PARS: County of Contra Costa

Fourth Quarter 2015

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CAPITAL MANAGEMENT

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DISCUSSION HIGHLIGHTS

U.S. Economic and Market Overview

The fourth quarter ended with the long awaited decision by the Federal Open Market Committee (FOMC) to raise the Fed Funds policy rate from the 0% - 0.25% range to 0.25% - 0.50%. The move was a modest one, but communicates that the Central Bank feels comfortable moving away from the emergency accommodative measures established seven years ago. The move had little direct immediate impact on markets, as it was well communicated in advance. With the hurdle of moving the policy rate off the zero bound territory, markets were left with a new question, what will happen next? After seven years of “emergency” monetary policy and nearly a dozen years since the beginning of the last cycle of rate tightening, the U.S. economy is not quite progressing with the enthusiasm many would hope for. As growth continues to muddle along at a moderate pace domestically, key players from virtually every corner of the globe are experiencing their own growth challenges. One of the key themes witnessed in 2015 was the divergence of the U.S. economy from many of its global counterparts, both in terms of economic growth and monetary policy.

Economic data released during the fourth quarter highlighted the U.S. economy’s ‘two steps forward – one step back’ pace of growth since the Great Recession. U.S. industrial production and capacity utilization measures continued to indicate contraction from recent peaks seen early in 2015. Slowing industrial production has been a global threat, and the recent readings from the U.S. are far from encouraging. Further indicators of slowing economic growth were reflected in the Institute for Supply Management (ISM) Purchasing Manager’s Index which recently dipped below 50, indicating a decline in activity. The Non-manufacturing ISM data, which measures the health of the service industry (services constitute roughly 80% of domestic economic activity) also softened modestly, though remaining in expansion territory. Additional weakness was seen from the continued U.S. dollar strength and domestic inventory over-supply, which held back third quarter GDP growth.

On a more positive note, automobile production was healthy, consumer sentiment reached a 5-month high, and Commerce Department data showed that personal incomes continue to rise. Improving employment figures (punctuated by a strong December employment figure for non-farm payrolls), and low inflation expectations continue to support an economic expansion, and the FOMC’s projected gradual rate rise trajectory. Without signs of inflation, the Fed can afford to be patient with future monetary policy. There is an expectation that the Fed will remain accommodative through 2016 and likely beyond.

Market overview/Performance Discussion

Total Plan

The County of Contra Costa OPEB Plan returned 2.05% net of investment fees, in the fourth quarter, which lagged the County's Plan benchmark return target of 2.40%. Within the fixed income, large cap equity, and alternative manager segments, performance was in-line with benchmark targets. Positive contribution was realized from REIT equity, however a modest underweight in this asset class was a slight negative. Small cap equity was a slight underperformer, lagging the benchmark by roughly 20 basis points. International equity and mid-cap equity underperformed their benchmark targets. Emerging market exposure detracted from performance, as emerging markets was the lowest performing equity region in the fourth quarter (+0.66%) In the third quarter, the Plan implemented a style tilt to overweight value equity across all domestic equity asset classes. This tilt did not bear fruit as 'growth' equities outperformed 'value' equity managers in the quarter.

Domestic Equity

The fourth quarter of 2015 started with a strong October, as the U.S. stock market rallied from the declines registered in the third quarter. While October regained most of the losses from the third quarter, volatility persisted in November and December. Large cap equity was up +6.5% (Russell 1000 Index) in the quarter, but this was not enough to hit new highs last seen in June. Mid and small cap companies bounced back, but to a lesser extent with the Russell Mid Cap Index and Russell 2000 Index returning +3.62% and +3.59%, respectively. Growth stocks outperformed value stocks across all market caps, which was a continuation of a trend that held throughout 2015. Technology, Materials and Healthcare presented close to double digit returns of +9.2%, +9.7% and +9.2%, respectively. Modestly lagging the benchmark were Consumer Staples (+5.8%) and Financials (+5.9%). Some were disappointed by the performance of financials, as it was expected that the Fed rate hike would have a more positive impact on the sector. One reason why value stocks lagged growth stocks in the quarter was the performance of two sectors that have heavy representation in value oriented indices: Energy and Utilities. Utilities returned +1.1%, and Energy was essentially flat, at +0.2%.

- **The Plan's large-cap funds returned 6.57% in the quarter, which was in-line with the Russell 1000 Index return of 6.50%.**
  - The iShares Russell 1000 ETF returned 6.47% in the fourth quarter.
  - The Columbia Contrarian Core Fund returned 7.80% in the quarter, which outperformed the benchmark. The Fund ranked in the 5th percentile of the Morningstar Large Cap Blend Universe.
  - The Harbor Capital Appreciation Fund returned 8.09% in the quarter, which outperformed the Russell 1000 Growth Index's return of 7.32%. The Fund ranked in the 25th percentile of the Morningstar Large Cap Growth Universe.
  - The T. Rowe Price Growth Stock Fund returned 8.60% in the quarter, which outperformed the Russell 1000 Growth Index. The Fund ranked in the 15th percentile of the Morningstar Large Cap Growth Universe.
  - The Dodge and Cox Stock Fund returned 4.54% in the quarter, which underperformed the Russell 1000 Value Index's return of 5.64%. The Fund ranked in the 61st percentile of the Morningstar Large Cap Value Universe.
  - The Loomis Sayles Value Fund posted a 5.11% return in the quarter, which also underperformed the Russell 1000 Value Index. The Fund ranked in the 46th percentile of the Morningstar Large Cap Value Universe.

