

# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

832 12th Street, Suite 600

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#### **AGENDA**

BOARD OF RETIREMENT 832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room** Modesto, CA 95354 August 26, 2014 2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

**CONSENT ITEMS**: These matters include routine administrative actions and are identified under the Consent Items heading.

**PUBLIC COMMENT**: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

**BOARD AGENDAS & MINUTES:** Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

**AUDIO:** All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at <a href="http://www.stancera.org/sections/aboutus/agendas">http://www.stancera.org/sections/aboutus/agendas</a>.

**NOTICE REGARDING NON-ENGLISH SPEAKERS**: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

**REASONABLE ACCOMMODATIONS**: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

- Meeting Called to Order
- 2. Roll Call
- 3. Announcements
- 4. Public Comment
- 5. Consent Items
  - a. Approval of the August 13, 2014, Administrative Meeting Minutes View
  - StanCERA Investment Managers Peer Rankings for Quarter Ending June 30, 2014 View

- 6. Annual Update and Review PIMCO View
  - a. Quarterly Value Added Report View
- 7. Committee Reports and Recommendations for Action

#### STANDING COMMITTEES

- a. Internal Governance Committee
  - Discussion and Action to approve the recommendation of the Internal Governance Committee to amend Bylaws 1.6; Retirement Board Member Election Procedures. <u>View</u>
- 8. Strategic Investment Solutions (SIS), Inc.
  - a. StanCERA Investment Managers Review List for Quarter Ending June 30, 2014 View
  - b. Monthly Performance Review for the Month Ending July 31, 2014 View
  - c. Report on "Top 10 Holdings" by StanCERA Investment Managers as of July 31, 2014 <u>View</u>
- 9. Executive Director
  - a. Discussion and Action Regarding Infrastructure Investment Option View
  - b. Value Added Reports View
  - c. Legal Update View

#### 10. Closed Session

- a. Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets Government Code Section 54956.81
- b. Conference with Legal Counsel Pending Litigation One Case: Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC, Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152 Government Code Section 54956.9(d)(4)

### 10. <u>Closed Session (Cont.)</u>

- c. Conference with Legal Counsel Pending Litigation One Case:
   O'Neal et al v. Stanislaus County Employees' Retirement Association
   Stanislaus County Superior Court Case No. 648469
   Government Code Section 54956.9(d)(1)
- d. Conference with Legal Counsel Pending Litigation One Case:
   Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
   Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate
   District, Case No. H038894 Government Code Section 54956.9(d)(1)
- 11. Members' Forum (Information and Future Agenda Requests Only)
- 12. Adjournment



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#### PLEASE POST FOR EMPLOYEE VIEWING

#### **BOARD OF RETIREMENT MINUTES**

August 13, 2014

**Members Present:** 

Gordon Ford, Maria De Anda, Darin Gharat, Jason Gordo

Mike Lynch, Jim DeMartini and Michael O'Neal

Member Absent:

Donna Riley, Jeff Grover

**Alternate Member** 

Present:

Joan Clendenin, Alternate Retiree Representative

Staff Present:

Rick Santos, Executive Director

Luiana Irizarry, Investment/Accounting Technician

Natalie Elliot, Accountant

Mary Williams, Administrative Assistant

Others Present:

Fred Silva, General Legal Counsel

1. Meeting called to order at 2:02 p.m. by Gordon Ford, Chair.

### 2. Roll Call

#### 3. Announcements

Mrs. Irizarry announced that the July 22, 2014 minutes required the following correction, for motion 8a. correct the "second" to the motion to reflect Jason Gordo.

Rick Santos, Director announced that Ms. Irizarry was leaving StanCERA to pursue other opportunities and that her last day was August 13, 2014. Director thanked Ms. Irizarry for her dedication to StanCERA over the years.

#### 4. Public Comment

None

2:04 p.m. Trustee Mike Lynch arrived

#### 5. Consent Items

- a. Approval of the July 22, 2014 Investment Meeting Minutes
- b. Approval of Letter Dated July 28, 2014 from SACRS Board of Directors

- c. Approval of Service Retirement(s) Sections 31499.14, 31670, 31662.2 & 31810
  - 1. Ashlock, Ronald BHRS Effective 07-23-2014
  - 2. Brodie, Steven DER Effective 06-27-2014
  - 3. Bruss, Glen HSA 08-16-2014
  - 4. Carvalho, Jennifer Superior Courts 08-09-2014
  - 5. Gonzalez, Ramon BHRS 07-18-2014
  - 6. Luevano, Michael Public Works Effective 08-04-2014
  - 7. Macrury, Peggy Sheriff 08-07-2014
  - 8. Mc Donough, Carol Child & Family SVCS 08-02-2014
  - 9. Miller, Mary Teresa Public Health 08-30-2014
  - 10. Smith, Charamaine District Attorney 08-23-2014
  - 11. Whitmore, Dale Parks & Rec. 07-31-2014
- d. Approval of Deferred Retirement(s) Section 31700
  - 1. Cruz, Jose Sheriff Effective 03-21-2014
  - 2. Dhesi, Jaskaran CSA Effective 05-03-2014
  - 3. Duncan, Kenneth BHRS Effective 05-03-2014
  - 4. Harrelson, Ralph Sheriff Effective 06-29-2014
  - 5. Hartzell, Noreen HSA Effective 07-12-2014
  - 6. Kochhar, Serena CSA Effective 05-17-2014
  - 7. Kole, Melissa Courts Effective 07-24-2014
  - 8. McLeland, Matthew Sheriff Effective 07-24-2014
  - 9. Merchant, Jeanette BHRS Effective 04-23-2014
  - 10. Tovar, Guadalupe HSA Effective 06-14-2014
- e. Approval of Disability Retirement Section 31724
  - 1. Michael Glinskas, Sheriff, Service Connected, Effective 03-01-2014
  - 2. Plante, Steven, Sheriff, Service Connected, Effective 08-25-2013

Motion was made by Maria De Anda and seconded by Darin Gharat to approve consent items as presented with the above mentioned correction to the July 22, 2014 minutes.

Motion carried unanimously.

#### 6. Executive Director

- a. Monthly Staff Report
- Discussion and Action Regarding Funding of the \$5,000 Retiree Burial Allowance

Motion was made by Darin Gharat and seconded by Jason Gordo to approve the following staff recommendation: As of June 30, 2014, include the liability from the \$5,000 Retiree Burial Allowance into the annual actuarial valuation and pay the benefit from valuation reserves. Modify the excess earnings policy to allocate future earnings to the Retiree Benefit Allowance reserve in the same way as all other valuation reserves

Motion carried unanimously.

#### 6. Executive Director(Cont.)

- c. Educational Presentation Options and Portfolio Insurance
- 3:02 p.m. Mike Lynch left meeting.
- 3:06 p.m. Mike Lynch returned to meeting.
- 3:07 pm. Michael O'Neal left meeting.
- 3:11 p.m. Michael O'Neal returned to meeting

Director gave a presentation on the concept of portfolio insurance and the use of equity options. The Board directed staff to bring back more information regarding this subject from experts in the field at a later date

#### 7. Closed Session

Motion made by Darin Gharat and seconded by Maria De Anda to enter into closed session at 3:22 p.m.

- Discussion and Action Regarding Allocation of StanCERA's Real Estate Assets Government Code Section 54956.81
- b. Conference with Legal Counsel Pending Litigation One Case: Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC,

Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152 Government Code Section 54956.9(d)(4)

- Conference with Legal Counsel Pending Litigation One Case:
   O'Neal et al v. Stanislaus County Employees' Retirement Association
   Stanislaus County Superior Court Case No. 648469
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- d. Conference with Legal Counsel Pending Litigation One Case:
   Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County
   Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate
   District, Case No. H038894 Government Code Section 54956.9(d)(1)

Motion made by Darin Gharat and seconded by Maria De Anda to enter into open session at 3:41p.m.

No Report

#### 8. Members' Forum (Information and Future Agenda Requests Only)

Mr. Santos announced he would not be attending the next Board meeting scheduled for August 26, 2014.

### 9. Adjournment

Meeting adjourned at 3:43 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:

FRED A. SILVA, GENERAL LEGAL COUNSEL

Fred A Silva General Legal Counsel

StanCERA Investment Managers Peer Ranking **Total Fund**Taken From SIS Quarterly Investment Performance Analysis Reports
3/31/2011 through 6/30/2014

3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2014 6/30/2014

1 Quarter 1 Year Over 3 years Over 5 years

45	68	85	30	16	69	5	27	13	38	14	14	63	40
22	30	77	85	70	62	12	5	6	22	13	12	13	48
13	16	8	14	10	23	21	28	27	14	9	10	15	12
47	38	59	54	43	41	62	61	12	8	2	3	3	7

Note: Ranking 1 is highest & 100 lowest

Revised 08/20/14

StanCERA Investment Managers Peer Ranking
Peer Ranking For Returns Over 1 Year
Taken From SIS Quarterly Investment Performance Analysis Reports
3/31/2011 through 6/30/2014

n/a

n/a

n/a

n/a

100

100

3/31/2011	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2014	6/30/2014
55	52	32	28	35	34	24	16	18	29	63	58	66	60
47	49	29	23	34	27	37	53	37	37	63	56	63	55
52	35	16	2	8	4	24	36	29	57	13	39	41	31
68	64	44	30	50	26	19	30	17	44	15	59	61	55
41	39	63	83	81	55	4	3	7	29	3	15	17	19
71	60	56	61	58	35	34	24	16	28	28	41	53	70
39	42	34	42	56	37	35	9	9	68	29	53	47	43
25	35	46	48	54	78	64	75	69	53	54	39	40	34
26	37	60	34	35	37	80	52	35	40	52	61	80	84
22	27	70	89	72	77	12	9	20	7	4	3	4	6
59	56	30	14	25	19	55	54	28	74	63	89	87	80
n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.7	13.3
11	15	94	95	76	76	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

n/a

n/a

n/a

n/a

n/a

n/a

n/a

Managers in red no longer managing funds

BlackRock US Real Estate

Note: Ranking 1 is highest & 100 lowest

Revised 08/20/14

S&P 500 BlackRock 1,000 G Delaware/Jackson Square BlackRock 1,000 V Dodge & Cox Legato Capital Prospects

LSV Pyramis Dodge & Cox FI Pimco

Invesco Research Affiliates

# StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 1 Quarter Taken From SIS Quarterly Investment Performance Analysis Reports 3/31/2011 through 6/30/2014

12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 3/31/2014 12/31/2013 3/31/2014 6/30/2014

53	60	53	30	50	65	29	14	24	49	28	63	41	62	33
53	36	52	30	25	67	24	55	64	34	48	13	60	43	31
87	27	26	7	10	40	44	40	40	16	88	15	41	62	21
44	59	57	35	42	76	19	33	45	30	62	3	48	33	41
21	73	38	73	65	34	22	7	24	50	19	22	12	59	58
52	63	27	56	65	41	13	52	51	31	38	46	64	52	74
67	43	50	37	73	71	21	15	10	47	80	24	59	69	42
28	12	71	61	51	66	83	31	75	26	66	33	24	75	24
22	56	71	61	42	41	44	38	43	50	37	68	58	82	51
8	22	71	90	41	10	83	21	9	7	9	11	5	9	13
91	63	23	13	54	79	12	57	52	29	90	42	95	82	59
n/a	7.2													
29	60	42	99	7	3	47	n/a							

Managers in red no longer managing funds

Note: Ranking 1 is highest & 100 lowest

Revised 08/20/14

Invesco

StanCERA Investment Managers Peer Ranking
Peer Ranking For Returns Over 3 Years
Taken From SIS Quarterly Investment Performance Analysis Reports
3/31/2011 through 6/30/2014

	3/31/2011	6/30/2011	9/30/2011	12/30/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013	3/31/2013	6/30/2014
S&P 500	62	57	52	50	56	44	20	11	18	16	48	50	55	47
BlackRock 1,000 G	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	29	63	39	39	36
Delaware/Jackson Square	60	26	15	6	11	12	4	7	4	5	13	5	6	6
BlackRock 1,000 V	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	41	15	47	45	40
Dodge & Cox	61	60	46	39	35	62	55	44	50	23	3	17	17	13
Legato	n/a	n/a	n/a	61	62	58	60	59	53	54	39	40	30	45
Capital Prospects	n/a	n/a	n/a	64	66	48	42	21	22	34	32	30	35	31
LSV	34	29	26	17	23	34	49	57	57	71	60	70	74	73
Pyramis	39	54	38	36	34	34	67	65	74	72	67	68	80	73
Dodge & Cox FI	11	15	17	32	20	38	31	40	39	17	9	12	13	12
Pimco	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	45	52	52	58	61
BlackRock US Real Estate	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note: Ranking 1 is highest & 100 lowest

Revised 08/20/14

# StanCERA Investment Managers Peer Ranking Peer Ranking For Returns Over 5 Years Taken From SIS Quarterly Investment Performance Analysis Reports 3/31/2011 through 6/30/2014

12/31/2010 3/31/2011 6/30/2011 9/30/2011 12/31/2011 3/31/2012 6/30/2012 9/30/2012 12/31/2012 3/31/2013 6/30/2013 9/30/2013 12/31/2013 3/31/2014 6/30/2014

S&P 500
BlackRock 1,000 G
Delaware/Jackson Square
BlackRock 1,000 V
Dodge & Cox
Legato
Capital Prospects
LSV
Pyramis
Dodge & Cox FI
Pimco
BlackRock US Real Estate

68	66	64	60	61	58	54	33	38	29	16	55	48	36	48
n/a	63	n/a	n/a	n/a										
n/a	n/a	n/a	43	34	32	22	21	23	16	11	13	10	14	10
n/a	15	n/a	n/a	n/a										
71	75	69	72	73	73	65	73	71	55	50	3	17	13	23
n/a	53	70												
n/a	45	46	41											
31	35	40	48	42	39	56	74	67	62	60	34	19	18	33
n/a	n/a	34	34	24	27	26	60	68	71	64	74	71	72	73
16	18	21	36	39	27	33	25	15	8	9	6	9	8	12
n/a														
n/a														

Note: Ranking 1 is highest & 100 lowest

Revised 08/20/14

# PIMCO

Your Global Investment Authority



Strategy review

08/26/14 Item # 6

# Stanislaus County Employees' Retirement Association

26 August 2014





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PIMCO Your Global Investment Authority pg **1** 

## Biographical information

#### R. Matthew Clark, CFA

Mr. Clark is a senior vice president and account manager in the Newport Beach office with a focus on institutional client servicing. Prior to joining PIMCO in 2002, he served as an officer in the U.S. Army for eight years, achieving the rank of captain. He has 12 years of investment experience and holds an MBA from Harvard Business School. He received an undergraduate degree from Trinity University, San Antonio.

#### **Tony Crescenzi**

Mr. Crescenzi is an executive vice president, market strategist and portfolio manager in the Newport Beach office. He is also a member of the Investment Committee. Prior to joining PIMCO in 2009, he was chief bond market strategist at Miller Tabak, where he worked for 23 years. Mr. Crescenzi has written five books, including his latest, "Beyond the Keynesian Endpoint," which was published in November 2011, and a complete revision to Marcia Stigum's "The Money Market." He regularly appears on CNBC and Bloomberg television and in financial news media. Mr. Crescenzi taught in the executive MBA program at Baruch College from 1999-2009. He has 32 years of investment experience and holds an MBA from St. John's University and an undergraduate degree from the City University of New York.

#### Sasha Talcott, CFA

Ms. Talcott is a vice president and account manager in the Newport Beach office, focusing on institutional client servicing. Prior to joining PIMCO in 2012, she was director of communications and outreach for Harvard Kennedy School's Belfer Center for Science and International Affairs, a research center that focuses on topics ranging from international security to energy policy. Previously, she was a business reporter for the Boston Globe, where she covered the banking and insurance sectors. She holds an MBA from MIT Sloan School of Management and received an undergraduate degree from Northwestern University.

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# Agenda

- 1. Performance and market review
- 2. Outlook and strategy
- 3. PIMCO update
- 4. Appendix

PIMCO Your Global Investment Authority pg 3

# Stanislaus County Employees' Retirement Association performance review

### Stanislaus County Employees' Retirement Association

Initial funding date	3 May 2010
Market value as of Jun '14	\$ 108,756,686
Q2 '14 return (%)	2.00
1 year return (%)	4.00
3 year return (%)	4.18
Since inception return (%)	4.70



### Stanislaus County Employees' Retirement Association

	Since inception						YTD
	14 May '10	3 yrs.	2 yrs.	1 yr.	6 mos.	3 mos.	15 Aug '14
Before fees (%)	4.7	4.2	2.0	4.0	3.7	2.0	4.3
After fees (%)	4.4	3.8	1.6	3.7	3.5	1.9	4.1
Benchmark (%)	4.0	3.7	1.8	4.4	3.9	2.0	4.7

As of 30 June 2014

All periods longer than one year are annualized

Benchmark: Barclays U.S. Aggregate Index

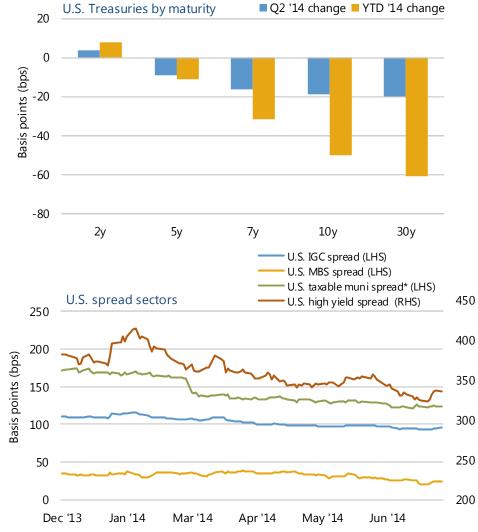
# Domestic markets begin to reflect the New Neutral framework

### Fed moves closer to policy normalization

- June Fed projections indicated a steeper normalization of the policy rate, but at a lower terminal level
- Increased concerns of a slowdown in potential growth along with market technicals weighed on yields

### Demand for carry continues amid lower supply

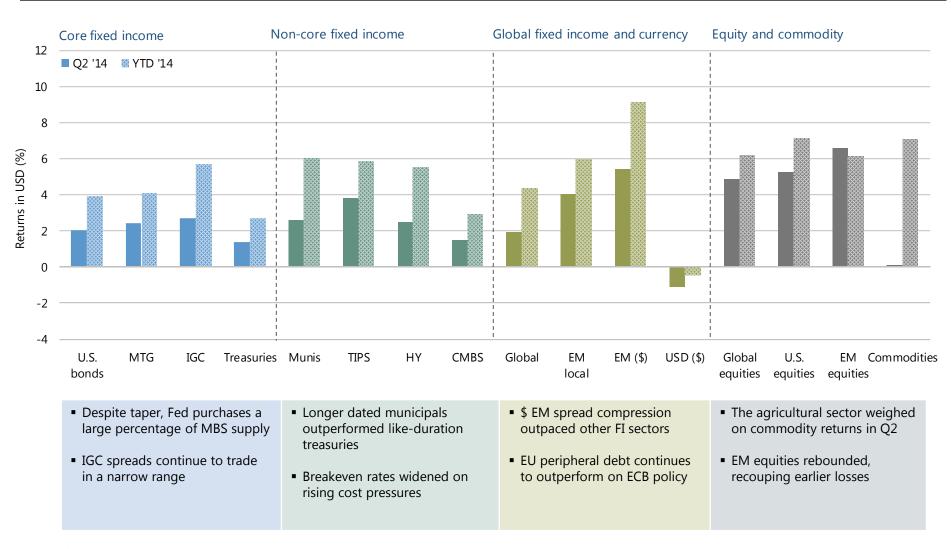
- Positive credit fundamentals and technicals supported spread compression
- Longer-dated, more interest rate sensitive credits outperformed



As of 30 June 2014
SOURCE: Bloomberg, Barclays
Barclays U.S. Credit Index; Barclays U.S. MBS Index; Barclays U.S. Corporate High Yield Index; Barclays Taxable Municipal Bond Index
\* PIMCO calculated OAS

PIMCO

## Global markets maintained their positive momentum into Q2



As of 30 June 2014

SOURCE: Barclays, Bloomberg, Federal Reserve, JPMorgan, PIMCO

Barclays U.S. Aggregate; Barclays MBS Fixed Rate Mortgage; Barclays Investment Grade Credit; Barclays U.S. Treasury; Barclays Municipal Bond; Barclays U.S. TIPS; BofA Merrill Lynch U.S. High Yield BB-B Rated; Barclays CMBS ERISA-Eligible; JPMorgan EMBI Global; JPMorgan GBI Global ex-U.S. USD Hedged Index, JPMorgan GBI-EM Global Diversified (Unhedged); Dollar Index Spot; MSCI World; S&P 500; MSCI EM; DJ-UBS Commodity

USD (\$) measured relative to basket of seven currencies on a trade-weighted basis

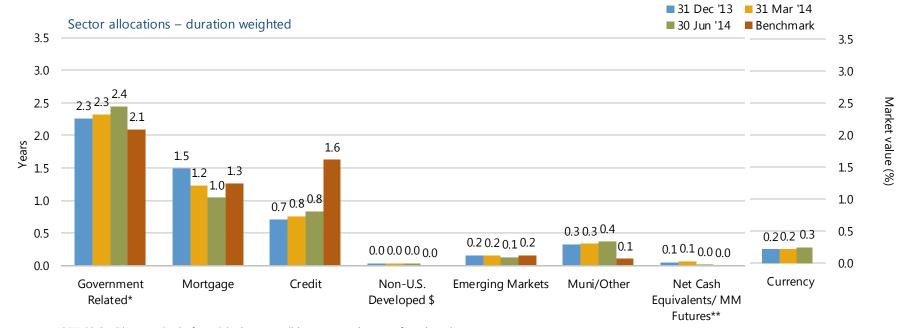
# Stanislaus County Employees' Retirement Association portfolio positioning

Stanislaus County Employees' Retirement Association								
CHARACTERISTICS		31 Dec '13	31 Mar '14	30 Jun '14				
Fee ation downstin al ()	Portfolio	5.1	4.9	4.9				
Effective duration <sup>1</sup> (yrs.)	Index	5.3	5.3	5.2				
Yield to maturity (%)		2.7	2.5	2.3				

Total curve duration<sup>2</sup>: 0.4

ATTRIBUTION	Q2 '14	YTD '14
Interest rates:		
U.S.:	-	
Non-U.S.:	0	+
TIPS / Real:	+	+
Mortgages:	-	-
Credit:	-	-
Emerging markets:	+	-
Municipals:	+	+
Currency:	0	0

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NOTE: "Other" is comprised of municipals, convertibles, euro/yankees, preferred stock

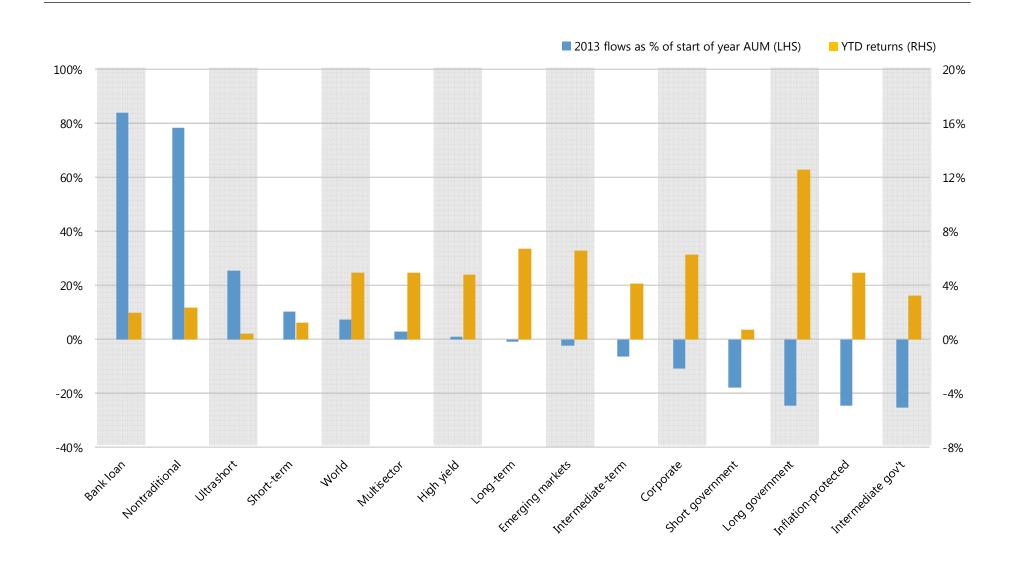
Your Global Investment Authority

- <sup>1</sup> In November 2011 PIMCO modified its duration calculation to account for the potential that holders of securities subject to credit risk may, in the event of default, recover a portion of their investment prior to maturity. The duration reflects the revised calculation.
- Measures a portfolio's price sensitivity relative to the benchmark to changes in the slope of the yield curve, measured between the 2–30 year government yields, holding the 7-year yield constant. For every one basis point of steepening (flattening), a portfolio with curve duration of one year will rise (fall) in price by one basis point relative to the benchmark.
- \* Gov't-related may include nominal and inflation-protected Treasuries, agency debt, interest rate swaps, Treasury futures and options, and FDIC-guaranteed corporate securities.

As of 31 Dec '13, 31 Mar '14 and 30 Jun '14; Global inflation-linked bond exposure is 0.35 yrs, 0.34 yrs, and 0.34 yrs, respectively.

\* As of 31 Dec '13, 31 Mar '14 and 30 Jun '14; Non-U.S. MM Futures exposure is 0yrs, 0yrs, and 0yrs; U.S. MM Futures exposure is 0yrs, 0yrs, and 0yrs, respectively.

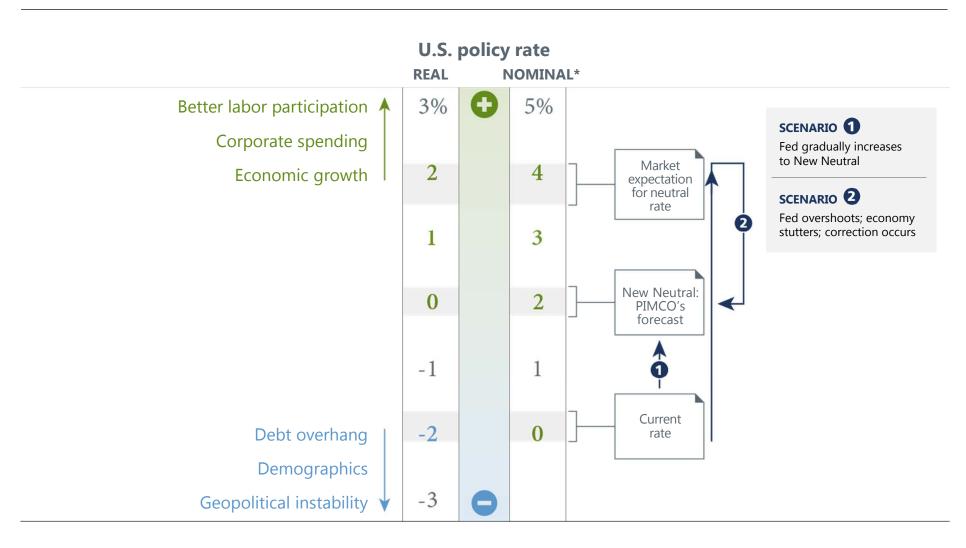
### Investors who fled duration in 2013 have missed 2014's rally



YTD returns as of 30 June 2014. Flows as of 31 December 2013. Categories represented are Morningstar categories. SOURCE: Morningstar, Strategic Insight

PIMCO

### "The New Neutral:" PIMCO's secular forecast



Neutral Rate = The expected Fed Funds Rate when GDP, inflation, and employment are stable, and monetary policymakers are neither "easing" nor "tightening."

\* Assuming 2% inflation

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# PIMCO's key secular themes and investment implications

### **Key conclusions**

- Global economy will converge to slower yet increasingly stable growth rates with low inflation
- Persistently high global debt and subpar growth will constrain central banks and keep real policy rates near 0%
- U.S. presents wider range of optimistic outcomes than rest of developed world



### **Investment implications**

- Anticipate modest returns, but bear market unlikely
  - 3% for bonds
  - 5% for stocks
- Consider unconstrained, hedge and alternative asset strategies as carry increasingly drives performance
- Prioritize bottom-up analysis to identify secular winners (and avoid losers)
- Closely monitor potential Chinese slowdown and impact on global economy
- Expect relatively stable Europe

Your Global Investment Authority pg **10** 

## Invited speakers lent important insights

#### **Robert Arnott Dr. Michael Greenstone** Professor of Environmental Founder and Chairman, Economics, MIT: Climate Research Affiliates: change, its impact and **Demographics and** potential policy responses markets **PIMCO** Dr. Carmen M. Reinhart **Dr. Anne-Marie Slaughter** President & CEO, Professor, Secular Harvard Kennedy New America Foundation: **Geopolitical hot spots** Forum School: Global financial crisis and its and blind spots 2014 long aftermath **Sir Paul Tucker Nate Silver** Statistician & Editor in Former Deputy Governor, Bank of England: Chief, FiveThirtyEight.com: **International monetary** Problems of big data & system suggested solutions

PIMCO Your Global Investment Authority

# Economic outlook: Improving conditions in U.S. and Europe



- ECB policy framework supports improved valuations and rising aggregate demand
- Lower borrowing costs in periphery suggest rising aggregate demand
- Strong euro may weaken external competitiveness

### Eurozone



- Handoff from policy to fundamentals may increase volatility
- Diminished fiscal drag clears path for increased growth
- Corporations may begin to transition from cash retention to capex spending

### Japan



CYCLICAL: V **RISKS: BALANCED** 

pg **12** 

- Abenomics honeymoon fades on tax hikes and reduced spending
- Yen depreciation may be insufficient to maintain growth if real imports increase
- Demographics remain challenging

### Emerging economies



- China slowdown may yield sub-7% growth, weighing on global economy
- Geopolitical factors continue to impact near-term outlook
- Latam regional outlook more robust due to domestic policy choices and stronger ties to U.S. growth

As of 30 June 2014

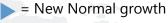
United

**States** 

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= Above New Normal growth



= Below New Normal growth

# Stanislaus County Employees' Retirement Association portfolio strategy

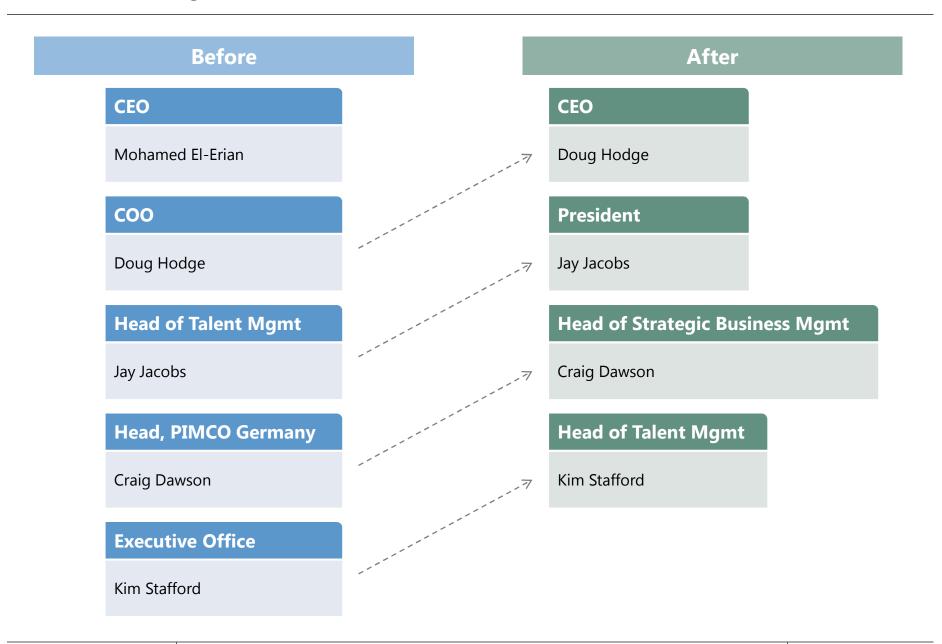
Interest rate strategies						
Diversified global rate exposures	Favor maturities under 10 years					
TIPS: Favor intermediate maturities	Capture higher real yields and attractive break-even pricing					

Spread strategies	
Underweight Agency MBS	<ol> <li>Valuations are stretched and remain sensitive to Fed tapering</li> <li>Continue holding non-agency MBS given favorable supply-demand dynamics</li> </ol>
Favor shorter-dated credit	<ol> <li>Focus on industries that are benefiting most from the broadening economic recovery</li> <li>Seek "rising stars" where there is potential for rating upgrades</li> </ol>
Municipals	Maintain holdings of Build America and revenue-backed bonds

Tactical strategies	
Emerging markets	Favor countries with high real yields and ample foreign currency reserves

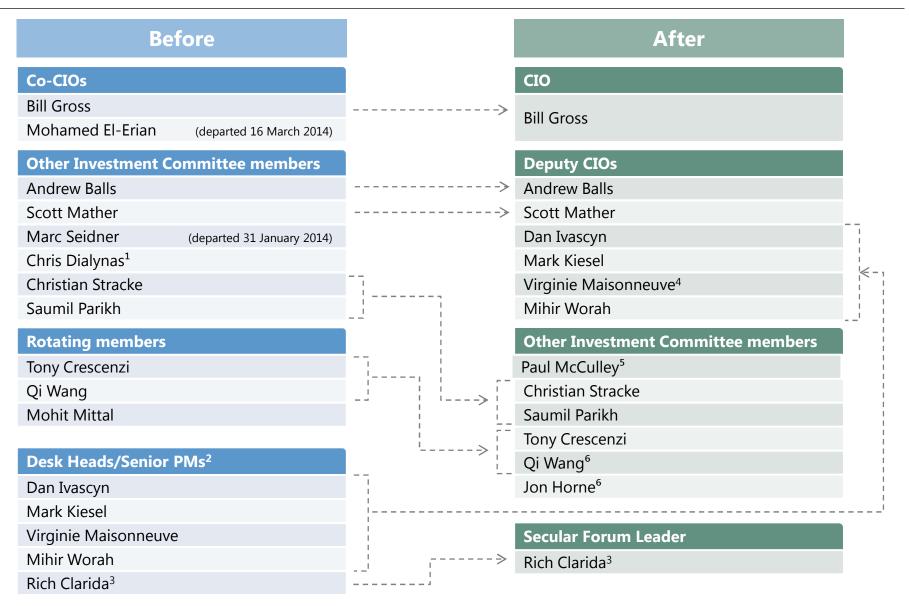
As of 30 June 2014

# Transition of Duties to Proven Leaders Business Management



PIMCO Your Global Investment Authority

# Transition of Duties to Proven Leaders *Portfolio Management*



<sup>&</sup>lt;sup>1</sup> Went on sabbatical 30 April 2014 <sup>2</sup> Partial listing <sup>3</sup> Global Strategy Advisor <sup>4</sup> Primary focus is leading Equity Portfolio Committee, but will provide frequent input to the IC

PIMCO

 $<sup>^{5}</sup>$  Chief Economist; returned 27 May 2014  $^{\,6}$  Rotating members effective 4 March 2014

## PIMCO AUM remains stable and industry outflows have largely abated

100

### Rate fears drove investors out of bonds

- Fears of rising rates caused investors to sell out of core bonds over the last three quarters of 2013
- However, yields have reversed course in 2014, causing flows to normalize

### AUM supported by strong returns

- While bond fund flows have been negative over the last 12 months, PIMCO's AUM has held strong
- AUM stability is attributable to attractive returns and flows into PIMCO's broad product lineup

### Attractive relative performance continues

The majority of PIMCO's AUM continues to outperform

80 72% 75% 60 20 0

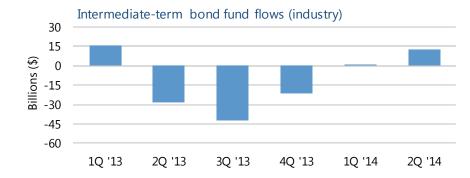
3-years

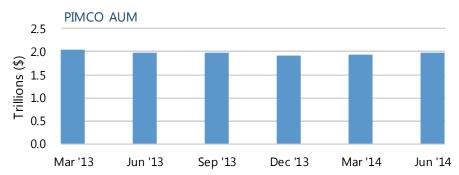
1-year

PIMCO assets outperforming benchmark (after fees)

As of 30 June 2014 SOURCE: PIMCO, Morningstar

Effective 31 March 2012, PIMCO began reporting the assets managed on behalf of its parent's affiliated companies as part of its assets under management. The analysis excludes funds that provide inverse exposure to the benchmarks they are measured against.





92%

5-years

### An influx of talent at PIMCO's senior-most levels



Virginie Maisonneuve, CFA
Deputy CIO, Managing Director,
Global Head of Equities,
Portfolio Manager

27 years of investment experience; Globally recognized as equities expert

- Head of global and international equities, Schroders plc.
- Co-CIO & Director, Clay Finlay



Paul McCulley
Managing Director,
Chief Economist

30 years of investment experience; Coined "shadow banking" and "Minsky moment" theses

- Chair, Global Society of Fellows, Global Interdependence Center
- Managing Director and Head of Short-Term Desk, PIMCO



**Sudi Mariappa**Managing Director, Generalist
Portfolio Manager

27 years of investment experience; Expertise across global bond landscape

- Managing Director, GLG
- Managing Director and Head of Global Desk, PIMCO

As of 30 June 2014

PIMCO Your Global Investment Authority

### PIMCO snapshot

### History

- Founded in 1971
- Investment solutions include fixed income, active equities, alternatives and asset allocation
- Assets under management: \$1.97 trillion
  - \$1.55 trillion in third-party client assets
  - Full complement of vehicles to meet client needs (mutual funds, separate accounts, LPs, ETFs)

### People

Employees		2,433
<ul> <li>Investment profe</li> </ul>	731	
<ul> <li>Technical and su</li> </ul>	pport	1,702
Highly experience	d Avg Yrs Experience	

10

Senior professionals 19

### Global presence

Offices		Investment Professionals	
	Amsterdam	2	
	Hong Kong	14	
	London	130	
	Milan	2	
	Munich	61	
	New York	120	
	Newport Beach	338	
	Rio de Janeiro	6	
	Singapore	11	
	Sydney	12	
	Tokyo	27	
	Toronto	3	
	Zurich	5	



As of 30 June 2014

Effective 31 March 2012, PIMCO began reporting the assets managed on behalf of its parent's affiliated companies as part of its assets under management

PIMCO Your Global Investment Authority pg **18** 

# Assets under management by strategy

Alternatives		Billions (\$)
Liquid Absolute Return	Unconstrained bond strategies, credit absolute return, other absolute return strategies	35.34
Hedge Funds	Global macro, long/short credit, multi-asset volatility arbitrage strategies, relative value commodities	16.19
Opportunistic/Distressed	Opportunistic strategies focusing on real estate related assets (residential, commercial), corporate credit	5.40
Asset Allocation		
Asset Allocation Strategies	Global Multi Asset, All Asset, EM Multi Asset, Real Retirement, Inflation-Response Multi Asset, DRA	81.88
Equities		
StocksPLUS <sup>®</sup>	Combines derivatives-based equity exposure with active bond management	20.83
Active Equities	Pathfinder, Emerging Markets, Dividend, Global Long/Short	4.35
Real Return		
Inflation-Linked Bonds	U.S., Global	67.38
Commodities	Actively managed commodity exposure enhanced with actively managed collateral portfolios	22.79
Real Estate	Real-estate linked exposure enhanced with actively managed collateral portfolios	1.23
Fixed Income		
Intermediate*	Total Return, Moderate Duration	481.91
Credit	Investment Grade Corporates, Bank Loans, High Yield Corporates, Convertibles	190.68
Cash Management*	Money Market, Short-Term, Low Duration	130.49
Long Duration	Focus on long-term bonds; asset liability management	138.95
Global	Non-U.S. and global multiple currency formats	124.40
Emerging Markets	Local debt, external debt, currency	65.22
Mortgages	Agency MBS, structured credit (non-Agency MBS, CMBS, and ABS)	47.77
Income	Income-oriented, insurance income	64.96
Diversified Income	Global credit combining corporate and emerging markets debt	29.18
Municipals	Tax-efficient total return management	12.94
Other		11.76
Total assets under manage	ement	\$ 1,553.67 B
Stable Value*	Stable income with emphasis on principal stability	30.11
Tail-Risk Hedging**	Pooled and customized portfolios of actively managed tail-risk hedges	41.51
3 3	, , , , , , , , , , , , , , , , , , , ,	

As of 30 June 2014 SOURCE: PIMCO

Assets reflect those managed on behalf of third-party clients and exclude affiliated assets. Fund of funds assets have been netted from each strategy. Potential differences in asset totals are due to rounding. Represents assets of strategy group in dedicated and non-dedicated portfolios. Stable value assets have not been netted from U.S. Total Return, U.S. Moderate Duration and U.S. Low Duration assets Tail-risk hedging assets reflect total notional value of dedicated mandates and are not counted towards PIMCO total assets under management

Your Global Investment Authority pg **19** 

Appendix

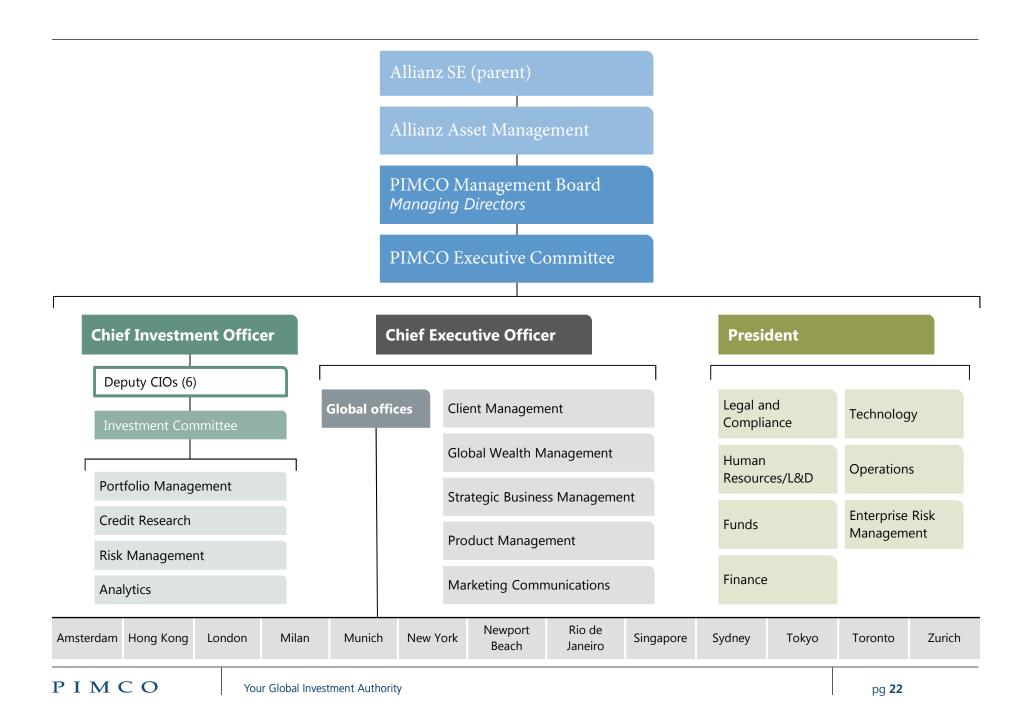
PIMCO Your Global Investment Authority pg 20

# PIMCO's investment philosophy and process remain unchanged DCIO Structure adds important refinements

#### **PHILOSOPHY** FIRMWIDE FRAMEWORK FOR DISCUSSION AND DEBATE Active management Risk management emphasis Annual Secular Forum Quarterly Cyclical Forum 6-12 month GDP/ *Long term 3–5 year trends* Solutions orientation Focus on long term inflation forecasts Diversified sources of return Bottom-up and top-down insights **COMMITTEE FRAMEWORK CHIEF INVESTMENT OFFICER** Americas Portfolio European Portfolio SIX DEPUTY CHIEF INVESTMENT OFFICERS Committee (EPC) Committee (AmPC) 247 Portfolio 63 Analytics / **Equity Portfolio** Asia Portfolio Managers **Asset Experts** Committee (EqPC) Committee (APC) 54 Credit Research 32 Equity Analysts / **Portfolio Traders Analysts GLOBAL INVESTMENT COMMITTEE (IC)** construction **SPECIALTY DESKS** PORTFOLIO RISK MANAGEMENT Governments DM equities Mortgage / ABS **EM** equities Credit (IGC) EM fixed income High yield Municipals **LEGAL AND COMPLIANCE** Global fixed income Short-term Inflation / Real return As of 30 June 2014

PIMCO

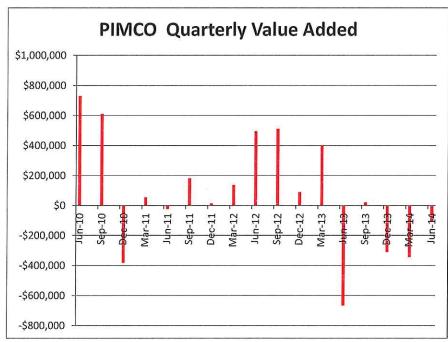
## Organizational structure

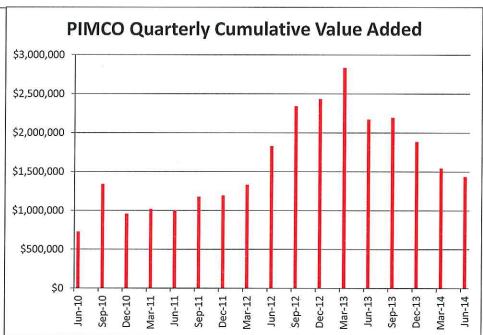


### **PIMCO Quarterly Value Added**

				Fees		
<u>Quarter</u>	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	<u>Custodial</u>	Value Added
1	3/31/2010	6/30/2010	\$780,844	\$46,533	\$2,719	\$731,591
2	6/30/2010	9/30/2010	\$689,748	\$73,608	\$4,686	\$611,454
3	9/30/2010	12/31/2010	-\$302,620	\$72,769	\$4,742	-\$380,131
4	12/31/2010	3/31/2011	\$134,401	\$73,072	\$4,688	\$56,641
5	3/31/2011	6/30/2011	\$56,698	\$74,250	\$4,779	-\$22,331
6	6/30/2011	9/30/2011	\$263,605	\$76,362	\$4,339	\$182,904
7	9/30/2011	12/31/2011	\$100,614	\$79,352	\$4,814	\$16,448
8	12/31/2011	3/31/2012	\$233,707	\$89,913	\$5,312	\$138,482
9	3/31/2012	6/30/2012	\$592,931	\$91,631	\$4,314	\$496,986
10	6/30/2012	9/30/2012	\$610,260	\$93,044	\$4,589	\$512,627
11	9/30/2012	12/31/2012	\$190,266	\$93,384	\$4,741	\$92,141
12	12/31/2012	3/31/2013	\$502,849	\$93,617	\$8,030	\$401,202
13	3/31/2013	6/30/2013	-\$564,526	\$91,614	\$8,540	-\$664,680
14	6/30/2013	9/30/2013	\$121,688	\$89,248	\$9,381	\$23,058
15	9/30/2013	12/31/2013	-\$212,034	\$89,017	\$8,072	-\$309,124
16	12/31/2013	3/31/2014	-\$243,594	\$90,077	\$8,159	-\$341,830
17	3/31/2014	6/30/2014	-\$8,476	\$91,410	\$7,769	-\$107,655









### STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12<sup>th</sup> Street, Suite 600 Modesto, CA 95354 P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393 Fax (209) 558-4976 www.stancera.org e-mail: retirement@stancera.org

# For the Board of Retirement meeting Held on August 13, 2014

08/26/14 Item # 7.a.i

TO: The Internal Governance Committee

FROM: Rick Santos, Executive Director

- I. SUBJECT: Append StanCERA Bylaw 1.6; Retirement Board Member Election Procedures
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Recommend to full Board appending StanCERA Bylaw 1.6
- IV. ANALYSIS: Section 1.6 of the StanCERA bylaws lays out a fairly extensive process for Retirement Board Member Election Procedures. One of the procedures requires prospective candidates to gather a certain number of "membership electorate signatures" before they can become an official candidate. During our most recent election, StanCERA had a situation where one membership electorate signature appeared on both candidates' statement. Fortunately, in this case, both prospective candidates had more than enough signatures to fulfill the requirements for election even if StanCERA staff eliminated the duplicate signature from both statements.

However, it is possible in the future that a situation could arise whereby a prospective candidate may have just enough signatures to meet the requirements to become an official candidate. If this same issue were to occur in such a situation, the prospective candidate would be disqualified. To avoid this possibility, staff is proposing the following addition to StanCERA bylaw 1.6 (Attachment 1, denoted in red):

"(if it is determined that 2 or more candidates for the same seat have duplicate membership electorate signatures, then the candidate that turned in their membership electorate document first shall be the only candidate that may count that signature towards fulfilling the signature requirement above)"

Note that if the Board approves staff's recommendation, the new procedural information given each prospective candidate will be clearly spelled out to avoid any misunderstanding.

- V. RISK: None
- VI. STRATEGIC PLAN: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently
- VII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Dawn Lea, Benefits Manager

### Attachment 1

#### 1.6. RETIREMENT BOARD MEMBER ELECTION PROCEDURES

RETIREMENT BOARD MEMBERS WHO ARE ELECTED by members of StanCERA of the same category of membership (Second and Third seats by General members, Seventh and Alternate seats by Safety members, and Eighth and Alternate Seats by Retired members) shall be elected according to the procedures set forth in this Section of the Retirement Board's Bylaws. In all cases where the word "Department" appears in this Section, the meaning shall be construed to include all Stanislaus County Departments, the City of Ceres and contracting Districts (all employers who use StanCERA for administration of retirement benefits). The Executive Director shall prepare a NOTICE OF ELECTION, which shall contain the deadlines for the submission of nomination papers, date of distribution of ballots, date of final receipt of ballots and the date for canvassing the ballots.

The distribution of the notice of election shall be made no more than sixty (60) nor less than forty-five (45) days prior to the final date for receipt of ballots. The distribution of the notice of election will be distributed by U S postal services.

The Executive Director shall prepare a NOMINATION PAPER which upon completion will contain the following information:

Name of candidate; candidate's Department (if General or Safety member) or city and state residence (if Retired member); a candidate's statement of not more than two hundred (200) words; signatures of the specific membership electorate in support of the candidate (General–twenty-five (25); Safety--ten (10); Retired--fifteen (15)) (if it is determined that 2 or more candidates for the same seat have duplicate membership electorate signatures, then the candidate that tumed in their membership electorate document first shall be the only candidate that may count that signature towards fulfilling the signature requirement above); a prepared statement of willingness to serve on the Retirement Board; the Retirement Board seat number and category (General, Safety or Retired); and final date for filing the paper. Completed nomination papers must be submitted to the Executive Director by 5:00 p.m. on the date specified in the notice of election and on the nomination paper (no later than thirty (30) days before the final date for receipt of ballots). Candidates shall only be placed on the election ballot if the above nomination papers and procedures are completed. If only one (1) nomination paper is received by the Executive Director on or before the deadline specified for receipt, the Executive Director shall declare that the candidate is the new Retirement Board member of the seat for which the candidate sought election (pursuant to Government Code Section 31523) and shall prepare and distribute a declaration of election results showing a unanimous ballot for the candidate to all Departments.

If two (2) or more nomination papers are received by the Executive Director on or before the deadline for receipt, the Executive Director shall prepare ELECTION BALLOT MATERIALS which shall consist of:

A. A ballot with the candidates' names, Departments (if General or Safety member) or city and state residence (if Retired member), candidates' statements, final date for receipt of ballots and a listing of candidates' names in alphabetical order by last name with appropriate places to indicate the member's choice of a particular candidate;

- B. A "secret" envelope to hold the completed ballot;
- C. A "return to" envelope which will have the Executive Director's address for receipt of ballots, the member's name, space for the member's signature, and prepaid return postage; and
- D. A cover envelope with the member's name and mailing address. The ballots must be received back in the Executive Director's Office by 5:00 p.m. on the final date indicated on the ballot or the ballot material will be voided. The date for final receipt of ballots shall be no less than twenty (20) days following the date of disbursement of the ballot material.

Ballot material may be REISSUED to members who file a notice of non-receipt of election material prepared and filed in the Office of the Executive Director. The Executive Director shall make a second and final attempt to send out any RETURNED BALLOT MATERIAL at a reasonable cost of staff time and money.

The ballots shall be CANVASSED on the business day following the final date for receipt of ballots by the Executive Director, one (1) member of the Retirement Board not associated with the election in any way, and any staff from the Executive Director's Office as may be necessary to expeditiously handle the canvassing of the ballots.

