



# Hedge Fund Analysis

## Water and Power Employees' Retirement Plan

Period Ended: September 30, 2018



### Capital Markets Review

The hedge fund industry produced modestly positive returns during the third quarter of 2018 as measured by the HFRI Fund Weighted Composite. However, funds did not generally keep pace with US equity market gains during the months of July and August, even on a beta-adjusted basis. Prime brokerage data indicated good alpha generation through the first half of the year from Equity Long/Short funds (“ELS”), but stock selection effects turned negative in July and early August. Increased volatility among technology stocks negatively impacted some ELS strategies, many of which maintain significant long exposure to the technology sector. Though still near the high end of its cyclical range, hedge fund net exposure to technology was reduced during September and is now in the 90th percentile compared its past allocation history, down from the 99th percentile earlier in the year.

The Fund of Hedge Fund (“FoHF”) managers RVK follows closely produced returns between 0.25% and 1.10% during the quarter. Several FoHF managers continue to benefit from outsized allocations to a few specific funds within the macro discretionary thematic and multi-strategy relative value spaces. Funds without allocations to these specific managers are generally trailing competitors by 1.5% to 2.0% year-to-date, as other defensive strategies, to which FoHFs have rotated capital in recent years, have struggled to generate returns.

Managers within the multi-strategy space experienced significant dispersion during the third quarter, with returns ranging from -1.1% to 2.5%. Some of this dispersion was tied to capital allocation and the sizing of specific deals within merger-arbitrage. The high profile Qualcomm/NXPI deal broke down in July, detracting significantly from returns for some managers, though the quarter was otherwise quite strong for merger-arbitrage investors.

### Hedge Funds Composite

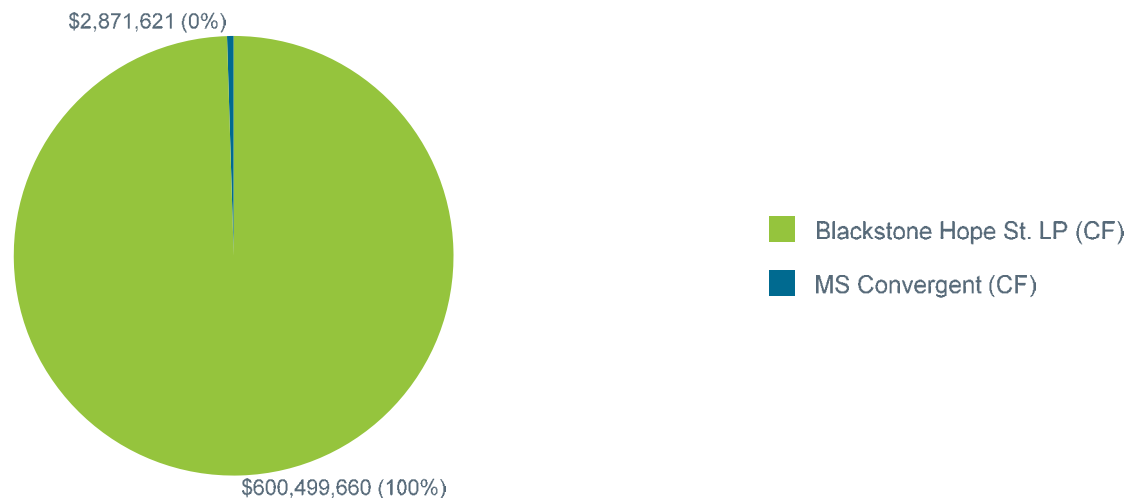
As of June 30, 2018 the Hedge Funds Composite held ~\$706 million in assets between the Retirement and Health Plans, or ~4.9% of Plan assets. This compares to the target allocation of 5.0%.

The Hedge Funds Composite posted positive absolute returns but underperformed the ICE BofAML 3 Month US T-Bill Index+3% (1 Month Lag) by 45 basis points during the third quarter. Blackstone Hope St. returned 0.80% and underperformed the ICE BofAML 3 Month US T-Bill Index+3% (1 Month Lag) by 45 basis points. MS Convergent posted positive performance of 0.83%, but is undergoing liquidation and as such no longer represents a meaningful portion of the Hedge Funds Composite.

