Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

AGENDA

BOARD OF RETIREMENT
832 12th Street Ste. 600, **Wesley W. Hall Board Room**
Modesto, CA 95354

May 23, 2017
1:30 p.m.

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

CONSENT/ACTION ITEMS: Consent matters include routine administrative actions and are identified under the Consent Items heading. All other items are considered to be action items "Action" means that the Board may dispose of any item by any action, including but not limited to the following acts: approve, disapprove, authorize, modify, defer, table, take no action, or receive and file.

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 http://www.stancera.org/agenda.

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.

1. Call Meeting to Order

2. Roll Call

3. Announcements

4. Public Comment

5. Consent Items

   a. Approval of the April 25, 2017 Meeting Minutes View

   b. Monthly Staff Report View

   c. Approval of Service Retirement(s) – **Government Code Sections 31499.14, 31670, 31662.2 & 31810**

      1. De Mott, Jeanne – CSA – Effective 05-13-17
      2. Gharat, Stacy – Probation – Effective 05-20-17 *
      3. Macedo, Mark – DER – Effective 05-10-17
      4. Magdaleno, Alma – CSA – Effective 05-9-17
      5. Martinez, Sofia –BHRS – Effective 05-13-17
      6. Oushan, Elnar – CSA – Effective 09-02-16
      7. Parker, Debra – CSA – Effective 05-27-17
      8. Sims, John – Children and Families – Effective 05-10-17
      9. Smith, Daniel – BHRS – Effective 01-27-17

   ** Indicates Safety Personnel*

d. Approval of Deferred Retirement(s) **– Government Code Section 31700**

1. Dias, Leticia – Ceres – Effective 04-15-17
2. Garcia, Elisa - CSA – Effective 04-29-17
3. Harris, Timothy – HSA – Effective 04-22-17
4. Hasbrouck, Theresa – CSA– Effective 04-22-17
5. Jones, Rhiannon – ESMAD – Effective 04-29-17
6. Kloepfer, Robin – Ceres – Effective 03-16-17
7. Renta, Yvonne – Courts – Effective 04-05-17
8. Rosales Corona, Rosalinda – HSA – Effective 04-08-17

** Indicates Safety Personnel*

e. Approval of Death Benefit - **Government Code Sections 31781, 31781.1 and 31781.3**

1. Garner, Jason, Deceased May 13, 2017, Active Member *
2. Johnson, Raschel, Deceased May 13, 2017, Active Member

6. Investment Manager Presentation

a. Discussion and Action Regarding Raven Fund I and III Update View

b. Discussion and Action Regarding Medley Opportunity Fund II Advisory Committee Request View

c. Discussion and Action on Risk Parity Manager Search View

I. PanAgora Asset Management
II. AQR

7. Executive Director – Investment

None

8. Verus – Investment Consultant

a. 12-Month Investment Program Workplan View

b. April 30, 2017 Flash Report View

c. Investment Performance Quarter 1 Review View

d. Discussion and Action :Passive Equity Restructuring View

e. Discussion and Action : Revised Investment Directive #1, Asset Allocation View

f. Discussion and Action : Portfolio Rebalancing Plan View

9. Executive Director – Administrative

a. Information Technology Solutions (ITS) Project Update View

b. Discussion and Action : Fiscal Year 2017-2018 Proposed Administrative Budget View

10. Standing Committees

   a. Internal Governance Committee

      I. Discussion and Action : Internal Governance Committee's Recommendation. View

11. Closed Session

   a. Raymond James Lease Renewal Update - Government Code 54956.8

   b. 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)

   c. 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 54956.9d)(4)

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

13. Adjournment

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TOP

BOARD OF RETIREMENT MINUTES
April 25, 2017

1. Call Meeting to Order

   Meeting called to order 1:30 p.m. by Trustee Gharat, Chair

2. Roll Call

Trustees Present:	Donna Riley Jim DeMartini, Michael O'Neal, Jeff Grover, Mandip Dhillon, Sam Sharpe, Mike Lynch, Darin Gharat and Jegan Raja for Gordon Ford
Trustees Absent:	Gordon Ford
Alternate Trustee Absent	Joan Clendenin, Alternate Retiree Representative
Staff Present:	Rick Santos, Executive Director Kellie Gomes, Executive Board Assistant Kathy Herman, Fiscal Services Manager Dawn Lea, Member and Employer Services Manager
Others Present:	Fred Silva, General Legal Counsel Ed Hoffman, Investment Consultant

3. Announcements

   NONE

4. Public Comment

   NONE

5. Consent Items

   a. Approval of the March 28, 2017 Meeting Minutes

   b. Monthly Staff Report

   c. Executive Director Goals Update Quarter 1 2017

   d. StanCERA Complaint Log of January 1 – March 31, 2017

   e. Legal/Legislation Update

   f . Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**

      1. Bazar, Timothy – Public Defender – Effective 03-18-17
      2. O'Neal, Carla – Alliance Worknet – Effective 02-03-17
      3. Solis, Mario – Auditor Controller – Effective 04-06-17
      4. Stahley, Paula – HSA – Effective 04-22-17
      5. Sutherland, Priscilla – Superior Court – Effective 04-29-17
      6. Trujillo, Jacqueline – CSA – Effective 04-18-17

   g. Approval of Deferred Retirement(s) **– Section 31700**

      1. Barnett, Andrea – BHRS – Effective 02-17-17
      2. Baliel, Michael - SBT – Effective 01-07-17
      3. Brock, Tamara – BHRS – Effective 02-18-17
      4. Croom, Katherine – CSA– Effective 03-04-17
      5. Gintz, Erin – CSA – Effective 01-07-17
      6. Gali, Melori – HSA – Effective 01-13-17
      7. Henderson, Candace – Alliance Worknet – Effective 03-03-17
      8. Martinez, Maria – HSA – Effective 03-15-17

5. Consent Items(Cont.)

9. Pedisich, Sara – Probation – Effective 07-09-16 *
10. Quiroz, Carlos – Ceres – Effective 12-23-16 *
11. Schemmel, Ross – Assessor – Effective 3-24-17
12. Valentine, Regina – StanCOG – Effective 07-14-16
13. Watson, Pamela – GSA – Effective 12-30-16

* Indicates Safety Personnel

Motion was made by Trustee Grover and seconded by Trustee Riley to accept the consent items as presented with a request to amend the March 28, 2017 minutes to reflect that Trustee O'Neal and Trustee Clendenin recused themselves during closed session regarding matter 10.b and returned after the matter was discussed.

Motion carried unanimously

6. Executive Director – Investment

a. Discussion and Action Regarding Annual Meetings

Motion was made by Trustee Lynch and seconded by Trustee O'Neal to accept staff's recommendation to eliminate the annual manager performance reviews with the Board of Retirement and instead only require formal manager visits and discussions if the Board, StanCERA's Investment Consultant or StanCERA's staff deem it necessary.

Motion carried unanimously

b. Discussion and Action Regarding Raven Fund I

Item was heard and tabled for the May 23, 2017 meeting when it will be brought back for a presentation by Raven - Josh Green

c. Discussion and Action Regarding Insight Investment

Motion was made by Trustee Riley and seconded by Trustee Sharpe to confirm the decision to allocate $100 million to a custom portfolio managed by Insight Investment as directed previously on January 24, 2017.

Motion passed 5 to 4 with the following roll call vote:

Trustee Riley	Y
Trustee DeMartini	N
Trustee O'Neal	Y
Trustee Grover	Y
Trustee Dhillion	Y
Trustee Lynch	N
Trustee Gharat	N
Trustee Raja	N
Trustee Sharpe	Y

7. <u>Verus – Investment Consultant</u>

   a. Flash Report March 31, 2017

   b. Discussion and Action Regarding Asset Allocation

   Motion was made by Trustee Grover and seconded by Trustee Riley to accept the recommendation by Verus to adopt the alternative mix outlined in the presentation.

   Motion carried unanimously

   c. 12-Month Investment Program Workplan

8. <u>Executive Director – Administrative</u>

   a. SACRS Board of Director's Outreach Program

   b. Discussion and Action for Voting Proxy of State Association of County Retirement Systems (SACRS) 2017 Spring Business Meeting

   Kellie Gomes asked for 2 volunteers to attend the SACRS 2016 Business meeting as voting proxies. Trustee O'Neal volunteered to be the primary proxy and Trustee Gharat the alternate proxy.

   Motion was made by Trustee Lynch and seconded by Trustee Raja to accept the SACRS recommended slate.

   Motion carried unanimously with Trustee DeMartini and Trustee O'Neal abstaining

   c . Information Technology Solutions (ITS) Project Update

   Dawn Lea shared that we have received 2 notices of resignations. Reed Love, StanCERA's IT employee, will be leaving County employment and Aslam Ahmed, the onsite consultant employed by Tegret will be leaving his employment with Tegret.

9. <u>Closed Session</u>

   Motion was made by Trustee Sharpe and seconded by Trustee O'Neal to move in to closed session at 3:40 p.m.

   Motion carried unanimously

Item 9.d was heard out of order Trustee O'Neal recused himself at 3:40 p.m. and Returned to closed session at 3:52 p.m.

   a. Discussion and Action Regarding Recommendation for Service Connected Disability Retirement for Jacqueline Trujillo – Government Code Section 31533

   b. Discussion and Action Regarding Bank of New York Mellon Disposition –Government Code Section 54956.81

   c. Discussion and Action Regarding Public Equity Restructuring Review and Manager Disposition – Government Code Section 54956.81

9. Closed Session (Cont.)

d. 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)

e. 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)

Motion was made by Trustee Raja and seconded by Trustee Dhillon to move in to open session at 4:30 p.m.

Motion carried unanimously

Read out from closed session by Chair Trustee Gharat is as follows:

Item 9.a. heard out of order to discussion and action regarding recommendation for Service Connected Disability Retirement for Jacqueline Trujillo. Motion was made by Trustee Grover and seconded by Trustee Dhillion to accept the recommendation of the Hearing Officer to deny the application for a Service Connected Disability Retirement.

Motion carried unanimously

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

Kellie Gomes announced that the terms of three trustee seats will be ending as of June 30, 2017. A notice of election will go out soon to reflect election for General Member Seats No. 2 and No. 3 and Retiree Seat No. 8 and Alternate Retiree Seat No. 8a.

11. Adjournment

Meeting adjourned at 4:32 p.m.

Respectfully submitted,

Rick Santos, Executive Director

APPROVED AS TO FORM:
Fred Silva, GENERAL LEGAL COUNSEL

By:
Fred Silva, General Legal Counsel

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May 23, 2017
Retirement Board Agenda Item

TOP

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Monthly Staff Report

II. ITEM NUMBER: 5.b

III. ITEM TYPE: Information Only

IV. STAFF RECOMMENDATION: None

V. ANALYSIS:

a) *Member & Employer Services* – During the month of April 2017, Member and Employer Services Staff processed 17 new hires (3 Safety and 14 General), 26 terminations, 4 estimates, and 10 buy backs. There were 51 individual counseling sessions and one group session at New Employee Orientation.

Staff continues to devote many hours to meeting with the Tegrit Analysts to continue defining the business rules necessary to ensure that StanCERA's needs will be met with the Arrivos system.

Staff has been performing a quality assurance review on a sampling of files from each box of scanned files as they get returned to us from FNTI.

Staff continues to audit member files in anticipation of the data conversion that will be required with the implementation of the Arrivos pension administration system.

b) Fiscal Services – Employer and employee contributions totaling $6,890,949 were received through 15 different payroll batches in March. In addition, 17 contribution refunds and death benefit payouts totaling $168,171 were processed. The retiree payroll for May with the 3% COLA totaled $9,934,382 and was processed as scheduled. Staff is assisting with quality review of the member file project as well as partnering with Member Services in defining the business rules for the new pension software.

Staff is meeting with County I.T. to create a plan to mitigate issues regarding the absence of the I.T. Coordinator and is reviewing the current position to determine how best to fill the vacancy.

Staff completed the annual onsite visits to each of StanCERA's employer agencies to discuss FY 2017-2018 contribution rates and dialogue about future changes or issues that may concern StanCERA.

c) Investment Governance and Compliance – For the better part of the past month, staff has been working on the diligence for the new risk parity mandate and the annual manager diligence trip. The risk parity mandate diligence was completed the week of May 7th, and staff's report is contained in another agenda item this month. Due to certain circumstances, the team was not able to complete the annual manager diligence that same week. Staff will finish the annual manager diligence sometime in June and the forthcoming report to the Board of Retirement is anticipated at the June meeting.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently*

VIII. ADMINISTRATIVE BUDGET IMPACT: NONE

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

Dawn Lea, Member and Employer Services Manager

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May 23, 2017
Retirement Board Agenda Item

TOP

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Raven Fund I and III Update

II. ITEM NUMBER: 6.a

III. ITEM TYPE: Information/Discussion

IV. STAFF RECOMMENDATION: None

V. EXECUTIVE SUMMARY: Representatives of the Raven Fund I and III will be on hand today to discuss several aspects of both funds. Regarding Fund I, on April 20th, representatives for StanCERA on the Raven I Advisory Committee attended a meeting in New York to discuss Fund I and in particular, the request for an extension on the fund from the General Partner. The requested extension relates to a shipping vessel owned by the fund. The General Partner feels that a 1-year extension on the liquidation of the fund will provide extra time to realize returns on the vessel that are expected to improve over the short-term. Since this issue was briefly touched upon at our last Board meeting, the rest of the Limited Partners have subsequently approved the extension in majority. Thus should StanCERA wish to vote on this issue today, it would be considered more symbolic in nature.

Representatives have also been asked today to discuss other aspects of Fund I including harvesting expectations, expected returns and fund performance (in particular, recent investment write-downs). They will also be giving an update on Fund III which StanCERA entered into in late 2015.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

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May 23, 2017
Retirement Board Agenda Item

TOP

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Medley Opportunity Fund II Advisory Committee Request

II. ITEM NUMBER: 6.b

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: None

V. EXECUTIVE SUMMARY: Recently, representatives of the Limited Partner for the Medley Opportunity Fund II (MOF II), reached out to members of its Advisory Committee seeking approval to waive the partial repayment on a loan currently held by the fund. In short, the borrower on this collateralized real estate loan has informed the fund of their intent to pay down (approximately 50%) of the loan. According to the Limited Partner, this loan has been a performing asset since initial investment in 2014 and their belief is that the fund should maintain exposure to the investment if possible.

Currently, the entirety of the loan is held in equal proportions by the MOF II fund and the other lender in the deal, Medley Capital Corporation (MCC) which is Medley's publicly traded business. The Limited Partner asserts that since the investment is in real estate, it is not part of MCC's borrowing base for its credit facility. Today, the 50% exposure held by MOF II (StanCERA's fund) represents approximately 4% of the Fund's total net asset value. The intent of the waiver would be to refund the entire 50% repayment to the other lender (MCC) and have the MOF II fund retain exposure to the remaining 50%.

Should a majority of the Advisory Committee approve the request, StanCERA's exposure to the investment would essentially not change. If the Advisory Committee does not approve the request, then 50% of the repayment would go back to the MOF II and the exposure to this investment would be cut in half. The success of this decision will ultimately be predicated on the continued performance of the loan itself, offset by additional management fees paid on the net asset value until the loan completely paid off.

StanCERA staff, the Investment Consultant and a Limited Partner representative will be on hand today, if necessary, to answer questions or address any concerns.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

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May 23, 2017
Retirement Board Agenda Item

TOP

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Risk Parity Manager Search

II. ITEM NUMBER: 6.c

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Allocate 7% (approximately $135 million) each to the Panagora Risk Parity Multi Asset Strategy and 7% to the AQR Global Risk Premium Extended Liquidity Strategy. Authorize staff to negotiate and execute final contracts with both managers.

V. EXECUTIVE SUMMARY: In April, the Board of Retirement approved the final asset allocation which included a 14% allocation to the risk parity asset class. Currently, 14% represents approximately $270 million of the total portfolio. During the week of May 7th, internal staff and the investment consultant conducted due diligence on the 3 semi-finalists. Based on the results of this diligence, the team is recommending the firms of AQR and Panagora to manage the strategy.

VI. ANALYSIS: The process that lead to Staff's recommendation begins with a focus list of approximately 20 potential firms created by StanCERA's investment consultant, Verus. From this list, the potential candidate pool is winnowed down through additional diligence and quantitave analysis done by the consultant. The pool was further trimmed to 3 by those managers that didn't meet size requirements. The final step in the selection process was additional, on-site diligence performed by StanCERA staff and the investment consultant.

The team met with each manager the week of May 7th, and the differences in each manager's style and approach was reviewed. Essentially, the team observed 3 distinctions in manager processes, performance and style.

- *Use of synthetic assets* – For the risk parity strategy to achieve its stated objective of controlled risk allocation, it is completely necessary to leverage returns on its less volatile assets (generally fixed income) by using synthetic assets such as futures, forwards, options and swaps. The funds also dedicate a portion of the capital towards the purchase of physical assets as well. Each firm appears to use varying proportions of physicals and synthetics to achieve their stated objectives. These differences can be discussed at today's meeting.
- *Active management of the equity assets* – Each firm has the option of how active decisions are made regarding the choice of particular securities on the equity portion of the portfolio. The choice here will have some affect on the risk/return profile and ultimate performance of the overall strategy.
- *Historical Performance* – It is important to keep in mind that absolute return is not necessarily the best indicator of whether the fund is achieving its objective. Risk parity is a strategy that's meant to exert more control over the risk element (uncertainty in future returns) inherent in any asset allocation. Thus one must look at historical risk metrics and return distributions as well. Since the mandate size is large, staff looked at which combination of 2 managers would optimize those metrics.

The team noted reasonable consistency in the pure risk measure (standard deviation) across each manager. There were differences in 5-year annualized returns and as a result, the sharpe ratio was noticeably different for one manager. Historical loss frequencies and average losses are fairly consistent across managers, however, theoretical return distributions across managers do vary and this could ultimately play into the frequency and size of portfolio losses when they do occur in the future.

As a result of this analysis, the team feels that the combination of Panagora and AQR provide the best solution for the StanCERA portfolio. The team feels that this combination offers the highest return at the lowest correlation to a global investment strategy, minimizes drawdowns (generally the amount the portfolio loses in an unlikely event) and diversifies the amount of active management across managers. Fee differences across managers was very consistent, as are governance, compliance, and technology services and controls, and as a result, these areas were not a factor in the decision.

Representatives from AQR and Panagora will be available today to address any questions or concerns the Board may have.

VII. RISK: Indeterminable. Past performance and expectations are not necessarily indicative of future results.

VIII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

IX. ADMINISTRATIVE BUDGET IMPACT: None. StanCERA internal resources and costs dedicated to the investment governance process are reasonably fixed at this time.

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

MAY 23, 2017

Risk Parity Finalists

Stanislaus County Employees' Retirement Association

Table of Contents

VERUSINVESTMENTS.COM

SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

Risk Parity Search

TAB I

Appendix

TAB II

Executive summary

Executive Summary

— The "FFP 6-yr Alternative Mix" asset allocation approved in April 2017 prescribes a 14% allocation to Risk Parity strategies

- Multiple managers should be employed to mitigate single-manager risk and provide redundancy

— At the February Board meeting, Verus presented a search including three investment managers

— Following that meeting, Staff & Verus performed on-site due-diligence with each manager and performed further analysis of the combinations of the three managers.

This presentation includes:

— A recap of the search process;

— An overview of the three semi-finalists: AQR, First Quadrant, and PanAgora; and

— A discussion of the risk parity portfolio design & characteristics.

This presentation concludes with a recommendation to:

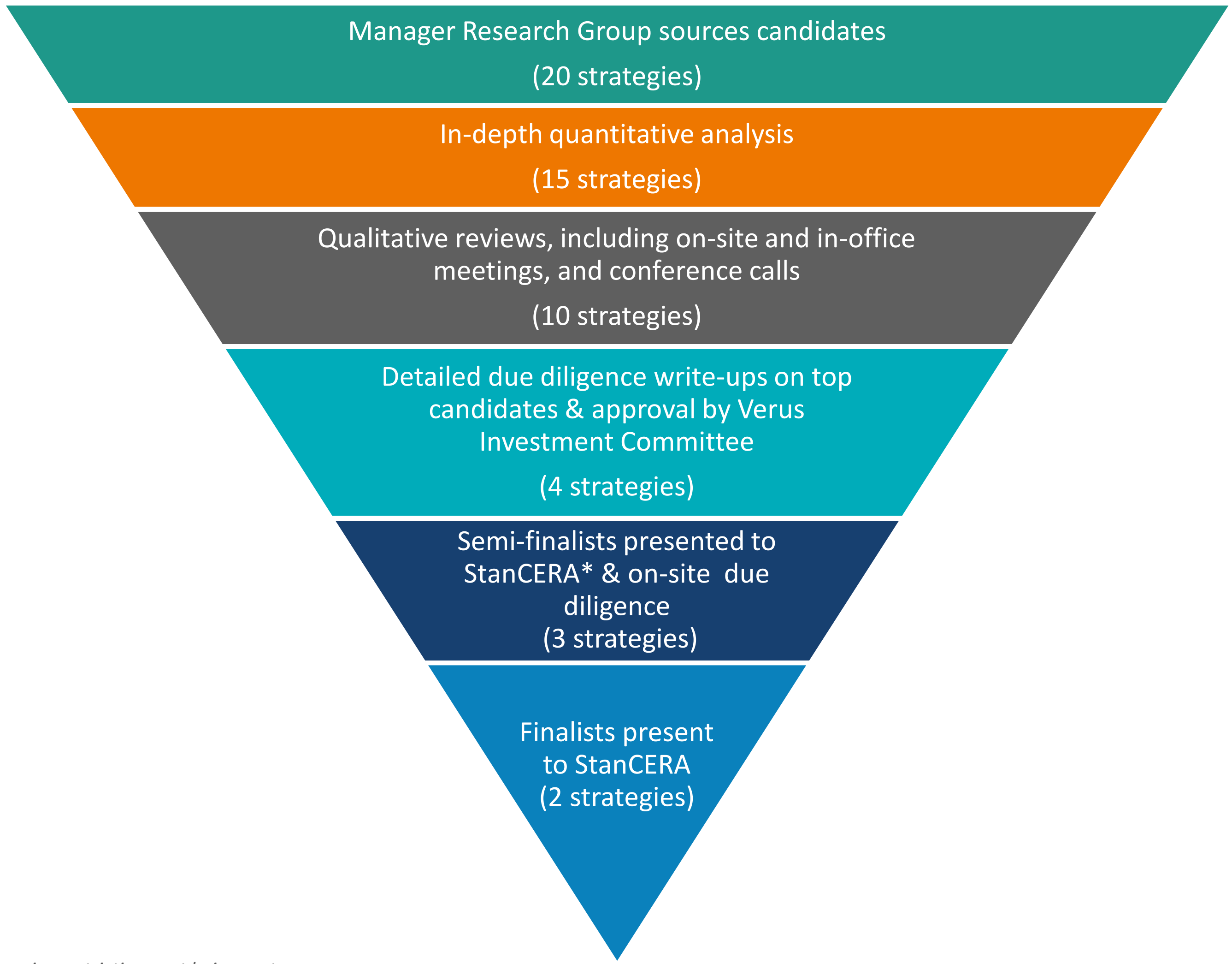
1. Allocate approximately $270mm to the Risk Parity portfolio, split equally between PanAgora and AQR; and
2. Authorize Staff to negotiate and execute final contracts with the managers.

Search process

Risk parity manager search process

— For this search, StanCERA utilized Verus' "focus list" of Risk Parity managers.

— Verus maintains focus lists that have been developed and are maintained via an RFP type selection process. Identified strategies have met rigorous quantitative and qualitative screens, in-depth investment due diligence meetings, and final approval by Verus' Investment Committee.



** Focus list strategies not presented to StanCERA were excluded due to plan size restrictions not being met. .*

Manager overview

Risk parity manager overview

	AQR Global Risk Premium EL	PanAgora Risk Parity Multi-Asset	First Quadrant Essential Beta
Location	Greenwich, CT	Boston, MA	Pasadena, CA
Ownership structure	70% employee owned / 30% owned by AMG	20% employee owned / 80% owned by Great West Life/Putnam Investments & Nippon Life Insurance Company	25% employee owned / 75% owned by AMG
Firm inception	1998	1989	1988
Firm assets	$187.6 bn	$47.1 bn	$23.4 bn
Strategy inception	October 2011	January 2006	March 2009
Strategy assets	$13.3 bn	$9.2 bn	$2.4 bn
Key investment professionals	John Liew, PhD, Founding Principal Brian Hurst, Principal, PM Michael Mendelson, Principal, PM Yao Hua Ooi, Principal, PM John Huss, VP, PM	Edward Qian, PhD, CIO & Head of Research Bryan Belton, Director, Multi-Asset Mark Barnes, PhD, Director, Multi-Asset David Liddell, Director, Multi-Asset Jonathan Beaulieu, PM, Muti-Asset	Max Darnell, Managing Partner, CIO Edgar Peters, Partner, Investments Bruno Miranda, PhD, Director, Investments Suneal Chaudhary, PhD, Assoc. Dir., Risk
Vehicles & Fees	Commingled Fund 0.38% on all assets	Separate Account & Commingled Fund 0.35% on all assets (plus custody fees for separate accounts)	Separate Account & Commingled Fund 0.35% on first $250 mm 0.20% above $250 mm

Risk parity strategy overview

	AQR Global Risk Premium EL	Panagora Risk Parity Multi-Asset	First Quadrant Essential Beta
Target Vol.	10%	10%	10%
Max Leverage	300% gross notional	350% gross notional	No explicit leverage limit
Tactical Tilts?	No	Model Driven	Model Driven & Non-Model Driven
Global Equity Beta (5-yr)	0.40	0.40	0.50
Max Drawdown (5-yr)	-14.1%	-9.4%	-16.1%
Strategy assets	$13.3 bn	$9.2 bn	$2.2 bn
Strategy Objectives	• Realize a higher long-term, risk adjusted return relative to a traditional asset allocation portfolio • Maintain equal risk contribution from each of the three risk buckets (equity, rates, inflation) at all times.	• Capture risk premia by investing across assets with positive expected returns in a way that maximizes the diversification benefit during various market environments. • Tactical changes driven by “Dynamic Risk Allocation” process using technical, behavioral, and fundamental signals.	• Seeks equity-like returns at reduced portfolio volatility with smaller drawdowns • Scenario-based asset allocation uses proprietary “Market Risk Indicator” to determine the current risk environment • Non-Model Driven Action allows team to jointly decided to override model outputs in certain events
Instruments Used	• Market exposures are generally gained using exchange traded futures, interest rate swaps, and in a few cases, repo financing of cash bonds (e.g. inflation linked government bonds)	• Physicals predominantly used to invest in public equities, credit, and inflation-linked bonds. Small percentage invested using futures to simplify rebalancing and trading. • Rates and commodities exposures gained through futures.	• Futures, Forwards, ETFs, Options, Swaps, Physicals • Synthetic zero coupon bonds and equity indez options used for tail-risk hedging in resilient markets

Risk parity finalist performance

	AQR	PanAgora	First Quadrant	60/40 Global Portfolio
Statistics (5 Years)				
Annualized Return, %	3.3	8.5	3.7	5.8
Annualized StdDev, %	7.8	8.4	8.7	7.3
Sharpe Ratio	0.4	1.0	0.4	0.8
Avg Loss, %	-1.9	-2.0	-2.1	-1.6
Loss Frequency, %	41.7	35.0	38.3	40.0
Max Drawdown Return, %	-14.1	-9.4	-16.1	-7.2
Max Drawdown Period	Sep-14 - Dec-15	May-13 - Jun-13	Sep-14 - Jan-16	Sep-14 - Jan-16
Recovery Period	Jan-16 - Feb-17	Jul-13 - Feb-14	Feb-16 - Feb-17	Feb-16 - Jul-16
Skewness	-0.7	-0.5	-0.5	-0.2
Excess Kurtosis	-0.1	1.4	0.6	---
Returns to Date				
1 Year	9.2	9.0	15.4	7.9
3 Year	1.9	7.5	2.4	3.3
5 Year	3.3	8.5	3.7	5.8
7 Year	7.3	10.4	6.3	6.1
10 Year	7.4	7.8	---	4.2
Common (Mar-09)	9.0	11.4	8.6	9.9
Calendar Year Returns				
2017	2.8	4.0	5.2	4.5
2016	11.2	13.7	14.5	5.5
2015	-9.0	-3.4	-8.2	-1.6
2014	7.3	14.9	4.2	3.2
2013	-2.3	3.6	-1.5	14.2
2012	12.2	14.7	8.1	11.3
2011	12.7	11.3	8.9	-0.9
2010	22.3	18.8	18.1	9.6
2009	14.0	7.2	---	20.7
2008	-7.4	-13.4	---	-24.9
2007	17.0	14.4	---	9.4
2006	3.4	-1.2	---	14.6

**AQR launched its first Risk Parity strategy, AQR GRP, in January 2006. AQR GRP-EL (Enhanced Liquidity) was launched in October 2011. Returns shown for AQR GRP-EL prior to October 2011 represent actual AQR GRP returns adjusted to simulate constraints in place for GRP-EL product.*

Portfolio design

Portfolio design

In assessing the various potential combinations of managers from the pool of three semi-finalists, a 50% AQR / 50% PanAgora portfolio is recommended for the following reasons:

- Primary objectives of the risk-diversifying sub-portfolio are: Liquidity, Positive return, and Low correlation to the growth sub-portfolio
  - The AQR/PanAgora combination offers the highest returns and the lowest correlations to the MSCI World index.
- Shallower draw-downs
  - The AQR/PanAgora max drawdown since 2009 is 10.9% vs. 10.4% for the AQR/FQ combination and 15.1% for the PanAgora/FQ combination.
- Complementary styles
  - AQR's static risk allocation paired with PanAgora's Dynamic Risk Allocation methodology.
  - First Quadrant's approach appeals more to investors seeking an equity type replacement vehicle with reduced risk.

Performance and correlations

AQR/PanAgora offers higher long-term returns with lower correlations to the MSCI World Index

EXCESS PERFORMANCE VS. RISK, MAR-09 TO DEC-16

36 MONTH ROLLING BETA TO MSCI WORLD, DEC-08 TO DEC-16

● AQR / PanAgora ● AQR / FQ ● PanAgora / FQ ✚ 60/40 Global Portfolio

Gross of fees performance
Source: eVestment Alliance

AQR/PanAgora portfolio performance

	AQR	PanAgora	AQR / PanAgora	60/40 Global Portfolio
Statistics (5 Years)				
Annualized Return, %	3.3	8.5	5.9	5.8
Annualized StdDev, %	7.8	8.4	7.8	7.3
Sharpe Ratio	0.4	1.0	0.8	0.8
Avg Loss, %	-1.9	-2.0	-1.9	-1.6
Loss Frequency, %	41.7	35.0	36.7	40.0
Max Drawdown Return, %	-14.1	-9.4	-10.8	-7.2
Max Drawdown Period	Sep-14 - Dec-15	May-13 - Jun-13	May-15 - Dec-15	Sep-14 - Jan-16
Recovery Period	Jan-16 - Feb-17	Jul-13 - Feb-14	Jan-16 - Jun-16	Feb-16 - Jul-16
Skewness	-0.7	-0.5	-0.7	-0.2
Excess Kurtosis	-0.1	1.4	0.8	---
Returns to Date				
1 Year	9.2	9.0	9.1	7.9
3 Year	1.9	7.5	4.7	3.3
5 Year	3.3	8.5	5.9	5.8
7 Year	7.3	10.4	8.9	6.1
10 Year	7.4	7.8	7.7	4.2
Common (Jan-06)	7.1	7.1	7.1	5.1
Calendar Year Returns				
2017	2.8	4.0	3.4	4.5
2016	11.2	13.7	12.5	5.5
2015	-9.0	-3.4	-6.2	-1.6
2014	7.3	14.9	11.1	3.2
2013	-2.3	3.6	0.6	14.2
2012	12.2	14.7	13.4	11.3
2011	12.7	11.3	12.0	-0.9
2010	22.3	18.8	20.5	9.6
2009	14.0	7.2	10.5	20.7
2008	-7.4	-13.4	-10.3	-24.9
2007	17.0	14.4	15.7	9.4
2006	3.4	-1.2	1.1	14.6

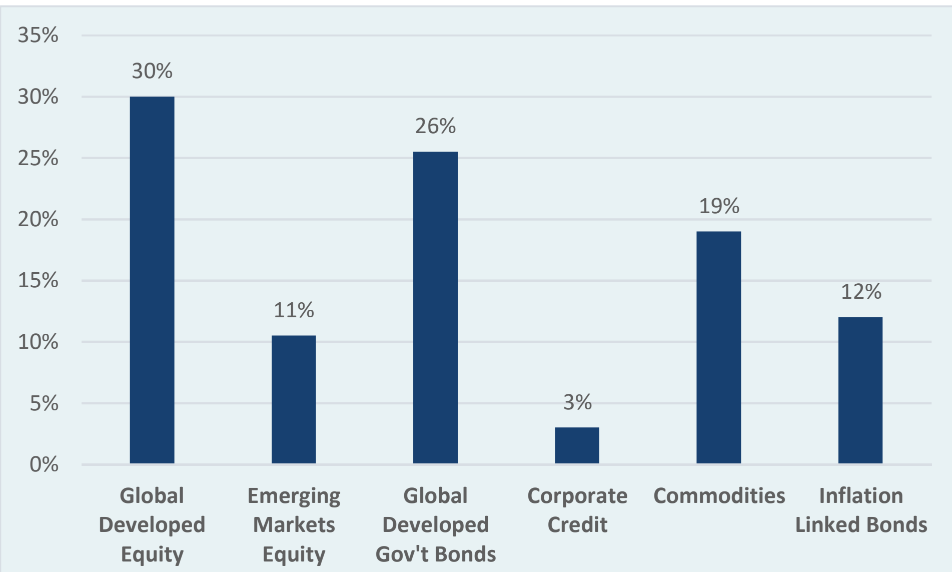
Sources: MPI, eVestment, gross of fees, through 4Q 2016

Illustrative portfolio characteristics

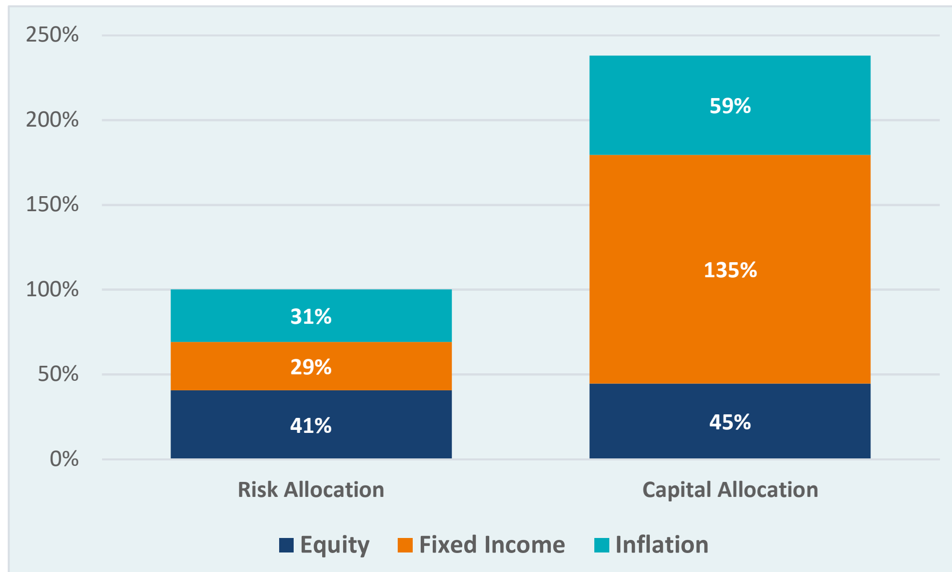
The table below shows the key characteristics of a 50% Panagora / 50% AQR portfolio:

- Balanced risk exposures across asset classes
- Approximately 238% gross notional exposure
- Cost: 36.5 bps total blended fee

SUB-ASSET CLASS RISK ALLOCATION



ASSET CLASS RISK ALLOCATION VS. CAPITAL ALLOCATION



Sources: Panagora, AQR. As of 3/31/17

Next steps

Next steps

Verus recommends that the Board:

— Allocate $135mm to the PanAgora Risk Parity Multi-Asset strategy and $135mm to AQR's Global Risk Premium Extended Liquidity strategy; and

— Authorize Staff to negotiate and execute final contracts with managers

Appendix

Manager Evaluation

Applied Quantitative Research Capital Management Global Risk Premium (GRP)

LAST UPDATED: FEBRUARY 2017

STRATEGY BASICS

Asset Class:	Risk Diversified Fund
Investment Style:	Risk Parity
Firm Inception:	1998
Firm Assets:	$175.2 Billion
Strategy Inception:	2006*
Strategy Assets:	$26.2 Billion
Min. Investment:	$5 Million
Commingled Vehicle**:	CIT for 10%, 12%, 15%, and 20% total volatility target GRP, GRPT, GRP-EL, GRPT-EL are each unique versions of the common underlying risk parity strategy
Fees:	Varies by total volatility target
Liquidity:	Daily or weekly

**Original AQR Risk Parity product was launched in January 2006 and is currently soft closed. Global Risk Parity Enhanced Liquidity (GRP-EL) strategy excludes credit to provide enhanced liquidity.*
*** Vehicles details and fees are provided in the "Fund Terms" section at the end of the write-up.*

Firm Background and History

Established in 1998, Applied Quantitative Research Capital Management, LLC (AQR) is an independently-owned investment management firm registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. The firm's founding principals came out of the Goldman Sachs Asset Management Quantitative Research Group.

AQR is located in Greenwich, CT, and has over 550 full-time employees. AQR's twenty six principals hold more than 70% of the firm's equity interest. In 2004, Affiliated Managers Group (NYSE: AMG) bought a minority interest of less than 25% in the firm. In December 2014, AMG increased their effective ownership interest to approximately 30%. AQR remains employee-operated and is fully independent with respect to operations and managing its investment process. AQR also owns a stake in affiliate CNH Partners, managed by Mark Mitchell and Todd Pulvino.

AQR employs a systematic and global multi-asset class investment process. All of the firm's quantitative models are based on identified economic principles. The firm manages strategies in traditional long-only equities, alternative absolute return strategies and risk parity. The firm has more than a decade of experience managing risk- and style-based portfolios, hedge funds and traditional long- only strategies.

Strategy Background

The AQR Global Risk Premium ("GRP") seeks to efficiently and systematically capture return drivers or risk premia derived from exposures to traditional asset classes. The following asset classes are used to achieve desired exposures: U.S. large, mid, and small capitalization as well as developed and emerging equities, developed nominal and inflation-linked bonds, and global commodities. The strategy targets an equal risk contribution from each of the four main risk buckets: equities, rates, credit/FX and inflation calculated as the beta of each risk bucket to the total portfolio. Portfolio risk is measured using one-year ex-ante volatility. The strategic balancing of risk within a portfolio is commonly referred to as risk parity or risk-balanced. Unlike other strategies within the peer group, the primary AQR GRP strategy delivers a pure risk parity product that does not rely on any tactical tilts to generate alpha. Traditional risk parity strategies provide a much more balanced approach to gaining exposure to different return drivers than traditional equity centric portfolios. Within a traditional capital allocated portfolio with an allocation of 60% equity/40% bonds over 90% of the total portfolio volatility is due to equity risk – this concentration is avoided in a risk parity framework.

AQR also offers an "extended liquidity" version of the basic strategy, GRP-EL, which excludes the credit and currencies component. The firm also offers a version with an overlay of tactical tilts which introduces systematic yet more active views and variability of risk positioning.

AQR believes that the risk parity approach maximizes the diversification benefit across a broad range of economic environments: equity benefits from long-term economic growth; nominal interest rates could provide attractive returns during periods of stress and/or deflation; and TIPS and commodities provide protection from price inflation. AQR empirical research appears to show that over the long-term all major asset classes have approximately equal risk-adjusted returns. Due to diversification they state an equally risk-weighted portfolio provides 0.15-0.20 improvement in long-term risk adjusted returns (Sharpe ratio) compared to long-term Sharpe ratios of individual asset classes.

In order to increase the notional exposure of lower risk asset classes (e.g. sovereign bonds), leverage is usually required to equalize their contribution to total risk. The amount of leverage varies substantially over time as a function of the relative volatility of different risk buckets comprising the portfolio and correlations among them. For the portfolio targeting 10% volatility, leverage is capped at 300%. Additionally, the strategy is available for 12%, 15%, and 20% target volatilities.

As part of the portfolio construction and risk mitigation process, AQR has incorporated an explicit drawdown control mechanism that limits the maximum drawdown at 15% by reducing the total portfolio volatility up to 50% during periods of heightened market volatility. The drawdown control mechanism is launched and removed automatically. Manual overrides are possible under very extreme market or economic conditions including geopolitical conflicts and shut-down of exchanges.
The fund is rebalanced approximately 25 times during the year. AQR places emphasis on trading low cost, liquid securities. Relative to other risk-balanced strategies, the Fund offers relatively low fees. It provides daily or weekly liquidity, depending on target volatility and vehicle type.

Key Investment Professionals

The Fund`s Investment Committee is comprised of seven senior members of the firm and is directly supported by over 40 asset allocation team members, teams conducting research in equities, fixed income, commodities, credit/currency as well as risk management and portfolio implementation. Three principals of the firm and members of the Risk Parity Investment Committee, Brian Hurst, Michael Mendelson, and Yao Hua Ooi, directly oversee portfolio management and strategy research. Note that as of July 2015, Brian Hurst has resumed his prior role as interim head of trading following Hitesh Mittal's departure from the firm. In June 2016, Isaac Chang, managing director, joined AQR as the co-head of Trading alongside Brian Hurst, Principal. In this role, he is responsible for managing the firm's trading operations across all asset classes and regions.

Senior Risk Parity Investment Committee Members

JOHN LIEW, PH.D., FOUNDING PRINCIPAL

Prior to co-founding AQR, Mr. Liew was a portfolio manager in the Asset Management Division at Goldman, Sachs & Co. Prior to Goldman, he worked at Trout Trading Company. He is a member of the Board of Trustees of the University of Chicago where he received a Ph.D. in Finance. He has an MBA from the Booth School of Business and a B.A. in Economics.

JEREMY M. GETSON, CFA, PRINCIPAL

Jeremy is a senior member of AQR's Client Strategies team, working with and advising clients in the eastern half of the United States and all of Canada. Prior to AQR, he was a vice president of Allstate Financial and a consultant with Mercer Investment Consulting, advising pension plans on asset allocation and investment-manager selection. Jeremy earned an A.B. in politics from Princeton University, graduating cum laude, and an M.B.A. with high honors from the University of Chicago's Graduate School of Business.

BRIAN K. HURST, PRINCIPAL, RISK PARITY PORTFOLIO MANAGER (CURRENTLY CO-HEAD OF TRADING)

In addition to being a portfolio manager for two of AQR's macro strategies: managed futures and risk parity, Brian Hurst resumed his role in 2015 as head of trading following the departure of Hittesh Mittal. He has been at AQR since its founding and was named the 2013 Alternatives Fund Manager of the Year by Morningstar for his work on managed futures. Before AQR, Brian was an original member of the quantitative research group in the Asset Management division of Goldman, Sachs & Co. He began his career as a sell-side investment banking analyst at Donaldson, Lufkin & Jenrette. Brian earned a B.S. in economics from the Wharton School of the University of Pennsylvania.

MICHAEL A. MENDELSON, PRINCIPAL, RISK PARITY PORTFOLIO MANAGER

Michael is portfolio manager of AQR's risk parity strategies and a member of both the firm's strategic planning and risk committees. Prior to AQR, Michael was a Managing Director at Goldman Sachs & Co., where he founded the quantitative trading group. Michael earned an S.B. in mathematics, an S.B. in management, an S.B. in chemical engineering and an S.M. in chemical engineering, all from the Massachusetts Institute of Technology, and an M.B.A. from the University of California at Los Angeles.

YAO HUA OOI, PRINCIPAL, RISK PARITY PORTFOLIO MANAGER

Yao Hua is a Principal in the Global Asset Allocation team, focusing on research and portfolio management of macro-related strategies that include commodities, risk parity and managed futures. He was named the 2013 Alternatives Fund Manager of the Year by Morningstar for his work on managed futures, and shared the 2013 Whitebox Prize for his work on time series momentum. Yao Hua is an alumnus of the Jerome Fisher Program in Management and Technology at the University of Pennsylvania, where he earned a B.S. in economics and a B.S. in engineering, graduating summa cum laude in both.

SCOTT RICHARDSON, PH.D

Scott conducts research for AQR's Global Alternative Premia group, focusing on strategies that contain credit risk, and he helps oversee equity research for the firm's Global Stock Selection group. Prior to AQR, he was a professor at London Business School, where he still teaches M.B.A. and Ph.D. classes. He has held senior positions at BlackRock (Barclays Global Investors), including head of Europe equity research and head of global credit research, and began his career as an assistant professor at the University of Pennsylvania. He is a member of the Advisory Council of the AQR Asset Management Institute at London Business School and an editor of the Review of Accounting Studies, and he has published extensively there and in other leading academic and practitioner journals. In 2009, he won the Notable Contribution to Accounting award for his work on accrual reliability. Scott earned a B.Ec. with first-class honors from the University of Sydney and a Ph.D. in business administration from the University of Michigan.

JOHN HUSS, VICE PRESIDENT

John is a senior researcher on AQR's Global Asset Allocation team and a portfolio manager for the firm's Risk Parity strategies. In these roles, he manages macroeconomic and portfolio construction research for Risk Parity and other asset allocation strategies. Prior to rejoining AQR, where he first worked from 2004 to 2008, he was a vice president in RBC's Global Arbitrage and Trading division and a systematic portfolio manager for Tudor Investment Corp. John earned a B.S. in mathematics from the Massachusetts Institute of Technology.

Process

Portfolio construction

The AQR approach to constructing a risk parity portfolio is threefold: (i) design risk buckets that have low correlation to each other, (ii) budget the total portfolio risk among and inside buckets, (iii) combine the buckets with the goal of creating a portfolio with the highest possible Sharpe ratio available. Each risk bucket provides roughly an equal risk contribution measured by beta to the total portfolio. Volatility of each risk bucket and individual asset classes are forecasted and cross-correlations between the different buckets are estimated with the understanding that adjustments to the asset class's notional weights may be required in order to keep the aggregate portfolio risk near the target level. Leverage is usually required to increase the notional exposure to asset classes with lower volatility, e.g., sovereign bonds, to equalize their contribution to total risk. The use of leverage will vary based on current market environment. While total fund leverage is capped at 300%, stress-test based exposure caps on asset classes may restrict leverage further, typically in the 250%-300% range for 10% volatility.

The AQR strategy attempts to maintain risk parity consistently, and uses a combination of short-term, medium-term, and long-term volatility and correlation forecasts and estimates. This is one of the main characteristics that differentiate AQR strategy from other risk parity providers, some of which use longer-term volatility and correlation measures. Three different risk models are used in portfolio construction. The top-level model is used to estimate correlation between the broad asset classes. Two additional models are used to estimate correlations within buckets and volatility of each bucket.

To estimate cross-correlation between risk buckets AQR combines a short-term dynamic correlation matrix (500-day equal-weighted) and a long-term static correlation matrix (historical data from 1980 to present). A 50%/50% blend of the two matrices provides a good tradeoff between sensitivity to market changes and relative stability of the estimates. Cross-correlation among different risk buckets is constrained at zero. The reason for imposing the constraint is that negative correlation could result in increased leverage in theoretically offsetting positions in equities and rates that could have to be unwound if correlations reverse.

To estimate correlations between individual assets inside buckets, a dynamic short-term correlation matrix is used (150-day center of mass, exponentially weighted). Exponential smoothing assigns exponentially decreasing weights over time and is commonly applied to financial market and economic data. The center of mass is the mean point of the distribution, or, in other words, the distribution is balanced around the center of mass.

Volatility is calculated as a weighted average of the short-term volatility forecast and a long-term historic volatility. A higher weight of 80% is assigned to the short-term forecast (center of mass is equal to 25 trading days) to pick up changes in the short-term asset class volatility. A 20% long-term volatility component (center of mass is equal to 500 trading days) smoothers total volatility and reduces impact of market noise as well as decreases trading.

Risk buckets

The main criteria for an asset to be included in the portfolio are: (i) positive expected returns or significant diversification benefits; (ii) the asset class must maintain sufficient liquidity, and (iii) the ability to easily finance the position. Individual buckets are designed to minimize their correlation to each other. Market exposures are generally gained using exchange traded futures, vanilla fixed-floating interest rate swaps (for certain bond markets), and in a few cases, repo financing of cash bonds (e.g. inflation linked government bonds), a total of fifty five financial instruments.

Equity risk bucket

In the equity bucket, the strategy invests 70% in thirteen developed countries, 5% in US mid cap, 5% in US small cap, and 20% in seven emerging market futures. Both developed and emerging equities are weighted by capitalization. Equity exposure is generally achieved through index futures and, for Switzerland, Brazil, and Russia, swaps on futures.

Rates risk bucket

In the rates basket, the strategy invests in sovereign bonds of six developed countries: Australia, Canada, Germany, Japan, United Kingdom, and United States. The weights inside the bucket are 50%/50% GDP and market cap or issuance weighted. Fixed income exposure is achieved through 10-year government bond futures.

Inflation risk bucket

One third of the inflation risk bucket is invested into inflation-linked bonds of four developed countries: France, Germany, United Kingdom, and United States. AQR uses 5-year and 10-year inflation bonds. Inflation linked bonds are liquidity weighted, representing 50% US, 20% UK and 15% each of France and Germany. Inflation-linked bond exposure is achieved through direct holdings of bonds which are financed through repurchase agreements. TIPS total exposure is equally divided between 5 and 10 year issues.

The rest of the bucket is equally allocated between GCCI Commodity index (production weighted) and AQR Commodity Index (volatility weighted). Each index is invested in twenty three commodities and has equal total portfolio risk targets. Commodity exposures are obtained through futures.

Credit risk bucket (excluded from GRP-EL)

The credit risk bucket includes credit spreads for emerging sovereigns, as well as European and US high yield and investment grade indices. The manager achieves exposure from CDX rather than cash bonds due to liquidity. This bucket also includes emerging market currencies for: Brazil, China, Hungary, India, Mexico, Portland, Singapore, South Africa, South Korea, and Turkey.

Rebalancing

In order to determine if rebalancing the portfolio is necessary, the team will examine how far the current positions are from the desired notional positions. This is done by comparing the change in volatility of the position before and after the proposed trade. For example, if the model calculates a desired notional amount of $1000 in production weighted commodities, then the trade will be placed when actual position falls below $950 or goes above $1050. The threshold is 5% of the desired position size (not 5% of the NAV of the fund) for the most highly liquid instruments (for instance, developed stocks and bonds) and 10% for other strategies such as TIPS and emerging equities.

Tactical positioning (only relevant for AQR GRPT and GRPT-EL vehicles)

Similar to many competitors, AQR also offers tactical versions of their risk parity products; however, assets in these vehicles has been relatively small compared to their standard risk parity products. With the tactical portfolios, the manager seeks to use additional signals: value, carry, momentum, and trend-following. Active asset allocation allows the manager to tilt toward views where signals align – note that the impact of the tactical view is structured to be marginal, with about a 2% tracking error, and the tactical funds retain their core risk allocations.

Risk Management

AQR devotes substantial resources to market, financial and operational risk management. The 8-person Risk Management team is led by Lars Nielsen, the AQR's new Chief Risk Officer, after Aaron Brown transitioned to the Head of Financial Market Research in March 2016. The Risk Management team is independent and external to portfolio management and reports directly to Cliff Asness. This team reviews portfolio risks, liquidity and trading instruments on a daily basis. There is also a dedicated Counterparty Credit Officer and firm-wide Counterparty Credit Committee that reviews quality and exposures to all trading partners. The firm's operational and control procedures are among the most robust in the industry.

For all long-only products, the following characteristics are monitored on a daily basis: forecasted correlation between assets and asset classes/risk buckets, worst and best case analysis, scenario analysis, position limits. Monthly client reports display Fund returns, attribution, and risk allocation.

More specifically, for the GRP strategy, AQR employs a portfolio monitoring program that includes the following measures:

(1) Daily assessment of individual asset risk forecasts and ex-ante risk budget to

- Capture changes in the underlying risks of the portfolio holdings
- Minimize transaction costs

(2) Systematic drawdown control process and tail risk assessment to

- Adjust notional exposures according to the current risk forecasts
- Overlay fund risk models with external measurement and control on portfolio risk

(3) Strict oversight of counterparties by AQR Counterparty and Risk Committees

- Collateral management program mitigates exposures to counterparties
- Majority of fund capital is held in cash instruments away from trading and financing counterparties

Drawdown Control

The drawdown control/stop loss mechanism is a rules-based, systematic risk-mitigating process that is designed to limit the maximum total portfolio drawdown to 15% and to reduce the total portfolio volatility in a stair-step manner during periods of heightened market volatility often seen as preceding material market corrections. Drawdown control is designed to incrementally decrease the total portfolio volatility to as low as 50% of target portfolio volatility. Portfolio risk is reduced pro-rata among the risk buckets. When market volatility is observed to decline, total portfolio volatility is gradually increased back towards the target level, again utilizing a rules-based systematic approach. Risk control is separated from portfolio construction and controlled by the Chief Risk Officer. Manual overrides are possible under very extreme market or economic conditions.

Historically, drawdown control has only been triggered during 2008/09 financial crisis with total portfolio volatility remaining below the target level for roughly a year. At the peak of the crisis the portfolio was completely unlevered. Recently, the drawdown control was triggered for a second time during the second quarter of 2013 following the Taper Tantrum.

Potential Concerns

Because the Fund is levered, it potentially faces two important risks: (1) risk of exceptionally large market moves and (2) availability of financing. We believe that these risks are mitigated by a thoughtful portfolio design and selection of liquid financial instruments to achieve desired exposures. Total fund leverage is capped at 300% (at 10% volatility) so the fund does not become over levered if market volatility declines. There is also a drawdown control mechanism that reduces total portfolio risk and leverage in a systematic manner if market conditions deteriorate. To further control risk, maximum total portfolio drawdown is limited to 15%.

The portfolio is mostly invested in liquid derivatives instruments and requires only a fraction of original investment to achieve desired notional exposures. The remainder is kept in cash and is managed in third-party institutional money market funds or in FDIC fully-insured bank accounts. AQR utilizes International Fund Services (a State Street Company) as the Fund administrator, PWC as the Fund auditor, and multiple prime brokers including Morgan Stanley, JP Morgan, and Goldman Sachs. In addition, AQR also maintains liquidity funds segregated from financing sources and seeks to maintain appropriate cash balances.

Management of asset growth, capacity, and resources may also be a challenge. As AQR has been active in new launches and strategies, capacity of strategies in existing products should be assessed. The firm has been proactive by soft-closing some funds, including DELTA. Additionally, as researchers may cover many different products, allocation of research and development may vary across products.

In August 2015 Hitesh Mittal, AQR's head of trading was let go following the announcement of a pending SEC settlement with his former employer, ITG, a dark pool operator after the media cited unidentified sources pointing at his role at his prior firm. While Mr. Mittal had not been identified explicitly by the SEC or ITG, and the investigation does not involve AQR, the firm believed that his continued employment could be a distraction given the uncertainty of outcomes. Brian Hurst has since resumed his prior role as interim head of trading until the firm finds a replacement. In June 2016, AQR hired Isaac Chang as the Co-head of Trading to work alongside with Brian, with the expectation that Brian will spend more time focusing on non-trading related activities as Isaac's responsibilities grow.

Performance

AQR's GRP strategy with a targeted volatility of 10% has an expected annualized return of 5% over T-Bill. The expected gross Sharpe Ratio for the GRP portfolio is approximately 0.5 over the long term. On a realized basis, since 2006 the 10% volatility strategy has returned an annualized 6.1% return with 9.2% volatility, or a 0.6 Sharpe Ratio. Over the same period, a 60/40 portfolio of 60% MSCI ACWI, 40% Barclays Global Aggregate bonds would have had a return of about 4.7% on a volatility of 11.0%, for a Sharpe Ratio of 0.4.

A three-bucket GRP-EL strategy currently available to the new investors delivered 4.1% gross of fees return with 7.7% realized volatility since inception in October 2011.

In certain economic scenarios, such as recession or moderate deflation accompanied by low economic growth, AQR expects its GRP strategy to realize negative returns. However, GRP strategy is still expected to outperform a balanced benchmark of 60% MSCI ACWI and 40% Barclays Global Aggregate indices under such market conditions.

Fund Terms

There are several risk parity products that target different levels of total portfolio risk.

10% target volatility

(1) AQR GRP EL 10 Offshore Fund Ltd.
Commingled/weekly liquidity/38 bps

(2) AQR GRP EL Fund, L.P.
Commingled/weekly liquidity/38 bps

(3) Risk Parity CIT
CIT/ daily liquidity /tiered

12% target volatility

AQR GRP EL 12 Offshore Fund Ltd.
Commingled/weekly liquidity/46 bps

20% target volatility

AQR GRP EL 20 Offshore Fund Ltd.
Commingled/weekly liquidity/76 bps

AQR GRP EL 20 (Lux) Fund
Lux Fund/daily liquidity/76 bps

The 15% target volatility product has tactical tilts and is offered through a mutual fund vehicle. Based on client request, AQR could launch new commingled funds if economically justified.

Recommendation

Verus believes that AQR Global Risk Premium is an efficient low-cost beta allocation strategy based on rigorous fundamental research. AQR has been continuously conducting new research and strategy enhancements to the program since its 2006 launch. It is one of few risk parity strategies tested in 2008/2009 financial crisis and proved to be robust. Additionally, AQR is committed to providing clients with full transparency and liquidity, and have been thought leaders in research with a team having strong academic and practitioner pedigrees.

The strategy is managed to maintain risk balance among different asset classes and in an effort to maintain the total portfolio risk level as steady as possible.

Verus believes that the AQR Global Risk Premium is an appropriate vehicle for clients to use for risk parity exposure in their portfolios.

Manager Evaluation

PanAgora Asset Management Risk Parity Multi Asset

LAST UPDATED: FEBRUARY 2017

STRATEGY BASICS

Asset Class:	Risk Diversified Fund
Investment Style:	Risk Parity
Firm Inception:	1989
Firm Assets:	$42.8 Billion
Strategy Inception:	2006
Strategy Assets:	$8.5 Billion
Min. Investment:	$3 Million
Commingled Vehicle Fees:	35 bps for 10% volatility, scales with volatility
Separate Account:	$100 Million min, 35 bps

Firm Background and History

PanAgora has been providing investment management services since it began operations as the Structured Investment Products Group of The Boston Company in July 1985. PanAgora Asset Management, Inc. subsequently registered as an independent investment adviser with the SEC in November 1989. At that time, the company was owned by The Boston Company and Nippon Life Insurance Company (NLI) each owning 50% of the company. In September 1992, The Boston Company was sold and its 50% ownership interest reverted to its parent organization, Lehman Brothers. Putnam Investments acquired Lehman Brothers' 50% position in February 1998 and subsequently purchased an additional 30% interest from NLI in 2004.

Today PanAgora is a provider of investment solutions spanning a broad array of asset classes and risk targets. In March 2008 PanAgora implemented a Management Equity Plan that offers employees up to 20% ownership in the firm through restricted stock and options. If all employee stock and options were issued and exercised, the outside ownership would be a 66% holding by Power Financial Corporation (through its affiliates Great West Life/Putnam Investments) and 14% held by Nippon Life.

PanAgora's investment teams are organized into an Equity Strategies group and a Multi Asset Strategies group. PanAgora's investment offerings include Alternatives, Risk Premia and Traditional Long-Only strategies.

Strategy Background

The PanAgora Risk Parity Multi Asset investment strategy is based on the belief that diversification is the key to generating better risk-adjusted returns, and that avoiding risk concentration is the best way to achieve true diversification. The strategic balancing of risk within a portfolio is commonly referred to as a risk parity or risk-balanced approach to investment. Risk parity strategies are seen as providing a more balanced approach to gaining exposures to different return drivers than traditional equity centric portfolios. For example, within a traditional capital allocated portfolio with an allocation of 60% equity/40% bonds over 90% of the total portfolio volatility is due to equity risk.

In order to generate stable returns under a broad array of market and economic conditions the Multi Asset investment team attempts to balance the portfolio across the dimensions of risk that they believe exert the greatest influence on performance over time. The Risk Parity Multi Asset strategy seeks to participate in periods of economic growth by allocating to equity market risk premia and to preserve capital during economic contraction by allocating to nominal fixed income risk premia while commodities and inflation linked bonds provide an element of inflation protection. The strategy is designed to achieve stable wealth creation by building a portfolio that would perform well across various economic environments.

The main premise of PanAgora's approach to risk parity portfolio construction is that risk should be allocated to investment opportunities in relation to their long-term risk-adjusted returns (Sharpe Ratios), and that the Sharpe Ratios of certain securities and/or groups of securities, such as equities and bonds, or sectors and countries within an equity or fixed income benchmark, are similar over the long-term. The firm believes that its research shows that stock and bond long-term Sharpe ratios are about equal to each other, while commodities have a lower rate of risk-adjusted returns. Consequently, the strategic risk allocation is 40% to an economic growth sensitive portfolio /40% in an economic contraction sensitive portfolio /20% in an inflationary regime sensitive portfolio. On a relative basis, the portfolio tends to have a smaller weighting to inflation-sensitive assets compared to other well known risk parity programs. The strategy targets 10% target volatility, but could be run for levels of total risk from 5%-25%.

The team is continuously conducting research to improve the investment process. Since its inception in 2006 the strategy has undergone two important enhancements in portfolio construction. First, in 2008, a Dynamic Risk Allocation (DRA) technique was implemented to apply tactical tilts to the strategic allocation based on technical/behavioral signals, momentum and reversal. In 2011, a fundamental component, relative sub-asset class valuations, was included as one of the variables in DRA process. A bottom-up risk parity approach was implemented inside several asset classes from 2008 to 2011 to maximize diversification by mitigating risk concentration across multiple dimensions. Equity bucket is risk-diversified by sector, country, and stock. Sovereign rates exposure is diversified by country, term structure, and credit ranking; commodities – by sector and security.

In order to increase the notional exposure of lower risk asset classes such as sovereign bonds, leverage is usually required to equalize their contribution to total risk. The amount of leverage varies substantially over time as a function of the relative volatility of different risk buckets comprising the portfolio and correlations between them. Since inception of the strategy leverage has been between 180% and 285%. For the portfolio targeting 10% volatility, leverage is capped at 350%.

The strategy does not have explicit drawdown control or a stop-loss mechanism, as PanAgora believes that their research showed that a bottom-up risk parity approach and DRA mechanism should mitigate portfolio risk and provide good downside protection. However, the investment committee has discretion in forcing a rebalance or de-risking as a result of exogenous market factors, for example during the Taper Tantrum of May/June 2013.

Key Investment Professionals

The Risk Parity strategy is managed by the Multi Asset investment team of 12 investment professionals led by Dr. Qian. The team is responsible for the development and management of top down strategies for both active market returns and market neutral, true alpha, strategies. Edward Qian, the lead portfolio manager and CIO of the Multi Asset group, is ultimately responsible for the decisions in these portfolios.

EDWARD QIAN, PH.D., CFA, CIO & HEAD OF RESEARCH, MULTI ASSET

Dr. Qian's primary responsibilities include investment research and portfolio management in PanAgora's Multi Asset group. He has been with PanAgora since 1997. Prior to joining PanAgora, Dr. Qian was a Portfolio Manager and part of the Asset Allocation team at 2100 Capital, an alternative investment firm. His prior experience includes a role as Senior Asset Allocation Analyst of Putnam Investments' Global Asset Allocation team. Before joining Putnam, he was a fixed income Quantitative Analyst at Back Bay Advisors. He is also the co-author of many articles regarding quantitative investment. Dr. Qian earned a B.S. from Peking University, M.S. from the Chinese Science Academy, and a Ph.D. from the Florida State University.

BRYAN BELTON, CFA, DIRECTOR, MULTI ASSET

Mr. Belton is responsible for research as well as the daily management of the firm's Diversified Risk, global fixed income, currency, and commodity portfolios. Mr. Belton is a member of the firm's Directors Committee. Prior to joining PanAgora in 2005 Mr. Belton was the Investment Portfolio Officer at the Federal Home Loan Bank of Boston. In that role, he was responsible for actively managing and hedging all of the Bank's long-term investment portfolios. Before joining the Federal Home Loan Bank of Boston, Mr. Belton was a Senior Manager at Investors Bank & Trust Company. He earned an A.B. from Boston College and M.S.F. from Northeastern University.

MARK BARNES, PH.D., DIRECTOR, MULTI ASSET

Dr. Barnes is responsible for quantitative model research, development, and enhancements for PanAgora's emerging and developed equity strategies. He is also involved in research on the Diversified Risk equity strategy. Prior to joining PanAgora in 1999, he worked for Manhattan Funds (now Weiss Asset Management) which specialized in emerging market investments. Dr. Barnes earned a B.A. from John Hopkins University, an M.A. from the University of Texas, and an M.A. and Ph.D. from Boston University.

DAVID LIDDELL, DIRECTOR, MULTI ASSET

Mr. Liddell primary responsibility is management of the group's emerging equity strategies. He joined PanAgora in 1989. Mr. Liddell's prior responsibilities included management of PanAgora's Global Equity, U.S. Small Cap, and U.S. Asset Allocation products. Mr. Liddell is a member of PanAgora's Directors Committee as well as the firm's Trading and Investment Practices Committee. Prior to joining PanAgora, Mr. Liddell worked in the domestic custody fixed income division at The Boston Company. He earned a B.A. from St. Lawrence University and MBA from Boston College.

WILLIAM ZINK, DIRECTOR, MULTI ASSET

Mr. Zink is responsible for developing and evaluating trading strategies and has over 15 years of experience trading derivative securities, including financial futures and exchange traded funds. He is a member of the Directors Committee. Prior to joining PanAgora in 1988, Mr. Zink was Vice President in charge of portfolio management and mutual fund pricing businesses at Interactive Data Corporation. He earned an S.B. and S.M. from Massachusetts Institute of Technology.

JONATHAN BEAULIEU, CFA, PORTFOLIO MANAGER, MULTI ASSET

Mr. Beaulieu is a Portfolio Manager within the Multi Asset group. He is responsible for the daily management of the firm's Risk Parity Multi Asset Portfolios. He also assists with the management of the firm's domestic and global fixed income portfolios. Prior to joining PanAgora, Mr. Beaulieu was responsible for actively managing and hedging fixed income portfolios at the Federal Home Loan Bank of Boston. Before joining the Federal Home Loan Bank of Boston, Mr. Beaulieu was a Quantitative Analyst at MFS Investment Management.

Process

Portfolio Construction

PanAgora's Risk Parity Multi Asset investment process is systematic and uses a proprietary risk-budgeting framework to construct diversified portfolios within and across a wide range of asset classes. The strategy follows a four-step investment process. This process includes a strategic component aimed at minimizing risk concentration in multiple dimensions to generate better long-term risk-adjusted returns over time, and a tactical component (DRA) that enhances returns while providing additional dampening of volatility and increased downside protection.

(i) Select appropriate asset classes.

The strategy uses asset classes that are complementary to one another (have low correlation and are expected to perform differently in different economic environments) and avoids assets that have significant liquidity and tail risk. Developed and emerging markets equity has high correlations with capital growth while sovereign fixed income and investment-grade credit have high correlations with capital protection. Asset classes such as commodities and inflation-linked securities add an element of inflation protection to the aggregate mix. These assets serve as the strategy construction blocks. On the other hand, while asset classes such as high yield fixed income, emerging market debt, and private equity may offer some additional diversification benefits, they tend to be correlated with capital growth, similar to global equities and also introduce significant liquidity and tail risk. PanAgora excludes these asset classes from its risk parity portfolio.

(ii) Build asset class exposures with diversified risk.

The simplest way to capture global equity risk premium is to invest in a broad-based global equity benchmark such as the MSCI. This index has over 1,600 securities and is invested in more than 20 different countries. However, three countries, U.S., U.K., and Japan, currently account for about 70% of the index's total risk. Risk concentration across the country dimension is thought to unnecessarily expose a portfolio to unpredictable country-specific risk such as political risk, demographic risk, or geographic risk. Country-specific shocks are impossible to predict and investors are believed not to be compensated for having country risk concentration in their portfolio.

Although country concentration risk seems to be the most obvious, the most important area of risk concentration is believed to be the sector dimension. Three cyclical sectors, Financials, Technology, and Industrials, account for about 50% of MSCI World Index risk budget. The risk is mainly concentrated across the cyclical versus defensive thematic dimension that expose portfolios to growth risk across the world. Globalization of trade and capital has caused the synchronization of the business cycles of many countries. Risk concentration in the cyclical sectors of cap-weighted indices has resulted in large drawdowns when the global economy weakened and has lowered risk adjusted returns over the long-term. PanAgora believes that their research showed that balancing contribution to risk across sectors reduces sector risk concentration and directionality across the economic growth as well as the “risk-on, risk-off” dimensions and hedges out some of the systematic directionality inherent in equity risk premium. Finally, similar to county and sector dimension, cap-weighted indices are also concentrated across individual stocks. The top 15% of the index holdings account for over 60% of the index’s total risk.

To mitigate risk concentration in countries, sectors, individual securities equity bucket is risk diversified along these three dimensions. Based on similar research, sovereign rates exposure is diversified by country, term structure, and credit ranking; commodities – by sector and security.

(iii) Strategically weight long-term exposures to asset classes.

Risk is allocated across asset classes based on each asset class’ long-term Sharpe Ratio and expected contribution to the portfolio’s aggregate risk. A 5-year half-life covariance matrix is used to determined cross-correlations between different risk buckets. This means that an observation that occurred 5 years ago would get half of the weight of the current observation. This approach is believed to provide relative stability of the estimate while giving higher weight to more recent history.

(iv) Tactically re-weight exposures using DRA mechanism

Due to changing market and investor behavior Sharpe ratios of financial assets often deviate from the long-term equilibrium. PanAgora deploys the Dynamic Risk Allocation framework to make tactical shifts across several dimensions in the portfolio.

Dynamic Risk Allocation

DRA is a systematic process that uses a combination of early stage momentum, late stage reversal, and a valuation metric to identify and capitalize on intermediate-term investment opportunities. Since the tactical shifts are risk based, they are determined by forecasting relative risk adjusted returns (Sharpe ratios) rather than forecasting relative returns. DRA is applied across the buckets, across sub-asset classes, and within certain asset classes.

While the strategy’s tactical tilts are constrained around a boundary of +/- 15%, the shift in risk exposures is typically closer to +/-5% from their strategic targets. The active tracking error of the entire impact of DRA is about 1.5%-2% annualized.

Implementation and Trading

In order to implement bottom-up risk parity approach within the buckets, the strategy invests in physical assets in many sub-asset classes to achieve the desired level of diversification. Physicals are used to invest in global, small cap and emerging markets equities as well as credit and inflation-linked bonds. A small percentage in each sub-asset class is invested in futures to simplify monthly rebalancing and trading. U.S. and non-U.S. rates exposures and commodities exposures are gained through futures.

Risk Management

The portfolio holds 25-50% in cash. While most risk parity providers implement portfolios mostly through derivatives and as a result have higher cash positions, the use of bottom-up diversification and physical single name equities takes up cash. However, the amount of cash is adequate to meet all necessary margin requirements. In addition, the bottom-up risk parity approach and Dynamic Risk Allocation is expected to lower draw downs.

Performance of the accounts is reviewed daily, as well as Value-at-Risk (VAR) and daily portfolio stress testing. A 5% drawdown would prompt the Investment Committee to meet, which may lead to portfolio rebalancing or de-risking the portfolio. Total portfolio risk is expected to be within 8%-10% range. Limits are also set on total leverage for rates exposure.

Potential Concerns

Because the strategy is levered, it potentially faces two important risks: (1) the risk of exceptionally large market moves and (2) the availability of financing. We believe that these risks are mitigated by a thoughtful portfolio design, including bottom-up risk parity and DRA that provide additional diversification and reduce drawdowns, and the fact that 25-50% of portfolio holdings are in cash.

There is key-man risk associated with the strategy as Mr. Qian is the ultimate decision maker. However, the depth of the team and a long track record of many team-members with PanAgora (and previously with Putnam) are good guarantors of stability and a depth and width of talent and experience in the team as well as in the entire firm. The firm publishes Investment Insights covering new research in the area, and these pieces are often created by a combination of collaborators within the group, rather than a single author.

The two important portfolio enhancements, bottom-up risk parity and Dynamic Risk Allocation were introduced after the 2008/09 financial crises and the enhanced product has not been tested during a major market correction. It is worth noting that the strategy held up quite well in the second quarter of 2013. It was down by 7% for the quarter while some of the competitors experience the drawdown of twice the size.

Performance

PanAgora Risk Parity Multi Asset portfolio with a targeted volatility of 10% has an expected annualized return of 7% - 10% plus cash. The expected Sharpe Ratio for a portfolio deploying the standard Risk Parity Multi Asset strategy is between 0.7 and 1.0. Since its inception in January 2006, the Risk Parity Multi Asset strategy has outperformed a balanced benchmark of 60% MSCI ACWI and 40% Barclays Global Aggregate indices at lower levels of risk, with returns of 6.9% with realized volatility of 9.5%, compared to 4.7% annualized return with a volatility of 11.0% for the 60 equity /40 bond allocation. The strategy's structural underweight exposure to inflation risk meant that it was able to avoid some losses from the commodities sell-off of 2014/2015, although participation in an inflation rally recovery relative to peers would also be mitigated.

In absolute terms, PanAgora's Risk Parity Multi Asset strategy may experience negative returns in periods when each of the asset classes used in the strategy (including equity, fixed income and commodities) experience negative returns; however, the frequency of such an occurrence is limited and generally short-lived.

Recommendation

Verus believes that the PanAgora Risk Parity Multi Asset strategy is a well-designed risk-balanced strategy based on sound fundamental principles. PanAgora launched its first risk parity strategy at the beginning of 2006. The multi asset team has been continuously conducting research to improve and enhance the investment process. The strategy was tested in the 2008/2009 financial crisis and proved to be robust. Additionally, PanAgora is committed to providing clients with full transparency and liquidity.

The strategy is actively managed to maintain risk balance among different risk buckets to keep the total portfolio risk level in 8%-10% range. Dynamic Risk Allocation is part of the portfolio construction process used to identify and capitalize on intermediate-term investment opportunities and enhance returns, while providing additional dampening of volatility and increased downside protection.

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TOP

Verus

StanCERA Investment Program 12-Month Workplan

	Time
May, 2017	**2:00**
Flash report and 12-month workplan	0:05
Quarterly investment performance report	0:30
Finalist(s) for Risk Parity mandate	1:00
S&P 500 Index search	0:20
Phase 1a re-balance analysis to fund Liquidity and US Treasury mandates	0:05
June, 2017	**0:05**
Flash report and 12-month workplan	0:05
July, 2017	**0:35**
Flash report and 12-month workplan	0:05
Private markets approaches	0:30
August, 2017	**0:45**
Flash report and 12-month workplan	0:05
Quarterly investment performance report	0:30
Propose search for private markets	0:10
September, 2017	**0:40**
Flash report and 12-month workplan	0:05
Present search for private markets	0:30
Launch Value-Add Real Estate search	0:05
October, 2017	**0:35**
Flash report and 12-month workplan	0:05
Present search for Vaue-Add Real Estate mandate	0:30
November, 2017	**1:05**
Flash report and 12-month workplan	0:05
Quarterly investment performance report	0:30
Finalist(s) for Private Markets mandate	0:30
December, 2017	**0:35**
Flash report and 12-month workplan	0:05
Finalists for Vaue-Add Real Estate mandate	0:30
January, 2018	**0:20**
Flash report and 12-month workplan	0:05
Present funding & implementation plans for Private Markets & Value-Add RE	0:15

StanCERA Investment Program 12-Month Workplan

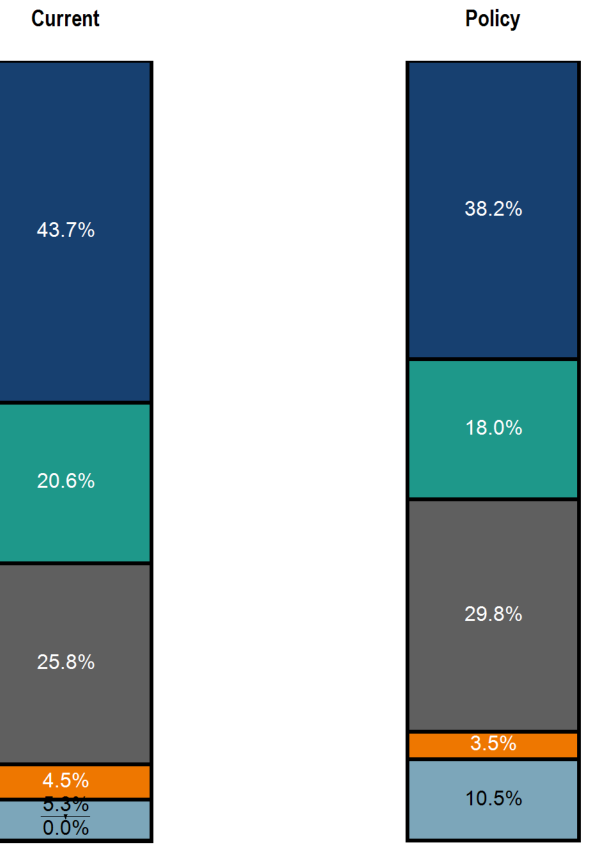
	Time
February, 2018	**0:35**
Flash report and 12-month workplan	0:05
Quarterly investment performance report	0:30
March, 2018	**0:25**
Flash report and 12-month workplan	0:05
Annual review of FFP with updated capital market assumptions	0:20

Total Fund
Flash Report (Net of Fees) - Preliminary

Period Ending: April 30, 2017

	Market Value	% of Portfolio	1 Mo	YTD	Fiscal YTD
Total Fund	**1,950,678,724**	**100.0**	**1.3**	**5.4**	**12.0**
Policy Index			*1.1*	*4.9*	*9.4*
US Equity	**853,303,925**	**43.7**	**1.1**	**6.3**	**18.9**
US Equity Blended			*1.1*	*6.4*	*17.2*
Russell 3000			*1.1*	*6.9*	*16.3*
Mellon S&P 500	99,846,331	5.1	1.0	7.1	15.5
S&P 500			*1.0*	*7.2*	*15.5*
BlackRock Russell 1000 Growth	100,323,412	5.1	2.3	11.4	17.7
Russell 1000 Growth			*2.3*	*11.4*	*17.7*
Jackson Square	137,605,855	7.1	2.7	10.4	13.5
Russell 1000 Growth			*2.3*	*11.4*	*17.7*
BlackRock Russell 1000 Value	115,658,315	5.9	-0.2	3.1	13.8
Russell 1000 Value			*-0.2*	*3.1*	*13.8*
Dodge & Cox-Equity	203,833,432	10.4	0.3	5.1	26.2
Russell 1000 Value			*-0.2*	*3.1*	*13.8*
Legato Capital	91,599,499	4.7	0.8	5.0	16.6
Russell 2000 Growth			*1.8*	*7.3*	*21.4*
Capital Prospects	104,437,080	5.4	1.3	3.2	25.6
Russell 2000 Value			*0.4*	*0.3*	*24.5*
International Equity	**402,558,631**	**20.6**	**2.6**	**10.5**	**18.6**
MSCI ACWI ex USA Gross			*2.2*	*10.4*	*16.7*
LSV Asset Mgt	203,872,010	10.5	2.2	10.3	22.8
MSCI ACWI ex USA Gross			*2.2*	*10.4*	*16.7*
Fidelity	198,686,621	10.2	3.0	10.7	14.5
MSCI ACWI ex USA Gross			*2.2*	*10.4*	*16.7*
US Fixed Income	**503,654,575**	**25.8**	**0.7**	**2.0**	**2.0**
BBgBarc US Aggregate TR			*0.8*	*1.6*	*-1.0*
Dodge & Cox-Fixed	387,173,675	19.8	0.7	2.1	2.5
BBgBarc US Aggregate TR			*0.8*	*1.6*	*-1.0*
PIMCO	116,480,900	6.0	0.8	1.8	0.2
BBgBarc US Aggregate TR			*0.8*	*1.6*	*-1.0*

	Current	%	Policy	%
Domestic Equity	$853,303,925	43.7%	$745,159,273	38.2%
International Equity	$402,558,631	20.6%	$351,122,170	18.0%
Domestic Fixed Income	$503,654,575	25.8%	$581,302,260	29.8%
Real Estate	$87,365,390	4.5%	$68,273,755	3.5%
Alternatives	$103,593,336	5.3%	$204,821,266	10.5%
Cash and Equivalents	$202,868	0.0%	--	--
Total	**$1,950,678,724**	**100.0%**	**$1,950,678,724**	**100.0%**



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate TR, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. All data is preliminary.

Total Fund
Flash Report (Net of Fees) - Preliminary

Period Ending: April 30, 2017

	Market Value	% of Portfolio	1 Mo	YTD	Fiscal YTD
Real Estate	**87,365,390**	**4.5**	**0.0**	**1.9**	**2.5**
DJ US Select RESI			*-0.2*	*-0.5*	*-4.2*
Prime Property Fund	17,215,373	0.9	0.0	1.9	6.7
NCREIF-ODCE			*0.0*	*1.8*	*6.1*
American Strategic Value Realty	21,645,785	1.1	0.0	2.9	8.3
NCREIF Property Index			*0.0*	*1.6*	*5.1*
BlackRock US Real Estate	34,549,497	1.8	-0.2	-0.5	-4.3
DJ US Select RESI TR USD			*-0.2*	*-0.5*	*-4.2*
Greenfield Gap	13,954,734	0.7			
Direct Lending	**91,405,521**	**4.7**			
Medley Capital	24,639,459	1.3			
Raven Capital	15,683,645	0.8			
Raven Opportunity III	14,132,997	0.7			
White Oak Pinnacle	36,949,420	1.9			
Infrastructure	**12,187,815**	**0.6**			
MS Infrastructure Partners II	12,187,815	0.6			
Cash Account	202,868	0.0	0.3	0.5	1.1

	Current	%	Policy	%
Domestic Equity	$853,303,925	43.7%	$745,159,273	38.2%
International Equity	$402,558,631	20.6%	$351,122,170	18.0%
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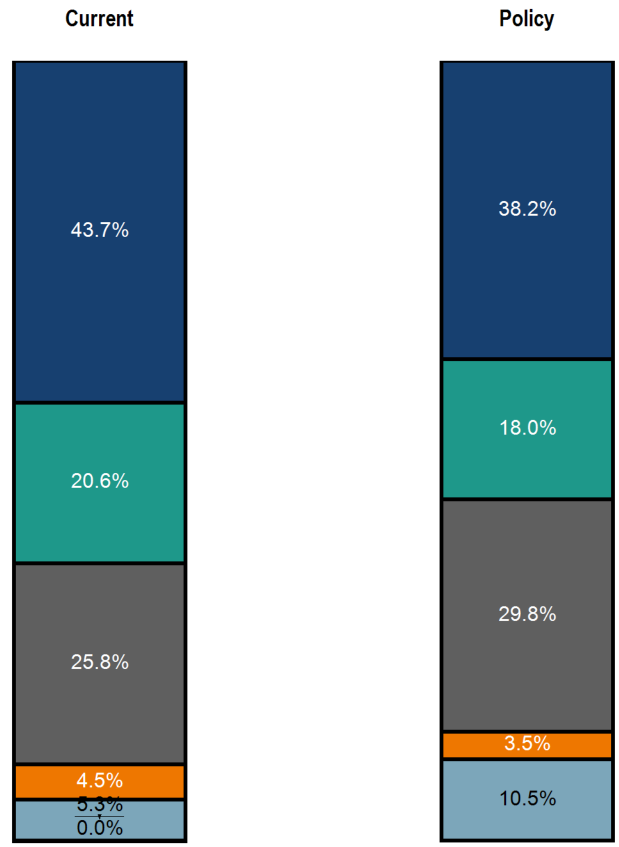
Alternatives	$103,593,336	5.3%	$204,821,266	10.5%
Cash and Equivalents	$202,868	0.0%	--	--
Total	**$1,950,678,724**	**100.0%**	**$1,950,678,724**	**100.0%**



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate TR, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000. Cash Account includes cash held at Northern Trust for all closed end funds and cash held by BlackRock. All data is preliminary.

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The information presented may be deemed to contain forward-looking information. Examples of forward looking information include, but are not limited to, (a) projections of or statements regarding return on investment, future earnings, interest income, other income, growth prospects, capital structure and other financial terms, (b) statements of plans or objectives of management, (c) statements of future economic performance, and (d) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking information can be identified by the use of forward looking terminology such as believes, expects, may, will, should, anticipates, or the negative of any of the foregoing or other variations thereon comparable terminology, or by discussion of strategy. No assurance can be given that the future results described by the forward-looking information will be achieved. Such statements are subject to risks, uncertainties, and other factors which could cause the actual results to differ materially from future results expressed or implied by such forward looking information. The findings, rankings, and opinions expressed herein are the intellectual property of Verus and are subject to change without notice. The information presented does not claim to be all-inclusive, nor does it contain all information that clients may desire for their purposes. The information presented should be read in conjunction with any other material provided by Verus, investment managers, and custodians.

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5/23/17
Item 8.c

Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

PERIOD ENDING: MARCH 31, 2017

Investment Performance Review for

Stanislaus County Employees' Retirement Association

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Verus

VERUSINVESTMENTS.COM

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Verus

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

2ND QUARTER 2017
Investment Landscape

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1st quarter summary

THE ECONOMIC CLIMATE

— Developed economies continued to experience steady, moderate expansion with fourth quarter real GDP growth in the U.S., the Eurozone, and Japan all between 1.5-2.0%. The base effect of lower oil prices led to higher year-over-year headline inflation in many countries. ***p. 16***

— During the first quarter, the global economy exhibited a coordinated pick up in economic activity. Data generally exceeded expectations, especially in the U.S. and the Eurozone. ***p. 18***

MARKET PORTFOLIO IMPACTS

— The U.S. Treasury curve flattened in the first quarter. Short-term rates were driven higher by the Fed, while the long end of the curve remained unchanged. Even with Fed tightening, the U.S. may not be in a typical rising rate environment. ***p. 22***

— A better outlook for commodity performance, as well as a flattening of the futures curve in some markets increases the attractiveness of commodities as an inflation hedge. ***p. 38***

THE INVESTMENT CLIMATE

— While central banks are still accommodative outside of the U.S., most appear to be in later stages of the easing cycle. Developed central banks appear to be broadly entering a period of policy normalization. ***p. 22***

— The market is expecting better earnings growth in U.S. equities. According to FactSet, the estimated Q1 earnings growth for the S&P 500 is 9.2% from the previous year. Higher earnings growth may help justify above average valuations. ***p. 29***

ASSET ALLOCATION ISSUES

— Stabilizing currencies and commodity prices, as well as higher growth outlooks, may benefit emerging market equities. ***p. 33***

— With U.S. Treasury yields still at historic lows and the expectation of additional tightening from the Fed, investors may not be adequately compensated for taking duration risk in the current environment. ***p.23***

We continue to be neutral towards risk

What drove the market in Q1?

"The Global Economy Enjoys a Synchronized Upswing"

CITI GLOBAL ECONOMIC SURPRISE INDEX

Oct 31st	Nov 30th	Dec 31st	Jan 31st	Feb 28th	Mar 31st
3.1	17.1	27.0	37.0	43.8	38.8

Source: The Economist, March 16th 2017

"Rates Rise, But Yield Curve Keeps Flattening"

U.S. TREASURY 10-YR MINUS 2-YEAR YIELD SPREAD

Oct 31st	Nov 30th	Dec 31st	Jan 31st	Feb 28th	Mar 31st
0.98%	1.26%	1.25%	1.26%	1.14%	1.13%

Source: Barron's, March 28th 2017

"French Political Turmoil Hits Bond Spreads"

GERMAN-FRENCH 10-YR YIELD SPREAD

Oct 31st	Nov 30th	Dec 31st	Jan 31st	Feb 28th	Mar 31st
0.30%	0.48%	0.48%	0.60%	0.68%	0.64%

Source: Financial Times, February 6th 2017

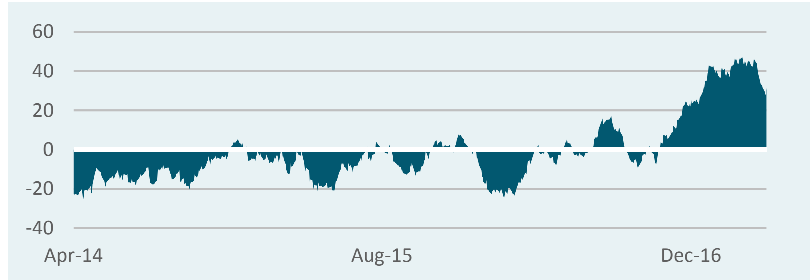
"The Market Conundrum of (Low) Volatility and Uncertainty"

CBOE VIX (10-YEAR AVERAGE, 20.7)

Oct 31st	Nov 30th	Dec 31st	Jan 31st	Feb 28th	Mar 31st
17.1	13.3	14.0	12.0	12.9	12.4

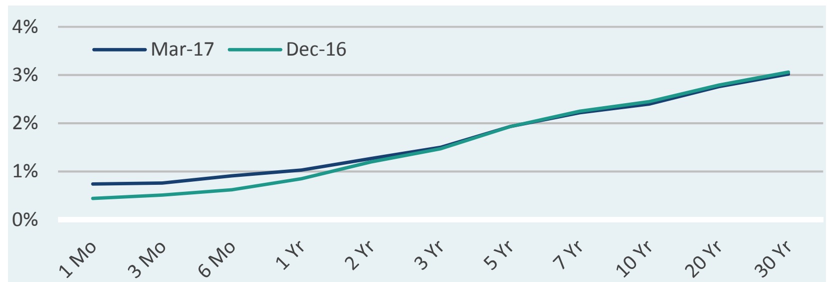
Source: Bloomberg, January 30th 2017

CITI GLOBAL ECONOMIC SURPRISE INDEX



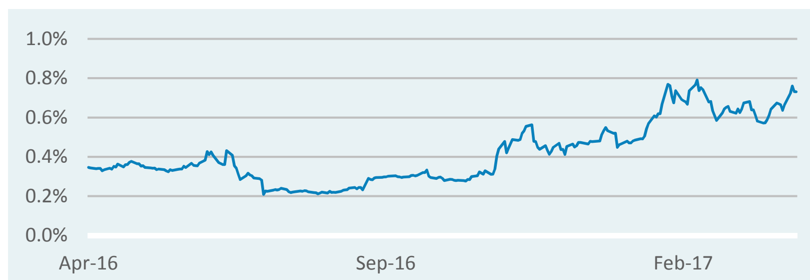
Source: Bloomberg, 4/13/17

U.S. TREASURY CURVE



Source: Bloomberg, as of 3/31/17

GERMAN-FRENCH 10-YR YIELD SPREAD



Source: Bloomberg, as of 4/12/17 – German 10yr yield minus French 10yr yield

Economic environment

U.S. economics summary

— U.S. real GDP grew 2.0% YoY in Q4, up from 1.7% in Q3. Moderate increases in consumer spending continued to be the main driver of the economy.

