

PARS: County of Contra Costa

First Quarter 2017

**Presented by
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DISCUSSION HIGHLIGHTS

U.S. Economic and Market Overview

Since 2009 the US stock market has stormed ahead ignoring all potential issues. Extraordinary monetary policy measures in the US, and around the world, have led markets to display asymmetric positive return payouts. On a calendar year basis we have not seen a negative return from the S&P 500 since 2008. Since December 2008 through the first quarter of 2017, the index has delivered an annualized return of over 14%, well in excess of the long-term historical average. What makes 2017 different than the past 8 years? Many changes have taken place and the uncertain 2017 outlook promises to keep investors on their toes for the foreseeable future.

To start, there is a new president of the United States that has a very different mindset than the previous president and administration. President Trump inherited a stable, albeit slow-growing economy that continues to show improvement on many fronts. With the Republican Party controlling both houses of Congress, the political gridlock of the past six years is expected to abate. There are high expectations that the administration will deliver stimulative fiscal policies that may include tax reform and infrastructure spending. These expectations have consumers and business sentiment gauges running hot but they will likely retract if the president does not deliver on the aggressive policies that were promised.

The next major change brought with the start of 2017 is the Federal Reserve Bank (the FED) has signaled that the days of record low short-term interest rates are numbered. Since the first rate increase in December 2015, the FED has had a difficult time gaining momentum with its expected interest rate increases. After two years of single rate increases (contrary to the expectations set in the beginning of the year), the Fed has now raised rates twice in the last three months and has indicated that 2 additional raises are to be expected in 2017. In addition, the Fed recently signaled an openness to shrink their balance sheet which grew to astronomical size as a result of the bond buying (quantitative easing or “QE”) stimulus measures of the past few years. The initial expectation is that the FED will begin this process by discontinuing the reinvestment of interest payments from the current holdings they have purchased, a policy that could put additional pressure on borrowing costs.

With the above mentioned shifts in the economic landscape, the potential risks and rewards are now larger. Thus far, the market has been optimistic about the future, which is displayed by the strong performance of the equity markets. Further, “soft data” comprised of measures of consumer and business sentiment (surveys), have been clearly showing optimism as they reach cycle highs. On the bearish side of the fence, measures of actual economic activity, or “hard data”, have yet to materially benefit from the perceived enthusiasm. Additionally, the 10 year US Treasury bond (risk-free asset) has started to edge lower, which is indicative of risk-off sentiment. Similar to the previous few quarters, we enter Q2 2017 in the middle of a bull/bear tug of war, with the addition of a few new game changing shifts in the economic foundation where this war is taking place.

Market Overview/Performance Discussion

Total Plan

The County of Contra Costa OPEB Plan returned 3.55% net of investment fees, in the first quarter, which exceeded the County's Plan benchmark target of 3.13%. The highlight for the quarter were the managers in the international equity and global equity segments, who outperformed their benchmark targets. An overweight to International equity markets also aided returns as this was the strongest performing segment within the Plan (MSCI EAFE Index +7.25%). The Plan's large cap equity investments outpaced the Russell 1000 Index in the quarter, due to the strong returns posted by the two large cap growth managers. The Harbor Capital Appreciation Fund returned 10.64% and the T. Rowe Price Growth Fund returned 11.17%, both exceeding the benchmark target by roughly 5%. The small cap equity managers and the fixed income segment also outperformed benchmark targets. The Plan was aided as well by an underweight to bonds, as fixed income returned barely 1% in the quarter. On the negative side, two slight detractors were REITs (-0.14%) and alternatives (0.44%). In general, the contribution from our active managers was strong across the board.

Domestic Equity

In past quarters we have written extensively about the resilience of the current bull market to surprise events. The first quarter was no exception as political news (and occasional tweets) dominated global financial markets with the inauguration of President Trump followed by a frenzied pace of new policies and legislative activity. On the surface, it appears the US equity market had another strong quarter driven by investor optimism regarding the new state of the U.S. economy. While the Russell 1000 returned +6.03% in Q1 2017, there was a clear change in underlying leadership compared to the risk-on rally that followed the election at the end of 2016. Cyclical stocks, which performed well in the fourth quarter of 2016, trailed defensive and growth names in the first quarter - a clear sign of waning confidence that the new administration's agenda will come to full fruition. Performance was led by the worst performing sectors of the previous post-election rally, with Technology (+12.6%), Consumer Discretionary (+8.5%), Health Care (+8.4%), Utilities (+6.4%), and Consumer Staples (+6.4%) contributing to the strong equity return. Materials (+5.9%), Industrials (+4.6%), and Financials (+2.5%) displayed positive returns, but underperformed the broader market, while Telecommunications (-4.0%) and Energy (-6.7%) detracted from performance as the two sectors displayed negative returns. A similar shift can be seen when reviewing the relative returns of large and small cap stocks quarter over quarter. In the fourth quarter of 2016, small cap stocks outperformed large cap by over 5% (Russell 2000 Index vs. Russell 1000 Index), while in the first quarter of 2017 large cap outperformed small cap stocks by +3.6%. Is this shift in leadership a sign that the market is losing confidence that President Trump will be able to implement the pro-growth reform he preached during his campaign? Other signals that the market may be losing faith is seen by the decline of the U.S. dollar (which peaked in the weeks after the election) against a basket of foreign currencies and the retracement of the 10 year treasury yield from its peak around the middle of March. If the first three months of 2017 is any indication, President Trump will make ample opportunities to regain (or further loss) market confidence.

