

# FUND EVALUATION REPORT

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## San Jose Federated City Employees Retirement System

Quarterly Review  
March 31, 2010



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**Executive Summary**  
**As of March 31, 2010**

**During the first quarter, the global economy continued to show signs of stabilization.**

- The U.S. jobs market showed signs of improvement as the unemployment rate declined to 9.7%.
- The Fed stopped its mortgage-backed security purchase program, thus effectively ending quantitative easing (for now).
- The U.S. dollar appreciated against most major currencies, partly due to fiscal concerns in several European countries.

**Stocks extended their rally in the first quarter, as economic conditions continued to improve and central banks around the globe maintained accommodative monetary policies.**

- Due in part to the strengthening dollar and sovereign debt concerns in Europe, domestic stocks (+5.9%) outpaced developed international stocks (+0.9%).
- Small cap stocks outpaced large cap stocks both domestically and internationally.
- In a reversal of the trend of the previous year, domestic value outperformed growth across the capitalization spectrum.
- After a strong 2009, emerging markets continued to rally in the first quarter, finishing up 2.4%.

**Higher quality government fixed income securities continued to lag spread sectors, as optimistic growth expectations persisted.**

- Driven by returns in corporates and asset-backed securities, the Barclays Aggregate index, a proxy of the U.S. bond market, rose 1.8%.
- High yield corporate bonds advanced for the fifth consecutive quarter, returning 4.6%. Their spread relative to Treasuries declined to 5.7% by quarter-end, slightly below their trailing ten-year average.
- The U.S. Treasuries and Government bond components of the Barclays Aggregate index each returned 1.1% for the quarter.

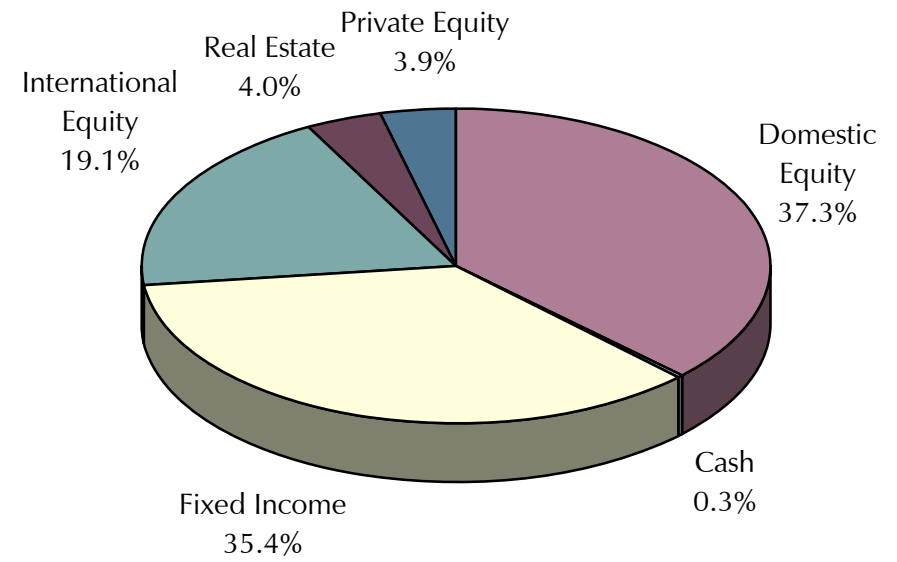
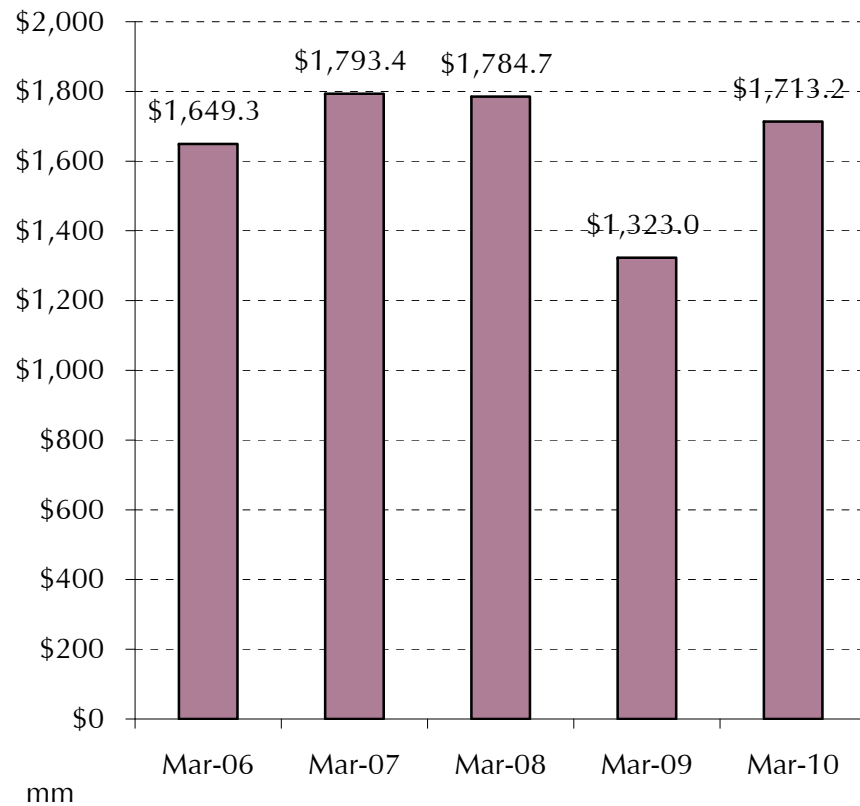
**The value of the San Jose Federated City Employees Retirement System assets was \$1.713 billion on March 31, 2010, up \$29.3 million since the end of the fourth quarter.**

- During the first quarter, the Board of Trustees adopted a new asset allocation in response to the results of an asset-liability study, and in order to position the Plan to better weather future market downturns.
- The transition to the new asset allocation began to take place at the end of the first quarter. Therefore, this report includes detailed portfolio information only for the investment managers that were retained. The second quarter evaluation will reflect the new asset allocation targets and updated policy benchmark.
- During the first quarter, the Retirement System returned 3.2% net of fees, slightly underperforming the custom policy benchmark by 30 basis points (bps). The first quarter return brings the trailing one-year return to 32.5% gross of fees, which matches the one-year return of the custom policy benchmark. Net of fees, the one-year return is 50 bps lower than the custom policy benchmark. Within the State Street Bank Master Trust Universe of over 800 Funds, the Retirement System fell well above the median for the trailing one-year period. The Retirement System's returns rank above the median return for all trailing time periods except for the first quarter, when the Retirement System's returns are 10 bps below the median.
- The domestic equity, international equity, and fixed income asset classes, in which over 90% of Retirement System assets are invested, outpaced their asset class benchmarks for the first quarter of 2010. The real estate and private equity asset classes lagged their respective benchmarks during the first quarter.

**These manager highlights focus on the investment managers that were retained after the transition.**

- The MacKay Shields High Yield Active Core portfolio returned 3.8% net of fees for the first quarter, compared to 4.6% for the Barclays High Yield benchmark and 4.0% for the Barclays High Yield BB/B benchmark, which reflects higher quality securities. The lowest quality securities have continued to outperform, and the MacKay Shields portfolio has a higher average credit rating than the benchmark.
- During the first quarter, Eagle Small Cap Growth returned 7.5% net of fees, compared to 7.6% for the Russell 2000 Growth benchmark. For the trailing one-year period, Eagle has outperformed the benchmark by 810 basis points on a net of fees basis.

**Plan Summary**  
**As of March 31, 2010**





## San Jose Federated City Employees Retirement System

## Aggregate Assets Asset Summary as of 3/31/10

	Market Value 3/31/10 (\$ mm)	% of Retirement System	Target Allocation <sup>1</sup> (%)	Target Range <sup>1</sup> (%)	Market Value 12/31/09 (\$ mm)
<b>Total Fund Aggregate</b>	<b>1,713.2</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>1,686.1</b>
Fixed Income Assets	606.2	35	36	31-41	603.3
Domestic Equity Assets	639.8	37	33	28-38	610.9
International Equity Assets	327.2	19	20	15-25	331.9
Real Estate Assets	69.3	4	6	3-9	70.0
Private Equity Assets	66.0	4	5	0-10	65.3
Cash	4.8	< 1	0	0-5	4.7

<sup>1</sup> New target asset allocations and ranges were adopted by the Board of Trustees during the first quarter. They will be reflected in the second quarter report, which will also reflect the results of the transition of assets toward the new targets.



# San Jose Federated City Employees Retirement System

## Aggregate Assets Portfolio Roster as of 3/31/10

	Market Value 3/31/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 12/31/09 (\$ mm)
<b>Total Fund Aggregate</b>	<b>1,713.2</b>	<b>NA</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>1,686.1</b>
<b>Fixed Income Assets</b>	<b>606.2</b>	<b>100</b>	<b>35</b>	<b>36</b>	<b>31-41</b>	<b>603.3</b>
<b>Investment Grade Bond Assets</b>	<b>374.0</b>	<b>62</b>	<b>22</b>			<b>365.1</b>
Dodge & Cox Core Fixed Income	264.7	44	15			258.4
BlackRock Core Plus	109.4	18	6			106.8
<b>International Fixed Income Assets</b>	<b>126.1</b>	<b>21</b>	<b>7</b>			<b>126.0</b>
Loomis Global Bond	126.1	21	7			126.0
<b>High Yield Assets</b>	<b>106.1</b>	<b>17</b>	<b>6</b>			<b>112.1</b>
MacKay Shields High Yield Active Core	58.1	10	3			59.0
Seix Credit Dislocation Strategy	47.9	8	3			53.1
<b>Domestic Equity Assets</b>	<b>639.8</b>	<b>100</b>	<b>37</b>	<b>33</b>	<b>28-38</b>	<b>610.9</b>
Northern Trust Russell 3000 Index	345.1	54	20			333.4
Wellington Opportunistic Growth	57.5	9	3			54.2
Eagle Small-Cap Growth	56.1	9	3			52.1
Calamos Global Convertibles	53.6	8	3			52.1
Brandywine Diversified Small Cap Value	43.9	7	3			40.0
Dodge & Cox Large Cap Value	42.0	7	2			39.3
Atlanta Capital High Quality Growth Plus	41.6	7	2			39.7



## San Jose Federated City Employees Retirement System

## Aggregate Assets Portfolio Roster as of 3/31/10

	Market Value 3/31/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 12/31/09 (\$ mm)
<b>International Equity Assets</b>	<b>327.2</b>	<b>100</b>	<b>19</b>	<b>20</b>	<b>15-25</b>	<b>331.9</b>
Boston Company Int'l ACWI ex-US Value Fund	150.4	46	9			146.8
McKinley International Growth	114.9	35	7			124.8
Fisher Institutional Foreign Equity	61.9	19	4			60.3
<b>Real Estate Assets</b>	<b>69.3</b>	<b>100</b>	<b>4</b>	<b>6</b>	<b>3-9</b>	<b>70.0</b>
PRISA I	20.4	29	1			20.5
DRA Growth & Income Fund V	14.7	21	< 1			14.7
American Core Realty Fund, LLC	13.8	20	< 1			13.9
MIG Realty- Milpitas Warehouse	8.7	13	< 1			8.7
DRA Growth & Income Fund VI	5.9	9	< 1			5.9
GEAM Value Add Realty Partners, L.P.	4.4	6	< 1			4.9
Fidelity Real Estate Growth Fund III, L.P.	1.2	2	< 1			1.2
Fidelity LP	0.2	< 1	< 1			0.2



## San Jose Federated City Employees Retirement System

## Aggregate Assets Portfolio Roster as of 3/31/10

	Market Value 3/31/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 12/31/09 (\$ mm)
<b>Private Equity Assets</b>	<b>66.0</b>	<b>100</b>	<b>4</b>	<b>5</b>	<b>0-10</b>	<b>65.3</b>
Pantheon Global Secondary Fund III	25.7	39	1			25.0
Pathway Private Equity Fund VIII	25.0	38	1			25.8
Pantheon USA Fund VII	11.9	18	< 1			11.6
Partners Group Secondary 2008	2.9	4	< 1			2.5
Great Hill Equity Partners IV	0.5	< 1	< 1			0.4
<b>Cash</b>	<b>4.8</b>	<b>100</b>	<b>&lt; 1</b>	<b>0</b>	<b>0-5</b>	<b>4.7</b>
Internal Cash Account	4.8	100	< 1			4.7



# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)
<b>Total Fund Aggregate</b>	<b>3.3</b>	<b>32.5</b>	<b>0.3</b>	<b>4.7</b>	<b>5.1</b>	<b>1/1/94</b>	<b>7.8</b>
<b>Net of Fees</b>	<b>3.2</b>	<b>32.0</b>	<b>0.0</b>	<b>4.4</b>	<b>4.8</b>		<b>7.5</b>
<i>CPI (inflation)</i>	0.8	2.3	2.0	2.4	2.4		2.5
<i>San Jose FCERS Policy Benchmark<sup>2</sup></i>	3.5	32.5	0.3	4.7	4.1		7.5
<i>State Street Master Trust Median</i>	3.4	30.0	0.0	4.5	3.9		NA
Fixed Income	2.2	18.7	7.1	6.1	6.9	1/1/94	6.4
<i>Barclays Universal</i>	2.0	10.4	6.0	5.6	6.4		6.3
Domestic Equity	6.2	55.1	-3.0	3.0	1.7	7/1/94	8.9
<i>Russell 3000</i>	5.9	52.4	-4.0	2.4	-0.1		8.4
International Equity	1.9	56.5	-5.4	4.8	2.2	8/1/94	5.2
<i>MSCI ACWI (ex. U.S.)</i>	1.6	60.9	-4.2	6.1	2.8		5.6
Real Estate	-0.5	-22.7	-9.4	1.7	8.0	1/1/94	8.4
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		8.6
Private Equity	-1.5	-5.6	-2.6	NA	NA	1/1/06	-2.1
<i>S&amp;P 500+ 3%</i>	6.2	52.8	-1.2	4.9	2.3		3.6

<sup>1</sup> Inception Date on all pages indicates that performance data is available after the date noted.

<sup>2</sup> The policy index consists of 34% Russell 1000/ 9% Russell 2000/ 29% Barclays Aggregate/ 7% S&P Citigroup WGBI/ 15% MSCI ACWI-ex US/ 6% NCREIF Property.



# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Total Fund Aggregate</b>	<b>3.3</b>	<b>32.5</b>	<b>0.3</b>	<b>4.7</b>	<b>5.1</b>	<b>1/1/94</b>	<b>7.8</b>	
<b>Net of Fees</b>	<b>3.2</b>	<b>32.0</b>	<b>0.0</b>	<b>4.4</b>	<b>4.8</b>		<b>7.5</b>	
<i>CPI (inflation)</i>	0.8	2.3	2.0	2.4	2.4		2.5	
<i>San Jose FCERS Policy Benchmark<sup>2</sup></i>	3.5	32.5	0.3	4.7	4.1		7.5	
<i>State Street Master Trust Median</i>	3.4	30.0	0.0	4.5	3.9		NA	
<b>Fixed Income</b>	<b>2.2</b>	<b>18.7</b>	<b>7.1</b>	<b>6.1</b>	<b>6.9</b>	<b>1/1/94</b>	<b>6.4</b>	
<b>Investment Grade Bonds</b>	<b>2.4</b>	<b>16.8</b>	<b>6.4</b>	<b>5.8</b>	<b>6.6</b>	<b>1/1/94</b>	<b>6.3</b>	
Dodge & Cox Core Fixed Income	2.4	18.1	6.6	6.0	7.0	10/1/99	6.9	2Q09
Net of Fees	2.4	17.9	6.5	5.9	6.8		6.7	
<i>Barclays Aggregate</i>	1.8	7.7	6.1	5.4	6.3		6.2	
<i>Peer Core Fixed Income</i>	2.1	9.8	6.5	5.6	6.4		6.2	
<i>Peer Ranking (percentile)</i>	18	9	48	27	14		11	
BlackRock Core Plus	2.4	14.8	6.1	5.5	NA	10/1/02	5.3	2Q09
Net of Fees	2.4	14.5	5.8	5.2	NA		5.0	
<i>Barclays Aggregate</i>	1.8	7.7	6.1	5.4	6.3		4.9	
<i>Peer Core Plus</i>	2.9	19.0	6.8	6.1	6.8		5.9	
<i>Peer Ranking (percentile)</i>	82	74	68	72	NA		72	

<sup>1</sup> Inception Date on all pages indicates that performance data is available after the date noted.

<sup>2</sup> The policy index consists of 34% Russell 1000/ 9% Russell 2000/ 29% Barclays Aggregate/ 7% S&P Citigroup WGBI/ 15% MSCI ACWI-ex US/ 6% NCREIF Property.



	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Fixed Income (continued)</b>								
<b>International Fixed Income</b>	<b>0.1</b>	<b>22.2</b>	<b>8.0</b>	<b>6.0</b>	<b>NA</b>	<b>2/1/05</b>	<b>5.6</b>	
Loomis Global Bond	0.1	22.2	8.0	6.0	NA	2/1/05	5.6	
Net of Fees	0.0	21.8	7.7	5.7	NA		5.3	
<i>S&amp;P Citigroup World Gov't Bond Index</i>	-1.3	6.3	7.2	4.8	6.5		4.4	
<b>High Yield Bonds</b>	<b>3.7</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>5/1/09</b>	<b>19.3</b>	
Mackay Shields High Yield Active Core	3.9	NA	NA	NA	NA	5/1/09	25.0	
Net of Fees	3.8	NA	NA	NA	NA		24.6	
<i>Barclays High Yield</i>	4.6	56.2	6.7	7.8	7.5		39.3	
<i>Barclays High Yield BB/B</i>	4.0	41.4	5.5	6.9	6.9		29.5	
<i>Peer High Yield</i>	4.3	47.5	5.6	7.1	6.9		35.1	
<i>Peer Ranking (percentile)</i>	64	NA	NA	NA	NA		87	
Seix Credit Dislocation Strategy	3.4	NA	NA	NA	NA	5/1/09	13.5	
Net of Fees	3.3	NA	NA	NA	NA		13.2	
<i>CSFB Leveraged Loan Index</i>	4.3	41.1	2.4	4.1	4.7		30.6	

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# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Domestic Equity</b>	<b>6.2</b>	<b>55.1</b>	<b>-3.0</b>	<b>3.0</b>	<b>1.7</b>	<b>7/1/94</b>	<b>8.9</b>	
Northern Trust Russell 3000 Index	6.1	53.3	-3.8	2.6	0.1	9/1/99	1.7	
<i>Russell 3000</i>	5.9	52.4	-4.0	2.4	-0.1		1.5	
Wellington Opportunistic Growth	6.1	53.5	0.5	NA	NA	10/1/05	3.0	
Net of Fees	5.9	52.5	-0.1	NA	NA		2.4	
<i>Russell 3000 Growth</i>	4.9	50.5	-0.9	3.5	-4.0		2.3	
<i>Peer Large Cap Growth</i>	4.8	48.6	-0.5	3.9	-1.1		2.7	
<i>Peer Ranking (percentile)</i>	18	20	36	NA	NA		43	
Eagle Small-Cap Growth	7.7	69.5	1.2	7.6	6.2	6/1/98	5.5	
Net of Fees	7.5	68.4	0.6	6.9	5.5		4.8	
<i>Russell 2000 Growth</i>	7.6	60.3	-2.4	3.8	-1.5		2.2	
<i>Peer Small Cap Growth</i>	7.6	58.6	-2.2	4.2	2.1		6.6	
<i>Peer Ranking (percentile)</i>	48	10	20	14	17		72	
Calamos Global Convertibles	2.8	NA	NA	NA	NA	11/1/09	7.6	
Net of Fees	2.7	NA	NA	NA	NA		7.4	
<i>Merrill Lynch Global 300 Convertible Index</i>	3.9	39.4	1.2	5.5	NA		9.3	

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# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Domestic Equity (continued)</b>								
Brandywine Diversified Small Cap Value	9.8	59.2	-7.8	-0.2	9.6	6/1/99	7.4	1Q08
Net of Fees	9.6	58.3	-8.3	-0.8	9.0		6.8	
<i>Russell 2000 Value</i>	10.0	65.1	-5.7	2.8	8.9		8.3	
<i>Peer Small Cap Value</i>	9.5	70.1	-2.8	4.7	10.6		10.3	
<i>Peer Ranking (percentile)</i>	46	87	95	99	73		98	
Dodge & Cox Large Cap Value	7.0	58.0	-7.9	0.6	NA	7/1/04	2.5	2Q09
Net of Fees	6.9	57.4	-8.2	0.3	NA		2.2	
<i>Russell 1000 Value</i>	6.8	53.6	-7.3	1.0	3.1		2.9	
<i>Peer Large Cap Value</i>	6.1	51.8	-5.5	2.1	4.0		3.7	
<i>Peer Ranking (percentile)</i>	21	23	89	85	NA		75	
Atlanta Capital High Quality Growth Plus	4.8	48.5	0.8	3.9	-0.5	9/1/98	4.2	
Net of Fees	4.7	47.8	0.3	3.4	-1.0		3.8	
<i>Russell 1000 Growth</i>	4.6	49.8	-0.8	3.4	-4.2		2.1	
<i>Peer Large Cap Blend</i>	5.4	48.9	-3.6	2.4	0.3		4.4	
<i>Peer Ranking (percentile)</i>	77	52	4	19	73		58	

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# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>International Equity</b>	<b>1.9</b>	<b>56.5</b>	<b>-5.4</b>	<b>4.8</b>	<b>2.2</b>	<b>8/1/94</b>	<b>5.2</b>	
Boston Company International ACWI ex-US Value Fund	2.4	60.3	-2.3	5.7	NA	3/1/03	13.9	2Q07
Net of Fees	2.3	59.5	-2.8	5.1	NA		13.2	
<i>MSCI ACWI (ex. U.S.)</i>	1.6	60.9	-4.2	6.1	2.8		13.4	
<i>Peer International Value</i>	1.6	56.6	-6.1	4.9	5.5		12.9	
<i>Peer Ranking (percentile)</i>	16	36	9	35	NA		32	
McKinley International Growth	0.8	42.6	-10.8	NA	NA	8/1/05	2.4	2Q09
Net of Fees	0.6	41.9	-11.3	NA	NA		1.8	
<i>MSCI ACWI (ex. U.S.)</i>	1.6	60.9	-4.2	6.1	2.8		5.8	
<i>Peer International Growth</i>	3.8	60.9	-3.1	7.0	NA		6.4	
<i>Peer Ranking (percentile)</i>	98	99	99	NA	NA		94	
Fisher Institutional Foreign Equity	2.7	70.0	-2.8	NA	NA	7/1/05	6.6	
Net of Fees	2.5	68.9	-3.4	NA	NA		5.9	1Q09
<i>MSCI ACWI (ex. U.S.)</i>	1.6	60.9	-4.2	6.1	2.8		6.5	
<i>Peer International Blend</i>	1.5	53.4	-5.3	5.3	2.0		5.6	
<i>Peer Ranking (percentile)</i>	15	2	16	NA	NA		37	

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# San Jose Federated City Employees Retirement System

## Aggregate Assets Performance as of 3/31/10

	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Real Estate</b>	<b>-0.5</b>	<b>-22.7</b>	<b>-9.4</b>	<b>1.7</b>	<b>8.0</b>	<b>1/1/94</b>	<b>8.4</b>	
PRISA I	-0.6	-22.6	-13.7	-1.6	NA	7/1/04	0.3	
Net of Fees	-0.6	-23.0	-14.3	-2.4	NA		-0.5	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		5.7	
DRA Growth & Income Fund V	NA	-18.7	-3.3	NA	NA	9/1/05	1.4	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		3.4	
American Core Realty Fund, LLC	-0.7	-20.2	-9.7	NA	NA	1/1/07	-7.7	
Net of Fees	-0.9	-21.0	-10.5	NA	NA		-8.5	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		-2.9	
MIG Realty- Milpitas Warehouse	1.0	-14.9	0.0	3.2	6.6	12/1/94	9.8	
Net of Fees	0.9	-15.1	-0.3	2.7	5.9		9.1	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		8.8	
DRA Growth & Income Fund VI	NA	-14.5	NA	NA	NA	11/1/07	-6.0	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		-8.4	
GEAM Value Add Realty Partners, L.P.	-3.7	-39.9	-23.6	NA	NA	8/1/06	-17.0	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		-0.5	

<sup>1</sup> Inception Date on all pages indicates that performance data is available after the date noted.



	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Inception Date <sup>1</sup>	Since Inception (%)	Watchlist Probation
<b>Real Estate (continued)</b>								
Fidelity Real Estate Growth Fund III, L.P.	NA	-68.9	NA	NA	NA	9/1/07	-46.8	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		-6.6	
Fidelity LP	NA	-5.0	-6.1	15.0	NA	4/1/01	17.2	
<i>NCREIF Property</i>	0.8	-9.6	-4.3	4.2	7.1		6.6	
<b>Private Equity</b>	<b>-1.5</b>	<b>-5.6</b>	<b>-2.6</b>	<b>NA</b>	<b>NA</b>	<b>1/1/06</b>	<b>-2.1</b>	
S&P 500 + 3.0%	6.2	52.8	-1.2	4.9	2.3		3.6	

<sup>1</sup> Inception Date on all pages indicates that performance data is available after the date noted.

