



**STANISLAUS COUNTY  
EMPLOYEES' RETIREMENT ASSOCIATION**  
832 12th Street, Suite 600  
Modesto, CA 95354  
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[www.stancera.org](http://www.stancera.org)  
e-mail: [retirement@stancera.org](mailto:retirement@stancera.org)

## AGENDA

BOARD OF RETIREMENT  
832 12<sup>th</sup> Street, Suite 600 – **Wesley W. Hall Board Room**  
Modesto, CA 95354

**September 24, 2013**  
**2:00 p.m.**

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

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

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

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

**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. Meeting Called to Order
2. Roll Call
3. Announcements
4. Public Comment
5. Consent Items

- a. Approval of the September 11, 2013 Administrative Meeting Minutes [View](#)

5. Consent Items (Cont.)

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

1. Janet Abe-Morimoto, BHRS Effective 9-1-2013
2. Lois Aldrete, HSA, Effective 9-4-2013
3. Juan Alonzo, HSA, Effective 9-7-2013 - Withdrawn
4. Timothy Beck, Sheriff, Effective 9-17-2013
5. Sheryll Biondolillo, Sheriff, Effective 8-3-2013
6. Renee Cartier, HSA, Effective 8-4-2013
7. Sharon Cope, Superior Courts Effective 9-21-2013
8. Karen Hurley, BHRS, Effective 8-16-2013
9. James Johnson, BHRS, Effective 8-19-2013
10. John Kitchell, HSA, Effective 9-26-2013
11. Donna Leavers, Treasurer/Tax Collector, Effective 9-1-2013
12. Cynthia Mcleland, City Of Ceres, Effective 9-24-2013
13. Marjorie Munoz, CSA, Effective 9-19-2013
14. Lorrinda Parker, District Attorney Effective 8-24-2013
15. Elizabeth Pereira, Sheriff, Effective 9-7-2013
16. Margaret Reid, Library, Effective 9-1-2013
17. Beth Schlemmon, Probation, Effective 9-11-2013

Correction to Barbara Pearce-Chiesa, BHRS, Effective 08/16/2013 presented on 8/14/13  
Agenda Effective date should be 8/17/2013.

6. Semi-Annual Performance Report by Delaware Investments – Large Cap Growth [View](#)
7. Strategic Investment Solutions (SIS), Inc.
  - a. Monthly Performance Review for the Month Ending August 31, 2013 [View](#)
  - b. Report on “Top 10 Holdings” of StanCERA Investment Managers as of August 31, 2013 [View](#)
8. PRIMA - Fixed Income: "Commercial Mortgage Lending"
9. PIMCO - Fixed Income: "A Tactical and Unconstrained Strategy"

10. Closed Session

- a. Conference with Legal Counsel – Pending Litigation – One Case:  
Stanislaus County Employees' Retirement Association v. Buck Consultants, LLC,  
Mediation Pursuant to Evidence Code Sections 1115, 1119, 1152  
Government Code Section 54956.9(d)(4)
- b. Conference with Legal Counsel – Pending Litigation – One Case:  
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:  
Nasrawi et al v. Buck Consultants, LLC, et.al, Santa Clara County  
Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate  
District, Case No. H038894  
Government Code Section 54956.9(d)(1)

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

12. Adjournment



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## PLEASE POST FOR EMPLOYEE VIEWING

### BOARD OF RETIREMENT MINUTES

September 11, 2013

**Members Present:** Gordon Ford, Maria De Anda, Donna Riley, Jeff Grover, Mike Lynch, Darin Gharat, Jim DeMartini and Michael O'Neal

**Members Absent:** None

**Alternate Member** Joan Clendenin, Alternate Retiree Representative

**Staff Present:** Rick Santos, Executive Director  
Kellie Gomes, Executive Board Secretary  
Kathy Herman, Operations Manager  
Dawn Lea, Benefits Manager

**Others Present:** Fred Silva, General Legal Counsel  
Doris Foster, County Chief Executive Office  
Stan Risen, County Chief Executive Office

1. Meeting Called to Order

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

2. Roll Call

3. Announcements

Kathy Herman announced that all 4 major Banks have responded to StanCERA's RFP for StanCERA custodial services.

