

# FUND EVALUATION REPORT

---

## San Jose Federated City Employees' Retirement System

Quarterly Review  
December 31, 2012



---

### M E K E T A   I N V E S T M E N T   G R O U P

100 LOWDER BROOK DRIVE SUITE 1100  
WESTWOOD MA 02090  
781 471 3500 FAX 781 471 3411

1001 BRICKELL BAY DRIVE SUITE 2000  
MIAMI FL 33131  
305 341 2900 FAX 305 341 2142  
[www.meketagroup.com](http://www.meketagroup.com)

5796 ARMADA DRIVE SUITE 110  
CARLSBAD CA 92008  
760 795 3450 FAX 760 795 3445

**1. Executive Summary**

- Aggregate Plan Overview
- Transition Update
- Manager Highlights
- Fourth Quarter Manager Summary

**2. Plan Summary**

**3. Plan Detail**

**4. Portfolio Reviews**

**5. Global Macroeconomic Outlook**

**6. Capital Markets Outlook**

**7. Corporate Update**

**8. Appendices**

- The World Markets in the Fourth Quarter of 2012
- Glossary and Notes

**Executive Summary  
As of December 31, 2012**

**The value of the San Jose Federated City Employee' Retirement System assets was \$1.927 billion on December 31, 2012, down approximately \$9.1 million since the end of the previous quarter. The decline in assets was the result of net cash outflows. Plan performance was positive for the quarter.**

- Net outflows during the fourth quarter totaled approximately \$37 million.
- Fourth quarter performance for the Retirement System was 1.4%, net of fees, based on physical exposures, and was 1.4% net of fees when taking into account the Russell Investments overlay, bringing the calendar year-to-date return to 9.5% net of fees, with the overlay.
- On a gross basis, the Retirement System equaled the Policy Benchmark during the one-year period.
  - Portfolio allocation contributed approximately 0.7% of the outperformance for the Total Fund compared to the Policy Benchmark. An overweight to global equities drove the positive allocation effect during the year.
  - Active management detracted approximately -0.6% from the Total Fund compared to the Policy Benchmark. At the composite level, global equity, real estate, private equity, and real assets underperformed their respective benchmarks during the year.
- While the Retirement System returned nearly 10% for calendar year 2012, the Retirement System's performance fell below that of its public fund peers during 2012. The median return for public funds greater than \$1 billion in the InvestMetrics database was 13.4% for 2012. The high allocation to real assets, at nearly 20% of the Fund, contributed to this difference, as the Dow Jones-UBS Commodity Index was down -1.1% for the calendar year. There are many other types of market environments in which real assets should perform well.

## Transition Update

- The Trustees approved the current asset allocation in early 2012, following the results of an asset liability study performed by Retirement System Staff. Russell Investments was hired to manage the transition to the current asset allocation.
- The Retirement System began investing in hedge fund strategies during the fourth quarter of 2012.
- During the fourth quarter, several managers were terminated as part of the transition of assets being managed by Russell Investments. Active strategies terminated were Calamos (global convertible bonds), MacKay Shields (high yield bonds), and Seix (bank loans).
- As a result of the transition, the majority of Retirement System mandates are currently passively managed. Meketa Investment Group has recommended that the Retirement System engage active managers in less efficient asset classes including emerging markets equity, international small capitalization equity, and infrastructure. We are prepared to undertake active manager searches as soon as directed by Trustees and Staff.

## Manager Highlights

- Artisan Global Value, which manages the largest active allocation in the Fund, posted strong performance again in the fourth quarter. Artisan's return for the fourth quarter was 4.2% net of fees, compared to 2.9% for the MSCI ACWI Value Index. For calendar year 2012, Artisan has returned 20.2% net of fees compared with 16.1% for the benchmark. The largest contributors to portfolio performance came from contract catering company Compass Group, Lloyds Banking, and MasterCard. The portfolio's worst performers included Sankyo and Microsoft. Microsoft was just added during the fourth quarter, along with Parker Hannifin and Direct Line Insurance Group. Since the Retirement System invested in Artisan's global value portfolio in early 2011, the strategy has outperformed the benchmark by an average of nearly 10% annually, net of fees, and has ranked in the 6<sup>th</sup> percentile of the global equity peer group.
- Eagle Small Cap Growth outperformed the Russell 2000 Growth Index during the fourth quarter. Eagle's return was 2.3% net of fees, compared to 0.4% for the benchmark. Eagle's outperformance was led by strength in healthcare, materials, and energy stock picks.
- Credit Suisse outperformed both the custom risk parity benchmark and the Dow Jones-UBS Commodity Index (which can be used as a proxy for the broad commodities market) during the fourth quarter, while First Quadrant underperformed the custom benchmark and outperformed the broad market.
- RS Investments Small Cap Value was up 5.6% during the fourth quarter, comfortably ahead of the Russell 2000 Value, which returned 3.2%. RS added value with stock picks across most industries. The portfolios top performing sectors included financial services, consumer discretionary, and health care. The materials and energy sectors dragged on performance.
- At the Trustees' request, we have included time-weighted performance for the Retirement System's private markets managers. However, we recommend evaluating these managers based on the IRR (internal rate of return) measures included in the quarterly private markets report.

Investment Manager	Asset Class	Changes/ Announcements	Performance Concerns	Meketa Recommendation	Comments
Artisan	Global Equity	Yes	---	Hold	Filed for IPO
First Quadrant	Commodities	Yes	---	Hold	Personnel changes
RS Investments	U.S. Small Cap Value	Yes	---	Hold	Personnel changes
Eagle	U.S. Small Cap Growth	---	---	---	
Credit Suisse	Commodities	---	---	---	
Medley	Private Debt	---	---	---	
White Oak	Private Debt	---	---	---	
GSO	Private Debt	---	---	---	

### Artisan

- During the fourth quarter, Artisan announced that Artisan Partners Asset Management has filed a registration statement with the SEC for a proposed initial public offering. This filing is not unexpected, as the company originally filed for an initial public offering in 2011, but later withdrew the offering due to unfavorable market conditions.

### RS Investments

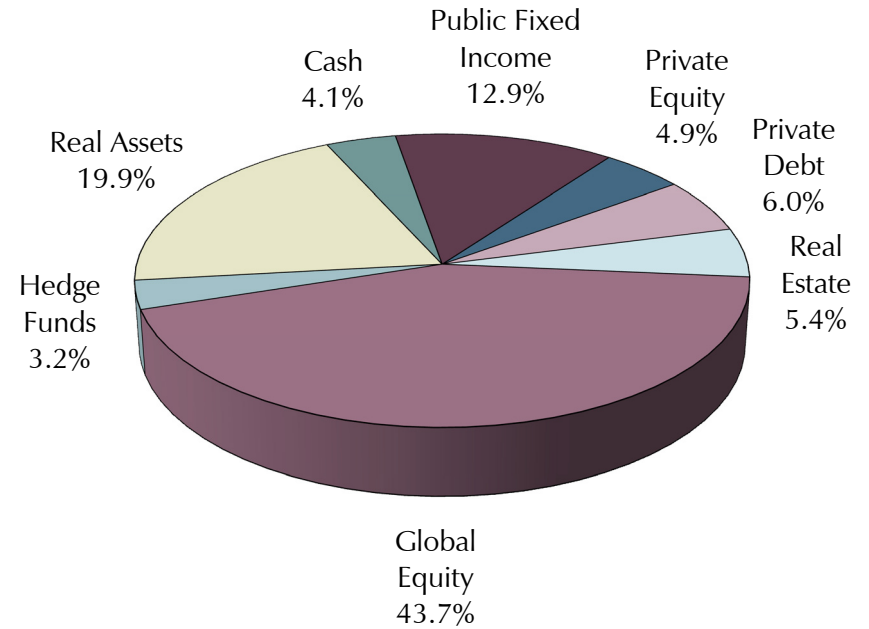
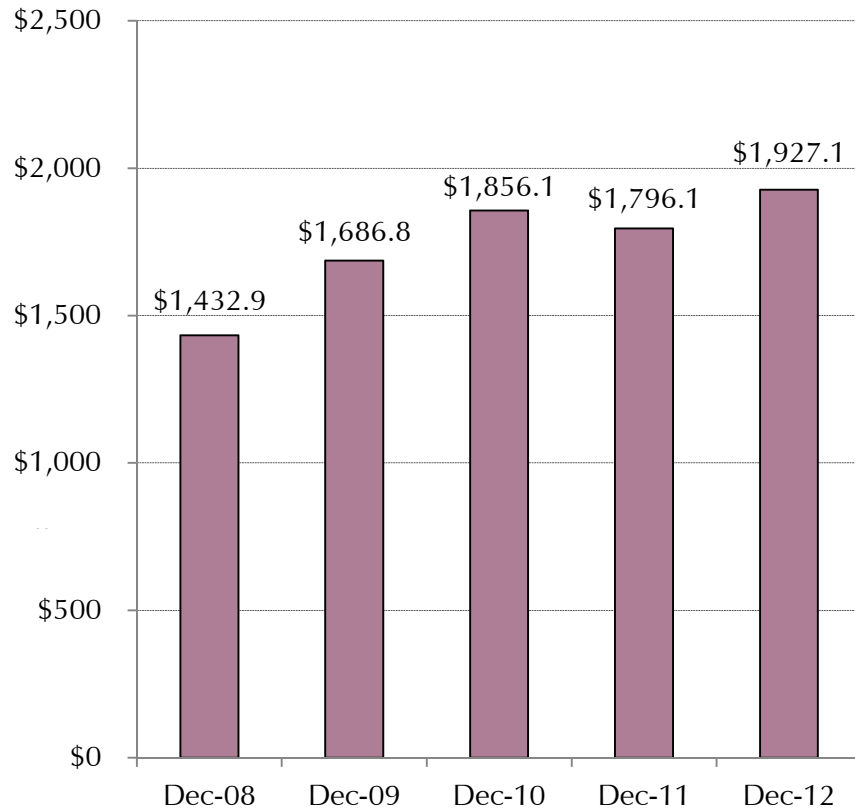
- Subsequent to quarter end, RS announced that analyst Tim Bei resigned from the firm to join Citadel Asset Management. Mr. Bei had been with RS for five of his sixteen year investment career and covered industrials.

### First Quadrant

- Ken Ferguson, co-head of the firm's Global Macro Strategies has retired effective December 31, 2012. Mr. Ferguson's responsibilities will be absorbed by current members of the investment team.

**Plan Summary**  
**As of December 31, 2012**





The diversification pie chart does not include the impact of the overlay.

	Market Value 12/31/12 (\$ mm)	% of Retirement System	Russell Overlay Net Position <sup>1</sup> (%)	Adopted Sub-Asset Allocation (%)	Target Allocation (%)	Target Range (%)	Market Value 9/30/12 (\$ mm)
<b>Total Fund Aggregate</b>	<b>1,927.1</b>	<b>100.0</b>	<b>100.0</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>1,936.2</b>
Equity and Real Estate Assets	1,039.6	53.9	51.5	40	45	38-52	1,150.2
Global Equity	841.9	43.7	41.2	26	NA	NA	959.9
Real Estate	104.2	5.4	5.5	5	NA	NA	97.3
Private Equity	93.6	4.9	4.9	9	NA	NA	93.1
Hedge Fund Assets	61.0	3.2	3.1	25	25	20-30	0.0
Real Assets	383.8	19.9	25.9	20	20	15-25	270.0
Fixed Income Assets	363.8	18.9	19.3	15	10	5-20	379.3
Public Fixed Income	247.9	12.9	13.3	10	NA	NA	268.5
Private Debt	115.8	6.0	6.1	5	NA	NA	110.8
Cash <sup>2</sup>	79.0	4.1	0.1	0	NA	NA	136.7

<sup>1</sup> Data in the column titled "Russell Overlay Net Position" is provided by Russell Investments.

<sup>2</sup> Cash includes the cash account, cash equitized in the Russell Investments Overlay program, cash from private manager distributions, and residuals from the Terminated Manager Account. As of 12/31/12, Russell Investments Overlay equitized \$75.9 million in cash.

## San Jose Federated City Employees' Retirement System

## Aggregate Assets Portfolio Roster as of 12/31/12

	Market Value 12/31/12 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 9/30/12 (\$ mm)
<b>Total Fund Aggregate</b>	<b>1,927.1</b>	<b>NA</b>	<b>100.0</b>	<b>NA</b>	<b>NA</b>	<b>1,936.2</b>
<b>Equity and Real Estate Assets</b>	<b>1,039.6</b>	<b>100.0</b>	<b>53.9</b>	<b>45</b>	<b>38-52</b>	<b>1,150.2</b>
<b>Global Equity<sup>1</sup></b>	<b>841.9</b>	<b>100.0</b>	<b>43.7</b>	<b>NA</b>	<b>NA</b>	<b>959.9</b>
Northern Trust Russell 3000 Index	218.0	25.9	11.3			94.1
Northern Trust MSCI Emerging Markets Index	183.6	21.8	9.5			91.7
Artisan Global Value	100.6	12.0	5.2			98.4
Northern Trust ACWI IMI Index	97.2	11.5	5.0			0.0
Northern Trust MSCI EAFE Index	70.4	8.4	3.7			0.0
Northern Trust EAFE Small Cap	70.4	8.4	3.7			0.0
RS Investments Small Cap Value	51.0	6.1	2.6			62.1
Eagle Small Cap Growth	48.4	5.8	2.5			63.6
Northern Trust MSCI ACWI Index <sup>2</sup>	0.0	0.0	0.0			336.8
Russell Investments MSCI EAFE Small Cap <sup>2</sup>	0.0	0.0	0.0			93.7
Russell Investments MSCI EAFE Growth <sup>2</sup>	0.0	0.0	0.0			59.7
Calamos Global Convertibles <sup>2</sup>	0.0	0.0	0.0			59.7

<sup>1</sup> As of December 31, 2012, the Global Equity composite includes \$2.2 million related to transition accounts and residuals from terminated managers.

<sup>2</sup> Manager was terminated during 4Q12 as part of the Fund transition.



	Market Value 12/31/12 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 9/30/12 (\$ mm)
<b>Equity and Real Estate Assets (continued)</b>						
<b>Real Estate</b>	<b>104.2</b>	<b>100.0</b>	<b>5.4</b>	<b>NA</b>	<b>NA</b>	<b>97.3</b>
<b>Core Real Estate</b>	<b>55.6</b>	<b>53.4</b>	<b>2.9</b>			<b>49.0</b>
PRISA I	30.8	29.5	1.6			30.2
American Core Realty Fund, LLC	24.8	23.9	1.3			18.8
<b>Private Real Estate<sup>1</sup></b>	<b>48.6</b>	<b>46.6</b>	<b>2.5</b>			<b>48.2</b>
DRA Growth & Income Fund V	17.6	16.9	0.9			17.6
Fidelity Real Estate Growth Fund III, L.P.	12.9	12.3	0.7			13.3
DRA Growth & Income Fund VI	9.2	8.9	0.5			9.0
DRA Growth & Income Fund VII	7.2	6.9	0.4			5.3
GEAM Value Add Realty Partners, L.P.	1.7	1.6	< 0.1			3.0

<sup>1</sup> Fair values are based on reported value as of 9/30/12, adjusted for cash flows through 12/31/12.



	Market Value 12/31/12 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 9/30/12 (\$ mm)
<b>Equity and Real Estate Assets (continued)</b>						
<b>Private Equity<sup>1</sup></b>	<b>93.6</b>	<b>100.0</b>	<b>4.9</b>	<b>NA</b>	<b>NA</b>	<b>93.1</b>
Pantheon USA Fund VII	30.3	32.4	1.6			29.4
Pathway Private Equity Fund VIII	25.6	27.3	1.3			26.3
Pantheon Global Secondary Fund III	22.9	24.5	1.2			24.6
Partners Group Secondary 2008	9.3	10.0	0.5			9.6
Partners Group Secondary 2011	3.5	3.7	0.2			0.0
Great Hill Equity Partners IV	2.0	2.1	0.1			3.2
<b>Hedge Fund Assets</b>	<b>61.0</b>	<b>100.0</b>	<b>3.2</b>	<b>25</b>	<b>20-30</b>	<b>0.0</b>
<b>Real Assets</b>	<b>383.8</b>	<b>100.0</b>	<b>19.9</b>	<b>20</b>	<b>15-25</b>	<b>270.0</b>
<b>Commodities</b>	<b>259.5</b>	<b>67.6</b>	<b>13.5</b>			<b>270.0</b>
CS Compound Risk Parity Commodity Index	131.4	34.2	6.8			135.3
First Quadrant Risk Parity Commodity Index	128.1	33.4	6.7			134.7
<b>Natural Resources</b>	<b>124.3</b>	<b>32.4</b>	<b>6.5</b>			<b>0.0</b>
Northern Trust Global LargeMid NR	124.3	32.4	6.5			0.0

<sup>1</sup> Fair values are based on reported value as of 9/30/12, adjusted for cash flows through 12/31/12.

## San Jose Federated City Employees' Retirement System

## Aggregate Assets Portfolio Roster as of 12/31/12

	Market Value 12/31/12 (\$ mm)	% of Asset Class	% of Retirement System	Target Allocation (%)	Target Range (%)	Market Value 9/30/12 (\$ mm)
<b>Fixed Income Assets</b>	<b>363.8</b>	<b>100.0</b>	<b>18.9</b>	<b>10</b>	<b>5-20</b>	<b>379.3</b>
<b>Public Fixed Income</b>	<b>247.9</b>	<b>100.0</b>	<b>12.9</b>	<b>NA</b>	<b>NA</b>	<b>268.5</b>
Northern Trust Intermediate Gov't 1-10 Year	130.1	52.5	6.8			100.0
Russell Investments Barclays U.S. TIPS	116.0	46.8	6.0			126.6
Northern Trust Long Term Credit Bond Index <sup>1</sup>	1.0	0.4	< 0.1			1.0
Seix Credit Dislocation <sup>1</sup>	0.9	0.3	< 0.1			14.0
MacKay Shields High Yield Active Core <sup>1</sup>	0.0	< 0.1	< 0.1			27.0
<b>Private Debt</b>	<b>115.8</b>	<b>100.0</b>	<b>6.0</b>	<b>NA</b>	<b>NA</b>	<b>110.8</b>
White Oak Direct Lending Account	40.4	34.9	2.1			32.5
Medley Opportunity Fund II	39.6	34.2	2.1			41.8
GSO Direct Lending Account <sup>2</sup>	35.8	30.9	1.9			36.5
<b>Cash<sup>3</sup></b>	<b>79.0</b>	<b>100.0</b>	<b>4.1</b>	<b>NA</b>	<b>NA</b>	<b>136.7</b>
<i>Russell Investments Overlay Equitized Cash</i>	75.9					150.4

<sup>1</sup> Manager was terminated during 4Q12 as part of the Fund transition. A residual may remain pending close-out.

<sup>2</sup> Data for GSO is preliminary.

<sup>3</sup> Cash includes the cash account, cash equitized in the Russell Investments Overlay program, cash from private manager distributions, and residuals from the Terminated Manager Account. As of 12/31/12, Russell Investments Overlay equitized \$75.9 million in cash.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Total Fund Aggregate<sup>2</sup></b>	<b>1.5</b>	<b>6.7</b>	<b>9.6</b>	<b>6.9</b>	<b>2.1</b>	<b>7.3</b>	<b>1/1/94</b>	<b>7.5</b>
<b>Net of Fees<sup>3</sup></b>	<b>1.4</b>	<b>6.7</b>	<b>9.5</b>	<b>6.8</b>	<b>1.9</b>	<b>7.0</b>		<b>7.3</b>
<b>Total Fund Aggregate ex Overlay</b>	<b>1.4</b>	<b>6.1</b>	<b>9.7</b>	<b>6.9</b>	<b>2.1</b>	<b>7.3</b>	<b>1/1/94</b>	<b>7.5</b>
<b>Net of Fees ex Overlay</b>	<b>1.4</b>	<b>6.1</b>	<b>9.6</b>	<b>6.8</b>	<b>1.9</b>	<b>7.0</b>		<b>7.3</b>
<i>CPI (inflation)</i>	-0.8	0.1	1.7	2.1	1.8	2.4		2.4
<i>San Jose FCERS Policy Benchmark<sup>4</sup></i>	1.6	5.6	9.6	7.2	2.5	7.1		7.4
<i>San Jose FCERS Custom Benchmark<sup>5</sup></i>	1.3	6.5	10.2	NA	NA	NA		NA
<i>Master Trust Public Funds &gt; \$1 billion (Median)<sup>6</sup></i>	2.2	7.0	13.4	9.1	3.0	7.6		NA

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> Represents performance which is gross of fees for public market managers and net of fees for private market managers.

<sup>3</sup> Beginning in July 2012, fees are accounted for on a cash basis. Previously, fees were accounted for on an accrual basis.

<sup>4</sup> Please see page 29 of the Plan Summary for composition of the Policy Benchmark.

<sup>5</sup> Custom Benchmark consists of the individual benchmarks that comprise the Policy Benchmark weighted accordingly to actual allocations and re-adjusted monthly.

<sup>6</sup> Master Trust universe data provided by InvestMetrics.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Total Fund Aggregate</b>								
<b>Equity and Real Estate Assets</b>	<b>3.5</b>	<b>9.3</b>	<b>14.7</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1/1/12</b>	<b>14.7</b>
Global Equity	3.7	10.5	16.0	NA	NA	NA	5/1/10	7.0
<i>MSCI ACWI IMI</i>	3.0	10.0	16.4	7.0	-0.7	8.6		6.3
Real Estate <sup>2</sup>	1.8	3.9	8.9	10.5	-4.5	6.8	1/1/94	8.2
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		9.3
Private Equity <sup>3</sup>	3.4	2.7	9.1	11.8	3.0	NA	1/1/06	3.8
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		9.9
<b>Hedge Fund Assets</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>11/1/12</b>	<b>1.5</b>
<i>HFRI Fund of Funds Composite</i>	1.2	3.7	4.7	1.4	-1.8	3.6		1.5
<b>Real Assets</b>	<b>-3.5</b>	<b>3.8</b>	<b>0.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>5/1/10</b>	<b>2.7</b>
<i>Custom Risk Parity Benchmark<sup>4</sup></i>	-3.0	4.1	1.3	NA	NA	NA		NA
<i>S&amp;P Global Infrastructure Index</i>	2.5	6.5	11.1	5.4	-2.2	NA		6.8
<i>Dow Jones-Commodity U.S. Index</i>	-6.4	2.7	-1.1	0.0	-5.5	2.9		1.2
<i>CPI-U + 5%</i>	0.4	2.5	6.8	7.2	6.9	7.6		7.1

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> All manager returns are presented one quarter lagged with the exception of the American Core Realty Fund and PRISA, which are not lagged.

<sup>3</sup> All manager returns are presented one quarter lagged.

<sup>4</sup> Risk Parity Benchmark returns provided by Credit Suisse.





	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Total Fund Aggregate (continued)</b>								
<b>Fixed Income Assets</b>	<b>0.7</b>	<b>3.7</b>	<b>7.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1/1/12</b>	<b>7.2</b>
Public Fixed Income	0.2	2.3	5.4	7.1	7.0	6.3	1/1/94	6.5
<i>Barclays U.S. TIPS</i>	0.7	2.8	7.0	8.9	7.0	6.7		NA
<i>Barclays U.S. TIPS 1-5 Years</i>	0.5	1.5	2.7	3.8	4.0	NA		NA
<i>Barclays Intermediate Gov't Bond Index</i>	0.0	0.7	1.7	4.2	4.5	4.1		5.4
Private Debt <sup>2</sup>	2.0	6.5	10.4	NA	NA	NA	12/1/10	9.5
<i>3 Month Libor + 5%</i>	1.3	2.7	5.5	5.4	6.2	NA		5.4

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> Manager returns for Medley are lagged one quarter; returns for White Oak and GSO are not lagged.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Equity and Real Estate Assets</b>	<b>3.5</b>	<b>9.3</b>	<b>14.7</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1/1/12</b>	<b>14.7</b>
<b>Global Equity</b>	<b>3.7</b>	<b>10.5</b>	<b>16.0</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>5/1/10</b>	<b>7.0</b>
Northern Trust Russell 3000 Index	0.3	6.5	16.5	11.4	2.2	7.8	9/1/99	3.3
Net of Fees	0.3	6.5	16.5	11.3	2.2	7.8		3.3
<i>Russell 3000</i>	0.2	6.5	16.4	11.2	2.0	7.7		3.2
Northern Trust MSCI Emerging Markets Index	5.8	13.9	18.3	NA	NA	NA	5/1/10	3.7
Net of Fees	5.8	13.9	18.2	NA	NA	NA		3.5
<i>MSCI Emerging Markets</i>	5.6	13.8	18.2	4.7	-0.9	16.5		3.9
Artisan Global Value	4.4	12.9	20.8	NA	NA	NA	3/1/11	10.8
Net of Fees	4.2	12.8	20.2	NA	NA	NA		10.1
<i>MSCI ACWI Value</i>	3.6	10.5	15.6	5.7	-1.9	8.4		0.5
<i>Peer Global Equity</i>	4.1	11.0	18.8	8.3	NA	NA		3.1
<i>Peer Ranking (percentile)</i>	41	26	34	NA	NA	NA		6
Northern Trust ACWI IMI Index	NA	NA	NA	NA	NA	NA	11/1/12	3.8
Net of Fees	NA	NA	NA	NA	NA	NA		3.8
<i>MSCI ACWI IMI</i>	3.0	10.0	16.4	7.0	-0.7	8.6		3.7

<sup>1</sup> Fiscal Year ends June 30.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Equity and Real Estate Assets (continued)</b>								
Northern Trust MSCI EAFE Index	NA	NA	NA	NA	NA	NA	11/1/12	5.7
Net of Fees	NA	NA	NA	NA	NA	NA		5.7
<i>MSCI EAFE</i>	6.6	13.9	17.3	3.6	-3.7	8.2		5.7
Northern Trust EAFE Small Cap	NA	NA	NA	NA	NA	NA	11/1/12	5.1
Net of Fees	NA	NA	NA	NA	NA	NA		5.1
<i>MSCI EAFE Small Cap</i>	6.0	14.4	20.0	7.2	-0.9	11.9		5.1
RS Investments Small Cap Value	6.3	14.2	22.0	NA	NA	NA	8/1/10	14.9
Net of Fees	6.3	14.0	21.4	NA	NA	NA		14.1
<i>Russell 2000 Value</i>	3.2	9.1	18.1	11.6	3.5	9.5		12.1
<i>Peer Small Cap Value</i>	3.9	9.9	18.2	13.4	6.0	11.6		13.5
<i>Peer Ranking (percentile)</i>	11	7	21	NA	NA	NA		24
Eagle Small Cap Growth	2.3	9.4	17.8	15.7	7.0	13.4	6/1/98	7.1
Net of Fees	2.3	9.4	17.5	15.1	6.5	12.7		6.5
<i>Russell 2000 Growth</i>	0.4	5.3	14.6	12.8	3.5	9.8		3.9
<i>Peer Small Cap Growth</i>	0.9	6.6	14.9	14.1	4.4	11.0		7.9
<i>Peer Ranking (percentile)</i>	19	4	22	27	13	2		65

<sup>1</sup> Fiscal Year ends June 30.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Equity and Real Estate Assets (continued)</b>								
<b>Real Estate<sup>2</sup></b>	<b>1.8</b>	<b>3.9</b>	<b>8.9</b>	<b>10.5</b>	<b>-4.5</b>	<b>6.8</b>	<b>1/1/94</b>	<b>8.2</b>
<b>Core Real Estate</b>	<b>1.9</b>	<b>3.8</b>	<b>9.3</b>	<b>13.2</b>	<b>NA</b>	<b>NA</b>	<b>7/1/09</b>	<b>7.2</b>
PRISA I	1.9	3.7	9.7	15.6	-2.4	NA	7/1/04	5.6
Net of Fees	1.7	3.2	8.7	14.4	-3.4	NA		4.6
<i>NFI - ODCE Equal Weight</i>	2.3	5.2	11.0	14.3	-1.5	6.3		5.7
American Core Realty Fund, LLC	2.5	5.1	11.3	12.5	-1.2	NA	1/1/07	1.7
Net of Fees	2.3	4.7	10.2	11.4	-2.2	NA		0.7
<i>NFI - ODCE Equal Weight</i>	2.3	5.2	11.0	14.3	-1.5	6.3		1.3

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> All manager returns are presented one quarter lagged with the exception of the American Core Realty Fund and PRISA, which are not lagged.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Equity and Real Estate Assets (continued)</b>								
<b>Private Real Estate<sup>2,3</sup></b>	<b>1.6</b>	<b>4.0</b>	<b>8.6</b>	<b>7.9</b>	<b>NA</b>	<b>NA</b>	<b>7/1/09</b>	<b>-4.5</b>
DRA Growth & Income Fund V	0.9	1.8	4.8	3.6	-2.9	NA	1/1/06	1.1
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		6.0
Fidelity Real Estate Growth Fund III, L.P.	3.8	6.5	14.7	20.3	-23.4	NA	1/1/08	-23.4
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		2.1
DRA Growth & Income Fund VI	0.3	0.9	3.2	10.2	NA	NA	4/1/08	2.9
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		1.9
DRA Growth & Income Fund VII	3.2	8.9	NA	NA	NA	NA	4/1/12	11.4
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		7.8
GEAM Value Add Realty Partners, L.P.	0.1	12.1	-5.8	10.2	-18.9	NA	1/1/07	-16.2
<i>NCREIF Property (lagged one qtr.)</i>	2.5	4.9	10.5	12.6	2.1	8.4		4.3

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> Returns are time-weighted. Meketa Investment Group recommends that the Trustees use dollar-weighted (IRR) returns as shown in the quarterly Private Markets report in order to evaluate private markets managers.

<sup>3</sup> Performance is net of fees.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Equity and Real Estate Assets (continued)</b>								
<b>Private Equity<sup>2,3</sup></b>	<b>3.4</b>	<b>2.7</b>	<b>9.1</b>	<b>11.8</b>	<b>3.0</b>	<b>NA</b>	<b>1/1/06</b>	<b>3.8</b>
Pantheon USA Fund VII	2.5	2.8	11.1	10.9	NA	NA	1/1/07	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		8.5
Pathway Private Equity Fund VIII	2.4	1.0	12.0	14.8	NA	NA	8/1/04	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		12.3
Pantheon Global Secondary Fund III	0.6	0.7	0.9	5.9	NA	NA	1/1/07	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		8.5
Partners Group Secondary 2008	3.0	0.1	2.7	15.4	NA	NA	12/1/08	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		6.3
Partners Group Secondary 2011	NA	NA	NA	NA	NA	NA	11/1/12	42.5
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		3.7
Great Hill Equity Partners IV	8.9	7.8	17.8	21.9	NA	NA	10/1/08	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	3.7	4.0	14.5	14.0	5.2	12.1		6.1

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> All manager returns are presented one quarter lagged.

<sup>3</sup> Returns are time-weighted and are shown beginning in June 2009. Meketa Investment Group recommends that the Trustees use dollar-weighted (IRR) returns as shown in the quarterly Private Markets report in order to evaluate private markets managers.

	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Hedge Fund Assets</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>11/1/12</b>	<b>1.5</b>
<i>HFRI Fund of Funds Composite</i>	1.2	3.7	4.7	1.4	-1.8	3.6		1.5
<b>Real Assets</b>	<b>-3.4</b>	<b>3.9</b>	<b>0.4</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>5/1/10</b>	<b>2.8</b>
Credit Suisse Compound Risk Parity Commodity Index <sup>2</sup>	-2.9	4.6	1.6	NA	NA	NA	4/1/11	-6.2
<i>Custom Risk Parity Benchmark<sup>3</sup></i>	-3.0	4.1	1.3	NA	NA	NA		-6.3
<i>Dow Jones-Commodity U.S. Index</i>	-6.4	2.7	-1.1	0.0	-5.5	2.9		-10.7
First Quadrant Risk Parity Commodity Index <sup>2</sup>	-4.9	1.7	-4.7	NA	NA	NA	4/1/11	-9.3
<i>Custom Risk Parity Benchmark<sup>3</sup></i>	-3.0	4.1	1.3	NA	NA	NA		-6.3
<i>Dow Jones-Commodity U.S. Index</i>	-6.4	2.7	-1.1	0.0	-5.5	2.9		-10.7
Northern Trust Global LargeMid Natural Resources	NA	NA	NA	NA	NA	NA	11/1/12	1.1
Net of Fees	NA	NA	NA	NA	NA	NA		1.1
<i>S&amp;P Global LargeMid Cap Commodities and Resources</i>	0.1	8.6	7.1	3.7	-1.1	NA		1.2

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> Performance is net of fees.