## San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>Total Fund Aggregate</b>	<b>20.4</b>	<b>-23.8</b>	<b>8.8</b>	<b>13.0</b>	<b>6.7</b>	<b>11.4</b>	<b>24.4</b>	<b>-3.9</b>	<b>-1.0</b>	<b>3.0</b>
<b>Net of Fees</b>	<b>20.0</b>	<b>-24.0</b>	<b>8.5</b>	<b>12.7</b>	<b>6.4</b>	<b>11.1</b>	<b>24.0</b>	<b>-4.2</b>	<b>-1.3</b>	<b>2.7</b>
<i>CPI (inflation)</i>	2.7	0.1	4.1	2.5	3.4	3.3	1.9	2.4	1.6	3.4
<i>San Jose FCERS Policy Benchmark<sup>1</sup></i>	19.0	-22.8	8.2	13.5	6.7	10.8	20.6	-5.9	-2.5	0.9
Fixed Income	15.8	-1.3	6.7	5.8	0.8	6.3	9.0	10.5	6.5	9.1
<i>Barclays Universal</i>	8.6	2.4	6.5	5.0	2.7	5.0	5.8	9.8	8.1	10.8
Domestic Equity	30.7	-37.3	6.2	14.9	6.5	12.7	32.0	-19.6	-6.6	-1.9
<i>Russell 3000</i>	28.3	-37.3	5.1	15.7	6.1	11.9	31.1	-21.5	-11.5	-7.5
International Equity	37.6	-45.0	14.8	22.6	17.0	19.9	34.6	-17.9	-19.0	-7.0
<i>MSCI ACWI (ex. U.S.)</i>	41.4	-45.5	16.7	26.7	16.6	20.9	40.8	-14.9	-19.7	-15.1
Real Estate	-29.1	-5.4	23.4	13.2	22.9	10.3	28.7	10.7	7.5	13.9
<i>NCREIF Property</i>	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
Private Equity	-13.5	-4.0	15.5	-3.5	NA	NA	NA	NA	NA	NA
<i>S&amp;P 500 +3%</i>	29.5	-34.0	8.5	18.8	7.9	13.9	31.7	-19.1	-8.9	-6.1

<sup>1</sup> The policy index consists of 34% Russell 1000/ 9% Russell 2000/ 29% Barclays Aggregate/ 7% S&P Citigroup WGBI/ 15% MSCI ACWI-ex US/ 6% NCREIF Property.



# San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>Total Fund Aggregate</b>	<b>20.4</b>	<b>-23.8</b>	<b>8.8</b>	<b>13.0</b>	<b>6.7</b>	<b>11.4</b>	<b>24.4</b>	<b>-3.9</b>	<b>-1.0</b>	<b>3.0</b>
<b>Net of Fees</b>	<b>20.0</b>	<b>-24.0</b>	<b>8.5</b>	<b>12.7</b>	<b>6.4</b>	<b>11.1</b>	<b>24.0</b>	<b>-4.2</b>	<b>-1.3</b>	<b>2.7</b>
<i>CPI (inflation)</i>	2.7	0.1	4.1	2.5	3.4	3.3	1.9	2.4	1.6	3.4
<i>San Jose FCERS Policy Benchmark<sup>1</sup></i>	19.0	-22.8	8.2	13.5	6.7	10.8	20.6	-5.9	-2.5	0.9
<b>Fixed Income</b>	<b>15.8</b>	<b>-1.3</b>	<b>6.7</b>	<b>5.8</b>	<b>0.8</b>	<b>6.3</b>	<b>9.0</b>	<b>10.5</b>	<b>6.5</b>	<b>9.1</b>
<b>Investment Grade Bonds</b>	<b>14.4</b>	<b>-1.3</b>	<b>5.9</b>	<b>5.2</b>	<b>2.8</b>	<b>4.7</b>	<b>6.2</b>	<b>8.8</b>	<b>8.4</b>	<b>11.0</b>
Dodge & Cox Core Fixed Income	15.6	-0.9	5.0	5.9	2.4	4.2	7.5	9.8	11.2	10.0
Net of Fees	15.4	-1.1	4.9	5.7	2.3	4.0	7.3	9.6	10.9	9.7
<i>Barclays Aggregate</i>	5.9	5.2	7.0	4.3	2.4	4.3	4.1	10.3	8.4	11.6
BlackRock Core Plus	12.6	-1.8	6.7	4.5	2.8	5.3	5.1	NA	NA	NA
Net of Fees	12.3	-1.9	6.5	4.2	2.6	5.0	4.9	NA	NA	NA
<i>Barclays Aggregate</i>	5.9	5.2	7.0	4.3	2.4	4.3	4.1	10.3	8.4	11.6
<b>International Fixed Income</b>	<b>17.6</b>	<b>-1.4</b>	<b>10.0</b>	<b>8.7</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
Loomis Global Bond	17.6	-1.4	10.0	8.7	NA	NA	NA	NA	NA	NA
Net of Fees	17.2	-1.7	9.7	8.4	NA	NA	NA	NA	NA	NA
<i>S&amp;P Citigroup World Gov't Bond Index</i>	2.6	10.9	10.9	6.1	-6.9	10.3	14.9	19.5	-1.0	1.6

<sup>1</sup> The policy index consists of 34% Russell 1000/ 9% Russell 2000/ 29% Barclays Aggregate/ 7% S&P Citigroup WGBI/ 15% MSCI ACWI-ex US/ 6% NCREIF Property.



# San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>Fixed Income (continued)</b>										
<b>High Yield Bonds</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
MacKay Shields High Yield Active Core	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Barclays High Yield</i>	58.2	-26.2	1.9	11.8	2.7	11.1	29.0	-1.4	5.3	-5.9
<i>Barclays High Yield BB/B</i>	45.4	-22.5	2.5	10.7	3.2	10.0	23.3	-0.5	6.8	-4.3
Seix Credit Dislocation Strategy	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>CSFB Leveraged Loan Index</i>	44.9	-28.8	1.9	7.2	5.7	5.6	11.0	1.1	2.6	4.9
<b>Domestic Equity</b>	<b>30.7</b>	<b>-37.3</b>	<b>6.2</b>	<b>14.9</b>	<b>6.5</b>	<b>12.7</b>	<b>32.0</b>	<b>-19.6</b>	<b>-6.6</b>	<b>-1.9</b>
Northern Trust Russell 3000 Index	28.9	-37.3	5.3	15.8	6.2	12.0	31.2	-21.4	-11.3	-7.4
<i>Russell 3000</i>	28.3	-37.3	5.1	15.7	6.1	11.9	31.1	-21.5	-11.5	-7.5
Wellington Opportunistic Growth	36.8	-38.8	15.2	6.9	NA	NA	NA	NA	NA	NA
Net of Fees	36.0	-39.2	14.6	6.2	NA	NA	NA	NA	NA	NA
<i>Russell 3000 Growth</i>	37.0	-38.4	11.4	9.5	5.2	6.9	31.0	-28.0	-19.6	-22.4
Eagle Small-Cap Growth	40.3	-35.8	12.7	21.4	4.2	20.8	44.7	-22.5	14.5	-9.4
Net of Fees	39.5	-36.1	12.0	20.7	3.6	20.0	43.8	-23.0	13.7	-9.9
<i>Russell 2000 Growth</i>	34.5	-38.5	7.0	13.3	4.2	14.3	48.5	-30.3	-9.2	-22.4



# San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>Domestic Equity (continued)</b>										
Calamos Global Convertibles	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Merrill Lynch Global 300 Convertible Index</i>	36.3	-29.3	6.5	12.8	6.0	NA	NA	NA	NA	NA
Brandywine Diversified Small Cap Value	16.3	-29.8	-11.3	17.2	3.6	23.9	42.9	-2.0	25.7	13.9
Net of Fees	15.7	-30.2	-11.8	16.6	3.1	23.2	42.1	-2.6	25.0	13.3
<i>Russell 2000 Value</i>	20.6	-28.9	-9.8	23.5	4.7	22.2	46.0	-11.4	14.0	22.8
Dodge & Cox Large Cap Value	27.2	-42.0	0.4	18.6	9.7	NA	NA	NA	NA	NA
Net of Fees	26.7	-42.2	0.0	18.2	9.3	NA	NA	NA	NA	NA
<i>Russell 1000 Value</i>	19.7	-36.8	-0.2	22.2	7.1	16.5	30.0	-15.5	-5.6	7.0
Atlanta Capital High Quality Growth Plus	33.8	-36.1	13.4	10.3	5.6	5.4	25.7	-24.6	-14.8	3.2
Net of Fees	33.2	-36.4	13.0	9.9	5.2	5.0	25.2	-24.9	-15.1	2.8
<i>Russell 1000 Growth</i>	37.2	-38.4	11.8	9.1	5.3	6.3	29.7	-27.9	-20.4	-22.4
<b>International Equity</b>	<b>37.6</b>	<b>-45.0</b>	<b>14.8</b>	<b>22.6</b>	<b>17.0</b>	<b>19.9</b>	<b>34.6</b>	<b>-17.9</b>	<b>-19.0</b>	<b>-7.0</b>
Boston Company International ACWI ex-US Value Fund	39.7	-38.3	7.6	23.5	13.3	22.7	NA	NA	NA	NA
Net of Fees	38.9	-38.6	7.1	22.8	12.7	22.0	NA	NA	NA	NA
<i>MSCI ACWI (ex. U.S.)</i>	41.4	-45.5	16.7	26.7	16.6	20.9	40.8	-14.9	-19.7	-15.1
McKinley International Growth	24.6	-49.7	20.5	27.7	NA	NA	NA	NA	NA	NA
Net of Fees	23.9	-50.0	19.8	27.0	NA	NA	NA	NA	NA	NA
<i>MSCI ACWI (ex. U.S.)</i>	41.4	-45.5	16.7	26.7	16.6	20.9	40.8	-14.9	-19.7	-15.1





# San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>International Equity (continued)</b>										
Fisher Institutional Foreign Equity	49.9	-46.7	16.2	17.4	NA	NA	NA	NA	NA	NA
Net of Fees	48.9	-47.0	15.4	16.6	NA	NA	NA	NA	NA	NA
MSCI ACWI (ex. U.S.)	41.4	-45.5	16.7	26.7	16.6	20.9	40.8	-14.9	-19.7	-15.1
<b>Real Estate</b>	<b>-29.1</b>	<b>-5.4</b>	<b>23.4</b>	<b>13.2</b>	<b>22.9</b>	<b>10.3</b>	<b>28.7</b>	<b>10.7</b>	<b>7.5</b>	<b>13.9</b>
PRISA I	-34.2	-13.0	17.5	16.2	23.3	NA	NA	NA	NA	NA
Net of Fees	-34.7	-13.7	16.5	14.8	22.3	NA	NA	NA	NA	NA
NCREIF Property	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
DRA Growth & Income Fund V	-17.7	-7.4	21.2	12.6	NA	NA	NA	NA	NA	NA
NCREIF Property	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
American Core Realty Fund, LLC	-30.0	-5.3	17.2	NA	NA	NA	NA	NA	NA	NA
Net of Fees	-30.7	-6.2	16.2	NA	NA	NA	NA	NA	NA	NA
NCREIF Property	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
MIG Realty- Milpitas Warehouse	-15.1	-10.0	32.4	18.5	-0.5	-6.4	8.4	11.2	6.3	32.9
Net of Fees	-15.3	-10.2	31.7	17.7	-1.4	-7.1	7.5	10.1	5.5	32.0
NCREIF Property	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
DRA Growth & Income Fund VI	-11.6	-4.1	NA	NA	NA	NA	NA	NA	NA	NA
NCREIF Property	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2



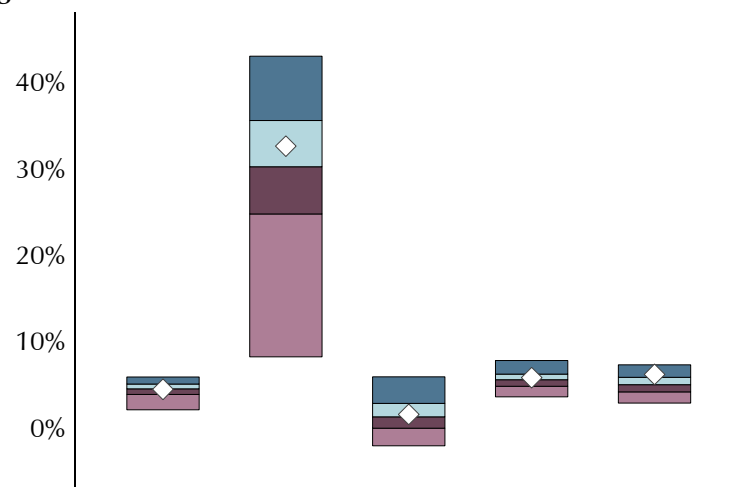
## San Jose Federated City Employees Retirement System

## Aggregate Assets Calendar Year Performance

	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)	2002 (%)	2001 (%)	2000 (%)
<b>Real Estate (continued)</b>										
GEAM Value Add Realty Partners, L.P.	-38.5	-22.0	-5.7	NA	NA	NA	NA	NA	NA	NA
<i>NCREIF Property</i>	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
Fidelity Real Estate Growth Fund III, L.P.	-73.9	-13.9	NA	NA	NA	NA	NA	NA	NA	NA
<i>NCREIF Property</i>	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2
Fidelity LP	24.8	-35.1	2.4	72.7	64.3	28.2	9.7	14.5	NA	NA
<i>NCREIF Property</i>	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0	6.7	7.3	12.2



Total Fund Aggregate vs. Master Trust Universe



	1Q10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Total Fund Aggregate</b>	<b>3.3</b>	<b>32.5</b>	<b>0.3</b>	<b>4.7</b>	<b>5.1</b>
25th percentile	3.9	35.6	1.6	5.1	4.7
Median	3.4	30.0	0.0	4.5	3.9
75 Percentile	2.7	23.6	-5.1	0.3	-0.5

## Current Issues



## MEMORANDUM

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**To:** Investment Committee,  
San Jose Federated City Employees' Retirement System

**From:** Leandro Festino, Stephen McCourt, Laura Wirick,  
Meketa Investment Group

**Date:** May 14, 2010

**Re:** Market Update

As you know, volatility in global markets increased substantially over the past two weeks, after moderating in the months since March 2009. Tension increased among European Union countries due to the fiscal condition of several members, and on May 6, 2010, the U.S. markets experienced a “flash crash” that witnessed the Dow Jones Industrial Average dropping more than 700 points in less than fifteen minutes.

This increased volatility jolted investors, regulators, and politicians, who have quickly moved to resolve the issues. Most notably, the European Union (E.U.) announced a \$955 billion bailout plan (which led to more volatility in the markets), and Congress formed a subcommittee to work with the Securities and Exchange Commission, the Commodity Futures Trading Commission, and leaders of major exchanges to address structural issues in the markets.

In keeping with our mission to keep our clients apprised of market conditions, this memorandum discusses the current state of the European sovereign debt crisis and the unusual activity in the U.S. stock markets.

### WHAT IS HAPPENING WITH GREECE AND THE EUROPEAN UNION?

While Greece has had fiscal problems before, the world has focused more on Greece's worsening position over the past six months, as it discovered that Greece had a very large fiscal deficit and debt load, and perceived an inability to reduce future deficits through government austerity measures. What makes Greece's debt crisis a greater concern for the world today is that it is part of the euro zone, in which 16 nations share a single currency. The European Union allows each nation to operate separate fiscal (tax and spending) policies, while the European Central Bank sets a unified monetary (money supply) policy. This separation makes it difficult for the European Union to enforce fiscal discipline on troubled nations.

Investors have been concerned about Greece's worsening situation, as well as large deficits by other member nations including Portugal, Italy, Ireland, and Spain. Would the E.U. allow nations to default on debt obligations? The E.U.'s \$955 billion bailout plan, announced on Monday, May 10, 2010, sought to alleviate concerns by providing

struggling governments with loans that will be guaranteed by euro zone governments. The International Monetary Fund will provide additional loans if needed.

While the bailout plan seemed to reassure global markets early this week, the outlook for the heavily indebted nations in the euro zone remains uncertain, given that the plan simply treats the symptoms rather than the underlying problem.

### **HOW DID THE DOW DROP SO FAST IN ONE DAY?**

On Thursday, May 6, 2010, the Dow Jones Industrial Average (DJIA) dropped almost 1,000 points, including a sudden 730-point drop in about fifteen minutes midday. The DJIA recovered about 650 points from the low point of the “flash crash” by the close on Thursday. How did this happen? The short answer is that we still do not know. However, regulators are quickly working to resolve structural issues related to the major exchanges that they believe may have contributed to the sharp decline.

The Securities and Exchange Commission is investigating trading activity from last Thursday and working with a U.S. House of Representatives subcommittee to identify what happened. Part of the problem appears to be the fact that different exchanges have different rules, which, combined with the increasing volume from high frequency trading, has changed the fundamental dynamics of markets. In the future, it appears that market exchanges may install unified circuit breakers that halt trading for the market and for individual stocks when similar dislocations occur.

### **CONCLUSION**

These events have not fundamentally changed Meketa Investment Group’s outlook on global markets. While the markets have generally stabilized over the past year, the recent sharp increase in volatility, though brief, serves as a reminder for investors to structure portfolios that can withstand different market scenarios. Meketa Investment Group will continue to monitor market events closely, and we will actively work with you to manage risks and identify opportunities.

As always, we are available to answer questions or assist in any way. Please do not hesitate to contact us at (760) 795-3450 if you would like to discuss these events in greater detail.

cc: Carmen Racy-Choy  
Ali Amiry  
Ron Kumar  
Ryan Jusko

LAF/cda



## Transitioned Assets Update

# San Jose Federated City Employees Retirement System

## Aggregate Assets<sup>1</sup> Asset Summary as of 5/12/2010

	Market Value 5/12/10 (\$ mm)	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 3/31/10 (\$ mm)
<b>Total Fund Aggregate</b>	<b>\$1,684.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>\$1,713.2</b>
Fixed Income Assets <sup>2</sup>	658.1	39	20	15-25	606.2
Global Equity Assets	821.2	49	49	43-55	967.0
Alternative Assets	201.7	12	31	26-36	135.3
Real Estate Assets	69.3	4	5	0-8	69.3
Private Equity Assets	67.4	4	6	0-9	66.0
Real Assets	65.0	4	10	0-15	0.0
Hedge Fund Assets	0.0	0	5	0-8	0.0
Opportunistic Assets	0.0	0	5	0-8	0.0
Cash	3.2	<1	0	0-5	4.8

<sup>1</sup> Market values are preliminary and unaudited.

<sup>2</sup> Fixed income assets include fund reserved for future investments in alternative assets.





# San Jose Federated City Employees Retirement System

## Aggregate Assets<sup>1</sup> Portfolio Roster as of 5/12/10

	Market Value 5/12/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 3/31/10 (\$ mm)
<b>Total Fund Aggregate</b>	<b>1,684.2</b>	<b>NA</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>1,713.2</b>
<b>Fixed Income Assets<sup>2</sup></b>	<b>658.1</b>	<b>100</b>	<b>39</b>	<b>20</b>	<b>15-25</b>	<b>606.2</b>
Barclays U.S. TIPS <sup>3</sup>	275.1	42	16	0	0	0.0
Northern Trust Barclays Intermediate Government Bond	262.2	40	16	0	0	0.0
MacKay Shields High Yield Active Core	56.7	9	3	0	0	58.1
Seix Credit Dislocation Strategy	44.7	7	3	0	0	47.9
Northern Trust Barclays Credit Index	19.4	3	1	0	0	0.0
<b>Global Equity Assets</b>	<b>821.2</b>	<b>100</b>	<b>49</b>	<b>49</b>	<b>43-55</b>	<b>967.0</b>
Northern Trust Russell 3000 Index	223.1	27	13	0	0	345.1
MSCI All Country World Value <sup>3</sup>	143.6	17	9	0	0	0.0
MSCI All Country World – ex U.S. <sup>3</sup>	131.1	16	8	0	0	0.0
MSCI EAFE Small Cap <sup>3</sup>	81.5	10	5	0	0	0.0
Northern Trust MSCI Emerging Markets	79.1	10	5	0	0	0.0
Eagle Small-Cap Growth	59.3	7	4	0	0	56.1
Calamos Global Convertibles	53.2	6	3	0	0	53.6
MSCI EAFE Growth <sup>3</sup>	50.3	6	3	0	0	0.0

<sup>1</sup> Market values are preliminary and unaudited.

<sup>2</sup> Fixed income assets include funds reserved for future investments in alternative assets.

<sup>3</sup> Assets managed by Russell Investments during transition.



# San Jose Federated City Employees Retirement System

## Aggregate Assets<sup>1</sup> Portfolio Roster as of 5/12/10

	Market Value 5/12/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 3/31/10 (\$ mm)
<b>Alternative Assets</b>	<b>201.7</b>	<b>100</b>	<b>12</b>	<b>31</b>	<b>26-36</b>	<b>135.5</b>
<b>Real Estate Assets</b>	<b>69.3</b>	<b>100</b>	<b>4</b>	<b>5</b>	<b>0-8</b>	<b>69.3</b>
PRISA I	20.4	29	1			20.4
DRA Growth & Income Fund V	14.7	21	1			14.7
American Core Realty Fund, LLC	13.8	20	1			13.8
MIG Realty- Milpitas Warehouse	8.7	13	1			8.7
DRA Growth & Income Fund VI	5.9	9	< 1			5.9
GEAM Value Add Realty Partners, L.P.	4.4	6	< 1			4.4
Fidelity Real Estate Growth Fund III, L.P.	1.2	2	< 1			1.2
Fidelity LP	0.2	< 1	< 1			0.2
<b>Private Equity Assets</b>	<b>67.4</b>	<b>100</b>	<b>4</b>	<b>6</b>	<b>0-9</b>	<b>66.0</b>
Pantheon Global Secondary Fund III	25.7	38	2			25.7
Pathway Private Equity Fund VIII	25.8	38	2			25.0
Pantheon USA Fund VII	12.5	19	1			11.9
Partners Group Secondary 2008	2.9	4	< 1			2.9
Great Hill Equity Partners IV	0.5	1	< 1			0.5

<sup>1</sup> Market values are preliminary and unaudited.



## San Jose Federated City Employees Retirement System

## Aggregate Assets<sup>1</sup> Portfolio Roster as of 5/12/10

	Market Value 5/12/10 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 3/31/10 (\$ mm)
<b>Real Assets</b>	<b>65.0</b>	<b>100</b>	<b>4</b>	<b>10</b>	<b>0-15</b>	<b>0.0</b>
Dow Jones-UBS Commodities <sup>2</sup>	33.0	100	2			0.0
S&P Global Infrastructure <sup>2</sup>	32.0	100	2			0.0
<b>Cash</b>	<b>3.2</b>	<b>100</b>	<b>&lt; 1</b>	<b>0</b>	<b>0-5</b>	<b>4.8</b>
Internal Cash Account	3.2	100	< 1			4.8

<sup>1</sup> Market values are preliminary and unaudited.

<sup>2</sup> Assets managed by Russell Investments during transition.





## MEMORANDUM

**To:** Investment Committee,  
San Jose Federated City Employees' Retirement System

**From:** Leandro Festino, Stephen McCourt, Mika Buffington,  
Laura Wirick, Meketa Investment Group

**Date:** April 15, 2010

**Re:** Update on Transition to the New Asset Allocation

### BACKGROUND

At the February 11 Board of Trustees meeting, the Board approved a new asset allocation for the San Jose Federated City Employees' Retirement System. The new target allocation called for the allocations to equities and fixed income to be reduced, and for the allocation to alternatives to be increased.

The table below shows the implementation recommendation that Meketa Investment Group and Staff developed for the System, which was presented to the Investment Committee on February 25. Legacy investment managers that fit into the new asset allocation were retained, while other Retirement System managers were terminated in order to move toward the new targets. The managers that were terminated did not fit the parameters of the new asset allocation, and were not terminated due to any organizational or performance issues. Retained managers and strategies were Eagle Small Cap Growth, Calamos Global Convertibles, MacKay Shields and Seix high yield and bank loans, and index fund manager Northern Trust.

Equity and Fixed Income	Target
Global Core (Passive) - Northern Trust <i>MSCI All Country World Index</i>	16%
Global Value (Active) - New manager(s) <i>MSCI All Country World Value Index</i>	9
Domestic Growth (Passive) - Northern Trust <i>Russell 3000 Growth Index</i>	3
Foreign Developed Growth (Passive) - Northern Trust <i>MSCI EAFE Growth Index</i>	3
Domestic Small/Micro - Eagle (growth) and a new manager (value) <i>Russell 2000 Growth Index/Russell 2000 Value Index</i>	5
Foreign Small (Active) - New manager(s) <i>MSCI EAFE Small Cap Index</i>	5

<b>Equity and Fixed Income (continued)</b>	<b>Target</b>
Emerging Markets (Active) – New manager(s) <i>MSCI Emerging Markets Index</i>	5%
Global Convertibles (Active) – Calamos <i>Merrill Lynch Global 300 Convertible Index</i>	3
TIPS (Passive) – Northern Trust <i>Barclays U.S. TIPS Index</i>	7.5
Core Government (Passive) – Northern Trust <i>Barclays Intermediate Government Index</i>	5
Investment Grade Credit (Active) – New manager <i>Barclays Credit Index</i>	2.5
High Yield (Active) – MacKay Shields and Seix <i>Barclays High Yield Index and CSFB Leveraged Loan Index</i>	5
<b>Total Equity and Fixed Income</b>	<b>69%</b>

In addition to the 69% of total Retirement System assets allocated to equity and fixed income under the new asset allocation, 31% of assets will be allocated to alternative assets. We recommended that the Retirement System achieve exposure to alternative assets cautiously, in order to perform sufficient due diligence and ensure for adequate diversification. With that goal in mind, we recommended that 4% of the 10% target to Real Assets be funded at this time (in the form of 2% passive exposure to commodities and 2% passive exposure to the infrastructure). An additional 8% of the Retirement System assets are already invested in private equity and real estate.