- **The Plan's large cap segment returned 6.54% in the quarter, which outperformed the Russell 1000 Index return of 6.03%.**
 - The iShares Russell 1000 ETF returned 5.99% in the first quarter.
 - The Columbia Contrarian Core Fund returned 6.80% in the quarter, which outperformed the benchmark. The Fund ranked in the 14th percentile of the Morningstar Large Cap Blend Universe.
 - The Harbor Capital Appreciation Fund returned 10.64% in the quarter, which outperformed the Russell 1000 Growth Index's return of 8.91%. The Fund ranked in the 18th percentile of the Morningstar Large Cap Growth Universe.
 - The T. Rowe Price Growth Stock Fund returned 11.17% in the quarter, which outperformed the Russell 1000 Growth Index. The Fund ranked in the 11th percentile of the Morningstar Large Cap Growth Universe.
 - The Dodge and Cox Stock Fund returned 4.97% in the quarter, which outperformed the Russell 1000 Value Index's return of 3.27%. The Fund ranked in the 13th percentile of the Morningstar Large Cap Value Universe.
 - The Vanguard Growth and Income Fund posted a 5.28% return in the quarter, which was under the Russell 1000 Index. The Fund ranked in the 63rd percentile of the Morningstar Large Cap Blend Universe.

- **The mid cap equity segment returned 5.05% in the quarter, which trailed slightly the Russell Mid Cap Index return of 5.15%.**
 - The iShares Russell Mid Cap ETF returned 5.10% in the first quarter.

- **The small cap equity segment returned 3.92% in the quarter, which exceeded the Russell 2000 Index return of 2.47%.**
 - The iShares Russell 2000 ETF returned 2.48% in the first quarter.
 - The T. Rowe Price New Horizons Fund returned 10.15% in the quarter, and outperformed the Russell 2000 Growth Index return of 5.35%. The Fund ranked in the 4th percentile of Morningstar's Small Cap Growth Universe.
 - The Undiscovered Managers Behavioral Value Fund returned 2.09% in the quarter, and outperformed the Russell 2000 Value Index's return of -0.13%. The Fund ranked in the 17th percentile of Morningstar's Small Cap Value Universe.

Real Estate

For the third consecutive quarter, REIT equity was the weakest performing equity segment in the Plan, with the Wilshire REIT Index returning 0.03%. Within the REIT universe, segments were decidedly mixed with Data Centers (+11.8%) and Healthcare (+7%) the two leading sectors, while Shopping centers (-7.9%), Regional Malls (-4.8%), Lodging and Leisure (-1.5%) and Self-storage (-1.4%) dragged down returns. Healthcare related REITs rallied on the failure of a repeal of Obamacare. This sector had been under pressure since the elections, as investors were betting that a repeal of Obamacare would hurt the prospects for companies in this sector. Data centers continue to thrive due to both the growth in the “cloud”, as well as the expansion of ecommerce opportunities. Regional malls and shopping centers both were under pressure as poor holiday sales, coupled with continued store closures, and the growth in ecommerce have been a negative for this category. In addition to some of the fundamental negatives for several of the segments in the REIT market place, the Federal Reserve has now increased the Fed Funds rate in two of their last three meetings. A rising interest rate environment makes REITs potentially less attractive to certain investors drawn to the above average yields that REITs offer. With REITs lagging for three consecutive quarters, some are pointing to the sector as being potentially more attractive relative to other domestic equity markets. Moreover, with the U.S. consumer being in relatively good shape, employment trends strong, corporate earnings positive, and estimated GDP targets for this calendar year on average between 2 to 2.5%, the fundamentals do support a floor to any potential downside to REITs.

The Nuveen Real Estate Securities Fund returned 0.45% in the quarter, which outperformed the Wilshire REIT Index return of 0.03%. The Fund placed in the 55th percentile of the Morningstar Real Estate Manager’s Universe.

Global/International Equity

Nine months after the UK voted to leave the European Union (E.U.), Prime Minister Theresa May signed a letter invoking Article 50 of the Treaty of Lisbon—effectively the charter of the E.U.—that formally began the withdrawal process. The UK will now begin a two-year period of negotiating the terms of separation. The so-called “Brexit” vote was the first major victory for Europe’s populist movement. Despite uncertainty created by Brexit and the growing threat of domestic populism, the European economy as a whole is beginning to show signs of life. Improving economic growth in the Euro area has been aided in large part by a currency that has weakened against the U.S. dollar by over 20% over the last three years. The European equity outlook is promising due to improving economic hard data and attractive valuations relative to U.S. stocks. Forecasted earnings growth of European firms is starting to outpace that of U.S. companies, but investors remain wary of European stocks for good reason. With elections in both France and Germany this year, further progress by European nationalist movements has the potential to threaten the very foundations of the E.U.