The candidate who receives the HIGHEST NUMBER OF VOTES of the ballots cast shall be declared the WINNER and new member of the Retirement Board to assume the seat for which the candidate ran at any Retirement Board meetings following the expiration of the term of the incumbent. The new member will serve three (3) years or for the remaining period of time in which a seat may become vacant for any reason other than the expiration of the incumbent's term of office.

The Executive Director shall prepare a DECLARATION OF ELECTION RESULTS to include the seat of the Retirement Board, the final date of the receipt of ballots, and the name of all the candidates who ran with their corresponding number of votes received in the election. The declaration shall also state the winner of the election and the date on which the winner assumes the seat on the Retirement Board.

The Executive Director shall telephone each candidate with the results of the election and the declaration shall be posted in a conspicuous place in or near the Office of the Executive Director in the afternoon following the canvassing. Copies of the declaration shall be mailed to each candidate and each Department (if General member or Safety member election) or the Retired Employees of Stanislaus County, RESCO, (if a Retired Member election) with a message to retirees of the winner to appear on the next retiree payroll check following the canvassing.

If any of the specific electorate desires a RECOUNT of the ballots cast, the member must make a written petition to the Retirement Board for a recount and include a \$500.00 payment for costs incurred. The petition must be received by the Executive Director no later than fourteen (14) days following the original canvassing of the ballots. The Executive Director shall forward the petition on to the Chair of the Retirement Board who shall call a special meeting of the Retirement Board for a recount. The date of the recount shall be no longer than thirty (30) days from the date of the original canvassing. The petitioner or designee must attend the recount, which shall be accomplished in the same manner as the original count. If the recount shows that a different candidate is the winner by receiving the highest number of votes, a DECLARATION OF REVISED ELECTION RESULTS shall be prepared and distributed in the same fashion as the original declaration of election results.

All member election material shall be DESTROYED thirty (30) days after the original canvassing of the ballots if there is no petition for a recount. Member election material shall be destroyed one (1) week following the completion of all procedures of a recount.

1.6. Amended 02/25/2014 1.6 Amended 08/13/2014 From: Lee Lundrigan 8/6/2014 7:10:36 PM

To: Lea, Dawn

Subject: Re: Election question

Hello Ms. Lea

Presuming a "vote for one" race is going onto a ballot, when a registered voter signs a nomination petition for multiple candidates the nomination is counted for the first petition returned. Thereafter none are counted. If there is a "vote for two" race, then the signature on the first two nomination petitions received can be counted, and so on.

Please feel free to contact me at 209-525-5211 if I can offer further clarification or assistance.

Good luck with your election.

Lee Lundrigan

Lee Lundrigan
Clerk Recorder & Registrar of Voters
Stanislaus County
1021 I Street, Suite 301
Modesto, CA 95354
lee.lundrigan@stancounty.com
209-525-5211 telephone
209-525-5800 fax

# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### **INVESTMENT PERFORMANCE SUMMARY**

**SECOND QUARTER 2014** 

# STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000 San Francisco, CA 94104 (415) 362-3484

### Capital Market Review

Second Quarter 2014

- Despite a revision to US Q1 GDP growth to an annualized -2.9%, less uncertainty over the outlook for Federal Reserve monetary policy and subdued volatility led to a robust second quarter for the S&P 500, which rose 5.2%.
- The US Treasury yield curve flattened as shorter-term rates were relatively steady and benchmark 10-year yields fell 20 basis points.
- With investors continuing to reach for yield, lower grade corporate debt outperformed. US BAA-rated securities returned 3.4% during the second quarter.
- New easing measures introduced at the European Central Bank's June policy meeting, including negative
  deposit rates and targeted long-term refinancing operations to boost bank lending, led to a 2.1% rise in Europe
  ex-UK equities in the second quarter.
- The MSCI Emerging Markets Net Return Index rose 6.6% during the second quarter as fears over soonerthan-expected Federal Reserve tightening diminished and geopolitical risk remained subdued.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. With confidence remaining robust among North American and European institutions but falling among Asian institutions, the Global ICI decreased 0.8 points during the quarter to 119.5, remaining significantly above the neutral level of 100.
- For the period ending 6/30/14, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were 7.0% and 2.7%; one-year, 13.2% and 11.2%; three-year, 11.8% and 11.7% and five-year, 23.5% and 7.9%.
- US REITs had a strong Q2 as the US economy rebounded with improving demand. All property sectors did
  well, reflecting the increased economic activity and job growth.
- Global real estate stocks also did well in the second quarter, with Europe's markets generally reacting
  positively to bond yields as well as economic stimulus announcements. Asia Pacific turned positive after
  having a difficult first quarter.

### **Executive Performance Summary**

Second Quarter 2014

- 7. The Dodge & Cox Bond 2.4% return out-performed its benchmark, the Barclays Aggregate Index (2.0%), and ranked in the top quartile among core bond managers, median return of 2.1%. The portfolio's non-US credit holdings, taxable munis, and overweight to corporates boosted relative returns. D&C was up 5.4% for three years while its benchmark was up 3.7%.
- 8. PIMCO returned 2.0% and the Barclays Aggregate Index added 2.0%, as well. The median core bond manager return was 2.1%. PIMCO's tactical exposure to Italian and Spanish debt, TIPS exposure and allocation to non-Agency mortgages aided performance. Its underweight to Agency MBS dampened. Over three years, the portfolio returned above its benchmark and below its peer group median.
- 9. The BlackRock US Real Estate Index Fund slightly led its benchmark, the DJ US Select RESI (7.2% vs. 7.1%).
- 10. Direct Lending investments added 3.6% and was above its target return of 9% per annum or 2.2% per quarter. Quarterly returns for Medley, Raven and White Oak were 1.6%, 6.8% and 2.1%, respectively.
- Second quarter results were hindered by the following factors:
  - 1. Dodge & Cox-Equity, 4.6%, ranked below the large cap value manager median of 4.8%. It was behind the Russell 1000 Value Index return of 5.1% during the quarter. Below par stock selection in the Info Tech (AOL) and Healthcare (Express Scripts Holding, Pfizer) sectors dampened results. Three year returns were in front of its benchmark (18.5% vs. 16.9%).
  - 2. Fund of funds manager Legato lost 1.5% for the quarter and ranked in the 74<sup>th</sup> percentile among other small cap growth managers (0.2% median). The Russell 2000 Growth Index returned 1.7%. The portfolio was impacted by its stock selection in the Info Tech and Financials sectors. EAM depreciated 5.9% while Lee Munder gained the most, up 1.4% during the quarter. Over three years, Legato returned above its benchmark (15.3% vs. 14.5%).
  - 3. Pyramis' return of 3.9% was outperformed by the MSCI ACWI ex US Index return of 5.2%. It placed below the median among ACWI ex US growth equity managers (4.0% median). Healthcare (Fresenius, no AstraZeneca) and Info Tech (GeoVision, no SK Hynix) investments detracted. Its three-year results led the benchmark (6.8% vs. 6.2%).

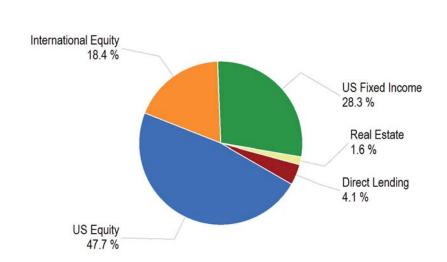
### **Executive Performance Summary**

Second Quarter 2014

- The composite fund returned 3.7% in the second quarter of 2014 and ranked in the 40<sup>th</sup> percentile among other public funds (3.5% median). The fund lagged its policy index (3.9%) during this time period. Longer term, the three and five-year returns of 10.9% and 14.2%, ranked above the median among public plans (9.5% and 12.3%, respectively).
- Second quarter results were enhanced by the following factors:
  - 1. The Mellon Capital S&P 500 Index Fund returned 5.2% for the quarter. The Fund matched the S&P 500 Index and ranked above the median large cap core manager (4.9%).
  - 2. The BlackRock Russell 1000 Growth Index Fund returned 5.1% for the quarter and matched its benchmark. The large cap growth equity median return is 4.6%.
  - 3. Jackson Square (formerly known as Delaware) returned 5.5%, comparing favorably to the Russell 1000 Growth Index's (5.1%); it ranked in the top quartile among large cap growth managers. Above par Healthcare investments (Allergan, Celgene) and intra-quarter trading increased relative performance. Over three years, Jackson Square returned above its benchmark and peer group median.
  - 4. The BlackRock Russell 1000 Value Index Fund (5.1%) and matched its benchmark return and was ahead of its median large cap value manager return of 4.8%.
  - 5. Fund of funds manager Capital Prospects was ahead of its benchmark, the Russell 2000 Value Index (3.4% vs. 2.4%) and ranked in the 42<sup>nd</sup> percentile among small cap value managers. Performance attribution was primarily from its Materials and Consumer Discretionary stock picks. Walthausen contributed the most, at 6.0%. Pacific Ridge trailed during the quarter, at 0.6%. For the three-year period, Capital Prospects was in front of its benchmark (17.8% vs. 14.6%).
  - 6. LSV (5.9%) was above par with the MSCI ACWI ex US (5.2%) and ranked 24<sup>th</sup> among ACWI ex US value equity managers (median of 4.7%). LSV carried relatively strong Indian and Japanese investments. Over three years, LSV (7.3%) surpassed its benchmark (6.2%).

# Asset Allocation Analysis

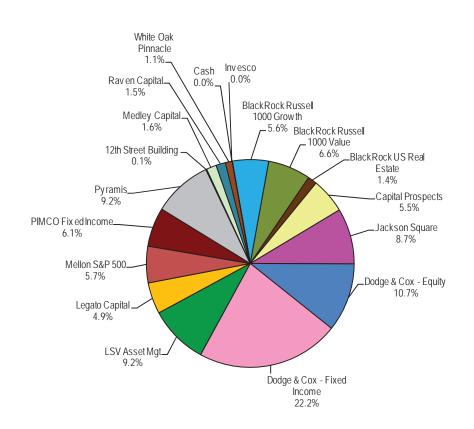
As of June 30, 2014



	Actual \$	Actual %
US Equity	\$851,396,556	47.7%
International Equity	\$328,558,658	18.4%
US Fixed Income	\$505,355,926	28.3%
Opportunistic	\$0	0.0%
Real Estate	\$27,848,530	1.6%
Direct Lending	\$73,418,870	4.1%
Cash	\$1,235	0.0%
Other	\$0	0.0%
Total	\$1,786,579,775	

# Manager Allocation Analysis – Total Plan

As of June 30, 2014



Manager	Market Value	Current %
BlackRock Russell 1000 Growth	\$ 100,755,731	5.6%
BlackRock Russell 1000 Value	\$ 118,556,810	6.6%
BlackRock US Real Estate	\$ 25,348,384	1.4%
Capital Prospects	\$ 97,862,203	5.5%
Jackson Square	\$ 154,985,180	8.7%
Dodge & Cox - Equity	\$ 190,505,179	10.7%
Dodge & Cox - Fixed Income	\$ 396,676,190	22.2%
LSV Asset Mgt	\$ 164,035,271	9.2%
Legato Capital	\$ 87,022,378	4.9%
Mellon S&P 500	\$ 101,709,075	5.7%
PIMCO Fixed Income	\$ 108,679,737	6.1%
Pyramis	\$ 164,523,387	9.2%
12th Street Building	\$ 2,500,000	0.1%
Medley Capital	\$ 27,847,660	1.6%
Raven Capital	\$ 26,405,144	1.5%
White Oak Pinnacle	\$ 19,166,066	1.1%
Invesco	\$ 146	0.0%
Cash	\$ 1,235	0.0%
Total	\$ 1,786,579,775	100.0%

# Performance Summary

Periods Ending June 30, 2014

	1 QTR		YTD		FISCAL YT	D	2 YEAR		3 YEAR		5 YEAR
Total Fund *	3.7	40	5.2	48	18.2	14	16.4	10	10.9	12	14.2 7
Policy Index 1	3.9	26	5.7	28	16.8	34	14.2	42	9.8	41	13.0 30
InvestorForce Public DB median	3.5		5.2		16.0		13.7		9.5		12.3
US EQUITY MANAGERS											
LARGE CORE											
Mellon S&P 500 - gross of fees	5.2	33	7.1	47	24.6	60	22.6	60	16.6	47	18.9 48
Mellon S&P 500 - net of fees	5.2		7.1		24.6		22.6		16.6		18.8
S&P 500 Index	5.2	33	7.1	46	24.6	60	22.6	60	16.6	48	18.8 48
LARGE GROWTH											
BlackRock Russell 1000 Growth - gross of fees	5.1	31	6.3	35	26.9	55	21.9	57	16.3	36	
BlackRock Russell 1000 Growth - net of fees	5.1		6.3		26.9		21.9		16.3		
Jackson Square - gross of fees	5.5	21	5.7	42	29.4	31	23.3	37	19.0	6	21.2 10
Jackson Square - net of fees	5.4		5.4		28.8		22.7		18.5		20.6
Russell 1000 Growth Index	5.1	31	6.3	35	26.9	55	21.9	57	16.3	38	<i>19.2 35</i>
LARGE VALUE											
BlackRock Russell 1000 Value- gross of fees	5.1	41	8.3	34	23.9	55	24.6	48	17.0	40	
BlackRock Russell 1000 Value - net of fees	5.1		8.3		23.8		24.6		17.0		
Dodge & Cox Equity - gross of fees	4.6	58	7.1	62	27.3	19	28.5	10	18.5	13	20.3 23
Dodge & Cox Equity - net of fees	4.6		7.0		27.1		28.3		18.3		20.1
Russell 1000 Value Index	5.1	42	8.3	35	23.8	55	24.6	49	16.9	41	19.2 43
SMALL GROWTH											
Legato Capital - gross of fees	-1.5	74	-0.8	70	21.6	70	24.2	53	15.3	45	20.9 70
Legato Capital - net of fees	-1.7		-1.0		20.9		23.3		14.5		19.9
Russell 2000 Growth Index	1.7	27	2.2	37	24.7	46	24.2	54	14.5	55	20.5 73

Rankings: 1=highest, 100=lowest.

<sup>\*</sup> Managers are ranked against the eVestment Alliance (eA) style universes. Asset class composites are ranked against the InvestorForce universes.

<sup>&</sup>lt;sup>1</sup> Effective 12/1/13, Policy Index is 37.3% Russell 1000 / 9.4% Russell 2000 / 18% MSCI ACWI ex US / 29.8% Barclays Aggregate / 1.5% DJ US Select RESI / 4% 9% -Annual.

# Performance Summary

Periods Ending June 30, 2014

	1 QTR	Y	TD		FISCAL YT	D	2 YEAR		3 YEAR		5 YEAR	
SMALL VALUE												
Capital Prospects - gross of fees	3.4	42	4.7	54	26.3	43	28.6	28	17.8	31	22.3	41
Capital Prospects - net of fees	3.2		4.4		25.4		27.7		17.0		21.5	
Russell 2000 Value Index	2.4	68	4.2	65	22.5	79	23.6	77	14.6	<i>75</i>	19.9	79
US Equity Composite	4.2	62	5.8	64	26.1	22	25.1	14	17.4	8	20.1	20
80% R1000/ 20% R2000	4.5	42	6.5	37	25.1	49	23.4	53	16.3	37	19.6	39
Russell 3000 Index	4.9	20	6.9	21	25.2	42	23.3	59	16.5	27	19.3	51
InvestorForce All DB US Eq Gross Median	4.4		6.1		25.0		23.5		16.0		19.3	
INTERNATIONAL EQUITY MANAGERS												
LSV Asset Mgt - gross of fees	5.9	24	6.0	45	25.4	34	21.0	41	7.3	73	13.5	33
LSV Asset Mgt - net of fees	5.8		5.8		24.8		20.4		6.7		12.9	
Pyramis - gross of fees	3.9	51	2.5	71	18.7	84	18.3	54	6.8	73	12.6	73
Pyramis - net of fees	3.8		2.3		18.2		17.8		6.3		12.1	
International Equity Composite	4.9	32	4.2	74	21.9	52	19.7	42	7.0	53	13.0	30
MSCI ACWI ex US Index	5.2	13	5.9	31	22.3	47	18.1	63	6.2	71	11.6	62
InvestorForce All DB ex-US Eq Gross Median	4.4		5.2		22.0		19.2		7.2		12.2	
US FIXED INCOME MANAGER												
CORE												
Dodge & Cox Fixed - gross of fees	2.4	13	4.9	9	7.1	6	4.8	5	5.4	12	7.1	12
Dodge & Cox Fixed - net of fees	2.4		4.9		6.9		4.7		5.3		7.0	
PIMCO Fixed Income - gross of fees	2.0	59	3.7	74	4.0	80	2.0	77	4.2	61		
PIMCO Fixed Income - net of fees	1.9		3.5		3.7		1.6		3.9			
Barclays Aggregate Index	2.0	58	3.9	62	4.4	71	1.8	84	3.7	84	4.9	83
US Fixed Income Composite	2.3	47	4.7	44	6.4	48	4.2	35	5.1	53	7.0	48
Barclays Aggregate Index	2.0	62	3.9	65	4.4	78	1.8	86	3.7	85	4.9	86
InvestorForce All DB US Fix Inc Gross Median	2.3		4.4		6.1		3.5		5.2		6.8	

# Performance Summary

Periods Ending June 30, 2014

	1 QTR	YTD	FISCAL YTD	2 YEAR	3 YEAR	5 YEAR
REAL ESTATE						
BlackRock US Real Estate - gross of fees	7.2	18.2	13.3			
BlackRock US Real Estate - net of fees	7.2	18.2	13.3			
DJ US Select RESI TR USD	7.1	18.1	13.3			
12th Street Building	-9.8	-9.8	-9.8	-5.0	-3.4	-2.0
DIRECT LENDING <sup>+</sup>						
Medley Capital <sup>2</sup>	1.6	1.6	4.8			
Raven Capital <sup>3</sup>	6.8	8.7	2.9			
White Oak Pinnacle <sup>4</sup>	2.1	8.8				
Direct Lending Composite	3.6	5.7	11.0			
9% Annual	2.2	4.4	9.0			

<sup>&</sup>lt;sup>2</sup> Funded on 5/16/2013.

<sup>&</sup>lt;sup>3</sup> Funded on 5/22/2013.

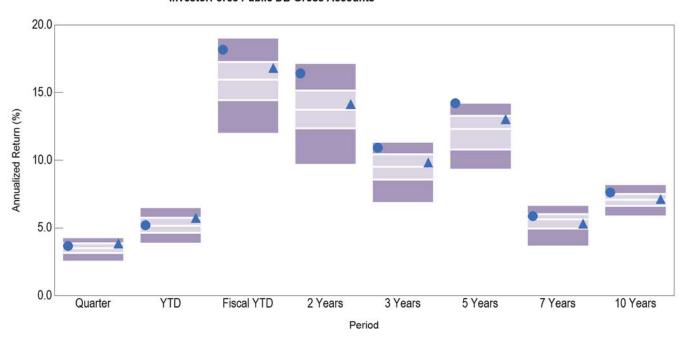
<sup>&</sup>lt;sup>4</sup> Funded on 8/02/2013.

With the exception of Medley Capital, the Direct Lending investments have been valued as of 3/31/2014; Medley was last valued as of 12/31/2013.

# Total Returns - Total Plan

Periods Ending June 30, 2014

### InvestorForce Public DB Gross Accounts



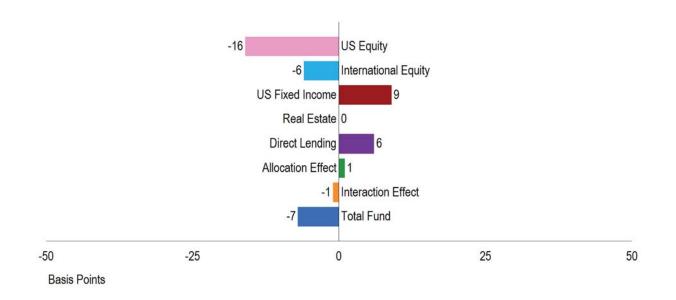
5th Percentile 25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Total FundPolicy Index

4.3	127	6.5		19.0		17.2		11.4		14.3		6.7		8.2	
3.9		5.8		17.3		15.2		10.5		13.3		6.0		7.5	
3.5		5.2		16.0		13.7		9.5		12.3		5.7		7.1	
3.2		4.6		14.5		12.4		8.6		10.8		5.0		6.7	
2.5		3.9		12.0		9.7		6.9		9.3		3.6		5.9	
207		202		198		191		181		165		157		141	
3.7	(40)	5.2	(48)	18.2	(14)	16.4	(10)	10.9	(12)	14.2	(7)	5.9	(37)	7.6	(21)
3.9	(26)	5.7	(28)	16.8	(34)	14.2	(42)	9.8	(41)	13.0	(30)	5.3	(63)	7.1	(48)

### Performance Attribution - Total Plan

Quarter Ending June 30, 2014



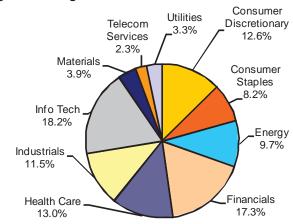
		Attributi	on Summary				
	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
US Equity	4.18%	4.52%	-0.34%	-0.16%	0.00%	0.00%	-0.16%
International Equity	4.90%	5.25%	-0.35%	-0.06%	0.00%	0.00%	-0.06%
US Fixed Income	2.34%	2.04%	0.29%	0.09%	0.02%	0.00%	0.10%
Real Estate	7.18%	7.13%	0.05%	0.00%	0.00%	0.00%	0.00%
Direct Lending	3.59%	2.18%	1.41%	0.06%	0.00%	0.00%	0.05%
Total	3.79%	3.86%	-0.07%	-0.07%	0.01%	-0.01%	-0.07%

#### **U.S. MARKETS**

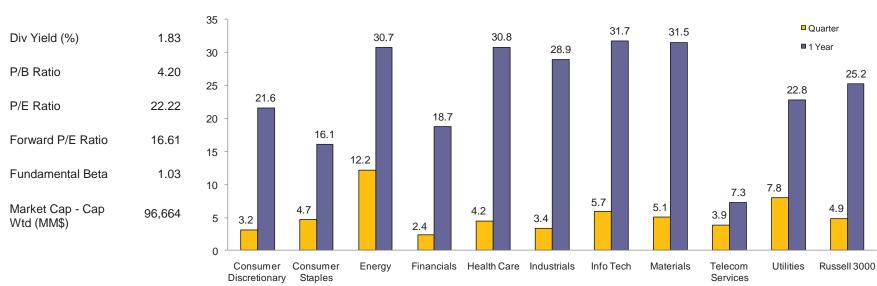
### U.S. Equity – Russell 3000

- Concerns over oil supplies from the Middle East as the Islamic State of Iraq and the Levant took control of regions north of Baghdad led to an increase in energy stocks, which rose 12.2% during the second quarter.
- Returns for the higher yielding utilities sector were strong, rising 7.8% in the second quarter.
- Overall, the Russell 3000 index returned 4.9% during the second quarter; the yearly return was 25.2%.

#### **Ending Sector Weights**



# Characteristics Sector Returns (%)



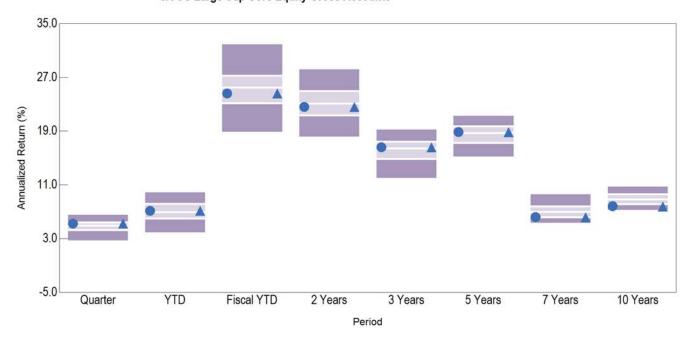
#### **Contribution to Return:**

Qtr	0.4	0.4	1.1	0.4	0.6	0.4	1.1	0.2	0.1	0.3	4.9
1 Year	2.9	1.5	2.9	3.3	3.8	3.3	5.4	1.2	0.2	0.8	25.2

# Total Returns - Large Cap Core Equity

Periods Ending June 30, 2014

### eA US Large Cap Core Equity Gross Accounts



5th Percentile 25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Mellon S&P 500
S&P 500

6.7		10.0		32.0		28.3		19.3		21.4		9.7		10.9	
5.5		8.2		27.2		25.0		17.5		19.7		7.8		9.6	
4.9		6.9		25.5		23.1		16.4		18.7		7.0		8.8	
4.3		6.0		23.2		21.3		14.9		17.2		6.2		8.1	
2.6		3.8		18.8		18.1		11.9		15.1		5.3		7.2	
262		262		262		260		257		245		228		189	
5.2	(33)	7.1	(47)	24.6	(60)	22.6	(60)	16.6	(47)	18.9	(48)	6.2	(75)	7.8	(84)
5.2	(33)	7.1	(46)	24.6	(60)	22.6	(60)	16.6	(48)	18.8	(48)	6.2	(77)	7.8	(87)

# Equity Only Summary Statistics - Mellon S&P 500

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	671	672
Weighted Avg. Market Cap. (\$B)	102.1	102.1
Median Market Cap. (\$B)	8.7	8.6
Price To Earnings	24.7	23.6
Price To Book	6.4	5.8
Price To Sales	4.2	3.7
Return on Equity (%)	25.6	23.8
Yield (%)	1.5	1.5
Beta (holdings; domestic)	1.1	1.1

Top Holdings	
APPLE	3.2%
EXXON MOBIL	2.5%
MICROSOFT	1.8%
JOHNSON & JOHNSON	1.7%
GENERAL ELECTRIC	1.5%
WELLS FARGO & CO	1.4%
CHEVRON	1.4%
BERKSHIRE HATHAWAY 'B'	1.3%
JP MORGAN CHASE & CO.	1.3%
PROCTER & GAMBLE	1.2%

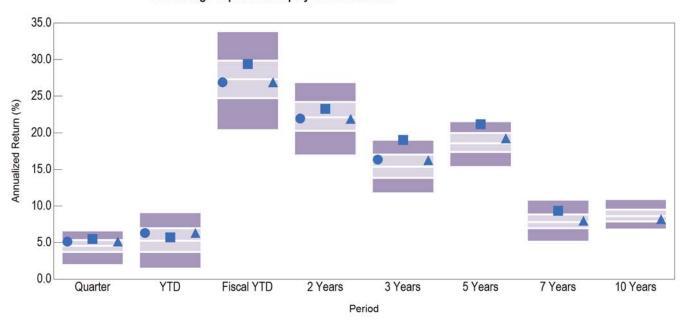
Best Performers				
	Return %			
WILLIAMS (WMB)	44.7%			
NEWFIELD EXPLORATION (NFX)	40.9%			
MICRON TECHNOLOGY (MU)	39.3%			
ALLERGAN (AGN)	36.4%			
PEPCO HOLDINGS (POM)	35.5%			
VERTEX PHARMS. (VRTX)	33.9%			
IRON MOUNTAIN (IRM)	29.7%			
ANADARKO PETROLEUM (APC)	29.5%			
SANDISK (SNDK)	29.0%			
MOLSON COORS BREWING 'B' (TAP)	26.7%			

	Worst Performers	
		Return %
	COACH (COH)	-30.6%
	CLIFFS NATURAL RESOURCES (CLF)	-25.8%
	WHOLE FOODS MARKET (WFM)	-23.6%
	TERADATA (TDC)	-18.3%
	BED BATH & BEYOND (BBBY)	-16.6%
	JACOBS ENGR. (JEC)	-16.1%
	TYSON FOODS 'A' (TSN)	-14.5%
	TRACTOR SUPPLY (TSCO)	-14.3%
	PETSMART (PETM)	-13.0%
	XILINX (XLNX)	-12.3%

# Total Returns - Large Cap Growth Equity

Periods Ending June 30, 2014

### eA US Large Cap Growth Equity Gross Accounts



	Return (	Rank)														
5th Percentile	6.6		9.1		33.9		26.9		19.0		21.6		10.8		10.9	
25th Percentile	5.4		7.0		29.9		24.2		17.1		20.0		8.9		9.5	
Median	4.6		5.3		27.3		22.2		15.4		18.6		7.8		8.6	
75th Percentile	3.7		3.7		24.8		20.3		13.9		17.4		7.0		7.9	
95th Percentile	2.0		1.5		20.4		16.9		11.8		15.3		5.1		6.8	
# of Portfolios	282		282		282		277		271		260		242		200	
<ul> <li>BlackRock Russell 1000 Growth</li> </ul>	5.1	(31)	6.3	(35)	26.9	(55)	21.9	(57)	16.3	(36)		()	-	()	-	()
Jackson Square	5.5	(21)	5.7	(42)	29.4	(31)	23.3	(37)	19.0	(6)	21.2	(10)	9.4	(16)		()
Russell 1000 Growth	5.1	(31)	6.3	(35)	26.9	(55)	21.9	(57)	16.3	(38)	19.2	(35)	8.0	(45)	8.2	(67)

# Equity Only Summary Statistics - BlackRock Russell 1000 Growth

Quarter Ending June 30, 2014

### Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	671	672
Weighted Avg. Market Cap. (\$B)	102.1	102.1
Median Market Cap. (\$B)	8.7	8.6
Price To Earnings	24.7	23.6
Price To Book	6.4	5.8
Price To Sales	4.2	3.7
Return on Equity (%)	25.6	23.8
Yield (%)	1.5	1.5
Beta (holdings; domestic)	1.1	1.1

	Top Holdings				
	APPLE	5.5%			
	MICROSOFT	2.2%			
	VERIZON COMMUNICATIONS	2.0%			
	INTERNATIONAL BUS.MCHS.	1.7%			
	COCA COLA	1.7%			
	GOOGLE 'A'	1.6%			
	GOOGLE 'C'	1.6%			
	SCHLUMBERGER	1.5%			
	PEPSICO	1.3%			
	QUALCOMM	1.3%			

Best Performers	
	Return %
HILLSHIRE BRANDS (HSH)	67.8%
WILLIAMS (WMB)	44.7%
ALLERGAN (AGN)	36.4%
OASIS PETROLEUM (OAS)	33.9%
VERTEX PHARMS. (VRTX)	33.9%
ST.JOE (JOE)	32.1%
IRON MOUNTAIN (IRM)	29.7%
CHENIERE EN. (LNG)	29.5%
ANADARKO PETROLEUM (APC)	29.5%
HANESBRANDS (HBI)	29.2%

	Worst Performers	
		Return %
	FIREEYE (FEYE)	-34.1%
	COACH (COH)	-30.6%
	WHOLE FOODS MARKET (WFM)	-23.6%
	SPLUNK (SPLK)	-22.6%
	GNC HOLDINGS CL.A (GNC)	-22.2%
	CHICAGO BDG.&IO. (CBI)	-21.7%
	DSW 'A' (DSW)	-21.2%
	ARIAD PHARMS. (ARIA)	-21.0%
	NEUSTAR 'A' (NSR)	-20.0%
	ZULILY CLASS A (ZU)	-18.4%

# Equity Only Summary Statistics - Jackson Square

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	33	672
Weighted Avg. Market Cap. (\$B)	74.7	102.1
Median Market Cap. (\$B)	43.5	8.6
Price To Earnings	32.7	23.6
Price To Book	5.8	5.8
Price To Sales	6.9	3.7
Return on Equity (%)	18.3	23.8
Yield (%)	1.0	1.5
Beta (holdings; domestic)	1.2	1.1

	Top Holdings	
CELGENE		5.8%
EOG RES.		5.6%
WALGREEN		5.4%
VISA 'A'		5.3%
MICROSOFT		5.3%
ALLERGAN		5.2%
QUALCOMM		5.1%
MASTERCARD		4.9%
CROWN CASTLE	INTL.	4.5%
ADOBE SYSTEMS	S	4.4%

Best Performers					
	Return %				
WILLIAMS (WMB)	44.7%				
ALLERGAN (AGN)	36.4%				
CELGENE (CELG)	23.0%				
EOG RES. (EOG)	19.3%				
EQUINIX (EQIX)	13.7%				
KINDER MORGAN (KMI)	13.1%				
WALGREEN (WAG)	12.8%				
ADOBE SYSTEMS (ADBE)	10.1%				
VERIFONE SYSTEMS (PAY)	8.7%				
NIKE 'B' (NKE)	5.3%				

Worst Performers	
	Return %
TERADATA (TDC)	-18.3%
VERISIGN (VRSN)	-9.5%
EBAY (EBAY)	-9.4%
SALLY BEAUTY HOLDINGS (SBH)	-8.5%
PERRIGO (PRGO)	-5.7%
INTERCONTINENTAL EX. (ICE)	-4.2%
CME GROUP (CME)	-3.5%
VISA 'A' (V)	-2.2%
MASTERCARD (MA)	-1.5%
YELP CLASS A (YELP)	-0.3%

# Equity Sector Attribution - Jackson Square

Quarter Ending June 30, 2014

### Delaware Performance Attribution vs. Russell 1000 Growth

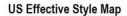
			Attribution Effec	ts	R	eturns	Secto	Sector Weights		
	Total Effects	Selection Effect	Allocation Effect	Interaction Effects	Portfolio	Benchmark	Portfolio	Benchmark		
Energy	0.6%	0.3%	0.3%	0.1%	22.8%	17.7%	7.6%	4.8%		
Materials	-0.1%	-0.2%	0.0%	0.1%	1.6%	5.4%	1.8%	4.6%		
Industrials	0.2%		0.2%			3.5%	0.0%	12.3%		
Cons. Disc.	0.0%	-0.2%	0.1%	0.0%	1.5%	2.4%	15.2%	19.2%		
Cons. Staples	0.2%	0.8%	-0.1%	-0.4%	12.8%	6.3%	4.7%	11.7%		
Health Care	1.7%	1.5%	0.0%	0.1%	18.4%	5.9%	13.2%	12.4%		
Financials	-0.6%	-0.3%	0.0%	-0.3%	-0.2%	5.3%	11.9%	5.5%		
Info. Tech	-1.8%	-1.0%	-0.1%	-0.6%	0.7%	4.5%	43.8%	27.2%		
Telecomm.	0.0%		0.0%			5.4%	0.0%	2.2%		
Utilities	0.0%		0.0%			2.6%	0.0%	0.1%		
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		1.9%	0.0%		
Portfolio	0.2%	= 0.9%	+ 0.4%	+ -1.2%	5.3%	5.1%	100.0%	100.0%		

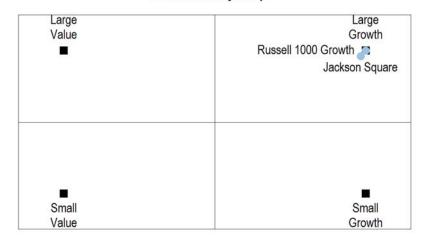
# Return Based Style Analysis - Jackson Square

2013

3 Years Ending June 30, 2014

2014





### \$2.0 \$1.8 \$1.6 \$1.4 \$1.2 \$1.0 \$0.8 \$0.6 \$0.4 \$0.2

Year

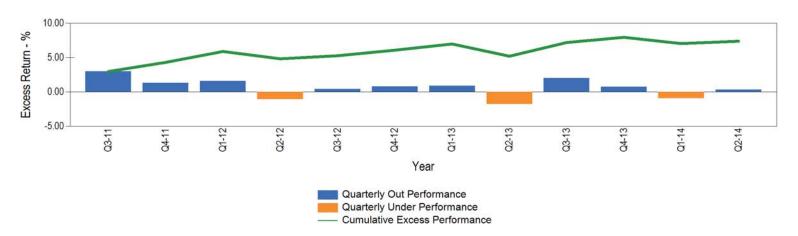
Growth of a Dollar

### **Quarterly and Cumulative Excess Performance**

\$0.0

Beginning: 6/30/11

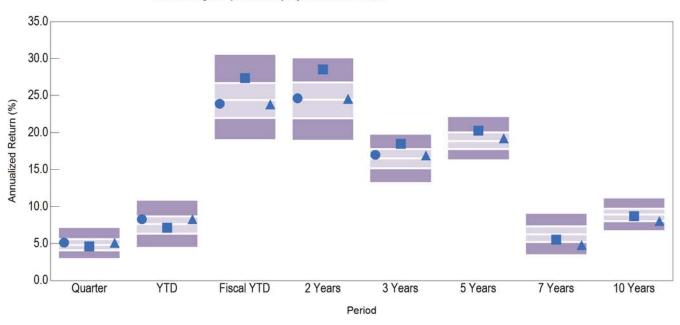
2012



# Total Returns - Large Cap Value Equity

Periods Ending June 30, 2014

### eA US Large Cap Value Equity Gross Accounts



	Return (F	Rank)														
5th Percentile	7.2		10.9		30.6		30.1		19.8		22.2		9.1		11.2	
25th Percentile	5.6		8.7		26.7		26.8		17.8		20.0		7.4		9.7	
Median	4.8		7.7		24.4		24.4		16.5		18.9		6.3		9.0	
75th Percentile	4.1		6.4		22.0		21.9		15.2		17.8		5.2		8.0	
95th Percentile	2.9		4.4		19.0		18.9		13.2		16.3		3.5		6.7	
# of Portfolios	313		313		313		312		309		299		282		244	
BlackRock Russell 1000 Value	5.1	(41)	8.3	(34)	23.9	(55)	24.6	(48)	17.0	(40)		()	-	()		()
Dodge & Cox-Equity	4.6	(58)	7.1	(62)	27.3	(19)	28.5	(10)	18.5	(13)	20.3	(23)	5.5	(73)	8.7	(57)
Russell 1000 Value	5.1	(42)	8.3	(35)	23.8	(55)	24.6	(49)	16.9	(41)	19.2	(43)	4.8	(84)	8.0	(75)

# Equity Only Summary Statistics - BlackRock Russell 1000 Value

Quarter Ending June 30, 2014

### Characteristics

Portfolio	Russell 1000 Value
684	685
106.1	106.1
7.1	7.1
19.7	18.6
2.3	2.3
2.3	2.2
13.6	13.4
2.3	2.3
1.1	1.1
	684 106.1 7.1 19.7 2.3 2.3 13.6 2.3

Top Holdings	
BNP DAX TRS 13P	2.2%
MICROSOFT	1.8%
WELLS FARGO & CO	1.1%
CELGENE	0.9%
QUALCOMM	0.9%
VISA 'A'	0.9%
EOG RES.	0.9%
WALGREEN	0.8%
HEWLETT-PACKARD	0.8%
ALLERGAN	0.8%

Best Performers	
	Return %
GOLAR LNG (NAS)	45.5%
WILLIAMS (WMB)	44.7%
NEWFIELD EXPLORATION (NFX)	40.9%
MICRON TECHNOLOGY (MU)	39.3%
PEPCO HOLDINGS (POM)	35.5%
WPX ENERGY (WPX)	32.6%
PROTECTIVE LIFE (PL)	32.5%
ST.JOE (JOE)	32.1%
IRON MOUNTAIN (IRM)	29.7%
ANADARKO PETROLEUM (APC)	29.5%

Worst Performers	
	Return %
FIREEYE (FEYE)	-34.1%
CLIFFS NATURAL RESOURCES (CLF)	-25.8%
ZYNGA 'A' (ZNGA)	-25.3%
DOMTAR (UFS)	-23.0%
DSW 'A' (DSW)	-21.2%
MBIA (MBI)	-21.1%
ZULILY CLASS A (ZU)	-18.4%
JACOBS ENGR. (JEC)	-16.1%
TYSON FOODS 'A' (TSN)	-14.5%
REALOGY HOLDINGS (RLGY)	-13.2%
	FIREEYE (FEYE) CLIFFS NATURAL RESOURCES (CLF) ZYNGA 'A' (ZNGA) DOMTAR (UFS) DSW 'A' (DSW) MBIA (MBI) ZULILY CLASS A (ZU) JACOBS ENGR. (JEC) TYSON FOODS 'A' (TSN)

# Equity Only Summary Statistics - Dodge & Cox Equity

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	Russell 1000 Value
Number of Holdings	72	685
Weighted Avg. Market Cap. (\$B)	104.7	106.1
Median Market Cap. (\$B)	36.4	7.1
Price To Earnings	20.1	18.6
Price To Book	3.0	2.3
Price To Sales	2.4	2.2
Return on Equity (%)	16.3	13.4
Yield (%)	1.9	2.3
Beta (holdings; domestic)	1.3	1.1

Top Holdings		Best Performers		Worst Performers	
HEWLETT-PACKARD	4.2%		Return %		Return %
WELLS FARGO & CO	4.1%	WEATHERFORD INTL. (WFT)	32.5%	COACH (COH)	-30.6%
CAPITAL ONE FINL.	4.1%	APACHE (APA)	21.7%	BANK OF AMERICA (BAC)	-10.6%
MICROSOFT	3.8%	SCHLUMBERGER (SLB)	21.4%	KONINKLIJKE PHILIPS ADR 1:1 (PHG)	-9.7%
NOVARTIS 'B' SPN.ADR 1:1	3.3%	NATIONAL OILWELL VARCO (NOV)	18.1%	EBAY (EBAY)	-9.4%
COMCAST 'A'	3.2%	ADT (ADT)	17.5%	AOL (AOL)	-9.1%
TIME WARNER	3.0%	CELANESE 'A' (CE)	16.3%	EXPRESS SCRIPTS HOLDING (ESRX)	-7.7%
SCHLUMBERGER	2.8%	SYMANTEC (SYMC)	15.5%	SPRINT (S)	-7.2%
SANOFI ADR 2:1	2.8%	BAKER HUGHES (BHI)	14.8%	PFIZER (PFE)	-6.8%
GLAXOSMITHKLINE SPN.ADR 1:2	2.8%	FEDEX (FDX)	14.4%	VODAFONE GP.SPN.ADR 1:10 (VOD)	-5.9%
		TIME WARNER (TWX)	12.7%	BOSTON SCIENTIFIC (BSX)	-5.5%

# Equity Sector Attribution - Dodge & Cox Equity

Quarter Ending June 30, 2014

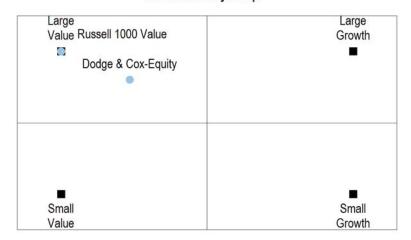
### Dodge & Cox-Equity Performance Attribution vs. Russell 1000 Value

			<b>Attribution Effec</b>	ts	Re	eturns	Secto	r Weights
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.4%	1.2%	-0.3%	-0.5%	19.0%	10.4%	8.7%	14.5%
Materials	0.1%	0.1%	0.0%	0.0%	8.0%	5.6%	2.7%	2.9%
Industrials	0.3%	0.4%	0.0%	-0.1%	7.8%	4.1%	7.5%	10.2%
Cons. Disc.	0.0%	0.0%	0.1%	0.0%	5.8%	6.2%	13.7%	6.4%
Cons. Staples	0.1%	0.0%	0.1%	0.0%	0.8%	1.7%	2.2%	5.8%
Health Care	-0.4%	-0.3%	-0.1%	-0.1%	1.5%	3.4%	18.5%	13.5%
Financials	0.3%	0.1%	0.2%	0.0%	2.2%	1.9%	23.7%	29.1%
Info. Tech	-0.9%	-0.7%	0.7%	-0.9%	3.6%	11.1%	20.8%	9.0%
Telecomm.	0.0%	-0.1%	0.0%	0.1%	-4.0%	2.9%	0.6%	2.5%
Utilities	-0.2%		-0.2%			7.9%	0.0%	6.1%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		1.8%	0.0%
Portfolio	-0.4%	= 0.6%	+ 0.5%	+ -1.5%	4.8%	5.2%	100.0%	100.0%

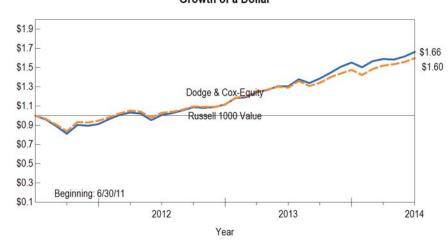
# Return Based Style Analysis - Dodge & Cox Equity

3 Years Ending June 30, 2014

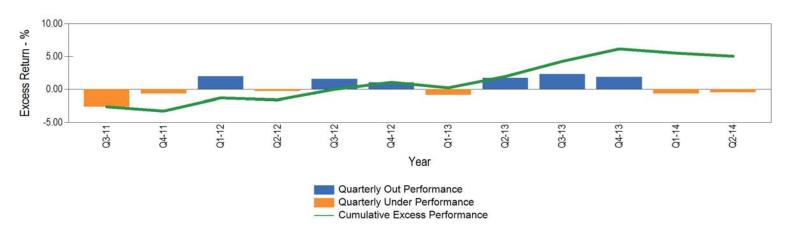
### **US Effective Style Map**



### Growth of a Dollar



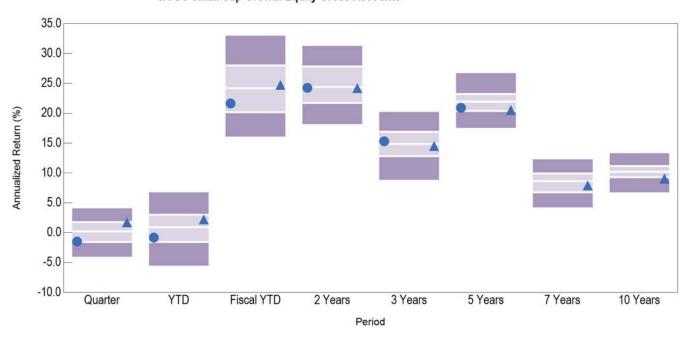
### **Quarterly and Cumulative Excess Performance**



# Total Returns - Small Cap Growth Equity

Periods Ending June 30, 2014

### eA US Small Cap Growth Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

Legato Capital
 Russell 2000 Growth

4.2		6.9		33.1		31.4		20.4		26.8		12.4		13.4	
1.8		3.0		28.0		27.8		16.9		23.3		10.0		11.2	
0.2		1.0		24.2		24.4		14.9		21.9		8.7		10.2	
-1.5		-1.5		20.2		21.8		12.8		20.4		6.8		9.3	
-4.2		-5.7		16.0		18.0		8.7		17.4		4.1		6.6	
159		159		159		157		156		150		134		119	
-1.5	(74)	-0.8	(70)	21.6	(70)	24.2	(53)	15.3	(45)	20.9	(70)		()		()
1.7	(27)	2.2	(37)	24.7	(46)	24.2	(54)	14.5	(55)	20.5	(73)	7.9	(60)	9.0	(78)

# Equity Only Summary Statistics - Legato Capital

Quarter Ending June 30, 2014

### Characteristics

	Portfolio	Russell 2000 Growth
Number of Holdings	458	1,163
Weighted Avg. Market Cap. (\$B)	2.3	1.9
Median Market Cap. (\$B)	1.5	0.8
Price To Earnings	32.6	28.6
Price To Book	5.6	5.0
Price To Sales	4.5	3.4
Return on Equity (%)	14.4	15.3
Yield (%)	0.4	0.4
Beta (holdings; domestic)	1.3	1.4

Top Holdings	
ULTIMATE SOFTWARE GP.	1.5%
MAXIMUS	1.3%
CEPHEID	1.3%
PORTFOLIO REC.ASSOCS.	1.2%
DEALERTRACK TECHNOLOGIES	1.2%
PAREXEL INTL.	1.1%
SYNCHRONOSS TECHNOLOGIES	1.0%
UNITED NATURAL FOODS	0.9%
PROTO LABS	0.9%
GRAND CANYON EDUCATION	0.9%

Best Performers					
	Return %				
RADNET (RDNT)	133.5%				
REPLIGEN (RGEN)	77.2%				
GOODRICH PTL. (GDP)	74.5%				
HALCON RESOURCES (HK)	68.4%				
PERNIX THERP.HDG. (PTX)	67.9%				
HILLSHIRE BRANDS (HSH)	67.8%				
GASTAR EXPLORATION (GST)	59.2%				
CALLON PTL.DEL. (CPE)	58.1%				
ABRAXAS PETROLEUM (AXAS)	58.1%				
VASCO DATA SCTY.INTL. (VDSI)	53.8%				

Worst Performers	
	Return %
ENDOCYTE (ECYT)	-72.3%
POWERSECURE INTL. (POWR)	-58.4%
WORLD WRESTLING ENTM.'A' (WWE)	-58.3%
IMPERVA (IMPV)	-53.0%
BEBE STORES (BEBE)	-49.8%
REGADO BIOSCIENCES (RGDO)	-45.8%
ADEPT TECHNOLOGY (ADEP)	-44.8%
ATHERSYS (ATHX)	-44.8%
RETROPHIN (RTRX)	-44.6%
QUANTUM FUEL SYS.TECHS. WWD. (QTWW)	-40.3%

# Equity Sector Attribution - Legato Capital

Quarter Ending June 30, 2014

### Legato Capital Performance Attribution vs. Russell 2000 Growth

			Attribution Effects		Retu	rns	Sector Weights		
	Total	Selection	Selection Allocation Interaction						
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark	
Energy	0.1%	-0.1%	0.2%	0.0%	17.9%	19.3%	4.3%	3.8%	
Materials	-0.1%	-0.1%	-0.1%	0.0%	2.4%	3.7%	2.0%	5.1%	
Industrials	-0.5%	-0.4%	0.0%	0.0%	-3.2%	-0.7%	16.8%	15.7%	
Cons. Disc.	0.2%	0.2%	0.0%	0.0%	1.3%	-0.1%	14.0%	15.8%	
Cons. Staples	-0.1%	-0.1%	0.0%	0.0%	-0.9%	1.6%	3.1%	4.9%	
Health Care	-0.6%	-0.5%	0.0%	0.0%	-2.7%	-0.3%	22.1%	21.7%	
Financials	-0.5%	-0.6%	0.0%	0.1%	-5.1%	3.1%	6.6%	7.3%	
Info. Tech	-1.3%	-1.1%	-0.1%	-0.1%	-2.2%	2.3%	28.5%	24.7%	
Telecomm.	-0.1%	-0.1%	0.0%	0.0%	-11.3%	-3.7%	1.4%	0.9%	
Utilities	0.0%		0.0%			4.3%	0.0%	0.1%	
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	-	1.1%	0.0%	
Portfolio	-2.8%	= -2.7%	+ 0.0%	+ -0.1%	-1.2%	1.6%	100.0%	100.0%	

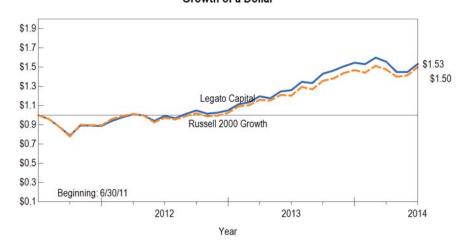
# Return Based Style Analysis - Legato Capital

3 Years Ending June 30, 2014

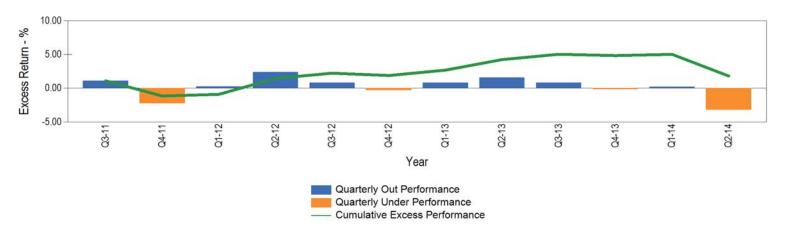
U.S. Effective Style Map



#### Growth of a Dollar



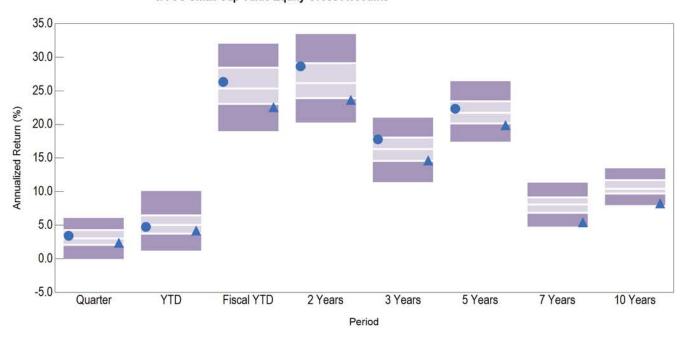
### **Quarterly and Cumulative Excess Performance**



# Total Returns - Small Cap Value Equity

Periods Ending June 30, 2014

### eA US Small Cap Value Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

	Capital Prospects
A	Puscell 2000 Value

Return (	Rank)														
6.2		10.2		32.2		33.5		21.1		26.5		11.4		13.6	
4.3		6.5		28.4		29.1		18.1		23.5		9.1		11.7	
3.1		5.1		25.4		26.2		16.4		21.7		8.1		10.4	
2.1		3.8		23.1		23.9		14.6		20.2		6.9		9.7	
-0.2		1.1		18.9		20.2		11.3		17.3		4.7		7.8	
202		202		202		200		199		192		172		149	
3.4	(42)	4.7	(54)	26.3	(43)	28.6	(28)	17.8	(31)	22.3	(41)		()		()
2.4	(68)	4.2	(65)	22.5	(79)	23.6	(77)	14.6	(75)	19.9	(79)	5.5	(91)	8.2	(92)