Trustee DeMartini announced that the Board of Supervisor's appointed Jason Gordo to the StanCERA Board.

Kellie Gomes announced that item 5.b. was pulled from the consent calendar to reflect the effective date of retirement. Item 5.b. will be put on the consent calendar at the September 24, 2013 investment meeting, and the delay will not affect receipt of payment by any new retirees.

4. Public Comment

None

5. Consent Items

Motion was made by Maria De Anda and seconded by Donna Riley to approve the following Items with the exception to 5.b. which will be presented at the next meeting on 9/24/13:

Motion carried

- a. Approval of the August 27, 2013 Investment Meeting Minutes [View](#)

5. Consent Items (Cont.)

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

1. Janet Abe-Morimoto, BHRS Effective 10-01-2013
2. Lois Aldrete, HSA, Effective 11-01-2013
3. Juan Alonzo, HSA, Effective 11-01-2013
4. Timothy Beck, Sheriff, Effective 11-01-2013
5. Sheryll Biondolillo, Sheriff, Effective 10-01-2013
6. Renee Cartier, HSA, Effective 10-01-2013
7. Sharon Cope, Superior Courts Effective 11-01-2013
8. Karen Hurley, BHRS, Effective 10-01-2013
9. James Johnson, BHRS, Effective 11-01-2013
10. John Kitchell, HSA, Effective 12-02-2013
11. Donna Leavers, Treasurer/Tax Collector, Effective 11-01-2013
12. Cynthia Mcleland, City Of Ceres, Effective 12-01-2013
13. Marjorie Munoz, CSA, Effective 11-01-2013
14. Lorrinda Parker, District Attorney Effective 10-01-2013
15. Elizabeth Pereira, Sheriff, Effective 11-01-2013
16. Margaret Reid, Library, Effective 12-02-2013
17. Beth Schlemon, Probation, Effective 11-01-2013

Correction to Barbara Pearce-Chiesa, BHRS, Effective 08-16-2013 presented on 8/14/13  
Agenda Effective date should be 8-17-2013.

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

1. Juan Aguilar, CSA, Effective 08-22-2013
2. Gary Brown, GSA, Effective 08-10-2013
3. Christina Cosetta, BHRS, Effective 05-18-2013
4. Desiree Cotter, CSA, Effective 05-11-2013
5. Shawn Lominario, HFCD, Effective 08-09-2013
6. Monica Nino, CEO, Effective 08-17-2013



6. Executive Director

- a. Discussion and Action on the State Association of County Retirement Systems;(SACRS) November 12-15, 2013 Fall Conference Voting Proxy Form- Kellie Gomes

Motion was made by Michael O'Neal and seconded by Mike Lynch to appoint Trustee Gharat as voting delegate with Trustee DeAnda as alternate voting delegate.

Motion Carried

- b. Discussion and Action Regarding StanCERA Independence

Motion was made by Mike Lynch and Seconded by Michael O'Neal for the Board of Retirement to attain governance over classifications and salaries for the Executive Director position and future Investment positions by revising the by-laws to include the specific positions and level of governance desired and to continue working with the County regarding position control over the Benefits and Operations position.

Motion Carried

8. Members' Forum (Information and Future Agenda Requests Only) **Heard Out Of Order**

Members Forum was heard out of order to accommodate Trustee Clendenin needing to recuse herself during closed session.

Trustee Gharat announced that he will not be running again for another term on the Retirement Board at the end of his term on 12/31/2013. Trustee Gharat will notify the Safety Bargaining Unit of his decision.

7. Closed Session **Heard Out Of Order**

Motion was made by Maria De Anda and seconded by Donna Riley to move in to closed session at 2:50.

Motion was made by Maria De Anda and seconded by Donna Riley to move out of closed session at 2:55.

Report out of closed session items 7.a and 7.b. are below. There is nothing else to report from closed session.

- a. Discussion and Action on the Application for a Service-Connected and Non-Service Connected Disability Retirement by StanCERA Deferred Member Raymond Byers

Motion was made by Darin Gharat and seconded by Maria De Anda to approved staff's recommendation to set for hearing the disability application for Raymond Byers.

Motion carried.

Trustee Joan Clendenin recused herself prior to the reading of 7.b. at 2:53.