Given the political and economic issues witnessed in the quarter, it is encouraging to see that international markets performed rather well in the first quarter of 2017. The MSCI EAFE Index returned +7.25% in USD terms, relative to +6% for the Russell 1000 Index. Europe Ex-UK and the Pacific region (Ex Japan) led the international developed performance returning +8.4% and +11.8%, respectively. Japan gained 4.5% in the quarter, mainly due to the strengthening of the yen; returns were flat in local terms. Growth in Japan was revised up to an annualized 1.2% in the fourth quarter. Another laggard in the quarter was the U.K. (+5%). Higher inflation is starting to affect consumer spending. Emerging Market equities had a strong showing, aided by improving economic growth, rising commodity prices, and a weaker US dollar. Companies domiciled in Latin America and Asia, most noticeably in China (+12.9%), Korea (+16.8%), India (+17.1%), Mexico (+16.0%), and Brazil (+10.4%) were areas of strength in the quarter. As the prospect for global growth picks up, export and commodity driven countries have been leading EM performance. This also is an indication that the protectionist policies of President Trump are not expected to be fully implemented; as such policies would damage economic growth and negatively impact these same countries that performed well over the last quarter.

- **The Plan's international/global equity segment returned 8.42% in the quarter. This return exceeded the MSCI EAFE Index 7.25%, and outperformed the MSCI ACWI Index return of 6.91%.**
 - The iShares MSCI EAFE Index ETF returned 7.23% in the quarter.
 - The Nationwide Baird International Equity Fund returned 7.64% in the quarter, which outperformed the MSCI EAFE Index. The Fund ranked in the 59th percentile of the Morningstar Foreign Large Blend Universe.
 - The Dodge & Cox International Stock Fund returned 9.32% in the quarter and outperformed the MSCI EAFE Index. The Fund ranked in the 9th percentile of the Foreign Large Blend Universe as measured by Morningstar.
 - The MFS International Fund returned 8.04% in the quarter and outperformed the MSCI EAFE Index. The Fund ranked in the 69th percentile for foreign large cap growth managers as measured by Morningstar.
 - The iShares MSCI ACWI Index ETF returned 6.84% in the quarter.
 - The American Funds New Perspective Fund recorded a 9.54% return in the first quarter, which outperformed the MSCI ACWI Index and ranked in the 14th percentile within the Morningstar World Stock Universe
 - The MFS Global Equity R5 Fund returned 7.90%, which outperformed the benchmark and ranked in the 32nd percentile of the Morningstar World Stock Universe.
 - The Hartford Schroders Emerging Market Equity Fund returned 12.51% during the quarter and outperformed the MSCI Emerging Market benchmark return of 11.45%. The Fund ranked in the 35th percentile of the Morningstar Emerging Market Universe.

Fixed Income

The first quarter of the year was remarkably calm following mostly negative returns for the fourth quarter of last year, the worst quarter for fixed income since the bull market in bonds began over 35 years ago. Bond volatility declined during the quarter after a spike higher during the U.S. Presidential election last November. The ten-year Treasury yield remained within a narrow 30 basis point band during the first quarter, after trading within a 125 basis point range last year. Returns for the quarter were positive, but muted as the Bloomberg Barclays U.S. Aggregate index gained 0.8%, U.S. Treasuries returned 0.7%, investment-grade corporate bonds returned 1.2%, and mortgage-backed securities added 0.5%.

As the quarter began, the consensus once again was for interest rates to continue to rise, particularly after the Presidential election, due to strong employment gains in January and February, and rising headline inflation. Consumer confidence soared after the election, along with small business optimism rising to its highest level since December 2004. However, the optimism faded toward the end of the quarter as economic growth remained subdued, and doubts began to emerge over the new administration's ability to get its agenda through Congress.

Before the enthusiasm waned, however, the FOMC managed to reassert some measure of control over the fed funds market by raising the rate 25 basis points at their March meeting despite initial skepticism from investors. The increase in fed funds also lifted other short term rates, however two-year Treasury yields increased only 7 basis points for the quarter, while ten-year and thirty-year yields *declined* 6 basis points. As a result, longer duration bonds outperformed shorter duration, as the two-year Treasury gained 0.3%, while ten-year and thirty-year bonds returned 0.8% and 1.3%, respectively. Credit risk was also rewarded as investment-grade corporate bonds outperformed similar duration Treasuries by 38 basis points. Lower credit quality outperformed higher quality as bonds rated AA and above returned 0.9%, while BBB rated bonds gained 1.5%, and high yield bonds returned 2.7%. Among investment-grade corporate bonds, the best performing industries included many cyclicals, such as Basic Industry, Paper, Metals, Packing, and Home Construction. Industry laggards included Telecom, Retailing, Integrated Oil, Refining, and Transportation.

Looking forward, we expect the Fed to raise the funds rate two more times this year, in line with the consensus, but we don't believe it will lead to significantly higher Treasury yields. Despite three increases in the fed funds rate over the last 15 months, the ten-year Treasury yield is a few basis points *lower* than when the year began, and nearly the same level it was in December 2008 when the Fed first lowered the funds rate to zero. This is not a typical tightening cycle in which the Fed is raising rates in order to slow economic growth out of concern that growth is too rapid and potentially inflationary. Rather they are simply trying to move away from the emergency policy mode they have been in since 2008, without causing an economic slowdown. Since GDP growth remains below average, we expect interest rates to remain below average as well.

