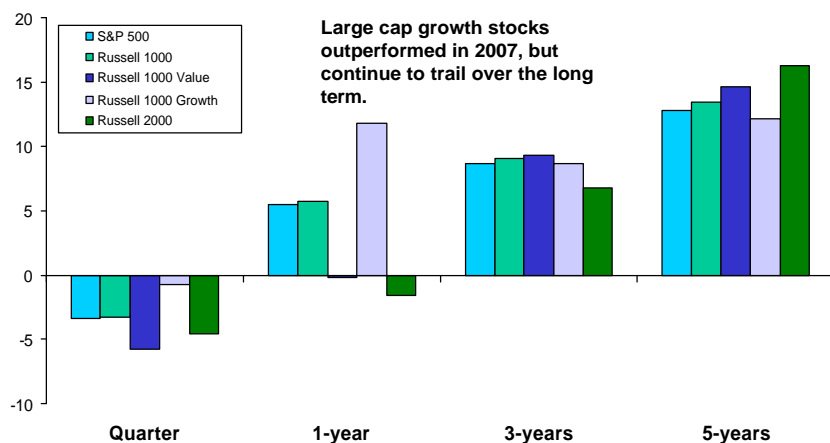
- The Fed cut interest rates 25 basis points in both October and December for a total of 50 basis points, bringing the federal funds rate to 4.25%.
- The yield curve steepened during the quarter as the 2-year Treasury yield fell 92 basis points to 3.05% and the 10-year Treasury yield fell 55 basis points to 4.04%. The 2- to 10-year yield slope steepened by 36 basis points.
- Over the quarter, the 3-month T-bill yield decreased 46 basis points to 3.36%, while the yield on 30-year Treasuries fell 38 basis points to 4.45%.
- The pace of inflation slowed in December, but was up 0.7% for the quarter and increased 4.1% on a year-over-year basis. Core CPI, up 2.4% from a year ago, increased at a more moderate pace.

# Equity Market Performance

For Periods Ending December 2007

## Domestic Equity Market Performance

### Market Index Performance



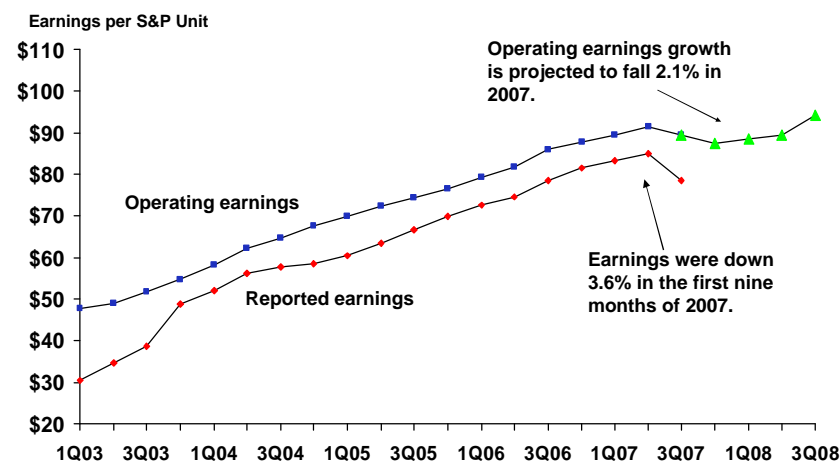
- The stock market slid during the fourth quarter as investors' confidence remained weak. The S&P 500 Index was down 3.3% for the quarter, resulting in a 5.5% gain for 2007. The Russell 1000 Index lost 3.2% and 5.8% for the same periods.
- Small cap stocks, as measured by the Russell 2000 Index, underperformed mid and large cap stocks during the quarter and year, losing 4.6% and 1.6% respectively.
- Growth outperformed value across all market capitalizations during the quarter and held a solid lead for the year. For the first year since 1999, large cap growth stocks, up 11.8%, outperformed large cap value stocks, which lost 0.2%.
- Utilities and energy were the top-performing sectors during the quarter, while financial services posted the weakest results. For the year, energy and materials led gaining 32.7% and 26.2% respectively.