Therefore, of the 31% of total assets set to be allocated to alternative assets, 12% will be invested by the end of April, and 19% of total assets would be housed in government fixed income and reserved for future investments in alternative assets. These new investments will be funded as due diligence is completed and the Board of Trustees approves the investments.

#### TRANSITION MANAGER SEARCH

As we discussed at the February Investment Committee meeting, when transitioning assets within or across asset classes, a third party transition manager can reduce or eliminate the risks typically associated with the transition, including the risks of high commissions, opportunity costs, and trade execution costs. For example, the transition manager typically transfers as many assets “in-kind” as possible. In-kind assets are found in the legacy portfolio and also needed by the new manager to create the target portfolio; therefore, they can be transferred directly over to the new portfolio, or held

passively until new portfolios are funded. Because the securities are not traded on the open market, commission costs are significantly reduced. Further, the transition manager seeks to maintain market exposure throughout the transition, thus ensuring that opportunity costs are minimized. Finally, a transition manager is much more likely to be unbiased, and to seek best execution than a terminated manager.

For these reasons, we recommended that the Retirement System hire a transition manager to implement the new asset allocation, in order to move to new allocations efficiently and provide passive exposure to some asset classes until active managers could be evaluated and hired. At the February 25 meeting, the Investment Committee delegated authority for evaluating and hiring a transition manager to Staff and Meketa Investment Group.

Meketa Investment Group performs ongoing research on the most prominent transition managers. After evaluating the entire transition manager universe and discussing the "best in class" options with Staff, we solicited Requests for Proposal from three transition managers: J.P.Morgan Transition Management, Mellon Transition Management, and Russell Investments. Factors that were considered when selecting these three managers as finalists were competence and experience in handling complex transitions, organizational stability, and strength of communication and interaction with clients.

The three transition managers submitted detailed bids based on the Retirement System's needs in moving to the new asset allocation, and proposed a variety of methods for achieving desired exposure to each asset class, including combinations of index funds, exchange-traded funds, optimized portfolios of physical securities, and swap agreements. Over the course of the next several weeks, Meketa Investment Group, Staff, and the finalist managers had many conversations regarding the merits of each proposal and the suggested fees and other associated costs for each customized solution.

Ultimately, J.P. Morgan was eliminated because they were unable to act as a fiduciary (in entering into swap agreements and managing optimized portfolios of physical securities) without putting into place complex legal documents that would have taken months to implement and finalize. The decision between Mellon Transition Management and Russell Investments was difficult because both managers were able to provide a wide range of options at competitive fees.

Ultimately, Russell Investments was selected to provide transition management services to the Retirement System, primarily because of their capabilities and experience in managing complex transitions, as well as their ability to manage optimized portfolios of physical securities. In these portfolios, legacy securities held by terminated managers did not need to be sold, but could instead be managed to the new exposures

without incurring transaction costs. In addition, Russell Investments has a strong record of client service and attention to detail in handling complex transitions.

Since the hiring of Russell Investments, they have made strong progress in moving the Retirement System toward the new asset allocation. Russell Investments professionals worked with Staff and Meketa Investment Group to structure the transition to minimize costs and increase efficiencies, using a combination of Northern Trust index funds (emerging markets, global and domestic equity, and credit), optimized portfolios of physical securities (international equity, global value, TIPS, and government fixed income), and swaps (infrastructure and commodities).

There have been daily conference calls over the past two weeks between Russell Investments, Northern Trust, Staff, and Meketa Investment Group in order to make sure everything was in place to complete the transition. In addition, Staff and Meketa Investment Group negotiated with Northern Trust to ensure that index fund fees were as competitive as possible. Following negotiations, the weighted average fees to be charged by Northern Trust for index fund management will be approximately 5 basis points, an amount that is significantly lower than current fees charged by active managers. This cost savings should offset a large portion, if not all, of the costs incurred by the transition. The actual transition of assets from legacy portfolios to passive exposures of the new asset allocation is currently underway.

#### CONCLUSION

Fully implementing the new asset allocation continues to be an ongoing process for Meketa Investment Group, Staff, and the Board of Trustees. We believe that the transition manager selected was the best option to protect the Retirement System's assets and move toward the new asset allocation in a thoughtful and methodical manner, and one that will allow for the smoothest transition to new investment managers and asset classes.

We plan to discuss the transition further at the upcoming April 22 Investment Committee meeting. If you have any questions, please do not hesitate to contact us at (760) 795-3450.

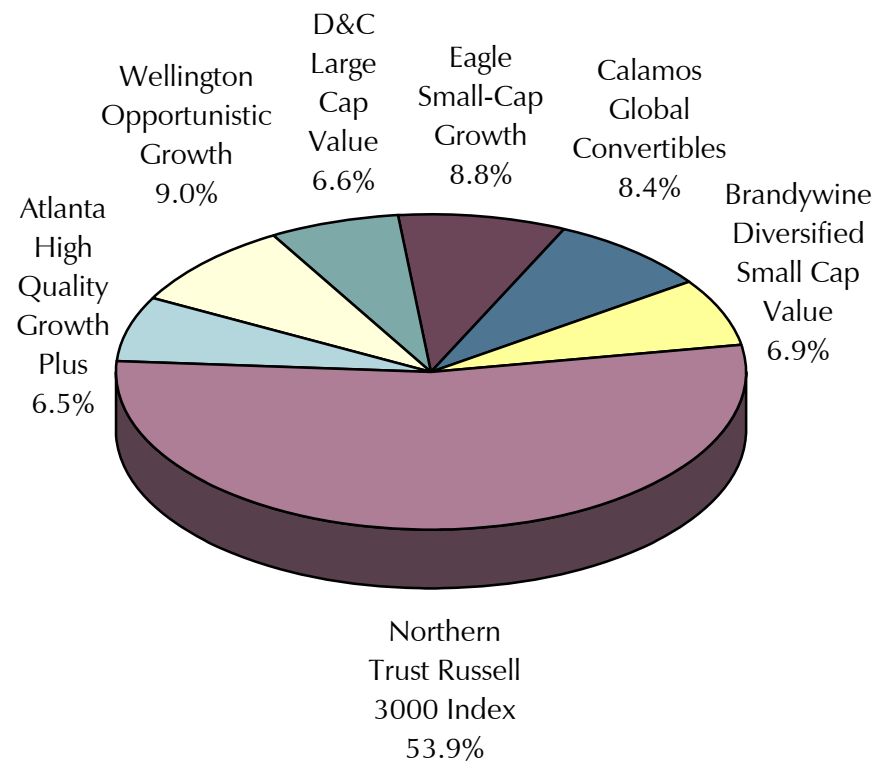
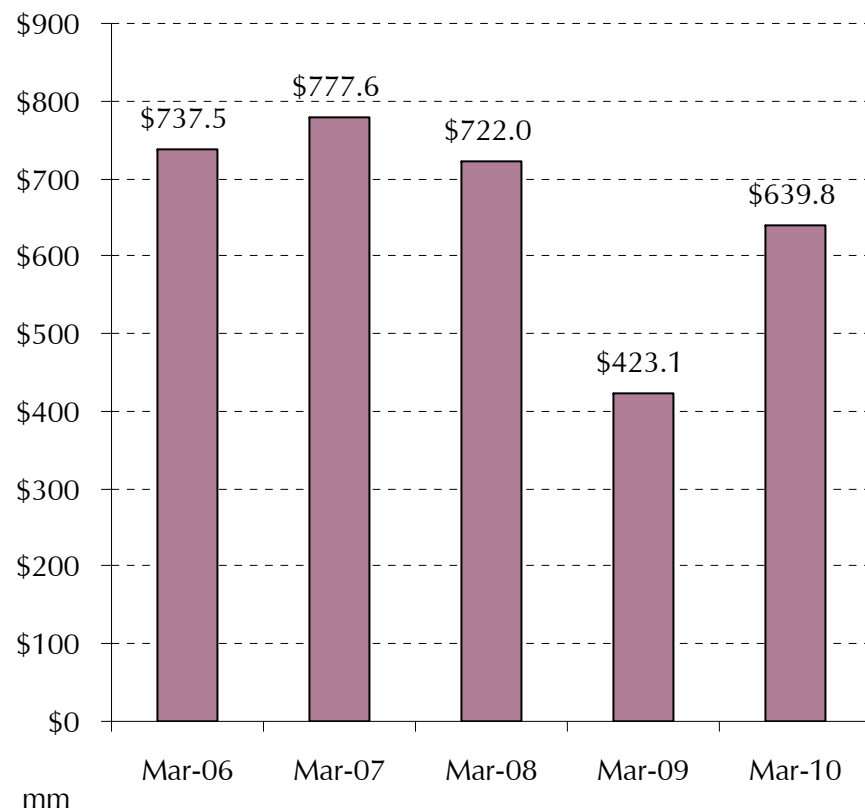
cc: Carmen Racy-Choy  
Ali Amiry  
Ron Kumar  
Ryan Jusko

LBW/cda

## Plan Detail

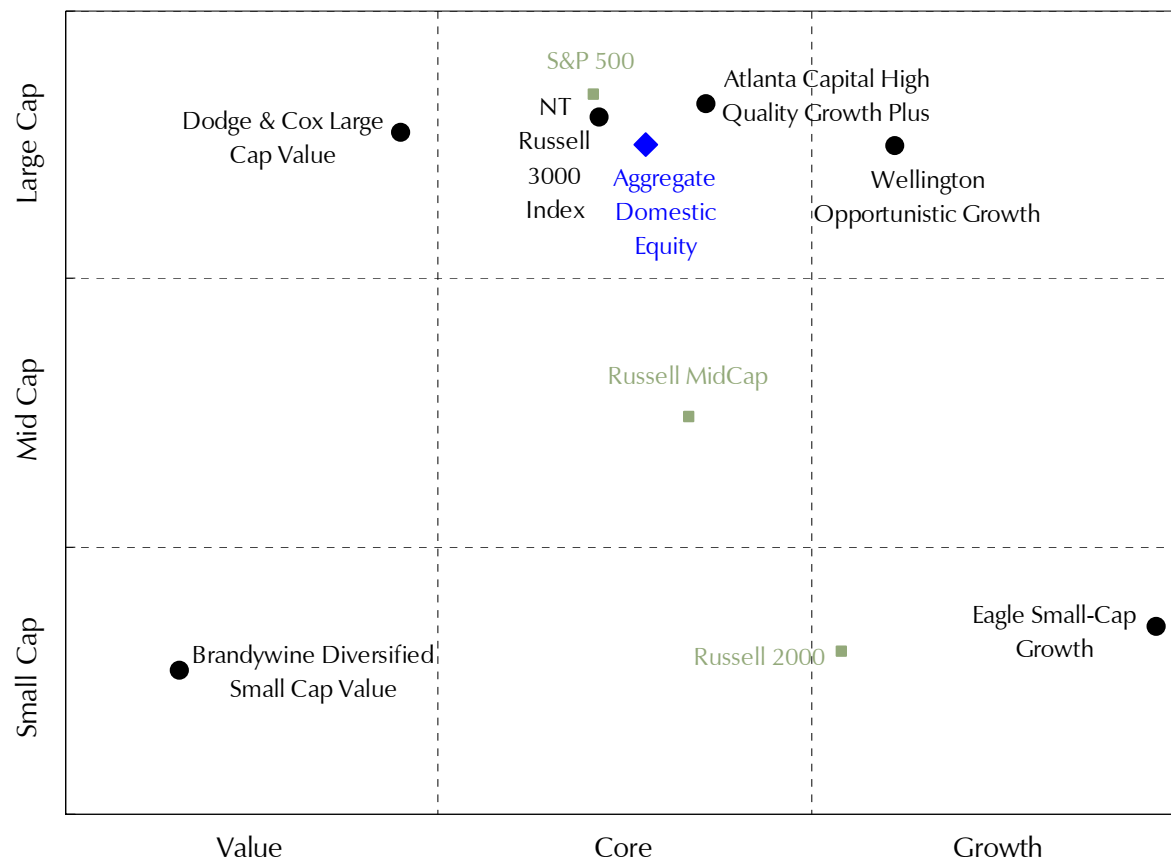


**Domestic Equity Assets  
As of March 31, 2010**



Risk: (sixty months)	Aggregate Domestic Equity 3/31/10	Russell 3000 3/31/10
Annualized Return (%)	3.0	2.4
Standard Deviation (%)	18.3	17.7
Best Monthly Return (%)	11.5	10.5
Worst Monthly Return (%)	-18.1	-17.7
Beta	1.03	1.00
Correlation (R <sup>2</sup> ) to Index	1.00	1.00
Correlation to Total Fund Return	0.97	NA
Sharpe Measure (risk-adjusted return) <sup>1</sup>	0.01	Neg.
Information Ratio	0.40	NA

<sup>1</sup> A negative Sharpe ratio indicates that the portfolio underperformed the risk-free rate during the sample period.



Note: The characteristics of the Calamos Global Convertibles do not allow for accurate placement on the chart.

	Aggregate Domestic Equity 3/31/10	Russell 3000 3/31/10	Aggregate Domestic Equity 12/31/09
<b>Capitalization Structure:</b>			
Weighted Average Market Cap. (US\$ billion)	56.3	68.6	55.0
Median Market Cap. (US\$ million)	920	806	846
Large (% over US\$10 billion)	61	71	61
Medium (% US\$1.5 billion to US\$10 billion)	24	23	23
Small (% under US\$1.5 billion)	16	6	16
<b>Fundamental Structure:</b>			
Price-Earnings Ratio	23	22	24
Price-Book Value Ratio	3.0	3.2	3.1
Dividend Yield (%)	1.4	1.8	1.6
Historical Earnings Growth Rate (%)	12	11	18
Projected Earnings Growth Rate (%)	12	11	12

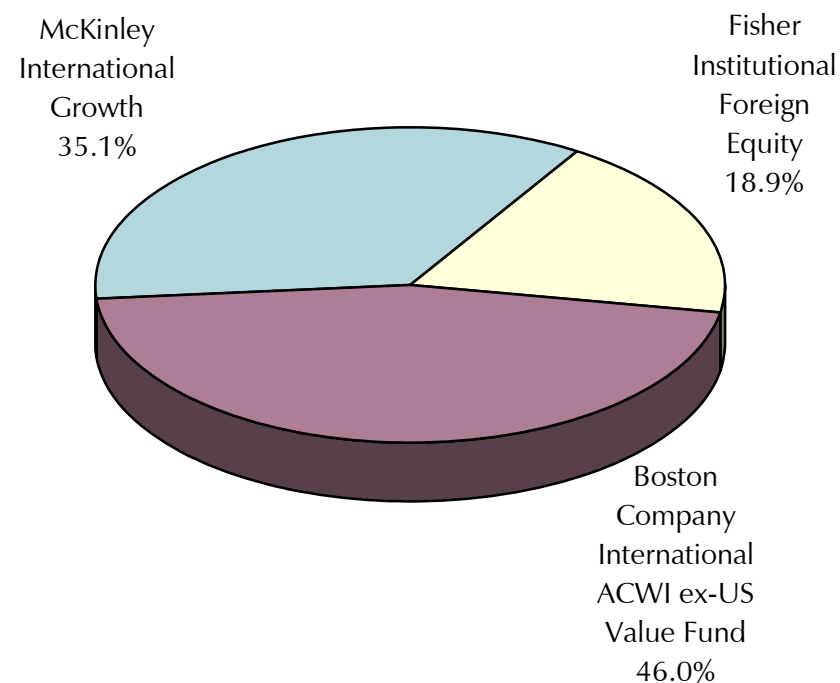
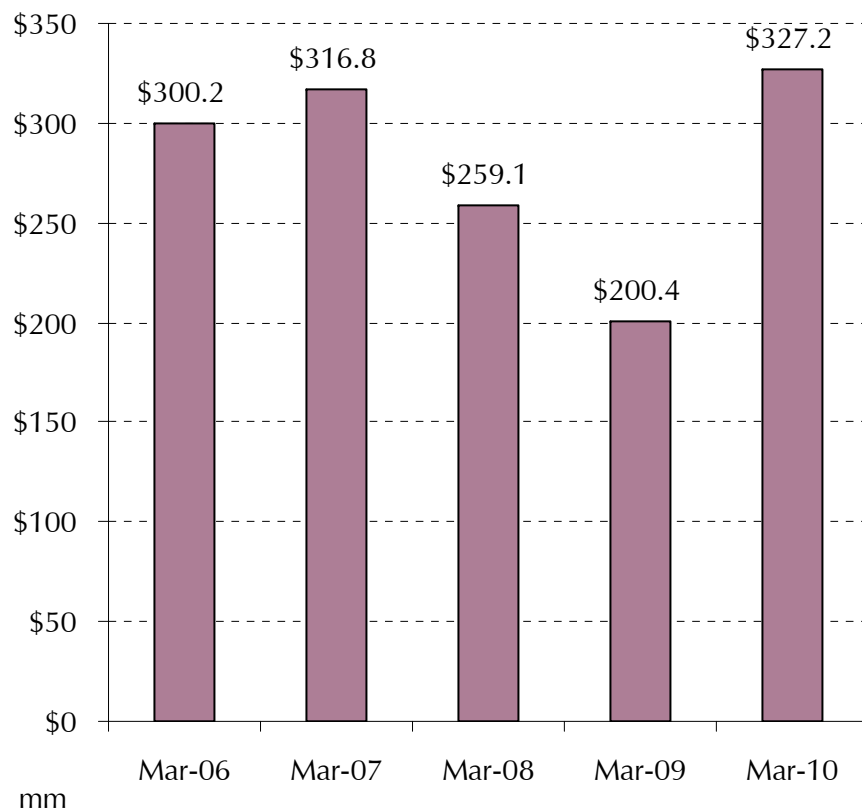
	Aggregate Domestic Equity 3/31/10	Russell 3000 3/31/10	Aggregate Domestic Equity 12/31/09
<b>Diversification:</b>			
Number of Holdings	2,877	2,950	2,880
% in 5 largest holdings	7	9	7
% in 10 largest holdings	13	16	13

Largest Five Holdings:	% of Portfolio	Economic Sector
Apple	1.7	Technology Hardware
Microsoft	1.6	Software & Services
ExxonMobil	1.5	Energy
Wells Fargo	1.4	Banks
General Electric	1.3	Capital Goods

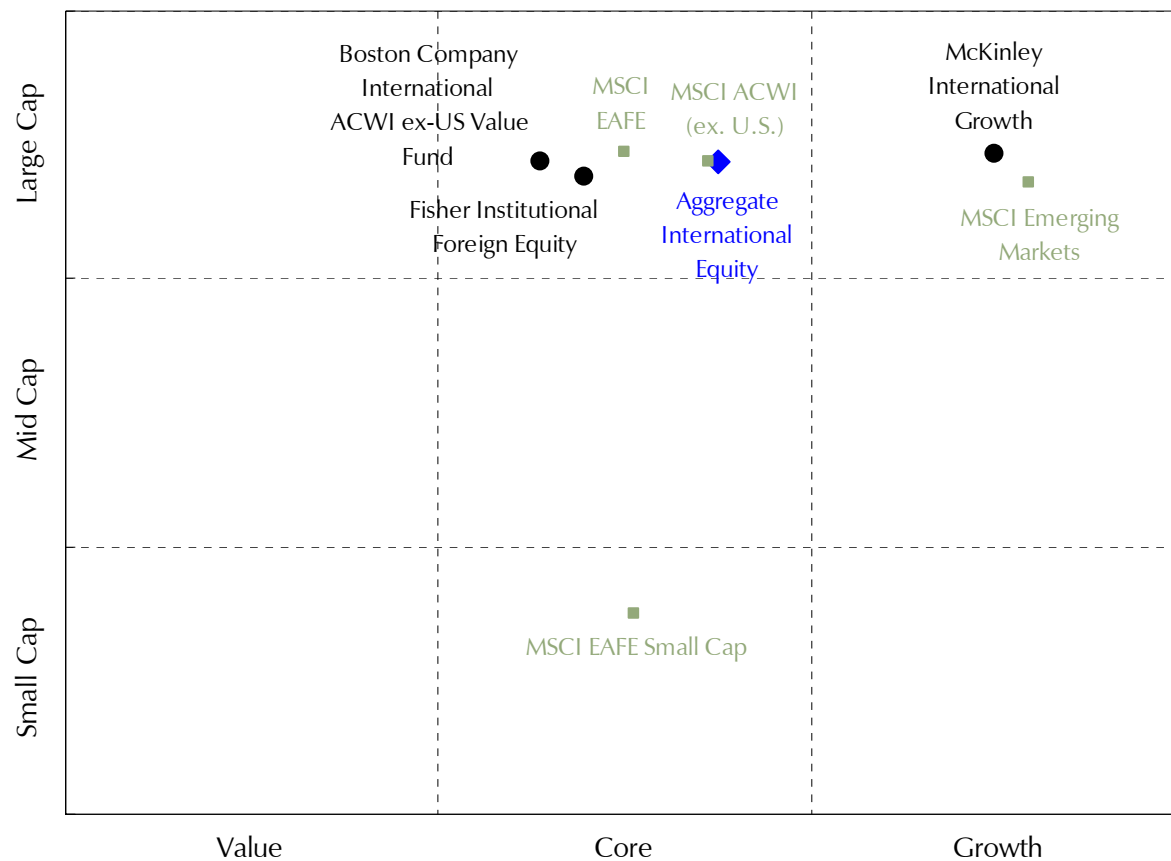
Industry Allocation (%):	Aggregate Domestic Equity 3/31/10	Russell 3000 3/31/10	Aggregate Domestic Equity 12/31/09
Information Technology	22	19	22
Consumer Discretionary	13	11	13
Health Care	13	12	13
Industrials	12	11	12
Materials	4	4	4
Telecom	2	3	2
Energy	9	10	10
Financials	15	16	14
Utilities	2	4	3
Consumer Staples	7	10	8

## International Equity Assets As of March 31, 2010





<b>Risk: (sixty months)</b>	<b>Aggregate International Equity 3/31/10</b>	<b>MSCI ACWI (ex. U.S.) 3/31/10</b>
Annualized Return (%)	4.8	6.1
Standard Deviation (%)	22.7	23.1
Best Monthly Return (%)	13.2	13.6
Worst Monthly Return (%)	-22.4	-22.0
Beta	0.99	1.00
Correlation (R <sup>2</sup> ) to Index	0.99	1.00
Correlation to Total Fund Return	0.96	NA
Sharpe Measure (risk-adjusted return)	0.09	0.14
Information Ratio	Neg.	NA



	Aggregate International Equity 3/31/10	MSCI ACWI (ex. U.S.) 3/31/10	Aggregate International Equity 12/31/09
<b>Capitalization Structure:</b>			
Weighted Average Market Cap. (US\$ billion)	49.3	49.2	55.5
Median Market Cap. (US\$ billion)	16.8	5.7	15.8
Large (% over US\$9 billion)	79	78	82
Medium (% US\$1.5 billion to US\$9 billion)	19	22	17
Small (% under US\$1.5 billion)	2	0	1
<b>Fundamental Structure:</b>			
Price-Earnings Ratio	23	23	22
Price-Book Value Ratio	2.4	2.6	2.5
Dividend Yield (%)	2.5	2.7	2.6
Historical Earnings Growth Rate (%)	8	11	17
Projected Earnings Growth Rate (%)	16	14	12

Diversification:	Aggregate International Equity 3/31/10	MSCI ACWI (ex. U.S.) 3/31/10	Aggregate International Equity 12/31/09
Number of Holdings	314	1,822	305
% in 5 largest holdings	8	5	8
% in 10 largest holdings	13	9	14

Largest Five Holdings:	% of Portfolio	Economic Sector
Novartis	1.9	Pharmaceuticals & Biotech
Nestle	1.5	Food Beverage & Tobacco
BHP Billiton	1.5	Materials
Samsung Electronic	1.4	Semiconductors
Rio Tinto	1.4	Materials

