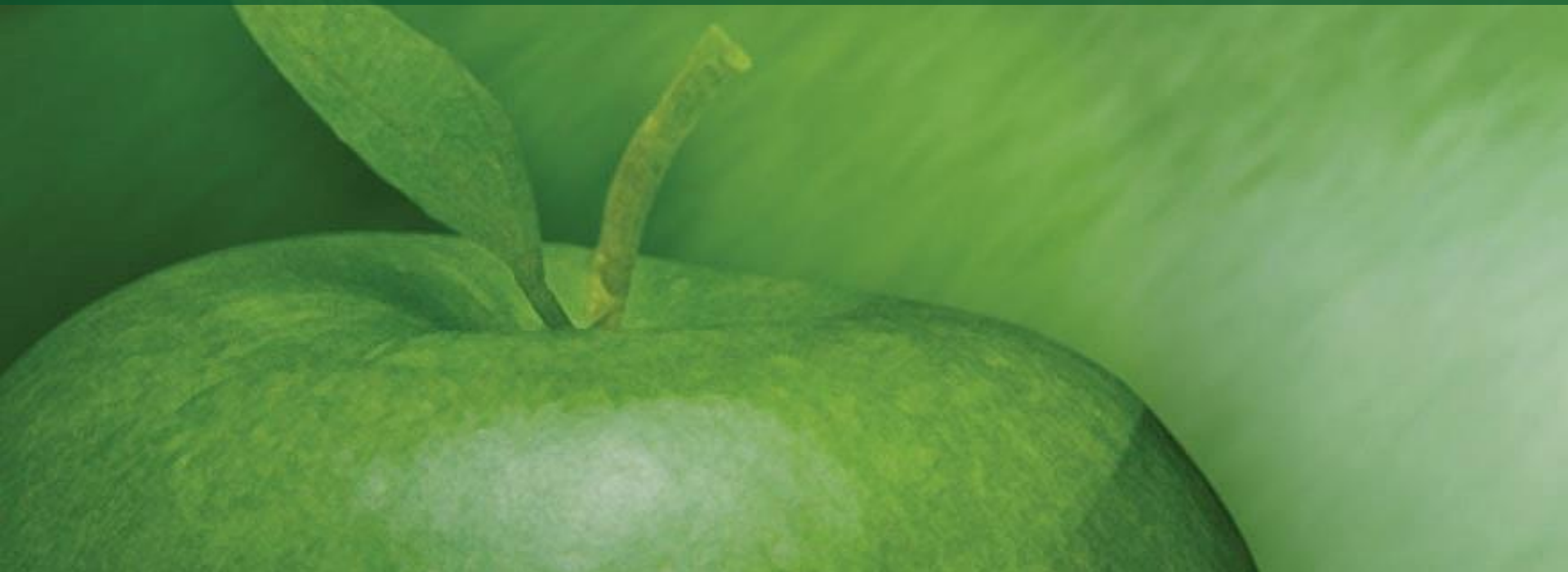


# San Jose Employees Retirement Fund Portfolio Review Q2 2016

August 23, 2016



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- Market Update
- Performance and Risk – Federated Absolute Return Portfolio
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## Market Update

# Market Update – Q2 2016

## Economy

In April, risk assets broadly moved higher supported by a recovery in commodities, but there was continued caution from the Fed over the future US rate rises. The S&P 500 TR returned +0.4% and MSCI AC World was up +1.5%. However, the market was disappointed by the BoJ failing to ease further and the Nikkei retraced intra-month gains of 4.8% to end the month down 0.55%. US corporate credit had a very strong month with the Bloomberg USD HY index up 3.9% on the back of a rebound in oil prices, while US IG debt was positive up 1.36% as measured by the Bloomberg USD IG Debt index.

In May, US economic data was strong and inflation was at the highest level for three years, supporting a decline in volatility and an increase in risk assets. Developed equity markets were positive, EM was down hurt by a strengthening USD, commodities were mixed with Gold and Silver declining and Oil strengthening on surprise supply shortages. US Treasury yields rose while European yields continued to fall further.

June saw significant volatility as British voters opted to leave the EU. Demand for safe haven assets increased driving gains for precious metals and the yen in particular, while most bond yields fell and the resulting demand for yield drove appreciation for many EM equities and currencies.

## Hedge Funds

April continued to be challenging for a number of strategies, including quant oriented strategies who were hurt by sharp reversals, and CTAs who were hurt as commodities rallied and the USD weakened. On the positive side, Macro funds benefitted from positions in gold and Brazilian rates, and Relative Value Credit had the average fund up over 1% with the broader HY market up nearly 4%. The shorting environment was improved for US equity long/short funds as we saw funds positioning more single name shorts.