- **The mid-cap equity segment returned 3.0% in the quarter, which underperformed the Russell Mid-Cap Equity return of 3.62%.**
  - The iShares Russell Mid-cap ETF returned 3.59% in the fourth quarter.
  - The TIAA-CREF Mid-Cap Value Fund returned 2.35% in the quarter, which underperformed the Russell Mid-Cap Value Index return of 3.12%. The Fund ranked in the 63rd percentile of the Morningstar Mid-Cap Value Universe. ***The Fund was removed on December 29, 2015***
  - The Ivy Mid Cap Growth Fund returned 3.02% in the fourth quarter, which underperformed the Russell Mid Cap Growth Index return of 4.12%. The Fund ranked in the 55th percentile of the Morningstar Mid-cap Growth Universe. ***The Fund was removed on December 29, 2015***

- **The small-cap equity segment returned 3.36% in the quarter, which slightly underperformed the Russell 2000 Index return of 3.59%.**
  - The iShares Russell 2000 ETF returned 3.65% in the fourth quarter.
  - The T. Rowe Price New Horizons Fund returned 5.14% in the quarter, and outperformed the Russell 2000 Growth Index return of 4.32%. The Fund ranked in the 16th percentile of Morningstar's Small Cap Growth Universe.
  - The Columbia Small Cap Value Fund II returned 2.30% in the quarter, and underperformed the Russell 2000 Value Index's return of 2.88%. The Fund ranked in the 43rd percentile of Morningstar's Small Cap Value Universe.

Real Estate

REIT equity returns were the top performing asset class for the quarter, with the Wilshire REIT Index returning 7.47%. Sector performance was aided by self storage, industrial, office, community centers, and apartments. Health care, lodging and specialty REITs were weak. Lodging/hotel was a strong detractor on fears that global growth may be lower in 2016 than previously expectations. Additionally, investors are beginning to acknowledge the potential threat that competitors such as Airbnb, offer to the lodging industry. Some point to Starwood's decision to be acquired by Marriott International, as a reflection of industry leaders beginning to look for strategic alternatives to deal with new industry dynamics. Throughout 2015, investors expressed concerns regarding the prospects for REITs in an environment of rising interest rates. The corresponding fear was that investors would find higher yields from fixed income options more attractive than yields from REITs. It was noteworthy that in the quarter where the Fed raised rates, REITs offered the strongest returns compared to other investments within the Plan. We believe this reflects both the strong underlying fundamentals of the sector, the reasonable economic backdrop of the U.S. economy, and the belief that the Federal Reserve will take a measured approach towards future rate increases.

The Nuveen Real Estate Securities Fund returned 7.73% in the quarter, which was exceeded the Wilshire REIT Index return of 7.47%. The Fund placed in the 19th percentile of the Morningstar Real Estate Manager's Universe.

Global/International Equity

Global equities registered positive returns for the quarter with the MSCI EAFE Index up +4.7%. International equities registered stronger returns in local currency terms, as the dollar strengthened on the back of the Fed's decision to hike rates. The ECB announced they were poised to offer additional stimulus, but that produced only a modest boost to European equities. Perhaps the muted impact from this announcement stemmed from the October bombing in Turkey, where several German citizens died, and of course the Paris terrorist attacks in November. Both events established an obvious somber mood towards European equities. Further political uncertainty followed year-end Spanish elections that resulted in the most fragmented Spanish parliament in its history. The Spanish stock market declined -2.6% in the quarter.

Emerging Market equities delivered a lackluster performance of +0.6% in the quarter. Emerging Markets performance continues to lag developed world stocks on concerns of a Chinese hard landing, potential fallout from excess credit creation, global growth weakness, and collapsing currencies which is leading to capital flight from the region. Fears of a hard landing in China were raised after weak PMI readings in October and November. Oddly, 'official' GDP figures out of Beijing show 6.9% as the current growth rate. China's centrally planned investment super cycle appears to be reaching a saturation point with diminishing returns. Its once low-cost export platform is now suffering from higher wages and poor worker productivity coupled with the burden of overbuilt, unproductive manufacturing capacity. These conditions are heavily weighing on commodity prices. Perhaps more worrisome are rapidly rising debt levels across the Emerging Markets, specifically for commodity exporting countries like Brazil and Russia, which are experiencing severe economic strains. Relative growth rates between developed and emerging economies are now converging meaningfully.