7. Closed Session (Cont.) **Heard Out Of Order**

- b. Discussion and Action on the Hearing Officer's Recommendations on Aaron Gallagher's application for a Service-Connected Disability Retirement

Motion was made by Maria De Anda and seconded by Michael O'Neal to adopt the hearings officer's findings and approve staff's recommendation to deny the disability application for Aaron Gallagher. Motion carried.

- 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 54956.9(d)(4)
- d. Conference with Legal Counsel – Pending Litigation – One Case:  
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Superior Court Case No. 1-11-CV202224; Court of Appeal, Sixth Appellate  
District, Case No. H038894  
Government Code Section 54956.9(d)(1)

9. Adjournment

Meeting adjourned at 2:57 p.m

Respectfully submitted,



Rick Santos, Executive Director

APPROVED AS TO FORM:  
FRED A. SILVA, GENERAL LEGAL COUNSEL

By:   
Fred A. Silva, General Legal Counsel

Focus growth equity investment review

9/24/13  
Item# 6

# Large-Cap Growth Equity

Presentation to:

## Stanislaus County ERA

Agenda:

- I. Firm overview
- II. Performance, portfolio, and characteristics
- III. Philosophy, people, and process
- IV. Biographies

Representing Delaware Investments:

**Kevin J. Brown** Vice President, Senior Investment Specialist

**Kimberly L. Aspenleider** Vice President – Client Services

September 24, 2013

Delaware Investments • 2005 Market Street • Philadelphia, PA 19103-7094

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# Biographies of presenters

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## **Kevin J. Brown**

Vice President, Senior Investment Specialist

Kevin J. Brown joined the Focus Growth Equity team at Delaware Investments in October 2006. He is responsible for representing the team and its philosophy and process to clients. Most recently, he spent three years as a director in institutional equity sales at Merrill Lynch Investment Managers. From 1999 to 2003 he worked at Donaldson, Lufkin & Jenrette and Credit Suisse First Boston as a vice president in institutional equity sales, and before that he worked for two years as a vice president at JP Morgan. He began his career in the investment industry in 1995 as an associate at Robertson Stephens. Brown received his bachelor's degree in history from the University of California at Berkeley, and he earned his MBA in finance from the University of California at Los Angeles.

## **Kimberly L. Aspenleider**

Vice President – Client Services

Kimberly L. Aspenleider's responsibilities at Delaware Investments include relationship management and client servicing for numerous institutional separate accounts. She began her investment career at Delaware Investments in 1989 and has worked both in financial control and as a mutual fund accountant for the firm. Most recently she worked as internal client service officer in the firm's institutional client services department. Aspenleider holds a bachelor's degree in economics from the University of North Carolina and an MBA with a concentration in finance from Temple University.

# Firm overview

Delaware Investments

June 30, 2013

## History

1929 Delaware Investments predecessor firm is founded

1938 Delaware Investments introduces its first mutual fund

1970 Begin managing fixed income strategies

1972 Institutional separate account management is established

1974 Taft-Hartley business is established

1990 International/global capabilities are established

2000 Begin decade of broadening investment capabilities

2007 Ireland-based UCITS funds are launched

2010 Delaware Investments joins Macquarie Group

## Staff

137 Investment professionals

48 Portfolio managers

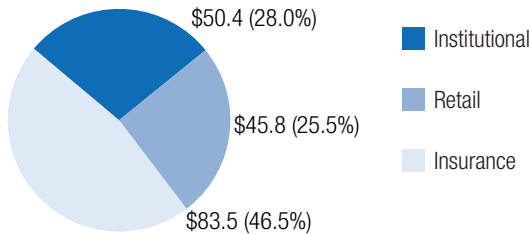
52 Research analysts

26 Traders

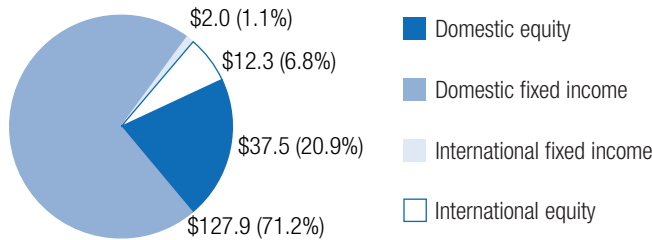
11 Quantitative analysts

## Assets \$179.7\* billion under management

By client type (\$ billions)



By asset class (\$ billions)



\*Does not include certain assets under advisement and model sponsors, with which total Delaware assets are US\$185.0 billion.