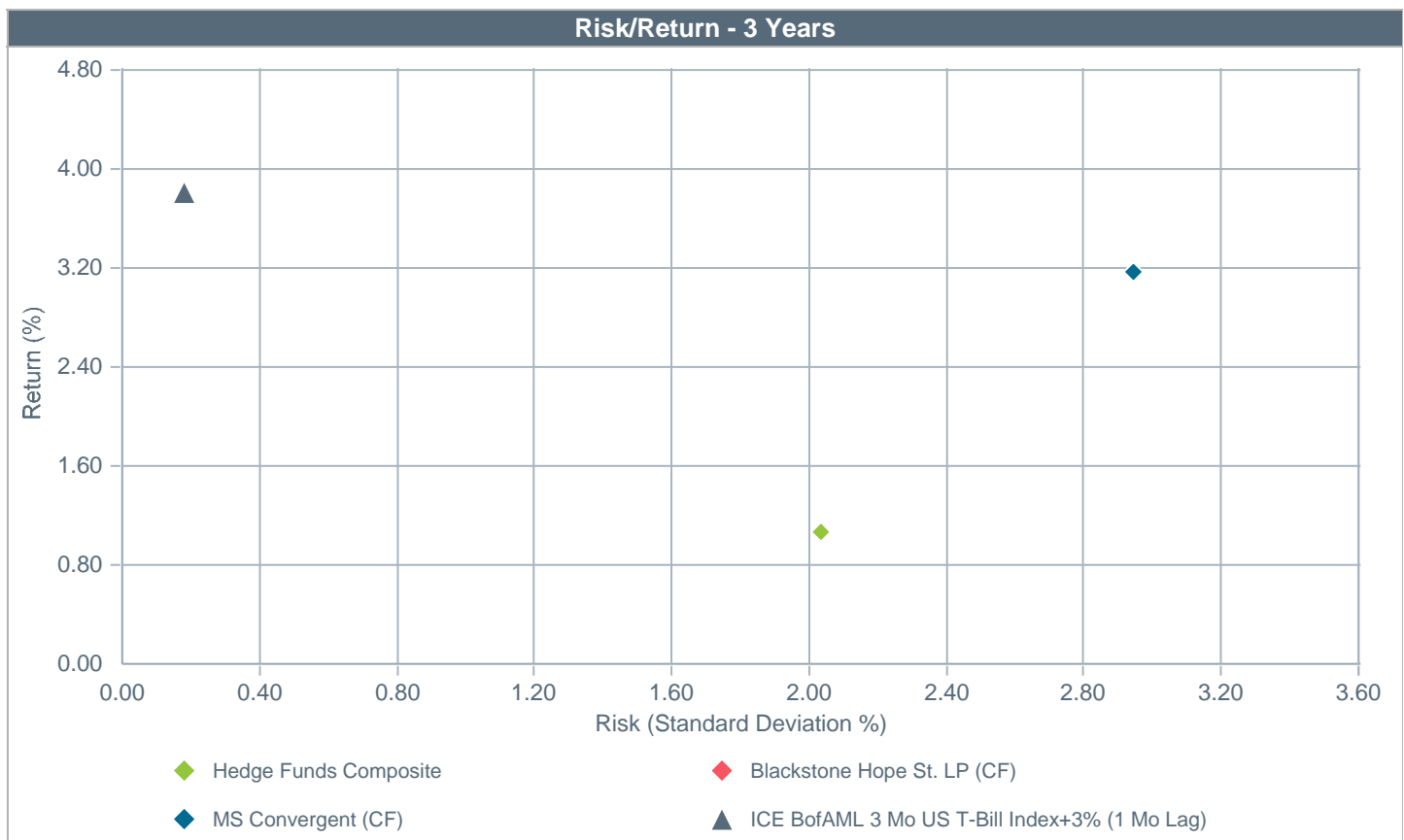
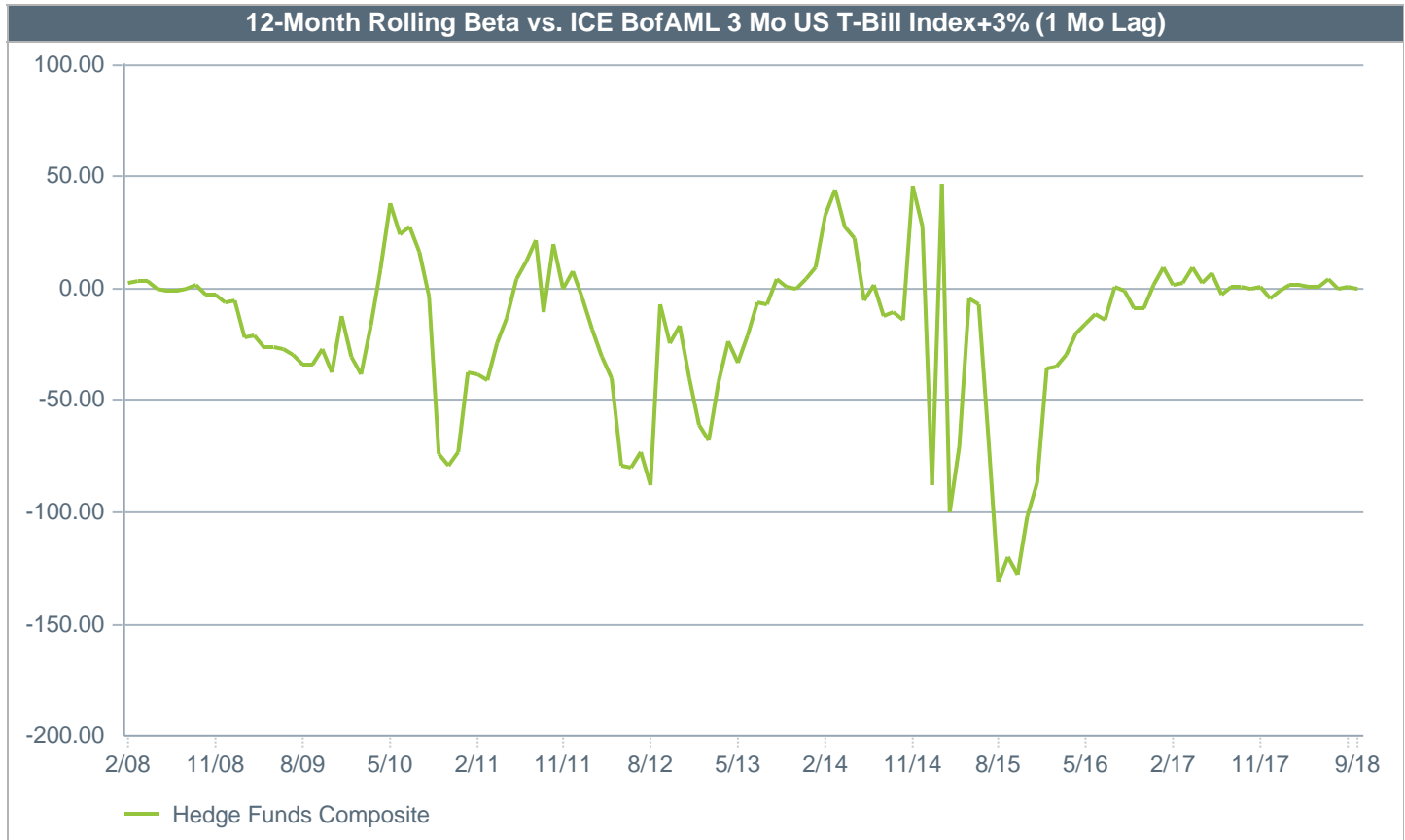
Comparative Performance											
	QTD/ FYTD	CYTD	1 Year	3 Years	5 Years	7 Years	2017	2016	2015	Since Incep	Inception Date
<b>Hedge Funds Composite</b>	<b>0.80</b>	<b>2.46</b>	<b>3.61</b>	<b>1.07</b>	<b>2.08</b>	<b>3.24</b>	<b>3.92</b>	<b>-2.30</b>	<b>1.24</b>	<b>2.81</b>	<b>03/01/2007</b>
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.25	3.53	4.57	3.81	3.50	3.38	3.81	3.33	3.02	3.85	
Difference	-0.45	-1.07	-0.96	-2.74	-1.42	-0.14	0.11	-5.63	-1.78	-1.04	
<b>Blackstone Hope St. LP (CF) (Lagged-1 Mo)</b>	<b>0.80</b>	<b>2.31</b>	<b>3.30</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>3.05</b>	<b>09/01/2017</b>
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.25	3.53	4.57	3.81	3.50	3.38	3.81	3.33	3.02	4.54	
Difference	-0.45	-1.22	-1.27	N/A	N/A	N/A	N/A	N/A	N/A	-1.49	
<b>MS Convergent (CF) (Lagged-1 Mo)</b>	<b>0.83</b>	<b>6.23</b>	<b>9.16</b>	<b>3.17</b>	<b>N/A</b>	<b>N/A</b>	<b>7.39</b>	<b>-1.27</b>	<b>-1.34</b>	<b>2.48</b>	<b>03/01/2014</b>
ICE BofAML 3 Mo US T-Bill Index+3% (1 Mo Lag)	1.25	3.53	4.57	3.81	3.50	3.38	3.81	3.33	3.02	3.54	
Difference	-0.42	2.70	4.59	-0.64	N/A	N/A	3.58	-4.60	-4.36	-1.06	

