

# San Jose Employees Retirement Fund Portfolio Review Q3 2015

October 27, 2015



# Contents

- Hedge Fund Market Update
- Performance and Risk – Federated Absolute Return Portfolio
- Performance and Risk - Police & Fire Absolute Return Portfolio
- Portfolio Composition
- Portfolio Update



## 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 24<sup>th</sup>. The Equity Market Neutral index was flat.

Source: Bloomberg

# September 2015

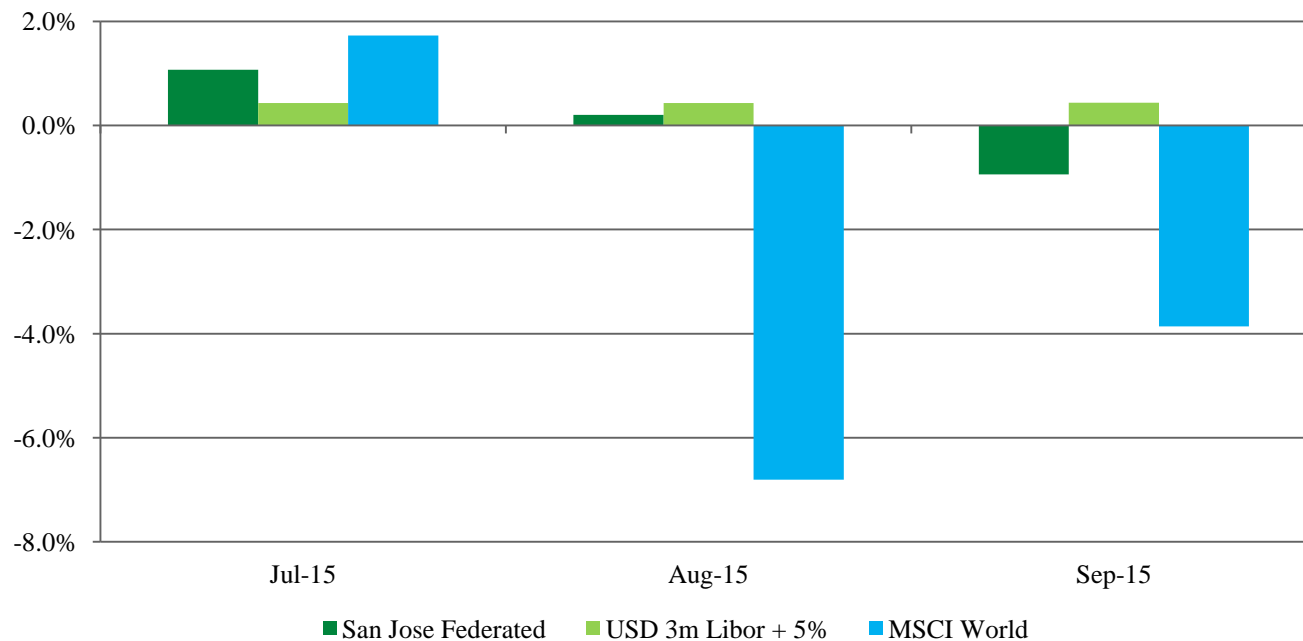
- Investors remained concerned with the slowdown in China causing the risk off environment to continue into September. This was coupled with a lack of clarity over future central bank policy as the Fed kept rates low; contradictory comments came from committee members through the month with Janet Yellen 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