<sup>3</sup> Risk Parity Benchmark returns provided by Credit Suisse.



	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Fixed Income Assets</b>	<b>0.5</b>	<b>3.5</b>	<b>7.0</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>1/1/12</b>	<b>7.0</b>
<b>Public Fixed Income</b>	<b>0.2</b>	<b>2.3</b>	<b>5.4</b>	<b>7.1</b>	<b>7.0</b>	<b>6.3</b>	<b>1/1/94</b>	<b>6.5</b>
Northern Trust Intermediate Gov't 1-10 Year	0.0	NA	NA	NA	NA	NA	10/1/12	0.0
Net of Fees	0.0	NA	NA	NA	NA	NA		0.0
<i>Barclays Intermediate Gov't Bond Index</i>	0.0	0.7	1.7	4.2	4.5	4.1		0.0
Russell Investments Barclays U.S. TIPS	0.4	1.8	3.4	NA	NA	NA	5/1/10	6.7
Net of Fees	0.4	1.8	3.4	NA	NA	NA		6.7
<i>TIPS Blended Benchmark<sup>2</sup></i>	0.6	2.2	4.8	NA	NA	NA		7.2
<i>Barclays U.S. TIPS</i>	0.7	2.8	7.0	8.9	7.0	6.7		8.9
<i>Barclays U.S. TIPS 1-5 Years</i>	0.5	1.5	2.7	3.8	4.0	NA		3.6

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> The TIPS Blended Benchmark consists of 50% Barclays U.S. TIPS & 50% Barclays U.S. TIPS 1-5 years. Prior to January 1, 2012, it was comprised of 100% Russell Investments Barclays U.S. TIPS.





	4Q12 (%)	Fiscal <sup>1</sup> YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)	Performance Inception Date	Since Inception (%)
<b>Fixed Income Assets (continued)</b>								
<b>Private Debt<sup>2,3</sup></b>	<b>2.0</b>	<b>6.5</b>	<b>10.4</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>12/1/10</b>	<b>9.5</b>
White Oak Direct Lending Account	1.5	8.8	6.6	NA	NA	NA	11/1/10	10.6
<i>3 Month Libor + 5%</i>	<i>1.3</i>	<i>2.7</i>	<i>5.5</i>	<i>5.4</i>	<i>6.2</i>	<i>NA</i>		<i>5.4</i>
Medley Opportunity Fund II	2.4	4.9	9.4	NA	NA	NA	4/1/11	4.3
<i>3 Month Libor + 5%</i>	<i>1.3</i>	<i>2.7</i>	<i>5.5</i>	<i>5.4</i>	<i>6.2</i>	<i>NA</i>		<i>5.4</i>
GSO Direct Lending Account <sup>4</sup>	2.1	6.6	17.2	NA	NA	NA	1/1/11	21.3
<i>3 Month Libor + 5%</i>	<i>1.3</i>	<i>2.7</i>	<i>5.5</i>	<i>5.4</i>	<i>6.2</i>	<i>NA</i>		<i>5.4</i>

<sup>1</sup> Fiscal Year ends June 30.

<sup>2</sup> Manager returns for Medley are lagged one quarter; returns for White Oak and GSO are not lagged.

<sup>3</sup> Returns are time-weighted. Meketa Investment Group recommends that the Trustees use dollar-weighted (IRR) returns as shown in the quarterly Private Markets report in order to evaluate private markets managers.

<sup>4</sup> Data for GSO is preliminary.



## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Total Fund Aggregate<sup>1</sup></b>	<b>9.6</b>	<b>-1.4</b>	<b>13.0</b>	<b>19.4</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>Net of Fees<sup>2</sup></b>	<b>9.5</b>	<b>-1.5</b>	<b>12.8</b>	<b>19.7</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>Total Fund Aggregate ex Overlay<sup>1</sup></b>	<b>9.7</b>	<b>-1.3</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>Net of Fees ex Overlay</b>	<b>9.6</b>	<b>-1.5</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>
<i>CPI (inflation)</i>	1.7	3.0	1.5	2.7	0.1	4.1	2.5	3.4	3.3	1.9
<i>San Jose FCERS Policy Benchmark<sup>3</sup></i>	9.6	-1.7	14.4	19.0	-22.8	8.2	13.5	6.7	10.8	20.6
<i>San Jose FCERS Custom Benchmark<sup>4</sup></i>	10.2	-2.6	NA	NA	NA	NA	NA	NA	NA	NA
<i>Master Trust Public Funds &gt; \$1 billion (Median)<sup>5</sup></i>	13.4	0.7	12.5	19.4	-24.2	7.9	NA	NA	NA	NA

<sup>1</sup> Represents performance which is gross of fees for public market managers and net of fees for private market managers.

<sup>2</sup> Beginning in July 2012, fees are accounted for on a cash basis. Previously, fees were accounted for on an accrual basis.

<sup>3</sup> Please see page 29 of the Plan Summary for composition of the Policy Benchmark.

<sup>4</sup> Custom Benchmark consists of the individual benchmarks that comprise the Policy Benchmark weighted accordingly to actual allocations and re-adjusted monthly.

<sup>5</sup> Master Trust universe data provided by InvestMetrics.



## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Total Fund Aggregate</b>										
<b>Equity and Real Estate Assets</b>	<b>14.7</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>
Global Equity	16.0	-6.9	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI ACWI IMI</i>	16.4	-7.9	14.3	36.4	-42.3	11.2	20.9	11.5	16.4	35.5
Real Estate <sup>1</sup>	8.9	14.9	7.7	-37.7	-5.4	23.4	13.2	22.9	10.3	28.7
<i>NCREIF Property (lagged one qtr.)</i>	10.5	14.3	13.1	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0
Private Equity	9.1	15.6	10.9	-13.5	-4.0	15.5	-3.5	NA	NA	NA
<i>Venture Economics PE Composite (lagged one qtr.)</i>	14.5	12.0	15.7	-6.6	-7.1	26.6	18.6	30.4	15.9	7.3
<b>Hedge Fund Assets</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>
<i>HFRI Fund of Funds Composite</i>	4.7	-5.7	5.7	11.5	-21.4	10.3	10.4	7.5	6.9	11.6
<b>Real Assets</b>	<b>0.2</b>	<b>-6.5</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>
<i>Custom Risk Parity Benchmark<sup>2</sup></i>	1.3	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>S&amp;P Global Infrastructure Index</i>	11.1	-0.4	5.8	25.3	-39.0	23.2	NA	NA	NA	NA
<i>Dow Jones-Commodity U.S. Index</i>	-1.1	-13.4	16.7	18.7	-36.6	11.1	-2.7	21.4	9.1	23.9
<i>CPI-U + 5%</i>	6.8	8.1	6.6	7.8	5.1	9.3	7.7	8.7	8.5	7.1

<sup>1</sup> All manager returns are presented one quarter lagged with the exception of the American Core Realty Fund and PRISA, which are not lagged.

<sup>2</sup> Risk Parity Benchmark returns provided by Credit Suisse.



	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Total Fund Aggregate (continued)</b>										
<b>Fixed Income Assets</b>	<b>7.2</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>
Public Fixed Income	5.4	8.7	7.2	15.9	-1.3	6.7	5.8	0.8	6.3	9.0
<i>Barclays U.S. TIPS</i>	7.0	13.6	6.3	11.4	-2.4	11.6	0.4	2.8	8.5	8.4
<i>Barclays U.S. TIPS 1-5 Years</i>	2.7	4.9	3.9	11.5	-2.5	10.3	2.4	1.6	NA	NA
<i>Barclays Intermediate Gov't Bond Index</i>	1.7	6.1	5.0	-0.3	10.4	8.5	3.8	1.7	2.3	2.3
Private Debt	10.4	10.6	NA	NA	NA	NA	NA	NA	NA	NA
<i>3 Month Libor + 5%</i>	5.5	5.4	5.3	5.9	8.7	10.7	10.5	8.6	NA	NA

## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Equity and Real Estate Assets</b>	<b>14.7</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>Global Equity</b>	<b>16.0</b>	<b>-6.9</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>
Northern Trust Russell 3000 Index	16.5	1.1	17.2	28.9	-37.3	5.3	15.8	6.2	12.0	31.2
Net of Fees	16.5	1.1	17.2	NA	NA	NA	NA	NA	NA	NA
<i>Russell 3000</i>	16.4	1.0	16.9	28.3	-37.3	5.1	15.7	6.1	11.9	31.1
Northern Trust MSCI Emerging Markets Index	18.3	-18.7	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	18.2	-18.8	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI Emerging Markets</i>	18.2	-18.4	18.9	78.5	-53.3	39.4	32.2	34.0	25.6	55.8
Artisan Global Value	20.8	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	20.2	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI ACWI Value</i>	15.6	-7.3	10.2	31.7	-41.5	6.7	25.6	10.8	19.1	39.0
Northern Trust ACWI IMI Index	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI ACWI IMI</i>	16.4	-7.9	14.3	36.4	-42.3	11.2	20.9	11.5	16.4	35.5
Northern Trust MSCI EAFE Index	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI EAFE</i>	17.3	-12.1	7.7	31.8	-43.4	11.2	26.3	13.5	20.2	38.6



## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Equity and Real Estate Assets (continued)</b>										
Northern Trust EAFE Small Cap	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>MSCI EAFE Small Cap</i>	20.0	-15.9	22.0	46.8	-47.0	1.4	19.3	26.2	30.8	61.3
RS Investments Small Cap Value	22.0	-7.1	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	21.4	-7.9	NA	NA	NA	NA	NA	NA	NA	NA
<i>Russell 2000 Value</i>	18.1	-5.5	24.5	20.6	-28.9	-9.8	23.5	4.7	22.2	46.0
Eagle Small Cap Growth	17.8	-2.3	34.4	41.3	-35.8	12.7	21.4	4.2	20.8	44.7
Net of Fees	17.5	-2.9	33.7	39.5	-36.1	12.0	20.7	3.6	20.0	43.8
<i>Russell 2000 Growth</i>	14.6	-2.9	29.1	34.5	-38.5	7.0	13.3	4.2	14.3	48.5
<b>Real Estate<sup>1</sup></b>	<b>8.9</b>	<b>14.9</b>	<b>7.7</b>	<b>-37.7</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>Core Real Estate</b>	<b>9.3</b>	<b>16.3</b>	<b>14.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
PRISA I	9.7	19.1	18.4	-34.2	-13.0	17.5	16.2	23.3	NA	NA
Net of Fees	8.7	17.9	17.1	-34.9	-13.7	16.5	15.1	22.1	NA	NA
<i>NFI - ODCE Equal Weight</i>	11.0	16.0	16.1	-30.7	-10.4	16.1	16.1	20.2	12.6	9.1
American Core Realty Fund, LLC	11.3	15.1	11.2	-30.0	-5.3	17.3	NA	NA	NA	NA
Net of Fees	10.2	13.8	10.1	-30.7	-6.2	16.2	NA	NA	NA	NA
<i>NFI - ODCE Equal Weight</i>	11.0	16.0	16.1	-30.7	-10.4	16.1	16.1	20.2	12.6	9.1

<sup>1</sup> All manager returns are presented one quarter lagged with the exception of the American Core Realty Fund and PRISA, which are not lagged.



## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Equity and Real Estate Assets (continued)</b>										
<b>Private Real Estate</b>	<b>8.6</b>	<b>13.7</b>	<b>1.8</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<i>NCREIF Property (lagged one qtr.)</i>	10.5	14.3	13.1	-16.9	-6.5	15.8	16.6	20.1	14.5	9.0
<b>Private Equity</b>	<b>9.1</b>	<b>15.6</b>	<b>10.9</b>	<b>-13.5</b>	<b>-4.0</b>	<b>15.5</b>	<b>-3.5</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<i>Venture Economics PE Composite (lagged one qtr.)</i>	14.5	12.0	15.7	-6.6	-7.1	26.6	18.6	30.4	15.9	7.3
<b>Hedge Fund Assets</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>
<i>HFRI Fund of Funds Composite</i>	4.7	-5.7	5.7	11.5	-21.4	10.3	10.4	7.5	6.9	11.6
<b>Real Assets</b>	<b>0.2</b>	<b>-6.5</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>
Credit Suisse Compound Risk Parity Commodity Index <sup>1</sup>	1.6	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Custom Risk Parity Benchmark<sup>2</sup></i>	1.3	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Dow Jones-Commodity U.S. Index</i>	-1.1	-13.4	16.7	18.7	-36.6	11.1	-2.7	21.4	9.1	23.9
First Quadrant Risk Parity Commodity Index <sup>1</sup>	-4.7	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Custom Risk Parity Benchmark<sup>2</sup></i>	1.3	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Dow Jones-Commodity U.S. Index</i>	-1.1	-13.4	16.7	18.7	-36.6	11.1	-2.7	21.4	9.1	23.9
Northern Trust Global LargeMid Natural Resources	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>S&amp;P Global LargeMid Cap Commodities and Resources</i>	7.1	-12.9	19.5	57.8	-46.1	59.3	30.5	29.1	NA	NA

<sup>1</sup> Performance is net of fees.

<sup>2</sup> Risk Parity Benchmark returns provided by Credit Suisse.



## San Jose Federated City Employees' Retirement System

## Aggregate Assets Calendar Year Performance

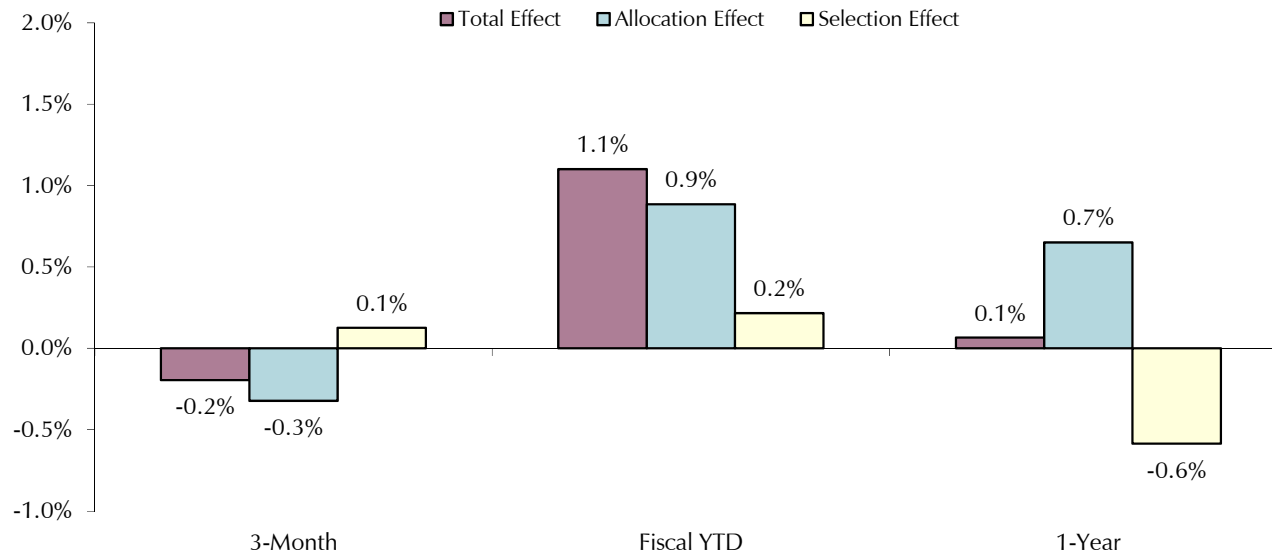
	2012 (%)	2011 (%)	2010 (%)	2009 (%)	2008 (%)	2007 (%)	2006 (%)	2005 (%)	2004 (%)	2003 (%)
<b>Fixed Income Assets</b>	<b>7.2</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>
<b>Public Fixed Income</b>	<b>5.4</b>	<b>8.7</b>	<b>7.2</b>	<b>15.9</b>	<b>-1.3</b>	<b>6.7</b>	<b>5.8</b>	<b>0.8</b>	<b>6.3</b>	<b>9.0</b>
Northern Trust Intermediate Gov't 1-10 Year Net of Fees	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
<i>Barclays Intermediate Gov't Bond Index</i>	1.7	6.1	5.0	-0.3	10.4	8.5	3.8	1.7	2.3	2.3
Russell Investments Barclays U.S. TIPS Net of Fees	3.4	11.2	NA	NA	NA	NA	NA	NA	NA	NA
<i>TIPS Blended Benchmark<sup>1</sup></i>	4.8	11.2	NA	NA	NA	NA	NA	NA	NA	NA
<i>Barclays U.S. TIPS</i>	7.0	13.6	6.3	11.4	-2.4	11.6	0.4	2.8	8.5	8.4
<i>Barclays U.S. TIPS 1-5 Years</i>	2.7	4.9	3.9	11.5	-2.5	10.3	2.4	1.6	NA	NA
<b>Private Debt</b>	<b>10.4</b>	<b>10.6</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>
<i>3 Month Libor + 5%</i>	5.5	5.4	5.3	5.9	8.7	10.7	10.5	8.6	NA	NA

<sup>1</sup> The TIPS Blended Benchmark Consists of 50% Barclays U.S. TIPS & 50% Barclays U.S. TIPS 1-5 years. Prior to January 1, 2012, it was comprised of 100% Russell Investments Barclays U.S. TIPS.





**Performance Attribution: Total Fund vs. Policy Benchmark**  
as of 12/31/12



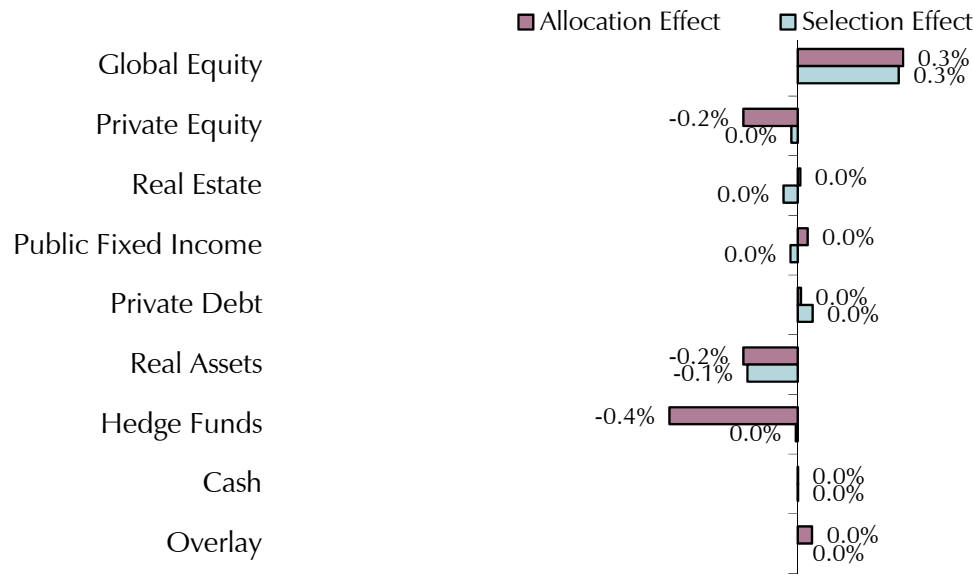
**Total Effect:** The total effect is the difference between the performance of the total fund and the return for the policy benchmark. The total effect is calculated by adding the allocation effect and the selection effect.

**Allocation Effect:** The allocation effect measures the impact of over- and under-weighting the fund allocations compared to the target allocations. The allocation effect is calculated by subtracting the Policy Benchmark return from the Custom Benchmark return.

**Selection Effect:** The selection effect measures the contribution of active management. For this analysis, the interaction effect, which measures the combined impact of selection and allocation, is included in the selection effect. Therefore, the selection effect is calculated by subtracting the Custom Benchmark return from the Total Fund return.

**Performance Attribution (Total Fund): Asset Class vs. Policy Benchmark**  
as of 12/31/12

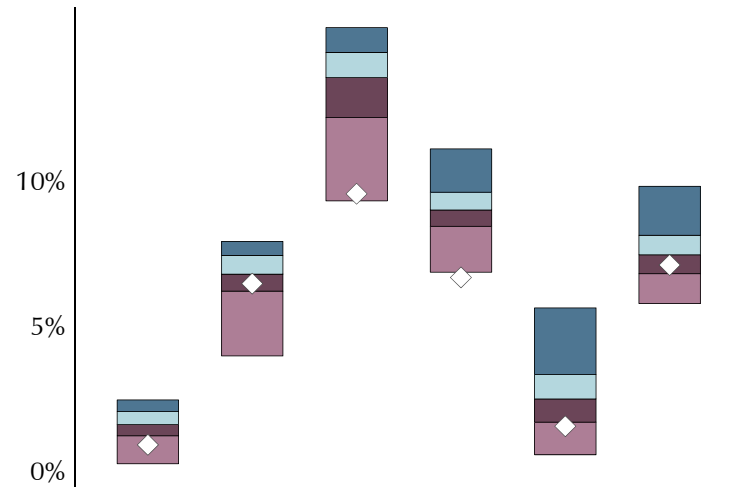
4Q12



**Allocation Effect:** The allocation effect measures the impact of over- and under-weighting the fund allocations compared to the target allocations at the Total Fund level. The allocation effect is calculated by subtracting the asset class benchmark return from the asset class custom benchmark return.

**Selection Effect:** The selection effect measures the contribution of active management at the Total Fund level. For this analysis, the interaction effect, which measures the combined impact of selection and allocation, is included in the selection effect. Therefore, the selection effect is calculated by subtracting the asset class custom benchmark return from the asset class contribution to the Total Fund return.

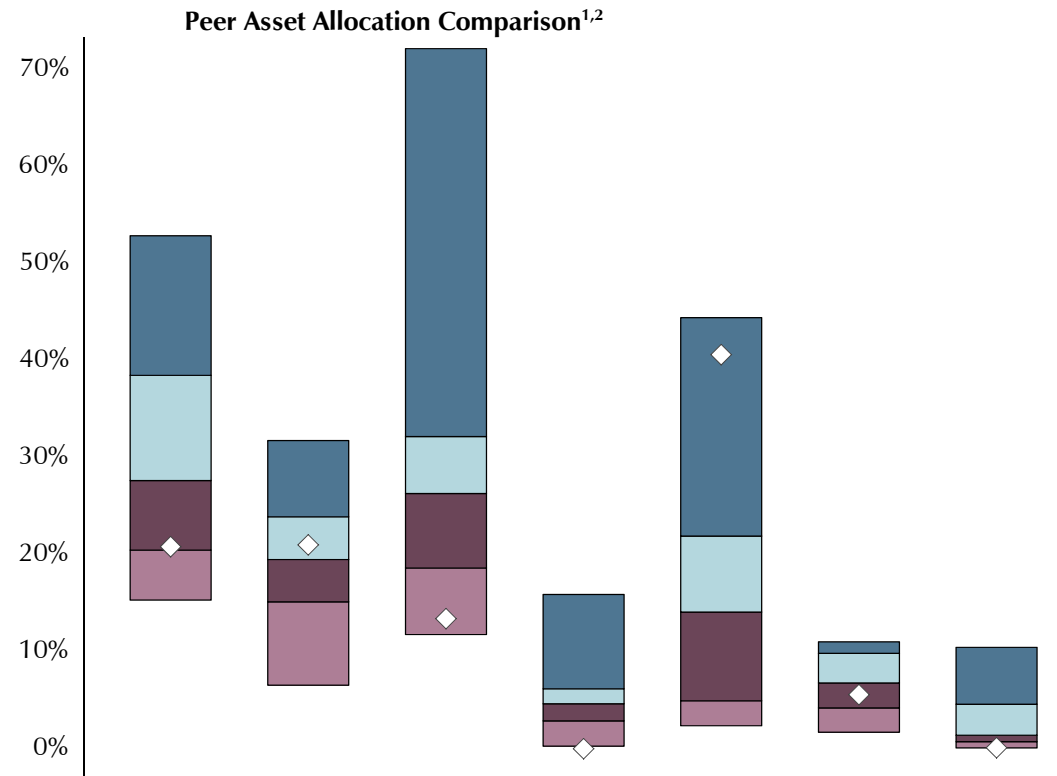
Total Fund Aggregate vs. Public Funds >\$1 billion<sup>1</sup>



	4Q12 (%)	Fiscal YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Total Fund Aggregate<sup>1</sup></b>	<b>1.5</b>	<b>6.7</b>	<b>9.6</b>	<b>6.9</b>	<b>2.1</b>	<b>7.3</b>
25th percentile	2.6	7.6	14.2	9.7	3.8	8.3
Median	2.2	7.0	13.4	9.1	3.0	7.6
75 Percentile	1.8	6.5	12.1	8.6	2.2	7.0
Population	76	75	72	70	70	63

<sup>1</sup> Master Trust universe data provided by InvestMetrics.





	US Equity	Intl. Equity	US Fixed Income	Intl. Fixed Income	Alternative Inv.	Real Estate	Cash
San Jose Allocation (Russell Overlay Net Position)	20.5	20.7	13.2	0.0	40.0	5.5	0.1
1 <sup>st</sup> Quartile	37.9	23.6	31.7	6.1	21.6	9.7	4.5
Median	27.2	19.2	25.9	4.6	13.9	6.7	1.4
3 <sup>rd</sup> Quartile	20.2	14.9	18.4	2.9	4.9	4.2	0.7
Population	57	52	59	26	30	28	28

<sup>1</sup> Based on Russell Investments overlay net positions as of 12/31/12.

<sup>2</sup> Master Trust universe data provided by InvestMetrics.



## San Jose Federated City Employees' Retirement System

## Policy Benchmark Description

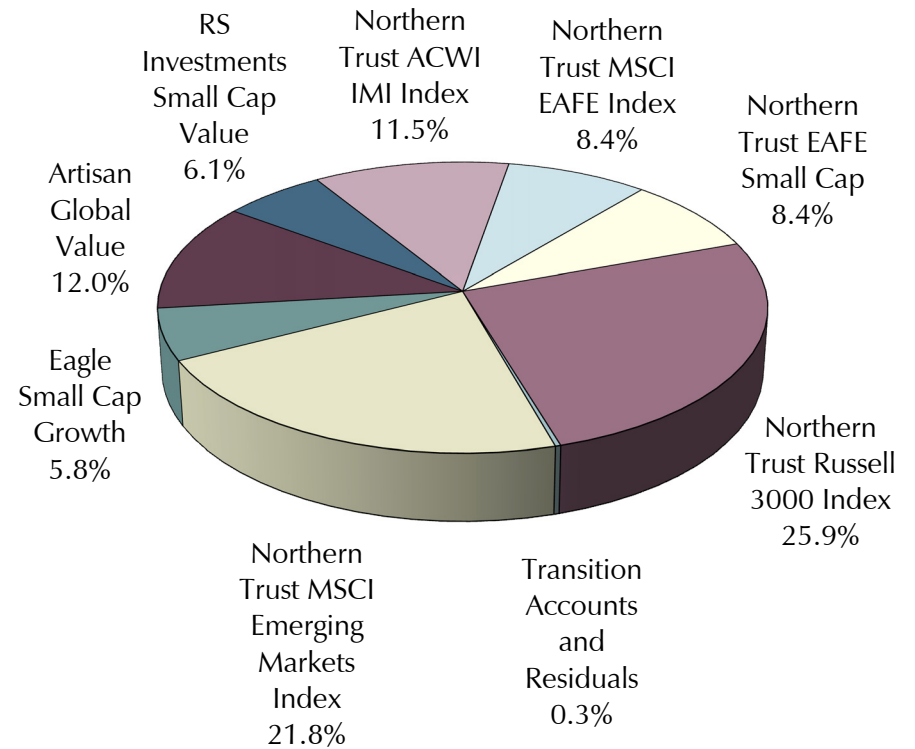
Time Period		Composition
1/1/2012-Present	31%	MSCI ACWI IMI
	9	Venture Economics Private Equity
	5	NCREIF Property
	2.5	Barclays Intermediate Government
	1.25	Barclays U.S. TIPS
	1.25	Barclays U.S. TIPS 1-5 Years
	5	3-Month LIBOR + 5%
	10	Risk Parity Commodities
	10	CPI-U + 5%
	25	HFRI Fund of Funds Composite
4/1/2011-12/31/2011	16%	MSCI ACWI
	9	MSCI ACWI Value
	5	MSCI Emerging Markets
	5	MSCI EAFE Small Cap
	3	MSCI EAFE Growth
	3	Russell 3000
	2.5	Russell 2000 Growth
	2.5	Russell 2000 Value
	7.5	Russell Investments Barclays U.S. TIPS
	5	Barclays Intermediate Government
	2.5	Barclays Long U.S. Credit
	2.5	Merrill Lynch High Yield BB/B
	2.5	CSFB Leveraged Loan
	3	ML 300 Global Convertibles
	5	HFRI Weighted Composite
	5	NCREIF Property
	6	Venture Economics Private Equity
8	Custom Risk Parity Benchmark	
2	S&P Global Infrastructure	
5	3-Month LIBOR + 5%	

Time Period		Composition
4/1/2010-3/31/2011	16%	MSCI ACWI
	9	MSCI ACWI Value
	5	MSCI Emerging Markets
	5	MSCI EAFE Small Cap
	3	MSCI EAFE Growth
	3	Russell 3000
	2.5	Russell 2000 Growth
	2.5	Russell 2000 Value
	7.5	Russell Investments Barclays U.S. TIPS
	5	Barclays Intermediate Government
	2.5	Barclays Long U.S. Credit
	2.5	Merrill Lynch High Yield BB/B
	2.5	CSFB Leveraged Loan
	3	ML 300 Global Convertibles
	5	HFRI Weighted Composite
5	NCREIF Property	
6	Venture Economics Private Equity	
8	Dow-Jones UBS Commodities	
2	S&P Global Infrastructure	
5	3-Month LIBOR + 5%	
7/1/09 – 3/31/2010	34%	Russell 1000
	9	Russell 2000
	29	Barclays Aggregate
	7	S&P Citigroup WGBI
	15	MSCI ACWI ex U.S.
	6	NCREIF Property