May was a mixed month for hedge funds. Multi-Strategy managers had a fairly strong month up about 1.3%, while CTAs had a difficult month with currency being the biggest detractor. The stock picking environment continues to be beneficial for equity long/short managers and there was wide dispersion in returns for May; however, due to a lack of interesting opportunities managers long books are much more concentrated than they have historically been.

In June, CTAs were the bright spot benefitting from the Brexit volatility. There was a lot of dispersion in most strategies with a wide range of outcomes also as a result of the volatility. In the Albourne universe, Macro funds as well as Multi-Strategy Diversified and Fixed Income Relative Value funds were on average positive for the month. Equity Long/Short and Structured Credit managers were on average negative.

# Hedge Fund Style Returns

Index	2016 YTD	2015	2014	2013	2012	2011	2010	3 Year	10 Year
HFRI All Equity Hedge	-0.39%	-0.95%	1.80%	14.28%	7.41%	-8.38%	10.45%	3.06%	2.93%
HFRI EH: Equity MN	0.59%	4.25%	3.08%	6.46%	2.98%	-2.13%	2.85%	3.85%	2.09%
HFRI All Event Driven	2.12%	-3.57%	1.08%	12.51%	8.89%	-3.30%	11.86%	1.99%	3.92%
HFRI ED: Distressed/Restructuring	3.27%	-8.12%	-1.41%	14.05%	10.12%	-1.79%	12.12%	0.00%	3.39%
HFRI ED: Merger Arbitrage	0.15%	3.32%	1.69%	4.74%	2.76%	1.50%	4.60%	2.78%	3.64%
HFRI All Macro	3.26%	-1.24%	5.55%	-0.44%	-0.06%	-4.16%	8.06%	2.66%	3.44%
Barclay CTA	1.75%	-1.48%	7.62%	-1.42%	-1.70%	-3.09%	7.05%	2.42%	2.99%
HFRI All Relative Value	2.40%	-0.30%	4.02%	7.07%	10.59%	0.15%	11.43%	3.35%	5.25%
HFRI RV: Fixed Income - Asset Backed	-0.39%	2.07%	8.69%	9.91%	17.12%	6.00%	12.95%	5.18%	7.93%
HFRI RV: Fixed Income - Convertible Arbitrage	2.07%	1.92%	1.54%	8.02%	8.58%	-5.16%	13.35%	3.03%	4.63%
HFRI RV: Fixed Income – Corporate	4.18%	-1.84%	1.28%	5.68%	10.99%	0.82%	11.80%	2.55%	3.54%
Index	2016 YTD	2015	2014	2013	2012	2011	2010	3 Year	10 Year
ML US T Bills	0.15%	0.05%	0.03%	0.07%	0.11%	0.10%	0.13%	0.09%	1.04%
MSCI World	1.02%	-0.32%	5.50%	27.37%	16.54%	-5.02%	12.34%	7.54%	5.02%
ML US HY Bonds	9.32%	-4.64%	2.50%	7.42%	15.59%	4.38%	15.19%	4.20%	7.44%
ML Global Govt. Bond	11.37%	-2.61%	0.18%	-4.33%	1.75%	6.83%	5.64%	3.33%	4.48%
BBG Commodity TR	13.25%	-24.66%	-17.01%	-9.52%	-1.06%	-13.32%	16.83%	-10.55%	-5.59%
HFRI FoF Composite	-2.60%	-0.23%	3.37%	8.96%	4.79%	-5.72%	5.70%	1.92%	1.59%

Q2 2016 are cumulative returns as of the end of June 2016. 3-Yr and 10-Yr returns are trailing annualized returns as of the end of June 2016. Returns calculated using data available as of 15 August 2016.