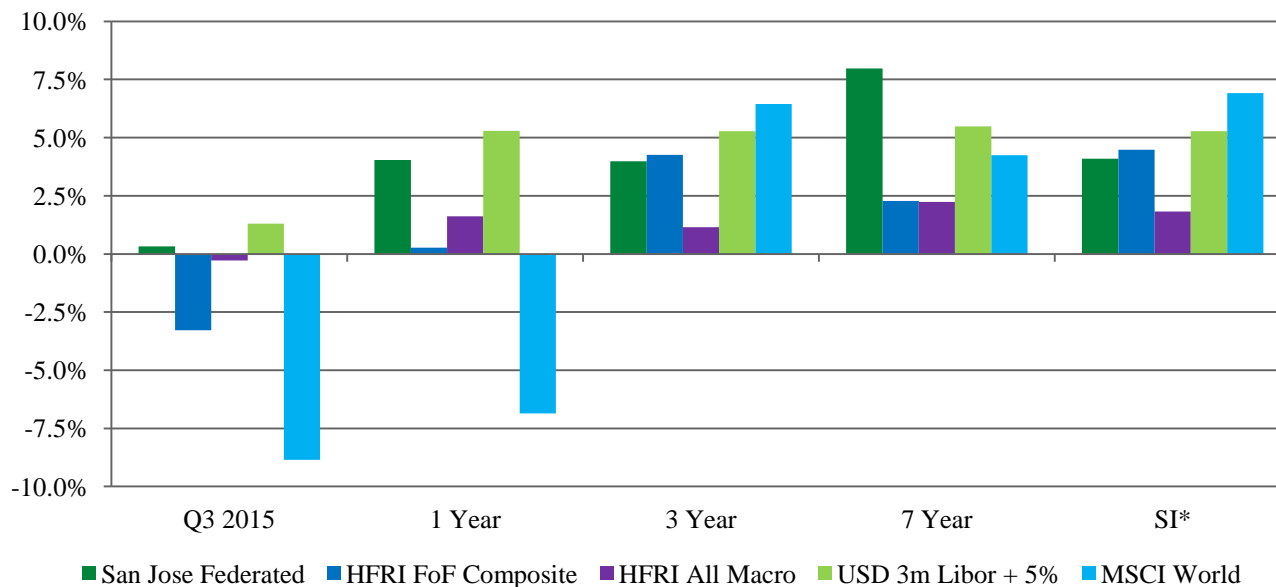
## Performance and Risk – Federated Absolute Return Portfolio

# 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%

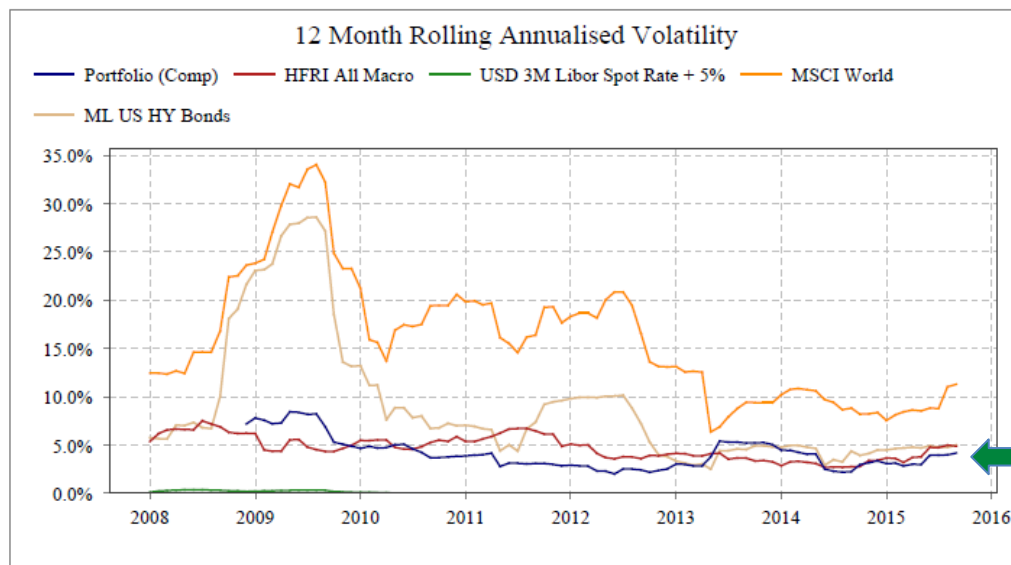
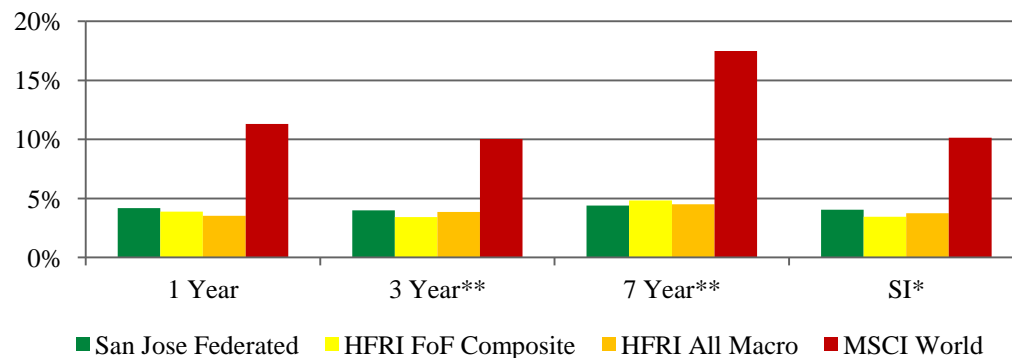
\*Inception is December 2012