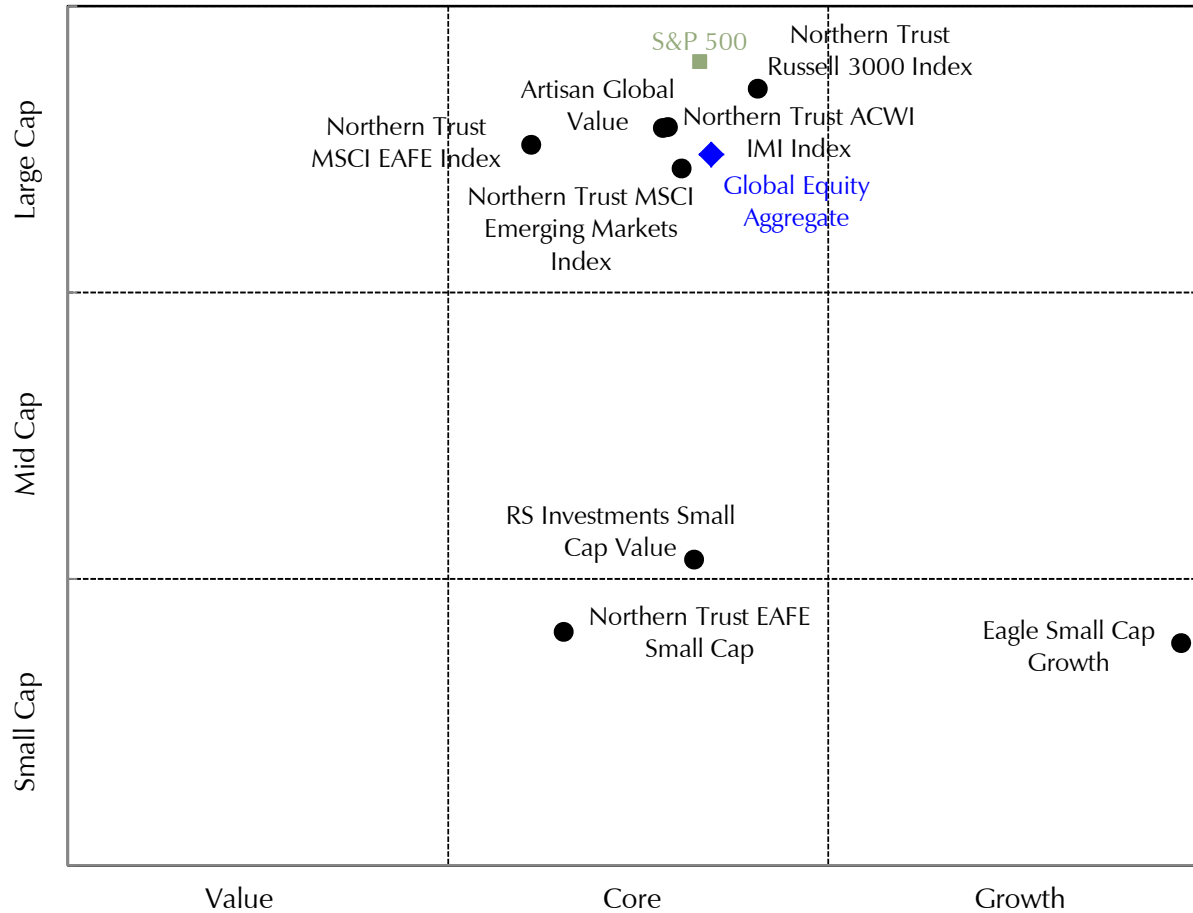


## Plan Detail

**Global Equity Assets  
As of December 31, 2012**







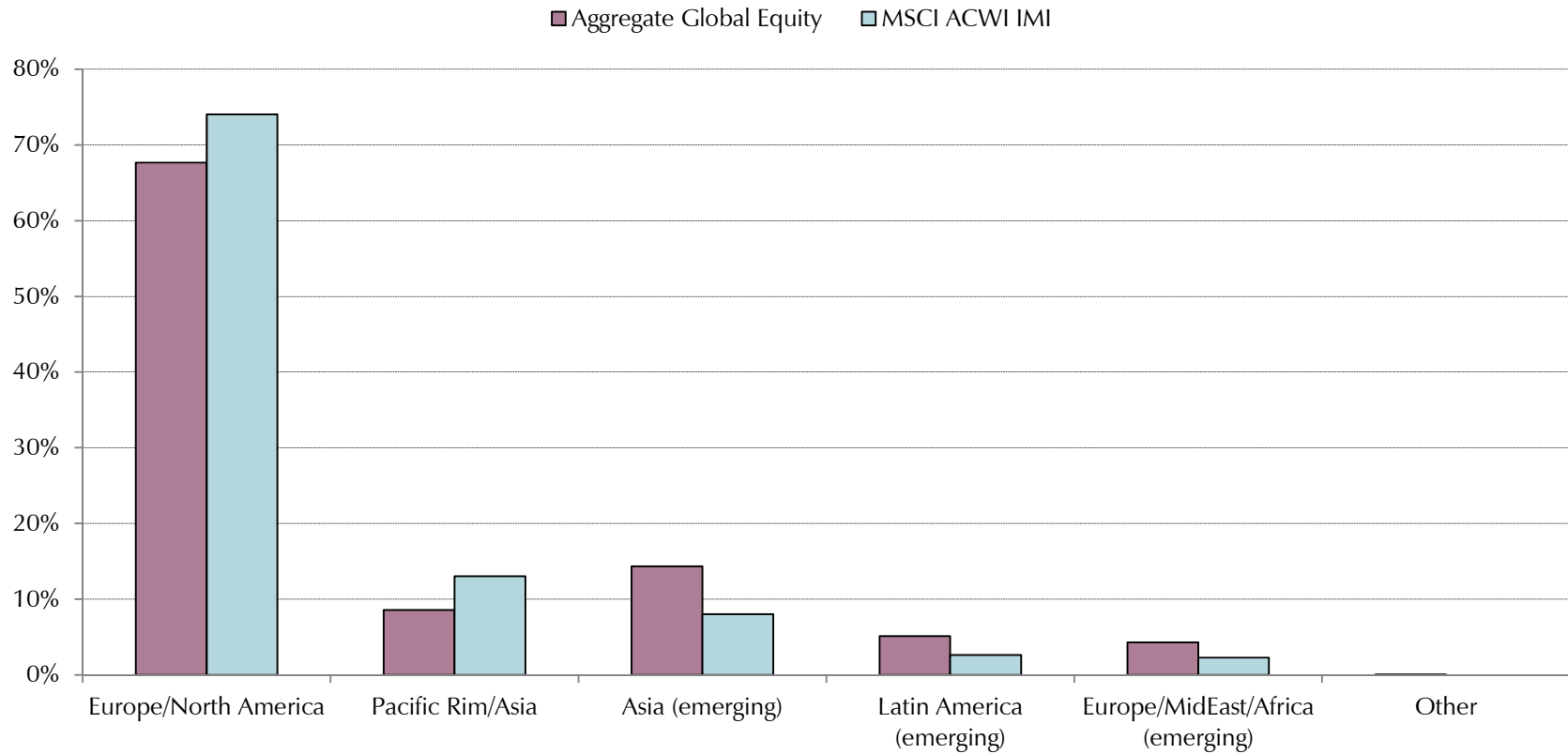
	Aggregate Global Equity 12/31/12	MSCI ACWI IMI 12/31/12	Aggregate Global Equity 9/30/12
<b>Capitalization Structure:</b>			
Weighted Average Market Cap. (US\$ billion)	54.2	65.9	55.8
Median Market Cap. (US\$ billion)	1.1	1.1	2.3
Large (% over US\$10 billion)	60	72	61
Medium (% US\$2 billion to US\$10 billion)	25	20	25
Small (% under US\$2 billion)	15	8	14
<b>Fundamental Structure:</b>			
Price-Earnings Ratio	20	19	20
Price-Book Value Ratio	2.9	2.9	3.0
Dividend Yield (%)	2.4	2.6	2.5
Historical Earnings Growth Rate (%)	8	7	8
Projected Earnings Growth Rate (%)	12	11	12

<b>Diversification:</b>	<b>Aggregate Global Equity 12/31/12</b>	<b>MSCI ACWI IMI 12/31/12</b>	<b>Aggregate Global Equity 9/30/12</b>
Number of Holdings	8,910	8,510	5,216
% in 5 largest holdings	4	5	4
% in 10 largest holdings	7	7	7

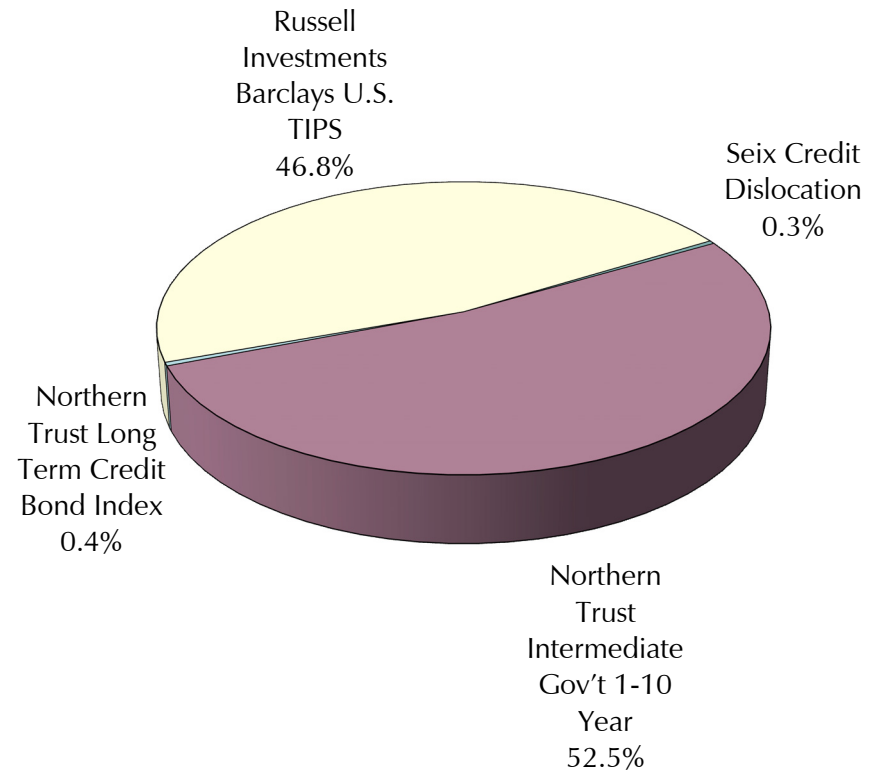
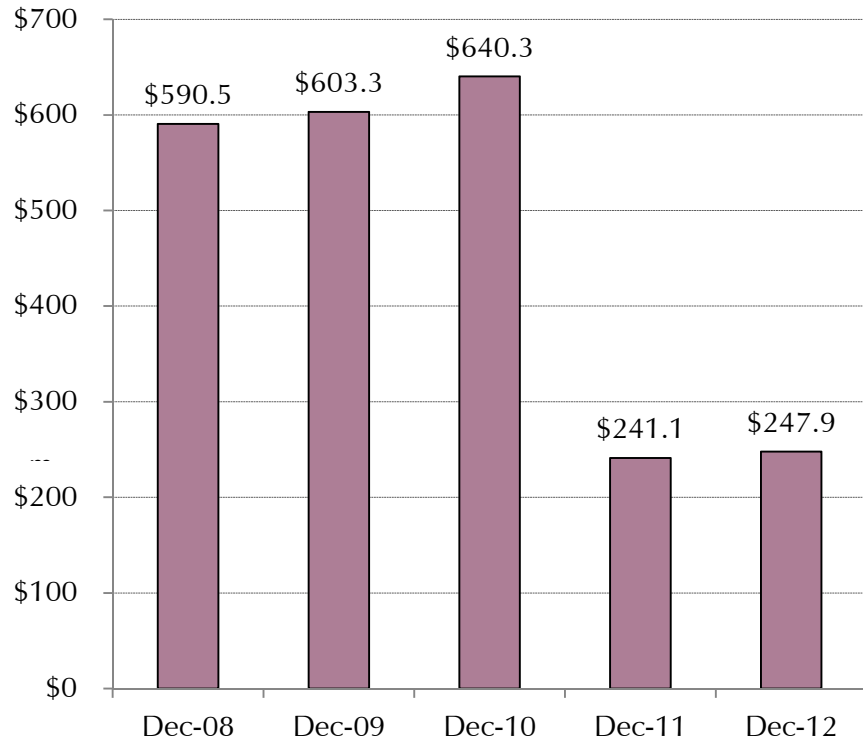
<b>Largest Five Holdings:</b>	<b>% of Portfolio</b>	<b>Economic Sector</b>
Apple Computer	1.0	Technology Hardware
Samsung	1.0	Semiconductors
ExxonMobil	0.8	Energy
Google	0.8	Software & Services
Johnson & Johnson	0.7	Pharmaceuticals & Biotech

Sector Allocation (%):	Aggregate Global Equity 12/31/12	MSCI ACWI IMI 12/31/12	Aggregate Global Equity 9/30/12
Information Technology	15	12	14
Consumer Discretionary	12	11	12
Financials	22	21	19
Industrials	11	11	12
Utilities	3	3	3
Telecom	3	4	3
Materials	7	8	8
Health Care	8	9	9
Consumer Staples	9	10	10
Energy	9	10	9

	Aggregate Global Equity 12/31/12 (%)	MSCI ACWI IMI 12/31/12 (%)		Aggregate Global Equity 12/31/12 (%)	MSCI ACWI IMI 12/31/12 (%)
<b>Europe/North America</b>	<b>67.7</b>	<b>74.0</b>	<b>Latin America (emerging)</b>	<b>5.1</b>	<b>2.6</b>
United States	49.6	46.1	Brazil	3.0	1.5
Switzerland	2.0	3.0	Mexico	1.2	0.6
France	2.0	3.3	<b>Europe/MidEast/Africa (emerging)</b>	<b>4.3</b>	<b>2.3</b>
Germany	1.9	3.1	South Africa	1.8	1.0
United Kingdom	6.6	8.3	Russia	1.4	0.7
Canada	1.0	4.3	<b>Other</b>	<b>0.0</b>	<b>0.0</b>
<b>Pacific Rim/Asia</b>	<b>8.6</b>	<b>13.0</b>			
Australia	1.9	3.3			
Japan	5.2	7.6			
<b>Asia (emerging)</b>	<b>14.3</b>	<b>8.0</b>			
China	4.2	2.4			
South Korea	3.7	2.0			
Taiwan	2.6	1.5			
India	1.5	0.9			



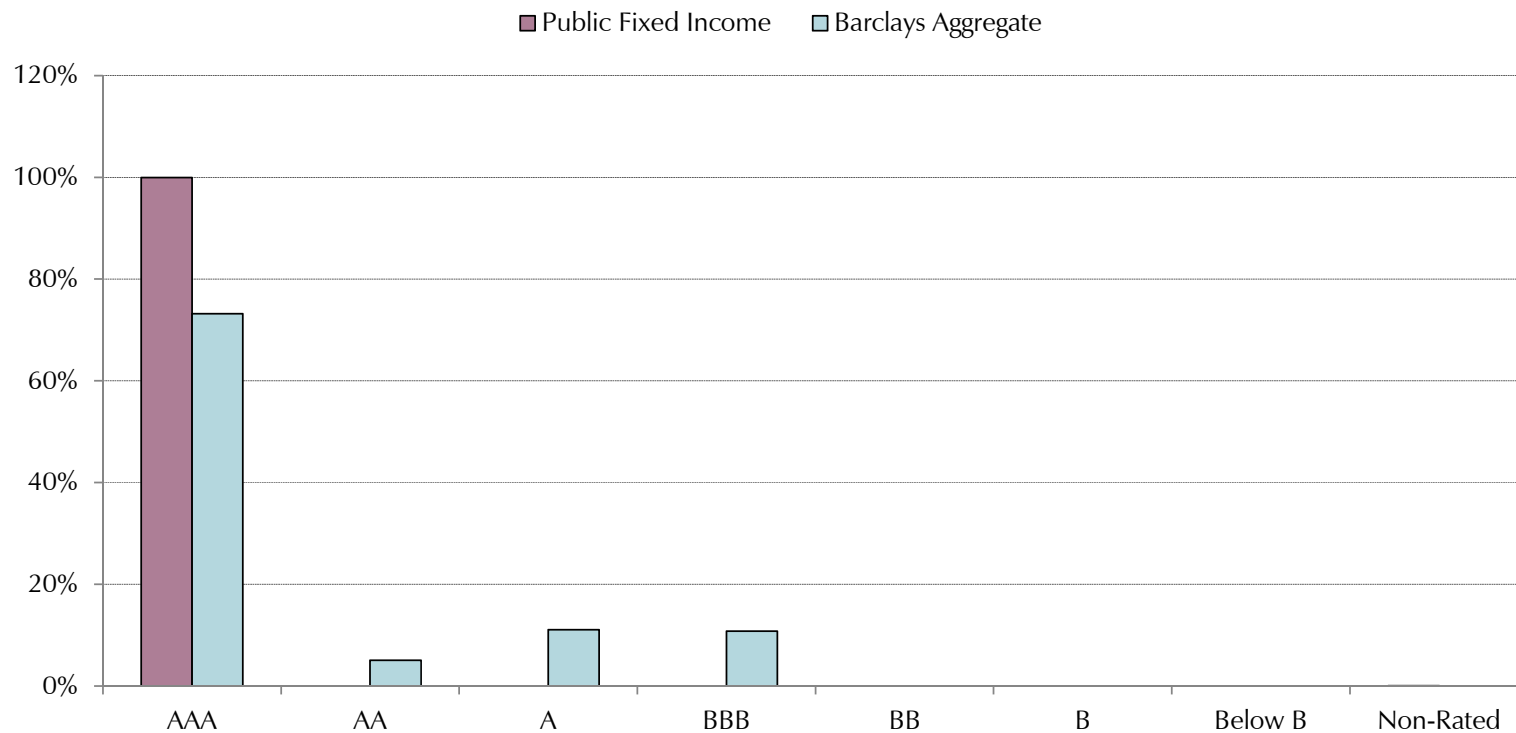
**Public Fixed Income Assets  
As of December 31, 2012**





Risk: (sixty months)	Aggregate Fixed Income 12/31/12	Barclays Aggregate 12/31/12
Annualized Return (%)	7.0	5.9
Standard Deviation (%)	4.9	3.7
Best Monthly Return (%)	4.8	3.7
Worst Monthly Return (%)	-3.8	-2.4
Beta	1.05	1.00
Correlation (R <sup>2</sup> ) to Index	0.79	1.00
Correlation to Total Fund Return	0.61	NA
Sharpe Measure (risk-adjusted return)	1.33	1.46
Information Ratio	0.38	NA

Duration & Yield:	Aggregate Fixed Income 12/31/12	Barclays Aggregate 12/31/12	Aggregate Fixed Income 9/30/12
Average Effective Duration (years)	3.6	5.1	3.1
Yield to Maturity (%)	0.6	1.7	1.4



	Aggregate Fixed Income 12/31/12	Barclays Aggregate 12/31/12	Aggregate Fixed Income 9/30/12
<b>Market Allocation (%):</b>			
United States	100	92	90
Foreign (developed markets)	0	6	8
Foreign (emerging markets)	0	2	1
<b>Currency Allocation (%):</b>			
Non-U.S. Dollar Exposure	0	0	4
<b>Sector Allocation (%):</b>			
U.S. Treasury-Nominal	46	36	26
U.S. Treasury-TIPS	47	0	39
U.S. Agency	6	6	4
Mortgage Backed	0	30	0
Corporate	0	22	7
Bank Loans	0	0	3
Local & Provincial Government	0	1	0
Sovereign & Supranational	0	3	0
Commercial Mortgage Backed	0	2	0
Asset Backed	0	0	0
Cash Equivalent	0	0	4
Other	0	0	18

**Portfolio Reviews**  
**As of December 31, 2012**

**Global Equity Portfolios Reviews  
As of December 31, 2012**

# San Jose Federated City Employees' Retirement System

# Northern Trust Russell 3000 Index Portfolio Detail as of 12/31/12

**Mandate:** Domestic Equities  
**Active/Passive:** Passive  
**Market Value:** \$218.0 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 9/1/1999  
**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
0.03% on all assets

**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 (%):	4Q12	Fiscal YTD	1 YR	3 YR	5 YR	Since 9/1/99
<b>Northern Trust Russell 3000 Index</b>	<b>0.3</b>	<b>6.5</b>	<b>16.5</b>	<b>11.4</b>	<b>2.2</b>	<b>3.3</b>
<b>Net of Fees</b>	<b>0.3</b>	<b>6.5</b>	<b>16.5</b>	<b>11.3</b>	<b>2.2</b>	<b>3.3</b>
Russell 3000	0.2	6.5	16.4	11.2	2.0	3.2

Risk: (sixty months)	Standard Deviation	Beta	Sharpe Measure	Info. Ratio	Correlation to Index
<b>Northern Trust Russell 3000 Index</b>	<b>20.8%</b>	<b>1.00</b>	<b>0.08</b>	<b>NA</b>	<b>1.00</b>
Russell 3000	20.7	1.00	0.07	NA	1.00

Capitalization Structure:	12/31/12		9/30/12	
	NT Russell 3000	Russell 3000	NT Russell 3000	Russell 3000
Weighted Average Market Cap. (US\$ billion)	87.2	87.2	100.0	99.9
Median Market Cap. (US\$ billion)	1.3	1.0	1.2	1.0
Large (% over US\$10 billion)	76	76	76	75
Medium (% US\$2 billion to US\$10 billion)	18	18	18	18
Small (% under US\$2 billion)	7	7	7	7

Fundamental Structure:	NT Russell 3000	Russell 3000	NT Russell 3000	Russell 3000
Price-Earnings Ratio	21	21	21	21
Price-Book Value Ratio	3.2	3.2	3.4	3.4
Dividend Yield (%)	2.1	1.9	2.0	1.8
Historical Earnings Growth Rate (%)	9	8	9	9
Projected Earnings Growth Rate (%)	11	11	11	11

Sector Allocation (%):	NT Russell 3000	Russell 3000	NT Russell 3000	Russell 3000
Financials	17	17	16	16
Industrials	11	11	11	11
Consumer Staples	9	9	9	9
Utilities	3	3	4	4
Information Technology	18	18	19	19
Telecom	3	3	3	3
Materials	4	4	4	4
Health Care	12	12	12	12
Energy	10	10	10	10
Consumer Discretionary	12	12	12	12

Diversification:	NT Russell 3000	Russell 3000	NT Russell 3000	Russell 3000
Number of Holdings	2,637	2,969	2,666	2,961
% in 5 largest holdings	10	10	11	11
% in 10 largest holdings	16	16	17	17

Largest Ten Holdings:	NT Russell 3000	Industry
Apple Computer	3.2	Technology Hardware
ExxonMobil	2.6	Energy
General Electric	1.4	Capital Goods
Chevron	1.4	Energy
IBM	1.3	Software & Services
Microsoft	1.3	Software & Services
AT&T	1.3	Telecommunication Services
Johnson & Johnson	1.2	Pharmaceuticals & Biotech
Pfizer	1.2	Pharmaceuticals & Biotech
Procter & Gamble	1.2	Household/Personal Products



## San Jose Federated City Employees' Retirement System

## Northern Trust MSCI Emerging Markets Index Portfolio Detail as of 12/31/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$183.6 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 5/1/2010  
**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
 0.05% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**

The Northern Trust strategy seeks to replicate the return of the MSCI Emerging Markets 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 benchmark's risk profile. The result is a diversified portfolio that tightly tracks the index while incurring lower transaction costs.

Performance (%):	4Q12	Fiscal YTD	1 YR	Since 5/1/10
Northern Trust MSCI Emerging Markets Index	5.8	13.9	18.3	3.7
Net of Fees	5.8	13.9	18.2	3.5
MSCI Emerging Markets	5.6	13.8	18.2	3.9

	12/31/12		9/30/12	
	NT MSCI EM	MSCI Emerging Markets	NT MSCI EM	MSCI Emerging Markets
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	48.9	48.5	44.0	44.6
Median Market Cap. (US\$ billion)	5.5	5.3	4.9	4.9
Large (% over US\$10 billion)	68	69	65	66
Medium (% US\$2 billion to US\$10 billion)	30	29	31	31
Small (% under US\$2 billion)	2	2	3	3
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	18	18	17	17
Price-Book Value Ratio	2.8	2.8	2.8	2.8
Dividend Yield (%)	2.7	2.8	3.0	3.0
Historical Earnings Growth Rate (%)	14	15	15	15
Projected Earnings Growth Rate (%)	13	13	12	12
<b>Sector Allocation (%):</b>				
Information Technology	14	14	14	14
Utilities	3	3	4	4
Materials	12	12	12	12
Consumer Discretionary	8	8	8	8
Health Care	1	1	1	1
Industrials	6	6	6	7
Consumer Staples	9	9	8	8
Telecom	8	8	8	8
Financials	26	27	25	25
Energy	12	13	13	13
<b>Diversification:</b>				
Number of Holdings	869	821	852	817
% in 5 largest holdings	11	11	10	11
% in 10 largest holdings	16	16	16	16
<b>Region Allocation (%):</b>				
Asia	60	60	60	61
Latin America	22	21	22	21
Europe, Middle East and Africa	18	18	18	18
<b>Largest Five Holdings:</b>				
		<b>Industry</b>		
Samsung	4.1	Semiconductors		
Taiwan Semiconductor	2.2	Semiconductors		
China Mobile	1.8	Telecommunication Services		
China Const Bank	1.5	Banks		
Industrial and Commercial Bank of China	1.2	Banks		



# San Jose Federated City Employees' Retirement System

# Artisan Global Value Portfolio Detail as of 12/31/12

**Mandate:** International Equities,  
Developed Markets

**Active/Passive:** Active

**Market Value:** \$100.6 million

**Portfolio Manager:** David Samra  
Dan O'Keefe

**Location:** San Francisco, California

**Inception Date:** 3/1/2011

**Account Type:** Separately Managed

	Value	Core	Growth
Large			
Medium			
Small			

#### Fee Schedule:

0.80% on first \$50 mm; 0.60% on next \$50 mm; 0.50% thereafter

#### Liquidity Constraints:

Daily

#### Strategy:

Artisan employs a bottom-up investment approach seeking to identify undervalued quality businesses that offer the potential for superior risk/reward outcomes. Artisan runs a somewhat concentrated portfolio of 40 to 60 stocks. They are benchmark-agnostic, and willing to have exposures that are materially different than the benchmark.

#### Guidelines:

Benchmark = MSCI ACWI; Max. % per country other than U.S. = 35%; Max. % per industry = 25%; Max. % in debt securities = 10%; Max % outside developed markets = 10% above benchmark weighting

Performance (%):	4Q12	Fiscal YTD	1 YR	Since 3/1/11
<b>Artisan Global Value</b>	<b>4.4</b>	<b>12.9</b>	<b>20.8</b>	<b>10.8</b>
<b>Net of Fees</b>	<b>4.2</b>	<b>12.8</b>	<b>20.2</b>	<b>10.1</b>
MSCI ACWI Value	3.6	10.5	15.6	0.5
Peer Global Equity	4.1	11.0	18.8	3.1
Peer Ranking (percentile)	41	26	34	6

Capitalization Structure:	12/31/12		9/30/12	
	Artisan Global Value	MSCI ACWI Value	Artisan Global Value	MSCI ACWI Value
Weighted Average Market Cap. (US\$ billion)	65.6	79.5	62.5	81.3
Median Market Cap. (US\$ billion)	20.8	7.2	18.5	6.6
Large (% over US\$10 billion)	84	84	81	83
Medium (% US\$2 billion to US\$10 billion)	16	16	19	16
Small (% under US\$2 billion)	0	0	0	1
Fundamental Structure:				
Price-Earnings Ratio	17	16	18	16
Price-Book Value Ratio	3.0	1.8	3.0	1.9
Dividend Yield (%)	2.2	3.5	2.3	3.6
Historical Earnings Growth Rate (%)	4	1	7	1
Projected Earnings Growth Rate (%)	12	6	12	8
Sector Allocation (%):				
Information Technology	22	6	19	5
Consumer Staples	13	5	15	6
Consumer Discretionary	14	6	16	6
Industrials	9	9	8	9
Health Care	8	8	8	10
Financials	31	32	30	31
Materials	2	7	2	6
Utilities	0	6	0	6
Telecom	0	7	0	7
Energy	3	15	3	15
Diversification:				
Number of Holdings	41	1,303	44	1,337
% in 5 largest holdings	21	8	21	9
% in 10 largest holdings	39	15	39	15
Region Allocation (%):				
Americas	62	50	61	52
Europe	34	24	34	24
Pacific Rim	4	13	4	12
Other	0	13	0	12
Largest Five Holdings:				
Compass Group	4.6	Consumer Services		
TE Connectivity	4.3	Technology Hardware		
Oracle	4.1	Software & Services		
AON Plc	4.0	Insurance		
Bank of New York Mellon	4.0	Diversified Financials		





## San Jose Federated City Employees' Retirement System

## Northern Trust ACWI IMI Index Portfolio Detail as of 12/31/12

**Mandate:** International Equities  
**Active/Passive:** Active  
**Market Value:** \$97.2 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 11/1/2012  
**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
 0.05% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**

The Northern Trust ACWI IMI Index strategy seeks to replicate the return of the MSCI ACWI IMI 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 (%):	4Q12	Fiscal YTD	Since 11/1/12
<b>Northern Trust ACWI IMI Index</b>	NA	NA	3.8
<b>Net of Fees</b>	NA	NA	3.8
MSCI ACWI IMI	3.0	10.0	3.7

	12/31/12	
	NT ACWI IMI Index	MSCI ACWI IMI
<b>Capitalization Structure:</b>		
Weighted Average Market Cap. (US\$ billion)	66.1	65.9
Median Market Cap. (US\$ billion)	1.1	1.1
Large (% over US\$10 billion)	72	72
Medium (% US\$2 billion to US\$10 billion)	20	20
Small (% under US\$2 billion)	8	8
<b>Fundamental Structure:</b>		
Price-Earnings Ratio	19	19
Price-Book Value Ratio	2.9	2.9
Dividend Yield (%)	2.7	2.6
Historical Earnings Growth Rate (%)	7	7
Projected Earnings Growth Rate (%)	11	11
<b>Sector Allocation (%):</b>		
Information Technology	12	12
Financials	21	21
Utilities	3	3
Materials	8	8
Telecom	4	4
Consumer Staples	10	10
Energy	10	10
Health Care	9	9
Industrials	11	11
Consumer Discretionary	11	11
<b>Diversification:</b>		
Number of Holdings	8,551	8,510
% in 5 largest holdings	5	5
% in 10 largest holdings	7	7
<b>Region Allocation (%):</b>		
Europe/North America	74	74
Pacific Rim/Asia	13	13
Asia (emerging)	8	8
Latin America (emerging)	3	3
Europe/MidEast/Africa (emerging)	2	2
Other	0	0
<b>Largest Five Holdings:</b>		
		<b>Industry</b>
Apple Computer	1.5	Technology Hardware
ExxonMobil	1.2	Energy
General Electric	0.7	Capital Goods
Chevron	0.6	Energy
Nestle	0.6	Food Beverage & Tobacco



## San Jose Federated City Employees' Retirement System

## Northern Trust MSCI EAFE Index Portfolio Detail as of 12/31/12

**Mandate:** International Equities,  
Developed Markets

**Active/Passive:** Active

**Market Value:** \$70.4 million

**Portfolio Manager:** Team

**Location:** Chicago, Illinois

**Inception Date:** 11/1/2012

**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

### Fee Schedule:

0.05% on all assets

### Liquidity Constraints:

Daily

### Strategy:

The Northern Trust MSCI EAFE Index strategy seeks to replicate the return of the MSCI EAFE 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 (%):	4Q12	Fiscal YTD	Since 11/1/12
<b>Northern Trust MSCI EAFE Index</b>	NA	NA	5.7
<b>Net of Fees</b>	NA	NA	5.7
MSCI EAFE	6.6	13.9	5.7

	12/31/12	
	Northern Trust EAFE	MSCI EAFE
<b>Capitalization Structure:</b>		
Weighted Average Market Cap. (US\$ billion)	58.1	58.1
Median Market Cap. (US\$ billion)	7.5	7.5
Large (% over US\$10 billion)	81	81
Medium (% US\$2 billion to US\$10 billion)	19	19
Small (% under US\$2 billion)	0	0
<b>Fundamental Structure:</b>		
Price-Earnings Ratio	18	18
Price-Book Value Ratio	2.5	2.5
Dividend Yield (%)	3.5	3.5
Historical Earnings Growth Rate (%)	2	3
Projected Earnings Growth Rate (%)	10	10
<b>Sector Allocation (%):</b>		
Financials	25	25
Consumer Staples	12	12
Energy	8	8
Materials	10	10
Utilities	4	4
Telecom	5	5
Health Care	10	10
Information Technology	4	4
Industrials	13	13
Consumer Discretionary	11	11
<b>Diversification:</b>		
Number of Holdings	926	909
% in 5 largest holdings	7	8
% in 10 largest holdings	13	13
<b>Region Allocation (%):</b>		
Europe	65	65
Pacific Rim	35	35
<b>Largest Five Holdings:</b>		
		<b>Industry</b>
Nestle	1.9	Food Beverage & Tobacco
HSBC Holdings Plc	1.8	Banks
Novartis	1.3	Pharmaceuticals & Biotech
Roche	1.3	Pharmaceuticals & Biotech
BP	1.2	Energy



## San Jose Federated City Employees' Retirement System

## Northern Trust EAFE Small Cap Portfolio Detail as of 12/31/12

**Mandate:** International Equities,  
Developed Markets

**Active/Passive:** Active

**Market Value:** \$70.4 million

**Portfolio Manager:** Team

**Location:** Chicago, Illinois

**Inception Date:** 11/1/2012

**Account Type:** Commingled Fund

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
0.05% on all assets

**Liquidity Constraints:**  
Daily

**Strategy:**

This Northern Trust EAFE Small Cap Index strategy seeks to replicate the returns of the MSCI EAFE Small Cap index, a proxy for developed market small cap equity performance (excluding the U.S. and Canada). The strategy provides broad diversification (there are 21 developed country indices within the index) at minimal expense.