- **The Plan's international/global equity segment returned 3.62% in the quarter. This return underperformed the MSCI EAFE Index 4.71%, and underperformed the MSCI ACWI Index return of 5.03%.**
  - The iShares MSCI EAFE Index ETF returned 4.62% in the quarter.
  - The Nationwide Bailard International Equity Fund returned 4.17% in the quarter, and underperformed the MSCI EAFE Index. The Fund ranked in the 32nd percentile of the Morningstar Foreign Large Blend Universe.
  - The Dodge & Cox International Stock Fund returned 0.83% in the quarter and underperformed the MSCI EAFE Index. The Fund ranked in the 94th percentile of the Foreign Large Blend Universe as measured by Morningstar.
  - The MFS International Fund returned 3.76% in the quarter and underperformed the MSCI EAFE Index. The Fund ranked in the 74th percentile for foreign large cap growth managers as measured by Morningstar.
  - The iShares MSCI ACWI Index ETF returned 5.18% in the quarter
  - The American Funds New Perspective Fund recorded a 6.83% return in the fourth quarter, which outperformed the MSCI ACWI Index and ranked in the 9th percentile within the Morningstar World Stock Universe
  - The MFS Global Equity R5 Fund returned 3.92%, which underperformed the benchmark and ranked in the 59th percentile of the Morningstar World Stock Universe.
  - The DJ Euro-Stoxx 50 ETF returned 2.83% in the quarter, which underperformed the MSCI EAFE Index.
  - The Schroder Emerging Market Equity Fund returned 0.58% during the quarter and underperformed the MSCI Emerging Market benchmark return of 0.66%. The Fund ranked in the 49th percentile of the Morningstar Emerging Market Universe.

Fixed Income

The taxable fixed income markets ended the year in a negative trend as the Barclays Aggregate Index declined –0.57% for the fourth quarter, although it managed a small gain of 0.55% for the year. The year was dominated by the debate over the timing of the FOMC rate hike, which finally arrived on December 16th, seven years to the day from the decision to cut the fed funds rate to near 0%. Ironically, despite the continual fears of higher rates over those seven years, the ten-year U.S. Treasury closed at a yield of 2.3% on December 16, 2008 and ended 2015 at a yield of 2.3%. Primarily as a result of the FOMC decision in December, Treasury yields increased during the fourth quarter, resulting in a –0.9% return for the BC U.S. Treasury sector. The BC U.S. Mortgage-Backed securities sector performed better with a return of –0.1% due to the sector's relatively shorter duration, while both the BC U.S. Corporate and BC Asset-Backed sectors returned –0.6%.

As investor risk aversion increased in the latter half of 2015, corporate bond spreads widened and performance suffered, especially for lower credit quality issuers. The BC U.S. Corporate Bond Index returned –0.7% for the year, underperforming similar duration Treasuries by –161 basis points, the worst relative performance since 2011. High grade corporate spreads widened 29 basis points to +173 at year-end, as a record level of merger and acquisition activity pressured credit quality and fears of slower global growth tempered expectations for revenue growth. A record level of share repurchase programs also contributed to the steady deterioration of corporate balance sheets as gross leverage continued to climb while interest coverage ratios declined.

Lower quality, or high yield, corporate bonds performed even worse as plummeting commodity prices led to an increase in defaults, particularly in the Energy and Metals and Mining sectors. According to Standard and Poor's, as of mid-December global corporate defaults reached 112 for the year, the highest total since 2009. The oil and gas and metals and mining sectors accounted for 41% of the defaults, and the pressure on these industries spilled over into the broader universe. After several years of very low default rates, the trailing twelve month speculative-grade default rate for the U.S. is now 2.8%, according to Standard & Poor's, and is expected to rise to 3.3% by next September, still below the twenty-year average of 4.1%. As a result, the Merrill Lynch High Yield BB-B Index returned –2.79% for the year, the worst annual performance since 2008, as spreads widened materially from a low of +335 basis points in the middle of last year to +695 at year-end 2015. The Energy sector, currently only 11% of the High Yield index, had a disproportionate impact on the total index as Energy spreads ended the year at +1,415 basis points, or an effective yield of 16.0%. Extracting the Energy sector from the High Yield index results in an average spread of +607 basis points and a yield of 7.9% for the remaining 89% of the index.

Looking forward to 2016, the Federal Reserve has indicated that their target for the federal funds rate is 1.375% by year-end, and current market expectations are for only a slightly lower trajectory. It's important to keep in mind, however, that the Fed is not raising rates to counter inflationary pressures. In fact, inflation is currently below the Fed's 2% target and has remained there for 43 consecutive months. Instead the Fed is in the early stages of trying to normalize interest rates after a prolonged period of emergency measures meant to alleviate the financial crisis. Unlike a "normal" business cycle when the economy is growing fast enough to cause inflation to accelerate and the Fed responds by raising interest rates, this time we had a housing bubble and a financial crisis brought about by excessive leverage. The Fed's response of lowering interest rates to stimulate demand was insufficient, and the they resorted to quantitative easing. However, even with zero interest rates and $4.2 trillion in bond purchases, GDP has only grown at a 2.1% annual rate since the recession ended in mid-2009. It remains to be seen how well the economy and financial markets will perform as the Federal Reserve begins to withdraw support. This is why the Fed expects that, "The federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run." It seems unlikely, therefore, that interest rates will be substantially higher in the near term.

At current levels, investment-grade corporate bond spreads are now slightly above their long term average and offer a significant yield advantage over Treasuries. Therefore, we remain overweight high quality investment-grade corporate bonds, particularly domestic banks, and selective credits in the energy sector. High yield bonds offer some opportunities, outside of the commodity sectors, where defaults should remain below average while spreads remain slightly above average. We also remain underweight mortgage-backed securities, which trade at very tight spreads due to the continuing purchases by the Federal Reserve. Instead, we continue to favor other securitized products which offer better value, such as asset-backed and commercial mortgage-backed securities.