# Equity Only Summary Statistics - Capital Prospects

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	Russell 2000 Value
Number of Holdings	287	1,321
Weighted Avg. Market Cap. (\$B)	2.0	1.7
Median Market Cap. (\$B)	1.3	0.7
Price To Earnings	23.3	20.0
Price To Book	2.5	1.8
Price To Sales	2.0	2.4
Return on Equity (%)	13.0	7.5
Yield (%)	1.6	1.6
Beta (holdings; domestic)	1.3	1.3

Top Holdings	
ASBURY AUTOMOTIVE GP.	1.2%
DELUXE	1.2%
CINEMARK HOLDINGS	1.2%
HILLENBRAND	1.1%
BROADRIDGE FINL.SLTN.	1.1%
AMERICAN EQ.INV.LF.HLDG.	1.1%
ENPRO INDS.	1.0%
VERINT SYSTEMS	1.0%
MERITOR	1.0%
INTERNATIONAL GAME TECH.	1.0%

Best Performers					
		Return %			
	GOODRICH PTL. (GDP)	74.5%			
	GENTIVA HLTH.SVS. (GTIV)	65.1%			
	AMKOR TECH. (AMKR)	63.0%			
	TELECM.SYSTEMS 'A' (TSYS)	43.0%			
	TRIANGLE PETROLEUM (TPLM)	42.6%			
	LITHIA MOTORS 'A' (LAD)	41.9%			
	PAM TRANSPORTATION SVS. (PTSI)	40.6%			
	MERCER INTL. (MERC)	40.0%			
	STANDEX (SXI)	39.2%			
	BUILD A BEAR WORKSHOP (BBW)	38.7%			

Worst Performers					
	Return %				
POWERSECURE INTL. (POWR)	-58.4%				
AMER.VANGUARD (AVD)	-38.8%				
KEYW HOLDING (KEYW)	-32.8%				
ULTRA CLEAN HOLDINGS (UCTT)	-31.2%				
ELECTRO SCIEN.INDS. (ESIO)	-30.1%				
DATALINK (DTLK)	-28.2%				
CYNOSURE 'A' (CYNO)	-27.5%				
BIG 5 SPTG.GOODS (BGFV)	-22.9%				
COMVERSE (CNSI)	-22.8%				
PHOTOMEDEX (PHMD)	-22.6%				

# Equity Sector Attribution - Capital Prospects

Quarter Ending June 30, 2014

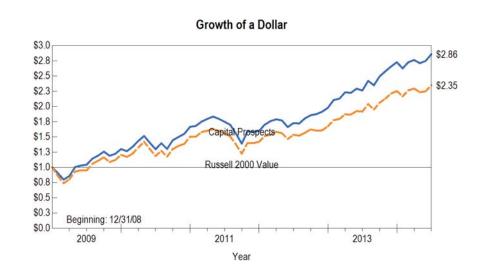
### Capital Prospects Performance Attribution vs. Russell 2000 Value

	oupliant roopeds i chomiane Aunounon vo. Nassen 2000 value							
	Attribution Effects			R	Returns		Sector Weights	
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.2%	0.3%	-0.1%	-0.1%	11.6%	7.5%	5.5%	7.5%
Materials	0.4%	0.3%	-0.1%	0.2%	6.7%	-0.6%	7.2%	4.6%
Industrials	0.3%	0.3%	-0.1%	0.2%	3.3%	1.3%	20.4%	13.2%
Cons. Disc.	0.3%	0.2%	0.0%	0.1%	5.5%	3.5%	14.6%	10.2%
Cons. Staples	0.0%	0.0%	0.0%	0.0%	1.2%	0.1%	2.4%	2.5%
Health Care	-0.3%	-0.2%	0.0%	0.0%	-0.8%	3.6%	5.8%	4.8%
Financials	-0.2%	-0.6%	0.2%	0.2%	0.3%	1.7%	22.5%	39.8%
Info. Tech	0.4%	0.3%	-0.1%	0.1%	3.7%	1.1%	14.7%	10.6%
Telecomm.	0.1%	0.2%	0.0%	-0.2%	37.2%	-1.9%	0.1%	0.5%
Utilities	-0.3%	-0.1%	-0.2%	0.0%	8.0%	9.0%	2.4%	6.3%
Cash	0.1%	0.0%	0.1%	0.0%	0.0%		4.4%	0.0%
Portfolio	1.1%	= 0.8%	+ -0.3%	+ 0.6%	3.7%	2.6%	100.0%	100.0%

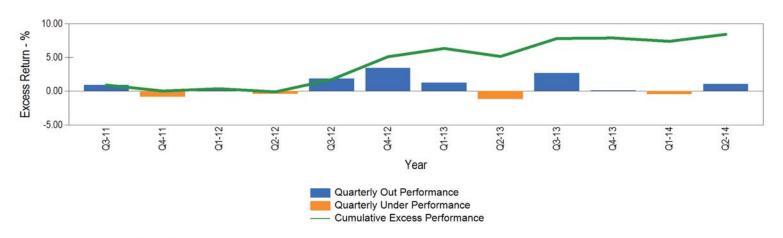
# Return Based Style Analysis - Capital Prospects

3 Years Ending June 30, 2014





### **Quarterly and Cumulative Excess Performance**



# Total Returns - ACWI ex-US Growth Equity

Periods Ending June 30, 2014

#### eA ACWI ex-US Growth Equity Gross Accounts



		Return (	Rank)															
5th Percentile		5.9		8.4		29.0		27.7		13.3		18.4		8.4		12.3		
	25th Percentile	5.0		5.5		24.9		22.2		9.4		16.1		4.7		10.7		
	Median	4.0		3.9		21.5		18.8		7.9		14.4		3.9		9.5		
-	75th Percentile	2.5		2.0		19.9		17.1		6.7		11.8		1.8		8.1		
	95th Percentile	0.2		-1.0		13.8		14.5		4.4		9.5		-0.4		6.8		
7	# of Portfolios	54		54		54		54		52		49		42		30		
	Pyramis	3.9	(51)	2.5	(71)	18.7	(84)	18.3	(54)	6.8	(73)	12.6	(73)	2.3	(67)		()	
	MSCI ACWI ex USA Gross	5.2	(17)	5.9	(18)	22.3	(43)	18.1	(58)	6.2	(83)	11.6	(78)	1.7	(77)	8.2	(72)	

# Equity Only Summary Statistics - Pyramis

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	257	1,829
Weighted Avg. Market Cap. (\$B)	66.1	56.2
Median Market Cap. (\$B)	13.7	7.3
Price To Earnings	21.8	18.6
Price To Book	3.3	2.4
Price To Sales	2.3	2.0
Return on Equity (%)	17.8	14.4
Yield (%)	2.4	2.9
Beta (holdings; global)	1.0	1.0

Top Holdings	
ROYAL DUTCH SHELL A	2.3%
NESTLE 'R'	2.0%
SANOFI	1.6%
HSBC HDG. (ORD \$0.50)	1.5%
ROCHE HOLDING	1.5%
BAYER	1.4%
LLOYDS BANKING GROUP	1.4%
NOVARTIS 'R'	1.3%
TOYOTA MOTOR	1.3%
ALLIANZ	1.2%

Best Performers						
	Return %					
SHIRE (UKIR:SHP)	59.2%					
DETOUR GOLD (C:DGC)	58.1%					
DHX MEDIA (C:DHX)	54.2%					
ACOM (J:ACOM)	48.5%					
WHITECAP RESOURCES (C:WCP)	40.0%					
SEIKO EPSON (J:SEEP)	36.5%					
SHAWCOR (C:SCL)	33.8%					
AUTOCANADA (C:ACQ)	33.5%					
HOSHIZAKI ELECTRIC (J:HSZK)	31.6%					
HITACHI CAPITAL (J:DJ@N)	30.5%					

Worst Performers						
	Return %					
A2 MILK (Z:ATMZ)	-23.5%					
EASYJET (UKIR:EZJ)	-18.4%					
PADDY POWER (UKIR:EPLS)	-17.1%					
DRAX GROUP (UKIR:DRXG)	-13.1%					
JGC (J:JGCC)	-12.8%					
ROHTO PHARMACEUTICAL (J:XP@N)	-12.1%					
BADGER DAYLIGHTING (C:BAD)	-12.1%					
ARKEMA (F:AKE)	-12.0%					
KBC GROUP (B:KB)	-11.6%					
SERCO GROUP (UKIR:SERC)	-11.0%					

# Equity Sector Attribution - Pyramis

Quarter Ending June 30, 2014

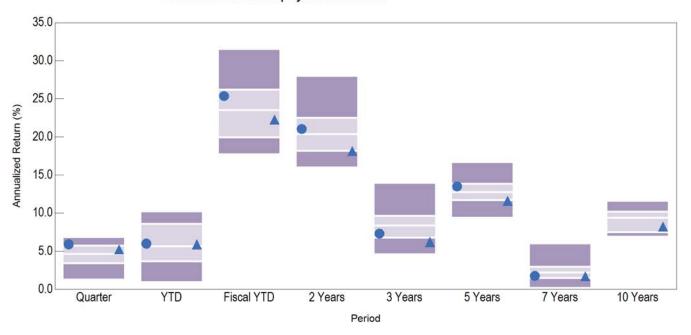
### Pyramis Performance Attribution vs. MSCI ACWI ex USA Gross

			Attribution Effec	ets	Re	eturns	Secto	r Weights
	Total Effects	Selection Effect	Allocation Effect	Interaction Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.1%	0.4%	-0.1%	-0.2%	15.5%	11.6%	6.4%	9.1%
Materials	-0.2%	-0.2%	0.0%	0.0%	2.1%	4.2%	8.4%	8.7%
Industrials	-0.3%	-0.2%	0.0%	0.0%	1.6%	3.6%	13.6%	11.2%
Cons. Disc.	0.0%	0.0%	-0.1%	0.0%	3.8%	3.8%	15.0%	10.8%
Cons. Staples	0.1%	0.1%	0.0%	0.0%	6.8%	5.9%	9.6%	9.9%
Health Care	-0.2%	-0.2%	0.0%	-0.1%	3.2%	5.4%	12.0%	8.2%
Financials	-0.6%	-0.7%	0.0%	0.1%	1.8%	4.2%	23.6%	26.6%
Info. Tech	-0.1%	-0.1%	0.0%	-0.1%	4.1%	6.4%	5.0%	6.8%
Telecomm.	-0.1%	-0.2%	0.0%	0.1%	0.9%	4.5%	3.7%	5.2%
Utilities	-0.2%	-0.3%	-0.1%	0.2%	-1.0%	7.8%	0.9%	3.5%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		1.8%	0.0%
Portfolio	-1.7%	= -1.5%	+ -0.3%	+ 0.1%	3.7%	5.3%	100.0%	100.0%

# Total Returns - ACWI ex-US Value Equity

Periods Ending June 30, 2014

#### eA ACWI ex-US Value Equity Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios
<ul><li>LSV Asset Mgt</li></ul>
▲ MSCI ACWI ex USA Gross

6.8		10.2		31.6		28.0		13.9		16.7		6.0		11.6	
5.8		8.6		26.2		22.5		9.6		13.8		3.0		10.2	
4.7		5.7		23.5		20.4		8.4		12.7		2.2		9.4	
3.4		3.7		19.9		18.2		6.8		11.7		1.5		7.5	
1.3		1.0		17.7		16.0		4.6		9.4		0.2		6.9	
33		33		33		33		29		27		24		19	
5.9	(24)	6.0	(45)	25.4	(34)	21.0	(41)	7.3	(73)	13.5	(33)	1.8	(64)		()
5.2	(41)	5.9	(46)	22.3	(61)	18.1	(78)	6.2	(79)	11.6	(77)	1.7	(66)	8.2	(69)

# Equity Only Summary Statistics - LSV Asset Mgt

Quarter Ending June 30, 2014

#### Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	206	1,829
Weighted Avg. Market Cap. (\$B)	39.1	56.2
Median Market Cap. (\$B)	9.4	7.3
Price To Earnings	16.2	18.6
Price To Book	1.6	2.4
Price To Sales	1.0	2.0
Return on Equity (%)	12.7	14.4
Yield (%)	3.8	2.9
Beta (holdings; global)	1.1	1.0

Top Holdings						
ASTRAZENECA	2.1%					
MAGNA INTL.	1.8%					
ROYAL DUTCH SHELL B	1.7%					
ALLIANZ	1.4%					
BASF	1.4%					
DAIMLER	1.3%					
CHINA PTL.& CHM. 'H'	1.3%					
NOVARTIS 'R'	1.3%					
SANOFI	1.3%					
ENI	1.2%					

Best Performers	
	Return %
PANORAMIC RESOURCES (A:PANX)	111.3%
ASTRAL FOODS (R:ARLJ)	42.6%
TATA STEEL GDR (REG S) (WI) (UKIR:TTST)	34.4%
ALSTOM (F:ALO)	33.4%
SUMITOMO METAL MINING (J:EM@N)	29.0%
BLACKBERRY (C:BB)	26.7%
MAEDA ROAD CONSTRUCTION (J:MDAR)	23.8%
BROTHER INDUSTRIES (J:BI@N)	23.6%
MMC NORILSK NICKEL (XSQ) SPN.ADR 10:1 (UKIR:MNOD)	23.5%
ALENT (UKIR:ALNT)	20.6%

VVO	rst Per	Tormers	5

	Return %
ARRIUM (A:ARIX)	-40.0%
BOART LONGYEAR (A:BLYX)	-35.0%
LABIXIAOXIN SNACKS GROUP (K:CLF	FB) -33.6%
BANCO POPOLARE (I:BP)	-24.3%
MOUNT GIBSON IRON (A:MGXX)	-22.8%
DEUTSCHE BANK (D:DBK)	-15.5%
CHINA SHANSHUI CMT.GROUP (K:CSCG)	-13.8%
SKYWORTH DIGITAL HDG. (K:SKYD)	-13.1%
SOCIETE GENERALE (F:SGE)	-13.0%
ARKEMA (F:AKE)	-12.0%

# Equity Sector Attribution - LSV Asset Mgt

Quarter Ending June 30, 2014

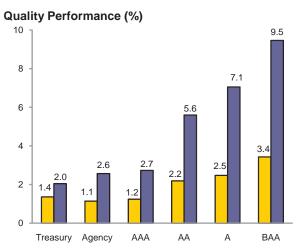
### LSV Asset Mgt Performance Attribution vs. MSCI ACWI ex USA Gross

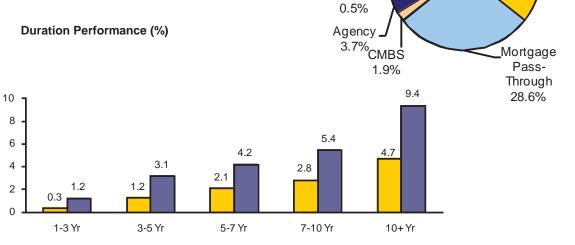
	<del>-</del>		Attribution Effects		Re	turns	Sector	r Weights
	Total Effects	Selection Effect	Allocation Effect	Interaction Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.1%	0.0%	0.2%	-0.1%	10.5%	11.6%	11.8%	9.1%
Materials	0.0%	0.0%	0.0%	0.0%	4.2%	4.2%	8.6%	8.7%
Industrials	0.4%	0.4%	0.0%	0.0%	7.1%	3.6%	10.6%	11.2%
Cons. Disc.	0.0%	0.0%	0.0%	0.0%	3.7%	3.8%	8.2%	10.8%
Cons. Staples	0.0%	-0.1%	0.0%	0.1%	6.3%	5.9%	6.2%	9.9%
Health Care	0.2%	0.1%	0.0%	0.1%	7.5%	5.4%	8.2%	8.2%
Financials	-0.2%	-0.1%	0.0%	-0.1%	3.5%	4.2%	29.9%	26.6%
Info. Tech	0.2%	0.4%	0.0%	-0.2%	12.4%	6.4%	3.8%	6.8%
Telecomm.	0.2%	0.1%	0.0%	0.1%	6.8%	4.5%	8.6%	5.2%
Utilities	0.0%	0.1%	0.0%	0.0%	8.9%	7.8%	3.1%	3.5%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		0.9%	0.0%
Portfolio	0.7%	= 0.9%	+ 0.1%	+ -0.2%	6.1%	5.3%	100.0%	100.0%

#### **BOND MARKETS**

### U.S. Bond Market Returns – Barclays Capital Aggregate

- Dovish Fed rhetoric helped boost demand for U.S. Treasuries, with the aggregate index rising by 1.4% in the second quarter.
- Longer duration treasuries outperformed; Treasuries with durations over 10 years rose 4.7% during the second quarter.
- Credit risk appetite was robust as lower-rated corporate bonds outperformed during the second quarter. BAA-rated securities returned 3.4%.





**Sector Weights** 

Corporate

23.2%

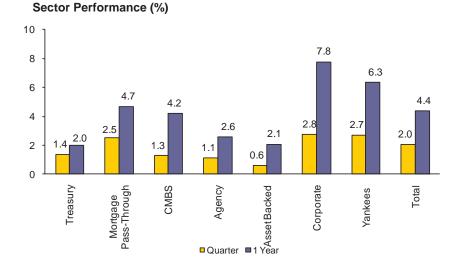
Asset

Backed

Yankees 6.4%

Treasury

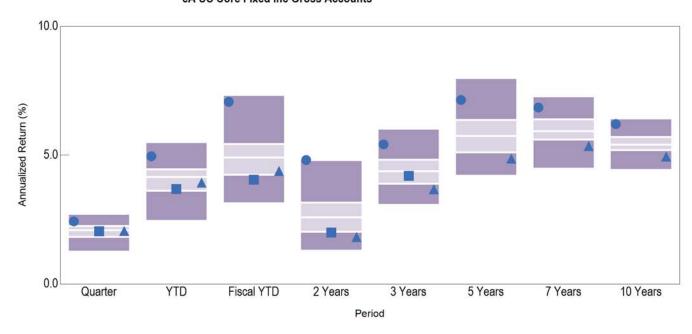
35.7%



# Total Returns - Core Fixed Income

Periods Ending June 30, 2014

#### eA US Core Fixed Inc Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios

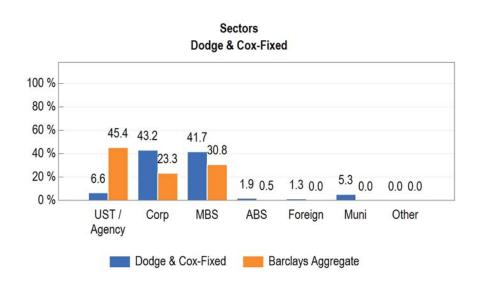
Dodge & Cox-Fixed PIMCO

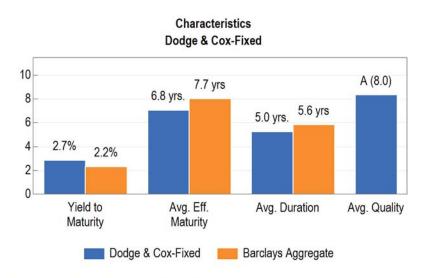
Barclays Aggregate

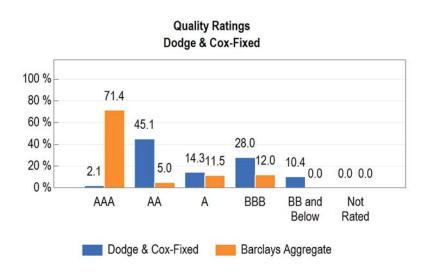
2.7		5.5		7.3		4.8		6.0		8.0		7.3		6.4	
2.2		4.5		5.4		3.2		4.8		6.4		6.4		5.7	
2.1		4.2		4.9		2.6		4.4		5.7		5.9		5.4	
1.8		3.6		4.2		2.0		3.9		5.1		5.6		5.2	
1.3		2.5		3.1		1.3		3.1		4.2		4.5		4.4	
215		215		215		215		214		205		198		183	
2.4	(13)	4.9	(9)	7.1	(6)	4.8	(5)	5.4	(12)	7.1	(12)	6.8	(11)	6.2	(7
2.0	(59)	3.7	(74)	4.0	(80)	2.0	(77)	4.2	(61)		()		()		(
2.0	(58)	3.9	(62)	4.4	(71)	1.8	(84)	3.7	(84)	4.9	(83)	5.3	(82)	4.9	(86

### Bond Summary Statistics - Dodge & Cox Fixed Income

As of June 30, 2014

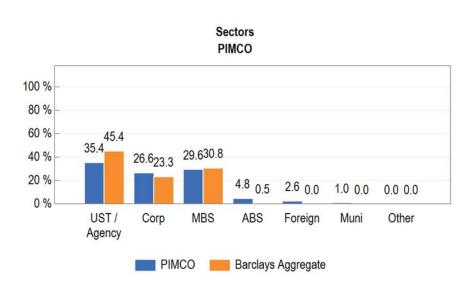


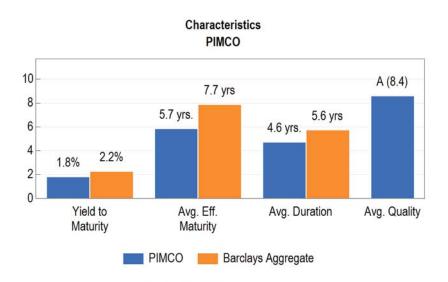




## Bond Summary Statistics - PIMCO Fixed Income

As of June 30, 2014





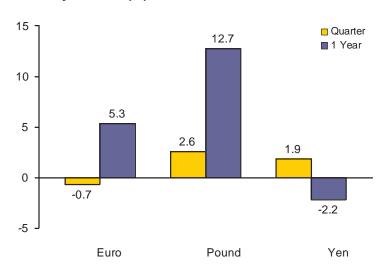


#### **CURRENCY AND BOND MARKETS**

### **Currency Markets**

- Stronger Japanese economic metrics and a lower probability of additional easing from the Bank of Japan helped boost the yen versus the dollar, which rose 1.9% during the second quarter.
- The pound rose 2.6% versus the dollar during the second quarter, driven by increased odds of rate hikes by the Bank of England.
- The U.S. dollar trade-weighted index, which measures the dollar's movement against a basket of currencies, fell 0.41% in the second quarter.

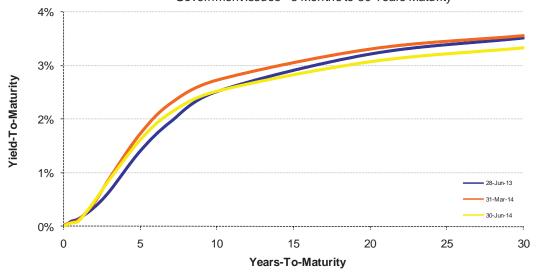
#### **Currency Returns (%)**



### **Yield Curve**

- The long-end of the U.S. yield curve fell on a quarterly basis and Treasury bonds rallied after dovish Federal Reserve rhetoric and rising geopolitical tensions.
- Ten-year yields fell 20 basis points during the second quarter.

# INTERESTRATE TERM STRUCTURE Government Issues - 3 Months to 30 Years Maturity



## MARKET UPDATE

#### U.S. EQUITY

July was a negative month for Global Developed markets with all of the damage done on the last day of the month. Emerging Markets reversed the trend compiling a positive return for July.

In the U.S., Growth slightly outperformed Value and Large Caps decidedly outperformed Small Caps. For the month, the Russell 1000 Growth Index was down by -1.5% and the Russell 1000 Value Index down by -1.7%. The Russell 2000 Growth and the Russell 2000 Value Indices were each down by -6.1%. The S&P 500 Index ended the month lower by -1.4%.

The S&P 500 Index has a trailing P/E ratio of 18.5, a forward 12-month estimate P/E ratio of 18.6 and dividend yield of 1.95%.

About 68.5% of S&P 500 components have reported earnings above expectations in the 2<sup>nd</sup> quarter, topping the long-term average of 63.0%. The profits of S&P 500 companies are seen growing 6.2% in the 2<sup>nd</sup> quarter, according to Thomson Reuters data, down from an 8.4% forecast at the start of April.

Corporate merger highlights for the month included: Archer Daniels Midland will buy Swiss-German natural ingredient company Wild Flavors for \$3 billion; Aristocrat Leisure will buy Video Gaming Technologies for \$1.3 billion; Reynolds American will buy rival Lorillard for about \$27.4 billion; Whirlpool will pay more than \$1 billion for a controlling stake in Indesit, the appliance maker's counterpart in Italy; Mylan will buy Abbott Labs' generics business in developed markets outside the U.S. for about \$5.3 billion; Engineering design firm AECOM Technology will pay about \$4 billion to acquire engineering and construction services firm URS Corp.; Whiting Petroleum will acquire Kodiak Oil & Gas for \$3.8 billion; Imperial Tobacco will buy U.S. cigarette brands including Winston and Kool for \$7.1 billion; Specialty chemicals company Albemarle will buy rival Rockwood Holdings in a deal valued at about \$6.2 billion; Onex Corp., Canada's largest buyout firm, will buy York Risk Services Group from ABRY Partners in a deal valued at \$1.3 billion; AbbVie reached a \$55 billion merger deal with British counterpart Shire, the latest U.S. drug maker company to seen an overseas tax haven; OAO Severstal, a Russian steel maker, sold its two North American facilities to AK Steel Holding and Steel Dynamics for a total of \$2.3 billion; CBS Outdoor Americas will buy the billboard business from Van

Wagner Communications for \$690 million; CIT Group plans to acquire IMB Holdco, the parent company of privately owned OneWest Bank, for \$3.4 billion; Britain's BSkyB agreed to buy Rupert Murdoch's pay-tv companies in Germany and Italy for \$9 billion; Dollar Tree will buy rival Family Dollar Stores for about \$8.5 billion, creating North America's largest discount retailer; Zillow will acquire real estate rival Trulia in a \$3.5 billion stock deal; Carlyle Group will acquire in-store marketer Acosta from rival Thomas H. Lee Partners for about \$4.8 billion; Germany's ZF Friedrichshafen is in advanced talks to acquire U.S.-based TRW Automotive for nearly \$12 billion; and, France's Iliad made a surprise \$15 billion offer for T-Mobile US setting up a potential bidding war with rival Sprint.

#### **FIXED INCOME**

The Commerce Department reported that gross domestic product rose at a 4.0% annual pace in the second quarter, versus a contraction of -2.1% in the first quarter. All twelve of the U.S. Federal Reserve's regions reported growth in its latest Beige Book economic survey.

U.S. employers accelerated their hiring in June, adding a robust 288,000 jobs and helping drive the unemployment rate to 6.1%, the lowest since September 2008.

The yield on the bellwether 10-year Treasury note rose to +2.58% at the close of July from its May close at +2.53%. At month-end, the 30-year bond yield was +3.32% with the 3-month T-bill at +0.04%. The Barclays Capital US Aggregate Index was down -0.25% in July.

The U.S. Federal Reserve announced that Quantitative Easing will end in October with reductions of \$10 billion in July and September, and the final \$15 billion in October.

On the economic front, the following key data was released in July:

#### THE GOOD

\*The U.S. trade deficit fell in May to \$44.4 billion as U.S. exports hit an all-time high, helped by a jump in exports of petroleum products.

# MARKET UPDATE

\*The U.S. Energy Information Administration forecast U.S. crude oil production in 2015 to average 9.3 million barrels per day, its highest level since 1972.

\*The Congressional Budget Office reported that the budget deficit stands at \$366 billion after nine months, \$144 billion **less** than in fiscal 2013.

\*The U.S. government ran a \$71 billion monthly budget surplus in June, putting it on course to record the lowest annual deficit since 2008, forecast at \$492 billion for the year.

\*The Commerce Dept. reported that core retail sales, which strip out automobiles, gasoline, building materials and food services, increased +0.6% in June, after rising an upwardly revised +0.2% in May.

\*The Federal Reserve Bank of Philadelphia's index of regional factory activity rose to 23.9 in July, the highest level since March 2011.

\*The Conference Board's index of leading indicators, a gauge designed to predict the economy's future health, increased in June for a fifth consecutive month, it rose +0.3%.

\*Orders for durable goods increased +0.7% in June on a seasonally adjusted basis following a -1.0% decline in May according to the Commerce Dept.

The U.S. consumer confidence index jumped to 90.9 in July, marking the highest level in seven years.

#### THE NOT SO GOOD

\*The ISM service-sector index slipped to 56.0 in June, down from May's 56.3 reading; any figure above 50 indicates expansion.

\*U.S. consumers increased their debt in May by a seasonally adjusted \$19.6 billion, down from a revised \$26.1 billion gain in the prior month.

\*The National Federation of Independent Business reported that its Small Business Optimism Index fell 1.6 points to 95.0 in June.

\*The Labor Dept. reported that productivity grew just +0.3% in 2013, the worst showing since the -0.3% decline in 2009.

\*The Labor Dept. reported that its producer price index for final demand increased +0.4% in June, reversing May's -0.2% decline.

\*U.S. home construction fell -9% in June to the slowest pace in nine months.

\*The Labor Dept. reported that its Consumer Price Index increased +0.3% last month after May's +0.4% gain. Gasoline accounted for two-thirds of the rise in prices last month.

\*Sales of new homes plunged by -8.1% in June, a sign that real estate continues to weaken.

#### NON-U.S. MARKETS

Canadian GDP rose a solid +0.4% in May, the strongest since January. Economic growth is on track to expand around +2.5% for Q2 overall, a big improvement from the +1.2% gain posted in the first quarter.

The Bank of England left monetary policy unchanged with the Bank rate remaining at 0.50%, and the asset purchase program at £375 billion pounds. Employment expanded by a robust 245,000 in the three months through May and the benchmark unemployment rate fell to 6.5%. GDP rose +0.8% in the second quarter, the fifth consecutive solid gain.

The German economic data disappointed in May. Manufacturing orders fell -1.7%, the second decline in the past three months. In France, industrial production fell -1.7% in May, leaving it at its lowest level since October 2009. In Italy, industrial production fell by -1.2% in May, leaving it at its lowest level since April 2009.

The preliminary print for manufacturing activity in Japan was once again disappointing. The index fell -0.7 point to 50.8 in July. Industrial production fell a much larger than expected -3.3% in June, bringing the cumulative decline from January's recent high to -6.9%.

China's GDP growth improved slightly in Q2, edging up 7.5% year-over-year from the 7.4% previous quarter. This is the tenth consecutive quarter of growth below 8.0% but is in line with the government's target for 2014.

Argentina defaulted on its debt for the second time in twelve years.

Non-U.S. Developed equities were negative in July while Emerging markets were positive. The MSCI ACWI ex-U.S. was down -1.0% (US dollars) for the month. International Developed stocks (EAFE) were down -2.0% while Emerging Markets gained +2.0% for the month.

# MARKET UPDATE

#### **CONCLUSION**

All three of the June big economic statistics released in July disappointed to some extent – retail sales, housing starts and industrial production. Despite these disappointments, second quarter GDP at a +4.0% annual rate was quite robust. Retail sales continue to trend higher, despite the disappointing June release. Industrial production also continues to grind higher. Overall capacity utilization remains at 79%.

One key economic statistic is the Conference Board's index of leading economic indicators which has continued to advance 14 of the past 15 months.

GDP growth was broadly strong in the second quarter. Some of this strength was a bounce back from a weather-distorted contraction in the prior quarter.

Bridgewater Associates believes that the U.S. economy is currently running at a healthy 3.0-3.5% underlying growth rate. The gradual accumulation of above-average growth will soon begin to exert late-cycle pressures with the trade-off between growth and inflation becoming more pronounced.

### Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Jul-14	Month	Months	לוו	Year	Years	Years	Years	Years	Years
Russell 3000 Index	-1.97	2.68	4.83	16.37	21.50	16.58	17.08	6.70	8.43
Russell TOP 200 Index	-1.01	3.15	5.57	17.38	20.51	17.05	16.27	6.26	7.55
Russell TOP 200 Growth Index	-0.85	3.86	5.30	20.39	19.27	16.63	16.84	8.17	8.19
Russell TOP 200 Value Index	-1.17	2.45	5.84	14.55	21.76	17.45	15.69	4.33	6.89
S&P 500 Index	-1.38	3.02	5.66	16.94	20.90	16.84	16.79	6.42	8.00
Russell 1000 Index	-1.62	2.93	5.53	17.06	21.56	16.84	17.13	6.68	8.40
Russell 1000 Growth Index	-1.53	3.52	4.68	18.69	20.16	16.05	17.25	7.98	8.66
Russell 1000 Value Index	-1.70	2.34	6.43	15.47	22.86	17.56	16.97	5.26	7.99
Russell Mid-Cap Index	-2.95	2.46	5.46	16.36	24.11	16.36	19.30	7.78	10.59
Russell Mid-Cap Growth Index	-2.99	2.76	3.32	15.11	22.65	14.84	18.61	7.77	10.25
Russell Mid-Cap Value Index	-2.91	2.12	7.90	17.76	25.48	17.80	19.98	7.56	10.63
Russell 2000 Index	-6.05	-0.26	-3.06	8.56	20.95	13.59	16.56	6.86	8.78
Russell 2000 Value Index	-6.05	-1.27	-2.10	8.18	20.47	13.55	15.83	5.86	8.07
Russell 2000 Growth Index	-6.06	0.73	-3.97	8.93	21.44	13.63	17.24	7.75	9.39
DJ US REIT Index	0.21	3.56	18.48	12.64	9.52	10.79	21.38	5.58	9.38
DJ-UBS US Commodity Index TR	-4.58	-6.77	2.17	1.86	-5.55	-7.54	0.39	-3.62	0.22
DJ-UBS US Gold Index TR	-2.00	-0.05	7.68	-1.46	-10.74	-7.88	5.68	8.97	11.78

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jul-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-0.97	2.80	4.86	15.98	16.72	6.34	9.31	1.63	8.43
MSCI AC World Index	-1.18	2.95	5.24	16.50	18.81	11.01	12.68	3.84	8.24
MSCI EAFE Index	-1.96	0.75	3.08	15.55	19.71	8.45	9.88	1.38	7.56
MSCI Emerging Markets index	2.02	8.45	8.46	15.72	8.80	0.74	7.68	2.12	12.72
ML Global Government Bond Ex. U.S. Index	-1.21	0.17	4.19	3.07	-4.31	-2.54	2.56	4.98	4.55
Euro	-2.27	-3.50	-2.90	0.77	4.23	-2.35	-1.15	-0.33	1.06
Japanese Yen	-1.49	-0.67	2.21	-4.36	-12.85	-9.12	-1.53	2.12	0.81
UK Pound Sterling	-1.26	-0.02	1.93	11.36	3.80	0.94	0.36	-2.61	-0.74

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date:	. 1	3	YTD	.1	2	3	5	7	10
Ending Jul-14	Month	Months		Year	Years	Years	Years	Years	Years
ML 3-month T-bill Total Return Index	0.00	0.01	0.02	0.05	0.08	0.08	0.11	0.67	1.62
BarCap Aggregate Bond Index	-0.25	0.94	3.67	3.97	0.99	3.04	4.47	5.18	4.80
ML U.S. Corp/Govt Master Index	-0.13	1.11	4.08	4.09	0.93	3.39	4.79	5.23	4.83
ML U.S. Corporate Master Index	-0.12	1.58	5.82	7.06	3.32	5.40	7.41	6.61	5.80
BarCap Mortgage Backed Securities Index	-0.59	0.87	3.42	4.14	1.03	2.29	3.63	5.05	4.79
ML U.S. High Yield Master Index	-1.33	0.46	4.15	8.20	8.79	8.31	12.18	9.06	8.53
JPM EMBI Global	0.12	3.93	9.22	10.13	4.03	6.98	9.79	8.61	9.19

### **Monthly Market Update**

### **US Equity Indices Trailing Performance**

Annualized Performance to Date: Ending Jul-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	-1.97	2.68	4.83	16.37	21.50	16.58	17.08	6.70	8.43
Russell TOP 200 Index	-1.01	3.15	5.57	17.38	20.51	17.05	16.27	6.26	7.55
Russell TOP 200 Growth Index	-0.85	3.86	5.30	20.39	19.27	16.63	16.84	8.17	8.19
Russell TOP 200 Value Index	-1.17	2.45	5.84	14.55	21.76	17.45	15.69	4.33	6.89
S&P 500 Index	-1.38	3.02	5.66	16.94	20.90	16.84	16.79	6.42	8.00
Russell 1000 Index	-1.62	2.93	5.53	17.06	21.56	16.84	17.13	6.68	8.40
Russell 1000 Growth Index	-1.53	3.52	4.68	18.69	20.16	16.05	17.25	7.98	8.66
Russell 1000 Growth Index Russell 1000 Value Index Russell Mid Can Index	-1.70	2.34	6.43	15.47	22.86	17.56	16.97	5.26	7.99
Russell Mid-Cap Index	-2.95	2.46	5.46	16.36	24.11	16.36	19.30	7.78	10.59
Russell Mid-Cap Growth Index	-2.99	2.76	3.32	15.11	22.65	14.84	18.61	7.77	10.25
Russell Mid-Cap Value Index	-2.99 -2.91	2.12	7.90	17.76	25.48	17.80	19.98	7.56	10.63
	-6.05	-0.26	-3.06	8.56	20.95	13.59	16.56	6.86	8.78
Russell 2000 Value Index Russell 2000 Growth Index	-6.05	-1.27	-2.10	8.18	20.47	13.55	15.83	5.86	8.07
Russell 2000 Growth Index  DJ US REIT Index	-6,06	0.73	-3.97	8.93	21.44	13.63	17.24	7.75	9.39
DJ US REIT Index	0.21	3.56	18.48	12.64	9.52	10.79	21.38	5.58	9.38
DJ-UBS US Commodity Index TR	-4.58	-6.77	2.17	1.86	-5.55	-7.54	0.39	-3.62	0.22
DJ-UBS US Gold Index TR	-2.00	-0.05	7.68	-1.46	-10.74	-7.88	5.68	8.97	11.78

#### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Jul-14	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-0.97	2.80	4.86	15.98	16.72	6.34	9.31	1.63	8.43
MSCI AC World Index  MSCI AC World Index	-1.18	2.95	5.24	16.50	18.81	11.01	12.68	3.84	8.24
MSCI EAFE Index	-1.96	0.75	3.08	15.55	19.71	8.45	9.88	1.38	7.56
MSCI Emerging Markets index	2.02	8.45	8.46	15.72	8.80	0.74	7.68	2.12	12.72
ML Global Government Bond Ex. U.S. Index	-1.21	0.17	4.19	3.07	-4.31	-2.54	2.56	4.98	4.55
Euro	-2.27	-3.50	-2.90	0.77	4.23	-2.35	-1.15	-0.33	1.06
Japanese Yen	-1.49	-0.67	2.21	-4.36	-12.85	-9.12	-1.53	2.12	0.81
UK Pound Sterling	-1.26	-0.02	1.93	11.36	3.80	0.94	0.36	-2.61	-0.74

### **US Fixed Income Indices Trailing Performance**

Annualized Performance to Date:	1	3	YTD	1	2	3	5	7	10
Ending Jul-14	Month	Months		Year	Years	Years	Years	Years	Years
ML 3-month T-bill Total Return Index	0.00	0.01	0.02	0.05	0.08	0.08	0.11	0.67	1.62
BarCap Aggregate Bond Index	-0.25	0.94	3.67	3.97	0.99	3.04	4.47	5.18	4.80
ML U.S. Corp/Govt Master Index	-0.13	1.11	4.08	4.09	0.93	3.39	4.79	5.23	4.83
ML U.S. Corporate Master Index	-0.12	1.58	5.82	7.06	3.32	5.40	7.41	6.61	5.80
BarCap Mortgage Backed Securities Index	-0.59	0.87	3.42	4.14	1.03	2.29	3.63	5.05	4.79
ML U.S. High Yield Master Index	-1.33	0.46	4.15	8.20	8.79	8.31	12.18	9.06	8.53
JPM EMBI Global	0.12	3.93	9.22	10.13	4.03	6.98	9.79	8.61	9.19

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# MONTHLY PERFORMANCE REVIEW PERIOD ENDING JULY 31, 2014

PRELIMINARY BASIS

#### SUMMARY OF INVESTMENTS

				CURRENT	POLICY	TARGET	POLICY
ASSET CLASS	MARKET VALUE	PERCENT	ALL	OCATION	RANGE	ALLOCATION	RANGE
DOMESTIC EQUITIES	822,476,231	46.8%	-	46.7%	41.7% - 51.7%	38.2%	32.2% - 44.2%
NTERNATIONAL EQUITIES	321,113,923	18.3%	*	18.0%	15.0% - 21.0%	18.0%	15.0% - 21.0%
IXED INCOME	501,700,639	28.5%	2	29.8%	26.0% - 33.6%	29.8%	26.0% - 33.6%
ALTERNATIVES:	99,002,115	5.6%	1	5.5%		14.0%	
DIRECT LENDING	73,601,794	4.2%	1	4.0%	2.0% - 6.0%	7.5%	2.5% - 9.0%
REAL ESTATE	25,400,321	1.4%	4	1.5%	1.0% - 2.0%	3.5%	1.0% - 4.5%
INFRASTRUCTURE	0	0.0%		0.0%	0.0% - 0.0%	3.0%	0.0% - 4.0%
CASH (NT + equity managers only)	14,988,414	0.9%	4	0.0%	0.0% - 3.0%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,759,281,322	100.0%		100.0%		100.0%	
				URRENT	TARGET		
	Y.	ACTUAL	ALL	1 1	ALLOCATION		
DODGE & COX - LARGE CAP VALUE		10.7%		9.7%	8.9%		
BlackRock - R1000 VALUE INDEX		6.6%		6.5%	5.5%		
JACKSON SQUARE - LARGE CAP GROWT	Н	8.7%		8.5%	6.7%		
BlackRock - R1000 GROWTH INDEX		5.6%		5.5%	4.6%		
CAPITAL PROSPECTS		5.3%		5.5%	4.0%		
LEGATO CAPITAL		4.7%		5.5%	3.7%		
BNY - S&P 500 INDEX		5.7%		5.5%	4.8%		
LSV ASSET MGMT - INTL EQ		9.2%		9.0%	9.0%		
PYRAMIS - INTL EQ		9.2%		9.0%	9.0%		
DODGE & COX FIXED INCOME		22.4%		23.8%	23.8%		
PIMCO		6.2%		6.0%	6.0%		
MEDLEY		1.6%		1.0%	2.1%		
RAVEN		1.5%		1.5%	2.7%		
WHITE OAK		1.1%		1.5%	2.7%		
BlackRock - US REAL ESTATE SECURITIES	SINDEX	1.3%		1.5%	0.0%		
▶ Greenfield GAP VII		0.1%		0.0%	1.0%		
Unallocated Private Real Estate		0.0%		0.0%	2.5%		
Infrastructure	n n	0.0%		0.0%	3.0%		
TOTALS		100.0%		100.0%	100.0%		



# MONTHLY PERFORMANCE REVIEW PERIOD ENDING JULY 31, 2014

PRELIMINARY BASIS

ASSET CLASS	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
MARKET VALUE					
DOMESTIC EQUITIES	822,476,231	840,879,325	-2.19%	739,240,684	11.26%
INTERNATIONAL EQUITIES	321,113,923	324,592,131	-1.07%	279,231,693	15.00%
FIXED INCOME	501,700,639	505,177,814	-0.69%	512,655,071	-2.14%
DIRECT LENDING	73,601,794	73,418,870	0.25%	26,726,901	175.38%
REAL ESTATE	25,400,321	25,348,384	0.20%	22,542,159	12.68%
SECURITIES LENDING	0	0	0.00%	(731,475)	100.00%
CASH (NT +equity managers only)	14,988,414	13,825,209	8.41%	12,253,872	22.32%
TOTAL PORTFOLIO	1,759,281,322	1,783,241,733		1,591,918,906	10.51%
ASSET ALLOCATION (ACTUAL)				1167	N-M
DOMESTIC EQUITIES	46.75%	47.15%	-0.4%	46.44%	0.3%
INTERNATIONAL EQUITIES	18.25%	18.20%	0.1%	17.54%	0.7%
FIXED INCOME	28.52%	28.33%	0.2%	32.20%	-3.7%
DIRECT LENDING	4.18%	4.12%	0.1%	1.68%	2.5%
REAL ESTATE SECURITIES	1.44%	1.42%	0.0%	1.42%	0.0%
SECURITY LENDING	0.00%	0.00%	0.0%	-0.05%	0.0%
CASH (equity managers only)	0.85%	0.78%	0.1%	0.77%	0.1%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%
* % Change represents changes in cash balances, including	cash transfers, and does not represent in	vestment returns			Page 2

July down first down a while a while a while after Fy after Fy closed.

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING JULY 31, 2014

PRELIMINARY BASIS

ASSET CLASS	MARKET VALUE	PERCENT	CURRENT TARGET	POLICY RANGE
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	188,630,269	10.7%	9.7%	7.7% - 11.7%
BLACKROCK - R1000 VALUE INDEX	116,543,549	6.6%	6.5%	5.5% - 6.5%
JACKSON SQUARE - LARGE CAP GROWTH	153,712,252	8.7%	8.5%	7.0% - 10.0%
BLACKROCK - R1000 GROWTH INDEX	99,222,496	5,6%	5.5%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	93,102,217	5.3%	5.5%	4.0% - 6.0%
LEGATO CAPITAL - SMALL CAP GROWTH	82,284,575	4.7%	5.5%	4.0% - 6.0%
BNY - S&P 500 INDEX	100,308,848	5.7%	5.5%	4.0% - 6.0%
TOTAL DOMESTIC EQUITIES	833,804,205	47.4%	46.7%	
FIXED:INCOME::::::::::::::::::::::::::::::::::::				
DODGE & COX	393,376,973	22.4%	23.8%	20.8% - 26.8%
PIMCO	108,323,667	6.2%	6.0%	5.0% - 7.0%
TOTAL FIXED INCOME	501,700,639	28.5%	29.8%	
DIRECT LENDING				
MEDLEY CAPITAL	27,847,660	1.6%	1.0%	1.0% - 3.0%
RAVEN CAPITAL	26,588,068	1.5%	1.5%	1.0% - 3.0%
WHITE OAK	19,166,066	1.1%	1.5%	1.0% - 3.0%
TOTAL DIRECT LENDING	73,601,794	4.2%	4.0%	
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	162,703,031	9.2%	9.0%	7.5% - 10.5%
PYRAMIS	162,070,096	9.2%	9.0%	7.5% - 10.5%
TOTAL INTERNATIONAL EQUITIES	324,773,128	18.5%	18.0%	
REAL ESTATE				
BlackRock - US RE SECURITIES INDEX	23,277,740	1.3%	1.5%	0.0% - 2.0%
Greenfield - GAP VII	2,122,581	0.1%	0.0%	0.0% - 1.5%
TOTAL REAL ESTATE	25,400,321	1.4%	1.5%	1.0% - 2.0%
CASH - NORTHERN TRUST	1,235	0.0%	0.0%	
TOTAL StanCERA PORTFOLIO	1,759,281,322	100.0%	100.0%	

Greenfield GAP III

15t Capital cull in July

Source Black Ruck REIT

## MONTHLY PERFORMANCE REVIEW PERIOD ENDING JULY 31, PRELIMINARY 2014

	CASH	BONDS	EQUITIES	TOTAL
omestic equities				
DODGE & COX - LARGE CAP VALUE	5,398,264		183,232,005	188,630,269
BLACKROCK - R1000 VALUE INDEX	0		116,543,549	116,543,549
JACKSON SQ LARGE CAP GROWTH	855,337		152,856,915	153,712,252
BLACKROCK - R1000 GROWTH INDEX	0		99,222,496	99,222,496
CAPITAL PROSPECTS - SMALL CAP VALUE	3,022,904		90,079,313	93,102,217
LEGATO CAPITAL - SMALL CAP GROWTH	2,051,240		80,233,335	82,284,575
BNY - S&P 500 INDEX	230		100,308,618	100,308,848
TOTAL DOMESTIC EQUITIES	11,327,974		822,476,231	833,804,205
IXEO INCOME				
DODGE & COX	18,019,473	375,357,499		393,376,973
PIMCO	1,883,831	106,439,836		108,323,667
TOTAL FIXED INCOME	19,903,304	481,797,335		501,700,639
DIRECT LEVOING				
MEDLEY	0	27,847,660		27,847,660
RAVEN	0	26,588,068		26,588,068
WHITE OAK	0	19,166,066		19,166,066
TOTAL DIRECT LENDING	0	73,601,794		73,601,794
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	2,056,986		160,646,045	162,703,03
PYRAMIS	1,602,219		160,467,878	162,070,09
TOTAL INTERNATIONAL EQUITIES	3,659,205		321,113,923	324,773,12
REAL ESTATE				
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		23,277,740	23,277,74
GREENFIELD GAP VII	0		2,122,581	2,122,58
TOTAL REAL ESTATE	0		25,400,321	25,400,32
NORTHERN TRUST CASH	1,235			1,23
TOTAL STANCERA PORTFOLIO	34,891,718	555,399,129	1,168,990,475	1,759,281,32

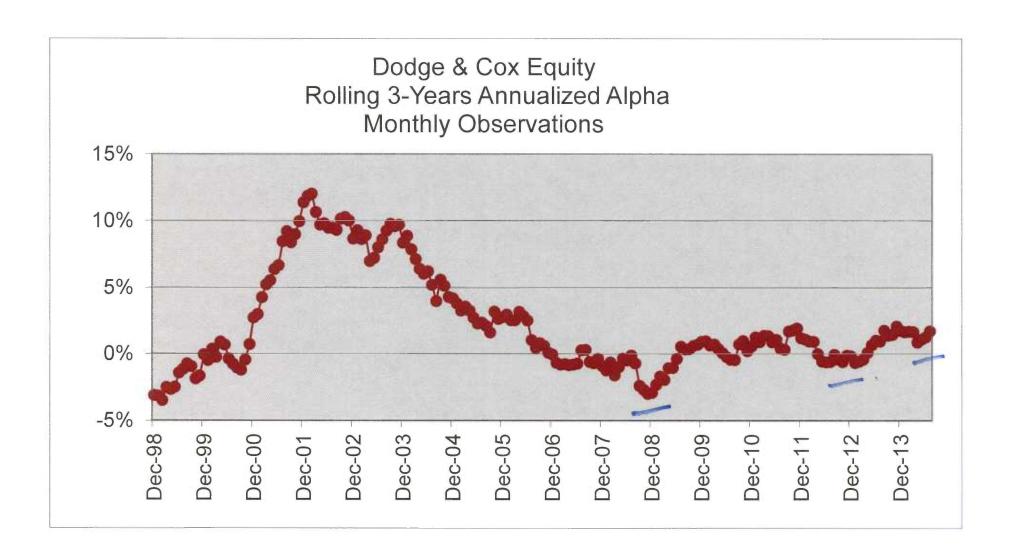


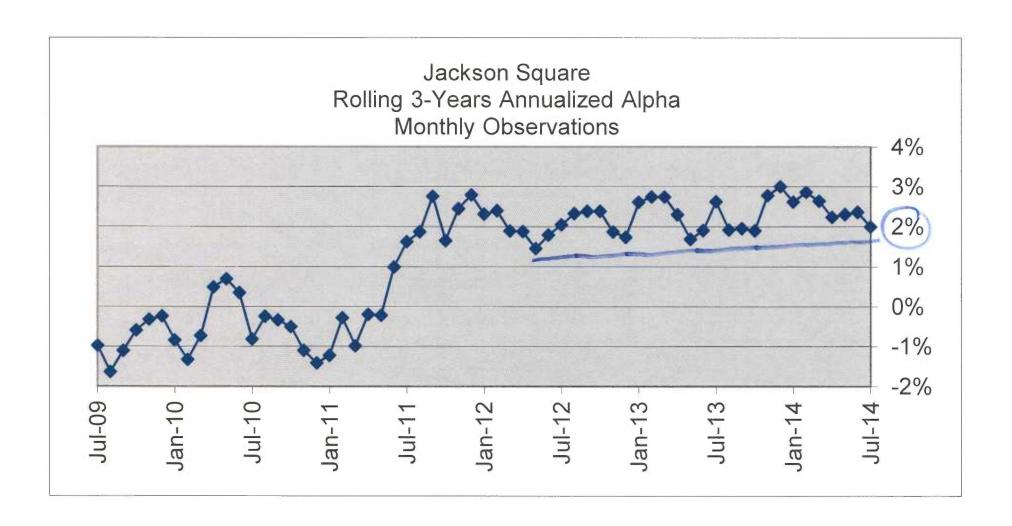
# MONTHLY PERFORMANCE REVIEW PERIOD ENDING JULY 31, 2014

PRELIMINARY BASIS

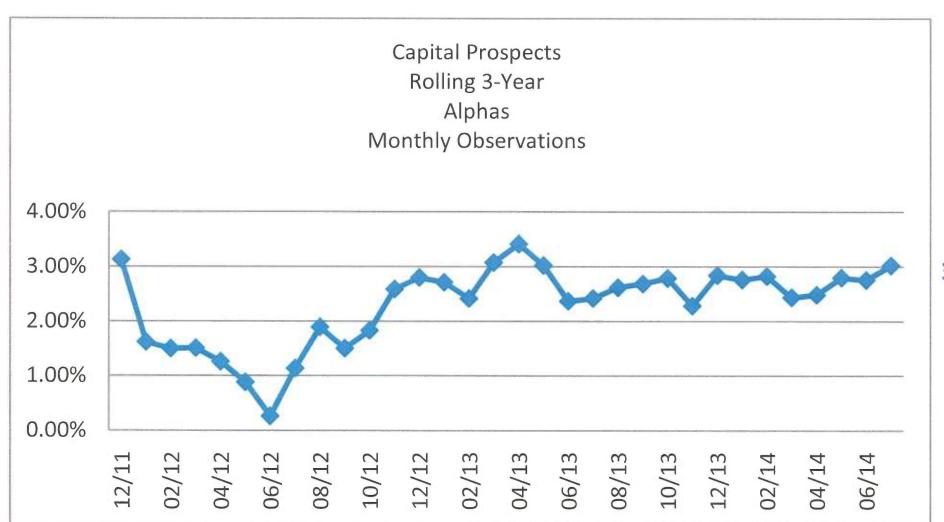
nieronio regionica	MARKET VALUE	JULY	ALPHA	JUNE	ALPHA	FISCAL YTD	ALPHA
DMESTIC EQUITIES: DODGE & COX - LARGE CAP VALUE RUSSELL 1000 VALUE	183,232,005	- <b>0.98</b> % -1.70%	0.72%	3.00% 2.61%	0.39%	-0.98% -1.70%	0.729
BLACKROCK - R1000 VALUE INDEX RUSSELL 1000 VALUE	116,543,549	<b>-1.70%</b> -1.70%	0.00%	2.61% 2.61%	0.00%	<b>-1.70%</b> -1.70%	0.00%
JACKSON SQ LARGE CAP GROWTH RUSSELL 1000 GROWTH	152,856,915	-0.82% -1.53%	0.71%	2.61% 1.95%	0.66%	<b>-0.82%</b> -1.53%	0.71%
BLACKROCK - R1000 GROWTH INDEX RUSSELL 1000 GROWTH	99,222,496	-1.52% -1.53%	0.01%	1.96% 1.95%	0.01%	<b>-1.52%</b> -1.53%	0.01%
CAPITAL PROSPECTS  RUSSELL 2000 VALUE	90,079,313	-4.86% -6.05%	1.19%	4.02%	-0.40%	-4.86% -6.05%	1.19%
LEGATO CAPITAL RUSSELL 2000 GROWTH	80,233,335	-5.44%	0.62%	<b>5.90%</b> 6.20%	-0.30%	- <b>5.44</b> % -6.06%	0.62%
BNY - S&P 500 INDEX S&P 500	100,308,618	<b>-1.38%</b> -1.38%	0.00%	2.07% 2.07%	0.00%	-1.38% -1.38%	0.00%
TOTAL DOMESTIC EQUITY  Russell 3000 Index	822,476,231	-2.03% -1.97%	-0.06%	3.05% 2.51%	0.54%	-2.03% -1.97%	-0.069
EXED INCOME							
DODGE & COX BARCLAYS US AGGREGATE BOND	393,376,973	-0.16% -0.25%	0.09%	0.41% 0.05%	0.36%	-0.16% -0.25%	0.09%
PIMCO BARCLAYS US AGGREGATE BOND	108,323,667	-0.33% -0.25%	-0.08%	0.05% 0.05%	0,00%	-0.33% -0.25%	-0,08%
TOTAL FIXED INCOME  BARCLAYS US AGGREGATE BOND	501,700,639	-0.20% -0.25%	0.05%	0,33% 0.05%	0.28%	-0.20% -0.25%	0.05%
RECT LENDING							
MEDLEY CAPITAL CUSTOM 9% ANNUAL	27,847,660	<b>0.00%</b> 0.75%	-0.75%	0.00% 0.75%	-0.75%	0.00% 0.75%	-0.75%
RAVEN CAPITAL CUSTOM 9% ANNUAL	26,588,068	<b>0.69%</b> 0.75%	-0.06%	<b>5.27</b> % 0.75%	4.52%	<b>0.69%</b> 0.75%	-0.064
WHITE OAK CUSTOM 9% ANNUAL	19,166,066	0.00% 0.75%	-0.75%	<b>0.58%</b> 0.75%	-0,17%	<b>45.91%</b> 7.60%	38.31
TOTAL DIRECT LENDING	73,601,794	0.25%	-0.50%	1.92% 0.75%	1.17%	0.25% 0.75%	-0.50
CUSTOM 9% ANNUAL	14141414141414141414141414141414141	0.75%		0,75%	1+1+1+1+1+1+1+1+1+1	-1	. ( - ( - ( - ( - ( - ( - ( - ( - ( - (
NTERNATIONAL EQUITY  LSV ASSET MGMT  MSCI ACWI ex-US	160,646,045	-0.54% -0.99%	0.45%	2.38% 1.68%	0.70%	- <b>0.54%</b> -0.99%	0.459
PYRAMIS  MSCI ACWI ex-US	160,467,878	-1.36% -0.99%	-0.37%	1.46%	-0.22%	-1.36% -0.99%	-0.379
TOTAL INTERNATIONAL EQUITY  MSCI ACWI ex-US	321,113,923	-0.95% -0.99%	0.04%	1.92%	0.24%	-0.95% -0.99%	0.049
REAL ESTATE							
BlackRock US RE Index DOW JONES US SELECT RE INDEX	23,277,740	0.18% 0.18%	0.00%	0.89% 0.88%	0.01%	0.18% 0.18%	0.00
Greenfield GAP VII NCREIF ODCE + 100 bps	2,122,581	0.00%	0.00%			<b>0.00%</b> 0.00%	0.00
TOTAL REAL ESTATE  DOW JONES US SELECT RE INDEX	25,400,321	0.16% 0.18%	voi de comerci	0.89% 0.88%	0.01%	<b>0.16%</b> 0.18%	
ASH and SHORT-TERM INVESTMENTS: CASH (NT + MANAGERS) 90-day US Treesury Bill	14,988,414	0.01% 0.01%	0.00%	0.01% 0.01%	0.00%	0.01% 0.01%	0.00
Total StanCERA Fund Current Policy Index*	1,759,281,322	-1.2886 -1.3896	0.14%	1.97%	0.25%	-1.25% -1.39%	0.14
Actuary Rate of Assumption (7.75%)		0.64%	-1.89%	0.64%	1.33%	0.64%	-1.89
Actuary Rate of Assumption (7.75%) Actuary Rate of Inflation (3.25%) Policy Index represents Current Policy Index that wi		0.27%	-1.52%	0.27%	1.70%	0.27%	-1,52°

All active outperform in July thenever overweight to as Small caps caused small class underpertemane Bond yields creep upin July Direct landing preliminary medley + who to Oak monthly Tuly pending! LSU + Greenfee 18 starts calling July -1.25%. Exacs Roturns + 14 6ps!



