

# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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#### **AGENDA**

BOARD OF RETIREMENT 832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room** Modesto, CA 95354 November 26, 2013 1:30 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 October 22, 2013 Investment Meeting Minutes View
  - StanCERA Investment Managers Peer Rankings for Quarter Ending September 30, 2013 View

# c. Approval of Service Retirement(s) - Sections 31499.14, 31670, 31662.2 & 31810

- 1. Anthony Andrade, HSA, Effective 11/16/13
- 2. Sherry Banuelos, CSA Effective 11/02/13
- 3. Dixie Barrigar, CEO Risk MGMT, Effective 11/05/13
- 4. Linda Burk, HSA, Effective 11/02/13
- 5. Raymond Byers, PW Roads, Effective 11/03/13
- 6. Darlene Engebretsen, CSA, Effective 10/21/13
- 7. Michael Handley, Library, Effective 10/21/13
- 8. Fred Harper, City of Ceres, Effective 10/17/13
- 9. Janey Heytz, Probation, Effective 11/02/13
- 10. Calvin Lambert, HSA, Effective 10/11/13
- 11. Arral Phipps, D.A, Effective 11/02/13
- 12. John Schaper, HSA, Effective 11/01/13
- 13. Gleen Valdez, DCSS, Effective 11/02/13

# d. Approval of Deferred Retirement(s) – Section 31700

- 1. Bryan Albers, Sheriff, Effective 11/16/2013
- 2. Ben Bazar, Assessor, Effective 08/10/2013
- 3. Eduardo Camacho, Sheriff, Effective 11/11/2013
- 4. Teresa Clevenger, Child Support Svcs, Effective 09/20/2013
- 5. Brent Dittman, Probation, Effective 10/05/2013
- 6. Kristi Espino, CSA, Effective 09/25/2013
- 7. Tom Fara, Sheriff, Effective 10/06/2013
- 8. Donna Gonchar, Superior Courts, Effective 09/28/2013
- 9. Rosanna L Hall, HSA, Effective 11/02/2013
- 10. Janet Harwood, Alliance Worknet, Effective 10/19/2013
- 11. Melissa Heckman, HSA, Effective 07/27/2013
- 12. Patricia Hinojos, BHRS, Effective 09/12/2013
- 13. Francisco Mireles, Jr, Sheriff, Effective 11/17/2013
- 14. Mckenna Murphy, CSA, Effective 08/31/2013
- 15. Veronica Pehl, HSA, Effective 09/04/2013
- 16. Megan Pratt, Superior Courts, Effective 10/26/2013
- 17. Alexander Quinlivan, Superior Courts, Effective 09/21/2013
- 18. Molly Sims, Regional 911, Effective 11/11/2013
- 19. Jennifer Walters, CSA, Effective 09/11/2013

## e. Approval of Disability Retirement – Section 31724

- 1. Andrew Hinkle, Sheriff, Service Connected, Effective 11/27/13
- 2. Robert Johnston, Sheriff, Service Connected, Effective 09/21/13

- 6. <u>Strategic Investment Solutions (SIS), Inc.</u>
  - a. Monthly Performance Review for the Month Ending September 30, 2013 View
  - b. Report on "Top 10 Holdings" of StanCERA Investment Managers as of September 30, 2013 <u>View</u>
  - c. StanCERA's Quarterly Manager Review List Performance Through September 30, 2013 <u>View</u>
  - d. Investment Performance Analysis for Third Quarter Ending September 30, 2013 View

# 7. Executive Director

- a. Transition Haber-Trilix to Pacific Ridge Marilyn Freeman, Capital Prospects View
- b. Discussion and Action Regarding InView Investment Management Assets Under Management Marilyn Freeman, Capital Prospects
- c. Discussion and Action Regarding LSV Performance Based Fee Schedule View
- d. Discussion and Action Regarding Recommendation for Custodian Bank Kathy Herman Item 7.d Pulled From Agenda
- e. 2013 Quarter 3 Value Added Report View
- 8. Committee Reports and Recommendations for Action

## STANDING COMMITTEES

- a. Internal Governance Committee
  - i. Discussion and Action to Approve the Revised Statement of Investment Policy View
  - ii. Biennial IT Security Audit

## 9. Closed Session

- a. Discussion and Action Regarding Executive Director Annual Review
- 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)
- 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)

# 9. Closed Session (Cont.)

- 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)
- 10. Members' Forum (Information and Future Agenda Requests Only)
- 11. Adjournment



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# PLEASE POST FOR EMPLOYEE VIEWING

## **BOARD OF RETIREMENT MINUTES**

October 22, 2013

**Members Present:** 

Jagen Raja (for Gordon Ford), Donna Riley, Maria DeAnda

Jason Gordo, Mike Lynch, Jim DeMartini, Darin Gharat, Michael O'Neal and Jeff Grover

**Alternate Member:** 

Joan Clendenin Alternate Retiree Representative

Members Absent:

Gordon Ford

Staff Present:

Kellie Gomes, Executive Board Secretary

Kathy Herman, Operations Manager

Dawn Lea, Benefits Manager

**Others Present:** 

Kirin K. Virk, General Legal Counsel

Doris Foster, County Chief Executive Office Stan Risen, County Chief Executive Office

# 1. Meeting Called to Order

Meeting called to order at 2:02 p.m. by Darin Gharat, Chair.

# 2. Roll Call

## 3. Announcements

Kellie Gomes announced the notice of elections for seat # 7 & 7A had been distributed on10/17/13.

Operations Manager, Kathy Herman discussed the following:

Pyramis was unable to attend as originally scheduled and would like to be moved to the December meeting. All agreed.

Josh Green of Raven Capital had contacted StanCERA regarding a bridge loan that had potential UBTI issues for StanCERA. The Board was informed that tax counsel had reviewed the issue and had recommended the more conservative approach that avoids any negative consequences in spite of potential additional costs.

# 3. Announcements (Cont.)

Operations Manager, Kathy Herman discussed the following: (Cont)

Custodian update – Updated the Board on the Custody search process meeting as needed.

# 4. Public Comment

None

### 5. Consent Items

Motion was made by Donna Riley and seconded by Michael O'Neal to approve the following consent items as presented:

a. Approval of the October 9, 2013 Administrative Meeting Minutes

**Motion Carried** 

# 6. Semi-Annual Performance Report by LSV – International

Presenter by: Keith Bruch, CFA, Partner & Director, Client Portfolio Services

- Initial funding and date: \$81 Million 9/2004
- Ending Value on 9/30/13: \$145 Million

All figures below are as of September 30, 2013

- Recent Quarter Return (Net): 11.1%
- 1 Year Return: 19.1%
- 3 Year Return: 7.2%
- Since Inception Return: 7.6%

## 7. Strategic Investment Solutions (SIS), Inc.

a. Monthly Performance Review for the Month Ending September 30, 2013

Monthly performance – 3.58% Fiscal YTD – 5.48% Fiscal YTD alpha – 0.49% Total fund value as of September 30, 2013: \$1.619 Billion

Paul gave an update regarding HaberTrilics and InView. HaberTrilics has decided to close its fund. InView was temporarily out of compliance with its State's SEC status. However, the State of Illinois has a safe harbor clause whereby InView could still fall within SEC purview. Further discussion followed regarding the fact that StanCERA's investment in InView represented over 20% of InView's total assets under management. There will be an update at the next board meeting on both issues.

# 7. Strategic Investment Solutions (SIS), Inc. (Cont)

 Report on "Top 10 Holdings" of StanCERA Investment Managers as of September 30, 2013

# 8. Executive Director

a. Discussion and Action Regarding Fixed Income Manager Structure – Presented to the Board on September 24, 2013– Paul Harte, SIS.

Motion was made by Jeff Grover and seconded by Donna Riley to begin the legal review for PRIMA Commercial Mortgage Investment and pending the results of that review to invest an initial amount of \$25 Million with the fund. The PIMCO unconstrained strategy was not recommended by the Board at this time.

Motion Carried

 Discussion and Action Regarding Review of the Biennial Investment Policy Revision

Kathy Herman, Operations Manager, presented and suggested that, given the extensive review that would be needed on the Statement of Investment Policy as well as the By-Laws and the Custody Bank proposals, the Board might want to create a sub-committee to review the Statement of Investment Policy. Following the discussion, no action was taken; the IGC will work with staff.

9. Committee Reports and Recommendations for Action

## STANDING COMMITTEES

- a. Internal Governance Committee
  - i. Discussion and Action to Accept the Internal Governance Committees' Recommendation Regarding the June 30, 2013 and 2012 Comprehensive Annual Financial Report (CAFR)

Motion was made by Maria DeAnda and seconded by Jeff Grover to accept the recommendation of the Internal Governance Committee regarding the June 30, 2013 and 2012 Comprehensive Annual Financial Report (CAFR) as presented.

**Motion Carried** 

# 10. Closed Session

- a. 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)
- b. Conference with Legal Counsel Pending Litigation One Case:
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   Government Code Section 54956.9(d)(1)
- c. 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)

### No Closed Session

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

Due to the heavy agendas expected at the November 26<sup>th</sup> Meeting, the Operations Manager requested a change in the meeting start time to 1:30 p.m.

Trustee Grover announced he is expecting to travel to Raven on 11/20/13 for the Advisor Board meeting

# 12. Adjournment

Meeting adjourned at 3:12 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM: GENERAL LEGAL COUNSEL

Kirin K. Virk, General Legal Counsel

StanCERA Investment Managers Peer Ranking

#### **Total Fund**

Taken From SIS Quarterly Investment Performance Analysis Reports 06/30/2010 through 09/30/2013

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

1 Quarter 1 Year Over 3 years Over 5 years

_														
	92	29	16	45	68	85	30	16	69	5	27	13	38	14
	16	36	19	22	30	77	85	70	62	12	5	6	22	13
	47	41	38	13	16	8	14	10	23	21	28	27	14	9
	43	47	41	47	38	59	54	43	41	62	61	12	8	2

Note: Ranking 1 is highest & 100 lowest

Revised 08/19/2013

# MARKET UPDATE

#### U.S. EQUITY

October was yet again another strong month for global equity markets. Stocks advanced everywhere and bonds were also up (yields down).

In the U.S. markets, Growth performed in-line with Value and large caps outperformed small caps. The Russell 1000 Growth Index was up +4.4% and the Russell 1000 Value Index was also up +4.4% for the month. The Russell 2000 Growth Index was up +1.8% and the Russell 2000 Value was up +3.3%. The S&P 500 Index ended the month higher by +4.6%.

The S&P 500 Index has a trailing P/E ratio of 18.7, a forward 12-month estimate P/E ratio of 15.9 and dividend yield of 2.0%. Of the 446 companies that have reported earnings to date for Q3 2013, 73% have reported earnings above the mean estimate and 52% have reported sales above the mean estimate. The blended earnings growth rate is 3.4%.

Corporate merger highlights for the month included: Monsanto will buy The Climate Corporation for approximately \$930 million; U.S.-based food business Darling International will buy Dutch meat producer Vion's ingredients unit for \$2.2 billion; Belgian chemical company Solvay will acquire U.S.-based Chemlogics Group for \$1.35 billion; McKesson, the largest U.S. pharmaceutical distributor is in advanced talks to acquire German rival Celesio for more than \$5 million; Men's Wearhouse rejected an unsolicited \$2.3 billion offer from smaller rival Jos. A. Banks Clothiers; Pipeline operator Regency Energy will buy PVR Partners for about \$3.8 billion to expand its shale-area pipe network; Del Monte is selling off its fruits and vegetable business to an Asian company for \$1.7 billion to focus instead in the pet food business; A holding company, Platform, will buy Denverbased MacDermid Inc. for \$1.8 billion as a means to build a chemicals business; Advanced Auto Parts will buy General Parts International for just over \$2 billion, creating the largest North American retailer of auto parts; Softbank acquired a majority stake in Supercell, the Finnish developer of games for about \$1.5 billion; Japan's Softbank also agreed to pay \$1.26 billion for a 57% stake in privately held cellphone distributor Brightstar; AT&T will lease 9,100 of its wireless towers and sell another 600 towers to Crown Castle for \$4.85 billion; Communications equipment maker Tellabs will be acquired for \$890 million by Marlin Equity Partners; American Realty Capital Properties will buy Cole Real

Estate Investments for about \$7 billion, joining together two real-estate investment trusts; AMC Networks will buy Chellomedia, the international content of Liberty Global, for about \$1 billion; and, Mosaic will buy the Florida phosphate business of CF Industries for \$1.4 billion.

U.S. venture capital firms raised \$4.1 billion in the 3<sup>rd</sup> quarter, down almost 18% from the same period in 2012.

#### **FIXED INCOME**

The president of the Federal Reserve of Atlanta said the partial shutdown of the U.S. government will hurt growth in the last quarter of this year, defending the Fed's decision not to taper its bond buying stimulus. As expected, the Federal Reserve's monetary policy was unchanged in October. It left the federal funds target range at 0.00-0.25% and continued its pace of assets purchases at \$85 billion per month.

The International Monetary Fund trimmed its forecasts for 2013 global output to expand just 2.9%, down from a July estimate of 3.1% and making it the slowest year of growth since 2009.

The Labor Dept. reported that the unemployment rate edged lower to 7.2% in September, though employers added far fewer workers than expected suggesting a loss in momentum in the U.S. economy. Job gains have slowed progressively this year, averaging just 143,000 in the third quarter compared to 182,000 in the second and 207,000 in the first.

The yield on the bellwether 10-year Treasury note fell to 2.57% at the close of October from its September close at 2.64%. At month-end, the 30-year bond yield was 3.63% with the 3-month T-bill at 0.06%. The Barclays Capital US Aggregate Index was up +0.81% in October. Emerging Markets bonds were the strongest sector, gaining +2.8%, as measured by the JPM GBI-EM Global Diversified Unhedged Index.

Federal Reserve Vice-Chair Janet Yellen was formally nominated by President Obama to replace Chairman Bernanke when his term ends in January.

The nation's 57 million Social Security beneficiaries will get a 1.5% raise in their monthly payments in 2014.

# MARKET UPDATE

On the economic front, the following key data was released (releases were much lighter than usual due to the U.S. Government partial shutdown) in October:

#### THE GOOD

\*The Institute for Supply Management reported that its purchasing managers' index rose from 55.7% in August to 56.2% in September, the highest point in more than two years.

\*The Thomson Reuters/PayNet Small Business Lending Index rose 1% to 116.6 in August, the highest level since August 2007.

\*Global household wealth increased by 4.9% to reach \$241 trillion.

\*The Commerce Dept. reported that U.S. construction spending rose 0.6%

\*The median sales price of existing homes was up 11.7% at \$199,200 in September compared to a year ago.

\*Industrial production increased 0.6% in September, the largest gain since February and above forecast.

\*The Commerce Dept. reported that retail sales excluding autos, gasoline, and building materials increased 0.5% in September following a 0.2% gain in August.

\*The Consumer Price Index rose 0.2% in September after edging up 0.1% in August. In the 12 months through September, the CPI increased 1.2%.

#### THE NOT SO GOOD

\*GM's U.S. auto sales fell 11% in September, Chrysler's inched up 0.7%, Ford's rose 5.8%, Toyota's dropped 4.3% and Nissan's declined 5.5%.

\*The Institute for Supply Management's service-sector index fell to 54.4 in September, down from 58.6 in August which was the highest reading since 2005.

\*Consumer borrowing rose by \$13.6 billion in August as Americans took out loans for vehicles and education.

\*The New York Fed's Empire State general business conditions index edged down to 1.5 in October from 6.3 in September.

\*The National Assoc. of Realtors reported that sales of previously owned U.S. homes fell a seasonally adjusted 1.9% in September because of higher prices and rising mortgage rates.

\*Manufacturing declined in October for the first time in more than four years, with the index dipping to 49.5 from 55.3, a reading below 50 indicates contraction.

\*Consumer confidence has eroded over the last four months. The Univ. of Michigan index fell another 4.3 points in October to 73.2, the third consecutive decline and the lowest level since January. The Conference Boards' confidence index dropped 9.0 points to 71.2, the lowest reading since April.

#### NON-U.S. MARKETS

Canada's GDP rose a stronger than expected 0.3% in the month of August, following a robust 0.6% gain in July.

Britain's economy grew at the fastest rate in three years during the 3<sup>rd</sup> quarter rising by 0.8%, the third consecutive gain and the largest since Q2 2010.

The euro pushed above \$1.37 in October for the first time since February in a move that analysts say could hinder the EU's recovery from recession. Eurozone inflation continues to slow. Consumer Price (CPI) Inflation decelerated two ticks to 1.1% year-over year in September, the lowest level since February 2010. The Eurozone unemployment rate posted at a record high 12.2% in September, unchanged from August. The youth (under 25) rate actually edged up to 24.1%.

The Japan's Monetary Policy Board reaffirmed its aggressive program of quantitative easing (QE), pledging unanimously to increase the size of the monetary base by 60-70 trillion yen annually, and to purchase JGB's in sufficient quantity. Their goal remains to hit a 2.0% inflation target within about two years.

China's GDP expanded 7.8% year-on-year in July to September, reversing two quarters of slowing growth in the world's second largest economy. China's annual consumer inflation rose to a seven month high of 3.1% in September.

Russia's third quarter growth rate fell well below expectations at 1.2%.

Non-U.S. equities were higher in October. The MSCI ACWI Ex-U.S. was up +3.7% (US dollars) for the month. International Developed stocks (EAFE) were up +3.4% while Emerging Markets gained +4.9%.

# MARKET UPDATE

#### **CONCLUSION**

The U.S. will pass Russia and Saudi Arabia as the top energy producer in 2013, according to a report by the Energy Information Administration (EIA). U.S. energy output has been surging in recent years fueled by shale rock formations of oil and natural gas. The U.S. produced an equivalent of 22 million barrels a day of oil, natural gas and related fuels in July.

The U.S. boom in natural gas production is luring investment from foreign manufacturers eager to tap a cheap, abundant supply of fuel and feedstocks. Energy consulting firm HIS CERA stated in a report last month that cheaper gas would aid the nation's chemical sector over the next dozen years, creating more than 300,000 iobs.

China has now overtaken the U.S. to become the world's largest oil importer, according to U.S. estimates. The gap in September between oil consumption and domestic production averaged 6.24 million barrels per day in the U.S. and 6.3 million in China. U.S. oil demand has dropped about 4% over the past five years as a result of improved fuel economy for cars and decreased car use.

Booming production from shales such as the Eagle Ford of Texas and the Bakken of North Dakota has raised U.S. output of liquid fuels by more than 40% since 2008 to 12.2 million barrels per day and the EIA expects further growth to 13.2 million barrels per day next year. Unconventional oil and gas production could support up to 3.5 million jobs by 2034 according to HIS Global Insight. Shale gas is now 10% of the overall U.S. energy supply. So far, more than 1.7 million new jobs are the result of this resurgence in the energy sector. The energy revolution will add an estimated \$62 billion to federal and state revenues this year.

In addition, clean energy and sustainable transportation projects has created nearly 40,000 new green jobs in America during the second quarter according to reports from Environmental Entrepreneurs.

# **Monthly Market Update**

## **US Equity Indices Trailing Performance**

Annualized Performance to Date: Ending Oct-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	4.25	5.10	26.45	28.99	21.66	16.89	15.94	6.17	7.92
Russell TOP 200 Index	4.79	4.92	24.95	26.17	21.05	16.57	14.38	5.53	6.86
Russell TOP 200 Index Russell TOP 200 Growth Index Russell TOP 300 Volum Index	5.29	7.96	25.28	26.18	20.27	16.78	16.54	7.64	7.13
Russell TOP 200 Value Index	4.30	2.04	24.59	26.13	21.83	16.39	12.15	3.42	6.62
Russell TOP 200 Value Index S&P 500 Index Russell 1000 Index	4.60	4.75	25.30	27 18	21.04	16.56	15.17	5.79	7.46
Russell 1000 index	4.40	5.06	26.08	28.40	21.50	16.83	15.84	6.13	7.83
Russell 1000 Growth Index	4.42	7.21	26.22	28.30	20.41	16.81	17.51	7.73	7.70
Russell 1000 Value Index	4.38	2.94	25.75	28.29	22.46	16.76	14.06	4.40	7.81
Russell Mid-Cap Index Russell Mid-Cap Growth Index	3.53	5.39	28.73	33.79	22.49	17.40	19.67	7.67	10.35
Russell Mid-Cap Growth Index	2.62	5.64	28.71	33 93	20.87	17.16	20.32	8.16	9.60
Russell Mid-Cap Value Index	4.56	5.12	28.55	33.45	23.87	17.54	18.85	6.86	10.62
Russell 2000 Index	2.51	5.59	30.90	36.28	23.59	17.69	17.04	6.75	9.03
Russell 2000 Growth Index	1.82	6.78	34.89	39.84	23.86	19.00	19.27	8.33	9.14
Russell 2000 Value Index	3.25	4.38	27.07	32.83	23.31	16.33	14.84	5.09	8.78
DJ US REIT Index	4.07	0.03	6.50	9.96	12.01	11.89	14.79	2.04	9.57
DJ-UBS US Commodity Index TR	-1.48	-0.73	-9.91	-12.21	-8.41	-5.19	-0.94	-3.00	1.51
DJ-UBS US Gold Index TR	-0.24	0.82	-21.39	-23.46	-13.04	-1.49	12.17	10.79	12.20

# **Non-US Indices Trailing Performance**

Annualized Performance to Date: Ending Oct-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	3.68	9.41	14.53	20.80	12.34	6.52	12.99	3.44	8.95
MSCI AC World Index ex USA MSCI AC World Index	4.04	7.22	19.56	23.95	16.32	10.95	14.09	4.58	8.21
MSCI EAFE Index	3.36	9.57	20.51	27.40	15.74	8.88	12.52	2.81	8.20
MSCI Emerging Markets index	4.87	9.85	0.62	6.90	4.92	0.63	15.76	6.28	12.77
ML Global Government Bond Ex. U.S. Index	0.66	2.77	-5.46	-8.65	-3.96	-0.91	4.55	5.29	4.79
Euro ·	0.43	2.38	3.12	4.92	-1.27	-0.73	1.40	0.91	1.58
Japanese Yen	0.02	0.25	-11.87	-18.53	-10.85	-6.36	0.05	2.57	1.14
UK Pound Sterling	-0.79	5.97	-1.16	-0.28	-0.23	0.16	-0.11	-2.42	-0.55

# **US Fixed Income Indices Trailing Performance**

Annualized Performance to Date: Ending Oct-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.00	0.01	0.05	0.09	0.08	0.10	0.14	1.21	1.69
BarCap Aggregate Bond Index	0.81	1.24	-1.10	-1.08	2.04	3.02	6.09	5.14	4.78
ML U.S. Corp/Govt Master Index	0.91	1.10	-1.62	-1.54	2.20	3 18	6.50	5.15	4.75
ML U.S. Corporate Master Index	1.50	1.65	-0.99	-1.09	4.55	4.88	11.06	6.06	5.55
BarCap Mortgage Backed Securities Index 💍 🦰 🐪	0.68	1.81	-0.33	-0.36	1.57	2.55	5.07	5.09	4.86
ML U.S. High Yield Master Index	2.46	2.86	6.32	8.76	10.94	8.86	17.88	8.66	8.67
JPM EMBI Global	2.67	2.59	-4.95	-2.58	6.45	5.65	14.15	7.82	8.94

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING OCT 31, 2013

PRELIMINARY BASIS

# SUMMARY OF INVESTMENTS

<u> </u>			CURRENT	POLICY	TARGET	POLICY
ASSET CLASS	MARKET VALUE	PERCENT A	LLOCATION	RANGE	ALLOCATION	RANGE
DOMESTIC EQUITIES	767,589,626	46.0%	41.9%	36.9% - 46.9%	38.2%	32.2% - 44.2%
INTERNATIONAL EQUITIES	306,149,843	18.4% 🧹	19.0%	16.0% - 22.0%	18.0%	15.0% - 21.0%
FIXED INCOME	503,849,219	30.2%	35.6%	31.9% - 39.3%	29.8%	26.0% - 33.6%
ALTERNATIVES:	73,249,580	4.4%	3.5%		14.0%	
DIRECT LENDING	50,682,668	3.0%	2.0%	1.0% - 3.0%	7.5%	2.5% - 9.0%
REAL ESTATE	22,566,912	1.4%	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%
SECURITY LENDING	(652,973)	0.0%	0.0%	0.0% - 0.0%	0.0%	0.0% - 0.0%
CASH (equity managers only)	17,607,023	1 1%	0.0%	0.0% - 3.0%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,667,792,317	100.0%	100.0%		100.0%	
		ACTUAL A	CURRENT	TARGET ALLOCATION		
DODGE & COX - LARGE CAP VALUE	<del></del>	10.5%	9.8%	8.9%		
BlackRock - R1000 VALUE INDEX		6.2%	6.0%	5.5%		
DELAWARE LARGE CAP GROWTH		8.3%	7.3%	6.7%		
BlackRock R1000 GROWTH INDEX		5.5%	5.0%	4.6%		
CAPITAL PROSPECTS LEGATO CAPITAL		5.6%	4.5%	4.0%		
BNY - S&P 500 INDEX		5.2% 5.5%	4.0% 5.3%	3.7% 4.8%		
LSV ASSET MGMT INTL EQ		9.1%	9.5%	9.0%		
PYRAMIS INTL EQ		9.4%	9.5%	9.0%		
DODGE & COX FIXED INCOME		23.8%	28.1%	23.8%		
PIMCO		6.4%	7.5%	6.0%		
MEDLEY		1.0%	1.0%	2.1%		
RAVEN		1.1%	1.0%	2.7%		
WHITE OAK		0.9%	0.0%	2.7%		
BlackRock - US REAL ESTATE SECURITI	ES INDEX	1.4%	1.5%	1.5%		
Unallocated Private Real Estate		0.0%	0.0%	2.0%		
Infrastructure		0.0%	0.0%	3.0%		
SECURITY LENDING		0.0%	0.0%	0.0%		
TOTALS		100.0%	100.0%	100.0%		

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING OCT 31, 2013

PRELIMINARY BASIS

# GROWTH OF ASSETS AND CHANGES IN ALLOCATION

ASSET CLASS MARKET VALUE	CURRENT MONTH		PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
DOMESTIC EQUITIES	767,589,626		743,086,397	3.30%	622,536,757	23.30%
INTERNATIONAL EQUITIES	306,149,843		292,483,237	4.67%	244,004,219	25.47%
FIXED INCOME	503,849,219		501,747,837	0.42%	534,089,667	-5.66%
DIRECT LENDING	50,682,668		27,222,111	86.18%	0	N/A
REAL ESTATE	22,566,912		21,681,897	4.08%	20,503,301	10.06%
SECURITIES LENDING	(652,973)		(677,511)	3.62%	(1,025,713)	36.34%
CASH (equity managers only)	17,607,023		24,165,432	-27.14%	16,249,880	8.35%
TOTAL PORTFOLIO	1,667,792,317		1,609,709,400	3.61%	1,436,358,112	16.11%
ASSET ALLOCATION (ACTUAL)			7.68	MAA	1231	MM
DOMESTIC EQUITIES	46.02%		46.16%	-0.1%	43.34%	2.7%
INTERNATIONAL EQUITIES	18.36%		18.17%	0.2%	16.99%	1 4%
FIXED INCOME	30.21%		31 17%	-1.0%	37.18%	-7.0%
DIRECT LENDING	3.04%		1.69%	1.3%	0.00%	3.0%
REAL ESTATE SECURITIES	1.35%		1.35%	0.0%	1.43%	-0.1%
SECURITY LENDING	-0.04%		-0.04%	0.0%	-0.07%	0.0%
CASH (equity managers only)	1.06%		1_50%	-0.4%	1.13%	-0.1%
TOTAL PORTFOLIO	100.0%		100.0%	0.0%	100.0%	0.0%
* % Change represents changes in cash balances, including ca	sh transfers, and does not r	epresent inv	vestment returns			Page 2

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING OCT 31, 2013 PRELIMINARY BASIS

## MANAGER ALLOCATION

ASSET CLASS	MARKET VALUE	PERCENT	CURRENT TARGET	POLICY RANGE
OMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	175,619,697	10.5%	9.8%	7.8% - 11.8%
BLACKROCK - R1000 VALUE INDEX	103,881,699	6.2%	6.0%	5.0% - 7.0%
DELAWARE - LARGE CAP GROWTH	139,054,894	8.3%	7.3%	5.8% - 8.8%
BLACKROCK R1000 GROWTH INDEX	91,164,797	5.5%	5.0%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	93,779,435	5.6%	4.5%	3.5% · 5.5%
LEGATO CAPITAL - SMALL CAP GROWTH	87,257,134	5.2%	4.0%	3.0% - 5.0%
BNY - S&P 500 INDEX	92,017,569	, 5.5%	5.3%	4.3% - 6.3%
TOTAL DOMESTIC EQUITIES	782,775,225	46.9%	41.9%	
IXED INCOME				
DODGE & COX	397,765,031	23.8%	28.1%	25.6% - 30.6%
PIMCO	106,084,188	6.4%	7.5%	6.0% - 9.0%
TOTAL FIXED INCOME	503,849,219	30.2%	35.6%	
IRECT, LENDING				
MEDLEY CAPITAL	17,055,976	1.0%	1.5%	1.0% - 3.0%
RAVEN CAPITAL	18,436,701	1 1%	0.5%	0.0% - 2.0%
WHITE OAK	15,189,991	0.9%	0.0%	0.0% - 2.0%
TOTAL DIRECT LENDING	50,682,668	3.0%	2.0%	
TERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	152,327,220	9.1%	9.5%	8.0% - 11.0%
PYRAMIS	156,244,047	9.4%	9.5%	8.0% - 11.0%
TOTAL INTERNATIONAL EQUITIES	308,571,267	18.5%	19.0%	
REAL ESTATE SECURITIES				
BlackRock - US RE SECURITIES INDEX	22,566,912	1.4%	1.5%	1.0% - 2.0%
TOTAL SPECIAL SITUATIONS	22,566,912	1.4%	1.5%	0.0% - 3.0%
ECURITIES LENDING	(652,973)	0.0%	0.0%	0.0% - 0.0%
OTAL StanCERA PORTFOLIO	1,667,792,317	100.0%	100.0%	

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING OCT 31, PRELIMINARY 2013

TC	TAL FUND			
DOMESTIĆ EQUITIES	CASH	BONDS	EQUITIES	TOTAL
DODGE & COX - LARGE CAP VALUE	2.000.400			475 040 007
	3,068,199		172,551,498	175,619,697
BLACKROCK - R1000 VALUE INDEX	0		103,881,699	103,881,699
DELAWARE - LARGE CAP GROWTH	3,745,104		135,309,790	139,054,894
BLACKROCK - R1000 GROWTH INDEX	0		91,164,797	91,164,797
CAPITAL PROSPECTS - SMALL CAP VALUE	5,634,142		88,145,293	93,779,435
LEGATO CAPITAL - SMALL CAP GROWTH	2,737,924		84,519,209	87,257,134
BNY - S&P 500 INDEX	228		92,017,340	92,017,569
TOTAL DOMESTIC EQUITIES	15,185,598		767,589,626	782,775,224
FIXED INCOME				
DODGE & COX	8,555,017	389,210,015		397,765,031
PIMCO	11,268,421	94,815,767		106,084,188
TOTAL FIXED INCOME	19,823,437	484,025,782		503,849,219
DIRECT L'ENDING				
MEDLEY	0	17,055,976		17,055,976
RAVEN	0	18,436,701		18,436,701
WHITE OAK	0	15,189,991		15,189,991
TOTAL DIRECT LENDING	0	50,682,668		50,682,668
NTERNATIONAL INVESTMENTS				
LSV ASSET MGMT.	762,878		151,564,342	152,327,220
PYRAMIS	1,658,546		154,585,500	156,244,047
TOTAL INTERNATIONAL EQUITIES	2,421,424		306,149,843	308,571,267
REAL ESTATE SECURITIES		/ 		
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		22,566,912	22,566,912
TOTAL REAL ESTATE	0		22,566,912	22,566,912
SECURITIES LENDING	(652,973)			(652,973)
TOTAL STANCERA PORTFOLIO	36,777,486	534,708,450	1,096,306,380	1,667,792,317
	2.2%	32,1%	65.7%	100.0%