- **The Plan's fixed income segment returned 1.04% in the quarter, which slightly outperformed the Bloomberg Barclays Aggregate Index return of 0.82%.**

- The separately managed fixed income portfolio returned 0.82% which matched the benchmark. The portfolio would have ranked approximately in the 71st percentile of the Morningstar Intermediate Term Bond Universe.
- The PIMCO Total Return Bond Fund posted a 1.63% in the quarter, which placed it in the 10th percentile of Morningstar's Intermediate-Term Bond Universe. The Fund outperformed the Index.
- The Prudential Total Return Bond Fund returned 1.84% in the quarter. This ranked in the 5th percentile of Morningstar's Intermediate-Term Bond Universe and outperformed the benchmark.
- The Eaton Vance Floating Rate High Income Fund returned 1.55% in the quarter.

Alternative Investments

The alternative segment of the Plan returned 0.44% in the first quarter, lagging the Wilshire Liquid Alternatives Index by 1% (+1.41%). Within the segment, there were mixed results. The Eaton Vance Global Macro Fund's return of 1.53% was roughly in-line with the benchmark. The fund saw positive performance contribution from currency investments – long investments in the Russian Ruble, Icelandic Krona, Colombian Peso and the Indonesian Rupiah were additive in the quarter. With respect to regions, Eastern and Western Europe were top contributors, while Asia, the Middle East, and Africa detracted. With the Russell 1000 Index up 6% in the quarter, it was fair to say that the AQR Equity Market Neutral Fund (+0.84%) was aided more by long investments than short investments. Technology and select international markets aided returns. The laggard in the quarter was the AQR Managed Futures Fund (-0.97%). A positive start to the quarter thru February, gave way to a decline in the month of March, as price trends in commodities and fixed income reversed. Long positions in German Bonds, and a short position in U.S. fixed income markets detracted from returns during the quarter. The equity segment offered the lone bright spot in the quarter with long investments in Europe and the Nasdaq buffering results.

- **The alternative investment segment returned 0.44% in the first quarter, which underperformed the Wilshire Liquid Alternatives Index return of 1.41%.**

- The AQR Managed Futures Fund declined -0.97%, and ranked in the 76th percentile of the Morningstar Managed Futures Universe.
- The Eaton Vance Global Macro Absolute Return Fund posted a 1.53% return, which placed in the 50th percentile of the Morningstar Non-Traditional Bond Universe.
- The AQR Equity Market Neutral Fund return of 0.84% ranked in the 49th percentile of Morningstar's Market Neutral Universe.

Asset Allocation/Portfolio Transitions

There were no changes in managers in the first quarter.

With respect to domestic equity, for the past six quarters, we have been overweight value vs. growth in both small cap and large cap. This allocation has benefitted the Plan, especially in the fourth quarter of 2016, when the financial sector posted a strong rally, aiding primarily the value oriented indices. Given the strong outperformance from large cap and small cap value, the relative attractiveness of this tilt has dissipated. In March we moved to a neutral allocation with respect to value/growth in both small cap and large domestic equities.

Within the equity segment, there were some modest changes. Mid-cap (+0.5%), international equities (+1%) and global equities (+0.5%) saw slight increases in allocations, while REIT equity (-1%) and small cap equity (-0.5%) were reduced slightly. Cash was reduced by (-0.5%).

Manager Watch List

<i>Name of Fund</i>	<i>Date on watch list</i>	<i>Date exiting watch list</i>	<i>Recommendation</i>	<i>Rationale</i>
<i>Pimco Total Return Bond Fund</i>	4Q 2014	1Q 2017	Remove	Performance has improved, resulting in removal from the watch list.

Asset Allocation Period Ending March 31, 2017

Asset Allocation	12/31/2016 Market Value	12/31/2016 % of Total	3/31/2017 Market Value	3/31/2017 % of Total	Target Allocation
Large Cap Equities					
Columbia Contrarian Core Z	6,096,022	3.0%	6,503,755	3.0%	--
iShares Russell 1000 ETF	11,777,899	5.7%	12,901,350	5.9%	--
Vanguard Growth & Income Adm	6,153,621	3.0%	6,512,827	3.0%	--
Dodge & Cox Stock Fund	5,576,175	2.7%	5,387,652	2.5%	--
Harbor Capital Appreciation Instl	2,534,073	1.2%	2,742,784	1.3%	--
T. Rowe Price Growth Stock Fund	2,534,570	1.2%	2,736,175	1.3%	--
Total Large Cap Equities	\$ 34,672,360	16.8%	\$ 36,784,543	16.9%	17.0%
				<i>Range</i>	<i>13-32%</i>
Mid Cap Equities					
iShares Russell Mid-Cap ETF	8,210,568	4.0%	9,745,901	4.5%	--
Total Mid Cap Equities	\$ 8,210,568	4.0%	\$ 9,745,901	4.5%	6.0%
				<i>Range</i>	<i>2-10%</i>
Small Cap Equities					
iShares Russell 2000 ETF	7,698,856	3.7%	8,710,458	4.0%	--
Undiscovered Mgrs Behavioral Value Inst	6,610,033	3.2%	4,408,336	2.0%	--
T. Rowe Price New Horizons Fund	3,047,128	1.5%	4,390,011	2.0%	--
Total Small Cap Equities	\$ 17,356,017	8.4%	\$ 17,508,804	8.0%	8.0%
				<i>Range</i>	<i>4-12%</i>
International Equities					
Nationwide Bailard Intl Equities I	5,703,919	2.8%	6,082,371	2.8%	--
iShares MSCI EAFE Index Fund	8,288,816	4.0%	10,488,016	4.8%	--
Dodge & Cox International Stock Fund	3,092,441	1.5%	3,315,886	1.5%	--
MFS International Growth Fund	3,106,418	1.5%	3,331,162	1.5%	--
Hartford Schrodgers Emerging Mkts Eq I	3,651,183	1.8%	4,466,096	2.0%	--
Total International Equities	23,842,777	11.6%	\$ 27,683,532	12.7%	9.0%
				<i>Range</i>	<i>4-16%</i>
Global Equities					
MSCI iShares ACWI Index ETF	7,275,898	3.5%	8,714,698	4.0%	--
American Funds New Perspective F2	3,193,400	1.6%	3,300,772	1.5%	--
MFS Global Equity FD CL R5 #4818	3,082,524	1.5%	3,291,605	1.5%	--
Total Global Equities	\$ 13,551,822	6.6%	\$ 15,307,075	7.0%	7.0%
				<i>Range</i>	<i>4-12%</i>