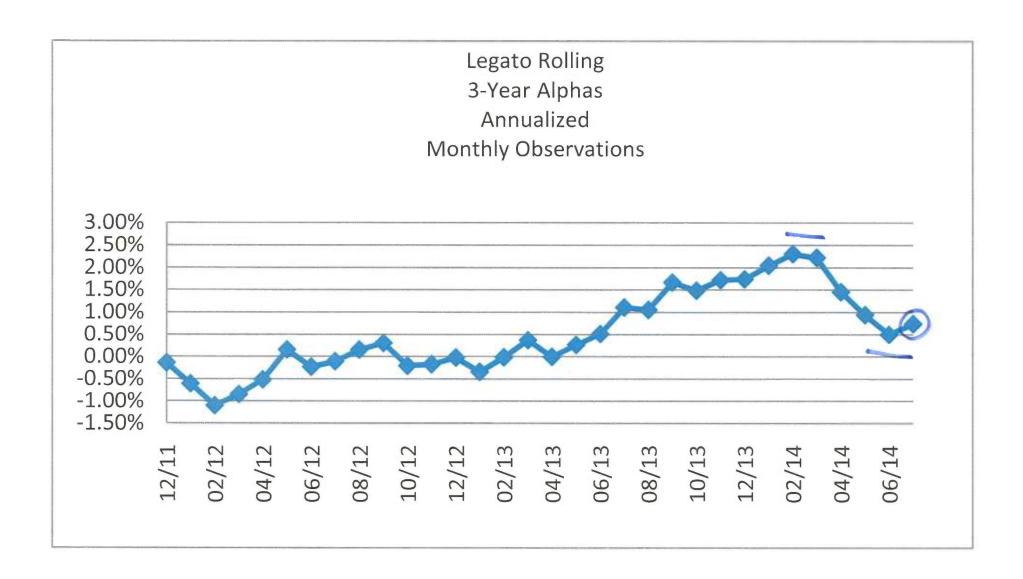


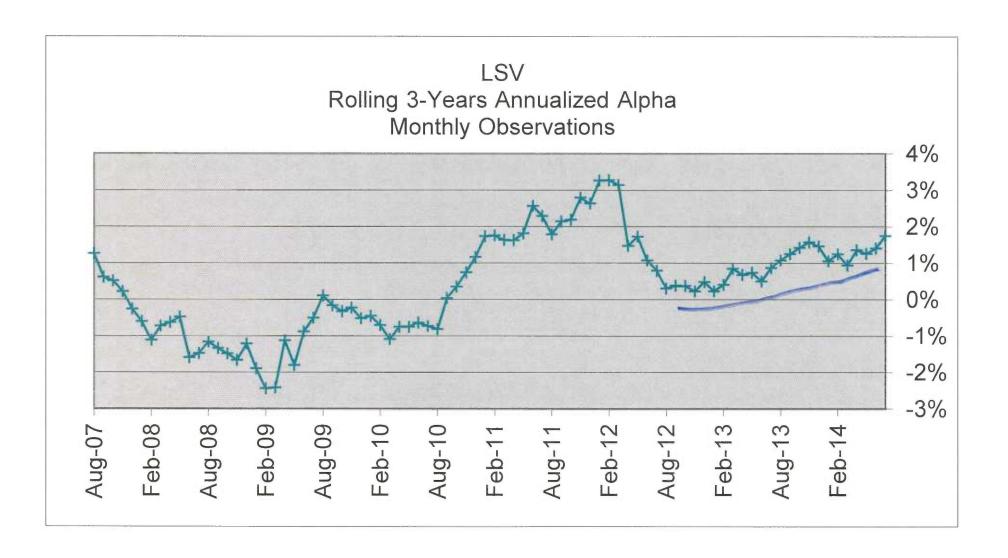




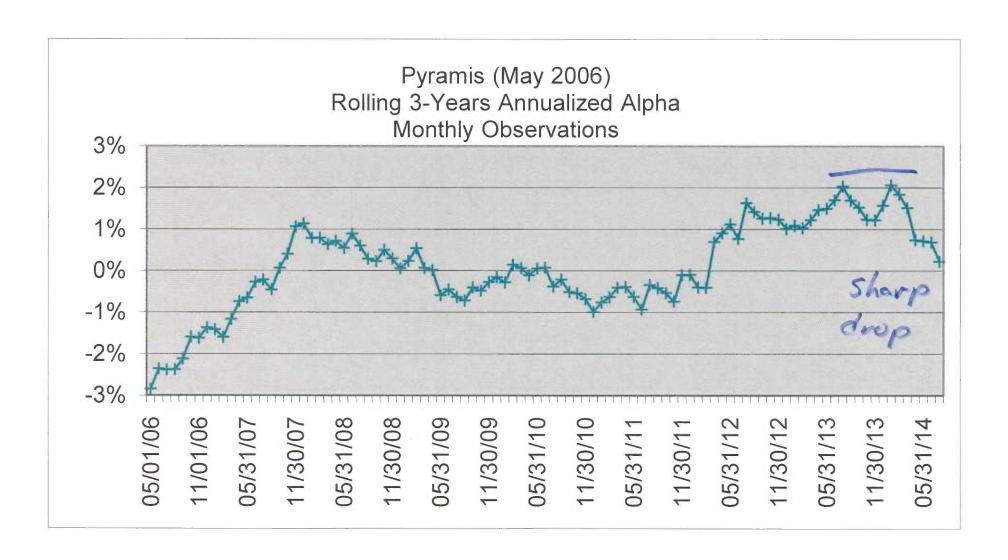
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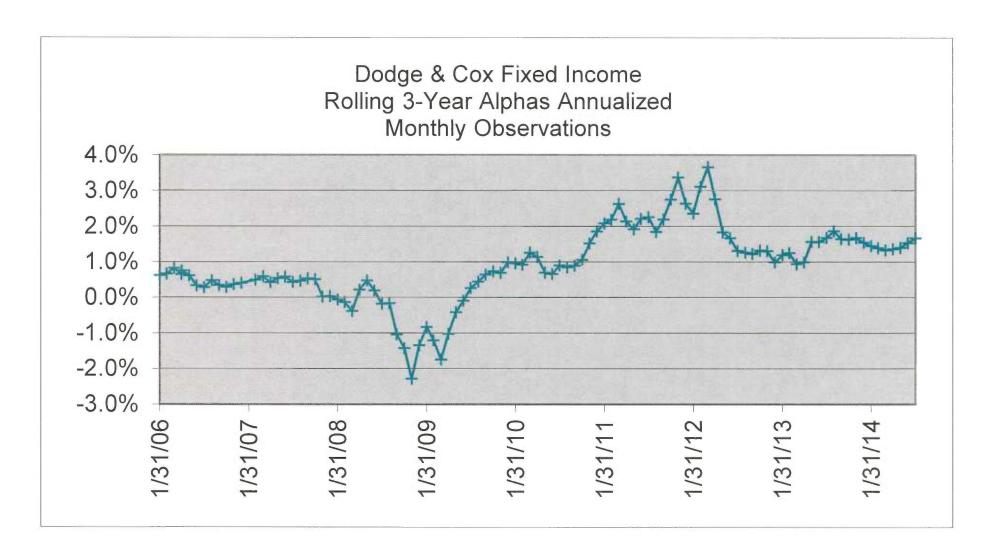


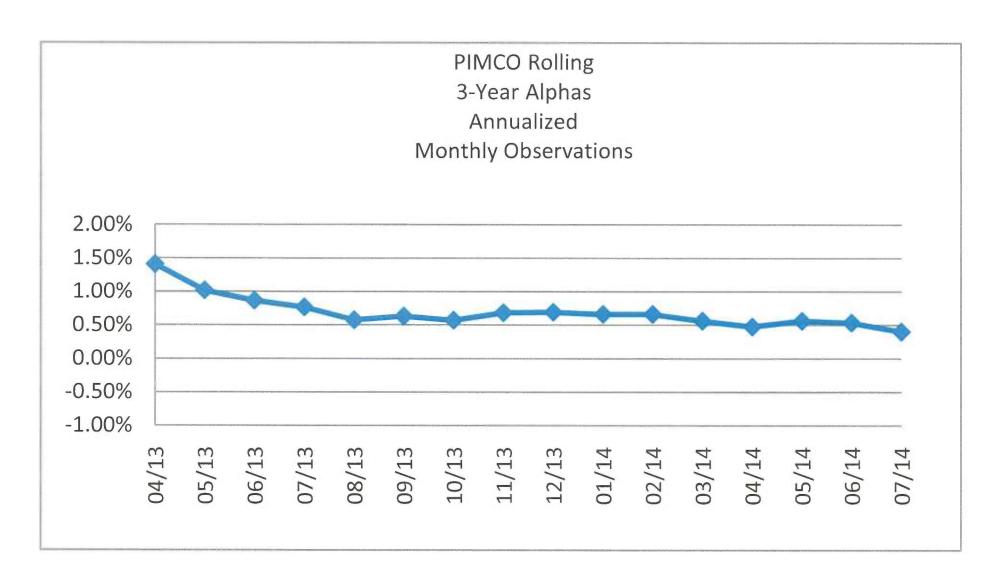














BlackRock Passive Large Cap Growth Manager Positions as of July 31, 2014

			\$ Value	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	60,302	\$5,764,827	5.81%	0.33%	95.60	97.98	2.49%	0.58%
Microsoft Corp.	MSFT	54,255	\$2,341,651	2.36%	0.13%	43.16	44.79	3.78%	1.87%
Verizon Communications	VZ	39,162	\$1,974,528	1.99%	0.11%	50.42	48.80	-3.21%	-5.12%
INTL Business Machines	IBM	9,008	\$1,726,471	1.74%	0.10%	191.67	187.38	-2.24%	-4.14%
Google Inc Class A	GOOG	2,795	\$1,597,482	1.61%	0.09%	571.60	573.48	0.33%	-1.58%
Google Inc Class C	GOOGL	2,739	\$1,587,560	1.60%	0.09%	579.55	583.71	0.72%	-1.19%
Coca-Cola Co.	KO	40,406	\$1,587,560	1.60%	0.09%	39.29	40.88	4.05%	2.14%
Gilead Sciences	SLB	13,731	\$1,488,337	1.50%	0.08%	108.39	106.53	-1.72%	-3.62%
Facebook Inc.	FB	19,530	\$1,418,882	1.43%	0.08%	72.65	73.63	1.35%	-0.56%
Pepscio	PEP	15,430	\$1,359,348	1.37%	0.08%	88.10	91.85	4.26%	2.35%
TOP TEN HOLDINGS			\$20,846,646	21.01%	1.18%	Russell 1000 Growth		1.91%	

Total Portfolio Value Total StanCERA Value **\$99,222,496** \$1,759,281,322

BlackRock Passive Large Cap Value Manager Positions as of July 31, 2014

			\$ Value	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
EXXON MOBIL CORP	XOM	50,415	\$4,988,064	4.28%	0.28%	98.94	99.03	0.09%	-1.02%
GENERAL ELECTRIC CO	GE	120,019	\$3,018,478	2.59%	0.17%	25.15	25.64	1.95%	0.84%
BERKSHIRE HATHAWAY INC	BRK-B	22,950	\$2,878,626	2.47%	0.16%	125.43	134.34	7.10%	5.99%
JOHNSON & JOHNSON	JNJ	28,295	\$2,832,008	2.43%	0.16%	100.09	101.17	1.08%	-0.03%
CHEVRON CORP	CVX	21,823	\$2,820,354	2.42%	0.16%	129.24	126.10	-2.43%	-3.54%
WELLS FARGO & CO	WFC	55,181	\$2,808,700	2.41%	0.16%	50.90	50.21	-1.36%	-2.47%
JPMORGAN CHASE & CO	JPM	43,651	\$2,517,341	2.16%	0.14%	57.67	56.75	-1.60%	-2.71%
PROCTER & GAMBLE CO	PG	31,653	\$2,447,415	2.10%	0.14%	77.32	81.78	5.77%	4.66%
PFIZER INC	PFE	74,718	\$2,144,401	1.84%	0.12%	28.70	28.64	-0.21%	-1.32%
AT&T CORP	T	59,271	\$2,109,438	1.81%	0.12%	35.59	34.74	-2.39%	-3.50%
TOP TEN HOLDINGS			\$28,564,824	24.51%	1.62%	Russell 1000 Value		1.11%	

Total Portfolio Value Total StanCERA Value **\$116,543,549** \$1,759,281,322

BNY - S&P 500 Index Passive S&P 500 Index Fund Positions as of July 31, 2014

			\$ Value	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	35,675	\$3,410,501	3.40%	0.19%	95.60	97.98	2.49%	1.06%
Exxon Mobil Corp	XOM	24,839	\$2,457,567	2.45%	0.14%	98.94	99.03	0.09%	-1.34%
Microsoft	MSFT	45,088	\$1,945,992	1.94%	0.11%	43.16	44.79	3.78%	2.35%
Johnson & Johnson	JNJ	16,536	\$1,655,096	1.65%	0.09%	100.09	101.17	1.08%	-0.35%
General Electric Co	GE	59,029	\$1,484,571	1.48%	0.08%	25.15	25.64	1.95%	0.52%
Berkshire Hathaway Inc.	BRK-B	11,116	\$1,394,293	1.39%	0.08%	125.43	134.34	7.10%	5.68%
Chevron Corp	CVX	10,711	\$1,384,262	1.38%	0.08%	129.24	126.10	-2.43%	-3.86%
Wells Fargo & Co.	WFC	27,196	\$1,384,262	1.38%	0.08%	50.90	50.21	-1.36%	-2.78%
Procter & Gamble	PG	16,476	\$1,273,922	1.27%	0.07%	77.32	81.78	5.77%	4.34%
JPMorgan Chase & Co.	JPM	21,568	\$1,243,830	1.24%	0.07%	57.67	56.75	-1.60%	-3.02%
TOP TEN HOLDINGS			\$17,634,295	17.58%	1.00%	S&P 500 Index:		1.43%	

Total Portfolio Value Total StanCERA Value **\$100,308,848** \$1,759,281,322

Dodge & Cox Equity Active US Large Cap Value Manager Positions as of July 31, 2014

			\$ Value	Weight	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
HEWLETT-PACKARD CO	HPQ	232,705	\$8,286,625	4.23%	0.47%	0.70%	35.61	35.07	-1.52%	-3.42%
WELLS FARGO & CO	WFC	146,072	\$7,435,064	4.14%	0.42%	2.50%	50.90	50.21	-1.36%	-3.26%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$7,357,450	4.12%	0.42%	0.50%	79.54	79.30	-0.30%	-2.21%
MICROSOFT CORP	MSFT	170,000	\$7,337,200	3.82%	0.42%	1.30%	43.16	44.79	3.78%	1.87%
TIME WARNER INC	TWX	78,232	\$6,494,820	3.35%	0.37%	0.00%	83.02	76.50	-7.85%	-9.76%
NOVARTIS AG-ADR	NVS	68,600	\$5,964,084	3.19%	0.34%	0.10%	86.94	86.93	-0.01%	-1.92%
COMCAST CORP-CLASS A	CMCSA	110,363	\$5,929,803	2.96%	0.34%	0.70%	53.73	54.63	1.68%	-0.23%
SANOFI-ADR	SNY	98,255	\$5,135,788	2.82%	0.29%	0.00%	52.27	52.46	0.36%	-1.54%
SCHWAB (CHARLES) CORP	SCHW	180,000	\$4,995,000	2.81%	0.28%	0.00%	27.75	27.27	-1.73%	-3.63%
BANK OF NEW YORK MELLON CORP	BK	123,400	\$4,817,536	2.74%	0.27%	0.00%	39.04	38.24	-2.05%	-3.95%
TOP TEN HOLDINGS			\$63,753,370	34.18%	3.62%	5.80%	Russell 1000 Grow	th:	1.91%	

Total Portfolio Value Total StanCERA Value **\$188,630,269** \$1,759,281,322

Jackson Square Partners Active Large Cap Growth Portfolio Positions as of July 31, 2014

			\$ Value	Weight	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
Celgene Corporation	CELG	104,200	\$9,081,030	5.77%	0.52%	0.70%	87.15	89.61	2.82%	0.92%
Microsoft Corporation	MSFT	206,525	\$8,913,619	5.59%	0.51%	2.32%	43.16	44.79	3.78%	1.87%
Visa Inc. Class A	V	38,950	\$8,218,840	5.40%	0.47%	1.06%	211.01	210.19	-0.39%	-2.29%
EOG Resources, Inc.	EOG	74,125	\$8,112,240	5.30%	0.46%	0.60%	109.44	106.09	-3.06%	-4.97%
Allergan, Inc.	AGN	47,750	\$7,919,815	5.25%	0.45%	0.50%	165.86	158.26	-4.58%	-6.49%
Walgreen Co.	WAG	112,950	\$7,767,572	5.21%	0.44%	0.50%	68.77	61.75	-10.21%	-12.11%
MasterCard Incorporated Class A	MA	103,650	\$7,685,648	5.11%	0.44%	0.75%	74.15	75.21	1.43%	-0.48%
QUALCOMM Incorporated	QCOM	100,050	\$7,375,686	4.91%	0.42%	1.25%	73.72	74.41	0.94%	-0.97%
Crown Castle International Corp.	CCI	93,125	\$6,908,013	4.46%	0.39%	0.25%	74.18	78.46	5.77%	3.86%
Priceline Group Inc	PCLN	5,175	\$6,429,679	4.41%	0.37%	0.64%	1242.45	1270.12	2.23%	0.32%
TOP TEN HOLDINGS			\$78,412,140	51.42%	4.46%	8.56%	Russell 1000 Grow	⁄th:	1.91%	

Total Portfolio Value Total StanCERA Value **\$153,712,252** \$1,759,281,322

Capital Prospects Active US Small Cap Value Manager Positions as of July 31, 2014

			\$ Value	Weight	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000V	\$ PX	\$ PX	% Change	% Change
HILLENBRAND INC	HI	42,756	\$1,284,811	1.38%	0.07%	0.00%	30.05	31.99	6.46%	4.72%
REGAL BELOIT CORP	RBC	14,702	\$1,033,435	1.11%	0.06%	0.00%	70.29	70.50	0.30%	-1.43%
LITTELFUSE INC	LFUS	11,675	\$1,014,814	1.09%	0.06%	0.03%	86.92	90.26	3.84%	2.11%
ASBURY AUTOMOTIVE GROUP INC	ABG	12,822	\$865,851	0.93%	0.05%	0.00%	67.53	69.20	2.47%	0.74%
IBERIABANK CORP	IBKC	13,197	\$865,851	0.93%	0.05%	0.25%	65.61	64.13	-2.26%	-3.99%
FIRST AMERICAN FINANCIAL CORP	FAF	31,560	\$856,540	0.92%	0.05%	0.35%	27.14	27.98	3.10%	1.36%
DELUXE CORP	DLX	15,063	\$828,610	0.89%	0.05%	0.16%	55.01	56.96	3.54%	1.81%
MB FINANCIAL INC	MBFI	30,412	\$819,300	0.88%	0.05%	0.18%	26.94	26.49	-1.67%	-3.40%
BARRETT BUSINESS SERVICES INC	BBSI	14,190	\$809,989	0.87%	0.05%	0.00%	57.08	59.37	4.01%	2.28%
CINEMARK HOLDINGS INC	CNK	24,127	\$791,369	0.85%	0.04%	0.00%	32.80	35.90	9.45%	7.72%
TOP TEN HOLDINGS			\$9,170,568	9.85%	0.52%	0.97%	Russell 2000 Value	e:	1.73%	

Total Portfolio Value Total StanCERA Value **\$93,102,217** \$1,759,281,322

Legato Capital Management Active US Small Cap Growth Manager Positions as of July 31, 2014

			\$ Value	Weight	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000G	\$ PX	\$ PX	% Change	% Change
MAXIMUS, Inc.	MMS	30,254	\$1,251,305	1.52%	0.07%	0.34%	41.36	39.80	-3.77%	-6.19%
Ultimate Software Group, Inc.	ULTI	8,636	\$1,165,515	1.42%	0.07%	0.47%	134.96	142.53	5.61%	3.19%
CoStar Group, Inc.	CSGP	6,189	\$889,545	1.08%	0.05%	0.00%	143.73	145.93	1.53%	-0.89%
PAREXEL International Corporation	PRXL	16,332	\$874,742	1.06%	0.05%	0.37%	53.56	57.50	7.36%	4.94%
Cepheid	CPHD	23,109	\$869,823	1.06%	0.05%	0.32%	37.64	37.65	0.03%	-2.39%
Portfolio Recovery Associates, Inc.	PRAA	14,689	\$866,063	1.05%	0.05%	0.36%	58.96	56.92	-3.46%	-5.88%
Synchronoss Technologies, Inc.	SNCR	20,946	\$846,428	1.03%	0.05%	0.17%	40.41	39.96	-1.11%	-3.53%
Dealertrack Technologies, Inc.	TRAK	22,520	\$846,076	1.03%	0.05%	0.21%	37.57	44.56	18.61%	16.19%
Internap Network Services Corporation	INAP	113,075	\$815,271	0.99%	0.05%	0.00%	7.21	6.86	-4.85%	-7.27%
Cardtronics, Inc.	CATM	20,637	\$795,763	0.97%	0.05%	0.21%	38.56	38.12	-1.14%	-3.56%
TOP TEN HOLDINGS			\$9,220,531	11.21%	0.52%	2.45%	Russell 2000 Growt	th:	2.42%	

Total Portfolio Value Total StanCERA Value **\$82,284,575** \$1,759,281,322

STANCERA Price Monitor Position Report

LSV Asset Management International Large Cap Value Positions as of July 31, 2014

				\$ Value	Weight	Weight	Weight	7/31/2014	8/15/2014	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	\$ PX*	\$ PX*	% Change	% Change
ASTRAZENECA PLC	AZN	London	47,834	\$3,481,845	2.14%	0.20%	0.50%	72.79	68.54	-5.84%	-5.69%
MAGNA INTERNATIONAL INC	MGA	Canada	27,269	\$2,928,655	1.80%	0.17%	0.13%	107.40	112.14	4.41%	4.56%
ALLIANZ SE	ALV.DE	Germany	18,628	\$2,326,653	1.43%	0.13%	0.41%	124.90	126.15	1.00%	1.15%
CHINA PETROLEUM & CHEMICAL-H	SNP	Hong Kong	23,162	\$2,261,572	1.39%	0.13%	0.14%	97.64	98.68	1.07%	1.21%
SANOFI S.A.	SNY	London	40,154	\$2,098,869	1.29%	0.12%	0.68%	52.27	52.46	0.36%	0.51%
NOVARTIS AG	NVS	Switzerland	23,954	\$2,082,599	1.28%	0.12%	1.08%	86.94	86.93	-0.01%	0.14%
BASF SE	BASFY	Germany	19,540	\$2,017,518	1.24%	0.11%	0.51%	103.25	100.54	-2.62%	-2.48%
OLD MUTUAL PLC	OML.L	London	9,972	\$1,952,436	1.20%	0.11%	0.09%	195.80	193.60	-1.12%	-0.98%
DAIMLER AG	DAI.DE	Germany	31,552	\$1,952,436	1.20%	0.11%	0.43%	61.88	59.71	-3.51%	-3.36%
ENI - ENTE NAZIONALE IDROCARBURI	E	Italy	37,473	\$1,903,625	1.17%	0.11%	0.35%	50.80	49.32	-2.91%	-2.77%
TOP TEN HOLDINGS				\$23,006,209	14.14%	1.31%	4.32%	MSCI ACWI ex-	U.S.	-0.15%	

Total Portfolio Value Total StanCERA Value **\$162,703,031** \$1,759,281,322

<sup>\*</sup>Company quotes are provided directly in USD

STANCERA Price Monitor Position Report

Pyramis Global Advisors Active Non-US Growth Manager Positions as of July 31, 2014

				\$ Value	Weight	Weight	Weight	7/31/2014	5/16/2014	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	PX*	PX*	% Change	% Change
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	73,771	\$3,040,132	1.66%	0.17%	1.40%	30.80	28.81	-6.46%	-6.31%
NESTLE SA (REG)	7123870	Switzerland	34,365	\$2,552,904	1.64%	0.15%	1.26%	67.50	71.45	5.85%	6.00%
HSBC HOLDINGS PLC (UK REG)	540528	London	200,332	\$2,152,435	1.30%	0.12%	1.06%	10.67	10.60	-0.66%	-0.51%
SANOFI	5671735	Paris	19,280	\$2,028,132	1.28%	0.12%	0.66%	52.27	53.10	1.59%	1.74%
ROCHE HLDGS AG (GENUSSCHEINE)	7110388	Germany	6,916	\$2,013,269	1.19%	0.11%	1.07%	36.33	37.72	3.83%	3.97%
LLOYDS BANKING GROUP PLC	870612	London	1,394,874	\$1,748,562	1.17%	0.10%	0.38%	1.29	1.25	-3.10%	-2.95%
BAYER AG	5069211	Germany	13,193	\$1,746,159	1.12%	0.10%	0.57%	36.33	37.72	3.83%	3.97%
TOYOTA MOTOR CORP	6900643	Tokyo	28,600	\$1,706,794	1.03%	0.10%	0.86%	117.99	109.61	-7.10%	-6.95%
NOVARTIS AG (REG)	7103065	Germany	19,136	\$1,674,111	1.00%	0.10%	1.06%	86.94	89.88	3.38%	3.53%
ALLIANZ SE (REGD)	5231485	Germany	9,757	\$1,630,553	1.00%	0.09%	0.40%	124.90	121.35	-2.84%	-2.69%
TOP TEN HOLDINGS				\$20,293,051	12.39%	1.15%	8.72%	MSCI ACWI ex-	US:	-0.15%	

Total Portfolio Value Total StanCERA Value **\$162,070,096** \$1,759,281,322

\*Company quotes are provided in foreign currency and then converted to USD

StanCERA Infrastructure Fund August 2014 Key Comparison of Proposed Candidates

	Kohlberg Kravis Roberts	Morgan Stanley
		Investment Partners
Key Terms	(KKR)	(MSIM)
Partnership Name	KKR Global Infrastructure Investors Fund II LP	Morgan Stanley Infrastructure Partners II LP
Structure	Unlisted, closed-end fund	Unlisted, closed-end fund
	Limited Partnership with capital call structure	Limited Partnership with capital call structure
Fund Currency	US Dollar	US Dollar
Target Capital	\$2 billion	\$4 billion with cap at \$5 billion
First Close	anticipated September 2014	6/16/2014
Next Close	anticipated end of 2014 / early 2015	anticipated Q4 2014
Minimum Commitment	\$5-10 Million	\$5 Million
Fund Life	12 years with 3 one-year extensions	12 years with 2 one-year extensions
Investment Period	6 years from the date of first investment	5 years subject to a 1-year extension period
GP Commitment	At least 5% of the aggregate fund	Up to 3% of total capital commitments
Management Fee	1% of NAV + 1% of unused commitments	1.5% under \$50 Million
	during investment period and 1% of NAV	
	for the remaining term	
Carried Interest	15% of net profits (10% if a first closer)	20%, subject to achieving an 8% preferred
	subject to an 8% preferred return with a	return with clawback
	full catch-up	
Type of Fund	Core +, focusing on assets where operational	Core +, focusing on assets where operational
	improvements may be part of the value	improvements may be part of the value
Geography	OCED: Americas and Europe	OCED: Americas, Europe and Asia, with up
		to 15% in EM
Sector Focus	Renewables; Telecom Services; Parking;	Gas & Water; Contracted Power;
	Water/Waste Water; District Heating	Green/Renewable; Seaports & Airports
Investment Objective	The Fund seeks infrastructure investments	The Fund intends to invest in Infrastructure
	with limited downside risk and to drive value	Assets on a global basis in order to assemble
	creation through distinctive sourcing, deep	an investment portfolio with a gross rate of
	operational engagement and active	return of approximately 12-15%. The Fund's
	shareholder management which KKR believe	target rate of return is before any carried
	leads to a strategy that offers core risk with	interes, fees, and expenses.
	value-added returns (12-15% gross).	
Prior Fund	KKR Global Infrastructure Investors Fund I LP	MSIP I, raised \$4B in 2008, now 100% invested
	raised \$1B in 2012	

	SIS Criteria For Selection:	Reasons
1	Private Fund preferred over Public Equity Markets	Less Correlation to Current StanCERA Asset Classes
2	Closed-End Format and Open-End Format each considered	Closed-End ultimately chosen as there are only two known open-end funds (who were not as compelling)
3	Global geographic format vs. North America only	Large opportunity set
4	Sector Exposure Broad vs. Limited	Broad sector exposure provides diversification
5	Core vs. Core Plus vs. opportunistic	Core Plus preferred. Ability to offer core type of risk with value-added returns via operational improvements
6	Vintage Year	Closed-End Funds have investment periods over next 5-6 years to provide Vintage Year diversification
7	Type of Firm. Global, large organization preferred	Global presence, deep resources, operational experience, internal sourcing and structuring, etc.
8	Infrastructure experience	Prior fund with good, solid track record
9	Firm currently out in market raising capital	Recommend KKR and MSIM

### NOTES:

StanCERA in the Fall of 2010 did consider KKR in their Mezzanine Partners I L.P. fund.

StanCERA in the Fall of 2010 did consider KKR in their Global Infrastructure Investors Fund I L.P. Fund (see attached memo dated 8/11/10).

StanCERA went into legal review of the Mezzanine Partners I L.P. fund but decided to not go through with that investment.

StanCERA decided to move forward with RBC on an Infrastructure investment rather than KKR (RBC also fell through).

KKR Infrastructure Fund I has performed well.

At this point in time SIS believes that KKR and MSIM are the two best Private Infrastructure Funds out in the market place.

If StanCERA does not wish to invite either KKR and/or MSIM in to present, SIS will come back at a future date with additional candidates.

TO: StanCERA Board of Retirement

StanCERA Staff

FROM: Paul Harte

DATE: August 11, 2010

SUBJECT: Kohlberg Kravis Roberts & Co. Infrastructure Investors L.P.

Strategic Investment Solutions at the request of the StanCERA Board of Retirement at the July 2010 Financial meeting was asked to further consider reducing the equity risk within their portfolio. The StanCERA Board recently took 5% out of their U.S. Equity allocation to fund PIMCO in a core investment grade fixed income allocation that began on May 1, 2010. The StanCERA asset allocation as of today is 41.4% U.S. Equity, 20.0% Non-U.S. Equity, 37.1% Core Fixed Income and 1.5% Global REITs.

Strategic Investment Solutions supports the consideration to further reduce equity risk out of the StanCERA portfolio. However, we are hesitant to add additional amounts to the Core Fixed Income asset class at this point in time given the large allocation of 37.1% and the low expected return assumption of 3.9%. The Fixed Income allocation does provide diversification to equities. A potential alternative to Core Fixed Income would be to build up the StanCERA Special Situations allocation which currently holds the 1.5% allocation to Global REITs.

The goal would be to consider within the StanCERA Special Situations fund potential investments that have attractive expected return and risk characteristics and that provide diversification (low correlation to equities) to the plan. The potential investments might include opportunities that are below investment grade in quality and also may be illiquid in nature. Potential opportunities for consideration at this point in time would be an additional allocation to Global REITs, a mezzanine debt fund opportunity, and infrastructure investing.

### Infrastructure

The scale of global infrastructure investment demand appears to be enormous. One study released by CG/LA Infrastructure has estimated the level of demand at approximately \$1 trillion annually, growing to \$3 trillion annually by 2030. A confluence of key drivers has led to this global capital need, including: historic government underinvestment; increasing urbanization, congestion and quality of life issues; heightened energy and environmental concerns; developments in technology; and growth in emerging markets. Thus, there exists today opportunities for private capital investment in infrastructure.

Infrastructure assets and businesses often possess a number of characteristics that make for attractive investments, including:

- Strong and stable long-term cash flows
- High barriers to entry
- Regulated or long-term contracted, inflation-hedged revenues
- Relatively inelastic demand through the offering of essential services
- Significant opportunities for incremental capital investment
- Limited sensitivity to economic cycles
- Limited correlation with other asset classes

### Kohlberg Kravis Roberts & Co (KKR) Global Infrastructure Investors L.P.

### **Organization**

- Established in 1976, Kohlberg Kravis Roberts & Co. L.P. (KKR) is an alternative asset manager with capabilities in private equity, infrastructure, credit and mezzanine debt.
- KKR has a global presence with offices in 14 major cities in 9 countries across 4 continents.
- The firm has a total of \$54.7 billion in assets under management with \$40.9 billion in private equity and the balance \$13.8 billion in credit.
- KKR has a total of 250 investment executives of which 130 are in private equity; 35 in credit and mezzanine; 50 in capital markets and client service; and, 50 operation executives in KKR Capstone.
- KKR operates through three primary business segments: private markets, public markets and capital markets and principal activities. KKR has raised 15 traditional private equity funds with approximately \$60 billion of capital commitments. KKR Asset Management commenced in 2004 and actively manages debt instruments as a separate asset class. KKR, through its subsidiaries, carries out capital markets activities that support its asset management business.

### KKR Infrastructure Team

- KKR's Infrastructure Team spans across private equity, operations, and consulting/advisory sectors. The Infrastructure team is comprised of 6 senior and 9 junior investment professionals located in New York, London, Houston and Menlo Park.
- The 6 senior investment professionals are Marc Lipschultz (New York) who is the Global Head of Energy and Infrastructure Teams; Reinhard Gorenflos (London); Jesus Olmos (London) who is European Head of Infrastructure; John Bookout (Houston); Simon Hipperson (London); and, Raj Agrawal (Menlo Park).
- The Infrastructure team is supported by 5 Senior Advisors who are: John Bryson Former Chairman & CEO of Edison Int'l.; Leigh Clifford Chairman of Qantas Airways; Lewis Eisenberg Former Chairman of Port Authority of NY and NJ; Clint Johnstone, Jr. Former CEO of Bechtel Group; and, Lee Raymond Former Chairman & CEO of Exxon Mobil.
- The operational component is supplied by KKR Capstone founded in 2000 with approximately 50 professionals
  with deep operating and functional experience on portfolio companies and fully integrated with investment
  teams.

## KKR GLOBAL INFRASTRUCTURE INVESTORS L.P.

- The initial emphasis is expected to be midstream energy, alternative energy, utilities (water, power and gas), social infrastructure and selected transportation-related infrastructure.
- The investment focus will be a global strategy to access the most attractive opportunities. KKR will target leading companies, world class assets and proven management teams.
- KKR expects to seek majority ownership/control positions in their infrastructure investments.
- The anticipated holding period for a typical Fund investment is approximately 10 years or longer. The Fund has a term of up to 15 years (including extensions).
- Emphasis will be on Brownfield (existing assets or businesses), with opportunity for value added. Greenfield (developing) investments are expected to constitute a minority of the Fund's portfolio.
- KKR's differentiated investment strategy comprises three elements: 1) disciplined investment selection with focus on risk and sensitivity to economic cycles, 2) deep operational engagement to improve performance and create value, and 3) active stakeholder management as a core competence.
- Focus will predominantly be in OECD but will also access non-OECD where KKR has real presence and experience.
- The Fund will seek to generate returns through both long-term capital appreciation and current income, targeting an overall gross internal rate of return in the mid-teens when averaged over its term and investments.

### INVESTMENT RATIONALE

- Experienced Investors KKR has a decade of experience investing in infrastructure and related assets. KKR investment professionals have made approximately \$7 billion of equity investments/co-investments since 2000 in the Transportation (U.N. Ro-Ro), Contracted "Hedgeable" Generation (Texas Genco and EFH Luminant), Waste Management (Duales System Deutschland), Alternative Energy (AVR -van Gansewinkel), Communications Infrastructure (Bharti Infratel and PanAmSat) and Electric & Gas Utilities (DPL, EFH Oncor and ITC Holdings). KKR has realized a 12% average annual EBITDA growth for realized and partially realized infrastructure investments (DPL, ITC, PanAmSat, Texas Genco and Duales System Deutschland AG). KKR also states that their nine realized, partially realized and unrealized infrastructure and infrastructure-related investments have generated a Gross IRR of 44.3% (and a Net IRR of 34.0%) and a gross multiple of 1.4x (and a net multiple of 1.3x). SIS is in the process of verifying this track record.
- Infrastructure Investment Committee Leverages investment experience of senior executives including cofounders Henry Kravis and George Roberts, as well as European Head Johannes Huth and Marc Lipschultz. The Infrastructure Investment Committee will provide decision-making oversight for potential infrastructure investments. The Portfolio Management Committee with current members Kravis, Roberts, Paul Raether, Reinhard Gorenflos, Kenneth Freeman, Dean Nelson, William Cornog, David Cote, Geroge Fisher, Joe Forehand and Clint Johnstone, Jr. will oversee the monitoring of, creation of value in, and exiting of investments.
- Sourcing Advantage Approximately 130 private equity investment professionals organized into 8 industry sectors can lead to proprietary insights and deal flow as a result of dedicated industry groups with strong relationships. Geographic locations (14) in North America, Europe and Asia. As of 6/30/10, KKR has created a substantial pipeline of infrastructure opportunities (16) of which 11 are proprietary.
- Operational Capabilities- People, processes, and resources are all aligned for potential value creation. KKR Capstone, KKR investment team, Senior Advisors, Portfolio Management Committee, Global Public Affairs Group all work with one another.
- Senior Advisors KKR has a roster of senior advisors many of whom have held leading positions in major global corporations or public agencies in the U.S., Europe and Asia. KKR Infrastructure team will seek to access these seasoned operation executives for help with strategic insight, evaluating opportunities and sourcing transactions.

### **KEY LP TERMS and CONDITIONS**

The General Partner (KKR) will make the greater of \$50 million and /or a 3% total of aggregate capital commitments to the Fund. The first close of the KKR Global Infrastructure Investors L.P. is expected to be August 2010. Additional Limited Partners may be admitted after the First Closing Date for a period of 18 months from the date of the Fund's first investment.

KKR Global Infrastructure Investors L.P. is a Cayman Islands exempted limited partnership. The General Partner of the Infrastructure Fund will be KKR Associates Infrastructure L.P.

A minimum L.P. commitment of \$10 million.

Investment period up to six years from initial investment. Term of 12 years from initial investment, which may be extended by up to three additional one-year periods at the General Partner's discretion.

Investment objective is to generate attractive risk-adjusted returns by pursuing infrastructure investment opportunities globally.

No more than 20% of aggregate Capital Commitments in a single investment. No more than 25% of aggregate Capital Commitments outside OECD member countries.

A preferred return of 8% per annum, compounded annually. Carried interest equates to 10% of current income and net realized gains after giving effect to the preferred return, with a catch-up to the General Partner in respect of the preferred return.

The management fee is 1.0% of per annum of the aggregate of (i) the net asset value of the Fund allocable to each Limited Partner and (ii) with respect to Limited Partners who do not participate in the initial closing, the unused Capital Commitments of each such Limited Partner, and for Limited Partners who subscribe prior to September

30, 2010, 1% per annum of the net asset value of the Fund (not including committed but undrawn capital) allocable to each Limited Partner, in each case payable quarterly in advance.

The Fund will also pay all organizational expenses. Limited Partners will receive a reduction in management fees with respect to organizational expenses in excess of \$4 million.

### **INVESTMENT CONCERNS**

- Lack of Operating History This will be the first dedicated infrastructure fund for KKR. No track record presented for a standalone Infrastructure Fund. That said, the firm and investment professionals do have a history making investments/co-investments in infrastructure and related assets as far as the amount of deals done and length of track record at KKR and other firms.
- Liquidity and Quality The relative high expected cash yield on the fund has an offset of liquidity. The life of the fund (liquidity) is up to fifteen years (with extensions). There is anticipated to be no public market for the L.P. Interests and no such market is expected to develop in the future. The L.P. Interests may not be sold or transferred without the General Partner's consent.
- Potential Conflicts of Interest with other KKR Funds KKR from time to time, investment opportunities may arise that are suitable for investment both by the Infrastructure Fund and by other KKR investment funds, vehicles, or accounts managed or advised by KKR and its affiliates. KKR and its affiliates will allocate such investment opportunities between such funds in a manner they deem appropriate, which may include investment objectives, available capital, concentration limits portfolio diversification, the overall risk profile of a portfolio, and other factors deemed relevant by KKR. KKR has created a global conflicts committee overseen by KKR's General Counsel and Global Chief Compliance Officer. In addition, the General Partner will select an Advisory Committee. Limited Partners with a Capital Commitment of at least \$100 million are entitled to have a representative on the committee. The General Partner may allow any person to co-invest in an investment alongside the Infrastructure Fund.
- **Leverage** The Fund may use Financial Leverage and may borrow or otherwise incur leverage up to an aggregate amount equal to 30% of the aggregate Capital Commitments of Partners to the Infrastructure Fund.
- Alignment of Interests Weak key man clause, fee offset structure and no fault clause
- ERISA Considerations The General Partner will use reasonable best efforts to avoid having the assets of the Partnership constitute "plan assets" of any "benefit plan investors" (within the meaning of Section 3(42) of ERISA) and may, in this regard, elect to operate the Partnership as a "venture capital operating company" within the meaning of regulations promulgated under ERISA.

It is intended for U.S. federal income tax purposes the Fund will be treated as a partnership and not as an association taxable as a corporation. Each U.S. partner in the Fund, in determining its U.S. federal income tax liability, will take into account its allocable share of items of income, gain, loss, deduction and credit of the Fund, without regard to whether it has received distributions from the Fund. As is generally the case for similar private investment vehicles, an investment in the Fund will give rise to a variety of complex U.S. federal income tax and other tax issues for Limited Partners.

The Fund expects to borrow funds to make portfolio investments and thus the Fund is expected to hold debtfinanced property that may produce UBTI. Furthermore, the Fund's portfolio investments may include equity investments in flow-through entities that may generate UBTI. The potential for having income characterized as UBTI may have a significant effect on any investment by a tax-exempt entity in the Fund.

Income recognized by a tax-exempt entity is exempt from U.S. federal income tax, except to the extent of the entity's UBTI. With exceptions for certain types of entities, UBTI is generally defined as income from a trade or business regularly carried on by a tax-exempt entity that is unrelated to its exempt purpose (including an unrelated trade or business regularly carried on by a partnership or other flow-financed property," however, UBTI does not include, among other items, dividends, interest, annuities, royalties and gains fro the sale of property that is neither inventory nor held for sale for certain expenses attributable to the unrelated trade or business.

A tax-exempt entity deriving gross income characterized as UBTI that exceeds \$1,000 in any taxable year is obligated to file a U.S. federal income tax return, even if it has no liability for that year as a result of deductions against such gross income, including an annual \$1,000 statutory deduction.

# TAX EXEMPT INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING ALL ASPECTS OF UBTI.

### SUMMARY AND RECOMMENDATION

Kohlberg Kravis & Roberts Asset Management's Infrastructure Fund is attractive from its both its expected current high income coupon and potential for long-term capital gains. The cash yield on the fund is expected to be at or about 6-8%. Leveraged total returns are expected to be in the mid-teens on a gross basis over the life of the fund. The expected return for the U.S. Core Fixed Income asset class for comparison is currently at 3.9%. The offset to these high expected returns are a give-up in liquidity.

Strategic Investment Solutions recommends that StanCERA hold off making a commitment to the KKR Global Infrastructure Fund at this point in time. SIS feels that it would be prudent to continue its efforts in identifying other potential interesting infrastructure investment funds to the StanCERA Board in the near future. SIS feels that the opportunity to invest in the Infrastructure asset class will remain viable over the next six to nine months and there is no need to commit to a fund such as the KKR Global Infrastructure Fund that has some issues.

The concerns that we have with the KKR Global Infrastructure Fund at this point in time are as follows:

- 1) This is the first fund that KKR is bringing to the market devoted entirely to Infrastructure
- 2) The track record presented by KKR includes some companies that are classified as Infrastructure but may not be
- 3) The issue of potential conflicts of interest with other KKR funds needs to be further researched
- 4) Our issues with alignment of interests on key man clause, fee offset structure and no fault clause all need to be further discussed and researched

We realize that there is incentive to be part of the first close (expected now to be 9/30/10) with KKR given that fees would be charged on called capital vs. committed capital. That said, we would like to have more time to discuss with KKR the issues that we raise above and also bring additional infrastructure funds to the StanCERA Board that may be of interest. If the StanCERA Board decides to make a verbal commitment to invest in the KKR Global Infrastructure Fund at this point in time, SIS would suggest a \$10-\$15 million allocation, or roughly 1.0% of total plan assets.

KKR Global Infrastructure Investors Fund II L.P.

April 2014



# Important Information

The information contained herein is provided for informational and discussion purposes only and is not an offer to sell or a solicitation of an offer to buy an interest in KKR Global Infrastructure Investors Fund II L.P. ("Fund II") or any other investment fund, vehicle or product sponsored or managed by Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, "KKR" or the "Firm"). A private offering of limited partner interests ("Interests") in the Fund will only be made pursuant to the confidential private placement memorandum issued with respect to Fund II (as amended and/or supplemented, the "Offering Memorandum"), describing among other things, the risks associated with the Fund II, the limited partnership agreement of Fund II and its subscription documents, which will be furnished to qualified investors on a confidential basis at their request for their consideration in connection with such offering.

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The Interests have not been approved or disapproved by any federal, state, or other securities commission or regulatory authority, nor has any such commission or regulatory authority passed upon the accuracy or adequacy of this document. Any representation to the contrary is a criminal offense.