— Inflation moved higher as headline CPI increased 2.8% YoY in February. Core inflation, however, increased only modestly to 2.2%. Most of the rise was caused by the low base effect from falling oil prices last year.

— The Fed continued tighter monetary policy by raising the target federal funds rate 25 bps to 0.75-1.00% at its March meeting. The FOMC dot plot indicates two more rate hikes in 2017, while the market has only priced in one more increase.

— The March Fed meeting minutes revealed that the central bank may begin shrinking its balance sheet as early as December, representing a form of monetary tightening. It remains unclear whether the Fed will stop rolling over maturing securities or actively sell in the open market.

— On average, 178,000 jobs were added each month during Q1, and unemployment fell 0.2% to 4.5%. Data continued to indicate a tighter labor market, though wage growth is lackluster. Real hourly earnings fell 0.1% in February from the prior year.

— Soft data (consumer & business sentiment) improved markedly following the U.S. presidential election. We are continuing to monitor the degree to which soft data flows through to actual spending and investment patterns. At this point evidence still is lacking.

	Most Recent	**12 Months Prior**
GDP *(annual YoY)*	2.0% *12/31/16*	1.9% *12/31/15*
Inflation *(CPI YoY, Headline)*	2.8% *2/28/17*	1.0% *2/29/16*
Expected Inflation *(5yr-5yr forward)*	2.2% *3/31/17*	1.8% *3/31/16*
Fed Funds Rate	0.75% *3/31/17*	0.25% *3/31/16*
10 Year Rate	2.4% *3/31/17*	1.8% *3/31/16*
U-3 Unemployment	4.5% *3/31/17*	5.0% *3/31/16*
U-6 Unemployment	8.9% *3/31/17*	9.8% *3/31/16*

U.S. economics – GDP growth

Real GDP grew 2.0% YoY in Q4 (2.1% quarterly annualized rate) as slow but positive economic growth continued.

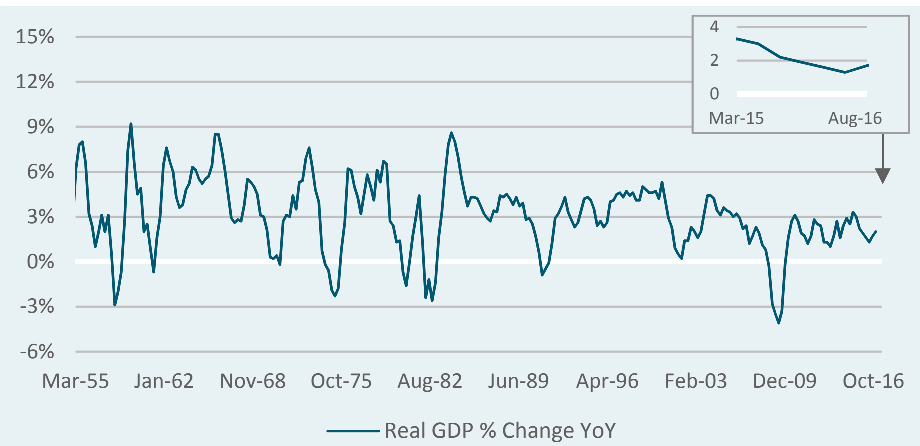
Personal consumption contributed 2.4% to quarterly GDP growth, and was once again the main driver of improvement in the economy. Rising post-election consumer confidence did not immediately flow through to the real economy, but may support increased spending in coming quarters.

Private domestic investment also contributed to growth. A widening trade deficit from both an increase in imports and a decrease in exports was the largest detractor from GDP growth.

The Atlanta Fed GDP Now forecast for Q1 was 0.5% as of April 14th. The forecast was revised downward throughout the quarter mainly due to softer personal spending data. Part of this weakness can be attributed to a temporary decline in utilities spending from milder winter weather.

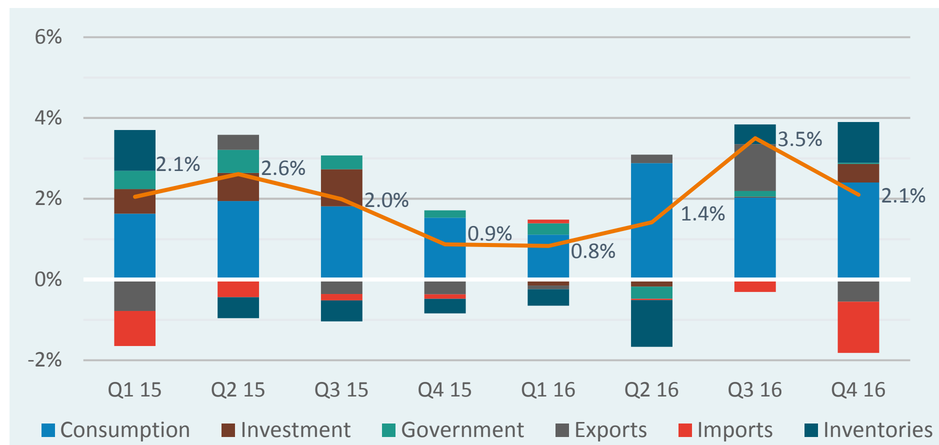
The U.S. economy continued to grow at a moderate pace

U.S. REAL GDP GROWTH



Source: FRED, as of 12/31/16

U.S. GDP COMPONENTS



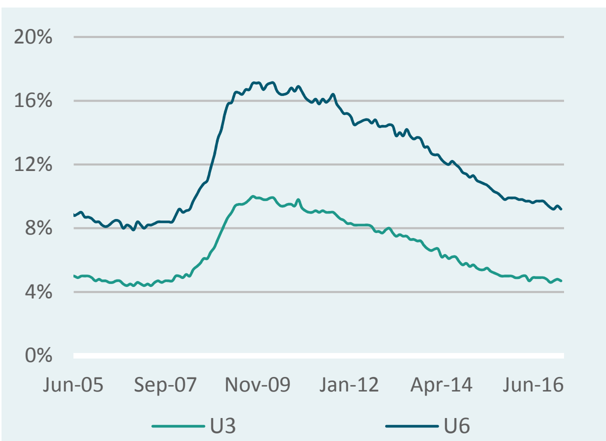
Source: BEA, annualized quarterly rate, as of 12/31/16

U.S. economics – Labor market

Moderate additions to payrolls and higher employment indicate a tighter labor market. Job gains averaged 178,000 per month in the first quarter, slightly below the expansion average of 199,000. The headline unemployment rate fell to a nearly decade low of 4.5%. The broader U-6 unemployment rate, which includes discouraged workers who want a job but have given up looking, and part-time workers who would like to be full-time, fell to a cyclical low of 8.9%. The participation rate rose to 63.0%, an increase of 0.3%.

The number of job openings in the economy is relatively high, likely due to a lack of supply. Companies are having a difficult time finding qualified workers to fill open positions. While most employment data suggests a tight labor market, wage growth has been unusually muted throughout this cycle. As the U.S. economic expansion ages, we would expect companies to raise wages in order to attract and retain workers. However, real average hourly earnings fell 0.1% in February YoY.

U.S. UNEMPLOYMENT

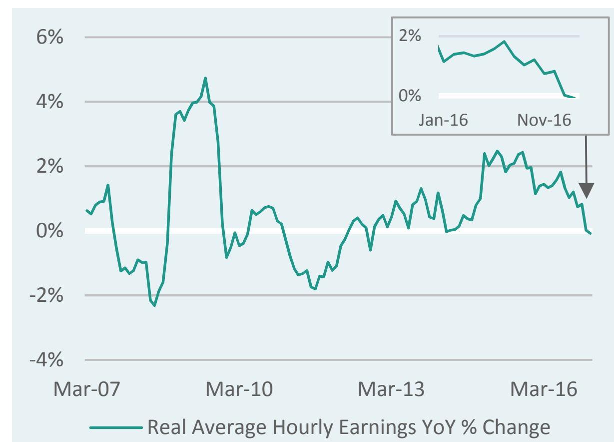


Source: FRED, as of 2/28/17

JOB OPENINGS

Source: FRED, as of 2/28/17

REAL AVERAGE HOURLY EARNINGS



Source: FRED, as of 2/28/17

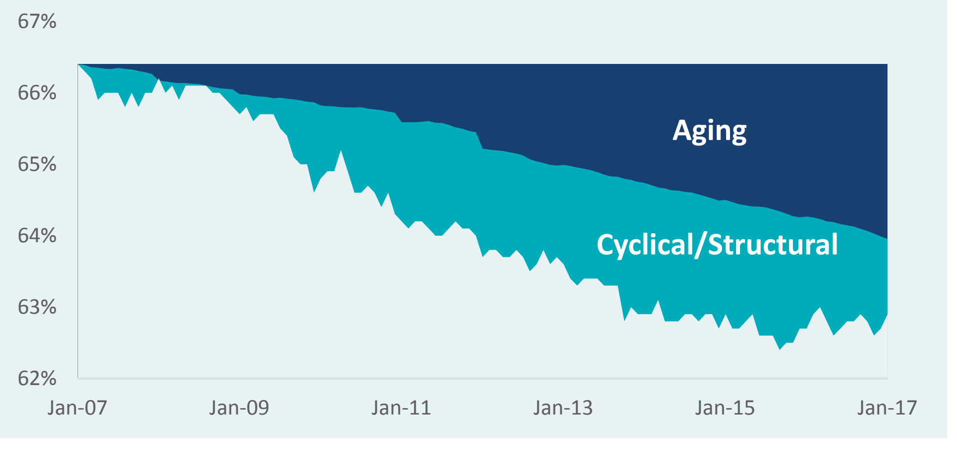
A closer look at participation

The labor force participation rate has fallen significantly following the financial crisis. While most of the drop can be attributed to an aging population, one-third is a result of structural issues, and possibly some remaining cyclical factors. Stripping out the aging effect by looking at the core working age group shows a drop of 1.9% in participation over the past 10 years.

Unlike cyclical factors that move with the economic cycle, structural issues in the labor market may be more or less permanent. This is important because fewer workers participating in the economy will result in slower growth, all else equal. Workers reentering the economy, however, could provide some protection against rapid wage price inflation, and therefore mitigate the risk that rapid wage inflation disrupts economic growth.

Structural issues that may explain lower participation include an increased number of unqualified workers due to a lack of requisite skills and education and those with criminal felony convictions. There may also be fewer incentives for people outside of the workforce to return because of slow wage growth and a greater reliance on permanent federal disability.

U.S. LABOR FORCE PARTICIPATION



Source: BLS, Verus, as of 1/31/17

CORE AGE GROUP (25-54) PARTICIPATION

Source: BLS, as of 1/31/17

U.S. economics – The consumer

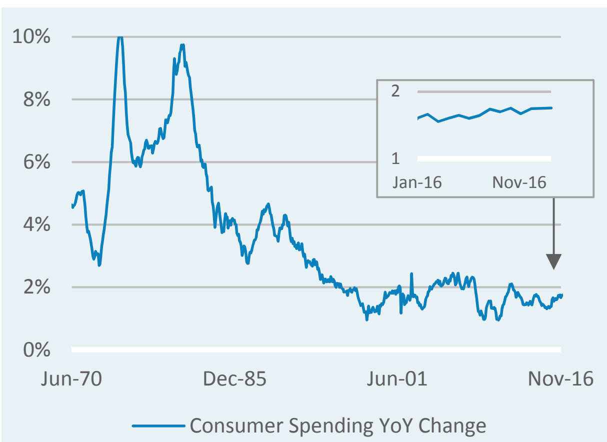
Higher interest rates are expected to be a headwind for U.S. consumers, but other fundamentals reflect a positive overall environment. Much of the economic growth in the current cycle has been attributed to moderate, steady increases in consumer spending. In February, consumer spending grew 1.7% from the previous year. While positive spending growth has been consistent, there has yet to be a material flow through effect from the jump in confidence following the U.S. election in November.

An increase in financial assets during the current recovery has led to large gains in household net worth. The wealth effect, in which consumers increase spending habits based on a higher level of perceived wealth could have a positive impact on economic growth.

Although the consumer has led the economic expansion, credit has not been used as much as in previous cycles. Consumer credit growth has been moderate and household balance sheets remain relatively healthy.

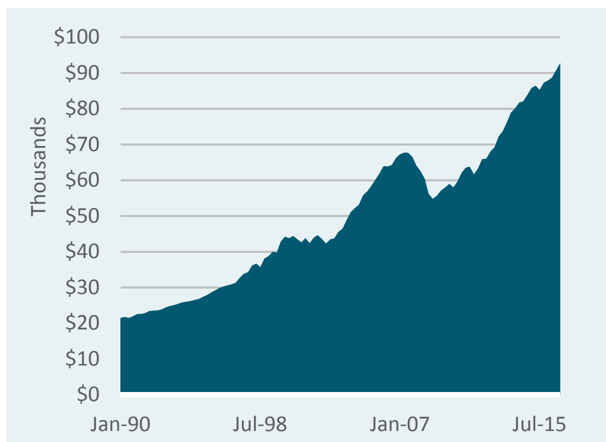
Steady increases in consumer spending has driven recent growth

CONSUMER SPENDING



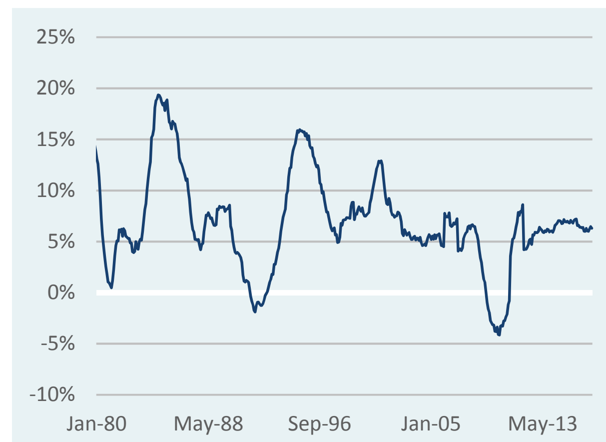
Source: Bloomberg, as of 2/28/17

HOUSEHOLD NET WORTH



Source: FRED, as of 1/31/17

CONSUMER CREDIT GROWTH



Source: FRED, as of 1/31/17

U.S. economics – Sentiment

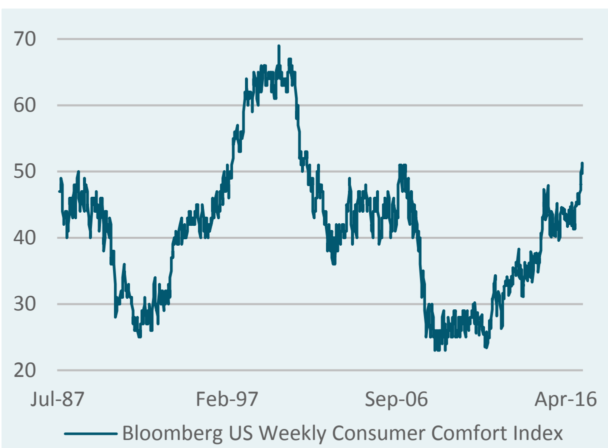
Consumer sentiment fell slightly over the quarter, but the overall level remains high. The University of Michigan Consumer Sentiment Index was 96.9 at the end of March, compared to the long-term average of 85.6. Consumers cited three key components for the greater optimism: higher incomes, favorable job prospects, and low inflation expectations. Consumer sentiment and hard data do not always align as sentiment builds and falls more slowly through time.

The University of Michigan survey also identified a disconnect in consumer sentiment across political party affiliations. Democrats expect an immediate recession, while Republicans expect robust economic growth. The index of consumer expectations was 50.5 points higher for Republicans than Democrats. Continued political uncertainty could weigh on sentiment in the coming months.

U.S. economic data has exceeded expectations - a trend that started prior to the election. The Citi Economic Surprise Index was 48 at quarter-end, its highest level in more than three years. However, much of the uptick in this indicator has been driven by "soft" data that has yet to flow through to the real economy.

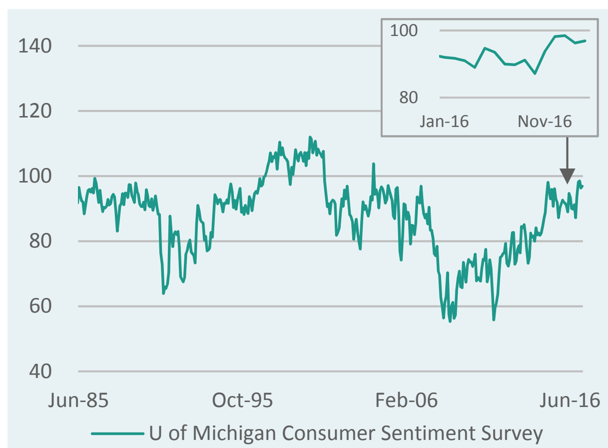
Overall, consumers remain optimistic about the economy

CONSUMER COMFORT INDEX



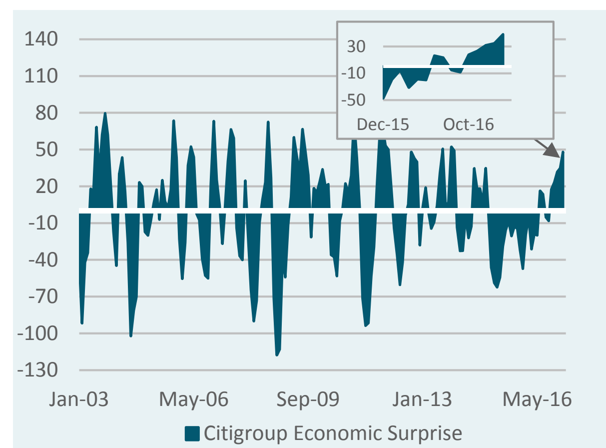
Source: Bloomberg, as of 3/19/17 (see Appendix)

CONSUMER SENTIMENT



Source: University of Michigan, as of 3/31/17 (see Appendix)

U.S. ECONOMIC SURPRISE



Source: Bloomberg, as of 3/31/17 (see Appendix)

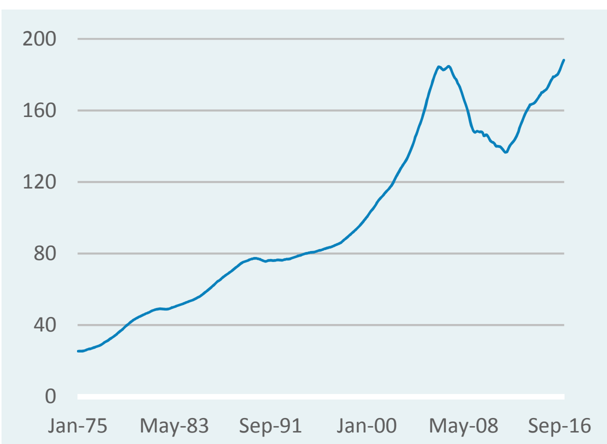
U.S. economics – Housing

Despite higher mortgage rates since November, home prices in the U.S. have moved upward. Over the 12 months ending in January, the Case-Shiller National Home Price Index rose 5.8%. This price gauge has rallied 37.7% since bottoming in January of 2012 and is now slightly higher than the previous peak.

While increases in interest rates may act as a headwind, the housing market is supported by strong demand for single-family homes and historically low supply, in addition to an overall financially healthy consumer base. At the current rate of sales it would take only 5.4 months to completely sell the entire supply of homes.

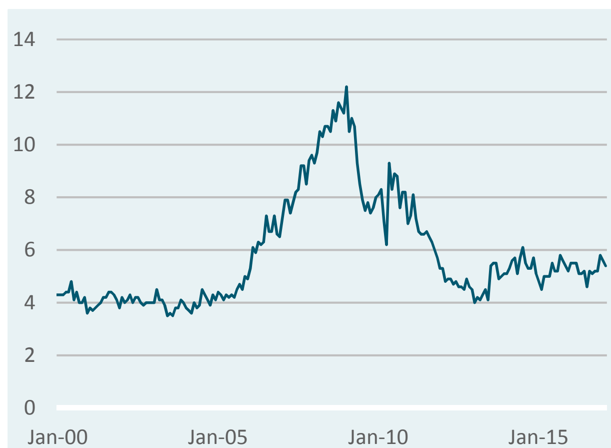
Housing starts and building permits have been steadily trending upwards with homebuilders ramping up construction to meet outsized market demand. New homes coming on line may put downward pressure on prices.

CASE-SHILLER HOME PRICE INDEX



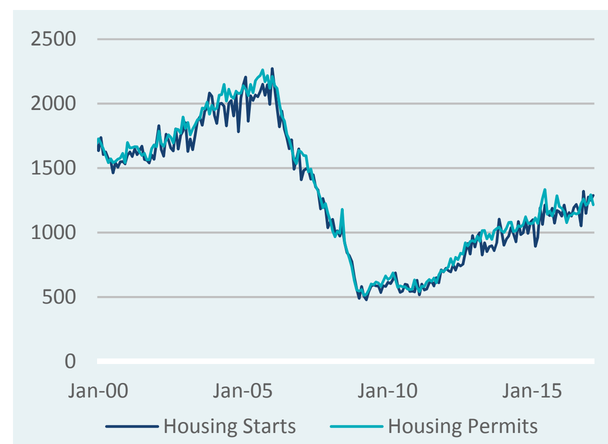
Source: FRED, as of 1/31/17

MONTHLY SUPPLY OF HOMES



Source: FRED, as of 2/28/17

HOUSING STARTS AND PERMITS



Source: FRED, as of 2/28/17

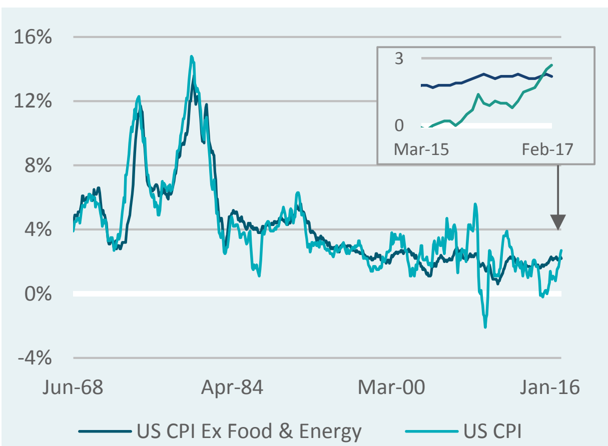
U.S. economics – Inflation

Headline CPI rose 2.8% in February from the previous year, its highest rate in five years. Much of this jump in inflation can be attributed to the base effect of low oil prices one year ago. The energy component of the CPI basket increased 15.6%. Core inflation remained unchanged at 2.2%.

After rising considerably following the presidential election, market inflation expectations were mostly unchanged during the first quarter. The 10-year TIPS breakeven inflation rate finished the period at 2.0%. The market continues to discount low levels of future inflation relative to history. In comparison, consumers are expecting 2.5% annualized inflation over the next 5-10 years, according to the University of Michigan survey.

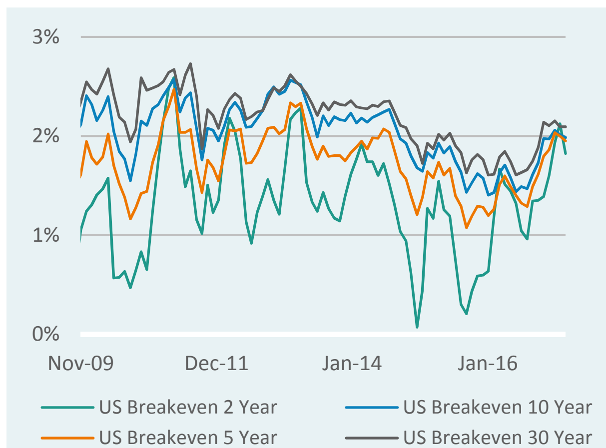
Our view remains that the market may be underpricing expected inflation at a time when inflation risks are skewed to the upside.

U.S. CPI (YOY)



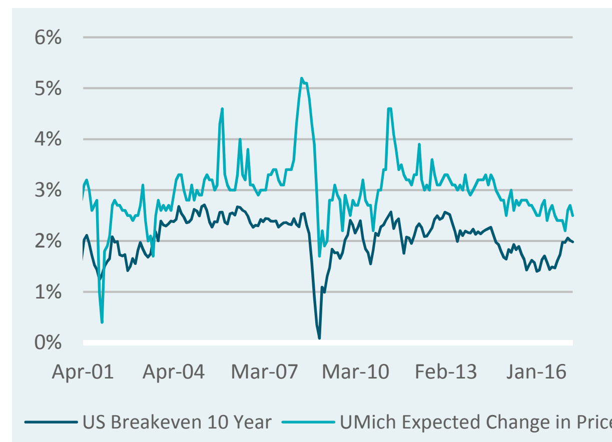
Source: FRED, as of 2/28/17

U.S. TIPS BREAKEVEN RATES



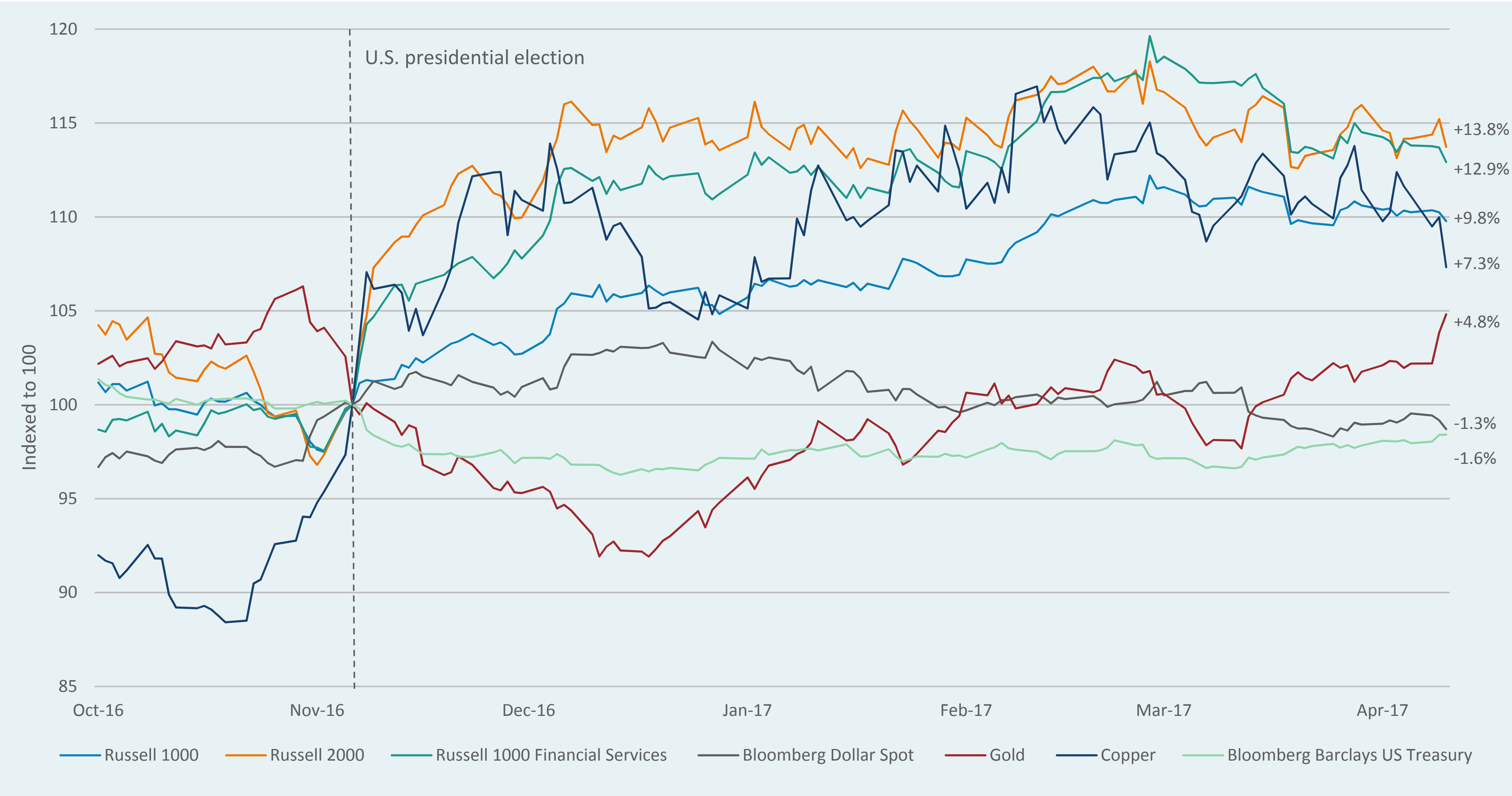
Source: FRED, as of 3/31/17

INFLATION EXPECTATIONS



Source: Bloomberg, as of 3/31/17

Post-election price movements



Source: Bloomberg, 10/3/16-4/10/17

An update on political policies

POLICY AREA	
Taxes	— Much of the optimism surrounding Trump's victory in November was based on his promise to cut taxes for individuals and businesses. — President Trump has stated that he wants to find a solution to repealing and replacing the Affordable Healthcare Act (ACA) prior to working on tax reforms. No further details have been released. — The tentative deadline for the tax plan was originally set for August by Treasury Secretary Mnuchin, but it appears this may be pushed back further, and the actual timing remains unknown.
Trade	— In one of his first acts as president, Donald Trump delivered on a campaign promise and removed the U.S. from the Trans Pacific Partnership (TPP) in an effort to move away from multilateral trade agreements. — After making many other "America first" trade policy promises, including withdrawing from NAFTA and implementing a border adjustment tax (BAT), the new administration appears to have softened its stance. — Rather than a complete overhaul of U.S. trade policy, it may be more likely that President Trump makes smaller tweaks, such as renegotiating and stepping up enforcement of existing trade deals.
Deregulation	— President Trump signed an executive order to reduce the regulatory burden on businesses by requiring federal regulators to kill two existing regulations for every new rule introduced. — In perhaps the biggest blow to the administration thus far, House Republican leaders pulled legislation to repeal parts of the ACA before a single vote was cast, exposing a divided Republican Congress. — House Republicans announced a plan to introduce legislation that would overhaul Dodd Frank, although opposition from Senate Democrats is expected to be strong.
Infrastructure	— Infrastructure is another area in which President Trump has not provided much in terms of additional details after promising a $1 trillion dollar spending initiative through private tax breaks during his campaign. — With the current focus on healthcare, and the lack of progress on tax reform, it is possible that the new administration may push back the timeline for introducing its infrastructure plan.

International economics summary

— Developed countries once again experienced moderate positive growth in the fourth quarter, in line with the trend of recent years. Real GDP in the U.S., Europe, and Japan grew between 1.5-2.0%.

— The low base effect of the drop in energy prices that occurred in Q1 2016 helped boost inflation across the globe. With energy prices stabilizing over recent months, it is possible the jump in inflation is only transitory.

— Developed world unemployment rates declined over the quarter. In the Euro Area, the unemployment rate fell to a nearly eight year low of 9.5%, although this is still well above its pre-crisis level of 7.3%.

— The economic recovery in Europe has also picked up in terms of higher growth and inflation. Much of this recovery can be attributed to the core countries, rather than the periphery. However, significant tail risks remain including the French election, ECB tapering, and Brexit negotiations.

— On March 29th, the British Prime Minister, Theresa May, filed the official papers to withdraw the U.K. from the European Union. Article 50 of the Treaty of Lisbon outlines a two year timeframe for negotiations to take place.

— As many expected, Emmanuel Macron and Marine Le Pen were the top two vote getters in the first round of the French election. Macron and Le Pen will have a runoff vote on May 7th, where Macron is heavily favored, according to the most recent polls. Equity markets reacted positively to the results and the euro strengthened.

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	2.0% *12/31/16*	2.7% *2/28/17*	4.5% *3/31/17*
Western Europe	1.8% *12/31/16*	1.5% *3/31/17*	8.6% *12/31/16*
Japan	1.6% *12/31/16*	0.3% *2/28/17*	2.8% *2/28/17*
BRIC Nations	5.2% *12/31/16*	3.1% *12/31/16*	5.5% *12/31/16*
Brazil	(2.5%) *12/31/16*	4.6% *3/31/17*	12.9% *3/31/17*
Russia	0.3% *12/31/16*	4.3% *3/31/17*	5.4% *12/31/16*
India	7.0% *12/31/16*	3.7% *2/28/17*	7.1% *12/31/15*
China	6.8% *12/31/16*	0.8% *2/28/17*	4.0% *12/30/16*

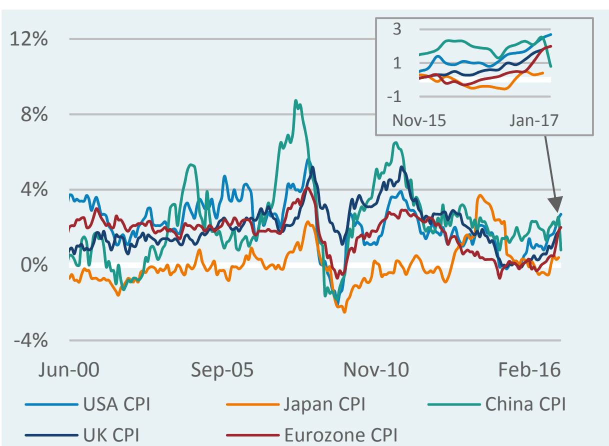
International economics

A coordinated uptick in global economic sentiment occurred in recent quarters, and data continued to exceed expectations in Q1. Outside of the U.S., central banks remain relatively accommodative, and developed economies have experienced moderate growth and higher inflation. Real year-over-year GDP growth in the Euro Area and Japan came in at 1.8% and 1.6%, respectively.

In the Eurozone, headline CPI in February reached 2.0% YoY for the first time in the recovery. However, core inflation, which excludes food and energy prices, only rose 0.7%, well below the ECB's target of 2.0%. A weaker British pound helped boost U.K. headline inflation to 2.3% in February, the highest rate in more than three years.

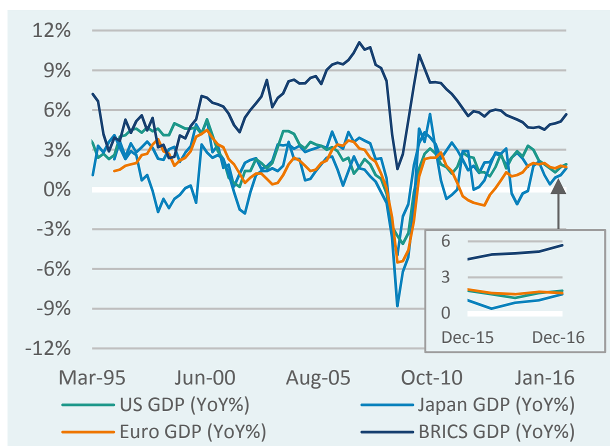
Real GDP growth in the BRICS countries, the five major emerging economies, was 5.2% in the fourth quarter. Once again, India and China were the main drivers of growth. Russia experienced positive growth for the first time in seven quarters, while Brazil remained in a recession.

INTERNATIONAL INFLATION



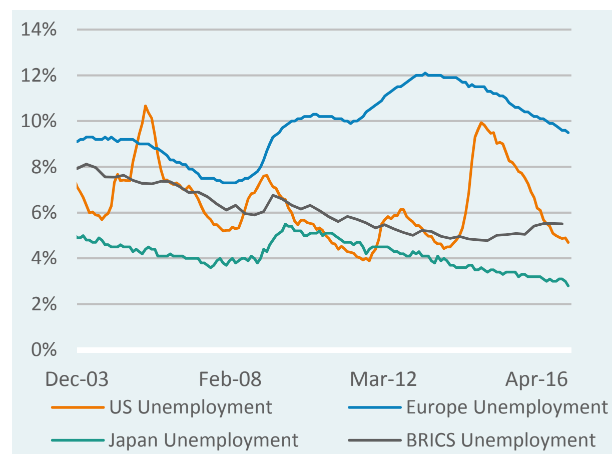
Source: Bloomberg, as of 2/28/17

REAL GDP GROWTH



Source: Bloomberg, as of 12/31/16

GLOBAL UNEMPLOYMENT



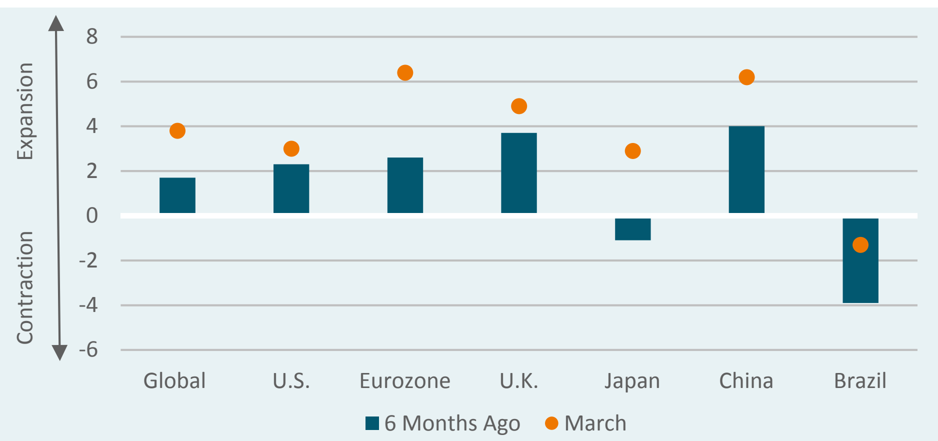
Source: Bloomberg, as of 2/28/17 or most recent release

Global economic pickup

There has been a general pick up in global economic conditions over the past six months, a trend that started prior to the U.S. presidential election. Purchasing managers' indexes (PMI), which are derived from monthly surveys of private companies, have increased across nearly all major economies. The global composite PMI increased from 51.7 in September to 53.8 in March. Readings above 50 indicate economic expansion and have historically held some explanatory power of future economic growth.

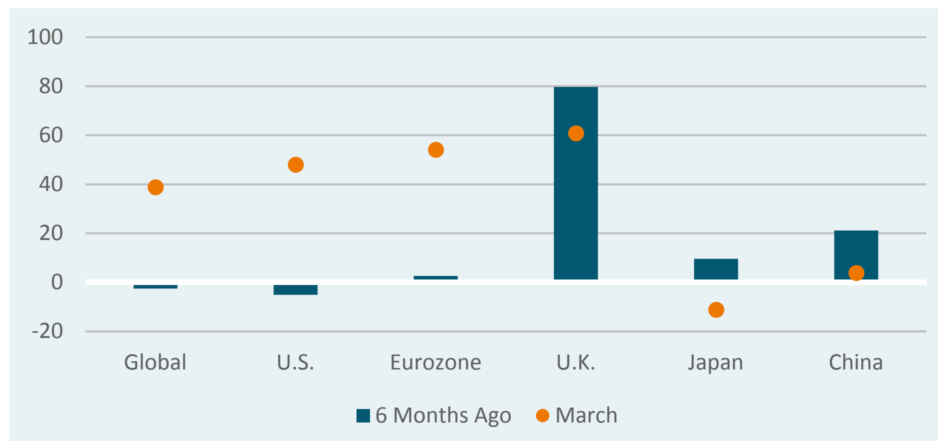
Global economic data has also been coming in above expectations, as indicated by the Citi Economic Surprise Index (CESI). The Global CESI increased to 38.8 in March from -2.6 six months earlier. However, much of this move has been driven by "soft" data, such as sentiment and confidence indicators, which have not always flowed through to the real economy. If higher sentiment and confidence does lead to increased spending and production, it will be a boost to economic growth.

PURCHASING MANAGERS' INDEXES



Source: Bloomberg, as of 3/31/17

CITI ECONOMIC SURPRISE INDEXES



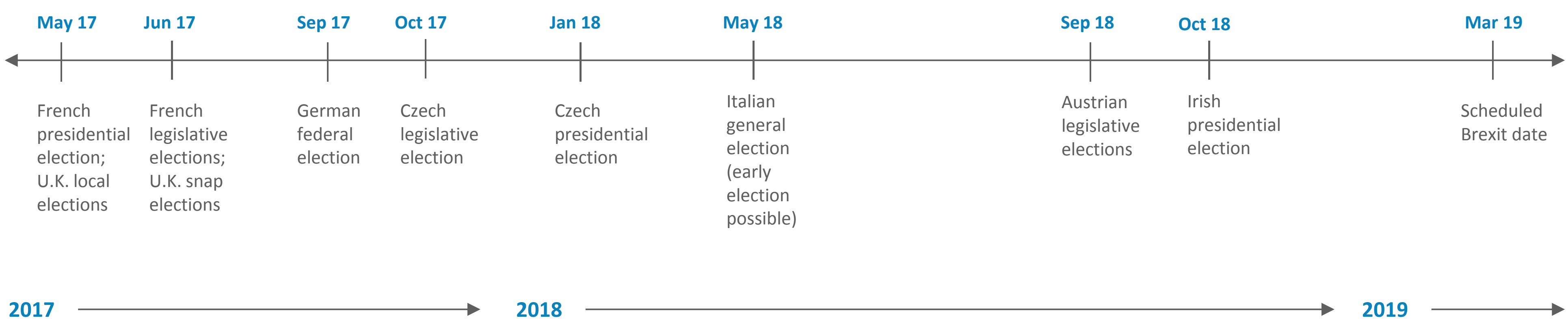
Source: Bloomberg, as of 3/31/17

The European election cascade

Following the U.K.'s decision last June to leave the European Union, the rise in populism in Europe and corresponding political risks to the currency bloc have been heavily scrutinized. While the upcoming French presidential election has dominated the headlines, several other important elections coming up will help shape the future of Europe.

The presidential election in France may pose the largest political risk to the region. Far-right, euroskeptic candidate, Marine Le Pen, has gained popularity running on the platform to remove France from the European Union and the use of the euro. Le Pen and centrist candidate, Emmanuel Macron, were the top two vote getters in the first round of the election and will go head to head on May 7th. Macron is favored in the polls and market fears of a Frexit have subsided.

However, the threat of populism in Europe remains. Other elections, such as the German federal election in September and the Italian general election in early 2018 at the latest, will also be important as populist parties have gained popularity in countries across Europe. Additional risks loom in periphery countries like the Czech Republic, as debates heat up regarding EU membership referendums.



Fixed income rates & credit

Interest rate environment

— U.S. Treasuries have an attractive yield relative to other developed sovereign bonds, but remain historically expensive.

— Despite broad agreement that the U.S. has entered an environment of rising interest rates, the broad yield curve rose very little over the past year. However, the short end of the curve has increased in line with Federal Reserve rate rises. Inflation has historically had a significant impact on the yield curve, which indicates investors should keep an eye on inflation trends.

— In March, the Federal Reserve announced a change to the federal funds target rate from 0.50-0.75% to 0.75-1.00%. The move resulted in the U.S. Treasury curve flattening moderately as short-term interest rates increased and long-term rates remained materially unchanged. The Fed has indicated two additional rate hikes are expected to occur this year.

— Developed sovereign yields are expected to rise only modestly over the next year, with very little movement expected in longer dated bonds. Central banks of most developed economies are nearing the end of the monetary easing cycle or have begun to pull back, as in the case of the U.S. Federal Reserve.

— Many emerging market governments continue with monetary easing, suggesting these economies may be in an earlier stage of the economic cycle.

Area	Short Term (3M)	10 Year
United States	0.75%	2.39%
Germany	(0.92%)	0.33%
France	(0.57%)	0.97%
Spain	(0.39%)	1.65%
Italy	(0.34%)	2.31%
Greece	2.39%	6.90%
U.K.	0.13%	1.14%
Japan	(0.20%)	0.07%
Australia	1.59%	2.70%
China	2.93%	3.28%
Brazil	10.91%	10.06%
Russia	9.50%	7.87%

Source: Bloomberg, as of 3/31/17

Monetary tightening

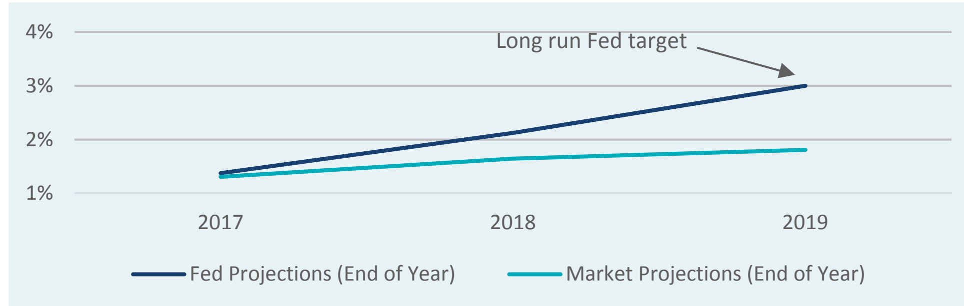
— The Federal Reserve hiked interest rates for the second time in March, raising the federal funds target to 0.75-1.00%. Given the increased pace of tightening and more hawkish tone from the Fed, there has been much discussion regarding the effects of a rising rate environment in the U.S.

— While the Fed expects short-term rates to normalize to 3% by 2019, the market is pricing in movement to only 1.8%. The market also does not expect much change in the long-end of the curve with the 10-year Treasury yield priced to rise only 26 bps over the next year. We believe that the market view of the path of interest rates is reasonable, and that there is a greater likelihood of surprisingly slow, rather than surprisingly fast, rate rises.

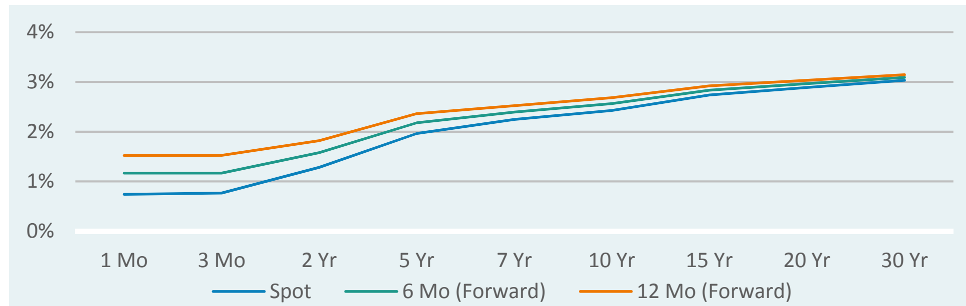
— Another unknown aspect of monetary policy relates to the Fed's $4.5 trillion balance sheet. In the most recent meeting minutes it was noted that an unwinding of the balance sheet may begin at the end of the year. It remains unclear whether the Fed will simply stop reinvesting securities or actively sell in the market. A sale would be the more aggressive option, but either action would equate to monetary tightening, which may slow the expected pace of federal fund rate hikes.

Source: Bloomberg, FRED, as of 3/31/17

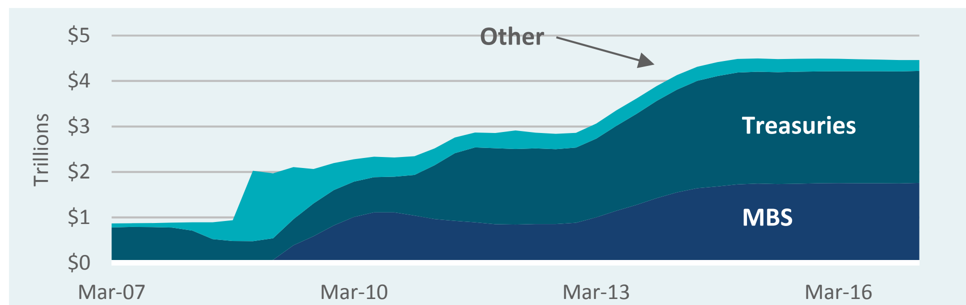
FED FUNDS PROJECTED RATE



U.S. TREASURY FORWARD YIELD CURVE

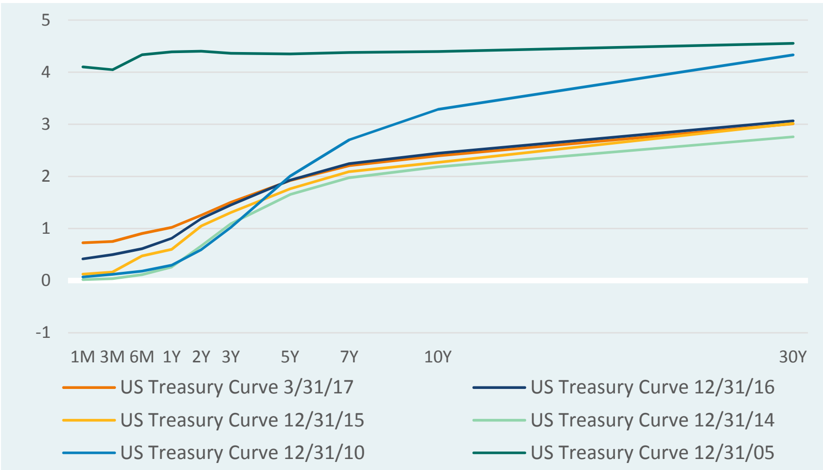


FEDERAL RESERVE BALANCE SHEET

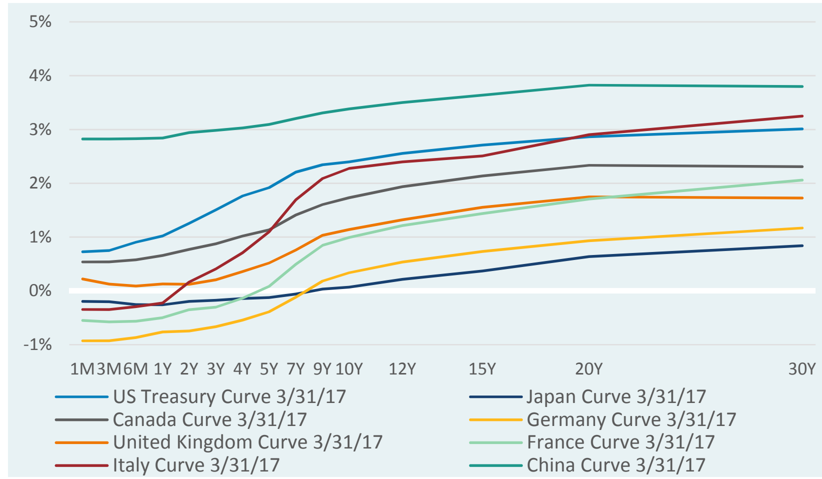


Yield environment

U.S. YIELD CURVE

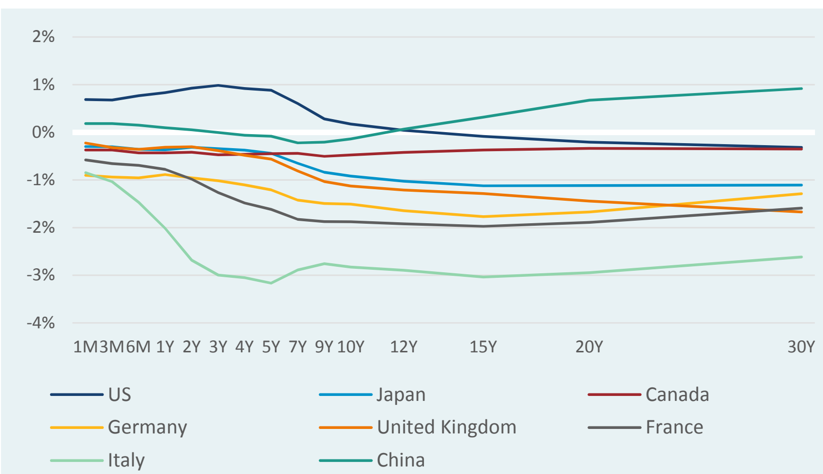


GLOBAL GOVERNMENT YIELD CURVES

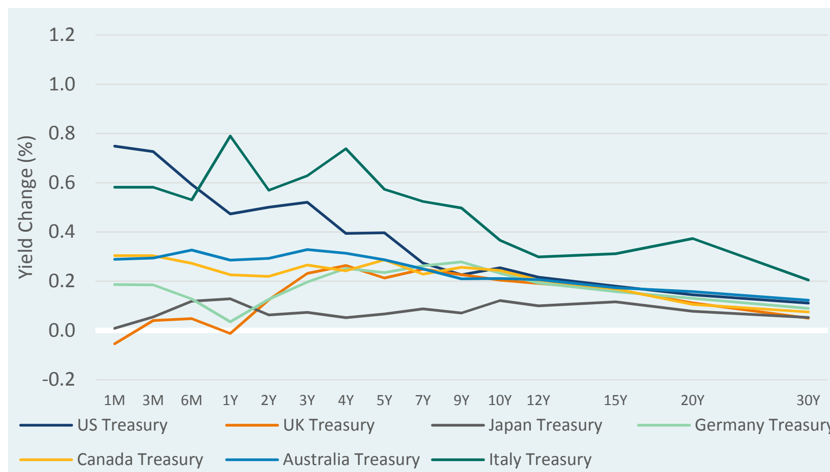


Global investors continue to prefer U.S. Treasuries due to higher relative yields

YIELD CURVE CHANGES OVER LAST FIVE YEARS



IMPLIED CHANGES OVER NEXT YEAR



Source: Bloomberg, as of 3/31/17

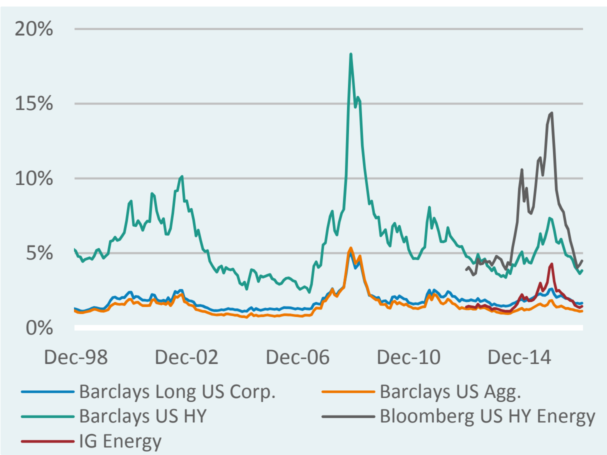
Credit environment

U.S. high yield option-adjusted spreads compressed slightly during the first quarter to 3.9% and the asset class generated a 2.7% return (BBgBarc U.S. Corp. High Yield Index). High yield spreads are now tighter than those of bank loans on a duration neutral basis, despite being of generally lower credit quality and higher in the capital structure. Bank loans may provide a better risk-return tradeoff in the current environment.

Upbeat consumer sentiment, stronger labor markets, and a generally brighter picture for the U.S. economy all bode well for credit markets. Although spreads have tightened to levels consistent with a mid-to-later stage economic cycle, no overheating or obvious threats to the credit markets seem apparent.

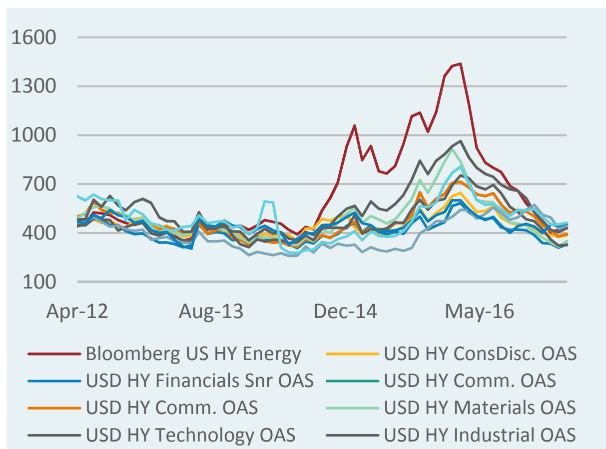
The Federal Reserve voted to increase interest rates by 0.25% in March. The speed of rate rises has underwhelmed the market for some time, and the market is expecting this slow pace to continue. Investors may be well served by limiting duration risk, though the probability of a sharp bond selloff (quickly rising rates) seems low.

CREDIT SPREADS



Source: Barclays Capital Indices, Bloomberg, as of 3/31/17

HIGH YIELD SECTOR SPREADS



Source: Bloomberg, as of 3/31/17

SPREADS

Market	Credit Spread (3/31/17)	Credit Spread (1 Year Ago)
Long US Corporate	1.5%	2.1%
US Aggregate	0.9%	1.1%
US High Yield	4.1%	7.0%
US High Yield Energy	4.5%	11.9%
US Bank Loans	3.8%	3.9%

Source: Barclays, Credit Suisse, Bloomberg, as of 3/31/17

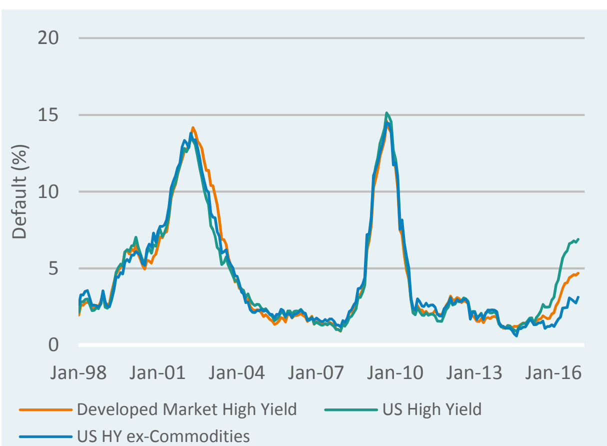
Issuance and default

Both U.S. senior loan and high yield markets continue to stabilize with the majority of par defaults last year coming from energy and metals/mining sectors. Rolling default rates should fall as commodity prices continue to recover and commodity price-induced credit problems have less impact on the credit universe. Active management may offer value to investors in the high yield space.

Global high yield and bank loan issuance has continued at a similar pace to what was seen last year. Lower spread levels lessen the borrowing costs for these issuers. The direction of interest rates will likely impact issuance trends in the near future.

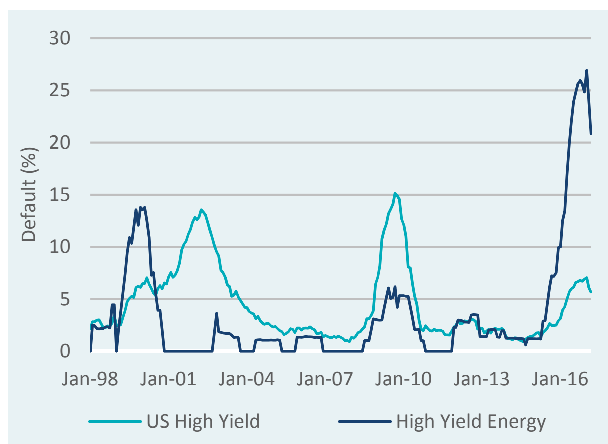
The effect of commodity related defaults should subside

HY DEFAULT TRENDS (ROLLING 1 YEAR)



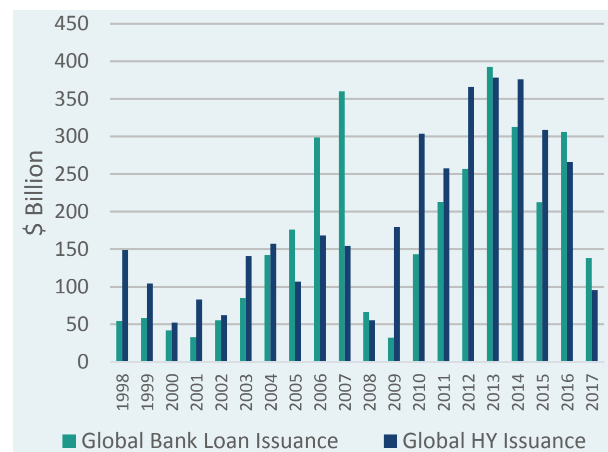
Source: BofA Merrill Lynch, as of 3/31/17

ENERGY DEFAULT TRENDS



Source: BofA Merrill Lynch, as of 3/31/17

GLOBAL ISSUANCE



Source: Bloomberg, BofA Merrill Lynch, as of 3/31/17

Equity

Equity environment

— The U.S. economic environment has shifted in a materially more positive direction, post-election. This move was reflected in an upward adjustment to equity prices. We are relatively bullish on U.S. earnings growth in the near term, but remain concerned that investors are paying for this excess growth upfront through higher valuations. We maintain a neutral weight to U.S. equities.

— According to FactSet, the estimated Q1 2017 earnings growth rate of the S&P 500 was 9.2% YoY. The estimate was revised downward from 12.5% on December 31st due to negative EPS guidance in the Materials and Consumer Discretionary sectors.

— Growth equities outperformed value equities in Q1. The Russell 1000 Growth Index and Russell 1000 Value Index returned 8.9% and 3.3%, respectively.

— The U.S. dollar fell 3.6% in Q1 on a trade-weighted basis, which has affected the returns of portfolios with unhedged currency exposure.

— As discussed recently in our *Sound Thinking* research piece, investors should be mindful of their biases in portfolio construction. One particularly prevalent bias is the tendency for investors to hold greater exposure to the markets where they reside (home country bias). As with any portfolio tilt, investors should understand why they hold it, have a solid basis for the exposure, and understand the tracking error the position introduces to the portfolio.

	QTD TOTAL RETURN		YTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	6.0%		6.0%		17.4%	
US Small Cap (Russell 2000)	2.5%		2.5%		26.2%	
US Large Value (Russell 1000 Value)	3.3%		3.3%		19.2%	
US Large Growth (Russell 1000 Growth)	8.9%		8.9%		15.8%	
International Large (MSCI EAFE)	7.2%	5.0%	7.2%	5.0%	11.7%	18.9%
Eurozone (Euro Stoxx 50)	8.3%	7.2%	8.3%	7.2%	12.9%	21.7%
U.K. (FTSE 100)	4.9%	3.8%	4.9%	3.8%	7.3%	23.3%
Japan (NIKKEI 225)	4.3%	0.1%	4.3%	0.1%	15.8%	14.7%
Emerging Markets (MSCI Emerging Markets)	11.4%	7.3%	11.4%	7.3%	17.2%	12.5%

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 3/31/17

Domestic equity

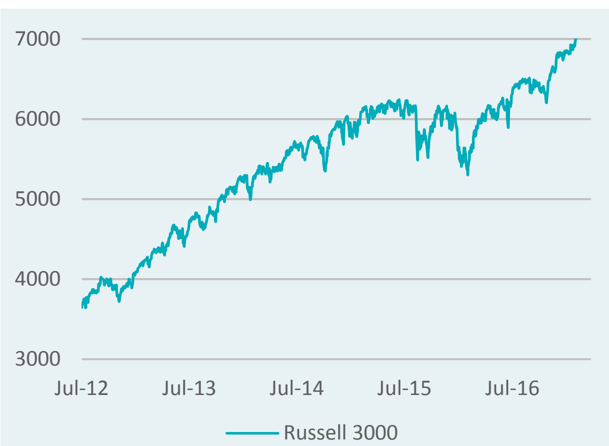
The U.S. economic environment has shifted in a materially more positive direction, post-election, as reflected by rising in equity prices. We are relatively bullish on U.S. earnings growth in the near term but remain concerned that investors are paying for this excess growth upfront through higher valuations. We maintain a neutral weight to U.S. equities.

Higher equity prices and earnings expectations have been influenced by corporate tax cuts and deregulation proposed by the new administration. There have been no further details released on timing of tax cuts, and lofty expectations may leave room for disappointment.

According to FactSet, Q1 2017 S&P 500 earnings are expected to grow 9.2% YoY. The estimate was revised downward from 12.5% on December 31st due to negative EPS guidance in the Materials and Consumer Discretionary sectors.

Investors may be paying for higher earnings growth through elevated valuations

U.S. EQUITIES

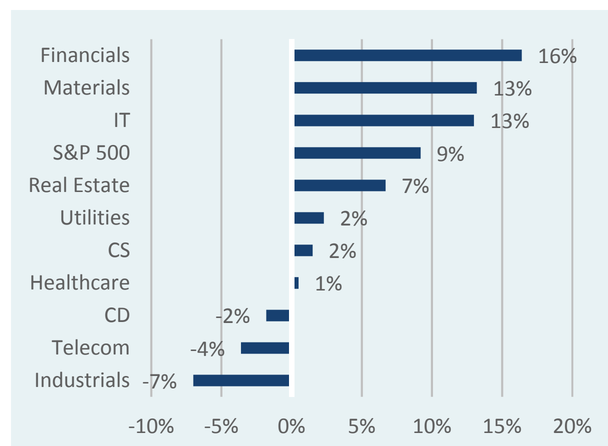


Source: Russell Investments, as of 4/3/17

S&P 500 EPS GROWTH

Source: Bloomberg, as of 12/31/16

Q1 FORECAST EPS GROWTH



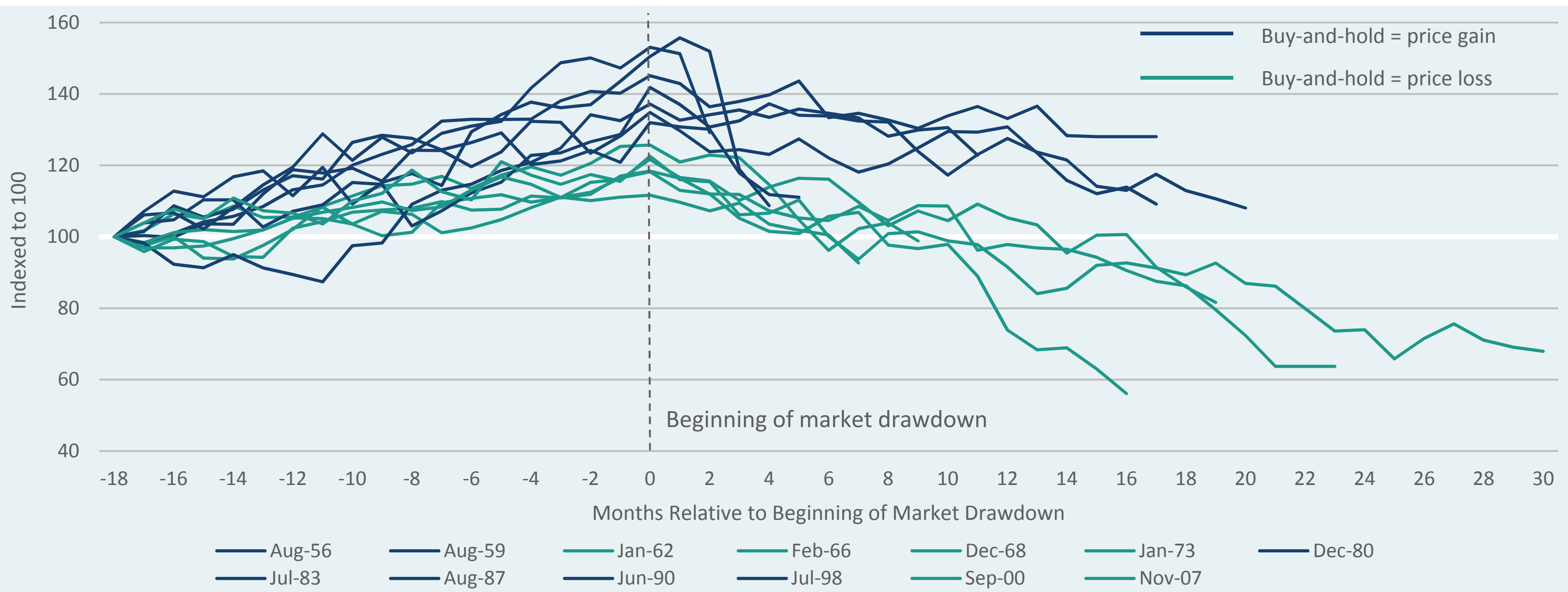
Source: FactSet, as of 4/14/17

Equity market corrections

With above average U.S. equity valuations and a bull market that has lasted nearly nine years, there has been speculation that a market correction is approaching. While we remain concerned about valuations we do not believe that equities are necessarily in the final stages of the cycle, nor that market corrections are predictable. It is important to remember that equity drawdowns are normal, and should be viewed in the proper context.

The chart below shows the cumulative price movement of the S&P 500 during equity market corrections of at least 10%, starting from 18 months prior to the drawdown. In many instances, late cycle equity gains were enough to offset the entire drawdown, outside of major financial collapses. Market timing can be especially dangerous in these instances if an investor gets out of the market too early.

Equity market corrections are normal and should be viewed in the proper context



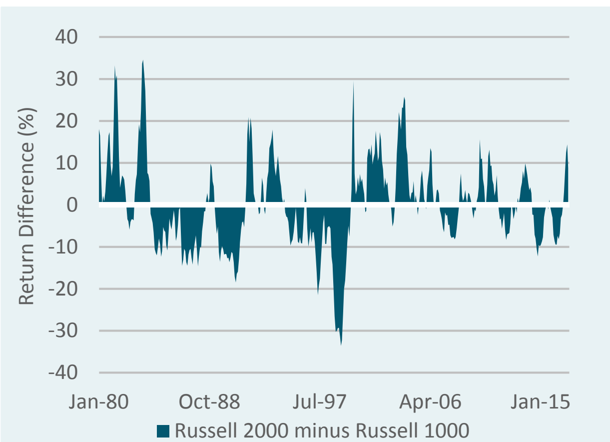
Source: Bloomberg

Domestic equity size and style

Growth equities outperformed value equities during the quarter. The Russell 1000 Growth Index and Russell 1000 Value Index returned 8.9% and 3.3%, respectively. Financial sector performance had a significant effect on the value premium, affected by uncertainty around the direction of interest rates and deregulation proposals.

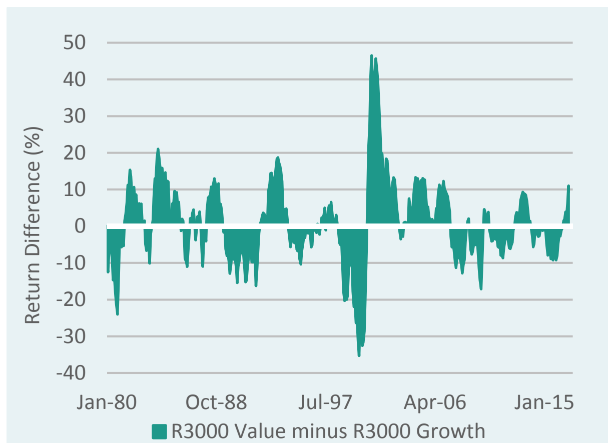
U.S. large cap equities outperformed small cap during the quarter, though small caps have delivered strong year-over-year outperformance. Small cap equity valuations remain considerably elevated relative to large cap equities which will likely act as a headwind to future performance. However, if President Trump's deregulation proposals are seen through, this should benefit smaller American companies. Further U.S. dollar appreciation would also benefit smaller companies on a relative basis due to less international currency exposure.

SMALL CAP VS LARGE CAP (YOY)



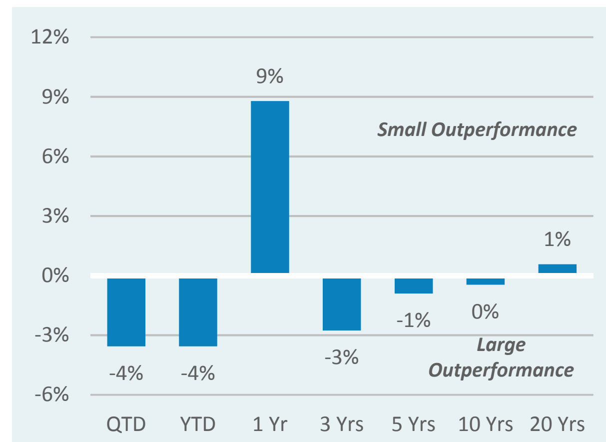
Source: Russell Investments, as of 3/31/17

VALUE VS GROWTH (YOY)



Source: Russell Investments, as of 3/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 3/31/17

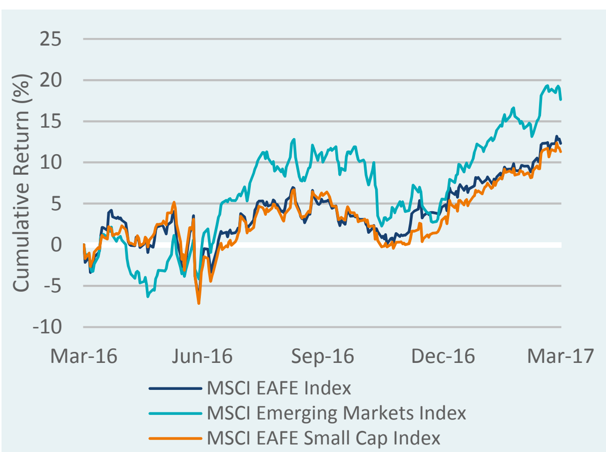
International equity

International equity markets outperformed domestic equities over the quarter. The MSCI ACWI ex U.S. returned 7.9% on an unhedged basis while the S&P 500 returned 6.1%.

International and emerging markets continue to trade at lower valuation levels than domestic markets, based on a variety of metrics. Despite our positive outlook for earnings growth in the U.S., the upside for domestic equities appears limited due to the optimism already baked into the price. International markets likely possess greater upside potential through either valuation expansion or earnings growth surprise, simply due to current valuation levels. However, tail risks are also apparent in these markets. We believe a neutral weight is appropriate.

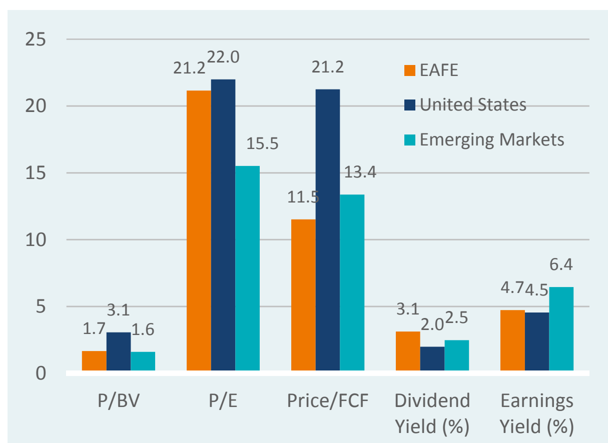
The U.S. dollar fell 3.6% in Q1 on a trade-weighted basis, and continued to contribute volatility to portfolios with unhedged currency exposure. Emerging market currencies exhibited further recovery during the quarter (MSCI EM 11.4% unhedged return vs. 7.3% hedged return) while the yen appreciated (4.3% NIKKEI 225 unhedged return vs. 0.1% hedged).

GLOBAL EQUITY PERFORMANCE



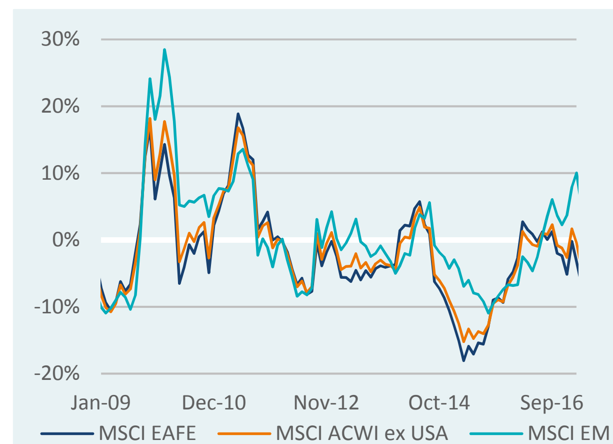
Source: Bloomberg, as of 3/31/17

VALUATIONS



Source: Bloomberg, MSCI, as of 3/31/17 - 3 month average

EFFECT OF CURRENCY (1 YEAR ROLLING)



Source: MSCI, as of 3/31/17

Emerging market equity

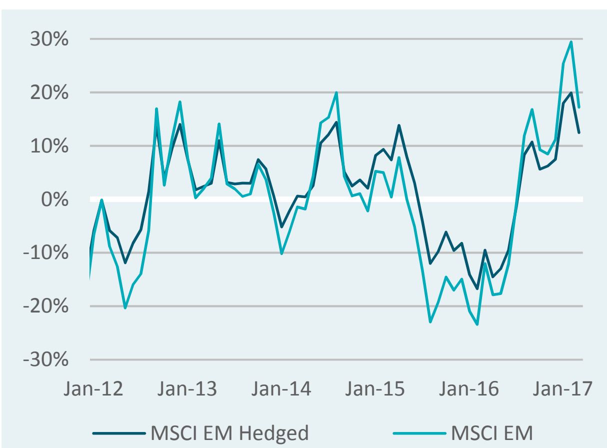
Emerging market equities extended their positive run in the first quarter, as the unhedged MSCI Emerging Markets index returned 11.4% (7.3% hedged). Performance was bolstered by strong global growth and stable commodity prices which have correlated highly with emerging market equities in the past. Steady demand from developed markets encouraged manufacturing in emerging economies as seen by increases in aggregate purchasing managers' indices (PMI).

Valuations increased moderately over the past three years but remain at attractive levels relative to EAFE and U.S equities. Earnings growth estimates were highest in the Technology and Financial sectors, concentrated mainly in Korea and China.

Positive long-term growth expectations are not without potential disruptions. We remain particularly watchful of U.S. trade policies and upcoming elections in France, Germany, and Turkey.

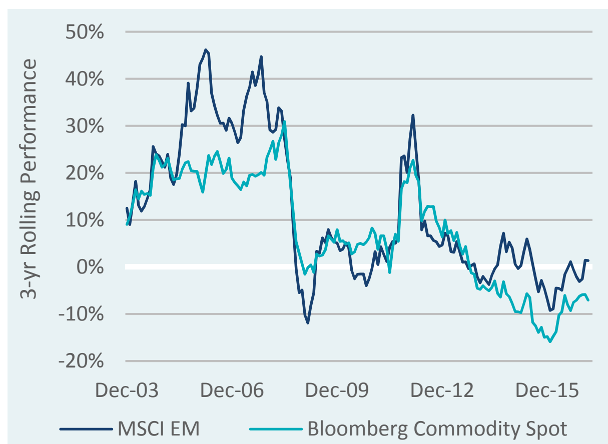
Fundamentals are improving in emerging economies

12-MONTH ROLLING PERFORMANCE



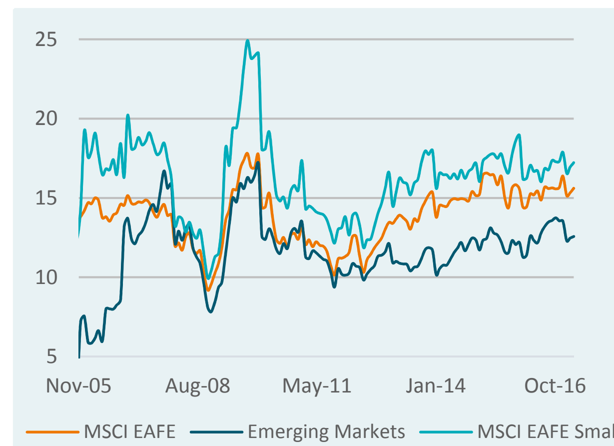
Source: MPI, as of 3/31/17

COMMODITY PRICES & EM PERFORMANCE



Source: Bloomberg, as of 3/31/17

FORWARD P/E RATIOS



Source: Bloomberg as of 3/31/17

Equity valuations

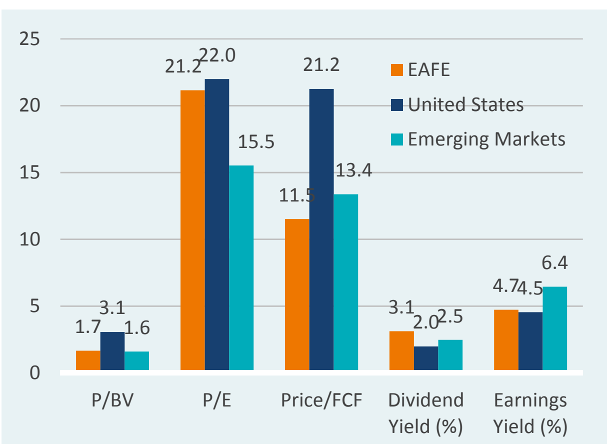
The outlook for corporate earnings growth improved in Q1 which contributed to mildly lower forward P/E multiples. Overall, valuations remain elevated, consistent with mid-to-later stages of the economic cycle and an environment of low interest rates and moderate inflation. As the global economy transitions towards higher rates and inflation, valuations may shift to a lower, more normal level.

The S&P 500 sits at a forward P/E of 18.3, above the 20-year average of 16.9, but within a single standard deviation of the average. The valuation of domestic equities is richer than international equities and emerging markets, as measured by trailing P/E and price-to-free cash flow ratios.

Further positive earnings and earnings expectations surprises would of course bode well for valuation levels as investors are properly compensated for above-average equity prices.

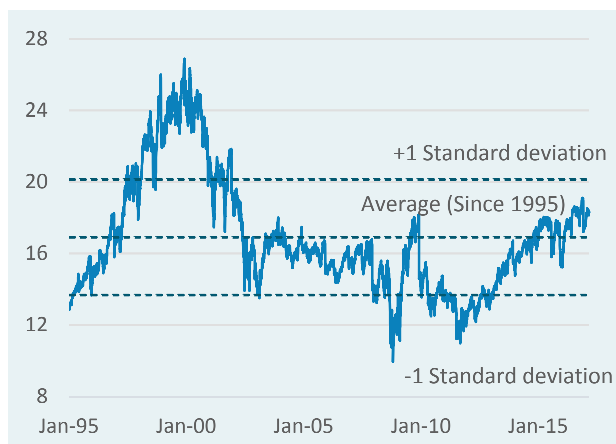
Valuations are above average, but not unusual

MSCI VALUATION METRICS (3 MONTH AVERAGE)



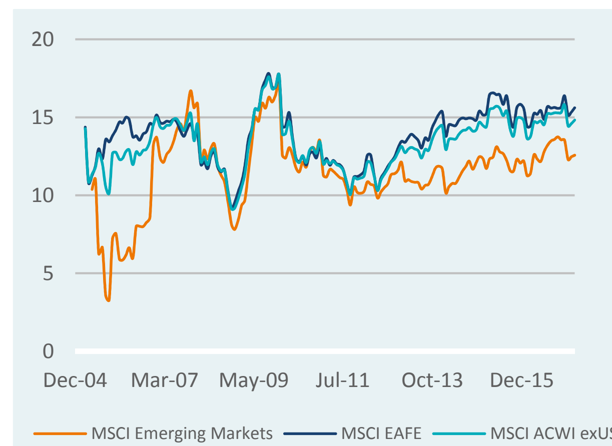
Source: Bloomberg, as of 3/31/17

S&P 500 FORWARD P/E



Source: Bloomberg, as of 3/31/17

INTERNATIONAL FORWARD P/E RATIOS



Source: Bloomberg, as of 3/31/17

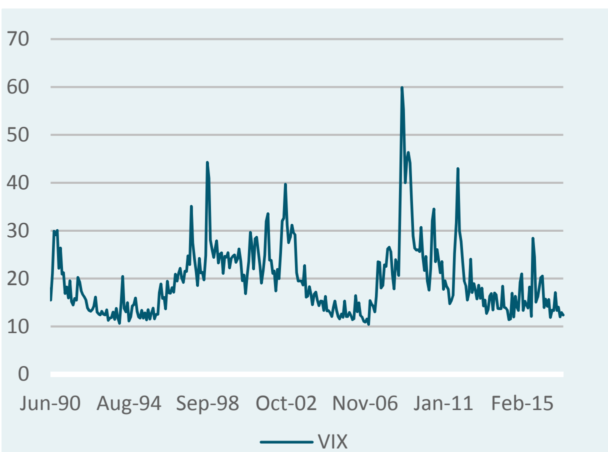
Equity volatility

Equity volatility was considerably low in the first quarter. Realized volatility of the S&P 500 was 6.7%, the lowest mark since the beginning of this business cycle. Implied volatility, as indicated by the VIX, is also below average, despite greater political uncertainty. However, it is important to remember that volatility can return quickly. Other measures of equity risk, such as option skews, show that investors are paying a premium for large downside risk protection. Traditional measures of volatility may be understating equity market risk.

International and emerging equities followed in a similar trend with below average realized volatility. Currency continued to play an important role in unhedged international equity exposure. Over the last ten years, unhedged currency exposure increased the annualized standard deviation of the MSCI EAFE and EM indices by 4% and 6%, respectively.

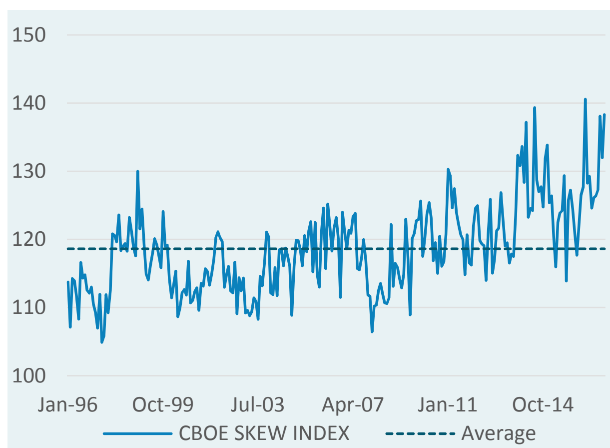
Equity volatility is low, but can return quickly

U.S. IMPLIED VOLATILITY



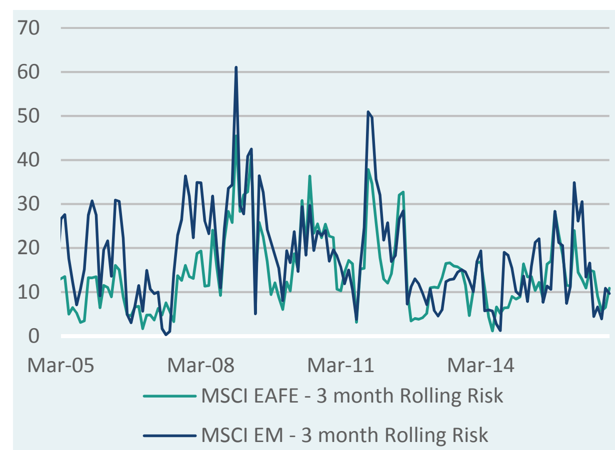
Source: CBOE, as of 3/31/17

U.S. VOLATILITY SKEW



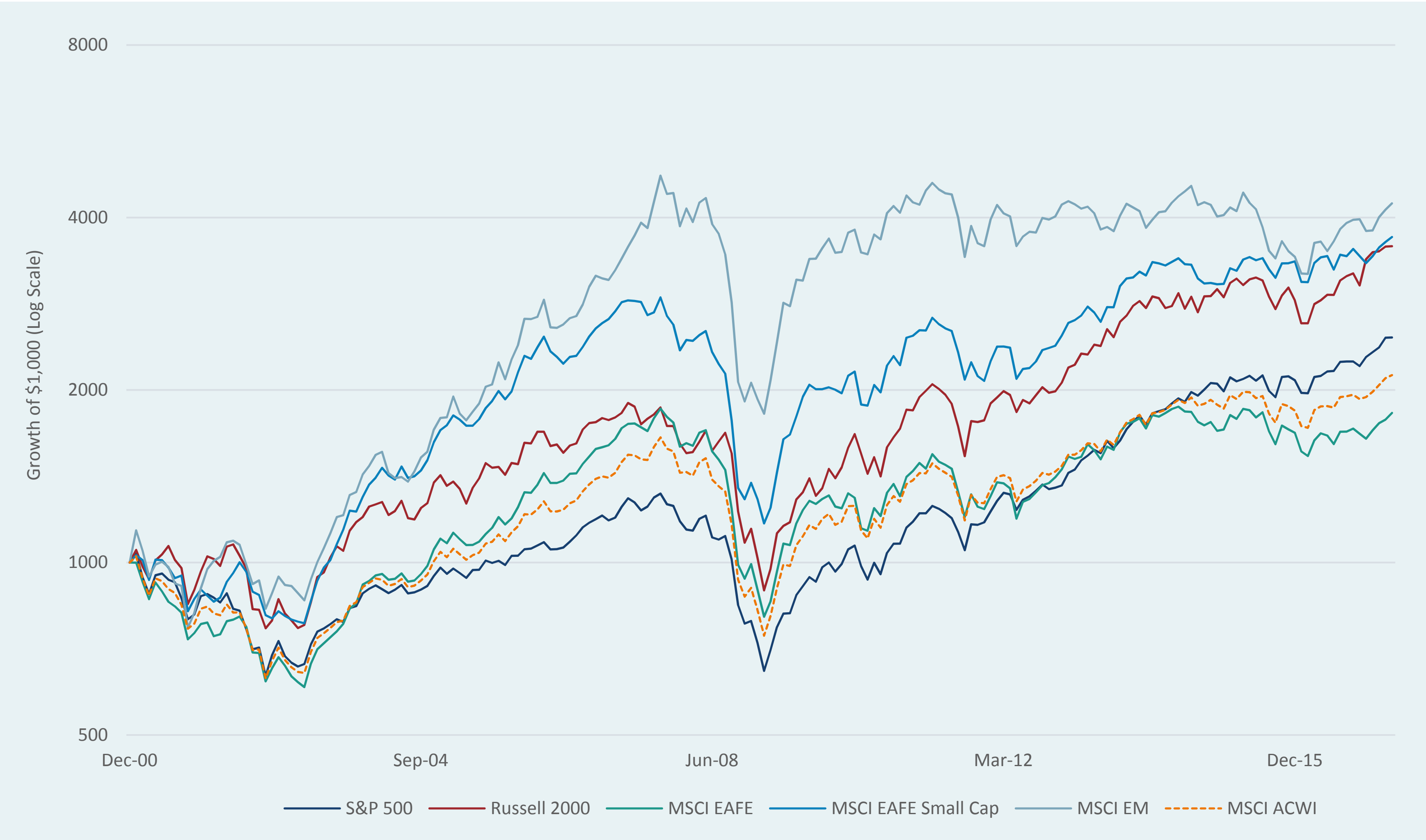
Source: CBOE, as of 3/31/17

INTERNATIONAL EQUITY VOLATILITY



Source: MSCI, as of 3/31/17

Long-term equity performance



Source: MPI, as of 3/31/17

Other assets

Commodities

Commodity performance has been lackluster over the past decade, delivering negative returns through the global financial crisis and the recent oil crisis. Much of this performance has been caused not by price movement, but by the shape of commodity futures curves. An upward sloping curve creates a drag for investors as a higher price is paid to enter each futures contract, and a downward sloping curve creates positive carry for investors as prices paid for futures contracts are lower. This premium/discount is a major determinant of commodity performance, and is known as "roll yield". Roll yield can be negatively affected by commodity crises as current contract prices drop further than distant prices and the curve becomes steeper.