\*\*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 <sup>5</sup>	Sortino Ratio <sup>6</sup>	Omega <sup>6</sup>	Gain-Loss Ratio <sup>6</sup>	Calmar Ratio
Portfolio (Comp)	7.45%	4.80%	-0.16	1.24	1.48	2.74	1.08	2.96	1.02
Tactical Benchmark <sup>7</sup>	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

<sup>5</sup>Risk-Free Rate=0.35% <sup>6</sup>Risk-Free=0.35% <sup>7</sup>HFRI All Macro

## Risk Analysis Based on Current Systematic Series

	Total		Contribution to Risk From			
			Systematic		Residual	
	Value	Change <sup>1</sup>	Value	Change <sup>1</sup>	Value	Change <sup>1</sup>
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 <sup>2</sup>	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 <sup>1</sup>Change from previous month <sup>2</sup>Computed over 93 months. Change is relative to previous value, computed over 92 months.

## Sensitivity of Current Systematic Series to Tactical Indices

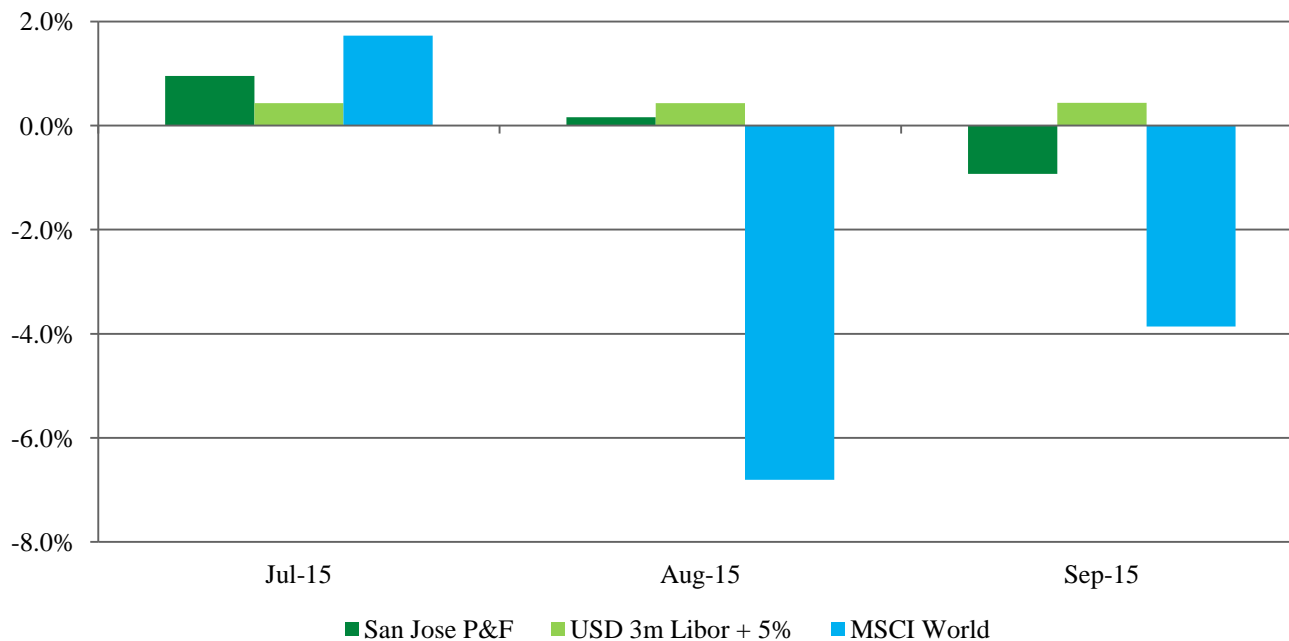
Relative To	Feb 2000-Sep 2015			Last 12 Months		
	Beta	R <sup>2</sup>	Correlation	Beta	R <sup>2</sup>	Correlation
MSCI World	0.17	0.42	0.65	0.17	0.41	0.64
ML US HY Bonds	0.26	0.39	0.62	0.32	0.29	0.54
HFRI All Macro	0.59	0.56	0.75	0.50	0.66	0.81