Performance (%):	4Q12	Fiscal YTD	Since 11/1/12
<b>Northern Trust EAFE Small Cap</b>	NA	NA	5.1
<b>Net of Fees</b>	NA	NA	5.7
MSCI EAFE Small Cap	6.0	14.4	5.1

	12/31/12	
	Northern Trust EAFE Small Cap	MSCI EAFE Small Cap
<b>Capitalization Structure:</b>		
Weighted Average Market Cap. (US\$ billion)	1.7	1.7
Median Market Cap. (US\$ million)	701.4	702.7
Large (% over US\$10 billion)	0	0
Medium (% US\$2 billion to US\$10 billion)	34	34
Small (% under US\$2 billion)	66	66
<b>Fundamental Structure:</b>		
Price-Earnings Ratio	19	19
Price-Book Value Ratio	2.2	2.2
Dividend Yield (%)	3.2	3.1
Historical Earnings Growth Rate (%)	5	5
Projected Earnings Growth Rate (%)	11	11
<b>Sector Allocation (%):</b>		
Health Care	6	5
Information Technology	9	9
Financials	20	20
Industrials	22	22
Energy	5	5
Telecom	1	1
Utilities	2	2
Consumer Staples	6	6
Consumer Discretionary	19	19
Materials	11	11
<b>Diversification:</b>		
Number of Holdings	2,193	2,177
% in 5 largest holdings	1	1
% in 10 largest holdings	3	3
<b>Region Allocation (%):</b>		
Europe	57	57
Pacific Rim	43	43
<b>Largest Five Holdings:</b>		
MTU Aero Engines	0.3	Capital Goods
Infirma Plc	0.3	Media
Travis Perkins	0.3	Capital Goods
Bilfinger Se	0.3	Commercial & Professional Services
Mondi Plc	0.3	Materials



# San Jose Federated City Employees' Retirement System

## RS Investments Small Cap Value Portfolio Detail as of 12/31/12

**Mandate:** Domestic Equities  
**Active/Passive:** Active  
**Market Value:** \$51.0 million  
**Portfolio Manager:** Team  
**Location:** San Francisco, California  
**Inception Date:** 8/1/2010  
**Account Type:** Separately Managed

	Value	Core	Growth
Large			
Medium			
Small			

### Fee Schedule:

1.00% on first \$30 mm; 0.80% on next \$20 mm; 0.60% thereafter

### Liquidity Constraints:

Daily

### Strategy:

RS employs a bottom-up, fundamental stock picking approach to portfolio management. The investment team seeks to optimize risk-adjusted returns through deep company-specific fundamental research. When evaluating investments for the strategy, RS Investments employs a return-on-capital analysis, combining balance sheet and cash flow analysis. RS believes that stock price performance is more highly correlated to improving returns on capital than it is to traditional valuation measurements like price-to-earnings, price-to-sales or price to book value. The strategy typically invests most of its assets in securities of U.S. companies but may also invest up to 15% of its assets in foreign securities.

### Guidelines:

Position size <9%, industry exposure <25%, maximum 10% non U.S.

Performance (%):	4Q12	Fiscal YTD	1 YR	Since 8/1/10
<b>RS Investments Small Cap Value</b>	<b>6.3</b>	<b>14.2</b>	<b>22.0</b>	<b>14.9</b>
<b>Net of Fees</b>	<b>6.3</b>	<b>14.0</b>	<b>21.4</b>	<b>14.1</b>
Russell 2000 Value	3.2	9.1	18.1	12.1
Peer Small Cap Value	3.9	9.9	18.2	13.5
Peer Ranking (percentile)	11	7	21	24

Capitalization Structure:	12/31/12		9/30/12	
	RS SCV	Russell 2000 Value	RS SCV	Russell 2000 Value
Weighted Average Market Cap. (US\$ billion)	2.9	1.2	2.9	1.1
Median Market Cap. (US\$ billion)	2.4	0.5	2.5	0.4
Large (% over US\$10 billion)	0	0	0	0
Medium (% US\$2 billion to US\$10 billion)	68	14	72	12
Small (% under US\$2 billion)	32	86	28	88

### Fundamental Structure:

Price-Earnings Ratio	28	23	20	22
Price-Book Value Ratio	2.4	1.5	2.3	1.5
Dividend Yield (%)	1.4	2.2	1.9	2.1
Historical Earnings Growth Rate (%)	-2	0	0	0
Projected Earnings Growth Rate (%)	9	12	10	11

### Sector Allocation (%):

Information Technology	21	12	21	12
Health Care	8	4	9	5
Energy	10	6	9	6
Utilities	9	6	9	7
Materials	7	6	7	6
Industrials	13	13	12	13
Telecom	0	1	0	1
Consumer Staples	2	2	1	3
Consumer Discretionary	10	12	15	12
Financials	20	37	17	36

### Diversification:

Number of Holdings	48	1,422	45	1,406
% in 5 largest holdings	23	2	25	2
% in 10 largest holdings	41	4	44	4

### Largest Ten Holdings:

		Industry
Calpine	5.8	Utilities
Peyto Exploration & Developmt	4.6	Energy
Waste Connections	4.3	Commercial & Professional Services
Compass Minerals	4.3	Materials
Integrated Device Technology	4.2	Semiconductors
GameStop	4.0	Retailing
Axiom	3.7	Software & Services
First Horizon National	3.5	Banks
StanCorp Financial	3.5	Insurance
DST Systems	3.4	Software & Services



# San Jose Federated City Employees' Retirement System

## Eagle Small Cap Growth Portfolio Detail as of 12/31/12

**Mandate:** Domestic Equities  
**Active/Passive:** Active  
**Market Value:** \$48.4 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 \$7 mm; 0.60% on next \$40 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 falls within the market cap range of the Russell 2000 Index 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 (%):	4Q12	Fiscal YTD	1 YR	3 YR	5 YR	Since 6/1/98
<b>Eagle Small Cap Growth</b>	<b>2.3</b>	<b>9.4</b>	<b>17.8</b>	<b>15.7</b>	<b>7.0</b>	<b>7.1</b>
<b>Net of Fees</b>	<b>2.3</b>	<b>9.4</b>	<b>17.5</b>	<b>15.1</b>	<b>6.5</b>	<b>6.5</b>
Russell 2000 Growth	0.4	5.3	14.6	12.8	3.5	3.9
Peer Small Cap Growth	0.9	6.6	14.9	14.1	4.4	7.9
Peer Ranking (percentile)	19	4	22	27	13	65

Risk: (sixty months)	Standard Deviation	Beta	Sharpe Measure	Info. Ratio	Correlation to Index
<b>Eagle Small Cap Growth</b>	<b>27.4%</b>	<b>0.98</b>	<b>0.24</b>	<b>0.78</b>	<b>0.98</b>
Russell 2000 Growth	26.7	1.00	0.11	NA	1.00

Capitalization Structure:	12/31/12		9/30/12	
	Eagle	Russell 2000 Growth	Eagle	Russell 2000 Growth
Weighted Average Market Cap. (US\$ billion)	1.6	1.5	1.5	1.5
Median Market Cap. (US\$ billion)	1.4	0.6	1.3	0.6
Large (% over US\$10 billion)	0	0	0	0
Medium (% US\$2 billion to US\$10 billion)	27	28	23	26
Small (% under US\$2 billion)	73	72	77	74

Fundamental Structure:	12/31/12	9/30/12
Price-Earnings Ratio	33	32
Price-Book Value Ratio	3.5	3.6
Dividend Yield (%)	0.5	0.5
Historical Earnings Growth Rate (%)	8	13
Projected Earnings Growth Rate (%)	18	19

Sector Allocation (%):	12/31/12	9/30/12
Materials	7	6
Financials	10	7
Energy	8	7
Health Care	21	22
Consumer Discretionary	17	18
Utilities	0	0
Telecom	0	1
Consumer Staples	4	4
Information Technology	19	21
Industrials	15	15

Diversification:	12/31/12	9/30/12
Number of Holdings	96	100
% in 5 largest holdings	13	13
% in 10 largest holdings	22	21

Largest Ten Holdings:	12/31/12	Industry
Geospace Technologies	3.6	Energy
Sirona Dental Systems	2.7	Health Equipment & Services
Genesco	2.6	Retailing
Vitamin Shoppe	2.4	Retailing
Obagi Medical Products	2.1	Pharmaceuticals & Biotech
Quaker Chemical	1.9	Materials
Centene	1.8	Health Equipment & Services
Texas Industries	1.7	Materials
Lufkin Industries	1.7	Energy
Louisiana-Pacific	1.7	Materials



**Real Assets Portfolio Reviews  
As of December 31, 2012**

**Mandate:** Natural Resources  
**Active/Passive:** Active  
**Market Value:** \$124.3 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 11/1/2012  
**Account Type:** Separately Managed

**Fee Schedule:**  
 0.05% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 This Northern Trust Global LargeMid Cap Natural Resources Index seeks an investment return that approximates the performance of the S&P Global LargeMidCap Commodity and Resources Index. The index has equal exposure to three major natural resources industries: energy, materials, and agriculture.

Performance (%):	4Q12	Fiscal YTD	Since 11/1/12
Northern Trust Global LargeMid Cap Natural Resources	NA	NA	1.1
Net of Fees	NA	NA	1.1
S&P Global LargeMid Cap Commodities and Resources	0.1	8.6	1.2

	12/31/12	
	Northern Trust Global NR	S&P Global LargeMid Cap NR
<b>Capitalization Structure:</b>		
Weighted Average Market Cap. (US\$ billion)	86.8	75.8
Median Market Cap. (US\$ billion)	11.6	9.5
Large (% over US\$10 billion)	89	86
Medium (% US\$2 billion to US\$10 billion)	11	14
Small (% under US\$2 billion)	0	0
<b>Fundamental Structure:</b>		
Price-Earnings Ratio	16	16
Price-Book Value Ratio	2.3	2.4
Dividend Yield (%)	2.6	2.5
Historical Earnings Growth Rate (%)	8	12
Projected Earnings Growth Rate (%)	9	9
<b>Sector Allocation (%):</b>		
Materials	60	59
Energy	34	33
Utilities	0	0
Industrials	0	0
Consumer Discretionary	0	0
Financials	0	0
Health Care	0	0
Information Technology	0	0
Telecom	0	0
Consumer Staples	5	8
<b>Diversification:</b>		
Number of Holdings	192	229
% in 5 largest holdings	26	28
% in 10 largest holdings	41	39
<b>Region Allocation (%):</b>		
Europe/North America	76	71
Pacific Rim/Asia	12	13
Asia (emerging)	3	6
Latin America (emerging)	3	4
Europe/MidEast/Africa (emerging)	5	7
<b>Largest Five Holdings:</b>		
		<b>Industry</b>
Monsanto	6.3	Materials
ExxonMobil	5.4	Energy
BHP Billiton	5.0	Materials
Syngenta	4.7	Materials
Potash Corporation	4.4	Materials



**Mandate:** Commodity (net of fees)  
**Active/Passive:** Active  
**Market Value:** \$128.1 million  
**Portfolio Manager:** Team  
**Location:** Pasadena, California  
**Inception Date:** 4/1/2011  
**Account Type:** Commingled Fund

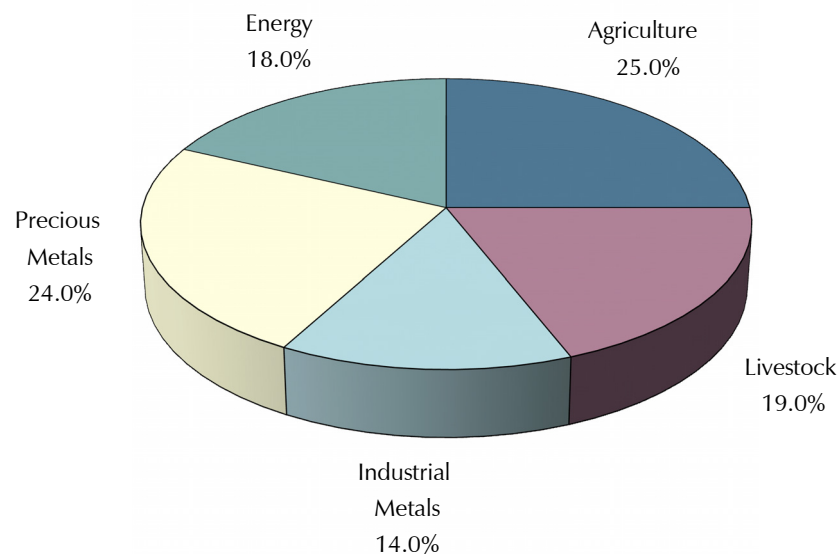
**Fee Schedule:**  
 0.35% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 First Quadrant believes that there are inherent flaws to commodity indices, and they seek to produce a strategy which providing investors a higher correlation to inflation over the long run. First Quadrant utilizes futures and swaps to gain exposure to five commodity complexes, representing twenty specific commodities, and targets 20% risk to each of the commodity complexes. The complexes are energy, industrial metals, precious metals, agriculture, and livestock. The firm employs a quantitative methodology and uses risk as the weighting for each commodity product, making adjustments to the allocations depending upon the perceived volatility environment (high risk, low risk, or moderate risk). The firm will modify the investment exposure based upon the predicted environment ranging from 88% (in a high volatility environment) to 146% (in a low volatility environment). Collateral for the portfolio is actively managed and invested in U.S. Treasuries and agency securities.

Performance (%):	4Q12	Fiscal YTD	1 YR	Since 4/1/11
<b>First Quadrant Risk Parity Commodity Index</b>	<b>-4.9</b>	<b>1.7</b>	<b>-4.7</b>	<b>-9.3</b>
Custom Risk Parity Benchmark	-3.0	4.1	1.3	-6.3
Dow Jones-Commodity U.S. Index	-6.4	2.7	-1.1	-10.7

**Current Allocation:**





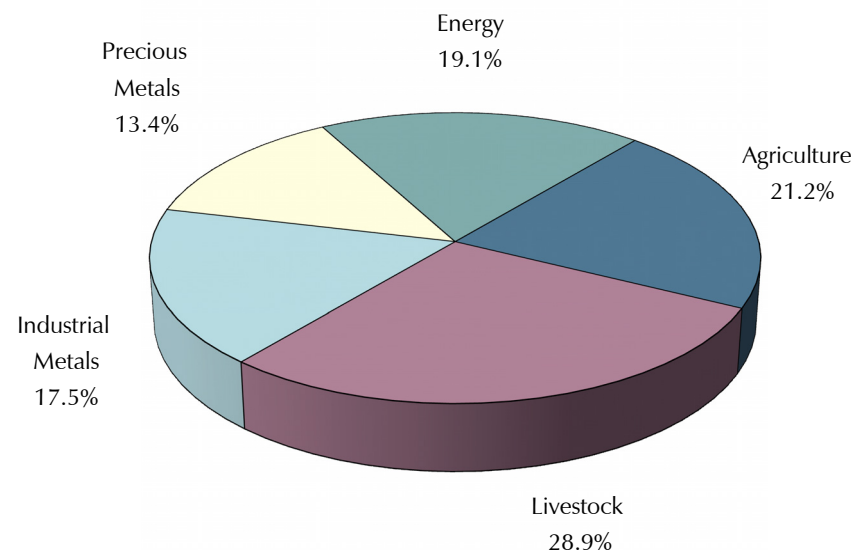
**Mandate:** Commodity  
**Active/Passive:** Active  
**Market Value:** \$131.4 million  
**Portfolio Manager:** Christopher Burton  
**Location:** New York, New York  
**Inception Date:** 4/1/2011  
**Account Type:** Commingled Fund

**Fee Schedule:**  
 0.42% on first \$100 mm; 0.37% thereafter

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 Credit Suisse Asset Management (CSAM) seeks to provide a commodity-based investment return with reduced risk, measured by standard deviation, versus traditional commodity indices. The team aims to capture the spot return of commodities while employing active management techniques to exploit commodity market inefficiencies. The commodities team at CSAM utilizes futures to replicate the risk-based index. The portfolio consists of five commodity complexes (energy, industrial metals, precious metals, agriculture, and livestock) and 24 commodities included in the S&P- Goldman Sachs Commodities Index. CSAM allocates 20% of capital to each of the commodity complexes. Within each commodity complex, the strategy equal weights the specific commodities. The portfolio is rebalanced on a monthly basis. Active strategies used by CSAM seek to exploit the time period (roll date) the fund purchases commodities, using a quantitative and qualitative assessment. Collateral for the fund is actively managed and invested in U.S. Treasuries and agency securities.

**Current Allocation:**



Performance (%):	4Q12	Fiscal YTD	1 YR	Since 4/1/11
<b>Credit Suisse Compound Risk Parity Commodity Index</b>	<b>-2.9</b>	<b>4.6</b>	<b>1.6</b>	<b>-6.2</b>
Custom Risk Parity Benchmark	-3.0	4.1	1.3	-6.3
Dow Jones-Commodity U.S. Index	-6.4	2.7	-1.1	-10.7



**Fixed Income Portfolio Reviews  
As of December 31, 2012**

## San Jose Federated City Employees' Retirement System

## Northern Trust Intermediate Gov't 1-10 Year Portfolio Detail as of 12/31/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$130.1 million  
**Portfolio Manager:** Team  
**Location:** Chicago, Illinois  
**Inception Date:** 10/1/2012  
**Account Type:** Commingled Fund

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**  
 0.05% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 The Northern Trust 1-10 Year Intermediate Government Bond Index Fund seeks to hold a portfolio representative of the intermediate government securities sector of the United States bond and debt market, as characterized by the Barclays Capital Intermediate Government Bond Index.

Performance (%):	4Q12	Fiscal YTD	Since 10/1/12
<b>Northern Trust Intermediate Gov't 1-10 Year</b>	<b>0.0</b>	<b>NA</b>	<b>0.0</b>
<b>Net of Fees</b>	<b>0.0</b>	<b>NA</b>	<b>0.0</b>
Barclays Intermediate Gov't Bond Index	0.0	0.7	0.0

Duration & Yield:	12/31/12		9/30/12	
	NTGI Int Gov't 1-10 yr	Barclays IT Gov't	NTGI Int Gov't 1-10 yr	Barclays IT Gov't
Average Effective Duration (years)	3.6	3.6	3.6	3.7
Yield to Maturity (%)	0.6	0.6	0.6	0.6
Quality Structure (%):				
Average Quality	AAA	AAA	AAA	AAA
AAA (includes Treasuries and Agencies)	100	96	100	96
AA	0	4	0	4
A	0	0	0	0
BBB	0	0	0	0
BB	0	0	0	0
B	0	0	0	0
Below B	0	0	0	0
Non-Rated	0	0	0	0
Sector Allocation (%):				
U.S. Treasury-Nominal	88	88	87	87
U.S. Treasury-TIPS	0	0	0	0
U.S. Agency	12	12	13	13
Mortgage Backed	0	0	0	0
Corporate	0	0	0	0
Bank Loans	0	0	0	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	0	0	0	0
Other	0	0	0	0
Market Allocation (%):				
United States	100	100	100	100
Foreign (developed markets)	0	0	0	0
Foreign (emerging markets)	0	0	0	0
Currency Allocation (%):				
Non-U.S. Dollar Exposure	0	0	0	0



# San Jose Federated City Employees' Retirement System

# Russell Investments Barclays U.S. TIPS Portfolio Detail as of 12/31/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$116.0 million  
**Portfolio Manager:** Russell Investments (Transition Manager)  
**Location:** Tacoma, Washington  
**Inception Date:** 5/1/2010  
**Account Type:** Separately Managed

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**

0.05% on first \$200 mm; 0.03% on next \$200 mm; 0.015% thereafter

**Liquidity Constraints:**

Daily

**Strategy:**

Russell Investments seeks to construct a portfolio of U.S. TIPS securities subject to Staff's guidelines.

Performance (%):	4Q12	Fiscal YTD	1 YR	Since 5/1/10
<b>Russell Investments Barclays U.S. TIPS</b>	<b>0.4</b>	<b>1.8</b>	<b>3.4</b>	<b>6.7</b>
<b>Net of Fees</b>	<b>0.4</b>	<b>1.8</b>	<b>3.4</b>	<b>6.7</b>
TIPS Blended Benchmark <sup>1</sup>	0.6	2.2	4.8	7.2
Barclays U.S. TIPS	0.7	2.8	7.0	8.9

Quality Structure (%):	12/31/12		9/30/12	
	Barclays U.S. TIPS	Barclays TIPS	Barclays U.S. TIPS	Barclays TIPS
Average Quality	AAA	AAA	AAA	AAA
AAA (includes Treasuries and Agencies)	100	100	100	100
AA	0	0	0	0
A	0	0	0	0
BBB	0	0	0	0
BB	0	0	0	0
B	0	0	0	0
Below B	0	0	0	0
Non-Rated	0	0	0	0

Sector Allocation (%):				
U.S. Treasury-Nominal	0	0	0	0
U.S. Treasury-TIPS	100	100	100	100
U.S. Agency	0	0	0	0
Mortgage Backed	0	0	0	0
Corporate	0	0	0	0
Bank Loans	0	0	0	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	0	0	0	0
Other	0	0	0	0

Market Allocation (%):				
United States	100	100	100	100
Foreign (developed markets)	0	0	0	0
Foreign (emerging markets)	0	0	0	0

Currency Allocation (%):				
Non-U.S. Dollar Exposure	0	0	0	0

<sup>1</sup> The TIPS Blended Benchmark Consists of 50% Barclays U.S. TIPS & 50% Barclays U.S. TIPS 1-5 years. Prior to January 1, 2012, it was comprised of 100% Russell Investments Barclays U.S. TIPS.



# **Global Macroeconomic Outlook December 2012**

### Global Economic Outlook

**We believe economic growth will remain subdued in 2013 for developed economies and will begin to pick up for emerging economies.**

- The cyclical slowdown in emerging economies could experience a turning point in 2013, as governments transition to more stimulative regimes.
- In developed economies, high unemployment and government austerity measures, particularly in Europe, should keep growth subdued.
- Inflation is forecasted to be below the twenty-year average globally in 2013. Slow growth globally should keep inflation at moderate levels in the developed world. The possibility of inflationary pressures returning in emerging economies exists as policymakers loosen monetary policy.

	IMF 2013 Real GDP Forecast	Actual Real GDP 10 Year Average	IMF 2013 Inflation Forecast	Actual Inflation 10 Year Average
World	3.6%	3.8%	3.7%	4.0%
U.S.	2.1	1.7	1.8	2.5
Japan	1.2	0.9	-0.2	-0.1
European Union	0.5	1.3	1.8	2.3
Emerging Markets	5.6	6.6	5.8	6.4

Source: IMF.

### Global Economic Outlook, Continued

**Europe, the emerging markets, the U.S., and more recently Japan, have pursued significant monetary stimulus.**

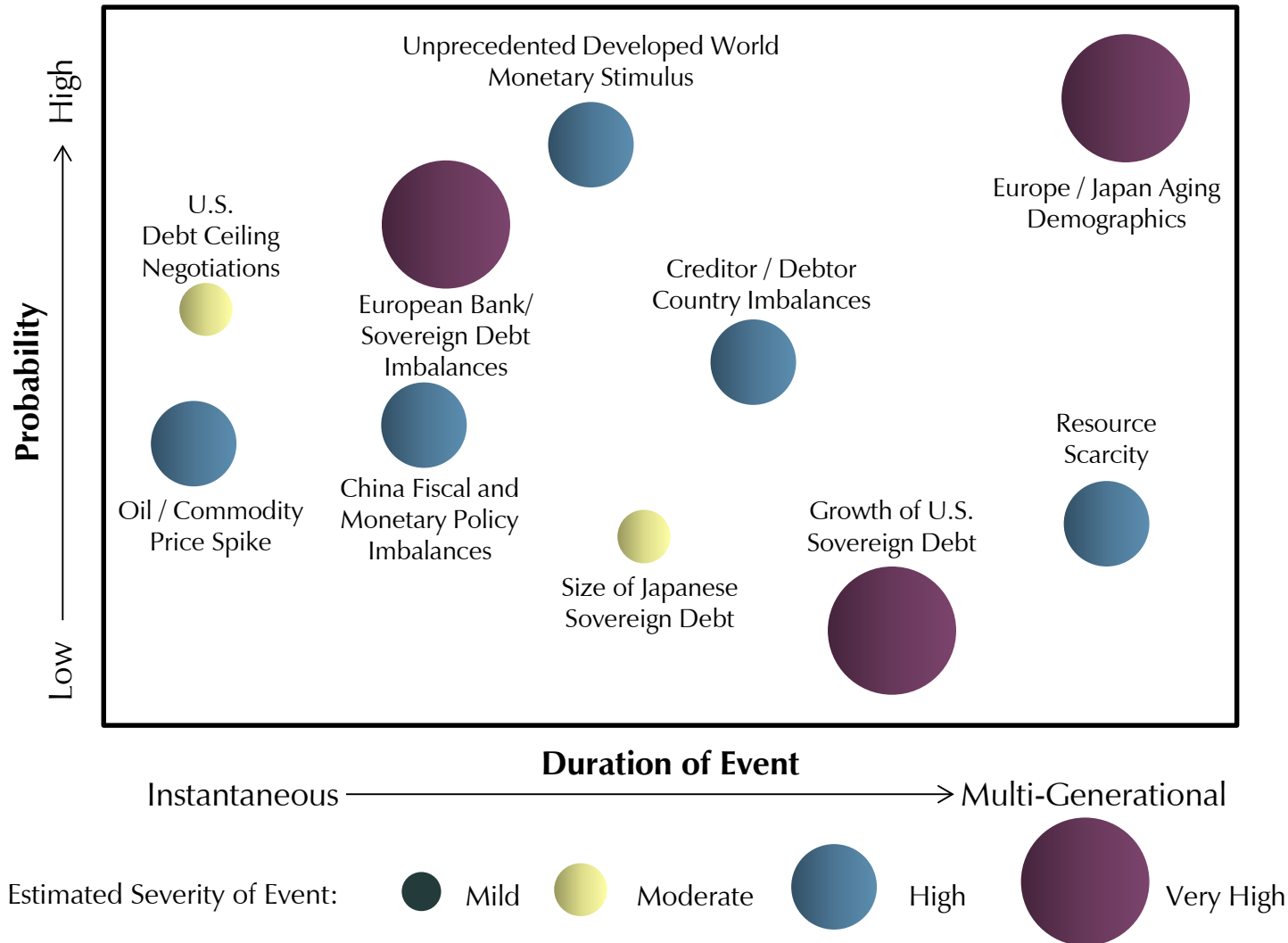
- In December, the U.S. Federal Reserve announced that it would continue to keep interest rates low as long as unemployment remained above 6.5%.
- In an effort to battle two decades of deflation, the Bank of Japan has embarked on a ¥101 trillion (\$1.1 trillion) asset purchase and lending program. Japan is likely to continue to expand its asset buying program in 2013 and could also increase their inflation target.
- In China, it is likely policymakers will continue to cut interest rates and reduce bank reserve requirements, due in part to diminished export demand.

**With the exception of Japan, additional fiscal stimulus looks unlikely in 2013 in developed economies due to high government debt levels.**

- In early January, Congress came to a last minute deal to avert going over the “Fiscal Cliff” that included tax increases for the wealthy, with all other Bush-era tax cuts made permanent.
- The deal also extended long-term unemployment benefits through 2013 and delayed addressing the mandatory spending cuts by two months. Notably not included in the deal was an extension of the 2% reduction in payroll taxes and entitlement reforms. Expectations are that the Fiscal Cliff deal will reduce 2013 GDP by approximately 1% (versus a 4% reduction if no deal had been struck).
- Japan’s new Prime Minister, Shinzo Abe, recently announced that a “flexible fiscal policy” would be a part of the government’s plan to fight deflation. Other elements of the strategy included “a bold monetary policy” and “a growth strategy aimed at stimulating private investment.”

**Two issues remain of primary concern: 1) a fragile recovery in the U.S. and 2) continued economic sluggishness and financial risk in Europe.**

**Macroeconomic Risk Matrix**





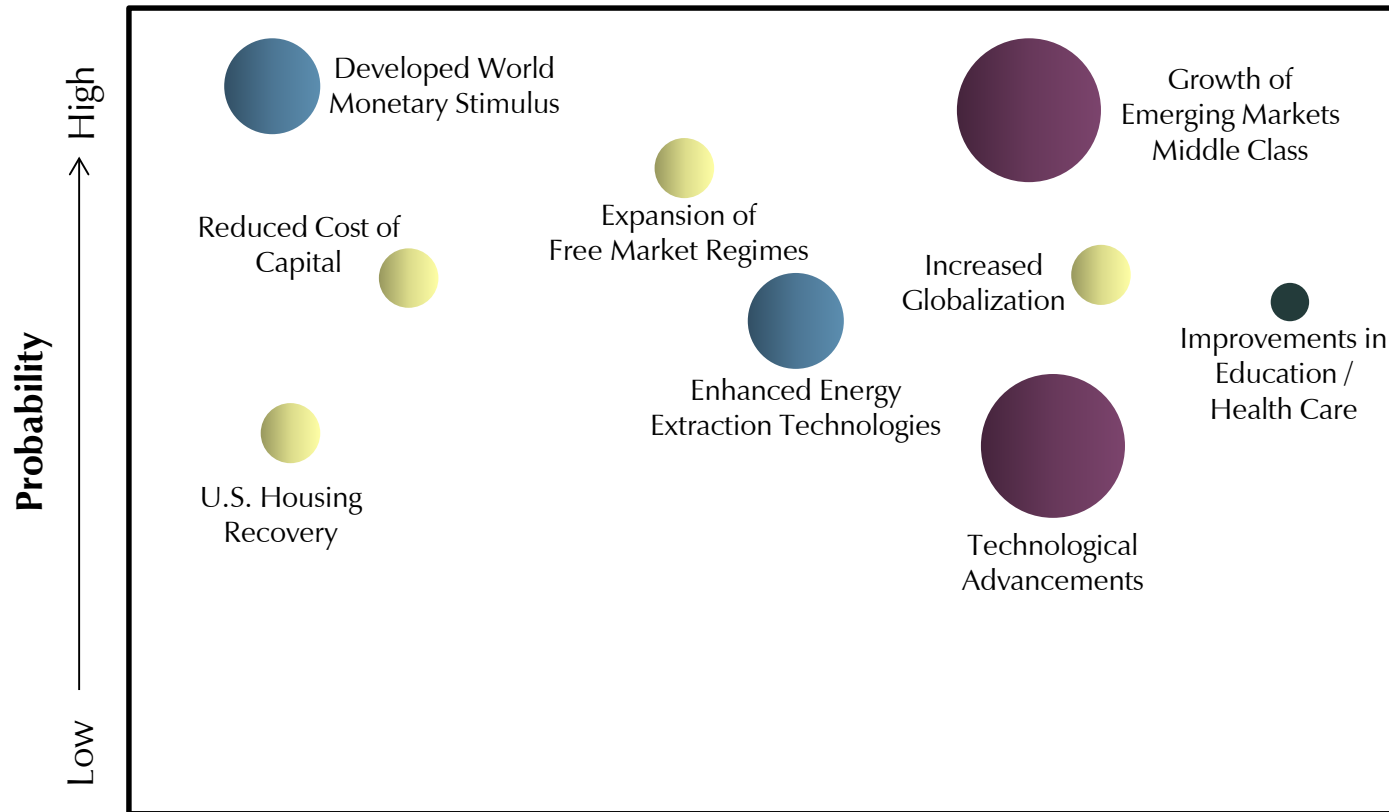
## Macroeconomic Risk Overviews

<b>European Bank/Sovereign Debt Imbalances</b>	The crisis is rooted in structural issues in the Euro-zone related to the combination of a single currency (euro) combined with 17 fiscal authorities. Several negative outcomes are possible from the sovereign debt crisis, including sequential sovereign default, a break-up of the euro, bank failures, political regime change, and rapid de-leveraging/deflation.
<b>U.S./Japan Sovereign Debt</b>	Similar to the sovereign debt crisis in Europe, the potential crises in Japan and the U.S. are founded on very large and growing fiscal debt burdens, combined with slow growth. However, unlike Europe, Japan and the U.S. both have single fiscal and monetary authorities. Thus, central banks can (and did) print money to avoid the risk of default.
<b>Europe/Japan Aging Demographics</b>	In Japan and Europe birth rates have declined, resulting in populations becoming older and smaller relative to the rest of the world. These demographic trends will have a negative long-term impact on GDP growth and fiscal budgets, amplifying debt problems.
<b>Oil/Commodity Price Spike</b>	A sharp rise in commodity prices (particularly oil) could weigh on global growth. As key inputs to the manufacturing process and transportation, commodity price increases can destroy real incomes and wealth and result in less consumption of other goods.
<b>U.S. Debt Ceiling Negotiations</b>	The U.S. Treasury is scheduled to hit the debt ceiling in mid February 2013. The last debt ceiling debate in the summer of 2011 involved significant political grand standing, as spending cuts were attached to the issue of increasing the U.S. borrowing limit. The president has pledged to not connect spending cuts to "paying the bills" this time, but Congress has already shown signs that they intend to do so. Another round of contentious debates in Washington over increasing the debt ceiling could lead to volatility in the capital markets and another downgrade of U.S. debt.
<b>China Fiscal and Monetary Policy Imbalances</b>	In reaction of declining growth and inflation, Chinese policy makers have reversed course and recently reduced interest rates and bank reserve requirements, and have initiated a fresh round of government-funded infrastructure projects. While these measures should increase GDP growth, they also could create a new round of inflation or amplify existing environmental concerns. A change in China's policies to mitigate inflationary and environmental risks could negatively impact GDP growth.