Within the separately managed core fixed income portfolio, performance was aided by an estimated 20 basis points due to a shorter duration than the benchmark.   The portfolio benefitted from an overweight to credit as investment-grade corporate bonds outperformed similar duration Treasuries this quarter, however an overweight to energy, which was the worst performing sub-sector within the corporate index, had a negative impact. The net effect of sector allocation, including an underweight to mortgage-backed securities, was a negative –14 basis points. Some of the best performing securities in the portfolio this quarter were Verizon, New Jersey Turnpike, and JP Morgan, while some of the worst performers included ConocoPhillips, Williams Partners, and Rio Tinto.

- **The Plan's fixed income segment returned -0.50% in the quarter, which was in-line with the Barclays Aggregate return of -0.57%.**
  - The separately managed fixed income portfolio returned -0.65% which trailed the benchmark. The portfolio would have ranked approximately in the 53rd percentile of the Morningstar Intermediate Term Bond Universe.
  - The PIMCO Total Return Bond Fund posted a 0.48% in the quarter, which placed it in the 4th percentile of Morningstar's Intermediate-Term Bond Universe. The Fund outperformed the Index.
  - The PIMCO High Yield Bond Fund returned -0.49% in the quarter, and outperformed the Merrill Lynch US High Yield BB-B Index return of -1.13%. The Fund ranked in the 14th percentile of Morningstar's High Yield Universe.

Alternative Investments

The Plan's alternative investments registered a slight negative return in the fourth quarter, -0.99%. After the October bounce in the equity markets, November and December performance moved mostly sideways. While this secured a nice fourth quarter return for traditional equities, the lack of major market movement caused some of the alternative managers to underperform. The AQR Managed Futures strategy was the largest detractor, returning -3.54%. The AQR fund capitalizes on momentum and trends across all major asset classes and geographies. The sharp reversal of the equity market trend was a negative. The Fund's currency and fixed income market exposure also hurt returns. The Eaton Vance Global Macro Fund was the top performing alternatives manager, up +2.45%. Credit exposure contributed the most to performance with positive results across most geographic areas. Latin America, the Middle East, Western Europe, and Asia were all positives. Individual positions that aided returns included a long position to Venezuelan credit, a short position in oil, a short position in Saudi Arabian rates, and a long position in Ecuadorian credit. Detractors for the quarter included a short position in the Australian dollar and a long position to Brazilian rates.

- **The alternative investment segment returned -0.99% in the fourth quarter, which slightly exceeded the Wilshire Liquid Alternatives Index return of -1.11%.**
    - The Arbitrage Fund returned 1.76% in the quarter which ranked in the 18th percentile of Morningstar's Market Neutral Universe. **The Fund was sold out of the Plan on November 24**.
    - The JPMorgan Research Market Neutral Fund returned -1.64%, which placed the Fund in the 87th percentile of the Morningstar Market Neutral Universe.
    - The Eaton Vance Global Macro Absolute Return Fund posted a 2.45% return, which placed in the 6th percentile of the Morningstar Non-Traditional Bond Universe.
    - The AQR Managed Futures Fund's return of -3.54% ranked in the 82nd percentile of Morningstar's Managed Futures Fund Universe.

Asset Allocation/Portfolio Transitions

In the quarter we replaced three managers. The Arbitrage Fund, which was one of the four alternative managers, was removed due to underperformance. Our two mid cap equity managers were replaced as well. We have been disappointed by the performance of our mid cap managers over the last several quarters. While the TIAA-CREF Fund had a respectable long-term track record vs. their peer universe, they have struggled to outperform a passive benchmark. The Ivy Mid-Cap Growth Fund was replaced as well during the quarter. The manager had underperformed both the passive benchmark target, as well as their peer universe. The proceeds of the liquidations were placed in the mid-cap ETF.

Manager Watch List

Name of Fund	*Date on watch list*	*Date exiting watch list*	*Recommendation*	*Rationale*
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 impact of personnel turnover in 1Q2016 after incentive payments are paid on 2015 performance
Pimco High Yield Bond Fund	4Q 2015		Review	Personnel turnover at the firm. We wish to see impact of personnel turnover in 1Q2016 after incentive payments are paid on 2015 performance
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	4Q 2015	Remove from list, retain manager in Plan	We are comfortable that there are no 'bigger issues' related to the termination of one of the top traders at AQR.
Ivy Mid-Cap Growth	2Q 2015	4Q 2015	Sold	Underperformance vs. peers and passive benchmark
Arbitrage Fund	3Q 2015	4Q 2015	Sold	Investment returns were disappointing, especially in a strong merger and acquisition environment.

