

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSE, CALIFORNIA

October 22, 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

Mollie Dent -City Attorney

Leandro Festino -Meketa

Laura Wirick -Meketa

Pam Newton -Northern Trust

Chris Harlin -Northern Trust

Scott Smith -Hanson Bridgett

(via teleconference call)

MEETING SUMMARY

RECOMMENDATIONS

NONE

ITEMS

1. **Approval of the following meeting summaries:**
 - a. **September 24, 2009 – Committee for Investments.**

(M.S.C. Busse/Perkins) to approve the September 24, 2009 Committee for Investments summary. Motion carried 2-0-1. (Abstain: Loesch).

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

Mr. Smith discussed his letter to Northern Trust ("NT") regarding the options they have provided the Federated City Employees' Retirement System ("the Plan") for the securities lending program. Contractually, there is not enough information available to determine which option is in the Plan's best interest as well as why these options were chosen. Additionally, the timeframe given by NT is arbitrary.

Member Loesch asked what the agreement between the Plan and NT permits regarding declaring a collateral deficiency ("deficiency") and the ensuing process.

Mr. Smith stated that the deficiency, at this point, comprises mostly declared unrealized losses. NT is not responsible for realized losses. Further analysis is needed.

Mr. Festino noted that if the Plan does not decide by the given deadline, NT would assume that the Plan has chosen to exit the securities lending pool ("the Pool") and will expect the Plan to pay the deficiency.

Ms. Racy-Choy stated that NT has in fact frozen the amount of the deficiency in the Plan's cash account.

Member Perkins reiterated that the Committee needs to understand the Plan's exposure and what we have to pay.

Mr. Smith agreed stating that NT should be willing to provide the Plan with the documents they are relying on for these options as there is uncertainty regarding the contractual basis of the options NT provided. No one knows if the securities will recover. It is possible that NT would take the money for the deficiency and then the securities appreciate.

Pamela Newton and Chris Harlin from Northern Trust joined the meeting.

Member Perkins stated that the Committee would like to discuss the staged withdrawal process, the Plan's status in the Pool, what the options are, why these are the options, and why it is challenging for the Plan. He stated that NT is forcing the Committee to make a decision arbitrarily.

Mr. Harlin responded that back in September 2008 NT declared the securities lending deficiency. From their perspective, it was important to be fair and equitable to all clients and each client was given a pro-rata share of the deficiency until NT's Securities Lending Collateral Committee ("SLCC") determined that the pool is stable. The staged withdrawal was intended for those clients who wanted to leave the Pool. The staged withdrawal program is almost at an end and NT has given remaining clients the option to go back to their September 2008 exposure level or exit the program and pay the deficiency. The Plan is only required to pay the unrealized losses if it chooses to exit the program; otherwise, if the Plan goes back to its September 2008 exposure level, it only has to pay the realized losses. While the deficiency is a static number, the Pool has continued to decline. The SLCC made the decision to call the deficiency and until they decide to reverse it, the deficiency remains static.

Member Perkins asked what would get the SLCC to say the net asst value ("NAV") of the pool was back to a NAV of \$1 and reverse the deficiency.

Mr. Harlin responded that the SLCC meets daily and may make a decision to reverse the deficiency at any time when it believes the pool is stable, the economic issues have subsided, and there is liquidity.

Member Perkins asked why October 30, 2009 is the decision deadline and why the Plan is being asked to pay the deficiency, which may be eliminated in a short time.

Ms. Newton stated that when the staged withdrawal option was offered to clients it was designed to last about nine months.

Mr. Harlin responded that the staged withdrawal option was designed for clients to leave the Pool. If the Plan were fully out of the Pool by October 30, 2009, it would have to pay the deficiency.

Member Perkins asked why NT is asking the Plan to pay the unrealized losses if the SLCC may reverse the deficiency any day.

Ms. Racy-Choy stated that we know we are responsible for the risks of being in the Pool, but we are also entitled to the upside. The real question is why NT is asking the Plan to pay unrealized losses from a year ago, at this point in time.

Mr. Smith commented that it seems unfair to force the Plan to make a decision knowing the SLCC might reserve the deficiency in the near future.

Member Perkins asked what the process is for exiting the Pool in the future.

Mr. Harlin stated that only when the Pool is determined to be healthy enough by the SLCC would the SLCC determine on a case-by-case basis if clients can exit the pool. It is a pooled vehicle and all clients have to be treated equally. A rough estimate for clients being able to exit the Pool is during 2012 to 2013. If clients decide to pay their pro-rata share of the deficiency and exit the program and the Pool returns to a NAV of \$1, remaining clients would see an extra yield.

Mr. Smith asked how the options were determined and why the Plan cannot stay at its current exposure level.

Mr. Harlin responded that a deficiency is due immediately per the agreement with the Plan. NT's securities lending attorney will discuss the matter with Mr. Smith.

Member Loesch asked why October 30, 2009 is the deadline.

Mr. Harlin responded that it was the date picked by the SLCC, but could probably be extended until November 12, 2009 when the Federated Board meets.

Ms. Racy-Choy asked if it was stated to the Plan at the beginning of the staged withdrawal that we had to exit the program at the end of staged withdrawal and pay the September 2008 deficiency or return to the September 2008 exposure level. The pool has improved since September 2008. If the Plan had the choice to leave now, paying the deficiency as it stands today, then this would not be as much of an issue. The question remains where the contractual basis is for requiring clients to pay a deficiency at a fixed point in time.

Mr. Harlin stated that he would check with senior management regarding extending the deadline to November 12, 2009, when the Plan will have decision making power, but NT needs to have a decision from the Plan on November 12, 2009.

Ms. Dent suggested that Mr. Smith converse with NT's attorney to get through these issues, as there is no guarantee that the SLCC will reverse the deficiency anytime soon.

Member Perkins stated that the securities lending issue would need to be an action item for the Board meeting in November.

3. Discussion regarding scheduling an Investment Committee Meeting in November.

There was a discussion regarding scheduling a meeting in November with two possible dates being Monday, November 16, or Monday, November 30. As two committee members were no longer present, staff will check with the full committee to finalize a meeting date.

4. Update from Meketa regarding current activities.

Mr. Festino reviewed the Summary Initial Fund Work Plan and noted that all of the priority one items were well underway if not completed.

APPROVED:



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