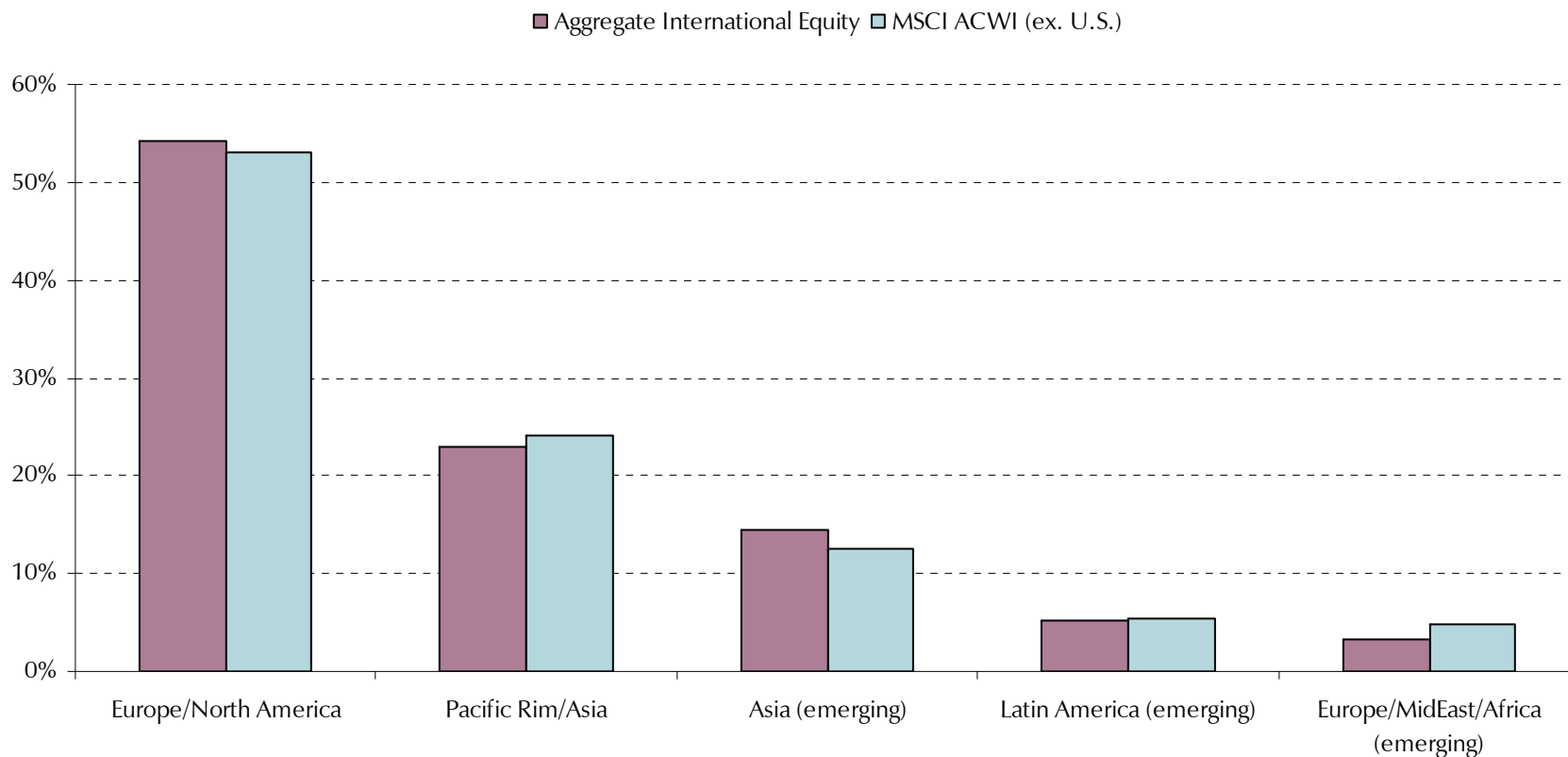
Industry Allocation (%):	Aggregate International Equity 3/31/10	MSCI ACWI (ex. U.S.) 3/31/10	Aggregate International Equity 12/31/09
Industrials	14	10	11
Materials	14	12	12
Consumer Discretionary	10	8	10
Information Technology	8	7	9
Consumer Staples	9	8	9
Energy	11	11	11
Health Care	7	6	8
Telecom	5	6	6
Utilities	3	5	3
Financials	19	26	21

## San Jose Federated City Employees Retirement System

## International Equity Assets Country & Region Breakdown as of 3/31/10

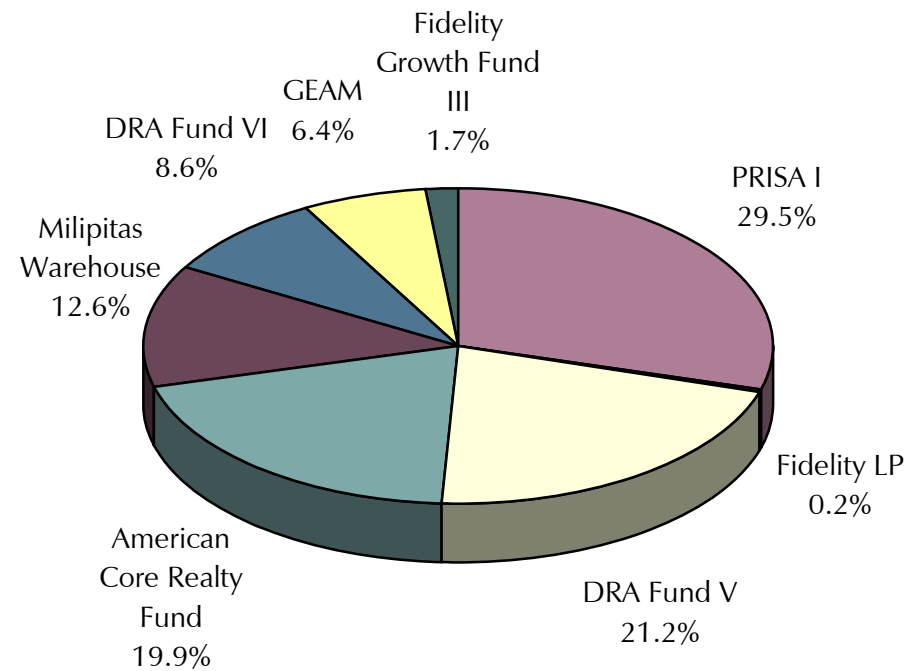
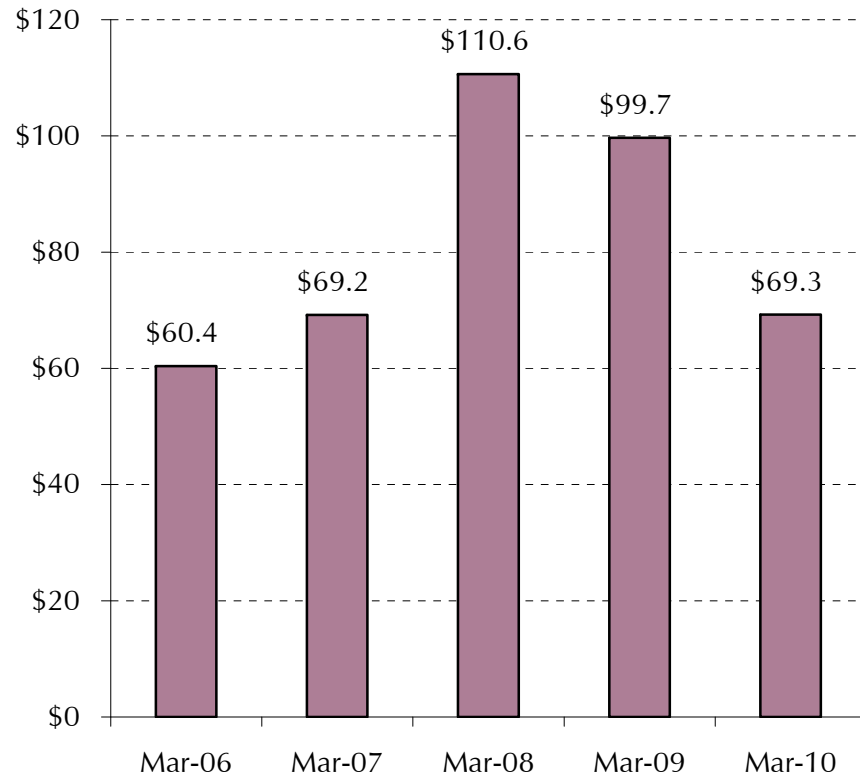
	Aggregate International Equity 3/31/10 (%)	MSCI ACWI (ex. U.S.) 3/31/10 (%)		Aggregate International Equity 3/31/10 (%)	MSCI ACWI (ex. U.S.) 3/31/10 (%)
<b>Europe/North America</b>	<b>54.2</b>	<b>53.1</b>	<b>Asia (emerging)</b>	<b>14.4</b>	<b>12.6</b>
Norway	2.0	0.5	South Korea	4.6	2.9
Switzerland	6.7	5.5	Malaysia	1.1	0.6
United Kingdom	15.7	14.7	India	1.9	1.7
Netherlands	2.8	1.8	Taiwan	2.4	2.4
Finland	1.3	0.9	China	2.7	4.0
France	7.8	7.4			
Italy	2.5	2.3	<b>Latin America (emerging)</b>	<b>5.1</b>	<b>5.3</b>
Germany	5.6	5.5	Brazil	4.3	3.7
Sweden	1.8	1.9			
Spain	1.2	2.7	<b>Europe/MidEast/Africa (emerging)</b>	<b>3.4</b>	<b>4.8</b>
Canada	5.4	7.6	Israel	1.1	0.7
			South Africa	1.2	1.6
<b>Pacific Rim/Asia</b>	<b>23.0</b>	<b>24.2</b>			
Hong Kong	2.1	1.7			
Singapore	1.3	1.0			
Japan	15.6	15.4			
Australia	3.9	6.0			





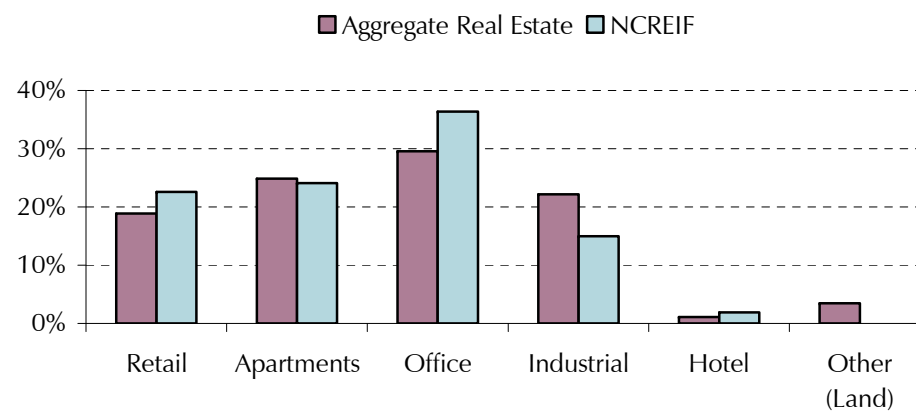
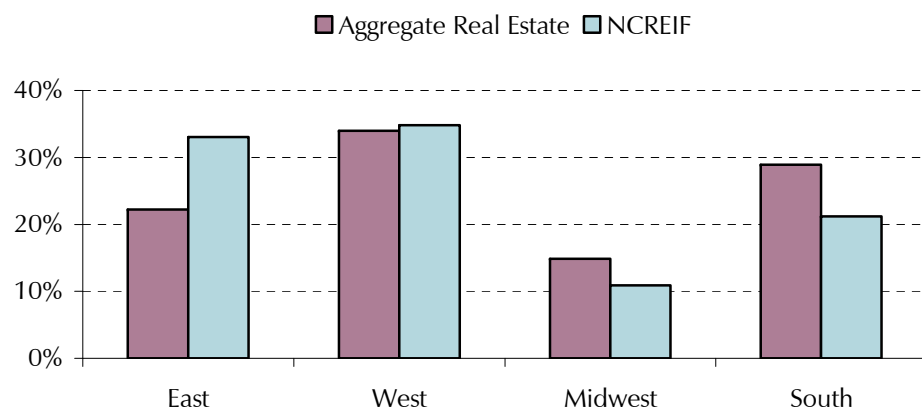
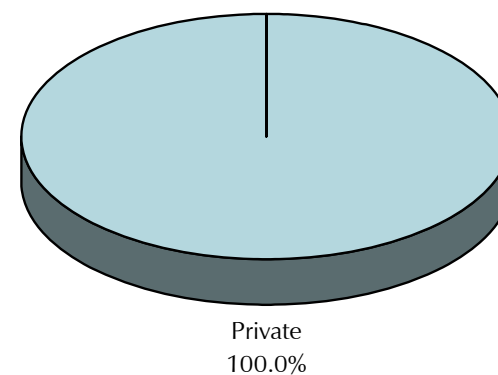
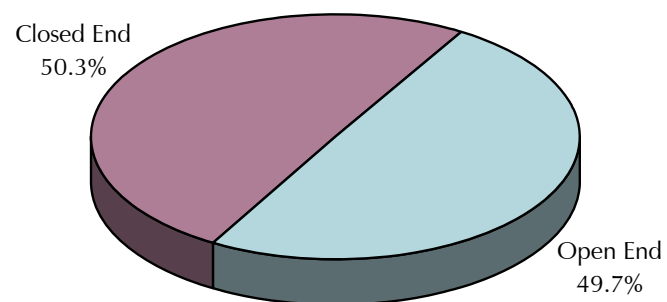


**Real Estate Assets  
As of March 31, 2010**



## San Jose Federated City Employees Retirement System

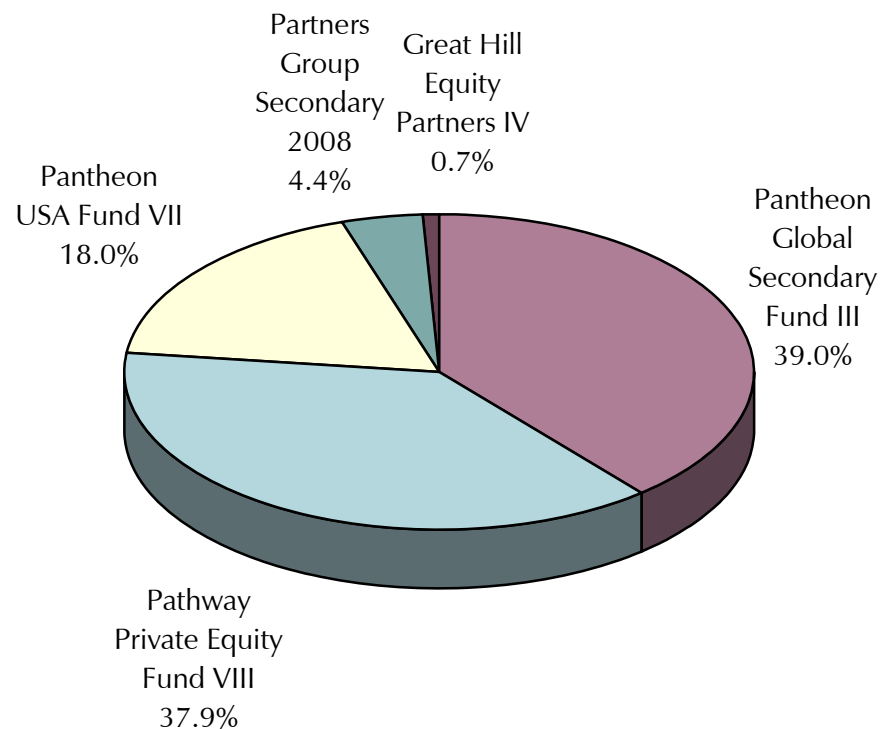
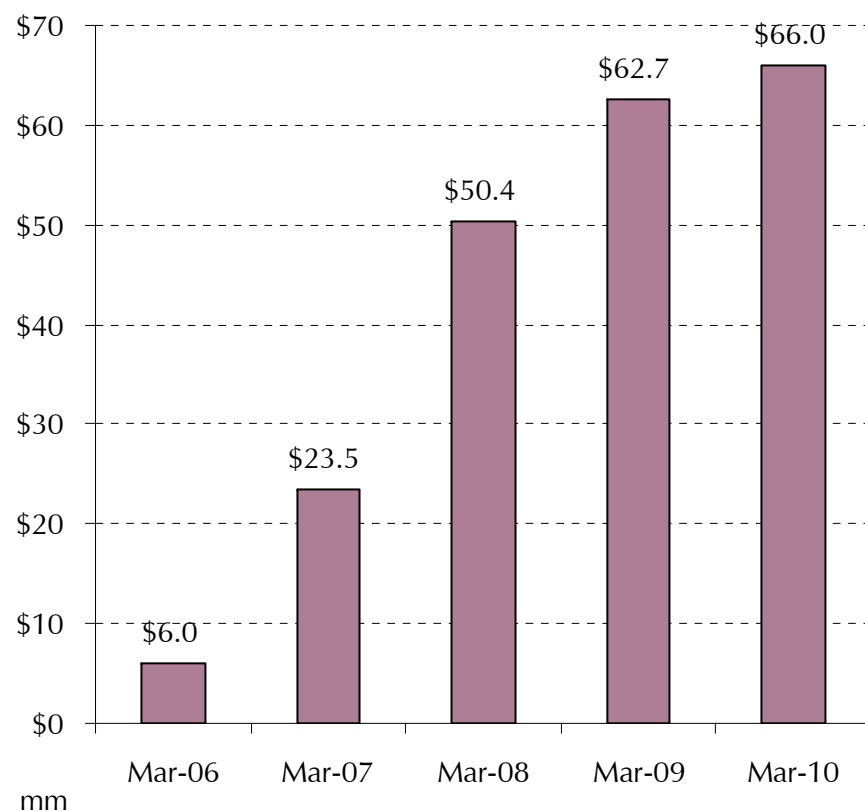
## Real Estate Assets Breakdown as of 12/31/10



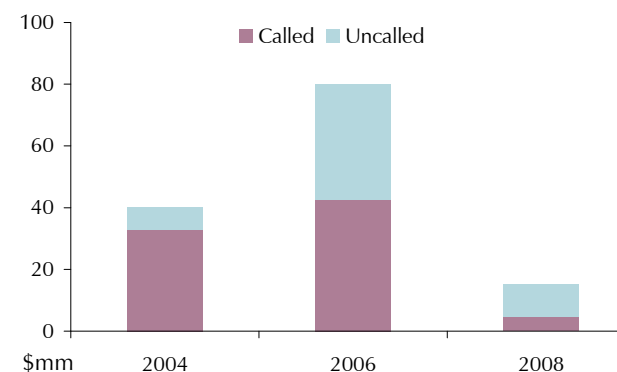
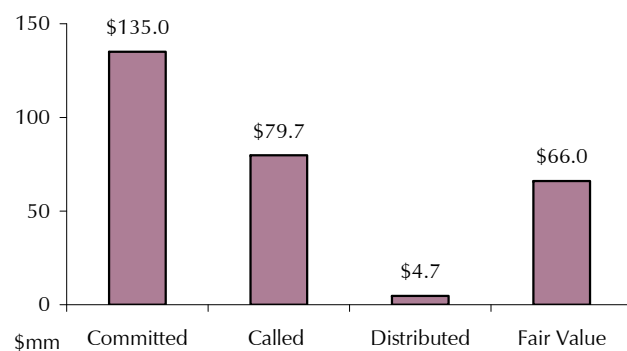
<b>Portfolio Characteristics:</b>	<b>Aggregate Real Estate 12/31/09</b>	<b>NCREIF Property Index 12/31/10</b>
Private Investments	100%	100%
Debt Investments	3.1%	NA
Open End Investments	49.7%	NA
# Portfolios	8	NA
# Properties	379	6,211
Leverage	50.5	NA
Average Occupancy	82.7	NA

	Market	Strategy	Reported Value 3/31/10 (\$ mm)	% of Asset Class
<b>Real Estate Assets</b>			<b>69.3</b>	<b>100</b>
PRISA I	Private	Diversified Core	20.4	29
DRA Growth & Income Fund V	Private	Value-Added	14.7	21
American Core Realty Fund, LLC	Private	Diversified Core	13.8	20
MIG Realty- Milpitas Warehouse	Private	Core	8.7	13
DRA Growth & Income Fund VI	Private	Value-Added	5.9	9
GEAM Value Add Realty Partners, L.P.	Private	Value-Added	4.4	6
Fidelity Real Estate Growth Fund III, L.P.	Private	Diversified Core	1.2	2
Fidelity LP	Private	Diversified Core	0.2	< 1

## Private Equity Assets As of March 31, 2010



*Fair values for private markets assets are based on reported values of 12/31/09, adjusted for cash flows through 3/31/10.  
Unless otherwise denoted, all values have been converted into US dollars using 3/31/10 exchange rates.*



**Financial Summary:** (Reported value as of 12/31/2009, adjusted for cash flows through 3/31/2010)

Program to Date	
Allocation Target:	5%
Number of Funds:	5
Commitments:	\$135.0 million
Capital Called:	\$79.7 million
Distributions:	\$4.7 million
Reported Value:	\$66.0 million



Partnership	Type	Focus	Vintage Year
Pathway Private Equity Fund VIII	Fund of Funds	Diversified	2004
Pantheon Global Secondary Fund III	Secondary Market	Diversified	2006
Pantheon USA Fund VII	Fund of Funds	Diversified	2006
Great Hill Equity Partners IV, LP	Buyout	Middle Market Buyout	2008
Partners Group Secondary 2008, L.P.	Secondary Market	Diversified	2008

**Portfolio Reviews**  
**As of March 31, 2010**

## High Yield Bond Portfolio Reviews As of March 31, 2010

## San Jose Federated City Employees Retirement System

## MackKay Shields High Yield Active Core Portfolio Detail as of 3/31/10

**Mandate:** High Yield  
**Active/Passive:** Active  
**Market Value:** \$58.1 million  
**Portfolio Manager:** Dan Roberts, Ph.D.  
**Location:** New York, New York  
**Inception Date:** 5/1/2009  
**Account Type:** Separately Managed

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**  
0.425% on all assets

**Liquidity Constraints:**  
Daily

### Strategy:

The High Yield Active Core Investment Team believes that attractive risk-adjusted returns and, ultimately, attractive absolute returns are generated by a strategy of yield capture and error avoidance. Based on the observation that bonds, even high yield bonds, have a limited upside, but a 100% downside potential, this simple observation leads to the most fundamental element of the High Yield Active Core investment philosophy: the high yield market does not reward inappropriately high levels of risk. When this view is considered in combination with the observation that, over any given cycle, total return is driven almost entirely by income, this is the team's goal: capture the yield offered by the market by investing in stable, quality credits; aggressively protect this yield through a variety of risk control measures; resist the temptation to augment returns by "stretching" for the yield offered by the market's riskiest credits; and manage risk relative to the client's benchmark.

### Guidelines:

Average rating of BB- or better. Maximum of 20% bank loans, and maximum of 5% CCC.

Performance (%):	1Q10	Since 5/1/09
<b>MackKay Shields High Yield Active Core</b>	<b>3.9</b>	<b>25.0</b>
<b>Net of Fees</b>	<b>3.8</b>	<b>24.6</b>
Barclays High Yield	4.6	39.3
Barclays High Yield BB/B	4.0	29.5
Peer High Yield	4.3	35.1
Peer Ranking (percentile)	64	87

	3/31/10 Mackay High Yield	Barclays High Yield	12/31/09 Mackay High Yield	Barclays High Yield
<b>Duration &amp; Yield:</b>				
Average Effective Duration (years)	3.8	4.4	4.0	4.3
Yield to Maturity (%)	7.5	8.5	8.0	9.1

### Quality Structure (%):

Average Quality	BB-	B+	BB-	B+
AAA (includes Treasuries and Agencies)	3	0	0	0
AA	0	0	0	0
A	0	0	0	0
BBB	5	0	0	0
BB	45	38	55	38
B	38	38	45	38
Below B	7	21	0	21
Non-Rated	2	3	0	3

### Sector Allocation (%):

U.S. Treasury-Nominal	0	0	0	0
U.S. Treasury-TIPS	0	0	0	0
U.S. Agency	0	0	0	0
Mortgage Backed	0	0	0	0
Corporate	95	100	95	100
Bank Loans	3	0	3	0
Local & Provincial Government	0	0	0	0
Sovereign & Supranational	0	0	0	0
Commercial Mortgage Backed	0	0	0	0
Asset Backed	0	0	0	0
Cash Equivalent	3	0	2	0
Other	0	0	0	0

### Market Allocation (%):

United States	91	88	90	88
Foreign (developed markets)	8	12	9	12
Foreign (emerging markets)	0	0	0	0

### Currency Allocation (%):

Non-U.S. Dollar Exposure	0	0	0	0
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## San Jose Federated City Employees Retirement System

## Seix Credit Dislocation Strategy Portfolio Detail as of 3/31/10

**Mandate:** High Yield  
**Active/Passive:** Active  
**Market Value:** \$47.9 million  
**Portfolio Manager:** Michael McEachern, CFA  
**Location:** Upper Saddle River, New Jersey  
**Inception Date:** 5/1/2009  
**Account Type:** Separately Managed

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**  
 0.30% on all assets

**Liquidity Constraints:**  
 Daily

### Strategy:

Seix manages a diversified credit portfolio employing primarily a buy and hold strategy to generate attractive absolute returns as acceptable risk levels. Sales or exchanges occur due to credit impaired assets or defaults. The portfolio will be comprised primarily of high yield floating rate bank loans, with a maximum of 20% in high yield corporate bonds.

### Guidelines:

Average Credit quality of BB- or better. Maximum of 20% high yield bonds, and maximum of 5% rated C or lower

Performance (%):	1Q10	Since 5/1/09
<b>Seix Credit Dislocation Strategy</b>	<b>3.4</b>	<b>13.5</b>
<b>Net of Fees</b>	<b>3.4</b>	<b>13.5</b>
CSFB Leveraged Loan Index	4.3	30.6

	3/31/10		12/31/09	
Duration & Yield:	Seix	CSFB Lev Loan	Seix	CSFB Lev Loan
Average Effective Duration (years)	2.0	0.3	1.9	0.3
Yield to Maturity (%)	4.1	3.8	4.3	4.1
<b>Quality Structure (%):</b>				
Average Quality	BB	B	BB	B
AAA (includes Treasuries and Agencies)	6	0	8	0
AA	0	0	0	0
A	0	0	0	0
BBB	4	0	4	0
BB	70	41	48	41
B	21	44	40	44
Below B	0	3	0	3
Non-Rated	0	13	0	13
<b>Sector Allocation (%):</b>				
U.S. Treasury-Nominal	0	0	0	0
U.S. Treasury-TIPS	0	0	0	0
U.S. Agency	0	0	0	0
Mortgage Backed	0	0	0	0
Corporate	20	0	20	0
Bank Loans	74	100	71	100
Local & Provincial Government	0	0	0	0
Sovereign & Supranational	0	0	0	0
Commercial Mortgage Backed	0	0	0	0
Asset Backed	0	0	0	0
Cash Equivalent	6	0	8	0
Other	0	0	0	0
<b>Market Allocation (%):</b>				
United States	100	100	100	100
Foreign (developed markets)	0	0	0	0
Foreign (emerging markets)	0	0	0	0
<b>Currency Allocation (%):</b>				
Non-U.S. Dollar Exposure	0	0	0	0



## Domestic Equity Portfolio Reviews As of March 31, 2010

## San Jose Federated City Employees Retirement System

## Northern Trust Russell 3000 Index Portfolio Detail as of 3/31/10

**Mandate:** Domestic Equities  
**Active/Passive:** Passive  
**Market Value:** \$345.1 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 9/1/1999  
**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

### Fee Schedule:

0.50% on first \$0.5 mm; 0.20% on next \$4.5 mm; 0.10% on next \$20 mm; 0.067% on next \$25 mm; 0.05% on next \$25 mm; 0.02% thereafter

### Liquidity Constraints:

Daily

### Strategy:

The Northern Trust strategy seeks to replicate the return of the Russell 3000 Index. Northern Trust employs a proprietary process in combination with low-cost trade execution to accomplish this objective. To efficiently manage cash flows, Northern Trust seeks to maximize the liquidity of trade lists and match the relevant benchmark's systemic risk. The result is a portfolio that tightly tracks the index while incurring lower transaction costs.