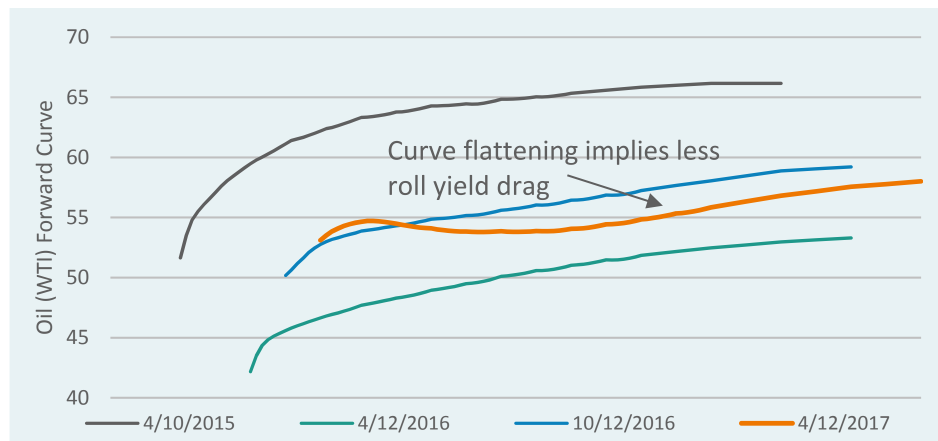
As commodity prices moderate, futures curves have flattened and negative roll yield has begun to dissipate. Oil in particular significantly impacts overall roll yield due to its larger weight in commodities indices. Oil has exhibited a flatter curve shape recently. We are continuing to monitor these effects since a neutral or positive roll return would help to materially improve commodity returns.

The drag from negative roll yield is abating, improving the outlook for commodities performance

ROLL RETURN

Source: Standard & Poor's, Goldman Sachs, as of 3/31/17

CURVE SHAPE



Source: Bloomberg, as of 4/12/17

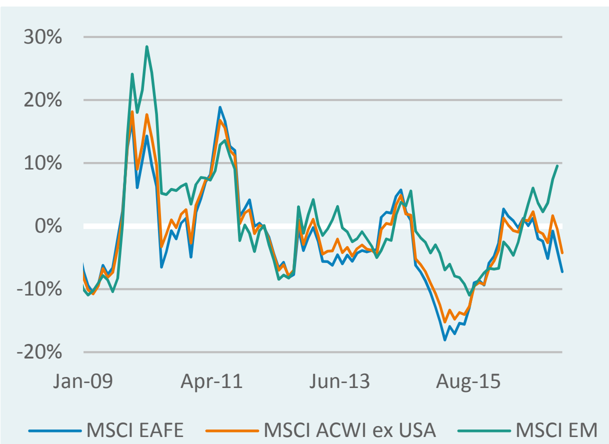
Currency

In the first quarter, the U.S. dollar reversed part of its gains following the presidential election in November. On a trade weighted basis, the dollar was down 3.6% against a basket of major currencies. Currency movement has been an important influence in unhedged foreign asset exposure. Over the past year, U.S. dollar strength has eroded positive equity returns in developed markets, while dollar weakness against emerging markets has added to returns.

Emerging market currencies rallied in the first quarter following a sharp decline to end last year. The JPM Emerging Market Currency Index was up 2.5%.

While long-term movements in the U.S. are often driven by broad mean reversion to fair value based on purchasing power parity, shorter term moves are still likely to be heavily influenced by developments in foreign trade policy, where much uncertainty remains.

EFFECT OF CURRENCY (1YR ROLLING)



Source: MPI, as of 3/31/17

LONG-TERM TRADE WEIGHTED DOLLAR

Source: FRED, as of 4/7/17

JPM EM CURRENCY INDEX

Source: Bloomberg, as of 3/31/17

Appendix

Periodic table of returns – March 2017

BEST ↑

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	11.4	13.3	9.1
Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	8.9	13.3	8.1
International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	7.2	13.1	7.6
Large Cap Equity	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	6.0	12.5	7.1
Small Cap Growth	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	5.3	12.4	6.7
60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	4.8	12.1	6.1
Large Cap Value	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	3.3	10.7	5.9
Small Cap Equity	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	2.5	5.8	4.3
Hedge Funds of Funds	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	2.0	5.2	4.0
Real Estate	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	1.6	3.1	2.7
US Bonds	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	0.8	2.3	1.2
Cash	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	0.1	0.8	1.1
Small Cap Value	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	-0.1	0.1	0.5
Commodities	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	-2.3	-9.5	-6.2

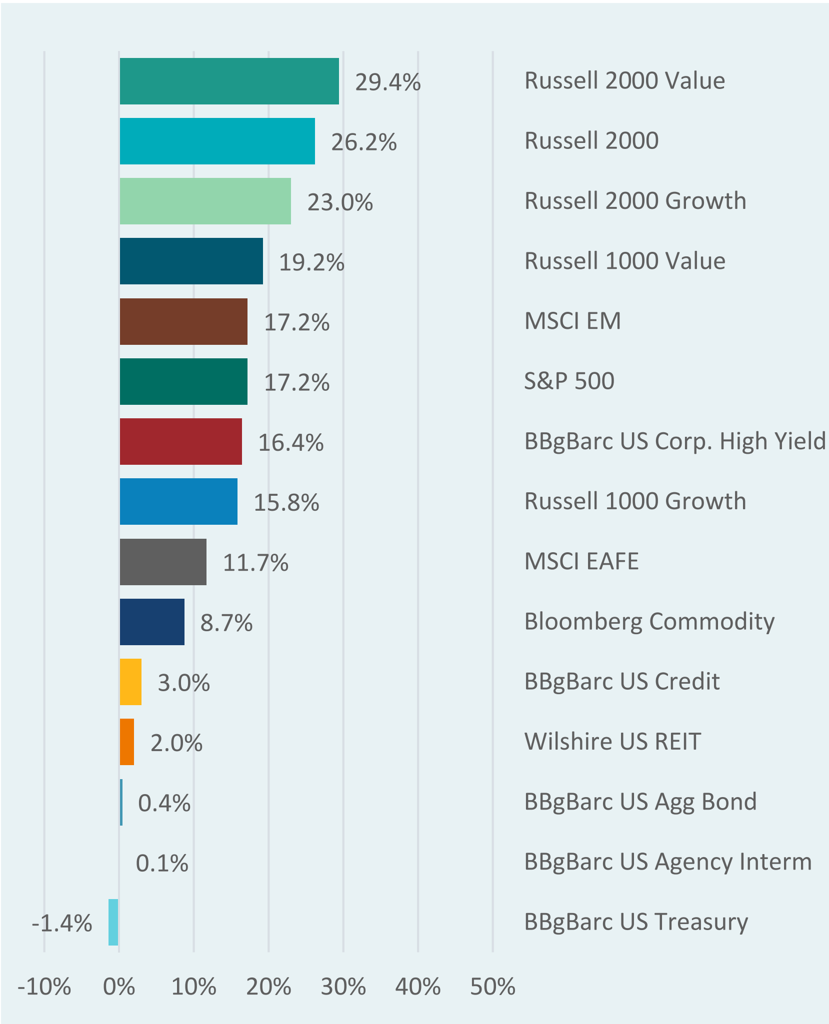
WORST ↓

- Large Cap Equity
- Large Cap Value
- Large Cap Growth
- Small Cap Equity
- Small Cap Value
- Small Cap Growth
- International Equity
- Emerging Markets Equity
- US Bonds
- Cash
- Commodities
- Real Estate
- Hedge Funds of Funds
- 60% MSCI ACWI/40% BC Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property performance data as of 3/31/17.

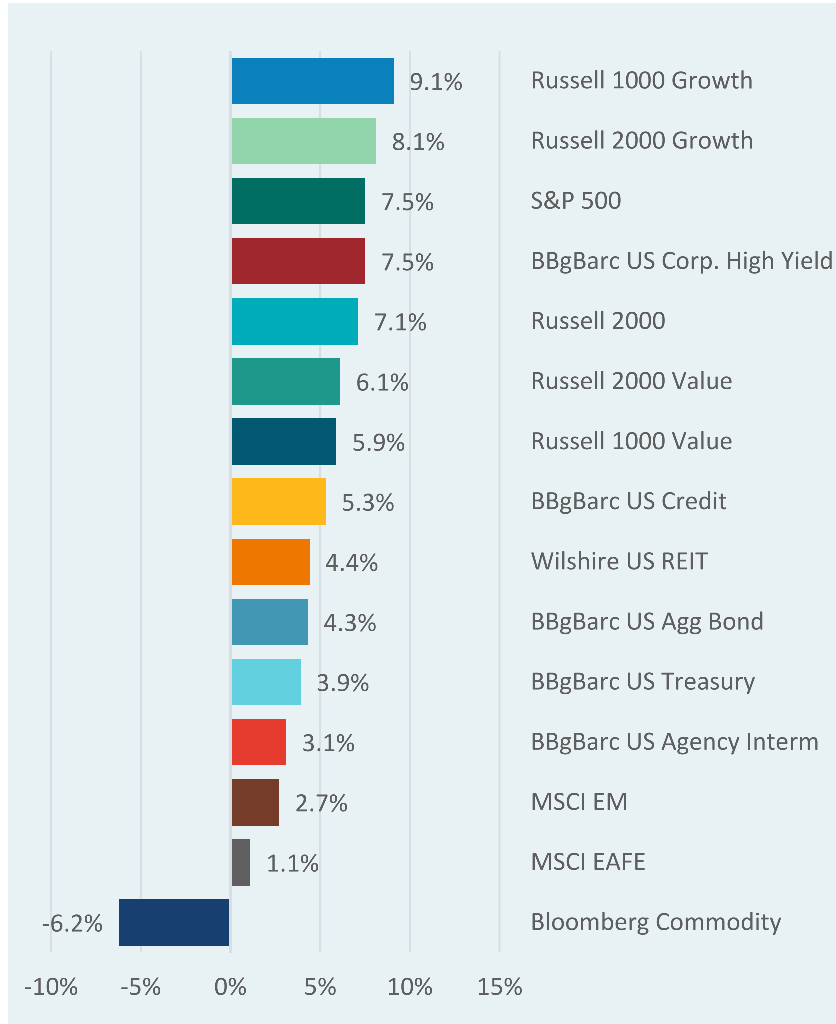
Major asset class returns

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/17

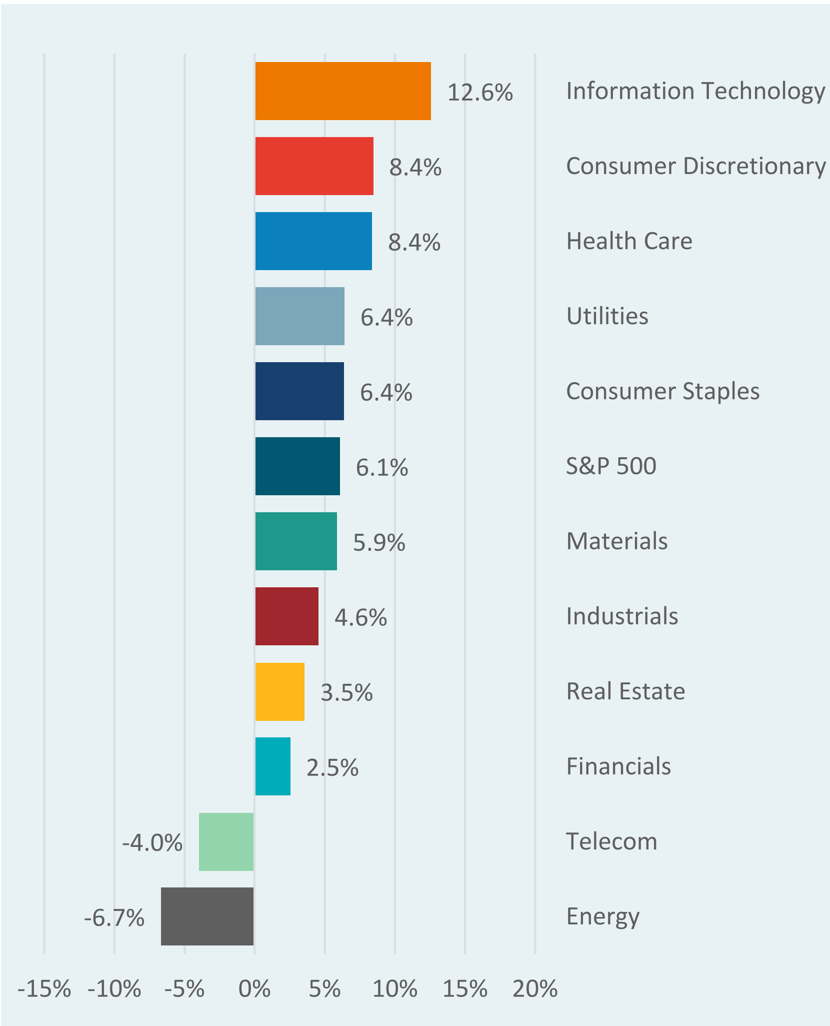
TEN YEARS ENDING MARCH



Source: Morningstar, as of 3/31/17

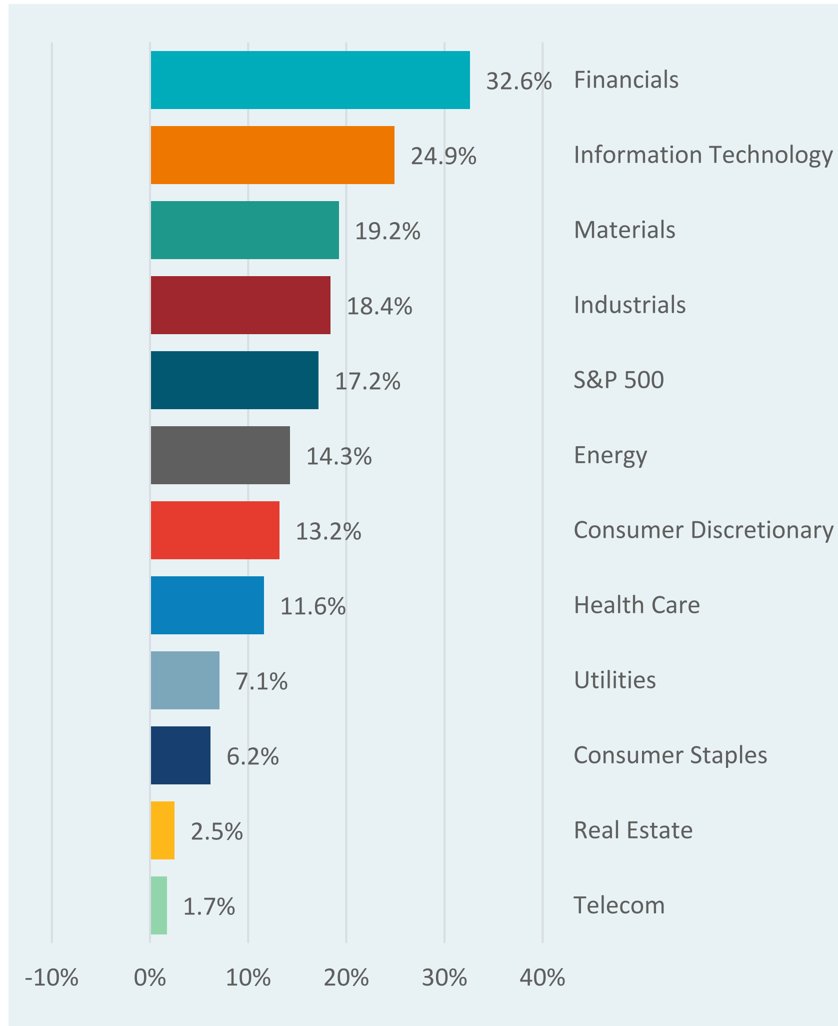
S&P 500 and S&P 500 sector returns

1ST QUARTER



Source: Morningstar, as of 3/31/17

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.1	6.1	6.1	17.2	10.4	13.3	7.5
S&P 500 Equal Weighted	0.0	5.4	5.4	17.4	9.6	14.0	8.7
DJ Industrial Average	(0.6)	5.2	5.2	19.9	10.6	12.2	8.1
Russell Top 200	0.2	6.4	6.4	17.6	10.6	13.3	7.5
Russell 1000	0.1	6.0	6.0	17.4	10.0	13.3	7.6
Russell 2000	0.1	2.5	2.5	26.2	7.2	12.4	7.1
Russell 3000	0.1	5.7	5.7	18.1	9.8	13.2	7.5
Russell Mid Cap	(0.2)	5.1	5.1	17.0	8.5	13.1	7.9
Style Index							
Russell 1000 Growth	1.2	8.9	8.9	15.8	11.3	13.3	9.1
Russell 1000 Value	(1.0)	3.3	3.3	19.2	8.7	13.1	5.9
Russell 2000 Growth	1.2	5.3	5.3	23.0	6.7	12.1	8.1
Russell 2000 Value	(0.8)	(0.1)	(0.1)	29.4	7.6	12.5	6.1

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	(0.1)	1.3	1.3	1.5	2.0	1.0	4.2
BBgBarc US Treasury Bills	0.0	0.1	0.1	0.4	0.2	0.2	0.8
BBgBarc US Agg Bond	(0.1)	0.8	0.8	0.4	2.7	2.3	4.3
Duration							
BBgBarc US Treasury 1-3 Yr	0.0	0.3	0.3	0.2	0.7	0.6	2.0
BBgBarc US Treasury Long	(0.6)	1.4	1.4	(5.0)	5.8	4.0	6.7
BBgBarc US Treasury	(0.0)	0.7	0.7	(1.4)	2.1	1.6	3.9
Issuer							
BBgBarc US MBS	0.0	0.5	0.5	0.2	2.7	2.0	4.2
BBgBarc US Corp. High Yield	(0.2)	2.7	2.7	16.4	4.6	6.8	7.5
BBgBarc US Agency Interm	0.0	0.5	0.5	0.1	1.4	1.2	3.1
BBgBarc US Credit	(0.2)	1.3	1.3	3.0	3.5	3.7	5.3

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	1.2	6.9	6.9	15.0	5.1	8.4	4.0
MSCI ACWI ex US	2.5	7.9	7.9	13.1	0.6	4.4	1.4
MSCI EAFE	2.8	7.2	7.2	11.7	0.5	5.8	1.1
MSCI EM	2.5	11.4	11.4	17.2	1.2	0.8	2.7
MSCI EAFE Small Cap	2.0	8.0	8.0	11.0	3.6	9.2	3.0
Style Index							
MSCI EAFE Growth	2.7	8.5	8.5	7.4	1.5	6.0	2.0
MSCI EAFE Value	2.8	6.0	6.0	16.0	(0.6)	5.6	0.0
Regional Index							
MSCI UK	1.7	5.0	5.0	7.4	(2.6)	3.5	0.5
MSCI Japan	(0.4)	4.5	4.5	14.4	6.0	6.8	0.6
MSCI Euro	6.2	8.5	8.5	12.8	(1.3)	6.4	(0.2)
MSCI EM Asia	3.3	13.4	13.4	18.0	4.5	4.4	4.7
MSCI EM Latin American	0.6	12.1	12.1	23.3	(4.0)	(6.1)	0.8

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	(2.7)	(2.3)	(2.3)	8.7	(13.9)	(9.5)	(6.2)
Wilshire US REIT	(2.7)	0.0	0.0	2.0	10.2	9.8	4.4
CS Leveraged Loans	0.1	1.2	1.2	9.7	3.7	4.9	4.2
Regional Index							
JPM EMBI Global Div	0.4	3.9	3.9	8.9	6.2	5.8	7.0
JPM GBI-EM Global Div	2.3	6.5	6.5	5.5	(2.7)	(1.6)	4.1
Hedge Funds							
HFRI Composite	0.2	2.3	2.3	8.6	2.8	4.0	3.3
HFRI FOF Composite	0.1	2.0	2.0	5.9	1.7	3.1	1.2
Currency (Spot)							
Euro	0.7	1.4	1.4	(6.1)	(8.1)	(4.3)	(2.2)
Pound	0.5	1.2	1.2	(13.0)	(9.1)	(4.8)	(4.4)
Yen	0.4	4.7	4.7	0.9	(2.6)	(5.9)	0.6

Source: Morningstar, as of 3/31/17

Definitions

Bloomberg US Weekly Consumer Comfort Index *- tracks the public's economic attitudes each week, providing a high-frequency read on consumer sentiment. The index, based on cell and landline telephone interviews with a random, representative national sample of U.S. adults, tracks Americans' ratings of the national economy, their personal finances and the buying climate on a weekly basis, with views of the economy's direction measured separately each month. (www.langerresearch.com)*

University of Michigan Consumer Sentiment Index *- A survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by the University of Michigan. For the preliminary release approximately three hundred consumers are surveyed while five hundred are interviewed for the final figure. The level of consumer sentiment is related to the strength of consumer spending. (www.Bloomberg.com)*

Citi Economic Surprise Index *- objective and quantitative measures of economic news. Defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance been beating consensus. The indices are calculated daily in a rolling three-month window. The weights of economic indicators are derived from relative high-frequency spot FX impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets. (www.Bloomberg.com)*

Merrill Lynch Option Volatility Estimate (MOVE) Index – *a yield curve weighted index comprised of a weighted set of 1-month Treasury options, including 2.5.10 and 30 year tenor contracts. This index is an indicator of the expected (implied) future volatility in the rate markets. (www.Bloomberg.com)*

OECD Consumer Confidence Index *- based on households' plans for major purchases and their economic situation, both currently and their expectations for the immediate future. Opinions compared to a "normal" state are collected and the difference between positive and negative answers provides a qualitative index on economic conditions. (https://data.oecd.org/)*

OECD Business Confidence Index *- based on enterprises' assessment of production, orders and stocks, as well as its current position and expectations for the immediate future. Opinions compared to a "normal" state are collected and the difference between positive and negative answers provides a qualitative index on economic conditions. (https://data.oecd.org/)*

NFIB Small Business Outlook *- Small Business Economic Trends (SBET) is a monthly assessment of the U.S. small-business economy and its near-term prospects. Its data are collected through mail surveys to random samples of the National Federal of Independent Business (NFIB) membership. The survey contains three broad question types: recent performance, near-term forecasts, and demographics. The topics addressed include: outlook, sales, earnings, employment, employee compensation, investment, inventories, credit conditions, and single most important problem. (http://www.nfib-sbet.org/about/)*

Notices & disclosures

Stanislaus County Employees' Retirement Association

Investment Performance Review

Period Ending: March 31, 2017

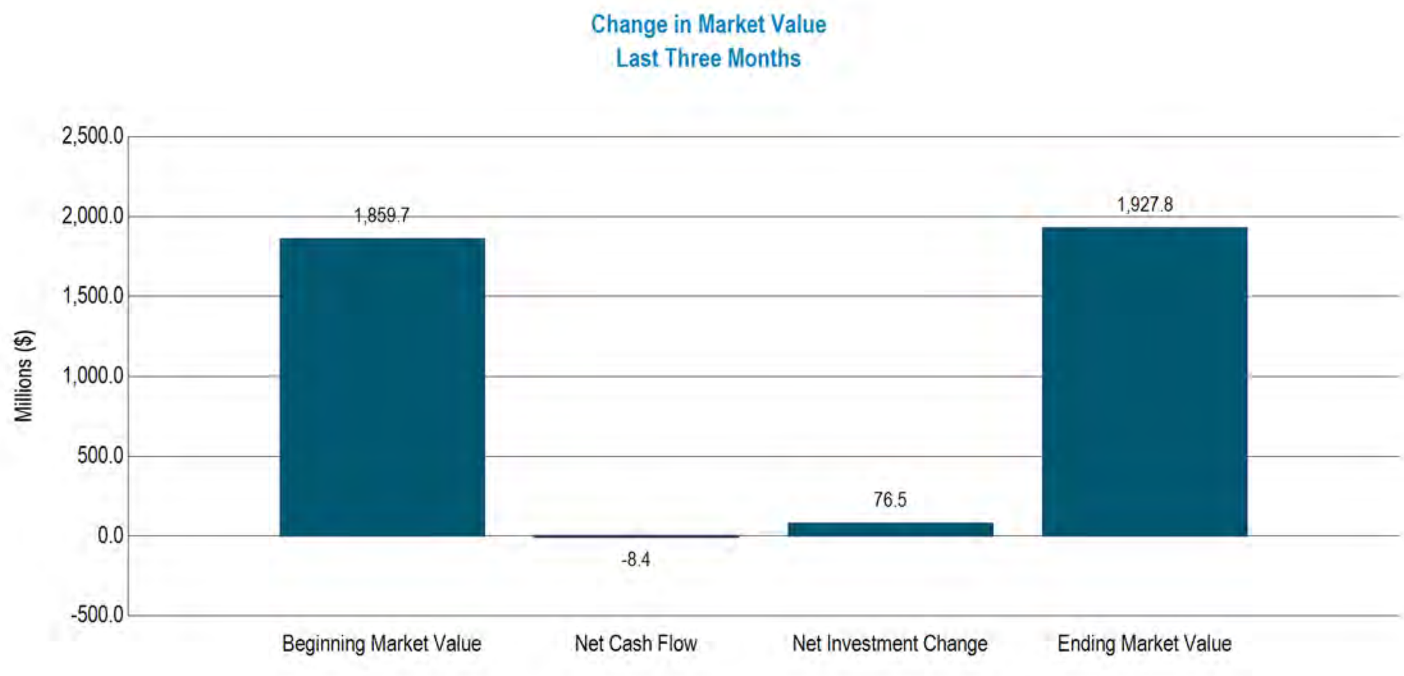
Verus

VERUSINVESTMENTS.COM

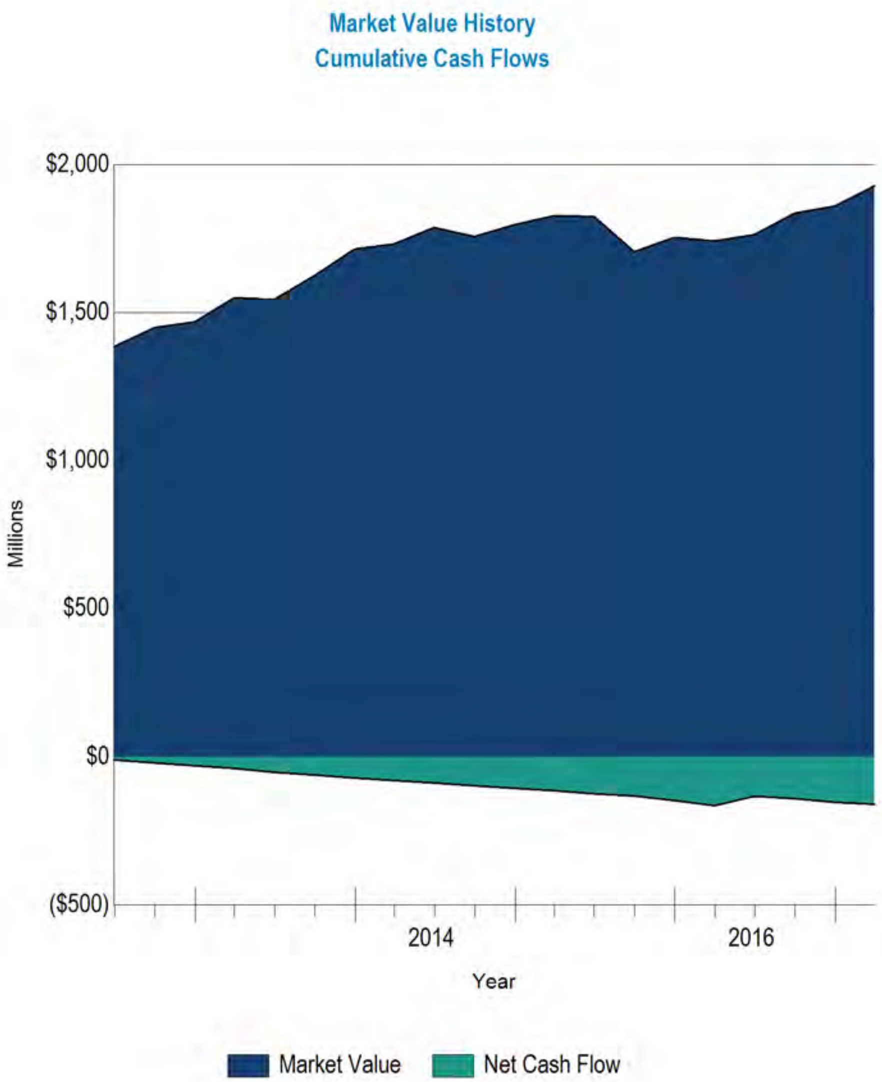
SEATTLE 206-622-3700
LOS ANGELES 310-297-1777
SAN FRANCISCO 415-362-3484

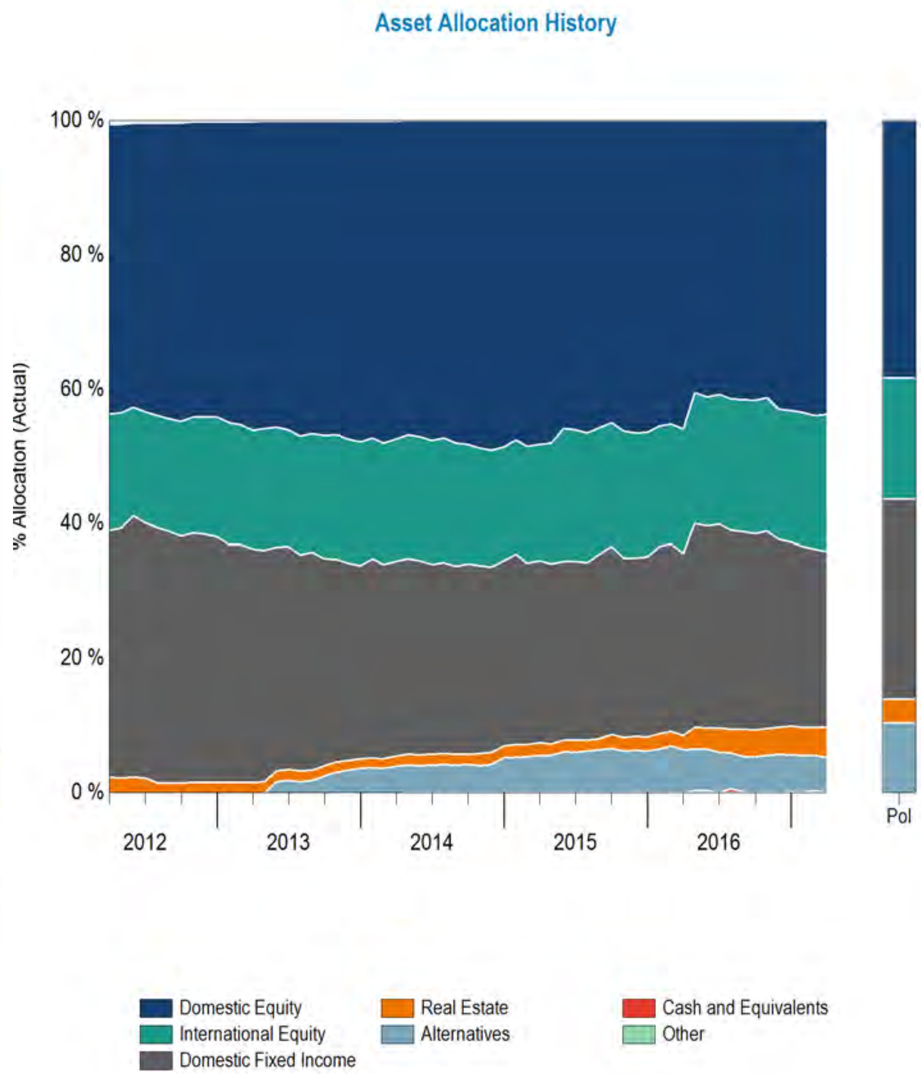
Portfolio Reconciliation

	Last Three Months	Fiscal Year-To-Date	Year-To-Date
Beginning Market Value	$1,859,742,905	$1,763,136,187	$1,859,742,905
Net Cash Flow	-$8,438,758	-$26,645,009	-$8,438,758
Net Investment Change	$76,459,120	$191,272,088	$76,459,120
Ending Market Value	$1,927,763,267	$1,927,763,267	$1,927,763,267



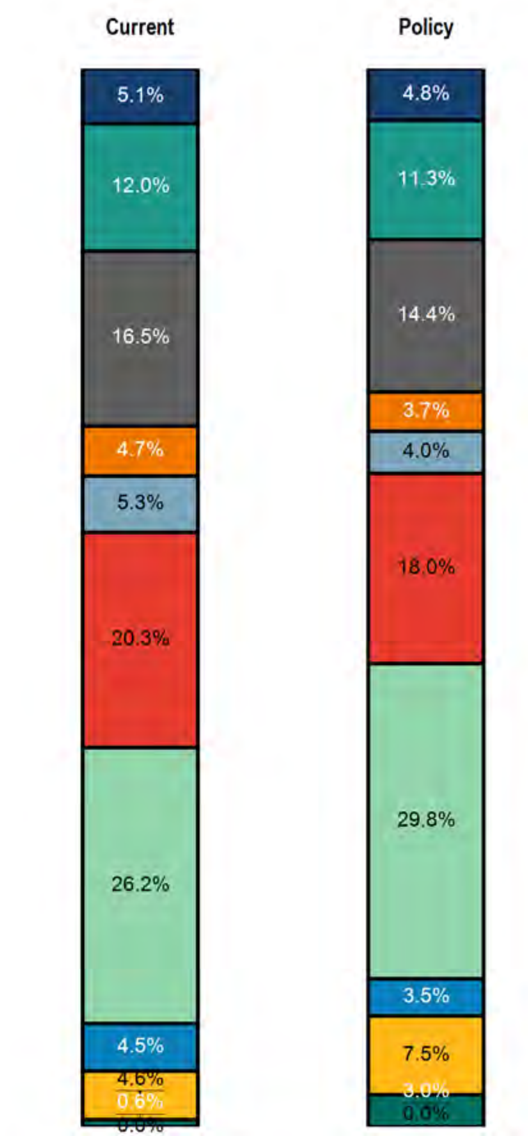
Contributions and withdrawals may include intra-account transfers between managers/funds.


Market Value History
Cumulative Cash Flows
$2,000
$1,500
$1,000
$500
$0
($500)
Millions
2014
2016
Year
Market Value
Net Cash Flow


Asset Allocation History
100 %
80 %
60 %
40 %
20 %
0 %
% Allocation (Actual)
2012
2013
2014
2015
2016
Pol
Domestic Equity
International Equity
Domestic Fixed Income
Real Estate
Alternatives
Cash and Equivalents
Other

Total Fund
Asset Allocation vs. Policy

Period Ending: March 31, 2017

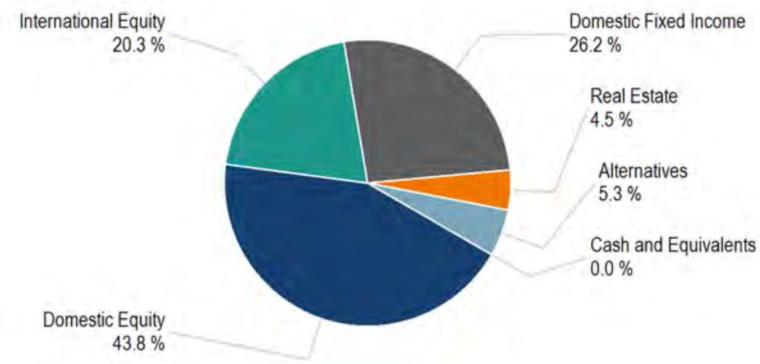


	Current Balance	Current Allocation	Policy	Difference	Policy Range	Within IPS Range?
Domestic Equity Large Cap Core	$98,830,344	5.1%	4.8%	$6,297,708	3.8% - 5.8%	Yes
Domestic Equity Large Cap Growth	$231,964,348	12.0%	11.3%	$14,127,099	7.8% - 14.8%	Yes
Domestic Equity Large Cap Value	$318,980,119	16.5%	14.4%	$41,382,208	11.4% - 17.4%	Yes
Domestic Equity Small Cap Growth	$90,798,804	4.7%	3.7%	$19,471,563	2.7% - 4.7%	No
Domestic Equity Small Cap Value	$103,050,762	5.3%	4.0%	$25,940,231	3.0% - 5.0%	No
International Equity	$392,215,097	20.3%	18.0%	$45,217,709	15.0% - 21.0%	Yes
Domestic Fixed Income	$504,161,172	26.2%	29.8%	-$70,312,282	26.0% - 33.6%	Yes
Real Estate	$86,175,088	4.5%	3.5%	$18,703,374	1.0% - 4.5%	Yes
Direct Lending	$89,211,544	4.6%	7.5%	-$55,370,701	2.5% - 9.0%	Yes
Infrastructure	$12,187,815	0.6%	3.0%	-$45,645,083	0.0% - 4.0%	Yes
Cash and Equivalents	$188,174	0.0%	0.0%	$188,174	0.0% - 2.0%	Yes
Total	**$1,927,763,267**	**100.0%**	**100.0%**			

Cash Account includes cash held at Northern Trust for all closed end funds.

	QTD	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
Total Fund	**4.1**	**10.9**	**12.8**	**5.8**	**8.6**	**5.9**
Policy Index	*3.8*	*8.2*	*10.6*	*5.9*	*7.8*	*5.9*
InvestorForce Public DB Gross Rank	*65*	*10*	*13*	*34*	*15*	*23*
US Equity	**5.2**	**17.8**	**20.2**	**8.9**	**13.4**	**7.1**
US Equity Blended	*5.3*	*16.0*	*19.2*	*9.5*	*13.1*	*7.8*
Russell 3000	*5.7*	*15.0*	*18.1*	*9.8*	*13.2*	*7.5*
InvestorForce All DB US Eq Gross Rank	*68*	*11*	*14*	*61*	*20*	*71*
International Equity	**7.8**	**15.9**	**15.2**	**1.9**	**5.9**	**2.4**
MSCI ACWI ex USA Gross	*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*
InvestorForce All DB ex-US Eq Gross Rank	*82*	*25*	*26*	*40*	*40*	*32*
US Fixed Income	**1.3**	**1.4**	**4.0**	**3.6**	**3.7**	**5.5**
BBgBarc US Aggregate TR	*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*4.3*
InvestorForce All DB US Fix Inc Gross Rank	*51*	*27*	*31*	*39*	*45*	*42*
Real Estate	**2.0**	**2.8**	**6.9**	**12.7**	**10.4**	**--**
DJ US Select RESI	*-0.3*	*-4.0*	*1.2*	*9.9*	*10.1*	*--*
Direct Lending	**-2.0**	**0.2**	**1.3**	**5.8**	**--**	**--**
9% Annual	*2.2*	*4.4*	*6.7*	*8.2*	*--*	*--*
Infrastructure	**-2.7**	**1.2**	**3.7**	**--**	**--**	**--**
CPI + 5%	*2.2*	*3.5*	*6.0*	*--*	*--*	*--*

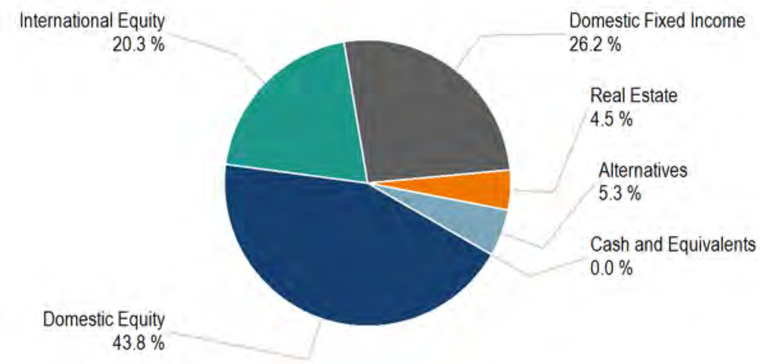
Current Allocation



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000.

	QTD	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
Total Fund	4.1	10.6	12.4	5.4	8.2	5.6
Policy Index	3.8	8.2	10.6	5.9	7.8	5.9
US Equity	5.2	17.6	19.8	8.6	13.1	6.8
US Equity Blended	5.3	16.0	19.2	9.5	13.1	7.8
Russell 3000	5.7	15.0	18.1	9.8	13.2	7.5
International Equity	7.7	15.6	14.7	1.5	5.4	1.9
MSCI ACWI ex USA Gross	8.0	14.2	13.7	1.0	4.8	1.8
US Fixed Income	1.3	1.3	3.9	3.5	3.6	5.4
BBgBarc US Aggregate TR	0.8	-1.7	0.4	2.7	2.3	4.3
Real Estate	2.0	2.5	6.3	11.6	9.1	--
DJ US Select RESI	-0.3	-4.0	1.2	9.9	10.1	--
Direct Lending	-2.0	-0.4	0.1	3.9	--	--
9% Annual	2.2	4.4	6.7	8.2	--	--
Infrastructure	-2.7	-3.2	-3.0	--	--	--
CPI + 5%	2.2	3.5	6.0	--	--	--

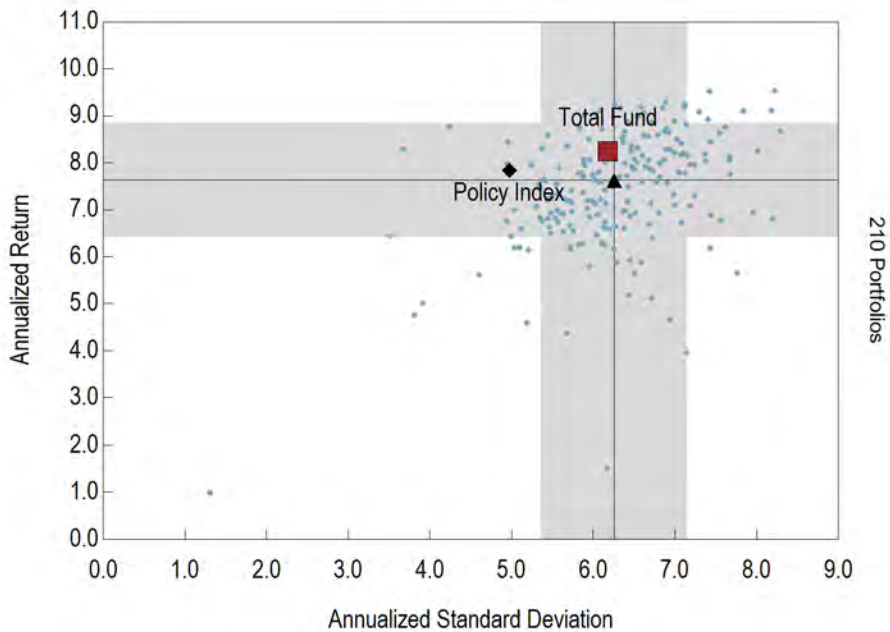
Current Allocation



Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%. US Equity Blended: 80% Russell 1000, 20% Russell 2000.

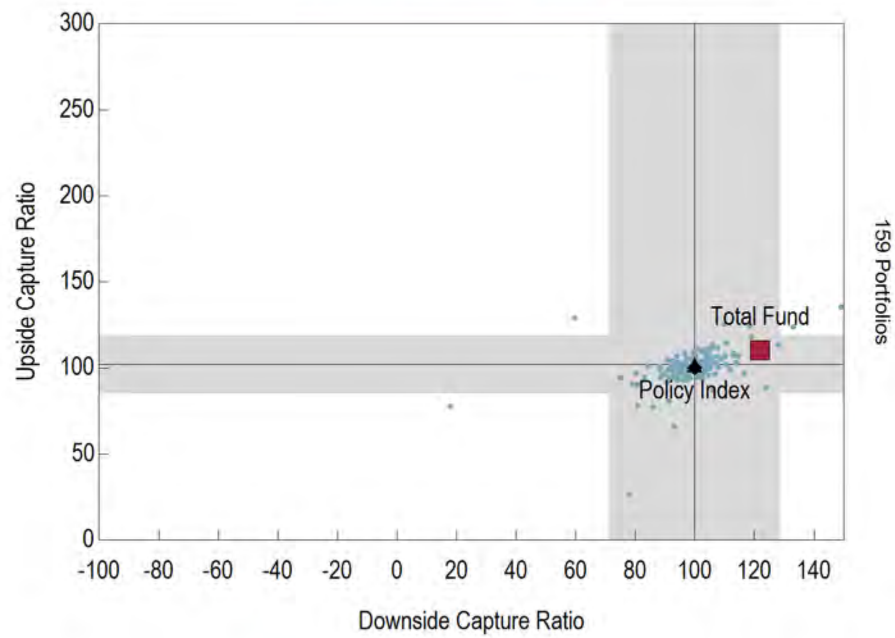
	Anlzd Ret	Ann Excess BM Return	Anlzd Std Dev	Anlzd Alpha	Beta	Tracking Error	R-Squared	Sharpe Ratio	Info Ratio	Up Mkt Cap Ratio	Down Mkt Cap Ratio
Total Fund	8.24%	0.40%	6.18%	-1.22%	1.21	1.79%	0.94	1.31	0.22	110.19%	121.94%

Risk vs. Return



- Total Fund
- Policy Index
- Universe Median
- 68% Confidence Interval
- InvestorForce Public DB Gross

Up Markets vs. Down Markets



- Total Fund
- Policy Index
- Universe Median
- 68% Confidence Interval
- InvestorForce Public DB Gross

	Market Value	% of Portfolio	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	2016	2015	2014	2013	2012
Total Fund	**1,927,763,267**	**100.0**	**4.1**	**10.9**	**12.8**	**5.8**	**8.6**	**5.9**	**8.2**	**-0.3**	**6.9**	**19.8**	**14.3**
Policy Index			*3.8*	*8.2*	*10.6*	*5.9*	*7.8*	*5.9*	*8.2*	*0.2*	*7.5*	*15.4*	*12.3*
InvestorForce Public DB Gross Rank			*65*	*10*	*13*	*34*	*15*	*23*	*31*	*61*	*23*	*12*	*10*
US Equity	**843,624,377**	**43.8**	**5.2**	**17.8**	**20.2**	**8.9**	**13.4**	**7.1**	**12.4**	**-0.2**	**10.9**	**36.9**	**18.8**
US Equity Blended			*5.3*	*16.0*	*19.2*	*9.5*	*13.1*	*7.8*	*13.9*	*-0.1*	*11.6*	*34.3*	*16.7*
Russell 3000			*5.7*	*15.0*	*18.1*	*9.8*	*13.2*	*7.5*	*12.7*	*0.5*	*12.6*	*33.6*	*16.4*
InvestorForce All DB US Eq Gross Rank			*68*	*11*	*14*	*61*	*20*	*71*	*58*	*63*	*54*	*13*	*6*
Mellon S&P 500	98,830,344	5.1	6.1	14.4	17.2	10.4	13.3	7.6	12.0	1.4	13.7	32.4	16.0
S&P 500			*6.1*	*14.4*	*17.2*	*10.4*	*13.3*	*7.5*	*12.0*	*1.4*	*13.7*	*32.4*	*16.0*
eA US Large Cap Core Equity Gross Rank			*44*	*44*	*36*	*25*	*37*	*64*	*31*	*41*	*42*	*58*	*40*
BlackRock Russell 1000 Growth	98,090,949	5.1	8.9	15.1	15.9	11.3	13.4	--	7.2	5.7	13.1	33.5	15.4
Russell 1000 Growth			*8.9*	*15.0*	*15.8*	*11.3*	*13.3*	*--*	*7.1*	*5.7*	*13.0*	*33.5*	*15.3*
eA US Large Cap Growth Equity Gross Rank			*50*	*48*	*45*	*26*	*32*	*--*	*26*	*42*	*37*	*56*	*53*
Jackson Square	133,873,399	6.9	7.6	10.9	9.5	7.3	11.1	8.6	-4.4	5.9	13.8	35.6	17.0
Russell 1000 Growth			*8.9*	*15.0*	*15.8*	*11.3*	*13.3*	*9.1*	*7.1*	*5.7*	*13.0*	*33.5*	*15.3*
eA US Large Cap Growth Equity Gross Rank			*76*	*90*	*97*	*91*	*85*	*59*	*98*	*39*	*32*	*39*	*36*
BlackRock Russell 1000 Value	115,848,970	6.0	3.3	14.0	19.2	8.8	13.2	--	17.3	-3.6	13.5	32.6	17.6
Russell 1000 Value			*3.3*	*14.0*	*19.2*	*8.7*	*13.1*	*--*	*17.3*	*-3.8*	*13.5*	*32.5*	*17.5*
eA US Large Cap Value Equity Gross Rank			*68*	*61*	*35*	*44*	*41*	*--*	*26*	*62*	*31*	*59*	*30*
Dodge & Cox-Equity	203,131,149	10.5	4.8	25.9	28.1	9.8	15.3	6.9	21.4	-3.9	10.9	39.1	22.3
Russell 1000 Value			*3.3*	*14.0*	*19.2*	*8.7*	*13.1*	*5.9*	*17.3*	*-3.8*	*13.5*	*32.5*	*17.5*
eA US Large Cap Value Equity Gross Rank			*26*	*2*	*2*	*19*	*5*	*52*	*6*	*64*	*72*	*15*	*3*
Legato Capital	90,798,804	4.7	4.4	16.3	19.6	4.1	11.7	--	6.4	-0.7	3.0	47.3	18.1
Russell 2000 Growth			*5.3*	*19.2*	*23.0*	*6.7*	*12.1*	*--*	*11.3*	*-1.4*	*5.6*	*43.3*	*14.6*
eA US Small Cap Growth Equity Gross Rank			*76*	*71*	*73*	*75*	*66*	*--*	*79*	*52*	*57*	*41*	*24*
Capital Prospects	103,050,762	5.3	2.1	24.7	28.9	8.3	14.4	--	28.1	-7.0	5.8	37.9	23.8
Russell 2000 Value			*-0.1*	*24.0*	*29.4*	*7.6*	*12.5*	*--*	*31.7*	*-7.5*	*4.2*	*34.5*	*18.1*
eA US Small Cap Value Equity Gross Rank			*26*	*22*	*20*	*53*	*29*	*--*	*40*	*72*	*51*	*53*	*9*

Individual closed end funds are not shown in performance summary table.

	Market Value	% of Portfolio	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	2016	2015	2014	2013	2012
International Equity	**392,215,097**	**20.3**	**7.8**	**15.9**	**15.2**	**1.9**	**5.9**	**2.4**	**5.7**	**-3.7**	**-4.2**	**20.0**	**18.0**
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*
InvestorForce All DB ex-US Eq Gross Rank			*82*	*25*	*26*	*40*	*40*	*32*	*24*	*51*	*70*	*35*	*63*
LSV Asset Mgt	199,376,740	10.3	8.1	20.6	17.9	2.3	6.2	2.2	8.8	-5.1	-4.0	20.4	16.7
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*
eA ACWI ex-US Equity Unhedged Gross Rank			*64*	*6*	*11*	*46*	*57*	*76*	*10*	*86*	*65*	*46*	*78*
Fidelity	192,838,357	10.0	7.5	11.5	12.2	1.5	5.5	2.6	2.4	-2.0	-4.5	19.6	19.3
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*
eA ACWI ex-US Equity Unhedged Gross Rank			*78*	*59*	*50*	*62*	*72*	*72*	*46*	*66*	*70*	*55*	*55*
US Fixed Income	**504,161,172**	**26.2**	**1.3**	**1.4**	**4.0**	**3.6**	**3.7**	**5.5**	**5.4**	**0.3**	**6.2**	**0.3**	**7.9**
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*4.3*	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*
InvestorForce All DB US Fix Inc Gross Rank			*51*	*27*	*31*	*39*	*45*	*42*	*47*	*42*	*42*	*21*	*48*
Dodge & Cox-Fixed	388,598,179	20.2	1.4	1.9	4.7	3.8	4.0	5.7	5.9	0.2	6.5	0.9	8.4
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*4.3*	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*
eA US Core Fixed Inc Gross Rank			*6*	*1*	*2*	*8*	*6*	*6*	*3*	*89*	*26*	*3*	*9*
PIMCO	115,562,993	6.0	1.1	-0.3	1.8	3.0	2.7	--	3.7	0.9	5.0	-2.2	5.8
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*--*	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*
eA US Core Fixed Inc Gross Rank			*28*	*16*	*27*	*48*	*62*	*--*	*29*	*49*	*83*	*89*	*54*
Real Estate	**86,175,088**	**4.5**	**2.0**	**2.8**	**6.9**	**12.7**	**10.4**	**--**	**7.5**	**12.1**	**28.3**	**1.4**	**5.6**
DJ US Select RESI			*-0.3*	*-4.0*	*1.2*	*9.9*	*10.1*	*--*	*6.6*	*4.5*	*31.9*	*1.3*	*16.1*
Prime Property Fund	17,215,373	0.9	1.9	7.2	10.1	--	--	--	10.4	--	--	--	--
NCREIF-ODCE			*1.8*	*6.1*	*8.3*	*--*	*--*	*--*	*8.8*	*--*	*--*	*--*	*--*
American Strategic Value Realty	20,445,785	1.1	2.9	8.8	12.4	--	--	--	13.1	21.4	--	--	--
NCREIF Property Index			*1.6*	*5.1*	*7.3*	*--*	*--*	*--*	*8.0*	*13.3*	*--*	*--*	*--*
BlackRock US Real Estate	34,631,144	1.8	-0.3	-4.0	1.2	9.9	--	--	6.6	4.4	31.9	1.4	--
DJ US Select RESI TR USD			*-0.3*	*-4.0*	*1.2*	*9.9*	*--*	*--*	*6.6*	*4.5*	*31.9*	*1.3*	*--*
eA US REIT Gross Rank			*86*	*81*	*82*	*77*	*--*	*--*	*68*	*58*	*39*	*91*	*--*

Individual closed end funds are not shown in performance summary table.

Total Fund
Performance Summary (Net of Fees)

Period Ending: March 31, 2017

	Market Value	% of Portfolio	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	2016	2015	2014	2013	2012	Return	Since
Total Fund	**1,927,763,267**	**100.0**	**4.1**	**10.6**	**12.4**	**5.4**	**8.2**	**5.6**	**7.7**	**-0.6**	**6.5**	**19.2**	**14.0**	**9.1**	**Dec-94**
Policy Index			*3.8*	*8.2*	*10.6*	*5.9*	*7.8*	*5.9*	*8.2*	*0.2*	*7.5*	*15.4*	*12.3*	*8.1*	*Dec-94*
US Equity	**843,624,377**	**43.8**	**5.2**	**17.6**	**19.8**	**8.6**	**13.1**	**6.8**	**12.1**	**-0.4**	**10.7**	**36.5**	**18.5**	**6.7**	**Jun-01**
US Equity Blended			*5.3*	*16.0*	*19.2*	*9.5*	*13.1*	*7.8*	*13.9*	*-0.1*	*11.6*	*34.3*	*16.7*	*6.9*	*Jun-01*
Russell 3000			*5.7*	*15.0*	*18.1*	*9.8*	*13.2*	*7.5*	*12.7*	*0.5*	*12.6*	*33.6*	*16.4*	*6.7*	*Jun-01*
Mellon S&P 500	98,830,344	5.1	6.1	14.4	17.2	10.4	13.3	7.5	11.9	1.4	13.7	32.4	16.0	9.3	Apr-03
S&P 500			*6.1*	*14.4*	*17.2*	*10.4*	*13.3*	*7.5*	*12.0*	*1.4*	*13.7*	*32.4*	*16.0*	*9.3*	*Apr-03*
BlackRock Russell 1000 Growth	98,090,949	5.1	8.9	15.1	15.8	11.3	13.4	--	7.2	5.7	13.1	33.5	15.4	16.4	Jun-10
Russell 1000 Growth			*8.9*	*15.0*	*15.8*	*11.3*	*13.3*	--	*7.1*	*5.7*	*13.0*	*33.5*	*15.3*	*16.4*	*Jun-10*
Jackson Square	133,873,399	6.9	7.4	10.4	9.0	6.9	10.6	8.1	-4.9	5.5	13.4	34.9	16.6	8.5	Aug-06
Russell 1000 Growth			*8.9*	*15.0*	*15.8*	*11.3*	*13.3*	*9.1*	*7.1*	*5.7*	*13.0*	*33.5*	*15.3*	*9.6*	*Aug-06*
BlackRock Russell 1000 Value	115,848,970	6.0	3.3	14.0	19.2	8.7	13.2	--	17.3	-3.6	13.5	32.6	17.6	14.0	Jul-09
Russell 1000 Value			*3.3*	*14.0*	*19.2*	*8.7*	*13.1*	--	*17.3*	*-3.8*	*13.5*	*32.5*	*17.5*	*13.9*	*Jul-09*
Dodge & Cox-Equity	203,131,149	10.5	4.8	25.8	27.9	9.7	15.1	6.7	21.2	-4.0	10.7	38.8	22.1	12.3	Dec-94
Russell 1000 Value			*3.3*	*14.0*	*19.2*	*8.7*	*13.1*	*5.9*	*17.3*	*-3.8*	*13.5*	*32.5*	*17.5*	*10.2*	*Dec-94*
Legato Capital	90,798,804	4.7	4.2	15.6	18.7	3.4	11.0	--	5.6	-1.3	2.5	46.0	17.4	15.1	Dec-08
Russell 2000 Growth			*5.3*	*19.2*	*23.0*	*6.7*	*12.1*	--	*11.3*	*-1.4*	*5.6*	*43.3*	*14.6*	*15.9*	*Dec-08*
Capital Prospects	103,050,762	5.3	1.9	24.0	28.0	7.6	13.7	--	27.1	-7.5	5.2	36.8	23.2	15.6	Dec-08
Russell 2000 Value			*-0.1*	*24.0*	*29.4*	*7.6*	*12.5*	--	*31.7*	*-7.5*	*4.2*	*34.5*	*18.1*	*13.6*	*Dec-08*
International Equity	**392,215,097**	**20.3**	**7.7**	**15.6**	**14.7**	**1.5**	**5.4**	**1.9**	**5.0**	**-4.0**	**-4.5**	**19.4**	**17.5**	**5.3**	**Jun-01**
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*	*6.0*	*Jun-01*
LSV Asset Mgt	199,376,740	10.3	7.9	20.1	17.2	1.9	5.8	1.7	8.2	-5.4	-4.2	19.8	16.2	6.5	Aug-04
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*	*6.5*	*Aug-04*
Fidelity	192,838,357	10.0	7.5	11.2	11.8	1.0	5.1	2.1	1.8	-2.3	-4.9	19.1	18.8	3.0	Apr-06
MSCI ACWI ex USA Gross			*8.0*	*14.2*	*13.7*	*1.0*	*4.8*	*1.8*	*5.0*	*-5.3*	*-3.4*	*15.8*	*17.4*	*2.9*	*Apr-06*
US Fixed Income	**504,161,172**	**26.2**	**1.3**	**1.3**	**3.9**	**3.5**	**3.6**	**5.4**	**5.2**	**0.2**	**6.1**	**0.1**	**7.7**	**5.7**	**Jun-01**
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*4.3*	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*	*4.7*	*Jun-01*
Dodge & Cox-Fixed	388,598,179	20.2	1.3	1.8	4.6	3.7	3.9	5.5	5.7	0.1	6.4	0.8	8.3	6.7	Dec-94
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	*4.3*	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*	*5.7*	*Dec-94*
PIMCO	115,562,993	6.0	1.0	-0.6	1.4	2.7	2.4	--	3.4	0.6	4.7	-2.5	5.5	3.5	May-10
BBgBarc US Aggregate TR			*0.8*	*-1.7*	*0.4*	*2.7*	*2.3*	--	*2.6*	*0.6*	*6.0*	*-2.0*	*4.2*	*3.3*	*May-10*

Individual closed end funds are not shown in performance summary table.

Performance Summary (Net of Fees)

Period Ending: March 31, 2017

	Market Value	% of Portfolio	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	2016	2015	2014	2013	2012	Return	Since
Real Estate	**86,175,088**	**4.5**	**2.0**	**2.5**	**6.3**	**11.6**	**9.1**	**--**	**6.6**	**10.5**	**27.4**	**1.3**	**2.7**	**2.9**	**Feb-08**
DJ US Select RESI			*-0.3*	*-4.0*	*1.2*	*9.9*	*10.1*	*--*	*6.6*	*4.5*	*31.9*	*1.3*	*16.1*	*5.3*	*Feb-08*
Prime Property Fund	17,215,373	0.9	1.9	6.7	9.3	--	--	--	9.2	--	--	--	--	9.6	Sep-15
NCREIF-ODCE			*1.8*	*6.1*	*8.3*	*--*	*--*	*--*	*8.8*	*--*	*--*	*--*	*--*	*9.4*	*Sep-15*
American Strategic Value Realty	20,445,785	1.1	2.9	8.3	11.4	--	--	--	11.7	18.3	--	--	--	14.6	Dec-14
NCREIF Property Index			*1.6*	*5.1*	*7.3*	*--*	*--*	*--*	*8.0*	*13.3*	*--*	*--*	*--*	*10.1*	*Dec-14*
BlackRock US Real Estate	34,631,144	1.8	-0.3	-4.1	1.1	9.9	--	--	6.6	4.4	31.9	1.3	--	9.7	Sep-12
DJ US Select RESI TR USD			*-0.3*	*-4.0*	*1.2*	*9.9*	*--*	*--*	*6.6*	*4.5*	*31.9*	*1.3*	*--*	*9.7*	*Sep-12*

Individual closed end funds are not shown in performance summary table.

			Verus Internal Analysis							
Inception Date	Manager Name/Fund Name	Estimated Market Value as of 3/31/2017[3]	Total Commitment	Capital Called	% Called	Remaining Commitment	Total Distributions	Distrib./ Paid-In (DPI)[1]	Tot. Value/ Paid-In (TVPI)[2]	Latest Valuation
Real Estate										
07/31/2014	Greenfield Gap	$13,882,786	$15,000,000	$11,021,141	73%	$3,978,859	$0	0.0%	*126.0%*	12/31/2016
	Total Real Estate	**$13,882,786**	$15,000,000	$11,021,141	73%	$3,978,859	$0	0.0%	*126.0%*	
	% of Portfolio (Market Value)	***0.7%***								
Direct Lending										
05/31/2013	Medley Capital	$24,639,459	$30,000,000	$29,000,453	97%	$999,547	$14,682,600	50.6%	*135.6%*	12/31/2016
05/31/2013	Raven Capital	$15,336,447	$40,000,000	$34,505,763	86%	$5,494,237	$20,209,551	58.6%	*103.0%*	12/31/2016
07/31/2015	Raven Opportunity III	$13,885,308	$50,000,000	$15,846,506	32%	$34,153,494	$200,411	1.3%	*88.9%*	12/31/2016
08/31/2013	White Oak Pinnacle	$35,350,330	$40,000,000	$40,000,000 [4]	100%	$5,153,060	$28,396,808	71.0%	*159.4%*	12/31/2016
	Total Direct Lending	**$89,211,544**	$160,000,000	$119,352,722	75%	$45,800,338	$63,489,370	53.2%	*127.9%*	
	% of Portfolio (Market Value)	***4.6%***								
Infrastructure										
05/31/2015	MS Infrastructure Partners II	$12,187,815	$50,000,000	$13,276,443	27%	$36,723,557	$122,400	0.9%	*92.7%*	12/31/2016
	Total Infrastructure	**$12,187,815**	$50,000,000	$13,276,443	27%	$36,723,557	$122,400	0.9%	*92.7%*	
	% of Portfolio (Market Value)	***0.6%***								

1 (DPI) is equal to (capital returned / capital called)
2 (TVPI) is equal to (market value + capital returned) / capital called
3 Last known market value + capital calls - distributions
4 Includes deemed contributions, which are amounts withheld from distributions and applied to fulfill capital calls.

Real Estate	Inception	Fund Level (G)	StanCERA (G)	Fund Level (N)	StanCERA (N)	IRR Date
Greenfield Gap	07/31/2014	16.3%	21.1%	15.5%	15.0%	12/31/2016
Direct Lending						
Medley Capital	05/31/2013	8.9%	7.9%	7.0%	5.4%	12/31/2016
Raven Capital	05/31/2013	5.1%	5.1%	1.4%	1.3%	12/31/2016
Raven Opportunity III	07/31/2015	1.9%	1.9%	-15.3%	-15.3%	12/31/2016
White Oak Pinnacle	08/31/2013	13.8%	14.5%	8.6%	9.0%	12/31/2016
Infrastructure						
MS Infrastructure Partners II	05/31/2015	7.8%	7.2%	-4.2%	-7.6%	12/31/2016

IRR information provided by managers.

3 Years

	Anlzd Ret	Ann Excess BM Return	Anlzd Std Dev	Anlzd Alpha	Beta	Tracking Error	R-Squared	Sharpe Ratio	Info Ratio	Up Mkt Cap Ratio	Down Mkt Cap Ratio
Mellon S&P 500	10.37%	0.00%	7.15%	0.01%	1.00	0.03%	1.00	1.43	-0.06	99.93%	99.75%
BlackRock Russell 1000 Growth	11.32%	0.05%	7.58%	0.05%	1.00	0.05%	1.00	1.47	0.96	100.43%	100.07%
Jackson Square	6.90%	-4.37%	11.16%	-7.67%	1.29	5.80%	0.77	0.60	-0.75	69.61%	136.05%
BlackRock Russell 1000 Value	8.75%	0.08%	8.22%	0.12%	1.00	0.07%	1.00	1.04	1.08	100.31%	98.83%
Dodge & Cox-Equity	9.67%	1.00%	10.21%	0.37%	1.07	5.11%	0.75	0.93	0.20	112.24%	107.58%
Legato Capital	3.39%	-3.33%	13.34%	-3.12%	0.97	2.97%	0.95	0.24	-1.12	80.69%	107.96%
Capital Prospects	7.62%	0.00%	12.54%	0.93%	0.88	2.85%	0.97	0.59	0.00	88.14%	81.92%
LSV Asset Mgt	1.88%	0.85%	12.48%	0.77%	1.08	2.78%	0.96	0.14	0.30	113.30%	102.19%
Fidelity	1.04%	0.01%	10.40%	0.11%	0.90	2.30%	0.96	0.08	0.00	95.00%	95.46%
Dodge & Cox-Fixed	3.68%	1.00%	2.73%	1.88%	0.67	1.84%	0.72	1.29	0.54	97.27%	39.36%
PIMCO	2.73%	0.04%	3.01%	0.43%	0.86	0.70%	0.97	0.85	0.06	91.08%	77.07%
BlackRock US Real Estate	9.86%	-0.07%	12.91%	-0.07%	1.00	0.05%	1.00	0.75	-1.38	99.65%	100.34%

5 Years

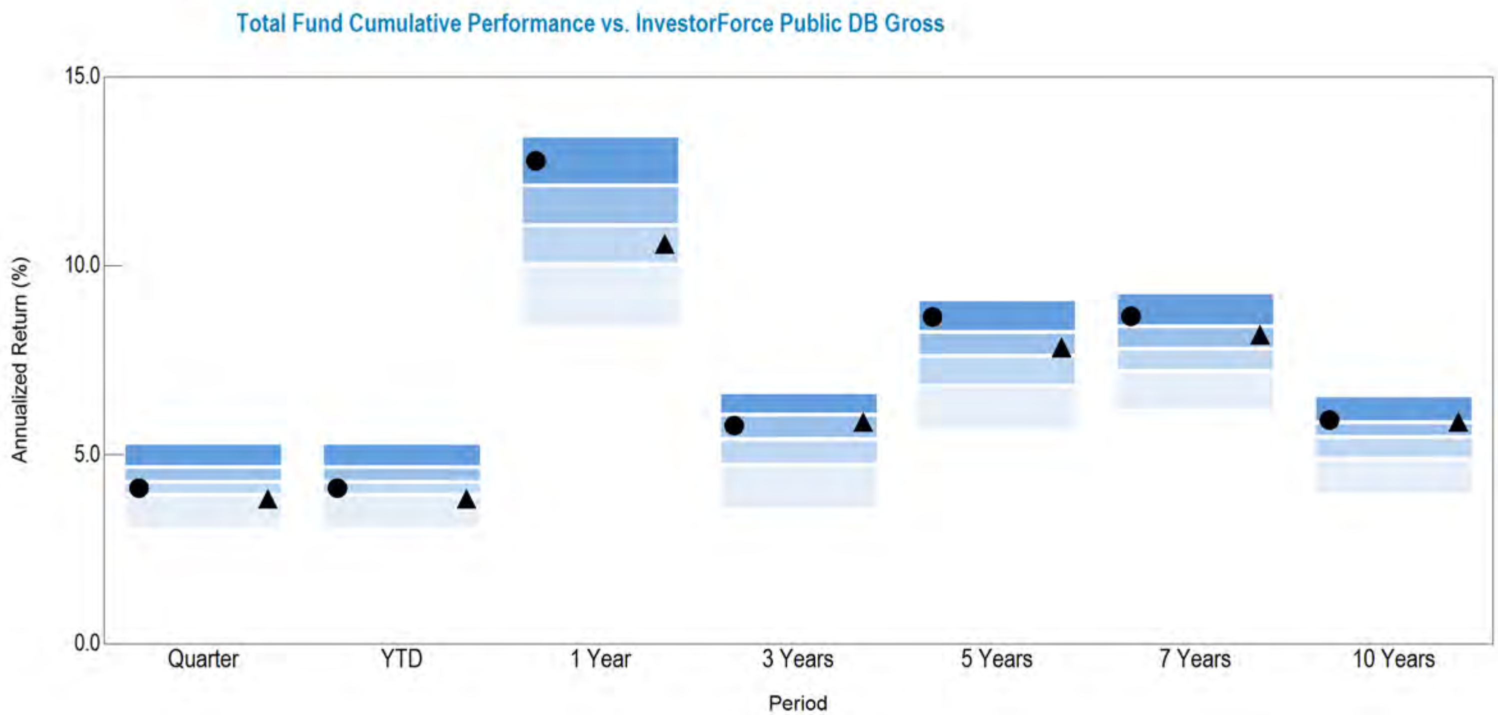
	Anlzd Ret	Ann Excess BM Return	Anlzd Std Dev	Anlzd Alpha	Beta	Tracking Error	R-Squared	Sharpe Ratio	Info Ratio	Up Mkt Cap Ratio	Down Mkt Cap Ratio
Mellon S&P 500	13.30%	-0.01%	8.18%	0.01%	1.00	0.02%	1.00	1.61	-0.23	99.89%	99.65%
BlackRock Russell 1000 Growth	13.36%	0.04%	8.74%	0.05%	1.00	0.05%	1.00	1.51	0.88	100.29%	99.67%
Jackson Square	10.62%	-2.70%	11.53%	-5.64%	1.22	4.77%	0.86	0.91	-0.57	82.37%	121.12%
BlackRock Russell 1000 Value	13.19%	0.06%	8.84%	0.09%	1.00	0.06%	1.00	1.48	0.93	100.25%	99.04%
Dodge & Cox-Equity	15.14%	2.01%	10.25%	1.26%	1.06	4.20%	0.83	1.46	0.48	119.94%	108.39%
Legato Capital	10.97%	-1.13%	13.19%	-1.00%	0.99	2.88%	0.95	0.82	-0.39	91.23%	99.60%
Capital Prospects	13.71%	1.16%	12.14%	1.81%	0.95	3.03%	0.94	1.12	0.38	102.38%	86.19%
LSV Asset Mgt	5.78%	0.94%	12.50%	0.53%	1.09	2.38%	0.97	0.45	0.40	114.05%	103.68%
Fidelity	5.10%	0.27%	10.65%	0.65%	0.92	2.33%	0.96	0.47	0.11	94.76%	91.11%
Dodge & Cox-Fixed	3.91%	1.57%	2.65%	2.21%	0.73	1.58%	0.75	1.43	0.99	110.33%	27.38%
PIMCO	2.42%	0.09%	3.09%	0.20%	0.95	0.72%	0.95	0.74	0.12	98.39%	91.33%

Performance Analysis excludes closed end funds and those funds without 3 and 5 years of performance.

Total Fund
Investment Fund Fee Analysis
Period Ending: March 31, 2017

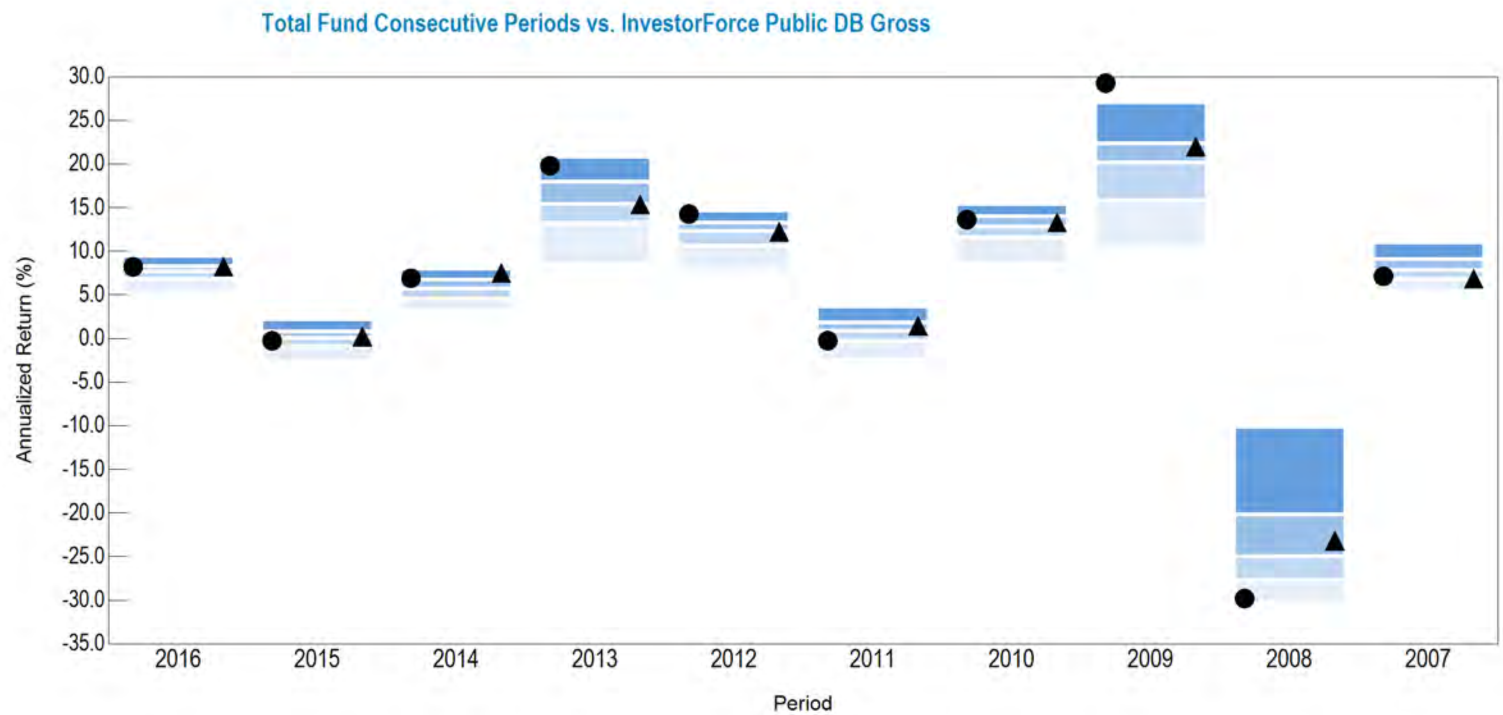
Name	Asset Class	Fee Schedule	Market Value	Estimated Fee Value	Estimated Fee
Mellon S&P 500	Domestic Equity	0.04% of Assets	$98,830,344	$34,591	0.04%
BlackRock Russell 1000 Growth	Domestic Equity	0.02% of Assets	$98,090,949	$19,618	0.02%
Jackson Square	Domestic Equity	0.50% of First $100.0 Mil, 0.45% Thereafter	$133,873,399	$652,430	0.49%
BlackRock Russell 1000 Value	Domestic Equity	0.02% of Assets	$115,848,970	$23,170	0.02%
Dodge & Cox-Equity	Domestic Equity	0.40% of First $10.0 Mil, 0.20% of Next $90.0 Mil, 0.15% Thereafter	$203,131,149	$374,697	0.18%
Legato Capital		0.77% of Assets	$90,798,804	$699,151	0.77%
Capital Prospects		0.75% of Assets	$103,050,762	$772,881	0.75%
LSV Asset Mgt	International Equity	0.75% of First $25.0 Mil, 0.65% of Next $25.0 Mil, 0.55% of Next $50.0 Mil, 0.45% Thereafter	$199,376,740	$1,072,195	0.54%
Fidelity	International Equity	0.25% of Assets	$192,838,357	$482,096	0.25%
Dodge & Cox-Fixed	Domestic Fixed Income	0.40% of First $4.0 Mil, 0.30% of Next $6.0 Mil, 0.20% of Next $10.0 Mil, 0.10% Thereafter	$388,598,179	$422,598	0.11%
PIMCO	Domestic Fixed Income	0.50% of First $25.0 Mil, 0.38% of Next $25.0 Mil, 0.25% Thereafter	$115,562,993	$382,657	0.33%
Prime Property Fund	Real Estate	0.84% of Assets	$17,215,373	$144,609	0.84%
American Strategic Value Realty	Real Estate	1.25% of First $10.0 Mil, 1.20% of Next $15.0 Mil, 1.10% of Next $25.0 Mil, 1.00% Thereafter	$20,445,785	$250,349	1.22%
BlackRock US Real Estate	Real Estate	0.09% of First $100.0 Mil, 0.07% Thereafter	$34,631,144	$31,168	0.09%
Cash Account	Cash and Equivalents	0.10% of Assets	$188,174	$188	0.10%
Total			**$1,812,481,122**	**$5,362,398**	**0.30%**

Closed end funds excluded from fee analysis. Fidelity has performance based fees which are not included in the analysis above; fee shown is the annual base fee only.



Return (Rank)

	Quarter		YTD		1 Year		3 Years		5 Years		7 Years		10 Years	
5th Percentile	5.3		5.3		13.4		6.6		9.1		9.3		6.6	
25th Percentile	4.7		4.7		12.1		6.1		8.3		8.4		5.9	
Median	4.3		4.3		11.1		5.4		7.6		7.8		5.5	
75th Percentile	4.0		4.0		10.1		4.8		6.8		7.2		4.9	
95th Percentile	3.1		3.1		8.4		3.6		5.6		6.2		4.0	
# of Portfolios	257		257		249		228		210		181		166	
● Total Fund	4.1	(65)	4.1	(65)	12.8	(13)	5.8	(34)	8.6	(15)	8.7	(19)	5.9	(23)
▲ Policy Index	3.8	(82)	3.8	(82)	10.6	(63)	5.9	(31)	7.8	(42)	8.2	(38)	5.9	(27)



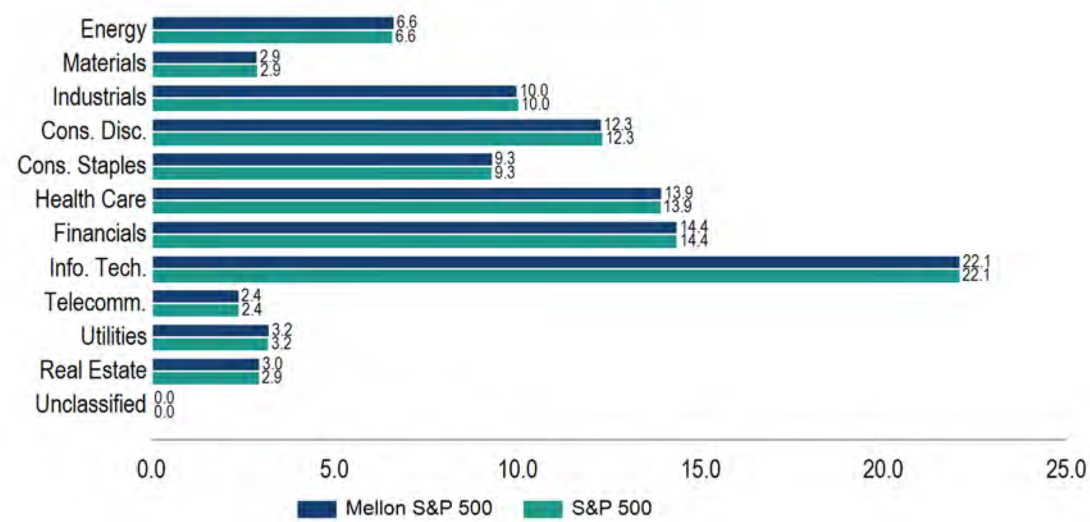
Return (Rank)	2016		2015		2014		2013		2012		2011		2010		2009		2008		2007	
5th Percentile	9.4		2.2		8.0		20.8		14.6		3.6		15.4		27.0		-10.1		11.0	
25th Percentile	8.4		0.9		6.8		18.0		13.4		1.9		14.0		22.4		-20.1		9.1	
Median	7.7		0.1		5.8		15.5		12.4		0.9		12.9		20.2		-24.9		7.9	
75th Percentile	6.9		-0.9		4.6		13.3		10.7		-0.3		11.7		15.9		-27.6		6.9	
95th Percentile	5.3		-2.6		3.2		8.5		7.8		-2.5		8.6		10.5		-30.3		5.4	
# of Portfolios	305		316		248		231		236		206		188		184		181		177	
● Total Fund	8.2	(31)	-0.3	(61)	6.9	(23)	19.8	(12)	14.3	(10)	-0.3	(75)	13.6	(35)	29.3	(1)	-29.8	(92)	7.1	(68)
▲ Policy Index	8.2	(29)	0.2	(46)	7.5	(12)	15.4	(52)	12.3	(53)	1.4	(35)	13.3	(42)	22.0	(29)	-23.2	(37)	6.9	(76)

Domestic Equity Managers

Characteristics

	Portfolio	S&P 500
Number of Holdings	500	505
Weighted Avg. Market Cap. ($B)	152.19	151.40
Median Market Cap. ($B)	19.87	19.87
Price To Earnings	24.60	23.73
Price To Book	4.89	4.42
Price To Sales	3.59	3.31
Return on Equity (%)	21.00	18.81
Yield (%)	2.02	2.02
Beta	1.00	1.00

Sector Allocation (%) vs S&P 500



Largest Holdings

	End Weight	Return
APPLE	3.72	24.57
MICROSOFT	2.51	6.63
ALPHABET 'C'	2.45	7.48
AMAZON.COM	1.73	18.23
EXXON MOBIL	1.68	-8.30
JOHNSON & JOHNSON	1.67	8.81
FACEBOOK CLASS A	1.65	23.47
BERKSHIRE HATHAWAY 'B'	1.56	2.27
JP MORGAN CHASE & CO.	1.55	2.36
GENERAL ELECTRIC	1.28	-4.94

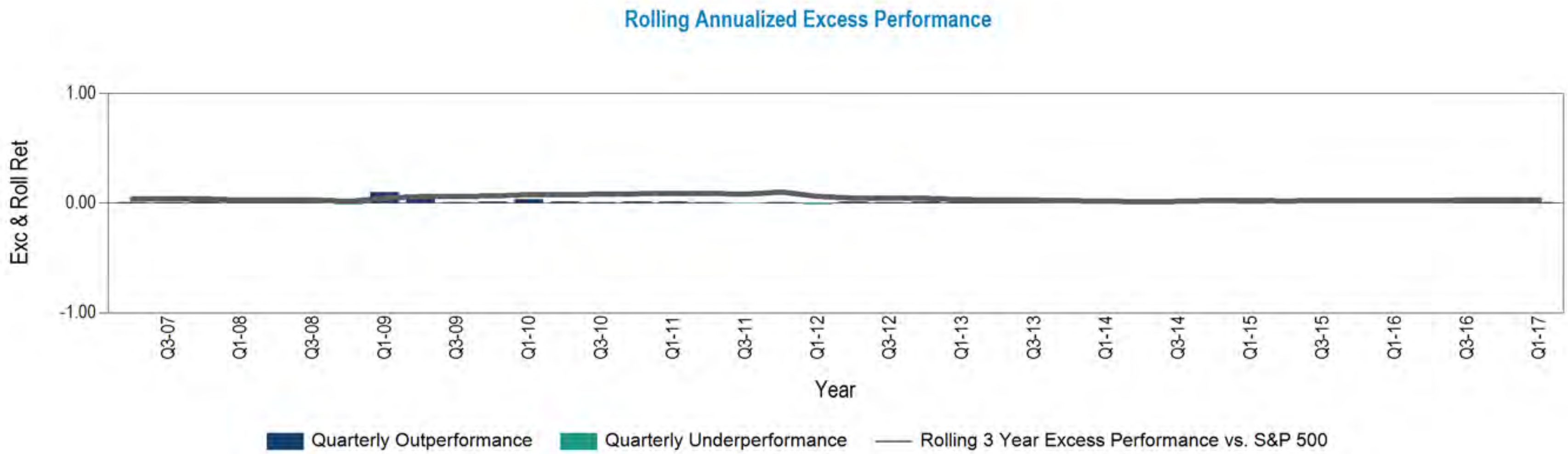
Top Contributors

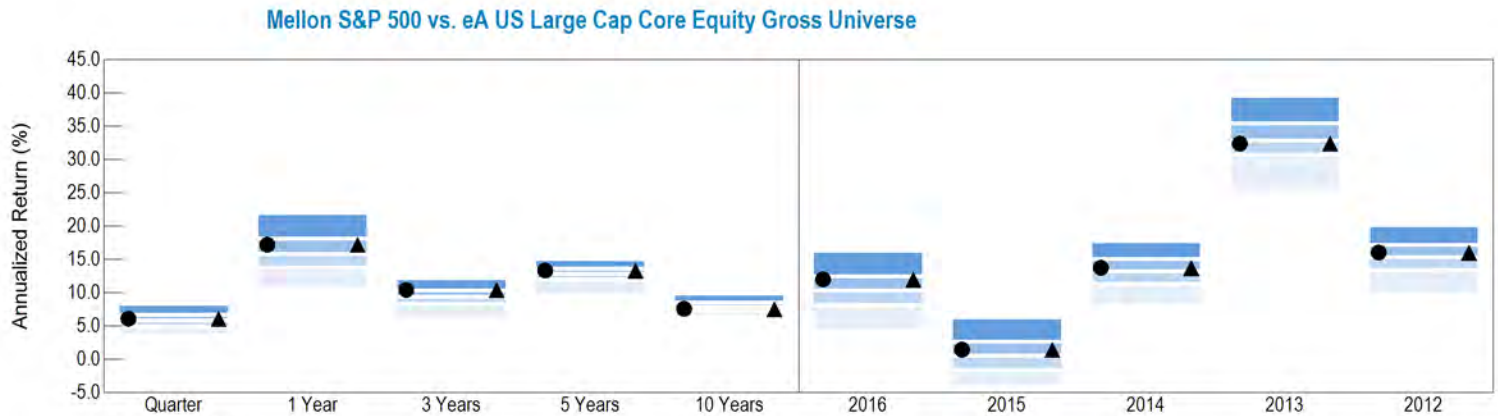
	Avg Wgt	Return	Contribution
APPLE	3.36	24.57	0.83
FACEBOOK CLASS A	1.50	23.47	0.35
AMAZON.COM	1.61	18.23	0.29
PHILIP MORRIS INTL.	0.78	24.53	0.19
ALPHABET 'C'	2.43	7.48	0.18
MICROSOFT	2.50	6.63	0.17
JOHNSON & JOHNSON	1.61	8.81	0.14
VISA 'A'	0.78	14.12	0.11
CISCO SYSTEMS	0.81	12.81	0.10
ORACLE	0.61	16.47	0.10

Bottom Contributors

	Avg Wgt	Return	Contribution
EXXON MOBIL	1.79	-8.30	-0.15
CHEVRON	1.09	-7.90	-0.09
VERIZON COMMUNICATIONS	1.05	-7.68	-0.08
GENERAL ELECTRIC	1.36	-4.94	-0.07
QUALCOMM	0.44	-11.23	-0.05
TARGET	0.18	-22.88	-0.04
SCHLUMBERGER	0.58	-6.40	-0.04
BRISTOL MYERS SQUIBB	0.47	-6.33	-0.03
OCCIDENTAL PTL.	0.26	-9.96	-0.03
KROGER	0.16	-14.24	-0.02

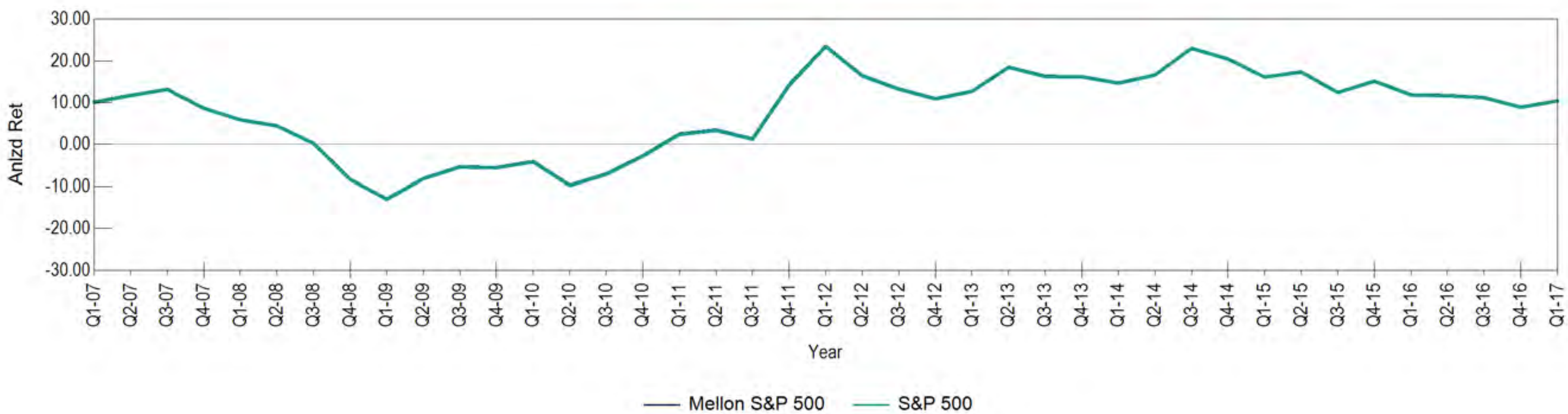
Unclassified sector allocation includes cash allocations.