Past performance is not indicative of future results



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Source: Bloomberg

# Quarterly Index Returns

2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2
		CTA 3.5%					Distressed 4.9%
		Asia 3.5%					Emerging 3.1%
		Macro 3.3%					Rel Value 2.9%
		World 2.5%	Asia 7.0%				Event 2.8%
		CB Arb 2.1%	Equity Hedge 1.8%				CB Arb 2.5%
		Equity Hedge 2.0%	CB Arb 1.3%				Macro 1.7%
CTA 3.7%	CTA 3.1%	Rel Value 1.8%	Asset 1.3%		World 5.6%		Asset 1.7%
Asia 2.4%	Macro 2.3%	Event 1.8%	Emerging 0.8%		Asia 4.5%		Equity Hedge 1.4%
Macro 2.2%	Asia 1.6%	EMN 1.5%	Rel Value 0.8%		Equity Hedge 1.7%	Macro 1.6%	World 1.2%
Asset 1.9%	EMN 1.2%	Asset 1.3%	Event 0.6%		EMN 1.2%	CTA 1.0%	Asia 1.2%
EMN 0.2%	World 1.1%	Distressed 0.8%	EMN 0.5%		Emerging 1.1%	EMN 0.5%	CTA 0.8%
Rel Value 0.2%	Asset 0.5%	Emerging 0.3%	World 0.5%	EMN 0.9%	CB Arb 0.3%	Emerging 0.2%	T-Bills 0.1%
T-Bills 0.0%	T-Bills 0.0%	T-Bills 0.0%	T-Bills 0.0%	T-Bills 0.0%	T-Bills 0.0%	T-Bills 0.1%	EMN 0.1%
CB Arb -1.2%	Equity Hedge -0.1%		Distressed -0.3%	CTA -0.4%	Macro -0.2%	World -0.2%	
Equity Hedge -1.4%	CB Arb -0.6%		Macro -3.5%	Asset -0.4%	Asset -0.2%	CB Arb -0.4%	
Emerging -1.6%	Rel Value -0.9%		CTA -3.8%	Macro -0.8%	Rel Value -0.3%	Rel Value -0.5%	
Event -1.7%	Event -1.4%			CB Arb -1.7%	Event -0.4%	Event -0.7%	
World -2.1%	Distressed -4.0%			Rel Value -2.6%	CTA -0.7%	Distressed -1.5%	
Distressed -2.7%	Emerging -4.1%			Distressed -5.4%	Distressed -3.4%	Equity Hedge -1.7%	
				Event -5.5%		Asset -2.0%	
				Emerging -5.6%		Asia -3.5%	
				Equity Hedge -6.3%			
				World -8.3%			
				Asia -12.3%			

Legend			
Asset	HFRI RV: FI - Asset Backed	CB Arb	HFRI RV: FI - Convert Arb
CTA	Barclay CTA	Event	HFRI All Event Driven
Rel Value	HFRI All Relative Value	Emerging	HFRI EM: Global
T-Bills	ML US T Bills	Equity Hedge	HFRI All Equity Hedge
EMN	HFRI EH: Equity MN	Asia	HFRI EM: Asia ex-Japan
Macro	HFRI All Macro	World	MSCI World
Distressed	HFRI ED: Distressed/Restr		

Note: Returns are cumulative returns calculated using data available as of 15 August 2016

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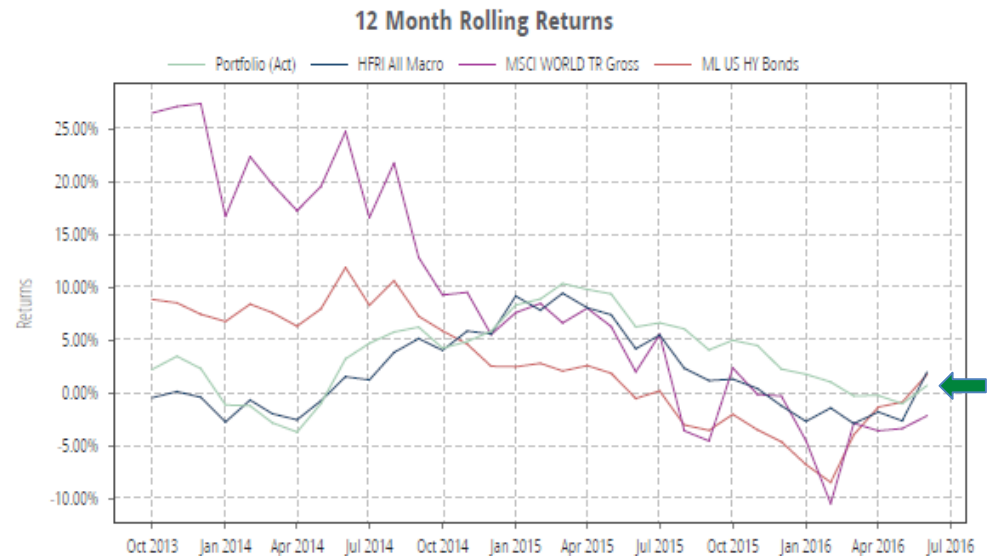
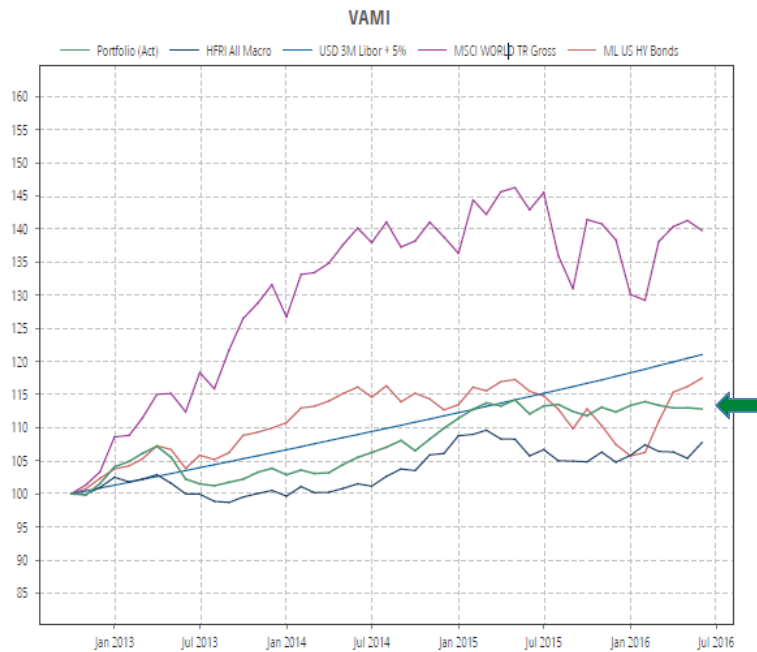


