PARS: County of Contra Costa

Third Quarter 2015

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HIGHMARK®
CAPITAL MANAGEMENT

DISCUSSION HIGHLIGHTS

U.S. Economic and Market Overview

The third quarter started with concern over economic conditions in Greece, which faded once a deal was reached and a technical default was avoided. Prime Minister Tsipiras and his Syriza party were re-elected and essentially gave up on the prior strategy of playing hardball with the 'troika" of the International Monetary Fund, the European Central Bank, and the European commission. As we write this note in October, the problems in Greece seem like they occurred ages ago. The market quickly turned its focus from Greece to China, to the Fed, in a quarter that saw high levels of volatility, mainly on the down side. The stock market slide was fueled by two catalysts: China and the Federal Reserve.

China announced on August 8 plans to devalue their currency. This was viewed as a negative by financial markets, indicating a slowdown in Chinese economic growth. Chinese policy responses to their declining stock market have consisted of restrictions on security sales, censoring media coverage of the equity market decline, and devaluation of their currency, all with marginal results. As a major driver of global economic growth, China is viewed as a vital source of demand for commodity-producing nations and corporations looking to market their products to a growing middle class. Given that China is the world second largest economy, a slowdown in growth will have a negative global impact. The problems in emerging markets have not been isolated to China. Brazil and Russia also appear to be in recessions, as both nations have been struggling to regain economic traction. Russia has been negatively impacted by the plunge in oil prices, while Brazil has struggled with political instability and a rising rate of inflation, coupled with a stagnant economy.

The other event, or non-event depending on how you look at it, related to the Federal Reserve, and their decision on interest rate normalization. On the heels of several strong employment announcements, as well as a strong second quarter GDP print of 3.9%, most investors began to anticipate that the Federal Reserve might initiate a rate hike in the third quarter. These beliefs were somewhat supported by several speeches throughout the quarter from Fed members who gave indications that a rate hike was on the table. However, in a press conference on September 17, Chairperson Janet Yellen spoke with a dovish tone, and stocks slumped in reaction. One possible explanation for the negative reaction, immediately following the Fed's decision not to raise rates, is that investors viewed the policy decision as an indication that the U.S. economy may be more vulnerable than assumed. With the Fed's apparent 'about face' on raising rates, inaction served to express more concern about the economy than what was priced into the market.

Market overview/Performance Discussion

Total Plan

The County of Contra Costa OPEB Plan returned -3.77% net of investment fees, in the third quarter, which was in-line with the County's Plan benchmark return target of -3.71%. Positive contributions from our two new global equity managers as well as our small cap equity managers aided returns. The performance from the AQR Managed Futures Fund helped the alternative asset class to outperform the benchmark; however the other alternative manager's performance was disappointing. Segments that slightly underperformed their benchmarks included large cap equity and REIT equity. The largest areas of underperformance came from mid cap equity and our fixed income investments. Within fixed income, our two intermediate-term managers maintained duration positions that were shorter than the benchmark, which detracted from performance in a quarter where rates declined. Additionally, while exposure to high yield was a modest 1%,the decline in our high yield investment of -3.5% was a negative. A modest positive contribution came from the rebalancing of the equity allocation of the Plan on August 25. On this day, we rebalanced roughly 4% of the portfolio, repositioning assets from fixed income, alternative asset, and cash holdings, and purchasing a corresponding amount of equities. This day turned out to be the low point in the quarter for many equity markets.

Domestic Equity

Domestic equity markets experienced losses across the board in the third quarter for the first time since 2012. Losses were led by small-cap equities, which returned -11.92% (Russell 2000 Index). Large cap equities weathered the storm with the least losses, but still returned a disappointing -6.44% (S&P 500 Index). Across large cap stock, all sectors witnessed declines with the lone exception of the Utilities sector, which returned +5.41%. Energy and Material Stocks led the decline with large losses of -17.39% and -16.89%, respectively. Commodity sensitive sectors have come under fire amidst low global commodity prices and fears of a slowdown in global growth, specifically China who has been the world's largest commodity consuming economy. The Health Care sector also experienced a large decline of -10.65% as Bio-tech firms sold off, reversing previously strong stock performance trends. The Financial sector experienced a loss of -6.71% after the Federal Reserve took the market by surprise by not raising interest rates at their September FOMC meeting. Consumer related companies saw lighter losses with Consumer Discretionary companies declining -2.56% and Consumer Staples companies returning -0.20% as domestic consumer spending continues to be a source of strength for the US economy.

- **The Plan's large-cap funds returned -7.22% in the quarter, which underperformed the Russell 1000 Index return of -6.83%.**
  - The iShares Russell 1000 ETF returned -6.84% in the third quarter.
  - The Columbia Contrarian Core Fund returned -7.22% in the quarter, which underperformed the benchmark. The Fund ranked in the 47th percentile of the Morningstar Large Cap Blend Universe.
  - The Harbor Capital Appreciation Fund returned -5.44% in the quarter, which underperformed the Russell 1000 Growth Index's return of -5.29%. The Fund ranked in the 25th percentile of the Morningstar Large Cap Growth Universe.
  - The T. Rowe Price Growth Stock Fund returned -4.71% in the quarter, which outperformed the Russell 1000 Growth Index. The Fund ranked in the 13th percentile of the Morningstar Large Cap Growth Universe.
  - The Dodge and Cox Stock Fund returned -9.84% in the quarter, which underperformed the Russell 1000 Value Index's return of -8.39%. The Fund ranked in the 75th percentile of the Morningstar Large Cap Value Universe.
  - The Loomis Sayles Value Fund posted a -9.47% return in the quarter, which also underperformed the Russell 1000 Value Index. The Fund ranked in the 70th percentile of the Morningstar Large Cap Value Universe.

