

Portable Alpha at the Fairfax County Employees' Retirement System



IIR's 2nd Annual
Portable Alpha Summit
October 12, 2006

The Initial State

- Capital Market Assumptions & the Efficient Frontier
- Implementation Discontinuities
 - Undisciplined Rebalancing
 - Active Long Only Risk & Results
- Derivatives = Risk
- Blending Market & Active Risk
- Volatility Dominated by Equity
- Open to “Maverick” Risk
- Third Quartile Performance

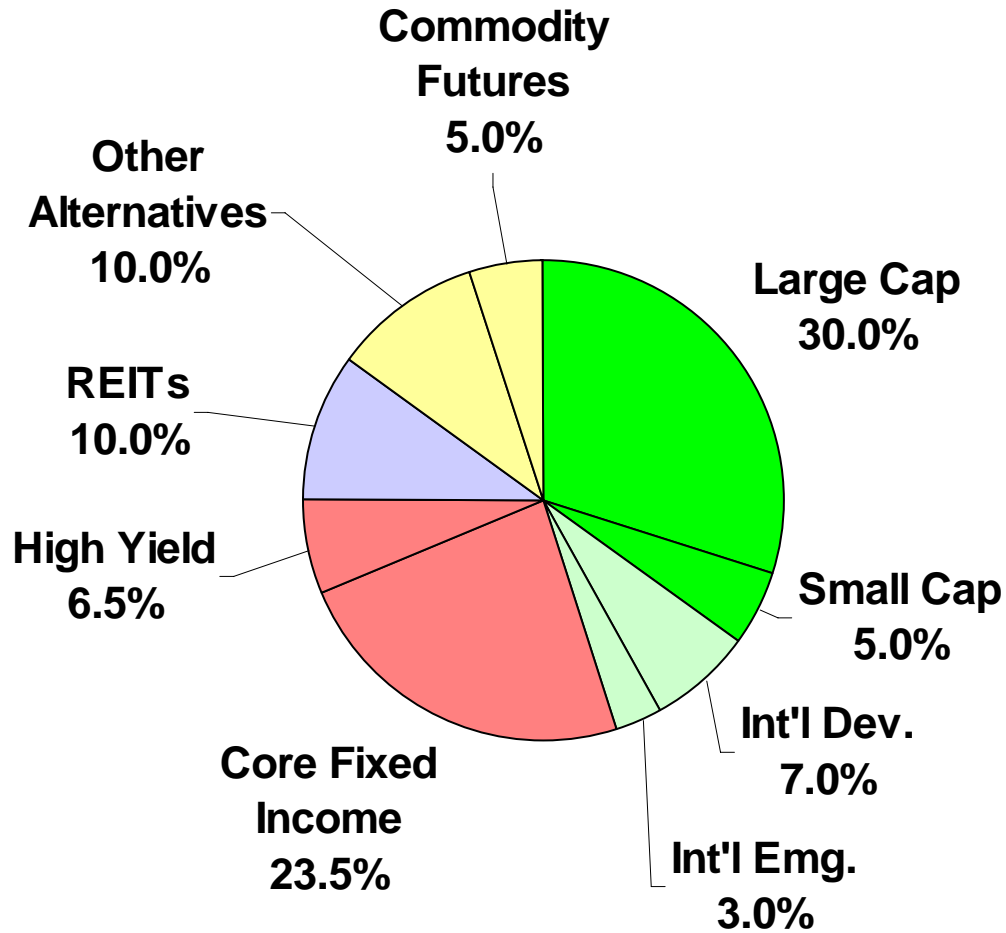
The Road to Portable Alpha

- Targeting Total Portfolio Risk
 - The Role of Funding Policy
 - Clarity of Objectives
 - Tracking error to funding rate
- Managing Market Exposures
 - Rebalancing via Futures
 - Tactical Asset Allocation
- Understanding and Measuring Active Risk
 - Focus on Plan & Policy Benchmarks
 - Information Ratios
 - Manager Beta's & Alpha's