Performance and Risk – Federated Absolute Return Portfolio

# Portfolio Performance

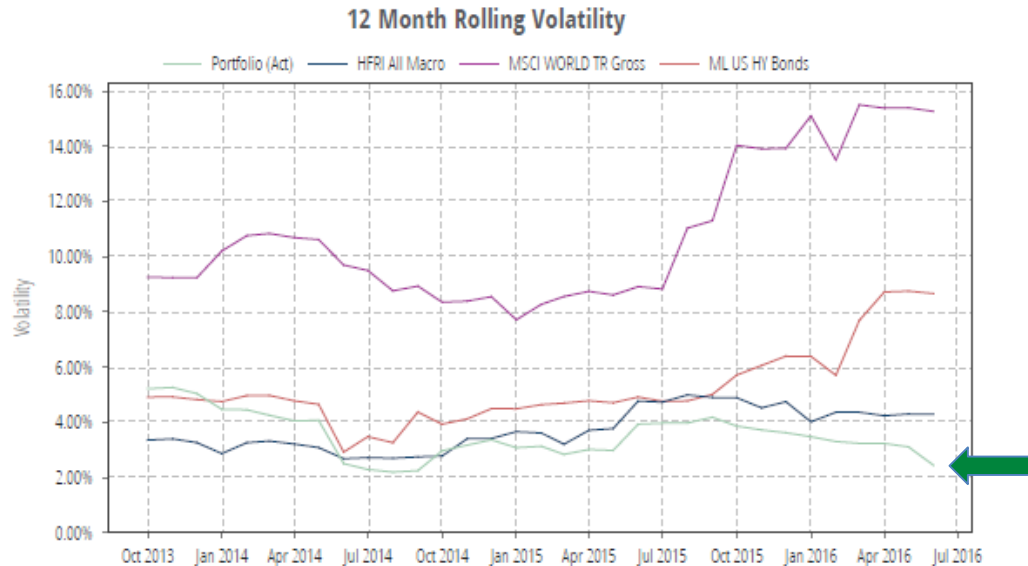
	Annualised Performance					Annualised Risk			
	1 Month	QTD	Year to Date	12 Months	36 Months	Since Investment <sup>1</sup>	Volatility	DV <sup>2</sup>	Worst DD <sup>3</sup>
<b>Portfolio (Act)</b>	-0.17%	-0.49%	0.40%	0.66%	3.34%	3.34%	3.75%	2.44%	-5.56%
<b>HFRI All Macro</b>	2.27%	1.27%	2.84%	1.91%	2.52%	2.06%	3.86%	2.37%	-4.41%
<b>USD 3M Libor + 5%</b>	0.46%	1.39%	2.80%	5.53%	5.35%	5.34%	0.04%	0.00%	
<b>MSCI WORLD TR Gross</b>	-1.07%	1.21%	1.02%	-2.19%	7.54%	9.56%	11.09%	6.27%	-11.64%
<b>ML US HY Bonds</b>	1.08%	5.88%	9.32%	1.71%	4.20%	4.49%	5.80%	3.46%	-9.83%