Performance (%):	1Q10	1 YR	3 YR	5 YR	Since 9/1/99
<b>Northern Trust Russell 3000 Index</b>	<b>6.1</b>	<b>53.3</b>	<b>-3.8</b>	<b>2.6</b>	<b>1.7</b>
Russell 3000	5.9	52.4	-4.0	2.4	1.5

Risk: (sixty months)	Standard Deviation	Beta	Sharpe Measure <sup>1</sup>	Info. Ratio	Correlation to Index
<b>Northern Trust Russell 3000 Index</b>	<b>17.7%</b>	<b>1.00</b>	<b>Neg.</b>	<b>NA</b>	<b>1.00</b>
Russell 3000	17.7	1.00	Neg.	NA	1.00

	3/31/10		12/31/09	
Capitalization Structure:	NT Russell 3000	Russell 3000	NT Russell 3000	Russell 3000
Weighted Average Market Cap. (US\$ billion)	69.0	68.6	67.5	67.2
Median Market Cap. (US\$ million)	959.6	805.8	871.6	748.1
Large (% over US\$10 billion)	71	71	71	70
Medium (% US\$1.5 billion to US\$10 billion)	23	23	23	23
Small (% under US\$1.5 billion)	6	6	7	7

### Fundamental Structure:

Price-Earnings Ratio	22	22	24	24
Price-Book Value Ratio	3.2	3.2	3.2	3.3
Dividend Yield (%)	1.8	1.8	1.9	2.0
Historical Earnings Growth Rate (%)	11	11	17	17
Projected Earnings Growth Rate (%)	11	11	11	11

### Sector Allocation (%):

Information Technology	19	19	19	19
Financials	16	16	15	15
Health Care	12	12	13	13
Industrials	11	11	11	11
Consumer Discretionary	11	11	10	10
Energy	10	10	11	11
Consumer Staples	10	10	10	10
Materials	4	4	4	4
Utilities	4	4	4	4
Telecom	3	3	3	3

### Diversification:

Number of Holdings	2,761	2,950	2,758	2,972
% in 5 largest holdings	9	9	9	9
% in 10 largest holdings	16	16	16	16

Largest Ten Holdings:		Industry
ExxonMobil	2.6	Energy
Microsoft	1.8	Software & Services
Apple	1.7	Technology Hardware
General Electric	1.5	Capital Goods
Procter & Gamble	1.5	Household/Personal Products
Johnson & Johnson	1.4	Pharmaceuticals & Biotech
JPMorgan	1.4	Diversified Financials
Bank of America	1.4	Diversified Financials
IBM	1.3	Software & Services
Wells Fargo	1.3	Banks

<sup>1</sup> A negative Sharpe ratio indicates that the portfolio underperformed the risk-free rate during the sample period.



## San Jose Federated City Employees Retirement System

## Eagle Small-Cap Growth Portfolio Detail as of 3/31/10

**Mandate:** Domestic Equities  
**Active/Passive:** Active  
**Market Value:** \$56.1 million  
**Portfolio Manager:** Bert L. Boksen, CFA  
**Location:** St. Petersburg, Florida  
**Inception Date:** 6/1/1998  
**Account Type:** Separately Managed

	Value	Core	Growth
Large			
Medium			
Small			

### Fee Schedule:

0.75% on first \$3 mm; 0.70% on next \$10 mm; 0.60% on next \$50 mm; 0.50% thereafter

### Liquidity Constraints:

Daily

### Strategy:

Eagle Asset Management seeks to capture the significant long-term capital appreciation potential of small, rapidly growing, under-researched companies. The market capitalization of these companies ranges between \$100 million and \$1.5 billion at the time of purchase. Since the small company sector historically has been less efficient than the large capitalization sector, they believe that conducting extensive proprietary research on companies that are not widely followed or owned institutionally should enable Eagle to capitalize on market inefficiencies and thus outperform the Russell 2000 Growth Index.

### Guidelines:

Maximum of 5% in one issuer, and maximum of 5% preferred stock.

Performance (%):	1Q10	1 YR	3 YR	5 YR	Since 6/1/98
<b>Eagle Small-Cap Growth</b>	<b>7.7</b>	<b>69.5</b>	<b>1.2</b>	<b>7.6</b>	<b>5.5</b>
<b>Net of Fees</b>	<b>7.5</b>	<b>68.4</b>	<b>0.6</b>	<b>6.9</b>	<b>4.8</b>
Russell 2000 Growth	7.6	60.3	-2.4	3.8	2.2
Peer Small Cap Growth	7.6	58.6	-2.2	4.2	6.6
Peer Ranking (percentile)	48	10	20	14	72
Risk: (sixty months)	Standard Deviation	Beta	Sharpe Measure	Info. Ratio	Correlation to Index
<b>Eagle Small-Cap Growth</b>	<b>24.3%</b>	<b>0.97</b>	<b>0.20</b>	<b>0.68</b>	<b>0.97</b>
Russell 2000 Growth	23.6	1.00	0.04	NA	1.00

	3/31/10 Eagle	Russell 2000 Growth	12/31/09 Eagle	Russell 2000 Growth
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	1.3	1.2	1.4	1.1
Median Market Cap. (US\$ million)	934.3	457.4	1,021.1	427.7
Large (% over US\$10 billion)	0	0	0	0
Medium (% US\$1.5 billion to US\$10 billion)	40	29	39	24
Small (% under US\$1.5 billion)	60	71	61	76

### Fundamental Structure:

Price-Earnings Ratio	35	31	32	30
Price-Book Value Ratio	3.1	3.9	3.1	3.8
Dividend Yield (%)	0.3	0.5	0.4	0.6
Historical Earnings Growth Rate (%)	19	17	22	21
Projected Earnings Growth Rate (%)	21	22	18	17

### Sector Allocation (%):

Energy	8	4	7	4
Materials	4	2	5	2
Financials	7	6	6	6
Health Care	26	25	25	24
Information Technology	27	27	26	27
Utilities	0	0	0	0
Telecom	0	1	0	2
Industrials	13	14	14	15
Consumer Staples	2	4	2	4
Consumer Discretionary	15	17	14	16

### Diversification:

Number of Holdings	80	1,266	73	1,275
% in 5 largest holdings	14	3	15	3
% in 10 largest holdings	25	6	27	6

### Largest Ten Holdings:

		Industry
Genesco	3.1	Retailing
ROVI	2.9	Software & Services
Thoratec	2.9	Health Equipment & Services
Lufkin Industries	2.5	Energy
BJ's Restaurants	2.4	Consumer Services
American Medical Sysms Hlds	2.3	Health Equipment & Services
Varian Semiconductor Equipment	2.3	Semiconductors
Huntsman	2.2	Materials
OYO Geospace	2.2	Energy
Eclipsys	2.1	Health Equipment & Services





## San Jose Federated City Employees Retirement System

**Mandate:** Domestic Equities  
**Active/Passive:** Active  
**Market Value:** \$53.6 million  
**Portfolio Manager:** John P Calamos/ Nick P Calamos  
**Location:** Naperville, Illinois  
**Inception Date:** 11/1/2009  
**Account Type:** Separately Managed

	Value	Core	Growth
Large			
Medium			
Small			

### Fee Schedule:

0.50% on all assets

### Liquidity Constraints:

Daily

### Strategy:

Calamos seeks to leverage their capital structure research by investing in global convertible securities, in order to generate consistent alpha and manage downside volatility. The portfolio construction process incorporates top-down and bottom-up analysis. Top-down considerations focus on the global macroeconomic environment, sectors and the identification of long-term secular themes that they believe will influence growth opportunities for decades to come. For bottom-up research, they first determine the intrinsic value of the company and then utilize quantitative and qualitative analysis to value the securities within the company's capital structure. Investment candidates emerge from the intersection of the top-down and bottom-up considerations. These investments are vetted more extensively within the context of the overall portfolio. Calamos continually monitors risk characteristics to ensure that the strategy maintains appropriate diversification and risk/reward characteristics.

### Guidelines:

<5% in single issuer. Investments in minimum of five countries. Allocation to single sector <1.5x sector weight of benchmark

Performance (%):	1Q10	Since 11/1/09
Calamos Global Convertibles	2.8	7.6
Net of Fees	2.7	7.4
Merrill Lynch Global 300 Convertible Index	3.9	9.3

## Calamos Global Convertibles Portfolio Detail as of 3/31/10

	3/31/10 Calamos	ML Global 300 Convertible Index
<b>Duration &amp; Yield:</b>		
Average Effective Duration (years)	3.1	2.8
Yield to Maturity (%)	1.1	3.0
<b>Quality Structure (%):</b>		
Average Quality	BB+	BB+
AAA (includes Treasuries and Agencies)	0	0
AA	2	5
A	20	17
BBB	33	27
BB	37	33
B	8	13
Below B	0	4
Non-Rated	0	0
<b>Sector Allocation (%):</b>		
U.S. Treasury-Nominal	0	0
U.S. Treasury-TIPS	0	0
U.S. Agency	0	0
Mortgage Backed	0	0
Corporate	0	0
Bank Loans	0	0
Local & Provincial Government	0	0
Sovereign & Supranational	0	0
Commercial Mortgage Backed	0	0
Asset Backed	0	0
Cash Equivalent	2	0
Other	98	100
<b>Market Allocation (%):</b>		
United States	58	49
Foreign (developed markets)	35	43
Foreign (emerging markets)	8	8
<b>Currency Allocation (%):</b>		
Non-U.S. Dollar Exposure	20	37



## Real Estate Portfolio Reviews As of March 31, 2010

## San Jose Federated City Employees Retirement System

## DRA Growth & Income Fund VI Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
Private Market  
Value-Added

**Market Value:** \$5.9 million

**Senior Professionals:** Team

**Location:** New York, New York

**Vintage Year:** 2007

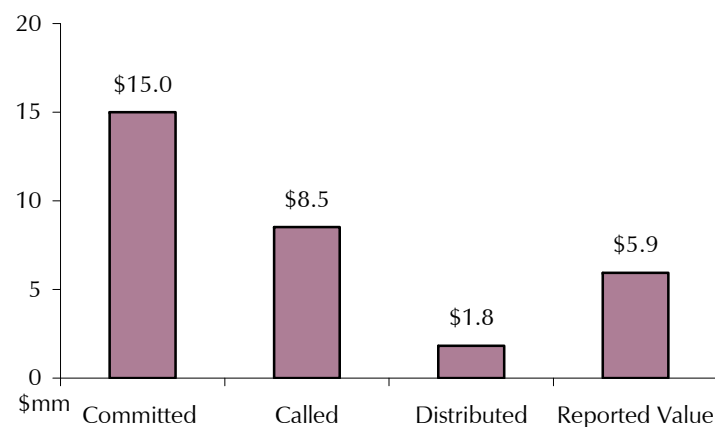
**Account Type:** Ltd. Partnership

**# of Investments:** 5

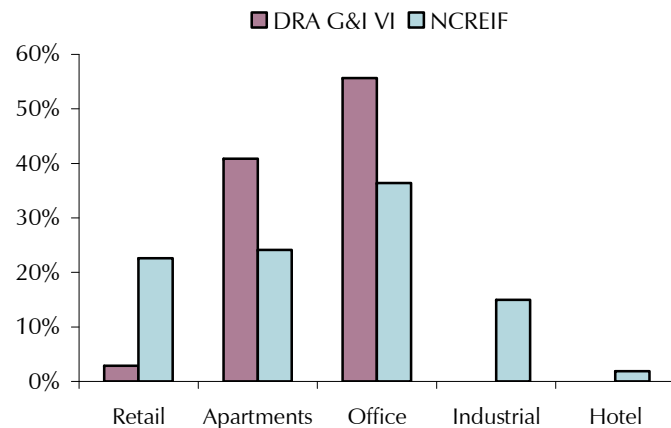
**Liquidity Constraints:** No interim liquidity

**Fee Schedule:** 90 bps of Gross Asset Cost during the Acquisition Period, dropping to 60 bps of Gross Asset Cost after the Acquisition Period, with Gross Asset Cost reduced by leverage in excess of 65%

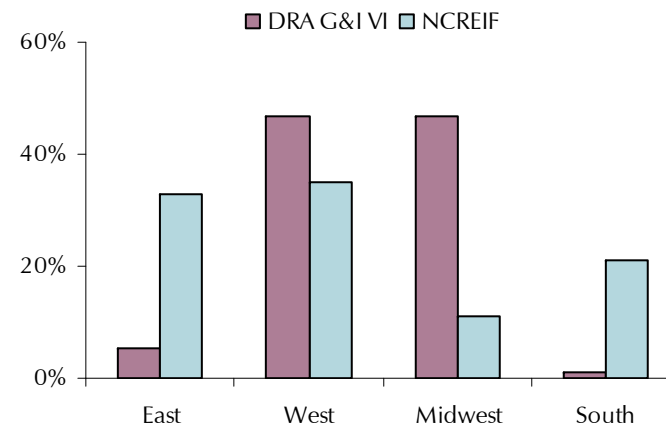
Portfolio Size:



Property Type:



Geographic Region:



**Investment Strategy:** The Fund continues the fund series' strategy of making value-added commercial real estate investments. DRA invests in diversified portfolios of office, retail, multi-family, industrial and other real-estate related properties and assets across the United States. DRA targets investments that offer competitive income returns and the potential for capital appreciation. Preservation of capital, downside protection and stability of cash flows underlie the firm's investment approach. DRA's value-added funds attempt to capitalize on inefficiencies in real estate markets to acquire high quality operating assets at discounts to replacement cost.

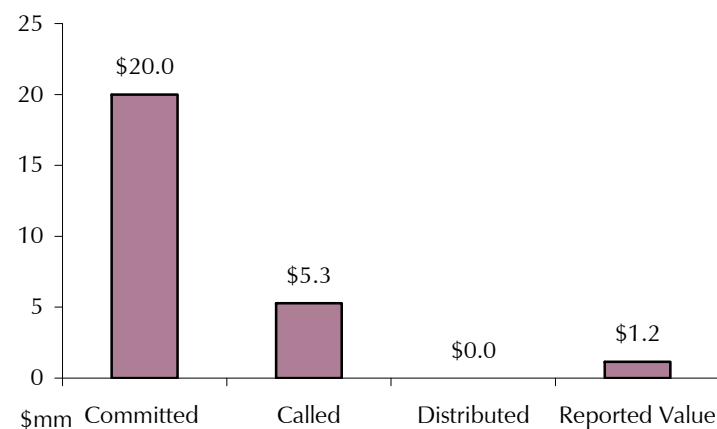


## San Jose Federated City Employees Retirement System

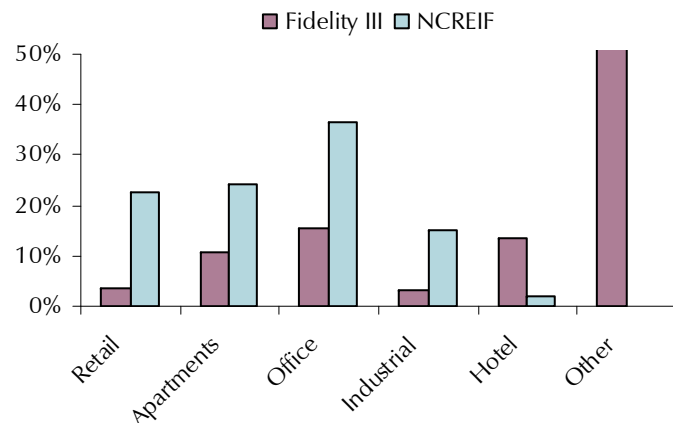
## Fidelity Real Estate Growth Fund III, L.P. Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
 Private Market  
 Diversified Core  
**Market Value:** \$1.2 million  
**Senior Professionals:** Team  
**Location:** Boston, Massachusetts  
**Vintage Year:** 2006  
**Account Type:** Ltd. Partnership  
**# of Investments:** 27  
**Liquidity Constraints:** No interim liquidity  
**Fee Schedule:** 1.0% of committed capital; 17.5% on performance

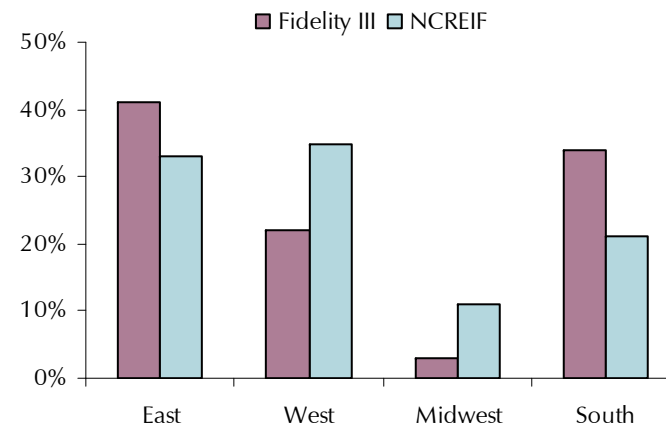
Portfolio Size:



Property Type:



Geographic Region:



**Investment Strategy:** Fidelity Real Estate Growth Fund III will seek to generate gross annualized returns of at least 18% through investments in value-added private equity and equity-related real estate transactions. Fidelity principally targets transactions in markets with positive fundamentals that offer an opportunity to increase returns through the execution of a value-added strategy. Accordingly, such investments will benefit not only from improving market conditions but also from the excess return created by the successful completion of each value-enhancement plan.



# San Jose Federated City Employees Retirement System

## PRISA I Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
Private Market  
Diversified Core

**Market Value:** \$20.4 million

**Senior Professionals:** Kevin R. Smith

**Location:** San Francisco, California

**Inception Date:** 7/1/04

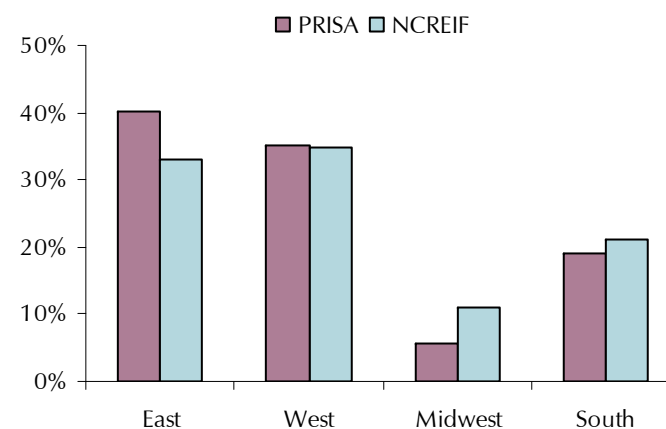
**Account Type:** Separately Managed

**# of Investments:** 240

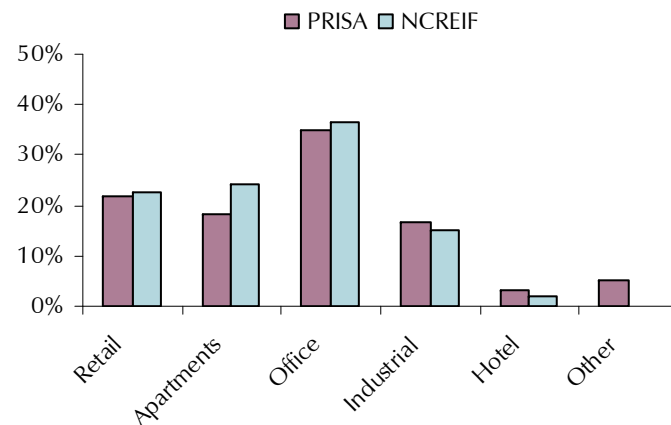
**Liquidity Constraints:** Quarterly (with 30 days advance notice)

**Fee Schedule:** 1.20% on first \$25 mm; 1.15% on next \$25 mm; 1.10% on next \$50 mm; 1.05% on next \$100 mm; 1.00% thereafter

Geographic Region:



Property Type:



Performance (%):	1Q10	1 YR	3 YR	5 YR	Since 7/1/04
PRISA I	-0.6	-22.6	-13.7	-1.6	0.3
Net of Fees	-0.6	-23.0	-14.3	-2.4	-0.5
NCREIF Property	0.8	-9.6	-4.3	4.2	5.7

**Investment Strategy:** PRISA invests primarily in existing, income-producing properties with strong cash flow that is expected to increase over time and thereby provide the potential for capital appreciation. The Account makes investments primarily in office, retail, industrial, apartment, and hotel properties. Investments may be made through direct property ownership, or indirectly through such vehicles as joint ventures, general or limited partnerships, limited liability companies, mortgage loans and other loan types, including mezzanine debt, and debt secured by an interest in the borrowing entity or interests in companies or entities that directly or indirectly hold real estate or real estate interests.



## San Jose Federated City Employees Retirement System

## DRA Growth & Income Fund V Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
Private Market  
Value-Added

**Market Value:** \$14.7 million

**Senior Professionals:** Team

**Location:** New York, New York

**Vintage Year:** 2005

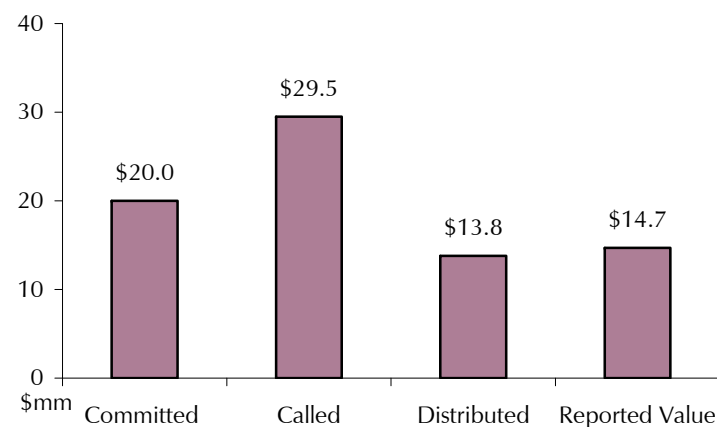
**Account Type:** Commingled Fund

**# of Investments:** 14

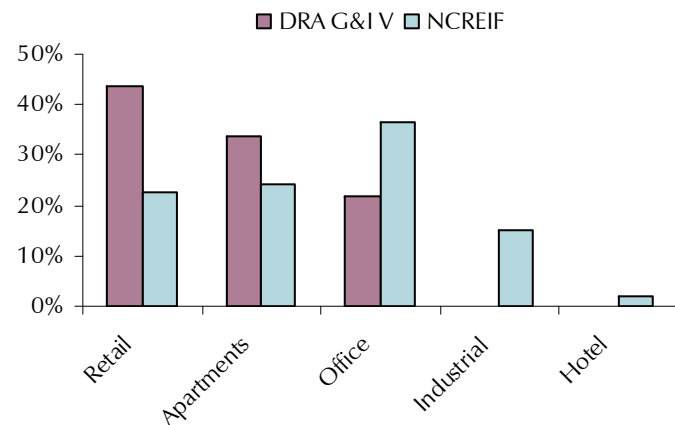
**Liquidity Constraints:** No interim liquidity

**Fee Schedule:** 90 bps of Gross Asset Cost during the Acquisition Period, dropping to 60 bps of Gross Asset Cost after the Acquisition Period, with Gross Asset Cost reduced by leverage in excess of 65%

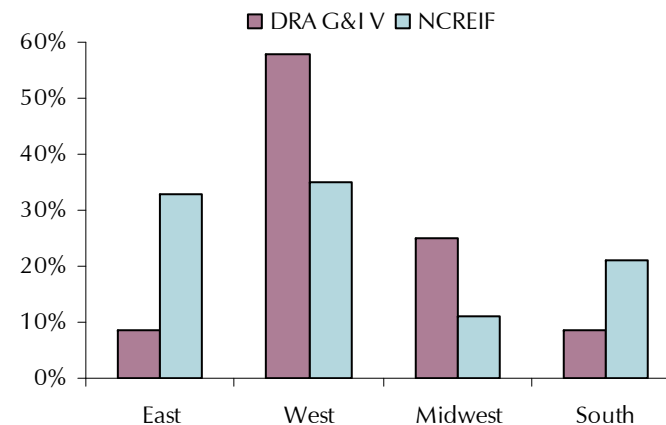
Portfolio Size:



Property Type:



Geographic Region:



**Investment Strategy:** The Fund continues the fund series' strategy of making value-added commercial real estate investments. DRA invests in diversified portfolios of office, retail, multi-family, industrial and other real-estate related properties and assets across the United States. DRA targets investments that offer competitive income returns and the potential for capital appreciation. Preservation of capital, downside protection and stability of cash flows underlie the firm's investment approach. DRA's value-added funds attempt to capitalize on inefficiencies in real estate markets to acquire high quality operating assets at discounts to replacement cost

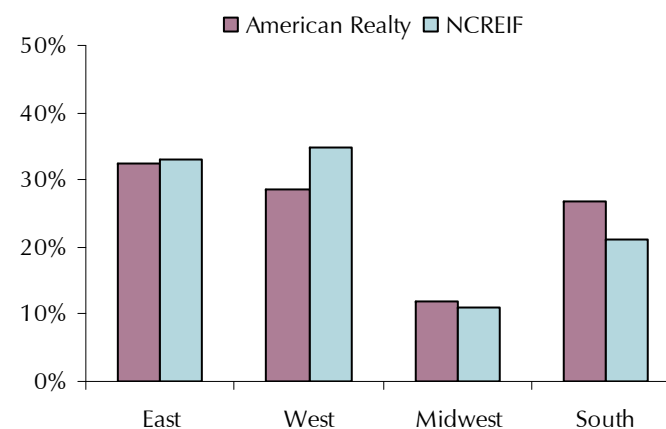


## San Jose Federated City Employees Retirement System

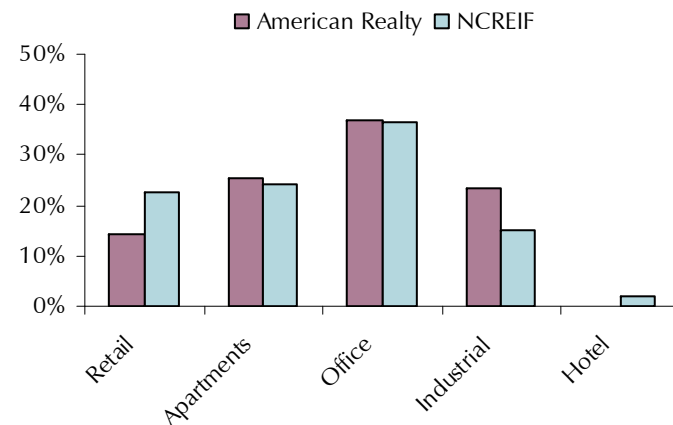
## American Core Realty Fund, LLC Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
 Private Market  
 Diversified Core  
**Market Value:** \$13.8 million  
**Senior Professionals:** Scott Darling  
**Location:** Glendale, California  
**Inception Date:** 1/1/2007  
**Account Type:** Commingled Fund  
**# of Investments:** 57  
**Liquidity Constraints:** Quarterly (with 30 days advance notice)  
**Fee Schedule:** 1.10% on first \$25 mm; 0.95% on next \$50 mm; 0.85% thereafter

Geographic Region:



Property Type:



Performance (%):	1Q10	1 YR	3 YR	Since 1/1/07
American Core Realty Fund, LLC	-0.7	-20.2	-9.7	-7.7
Net of Fees	-0.9	-21.0	-10.5	-8.5
NCREIF Property	0.8	-9.6	-4.3	-2.9

**Investment Strategy:** American Realty targets core institutional-quality office, industrial, retail, and multifamily properties in the United States. In general, the strategy seeks properties in the \$5 to \$50 million range. Target properties will be 80% to 100% occupied, be less than ten years old and diversified by product type, geographic region and tenant base. The Fund will seek to provide returns with stable income and potential market appreciation.