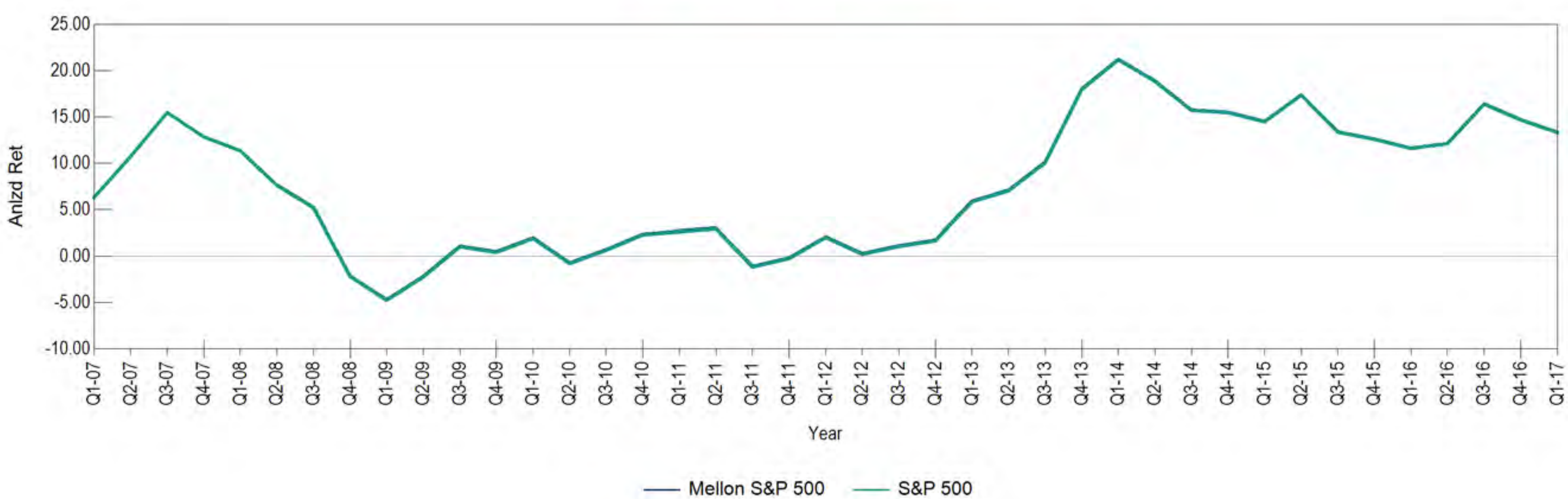


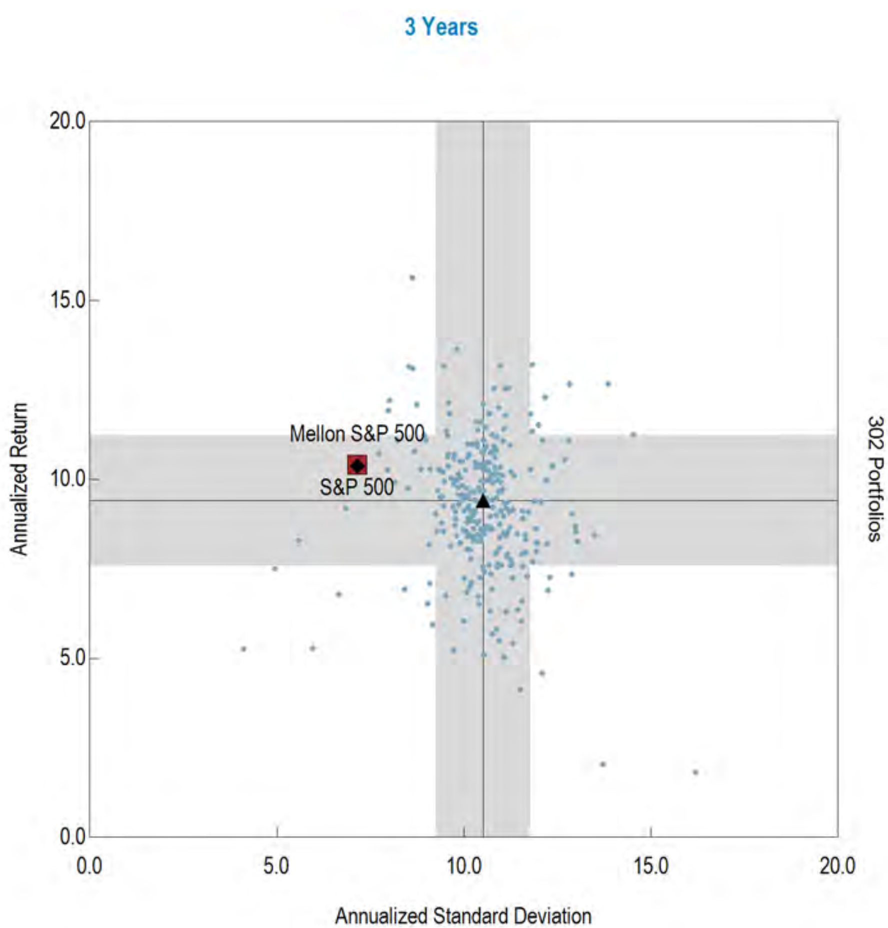
Return (Rank)	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
5th Percentile	8.2		21.9		12.1		15.0		9.8		16.3		6.3		17.7		39.6		20.1	
25th Percentile	6.7		18.1		10.4		13.7		8.5		12.5		2.7		15.1		35.5		17.2	
Median	5.9		15.9		9.4		12.9		7.9		10.4		0.6		13.3		32.9		15.4	
75th Percentile	5.0		13.9		8.3		12.0		7.3		8.2		-1.6		11.4		30.8		13.4	
95th Percentile	3.6		10.7		6.1		9.6		6.4		4.3		-4.1		8.2		25.4		9.8	
# of Portfolios	309		309		302		279		228		308		267		267		261		254	
● Mellon S&P 500	6.1	(44)	17.2	(36)	10.4	(25)	13.3	(37)	7.6	(64)	12.0	(31)	1.4	(41)	13.7	(42)	32.4	(58)	16.0	(40)
▲ S&P 500	6.1	(44)	17.2	(36)	10.4	(26)	13.3	(38)	7.5	(67)	12.0	(31)	1.4	(42)	13.7	(42)	32.4	(58)	16.0	(41)

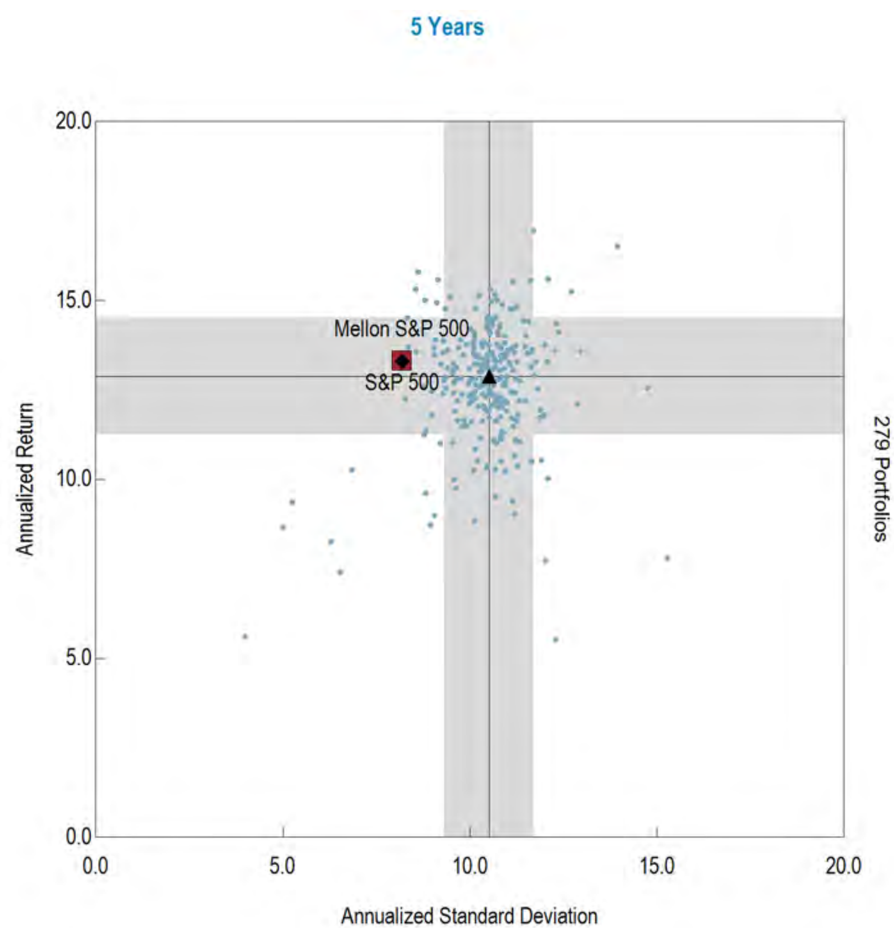
Rolling 3 Year Annualized Return (%)



Rolling 5 Year Annualized Return (%)







3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Mellon S&P 500	10.4%	7.1%	1.4
S&P 500	10.4%	7.2%	1.4
eA US Large Cap Core Equity Gross Median	9.4%	10.5%	0.9

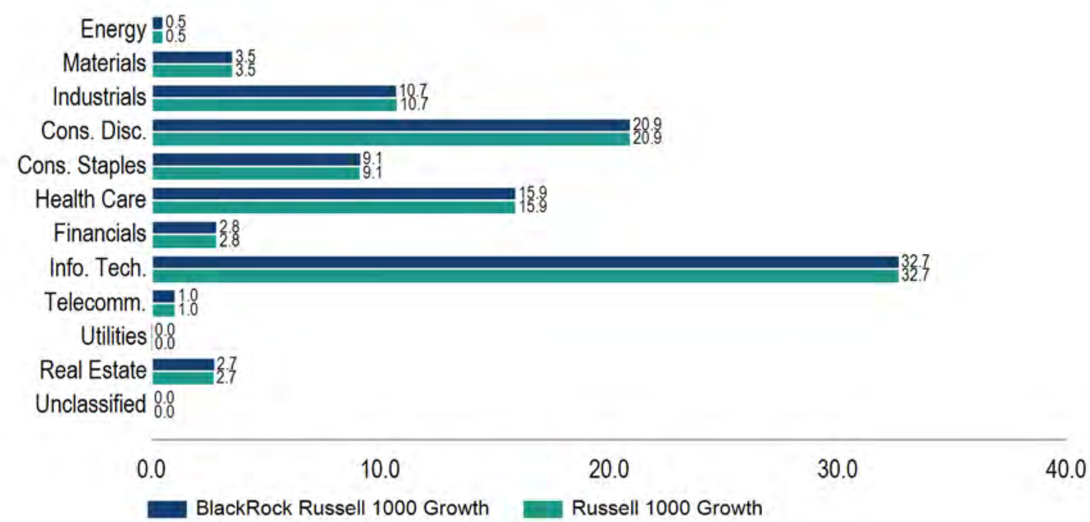
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Mellon S&P 500	13.3%	8.2%	1.6
S&P 500	13.3%	8.2%	1.6
eA US Large Cap Core Equity Gross Median	12.9%	10.5%	1.2

Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	608	609
Weighted Avg. Market Cap. ($B)	159.74	159.72
Median Market Cap. ($B)	9.27	9.27
Price To Earnings	26.87	26.16
Price To Book	7.52	7.12
Price To Sales	4.27	4.01
Return on Equity (%)	28.92	28.54
Yield (%)	1.51	1.51
Beta	1.00	1.00

Sector Allocation (%) vs Russell 1000 Growth



Largest Holdings

	End Weight	Return
APPLE	6.34	24.57
MICROSOFT	4.38	6.63
AMAZON.COM	3.03	18.23
FACEBOOK CLASS A	2.80	23.47
ALPHABET 'A'	2.19	6.98
ALPHABET 'C'	2.16	7.48
WALT DISNEY	1.62	8.80
HOME DEPOT	1.61	10.18
VISA 'A'	1.49	14.12
COMCAST 'A'	1.47	8.88

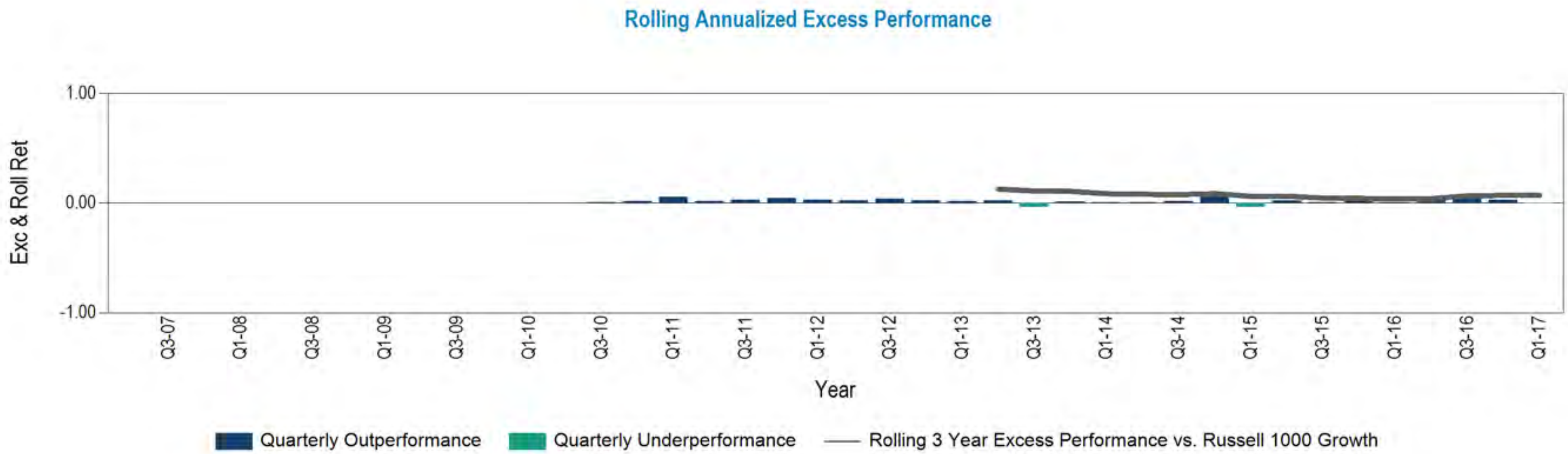
Top Contributors

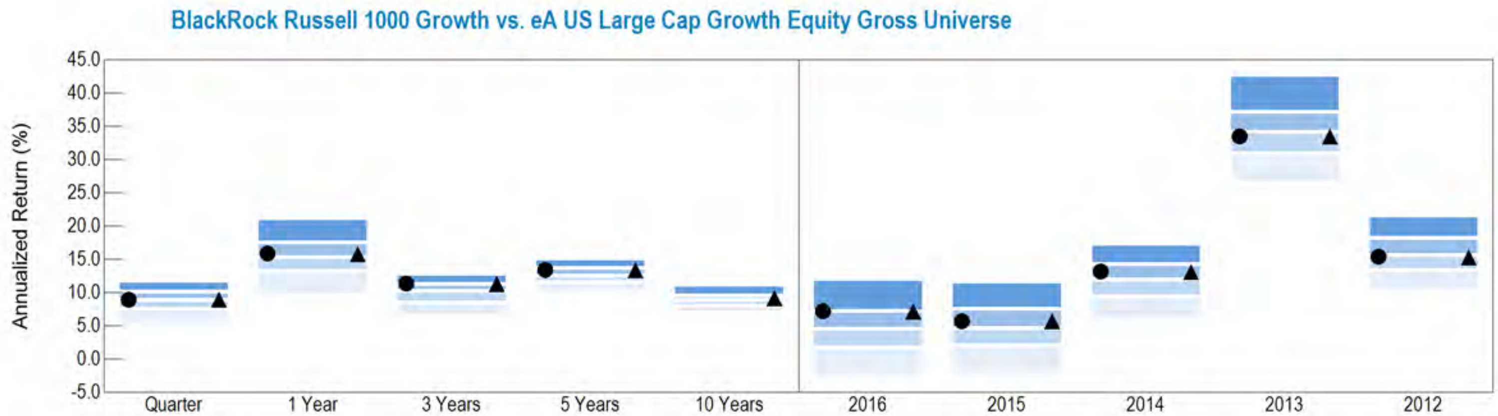
	Avg Wgt	Return	Contribution
APPLE	5.74	24.57	1.41
FACEBOOK CLASS A	2.61	23.47	0.61
AMAZON.COM	2.88	18.23	0.52
MICROSOFT	4.43	6.63	0.29
VISA 'A'	1.45	14.12	0.20
AVAGO TECHNOLOGIES	0.68	24.44	0.17
ALPHABET 'C'	2.17	7.48	0.16
HOME DEPOT	1.59	10.18	0.16
PRICELINE GROUP	0.72	21.41	0.15
ALPHABET 'A'	2.21	6.98	0.15

Bottom Contributors

	Avg Wgt	Return	Contribution
VERIZON COMMUNICATIONS	0.95	-7.68	-0.07
BRISTOL MYERS SQUIBB	0.84	-6.33	-0.05
KROGER	0.29	-14.24	-0.04
UNITED PARCEL SER.'B'	0.70	-5.68	-0.04
GILEAD SCIENCES	0.87	-4.43	-0.04
RITE AID	0.06	-48.42	-0.03
APACHE	0.14	-18.71	-0.03
GENERAL ELECTRIC	0.50	-4.94	-0.02
QUALCOMM	0.16	-11.23	-0.02
AUTOZONE	0.20	-8.45	-0.02

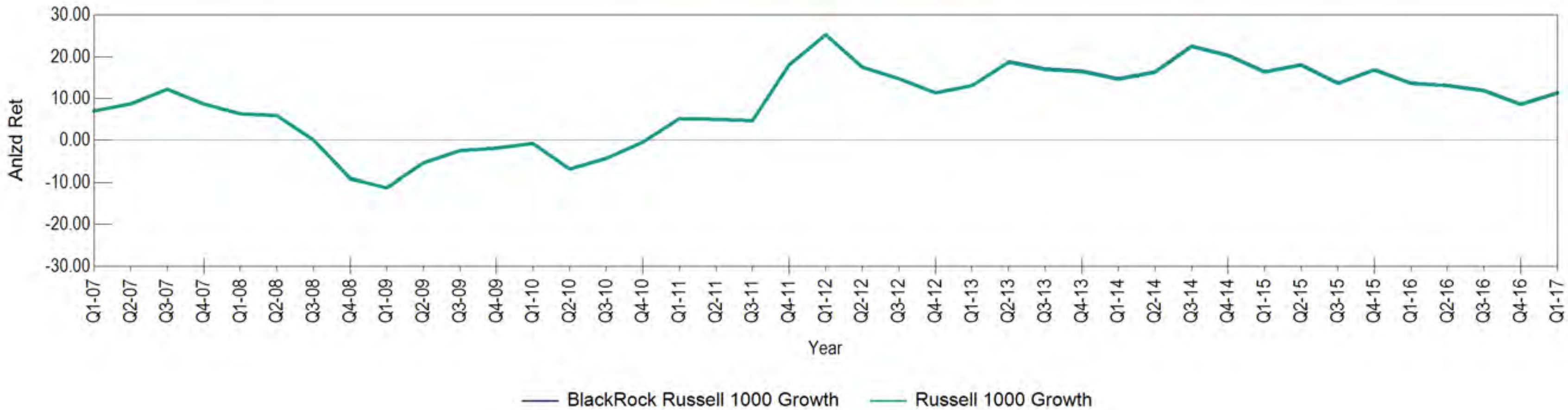
Unclassified sector allocation includes cash allocations.



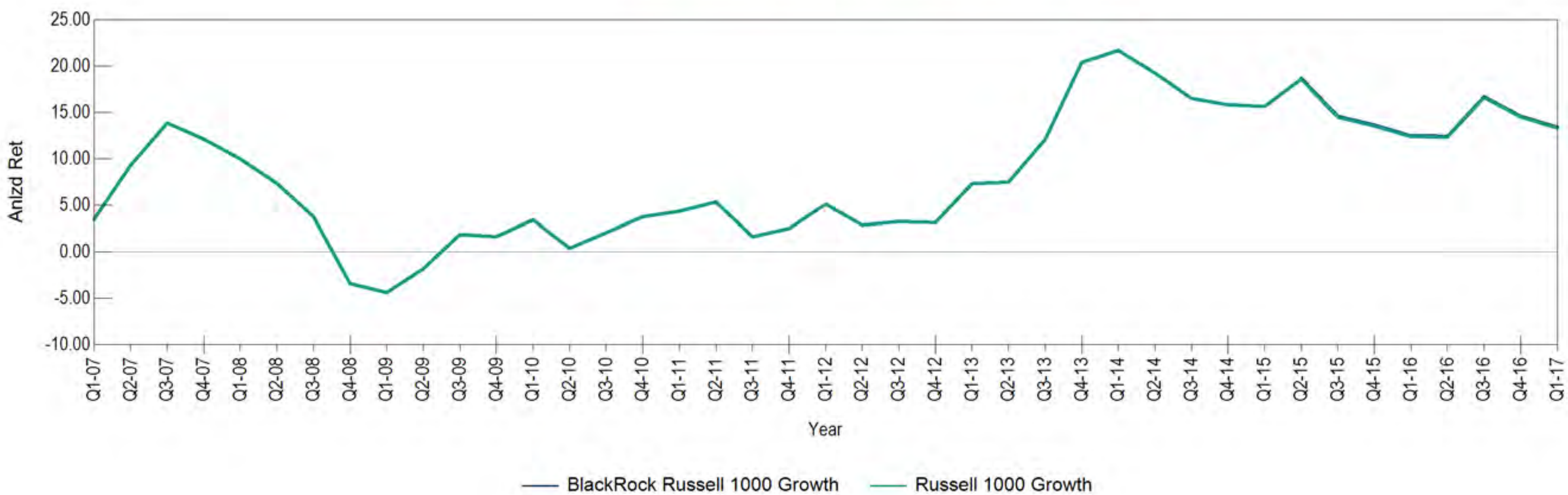


	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
	Return (Rank)																			
5th Percentile	11.7		21.2		12.8		15.1		11.2		12.0		11.6		17.3		42.8		21.6	
25th Percentile	10.2		17.6		11.3		13.7		9.7		7.3		7.6		14.3		37.3		18.2	
Median	8.9		15.4		10.2		12.6		8.9		4.6		4.7		12.0		34.3		15.7	
75th Percentile	7.6		13.3		8.6		11.7		8.1		1.8		2.1		9.5		31.0		13.4	
95th Percentile	5.4		9.7		6.4		10.0		6.9		-2.7		-2.4		5.8		26.6		10.2	
# of Portfolios	269		269		266		250		219		282		270		291		274		274	
● BlackRock Russell 1000 Growth	8.9	(50)	15.9	(45)	11.3	(26)	13.4	(32)	--	(--)	7.2	(26)	5.7	(42)	13.1	(37)	33.5	(56)	15.4	(53)
▲ Russell 1000 Growth	8.9	(50)	15.8	(47)	11.3	(27)	13.3	(33)	9.1	(46)	7.1	(26)	5.7	(42)	13.0	(38)	33.5	(56)	15.3	(55)

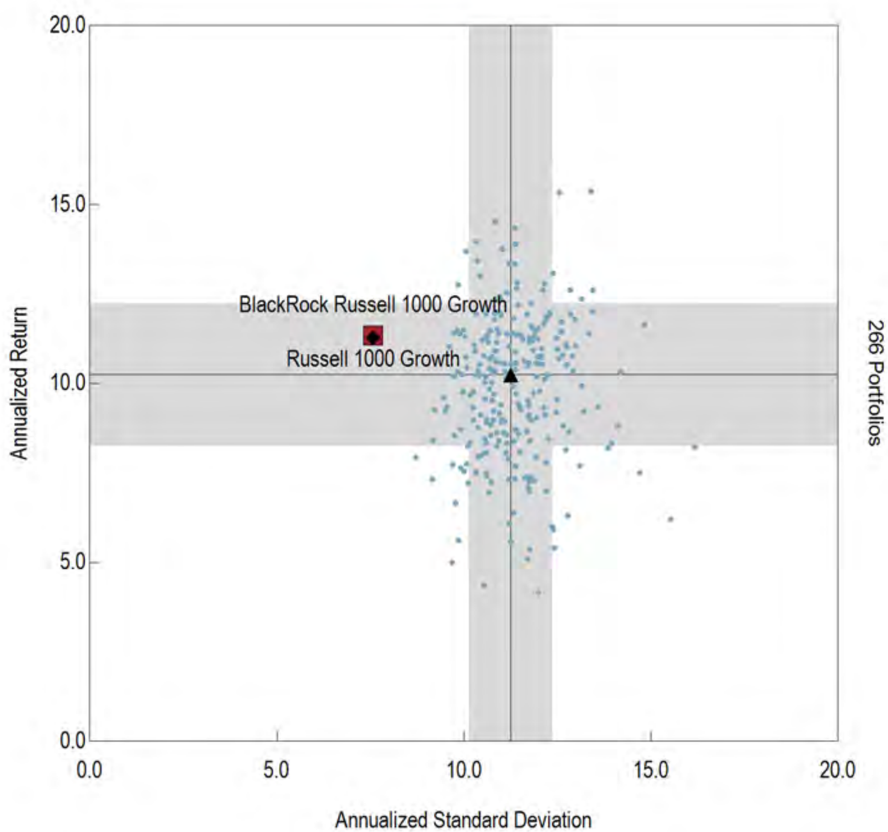
Rolling 3 Year Annualized Return (%)



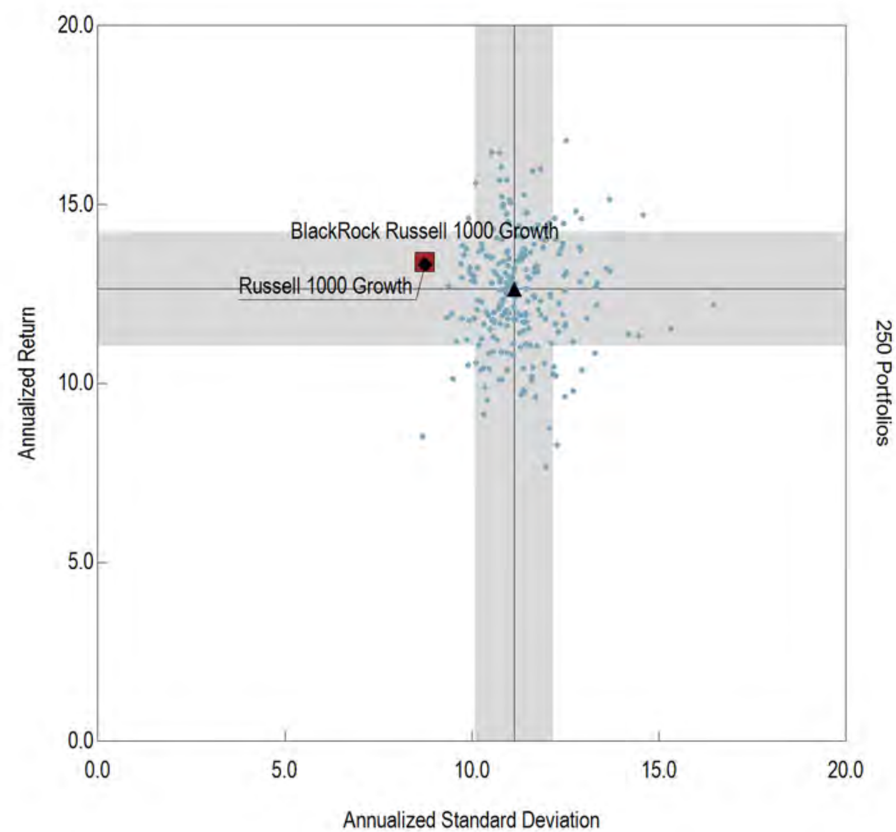
Rolling 5 Year Annualized Return (%)



3 Years



5 Years



3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
BlackRock Russell 1000 Growth	11.3%	7.6%	1.5
Russell 1000 Growth	11.3%	7.6%	1.5
eA US Large Cap Growth Equity Gross Median	10.2%	11.3%	0.9

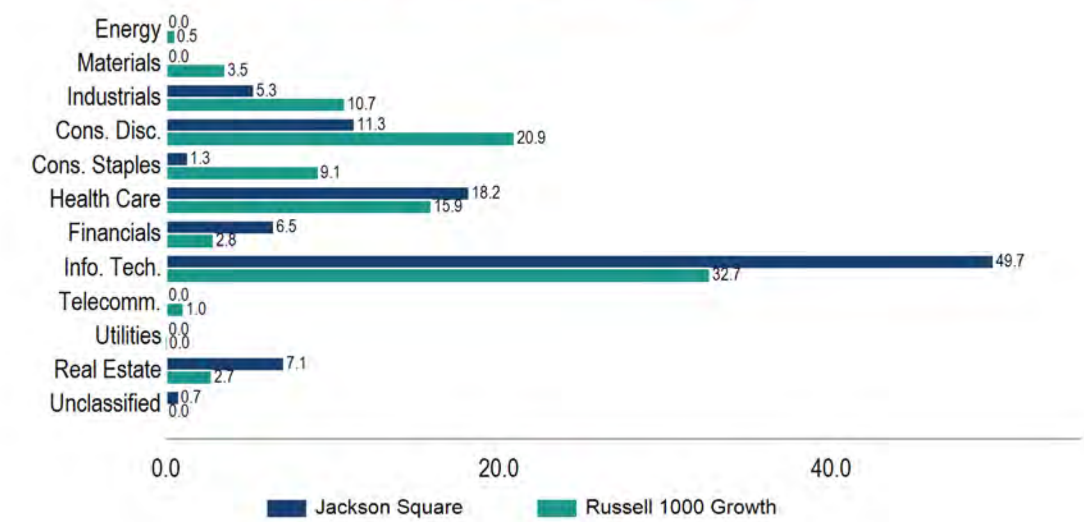
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
BlackRock Russell 1000 Growth	13.4%	8.7%	1.5
Russell 1000 Growth	13.3%	8.7%	1.5
eA US Large Cap Growth Equity Gross Median	12.6%	11.1%	1.1

Characteristics

	Portfolio	Russell 1000 Growth
Number of Holdings	32	609
Weighted Avg. Market Cap. ($B)	110.71	159.72
Median Market Cap. ($B)	36.23	9.27
Price To Earnings	32.45	26.16
Price To Book	6.28	7.12
Price To Sales	6.05	4.01
Return on Equity (%)	22.22	28.54
Yield (%)	0.91	1.51
Beta	1.29	1.00

Sector Allocation (%) vs Russell 1000 Growth



Largest Holdings

	End Weight	Return
MICROSOFT	6.12	6.63
VISA 'A'	5.74	14.12
CELGENE	5.71	7.50
PAYPAL HOLDINGS	5.58	8.99
CROWN CASTLE INTL.	4.58	10.00
MASTERCARD	4.57	9.15
EBAY	4.40	13.07
FACEBOOK CLASS A	4.08	23.47
ALPHABET 'A'	3.86	6.98
INTERCONTINENTAL EX.	3.74	6.47

Top Contributors

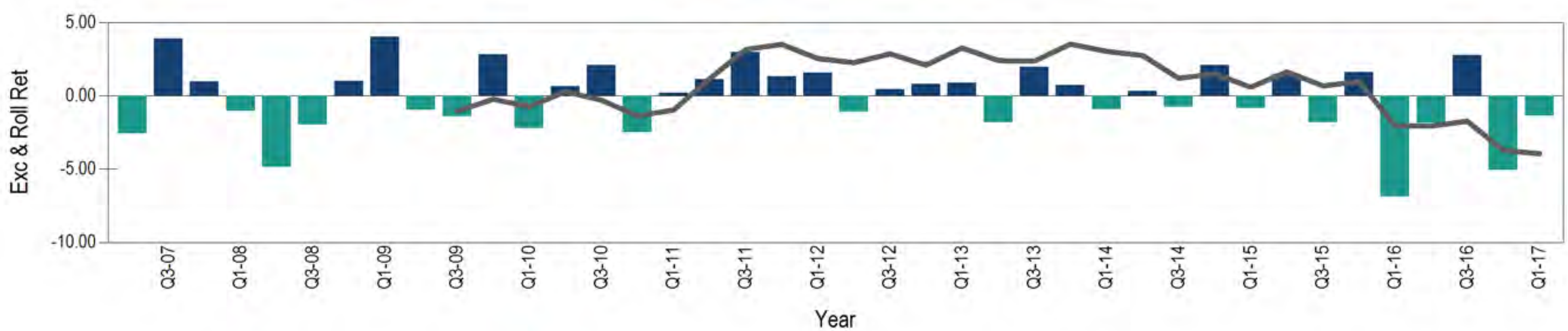
	Avg Wgt	Return	Contribution
FACEBOOK CLASS A	4.04	23.47	0.95
SYMANTEC	2.99	28.76	0.86
VISA 'A'	5.81	14.12	0.82
ALLERGAN	4.14	14.22	0.59
EBAY	4.34	13.07	0.57
ELECTRONIC ARTS	3.90	13.66	0.53
PAYPAL HOLDINGS	5.46	8.99	0.49
CROWN CASTLE INTL.	4.52	10.00	0.45
CELGENE	5.67	7.50	0.43
MASTERCARD	4.64	9.15	0.42

Bottom Contributors

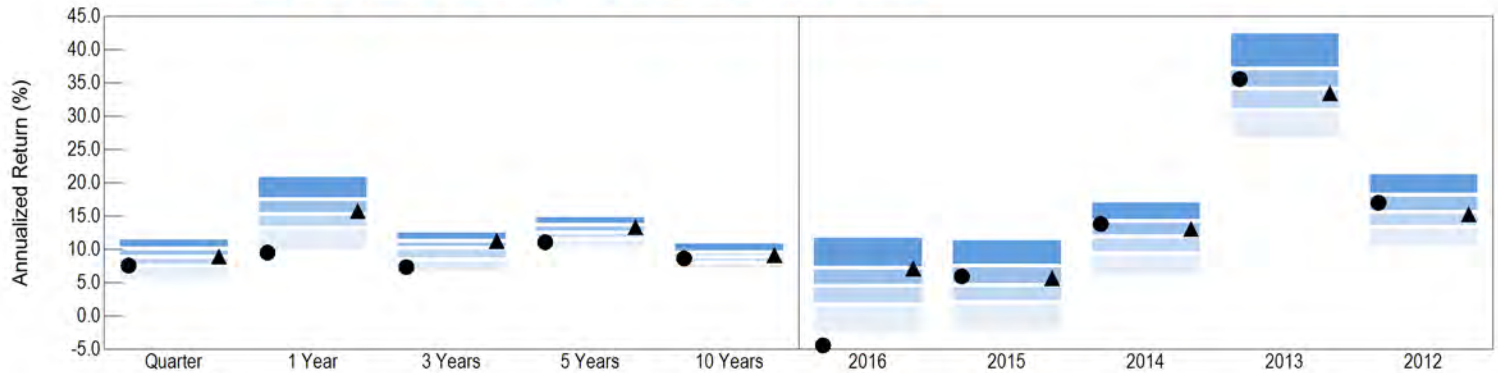
	Avg Wgt	Return	Contribution
L BRANDS	1.68	-27.73	-0.47
QUALCOMM	2.67	-11.23	-0.30
TRIPADVISOR 'A'	2.51	-6.92	-0.17
DOLLAR GENERAL	1.71	-5.86	-0.10
NIELSEN	2.16	-0.84	-0.02
LIBERTY INTACT.QVC GROUP 'A'	3.85	0.20	0.01
WALGREENS BOOTS ALLIANCE	1.80	0.80	0.01
FEDEX	0.51	5.03	0.03
INTUIT	2.12	1.50	0.03
CHARLES SCHWAB	2.18	3.60	0.08

Unclassified sector allocation includes cash allocations.

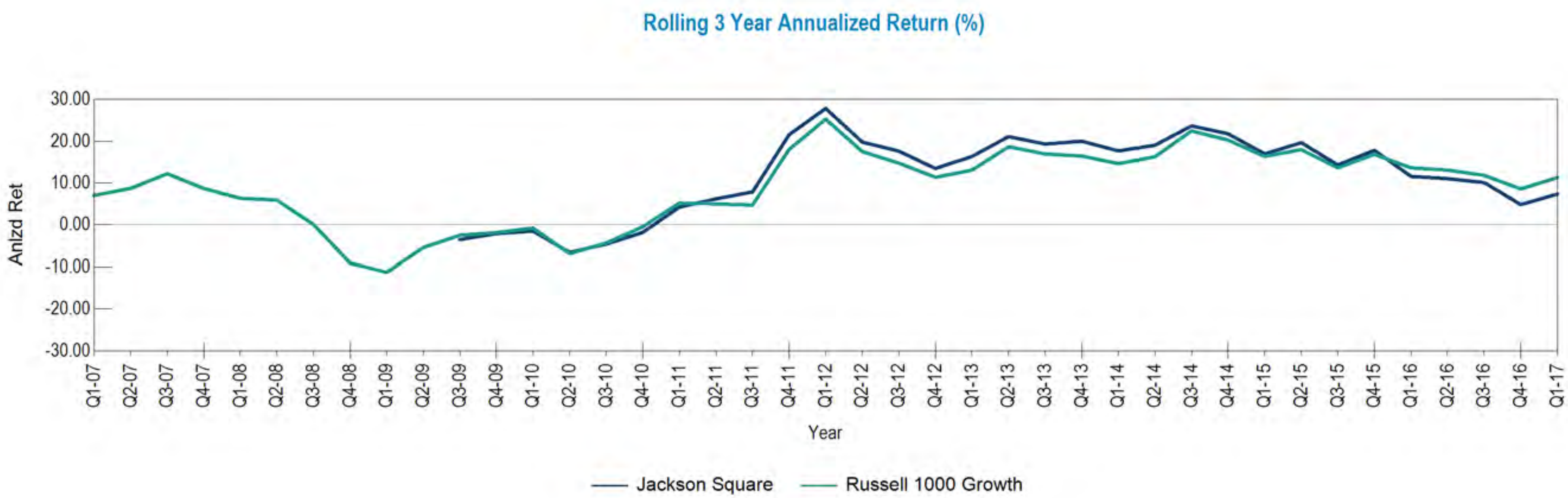
Rolling Annualized Excess Performance



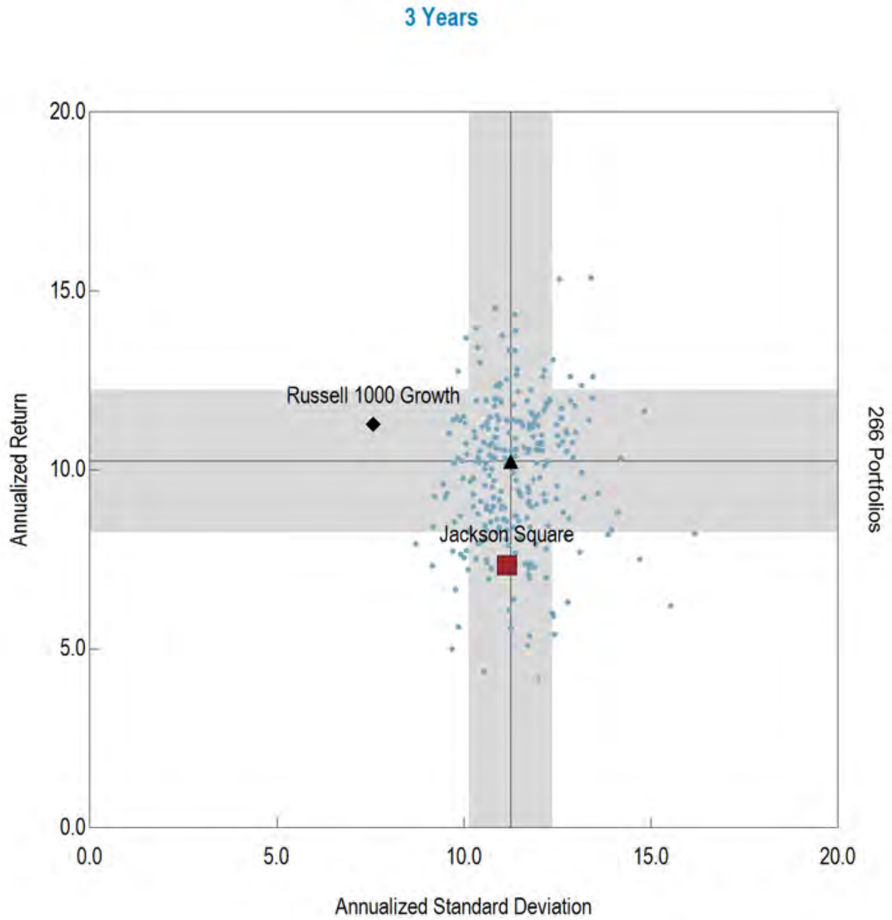
Jackson Square vs. eA US Large Cap Growth Equity Gross Universe

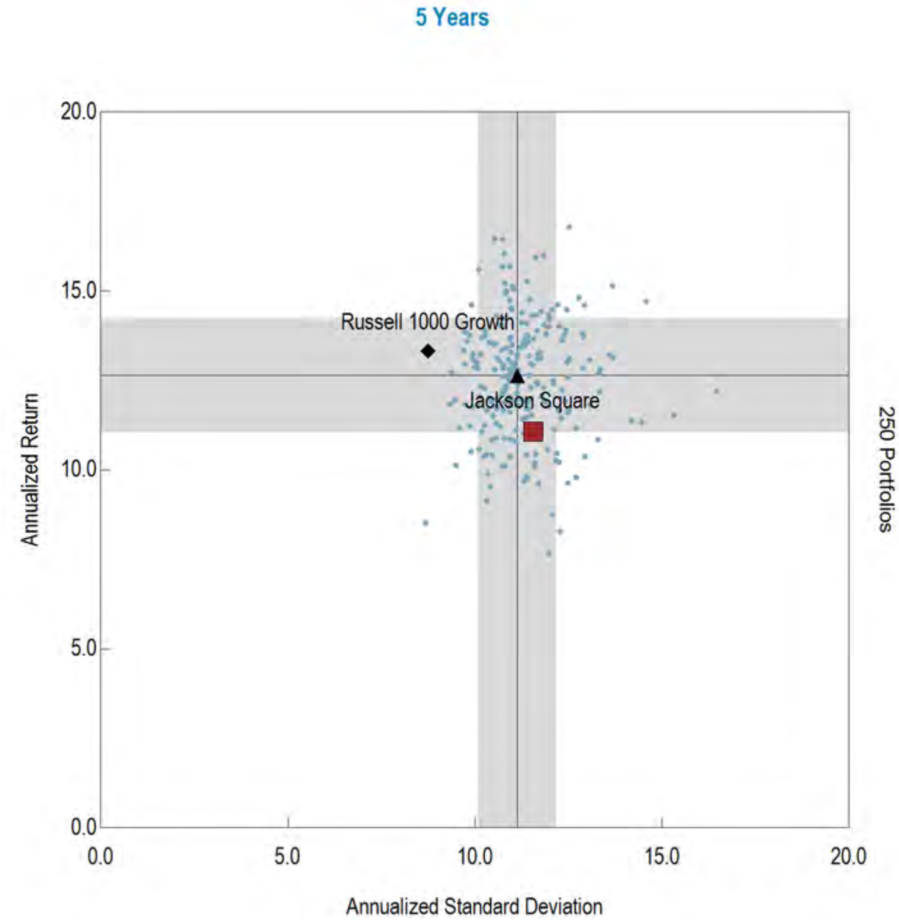


	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
Return (Rank)																				
5th Percentile	11.7		21.2		12.8		15.1		11.2		12.0		11.6		17.3		42.8		21.6	
25th Percentile	10.2		17.6		11.3		13.7		9.7		7.3		7.6		14.3		37.3		18.2	
Median	8.9		15.4		10.2		12.6		8.9		4.6		4.7		12.0		34.3		15.7	
75th Percentile	7.6		13.3		8.6		11.7		8.1		1.8		2.1		9.5		31.0		13.4	
95th Percentile	5.4		9.7		6.4		10.0		6.9		-2.7		-2.4		5.8		26.6		10.2	
# of Portfolios	269		269		266		250		219		282		270		291		274		274	
● Jackson Square	7.6	(76)	9.5	(97)	7.3	(91)	11.1	(85)	8.6	(59)	-4.4	(98)	5.9	(39)	13.8	(32)	35.6	(39)	17.0	(36)
▲ Russell 1000 Growth	8.9	(50)	15.8	(47)	11.3	(27)	13.3	(33)	9.1	(46)	7.1	(26)	5.7	(42)	13.0	(38)	33.5	(56)	15.3	(55)


Rolling 3 Year Annualized Return (%)
Anlzd Ret
30.00
20.00
10.00
0.00
-10.00
-20.00
-30.00
Q1-07 Q2-07 Q3-07 Q4-07 Q1-08 Q2-08 Q3-08 Q4-08 Q1-09 Q2-09 Q3-09 Q4-09 Q1-10 Q2-10 Q3-10 Q4-10 Q1-11 Q2-11 Q3-11 Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13 Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17
Year
Jackson Square
Russell 1000 Growth


Rolling 5 Year Annualized Return (%)
Anlzd Ret
25.00
20.00
15.00
10.00
5.00
0.00
-5.00
-10.00
Q1-07 Q2-07 Q3-07 Q4-07 Q1-08 Q2-08 Q3-08 Q4-08 Q1-09 Q2-09 Q3-09 Q4-09 Q1-10 Q2-10 Q3-10 Q4-10 Q1-11 Q2-11 Q3-11 Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13 Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17
Year
Jackson Square
Russell 1000 Growth





3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Jackson Square	7.3%	11.2%	0.6
Russell 1000 Growth	11.3%	7.6%	1.5
eA US Large Cap Growth Equity Gross Median	10.2%	11.3%	0.9

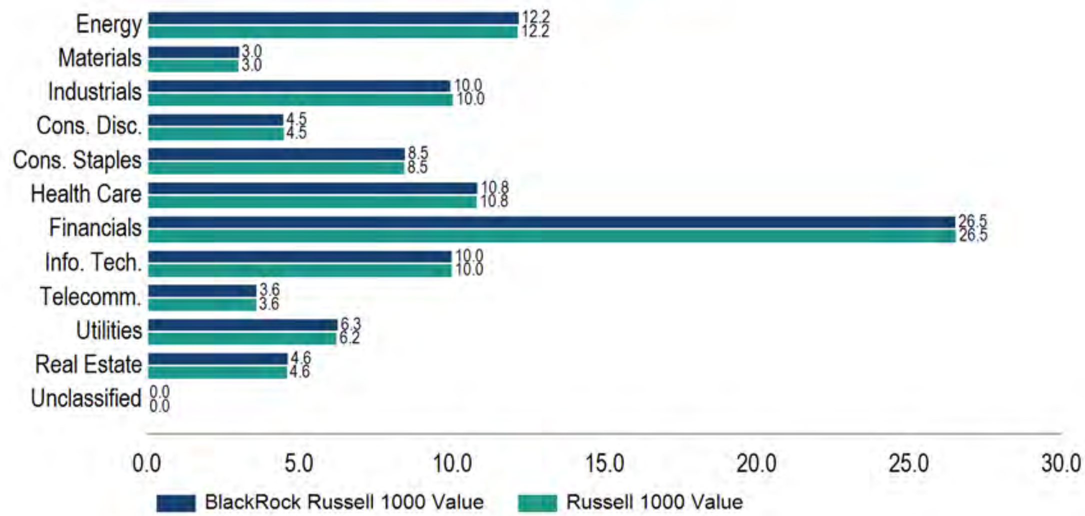
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Jackson Square	11.1%	11.6%	0.9
Russell 1000 Growth	13.3%	8.7%	1.5
eA US Large Cap Growth Equity Gross Median	12.6%	11.1%	1.1

Characteristics

	Portfolio	Russell 1000 Value
Number of Holdings	693	692
Weighted Avg. Market Cap. ($B)	115.23	115.38
Median Market Cap. ($B)	8.30	8.32
Price To Earnings	22.18	21.14
Price To Book	2.34	2.49
Price To Sales	2.91	2.89
Return on Equity (%)	12.56	11.22
Yield (%)	2.44	2.43
Beta	1.00	1.00

Sector Allocation (%) vs Russell 1000 Value



Largest Holdings

	End Weight	Return
EXXON MOBIL	3.04	-8.30
JP MORGAN CHASE & CO.	2.85	2.36
BERKSHIRE HATHAWAY 'B'	2.81	2.27
JOHNSON & JOHNSON	2.52	8.81
AT&T	2.28	-1.15
WELLS FARGO & CO	2.26	1.68
BANK OF AMERICA	2.16	7.06
PROCTER & GAMBLE	2.05	7.70
GENERAL ELECTRIC	1.86	-4.94
CHEVRON	1.80	-7.90

Top Contributors

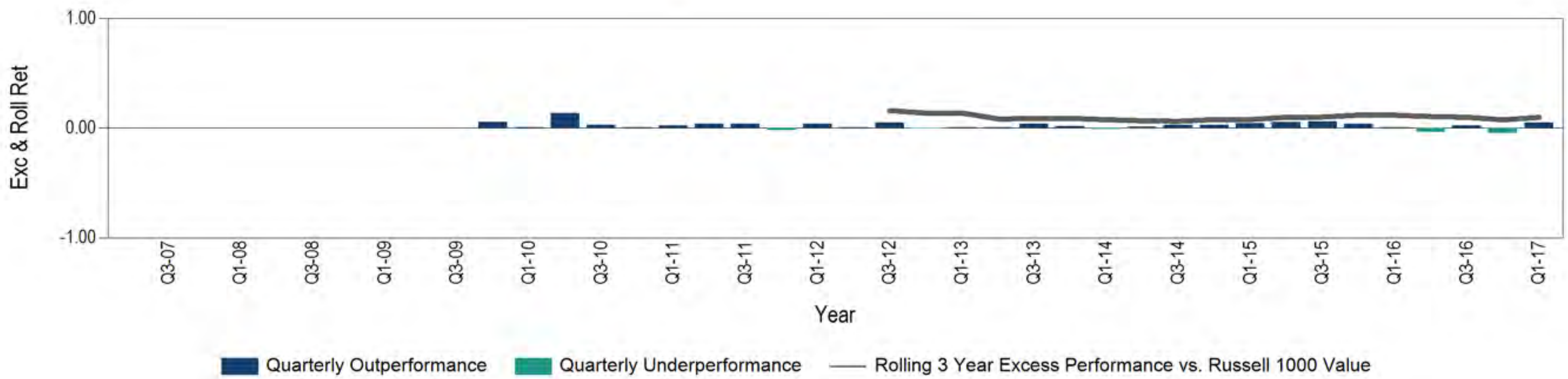
	Avg Wgt	Return	Contribution
PHILIP MORRIS INTL.	1.23	24.53	0.30
JOHNSON & JOHNSON	2.38	8.81	0.21
CISCO SYSTEMS	1.43	12.81	0.18
ORACLE	0.96	16.47	0.16
PROCTER & GAMBLE	2.01	7.70	0.15
BANK OF AMERICA	2.13	7.06	0.15
MERCK & COMPANY	1.54	8.72	0.13
MEDTRONIC	0.95	13.70	0.13
APPLE	0.51	24.57	0.13
CSX	0.37	30.04	0.11

Bottom Contributors

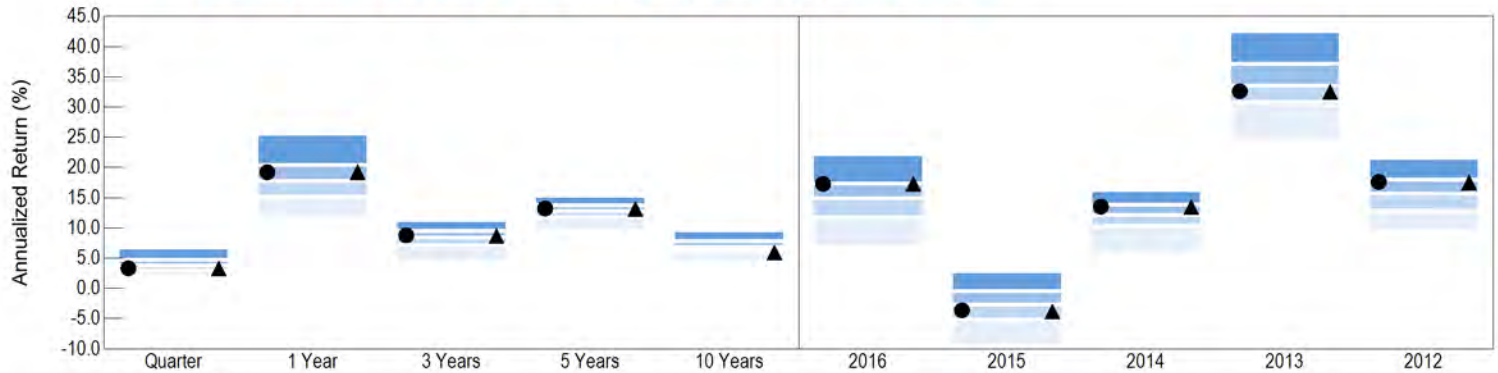
	Avg Wgt	Return	Contribution
EXXON MOBIL	3.18	-8.30	-0.26
CHEVRON	1.92	-7.90	-0.15
GENERAL ELECTRIC	2.02	-4.94	-0.10
VERIZON COMMUNICATIONS	0.93	-7.68	-0.07
TARGET	0.31	-22.88	-0.07
QUALCOMM	0.61	-11.23	-0.07
SCHLUMBERGER	1.03	-6.40	-0.07
OCCIDENTAL PTL.	0.47	-9.96	-0.05
ANADARKO PETROLEUM	0.34	-11.02	-0.04
HALLIBURTON	0.42	-8.71	-0.04

Unclassified sector allocation includes cash allocations.

Rolling Annualized Excess Performance

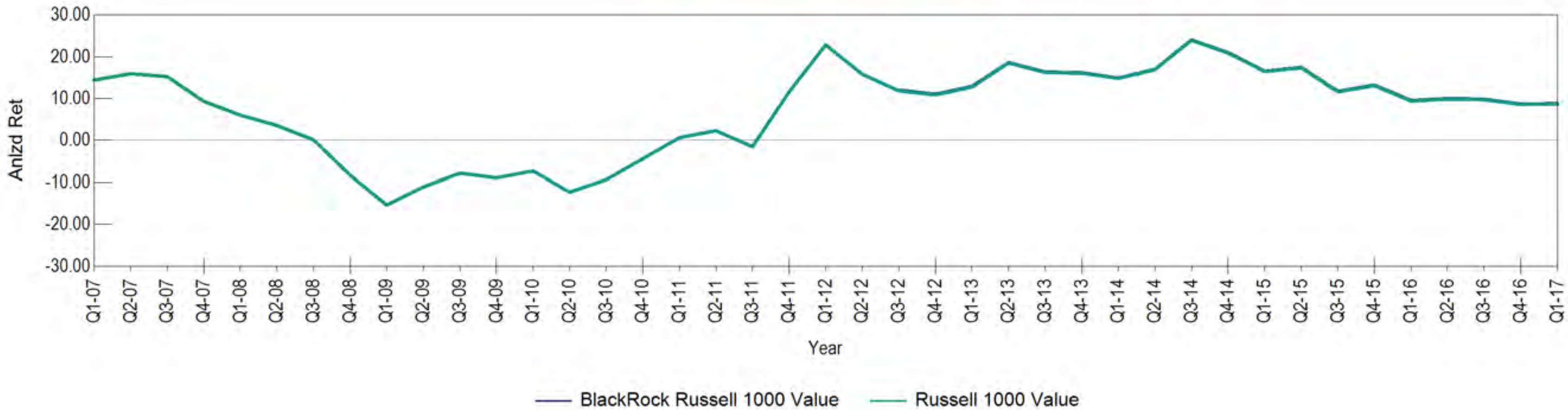


BlackRock Russell 1000 Value vs. eA US Large Cap Value Equity Gross Universe

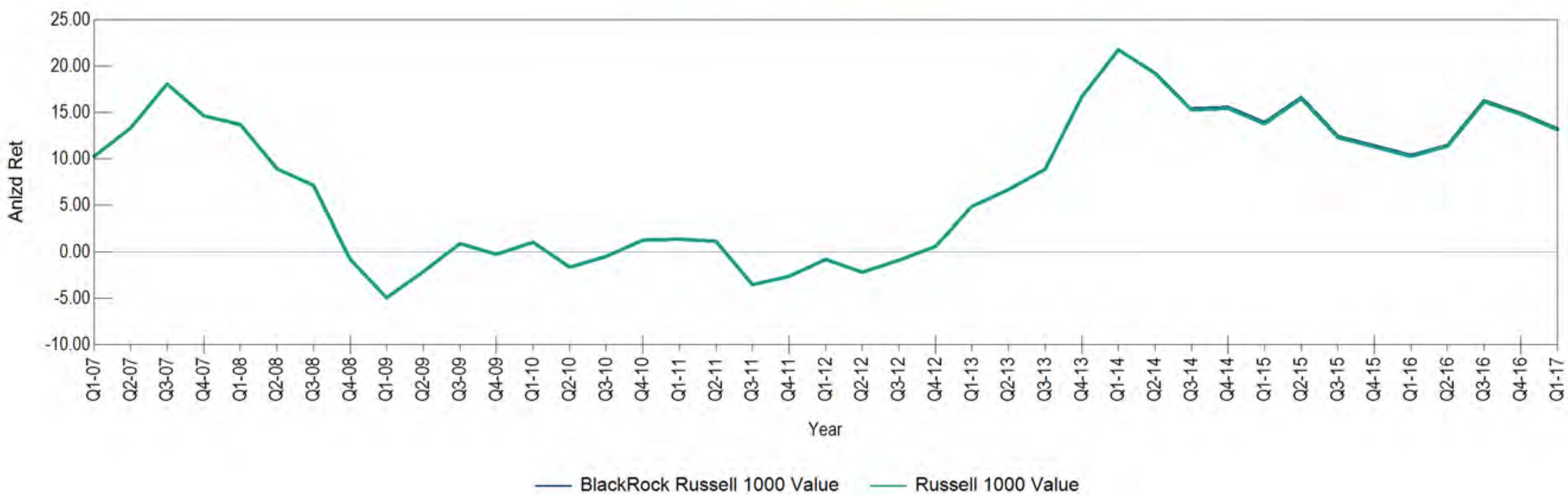


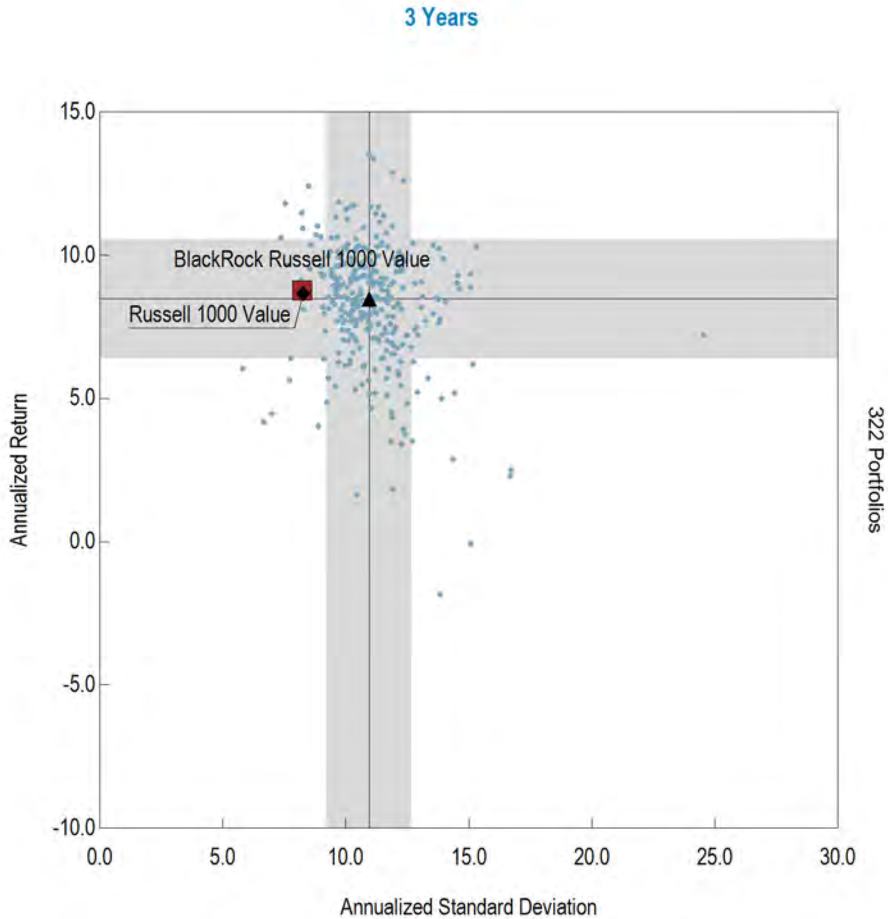
Return (Rank)	Quarter	1 Year	3 Years	5 Years	10 Years	2016	2015	2014	2013	2012
5th Percentile	6.7	25.6	11.3	15.3	9.5	22.1	2.8	16.3	42.5	21.5
25th Percentile	4.8	20.5	9.5	13.8	7.9	17.4	-0.4	13.9	37.2	18.0
Median	3.9	17.8	8.5	12.8	7.0	15.0	-2.6	12.2	33.6	15.7
75th Percentile	3.0	15.3	7.2	11.8	6.3	11.8	-5.1	10.4	30.8	13.0
95th Percentile	2.1	11.7	4.5	9.7	4.8	7.0	-9.4	5.9	24.6	9.6
# of Portfolios	329	329	322	306	252	346	312	307	310	303
● BlackRock Russell 1000 Value	3.3 (68)	19.2 (35)	8.8 (44)	13.2 (41)	-- (--)	17.3 (26)	-3.6 (62)	13.5 (31)	32.6 (59)	17.6 (30)
▲ Russell 1000 Value	3.3 (70)	19.2 (35)	8.7 (44)	13.1 (44)	5.9 (83)	17.3 (26)	-3.8 (64)	13.5 (33)	32.5 (60)	17.5 (30)

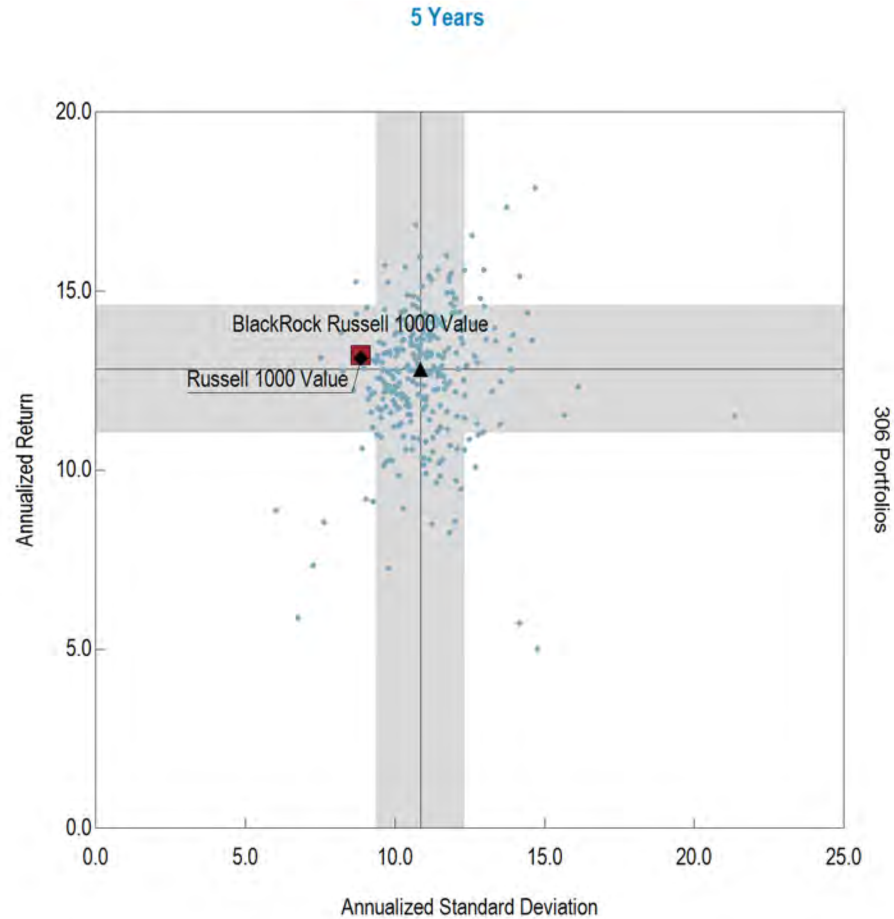
Rolling 3 Year Annualized Return (%)



Rolling 5 Year Annualized Return (%)







3 Years

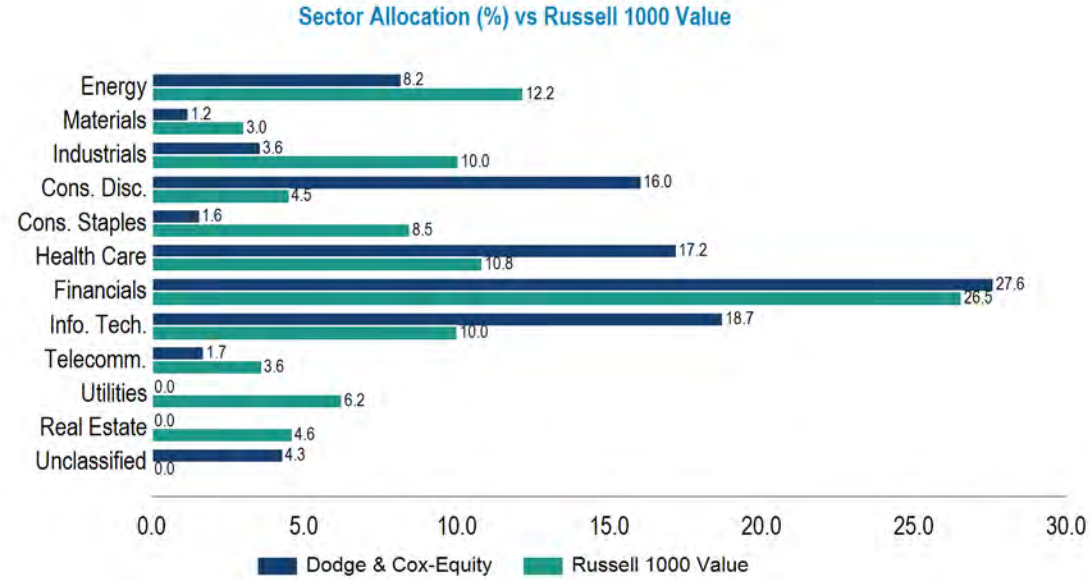
	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
BlackRock Russell 1000 Value	8.8%	8.2%	1.0
Russell 1000 Value	8.7%	8.3%	1.0
eA US Large Cap Value Equity Gross Median	8.5%	10.9%	0.8

5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
BlackRock Russell 1000 Value	13.2%	8.8%	1.5
Russell 1000 Value	13.1%	8.9%	1.5
eA US Large Cap Value Equity Gross Median	12.8%	10.9%	1.2

Characteristics

	Portfolio	Russell 1000 Value
Number of Holdings	65	692
Weighted Avg. Market Cap. ($B)	112.05	115.38
Median Market Cap. ($B)	39.57	8.32
Price To Earnings	20.81	21.14
Price To Book	2.80	2.49
Price To Sales	2.86	2.89
Return on Equity (%)	14.11	11.22
Yield (%)	1.73	2.43
Beta	1.07	1.00



Largest Holdings

	End Weight	Return
BANK OF AMERICA	4.05	7.06
CHARLES SCHWAB	3.70	3.60
WELLS FARGO & CO	3.70	1.68
CAPITAL ONE FINL.	3.63	-0.22
CHARTER COMMS.CL.A	3.23	13.68
HEWLETT PACKARD ENTER.	3.22	2.72
SANOFI ADR 2:1	3.01	11.89
TIME WARNER	2.98	1.64
COMCAST 'A'	2.93	8.88
GOLDMAN SACHS GP.	2.88	-3.81

Top Contributors

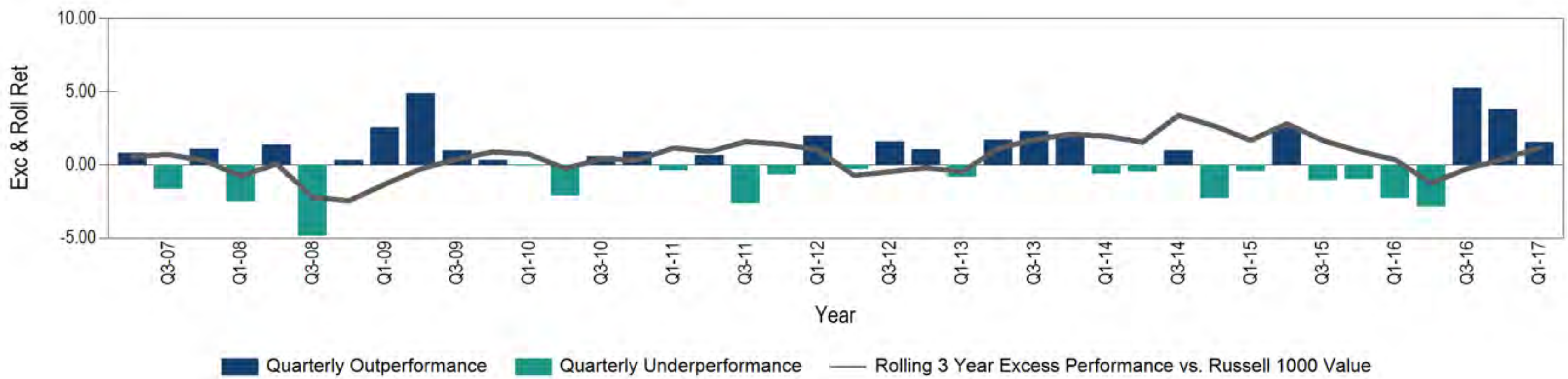
	Avg Wgt	Return	Contribution
CHARTER COMMS.CL.A	3.14	13.68	0.43
HEWLETT-PACKARD	1.78	21.41	0.38
SANOFI ADR 2:1	2.81	11.89	0.33
BANK OF AMERICA	4.06	7.06	0.29
COMCAST 'A'	2.91	8.88	0.26
ASTRAZENECA SPN.ADR.2:1	1.45	17.74	0.26
CISCO SYSTEMS	1.95	12.81	0.25
PRICELINE GROUP	1.12	21.41	0.24
SYNOPSYS	0.89	22.55	0.20
MICROSOFT	2.64	6.63	0.18

Bottom Contributors

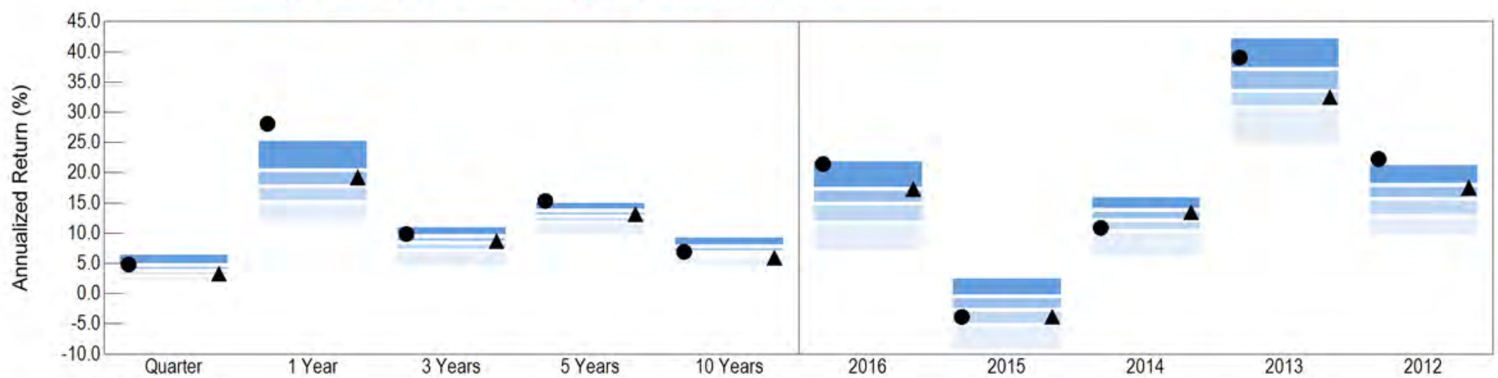
	Avg Wgt	Return	Contribution
APACHE	1.63	-18.71	-0.30
TARGET	0.71	-22.88	-0.16
ANADARKO PETROLEUM	1.36	-11.02	-0.15
SCHLUMBERGER	2.24	-6.40	-0.14
BAKER HUGHES	1.57	-7.68	-0.12
GOLDMAN SACHS GP.	3.07	-3.81	-0.12
BRISTOL MYERS SQUIBB	1.24	-6.33	-0.08
EXPRESS SCRIPTS HOLDING	1.63	-4.19	-0.07
BB&T	1.07	-4.31	-0.05
AEGON NV.ADR.1:1	0.52	-7.23	-0.04

Unclassified sector allocation includes cash allocations.

Rolling Annualized Excess Performance

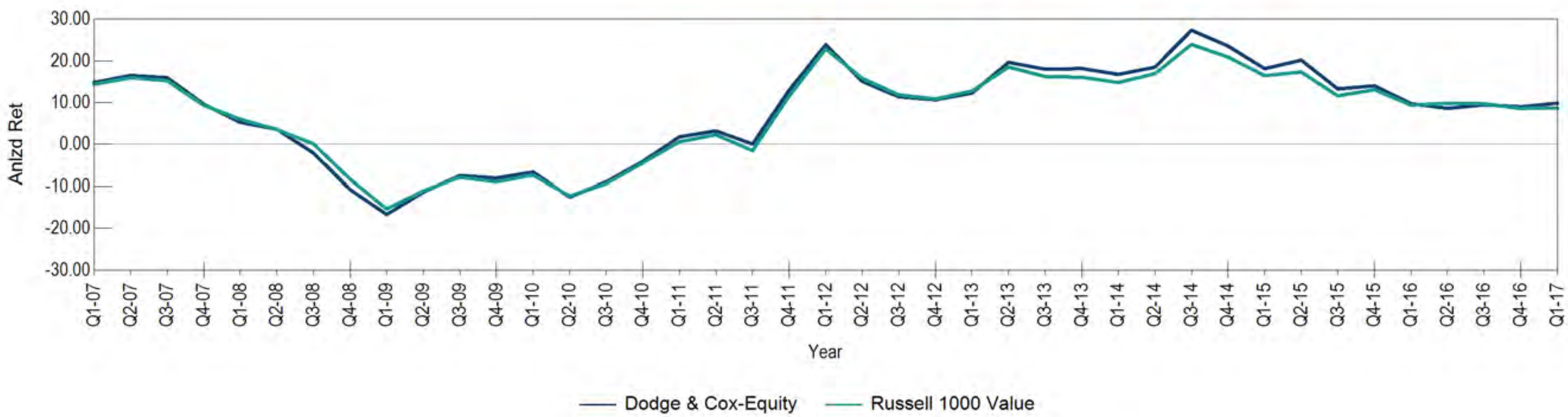


Dodge & Cox-Equity vs. eA US Large Cap Value Equity Gross Universe

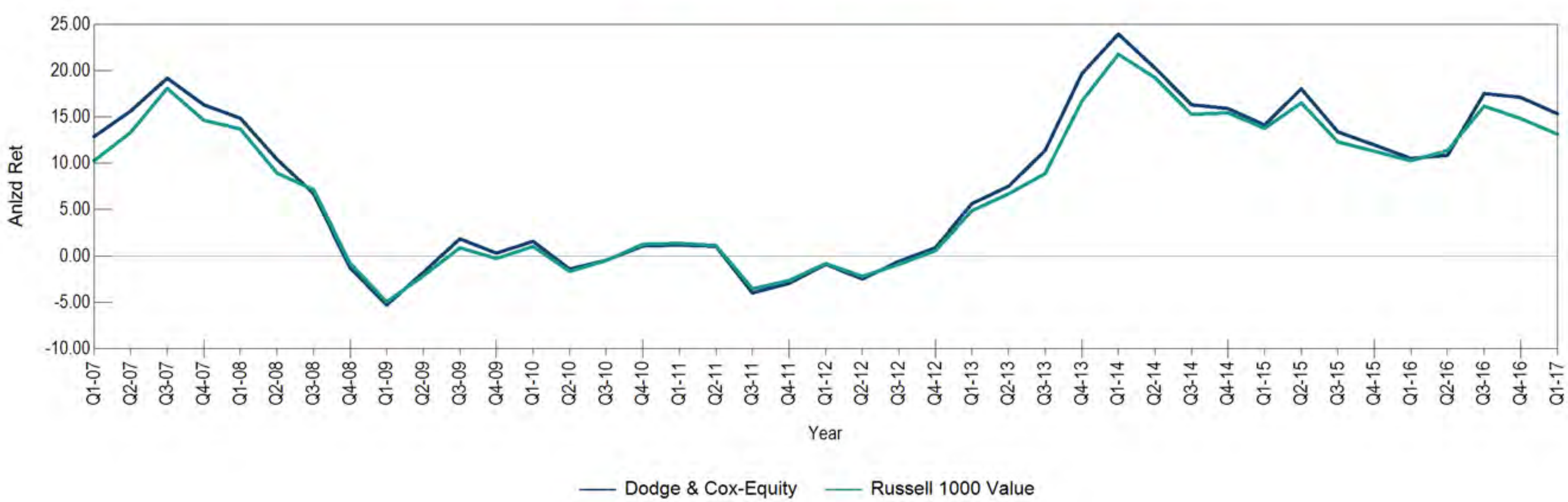


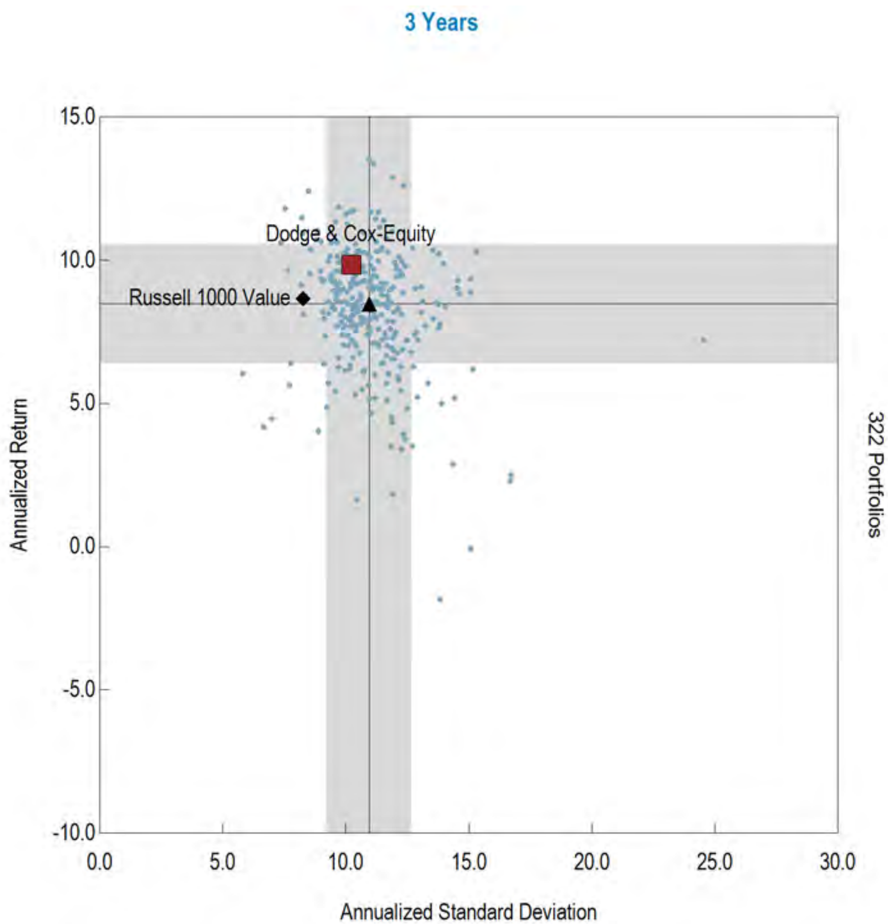
Return (Rank)	Quarter	1 Year	3 Years	5 Years	10 Years	2016	2015	2014	2013	2012
5th Percentile	6.7	25.6	11.3	15.3	9.5	22.1	2.8	16.3	42.5	21.5
25th Percentile	4.8	20.5	9.5	13.8	7.9	17.4	-0.4	13.9	37.2	18.0
Median	3.9	17.8	8.5	12.8	7.0	15.0	-2.6	12.2	33.6	15.7
75th Percentile	3.0	15.3	7.2	11.8	6.3	11.8	-5.1	10.4	30.8	13.0
95th Percentile	2.1	11.7	4.5	9.7	4.8	7.0	-9.4	5.9	24.6	9.6
# of Portfolios	329	329	322	306	252	346	312	307	310	303
● Dodge & Cox-Equity	4.8 (26)	28.1 (2)	9.8 (19)	15.3 (5)	6.9 (52)	21.4 (6)	-3.9 (64)	10.9 (72)	39.1 (15)	22.3 (3)
▲ Russell 1000 Value	3.3 (70)	19.2 (35)	8.7 (44)	13.1 (44)	5.9 (83)	17.3 (26)	-3.8 (64)	13.5 (33)	32.5 (60)	17.5 (30)

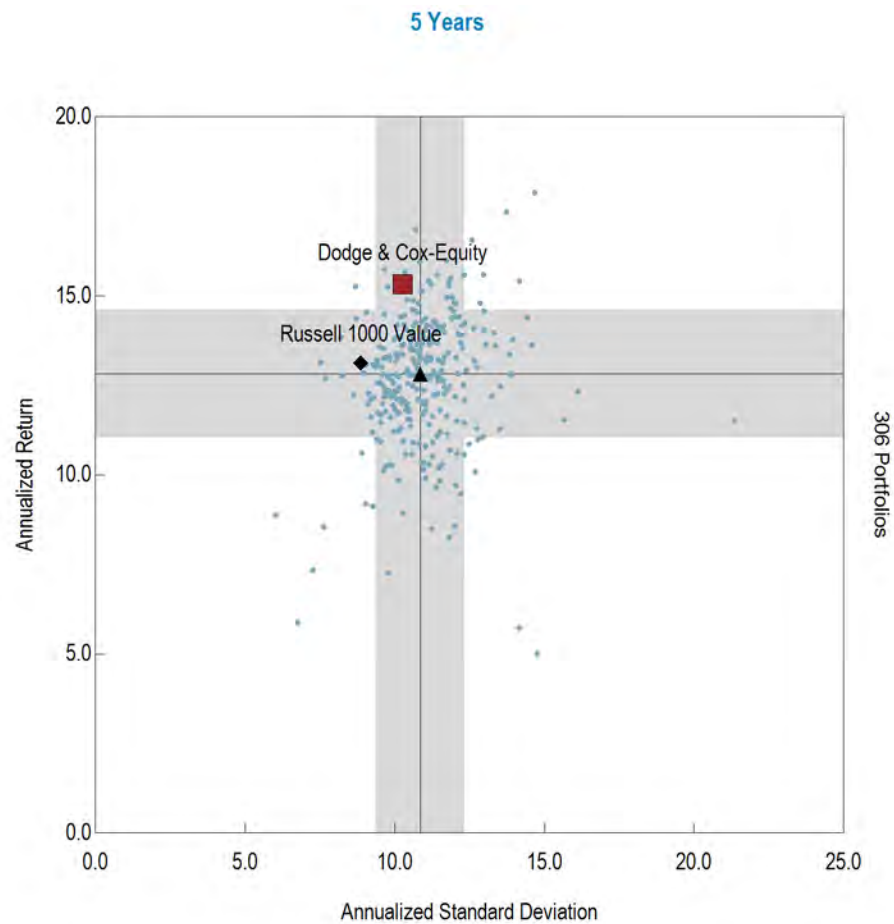
Rolling 3 Year Annualized Return (%)



Rolling 5 Year Annualized Return (%)







3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Dodge & Cox-Equity	9.8%	10.2%	0.9
Russell 1000 Value	8.7%	8.3%	1.0
eA US Large Cap Value Equity Gross Median	8.5%	10.9%	0.8

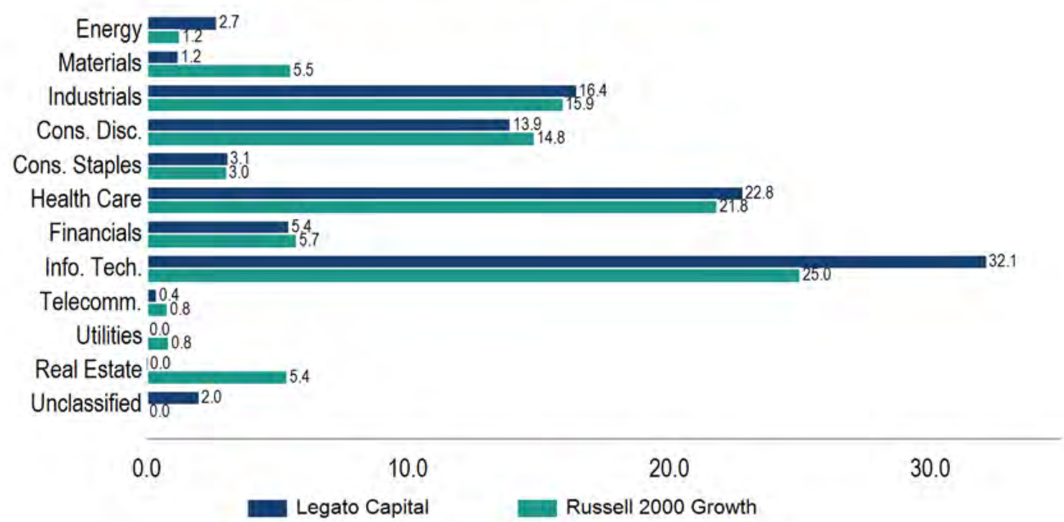
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Dodge & Cox-Equity	15.3%	10.3%	1.5
Russell 1000 Value	13.1%	8.9%	1.5
eA US Large Cap Value Equity Gross Median	12.8%	10.9%	1.2

Characteristics

	Portfolio	Russell 2000 Growth
Number of Holdings	235	1,157
Weighted Avg. Market Cap. ($B)	2.11	2.39
Median Market Cap. ($B)	1.27	0.90
Price To Earnings	29.18	29.86
Price To Book	4.98	4.78
Price To Sales	3.17	3.45
Return on Equity (%)	16.45	14.68
Yield (%)	0.43	0.67
Beta	0.97	1.00

Sector Allocation (%) vs Russell 2000 Growth



Largest Holdings

	End Weight	Return
STAMPS.COM	2.68	3.23
LIGAND PHARMS.'B'	2.28	4.16
CRITEO ADR 1:1	1.45	21.69
POOL	1.43	14.66
DREW INDS.	1.37	-6.97
SUPERNUS PHARMACEUTICALS	1.23	23.96
ECHO GLOBAL LOGISTICS	1.19	-14.77
DAVE & BUSTER'S ENTM.	1.10	8.51
NEKTAR THERAPEUTICS	1.06	91.28
ISHARES RUSSELL 2000 GW.	1.05	5.23

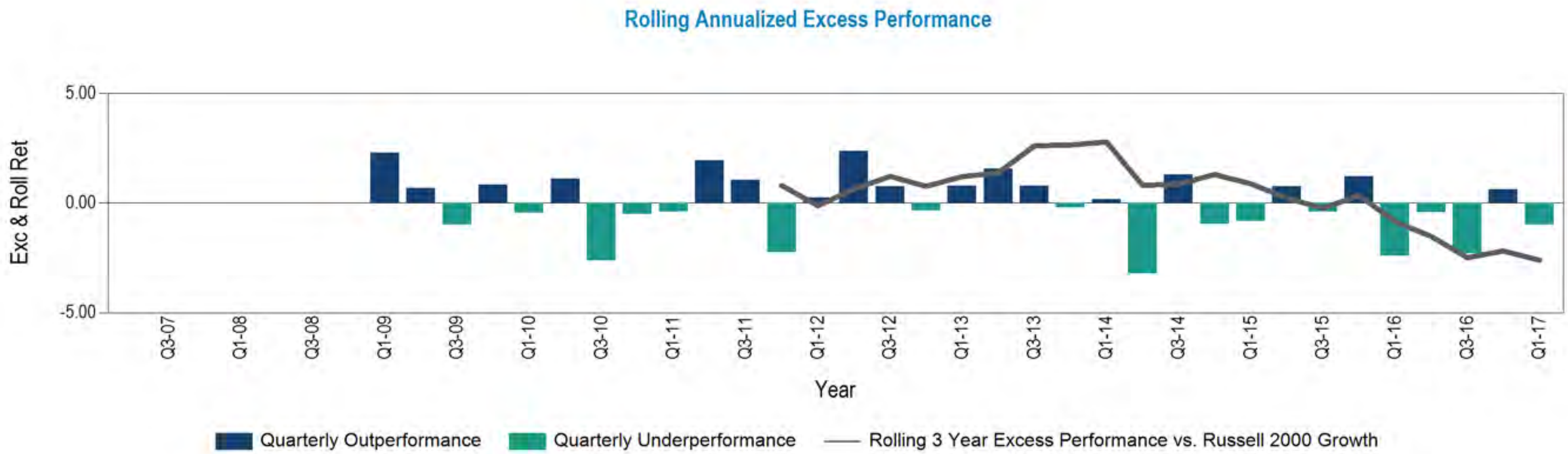
Top Contributors

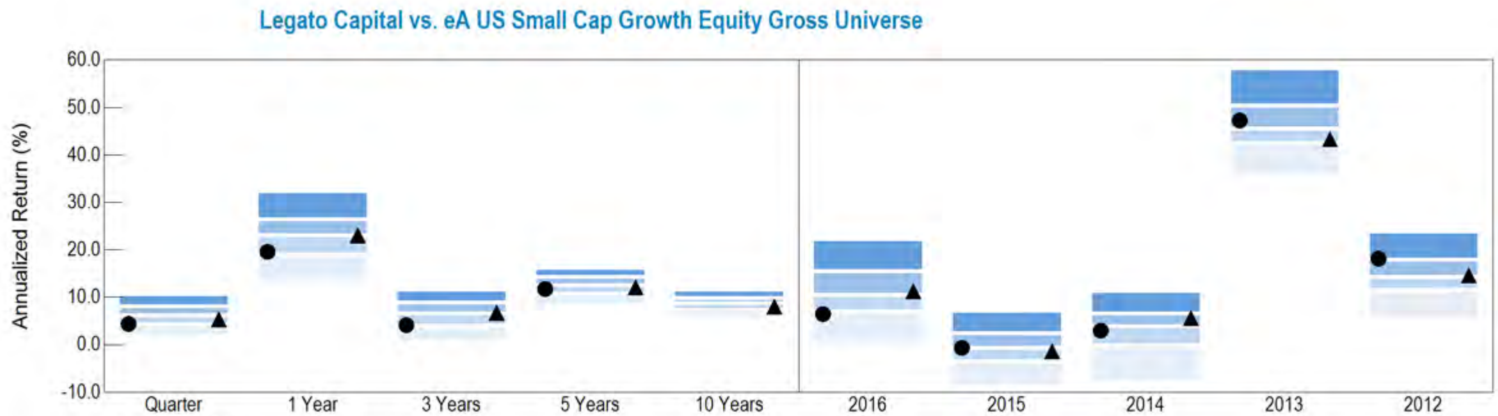
	Avg Wgt	Return	Contribution
NEKTAR THERAPEUTICS	0.57	91.28	0.52
NATIONAL BEVERAGE	0.54	65.49	0.36
ADVISORY BOARD	0.78	40.75	0.32
CRITEO ADR 1:1	1.30	21.69	0.28
CEB	0.90	30.38	0.27
SUPERNUS PHARMACEUTICALS	0.98	23.96	0.24
SITEONE LANDSCAPE SUPPLY ORD SHS	0.55	39.39	0.22
PACIRA PHARMACEUTICALS	0.48	41.18	0.20
POOL	1.31	14.66	0.19
CYPRESS SEMICON.	0.83	21.19	0.18

Bottom Contributors

	Avg Wgt	Return	Contribution
SYNCHRONOSS TECHNOLOGIES	1.33	-36.29	-0.48
ECHO GLOBAL LOGISTICS	1.57	-14.77	-0.23
ALBANY MOLECULR.RESH.	0.91	-25.21	-0.23
INC RESEARCH HOLDINGS CL.A	1.54	-12.83	-0.20
GTT COMMUNICATIONS	0.85	-15.30	-0.13
AMERICAN RENAL ASSOCIATES HOLDINGS ORD SHS	0.61	-20.68	-0.13
PRA GROUP	0.83	-15.22	-0.13
CARDTRONICS	0.81	-14.33	-0.12
ANIKA THERAPEUTICS	0.87	-11.27	-0.10
HURON CNSL.GP.	0.50	-16.88	-0.09

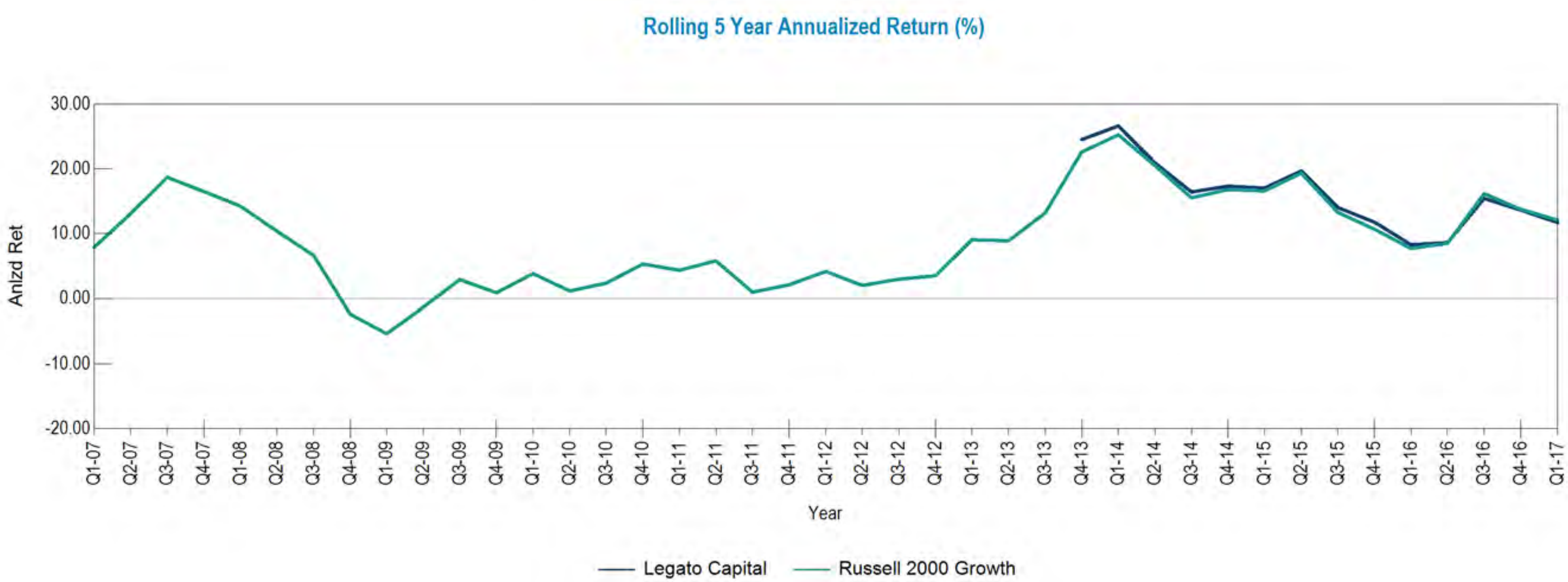
Unclassified sector allocation includes cash allocations.