The Interests have not been registered under the U.S. Securities Act of 1933, as amended (the "1933 Act"), the securities laws of any state of the United States or the securities laws of any other jurisdiction, nor is such registration contemplated. The Interests will be offered and sold under the exemption provided by Section 4(a) (2) of the 1933 Act and other exemptions of similar import in the laws of the states and jurisdictions where the offering will be made. Fund II will not be registered as an investment company under the U.S. Investment Company Act of 1940, as amended (the "1940 Act"). KKR is registered as an investment adviser under the U.S. Investment Advisers Act of 1940, as amended.

Certain information contained herein constitutes "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "target," "project," "estimate," "intend," "continue," "plan" or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, including those described in the Offering Memorandum, actual events or results or the actual performance of Fund II may differ materially from those reflected or contemplated in such forward-looking statements.

References to "assets under management" or "AUM" represent the assets as to which KKR is entitled to receive a fee or carried interest. KKR's calculation of AUM may differ from the calculations of other asset managers and, as a result, KKR's measurements of its AUM may not be comparable to similar measures presented by other asset managers. KKR's definition of AUM is not based on the definitions of AUM that may be set forth in agreements governing the investment funds, vehicles or accounts that it manages and is not calculated pursuant to any regulatory definitions.

General discussions contained within this document regarding the market or market conditions represent the view of either the source cited or KKR. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns.



# Important Information (continued)

There can be no assurance that investors in any account, or fund or other vehicle, including Fund II, will receive a return of capital.

All information contained herein is qualified in its entirety by information contained in the Offering Memorandum for Fund II. An investor should consider Fund II's investment objectives, risks, conflicts of interest, fees, carried interest terms and other charges and expenses carefully before investing. This and other important information about Fund II can be found in Fund II's Offering Memorandum. Please read the Offering Memorandum carefully before investing.

References in this document to "Gross IRR" or "gross return" and references to "Gross Multiple" or "gross multiple" are to the internal rate of return or multiple of invested capital, respectively, calculated at investment level, and thus do not take into consideration the effects of inflation, management fees, carried interest, transaction costs, and other expenses to be borne by Fund II which will reduce returns and, in the aggregate, are expected to be substantial (see the Offering Memorandum and Form ADV Part 2 maintained by KKR, a copy of which will be furnished to each investor prior to its admission to Fund II. A hypothetical illustration of the effect of such fees, expenses and other charges on such returns is available on request). In the case of unrealized investments, gross returns are based on internal valuations by KKR of unrealized investments as of the applicable date. The actual realized returns on such unrealized investments will depend on, among other factors, future operating results, the value of the assets, and market conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the valuations used in the prior performance data contained herein are based. Accordingly, the actual realized return of these unrealized investments may differ materially from the returns indicated herein.

Unless otherwise indicated, references in this document to "Net IRR" or "net return" are to the internal rate of return calculated at fund level, after payment of applicable management fees and carried interest and other applicable expenses; however, where net returns are shown at the investment level, net returns are before management fees, as management fees are applied only at the fund or separate account level. In addition, references to "Net Multiple" or "net multiple" at the investment level and fund level are to the multiple of invested capital calculated after payment of applicable carried interest and other applicable expenses, but before management fees are taken into account. Therefore, after payment of management fees at the fund or account level, the actual return to investors with respect to individual investments and multiple of invested capital at the investment and fund level was less than indicated herein. Internal rates of return are computed on a "dollar-weighted" basis, which takes into account the timing of cash flows, the amounts invested at any given time, and unrealized values as of the relevant valuation date. Multiples of invested a fundate based on figures for the cost and total value of KKR fund investments that have been calculated based on figures for the cost and total value of KKR fund investments that have been rounded to the nearest \$100,000. References to the "Annualized Yield" are to cash distributions of investment proceeds to investors, including cash distributions of current income and disposition proceeds and, if any, cash deemed distributed to such investors and redeployed during the relevant period relative to the weighted average of invested capital in the relevant investments during such period. "Annualized Yield" does not take into account capital contributions by investors for management fees, organizational costs or other fees and expenses not relating to the investments generating the relevant proceeds.

### Past performance is no guarantee of future results.

**Related Performance.** The performance shown herein is not the performance of Fund II and is not an indication of how Fund II would have performed in the past or will perform in the future. Fund II's performance in the future will be different from the performance shown due to factors including, but not limited to, differences in management fee and carried interest terms, cash flows, expenses, performance calculation methods, and portfolio sizes and composition. The performance presented reflects the performance of all investments made or committed to under the KKR Global Infrastructure Strategy, as defined herein, utilizing a strategy substantially similar to that which will be utilized for Fund II.

Characteristics and other information regarding the KKR Global Infrastructure Strategy are not characteristics of Fund II and are not an indication of how Fund II would have performed in the past or will perform in the future. While Fund II will utilize a strategy substantially similar to the KKR Global Infrastructure Strategy, Fund II's characteristics may be different from the characteristics of KKR Global Infrastructure Strategy due to factors including, but not limited to, portfolio size and composition. KKR believes, however, such characteristics to be relevant to investors considering an investment in Fund II to show the portfolio managers' experience implementing, and historical characteristics of, the Fund's anticipated investment strategy.

**Target Returns.** Targeted returns referred to in this document are hypothetical in nature and are referred to for illustrative informational purposes only. Such targeted returns are not intended to forecast or predict future events, but rather to indicate the returns for infrastructure investments that KKR expects to seek to achieve on Fund II's overall portfolio of investments. Targeted returns have been determined by KKR on the basis of estimates and assumptions about performance believed to be reasonable in light of current market conditions, KKR's investment experience, and KKR's views on future market conditions. In evaluating potential returns of an investment of Fund II, KKR will consider a number of factors, including, for example, projected cash flows, availability of financing, projected future valuations of target assets and businesses, other relevant market dynamics (including of interest rate and currency markets), anticipated contingencies, and regulatory issues.

KKR

# Important Information (continued)

Actual results and events may, however, differ materially from the assumptions underlying such analysis. Such returns are subject to significant economic, market, and other uncertainties that may adversely affect the performance of Fund II or its individual investments, including those discussed in Offering Memorandum. Individual investments may be acquired that have an anticipated internal rate of return below or above Fund II's targeted return. Such targets are neither guarantees nor predictions or projections of Fund II's future performance, and are not to be relied upon as such. There can be no assurance that Fund II will achieve such returns or that investors will receive a return of capital. Fund II's target returns may change over time and may go down as well as up. The timing of the realization of an asset (which may be required, for example, at the end of the life of Fund II) may materially impact the returns generated by such investment. Prospective investors should not that targeted gross returns do not account for the effects of inflation and do not reflect the management fees, carried interest, taxes, transaction costs and other expenses that will be borne by investors in Fund II which will reduce returns and, in the aggregate, are expected to be substantial. The targeted net returns presented herein are calculated net of estimated taxes (other than taxes or withholding borne or to be borne by investors directly, including taxes associated with investments made through entities taxed as U.S. corporations), Fund expenses and, with respect to consummated transactions, estimated carried interest and management fees and are gross of transaction costs, and, with respect to unconsummated investments, carried interest and management fees.

The investment program of Fund I is speculative and entails substantial risks. There can be no assurance that the investment objective of Fund I will be achieved and that investors will not incur losses. Investors in Fund I should consider, among others, the following risks as well as those described elsewhere in this document and in the Offering Memorandum:

**General.** An investment in Fund II involves a high degree of risk. There can be no assurance that Fund II's investment objectives will be achieved, or that an investor will receive a return of its capital. In addition, there may be occasions when the general partner of Fund II, and its affiliates, including KKR, will encounter potential conflicts of interest in connection with Fund II, as described more fully in the Offering Memorandum.

**Illiquid and long-term investment**. An investment in Fund II will be illiquid requiring a long-term commitment, with no certainty of return. Interests may not be transferred without prior consent. There will be no liquid market for the Interests. Investors may not withdraw capital. Investors must be prepared to bear the risks of owning the investment for an extended period of time.

**Fees and carried interest**. Management fees and carried interest terms of Fund II will reduce any profits generated by its investments and may create an incentive for KKR to make investments that are riskier or more speculative that would be the case if such compensation arrangements were not in effect.

**Overseas investment considerations**. Fund II may invest a substantial portion of its assets outside the U.S. and other developed nations. Investments in overseas securities and assets may involve certain risks not typically associated with investing in the U.S. or other developed countries, including risks relating to: (i) potential price volatility in and relative illiquidity of some overseas securities markets; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) fewer investor protections, less stringent fiduciary duties, less developed bankruptcy laws and difficulty in enforcing contractual obligations; (iv) potential economic, political or social instability, exchange control regulations, restrictions on foreign investment and repatriation of capital, expropriation or confiscatory taxation; and (v) the possible imposition of local taxes on income and gains recognized with respect to securities and assets. Where Fund II invests in emerging markets, these risks will be heightened.

**Availability of suitable investments; limited number of investments; track record; geographical or sector concentration**. Fund II is a recently formed entity and has no operating histories upon which investors can evaluate the anticipated performance of Fund II. There can be no assurance that Fund II will be able to locate and complete suitable investments, or that such investments will be successful. Fund II may make a limited number of investments and, as a consequence, the aggregate return of Fund II may be adversely affected by the unfavorable performance of even a single investment. Its diversification by geographical region or infrastructure sector may be limited which may adversely affect the performance of Fund II if these regions or sectors experience an economic slowdown.

**Market and economic risks**. Investments made by Fund II may be materially affected by market, economic and political conditions globally and in the jurisdictions and sectors in which it invests or operates, including factors affecting interest rates, the availability of credit, currency exchange rates and trade barriers. These factors are outside the control of Fund II and could affect the liquidity and value of its investments and reduce its ability to make new investments.

References to "KKR Capstone" or "Capstone" are to all or any of Capstone Consulting LLC, Capstone Europe Partners LLP, Capstone Europe (International) Partners LLP, KKR Capstone Asia Limited, and their affiliates, which are owned and managed by their senior management and not by KKR. KKR Capstone is not a subsidiary of KKR and uses the "KKR" name under license.



# Important Information (continued)

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# **Executive Summary**

- We are establishing KKR Global Infrastructure Investors II L.P. ("Fund II") to pursue infrastructure investment opportunities primarily in North America and Western Europe<sup>(1)</sup>
- The scale of global infrastructure investment demand is expected to be enormous<sup>(2)</sup> and we believe that infrastructure assets can provide valuable portfolio diversification benefits through stability of cash flows, inflation protection, yield, long duration and reduced volatility
- KKR has been one of the more active infrastructure investors globally over the course of the last three years through its first dedicated infrastructure fund, KKR Global Infrastructure Investors L.P. ("Fund I"), which held its final closing in May 2012 with aggregate commitments of \$1.04 billion
- Consistent with KKR's risk-based, rather than sector-based approach to infrastructure investing, Fund II will seek to generate attractive risk-adjusted returns by focusing on investments with a "core" profile to which KKR believes it can add value through its sourcing, execution and operational capabilities
- Fund II will seek to generate an overall gross return in the low to mid-teens through a combination of long-term capital appreciation and current income generation which we believe, when combined with Fund **II's** management fee and carried interest terms, makes it an attractive investment<sup>(3)</sup>
  - As of March 31, 2014, investments made within the KKR Global Infrastructure Strategy had a Net IRR and Annualized Yield of 9.8% and 4.1%, respectively<sup>(4)</sup>
- KKR's Infrastructure Team is comprised of 16 investment professionals with investment experience and backgrounds that span the Fund's targeted sectors
- We are our own largest investor with ~\$4.6 billion of our own capital at work in all of our deals
  - KKR will commit at least 5% of the aggregate capital commitments to the Fund
    - Note: Past performance is no guarantee of future results. Please refer to Risks of Investing in Global Infrastructure Funds on slide 23 and see "Important Information" at the beginning of this presentation for how our performance is calculated.
    - (1) The Fund primarily seeks investments in the member countries of the OECD (Organization for Economic Co-operation and Development) which are Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.
    - (2) "Infrastructure Productivity," McKinsey Global Institute report, published January 2013.
    - (3) Please refer to "Important Information" included on slides 2 to 5 for additional information regarding target returns.
      - KKR's Global Infrastructure Strategy includes all Fund I investments made through March 31, 2014 and KKR's Colonial Pipeline investment, which is the only infrastructure strategy investment made by KKR pre-Fund I. Past performance of any KKR-sponsored fund, account or investment, including, but not limited to Fund I and the Colonial Pipeline investment is not indicative of future results of Fund II. See "Important Information" on slides 2 to 5 for important disclosure regarding the calculation of Net IRR and Annualized Yield.

# Agenda

- I. Introduction
- II. Differentiated Investment Strategy
- III. Risks of Infrastructure Fund Investing
- IV. Strong Infrastructure Track Record
- V. Experienced and Well Resourced Infrastructure Team
- VI. Key Fund Terms
- VII. Conclusion

Appendix - Case Studies and Team Biographies



# I. Introduction



# KKR — A Global Investment Firm

Established in 1976, Kohlberg Kravis Roberts & Co. L.P. ("KKR") is a leading global investment firm with industry-leading investment experience, in-depth industry knowledge, sophisticated processes for growing and improving businesses, and a strong culture committed to teamwork

- → Leading investment firm

  Private Equity, Infrastructure, Natural Resources,

  Energy Income & Growth, Real Estate, Credit

  Strategies, Alternative Credit, Equity Strategies,

  Hedge Fund of Funds
- → Global presence

  Offices in 21 cities in 15 countries across 5 continents
- "One-firm" culture that evolves, learns, and innovates

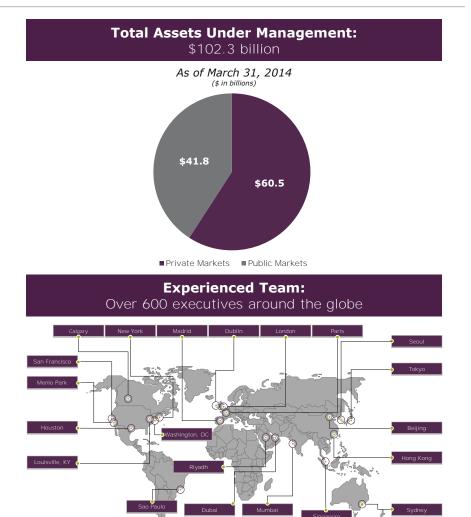
Adaptive to change

- → Relationship-driven approach

  Sourcing investment opportunities

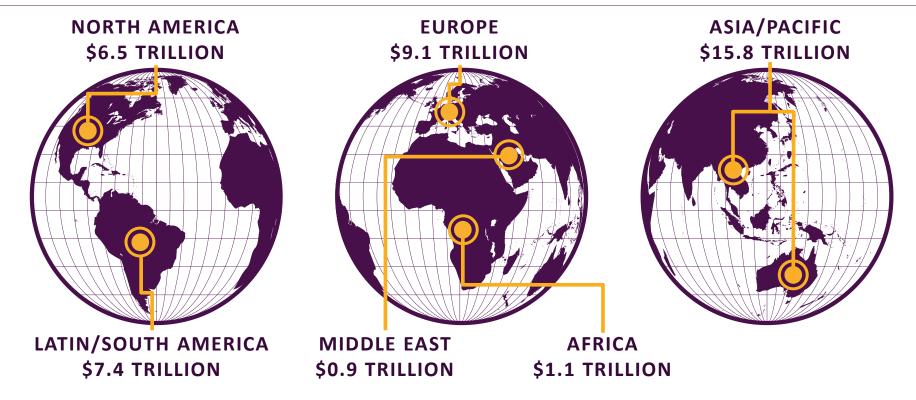
  Partnering with clients
- → Aligned with our partners
  "Eat our own cooking"

  Economic incentives driven by results
  Focused on managing stakeholder interests



# Global Infrastructure Capital Need is Significant

- There is a need for capital across the globe where governments are simply unable to supply the capital required for public infrastructure because of large deficits and severe budgetary pressures
- Increasingly, governments are seeking to access private capital to build new assets, expand or renovate existing assets, and supply the provision of essential services



**Projected Global Infrastructure Capital Demand Through 2030:** \$41<sup>(1)</sup> - \$57<sup>(2)</sup> trillion

**Private Infrastructure Financing Supply Through 2030 if Institutional Investors Meet Their Target Allocations:** \$2.5 trillion<sup>(2)</sup>

# KKR Global Infrastructure Strategy Timeline



### October 2010

Acquired a 23.4% equity stake in Colonial Pipeline, the largest refined products pipeline in North America

2010



### October 2011

Acquired 49% equity stake in T-Solar JV, alongside the largest owner/operator of solar photovoltaic generation assets



# December 2011

Announced the formation of SunTap Energy RE LLC, focused on acquiring solar photovoltaic electric generating facilities, and made initial acquisition of assets in Sacramento. CA

# **Bayonne Water** & Wastewater Concession

November 2012

Acquired a 40-year water and wastewater concession from the City of Bayonne, New Jersey in partnership with United Water



### May 2013

Acquired South Staffordshire Plc, a regulated UK water utility, from Alinda Capital Partners

### SunTap Energy II

### November 2013

Announced the acquisition of additional solar photovoltaic electric generating facilities from Recurrent Energy The KKR Global
Infrastructure
Investors Fund I
is currently
~82%
committed



### September 2011

Acquired 50% equity stake in Sorgenia France JV, alongside one of the largest wind farm operators in France by installed capacity



### December 2011

Acquired an equity stake in Saba Infraestructuras, a leading European parking assets operator



### September 2012

Acquired Coriance, a regulated district heating company in France, from A2A SpA

# SSM Solar February 2013

Acquired a portfolio of solar photovoltaic generating facilities in Ontario, Canada from the Starwood Energy Group

# ASSOCIATED PARTNERS, LP

### October 2013

Acquired a 16.7% preferred equity interest in each of four wireless infrastructure businesses managed by Associated Partners



### April 2014

Announced the formation of European Locomotive Leasing, a provider of full-service electric locomotive leasing solutions to the European railway industry

# KKR currently manages over \$2.9 billion in Infrastructure assets



II. Differentiated Investment Strategy



# The KKR Approach: A Value-Added Investment Strategy

Our strategy is to seek infrastructure investments with limited downside risk and to drive value creation through distinctive sourcing, deep operational engagement and active stakeholder management...

...which we believe leads to a strategy that offers core risk with value-added returns



# The KKR Approach: A Value-Added Investment Strategy (continued)

Disciplined
Investment Selection

A risk-based, not sector-based, approach to filter investment selection

# Essential Criteria1. Physical assets4. Long-term visibility of cash flows2. Central to the functioning of the local economy5. Limited sensitivity to economic cycles3. Irreplaceable assets6. Inflation hedged

Distinctive Sourcing and Structuring

Focus on securing a high proportion of proprietary investments opportunities, developing strong strategic partnership arrangements and structuring to enhance downside protection

Deep Operational Engagement

Well-honed institutionalized processes and dedicated resources focused on value creation

Active Stakeholder Management

Significant stakeholder relations expertise through our long-standing experience with complex transactions involving highly regulated, public-facing assets

Portfolio
Diversification

Focus on creating a broadly diversified portfolio across markets, sectors, risks and geographies, targeting an overall gross return in the low to mid-teens through a combination of long-term capital appreciation and current income generation<sup>(1)</sup>

Note: KKR may use some or all or all off the techniques described herein

# 1 Disciplined Investment Selection



**Physical** assets

**Central to the** functioning of the local economy

**Irreplaceable** assets

Long-term visibility of cash flows

Limited sensitivity to economic cycles

> Inflationhedged

Asset Type	Highlights	Infrastructure Investments			
1 Regulated Assets	<ul><li>Rate of return regulation</li><li>Regulated tariffs</li></ul>	South Staffordshire P  Colonial Pipeline  Bayonne Water & Wastewater Concession			
2 Contracted Assets	<ul><li>Typically 10+ year contracts</li><li>High quality counterparties</li></ul>	Coriance  ASSOCIATED PARTNERS, LP  SunTap Energy I  SSM Solar SunTap Energy II			
Assets with Market Protection	Irreplaceable assets	EUROPEAN LOCOMOTIVE Saba°			

# 1 Global Investment Oversight

The Infrastructure Investment Committee works in an integrated fashion with the Infrastructure Investment Team and serves as the decision-making group for KKR Global Infrastructure Strategy investments, including input on the direction of due diligence and the engagement of outside advisors

# **Rigorous Screening Process**

- Weekly team review of early-stage opportunities
- Peer review ensures transmission of learning and application of diverse perspectives

### **Robust Committee Process**

- Opportunities typically presented to the Infrastructure Investment Committee multiple times before execution
- Iterative, interactive, and open dialogue focused on key issues

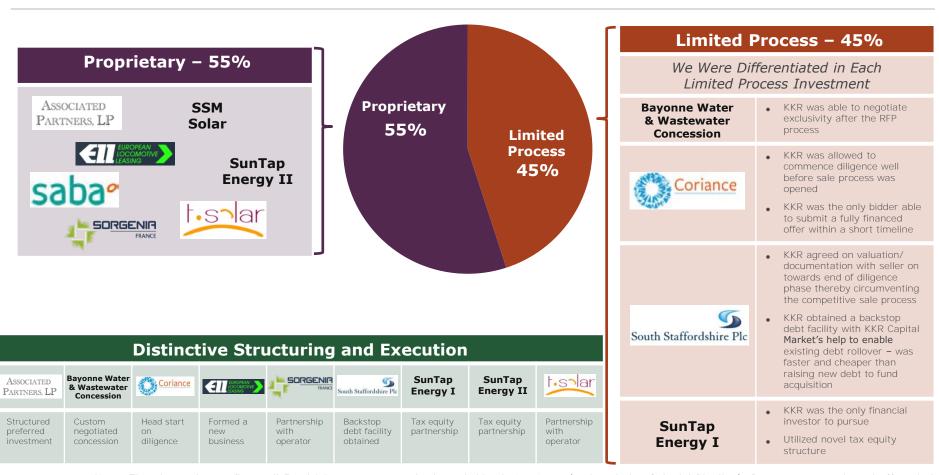
# Highly Experienced Infrastructure Investment Committee

- Private capital investment experience drives robust dialogue
- Deep experience in valuation, structuring, deal tactics and execution
- Benefits from KKR's experience investing across private markets over the firm's 37 year history

Infrastructure Investment Committee Members	Years at KKR	Years Investing Experience
Henry R. Kravis Co-Chairman and Co-CEO	38	44
George R. Roberts Co-Chairman and Co-CEO	38	44
Marc S. Lipschultz  Member, Global Head of Energy & Infrastro	19 ucture	21
Johannes P. Huth  Member, Head of KKR Europe	15	28
<b>Raj K. Agrawal</b> Member, Head of North American Infrastru	8 Icture	14
<b>Jesús Olmos</b> <i>Member, Head of European Infrastructure</i>	5	23

# 2 Distinctive Sourcing and Structuring

Proactive outreach, strong reputation and relationships, focused local networks, and resources valued by management teams and entrepreneurs have the potential to yield investments not available to others



Note: The above chart reflects all Fund I investments made through March 31, 2014 (and excludes Colonial Pipeline). Percentages are based off capital invested as of March 31, 2014. Limited process is defined as a sourcing process involving three or fewer interested parties, including KKR. Sourcing allocation for Fund II may differ. It should not be assumed that an investment in the companies identified was or will be profitable. There can be no assurance that KKR will be able to source appropriate investments for Fund II, including through a proprietary or limited process, or that any such



investments will be profitable

17

# 3 Deep Operational Engagement

KKR Capstone was launched in 2000 to accelerate operational change in KKR's portfolio companies and to create significant additional value for our investments

# A Structured Approach to Operational Improvements

### 100-Day Plan

- Disciplined and structured approach to value creation
- Delineates operational issues to be addressed immediately after acquisition

### **KKR Capstone**

- Exclusive relationship
- Experienced team of senior operators
- Focused on results-oriented execution

### **Operational Excellence**

- Top line improvement (e.g., sales force, pricing)
- Cost reduction
- Working/operational capital reduction
- IT master plan
- R&D master plan

### Portfolio Management Committees

 Allows KKR portfolio companies to benefit from accumulated experience of committee members

### **Strategy Development**

- Product/market strategies
- · Regional strategies
- Partnership strategies
- Acquisition strategies
- Positioning for exit

### **Optimize Organization**

- Secure, retain and incentivize top and middle management
- · Optimize organizational structure
- Train and motivate broad employee base

# Saba Exemplifies KKR's Operationally Focused Approach



- KKR Capstone was selected independently by both our partners and Saba management to implement a company-wide revenue enhancement and cost savings program
- Bottom-up plan for each business unit with 36 initiatives created
- As of December 2013, ~75% of measures are in the advanced stage of completion
- KKR Capstone's mandate has been extended in two consecutive occasions by Saba management due to the solid progress

# High Quality Resources and Processes Focused on Value Creation



# 4 Active Stakeholder Management

KKR has developed significant stakeholder relations expertise through its long-standing experience with complex transactions involving highly regulated, public-facing assets

**Bayonne Water & Wastewater Concession** Exemplifies KKR's Stakeholder Engagement Approach

### **Bayonne Water & Wastewater Concession**

- KKR's stakeholder relations expertise played a fundamental role in our acquisition of a 40-year water and wastewater concession from the City of Bayonne, New Jersey
- · We believe the transaction is one of only two longterm concessions to a private entity of a municipal water utility asset in the U.S.
- The investment is the result of months of collaboration with City officials to create a flexible model that addresses the needs of all stakeholders
- KKR's Infrastructure and Global Public Affairs teams created a concession model that balanced economic and stakeholder considerations to create a sustainable long-term solution for the City
- The Global Public Affairs Team played a critical role in managing key regulatory and stakeholder relationships as we engaged with various regulatory, municipal and state bodies

KKR has developed a network of global high quality external advisors to enhance our management of critical issues

### **Labor & Human Rights**





- · Partnership with Gephardt Group to manage complex labor union relationships (U.S. specific)
- Responsible Sourcing Initiative for Asia-based supply chains (partnership with BSR)

### Environment





- KKR Green Portfolio Program approach to improving operations and the environment simultaneously
- Partnership with Environmental Defense Fund

# **Engagement & Transparency**





- Signatory of the UN-backed Principles for Responsible Investment since 2009
- Committed to communicating environmental, human rights efforts publicly in annual ESG reports



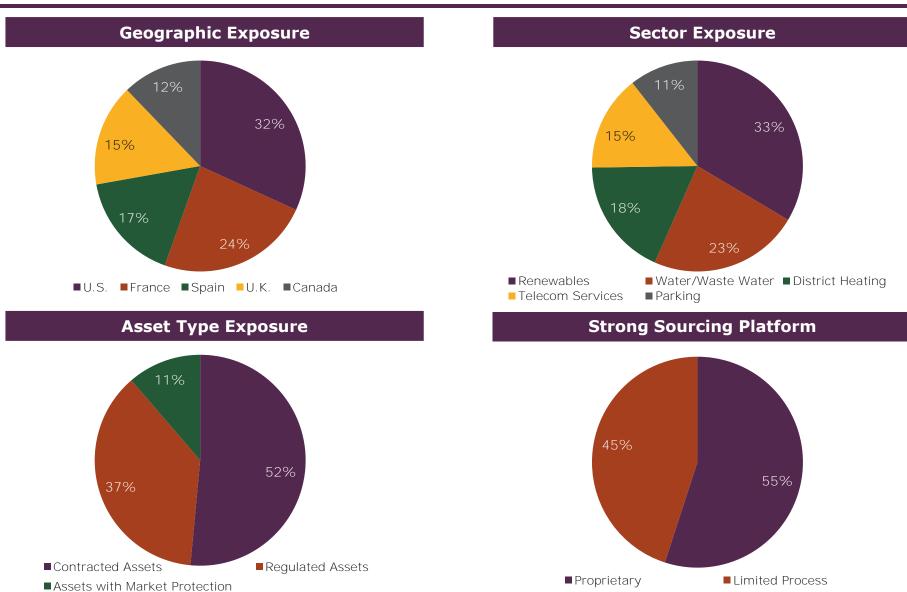
# 4 KKR's Commitment to Responsible Investing in Infrastructure

KKR's investment behind environmental, social, and governance (ESG) themes helps to differentiate the firm as a trusted and thoughtful partner. Our ESG approach also helps us to create additional value and better engage with stakeholders during our investment in a company. We work with communities, policymakers, investors, NGOs, and others to understand the key issues for our investments and the best approaches to managing them

Portfolio Company	Sector	Solution
Colonial Pipeline	Midstream	Enlists best in class safety practices along energy pipeline supplying the Eastern U.S.
SORGENIA FRANCE	Renewables	Helps France respond to its changing energy needs and challenges through clean wind power
t-solar	Renewables	Provides solar energy to Spain and Italy via 42 solar photovoltaic plants
SunTap Energy I	Renewables	Focuses on acquiring solar photovoltaic electricity generating facilities in the United States to expand access to solar energy; partnership with Recurrent Energy
Coriance	District Heating	Addresses changing energy needs in France through its innovative operations in biomass, geothermal sources, and waste-to-energy plants
Bayonne Water & Wastewater Concession	Water & Wastewater	Improves system efficiency and addresses water infrastructure needs for the City of Bayonne, New Jersey; joint venture with United Water
SSM Solar	Renewables	Provides power to more than 7,000 households via photovoltaic facilities in North America and Canada
South Staffordshire Plc	Water & Wastewater	Serves a population of more than 1.6 million people via two regulated water concessions
SunTap Energy II	Renewables	Develops solar energy for Sacramento, CA; partnership with Google and Recurrent Energy



# 5 Portfolio Diversification of Fund I - by Capital Invested





III. Risks of Infrastructure Fund Investing



# General Risks of Infrastructure Investments

- The following risks, as well as those listed in Fund **II's** Confidential Private Placement Memorandum, should be carefully evaluated before making an investment in the Fund:
  - o **Government & Agency Risk** Government agencies may have considerable discretion to change or increase regulation of infrastructure investments or to otherwise implement laws affecting operations (including with retroactive effect), in each case in ways that can materially and adversely affect the business and profitability of portfolio companies or assets. Infrastructure investments may be subject to rate regulation by government agencies, and therefore may be subject to unfavorable regulatory determinations that could materially and negatively impact profits and the ability to meet return expectations for the relevant investments.
  - Concessions, Leases and Public Ways An infrastructure investment's operations may rely on government licenses, concessions, leases, or contracts the maintenance of which may be essential to the ability of a portfolio company to function, but which are generally very complex and may result in a dispute over interpretation or enforceability or be subject to challenge or termination by government bodies (including through exercise of sovereign rights).
  - Public Demand and Usage Certain infrastructure assets may derive substantially all of their revenues from tolls, tariffs, or other usage or throughput-related fees. Users of the applicable service provided may react negatively to any adjustments to the applicable rates, or public pressure may cause a government or agency to challenge such rates.
  - Environmental Matters The operation of or accidents with respect to infrastructure assets can cause major environmental damage, which may result in significant liabilities. In addition, new environmental regulations and/or failure to comply with such requirements could adversely affect assets. Some of the most onerous environmental requirements regulate air emissions of pollutants and greenhouse gases, which may particularly affect certain infrastructure assets (e.g., power and energy assets).
  - o **Operators and Subcontractors** The operations of infrastructure assets may be contracted to third-party management companies unaffiliated with the Fund II General Partner, and infrastructure investments may involve the subcontracting of various activities (including construction activities) in respect of projects. The failure of such an operator or sub-contractor to adequately perform its duties, or a breach of applicable agreements or laws, could have an adverse effect on an infrastructure **asset's** financial condition or results of operations.
  - o **Interest Rates and Inflation** Infrastructure assets may be highly leveraged, and interest rate changes therefore may affect returns from these assets more significantly than other assets. Infrastructure assets may have long-term rights to income linked to some extent to inflation. While these provisions may protect against certain risks, they do not protect against the risk of a rise in real interest rates, which is likely to create higher financing costs for infrastructure businesses and a reduction in the amount of cash available for distribution to Partners.
  - o **Projections and Third Party Reports** The General Partner will generally establish the capital structure of investments and targeted returns on the basis of financial, macroeconomic and other applicable projections, each of which is subject to numerous uncertainties, including general economic, natural and other conditions, which are not predictable, and can have an adverse impact on the reliability of such projections.
  - **Technology** Any technology change that occurs over the medium term could threaten the demand for and the profitability of infrastructure assets, which assets typically would have very few alternative uses should they become obsolete.





IV. Strong Infrastructure Track Record



# KKR Global Infrastructure Strategy Summary

Date	Investment	Country/ Sector/ Sourcing	Cost <sup>(1)</sup>	Realized Value <sup>(2)</sup>	Unrealized Value <sup>(3)</sup>	Total Value <sup>(4)</sup>	Gross IRR <sup>(5)</sup>	Net IRR <sup>(6)</sup>	Gross Multiple <sup>(5)</sup>	Net Multiple <sup>(7)</sup>	2013 Annualized Yield <sup>(8)</sup>	1Q 2014 Annualized Yield <sup>(8)</sup>
	Managed Account (Pre- Fund I):				74140				· · · · · · · · · · · · · · · · · · ·			11010
	Colonial Pipeline	U.S./ Midstream/ Auction	\$1,104.5	\$239.9	\$1,306.4	\$1,546.3	11.1%	10.7%	1.4	1.4	6.9%	4.8%
Fund I Inve	stments:	Adetion										
	<del></del>	France/										
09/02/11	Sorgenia France <sup>(9)</sup>	Renewables/ Proprietary	\$41.1	\$2.8	\$40.5	\$43.2	2.1%	2.1%	1.1	1.1	2.5%	0.0%
10/04/11	T-Solar Global Operating Assets	Spain/ Renewables/ Proprietary	46.2	1.2	35.9	37.1	N/A	N/A	0.8	0.8	2.6%	0.0%
12/05/11	Saba Infraestructuras <sup>(10)</sup>	Spain/ Parking/ Proprietary	79.0	2.0	114.3	116.3	20.2%	20.2%	1.5	1.5	2.5%	0.0%
12/28/11	SunTap Energy I <sup>(11)</sup>	U.S./ Renewables/ Limited Process	28.5	8.2	28.8	37.0	16.6%	16.6%	1.3	1.3	32.2%	0.0%
09/24/12	Coriance <sup>(12)</sup>	France/ District Heating/ Limited Process	135.6	4.8	151.4	156.2	17.7%	17.7%	1.2	1.2	6.4%	0.0%
11/09/12	Bayonne Water & Wastewater Concession	U.S./ Water/Wastewater/ Limited Process	56.0	3.5	69.3	72.8	20.8%	20.8%	1.3	1.3	0.0%	24.8%
12/26/12	SSM Solar	Canada/ Renewables/ Proprietary	91.2	2.3	79.0	81.2	N/A	N/A	0.9	0.9	0.0%	9.9%
07/25/13	South Staffordshire	U.K./ Water/Wastewater/ Limited Process	116.7	5.4	130.5	135.8	25.3%	25.3%	1.2	1.2	10.5%	0.0%
10/16/13	Associated Partners	U.S./ Telecom Services/ Proprietary	109.7	-	109.7	109.7	0.0%	0.0%	1.0	1.0	0.0%	0.0%
01/14/14	SunTap Energy II	U.S./ Renewables/ Proprietary	43.9	-	43.9	43.9	0.0%	0.0%	1.0	1.0	-	0.0%
	Foreign Exchange Gain/(Loss) <sup>(13)</sup>				(11.2)	(11.2)						
		Fund I Total	\$747.8	\$30.0	<i>\$792.0</i>	\$822.0	8.3%	8.0%	1.1	1.1	4.6%	3.1%
		Fund	I Net IRR (n	et of Manag	ement Fee/Cari	ried Interest/E	xpenses) (11)	6.7%				
	Giodai Infrastruc	cture Strategy Total		\$270.0	\$2,098.4	\$2,368.3	10.7%	10.3%	1.3	1.3	6.2%	4.1%
		Strategy Net I	RR (net of	Managemei	nt Fee/Carried	Interest/Ex	(penses)(14)	9.8%				
Fund I Inve	stments made post 12/31/13											
	ELL Group	Germany/ Locomotive/ Proprietary	21.8									



dollars. See next slide for additional notes.

Note: The above table reflects KKR's infrastructure investment experience through March 31, 2014. The table includes all Fund I investments made through March 31, 2014, together with the investment in Colonial Pipeline. The investment in Colonial Pipeline is the only KKR Global Infrastructure Strategy investment made pre-Fund I. Past performance of any KKR-sponsored fund, vehicle, account or investment, including, but not limited to, Fund I or the investment in Colonial Pipeline, is not indicative of future performance of Fund II. All figures presented in U.S.

# KKR Global Infrastructure Strategy Summary (continued)

- (1) "Cost" represents the amount of the original investment together with any related follow-on investments made thereafter (other than with respect to SunTap Energy and SunTap Energy II). All invested amounts represent called capital. As of March 31, 2014 Fund I has not recycled any capital, income or gains and accordingly, historical performance information provided in this table does not reflect the potential impact of such recycling. Non-U.S. dollar investment information is presented using foreign exchange spot rates on the date currency is purchased for the transaction or, for interest payments and other cash receipts, date of receipt. For unrealized value and cash interest that is accrued but unpaid, foreign exchange spot rates on the valuation date are used.
- (2) "Realized Value" represents any proceeds from disposition and dividends or other forms of current income.
- (3) "Unrealized Value" represents the estimated value of the relevant investments as of March 31, 2014 determined by KKR in accordance with its valuation policy.
- (4) "Total Value" represents the sum of the Realized Value and Unrealized Value with respect to the relevant investments.
- (5) "Gross IRR" and "Gross Multiple" represent the internal rate of return or multiple of invested capital, respectively, calculated at investment level, and thus do not take into consideration the effects of inflation, management fees, carried interest, transaction costs, and other expenses to be borne by Fund II, which will reduce returns.
- (6) Solely for the purpose of this table, "Net IRR" represents the internal rate of return calculated at investment level net of carried interest and other applicable expenses but before management fees. Therefore, after payment of management fees at the fund or account level, the actual return to investors with respect to individual investments and the relevant fund or account as a whole was less than these amounts. Internal rates of return are computed on a "dollar-weighted" basis, which takes into account the timing of cash flows, the amounts invested at any given time, and unrealized values as of the relevant valuation date. Investors should note that the carried interest terms of Fund II differ from those of Fund I and the managed account through which Colonial Pipeline is held and, depending on the circumstances, may be higher (resulting in reduced returns for investors). Elsewhere in this presentation, references to "Net IRR" are as described in the "Important Information" section.
- (7) "Net Multiple" at the investment level and fund level represents the multiple of invested capital calculated after payment of applicable carried interest and other applicable expenses, but before management fees are taken into account. Therefore, after payment of management fees at the fund or account level, the actual multiple of invested capital at the investment and fund level was less than these amounts. Investors should note that the carried interest terms of Fund II differ from those of Fund I and the managed account through which Colonial Pipeline is held and, depending on the circumstances, may be higher (resulting in reduced returns for investors).
- (8) "2013 Annualized Yield" represents cash distributions in 2013 and "1Q 2014 Annualized Yield" represents cash distributions in 1Q 2014 of investment proceeds to investors in Fund I and the separately managed account through which KKR's Global Infrastructure Strategy is held, including cash distributions of current income and disposition proceeds and, if any, cash deemed distributed to such investors and redeployed in the Global Infrastructure Strategy investments, relative to the weighted average of invested capital in such investments during 2013 and 1Q 2014, respectively. "Annualized Yield" does not take into account capital contributions by investors for management fees, organizational costs or other fees and expenses not relating to investments within the Global Infrastructure Portfolio.
- (9) Includes add-on transaction announced in June 2013.
- (10) Includes add-on transaction announced in June 2012.
- (11) Includes add-on transaction announced in June 2013.
- (12) Includes add-on transaction announced in June 2013 and March 2014.
- (13) Represents value of Non-USD/USD foreign exchange contracts used to hedge foreign exchange risk on certain non-U.S. dollar denominated investments.
- (14) "Fund I Net IRR (net of Management Fee/Carried Interest/Expenses)" and "Strategy Net IRR (net of Management Fee/Carried Interest/Expenses)" represent the internal rate of return calculated at fund and account level, as applicable, after payment of applicable carried interest and other expenses and management fees. Internal rates of return are computed on a "dollar-weighted" basis, which takes into account the timing of cash flows, the amounts invested at any given time, and unrealized values as of the relevant valuation date. Investors should note that the carried interest and management fee terms of Fund II differ from those of Fund I and the managed account through which Colonial Pipeline is held and, depending on the circumstances, may be higher (resulting in reduced returns for investors).

See also the "Important Information" section on pages 2 to 5 for additional important disclosure regarding the calculation of Gross and Net IRRs and Gross and Net Multiples.



# KKR Value Add Summary

Investment	Date	Capital Invested (\$mm)	Contracted/ Regulated	Sourced on a Proprietary Basis	Distinctive Structuring/ Execution	Operational/ Stakeholder Value Add	Leverage of Other KKR Investment Teams
Colonial Pipeline	10/08/10	\$1,104.5	✓			<b>✓</b>	<b>✓</b>
SORGENIA FRANCE	09/02/11	\$41.1	✓	<b>√</b>	<b>√</b>	<b>✓</b>	
tisolar	10/04/11	\$46.2	✓	<b>√</b>	<b>√</b>		
saba°	12/05/11	\$79.0		<b>√</b>		<b>√</b>	
SunTap Energy I	12/28/11	\$28.5	<b>√</b>		<b>√</b>		<b>√</b>
Coriance	09/24/12	\$135.6	<b>√</b>		<b>√</b>	<b>√</b>	
Bayonne Water & Wastewater Concession	11/09/12	\$56.0	<b>✓</b>		<b>✓</b>	<b>✓</b>	
SSM Solar	12/26/12	\$91.2	✓	<b>√</b>			
South Staffordshire Plc	07/25/13	\$116.7	✓		<b>√</b>	<b>✓</b>	<b>✓</b>
ASSOCIATED PARTNERS, LP	10/16/13	\$109.7	✓	<b>√</b>	<b>√</b>		<b>√</b>
SunTap Energy II	1/14/14	\$43.9	<b>✓</b>	<b>√</b>	<b>✓</b>		<b>✓</b>
EUROPEAN LOCOMOTIVE LEASING	4/22/14	\$21.8		<b>√</b>	<b>✓</b>	<b>✓</b>	



# Conservative Approach to Leverage

We look to use conservative financing structures that can sustain changes in the macroeconomy, business model and regulatory environment

# Global Infrastructure Strategy Leverage – Net Debt(1) to Enterprise Value





V. Experienced and Well Resourced Infrastructure Team



# Market Leading and Well Resourced Infrastructure Team

#### **Senior Infrastructure Team**

#### Raj Agrawal

Head of North American Infrastructure Menlo Park Joined in 2006

#### **Marc Lipschultz**

Global Head of Energy and Infrastructure New York Joined in 1995

#### Jesús Olmos

Head of European Infrastructure London/Madrid Joined in 2009

#### Ravi Gupta

New York Joined in 2005

#### **Brandon** Freiman

Calgary Joined in 2007

#### Cedric Lucas

New York Joined in 2014

#### Tonv Schultz

Managing Director Svdnev Joined in 2014

#### Ram Kumar

London Joined in 2009

#### Vincent **Policard**

London Joined in 2012

Guido Mitrani

Principal London Joined in 2010

Additional junior Infrastructure team resources as well as additional significant dedicated Infrastructure experience that spans across private equity, operations, and consulting/advisory sectors

#### **KKR** Capstone

# • Global team ~50

#### **KKR** Senior Advisors

- Chairman of Qantas
- former Chairman of of NY and NJ
- · Sir Roger Carr,

#### **KKR Public Affairs**

- our business

#### KKR Global Institute

#### **KKR** Global Macro & Asset Allocation

partnership with

#### **KKR** Capital Markets(1)

- Global team of over
- financing sources structures of KKR
- **KKR Client & Partner** Group
- Global team of over
- for developing, our limited partners

(1) Participation of KKR Capital Markets personnel in Fund II's investment activities is subject to applicable law and inside information barrier policies and procedures, which may limit the involvement of such personnel in certain circumstances and the ability of Fund II's investment team to leverage such integration with KKR. Discussions with Senior Advisors and employees of KKR's managed portfolio companies are also subject to 30 inside information barrier policies and procedures, which may restrict or limit discussions and/or collaborations with the Infrastructure Team.



# VI. Key Fund Terms



# Key Fund Terms

#### Fund structured to create an alignment of interest with investors and tailored to the nature of the asset class

General Partner / Manager	KKR Associates Infrastructure II L.P / Kohlberg Kravis Roberts & Co. L.P.		
Structure	Limited partnership with capital call structure		
Investment Period	6 years from the date of first investment with option to reduce unfunded commitments upon the occurrence of a key person event unless terminated earlier upon the vote of 75% in interest of the limited partners		
Fund Life	12 years with 3 one-year extension options with Limited Partner or LPAC consent		
Management Fee	1% of NAV plus 1% of unused commitments during the investment period and 1% of NAV for the remaining term		
Carried Interest	First closers: 10% of net profits, subject to an 8% preferred return with a full catch-up		
Carried Interest	Subsequent closers: 15% of net profits, subject to an 8% preferred return with a full catch-up		
General Partner Commitment	At least 5% of the aggregate Partners' capital commitments		
Partners Participating in Subsequent Closing	Each subsequent closing Limited Partner will participate in prior investments and will contribute its share of capital contributions for such investments and management fees less organizational expenses plus an additional amount equal to 8.0% per annum on such contributions		
Diversification	No more than 20% of aggregate Capital Commitments in a single investment  No more than 25% of aggregate Capital Commitments outside OECD member countries  No more than 10% of aggregate Capital Commitments in open market purchases of publicly traded securities  Primary focus on Brownfield investments, with the ability to make Greenfield investments		
Other Fees and Management Fee Offset	Transaction fees and monitoring fees may be paid to KKR or its affiliates, and KKR may be entitled to receive "break-up" or similar fees in connection with Fund II's activities. Following reimbursement of KKR for any unrecouped Broken Deal Expenses  • 80% of Fund II's share of the balance of such fees allocable to Limited Partners will be credited against future management fees payable by Fund II		
Other Terms	Customary for investment funds managed by KKR		



and contain additional terms to those included in this summary.

# VII. Conclusion



# Conclusion — Why KKR?

- 1 Disciplined Investment Selection
- Distinctive Sourcing and Structuring Complemented by Deep Operational Engagement and Active Stakeholder Management
- Talented and Experienced Global Infrastructure Team
- 4 KKR's Global Resources and Capabilities

# We Believe Fund II is an Attractive Investment Opportunity

Appendix - Case Studies



# Important Information Regarding Case Studies

The following case studies represent all KKR Global Infrastructure Strategy investments made from 2010 through March 31, 2014. The specific investments identified are not representative of all of the investments purchased, sold or recommended for KKR investment funds or accounts, and it should not be assumed that the investments identified were or will be profitable or are representative of investments that will be made by Fund II. Past performance of Fund I or KKR's Colonial Pipeline investments and any other investment is no guarantee of future results. See Section IV for further information regarding the track record of the KKR Global Infrastructure Strategy.



3/31/14	1Q 2014
Net Multiple	Annualized Yield
1.0x	0.0%

## **Company Overview & Transaction Highlights**

- KKR acquired a 16.7% preferred equity interest in each of four wireless infrastructure businesses managed by Associated Partners, LP ("AP" or the "Company")
  - <u>PEG Bandwidth</u>: Designs, builds and operates Ethernet backhaul networks connecting wireless communication towers to the data fiber backbone in rural geographies
  - <u>AP WIP (Domestic + International)</u>: Acquires site easements and lease prepayments underneath cell towers
  - <u>AP Towers</u>: Develops new towers and purchases towers currently in operations on a site-by-site basis

Date of Investment	October 2013
Deal Source	Proprietary
Seller	Associated Partners, LP
Total KKR Ownership	16.7%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)	\$700.0 million
KKR Equity Deployed	\$109.7 million
Acquisition Multiple	N/A
Net Debt at Closing	\$82 million
Leverage as of 12/31/13 <sup>(1)</sup>	13%

#### **KKR Value Creation**

- While early in the investment period, the KKR investment team has undertaken several initiatives, which we believe will drive value in the near-term:
  - Investment team currently collaborating with KCM to review the Company's debt structure
  - Investment team engaged internal stakeholder management team to assess capacity to aid in bringing PEG bandwidth sites online

#### **Summary Investment Thesis**

- ✓ Cash flow profile underpinned by long-term contracts (average contract of 7 years for PEG Bandwidth) with credit-worthy counterparties
- ✓ Macro tailwinds
- ✓ Strong downside protection supported by: i) contracted cash flow in critical infrastructure, ii) entry valuation based on contracted assets only, iii) preferred security with liquidation preference
- ✓ Inflation protection via contracted annual revenue escalators
- ✓ Potential operating upsides via: i) WIP origination above budgeted levels, ii) new tenant co-location across all businesses, iii) data-usage driven contracted revenue increases at PEG Bandwidth

### **Performance Since Closing**

• Given recent close, financial performance currently not available



# Bayonne Water & Wastewater Concession Case Study

## **Company Overview & Transaction Highlights**

- In November 2012, KKR executed a definitive agreement to form a joint venture with United Water ("United" or the "Company") to acquire, maintain and operate a 40-year water and wastewater concession from the City of Bayonne, NJ
- KKR holds 90% ownership in the JV, while United Water holds the remaining 10% ownership in the entity

Date of Investment	November 2012
Deal Source	Limited Process
Seller	Bayonne Municipal Utility Authority ("BMUA")
Total KKR Ownership	90.0%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)	\$174.4 million
KKR Equity Deployed	\$56.0 million
Acquisition Multiple	N/A
Net Debt at Closing	\$98.5 million
Leverage as of 12/31/13 <sup>(1)</sup>	55%

#### **KKR Value Creation**

- KKR worked with United Water and the City of Bayonne to create the concession model, creating a robust contractual structure that allocates risks (e.g., usage, capex, etc.) efficiently, creating a solution that met the needs of all constituents
- Since closing, KKR, United Water and the City of Bayonne have worked together to achieve a number of operational goals including technical assessments and advances, capital repair and replacement projects, process optimization, safety enhancements, cost reductions and improved system reliability
- Overall, this public private partnership has been very well received by the BMUA and the City of Bayonne and was a contributing factor for the upgrade of the City's credit rating

## **Summary Investment Thesis**

- Partnership with high quality water utility operator to bring best in class solutions to the city of Bayonne, NJ
- Highly structured partnership with strong risk mitigation techniques, in our view
- Fixed revenue path, with annual rate re-sets, removes volume risk
- ✓ Annual true-ups for capital expenditures, removes capex risk
- Operating costs either fully passed-through to rate payers or contracted to United Water on a fixed-price basis
- ✓ Substantial contractual protections

\$ in millions	FY 2013
Revenue	\$22.9
EBITDA	\$9.3
Net Debt	\$91.7
Net Debt / EBITDA	9.8x
Yield	-
Net Multiple	1.2x

# Colonial Pipeline Company Case Study

# **Company Overview & Transaction Highlights**

- Colonial Pipeline is the largest interstate refined petroleum products pipeline in the U.S. with a capacity of approximately 2.4 million bbl/d.
- The pipeline system transports various refined products from Gulf Coast refineries to marketing terminals through 5,500 miles of pipelines crossing 13 states

Date of Investment	October 2010
Deal Source	Limited Process
Seller	Chevron Corporation
Total KKR Ownership	23.4%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)	\$6,016.9 million
KKR Equity Deployed	\$1,104.5 million
Acquisition Multiple	10.3x LTM EBITDA
Net Debt at Closing	\$1,324.6 million
Leverage as of 12/31/13 <sup>(1)</sup>	20%

#### **Summary Investment Thesis**

- ✓ Largest refined products pipeline in the U.S.
- Attractive market position with access to attractive sources of supply and end market connectivity
- ✓ History of stable, regulated earnings and cash flow growth.
- ✓ Customer base comprised of established, high quality shippers
- Experienced management team with strong operational and safety track record
- ✓ High cash yielding assets
- ✓ Conservative leverage

### KKR Value Creation

- Guidance and oversight on FERC regulatory matters to maximize shipper strategy
- Capacity expansions and new business development in both transportation and non-transportation segments
- Execution of a new \$350 million bond issuance

\$ in millions	FY 2011	FY 2012	FY 2013
Revenue	\$1,049	\$1,137	\$1,163
EBITDA	\$619	\$689	\$647
Net Debt	\$1,275	\$1,397	\$1,527
Net Debt / EBITDA	2.1x	2.0x	2.4x
Yield	6.5%	7.3%	6.9%
Net Multiple	1.2x	1.4x	1.4x



40

## **Company Overview & Transaction Highlights**

- Leading owner and operator of a portfolio of 30 district heating concessions in France
- Supplies heat to ~550 customers (residential, social & commercial buildings) and sells cogenerated electricity to state-owned utility EDF
- Generates heat through a variety of energy sources, including natural gas, biomass and geothermal

Date of Investment	September 2012
Deal Source	Limited Process
Seller	A2A S.p.A.
Total KKR Ownership	70.7%
Co-Invest as a % of Total Equity	28.0%
Transaction Size (Enterprise Value)(1)	€151.9 million
KKR Equity Deployed <sup>(2)</sup>	\$136.6 million
Acquisition Multiple <sup>(3)</sup>	9.8x LTM EBITDA
Net Debt at Closing <sup>(4)</sup>	€94.0 million
Leverage as of 12/31/13 <sup>(5)</sup>	56%

#### **KKR Value Creation**

- Construction of the largest plant in Coriance's portfolio completed ahead of plan
- Renewal of all three concession / cogeneration contracts due to expire since acquisition
- Won five new concessions
- Enhancement of management team through selective new hires and replacements
- Acquisition and disposal of minority stakes
- Replacement of previous gas supply contract with a cheaper one at better payment terms

## **Summary Investment Thesis**

- ✓ Tariff framework pre-agreed for full concession life
- ✓ Obligation for state-owned utility EDF to buy cogenerated electricity.
- ✓ Diversified portfolio and customer base
- Established operating platform with track record
- Strong management team that has invested alongside KKR
- Potential operating upsides through cost savings and reduction in construction capex

Performance Since Closing			
€ in millions	FY 2011	FY 2012	FY 2013
Revenue	€96.7	€114.1	€130.4
EBITDA	€17.6	€18.1	€22.5
Net Debt	€72.2	€120.5	€129.9
Net Debt / EBITDA	4.1x	6.7x	5.8x
Yield	-	-	6.4%
Net Multiple	-	1.0x	1.2x

- (1) Represents sum of: (i) net debt as at June 30, 2012, and (ii) purchase price for entire share capital.
- (2) Includes add-on transaction announced in June 2013 and follow-on investment in March 2014.
- (3) Represents ratio of total upfront investment (to cover purchase price plus cash overfunding for near term capex plus transaction costs) to LTM EBITDA as of June 30, 2012.
- (4) Represents figure as of June 30, 2012. Net debt figure represents new debt facility used to fund acquisition and cash balance to be used for near term capex.
  (5) Represents net debt to enterprise value as of December 31, 2013.

