

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Quarterly Investments Committee of the Whole

THURSDAY

SAN JOSÉ, CALIFORNIA

AUGUST 27, 2009

Present:

Matt Loesch, Vice Chair
Ash Kalra
Jeffrey Perkins

Absent:

David Busse, Chair
Pete Constant
Ed Overton

Also Present:

Russell Crosby	-Secretary/Director	Patrick Thomas	-SIS
Carmen Racy-Choy	-Staff	Brad Barrett	-GE Asset Mgmt
Ali Amiry	-Staff	Paul Runge	-GE Asset Mgmt
Ron Kumar	-Staff	Rob Jones	-GE Asset Mgmt
Ceara O'Fallon	-Staff	Steve McCourt	-Meketa
		Leandro Festino	-Meketa
		Laura Wirick	-Meketa

MEETING SUMMARY

PRESENTATIONS

The following presentations were given to the Board:

1. **Strategic Investment Solutions (SIS) – Patrick Thomas**
Performance Monitoring Report for quarter ending June 30, 2009.

Mr. Thomas reported that it was a disappointing quarter and that the portfolio came in below median and below policy index. He noted that McKinley Capital came in with an unpleasant quarter. He said that Dodge & Cox Equity, after a high-profile bad selection last year came back dramatically; however, they are currently on probation. The short-fall was largely the result of poor active returns from the real estate managers.

Dr. Amiry commented that much cashflow has moved to the international market. The spread of outperforming the benchmark is shrinking because the inflow of the capital is making it much more efficient. The other issue is fixed income, which has been performing well and is currently almost 100% into the credit market. He said the current trend is to buy credit and sell Treasury, which is something that drastically increases the Fund's exposure to the international market. The credit performance has seen a phenomenal rate of return for the last four-five months, and if it stops increasing, it could have a significant impact on the Fund's fixed income performance. He noted that these two issues would be of interest to the Board.

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Ms. Racy-Choy noted that staff is keeping a watch for what develops. If the exposure continues to grow, the issue will need to be addressed.

Mr. Thomas went on to say that the real estate managers as a group performed poorly because of the real estate market downfall.

Member Perkins commented that in the past 10 years, SIS has served the Board very well, especially in minimizing risks. He thanked Mr. Thomas for assisting the Board to keep its course and not getting into more challenging situations.

2. GE Asset Management Presentation Quarterly Report for the quarter ending June 30, 2009

Mr. Runge introduced himself as responsible for public plans in the West and responsible for Federated's portfolio. He introduced General Electric Asset Management (GEAM) staff: Brad Barrett, Managing Director of Real Estate for the Western United States and Asia, whose entire career with GE the last 22 years has been in commercial real estate; and Rob Jones, who works on the West Coast team with Mr. Barrett.

Mr. Barrett conveyed that GEAM is not happy with the portfolio's results. GEAM has seen a decline in valuation since a year ago, and the main reasons are lower rents, lower rent growth projections, higher tenant costs in commissions; tenant-finish concessions; and more vacancies. The cap and discount rates are the biggest drivers of the valuation. He explained GEAM's formula for appraising and reaching a valuation.

Mr. Barrett reported on the properties, specifically Wateridge Plaza, noting that many negotiation sessions have been held with the lender, who did not agree to grant a loan extension. He stated that the property has not gone back to the lender; however, it is imminent that it will, and the asset will be lost.

Mr. Barrett described the Channel Center property as 52% leased. He said the interest reserve is waning because of the redevelopment. The property needs a couple more leases to sustain; otherwise, it could be a problem.

Trustees' direction was for Meketa to review GEAM's appraisal process and the Fund's fee structure.

3. Quarterly Proxy Voting Report

Noted and filed.

4. Rebalancing Transfers Report

Report was noted and filed.

5. Commission Recapture Report

Noted and filed.

6. Investment Managers' Performance Reports for the quarter.

Noted and filed.

Approved:



RUSSELL U. CROSBY, SECRETARY/DIRECTOR
Board of Administration