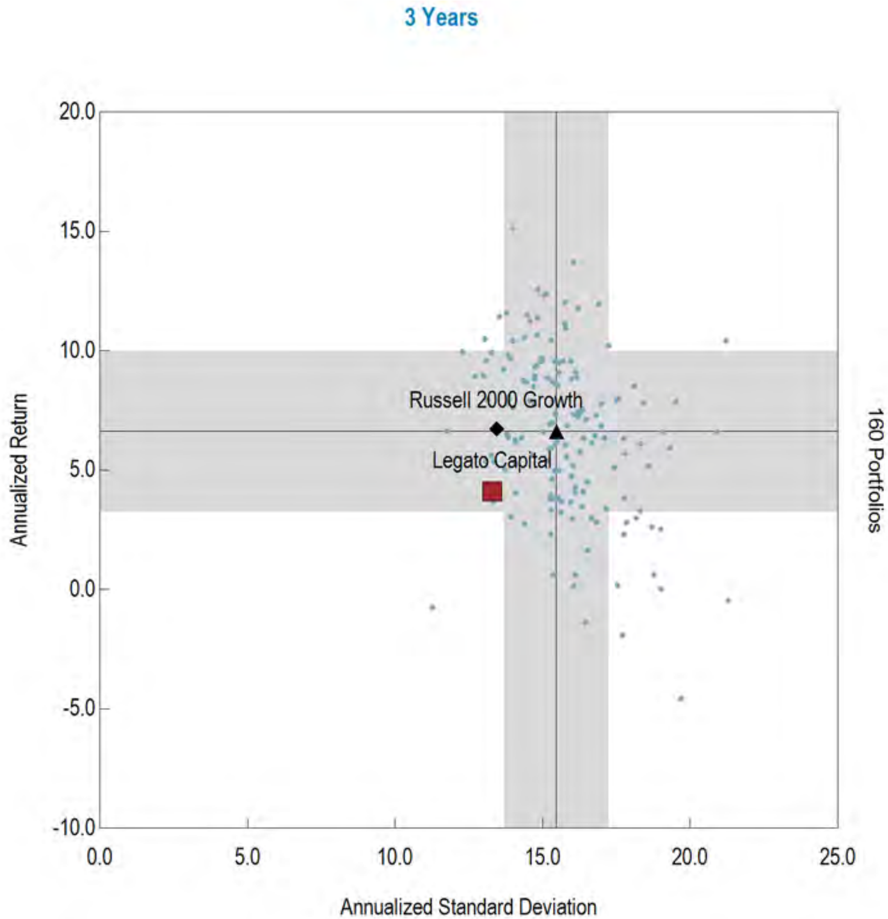


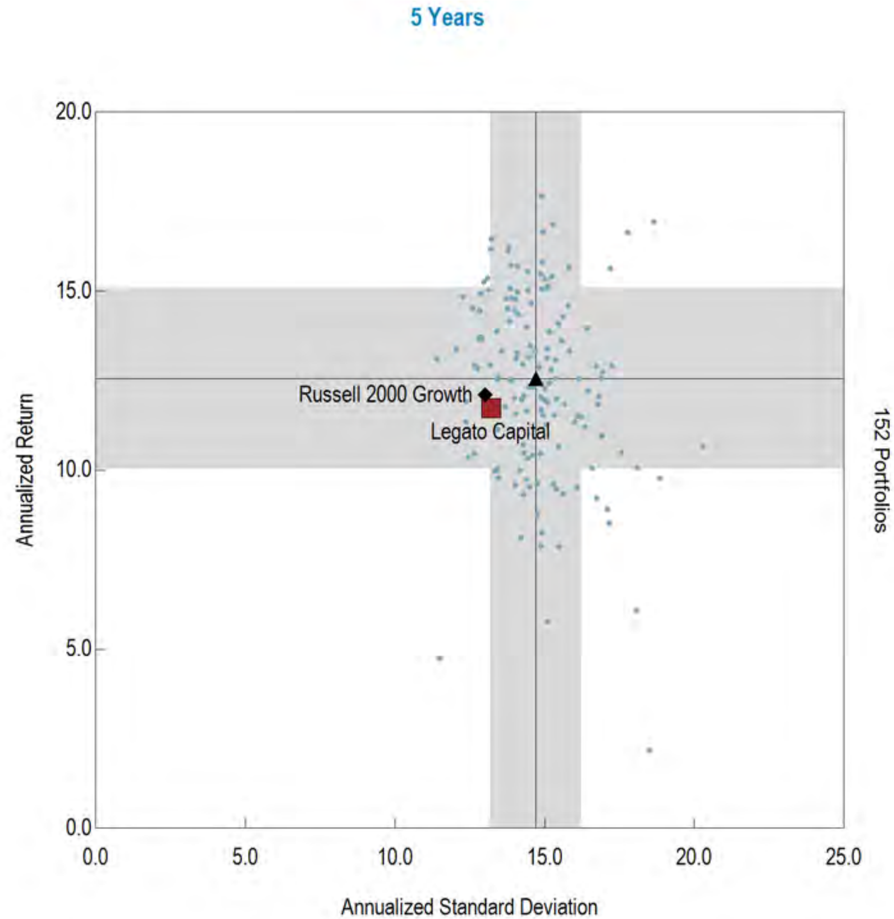


Return (Rank)	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
5th Percentile	10.6		32.3		11.6		16.1		11.5		22.2		7.1		11.3		58.2		23.8	
25th Percentile	8.1		26.5		8.9		14.4		9.9		15.5		2.5		6.7		50.6		18.0	
Median	6.3		23.1		6.6		12.6		8.8		10.6		-0.6		3.9		45.6		14.3	
75th Percentile	4.4		19.1		4.1		10.9		7.4		7.1		-3.5		-0.1		42.6		11.6	
95th Percentile	1.8		13.2		0.6		8.4		5.6		0.2		-8.7		-7.6		35.6		5.4	
# of Portfolios	167		167		160		152		125		170		154		161		160		162	
● Legato Capital	4.4	(76)	19.6	(73)	4.1	(75)	11.7	(66)	--	(--)	6.4	(79)	-0.7	(52)	3.0	(57)	47.3	(41)	18.1	(24)
▲ Russell 2000 Growth	5.3	(62)	23.0	(52)	6.7	(50)	12.1	(58)	8.1	(65)	11.3	(49)	-1.4	(59)	5.6	(32)	43.3	(70)	14.6	(48)


Rolling 3 Year Annualized Return (%)
Anlzd Ret
30.00
20.00
10.00
0.00
-10.00
-20.00
-30.00
Q1-07 Q2-07 Q3-07 Q4-07 Q1-08 Q2-08 Q3-08 Q4-08 Q1-09 Q2-09 Q3-09 Q4-09 Q1-10 Q2-10 Q3-10 Q4-10 Q1-11 Q2-11 Q3-11 Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13 Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17
Year
Legato Capital
Russell 2000 Growth


Rolling 5 Year Annualized Return (%)
Anlzd Ret
30.00
20.00
10.00
0.00
-10.00
-20.00
Q1-07 Q2-07 Q3-07 Q4-07 Q1-08 Q2-08 Q3-08 Q4-08 Q1-09 Q2-09 Q3-09 Q4-09 Q1-10 Q2-10 Q3-10 Q4-10 Q1-11 Q2-11 Q3-11 Q4-11 Q1-12 Q2-12 Q3-12 Q4-12 Q1-13 Q2-13 Q3-13 Q4-13 Q1-14 Q2-14 Q3-14 Q4-14 Q1-15 Q2-15 Q3-15 Q4-15 Q1-16 Q2-16 Q3-16 Q4-16 Q1-17
Year
Legato Capital
Russell 2000 Growth





3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Legato Capital	4.1%	13.3%	0.3
Russell 2000 Growth	6.7%	13.4%	0.5
eA US Small Cap Growth Equity Gross Median	6.6%	15.5%	0.4

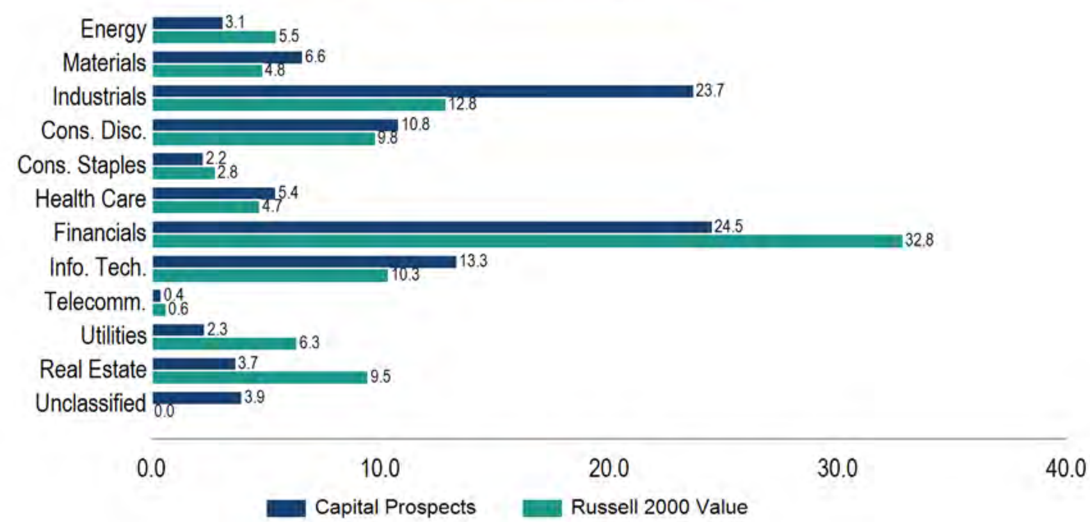
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Legato Capital	11.7%	13.2%	0.9
Russell 2000 Growth	12.1%	13.0%	0.9
eA US Small Cap Growth Equity Gross Median	12.6%	14.7%	0.8

Characteristics

	Portfolio	Russell 2000 Value
Number of Holdings	305	1,352
Weighted Avg. Market Cap. ($B)	2.21	2.11
Median Market Cap. ($B)	1.22	0.69
Price To Earnings	24.46	20.79
Price To Book	2.76	1.81
Price To Sales	2.31	2.72
Return on Equity (%)	11.84	7.27
Yield (%)	1.59	1.68
Beta	0.88	1.00

Sector Allocation (%) vs Russell 2000 Value



Largest Holdings

	End Weight	Return
GORES HOLDINGS CL.A	1.38	22.08
LITTELFUSE	1.32	5.58
ALLETE	1.21	6.35
HILLENBRAND	1.14	-6.00
MB FINANCIAL	1.11	-8.95
ABM INDS.	0.98	7.20
AIR LEASE	0.98	13.09
JOHN BEAN TECHNOLOGIES	0.88	2.45
CINEMARK HOLDINGS	0.85	16.39
ARTISAN PTNS.ASTMGMT.	0.82	-4.28

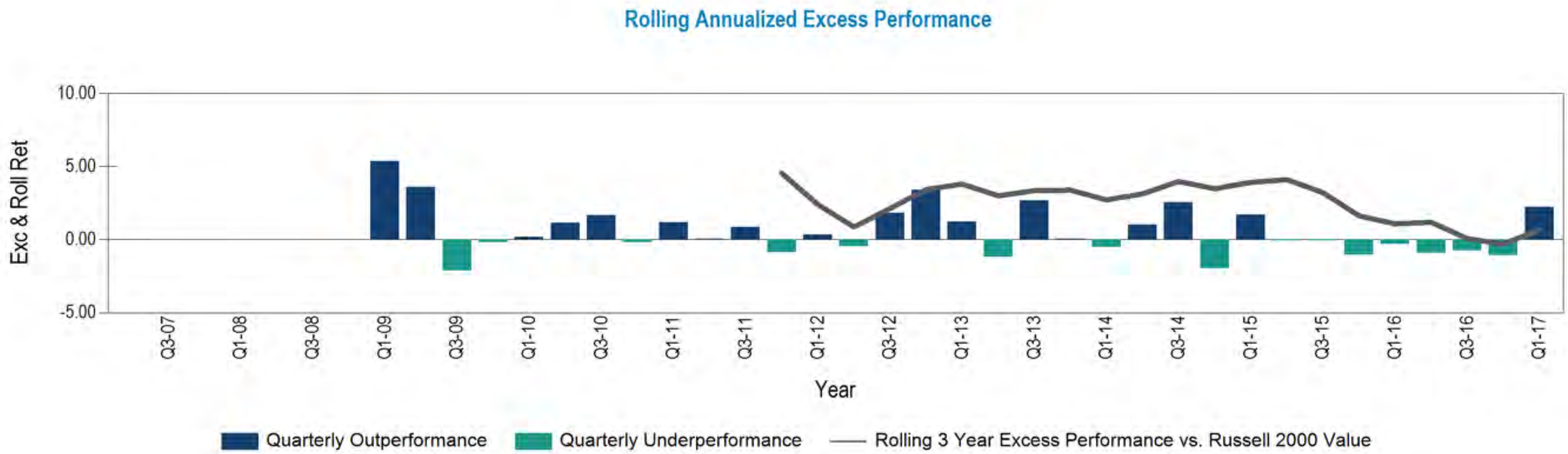
Top Contributors

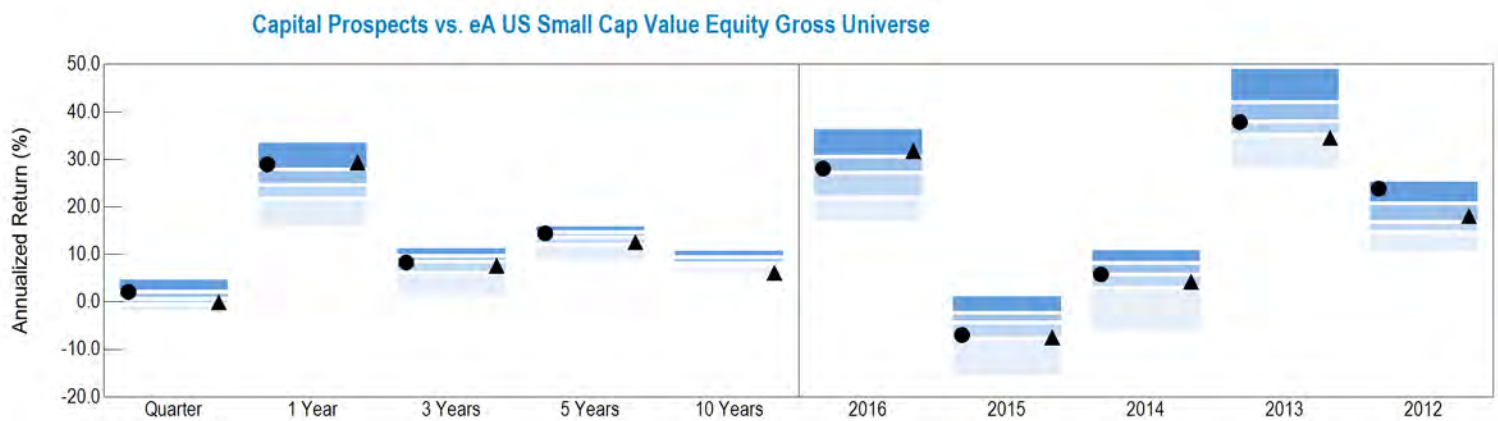
	Avg Wgt	Return	Contribution
ULTRA CLEAN HOLDINGS	0.41	73.92	0.30
GORES HOLDINGS CL.A	1.24	22.08	0.27
MERITOR	0.69	37.92	0.26
CAI INTERNATIONAL	0.32	81.55	0.26
ADVISORY BOARD	0.62	40.75	0.25
CRH MEDICAL	0.40	52.44	0.21
AIR METHODS	0.58	35.01	0.20
TWIN DISC	0.35	40.89	0.14
ALCOA	0.33	42.41	0.14
VERINT SYSTEMS	0.59	23.05	0.14

Bottom Contributors

	Avg Wgt	Return	Contribution
VISTA OUTDOOR	0.33	-44.20	-0.15
BABCOCK & WILCOX ENTS.	0.33	-43.70	-0.14
MODINE MANUFACTURING	0.59	-18.12	-0.11
MB FINANCIAL	1.17	-8.95	-0.11
ARC DOCUMENT SOLUTIONS	0.31	-32.09	-0.10
VERSO CL A ORD	0.61	-15.49	-0.09
FREIGHTCAR AMERICA	0.53	-15.56	-0.08
OIL STS.INTL.	0.53	-15.00	-0.08
PAM TRANSPORTATION SVS.	0.21	-37.30	-0.08
DYNAMIC MATS.	0.35	-21.64	-0.08

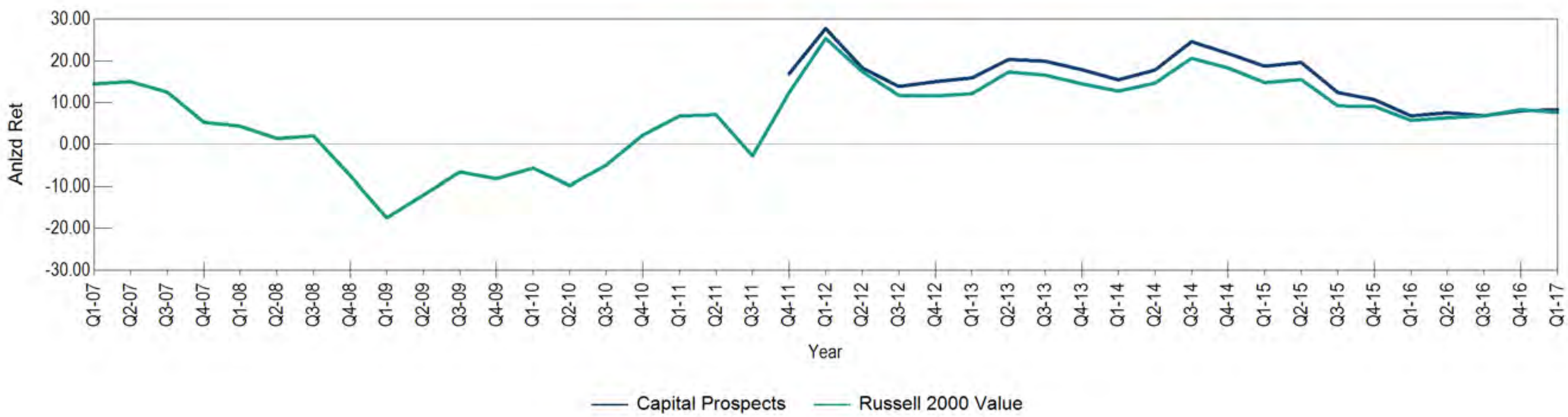
Unclassified sector allocation includes cash allocations.



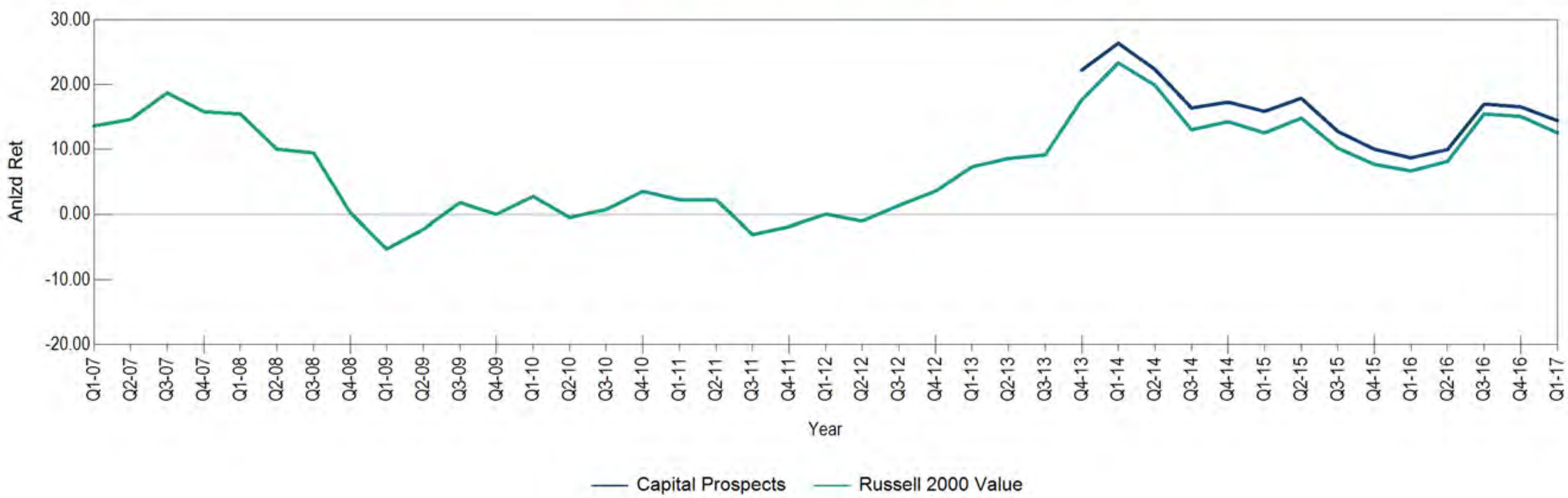


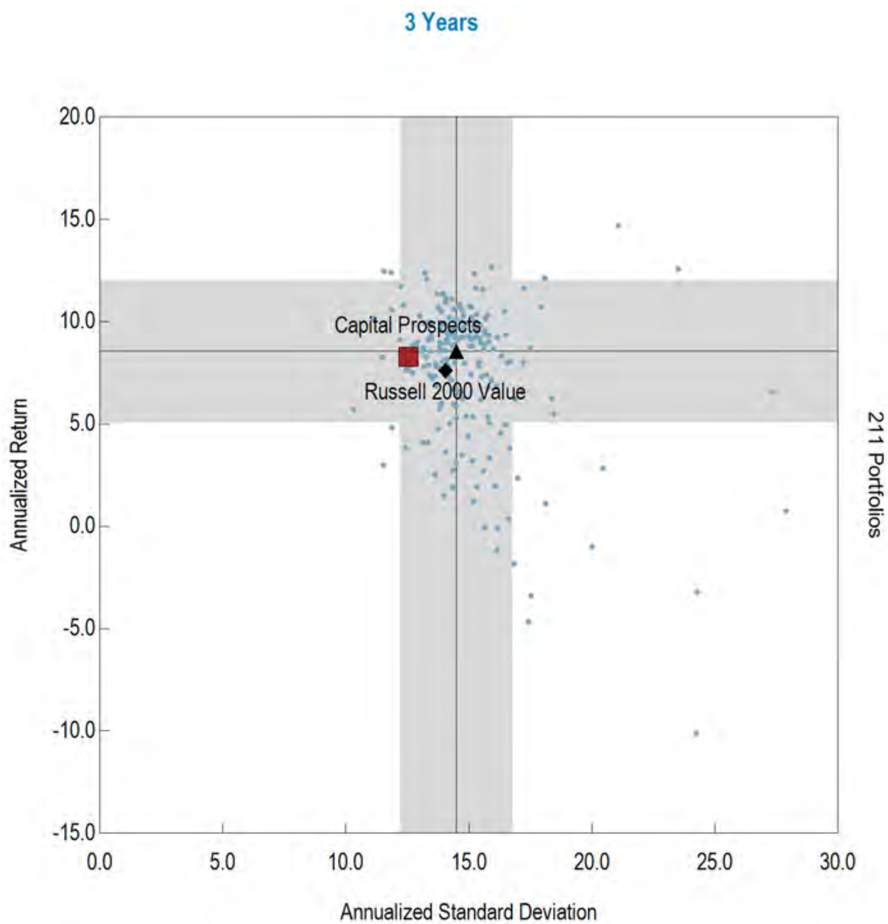
	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
Return (Rank)																				
5th Percentile	5.1		33.9		11.6		16.2		11.0		36.7		1.5		11.2		49.4		25.7	
25th Percentile	2.2		27.9		9.7		14.7		9.4		30.7		-2.2		8.2		42.1		20.8	
Median	0.7		24.7		8.6		13.6		8.2		27.2		-4.3		5.8		38.1		16.9	
75th Percentile	-0.5		21.9		6.2		12.2		7.4		22.2		-7.7		3.1		35.2		14.7	
95th Percentile	-2.2		15.8		0.9		8.5		5.7		16.8		-15.8		-6.3		27.8		10.3	
# of Portfolios	217		217		211		201		169		222		212		206		199		187	
● Capital Prospects	2.1	(26)	28.9	(20)	8.3	(53)	14.4	(29)	--	(--)	28.1	(40)	-7.0	(72)	5.8	(51)	37.9	(53)	23.8	(9)
▲ Russell 2000 Value	-0.1	(67)	29.4	(17)	7.6	(64)	12.5	(70)	6.1	(93)	31.7	(17)	-7.5	(74)	4.2	(68)	34.5	(78)	18.1	(43)

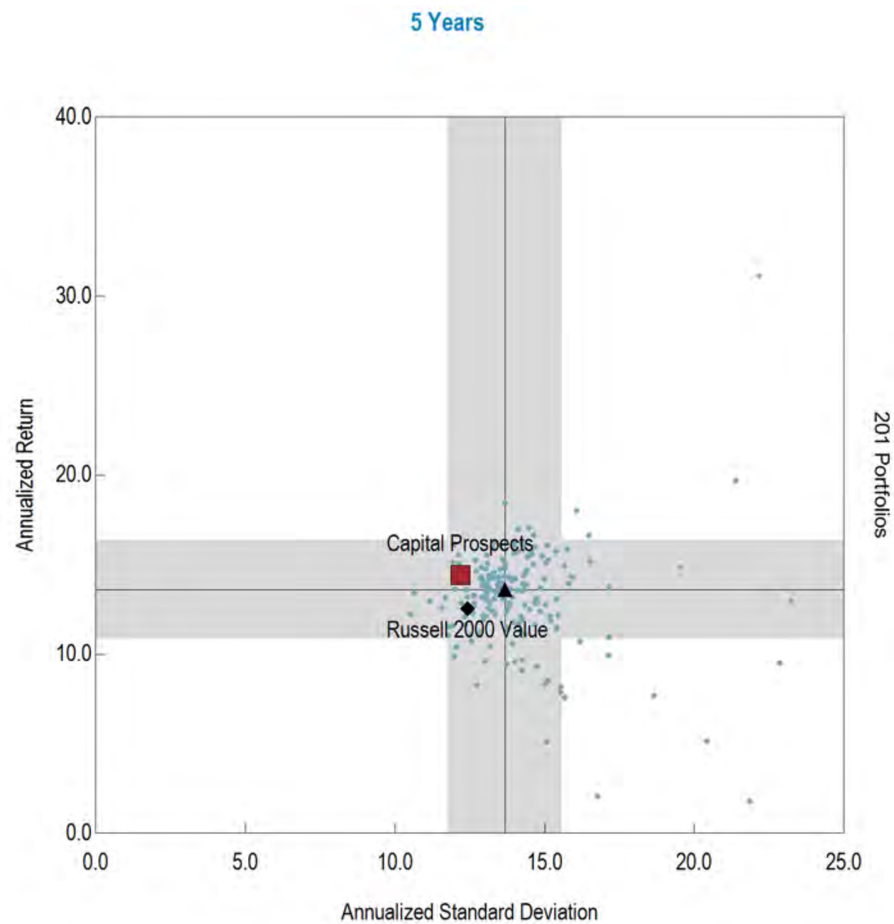
Rolling 3 Year Annualized Return (%)



Rolling 5 Year Annualized Return (%)







3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Capital Prospects	8.3%	12.5%	0.6
Russell 2000 Value	7.6%	14.0%	0.5
eA US Small Cap Value Equity Gross Median	8.6%	14.5%	0.6

5 Years

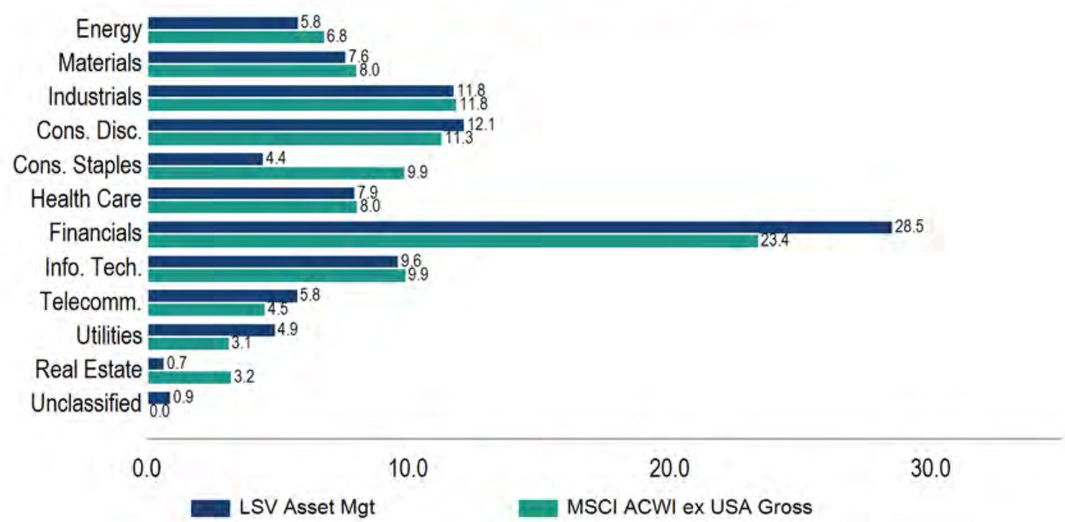
	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Capital Prospects	14.4%	12.2%	1.2
Russell 2000 Value	12.5%	12.4%	1.0
eA US Small Cap Value Equity Gross Median	13.6%	13.7%	1.0

International Equity Managers

Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	261	1,853
Weighted Avg. Market Cap. ($B)	33.01	53.05
Median Market Cap. ($B)	7.26	7.30
Price To Earnings	14.63	20.71
Price To Book	1.72	2.48
Price To Sales	1.07	2.11
Return on Equity (%)	12.63	13.23
Yield (%)	3.53	2.86
Beta	1.08	1.00

Sector Allocation (%) vs MSCI ACWI ex USA Gross



Largest Holdings

	End Weight	Return
SAMSUNG ELECTRONICS	2.05	23.47
SANOFI	1.77	11.58
NIPPON TELG. & TEL.	1.47	2.50
BAE SYSTEMS	1.35	9.92
ALLIANZ	1.28	12.45
MAGNA INTL.	1.16	-0.38
SWISS LIFE HOLDING	1.12	13.87
KDDI	1.09	4.89
DAIMLER	0.98	3.87
BAYER	0.97	10.80

Top Contributors

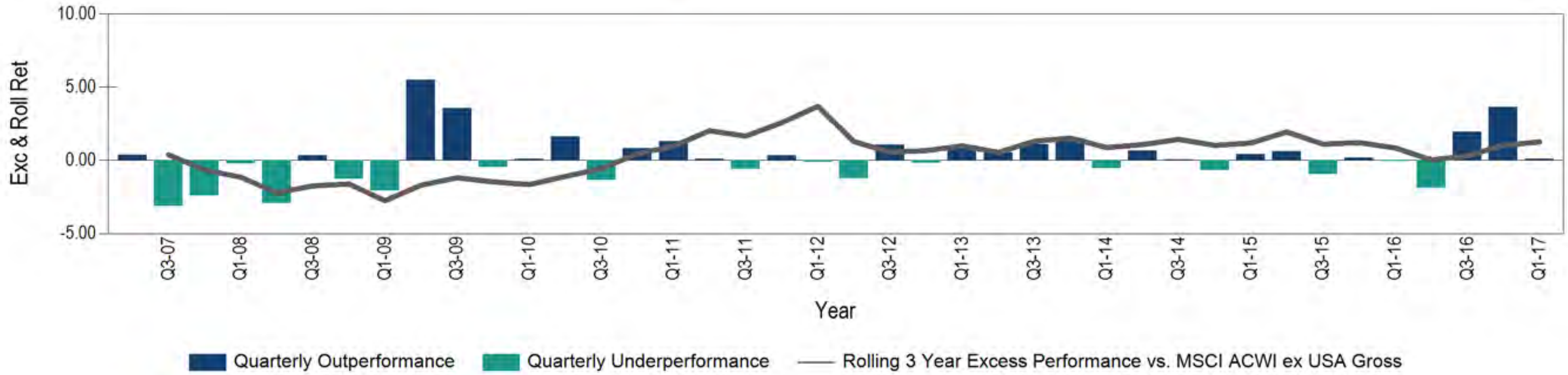
	Avg Wgt	Return	Contribution
SAMSUNG ELECTRONICS	1.91	23.47	0.45
BYD ELECTRONIC (INTL.)	0.34	76.63	0.26
SANOFI	1.69	11.58	0.20
MITSUBISHI GAS CHM.	0.77	22.35	0.17
FUFENG GROUP	0.25	63.92	0.16
ALLIANZ	1.23	12.45	0.15
SWISS LIFE HOLDING	1.09	13.87	0.15
RHEINMETALL	0.56	25.59	0.14
ATOS	0.82	17.28	0.14
BAE SYSTEMS	1.32	9.92	0.13

Bottom Contributors

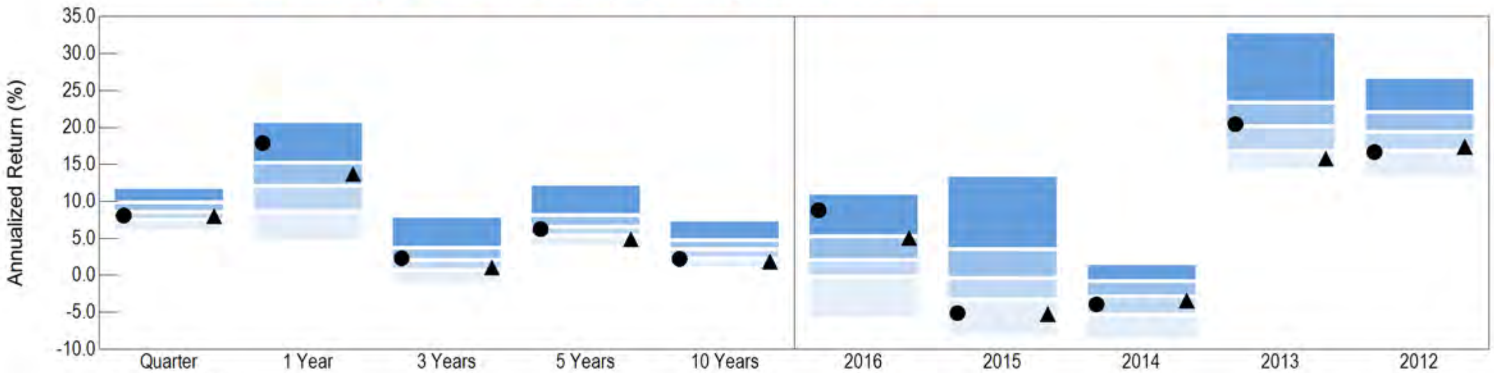
	Avg Wgt	Return	Contribution
FLETCHER BUILDING	0.41	-18.98	-0.08
ARYZTA	0.23	-25.72	-0.06
SWISS RE	1.04	-5.35	-0.06
BP	0.64	-7.52	-0.05
TEVA PHARMACEUTICAL	0.41	-11.21	-0.05
GO-AHEAD GROUP	0.22	-20.65	-0.05
GTT	0.31	-13.04	-0.04
NORTH PACIFIC BANK	0.49	-7.20	-0.04
OAO GAZPROM ADS (LON)	0.34	-10.34	-0.03
KANEKA	0.40	-7.99	-0.03

Unclassified sector allocation includes cash allocations.

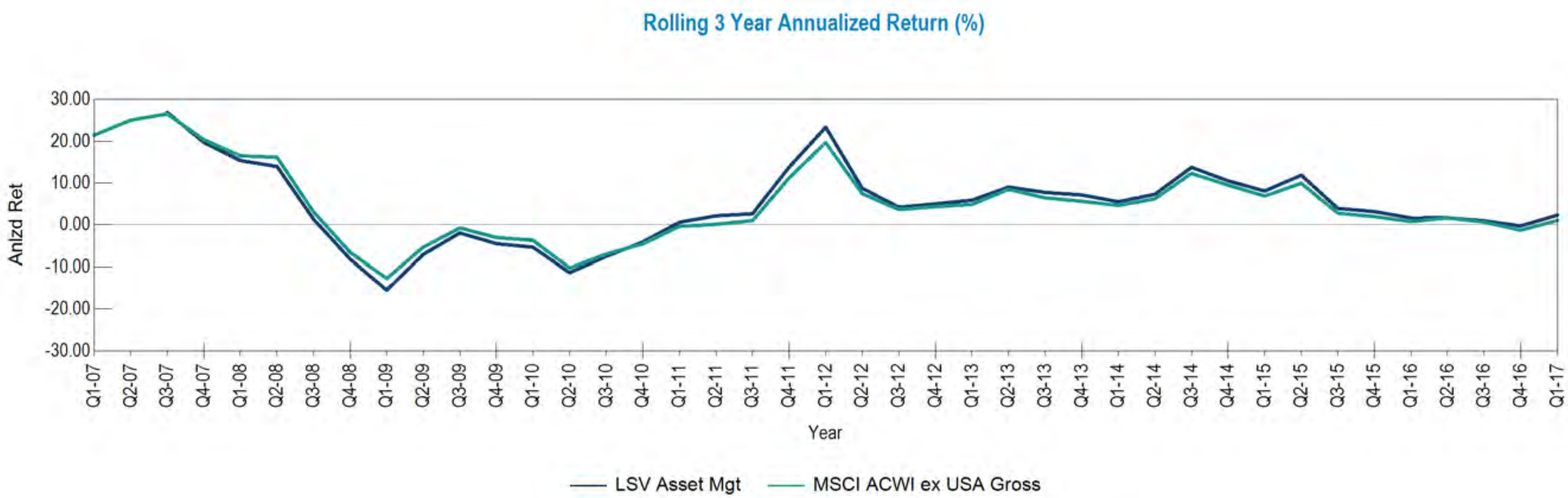
Rolling Annualized Excess Performance

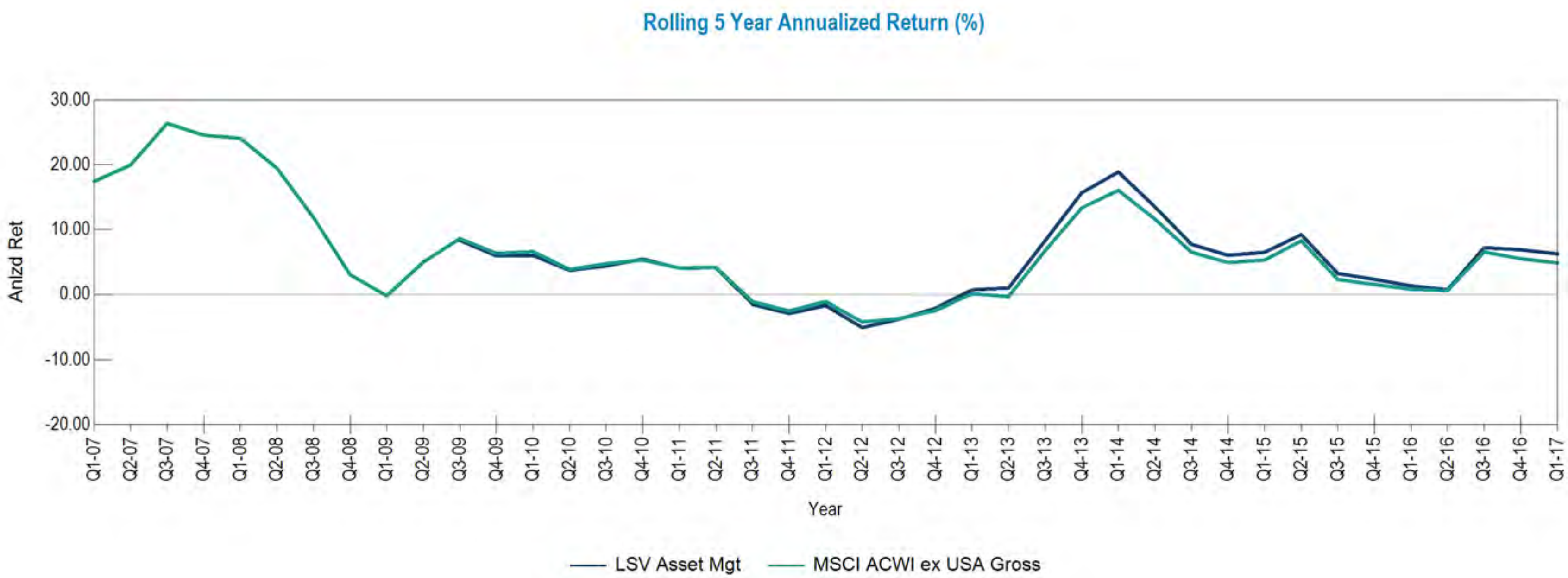


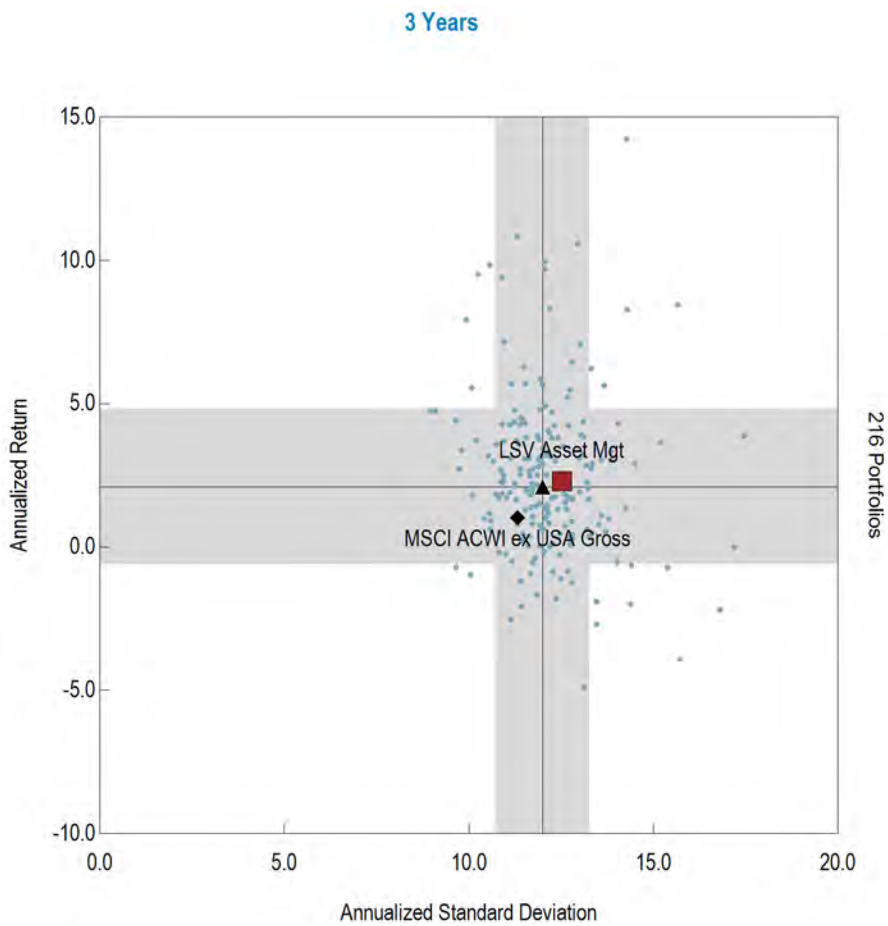
LSV Asset Mgt vs. eA ACWI ex-US Equity Unhedged Gross Universe

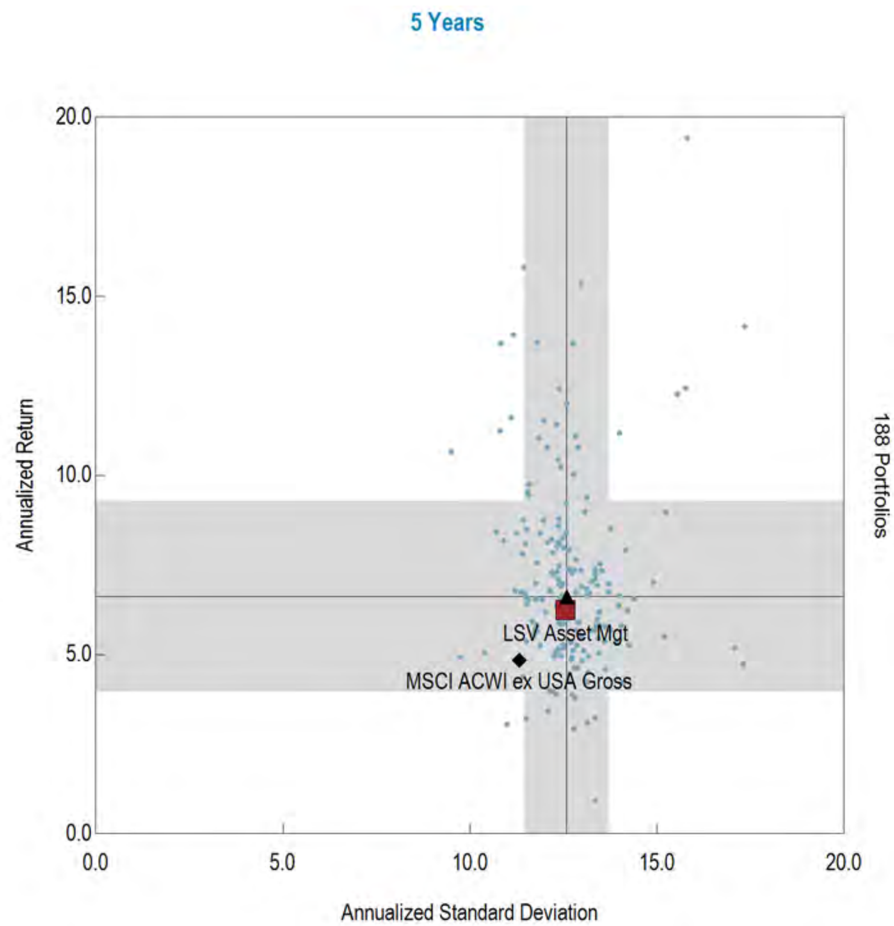


Return (Rank)	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
5th Percentile	11.9		20.9		8.0		12.4		7.5		11.1		13.5		1.6		32.9		26.8	
25th Percentile	9.9		15.3		3.7		8.1		4.8		5.3		3.5		-0.8		23.4		22.1	
Median	8.6		12.1		2.1		6.6		3.6		2.1		-0.3		-2.9		20.3		19.5	
75th Percentile	7.6		8.7		0.7		5.4		2.3		-0.2		-3.3		-5.3		16.9		16.9	
95th Percentile	6.0		4.5		-1.2		3.9		1.0		-5.8		-8.3		-8.7		14.3		13.2	
# of Portfolios	240		240		216		188		126		238		179		147		136		127	
● LSV Asset Mgt	8.1	(64)	17.9	(11)	2.3	(46)	6.2	(57)	2.2	(76)	8.8	(10)	-5.1	(86)	-4.0	(65)	20.4	(46)	16.7	(78)
▲ MSCI ACWI ex USA Gross	8.0	(68)	13.7	(36)	1.0	(71)	4.8	(88)	1.8	(85)	5.0	(27)	-5.3	(87)	-3.4	(58)	15.8	(87)	17.4	(74)


Rolling 3 Year Annualized Return (%)
Anlzd Ret
30.00
20.00
10.00
0.00
-10.00
-20.00
-30.00
Year
LSV Asset Mgt
MSCI ACWI ex USA Gross


Rolling 5 Year Annualized Return (%)
Anlzd Ret
30.00
20.00
10.00
0.00
-10.00
-20.00
Year
LSV Asset Mgt
MSCI ACWI ex USA Gross





3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
LSV Asset Mgt	2.3%	12.5%	0.2
MSCI ACWI ex USA Gross	1.0%	11.3%	0.1
eA ACWI ex-US Equity Unhedged Gross Median	2.1%	12.0%	0.2

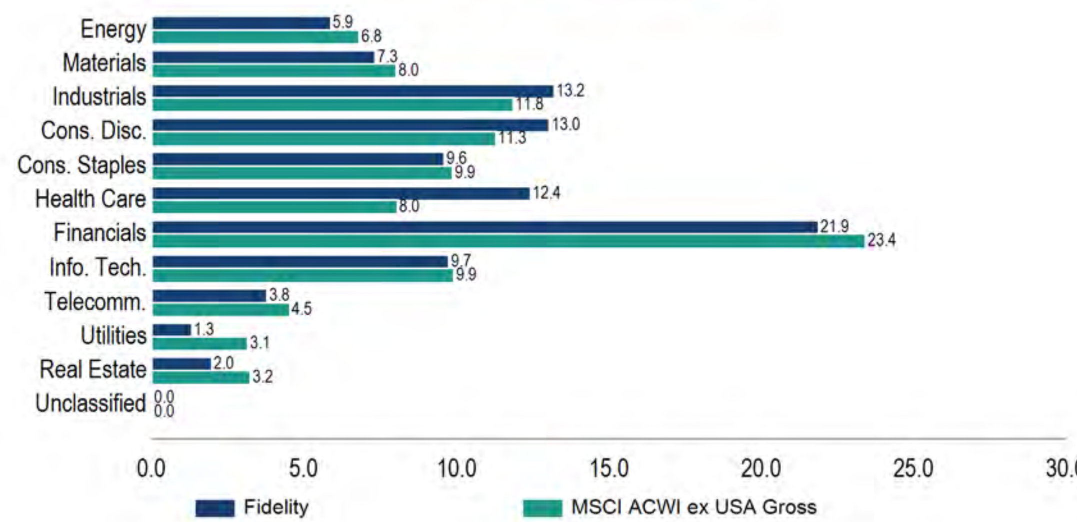
5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
LSV Asset Mgt	6.2%	12.6%	0.5
MSCI ACWI ex USA Gross	4.8%	11.3%	0.4
eA ACWI ex-US Equity Unhedged Gross Median	6.6%	12.6%	0.5

Characteristics

	Portfolio	MSCI ACWI ex USA Gross
Number of Holdings	286	1,853
Weighted Avg. Market Cap. ($B)	50.99	53.05
Median Market Cap. ($B)	13.24	7.30
Price To Earnings	24.27	20.71
Price To Book	3.56	2.48
Price To Sales	2.64	2.11
Return on Equity (%)	16.95	13.23
Yield (%)	2.63	2.86
Beta	0.90	1.00

Sector Allocation (%) vs MSCI ACWI ex USA Gross



Largest Holdings

	End Weight	Return
NESTLE 'R'	1.73	6.82
SAP	1.49	12.87
ROCHE HOLDING	1.42	15.30
BRITISH AMERICAN TOBACCO	1.32	18.72
ROYAL DUTCH SHELL A	1.21	-2.25
PHILIPS ELTN.KONINKLIJKE	1.14	5.35
AIA GROUP	1.10	11.73
SAMSUNG ELECTRONICS	1.08	23.47
TOTAL	1.05	-0.01
TAIWAN SEMICON.MNFG.	1.01	10.61

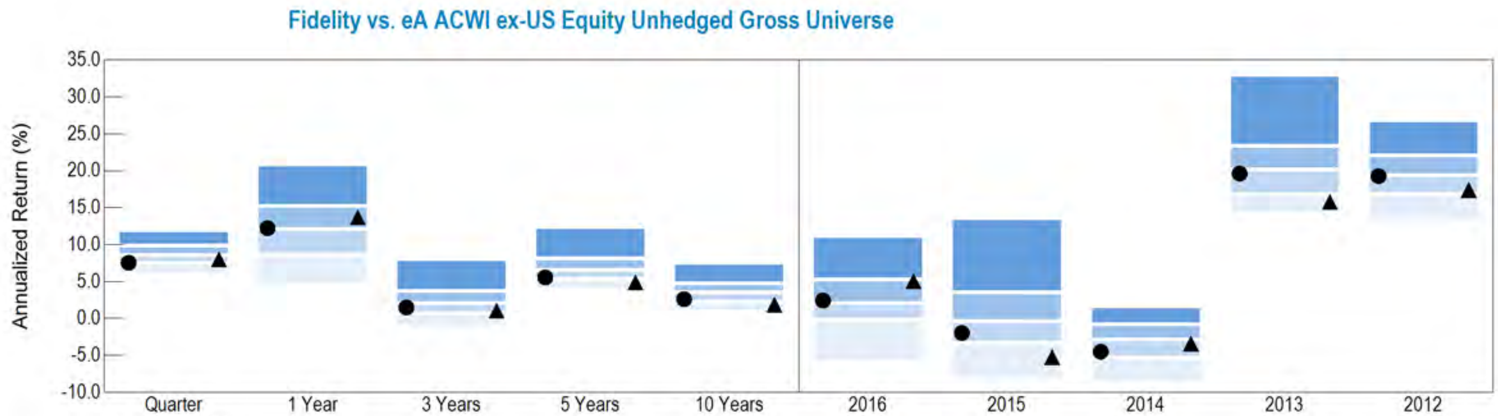
Top Contributors

	Avg Wgt	Return	Contribution
SAMSUNG ELECTRONICS	1.09	23.47	0.25
BRITISH AMERICAN TOBACCO	1.21	18.72	0.23
ROCHE HOLDING	1.29	15.30	0.20
SAP	1.45	12.87	0.19
HOUSING DEVELOPMENT FIN.	0.72	24.62	0.18
NASPERS	0.91	17.22	0.16
NSK	0.58	24.13	0.14
AIA GROUP	1.10	11.73	0.13
CSL	0.38	32.38	0.12
CCL PRODUCTS (INDIA)	0.34	35.41	0.12

Bottom Contributors

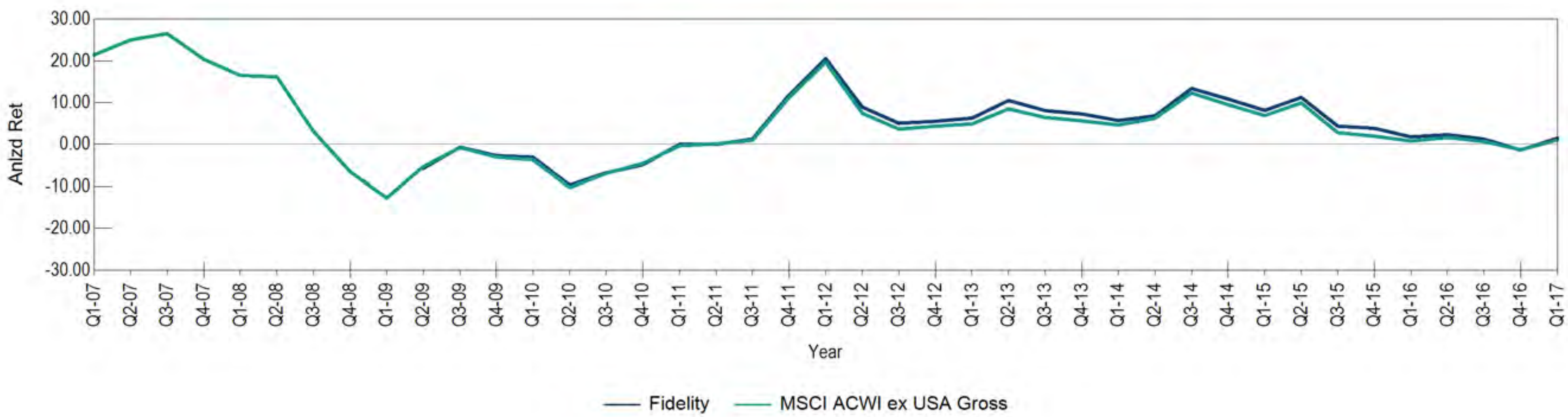
	Avg Wgt	Return	Contribution
BT GROUP	0.82	-12.23	-0.10
TEVA PHARMACEUTICAL	0.43	-11.21	-0.05
TOYOTA MOTOR	0.56	-8.05	-0.05
MITSUI FUDOSAN	0.54	-7.53	-0.04
MAGNIT	0.43	-8.78	-0.04
NICE INFO.& TELECOM.	0.21	-18.14	-0.04
ROYAL DUTCH SHELL A(LON)	0.94	-3.74	-0.04
MARUI GROUP	0.51	-6.28	-0.03
ORIX	0.74	-3.88	-0.03
ROYAL DUTCH SHELL A	1.27	-2.25	-0.03

Unclassified sector allocation includes cash allocations.

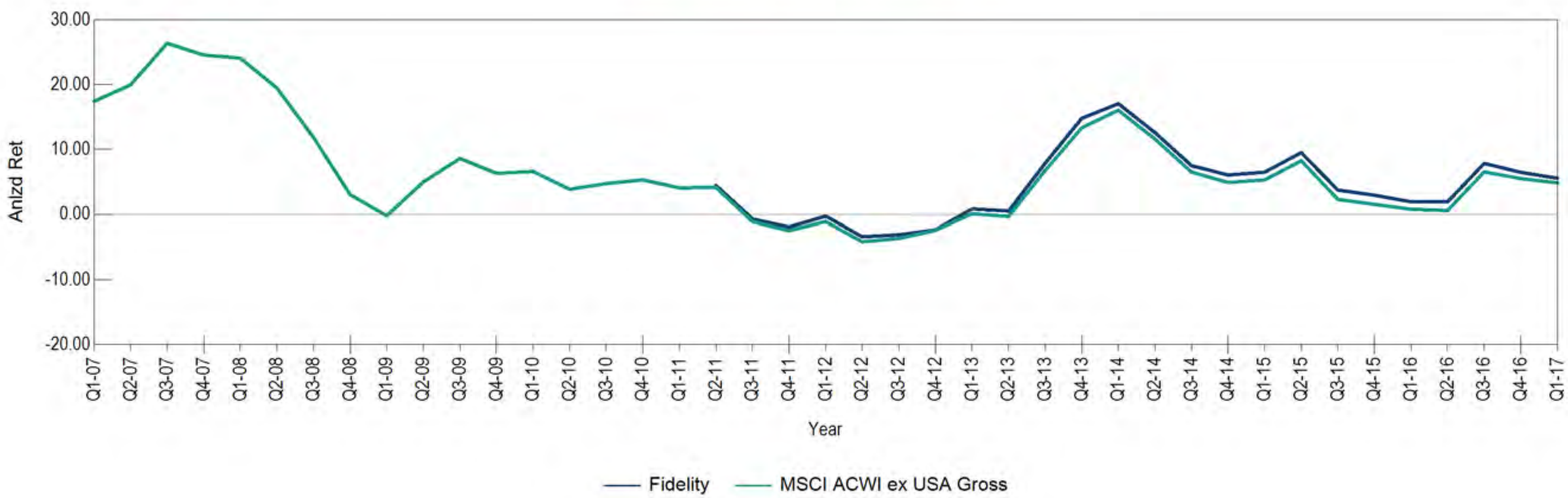


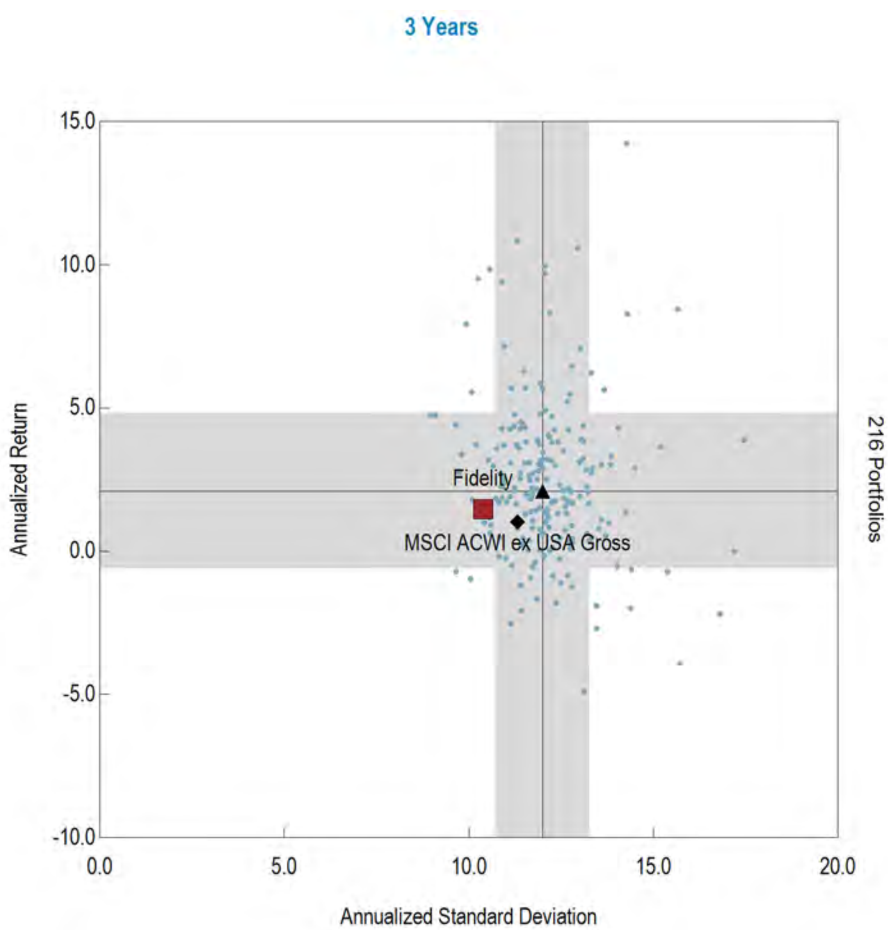
	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
Return (Rank)																				
5th Percentile	11.9		20.9		8.0		12.4		7.5		11.1		13.5		1.6		32.9		26.8	
25th Percentile	9.9		15.3		3.7		8.1		4.8		5.3		3.5		-0.8		23.4		22.1	
Median	8.6		12.1		2.1		6.6		3.6		2.1		-0.3		-2.9		20.3		19.5	
75th Percentile	7.6		8.7		0.7		5.4		2.3		-0.2		-3.3		-5.3		16.9		16.9	
95th Percentile	6.0		4.5		-1.2		3.9		1.0		-5.8		-8.3		-8.7		14.3		13.2	
# of Portfolios	240		240		216		188		126		238		179		147		136		127	
● Fidelity	7.5	(78)	12.2	(50)	1.5	(62)	5.5	(72)	2.6	(72)	2.4	(46)	-2.0	(66)	-4.5	(70)	19.6	(55)	19.3	(55)
▲ MSCI ACWI ex USA Gross	8.0	(68)	13.7	(36)	1.0	(71)	4.8	(88)	1.8	(85)	5.0	(27)	-5.3	(87)	-3.4	(58)	15.8	(87)	17.4	(74)

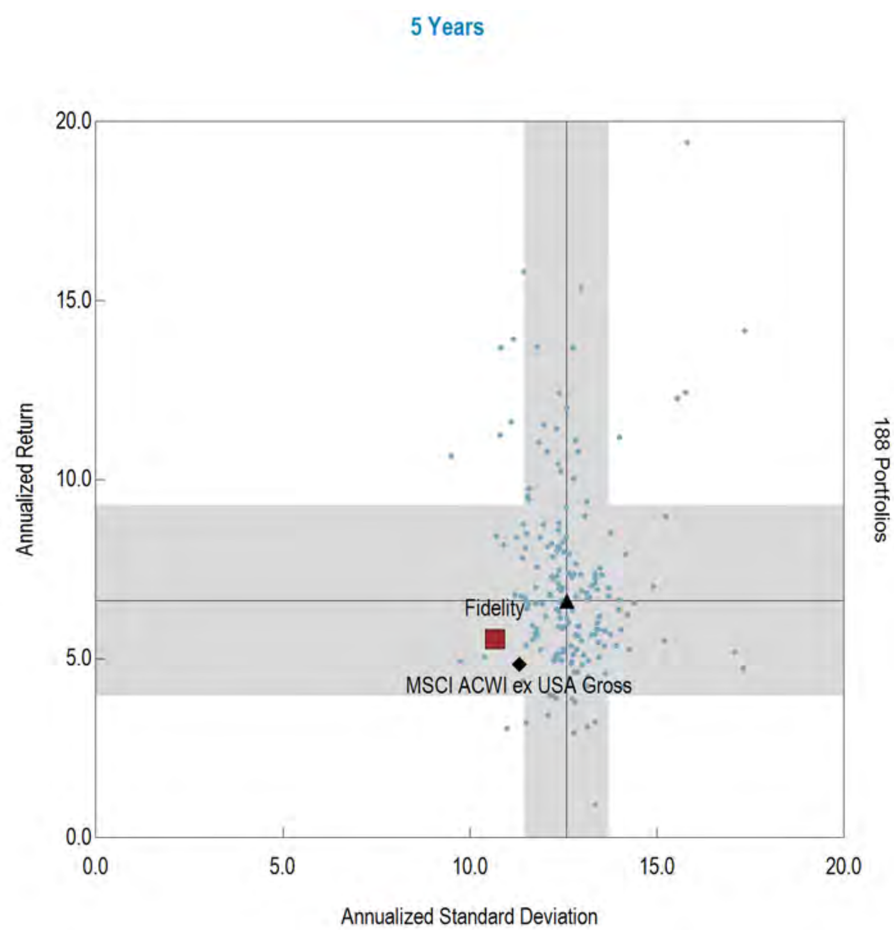
Rolling 3 Year Annualized Return (%)



Rolling 5 Year Annualized Return (%)







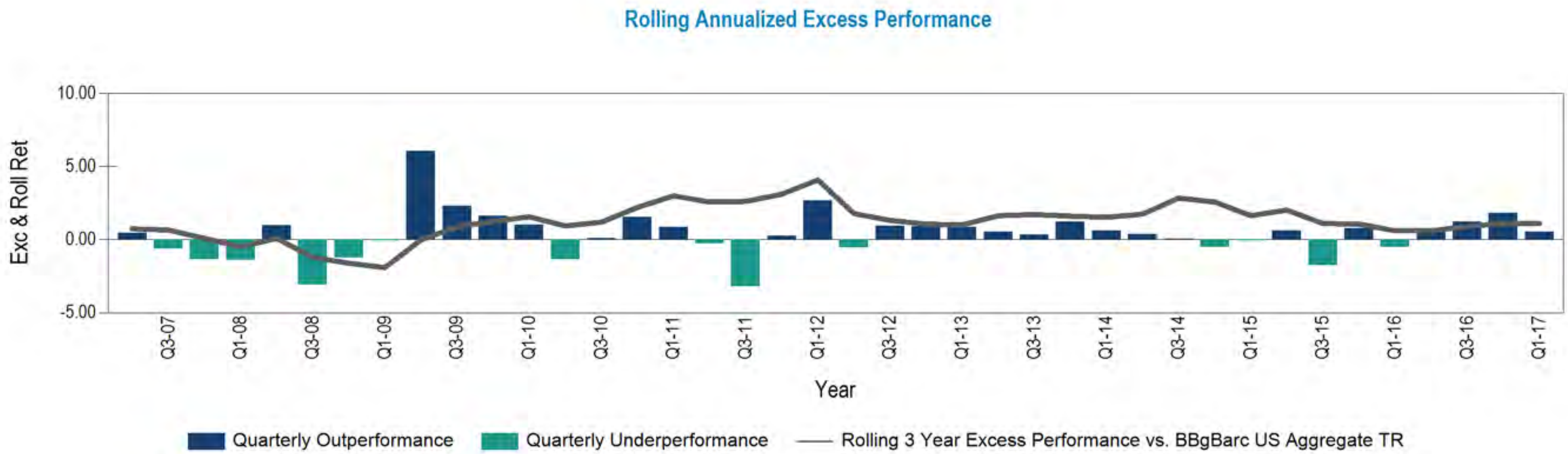
3 Years

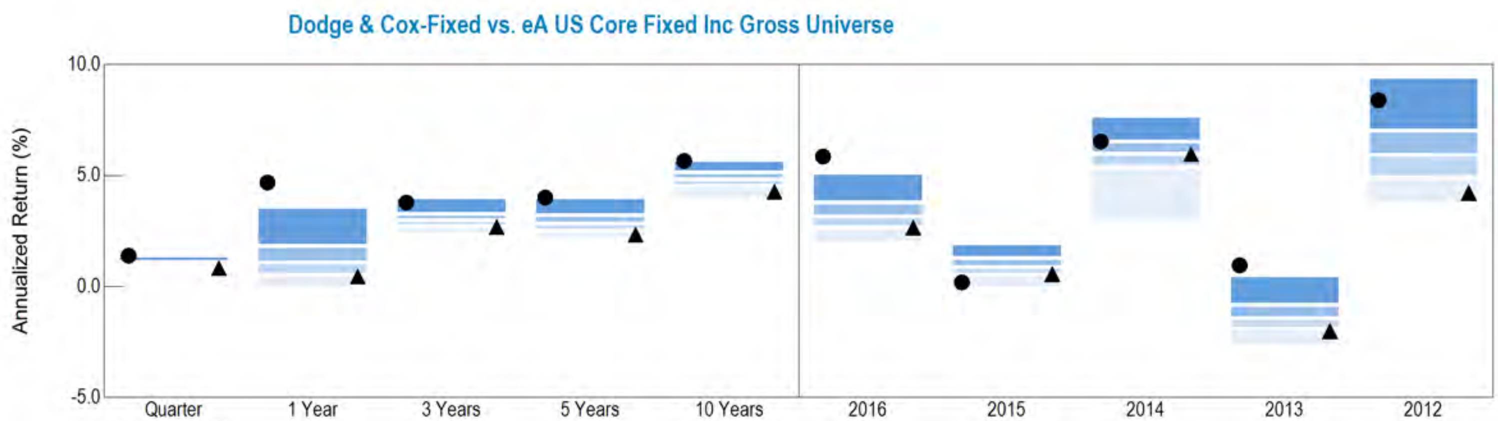
	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Fidelity	1.5%	10.4%	0.1
MSCI ACWI ex USA Gross	1.0%	11.3%	0.1
eA ACWI ex-US Equity Unhedged Gross Median	2.1%	12.0%	0.2

5 Years

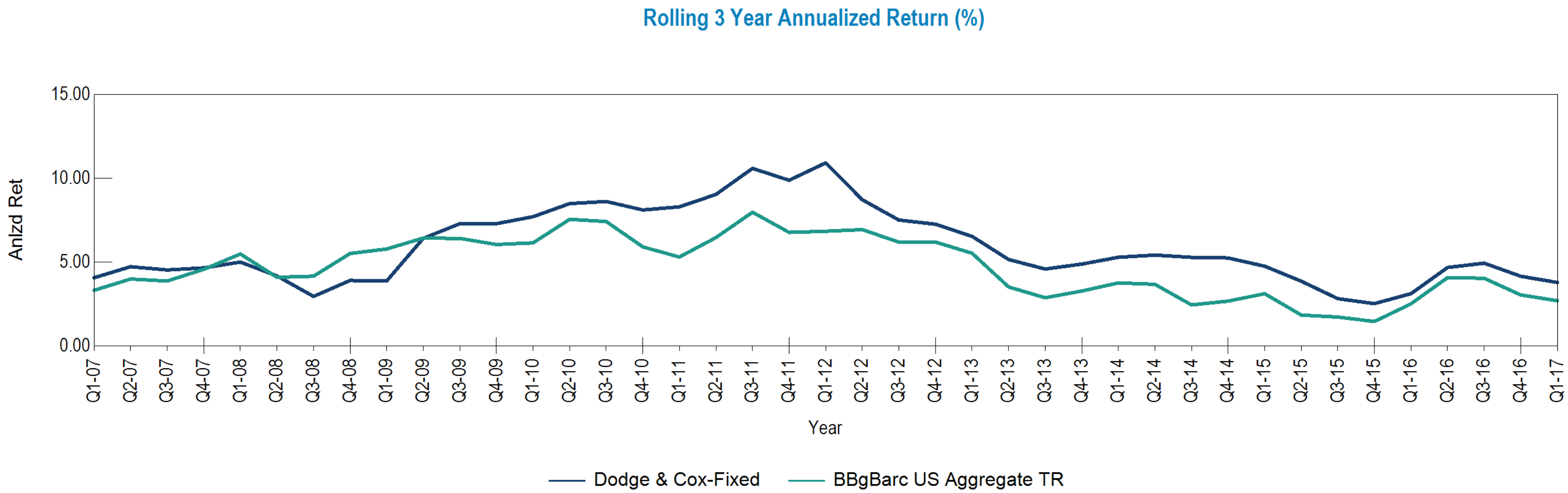
	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Fidelity	5.5%	10.7%	0.5
MSCI ACWI ex USA Gross	4.8%	11.3%	0.4
eA ACWI ex-US Equity Unhedged Gross Median	6.6%	12.6%	0.5

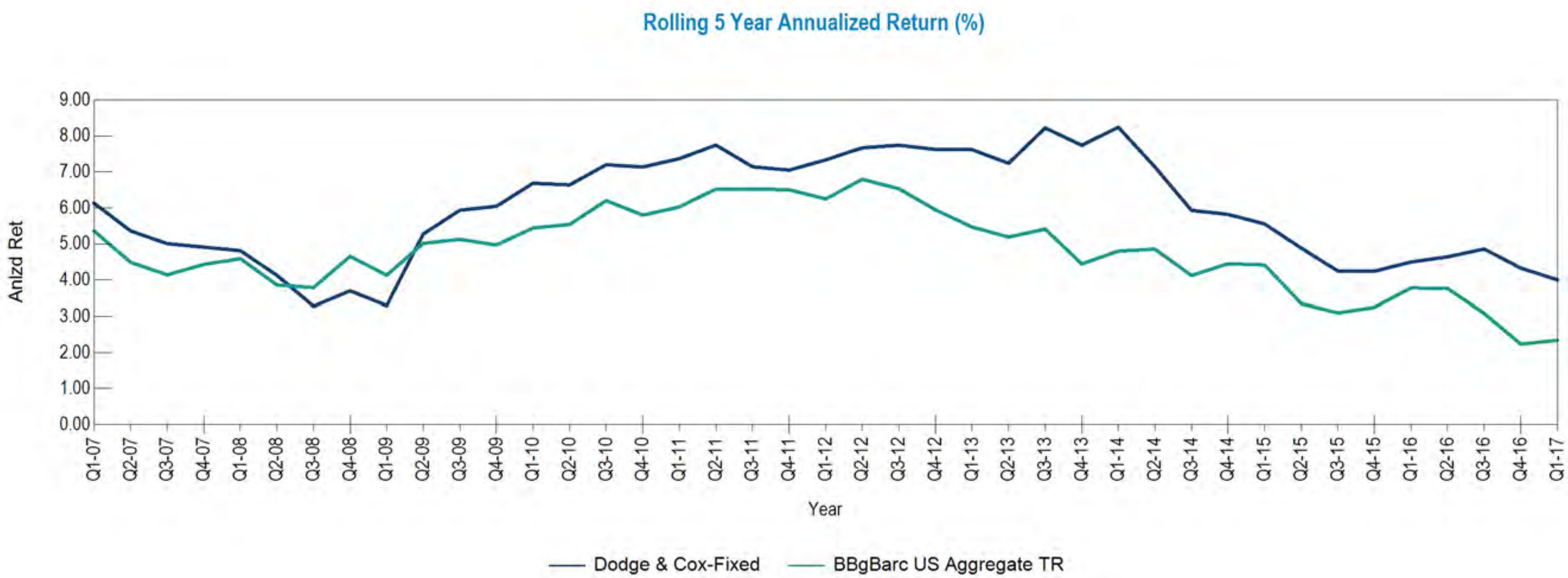
Domestic Fixed Income Managers





Return (Rank)	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
5th Percentile	1.4		3.6		4.0		4.0		5.7		5.1		1.9		7.7		0.5		9.4	
25th Percentile	1.1		1.8		3.3		3.2		5.1		3.8		1.3		6.5		-0.8		7.0	
Median	0.9		1.1		3.0		2.8		4.8		3.2		0.9		6.0		-1.4		5.9	
75th Percentile	0.8		0.5		2.7		2.5		4.6		2.7		0.5		5.4		-1.9		4.9	
95th Percentile	0.7		-0.1		2.3		2.2		4.0		2.0		-0.1		2.9		-2.7		3.7	
# of Portfolios	210		210		209		207		186		223		196		213		209		228	
● Dodge & Cox-Fixed	1.4	(6)	4.7	(2)	3.8	(8)	4.0	(6)	5.7	(6)	5.9	(3)	0.2	(89)	6.5	(26)	0.9	(3)	8.4	(9)
▲ BBgBarc US Aggregate TR	0.8	(76)	0.4	(78)	2.7	(81)	2.3	(89)	4.3	(90)	2.6	(77)	0.6	(75)	6.0	(52)	-2.0	(82)	4.2	(90)

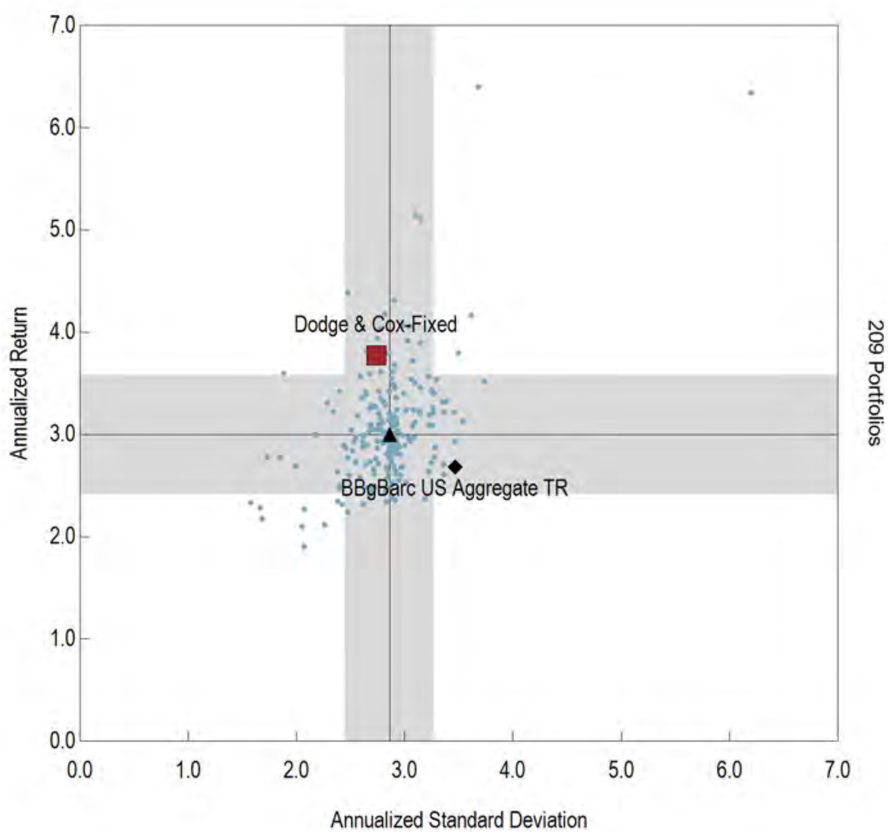

Rolling 3 Year Annualized Return (%)
15.00
10.00
5.00
0.00
Anlzd Ret
Q1-07
Q2-07
Q3-07
Q4-07
Q1-08
Q2-08
Q3-08
Q4-08
Q1-09
Q2-09
Q3-09
Q4-09
Q1-10
Q2-10
Q3-10
Q4-10
Q1-11
Q2-11
Q3-11
Q4-11
Q1-12
Q2-12
Q3-12
Q4-12
Q1-13
Q2-13
Q3-13
Q4-13
Q1-14
Q2-14
Q3-14
Q4-14
Q1-15
Q2-15
Q3-15
Q4-15
Q1-16
Q2-16
Q3-16
Q4-16
Q1-17
Year
Dodge & Cox-Fixed
BBgBarc US Aggregate TR


Rolling 5 Year Annualized Return (%)
9.00
8.00
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Anlzd Ret
Q1-07
Q2-07
Q3-07
Q4-07
Q1-08
Q2-08
Q3-08
Q4-08
Q1-09
Q2-09
Q3-09
Q4-09
Q1-10
Q2-10
Q3-10
Q4-10
Q1-11
Q2-11
Q3-11
Q4-11
Q1-12
Q2-12
Q3-12
Q4-12
Q1-13
Q2-13
Q3-13
Q4-13
Q1-14
Q2-14
Q3-14
Q4-14
Q1-15
Q2-15
Q3-15
Q4-15
Q1-16
Q2-16
Q3-16
Q4-16
Q1-17
Year
Dodge & Cox-Fixed
BBgBarc US Aggregate TR