Unless otherwise stated, all computations are for the period Nov 2012-Jun 2016 <sup>1</sup>Nov 2012-Jun 2016 <sup>2</sup>Downside Volatility, with Risk-Free=0.09% <sup>3</sup>Worst Drawdown





# Portfolio Risk



## Moments and Measures

	Portfolio (Act)	HFRI All Macro	USD 3M Libor + 5%	MSCI WORLD TR Gross	ML US HY Bonds
Skew	-0.82	0.02	1.73	0.00	0.03
Kurtosis	1.11	-0.36	1.56	0.00	-0.10
Sharpe	0.87	0.51	132.02	0.85	0.76
Sortino Ratio <sup>4</sup>	1.33	0.83		1.51	1.27
Calmar Ratio	0.60	0.47		0.82	0.46
Omega Ratio <sup>4</sup>	0.61	0.38		0.64	0.54
Gain/Loss Ratio <sup>4</sup>	1.84	1.46		1.89	1.72
Positive Months	64%	52%	100%	64%	66%
Negative Months	36%	48%	0%	36%	34%

<sup>4</sup>Using Risk-Free MAR=0.09%

Past performance is not indicative of future results

Source: Bloomberg

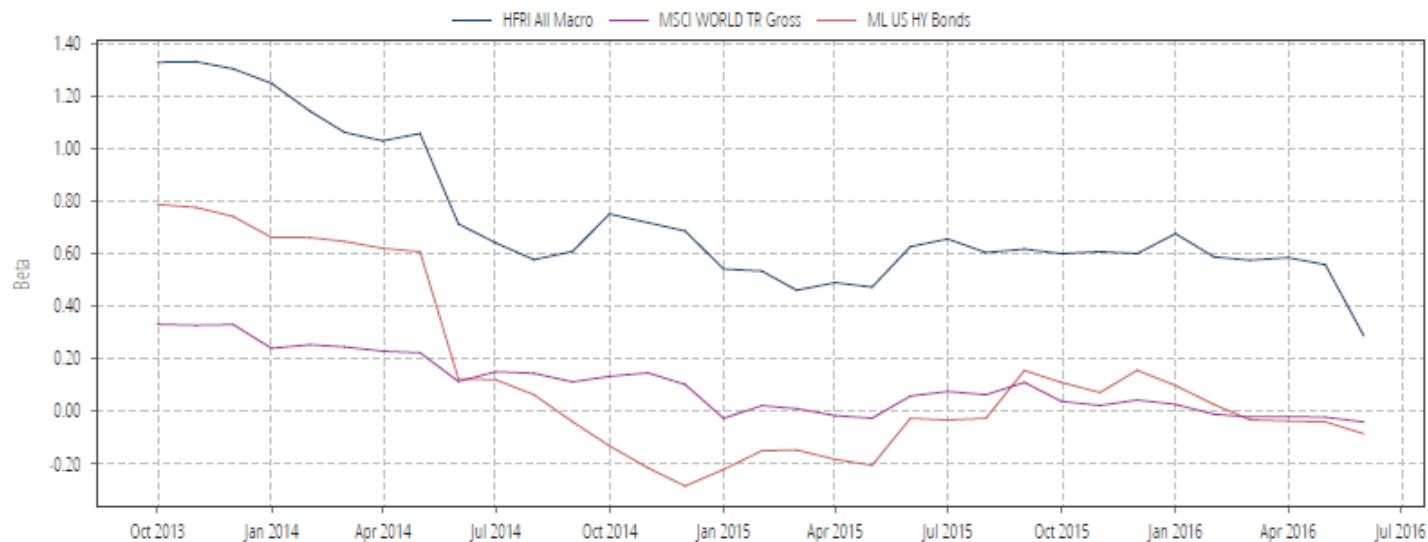
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# Portfolio Beta

## Correlation/Beta of Portfolio

	Corr	Beta
Jul 2015-Jun 2016 (12 months)		
HFRI All Macro	0.50	0.29
MSCI WORLD TR Gross	-0.26	-0.04
ML US HY Bonds	-0.31	-0.09
Nov 2012-Jun 2016 (44 months)		
HFRI All Macro	0.70	0.67
MSCI WORLD TR Gross	0.21	0.07
ML US HY Bonds	0.14	0.09