### Russell 1000 Sector Returns

Sector	4Q07 Return	2007 Return
Energy	5.0	32.7
Materials	1.1	26.2
Consumer Discretionary	-10.3	-11.2
Consumer Staples	3.6	14.4
Health Care	-0.4	7.3
Financials	-13.3	-17.6
Information Technology	-0.1	16.4
Telecommunication Services	-6.3	10.2
Utilities	6.7	18.9
Industrials	-4.0	13.0

Source: Returns and security data for the Russell indices are provided by Russell/Mellon Analytical Services. Russell indices are trademarks/service marks of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company.

### S&P 500 Trailing 4-Quarter Earnings per Unit



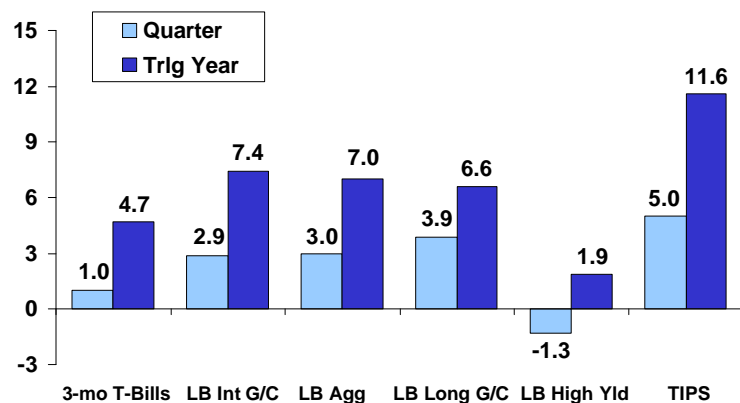
Source: Standard & Poor's

# Fixed Income Market Performance

For Periods Ending December 2007

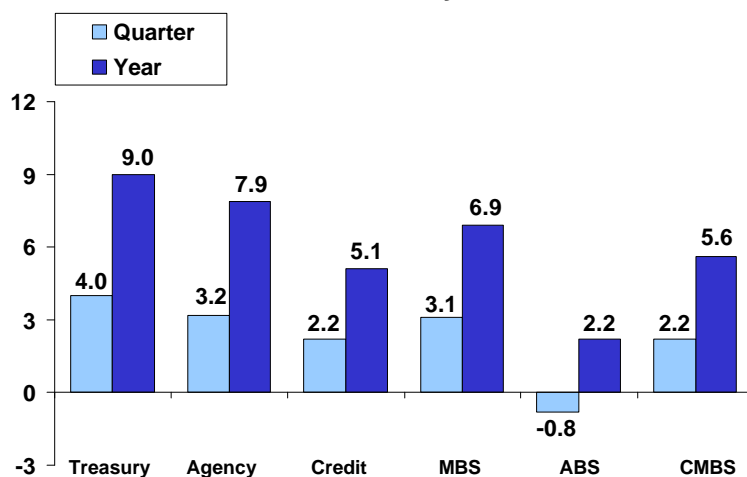
## Fixed Income Market Performance

### Performance by Maturity and Sector

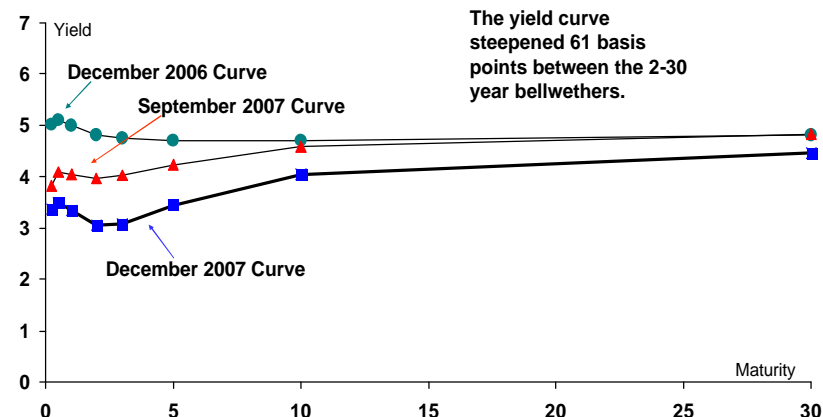


- The investment-grade bond market posted positive results during the fourth quarter as yields continued to fall. The Lehman Brothers Aggregate Bond Index advanced 3.0%, resulting in a 7.0% gain for the year.
- The Lehman Brothers Treasury Index was up 4.0% for the quarter and 9.0% for the year, its highest annual return since 2002. Long-term Treasuries outperformed intermediate-term Treasuries over both these periods.
- The Lehman Brothers Credit Index gained 2.2% for the quarter and 5.1% for the year. In general, intermediate-term bonds offered the best results during the quarter, but trailed long-term maturity issues in 2007. By quality, AAA-rated securities fared best during the quarter and year. Credit spreads continued to widen during the quarter.
- The Lehman Brothers MBS Index gained 3.1% for the quarter and 6.9% for the year. Asset-backed securities, tainted by consumer credit concerns, were the worst performing sector in the investment grade index.

