

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSÉ, CALIFORNIA

APRIL 23, 2009

Present:

Matt Loesch

David Busse

ALSO PRESENT:

Russell Crosby -Secretary/Director

Carmen Racy-Choy -Staff

Patrick Thomas -SIS

Ali Amiry -Staff

Ron Kumar -Staff

Ceara O'Fallon -Staff

Cristin James -Staff

Martin Tran -Staff

RECOMMENDATIONS

1. Approval of Minutes:
 - a) Investment Committee Meeting, March 12, 2009.
 - b) Investment Committee Meeting, March 26, 2009.
2. Approval for staff to initiate a search for an International Equity manager.
3. Approval of the modifications to the Federated City Employees' Retirement System's Statement of Investment Policy to revise the language regarding the rebalancing of asset allocation and manager cash holdings.
4. Approval for the Secretary to negotiate and execute agreements with Bloomberg, eVestment, and Mercer's GIMD for investment databases.

MEETING SUMMARY

1. Approval of Minutes:
 - a. Investment Committee Meeting, March 12, 2009.
 - b. Investment Committee Meeting, March 26, 2009.

(M.S.C.) Motion carried 2-0

2. Discussion and possible action regarding downgraded securities in the Plan's fixed income portfolio.

Mr. Thomas stated that both BlackRock and Dodge & Cox hold securities that have been downgraded below the minimum allowed credit rating. The Federated City Employees' Retirement System's Statement of Investment Policy allows the managers to hold up to 2% of their portfolios in securities that have fallen below B-. In the case of BlackRock, the total exposure to below B- securities currently does not exceed the 2% limit, and, in the case of Dodge & Cox, the exposure to below B- securities is being reduced so that it will fall within the 2% limit. SIS recommends that, in both cases, the managers be permitted to continue to hold these securities.

Mr. Thomas added that most plans have a limit so that if assets are downgraded the managers have to report back any changes to the Board. Many plans will have difficulty trading in the bond market due to downgraded assets and liquidity issues.

Ms. Racy-Choy explained that staff will continue to monitor managers if they exceed the 2% limit and report back with the managers' reasons for keeping these securities. It is better to allow them to hold the downgraded assets instead of forcing them to sell at a loss.

3. Discussion and action regarding Fisher Investments.

Mr. Thomas explained that Fisher Investments is an equity manager who follows a unique top-down process. Ali Amiry and consultants from SIS recently completed an on-site due diligence visit. Fisher had a tough year in 2008, performing below the benchmark and was too optimistic about the market. SIS believes that Fisher will perform well going forward and recommends that the System continue to monitor this manager closely in 2009.

Member Busse stated that he was disturbed by the statement from SIS's memo that "SIS still finds it hard to understand exactly how the team's top down view, largely derived from Ken Fisher's judgment and insight, is transmitted to the individual stock selection process."

Mr. Thomas explained that after several meetings with Fisher, SIS still cannot follow the process; how the macro themes that Fisher follows get transmitted to the actual stock selection .

Dr. Amiry stated that the Fisher's investment process is mainly about Ken Fisher picking stocks for the portfolio. It is hard to figure out the process beyond that point because there is no procedure.

Ms. Racy-Choy stated that there is a risk to the portfolio if something happens to Ken Fisher. There is no one to take over the process at Fisher and the System could end up losing a lot of money.

Member Busse stated that when he visited Fisher he got the impression that there was not a lot of questioning going on in the organization. It left him feeling uncomfortable about the process.

Mr. Thomas stated that Ken Fisher is the dominating force at Fisher Investments; however, he is not the only input to the process. It is not a risky investment since there are others that can take over in Mr. Fisher's absence. If investors are not comfortable with the process then that is a concern.

The committee approved staff initiating a search for an International Equity manager with Fisher in the mix.

(M.S.C.) Motion carried 2-0

4. Approval of the modifications to the Federated City Employees' Retirement System's Statement of Investment Policy to revise the language regarding the rebalancing of asset allocation and manager cash holdings.

Mr. Kumar explained that revising the "Rebalancing of Strategic Allocation" section to state that the asset class will be rebalanced to within policy range to allow staff to rebalance just those asset classes that are outside of the allocation range.

Mr. Thomas stated that SIS would prefer to see the portfolio balanced to the target allocation because there is utility in the target.

