

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

August 27, 2009

Present:

Committee Members

David Busse

Jeffrey Perkins

Matt Loesch

Also Present:

Russell Crosby -Secretary/Director

Carmen Racy-Choy -Staff

Ali Amiry -Staff

Ron Kumar -Staff

Ceara O'Fallon -Staff

Patrick Thomas -SIS

Steve McCourt -Meketa

Leandro Festino -Meketa

Laura Wirick -Meketa

MEETING SUMMARY

RECOMMENDATIONS

- 1. Approval to accept The Boston Company's 5% fee reduction for three years effective July 1, 2009.**

MEETING SUMMARY

- 1. Approval of July 21, 2009 Committee for Investments Summary**— Motion was made, seconded, and unanimously carried to approve the minutes as written.
- 2. Recommendation to invest in convertible securities** – Mr. Thomas referred to the SIS written report dated August 18, 2009. The analysis is based on their capital market assumptions for risk return among the asset classes. He suggested that the Board revisit the assumptions with its new consultant because it is possible that those assumptions may be different.

Mr. Thomas demonstrated two scenarios, based on staff's guidance. One is harvesting assets from equity to fund the convertibles allocation and the other scenario is tactical - bringing in a new type of investment increases the opportunity set overall.

Dr. Amiry commented that because of standard deviation, convertible stocks have a floor on equity exposure, which reduces the downside risk. He said this is a much better protection than the equity market.

Ms. Racy-Choy corroborated that standard deviation assumes risks on both sides; however, convertibles provide a slightly lower risk level because of the floor, and yet still keeps the upside.

Dr. Amiry reported that staff looked at convertible funds with both domestic and international exposure. Efforts were made to increase exposure to the international market without additional risk as the Plan was underweighted in that area. Managers who provide international convertibles are somewhat limited, and subsequently, staff was limited to two choices: Oak Tree and Calamos. He said Calamos has been in business since 1970; was one of the first convertible managers in the US; and they have a very good track record.

Secretary Crosby reported that staff visited and conducted in-depth interviews with Calamos in Chicago, and noted that SIS approves of Calamos.

A motion was made, seconded, and unanimously carried: To approve recommendation to invest \$50 million with Calamos Advisors and authorize the Secretary to negotiate and execute an agreement with Calamos Advisors. Staff anticipates funding Calamos by October 1, 2009.

- 3. Approval to accept The Boston Company's 5% fee reduction for three years effective July 1, 2009** – Ms. Racy-Choy referred to Member Loesch's suggestion that staff go back and renegotiate fees with The Boston Company. She noted they had strong performance over a short period, and they appreciated the opportunity to renegotiate the fee. They agreed to give a significant break to both the Federated and the Police & Fire funds. She deferred to Mr. Kumar, thanking him for all the work on the negotiation.

Mr. Kumar reported that the The Boston Company wanted to renegotiate for one year; however, they underperformed their benchmark for the past three years. It was agreed the discount would be for the next three years. This does not change the contract regarding the period for which they will continue as a manager.

Motion was made, seconded, and unanimously carried: To approve the 5% fee reduction for three years effective July 1, 2009.

- 4. Discussion on the initial review work plan by Meketa Investment Group** – Mr. Steve McCourt introduced Mr. Leo Festino and Ms. Laura Wirick from Meketa Investment Group. Mr. Festino presented the Initial Review Work Plan to address their assessment of the pension plan, including recommendations for actions and their priorities. They have identified the asset liability study as priority one, followed by a review and update of the Investment Policy Statement and the Asset Allocation Policy.

Mr. Festino commented that pension plans should be invested in a somewhat balanced way to produce reasonable returns regardless of the economic condition that unfolds. He went on to describe other elements of the plan, such as crisis planning with respect to investing assets.

Member Perkins suggested that this information should be presented at the Board meeting.

- 5. Discussion and possible action on the manager due diligence process** – Ms. Racy-Choy asked for the Committee's input regarding the investment manager due diligence process. Responding to Member Perkins' question of how Board members can interact with staff and consultants in selecting managers, Ms. Racy-Choy said that staff would like to have two processes - one process for active managers and another for passive managers. She stated that for active managers, staff would like to continue with the process already in place and went on to detail the process.

Member Perkins asked if the Board had to come up with an official written policy that would become an amendment to the travel policy. Secretary Crosby responded that it is still an outstanding item with the City Auditor's travel audit.

Ms. Racy-Choy referred to the GIMD database, which has 120 research staff visiting managers and providing staff with updates on a continuous basis. She described staff's response to information regarding problematic managers. It was suggested that a written report based on the GIMD information be prepared on a quarterly basis and brought to the Committee.

Consensus was that the Trustees have provided sufficient guidance for staff to prepare a written policy and bring it back to the Committee for further consideration.

- 6. Oral Update on Securities Lending** – Dr. Amiry reported that exposure on Securities Lending is decreasing every week, and the Fund's exposure to the securities lending program has been reduced to \$11 million. Dr. Amiry stated that Northern Trust has requested a decision on whether or not the Fund plans to stay with the Securities Lending program. An exit would require the Fund to pay \$2.8 million; remaining in the program would require increasing assets to around \$176 million. He said the market has improved compared to last year.

Member Loesch inquired about the deadline for a decision and whether there was time for Meketa to review the portfolio. Dr. Amiry replied that these are preliminary discussions, and negotiations are to continue.

The Committee asked staff to bring the issue back to the Committee for further consideration.

7. Oral update on CIT

Dr. Amiry stated that exposure to CIT in the Plan's Securities Lending program was sold at the bottom of the market for a realized loss. The loss to the Securities Lending portfolio was approximately \$20,000, which was not significant compared to the Plan's total exposure to the Securities Lending program.

Noted and filed.

8. Informational: GE Asset Management Organizational Announcement

Noted and filed.

9. Informational: The Convertible Bond Market Dislocation of 2008

Noted and filed.

10. Informational: The Northern Trust Company Securities Lending Policy Changes

Noted and filed.

Approved:



RUSSELL U. CROSBY, DIRECTOR