

San Jose Employees Retirement Fund Portfolio Review Q3 2015

October 27, 2015



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Hedge Fund Market Update

July 2015

- Markets were mixed in July, with Western markets rebounding after the Greek associated weakness; but there was significant volatility in the Chinese markets as regulators looked to stem capital outflows.
- Developed market equity indices were up on the month as a Greek resolution was found; in Europe the MSCI Europe was +3.9%; in the US the S&P 500 was +2.1%; but the real action was in China where the CSI 300 was -14.7% and the Hang Seng -6.1%.
- Sovereign credit spreads tightened during the month, particularly for peripheral European issuers; but in the high yield space indices continued to decline with the ML US High Yield index -1.5% and the European equivalent -0.2%.
- The dollar strengthened during the month as FOMC statements kept a 2015 rate rise on the table; commodities slumped during the month as Middle Eastern oil supplies remained firm and a deal was reached with Iran; the Bloomberg Commodity index was -10.6% and Crude -20.8%.
- In the hedge fund space, momentum helped certain strategies with the HFRI Macro and CTAs performing well; the other three super-strategies were slightly down in the month.

August 2015

- August saw a huge pick up in volatility as concerns around China driven by the Yuan devaluation and the broad sell-off in risk assets, the VIX index peaked at over 50.8 at the start of trading on Monday 24th, having started the month at 12.1.
- All major equity markets were down over 10% at some point in the month; China's CSI 300 was down -20.7% by the 26th but then finished -11.8%; the S&P 500 TR finished -6.0%, the MSCI Europe -7.4% and the MSCI Emerging Markets index -9.2%.
- Credit fared much better than equities with the ML Global HY index down just -1.5%; government bond yields rose slightly during the month but the likelihood of a September US rate rise was reduced.
- Commodities suffered due to demand concerns; crude oil was down -19.2% for the month to date on the 24th, but an approximately 25% bounce in the last three days pushed it positive for the month; the broader Bloomberg Commodity index finished the month -0.9%; the US Dollar weakened during the month while Gold finished +4.1%.
- Hedge funds struggled during the month, with those higher beta strategies, Equity Long/Short and Event Driven, suffering the worst; the bounce at the end of the month was difficult for CTAs and they ended the month down after having been positive on average as of the 24th. The Equity Market Neutral index was flat.