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



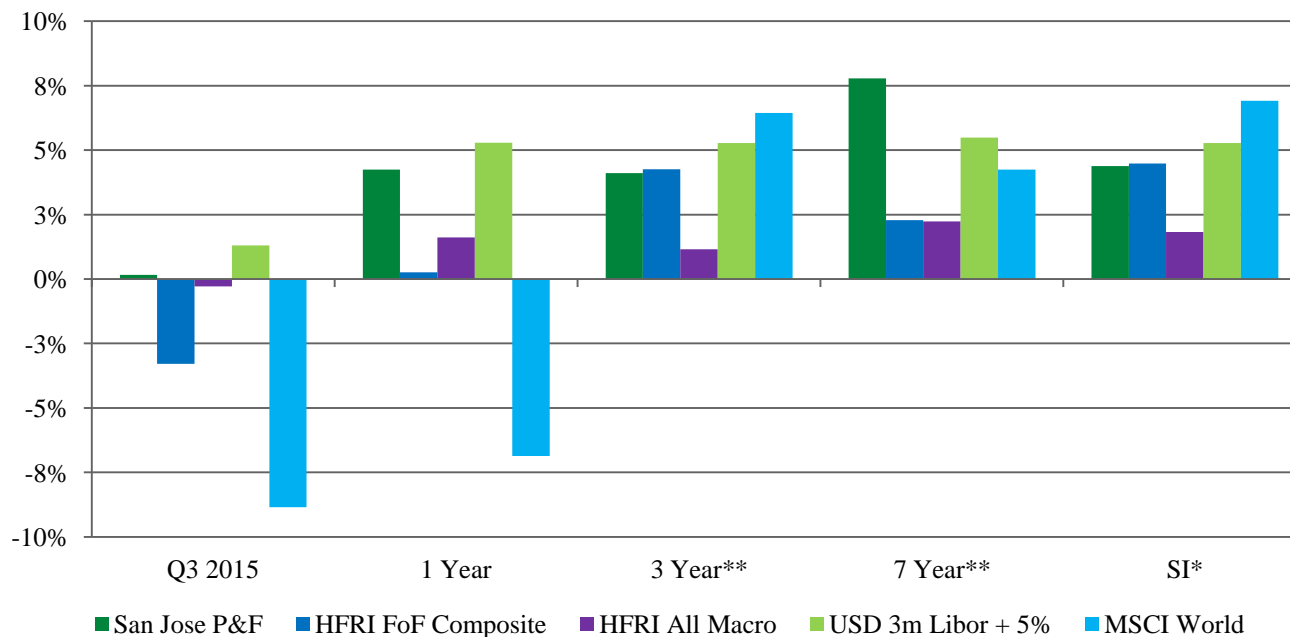
## Performance and Risk Police & Fire Absolute Return Portfolio

