

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

September 24, 2009

Present:

Committee Members

David Busse

Jeffrey Perkins

Also Present:

Carmen Racy-Choy

-Staff

Leandro Festino

-Meketa

Ali Amiry

-Staff

Laura Wirick

-Meketa

Ceara O'Fallon

-Staff

Scott Smith

-Hanson Bridgett

Lynda Ramirez Jones

-Staff

(via teleconference call)

MEETING SUMMARY

RECOMMENDATIONS

- 1. Approval to increase GE Asset Management's single-asset diversification limit on the Riverwood 100 property in Atlanta from 10.0% to 12.4%**

ITEMS

- 1. Approval of the following meeting summaries:**

- a. August 13, 2009 – Special Committee for Investments**
- b. August 27, 2009 – Committee for Investments**
- c. August 27, 2009 – Committee of the Whole**

A motion was made, seconded (Busse/Perkins), and unanimously carried to approve the three meeting summaries.

- 2. Discussion and action on the Plan's Securities Lending Program.**

Dr. Amiry reported that staff has been working with Meketa Investment Group to review the various options presented by Northern Trust. In November 2008, the Plan's exposure was approximately \$170 million; currently, it is close to \$8 million. Northern Trust is requiring that either the Plan exit the program completely, at a cost of \$2 million, or return to the November 2008 exposure level, which could be between \$90-\$170 million, depending on the market condition and demand. Northern Trust has provided a deadline of October 30, 2009.

Mr. Festino described three possible scenarios: 1) exit the program in full; 2) return to the program in full; or 3) a partial entry or exit. Over the last two and a half years, the program has generated about \$2 million, which is approximately the amount the Plan is being asked to return to Northern Trust to exit securities lending. Exiting the program would avoid any further losses; however, it is the most costly. Returning to the program could be positive because of the potential that, as the market continues to improve, the collateral deficiency could become smaller.

Mr. Smith said he is looking into the contractual basis for the various options that have been presented. He has requested additional information from Northern Trust before making any recommendations.

Mr. Festino offered to work with Northern Trust to get the information requested by Mr. Smith and to invite them to the next Committee meeting to explain the options. He raised the question of whether Northern Trust had indicated that a failure to respond by their imposed deadline of October 30, 2009 would imply a decision.

Ms. Racy-Choy suggested an interim response to Northern Trust. The Plan will stop the staged withdrawal at \$8 million and ask Northern Trust to provide legal justification for their option limitations before the Plan can make a decision.

Mr. Smith concurred that the Plan withhold from making a decision until the requested additional information is received from Northern Trust.

Member Perkins requested that Northern Trust be invited to the October meeting to explain and justify their options.

The consensus of the Committee was for staff to continue working with Meketa and Mr. Smith for a recommendation to the Committee.

3. Discussion and possible action regarding McKinley Capital's performance.

Ms. Wirick reported that McKinley Capital manages 7.6% of the total Plan, and they have underperformed since inception in 2005. Meketa held a conference call with McKinley to re-evaluate their strategy and concluded that McKinley is relying on earnings momentum as their primary strategy.

McKinley relies on no other factors for alpha generation and, in the current volatile environment, the earnings momentum strategy will most likely not be as successful as it has been in the past. Meketa recommends replacing McKinley with a new international growth manager.

Ms. Racy-Choy stated that a manager needs to have a risk control system to make sure that the tracking error relative to the benchmark remains reasonable. McKinley's lack of a risk control mechanism is very concerning.

Mr. Festino emphasized that the purpose of their memo was to make the Committee aware that McKinley relies heavily on just the one factor. Looking at other options would be practical at this time, and, with additional information, Meketa will be able to provide an improved recommendation.

The consensus of the Committee was to proceed with a replacement search and evaluate the results for the best course of action.

4. Approval of Meketa's recommendation regarding GE Asset Management's Value Add Realty Partners.

Ms. Wirick recalled that the Committee had asked Meketa to evaluate issues regarding GE Asset Management's (GEAM) Value Added Fund (VAF) and fee structure. Meketa reviewed GEAM's appraisal policy and prepared a chart of appraisal values by outside firms and by GEAM, noting that the structure is standard in the private real estate market.

Referring to fees, GEAM is charging 1% on invested capital. Ms. Wirick noted that this also is a standard industry practice, and the 1% fee is generally below market compared to other private real estate funds. Additionally, Meketa clarified that the Plan is no longer being charged on the capital that was invested in the Wateridge Plaza, which GEAM lost due to default.

Finally, Ms. Wirick reported that GEAM has requested that the Committee allow them to raise their single-asset diversification limit, which is currently 10% of the total funds in any one asset to 15%. They were requesting the raise for tenant improvements on the Riverwood 100 property in Atlanta and subsequently revised the request to include all investments. Meketa informed GEAM that the revised request would most likely not be approved by the Committee leading GEAM to revise the request again to increase the limit to 12.4% of the investment in Riverwood 100.

A motion was made, seconded (Busse/Perkins), and unanimously carried to approve increasing GEAM's single-asset diversification limit only on the Riverwood 100 property in Atlanta to 12.4% of the VAF.

5. Informational: Funding Sources for Global Convertibles Allocation.

Noted and filed.

6. Informational: Seix Investment Advisors Organizational Changes.

Mr. Festino reported that Meketa had talked with Seix regarding the transition of the CEO role from Ms. Christina Seix to Bob Sherman. Ms. Seix has been removed from investment decisions for several years and has been transitioning her role as CEO over the last few

months. Meketa does not see any concerns with the organizational changes and will continue to monitor the investment process as they would with any other manager.

Noted and filed.

APPROVED:



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