Source: Bloomberg

September 2015

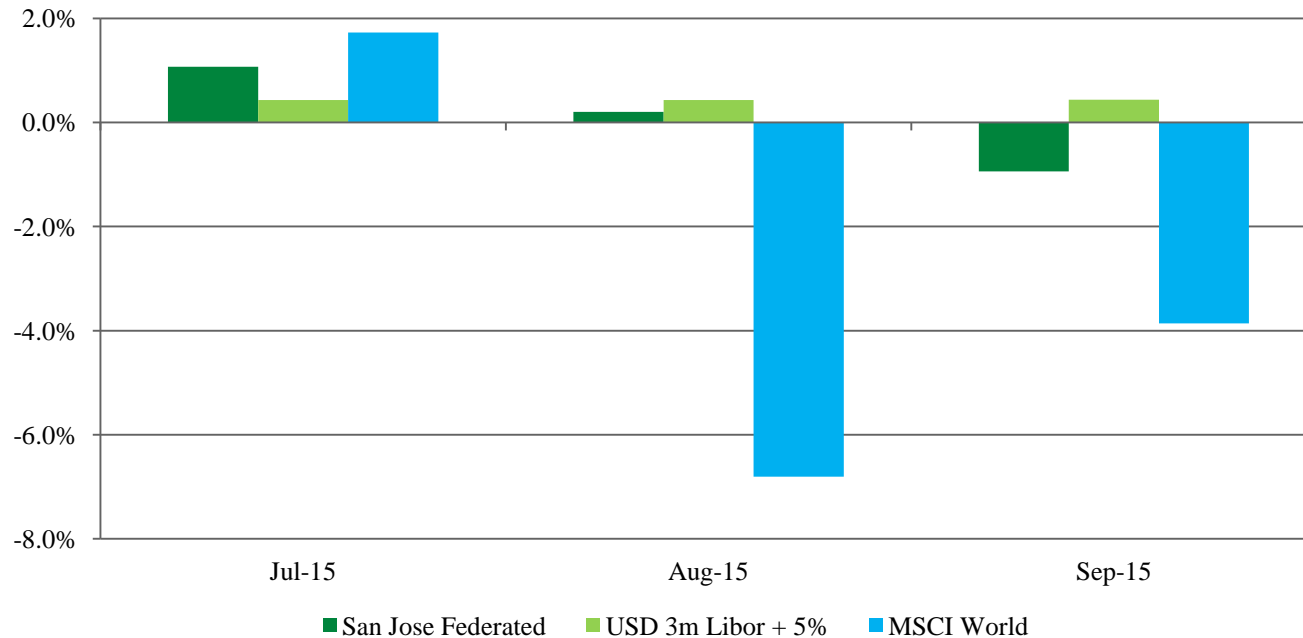
- Investors remained concerned with the slowdown in China causing the risk off environment to continue into September. This was coupled with a lack of clarity over future central bank policy as the Fed kept rates low; contradictory comments came from committee members through the month with Janet Yellen confirming a rate hike was still possible in 2015.
- It was another tough month for equities even as implied volatility fell with the VIX -13.8%; the major markets never really made it into positive territory during the month ; S&P 500 TR -2.5%, MSCI Europe -4.4% , Nikkei -8.0% and Chinese CSI 300 -4.9%; taking all markets into significant single digit negative performance for the year.
- Credit mirrored the equity space with ML US HY index down -2.6%, European equivalent down -2.5%; government rates declined somewhat after the lack of movement from the Fed, with the US 10yr yielding just over 2% at month end.
- Another month of downward pressure on commodities with Oil -8.4%, Gold -0.6% and the broad Bloomberg commodity index -3.4%; the US Dollar strengthened slightly after having weakened immediately after the Fed rate announcement.
- September was as difficult for the higher beta strategies as the Equity Long/Short and Event Driven strategies were both down. Demonstrating their diversification benefits, both Systematic Macro managers and Equity Market Neutral strategies on average posted positive returns.

Source: Bloomberg



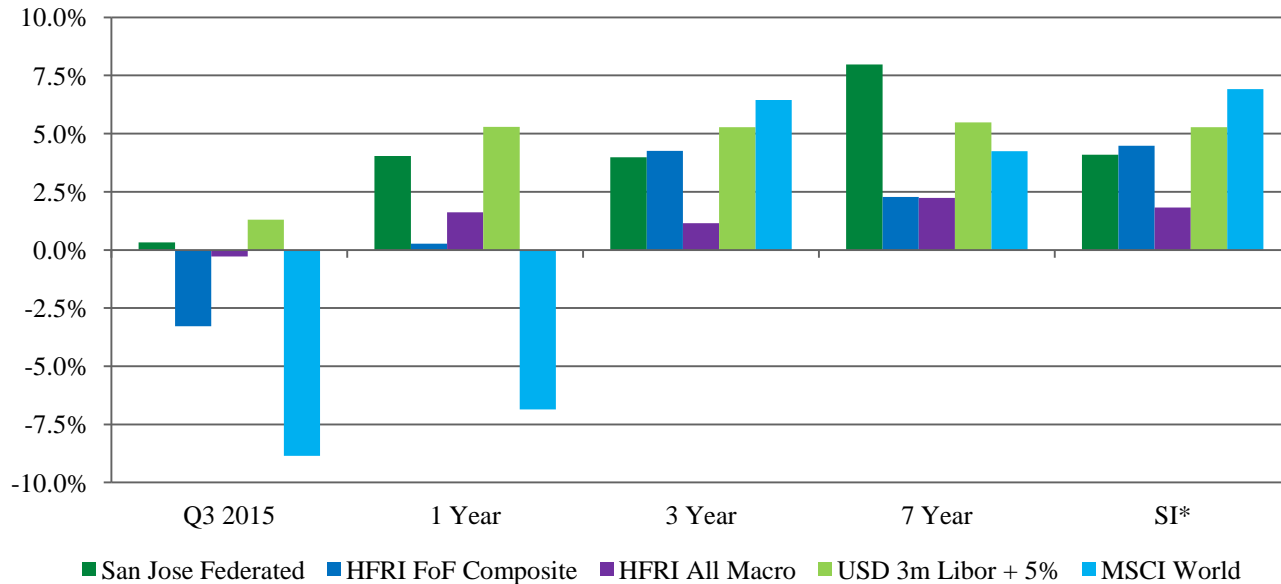
Performance and Risk – Federated Absolute Return Portfolio