- **The mid-cap equity segment returned -9.29% in the quarter, which underperformed the Russell Mid-Cap Equity return of -8.01%.**
  - The iShares Russell Mid-cap ETF returned -8.05% in the third quarter.
  - The TIAA-CREF Mid-Cap Value Fund returned -8.62% in the quarter, which underperformed the Russell Mid-Cap Value Index return of -8.04%. The Fund ranked in the 37th percentile of the Morningstar Mid-Cap Value Universe.
  - The Ivy Mid Cap Growth Fund returned -11.61% in the third quarter, which underperformed the Russell Mid Cap Growth Index return of -7.99%. The Fund ranked in the 78th percentile of the Morningstar Mid-cap Growth Universe.

- **The small-cap equity segment returned -9.71% in the quarter, which outperformed the Russell 2000 Index return of -11.92%.**
  - The iShares Russell 2000 ETF returned -11.91% in the third quarter.
  - The T. Rowe Price New Horizons Fund returned -7.78% in the quarter, and outperformed the Russell 2000 Growth Index return of -13.06%. The Fund ranked in the 6th percentile of Morningstar's Small Cap Growth Universe.
  - The Columbia Small Cap Value Fund II returned -8.97% in the quarter, and outperformed the Russell 2000 Value Index's return of -10.73%. The Fund ranked in the 26th percentile of Morningstar's Small Cap Value Universe.

Real Estate

REIT equity returns were one of the few bright spots offered in a turbulent third quarter, with the Wilshire REIT Index returning a positive 2.88%. With foreign markets down over double digits in the third quarter, investors flocked to REITs, which offered investors returns more levered to a strongly performing domestic economy. This focus was highlighted by returns within domestically focused REIT sub-sectors such as Self Storage (+16.1%) and Manufactured Housing (+11.0%). In contrast, sectors with a higher level of foreign influence such as Hotels (-13.7%) and Office (-1.23%) declined. The revision upward in second quarter GDP, combined with supportive employment statistics, encouraged investors to increase allocations to REIT equity. According to Cohen & Steers, a specialist in REIT investing, 90% of REITs exceeded or met earning expectations in the most recent quarter. REIT investments have also been supported by acquisition activity, with several billion dollars of intended acquisitions announced in the quarter.

The Nuveen Real Estate Securities Fund returned 2.36% in the quarter, which was slightly under the Wilshire REIT Index return of 2.88%. The Fund placed in the 43rd percentile of the Morningstar Real Estate Manager's Universe.

Global/International Equity

The third quarter started with concerns over economic conditions in Greece, which faded once a deal was reached and a technical default was avoided. Once a deal was reached, international equity investors shifted their attention to events in China. Fears of a slowdown in China was highlighted by weak Chinese economic statistics released during the quarter, and was punctuated by the devaluation of the Renminbi in August. The perceived weakness in China influenced commodity markets, as reflected by the 20% decline in the price of oil in the third quarter.

There was no international market that made it through the quarter unaffected by the global sell off. Developed Europe declined -8.1% with most countries down between -5% to -12%, Norway was the most impacted with a -19% decline. While this is alarming, the European Central Bank is now well into an economic stimulus program and ECB President Mario Draghi has signaled that the bank is prepared to undertake a larger program, if warranted. While European equity markets suffered losses, a weaker Euro supported the region's exports, giving investors some hope that the turnaround in this region can continue. Emerging markets fared even worse, with double digit losses across the board. Given China's and Greece's role in the volatility, it is not surprising that they were both amongst the worst performers, -23% and -36%, respectively. Brazil also had a tough quarter, declining -34% on the headwinds of weak economic growth, high inflation, and continued political disarray. There were clear concerns around the Asian Pacific countries given their connection to China; this was displayed by poor returns of both developed and emerging economies in the region.

While China will likely continue to be volatile while it works through a structural transition from an export based economy to a consumption based economy, we do not believe it is prudent to spurn emerging market equities entirely. Emerging markets are currently trading at a forward P/E of 11.4X, which is attractive relative to higher developed market valuations. Further, emerging markets are still growing faster than developed markets, and they have the resources to stimulate their economies, if needed. Most developed market interest rates are near zero while emerging market monetary policy still has room for maneuvering. With the drop in commodity prices adding an additional tail wind to net importer countries (like China), we see potential for some emerging market countries to bounce back from the most recent disappointing quarter.