## Institutional profile

527 Institutional client accounts

350 Institutional equity accounts

177 Institutional fixed income accounts

By assets

Sub-advisory: 52%	Taft-Hartley: 2%
Corporate: 20%	High net worth: 2%
Public: 15%	Endowments and foundations: 1%
NDT/VEBA: 6%	Other: 2%

# Representative client list

As of June 30, 2013

## Corporate employee benefit

A. O. Smith Corporation

American Airlines, Inc.

### Boeing

Cooper Tire & Rubber Company

### General Mills

Glatfelter

Oneok, Inc.

Textron Corporation

USAA

## Public funds

California State Teachers  
Retirement System

### City of Austin Police Retirement System

City of New Orleans Employees'  
Retirement System

Commonwealth of Pennsylvania

### Contra Costa County Employees' Retirement Association

### Miami Firefighters and Police Officers

### Ohio School Employees' Retirement System

### Oregon Public Employees' Retirement System

### Stanislaus County Employees' Retirement Association

## Endowments & foundations

Gellert Foundation

### The Oregon Community Foundation

## Healthcare organizations

### John Muir Health

## Sub-advisory

### First Mercantile Trust Company

GuideMark

### Lincoln National Corporation

### Massachusetts Mutual Life Insurance Company

### MLC Investments Limited

Nomura Funds Research and  
Technologies Co., Ltd

Northern Trust

PMC Funds

RBS Asset Management

### Russell Investment Company

### SCS Financial Services LLC

### SEI

### The Vanguard Group

### UBS

## Taft-Hartley

Greater PA Regional Council  
of Carpenters

Newspaper Guild International Pension

Plumbers and Pipefitters Local #421

Roofers & Waterproofers Local #30

San Francisco Culinary Pension Fund

Southwest Ohio Regional Council  
of Carpenters

Teamsters Local #557 Pension Fund

## Nuclear Decommissioning/VEBA

Arizona Public Service

Connecticut Yankee

Dominion Resources

Duke Energy

Entergy

FPL Group

Georgia Power

Maine Yankee

Portland General

Sempra Energy

Vermont Yankee Nuclear Power

Xcel Energy

Yankee Atomic

**Bold indicates Focus Growth clients.**

It is not known whether the listed clients approve or disapprove of the adviser or the advisory services provided. Delaware Investments does not use performance-based criteria to determine which clients are included on the list.

## Delaware Investments: Shared values, shared resources



Our structure combines the entrepreneurial spirit of a small firm with the shared and deep resources of a large organization, which allows investment teams to focus on investing.

### Independent investing:

Regardless of location, our teams focus on what they do best, select investments for clients' accounts.

### Shared resources:

Our comprehensive infrastructure provides the investment teams with a wealth of support and distribution capabilities.