Portfolio Performance



	Jul-15	Aug-15	Sep-15
San Jose Federated	1.07%	0.20%	-0.94%
USD 3m Libor + 5%	0.43%	0.43%	0.44%
MSCI World	1.73%	6.81%	-3.86%

Portfolio Performance



	Q3 2015	1 Year	3 Year**	7 Year**	SI*
San Jose Federated	0.32%	4.04%	3.98%	7.97%	4.10%
HFRI FoF Composite	-3.28%	0.27%	4.26%	2.28%	4.48%
HFRI All Macro	-0.28%	1.62%	1.15%	2.24%	1.83%
USD 3m Libor + 5%	1.31%	5.29%	5.28%	5.49%	5.28%
MSCI World	-8.86%	-6.86%	6.45%	4.25%	6.92%

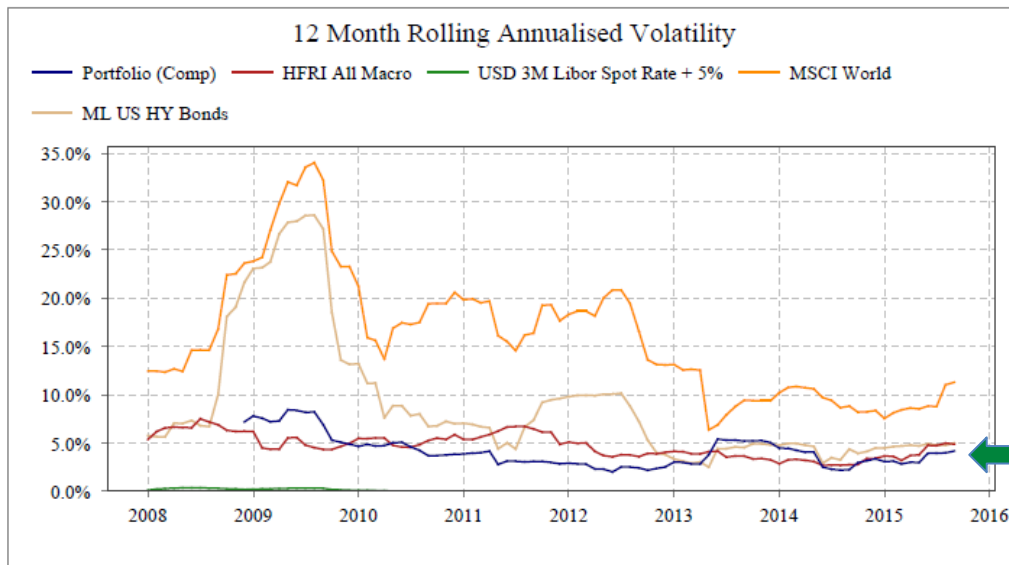
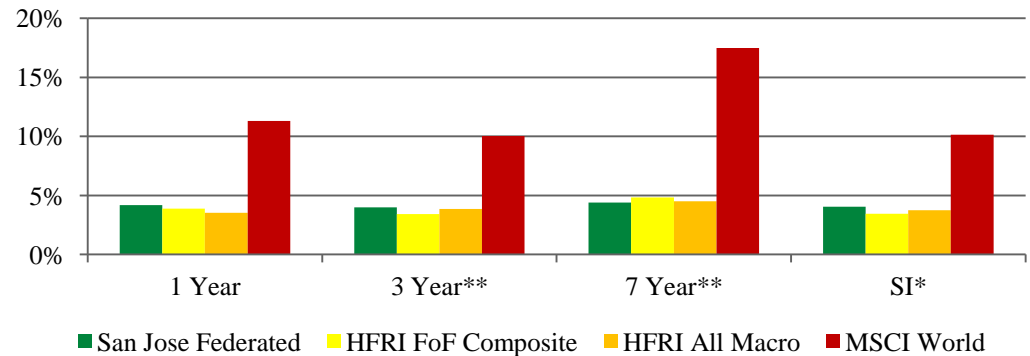
*Inception is December 2012