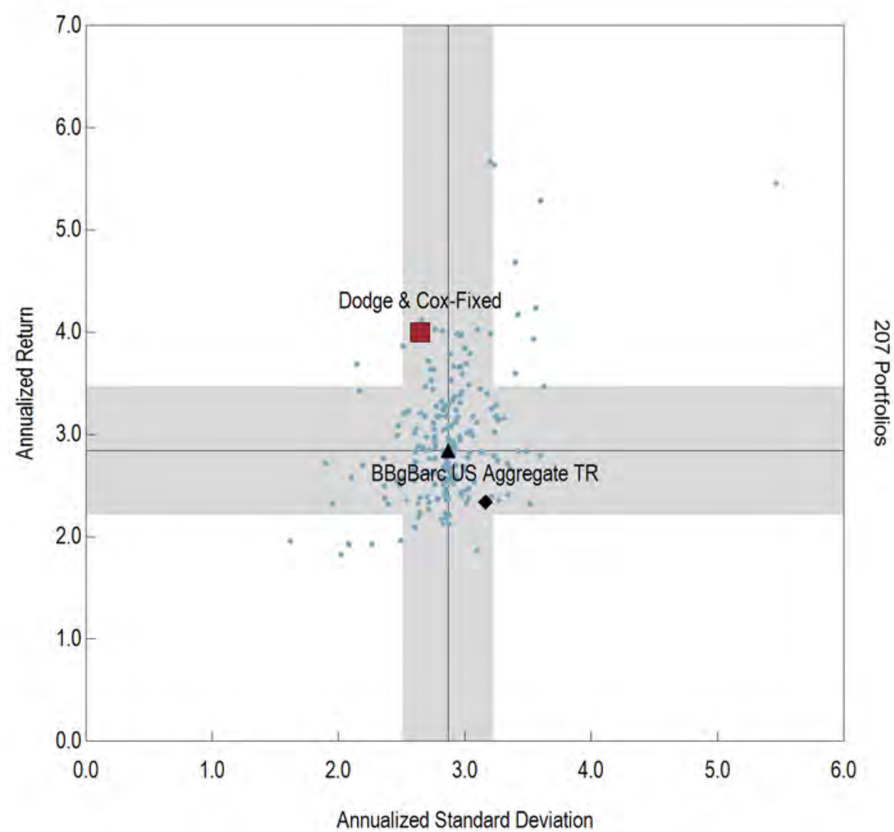
Dodge & Cox-Fixed

Risk vs. Return 3 & 5 Year (Gross of Fees) Period Ending: March 31, 2017

3 Years



5 Years

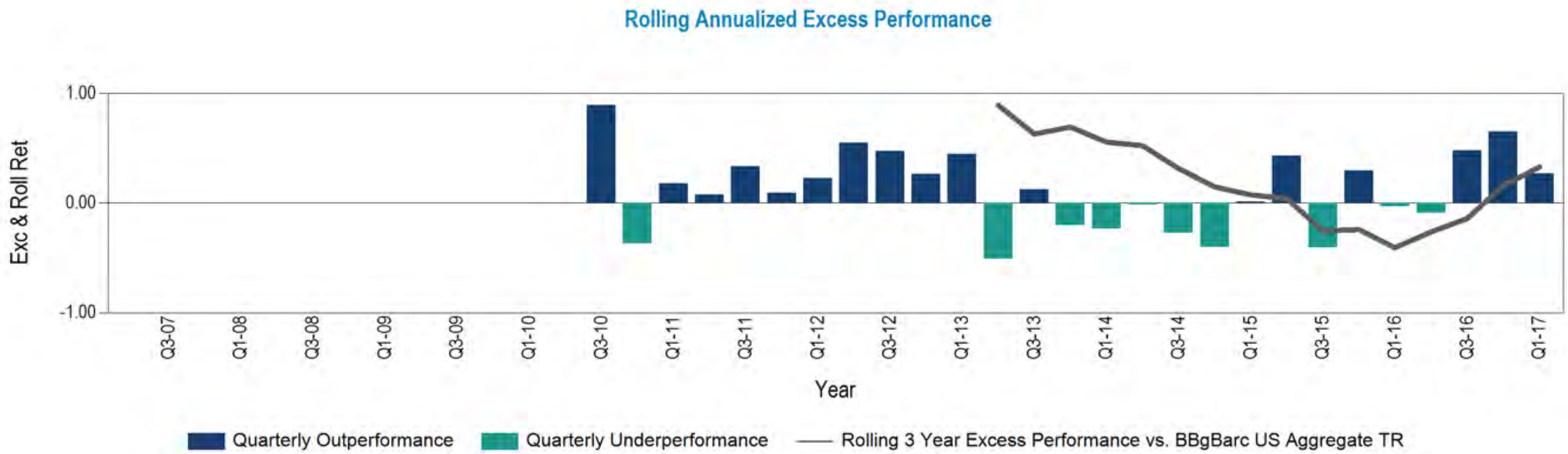


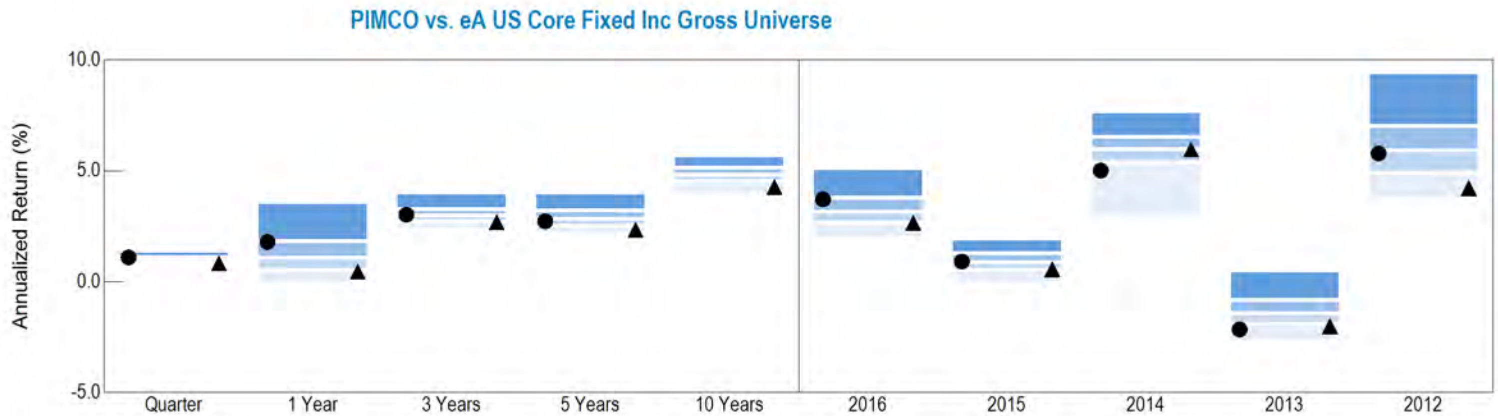
3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Dodge & Cox-Fixed	3.8%	2.7%	1.3
BBgBarc US Aggregate TR	2.7%	3.5%	0.7
eA US Core Fixed Inc Gross Median	3.0%	2.9%	1.0

5 Years

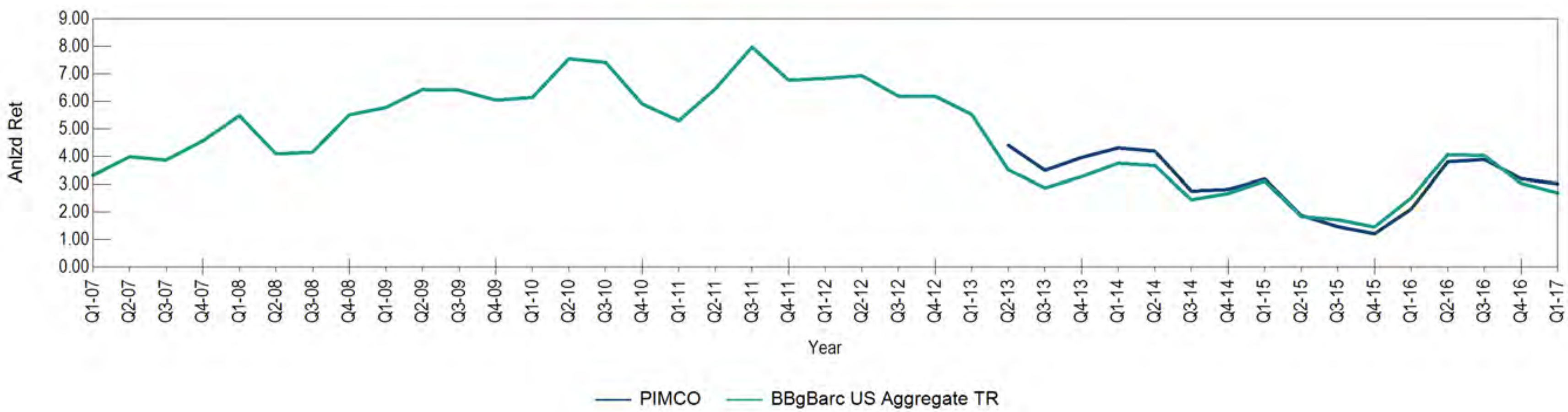
	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
Dodge & Cox-Fixed	4.0%	2.6%	1.5
BBgBarc US Aggregate TR	2.3%	3.2%	0.7
eA US Core Fixed Inc Gross Median	2.8%	2.9%	1.0



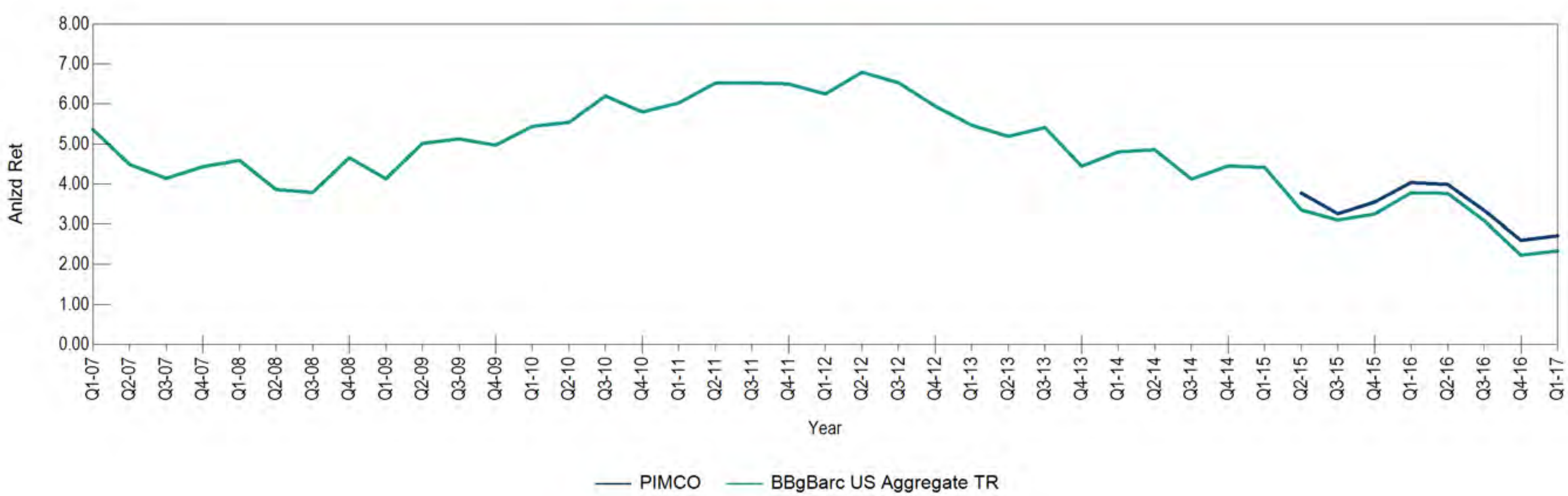


	Quarter		1 Year		3 Years		5 Years		10 Years		2016		2015		2014		2013		2012	
Return (Rank)																				
5th Percentile	1.4		3.6		4.0		4.0		5.7		5.1		1.9		7.7		0.5		9.4	
25th Percentile	1.1		1.8		3.3		3.2		5.1		3.8		1.3		6.5		-0.8		7.0	
Median	0.9		1.1		3.0		2.8		4.8		3.2		0.9		6.0		-1.4		5.9	
75th Percentile	0.8		0.5		2.7		2.5		4.6		2.7		0.5		5.4		-1.9		4.9	
95th Percentile	0.7		-0.1		2.3		2.2		4.0		2.0		-0.1		2.9		-2.7		3.7	
# of Portfolios	210		210		209		207		186		223		196		213		209		228	
● PIMCO	1.1	(28)	1.8	(27)	3.0	(48)	2.7	(62)	--	(--)	3.7	(29)	0.9	(49)	5.0	(83)	-2.2	(89)	5.8	(54)
▲ BBgBarc US Aggregate TR	0.8	(76)	0.4	(78)	2.7	(81)	2.3	(89)	4.3	(90)	2.6	(77)	0.6	(75)	6.0	(52)	-2.0	(82)	4.2	(90)

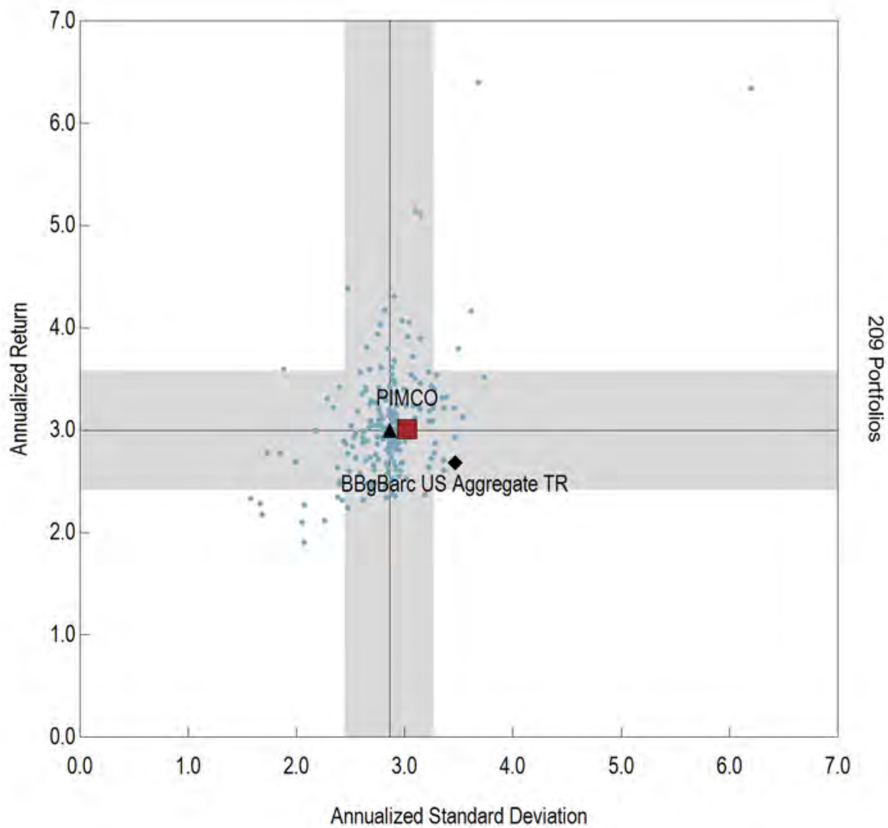
Rolling 3 Year Annualized Return (%)



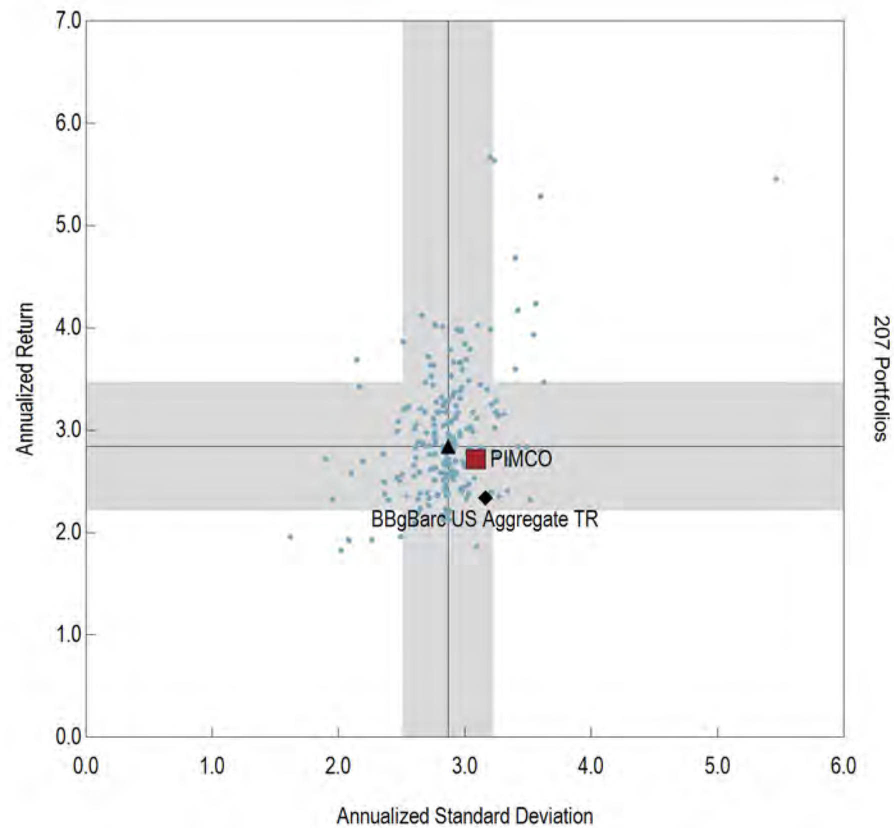
Rolling 5 Year Annualized Return (%)



3 Years



5 Years



3 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
PIMCO	3.0%	3.0%	0.9
BBgBarc US Aggregate TR	2.7%	3.5%	0.7
eA US Core Fixed Inc Gross Median	3.0%	2.9%	1.0

5 Years

	Anlzd Return	Anlzd Standard Deviation	Sharpe Ratio
PIMCO	2.7%	3.1%	0.8
BBgBarc US Aggregate TR	2.3%	3.2%	0.7
eA US Core Fixed Inc Gross Median	2.8%	2.9%	1.0

Performance Return Calculations

Performance is calculated using Modified Dietz and for time periods with large cash flow (generally greater than 10% of portfolio value), Time Weighted Rates of Return (TWRR) methodologies. Monthly returns are geometrically linked and annualized for periods longer than one year.

Data Source

Verus is an independent third party consulting firm and calculates returns from best source book of record data. Returns calculated by Verus may deviate from those shown by the manager in part, but not limited to, differences in prices and market values reported by the custodian and manager, as well as significant cash flows into or out of an account. It is the responsibility of the manager and custodian to provide insight into the pricing methodologies and any difference in valuation.

Illiquid Alternatives

Due to the inability to receive final valuation prior to report production, closed end funds (including but are not limited to Real Estate, Hedge Funds, Private Equity, and Private Credit) performance is typically reported at a one-quarter lag. Valuation is reported at a one-quarter lag, adjusted for current quarter flow (cash flows are captured real time). Closed end fund performance is calculated using a time-weighted return methodology consistent with all portfolio and total fund performance calculations. For Private Markets, performance reports also include Verus-calculated multiples based on flows and valuations (e.g. DPI and TVPI) and manager-provided IRRs.

Manager Line Up

Manager	Fund Incepted	Data Source	Manager	Fund Incepted	Data Source
Mellon S&P 500	04/30/2003	Mellon	Prime Property Fund	09/30/2015	Prime Property
BlackRock Russell 1000 Growth	06/30/2010	BlackRock	American Strategic Value Realty	12/31/2014	American Realty
Jackson Square	08/31/2006	Northern Trust	BlackRock US Real Estate	09/30/2012	BlackRock
BlackRock Russell 1000 Value	07/31/2009	BlackRock	Greenfield Gap	07/31/2014	Greenfield
Dodge & Cox - Equity	12/31/1994	Northern Trust	Invesco	02/29/2008	Mellon
Legato Capital	12/31/2008	Northern Trust	Medley Capital	05/31/2013	Medley Capital
Capital Prospects	12/31/2008	Northern Trust	Raven Capital	05/31/2013	Raven Capital
LSV Asset Mgt	08/31/2004	Northern Trust	Raven Opportunity III	07/31/2015	Raven Capital
Pyramis	04/30/2006	Northern Trust	White Oak Pinnacle	08/31/2013	White Oak
Dodge & Cox - Fixed	12/31/1994	Northern Trust	MS Infrastructure	05/31/2015	Morgan Stanley
PIMCO	05/31/2010	Northern Trust			

Policy & Custom Index Composition

Policy Index: 14.4% Russell 1000 Value, 11.3% Russell 1000 Growth, 4.8% S&P 500, 4.0% Russell 2000 Value, 3.7% Russell 2000 Growth, 18.0% MSCI ACWI ex USA, 29.8% BBgBarc US Aggregate, 3.5% DJ US Select RESI, 7.5% 9% Annual, 3% CPI + 4%.

US Equity Blended: 80% Russell 1000, 20% Russell 2000.

Other Disclosures

Fiscal Year End: 6/30

Cash Account includes cash held at Northern Trust for all closed end funds and cash held by BlackRock.

Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation.

All data prior to 6/30/2015 provided by the previous consultant.

Glossary

Allocation Effect: An attribution effect that describes the amount attributable to the managers' asset allocation decisions, relative to the benchmark.

Alpha: The excess return of a portfolio after adjusting for market risk. This excess return is attributable to the selection skill of the portfolio manager. Alpha is calculated as: Portfolio Return - [Risk-free Rate + Portfolio Beta x (Market Return - Risk-free Rate)].

Benchmark R-squared: Measures how well the Benchmark return series fits the manager's return series. The higher the Benchmark R-squared, the more appropriate the benchmark is for the manager.

Beta: A measure of systematic, or market risk; the part of risk in a portfolio or security that is attributable to general market movements. Beta is calculated by dividing the covariance of a security by the variance of the market.

Book-to-Market: The ratio of book value per share to market price per share. Growth managers typically have low book-to-market ratios while value managers typically have high book-to-market ratios.

Capture Ratio: A statistical measure of an investment manager's overall performance in up or down markets. The capture ratio is used to evaluate how well an investment manager performed relative to an index during periods when that index has risen (up market) or fallen (down market). The capture ratio is calculated by dividing the manager's returns by the returns of the index during the up/down market, and multiplying that factor by 100.

Correlation: A measure of the relative movement of returns of one security or asset class relative to another over time. A correlation of 1 means the returns of two securities move in lock step, a correlation of -1 means the returns of two securities move in the exact opposite direction over time. Correlation is used as a measure to help maximize the benefits of diversification when constructing an investment portfolio.

Excess Return: A measure of the difference in appreciation or depreciation in the price of an investment compared to its benchmark, over a given time period. This is usually expressed as a percentage and may be annualized over a number of years or represent a single period.

Information Ratio: A measure of a manager's ability to earn excess return without incurring additional risk. Information ratio is calculated as: excess return divided by tracking error.

Interaction Effect: An attribution effect that describes the portion of active management that is contributable to the cross interaction between the allocation and selection effect. This can also be explained as an effect that cannot be easily traced to a source.

Portfolio Turnover: The percentage of a portfolio that is sold and replaced (turned over) during a given time period. Low portfolio turnover is indicative of a buy and hold strategy while high portfolio turnover implies a more active form of management.

Price-to-Earnings Ratio (P/E): Also called the earnings multiplier, it is calculated by dividing the price of a company's stock into earnings per share. Growth managers typically hold stocks with high price-to-earnings ratios whereas value managers hold stocks with low price-to-earnings ratios.

R-Squared: Also called the coefficient of determination, it measures the amount of variation in one variable explained by variations in another, i.e., the goodness of fit to a benchmark. In the case of investments, the term is used to explain the amount of variation in a security or portfolio explained by movements in the market or the portfolio's benchmark.

Selection Effect: An attribution effect that describes the amount attributable to the managers' stock selection decisions, relative to the benchmark.

Sharpe Ratio: A measure of portfolio efficiency. The Sharpe Ratio indicates excess portfolio return for each unit of risk associated with achieving the excess return. The higher the Sharpe Ratio, the more efficient the portfolio. Sharpe ratio is calculated as: Portfolio Excess Return / Portfolio Standard Deviation.

Sortino Ratio: Measures the risk-adjusted return of an investment, portfolio, or strategy. It is a modification of the Sharpe Ratio, but penalizes only those returns falling below a specified benchmark. The Sortino Ratio uses downside deviation in the denominator rather than standard deviation, like the Sharpe Ratio.

Standard Deviation: A measure of volatility, or risk, inherent in a security or portfolio. The standard deviation of a series is a measure of the extent to which observations in the series differ from the arithmetic mean of the series. For example, if a security has an average annual rate of return of 10% and a standard deviation of 5%, then two-thirds of the time, one would expect to receive an annual rate of return between 5% and 15%.

Style Analysis: A return based analysis designed to identify combinations of passive investments to closely replicate the performance of funds

Style Map: A specialized form or scatter plot chart typically used to show where a Manager lies in relation to a set of style indices on a two-dimensional plane. This is simply a way of viewing the asset loadings in a different context. The coordinates are calculated by rescaling the asset loadings to range from -1 to 1 on each axis and are dependent on the Style Indices comprising the Map.

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The information presented may be deemed to contain forward-looking information. Examples of forward looking information include, but are not limited to, (a) projections of or statements regarding return on investment, future earnings, interest income, other income, growth prospects, capital structure and other financial terms, (b) statements of plans or objectives of management, (c) statements of future economic performance, and (d) statements of assumptions, such as economic conditions underlying other statements. Such forward-looking information can be identified by the use of forward looking terminology such as believes, expects, may, will, should, anticipates, or the negative of any of the foregoing or other variations thereon comparable terminology, or by discussion of strategy. No assurance can be given that the future results described by the forward-looking information will be achieved. Such statements are subject to risks, uncertainties, and other factors which could cause the actual results to differ materially from future results expressed or implied by such forward looking information. The findings, rankings, and opinions expressed herein are the intellectual property of Verus and are subject to change without notice. The information presented does not claim to be all-inclusive, nor does it contain all information that clients may desire for their purposes. The information presented should be read in conjunction with any other material provided by Verus, investment managers, and custodians.

Verus will make every reasonable effort to obtain and include accurate market values. However, if managers or custodians are unable to provide the reporting period's market values prior to the report issuance, Verus may use the last reported market value or make estimates based on the manager's stated or estimated returns and other information available at the time. These estimates may differ materially from the actual value. Hedge fund market values presented in this report are provided by the fund manager or custodian. Market values presented for private equity investments reflect the last reported NAV by the custodian or manager net of capital calls and distributions as of the end of the reporting period. These values are estimates and may differ materially from the investments actual value. Private equity managers report performance using an internal rate of return (IRR), which differs from the time-weighted rate of return (TWRR) calculation done by Verus. It is inappropriate to compare IRR and TWRR to each other. IRR figures reported in the illiquid alternative pages are provided by the respective managers, and Verus has not made any attempts to verify these returns. Until a partnership is liquidated (typically over 10-12 years), the IRR is only an interim estimated return. The actual IRR performance of any LP is not known until the final liquidation.

Verus receives universe data from InvestorForce, eVestment Alliance, and Morningstar. We believe this data to be robust and appropriate for peer comparison. Nevertheless, these universes may not be comprehensive of all peer investors/managers but rather of the investors/managers that comprise that database. The resulting universe composition is not static and will change over time. Returns are annualized when they cover more than one year. Investment managers may revise their data after report distribution. Verus will make the appropriate correction to the client account but may or may not disclose the change to the client based on the materiality of the change.

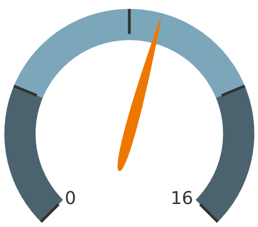
Verus

Stanislaus County Employees' Retirement Association

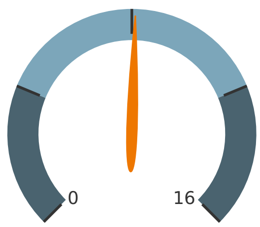
Portfolio Risk Report

March 31, 2017

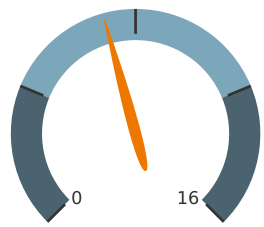
1 Portfolio risk



Portfolio: 8.9%



Policy: 8.1%

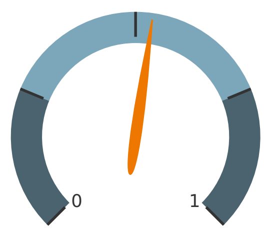


Typical Peer: 7.1%

2 Portfolio equity beta

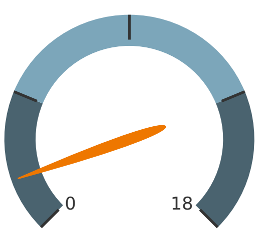
Portfolio: 0.67

Policy: 0.60



Typical Peer: 0.53

3 Portfolio interest rate risk - Duration



Portfolio: 1.7

Policy: 2.1

Typical Peer: 1.8

4 Portfolio credit risk - Spread duration

Portfolio: 1.2

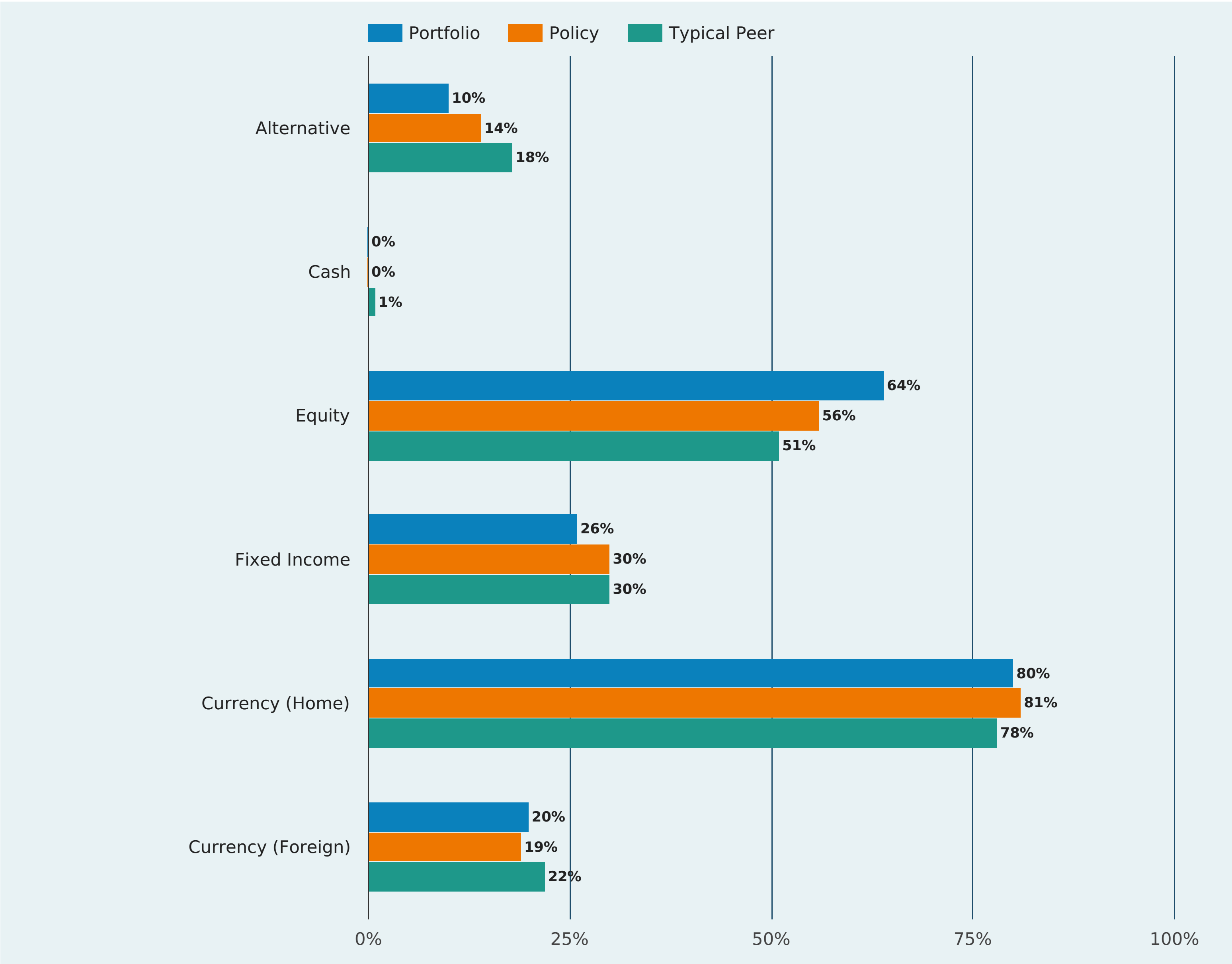
Policy: 1.5

Typical Peer: 1.1

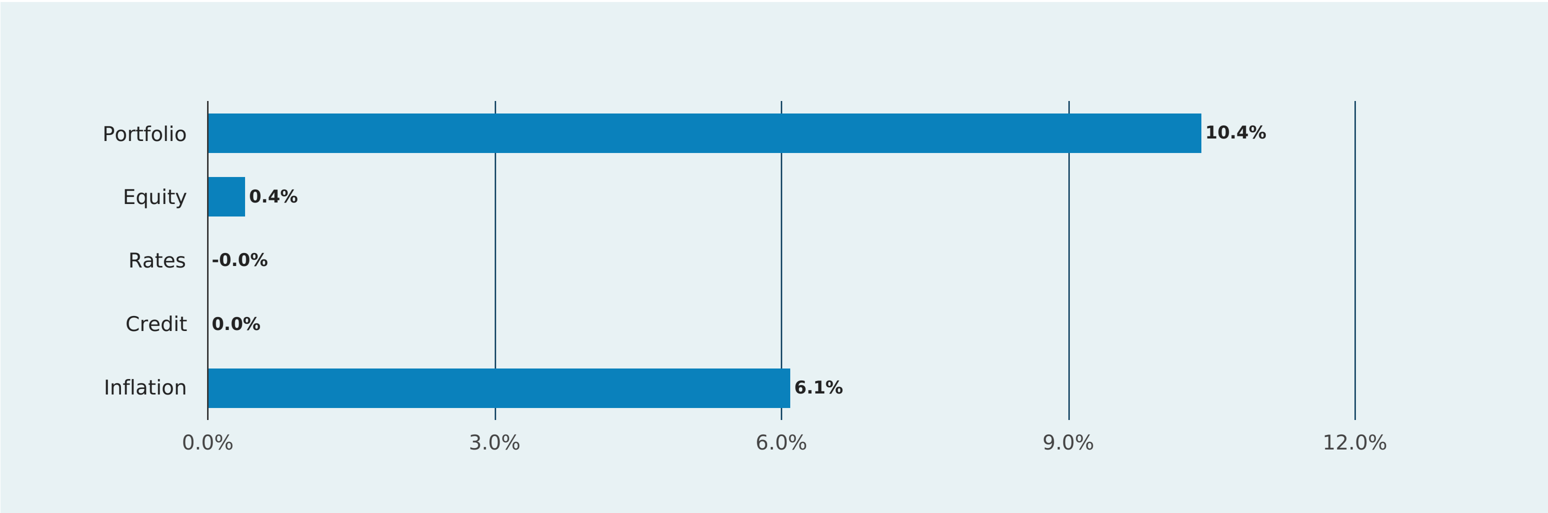
5 Exposure allocation by asset class

		Portfolio	Policy	Typical Peer
Alternative	Real Assets	0.0%		2.1%
	Hedge Fund	0.0%		8.1%
	Infrastructure	0.6%	3.0%	
	Real Estate	4.5%	3.5%	7.3%
	Private Credit	4.6%	7.5%	
Alternative Total		**9.7%**	**14.0%**	**17.5%**
Cash	Cash	0.0%		1.1%
Cash Total		**0.0%**		**1.1%**
Equity	Private Equity	0.0%		6.6%
	US Small Cap Growth	4.7%	3.7%	
	US Large Cap Core	5.1%	4.8%	25.9%
	US Small Cap Value	5.3%	4.0%	
	US Large Cap Growth	12.0%	11.3%	
	US Large Cap Value	16.5%	14.4%	
	Non-US Equity	20.3%	18.0%	18.4%
Equity Total		**64.1%**	**56.2%**	**50.9%**
Fixed Income	Global Bonds	0.0%		4.3%
	Non-US Bonds	0.0%		3.9%
	US Bonds	26.2%	29.8%	22.4%
Fixed Income Total		**26.2%**	**29.8%**	**30.5%**
Total Portfolio		**100%**	**100%**	**100%**

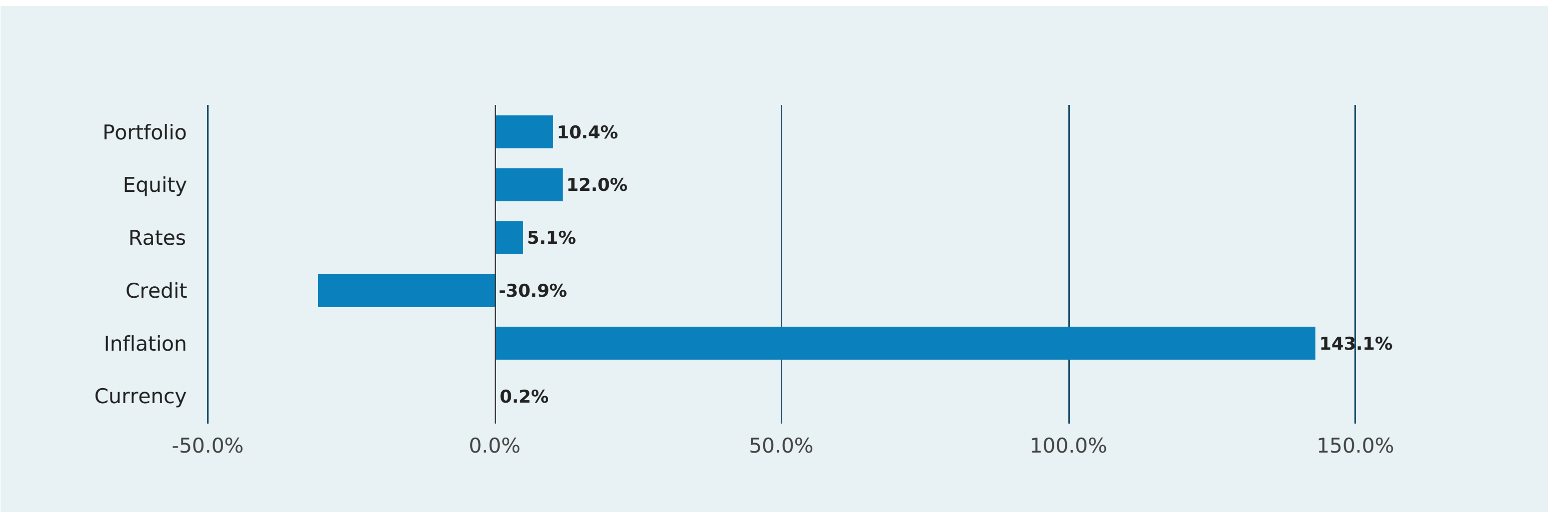
6 Exposure allocation



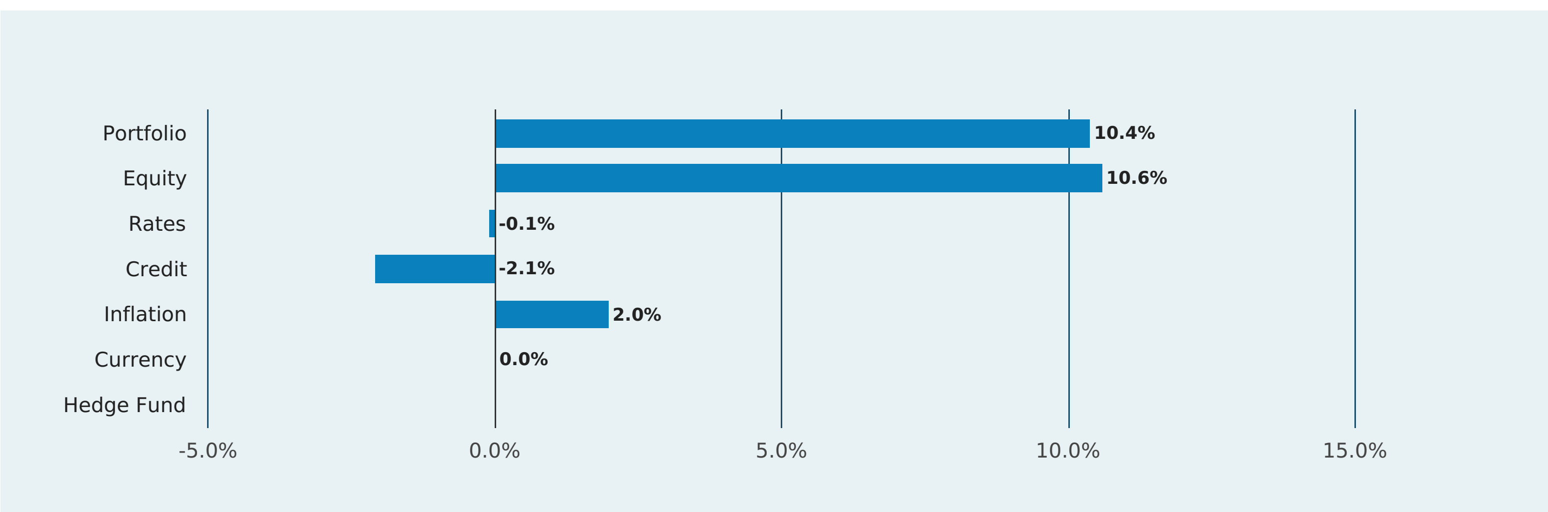
7 Relative risk vs target by bucket



8 Relative risk vs target by risk factor

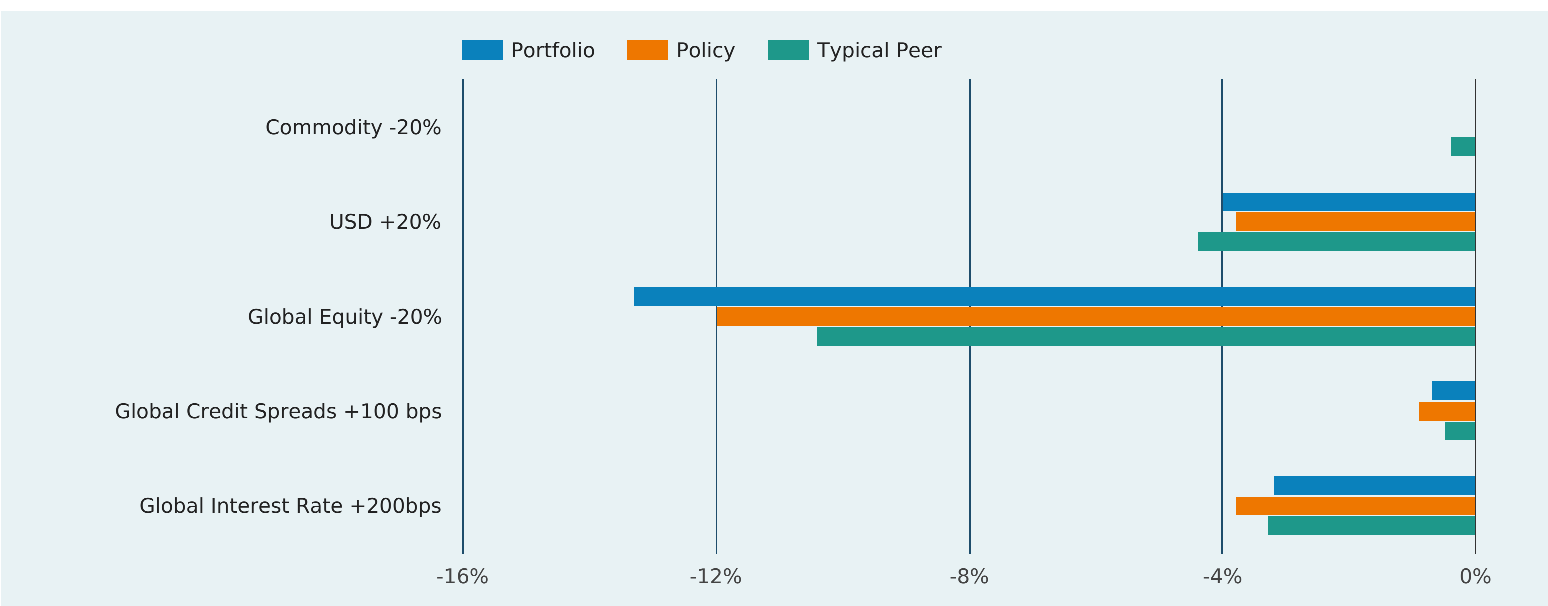


9 Risk factor weight relative to target

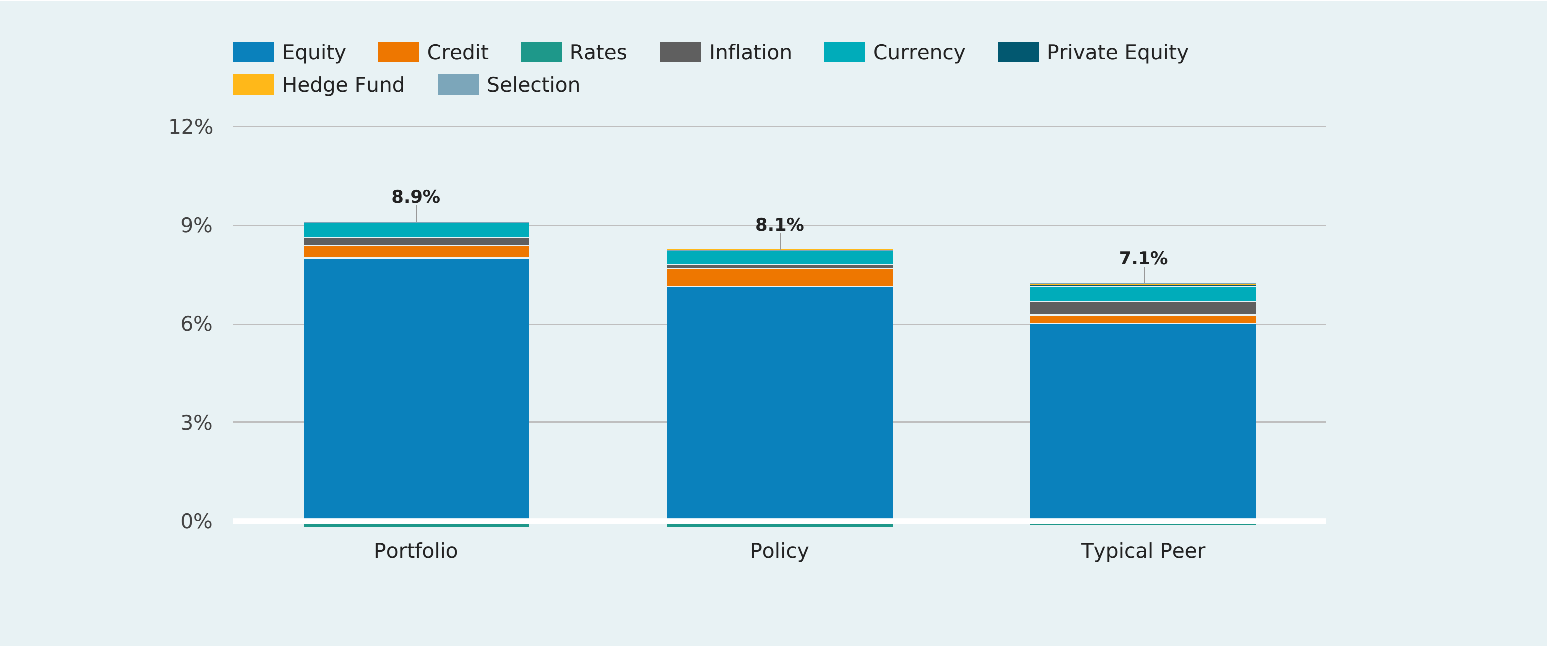


10 Tail risk - Scenario analysis

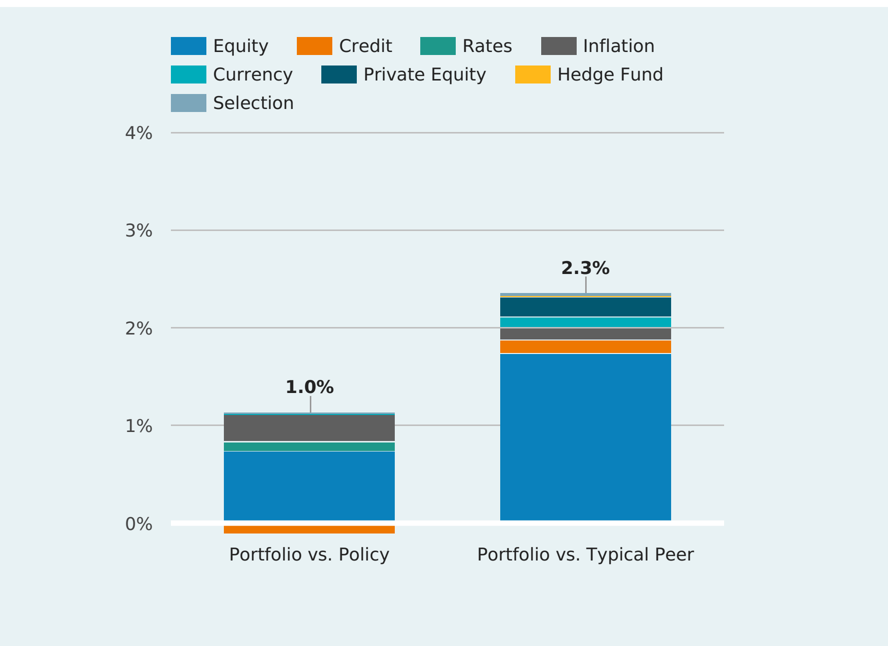
11 Tail risk - Stress tests



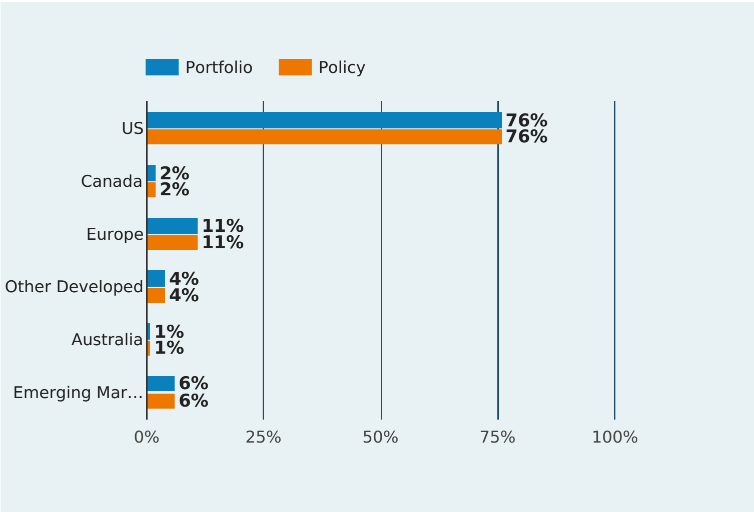
12 Risk contribution by risk factor



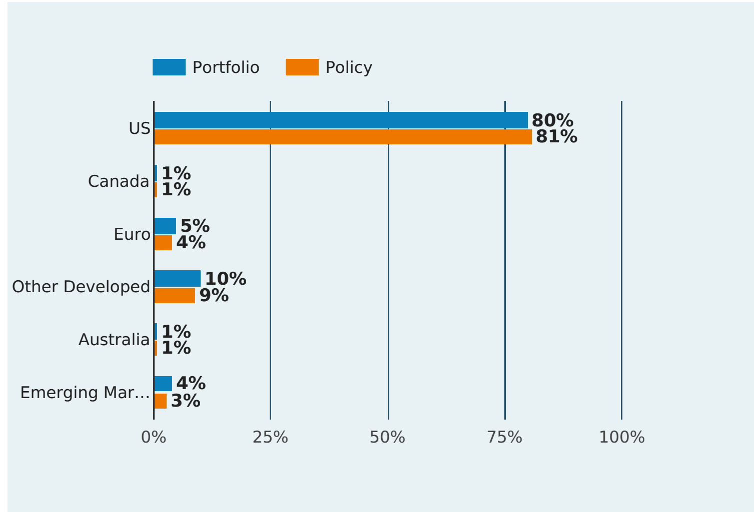
13 Active risk contribution by risk factor



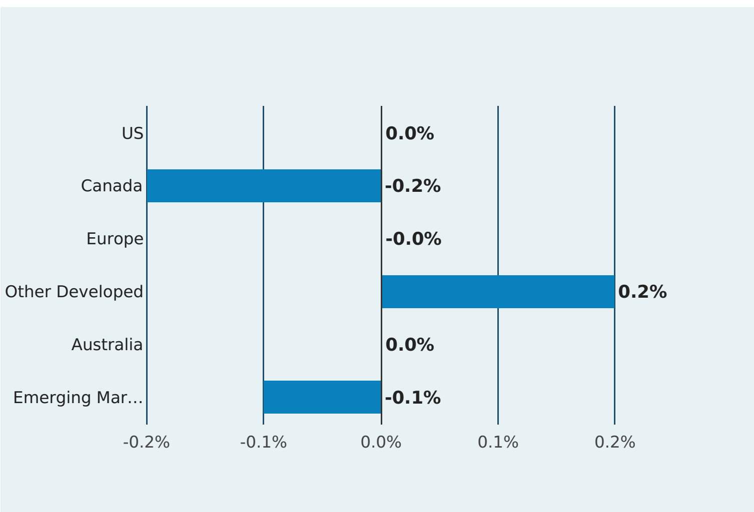
14 Geographic exposure



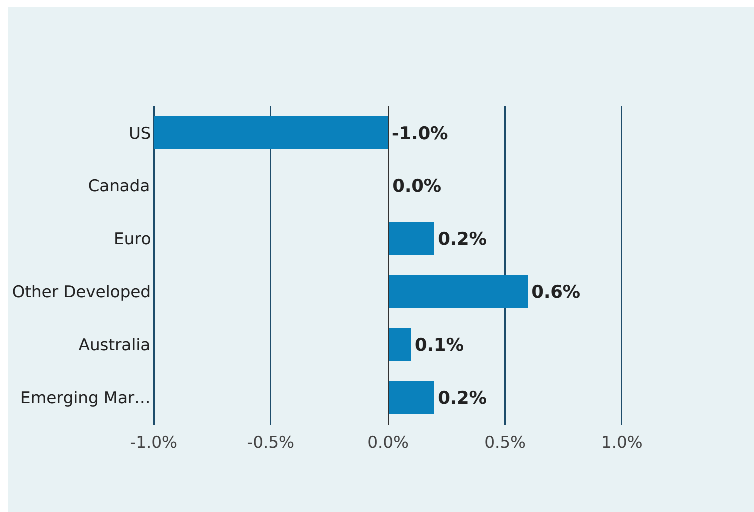
15 Currency exposure



16 Net geographic exposure



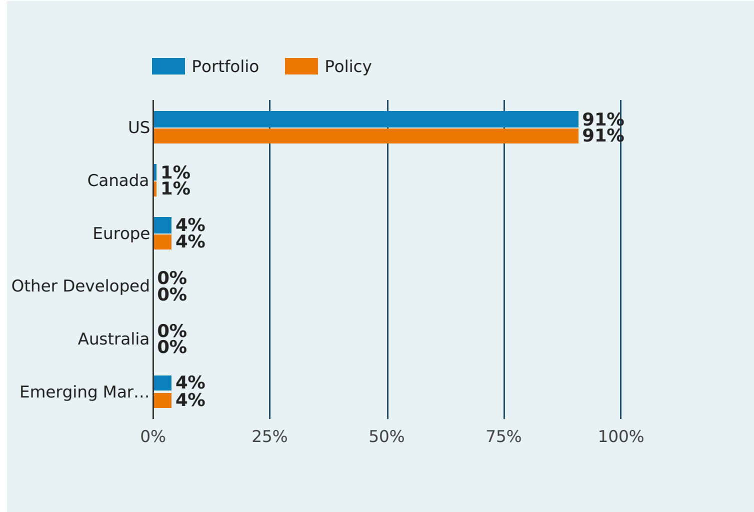
17 Net currency exposure



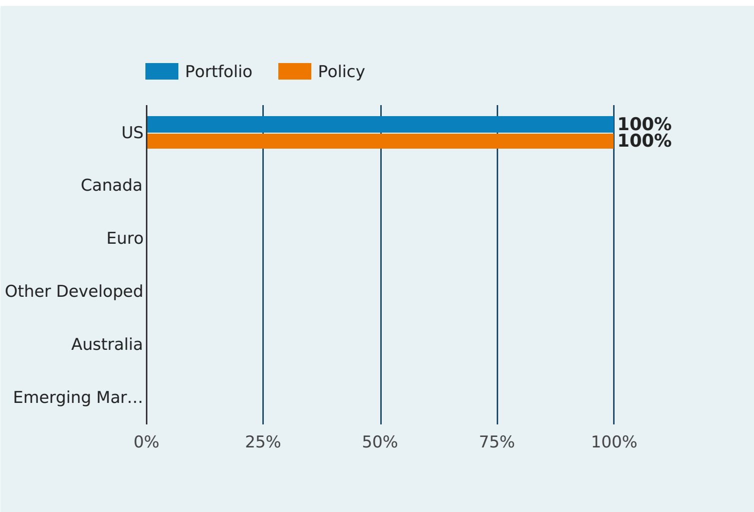
18 Interest rate bucket

	Portfolio	Policy	Difference
Duration	5.8	5.8	-0.0
Yield to Maturity	3.1%	3.1%	0.0%
Wt. Avg. Rating	Aa1 / Aa2	Aa1 / Aa2	

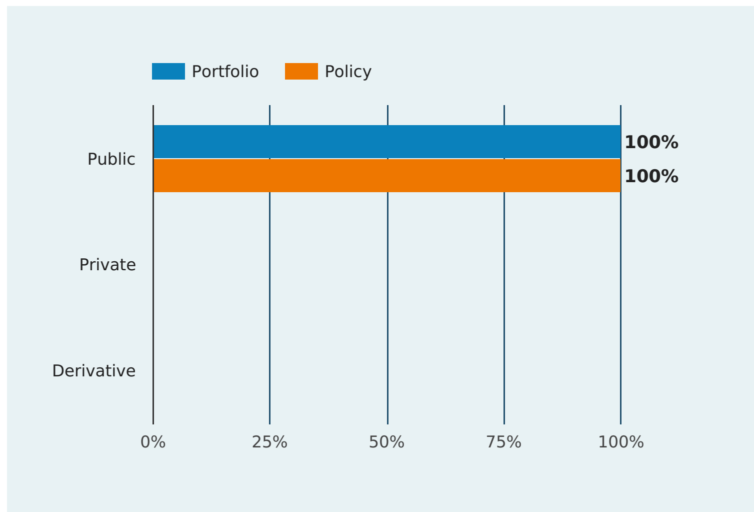
19 Rates bucket - Geographic exposure



20 Rates bucket - Currency exposure



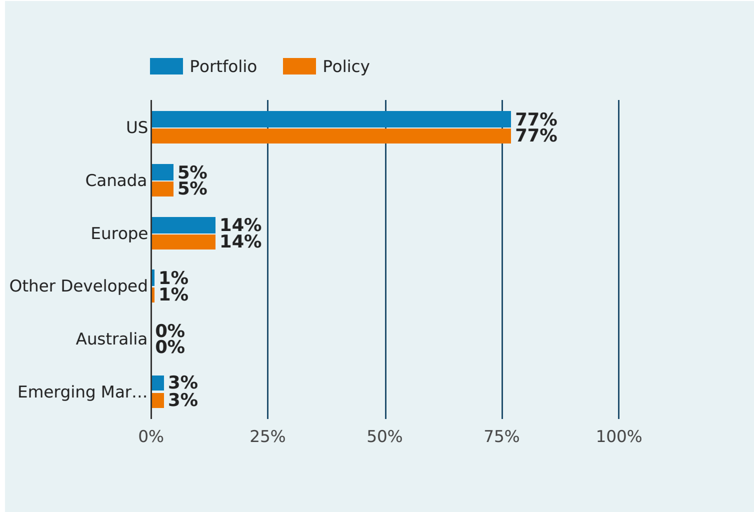
21 Rates bucket - Security type



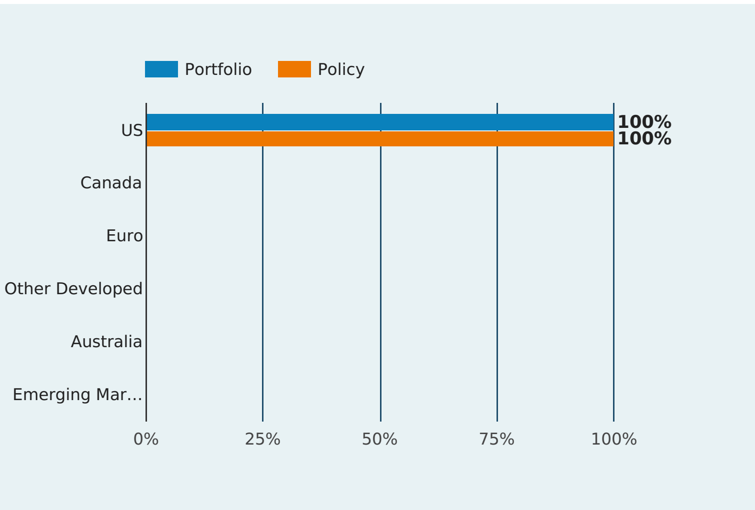
22 Credit bucket

	Portfolio	Policy	Difference
Duration	4.4	4.4	0.0
Coupon Yield	6.5%	6.5%	0.0%
Yield to Maturity	6.0%	6.0%	0.0%
Wt. Avg. Rating	Ba3 / B1	Ba3 / B1	

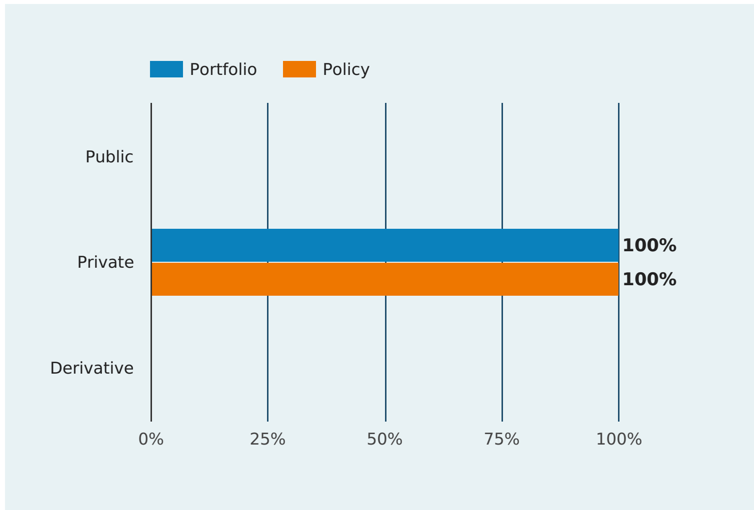
23 Credit bucket - Geographic exposure



24 Credit bucket - Currency exposure



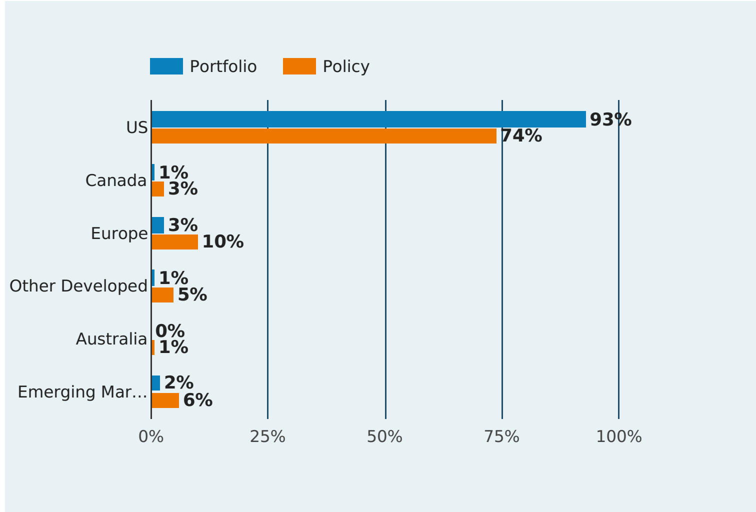
25 Credit bucket - Security type



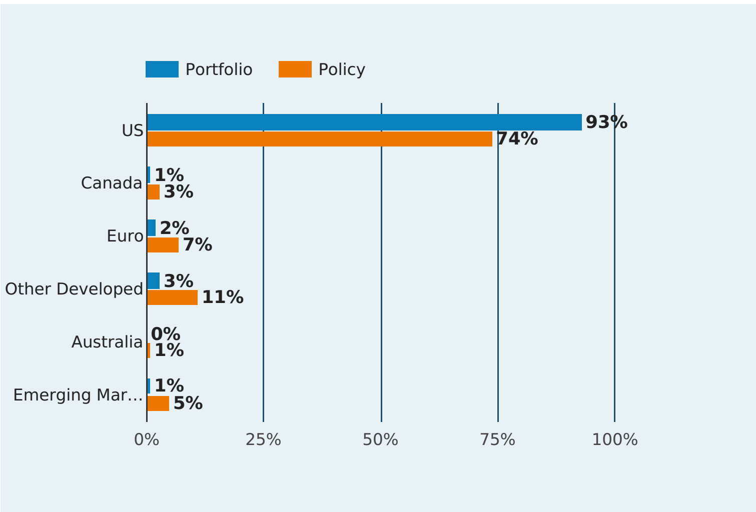
26 Inflation bucket

	Portfolio	Policy	Difference
Real Estate Allocation	4.5%	3.5%	1.0%
Global Infrastructure	0.6%	3.0%	-2.4%

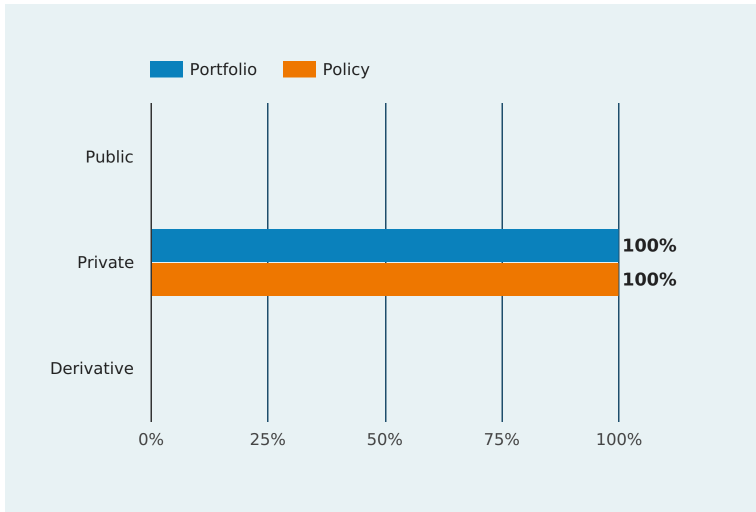
27 Inflation bucket - Geographic exposure



28 Inflation bucket - Currency exposure



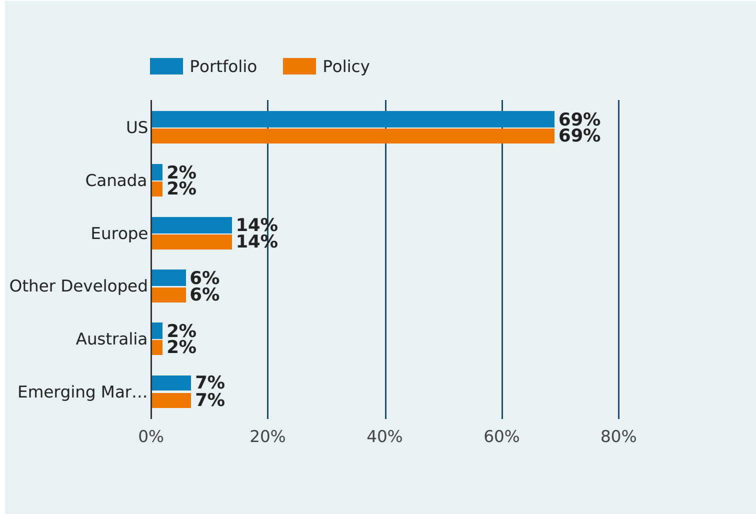
29 Inflation bucket - Security type



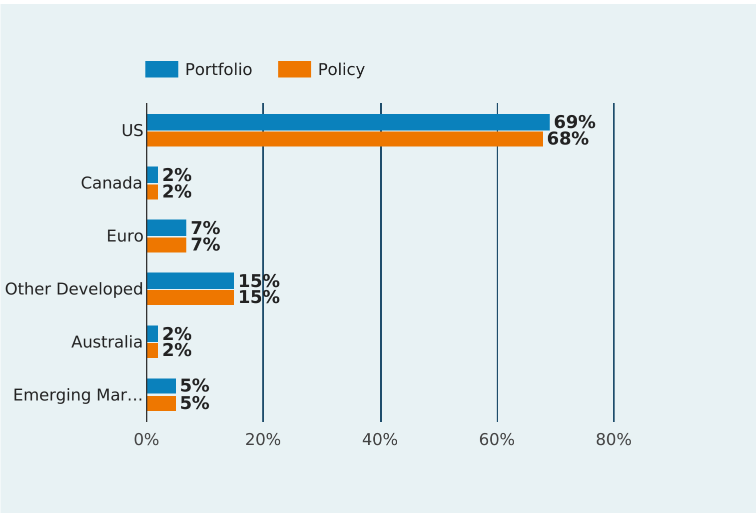
30 Equity bucket

	Portfolio	Policy	Difference
Beta	1.0	1.0	0.0
Dividend Yield	2.2%	2.2%	0.0%
PE Ratio	21.0	21.0	0.0

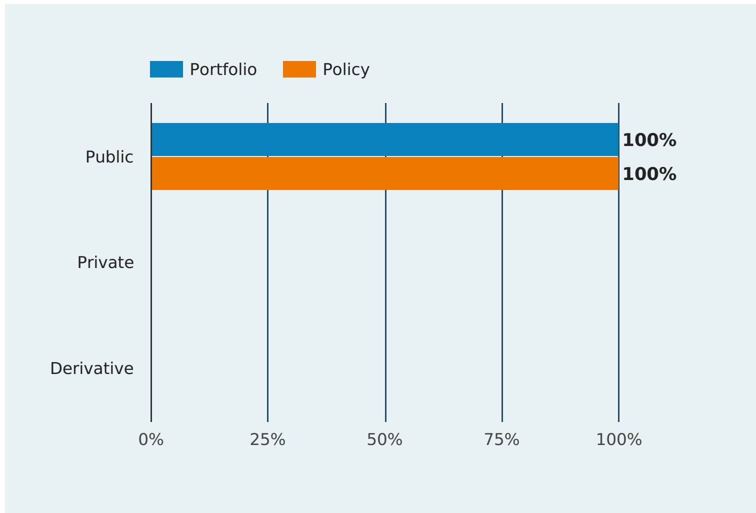
31 Equity bucket - Geographic exposure



32 Equity bucket - Currency exposure



33 Equity bucket - Security type



34 Market value summary per BarraOne

Bucket	Asset Class	Account Name	Account	Market Value (millions)
Cash	Cash	Cash	STANCERADB034	0.2
Cash Total				0.2
Credit	HY Bonds	White Oak Pinnacle	STANCERADB032	35.4
		Medley Capital	STANCERADB029	24.6
		Raven Capital	STANCERADB030	15.3
		Raven Opportunity III	STANCERADB031	13.9
Credit Total				89.2
Equity	EAFE Equity	LSV Asset Mgt	STANCERADB021	199.4
		Pyramis	STANCERADB022	192.8
	US Equity	Dodge & Cox-Equity	STANCERADB005	203.1
		Jackson Square	STANCERADB003	133.9
		BlackRock Russell 1000 Value	STANCERADB004	115.9
		Capital Prospects	STANCERADB013	103.1
		Mellon S&P 500	STANCERADB001	98.8
		BlackRock Russell 1000 Growth	STANCERADB002	98.1
		Legato Capital	STANCERADB006	90.8
Equity Total				1,235.8
Inflation	Infrastructure	MS Infrastructure Partners II	STANCERADB033	12.2
	Real Estate	BlackRock US Real Estate	STANCERADB027	34.6
		American Strategic Value Realty	STANCERADB026	20.5
		Prime Property Fund	STANCERADB025	17.2
		Greenfield Gap	STANCERADB028	13.9
Inflation Total				98.4
Rates	US Bonds	Dodge & Cox-Fixed	STANCERADB023	388.6
		PIMCO	STANCERADB024	115.6
Rates Total				504.2

Total Portfolio (millions)	**1,927.8**

Chart Definitions

1 **Portfolio risk**
Total risk comparison of portfolio, Policy, and Typical Peer. Policy is composed of 18% MSCI ACWI ex US, 4.8% S&P 500, 11.3% Russell 1000 Growth, 14.4% Russell 1000 Value, 3.7% Russell 2000 Growth, 4.0% Russell 2000 Value, 29.8% Barclays Capital US Aggregate, 3% MSCI ACWI Infrastructure, 7.5% Barclays Capital US Corporate High Yield, and 3.5% NFI ODCE. Typical Peer is based on median allocation of DB Plans > $1 Billion, which is composed of 25.91% S&P 500, 14.98% MSCI EAFE, 3.42% MSCI EM, 6.57% Private Equity, 22.38% Bloomberg Barclays Capital U.S. Aggregate, 4.26% Bloomberg Barclays Global Aggregate, 1.49% Barclays Global Treasury ex U.S., 2.37% Bloomberg Capital Global Emerging Markets, 1.11% Bloomberg Capital U.S. Treasury BIlls: 1-3 Months, 8.06% HFRI FOF Index, 2.12% Bloomberg Commodities, and 7.34% NCREIF NPI.

2 **Portfolio equity beta**
Equity risk presented by equity beta to market. Equity beta is a measure describing the sensitivity of portfolio returns with returns of the equity market (MSCI ACWI).

3 **Portfolio interest rate risk - Duration**
Interest rate risk presented by duration and dollar movement of portfolios. Duration of a financial asset that consists of fixed cash flows is the weighted average of the times until those fixed cash flows are received (measured in years). It also measures the percentage change in price for a given change in yields (the price sensitivity to yield). DV01 $ (dollar duration) is the change in price in dollars of a financial instrument resulting from a one basis point change in yield.

4 **Portfolio credit risk - Spread duration**
Credit risk presented by spread duration and dollar movement of portfolios. Spread duration measures the percentage change in price for a one percentage point change in spreads.

5 **Exposure allocation by asset class**
Exposure allocation among various asset classes.

6 **Exposure allocation**
Exposure allocation among major risk buckets (rates, credit, equity, inflation, currency) and net currency exposure (domestic vs. foreign). Full Cash collateral is assumed for all derivatives.

7 **Relative risk vs target by bucket**
Comparative riskiness of Portfolio vs. Policy on total portfolio and risk bucket levels: For example, equity bucket relative risk compares the riskiness of the Portfolio equity bucket vs the Policy equity bucket.

8 **Relative risk vs target by risk factor**
Comparative riskiness of Portfolio vs. Policy on a total portfolio level and major risk factor levels.

9 **Risk factor weight relative to target**
Contribution by factor to total relative risk of the Portfolio vs the Policy: For example, Equity is equity risk contribution to Portfolio minus equity risk contribution to the Policy, divided by total risk of the Policy. The factor overweights are additive to the total relative risk at the top line.

10 **Tail risk - Scenario analysis**
Tail risk is a form of risk measurement that considers the possibility that a market will experience losses greater than what the normal distribution would suggest. This graph shows the expected performance under various historical scenarios (described in the appendix at the end of this report). For each historical scenario, the current market value is recalculated to determine return under identical market conditions, assuming an instantaneous shock.

11 **Tail risk - Stress tests**
This display shows expected performance when individual risk factors are subjected to instantaneous shocks. Directly affected assets are revalued at factor level

12 **Risk contribution by risk factor**
Risk contribution by risk factor. Volatility measures the price variation of a portfolio or financial instrument over time.

13 **Active risk contribution by risk factor**
Active risk in terms of annual tracking error: Tracking Error (TE) measures how closely a portfolio follows its benchmark. It is the standard deviation of the difference between the portfolio and benchmark returns.

14 **Geographic exposure**
Geographic exposures are calculated using the notional exposure as a percentage of market value, including derivatives, cash securities and currency holdings, but excluding currency derivatives. Any portfolio that uses derivatives may have a total different than 100% because both cash and derivative country exposures are included.

15 **Currency exposure**
Currency portfolio allocation. Currency exposures from both the underlying securities and the purchasing currency of the futures contract are included.

16 **Net geographic exposure**
Difference between portfolio and policy allocation among major geographic areas.

17 **Net currency exposure**
Difference between portfolio and policy allocation among major currencies.

18 **Interest rate bucket**
Coupon yield (nominal yield) of a fixed income security is a fixed percentage of the par value that does not vary with the market price of the security. Yield to Maturity (YTM) is the interest rate of return earned by an investor who buys a fixed-interest security today at the market price and holds it until maturity. Ratings indicate credit quality of a security and the issuer's ability to make payments of interest and principal.

19 **Rates bucket - Geographic exposure**
Geographic exposures specific to the Rates bucket are calculated using the notional exposure as a percentage of market value, including derivatives, cash securities and currency holdings, but excluding currency derivatives. Any portfolio that uses derivatives may have a total different than 100% because both cash and derivative country exposures are included.

20 **Rates bucket - Currency exposure**
Currency allocation of interest rate instruments.

21 **Rates bucket - Security type**
Allocation of interest rate instruments among different security types.

22 **Credit bucket**
Various characteristics of credit instruments.

23 **Credit bucket - Geographic exposure**
Geographic exposures specific to the Credit bucket are calculated using the notional exposure as a percentage of market value, including derivatives, cash securities and currency holdings, but excluding currency derivatives. Any portfolio that uses derivatives may have a total different than 100% because both cash and derivative country exposures are included.

24 **Credit bucket - Currency exposure**
Currency allocation of credit instruments.

25 **Credit bucket - Security type**
Allocation of credit instruments among different security types.

26 **Inflation bucket**
Composition of inflation hedging instruments in portfolio and benchmark. Notional duration of real rates instruments is also included.

27 **Inflation bucket - Geographic exposure**
Geographic exposures specific to the Inflation bucket are calculated using the notional exposure as a percentage of market value, including derivatives, cash securities and currency holdings, but excluding currency derivatives. Any portfolio that uses derivatives may have a total different than 100% because both cash and derivative country exposures are included.

28 **Inflation bucket - Currency exposure**
Currency allocation of inflation instruments.

29 **Inflation bucket - Security type**
Allocation of inflation instruments among different security types.

30 **Equity bucket**
P/E ratio is a valuation ratio of a company's current share price compared to its per-share earnings. Beta measures sensitivity to Global Equities.

31 **Equity bucket - Geographic exposure**
Geographic exposures specific to the Equity bucket are calculated using the notional exposure as a percentage of market value, including derivatives, cash securities and currency holdings, but excluding currency derivatives. Any portfolio that uses derivatives may have a total different than 100% because both cash and derivative country exposures are included.

32 **Equity bucket - Currency exposure**
Currency allocation of equity assets.

33 **Equity bucket - Security type**
Allocation of equity assets among different security types.

34 **Market value summary per BarraOne**
Summary of market value of Portfolio holdings by bucket as reported through BarraOne. Some differences may exist due to timing, pricing sources and availability of information on new investments.

Tail Risk Scenario Definitions

1 **2009-2010 July-January**
(7/1/2009 - 12/31/2009) As global economic woes persisted, many countries were saddled with widening budget deficits, rising borrowing costs, slowing growth, higher unemployment, and higher inflation, which made monetary stimulus difficult. Dubai World sought to delay its huge debt repayments, shocking the global market, while the financial distress in Greece and Ireland began to emerge in late 2009.

2 **2007-2009 Subprime Meltdown**
(1/10/2007 - 2/27/2009) The burst of the housing bubble in mid-2007 marked the beginning of the years-long subprime mortgage crisis, rooted from the easy credit, low interest rates, and loose regulatory environment in the early 2000s, which made low quality (subprime) mortgaging extremely easy. The contagious meltdown quickly led to plunging asset prices in the financial markets, rising bankruptcies, delinquencies, and foreclosures, and central bank monetary rescues and fiscal interventions by governments around the globe.

3 **2007-2008 Oil Price Rise**
(1/18/2007 - 6/27/2008) Oil prices spiked from around $60/bbl in 2007 to a record high of $145/bbl on 3 July 2008.

4 **2001 Dot-com Slowdown**
(3/10/2001 - 10/9/2002) Upon the burst of the tech bubble in 2000, more and more internet companies went out of business as the stock market plummeted further.

5 **1997-1999 Oil Price Decline**
(1/8/1997 - 2/16/1999) The combined effect of OPEC overproduction and lower oil demand due to the Asia economic crisis sent oil prices into a downward spiral.

6 **1994 US Rate Hike**
(1/31/1994 - 12/13/1994) In combating inflation, the U.S. Federal Reserve raised its interest rate from 3.25% in February to 5.5% in November 1994.

7 **1992-1993 European Currency Crisis**
(9/1/1992 - 8/13/1993) Upon Germany's reunification, the German mark appreciated rapidly, which destabilized exchange rates between European countries under the European Monetary System. It led to a series of European currency devaluations, interest rate increases, and the widening range of exchange rates in 1992.

8 **1989-1990 Nikkei Stock Price Correction**
(12/29/1989 - 3/30/1990) After hitting the Nikkei stock index's all-time high on December 29, 1989, the Japan financial market crashed and plunged to a low in March 1990.

9 **1987 Market Crash (Oct 14 to Oct 19)**
(10/14/1987 - 10/19/1987) The U.S. stock market began to topple on October 14, 1987 after reaching a record high. It was triggered by reports of a larger trade deficit and the elimination of the tax benefits of financing mergers. The aggravating selling pressure in October 19, from confused and fearful investors, and the failing portfolio insurers' models led to a substantial global market sell-off.

10 **1972-1974 Oil Crisis (Dec to Sep)**
(12/1/1972 - 9/30/1974) Many developed countries suffered in this energy crisis as OPEC members placed an oil embargo on the U.S. and Israel's allies during the Yom Kippur War in October 1973, which sent global oil prices soaring.

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Stanislaus County Employees' Retirement Association
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May 23, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Passive Equity Restructuring

II. ITEM NUMBER: 8.d

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Select Northern Trust to manage the Russell 1000 passive equity mandate and authorize staff to negotiate terms of the contract

V. EXECUTIVE SUMMARY: In light of the Board's decision last month to transition out of its large cap growth manager and the passive investment managed by the Bank of New York Mellon (BNYM), this item addresses the restructuring of a subset of the passive equity strategy.

The StanCERA investment consultant is recommending a move of $150 million to Northern Trust to manage this mandate. Attachment 1 discusses the rationale for this choice and the consultant will be on hand today to address any questions or concerns the Board may have.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: No administrative impact. There most likely will be some transactional fees and implicit and explicit costs associated with the move and could range somewhere between $20,000 and $100,000.

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

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PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

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Public Equity Portfolio Structure – Passive US Equity

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Executive summary

Executive summary

— Following the Board's decision to terminate the Mellon S&P 500 index fund, and in accordance with the public equity portfolio restructuring plan approved at the April 2017 meeting, StanCERA will be allocating approximately $150 mm to a passive US large cap core equity strategy during "phase 1b" of implementation.

— This presentation examines the following decisions that are to be made in deciding how to best gain passive US large cap core exposure, including:

- Index selection
- Manager selection
- Vehicle selection

— Key criteria to be considered in evaluating the various options are:

- Cost
- Tracking error
- Liquidity terms
- Securities lending

— The presentation concludes with a recommendation to:

1. Select Northern Trust to fulfill the Russell 1000 mandate; and
2. Authorize Staff to negotiate and execute a contract with the selected investment manager.

Approaches to passive US Equity

Passive US equity – index options

	S&P 500	Russell 1000	Russell 3000	Wilshire 5000
Index Description	Index of ~500 large-cap US equities	Index comprised of ~1000 large-cap US equities	Index comprised of ~3000 US equities, often used as a benchmark for the entire US stock market	Index measuring the performance of all US equity securities with readily available price data
Weighting Methodology	Market Capitalization	Market Capitalization	Market Capitalization	Market Capitalization
Constituents	505	997	2943	3,599
Coverage of US Equity Market Cap (%)	80%	90%	98%	> 99%
Median Market Capitalization	$20.1 bn	$9.1 bn	$1.7 bn	$1.0 bn
Top 10 Constituents	19%	17%	15%	17%
Price to Earnings	23.7x	22.1x	22.5x	26.8x
Price to Book	2.9x	3.1x	3.0x	2.6x
Dividend Yield	2.0%	2.0%	1.9%	2.0%

Index characteristics as of 3/31/17

Sources: S&P, Wilshire, Russell, eVestment

Passive US equity – index performance

	Trailing Period Returns - Through Q1 2017				
	1 Year	3 Year	5 Year	7 Year	10 Year
S&P 500	17.2	10.4	13.3	12.9	7.5
Russell 1000	17.4	10.0	13.3	13.0	7.6
Russell 3000	18.1	9.8	13.2	12.9	7.5
Wilshire 5000	18.3	10.0	13.2	12.9	7.6

	Calendar Year Returns									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
S&P 500	12.0	1.4	13.7	32.4	16.0	2.1	15.1	26.5	-37.0	5.5
Russell 1000	12.1	0.9	13.2	33.1	16.4	1.5	16.1	28.4	-37.6	5.8
Russell 3000	12.7	0.5	12.6	33.6	16.4	1.0	16.9	28.3	-37.3	5.1
Wilshire 5000	13.4	0.7	12.7	33.1	16.1	1.0	17.2	28.3	-37.2	5.6

	Standard Deviation					Sharpe Ratio				
	1 Year	3 Year	5 Year	7 Year	10 Year	1 Year	3 Year	5 Year	7 Year	10 Year
S&P 500	6.2	10.4	10.2	12.4	15.3	5.63	1.43	1.61	0.99	0.42
Russell 1000	6.4	10.5	10.3	12.6	15.6	5.93	1.36	1.58	0.97	0.42
Russell 3000	6.7	10.7	10.5	12.9	15.8	6.95	1.28	1.54	0.95	0.41
Wilshire 5000	6.7	10.6	10.4	12.8	15.7	7.70	1.34	1.57	0.96	0.42

Source: eVestment.

Passive US equity – investment vehicle criteria

— Construction methodology:

- Full replication vs. Statistical sampling
- Optimization

— Securities lending

— Liquidity terms

— Fees: Management, custody, administrative

Passive US equity – vehicle structures

— Commingled Fund:

- Generally use full replication (lower tracking error)
- Economies of scale (sharing of trading & admin costs, unit level crossing)

— Separate Account:

- May not be large enough for full replication (potentially higher tracking error)
- May have higher costs vs. commingled fund

Recommendation – index selection

Verus recommends selecting the Russell 1000 index for the following reasons:

— The Russell 1000 index's risk/return characteristics are in line with the exposures modeled in the FFP 6-yr asset allocation (US large cap equity); and

— Relative to the other US large cap equity option (S&P 500), the Russell 1000 provides:

- Greater coverage of the US equity market (90% vs. 80%);
- Lower concentration amongst top holdings (17% vs. 19%);
- Increased diversification (997 constituents vs. 505); and
- Exposure to the smaller end of the large cap universe (median market cap of $9.1 bn vs. $20.1 bn)

Russell 1000 index fund providers

Russell 1000 index implementation options

	AllianceBernstein	BlackRock	Northern Trust	Rhumbline	State Street (SSGA)
Strategy Assets (Separate Accts. / Commingled)	\$2.2 bn (separate account only)	\$71.6 bn (\$18.1 bn / \$53.5 bn)	\$29.6 bn (\$4.0 bn / \$25.6 bn)	\$8.8 bn (\$7.8 bn / \$1.0 bn)	\$36.7 bn (\$19.3 bn / \$17.4 bn)
Strategy Inception	12/2000	1/1987	11/1997	12/1996	7/1992
Separate Account Fees (excludes custody)	First \$300 mm: 4 bps Next \$200 mm: 3 bps Balance: 2 bps	All assets: 10 bps \$125k annual minimum fee	First \$100 mm: 6 bps Balance: 4 bps \$50k annual minimum fee (subject to waiving if funding is near \$75mm)	First \$25 mm: 6 bps Next \$25 mm: 5 bps Balance: 4 bps	n/a*
Separate Account Construction Methodology	Replication if assets > \$100 mm	Depends on size, and cost/tracking error considerations	Replication if assets > \$50 mm	Replication if assets > \$25 mm	n/a*
Commingled Fund Fees	n/a	All assets: 3 bps Plus admin expenses (Actual: 0.49 bp, Cap: 2 bp)	All assets: 1.5 bps Plus admin expenses (Actual: 0.76 bp, Cap: 1 bp)	First \$50 mm: 3.25 bps Next \$50 mm: 2.25 bps Balance: 2 bps Plus admin expenses (~1 bps)	First \$50 mm: 6 bps Next \$50 mm: 4 bps Balance: 3 bps Plus operating expenses (1-1.5 bps)
Commingled Fund Liquidity Terms	n/a	Daily	Daily	Daily	Daily
Commingled Methodology	n/a	Replication	Replication	Replication	Replication

Sources: Strategy Assets & Inception: eVestment; Fees & Methodology: managers

** State Street does not recommend a separate account for this mandate at the target asset level.*

Russell 1000 index fund – manager performance

Excess returns relative to Russell 1000 index, gross of fees

	Trailing Period Excess Returns - through Q1 2017				
	1 Year	3 Year	5 Year	7 Year	10 Year
AllianceBernstein	-0.05	-0.02	-0.03	-0.03	0.02
BlackRock	0.00	0.00	0.00	0.00	--
Northern Trust	0.00	0.01	0.00	0.00	--
Rhumbline	-0.08	-0.03	-0.04	-0.04	0.08
State Street	0.01	0.03	0.01	-0.12	--

	Calendar Year Excess Returns									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
AllianceBernstein	-0.04	0.03	-0.05	-0.10	-0.08	0.03	-0.03	0.04	0.17	0.06
BlackRock	0.02	0.00	-0.02	-0.02	0.00	0.00	--	--	--	--
Northern Trust	0.02	0.01	-0.01	-0.02	0.00	0.00	-0.03	--	--	--
Rhumbline	-0.06	0.02	-0.04	-0.12	-0.07	0.03	-0.10	0.58	0.40	0.00
State Street	0.02	0.05	0.00	-0.01	0.03	0.01	0.04	--	--	--

Performance shown for each manager's non-securities lending commingled fund, except for AllianceBernstein which only offers separate accounts.

Recommendation & next steps

Verus recommends Northern Trust's Russell 1000 commingled fund (non-lending) for the following reasons:

- — Northern Trust's fund is the lowest fee option; and
- — The fund's track record has demonstrated the ability to closely track the benchmark.