Portfolio Allocation by Manager

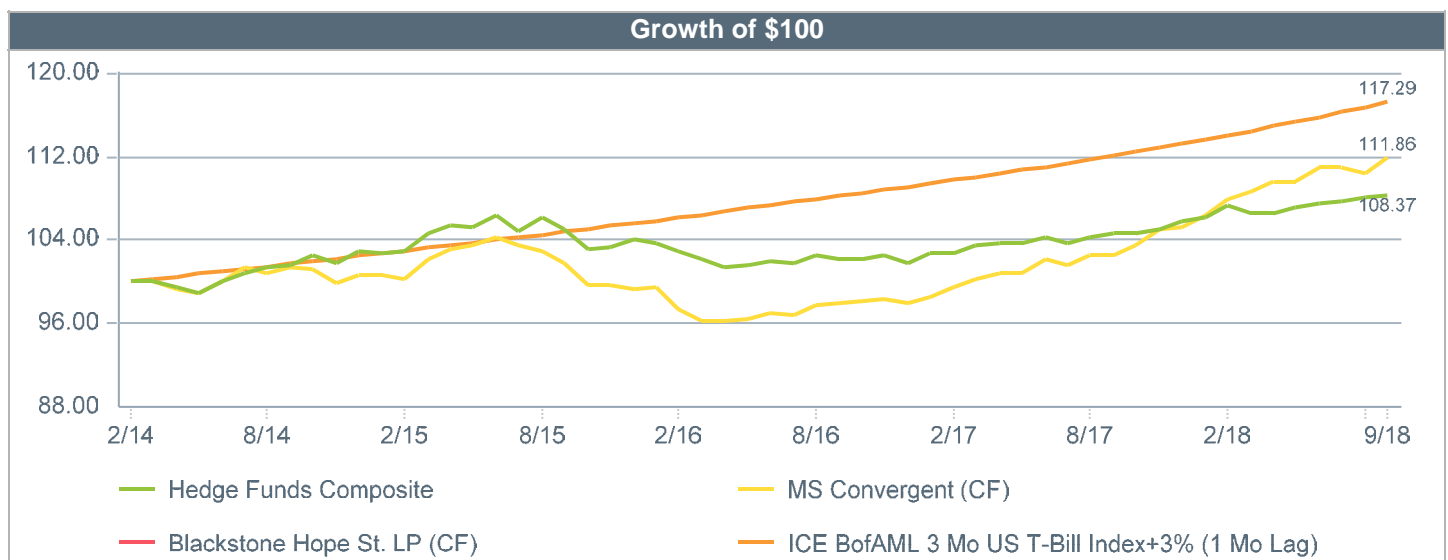
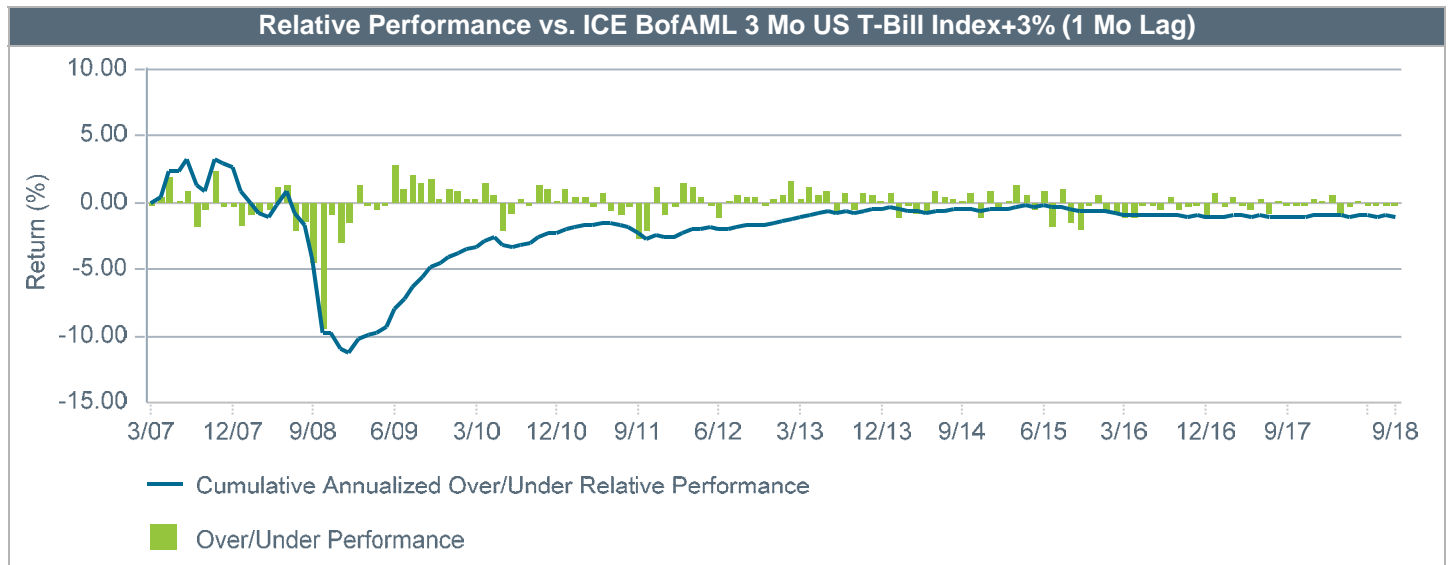
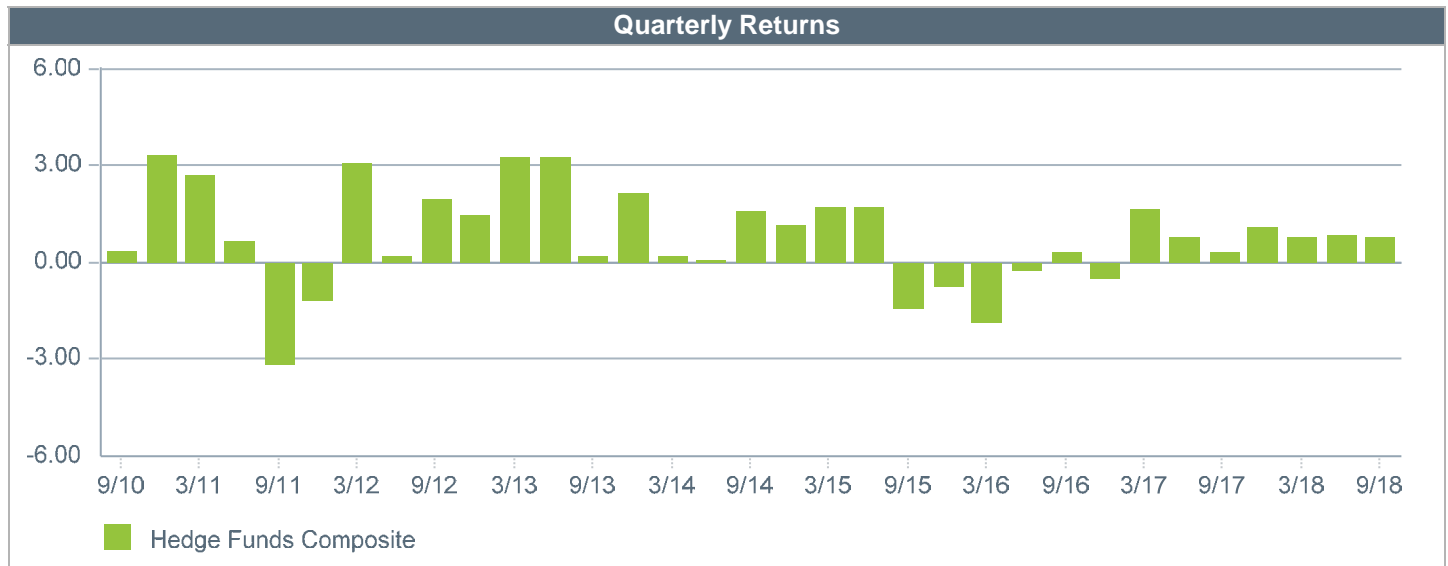
September 30, 2018 : \$603,371,281