**3 and 7yr are composites using main share class returns

Source: Hedge Fund Research, Inc. (HFR), Bloomberg

Portfolio Risk

Annualized Std Deviation



*Inception is December 2012

**3 and 7yr are composites using main share class returns

Source: Hedge Fund Research, Inc. (HFR), Bloomberg

Portfolio Risk

Moments and Measures

Jan 2008-Sep 2015 (93 months)

	Return	Volatility	Skewness	Kurtosis	Sharpe Ratio ⁵	Sortino Ratio ⁶	Omega ⁶	Gain-Loss Ratio ⁶	Calmar Ratio
Portfolio (Comp)	7.45%	4.80%	-0.16	1.24	1.48	2.74	1.08	2.96	1.02
Tactical Benchmark ⁷	2.14%	4.76%	0.43	0.05	0.38	0.63	0.29	1.34	0.27
Historical Systematic Series	2.91%	7.19%	-1.67	8.11	0.36	0.47	0.34	1.40	0.12
Current Systematic Series	2.99%	4.69%	-0.64	2.85	0.56	0.83	0.45	1.57	0.24
Proforma (Sep 2015)	8.11%	4.27%	-0.32	1.42	1.82	3.50	1.31	3.69	1.10

⁵Risk-Free Rate=0.35% ⁶Risk-Free=0.35% ⁷HFRI All Macro

Risk Analysis Based on Current Systematic Series

	Total		Contribution to Risk From			
	Value	Change ¹	Systematic		Residual	
			Value	Change ¹	Value	Change ¹
Annualised Expected Volatility	4.98%	0.01%	4.15%	0.02%	2.74%	-0.01%
Monthly Expected 95% VaR	2.36%	0.01%	1.97%	0.01%	1.30%	-0.01%
Monthly Expected 99% VaR	3.34%	0.01%	2.79%	0.02%	1.84%	-0.01%
95% VaR Violation Frequency ²	3.23%	-0.04%				
Monthly Historical 95% CVaR	2.88%	-0.03%				
Monthly Modified 95% VaR	2.45%	0.00%				
Monte Carlo 95% VaR, MSCI World Stress Period	3.45%	-0.04%				
Monte Carlo 95% VaR, ML US HY Bonds Stress Period	3.48%	-0.04%				
Monthly Expected 95% VaR Assuming Cross-Correlation=1	3.93%	0.03%				

Risk calculated over period from Feb 2000 to Sep 2015 ¹Change from previous month ²Computed over 93 months. Change is relative to previous value, computed over 92 months.