Asset Allocation
Period Ending December 31, 2015

Asset Allocation	9/30/2015 Market Value	9/30/2015 % of Total	12/31/2015 Market Value	12/31/2015 % of Total	Target Allocation
Large Cap Equities					
Columbia Contrarian Core Z	5,761,636	3.5%	6,111,319	3.5%	-
iShares Russell 1000 ETF	9,970,530	6.0%	10,639,696	6.1%	-
Dodge & Cox Stock Fund	4,148,570	2.5%	4,540,845	2.6%	-
Loomis Sayles Value Fund	4,145,510	2.5%	5,302,787	3.0%	-
Harbor Capital Appreciation Instl	2,454,671	1.5%	2,797,064	1.6%	-
T. Rowe Price Growth Stock Fund	2,432,602	1.5%	2,064,401	1.2%	-
Total Large Cap Equities	**28,913,520**	**17.4%**	**31,456,111**	**18.0%**	**17.0%**
		Range		*Range*	*13-32%*
Mid Cap Equities					
iShares Russell Mid-Cap ETF	2,472,315	1.5%	2,605,328	1.5%	-
TIAA-CREF Mid-Cap Value Instl	2,487,690	1.5%	0	0.0%	-
Ivy Mid Cap Growth Fund I	1,637,196	1.0%	0	0.0%	-
Total Mid Cap Equities	**6,597,202**	**4.0%**	**2,605,328**	**1.5%**	**6.0%**
		Range		*Range*	*2-10%*
Small Cap Equities					
iShares Russell 2000 ETF	4,891,505	2.9%	5,536,399	3.2%	-
Columbia Small Cap Value Fund II	4,949,871	3.0%	5,649,993	3.2%	-
T. Rowe Price New Horizons Fund	2,415,554	1.5%	2,068,491	1.2%	-
Total Small Cap Equities	**$ 12,256,930**	**7.4%**	**$ 13,254,883**	**7.6%**	**8.0%**
		Range		*Range*	*4-12%*
International Equities					
Nationwide Bailard Intl Equities Fund	3,339,166	2.0%	4,439,737	2.5%	-
iShares MSCI EAFE Index Fund	5,081,475	3.1%	5,205,587	3.0%	-
Dodge & Cox International Stock Fund	2,497,969	1.5%	2,663,873	1.5%	-
MFS International Growth Fund	2,535,877	1.5%	2,534,381	1.5%	-
Schroder Emerging Market Equity	2,529,558	1.5%	1,738,393	1.0%	-
SPDR EURO STOXX 50 ETF	3,405,378	2.0%	3,463,727	2.0%	-
Total International Equities	**$ 19,389,423**	**11.7%**	**$ 20,045,698**	**11.5%**	**9.0%**
		Range		*Range*	*4-16%*
Global Equities					
MSCI iShares ACWI Index ETF	5,886,364	3.5%	6,091,525	3.5%	
American Funds New Perspective F2	2,900,028	1.7%	3,242,497	1.9%	
MFS Global Equity FD CL R5 #4818	2,932,892	1.8%	3,054,755	1.7%	
Total Global Equities	**$ 11,719,285**	**7.0%**	**$ 12,388,777**	**7.1%**	**7.0%**
		Range		*Range*	*4-12%*

Asset Allocation
Period Ending December 31, 2015

Asset Allocation		9/30/2015 Market Value	9/30/2015 % of Total		12/31/2015 Market Value	12/31/2015 % of Total	Target Allocation
Real Estate							
Nuveen Real Estate Secs I Fund		4,173,016	2.5%		5,670,884	3.2%	-
Total Real Estate	**$**	**4,173,016**	**2.5%**	**$**	**5,670,884**	**3.2%**	**4.0%**
			Range			*Range*	*0-8%*
Fixed Income							
Core Fixed Income Holdings		51,623,727	31.0%		53,942,295	30.9%	-
PIMCO Total Return Instl Fund		8,056,570	4.8%		8,756,112	5.0%	-
PIMCO High Yield Instl		1,638,049	1.0%		1,762,329	1.0%	-
Total Fixed Income	**$**	**61,318,346**	**36.9%**	**$**	**64,460,736**	**36.9%**	**38.0%**
			Range			*Range*	*30-50%*
Alternatives							
AQR Managed Futures I		5,869,472	3.5%		7,444,120	4.3%	-
Arbitrage I		4,154,066	2.5%		0	0.0%	-
Eaton Vance Glbl Macro Abs Ret I		5,807,707	3.5%		6,924,316	4.0%	-
JP Morgan Research Market Neutral I		4,144,203	2.5%		3,519,147	2.0%	-
Total Alternatives	**$**	**19,975,447**	**12.0%**	**$**	**17,887,583**	**10.2%**	**10.0%**
			Range			*Range*	*5-20%*
Cash							
Money Market		1,929,296	1.2%		6,953,622	4.0%	-
Total Cash	**$**	**1,929,296**	**1.2%**	**$**	**6,953,622**	**4.0%**	**1.0%**
			Range			*Range*	*0-5%*
TOTAL	**$**	**166,272,463**	**100.0%**	**$**	**174,723,623**	**100.0%**	**100.0%**

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Investment Summary

Period Ending December 31, 2015

Investment Summary	Fourth Quarter 2015	Year to Date 2015
Beginning Value	**$ 166,674,305.52**	**$ 155,218,379.57**
Net Contributions/Withdrawals	5,012,199.09	20,052,726.11
Fees Deducted	-43,406.48	-174,025.08
Income Received	5,194,084.02	7,312,056.50
Market Appreciation	-1,788,988.44	-7,383,072.94
Net Change in Accrued Income	30,382.57	52,512.12
Ending Market Value*	**$ 175,078,576.28**	**$ 175,078,576.28**