## 12 Month Rolling Beta Against Portfolio (Act)



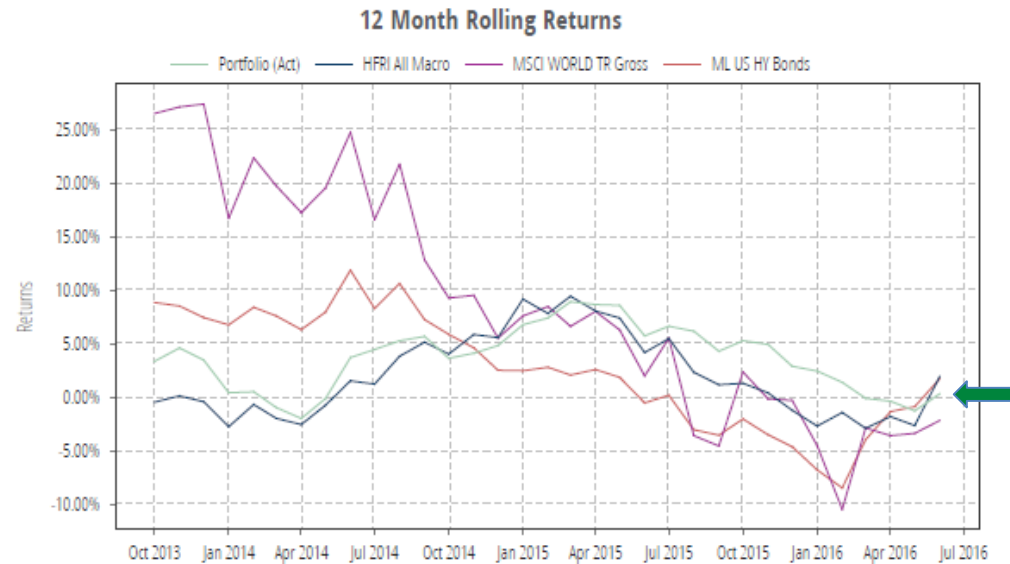
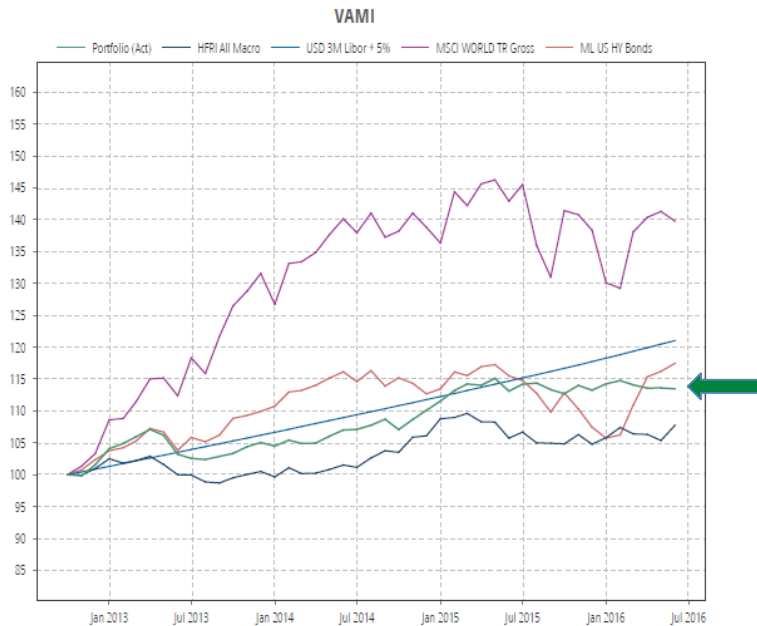


Performance and Risk Police & Fire Absolute Return Portfolio

# Portfolio Performance

	Annualised Performance					Annualised Risk			
	1 Month	QTD	Year to Date	12 Months	36 Months	Since Investment <sup>1</sup>	Volatility	DV <sup>2</sup>	Worst DD <sup>3</sup>
<b>Portfolio (Act)</b>	-0.13%	-0.55%	0.18%	0.30%	3.21%	3.50%	3.49%	2.16%	-4.41%
<b>HFRI All Macro</b>	2.27%	1.27%	2.84%	1.91%	2.52%	2.06%	3.86%	2.37%	-4.41%
<b>USD 3M Libor + 5%</b>	0.46%	1.39%	2.80%	5.53%	5.35%	5.34%	0.04%	0.00%	
<b>MSCI WORLD TR Gross</b>	-1.07%	1.21%	1.02%	-2.19%	7.54%	9.56%	11.09%	6.27%	-11.64%
<b>ML US HY Bonds</b>	1.08%	5.88%	9.32%	1.71%	4.20%	4.49%	5.80%	3.46%	-9.83%