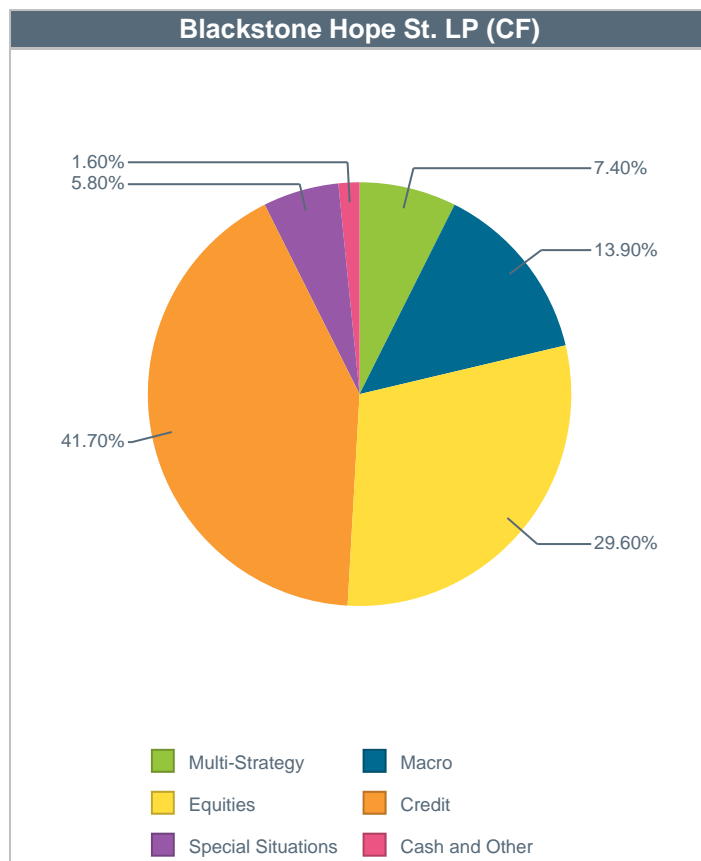
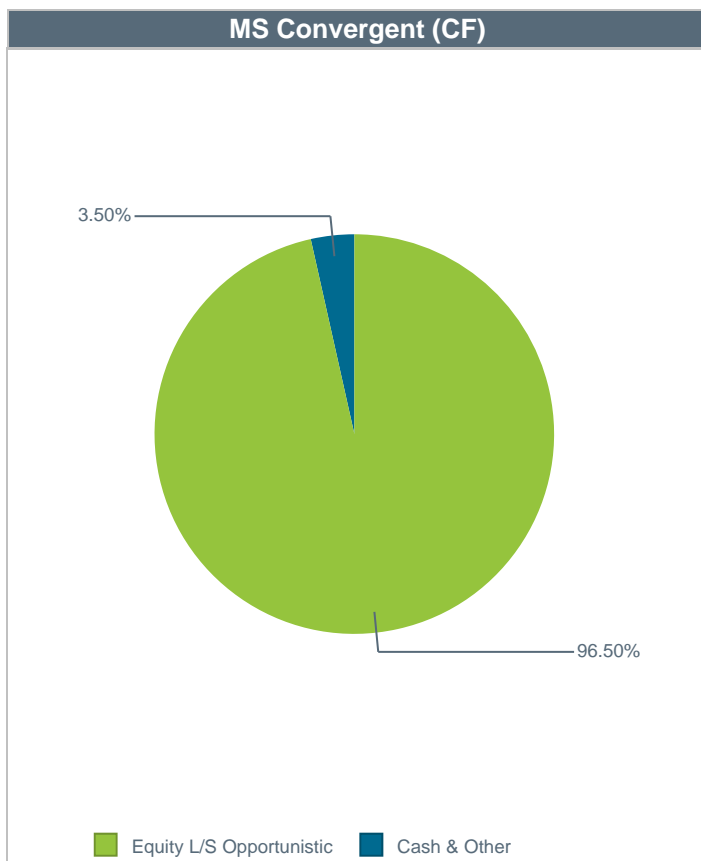
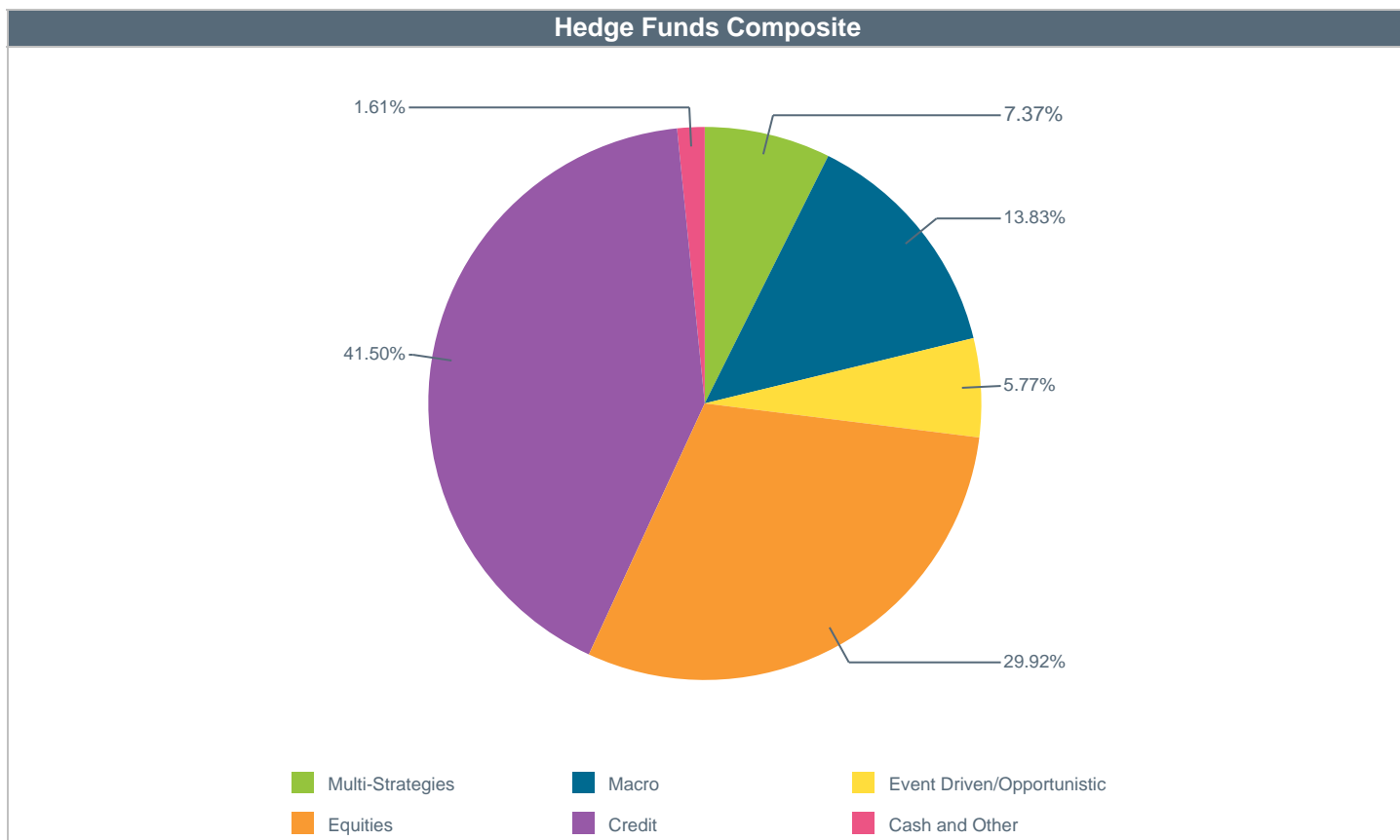
Performance shown is net of fees and representative of the Retirement Plan. Performance shown is annualized for periods greater than one year. Inception dates shown represent the first full month following initial funding. Fiscal year ends 06/30. Allocations shown may not sum up to 100% exactly due to rounding.