Sensitivity of Current Systematic Series to Tactical Indices

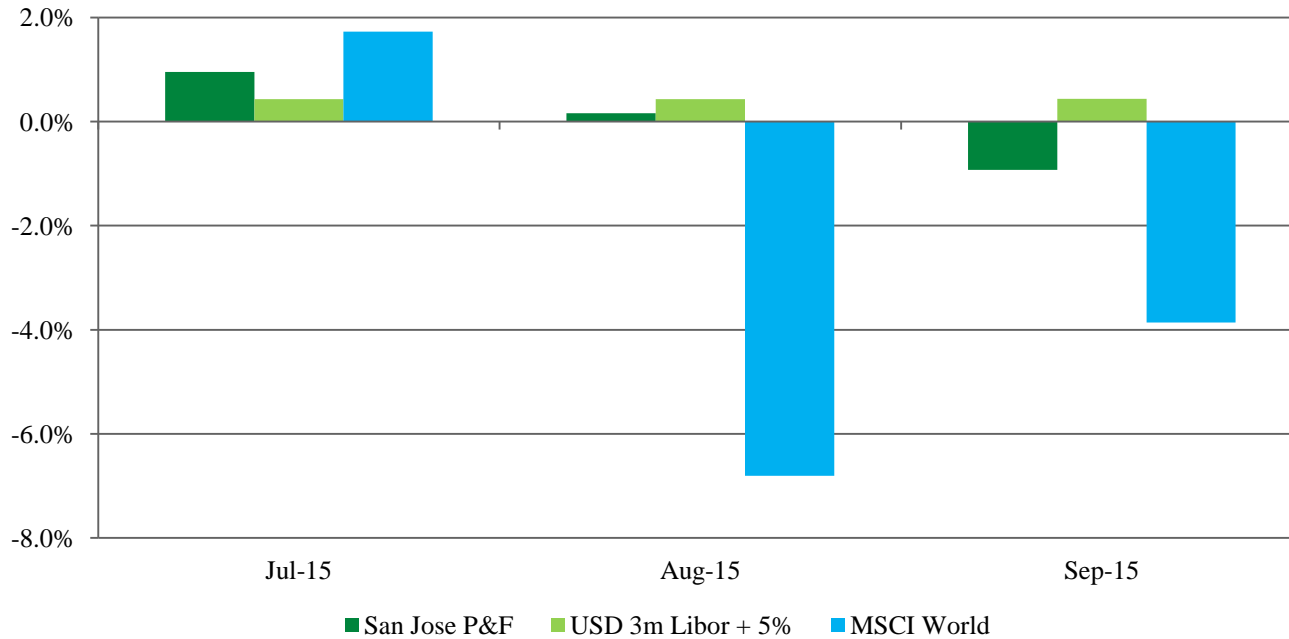
Relative To	Feb 2000-Sep 2015			Last 12 Months		
	Beta	R ²	Correlation	Beta	R ²	Correlation
MSCI World	0.17	0.42	0.65	0.17	0.41	0.64
ML US HY Bonds	0.26	0.39	0.62	0.32	0.29	0.54
HFRI All Macro	0.59	0.56	0.75	0.50	0.66	0.81

0 of 10 funds have no systematic factors, representing 0.0% of the portfolio.