# MONTHLY PERFORMANCE REVIEW PERIOD ENDING OCT 31, 2013

PRELIMINARY BASIS

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	MARKET VALUE	OCT	ALPHA	SEPT	ALPHA	FISCAL YTD	ALPHA
DOMESTIC EQUITIES  DODGE & COX · LARGE CAP VALUE  RUSSELL 1000 VALUE	172,551,498	4.25% 4.38%	-0.13%	3.59% 2.51%	1.08%	10.79% 8.45%	2.34%
BLACKROCK · R1000 VALUE INDEX RUSSELL 1000 VALUE	103,881,699	4.39% 4.38%	0.01%	2.52% 2.51%	0.01%	8.54% 8.45%	0.09%
DELAWARE · LARGE CAP GROWTH RUSSELL 1000 GROWTH	135,309,790	3.70% 4.42%	-0.72%	5.46% 4.46%	1.00%	14.18% 12.89%	1.29%
BLACKROCK - R1000 GROWTH INDEX RUSSELL 1000 GROWTH	91,164,797	4.43% 4.42%	0.01%	4.43% 4.46%	-0.03%	12.85% 12.89%	-0.04%
CAPITAL PROSPECTS RUSSELL 2000 VALUE	88,145,293	3.23% 3.25%	-0.02%	6.23% 5.77%	0.46%	13.83% 11.09%	2.74%
LEGATO CAPITAL RUSSELL 2000 GROWTH	84,519,209	2.26% 1.82%	0.44%	7.33% 6.96%	0.37%	16.15% <i>14.85%</i>	1.30%
BNY · S&P 500 INDEX S&P 500	92,017,340	4.60% 4.60%	0.00%	3.14% <i>3.14</i> %	0.00%	10.08% 10.08%	0.00%
TOTAL DOMESTIC EQUITY  Russell 3000 Index	767,589,626	3.90% 4.25%	-0.35%	4.54% 3.72%	0.82%	12.17% 10.87%	1.30%
FIXED INCOME DODGE & COX BARCLAYS US AGGREGATE BOND	397,765,031	1.07% 0.81%	0.26%	0.75% 0.95%	-0.20%	1.98% 1.72%	0.26%
PIMCO BARCLAYS US AGGREGATE BOND	106,084,188	0.86% 0.81%	0.05%	1.38% 0.95%	0.43%	1.55% 1.72%	-0.17%
TOTAL FIXED INCOME BARCLAYS US AGGREGATE BOND	503,849,219	1.02% 0.81%	0.21%	0.88% 0.95%	-0.07%	1.88% 1.72%	0.16%
DIRECT LENDING MEDLEY CAPITAL CUSTOM 9% ANNUAL	17,055,976	0.46% 0.75%	-0.29%	0.00% 0.75%	-0.75%	0.46% 3.00%	-2.54%
RAVEN CAPITAL CUSTOM 9% ANNUAL	18,436,701	11. <b>42%</b> 0.75%	10.67%	-7 79% 0.75%	-8.54%	3.67% 3.00%	0.67%
WHITE OAK CUSTOM 9% ANNUAL	15,189,991	0.00% 0.75%	-0.75%	0.00% 0.75%	-0.75%	0.00% 2.25%	-2.25%
TOTAL DIRECT LENDING CUSTOM 9% ANNUAL	50,682,668	4.31% 0.75%	3.56%	-1.95% 0.75%	-2.70%	3.73% 3.00%	0.73%
INTERNATIONAL EQUITY LSV ASSET MGMT MSCI ACWI ex-US	151,564,342	4.62% 3.67%	0.95%	7.60% 6.98%	0.62%	16.41% <i>14.21%</i>	2.20%
PYRAMIS  MSCI ACWI ex-US	154,585,500	3.26% 3.67%	-0.41%	6.95% 6.98%	-0.03%	12.73% 14.21%	-1.48%
TOTAL INTERNATIONAL EQUITY  MSCI ACWI ex-US	306,149,843	3.94% 3.67%	0.27%	7. <b>27%</b> 6.98%	0.29%	14.54% 14.21%	0.33%
REAL ESTATE SECURITIES BlackRock US RE Index DOW JONES US SELECT RE INDEX	22,566,912	4.08% 4.09%	-0.01%	3.21% 3.21%	0.00%	0.85% 0.87%	-0.02%
SECURITIES LENDING BNY MELLON CASH and SHORT-TERM INVESTMENTS	(652,973)		· · ·				
CASH  90-day US Treasury Bill	17,607,023	0.01% 0.01%	0.00%	0.02% 0.02%	0.00%	0.06% 0.05%	0.01%
			0.47%	3.58%	0.15%	8.88%	1.04%
Total StanCERA Fund Current Policy Index*	1,667,792,317	3.22% 2.75%	0.4776	3.43%	<b>371070</b>	7.84%	

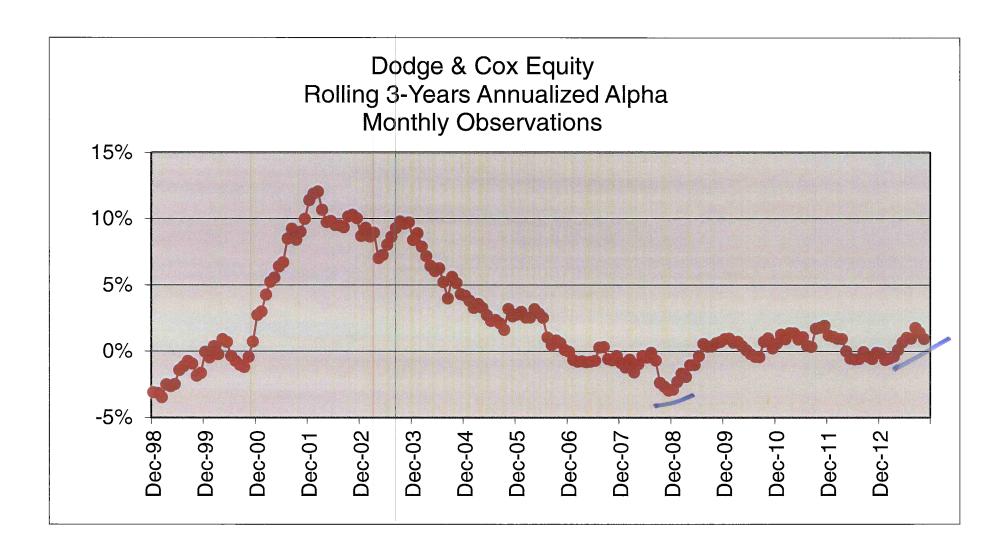
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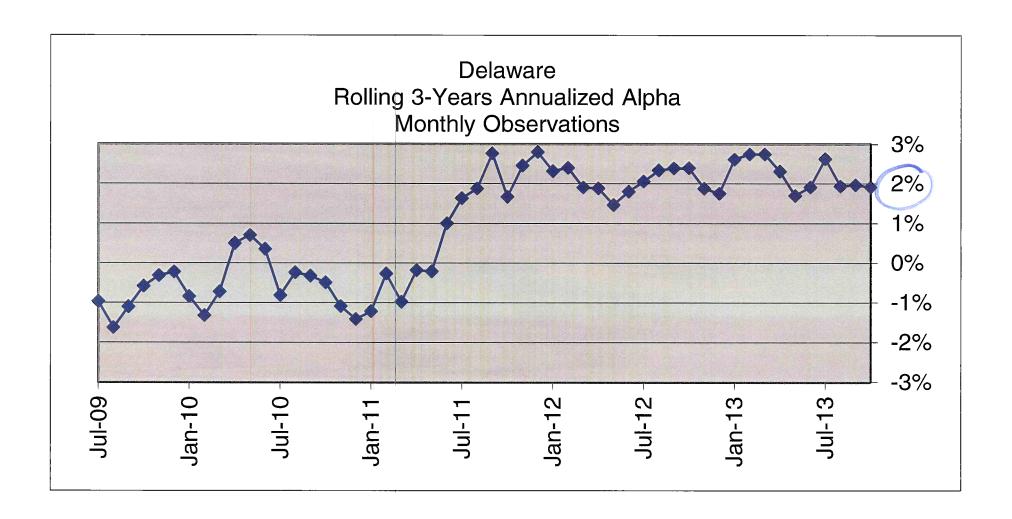
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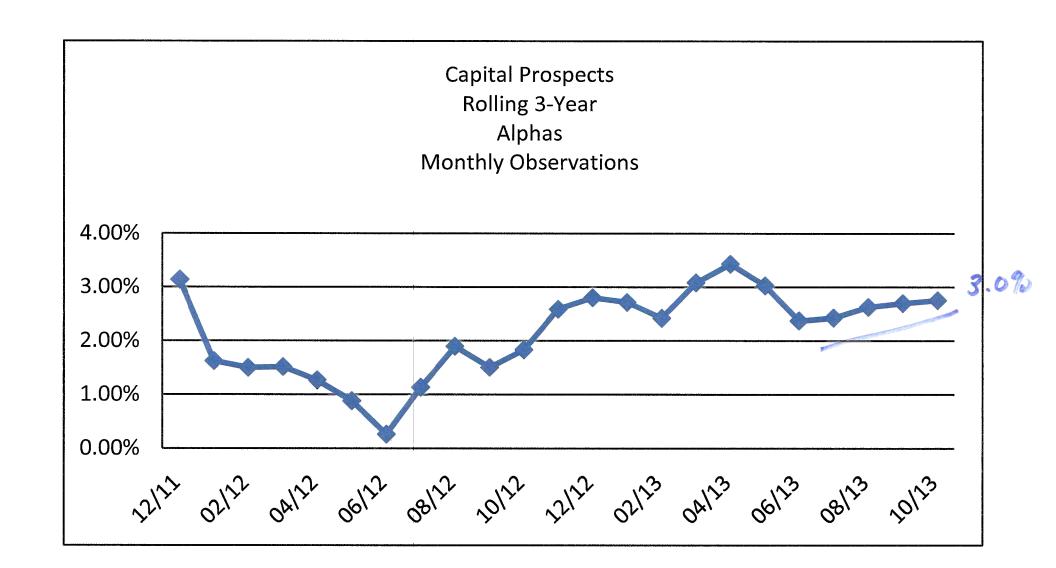
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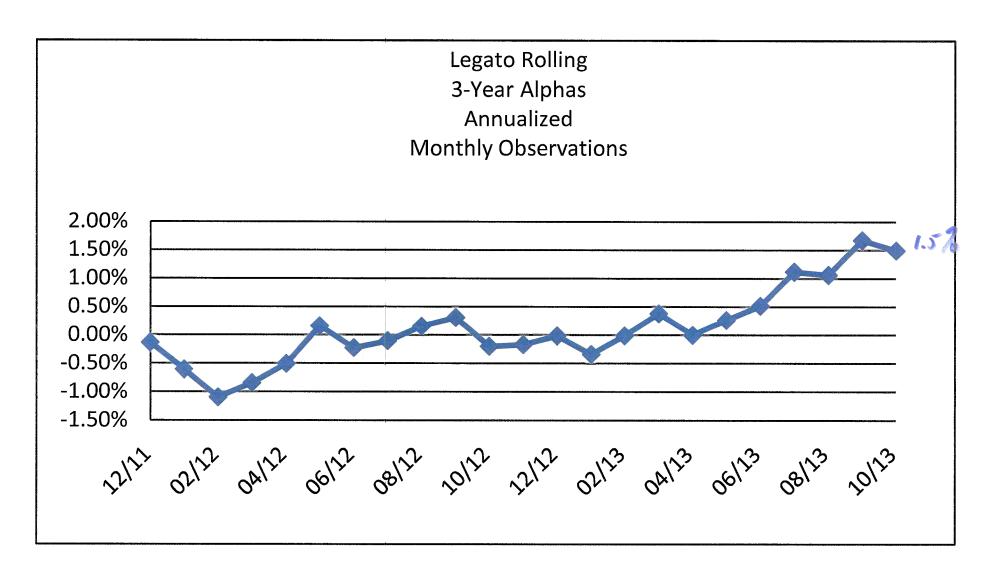
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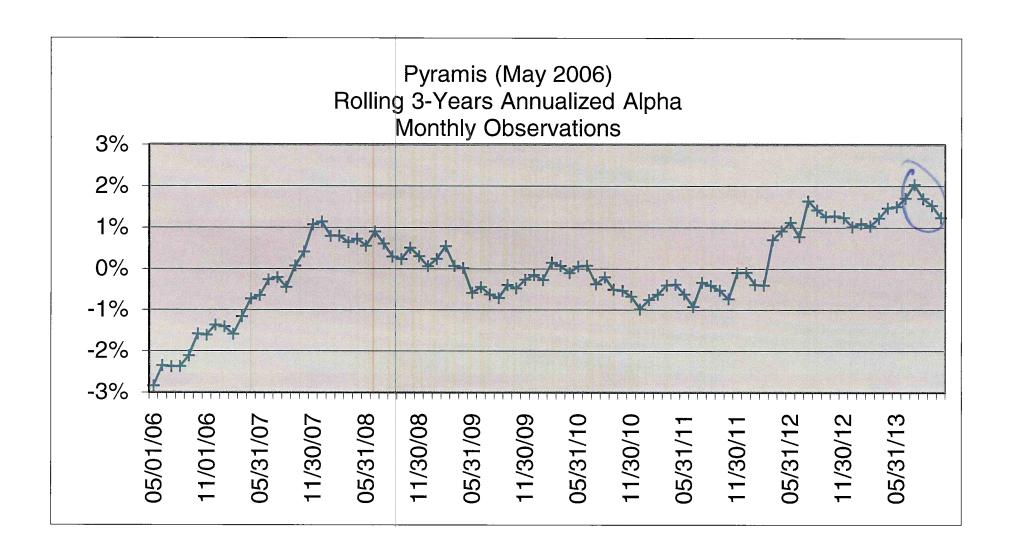


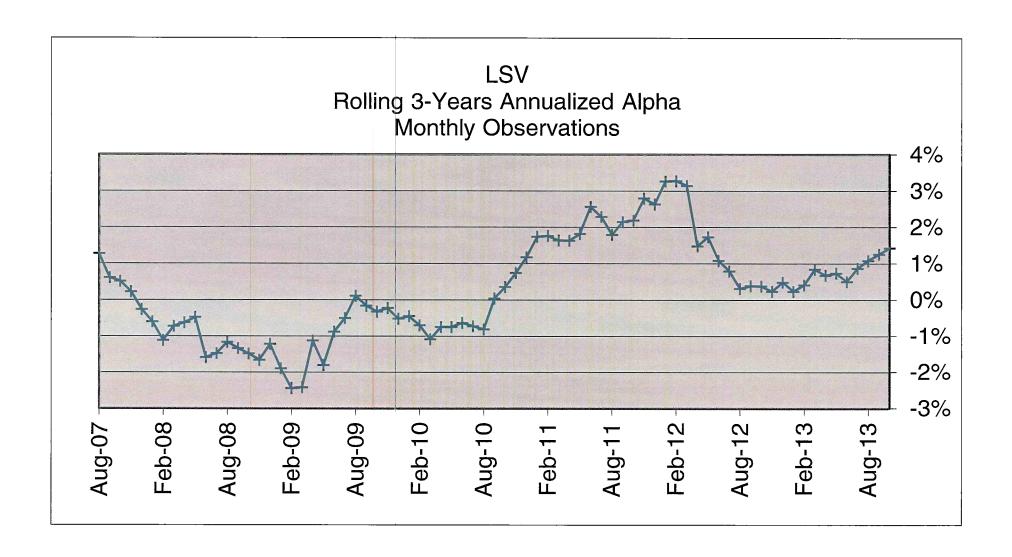


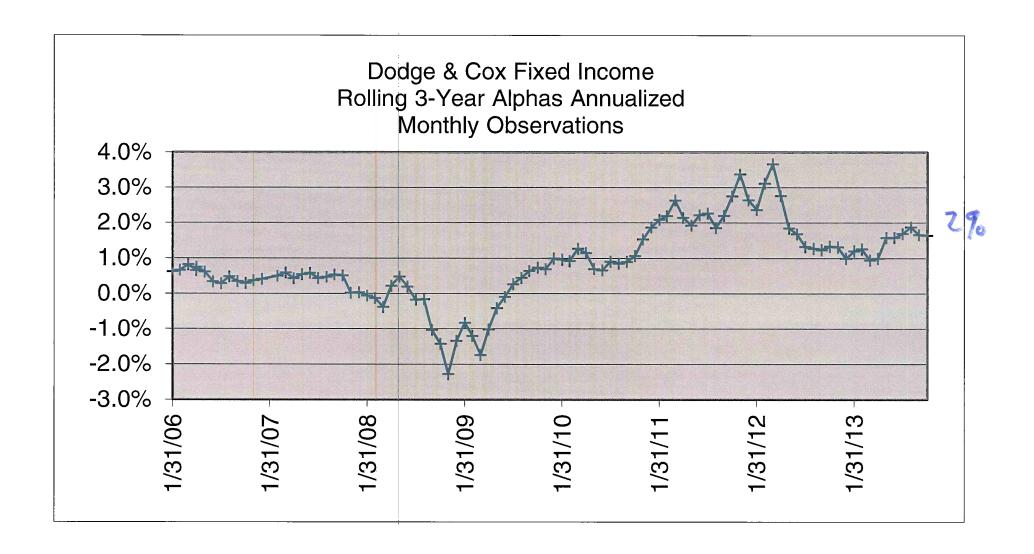












BlackRock
Passive Large Cap Growth Manager
Positions as of October 31, 2013

			\$ Value	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	6,907	\$3,610,126	3.96%	0.22%	522.7	524.99	0.44%	-1.71%
Microsoft Corp.	MSFT	86,505	\$3,063,137	3.36%	0.18%	35.41	37.84	6.86%	4.72%
Google Inc.	GOOG	2,618	\$2,698,478	2.96%	0.16%	1030.58	1033.56	0.29%	-1.85%
INTL Business Machines	IBM	10,327	\$1,850,645	2.03%	0.11%	179.21	183.19	2.22%	0.08%
Coca-Cola Co.	KO	29,951	\$1,185,142	1.30%	0.07%	39.57	40.22	1.64%	-0.50%
Philip Morris Intl.	PM	16,265	\$1,449,520	1.59%	0.09%	89.12	91.36	2.51%	0.37%
Verizon Communications	VZ	27,615	\$1,394,821	1.53%	0.08%	50.51	50.31	-0.40%	-2.54%
Amazon.com Inc	AMZN	3,606	\$1,312,773	1.44%	0.08%	364.03	369.17	1.41%	-0.73%
Pepsico Inc.	PEP	15,286	\$1,285,424	1.41%	0.08%	84.09	86.03	2.31%	0.16%
QUALCOMM Inc.	QCOM	17,317	\$1,203,375	1.32%	0.07%	69.49	72.17	3.86%	1.71%
TOP TEN HOLDINGS	•		\$19,053,443	20.90%	1.14%	Russell 1000 Growt	h:	2.14%	

Total Portfolio Value Total StanCERA Value **\$91,164,797** \$1,667,792,317

BlackRock Passive Large Cap Value Manager Positions as of October 31, 2013

			\$ Value	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
EXXON MOBIL CORP	XOM	50,770	\$4,550,018	4.38%	0.27%	89.62	95.27	6.30%	3.75%
GENERAL ELECTRIC CO	GE	114,453	\$2,991,793	2.88%	0.08%	26.14	27.20	4.06%	1.50%
CHEVRON CORP	CVX	22,602	\$2,711,312	2.61%	0.08%	119.96	120.06	0.08%	-2.47%
PROCTER & GAMBLE CO	PG	32,676	\$2,638,595	2.54%	0.16%	80.75	84.84	5.07%	2.51%
JOHNSON & JOHNSON	JNJ	27,482	\$2,545,102	2.45%	0.15%	92.61	94.39	1.92%	-0.63%
PFIZER INC	PFE	80,221	\$2,461,996	2.37%	0.15%	30.69	32.20	4.92%	2.36%
WELLS FARGO & CO	WFC	56,455	\$2,410,055	2.32%	0.06%	42.69	43.54	1.99%	-0.57%
BERKSHIRE HATHAWAY INC	BRK-B	20,850	\$2,399,667	2.31%	0.06%	115.09	116.30	1.05%	-1.50%
JPMORGAN CHASE & CO	JPM	45,955	\$2,368,503	2.28%	0.06%	51.54	54.87	6.46%	3.90%
AT&T INC	T	59,976	\$2,171,128	2.09%	0.13%	36.20	35.43	-2.13%	-4.68%
TOP TEN HOLDINGS	•		\$27,248,170	26.23%	1.21%	Russell 1000 Value	)	2.56%	

Total Portfolio Value Total StanCERA Value **\$103,881,699** \$1,667,792,317

Capital Prospects Active US Small Cap Value Manager Positions as of October 31, 2013

			\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000V	\$ PX	\$ PX	% Change	% Change
Hillenbrand, Inc	HI	50,512	\$1,425,447	1.52%	0.09%	0.10%	28.22	28.85	2.23%	0.94%
Belden Inc	BDC	19,381	\$1,303,534	1.39%	0.08%	0.19%	67.26	67.10	-0.24%	-1.53%
Regal Beloit Corp	RBC	15,346	\$1,125,353	1.20%	0.07%	0.00%	73.33	74.15	1.12%	-0.17%
Littelfuse, Inc	LFUS	12,904	\$1,097,219	1.17%	0.07%	0.12%	85.03	84.72	-0.36%	-1.65%
Amer Equty Invst	AEL	46,800	\$975,306	1.04%	0.06%	0.08%	20.84	22.41	7.53%	6.24%
Polyone Corporation	POL	30,950	\$937,794	1.00%	0.06%	0.19%	30.30	30.64	1.12%	-0.17%
Meredith Corporation	MDP	18,281	\$937,794	1.00%	0.06%	0.12%	51.30	52.27	1.89%	0.60%
Broadridge	BR	26,672	\$937,794	1.00%	0.06%	0.00%	35.16	36.43	3.61%	2.32%
Waddell & Reed	WDR	15,035	\$928,416	0.99%	0.06%	0.00%	61.75	65.47	6.02%	4.73%
Hexcel Corp New	HXL	21,722	\$919,038	0.98%	0.06%	0.00%	42.31	43.57	2.98%	1.69%
TOP TEN HOLDINGS			\$10,587,698	11.29%	0.63%	0.80%	Russell 2000 Valu	ie:	1.29%	

Total Portfolio Value Total StanCERA Value **\$93,779,435** \$1,667,792,317

Delaware Investments Advisers Active Large Cap Growth Portfolio Positions as of October 31, 2013

			\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
Visa Inc. Class A	V	39,725	\$7,812,660	5.62%	0.47%	1.12%	196.67	202.00	2.71%	0.57%
MasterCard Incorporated Class A	MA	10,575	\$7,583,359	5.45%	0.45%	0.91%	717.10	752.26	4.90%	2.76%
EOG Resources, Inc.	EOG	41,575	\$7,417,049	5.33%	0.44%	0.49%	178.40	171.38	-3.93%	-6.08%
Crown Castle International Corp.	CCI	92,450	\$7,028,112	5.05%	0.42%	0.24%	76.02	76.09	0.09%	-2.05%
Liberty Interactive Corporation Class A	LINTA	248,250	\$6,692,851	4.81%	0.40%	0.01%	26.96	28.32	5.04%	2.90%
Celgene Corporation	CELG	43,925	\$6,522,370	4.69%	0.39%	0.67%	148.49	151.11	1.76%	-0.38%
Google Inc. Class A	GOOG	6,225	\$6,415,298	4.61%	0.38%	3.02%	1030.58	1033.56	0.29%	-1.85%
QUALCOMM Incorporated	QCOM	91,425	\$6,353,140	4.57%	0.38%	1.31%	69.49	72.17	3.86%	1.71%
Walgreen Co.	WAG	105,325	\$6,239,393	4.49%	0.37%	0.46%	59.24	60.28	1.76%	-0.39%
priceline.com Incorporated	PCLN	5,300	\$5,585,279	4.02%	0.33%	0.59%	1053.83	1139.53	8.13%	5.99%
TOP TEN HOLDINGS	\$67,649,511	48.65%	4.06%	8.83%	Russell 1000 Gro	wth:	2.14%			

Total Portfolio Value Total StanCERA Value **\$139,054,894** \$1,667,792,317

Dodge & Cox Equity Active US Large Cap Value Manager Positions as of October 31, 2013

			\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R1000G	\$ PX	\$ PX	% Change	% Change
WELLS FARGO & CO	WFC	160,072	\$6,833,473	3.89%	0.41%	2.30%	42.69	43.54	1.99%	-0.15%
COMCAST CORP-CLASS A	CMCSA	135,063	\$6,426,297	3.66%	0.39%	0.10%	47.60	47.73	0.27%	-1.87%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$6,351,975	3.62%	0.38%	0.50%	68.67	70.37	2.48%	0.33%
MICROSOFT CORP	MSFT	170,000	\$6,009,500	3.42%	0.36%	0.00%	35.41	37.84	6.86%	4.72%
TIME WARNER INC	TWX	80,232	\$5,515,147	3.14%	0.33%	0.70%	68.74	67.64	-1.60%	-3.74%
HEWLETT-PACKARD CO	HPQ	225,605	\$5,497,993	3.13%	0.33%	0.50%	24.37	25.21	3.45%	1.30%
GENERAL ELECTRIC CO	GE	210,000	\$5,489,400	3.13%	0.33%	3.00%	26.14	27.20	4.06%	1.91%
MERCK & CO. INC.	MRK	120,000	\$5,410,800	3.08%	0.32%	1.50%	45.09	48.07	6.61%	4.47%
SANOFI-ADR	SNY	98,255	\$5,254,677	2.99%	0.32%	0.00%	53.48	53.96	0.90%	-1.25%
SCHLUMBERGER LTD	SLB	55,500	\$5,201,460	2.96%	0.31%	0.00%	93.72	92.98	-0.79%	-2.93%
TOP TEN HOLDINGS			\$57,990,722	33.02%	3.48%	8.60%	Russell 1000 Grov	vth:	2.14%	

Total Portfolio Value Total StanCERA Value **\$175,619,697** \$1,667,792,317

Legato Capital Management Active US Small Cap Growth Manager Positions as of October 31, 2013

			\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	R2000G	\$ PX	\$ PX	% Change	% Change
CoStar Group, Inc.	CSGP	8,089	\$1,431,672.11	1.64%	0.09%	0.63%	176.99	176.17	-0.46%	-2.25%
The Ultimate Software Group, Inc.	ULTI	7,653	\$1,182,235.44	1.35%	0.07%	0.53%	154.48	157.50	1.95%	0.17%
Portfolio Recovery Associates, Inc.	PRAA	18,210	\$1,082,584.50	1.24%	0.06%	0.37%	59.45	56.76	-4.52%	-6.31%
Cepheid	CPHD	24,026	\$978,338.72	1.12%	0.06%	0.34%	40.72	42.97	5.53%	3.74%
MAXIMUS, Inc.	MMS	20,136	\$975,589.20	1.12%	0.06%	0.41%	48.45	44.53	-8.09%	-9.87%
Semtech Corporation	SMTC	30,105	\$936,566.55	1.07%	0.06%	0.26%	31.11	30.96	-0.48%	-2.26%
United Natural Foods, Inc.	UNFI	12,977	\$927,206.65	1.06%	0.06%	0.44%	71.45	70.85	-0.84%	-2.62%
athenahealth, Inc.	ATHN	6,802	\$908,135.02	1.04%	0.05%	0.61%	133.51	133.44	-0.05%	-1.83%
Grand Canyon Education, Inc.	LOPE	19,165	\$905,929.55	1.04%	0.05%	0.27%	47.27	46.60	-1.42%	-3.20%
Neogen Corporation	NEOG	19,049	\$880,421.67	1.01%	0.05%	0.21%	46.22	46.79	1.23%	-0.55%
TOP TEN HOLDINGS			\$10,208,679.41	11.70%	0.61%	4.07%	Russell 2000 Gro	wth:	1.78%	

Total Portfolio Value Total StanCERA Value \$87,257,134

\$1,667,792,317

BNY - S&P 500 Index Passive S&P 500 Index Fund Positions as of October 31, 2013

			\$ Value	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	# Shares	Position	Manager	StanCERA	\$ PX	\$ PX	% Change	% Change
Apple Inc.	AAPL	5,228	\$2,732,922	2.97%	0.16%	522.70	524.99	0.44%	-2.07%
Exxon Mobil Corp	XOM	25,566	\$2,291,237	2.49%	0.14%	89.62	95.27	6.30%	3.80%
Google Inc.	GOOG	1,527	\$1,573,500	1.71%	0.09%	1030.58	1033.56	0.29%	-2.22%
Microsoft	MSFT	43,657	\$1,545,895	1.68%	0.09%	35.41	37.84	6.86%	4.36%
General Electric Co	GE	57,379	\$1,499,886	1.63%	0.09%	26.14	27.20	4.06%	1.55%
Johnson & Johnson	JNJ	15,997	\$1,481,483	1.61%	0.09%	92.61	94.39	1.92%	-0.59%
Chevron Corp	CVX	11,429	\$1,371,062	1.49%	0.08%	119.96	120.06	0.08%	-2.42%
Procter & Gamble	PG	16,067	\$1,297,448	1.41%	0.08%	80.75	84.84	5.07%	2.56%
Pfizer Inc.	PFE	40,777	\$1,251,439	1.36%	0.08%	30.69	32.20	4.92%	2.41%
Wells Fargo & Co.	WFC	28,668	\$1,223,834	1.33%	0.07%	42.69	43.54	1.99%	-0.52%
TOP TEN HOLDINGS			\$16,268,706	17.68%	0.98%	S&P 500 Index:	•	2.51%	

Total Portfolio Value Total StanCERA Value \$92,017,569

\$1,667,792,317

LSV Asset Management International Large Cap Value Positions as of October 31, 2013

