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FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

MONDAY

SAN JOSE, CALIFORNIA

DECEMBER 14, 2009

Present:

Committee Members

David Busse

Jeffrey Perkins

Matt Loesch

Pete Constant – Alternate

Also Present:

Russell Crosby -Secretary/Director

Leandro Festino

-Meketa

Carmen Racy-Choy -Staff

Laura Wirick

-Meketa

Ali Amiry -Staff

Stuart Bennett -Staff

Ron Kumar -Staff

Ceara O'Fallon -Staff

Christy DeMaria -Staff

MEETING SUMMARY

RECOMMENDATIONS

NONE

ITEMS

- 1. Approval of the following meeting summaries:**
 - a. October 22, 2009 – Committee for Investments.**

(M.S.C. Loesch/Busse) to approve the above listed. Motion carried 3-0-0.

- 2. Discussion and action regarding Meketa's Asset Liability Modeling Study.**

Mr. Festino introduced Meketa's Asset Liability Modeling Study (ALM). He explained that the asset allocation is the primary driver of performance and the ALM helps differentiate between different asset allocation strategies and how they relate to the Plan's liabilities. Adding additional asset classes, including Real Assets and Hedge Funds, to the Plan's existing asset allocation would serve to reduce the risk of the portfolio. Additionally, the

ALM illustrates that over the long-term a more diversified asset allocation policy leads to better positioning of the Plan in each economic scenario.

Member Perkins asked if Meketa could better define the Real Assets asset class.

Ms. Wirick explained that real assets include natural resources, commodities, and infrastructure. In times of high inflation, real assets will outperform other asset classes and help protect the Plan.

Ms. Racy-Choy added that diversification is not just a number. Most pension plans rely heavily on the equity market, which is highly volatile. Adding other asset classes that perform well when equities do not ensures the stable performance of the Plan.

Ms. Wirick stated that the asset allocation is the most important decision for the Plan as no one can predict the economic markets and what they will do. The higher the allocation to domestic equity, the higher the risk and return of that asset allocation. She advises that going into a more diversified asset allocation will protect the Plan during economic downturns as well as allow it to perform well during periods of economic growth.

Member Busse asked for clarification regarding the optimistic and pessimistic scenarios in the ALM, as they appear identical over the next four years except that the optimistic scenario does not factor in a bear market in 2014.

Ms. Racy-Choy noted that the committee could ask Meketa to revise the first four years in the ALM to provide a stronger distinction between optimistic and pessimistic scenarios.

Member Loesch asked from an actuarial perspective what is happening to the Plan's population as there are few new hires in the near future and the number of retirees are increasing.

Ms. Racy-Choy stated that the employment growth has been around two percent a year within the City of San Jose and, if the employee growth slows down in the future, the Plan will be paying out less in benefits than what is shown in Meketa's ALM.

Member Perkins suggested that staff schedule an educational meeting for the full Board regarding the new asset classes and the various asset allocations, which would allow the full Board to have a better understanding of the proposed asset allocations.

Mr. Festino added that Meketa is committed to the full Board feeling comfortable with new concepts and would provide the materials and education to aid the Trustees in making informed decisions.

Member Loesch asked about the advantages and disadvantages of the very aggressive asset allocation.

Mr. Festino explained that the very aggressive approach positions the fund to capitalize on liquidity premiums to produce good returns in an increasing inflation rate environment with moderate exposures to equities.

Ms. Racy-Choy noted that Meketa would bring recommendations back to the Investment Committee regarding the structure of all the asset classes. The difference between the very aggressive and the moderately aggressive scenarios is minor. The main disadvantage is that, comparatively, the very aggressive scenario places the Plan farther away from other public plans in its allocation to bonds. The advantage is that it offers higher returns, but at a higher volatility. Staff and Meketa are comfortable with any of the scenarios provided in the ALM and will work on addressing the questions and comments from today's discussion as well as scheduling an educational meeting for the full Board.

3. Recommendation for approval of MIG's 2010 Business Plan and Budget for the Milpitas Warehouse.

Mr. Kumar stated that the Milpitas warehouse is currently fifty percent occupied and it is anticipated that the remaining space will be leased by September 2010. The net return for the quarter was -16.6% compared to the NCREIF return of -3.3% and year-to-date was -25.0% for MIG compared to -22.0% for the NCREIF. MIG reduced the appraised value of the property from the June 30, 2009 appraised value of \$8.7 million to \$6.5 million and expects a gross income return of 3.86%.

Member Perkins asked about the status of the RFP for a local property manager.

Mr. Crosby stated that staff will bring the results of the RFP to the Investment Committee.

(M.S.C. Busse/Loesch) to approve the 2010 Business Plan and Budget for the Milpitas Warehouse. Motion carried 3-0-0.

4. Discussion and action regarding Northern Trust's Securities Lending Program.

Mr. Amiry stated that shortly after returning fully to the Northern Trust Securities Lending Program, Northern Trust reversed approximately 70% of the declared unrealized loss. The realized loss from the Lehman and CIT securities of approximately \$277,000 for which the Plan was previously compensated is owed back to Northern Trust. It is likely that during the first quarter of 2010, Northern Trust will reverse the remaining 30% of the declared unrealized loss.


5. Informational: Calamos Advisors LLC's selection of Global Transaction Services for middle-office services.

This item is Note and File.

**6. Informational: MIG's Memorandum regarding the Milpitas Warehouse,
Environmental Tenant Audit.**

This item is Note and File.

APPROVED:



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