Investment Summary	Fourth Quarter 2014	Year to Date 2014
Beginning Value	**$ 147,494,207.30**	**$ 129,408,886.38**
Net Contributions/Withdrawals	4,832,721.47	19,320,605.04
Fees Deducted	-41,946.76	-164,624.52
Income Received	6,287,064.19	7,881,354.67
Market Appreciation	-3,443,399.95	-1,301,100.17
Net Change in Accrued Income	89,733.32	73,258.17
Ending Market Value	**$ 155,218,379.57**	**$ 155,218,379.57**

*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 December 31, 2015

Tactical Asset Allocation

Asset Class	% Portfolio Weighting: Target	Current Portfolio	Over/Under Weighting	Rationale
Cash	1.0%	1.0%	-	The cash position target was 1%. The 4% allocation position on page 13 was due to the transition of the sale of two mid-cap funds.
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. We anticipate the Federal Reserve raising rates three times in calendar year 2016.
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. The carry in high yield is currently over 9%.
Alternatives	10.0%	10.25%	+0.25%	Alternatives serve to mitigate the impact of a decline in the bond market, due to a potential rise in interest rates. While the current allocation is neutral to the policy benchmark, once a replacement manager is found for the Arbitrage Fund, this will likely move to an overweight allocation.
Real Estate (REITS)	4.0%	3.25%	-0.75%	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.
International (Developed)	9.0%	10.5%	+1.5%	International developed equities remain 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 14X 2016 earnings, trades at a discount to U.S. domestic equity markets.
International (Emerging)	0.0%	1.0%	+1.0%	We reduced our allocation in the quarter. The risks of a slowdown in China and a recession in both Brazil and Russia have tempered our enthusiasm for this region.
Total Domestic Equity	31.0%	30.0%	-1.0%	
Large Cap	17.0%	18.0%	+1.0%	We maintain our slight overweight to large cap equities. At a 17.5X forward PE level, valuations remain attractive on a relative basis to mid-cap and small-cap domestic equities.
Mid Cap	6.0%	4.5%	-1.5%	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%	Small cap stocks have declined roughly 20% since July 2015. With the decline, valuations compel us to maintain roughly a neutral allocation.

Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 12/31/2015

Sector	3 Months	Year to Date (1 Year)	3 Years	Inception to Date (59 Months)
Cash Equivalents	.02	.04	.03	.02
iMoneyNet, Inc. Taxable	*.01*	*.02*	*.02*	*.02*
Fixed Income ex Funds	-.65	.78	1.34	3.59
Total Fixed Income	-.50	.67	1.35	3.65
BC US Aggregate Bd Index	*-.57*	*.55*	*1.44*	*3.28*
Total Equities	4.85	-.56	10.00	7.95
Large Cap Funds	6.57	2.24	14.87	10.98
Russell 1000 Index	*6.50*	*.92*	*15.01*	*12.12*
Mid Cap Funds	3.00	-4.37	11.35	8.69
Russell Midcap Index	*3.62*	*-2.44*	*14.18*	*11.17*
Small Cap Funds	3.36	-1.29	14.48	10.93
Russell 2000 Index	*3.59*	*-4.41*	*11.65*	*9.41*
REIT Funds	8.51	3.57	11.25	10.97
Wilshire REIT Index	*7.47*	*4.23*	*11.84*	*11.87*
International Equities	3.62	-2.94	3.76	2.96
MSCI AC World Index	*5.03*	*-2.36*	*7.69*	*5.86*
MSCI EAFE Index	*4.71*	*-.81*	*5.01*	*3.18*
MSCI EM Free Index	*.66*	*-14.92*	*-6.76*	*-4.35*
Alternatives	-.99	.49		
*Dynamic Alternatives Index***	*-1.11*	*-5.29*	*.43*	*-1.34*
Total Managed Portfolio	2.08	.17	5.83	5.56
Total Account Net of Fees	2.05	.06	5.71	5.43
County of Contra Costa	*2.40*	*-.30*	*6.25*	*6.18*

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 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.