Asset Allocation Period Ending March 31, 2017

Asset Allocation	12/31/2016 Market Value	12/31/2016 % of Total	3/31/2017 Market Value	3/31/2017 % of Total	Target Allocation
Real Estate					
Nuveen Real Estate Secs I Fund	8,378,743	3.5%	6,675,759	3.1%	
	\$ 8,378,743	3.5%	\$ 6,675,759	3.1%	4.0%
				<i>Range</i>	<i>0-8%</i>
Fixed Income					
Core Fixed Income Holdings	55,621,064	27.0%	60,073,861	27.5%	--
PIMCO Total Return Instl Fund	8,998,597	4.4%	8,808,681	4.0%	--
Prudential Total Return Bond Q	8,980,661	4.4%	8,827,376	4.0%	--
Eaton Vance Floating-Rate High Inc	2,576,685	1.3%	3,267,152	1.5%	--
Total Fixed Income	\$ 76,177,007	37.0%	\$ 80,977,070	37.1%	38.0%
		<i>Range</i>		<i>Range</i>	<i>30-50%</i>
Alternatives					
AQR Managed Futures I	7,171,540	3.5%	7,512,287	3.4%	--
Eaton Vance Gbl Macro Abs Ret I	7,198,852	3.5%	7,607,409	3.5%	--
AQR Equity Market Neutral I	6,195,244	3.0%	6,455,682	3.0%	--
Total Alternatives	\$ 20,565,636	10.0%	\$ 21,575,378	9.9%	10.0%
		<i>Range</i>		<i>Range</i>	<i>5-20%</i>
Cash					
Money Market	3,140,893	1.5%	2,043,127	0.9%	--
Total Cash	\$ 3,140,893	1.5%	\$ 2,043,127	0.9%	1.0%
		<i>Range</i>		<i>Range</i>	<i>0-5%</i>
TOTAL	\$ 205,895,824	100.0%	\$ 218,301,189	100.0%	100.0%

Investment Summary

Period Ending March 31, 2017

Investment Summary	First Quarter 2017	Year to Date 2017
Beginning Value	\$ 206,343,794.94	\$ 206,343,794.94
Net Contributions/Withdrawals	4,940,125.09	4,940,125.09
Fees Deducted	-46,099.38	-46,099.38
Income Received	912,983.05	912,983.05
Market Appreciation	6,598,356.87	6,598,356.87
Net Change in Accrued Income	-42,252.12	-42,252.12
Ending Market Value*	\$ 218,706,908.45	\$ 218,706,908.45

Investment Summary	First Quarter 2016	Year to Date 2016
Beginning Value	\$ 175,078,576.28	\$ 175,078,576.28
Net Contributions/Withdrawals	4,315,276.80	4,315,276.80
Fees Deducted	-43,382.01	-43,382.01
Income Received	961,091.78	961,091.78
Market Appreciation	1,843,383.83	1,843,383.83
Net Change in Accrued Income	-86,857.58	-86,857.58
Ending Market Value*	\$ 182,068,089.10	\$ 182,068,089.10

