

# FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

## Summary of Quarterly Investments Committee of the Whole

**THURSDAY                      SAN JOSÉ, CALIFORNIA      JUNE 25, 2009**

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### **Present:**

**David Busse, Chair**

**Matt Loesch, Vice Chair**

**Pete Constant**

**Ash Kalra**

**Ed Overton**

**Jeffrey Perkins**

### **Also Present:**

**Russell Crosby                      -Secretary/Director**

**Carmen Racy-Choy                      -Staff**

**Ali Amiry                                      -Staff**

**Ron Kumar                                      -Staff**

**Ceara O'Fallon                                      -Staff**

**Cristin James                                      -Staff**

**Patrick Thomas                                      -SIS**

**Deborah Gallegos                                      -SIS**

**Robert Thompson                                      -Dodge & Cox**

## **MEETING SUMMARY**

### **PRESENTATIONS**

The following presentations were given to the Board:

- **Strategic Investment Solutions (SIS) – Patrick Thomas  
Performance Monitoring Report for quarter ending March 31, 2009.**

Mr. Thomas reported that the markets continued to decline in the first months of 2009 with a rally in the U.S. equity markets at the end of March. Emerging markets had a strong rebound to start off the year outperforming both the U.S. and international markets. The U.S. Dollar strengthened against each of the major currencies, as the Euro, Pound, and Yen lost 4.4%, 2.2%, and 7.9% respectively. The Financial sector was the worst performing sector for the second consecutive quarter, returning -26.0%. The Information Technology sector was the best performer, providing the only positive return any sector has seen in the last two quarters.

Mr. Thomas stated that the System's portfolio performed at the median range of all its peers and outperformed the plan policy by 100 bps. Brandywine had another quarter with poor performance. The Boston Company dramatically bounced back and has been performing well. SIS and staff are currently negotiating fee reductions with The Boston Company.

Mr. Thomas explained that the portfolio has moved closer to the new target asset allocation with the exception of International Equity and Domestic Fixed Income. International Equity is at 15.1% with a target allocation of 20%. Domestic Fixed Income is at 32.3% with a target allocation of 36%.

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Member Overton asked if there are any managers on Watchlist or Probation.

Mr. Thomas stated that Brandywine and Fisher are both on probation and searches are being conducted for replacement managers. Dodge & Cox has had a difficult time in the last year but has come back in 2009.

Mr. Kumar stated that staff has Fisher, The Boston Company, and Brandywine on probation. Dodge & Cox may move to the Watchlist if still underperforming at the end of the 2<sup>nd</sup> quarter of 2009.

Ms. Racy-Choy stated that staff will soon have access to the GIMD database to review managers. GIMD has approximately 100 analysts on staff who perform quantitative and qualitative analysis on managers. GIMD monitors specifically for events like an exodus of employees that might trigger a change at the management company. Access to GIMD will allow staff to receive updates on the current managers, which will help with ongoing due diligence.

Member Constant asked if staff has any concerns about McKinley Capital Management.

Mr. Thomas explained that McKinley has been underperforming; however, they have a good process. SIS has been in contact with McKinley and the investment team is continuing to manage the account using the process for which they were hired. McKinley's process focused on quality and business momentum.

### ☐ **Dodge & Cox – Robert Thompson** **Quarterly Report for period ending March 31, 2009.**

Mr. Thompson stated that the portfolio's corporate sector overweight detracted significantly from relative returns given the unprecedented underperformance of the corporate sector as a whole and the financial sector in particular during 2008. The portfolio's Treasury underweight hampered relative returns given the Treasury rally over the same period in 2008.

Mr. Thompson added that the Dodge & Cox fixed income portfolio outperformed in March and in April of 2009 as non-Treasury sectors staged a significant rally. Investors are just now beginning to take risks again and the portfolio performance is improving.

Dr. Amiry stated that Dodge & Cox has been increasing their credit allocation and moving away from their benchmark. Credit investments are a good opportunity at this time but, with Dodge & Cox's deviation from the index, there is more risk to the overall fixed income portfolio.

Mr. Thompson explained that the few credit investments in the portfolio were chosen due to the tremendous opportunities in the market.

Member Overton asked if the exposure to credit in the Dodge & Cox portfolio is a result of process or opportunity.

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Mr. Thompson explained that the exposure to Credit in the portfolio is due to their process of taking money from other areas as they mature and investing in opportunities as they become available.