COUNTY OF CONTRA COSTA

For Period Ending December 31, 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)	7.80	5	3.02	9	3.02	9	16.44	5	13.17	6
T. Rowe Price Growth Stock		8.60	15	10.85	4	10.85	4	18.86	8	14.61	6
Harbor Capital Appreciation Instl		8.09	25	10.99	4	10.99	4	18.87	7	14.35	8
Loomis Sayles Value Fund	(7/11)	5.11	46	-4.19	58	-4.19	58	12.88	28	10.84	29
Dodge & Cox Stock	(10/14)	4.54	61	-4.49	62	-4.49	62	14.01	11	11.64	14
iShares Russell 1000	(3/15)	6.47	33	0.82	34	0.82	34	14.87	42	12.30	41
Idx: Russell 1000		**6.50**	**--**	**0.92**	**0**	**0.92**	**--**	**15.01**	**--**	**12.44**	**--**
MID CAP EQUITY FUNDS											
TIAA-CREF Mid-Cap Value Instl (Sold 12/15)		2.35	63	-5.35	54	-5.35	54	12.29	45	10.06	34
Idx: Russell Mid Cap Value		**3.12**	**--**	**-4.78**	**0**	**-4.78**	**--**	**13.40**	**--**	**11.25**	**--**
iShares Russell Mid-Cap	(3/15)	3.59	24	-2.57	39	-2.57	39	13.99	29	11.27	32
Ivy Mid Cap Growth I (Sold 12/15)	(5/14)	3.02	55	-5.80	87	-5.80	87	9.87	87	8.45	72
Idx: Russell Mid Cap Growth		**4.12**	**--**	**-0.20**	**0**	**-0.20**	**--**	**14.88**	**--**	**11.54**	**--**
SMALL CAP EQUITY FUNDS											
Columbia Small Cap Value II Z		2.30	43	-2.90	15	-2.90	15	12.49	12	9.74	13
Idx: Russell 2000 Value		**2.88**	**--**	**-7.47**	**0**	**-7.47**	**--**	**9.06**	**--**	**7.67**	**--**
iShares Russell 2000	(3/15)	3.65	26	-4.33	31	-4.33	31	11.71	62	9.22	50
T. Rowe Price New Horizons		5.14	16	4.50	7	4.50	7	18.24	2	15.42	1
Idx: Russell 2000 Growth		**4.32**	**--**	**-1.38**	**0**	**-1.38**	**--**	**14.28**	**--**	**10.67**	**--**
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		0.83	94	-11.35	98	-11.35	98	3.87	49	2.65	54
Nationwide Bailard Intl Eqs InSvc		4.17	32	0.86	24	0.86	24	6.37	12	4.19	16
MFS International Growth I		3.76	74	0.30	55	0.30	55	2.71	84	3.00	62
MFS Global Equity R5	(3/15)	3.92	59	-1.34	48	-1.34	48	9.52	33	8.94	13
iShares MSCI EAFE	(3/15)	4.62	42	-0.90	45	-0.90	45	4.89	19	3.50	15
iShares MSCI ACWI	(3/15)	5.18	37	-2.39	46	-2.39	46	7.88	34	6.12	43
American Funds New Perspective F2	(3/15)	6.83	9	5.56	6	5.56	6	11.55	11	9.25	9
Idx: MSCI EAFE		**4.71**	**--**	**-0.81**	**0**	**-0.81**	**--**	**5.01**	**--**	**3.60**	**--**
Idx: MSCI ACWI		**5.03**	**--**	**-2.36**	**0**	**-2.36**	**--**	**7.69**	**--**	**6.09**	**--**
Schroder Emerging Market Equity	(11/12)	0.58	49	-12.68	37	-12.68	37	-6.63	50	-3.77	36
Idx: MSCI Emerging Markets		**0.66**	**--**	**-14.92**	**--**	**-14.92**	**--**	**-6.76**	**--**	**-4.81**	**--**
SPDR EURO STOXX 50 ETF	(6/14)	2.83	68	-4.26	84	-4.26	84	3.79	78	2.40	87

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 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		7.73	19	3.48	37	3.48	37	11.24	23	11.95	21
Idx: Wilshire REIT Index		**7.47**	**--**	**4.23**	**--**	**4.23**	**--**	**11.84**	**--**	**12.44**	**--**
BOND FUNDS											
Core Fixed Income Portfolio		-0.65	53	0.78	14	0.78	14	1.34	39	--	
Pimco Total Return Inst'l		0.48	4	0.73	15	0.73	15	1.13	51	3.52	34
Idx: BarCap US Aggregate Bond		**-0.57**	**--**	**0.55**	**0**	**0.55**	**--**	**1.44**	**--**	**3.25**	**--**
PIMCO High Yield Instl	(11/14)	-0.49	14	-1.85	22	-1.85	22	2.36	23	5.02	20
ML US HY BB-B Constrained		**-1.13**	**--**	**-2.79**	**--**	**-2.79**	**--**	**2.26**	**--**	**5.25**	**--**
ALTERNATIVE FUNDS											
Arbitrage I (Sold 11/15)	(7/13)	1.76	18	0.90	39	0.90	39	1.23	55	1.76	35
AQR Managed Futures	(7/13)	-3.54	82	2.00	31	2.00	31	6.97	19	3.37	11
Eaton Vance Glbl Macro Abs Ret	(7/13)	2.45	6	2.63	7	2.63	7	1.80	13	1.81	51
JPMorgan Research Market Neutral Instl	(7/13)	-1.64	87	-3.61	74	-3.61	74	0.63	61	-0.20	77
Idx: Dynamic Alternatives		**-1.11**	**--**	**-5.29**	**--**	**-5.29**	**--**	**0.43**	**--**	**-1.45**	**--**