Performance shown is net of fees and representative of the Retirement Plan. Funds with less history than the specific time period will not appear in the chart.



Performance shown is net of fees and representative of the Retirement Plan.



Allocations shown may not sum up to 100% due to rounding.

**Investment Strategy**

BAAM manages a custom discretionary Hope Street fund on behalf of LADWP. Hope Street is a broadly diversified portfolio designed to provide downside capital protection and achieve the portfolio objective over a full market cycle. The portfolio is designed to maintain low volatility vs. the global equity markets.

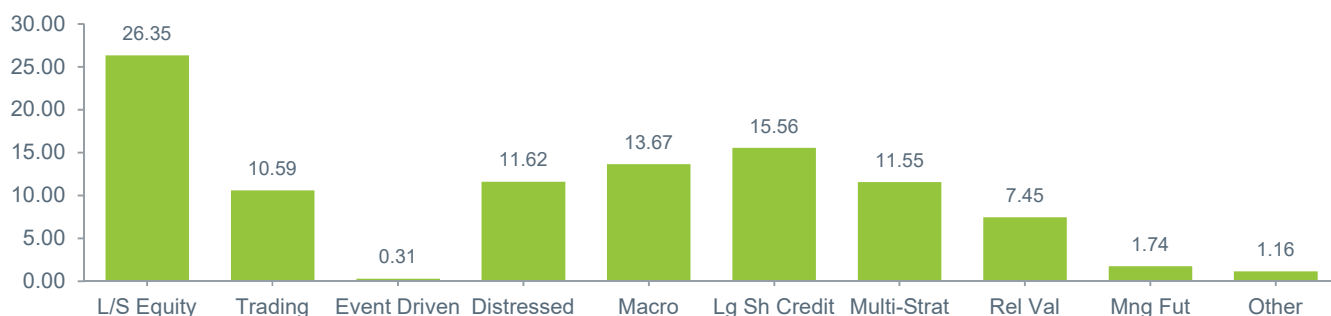
**Firm Statistics**

Year Firm Established	1990
Firm AUM (\$M)	\$77,403
Percentage Employee Owned	47.00%