*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 March 31, 2017

Tactical Asset Allocation

Asset Class	% Portfolio Weighting			Rationale
	Target	Current Portfolio	Over/Under Weighting	
Cash	1.0%	1.0%	-	
Fixed Income	38.0%	37.0%	-1.0%	<ul style="list-style-type: none"> We forecast the Fed will likely raise rates 2 – 3 times in calendar year 2017. Our year-end 2017 target for the 10-year treasury is 2.75%. Fixed income expected returns would be modest in this environment.
Alternatives	10.0%	10.0%	-	<ul style="list-style-type: none"> Alternatives serve to mitigate the impact of a decline in the bond market, due to a potential rise in interest rates. Additionally near-term expectations for cash and equities remain depressed due to the low interest rate environment, equity market valuations, and earnings growth expectations.
Real Estate (REITS)	4.0%	3.0%	-1.0%	<ul style="list-style-type: none"> While the fundamentals for the REIT sector remain encouraging (low unemployment, GDP, positive consumer/business confidence), a more aggressive Federal Reserve could put pressure on the relative attractiveness of the sector. We increased our underweight position in the quarter
Global Equity	7.0%	7.0%	-	<ul style="list-style-type: none"> 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%	<ul style="list-style-type: none"> Ongoing central bank quantitative easing programs are expected to support financial asset prices and keep foreign currencies weak as the U.S. takes a more hawkish stance on monetary policy. Lingering political uncertainty, we believe, is priced into international equity markets. The potential for further upheaval from European populist parties will remain the single greatest risk to the growth and recovery in Europe.
International (Emerging)	0.0%	2.0%	+2.0%	<ul style="list-style-type: none"> Consensus expectations for emerging market growth rates have improved from 4.2% to 4.6% in 2017. Margins and return on equity measures are also improving. Rising commodity prices are aiding expectations for EM returns. Concerns relating to a border adjustment tax and other trade related legislation from the U.S. will be monitored.
Total Domestic Equity	31.0%	29.5%	-1.5%	
Large Cap	17.0%	17.0%	-	<ul style="list-style-type: none"> The multi-year outperformance of domestic equities has generated stretched valuations, thereby reducing risk premiums and degrading the near-term risk/reward outlook. Forecasted earnings for 2017 have increased slightly, due to expected gains from the financial and energy sectors.
Mid Cap	6.0%	4.5%	-1.5%	<ul style="list-style-type: none"> We continue to remain underweight based on valuation concerns, with the Russell Mid-Cap Index trading at a 18.4X forward PE ratio.
Small Cap	8.0%	8.0%	-	<ul style="list-style-type: none"> After a very strong fourth quarter of 2016, valuations appear to be stretched in small caps, currently trading at a 24X forward PE ratio. We reduced the allocation in small caps slightly in the quarter, and are positioned at a neutral allocation with respect to the policy target.

Selected Period Performance
PARS/COUNTY OF CONTRA COSTA PRHCP
Account 6746038001
Period Ending: 03/31/2017

Sector	Year to Date (3 Months)	1 Year	3 Years	5 Years	Inception to Date (74 Months)
Cash Equivalents	.12	.33	.15	.10	.08
<i>iMoneyNet, Inc. Taxable</i>	<i>.37</i>	<i>.48</i>	<i>.18</i>	<i>.11</i>	<i>.10</i>
Fixed Income ex Funds	.82	1.22	2.78	2.56	3.59
Total Fixed Income	1.04	1.59	2.78	2.78	3.66
<i>BC US Aggregate Bd Index</i>	<i>.82</i>	<i>.44</i>	<i>2.68</i>	<i>2.34</i>	<i>3.18</i>
Total Equities	6.13	16.51	6.10	9.87	8.92
Large Cap Funds	6.54	18.72	9.50	13.08	11.60
<i>Russell 1000 Index</i>	<i>6.03</i>	<i>17.43</i>	<i>9.99</i>	<i>13.26</i>	<i>12.66</i>
Mid Cap Funds	5.05	16.85	7.33	10.75	10.00
<i>Russell Midcap Index</i>	<i>5.15</i>	<i>17.03</i>	<i>8.48</i>	<i>13.09</i>	<i>12.02</i>
Small Cap Funds	3.92	24.35	7.90	13.45	12.36
<i>Russell 2000 Index</i>	<i>2.47</i>	<i>26.22</i>	<i>7.22</i>	<i>12.35</i>	<i>11.29</i>
International Equities	8.42	14.04	1.53	6.04	4.40
<i>MSCI AC World Index</i>	<i>6.91</i>	<i>15.04</i>	<i>5.08</i>	<i>8.37</i>	<i>7.09</i>
<i>MSCI EAFE Index</i>	<i>7.25</i>	<i>11.67</i>	<i>.50</i>	<i>5.83</i>	<i>3.86</i>
<i>MSCI EM Free Index</i>	<i>11.44</i>	<i>17.21</i>	<i>1.18</i>	<i>.81</i>	<i>-.07</i>
REIT Funds	-.14	2.64	9.78	9.52	9.84
<i>Wilshire REIT Index</i>	<i>.03</i>	<i>1.98</i>	<i>10.19</i>	<i>9.76</i>	<i>10.61</i>
Alternatives	.44	-.24	2.52		
<i>Dynamic Alternatives Index</i>	<i>1.41</i>	<i>3.91</i>	<i>1.96</i>	<i>.54</i>	<i>-.47</i>
Total Managed Portfolio	3.58	8.62	4.44	6.24	6.00
Total Account Net of Fees	3.55	8.52	4.33	6.12	5.88
<i>County of Contra Costa</i>	<i>3.13</i>	<i>8.76</i>	<i>4.94</i>	<i>6.67</i>	<i>6.59</i>

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.

