

**Minutes of the
Regular Meeting of the
Board of Trustees of the
Fire and Police Pension Fund, San Antonio
311 Roosevelt Avenue
San Antonio, Texas
May 25, 2010**

PRESENT: Chairman Larry A. Reed, Fire Retiree Representative; Councilman/Secretary Justin Rodriguez; Mayoral Designee Art A. Hall; Harry Griffin, Police Representative; Donald R. Wagoner and Bart Moczygemba, Fire Representatives.

ABSENT: Vice Chairman Shawn Ury, Police Representative; Alex Perez, Police Retiree Representative; Councilwoman Mary Alice P. Cisneros.

OTHERS

PRESENT: Warren Schott, Executive Director; Mark Gremmer, Deputy Director; Beatrice Ahrens; Aubrey Berry; Richard Matye, Pension Fund Staff; Frank B. Burney, Martin & Drought, P.C.

At 9:05 a.m., Chairman Reed called the meeting to order. Roll was called, and a quorum was declared present.

Pursuant to state law, the Board recessed to Executive Session at 9:07 a.m. to discuss Attorney-Client Matters including, but not limited to, the following issues (Real Estate, Litigation, Contracts, Personnel and Security) and to have an attorney-client consultation regarding legal issues pertaining to: Real Estate Acquisition (551.071); and Legal Consultation re Litigation and other Attorney Client Matters (551.071).

Mr. Griffin entered the meeting at 9:20 a.m.

The Board reconvened at 10:10 a.m.

MINUTES: Mr. Wagoner moved to approve the minutes of the regular meeting held April 27, 2010. The motion was seconded by Secretary Rodriguez, and it carried unanimously.

EDUCATIONAL OPPORTUNITIES

Mr. Hall moved to authorize Board members and appropriate staff to attend the following conferences:

- A. Pension Review Board Annual Seminar
June 14, 2010
- B. The Private Equity Exclusive Conference
July 26-27, 2010
- C. TEXPERS Summer Forum
August 21-23, 2010
- D. Kaplan Fox Investor Summit
June 3-4, 2010

Mr. Griffin seconded the motion.

Mr. Moczygemba stated that Vice Chairman Ury, who was not present at the meeting, expressed that he would not be in support of sending a Board member to the Kaplan Fox Investor Summit.

After some discussion, Mr. Wagoner requested that if someone attends the conference, they should report to the Board information received from the conference.

The motion carried 4 to 2, with Chairman Reed and Mr. Moczygemba opposed.

**PENSION
APPLICATIONS,
ADJUSTMENTS
AND REFUND OF
CONTRIBUTIONS:**

ANNUITY WITH A BACKDROP TO BE ROLLED OVER INTO A QUALIFIED PLAN OR PAID DIRECTLY TO INDIVIDUAL—(LISTED BY EFFECTIVE DATE OF RETIREMENT)

Mr. Wagoner made a motion to approve the following pension:

1. A 33 year, 6 month service pension for Assistant Police Chief Harry Griffin, effective June 5, 2010.

Secretary Rodriguez seconded the motion. The motion carried with Mr. Griffin abstaining.

Mr. Wagoner congratulated Mr. Griffin and wished him luck in his retirement.

REFUND OF CONTRIBUTION

Mr. Wagoner made a motion to approve the following refund of contributions:

1. A 9 year, 1 month refund of contribution for Firefighter Jose Salazar, III, effective December 7, 2009.
2. A 13 year, 6 month refund of contribution for Police Officer Michael R. Miller, effective April 30, 2010.
3. An 8 year, 2 month refund of contribution for Police Officer Tracie Williams, effective May 14, 2010.
4. A 1 year, 1 month refund of contribution for Police Officer Ryan W. Matjeka, effective June 1, 2010.

Mr. Griffin seconded the motion, and it carried unanimously.

**EXECUTIVE
DIRECTOR
REPORT:**

PRE-RETIREMENT SEMINAR REPORT

Mr. Schott reported there were 52 members present for the May 14th seminar. Mr. Schott reported it was the first time the seminar included a Health & Wellness session, as well as a new psychological speaker. Mr. Schott reported the seminar had gone well and comments received from those in attendance were positive.

POLICE CADET CLASS 2009-D – GRADUATION MAY 7, 2010

Mr. Schott requested a motion to approve Police Cadet Class 2009-D into membership. Mr. Griffin moved to approve the class into membership. The motion was seconded by Mr. Wagoner, and it carried unanimously.

UPDATE ON CIO POSITION

Mr. Schott reported that the Chief Investment Officer position had been posted in the Express News, Pensions & Investments magazine, NCTRS, and NASRA. Mr. Schott reported he has received 12 responses to date and will likely continue to accept applications until the end of June. He will continue to keep the Board informed on the status of this position.