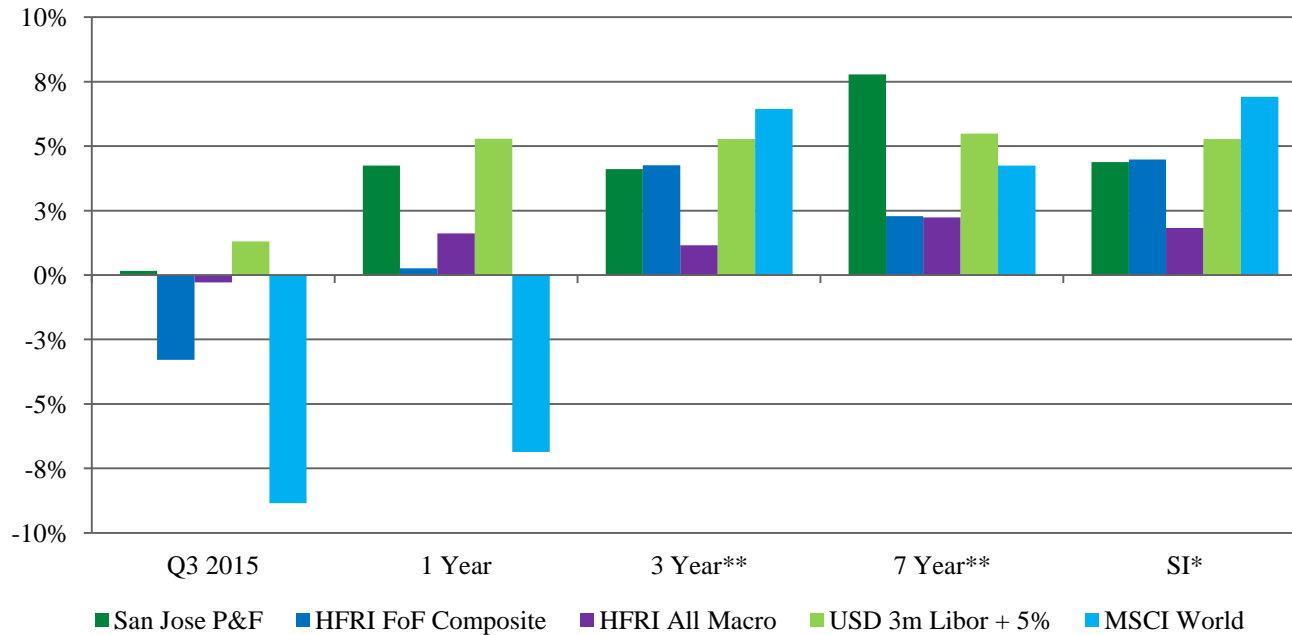
Performance and Risk Police & Fire Absolute Return Portfolio

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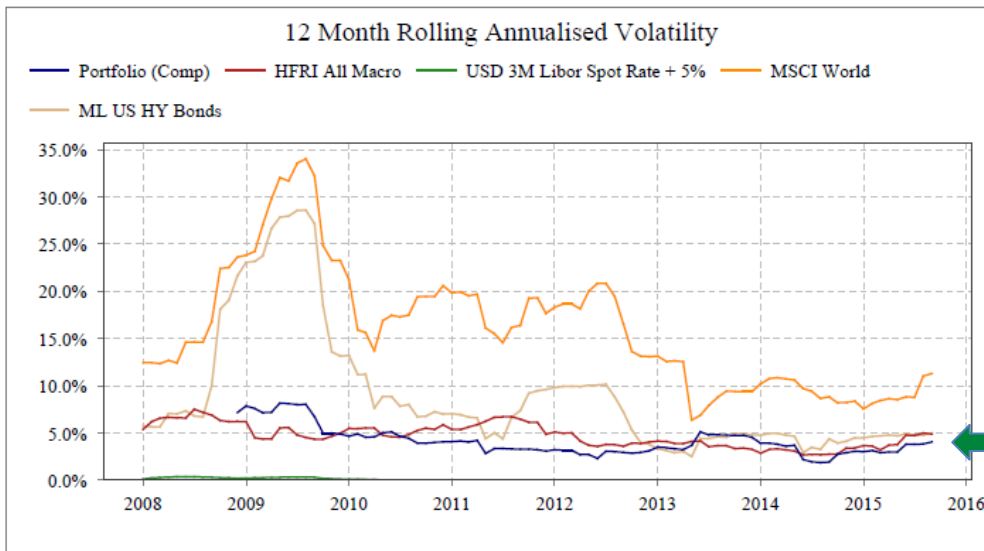
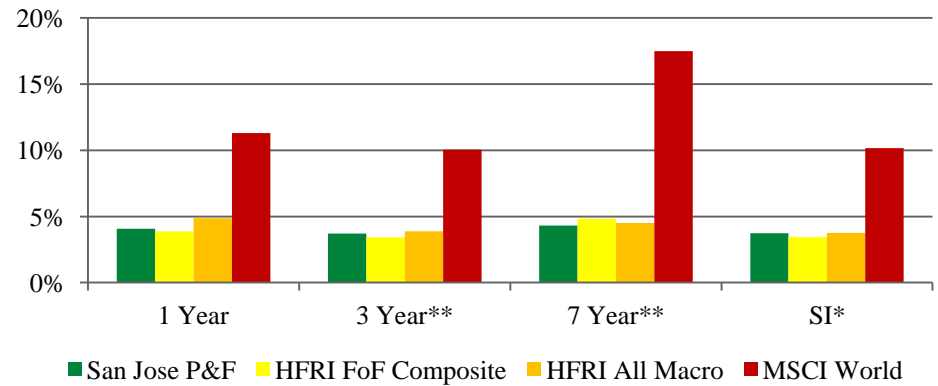
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Current Systematic Series	2.91%	4.60%	-0.65	2.88	0.56	0.82	0.45	1.56	0.24
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ML US HY Bonds	0.26	0.39	0.63	0.32	0.31	0.56
HFRI All Macro	0.58	0.55	0.74	0.47	0.64	0.80

