

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

SEPTEMBER 23, 2010

Present:

Committee Members

Jeffrey Perkins
Matt Loesch
Arn Andrews

Also Present:

Russell Crosby	-Secretary/Director	Leo Festino	-Meketa
Ryan Jusko	-Staff	Ed Omata	-Meketa
Michael Moehle	-Staff	N. David Samra	-Artisan
Heidi Poon	-Staff	Michael Mullane	-Tradewinds
Ceara O'Fallon	-Staff	Ranjit Sufi	-Tradewinds
Leslie Horenburger	-MIG (via phone)		

MEETING SUMMARY

RECOMMENDATIONS

1. Approval of the following meeting minutes:
 - a. August 26, 2010 Investment Committee Meeting Minutes.
2. Approval to reallocate \$135 million of the Plan's current global equity allocation, equally between two active Global Value Equity managers and for the Secretary to negotiate and execute agreements with Tradewinds Global Investors and Artisan Partners.

ITEMS

1. Approval of the following meeting minutes:
 - a. August 26, 2010 Investment Committee Meeting Minutes.

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

2. Approval for expenditures of up to \$100,000 over the approved 2010 Budget for the Milpitas Warehouse in order to consummate the lease terms for Bintang Badminton, Inc.

Ms. Horenburger explained that the Milpitas Warehouse has been 50% vacant since September 2007 and Bintang Badminton, Inc. has proposed a ten-year lease for a badminton court, which is a non-conforming use of the space. However, given the current market conditions and lack of viable tenants, MIG has executed a non-binding Letter of Intent with Bintang as the City of Milpitas approved a conditional use permit. MIG is requesting approval of up to \$100,000 over budgeted costs for tenant lease expenses, tenant improvements, and any unforeseen costs.

Trustee Andrews asked whether the purpose of owning the Milpitas Warehouse was for generating income, for capital appreciation, or both.

Trustee Perkins responded that the System has owned the property since before he became a trustee, but it is his understanding that the property was purchased with the intent of both producing income and capital appreciation.

Trustee Andrews asked whether a ten-year lease would hinder selling the property in the future.

Ms. Horenburger stated that a ten-year lease would provide stability and potential buyers will review the stability of the property and determine their offer price based on the occupancy of the property.

Trustee Perkins asked if the lease terms would affect the appraised value of the property.

Ms. Horenburger responded that the lease would add about \$1.3 million to the property value.

Trustee Andrews asked how the lease would affect the property insurance and System's liability.

Ms. Horenburger responded that she has contacted the insurance broker, but not yet received a response. However, the tenant would be responsible for any increased insurance costs.

Secretary Crosby stated that as the System owns the property directly there would be some liability.

Trustee Perkins requested that MIG proceed with negotiating the lease, but request a five-year term instead of the ten-year term proposed by Bintang.

(M.S.C. Perkins/Loesch) Motion to approve requesting a five-year lease term and, if the five-year term is not agreed upon, to move forward with the ten-year lease term, to request information from the property appraiser regarding how the lease might affect the property value, and to proceed with forming a title holding company for the Milpitas Warehouse. 3-0-0

3. Discussion and approval to reallocate \$135 million of the Plan's current global equity allocation, equally between two active Global Value Equity managers and for the Secretary to negotiate and execute agreements with Tradewinds Global Investors and Artisan Partners.

Mr. Jusko explained that staff and Meketa researched global value equity managers who performed well in up and down markets. After quantitative analysis, a short list of managers was compiled and staff and Meketa performed onsite due diligence of the managers. Two managers were selected as finalists and are recommended as active managers for System's global value equity allocation. Staff and Meketa recommend active management in the global value equity space as the market is inefficient and active managers can exploit the inefficiencies and generate above-benchmark returns. The assets are being passively managed temporarily until active managers are selected.

Trustee Perkins noted that there were no five-year performance returns for the recommended managers.

Mr. Jusko stated that global value equity is a new strategy compared to the previous allocations to domestic and international equity, but noted the long track record in both international and domestic investments, and stated the global product represents each firm's best ideas.

Trustee Andrews asked about the change in portfolio manager at Tradewinds.

Mr. Omata explained that the international portfolio manager did not make decisions regarding the global strategy, so there is no continuity issue.

Trustee Loesch asked whether it was risky for the System to be investing \$60 million with Artisan when Artisan only has three clients with a total of \$130 million in their global strategy.

Mr. Omata explained that Artisan's global strategy is relatively new, but they have been investing in international equities for a long time and manage approximately \$5 billion in non-US equity.

Mr. Jusko stated that per the Statement of Investment Policy investments are allocated compared to the total assets under management of each firm; the System's investment is immaterial compared to the size of each firm.

Trustee Perkins requested that staff and Meketa provide a summary of the portfolio's progress toward the final goal of the asset allocation.

Artisan Partners and Tradewinds Global Investors presented their global value equity strategies.

Trustee Perkins stated that Tradewinds' strategy focuses on opportunities in the global value equity market and Artisan's strategy focuses on outperforming the benchmark. He noted the importance of having managers with different, but complimentary strategies and, that over a three to five year horizon, it would benefit the portfolio to maintain the perspective of hiring managers for a term and periodically reviewing their performance and the economic situation to determine if the market has changed.

(M.S.C. Andrews/Loesch) Motion to recommend approval to the Board. 3-0-0

4. Global Value Equity Manager Presentations:

The Items below are note and file.

a. Artisan Partners – N. David Samra

Mr. N. David Samra provided an overview of Artisan Partners investment team, strategy, and philosophy and answered questions from trustees regarding portfolio turnover, sell criteria, and foreign currency exposure.

b. Tradewinds Global Investors – Michael Mullane and Ranjit Sufi

Mr. Michael Mullane and Mr. Ranjit Sufi provided an overview of Tradewinds Global Investors investment team, strategy, and philosophy and answered questions from trustees regarding portfolio turnover, sell criteria, portfolio management staffing changes, and foreign currency exposure.

APPROVED:



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