## **Company Overview & Transaction Highlights**

Provider of full-service electric locomotive leasing solutions to the European railway industry, with an initial focus on Germany and Austria:

- Purchases modern and versatile locomotives from reputable manufacturers and leases them to freight operators throughout continental Europe under 5+ year contracts
- Provides lessees with a full-service package that includes locomotive maintenance and management services
- Framework agreement to purchase up to 50 Vectron Siemens locomotives

Date of Investment	March 2014
Deal Source	Proprietary
Seller	N/A
Total KKR Ownership	100.0%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)	€201.9 million
KKR Equity Deployed	€16.0 million
Acquisition Multiple	N/A
Net Debt at Closing	N/A
Leverage at Closing <sup>(1)</sup>	70.0%

#### **KKR Value Creation**

- Supported management in establishing the company from scratch, including legal set-up, employment matters and insurance (together with KKR Capstone and leveraging the resources of KKR Legal & Compliance)
- Leveraged KKR relationships on negotiations with locomotive manufacturers and key prospective customers
- Sourced, negotiated and secured flexible debt financing package (with debt drawn progressively as locomotives are received)
- Advised ELL on certain aspects of its corporate branding and public relations strategy (together with KKR Public Affairs)

#### **Summary Investment Thesis**

- ✓ Favorable supply/demand dynamics for locomotive leasing sector in Europe
- Ability to lock-in competitive pricing advantage given attractive locomotive purchase price and favourable debt financing terms
- ✓ Strong management team with deep customer relationships that
  has invested alongside KKR
- ✓ Scalable investment opportunity
- ✓ Long dated assets (35+ year asset life) with contracted profile

## **Performance Since Closing**

• Given recent close, financial performance currently not available

3/31/14	1Q 2014
Net Multiple	Annualized Yield
1.5x	0.0%

## **Company Overview & Transaction Highlights**

- Saba Infraestructuras is the result of a spin-off from Abertis, and operates two businesses:
  - Saba Aparcamientos (~80% of EBITDA): leading European car park operator
  - Saba Parques Logísticos (~20% of EBITDA): a market leader in logistics parks in Spain

Date of Investment	December 2011
Deal Source	Proprietary
Seller	Abertis, S.A.
Total KKR Ownership	14.5%
Co-Invest as a % of Total Equity	20.6%
Transaction Size (Enterprise Value)	€874.0 million
KKR Equity Deployed <sup>(1)</sup>	\$79.0 million
Acquisition Multiple	10.9x LTM EBITDA
Net Debt at Closing	€456.5 million
Leverage as of 12/31/13 <sup>(2)</sup>	37%

### KKR Value Creation

- Successfully implemented an efficiency plan targeting an EBITDA improvement of €18 million led by KKR Capstone
- Realigned strategy to focus growth in parkings and reduce exposure to logistics over time. On May 11, 2012, Saba reached an agreement to sell its logistics park in Santiago de Chile to Bodenor Flex Center
- Significant deleveraging achieved by proactively delaying capex in legacy projects and selling non-core assets (e.g. logistic park in Chile for €60 million - no value in initial BP)
- €170 million of capital deployed in new parkings and concessions at accretive returns
- Implemented dividend policy (€10 million payout)

## **Summary Investment Thesis**

- High quality car park operator with prime metropolitan assets
- Long term inflation-linked concessions
- Historical resiliency of car park activity
- Returns arbitrage versus other transportation infrastructure sub-sectors
- Partnership with Caixa as core shareholder
- Attractive entry valuation
- Potential operating upsides through cost efficiencies, capex optimization and renewal of existing concessions
- Ability to deploy capital at accretive rates

## **Performance Since Closing**

€ in millions	FY 2011	FY 2012	FY 2013
Revenue	€190.7	€195.7	€185.4
EBITDA	€76.0	€78.5	€76.9
Net Debt	€453.7	€388.0	€380.0
Net Debt / EBITDA	6.0x	4.9x	4.9x
Yield	-	-	2.5%
Net Multiple	1.0x	1.2x	1.4x



Includes add-on transaction announced in June 2012.
 Represents net debt to enterprise value as of December 31, 2013.

# Sorgenia France Case Study

## **Company Overview & Transaction Highlights**

- Leading French onshore wind farm owner with sizeable portfolio of operating assets (164 MW) and authorized assets (62 MW)
- Italian utility Sorgenia S.p.A. retained a 50% equity stake in Sorgenia France

Date of Investment	September 2011
Deal Source	Proprietary
Seller	Sorgenia S.p.A.
Total KKR Ownership	22.8%
Co-Invest as a % of Total Equity	53.8%
Transaction Size (Enterprise Value)	€258.2 million
KKR Equity Deployed <sup>(1)</sup>	\$41.1 million
	• €1.54m/MW operating
Acquisition Multiple	• €170k/MW + deferred
	payment for pipeline
Net Debt at Closing <sup>(2)</sup>	€114.2 million
Leverage as of 12/31/13 <sup>(3)</sup>	48%

### **KKR Value Creation**

- Internalized management team to operate as a standalone entity
- Increased operating capacity to 164 MW by building a new 12.5 MW wind farm below budget
- Reduced insurance expense by 13% after closing
- Optimized O&M contracts for operating assets
- Sold 18 MW of authorized assets at an attractive valuation of 1.3x cost in less than 18 months
- Refinanced €36 million of existing operating leases with more favorable project finance debt

## **Summary Investment Thesis**

- ✓ Stable regulatory regime
- √ 15-year inflation linked PPAs to state-owned utility EDF
- Established operating platform with track record
- ✓ High cash yielding assets
- ✓ Conservative leverage
- Experienced partner
- ✓ Potential operating upsides through cost savings and reduction in construction capex

FY 2011	FY 2012	FY 2013
€24.1	€29.2	€28.8
€18.0	€22.6	€21.0
€115.5	€122.7	€110.7
6.4x	5.4x	5.3x
-	-	2.5%
1.0x	0.9x	1.0x
	€24.1 €18.0 €115.5 6.4x	€24.1 €29.2  €18.0 €22.6  €115.5 €122.7  6.4x 5.4x



- (1) Includes add-on transaction announced in June 2013.
- (2) Sorgenia France in its current form was carved out of Sorgenia S.p.A. only at transaction close hence financials shown are for FYE December 2011 (first full year of stand-alone financial reporting).
- (3) Represents net debt to enterprise value as of December 31, 2013.

# South Staffordshire Case Study

# **Company Overview & Transaction Highlights**

- Regulated UK water utility which is solely responsible for the water supply chain in the West Midlands and Cambridge areas of the UK, serving a combined population of over 1.6 million people
- The company also provides a range of specialist services under medium-term contracts through its non-regulated business

Date of Investment	July 2013
Deal Source	Auction
Seller	Alinda Capital Partners
Total KKR Ownership	36.4%
Co-Invest as a % of Total Equity	63.6%
Transaction Size (Enterprise Value)(1)	£563.7 million
KKR Equity Deployed	\$116.7 million
Acquisition Multiple <sup>(2)</sup>	7.2x LTM EBITDA
Net Debt at Closing	£353.7 million
Leverage as of 12/31/13 <sup>(3)</sup>	60%

#### **KKR Value Creation**

- Active stakeholder management with management and Ofwat<sup>(4)</sup> with regards to the next regulatory period
- Secured change of control waivers for existing debt and refinanced £45 million term loan at more attractive terms
- KKR Capstone has been working with management to strengthen the business in various areas including insurance, digital strategy, procurement and cross-selling with KKR's portfolio companies in the UK
- Supported management in performing due diligence on acquisition pipeline, including the recently acquired Woodside Environmental Services, a non-regulated specialist services business

## **Summary Investment Thesis**

- Core infrastructure asset
- Strong operating track record
- ✓ Cash yielding asset
- Potential upsides through outperformance vs. regulatory metrics, cost structure optimization, refinancing at attractive terms and prudent energy procurement
- Limited exposure to an attractive non-regulated contractual services business with organic and inorganic growth potential
- Acquired the business at an attractive price by converting a limited auction into a proprietary discussion with the seller
- ✓ Potential upside at exit by selling the regulated and nonregulated businesses separately

£ in millions	FY 2011	FY 2012	LTM Ended 12/31/2013
Revenue	£165.1	£202.8	£235.7
EBITDA	£54.7	£70.3	£83.3
Net Debt	£277.8	£337.8	£350.2
Net Debt / EBITDA	5.1x	4.8x	4.2x
Yield	-	-	10.5%
Net Multiple	-	-	1.2x



- (1) Represents sum of (i) net debt rolled over at transaction close and (ii) purchase price for entire share capital.
- LTM EBITDA for FYE March 31, 2013, used for calculation.
- (3) Represents net debt to enterprise value as of December, 31, 2013.
- (4) Water Services Regulation Authority.

# SSM Solar Case Study

# **Company Overview & Transaction Highlights**

- SSM Solar is a portfolio of three solar projects located in Sault Ste Marie, Ontario, representing a total operating capacity of 69 MWdc and 60 MWac
- SSM Solar is one of the largest photovoltaic ("PV") facilities in North America and the second largest in Canada

Date of Investment	February 2013
Deal Source	Proprietary
Seller	Starwood Energy Group
Total KKR Ownership	100.0%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)	CAD \$302.8 million
KKR Equity Deployed	\$91.2 million
Acquisition Multiple	CAD 4.35m/MW excl. expansion 10.4x LTM EBITDA
Net Debt at Closing	CAD \$208.7 million
Leverage as of 12/31/13 <sup>(1)</sup>	68%

#### KKR Value Creation

- The team developed a 1.5 MW capacity expansion at the SSM3 project and is in process of developing an additional 2.0 MW expansion at the SSM2 project, effectively increasing total capacity to 72 MW
- Pursued cost reduction initiatives, reduced insurance expense by 25% relative to last year
- Implemented inventory and spare parts management procedures to minimize equipment downtime
- Increased focus on continuous monitoring of key performance indicators

## **Summary Investment Thesis**

- 19 year fixed price Renewable Energy Standard Offer Program ("RESOP") contracts (PPAs) with the Ontario Power Authority
- Minimal demand risk
- Operating assets with over a year of strong operating history
- Limited development risk
- High cash yielding assets
- Attractive regulatory regime

CAD in millions	FY 2011	FY 2012	FY 2013
Revenue	\$13.8	\$32.3	\$29.4
EBITDA	\$11.4	\$28.7	\$27.1
Net Debt	\$90.8	\$202.9	\$197.6
Net Debt / EBITDA	7.9x	7.1x	7.3x
Yield	-	-	-
Net Multiple	-	1.0x	0.9x



# SunTap Energy I Case Study

## **Company Overview & Transaction Highlights**

- SunTap Energy, a strategic partnership between KKR and Recurrent, partnered with Google to acquire a portfolio of solar photovoltaic ("PV") electric generating facilities developed by Recurrent Energy<sup>(1)</sup>
- This solar portfolio consists of four projects in the Sacramento area with a combined generating capacity of 88 MW
- All of the projects have successfully achieved Commercial Operation Date ("COD") and operate under 20-year fixed price Power Purchase Agreements with the Sacramento Municipal Utility District ("SMUD")
- The acquisition was structured as a leveraged partnership flip, with Google participating through passive tax equity

Date of Investment	December 2011
Deal Source	Limited Process
Seller	Recurrent Energy
Total KKR Ownership	95.0%
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)(2)	\$345.2 million
KKR Equity Deployed <sup>(3)</sup>	\$28.5 million
Acquisition Multiple	N/A
Net Debt at Closing	\$229.5 million
Leverage as of 12/31/13 <sup>(4)</sup>	55%

#### **KKR Value Creation**

- Creation, implementation and optimization of innovative tax partnership structure to ascribe value to both tax attributes and cash flow profile
- Leveraged KKR in-house insurance expertise to secure highquality insurance policies at competitive rates
- Active monitoring of operating and financial performance
- Work closely with Recurrent to evaluate additional asset acquisitions

## **Summary Investment Thesis**

- Stable, contracted cash flow profile underpinned by fixed-price PPAs with Sacramento Municipal Utility District
- Critical power generation assets located in an attractive regulatory framework
- Technology covered by manufacturer warranties and performance guarantees
- No construction risk, as capital was deployed at COD
- Strong, quarterly cash yield
- High margin assets with minimal maintenance expenditures and an abundant fuel source

Performance Since Closing			
\$ in millions			
Revenue	-	\$13.9	\$26.1
EBITDA	-	\$12.5	\$23.3
Net Debt	-	\$181.3	\$143.5
Net Debt / EBITDA	-	14.5x	6.2x
<b>Yield</b> 32.2%			
Net Multiple	1.0x	1.1x	1.2x



- (1) Recurrent holds a 5% interest in SunTap Energy.(2) Represents purchase price for SMUD Portfolio only. Excludes fees and expenses.
- (3) Includes add-on transaction announced in June 2013.
- (4) Represents net debt to enterprise value as of December 31, 2013.

3/31/14	1Q 2014
Net Multiple	Annualized Yield
1.0x	0.0%

# SunTap Energy II Case Study

# **Company Overview & Transaction Highlights**

- KKR and Google acquired a second portfolio of solar photovoltaic ("PV") electric generating facilities from Recurrent Energy
- This solar portfolio consists of five projects in Southern California and one in Arizona with a combined generating capacity of ~88 MW
- All of the projects are scheduled to achieve Commercial Operation Date ("COD") by early 2014 and will operate under 20 to 30 year fixed-price Power Purchase Agreements with investment grade local utilities
- Similar to SunTap Energy I, this acquisition was structured as a leveraged partnership flip, with Google participating through passive tax equity

Date of Investment	January 2014
Deal Source	Proprietary
Seller	Recurrent Energy
Total KKR Ownership	N/A
Co-Invest as a % of Total Equity	0.0%
Transaction Size (Enterprise Value)(1)	\$396.5 million
KKR Equity Deployed <sup>(2)</sup>	\$28.0 million
Acquisition Multiple	N/A
Net Debt at Closing	\$270.4 million
Leverage as of 12/31/13 <sup>(3)</sup>	68%

### **KKR Value Creation**

- Re-implementation and optimization of innovative tax partnership structure to ascribe value to both tax attributes and cash flow profile
- Leveraged KKR in-house insurance expertise to secure highquality insurance policies at competitive rates

## **Summary Investment Thesis**

- Stable, contracted cash flow profile underpinned by fixed-price PPAs with investment grade utilities
- Critical power generation assets located in an attractive regulatory framework
- Technology covered by manufacturer warranties and performance guarantees
- ✓ No construction risk, as capital is deployed at COD.
- Strong, quarterly cash yield
- High margin assets with minimal maintenance expenditures and an abundant fuel source

## **Performance Since Closing**

• Given recent close, financial performance currently not available



(1) Represents purchase price for Pearl Portfolio only. Excludes fees and expenses

<sup>(2)</sup> To date, KKR has funded ~\$28 million of its anticipated ~\$45 million for this transaction. As projects reach key milestones and satisfy diligence requirements, they are fully funded.

# T-Solar Case Study

## **Company Overview & Transaction Highlights**

- Leading owner/operator of solar photovoltaic generation assets in Europe with 168 MW of installed capacity spread across 34 plants in Spain and 8 plants in Italy
- Grupo T-Solar retained a 51% equity stake and provides management services to the platform

Date of Investment	October 2011
Deal Source	Proprietary
Seller	Grupo T-Solar Global S.A.
Total KKR Ownership	12.0%
Co-Invest as a % of Total Equity	74.6%
Transaction Size (Enterprise Value)(1)	€963.5 million
KKR Equity Deployed	\$46.2 million
Association Multiple(2)	€5.7m/MWp
Acquisition Multiple <sup>(2)</sup>	(10% discount to construction)
Net Debt at Closing	€647.2 million
Leverage as of 12/31/13 <sup>(3)</sup>	65%

### **KKR Value Creation**

- Renegotiated O&M contracts for 83% of T-Solar's installed capacity obtaining a ~31% reduction through a KKR-led tender process
- Reduction in solar panel degradation through proactive maintenance policies (0.7% to 0.3%)
- Together with the Public Affairs team, KKR continues to spearhead lobbying efforts with the Spanish government to protect the profitability of solar PV assets in the energy policy overhaul

## **Summary Investment Thesis**

- Opportunistic entry valuation with strong downside protection amid pricing of regulatory risk
- ✓ Partnership with leading operator in Europe
- ✓ Established operating platform
- ✓ Conservative leverage
- ✓ Attractive cash yield from first year of investment
- ✓ Operating improvement through renegotiation of O&M contracts

## **Performance Since Closing**

€ in millions	FY 2011	FY 2012	FY 2013
Revenue	€85.7	€92.7	€92.7
EBITDA	€73.7	€79.7	€73.6
Net Debt	€638.3	€633.4	€611.6
Net Debt / EBITDA	8.7x	7.9x	8.3x
Yield	-	-	2.6%
Net Multiple	1.0x	1.1x	1.1x



1) Represents sum of: (i) net debt in place, (ii) upfront equity valuation and (iii) deferred equity valuation.

(2) Megawatt-peak: measure of the nominal power of a photovoltaic solar energy device under laboratory illumination conditions.

(3) Represents net debt to enterprise value as of December 31, 2013.

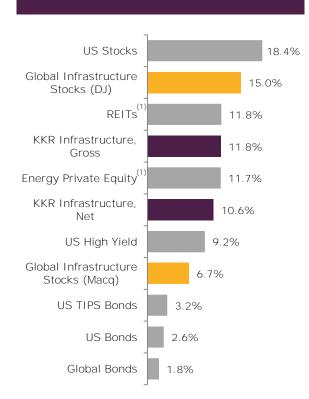
# Appendix - Macro Infrastructure Analysis

The views of GMAA expressed on slides 50 through 53 are the personal views of Henry McVey of KKR and do not necessarily reflect the views of KKR itself. This information is not research and should not be treated as research. It does not represent valuation judgments with respect to any financial instrument, issuer, security or sector that may be described or referenced herein and does not represent a formal or official view of KKR. It is being provided merely to provide a framework to assist in the implementation of an investor's own analysis and an investor's own views on the topic discussed herein. There can be no assurance that an investment strategy will be successful. Historic market trends are not reliable indicators of actual future market behavior or future performance of any particular investment which may differ materially, and should not be relied upon as such. This information should not be viewed as a current or past recommendation or a solicitation of an offer to buy or sell any securities or to adopt any investment strategy.

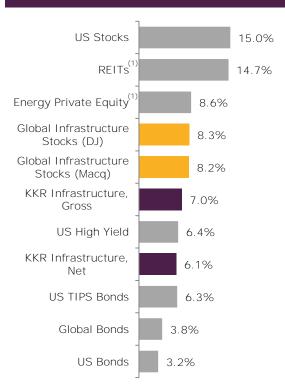


# We Believe Infrastructure Can Offer Double Digit Returns With Strong Return Per Unit of Risk

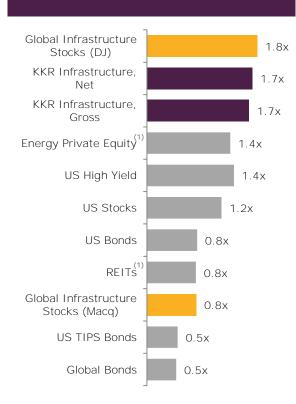
#### **Historic Annualized Returns**



# Historic Standard Deviation of Returns



#### **Historic Return Per Unit of Risk**



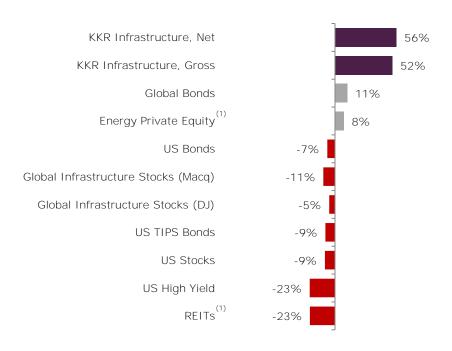
Source: KKR, Cambridge Associates, MSCI, FTSE, DowJones and Bloomberg as of December 31, 2013. Unless otherwise indicated, data shown above is based on returns from Q4 2010 to Q4 2013.

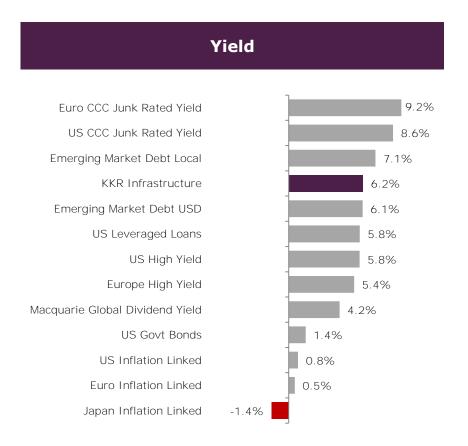
Note: KKR returns shown above reflect all KKR Global Infrastructure Strategy Investments from 2010 through December 31, 2013, which includes all KKR Global Infrastructure I Investors L.P. investments and KKR's Colonial Pipeline investments; Global Infrastructure Stocks (DJ) refers to the Dow Jones Brookfield Global Infrastructure Index, which is comprised of 38% utilities, 47% oil & gas storage/transportation, 6% transportation, 5% diversified infrastructure; Global Infrastructure Stocks (Macq) refers to the Macquarie Global Infrastructure index, which is comprised of 84% utilities, 9% pipelines, 6% transportation infrastructure; US Bonds refers to the Barclays US Agg USD index; Global Bonds refers to the Barclays Global Agg USD index; US TIPS Bonds refers to the Barclays US Inflation Linked Bonds index; US High Yield refers to the BAML US High Yield Master II index; US Stocks refers to the S&P 500; REITs refers to the FTSE NAREIT index; Energy



# We Believe Infrastructure Assets Can Also Provide Inflation Protection With a High Cash Yield Component







Source: KKR, Cambridge Associates, MSCI, BLS, Bloomberg, Barclays, JPM, and MGII as of December 31, 2013. Unless otherwise indicated, data shown above is based on returns from Q4 2010 to Q4 2013.

Note: KKR returns shown above reflect all KKR Global Infrastructure Strategy Investments from 2010 through December 31, 2013, which includes all KKR Global Infrastructure I Investors L.P. investments and KKR's Colonial Pipeline investments; Global Infrastructure Stocks (DJ) refers to the Dow Jones Brookfield Global Infrastructure Index, which is comprised of 38% utilities, 47% oil & gas storage/transportation, 6% transportation, 5% diversified infrastructure; Global Infrastructure Stocks (Macq) refers to the Macquarie Global Infrastructure index, which is comprised of 84% utilities, 9% pipelines, 6% transportation infrastructure; US Bonds refers to the Barclays US Agg USD index; Global Bonds refers to the Barclays Global Agg USD index; US TIPS Bonds refers to the Barclays US Inflation Linked Bonds index; US High Yield refers to the BAML US High Yield Master II index; US Stocks refers to the S&P 500; REITs refers to the FTSE NAREIT index; Energy



# Infrastructure Assets Have the Potential for a Healthy "Risk Premium," and Can Serve as a Helpful Portfolio Diversifier

- We believe unlevered infrastructure investments can offer a "risk premium" of 300-400 basis points over long-term U.S. government yields
- Some of the key risks borne by infrastructure investors include regulatory, political, liability, and liquidity factors. *Economic risk*, while also a factor, is low compared to traditional equity and credit investments, since infrastructure supports essential services such as electricity, water, and transportation
- Given their differentiated risk profile, we believe infrastructure investments can help diversify portfolios



Source: CFA Institute Conference Proceedings Quarterly, "Infrastructure: A Growing Real Return Asset Class," September 2007, Bloomberg and KKR.

(1) Data as of December 31, 2013. Long-term U.S. gov't yield based on 30-year Treasury bond. Please see Important Information for additional disclosure regarding target returns.

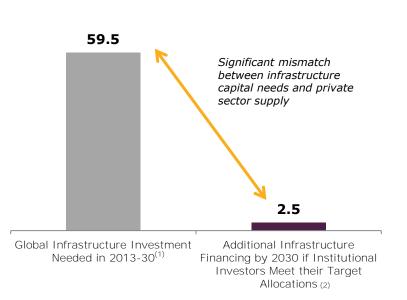


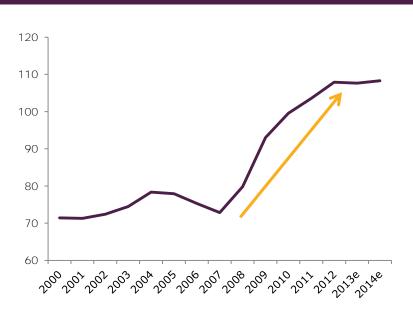
# We See a Significant Mismatch Between Supply and Demand for Infrastructure Capital

- The McKinsey Global Institute estimates that there is \$57 trillion of global infrastructure investment needed from 2013-30. By comparison, it estimates that only \$2.5 trillion of additional private infrastructure financing will be available by 2030 if institutional investors meet their target allocations
- The imperative to invest more in infrastructure comes at a time when many governments are highly indebted and face competing calls for their scarce resources
- We think the disparity between capital demand and supply is one driver of the attractive infrastructure risk premium. outlined on the preceding page

#### **Infrastructure Investments (\$ Trillions): Estimated Future Demand vs. Private Sector Supply**

#### **Global Advanced Economics: General Government Gross Debt, % of GDP**(3)





(1) Source: McKinsey Global Institute, "Infrastructure Productivity," January 2013; International Energy Agency, "World Energy Outlook 2013," November 2013:

OECD, "Strategic Transport Infrastructure Needs to 2030," March 2012.

Source: McKinsey Global Institute, "Infrastructure Productivity: How to Save \$1 Trillion a Year," January 2013.

Source: Haver, IMF World Economic Outlook, Data as of October 2013, e = IMF estimates,

Appendix - Senior Infrastructure Team Biographies



# Senior Infrastructure Team Biographies



#### Marc S. Lipschultz, Member and Global Head of Energy and Infrastructure

Marc Lipschultz (New York) joined KKR in 1995 and is the Global Head of KKR's Energy and Infrastructure business. Mr. Lipschultz currently serves as a member of KKR's Infrastructure Investment Committee and the Energy Investment Committee. Prior to joining KKR, Mr. Lipschultz was with Goldman, Sachs & Co., where he was involved in a broad array of mergers and acquisitions as well as the firm's principal investment activities. He received an A.B. with honors and distinction, Phi Beta Kappa, from Stanford University and an M.B.A. with high distinction, Baker Scholar, from Harvard Business School. Mr. Lipschultz is actively involved in a variety of non-profit organizations, serving as a trustee or board member of the American Enterprise Institute for Public Policy Research, Bard College, Center for Curatorial Studies, Michael J. Fox Foundation, Mount Sinai Medical Center, Riverdale Country School and 92nd Street Y.



Raj K. Agrawal, Member and Head of North American Infrastructure

Raj Agrawal (Menlo Park) joined KKR in 2006 and is the North American head of KKR's Infrastructure business. Mr. Agrawal currently serves as a member of KKR's Infrastructure Investment Committee and the Energy Investment Committee. He is a member of the boards of directors of the Colonial Pipeline Company, Bayonne Water joint venture and Torq Energy logistics. Prior to joining KKR, he was a Vice President with Warburg Pincus, where he was involved in the execution and oversight of a number of investments in the energy and infrastructure sector. Mr. Agrawal's prior experience also includes Thayer Capital Partners, where he played a role in the Firm's business and manufacturing services investments, and McKinsey & Company, where he provided strategic merger and acquisition counsel to clients in a variety of industries. He holds a B.A. with honors and distinction, Phi Beta Kappa, from Stanford University and an M.B.A., Arjay Miller Scholar, from the Stanford University Graduate School of Business.



#### Jesús Olmos Clavijo, Member and Head of European Infrastructure

Jesús Olmos Clavijo (London/Madrid) joined KKR in 2009 and is the European head of KKR's Infrastructure business. Mr. Olmos currently serves as a member of KKR's Infrastructure Investment Committee. Prior to joining KKR, Mr. Olmos was a Member of the Executive Board at Endesa, S.A., Spain's leading electric utility and largest private electric utility in Latin America, where he reported to the Chairman and CEO, and was a Managing Director for Corporate Development. Previously, Mr. Olmos was also CEO of Endesa Europa and Endesa Italia. During his time at Endesa, Mr. Olmos led the expansion of Endesa into Europe and in particular its investment of approximately €1.45 billion of equity in infrastructure assets in Portugal, Italy, France, Greece, Ireland, Poland, Turkey and the Netherlands, and the increase of the EBITDA of its European operations from €295 million in 2002 to €1.157 billion in 2008. He subsequently led the exit of Endesa Europe, which was sold in June 2008 for a total enterprise value of over €11 billion (including approximately €7.5 billion of equity) representing value creation of more than €6 billion in seven years. He holds a degree in Industrial Engineering from the Escuela Técnica Superior de Ingenieros Industriales and an M.B.A. from Instituto de Empresa, as well as a degree in Executive Management from IESE.

# Senior Infrastructure Team Biographies, Continued



#### **Brandon A. Freiman, Director**

Brandon A. Freiman (Calgary) joined KKR in 2007 and is a member of the Energy & Infrastructure team. He currently sits on the boards of Energy Future Holdings, Accelerated Oil Technologies, Fortune Creek Midstream, Westbrick Energy and Bayonne Water JV. During his time at the Firm, he has also been involved in the Firm's investment in El Paso Midstream Investment Company, and has had portfolio company responsibilities for Rockwood Holdings. Prior to joining KKR, he was with Credit Suisse Securities in its energy investment banking group, where he was involved in a number of merger, acquisition, and other corporate advisory transactions. He holds a Bachelor of Commerce, with a Joint Honors in Economics and Finance, from McGill University. Mr. Freiman also sits on the board of directors of the Achievement First Apollo Elementary School.



Ravi Gupta, Director

Ravi Gupta (New York) joined KKR in 2005 and is a member of the Energy & Infrastructure team. Prior to this, Mr. Gupta was with KKR Capstone and worked with Toys 'R' Us and Energy Future Holdings (formerly TXU Corp.). He was previously with McKinsey & Company where he worked across a number of industries. He holds a B.S. in Economics from Duke University.



Ram Kumar, Director

Ram Kumar (London) joined KKR in 2009 and is a member of the Energy & Infrastructure team. He has been actively involved in a number of investments including Sorgenia France Production, T-Solar Global Operating Assets, Saba Infraestructuras, Coriance Groupe and South Staffordshire. Prior to joining KKR, he worked at Goldman Sachs for close to seven years across mergers & acquisitions, leveraged/structured finance and infrastructure investments. Mr. Kumar is currently on the board of directors of Sorgenia France Production and South Staffordshire. He holds B.E. (Mechanical) and M.Sc. (Economics) degrees from BITS, Pilani (India), and an M.B.A. from the Indian Institute of Management, Ahmedabad (India).

# Senior Infrastructure Team Biographies, Continued



#### **Vincent Policard, Director**

Vincent Policard (London) joined KKR in 2012 and is a member of the Energy & Infrastructure team. Prior to joining KKR, Mr. Policard spent over a decade at Morgan Stanley in the Frankfurt and London offices. Most recently, Mr. Policard spend three years as an Executive Director in the Morgan Stanley's infrastructure fund team (MSI). In this role, he was responsible for originating and executing transactions in the European infrastructure sector, most notably playing a leading role in MSI's investments in Madrilena Red de Gas, the Spanish gas distributor, and Eversholt Rail Group, the UK rolling stock leasing company. Previously, Mr. Policard spent three years at BNP Paribas in their investment banking division in Frankfurt. Mr. Policard holds an M.B.A. from HEC Paris, a Masters in Political Science from Sciences Po Paris and a Masters of Law from Assas University (Paris).



#### Winnie Wutte, Director

Winnie Wutte (London) joined KKR in 2008 and is a member of the Client and Partner Group. Prior to joining KKR, she spent five years at JP Morgan in London as an equity research analyst within the telecommunication sector as well as spending time as a Telecoms Specialist Salesperson. Within the broader pan European Telecoms universe, she covered predominantly Iberian, Benelux and Austrian telecom companies. She holds a B.Sc. from the London School of Economics and Political Science.



Henry C. Hager, Principal

Henry C. Hager (New York) joined KKR in 2011 and is a member of the Client and Partner Group. He has been involved in the **Firm's** global capital raising activities and currently works as a product specialist focused on energy and infrastructure. Prior to joining KKR, he was with Constellation Energy in its Corporate Strategy and Development group, where he was involved in a number of merger, acquisition, and other corporate advisory transactions. Previously, Mr. Hager served in advisory positions at the White House and the U.S. Department of Commerce, working directly with the Secretary of Commerce on the energy and economic policy. He holds an M.B.A. from the Darden School of Business at the University of Virginia and a B.S. from Wake Forest University.

# Senior Infrastructure Team Biographies, Continued



#### **Guido Mitrani, Principal**

Guido Mitrani (London) joined KKR in 2010 and is a member of the Energy & Infrastructure team. Mr. Mitrani has been actively involved in a number of investments including Sorgenia France Production, T-Solar Global Operating Assets, Saba Infraestructuras and South Staffordshire. Prior to joining KKR, Mr. Mitrani was an Associate at Goldman Sachs where he was involved in a broad range of mergers, acquisitions, and financings across various industries based in London, New York and Buenos Aires. He holds a B.A., magna cum laude, in Business Administration, from Universidad de San Andres in Buenos Aires, Argentina.



#### **Cedric Lucas, Principal**

Cedric Lucas (New York) joined KKR in 2014 and is a member of the Energy & Infrastructure team. Prior to joining KKR, Mr. Lucas was a Senior Vice President with Macquarie Infrastructure and Real Assets in New York. At Macquarie Infrastructure, he was responsible for sourcing, executing and overseeing investments in energy and utilities and served as a member of the board of directors of Aquarion Water Company and Leaf River Energy Center. Previously, Mr. Lucas was with Morgan Stanley in their Global Energy investment banking division in Houston. Prior to Morgan Stanley, Mr. Lucas worked for Locus Technologies in the San Francisco Bay Area where he managed civil and environmental engineering projects for U.S. and European clients. Mr. Lucas holds an M.B.A. with high distinction, Baker Scholar, from Harvard Business School, a Masters in Civil and Environmental Engineering from Stanford University, a Masters in Engineering from Ecole Centrale Paris and is a registered Professional Engineer in California.



**Morgan Stanley Infrastructure** 

# **MSIP II Overview**

August 2014

The information in this presentation (the "Presentation") is being provided solely for informational purposes to institutional investors only and is not for distribution to the general public. An investment in the Fund will involve significant risks, including the risk that an investor may lose its entire investment. Other significant risks associated with investing in the Fund are described in "Certain Risk Factors" at the end of this Presentation.

#### **Morgan Stanley Infrastructure**

# Leading Infrastructure Platform, Proven Track Record

Global core-plus strategy has led to strong results

1

# Proven Track Record with Disciplined, Global Core-Plus Strategy

- \$4.2 billion of gross capital invested worldwide<sup>1</sup>
- Gross IRR of 12.9%, LTM cash yield of 8.2%
- Gross IRR of 17.1% for investments matching strategy of MSIP II<sup>4</sup>
- Distributions of \$2.0 billion since inception<sup>5</sup>
- Successful strategy targeting assets that require operational improvements and proactive asset management expertise
- MSIP II first closing of \$1.5 billion in June 2014, target of \$4 billion

3

# Global Network for Sourcing and Investing

- Morgan Stanley presence in 43 countries, over 400 professionals involved in infrastructure
- Proprietary information flows lead to exclusive investment opportunities
- Allows potential for best risk-adjusted returns across regions and asset classes
- 14 of 20 investments in MSIP I have been exclusively negotiated

2

# **Experienced Team, Established Process**

- Global team of 75 professionals, including 35 dedicated infrastructure professionals, based in New York, London, Melbourne, Amsterdam, Hong Kong, and Mumbai
- MSI Partners have 15–30 years each of related investment experience;
   majority of team has worked together with respect to MSIP I investments
- · Successful track record of hands-on value creation in portfolio companies

4

# **Strong Alignment of Interest**

- Substantial majority of carried interest allocated to investment team, officers expect to receive majority of compensation over time through carried interest
- MSI officers will invest \$25 million in MSIP II
- MSI sits within Morgan Stanley Investment Management (\$396 billion of assets under management)
- Arm's length relationship; MSIP I has over 82% of financial advisory and underwriting fees to financial institutions other than Morgan Stanley
- 1. Morgan Stanley Infrastructure Partners ("MSIP I"). Figures as of Mar. 31, 2014 are preliminary and subject to change.
- MSIP I gross IRR is calculated based on actual dates of investor capital contributions for investments and investor distributions as of Mar. 31, 2014. Calculation does not reflect deduction of
  management fees, organizational and other indirect expenses, and deduction of the general partner's carried interest. Past performance is not indicative of future results. Please see page entitled
  "MSIP I Performance" for net performance.
- MSIP I yield calculated as income distributions received through LTM ending Mar. 31, 2014 over weighted average capital contributed for assets held by MSIP I; excludes returns of capital and distributions related to realized assets.
- 4. MSIP I gross IRR is as of Mar. 31, 2014 and excludes MSIP I investments in emerging markets and off-street parking garages, which are outside focus of MSIP II. Notwithstanding exclusion of emerging markets from this MSIP I performance summary, note that MSIP II will have ability to invest up to 15% of commitments in emerging markets as an exception. MSIP I had target of up to 25% of commitments to emerging markets, and invested approximately 19%. Past performance is not indicative of future results.

MSIP I.

#### **Morgan Stanley Infrastructure**

# Our Core-Plus Investment Mandate

Infrastructure assets with underlying core characteristics and operational overlay

## · Assets with long useful lives **Core Infrastructure** Cash flows linked to inflation Assets Stable, predictable cash flows · Carve-outs of assets from larger entities · Assets being privatized **Unique Situations** Undermanaged assets • Assets with the potential for scalable expansion through organic growth or follow-on acquisitions • Americas: US, Canada, to lesser extent Chile **Target Geographies** • Europe: EU with focus on countries with strong credit ratings • OECD Asia-Pacific: primarily Australia Gas infrastructure · Water infrastructure **Focus Sectors** · Contracted power • Green power / renewables Seaports and airports • Preference for control or co-control governance provisions Prudent approach to leverage and refinancing risk Thresholds & • Single investment cap of 15% (subject to syndication exception) **Approach** • Predominantly operational assets – greenfield cap of 20% Non-OECD exception category of 15%

### Target Returns<sup>1</sup>

- 12–15% gross IRR on a portfolio basis
- 5–7% cash yield (by end of commitment period)

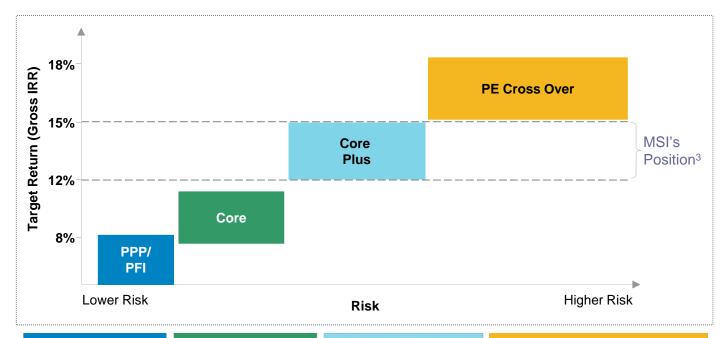
<sup>1.</sup> In setting target return and target annual yields, the GP of MSIP II considered forecasted cash flows, forecasted valuations at future dates, market conditions for relevant assets, and anticipated contingencies, among other matters. The gross target IRR is before any carried interest, fees & expenses, which will reduce returns and in the aggregate are expected to be substantial. These targets were prepared based on MSI's understanding of the intended future operations of MSIP II and its view of future events and various estimations and assumptions made by MSI; therefore, such targets are subject to uncertainties, changes and other risks. No assurance, representation or warranty is made by any person that target will be achieved.

#### **Morgan Stanley Infrastructure**

- Depending on one's definition of infrastructure and the associated risk profile, target IRRs typically range from 7% to 20%+1
- Morgan Stanley Infrastructure has a disciplined, core-plus investment strategy

# MSI's Position on Infrastructure Risk Spectrum

Infrastructure space is divided into four major segments<sup>2</sup>



#### PPP/PFI (Secondary)

#### Implicit government guarantees offer returns with a premium over government bonds

#### Core

- Often in regulated environments or under concession agreements
- Mature businesses with long-term performance history

#### **Core Plus**

- Regulated or unregulated assets
- Lesser performance or volume history for new or existing assets (brownfield)
- Assumes some operational and development risks

#### **Private Equity Cross Over**

- More often unregulated assets
- More limited visibility into future cash flows as either greenfield project or exposed to additional risks influencing performance such as commodities, competitive alternatives, macro and micro economy dynamics
- Developing country investments with less regulatory, political, legal history

<sup>1.</sup> The target IRRs are not intended to reflect, and do not reflect, a target return for MSIP I or any other security. There can be no assurance that any target IRR will be achieved.

<sup>2.</sup> The chart is being provided for illustrative purposes only; there can be no assurance that any investment will achieve high returns.

In setting the target return, the general partner will consider forecasted cash flows, forecasted valuations at future dates, market conditions for relevant assets, and anticipated contingencies, among other matters.

#### **Morgan Stanley Infrastructure**

# Diversified Portfolio Across Geographies and Sectors<sup>1</sup>

\$4.2 billion of gross capital invested<sup>2,3</sup>

#### **Americas**

#### **Gross Capital Invested: \$2,211MM**



Mid-West \$435MM Southern Star Control Position

Gas transmission and storage facility provider for Midwestern U.S.



Chicago \$601MM Chicago Parking Meters Control Position

Third-largest metered parking system in the U.S.



Boston \$318MM
MATEP Control Position

Tri-generation facility providing heating, cooling, and



Montreal \$172MM
Montreal Gateway Terminals Control Position

Largest operator at Port of Montreal, third-largest container port on northeast coast



Chicago \$306MM Chicago Loop Parking Notional Loss

Largest underground parking system in the U.S



**Chile** \$379MM SAESA Group Realized

Third-largest electricity distributor in Chile; realized Nov '11

#### **Europe**

#### **Gross Capital Invested: \$1,375MM**



**Spain** \$623MM Madrileña Red de Gas Control Position

First stand-alone natural gas distribution company in Spain



**United Kingdom** \$353MM Affinity Water Floating Majority

Largest regulated water-only company in the U.K., providing water to over 3.5 million people



**United Kingdom** \$240MM Eversholt Rail Group Floating Majority

Leading rolling stock company in U.K.



Italy \$109MM
Agorà Investimenti S.r.I. Minority Position

Shareholder in Venice and Treviso airports



**United Kingdom** \$50MM Sapphire Holdings BV Realized

Purchase of BAA subordinated debt; realized Nov '09

#### Asia

#### **Gross Capital Invested: \$602MM**



India \$126MM
Indus Concessions Co-control Position

Toll Roadway developer, constructing three highway projects in India



**China** \$141MM Zhaoheng Hydropower Ltd. Co-control Position

Leading operator of small-and medium-sized hydropower plants in China



India \$122MM
Asian Genco Co-control Position

Developer of clean power generation assets, with majority interests in a 3,000MW portfolio



India \$107MM
PASGIC/SVB Control Position

India's largest Build-Operate-Transfer bridge project



India \$107MM

Wind power generation asset operator and

Continuum Wind Energy

Figures for each asset represent gross capital invested.

- 1. MSIP I portfolio.
- 2. As of Mar. 31, 2014.

Control Position

<sup>3.</sup> Reflects \$2.8 billion of net capital currently invested & committed, \$297.3MM previously invested in CLP, and \$1.0 billion of previously invested capital that has been returned to investors as a result of realizations and refinancings and \$111.9 million committed to be invested. Excludes \$23.9 million in other capital temporarily funded in connection with anticipated investments.

#### **Morgan Stanley Infrastructure**



- In December 2008, a consortium led by MSIP I submitted a winning bid of \$1.15Bn for the 75-year concession of the Chicago Metered Parking System
  - PPP with the City of Chicago marked the first concession in the world for on-street, municipal parking
  - MSIP I acquired a 50.1% ownership
- CPM manages, operates and collects revenue from 36,000 metered parking spaces

#### **Key Metrics**

Original Investment Amount	\$601MM
Return of Capital	\$277MM
Income Distribution to Date	\$129MM
Current Value	\$671MM
Total P&L	\$476MM

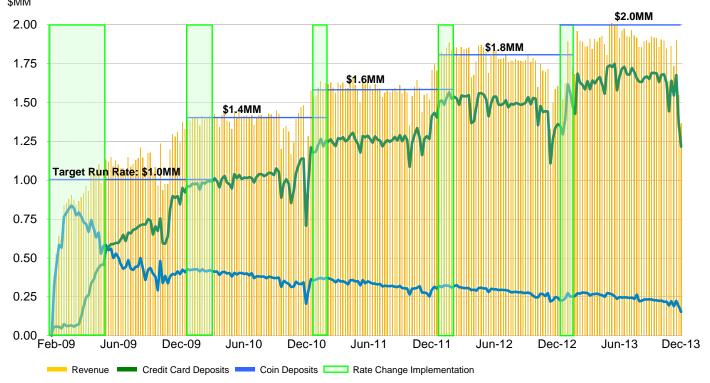
# Operational Value Add Example: Chicago Parking Meters

Seamless system-wide upgrade led to significant operational and economic upside

#### **Post-Acquisition Operational Initiatives**

- Successfully executed installation of over 4,700 electronic Pay & Display meters
  - Repair call volumes dramatically declined
  - Average repair time declined to two hours (concession agreement required two days)
- Successfully implemented five rate increases, with minimal decrease in usage

# Weekly Revenue \$MM



Source Chicago Parking Meters

MSIP II's other investments will have similar results.

This case study is being provided for informational purposes only. It is not intended to predict the performance any investment. There is no guarantee that any of MSIP I's or

#### **Morgan Stanley Infrastructure**



- Within 2.5 years of closing of the initial acquisition in April 2010, MSIP I realized significant margin improvements at MRG taking the EBITDA margin from below 60% to over 80%
- The improvements were achieved through initiatives in the following areas:
- 1 Carve-out and separation
- Operational streamlining and efficiency improvements
- 3 Synergetic bolt-on acquisition
- In July 2011, MSIP I syndicated a 31% of its interest in MRG<sup>2</sup> at a gross IRR of 48%, thereby partially crystallizing the value created todate

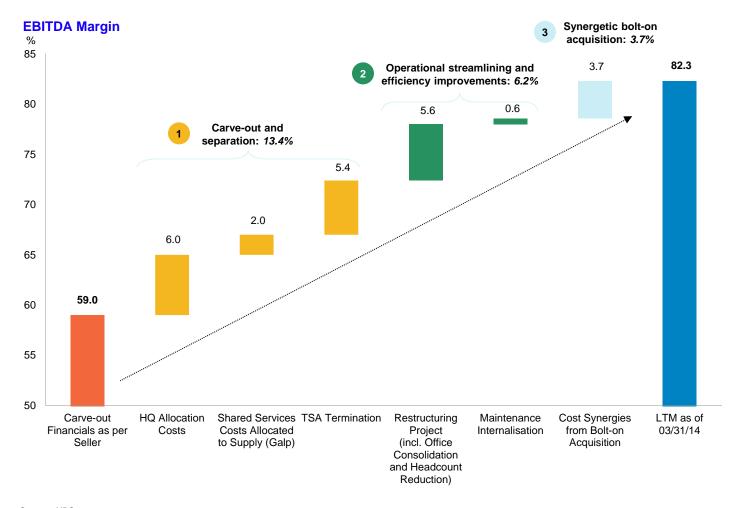
#### **Key Metrics**

0:: 11	
Original Investment Amount, including bolt-on	\$61 9MM
Sell-down:	31%
Cash Realized:	\$270MM
Realized Gross IRR:	48% <sup>1</sup>
Premium to cost of original MRG investment (US\$ basis):	73%
Cash multiple	1.5x

# Morgan Stanley

# Operational Value Add Example: Madrileña Red de Gas

Substantial syndication premium achieved



Source MRG

This case study is being provided for informational purposes only. It is not intended to predict the performance any investment. There is no guarantee that any of MSIP I's or MSIP II's other investments will have similar results.

<sup>1.</sup> The IRR for the partial sale of Madrileña Red de Gas is calculated on a cash-on-cash basis from the initial funding by Limited Partners to the partial sale of the investment. The IRR is expressed in U.S. dollar terms. Net IRRs will be lower.

<sup>2.</sup> Post sale to four investors, MSIP I retains a 61% share in MRG.

#### **Morgan Stanley Infrastructure**

# One of the largest teams in the infrastructure investment business

- Deep experience in infrastructure investing, including some of industry's most significant transactions
- Size of team enables consideration of all opportunities, helps reduce risk of missing crucial details
- Shared history helps ensure swift, thorough execution, ability to add value throughout asset lifecycle

# Morgan Stanley Merchant Banking global support teams (40 professionals)

- Risk Management
- Legal/Compliance
- Tax
- Government Relations
- Corporate Communications
- Investor Relations
- Portfolio Valuation
- Human Resources
- Information Technology
- Financial Controllers
- Administrative Staff

# Experienced Team, Global Platform

75 professionals, including 35 dedicated and full-time infrastructure professionals

#### **Partners**



Markus Hottenrott Chief Investment Officer, Managing Director



Chris Koski Global Head of Investment Strategy, Managing Director



Mark McLean Head of Asia-Pacific, Managing Director



John Veech Head of Americas, Managing Director



John Watt Head of Asset Management, Managing Director



Jim Wilmott Head of Europe, Managing Director

#### **Investment Team**

#### **Americas**

Thomas Gray, MD
Ahmad Atwan, ED
Jiten Manglani, VP
Andrew Medvedev, VP
Brian Park, VP
Adina Schwartz, VP
Joshua Choi, Assoc.
Andrew Glenn, Assoc.
Naseh Kausar, Assoc.
Jarad Rosenberg, Assoc.
Xiao Tsai, Assoc.
Ricardo Yunis, Assoc.
Shin Hahn
Allison Hung

Ahmed Osman

#### Europe

Alberto Donzelli, ED Gordon Hunt, ED <sup>(1)</sup> Yacine Saidji, ED Omar Rahman, ED Harsha Perera, VP Ramzi Moubarak, Assoc.

#### Asia-Pacific

Saurabh Agarwal, VP Kevin Lee, VP Ami Momaya, VP Philip Li, VP Christoph Oppenauer, VP Arpit Agrawal, Assoc.