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 March 31, 2017

LARGE CAP EQUITY FUNDS											
Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
Columbia Contrarian Core Z	(7/13)	6.80	14	6.80	14	15.32	59	10.14	10	13.66	4
T. Rowe Price Growth Stock I		11.17	11	11.17	11	19.27	11	11.34	8	13.63	10
Harbor Capital Appreciation Instl		10.64	18	10.64	18	15.83	36	10.17	23	12.30	36
Dodge & Cox Stock	(10/14)	4.97	13	4.97	13	28.58	1	9.44	8	15.24	1
Vanguard Growth & Income Adm	(12/16)	5.28	63	5.28	63	16.43	46	10.57	3	13.54	6
iShares Russell 1000	(3/15)	5.99	35	5.99	35	17.27	29	9.85	18	13.12	15
Idx: Russell 1000		6.03	--	6.03	--	17.43	--	9.99	--	13.26	--
MID CAP EQUITY FUNDS											
iShares Russell Mid-Cap	(3/15)	5.10	21	5.10	21	16.79	57	8.30	28	12.90	24
Idx: Russell Mid Cap TR USD		5.15	--	5.15	--	17.03	--	8.48	--	13.09	--
SMALL CAP EQUITY FUNDS											
Undiscovered Mgrs Behavioral Value Inst	(9/16)	2.09	17	2.09	17	18.24	86	9.67	7	14.32	3
Idx: Russell 2000 Value		-0.13	--	-0.13	--	29.37	--	7.62	--	12.54	--
iShares Russell 2000	(3/15)	2.48	32	2.48	32	26.25	13	7.29	36	12.41	35
T. Rowe Price New Horizons I		10.15	4	10.15	4	23.92	31	9.05	12	14.52	4
Idx: Russell 2000 Growth		5.35	--	5.35	--	23.03	--	6.72	--	12.10	--
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		9.32	9	9.32	9	22.97	1	0.72	41	7.32	6
Nationwide Bailard Intl Eqs Instl		7.64	59	7.64	59	7.46	85	0.93	36	6.41	13
MFS International Growth I		8.04	69	8.04	69	9.20	38	2.13	25	4.66	72
MFS Global Equity R5	(3/15)	7.90	32	7.90	32	13.53	49	5.76	21	10.38	11
iShares MSCI EAFE	(3/15)	7.23	75	7.23	75	11.60	38	0.42	50	5.74	28
iShares MSCI ACWI	(3/15)	6.84	57	6.84	57	15.13	29	5.29	28	8.52	44
American Funds New Perspective F2	(3/15)	9.54	14	9.54	14	14.61	34	6.78	10	10.56	10
Idx: MSCI EAFE		7.25	--	7.25	--	11.67	--	0.50	--	5.83	--
Idx: MSCI ACWI		6.91	--	6.91	--	15.04	--	5.08	--	8.37	--
Hartford Schroders Emerging Mkts Eq I	(11/12)	12.51	35	12.51	35	20.57	17	2.04	27	1.58	36
Idx: MSCI Emerging Markets		11.44	--	11.44	--	17.21	--	1.18	--	0.81	--

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending March 31, 2017

REIT EQUITY FUNDS											
Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
Nuveen Real Estate Secs Y		0.45	55	0.45	55	2.39	42	9.66	27	9.55	18
Idx: Wilshire REIT Index		0.03	--	0.03	--	1.98	--	10.19	--	9.76	--
BOND FUNDS											
Core Fixed Income Portfolio		0.82	71	0.82	71	1.22	59	2.78	28	2.56	47
Pimco Total Return Inst'l		1.63	10	1.63	10	2.44	30	2.77	29	2.96	30
Prudential Total Return Bond Fund Class ((5/16)	1.84	5	1.84	5	3.43	15	3.83	4	4.06	3
Idx: BarCap US Aggregate Bond		0.82	--	0.82	--	0.44	--	2.68	--	2.34	--
Eaton Vance Floating-Rate & Hi Inc Inst	(12/16)	1.55	6	1.55	6	10.90	24	3.71	9	4.58	19
ALTERNATIVE FUNDS											
AQR Managed Futures	(7/13)	-0.97	76	-0.97	76	-9.67	77	2.59	51	2.86	21
AQR Equity Market Neutral I	(2/16)	0.84	49	0.84	49	4.64	19	--	--	--	--
Eaton Vance Gbl Macro Abs Ret	(7/13)	1.53	50	1.53	50	5.39	55	3.72	13	2.52	51
Idx: Dynamic Alternatives		1.41	--	1.41	--	3.91	--	1.96	--	0.54	--