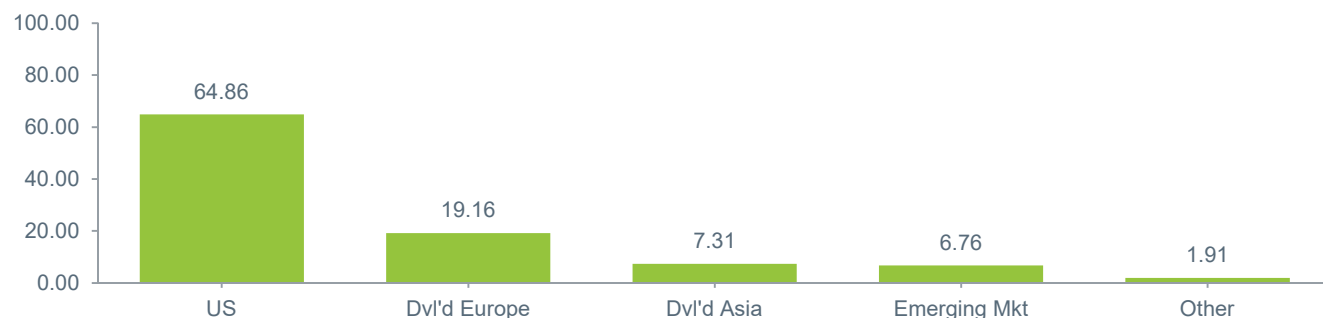
**Fund Statistics**

Fund Inception	2017
Fund Size (\$M)	\$695
Number of Underlying Managers	44
Maximum Weighting of an Underlying Manager	5.50%
Current Leverage (Assets/Equity)	3.8
Annual Manager Turnover	N/A
Annual Management Fee %	0.6
Performance Fee %	12
Hurdle %	4.4
Initial Lock-Up Period	No
Redemption Frequency	Daily
Notification Period	60 Days

**Strategy Allocation (%)**



**Geographic Allocation (%)**



Strategy Allocation to "Other" includes cash, hedging, and other expenses. Geographic Allocation to "Other" consists of Canada. Investment profile data shown is provided by the investment manager and is as of the most recently available quarter end.

While California Govt. Code sec. 7514.7 requires certain fund information be disclosed to the public, sec. 6254.26(a) exempts from public disclosure certain contract terms, such as management fees expressed as a percentage, unless the fund manager consents to release such information. In this case, BlackStone has consented to release this information to the public.

Allocation by Strategy	
Strategy	Allocation (%)
<b>Equities</b>	<b>29.6</b>
Equity Manager 1	3.4
Equity Manager 2	2.7
Equity Manager 3	2.6
Equity Manager 4	4.5
Equity Manager 5	3.3
Equity Manager 6	3.4
Equity Manager 7	2.6
Equity Manager 8	2.5
Equity Manager 9	2.2
Equity Manager 10	1.1
Equity Manager 11	0.8
Equity Manager 12	0.5
<b>Credit</b>	<b>41.7</b>
Credit Manager 1	4.5
Credit Manager 2	2.0
Credit Manager 3	2.6
Credit Manager 4	5.4
Credit Manager 5	3.4
Credit Manager 6	2.9
Credit Manager 7	5.6
Credit Manager 8	3.7
Credit Manager 9	3.7
Credit Manager 10	3.6
Credit Manager 11	4.4
<b>Multi-Strategies</b>	<b>7.4</b>
Multi-Strategies Manager 1	5.2
Multi-Strategies Manager 2	2.2
<b>Macro</b>	<b>13.9</b>
Macro Manager 1	13.8
Macro Manager 2	0.1
<b>Special Situations</b>	<b>5.8</b>
Special Situations Manager 1	3.1
Special Situations Manager 2	2.7
<b>Cash and Other</b>	<b>1.6</b>

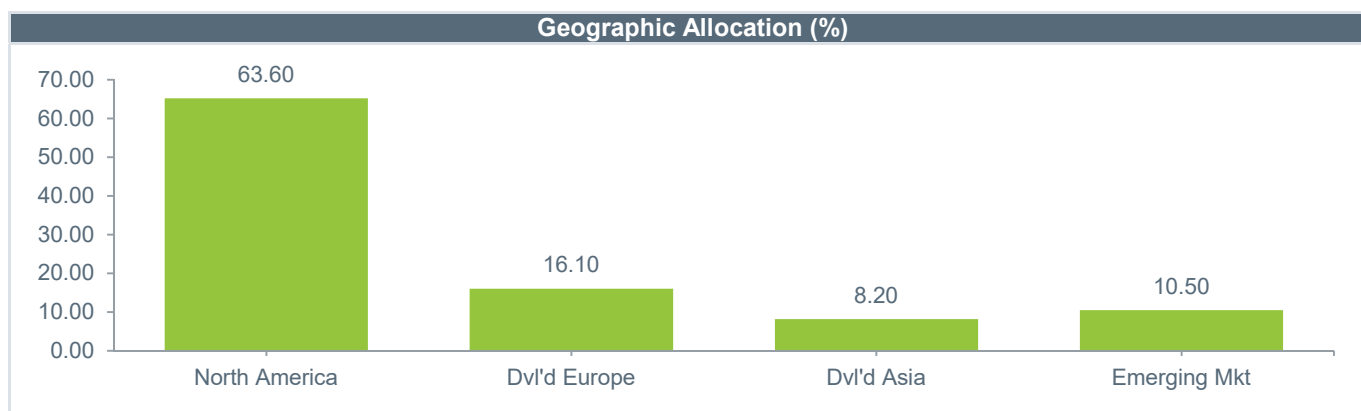
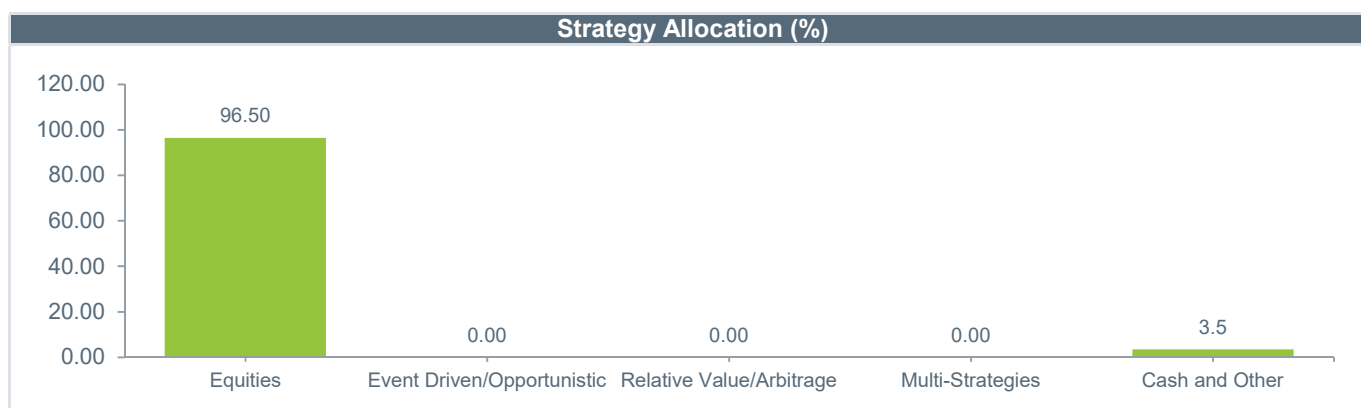
Turnover		
Strategy	New	Terms/Trans
Equities	6	1
Credit	4	0
Multi-Strategies	0	0
Macro	0	0
Event Driven/Opportunistic	1	2
Special Situations	2	0
Cash and Other	0	0
<b>Total Turnover</b>	<b>13</b>	<b>3</b>