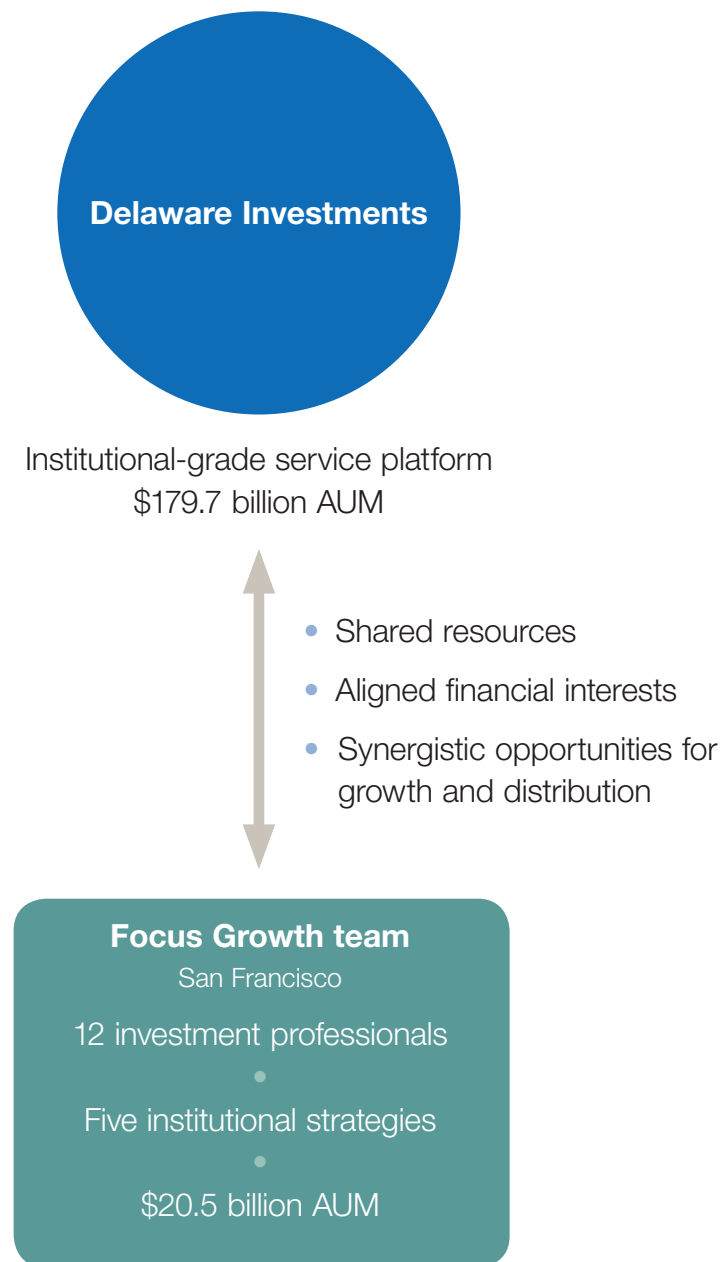
### Ownership interest:

A long-term incentive plan provides investment teams with equity stakes in the company.

# Delaware Investments team operating structure

Delaware Investments

As of June 30, 2013



## A “win-win”:

Access to the resources and scale of a large firm,  
while fostering the investment autonomy and  
entrepreneurial structure of a boutique



# Firm overview

Delaware Investments

June 30, 2013

## Investment teams

### Growth equities (\$20.5 billion\*)

#### Focus Growth team (San Francisco)

Large-Cap	Mid-Cap	Select 20	All-Cap	Global
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### Value equities (\$14.7 billion\*)

#### Large Cap Value team (Philadelphia)

Large-Cap – Focus

#### Real Estate Securities team (Philadelphia)

U.S. Real Estate Securities

#### Small, Mid Cap Value team (Philadelphia)

Mid-Cap                      Small-Cap

### Core equities (\$2.3 billion\*)

#### Core team (Philadelphia)

Large-Cap	Small-Cap	Socially Responsible
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### Global/International equities (\$12.3 billion\*)

#### Emerging Markets team (Boston)

Emerging Markets

#### Real Estate Securities team (Philadelphia)

Global Real Estate Securities

#### International Value Equity team (Boston)

Global Value                      International Value

### Fixed income securities (\$129.9 billion\*)

#### Fixed Income team (Philadelphia)

Intermediate	Corporate Bond	Tax-exempt	Cash / Enhanced Cash
Core	Long Duration	Tax-managed	Limited Term/LT Multisector
Core Plus	High Yield	Mortgage-backed	Floating Rate Multisector
Multisector	Convertibles	Asset-backed/TALF	Inflation Protected
International	Private Placements	Insurance	Government Quality

\*Assets under management as of June 30, 2013. Includes all assets managed in this style, including institutional separate accounts, institutional mutual funds, retail mutual funds, and managed accounts. Institutional assets total \$50.4 billion. Does not include certain assets under advisement and model sponsors, with which total Delaware assets are US\$185.0 billion.

\$4.4 billion of the International assets is currently sub-advised by Mondrian Investment Partners Limited (formerly Delaware International Advisers Ltd.)

Delaware Investments is the marketing name for Delaware Management Holdings, Inc. and its subsidiaries. Institutional advisory services are provided by Delaware Investment Advisers (DIA), a series of Delaware Management Business Trust (DMBT). DMBT is a U.S. registered investment adviser offering a comprehensive array of diversified investment management strategies across all major asset classes.