- **The Plan's international/global equity segment returned -9.84% in the quarter. This return outperformed the MSCI EAFE Index -10.23%, and underperformed the MSCI ACWI Index return of -9.45%.**
  - The iShares MSCI EAFE Index ETF returned -10.23% in the quarter.
  - The Nationwide Bailard International Equity Fund returned -8.75% in the quarter, and outperformed the MSCI EAFE Index. The Fund ranked in the 19th percentile of the Morningstar Foreign Large Blend Universe.
  - The Dodge & Cox International Stock Fund returned -15.38% in the quarter and underperformed the MSCI EAFE Index. The Fund ranked in the 97th percentile of the Foreign Large Blend Universe as measured by Morningstar.
  - The MFS International Fund returned -8.45% in the quarter and outperformed the MSCI EAFE Index. The Fund ranked in the 34th percentile for foreign large cap growth managers as measured by Morningstar.
  - The iShares MSCI ACWI Index ETF returned -9.47% in the quarter
  - The American Funds New Perspective Fund recorded a -6.46% return in the third quarter, which outperformed the MSCI ACWI Index and ranked in the 16th percentile within the Morningstar World Stock Universe
  - The MFS Global Equity R5 Fund returned -7.70%, which outperformed the benchmark and ranked in the 30th percentile of the Morningstar World Stock Universe.
  - The DJ Euro-Stoxx 50 ETF returned -9.09% in the quarter, which outperformed the MSCI EAFE Index.
  - The Schroder Emerging Market Equity Fund returned -15.66% during the quarter and outperformed the MSCI Emerging Market benchmark return of -17.90%. The Fund ranked in the 42nd percentile of the Morningstar Emerging Market Universe.

Fixed Income

The Barclays Capital U.S. Aggregate Bond Index returned 1.23% in the third quarter as declining interest rates resulted in a 1.8% gain for U.S. Treasuries. Once again despite widespread predictions of higher interest rates, yields for five-year maturity and longer Treasuries ended the quarter 30 to 35 basis points lower. Ten-year Treasury yields declined 32 basis points this quarter while thirty-year bond yields were lower by 27 basis points, resulting in gains of 2.9% and 5.1% respectively. U.S. Treasuries have now posted gains for six of the past seven quarters, dating back to the first quarter of 2014. While Treasury securities performed well this quarter, most non-Treasury sectors lagged behind. Investment-grade corporate bond spreads widened another 30 basis points to +178 during the quarter, reaching the widest level since 2012. Although corporates advanced 0.8% for the quarter, they lagged the performance of equivalent duration U.S. Treasury securities by –145 basis points. Lower quality bonds performed even worse as high yield bonds returned -4.9% during the quarter, generating a negative excess return of –638 basis points as lower oil prices and slower growth were the catalysts for underperformance. High yield bond spreads finished the quarter at +662 basis points, wider by +162 bps for the quarter.

For the year-to-date, the Aggregate Index has returned 1.1%, while U.S. Treasuries have advanced 1.8% and investment grade corporate bonds declined –0.1%, underperforming duration-adjusted Treasuries by –209 basis points. High yield bonds have lost –1.7% in 2015, posting a negative excess return of –466 basis points. Agency mortgage-backed securities have advanced 1.6%, underperforming equivalent-duration Treasuries by –68 basis points.

The Federal Reserve is still looking for a way off of the zero interest rate floor where they have been for nearly seven years, but are being hindered by slower growth, lower commodity prices, and a strong dollar. U.S. economic growth continues to be solid, although it remains well under 3%, and is now being further constrained by a meaningfully larger trade deficit. In addition, U.S. employment growth seems to have stalled over the last few months, resulting in monthly average job growth this year of 198,000, significantly below last year's average of 260,000. Global growth is also slow as China, which accounted for 40% of global growth last year, continues to decelerate, while Brazil and Russia are in recession. Of the formerly fast growing BRIC's, that leaves only India, which is still doing relatively well with growth of about 7%. Slower growth means there is little or no evidence of price pressure, and as a result inflation has remained below the Fed's 2% target for the last forty consecutive months.

The County's fixed income portfolio lagged its benchmark this quarter primarily as a result of an overweight to investment-grade corporate bonds, which comprised approximately 50% of the portfolio. Since corporate bonds underperformed by nearly –1.5% this quarter, they were the largest contributor to the underperformance, detracting –33 basis points from total return. Sector allocation would have been even more negative without the benefit of an underweight to mortgage-backed securities, which also underperformed Treasuries by –21 basis points. The portfolio benefitted from holding half of the benchmark weight in mortgages during the quarter, approximately 14% versus 28%. An overweight to asset-backed securities was also a positive as this sector was the only one to outperform Treasuries, with a positive excess return of 15 bp. Although asset-backed securities comprise less than one percent of the benchmark, the portfolio held an average of 6% during the quarter. Duration positioning had a negative –23 basis point impact this quarter due to the portfolio's shorter duration during a quarter when interest rates declined approximately 30 basis points. At the individual security level the top performers were several U.S. Treasuries due in 2021, 2022, and 2037, Bank of America, and Georgia Pacific, while the detractors were almost entirely energy related, including Ensco, Williams Partners, Kinder Morgan, and Dow Chemical.

- **The Plan's fixed income segment returned 0.59% in the quarter, which underperformed the Barclays Aggregate return of 1.23%.**
  - The separately managed fixed income portfolio returned 0.85% which underperformed the benchmark. The portfolio would have ranked approximately in the 31st percentile of the Morningstar Intermediate Term Bond Universe.
  - The PIMCO Total Return Bond Fund declined -0.09% in the quarter, which placed it in the 76th percentile of Morningstar's Intermediate-Term Bond Universe. The Fund underperformed the Index.
  - The PIMCO High Yield Bond Fund returned -3.5% in the quarter, and outperformed the Merrill Lynch US High Yield BB-B Index return of -4.26%. The Fund ranked in the 25th percentile of Morningstar's High Yield Universe.