#### **Partner Capital Group**

Melissa Richards, ED Eric Brand, VP

MD: Managing Director, ED: Executive Director, VP: Vice President

#### **Morgan Stanley Infrastructure**

# MSI Senior Advisory Board

Delivers deep expertise and relationships across MSI target sectors

- Cross-industry operational, commercial, and regulatory/public policy expertise
- Enhances deal sourcing through strong networks of relationships
- Assists in due diligence through preliminary evaluation and proprietary resources
- · Supports operations and enhancement at portfolio asset companies through valuable insight and advice



Tom Nides

Advisory Board Chair
Regulatory affairs

- Morgan Stanley Vice Chairman, member of Operating and Management Committees, former COO
- Former U.S. Deputy Secretary of State
- Former Chief of Staff to U.S. Trade Representative
- Former Chief Administrative Officer of Credit Suisse USA
- Chairman of Board of Wilson Center for International Scholars, Board Member of Asia Society and Member of Council on Foreign Relations



**Nora Mead Brownell** 

Advisory Partner
Pipelines and utilities
Regulatory affairs

- Board Director of National Grid PLC
- Board Director of Spectra Energy Partners GP
- Former U.S. Federal Energy Regulatory Commission member
- Former Pennsylvania Public Utility Commission commissioner
- Former President of National Association of Regulatory Utility Commissioners



**Lawrence Coben** 

Advisory Partner Power generation

- Founder and top executive of numerous energy firms – in the U.S. and internationally
- Chairman and CEO, Tremisis Energy
- Board Director of NRG Energy
- U.S. Department of Homeland Security Sustainability and Efficiency Task Force member
- Former Board member of Grupo SAESA



Pierre Graff

Advisory Partner Transportation Regulatory affairs

- Former Chairman and CEO, Aeroports de Paris, regional airport authority
- Former General Director, Civil Aviation Authority of France
- Former Principal Private Secretary to French Minister of Infrastructure, Transport, Housing, Tourism and Marine Affairs



**Kevin Meyers** 

Advisory Partner Oil and gas

- Former SVP of Exploration and Production Americas for ConocoPhillips
- Former President of ConocoPhillips Canada, ConocoPhillips Russia and Caspian Region, and ConocoPhillips Alaska
- Board Director of Hess Energy, Precision Drilling, Denbury Resources, Hornbeck Offshore Services, and Bill Barrett Corporation
- Former Board Director of the World Energy Council, U.S. Energy Association, and Lukoil

#### **Morgan Stanley Infrastructure**

## Full Resources and Commitment of Morgan Stanley

MSI benefits from broad capabilities of global financial institution, independence of a boutique

#### **Morgan Stanley** Institutional Wealth Investment **Securities** Management Management Group U.S. Wealth **Merchant Banking** Management **Investment Banking** & Real Estate Investing **Private Wealth** Management **Traditional Asset** Sales & Trading Management **International Wealth** Management Accounted for over 50% of total firm net revenues in 2013<sup>1</sup>

#### **Merchant Banking & Real Estate Investing**

\$35 billion<sup>2</sup> direct investing group with nearly 30 years experience investing in private assets around the world

- Leading Private Equity, Real Assets and Credit strategies
  - 36 Funds and 536 Current Investments
- Over 400 on-the-ground professionals with proprietary relationships and access to Morgan Stanley global network to identify superior investment opportunities for clients
- Firm's comprehensive global control and support organization ensures effective oversight and governance
- Continuous commitment to grow platform, with dedicated operational support groups ensuring best practices and operating efficiencies
- \$6.6 billion of equity capital raised in 18 months through June 2014, targeting \$10.5 billion in currently marketed offerings

<sup>1.</sup> Corporate reports.

Merchant Banking & Real Estate Investing AUM is defined as committed capital for those funds still within the investment period and NAV for those beyond the investment period. Preliminary as of March 31, 2014.

#### **Morgan Stanley Infrastructure**

# Global Network for Sourcing and Investing

Morgan Stanley franchise plus team's extensive senior relationships

#### **MSI's Global Platform**

- MSI regional teams in New York, London, Melbourne, Amsterdam, Hong Kong, and Mumbai
- MSI high-level relationships with world's leading operators, strategic players, and governmental and regulatory entities
- Morgan Stanley Global Franchise
- 57,000 employees in 43 countries
- Top-tier Investment Banking Division, producing superior information flow<sup>1</sup>
- Over 400 professionals involved in infrastructure across the firm (Municipal and Public Finance, Investment Banking, Project Finance, Structured Finance, Global Capital Markets, Commodities, and Research)
- MSI has "right of first offer" for all infrastructure opportunities from the Morgan Stanley network

#### Global Network in Action: Case Studies

#### **Head of Morgan Stanley in Germany**

 Relationship with management personnel of seller led to exclusively negotiated acquisition of Montreal Gateway Terminals

#### Head of Morgan Stanley in Spain

 Sourced co-investor for Madrileña Red de Gas based on existing relationships, and helped source new management team

#### Senior member of Morgan Stanley Global Power & Utilities Group

 Provided intelligence on availability of MATEP and persuaded NStar CEO to "stay the course" on bilateral discussions after MSI had initiated them

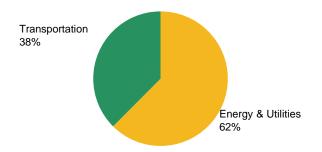
#### **Morgan Stanley Infrastructure**

- · Globally exclusive deals sourced through our network provide competitive advantages vs. those deals sourced through auction process
- · Benefits can include:
  - Lower entry price
  - Enhanced buyer terms (better terms for sale & purchase agreements)
  - More in-depth diligence
  - Enhanced structuring

## Team Sourced 14 Exclusive Investments Out of 20

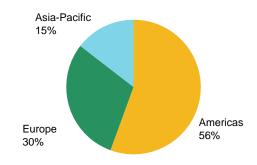
#### **Exclusive Investments by Sector**

MSIP I Original Capital Invested: \$1.6Bn



#### **Exclusive Investments by Region**

MSIP I Original Capital Invested: \$1.6Bn



#### **MSIP I Proprietary Transactions**

Investment	Date	Location	Description	Invested (\$MM)
Montreal Gateway Terminals – Follow-on	Dec-13	Canada	Container Port Operator	Undisclosed
Agorà Investimenti – Follow-on	Oct-13	Italy	Airport/Airport Services Company	63.6
Southern Star Central Gas Pipeline – Follow-on	Sep-12	Midwest U.S.	Gas Transmission and Storage Facility	252.9
Continuum Wind Energy	Jun-12	India	Wind Power Generation	25.1
Madrileña Red de Gas – Bolt-on	Jun-11	Spain	Natural Gas Distributor	139.8
Indus Concessions	May-11	India	Toll Roadway Construction Company	17.0
Eversholt Rail Group	Dec-10	U.K.	Rolling Stock Company	238.7
Zhaoheng Hydropower	Nov-10	China	Hydropower Developer	62.3
Medical Area Total Energy Plant	Jun-10	Boston, U.S.	Power Tri-Generation Facility	317.6
Southern Star Central Gas Pipeline – Initial	Mar-10	Midwest U.S.	Gas Transmission and Storage Facility	180.3
Asian Genco	Mar-10	India	Clean Power Asset Developer	51.0
PASGIC	Oct-09	India	Toll Roadway Construction Company	84.0
Agorà Investimenti	Feb-08	Italy	Airport/Airport Services Company	39.2
Montreal Gateway Terminals	Mar-07	Canada	Container Port Operator	139.3
			Total	1,610.8

Original Capital

#### **Morgan Stanley Infrastructure**

# Prudent Approach to Leverage

Weighted average portfolio leverage of 47%

#### **Strategy**

Use long-term debt financing to leverage anticipated stable cash flow generation from investments when appropriate to do so

- Structure debt capital to investment grade standards
- · Match debt duration profiles to assets' cash flows
- Avoid floating interest rate exposure by swapping to fixed-rate debt or using interest rate hedging derivatives
- · Non-recourse financing leverage at asset-level only
- Prohibit use of Fund-level guarantees

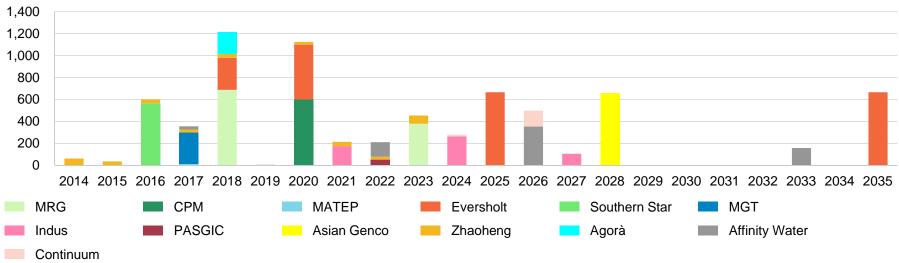
#### **Asset Debt Maturity Profile**

As of Mar. 31, 2014<sup>(3)</sup> \$MM

#### MSIP I Portfolio Investments Debt Summary<sup>(1)</sup>

As of Mar. 31, 2014<sup>(2)</sup>

Total Proportional Net Debt Outstanding in US\$MM	\$3,533.2 <sup>(2)</sup>
Net Debt / Forward Twelve Month EBITDA	4.6x
Forward Twelve Month EBITDA / Interest Expense	3.9x
Weighted Average Interest Rate	5.6%
% of Fixed Interest Exposure	76%
Weighted Average Life	8.8 years



- 1. Each asset has its own unique debt profile and the terms reflected here are qualified in their entirety by the specific terms of each financing. These figures do not reflect the risks related to any specific investment's debt financing.
- Total proportional net debt outstanding represents the sum of all of MSIP I's investments, whereby each investment's proportional net debt outstanding equals total net debt outstanding (local currency), converted back to USD based on the prevailing foreign exchange rate, multiplied by MSIP I's equity ownership percentage in the respective asset.
- Reflects third-party debt only (i.e., not shareholder loans).

# Morgan Stanley

#### **Morgan Stanley Infrastructure**

# Alignment of Interest

Clear alignment is necessary for successful investing, regardless of sponsor model

#### Alignment Achieved via Carried Interest & Co-investment

- Strong alignment of interest between MSI team and Limited Partners
  - Substantial majority of carried interest allocated to team
  - Senior team members expect to receive majority of compensation over time through carried interest awards
  - Senior team members will make substantial personal commitments to MSIP II

#### Independent Fund Management Platform

- Team identifies, pursues, and executes investments with the independence of a boutique platform
- Sits within Morgan Stanley Investment Management, Morgan Stanley's fiduciary business
- Supplemented by Morgan Stanley oversight in areas such as risk management, valuation, legal, and compliance
  - Part of Fed and SEC regulated bank holding company

# Arm's Length Relationship

- Complete flexibility with respect to appointing advisors
  - Right of first offer to review Morgan Stanley sourced deals
  - Ability to appoint external banks/advisors if better qualified
    - Since inception, MSIP I has paid over 81% of fees to firms other than Morgan Stanley

#### **Morgan Stanley Infrastructure**

# MSIP II Indicative Terms<sup>1</sup>

The Partnership	Morgan Stanley Infrastructure Partners II LP								
Structure	Unlisted, closed-end fund	Jnlisted, closed-end fund							
Fund Currency	SD								
Target Capital	\$4.0 billion	4.0 billion							
Minimum Commitment	\$5.0 million, subject to waiver at General Pa	5.0 million, subject to waiver at General Partner's discretion							
Morgan Stanley Commitment	Up to 3% of the Fund's total capital commitr	nents, including fund team commitments							
Commitment Period	5 years from First Closing Date, subject to a one-year extension at the discretion of the Limited Partner Advisory Committee								
Term	12 years, plus two one-year extensions at the discretion of the Limited Partner Advisory Committee								
Investment Objective	The Fund intends to invest opportunistically in Infrastructure Assets on a global basis in order to assemble an investment portfolio with a gross internal rate of return of approximately 12-15% <sup>2</sup> . The Fund's target rate of return is before any carried interest, fees, and expenses. There can be no assurance that the Fund will achieve its investment objective or target returns.								
Preferred Return	8% per annum								
Carried Interest	20%, subject to achieving the Preferred Ret	urn; European-style carried interest waterfall, with clawback							
Clawback Guarantee	Guaranteed by Morgan Stanley as permitted	d by law							
Transaction Fee Offset	100%								
Management Fee	Capital Commitments	Management Fee							
	Less than \$50MM	1.50%							
	\$50MM to less than \$100MM	1.35%							
	\$100MM to less than \$175MM	1.25%							
	\$175MM to less than \$250MM	1.10%							
	\$250MM or greater	0.95%							
		lanagement Fee will be charged on Limited Partners' committed capital. After nagement Fee will be charged on Limited Partners' net invested capital							

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<sup>1.</sup> Subject to change. Please refer to important disclosure relating to the nature of information provided herein.

<sup>2.</sup> In setting the target return, the General Partner has considered forecasted cash flows, forecasted valuations at future dates, market conditions for relevant assets, and anticipated contingencies, among other matters

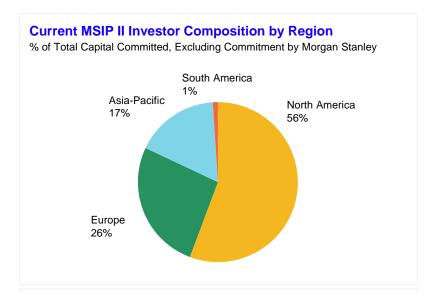
# Fundraising Update<sup>1</sup>

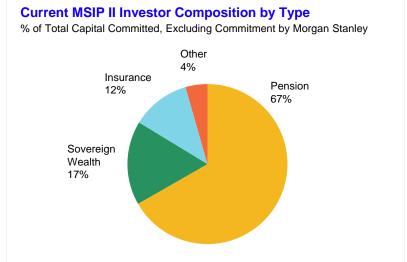
#### **MSIP II**

- MSIP II targeting \$4.0 billion of total capital commitments
- \$1.5 billion first closing in June
- Limited Partnership Agreement now finalized, following negotiations with first closing investors
- Imminent launch of MSIP II to high net worth individuals via Morgan Stanley's Wealth Management channel
- Next closing expected in fourth quarter 2014
- MSIP II on track to reach final close in first-half 2015

#### **Platform**

 Very active capital raising efforts for other Morgan Stanley Merchant Banking & Real Estate Investing funds, with a total of \$6.6 billion raised over past 18 months<sup>2</sup>





#### **Morgan Stanley Infrastructure**

# **Current Market Opportunity**

Different themes by region and sector

Americas	Europe	OECD Asia-Pacific
Key Drivers	Key Drivers	Key Drivers
Role of shale gas and oil build-out in North American energy supply	<ul> <li>Deleveraging leading to disposal of assets</li> </ul>	Privatization of infrastructure assets
<ul> <li>Continued build-out of renewable</li> </ul>	Refinancing needs	Natural resource infrastructure
power generation	Capital expenditure requirements	Deleveraging leading to disposal of assets
<ul> <li>Municipal privatizations and concession-based transportation</li> </ul>	and strategic refocusing	Re-capitalization of distressed assets
assets	<ul> <li>Fuel mix changes: renewables and traditional fuels</li> </ul>	· Vice supplied and of the supplied and supp

Morgan Stanley

#### **Morgan Stanley Infrastructure**

# **Differentiators**

Morgan Stanley Infrastructure's unique combination of strengths for successful, long-term investing

#### Leading infrastructure investment track record

• Long-term record of successfully raising, investing, and returning capital

#### History of adding value to portfolio companies

• Methodical and intensive approach to asset management has generated value for investors

#### Global network for sourcing and investing

• Morgan Stanley franchise and senior-level team relationships generate exclusive opportunities

#### **Experienced team and established process**

• Proven results from team's breadth and depth with 75 professionals around the world

#### Strong alignment of interest

• Economic interests of team strongly aligned with LP interests; strong support from Morgan Stanley

# Additional Information

MSIP I Performance

MSIP I Valuation and P&L Summary

MSIP I Assets & MSIP II Strategy

MSIP I Sales and Syndications

MSIP I Composition of Capital Since Inception

MSIP I Cumulative Income Distributions

Operational Added Value Toolkit

Team: Bandwidth, Depth, Established Process

Team: Biographies

#### **Morgan Stanley Infrastructure**

#### **ADDITIONAL INFORMATION**

#### MSIP I Performance<sup>1</sup>

# Internal Rate of Return (IRR)

#### **Gross IRR**

- 12.9% Current (as of Mar. 31, 2014)<sup>2</sup>
- 17.1% for investments matching strategy of MSIP II<sup>3</sup>
- 12.0-15.0% Target for Fund Life<sup>4</sup>

#### **Net IRR**

- 7.4% Current (i.e., assuming full Fund liquidation as of Mar. 31, 2014)<sup>2</sup>
- Fee drag between Gross and Net IRR is expected to narrow and stabilize
- 8.0–11.0% Target for Fund Life<sup>5</sup>

#### **Yield - Distributions**

- Last Twelve Months Yield of 8.2%<sup>6</sup>
- Target long-term yield of 5.0-7.0%4
- Net income distributions of \$784MM since inception<sup>7</sup>
- In addition, MSIP I has distributed a total of \$2.0 billion to limited partners through returns of capital from sales and syndications and refinancing events, income distributions and gains on sales and syndications

As of Mar. 31, 2014. Please note that Q4 figures are preliminary and subject to change.

- 1. Investors should note that past performance is no guarantee of future results.
- 2. As of Mar. 31, 2014. Gross IRR is calculated based on actual dates of investor capital contributions for investments and investor distributions. The calculation excludes allocations to the General Partner of carried interest and investor capital contributions for fees and expenses. Net IRR is calculated based on actual dates of investor capital contributions for investments, fees, and expenses and investor distributions net of allocations to the General Partner of carried interest from the inception of the MSIP Partnerships to the date noted.
- Excludes MSIP I investments in emerging markets and off-street parking garages, which are outside the focus of MSIP II. Notwithstanding the exclusion of emerging markets from this MSIP I
  performance summany, note that MSIP II will have the ability to invest up to 15% of commitments in emerging markets as an exception. MSIP I had a target of up to 25% of commitments to emerging
  markets. and invested approximately 19%.
- 4. In setting target return and target annual yields, the GP of MSIP I considered forecasted cash flows, forecasted valuations at future dates, market conditions for relevant assets, and anticipated contingencies, among other matters. The gross target IRR is before any carried interest, fees & expenses, which will reduce returns and in the aggregate are expected to be substantial. These targets were prepared based on MSI's understanding of the intended future operations of MSIP I and its view of future events and various estimations and assumptions made by MSI; therefore, such targets are subject to uncertainties, changes and other risks. No assurance, representation or warranty is made by any person that target will be achieved. Reflects valuation of portfolio as of Mar. 31, 2014, incorporating forecasts which have been formulated using separate long-term financial forecast models based on a variety of inputs & assumptions relative to each asset, including future operating initiatives, budgeted expenses, sales volume and pricing, & historic performance. The target return and target yields are not a projection of actual performance, and there can be no assurance that the Fund will achieve its investment objective or target return or target yields. Please see page entitled "Forward-Looking Forecasts" for additional detail on assumptions.
- 5. Net IRR Target is designed to illustrate the impact of expenses on the Fund's target IRR. It is subject to the same limitations and uncertainties as the Target Gross IRR. See note 1.
- 6. Yield calculated as income distributions received through LTM ending Mar. 31, 2014 over the weighted average capital contributed for assets held by MSIP I; excludes returns of capital and distributions related to realized assets.
- 7. Cash distributions of income to LPs since inception exclude \$7.0 MM of net losses resulting from expiration and close-out of hedging derivative contracts related to investments held as of Mar. 31, 2014.

#### **Morgan Stanley Infrastructure**

**ADDITIONAL INFORMATION** 

# MSIP I Valuation and P&L Summary

As of Mar. 31, 2014

											_		
	Date of Initial Investment	Region	Sector	Gross Invested Capital & Committed <sup>1</sup>	Current Invested Capital <sup>2</sup>	Unrealized Value <sup>3</sup>	Return of Capital <sup>4</sup>	Realizations Gain/ (Loss) <sup>5</sup>	Dividend Income Distributions <sup>6</sup>	Total Cash Distributions <sup>7</sup>	Total Profit & Loss <sup>8</sup>	Gross IRR <sup>9</sup>	Multiple on Invested Capital
Current Investments													
Southern Star Central Gas Pipeline	Mar-9-10	North America	Energy & Utilities	\$435.2	\$435.2	\$584.7	\$0.0	-	\$88.4	\$88.4	\$237.9	18.6%	1.5x
Madrilena Red de Gas	Apr-30-10	Europe	Energy & Utilities	\$622.6	\$396.3	\$569.3	\$226.2	\$90.5	\$150.7	\$467.4	\$414.1	22.9%	1.6x
Chicago Parking Meters, LLC	Feb-13-09	North America	Transport	\$601.3	\$324.7	\$675.1	\$276.5	-	\$137.9	\$414.5	\$488.3	17.2%	1.8x
Medical Area Total Energy Plant	May-31-10	North America	Energy & Utilities	\$317.9	\$317.3	\$325.5	\$0.6	-	\$73.1	\$73.7	\$81.3	6.6%	1.3x
Affinity Water	Jun-28-12	Europe	Energy & Utilities	\$353.4	\$304.9	\$307.0	\$14.0	-	\$38.9	\$52.9	\$41.0	7.6%	1.1x
Eversholt Rail Group	Dec-3-10	Europe	Transport	\$239.9	\$200.1	\$268.2	\$39.8	\$1.4	\$151.0	\$192.1	\$220.5	30.3%	1.9x
Montreal Gateway Terminals Partnership	Mar-9-07	North America	Transport	\$172.1	\$168.0	\$267.9	\$4.1	-	\$63.1	\$67.1	\$162.9	16.9%	1.9x
Zhaoheng Hydropower Holdings Limited	Nov-25-10	China	Energy & Utilities	\$140.8	\$139.5	\$184.2	-	-	-	-	\$43.4	12.8%	1.3x
Agorà Investimenti S.r.I.	Feb-4-08	Europe	Transport	\$108.9	\$108.9	\$158.7	-	-	\$25.4	\$25.4	\$75.1	17.9%	1.7x
Continuum Wind Energy Pte Ltd.	Jun-19-12	India	Energy & Utilities	\$107.1	\$106.2	\$127.4	-	-	-	-	\$20.0	16.0%	1.2x
Pacific Alliance Stradec Group Infrastructure Company	Oct-26-09	India	Transport	\$106.9	\$104.6	\$203.2	-	-	\$4.3	\$4.3	\$100.7	17.4%	1.9x
Asian Genco Pte. Ltd.	Mar-8-10	India	Energy & Utilities	\$121.5	\$104.3	\$96.5	-	-	\$2.8	\$2.8	(\$6.6)	(2.1%)	0.9x
Indus Concessions India Private Ltd.	May-20-11	India	Transport	\$125.8	\$63.3	\$72.8	-	-	-	-	\$8.7	6.1%	1.1x
AMI Group, LLC	Apr-16-09	North America	Transport	-	-	\$2.8	-	-	-	-	\$2.8	-	-
Fully Disposed Investments													
Sapphire Holdings B.V.	Mar-Apr 2008	Europe	Transport	\$49.9	-	-	\$49.9	(\$0.1)	\$9.6	\$59.4	\$9.5	22.7%	1.2x
SAESA Group	Jul-24-08	South America	Energy & Utilities	\$378.9	-	-	\$378.9	\$150.6	\$34.2	\$563.7	\$184.8	14.2%	1.5x
Current and Fully Disposed Investments - Sub-Total				\$3,882.2	\$2,773.4	\$3,843.2	\$990.0	\$242.3	\$779.2	\$2,011.6	\$2,084.4		
Notional Loss													
Chicago Loop Parking, LLC	Dec-15-06	North America	Transport	\$305.6	-	-	\$8.2	-	\$5.0	\$13.2	(\$292.4)	-	-
Portfolio - Total				\$4,211.7	\$2,773.4	\$3,843.2	\$1,022.2	\$242.3	\$784.2	\$2,048.7	\$1,792.0	12.9%	1.4x

- 1. Includes capital invested, \$111.9MM committed to be invested and \$23.9MM in other capital temporarily funded in connection with anticipated investments.
- 2. Reflects investment cost as of Mar. 31, 2014, net of capital returned from refinancing, full and/or partial sales and syndications and other events. Amount has been reduced for the notional loss of \$297.3MM on Chicago Loop Parking, LLC and excludes \$111.9MM committed to be invested. A notional loss is defined as a clear and permanent impairment in value, as determined by the General Partner
- 3. The fair value of unrealized investments is determined in good faith by the General Partner in accordance with FAS 157 (also known as FASB Accounting Standards Codifications (ASC) 820) under U.S. GAAP. There can be no assurance that investments will ultimately be realized at or above such value.
- 4. Reflects capital returned to investors for each portfolio asset as a result of full and/or partial sales and syndications, refinancings, other events and \$23.9MM in other capital temporarily funded in connection with anticipated investments.
- 5. Includes net cash gains from full and partial sales and syndications as well as syndications of investments. Excludes the notional loss of \$297.3MM on Chicago Loop Parking, LLC.
- 6. Includes cash proceeds attributable to dividends, interest, net hedging gains or other ordinary income. Excludes proceeds from sales and syndications and net losses resulting from the expiration and close-out of hedging derivative contracts related to investments held as of Mar. 31, 2014.
- 7. Includes all cash distributions discussed in notes 4-6.
- 8. Total Profit/(Loss) since inception Includes all cash amounts discussed in notes 5 and 6, as well as the notional loss of \$297.3MM on Chicago Loop Parking, LLC, \$1,070MM of unrealized gains/(losses) on investments held as of Mar. 31, 2014 and \$7.0MM of net losses resulting from the expiration and close-out of hedging derivative contracts related to investments held as of Mar. 31, 2014.
- 9. Gross IRR is based on a hypothetical liquidation of the portfolio on Mar. 31, 2014, and does not reflect deduction of management fees, organizational and other indirect expenses, and deduction for the General Partner's carried interest.

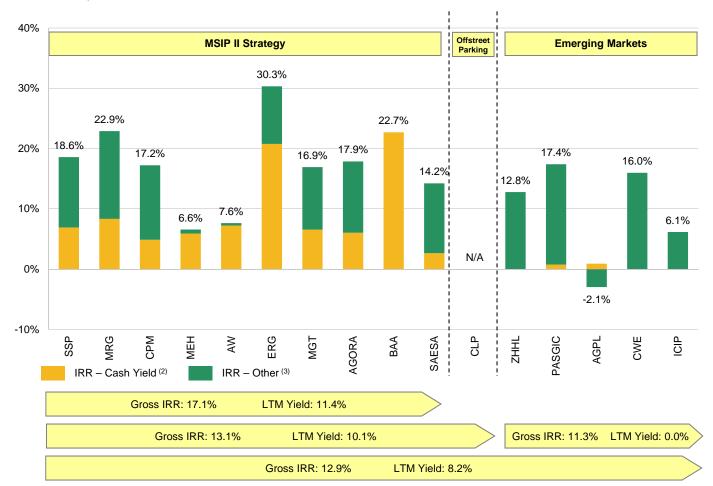
#### **Morgan Stanley Infrastructure**

#### ADDITIONAL INFORMATION

# MSIP I Assets & MSIP II Strategy

#### MSIP I Asset-by-Asset Gross IRR1

As of March 31, 2014

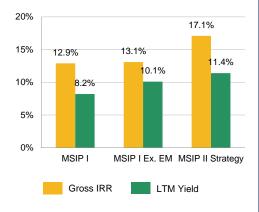


#### **MSIP II Strategy**

- Global, OECD focus
- · Core-plus assets
- Offstreet parking lacks core-plus infrastructure characteristics, more reflective of a real estate investment

#### Gross IRR<sup>1</sup> and LTM Yield

As of March 31, 2014



IRR - Cash Yield is calculated using the asset's gross IRR, multiplied by the proportion of inception-to-date P&L associated with cash yield.

Morgan Stanley

Past performance is not a guarantee of future results. The results above are not intended to predict the performance of MSIP II. Similarly, there can be no assurance that MSIP II will achieve, or be able to achieve, comparable results.

Gross IRR is calculated based on actual dates of investor capital contributions for investments and investor distributions as of Mar. 31, 2014. The calculation does not reflect
deduction of management fees, organizational and other indirect expenses and deduction of the general partner's carried interest. Past performance is not indicative of future
results. Please see page 13 for net performance.

IRR – Other is calculated using the asset's gross IRR, multiplied by the proportion of inception-to-date P&L associated with realized gain/loss and unrealized mark-to-market gain/loss.

#### **Morgan Stanley Infrastructure**

#### **ADDITIONAL INFORMATION**

# Sales and Syndications<sup>1</sup>

18% Combined IRR for Sales and Syndications<sup>2</sup>

#### Full Realization: SAESA Group, Chile

Operating 1,072km of transmission lines, SAESA is the second-largest electricity distributor in Chile, serving more than 15% of the country's population (~2.7MM people)



Realization Date	Nov-11
Hold Period	~39 months
Cost Basis / Return of Capital	\$379MM
Total Income and Gains	\$185MM
Premium to Book Value	15.0%
Aggregate Value / LTM EBITDA	17.0x
Gross IRR	14% <sup>(4)</sup>
Multiple on Invested Capital	1.5x

#### Partial Realization: Madrileña Red de Gas, Spain

First stand-alone natural gas distribution company in Spain, with a 5,100km network of medium-and low-pressure pipelines that serves over half a million residents of Madrid and the surrounding regions



Realization Date	Jul-11
Hold Period (until partial realization)	~15 months
Cost Basis / Return of Capital (incl. bolt-on)	\$180MM
Percent of MSIP I Interest Sold-down	31%
Net Realized Gains	\$90MM
Gross IRR	48% <sup>(4)</sup>
Multiple on Invested Capital	1.5x

#### Full Realization: Sapphire Holdings, U.K.

Sapphire Holdings purchased subordinated-debt from BAA, which, at the time, owned a number of British airports, including Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, and Aberdeen



Realization Date	Nov-09
Hold Period	~20 months <sup>(3)</sup>
Cost Basis / Return of Capital	\$50MM
Total Income and Gains	\$9.6MM
Gross IRR	23% <sup>(4)</sup>
Multiple on Invested Capital	1.2x

<sup>1.</sup> The current portfolio includes investments that have not been realized and there is no assurance that all the realizations in the portfolio (including remaining realizations of these deals) will be successful. Past performance is not indicative of future results.

<sup>2.</sup> Combined IRR for sales and syndications reflects partial sale of interest in MRG and liquidation of interest in BAA debt securities and SAESA Group. Please see page entitled "Forward-Looking Forecasts" for additional detail on assumptions.

<sup>3.</sup> Initial tranche of debt acquired in March 2008, while investor capital contributed at the end of October 2008.

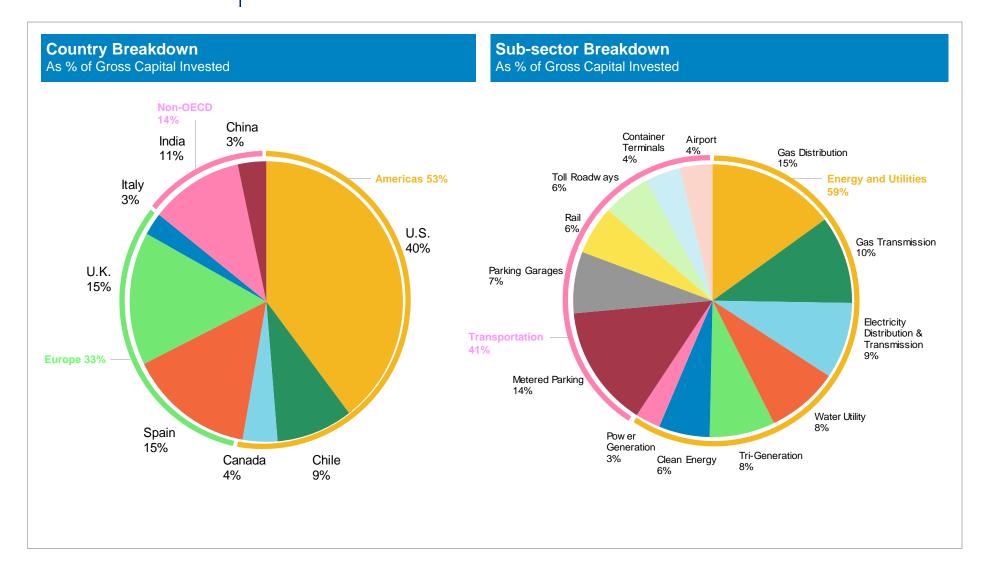
<sup>4.</sup> IRR is calculated on a cash-on-cash basis from the initial funding by Limited Partners to the distribution of the proceeds from the liquidation or partial sale of the investment, including associated hedges and expenses. The calculation does not reflect deduction of the GP's carried interest. IRRs are expressed in U.S. dollar terms.

#### **Morgan Stanley Infrastructure**

**ADDITIONAL INFORMATION** 

# Composition of Capital Invested Since Inception<sup>1</sup>

\$4.2 billion of gross capital invested in eight countries and four continents since inception<sup>2</sup>



<sup>1.</sup> MSIP I portfolio.

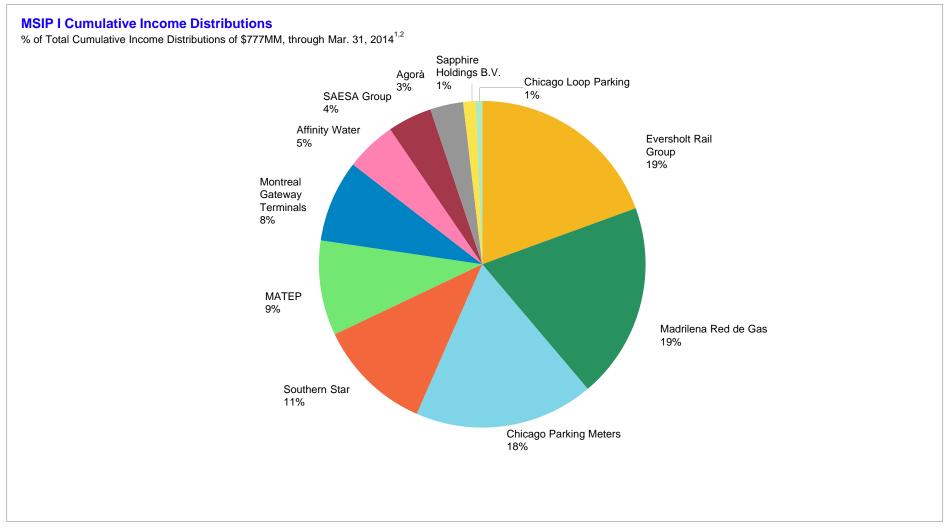
<sup>2.</sup> Reflects \$2.8Bn of net capital currently invested & committed, \$297.3MM previously invested in CLP, and \$1.0Bn of previously invested capital that has been returned to LPs as a result of sales and syndications and refinancings, \$111.9MM committed to be invested, and excludes \$23.9 MM in other capital temporarily funded in connection with anticipated investments.

#### **Morgan Stanley Infrastructure**

**ADDITIONAL INFORMATION** 

## **Cumulative Income Distributions**

~97% generated from core regulated energy & utility and transportation assets



Source Source text goes here



<sup>1.</sup> Investors should note that past performance is no guarantee of future results.

#### **Morgan Stanley Infrastructure**

**ADDITIONAL INFORMATION** 

# **Operational Added Value Toolkit**

Long-term strategic management of portfolio companies

#### Management of "Carve Outs"

- Madrileña Red de Gas: Following acquisition of solely physical assets from seller in anti-trust situation, created entirely new, self-sufficient platform
- MATEP: Exclusive acquisition of single, but self-sufficient asset from seller in process of recalibrating portfolio

# Synergistic Bolt-On Acquisitions

- Madrileña Red de Gas: Acquisition of additional 304k connection points, seamlessly expanding the existing platform by 60%
- Indus Concessions: Creation of platform for opportunistic acquisitions of additional BOT projects

# Restructuring of Operations

- Chicago Parking Meters: Development of a "for profit" operating platform to operate, manage and maintain the onstreet metered parking system
- Madrileña Red de Gas: Increased EBITDA margins from 59% (as per seller) to 82%¹
- Montreal Gateway Terminals: Increased EBITDA per container from C\$49 in 2007 to C\$75 in 2011 through cost cutting program

# Changed CAPEX Investment Philosophy

- Southern Star Central Corp.:
   Reinvesting an additional \$80 million of rate base CAPEX in excess of depreciation to enhance pipeline integrity and safety
- SAESA: Significant increase in reinvestment CAPEX to reduce line losses and enhance quality of service
- Insurance: Optimization/re-negotiation of policies, resulting in \$8MM+ of savings

# **Creation of New Management Teams**

- Madrileña Red de Gas: Formation of mission-targeted management team; headcount rationalization
- Chicago Parking Meters: Formation AMI Group, LLC to manage transitional and operational matters. Fully scalable management team with capacity to manage additional parking related investments.

# Incentive Structures

- Management teams' compensation comprised of base salaries and incentive bonuses
- Incentive-based compensation earned via key performance indicators

#### Regulatory Management

- Southern Star Central Corporation:
   Proactive engagement with FERC and
   other non-governing state regulatory
   commissions
- Affinity Water: Continuous process for preparation of periodic price determination, with involvement of all heads of divisions
- Madrileña Red de Gas: Proactive engagement with other natural gas distribution companies and regulator on deficit reduction program

#### Technological Improvements

- Chicago Parking Meters: Upgrade of entire system to electronic machines
- Montreal Gateway Terminals: Optical recognition and GPS locater for containers
- Madrileña Red de Gas: IT systems for management and billing

<sup>1.</sup> Reflects fiscal year ended Mar. 31, 2014.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Bandwidth, Depth, Established Process

Large team of experienced infrastructure investors with shared history executing deals leads to more opportunities and better execution

#### **Global Pipeline Bandwidth** Fully staffed regional deal teams Size of global team enables consideration Access to virtually all public 1,600 Opportunities Reviewed of all opportunities and opportunities (~100% of Deals helps reduce risk of Exclusive deal flow Available Globally) missing crucial details Reputation for capability leads to reverse inquiries **Depth** Full team involvement: in-depth **Diverse backgrounds** analysis, consistency of approach and investment and • Senior partners bring expertise, sector capabilities 1.550 Deals Declined LP alignment ensure more thorough (~97% of Deals Reviewed) • Non-deal team peer review avoids due diligence and "deal fever" focus on the best deals • Extensive local firm support (risk management, legal, tax, etc.) **Established** Majority of team has • Proven methodology – no learning 50 Deals Bid On worked together on **Process** curve (3% of Deals Reviewed) **MSIP I investments.** Assigned roles exploit relevant ensuring swift, experience, expertise thorough execution · Tested strategies for improving and ability to add value 20 Deals Closed and de-risking assets throughout asset (40% of Deals Bid On) lifecycle • 100-day action plans

**Morgan Stanley Infrastructure** 

**ADDITIONAL INFORMATION** 

# Team Member Biographies



Markus Hottenrott

Chief Investment Officer, Managing Director

Markus Hottenrott is a Managing Director and Chief Investment Officer of MSI. Throughout his 16-year career at Morgan Stanley, Markus has developed an in-depth understanding of the global nature of the infrastructure industry. Since joining MSI, he originated and led the execution of an investment in Agorà Investimenti, the acquisition of Madrileña Red de Gas ("MRG") and its subsequent bolt-on acquisition, and co-led MSI's execution of the Montreal Gateway Terminals transaction as well as the investment in the debt of British Airport Authority and the subsequent exit from the position. In his role as CIO, he was involved in the acquisitions of Continuum Wind, Affinity Water and General Electric's stake in Southern Star. He currently serves on the board of directors of several MSIP I assets, including Montreal Gateway Terminals, Agorà Investimenti and MRG.

Prior to joining MSI, Markus co-headed Morgan Stanley's European transportation and infrastructure industry group in the Investment Banking Division, where he specialized in privatizations and structured finance transactions in Europe and the Middle East. Before that, in the Firm's German office, Markus concentrated on the public transportation and infrastructure sectors.

Markus has a legal background and studied at the universities of Heidelberg, Dresden and Munich. He wrote his doctoral dissertation in law at Humboldt University in Berlin.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Team Member Biographies (cont'd)



Chris Koski

Global Head of Investment Strategy, Managing Director

Chris Koski is a Managing Director and Global Head of Investment Strategy for MSI. Chris works with the MSI regional heads to provide a global perspective with respect to both new investments and the existing portfolio. He is responsible for the investment processes leading up to the Investment Committee process. Chris has over 21 years of experience, the last 10 years focused on infrastructure investing, including involvement in some of the most notable transactions in the industry such as an investment alongside MSIP I in Chicago Parking Meters.

Prior to joining MSI, Chris was Global Head of Infrastructure at the Abu Dhabi Investment Authority ("ADIA"). He joined ADIA in 2007 to set up its infrastructure investment capability, building an experienced team of people and a substantial portfolio of investments around the world, including Gatwick Airport in the U.K., Port of Brisbane in Australia and Intoll (Highway 407 in Canada). Prior to this, Chris was a senior member of the infrastructure team at the Canada Pension Plan Investment Board, where he also helped to build a large-scale infrastructure program from inception (notable investments included Anglian Water Group in the U.K.). He worked previously in investment banking at RBC Capital Markets and in investment management at the Toronto Dominion Bank.

Chris holds an M.B.A. with high honors from the University of Chicago and a Bachelor of Commerce with distinction from the University of Toronto. He is also a Chartered Financial Analyst.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Team Member Biographies (cont'd)



Mark McLean

Head of Asia Pacific, Managing Director

Mark McLean is a Managing Director and Head of Asia-Pacific for MSI. He has over 19 years of experience in investment management and investment banking, including extensive experience in Australia in the investment and management of infrastructure opportunities. Mark is focused on generating opportunities for MSI in OECD counties in the Asia-Pacific region and is based in Melbourne.

Prior to joining MSI, Mark was a Managing Director at Credit Suisse Australia, where he originated and executed M&A, equity and debt transactions. He previously worked at Deutsche Bank's Infrastructure Investment Group, where he oversaw several notable investments and he held board positions at portfolio companies Porterbrook Leasing Company Limited and Angel Trains International Limited. Mark also worked at Macquarie, where he was involved in several successful principal investments and a wide range of investment banking transactions including corporate finance, mergers, acquisitions and private equity.

Mark holds a Bachelor of Commerce and Bachelor of Laws with First Class Honors from the University of Melbourne.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Team Member Biographies (cont'd)



John Veech

Head of Americas, Managing Director

John V. Veech is a Managing Director and Head of Americas for MSI. With over 25 years of principal investing, advisory, and project finance experience, John has extensive knowledge in acquisitions, financings and management of infrastructure assets. Since joining MSI, he has had responsibility for all of the Americas team's investment activities, including the investment of \$2.2 billion in equity across several industry verticals, and led the Southern Star Central Gas Pipeline investment. John is a member of the Investment Committee and Valuation Committee for MSIP I, and he serves on the boards of Southern Star Central Corp., Chicago Parking Meters, LLC. and MATEP.

Prior to joining MSI, John was a Managing Director in Lehman Brothers' Private Equity Division and, previously, Global Head of Lehman Brothers' Global Project Finance. There, his team underwrote or placed in excess of \$35 billion of capital markets project debt, and received numerous Deal of the Year awards. Prior to this, John was a Vice President at Salomon Brothers and an attorney with Skadden, Arps, Slate, Meagher & Flom LLP and with the U.S. Securities and Exchange Commission.

John holds a J.D., *cum laude*, from Boston University School of Law, where he was an editor of the *Annual Review of Banking Law*, as well as a B.S. in Accounting, *magna cum laude*, from Lehigh University, College of Business and Economics.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Team Member Biographies (cont'd)



John Watt

Head of Asset Management, Managing Director

John Watt is a Managing Director and Head of Asset Management for MSI. John brings more than 31 years of experience in infrastructure acquisition and asset management to his role at MSI, addressing operating issues that include finance, regulatory and technical challenges. In addition to working with company management on strategic and operational issues, he also heads risk management activities, ensuring that assets are appropriately hedged and insured. He provides leadership and direction on the boards of MSIP I's portfolio companies, typically as either Chairman or lead director.

Before joining MSI, John was Director of the Infrastructure Group for Ontario Teachers Pension Plan, where he executed more than \$5 billion of transactions in the energy & utilities space. He also served as Co-Chairman of the boards of both Northern Star Generation and InterGen NV. Prior to this, he held senior management roles at Ontario Power Generation, the government owned power utility, and operating roles at TransAlta and Amoco, and has experience with the oil, gas and power sectors both as an investor and as an operator.

John holds an M.B.A. from the University of Western Ontario as well as a B.A.Sc. in Chemical Engineering from the University of Toronto.

**Morgan Stanley Infrastructure** 

**ADDITIONAL INFORMATION** 

# Team Member Biographies (cont'd)



Jim Wilmott

Head of Europe, Managing Director

Jim Wilmott is a Managing Director and Head of Europe for MSI. A 26-year veteran of Morgan Stanley, Jim has been investing in principal transactions since 1996 across a range of asset classes and geographies. Since joining MSI, Jim has taken significant roles in numerous transactions, including leading an MSIP I consortium in acquiring Eversholt Rail Group. Jim also serves on the boards of Eversholt and Affinity.

Prior to joining MSI, Jim was responsible for establishing Morgan Stanley's Principal Investing business in Europe, a special situations, on-balance sheet investment platform. Prior to this, he was Deputy Head of the Principal Investment Department that oversaw Princes Gate Investors, a series of global special situations equity funds that focused on growth and bridge equity, minority investments and structured equity investments. In this role, he spent over six years originating, structuring, managing and exiting investments across a wide variety of sectors and regions. Jim was also a founding member of the Morgan Stanley Bridge Fund, where he originated and managed high-yield bridge loans for four institutional investors, including Morgan Stanley.

Jim holds an M.B.A. from Harvard Business School where he graduated with distinction. In addition, he received his A.B. in Economics from the University of North Carolina at Chapel Hill, where he was a Morehead Scholar.

**Morgan Stanley Infrastructure** 

ADDITIONAL INFORMATION

# Forward-Looking Forecasts

Throughout this presentation, Morgan Stanley Infrastructure ("MSI") has included a number of forward-looking forecasted portfolio and individual metrics of the assets owned by Morgan Stanley Infrastructure Partners ("MSIP") such as forecasted EBITDA and forecasted hold-to-life returns. These forecasts are as of Mar. 31, 2014 and have been formulated using separate longterm financial forecast models for each asset in the portfolio. The forecast models underlying the assumptions herein have been formulated based on a variety of inputs and assumptions that are relative to each asset and are annual forecasts. They forecast distributable free cash, revenues, cost of goods sold, operating expenses, debt service requirements, capital expenditures and taxes. The inputs for these assumptions are derived from assumptions made by MSI, operating company management teams and third-party consultants. MSI maintains the long term forecasts and they are also utilized by MSI in the determination of the fair market carrying values of each of the assets, pursuant to US GAAP FAS 157, each quarter. For macroeconomic assumptions such as inflation, GDP growth rates, per capita income and risk-free interest rates MSI utilizes various economic research reports provided by major investment banks, such as Morgan Stanley, JP Morgan, Barclays Capital and Bank of America Merrill Lynch. In addition, MSI utilizes other sources such as Global Insight. MSI utilizes long-term averages of the various macroeconomic factors provided by these various sources in its long-term forecasts. Inflation forecasts for the Americas and European assets range from 2.0% to 2.5% over the life of the longterm forecasts. For developing economies such as China and India, inflation estimates range from 3.0% to 5.0%. MSI forecasts revenues for each of the assets based on assumptions made by MSI, third-party consultants and operating asset management teams. Revenues for MSIP's assets are forecasted based upon the nature of the asset or the contractual or concession agreements that exist at the respective asset. For transportation assets, revenue is generally forecasted using forecasted volumes or system utilization multiplied by price. In most cases price is determined pursuant to concession or contractual agreements and, in nearly all situations, has a form of inflation pass through. For energy and utility related assets, forecasted revenues are determined either through forecasts of volume usage and price or pursuant to an authorized regulatory return such as tariffs. To forecast costs of goods sold, which is primarily related to MSIP's energy and utility assets and mainly correlated to items such as fuel costs, MSI relies on either third-party consultants or forward commodity pricing curves. Forecasts for operating expenses are determined by MSI in conjunction with operating company management teams. Operating expense forecasts are broken in variable costs, fixed costs and major maintenance requirements. MSI forecasts all contractual obligations of the asset's respective contractual obligations, and debt service forecasts are based on each asset's respective financing arrangement. Forecast assumptions regarding re-financings are based on discussions with debt capital providers and ultimately based on determinations made by MSI. MSI seeks input from operating company management for capital expenditure forecasts and such forecasts typically either reflect Board of Director approved capital expenditure budgets or are based on useful asset life estimates. MSI forecasts CAPEX in three main categories, maintenance, growth and replacement. In addition, MSI seeks input from third party engineering consultants in the preparation of CAPEX forecasts. Assumptions underlying the tax forecasts are from third-party tax advisors, operating company management and internal MSI tax professionals. Taxes are forecasted individually for each asset based on its structure and its jurisdiction. Each asset's long-term model forecast is modeled for the life of the asset. In situations where the asset is subject to a longterm concession or lease, such forecast model is prepared to the end of the concession or lease. In situations where the asset is perpetual, such forecast model is prepared on average for thirty years. The portfolio forecast metrics forecasts are provided for illustrative purposes only and are not intended to serve as, and should not be relied upon as, a guarantee, an assurance, a prediction or a definitive statement of fact or probability. While MSI believes the assumptions described above to be reasonable, there is no guarantee that the conditions on which such assumptions are based will materialize as anticipated and will be applicable to MSIP's investments; actual conditions may differ and such differences could be material. Moreover, certain of the information obtained from third parties may be based on underlying assumptions that, if known to MSI, would result in MSI disregarding such information as being inaccurate or based on unreasonable or flawed assumptions. This is necessarily an incomplete description of the assumptions and information upon which these forecasts have been based.

#### **Morgan Stanley Infrastructure**

ADDITIONAL INFORMATION

# Confidentiality and Disclaimers

The information in this presentation (the "Presentation") is being provided solely for informational purposes to institutional investors only and is not for distribution to the general public.

The information provided in this Presentation, including regarding Morgan Stanley Infrastructure Partners LP ("MSIP I") and Morgan Stanley Infrastructure Partners II ("MSIP II"), is strictly confidential and may not be disclosed to any third party and shall not be used for any other purpose without the express written consent of Morgan Stanley Infrastructure, Inc. ("MSI"), except as required by law or regulatory requirements.

If you are requested or required by law (for example, pursuant to a Freedom of Information Act request) to disclose any of the information contained in this Presentation, please contact MSI as soon as possible after you receive notice of such request or requirement.

This Presentation is intended for discussion purposes only. All time sensitive representations and warranties in this Presentation are made as of December 2013 and unless stated otherwise, are subject to change, and will not be updated or otherwise revised to reflect information that subsequently becomes available or circumstances existing or changes occurring after such date.

This Presentation does not constitute an offer to sell or a solicitation of an offer to buy any securities. An offer may be made only through a confidential private placement memorandum of the Fund (as supplemented, the "Memorandum") and the Fund's subscription documents, which will be furnished to qualified investors on a confidential basis at their request for their consideration in connection with such offering. The information contained herein will be superseded by, and is qualified in its entirety by reference to, the Memorandum, which will contain information about the investment objectives, terms and conditions of an investment in the Fund and will also contain certain tax information, conflicts of interest and risk disclosures that are important to any investment decision regarding the Fund. No person has been authorized to make any statement concerning the Fund other than as is set forth in the Memorandum and any statements made that are not contained therein may not be relied upon. This Presentation is only being provided to "qualified purchasers" (within the meaning of the U.S. Investment Company Act of 1940, as amended). This Presentation is not a recommendation or commitment on the part of MSI and should be read in conjunction with the Memorandum prior to making an investment in the Fund.

Investors should not construe the contents of this Presentation as legal, tax, accounting, investment or other advice. Each investor should make its own inquires and consult its advisors as to the Fund and as to legal, tax, financial, and other relevant matters concerning an investment in the Fund.

An investment in the Fund will involve significant risks, including the risk that an investor may lose its entire investment. Other significant risks associated with investing in the Fund are described in "Certain Risk Factors" at the end of this Presentation. Prospective investors should read the Memorandum and pay particular attention to the description of certain risk factors and potential conflicts of interest that will be contained therein. Investors should have the financial ability and willingness to accept the risk of loss of their entire investment in the Fund and the characteristics of the Fund's investments.

As a diversified global financial services firm, Morgan Stanley engages in a broad spectrum of activities including financial advisory services, investment management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions and principal securities, commodities and foreign exchange transactions, research publication and other activities. In the ordinary course of its business, Morgan Stanley therefore engages in activities where Morgan Stanley's interests or the interests of its clients may conflict with the interests of the Fund. Morgan Stanley can give no assurance that conflicts of interest will be resolved in favor of the Fund.