DISCUSSION AND POSSIBLE ACTION ON AUTHORITY OF EXECUTIVE DIRECTOR REGARDING LITIGATION INVOLVING THE FUND

Mr. Wagoner made a motion to give the Executive Director authority to make decisions and the right to settle cases on litigation involving the Fund. The motion was seconded by Mr. Hall, and it carried unanimously.

FINANCIAL REPORT FOR PERIOD ENDING APRIL 30, 2010

Mr. Gremmer reported that the Statement of Net Plan Assets for the period ending April 30, 2010 were \$1,871,960,674.

COMMITTEE REPORTS

PERSONNEL/AUDIT COMMITTEE

No report.

DISABILITY COMMITTEE

No report.

LEGISLATIVE COMMITTEE

Mr. Wagoner reported that the Legislative Committee held a meeting on Thursday, May 13th to review and discuss the proposed legislative changes with the Fund's actuary, The Segal Company.

He reported there were 29 proposed changes, as well as several changes recommended by the Fund's attorney. In addition, one member was in attendance to provide an additional change for consideration related to a forward DROP.

The Committee discussed each of the items, but mainly focused on those items that had a cost associated with them. Mr. Wagoner then made a motion on behalf of the Committee, requesting Board's approval to have the Segal Company calculate cost for the following:

1. Provide a 100% cost-of-living adjustment to all members who retired between October 1, 1999 and September 30, 2001, with an 8% cap, then back to 75% CPI.
2. Change the formula for calculating the 13th and 14th Check from a 5 yr to a 3 yr period.
3. Offer a Forward Deferred Retirement Option Plan.
4. Allow Members to leave their BackDROP in the Pension Fund.
5. Benefit Formula Spreadsheet

The motion was seconded by Mr. Hall.

Chairman Reed offered a friendly amendment to also cost out when a backdrop is elected, to provide COLA increases in the calculation of the Annuity and backdrop. The amendment carried unanimously.

INVESTMENT COMMITTEE

Mr. Moczygemba reported the Investment Committee held a meeting on Wednesday, May 12, 2010.

The Committee received a quarterly performance review by CSG. The Pension Fund generated a 2.4% return for the quarter, and a 5.0% investment return year-to-date. Both are in line with our actuarial assumption of 8.0%. CSG also discussed two managers currently on Watchlist status, Goldman Sachs and Commonwealth Advisors. Mr. Moczygemba made a motion on behalf of the Committee, recommending Board terminate Goldman Sachs, effective immediately. The motion was seconded by Mr. Wagoner. After some discussion, the motion carried unanimously.

The Committee reported that due to the termination of Goldman Sachs, the Committee also has a recommendation to hire Northern Trust Global Investors to manage a Large Cap Growth Index Fund. The funding of this account will come from the Goldman Sachs account. Mr. Moczygemba then made the motion to approve. The motion was seconded by Mr. Griffin, and it carried unanimously.

The Committee also discussed the continued reduction of the Declaration Management and Research account. Declaration has built up an excess amount of cash; therefore, the Committee has a recommendation to rebalance \$5 million from Declaration to Cash. This will leave approximately \$5 million remaining with Declaration. Mr. Moczygemba then made the motion to approve. The motion was seconded by Mr. Wagoner, and it carried unanimously.

The Committee stated CSG also discussed Infrastructure and Commodities as investment opportunities. Both strategies were previously approved within

the October 2008 Asset/Liability Study. CSG presented the pros & cons of each strategy and also the different ways to invest in each. At this point, the Committee is comfortable with the Infrastructure strategy and has a recommendation to begin a search for a private infrastructure manager. The Mandate will be \$30 million. Mr. Moczygemba then made the motion to approve. The motion was seconded by Mr. Hall. After some discussion, the motion carried unanimously.

The Committee reported that CSG also presented its views on emerging markets. This was a request by the Board at the last Board Meeting. CSG's long term secular view is very positive on emerging markets, both equity and debt. Emerging markets will still be volatile but in light of the improved financial conditions of many of these countries, they believe they should represent an allocation in the portfolio. The Fund currently has 4% in equities and 7.5% in debt to dedicated emerging markets managers. In addition, three of the Fund's international equity managers and one of the Fund's fixed income managers also have emerging markets exposure. Due to the combined exposures, CSG feels the Fund's current exposure to emerging markets is sufficient. No further action was taken.

Next, the Committee received a presentation by Mir Imran on his venture capital fund, InCube Ventures II. The Committee was sufficiently interested in the investment, and therefore, has a recommendation to hire Pacific Corporate Group to prepare a Due Diligence Report on InCube Ventures II. The cost of the report is \$22,500 plus expenses. PCG will be conducting an on-site visit to InCube Labs in early June, and any Board Members and Staff are encouraged to attend. Secretary Rodriguez then made the motion to approve. The motion was seconded by Mr. Griffin. Mr. Moczygemba reported on behalf of Mr. Ury, who was not present at the meeting, that Mr. Ury expressed he would not be in support of this motion. After some discussion, the motion carried, with Mr. Moczygemba opposed.