**Macroeconomic Risk Overviews, Continued**

<p><b>Unprecedented Developed World Monetary Stimulus</b></p>	<p>After the Global Financial Crisis, the developed world injected massive amounts of liquidity into the system in an effort to prevent depression-like declines in growth. The recent acceleration of expansionary monetary policy around the world (e.g., quantitative easing) increases the risk of unintended inflationary consequences in future years. Conversely, fiscal policy globally is becoming tighter as governments run up against borrowing capacity limitations. If fiscal stimulus is removed too quickly, the fragile recovery from the Global Financial Crisis may be denied.</p>
<p><b>Resource Scarcity</b></p>	<p>The increasing world population, urbanization, and a growing middle class, particularly in emerging economies, could all lead to a scarcity of resources going forward, including water, land, energy, and minerals. As demand continues to grow and supply declines, it is possible that commodity prices will skyrocket, hurting the living standards of many and increasing the risk of geopolitical conflicts.</p>
<p><b>Creditor/Debtor Country Imbalances</b></p>	<p>The acceleration of global trade created increasing imbalances among countries that are net exporters (e.g., China, Germany, major oil producers) and those that are net importers (e.g., U.S., U.K, and periphery Europe). These imbalances appear to reflect market manipulation (e.g., subsidies, central bank influence) more than differences in global competitiveness. Unwinding global trade imbalances would be painful for all involved, especially if done quickly.</p>

Positive Macroeconomic Trends Matrix



Instantaneous —————> Multi-Generational

Projected Impact of Event: ● Mild   ● Moderate   ● Significant   ● Enduring

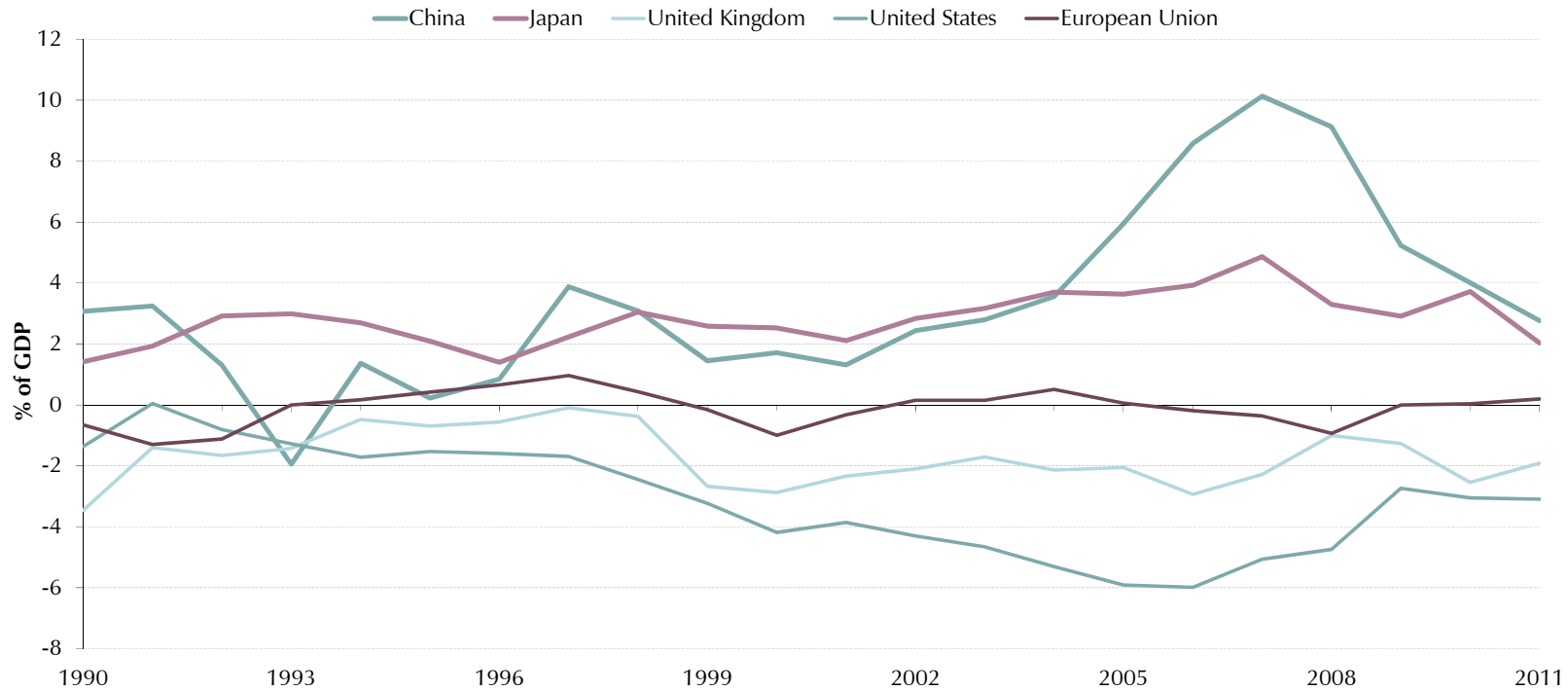
**Positive Macroeconomic Trends Overviews**

<b>Reduced Cost of Capital</b>	Central banks globally have reduced interest rates to historic lows to stimulate growth. Although this has had a muted impact thus far in light of global de-leveraging and restrictive bank lending, it should become increasingly stimulative as the de-leveraging process progresses.
<b>Expansion of Free Market Regimes</b>	The “Arab Spring” saw multiple regimes overturned in the Middle East and North Africa, sparked by civil unrest over high poverty levels, rising unemployment, and soaring food costs. Although several of these countries are struggling with the transition from the old regime (e.g., Egypt), it is likely that increased social and economic freedoms will be beneficial for long-term growth.
<b>Growth of Emerging Markets Middle Class</b>	In emerging economies, the size of the middle class is projected to grow significantly over the next twenty years. The growing middle class in the emerging economies should increase consumption globally, which in turn will drive GDP growth and create jobs.
<b>Increased Globalization</b>	The pace of globalization has accelerated, particularly in emerging economies. Increased trade and investment, as well as access to foreign capital and export markets for corporations, should lead to lower costs, higher efficiencies, and higher global growth.
<b>Improvements in Education/Healthcare</b>	Literacy rates and average life spans have increased globally, particularly in the emerging economies. Higher literacy rates will likely be a driver of future growth, as the ability to read helps people learn new skills and improve existing skills. When people live longer it increases incentives to make long-term investments in human capital (i.e., education and training), resulting in a more productive work force and ultimately more growth.
<b>Technological Advancements / Process Enhancements</b>	Technological advancement, particularly in computers and software, as well as in crop harvesting, should support global growth. Increases in technology lead to higher output with the same resources. The benefits of advancements in technology can take the form of decreasing the cost of existing products or of developing new or improved items.

**Positive Macroeconomic Trends Overviews, Continued**

<p><b>Enhanced Energy Extraction Technologies</b></p>	<p>Fracking technologies have allowed large new supplies of natural gas and oil to be extracted from rocks, predominantly in the U.S. The large new supply of natural gas has decreased U.S. prices to levels considerably below the rest of the world. Going forward, it is likely that other countries will work to improve their fracking technologies, further increasing the supply of oil and gas globally.</p>
<p><b>U.S. Housing Recovery</b></p>	<p>The U.S. housing market continues to show signs of recovery as rents increase and mortgage rates remain at historic lows. Building permits, housing starts, and prices have all increased recently as demand picks-up. A recovery in the U.S. housing market should create jobs both in the construction and financial services industries, potentially decreasing the unemployment rate and ultimately increasing growth.</p>
<p><b>Developed World Monetary Stimulus</b></p>	<p>Developed market central banks have embarked on a massive monetary stimulus campaign in the aftermath of the Global Financial Crisis. The U.S., European, and Japanese central banks continue to maintain interest rates at record lows, as well as purchase assets (quantitative easing). Going forward, increased liquidity and the cheap cost of capital should stimulate growth.</p>

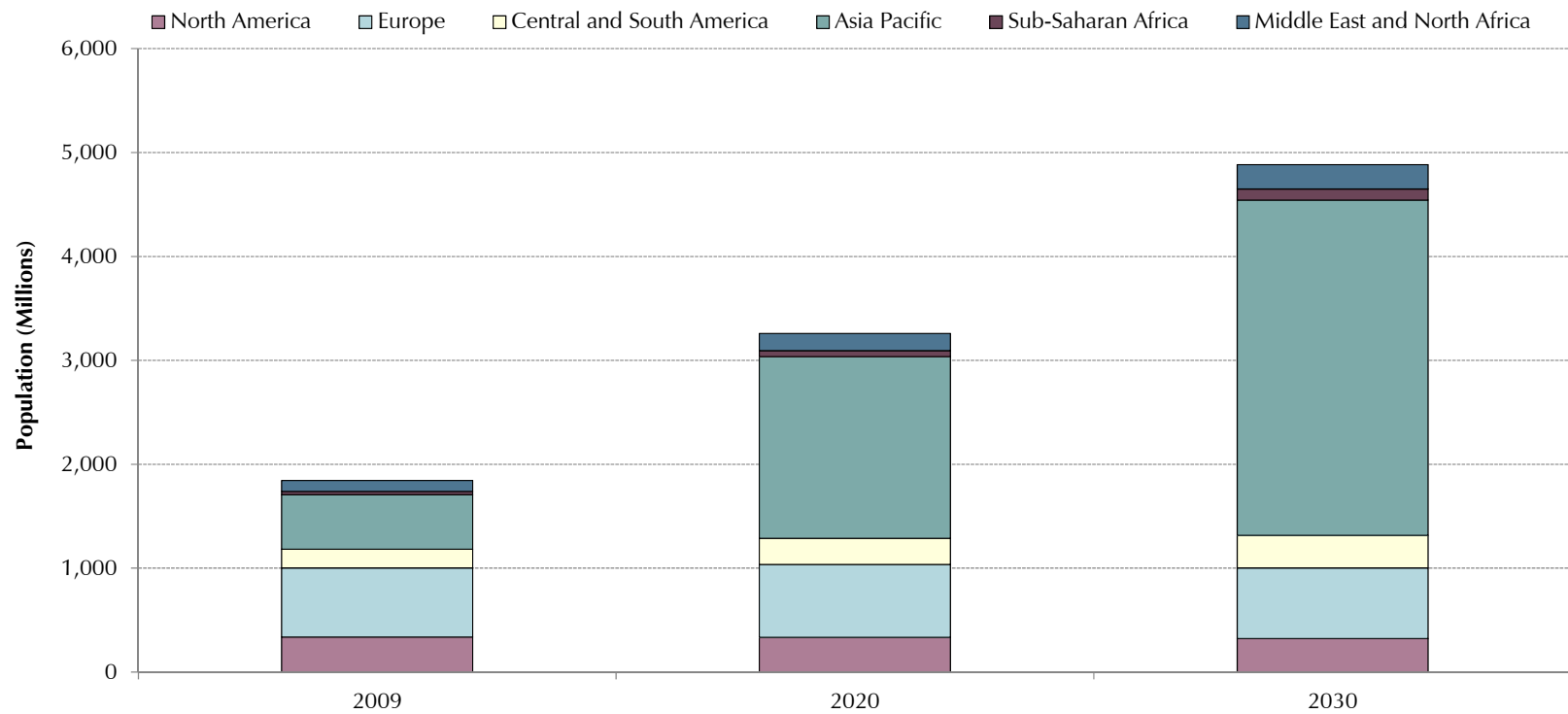
Current Account Balance as % of GDP



Source: IMF.

- Trade imbalances have been shrinking since the Global Financial Crisis, as developed world export demand has declined in light of recessionary pressures.
- Since the end of 2007, China's current account balance as a percentage of GDP has decreased by over 70%.

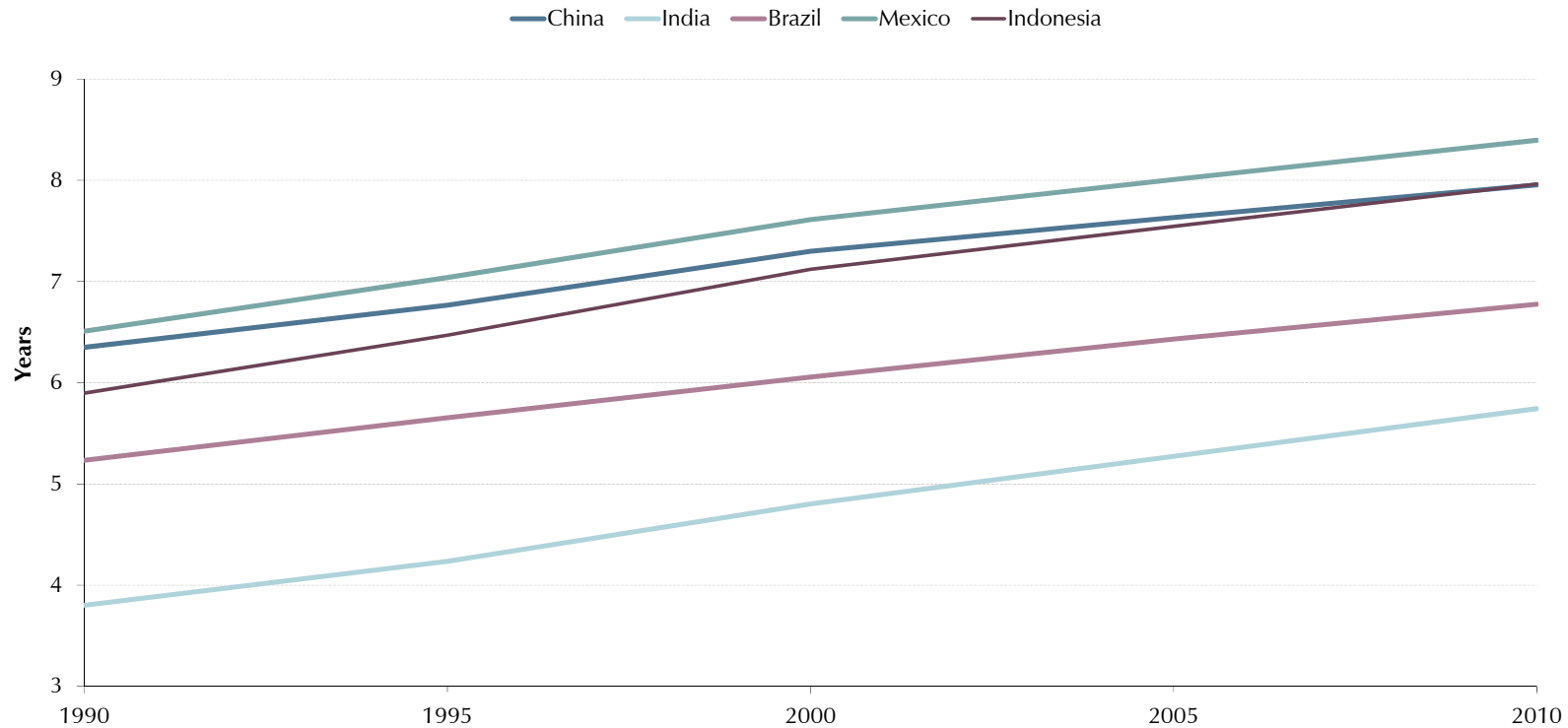
Size of the Middle Class by Region: 2009 - 2030



Source: Brookings Institute.

- The size of the middle class is projected to grow by over 250% globally by the year 2030, with the largest growth forecasted for emerging market countries.
- The region with the largest projected growth in the middle class is Asia Pacific, projected to increase over 6 times.

Average Years of Schooling (15+ Years Old)

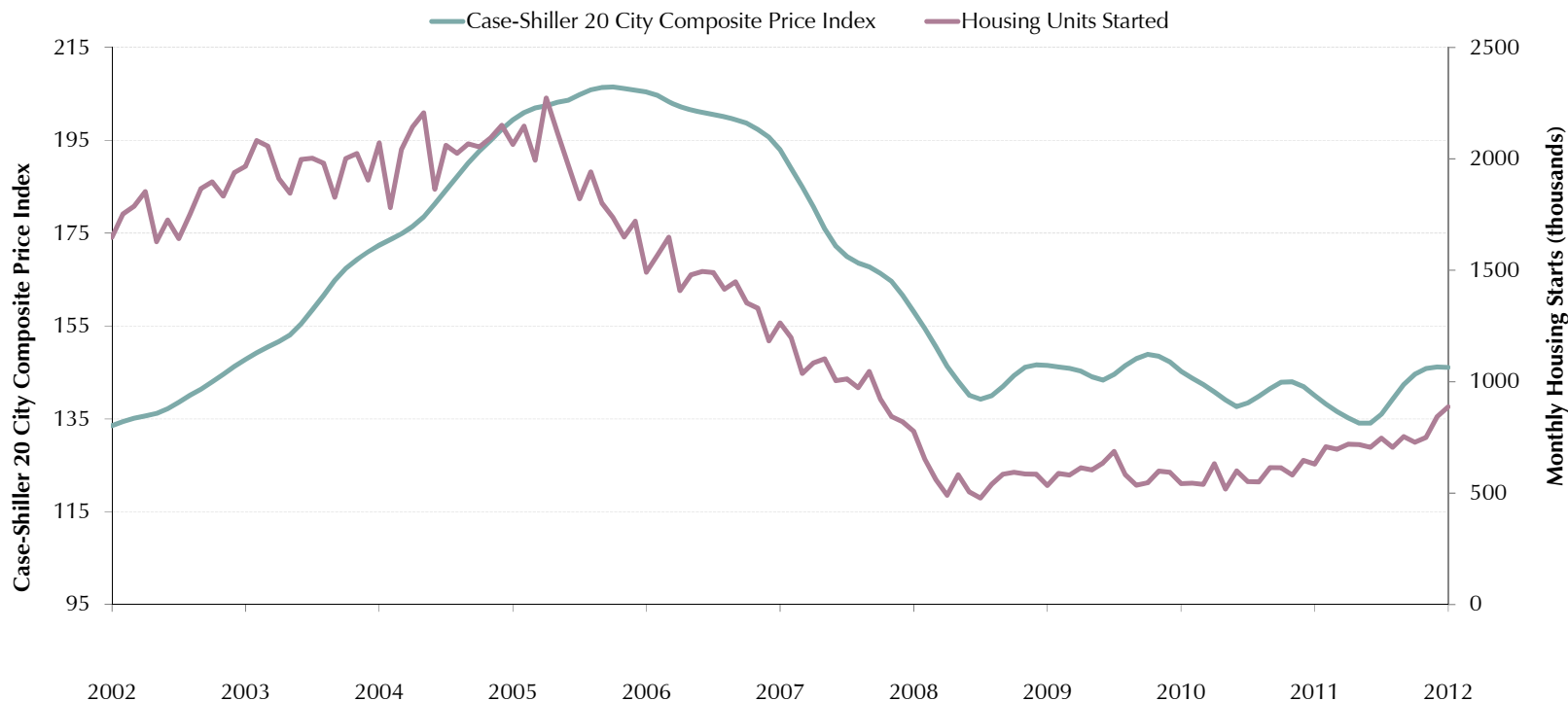


Source: World Bank.

- The average length of schooling in emerging economies has steadily increased over the last twenty years.
- Higher education levels in developing countries should spur future growth.



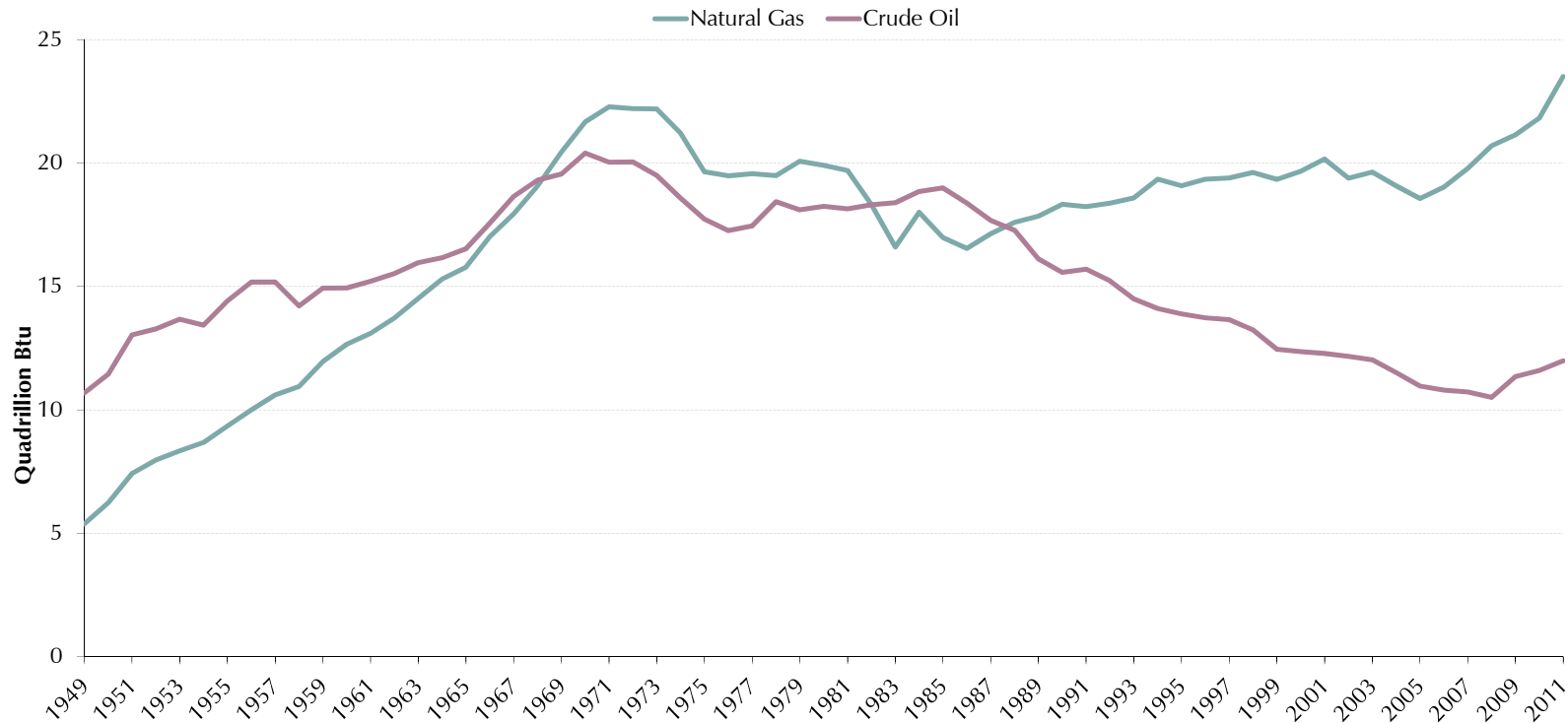
### U.S. Housing Market



Source: S&P, FactSet. Data is as of October 31, 2012.

- The U.S. housing market is showing signs of moving from stabilization to recovery.
- Historically low mortgage rates and increasing rents have made purchasing homes an attractive option for many, but bank lending standards remain strict in the aftermath of the Global Financial Crisis.

U.S. Energy Production: 1949 - 2011

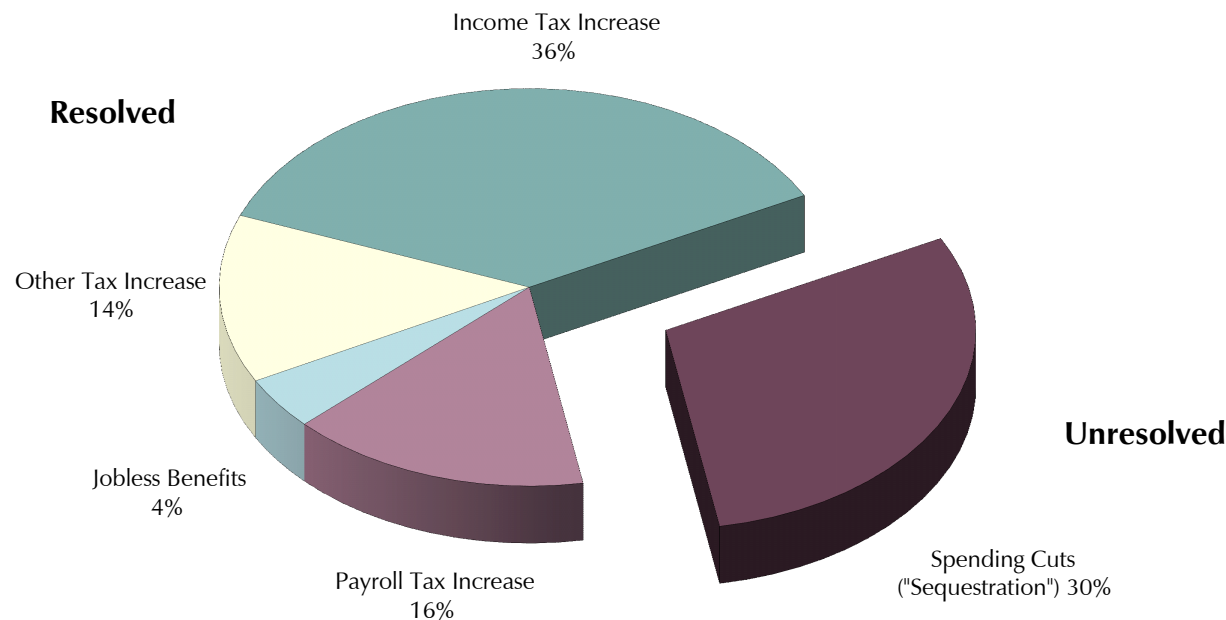


Source: EIA.

- Since the mid-1980s natural gas production in the U.S. has increased by over 40%, due to advances in “fracking” technologies, lowering prices significantly relative to the rest of the world.
- Although U.S. oil production increased recently, it has declined significantly over the last 30 years.

**U.S. Fiscal Cliff Components**

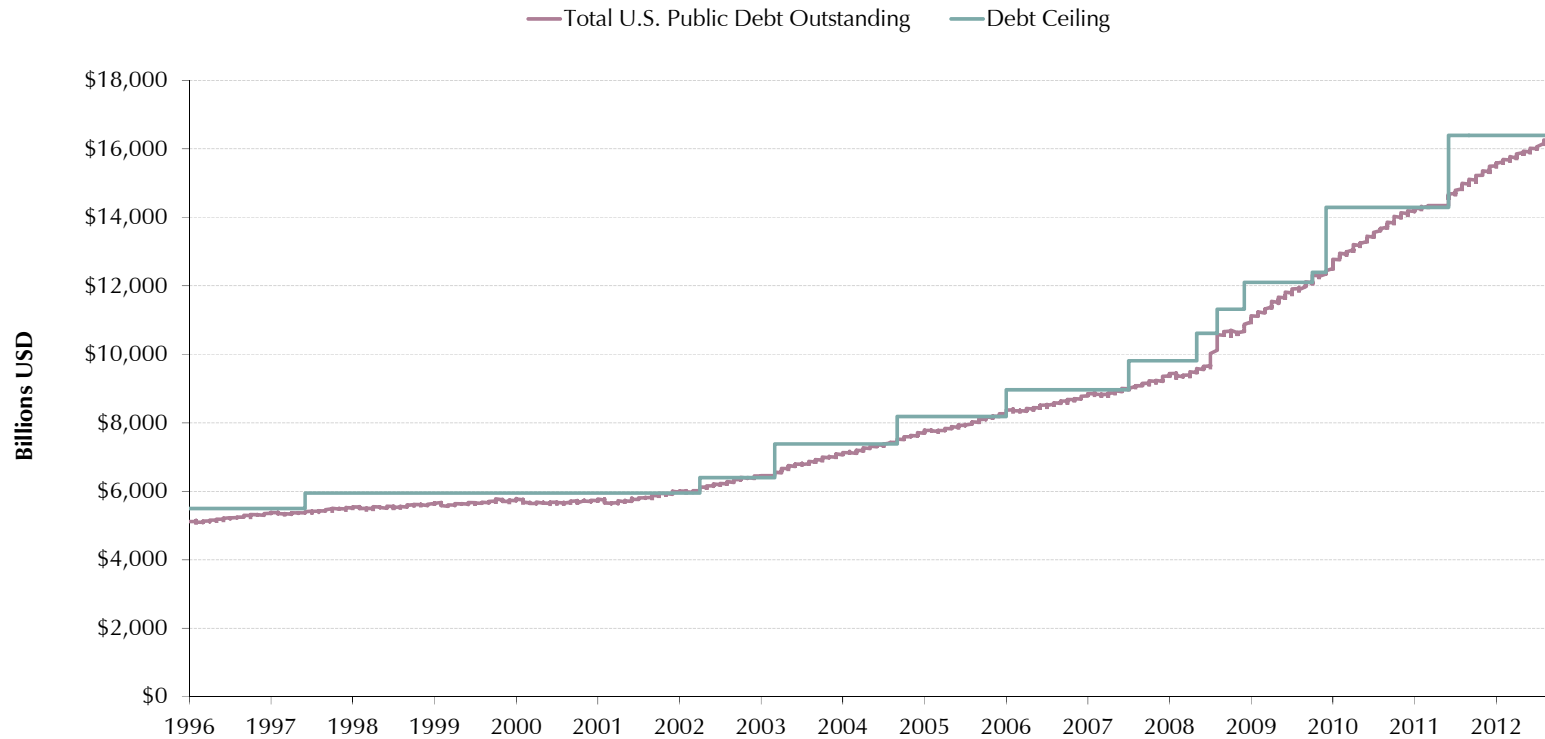
\$606 billion



Source: Congressional budget Office, "Economic Effects of Reducing the Fiscal Restraint Scheduled to Occur in 2013," May 2012.