### Performance by Issuer



### Treasury Yield Curves

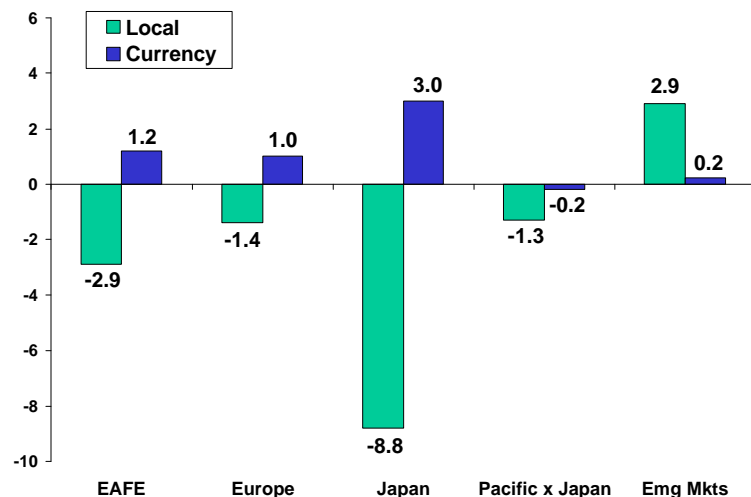


## Other Markets

For Periods Ending December 2007

### International Equity Market Performance

Regional Performance for the Quarter



- International equity markets outpaced U.S. markets as the MSCI EAFE Index fell 1.7% for the quarter, resulting in an 11.6% gain for the year. In local currency terms, the Index was down 2.9% for the quarter, but managed a 4.0% gain for the year.
- The dollar, after plunging in the summer and early fall, stabilized in November and December.
- The Pacific region ended the year up 5.6%, following a 4.6% loss in the fourth quarter. The Pacific ex-Japan region declined 1.5% during the quarter, but posted a 31.7% gain for the year due primarily to strong performance in Hong Kong.
- Stocks in the European region edged down 0.4% during the quarter, but returned a solid 14.4% for the year. Among the major economies, Germany posted the strongest results in 2007, gaining 35.9%.
- Emerging markets stocks dismissed concerns over slower U.S. growth, as the MSCI EM Index returned 3.7% in dollar terms for the quarter. For the year, the Index was up 39.8%, led by Latin America, which gained 50.7%. Emerging Asia and Emerging Europe were up 41.6% and 30.4% respectively.

### Other Asset Classes

#### High Yield Bonds

- The Lehman Brothers High Yield Bond Index lost 1.3% in the fourth quarter, ending the year with a 1.9% gain. The average yield spread versus Treasuries widened to 605 basis points.
- In 2007, intermediate-term issues outperformed long-term bonds and by quality B-rated bonds delivered the best results followed by BA-rated bonds.

#### Real Estate

- The FTSE NAREIT Index plunged 12.7% during the quarter, resulting in a 15.7% loss for the year.
- The latest data available for the private real estate market showed a third-quarter gain of 3.6% for the NCREIF Property Index.

#### Inflation Indexed Bonds

- Treasury Inflation Protected Securities (TIPS) were up 5.0% for the quarter and gained 11.6% for the year, outperforming Treasuries by 262 basis points.

#### International Bonds

- The Citigroup Non-U.S. Government Bond Index returned 3.9% in U.S. dollar terms during the quarter, resulting in an 11.5% gain in 2007.
- The Lehman Brothers Emerging Markets Index was up 2.1% in the fourth quarter and 5.2% for the year. The Emerging Middle East and Emerging Africa were the best performing regions in 2007.



