

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Summary of Quarterly Investments Committee of the Whole

MONDAY

SAN JOSÉ, CALIFORNIA

DECEMBER 14, 2009

Present:

- David Busse, Chair**
- Matt Loesch, Vice Chair**
- Pete Constant**
- Ash Kalra**
- Ed Overton**
- Jeffrey Perkins**
- Arn Andrews**

Also Present:

- | | | | |
|-------------------------|----------------------------|------------------------|-------------------|
| Russell Crosby | -Secretary/Director | Leandro Festino | -Meketa |
| Carmen Racy-Choy | -Staff | Laura Wirick | -Meketa |
| Ali Amiry | -Staff | Cliff Smith | -Boston Co |
| Ron Kumar | -Staff | Paul Leahy | -Boston Co |
| Stuart Bennett | -Staff | | |
| Ceara O'Fallon | -Staff | | |
| Christy DeMaria | -Staff | | |

MEETING SUMMARY

PRESENTATIONS

- ▣ **Meketa Investment Group (Meketa) – Leandro Festino and Laura Wirick Performance Monitoring Report for quarter ending September 30, 2009.**

Mr. Festino stated that the markets have improved since the end of the third quarter. The portfolio gained approximately \$220 million during the third quarter 2009 and all sectors were very close to their targets.

Ms. Wirick added that the total fund performance for the third quarter 2009 was positive 12.0% gross-of-fees (11.9% net-of-fees), fifty basis points ahead of the policy benchmark. Some investment manager highlights were Loomis Sayles, who returned 20.9% versus 13.8% for its benchmark, and Eagle Asset Management, who returned 19.3% versus 16.0% for its benchmark. Brandywine underperformed its benchmark returning 19.7% compared to 22.7% for its benchmark. Both Seix and McKinley underperformed for the third quarter 2009.

Ms. Wirick stated that the investment managers included in the peer groups are from the Morningstar database. Typically, Morningstar has over 100 funds in each category depending on the asset class listed.

Responding to a question from Member Perkins, Mr. Festino explained that momentum is the

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number one cause for McKinley's underperformance. Unfortunately, momentum has not been in favor over the last two years causing McKinley's sustained underperformance.

Ms. Racy-Choy added that McKinley does not have clear risk management policies in place, which furthers their sustained underperformance.

Dr. Amiry stated that McKinley and Fisher are both momentum and growth oriented international equity managers; diversification within the international equity sector would reduce the volatility of the portfolio.

Ms. Racy-Choy added that after the asset liability modeling study is completed, an investment structure analysis would be conducted for every asset class.

■ **The Boston Company – Paul Leahy and Cliff Smith Quarterly Report for quarter ending September 30, 2009.**

Mr. Smith stated that their fundamental and value oriented approach allows for outperformance over a full market cycle. They select stocks that have a mix of three factors: value, fundamentals, and business momentum. Their strategy is slightly contrarian as they buy stocks that are underperforming and sell stocks when they outperform. For the third quarter 2009, the portfolio returned positive 19.66%, net of investment manager fees, compared to the benchmark return of 19.69%. For the one year, the portfolio returned 13.90%, net of investment manager fees, compared to the benchmark return of 5.89%.

Mr. Festino noted that, while the portfolio shows outperformance over the current period gross of fees, the performance net of investment manager fees is neutral.

Mr. Smith explained that there was a very strong earnings cycle at the inception of the portfolio in 2003. Since inception, the portfolio's performance has been neutral net of fees, but they expect to be adding alpha following the latest market decline.

Responding to a question from Mr. Overton, Mr. Smith stated that and the portfolio is expected to outperform its benchmark by 300 basis points over a full market cycle and it does generate that level of performance in choppy markets.

INFORMATION AND COMMUNICATION

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

The above reports are note and file.

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Approved:



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