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2016

LARGE CAP EQUITY FUNDS													
Fund Name	Inception	2016 Return	2016 Rank	2015 Return	2015 Rank	2014 Return	2014 Rank	2013 Return	2013 Rank	2012 Return	2012 Rank	2011 Return	2011 Rank
Columbia Contrarian Core Z	(7/13)	8.64	74	3.02	9	12.92	31	35.73	17	18.67	10	-0.93	52
T. Rowe Price Growth Stock I (PRUFX)		1.58	63	10.93	--	8.83	--	39.20	--	18.92	--	-0.97	--
T. Rowe Price Growth Stock (PRGFX)		1.41	66	10.85	4	8.83	65	39.20	12	18.92	14	-0.97	39
Vanguard Growth & Income Adm	(12/16)	12.12	24	2.03	16	14.16	13	32.74	37	17.05	19	2.54	15
Harbor Capital Appreciation Instl		-1.07	85	10.99	4	9.93	53	37.66	17	15.69	43	0.61	24
Loomis Sayles Value Fund	Out (12/16)	11.62	81	-4.19	58	10.76	48	35.54	14	19.70	4	-2.81	66
Dodge & Cox Stock	(10/14)	21.28	6	-4.49	62	10.40	54	40.55	2	22.01	2	-4.08	74
iShares Russell 1000 ETF		11.91	27	0.82	30	13.08	28	32.93	35	16.27	29	1.36	28
Idx: Russell 1000		12.05	--	0.92	--	13.24	--	33.11	--	16.42	--	1.50	--
MID CAP EQUITY FUNDS													
iShares Russell Mid-Cap ETF		13.58	61	-2.57	30	13.03	8	34.50	46	17.13	43	-1.67	27
SMALL CAP EQUITY FUNDS													
Undiscovered Managers Behavioral Val L	(9/16)	20.84	81	3.43	1	5.70	26	37.64	38	23.55	4	-1.53	24
Idx: Russell 2000 Value		31.74	--	-7.47	--	4.22	--	34.52	--	18.05	--	-5.50	--
T. Rowe Price New Horizons I (PRJIX)		7.95	69	4.54	--	6.10	--	49.11	--	16.20	--	6.63	--
T. Rowe Price New Horizons (PRNHX)		7.79	71	4.50	7	6.10	19	49.11	10	16.20	22	6.63	2
Idx: Russell 2000 Growth		11.32	--	-1.38	--	5.60	--	43.30	--	14.59	--	-2.91	--
iShares Russell 2000 ETF		21.36	43	-4.33	44	4.94	44	38.85	35	16.39	34	-4.19	58
INTERNATIONAL EQUITY FUNDS													
Dodge & Cox International Stock		8.26	2	-11.35	98	0.08	9	26.31	8	21.03	16	-15.97	81
Nationwide Bailard Intl Eqs Instl (NWHMX)		-2.13	83	0.93	23	-1.90	15	21.84	--	21.07	--	-15.39	--
Nationwide Bailard International Equities Fund (NWHNX)		-2.38	86	0.86	24	-1.94	15	21.68	28	20.87	17	-15.58	74
MFS International Growth I		2.64	7	0.30	55	-5.10	58	13.84	79	19.71	31	-10.62	40
iShares MSCI EAFE Index Fund		0.96	47	-0.90	46	-5.04	46	22.62	18	17.22	66	-12.18	27
Idx: MSCI EAFE		1.00	--	-0.81	--	-4.90	--	22.78	--	17.32	--	-12.14	--
Schroder Emerging Market Equity	(11/12)	10.41	37	-12.68	37	-4.61	70	-2.28	54	21.73	19	-16.70	20
Idx: MSCI Emerging Markets		11.19	--	-14.92	--	-2.19	--	-2.60	--	18.22	--	-18.42	--
American Funds New Perspective F2		2.10	77	5.56	6	3.46	41	27.11	39	21.07	15	-7.39	44
MFS Global Equity R5		7.43	27	-1.34	48	4.08	33	27.93	34	23.14	--	-5.13	--
iShares MSCI ACWI		8.22	21	-2.39	62	4.64	28	22.91	63	15.99	51	-7.60	46
Idx: MSCI ACWI		7.86	--	-2.36	--	4.16	--	22.80	--	16.13	--	-7.35	--

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2016

REIT EQUITY FUNDS													
Fund Name	Inception	2016 Return	2016 Rank	2015 Return	2015 Rank	2014 Return	2014 Rank	2013 Return	2013 Rank	2012 Return	2012 Rank	2011 Return	2011 Rank
Nuveen Real Estate Secs Y		6.79	38	3.48	37	31.28	17	1.32	58	18.34	22	7.96	50
Idx: Wilshire REIT		7.24	--	4.23	--	31.78	--	1.86	--	17.59	--	9.24	--
BOND FUNDS													
Core Fixed Income Portfolio		3.63	37	0.78	14	4.74	70	-1.40	41	5.42	69	8.41	5
Pimco Total Return Inst'l		2.60	63	0.73	15	4.69	71	-1.92	60	10.36	12	4.16	87
Prudential Total Return Bond Q	(5/16)	4.83	13	0.09	44	7.25	5	-0.91	28	9.96	14	7.93	8
Idx: BarCap US Aggregate Bond		2.65	--	0.55	--	5.97	--	-2.02	--	4.21	--	7.84	--
Eaton Vance Floating-Rate & Hi Inc Inst	(12/16)	11.55	15	-1.50	57	0.90	33	5.23	50	9.51	38	2.81	9
ALTERNATIVE FUNDS													
AQR Managed Futures	(7/13)	-8.43	81	2.00	31	9.69	40	9.40	6	2.99	5	-6.37	29
AQR Equity Market Neutral I	(2/16)	5.85	18	17.60	1	--	--	--	--	--	--	--	--
Eaton Vance Gbl Macro Abs Ret	(7/13)	4.00	61	2.63	7	3.03	18	-0.24	58	4.11	79	-0.39	44

Data Source: Morningstar, SEI Investments

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