Investment Strategy
Morgan Stanley AIP seeks to provide superior performance with minimal principal loss over a complete investment cycle. The fund attempts to achieve its objective principally through investing in a diversified portfolio of investment funds managed by third party investment strategies who employ a variety of investment strategies.

Firm Statistics	
Year Firm Established	2000
Firm AUM (\$B)	\$22
Percentage Employee Owned	0.00%

Fund Statistics	
Fund Inception	2014
Fund Size (\$M)	\$3
Number of Underlying Managers	1
Maximum Weighting of an Underlying Manager	100%
Current Leverage (Assets/Equity)	None
Annual Manager Turnover	11.00%
Annual Management Fee	None
Performance Fee	No
Hurdle	No
Initial Lock-Up Period	No
Redemption Frequency	Monthly
Notification Period	N/A



Fund statistics shown are provided by the investment manager and are as of the most recently available quarter end. Actual management and performance fees and other terms may vary based on the invested assets or other manager concessions.

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Allocation by Strategy	
Strategy	Allocation (%)
Equities L/S Opportunistic	0.0
Event Driven Equity	0.0
Equity L/S High Hedge	96.5
Equity L/S High Hedge Manager 1	96.5
Statistical Arbitrage	0.0
Mortgage Arbitrage	0.0
Multi-Strategy	0.0
Cash and Other	3.5
Cash and Other	3.5

Turnover		
Strategy	New	Terms/Trans
Equities L/S Opportunistic	3	11
Event Driven Equity	0	2
Equity L/S High Hedge	0	4
Statistical Arbitrage	0	4
Mortgage Arbitrage	0	3
Multi-Strategy	0	3
Cash and Other	0	0
<b>Total Turnover</b>	<b>3</b>	<b>27</b>

**Water and Power Employees' Retirement Plan**  
**Hedge Funds Characteristics and Terms**

Strategy	Definition
<b>Relative Value</b>	
Convertible Arbitrage	Seeks to profit from pricing anomalies between a company's convertible securities and its equity. A manager buys the convertible instrument (often a bond) and sells short the common stock.
Fixed Income/Credit Arbitrage	Exploits pricing inefficiencies between fixed income securities with similar characteristics, such as corporate vs. Treasury yield spreads. Offsetting long and short positions typically neutralize exposure to interest rate risk, isolating the pricing discrepancy.
Equity Market Neutral	Exploits relative pricing inefficiencies between equity securities while neutralizing market exposure. Typically the net (total long and short) portfolio exposure is balanced so that there is no directional bias to equity sectors or styles.
<b>Event Driven</b>	
Risk/Merger Arbitrage	Invests in the shares of companies involved in mergers, acquisitions, and LBOs. A common merger arbitrage strategy is to buy the equity of the "target" and sell short the equity of the "acquirer," making a profit if the deal outcome (and timing) is in line with the manager's positioning.
Distressed Securities	Managers pursuing this strategy invest in bank debt, corporate debt, trade claims, common stock, and warrants of companies either in bankruptcy or having financial or operational issues. The goal is to anticipate how corporate events (such as bankruptcies, reorganizations, distressed sales, and restructurings to reverse negative trends) will impact the underlying securities.
<b>Opportunistic</b>	
Global Macro	Employs a "top down" approach to invest across a wide range of global asset classes based on forecasted changes in global economies, political fortunes, or global supply and demand for resources.
Short Selling	Taking short positions in stocks in anticipation of a price decline, based on a view that the stock is overvalued, company earnings will disappoint, or there is a market selloff approaching.
Emerging Markets	Generally long-biased equity or debt positions that seek to capitalize on the undervaluation of companies in developing countries, which tend to have higher inflation and volatile growth.
Long/Short Equity	Core holding of long equities hedged to varying degrees with short positions in stocks or derivatives.

PORTLAND

CHICAGO

NEW YORK

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