Alternative Investments

The outperformance within alternatives for the third quarter rested solely on the performance of the AQR Managed Futures Fund. For the quarter, the AQR Fund returned 6.24%. Positions in commodities, currencies, and fixed income supported returns, while equities were the only segment that detracted from performance. Long-term trend signals contributed the most to performance with commodities (+3.2%) providing over half of the quarterly contribution to performance. Short positions in Brent Crude, WTI Crude, and Gas Oil were the leading contributors in the quarter. The other alternative funds offered disappointing returns in the quarter. The Eaton Vance Global Macro Fund declined -1.76%. Sovereign credit exposure was the largest detractor, with positions in Zambian credit, Ecuadorian credit, and long exposure to Brazilian interest rates hurting performance the most. With the declines in global equity markets in the quarter, performance was hampered by exposure to credit in Latin America, Western Europe, Africa, and the Middle East. The Arbitrage Fund registered a -1.37% return in the quarter, as positions in Williams Partners LP (-32.8%) and AbbVie Inc: (-18.43%) hurt performance. In addition, many positions moved down slightly as deal spreads widened throughout the quarter, particularly in semiconductors and healthcare. The final alternative fund, the JP Morgan Market Neutral Fund also generated a modest negative return, posting a -0.33% return. "Long" stock selection in Lam Research (-19%), United Technologies (-19%), and Morgan Stanley (-18%) hurt performance. "Short" positions in Nvidia (+2.3%), Netflix (+10%), and Progressive Corp (+10%) hurt performance.

- **The alternative investment segment returned 0.96% in the third quarter, which exceeded the Wilshire Liquid Alternatives Index return of -2.37%.**
  - The Arbitrage Fund returned -1.37% in the quarter which ranked in the 56th percentile of Morningstar's Market Neutral Universe.
  - The JPMorgan Research Market Neutral Fund returned -0.33%, which placed the Fund in the 44th percentile of the Morningstar Market Neutral Universe.
  - The Eaton Vance Global Macro Absolute Return Fund posted a -1.76% return, which placed in the 52nd percentile of the Morningstar Non-Traditional Bond Universe.
  - The AQR Managed Futures Fund's return of 6.24% ranked in the 4th percentile of Morningstar's Managed Futures Fund Universe.

Asset Allocation/Portfolio Transitions

In August, we implemented a style tilt in our investment portfolios, by overweighting value vs. growth equities across all market capitalization. Over the past year, growth equities have outpaced value stocks by a considerable margin. Growth-oriented sectors such as technology, bio-tech, and health care, have posted strong gains. On the other hand, the value-oriented sectors such as the financials, energy, and basic materials have lagged considerably. We view valuations as more compelling in ‘value’ oriented indices, and we believe investors’ attention will eventually revert back to value names as the cycle continues.

No changes occurred in investment managers during the quarter

Manager Watch List

Name of Fund	*Date on watch list*	*Date exiting watch list*	*Recommendation*	*Rationale*
Ivy Mid-Cap Growth	2Q 2015		Review	Peer ranking has fallen below the median over 3-year and 5-year periods
MFS International Growth	4Q 2014		Review	Peer ranking has fallen below the median over 3-year and 5-year periods
Pimco Total Return Bond Fund	4Q 2014		Review	Personnel turnover at the firm, coupled with turnover within the organization. Asset outflows are also a mitigating factor. We wish to see potential impact of personnel turnover in 1Q2016 after incentive payments are paid on 2015 performance
Arbitrage Fund	3Q 2015		Review	Investment returns are not exceeding expectations of alternative category: Cash + 3 to 4% return
Eaton Vance Global Macro Absolute Return Fund	3Q 2015		Review	Investment returns are not exceeding expectations of alternative category: Cash + 3 to 4% return
JP Morgan Research Market Neutral Institutional 1	3Q 2015		Review	Investment returns are not exceeding expectations of alternative category: Cash + 3 to 4% return
AQR Managed Futures	3Q 2015		Review	Hitesh Mittal, former head of trading at AQR is voluntarily taking a leave of absence amid a regulatory investigation of his former employer, investment Technology Group Inc. (ITG)

Asset Allocation
Period Ending September 30, 2015

Asset Allocation	6/30/2015 Market Value	6/30/2015 % of Total	9/30/2015 Market Value	9/30/2015 % of Total	Target Allocation
Large Cap Equities					
Columbia Contrarian Core Z	5,824,916	3.4%	5,761,636	3.5%	-
iShares Russell 1000 ETF	9,167,856	5.3%	9,970,530	6.0%	-
Dodge & Cox Stock Fund	3,748,924	2.2%	4,148,570	2.5%	-
Loomis Sayles Value Fund	3,755,720	2.2%	4,145,510	2.5%	-
Harbor Capital Appreciation Instl	3,747,579	2.2%	2,454,671	1.5%	-
T. Rowe Price Growth Stock Fund	3,746,409	2.2%	2,432,602	1.5%	-
Total Large Cap Equities	**29,991,404**	**17.4%**	**28,913,520**	**17.4%**	**17.0%**
				Range	*13-32%*
Mid Cap Equities					
iShares Russell Mid-Cap ETF	2,501,173	1.4%	2,472,315	1.5%	-
TIAA-CREF Mid-Cap Value Instl	2,077,080	1.2%	2,487,690	1.5%	-
Ivy Mid Cap Growth Fund I	2,085,668	1.2%	1,637,196	1.0%	-
Total Mid Cap Equities	**6,663,920**	**3.9%**	**6,597,202**	**4.0%**	**6.0%**
				Range	*2-10%*
Small Cap Equities					
iShares Russell 2000 ETF	4,989,780	2.9%	4,891,505	2.9%	-
Columbia Small Cap Value Fund II	3,759,096	2.2%	4,949,871	3.0%	-
T. Rowe Price New Horizons Fund	3,769,586	2.2%	2,415,554	1.5%	-
Total Small Cap Equities	**$ 12,518,463**	**7.2%**	**$ 12,256,930**	**7.4%**	**8.0%**
				Range	*4-12%*
International Equities					
Nationwide Bailard Intl Equities Fund	3,317,459	1.9%	3,339,166	2.0%	-
iShares MSCI EAFE Index Fund	4,922,316	2.9%	5,081,475	3.1%	-
Dodge & Cox International Stock Fund	2,466,651	1.4%	2,497,969	1.5%	-
MFS International Growth Fund	2,470,887	1.4%	2,535,877	1.5%	-
Schroder Emerging Market Equity	2,513,949	1.5%	2,529,558	1.5%	-
SPDR EURO STOXX 50 ETF	3,237,508	1.9%	3,405,378	2.0%	-
Total International Equities	**$ 18,928,769**	**11.0%**	**$ 19,389,423**	**11.7%**	**9.0%**
				Range	*4-16%*
Global Equities					
MSCI iShares ACWI Index ETF	5,795,959	3.4%	5,886,364	3.5%	
American Funds New Perspective F2	2,903,680	1.7%	2,900,028	1.7%	
MFS Global Equity FD CL R5 #4818 (Bought 2Q15)	2,898,941	1.7%	2,932,892	1.8%	
Total Global Equities	**$ 11,598,579**	**6.7%**	**$ 11,719,285**	**7.0%**	**7.0%**
				Range	*4-12%*