# Market Returns Summary

For Periods Ending December 2007

		4TH QTR	YTD	1 YR	3 YRS*	5 YRS*	10 YRS*
Equity	S&P 500	-3.3	5.5	5.5	8.6	12.8	5.9
	Russell 1000 Value	-5.8	-0.2	-0.2	9.3	14.6	7.7
	Russell 1000 Growth	-0.8	11.8	11.8	8.7	12.1	3.8
	Russell MidCap	-3.5	5.6	5.6	11.1	18.2	9.9
	Russell MidCap Value	-6.0	-1.4	-1.4	10.1	17.9	10.2
	Russell MidCap Growth	-1.7	11.4	11.4	11.4	17.9	7.6
	Russell 2000	-4.6	-1.6	-1.6	6.8	16.3	7.1
	Russell 2000 Value	-7.3	-9.8	-9.8	5.3	15.8	9.1
	Russell 2000 Growth	-2.1	7.1	7.1	8.1	16.5	4.3
	Russell 3000	-3.3	5.1	5.1	8.9	13.6	6.2
	<i>Mercer Large Cap Value Equity Peer Group median</i>	-6.6	-2.9	-2.9	7.6	17.3	10.8
	<i>Mercer Large Cap Growth Equity Peer Group median</i>	0.1	14.7	14.7	10.5	13.7	7.2
	<i>Mercer Small Cap Value Equity Peer Group median</i>	-6.6	-2.9	-2.9	7.6	17.3	10.8
	<i>Mercer Small Cap Growth Equity Peer Group median</i>	-3.1	11.1	11.1	10.3	17.3	9.0
Fixed Income	Citigroup Brothers 3-Month T-Bill	1.0	4.7	4.7	4.2	2.9	3.6
	Lehman Brothers Int. Gov't/Credit	2.9	7.4	7.4	4.3	4.1	5.8
	Lehman Brothers Gov't/Credit	3.1	7.2	7.2	4.4	4.4	6.0
	Lehman Brothers Aggregate	3.0	7.0	7.0	4.6	4.4	6.0
	Lehman Brothers Intermediate Government	3.4	8.5	8.5	4.6	3.7	5.5
	Lehman Brothers Long Gov't/Credit	3.9	6.6	6.6	4.9	5.8	7.0
	Lehman Brothers Mortgages	3.1	6.9	6.9	4.9	4.5	5.9
	Lehman Brothers TIPS	5.0	11.6	11.6	4.9	6.3	7.5
	Lehman Brothers High Yield	-1.3	1.9	1.9	5.4	10.9	5.5
	<i>Mercer Core Fixed Income Peer Group median</i>	2.6	6.7	6.7	4.7	4.8	6.2
International	MSCI EAFE	-1.7	11.6	11.6	17.3	22.1	9.0
	MSCI Emerging Markets	3.7	39.8	39.8	35.6	37.5	14.5
	Citigroup Non-US Gov't Bond	3.9	11.5	11.5	2.7	7.5	6.3
	Citigroup Non-US Gov't Bond - Hedged	1.9	4.9	4.9	4.6	4.1	5.7
	<i>Mercer International Equity Universe median</i>	-0.8	13.5	13.5	18.9	23.1	10.7
Miscellaneous	NCREIF Property Index**	3.6	17.3	17.3	18.0	14.8	13.1
	FTSE NAREIT	-12.7	-15.7	-15.7	8.5	18.2	10.5
	Merrill Lynch Inv. Grade Convertible	-0.7	7.9	7.9	5.2	6.3	5.6
	Goldman Sachs Commodity Index	11.6	32.7	32.7	12.2	14.9	9.3
Inflation	CPI	0.7	4.1	4.1	3.3	3.0	2.7

Index at 9/30/07	Dow Jones	NASDAQ	S&P 500	Russell 2000	Wilshire 5000
	13,895.63	2,701.50	1,526.75	805.45	15,362.00
Index at 12/31/07	Dow Jones	NASDAQ	S&P 500	Russell 2000	Wilshire 5000
	13,264.82	2,652.28	1,468.36	766.03	14,819.60

\* Annualized

\*\* The NCREIF Property returns are one quarter in arrears.