				\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	\$ PX*	\$ PX*	% Change	% Change
ROYAL DUTCH SHELL	RDS-A	London	48,430	\$3,229,337	2.12%	0.19%	1.23%	66.68	67.51	1.24%	1.09%
BT GROUP PLC	BT	Paris	42,711	\$2,589,563	1.70%	0.16%	0.27%	60.63	61.31	1.12%	0.97%
ASTRAZENECA PLC	AZN	London	47,548	\$2,513,399	1.65%	0.15%	0.37%	52.86	53.27	0.78%	0.62%
ALLIANZ SE	ALV.DE	Germany	18,810	\$2,330,606	1.53%	0.14%	0.43%	123.90	128.15	3.43%	3.28%
LEGAL & GENERAL GROUP PLC	LGEN.L	Japan	10,775	\$2,330,606	1.53%	0.14%	0.12%	216.30	212.90	-1.57%	-1.72%
MAGNA INTERNATIONAL INC	MGA	Canada	27,156	\$2,300,141	1.51%	0.14%	0.11%	84.70	85.02	0.38%	0.23%
SANOFI S.A.	SNY	London	39,876	\$2,132,581	1.40%	0.13%	0.71%	53.48	53.96	0.90%	0.75%
VODAFONE GROUP PUBLIC LIMITED CO	VOD	London	55,392	\$2,041,185	1.34%	0.12%	1.02%	36.85	37.25	1.09%	0.93%
BASF SE	BASFY	Germany	19,352	\$2,010,719	1.32%	0.12%	0.54%	103.90	105.09	1.15%	0.99%
DAIMLER AG	DAI.DE	Germany	32,008	\$1,934,556	1.27%	0.12%	0.44%	60.44	58.67	-2.93%	-3.08%
TOP TEN HOLDINGS	•			\$23,412,694	15.37%	1.40%	5.24%	MSCI ACWI ex	-U.S.	0.15%	

Total Portfolio Value Total StanCERA Value **\$152,327,220** \$1,667,792,317

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

Pyramis Global Advisors Active Non-US Growth Manager Positions as of October 31, 2013

				\$ Value	Weight	Weight	Weight	10/31/2013	11/15/2013	Position	Relative
Company	Symbol	Market	# Shares	Position	Manager	StanCERA	ACWI xUS	PX*	PX*	% Change	% Change
TOYOTA MOTOR CORP	6900643	Hong Kong	35,400	\$2,294,812	1.47%	0.14%	0.99%	65.25	63.36	-2.90%	-3.05%
NESTLE SA (REG)	7123870	Switzerland	31,643	\$2,288,793	1.47%	0.14%	1.29%	65.60	66.65	1.60%	1.45%
SANOFI	5671735	Paris	20,128	\$2,149,170	1.38%	0.13%	0.70%	25.00	24.94	-0.24%	-0.39%
HSBC HOLDINGS PLC (UK REG)	540528	London	181,074	\$2,067,869	1.32%	0.12%	1.13%	10.95	10.97	0.18%	0.03%
BAYER AG	5069211	Germany	53,549	\$1,881,539	1.20%	0.11%	0.57%	124.70	128.29	2.88%	2.73%
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	14,802	\$1,856,156	1.19%	0.11%	1.19%	24.57	25.00	1.75%	1.60%
VODAFONE GROUP PLC	B16GWD5	London	482,438	\$1,740,066	1.11%	0.10%	0.97%	2.66	2.77	4.14%	3.98%
LLOYDS BANKING GROUP PLC	870612	London	78,819	\$1,572,819	1.01%	0.09%	0.32%	1.29	1.24	-3.88%	-4.03%
UBS AG (REGD)	B18YFJ4	London	1,262,703	\$1,528,421	0.98%	0.09%	0.39%	19.36	18.53	-4.29%	-4.44%
ALLIANZ SE (REGD)	5231485	Germany	8,787	\$1,517,158	0.97%	0.09%	0.42%	123.90	128.15	3.43%	3.28%
TOP TEN HOLDINGS		•		\$18,896,803	12.10%	1.13%	7.97%	MSCI ACWI ex-	-US:	0.15%	

Total Portfolio Value Total StanCERA Value **\$156,244,047** \$1,667,792,317

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

#### StanCERA Manager Review List Performance Through September 30, 2013

Returns are Gross of Fees

		Expected Manager Tracking Erro	r Benchmark	6 Month Alpha >	12 Month Alpha >	Annualized Alpha	Annualized Alpha	Peer Ranking	Peer Ranking	Manager in Compliance with	Organization Personnel	Adherence
Manager Name	Status	(bps)		-1 St. Dev	-1 St. Dev	3 Years	5 Years	3 Years	5 Years	Guidelines	Continuity	to Style
Domestic Equity		İ		]								
Dodge & Cox (Lg Cap Value)	Good Standing	600	R1000V	Yes	Yes	180	250	19	23	Yes	Yes	Yes
BlackRock (Passive Lg Cap Value)	Good Standing	0	R1000V	Yes	Yes	0	N/A	45	N/A	Yes	Yes	Yes
Delaware (Lg Cap Growth)	Good Standing	500	R1000G	Yes	Yes	240	280	6	8	Yes	Yes	Yes
BlackRock (Passive Lg Cap Growth)	Good Standing	0	R1000G	Yes	Yes	0	N/A	39	N/A	Yes	Yes	Yes
Mellon Capital (Passive SP 500)	Good Standing	0	S&P 500	Yes	Yes	0	0	48	55	Yes	Yes	Yes
Capital Prospects (Sm Cap Value)	Good Standing	400	R2000V	Yes	Yes	330	N/A	29	N/A	Yes	Yes	Yes
Legato (Small Cap Growth)	Good Standing	400	R2000G	Yes	Yes	260	N/A	39	N/A	Yes	Yes	Yes
International Equity												
LSV Asset	Good Standing	600	MSCI ACWI ex US	Yes	Yes	130	160	60	34	Yes	Yes	Yes
Pyramis	Good Standing	400	MSCI ACWI ex US	Yes	Yes	170	120	67	74	Yes	Yes	Yes
  REITS												
BlackRock (Passive US Real Estate Securities)	Good Standing		D 1110 0-11 DE01									
Diacki lock (Fassive OS Real Estate Securities)	Good Standing	0	DJ US Select RESI	N/A	N/A	N/A	N/A	N/A	N/A	Yes	Yes	Yes
Fixed Income												
Dodge & Cox	Good Standing	300	Barclays Aggregate	Yes	Yes	170	280	9	6	Yes	Yes	Yes
PIMCO	Good Standing	100	Barclays Aggregate	Yes	Yes	60	N/A	52	N/A	Yes	Yes	Yes Yes

#### Note:

1.0 x reported negative tracking error equates to the bottom 15% of the expected return distribution, assuming an alpha of 0% If a manager has an expected tracking error of 800 basis points, that manager would be Under Review if its return was 800 basis points below the benchmark for the 6 and or 12 months time periods If the manager has a negative alpha for 3 and or 5 years or is ranked in the bottom quartile, that manager could be placed on Under Review Status

Recommend keeping all managers in "Good Standing" status

# STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

# INVESTMENT PERFORMANCE SUMMARY ANALYSIS

THIRD QUARTER 2013

# STRATEGIC INVESTMENT SOLUTIONS, INC.

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

### Capital Market Review

Third Quarter 2013

- The postponement of tapering by the Federal Reserve led to broad increases in the major indices during the third quarter. The delay helped boost the S&P 500 total return index, which rose 5.2% in the third quarter.
- The postponement of tapering also increased sentiment for emerging market equities. The MSCI EM Net Return Index rose 5.8% during the third quarter.
- An improved European outlook also lifted Europe ex-UK in the third quarter, where equities rose 14.4%.
- Despite the lack of Federal Reserve tapering, the euro rose 4.1% against the dollar in the third quarter. The re-election of German Chancellor Angela Merkel in September may have provided a boost to sentiment for the euro.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. While confidence increased among Asian and European institutions, weaker appetite in the North American region drove the Global ICI lower 3.5 points to 101.4 in September, but it still remained above the neutral level of 100.
- For the period ending 9/30/13, the one-quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were -3.1% and 2.9%; one-year, 5.9% and 10.7%; three-year, 12.3% and 13.1% and five-year, 5.7% and 2.8%.
- It has now been more than four years since March 9<sup>th</sup> of 2009 when the S&P 500 index closed at 676.53. Since then prices of "core" assets have rebounded to near peak levels; in the public markets, equity and debt capital raising for REITs has eclipsed the 2004 to 2007 period.
- With the Fed considering an increase in rates, there are concerns about the potential impact on real estate. When the index
  of pending home sales fell 5.6% in September (after a 1.6% decrease in August), many pundits pointed to mortgage rates that
  reached two-year highs. This may have an impact when the Fed meets to determine where rates are headed later this year
  and 2014.

### **Executive Performance Summary**

Third Quarter 2013

- The composite fund returned 5.6% in the third quarter of 2013 and ranked in the 14<sup>th</sup> percentile among other public funds (4.7% median). The fund beat its policy index (5.1%) during this time period. Longer term, the three- and five-year returns of 11.1% and 10.3%, ranked above the median among public plans (9.5% and 8.0%, 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 below the median large cap core manager (6.0%).
  - 2. The BlackRock Russell 1000 Growth Index Fund returned 8.1% for the quarter and matched its benchmark. The large cap growth equity median return is 8.9%.
  - 3. Delaware's return of 10.1% compared favorably to the Russell 1000 Growth Index's (8.1%); it ranked in the second quartile among large cap growth managers. Above par Consumer Staples (Walgreen) and Info Tech (Verifone Systems, Apple, MasterCard) investments increased relative performance. Over three years, Delaware returned above its benchmark and peer group median.
  - 4. The BlackRock Russell 1000 Value Index Fund (4.0%) edged out its benchmark return (3.9%) but was behind its median large cap value manager return of 5.2%.
  - 5. Dodge & Cox Equity, 6.2%, out-performed the median large cap value manager (5.2%) and the Russell 1000 Value Index (3.9%), ranking its portfolio in the 22<sup>nd</sup> percentile among its peers. Above par stock selection in the Financials (McGraw Hill) and Energy (Schlumberger) sectors lifted performance. Three-year returns were in front of its benchmark (18.0% vs. 16.2%).
  - 6. Fund of funds manager Legato gained 13.6% for the quarter and ranked in the 46<sup>th</sup> percentile among other small cap growth managers (13.2% median). The Russell 2000 Growth Index returned 12.8%. The portfolio was helped by its stock selection in the Consumer Discretionary and Info Tech sectors. EAM appreciated 16.4% while Lee Munder added the least, up 9.2% during the guarter. Over three years, Legato returned above its benchmark (22.6% vs. 20.0%).

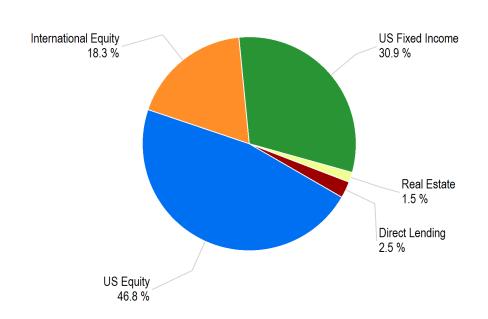
### **Executive Performance Summary**

Third Quarter 2013

- 7. Fund of funds manager Capital Prospects surpassed its benchmark, the Russell 2000 Value Index (10.3% vs. 7.6%) and ranked in the 24<sup>th</sup> percentile among small cap value managers. It was helped by its Financials and Industrials stock picks. Channing led during the quarter, at 12.5%. Keeley contributed the least, at 3.6% during the quarter. For the three-year period, Capital Prospects was in front of its benchmark (19.9% vs. 16.6%).
- 8. LSV (11.3%) was above par with the MSCI ACWI ex-US (10.2%) and ranked 33<sup>rd</sup> among ACWI ex-US value equity managers (median of 10.6%). LSV carried relatively strong British, Australian and Indonesian investments. Its value tilt was a positive factor. Over three years, LSV (7.7%) surpassed its benchmark (6.4%).
- 9. The Dodge & Cox Fixed 0.9% return outperformed its benchmark, the Barclays Aggregate Index (0.6%), and ranked in the top quartile among core bond managers, median return of 0.7%. D&C's shorter relative duration, nominal yield advantage, and security selection and overweight to corporates boosted relative returns. D&C was up 4.6% for three years while its benchmark was up 2.9%.
- 10. PIMCO returned 0.7%, as the Barclays Aggregate Index added 0.6%. The median core bond manager return was 0.7%. PIMCO's inflation-linked bonds, allocation to non-Agency mortgages and high yield corporates and focus on financials drove performance. Over three years, the portfolio returned above its benchmark and peer group median.
- 11. The BlackRock US Real Estate Index Fund matched its benchmark, the DJ US Select RESI, -3.1%.
- Second quarter results were hindered by the following factors:
  - 1. Pyramis' return of 9.2% underperformed the MSCI ACWI ex-US Index return of 10.2%. It placed below the median among ACWI ex-US growth equity managers (9.8% median). Industrials (Serco, Lixil), energy (Transocean), financials (no holdings of Banco Santander) and consumer staples (Treasury Wine Estates, Andolu Efes) detracted. Its three-year results led the benchmark (8.1% vs. 6.4%).
  - 2. Direct Lending investments dropped 2.4% and below its target return of 9% per annum or 2.2% per quarter. Medley was flat and Raven lost 7.2% of its value. White Oak was funded in August.

# Asset Allocation Analysis

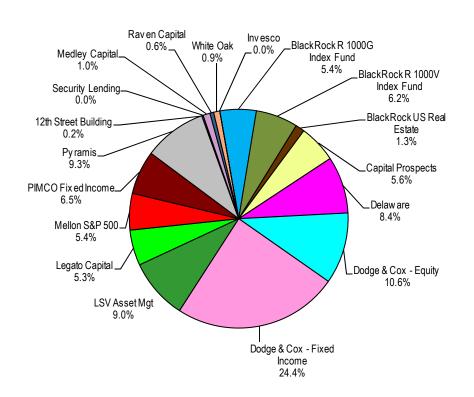
As of September 30, 2013



	Actual \$	Actual %
US Equity	\$761,066,040	46.9%
International Equity	\$296,907,980	18.3%
US Fixed Income	\$501,747,837	30.9%
Opportunistic	\$0	0.0%
Real Estate	\$24,453,471	1.5%
Direct Lending	\$40,621,328	2.5%
Other	(\$677,511)	0.0%
Total	\$1,624,119,146	

### Manager Allocation Analysis – Total Plan

As of September 30, 2013



Manager		Market Value	Current %
BlackRock R 1000G Index Fund	\$	87,298,004	5.4%
BlackRock R 1000V Index Fund	\$	101,081,299	6.2%
BlackRock US Real Estate	\$	21,681,897	1.3%
Capital Prospects	\$	90,839,551	5.6%
Delaware	\$	137,088,411	8.4%
Dodge & Cox - Equity	\$	171,454,566	10.6%
Dodge & Cox - Fixed Income	\$	396,565,277	24.4%
LSV Asset Mgt	\$	145,595,011	9.0%
Legato Capital	\$	85,331,986	5.3%
Mellon S&P 500	\$	87,972,223	5.4%
PIMCO Fixed Income	\$	105,182,560	6.5%
Pyramis	\$	151,312,970	9.3%
12th Street Building	\$	2,771,436	0.2%
Security Lending	\$	(677,511)	0.0%
Medley Capital	\$	16,792,324	1.0%
Raven Capital	\$	9,094,004	0.6%
White Oak	\$	14,735,000	0.9%
Invesco	\$	138	0.0%
Total	\$ 1	1,624,119,146	100.0%

## Performance Summary

Periods Ending September 30, 2013

	FISCAL 1 Q	TR	CALENDAR	YTD	1 YEAR	2	2 YEAF	₹	3 YEAR	2	5 YEAR	!
Total Fund *	5.6	14	12.8	13	15.0	9	16.9	11	11.1	9	10.3	2
Policy Index 1	5.1	36	10.3	45	12.0	50	14.8	39	9.7	44	8.3	36
IFx Public DB median	4.7		10.1		12.0		14.2		9.5		8.0	
US EQUITY MANAGERS LARGE CORE												
Mellon Capital - gross of fees	5.2	71	19.8	62	19.4	63	24.7	49	16.3	48	10.1	55
Mellon Capital - net of fees	5.2		19.8		19.3		24.6		16.2		10.0	
S&P 500 Index	5.2	71	19.8	62	19.3	64	24.7	49	16.3	48	10.0	56
LARGE GROWTH												
BlackRock R1000G - gross of fees	~	64	20.9	53	19.3	62	24.2	49	17.0	39		
BlackRock R1000G - net of fees	8.1		20.9		19.3		24.2		17.0			
Delaware - gross of fees	10.1	36	22.0	39	21.3	41	26.4	24	19.3	6	14.9	8
Delaware - net of fees	10.1		21.6		20.8		25.9		18.8		14.4	
Russell 1000 Growth Index	8.1	64	20.9	53	19.3	63	24.1	51	16.9	41	12.1	35
LARGE VALUE												
BlackRock R1000V - gross of fees	4.0	81	20.5	63	22.3	59	26.6	42	16.3	45		
BlackRock R1000V - net of fees	4.0		20.5		22.3		26.6		16.3			
Dodge & Cox - gross of fees	6.2	22	24.3	21	27.5	18	30.7	7	18.0	19	11.4	23
Dodge & Cox - net of fees	6.2		24.1		27.3		30.5		17.8		11.2	
Russell 1000 Value Index	3.9	82	20.5	64	22.3	60	26.5	43	16.2	48	8.9	77
SMALL GROWTH												
Legato Capital - gross of fees		46	36.4	32	36.5	28	34.8	26	22.6	39		
Legato Capital - net of fees	13.5		35.7		35.5		33.8		21.6			
Russell 2000 Growth Index	12.8	57	32.5	61	33.1	59	32.1	56	20.0	72		
SMALL VALUE												
Capital Prospects - gross of fees	10.3	24	26.0	55	34.4	29	34.0	29	19.9	32		
Capital Prospects - net of fees	10.2		25.5		33.6		33.2		19.1			
Russell 2000 Value Index	7.6	80	23.1	77	27.0	81	29.8	60	16.6	75		
US Equity Composite	8.0	19	23.9	16	25.4	16	28.6	8	18.3	9	11.8	17
80% R1000/ 20% R2000	6.9	50	22.1	48	22.7	56	26.6	35	17.3	30	11.1	41
Russell 3000 Index		74	21.3	<i>72</i>	21.6	76	25.8	57	16.8	55	10.6	61
IFx All DB US Eq Gross Median	6.9		22.1		22.9		26.1		16.8		10.8	

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 (IFx) universes.

<sup>&</sup>lt;sup>1</sup> Effective 6/1/2013, Policy Index is 33.1% Russell 1000 / 8.3% Russell 2000 / 20% MSCI ACWI -ex US / 35.1% Barclays Aggregate / 1.5% DJ US Select RESI / 2% 9%-Annual.

## Performance Summary

Periods Ending September 30, 2013

	FISCAL 1 QTR	CALENDAR YT	D 1 YEAR	2 YEAR	3 YEAR	5 YEAR
INTERNATIONAL EQUITY MANAGERS						
LSV - gross of fees	11.3 33	13.3 47	7 19.8 5	54 17.3 50	7.7 60	8.3 34
LSV - net of fees	11.2	12.9	19.2	16.8	7.2	7.7
Pyramis - gross of fees	9.2 68	12.8 5	5 19.5 5	52 18.6 66	8.1 67	7.9 74
Pyramis - net of fees	9.2	12.5	19.0	18.1	7.6	7.4
International Equity Composite	10.2 47	13.0 3	5 19.6 4	11 17.9 48	3 7.8 41	8.1 22
MSCI ACWI -ex US Index	10.2 50	10.5 60	6 17.0 7	72 16.0 70	6.4 71	6.7 47
IFx All DB ex-US Eq Gross Median	10.1	11.6	18.7	17.8	7.4	6.6
US FIXED INCOME MANAGER						
CORE	0.9 11	-0.1 6	1.0	4 40 7	4.0	0.0
Dodge & Cox - gross of fees	0.9	-0.1 b	1.0 4 0.9	4 4.8 7 4.7	4.6 9 4.5	8.2 6 8.1
Dodge & Cox - net of fees						***
PIMCO - gross of fees	0.7 42	-1.8 67				
PIMCO - net of fees	0.7	-2.0	-1.6	2.2	3.2	
Barclays Aggregate Index	0.6 65	-1.9 74	4 -1.7 &	30 1.7 88	3 2.9 83	5.4 90
US Fixed Income Composite	0.9 31	-0.5 2	5 0.5 2	26 4.3 32	2 4.3 43	8.2 32
Barclays Aggregate Index	0.6 59	-1.9 60	6 -1.7 7		7 2.9 84	5.4 83
IFx All DB US Fix Inc Gross Median	0.7	-1.4	-0.8	3.3	4.1	7.1
DEAL FOTATE						
REAL ESTATE						
BlackRock US Real Estate - gross of fees <sup>2</sup>	-3.1	2.4				
BlackRock US Real Estate - net of fees	-3.1	2.4				
DJ US Select RESI TR USD	-3.1	2.4				
12th Street	0.0					

<sup>&</sup>lt;sup>2</sup> Funded on 9/26/2012.

# Performance Summary

Periods Ending September 30, 2013

	FISCAL 1 QTR CALENDAR YTD	1 YEAR	2 YEAR	3 YEAR	5 YEAR
DIRECT LENDING					
Medley Capital <sup>3</sup>	0.0				
Raven Capital <sup>4</sup>	-7.2				
White Oak <sup>5</sup>					
Direct Lending Composite	-2.4				
9% Annual	2.2				

<sup>&</sup>lt;sup>3</sup> Funded on 5/16/2013.

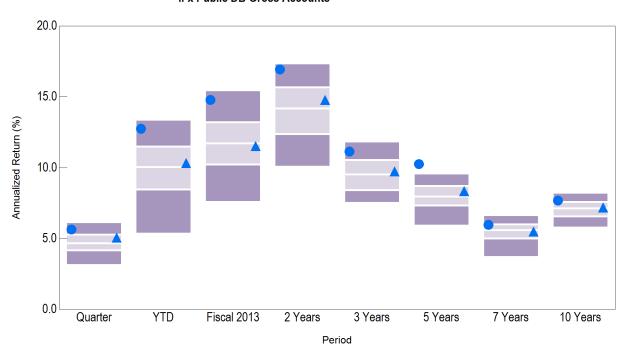
<sup>&</sup>lt;sup>4</sup> Funded on 5/22/2013.

<sup>&</sup>lt;sup>5</sup> Funded on 8/02/2013.

## Total Returns - Total Plan

Periods Ending September 30, 2013

#### **IFx Public DB Gross Accounts**



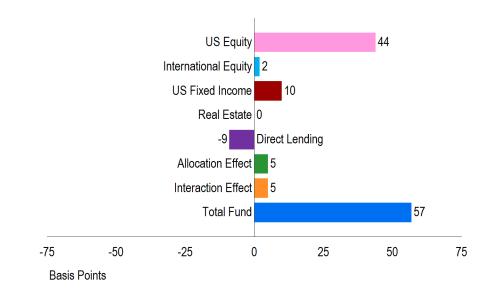
5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios



Return (Ra	ank)							
6.2	13.4	15.5	17.4	11.8	9.6	6.7	8.2	
5.3	11.5	13.2	15.7	10.6	8.7	6.0	7.6	
4.7	10.1	11.7	14.2	9.5	8.0	5.6	7.2	
4.2	8.5	10.2	12.4	8.4	7.4	5.0	6.6	
3.1	5.4	7.6	10.1	7.5	5.9	3.7	5.8	
215	214	183	201	182	171	162	136	
5.6 (1	4) 12.8	(13) 14.8	(9) 16.9	(11) 11.1	(9) 10.3	(2) 6.0	(28) 7.7	(20)
5.1 (3	6) 10.3	(45) 11.5	(55) 14.8	(39) 9.7	(44) 8.3	(36) 5.5	(54) 7.2	(47)

### Performance Attribution - Total Plan

Quarter Ending September 30, 2013



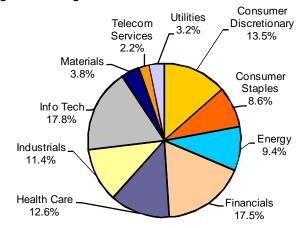
		Attributi	on Summary				
	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
US Equity	7.96%	6.85%	1.11%	0.44%	0.08%	0.06%	0.58%
International Equity	10.21%	10.17%	0.04%	0.02%	-0.12%	0.00%	-0.11%
US Fixed Income	0.86%	0.57%	0.29%	0.10%	0.09%	-0.01%	0.19%
Real Estate	-3.10%	-3.09%	-0.01%	0.00%	0.01%	0.00%	0.01%
Direct Lending	-2.36%	2.18%	-4.54%	-0.09%	0.00%	0.00%	-0.09%
Total	5.63%	5.06%	0.57%	0.47%	0.05%	0.05%	0.57%

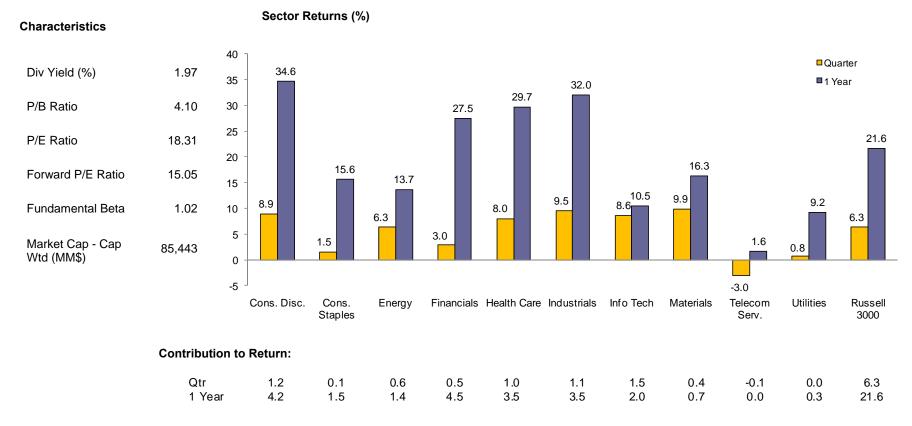
#### **U.S. MARKETS**

### U.S. Equity – Russell 3000

- Diminished Fed tapering fears helped boost most sectors; industrials rose 9.5% in the third quarter, while materials stocks rose 9.9%.
- More defensive sectors were less in favor, with telecom falling 3.0% and utilities rising only 0.8%.
- Overall, the Russell 3000 index returned 6.3% during the quarter; the yearly return was 21.6%.

#### **Ending Sector Weights**

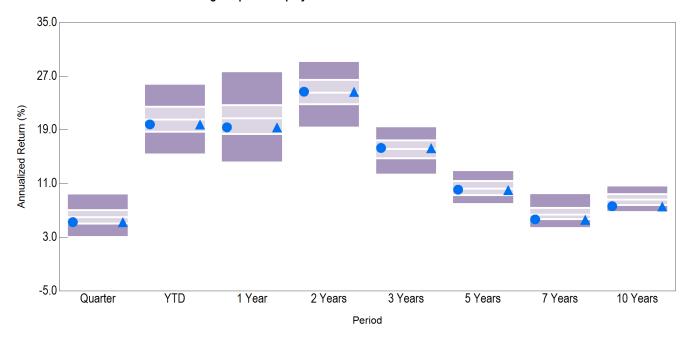




## Total Returns - Large Cap Core Equity

Periods Ending September 30, 2013

#### 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

Return (Ra	nk)														
9.5		25.8		27.7		29.2		19.5		12.9		9.6		10.7	
7.1	2	2.5		22.7		26.5		17.4		11.4		7.4		9.5	
6.0	2	20.5		20.7		24.6		16.2		10.3		6.4		8.6	
5.1	1	8.7		18.4		22.8		14.8		9.3		5.7		7.8	
3.1	1	5.3		14.1		19.4		12.3		8.0		4.4		6.8	
250	:	250		250		249		246		236		216		171	
5.2 (7	71) 1	9.8	(62)	19.4	(63)	24.7	(49)	16.3	(48)	10.1	(55)	5.7	(78)	7.6	(82)
5.2 (7	71) 1	9.8	(62)	19.3	(64)	24.7	(49)	16.3	(48)	10.0	(56)	5.6	(79)	7.6	(83)

# Equity Only Summary Statistics - Mellon S&P 500

Quarter Ending September 30, 2013

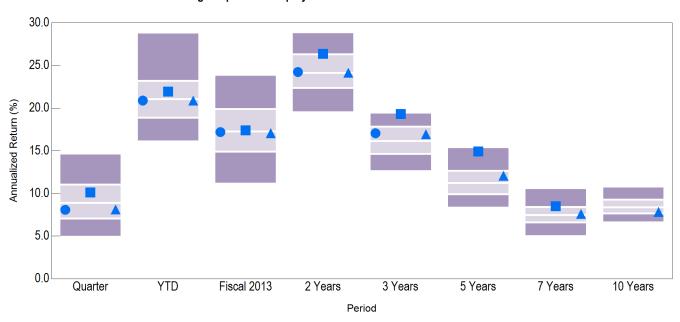
		Russell 1000 Growth
Number of Holdings	611	610
Weighted Avg. Market Cap. (\$B)	84.5	84.5
Median Market Cap. (\$B)	7.7	7.7
Price To Earnings	24.3	22.5
Price To Book	5.7	5.5
Price To Sales	3.2	3.0
Return on Equity (%)	24.2	23.4
Yield (%)	1.7	1.7
Beta (holdings; domestic)	1.0	1.0

Top Holdings		Best Performers		Worst Performers			
APPLE	2.9%		Return %		Return %		
EXXON MOBIL	2.5%	GOODYEAR TIRE & RUB. (GT)	46.7%	PENNEY JC (JCP)	-48.4%		
MICROSOFT	1.7%	NETFLIX (NFLX)	46.5%	INTUITIVE SURGICAL (ISRG)	-25.7%		
GOOGLE 'A'	1.6%	REGENERON PHARMS. (REGN)	39.1%	BROADCOM 'A' (BRCM)	-22.7%		
JOHNSON & JOHNSON	1.6%	BEST BUY (BBY)	37.8%	ABERCROMBIE & FITCH 'A' (ANF)	-21.4%		
GENERAL ELECTRIC	1.6%	SAFEWAY (SWY)	36.1%	MOSAIC (MOS)	-19.6%		
CHEVRON	1.6%	SALESFORCE.COM (CRM)	36.0%	TESORO (TSO)	-15.5%		
PROCTER & GAMBLE	1.4%	MOLEX (MOLX)	32.1%	HEWLETT-PACKARD (HPQ)	-14.8%		
BERKSHIRE HATHAWAY 'B'	1.4%	YAHOO (YHOO)	32.0%	MONSTER BEVERAGE (MNST)	-14.1%		
WELLS FARGO & CO	1.3%	CELGENE (CELG)	31.8%	EXPEDIA (EXPE)	-13.6%		
		COGNIZANT TECH.SLTN.'A' (CTSH)	31.1%	CONAGRA FOODS (CAG)	-12.5%		

# Total Returns - Large Cap Growth

Periods Ending September 30, 2013

#### eA US Large Cap Growth Equity Gross Accounts



	Return (	Rank)														
5th Percentile	14.7		28.8		23.9		28.9		19.5		15.4		10.6		10.8	
25th Percentile	11.1		23.2		19.9		26.3		17.8		12.7		8.4		9.3	
Median	8.9		21.1		17.3		24.1		16.2		11.3		7.5		8.4	
75th Percentile	7.1		18.9		14.9		22.4		14.6		9.9		6.6		7.7	
95th Percentile	4.9		16.1		11.2		19.5		12.6		8.3		5.0		6.6	
# of Portfolios	262		262		268		261		258		246		223		190	
BlackRock Russell 1000 Growth	8.1	(64)	20.9	(53)	17.2	(52)	24.2	(49)	17.0	(39)		()		()		()
Delaware	10.1	(36)	22.0	(39)	17.4	(49)	26.4	(24)	19.3	(6)	14.9	(8)	8.5	(23)		()
Russell 1000 Growth	8.1	(64)	20.9	(53)	17.1	(53)	24.1	(51)	16.9	(41)	12.1	(35)	7.6	(49)	7.8	(70)