Asset Allocation
Period Ending September 30, 2015

Asset Allocation	6/30/2015 Market Value	6/30/2015 % of Total	9/30/2015 Market Value	9/30/2015 % of Total	Target Allocation
Real Estate					
Nuveen Real Estate Secs I Fund	3,315,743	1.9%	4,173,016	2.5%	-
Total Real Estate	**$ 3,315,743**	**1.9%**	**$ 4,173,016**	**2.5%**	**4.0%**
				Range	*0-8%*
Fixed Income					
Core Fixed Income Holdings	50,390,226	29.2%	51,623,727	31.0%	-
PIMCO Total Return Instl Fund	8,785,253	5.1%	8,056,570	4.8%	-
PIMCO High Yield Instl	2,529,799	1.5%	1,638,049	1.0%	-
Total Fixed Income	**$ 61,705,278**	**35.7%**	**$ 61,318,346**	**36.9%**	**38.0%**
				Range	*30-50%*
Alternatives					
AQR Managed Futures I	5,809,447	3.4%	5,869,472	3.5%	-
Arbitrage I	4,251,189	2.5%	4,154,066	2.5%	-
Eaton Vance Glbl Macro Abs Ret I	5,922,984	3.4%	5,807,707	3.5%	-
JP Morgan Research Market Neutral I	4,259,926	2.5%	4,144,203	2.5%	-
Total Alternatives	**$ 20,243,546**	**11.7%**	**$ 19,975,447**	**12.0%**	**10.0%**
				Range	*5-20%*
Cash					
Money Market	7,703,908	4.5%	1,929,296	1.2%	-
Total Cash	**$ 7,703,908**	**4.5%**	**$ 1,929,296**	**1.2%**	**1.0%**
				Range	*0-5%*
TOTAL	**$ 172,669,611**	**100.0%**	**$ 166,272,463**	**100.0%**	**100.0%**

Investment Summary

Period Ending September 30, 2015

Investment Summary	Third Quarter 2015	Year to Date 2015
Beginning Value	**$ 173,251,842.30**	**$ 155,218,379.57**
Net Contributions/Withdrawals	-43,438.67	15,040,527.02
Fees Deducted	-44,070.96	-130,618.60
Income Received	956,321.65	2,117,972.48
Market Appreciation	-7,268,241.25	-5,594,084.50
Net Change in Accrued Income	-178,107.55	22,129.55
Ending Market Value*	**$ 166,674,305.52**	**$ 166,674,305.52**

Investment Summary	Third Quarter 2014	Year to Date 2014
Beginning Value	**$ 149,018,588.16**	**$ 129,408,886.38**
Net Contributions/Withdrawals	-40,479.81	14,487,883.57
Fees Deducted	-41,375.68	-122,677.76
Income Received	606,380.54	1,594,290.48
Market Appreciation	-2,007,895.99	2,142,299.78
Net Change in Accrued Income	-41,009.92	-16,475.15
Ending Market Value	**$ 147,494,207.30**	**$ 147,494,207.30**

*Ending Market Value differs from total market value on the previous page due to differences in reporting methodology. The above ending market value is reported as of trade date and includes accruals. The Asset Allocation total market value is reported as of settlement date.