Next the Committee received a presentation by Ron Swenson of Western Technologies. Western Technologies is the general partner of the Venture Lending and Leasing Partnerships. The Pension Fund has been an investor in Venture I, II, III, IV and V. It is now raising its sixth fund and would like the Pension Fund to participate. Because each of the previous funds have been top quartile performers, the Committee has a recommendation to commit \$10 million to the Venture Lending & Leasing VI Fund. Mr. Moczygemba then made the motion to approve. The motion was seconded by Mr. Wagoner. After some discussion, the motion carried unanimously.

The Committee also discussed the investment mandate for First Eagle Investment Management. Staff noted that First Eagle was hired in March 2010 as an ACWI (ex US) manager, and manages its portfolio as such. However, because this is a commingled product, the Pension Fund is not allowed to place any constraints on the strategy. Staff mentioned this because the commingled documents allow First Eagle to invest up to 100% of the portfolio in securities other than equities, such as fixed income, commodities, precious metals, etc. which would not be considered an ACWI (ex US)

mandate. It is extremely unlikely that First Eagle would ever do this, but the Committee directed Staff to continually monitor its portfolio to ensure proper diversification. No further action was taken on this issue.

Townsend was also present to discuss the Pension Fund's real estate allocation. It discussed the current performance of the Fund's real estate investments and the opportunities available. The first order of business was a discussion on our core RREEF investment. The Board had previously put in a redemption request to close out this investment. However, due to the heavy writedowns in core real estate, Townsend now recommends rescinding the redemption until market values rebound. Mr. Moczygemba then made a motion that Board approve to rescind the redemption request for RREEF America Reit II. The motion was seconded by Mr. Wagoner. After some discussion, the motion carried unanimously.

The Committee reported that Townsend provided several fee options for the Committee to consider regarding its real estate consulting services. The first option was a full discretionary mandate at a fee of 25 bps on our \$200 million real estate portfolio. The second option was an advisory mandate on the core and value added portfolio and a discretionary role on the opportunistic portfolio. At this time, the Committee is not prepared to make a recommendation on this issue. On a separate topic, Townsend did present several opportunistic investment opportunities that the Committee was interested in. As such, the Committee has a recommendation to commit \$15 million to the Townsend Opportunistic Real Estate Portfolio. The Board took no action on the recommendation.

REAL ESTATE COMMITTEE

Mr. Moczygemba reported the Real Estate Committee held a meeting on Thursday, May 13, 2010.

The Committee reviewed the Timeline regarding critical deadlines and received a status update on certain issues. Everything is still moving on schedule with the Appraisal and Property Condition Assessment. One issue that remains a concern is drainage. The Fund's attorney, staff and broker are working on this issue to find an acceptable solution for both the Fund and the seller.

An RFP has also been issued for property management & leasing services. The RFP was sent to seven firms and is due back June 1st. The Committee will narrow the list and conduct interviews shortly thereafter.

It was also noted that Shawn Ury, Larry Reed, Warren Schott and Pete Tassos conducted on-site interviews with the existing tenants at the building. The tenants were very forthcoming and the only issue that was mentioned was a water leak in the Nationwide space. This issue was mentioned to the current owner and has been fixed, and no leaks were found during the past week's rains.

Lastly, the Committee discussed numerous issues it would like considered during the space planning and finish-out of the location. Issues such as audio/visual capabilities, size of conference rooms, kitchen facilities, storage, etc. were provided to Staff.

Due to the feasibility period ending on June 8th, the Board discussed the need to schedule a Special Board Meeting prior to this date to make a final decision on the purchase of the building. The Board chose June 4th as the date for the meeting.

FINANCIAL DISCLOSURES COMMITTEE

Mr. Hall reported that the Financial Disclosures Committee did not meet this month; however, does have a meeting scheduled for June 8th at 9:00 a.m. to begin reviewing the Standards of Conduct for potential changes.

LEGAL REPORT:

No report.

DISBURSEMENTS: Mr. Wagoner moved and Mr. Moczygemba seconded a motion to approve paying the bills, which was unanimously approved.

(See attached disbursements dated May 25, 2010).

MEMBERS TO BE HEARD:

Mr. Michael Trainer, Pensioners Association President, invited Mr. Griffin to join the retirees association. Mr. Trainer also stated that the association would like to receive information from Board for the conferences they attend, such as reports and/or who attends.

Secretary Rodriguez stated that he attended an emerging manager conference where the Pension Fund was awarded the Emerging Managers Summit Public Plan of the Year Award. He presented the award to the Board.

ADJOURNMENT: Being that there was no further business; Mr. Wagoner moved to adjourn the meeting at 11:04 a.m. Mr. Moczygemba seconded the motion, and it carried unanimously.