## Equity Only Summary Statistics - BlackRock Russell 1000 Growth Index Fund

Quarter Ending September 30, 2013

	Portfolio	Russell 1000 Growth
Number of Holdings	611	610
Weighted Avg. Market Cap. (\$B)	84.5	84.5
Median Market Cap. (\$B)	7.7	7.7
Price To Earnings	24.3	22.5
Price To Book	5.7	5.5
Price To Sales	3.2	3.0
Return on Equity (%)	24.2	23.4
Yield (%)	1.7	1.7
Beta (holdings; domestic)	1.0	1.0

Top Holdings		Best Performers		Worst Performers			
EXXON MOBIL	4.5%		Return %		Return %		
GENERAL ELECTRIC	2.9%	FACEBOOK CLASS A (FB)	101.9%	ALLIED NEVADA GOLD (ANV)	-35.5%		
CHEVRON	2.8%	TESLA MOTORS (TSLA)	80.1%	INTUITIVE SURGICAL (ISRG)	-25.7%		
JOHNSON & JOHNSON	2.5%	INCYTE (INCY)	73.4%	AMER.EAG.OUTFITTERS (AEO)	-22.7%		
PROCTER & GAMBLE	2.4%	NU SKIN ENTERPRISES 'A' (NUS)	57.2%	BROADCOM 'A' (BRCM)	-22.7%		
BERKSHIRE HATHAWAY 'B'	2.4%	HERBALIFE (HLF)	55.3%	WEIGHTWATCHERS INTL. (WTW)	-18.4%		
WELLS FARGO & CO	2.3%	CARBO CERAMICS (CRR)	47.5%	INTREPID POTASH (IPI)	-17.7%		
JP MORGAN CHASE & CO.	2.3%	GOODYEAR TIRE & RUB. (GT)	46.7%	ROVI (ROVI)	-16.1%		
PFIZER	2.3%	NETFLIX (NFLX)	46.5%	SALLY BEAUTY HOLDINGS (SBH)	-15.9%		
AT&T	2.1%	LAREDO PETROLEUM HDG. (LPI)	44.4%	AMERICAN CAMPUS COMMNS. (ACC)	-15.2%		
		ONYX PHARMS. (ONXX)	43.6%	PANERA BREAD 'A' (PNRA)	-14.7%		

## **Equity Only Summary Statistics - Delaware**

Quarter Ending September 30, 2013

	Portfolio	Russell 1000 Growth
Number of Holdings	31	610
Weighted Avg. Market Cap. (\$B)	68.2	84.5
Median Market Cap. (\$B)	36.8	7.7
Price To Earnings	27.7	22.5
Price To Book	5.5	5.5
Price To Sales	4.8	3.0
Return on Equity (%)	22.2	23.4
Yield (%)	1.0	1.7
Beta (holdings; domestic)	1.0	1.0

Top Holdings	
EOG RES.	6.4%
VISA 'A'	6.0%
MASTERCARD	5.5%
CELGENE	5.1%
CROWN CASTLE INTL.	4.7%
ADOBE SYSTEMS	4.7%
QUALCOMM	4.6%
PRICELINE.COM	4.3%
WALGREEN	4.2%
LIBERTY INTACT.'A'	4.1%

	Best Performers	<b>3</b>	
		Return %	
VERIFONE S'	YSTEMS (PAY)	36.0%	SALLY BEA
CELGENE (C	ELG)	31.8%	KINDER M
EOG RES. (E	OG)	28.7%	MICROSO
L BRANDS (L	TD)	24.7%	KINDER M
WALGREEN (	WAG)	22.5%	CME GRO
PRICELINE.C	OM (PCLN)	22.3%	GOOGLE '
APPLE (AAPL	.)	21.0%	CROWN C
MASTERCAR	D (MA)	17.2%	LIBERTY II
NIKE 'B' (NKE	)	14.4%	PERRIGO
ADOBE SYST	EMS (ADBE)	14.0%	INTERCON

Worst Performers	
	Return %
SALLY BEAUTY HOLDINGS (SBH)	-15.9%
KINDER MORGAN (KMI)	-5.8%
MICROSOFT (MSFT)	-3.0%
KINDER MORGAN WTS. (KMIW)	-2.9%
CME GROUP (CME)	-2.1%
GOOGLE 'A' (GOOG)	-0.5%
CROWN CASTLE INTL. (CCI)	0.9%
LIBERTY INTACT.'A' (LINTA)	2.0%
PERRIGO (PRGO)	2.0%
INTERCONTINENTAL EX.GP. (ICE)	2.1%
	SALLY BEAUTY HOLDINGS (SBH) KINDER MORGAN (KMI) MICROSOFT (MSFT) KINDER MORGAN WTS. (KMIW) CME GROUP (CME) GOOGLE 'A' (GOOG) CROWN CASTLE INTL. (CCI) LIBERTY INTACT.'A' (LINTA) PERRIGO (PRGO)

## Equity Sector Attribution - Delaware

Quarter Ending September 30, 2013

#### Delaware Performance Attribution vs. Russell 1000 Growth

			Attribution Effects Returns Sector Wei					
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.1%	-0.1%	0.5%	-0.2%	12.2%	15.5%	10.4%	4.1%
Materials	-0.1%	-0.2%	0.0%	0.1%	4.4%	8.6%	2.2%	3.9%
Industrials	-0.2%		-0.2%			9.7%	0.0%	13.0%
Cons. Disc.	0.3%	0.5%	0.0%	-0.1%	11.4%	8.8%	14.9%	17.7%
Cons. Staples	1.6%	2.8%	0.6%	-1.9%	22.5%	0.6%	4.2%	12.6%
Health Care	0.6%	0.7%	0.0%	-0.1%	15.3%	10.4%	12.3%	13.1%
Financials	-0.3%	-0.1%	-0.2%	-0.1%	2.7%	3.8%	9.5%	4.9%
Info. Tech	0.9%	0.4%	0.2%	0.2%	10.7%	9.1%	39.6%	28.2%
Telecomm.	-0.1%	0.1%	-0.3%	0.1%	0.9%	-4.0%	5.1%	2.3%
Utilities	0.0%		0.0%			16.2%	0.0%	0.2%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		1.8%	0.0%
Portfolio	2.6%	= 4.2%	+ 0.3%	+ -1.9%	10.5%	7.9%	100.0%	100.0%

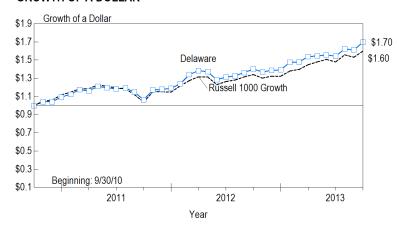
## Return Based Style Analysis - Delaware

3 Years Ending September 30, 2013

U.S. Effective Style Map



#### **GROWTH OF A DOLLAR**



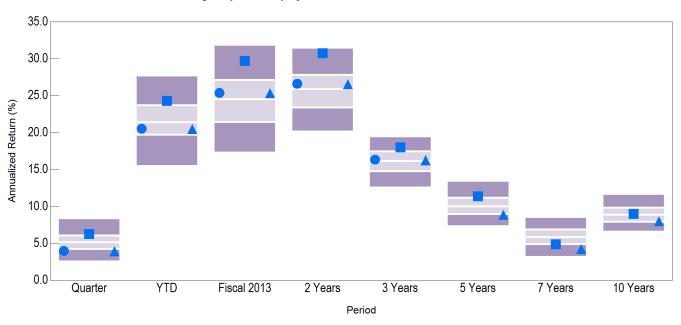
#### **Quarterly and Cumulative Excess Performance**



## Total Returns - Large Cap Value

Periods Ending September 30, 2013

#### eA US Large Cap Value Equity Gross Accounts



	Return (R	ank)														
5th Percentile	8.4	27.7		31.9		31.5		19.5		13.5		8.5		11.7		_
25th Percentile	6.1	23.7		27.2		27.9		17.5		11.2		6.9		9.9		
Median	5.2	21.4		24.6		25.9		16.2		10.0		5.9		8.9		
75th Percentile	4.3	19.7		21.5		23.4		14.8		9.0		4.9		7.9		
95th Percentile	2.6	15.5		17.3		20.2		12.6		7.3		3.2		6.6		
# of Portfolios	299	299		298		296		295		282		265		216		
BlackRock Russell 1000 Value	4.0	(81) 20.5	(63)	25.4	(42)	26.6	(42)	16.3	(45)		()		()		()	
Dodge & Cox-Equity	6.2	(22) 24.3	(21)	29.7	(14)	30.7	(7)	18.0	(19)	11.4	(23)	4.9	(76)	9.0	(49)	
Russell 1000 Value	3.9	(82) 20.5	(64)	25.3	(43)	26.5	(43)	16.2	(48)	8.9	(77)	4.2	(86)	8.0	(74)	

## Equity Only Summary Statistics - BlackRock Russell 1000 Value Index Fund

Quarter Ending September 30, 2013

	Portfolio	Russell 1000 Value
Number of Holdings	650	648
Weighted Avg. Market Cap. (\$B)	98.5	98.5
Median Market Cap. (\$B)	5.9	5.9
Price To Earnings	18.0	17.4
Price To Book	2.1	2.1
Price To Sales	1.9	1.7
Return on Equity (%)	13.4	13.4
Yield (%)	2.4	2.4
Beta (holdings; domestic)	1.2	1.2

Top Holdings	
EXXON MOBIL	4.5%
GENERAL ELECTRIC	2.9%
CHEVRON	2.8%
JOHNSON & JOHNSON	2.5%
PROCTER & GAMBLE	2.4%
BERKSHIRE HATHAWAY 'B'	2.4%
WELLS FARGO & CO	2.3%
JP MORGAN CHASE & CO.	2.3%
PFIZER	2.3%
AT&T	2.1%

Best Performers	
	Return %
CIMAREX EN. (XEC)	48.6%
ENERGEN (EGN)	46.5%
WENDY'S CLASS A (WEN)	46.4%
LAREDO PETROLEUM HDG. (LPI)	44.4%
SEARS HOLDINGS (SHLD)	41.4%
BROCADE COMMS.SYS. (BRCD)	39.8%
MGM RESORTS INTL. (MGM)	38.3%
BEST BUY (BBY)	37.8%
SAFEWAY (SWY)	36.1%
WALTER ENERGY (WLT)	35.0%

Worst Performers	
	Return %
PENNEY JC (JCP)	-48.4%
SEARS HOMETOWN AND OUTLET STORES (SHOS)	-27.4%
MBIA (MBI)	-23.1%
AMER.EAG.OUTFITTERS (AEO)	-22.7%
BROADCOM 'A' (BRCM)	-22.7%
HATTERAS FINANCIAL (HTS)	-21.9%
ABERCROMBIE & FITCH 'A' (ANF)	-21.4%
MOSAIC (MOS)	-19.6%
HEALTH MAN.ASSOCS. (HMA)	-18.6%
INTREPID POTASH (IPI)	-17.7%

# Equity Only Summary Statistics - Dodge & Cox

Quarter Ending September 30, 2013

	Portfolio	Russell 1000 Value
Number of Holdings	71	648
Weighted Avg. Market Cap. (\$B)	93.3	98.5
Median Market Cap. (\$B)	25.2	5.9
Price To Earnings	19.8	17.4
Price To Book	2.4	2.1
Price To Sales	1.9	1.7
Return on Equity (%)	16.0	13.4
Yield (%)	2.1	2.4
Beta (holdings; domestic)	1.4	1.2

Top Holdings		Best Performers		Worst Performers	
WELLS FARGO & CO	4.0%		Return %		Return %
CAPITAL ONE FINL.	3.8%	NOKIA SPN.ADR 1:10 (NOK)	74.0%	HEWLETT-PACKARD (HPQ)	-14.8%
COMCAST 'A'	3.7%	MOLEX 'A' (MOLXA)	54.9%	CADENCE DESIGN SYS. (CDNS)	-6.7%
MERCK & CO.	3.5%	BOSTON SCIENTIFIC (BSX)	26.6%	AOL (AOL)	-5.2%
MICROSOFT	3.4%	PITNEY-BOWES (PBI)	25.2%	COACH (COH)	-3.9%
TIME WARNER	3.2%	MCGRAW HILL FINANCIAL (MHFI)	23.9%	UNILEVER SPN.ADR 1:1 (UL)	-3.8%
NOVARTIS 'B' SPN.ADR 1:1	3.1%	SCHLUMBERGER (SLB)	23.8%	MICROSOFT (MSFT)	-3.0%
GENERAL ELECTRIC	3.1%	VODAFONE GP.SPN.ADR 1:10 (VOD)	22.4%	SANOFI ADR 2:1 (SNY)	-1.7%
SANOFI ADR 2:1	3.0%	DOW CHEMICAL (DOW)	20.3%	JP MORGAN CHASE & CO. (JPM)	-1.4%
SCHLUMBERGER	3.0%	DOMTAR (UFS)	20.3%	AMDOCS (DOX)	-0.9%
		COMPUTER SCIS. (CSC)	18.7%	GOOGLE 'A' (GOOG)	-0.5%

## Equity Sector Attribution - Dodge & Cox

Quarter Ending September 30, 2013

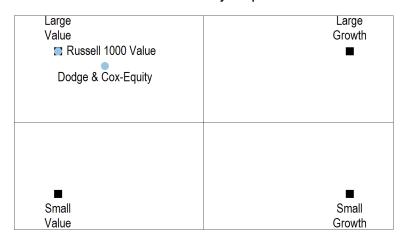
### Dodge & Cox-Equity Performance Attribution vs. Russell 1000 Value

	Attribution Effects				R	eturns	Secto	Sector Weights		
	Total	Selection	Allocation	Interaction						
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark		
Energy	0.6%	1.2%	0.0%	-0.6%	11.3%	3.5%	7.2%	15.3%		
Materials	0.2%	0.1%	0.0%	0.0%	17.2%	12.0%	2.9%	3.4%		
Industrials	-0.1%	0.0%	-0.1%	0.0%	8.8%	8.8%	7.4%	9.0%		
Cons. Disc.	0.3%	0.0%	0.3%	0.0%	7.9%	8.0%	13.8%	8.6%		
Cons. Staples	0.0%	-0.2%	0.1%	0.2%	-1.3%	1.8%	2.2%	7.1%		
Health Care	0.0%	0.0%	0.0%	0.0%	4.5%	4.3%	17.8%	11.8%		
Financials	0.8%	0.9%	0.1%	-0.2%	5.3%	2.4%	22.9%	28.7%		
Info. Tech	-0.1%	-0.1%	0.2%	-0.2%	4.4%	5.5%	21.6%	7.0%		
Telecomm.	0.2%	0.4%	0.0%	-0.3%	12.5%	-2.9%	3.3%	3.0%		
Utilities	0.3%		0.3%			-0.1%	0.0%	6.3%		
Cash	0.0%	0.0%	0.0%	0.0%	0.0%		0.8%	0.0%		
Portfolio	2.2%	= 2.3%	+ 0.9%	+ -1.1%	6.2%	4.0%	100.0%	100.0%		

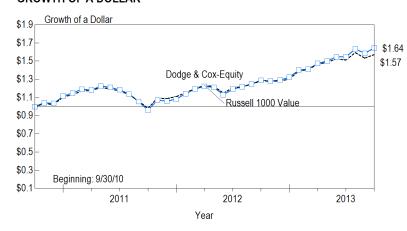
## Return Based Style Analysis - Dodge & Cox

3 Years Ending September 30, 2013

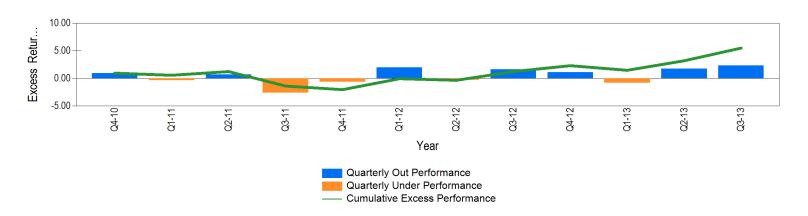
U.S. Effective Style Map



#### **GROWTH OF A DOLLAR**



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



## Total Returns - Small Cap Growth

Periods Ending September 30, 2013

#### eA US Small Cap Growth Equity Gross Accounts



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

Legato CapitalRussell 2000 Growth

Return (	Rank)														
18.1	,	44.9		34.2		39.5		25.8		19.9		14.0		15.0	
14.9		37.3		28.8		34.9		23.8		17.7		11.7		12.5	
13.2		34.0		25.0		32.6		21.5		14.7		10.0		11.1	
11.3		30.5		21.3		29.4		19.8		12.9		8.3		9.9	
9.0		25.2		16.0		25.6		15.2		9.5		5.4		7.2	
151		151		157		151		148		139		126		107	
13.6	(46)	36.4	(32)	26.9	(36)	34.8	(26)	22.6	(39)		()		()		()
12.8	(57)	32.5	(61)	23.7	(57)	32.1	(56)	20.0	(72)	13.2	(74)	9.0	(66)	9.9	(77)

# Equity Only Summary Statistics - Legato Capital

Quarter Ending September 30, 2013

	Portfolio	Russell 2000 Growth
Number of Holdings	442	1,117
Weighted Avg. Market Cap. (\$B)	2.1	1.8
Median Market Cap. (\$B)	1.3	0.8
Price To Earnings	31.9	27.4
Price To Book	5.0	5.0
Price To Sales	3.2	2.6
Return on Equity (%)	13.4	15.4
Yield (%)	0.3	0.4
Beta (holdings; domestic)	1.4	1.4

Top Holdings							
COSTAR GP.	1.8%						
ULTIMATE SOFTWARE GP.	1.4%						
PRTF.REC.ASSOCS.	1.3%						
MAXIMUS	1.2%						
SEMTECH	1.1%						
CEPHEID	1.1%						
UTD.NTRL.FOODS	1.1%						
GEO GROUP	1.0%						
GRAND CANYON EDUCATION	0.9%						
NEOGEN	0.9%						

Best Performers							
	Return %						
BIOCRYST PHARMS. (BCRX)	369.7%						
INSYS THERAPEUTICS (INSY)	152.8%						
MAKO SURGICAL (MAKO)	144.9%						
CHANNELADVISOR (ECOM)	132.9%						
CELLDEX THERAPEUTICS (CLDX)	127.0%						
NPS PHARMACEUTICALS (NPSP)	110.5%						
ASTEX PHARMACEUTICALS (ASTX)	106.6%						
ALNYLAM PHARMACEUTICALS (ALNY)	106.5%						
ALL.FIBER OPTIC PRDS. (AFOP)	104.6%						
UBIQUITI NETWORKS (UBNT)	91.5%						

Return %
-54.2%
-46.8%
-41.4%
-34.9%
-34.6%
-32.3%
-31.2%
-31.0%
-29.5%
-28.2%

## Equity Sector Attribution - Legato Capital

Quarter Ending September 30, 2013

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

			Attribution Effects	S	Re	turns	Sector	Weights
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.5%	0.4%	0.1%	0.1%	25.3%	14.4%	4.4%	5.3%
Materials	0.0%	-0.2%	0.1%	0.1%	6.3%	10.4%	1.6%	4.6%
Industrials	-0.7%	-0.8%	0.0%	0.0%	8.8%	13.4%	16.3%	17.6%
Cons. Disc.	0.7%	0.7%	0.1%	-0.1%	12.2%	8.0%	16.3%	16.4%
Cons. Staples	0.0%	0.0%	0.0%	0.0%	15.4%	14.7%	2.7%	4.8%
Health Care	-1.1%	-1.1%	0.0%	0.0%	13.1%	18.1%	21.1%	21.0%
Financials	0.5%	0.5%	-0.1%	0.1%	13.6%	7.3%	8.2%	7.7%
Info. Tech	0.6%	0.5%	0.0%	0.1%	16.6%	14.6%	26.4%	21.3%
Telecomm.	-0.1%	-0.1%	0.0%	0.0%	6.9%	14.4%	0.6%	0.8%
Utilities	0.0%		0.0%			1.1%	0.0%	0.3%
Cash	-0.3%	0.0%	-0.3%	0.0%	0.0%		2.4%	0.0%
Portfolio	0.2%	= 0.0%	+ -0.1%	+ 0.3%	13.4%	13.2%	100.0%	100.0%

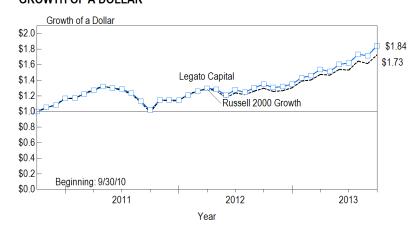
## Return Based Style Analysis - Legato Capital

3 Years Ending September 30, 2013

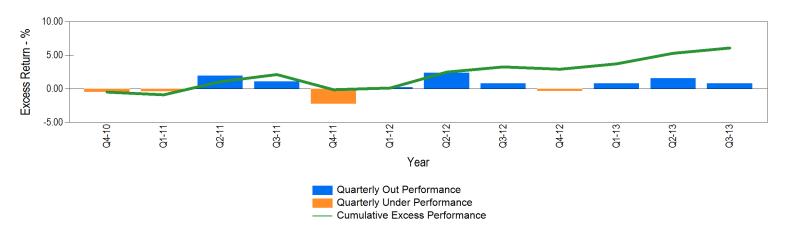
U.S. Effective Style Map



#### **GROWTH OF A DOLLAR**



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



## Total Returns - Small Cap Value

Periods Ending September 30, 2013

#### eA US Small Cap Value Equity Gross Accounts



Capital ProspectsRussell 2000 Value

Return (	Rank)															
12.5		33.9		36.7		39.1		24.3		18.9		12.2		14.7		Т
10.2		29.0		30.8		35.0		20.4		15.1		9.7		12.7		
8.7		26.3		26.9		31.1		18.7		12.9		8.6		11.7		
7.8		23.3		23.9		28.1		16.5		11.2		7.3		10.7		
6.0		17.7		16.8		22.6		11.9		9.5		5.1		9.0		
193		193		190		193		190		180		158		138		
10.3	(24)	26.0	(55)	31.0	(23)	34.0	(29)	19.9	(32)		()		()		()	
7.6	(80)	23.1	(77)	24.8	(67)	29.8	(60)	16.6	(75)	9.1	(96)	5.4	(93)	9.3	(95)	

# Equity Only Summary Statistics - Capital Prospects

Quarter Ending September 30, 2013

	Portfolio	Russell 2000 Value
Number of Holdings	246	1,343
Weighted Avg. Market Cap. (\$B)	2.4	1.4
Median Market Cap. (\$B)	1.7	0.5
Price To Earnings	22.0	17.6
Price To Book	3.0	1.7
Price To Sales	1.7	1.8
Return on Equity (%)	14.9	8.3
Yield (%)	1.5	1.7
Beta (holdings; domestic)	1.4	1.4

Top Holdings		Best Performers	
HILLENBRAND	1.8%		Return %
BELDEN	1.6%	GT ADVANCED TECHS. (GTAT)	105.1%
REGAL BELOIT	1.3%	ALTISOURCE PRTF.SLTN. (ASPS)	48.5%
LITTELFUSE	1.3%	STONE ENERGY (SGY)	47.2%
MEREDITH	1.1%	SYNNEX (SNX)	45.3%
WADDELL & REED FINL.'A'	1.1%	HYSTE-YALE MATS.HADG.'A' (HY)	43.3%
FIRST AMER.FINL.	1.1%	MEDASSETS (MDAS)	43.3%
MB FINL.	1.1%	PENSKE AUTOMOTIVE GP. (PAG)	40.5%
BROADRIDGE FINL.SLTN.	1.1%	ENCORE CAP.GP. (ECPG)	38.2%
HEXCEL	1.1%	HACKETT GROUP (HCKT)	37.4%
		LITHIA MTRS.A (LAD)	37.1%

## Equity Sector Attribution - Capital Prospects

Quarter Ending September 30, 2013

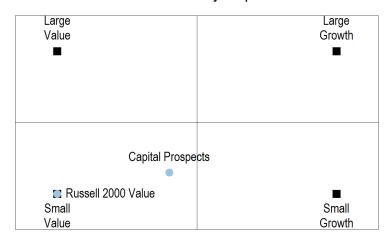
#### Capital Prospects Performance Attribution vs. Russell 2000 Value

		oupitui i ioo	pooto : oo	/ ttti ibatioi		ooo raido		
			Attribution Effec	ets	R	eturns	Secto	r Weights
	Total	Selection	Allocation	Interaction	D. (C.)	Developed	D : (f. l' :	Decelored
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	0.3%	0.4%	0.0%	-0.1%	17.9%	12.7%	6.0%	6.1%
Materials	0.0%	0.0%	0.0%	0.0%	9.7%	9.8%	6.7%	5.0%
Industrials	0.7%	0.3%	0.3%	0.2%	13.9%	11.7%	20.9%	12.3%
Cons. Disc.	-0.2%	-0.1%	0.0%	0.0%	7.4%	8.5%	17.8%	13.2%
Cons. Staples	-0.3%	-0.2%	0.0%	-0.1%	1.3%	9.7%	3.5%	2.8%
Health Care	0.0%	0.0%	0.0%	0.0%	13.2%	13.6%	4.9%	4.5%
Financials	1.3%	1.4%	0.5%	-0.6%	8.6%	5.2%	21.4%	37.5%
Info. Tech	0.1%	0.1%	0.0%	0.0%	13.5%	12.7%	11.7%	12.1%
Telecomm.	0.0%		0.0%			8.3%	0.0%	0.5%
Utilities	0.2%	-0.2%	0.2%	0.1%	-1.2%	1.5%	3.0%	5.9%
Cash	-0.3%	0.0%	-0.3%	0.0%	0.0%		4.0%	0.0%
Portfolio	1.9%	= 1.5%	+ 0.8%	+ -0.5%	10.1%	8.2%	100.0%	100.0%

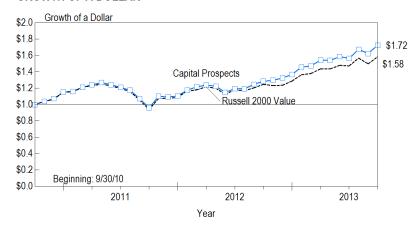
## Return Based Style Analysis - Capital Prospects

3 Years Ending September 30, 2013

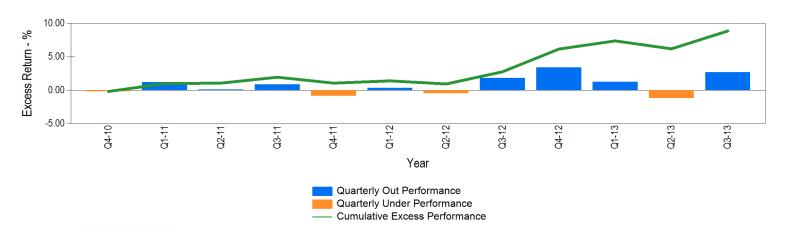
U.S. Effective Style Map



#### **GROWTH OF A DOLLAR**



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



## Total Returns - ACWI ex-US Growth

Periods Ending September 30, 2013

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



	Return	(Rank)													
5th Percentile	14.7	22	2.5	27.5		25.3		15.3		14.7		8.8		13.1	
25th Percentile	11.1	17	.5	18.9		21.5		10.4		10.9		7.3		11.4	
Median	9.8	13	3.3	16.4		19.5		9.3		9.2		6.3		10.3	
75th Percentile	8.9	11	.1	14.4		17.6		7.3		7.2		4.0		8.8	
95th Percentile	6.9	6	.8	11.2		13.9		4.8		4.2		2.4		8.0	
# of Portfolios	48		48	47		48		47		41		38		27	
Pyramis	9.2	(68) 12	.8 (5	5) 17.9	(32)	18.6	(66)	8.1	(67)	7.9	(74)	4.4	(74)		()
MSCI ACWI ex USA Gross	10.2	(38) 10	.5 (8)	2) 14.1	(77)	16.0	(89)	6.4	(83)	6.7	(78)	3.5	(85)	9.2	(71)

# Equity Only Summary Statistics - Pyramis

Quarter Ending September 30, 2013

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	255	1,822
Weighted Avg. Market Cap. (\$B)	61.1	52.7
Median Market Cap. (\$B)	14.9	6.5
Price To Earnings	20.5	18.0
Price To Book	3.0	2.3
Price To Sales	1.9	1.8
Return on Equity (%)	15.7	14.6
Yield (%)	2.4	3.0
Beta (holdings; global)	1.1	1.0

Top Holdings	
TOYOTA MOTOR	1.9%
NESTLE 'R'	1.9%
SANOFI	1.7%
HSBC HDG. (ORD \$0.50)	1.7%
ROYAL DUTCH SHELL A	1.5%
BAYER	1.5%
VODAFONE GROUP	1.4%
UBS 'R'	1.4%
LLOYDS BANKING GROUP	1.3%
ALLIANZ	1.2%

	Return %
KAKAKU.COM (J:KAKA)	53.2%
MELCO INTL.DEV. (K:MELO)	41.9%
KAWASAKI HEAVY INDUSTRY (J:KW@N)	41.1%
RAGING RIVER EXPLORATION (C:RRX)	34.3%
SAIPEM (I:SPM)	33.9%
GLENCORE XSTRATA (UKIR:GLEN)	33.6%
CROWN RESORTS (A:CWNX)	32.8%
SEVEN WEST MEDIA (A:SWMX)	32.2%
KBC GROUP (B:KB)	32.2%
DAIKIN INDUSTRIES (J:DA@N)	31.5%

Return %
-21.3%
-20.4%
-19.0%
-14.6%
-12.6%
-9.6%
-8.9%
-8.6%
-8.0%
-7.9%

# Equity Sector Attribution - Pyramis

Quarter Ending September 30, 2013

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

		-	Attribution Effect	ts	R	eturns	Secto	r Weights
	Total	Selection	Allocation	Interaction				
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark
Energy	-0.4%	-0.5%	0.0%	0.1%	6.0%	10.4%	6.8%	9.4%
Materials	0.2%	0.1%	0.0%	0.1%	13.9%	12.4%	8.1%	8.6%
Industrials	-0.4%	-0.5%	0.0%	0.1%	9.4%	12.9%	11.5%	10.8%
Cons. Disc.	0.7%	0.3%	0.1%	0.3%	15.7%	12.3%	14.1%	10.5%
Cons. Staples	0.1%	0.0%	0.0%	0.1%	6.5%	5.4%	10.6%	10.7%
Health Care	-0.1%	0.0%	-0.1%	0.1%	5.5%	6.0%	10.2%	8.0%
Financials	0.4%	0.2%	0.0%	0.2%	12.1%	10.4%	25.1%	26.4%
Info. Tech	0.1%	0.1%	0.0%	0.0%	11.0%	9.5%	5.7%	6.5%
Telecomm.	0.1%	0.1%	0.0%	0.0%	16.0%	12.9%	4.3%	5.6%
Utilities	0.0%	-0.1%	0.0%	0.0%	8.2%	7.5%	1.8%	3.5%
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		1.8%	0.0%
Portfolio	0.5%	= -0.3%	+ -0.2%	+ 0.9%	10.6%	10.1%	99.9%	100.0%