INVESTMENT STRATEGY

As of September 30, 2015

Tactical Asset Allocation

Asset Class	% Portfolio Weighting: Target	Current Portfolio	Over/Under Weighting	Rationale
Cash	1.0%	1.25%	+.25%	
Fixed Income	38.0%	37.0%	-1.0%	▪ Fixed income is currently underweight versus the target allocation given our expectations for an increase in interest rates. While the magnitude and timing of a rate hike is in question given some of the recent softness in economic numbers, we expect the Fed will remove its zero interest rate policy in the fourth quarter.
High Yield	0.0%	1.0%	+1.0%	▪ If the Fed is not aggressive in hiking rates, and the economy generates reasonable growth, spreads should likely stay close to current levels.
Alternatives	10.0%	12.0%	+2.0%	▪ Alternatives serve to mitigate the impact of a decline in the bond market, due to a potential rise in interest rates.
Real Estate (REITS)	4.0%	2.5%	-1.5%	▪ While still maintaining an underweight in REITs, we increased our allocation slightly in the quarter. Earnings and cash flow fundamentals are improving for REITs. Strong employment trends are providing support for REITs. If the Fed does not aggressively raise rates, REITs may likely outperform the domestic equity market.
Global Equity	7.0%	7.0%	-	▪ Global equities remain at reasonable valuations due to the international equity component of the MSCI ACWI benchmark, however the U.S. equity component makes the asset class a little less attractive.
International (Developed)	9.0%	9.75%	+0.75%	▪ International developed equities remain at a slight overweight. Attractive valuations in Europe, coupled with the ECB's quantitative easing program, should aid a recovery in the Eurozone. The MSCI-EAFE, at 13.7X 2016 earnings, trades at a discount to U.S. domestic equity markets.
International (Emerging)	0.0%	1.5%	+1.5%	▪ We maintain our position in emerging markets, due to valuation measures (11.4X forward PE) that remain attractive relative to other areas of the market. Concerns in Latin America (inflation), Russia (oil prices), and emerging Asia (China volatility) temper our allocation levels.
Total Domestic Equity	31.0%	29.0%	-2.0%	
Large Cap	17.0%	17.5%	+0.5%	▪ We maintain our overweight to large cap equities. At a 17X forward PE level, valuations remain attractive on a relative basis to mid-cap and small-cap domestic equities.
Mid Cap	6.0%	4.0%	-2.0%	▪ We continue to remain underweight based on valuation concerns, with the Russell Mid-Cap Index trading richer than both large and small cap at a 18X forward PE ratio.
Small Cap	8.0%	7.5%	-0.5%	▪ We are targeting a 7.5% target allocation to small caps, a slight underweight. The asset class is slightly over valued.

Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 09/30/2015

Sector	3 Months	Year to Date (9 Months)	1 Year	3 Years	Inception to Date (56 Months)
Cash Equivalents	.01	.02	.02	.02	.02
iMoneyNet, Inc. Taxable	*.01*	*.01*	*.02*	*.02*	*.02*
Fixed Income ex Funds	.85	1.44	2.79	1.70	3.94
Total Fixed Income	.59	1.17	2.46	1.78	3.96
BC US Aggregate Bd Index	*1.23*	*1.13*	*2.94*	*1.71*	*3.58*
Total Equities	-8.34	-5.16	-3.27	8.93	7.30
Large Cap Funds	-7.22	-4.07	-.15	12.81	10.09
Russell 1000 Index	*-6.83*	*-5.24*	*-.61*	*12.66*	*11.30*
Mid Cap Funds	-9.29	-7.16	-1.44	10.86	8.48
Russell Midcap Index	*-8.01*	*-5.84*	*-.25*	*13.91*	*10.95*
Small Cap Funds	-9.71	-4.50	2.03	13.92	10.77
Russell 2000 Index	*-11.92*	*-7.73*	*1.25*	*11.02*	*9.11*
REIT Funds	2.69	-4.55	9.37	9.17	9.65
Wilshire REIT Index	*2.88*	*-3.01*	*11.66*	*10.09*	*10.82*
International Equities	-9.84	-6.33	-9.94	4.71	2.34
MSCI AC World Index	*-9.45*	*-7.04*	*-6.66*	*6.95*	*5.07*
MSCI EAFE Index	*-10.23*	*-5.28*	*-8.66*	*5.63*	*2.33*
MSCI EM Free Index	*-17.90*	*-15.47*	*-19.28*	*-5.27*	*-4.71*
Alternatives	.96	1.49	5.08		
*Dynamic Alternatives Index***	*-2.37*	*-4.23*	*-1.50*	*.22*	*-1.18*
Total Managed Portfolio	-3.75	-1.87	-.04	5.55	5.40
Total Account Net of Fees	-3.77	-1.95	-.15	5.43	5.27
*County of Contra Costa**	*-3.71*	*-2.47*	*.38*	*6.06*	*6.02*

Inception Date: 02/01/2011

* Benchmark from February 1, 2011 to June 30, 2013: 18% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 8% MSCI ACWI Index, 10% MSCI EAFE Index, 45% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 1% Citigroup 3 Month T-Bill Index. From July 1, 2013 to June 30, 2015: 17% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 7% MSCI AC World US Index, 9% MSCI EAFE Index, 38% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 10% HFRI FOF Market Defensive Index, 1% Citigroup 3 Month T-Bill Index. From July 1, 2015: 17% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 7% MSCI AC World US Index, 9% MSCI EAFE Index, 38% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 10% Wilshire Liquid Alternative Index, 1% Citigroup 3 Month T-Bill Index

** Dynamic Alternatives Index represents the HFRI FOF Market Defensive Index from 07/01/2013 until 06/30/2015, and then the Wilshire Liquid Alternatives Index from 07/01/2015 forwards.