Morgan Stanley sponsors and will sponsor other alternative investment funds and investment programs or businesses (collectively, the "Affiliated Investment Funds") with a wide variety of investment objectives that in some instances may overlap with the investment objectives of the Fund and present conflicts of interest. Some of Morgan Stanley's Affiliated Investment Funds are permitted to make similar types of investments to those that the Fund is expected to make. To the extent the Fund holds securities that are different (including with respect to their relative seniority) than those held by such Affiliated Investment Funds, Morgan Stanley and its affiliates may be presented with decisions where the interests of the two funds are in conflict.

Historical information is not indicative of future results, and any historical information in this Presentation should not be viewed as an indicator of any future performance that may be achieved as a result of implementing an investment strategy substantially identical or similar to that described in this Presentation.

Statements contained herein (including those relating to current and future market conditions and trends in respect thereof) that are not historical facts are based on current expectations, estimates, forecasts, opinions and beliefs, and may constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "estimate," "intend," "continue," or "believe," or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements. Prospective investors should pay close attention to the assumptions underlying the analyses and forecasts contained in this presentation. Although such assumptions are believed to be reasonable in light of the information presently available, they (and the resulting analyses and forecasts) may require modification as additional information becomes available and as economic and market developments warrant. Any such modification could be a significant of the contemplate of the property of the contemplate o

be either favorable or adverse. Morgan Stanley

#### **Morgan Stanley Infrastructure**

ADDITIONAL INFORMATION

# Confidentiality and Disclaimers (cont'd)

Any forecasts contained herein have been prepared and are set out for illustrative purposes only, and no assurances can be made that they will materialize. They have been prepared based on MSI's current understanding of the intended future operations of the Fund, its current view in relation to future events and various estimations and assumptions made by it, including estimations and assumptions about events that have not occurred, any of which may prove to be incorrect. Therefore, the forecasts are subject to uncertainties, changes (including changes in economic, operational, political or other circumstances) and other risks, including, but not limited to, broad trends in business and finance, legislation and regulation, monetary and fiscal policies, interest rates, inflation, currency values, market conditions, the availability and cost of short-term or long-term funding and capital, all of which are beyond MSI's control and any of which may cause the relevant actual, financial and other results to be materially different from the results expressed or implied by such forecasts. Industry experts may disagree with the forecasts, the estimations and assumptions used in preparing the forecasts. No assurance, representation or warranty is made by any person that any forecasts will be achieved and no prospective investor should rely on such forecasts.

Nothing contained in this document may be relied upon as a guarantee, promise, assurance or a representation as to the future.

Certain information contained herein may have been obtained from published and non-published sources prepared by other parties, which in certain cases have not been updated through the date hereof. While such information is believed to be reliable for the purpose used herein, neither MSI, Morgan Stanley, nor any of their affiliates assumes any responsibility for the accuracy or completeness of such information and such information has not been independently verified by the MSI, Morgan Stanley or their affiliates.

Notwithstanding anything herein to the contrary, each investor and prospective investor (and each employee, representative or other agent thereof) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the Fund and its investments and all materials of any kind (including opinions or other tax analyses) that are provided to such investor or prospective investor relating to such tax treatment and tax structure, provided that (a) in any event, investors and prospective investors may not disclose the name of, or any other identifying information in relation to, the Fund or its investments, except to their tax advisors or to a regulatory authority as required by law, and (b) none of the foregoing shall be construed to include the name or performance data of any investment (other than the purchase or sale price of any investment) including the existence, amount or nature of any unrealized loss or portfolio reserve.

None of the information contained herein has been filed with the U.S. Securities and Exchange Commission, any securities administrator under any state securities laws or any other governmental or self-regulatory authority. No governmental authority has passed on the merits of the offering of interests in the Fund or the adequacy of the information contained herein. Any representation to the contrary is unlawful.

This communication is only intended for and will be only distributed to persons resident in jurisdictions where such distribution or availability would not be contrary to local laws or regulations.

By accepting delivery of this Presentation, each prospective investor agrees to the foregoing and agrees to return this presentation to MSI promptly upon request.

Since its first investment in Europe (Agorà Investimenti S.r.l.), MSIP I has set up a Netherlands-based structure with employees and office space, through which it owns and controls most of its non-U.S. investments ("Dutch platform"). The Dutch platform owns and controls the investments it holds through various additional operating and management subsidiaries and joint venture entities where appropriate. For purposes of simplicity, only MSIP I is referenced in the updates of each asset throughout the report, whereas in fact, these assets are acquired, held, or sold by the Dutch platform and the operating and management subsidiaries

#### **Morgan Stanley Infrastructure**

**ADDITIONAL INFORMATION** 

## Certain Risk Factors

Any investment in the Fund involves significant risks and potential conflicts of interests. There can be no assurance that the Fund will achieve its investment objectives or forecasted returns stated herein. The following summary of various risks and conflicts is not a complete enumeration or explanation of the risks involved in an investment in the Fund. Current or prospective investors should refer to the Memorandum, which describes such risks and conflicts, and consult with their own advisors before deciding whether to invest in the Fund.

Limitations on Withdrawal and Transfer and No Public Market. Interests in the Fund are highly illiquid investments and investors generally are not permitted to withdraw their investment or transfer their interests. No public market currently exists for the interests.

No Assurance of Investment Return. There can be no assurance that the Fund will be able to fully invest the committed capital and there is no guarantee that investments will result in profits to the investors. Investors should invest only if they are able to withstand the loss of their entire investment. The applicable securities are not, and are not expected to become, publicly traded and therefore may require a substantial length of time to realize a return or fully liquidate.

No Right to Control the Fund's Operations. The Fund is managed exclusively by its general partner and the Fund's manager. Limited partners do not make decisions with respect to the management, disposition or other realization of any investment, the day-to-day operations of the Fund, or any other decisions regarding the Fund's business and affairs, except for limited circumstances set forth in the governing documents of the Fund. Limited partners should expect to rely solely on the ability of the Fund's general partner and manager with respect to the Fund's operations.

Absence of Regulatory Oversight. The Fund is not registered as an investment company and, accordingly, the provisions of the Investment Company Act are not applicable to an investment in the Fund.

Infrastructure Investments. Most infrastructure assets have unique locational and market characteristics, which could make them highly illiquid or appealing only to a narrow group of investors. Political and regulatory considerations and popular sentiments could also affect the ability of the Fund to buy or sell investments on favorable terms. Infrastructure assets can have a narrow customer base. Should any of the customers or counterparties fail to pay their contractual obligations, significant revenues could cease and become irreplaceable. This would affect the profitability of the infrastructure assets and the value of any securities or other instruments issued in connection with such assets. Infrastructure projects are generally heavily dependent on the operator of the assets. There are a limited number of operators with the expertise necessary to successfully maintain and operate infrastructure projects. The insolvency of the lead contractor, a major subcontractor and/or a key equipment supplier could result in material delays, disruptions and costs that could significantly impair the financial viability of an infrastructure investment project and result in a material adverse effect on the Fund's investment.

Regulatory Risks. Many of the Fund's targeted infrastructure investments may be subject to substantial regulation by governmental agencies at multiple levels of government. Failure to obtain or a delay in the receipt of relevant governmental permits or approvals, including regulatory approvals and ongoing compliance with regulatory requirements, could hinder operation of an investment and result in fines or additional costs. Where the Fund's ability to operate an infrastructure investment is subject to a concession or lease from the government, the concession or lease may restrict the Fund's ability to operate the investment in a way that maximizes cash flows and profitability. The leases or concessions may also contain clauses more favorable to the government counterparty than a typical commercial contract. In addition, government counterparties also may have the discretion to change or increase regulation of an investment's operations, or implement laws or regulations affecting an investment's operations, separate from any contractual rights they may have.



#### STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION 832 12<sup>th</sup> Street, Suite 600 Modesto, CA 95354 P.O. Box 3150 Modesto, CA 95353-3150

Phone (209) 525-6393 Fax (209) 558-4976 www.stancera.org e-mail: retirement@stancera.org

# For the Retirement Board meeting Held on August 26, 2014

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: 2014 Quarter 2 Value Added and Cash Flow Report
- II. ITEM: # 9.b
- III. RECOMMENDATION: None; Information item only
- IV. ANALYSIS: This report is meant to associate the fees StanCERA pays to manage its active portfolio with the returns the active managers are achieving. Among other things, the report shows all fees StanCERA pays in an attempt to earn a return greater than its policy benchmark. It breaks this information down by each active manager and shows how much value a manager is adding to the portfolio. "Value Added" in its purest form can simply be defined as the number of dollars a manager earns above the benchmark, less all fees StanCERA pays associated with that manager. The exhibits below are presented to the Board on a quarterly basis and the dialogue focuses specifically on notable information in this quarter's report. Also included with this analysis is a cash flow report detailing all cash flows into and out of the system between April 1, 2014 and June 30, 2014.

#### Quarterly Value Added Report

• Value Added Summary – This summary gives aggregate information for our current active managers for the most recent quarter and 12 month year over year period. It also presents the same information by asset class and style.

Quarter 2 proved to be challenging for StanCERA's active managers in the aggregate, having lost \$3.7 million relative to their respective benchmarks. And in this calendar year, active management has lost nearly \$9.0 million. However, over the past 4 quarters, the fund has added \$8.6 million as the active group added \$17.6 million in quarters 3 and 4 of last year.

The fixed income portfolio continues to be the greatest contributor to relative value. Over the past year fixed income has accounted for 84% (\$7.2 million) of StanCERA's overall value added, while equity added \$1.4 million. It is worth noting that Dodge & Cox fixed income has not had a losing quarter in 2 years and have had only 4 losing quarters in 5. At the very least, this rate of success may suggest that StanCERA at least consider a subset of the Barclay's aggregate as a more appropriate benchmark for Dodge & Cox fixed income. Staff will visit this issue sometime in 2015.

Year over year, Legato and Pyramis have been the biggest detractors of value for the fund, having lost \$2.9 and \$5.3 million in value, respectively. Both managers' probability of adding value in any given month was around 36% over the year. Notable gains over the year came from Dodge & Cox fixed, Jackson Square, Capital

Prospects and LSV, with Capital, LSV and Dodge & Cox having a greater than 60% probability of success.

• *Total Fee Summary* - This summary shows fees in dollars and expressed in annualized basis points for the most recent quarter and 12 month year over year period. The expression in annualized basis points allows one to weigh the reduction in the manager's total return due to the fees StanCERA pays to achieve those returns.

Quarter over quarter, overall manager fees increased to 32.8 from 31.3 basis points, due mainly to LSV's performance fee schedule. LSV managerial fees were \$95,000 and \$208,000 in quarters 1 & 2, respectively.

Year over year, StanCERA paid approximately 33.1 basis points in fees to manage its portfolio. This compares favorably with the 35 basis point average of all 1937 Act Systems. Next quarter, our new fee structure with Northern Trust will become fully integrated within this report. For this report, custodial fees year over year come in at 4.0 basis points, while managerial fees make up 29.1.

• 5 - Year Individual Manager Quarterly Value Added - This summary gives the quarterly value added and cumulative amounts for each individual manager for the past 5 years. Cumulatively, all active managers except Legato have added value over the last 5 years.

#### Cash Flow Report

Also attached to this item is the cash flow report for the period April 1, 2014 through June 30, 2014. The report is self-explanatory.

- V. RISK: None
- VI. Strategy C: Investment Information. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.

VII. BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Operations Manager

#### Value Added Summary

3/31/2014

Through

6/30/2014

#### **By Current Active Managers**

				by Current	LACTIVE IVIATION	612					
										Мо	onthly
		Chan	iges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Current Active Managers	Beginning	Passive Return	Excess Return	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	178,395,398	9,081,830	(759,263)	(1,192,278)	185,525,687	(88,840)	(6,566)	(\$854,669)	-0.5%	(284,890)	43.8%
DELAWARE - LARGE CAP GROWTH	143,762,934	7,589,221	543,382	2,521,722	154,417,260	(182,171)	(6,204)	\$355,007	0.2%	118,336	56.1%
CAPITAL PROSPECTS	93,767,450	2,302,104	893,341	(2,615,237)	94,347,658	(178,020)	(8,773)	\$706,548	0.8%	235,516	65.8%
Legato Capital	87,389,681	1,606,881	(2,565,323)	(863,903)	85,567,336	(188,539)	(25,578)	(\$2,779,440)	-3.2%	(926,480)	6.6%
LSV ASSET MGMT	<b>1</b> 53,7 <b>1</b> 7 <b>,</b> 439	7,824,411	2,076,245	(1,298,861)	162,319,234	(207,872)	(39,729)	\$1,828,645	1.2%	609,548	67.2%
Pyramis	158,066,663	7,852,305	(3,920,672)	274,600	162,272,896	(184,067)	(60,323)	(\$4,165,062)	-2.6%	(1,388,354)	15.9%
DODGE & COX FI	395,081,339	8,039,784	1,467,846	(8,090,892)	396,498,077	(107,964)	(12,280)	\$1,347,602	0.3%	449,201	70.1%
PIMCO	106,517,268	2,181,853	(8,476)	(10,908)	108,679,737	(91,410)	(7,769)	(\$107,655)	-0.1%	(35,885)	43.8%
				By.	Asset Class						
								Мо	onthly		
		Chan	iges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Value Added By Asset Class	Beginning	Passive Return	Excess Return	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
1. Equity						-					
a. Domestic	503,315,463	20,580,037	(1,887,862)	(2,149,697)	519,857,941	(637,570)	(47,121)	(\$2,572,553)	-0.5%	(\$857,518)	44.9%
b. International	311,784,102	15,676,715	(1,844,426)	(1,024,261)	324,592,130	(391,939)	(100,052)	(\$2,336,417)	-0.7%	(\$778,806)	41.2%
Equity Total	815,099,565	36,256,752	(3,732,289)	(3,173,958)	844,450,071	(1,029,509)	(147,173)	(\$4,908,970)	-0.6%	(\$1,636,323)	43.5%
2. Fixed Income	501,598,607	10,221,637	1,459,370	(8,101,800)	505,177,814	(199,374)	(20,049)	\$1,239,947	0.2%	\$413,316	64.5%
3. Total Equity and Fixed Income	1,316,698,172	46,478,389	(2,272,918)	(11,275,758)	1,349,627,885	(1,228,883)	(167,222)	(\$3,669,023)	-0.3%	(\$1,223,008)	51.5%
					By Style						
Monthly											
		Chan	iges in Portfolio Va	lue		Fees		Value	Added	Average	Probability
Value Added By Asset Class	Beginning	Passive Return	Excess Return	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
Large Cap	322,158,332	16,671,051	(215,880)	1,329,444	339,942,947	(271,011)	(12,770)	(\$499,662)	-0.2%	(\$166,554)	49.3%
Small Cap	181,157,131	3,908,986	(1,671,982)	(3,479,141)	179,914,994	(366,559)	(34,351)	(\$2,072,892)	-1.1%	(\$690,964)	37.2%
Value	425,880,287	19,208,345	2,210,324	(5,106,376)	442,192,579	(474,732)	(55,068)	\$1,680,524	0.4%	\$560,175	57.1%
Growth	389,219,278	17,048,408	(5,942,612)	1,932,419	402,257,492	(554,777)	(92,105)	(\$6,589,494)	-1.7%	(\$2,196,498)	28.6%

#### **Value Added Summary**

6/30/2013

Through

6/30/2014

#### **By Current Active Managers**

										Mo	onthly
		Chan	ges in Portfolio Va	lue		Fees Value Added			Added	Average	Probability
Current Active Managers	Beginning	Passive Return	Excess Return	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	161,626,472	38,527,650	1,948,312	(16,576,746)	185,525,687	(346,647)	(24,401)	\$1,577,264	0.9%	131,439	53.3%
DELAWARE - LARGE CAP GROWTH	122,110,899	33,662,751	2,844,503	(4,200,893)	154,417,260	(693,926)	(19,658)	\$2,130,919	1.5%	177,577	55.2%
CAPITAL PROSPECTS	79,812,593	18,492,542	2,536,608	(6,494,086)	94,347,658	(695,606)	(42,202)	\$1,798,800	2.1%	149,900	60.3%
Legato Capital	73,121,680	18,755,774	(2,052,875)	(4,257,242)	85,567,336	(773,477)	(102,102)	(\$2,928,455)	-3.7%	(244,038)	36.0%
LSV ASSET MGMT	128,280,036	29,678,266	5,020,688	(659,756)	162,319,234	(731,190)	(170,444)	\$4,119,054	2.8%	343,254	66.1%
Pyramis	137,091,315	30,584,717	(4,322,818)	(1,080,318)	162,272,896	(716,757)	(239,799)	(\$5,279,374)	-3.5%	(439,948)	36.5%
DODGE & COX FI	402,991,869	17,049,975	8,398,226	(31,941,993)	396,498,077	(430,259)	(47,690)	\$7,920,277	2.0%	660,023	77.0%
PIMCO	108,995,438	4,605,653	(342,417)	(4,578,937)	108,679,737	(359,752)	(33,382)	(\$735,550)	-0.7%	(61,296)	38.6%
				Ву	Asset Class						
										Mo	onthly
		Chan	ges in Portfolio Va	lue		Fees			Added	Average	Probability
Value Added By Asset Class	<b>Beginning</b>	Passive Return	Excess Return	Net Cash Flows	<b>Ending</b>	Managerial	Custodial	Total	% of Portfolio	<u>Value Added</u>	of Adding Value
1. Equity											
a. Domestic	436,671,644	109,438,717	5,276,548	(31,528,967)	519,857,941	(2,509,656)	(188,363)	\$2,578,528	0.5%	\$214,877	52.2%
b. International	265,371,351	60,262,983	697,870	(1,740,074)	324,592,130	(1,447,947)	(410,243)	(\$1,160,320)	-0.4%	(\$96,693)	50.8%
Equity Total	702,042,995	169,701,699	5 <b>,</b> 974 <b>,</b> 4 <b>1</b> 8	(33,269,041)	844,450,071	(3,957,603)	(598,606)	\$1,418,208	0.2%	\$118,184	51.7%
2. Fixed Income	511,987,307	21,655,628	8,055,809	(36,520,930)	505,177,814	(790,011)	(81,071)	\$7,184,727	1.4%	\$598,727	68.8%
3. Total Equity and Fixed Income	1,214,030,302	191,357,328	14,030,226	(69,789,971)	1,349,627,885	(4,747,614)	(679,678)	\$8,602,935	0.7%	\$716,911	58.9%
					By Style						
											onthly
			ges in Portfolio Va			Fees			Added	Average	Probability
Value Added By Asset Class	<u>Beginning</u>	Passive Return	Excess Return	Net Cash Flows	<u>Ending</u>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
Large Cap	283,737,371	72,190,400	4,792,815	(20,777,639)	339,942,947	(1,040,573)	(44,059)	\$3,708,184	1.2%	\$309,015	54.1%
Small Cap	152,934,273	37,248,316	483,733	(10,751,328)	179,914,994	(1,469,084)	(144,304)	(\$1,129,655)	-0.7%	(\$94,138)	48.7%
Value	369,719,101	86,698,458	9,505,608	(23,730,588)	442,192,579	(1,773,443)	(237,047)	\$7,495,117	1.8%	\$624,593	59.2%
Growth	332,323,894	83,003,242	(3,531,190)	(9,538,453)	402,257,492	(2,184,160)	(361,559)	(\$6,076,909)	-1.7%	(\$506,409)	43.3%

#### **Total Fee Summary**

3/31/2014 Through 6/30/2014

		Mar	nagerial Fees		dial Fees		Total Fees
<u>Manager</u>	Average Dollars Managed	Total	Annualized Basis Points		Annualized Basis Points	Total	Annualized Basis Points
DODGE & COX - LARGE CAP VALUE	181,226,220	88,840	19.6	6,566	1.4	95,406	21.1
MAZAMA - SMALL CAP GROWTH	(4)	됮	0.0	1061	0.0	×	0.0
* Terminated 12/2008							
DELAWARE - LARGE CAP GROWTH	150,173,296	182,171	48.5	6,204	1.7	188,375	50.2
LOOMIS SAYLES - LARGE CAP GROWTH	50	2	0.0	1.60	0.0	2	0.0
* Terminated 6/2010							
Capital Prospects - By Manager	10.001.011	24.022		4.000		20.454	
Bernzott	12,891,914	24,923		1,228		26,151	
Channing	21,363,744	41,301		2,035		43,336 40,721	
InView Keeley	20,074,553 11,878,978	38,808 22,965		1,912 1,132		24,096	
reeley Ten/Pacific Ridge	12,523,574	24,211		1,193		25,404	
Walthausen	13,352,340	25,813		1,272		27,085	
CAPITAL PROSPECTS	92,085,103	178,020	77.3	8,773	3.8	186,793	81.1
CAPITAL PROSPECTS	92,065,105	170,020	77.5	0,773	5.0	180,793	01.1
Legato - By Manager							
CastleArk	13,520,189	31,109		4,220		35,329	
Lee Munder/Crosswinds	17,617,216	40,536		5,499		46,035	
Eudaimonia	11,471,676	26,395		3,581		29,976	
Riverbridge	19,665,730	45,249		6,139		51,388	
Stephens	19,665,730	45,249		6,139		51,388	
LEGATO CAPITAL	81,940,540	188,539	92.0	25,578	12.5	214,117	104.5
LSV ASSET MGMT	159,640,602	207,872	52.1	39,729	10.0	247,601	62.0
PYRAMIS	159,603,211	184,067	46.1	60,323	15.1	244,390	61.2
DODGE & COX FI	396,510,091	107,964	10.9	12,280	1.2	120,244	12.1
PIMCO * Inception Date 5/2010	108,158,009	91,410	33.8	7,769	2.9	99,179	36.7
INVESCO  * Terminated 9/2012	ia0	2	0.0	2	0.0		0.0
RAFI**  * Terminated 9/2012	8	18	0.0	F1	0.0	Ē	0.0
STRATEGIC INVESTMENT SOLUTIONS	1,753,332,836	42,500	1.0	N/A	N/A	42,500	1.0
TOTAL	1,753,332,836	1,271,383	29.0	167,222	3.8	1,438,605	32.8

<sup>\*\*</sup> RAFI fees are taken from the actual portfolio

#### **Total Fee Summary**

6/30/2013 Through 6/30/2014

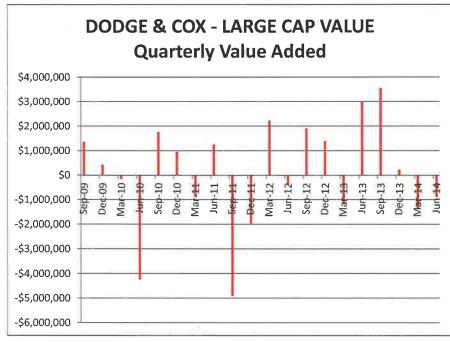
		Man	agerial Fees	Custo	dial Fees		Total Fees
<u>Manager</u>	Average Dollars Managed	Total	Annualized Basis Points	<u>Total</u>	Annualized Basis Points	<u>Total</u>	Annualized Basis Points
DODGE & COX - LARGE CAP VALUE	176,202,357	346,647	19.7	24,401	1.4	371,048	21.1
MAZAMA - SMALL CAP GROWTH  * Terminated 12/2008	*	<b>∞</b>	0.0	35	0.0	, 4.	0.0
DELAWARE - LARGE CAP GROWTH	140,955,156	693,926	49.2	19,658	1.4	713,584	50.6
LOOMIS SAYLES - LARGE CAP GROWTH  * Terminated 6/2010			0.0	*	0.0	2	0.0
Capital Prospects - By Manager Bernzott	12,529,329	97,385		5,908		103,293	
Channing	20,762,887	161,381		9,791		171,172	
InView	19,509,954	151,642		9,200		160,842	
Keeley	11,544,881	89,733		5,444		95,177	
Ten/Pacific Ridge	12,171,348	94,602		5,739		100,342	
Walthausen	12,976,805	100,863		6,119		106,982	
CAPITAL PROSPECTS	89,495,204	695,606	77.7	42,202	4.7	737,808	82.4
Legato - By Manager							
CastleArk	13,826,507	127,624		16,847		144,471	
Lee Munder/Crosswinds	18,016,358	166,298		21,952		188,250	
Eudaimonia	11,731,582	108,287		14,294		122,581	
Riverbridge	20,111,283	185,635		24,505		210,139	
Stephens	20,111,283	185,635		24,505		210,139	
LEGATO CAPITAL	83,797,013	773,477	92.3	102,102	12.2	875,580	104.5
LSV ASSET MGMT	150,374,965	731,190	48.6	170,444	11.3	901,634	60.0
PYRAMIS	154,079,705	716,757	46.5	239,799	15.6	956,556	62.1
DODGE & COX FI	395,767,649	430,259	10.9	47,690	1.2	477,948	12.1
PIMCO	106,950,418	359,752	33.6	33,382	3.1	393,134	36.8
* Inception Date 5/2010 INVESCO	*	¥	0.0	2	0.0	×	0.0
* Terminated 9/2012 RAFI**	ଞା	¥.	0.0	2	0.0	*	0.0
* Terminated 6/2012							
STRATEGIC INVESTMENT SOLUTIONS	1,688,040,425	166,939	1.0	N/A	N/A	166,939	1.0
TOTAL	1,688,040,425	4,914,553	29.1	679,678	4.0	5,594,230	33.1

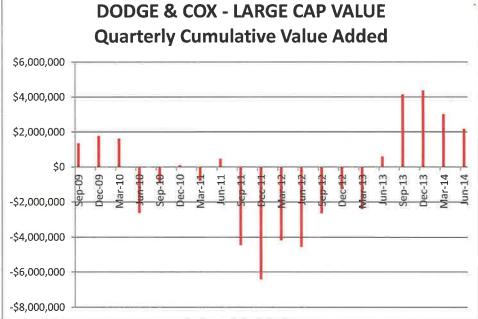
<sup>\*\*</sup> RAFI fees are taken from the actual portfolio

#### **DODGE & COX - LARGE CAP VALUE Quarterly Value Added**

ees

Quarter	Begin Date	End Date	Alpha	<u>Managerial</u>	Custodial	Value Added
1	6/30/2009	9/30/2009	\$1,446,821	\$85,652	\$3,814	\$1,357,354
2	9/30/2009	12/31/2009	\$515,303	\$88,756	\$4,122	\$422,425
3	12/31/2009	3/31/2010	-\$57,048	\$92,709	\$4,312	-\$154,069
4	3/31/2010	6/30/2010	-\$4,161,579	\$74,563	\$4,009	-\$4,240,151
5	6/30/2010	9/30/2010	\$1,841,032	\$79,904	\$3,653	\$1,757,475
6	9/30/2010	12/31/2010	\$1,043,825	\$86,729	\$3,997	\$953,099
7	12/31/2010	3/31/2011	-\$785,178	\$90,267	\$4,388	-\$879,833
8	3/31/2011	6/30/2011	\$1,340,497	\$88,927	\$4,499	\$1,247,071
9	6/30/2011	9/30/2011	-\$4,824,229	\$72,824	\$3,136	-\$4,900,189
10	9/30/2011	12/31/2011	-\$1,888,926	\$75,694	\$2,344	-\$1,966,964
11	12/31/2011	3/31/2012	\$2,303,140	\$68,984	\$1,476	\$2,232,680
12	3/31/2012	6/30/2012	-\$301,101	\$67,711	\$2,236	-\$371,048
13	6/30/2012	9/30/2012	\$1,983,489	\$71,825	\$1,072	\$1,910,592
14	9/30/2012	12/31/2012	\$1,467,208	\$73,225	\$2,092	\$1,391,891
15	12/31/2012	3/31/2013	-\$1,072,291	\$79,186	\$4,665	-\$1,156,142
16	3/31/2013	6/30/2013	\$3,074,425	\$80,061	\$6,119	\$2,988,245
17	6/30/2013	9/30/2013	\$3,641,556	\$81,796	\$6,026	\$3,553,733
18	9/30/2013	12/31/2013	\$313,275	\$87,811	\$5,815	\$219,650
19	12/31/2013	3/31/2014	-\$1,247,256	\$88,200	\$5,993	-\$1,341,450
20	3/31/2014	6/30/2014	-\$759,263	\$88,840	\$6,566	-\$854,669

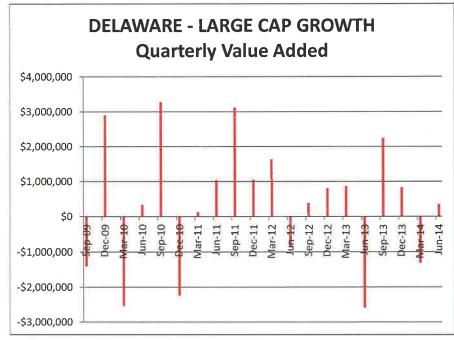


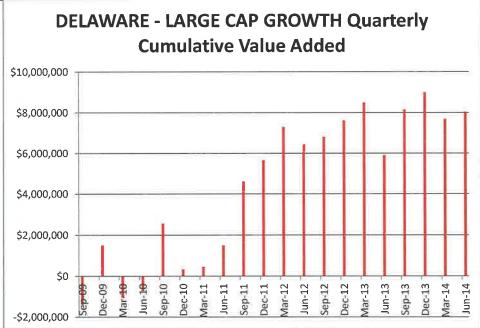


#### **DELAWARE - LARGE CAP GROWTH Quarterly Value Added**

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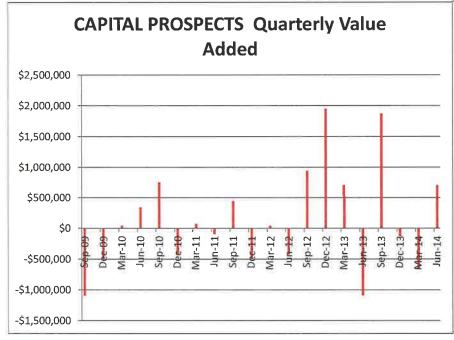
Quarter	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	Custodial	Value Added
1	6/30/2009	9/30/2009	-\$1,263,475	\$131,961	\$2,431	-\$1,397,867
2	9/30/2009	12/31/2009	\$3,043,032	\$143,212	\$2,680	\$2,897,140
3	12/31/2009	3/31/2010	-\$2,395,031	\$144,649	\$2,754	-\$2,542,434
4	3/31/2010	6/30/2010	\$442,133	\$106,047	\$2,162	\$333,923
5	6/30/2010	9/30/2010	\$3,378,675	\$101,839	\$1,869	\$3,274,967
6	9/30/2010	12/31/2010	-\$2,113,459	\$115,269	\$2,140	-\$2,230,869
7	12/31/2010	3/31/2011	\$253,486	\$125,411	\$2,342	\$125,734
8	3/31/2011	6/30/2011	\$1,170,665	\$129,638	\$2,425	\$1,038,603
9	6/30/2011	9/30/2011	\$3,241,561	\$123,443	\$1,098	\$3,117,020
10	9/30/2011	12/31/2011	\$1,180,312	\$127,986	\$1,178	\$1,051,148
11	12/31/2011	3/31/2012	\$1,778,217	\$141,840	\$1,694	\$1,634,683
12	3/31/2012	6/30/2012	-\$723,810	\$142,009	\$1,954	-\$867,773
13	6/30/2012	9/30/2012	\$528,838	\$145,968	\$1,824	\$381,046
14	9/30/2012	12/31/2012	\$957,854	\$147,904	\$2,026	\$807,924
15	12/31/2012	3/31/2013	\$1,030,783	\$159,111	\$4,988	\$866,684
16	3/31/2013	6/30/2013	-\$2,421,912	\$156,738	\$4,430	-\$2,583,080
17	6/30/2013	9/30/2013	\$2,406,424	\$160,682	\$4,282	\$2,241,460
18	9/30/2013	12/31/2013	\$1,015,086	\$173,996	\$4,333	\$836,758
19	12/31/2013	3/31/2014	-\$1,120,390	\$177,076	\$4,840	-\$1,302,306
20	3/31/2014	6/30/2014	\$543,382	\$182,171	\$6,204	\$355,007

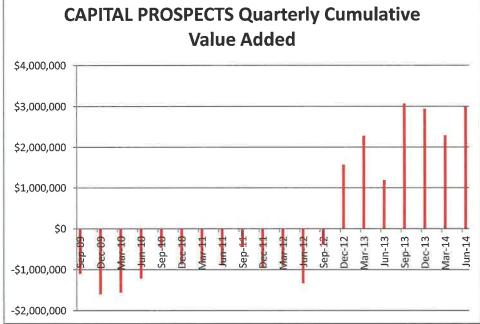




#### **CAPITAL PROSPECTS Quarterly Value Added**

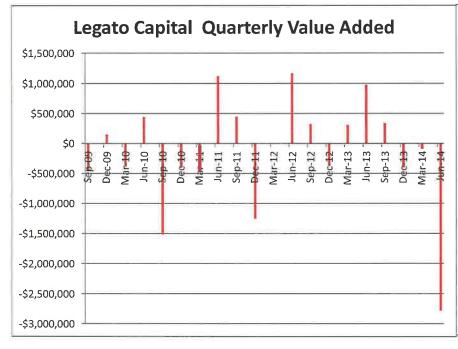
Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	<u>Value Added</u>
1	6/30/2009	9/30/2009	-\$975,854	\$110,157	\$5,491	-\$1,091,503
2	9/30/2009	12/31/2009	-\$380,938	\$113,833	\$5,846	-\$500,617
3	12/31/2009	3/31/2010	\$172,742	\$123,719	\$6,289	\$42,735
4	3/31/2010	6/30/2010	\$469,514	\$120,854	\$6,261	\$342,399
5	6/30/2010	9/30/2010	\$873,418	\$113,604	\$5,806	\$754,009
6	9/30/2010	12/31/2010	-\$279,802	\$127,372	\$6,457	-\$413,631
7	12/31/2010	3/31/2011	\$218,674	\$139,484	\$7,171	\$72,018
8	3/31/2011	6/30/2011	\$44,992	\$136,107	\$7,292	-\$98,407
9	6/30/2011	9/30/2011	\$557,229	\$105,623	\$5,628	\$445,978
10	9/30/2011	12/31/2011	-\$378,530	\$108,585	\$4,888	-\$492,003
11	12/31/2011	3/31/2012	\$163,761	\$119,481	\$5,222	\$39,057
12	3/31/2012	6/30/2012	-\$301,042	\$117,427	\$5,636	-\$424,106
13	6/30/2012	9/30/2012	\$1,072,679	\$122,499	\$5,054	\$945,126
14	9/30/2012	12/31/2012	\$2,086,673	\$131,297	\$5,086	\$1,950,290
15	12/31/2012	3/31/2013	\$868,837	\$147,222	\$7,282	\$714,334
16	3/31/2013	6/30/2013	-\$924,866	\$154,313	\$7,805	-\$1,086,983
17	6/30/2013	9/30/2013	\$2,047,762	\$165,329	\$9,476	\$1,872,957
18	9/30/2013	12/31/2013	\$56,814	\$174,451	\$13,162	-\$130,799
19	12/31/2013	3/31/2014	-\$461,309	\$177,806	\$10,791	-\$649,906
20	3/31/2014	6/30/2014	\$893,341	\$178,020	\$8,773	\$706,548
		. ,			•	-

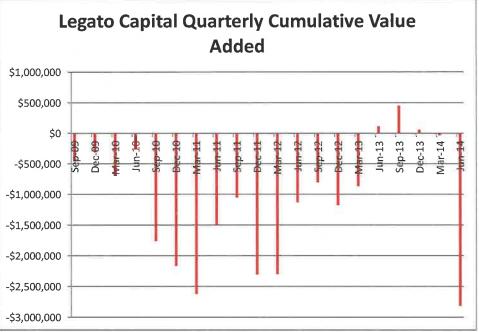




#### **Legato Capital Quarterly Value Added**

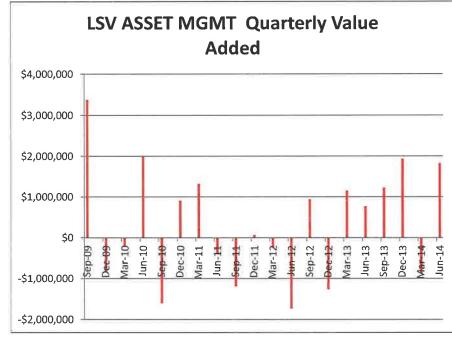
Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	6/30/2009	9/30/2009	-\$337,613	\$104,616	\$15,387	-\$457,616
2	9/30/2009	12/31/2009	\$274,823	\$108,982	\$16,133	\$149,708
3	12/31/2009	3/31/2010	-\$246,517	\$116,353	\$17,238	-\$380,108
4	3/31/2010	6/30/2010	\$579,733	\$120,704	\$18,097	\$440,932
5	6/30/2010	9/30/2010	-\$1,377,562	\$117,787	\$17,211	-\$1,512,560
6	9/30/2010	12/31/2010	-\$246,064	\$137,368	\$19,740	-\$403,172
7	12/31/2010	3/31/2011	-\$280,084	\$151,931	\$22,252	-\$454,267
8	3/31/2011	6/30/2011	\$1,299,087	\$154,501	\$23,323	\$1,121,263
9	6/30/2011	9/30/2011	\$582,439	\$117,446	\$18,692	\$446,301
10	9/30/2011	12/31/2011	-\$1,117,167	\$119,430	\$16,508	-\$1,253,105
11	12/31/2011	3/31/2012	\$159,474	\$130,946	\$22,688	\$5,841
12	3/31/2012	6/30/2012	\$1,322,961	\$131,021	\$22,120	\$1,169,820
13	6/30/2012	9/30/2012	\$479,877	\$135,442	\$19,914	\$324,521
14	9/30/2012	12/31/2012	-\$213,207	\$138,254	\$21,088	-\$372,549
15	12/31/2012	3/31/2013	\$485,352	\$153,975	\$21,977	\$309,400
16	3/31/2013	6/30/2013	\$1,167,286	\$164,612	\$21,657	\$981,017
17	6/30/2013	9/30/2013	\$546,533	\$183,840	\$23,292	\$339,402
18	9/30/2013	12/31/2013	-\$169,512	\$198,693	\$27,808	-\$396,013
19	12/31/2013	3/31/2014	\$135,426	\$202,405	\$25,425	-\$92,404
20	3/31/2014	6/30/2014	-\$2,565,323	\$188,539	\$25,578	-\$2,779,440

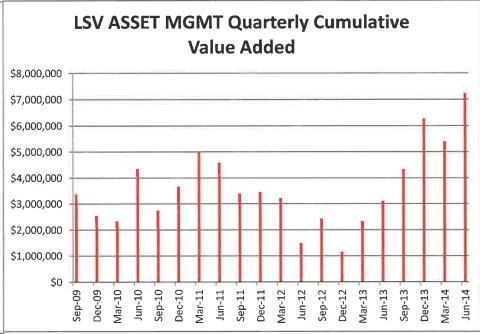




#### LSV ASSET MGMT Quarterly Value Added

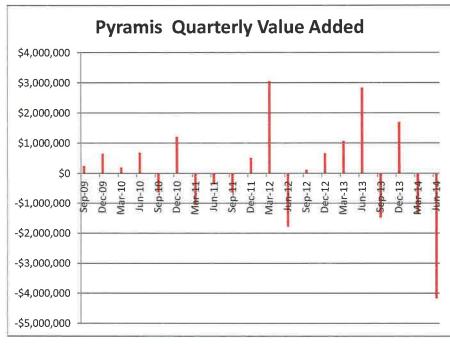
Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	6/30/2009	9/30/2009	\$3,601,604	\$193,494	\$27,633	\$3,380,477
2	9/30/2009	12/31/2009	-\$594,243	\$198,631	\$30,417	-\$823,291
3	12/31/2009	3/31/2010	\$12,530	\$197,281	\$31,000	-\$215,751
4	3/31/2010	6/30/2010	\$2,217,667	\$175,374	\$28,763	\$2,013,530
5	6/30/2010	9/30/2010	-\$1,372,452	\$193,603	\$28,530	-\$1,594,585
6	9/30/2010	12/31/2010	\$1,147,771	\$204,620	\$31,330	\$911,821
7	12/31/2010	3/31/2011	\$1,566,189	\$206,820	\$33,859	\$1,325,510
8	3/31/2011	6/30/2011	-\$164,056	\$205,220	\$34,467	-\$403,742
9	6/30/2011	9/30/2011	-\$1,004,436	\$163,726	\$19,932	-\$1,188,094
10	9/30/2011	12/31/2011	\$251,061	\$168,642	\$15,576	\$66,843
11	12/31/2011	3/31/2012	-\$33,570	\$180,121	\$26,254	-\$239,945
12	3/31/2012	6/30/2012	-\$1,538,936	\$168,468	\$21,326	-\$1,728,730
13	6/30/2012	9/30/2012	\$1,147,740	\$181,141	\$26,629	\$939,969
14	9/30/2012	12/31/2012	-\$1,051,237	\$189,009	\$23,035	-\$1,263,282
15	12/31/2012	3/31/2013	\$1,391,454	\$191,543	\$43,031	\$1,156,880
16	3/31/2013	6/30/2013	\$1,004,560	\$190,029	\$39,759	\$774,771
17	6/30/2013	9/30/2013	\$1,475,950	\$208,847	\$38,465	\$1,228,639
18	9/30/2013	12/31/2013	\$2,200,502	\$219,252	\$42,595	\$1,938,655
19	12/31/2013	3/31/2014	-\$732,010	\$95,219	\$49,656	-\$876,885
20	3/31/2014	6/30/2014	\$2,076,245	\$207,872	\$39,729	\$1,828,645

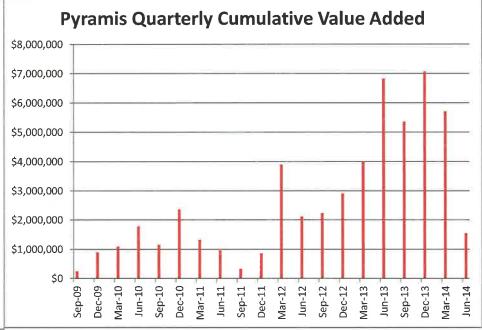




#### **Pyramis Quarterly Value Added**

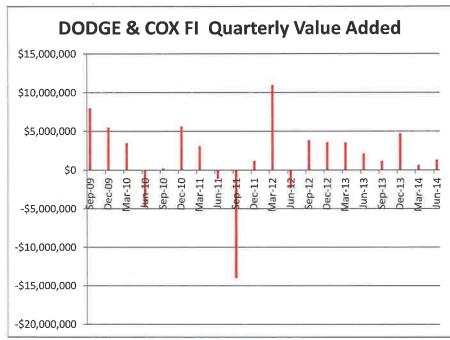
<u>Quarter</u>	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	6/30/2009	9/30/2009	\$475,247	\$151,346	\$78,481	\$245,420
2	9/30/2009	12/31/2009	\$899,710	\$157,601	\$85,989	\$656,121
3	12/31/2009	3/31/2010	\$439,347	\$157,772	\$86,437	\$195,138
4	3/31/2010	6/30/2010	\$934,572	\$154,446	\$86,232	\$693,894
5	6/30/2010	9/30/2010	-\$387,602	\$159,074	\$86,739	-\$633,414
6	9/30/2010	12/31/2010	\$1,481,008	\$168,380	\$96,144	\$1,216,484
7	12/31/2010	3/31/2011	-\$772,440	\$174,287	\$101,681	-\$1,048,408
8	3/31/2011	6/30/2011	-\$81,072	\$173,911	\$103,461	-\$358,445
9	6/30/2011	9/30/2011	-\$383,265	\$153,665	\$98,953	-\$635,883
10	9/30/2011	12/31/2011	\$749,781	\$148,898	\$86,186	\$514,697
11	12/31/2011	3/31/2012	\$3,315,164	\$155,807	\$101,988	\$3,057,369
12	3/31/2012	6/30/2012	-\$1,542,684	\$151,167	\$89,339	-\$1,783,190
13	6/30/2012	9/30/2012	\$367,768	\$154,539	\$92,086	\$121,143
14	9/30/2012	12/31/2012	\$937,742	\$160,345	\$107,241	\$670,156
15	12/31/2012	3/31/2013	\$1,346,178	\$167,103	\$102,864	\$1,076,211
16	3/31/2013	6/30/2013	\$3,098,710	\$169,551	\$87,738	\$2,841,421
17	6/30/2013	9/30/2013	-\$1,227,803	\$171,817	\$63,218	-\$1,462,838
18	9/30/2013	12/31/2013	\$1,939,479	\$181,175	\$50,982	\$1,707,322
19	12/31/2013	3/31/2014	-\$1,113,822	\$179,698	\$65,276	-\$1,358,796
20	3/31/2014	6/30/2014	-\$3,920,672	\$184,067	\$60,323	-\$4,165,062

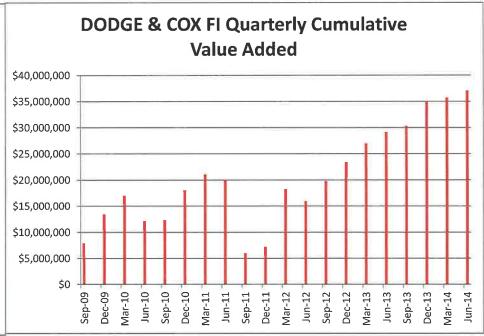




#### **DODGE & COX FI Quarterly Value Added**

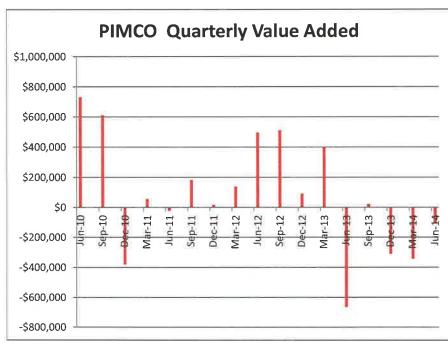
(	<u>Quarter</u>	Begin Date	End Date	<u> Alpha</u>	Managerial	Custodial	Value Added
	1	6/30/2009	9/30/2009	\$8,095,535	\$96,022	\$4,765	\$7,994,748
	2	9/30/2009	12/31/2009	\$5,598,814	\$94,950	\$4,729	\$5,499,134
	3	12/31/2009	3/31/2010	\$3,610,418	\$96,543	\$4,719	\$3,509,156
	4	3/31/2010	6/30/2010	-\$4,695,333	\$98,358	\$4,807	-\$4,798,498
	5	6/30/2010	9/30/2010	\$304,813	\$100,758	\$4,940	\$199,115
	6	9/30/2010	12/31/2010	\$5,724,549	\$100,934	\$5,014	\$5,618,601
	7	12/31/2010	3/31/2011	\$3,197,808	\$102,236	\$5,036	\$3,090,536
	8	3/31/2011	6/30/2011	-\$969,737	\$107,254	\$5,260	-\$1,082,251
	9	6/30/2011	9/30/2011	-\$13,865,344	\$116,701	\$1,899	-\$13,983,943
	10	9/30/2011	12/31/2011	\$1,326,142	\$115,860	\$1,433	\$1,208,849
	11	12/31/2011	3/31/2012	\$11,121,304	\$113,310	\$1,364	\$11,006,630
	12	3/31/2012	6/30/2012	-\$2,191,044	\$113,009	\$1,363	-\$2,305,417
	13	6/30/2012	9/30/2012	\$3,967,160	\$113,951	\$1,395	\$3,851,813
	14	9/30/2012	12/31/2012	\$3,730,794	\$113,934	\$1,355	\$3,615,505
	15	12/31/2012	3/31/2013	\$3,702,213	\$114,526	\$11,741	\$3,575,946
	16	3/31/2013	6/30/2013	\$2,279,219	\$110,496	\$11,520	\$2,157,204
	17	6/30/2013	9/30/2013	\$1,298,298	\$108,799	\$11,616	\$1,177,882
	18	9/30/2013	12/31/2013	\$4,842,996	\$106,646	\$11,529	\$4,724,821
	19	12/31/2013	3/31/2014	\$789,086	\$106,850	\$12,264	\$669,972
	20	3/31/2014	6/30/2014	\$1,467,846	\$107,964	\$12,280	\$1,347,602

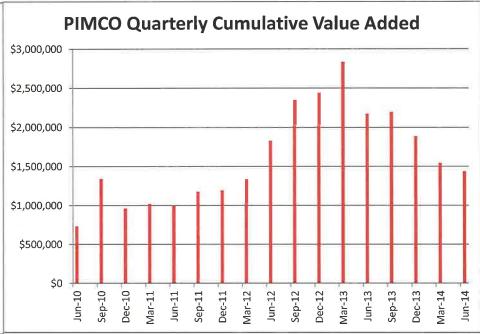




#### **PIMCO Quarterly Value Added**

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Quarter	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	<u>Custodial</u>	Value Added
1	6/30/2009	9/30/2009	\$0	\$0	\$0	\$0
2	9/30/2009	12/31/2009	\$0	\$0	\$0	\$0
3	12/31/2009	3/31/2010	\$0	\$0	\$0	\$0
4	3/31/2010	6/30/2010	\$780,844	\$46,533	\$2,719	\$731,591
5	6/30/2010	9/30/2010	\$689,748	\$73,608	\$4,686	\$611,454
6	9/30/2010	12/31/2010	-\$302,620	\$72,769	\$4,742	-\$380,131
7	12/31/2010	3/31/2011	\$134,401	\$73,072	\$4,688	\$56,641
8	3/31/2011	6/30/2011	\$56,698	\$74,250	\$4,779	-\$22,331
9	6/30/2011	9/30/2011	\$263,605	\$76,362	\$4,339	\$182,904
10	9/30/2011	12/31/2011	\$100,614	\$79,352	\$4,814	\$16,448
11	12/31/2011	3/31/2012	\$233,707	\$89,913	\$5,312	\$138,482
12	3/31/2012	6/30/2012	\$592,931	\$91,631	\$4,314	\$496,986
13	6/30/2012	9/30/2012	\$610,260	\$93,044	\$4,589	\$512,627
14	9/30/2012	12/31/2012	\$190,266	\$93,384	\$4,741	\$92,141
15	12/31/2012	3/31/2013	\$502,849	\$93,617	\$8,030	\$401,202
16	3/31/2013	6/30/2013	-\$564,526	\$91,614	\$8,540	-\$664,680
17	6/30/2013	9/30/2013	\$121,688	\$89,248	\$9,381	\$23,058
18	9/30/2013	12/31/2013	-\$212,034	\$89,017	\$8,072	-\$309,124
19	12/31/2013	3/31/2014	-\$243,594	\$90,077	\$8,159	-\$341,830
20	3/31/2014	6/30/2014	-\$8,476	\$91,410	\$7,769	-\$107,655





## **Cash Flow Report**

April 2014 through June 2014

Beginning Cash Balance	\$10,192,094
Cash Flow In	
Sales of Investments	\$8,000,000
Plan Sponsor Contributions	\$12,685,352
Employee Contributions	\$5,728,747
Employee Buybacks	\$53,605
Interest Income	\$32,821
Rental Income	\$13,086
Commission Recapture	\$0
Litigation Recovery	\$39,138
Total Cash Flow In	\$26,552,750
Cash Flow Out	
Retirement Benefits	\$23,763,120
StanCERA Payroll	\$314,278
Operations Expense	\$267,321
Pension Software	\$0
Fixed Asset Purchases	\$0
Employee Refunds	\$592,025
Post Retirement Death Benefits	\$110,815
Burial Allowances	\$75,000
Retiree Death - Return of Contributions	\$19,173
Investment Consultant Fees	\$62,500
Actuarial Fees	\$0
Custodial Fees	\$188,179
Investment Management Fees	\$1,141,300
Audit Fees	\$0
Legal Fees	\$9,027
Total Cash Flow Out	\$26,542,737
Ending Cash Balance	\$10,202,106
Change in Cash Balance	\$10,012

# VENTURA COUNTY PENSION REFORM UPDATE PREPARED FOR THE STANCERA BOARD MEETING HELD ON AUGUST 26, 2014

In July of this year, we reported to you that the Committee for Pension Fairness, formed by the Ventura County Taxpayers Association, had gathered enough signatures to place an initiative on the November ballot in Ventura County.

The proposed initiative would have replaced the County's current 1937 Act pension system with a 401(K) style benefit for all new employees hired after June 30, 2015.

A coalition that included the Ventura County Professional Firefighters Association and the Ventura County Deputy Sheriff's Association filed suit in Court citing several legal issues with the measure. The Unions asked the Court to remove the measure from the ballot.

On August 4, 2014, a Ventura County Superior Court judge ruled that the measure was not legal and it therefore could not go on the ballot for the November election. Judge Kent Kellegrew stated that the County had joined a statewide retirement system, created under 1937 Act law, passed by the legislature and the Governor in the mid-1940s and the measure, if passed, could not be upheld as it is not up to the voters to make such a change. He also stated that putting the measure on the ballot would only result in a waste of public resources.

Backers of the Ventura County pension reform initiative have stated that they will not be appealing the ruling by Judge Kellegrew. But, they may meet with other reformers, from the cities of San Jose (Chuck Reed) and San Diego (Carl DeMaio), after the elections this fall to discuss a statewide pension reform initiative.