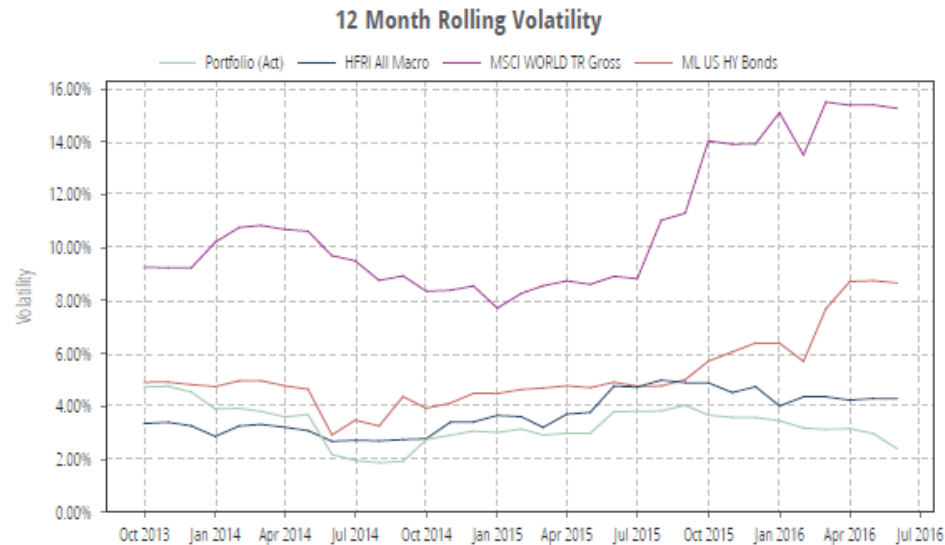
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Past performance is not indicative of future results

Source: Bloomberg

# Portfolio Risk



## Moments and Measures

	Portfolio (Act)	HFRI All Macro	USD 3M Libor + 5%	MSCI WORLD TR Gross	ML US HY Bonds
Skew	-0.68	0.02	1.73	0.00	0.03
Kurtosis	1.02	-0.36	1.56	0.00	-0.10
Sharpe	0.98	0.51	132.02	0.85	0.76
Sortino Ratio <sup>4</sup>	1.58	0.83		1.51	1.27
Calmar Ratio	0.79	0.47		0.82	0.46
Omega Ratio <sup>4</sup>	0.70	0.38		0.64	0.54
Gain/Loss Ratio <sup>4</sup>	2.01	1.46		1.89	1.72
Positive Months	64%	52%	100%	64%	66%
Negative Months	36%	48%	0%	36%	34%

<sup>4</sup>Using Risk-Free MAR=0.09%

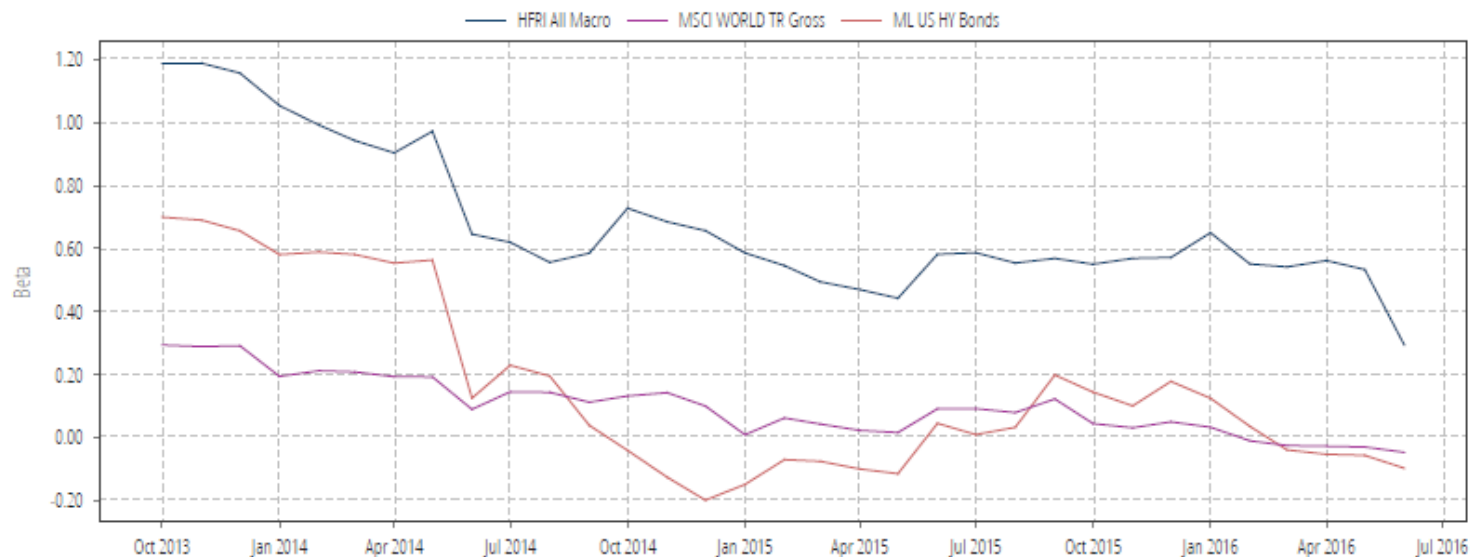
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# Portfolio Beta