Next steps:

1. Select Northern Trust to fulfill the Russell 1000 mandate; and
2. Authorize Staff to negotiate and execute a contract with the selected investment manager.

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May 23, 2017
Retirement Board Agenda Item

TOP

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Revised Investment Directive #1, Asset Allocation

II. ITEM NUMBER: 8.e

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Approve the revision to Investment Directive #1, including the asset allocation and recommended benchmarks (Attachment 1)

V. EXECUTIVE SUMMARY: In April, the StanCERA Board approved the strategic asset allocation with the revised capital market expectations. In keeping with the modularized investment policy approach, the Board must approve any changes to the investment directives as needed. This agenda item revises the current directive #1 with the changed asset allocation. The directive also contains the recommended benchmarks by which each strategy/asset class will be evaluated. This directive contains the asset allocation target StanCERA wishes to achieve during phase 1 of the entire implementation. Phase 1 takes the portfolio through the liquidity and risk parity mandates. Phase 2 of the implementation will take place later in the year and at that time, this directive will again be revised to reflect those final changes.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: None

Rick Santos, Executive Director

Kathy Herman, Fiscal Services Manager

StanCERA Phase 1 Asset Allocation Targets and Ranges

Asset Class / Sub-Asset Class	**Asset Class Benchmark** / Sub-Asset Class Benchmark	**Allocation** Min.	Target	Max.
Liquidity Sub-Portfolio				
Cash	30 Day T-Bills	0.0	1.0	1.5
Short-Term Gov't/Credit	Bloomberg Barclays US Gov't/Credit 1 - 3 year	15.0	19.0	23.0
Liquidity Sub-Portfolio Total			20.0	
Growth Sub-Portfolio				
US Large cap	Russell 1000	14.0	18.5	23.0
US Small cap	Russell 2000	1.0	5.5	10.0
Private Equity	Russell 3000 + 3%	0.0	0.0	10.0
International Equity	MSCI ACWI ex-USA	15.0	24.0	33.0
Core Real Estate	NCREIF Property	5.0	7.7	11.0
Value-Add Real Estate	NCREIF Property + 2%	0.0	1.7	5.0
Infrastructure	CPI + 5%	0.0	0.6	3.0
Private Credit	Bloomberg Barclays US High Yield + 2%	0.0	5.0	10.0
Growth Sub-Portfolio Total			63.0	
Risk-Diversifying Sub-Portfolio				
US Treasury	Bloomberg Barclays Treasury 7 - 10 year	0.0	3.0	6.0
Risk Parity	60% MSCI ACWI / 40% BBgBarc Global Aggregate	9.0	14.0	19.0
Risk-Diversifying Sub-Portfolio Total			17.0	
Total Allocation			**100.0**	

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TOP

May 23, 2017
Retirement Board Agenda Item

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Portfolio Rebalancing Plan

II. ITEM NUMBER: 8.f

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Approve the rebalancing plan for Phases 1a and 1b of the asset allocation transition (Attachment 1)

V. EXECUTIVE SUMMARY: In April, the StanCERA Board approved the strategic asset allocation with the revised capital market expectations. Inherent in this new allocation are major transitions of assets across the portfolio. This transition includes money not only moving across managers, but also moving completely out of certain StanCERA managers and into new managers and strategies. Phase 1a of the rebalance focuses on a complete transition out of our current fixed income managers and subsequent funding of the liquidity mandate. There is also a rebalance of some funds into the real estate asset class. This portion of the rebalance is expected to take place by the end of the fiscal year.

Phase 1b of the rebalancing is expected to be completed sometime in late summer or early fall and centers of the restructuring of the equity asset class and funds the risk parity asset class. This agenda item is seeking approval for both phases 1a and 1b and will seek approval later in the year for the final move which transitions assets into the private equity class.

VI. RISK: None

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. ADMINISTRATIVE BUDGET IMPACT: No administrative impact. There most likely will be transactional (fees) and implicit and explicit trading costs and that amount could very well range between $350,000 and $700,000 and possibly higher

Rick Santos, Executive Director

Kathy Herman

Kathy Herman, Fiscal Services Manager

StanCERA Rebalancing Analysis

Phase 1a: Anticipated Mid-June 2017

Market values as of April 30th, 2017

Asset Class / Strategy	Actual		Target		Re-Balance Recommend	New		Variance
Domestic Large Cap Equity	**$657,267,345**	**33.7%**	**$657,267,345**	**33.7%**	**-**	**$657,267,345**	**33.7%**	**0.0%**
Mellon S&P 500	99,846,331	5.1%	99,846,331	5.1%	-	99,846,331	5.1%	0.0%
BlackRock Russell 1000 Growth	100,323,412	5.1%	100,323,412	5.1%	-	100,323,412	5.1%	0.0%
Jackson Square	137,605,855	7.1%	137,605,855	7.1%	-	137,605,855	7.1%	0.0%
BlackRock Russell 1000 Value	115,658,315	5.9%	115,658,315	5.9%	-	115,658,315	5.9%	0.0%
Dodge & Cox Equity	203,833,432	10.4%	203,833,432	10.4%	-	203,833,432	10.4%	0.0%
Domestic Small/Mid Cap Equity	**196,036,579**	**10.0%**	**196,036,579**	**10.0%**	**-**	**196,036,579**	**10.0%**	**0.0%**
Legato Capital	91,599,499	4.7%	91,599,499	4.7%	-	91,599,499	4.7%	0.0%
Capital Prospects	104,437,080	5.4%	104,437,080	5.4%	-	104,437,080	5.4%	0.0%
International Equity	**402,558,631**	**20.6%**	**402,558,631**	**20.6%**	**-**	**402,558,631**	**20.6%**	**0.0%**
LSV International Value	203,872,010	10.5%	203,872,010	10.5%	-	203,872,010	10.5%	0.0%
Pyramis International Growth	198,686,621	10.2%	198,686,621	10.2%	-	198,686,621	10.2%	0.0%
Fixed Income	**503,654,575**	**25.8%**	**435,277,734**	**22.3%**	**(68,154,575)**	**435,500,000**	**22.3%**	**0.0%**
Dodge & Cox Income	387,173,675	19.8%	-	0.0%	(387,173,675)	-	0.0%	0.0%
PIMCO Fixed Income	116,480,900	6.0%	-	0.0%	(116,480,900)	-	0.0%	0.0%
Northern Trust Interm. Gov't Bond Fund	-	0.0%	43,890,271	2.3%	43,750,000	43,750,000	2.2%	0.0%
Northern Trust Long-Term Gov't Bond Fund	-	0.0%	14,630,090	0.8%	14,750,000	14,750,000	0.8%	0.0%
Insight Short Duration	-	0.0%	100,000,000	5.1%	100,000,000	100,000,000	5.1%	0.0%
DFA US Short Credit	-	0.0%	276,757,373	14.2%	277,000,000	277,000,000	14.2%	0.0%
Real Estate	**87,365,389**	**4.5%**	**136,438,311**	**7.0%**	**50,000,000**	**137,365,389**	**7.0%**	**0.0%**
MS Prime Property	17,215,373	0.9%	17,215,373	0.9%	-	17,215,373	0.9%	0.0%
American Strategic Value Realty	21,645,785	1.1%	21,645,785	1.1%	-	21,645,785	1.1%	0.0%
BlackRock US Real Estate	34,549,497	1.8%	83,622,419	4.3%	50,000,000	84,549,497	4.3%	0.0%
Greenfield GAP VII	13,954,734	0.7%	13,954,734	0.7%	-	13,954,734	0.7%	0.0%
Direct Lending	**91,405,521**	**4.7%**	**91,405,521**	**4.7%**	**-**	**91,405,521**	**4.7%**	**0.0%**
Medley Capital	24,639,459	1.3%	24,639,459	1.3%	-	24,639,459	1.3%	0.0%
Raven Capital	15,683,645	0.8%	15,683,645	0.8%	-	15,683,645	0.8%	0.0%
Raven Opportunity III	14,132,997	0.7%	14,132,997	0.7%	-	14,132,997	0.7%	0.0%
White Oak Pinnacle	36,949,420	1.9%	36,949,420	1.9%	-	36,949,420	1.9%	0.0%
Infrastructure	**12,187,815**	**0.6%**	**12,187,815**	**0.6%**	**-**	**12,187,815**	**0.6%**	**0.0%**
MS Infrastructure Partners II	12,187,815	0.6%	12,187,815	0.6%	-	12,187,815	0.6%	0.0%
Risk Parity	**-**	**0.0%**	**-**	**0.0%**	**-**	**-**	**0.0%**	**0.0%**
Risk Parity Manager(s) (TBD)	-	0.0%	-	0.0%	-	-	0.0%	0.0%
Cash	**202,868**	**0.0%**	**19,506,787**	**1.0%**	**18,154,575**	**18,357,443**	**0.9%**	**-0.1%**
Totals	**$1,950,678,723**	**100.0%**	**$1,950,678,723**	**100.0%**	**$0**	**$1,950,678,723**	**100%**	0.0%

StanCERA Rebalancing Analysis

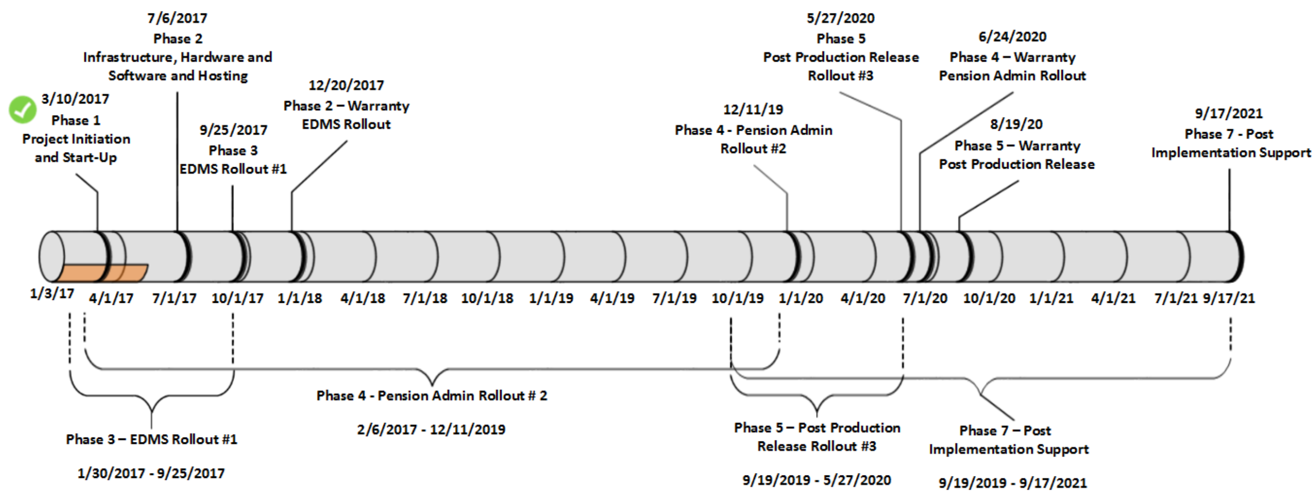
Phase 1b: Anticipated Summer 2017

Market values as of April 30th, 2017

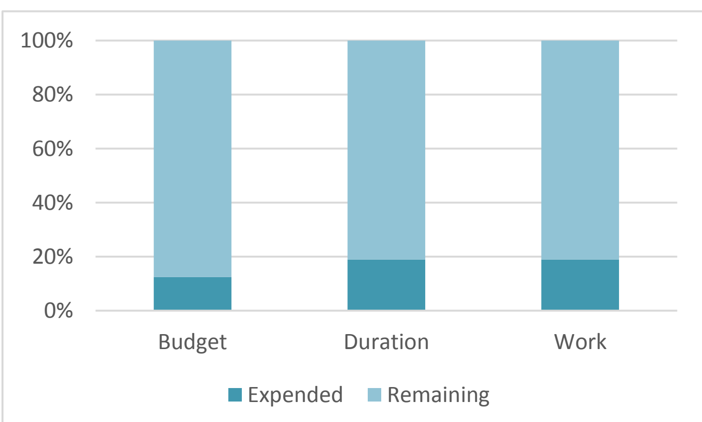
Asset Class Strategy	Actual		Target		Re-Balance Recommend	New		Variance
Domestic Large Cap Equity	**$657,267,345**	**33.7%**	**$360,875,564**	**18.5%**	**(296,610,501)**	**$360,656,844**	**18.5%**	**0.0%**
Mellon S&P 500	99,846,331	5.1%	-	0.0%	(99,846,331)	-	0.0%	0.0%
Passive Core US Equity Manager (TBD)	-	0.0%	152,803,167	7.8%	153,000,000	153,000,000	7.8%	0.0%
BlackRock Russell 1000 Growth	100,323,412	5.1%	104,036,199	5.3%	3,500,000	103,823,412	5.3%	0.0%
Jackson Square	137,605,855	7.1%	-	0.0%	(137,605,855)	-	0.0%	0.0%
BlackRock Russell 1000 Value	115,658,315	5.9%	-	0.0%	(115,658,315)	-	0.0%	0.0%
Dodge & Cox Equity	203,833,432	10.4%	104,036,199	5.3%	(100,000,000)	103,833,432	5.3%	0.0%
Domestic Small/Mid Cap Equity	**196,036,579**	**10.0%**	**107,287,330**	**5.5%**	**(88,849,499)**	**107,187,080**	**5.5%**	**0.0%**
Legato Capital	91,599,499	4.7%	-	0.0%	(91,599,499)	-	0.0%	0.0%
Capital Prospects	104,437,080	5.4%	107,287,330	5.5%	2,750,000	107,187,080	5.5%	0.0%
International Equity	**402,558,631**	**20.6%**	**468,162,894**	**24.0%**	**65,500,000**	**468,058,631**	**24.0%**	**0.0%**
LSV International Value	203,872,010	10.5%	234,081,447	12.0%	30,000,000	233,872,010	12.0%	0.0%
Pyramis International Growth	198,686,621	10.2%	234,081,447	12.0%	35,500,000	234,186,621	12.0%	0.0%
Fixed Income	**435,500,000**	**22.3%**	**435,277,734**	**22.3%**	**-**	**435,500,000**	**22.3%**	**0.0%**
Northern Trust Interm. Gov't Bond Fund	43,750,000	2.2%	43,750,000	2.2%	-	43,750,000	2.2%	0.0%
Northern Trust Long-Term Gov't Bond Fund	14,750,000	0.8%	14,750,000	0.8%	-	14,750,000	0.8%	0.0%
Insight Short Duration	100,000,000	5.1%	100,000,000	5.1%	-	100,000,000	5.1%	0.0%
DFA US Short Credit	277,000,000	14.2%	276,777,734	14.2%	-	277,000,000	14.2%	0.0%
Real Estate	**137,365,389**	**7.0%**	**182,880,057**	**9.4%**	**45,500,000**	**182,865,389**	**9.4%**	**0.0%**
MS Prime Property	17,215,373	0.9%	17,215,373	0.9%	-	17,215,373	0.9%	0.0%
American Strategic Value Realty	21,645,785	1.1%	21,645,785	1.1%	-	21,645,785	1.1%	0.0%
BlackRock US Real Estate	84,549,497	4.3%	130,064,165	6.7%	45,500,000	130,049,497	6.7%	0.0%
Greenfield GAP VII	13,954,734	0.7%	13,954,734	0.7%	-	13,954,734	0.7%	0.0%
Direct Lending	**91,405,521**	**4.7%**	**91,405,521**	**4.7%**	**-**	**91,405,521**	**4.7%**	**0.0%**
Medley Capital	24,639,459	1.3%	24,639,459	1.3%	-	24,639,459	1.3%	0.0%
Raven Capital	15,683,645	0.8%	15,683,645	0.8%	-	15,683,645	0.8%	0.0%
Raven Opportunity III	14,132,997	0.7%	14,132,997	0.7%	-	14,132,997	0.7%	0.0%
White Oak Pinnacle	36,949,420	1.9%	36,949,420	1.9%	-	36,949,420	1.9%	0.0%
Infrastructure	**12,187,815**	**0.6%**	**12,187,815**	**0.6%**	**-**	**12,187,815**	**0.6%**	**0.0%**
MS Infrastructure Partners II	12,187,815	0.6%	12,187,815	0.6%	-	12,187,815	0.6%	0.0%
Risk Parity	**-**	**0.0%**	**273,095,021**	**14.0%**	**273,000,000**	**273,000,000**	**14.0%**	**0.0%**
Risk Parity Manager(s) (TBD)	-	0.0%	273,095,021	14.0%	273,000,000	273,000,000	14.0%	0.0%
Cash	**18,357,443**	**0.9%**	**19,506,787**	**1.0%**	**1,460,000**	**19,817,443**	**1.0%**	**0.0%**
Totals	**$1,950,678,723**	**100.0%**	**$1,950,678,723**	**100.0%**	**$0**	**$1,950,678,723**	**100%**	0.0%

PAS Implementation
Linea Bi-weekly Status Update

Sponsor:	Rick Santos	**Report Date:**	05-05-2017



Baseline 12/01/2016 STATUS



Risks & Issues:

No high-level risks have been identified.

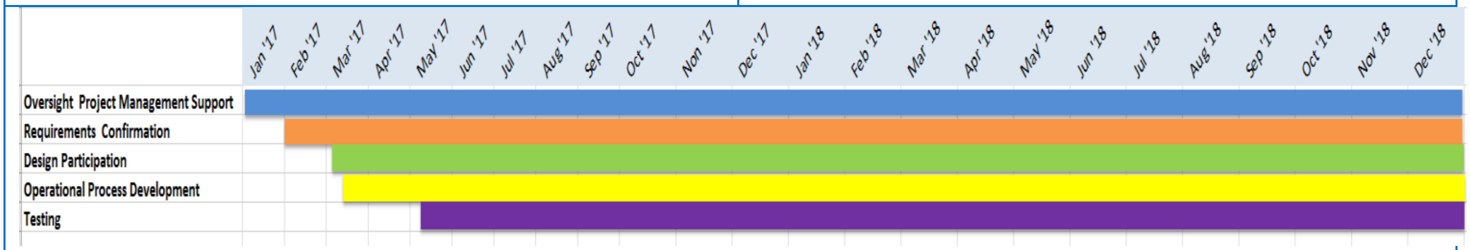
Accomplishments:

- Facilitated the weekly Project Manager meeting.
- Facilitated the monthly project Steering Committee meeting.
- Participated in Tegrit work sessions conducted by Paul Booth and several ad-hoc meetings or discussions.
- Reviewed Tegrit JAD session meeting minutes, decision logs, and action items, as needed.
- Compiled project decisions and action items generated during meetings for tracking purposes.
- Tracked requirements discussed in work sessions using the RTM.

Upcoming:

- Facilitate the weekly Project Manager meeting.
- Participate in any Tegrit work sessions and other meetings scheduled each week.
- Continue tracking requirements discussed in work sessions using the RTM.
- Continue to review Tegrit meeting minutes, decision logs, and action items, as needed.
- Continue to compile and track decisions and action items generated during meetings.
- Continue to assist StanCERA, as needed, with the back file conversion project and QA activities.

Accomplishments: (Contd.)	**Upcoming: (Contd.)**
➢ Generated Steering Committee meeting and PM meeting minutes. ➢ Assisted with coordination and issue resolution related to the back file scanning project and FNTI. ➢ Facilitated meeting and discussion regarding ongoing QA activities for delivered back file images.	➢ Review and hold group review sessions for additional BSR deliverables made by Tegrit. ➢ Facilitate work sessions with StanCERA SMEs to develop Imaging system folder, document type, and keyword structures. ➢ Continue to work with StanCERA to review and complete action items.



Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

TOP

May 23, 2017

Retirement Board Agenda Item

TO: Retirement Board

FROM: Kathy Herman, Fiscal Services Manager

I. SUBJECT: Fiscal Year 2017-2018 Proposed Administrative Budget

II. ITEM NUMBER: 9.b

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Approve the Recommended Proposed Administrative Budget for Fiscal Year 2017-2018

V. EXECUTIVE SUMMARY: Each year staff prepares a budget of general operating expenses for review and approval by the Board of Retirement (Board).

In preparation of the proposed budget, staff compares the current year budget with the current year expenditures. Those numbers, as well as the proposed budget request for Fiscal Year 2017-2018 are reflected in the summary below. In Fiscal Year 2016-2017 the total estimated expenditures of $4,001,774 fall below the final budget approved by the Board of Retirement. The bulk of the savings can be attributed to funds set aside for the pension software project that have not been realized. This savings, approximately $800,000, will carry forward to the new year. A total of $6,678,175 is being requested for Fiscal Year 2017-2018, of which $2,779,154 is the pension software project. The rest of the increase is being attributed to the higher legal fees, retirement rates, inflation, and temporary project staff to assist with the project.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FISCAL YEAR 2017-2018 PROPOSED BUDGET

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018 Admin Services**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
Salaries & Benefits	1,760,959	1,642,708	2,028,621	106,727	2,135,348
Technology	187,295	192,787	173,000		173,000
Legal & Other Professional & Services	425,000	558,744	868,350		868,350
General Operations & Condominium	101,500	66,911	92,007		92,007
Communication & Printing	74,000	65,696	74,000		74,000
County Support Services & Building Services	148,466	146,580	194,655		194,655
Fiduciary Education & Travel	175,000	168,747	186,250		186,250
Capital Expenditures	2,100,956	1,036,114	30,000	2,829,154	2,859,154
Capital Depreciation	178,000	175,830	185,000		185,000
6th Floor Lease Revenue	(52,343)	(52,343)	(89,590)		(89,590)
TOTAL BUDGET	**5,098,833**	**4,001,774**	**3,742,293**	**2,935,881**	**6,678,175**

Government Code section 31580.2 within the 1937 Act allows for expenditures of administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or $2,000,000. The accrued actuarial liability of StanCERA as of the June 30, 2016 actuarial valuation was $2,537,067,000 of which 0.21% ($5,327,841) is available for administrative expenses. We have shown the costs related to the I.T. Coordinator, computer technology software, and hardware and project services separately in this budget.

VI. ANALYSIS:

Review of the Current Year's Administrative Budget and Expenditures

In Fiscal Year 2016-2017 the total estimated expenditures of $4,001,774 will fall below the budget approved by the Board. Approximately $800,000 will carry forward for the pension software project, however legal fees were more than anticipated due to the extensive negotiations for the pension software project and increased activity in disability retirements. Recently three cases were set for hearing. Expenses for a hearing run about $45,000 each. StanCERA's goal is to complete the disability retirement application efficiently with less than 18 open applications at any time. StanCERA currently has eleven open applications.

Fiscal Year 2017-2018 Proposed Administrative Budget Request

A total of $6,678,175 is requested for all administrative expenses in Fiscal Year 2017-2018 including the $2,935,881 related to the I.T. Coordinator and computer technology projects. **Attachment I** These include the pension software system; project management costs, website redesign and implementation, and the member record back file conversion. Not included is the cost of the final board room design and buildout. The 6th Floor lease revenue continues to offset 6th floor expenses.

Salaries & Benefits

Total estimated budget for **Salaries and Benefits** is $2,135,348. Salaries include fourteen full-time staff, contract wages for temporary staff used for back fill on projects; and four part-time extra help staff who will continue to work on a variety of projects 20 hours per week. Benefits include employer retirement contributions, medical, dental and vision care, workers comp and other negotiated and required taxes and fees. See **Attachment II** for the proposed organizational chart.

Retirement and health care costs continue to rise. Health care is particularly dependent upon individual staff selections. If a staff member selects to use County health care coverage for a family of three or more, the budgeted amount is $23,328 per year. Since staff does have some flexibility, the overall cost to the department can vary throughout the year.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
SALARIES & BENEFITS					
Salary and Wages	1,133,465	1,021,233	1,305,087		1,305,087
Contract Wages	0	35,275	50,000		50,000
Project Help Wages					
Information Technology Wages & Benefits	95,700	89,200		106,727	106,727
Employee Benefits	531,794	497,000	673,534		673,534
Salaries & Benefits	1,760,959	1,642,708	2,028,621	106,727	2,135,348

Technology

The technology budget includes current needs, the contractual costs for annual maintenance of $53,000, and disaster recovery of $15,000 with **Tyler Technologies** for the pension system in use at this time. The Tyler maintenance contract is based on a percentage of the original implementation cost and has been extended to allow time for implementation of the new system.

The **Software Licenses and Fees** budget of $25,000 reflect the additional needs of project implementation and temporary staff.

The **StanCERA Website** budget of $2,500 is based on a bare bones structure and allows room for required upgrades. As part of the overall Information Technology project the website will be redesigned. This project will be brought to the Board at a later date and if approved, it will be considered a capital expense and depreciated.

StanCERA contracts with the County for network access, email, server maintenance, security, and phones. The **Strategic Business Technology** (**SBT)** budgeted amounts of $33,000 and $7,500 for Fiscal Year 2017-2018 are within a reasonable range of costs at this time. StanCERA expects to rely heavily on the County I.T. department until the internal position is filled.

In order to keep **Computers and Office Equipmen**t somewhat current, funds are budgeted each year for their replacement and repair. This year $20,000 is being requested to provide for any additional equipment that may be required due to the implementation project.

In Fiscal Year 2017-2018 **Copier Lease and Maintenance** of $17,000 is being requested. This includes leases, maintenance, and supplies for copiers, printers, scanners, etc. StanCERA processes letterhead, specialized forms, member statements and retiree payroll notices on site.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
TECHNOLOGY					
Tyler Software Maint	48,645	48,645	53,000		53,000
Tyler Disaster Maint	13,475	13,475	15,000		15,000
I.T. Consulting Services (PAS RFP - Procurem	52,945	52,945	0		-
Software Licenses & Fees	10,000	10,288	25,000		25,000
StanCERA Website	2,400	2,400	2,500		2,500
SBT - Data Processing Services	28,365	28,364	33,000		33,000
SBT - Telecommunications	5,465	5,465	7,500		7,500
Computers & Office Equipment	11,000	17,010	20,000		20,000
Copier Lease & Maint	15,000	14,195	17,000		17,000
Technology	187,295	192,787	173,000		173,000

Legal & Professional Services

Due to the complexity of the law and the variety of issues that need to be addressed, StanCERA contracts with multiple specialized firms for legal and other services. Only one legal firm is on retainer. The estimated cost for **Legal and Professional Services** includes $195,000 for Disability Counsel, $300,000 to continue to respond to the O'Neal vs StanCERA law suit, $85,000 for General Legal Counsel based on current year expenditure levels and $100,000 for the StanCERA vs Buck lawsuit. This year we have separated out Domestic Relation Order services at $25,000 and Information Technology contract services at $50,000. The General Counsel budget may include expenses from multiple law firms depending on the subject matter.

StanCERA currently has agreements with the following law firms.

Reed Smith	Fiduciary & Information Technology
Hanson Bridget	Tax & Investment
Rein & Rein	Real Estate
Damrell Nelson, et.al.	General & Domestic Relation Orders
Ted Cabrall	Disability

Medical Exams & Review costs related to the processing of disability retirement applications are budgeted at $37,000 for the year.

Auditing Services and Other Professional Services are budgeted at $46,350. Currently Brown Armstrong Accountancy audits the annual financial records.

Often during any fiscal year, legislation changes or a Board request will produce a need for professional services not provided by staff. The budgeted amount for **Other Professional Services** of $30,000 is set aside to cover the cost of professional service providers not associated with investments.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
Legal & Professional Services					
Legal Counsel - Disability	120,000	185,620	195,000		195,000
Legal Counsel - O'Neal vs StanCERA	100,000	89,500	300,000		300,000
Legal Counsel - General	75,000	70,264	85,000		85,000
Legal Counsel - Domestic Relation Orders	0	17,902	25,000		25,000
Legal Counsel - Information Technology	0	86,481	50,000		50,000
Legal Counsel - StanCERA vs Buck	100,000	30,852	100,000		100,000
Medical Exams, Reviews, Hearings	30,000	33,125	37,000		37,000
Auditing Services	0	45,000	46,350		46,350
Other Professional Services			30,000		30,000
Legal & Other Professional & Services	425,000	558,744	868,350		868,350

General Operations & Condominium

Office Supplies are budgeted at $30,000. This includes a variety of supplies, ranging from paper to calculators. The transition of paper to electronic files while actually adding to the supply order at this time, will eventually decrease it. During the transition, new files are created to hold documents that are received after the scanning and before we go live.

The **Other Office Expense** budgeted at $15,000 for Fiscal Year 2017-2018 includes document storage expenses as well as other items needed for securing critically important historical documents, confidential shredding, alarm services, and other ongoing services that are periodically used to complete special projects. This budget is also set aside to accommodate unexpected ergonomic needs, safety expenses, furniture needs, etc. Currently, we have three employees using adjustable stand up desk tops.

The **6th Floor** budgets of $47,007 include the costs of regular janitorial services provided by an outside provider, the additional cost for cleaning and/or replacing flooring, window cleaning, some painting, as well as any cost due to the lease of the vacant space and the Downtown Redevelopment Agency. StanCERA is working with the DA and the County to upgrade 10 year old security equipment as well. This budget item will be offset by the estimated lease revenue of $89,590.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
GENERAL OPERATIONS & CONDOMINIUM					
Office Supplies	30,000	25,624	30,000		30,000
Other Office Expense	8,000	14,300	15,000		15,000
6th Floor Maint	1,500	1,500	1,500		1,500
6th Floor Janitorial & Supplies	2,000	22,769	23,907		23,907
6th Floor Security	10,000	1,500	20,000		20,000
6th Floor taxes (Downtown Redevelopment)	20,000	1,218	1,600		1,600
Rebalance & Correction of 6th floor HVAC	30,000	0	0		-
	0				-
General Operations & Condominium	101,500	66,911	92,007		92,007

Communication & Printing

We have budgeted for **Communications and Printing** a total of $74,000 which includes the Comprehensive Annual Financial Report, Popular Annual Financial Report, semi-annual member statements, elections, and printing and distribution of various correspondence via U.S. Postal services to active members. Payroll distribution is no longer available. In addition, the printing services for retiree payroll and the associated postage has now been included in this category. On average the monthly postage expense through the County's mail room is $4,091. The bulk of which is retiree payroll. It's important to note that StanCERA does not pre-order letter head, specialized forms, member statements, or retiree payroll notices. These items are printed in-house as needed.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
COMMUNICATION & PRINTING					
Annual Reports, Trustee Elections	34,000	28,173	34,000		34,000
Mass member communication					-
Postage	40,000	37,523	40,000		40,000
					-
Communication & Printing	74,000	65,696	74,000		74,000

County Support and Building Services

The Stanislaus County General Services Agency (GSA) is responsible for acquiring goods and services, negotiating contracts, leasing property and equipment, providing consultation on procurement needs and contract facilitation to County departments, in addition to the sale and/or disposal of surplus County property, mailroom messenger, and salvage services. As an Internal Service Fund the costs of these services are based on the level of service provided.

The budget for StanCERA's portion of **the Building are** $131,155. This includes common area expenses for janitorial, maintenance, utilities, and security. StanCERA is working with the DA and the County to upgrade 10 year old security equipment and systems for the whole building.

GSA estimates StanCERA's **Central Services and Mail Room** cost to be $12,300 for Fiscal Year 2017-2018. Postage is categorized separately.

Also provided by the County are general and auto liability insurance, administrative functions by CEO/Personnel, Auditor, Purchasing, Risk Management, and a true-up process for capital expenses from the previous year. The true-up amount can fluctuate considerably from positive to negative each year. The total for these services are budgeted at $51,200.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
COUNTY SUPPORT & BUILDING SERVICES					
Building Maintenance	27,500	32,975	45,000		45,000
Building Janitorial	1,200	1,100	1,155		1,155
Building Security	26,950	24,011	45,000		45,000
Building Utilities	39,500	36,374	40,000		40,000
Auditor	9,000	7,543	10,000		10,000
CEO/Personnel (true up)	20,306	9,554	10,000		10,000
Central Services, Mail Room, Salvage	10,000	10,813	12,300		12,300
Purchasing	1,100	4,913	7,000		7,000
Risk Management	1,650	3,594	3,700		3,700
Salvage & Disposal	0	1,343	2,500		2,500
Insurance (General Liability & Auto)	11,260	14,360	18,000		18,000
					-
County Support Services & Building Services	148,466	146,580	194,655		194,655

Fiduciary Education & Travel

Staff, trustee's and service providers to StanCERA have a fiduciary responsibility to the fund. As such, it is imperative that continuous education be provided. The Board of Retirement consists of nine members and one alternate. Continuing education for Board of Retirement Trustees is required by law. $43,000 has been set aside to accommodate **Trustee Fiduciary Education.**

With StanCERA's needs for education in investment, tax, actuarial and the benefits arenas, maintaining this budget allows for Board Trustees and staff to receive appropriate training and is in line with the Retirement Board's Strategic Plan goal to keep current and up to date. $33,000 is set aside for **Staff Education** and associated travel expenses.

The $78,750 budgeted for **Insurance** includes the estimated cost of Automobile Liability, General Liability, and Fiduciary insurances in Fiscal Year 2017-2018. The Fiduciary Insurance annual coverage cost is expected to increase. It will be based on the 6/30/2016 fund balance and past experience. In addition staff is reviewing other vulnerabilities to the system that might be well served by further coverage.

Government code section 31521 provides that in counties having a nine member board of retirement, a **Meeting Allowance** not to exceed $100 be paid to the fourth, fifth, sixth, eight, ninth and alternate retired member for each meeting attended.

Access to **Professional Publications** and Memberships are important to the continuing education of staff and trustees. The Wall Street Journal (WSJ) and other subscriptions provide key information to fiduciaries. A budgeted amount of $6,000 is in line with this fiscal year's estimated expenditures. The costs of **Professional Memberships** (SACRS, CALAPRS, and NCPERS) seem to have leveled out and the budgeted amount of $11,000 reflects the estimated expenditures for Fiscal Year 2016-2017 and projected increases for Fiscal Year 2017-2018. Membership in these organizations continues to provide high quality education and access to pension and investment information to Board Trustees and staff.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
FIDUCIARY EDUCATION & TRAVEL					
Professional Publications & Subscriptions	6,000	5,258	6,000		6,000
Staff Education & Travel	30,000	28,229	33,000		33,000
Professional Memberships	11,000	10,237	11,000		11,000
Trustee Education & Travel	40,000	37,523	43,000		43,000
Trustee Meeting Allowance	13,000	12,500	14,500		14,500
Insurance (Fiduciary & Auto)	75,000	75,000	78,750		78,750
					-
Fiduciary Education & Travel	175,000	168,747	186,250		186,250

Capital Expenditures

The budgeted **Depreciation** of $185,000 includes the Tyler computer software, 12th Street offices, tenant improvements, furniture, phone systems, audio system, and security monitoring systems.

The bulk of the current **Capital Expenditures** budget request of $2,859,154 is attributed to the pension software system. Work has not yet started on the final phase of the board room and once a cost estimate is provided, the Board will determine the next steps.

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
CAPITAL EXPENDITURES					
Pension Administration System & Back File	1,378,810	589,000		2,169,154	2,169,154
I.T. Project Management & Oversite for P.A.S.	610,000	350,000		610,000	610,000
Project Room, Equipment Furniture	20,000	12,533	15,000		15,000
Audio Visual Equipment	20,000	12,435	15,000		15,000
6th Floor vacant space completion	72,146	72,146	0		-
Design and Build of Board Room			TBD		
Website redesign & implementation	0	0		50,000	50,000
Capital Expenditures	2,100,956	1,036,114	30,000	2,829,154	2,859,154
Capital Depreciation	178,000	175,830	185,000		185,000

Non- Administrative Expenses

Section 31596.1 of the CERL states: the following expenses shall not be considered a cost of administration to the retirement system, but shall be considered as a reduction in earnings from those investments or a charge against the assets of the retirement system as determined by the Board. These expenses are reported in the Audited financial statements presented to the Board of Retirement in the Comprehensive Annual Financial Report.

- Actuarial Fees
- Investment Consultant Fees
- Attorney Fees –directly related to an investment
- Investment Manager Fees
- Custodial Bank Fees.

VII. RISK: Government Code section 31580.2 allows for expenditures for administrative services (other than software, hardware and computer technology consulting services) to be the greater of 0.21% of the accrued actuarial liability or $2,000,000. In Fiscal Year 2017-2018, we continue to exercise prudence in budgeting administrative expenses and are submitting a budget which is 0.15% of the accrued actuarial liability and well below the allotted legal amount.

VIII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

IX. ADMINISTRATIVE BUDGET IMPACT: A total of $6,678,175 is requested for all administrative expenses in Fiscal Year 2017-2018 including the $2,935,881 related to the pension software and other related technology projects. The increase is being attributed to the pension software project, higher legal fees, retirement rates, inflation, and temporary project staff to assist with the project.

Kathy Herman

Kathy Herman, Fiscal Services Manager

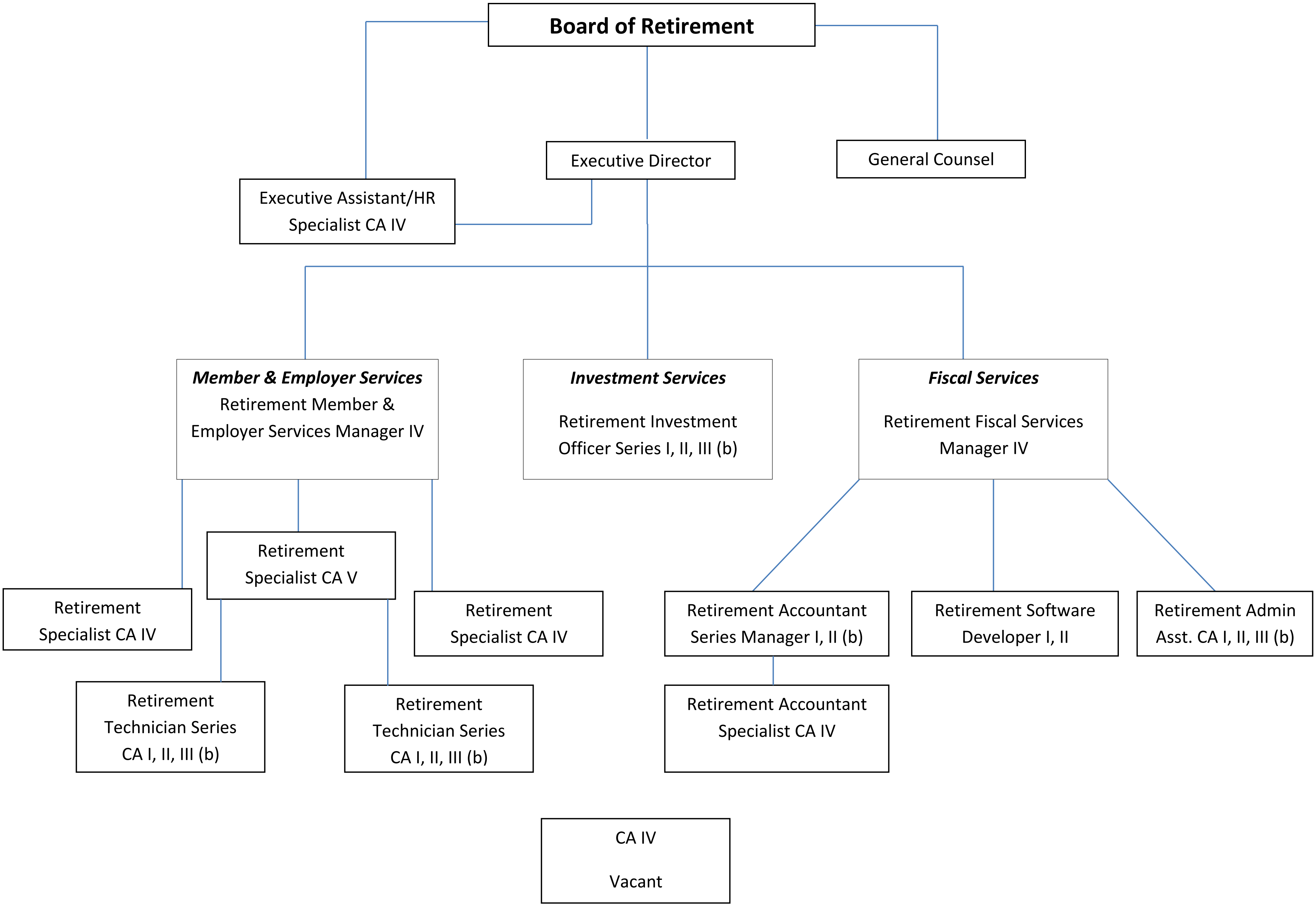
Rick Santos, Executive Director

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
FISCAL YEAR 2017-2018 PROPOSED BUDGET

	Fiscal Year 2016-2017 Final Budget	Fiscal Year 2016-2017 Estimated Expenditures	**Fiscal Year 2017-2018 Admin Services**	**Technology Adjustment §31580.2(b)**	**Fiscal Year 2017-2018 Budget Request**
SALARIES & BENEFITS					
Salary and Wages	1,133,465	1,021,233	1,305,087		1,305,087
Contract Wages	0	35,275	50,000		50,000
Project Help Wages					
Information Technology Wages & Benefits	95,700	89,200		106,727	106,727
Employee Benefits	531,794	497,000	673,534		673,534
Salaries & Benefits	1,760,959	1,642,708	2,028,621	106,727	2,135,348
TECHNOLOGY					
Tyler Software Maint	48,645	48,645	53,000		53,000
Tyler Disaster Maint	13,475	13,475	15,000		15,000
I.T. Consulting Services (PAS RFP - Procurer	52,945	52,945	0		-
Software Licenses & Fees	10,000	10,288	25,000		25,000
StanCERA Website	2,400	2,400	2,500		2,500
SBT - Data Processing Services	28,365	28,364	33,000		33,000
SBT - Telecommunications	5,465	5,465	7,500		7,500
Computers & Office Equipment	11,000	17,010	20,000		20,000
Copier Lease & Maint	15,000	14,195	17,000		17,000
Technology	187,295	192,787	173,000		173,000
Legal & Professional Services					
Legal Counsel - Disability	120,000	185,620	195,000		195,000
Legal Counsel - O'Neal vs StanCERA	100,000	89,500	300,000		300,000
Legal Counsel - General	75,000	70,264	85,000		85,000
Legal Counsel - Domestic Relation Orders	0	17,902	25,000		25,000
Legal Counsel - Information Technology	0	86,481	50,000		50,000
Legal Counsel - StanCERA vs Buck	100,000	30,852	100,000		100,000
Medical Exams, Reviews, Hearings	30,000	33,125	37,000		37,000
Auditing Services	0	45,000	46,350		46,350
Other Professional Services			30,000		30,000
Legal & Other Professional & Services	425,000	558,744	868,350		868,350
GENERAL OPERATIONS & CONDOMINIUM					
Office Supplies	30,000	25,624	30,000		30,000
Other Office Expense	8,000	14,300	15,000		15,000
6th Floor Maint	1,500	1,500	1,500		1,500
6th Floor Janitorial & Supplies	2,000	22,769	23,907		23,907
6th Floor Security	10,000	1,500	20,000		20,000
6th Floor taxes (Downtown Redevelopment)	20,000	1,218	1,600		1,600
Rebalance & Correction of 6th floor HVAC	30,000	0	0		-
	0				-
General Operations & Condominium	101,500	66,911	92,007		92,007
COMMUNICATION & PRINTING					
Annual Reports, Trustee Elections	34,000	28,173	34,000		34,000
Mass member communication					-
Postage	40,000	37,523	40,000		40,000
Communication & Printing	74,000	65,696	74,000		74,000
COUNTY SUPPORT & BUILDING SERVICES					
Building Maintenance	27,500	32,975	45,000		45,000
Building Janitorial	1,200	1,100	1,155		1,155
Building Security	26,950	24,011	45,000		45,000
Building Utilities	39,500	36,374	40,000		40,000
Auditor	9,000	7,543	10,000		10,000
CEO/Personnel (true up)	20,306	9,554	10,000		10,000
Central Services, Mail Room, Salvage	10,000	10,813	12,300		12,300
Purchasing	1,100	4,913	7,000		7,000
Risk Management	1,650	3,594	3,700		3,700
Salvage & Disposal	0	1,343	2,500		2,500
Insurance (General Liability & Auto)	11,260	14,360	18,000		18,000
					-
County Support Services & Building Services	148,466	146,580	194,655		194,655
FIDUCIARY EDUCATION & TRAVEL					
Professional Publications & Subscriptions	6,000	5,258	6,000		6,000
Staff Education & Travel	30,000	28,229	33,000		33,000
Professional Memberships	11,000	10,237	11,000		11,000
Trustee Education & Travel	40,000	37,523	43,000		43,000
Trustee Meeting Allowance	13,000	12,500	14,500		14,500
Insurance (Fiduciary & Auto)	75,000	75,000	78,750		78,750
					-
Fiduciary Education & Travel	175,000	168,747	186,250		186,250
CAPITAL EXPENDITURES					
					-
Pension Administration System & Back File	1,378,810	589,000		2,169,154	2,169,154
I.T. Project Management & Oversite for P.A.S.	610,000	350,000		610,000	610,000
Project Room, Equipment Furniture	20,000	12,533	15,000		15,000
Audio Visual Equipment	20,000	12,435	15,000		15,000
6th Floor vacant space completion	72,146	72,146	0		-
Design and Build of Board Room			TBD		
Website redesign & implementation	0	0		50,000	50,000
Capital Expenditures	2,100,956	1,036,114	30,000	2,829,154	2,859,154
Capital Depreciation	178,000	175,830	185,000		185,000
6th Floor Lease Revenue	(52,343)	(52,343)	(89,590)		(89,590)
TOTAL BUDGET	**5,098,833**	**4,001,774**	**3,742,293**	**2,935,881**	**6,678,175**

Attachment 2

StanCERA Proposed Organizational Chart



Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

May 23, 2017
Board of Retirement Agenda Item

TOP

TO: Retirement Board

FROM: Kathy Herman, Fiscal Services Manager

I. SUBJECT: Internal Governance Committee Policy & Resolution Review

II. ITEM NUMBER: 10.a.I

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Accept Committee Recommendation to approve the following five policies and Adopt Internal Revenue Code Section 415 – Annual Limits Resolution.

V. ANALYSIS: StanCERA has need of many policies. As part of the Strategic Plan, staff is to standardize internal and external communication. During this process, each policy is being reviewed. Six policies were brought to Committee on May 4, 2017. Committee sent one back to staff with comments and changes, and five are being brought to the Board at this time.

a. Accounting Policy – Staff reviewed the current policy and added current GASB related language.

b. Desk and Process Manual Policy – These manuals are for internal use only. Having a policy in place ensures that documentation of internal processes remain a priority.

c. Electronic Data Security Policy – In order to recognize the potential needs in a pension software implementation this policy is being amended to allow the Executive Director or his/her designee to give written authorization should a short term deviation from the policy be required.

d. Purchasing Policy – StanCERA agrees that the Stanislaus County Purchasing Policy is reasonable, however for business efficiency StanCERA does call out some exceptions.
* County Policies refrenced in the Purchasing Policy are available by request.

e. Purchasing Card Policy – StanCERA views the County's purchasing card policy as reasonable, however, given the business nature of StanCERA, some exceptions needed to be clarified.
* County Policies refrenced in the Purchasing Policy are available by request.

In addition, as part of the IRS voluntary compliance favorable response, StanCERA is to adopt a resolution making a technical plan change. This change will not impact StanCERA operations. All new members of StanCERA are required to sign the 415 Annual Compensation Limit form. (Draft policies and resolution attached.)

V. RISK: None

VI. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VII. ADMINISTRATIVE BUDGET IMPACT: None

Kathy Herman

Kathy Herman, Fiscal Services Manager

Rick Santos, Executive Director

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Stanislaus County Employees' Retirement Association's

StanCERA Accounting ~~Guidelines~~ Policy

~~(Board Approved June 28, 2011)~~

~~The Stanislaus County accounting guidelines are the Auditor/Controller's policies and procedures to comply with generally accepted accounting principles (they are located @ http://intranet/departments/auditor-controller/policies/accounting-guidelines StanCERA views the accounting guidelines fair and appropriate. StanCERA adopts and will abide by the policies and procedures in the Stanislaus County accounting guidelines with the following exceptions:~~

~~As a separate legal entity, StanCERA does not participate in certain County processes, primarily the budget process. Thus StanCERA does not adopt the accounting guidelines for Budget Journal Vouchers & Budgeting for fixed assets.~~

~~As a separate legal entity, StanCERA reserves the right to modify and/or reject any of the County accounting guidelines it deems appropriate. Any such modifications and/or rejections will be documented and approved by the Retirement Board.~~

Purpose:

Stanislaus County Employees' Retirement Association (StanCERA) is a governmental Fiduciary fund used to report resources that are required to be held in trust for the members and beneficiaries of the defined benefit pension plan. This document describes the principles under which StanCERA records their operational transactions and reports their financial position.

Policy:

The County Employees' Retirement Law of 1937 and Public Employees' Pension Reform Act of 2013 govern the administration of StanCERA.

California Government Code Section 30200 requires the State Controller to prescribe uniform accounting procedures for governmental entities. The State Controller issued the *Accounting Standards and Procedures for Counties.* Chapter 20 of the State Controller's *Accounting Standards and Procedures for Counties* is the guidance for governmental retirement systems.

In accordance with the State Controller's *Accounting Standards and Procedures for Counties,* StanCERA operations will follow generally accepted accounting principles (GAAP). According to GAAP, Fiduciary funds should be maintained on the accrual basis of accounting.

In addition to the State Controller's guidance, the Governmental Accounting Standards Board (GASB) issued the following statements pertaining to governmental pension plans:

1 - GASB Statement No. 25 – *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures* which establishes financial reporting standards.

2 - GASB Statement No. 67 – *Financial Reporting for Pension Plans* which is an amendment of GASB Statement No. 25 improving financial reporting for governmental pension plans and employers.

3 - GASB Statement No. 72 – *Fair Value Measurement and Application* which provides guidance on determining the fair value measurement for financial reporting purposes.

4 - GASB Statement No. 82 – *Pension Issues* which provides further clarification regarding GASB Statement No. 67.

Governmental pension plan accounting and financial reporting standards established in these authoritative pronouncements are to be incorporated into the various sections of the StanCERA Comprehensive Annual Financial Report. Processes and procedures incorporated to maintain this policy are documented, reviewed and included in the year end audit, annually.

Policy Review

The Board shall review this policy at least every three years.

Policy History

Approved /Adopted by the Board of Retirement

____

Rick Santos, Executive Director

Approval / Adoption Date:___________________

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Desk and Process Manual Policy

The desk and process manuals for StanCERA staff functions (located @ V/Desk and Process Manuals) are adopted by the Board of Retirement. Staff will update standardized manuals as procedures and processes change. Changes will be approved by the Management~~Operations and/or the Benefits Manager~~ prior to implementation. A revision history will be created with previous manuals electronically archived. Revision dates will be used to ensure manuals are reviewed and updated ~~on a regular basis.~~ no less than triennially. Manuals will be maintained electronically and reloaded to the Tyler Help Menu and Continuity of Operations application annually by January 1.

Policy Review

This Board shall review this policy at least every three years.

Policy History

Adopted by the Retirement Board on June 28, 2011
Revised April 24, 2012
Revised November 26, 2013

Revised _______________ 2017

Reviewed and amended by the Board of Retirement

Rick Santos, Executive Director

Approval/Adoption Date:___6/28/11_

Electronic Data Security Policy

In addition to complying with the County's Computer Security – end user policy, found in Tab 16 pages 26-30 of the County personnel manual, StanCERA augment that policy with the following policy:

StanCERA member data is considered the Property of StanCERA and subject to all implied property rights. It may not be shared, distributed, published, disposed of, or otherwise released without explicit direction of the StanCERA Executive Director

1. Electronic member data

All electronic member data will reside in the Tyler database
Access to member data is limited to authorized StanCERA staff
Modification of member data may only be done by authorized StanCERA staff
Any data extracted will be limited, secure and temporary

At times member data must be extracted and shared. Some examples are; actuarial valuations, yearly audits, death audits, and state and federal reporting and authorized Public Records Act requests. Secure procedures are in place for all these processes that include password security, data encryption and/or secure file transfer protocol (SFTP). Excluding these required functions, identifiable member data will not be transported off StanCERA premises. Identifiable member data is considered to be any data that includes SSN, birth date, name or address.

Electronic identifiable member data will not be:

- attached to emails for sharing or distribution outside of StanCERA
- saved to any transportable media including flash drives and CDs or other external storage device.
- saved to any Laptop or portable computer

Extracted member data will only be stored on the StanCERA network drives. Temporary storage on desktop PCs should be cleared daily or at the end of the project/assignment.

Any deviation of the policy requires prior written authorization of the Executive Director or his/her designee with notification to the Board of Retirement.

2. PERA Application Security

Access authorizations will be reviewed and verified quarterly

3. Consequences

An employee who violates this policy will be subject to the appropriate disciplinary action, which may include suspension, demotion or termination from County employment. Additionally an employee may be subject to civil, and/or criminal prosecution.

A vendor who violates this policy may be subject to termination of relations with StanCERA. Additionally vendors may be subject to civil, and/or criminal prosecution.

Policy Review

This Board shall review this policy at least every three years.

Policy History

Adopted by the Retirement Board on January 28, 2011

Amended ______________ 2017

Reviewed and amended by the Board of Retirement

____

Rick Santos, Executive Director

Approved Date: _____________

Stanislaus County Employees' Retirement Association's

Purchasing Policy

Stanislaus County purchasing policies and procedures are meant to manage all aspects of the County procurement process. ~~(~~T~~t~~hey are located @http://intranet/departments/GSA/gsa-files/divisions/policies-procedures.pdf . StanCERA views these policies and procedures as fair and adequate. StanCERA will adopt and will abide by the Stanislaus County purchasing policies and procedures with the following exceptions:

- "StanCERA Executive Director or his/her designee" should be substituted for "purchasing or purchasing department" through~~-~~out the policy except for the sale of surplus property section.
- "Board of Retirement" should be substituted for "Board of Supervisors" throughout the policy except for the sale of surplus property section.
- "StanCERA funds" should be substituted for "County funds" throughout the policy.
- StanCERA will coordinate, monitor, and record all phases of StanCERA's procurement of supplies, equipment, materials, and services.
- StanCERA will ~~also~~ be responsible for the leasing of any StanCERA property.
- StanCERA will administer and manage all of its own contracts.
- StanCERA will use County purchasing agent to sell any StanCERA surplus personal property.
- StanCERA will consult with County purchasing agent as necessary for any assistance.

References in the policy to the County Board of Supervisors and County affiliations are not applicable to StanCERA procurements.

StanCERA will administer and manage all procurement processes for services related to management and investing of the pension fund. As a separate legal entity, StanCERA reserves the right to modify and/or reject any of the County purchasing policies and procedures as it deems appropriate. Any such modifications and/or rejections will be documented and approved by the Board of Retirement ~~Board~~.

Policy Review

The Board shall review this policy at least every three years.

Policy History

Approved 6/28/2011
Amended 04/24/2012
Amended 03/09/2017

Approved /Adopted by the Board of Retirement

____
Rick Santos, Executive Director

Approval / Adoption Date:____________________

Stanislaus County General Services Agency			
Agency Policies and Procedures		Division:	Purchasing
Section:	05-Purchasing	Prepared by:	Jim Nelson, Manager
Policy Number:	05-01	Approved by:	Julie Mefferd, Director
Title:	Purchasing Division Policies & Procedures	Version:	02/27/09
Effective Date:	March 2009	Reference #:	n/a

STANISLAUS COUNTY
GENERAL SERVICES AGENCY
PURCHASING DIVISION

POLICIES AND PROCEDURES

TABLE OF CONTENTS

STANISLAUS COUNTY

PURCHASING DIVISION

S E C T I O N I

INTRODUCTION

The procedures contained in this manual are designed to implement the fundamental principles of procurement, as follows: (1) foster maximum open and free competition for County purchases and contracts; (2) promote the greatest economy and efficiency in County procurements; (3) ensure adherence to proper standards of conduct by County officers and employees; (4) maintain procurement policies and procedures that guarantee compliance with applicable local, state, and federal laws and regulations; (5) establish and maintain a professional, business-like, ethical relationship with all contractors; (6) treat all prospective contractors, consultants, and vendors in an equal and equitable manner; and (7) provide opportunities for remedy and resolution of contract claims or disputes.

It is the responsibility of Purchasing to coordinate, monitor, and record all phases of County procurements of supplies, equipment, materials, services, and Public Works projects under $100,000, excluding purchasing card procurements. Purchasing is also responsible for the sale of County surplus personal property, and the leasing of real and personal property.

In the course of performing its responsibilities, Purchasing is guided by certain policy objectives, broadly stated as follows:

A. Conserving public funds through reduction in cost and improvement in the quality of supplies, equipment, materials, services and construction projects, and reducing the overhead cost of contracting, buying, leasing, renting, and selling.

B. Analyzing alternative approaches for each procurement, such as direct purchasing, time sharing, leasing, intergovernmental/interagency agreements (cooperative purchasing).

C. Structuring each procurement through consolidation of similar products and separation of dissimilar ones.

D. Eliminating purchase of unnecessary or duplicate items and services.

E. Encouraging price and quality competition among suppliers, vendors, contractors, and consultants.

F. Reducing volume, streamlining the flow of paperwork and simultaneously maintaining accurate documentation of procurement transactions.

G. Utilizing competent technical expertise where needed in the initiation and administration of procurements and contracts.

H. Performing all duties and responsibilities in compliance with local, state and federal law, and consistent with applicable standards of conduct and ethics.

I. Requiring that vendors present acceptable documentation evidencing the quality of the product and the accuracy of representations relative to the product.

J. Following the procedures outlined in this Manual, with the aim of furthering the goals and objectives that underlie such procedures.

S E C T I O N I I

<u>ORDINANCE CODE OF STANISLAUS COUNTY</u>

The following applicable policies are contained in the Stanislaus County Ordinance Code, Title 2, Chapters 2.24:

2.24.010 Office Established

Pursuant to the provisions of Sections 25500, et seq., of the government Code of the state, the office of purchasing agent is established.

2.24.020 Duties Generally

The purchasing agent shall have the duties and powers prescribed by laws of the state relating to county purchasing agents, the provisions of this chapter and the resolutions of the board of supervisors. He shall be the head of the purchasing department of the county and shall appoint such deputies, assistants and other employees therein as shall from time to time be authorized therefore in this title. He shall furnish the board of supervisors with such reports and information as the board may from time to time require and shall establish methods and procedures necessary for the proper functioning of the purchasing department in an efficient and economical manner.

2.24.030 Purchasing Duties

Subject to the general direction of the chief administrative officer, the purchasing agent shall:

A. Purchase for the county and its offices all materials, supplies, furnishings, equipment, livestock and other personal property of whatever kind and nature, and except in cases of emergency as provided in this chapter, no purchase of personal property by any person other than the purchasing agent shall be binding upon the county or constitute a lawful charge against any county funds;

B. Rent for the county and its offices, furnishings, equipment and livestock, excepting however, road equipment which the road commissioner is authorized by law to rent;

C. Negotiate and execute in the name of the county all equipment service contracts and lease purchase agreements of personal property;

D. Negotiate and execute in the name of the county as lessee all rentals of real property which the county may require;

E. Sell any personal property belonging to the county as provided in Section 2.24.065;

F. Engage independent contractors to perform services for the county and the offices thereof with or without the furnishing of material where the aggregate cost does not exceed the limitation prescribed by the laws of the state. Provided, however, this shall not apply to contracts to do work upon the public roads of the county, contracts to print legal briefs or legal notices, contracts for reporters' services or transcripts, contracts for election, supplies, contracts for expert services to be rendered the offices of the district attorney, county counsel or sheriff, contracts for appraisers' services, contracts for consultants and other experts employed directly by the board of supervisors, or contracts for other services which by law some other officer or body is specifically charged with obtaining;

G. Engage independent contractors to construct, repair, or furnish any building or structure enumerated in Section 25450 of the Government Code of the state and Section 20121 of the Public Contract Code when the estimated cost does not exceed that limitation prescribed by the laws of the state;

H. When specifically authorized by law, purchase for the superintendent of schools or other public officer or agency personal property;

I. When specifically authorized by law, sell or dispose of personal property of any special district and pay the proceeds thereof into the treasury of the district, or if an exchange or trade is made, return the proceeds to the special district;

J. Perform such other services as the board of supervisors may from time to time by resolution require.

2.24.040 Emergency Purchases

Emergency purchases may be made by any person or official authorized to sign requisitions when the purchasing agent or any of his assistants in the purchasing department authorized to make purchases is not immediately available and the item or items so purchased are immediately necessary for the continued operation of the office or department involved or are immediately necessary for the preservation of life or property. Such emergency purchases shall be subsequently approved and confirmed by the purchasing agent, or if he refuses such confirmation, the board of supervisors may subsequently approve and confirm such purchase by a four-fifths vote of the entire board. Unless such purchases are so approved and confirmed by either the purchasing agent or the board of supervisors, the costs thereof shall not constitute a legal charge against the county.

2.24.050 Requisition Procedure

Except as to purchases from the petty cash fund of the purchasing agent, established pursuant to Title 3, Division 3, Chapter 2, Article 2 of the Government Code of California, all purchases, rentals, and contracts shall be made only upon properly written requisitions, the forms of which shall be supplied by the purchasing agent to the several offices of the county. No purchase order shall be issued until the county auditor shall have certified that sufficient money is available in the proper budgeted fund of the department to pay for the purchase. The head of any county office, department or institution or his duly designated assistant is authorized to draw requisitions for purchases for such office, department, or institution in accordance with current budget accounts. Such head may delegate such authority to one or more of his deputies, assistants, or employees within the department by filing a written authorization therefore with the purchasing agent and the auditor.

2.24.060 Bidding Not Required

Except as otherwise provided by ordinance or general law, the purchasing agent may, without notice, advertisement, or the securing of competitive bids or quotations, make any purchase of personal property, or do any other thing which he is authorized to do in this chapter; provided, however, that in the event he purchases any individual item (as distinct from the total contract) costing more than Five Thousand Dollars ($5,000) without securing competitive bids or quotations, thereon, he shall report such action to the board of supervisors with his reasons therefore; and provided further, that if he does call for competitive bids or quotations and accepts any bid or quotation which complies with all terms, conditions, and specifications, other than the lowest upon any individual item costing more than Five Hundred Dollars ($500), he shall likewise report such fact to the board of supervisors.

2.24.065 Sale of Personal Property

The purchasing agent is authorized to sell, trade, trade-in, lease, exchange, or otherwise dispose of any personal property belonging to the county which is deemed to be surplus and not required for public use by the county and which has a value of less than One Thousand Dollars ($1,000) per individual item without prior approval by the board of supervisors. Notwithstanding any other provision of this code such disposition of surplus property may be made without securing bids or advertising. For disposition of personal property exceeding One Thousand Dollars ($1,000) per individual item, prior approval of the board of supervisors must be obtained. All proceeds from such sales shall be paid into the county treasury for the use of the county.

2.24.070 Surplus Property Sale - Notice

Notices of sales of surplus personal property shall be posted for not less than five business days proceeding the day of sale in the county office buildings and in the office of the purchasing agent and in such other public place within the county as the purchasing agent may deem advisable.

2.24.080 Surplus Property Sale - Advertising

In the disposition of any surplus personal property and upon approval of the board of supervisors, the purchasing agent may purchase advertising space and may advertise the proposed sale or other disposition of the personal property in such newspapers, magazines and other periodicals as in his judgment will best publicize the proposed sale or other disposition to those persons most likely to bid for or purchase the personal property. Within the limitation of the order of the board of supervisors approving the advertising, the purchasing agent shall decide upon the amount, nature, makeup, and content of the advertising.

2.24.090 Surplus Property - Transfer to Another Department

Whenever any item of personal property is no longer needed by the office, department or institution in possession thereof, such fact shall be reported to the purchasing agent. Such personal property shall be maintained under the supervision of the purchasing agent, and whenever any office, department or institution is in need of an article which has been designated as purchasing agent's salvage, or has requisitioned the purchase of a similar article, the purchasing agent may upon a properly drawn request for transfer or requisition, transfer the article to such department.

2.24.110 Standards Committee

The purchasing agent may organize standards committees as needed to establish standards with respect to the type, design, quality, or brand of a certain article or group of related articles or services purchased by the county. The membership of the committee shall be the purchasing agent who shall be chairman, the chief administrative officer and the heads of each county office, department, or institution that is a primary user of the item or group of items for which the committee is appointed. Any member of the committee may act through a representative appointed by him.

2.24.120 Preference for Domestic Manufacture

In making purchases of personal property or entering into contracts involving the furnishing of products or materials, the purchasing agent shall comply with Chapter 4, Division 5, Title 1 of the Government Code with respect to American-made and California-made materials.
When the price and quality of the products or materials offered are equal, preference shall be given to county products.

2.24.130 Credit Cards

Credit cards may be used to procure goods and services for official County business. County Credit Card Policy and County Travel Policy govern credit card use.

Note: These cards may be used to procure goods and services costing less than $5,000 including taxes, shipping, etc. for official County business. The County Purchasing Card Policy, which is administered by the Auditor-Controller, encourages employees to obtain competitive quotes. It also requires employees to check with Purchasing for any existing contracts before making purchases.

S E C T I O N I I I

ETHICS

A. EMPLOYEE PURCHASES

In no instance shall the County purchasing agent or staff become involved with making purchases not related to County business or of a personal nature for any person, employee, or otherwise. Buyers and other employees shall avoid personal purchases from County vendors which may in any way affect the County's business relationship with that vendor.

B. STANISLAUS COUNTY CODE OF ETHICS

1. Policy Statement

The Board of Supervisors and all County employees including elected officials, classified personnel, and unclassified personnel should:

a. Never provide special favors or privileges or accept favors or benefits under circumstances which may be construed by reasonable persons as influencing the performance of one's governmental duties.
b. Make no private promises of any kind which conflict with one's public duty and responsibilities.
c. Engage in no business activity which is inconsistent with the conscientious performance of one's governmental duties.
d. Never use any confidential information received in the performance of one's governmental duties for private profit or personal benefit.
e. Never engage in outside activities that are incompatible with the objective performance of their duties or delivery of governmental service.
f. Treat all individuals encountered in the performance of one's duties in a respectful, courteous, and professional manner.
g. Promote only decisions that benefit the public interest.
h. Conduct and perform job duties diligently and promptly.
i. Faithfully comply with all laws and regulations applicable to the County and impartially apply them to everyone.
j. Promote the public interest through a responsive application of public duties.
k. Demonstrate the highest standards of personal integrity, truthfulness, and honesty in all public activities.
l. Uphold these principles being ever conscious that public office is a public trust.

(Adopted by the Board of Supervisors October 22, 1991.)

C. STANISLAUS COUNTY'S GIFT POLICY

1. Acceptance of Gifts and Other Tokens of Appreciation by County Employees

California Penal Code Section 70 makes it a misdemeanor for any public employee or officer to receive any gratuity or reward or promise thereof for doing an official act. California Government Code Section 87300 and the County Personnel Policies Manual, page 54, set forth provisions by which every County department establishes a conflict of interest code. This code designates certain County employees occupying decision-making positions who must annually report gifts received if valued at $50 or more. An important rule to keep in mind is, when there are questions, seek advice, and, when in doubt, do not accept the gift and/or provide full disclosure as appropriate.

The following guidelines describe Stanislaus County policy regarding acceptance of gifts and other tokens of appreciation by County employees or agents of the County not formally designated in their department's conflict of interest code. These guidelines set forth the acceptable courses of action to take when such gifts are received from members of the public. Gift-giving between and/or among County employees is regarded as acceptable and not a topic of concern in this document.

Note: "County employee" is defined as a person officially occupying a position with the County. This includes all probationary, permanent, full-time, or part-time employees or extra-help employees and others who are considered "agents" of the County as defined by contract between the individual and the County.

a. **Basic Tenet**: **Avoid any appearance of impropriety and any act which appears improper even though it may not be illegal, i.e., neither seek nor accept directly or indirectly favor for performing duties as an employee.**

1. Do not discriminate in the provision of services to the public. This means not receiving gifts or other tokens of appreciation in connection with services rendered in the performance of duties for which they are already paid and not bestowing special favors upon any member of the public in return for gifts or gratuities.

2. Do not solicit any gift or accept or receive any gift whether it be money, services, loan, travel, entertainment, hospitality, promises, or any other form under circumstances where it can be reasonably inferred or expected that the gift was intended to influence in the performance of official duties or the gift is intended to serve as a reward for official action on the part of the employee.

3. Do not receive economic advantage or discount not available to all County employees. Examples of these occurrences include but are not limited to

free or reduced admission to places of amusement or sporting events.

b. **Basic Tenet: Recognize the problem in advance; intervene immediately.** Recognizing that on some occasions, especially at Christmas or other holiday times, gifts such as candy, fruit, plants, or other tokens of appreciation are given to employees or departments, the purpose of this document is to standardize County employee behavior when such gifts are received. Responsibility for implementation of the guidelines herein lies at the department level.

c. **Basic Tenet: When the cumulative value of gifts received is $50 or more, reporting is required under the Fair Political Practices Commission's rules and regulations.**

   Gifts of $50 or greater individual retail value (or, if several smaller gifts, $50 cumulative value) must be reported on an annual basis following the provisions set forth in the conflict of interest code.

d. **Basic Tenet: Use the departmental chain of command to remove any appearance of impropriety.**

   If, during the course of his/her official duties, a County employee receives a gift directed personally to him/her or to his/her department, he/she is obligated to report receipt of the gift to the immediate supervisor. When in doubt about the acceptability of a particular gift, the employee should advise his/her immediate supervisor of the situation and allow the supervisor to make the appropriate decision using a standard of reasonable care and judgment.

   It is Stanislaus County policy that, with the exception of alcoholic beverages, if a gift such as candy is opened and made available for all department employees to share, the action is acceptable. If the same gift, however, is taken home for an employee's singular benefit, the action is unacceptable. If the item is alcoholic in nature, nonperishable, or impossible to divide among employees for some reason, the recommended course of action, at the discretion of the department head, is to donate the item to a local charity or return the gift to the donor with a note of thanks. In this manner, no one employee benefits from receipt of the gift.

e. **Basic Tenet: Be courteous; explain the gift policy in positive terms if asked.**

   If members of the public bestow gifts upon County employees or inquire about the County's policy as to acceptance of such gifts, be courteous in your explanation of the policy. If a gift is deemed by a department head to be unacceptable and, therefore, returned to the giver, the accompanying note of thanks should be brief, concise, and polite so as not to offend the giver or create a negative impression of County employees.

   (Adopted by the Board of Supervisors October 22, 1991)

S E C T I O N I V

PROCUREMENT PROCESS

A. PROCUREMENT PROCESS OVERVIEW

1. This section is intended to give an overview of the functions and procedures involved in the County's procurement process. A more detailed explanation of these functions and procedures is contained in subsequent portions of this Manual.

2. The purchasing process begins with the completion of an electronic requisition (Oracle Financial Management System) by the requestor. The requestor indicates what is needed, including the desired quantity and quality. The description of the item or service needed should be as clear as possible, and sufficiently detailed to avoid confusion and provide assistance to Purchasing in obtaining the required item or service. Recommended sources for all items should also be indicated. Additionally, sources which have demonstrated poor performance of delivery or inferior quality of products/service, etc., in the past should also be identified accordingly with the proper documentation.

3. Upon receipt of the Requisition/Store Issue, Purchasing will review it for completeness. The requestor may be called if there are questions. Depending upon the type of material, equipment, or service requested, the urgency of the need, and the cost involved, any of several courses of action will be taken. When total purchase price is under $5,000 per individual line item, no bids are required. Routine requirements costing less than $5,000 should be processed within five (5) to seven (7) working days. Requirements exceeding $5,000 will typically be processed within twenty-one (21) days depending upon the urgency of need and the purchasing process utilized. Fixed assets must be competitively bid or quoted, except as approved by the Purchasing Agent and the Chief Executive Officer (C.E.O.). For items costing more than $5,000, Purchasing must obtain several verbal or written price quotes from supplier/s. Order shall be placed with the supplier with the most responsive and responsible offer. More expensive and complex purchases may be handled in writing, with a Request For Quotation (RFQ), Invitation For Bid (IFB) or Request For Proposal (RFP), being sent to prospective bidders. Timely bids will be evaluated and the lowest responsive and responsible bidder will be awarded the Purchase Order/Contract. In the case of the Request For Proposal (RFP) form of solicitation, award will be made to the most qualified proposer who provides the most cost-effective solution to the County's needs. The award may not necessarily always be made to the lowest proposer. However, when the lowest proposal is not selected, non-selection shall be based on written data that shows that the lowest bidder was not the most responsive and responsible bidder. Such bidders shall be afforded the right to appeal their non-selection pursuant to the appeal provisions outlined in this Manual.

4. Where bid bonds, performance bonds, and delivery or performance shall be required over a period of time, or for costly materials or service, the procurement process requires the most lead time. It involves preparation of an Invitation For Bid (IFB) complete with specifications, general provisions, special provisions, and in some instances bond forms, legal statements, affidavit, and other pertinent paperwork. The bidder completes the required information and returns it in a sealed envelope for public opening by Purchasing at a specified date, time, and place. The outcome of this bidding is summarized in a bid abstract and is available to the requestor for review. When the lowest responsible bid is approved, Purchasing, may execute a contract or purchase order and both parties are required to uphold its provisions. Requesting departments are advised that procurement obtained through the more complex bid process requires a minimum lead-time to Purchasing of at least thirty (30) days.

B. GOALS AND OBJECTIVES

The primary objective of Purchasing is the timely and economical procurement of equipment, materials, supplies, services, required real and personal property to support all operations of Stanislaus County. To achieve this objective, Purchasing has established goals to:

1. Assist using departments in locating new product information, evaluating those products, and assist using departments in developing standardized specifications where practical;

2. Procure, in a timely manner, goods and services to fulfill the needs of all County departments;

3. Utilize the benefits of competitive bidding to achieve the best value for the County;

4. Seek out new sources of supply from which to broaden the competitive bidding base and to permit the input of new products and technology;

5. Encourage local, disadvantaged business enterprises, and MBE, to participate in all aspects of purchasing and contracting to the maximum extent possible;

6. Keep informed and up to date on products current and new in order to meet departments' needs;

7. Develop sound vendor relationships;

8. Increase awareness of and participation in the County's purchasing activity by all businesses, including small, minority, and women owned businesses.

C. GENERAL GUIDELINES

To achieve a responsible procurement operation, Purchasing is guided by and is responsible for upholding the following:

1. Carrying out all purchasing activities in accordance with the policies and regulations as set forth in the statutes of the State of California, the Stanislaus County Ordinance Code and in this Manual;

2. Conducting and concluding all procurement actions upon receipt of a requisition approved by an authorized department employee. By approval of a requisition, the requestor certifies that funds have been approved and are available for the requested purchase;

3. Directing and coordinating vendor contact, and/or assisting departmental representatives engaged in the procurement process with the vendor contact process. Purchasing shall also provide technical consultation for user and vendor representatives in obtaining information on new developments, vendor capability, and other matters concerning requisitions or purchase transactions. The Purchasing Agent or authorized representative shall authorize or shall be informed of such consultations, as needed;

4. Analyzing all purchase requests so that those requests which appear to be excessive, unnecessary, uneconomical or otherwise inappropriate may be returned to the appropriate department for additional justification.

   Additionally, employees using County procurement procedures shall be governed by the following:

5. Unless otherwise provided, the County shall not be bound by any purchase made by any County employee, consultant, or contractor other than the Purchasing Agent or designated Purchasing staff.

6. Employees shall take necessary precautions to avoid compromising themselves or the County when coming into contact with persons or firms doing business with the County. Employees should be aware of the existence of laws and regulations pertaining to such contacts and relationships, by referencing the County's Personnel Regulations and/or applicable County Ordinance or State statutes.

D. SOLE SOURCE PROCUREMENTS

1. Summary

   A sole source procurement is one that can be made from only one source of supply or a procurement for which no competitive advantage can be gained through competitive bidding. Such procurements often arise where the specifications and requirements for the items or services to be procured are so unusual or distinct as to narrow possible sources down to one. This may be the case, for example, with replacement parts for brand name machinery, equipment, or vehicles. The sole source must be the only known source of supply with the capability of meeting the bona fide specification requirements. A sole source decision is not permitted merely upon the grounds that such approach is the most convenient, or that the subject product (1) demonstrates technical or administrative superiority or (2) is preferred by staff.

2 Procedures

a. Initiating the Sole Source Purchase

The requesting department desiring to request supplies, equipment, materials, or services for which there is only one available source of supply shall initiate such procurement by completing an electronic requisition and a Justification for Sole Source/Sole Brand (Exhibit 1), which shall be approved by the head of the requesting department or authorized designee. The head of the requesting department or authorized designee will approve the sole source status of the procurement only after confirmation that staff has verified that there is only one vendor or supplier of the items or services in question. The completed forms shall be sent to Purchasing.

b. Verification of Sole Source

Prior to any Purchasing action on the procurement, the Purchasing Agent, or authorized designee, shall verify that the procurement meets the sole source definition set forth above and that the requisition is complete with the proper approval of the requesting department or authorized designee.

c. Cost Analysis

The Purchasing Agent, or authorized designee, shall obtain a price for the proposed procurement from the sole source. Unless the reasonableness of the price can be established on the basis of a catalog or market price for a similar commercial product sold in substantial quantities to the general public, or on the basis of prices set by law or regulation, a cost analysis shall be conducted. A cost analysis is a detailed evaluation of the cost elements that comprise the proposed price to determine whether the contractor is applying sound management and appropriate resources to the procurement and whether the costs are proper, allowable, and allocable.

(1) Method of Analysis

A cost analysis involves the following steps:

(a) The verification of cost data;

(b) The evaluation of specific cost elements; including labor hours, quantities, tooling, testing, etc;

(c) The projection of the cost data to determine its effect on prices.

(2) Factors to Consider

In order to form a judgment as to whether the price offered is reasonable, the following factors are to be considered:

(a) The necessity for certain costs;

(b) The reasonableness of amounts estimated for necessary costs;

(c) The basis for allocating overhead costs;

(d) Allowances for contingencies; and

(e) The appropriateness of allocations of particular overhead costs to the contract.

E. FIXED ASSETS

Unless specifically exempted by the Purchasing Agent and the Chief Executive Officer, all fixed assets shall be competitively bid. The procurement process will be used to ensure that at least three (3) vendors are polled for the desired commodity. In the event the fixed asset is only available from one vendor, the requesting department will be responsible for completing a requisition and the sole source documentation.

S E C T I O N V

CONTRACTS AND APPROVALS

A. Types of contracts and signature approvals required

1. Independent Contractor Services

   An independent contractor is "one who provides services, exercises an independent employment or occupation, and represents his employer only as to the results of his work, and not as to the means whereby it is to be accomplished. The chief consideration which determines one to be an independent contractor is the fact that the County has no right of control as to the mode of doing the work contracted for. Examples of independent contractors include janitorial services[2], public works projects[3], and security services.

2. Professional Services

   The Board of Supervisors may contract for special services on behalf of the following public entities: the County, any County officer or department, or any district or court in the county. These contracts must be with persons specially trained, and experienced, to perform the special services. The special services shall be in financial, economic, accounting (including the preparation and issuance of payroll checks or warrants), engineering, legal, medical, therapeutic, administrative, architectural, airport or building security matters, and laundry or linen services. In addition, these services shall consist of services, advice, education, or training for the county and its employees.

   Persons hired under these contracts must have special skills. They are independent contractors for purposes of right of control, taxes, Medicare, benefits, etc. The County does not have to go through the public bidding laws to procure such services.

3. Technology Services

   This contract is similar to a Professional Services Contract to obtain services of specially trained persons to address computer programming services, Internet and other computer technology needs of the County.

4. Personal Services

   Personal services contracts are those that do not fit into the above categories. The main factor that distinguishes personal services contracts is that the County retains the right and ability to direct the work of the contractor. Unless otherwise provided, the County supplies the equipment necessary to complete the task (e.g. computer desk, books, and supplies). The County can determine when and where work will be done, and the contractor is considered a contract employee for state, federal taxes and Workers' Compensation purposes. Examples are counseling services and various medical services.

Legend:

1. Authority Government Code Section 25502.5
2. Contracts for maintenance or janitorial services requires a finding be made by the Board of Supervisors that the site is remote from available County employee resources <u>and</u> that it is economically advantageous to contract rather than pay additional travel and subsistence expenses. (Government Code, 31000)
3. Projects $25,000 or greater require competitive bidding (Public Contract Code, 20150.12), and plans and specifications must be approved by the Board (Public Code, 20124, 20150.12)

Notes: 1. All Independent Contractor Services, Professional Services, and Technology Services Contracts under $100,000 require signature approval from the department head (or designee), County Counsel, contractor and the Purchasing Agent. The Purchasing Agent will not be required to sign contracts if the departments request approval to sign the contracts directly from the Board. For contracts over $100,000, the same signatures noted above are required, except that the Board or designee shall sign the contracts in lieu of the Purchasing Agent. The Board may authorize the Purchasing Agent as its designee to sign contracts over $100,000.

2. On Personal Services Contracts, the Board of Supervisors provides for departments to approve contracts at any dollar limit provided the services are approved in the budget or through a Board agenda item. Signature approvals are required from the Chief Executive Office, (or designee), County Counsel and Contractor.

B. <u>Service Purchase Orders in Lieu of Contracts</u>

1. Customers wishing to use this process should be aware of a number of issues relating to scope of work and certain procedural steps. The requested services should not exceed $25,000. Examples of services include, but are not limited to, the following: repairs to heating, ventilation, and air conditioning systems, consultant work, on-site training, and maintenance or repair projects. Customers wishing to use this format should be familiar with the following procedural steps to facilitate this process:

   a. Departments would submit an electronic requisition with all appropriate funding information to the Purchasing Division, along with **all related backup and supporting documents, including all quotations**.

   b. If the requisition qualifies for processing under this new system as determined by the Buyer, the Buyer will then issue a signed purchase order to the selected service provider requesting the particular service.

c. The Buyer will then attach the 4-page standard Terms and Conditions to the Service Purchase Order.

d. The Buyer will afterwards verify receipt of all necessary certificates of insurance prior to commencement of any work.

2. During the processing of the Service Purchase Order, the customer and Buyer will make sure the following criteria are addressed:

    a. If required, a performance Bond will be submitted by the contractor.

    b. The Buyer will attach the **ADDENDUM TO AGREEMENT (Public Works of Improvement)** terms and conditions for all Public Works Projects to the Service/Purchase Order.

S E C T I O N V I

BIDS AND CONTRACTS

A. BIDS AND CONTRACTS

1. Vendor Relations

   It is essential that a professional and businesslike relationship of mutual trust and confidence exist between the County and its suppliers. The primary responsibility for establishing this relationship for the County rests with the Purchasing Agent.

   This section is intended to summarize the basic County policies governing vendor relationships, and to furnish information on specific purchasing practices. It is intended only to supplement the policies and regulations set forth elsewhere in this Manual.

   a. The following concepts are considered basic and fundamental to the County's vendor relationship policy.

      1) Vendors soliciting sales are to be received by purchasing staff and/or designated departmental representatives, and will be received promptly and courteously, preferably by appointment only. However, if it is deemed necessary or beneficial by the Purchasing Agent, interviews for specific needs shall be arranged with representatives of other County departments.

      2) The Purchasing Agent shall not make, or be asked to make unreasonable or unnecessary demands on suppliers.

      3) Purchasing staff is available to meet with vendor representatives between 7:30 a.m. - 5:00 p.m. Monday through Friday. Whenever possible vendors are encouraged to request appointments in advance for meetings with Purchasing staff.

      4) Vendors are asked to refrain from attempts at "back door" selling. This is defined as the vendor attempting to have the using department specify to Purchasing a specific brand, product, or supplier, to the exclusion of legitimate competition.

      5) When a using department requires information from a vendor, these requests will normally be handled by Purchasing. In those cases where technical detail or preliminary information is required which make it advisable for others to make the request, Purchasing should be sent copies of all correspondence which includes any quotations.

6) If a product demonstration is required, such demonstrations will be requested and arranged by Purchasing.

7) All salespersons who wish to meet with County employees should be directed to make their initial contact through Purchasing.

8) Occasionally, it is to the advantage of the County to require bidders to submit regular production samples of products which the County intends to purchase. For example, samples may be required for new, untried products where workmanship may be a significant factor, or in cases when most of the bidders are expected to be distributors and may offer a wide variety of similar products. Bidders desiring to have samples returned must advise Purchasing in advance and must make arrangements for the pick up/return of goods at the bidder's expense.

9) Failure to comply with the request for submission of a sample may be cause for the bid to be declared non-responsive and may be rejected.

10) Trial order requests for demonstrations and/or samples for tests will be issued by the Purchasing Division.

11) Using departments shall not request or expect contractors to perform prepurchase design, demonstrations, layouts or presentations at no charge as such services cannot be considered when an award of purchase is ultimately made by Purchasing.

12) When it is necessary to obtain pre-purchase services, such services will be purchased separately from any purchase of equipment, supplies, or services. Contact Purchasing for assistance in advance of the need for pre-purchase services.

13) The name of a contractor contacted by a using department should appear on any purchase request as a suggested contractor.

14) County departments shall not accept offers from vendors for free repair or services until a "no charge" purchase order is issued to cover the work to be performed. The purchase order contains terms and conditions designed to protect the County from claims for damages resulting from injuries and accidents which might occur while work is in progress.

b. <u>After The Award</u>

Once a vendor has submitted a bid to provide the County with goods or services, they are entitled to a prompt, courteous response following the award. The following procedures deal with notification of bid acceptance.

1) When the award is made, Purchasing will provide notification to the successful bidder. Purchasing will further ensure that the appropriate purchase order (Exhibit 2), agreement and/or contract is promptly executed. A purchase order is used as a document for contract award, and will act as a working document during the life of the contract.

2) The County is aware that business persons who place bids with the County are interested in all aspects of a particular bid, not simply whether they won the award or not. They are concerned with knowing to whom the award was made, at what price, and how their bid compared to others. It would be impractical and prohibitively expensive to attempt to transmit this information to all bidders on all bids. Upon request, the results of all bids, including tabulations are available for review by interested bidders during normal working hours. Appropriate labor/material charges for reproducing the requested documents will be made. All bid results and support data become a matter of public record following award. This or similar language will be incorporated and become standard information to bidders used in all Invitation For Bids (IFB's) or Request For Proposals (RFP's).

2. <u>Protest and Appeal Procedures</u>

a. <u>General</u>

Potential bidders, proposers, contractors and sub-contractors wishing to protest or appeal a procurement or contracting decision by the County of Stanislaus Purchasing Division must follow the procedures provided by this section. Protests or appeals which are not submitted in accordance with these procedures will not be reviewed.

b. <u>Definitions</u>

1) For the purposes of this procedure: "Days" means working days of the County of Stanislaus.
2) "Filing Date" or "Submission Date" means the date of receipt by the Purchasing Division of the County of Stanislaus.
3) "Interested Party" means an actual or prospective bidder or proposer.
4) "Bid" includes the term "offer" or "proposal" as used in the context of formal, informal, or negotiated procurements.

c. <u>Protest Procedure</u>

1) Any bidders, proposers, contractors and sub-contractors may file a written protest with the Stanislaus County Purchasing Agent not later than five (5) days after date of mailing a Notice of Intended Award.

2) The protest shall be delivered or sent by registered mail to the Purchasing Agent.

3) The protest filed with the Purchasing Agent shall:

   a) Include the name, address, and business telephone number of the protestor;

   b) Identify the project under protest by name, quotation/bid number, and quotation/bid date;

   c) Contain a concise statement of the grounds for protest; provided, however, RFP or bid process and procedures, including evaluation criteria, shall not be proper grounds for protest and concerns related to those issues should be raised and addressed, if at all prior to the bid or proposal opening date to allow adjustments before evaluation of bids or proposals; and

   d) Provide all supporting documentation, if any. Documentation submitted after filing the protest will not be considered during review of the protest or during any appeal.

d. <u>Protest Review</u>

1) Upon receipt of a protest, the Purchasing Agent shall review all the submitted materials and shall create and retain a written record of the review. The Purchasing Agent shall respond in writing at least generally to each material issue raised in the protest not later than ten (10) days after receipt of the protest.

2) If the protested procurement involves federal funds, the Purchasing Agent shall give notice to the interested party that he or she has the right to appeal to the appropriate federal agency which shall be identified by name and address. An appeal hereunder shall be filed with the appropriate agency within five (5) working days of the dispatch of rejection notices to the interested party(ies).

3) Purchasing Agent decisions may be appealed in writing to the Stanislaus County Board of Supervisors not later than ten (10) days after date the Purchasing Agent's decision is mailed to the protesting party. The Board of Supervisors shall review and decide the appeal based on the grounds and

documentation set forth in the original protest to the Purchasing Agent. The appealing party may be represented by legal counsel if desired. Each party shall bear its own costs and expenses involved in the protest and appeal process, including any subsequent litigation. The decision of the Board of Supervisors shall be final unless the protested procurements are obtained in whole or in part with federal funds.

B. CONTRACTS AND PURCHASES REQUIRING COMPETITIVE BIDDING

1. Summary

a. The Purchasing Agent will generally discourage any procedure other than purchasing through the competitive bidding process or RFP process for commodities or services over $25,000.

b. Full opportunity to bid shall be granted to qualified bidders.

c. The County may solicit sealed bids on a competitive basis for contracts over Twenty Five Thousand Dollars ($25,000) for the purchase of supplies, equipment, materials, and for construction projects up to One Hundred Thousand Dollars ($100,000). The contract is awarded to the "lowest responsive and responsible bidder," defined as the bidder submitting the bid that conforms with all the material terms and conditions of the invitation for bids and that is lowest in price. With regard to revenue generating contracts, award will be made to the highest responsive and responsible bidder.

d. The Invitation for Bids (IFB's) procedure begins with the public advertisement, when practical, of the Notice Inviting Bids, and the subsequent issuance of comprehensive contract documents, which include the Notice Inviting Bids, as well as General Conditions and Instructions to Bidders, Special Provisions, Technical Specifications, and other documents as may be required by the procurement, such as certificates or proposal documents concerning qualifications, bonding, and compliance with applicable requirements of local, state and federal law. The terms and conditions contained in the entire package of contract documents constitute the contract which governs the contractual relationship between the successful bidder and the County.