## Total Returns - ACWI ex-US Value

Periods Ending September 30, 2013

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



	Return	(Rank)											
5th Percentile	16.9	22.′	28	.2	25.8	1:	3.6	12.1		7.7		13.4	
25th Percentile	12.2	16.0	) 21	.2	20.8	!	9.8	8.7		5.2		11.2	
Median	10.6	12.7	' 17	.8	18.0		8.4	7.1		3.4		9.8	
75th Percentile	7.4	9.8	15	.3	15.3		6.6	5.9		2.6		8.6	
95th Percentile	6.2	7.2	2 13	.3	12.2	;	3.5	4.6		1.8		8.0	
# of Portfolios	31	3′	3	31	29		29	26		24		17	
LSV Asset Mgt	11.3	(33) 13.3	3 (47) 16	.9 (58)	17.3	(53)	7.7 (60	0) 8.3	(34)	3.6	(48)		()
MSCI ACWI ex USA Gross	10.2	(59) 10.5	5 (71) 14	.1 (83)	16.0	(70)	6.4 (76	6.7	(60)	3.5	(48)	9.2	(59)

## Equity Only Summary Statistics - LSV Asset Mgt

Quarter Ending September 30, 2013

### Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	195	1,822
Weighted Avg. Market Cap. (\$B)	36.1	52.7
Median Market Cap. (\$B)	8.6	6.5
Price To Earnings	13.7	18.0
Price To Book	1.5	2.3
Price To Sales	0.9	1.8
Return on Equity (%)	13.4	14.6
Yield (%)	3.8	3.0
Beta (holdings; global)	1.1	1.0

Top Holdings		Best Performers		Worst Performers			
ASTRAZENECA	1.7%		Return %		Return		
BT GROUP	1.6%	MOUNT GIBSON IRON (A:MGXX)	65.6%	BOART LONGYEAR (A:BLYX)	-34.2		
MAGNA INTL.	1.6%	ARRIUM (A:ARIX)	63.6%	BLACKBERRY (C:BB)	-25.0		
ROYAL DUTCH SHELL B	1.5%	KPN KON (H:KPN)	53.6%	THANACHART CAPITAL FB (Q:NFSF)	-20.6		
ALLIANZ	1.5%	SOCIETE GENERALE (F:SGE)	45.3%	GLOBAL BIO-CHEM TECH.GP. (K:GBIO)	-20.3		
LEGAL & GENERAL	1.5%	PANORAMIC RESOURCES (A:PANX)	40.5%	CHINA SHANSHUI CMT.GROUP	-14.3		
SANOFI	1.4%	BBV.ARGENTARIA (E:BBVA)	36.8%	(K:CSCG)	17.0		
VODAFONE GROUP	1.4%	COMPAL ELECTRONICS (TW:COM)	36.8%	THANACHART CAPITAL (Q:NFST)	-13.7		
BASF	1.3%	EQSTRA HOLDINGS (R:EQSJ)	34.3%	OTSUKA HOLDINGS (J:OTHD)	-11.1		
DAIMLER	1.3%	TIMAH (ID:TAA)	34.0%	CHINA SHINEWAY PHARM.GP. (K:CSPG)	-8.7		
D, IIIILLI	1.070	HELLENIC TELECOM.ORG. (G:HTO)	33.6%	METCASH (A:MTSX)	-7.1		
		FILLELINIO FELLOOMI.ORG. (G.1110)	33.070	KYORIN HOLDINGS (J:KYRN)	-6.5		

## Equity Sector Attribution - LSV Asset Mgt

Quarter Ending September 30, 2013

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

			Attribution Effec	ets	R	eturns	Secto	Sector Weights		
	Total	Selection	Allocation	Interaction						
	Effects	Effect	Effect	Effects	Portfolio	Benchmark	Portfolio	Benchmark		
Energy	0.1%	0.0%	0.0%	0.1%	11.0%	10.4%	11.5%	9.4%		
Materials	0.0%	0.1%	0.0%	-0.1%	13.6%	12.4%	6.5%	8.6%		
Industrials	0.4%	0.5%	0.0%	0.0%	16.7%	12.9%	10.9%	10.8%		
Cons. Disc.	-0.4%	-0.1%	-0.1%	-0.3%	9.3%	12.3%	8.1%	10.5%		
Cons. Staples	-0.1%	-0.2%	0.2%	0.0%	3.1%	5.4%	7.0%	10.7%		
Health Care	-0.3%	-0.3%	0.0%	0.0%	2.2%	6.0%	8.6%	8.0%		
Financials	1.3%	0.9%	0.0%	0.4%	15.1%	10.4%	27.2%	26.4%		
Info. Tech	-0.1%	0.0%	0.0%	-0.1%	8.7%	9.5%	4.2%	6.5%		
Telecomm.	0.2%	-0.1%	0.1%	0.2%	12.6%	12.9%	10.3%	5.6%		
Utilities	0.0%	0.0%	0.0%	0.0%	6.5%	7.5%	3.5%	3.5%		
Cash	-0.1%	0.0%	-0.1%	0.0%	0.0%		2.2%	0.0%		
Portfolio	1.2%	= 0.9%	+ 0.1%	+ 0.1%	11.3%	10.1%	100.0%	100.0%		

### **BOND MARKETS**

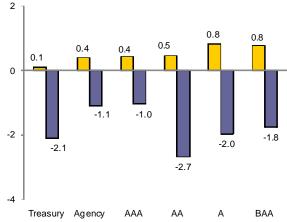
## U.S. Bond Market Returns - Barclays Capital Aggregate

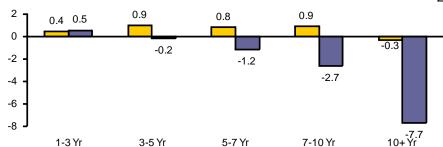
- The postponement of tapering led to broad increases in fixed income asset returns. Treasury bonds rose 0.1% in the third quarter, while lower quality credits increased at a faster rate.
- Lower-rated corporate bonds outperformed, with BAA rated securities returning 0.8% in the third quarter.

### Yankees 6.0% Corporate Treasury 21.8% 36.2% Asset Backed 0.4% Agency 4.3% CMBS Mortgage 1.7% Pass-Through 29.6% 0.9

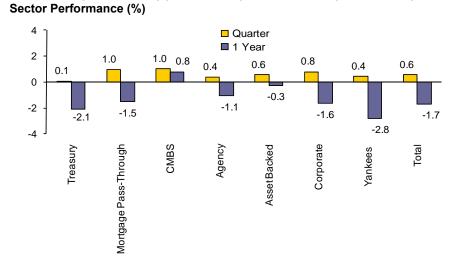
**Sector Weights** 

### **Quality Performance (%)**





**Duration Performance (%)** 



## Total Returns - Core Fixed

Periods Ending September 30, 2013

### eA US Core Fixed Inc Gross Accounts



5th Percentile
25th Percentile
Median
75th Percentile
95th Percentile
# of Portfolios
D 1 00 F

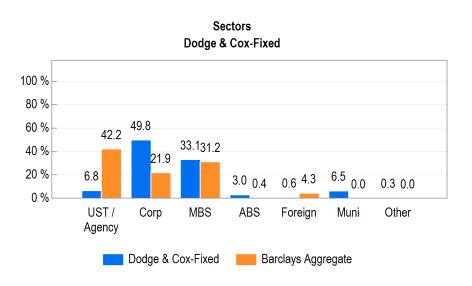
Dodge & Cox-Fixed
PIMCO Fixed Income

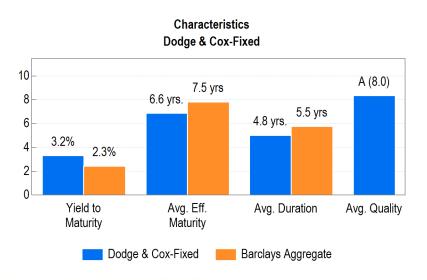
FINICO FIXEU IIICOIIIE
Barclays Aggregate

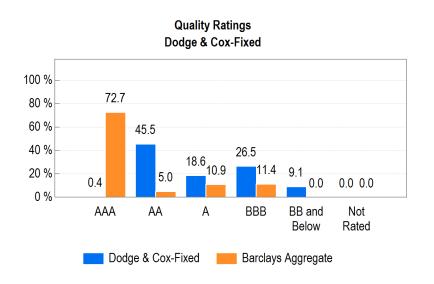
Return (F	Rank)														
1.0		-0.1		2.9		5.0		4.8		8.5		6.9		6.0	
8.0		-1.1		1.1		3.5		4.0		7.1		6.0		5.4	
0.7		-1.6		0.3		2.7		3.5		6.4		5.6		5.0	
0.5		-1.9		-0.3		2.1		3.1		5.9		5.3		4.8	
0.0		-2.7		-1.1		1.3		2.5		5.2		4.4		4.1	
215		215		213		215		212		206		197		183	
0.9	(11)	-0.1	(6)	2.6	(7)	4.8	(7)	4.6	(9)	8.2	(6)	6.5	(14)	5.7	(12)
0.7	(42)	-1.8	(67)	0.0	(67)	2.5	(58)	3.5	(52)		()		()		()
0.6	(65)	-1.9	(74)	-0.7	(87)	1.7	(88)	2.9	(83)	5.4	(90)	5.1	(85)	4.6	(85)

## Bond Summary Statistics - Dodge & Cox

As of September 30, 2013

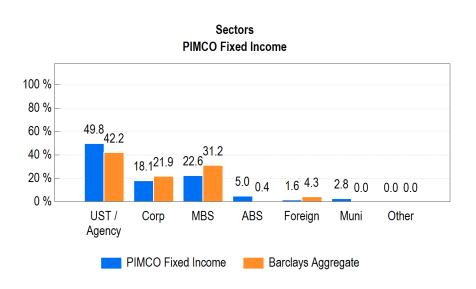


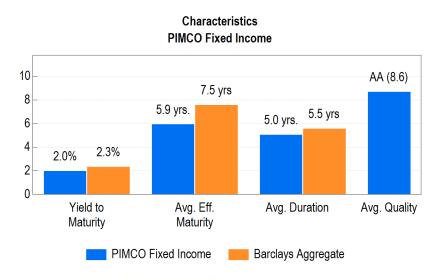


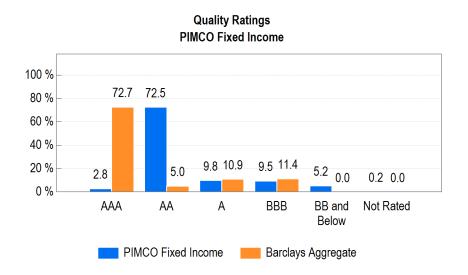


## Bond Summary Statistics - PIMCO

As of September 30, 2013





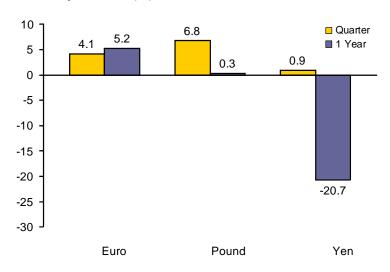


#### **CURRENCY AND BOND MARKETS**

### **Currency Markets**

- With improved sentiment in Europe, the euro rose 4.1% against the dollar in the third quarter.
- The U.S. dollar trade-weighted index, which measures the dollar's movement against a basket of currencies, fell 3.5% in the third quarter.
- Abenomics has helped weaken the yen over the past year; the yen rose 0.9% in the third quarter but has fallen 20.7% on a yearly basis.

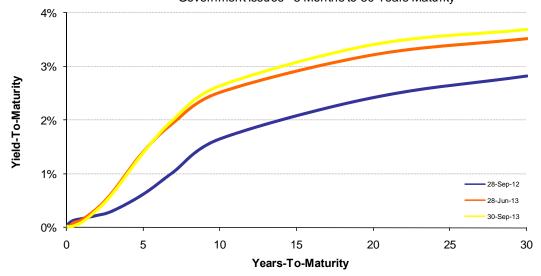
### **Currency Returns (%)**



### **Yield Curve**

- The long-end of the U.S. yield curve rose on a quarterly basis as market participants factored in when the Fed could begin tapering quantitative easing.
- Ten-year yields rose twelve basis points during the third quarter.

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



## **Capital Prospects LLC**

Performance—Time periods ended 9/30/13

Firm Name	3Q13	YTD	1 Year as of 9/30/13	Calendar Year 2012	Calendar Year 2011	Since Inception to 9/30/2013
Pacific Ridge Capital Partners, LLC	8.33	34.76	40.04	27.10	-6.13	42.18
Russell Microcap Value	9.97	27.62	30.29	22.81	-10.33	33.80

Source of performance is Evestment Alliance. Returns are gross of fees. Past performance is not indicative of future results.



## **Capital Prospects LLC**

StanCERA Aggregate Investment Characteristics – as of 9/30/13

Manager	# Holdings	Wtd. Avg. Mkt. Cap (\$B)	Forecast P/E	Price/Book	Forecast Growth (%)	Yield (%)
Total Portfolio - Current	358	\$2.4	17.2x	2.9x	14.1%	1.5%
Total Portfolio- Proposed	310	2.1	17.4	2.7	14.9	1.4
Russell 2000 Value	1376	\$1.9	18.1x	1.8x	11.5%	2.0%



## Mark D. Cooper, CFA President & Senior Portfolio Manager

Mark brings more than 23 years of investment industry experience to the presidency of Pacific Ridge. Previously, Mark was a senior portfolio manager at Wells Capital Management (2003-2010) and cofounder and president of Benson Associates (1997-2003). Prior to that, he was employed by Qualivest Capital Management (a subsidiary of U.S. Bancorp) as a portfolio manager of the Qualivest Small Companies Value strategy (1996-1997), where he co-managed all of the small cap portfolios. He also served as an associate at Bankers Trust Company in New York and Los Angeles. Mark has a bachelor's degree in economics and political science from the University of California at Los Angeles (1990) and a master's degree from the Wharton School of Business at the University of Pennsylvania (1996).

### Dominic R. Marshall, CFA Senior Portfolio Manager

Dominic brings 20 years of investment experience to Pacific Ridge. Prior to Pacific Ridge, Dominic was president and senior portfolio manager at Scott Creek Capital Management (2006-2009) and portfolio manager for the Benson Value Team at Wells Capital Management (2003-2006) and Benson Associates (1998-2003). He was also an equity analyst at The Red Chip Review and research associate at CTC Consulting. Dominic holds a bachelor's degree in Business Administration from the University of Washington (1993) and a master's degree in Finance from the Mendoza College of Business at the University of Notre Dame (1998).

## Ryan C. Curdy, CFA Portfolio Manager

Ryan brings 16 years of investment experience to the Pacific Ridge team. Before joining the firm, Ryan was portfolio manager and chief compliance officer at Scott Creek Capital Management (2006-2009) and a portfolio manager for the Benson Value Team at Wells Capital Management (2003-2006). He was also an analyst and trader at Benson Associates (1997-2003) and a mutual fund trader at U.S. Bancorp. Ryan earned his bachelor's degree in Business Administration from the University of Portland (1996).

### Justin J. McKillip, CFA Senior Analyst

Justin brings eight years of investment experience to the Pacific Ridge team. Previously, he was an equity research analyst for the Benson Value Team at Wells Capital Management (2005-2010). Justin earned his bachelor's degree in Business Administration and Economics from the University of Oregon (2005).

### Mike A. McDougall Senior Trader

Mike brings 18 years of institutional trading experience to Pacific Ridge. Prior to Pacific Ridge, Mike was head equity trader for the Benson Value Team at Wells Capital Management (2003-2010) and head trader at Benson Associates, LLC (1997-2003). He was also an assistant equity trader at Qualivest Capital Management (1995-1997). Mike holds a bachelor's degree in Business Administration from the University of Portland (1990). Mike is a two-time past president of the Security Traders Association of Portland.

## Peter K. Trumbo, CPA (CA-inactive) Chief Operating Officer

Peter is a finance and operations executive known for his ability to contribute across corporate disciplines. Peter has an investment banking background most recently as a Principal, SVP & CFO at Orca Capital Corp., a Portland NASD broker dealer that specialized in corporate M&A (1996-2001). In addition to being a lead banker, Peter was the Financial Operations officer at Orca handling all of Orca's regulatory compliance. Peter also has extensive CFO operating experience, having held senior management roles at companies in the software (1992-1996 and 2008-2010), consumer products (2001-2006) and real estate industries (1984-1991 and 2006-2008). Peter began his career with Deloitte Haskins & Sells (1981-1984) after completing a BA in Business Economics from Univ. of California at Santa Barbara (1981). He also has an MBA from Golden Gate University (1993).



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

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> 11/26/13 Item# 7.c

# For the Board of Retirement meeting Held on November 26, 2013

TO: Board of Retirement

FROM: Rick Santos, Executive Director

- I. SUBJECT: LSV Asset Management Performance Based Fee Structure
- II. ITEM TYPE: Discussion and Action
- III. STAFF RECOMMENDATION: Enter into a performance based fee structure agreement with LSV Asset Management

### IV. ANALYSIS:

Background

Generally, there are two types of fee structures that institutional investors like StanCERA pay asset managers to manage funds on their behalf:

1. Ad Valorem fees (or Assets Under Management (AUM) fees) – these types of fees are simply a fixed percentage multiplied by the assets under management. In many cases, there is a "step-down" schedule where different fixed percentages are paid on the next level of assets. For instance, our annual fee structure for LSV looks like the following:

First \$25 million	0.75%
Next \$25 million	0.65%
Next \$50 million	0.55%
Amounts over \$100 million	0.45%

2. Performance Based fees – These structures are generally specified by a combination of some base fee plus a sharing percentage of the outperformance over a specified benchmark. These structures are also usually characterized by "high water marks" and "fee caps". High water marks are provisions whereby a manager must make up for past losses before he can begin to share in the future gains. Fee caps generally place a limit on the amount of the performance sharing that can be paid to a manager. However, any gains the manager earns in excess of the fee cap are stored up to offset future losses. Thus in a sense, performance based structures are symmetric.

StanCERA recently discussed a performance based fee structure with LSV and they have proposed the following:

For the Retirement Board meeting Held on November 26, 2013 Page 2 of 3

Annual Base fee (paid quarterly): 0.25%

Annual Performance fee (paid annually on June 30): 20% of the outperformance of the portfolio above the benchmark

Maximum Annual Performance Fee (fee cap): 0.75%

### Analysis

In general, there is no sure way at present to determine which fee structure may ultimately turn out to be in the best financial interests of StanCERA. Staff has put together an analysis based on "back testing". That is, we took actual data beginning in 2006 and did a "what if" analysis. We assumed that the performance based fee structure had been in place at that time and compared the fees paid under our current scheme with the proposed new schedule.

The analysis quickly revealed that when analyzing past data using a symmetric performance schedule, the point at which one starts has a dominant effect on the results. For instance, if one were to look at the period between July 1, 2007 and June 30, 2013, StanCERA would've have paid nearly \$2.7 million less in fees had we been using the performance based fee structure. This is because LSV's experience in 2007-2008 was such that the losses incurred during that year weren't recouped until just recently. Consequently, there would've been no performance fee paid during that time.

On the other hand, if one were to look at the period between July 1, 2009 and June 30, 2013, StanCERA would've paid nearly \$400,000 more under a performance based fee schedule than it actually did. Attachment 1 analyzes the results of the back testing for various periods between July 1, 2006 to June 30, 2013.

Since it is very difficult to use past data to predict the financial impacts of the decision, there are some qualitative aspects that one should consider as well.

Arguments in favor of a fee based schedule

- Alignment of interests a symmetric based performance schedule should align the
  interests of the plan sponsor and the investment manager promoting greater effort by
  the manager. The greater the outperformance, the greater the reward for both sides.
  For StanCERA when there is underperformance, our fees are smaller.
- Staff diligence given the nature of a somewhat more complicated fee schedule, staff will be required to attain a greater level of knowledge and oversight related to the investment process

### Arguments against a fee based schedule

- Uncertain future expenses from StanCERA's perspective, the budgeting process will become a little less certain, since we will not know what our investment expense outlay will be from year to year
- Incentive for risky investing if the manager has an extremely bad year at some point in the future and the loss reserve becomes such that it may take years to recoup the losses and begin receiving a performance fee again, it may encourage the manager to

take riskier bets to recoup the losses sooner. *Note: this is somewhat mitigated by the risk budget mandated to the particular managers* 

Arguments for an ad valorem fee schedule

- Simplicity the schedule is easy to understand and reconcile
- Predictability easier for budgeting purposes

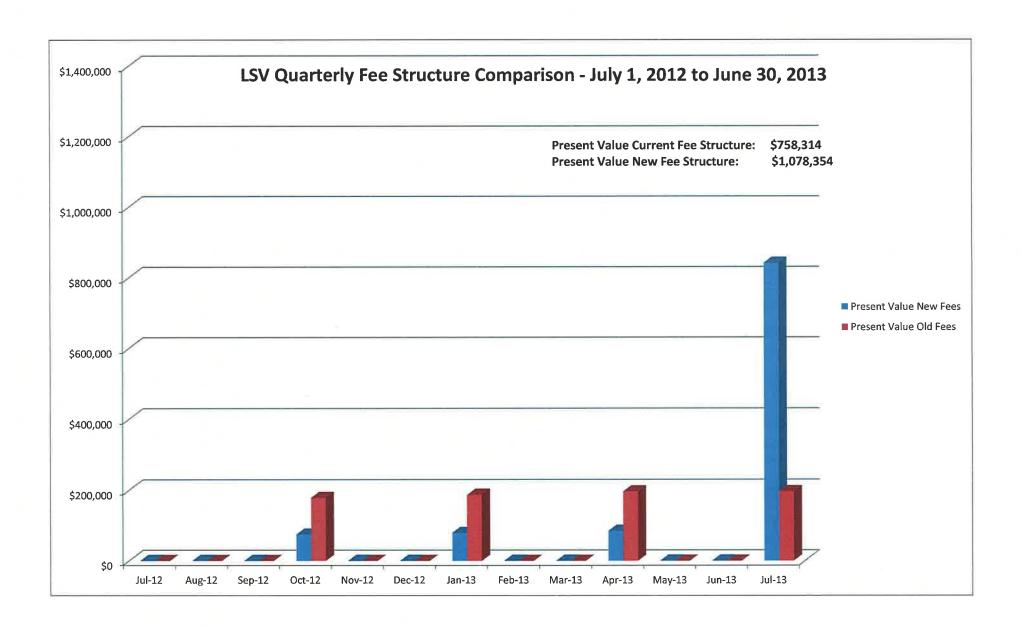
### Recommendation

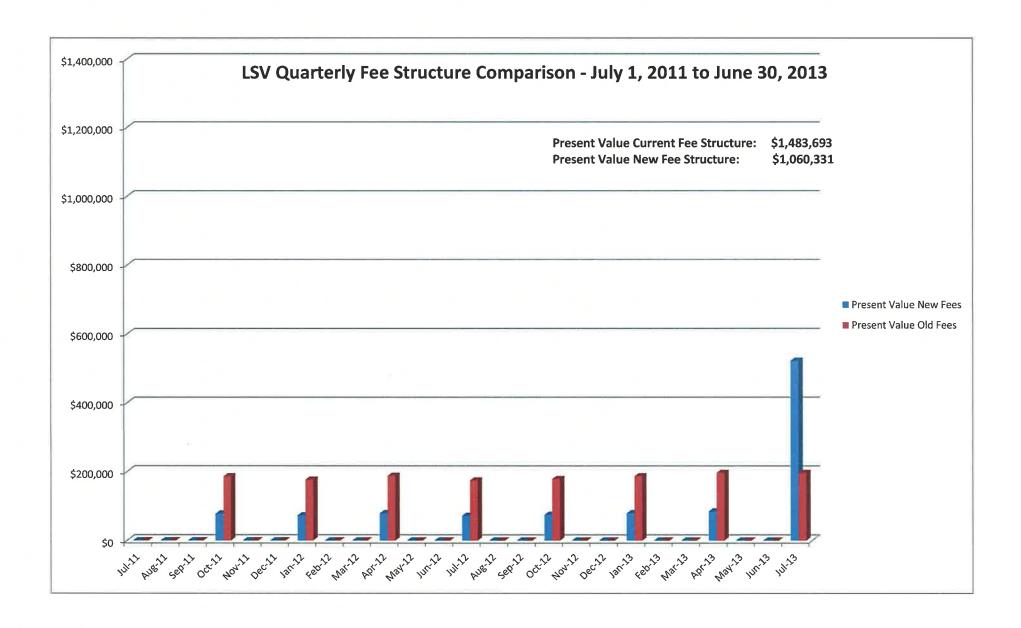
After consideration of the qualitative and quantitative aspects of the decision, staff recommends entering into a performance based fee schedule with LSV. Staff feels that the alignment of interests is a compelling argument and is fiduciarily sound. Staff also feels that the implementation of a performance based fee schedule is a step closer towards acquiring a greater level of understanding of the investment process. Should the Organization ever feel that the proposed new fee structure is not working to its satisfaction, the agreement can be converted back to the flat structure on any future July 1<sup>st</sup> date.

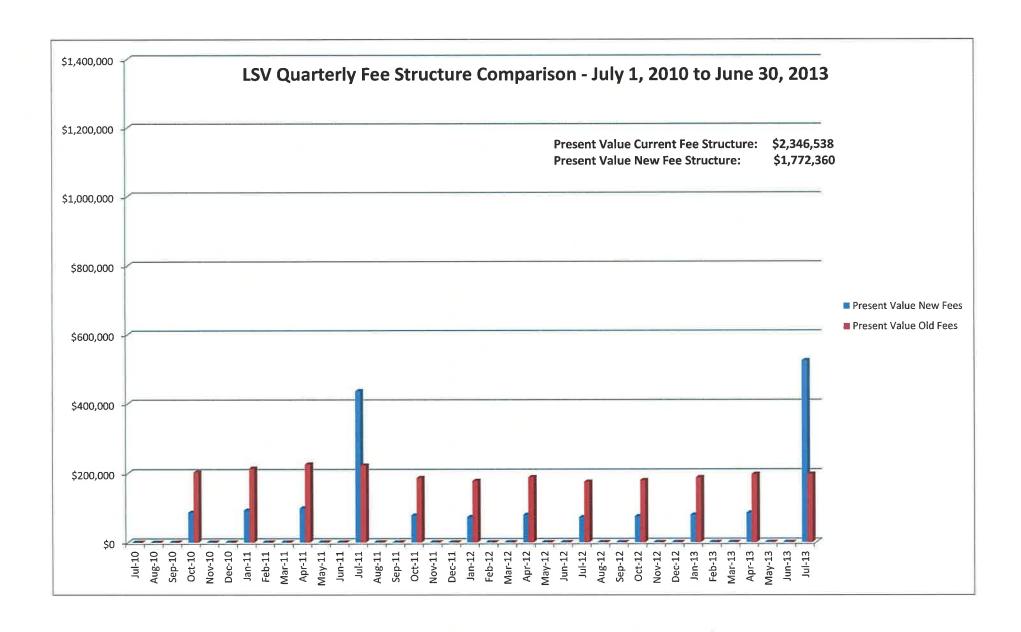
- V. RISK: Nothing quantifiable
- VI. STRATEGIC PLAN: Strategy C: Investment Information: Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy.
- VII. ADMINISTRATIVE BUDGET IMPACT: Investment management fees are not a part of the administrative budget.

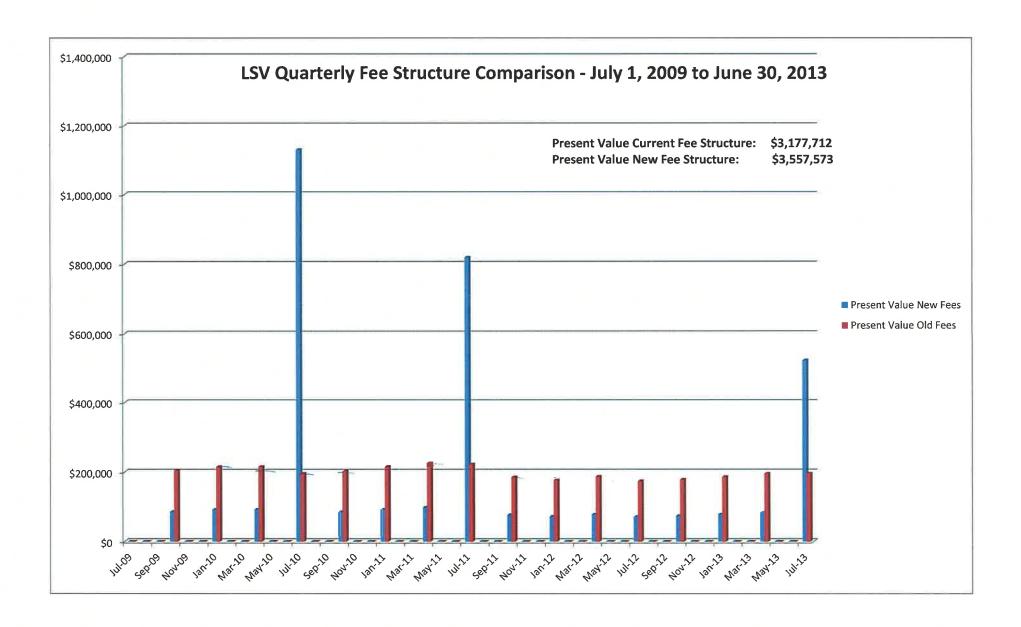
Rick Santos, Executive Director

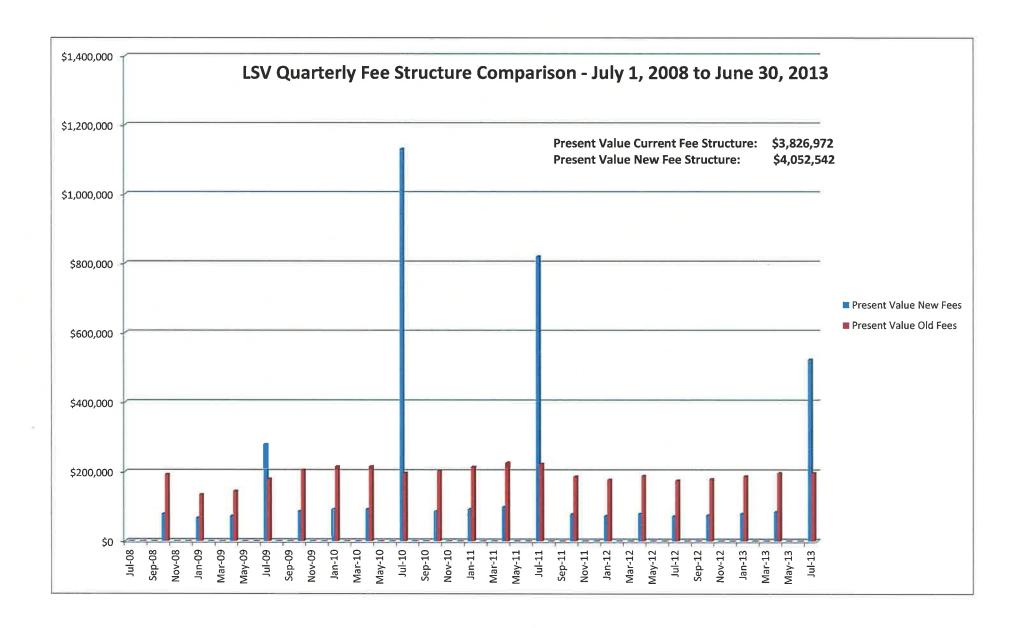
Kathy Herman, Operations Manager

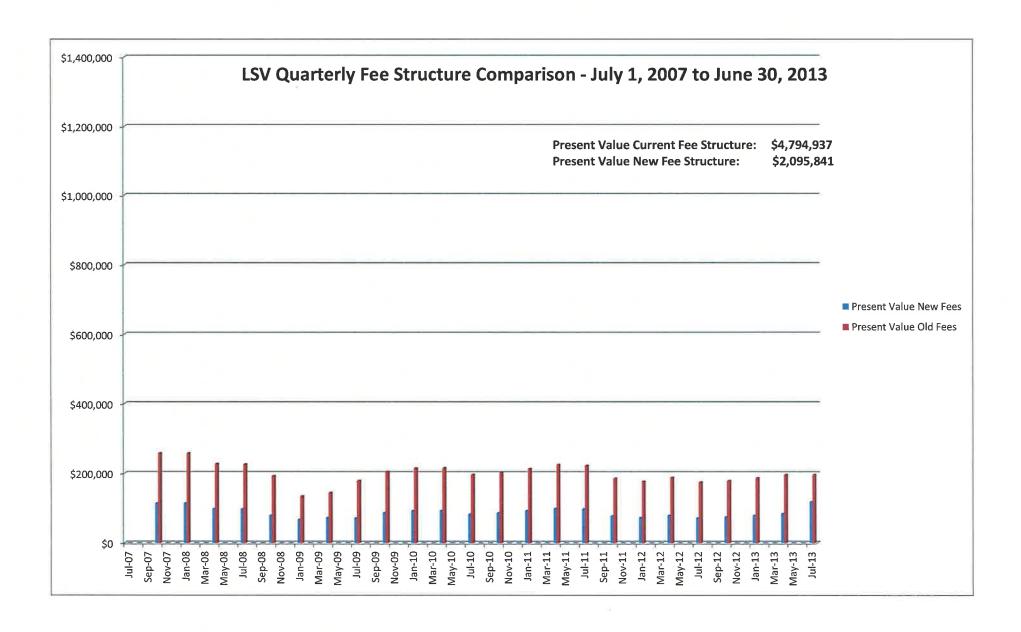


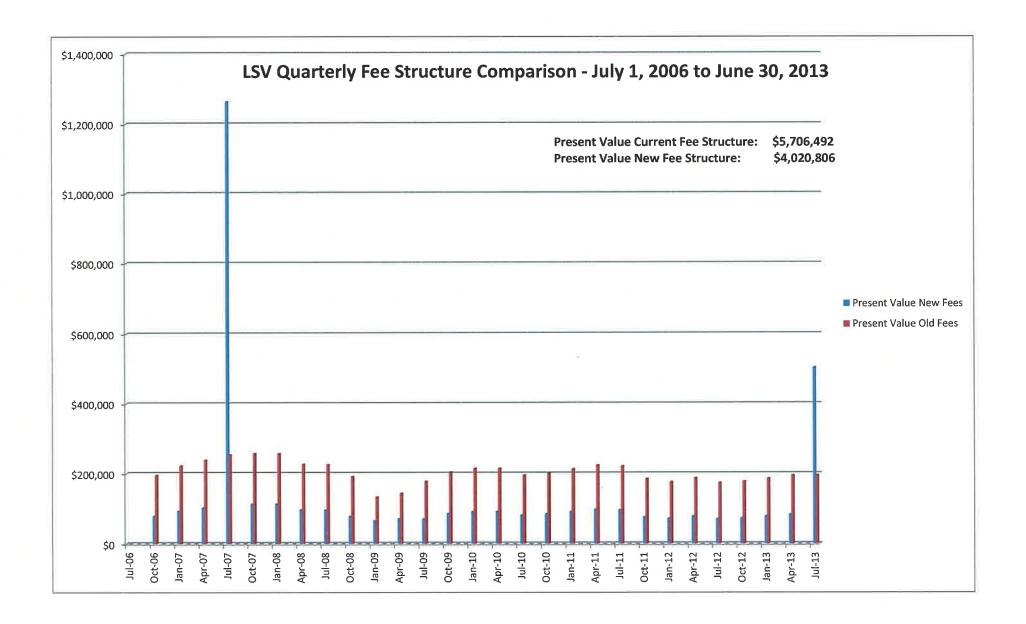














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> 11/26/13 Item# 7.e

# For the Retirement Board meeting Held on November 26, 2013

TO: Retirement Board

FROM: Rick Santos, Executive Director

- I. SUBJECT: 2013 Quarter 3 Value Added Report
- II. RECOMMENDATION: None; Information item only
- III. 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 dollar returns 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 in red focuses specifically on notable information in this quarter's report.