Returns are gross-of-fees unless otherwise noted. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

COUNTY OF CONTRA COSTA

For Period Ending September 30, 2015

Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
LARGE CAP EQUITY FUNDS											
Columbia Contrarian Core Z	(7/13)	-7.22	47	-4.43	17	0.05	16	13.74	10	14.35	6
T. Rowe Price Equity Income		-4.71	13	2.08	5	6.47	6	15.24	11	15.19	7
Harbor Capital Appreciation Instl		-5.44	25	2.68	3	6.03	8	15.35	9	15.06	9
Loomis Sayles Value Fund	(7/11)	-9.47	70	-8.85	61	-5.37	59	11.74	23	12.30	19
Dodge & Cox Stock	(10/14)	-9.84	75	-8.64	58	-6.62	71	13.39	7	13.03	9
iShares Russell 1000	(3/15)	-6.84	56	-5.30	31	-0.72	44	12.52	23	13.27	27
Idx: Russell 1000		**-6.83**	--	**-5.24**	--	**-0.61**	--	**12.66**	--	**13.42**	--
MID CAP EQUITY FUNDS											
TIAA-CREF Mid-Cap Value Instl		-8.62	37	-7.52	52	-2.01	41	12.73	44	12.11	41
Idx: Russell Mid Cap Value		**-8.04**	--	**-7.66**	--	**-2.07**	--	**13.69**	--	**13.15**	--
iShares Russell Mid-Cap	(3/15)	-8.05	25	-5.95	41	-0.39	40	13.72	35	13.22	38
Ivy Mid Cap Growth I	(5/14)	-11.61	78	-8.56	88	-2.75	82	9.90	81	10.81	67
Idx: Russell Mid Cap Growth		**-7.99**	--	**-4.15**	--	**1.45**	--	**13.98**	--	**13.58**	--
SMALL CAP EQUITY FUNDS											
Columbia Small Cap Value II Z		-8.97	26	-5.09	11	1.33	18	12.91	12	12.62	9
Idx: Russell 2000 Value		**-10.73**	--	**-10.06**	--	**-1.60**	--	**9.18**	--	**10.17**	--
iShares Russell 2000	(3/15)	-11.91	56	-7.70	46	1.30	34	11.06	69	11.75	80
T. Rowe Price New Horizons		-7.78	6	-0.62	14	6.32	17	15.98	4	18.10	1
Idx: Russell 2000 Growth		**-13.06**	--	**-5.47**	--	**4.04**	--	**12.85**	--	**13.26**	--
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		-15.38	97	-12.09	95	-16.19	95	6.62	18	4.06	34
Nationwide Bailard Intl Eqs InSvc		-8.75	19	-3.18	25	-4.25	16	7.49	10	4.84	16
MFS International Growth I		-8.45	34	-3.33	51	-5.43	54	3.34	80	4.10	55
MFS Global Equity R5		-7.70	30	-5.06	42	-1.86	22	10.27	19	9.99	11
iShares MSCI EAFE		-10.23	53	-5.28	45	-8.73	50	5.51	22	3.87	15
iShares MSCI ACWI	(3/15)	-9.47	63	-7.19	52	-6.56	43	7.09	50	6.85	29
American Funds New Perspective F2	(3/15)	-6.46	16	-1.19	10	0.57	11	10.63	15	9.69	15
Idx: MSCI EAFE		**-10.23**	--	**-5.28**	--	**-8.66**	--	**5.63**	--	**3.98**	--
Idx: MSCI ACWI		**-9.45**	--	**-7.04**	--	**-6.66**	--	**6.95**	--	**6.82**	--
Schroder Emerging Market Equity	(11/12)	-15.66	42	-13.19	34	-17.13	35	-4.66	50	-2.56	34
Idx: MSCI Emerging Markets		**-17.90**	--	**-15.47**	--	**-19.28**	--	**-5.27**	--	**-3.58**	--
SPDR EURO STOXX 50 ETF	(6/14)	-9.09	84	-6.90	94	-12.64	93	6.25	56	1.90	100

Data Source: Morningstar, SEI Investments

Returns less than one year are not annualized. Past performance is not indicative of future returns. The information presented has been obtained from sources believed accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

COUNTY OF CONTRA COSTA

For Period Ending September 30, 2015

Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
REIT EQUITY FUNDS											
Nuveen Real Estate Secs Y		2.36	43	-3.95	53	9.41	50	9.42	25	11.98	22
Idx: Wilshire REIT Index		**2.88**	**--**	**-3.01**	**--**	**11.66**	**--**	**10.09**	**--**	**12.52**	**--**
BOND FUNDS											
Fixed Income Portfolio		0.85	31	1.44	9	2.79	12	1.70	42	--	--
Pimco Total Return Inst'l		-0.09	76	0.25	61	1.58	56	1.36	60	3.23	47
Idx: BarCap US Aggregate Bond		**1.23**	**--**	**1.13**	**--**	**2.94**	**--**	**1.71**	**--**	**3.10**	**--**
PIMCO High Yield Instl	(11/14)	-3.50	25	-1.37	34	-0.96	17	3.61	26	5.65	35
ML US HY BB-B Constrained		**-4.26**	**--**	**-1.68**	**--**	**-2.04**	**--**	**3.71**	**--**	**5.99**	**--**
ALTERNATIVE FUNDS											
Arbitrage I	(7/13)	-1.37	56	-0.84	53	0.16	47	0.92	52	1.39	36
AQR Managed Futures	(7/13)	6.24	4	5.74	18	16.09	13	9.60	5	5.12	4
Eaton Vance Glbl Macro Abs Ret	(7/13)	-1.76	52	0.17	23	0.58	16	0.87	48	1.42	59
JPMorgan Research Market Neutral Instl	(7/13)	-0.33	44	-2.00	69	-1.19	64	1.46	41	0.07	68
Idx: Dynamic Alternatives		-2.37	--	-4.23	--	-1.50	--	0.22	--	-0.54	--