Mr. Kumar explained that the market moves every day so the portfolio will never be exactly on target.

Ms. Racy-Choy stated that there are transaction costs involved in rebalancing the assets. Moving just those assets classes that are out of balance will save the System transaction costs.

The committee approved the modifications to the Federated City Employees' Retirement System's Statement of Investment Policy.

(M.S.C.) Motion carried 2-0

5. Approval for the Secretary to negotiate and execute agreements with Bloomberg, eVestment, and Mercer's GIMD for investment databases.

Ms. Racy-Choy explained that the Federated City Employee's Retirement System's Board of Administration approved the expenditure for investment databases at the March 12, 2009 meeting. Staff has researched available databases and determined that Bloomberg, eVestment, and Mercer's GIMD provide the tools needed for effectively monitoring the pension funds.

Ms. O'Fallon explained that having access to Bloomberg, eVestment, and Mercer's GIMD would provide staff access to the information needed to implement the following:

- Benchmark investment manager fees for each mandate against similar mandates. The fee benchmarking is necessary for staff to renegotiate fees with the investment managers.
- Check the performance of the Plan's separate account mandates compared to the manager's pooled fund performance to determine if the managers' returns on the commingled funds are significantly different than the returns on the Plan's separate account mandates.
- Obtain analysis on existing managers as managers change style, make changes in the organization, add or remove strategies, restructure fees, etc.
- Provide a second opinion on potential new manager selection and/or existing manager retention.
- Be current on general market information.

Ms. Racy-Choy explained that Mercer's GIMD provides qualitative and quantitative information on a universe of 7,000 managers. Most non-alternative managers would be listed in the database. Mercer has a team of analysts who perform due diligence and provide a rating on the managers, with the highest rating being "A". The Plan should be investing with only "A" rated managers. Additionally, GIMD has excellent fee information that staff would be able to use as a basis for fee renegotiations with the Plan's existing managers. The reduction of management fees should more than pay for the cost of the databases.

Dr. Amiry explained that eVestment provides the quantitative tools necessary in a database for staff to analyze manager performance. Bloomberg is a source for current market and economic conditions. In combination, the three databases will provide the tools necessary for staff to monitor all aspects of the portfolio.

The committee granted approval to the Secretary to negotiate and execute agreements with Bloomberg, eVestment, and Mercer's GIMD for investment databases.

(M.S.C.) Motion carried 2-0

6. Informational Item: Firm update – Atlanta Capital.

Mr. Thomas stated that Atlanta Capital lost a large share of their portfolio due to the market decline in 2008; therefore, their revenue has decreased. In order to remain viable, the company made a decision to cut four staff positions, which should not be seen as a cause for concern, but, rather, as a response to the market.

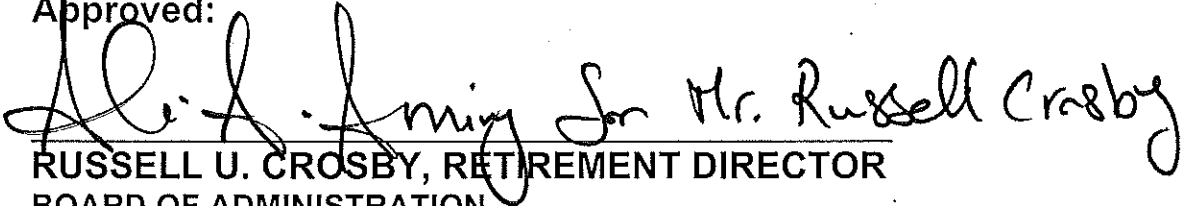
7. Informational Item: Update on Investment Managers on Probation & Watchlist – January and February 2009.

Mr. Thomas stated that The Boston Company is still on probation. SIS recommends that The Boston Company be taken off probation since they followed their discipline and have made up some of their losses. They are an important part of the System's overall structure.

Mr. Thomas explained that the Director of Research at SIS recently visited Brandywine. In the small cap value class, research pays off and Brandywine has not been implementing research strategies since they changed their structure a year ago. SIS recommends conducting a search to replace Brandywine.

Ms. Racy-Choy stated that a search for a small cap value manager was approved at the last Investment Committee meeting.

Approved:


RUSSELL U. CROSBY, RETIREMENT DIRECTOR
BOARD OF ADMINISTRATION