- In similar fashion to the debt ceiling debates of the summer of 2011, Congress came to a last minute deal to avert going over the "Fiscal Cliff."
- The focal point of the deal was an increase in the marginal tax rate for individuals earning over \$400,000 and families earning over \$450,000 from 35.0% to 39.6%, with all other Bush-era tax cuts made permanent.
- Of note, the deal delayed addressing the "Sequestration" cuts by two months; the same time the need to raise the debt ceiling will be addressed.

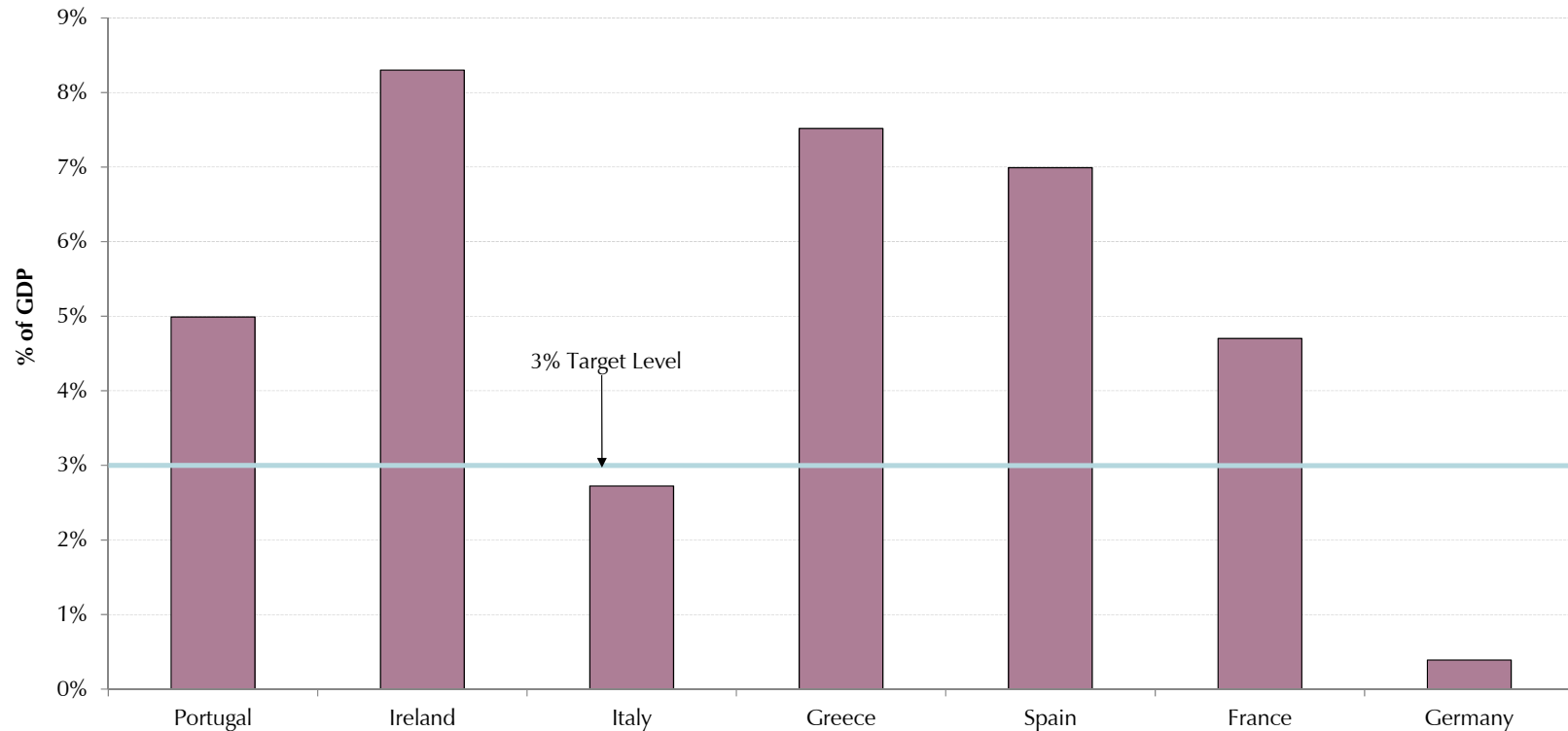
### U.S. Public Debt Outstanding versus the Debt Ceiling



Source: Treasury Direct and FAS. Data is as of December 31, 2012.

- The “debt ceiling,” the Federal Government’s permissible level of outstanding debt, has been increased 12 times since 1996, as the U.S. debt level ballooned more than three-fold.
- In February, the U.S. Congress is scheduled to address the need to raise the “debt ceiling” yet again.

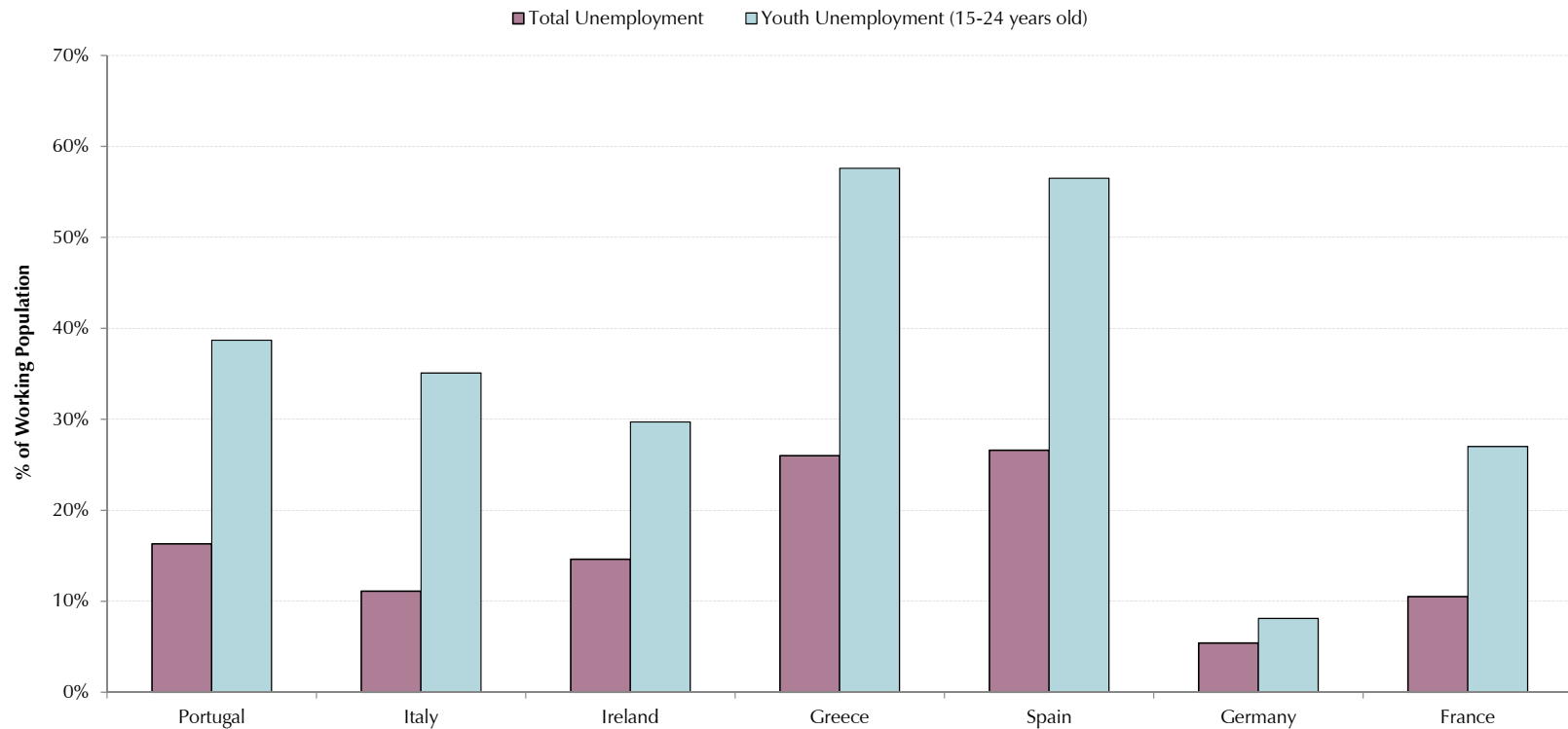
European Deficit as % of GDP



Source: IMF. Data represents the IMF's 2012 estimates.

- Many European countries remain well above the areas budget target that calls for deficits to be under 3% of gross domestic product calling for further rounds of austerity.
- Efforts to further reduce deficits through tax increases and spending cuts could weigh heavily on the regions already fragile economy.

### European Unemployment Rates



Source: Eurostat. Data is as of November 30, 2012 with the exception of Greece, which is as of 9/30/12.

- Conditions in the Eurozone continue to deteriorate, with the region’s economy slipping back into recession and unemployment reaching record highs.
- Youth unemployment is much higher across the region, particularly in peripheral nations, creating the potential for a “lost generation” of workers.

## Summary

**The global economy is facing two primary concerns: a fragile recovery in the U.S. and continued economic sluggishness and financial risk in Europe.**

- In the developed economies we expect GDP growth to remain sluggish in 2013 due to high unemployment, fiscal austerity measures, and continued deleveraging.
- As governments loosen monetary policy in emerging economies, the cyclical slowdown could experience a turning point in 2013.
- Slow growth globally should keep inflation subdued in the near-term. The potential for the return of inflationary pressures exists in emerging economies as monetary policy is loosened.
- Continued monetary stimulus in Europe, the emerging economies, the U.S., and Japan is likely going forward.
- Further fiscal stimulus looks unlikely in 2013 in developed economies, as the political will declines in the face of higher government debt levels. The exception is Japan, which has pledged to increase fiscal spending in an effort to fight deflation.

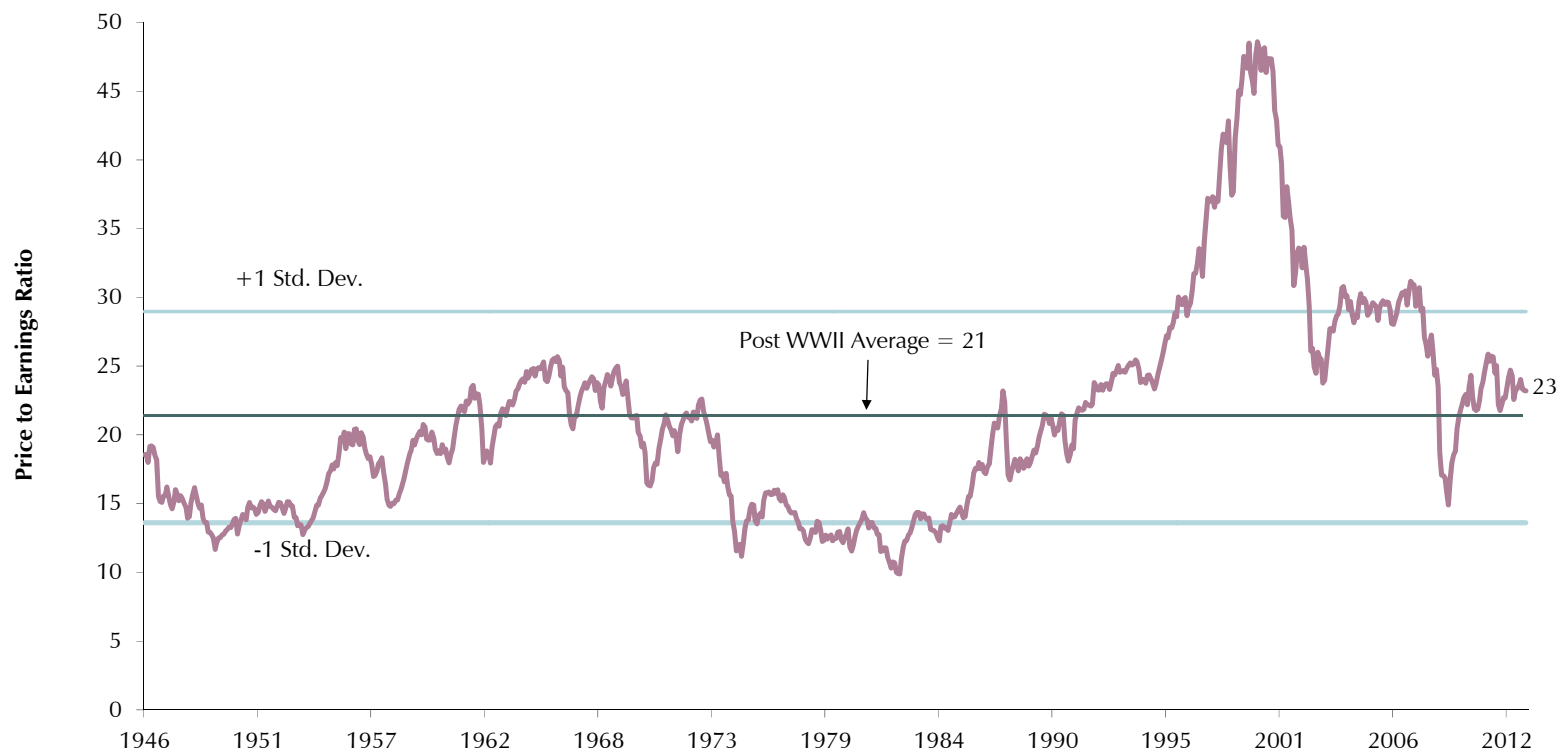
# Capital Markets Outlook



## Capital Markets Outlook<sup>1</sup>

- Investors are faced with two primary issues in the near-term: 1) historically low bond yields, and 2) the potential for deteriorating earnings, particularly in the U.S. and Europe.
  - The price of the U.S. stock market relative to ten-year average earnings declined slightly in the fourth quarter, but remains above its historical average (23x versus 21x).
  - Small cap domestic stocks remain richly priced relative to large cap domestic stocks, although their relative richness has declined from its early 2011 high.
  - Developed international and emerging market stocks are trading at lower valuations than U.S. stocks.
    - It is likely that sovereign debt issues and weak economic growth in Europe, and a cyclical slowdown in emerging economies are weighing down valuations.
    - However, China appears to be rebounding from its most recent period of relative economic weakness. The continuation of this trend would likely further boost emerging market equities.
  - Uncertainties around global demand (particularly from emerging markets), stimulative monetary policy and geopolitical tensions (e.g., Iran) could cause heightened volatility in commodity prices.
  - At the end of December, the yield spreads on both high yield corporate bonds (5.1% versus 5.7%) and investment grade bonds (1.4% versus 1.6%) were below their long-term averages.
  - At 1.8%, the yield on the ten-year Treasury is far below its post-WWII average of 5.7%.
  - Low yields on fixed income instruments are likely to push investors further out the risk spectrum as they seek to achieve their target returns.

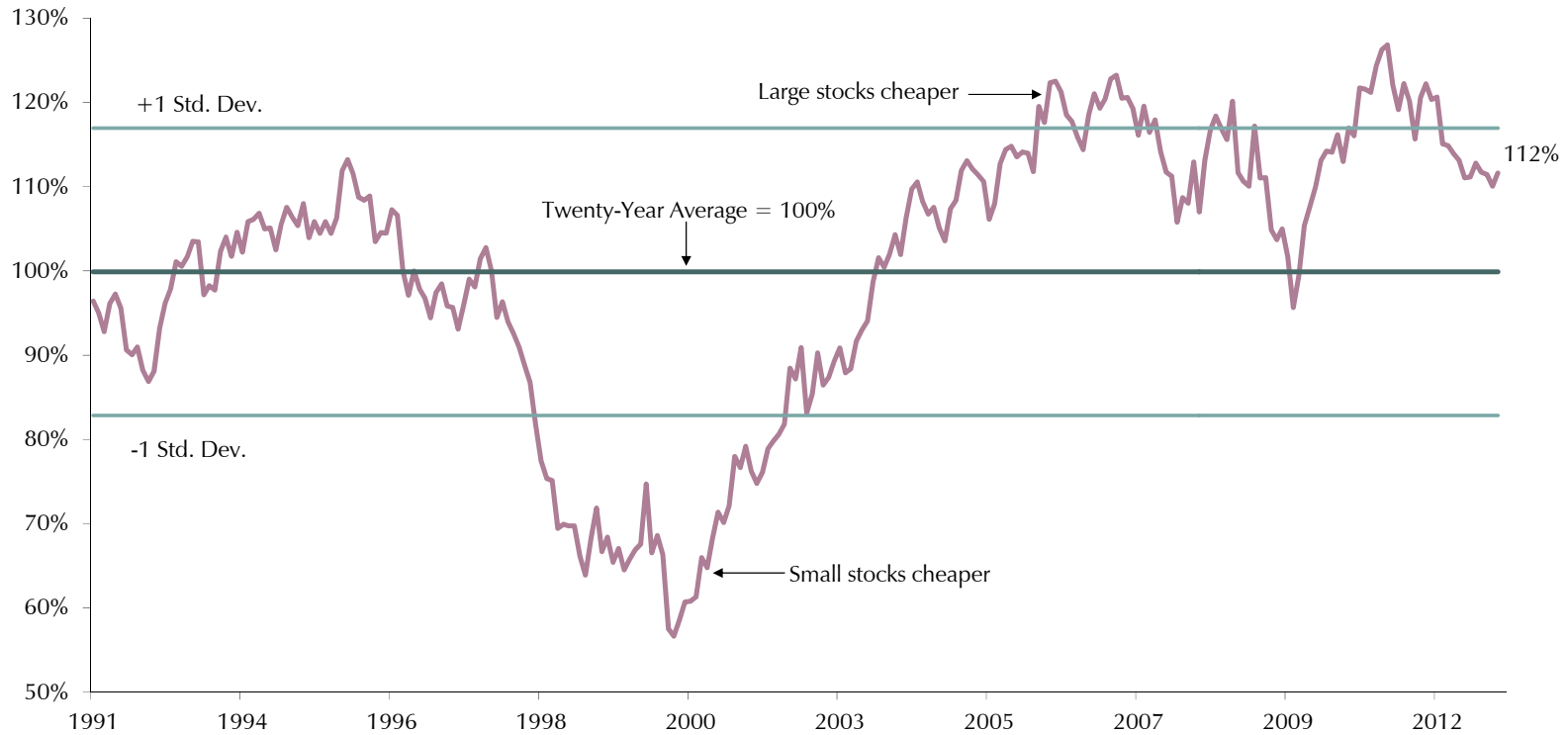
<sup>1</sup> Sources: FactSet, U.S. Treasury, Standard & Poor's. Data is as of December 31, 2012.

U.S. Equity Cyclically Adjusted P/E<sup>1</sup>

- The cyclically adjusted P/E ratio for the S&P 500 declined slightly during the fourth quarter, finishing 2012 at 23x, slightly above its post-WWII average of 21x.
- Going forward, slowing revenue growth and a sluggish economic recovery could create headwinds for U.S. equities.

<sup>1</sup> Source: Standard & Poor's. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is as of December 31, 2012.

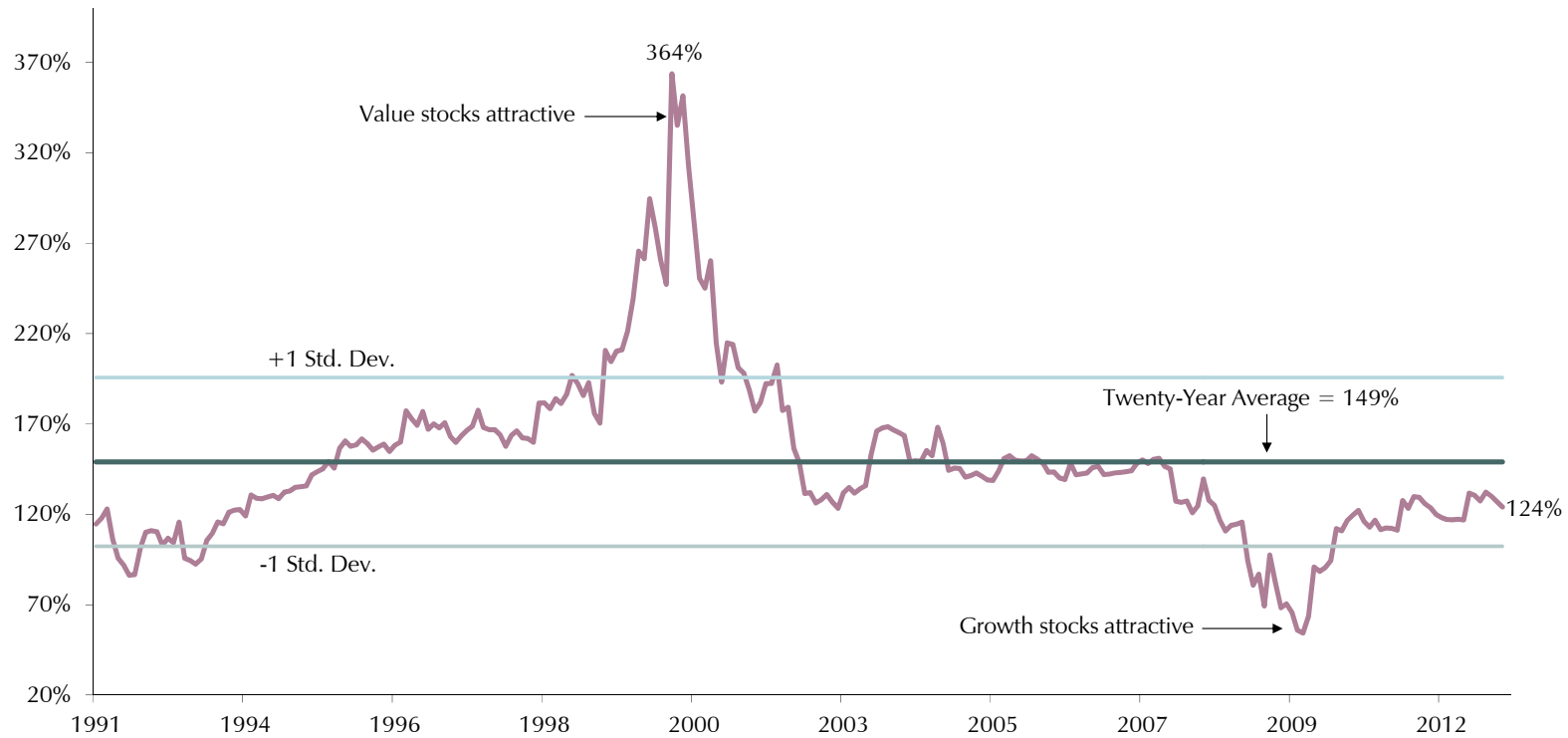
Small Cap P/E vs. Large Cap P/E<sup>1</sup>



- The ratio of P/Es for small cap stocks (Russell 2000) to large cap stocks (Russell 1000) has declined from its early 2011 peak, but still remains above its long-term average (112% versus 100%), signaling potential underperformance of small cap stocks relative to large cap stocks.

<sup>1</sup> Source: Russell Investments. Earnings figures represent 12-month "as reported" earnings. Data is as of December 31, 2012.

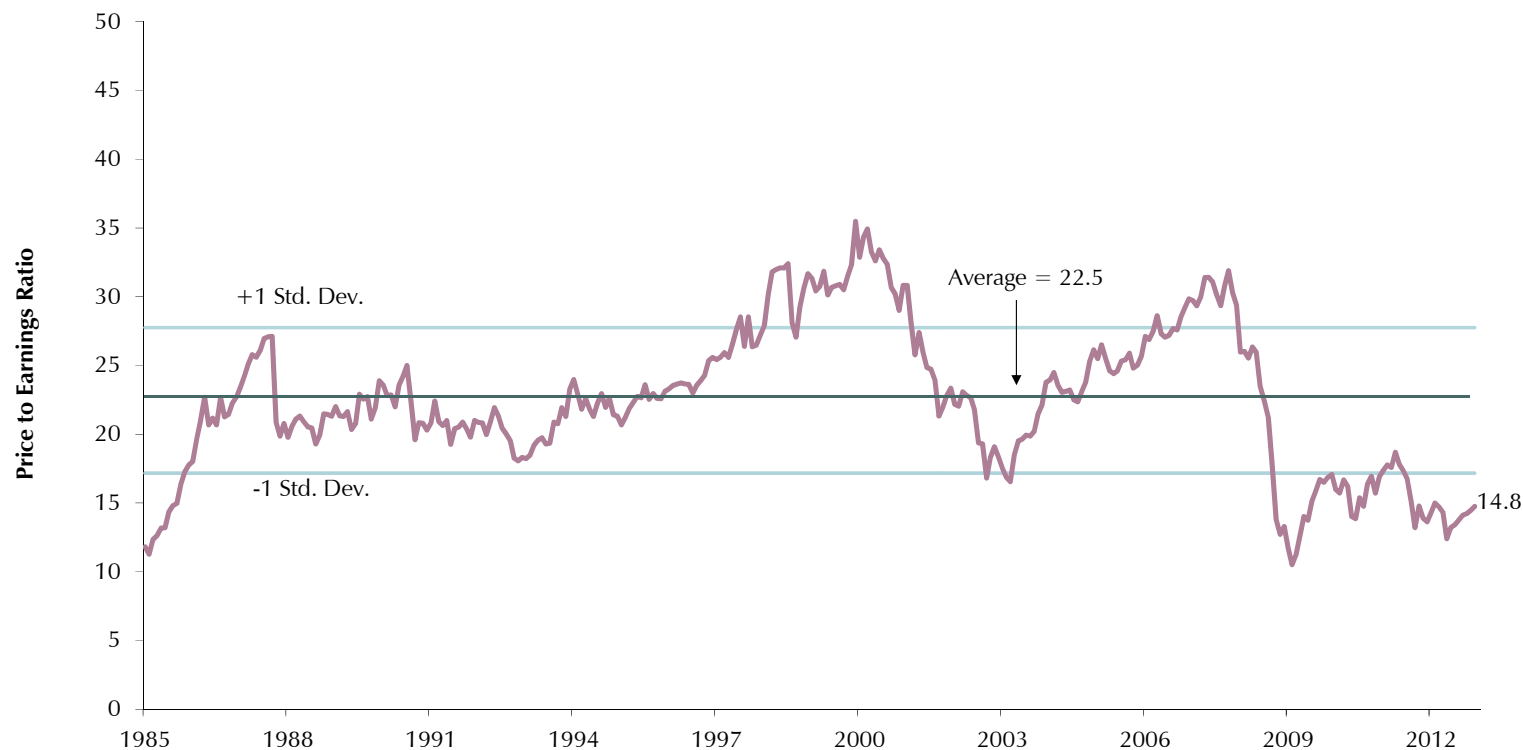
Growth P/E vs. Value P/E<sup>1</sup>



- The ratio of P/E's for growth stocks (Russell 3000 Growth) to value stocks (Russell 3000 Value) finished the fourth quarter at 124%, well above three years prior, but still below its twenty-year average.
- Of note, the twenty-year average was sharply influenced by the technology bubble of the late 1990s.

<sup>1</sup> Source: Russell Investments. Earnings figures represent 12-month "as reported" earnings. Data is as of December 31, 2012.

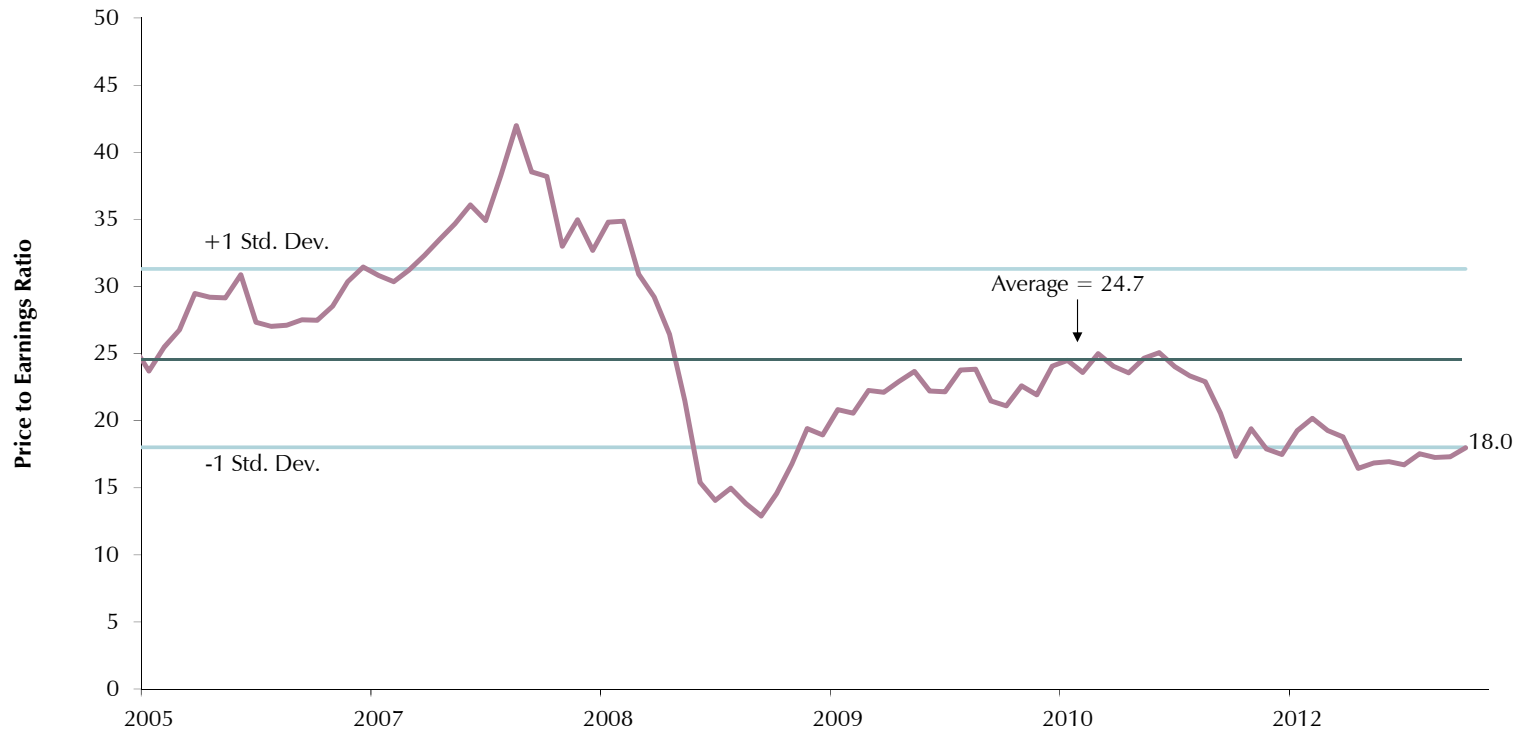


Developed International Equity Cyclically Adjusted P/E<sup>1</sup>

- Despite the recent rally in European equities, valuations (for the MSCI EAFE ex-Japan) remain more than one standard deviation cheaper than their historical average.
- Sovereign debt concerns and the slow to negative pace of economic growth in Europe likely account for the low valuation levels.

<sup>1</sup> Source: MSCI and FactSet. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is as of December 31, 2012.

Emerging Market Equity Cyclically Adjusted P/E<sup>1</sup>



- Despite the recent increase in valuations for emerging market equities (MSCI Emerging Markets), they are priced one standard deviation below their (brief) historical average.
- Emerging market equities are trading at lower valuations than U.S. equities, but at higher valuations than non-U.S. developed market equities.