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2014

Fund Name	Inception	2014 Return	2014 Rank	2013 Return	2013 Rank	2012 Return	2012 Rank	2011 Return	2011 Rank	2010 Return	2010 Rank
LARGE CAP EQUITY FUNDS											
Sentinel Common Stock I	(7/13)	10.62	63	31.04	61	14.92	57	1.79	21	14.90	31
Columbia Contrarian Core Z	(7/13)	12.92	31	35.73	17	18.67	10	-0.93	52	16.21	17
T. Rowe Price Growth Stock		8.83	65	39.20	12	18.92	14	-0.97	39	16.93	35
Harbor Capital Appreciation Instl		9.93	53	37.66	17	15.69	43	0.61	24	11.61	82
Loomis Sayles Value Fund	(7/11)	10.76	48	35.54	14	19.70	4	-2.81	66	11.94	72
Dodge & Cox Stock	(10/14)	10.40	54	40.55	2	22.01	2	-4.08	74	13.49	47
Idx: Russell 1000		**13.24**	**--**	**33.11**	**--**	**16.42**	**--**	**1.50**	**--**	**16.10**	**--**
MID CAP EQUITY FUNDS											
TIAA-CREF Mid-Cap Value Instl		12.85	19	32.55	71	16.60	48	-2.17	34	21.20	59
Idx: Russell Mid Cap Value		**14.75**	**--**	**33.46**	**--**	**18.51**	**--**	**-1.38**	**--**	**24.75**	**--**
Ivy Mid Cap Growth I	(5/14)	8.20	38	30.12	84	13.45	58	-0.31	24	30.38	13
Idx: Russell Mid Cap Growth		**11.90**	**--**	**35.74**	**--**	**15.81**	**--**	**-1.65**	**--**	**26.38**	**--**
SMALL CAP EQUITY FUNDS											
Columbia Small Cap Value II Z		4.61	42	40.14	20	14.57	61	-2.39	30	25.64	52
Idx: Russell 2000 Value		**4.22**	**--**	**34.52**	**--**	**18.05**	**--**	**-5.50**	**--**	**24.50**	**--**
T. Rowe Price New Horizons		6.10	19	49.11	10	16.20	22	6.63	2	34.67	12
Idx: Russell 2000 Growth		**5.60**	**--**	**43.30**	**--**	**14.59**	**--**	**-2.91**	**--**	**29.09**	**--**
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		0.08	9	26.31	8	21.03	16	-15.97	81	13.69	6
Nationwide Bailard Intl Eqs InSvc		-1.94	15	21.68	28	20.87	17	-15.58	74	11.85	32
MFS International Growth I		-5.10	58	13.84	79	19.71	31	-10.62	40	15.24	35
Templeton Global Opportunities A LW		-4.06	93	25.75	48	22.27	7	-10.48	69	5.20	95
Idx: MSCI EAFE		**-4.90**	**--**	**22.78**	**--**	**17.32**	**--**	**-12.14**	**--**	**7.75**	**--**
Idx: MSCI ACWI		**4.16**	**--**	**22.80**	**--**	**16.13**	**--**	**-7.35**	**--**	**12.67**	**--**
Schroder Emerging Market Equity	(11/12)	-4.61	70	-2.28	54	21.73	19	-16.70	20	13.49	92
Idx: MSCI Emerging Markets		**-2.19**	**--**	**-2.60**	**--**	**18.22**	**--**	**-16.15**	**--**	**--**	**--**
SPDR EURO STOXX 50 ETF	(6/14)	-8.36	73	27.43	34	20.48	55	-16.42	48	-8.94	95
REIT EQUITY FUNDS											
Nuveen Real Estate Secs Y		31.28	17	1.32	58	18.34	22	7.96	50	30.57	12
Idx: Wilshire REIT		**31.78**	**--**	**1.86**	**--**	**17.59**	**--**	**5.52**	**--**	**--**	**--**

COUNTY OF CONTRA COSTA

For Period Ending December 31, 2014

		2014		2013		2012		2011		2010	
Fund Name	**Inception**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**
BOND FUNDS											
Fixed Income Portfolio		4.74	69	-1.40	41	5.42	69	8.41	5	--	--
Pimco Total Return Inst'l		4.69	71	-1.92	60	10.36	12	4.16	87	8.83	26
Idx: BarCap US Aggregate Bond		**5.97**	**--**	**-2.02**	**--**	**4.21**	**--**	**7.84**	**--**	**6.54**	**--**
PIMCO High Yield Instl	(11/14)	3.31	13	5.77	68	14.55	52	4.00	38	14.24	45
Idx: Merrill Lynch US High Yield BB-B		**3.49**	**--**	**6.31**	**--**	**14.59**	**--**	**5.39**	**--**	**14.26**	**--**
ALTERNATIVE FUNDS											
Arbitrage I	(7/13)	1.64	39	1.15	67	0.44	48	4.74	20	1.76	16
AQR Managed Futures	(7/13)	9.69	40	9.40	6	2.99	5	-6.37	29	0.00	0
Eaton Vance Glbl Macro Abs Ret	(7/13)	3.03	18	-0.24	58	4.11	79	-0.39	44	4.75	61
JPMorgan Research Market Neutral Instl	(7/13)	3.38	25	2.26	56	4.51	9	-7.04	86	-0.90	36

Data Source: Morningstar, SEI Investments

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