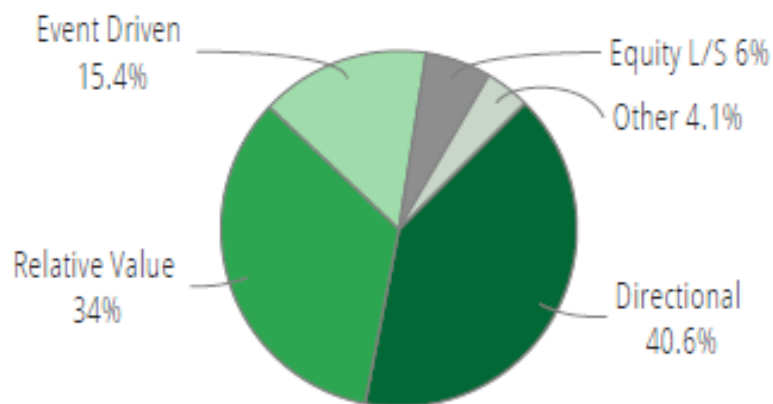
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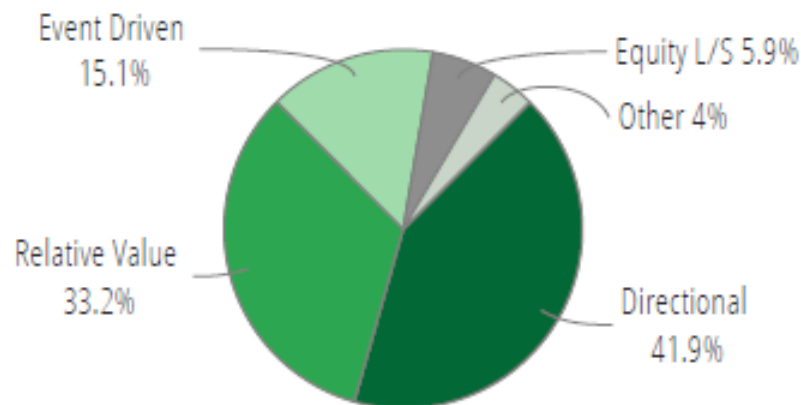
Portfolio Composition

Strategy Composition

Federated Absolute Return Portfolio



P&F Absolute Return Portfolio



- Relative Value and Directional/Macro are intended to be the dominate strategies in the new Absolute Return construct
- As the portfolio is built out, the Directional/Macro allocation will increase to the approximately targeted 75%
- Equity Long/Short and Event Driven exposures result from the multi-strategy fund allocations



Portfolio Update

Portfolio Update

- Federated approved two systematic funds for investment
- P & F approved one systematic fund for investment
- It is expected that additional complementary Macro candidates will be brought forward – potentially 1st quarter 2016
- The Absolute Return portfolio may be out of compliance with the targeted strategy allocations until the build out of the Absolute Return portfolio is complete

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