2. Bid and Contract Award Procedures

a. Initiation

1) The requesting department shall draft documentation, technical specifications, and scope of work which adequately describe the products or work required. The requesting department must provide a list of three

qualified potential bidders to compete effectively for the County's business regarding the procurement so that selection of the successful bidder can be made principally on the basis of price.

2) If there is no funding in the current budget to cover the contract, the requesting department shall also obtain the approval of the Board of Supervisors, and shall state in its documentation to Purchasing the number of the Board resolution authorizing the solicitation for bids. Also included in this documentation will be the requesting department's proposed bidding schedule (including advertising and contract commencement dates), the estimated cost of the contract, and a suggested project coordinator, when appropriate, whose duties will include acting as a liaison between the requesting department and Purchasing.

3) The head of the requesting department shall approve all documentation prior to its being sent to Purchasing.
4) Purchasing shall review the requesting department's documentation and confirm that the procurement is appropriate for formal competitive bid procedures.

b. Preparation of Bid Documents

(1) Policy Consideration

The bid documents shall incorporate, to the fullest extent possible, equal participation of interested Disadvantaged Business Enterprises (DBE), Women Business Enterprises (WBE), and Minority Business Enterprises (MBE).

(2) Components of the Bid Documents

With necessary input from the requesting department, Purchasing staff shall prepare the bid documents under the supervision of the Purchasing Agent. Although there may exist certain variations in the provisions and requirements to be included in the bid documents, as noted hereafter, each set of bid documents shall, at a minimum, contain the following items:

(a) Notice Inviting Bids

1) The Invitation to Bid (the "Notice") is a publicly advertised document which notifies potential bidders of the title and nature of the contract, and the date, time, and place of the opening of bids submitted pursuant thereto. The Notice shall also inform bidders of applicable DBE/WBE/MBE requirements and other significant requirements under federal or state laws, if any.

2) If a Pre-Bid Conference is planned, the Notice shall advise of the date, time and location for the conference. The Notice shall indicate if a bidder's security is required. The Notice shall refer to and incorporate by reference all the other bid documents, i.e., the General Conditions and Instructions to Bidder, the Special Provisions, the Technical Specifications, and other certificates, forms, and documents, and shall designate the method for obtaining copies of the bid documents. Finally, the Notice shall be dated and signed by the Purchasing Agent or authorized designee.

(b) General Conditions and Instructions to Bidder

1) The General Conditions and Instructions to Bidder ("General Conditions") set forth standard terms and conditions applicable to all County contracts.

2) Purchasing shall prepare and maintain the set(s) of General Conditions, except for Public Works projects, necessary for inclusion with all bid documents for competitive bid procurements. The General Conditions shall be updated or revised from time to time.

(c) Special Provisions

1) Special Provisions prescribe terms and conditions specifically tailored to the particular contract sought.

2) Liquidated Damages Clause

a) Purchasing may cause to be included in the Special Provisions a clause establishing the time in which the whole or any specified portion of the work called for under the contract shall be completed, and providing that each day completion is delayed beyond the specified time for performance, the contractor shall pay to the County a specified sum of money, to be deducted from any payments due or to become due to the contractor.

b) Liquidated damages should be included in contracts when it would be inconvenient, difficult impracticable to otherwise obtain an adequate remedy for the delay, or to prove the losses or to assess the actual quantity of damages. The amount to be established as liquidated damages shall be reasonable in light of the anticipated harm that may be caused by a delay in the contract performance. Purchasing staff shall evaluate these factors, and set a sum as liquidated damages.

3) Pre-Bid Conference

If a Pre-Bid Conference is scheduled, the Special Provisions shall advise of the date, time, and location of the conference. Further, an attendance sign-in sheet will be used as a permanent record of the Pre-Bid Conference and shall contain the following information:

a) The names, addresses, telephone numbers, and business affiliations of all persons in attendance;

b) The signature of each bidder in attendance.

4) <u>Qualifications of Bidders</u>

a) In contracts where the nature of the work is such that the qualifications of the bidders are essential criteria for evaluating the bidders' responsibility, Purchasing staff shall cause to be included among the Special Provisions a clause setting forth the required qualifications of bidders. Construction contracts and service contracts shall contain such clauses. In addition, contracts for the provision of supplies, equipment, and materials, where a specially manufactured product and/or technical guidance and advice are called for, shall also contain a provision regarding qualifications of bidders.

b) Such provision shall clearly state that the County may reject any bid that does not meet the requirements stated in the qualification clause. Included in such clause shall be requirements that bidders demonstrate they are regularly engaged in the manufacture, construction, or provision of the work or product called for in the contract and that they have the necessary resources, facilities, and personnel to perform the contract. Additionally, bidders must attest that they have previously and satisfactorily performed work with characteristics comparable to those specified in the contract. Finally, bidders may be required to furnish adequate references. Purchasing may, at its option, prepare and include with the bid documents a form to be completed by bidders that will cover the qualification requirements described herein.

(d) <u>Technical Specifications</u>

1) The Technical Specifications shall clearly define the nature of the work, products, or services to be procured, so that bidders may formulate responsive bids. Initial responsibility for drafting the Technical Specifications lies with the requesting department staff having technical expertise relating to the procurement sought. Purchasing shall review and approve the Technical Specifications.

The Technical Specifications must include detailed descriptions of the qualitative and quantitative nature of the supplies, equipment, materials, routine services, or construction to be procured. They must also set forth the minimum essential characteristics and standards to which the products, services, or work must conform in order to satisfy the County's intended use.

Where it would be of assistance in clarifying the specifications requirements, the use of blue prints, diagrams, charts, and maps is encouraged.

2) The Technical Specifications shall not be drafted so as to unduly restrict competition. To that end, brand names may be used in the Technical Specifications only when it is impractical or uneconomical to specify clear and adequate descriptions of the technical requirements for a particular product needed. In all cases where brand names are used, bidders shall be afforded the opportunity to propose to the County a substitute product of equal quality or value for approval.

(e) <u>Other Bid Documents</u>

1) <u>Pricing Schedule</u>

The bidder's completion of the Pricing Schedule shall constitute its acceptance of all the terms and conditions contained in the bid documents, and shall also indicate the bidder's quoted prices. Purchasing staff shall be responsible for developing the Pricing Schedule with the assistance of the department representative, when assigned. The Pricing Schedule shall seek separate cost quotations for all relevant aspects of the procurement, including, where applicable, unit price, extended price, sales or use taxes, and cost of installation and delivery. In all cases, the Pricing Schedule shall be so structured as to allow the County to make an objective comparison of all bids. Whenever possible, this will be accomplished by structuring the Pricing Schedule so as to request a Grand Total Bid Price.

2) <u>Bond Forms</u>

The bid documents shall include a form for the bidder's bond when a bidder's security requirement is imposed. Also, when required by the contract documents, the bid document shall include a sample performance bond and a sample payment bond. The amount of these bonds may vary depending upon the contract. The terms of the performance bond will vary depending upon whether such bond is to remain in effect during a warranty period, and if so, the length of such period should be indicated.

3) Final Review of Bid Documents

Purchasing shall establish a review schedule, based upon the anticipated date of advertisement, which designates the date upon which all changes, comments, and required approvals shall be submitted to Purchasing. Such schedule shall permit a sufficient time period for review of the contract documents by the individuals involved.

2. Advertisement for Bids

Purchasing shall cause the Invitation to Bid to be published, when required, in at least one newspaper of general circulation. The advertisement shall state the time and place for the receiving and opening of sealed bids and shall describe in general terms the work to be done. Where a particular contract involves a trade or expertise for which there are special industry publications, Purchasing shall advertise the notice in appropriate trade journals. Public works projects shall be advertised.

3. Preparation of an Addendum

Once the Invitation to Bid has been published, all changes necessary to correct any errors in the bid documents, to extend deadlines for the benefit of the County or the bidders, or to otherwise revise the bid documents, shall be accomplished through the issuance of an addendum. All addenda which are technical in nature shall be drafted by the department requiring such change and shall be reviewed and approved by Purchasing. Each addendum shall contain the bid number and title, the date of issuance, the addendum number, specific reference to the provision of the bid documents that is being amended, and the substance of such amendment. Purchasing staff shall cause the addendum to be issued to all firms or persons who have received a copy of the bid documents, except in the cases of bids or proposals which require mandatory attendance of Pre-Bid/Pre-Proposal/Site Inspection (walk-through) Conference(s). Only those vendors in attendance shall be forwarded addenda, when warranted.

5. Bid Opening

a. As sealed bids are received, Purchasing staff shall cause the sealed bids to be stamped indicating the date and time received. All sealed bids must remain unopened and stored in a secure location until the public opening on the date and time specified in the Notice. On the date of bid opening, any bids received after the time specified in the Notice will not be accepted by Purchasing, but will instead be time stamped and returned unopened.

b. The Purchasing Agent or designee shall preside at all bid openings. A Bid Opening Attendance Roster shall be prepared at the time of the opening, and shall contain the following information:

1) The names, addresses, telephone numbers, and business affiliations of all persons in attendance at the Bid Opening;

2) The signature of each bidder in attendance.

c. Upon request, all pertinent information contained in the bid forms shall be read aloud by the person opening the bids. Members of the public shall be permitted to witness the Bid Opening.

d. From and following the specified date and hours of bid opening in the Notice, no bidder shall be permitted to change its bid. If for any reason the opening of the bids is delayed beyond the time specified in the Notice, all bidders shall be so notified.

e. The original copy of the bid documents will be retained on file in Purchasing at all times.

6. <u>Evaluation of Bids</u>

a. <u>Evaluation Criteria</u>

The contract shall be awarded, if an award is made, to the lowest responsive and responsible bidder whose bid conforms to the requirements of the bid documents. The criteria to be employed in evaluating the bids shall be: lowest monetary bid (or highest monetary bid if the County is selling goods or services), responsiveness of bid, and responsibility of bidder. Purchasing staff, under the direction of the Purchasing Agent, shall be principally responsible for the evaluation of bids. In addition, the requesting department shall review the bids for compliance with the Technical Specifications.

b. <u>Lowest (or Highest) Monetary Bid; Price/Cost Analysis</u>

1) Purchasing staff shall first examine the bids to determine which bid is the lowest (or highest) in price. In doing so, staff shall observe the following rules:

a) Any formula for determining the basis for evaluating bids, as described in the contract documents, shall be utilized;

b) The unit price shall govern whenever both unit price(s) and extended price(s) or total(s) are given;
c) All bids showing item extensions and/or totals shall be reviewed for accuracy. If a calculator is used to verify totals, the calculator tape shall be attached to the bid documents. Any errors in bidders' calculations shall be noted on a separate sheet of paper. No corrections or changes are to be made on or to the vendor's bid.
d) Staff shall review the terms of payment for the effect of those terms upon the bid price. Therefore, where specified in the contract documents, terms such as discounts, transportation costs, sales taxes, and other costs shall be considered in determining which bid is the lowest (or highest) in price. Payment discounts may only be used to determine low bid if payment terms are twenty (20) days or more and prior experience of the County indicates that such discounts are generally taken.

2) Where more than one bidder submits a proposal, Purchasing shall conduct a price analysis of the bids. In cases where only one bid is received or it is determined that there was a lack of adequate competition for the contract, Purchasing shall conduct a cost analysis, unless the reasonableness of the bid price can be established on the basis of a catalog or market price for a similar commercial product sold in substantial quantities to the general public or on the basis of prices set by law or regulation.

c. <u>Responsiveness</u>

Purchasing shall next determine whether the lowest or highest (if applicable) monetary bid is responsive to the contractual and technical requirements. Staff shall review the bid documents to ensure that the bidder has made no unauthorized deletions, amendments, or changes to the contract documents.

Staff shall verify that required proposal forms and certificates have been completed. Staff shall also confirm that all signatures are in place and appear in order. A determination will be made as to whether the deficiency is a minor irregularity, e.g. omission of a signature on a proposal form or a bidder's security submitted in an improper amount, or whether the deficiency is more substantive in nature, e.g., taking exception to warranty provisions or extending the delivery period. Staff may contact the bidder and discuss the aspects of the bid which appear non-responsive. With respect to deficiencies representing minor irregularities, the bidder may be given the opportunity to correct the deficiency so that the bid may be considered responsive. If the bidder does not correct the minor irregularity and make the bid responsive, or if the deficiency is substantive in nature, staff shall determine which bidder is the next lowest or highest monetary bidder and shall follow the procedure above to determine the responsiveness of that bidder.

d. <u>Responsible Bidder</u>

1) Purchasing shall next determine whether the lowest responsive bidder is a "responsible" bidder, i.e., whether such firm or person has sufficient experience, qualifications, and financial stability to perform the contract. The criteria to be used in making such determination shall include the bidder's past experience and history of service to the County, if any; the bidder's responses on those proposal documents requiring a listing of experience, qualifications, and references, if required; and the expertise, dependability and financial stability of the bidder as revealed to the County from any other legal source. Rejection of a lowest responsive bid on the basis that the bidder is not "responsible" can only be made if there are sound documented reasons evidencing the inability of the bidder to perform the contract, and after notice and an opportunity to have a hearing has been provided to the bidder. Selection of a bidder who submits a bid that is $500 or more higher than the amount submitted by the lowest bidder must be approved by the Board of Supervisors, and reasons for rejecting the lowest bidder must also be provided.

2) In making this determination, Purchasing staff, under the direction of the Purchasing Agent, may set as its standard the <u>minimum</u> requirements or specifications set forth in the Special Provisions and Technical Specifications.

e. <u>Rejection of Bids</u>

Any determination to reject the lowest bid on the basis that the bidder is not responsible or that the bid is not responsive must be approved by the Purchasing Agent.

f. <u>Tied Bids</u>

In any case where two bids from responsible bidders are identical in price and are also the lowest responsive bids, Purchasing shall utilize one of the following methods in order to determine the bidder to which the contract shall be awarded:

1) Local vendor(s) shall have preference over out-of-County vendor(s).

2) In any case where a tied bidder has a history of undependable service to the County, or has suffered a termination for cause of a contract to which it was party for the rendering of the same or similar products or services to another public entity, such tied bidder may be eliminated.

3) In any case where tied bidders propose different performance schedules, Purchasing may select the bidder proposing the more favorable delivery terms, i.e., those delivery terms more convenient for the County.

4) In any case where application of the above methods does not produce a single, lowest responsible bidder, Purchasing shall draw lots to determine the successful bidder.

g. Recommendation for Contract Award for Personal Services

1) All sales of County-owned real property must be approved by the Board of Supervisors.

7. Award of Contract for Goods and Services by Purchasing

a. After solicitation, bid evaluation, and analysis as described above, Purchasing may award contract to the lowest responsive and responsible bidder.

b. Upon award of the contract, Purchasing shall notify the successful bidder in writing of the award. The successful bidder shall be sent all bond forms, if required, and other documents which the successful bidder must execute together with the Agreement. The successful bidder must execute these documents and have prepared the required Certificate of Insurance within the time specified in the bid/contract documents, or if no such time is specified therein, within the time specified in the Notice of Award issued by Purchasing.

c. In addition, if the contract is awarded to a bidder other than the apparent low monetary bidder, Purchasing shall inform each bidder whose total bid was less than that bid of the successful bidder and the reasons for the rejection.

8. Rejection of All Bids

The Board of Supervisors and the Purchasing Agent have the right to reject any and/or all bids when it is in the best interest of the County. Following the bid evaluation, staff may decide to recommend this course of action in cases where (a) the bids received were too high and the funds available in budget are insufficient to cover the amount of the contract even if it were awarded to the lowest responsible bidder; (b) none of the bids were deemed responsive to the requirements of the contract documents; (c) none of the bidders were deemed sufficiently responsible to perform the contract in a satisfactory manner; or (d) staff determines, based upon sound, documented business reasons, in furtherance of the best interests of the County, that it would be imprudent to proceed with the contract award.

C. INSURANCE AND BONDING

1. Summary

For contracts subject to competitive bidding, the County may require insurance and bonding for protection in the event of default, excusable failures to perform, accident, injury, or other liability or loss. Subject to state law requirements, all of the County's competitively bid contracts include a broad insurance/indemnification provision. Insurance and bonding requirements vary according to the type and estimated cost of the contract, the source of funding, market conditions, and other considerations.

2. Insurance

All contracts for services and construction shall carry, at a minimum, Workers' Compensation, and comprehensive general liability insurance, including coverage for automobile operation. In addition, any contracts for the procurement of supplies, equipment, or materials, where on-site installation, inspection, or delivery activities are incident to the procurement, shall also include these insurance coverages. The specific amounts and types of coverage shall be determined by the CEO- Risk Management. County approval of a contractor's insurance policies and coverages shall be a condition precedent to entering into the agreement.

3. Bonding

a. The principal protection of County interests in the case of default or other failure to perform shall be by means of bonds.

1) Bidder's Security

The Purchasing Agent may require a bidder's security to be submitted with each bid in order to protect the County's interests in the event that a bidder fails or refuses to honor its bid or to enter into a contract awarded to it. In the case of procurements of "off-the-shelf" items or services, i.e., procurements not specifically tailored to the County's needs, which can be readily obtained on the open market at a competitive price, the County may determine to waive the bidder's security requirement. Note, however, bidder's security is required in Public Works projects.

2) For contracts where bidder's security is required, it shall take the form of a bond, certified or cashier's check, or other negotiable instrument representing a firm commitment to stand behind the bid price. As a general rule, the bidder's security is in the amount of ten percent **(10%)** of the total bid, but this amount may vary according to the assessed risk in the event of a bidder's failure to honor its bid and the resulting damages to the County.

3) Performance Bonds

When necessary to secure fulfillment of all of the contractor's obligations under the contract, the County may require that the contractor furnish a performance bond, in any amount up to one hundred **(100%)** percent of the contract price. In setting the amount of the performance bond, one consideration shall be the capability of such bond to cover the likely differential in price between the contractor and the next lowest responsible bidder or a firm that could be retained from the open market should the County have to reassign the contract. The life of the performance bond may be required to extend beyond the completion of the main work under the contract in order to cover any warranty period. Performance bonds are required by Public Contract Code 20129.

4) Payment Bonds
In all construction contracts, and contracts for the procurement of services or products which involve subcontracting, a payment bond may be required. The amount of the bond may be, at a minimum, 50 percent of the contract price for contracts under One Hundred Thousand Dollars ($100,000). The payment bond assures the contractor's full discharge of its obligations to subcontractors, suppliers, and other labor used on the project. The Invitation to Bid shall contain provisions concerning payment bonds (Civil Code 3247).

5) Fidelity Bonds

In all cases where the contractor's employees will be performing services involving a high degree of confidentiality and trust with County property or funds, with County facilities, or in County vehicles, the County may require the contractor to furnish an employee fidelity bond. Such bond will provide coverage in protection of the County in cases of negligence, misconduct, or theft by contractor's employees. The coverage type and amount shall be established by the Purchasing Agent.

D. BIDDING PROCEDURES

1. Purchase requests prepared by County employees or by consultants or contractors working under the supervision of County employees shall describe the requested goods or services in such a manner so as to facilitate the competitive bid process or RFP process. Specifications and standards used successfully for prior requests should be reused whenever repeat purchases are made.

2. Time for submitting bids and proposals: Generally, a minimum of 30 days should be allowed between the time of mailing bids and RFP's and bid or proposal opening. If any abnormal conditions are required in the bid, the time limit may be increased or decreased, depending on the circumstances.

3. All bids or proposals shall be in writing and shall be submitted to Purchasing before a specified time and date, except for telephone bids obtained for emergencies or for specified minor purchases.

4. Necessary changes, modifications, or adjustments to specifications, requirements, or bid quantities shall be authorized and publicized by the Purchasing Agent; no private modifications shall be made.

5. All bids or proposals will be opened publicly by the Purchasing Agent or his/her designated representative.

6. Awards

   a. Bids
   Award will be made to the **lowest** responsive and responsible bidder meeting specifications and requirements outlined in this document. In the case of revenue generating bids, award will be made to the **highest** responsive and responsible bidder.

   b. Proposals
   Award will be made to the most qualified proposer whose proposal will be most advantageous to the County, with price and all other factors considered.

7. When the price and quality of the products or materials offered are equal, preference shall be given to vendors from County of Stanislaus.

   Whenever two (2) or more bids are received with price and other factors being equal, and the public interest does not permit the re-advertising for bids, the award will be made upon such factors as whether the firms are located within the County, and if so, if the firm is a disadvantaged business, and upon past service of the equal bidders. If such evaluations are equal or unavailable, the award will be made by the drawing of lots in public by the Purchasing Agent. (Refer to Section VI-14 of this Manual)

8. Bid bonds, performance bonds, and payment bonds may be required as required by law.

9. County employees and consultants or contractors under the supervision of County employees shall refrain from discussing with prospective bidders, any details of goods or services advertised for bid unless authorized by the Purchasing Agent. All questions should be referred to the Purchasing Agent. If an answer would appear to affect the bid of other bidders, all bidders will be so advised. This is intended to prevent any one bidder from obtaining an unfair advantage.

10. It is the policy of the Stanislaus County Purchasing Division not to disclose a Bid List prior to a bid opening. Bid List disclosure is not required if the public interest served by temporarily withholding said information clearly outweighs any conceivable public interest served by disclosure. (California Public Records Act,

Government Code 6255). The only exception to Purchasing policy of nondisclosure of a Bid List prior to a bid opening shall be those specific trade journals with the intent to get subcontractors in touch with general contractors.

11. The Purchasing Agent shall solicit bids and award contracts for Public Works projects between $25,000 and $100,000 (Stanislaus County Code Section 4.28.020). Public Works projects exceeding $100,000 shall be referred to the Director of Public Works and must be approved by the Board of Supervisors.

12. Stanislaus County is required by the State of California Uniform Public Construction Cost Accounting Policies and Procedures to advertise Public Works projects in several specific trade journals (Public Contract Code Section 22034).

13. Purchases of equipment, materials, supplies, or services will be awarded through the competitive bidding process except when the Purchasing Agent determines that one of the following conditions exists:

    a. <u>Cost</u> When there is no legal reason; no monetary advantage that would be gained by requiring bids; any savings would be lost by the cost of the competitive bid process; or any other reason at the discretion of the Purchasing Agent.

    b. Standardization of an item or service from a single (sole) source has been justified by comparative analysis or usage and is in accordance with established policy.

    c. In the event of an emergency or to avoid an imminent emergency, where the interest of the County demands immediate action.

    d. Negotiated or sole source purchases which have been specifically pre-authorized by the Board of Supervisors.

    e. Procurement through cooperative purchasing agreements with other government agencies or public utilities.

    f. Procurement of a basic item or service available only from a single vendor and/or justified by the requisitioner and approved by the Purchasing Agent.

    g. Procurement of compatible parts and devices from the manufacturer or sole authorized distributor of equipment in service.

    h. Repair and reconditioning of equipment and devices by the manufacturer or manufacturer-authorized firms where it is necessary to take advantage of certain expertise or to comply with warranty terms. Where several non-manufacturer firms are available to make adequate repairs and no cost or other advantage is apparent in dealing directly with the manufacturer, award will be based upon competitive bidding.

i. When the Purchasing Agent does not seek competitive bids, the Purchasing Agent shall be in compliance with and adhere to Stanislaus County Code, Section 2.24.060. (Refer to Section II-3 of this Manual.)

E. BID LIST

1. Summary

a. A bid list shall be maintained by Purchasing, organized by commodity or service classifications. Purchasing shall refer to the bid list in compiling distribution lists, contacting potential vendors or suppliers, and all other procurement activities involving Purchasing solicitation of potential vendors, suppliers, contractors, or consultants. The bid list shall contain information concerning the qualifications and expertise of each person or firm, and the Disadvantaged/Women Owned/Minority Business Enterprise (DBE/WBE/MBE) status of each person or firm. In addition, the bid list shall contain comments and observations by County personnel concerning the person's or firm's past performance.

b. It is the responsibility of all business enterprises seeking opportunities to do business with the County to ensure that their Bid List Application contains up-to-date information, i.e., current name of business, address, telephone number, fax number, e-mail, owner's name, etc. Business enterprises interested in a particular bid may contact Purchasing and request a copy of the specific solicitation prior to the bid opening date. It is not practical or economically feasible for the County to mail or otherwise solicit bids from all business enterprises which have requested to be placed on the County's bid list. It remains the responsibility of these business enterprises to learn of procurement opportunities for commodities or services through regularly posted advertisements in local newspapers, trade journals and through the County's Bid Announcement Line, (209) 525-4000, which is available 24 hours per day, 7 days per week.

2. Procedures

a. The Purchasing Agent shall be responsible for the contents of the Bid List and shall ensure that the appropriate entries and additions are made to it.

b. A person or firm on the Bid List may be declared "not responsible" as a result of County experience with such person or firm. In such case, a "not responsible" notation and the rationale therefore shall be made for that person's or firm's entry on the Bid List. Such person or firm shall, however, remain entered on the Bid List for purposes of evaluation in the case of the County's receipt of a bid from such person or firm in the future.

c. A person or firm may be declared "not responsible" if he, she, or it is (1) slow or provides unsatisfactory deliveries; (2) in violation of applicable federal, state, or local laws, ordinances, rules, or regulations; or (3) fails to respond to bid requests.

d. Before declaring an entrant on the Bid List to be "not responsible," the Purchasing Agent shall make a reasonable effort to give such person or firm an opportunity to correct the problem.

3. Vendor Performance

Stanislaus County has developed many fine business relationships over the years with both local and national firms. Occasionally, it is to be expected that shipments will be delayed. However, the vendor who continually defaults on delivery promises of supplies, materials, equipment, or services which do not conform to specifications can expect to have the firm's name removed from the County's Bid List. Bidders whose bids are returned as undeliverable by the U.S. Postal Service or United Parcel Service, etc., can expect their firm's name to be removed from the County's Bid List.

F. CONTRACTS AND PROCUREMENTS NOT REQUIRING COMPETITIVE BIDDING

1. Summary/Policy

The County is not required to engage in a competitive bid process for contract and procurements which fall under the following categories:

a. Where competitive bidding is not required by law.

b. Where the procurement is deemed to be a "small purchase," the estimated cost of which does not exceed Five Thousand Dollars ($5,000);

c. Where the estimated cost of the procurement is greater than Five Thousand Dollars ($5,000), but is less than Twenty Five Thousand Dollars ($25,000), a Request for Quotation (RFQ) may be utilized.

d. Where the equipment, materials, supplies, or services are needed on an emergency basis;

e. Where the procurement qualifies as a sole source procurement as hereinafter defined; or

f. Where the procurement or contract is for professional services.

These categories of contracts and the appropriate procedures pertaining to each category are described below.

2. Where Competitive Bidding Is Not Required By Law

Absent a statutory requirement, a public entity is not bound to engage in competitive bidding.

Ref. San Diego SAFE v. Superior Ct., (1988) 198 CA 3d. 1466. Grayden v. Pasadena Redevelopment Agency (1980) 104 CA 3d 631.

3. Small Purchases - Procurements Not to Exceed $5,000

The following procedures are to be followed for the procurement of supplies, equipment, materials, or services that do not require an expenditure of more than $5,000.

a. Store Issue/Requisition Form

1) The requesting department shall initiate the procurement by submitting an electronic requisition, hereafter referred to as "requisition," to Purchasing for approval. The requisition shall specify the products or services to be procured. Prior to submission, the requisition shall be approved by the head of the requesting department or authorized designee.

2) The requisition shall include the following information: (a) department number; (b) fund, org, and account number; (c) a specific description of the desired products or services, using, whenever possible, dimensions, sizes, and catalog numbers; (d) the quantity of desired products or services; (e) the date on which the products or services are required; (f) the place of delivery for the product or service; and (g) authorized signature. The requisition should also include the name of suggested vendors or suppliers; Purchasing, however, shall make the final determination as to the appropriate vendor.

b. Purchasing Action

Purchasing staff shall review the requesting department's requisition and accompanying documentation for completeness. The accuracy of the requesting department's justification documentation shall be confirmed by Purchasing.

c. Fixed Assets

1) Purchase of fixed assets should be formally bid. Staff should ascertain that all vendors considered are fully qualified to provide the items or services requested, and that prices quoted are fair and reasonable. The vendor's history of service to the County shall also be considered.

2) While negotiated price, quality of vendor product, and the experience and history of the vendor with the County are the most important criteria in selecting a vendor for procurements covered by this section, additional standards of efficiency and economy may be applied by Purchasing as the particular procurement may require.

3) After selection approval, the successful vendor shall be notified of award of contract with price and all other significant terms confirmed in writing and included in a purchase order issued to the vendor.

G. BIDDING PROCUREMENTS BETWEEN $5,000 AND $25,000

1. Summary

Procurements with an estimated cost greater than $5,000 but less than $25,000, may be bid with a Request for Quotation (RFQ) subject to Purchasing staff discretion. This type of quoting generally consists of obtaining a minimum of three (3) telephone quotations from or issuing a written solicitation to a limited number of known qualified bidders. The RFQ describes the desired products or services and sets forth the terms of the procurement to potential bidders without formal advertising. This method is appropriate for all procurements, in the price range specified above, of supplies, equipment, materials, and construction. The County shall not arbitrarily split contracts or procurements so as to avoid bidding procedures.

2. Procedures

a. Initiation of Bidding Process

The requesting department shall submit a requisition to Purchasing, specifying the items or services desired. The requisition shall include suggested vendors or suppliers whose price, quality of product, and experience and history of service to the County warrant the requesting department's recommendation. The requisition shall also indicate the estimated cost of the item(s) being requested, if such information is known.

b. Preparation of a Request for Quotation

Upon approval of the requisition, Purchasing staff shall prepare an RFQ. The RFQ shall include specifications as to the basic terms and conditions of the procurement sought, a description of the products or services required, Free on Board point, delivery date and address, components of bid prices and technical specifications, (if required by the nature of the product or services), and the date and time by which the informal bids must be submitted to the County. Bonding and insurance, when required, shall also be set out in the RFQ, as appropriate.

RFQ's shall be sent or faxed to potential bidders currently listed on the Bid List, as well as those suggested by the requesting department.

c. Receipt of RFQ's

Immediately upon receipt of the RFQ's by Purchasing, all RFQ's shall be time stamped.

d. Evaluation of Quotations

Thereafter, Purchasing staff shall evaluate quotations within the prescribed or designated time limit.

e. RFQ Award

The County shall award contracts pursuant to the bidding process to the lowest responsive and responsible bidder. In the case of revenue generating quotations, award will be made to the highest responsive and responsible bidder. Evaluation of such bids shall be on the basis of the following criteria: lowest monetary bid; (2) responsiveness to the specification requirements; and (3) responsibility of the bidder.

In the case of services, or hardware/software solicitations, award will be made to the qualified proposer whose proposal will be most advantageous to the County, with price and all other factors considered.

f. Issuance of Purchase Order or Contract

Upon selection as described in RFQ Award, subsection (e) above, Purchasing staff shall issue the purchase order or contract, as appropriate, to the successful bidder.

H. EMERGENCY PROCUREMENTS

1. Summary

The County is not required to engage in competitive bidding when making emergency purchases of supplies, equipment, materials, or services during a natural disaster or other emergency. All such emergency procurements will be coordinated through the Emergency Operations Center.

2. Procedure

   a. Initiating the Emergency Purchase

      Emergency purchases must be made by designated staff members who have expertise related to the emergency giving rise to the need for the procurement.

   b. Confirmation of Emergency Purchase

      After having placed the order, staff shall notify Purchasing: (1) that an emergency procurement has been effected, and the nature of the procurement; (2) the nature of the emergency; (3) that the head of the requesting department or authorized designee has approved the procurement; and (4) the name and location of the vendor or supplier. Upon verification of the emergency procurement, Purchasing shall cause a confirming order to be issued to such vendor, confirming the procurement and its significant terms.

I. DEVELOPING REQUESTS FOR PROPOSALS (RFP's) FOR CONSULTANT SERVICES AND FOR HARDWARE AND SOFTWARE

All use of outside consultant services must have prior approval of the Chief Executive Office.

1. Determine that the proposed study comes under the responsibility of the department and that funds have been budgeted.

2. Prepare a detailed Request for Proposal (RFP). The department should clarify its own thinking beforehand in order to communicate this information to prospective consultants. This will be responsive to the needs of the County.

3. Requests for Proposals should include:

   a. A clear description of the problem to be solved. If a problem cannot be clearly delineated, it is either not sufficiently understood to be successfully addressed by a consultant, or it is not really a problem deserving a consultant's attention.

   b. Specifically identify in realistic terms what the consultant is to accomplish. This would include any desired approach to the problem: practical, policy, technological, and legal limitations; specific questions to be answered; description of the items to be delivered; format and number of copies of the completed reports; and the extent and nature of the assistance and cooperation which will be available to the consultant.

c. Firm or estimated time schedules including dates for award of contract, commencement of performance, submission of progress reports, if any, and completion.

d. Whether and to what extent progress payments will be allowed and, if deemed appropriate, known or estimated budgetary limitations on the contract price. Ten percent (10%) of the gross fee may be retained until the prescribed work is completed and accepted by the County.

e. Termination in the event of death or incapacity and a non-assignment clause should be considered.

f. Specify that original documents are to be the property of the County.

g. A requirement that the prospective consultant include in the proposal:

   1. A description of the qualifications, a brief list of similar types of consulting contracts successfully concluded, with a sample of such work; a description of the lead personnel and anticipated supporting personnel to be employed on the study; amount of time and manpower to be expended; equipment and facilities to be utilized; if subcontractors are contemplated, a description of those persons or firms and the portions and monetary percentages of the work to be done by same;

   2. An overall description of the techniques to be used in solving the problem;

   3. Where appropriate, the total cost of the study, a detailed breakdown of how it was computed, and any desired method of payment.

4. <u>Securing Requests for Proposals</u>

   a. Purchasing will assist the using department in providing a bidder list.

   b. All proposals will be received and opened by Purchasing.

5. <u>Departmental or Committee Selection of the Consultant</u>.

   a. After the Request for Proposals are returned, they will be evaluated to determine whether the result, when obtained, will be worth the cost. If it is determined that the result is worth the cost, each proposal will be evaluated to determine the one proposal which will best meet the County's need. Oral presentations may be arranged, if considered necessary. The following are some of the criteria which should be covered in the evaluation:

1) Does the proposing firm understand the County's problem?

2) Is the approach to the problem reasonable and feasible?

3) Does the firm have the organization, resources, and experience to perform the assignment? Has the firm had experience in similar problem areas?

4) What are the professional qualifications of the personnel that the firm will commit to the assignment?

5) Where appropriate, the total cost of the proposal.

b. Award will be made to the qualified proposer whose proposal will be most advantageous to the County with price and all other factors considered.

6. Compensation of Consultants

a. The following methods may be used in paying consultants:

1. A lump sum or fixed price for the total project. This avoids detailed accounting and is a contract for a given result. The County's primary concern is not with the cost incurred by the consultant, but with the end product.

2. Hourly rate plus cost reimbursement, with a ceiling on the total project or contract amount. The consultant agrees to charge only for hours utilized at an agreed rate of compensation and reimbursement for out-of-pocket costs. This method is also a contract for a given result.

3. Daily compensation plus cost reimbursement to work "when requested" during the term of the contract for daily rate plus cost reimbursement, with a ceiling on the total project or contract amount. This type of contract should be avoided if a given result can be contracted for.

b. To implement methods (2) and (3) above, the contract must provide for the following:

1. The rate(s) of compensation to be paid the consultant(s). Except for medical fees, there are no set rates for paying consultants. Amounts to be paid depend upon the complexity and difficulty of the project, the prevailing rate for similar work, both within and outside the County, and the qualifications and reputation of the individual(s) or firm(s) being awarded the contract.

2. Reimbursement of transportation costs and per diem allowance should not exceed the amounts normally allowed by the County.

3. Any other expenses should be clearly and specifically set forth in the contract.

7. Progress Payments

a. Progress payments will not be allowed on contracts less than three (3) months in duration. If it is essential that progress payments be made, payment should not be made more frequently than monthly in arrears or at clearly identifiable stages of progress based upon written progress reports submitted with the contractor's invoices. In the aggregate, progress payments should not exceed ninety percent (90%) of the total amount of the contract, with the balance to be paid upon satisfactory completion of the contract. Progress or other payments must always be based on at least equivalent services rendered and not made in advance of service rendered.

b. In computing the amount of any progress payment, the County shall determine what the contractor has earned during the period for which payment is being made on the basis of the contract terms. However, the County shall retain out of such earnings an amount at least equal to ten percent (10%), pending satisfactory completion of the entire contract.

c. For County purposes, "progress payment" is defined as including any partial payment of the contract price during the progress of the work, even though the work is broken down into clearly identifiable stages or separate tasks.

8. Participation of County Personnel

a. Through past experience, it has been shown that agencies receive the greatest benefits from consultants when the engagement is considered a joint undertaking and County personnel are active participants. This provides the employees with useful training opportunities and valuable knowledge of what the consultant has done, why the consultant has done it, and how the County can benefit by it. This often represents knowledge which could never be derived simply through the analysis of the consultant's formal report. County personnel, working with the consultant, can give the project continuity at the operating level in subsequent months. Also, these individuals can lend "in-house" acceptance to the project and broaden its chances for an enduring success.

b. Each contract will provide for and specify a person or position within the County to be the project coordinator. This person will have the overall responsibility to evaluate and monitor the work and progress of the consultant. Other staff time should be scheduled for the project according to the nature and complexity of each engagement.

c. The contract shall provide for a series of progress reports or meetings at least once a month to allow the County to determine if the consultant is on the right track, whether on schedule, provide communication of interim findings, and afford occasions for airing difficulties or special problems encountered so that remedies can be developed quickly.

9. Follow-Up

Upon completion of the contract, the department shall:

a. Require the consultant to hold a final meeting with departmental management during which the consultant will present findings, conclusions, and recommendations.

b. Require the consultant to submit a comprehensive final report.

c. Take the steps necessary to allow the project coordinator to implement the consultant's recommendations.

J. PROFESSIONAL SERVICES

1. Summary

a. The County may procure professional services without competitive bidding. There is no requirement to engage in competitive bidding when seeking to retain specially trained persons or firms (hereinafter "consultants") to provide services in connection with financial, economic, accounting, engineering, administrative, hardware/software systems, or other matters involving specialized expertise or unique skills. As a matter of policy, competitive bidding can be undertaken for services with standard, non-personal qualities that are easily quantifiable and which lend themselves to bid price comparison.

b. The method for procurement for professional services, however, is the Request for Proposals (RFP's) procedure. The County's RFP procedure includes acquisition planning, solicitation of proposals, evaluation of proposals, negotiation with prospective consultants, award of contract, and contract administration.

2. Procedure - Request for Proposals (RFP's)

a. Initiation

The requesting department shall draft documentation for Purchasing adequately describing the scope of services required. Such documentation shall include suggested consultants, their history with the County, and their qualifications for and experience in providing the services required. The requesting department will also identify a project coordinator, whose duties will include performing a liaison function with Purchasing. The head of the requesting department will approve all documentation prior to its being sent to Purchasing.

b. Request for Statement of Qualifications/Letters of Interest

1) The Purchasing staff shall review the requesting department's documentation and confirm that the services desired are appropriate for the RFP procedure. The requesting department will prepare a list of "potentially qualified consultants" to whom the Request for Statement of Qualifications (SOQ's) or Request for Letters of Interest (LOI's) will be sent. Such list may include the suggested consultants named by the requesting department, and shall be augmented by the inclusion of such persons or firms from Purchasing's bid list that are potentially qualified for the provision of the subject services.

2) The request for SOQ or LOI, prepared by Purchasing staff, will contain a generalized statement of the scope of work which will be required of the consultants, and shall request that the person or firm submit a SOQ or LOI evidencing specific expertise in the area delineated in the scope of work. The request will establish a date on which such SOQ's or LOI's shall be submitted to Purchasing.

c. Evaluation of SOQ's or LOI's

The Purchasing Agent, with the advice of the project coordinator and other requesting department and Purchasing staff, will review and evaluate the SOQ's or LOI's received. Those County employees with technical expertise in the area of performance contemplated by the contract shall be consulted during such review process. A determination shall be made as to which persons or firms appear most qualified in the specific area of expertise called for under the contract. An adequate number of such qualified sources, to permit reasonable competition consistent with the nature and requirements of the procurement, shall be selected for inclusion on the RFP distribution list. Reasonable requests by other persons or firms to compete shall be honored to the maximum extent practicable.

d. Request for Proposals (RFP's)

1) The RFP shall set forth a detailed and particularized statement as to the scope of work required and applicable terms and conditions to be addressed. Also included in the RFP will be the time in which the project

must be completed, requirements concerning coordination with other entities, other information which may be useful in preparation of the proposal, and evaluation criteria specifically tailored to the project. Such criteria shall include but not be limited to the consultant's proven experience and competence, bondability, insurability, understanding of the scope of work, financial ability, and resources to perform the work, willingness to cooperate with County Purchasing and technical staff, and proposed method for assuring timely and acceptable performance and management of the work. In the event that the County determines to assign weighted values to the evaluation criteria, such values may be indicated in the RFP. In addition, resumes of the consultant's staff may be required.

2) Whenever it is found to be reasonable and appropriate, a firm not-to-exceed cost quotation will be requested in the RFP. In other cases, the RFP shall solicit a labor fee schedule for all categories of personnel to be utilized by the consultant in connection with the project, and a proposed project budget. The RFP shall state the date for a Pre-Proposal Conference, if one is scheduled, and shall also establish the subsequent date by which the proposals shall be submitted to the County.

e. Pre-Proposal Conference

A Pre-Proposal Conference may be held according to the schedule contained in the RFP. The Conference will be chaired by the Purchasing Agent, or authorized designee, who will cover basic requirements for the contract, including funding, contract type, evaluation criteria, and specific points to be addressed in the proposals. Staff from the requesting department will also be present to discuss technical aspects of the scope of work. The Pre-Proposal Conference will offer an opportunity for interested consultants to inquire about or suggest changes in the terms of the RFP. Any changes, additions, deletions or other pertinent information resulting from the Pre-Proposal Conference will be distributed in writing to all prospective bidders. The County shall also review the time and place for submission of proposals and the requested content and length of the proposals.

f. Review of Proposals

1) Proposals received shall be reviewed by, at a minimum, the Purchasing Agent or authorized designee. Other staff, including the project coordinator and County personnel with the appropriate technical expertise, shall be included in the review process, as necessary.

2) The review process shall begin with the verification that the proposals received are in conformity with the proposal specifications. The review shall adhere strictly to the evaluation criteria set out in the RFP and

discussed at the Pre-Proposal Conference; no discriminatory waiver of criteria shall be allowed. The conclusions of the reviewers shall be summarized in a memorandum.

3) The memorandum will be distributed among the reviewers for their concurrence. Those firms or persons judged by the reviewers to be the most qualified to perform the work required under the contract shall be placed on an "interview list." Those on the interview list will be requested to make a formal presentation of their proposals to the County. On the basis of the oral presentation and the written proposal, the reviewers shall make a final ranking of potential consultants. The qualifications of the consultant to perform the necessary work are of utmost importance to the County in professional services contracts; however, where two or more persons or firms appear equally qualified to perform the desired services, the one proposing the lowest total price shall be ranked first. Where appropriate, a presentation will be made to the Board of Supervisors as to the status of the review process.

g. Price Analysis

1) Purchasing may, when appropriate, conduct a price analysis to determine whether the compensation terms of the proposals offered by the consultants under consideration are fair and reasonable for the anticipated work or services. A price analysis may be conducted on the basis of any of the following methods:

a) A comparison of competitive price quotations submitted to the County;

b) A comparison of prior quotations and contract prices with current quotations for the same or similar services and/or products;

c) The use of survey data, such as hourly rates for similar services and market unit costs for specified materials, as a basis of comparison to point out apparent gross inconsistencies;

d) (d) A comparison of prices or published price lists issued on a competitive basis, and published market prices of commodities, together with discount or rebate schedules;

e) A comparison of proposed prices with independent estimates of cost developed within Purchasing.

2) In the event that (a) the County receives only one proposal in response to the RFP, (b) the responses reveal a lack of adequate competition, or (c) the RFP required the proposer to outline the elements of the estimated costs for the work, Purchasing may conduct a cost analysis to determine

whether the compensation proposals are fair and reasonable.

h. Negotiations

Upon authorization of the Purchasing staff, the project coordinator, and those County personnel with technical expertise relating to the project, shall negotiate with the consultant ranked first in order to establish a precise scope of work, the time and schedule for completion of the work, the cost of services, and the method and manner of payment. In the event that negotiations with the first consultant prove unsuccessful, the negotiating team shall commence discussions with the next ranked qualified consultant. A recommendation for award may be made upon the successful completion of negotiations as to the terms, conditions, and technical requirements of the proposed agreement.

i. Award of Contract

1) Award will be made to the qualified proposer whose proposal will be most advantageous to the County, with price and all other factors considered.

2) For contracts for professional services in excess of One Hundred Thousand Dollars ($100,000), the Board of Supervisors shall authorize the award of the contract. Purchasing shall notify the successful consultant, advising of award of contract. The consultant shall be given a reasonable time period, normally not to exceed two weeks, for submissions of the required bonds, guarantees, and certification of insurance coverage. **Prior to the contract award,** Purchasing shall send written notice to all unsuccessful bidders/proposers notifying them of the pending award.

j. Notice to Proceed

Upon receipt by Purchasing of the consultant's required bonds, guarantees, evidence of insurance and an executed Agreement, Purchasing will coordinate with the project coordinator as to the date that the Notice to Proceed is to be issued. Such notice shall be delivered to the consultant by Purchasing.

k. Contract Administration

The department head shall designate the appropriate County employee as project coordinator for purposes of contract administration. Purchasing staff shall maintain the contract file for the contract and copies of relevant correspondence shall be distributed to the appropriate County department. Similarly, copies of correspondence from the project coordinator or other County departments to the consultant shall be forwarded to Purchasing. The project coordinator shall be responsible for monitoring and reviewing the project in order to determine whether contract terms and conditions are being met. Purchasing, with the advice of County Counsel, shall endeavor to resolve any problems concerning adherence to terms and conditions of the contract. All financial matters shall be coordinated with the County Auditor-Controller.

3. Change Orders

The project coordinator will monitor compliance with the technical requirements of the contract, but shall have no authorization to unilaterally implement changes in the scope of work. When such changes are initiated by the County, they will be coordinated with the Purchasing Agent, who will request a proposal from the consultant covering the areas of cost impact, schedule change, and increases or decreases in scope. All contracts for professional services shall require that the consultant advise the County in writing immediately upon notice of any unanticipated condition or contingency that may cause a change in the scope of work effecting an adjustment in the specified compensation. The written notice shall explain the circumstances giving rise to the unforeseen condition or contingency and shall set forth the proposed adjustment in compensation resulting there from. Such notice shall be given to the County prior to the time that consultant performs work or services giving rise to the proposed adjustment in compensation.

K. CONTRACT ADMINISTRATION

1. Notice

The Purchasing Agent shall be the authorized representative of the County and shall assume the primary role for the purposes of communicating with all vendors, suppliers, and contractors as to the commencement and progress of the contract. Depending upon the peculiarities of a specific procurement, the Purchasing Agent may request the using department to assign an employee (hereinafter referred to as the project coordinator) these responsibilities. Any such delegation shall be made known to the vendor, supplier, or contractor involved.

2. Maintenance of Procurement Records

Purchasing shall maintain a procurement/contract file for each contract. Such file shall contain all records sufficient to document the significant history of the contract, including all formal and informal communications between the County and the vendor, supplier, or contractor. In addition, such file shall include, but not be limited to, the following records:

a. Any and all documents evidencing the rationale for the method of procurement;

b. Any and all documents relating to the selection of the vendor, supplier, or contractor.

3. Revisions

a. Summary

When, in the course of the performance of a construction or other contract, the project coordinator or other requesting department staff deems it necessary that extra work be performed, or that certain authorized work be omitted, or that modifications be made regarding the contract requirements, then a written revision must be issued to the contractor. The parties may disagree as to the price of any contract modification; these revisions assume that any such price dispute has been resolved.

b. Procedures

1) The project coordinator shall submit documentation to Purchasing adequately describing the contract, the contract modification required, and the reasons therefore. If the revision is to modify an existing Purchase Order, a memo from the department asking for this revision should be sent to Purchasing. The project coordinator's best estimate as to the cost of such revision shall be included.

2) Purchasing staff shall verify the estimated cost of the contract modification and shall transcribe the project coordinator's documentation onto the revision document. The project coordinator shall identify the cost of the contract modification in both dollar amount and percentage increase over the original contract price.

3) The revision shall be distributed to the project coordinator and the appropriate representative of the requesting department, who shall review it and verify that its description adequately conforms to the necessary contract modification. Thereafter, the revision shall be processed electronically, assuming the funds are available for such revision.

4) Upon the completion of this review and approval process, Purchasing shall issue the revision to the contractor.

4. Resolution of Contract Claims or Disputes

a. In the event that a dispute arises as to the payment of any additional compensation arising out of any revisions issued by the County or for any cause, including any alleged act or failure to act by the County, or the happening of any event, thing or occurrence, the contractor shall submit a written notice of potential claim to the project coordinator. The written notice of potential claim shall set forth the reasons for which the contractor believes additional compensation will or may be due, the nature of the cost involved, and, insofar as possible, the amount of the potential claim. The notice must be given to the County prior to the time that the contractor shall have performed any work giving rise to the potential claim for additional compensation, if based on any act or failure to act by the County, or in all other cases, within fifteen (15) days after the happening of the event, thing or occurrence giving rise to the potential claim. The purpose of this requirement is to bring to the attention of the County potential disputes at the earliest possible time in order that such matters may be settled. In the event that a contractor fails to file written notice of a potential claim as herein required, the County may determine that the contractor has waived entitlement to any additional compensation for such claim.

b. The project coordinator shall review with Purchasing the notice of potential claim and shall conduct any investigation that may be required to ascertain the facts and circumstances surrounding the claim. The project coordinator shall assess the merits of the claim and shall consult with the Purchasing Agent as to a determination regarding said claim. The project coordinator shall prepare and forward to the contractor a written determination of the claim as soon as reasonably possible, but in no event more than 30 days following receipt of the notice of potential claim. Said determination shall be final and conclusive.

5. Exercise of Options

a. Contracts for the provision of services, supplies, equipment, or materials that have been awarded pursuant to competitive bidding may allow for the County's exercise of an option for renewal or extension of term. If the original specifications provided for such an option, Purchasing and using department staff shall make the following findings regarding the exercise of such options. First, the project coordinator shall evaluate the performance of the contractor to determine if said performance has been satisfactory. Second, the project coordinator shall determine whether there are sufficient funds in the approved operating budget for the project to be extended and to be renewed.

b. If the contractor's performance has been satisfactory and there are funds in the approved operating budget to cover the option term, renewal, or extension of the contract term shall be in accordance with those terms and conditions specified in the original contract documents.

6. Warranty Repairs

a. In the event that the project coordinator or the requesting department staff discovers any breakdown, patent or latent defect, or other failure in any item procured that is under warranty, such discovery shall be made known to

Purchasing. Following consultation with County Counsel and confirmation that the failure is covered by the warranty, the project coordinator shall file a Claim Under Warranty with the contractor; a copy of same shall be forwarded to Purchasing.

b. Any failure by the contractor to timely meet its obligations under the warranty shall be made known to Purchasing. In contracts where the term of the performance bond is extended to cover the warranty period, Purchasing shall notify the surety on such bond of any such failure on the part of the contractor.

7. <u>Contract Expiration</u>

a. Purchasing staff shall provide notice to the requesting department whenever a contract is due to expire within 120 days. The requesting department shall review and recommend changes to the contract documents and return the corrected copy of the documents to Purchasing within ten working days.

b. Purchasing staff shall develop a new bid document, unless an option to extend is exercised. This process must be accomplished in a timely fashion, so as to allow a minimum of 30 days for solicitation, bid opening, and award. Notwithstanding that the contract is a renewal; all applicable procedures as previously set forth shall be followed.

S E C T I O N V I I

LEASES, PROPERTY OR EQUIPMENT

1. The Purchasing Agent, subject to direction of the Chief Executive Officer, can negotiate and execute in the name of the County all leases of personal property and real property, which the County may require. The Purchasing Agent via an addendum, prior to the work being done, must approve any changes or modifications to leased facilities.

2. A lease agreement or rental agreement shall be considered the same kind of document. In all lease or rental transactions, a written agreement must be made to define and clarify the intent, obligations, terms, and conditions that have been negotiated. After a review of the lease agreement by Purchasing the ultimate responsibility for signing a lease will be either the County Purchasing Agent or the Board of Supervisors, or their designee.

3. Leasing from others must not be done to circumvent the regulation regarding purchase of fixed assets. Considerable investigation must be done before deciding to lease.

4. The following terms and conditions are guidelines which are to be used to prepare requisitions for special lease documents. Additional conditions may be added as necessary.

   a. General Conditions Appropriate to all Leases

      1) Parties to the Lease The effective date, official names, date in which incorporated, address of corporate offices.

      2) Description of Equipment Complete and accurate description of equipment to be leased. If considerable equipment is involved, use an addendum or separate listing.

      3) Term of Lease The length of time the lease will be in effect. A term must be stated even if it is indefinite, self-renewing, or contains a number of options. Charges usually vary depending upon the term.

      4) Cancellation Complete wording of the basis upon which the lease may be canceled, cancellation costs, means of negotiations, term for default, and reasons for termination should be listed.

      5) Maintenance Responsibility for maintenance is often divided. What is included (supplies, parts, labor, etc.) and where maintenance is to be performed must be clearly established. The amount of repairs to maintain

certain operating levels can be a large part of the total cost. Considerable effort should be exerted to determine actual maintenance costs before a lease is put into effect.

6) Units of Measurement Complete understanding and agreement on standards for measurement should be arranged in the same manner as maintenance. Terminology such as adequate, good, normal wear and tear, and similar words should be avoided. If it is at all possible, establish standards more capable of measurement.

7) Inspection The owner of the equipment will either want to inspect or offer inspection for various reasons. Inspection is generally in the County's interest and will prevent future difficulty or misunderstanding. A schedule should be arranged to cover the life of the contract and should be incorporated therein.

8) Fees One party will normally pay most of the fees, levies, or assessments. The Responsible Party must be named.

9) Conditions of Use Briefly state the general conditions under which the machinery will be used. Any special restrictions such as skill of operators, training requirements, hours of use, location, and safety regulations, require specific wording. If the use is unlimited, this should be so stated.

10) Taxes Stanislaus County shall be responsible only for sales taxes and use taxes, if applicable. Lessor shall be responsible for all other taxes or governmental charges or taxes levied on the property.

11) Price In addition to the lease rate of payment, it should be specified which party will pay the cost of preparing, loading and unloading freight, and other special handling. All rental rates from the lowest (longest) terms to the highest (hourly) should be shown. Provide for (or deny any) rate changes during the term of the contract.

12) Renegotiation Determine what, if any, renegotiation will be allowed and on what terms and conditions. Include any other provisions for change or alterations of the contract.

13) Compliance with Federal and Local Laws The user and lessee will usually be responsible. Unusual equipment may require special permits. The owner should be questioned or should advise the lessee of any such special requirements.

5. Special Lease Conditions

a. Hold Harmless

A clause that will protect the County from the negligence of the other party or parties must be included in the lease agreement. County representatives may be asked to sign another party's hold harmless clause. **DO NOT** agree to sign any such request without prior approval of County Counsel.

b. Warranties
Any warranty or guarantee including ownership and right to make a lease should be thoroughly discussed and defined in writing.

6. Lease Purchase

Many companies leasing equipment will offer terms that would allow the County as lessee to purchase the item and apply the rental payments to the price when certain conditions are met. **DO NOT** use any of this terminology in the lease. Such wording may make the lease a conditional sales contract and may conflict with County Purchasing policies or state competitive bidding statutes. The statement "that title shall at all times remain with the owner (lessor)" can be used to help define this principle. If it is desirable to ultimately purchase the equipment, this decision should be determined prior to entering into the lease agreement.

7. Insurance

If the item leased is to be covered by insurance, the type, amount of coverage, which party will be named on the policy and which party pays for the policy should be covered by the lease. Stanislaus County is self-insured.

8. Forum Selection

Any dispute concerning a lease or any action brought to enforce the terms and conditions, shall be governed by, and construed in accordance with the laws of the state of California. Any action brought to enforce the terms or provisions of leases, shall have venue in the County of Stanislaus, State of California.

S E C T I O N V I I I

OTHER POLICIES AND PROCEDURES

A. SURPLUS DISPOSAL

1. Purpose

   To establish a procedure for disposal of obsolete, damaged, scrap, or surplus equipment, materials and supplies by redistribution within the County, by sale or by other suitable action.

2. Background

   a. In accordance with the California Government Code, Public Contract Code, and Stanislaus County Ordinance, the Purchasing Agent is authorized to sell, trade, trade-in, lease, exchange, or otherwise dispose of any personal property belonging to the County which is deemed to be surplus and not required for public use by the County which has a value of less than One Thousand Dollars ($1,000) per individual item without prior approval by the Board of Supervisors. The disposition of surplus property may be made without securing bids or advertising.

   b. For the disposition of personal property exceeding One Thousand Dollars ($1,000) per individual item prior approval of the Board of Supervisors must be obtained by the Purchasing Agent.

   c. Regardless of the value of the personal property to be sold the Purchasing Agent will be responsible for posting a notice of sale for such property for a period of not less than five (5) business days preceding the day of sale. Notices shall be posted in County office buildings and in such other places within the County as deemed advisable by the Purchasing Agent.

3. Application

   This procedure shall apply to disposal of all property other than real property.

4. Procedure

   a. Each department should review all material and equipment under department control at least once a year to determine its usefulness.

   b. Whenever material or equipment becomes surplus or obsolete, the department head shall report this to the Purchasing Agent by completing a Stanislaus County Inventory Transfer Record. (Exhibit 3).

c. The Warehouse Supervisor shall, upon receipt of an approved Inventory Transfer Record, arrange to have the material or equipment removed, or advise the holder to retain the material or equipment at its present location pending disposition.

d. The Warehouse Supervisor shall periodically prepare a surplus property list containing all material and equipment determined to be surplus, but still possessing some useful life that could be utilized by another County department. The list shall be distributed to all department heads to determine if such material or equipment can be used by their department. Any department may request such material or equipment up to the time of the actual final disposition. Submit requests on the Stanislaus County Inventory Transfer Record.

e. Thirty (30) days after circulation of the list to department heads, the Warehouse Supervisor will submit a list of surplus materials to the Purchasing Agent or his designee, and, upon Board of Supervisor's approval, Purchasing will proceed with the disposition of the property by one of the following methods:

   1) Return to manufacturer or supplier for credit;

   2) Trade-in on new equipment;

   3) Sale to the public through sealed bids;

   4) Sell at public auction;

   5) Sell for scrap value;

   6) Lease;

   7) Determine if the property has commercial value, or the estimated cost of its continued care, handling, maintenance, or storage would exceed the proceeds of sale;

   8) Or otherwise dispose of any personal property in the best interest of the County.

5. Surplus Sales Report

The Purchasing Agent will report all sales of surplus to the Auditor-Controller, and shall deposit all proceeds from sale in the County Treasury.

B. <u>REQUESTS FROM GENERAL PUBLIC, FOR DONATION OF SURPLUS PROPERTY LOCATED AT COUNTY WAREHOUSE</u>

1. Request should be made to the Chief Executive Office (CEO)

2. Request shall:

    a. Identify person making the request

    b. Identify organization making the request

    c. Describe the function of the organization

    d. Describe items and quantity requested

    e. Describe intended use of the items requested

3. If the CEO has no objection to the request, the request shall be forwarded to the Purchasing Division.

4. Purchasing Division shall determine availability, proper description, and value of property.

5. Purchasing Division shall discuss its findings with the office of the CEO, and if it is determined to be in the best interest of the County to recommend donation of requested items, the Purchasing Division shall prepare a Board Agenda and forward such to the office of the CEO.

C. <u>REQUEST AND/OR TURN IN OF COUNTY PROPERTY TO SALVAGE</u>

1. <u>Purpose</u>

    The Stanislaus County Inventory Transfer Record allows the Purchasing Agent to accept and properly dispose of any departmental surplus property. This same form can be used by County department to request, and when available, receive any surplus property from the Purchasing Agent's salvage.

2. <u>Procedure</u>

    The Stanislaus County Inventory Transfer Record must be completed by the requesting department and submitted to the Purchasing Agent. The necessary approval will be obtained from the Purchasing Agent and the form will be returned to the department. <u>It is the department's responsibility to make arrangements with the Warehouse Supervisor before delivering or picking up any salvage</u>.

S E C T I O N I X

DEFINITIONS

The terms defined in this section shall have the meanings set forth below whenever they appear in this Manual.

A. BID - A comparative price offer made by an intended seller in reply to an invitation for bid or request for quotation.

B. BUYER - The Purchasing Agent, Assistant Purchasing Agent, or designated/ deputized Purchasing staff.

C. CONTRACTOR -Any manufacturer, supplier, vendor, contractor, or individual doing business by contract with the County.

D. CONTRACTUAL SERVICES - All other required services which for reasons of specialized equipment, volume, or scope of the work, could not satisfactorily be performed by County forces. These include, but are not limited to, all electric power, gas, telephone, guard service, or garbage services; rental of equipment or machinery (with or without operator); towel, uniform, window washing and cleaning services; construction, remodeling or repair services; and all other types of agreements under which the contractor provides services required by the County.

E. CONSTRUCTION PROJECTS - Construction, remodeling, and/or installation requiring a major amount of labor of a single trade or various trades as well as the supplying of materials.

F. COUNTY - Stanislaus County, a government agency.

G. DISADVANTAGED BUSINESS ENTERPRISE (DBE) - A program designed to encourage the participation of qualified small, minority and women-owned businesses in the County's purchasing activity.

H. EQUIPMENT -Those items used in performing a task which are basically nonconsumable.

I. INVITATION FOR BID (IFB) - The complete assembly of related documents (whether attached or by reference) furnished to a prospective bidder for the purpose of bidding.

J. MATERIAL -A partially-processed item which is yet to be brought into final form or a product which is to be used in conjunction with other items to construct a functional product or system.

K. MAY - The permissive form.

L. MINORITY - an ethnic person of color including American Indians, Asians (including, but not limited to, Chinese, Japanese, Koreans, Pacific Islanders, Samoans, and Southeast Asians), Blacks, Filipinos, and Hispanics.

M. MINORITY BUSINESS ENTERPRISE (MBE) - A business concern that is all of the following:

1. At least 51 percent owned by one or more minorities, or in the case of a publicly owned business, at least 51 percent of the stock of which is owned by one or more minorities.

2. Managed by, and the daily business operations are controlled by, one or more minorities.

3. A domestic corporation with its home office located in the United States, which is not a branch or subsidiary of a foreign corporation, firm, or other business.

N. MUST - The imperative form.

O. PROCUREMENT - The buying, purchasing, renting, leasing, or otherwise obtaining of any materials, equipment, supplies, or services. Also included are all activities related to obtaining the above items.

P. PROFESSIONAL SERVICES - Services of attorneys, physicians, architects, engineers and other professional and/or technical consultants, individuals or organizations possessing specialized training and experience.

Q. PROPOSAL -The assembly of documents which a contractor provides in response to a Request for Proposal. This will minimally include a discussion of the task or product, the intent of the contractor to provide the task or product, and the cost involved.

R. PURCHASE - All forms of acquisitions of supplies, materials, equipment and services and includes rental, lease, or lease purchase.

S. PURCHASING AGENT - The Purchasing Agent of Stanislaus County.

T. PURCHASE ORDER - A written legal document signed by Purchasing stating all terms and conditions of a purchase transaction or referring to such terms and conditions as may exist in an accompanying contract.

U. REMOVAL - The permanent disbarment of a firm from doing business with the County.

V. REQUEST FOR PROPOSAL (RFP) - The complete assembly of related documents (whether attached or by reference) furnished to a prospective contractor for the purpose of presenting a proposal.

W. REQUEST FOR QUOTATION (RFQ) - (see "Invitation for Bid")

X. REQUISITIONER -The specific individual in a County department who initiates a Requisition/Store Issue. It may also refer to the department represented by the requisitioner.

Y. SERVICE -The furnishing of labor, time, or effort by a contractor which normally does not involve the delivery of a specific end product other than reports, unless the service is a construction service.

Z. SHALL - The imperative form.

aa. SUPPLIES - Those products, often of a minor nature, which are used outright and which are generally consumed through use.

bb. SUSPENSION - The temporary removal of a firm's name from bidder's lists and disqualification of that firm from doing business with the County for a specified period of time.

cc. USER - The requisitioner or the County department which ultimately utilizes a product or service.

dd. WILL - The imperative form.

ee. WOMAN BUSINESS ENTERPRISE (WBE) - A business concern that is all of the following:

1. At least 51 percent owned by a woman or, in the case of a publicly owned business, at least 51 percent of the stock of which is owned by one or more women.

2. Managed by, and the daily business operations are controlled by, one or more women.

3. A domestic corporation with its home office located in the United States, which is not a branch or subsidiary of a foreign corporation, firm, or other business.

S E C T I O N X

EXHIBITS

A. Justification for Sole Source/Sole Brand

B. Purchase Order

C. Stanislaus County Inventory Transfer Record

Exhibit A

COUNTY OF STANISLAUS
JUSTIFICATION FOR SOLE SOURCE/SOLE BRAND

Requisition Number: ______________ Dated: ______________

Item: ____

Sole Source: ☐ Item is available from only one vendor. Item is one-of-a-kind item and is not sold through distributors. Manufacturer is a sole distributor.

Sole Brand: ☐ Various Vendors can supply the specified model & brand, and competitive bids will be solicited for the brand requested only.

Refer to the instructions on the back of this form for required criteria before completion.

JUSTIFICATION: (Attach additional sheets, if necessary)

CERTIFICATION:

I am aware of the requirements set forth in the County's Purchasing Policy & Procedures Manual for competitive bidding and the established criteria for justification for sole source/sole brand purchasing. As an approved department representative, I have gathered technical information and have made a concerted effort to review comparable/equal equipment. This is documented in this justification. I hereby certify as to the validity of the information and feel confident that this justification for sole source/sole brand meets the County's criteria and is accurate.

This form was completed by:

______________________________ NAME

DEPARTMENTAL APPROVAL: ______________________________ DIRECTOR (or Authorized Rep.)/Date

______________________________ DEPT/DIVISION REPRESENTATIVE/PHONE

PROCUREMENT APPROVAL: ______________________________ PURCHASING AGENT APPROVAL

CRITERIA FOR SOLE SOURCE/SOLE BRAND

A. FACTORS WHICH MAY BE APPLICABLE

Respond specifically to each question below in preparing a justification.

1. If the product requested is one-of-a-kind item, provide background information on how this was determined.

2. Provide information on why a particular product and/or vendor was chosen.

3. Provide information on other vendors that were contacted and why they can not provide the requested product. Is the selected vendor also the manufacturer?

4. If unique features are required to successfully perform the required function, identify what those features are and why they are required. BE SPECIFIC.

5. Provide information on other models available and why they were rejected. Provide brand name, model, vendor name, date and name of each person contacted.

6. To "march and intermember" is not normally an acceptable justification for sole brand. When you determine this is a justified factor which should be considered: the quantity, manufacturer, brand, model, property number of the existing equipment, and necessity for "interfacing" must be provided.

B. FACTORS WHICH DO NOT APPLY

The following factors should not be included in your sole source/sole brand justification. They will not be considered and only tend to confuse the evaluation process.

1. Personal preference for a product of vendor.

2. Cost, vendor performance, local service, maintenance, and delivery (these are award factors in competitive bidding).

3. Features which exceed the minimum department requirements, e.g. heavy duty.

4. Explanation for the actual need and basic use for the equipment, unless the information relates to a request for "unique features."

5. The statement "no substitutions" will not be considered without completion of the "Justification for Sole Source/Sole Brand" form.

If you need assistance in completing this justification for sole source/sole brand form, please contact the Purchasing office at 525-6319.

Exhibit B

STANISLAUS COUNTY
Purchasing Division
P.O. BOX 3229
1010 TENTH ST, SUITE 5400
MODESTO, CALIFORNIA 95353
TEL: (209) 525-6319
FAX: (209) 525-7787

VENDOR:
United States

SHIP TO
PURCHASING DEPT
1010 TENTH ST #5400
MODESTO, CA 95354
United States

BILL TO
PURCHASING DEPT
(209) 525-6319
PO BOX 3229
MODESTO, CA 95353
United States

Purchase Order

PURCHASE ORDER NO.	REVISION	PAGE
45637	0	1

THIS PURCHASE ORDER NUMBER MUST APPEAR ON ALL INVOICES, PACKING LISTS, CARTONS AND CORRESPONDENCE RELATED TO THIS ORDER.

DATE OF ORDER	BUYER
31-OCT-01	L Summerlot
DATE OF REVISION	BUYER

CUSTOMER ACCT NO.	VENDOR NO.	PAYMENT TERMS	FREIGHT TERMS	F.O.B.	SHIP VIA
	22724	30 NET	PREPAID	DESTINATION	COMMON CARRIER

CONFIRM TO / TELEPHONE

REQUESTOR / DELIVER TO

Line	PART NUMBER / DESCRIPTION	DELIVERY DATE	QUANTITY	UNIT	UNIT PRICE	EXTENSION	TAX
1	THIS IS A SAMPLE PURCHASE ORDER.		1.00	EACH	0	0.00	Y
					Total	0.00	

AUTHORIZED SIGNATURE

Exhibit C

STANISLAUS COUNTY INVENTORY TRANSFER RECORD

PLEASE TYPE OR PRINT CLEARLY

DATE ____________________

FROM ______________________________________
DEPARTMENT NAME INDEX

____
CONTACT PERSON

TO ______________________________________
DEPARTMENT NAME INDEX

____
CONTACT PERSON

QUANTITY	DESCRIPTION	SERIAL NO.	COUNTY INVENTORY NO.	OTHER NO. (SPECIFY)

APPROVED BY PURCHASING AGENT ______________________________ DATE ____________

RELEASING DEPARTMENT

I certify that I have released the article(s) stated above.

____
SIGNATURE DATE

RECEIVING DEPARTMENT

I certify that I have received the article(s) stated above.

____
SIGNATURE DATE

1024-59
PURCHASING-WHITE AUDITOR-YELLOW RECEIVING DEPARTMENT-PINK RELEASING DEPARTMENT-GOLDENROD

Stanislaus County Employees' Retirement Association's

Purchasing Card Policy

Stanislaus County purchasing card policy and procedures are meant to streamline the purchasing and accounts payable process by reducing the paperwork generated by small dollar, high volume transactions, eliminating the need for purchase orders and facilitating timely procurement of goods and services. They are located at http://intranet/departments/Auditor-Controller/Policies.pdf . StanCERA views these policies and procedures as fair and adequate. StanCERA will adopt and will abide by the Stanislaus County purchasing card policy and procedures with the following exceptions:

- "StanCERA Executive Director or his/her designee" should be substituted for "County Department Head" and "Department Head" throughout the policy.
- "Board of Retirement" should be substituted for "Board of Supervisors" throughout the policy.
- "StanCERA funds" should be substituted for "public funds" throughout the policy.
- All purchasing cards will be held in a secure place by the Executive Board Assistant when not being used by board members or staff with the exception of the staff member responsible for Central Office Supply purchases.
- Purchasing cards will not be used for transaction equal to or greater than $5,000.00.
- References in the policy to the "Purchasing Policy" and "Travel Policy" will refer to the StanCERA Purchasing Policy and the StanCERA Travel Policy.

StanCERA will administer and manage all purchasing card processes for the procurement of goods and services related to it's operations. As a separate legal entity, StanCERA reserves the right to modify and/or reject any of the County purchasing card policy and procedures as it deems appropriate. Any such modifications and/or rejections will be documented and approved by the Board of Retirement.

Policy Review

The Board shall review this policy at least every three years.

Policy History

Approved mm/dd/yyyy

Approved /Adopted by the Board of Retirement

____

Rick Santos, Executive Director

Approval / Adoption Date:____________________

COUNTY OF STANISLAUS

PURCHASING CARD POLICY

Approved by the Stanislaus County Board of Supervisors

BOS Item 2015-22 on January 13, 2015
BOS Item 2017-07 on January 10, 2017

2017 Revision

TABLE OF CONTENTS

1. INTRODUCTION

1.1 BACKGROUND

Per Board Resolution 2003-762, approved by the Board of Supervisors on August 12, 2003, a review will be completed annually by a Purchasing Card Committee, consisting of representatives from the General Services Agency (GSA) - Purchasing Division, Auditor-Controller, County Counsel, and a member of the Public at Large. This committee will be responsible for reviewing the existing policy and making recommendations for revision. The revised policy for 2011 includes recommendations made by the Purchasing Card Committee, including that the County Purchasing Card Policy be reviewed every three years rather than annually. The Purchasing Card Procedures have been separated from the policy to allow for more timely updates, in keeping with software and other procedural changes.

County Department Heads are accountable to the Board of Supervisors and the public for the funds and assets entrusted to them. Each County Department Head is responsible for administering the basic County Purchasing Card Policy in accordance with policy guidelines and any other policies applicable to the purchase of goods and services.

1.2 POLICY STATEMENT

The Purchasing Card Program is designed to streamline the purchasing and accounts payable process by reducing the paperwork generated by small dollar, high volume transactions, eliminating the need for purchase orders and facilitating timely procurement of goods and services.

1.3 ROLES AND RESPONSIBILITIES

A. Cardholder:

Each Cardholder shall:

1. Comply with all provisions of the Purchasing Card Policy and those adopted by his/her Department Head or designee (Department Head) governing purchasing cards. Failure to comply may result in disciplinary action, including termination.
2. Maintain security of card and card number.
3. Be responsible for all charges placed on his/her card, except when fraudulent charges have been made by other than the cardholder.
4. Comply with County procurement procedures and policies as issued by the GSA Purchasing Division to ensure the best price is obtained for the County.
5. Obtain credit on the purchasing card from merchant for returned goods or discounts. Cash or gift cards may not be accepted from a merchant as to maintain the transaction integrity.

6. Immediately notify his/her Department Head if the card has been lost, stolen or if it is suspected the card may have been compromised.
7. Maintain notes on actions taken with dates and name of the person spoken to whenever there is a disputed transaction. Assist the County in resolving disputed charges with vendor/Master Card.
8. Return his/her County purchasing cards to his/her department before a cardholder's date of termination.

B. Department Head

Each Department Head shall:

1. Identify their designee in writing and maintain a record of such for five (5) years. Designees shall have the full authority granted to and responsibilities required of Department Heads.
2. Annually, determine the necessity for and establish appropriate limits for all department purchasing cards, including those with limits, approved by the Purchasing Agent, in excess of $5,000. This annual report shall be signed and dated by the Department Head and maintained with purchasing card records for five (5) years. Assigned department staff has the capability to print or view these reports through the WORKS program. A change in job task, assignment, or transfer to another division may require modification or termination of the purchasing card account.
3. Approve all applications and maintenance forms. Department Head has ultimate authority for all purchasing cards with limits under $5,000.
4. Ensure that charges incurred by staff against the purchasing card are in compliance with the Purchasing Card Policy and deemed an appropriate use of public funds.
5. Ensure the timely reconciliation of the purchasing card statements.
6. Review all department charges made against purchasing cards each month for appropriateness and authenticity.
7. Request modifications to purchasing card as cardholder duties and responsibilities change. These modifications may include cancellation of card, monthly limit, address and name changes.
8. Request cancellation of purchasing card account upon termination of employment.

C. Purchasing Agent (General Services Agency)

The Purchasing Agent shall:

1. Identify their designee in writing and maintain a record of such for five (5) years. Designees shall have the full authority granted to and responsibilities required of the Purchasing Agent.
2. Coordinate the review of, and updates to, the Purchasing Card Policy with the Purchasing Card Committee.
3. Review and approve issuance of all purchasing card limits equal to, or in excess of, $5,000, based on the business case presented by the appropriate Department Head.

D. Auditor-Controller

The Auditor-Controller shall:

1. Identify his/her designee in writing and maintain a record of such for five (5) years. Designees shall have the full authority granted to and responsibilities required of the Auditor-Controller.
2. Post charges to department accounts.
3. Issue purchasing cards following approval by Department Head and Purchasing Agent if required.
4. Perform audits on an annual basis whereby departments/agency transactions are audited at a minimum once over a two year time period and provide audit results to each affected Department, Grand Jury, Board of Supervisors and Chief Executive Officer.
5. Cancel purchasing card accounts upon termination of cardholder's employment.
6. Create and maintain the administrative procedures for the day-to-day operation of the Purchasing Card Program in accordance with the Policy and applicable laws and accounting best practices.

E. Purchasing Card Clerk

The Purchasing Card Clerk shall:

1. Be responsible for knowing and understanding all of the Purchasing Card Policy and associated departmental procedures.
2. Be directly responsible for canceling purchasing cards when a cardholder leaves service or a card is lost or stolen. A staff termination, change of duties, or other reason may necessitate cancellation or credit limit modification of a purchasing card.
3. Prepare an accurate and thorough reconciliation of the purchasing card statements, in a timely manner.

F. Purchasing Card Committee

The Purchasing Card Committee shall consist of representatives from the GSA Purchasing Division, Auditor-Controller, County Counsel, and a member of the Public at large. This Committee will be responsible for reviewing the existing policy and making recommendations for revision. A review of the policy will be completed every three years, or as needed should an issue arise.

G. Misuse of Purchasing Card

It is the responsibility of the Department Head to ensure that all purchases are reconciled and approved and that expenditures are appropriate. In the event that misuse is identified:

1. The Department Head will immediately notify the Deputy Executive Officer for Human Resources regarding the misuse.
2. The Deputy Executive Officer will inform the Chief Executive Officer and confer with County Counsel.

3. The Department Head will determine the appropriate disciplinary action after consultation with the Deputy Executive Officer for Human Resources and County Counsel, which may include termination, and may result in criminal prosecution.
4. In all cases, the cardholder is required to reimburse the County.

2. POLICIES

2.1 PURCHASING CARD ISSUANCE - AUTHORIZATION

A. Department Heads are responsible for ensuring that cardholders in their department utilize the purchasing cards in accordance with this policy.

B. If necessary to meet the needs of the department, the Department Head may approve assigning more than one purchasing card to a cardholder; however, the cumulative limit of the cards shall not exceed $5,000 except as authorized by the Purchasing Agent, based on a review of the business need. Cardholders who perform services for other separate legal entities that participate in the Purchasing Card Program are authorized to have more than one card up to the limits approved by each entity and the Purchasing Agent, as needed for cards with limits exceeding $5,000.

C. If an entity's board adopts its own purchase limits, the Auditor-Controller's Office will follow those limits when auditing, provided the entity has a written policy in place. Otherwise, the entity must abide by the County's policy and limits.

2.2 COORDINATION WITH OTHER COUNTY POLICIES

County Purchasing Card Policy purchases are to be in accordance with Purchasing Card Policy, Travel Policy, codes, standards, department procedures and any other applicable County policies.

2.3 PURCHASING CARD USAGE AND RESTRICTIONS

A. <u>Using the Purchasing Card</u>

1. Purchasing cards may only be used to purchase goods and services costing less than $5,000 per item, including taxes, shipping, etc., except in the event of an emergency, as defined in County Code 2.52. Departments must assure they are making the most economical purchase that meets their needs as well as the requirements of other interrelated departments. All purchasing card users must follow the GSA Purchasing Division Policies and Procedures Manual.

   a. Cardholders may **not** 'split' purchases to avoid credit limits or
   b. County Purchasing Policy limits.

B. Limitations/Restrictions

1. County purchasing card charges are subject to the limitation that sufficient funds are available in the department's budget to cover all charges; the expense provides a public benefit; and is incurred while performing official duties.
2. Allowable charges shall not exceed the approved credit limit established by the Department Head for that specific purchasing card.
3. County purchasing cards must never be used for personal purposes. Should a County purchasing card inadvertently be used for an unallowable purpose, the cardholder shall immediately notify their supervisor and reimburse the County. NOTE: County purchasing card accounts must never be used to represent personal credit worthiness to obtain a personal credit card account.
4. Purchasing card expenditures for spouses, traveling companions, or any unauthorized individual (including travel expenses for airline tickets, meals, hotel accommodations, etc.) are prohibited.
5. County purchasing cards must never be used to receive cash advances.
6. Cardholders are cautioned not to carry his/her County purchasing card during off duty hours (e.g., on vacation).
7. A cardholder may not lend his/her assigned County purchasing card to another individual for his/her use. One cardholder may charge County business items on their card for another County employee, such as hotel or airline reservations, conference registrations, or County-related meals.
8. County purchasing cards are not to be used to purchase fuel for private vehicles except where exempt by contract. Payroll reimbursement for mileage covers private vehicle use, according to the County Travel Policy limits and guidelines.
9. County purchasing cards may be used to fuel rental vehicles when a cardholder is using the rental vehicle for official County business and a participating Card Lock Fuel Program station is not available.
10. For motor pool or department-owned vehicles, participating County Card Lock Fuel Program stations should be utilized to purchase fuel in order to reduce County costs. Purchasing cards may be used if there is not a Card Lock Program station available.
11. Transactions of Department Heads and elected officials will be subject to audit by the Auditor/Controller's Office and the results will be reviewed by the Chief Executive Officer and/or the Board of Supervisors. The Chief Executive Officer and/or the Board of Supervisors, at their discretion, may review Purchasing Card use by the Department Heads and elected officials at any time.
12. Intentional misuse of a County purchasing card may result in disciplinary action, including termination, and may result in criminal prosecution.

2.4 COUNTY ASSETS

All purchases of County assets and inventoriable equipment must comply with the Auditor-Controller Capital Asset Inventory policy.

2.5 UNAUTHORIZED CREDIT CARDS

Individuals and departments are not to apply for credit cards in the County or department's name, except as authorized by the Board of Supervisors.

Stanislaus County Employees' Retirement Association
832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

May 4, 2017

StanCERA Internal Governance Committee Agenda Item

TO: StanCERA Internal Governance Committee

FROM: Dawn Lea, Member and Employer Services Manager

I. SUBJECT: Resolution pertaining to Regulations for Internal Revenue Code Section 415 – Annual Limits

II. ITEM NUMBER: 4

III. ITEM TYPE: Discussion and Action

IV. STAFF RECOMMENDATION: Recommend that the Board of Retirement adopt the proposed Resolution pertaining to Regulations for Internal Revenue Code Section 415 – Annual Limits, as required by the Internal Revenue Service.

V. ANALYSIS: On October 30, 2015, the StanCERA Board of Retirement filed a determination letter application with the Internal Revenue Services (IRS) to confirm that StanCERA's written plan document continues to satisfy the applicable tax-qualification requirements under the Internal Revenue Code ("Code"). The IRS issued a favorable determination letter for StanCERA on January 5, 2017, conditioned on adoption of a proposed amendment that was submitted in response to the IRS reviewer's request for additional information.

The proposed amendment will make a technical plan change, but will not require any change in StanCERA's operations. Under a law passed in 2008 known as the "HEART Act," any "differential wage payment" received by an employee covered by a qualified plan is treated as "compensation" under a qualified plan. A differential wage payment is one made by an employer to an individual while the individual is performing active duty service in the uniformed services for a period of more than 30 consecutive days, and which represents all or a portion of the wages the individual would have received from the employer if the individual were still at work.

StanCERA's current Regulations for Code Section 415 make clear that any differential wage payment received by a StanCERA member is treated as compensation, in describing the types of payments that are included in compensation after severance from employment, if such payments are timely paid in accordance with the Regulations. However, the IRS requested that StanCERA also adopt an amendment to its Regulations for Code Section 415 to include differential wage payments in the Regulations' definition of "Total Compensation." A resolution to amend the Regulations for Code Section 415 as requested by the IRS is attached.

Under IRS rules, the deadline for adopting the amendment to the Regulations for Code Section 415 is 91 days after the last day of the first California Legislative session that begins more than 120 days after the date the favorable determination letter is issued. StanCERA's letter is dated January 5, 2017, and the first regular session of the California

Legislature that begins more than 120 days after that date is the 2019-20 session, which will begin in December, 2018. That session will end on November 30, 2020, which means that the amendment should be adopted by the Board of Retirement, and approved by the Board of Supervisors, by March 1, 2021 (which is 91 days after November 30, 2020).

VI. RISK: Failure to adopt the recommended change it could affect our standing with the IRS.

VII. STRATEGIC PLAN: Strategic Objective IV: Refine StanCERA's business and policy practices in ways that enhance stakeholder awareness, the delivery of member services and the ability of the Organization to administer the System effectively and efficiently.

VIII. BUDGET IMPACT: None

Dawn Lea

Dawn Lea, Member and Employer Services Manager

832 12th Street, Ste. 600, Modesto, CA 95354 • PO Box 3150, Modesto, CA 95353 • www.stancera.org • 209-525-6393 • 209-558-4976 Fax

NOTICE TO PROSPECTIVE MEMBERS OF THE STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

THIS NOTICE REVIEWS YOUR MAXIMUM RETIREMENT BENEFIT.
PLEASE READ THE ENTIRE NOTICE CAREFULLY

The Internal Revenue Code (the "Code") limits the amount of benefits that you can receive from a qualified retirement plan. **Under Section 415 of the Code, the retirement benefits provided by government pension plans are generally limited to $215,000 per year (the "415 Limit") if you retired after January 1, 2017. Note: The IRS reviews these rates annually and does make adjustments for inflation.** Depending on your age at retirement and the form of payment that you select, actuarial modifications may reduce the limit even further, unless your benefits are governed by rules reserved for qualified police or firefighters.

If you accept full-time employment with an employer participating in the Stanislaus County Employees' Retirement Association ("StanCERA"), you may have certain rights under the retirement plan. However, **unless you became a member of StanCERA prior to January 1, 1990, your base benefit cannot exceed the 415 Limit explained above.** While it is possible for members hired before 1990 to accrue benefits in excess of the "415 Limit", the plan cannot consider any benefit increases adopted after October 14, 1987 when calculating a "grandfathered" limit.

As a qualified retirement plan, StanCERA is required to impose the limitations contained in Section 415 of the Code. Depending on your membership date, your years of service with a participating employer, and your age when payments begin, these limitations may serve to reduce or restrict benefits otherwise payable to you by StanCERA.

This notice is provided only to clarify the 415 Limit, not to alter or modify any information found in your member handbook. If you have further questions regarding the 415 Limit or its application to your future benefits, you should contact the Internal Revenue Service, a qualified tax advisor or the plan administrator. Any inquiries of the plan administrator should be addressed as follows:

Stanislaus County Employees' Retirement Association
P.O. Box 3150
Modesto, CA 95353-3150
Phone: (209) 525-6393

I HAVE READ THE ABOVE NOTICE AND RECEIVED A COPY FOR MY RECORDS. I UNDERSTAND THAT MY RETIREMENT RIGHTS AND BENEFITS ARE SUBJECT TO THE LIMITS OF INTERNAL REVENUE CODE SECTION 415.

______________________________ MEMBER'S NAME (Please Print) ______________________ DATE

______________________________ SIGNATURE ______________________ EMPLOYEE ID #

As indicated in the "Notice to Prospective Members of the Stanislaus County Employees' Retirement Association", the 415 Limit represents the maximum annual retirement benefit for most members of the Association. Per the member handbook, your actual retirement benefit will depend on the age when payments begin, the years of service accrued with StanCERA, and the final average salary that you earn from a participating employer or reciprocal agency.

12/16

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

RESOLUTION PERTAINING TO REGULATIONS FOR INTERNAL REVENUE CODE SECTION 415 – ANNUAL LIMITS

WHEREAS, the Board of Retirement for the Stanislaus County Employees' Retirement Association ("StanCERA") administers StanCERA for the benefit of its members and their beneficiaries; and

WHEREAS, StanCERA is intended to comply with the requirements of the Internal Revenue Code of 1986 (the "Code"), as amended or replaced from time to time and the regulations issued thereunder as applicable; and

WHEREAS, on October 30, 2015, the Board of Retirement submitted to the Internal Revenue Service ("IRS") a request for a favorable determination that StanCERA meets the applicable requirements of the Code; and

WHEREAS, the plan documents, including Regulations of StanCERA Board of Retirement, were submitted for review with StanCERA's determination letter application; and

WHEREAS, items of pay that are included in a member's "Total Compensation" for purposes of Code section 415 is defined in Section III.I.1 of Regulations for IRC Section 415(c), subsections 1.a through 1.f; and

WHEREAS, Section III.I.3 of Regulations for IRC Section 415(c) provides that payments the description of which meet the definition of "differential wage payments" provided in Internal Revenue Code section 3401(h)(2) are included in a member's Total Compensation, even if paid more than 2½ months after severance from employment or after the end of the Limitation Year, if later; and

WHEREAS, the IRS has requested that Regulations for IRC Section 415(c) be clarified to provide that the definition of compensation for purposes of Code section 415 includes "differential wage payments" as defined in Code section 3401(h)(2), pursuant to Section 105(b) of the Heroes Earnings Assistance and Relief Tax Act of 2008 ("HEART Act"); Therefore be it

RESOLVED that the Board of Retirement hereby amends Section III.I.1 of Regulations for IRC Section 415(c), to add new subsection "g." thereto, to read in its entirety as follows:

"Differential wage payments as defined in Internal Revenue Code section 3401(h)(2)."

PASSED AND ADOPTED by the Board of Retirement of the Stanislaus County Employees' Retirement Association on the _____ day of _________, 201X.

Ayes: __________
Noes: __________
Absent: __________

___________________________________ Attest: ____________________________
Board of Retirement Chair Executive Director