# Portfolio Performance



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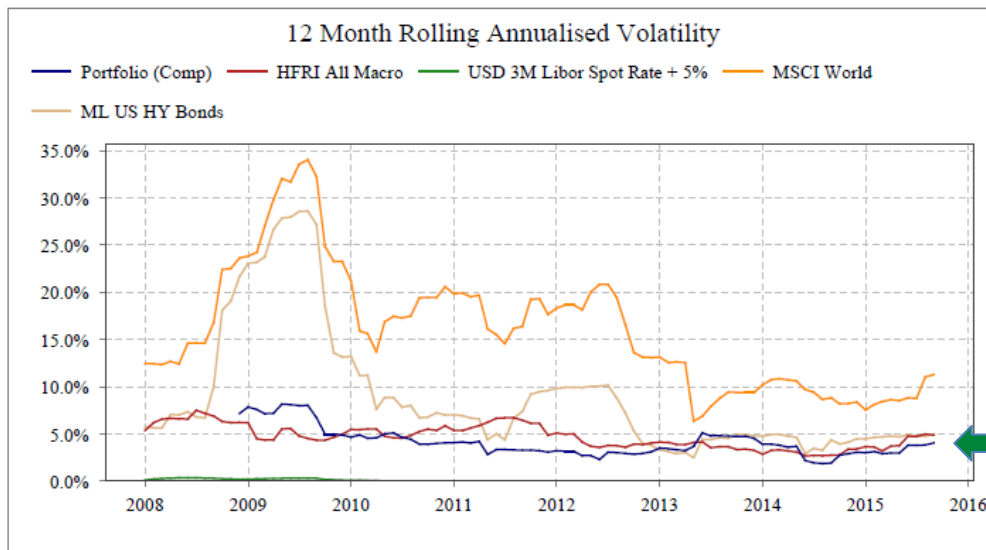
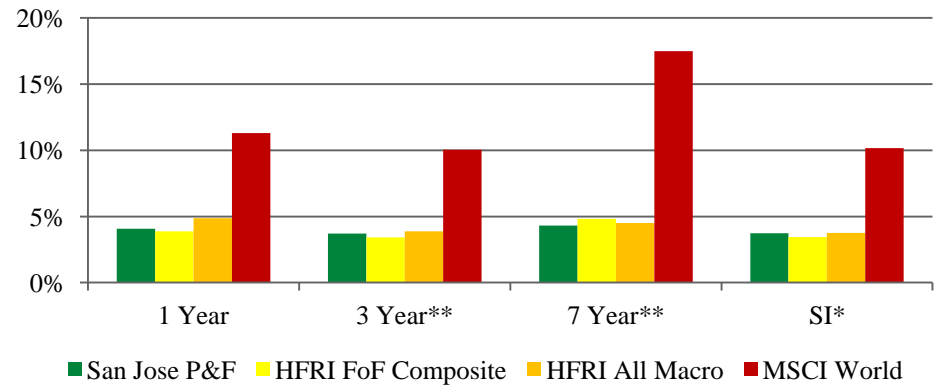
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**Annualized Std Deviation**



# Portfolio Risk

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Historical Systematic Series	2.96%	7.19%	-1.68	8.15	0.36	0.48	0.34	1.41	0.12
Current Systematic Series	2.91%	4.60%	-0.65	2.88	0.56	0.82	0.45	1.56	0.24
Proforma (Sep 2015)	8.10%	4.27%	-0.37	1.42	1.82	3.47	1.30	3.67	1.08

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ML US HY Bonds	0.26	0.39	0.63	0.32	0.31	0.56
HFR All Macro	0.58	0.55	0.74	0.47	0.64	0.80

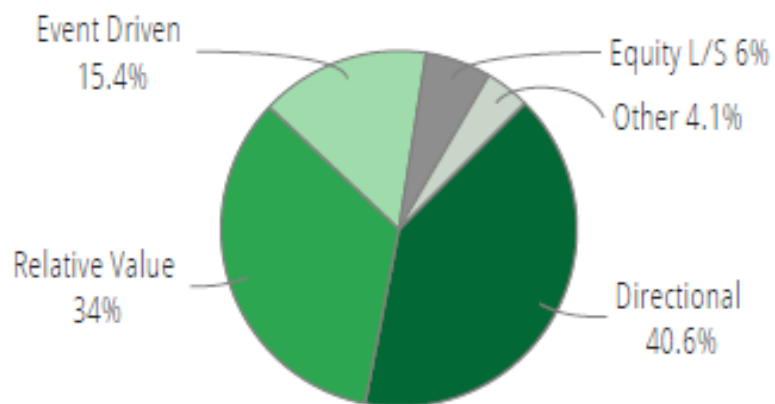
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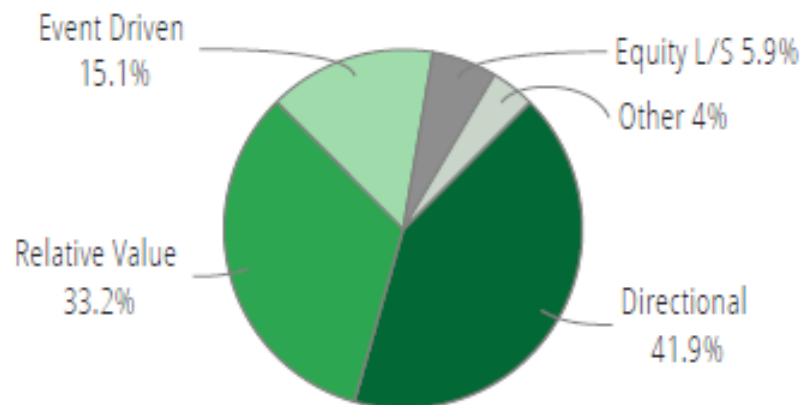
## Portfolio Composition

# 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 1<sup>st</sup> 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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