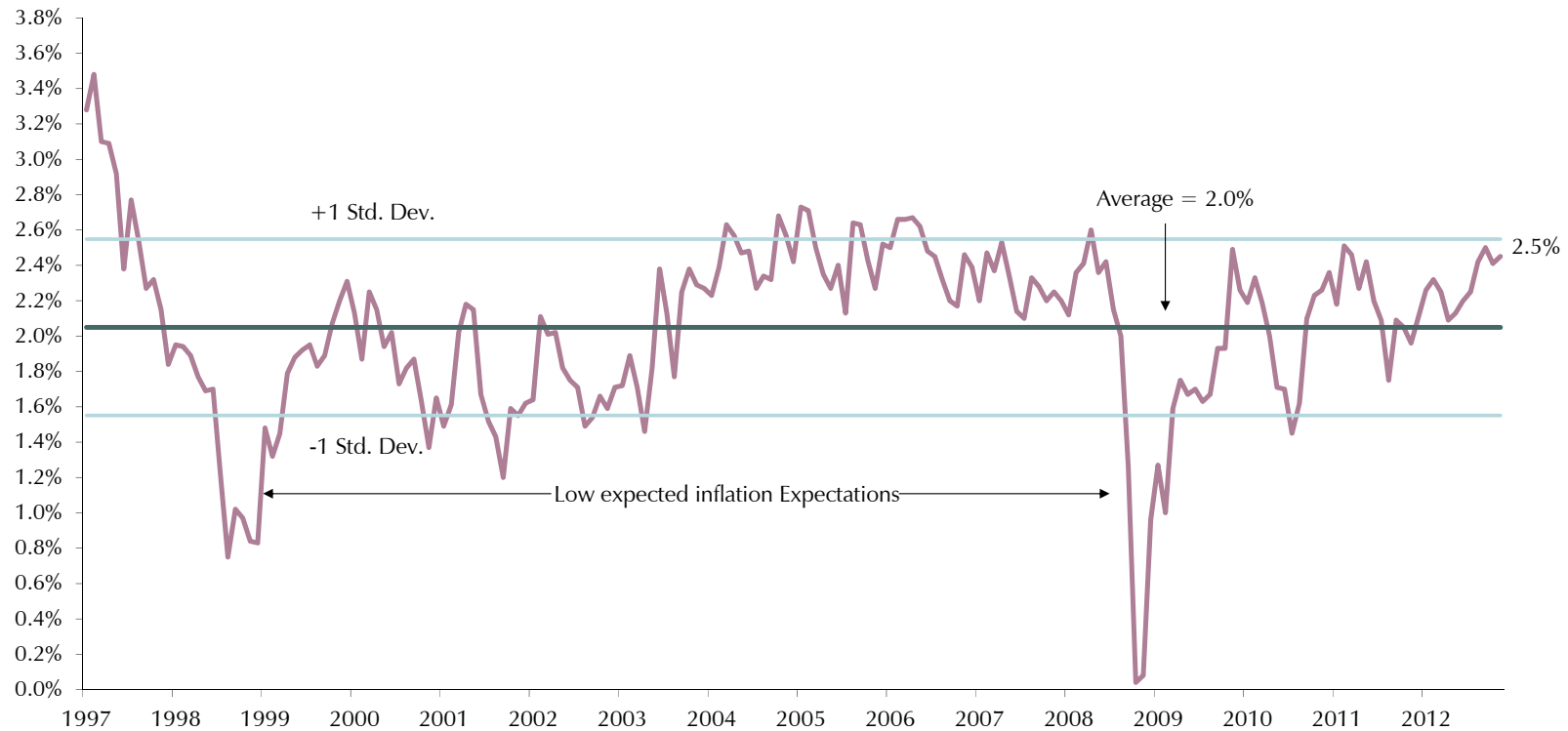
<sup>1</sup> Source: MSCI and FactSet. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is as of December 31, 2012.



Ten-Year Treasury Yields<sup>1</sup>

- Ten-year Treasury yields were 1.8% at the end of 2012, slightly below a year prior and close to historic lows.
- Rating agencies have cautioned that another contentious debate in Congress regarding the need to raise the debt ceiling could result in further downgrades of U.S. debt.

<sup>1</sup> Source: U.S. Treasury. Data is as of December 31, 2012.

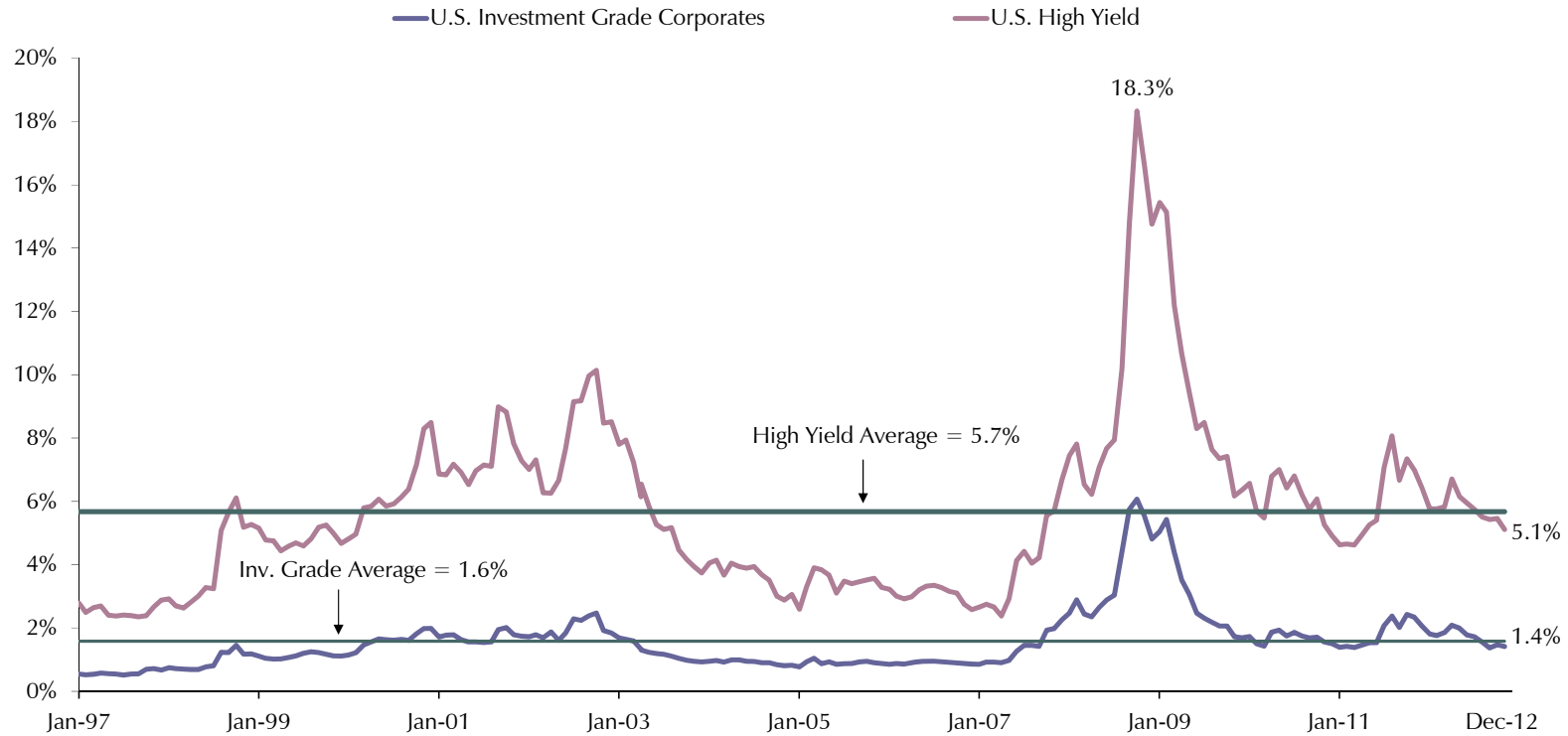
Ten-Year Breakeven Inflation<sup>1</sup>

- Breakeven (or expected) inflation, the difference between the nominal yield on a ten-year Treasury and the real yield on a ten-year TIPS, steadily increased through 2012.
- The one-year inflation rate at quarter-end was 1.7%, as measured by the Consumer Price Index (CPI), 80 basis points below the ten-year breakeven inflation rate. Investors appear to be basing inflation expectations on something other than the recent period of low inflation.

<sup>1</sup> Source: U.S. Treasury and Federal Reserve. Data is as of December 31, 2012.



Credit Spreads<sup>1</sup>

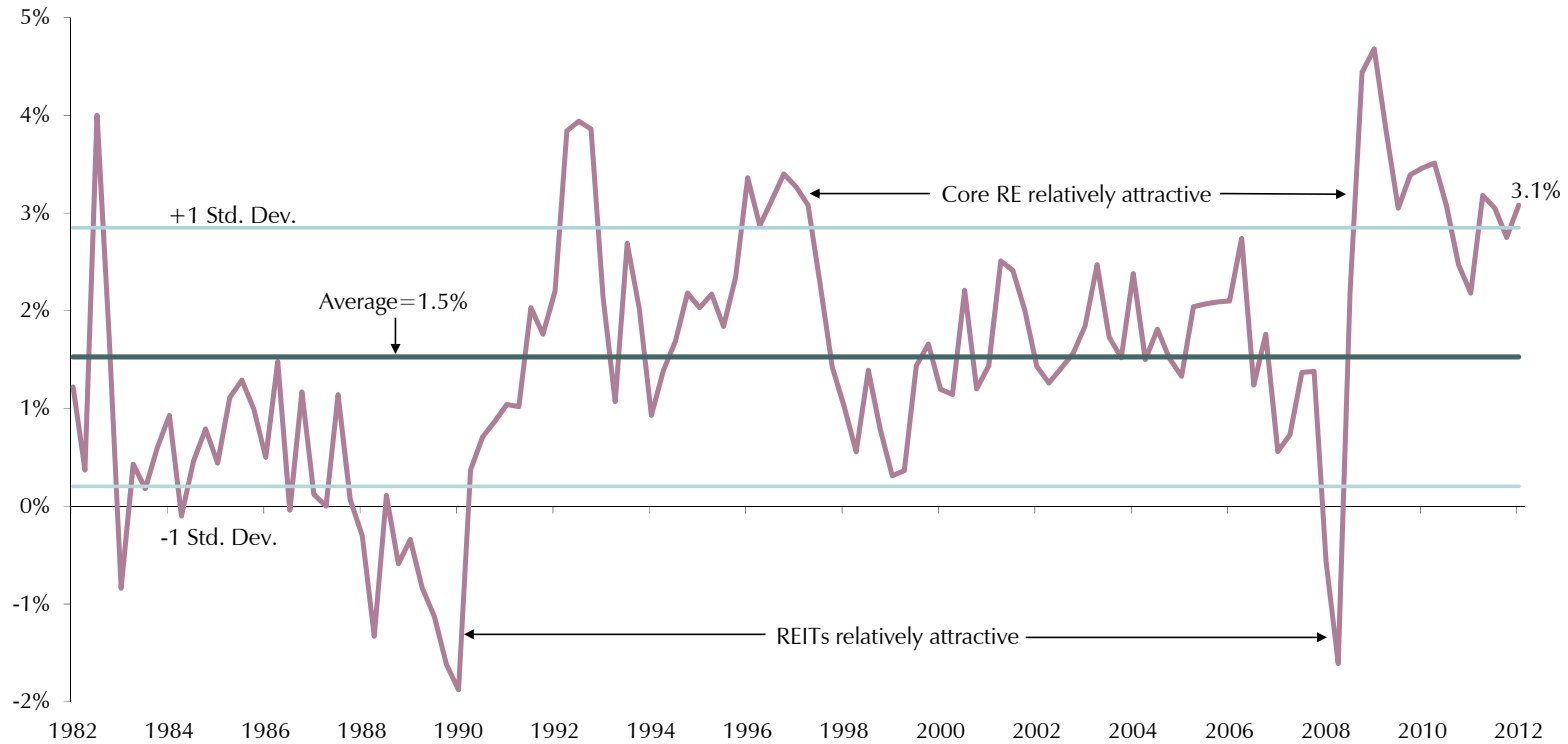


- Credit spreads (versus U.S. Treasury bonds) for both high yield and investment grade corporate bonds finished December slightly below their respective historical averages.
- While spreads remain near their respective historical averages, the absolute level of yields continues to decline, further reducing the expected return for investors.

<sup>1</sup> Source: Barclays Capital. High Yield is proxied by the Barclays High Yield index and Investment Grade Corporates are proxied by the Barclays U.S. Corporate Investment Grade index. Data is as of December 31, 2012.



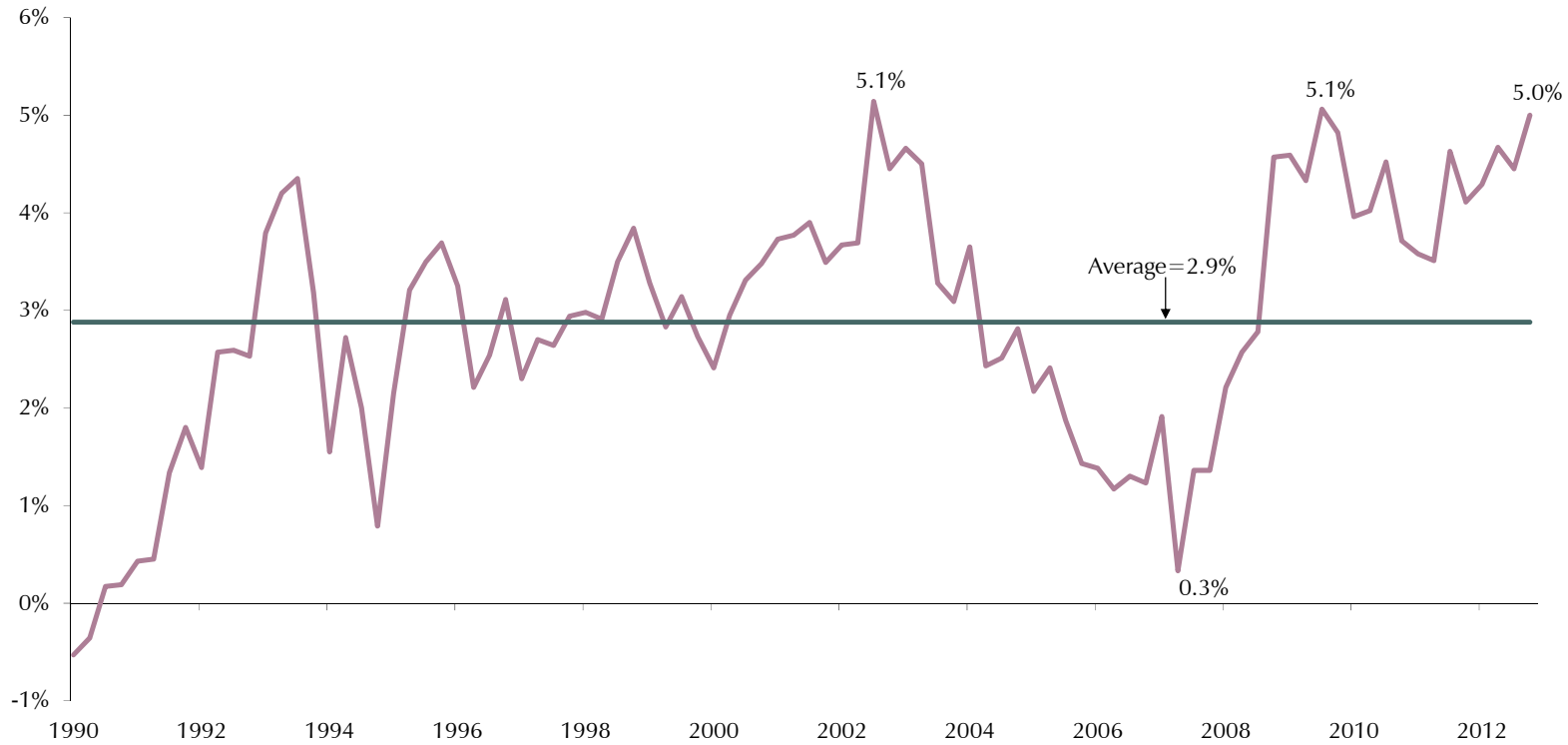
**Core Real Estate vs. REITs<sup>1</sup>**



- At the end of December, the spread between core real estate cap rates and REIT yields was 3.1%, a level over one standard deviation above its long-term average.
- REITs were yielding 3.7% at year-end, well below the 10.1% level of early 2009.

<sup>1</sup> Sources: FactSet and NCREIF. Core Real Estate is proxied by the transaction-based cap rate for the NCREIF NPI index and REITs are proxied by the yield for the NAREIT Equity index. Data is as of December 31, 2012.

**Core Real Estate Spread vs. Ten-Year Treasury<sup>1</sup>**

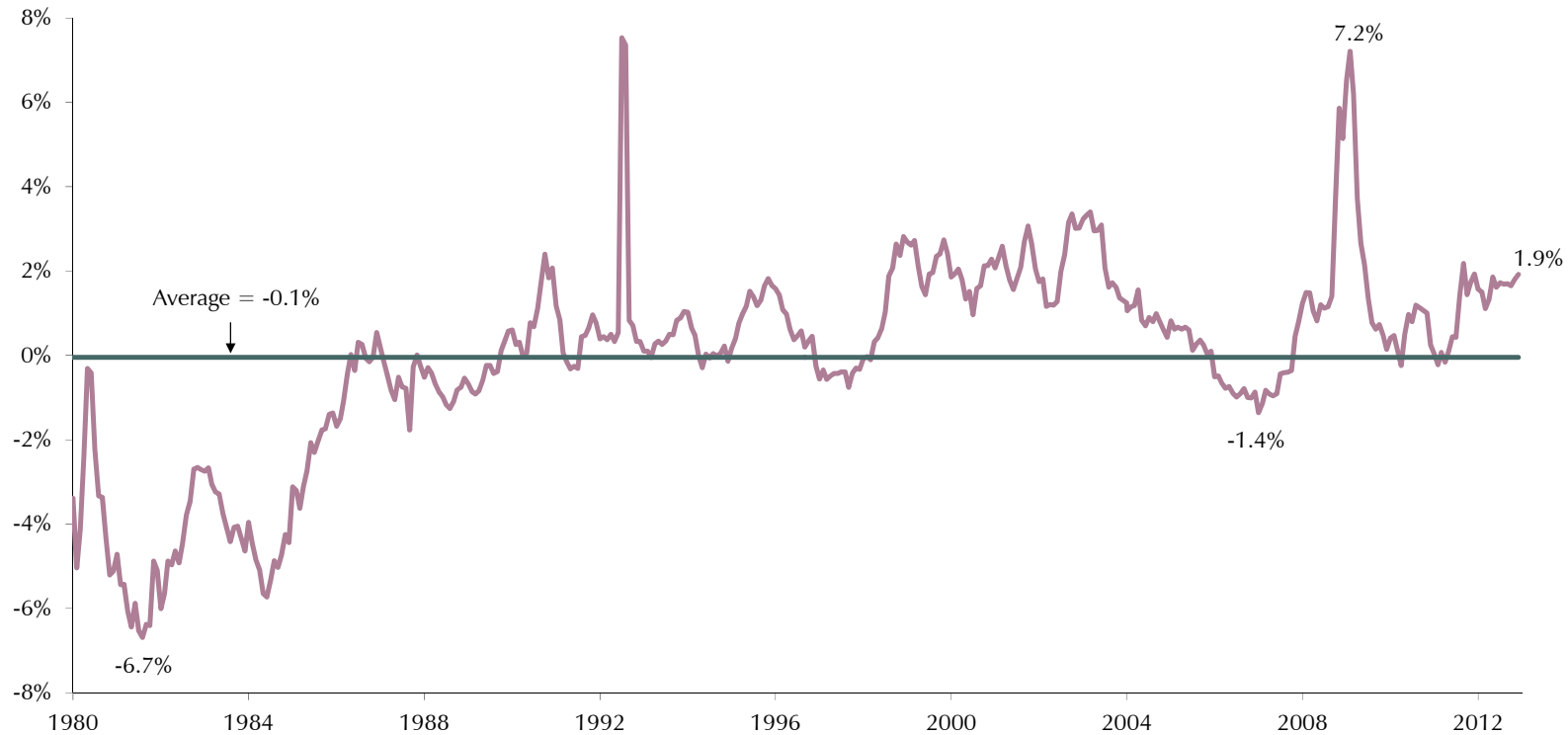


- At 5.0%, the difference between the cap rate for core real estate and the yield on ten-year Treasuries is 2.1% above the historical average.
- Still, the absolute level of core real estate cap rates is near a historical low.

<sup>1</sup> Source: NCREIF, U.S. Treasury. Core Real Estate is proxied by the transaction-based cap rate for the NCREIF NPI index. Data is as of December 31, 2012.



REITs Dividend Yield Spread vs. Ten-Year Treasury<sup>1</sup>



- REIT yield spreads were 1.9% at the end of December, a level 2.0% above their historical average.
- As with core real estate, the absolute level of REIT yields is near a historical low.

<sup>1</sup> Source: NAREIT, U.S. Treasury. REITs are proxied by the yield for the NAREIT Equity index. Data is as of December 31, 2012.

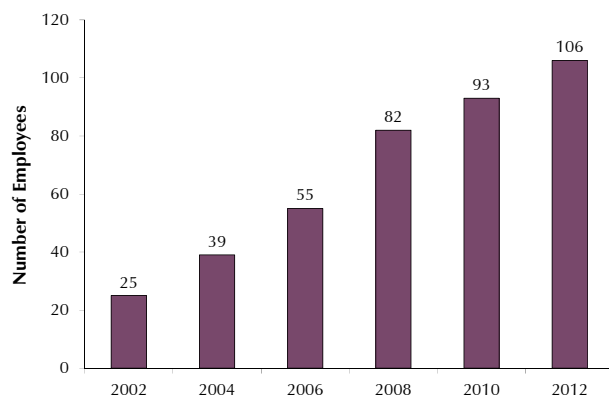
## Summary and Conclusions

- Current valuations reflect an environment of perceived economic uncertainty.
  - Low yields on fixed income investments suggest an aversion to “risky” assets.
  - Relatively tight spreads illustrate a desire to increase income.
- We currently recommend that clients hold a neutral position on “risky” assets:
  - Maintain a neutral position in equities relative to long-term targets.
    - Slightly overweight emerging markets and underweight U.S. equities.
    - Maintain a neutral position on U.S. small cap versus large cap stocks.
    - Maintain a neutral position on U.S. growth versus value stocks.
  - Maintain a neutral position in fixed income (including credit).
  - Maintain a neutral position in real assets.
    - Underweight REITs and overweight core private market real estate.

# **Meketa Investment Group Corporate Update**

- Staff of 106, including 63 investment professionals and 20 CFA Charterholders
- 81 clients, with over 160 funds throughout the United States
- Significant investment in staff and resources
- Offices in Boston, Miami, and San Diego
- Clients have aggregate assets of approximately \$570 billion
  - Over \$20 billion in assets committed to alternative investments
    - Private Equity
    - Infrastructure
    - Natural Resources
    - Real Estate
    - Hedge Funds
    - Commodities

**Employee Growth**



**Client Growth**



**Meketa Investment Group is proud to work for 3.2 million American families everyday**



**Asset Classes Followed Intensively by Meketa Investment Group**

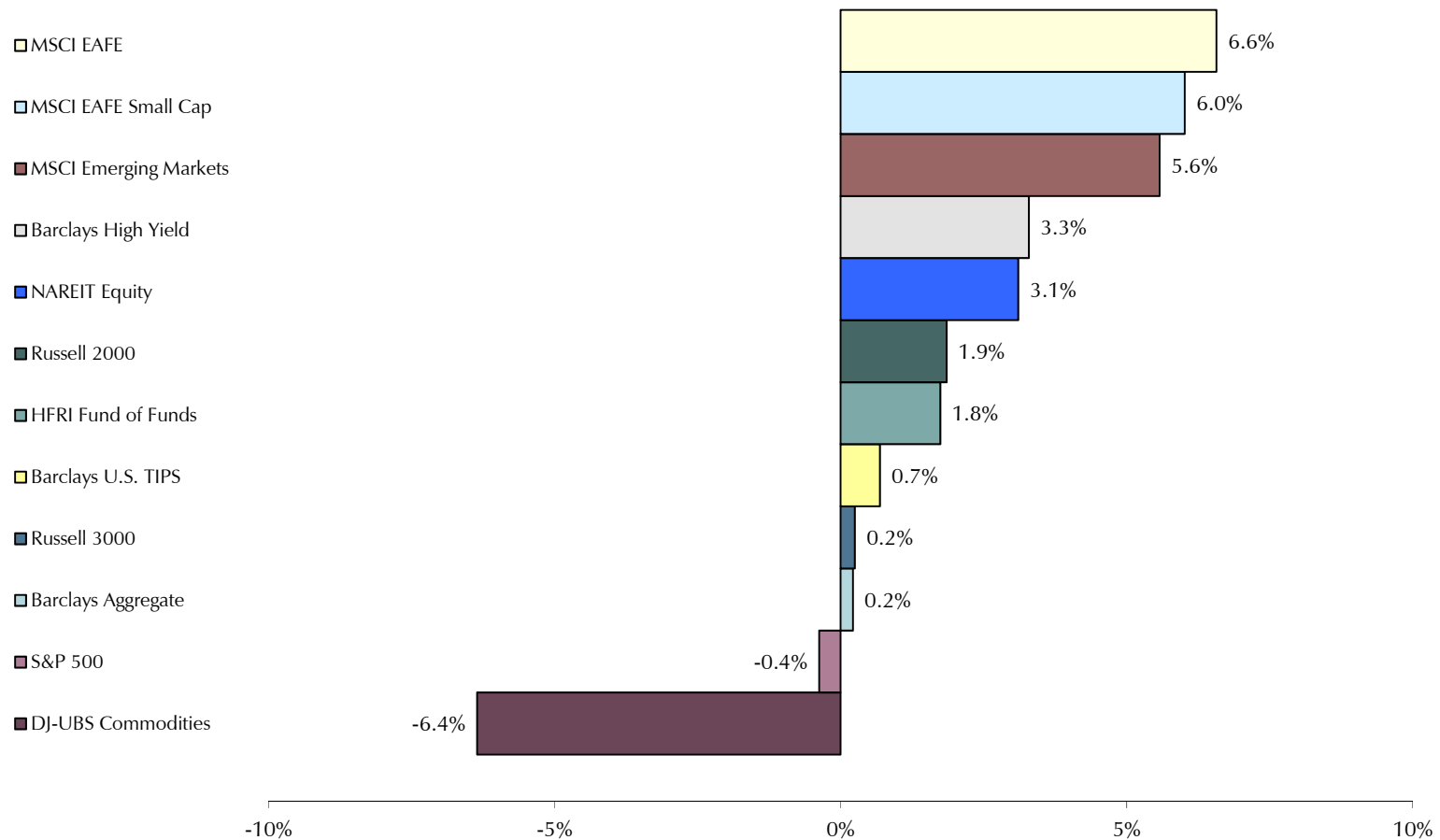
Domestic Equities	International Equities	Private Equity	Real Assets	Fixed Income	Hedge Funds
<ul style="list-style-type: none"> <li>- Passive</li> <li>- Enhanced Index</li> <li>- Large Cap</li> <li>- Midcap</li> <li>- Small Cap</li> <li>- Microcap</li> <li>- 130/30</li> </ul>	<ul style="list-style-type: 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**  
**As of December 31, 2012**

## The World Markets Fourth Quarter of 2012

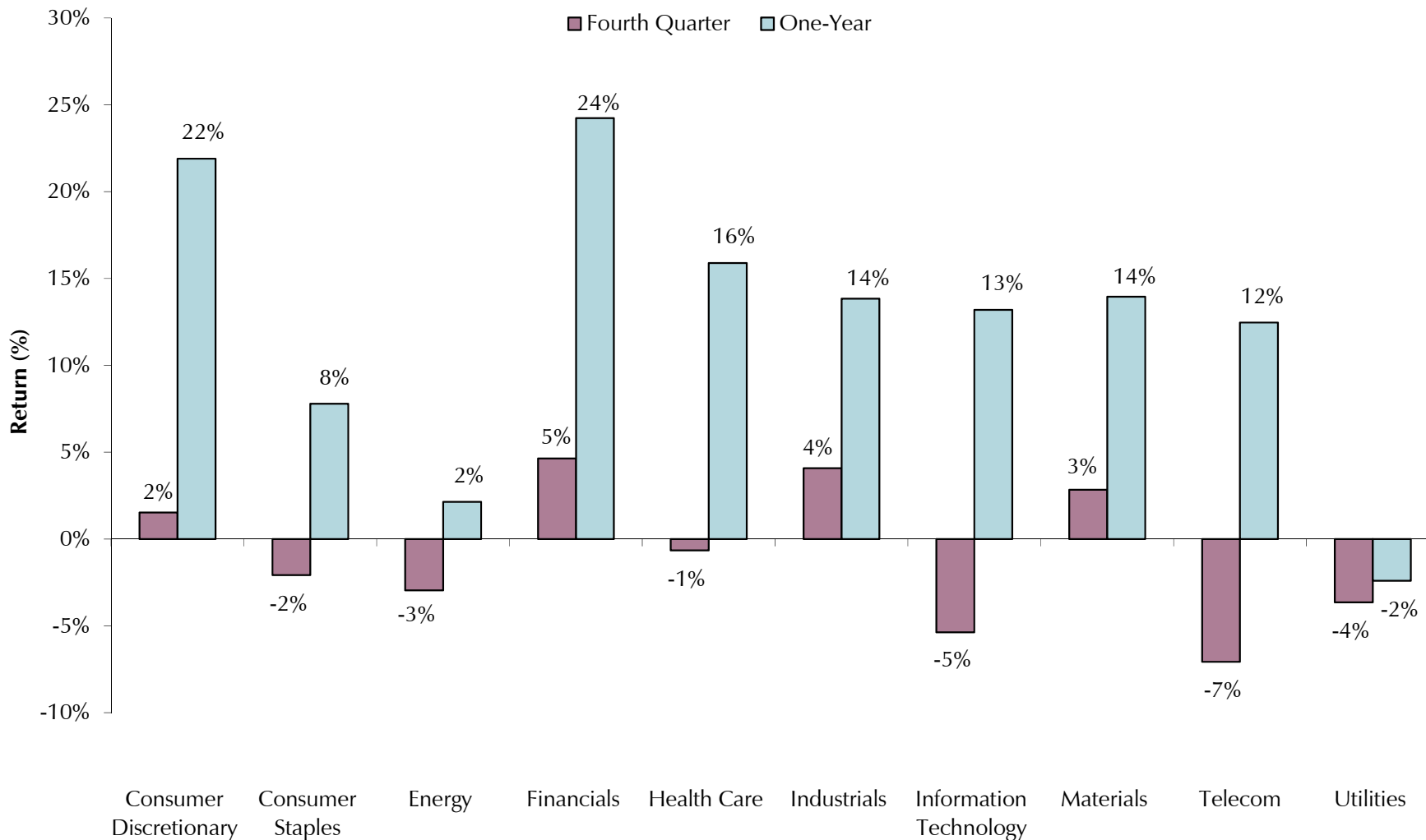
The World Markets  
Fourth Quarter of 2012