## San Jose Federated City Employees Retirement System

## GEAM Value Add Realty Partners, L.P. Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
Private Market  
Value-Added

**Market Value:** \$4.4 million

**Senior Professionals:** Philip Riordan, Susan Doyle

**Location:** Stamford, Connecticut

**Vintage Year:** 2006

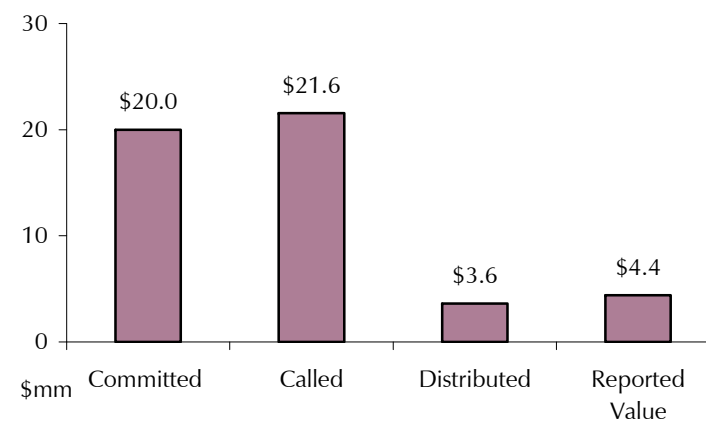
**Account Type:** Commingled Fund

**# of Investments:** 13

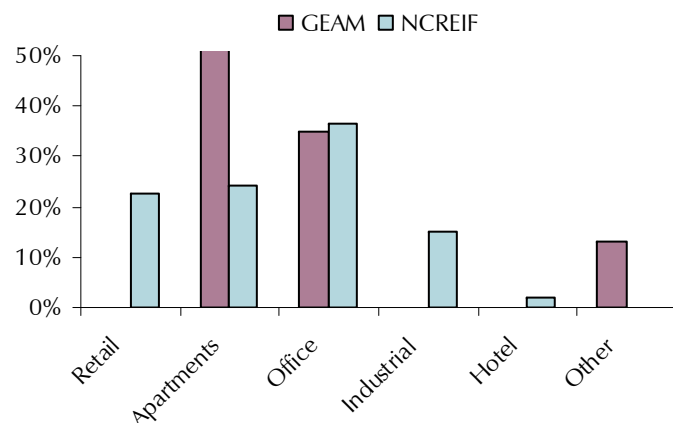
**Liquidity Constraints:** No interim liquidity

**Fee Schedule:** Fees for services equal to (a) during the Commitment Period, one percent (1%) per annum of the total aggregate Capital Commitments of all Limited Partners and (b) thereafter, one percent(1%) per annum of the Net Equity actually invested in all Real Estate Investments held by the Partnership, determined as of the last day of each calendar quarter.

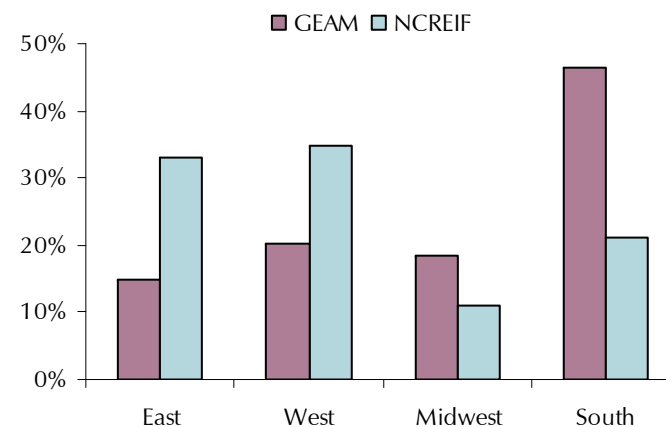
**Portfolio Size:**



**Property Type:**



**Geographic Region:**



**Investment Strategy:** The objective of the GEAM Value Add Realty Partners, L.P. is to invest in U.S. commercial and multi-family properties in which value can be created through redevelopment, renovation, repositioning, and/or releasing.

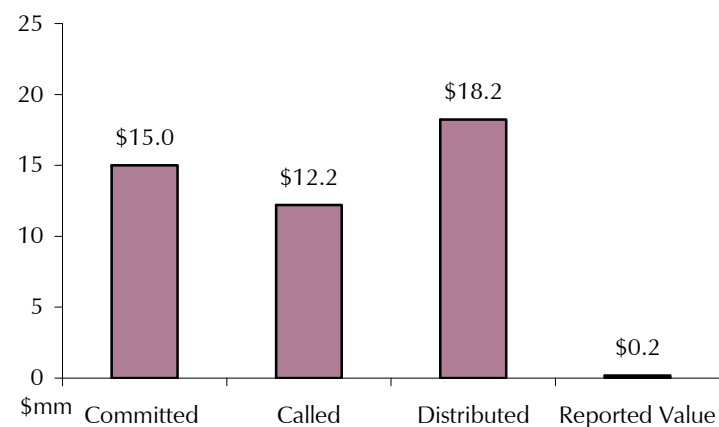


## San Jose Federated City Employees Retirement System

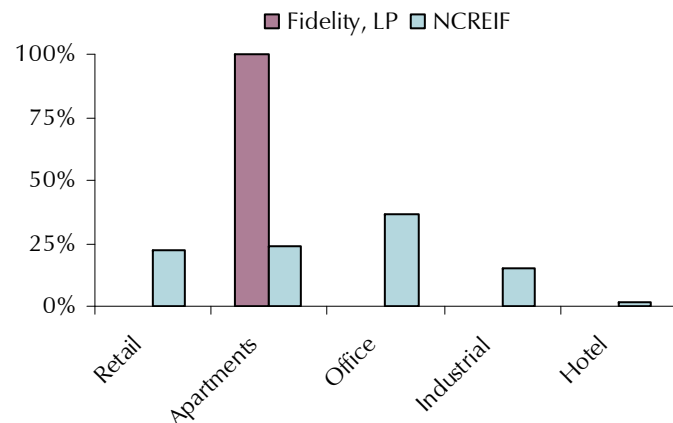
## Fidelity LP Portfolio Detail as of 3/31/10

**Strategy:** Real Estate  
Private Market  
Diversified Core  
**Market Value:** \$0.2 million  
**Senior Professionals:** Team  
**Location:** Boston, Massachusetts  
**Vintage Year:** 2001  
**Account Type:** Ltd. Partnership  
**# of Investments:** 1  
**Liquidity Constraints:** No interim liquidity  
**Fee Schedule:** NA

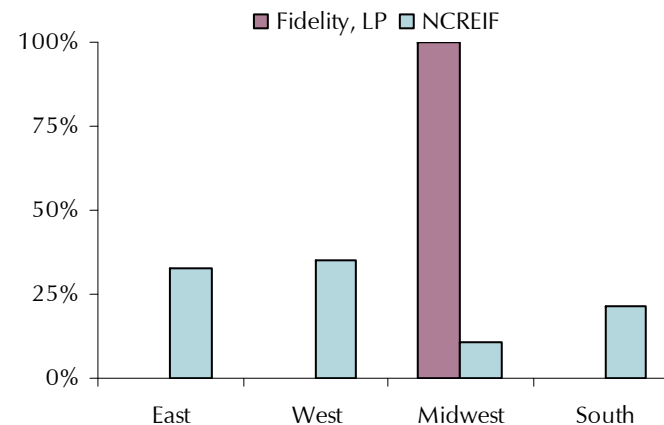
Portfolio Size:



Property Type:



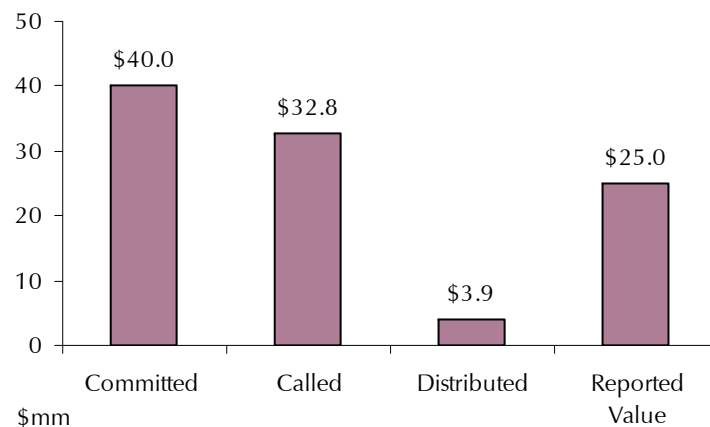
Geographic Region:



**Investment Strategy:** Fidelity LP will seek to generate gross annualized returns of at least 18% through investments in value-added private equity and equity-related real estate transactions. Fidelity principally targets transactions in markets with positive fundamentals that offer an opportunity to increase returns through the execution of a value-added strategy. Accordingly, such investments will benefit not only from improving market conditions but also from the excess return created by the successful completion of each value-enhancement plan.

**Private Equity Portfolio Reviews  
As of March 31, 2010**

<b>Strategy:</b>	Private Equity Fund of Funds Diversified Buyout	<b>Commitment:</b>	\$40.0 million
<b>Senior Professionals:</b>	Jim Reinhardt; Terry Melican	<b>Capital Contributions:</b>	\$32.8 million
<b>Location:</b>	Irvine, California	<b>Outstanding Commitment:</b>	\$7.2 million
<b>Vintage Year:</b>	2004	<b>Realized Proceeds:</b>	\$3.9 million
<b>Fee Schedule:</b>	0.80% on all assets	<b>Total Value:</b>	\$25.0 million



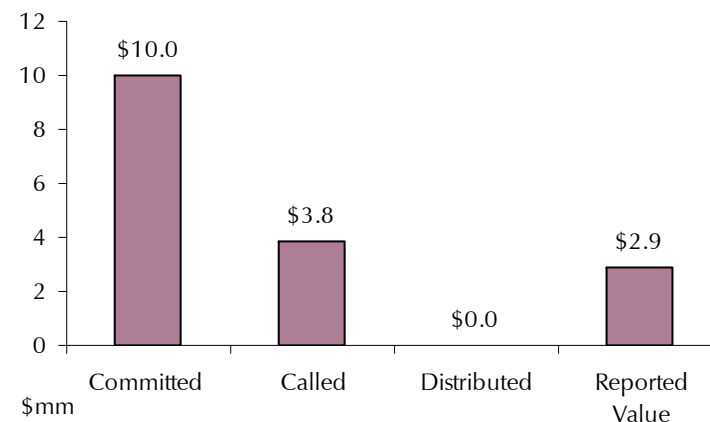
## Investment Strategy:

As a Fund of Funds, Pathway's investment philosophy centers on manager selection, opportunistically taking advantage of market conditions, and portfolio diversification, both across industries and geographic regions. The investment team uses its extensive existing relationships, as well as substantial research and proactive development of new relationships, to source investment opportunities. The team then adheres to tested investment criteria in order to avoid excess risk.

## San Jose Federated City Employees Retirement System

## Partners Group Secondary 2008 Portfolio Detail as of 3/31/10

<b>Strategy:</b>	Private Equity Secondary Market Diversified Buyout	<b>Commitment:</b>	\$10.0 million
<b>Senior Professionals:</b>	Team	<b>Capital Contributions:</b>	\$3.8 million
<b>Location:</b>	Baar-Zug, Switzerland	<b>Outstanding Commitment:</b>	\$6.2 million
<b>Vintage Year:</b>	2008	<b>Realized Proceeds:</b>	\$0.0 million
<b>Fee Schedule:</b>	1.25% of commitments; 8% preferred return; 15% carried interest	<b>Total Value:</b>	\$2.9 million



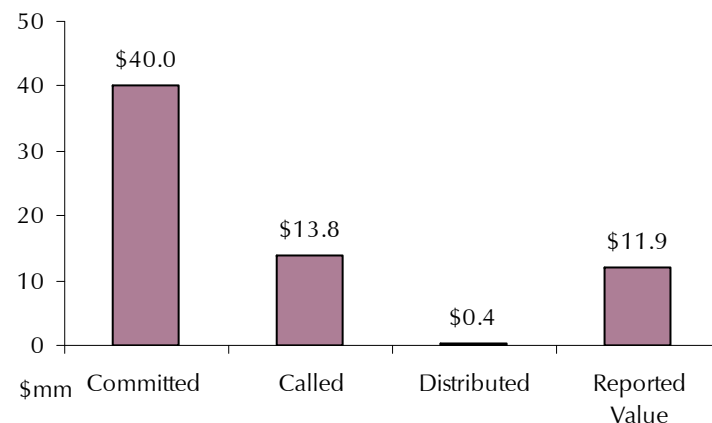
### Investment Strategy:

PG Secondary 2008 is a global opportunistic secondary fund that classifies secondaries as being either "manager" or "financial" depending on the maturity of the underlying portfolio investments of a given opportunity. Although the team has stated that it actively invests in both manager- and financial-driven secondaries, it specializes in manager secondaries, which are characterized by younger fund portfolios that are typically in the J-curve period of the fund's life cycle. This is different than many other large secondary players which tend to focus on almost-to-fully funded interests.

## San Jose Federated City Employees Retirement System

## Pantheon USA Fund VII Portfolio Detail as of 3/31/10

<b>Strategy:</b>	Private Equity Fund of Funds Diversified Buyout	<b>Commitment:</b>	\$40.0 million
<b>Senior Professionals:</b>	Team	<b>Capital Contributions:</b>	\$13.8 million
<b>Location:</b>	London, United Kingdom	<b>Outstanding Commitment:</b>	\$36.2 million
<b>Vintage Year:</b>	2006	<b>Realized Proceeds:</b>	\$0.4 million
<b>Fee Schedule:</b>	75 bp of commitments; 10% Preferred Return; 5% carried interest	<b>Total Value:</b>	\$11.9 million



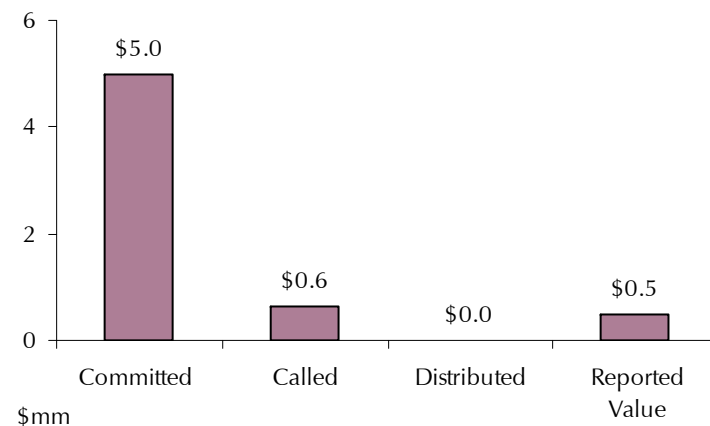
### Investment Strategy:

Pantheon is a global private equity primary and secondary fund-of-funds manager. Originally formed in 1982 as the private equity investment division of GT Management in London, Pantheon's management acquired the private equity division in 1988 through a management buyout. Pantheon has been part of Russell Investments since March 2004. Pantheon has 148 employees, including 65 investment professionals. Starting in 1993, Pantheon has built a regional primary investments program that invests in new private equity funds in the U.S., Europe and Asia. Three dedicated investment teams look to select managers and develop portfolios with exposure to what it believes to be the most attractive segments within each market.

## San Jose Federated City Employees Retirement System

## Great Hill Equity Partners IV Portfolio Detail as of 3/31/10

<b>Strategy:</b>	Private Equity Buyout Middle Market Buyout	<b>Commitment:</b>	\$5.0 million
<b>Senior Professionals:</b>	Team	<b>Capital Contributions:</b>	\$0.6 million
<b>Location:</b>	Boston, Massachusetts	<b>Outstanding Commitment:</b>	\$4.4 million
<b>Vintage Year:</b>	2008	<b>Realized Proceeds:</b>	\$0.0 million
<b>Fee Schedule:</b>	2.3% of commitments; 8.0% preferred return; 20% carried interest	<b>Total Value:</b>	\$0.5 million

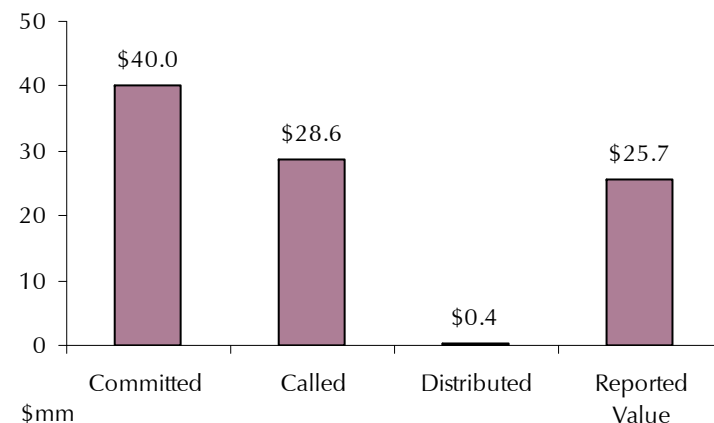


### Investment Strategy:

Great Hill Equity Partners IV will make investments ranging in size from \$50 million - \$150 million, to finance the growth and acquisition of middle market companies in its targeted industry sectors. The Fund will be the fourth generation private equity fund managed by the Great Hill Partners team. The Fund will also represent a continuation of the strategic approach employed by the team in assembling the private equity portfolios of prior Great Hill funds. The Fund focuses on middle market growth companies operating in a variety of sectors within the Business Services and Consumer Services segments of the economy. Since its first fund in 1999, the Firm has invested in 37 companies, and reported a gross return on realized investments of 52% as of December 31, 2007.



<b>Strategy:</b>	Private Equity Secondary Market Diversified Buyout	<b>Commitment:</b>	\$40.0 million
<b>Senior Professionals:</b>	Team	<b>Capital Contributions:</b>	\$28.6 million
<b>Location:</b>	London, United Kingdom	<b>Outstanding Commitment:</b>	\$11.4 million
<b>Vintage Year:</b>	2006	<b>Realized Proceeds:</b>	\$0.4 million
<b>Fee Schedule:</b>	100 bp of commitments; 10% Preferred Return	<b>Total Value:</b>	\$25.7 million



## Investment Strategy:

Pantheon is a global private equity primary and secondary fund-of-funds manager. Originally formed in 1982 as the private equity investment division of GT Management in London, Pantheon's management acquired the private equity division in 1988 through a management buyout. Pantheon has been part of Russell Investments since March 2004. Pantheon has 148 employees, including 65 investment professionals of which 20 are dedicated to secondaries. Pantheon targets a range of secondary transactions including single fund interests, large portfolios of fund interests and to a lesser extent, portfolios of direct company interests in addition to complex and structured global deals with hybrid portfolios (funds and directs). Pantheon has a stated focus on manager and asset quality and will not complete many synthetic transactions due to perceived risk associated with backing an unknown manager.

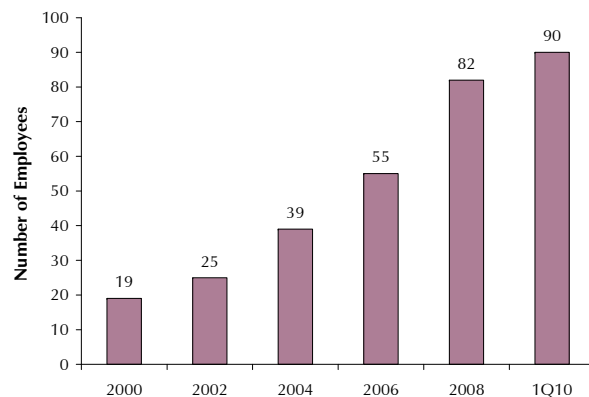
# **Meketa Investment Group**

## **Corporate Update**

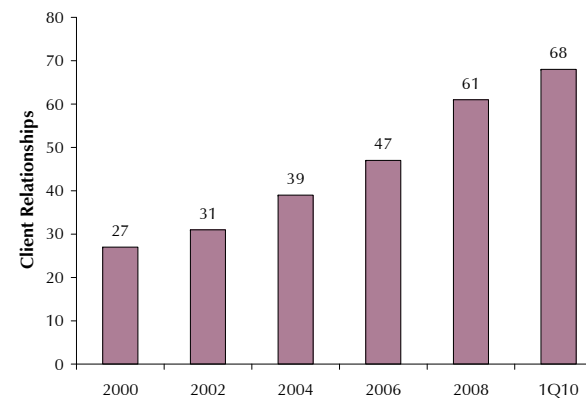


- Staff of 90, including 51 investment professionals and 17 CFA charterholders
- 68 clients, with over 140 funds throughout the United States
- Significant investment in staff and resources
- Offices in Boston and San Diego
- Aggregate assets of over \$260 billion
  - Over \$18 billion in assets committed to alternative investments
    - Private Equity      ▪ Infrastructure      ▪ Natural Resources
    - Real Estate        ▪ Hedge Funds      ▪ Commodities

## Employee Growth



## Client Growth



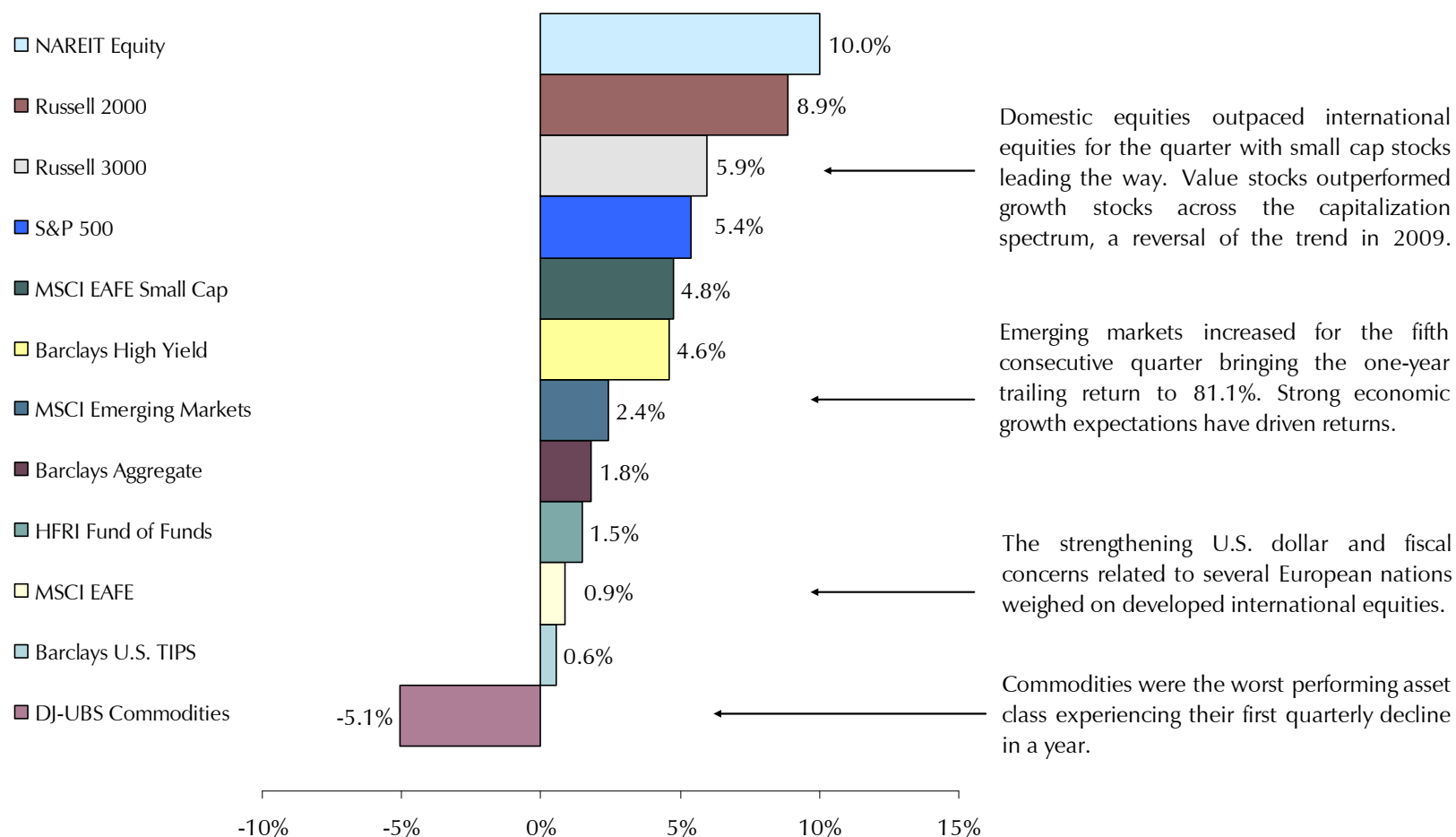
### Asset Classes Followed Intensively by Meketa Investment Group