# Domestic Equity – Largest Positive & Negative Contributors to S&P 500

For Fourth Quarter 2007

## Domestic Equity - Largest Positive & Negative Contributors to S&P 500 For Periods Ending December 31, 2007

S&P 500 Quarterly Return = -3.33%

### 25 Largest Positive Contributors

Stock	Return (%)	End of Quart Weight	Cap Rank
MICROSOFT CORP	21.24%	2.23%	3
APPLE COMPUTER INC	29.07%	1.35%	9
GOOGLE INC	21.90%	1.24%	11
MERCK & CO INC	13.16%	0.98%	21
ALTRIA GROUP INC	9.78%	1.24%	12
MONSANTO CO	30.50%	0.47%	40
UNITEDHEALTH GROUP INC	20.17%	0.58%	32
OCCIDENTAL PETROLEUM CO	20.54%	0.50%	38
PROCTER & GAMBLE CO	4.90%	1.77%	5
WAL-MART STORES INC	9.39%	0.87%	26
TRANSOCEAN INC	26.63%	0.35%	64
HESS CORP	51.75%	0.22%	110
ARCHER DANIELS MIDLAND CO	40.80%	0.23%	103
DEERE & CO	25.82%	0.32%	72
COCA-COLA CO	7.37%	0.95%	24
EXXON MOBIL CORP	1.62%	3.98%	1
MCDONALDS CORP	10.93%	0.54%	35
MEMC ELECTRONIC MATERIALS INC	50.34%	0.16%	151
DOMINION RESOURCES INC VA	13.52%	0.22%	112
APACHE CORP	19.58%	0.28%	91
ANADARKO PETROLEUM CORP	22.38%	0.24%	100
BANK OF NEW YORK MELLON CORP	11.01%	0.43%	49
CME GROUP INC	16.94%	0.29%	84
INTEL CORP	3.54%	1.21%	13
STATE STREET CORP	19.47%	0.24%	97

### 25 Largest Negative Contributors

Stock	Return (%)	End of Quarter Weight	Cap Rank
CITIGROUP INC	-35.90%	1.14%	17
GENERAL ELECTRIC CO	-9.71%	2.91%	2
BANK OF AMERICA CORP	-16.65%	1.42%	8
CISCO SYSTEMS INC	-18.29%	1.28%	10
AMERICAN INTL GRP INC	-13.53%	1.15%	16
WACHOVIA CORP	-23.04%	0.58%	33
FANNIE MAE	-33.68%	0.30%	77
WASHINGTON MUTUAL INC	-60.68%	0.09%	252
COMCAST CORP	-24.48%	0.44%	48
WELLS FARGO & CO	-14.43%	0.79%	27
SPRINT NEXTEL CORP	-30.76%	0.29%	85
FREDDIE MAC	-41.84%	0.18%	135
SLM CORP	-59.45%	0.08%	275
MERRILL LYNCH & CO INC	-24.29%	0.36%	62
BOEING CO	-16.38%	0.53%	36
IBM CORP	-7.89%	1.16%	15
TARGET CORP	-21.16%	0.32%	71
AMGEN INC	-17.91%	0.39%	55
MORGAN STANLEY	-15.36%	0.44%	47
PFIZER INC	-5.82%	1.21%	14
CELGENE CORP	-35.20%	0.14%	179
WALGREEN CO	-19.18%	0.29%	82
HOME DEPOT INC	-16.30%	0.35%	65
AMERICAN EXPRESS CO	-12.16%	0.47%	41
SCHERING-PLOUGH CORP	-15.60%	0.34%	68

Data Source: Compustat

Report Date: January 27, 2008

## GLOSSARY OF STYLE FACTORS

**The Factors** The *Returns to\** (see below) analysis is conducted using the following investment criteria or Factors:

### VALUE CRITERIA

**Book to Price** The ratio of the company's Book Value (the sum of Shareholders' Equity plus accumulated Retained Earnings from the P & L Account) to its Share Price.

This Factor has been one of the most successful measures of the intrinsic Value of company shares.

**Dividend Yield** The annual Dividend Paid per Share divided by the Share Price.

This Factor measures the Value of company shares according to the stream of dividend income resulting from share ownership.

**Earnings Yield** Annual Earnings per Share divided by the Share Price.

This Factor measures the worth of a company's shares according to the company's ability to support each share with after tax earnings.

**Cash Flow Yield** Annual Cash Flow per Share divided by the Share Price.

This Factor is related to the earnings yield but also includes other items, specifically: depreciation, amortizations, and provisions for deferred liabilities. It is intended to capture the cash availability of the company as a multiple of the share price, and offers a Value criteria based on the stream of accessible cash earnings.

**Sales to Price** Net Sales per Share divided by the Share Price.

This Factor measures the worth of a company's shares according to the annual sales volume supporting the company business. The item is considered by many analysts to be less susceptible to manipulation than other valuation criteria; it is, however, a less comprehensive measure of a company's range of activities.