### Quarterly Value Added Report

- *Value Added Summary* This summary gives aggregate information for our current active managers since June 30, 2008 and for the most recent 12 month period. It also gives the same information by asset class and style. The analysis contains the following items:
  - > Changes in portfolio value by cause
  - > Total fees paid broken out by managerial and custodial
  - > Total value added
  - Total value added as a % of portfolio value. This can be considered a measure of efficiency. The higher the statistic, the more value he/she is adding for each dollar he/she is managing
  - > Average monthly value added
  - ➤ Probability of achieving positive value added in any given month. This can be considered a measure of consistency. The higher the probability, the more likely the manager is to add value in a given month
  - The quarter 3 value added summary shows that since June 30, 2008, all of StanCERA's current active managers have added value to the portfolio
  - For the most recently completed quarter/year, StanCERA active managers added \$8,974,000/\$28,218,000 in value, respectively

- Over the long term, all managers have demonstrated a greater than 50% ability to earn value in any given month. And, on an efficiency basis, Dodge & Cox Fixed Income and Capital Prospects have added the most value relative to their portfolio size
- Over the long term, StanCERA's small cap equity portfolio has provided the greatest relative value and has been the most likely to add value from month to month

While all managers have added value in the long run, it is important to realize that performance like this is transitory and should not necessarily be expected in the future.

- Total Fee Summary This summary shows fees in dollars and expressed in annualized basis points since June 30, 2008 and for the most recently completed 12 month 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. The exhibit includes all fees paid to all active managers (including terminated) over the specified period.
  - Custodial fees as a percentage of assets under management have remained relatively stable over the past year compared to the overall period from June 30, 2008 to present
  - Custodial fees for those managers that trade more have actually decreased over the last year. This is due to the new fee structure implemented at the beginning of the year with BNYM. The new structure focuses more on fees from performance and less on fees associated with trading
  - StanCERA's total external fees in basis points to manage the portfolio are right around 35 basis points. This compares quite closely with other 1937 Act Systems of similar size to StanCERA
- Individual Manager Quarterly Value Added Summary This summary gives the value added by quarter since June 30, 2008. It shows the quarterly components of value added; namely alpha, managerial and custodial fees. The exhibit also plots a graph of the value added each quarter and also a cumulative graph. If the cumulative graph tends to be rising in the most current quarters, the manager's recent performance can be considered to be improving and vice versa.
  - All managers except Pyramis added value in Quarter 3. Pyramis does remain positive, cumulatively since June 30, 2008
  - Dodge and Cox equity added the most value on an absolute basis during Quarter 3 at \$3.6 million
  - Delaware and Capital Prospects are and continue to be our most consistent performers

- Value added for Dodge & Cox's equity portfolio has rebounded quite nicely since a recent low in December 2011
- IV. RISK: None
- V. 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.
- VI. BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Operations Manager

### Value Added Summary

6/30/2008

Through

9/30/2013

Monthly

By Current Active Managers											
										M	onthly
			s in Portfolio Va	alue		Fees		Value	Added	Average	Probability
Current Active Managers	<u>Beginning</u>	Passive Return	<u>Alpha</u>	Net Cash Flows	<b>Ending</b>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	200,945,261	73,011,831	6,353,303	(114,706,512)	165,603,883	(1,657,654)	(71,610)	\$4,624,039	2.5%	73,397	51.5%
DELAWARE - LARGE CAP GROWTH	109,513,726	62,078,787	11,916,687	(50,165,893)	133,343,307	(2,739,145)	(48,222)	\$9,129,320	7.5%	144,910	54.5%
CAPITAL PROSPECTS*	45,896,605	56,427,459	9,045,867	(27,039,648)	84,330,283	(2,329,677)	(110,894)	\$6,605,296	10.1%	115,882	57.3%
Legato Capital*	27,545,658	58,169,428	3,907,853	(6,165,312)	83,457,627	(2,418,221)	(357,690)	\$1,131,941	2.0%	19,859	51.5%
LSV ASSET MGMT	122,047,987	35,799,396	10,903,047	(25,543,933)	143,206,498	(3,781,032)	(576,410)	\$6,545,605	4.9%	103,898	54.6%
Pyramis	135,901,315	30,705,119	6,058,131	(23,387,825)	149,276,739	(3,256,435)	(1,874,924)	\$926,771	0.6%	14,711	50.7%
DODGE & COX FI	449,128,361	102,429,626	35,085,525	(190,078,235)	396,565,277	(2,242,436)	(96,866)	\$32,746,224	7.7%	519,781	55.3%
PIMCO**	76,314,966	10,897,325	2,721,970	15,248,299	105,182,560	(1,115,132)	(73,814)	\$1,533,025	1.7%	38,326	58.0%
** Funded May 2010				Ву	Asset Class						
		Change	s in Portfolio Va	ماليم		Fees		Value	719010		onthly
<u>Value Added By Asset Class</u> 1. Equity	Beginning	Passive Return	Alpha	Net Cash Flows	Ending	<u>Managerial</u>	Custodial	<u>Total</u>	Added <u>% of Portfolio</u>	Average Value Added	Probability of Adding Value
a. Domestic	383,901,250	249,687,505	31,223,709	(198,077,365)	466,735,100	(9,144,697)	(588,416)	\$21,490,596	5.1%	\$341,121	53.1%
b. International	257,949,302	66,504,515	<u>16,961,178</u>	(48,931,758)	292,483,237	(7,037,467)	(2,451,334)	\$7,472,377	2.7%	\$118,609	52.6%
Equity Total	641,850,552	316,192,020	48,184,888	(247,009,123)	759,218,337	(16,182,165)	(3,039,750)	\$28,962,973	4.1%	\$459,730	52.9%
2. Fixed Income	525,443,327	113,326,951	37,807,495	(174,829,936)	501,747,837	(3,357,568)	(170,680)	\$34,279,248	6.7%	\$544,115	55.7%
3. Total Equity and Fixed Income	1,167,293,879	429,518,971	85,992,383	(421,839,059)	1,260,966,174	(19,539,733)	(3,210,429)	\$63,242,221	5.2%	\$1,003,845	54.2%

### By Style

	Changes in Portfolio Value							Value	Added	Average	Probability
Value Added By Asset Class	<b>Beginning</b>	Passive Return	<u>Alpha</u>	Net Cash Flows	Ending	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
Large Cap	310,458,987	135,090,618	18,269,990	(164,872,404)	298,947,190	(4,396,799)	(119,832)	\$13,753,359	4.5%	\$218,307	52.6%
Small Cap	73,442,263	114,596,888	12,953,719	(33,204,960)	167,787,910	(4,747,898)	(468,584)	\$7,737,238	6.4%	\$122,813	55.1%
Value	368,889,853	165,238,686	26,302,217	(167,290,092)	393,140,664	(7,768,363)	(758,914)	\$17,774,940	4.7%	\$282,142	53.3%
Growth	272,960,699	150,953,334	21,882,670	(79,719,030)	366,077,673	(8,413,802)	(2,280,836)	\$11,188,033	3.5%	\$177,588	52.3%

### Value Added Summary

9/30/2012

Changes in Portfolio Value

Alpha

9,084,047

6,064,371

14,010,031

8,113,941

Net Cash Flows

(25,773,112)

(4,436,725)

(17,167,085)

(14,528,433)

Value Added By Asset Class

Large Cap

Small Cap

Value

Growth

Beginning

260,350,405

126,232,546

324,343,719

306,243,452

Passive Return

55,285,850

39,927,718

71,953,999

66,248,713

Through

9/30/2013

Fees

(938,705)

(1,238,842)

(1,691,859)

(1,933,932)

Custodial

(34,628)

(117,662)

(192,840)

(464,801)

Managerial

Value Added

% of Portfolio

2.9%

3.2%

3.4%

1.7%

Total

\$8,110,715

\$4,707,867

\$12,125,332

\$5,715,208

Monthly

Probability

of Adding Value

64.3%

61.8%

67.4%

59.1%

Average

Value Added

\$675,893

\$392,322

\$1,010,444

\$476,267

### Dr. Commont Astino NA

By Current Active Managers											
										Mo	onthly
		Change	s in Portfolio Va	alue		Fees		Value	Added	Average	Probability
<u>Current Active Managers</u>	<b>Beginning</b>	Passive Return	<u>Alpha</u>	Net Cash Flows	<b>Ending</b>	Managerial	Custodial	Total	% of Portfolio	Value Added	of Adding Value
DODGE & COX - LARGE CAP VALUE	139,886,617	32,010,697	7,110,897	(13,404,328)	165,603,883	(314,269)	(18,902)	\$6,777,726	4.4%	564,811	73.6%
DELAWARE - LARGE CAP GROWTH	120,463,788	23,275,153	1,973,149	(12,368,784)	133,343,307	(624,435)	(15,726)	\$1,332,988	1.1%	111,082	53.6%
CAPITAL PROSPECTS*	65,365,857	18,917,849	4,078,407	(4,031,830)	84,330,283	(598,161)	(29,648)	\$3,450,597	4.6%	287,550	66.3%
Legato Capital*	60,866,689	21,009,868	1,985,964	(404,895)	83,457,627	(640,680)	(88,014)	\$1,257,270	1.7%	104,772	57.1%
LSV ASSET MGMT	119,091,245	21,025,453	2,820,727	269,074	143,206,498	(779,428)	(144,290)	\$1,897,009	1.4%	158,084	60.8%
Pyramis	124,912,975	21,963,691	4,154,827	(1,754,755)	149,276,739	(668,816)	(361,062)	\$3,124,950	2.3%	260,412	65.5%
DODGE & COX FI	422,719,533	(6,783,375)	11,010,524	(30,381,404)	396,565,277	(447,755)	(36,232)	\$10,526,537	2.6%	877,211	71.3%
PIMCO**	111,370,134	(1,849,663)	250,277	(4,588,188)	105,182,560	(367,863)	(30,692)	(\$148,279)	-0.1%	(12,357)	48.1%
* Funded December 2008											
** Funded May 2010											
										20	
				Ву	Asset Class						
										Mo	onthly
		<u> </u>	s in Portfolio Va			Fees		Value Added		Average	Probability
Value Added By Asset Class  1. Equity	Beginning	Passive Return	<u>Alpha</u>	Net Cash Flows	Ending	<u>Managerial</u>	Custodial	Total	% of Portfolio	Value Added	of Adding Value
a. Domestic	386,582,951	95,213,568	15,148,418	(30,209,837)	466,735,100	(2,177,546)	(152,290)	\$12,818,582	3.0%	\$1,068,215	63.5%
b. International	244,004,220	42,989,144	6,975,554	(1,485,681)	292,483,237	(1,448,244)	(505,352)	\$5,021,958	1.9%	\$418,497	63.2%
Equity Total	630,587,171	138,202,712	22,123,972	(31,695,518)	759,218,337	(3,625,790)	(657,641)	\$17,840,540	2.6%	\$1,486,712	63.4%
				AN EN TE	8 8	N 10	(/-	ç, ç, ç	2.070	ψ1,400,71Z	03.478
2. Fixed Income	534,089,667	(8,633,038)	11,260,801	(34,969,592)	501,747,837	(815,618)	(66,924)	\$10,378,259	2.0%	\$864,855	66.5%
3. Total Equity and Fixed Income	1,164,676,838	129,569,674	33,384,773	(66,665,110)	1,260,966,174	(4,441,409)	(724,565)	\$28,218,799	2.3%	\$2,351,567	64.8%
By Style											

**Ending** 

298,947,190

167,787,910

393,140,664

366,077,673

### **Total Fee Summary**

9/30/2012

Through

9/30/2013

		Managerial Fees		Cus	todial Fees	Total Fees	
Manager	Average Dollars Managed	Total	Annualized Basis Points	Total	Annualized Basis Points	Total	Annualized Basis Points
DODGE & COX - LARGE CAP VALUE	155,113,561	314,269	20.3	18,902	1.2	333,171	21.5
MAZAMA - SMALL CAP GROWTH	-	5	0.0		0.0		0.0
* Terminated 12/2008							
DELAWARE - LARGE CAP GROWTH	125,570,354	624,435	49.7	15,726	1.3	640,161	51.0
LOOMIS SAYLES - LARGE CAP GROWTH	=	4	0.0	-	0.0	100	0.0
* Terminated 6/2010							
Capital Prospects - By Manager							
Bernzott	10,714,855	83,743		4,151		87,893	
Channing	17,756,046	138,773		6,878		145,652	
InView	16,684,560	130,399		6,463		136,863	
Keeley	9,872,974	77,163		3,825		80,987	
Ten	10,408,716	81,350		4,032		85,382	
Walthausen	11,097,529	86,733		4,299		91,032	
CAPITAL PROSPECTS	76,534,680	598,161	78.2	29,648	3.9	627,810	82.0
Legato - By Manager							
CastleArk	11,407,550	105,712		14,522		120,235	
Lee Munder/Crosswinds	14,864,383	137,746		18,923		156,669	
Eudaimonia	9,679,133	89,695		12,322		102,017	
Riverbridge	16,592,799	153,763		21,123		174,887	
Stephens	16,592,799	153,763		21,123		174,887	
LEGATO CAPITAL	69,136,664	640,680	92.7	88,014	12.7	728,694	105.4
LSV ASSET MGMT	131,857,217	779,428	59.1	144,290	10.9	923,718	70.1
PYRAMIS	137,958,816	668,816	48.5	361,062	26.2	1,029,878	74.7
DODGE & COX FI	416,278,189	447,755	10.8	36,232	0.9	483,987	11.6
PIMCO  * Inception Date 5/2010	110,537,559	367,863	33.3	30,692	2.8	398,555	36.1
INVESCO * Terminated 9/2012	-	¥	0.0	4	0.0	[55]	0.0
RAFI**  * Terminated 6/2012	-	-	0.0	-	0.0	+	0.0
STRATEGIC INVESTMENT SOLUTIONS	1,532,736,853	159,988	1.0	N/A	N/A	159,988	1.0
TOTAL	1,532,736,853	4,601,397	30.0	724,565	4.7	5,325,962	34.7

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

## **Total Fee Summary**

6/30/2008

Through

9/30/2013

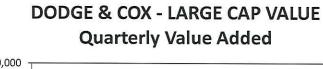
		Managerial Fees		Cus	stodial Fees	Total Fees		
<u>Manager</u>	Average Dollars Managed	Total	<b>Annualized Basis Points</b>	Total	Annualized Basis Points	Total	Annualized Basis Points	
DODGE & COX - LARGE CAP VALUE	157,484,000	1,657,654	20.0	71,610	0.9	1,729,264	20.9	
MAZAMA - SMALL CAP GROWTH  * Terminated 12/2008	40,030,714	142,341	71.1	1,500	0.7	143,841	71.9	
DELAWARE - LARGE CAP GROWTH	103,800,194	2,739,145	50.3	48,222	0.9	2,787,367	51.1	
LOOMIS SAYLES - LARGE CAP GROWTH * Terminated 6/2010	60,225,299	475,494	39.5	6,888	0.6	482,382	40.0	
Capital Prospects - By Manager								
Bernzott	8,767,111	326,155		15,525		341,680		
Channing	14,528,355	540,485		25,727		566,212		
InView	13,651,644	507,870		24,175		532,044		
Keeley	8,078,267	300,528		14,305		314,834		
Ten	8,516,622	316,836		15,082		331,918		
Walthausen	9,080,222	337,803		16,080		353,883		
CAPITAL PROSPECTS	62,622,222	2,329,677	78. <mark>3</mark>	110,894	3.7	2,440,571	82.0	
Legato - By Manager								
CastleArk	8,997,307	399,382		59,019		458,401		
Lee Munder/Crosswinds	11,723,764	520,407	8	76,903		597,310		
Eudaimonia	7,634,079	338,870		50,077		388,946		
Riverbridge	13,086,992	580,919		85,846		666,765		
Stephens	13,086,992	580,919		85,846		666,765		
LEGATO CAPITAL	54,529,133	2,420,498	93.5	357,690	13.8	2,778,188	107.3	
LSV ASSET MGMT	119,792,441	3,781,032	60.1	576,410	9.2	4,357,442	69.3	
PYRAMIS	122,637,390	3,256,435	50.6	1,874,924	29.1	5,131,360	79.7	
DODGE & COX FI	398,170,784	2,242,436	10.7	96,866	0.5	2,339,302	11.2	
PIMCO * Inception Date 5/2010	96,189,703	1,138,398	35.5	73,814	2.3	1,212,212	37.8	
INVESCO * Terminated 9/2012	16,336,383	332,519	47.9	89	0.0	332,608	47.9	
RAFI**  * Terminated 6/2012	/ <del>-</del>	<u>~</u>	0.0		0.0	1-1	0.0	
STRATEGIC INVESTMENT SOLUTIONS	1,301,269,190	796,699	1.2	N/A	N/A	796,699	1.2	
TOTAL	1,301,269,190	21,312,329	31.2	3,218,906	4.7	24,531,235	35.9	

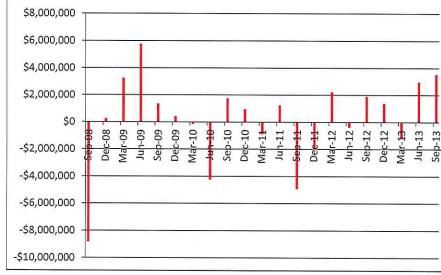
<sup>\*\*</sup> RAFI fees are taken from the actual portfolio

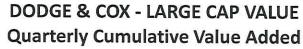
### DODGE & COX - LARGE CAP VALUE Quarterly Value Added

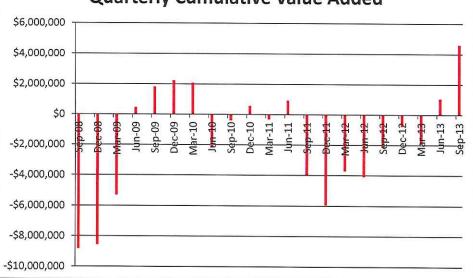
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<u>Quarter</u>	Begin Date	End Date	<u>Alpha</u>	Managerial	<u>Custodial</u>	Value Added
1	6/30/2008	9/30/2008	-\$8,718,692	\$87,561	\$4,163	-\$8,810,416
2	9/30/2008	12/31/2008	\$338,826	\$72,229	\$3,034	\$263,563
3	12/31/2008	3/31/2009	\$3,320,784	\$64,395	\$2,534	\$3,253,855
4	3/31/2009	6/30/2009	\$5,845,442	\$74,654	\$2,916	\$5,767,871
5	6/30/2009	9/30/2009	\$1,446,821	\$85,652	\$3,465	\$1,357,703
6	9/30/2009	12/31/2009	\$515,303	\$88,756	\$3,745	\$422,802
7	12/31/2009	3/31/2010	-\$57,048	\$92,709	\$3,918	-\$153,675
8	3/31/2010	6/30/2010	-\$4,161,579	\$74,563	\$3,643	-\$4,239,784
9	6/30/2010	9/30/2010	\$1,841,032	\$79,904	\$3,319	\$1,757,809
10	9/30/2010	12/31/2010	\$1,043,825	\$86,729	\$3,632	\$953,465
11	12/31/2010	3/31/2011	-\$785,178	\$90,267	\$3,987	-\$879,432
12	3/31/2011	6/30/2011	\$1,340,497	\$88,927	\$4,088	\$1,247,482
13	6/30/2011	9/30/2011	-\$4,824,229	\$72,824	\$3,136	-\$4,900,189
14	9/30/2011	12/31/2011	-\$1,888,926	\$75,694	\$2,344	-\$1,966,964
15	12/31/2011	3/31/2012	\$2,303,140	\$68,984	\$1,476	\$2,232,680
16	3/31/2012	6/30/2012	-\$301,101	\$67,711	\$2,236	-\$371,048
17	6/30/2012	9/30/2012	\$1,983,489	\$71,825	\$1,072	\$1,910,592
18	9/30/2012	12/31/2012	\$1,467,208	\$73,225	\$2,092	\$1,391,891
19	12/31/2012	3/31/2013	-\$1,072,291	\$79,186	\$4,665	-\$1,156,142
20	3/31/2013	6/30/2013	\$3,074,425	\$80,061	\$6,119	\$2,988,245
21	6/30/2013	9/30/2013	\$3,641,556	\$81,796	\$6,026	\$3,553,733
			The second secon			M. M.



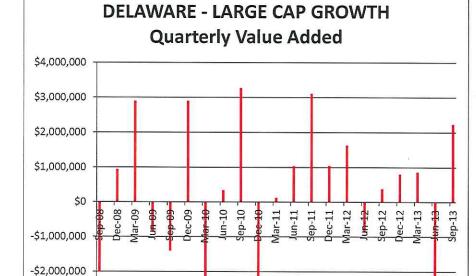






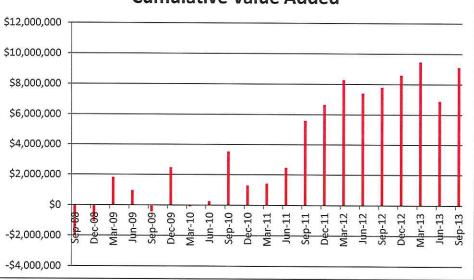
### **DELAWARE - LARGE CAP GROWTH Quarterly Value Added**

Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	6/30/2008	9/30/2008	-\$1,874,082	\$129,510	\$2,310	-\$2,005,902
2	9/30/2008	12/31/2008	\$1,034,702	\$94,158	\$1,687	\$938,857
3	12/31/2008	3/31/2009	\$2,993,541	\$95,708	\$1,593	\$2,896,240
4	3/31/2009	6/30/2009	-\$731,767	\$116,062	\$1,907	-\$849,736
5	6/30/2009	9/30/2009	-\$1,263,475	\$131,961	\$2,230	-\$1,397,666
6	9/30/2009	12/31/2009	\$3,043,032	\$143,212	\$2,459	\$2,897,361
7	12/31/2009	3/31/2010	-\$2,395,031	\$144,649	\$2,527	-\$2,542,207
8	3/31/2010	6/30/2010	\$442,133	\$106,047	\$1,984	\$334,102
9	6/30/2010	9/30/2010	\$3,378,675	\$101,839	\$1,715	\$3,275,121
10	9/30/2010	12/31/2010	-\$2,113,459	\$115,269	\$1,964	-\$2,230,692
11	12/31/2010	3/31/2011	\$253,486	\$125,411	\$2,148	\$125,927
12	3/31/2011	6/30/2011	\$1,170,665	\$129,638	\$2,224	\$1,038,803
13	6/30/2011	9/30/2011	\$3,241,561	\$123,443	\$1,098	\$3,117,020
14	9/30/2011	12/31/2011	\$1,180,312	\$127,986	\$1,178	\$1,051,148
15	12/31/2011	3/31/2012	\$1,778,217	\$141,840	\$1,694	\$1,634,683
16	3/31/2012	6/30/2012	-\$723,810	\$142,009	\$1,954	-\$867,773
17	6/30/2012	9/30/2012	\$528,838	\$145,968	\$1,824	\$381,046
18	9/30/2012	12/31/2012	\$957,854	\$147,904	\$2,026	\$807,924
19	12/31/2012	3/31/2013	\$1,030,783	\$159,111	\$4,988	\$866,684
20	3/31/2013	6/30/2013	-\$2,421,912	\$156,738	\$4,430	-\$2,583,080
21	6/30/2013	9/30/2013	\$2,406,424	\$160,682	\$4,282	\$2,241,460



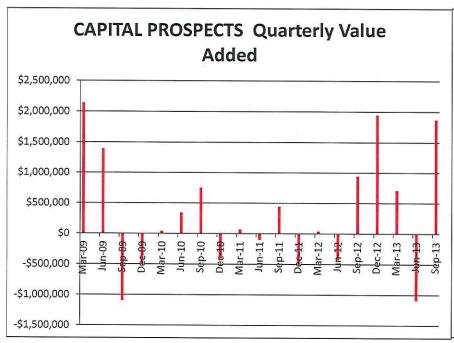
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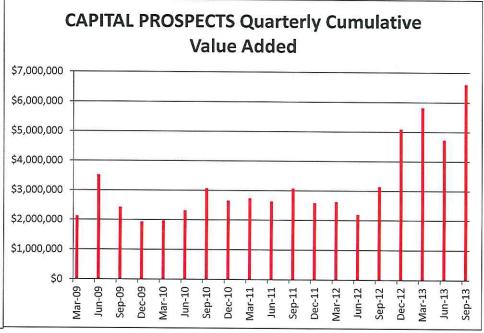




### **CAPITAL PROSPECTS Quarterly Value Added**

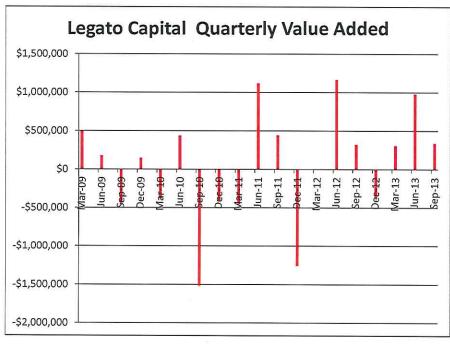
Quarter	Begin Date	<b>End Date</b>	<u>Alpha</u>	Managerial	<u>Custodial</u>	Value Added
1	12/31/2008	3/31/2009	\$2,220,882	\$78,443	\$3,579	\$2,138,860
2	3/31/2009	6/30/2009	\$1,489,736	\$94,328	\$4,311	\$1,391,097
3	6/30/2009	9/30/2009	-\$975,854	\$110,157	\$5,091	-\$1,091,103
4	9/30/2009	12/31/2009	-\$380,938	\$113,833	\$5,420	-\$500,192
5	12/31/2009	3/31/2010	\$172,742	\$123,719	\$5,831	\$43,193
6	3/31/2010	6/30/2010	\$469,514	\$120,854	\$5,805	\$342,855
7	6/30/2010	9/30/2010	\$873,418	\$113,604	\$5,383	\$754,432
8	9/30/2010	12/31/2010	-\$279,802	\$127,372	\$5,986	-\$413,160
9	12/31/2010	3/31/2011	\$218,674	\$139,484	\$6,649	\$72,540
10	3/31/2011	6/30/2011	\$44,992	\$136,107	\$6,761	-\$97,876
11	6/30/2011	9/30/2011	\$557,229	\$105,623	\$5,628	\$445,978
12	9/30/2011	12/31/2011	-\$378,530	\$108,585	\$4,888	-\$492,003
13	12/31/2011	3/31/2012	\$163,761	\$119,481	\$5,222	\$39,057
14	3/31/2012	6/30/2012	-\$301,042	\$117,427	\$5,636	-\$424,106
15	6/30/2012	9/30/2012	\$1,072,679	\$122,499	\$5,054	\$945,126
16	9/30/2012	12/31/2012	\$2,086,673	\$131,297	\$5,086	\$1,950,290
17	12/31/2012	3/31/2013	\$868,837	\$147,222	\$7,282	\$714,334
18	3/31/2013	6/30/2013	-\$924,866	\$154,313	\$7,805	-\$1,086,983
19	6/30/2013	9/30/2013	\$2,047,762	\$165,329	\$9,476	\$1,872,957