Domestic Equities	International Equities	Private Equity	Real Assets	Fixed Income	Hedge Funds
<ul style="list-style-type: none"> <li>- Passive</li> <li>- Enhanced Index</li> <li>- Large Cap</li> <li>- Midcap</li> <li>- Small Cap</li> <li>- Microcap</li> <li>- 130/30</li> </ul>	<ul style="list-style-type: none"> <li>- Large Cap Developed</li> <li>- Small Cap Developed</li> <li>- Emerging Markets</li> <li>- Frontier Markets</li> </ul>	<ul style="list-style-type: none"> <li>- Buyouts</li> <li>- Venture Capital</li> <li>- Private Debt</li> <li>- Special Situations</li> <li>- Secondaries</li> <li>- Fund of Funds</li> </ul>	<ul style="list-style-type: none"> <li>- Public REITs</li> <li>- Core Real Estate</li> <li>- Value Added Real Estate</li> <li>- Opportunistic Real Estate</li> <li>- Infrastructure</li> <li>- Timber</li> <li>- Natural Resources</li> <li>- Commodities</li> </ul>	<ul style="list-style-type: none"> <li>- Short-Term</li> <li>- Core</li> <li>- Core Plus</li> <li>- TIPS</li> <li>- High Yield</li> <li>- Bank Loans</li> <li>- Distressed</li> <li>- Global</li> <li>- Emerging Markets</li> </ul>	<ul style="list-style-type: none"> <li>- Long/Short Equity</li> <li>- Event Driven</li> <li>- Relative Value</li> <li>- Fixed Income Arbitrage</li> <li>- Multi Strategy</li> <li>- Market Neutral</li> <li>- Global Macro</li> <li>- Fund of Funds</li> <li>- Portable Alpha</li> </ul>

## Appendices

## The World Markets First Quarter of 2010

# The World Markets First Quarter of 2010

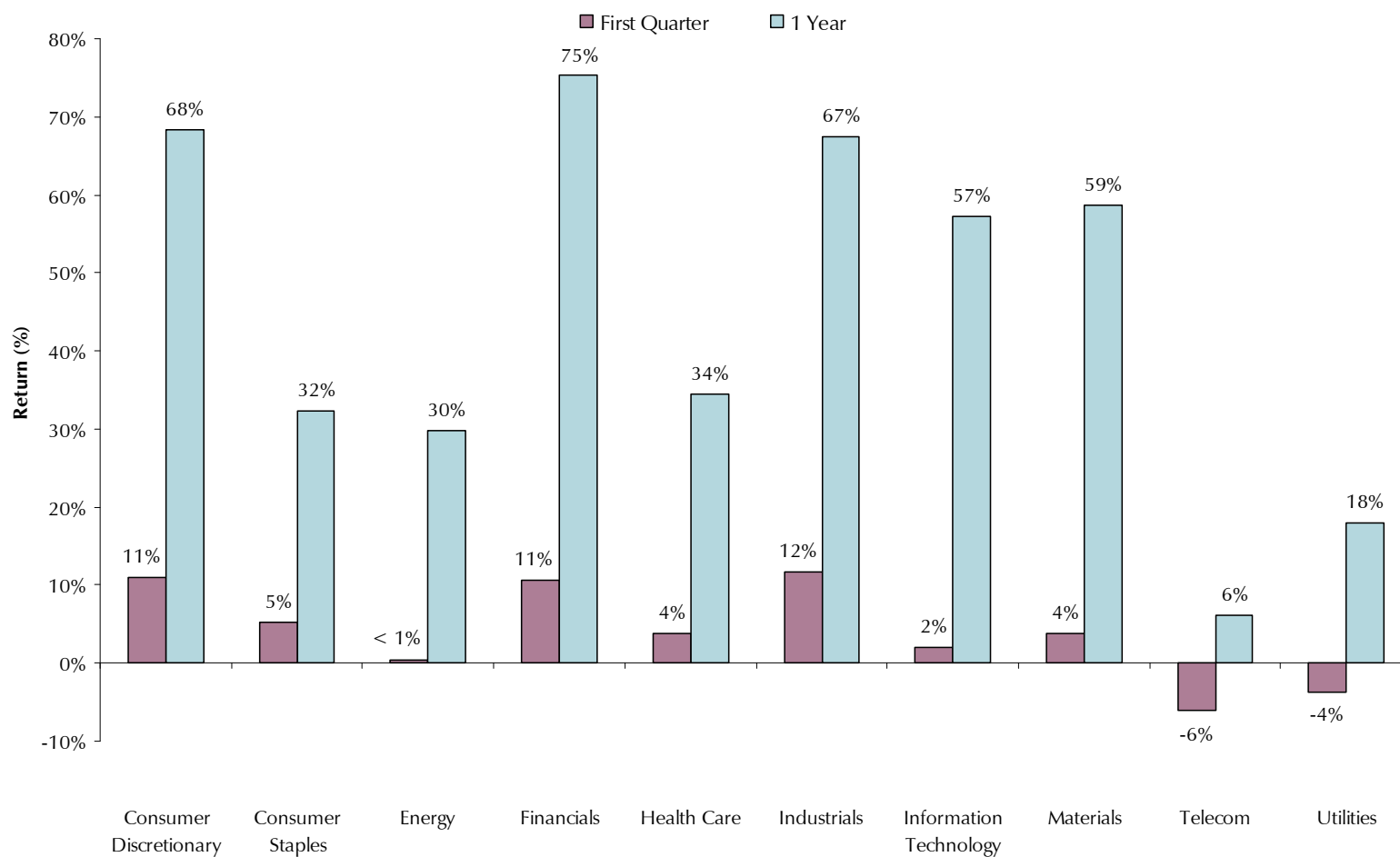


## Index Returns

	1 Q 10 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Domestic Equity</b>					
Russell 3000	5.9	52.4	-4.0	2.4	-0.1
Russell 1000 Growth	4.6	49.8	-0.8	3.4	-4.2
Russell 1000	5.7	51.6	-4.0	2.3	-0.4
Russell 1000 Value	6.8	53.6	-7.3	1.0	3.1
Russell MidCap Growth	7.7	63.0	-2.0	4.3	-1.7
Russell MidCap	8.7	67.7	-3.3	4.2	4.8
Russell MidCap Value	9.6	72.4	-5.2	3.7	8.5
Russell 2000 Growth	7.6	60.3	-2.4	3.8	-1.5
Russell 2000	8.9	62.8	-4.0	3.4	3.7
Russell 2000 Value	10.0	65.1	-5.7	2.8	8.9
<b>Foreign Equity</b>					
MSCI ACWI (ex. U.S.)	1.6	60.9	-4.2	6.1	2.8
MSCI EAFE	0.9	54.4	-7.0	3.8	1.3
MSCI EAFE Small Cap	4.8	70.0	-8.3	3.6	6.4
MSCI Emerging Markets	2.4	81.1	5.2	15.6	9.8
<b>Fixed Income</b>					
Barclays Universal	2.0	10.4	6.0	5.6	6.4
Barclays Aggregate	1.8	7.7	6.1	5.4	6.3
Barclays U.S. TIPS	0.6	6.2	6.0	4.8	7.4
Barclays High Yield	4.6	56.2	6.7	7.8	7.5
<b>Other</b>					
NAREIT Equity	10.0	106.7	-10.6	3.8	11.4
DJ-UBS Commodities	-5.1	20.4	-8.4	-3.5	4.6
HFRI Fund of Funds	1.5	12.7	-1.7	2.9	3.4

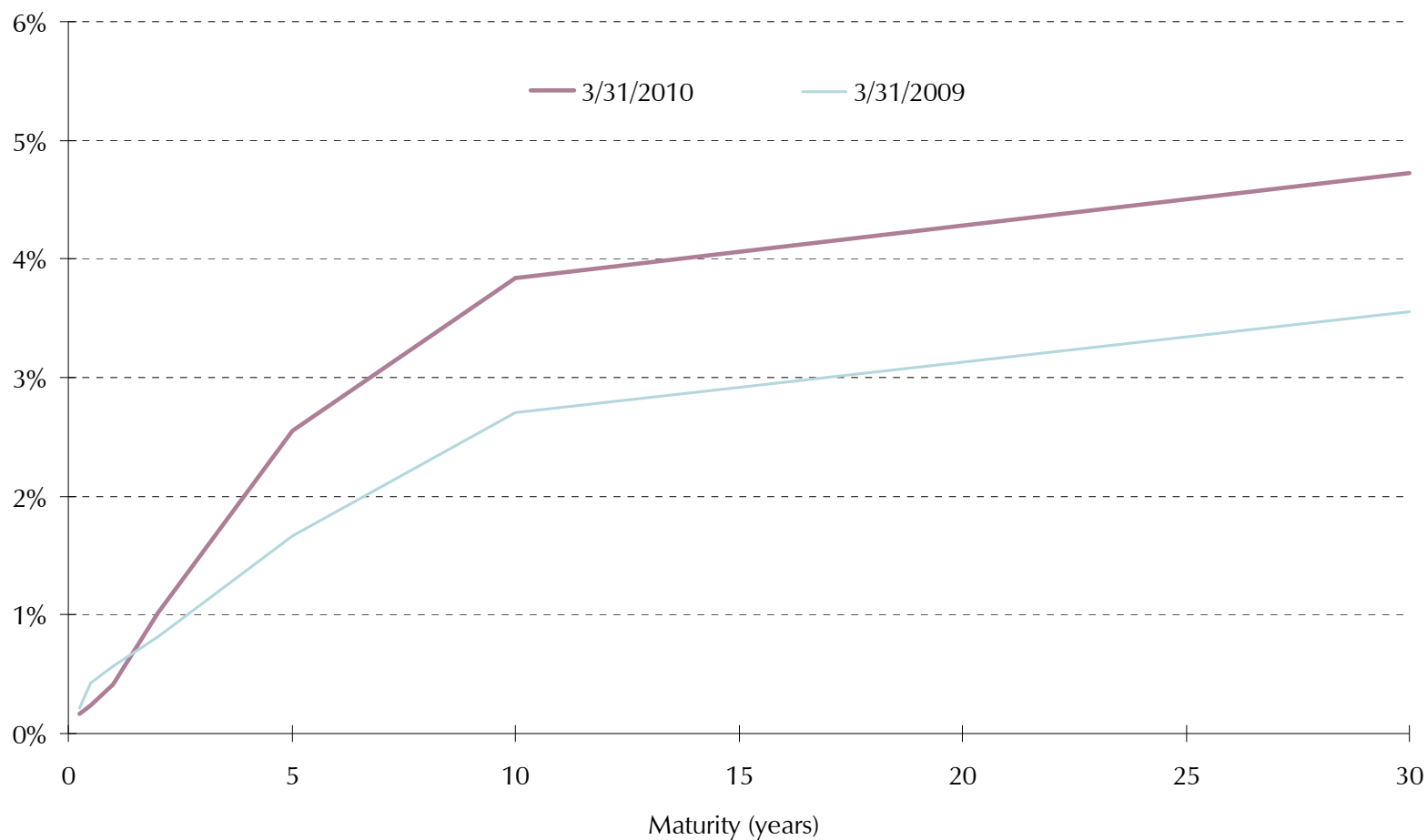
**S&P Sector Returns**

All sectors, with the exception of telecom and utilities, experienced positive returns for the quarter with industrials, financials, and consumer discretionary leading the way. Over the trailing one-year period, one half of the sectors represented in the S&P 1500 returned over 50%.



## Treasury Yields

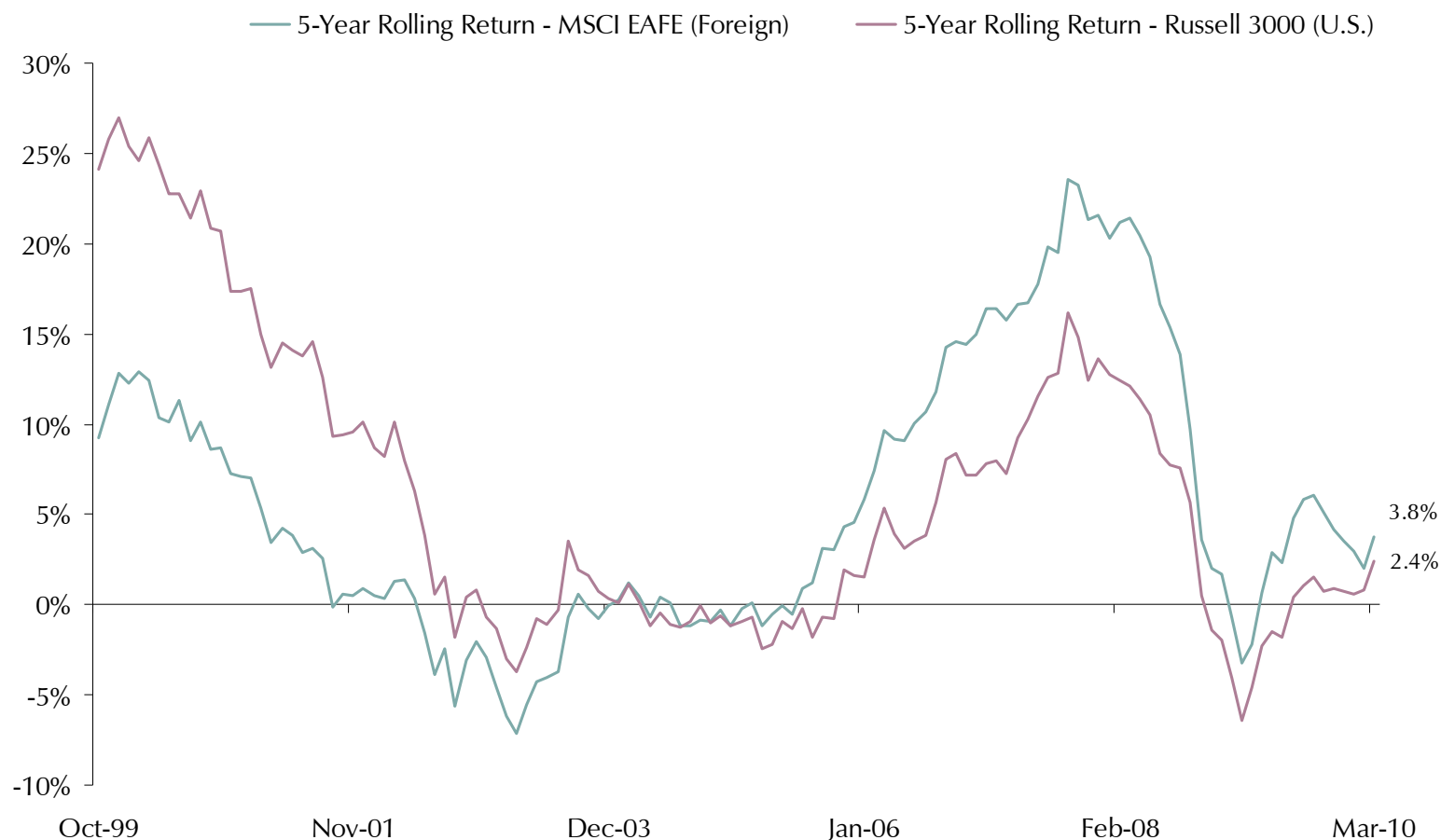
The Treasury yield curve remains historically steep due in part to the central bank maintaining near-zero cash rates and expectations of economic expansion.





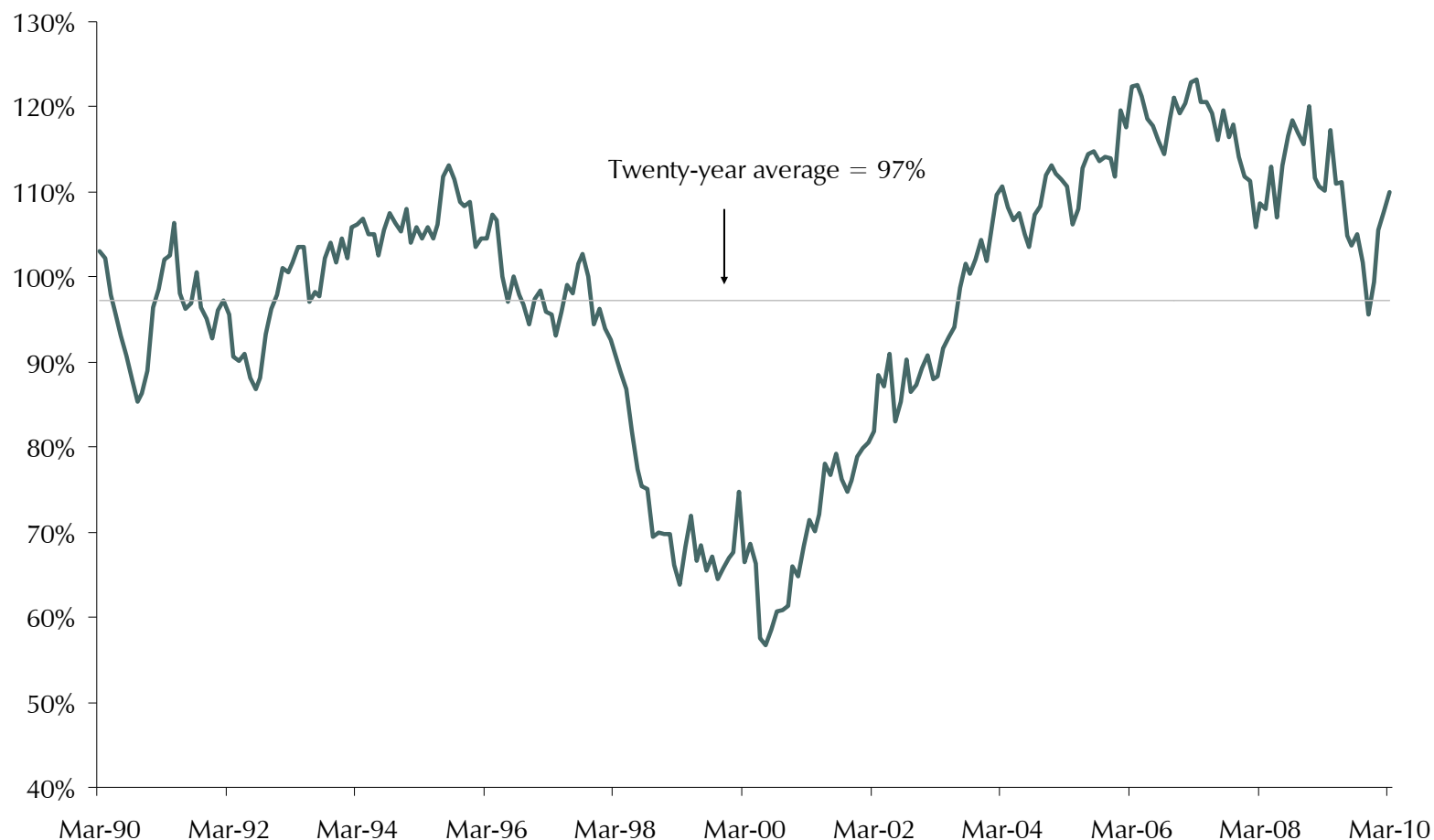
### Equity Markets

The broad domestic equity market outpaced the developed international equity market by 5.0% in the first quarter due in part to the strengthening dollar. The spread between international and domestic equities shrank to 1.4% for the most recent five-year period.

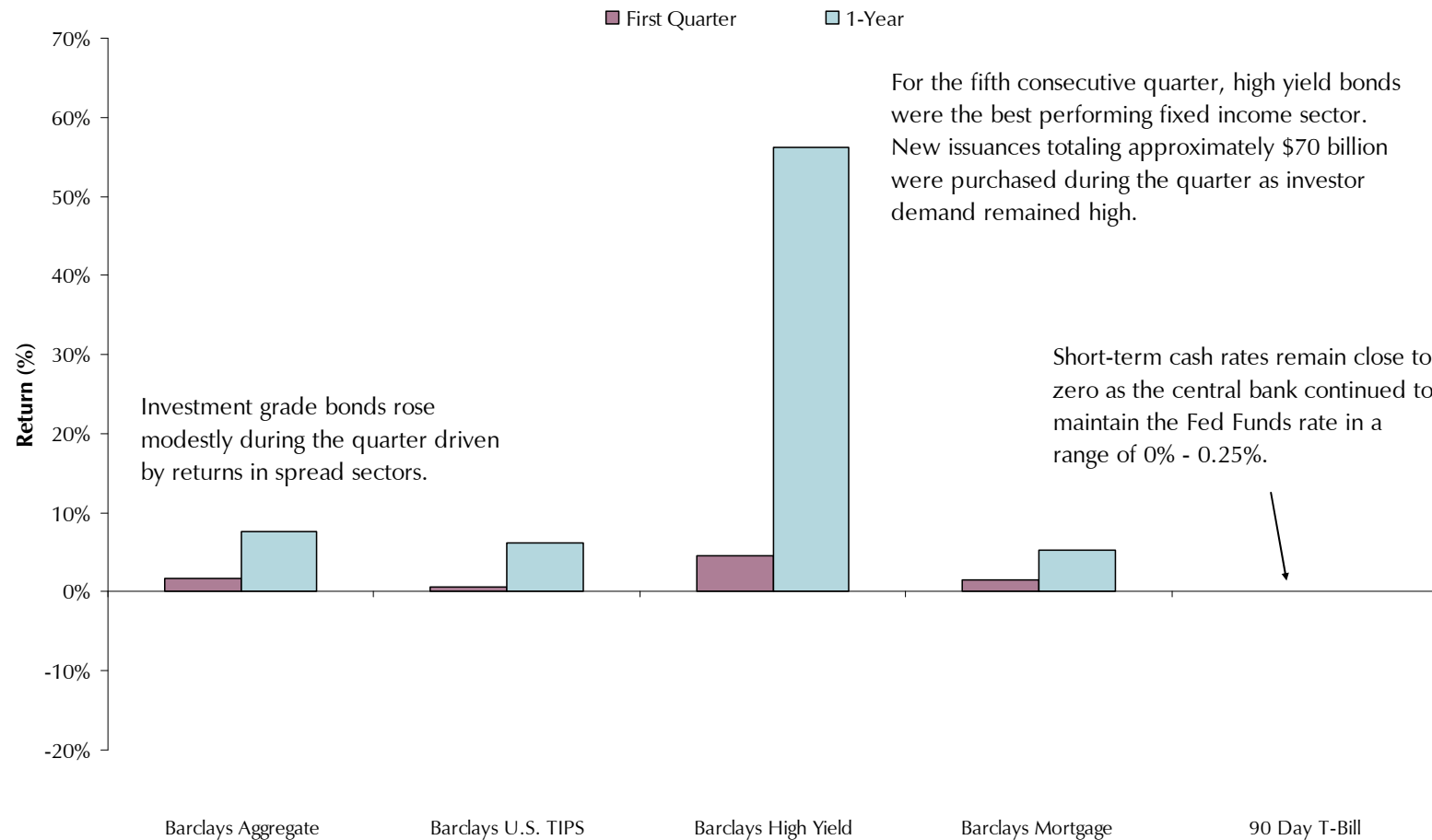


**Russell 2000 P/E (Small Cap) vs. Russell 1000 P/E (Large Cap)**

The ratio of small cap P/Es to large cap P/Es declined in 2009, reaching their long-term average by year-end. During the first quarter of 2010, the ratio increased to a level approximately 13% above its long-term average.