**EBITDA to Price** Earnings before Interest, Taxes, Depreciations and Amortizations, divided by the Share Price.

This Factor assesses the worth of a company's shares according to the profitability of the company's operations, abstracting from taxes, any interest expenses on debt, depreciation, depletions and amortizations. Many analysts consider that this gives a good measure of a share's worth in terms of the company's genuine trading profitability.

### GROWTH CRITERIA

**Return on Equity** Net Income before Preferred Dividends divided by the Book Value of Shareholders' Common Equity.

RoE measures the profitability of the operations of the company as a proportion of the total amount of equity in the company. Since RoE multiplied by the reinvestment rate (the proportion of earnings not paid as dividends but reinvested in the company) gives the warranted growth rate of a company, RoE is a very usual measure of a company's growth potential.

**Earnings Growth** The average annual growth rate of Earnings over a trailing three years.

Earnings Growth is, perhaps, the clearest of the Growth criteria. However, it is subject to the distortions of reporting conventions and manipulation and, particularly in some markets, only known after a considerable lag.

**Income to Sales** The operating profit margin, annual Net Sales less Total Operating Expenses, divided by annual Net Sales.

This measure attempts to assess the company's potential for profitable, sustained expansion or growth.

**Sales Growth** The average annual growth rate of Net Sales per Share over a trailing three years.

Although growth in sales per share might be only a narrow measure of a company's business growth, and may be subject to a number of distortions, it is less subject to differences in reporting conventions or manipulation than many other Balance Sheet or Profit and Loss items.

**I/B/E/S 12 M Earnings Growth** I/B/E/S consensus forecast growth of Earnings over the next 12 months.

The I/B/E/S 12 Month Forward is calculated on a pro-rata basis from the forecasts for each company's next 2 annual reporting periods.

**I/B/E/S FY1 Revisions** I/B/E/S balance of Earnings forecast revisions for the next annual reporting period.

Calculated as the difference between the upwards revisions minus the downwards revisions, expressed as a percentage of the number of estimates.

## **SIZE & RISK CRITERIA**

**Size** The top 80% of each market, by market capitalization.

Small company securities are here understood to comprise the bottom 20%, by value, of each market.

**Market Beta** The "slope coefficient", ( $\beta$ ), from the simple regression:

Security Monthly Return = ( $\alpha + \beta * \text{Market Monthly Return} + \text{Random Error}$ )

The regression is carried out over rolling 36 month periods; where sufficient information is not available,  $\beta=1$  is assumed.

## **PERFORMANCE RECORD CRITERIA**

**Short Term Momentum** Short Term Momentum is calculated using a 6 month "memory" of monthly relative returns. The past period returns are weighted using a "decay ratio" of 2/3, per month.

**Medium Term Momentum** Medium Term Momentum is simply the 12 month percentage change in prices.

The Short Term and Medium Term Momentum factors measure the degree of simple price performance trending. They are useful in recognizing the trading characteristics of specific markets and in noticing occasional changing patterns through the market cycle.

## **OTHER CRITERIA**

**Debt to Equity** Total Debt as a percentage of total Common Equity.

The Debt to Equity ratio measures leverage, or gearing, a particular feature of share price risk - the higher the ratio the more changes in a company's fortune might be reflected in changes in the payment of dividends. The influence of this criterion is, however, especially subject to a number of particular specific considerations (e.g. sector differences, interest rate sensitivity). Consequently it is considered separately from the other "risk" criteria.

**Foreign Sales / Total Sales** International Sales as a percentage of Net Sales.

Although information is occasionally rather sparse, where the data are available, and reliable, this is frequently an important investment criterion. It is undoubtedly linked to movements in the exchange rate and company size, and has different interpretations in different industrial sectors.

**\*Return to** The *Return to* series represent the cumulative market-relative total returns (including dividend income) that an investor would achieve using the following investment strategy:

- Portfolios are constructed from the top half of the market, by market capitalization, of securities exhibiting the highest scores with respect to the criteria under review.
- Portfolios are constructed using market weights to establish the portfolio proportions.
- Dealing costs are not included; however, the extended six month rebalancing interval limits the effect of transactions charges and market impact.

The plots and statistics are constructed by compounding the monthly returns for each factor and comparing the "running totals" against the compound cumulative return for the market as a whole. The items plotted are the ratios, in percentage terms, of the cumulative returns to the various strategies, to the cumulative return to the market.

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