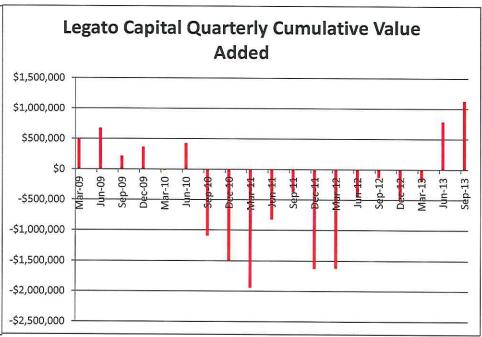




### Legato Capital Quarterly Value Added

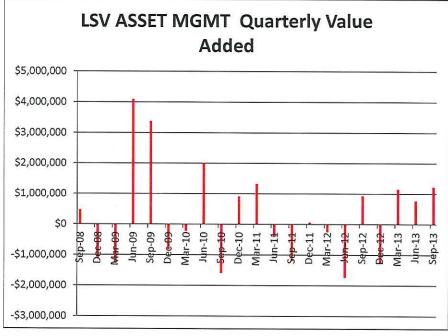
Quarter	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	Custodial	Value Added
1	12/31/2008	3/31/2009	\$565,974	\$57,874	\$8,725	\$499,374
2	3/31/2009	6/30/2009	\$262,526	\$73,140	\$10,790	\$178,596
3	6/30/2009	9/30/2009	-\$337,613	\$104,616	\$15,476	-\$457,705
4	9/30/2009	12/31/2009	\$274,823	\$108,982	\$16,225	\$149,615
5	12/31/2009	3/31/2010	-\$246,517	\$116,353	\$17,337	-\$380,207
6	3/31/2010	6/30/2010	\$579,733	\$120,704	\$18,201	\$440,828
7	6/30/2010	9/30/2010	-\$1,377,562	\$117,787	\$17,310	-\$1,512,658
8	9/30/2010	12/31/2010	-\$246,064	\$137,368	\$19,853	-\$403,286
9	12/31/2010	3/31/2011	-\$280,084	\$151,931	\$22,380	-\$454,395
10	3/31/2011	6/30/2011	\$1,299,087	\$154,501	\$23,457	\$1,121,129
11	6/30/2011	9/30/2011	\$582,439	\$117,446	\$18,692	\$446,301
12	9/30/2011	12/31/2011	-\$1,117,167	\$119,430	\$16,508	-\$1,253,105
13	12/31/2011	3/31/2012	\$159,474	\$130,946	\$22,688	\$5,841
14	3/31/2012	6/30/2012	\$1,322,961	\$131,021	\$22,120	\$1,169,820
15	6/30/2012	9/30/2012	\$479,877	\$135,442	\$19,914	\$324,521
16	9/30/2012	12/31/2012	-\$213,207	\$138,254	\$21,088	-\$372,549
17	12/31/2012	3/31/2013	\$485,352	\$153,975	\$21,977	\$309,400
18	3/31/2013	6/30/2013	\$1,167,286	\$164,612	\$21,657	\$981,017
19	6/30/2013	9/30/2013	\$546,533	\$183,840	\$23,292	\$339,402

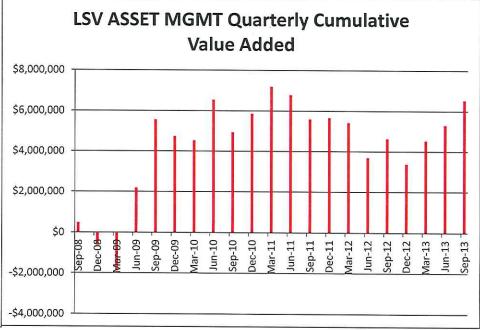




### LSV ASSET MGMT Quarterly Value Added

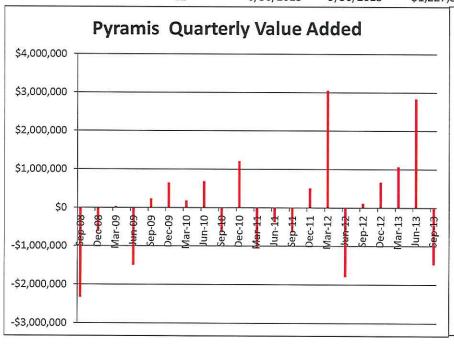
Quarter	Begin Date	End Date	Alpha	Managerial	<u>Custodial</u>	Value Added
1	6/30/2008	9/30/2008	\$655,791	\$153,691	\$25,752	\$476,347
2	9/30/2008	12/31/2008	-\$961,364	\$121,655	\$16,937	-\$1,099,956
3	12/31/2008	3/31/2009	-\$1,129,287	\$125,734	\$17,507	-\$1,272,528
4	3/31/2009	6/30/2009	\$4,280,311	\$163,383	\$21,986	\$4,094,941
5	6/30/2009	9/30/2009	\$3,601,604	\$193,494	\$26,984	\$3,381,127
6	9/30/2009	12/31/2009	-\$594,243	\$198,631	\$29,702	-\$822,577
7	12/31/2009	3/31/2010	\$12,530	\$197,281	\$30,272	-\$215,022
8	3/31/2010	6/30/2010	\$2,217,667	\$175,374	\$28,087	\$2,014,205
9	6/30/2010	9/30/2010	-\$1,372,452	\$193,603	\$27,860	-\$1,593,915
10	9/30/2010	12/31/2010	\$1,147,771	\$204,620	\$30,593	\$912,558
11	12/31/2010	3/31/2011	\$1,566,189	\$206,820	\$33,063	\$1,326,306
12	3/31/2011	6/30/2011	-\$164,056	\$205,220	\$33,657	-\$402,932
13	6/30/2011	9/30/2011	-\$1,004,436	\$163,726	\$19,932	-\$1,188,094
14	9/30/2011	12/31/2011	\$251,061	\$168,642	\$15,576	\$66,843
15	12/31/2011	3/31/2012	-\$33,570	\$180,121	\$26,254	-\$239,945
16	3/31/2012	6/30/2012	-\$1,538,936	\$168,468	\$21,326	-\$1,728,730
17	6/30/2012	9/30/2012	\$1,147,740	\$181,141	\$26,629	\$939,969
18	9/30/2012	12/31/2012	-\$1,051,237	\$189,009	\$23,035	-\$1,263,282
19	12/31/2012	3/31/2013	\$1,391,454	\$191,543	\$43,031	\$1,156,880
20	3/31/2013	6/30/2013	\$1,004,560	\$190,029	\$39,759	\$774,771
21	6/30/2013	9/30/2013	\$1,475,950	\$208,847	\$38,465	\$1,228,639

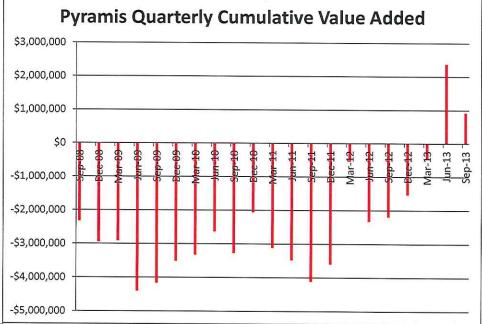




### Pyramis Quarterly Value Added

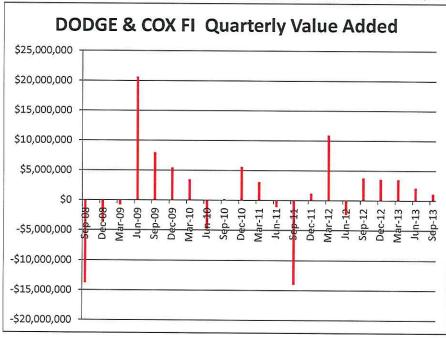
Quarter	Begin Date	End Date	<u>Alpha</u>	Managerial	Custodial	Value Added
1	6/30/2008	9/30/2008	-\$2,082,765	\$152,850	\$90,554	-\$2,326,170
2	9/30/2008	12/31/2008	-\$437,372	\$117,911	\$60,259	-\$615,542
3	12/31/2008	3/31/2009	\$209,883	\$118,436	\$57,751	\$33,696
4	3/31/2009	6/30/2009	-\$1,281,976	\$137,529	\$69,320	-\$1,488,825
5	6/30/2009	9/30/2009	\$475,247	\$151,346	\$83,054	\$240,846
6	9/30/2009	12/31/2009	\$899,710	\$157,601	\$91,000	\$651,109
7	12/31/2009	3/31/2010	\$439,347	\$157,772	\$91,474	\$190,101
8	3/31/2010	6/30/2010	\$934,572	\$154,446	\$91,258	\$688,868
9	6/30/2010	9/30/2010	-\$387,602	\$159,074	\$91,794	-\$638,469
10	9/30/2010	12/31/2010	\$1,481,008	\$168,380	\$101,747	\$1,210,881
11	12/31/2010	3/31/2011	-\$772,440	\$174,287	\$107,607	-\$1,054,333
12	3/31/2011	6/30/2011	-\$81,072	\$173,911	\$109,490	-\$364,474
13	6/30/2011	9/30/2011	-\$383,265	\$153,665	\$98,953	-\$635,883
14	9/30/2011	12/31/2011	\$749,781	\$148,898	\$86,186	\$514,697
15	12/31/2011	3/31/2012	\$3,315,164	\$155,807	\$101,988	\$3,057,369
16	3/31/2012	6/30/2012	-\$1,542,684	\$151,167	\$89,339	-\$1,783,190
17	6/30/2012	9/30/2012	\$367,768	\$154,539	\$92,086	\$121,143
18	9/30/2012	12/31/2012	\$937,742	\$160,345	\$107,241	\$670,156
19	12/31/2012	3/31/2013	\$1,346,178	\$167,103	\$102,864	\$1,076,211
20	3/31/2013	6/30/2013	\$3,098,710	\$169,551	\$87,738	\$2,841,421
21	6/30/2013	9/30/2013	-\$1,227,803	\$171,817	\$63,218	-\$1,462,838

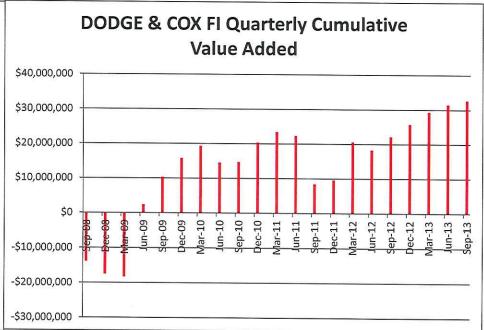




### DODGE & COX FI Quarterly Value Added

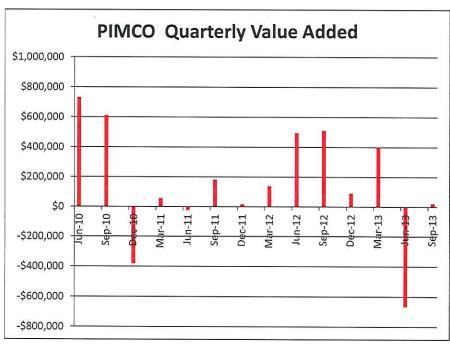
Quarter	Begin Date	End Date	<u>Alpha</u>	<u>Managerial</u>	<u>Custodial</u>	Value Added
1	6/30/2008	9/30/2008	-\$13,670,694	\$114,102	\$5,164	-\$13,789,961
2	9/30/2008	12/31/2008	-\$3,566,715	\$115,403	\$4,856	-\$3,686,974
3	12/31/2008	3/31/2009	-\$674,934	\$101,942	\$4,544	-\$781,420
4	3/31/2009	6/30/2009	\$20,762,262	\$93,348	\$4,504	\$20,664,410
5	6/30/2009	9/30/2009	\$8,095,535	\$96,022	\$4,139	\$7,995,374
6	9/30/2009	12/31/2009	\$5,598,814	\$94,950	\$4,108	\$5,499,756
7	12/31/2009	3/31/2010	\$3,610,418	\$96,543	\$4,099	\$3,509,776
8	3/31/2010	6/30/2010	-\$4,695,333	\$98,358	\$4,175	-\$4,797,866
9	6/30/2010	9/30/2010	\$304,813	\$100,758	\$4,291	\$199,764
10	9/30/2010	12/31/2010	\$5,724,549	\$100,934	\$4,355	\$5,619,260
11	12/31/2010	3/31/2011	\$3,197,808	\$102,236	\$4,374	\$3,091,197
12	3/31/2011	6/30/2011	-\$969,737	\$107,254	\$4,569	-\$1,081,560
13	6/30/2011	9/30/2011	-\$13,865,344	\$116,701	\$1,899	-\$13,983,943
14	9/30/2011	12/31/2011	\$1,326,142	\$115,860	\$1,433	\$1,208,849
15	12/31/2011	3/31/2012	\$11,121,304	\$113,310	\$1,364	\$11,006,630
16	3/31/2012	6/30/2012	-\$2,191,044	\$113,009	\$1,363	-\$2,305,417
17	6/30/2012	9/30/2012	\$3,967,160	\$113,951	\$1,395	\$3,851,813
18	9/30/2012	12/31/2012	\$3,730,794	\$113,934	\$1,355	\$3,615,505
19	12/31/2012	3/31/2013	\$3,702,213	\$114,526	\$11,741	\$3,575,946
20	3/31/2013	6/30/2013	\$2,279,219	\$110,496	\$11,520	\$2,157,204
21	6/30/2013	9/30/2013	\$1,298,298	\$108,799	\$11,616	\$1,177,882

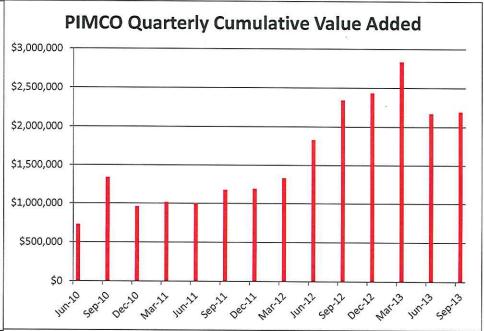




### PIMCO Quarterly Value Added

Quarter	Begin Date	<b>End Date</b>	<u>Alpha</u>	<u>Managerial</u>	Custodial	Value Added
1	3/31/2010	6/30/2010	\$780,844	\$46,533	\$2,670	\$731,640
2	6/30/2010	9/30/2010	\$689,748	\$73,608	\$4,535	\$611,605
3	9/30/2010	12/31/2010	-\$302,620	\$72,769	\$4,589	-\$379,978
4	12/31/2010	3/31/2011	\$134,401	\$73,072	\$4,537	\$56,793
5	3/31/2011	6/30/2011	\$56,698	\$74,250	\$4,625	-\$22,176
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





# Stanislaus County Employees' Retirement Association

# STATEMENT OF INVESTMENT POLICY

January 1, 2014



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#### **INTRODUCTION**

#### **Purpose**

The purpose of the Stanislaus County Employees' Retirement Association (StanCERA, hereafter referred to as the "Plan") is to provide and protect retirement benefits for its members and beneficiaries. To help accomplish this mission, the Retirement Board has prepared this Investment Policy Statement (the Investment Policy) within the context of applicable California laws. The statements contained in this document are intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure prudence and care are maintained in the execution of the investment program.

The primary fiduciary fiscal responsibility of the Retirement Board is to ensure that the Plan's assets are responsibly managed in accordance with the actuarial needs of the Plan with sound financial investment practices and with the ultimate goal of ensuring the Plan's ability to meet benefit requirements when they come due.

The standard of investment for Plan assets in making investments shall be to exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Investments are to be diversified so as to minimize the risk of large losses, unless under the circumstances, it is clearly prudent not to do so.

The Retirement Board has arrived at this Investment Policy through careful study of the returns and risks associated with various investment strategies in relation to the current and projected cash flows of the Plan. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Plan, which are described in the Statement of Objectives section of this document.

The Retirement Board has adopted a long term investment horizon such that the chances for, and duration of, investment losses are carefully weighed against the long term potential for appreciation of assets.

The assets of the Plan will be invested in a manner that provides the safeguards and diversity that a prudent investor would adhere to. All transactions undertaken on behalf of the Plan will be in the sole interest of the members and beneficiaries, and for the exclusive purpose of providing benefits to such membership and their beneficiaries, and defraying reasonable expenses of administering the Plan.

The Investment Policy, guidelines, and objectives, which govern the investment of Plan assets, shall be developed and adopted by the Retirement Board at regularly scheduled board meetings, at least biennially, or as necessary. Over time, as the Plan moves in the direction of asset liability management, changes to this statement may be made more frequently. It should be understood this document is not static and will evolve over time.

#### **Scope**

This document refers to the management of the funds held in trust for the benefit of all members of the Plan. Members of the Plan include:

- 1. Those actively employed; and
- 2. Those that have earned a vested benefit that is payable at some point in the future; and
- 3. Those that have monies on deposit with the plan, yet have not earned a vested benefit; and
- 4. Those that are retired; and
- 5. Those that are beneficiaries of former active members

The term of this policy in indefinite and does not expire.

#### **DUTIES AND RESPONSIBILITIES**

#### **Retirement Board**

The Retirement Board is responsible for developing the Investment Policy and for overseeing the investment activities of the Plan. The Retirement Board must approve all changes to the Investment Policy before they can be implemented.

Retirement Board policy setting responsibilities include revising this Investment Policy as necessary; such as, but not limited to (1) acceptable asset classes, (2) allowable ranges of holdings by asset class as a percent of assets, and (3) definitions of acceptable securities within each asset class.

The Retirement Board (1) selects, retains and replaces investment managers, consultants and custodians, (2) controls the asset allocation within Investment Policy limits by asset class and by individual investment manager, (3) establishes investment performance expectations for total assets and for each portfolio, and (4) ensures all managers comply with this Investment Policy.

The Retirement Board, or its designee, will communicate the Investment Policy and performance expectations to the investment managers. The Retirement Board will review investment performance regularly to assure the Investment Policy is being followed and progress is being made toward achieving the objectives. In no case can the Retirement Board or any of its designees consent to a waiver or transfer (whether implicit or explicit) of its fiduciary duty to any individual or other Organization that manages funds for the Plan.

#### **Investment Managers**

The investment managers shall be responsible for determining investment strategy, implementing security selection and the timing of purchases and sales for the assets allocated to them within the Investment Policy guidelines set forth in this statement and as otherwise provided in writing by the Retirement Board.

#### **Investment Consultant**

While working closely with the Plan's staff, the Investment Consultant will:

- 1. Prepare for review and approval all amendments to StanCERA's Investment Policy; and
- 2. Will recommend the appropriate asset allocation to the Board; and
- 3. Will recommend the Investment Manager Structure that best fits that asset allocation; and
- 4. Will perform individual Investment Manager Searches as needs arise, based upon the approved Investment Manager Structure, and bring to the Board for interview and approval; and
- 5. Provide monthly updates on Investment Manager performance (actual vs target allocation); and
- 6. Coordinate or provide education to the Retirement Board members and staff on current investment trends and topics; and
- 7. Periodically visit investment managers and securities custodian and keep the Board informed of matters learned from such meetings; and
- 8. Will assist StanCERA in fee negotiations with StanCERA's investment managers and securities custodian; and
- 9. Be available to assist StanCERA's staff as it relates to StanCERA's investments and attend Retirement Board meetings when requested.

#### **Custodians**

The custodians hold for safekeeping all the securities included in all investment management portfolios, except as may otherwise be stated in this document. The custodian insures collection of interest and dividends and will issue regular detailed reports on holdings, their value, and all transactions. The Plan's managers are responsible for providing custodial services for all assets in commingled funds. The custodian will maintain records and provide reports for all managers of the Plan's commingled funds, except as may otherwise be stated in this document.

#### Staff

The Plan's staff shall have the following responsibilities:

- 1. Prepare for review and approval all amendments to StanCERA's Investment Policy; and
- 2. Monitor all transactional cash flows; and
- 3. Approve all cash flows between manager accounts; and
- 4. Monitor and reconcile the reporting accuracy between the custody bank and all investment managers; and
- 5. Monitor the accuracy and validity of all invoices submitted by the Plan's investment managers; and
- 6. Provide the Board of Retirement with quarterly updates pertaining to risk management and value added; and
- 7. Make recommendations to the Board regarding investment strategies and risk mitigation techniques; and
- 8. Perform due diligence on potential new investment managers; and
- 9. Provide the Board with information necessary to carry out their fiduciary responsibilities

This list is not meant to be exhaustive or complete as staff is also required to act as a fiduciary and steward of the fund's assets and as such, must take any action(s) that promote or enhance their fiduciary responsibilities.

#### **INVESTMENT PHILOSOPHY**

The Retirement Board believes that Plan assets should be managed in a fashion that reflects the Plan's unique liabilities and funding resources, incorporating accepted investment theory and reliable, empirical evidence. Specifically, the Retirement Board has adopted the following principles:

- 1. That asset allocation is the key determinant of return and, therefore, commitments to asset allocation targets will be maintained through a disciplined rebalancing program; and
- 2. That diversification, both by and within asset classes, is the primary risk control element on the asset side; and
- 3. That passive fund portfolios are suitable investment strategies, especially in highly efficient markets; and
- 4. That active investing should provide returns after fees that exceed a passive benchmark; and
- 5. Assets that produce cash flows similar in timing and size to the required benefit obligations is the most efficient and effective way to minimize pension risk; and
- 6. That risk budgeting is the main idea towards the understanding and allocation of risk across the portfolio

#### STATEMENT OF OBJECTIVES

The assets of the Plan shall be invested in accordance with the objectives summarized below:

- 1. Preserve the actuarial soundness of the Plan in order to meet benefit obligations; and
- 2. Pay for the projected cash flows/Actuarial Accrued Liability including the present value of all mandatory benefits being paid; and
- 3. Maintain sufficient liquidity to meet benefit payment obligations on a timely basis; and
- 4. Maximize return within reasonable and prudent levels of risk. However, this is secondary to fully funding the Plan's benefit obligations; and
- 5. A long-term (one to two market cycles) return of at least the expected actuarial rate of return; and
- 6. A 5-year, rolling rate of return, net of fees, in excess of its Investment Policy benchmark, a hypothetical portfolio of index funds weighted by asset allocation targets.

This Investment Policy has been established in conjunction with a comprehensive review of both the current and projected financial requirements of the Plan and the expected investment returns by asset class.

While there cannot be complete assurance that these objectives will be realized, it is believed that the likelihood of their realization is reasonably high based upon this Investment Policy and historical performance of the asset classes discussed herein. The objectives should be viewed in the context of a long term (one to two market cycles) return, so that interim fluctuations should be viewed with appropriate perspective.

Relative performance benchmarks for the Plan's investment managers are set forth in the Control Procedures section of this document.

#### **STATEMENT OF INVESTMENT POLICY**

#### **Asset Allocation Targets and Ranges**

The assets of the Plan shall be invested with a view toward the long-term in order to fulfill the obligations promised to participants as well as control future levels of funding. It shall be the policy of the Plan to invest in each asset class ranging between a minimum and a maximum of total assets as shown below. Recognizing the goals and objectives of the Plan, the following asset allocations are established:

#### Asset Class as a Percent of Total Assets

	Asset Class	<u>Minimum</u>	<u>Target</u>	Maximum
ī	Langa Can II C. Staalsa	26.5%	20.50/	24.50/
	Large Cap U.S. Stocks		30.5%	34.5%
,	Small Cap U.S. Stocks	6.3%	7.7%	8.9%
Ì	Non U.S. Stocks	15.0%	18.0%	21.0%
I	Fixed Income	26.0%	29.8%	33.6%
	Alternative Investments			
	Direct Lending	2.5%	7.5%	9.0%
	Real Estate	1.0%	3.5%	4.5%
	Infrastructure	0.0%	3.0%	4.0%
(	Cash	0.0%	0.0%	2.0%

The Retirement Board has, by formal action, adopted an asset allocation and rebalancing policy (as set forth in this document). On a quarterly basis, the Retirement Board will review results to monitor asset allocation and guideline compliance as well as total fund, asset class, and individual investment manager performance relative to their appropriate standards. Upon completion of an asset allocation study the Retirement Board may adopt an adjusted asset allocation. It is recognized that until the Alternate Class is fully funded, target ranges for all asset classes may be prorated based on their target weight relative to the other class weights multiplied by the yet uncommitted target percentage until full implementation of the adjusted and adopted allocation is achieved

#### **Adherence to Investment Policy Targets and Ranges**

The Retirement Board is guided by the philosophy that asset allocation is the most significant determinant of long term investment return. The asset allocation of the Plan will be maintained as close to the target allocations as reasonably possible. Cash additions and withdrawals shall be allocated across portfolios to bring the asset mix as close to the target allocation as possible.

Rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside of the Investment Policy range. These divergences should be of a short-term nature. The Retirement Board, or its designee, will be responsible for ensuring that these transitory divergences from Investment Policy are kept as brief as possible. This may require rebalancing the assets when necessary.

#### **Rebalancing Procedures**

#### Overall asset allocation

If the asset allocation cannot be maintained within the above Investment Policy limits through contributions and withdrawals, the Retirement Board, or its designee, shall direct the shifting of assets among investment management portfolios in accordance with the prescribed allocation policies above and guidelines in the paragraphs below. Such reallocations are anticipated to occur infrequently.

A designee of the Retirement Board will monitor the actual asset allocation compared to the target allocations each month, as soon as data is available, to determine if rebalancing is required. Any portfolio within the affected asset classes that is above the maximum or below the minimum will be rebalanced back towards the target value.

When a rebalance is required, withdrawals of funds from portfolios within the affected asset class that are the most above their target allocations will be invested in the portfolios that are the most below their target allocation respectively with their benchmarks.

#### Individual Investment Portfolios

The Retirement Board will periodically review all such holdings within asset classes. The Retirement Board will rebalance these holdings within asset classes back toward their targets whenever the Retirement Board identifies that portfolio values have diverged significantly from their targets. Cash shall be considered as U.S. Fixed Income for rebalancing purposes. In rebalancing the portfolio, consideration will be given to market liquidity in determining the timeframe over which the rebalancing should take place in an attempt to reduce transition costs. It is anticipated that rebalancing among asset classes and individual investment portfolios will be required infrequently except during extremely volatile market periods.

#### **Cash Holdings**

It shall be the policy of the Plan to be fully invested to the maximum extent possible. It is further understood that the Plan's managers at any point in time may not be fully invested. While the Plan's assets may be partially invested in cash equivalents, for asset allocation purposes, these funds shall be considered invested in the asset classes of the respective managers. In turn, each manager's performance will be evaluated on the total amount of assets under its direct management relative to the asset class benchmark.

For unique situations, the Retirement Board can grant exemptions in writing from the guidelines. Should any investment manager wish to exceed the guideline limits, prior written approval by the Retirement Board will be needed. In no case can a manager intentionally exceed guideline limits without formal prior written approval by the Retirement Board or its designee.

#### Fixed Income Holdings

It is understood and acknowledged that benefit payment shortfalls (benefit payments less contributions) can be most efficiently managed from our fixed income portfolio. As a result, liquidity levels in the fixed income portfolios may naturally contain higher levels of cash relative to non-fixed income portfolios. Even so, excess cash holdings in separate short term fixed income accounts should be minimized. Cash equivalent holdings are allowed in the fixed income portfolio to maintain the portfolio duration within Investment Policy limits. Cash equivalent reserves shall consist of cash instruments having quality ratings by at least one rating agency of A-1, P-1 or higher, maturing in 360 days or less. The custodian's short-term investment fund (STIF) is considered an eligible investment vehicle.

#### Equity Holdings

Uninvested cash balances should be kept to a minimum through the prompt investment of available funds. For actively managed equity portfolios, cash and short term instruments maturing in less than 360 days shall be restricted to 5% of the market value of each portfolio except for brief periods or approval by the Board of Retirement or its designee. If cash holdings in actively managed equity portfolios exceed or are expected to exceed 5% for a period greater than 14 days, the active manager shall report the amount and reason to the Retirement Board's designee. Exceptions are normally allowed when building liquidity in anticipation of a large withdrawal or by special permission from the Retirement Board.

#### **Diversification**

Investments shall be diversified with the intent to minimize the risk of large losses. Consequently, the <u>total portfolio</u> will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, or industries.

Not more than 5% of the outstanding shares of any one company may be held. No single equity issue will represent more than 8% of an individual manager's portfolio as measured by market value at the time of purchase.

The maximum limit in the <u>total portfolio</u> dedicated to any economic sector (as defined by the master custodian) shall not exceed the greater of three times the appropriate benchmark commitment (using the master custodian's definition) to that sector or 25% of the Plan's portfolio's market value at the time of purchase. The Retirement Board may designate that certain concentrated strategies are exempt from these sector limitations and will be assigned customized guidelines. There may be fluctuations at the extremes of these limits due to market actions or the independent actions of active equity managers, which cause these limits to be exceeded. At the end of each quarter, all managers shall calculate the sector holdings of their portfolios. If the portfolio exceeds the sector limit, the manager shall take such action as is reasonably necessary, taking into account market conditions, to bring the account in compliance. The manager also shall notify the Executive Director of the limit that was exceeded and the corrective action taken.

With the exception of securities issued or guaranteed by the U.S. Government, its Agencies, and Government Sponsored Enterprises (GSEs), or collateralized by such securities no single fixed income issue will represent more than 5% of the total portfolio as measured by market value at time of purchase. Issues shall typically have at least two market makers to ensure adequate liquidity.

#### **Volatility**

The Plan acknowledges that the concept of volatility may be framed within many different contexts. However, for pension funding, a complete discussion of volatility must take into account not only assets but the relationship between projected cash flows (actuarial liabilities) and the assets and the differences between the two (unfunded liability/surplus).

#### Asset Volatility

Consistent with the desire for adequate diversification, the investment policy is based upon the assumption that the volatility of the total portfolio will be similar to that of the market opportunity available to institutional investors with similar return objectives. The volatility of each investment manager's portfolio will be compared to the volatility of appropriate market indices and the risk/reward opportunities offered within. The concept of risk budgeting will be the main idea towards the understanding and allocation of risk across the portfolio.

#### Asset Volatility and Pension Risk

StanCERA understands that its first priority is the timely payment of all benefit obligations. In this context, pension risk should be defined as the ability of the Plan to meet its contractual promises to its members. As a result, StanCERA believes assets that produce cash flows similar in timing and size to the required benefit obligations is the most efficient and effective way to minimize pension risk while balancing the stability and sustainability of required plan sponsor contributions. StanCERA will continue to monitor the opportunities afforded in the interest rate environment and update the Investment Policy accordingly.

#### **Liquidity**

Benefit payments are expected to exceed contributions for the foreseeable future. The amount and timing of withdrawals will be determined by staff. The Retirement Board, or its designee, will notify the investment managers in advance of any withdrawal orders to allow them sufficient time to build up necessary liquid reserves.

At any point in time, half of all the Plan's current benefit obligations (on a present value basis) will not be paid for at least 12-13 years. As a result, StanCERA believes that the Plan may be able to earn sufficient liquidity premiums by investing in illiquid assets that provide payment at undeterminable points in time. At this time, the Plan will not invest more than that allocated to the alternative class of investments.

#### **Voting of Proxies**

Voting of proxy ballots shall be for the exclusive benefit of the members and beneficiaries of the Plan. Therefore, the investment managers shall review each proxy ballot and vote them in a manner that preserves and enhances shareholder value.

Each investment manager shall keep accurate written records of all proxy votes and, at least annually, provide a detailed report to the Retirement Board documenting all votes.

#### **Execution of Security Trades**

The Retirement Board expects the purchase and sale of securities to be made through responsible brokers in a manner designed to receive the best combination of realized prices (execution) and commission rates.