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2015

Fund Name	Inception	2015 Return	Rank	2014 Return	Rank	2013 Return	Rank	2012 Return	Rank	2011 Return	Rank	2010 Return	Rank
LARGE CAP EQUITY FUNDS													
Columbia Contrarian Core Z	(7/13)	3.02	9	12.92	31	35.73	17	18.67	10	-0.93	52	16.21	17
T. Rowe Price Growth Stock		10.85	4	8.83	65	39.20	12	18.92	14	-0.97	39	16.93	35
Harbor Capital Appreciation Instl		10.99	4	9.93	53	37.66	17	15.69	43	0.61	24	11.61	82
Loomis Sayles Value Fund	(7/11)	-4.19	58	10.76	48	35.54	14	19.70	4	-2.81	66	11.94	72
Dodge & Cox Stock	(10/14)	-4.49	62	10.40	54	40.55	2	22.01	2	-4.08	74	13.49	47
iShares Russell 1000 ETF		0.82	34	13.08	42	32.93	37	16.27	12	1.36	60	15.94	49
Idx: Russell 1000		**0.92**	**--**	**13.24**	**--**	**33.11**	**--**	**16.42**	**--**	**1.50**	**--**	**16.10**	**--**
MID CAP EQUITY FUNDS													
iShares Russell Mid-Cap ETF		-2.57	39	13.03	17	34.50	74	17.13	52	-1.67	42	25.25	73
SMALL CAP EQUITY FUNDS													
Columbia Small Cap Value II Z		-2.90	15	4.61	42	40.14	20	14.57	61	-2.39	30	25.64	52
Idx: Russell 2000 Value		**-3.83**	**--**	**4.22**	**--**	**34.52**	**--**	**18.05**	**--**	**-5.50**	**--**	**24.50**	**--**
T. Rowe Price New Horizons		4.50	7	6.10	19	49.11	10	16.20	22	6.63	2	34.67	12
Idx: Russell 2000 Growth		**-1.38**	**--**	**5.60**	**--**	**43.30**	**--**	**14.59**	**--**	**-2.91**	**--**	**29.09**	**--**
iShares Russell 2000 ETF		-4.33	31	4.94	55	38.85	76	16.39	47	-4.19	56	26.76	69
INTERNATIONAL EQUITY FUNDS													
Dodge & Cox International Stock		-11.35	98	0.08	9	26.31	8	21.03	16	-15.97	81	13.69	6
Nationwide Bailard Intl Eqs InSvc		0.86	24	-1.94	15	21.68	28	20.87	17	-15.58	74	11.85	32
MFS International Growth I		0.30	55	-5.10	58	13.84	79	19.71	31	-10.62	40	15.24	35
iShares MSCI EAFE Index Fund		-0.90	45	-5.04	78	22.62	19	17.22	41	-12.18	25	7.52	92
Idx: MSCI EAFE		**-0.81**	**--**	**-4.90**	**--**	**22.78**	**--**	**17.32**	**--**	**-12.14**	**--**	**7.75**	**--**
Schroder Emerging Market Equity	(11/12)	-12.68	37	-4.61	70	-2.28	54	21.73	19	-16.70	20	13.49	92
Idx: MSCI Emerging Markets		**-14.92**	**--**	**-2.19**	**--**	**-2.60**	**--**	**18.22**	**--**	**-18.42**	**--**	**18.88**	**--**
SPDR EURO STOXX 50 ETF	(6/14)	-4.26	84	-8.36	73	27.43	34	20.48	55	-16.42	48	-8.94	95
American Funds New Perspective F2		5.56	6	3.46	41	27.11	39	39.00	15	-7.39	44	13.01	46
MFS Global Equity R5		-1.34	48	4.08	33	27.93	34	34.00	4	-5.13	25	10.95	55
iShares MSCI ACWI		-2.39	46	4.64	34	22.91	54	54.00	30	-7.60	71	12.31	34
Idx: MSCI ACWI		**-2.36**	**--**	**4.16**	**--**	**22.80**	**--**	**16.13**	**--**	**-7.35**	**--**	**12.67**	**--**
REIT EQUITY FUNDS													
Nuveen Real Estate Secs Y		3.48	37	31.28	17	1.32	58	18.34	22	7.96	50	30.57	12
Idx: Wilshire REIT		**4.23**	**--**	**31.78**	**--**	**1.86**	**--**	**17.59**	**--**	**5.52**	**--**	**--**	**--**

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2015

BOND FUNDS														
		2015		2014		2013		2012		2011		2010	
Fund Name	**Inception**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**
Core Fixed Income Portfolio		0.78	14	4.74	70	-1.40	41	5.42	69	8.41	5	--	--
Pimco Total Return Inst'l		0.73	15	4.69	71	-1.92	60	10.36	12	4.16	87	8.83	26
Idx: BarCap US Aggregate Bond		**.55**	**--**	**5.97**	**--**	**-2.02**	**--**	**4.21**	**--**	**7.84**	**--**	**6.54**	**--**
PIMCO High Yield Instl	(11/14)	-1.85	22	3.31	13	5.77	68	14.55	52	4.00	38	14.24	45
Idx: Merrill Lynch US High Yield BB-B		**-2.79**	**--**	**3.49**	**--**	**6.31**	**--**	**14.59**	**--**	**5.39**	**--**	**14.26**	**--**
ALTERNATIVE FUNDS													
Arbitrage I (Sold 11/15)	(7/13)	0.90	39	1.64	39	1.15	67	0.44	48	4.74	20	1.76	16
AQR Managed Futures	(7/13)	2.00	31	9.69	40	9.40	6	2.99	5	-6.37	29	0.00	0
Eaton Vance Glbl Macro Abs Ret	(7/13)	2.63	7	3.03	18	-0.24	58	4.11	79	-0.39	44	4.75	61
JPMorgan Research Market Neutral Instl	(7/13)	-3.61	74	3.38	25	2.26	56	4.51	9	-7.04	86	-0.90	36

Data Source: Morningstar, SEI Investments

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