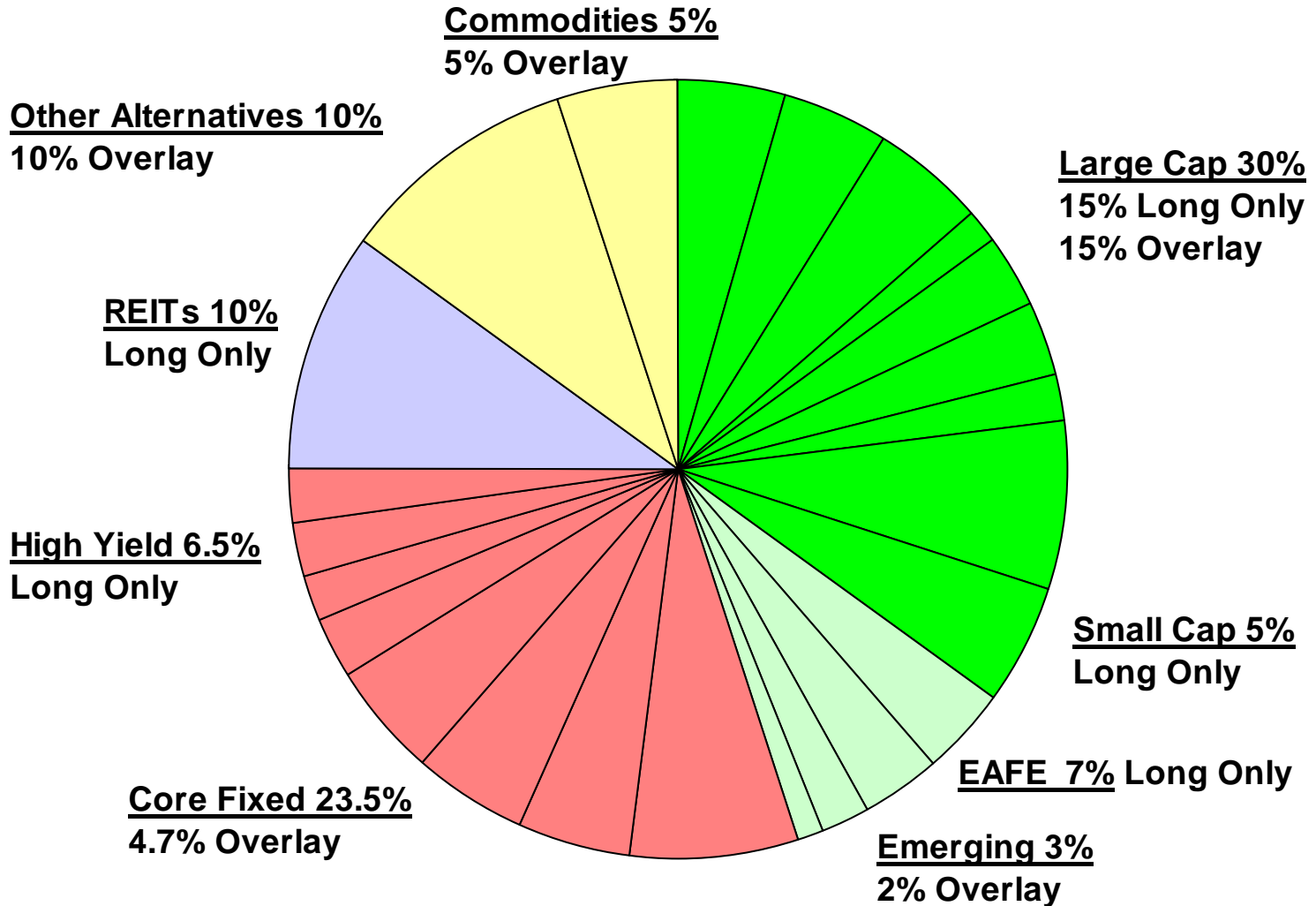
The Road to Portable Alpha

- Transporting Long-only Alpha
 - Rebalance
 - But Retain Consistent Alpha
- Applying Leverage to Manage Risk
 - More equities
 - Or leveraged bonds
- Active Risk Diversification
 - Uncorrelated alpha sources
 - Leveraging alpha

**Fairfax County Employees' Retirement System
Target Asset Allocation**



**Fairfax County Employees' Retirement System
Sources of Alpha by Target %**



**Fairfax County Employees' Retirement System
Allocation by Sources of Volatility at Total Plan Level**