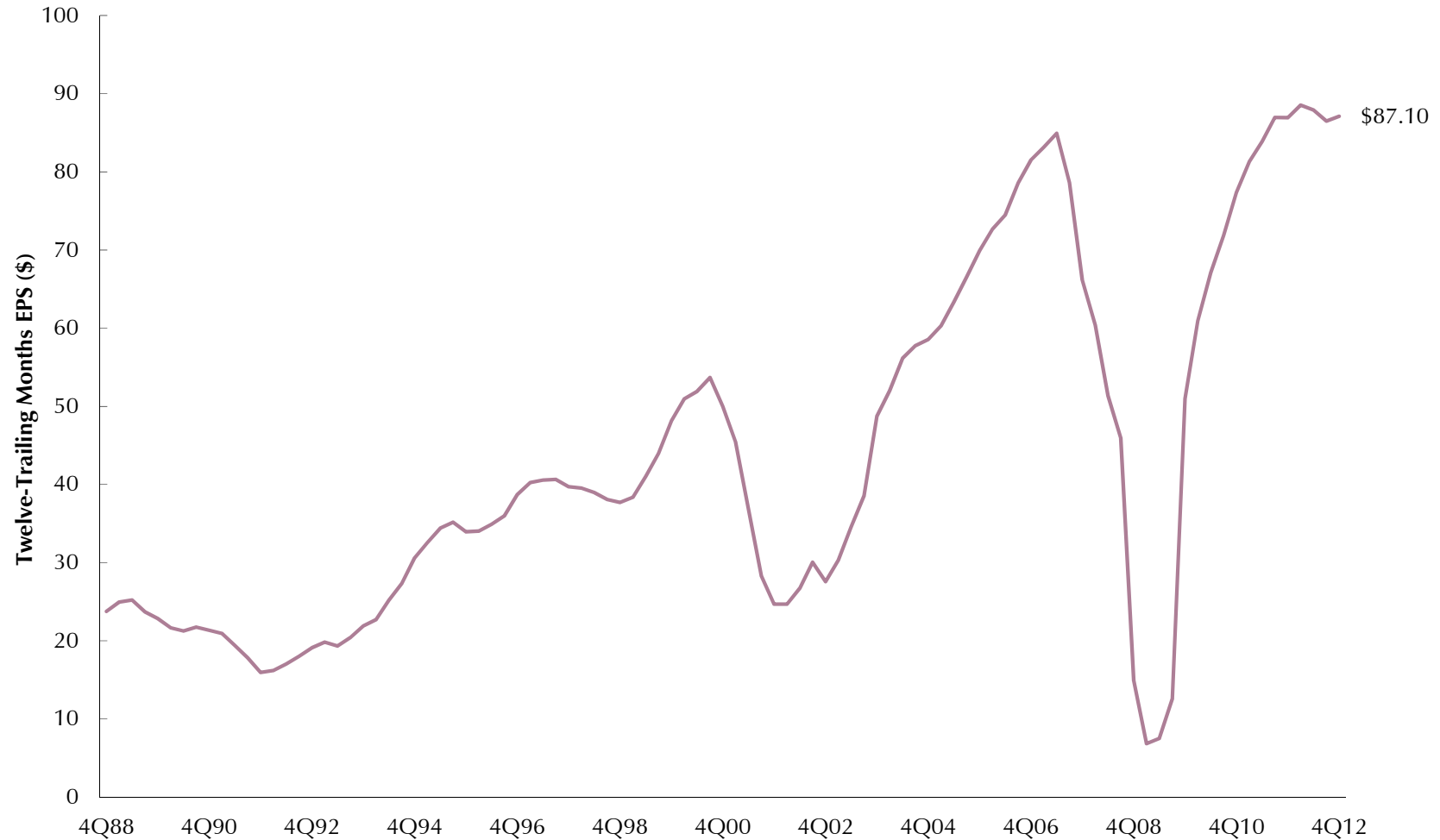
## Index Returns

	4Q12 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Domestic Equity</b>					
Russell 3000	0.2	16.4	11.2	2.0	7.7
Russell 1000	0.1	16.4	11.1	1.9	7.5
Russell 1000 Growth	-1.3	15.3	11.4	3.1	7.5
Russell 1000 Value	1.5	17.5	10.9	0.6	7.4
Russell MidCap	2.9	17.3	13.2	3.6	10.6
Russell MidCap Growth	1.7	15.8	12.9	3.2	10.3
Russell MidCap Value	3.9	18.5	13.4	3.8	10.6
Russell 2000	1.9	16.3	12.2	3.6	9.7
Russell 2000 Growth	0.4	14.6	12.8	3.5	9.8
Russell 2000 Value	3.2	18.1	11.6	3.5	9.5
<b>Foreign Equity</b>					
MSCI ACWI (ex. U.S.)	5.8	16.8	3.9	-2.9	9.7
MSCI EAFE	6.6	17.3	3.6	-3.7	8.2
MSCI EAFE (local currency)	7.5	17.3	2.6	-4.3	5.4
MSCI EAFE Small Cap	6.0	20.0	7.2	-0.9	11.9
MSCI Emerging Markets	5.6	18.2	4.7	-0.9	16.5
MSCI Emerging Markets (local currency)	5.3	17.0	5.2	0.4	14.9
<b>Fixed Income</b>					
Barclays Universal	0.6	5.5	6.7	6.2	5.6
Barclays Aggregate	0.2	4.2	6.2	5.9	5.2
Barclays U.S. TIPS	0.7	7.0	8.9	7.0	6.7
Barclays High Yield	3.3	15.8	11.9	10.3	10.6
JPMorgan GBI-EM Global Diversified	4.1	16.8	9.9	8.9	12.3
<b>Other</b>					
NAREIT Equity	3.1	19.7	18.4	5.7	11.8
DJ-UBS Commodities	-6.4	-1.1	0.0	-5.5	2.9
HFRI Fund of Funds	1.8	5.2	1.6	-1.7	3.7

S&P Sector Returns



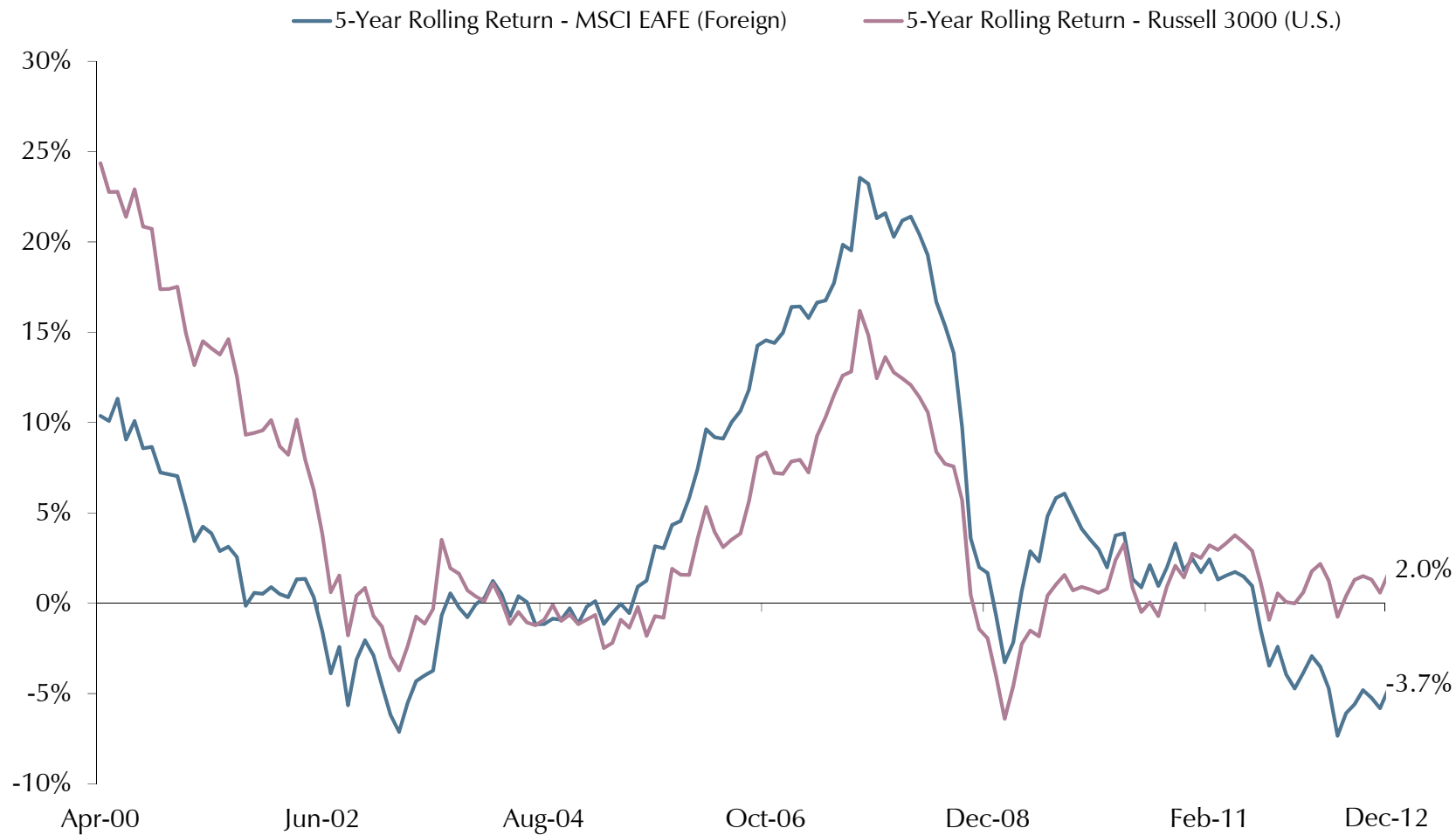
S&P 500 Earnings Per Share<sup>1</sup>



<sup>1</sup> The December 31, 2012 number is an estimate from Standard & Poor's.

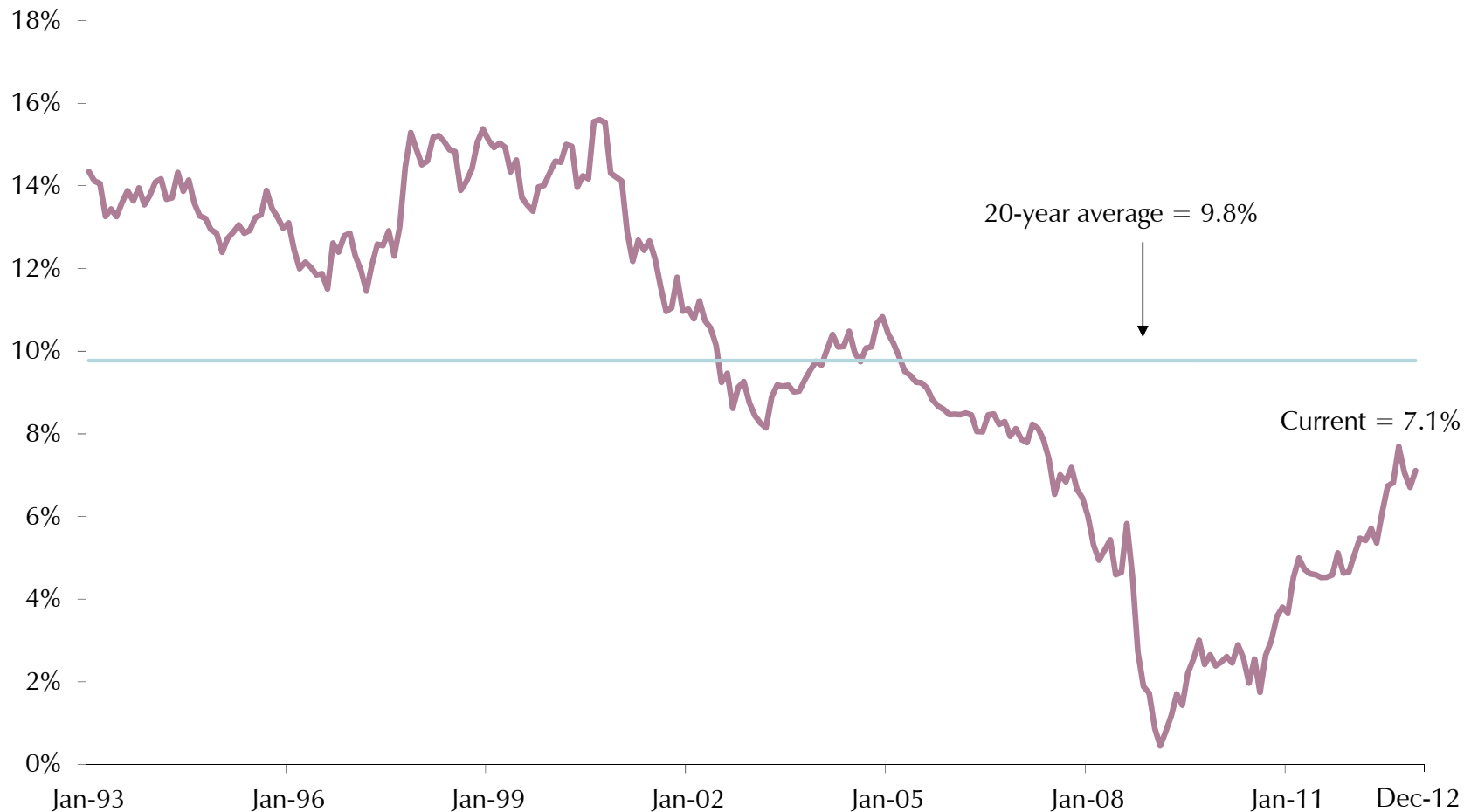


Equity Markets



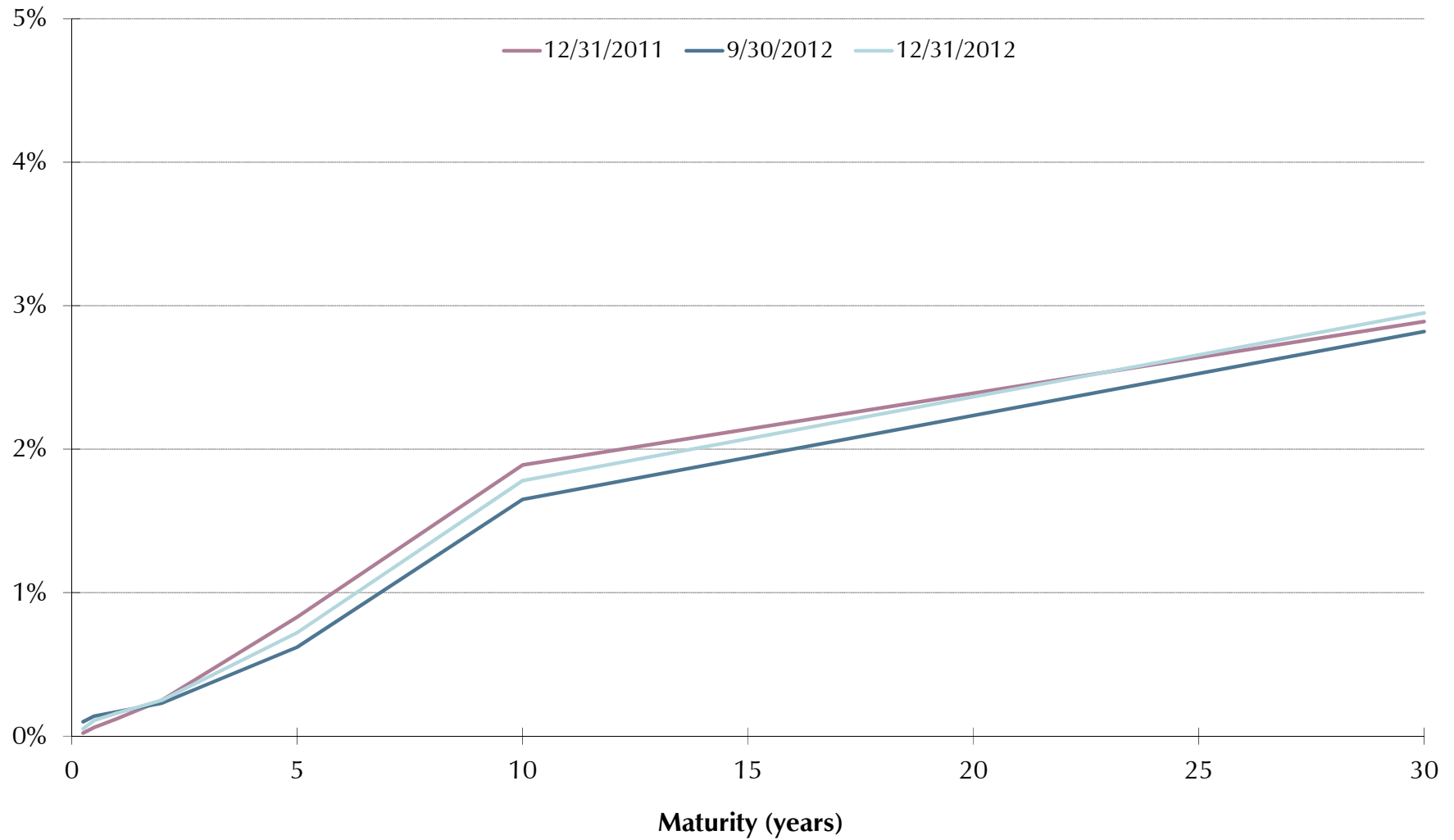
### Rolling Ten-Year Returns: 65% Stocks and 35% Bonds

— 65% Stocks (Russell 3000) / 35% Bonds (Barclays Aggregate) 10-Year Rolling Return

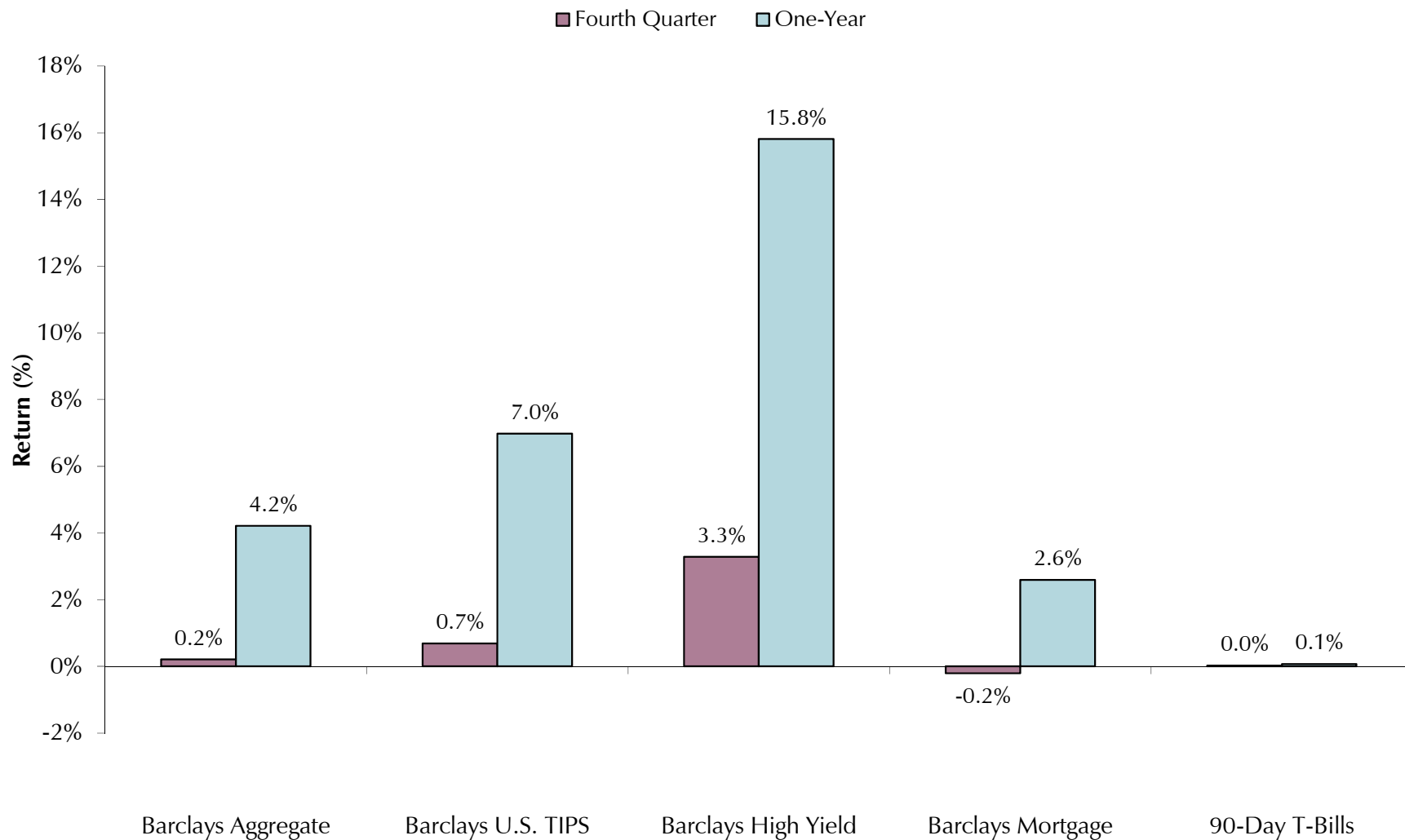




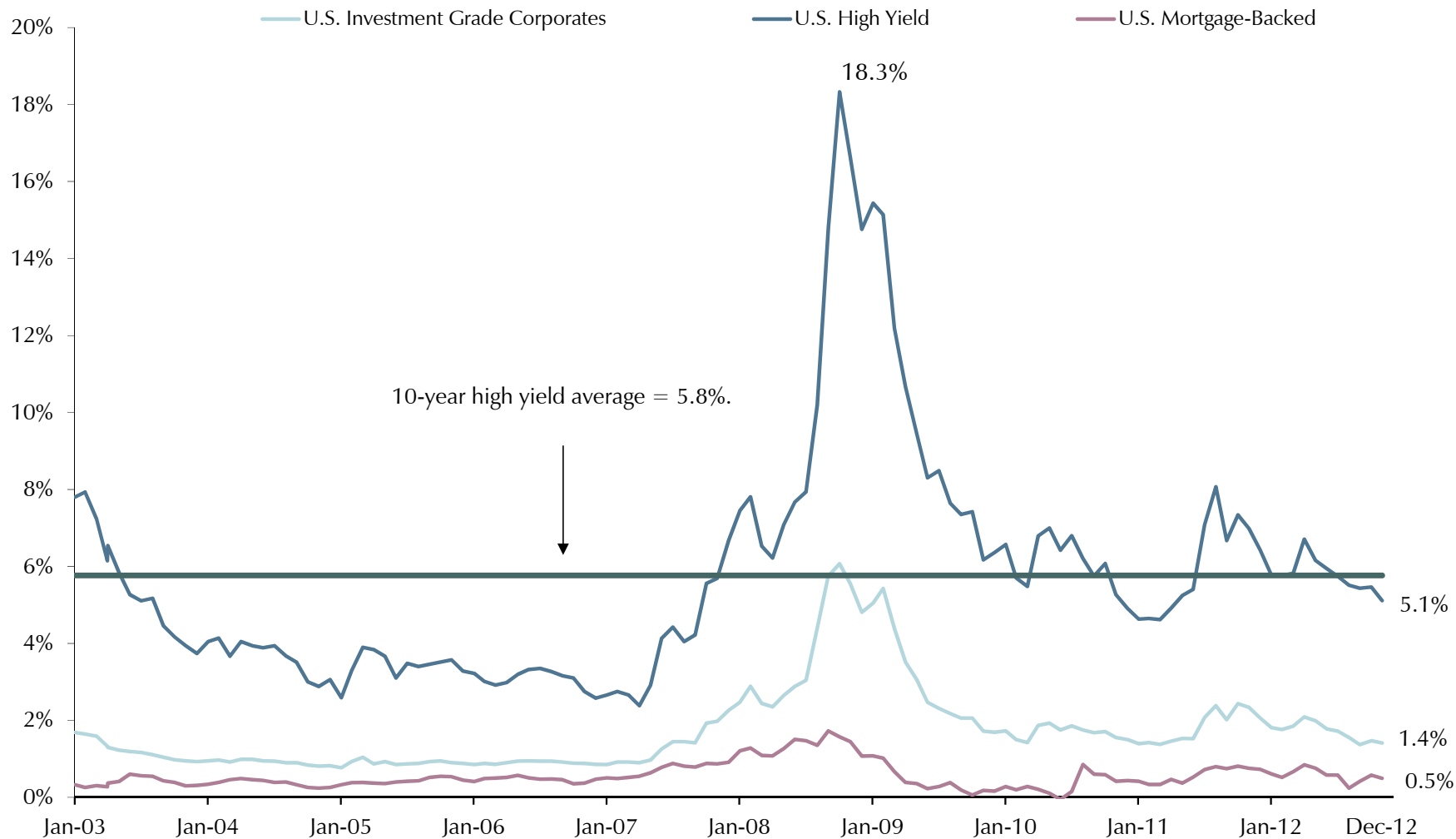
Treasury Yields



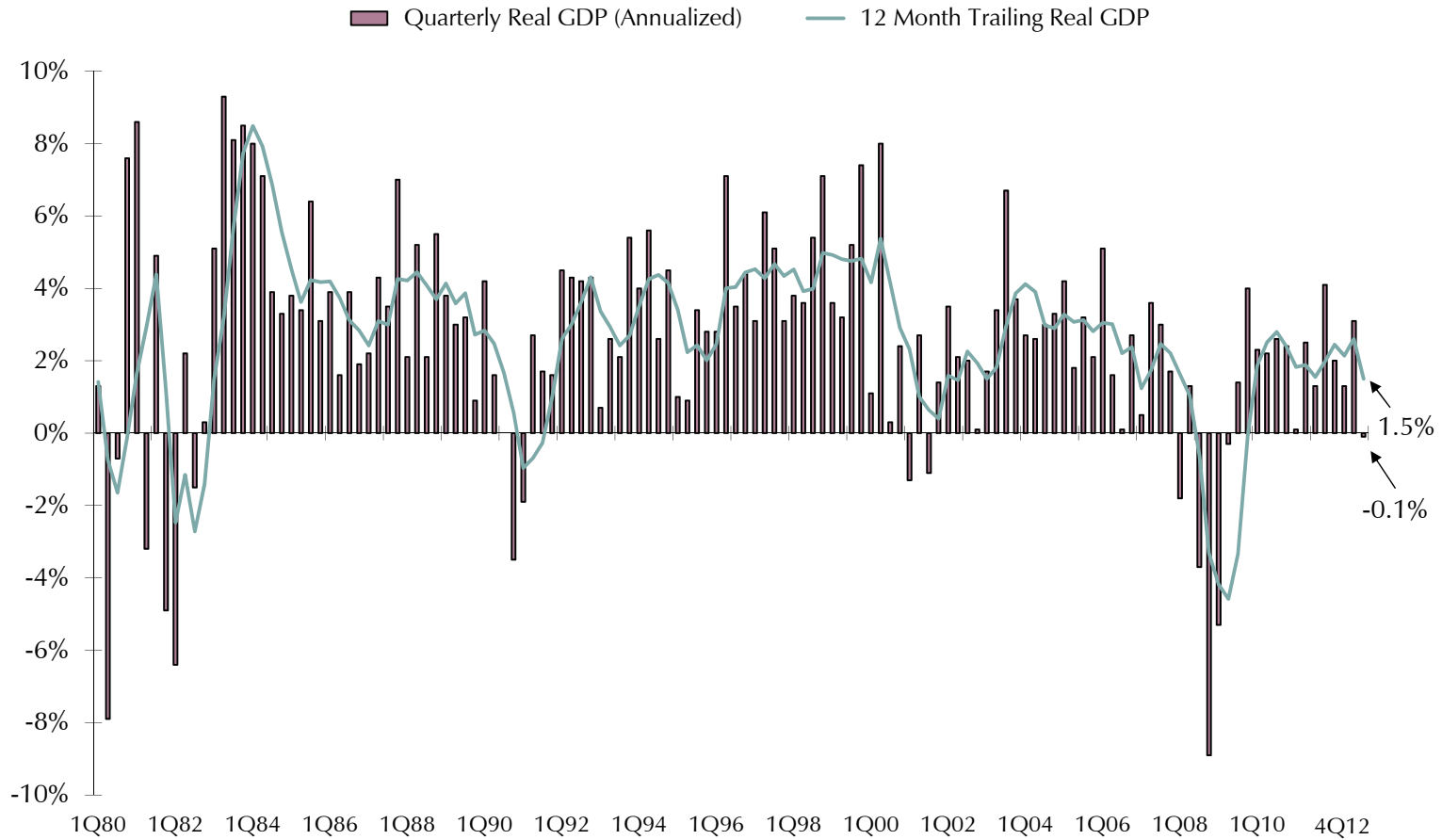
U.S. Fixed Income Markets



Credit Spreads vs. U.S. Treasury Bonds



### Real Gross Domestic Product (GDP) Growth



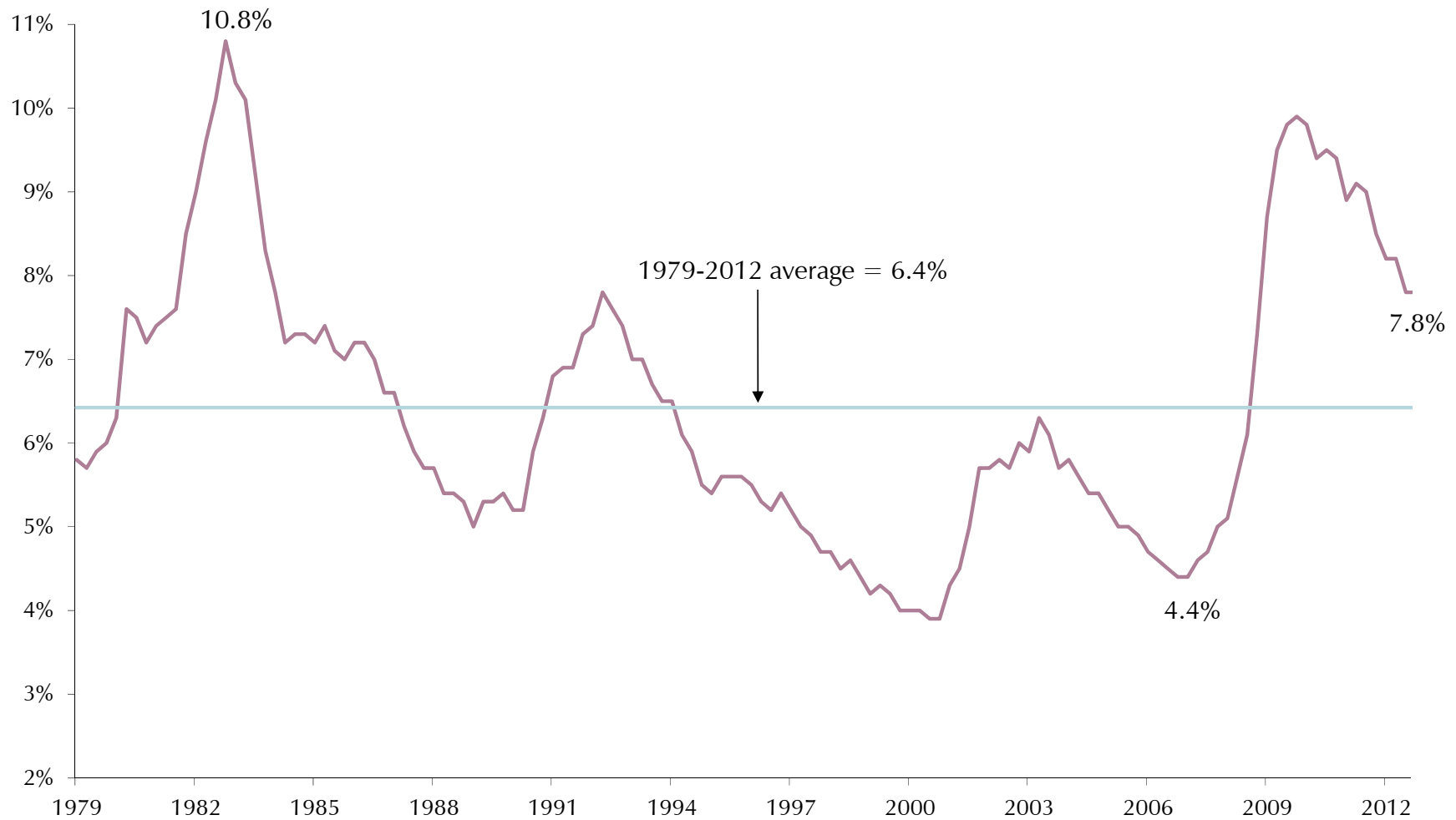
**U.S. Inflation (CPI)  
Trailing Twelve Months<sup>1</sup>**



<sup>1</sup> Data is non-seasonally adjusted CPI, which may be volatile in the short-term.



### U.S. Unemployment



**Glossary and Notes**  
**As of December 31, 2012**

**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.