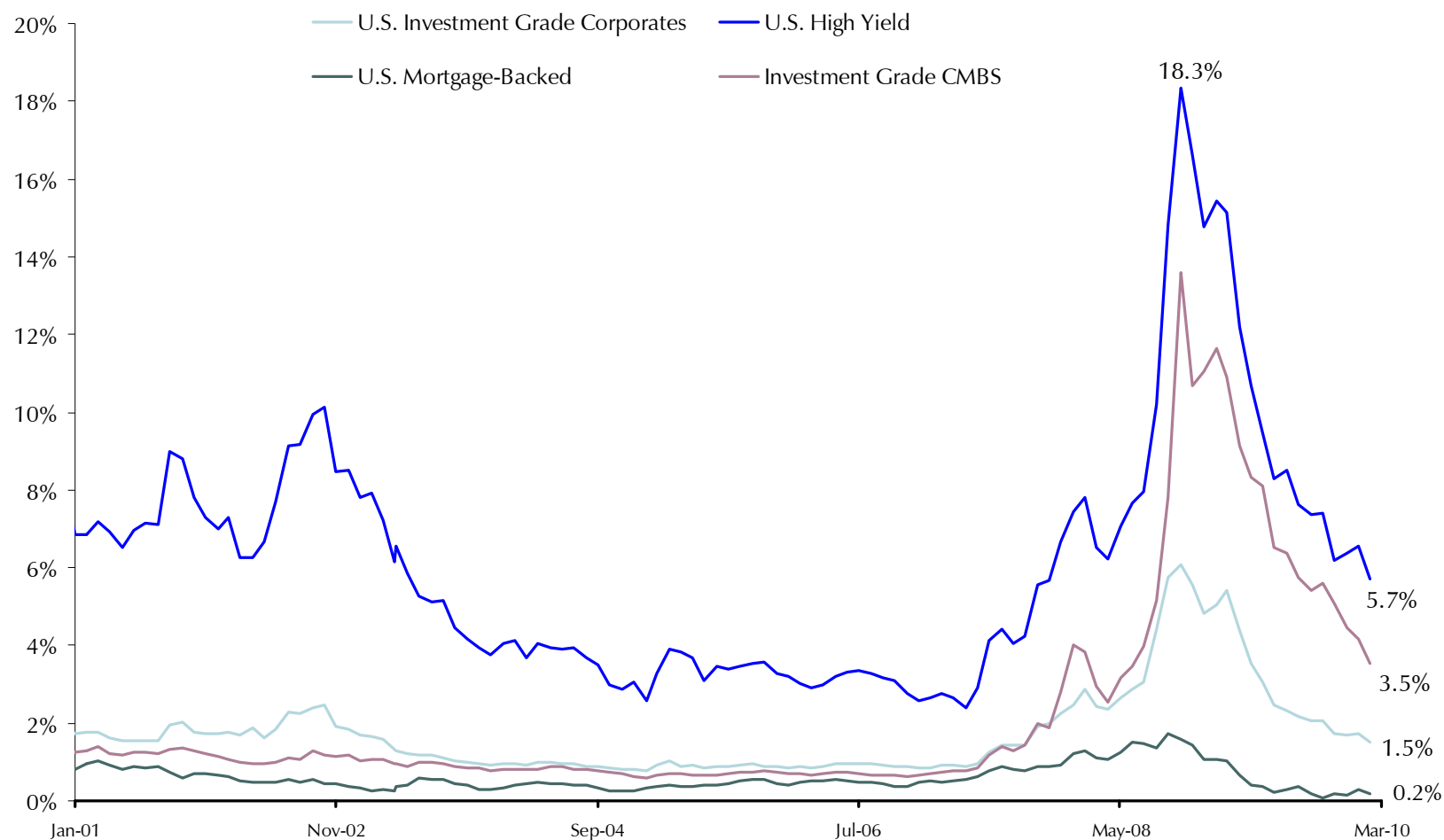


## U.S. Fixed Income Markets

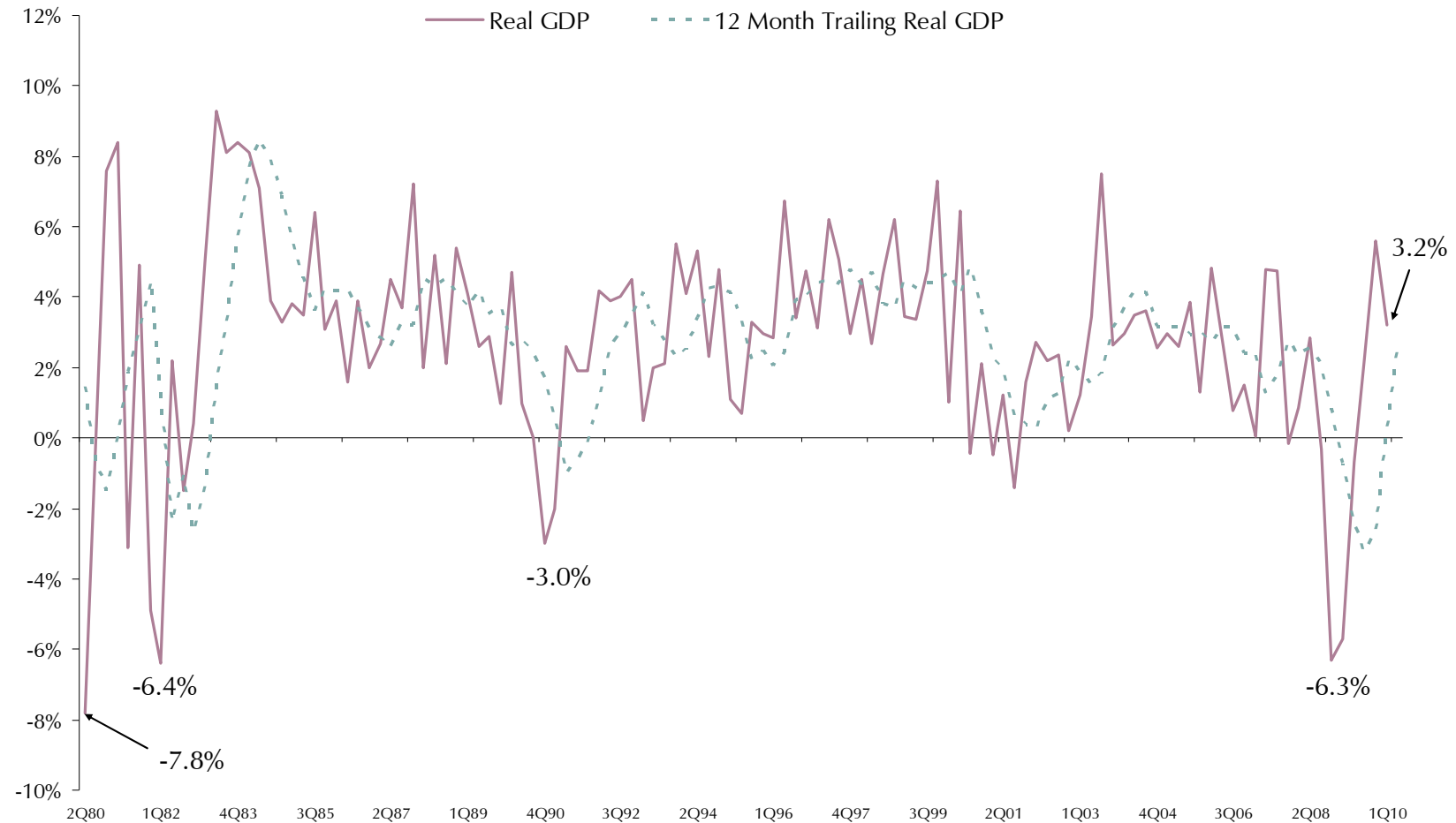


### Credit Spreads vs. U.S. Treasury Bonds

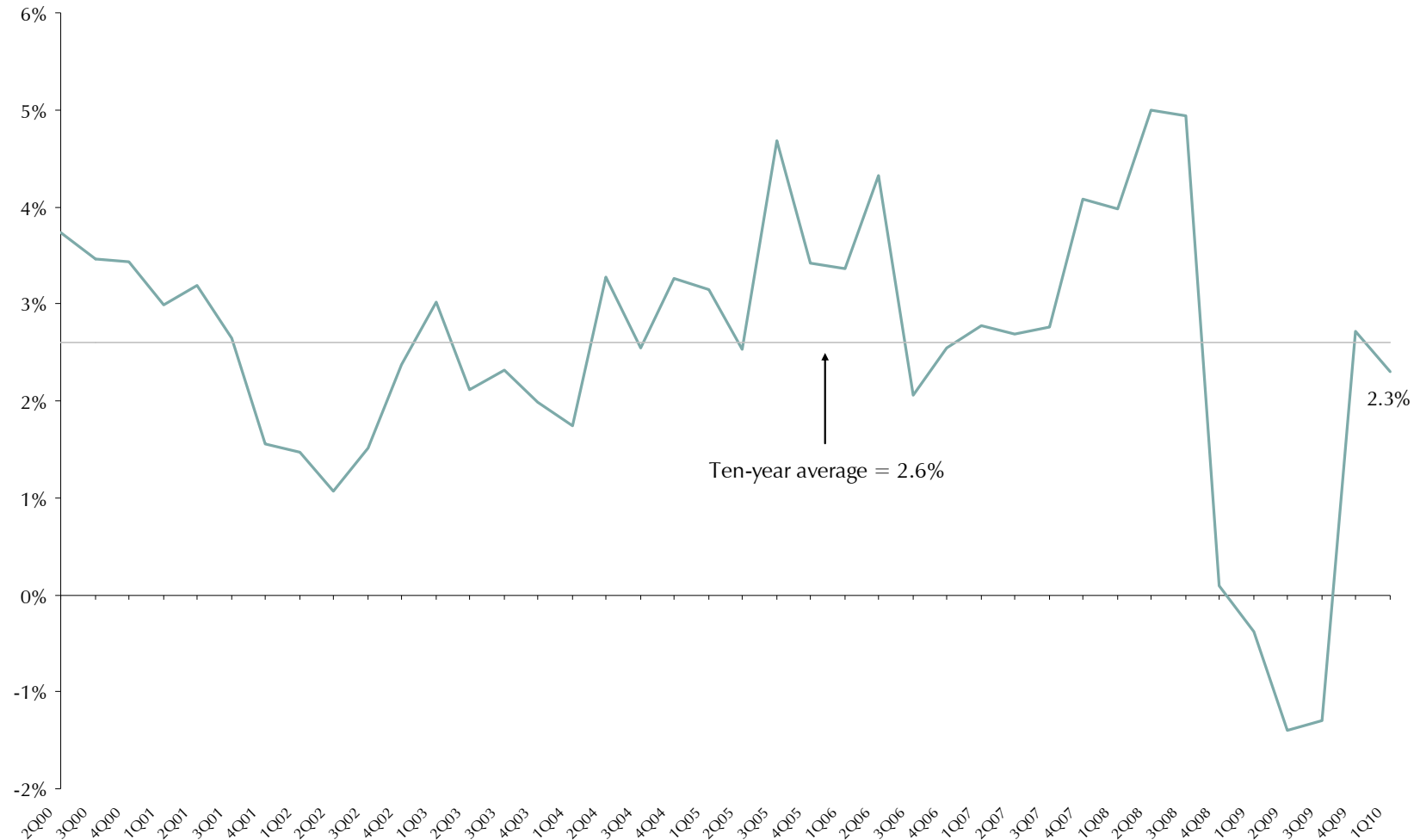
Credit spreads further compressed in the first quarter as demand for spread sectors remained strong. High yield spreads declined by 0.5% to 5.7%, slightly below their trailing ten-year average.



### Real Gross Domestic Product (GDP) Growth



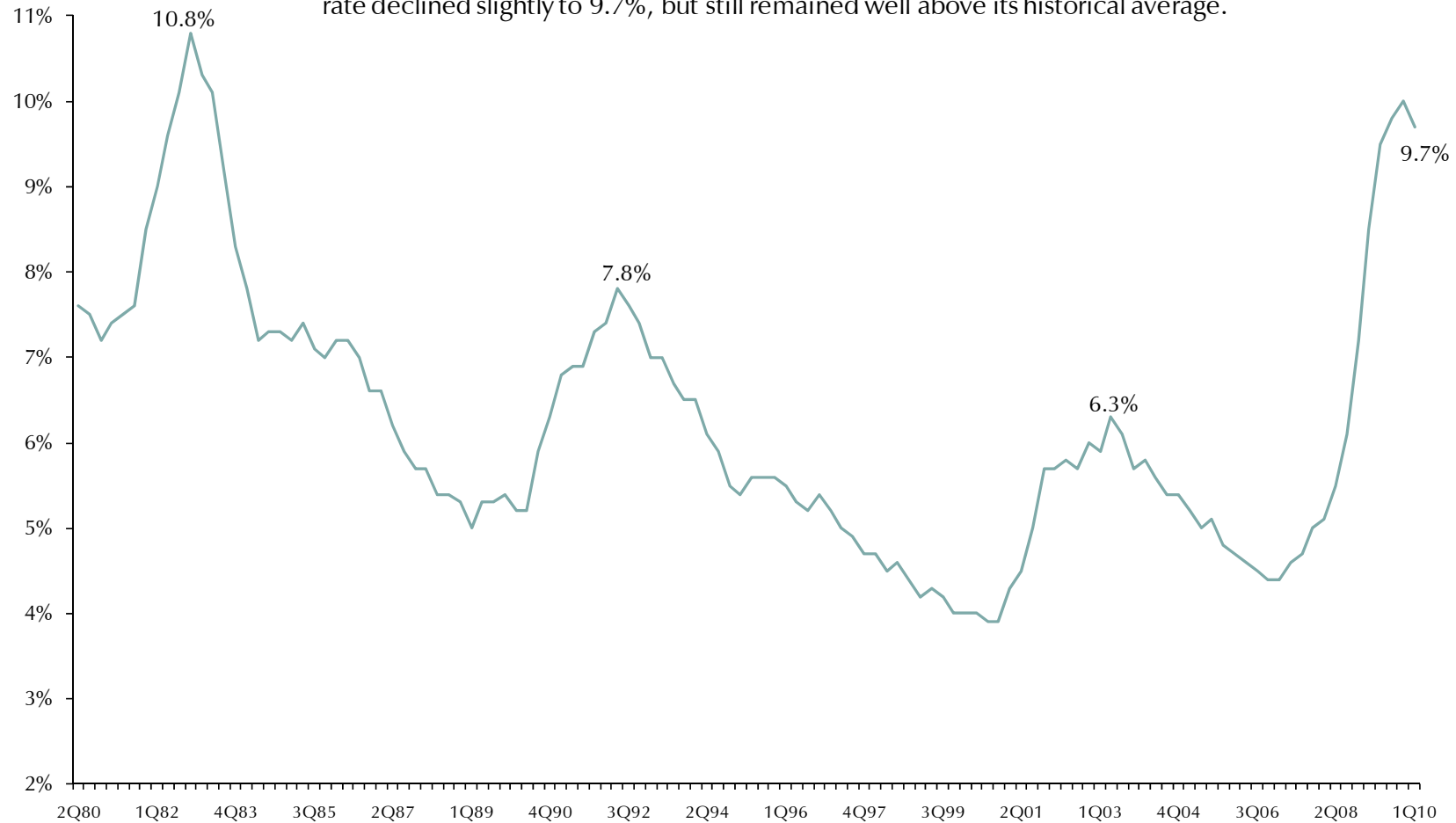
**U.S. Inflation (CPI)  
Trailing Twelve Months**



<sup>1</sup> The ten-year average annualized inflation rate was 2.6%.

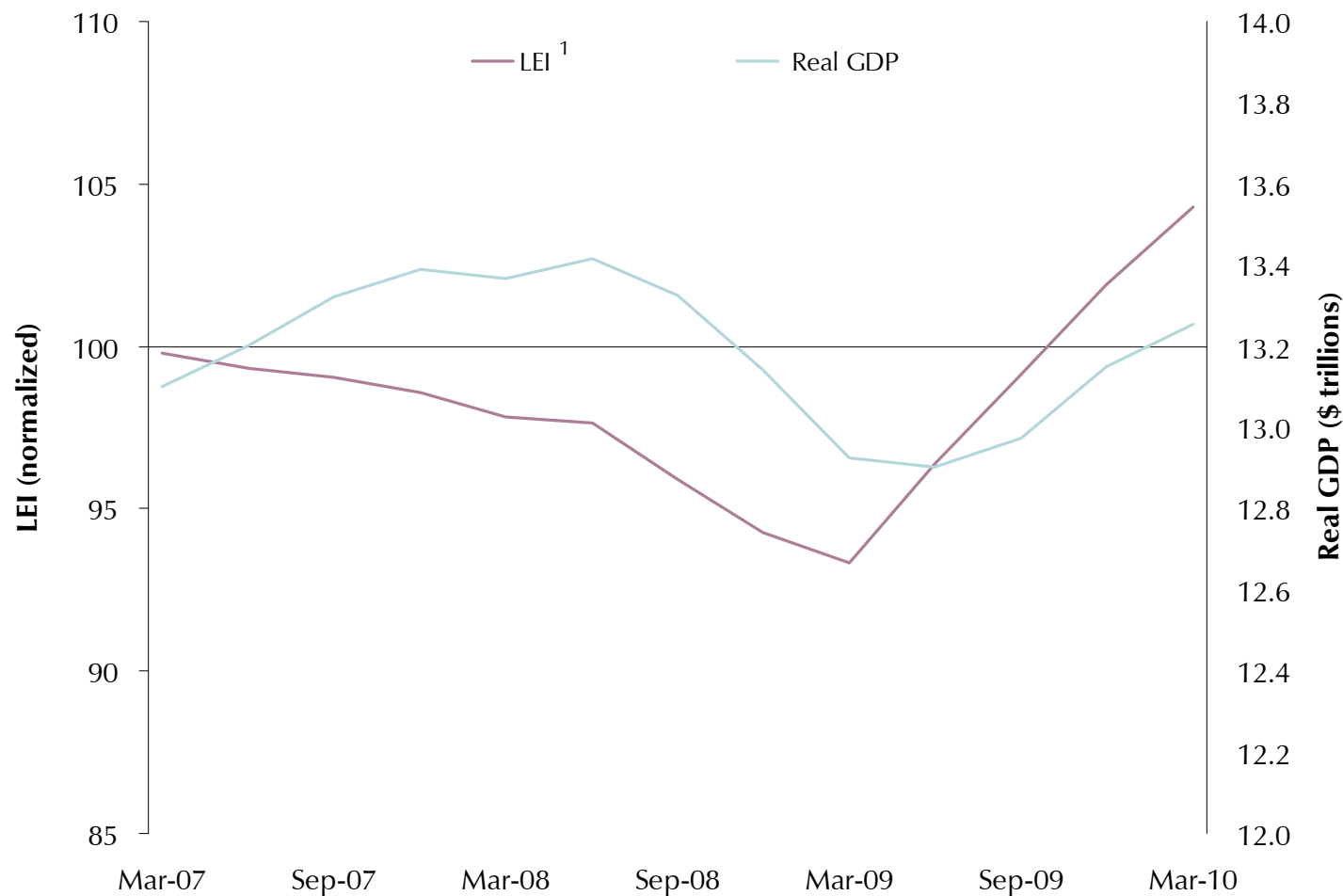
## U.S. Unemployment

Unemployment showed some signs of stabilization in the first quarter. The unemployment rate declined slightly to 9.7%, but still remained well above its historical average.



### Leading Economic Indicators and Real GDP Growth

Leading economic indicators have steadily risen from their lows in March of 2009, a potential precursor to continued real GDP growth.



<sup>1</sup> The Conference Board's Leading Economic Index® (LEI) is composed of ten components used to gauge the near-term strength of the economy.



**Glossary and Notes  
As of March 31, 2010**

**Credit Risk:** Refers to the risk that the issuer of a fixed income security may default (i.e., the issuer will be unable to make timely principal and/or interest payments on the security.)

**Duration:** Measure of the sensitivity of the price of a bond to a change in its yield to maturity. Duration summarizes, in a single number, the characteristics that cause bond prices to change in response to a change in interest rates. For example, the price of a bond with a duration of three years will rise by approximately 3% for each 1% decrease in its yield to maturity. Conversely, the price will decrease 3% for each 1% increase in the bond's yield. Price changes for two different bonds can be compared using duration. A bond with a duration of six years will exhibit twice the percentage price change of a bond with a three-year duration. The actual calculation of a bond's duration is somewhat complicated, but the idea behind the calculation is straightforward. The first step is to measure the time interval until receipt for each cash flow (coupon and principal payments) from a bond. The second step is to compute a weighted average of these time intervals. Each time interval is measured by the present value of that cash flow. This weighted average is the duration of the bond measured in years.

**Information Ratio:** This statistic is a measure of the consistency of a portfolio's performance relative to a benchmark. It is calculated by subtracting the benchmark return from the portfolio return (excess return), and dividing the resulting excess return by the standard deviation (volatility) of this excess return. A positive information ratio indicates outperformance versus the benchmark, and the higher the information ratio, the more consistent the outperformance.

**Market Capitalization:** For a firm, market capitalization is the total market value of outstanding common stock. For a portfolio, market capitalization is the sum of the capitalization of each company weighted by the ratio of holdings in that company to total portfolio holdings; thus it is a weighted-average capitalization. Meketa Investment Group considers the largest 65% of the broad domestic equity market as large capitalization, the next 25% of the market as medium capitalization, and the smallest 10% of stocks as small capitalization.

**Market Weighted:** Stocks in many indices are weighted based on the total market capitalization of the issue. Thus, the individual returns of higher market-capitalization issues will more heavily influence an index's return than the returns of the smaller market-capitalization issues in the index.

**Maturity:** The date on which a loan, bond, mortgage or other debt/security becomes due and is to be paid off.

**Prepayment Risk:** The risk that prepayments will increase (homeowners will prepay all or part of their mortgage) when mortgage interest rates decline; hence, investors' monies will be returned to them in a lower interest rate environment. Also, the risk that prepayments will slow down when mortgage interest rates rise; hence, investors will not have as much money as previously anticipated in a higher interest rate environment. A prepayment is any payment in excess of the scheduled mortgage payment.

**Price-Book Value (P/B) Ratio:** The current market price of a stock divided by its book value per share. Meketa Investment Group calculates P/B as the current price divided by Compustat's quarterly common equity. Common equity includes common stock, capital surplus, retained earnings, and treasury stock adjusted for both common and nonredeemable preferred stock. Similar to high P/E stocks, stocks with high P/B's tend to be riskier investments.

**Price-Earnings (P/E) Ratio:** A stock's market price divided by its current or estimated future earnings. Lower P/E ratios often characterize stocks in low growth or mature industries, stocks in groups that have fallen out of favor, or stocks of established blue chip companies with long records of stable earnings and regular dividends. Sometimes a company that has good fundamentals may be viewed unfavorably by the market if it is an industry that is temporarily out of favor. Or a business may have experienced financial problems causing investors to be skeptical about its future. Either of these situations would result in lower relative P/E ratios. Some stocks exhibit above-average sales and earnings growth or expectations for above average growth. Consequently, investors are willing to pay more for these companies' earnings, which

results in elevated P/E ratios. In other words, investors will pay more for shares of companies whose profits, in their opinion, are expected to increase faster than average. Because future events are in no way assured, high P/E stocks tend to be riskier and more volatile investments. Meketa Investment Group calculates P/E as the current price divided by the I/B/E/S consensus of twelve-month forecast earnings per share.

**Quality Rating:** The rank assigned a security by such rating services as Fitch, Moody's, and Standard & Poor's. The rating may be determined by such factors as (1) the likelihood of fulfillment of dividend, income, and principal payment of obligations; (2) the nature and provisions of the issue; and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, BBB) are considered investment grade because they are eligible bank investments as determined by the controller of the currency.

**Sharpe Ratio:** A commonly used measure of risk-adjusted return. It is calculated by subtracting the risk free return (usually three-month Treasury bill) from the portfolio return and dividing the resulting excess return by the portfolio's total risk level (standard deviation). The result is a measure of return per unit of total risk taken. The higher the Sharpe ratio, the better the fund's historical risk adjusted performance.

**Standard Deviation:** A measure of the total risk of an asset or a portfolio. Standard deviation measures the dispersion of a set of numbers around a central point (e.g., the average return). If the standard deviation is small, the distribution is concentrated within a narrow range of values. For a normal distribution, about two thirds of the observations will fall within one standard deviation of the mean, and 95% of the observations will fall within two standard deviations of the mean.

**STIF Account:** Short-term investment fund at a custodian bank that invests in cash-equivalent instruments. It is generally used to safely invest the excess cash held by portfolio managers.

**Style:** The description of the type of approach and strategy utilized by an investment manager to manage funds. For example, the style for equities is determined by portfolio characteristics such as price-to-book value, price-to-earnings ratio, and dividend yield. Equity styles include growth, value, and core.

**Yield to Maturity:** The yield, or return, provided by a bond to its maturity date; determined by a mathematical process, usually requiring the use of a "basis book." For example, a 5% bond pays \$5 a year interest on each \$100 par value. To figure its current yield, divide \$5 by \$95—the market price of the bond—and you get 5.26%. Assume that the same bond is due to mature in five years. On the maturity date, the issuer is pledged to pay \$100 for the bond that can be bought now for \$95. In other words, the bond is selling at a discount of 5% below par value. To figure yield to maturity, a simple and approximate method is to divide 5% by the five years to maturity, which equals 1% pro rata yearly. Add that 1% to the 5.26% current yield, and the yield to maturity is roughly 6.26%.

$$\frac{5\% \text{ (discount)}}{5 \text{ (yrs. to maturity)}} = 1\% \text{ pro rata, plus } 5.26\% \text{ (current yield)} = 6.26\% \text{ (yield to maturity)}$$

Sources: [Investment Terminology](#), International Foundation of Employee Benefit Plans, 1999.  
[The Handbook of Fixed Income Securities](#), Fabozzi, Frank J., 1991.

The Russell Indices ®, TM, SM are trademarks/service marks of the Frank Russell Company.

Throughout this report, numbers may not sum due to rounding.

Returns for periods greater than one year are annualized throughout this report.

Values shown are in millions of dollars, unless noted otherwise.