

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Committee for Investments Summary

THURSDAY

SAN JOSÉ, CALIFORNIA

MARCH 26, 2009

Present:

Jeffrey Perkins

Matt Loesch

David Busse

ALSO PRESENT:

Russell Crosby -Secretary/Director

Carmen Racy-Choy -Staff

Patrick Thomas -SIS

Ron Kumar -Staff

Ceara O'Fallon -Staff

Cristin James -Staff

RECOMMENDATIONS

1. Approval of modifications to the Federated City Employees' Retirement System's Statement of Investment Policy to include policy language regarding High Yield Bonds, Bank Loans, and Convertible Bonds as well as removal of the "without private markets" asset allocation targets. (This item was approved at the April 9, 2009 Board meeting).
2. Approval to conduct a search for a small cap manager (see item #3).

MEETING SUMMARY

1. Recommend to the Board of Administration to approve modifications to the Federated City Employees' Retirement System's Statement of Investment Policy to include policy language in regards to High Yield Bonds, Bank Loans, and Convertible Bonds as well as removal of the "without private markets" asset allocation targets. (This item was approved at the April 9, 2009 Board meeting).

Mr. Thomas stated that the Federated City Employees' Retirement System's Statement of Investment Policy ("SIP") has been updated to reflect the decision of the Board to invest in High Yield Bonds, Bank Loans, and in the anticipation of investment in Convertible Bonds.

The guidelines and control procedures of each new asset class have been added to the SIP. Also, the asset allocation policy has been amended to include the new asset allocation that was approved by the Board in January 2008.

Ms. Racy-Choy suggested a change to the rebalancing process of the portfolio to the new asset allocation adopted in 2008. Based on prior discussion with the Investment Committee, staff has been rebalancing the portfolio to the new asset allocation targets through cash flows. However, the SIP states that asset transfers need to be made in order to meet the asset allocation guidelines.

Chair Perkins agreed that only using cash flows to rebalance the portfolio will not get the portfolio to its target asset allocation fast enough.

Ms. Racy-Choy explained that, in order to meet the asset allocation guidelines, a transfer of approximately 7-8% would need to be made from fixed income into equity. Staff can prepare a proposal for the next meeting for the Committee to review.

Chair Perkins stated that there is no need to bring a proposal back to the Committee. Staff should proceed to rebalance the portfolio as soon as possible.

Ms. Racy-Choy also suggested that the Board consider adding a provision to the SIP that would provide the Secretary authority to stop trading on an account or even liquidate an account in the event of an emergency situation where timing is crucial to preserve the portfolio.

Chair Perkins stated that the Board would like to see what the emergency provision would entail before they would make a decision.

The Secretary stated that special meetings can be arranged within 24 hours in the event of an emergency situation so that the Board could make a crucial decision quickly.

The committee approved the changes to the Federated City Employees' Retirement System's Statement of Investment Policy with a change to correct the table on page 26.

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

The SIP is on the April 9, 2009 Board agenda for approval with the correction to the table on page 26.

2. Approval of revisions to the proxy voting guidelines.

Ms. O'Fallon stated that Glass Lewis & Co., LLC ("Glass Lewis") has been the System's proxy voting agent since July 1, 2006. Their contract is due to expire June 30, 2009. Each year staff and Glass Lewis review all new policy issues not currently covered by the System's guidelines. The one issue Glass Lewis identified this year is "Management Sponsored Advisory Votes on Compensation."

Ms. O'Fallon explained that this proposal seeks shareholders approval of the overall executive pay-for-performance compensation policies and procedures employed by companies. The shareholder vote is advisory and will not be binding on the companies' boards. However, compensation committees generally take into account the outcome of the vote when considering future executive compensation arrangements. Staff recommends looking at the management sponsored advisory votes on compensation issue on a case-by-case basis.

The committee approved revisions to the proxy voting guidelines.

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

3. Authorization for the Secretary to negotiate and execute extensions to vendor agreements that expire on June 30, 2009.

Mr. Kumar stated that there are three contracts that will expire on June 30, 2009: Brandywine Global Investment Management, Eagle Asset Management, and Glass Lewis & Co., LLC. Since Brandywine is on probation, staff recommends only renewing their contract for one year. Both Eagle and Glass Lewis contracts would be renewed for three years.

Chair Perkins questioned why the Board would renew Brandywine's contract when they have been on probation and have not performed well over the past year.

Mr. Thomas explained that after Brandywine announced a process change in 2008, SIS recommended that they be allowed some time to improve their performance before a decision was made on their status. In 2008, Brandywine was slightly below the benchmark; however, they ranked in the top third among their peers for the year. A bigger issue is that Brandywine is an enhanced index manager and not focused on fundamental research, but, in this small cap environment, research pays off. SIS recommends doing a search for a replacement small cap asset manager.

Chair Perkins suggested that at this time Brandywine's contract be extended for the shortest period possible.

Mr. Kumar stated that Brandywine's contract can be extended on a month-to-month basis.

The committee approved authorizing the Secretary to negotiate and execute extensions to vendor agreements that expire on June 30, 2009. Glass Lewis and Eagle Asset Management contracts are to be extended for three years. Brandywine's contract is to be extended on a month-to-month basis. The committee authorized staff to conduct a search for a small cap manager to see what options are available.

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

4. Firm Update: Atlanta Capital's staff reduction.

Mr. Thomas stated that Atlanta Capital announced that they will be cutting back on their staff. Atlanta Capital is a defensive manager and has done well for the System. After 2008, Atlanta's assets under management have declined and, therefore, revenues have also declined. SIS recommends that staff and SIS meet with Atlanta Capital to discuss the staffing changes and any other issues.

Approved:



RUSSELL U. CROSBY, RETIREMENT DIRECTOR
BOARD OF ADMINISTRATION