

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSÉ, CALIFORNIA

OCTOBER 23, 2008

Present:

Jeffrey Perkins
Matt Loesch
David Busse

ALSO PRESENT:

Russell Crosby	-Secretary/Director		
Carmen Racy-Choy	-Staff	Patrick Thomas	-SIS
Ron Kumar	-Staff	Faraz Shooshani	-SIS
Ceara O'Fallon	-Staff		
Cristin James	-Staff		

RECOMMENDATIONS

1. Approval of Investment Committee Minutes:
 - a) August 28, 2008
 - 1) Approval of updated Private Equity Investment Plan by SIS.
 - b) September 25, 2008.
2. Approval of Committee of the Whole Minutes:
 - a) August 28, 2008.
3. Approval to conduct a Custodian Bank Request for Information.
4. Approval to assign the agreement between the Federated City Employees' Retirement System and McKinley Capital Management, Inc. to McKinley Capital Management, LLC.
5. Approval to invest up to \$5 million in the Great Hill Equity Partners IV, L.P. and for the Secretary to negotiate and execute the agreement.

MEETING SUMMARY

1. Approval of Investment Committee Minutes:
 - a. August 28, 2008.
 - b. September 25, 2008.

(M.S.C.) Motion carried 3-0-0

2. Approval of Committee of the Whole Minutes:
 - a. August 28, 2008.

(M.S.C.) Motion carried 3-0-0

3. Discussion and approval to invest up to \$5 million in the Great Hill Equity Partners IV, L.P. and for the Secretary to negotiate and execute the agreement.

Mr. Shooshani stated that the Great Hill Equity Partners IV, L.P. is a Mid-Market Growth fund. The strategy focuses in the Business and Consumer Services sectors that have the potential to become strategically important to larger enterprises. Target companies are in the "roll out" stage of growth with established products and proven business models. Given the growth-oriented investment profile, the strategy does not rely on leverage to generate returns. The sponsor is a highly respected, specialist organization that has demonstrated the ability to execute the strategy in a disciplined manner and has exhibited credible evidence of generating superior returns in prior funds.

SIS recommended that the Committee invest \$5 million in the Great Hill Equity Partners IV, L.P. Fund to meet the System's allocation to Venture Capital.

The Secretary inquired about the low commitment amount of \$5 million.

Mr. Shooshani explained that the System's Venture Capital allocation for the 2008 vintage year is \$5 million. There will be another \$5 million allocation to Venture Capital in 2009 that can be invested in the Great Hill Equity Partners Fund for the vintage year 2009.

Chair Perkins asked if there are any other Venture Capital funds that should be reviewed by this Committee before making a decision on this investment.

Mr. Shooshani explained that SIS has looked at other funds in the market, but found that they are investing in larger companies and using leverage, which means more risk to the System.

The Committee approved investing \$5 million in the Great Hill Equity Partners IV, L.P. and for the Secretary to negotiate and execute the agreement.

(M.S.C.) Motion carried 3-0-0

4. Discussion and action regarding the System's participation in the Securities Lending Program managed by The Northern Trust.

Mr. Thomas stated that as a result of the Lehman Brothers bankruptcy and the general market turmoil, the Federated City Employees' Retirement System has been exposed to significant losses in the collateral pools of its securities lending program administered by The Northern Trust. Northern Trust has restricted clients' options for withdrawal from its lending programs. If the Board decided to terminate lending through Northern Trust, the System would have to realize its losses and take securities in kind.

Ms. Racy-Choy stated that staff and SIS will organize a meeting with Northern Trust in order to determine what steps Northern Trust is taking to make sure there are no additional losses. Staff needs more information before making a recommendation to the Committee.

Mr. Thomas explained that securities lending involves the lending of the System's eligible assets to qualified borrowers, in exchange for cash or securities collateral that exceeds the market value of the loaned assets. Borrowers agree to return the assets on termination of the negotiated loan. Due primarily to the Lehman bankruptcy,

the borrowers' collateral was valued at pennies on the dollar. If clients wished to exit the program, they would have to realize the underlying collateral losses immediately, provide cash and pay the full amount of the collateral due to the borrower, and take delivery of securities in-kind from the collateral pool.

Ms. Racy-Choy stated that if we terminate the securities lending program now, we would be given securities and need to hire a manager to sell or manage the securities for the portfolio.

The Secretary stated that Northern Trust is trying to prevent all investors from withdrawing their assets from the securities lending pool, leaving the remaining investors to absorb the losses.

The Committee approved the recommendation to have Northern Trust meet with SIS and staff.

(M.S.C.) Motion carried 3-0-0

5. Discussion and approval to conduct a Custodian Bank Request for Information.

Mr. Kumar explained that staff has been experiencing service issues with Northern Trust. For example, the client service team is often unresponsive to staff's requests, urgent phone calls are not returned in a timely fashion, Northern Trust ignores direct requests from staff and fails to offer alternative solutions, and staff has had to enlist the help of Northern Trust's senior management many times.

Furthermore, the system has experienced numerous turnovers in client service representatives, Northern Trust has changed the System's client service representative and accounting manager three times since they were hired.

The Secretary recommended that staff prepare a Request for Information over the next few months to give the Committee some options.

The Committee approved the recommendation to have staff conduct a Custodian Bank Request for Information.

(M.S.C.) Motion carried 3-0-0

6. Discussion and action regarding the due diligence review of The Boston Company by SIS.

Mr. Thomas stated that The Boston Company has not performed well for a long period of time. In 2005, materials and commodities producers were experiencing peak earnings and The Boston Company sold off shares too early which hindered their performance. The Boston Company's third quarter 2008 performance was good and recently they have outperformed their index.

Mr. Thomas explained that SIS conducted a half day onsite visit to The Boston Company. SIS does not see anything fundamentally wrong either with the organization or the investment approach and believes the product will continue to perform relatively well.

Member Loesch inquired about the possibility of renegotiating to a lower fee structure with The Boston Company if the Trustees continue the relationship with them.

Mr. Thomas stated that it would be appropriate for SIS to have a discussion with The Boston Company and try to negotiate lower fees.

SIS recommended that the Federated City Employees' Retirement System keep The Boston Company as its International Value Equity manager on a continued probationary basis.

7. Approval to assign the agreement between the Federated City Employees' Retirement System and McKinley Capital Management, Inc. to McKinley Capital Management, LLC.

The Secretary stated that McKinley Capital Management Incorporated changed their name to McKinley Capital Management, LLC.

(M.S.C.) Motion carried 3-0-0

8. Informational Item: Update on Investment Managers on Probation & Watchlist – July & August 2008.

Mr. Thomas stated that SIS will be making a due diligence visit to Brandywine as they has changed their investment process. SIS will have a detailed report for the Committee following their onsite due diligence visit.

Approved:



RUSSELL U. CROSBY, RETIREMENT DIRECTOR
BOARD OF ADMINISTRATION