## Correlation/Beta of Portfolio

	Corr	Beta
Jul 2015-Jun 2016 (12 months)		
HFRI All Macro	0.52	0.29
MSCI WORLD TR Gross	-0.30	-0.05
ML US HY Bonds	-0.35	-0.10
Nov 2012-Jun 2016 (44 months)		
HFRI All Macro	0.69	0.62
MSCI WORLD TR Gross	0.22	0.07
ML US HY Bonds	0.15	0.09

## 12 Month Rolling Beta Against Portfolio (Act)

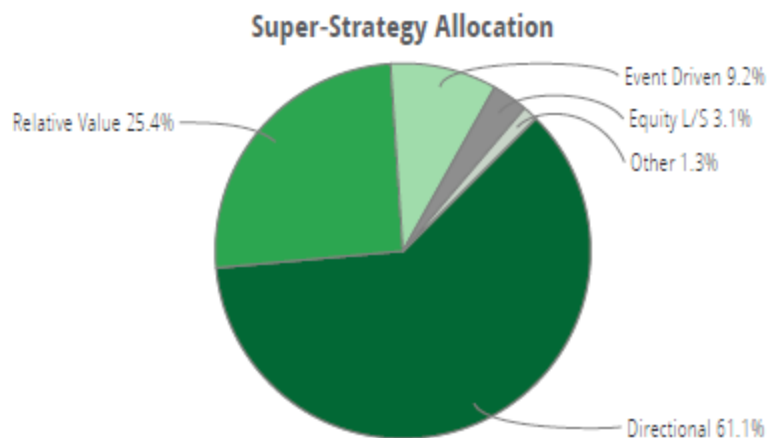




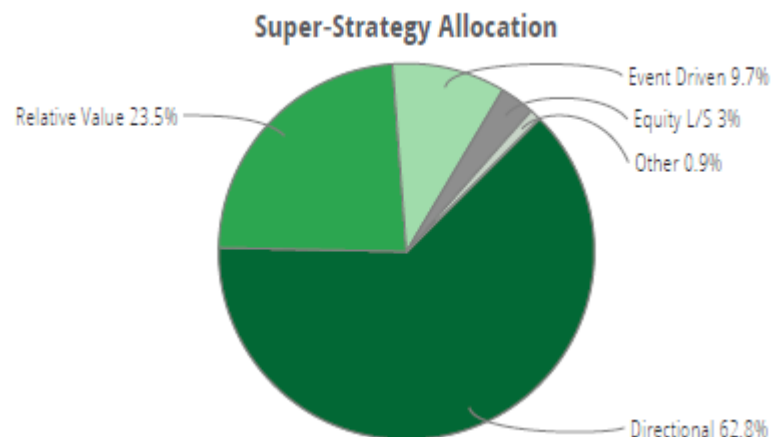
## Portfolio Composition

# Strategy Composition

**Federated Absolute Return Portfolio**



**P&F Absolute Return Portfolio**



- Relative Value and Directional/Macro are the dominate strategies in the new Absolute Return construct
- The portfolio has reached its targeted strategy balance. It is likely to move through out the range as opportunities to include additional diversifying funds arise.
- Equity Long/Short and Event Driven exposures result from the Multi-Strategy fund allocations. However, the Multi-Strategy exposure will be reduced slightly with an expected rebalance.





## Portfolio Update

# Portfolio Update

- Pharo, an emerging market macro manager, was funded April 1st
- An investment in AHL Frontier, a diverse CTA fund, was made July 1<sup>st</sup>
- A single strategy relative value fund is currently being evaluated for inclusion in the portfolio and will likely be brought forward for approval before year end
- Additional complementary opportunities are continually being assessed and will be brought forward if appropriate

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