**PERFORMANCE SUMMARY WITH BENCHMARKS**  
**PERIOD ENDING MARCH 31, 2009**

<b>Total Returns Net of Fees – (*Annualized)</b>	<b>Quarter</b>	<b>YTD</b>	<b>1 YR*</b>	<b>3 YRS*</b>	<b>5 YRS*</b>
<b>TOTAL FUND</b>	<b>-6.2</b>	<b>-24.9</b>	<b>-24.9</b>	<b>-5.9</b>	<b>0.1</b>
Custom blended benchmark	-7.1	-7.1	-25.1	-5.4	0.3
<b>DOMESTIC EQUITY PORTFOLIOS</b>					
<b>Large Cap Manager</b>					
<i>Atlanta Capital</i>					
Russell 1000 Growth	-5.7	-35.3	-34.8	-10.5	-3.6
<i>Dodge &amp; Cox Large Cap</i>	-4.1	-4.1	-34.3	-11.3	-4.4
Russell 1000 Value	-13.9	-41.5	-44.1	-17.7	N/A
	-16.8	-16.8	-42.4	-15.4	N/A
<b>Index Manager</b>					
<i>Northern Trust</i>	-10.8	-37.1	-38.2	-13.5	-4.5
Russell 3000	-10.8	-10.8	-38.2	-13.6	-4.6
<b>Small Cap Equity Manager</b>					
<i>Eagle Asset MGT</i>	-11.0	-39.4	-35.2	-12.7	-2.3
Russell 2000 Growth	-9.7	-9.7	-36.4	-16.2	-5.4
<i>Brandywine</i>	-19.9	-38.7	-41.6	-18.9	-7.5
Russell 2000 Value	-19.6	-19.6	-38.9	-17.5	-5.3
<b>All Cap Equity Manager</b>					
<i>Wellington</i>	-5.6	-38.2	-33.8	-12.4	N/A
Russell 3000 Growth	-4.5	-4.5	-34.4	-11.7	N/A

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<b>INTERNATIONAL EQUITY PORTFOLIOS</b>					
<i>Boston Company</i>					
<i>Fisher Investments</i>	-10.9	-37.9	-39.1	-12.9	-1.2
<i>McKinley Capital</i>	-9.6	-49.6	-47.4	-16.2	N/A
MSCI ACWI (EX-US)	-12.1	-51.7	-50.6	-15.7	N/A
	-10.6	-10.6	-46.2	-12.8	-0.2
<b>FIXED INCOME PORTFOLIOS</b>					
<b>Domestic</b>					
<i>Dodge &amp; Cox</i>	0.2	-1.4	-1.7	3.1	2.8
<i>BlackRock</i>	0.4	-1.7	-2.5	3.2	2.8
BC Aggregate	0.1	0.1	3.1	5.8	4.1
<b>Global</b>					
<i>Loomis, Sayles</i>	-3.7	-8.4	-10.9	3.7	N/A
Citigroup World Govt Non US	-4.8	-4.8	-3.8	7.6	N/A
<b>REAL ESTATE PORTFOLIO</b>					
<i>Fidelity LP</i>	31.4	-14.2	-14.5	15.2	24.0
<i>Fidelity Growth Fund III</i>	-16.1	-24.9	-36.7	N/A	N/A
<i>MIG</i>	-0.1	-0.1	-0.1	15.3	6.9
<i>PRISA</i>	-15.7	-28.0	-27.3	-2.2	N/A
NCREIF Property Index	-7.3	-15.2	-14.7	4.1	9.4
<i>American Realty</i>	-7.8	-7.1	-6.3	N/A	N/A
<i>DRA Growth &amp; Income II</i>	15.6	15.6	19.1	85.6	53.4
<i>DRA Growth &amp; Income V</i>	-9.2	-9.0	-8.5	5.0	N/A
<i>DRA Growth &amp; Income VI</i>	-12.1	-7.2	-11.6	N/A	N/A
<i>GEAM Asset LP</i>	-1.8	-23.9	-23.7	N/A	N/A
NCREIF Property Index (Quarter lag)	-8.3	-7.9	-6.5	8.1	11.7
<b>PRIVATE EQUITY</b>					
<i>Private Equity</i>	-9.2	-14.8	-13.1	-0.2	N/A
S&P 500 + 3%	-9.8	-9.8	-35.1	-10.0	N/A

**INFORMATION AND COMMUNICATION**

- ▣ Quarterly Proxy Voting Report.
- ▣ Report on Rebalancing Transfers.
- ▣ Commission Recapture Report.
- ▣ Investment Managers' Performance Reports for the quarter.

Approved:

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