#### **Commission Recapture Programs**

The Retirement Board shall, at the Retirement Board's option, direct and monitor a commission recapture program to insure that investment managers provide the best effort to optimize use of the Plan's assets for the benefit of the members and beneficiaries. The Retirement Board, or its designee, will issue directed brokerage letters to the managers on an annual basis. In determining the amount to be directed, consideration should be given to the type of investment manager (i.e. small capitalization managers may not be able to direct as much as large capitalization managers), and the amount of external research a manager needs. Optimal execution of trades should be employed by each manager. The Retirement Board may periodically monitor the quality of directed trade execution. Investment Managers will utilize brokers who provide the best net cost at best execution (trade execution and commission fee) for their transactions. In no case should an investment manager direct any trades where a more favorable net price is available elsewhere.

#### **Securities Lending**

A security lending program may be implemented by the master custodian or an alternative provider as selected by the Retirement Board in the belief that it will provide additional income without incurring significant additional risk. For all securities lent, liquid financial assets of the highest quality will be held as collateral in amounts equal to 102% of the value of domestic securities lent and 105% of the value of Non U.S. securities lent, in conformity with banking regulations at the time of purchase. Cash; U.S. Treasury Bills and Notes; A-1 or P-1 rated Commercial Paper; Bankers' Acceptances; Certificates of Deposit and other bank deposits; OECD government notes; repurchase and reverse repurchase agreements; and AAA rated non-subordinated senior debt of approved banks for reconstruction and development are acceptable collateral. At no time shall the amount currently out on loan exceed 50% of the total market value of securities that can physically be lent from the Plan's portfolio.

The following list comes directly from an agreement entered into between the Plan and its current Custodian and provides the specific Non-U.S. collateral that may be accepted:

- 1. Debt obligations and securities issued by a government where such government is a ratified member of the Organization for Economic Co-Operation and Development, or by the government of Singapore. Debt obligations and securities issued by agencies and instrumentalities of these same governments are also acceptable.
- 2. Debt obligations issued by the following supranational issuers:

European Bank for Reconstruction and Development European Investment Bank European Union Inter-American Development Bank International Bank for Reconstruction and Development **International Finance Corporation** 

European Financial Stability Facility

Eurofima

Council of Europe Development Bank

Eutelsat

Organisation for Economic Co-operation and Development

African Development Bank

Asian Development Bank

Bank for International Settlements

Euratom

**European Coal and Steel Community** 

International Development Association

**International Monetary Fund** 

Nordic Investment Bank

3. Equity securities listed on the following indices (including Depositary Receipts where the underlying equity security is listed on the following indices):

AEX 25 (Netherlands)

CAC 40 (France)

DAX 30 (Germany)

Euro 50 (Eurozone)

FTSE 100 (United Kingdom)

Nikkei 225 (Japan)

SMI 20 (Switzerland)

S&P 500 (United States of America)

HEX 25 (Finland)

Copenhagen 20 (Denmark)

Stockholm 30 (Sweden)

IBEX 35 (Spain)

FTSEMIB (Italy)

Hang Seng (Hong Kong)

S&P/ASX 200 (Australia)

S&P/TSX 60 (Canada)

Russell 1000 (United States of America)

OBX (Norway)

- 4. FTSE100 DBV (Class F10) as defined in the CREST Reference Manual.
- 5. Unstripped British Government debt DBV (Class UBG) as defined in the CREST Reference Manual.

6. Corporate bonds issued by companies domiciled in one of the following countries where such corporate bond has a rating of (i) A or better by Standard & Poor's or (ii) A or better by Fitch or (iii) A2 or better by Moody's or (iv) A or better by DBRS.\*

Australia Luxembourg Austria Netherlands Belgium New Zealand Canada Norway Denmark Portugal Finland Singapore France Spain Germany Sweden Ireland Switzerland Italy United Kingdom Japan

- 7. Convertible securities that are immediately convertible into, or exchangeable for, securities of the same issuer, class, type and term (if applicable) as the securities that are being loaned, and in at least the same number of those loaned.
- 8. Debt obligations and securities issued by Canadian Provincial governments where such Provincial government has a rating of (i) A or better by Standard & Poor's or (ii) A or better by Fitch or (iii) A2 or better by Moody's or (iv) A or better by DBRS.\*

<sup>\*</sup> Instruments which are eligible at the time of acceptance, but with respect to which the issuer of the instrument or the instrument itself (as applicable) is subsequently downgraded below the minimum applicable rating level, will be replaced in a prudent manner but will remain eligible until replaced.

#### **GUIDELINES FOR SECURITY HOLDINGS**

#### **Investment Guidelines**

- 1. Investment managers shall not purchase securities on margin, sell short, or trade in futures contracts. An exception to this general rule shall apply to international equity and fixed income investment managers; and
- 2. Investment managers shall have the ability to use futures, options, and swaps to hedge against currency and interest rate movements and as cash substitutes. Exposure to risk by use of derivatives must be consistent with the overall investment guidelines; and
- 3. The use of permissible derivatives by investment managers to hedge currency risk as stated above is limited to the value of the portfolio that they are managing; and
- 4. Each investment manager is required to report to the Retirement Board in his quarterly and annual report the market value of derivatives exposure in the portfolio. Forward currency contracts, convertibles, warrants, and rights are not considered derivatives for this purpose; and
- 5. Under no circumstances will investment managers use any instruments to create financial leverage within a portfolio; and
- 6. The use of individual stock options, puts or calls is not permitted without prior written approval of the Retirement Board; and
- 7. Written approval from the Board with its desire is required if the use of permissible derivatives as stated in #2 exceeds 25% of the total value of the portfolio they are managing.

#### Non Individual and Individual Security Holdings

Direct investments in individual securities shall conform to all restrictions as set forth within these guidelines. Pooled investment vehicles, such as commingled trusts, mutual funds and other pooled asset portfolios, are acceptable investment vehicles and will be utilized when the Retirement Board finds them to be a prudent alternative to a separate account. Investment managers whose account is structured to invest in a commingled fund may only hold units in the commingled fund and minimal levels of cash equivalent investments. Where pooled investment vehicles such as commingled trusts, mutual funds and other pooled trusts are used, it is expected that the guidelines of the pooled vehicle supersede the investment guidelines specified herein.

#### **U.S. Equity Security Holdings**

All equity investments must be publicly traded on an established exchange (including NASDAQ) or registered under SEC Rule 144(a).

For the purposes of this Investment Policy, small cap stocks are defined as having market capitalizations of \$2.5 billion or less. Stocks with capitalizations above \$2.5 billion are included in the Large Cap U.S. Equity commitment.

The Small Cap Value and Growth investment managers manage an "Emerging Manager of Managers" program composed of multiple small cap value/growth sub-managers that complement one another.

In managing the Manager of Manager program, Investment Manager shall select Sub-Managers who pursue a value-added strategy to their respective benchmark through active investment management. The objective of the Investment Manager for the Investment Manager for the Manager of Manager program is to attain the highest total return consistent with a reasonable degree of risk and in keeping with standards of prudence by investing in U.S. equity securities.

Each Sub-Manager's performance shall be measured and evaluated against a benchmark or index mutually agreed upon by Investment Manager of the Manager of Manager program and Sub-Manager.

The Investment Manager(s) of the Manager of Manager program will have full discretion to manage a separately-managed diversified equity portfolio consistent with the investment objectives outlined above and in compliance with the Plan's Statement of Investment Policy guidelines. It should be noted that the Plan's Statement of Investment Policy guidelines applies to the Investment Manager(s) of the Manager of Manager program as well as the Sub-Managers within that program.

Equity holdings shall be restricted to readily marketable securities of corporations that are actively traded on major exchanges including NASDAQ. Equity holdings may include American Depositary Receipts (ADRs) and equity securities of foreign companies listed on registered U.S. stock exchanges or NASDAQ. Investments will be comprised of common stocks primarily, but can also include Real Estate Investment Trusts (REITs), preferred stocks and debt securities which are convertible into common stock, or which in the opinion of the Manager have predominately common stock investment characteristics.

Equity holdings in ADRs and other foreign companies shall not exceed 20% of the portfolio, measured at market value. The securities of foreign based companies included in the S&P 500 Index are excluded for purposes of calculating the maximum percent of foreign securities held.

Upon specific written authorization from the Retirement Board or its futures and options may be used as a substitute for equity securities provided that they are 100% collateralized by highly liquid, low volatility fixed income securities or cash equivalents and therefore do not represent leveraging of the assets.

#### Non U.S. Equity Security Holdings

At least 80% of all non U.S. equity holdings at market value shall be highly liquid securities issued by corporations headquartered in countries included in the Morgan Stanley Capital International All Country World ex-U.S. (ACWI) Index.

The emerging market allocation may vary by 5% from the weight of emerging markets in the ACWI ex-US Index at the time of purchase. Securities may be purchased and sold on exchanges in countries that are not included in the MSCI ACWI ex-US Index provided that there is a ready market for these individual issues and there are no restrictions on the transfer of funds to and from the U.S.

The maximum limit in any single country shall not exceed the greater of two times the country's weighting in the MSCI ACWI ex-US Index or 20% of the market value of a portfolio managed on behalf of the Plan, whichever is smaller.

It is expected that the primary sources of value-added for non-U.S. investment managers will be issue and country selection, with currency management focused on limiting losses due to fluctuations in currency values. As such, the use of permissible derivatives by investment managers to employ currency hedging strategies is limited to the value of the holdings at risk at the time the currency hedging strategy is to be employed and in the currency of which the security is denominated in.

# **Fixed Income Security Holdings**

These guidelines apply at the time of purchase.

Fixed income investments shall generally be marketable securities which may include, but not necessarily be limited to, U.S. Treasury, Treasury inflation-indexed securities, Federal Agencies and Government Sponsored Enterprises (GSEs), other U.S. government-related securities and corporate issues, including capital securities, REIT debt obligations, equipment trust certificates, enhanced equipment trust certificates, passthrough certificates, convertibles, municipal securities, securities issued under SEC Rule 144A and other private placement securities, mortgage pass-throughs, real estate mortgage investment conduits (REMIC's), collateralized mortgage obligations, to-beannounced (TBA) mortgages (provided they are backed by cash or cash equivalent), collaterized debt obligations, commercial mortgage-backed securities (CMBS), assetbacked securities (ABS) and non-dollar denominated bonds may be held. Also permitted are U.S. dollar denominated debt of non-U.S. issuers, including: corporate, sovereign, foreign agencies, foreign local government entities, and supranationals, and all security types included in the benchmark, as well as other securities deemed suitable under the guidelines. Securities received in exchange offers or other situations are not subject to the guidelines, but the investment manager shall notify the client after such occurrences.

The fixed income portfolio must have a weighted-average quality rating of A+ or better.

At least 85% of the manager's fixed income portfolio (weighted by current market value) shall be invested in fixed income securities with a quality rating of investment grade by one or more nationally recognized statistical rating organizations (NRSRO), such as Moody's, Standard & Poor's, or Fitch. The fixed income manager may also purchase securities that are unrated, if deemed to be of suitable quality for the portfolio, but to no more than 5% of the manager's total portfolio value. In the latter case, the manager shall assign an internal rating for purposes of determining compliance with quality guidelines. In cases where ratings differ among rating agencies, the manager shall use the lower of the Moody's, Standard & Poor's, and Fitch rating to determine compliance with quality guidelines and GASB 40, so long as all three ratings exist. If two ratings are provided, the lower (more conservative) rating shall be used. If only one rating is provided, that rating shall be used.

Should the above quality rating limit be exceeded due to either market appreciation or rating agency downgrade, prompt notification to the Retirement Board is mandated and the portfolio positions returned to compliance immediately from the time of the breach.

Up to 10% of a manager's fixed income holdings at time of purchase may be invested in private placements, excluding securities issued under SEC Rule 144A with registration rights.

The currency exchange rate risk of non-U.S. dollar denominated securities may be hedged up to the value of the securities held in each currency.

The purchase of highly volatile mortgage backed derivative securities such as, but not limited to, interest only (IO), principal only (PO), and inverse floating rate securities, and any other derivative security of similar risk or leverage, is prohibited. Asset backed securities including categories other than mortgages may be held provided they are unleveraged, low risk and their values do not change due to the performance of any other security, index or commodity by a factor other than 1.0 (i.e., structured notes). In determining the acceptability of a derivative, duration must be easily calculated and where duration cannot be calculated, the investment is not permissible. Interest only (IO) and principal only (PO) securities stripped from U.S. Treasuries are exempt from this prohibition.

Futures and options can be used as a substitute for fixed income provided they are 100% collateralized by highly liquid, low volatility fixed income securities or cash equivalents and therefore do not represent leveraging of the assets. Futures and options as stated above are limited to 25% of the total value of the fixed income portfolio.

If any questions exist by an investment manager as to the authorization granted to purchase and/or hold a security because of its issuer, type, effective duration, or effective credit quality, the manager must consult with the Retirement Board or its designee prior

to purchase of the security. In addition, no investment will be made in any newly developed instrument without the explicit consent of the Retirement Board.

The average effective duration of all fixed income holdings, reflecting all instruments including CMO and Asset-Backed Securities, must be maintained at plus or minus 35% of the Barclays U.S. Aggregate Bond Index duration unless otherwise directed by the Board of Retirement.

#### **Prohibited Investments**

- 1. Letter stock and other unregistered equity securities; and
- 2. Commodities or commodity contracts (except for unleveraged stock or bond index futures and currency futures and options); and
- 3. Ownership of real estate in any form other than publicly traded securities (Real Estate Investment Trusts) except for land buildings owned and operated by the Plan; and
- 4. Short sales, warrants or margin transactions; or any leveraged investments unless explicit Board approval is given; and
- 5. Venture capital funds; and
- 6. Commodities such as oil, gas or timber.

Any financial options and futures employed must be solely for defensive and hedge strategies undertaken to preserve principal or as unleveraged positions to provide asset class exposure.

No investments shall be made for the purpose of engaging in speculative trading.

#### **Individual Manager Guidelines**

This Investment Policy serves as the primary set of guidelines to be followed by each investment manager. Where appropriate, selected managers will be provided written individual investment guidelines providing additional detail, clarification of permissible securities and investment strategies, and performance evaluation criteria.

#### **Deviations From This Investment Policy**

It is recognized that new or unique investment opportunities may become available from time to time which are not specifically addressed in this Investment Policy. As such, the Retirement Board may approve deviations from this Investment Policy, provided that the Retirement Board identifies that the long term risk adjusted return expectations for the portfolio is enhanced.

#### **Corporate Fraudulent Behavior Notification Guidelines**

The investment manager shall notify StanCERA staff immediately by written communication upon any reported fraudulent behavior committed in any of their holdings. The notification shall include the following information: amount of shares held or units of investment date of purchase, average purchase price, current market price, and a summary on why the company was purchased and going forward the rationale for either keeping the company in the portfolio or an exit plan.

In addition, the investment manager shall notify StanCERA staff by written communication immediately upon any material adverse news on a significant portfolio holding that has had, or likely will have a significant effect on the share price of that company. The notification shall include the following information: amount of shares held or units of investment date of purchase, average purchase price, current market price, and a summary on why the company was purchased and going forward the rationale for either keeping the company in the portfolio or an exit plan.

# **CONTROL PROCEDURES**

#### **Review of Liabilities**

All major liability assumptions regarding number of members, benefit levels and actuarial assumptions will be subject to review at least every 4 years or more frequently if deemed necessary by the Retirement Board. This review will focus on the Plan's growth assumptions and actual experience.

#### **Review of Investment Objectives**

Investment objectives will be reviewed by the Retirement Board biennially or as necessary to determine the continued feasibility of achieving the investment objectives and the appropriateness of the investment policy for achieving these objectives.

It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

#### **Review of Investment Managers**

The Retirement Board will review the total Plan and individual manager performance quarterly with its consultant and StanCERA staff. Annually, the Retirement Board will meet with each investment manager to review the goals, objectives, guidelines and performance. In special circumstances, more frequent meetings may be scheduled. Any recommendations by the investment manager as to changes in the investment guidelines should be submitted to the Retirement Board in writing.

By way of a combination of staff reports and investment consultant reports, performance reviews will focus on:

- 1. Value Added The manager's ability to consistently add value to the portfolio after fees. Positive value added means the manager is earning returns above the benchmark after managerial and custodial fees are paid;
- 2. Benchmark relative risk to reward measurement The manager's ability to earn a return similar to the benchmark at a lower level of relative risk;
- 3. Contribution to total portfolio risk and return The manager's marginal addition to total portfolio returns and total portfolio risk;
- 4. Peer group comparison The manager's performance as compared to other managers implementing the same style;
- 5. Investment manager's adherence to StanCERA investment policy; and
- 6. Material changes in the manager organizations, such as an investment philosophy, personnel, acquisitions or losses of major accounts, etc.

The Retirement Board encourages the investment managers to have open communication with them on all significant matters pertaining to investment policies and the management of the Plan's assets entrusted to them.

The investment managers are responsible for keeping the Retirement Board, or its designee, advised of any material changes in personnel, investment strategy, or other pertinent information potentially affecting performance of their portfolios.

#### **Performance Expectations**

The most important performance expectation is the achievement of long-term, risk adjusted investment results that are consistent with the Plan's Investment Policy. Implementation of the Investment Policy will be directed toward achieving this return and not toward maximizing return without regard to risk.

In order to ensure that investment opportunities available over specific time periods are fairly evaluated, the Retirement Board will use comparative performance statistics to evaluate investment results. The Plan's total fund and each investment manager will be expected to achieve minimum performance standards as follows:

- 1. Rank in the top 50% of an appropriate peer group of actively managed portfolios.
- 2. Exceed an appropriate benchmark index, net of management fees.

While these performance standards should be achieved over a complete market cycle, the Retirement Board will also monitor performance over rolling three and five year time periods.

If the Retirement Board finds a manager is underperforming relative to performance expectations, suffers significant organizational or personnel changes, or has lost the Retirement Board's confidence, the following steps will be taken:

- 1. The manager will be placed on an "under review" status; and
- 2. The manager will be notified; and
- 3. The Retirement Board will review the manager quarterly; and
- 4. The Retirement Board will meet with the manager, if appropriate.

#### Under Review

This section deals with criteria associated with a manager being under review

#### Manager Disposition

This section deals with the disposition of an active manager regarding performance as measured in the prior paragraph.

POLICY APPROVAL DATE: April 27, 1999

Revised 4/2000.

Revised 7/2000.

Revised 5/2005.

Revised 7/2006.

Revised 2/2007.

Revised 9/2007.

Revised 3/2008.

Revised 12/2008.

Revised 07/2009.

Revised 05/2010.

Revised 10/2010.

Revised 7/2011.

Revised 11/2013

# Supplement A

#### PERFORMANCE MEASUREMENT STANDARDS

Asset Class/Manager	Peer Universe	Benchmark Index
OBJECTIVE:	Exceed 50th Percentile	Outperform Net of Investment Fees
Large Cap US Value:	Large Cap Value Equity Universe (Passive Index rank at 50 <sup>th</sup> Percentile)	Russell 1000 Value Index
Large Cap US Growth:	Large Cap Growth Equity Universe (Passive Index rank at 50 <sup>th</sup> Percentile)	Russell 1000 Growth Index
Large Cap US Core:	Large Cap Core Equity Universe (Passive Index rank at 50 <sup>th</sup> Percentile)	S&P 500 Index
Small Cap US Growth:	Small Cap Growth Equity Universe	Russell 2000 Growth Index
Small Cap US Value:	Small Cap Value Equity Universe	Russell 2000 Value Index
Non U.S. Equities:		
Int'l. Large Cap Value	International Equity Total Fund Universe	MSCI ACWI Free ex-US Index (\$US basis)
Int'l. Large Cap Growth	International Equity Total Fund Universe	MSCI ACWI Free ex-US Index (\$US basis)
Fixed Income:		
Core Fixed Income	Bonds Total Fund Universe	Barclays U.S. Aggregate Bond Index
<b>Alternative Investment Fund:</b>		
US Real Estate		
Direct Lending	NCREIF ODCE and/or REIT Universe	NCREIF ODCE and/or Dow Jones US Select RE Securities Index9% Annualized Return
Infrastructure		CPI + 400 bps
<b>Total Retirement Association:</b>		Custom Policy Index

Measurement period: Rolling 3 to 5 years

Revised 7/2006

Revised 4/2001

Revised 5/2005

Revised 3/2008

Revised 12/2008

Revised 05/2010

Revised 07/2011

Revised 03/2013

# Supplement B

# Equity Sector Categories as Defined by Global Industry Classification Standard (GICS)

Energy
Materials
Industrials
Consumer Discretionary
Consumer Staples
Health Care
Financials
Information Technology
Services
Utilities

**Supplement C** 

# **Asset Allocation Targets and Ranges**

Asset Class	Target	Range
U.S. Equities	38.2%	32.2% - 44.2%
Large Cap Value	14.4%	11.4% - 17.4%
Large Cap Growth	11.3%	7.8% - 14.8%
Large Cap Core	4.8%	3.8% - 5.8%
Small Cap Value	4.0%	3.0% - 5.0%
Small Cap Growth	3.7%	2.7% - 4.7%
Non-U.S. Equities	18.0%	15.0% - 21.0%
Fixed Income	29.8%	26.0% - 33.6%
Alternative Fund	14.0%	
Real Estate	3.5%	1.0% - 4.5%
Direct Lending	7.5%	2.5% - 9.0%
Infrastructure	3.0%	0.0% - 4.0%

Revised 11/2013

#### **Supplement D**

#### **Alternative Investment Class Policy and Procedures**

#### Introduction

The Stanislaus County Employees' Retirement Association (StanCERA) hereby adopts the following procedures to implement the policy governing the Alternative Investment Class. The Alternative Investment Class was adopted by the StanCERA Retirement Board on November 7, 2012. The Alternative Investment Class calls for the establishment of a new pool of investments for the purpose of investing assets within the pension fund.

The Alternative Investment Class consists of investments in various assets that are allowable and approved by the StanCERA Retirement Board. In order to meet its long-term performance objectives, the Alternative Investment Class may be comprised of a mix of commingled funds and separate accounts within the public and private markets. These investments will be determined by the StanCERA Retirement Board with the assistance of the general investment consultant and StanCERA staff.

The following Alternative Investment Class procedures are designed to ensure that the StanCERA Retirement Board follow the Alternative Investment Class policy in the selection of investments, and to follow, to the extent applicable, a public and competitive process in such selection. It should be noted that the Alternative Investment Class procedures may be revised from time to time by the StanCERA Retirement Board, which amendments may include but are not limited to changes in allocations of investments.

#### **General Investment Strategy and Plan Guidelines**

To maximize the risk-adjusted performance of the Plan, the Retirement Board will follow a set of investment guidelines. These guidelines provide for the potential types of investment vehicles that can be utilized with controlled risk through prudent diversification to the existing StanCERA asset classes (U.S. Large Cap Equity, U.S. Small Cap Equity, U.S. Fixed Income, and Non-U.S. Equity), and align the interests of StanCERA and the investment managers selected for the Alternative Investment Class.

The Alternative Investment Class allows StanCERA to conduct controlled selection of investment strategies and instruments that do not fit neatly into one of the traditional asset class categories already approved for investment.

The Alternative Investment Class may also serve as an incubator of new investment ideas and strategies. StanCERA's Board and staff along with their investment consultant will gain hands-on experience and knowledge directly from the involvement with the strategies in the Alternative Investment Class. StanCERA's Board will determine if any of the programs within the Alternative Investment Class deserve to have a larger and more permanent role in StanCERA's total investment mix.

#### Allocation

Currently, the Alternative Investment Class asset allocation is established with a target of 14.0% of the Plans total portfolio market value. The new alternative investments that make up the Alternative Investment Class and their respective allocations follow:

Alternative Investment	Allocation
Direct Lending	7.5%
Real Estate	3.5%
Infrastructure	3.0%

#### **Alternative Investment Class Aggregate Performance Objectives**

The overall benchmark for the Alternative Investment Class is the Plan's actuarial rate of return assumption on a net basis. The actuarial rate of return assumption serves as the appropriate measure of the opportunity cost of investing funds in this category. Every alternative investment approved for investment within the Alternative Investment Class will also require the following secondary performance benchmarks:

Alternative Investment	Secondary Benchmark
Direct Lending	9% Annualized Return
Real Estate	NCREIF/NAREIT
Infrastructure	CPI + 400 bps

#### **Risk Management**

The limited size of the Alternative Investment Class is its primary risk control mechanism. It is envisioned that once the Alternative Investment Class is mature, no single program within the Class will account for more than 60% of the total market value of the Alternative Investment Class. The Plan's individual investments in this Class cannot comprise more than 30% of any one alternative investment manager's total assets. StanCERA staff and the consultant will monitor the individual programs and report to the Board.

In addition, the Alternative Investment Class will most likely invest in programs that have a low correlation to the existing Plan's asset classes (U.S. Equity, Non-U.S. Equity and U.S. Fixed Income). The addition of investments with a low correlation to existing Plan asset classes should have the effect of dampening the volatility of the overall Plan's portfolio rate of return.

#### **Risk Parameters**

The StanCERA Board, with the assistance of staff and the investment consultant will monitor and control the overall risk of the Alternative Investment Class and its individual investments and will monitor compliance of the Alternative Investment Class Policy and Procedures.

The risk parameters which shall be considered include:

- 1. **Financial Risk:** The use of leverage in financing, which can increase the volatility of returns of the Alternative Investment Class, is not allowable; and
- **2. Operating and Business Risk:** Some types of investments may be in untested industries or markets, resulting in high operating/business risk. Also, some investment managers may be small and new entities which may increase the operating/business risk of the manager; and
- **3. Liquidity Risk:** Some types of investments often lack liquidity, making it potentially difficult to exit investments before the expiration of the investment vehicle; and
- **4. Diversifiable Risk:** Risks associated to certain styles, industries, geographies, and strategies that can be reduced through diversification within the Alternative Investment Class; and
- **5.** Country Risk: Political, economic, and currency risks when investing outside the United States; and
- **6. Disappointment Risk:** The risk that the Alternative Investment Class will fail to meet the Plan's overall risk and return objectives.

#### **Roles and Responsibilities**

StanCERA Board of Trustees

The StanCERA Board is responsible for approving the Alternative Investment Class Policy and Procedures. The Board will also review this document periodically and approve any changes as well as participate in the presentation of the Alternative Investment Class performance reports.

The StanCERA Board is responsible for reviewing potential Alternative Investment Class investment ideas presented to them by StanCERA Board members, StanCERA staff and investment consultant. Education sessions on potential new investment ideas will be an initial step in the process of the consideration of new ideas.

The StanCERA Board will be presented with reports from the investment consultant summarizing the potential investment idea along with presentation materials from the potential investment manager. The StanCERA Board will direct the investment consultant and staff whether to:

- 1. Deny the investment idea
- 2. Request additional information
- 3. Direct the investment consultant to move forward. The process of moving forward might involve issuing a Request For Information (RFI) to qualified vendors identified by the investment consultant and approved by the StanCERA Board.

Commitments for the individual investments require approval of StanCERA's Board of Retirement (Trustees).

#### StanCERA Staff

StanCERA staff is responsible for working with the StanCERA Board and the investment consultant for recommending the Alternative Investment Policy and Procedures and managing the Alternative Investment Fund under the framework of the Board approved Policy and Procedures. Staff is also responsible for monitoring and reporting to the Board in accordance with the requirements of the Plans Investment Policy.

#### Investment Consultant

The investment consultant assists the StanCERA Board and StanCERA staff with the policy recommendations and provides investment advice to the Board. The investment consultant also assists in monitoring and reporting the existing investments and researching new ideas to bring to the StanCERA Board.

#### Selection of Managers for the Alternative Investment Fund

In selecting Alternative investments, the same format and procedures will be utilized as in the selection of investment managers in the existing established asset classes. Each appropriate investment manager within the appropriate peer universe will be given consideration. A screening list will be proposed to the StanCERA Board for their approval for each mandate. Qualified firms will then be sent a questionnaire that will be reviewed by the investment consultant, staff and Board.

#### **Monitoring and Reporting**

#### Quarterly

Investment within the Alternative Investment Class will be reported to the Board as part of the quarterly Investment Performance Analysis Report provided by the general investment consultant.

#### *Monthly*

Investments within the Alternative Investment Class will be reported to the Board as part of the overall Monthly Performance Review.

Revised 11/2013

#### **Supplement D**

#### **Alternative Investment Class Investment Policy Modules**

#### **Direct Lending**

#### **Overview**

Generally, managing risks associated with Direct Lending can be challenging since it is often characterized by non-traditional risk/return profiles, limited portfolio transparency, and illiquidity; all crucial assumptions for the validity of standard deviation as the traditional risk measure. Therefore, traditional risk and return measures (mean return, standard deviation of returns, and beta) may not provide an adequate picture of Direct Lending risks and characteristics.

Consequently, StanCERA has identified that it will monitor results and fund holdings in such a way as to determine whether a fund has performed in line with its original expectations and continues to comply with its prospectus, with an emphasis on the forecasted periodic cash flows and returns.

#### **Objective**

To commit 7.5% of StanCERA's total portfolio to the Direct Lending asset class and to earn current income and to a lesser extent, capital appreciation by originating and investing in a diversified portfolio of corporate credit and asset-based debt and equity instruments issued by privately held small-to-middle market companies located primarily in North America.

The protection of capital is of the utmost importance. Accordingly, the external direct lending manager shall seek to make investments backed by assets and cash flows.

#### **Risks**

General Risks of Lending
Interest Rate Risk
Debt Securities and Obligations
Bankruptcy of Portfolio Companies
Lower Rated Debt
Risks in Effecting Operating Improvements

#### Performance Measurement

It is understood that market-price revealing events that affect the value of an investment in Direct Lending occur infrequently. As such, performance measurement will focus on calculating the internal rate of return (IRR) based on actual cash flows since inception as compared to the original expected cash flows in the fund's prospectus.

It is further understood that internal rate of return calculations will necessarily produce negative returns until distributions are equal to or greater than contributions. At this point, as an additional measurement, LIBOR + 750 basis points would be an appropriate proxy to the opportunity cost involved with this type investment.

Internal rates of return should be derivable on a monthly basis, however, it is understood that asset values may only be reliably ascertained on a quarterly basis.

#### **Performance Evaluation**

When evaluating performance, StanCERA will consider the relative uncertain nature of the projected cash flows from Direct Lending investments. When comparing the expected versus actual internal rates of return, a 50% relative downside difference will be used as a minimum standard of performance. When the ratio of the actual internal rate of return to the expected internal rate of return falls below 50%, this would be considered sub-par performance when compared to the original expected performance.

As the investment matures, the proxy referred to in the Performance Measurement section would then become an additional evaluation metric.

#### **Performance Monitoring**

If it is determined that a Direct Lending Manager's performance is sub-par (as described in the above section) when compared to its original expectations, staff will be required to provide the Board on a semi-regular basis, the following information throughout the resolution of the underperformance and/or remainder of the Direct Lending contract:

Manager shall provide staff with an executive summary of the following:

- 1. What specifically has caused the underperformance
- 2. Whether cause of underperformance will affect other performing loans in the portfolio
- 3. Details of strategy to mitigate continued underperformance
- 4. Manager to determine likelihood for a successful resolution
- 5. Contingency Plan in the event that a successful resolution is not likely

1st Approved 3/26/2013 Revised 11/2013

# **Supplement D**

# **Alternative Investment Class Investment Policy Modules**

Real Estate – *Under Construction* 



# **Supplement D**

# **Alternative Investment Class Investment Policy Modules**

**Infrastructure** – *Under Construction* 