# Relationship summary

Stanislaus County ERA

As of August 31, 2013

Relationship inception . . . . .	August 18, 2006
Investment style . . . . .	Large-Cap Growth
Benchmark . . . . .	Russell 1000 Growth

Financials

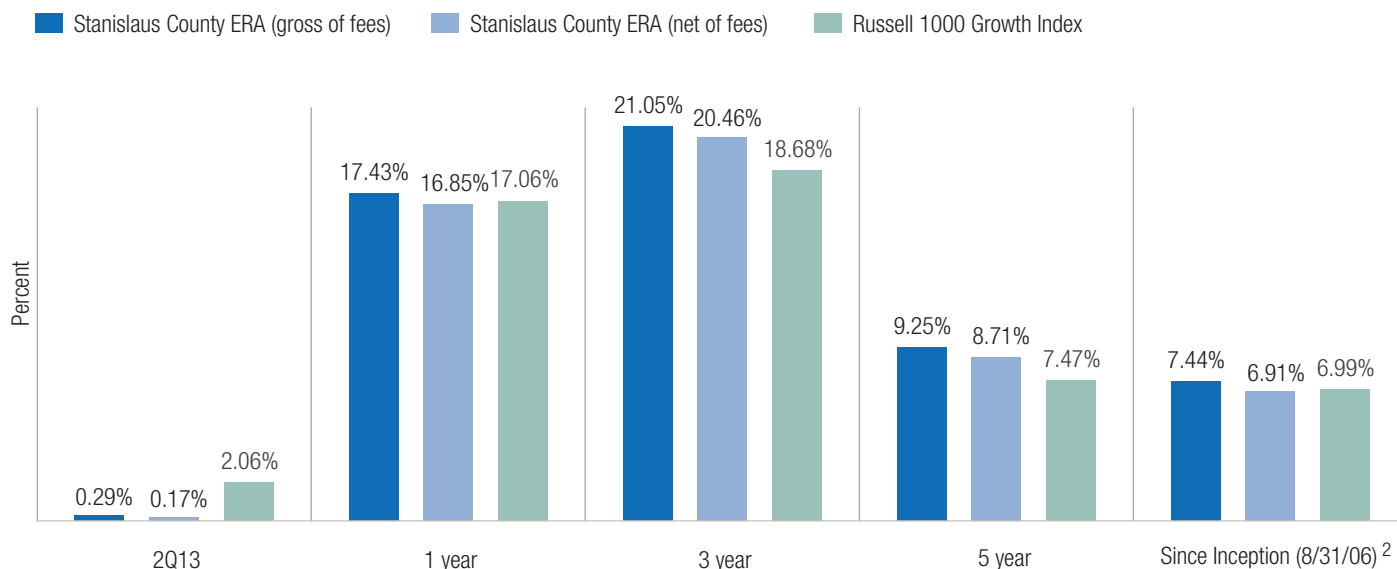
Initial investment . . . . .	\$104,130,987
Net contributions/withdrawals . . . . .	(\$37,500,272)
Net portfolio gain/loss . . . . .	\$63,354,557
Current portfolio value . . . . .	\$129,985,272

# Performance

Stanislaus County ERA

For periods ended June 30, 2012

## Returns<sup>1</sup>



## Top five contributors to relative performance

Name	Sector	Contribution %
PRICELINE.COM	CONSUMER DISCRETIONARY	0.55
CME GROUP - CLASS A	FINANCIAL SERVICES	0.47
VISA - CLASS A	FINANCIAL SERVICES	0.29
LIBERTY INTERACTIVE - CLASS A	CONSUMER DISCRETIONARY	0.23
INTERCONTINENTALEXCHANGE	FINANCIAL SERVICES	0.22

## Bottom five contributors to relative performance

ALLERGAN	HEALTHCARE	-1.08
TERADATA	TECHNOLOGY	-0.44
WALGREEN	CONSUMER STAPLES	-0.42
QUALCOMM	TECHNOLOGY	-0.38
INTUIT	TECHNOLOGY	-0.32

<sup>1</sup> Performance results are presented after the deduction of Delaware Investments investment advisory fees. Management fees and any other expenses incurred in the management of the account will reduce your return.

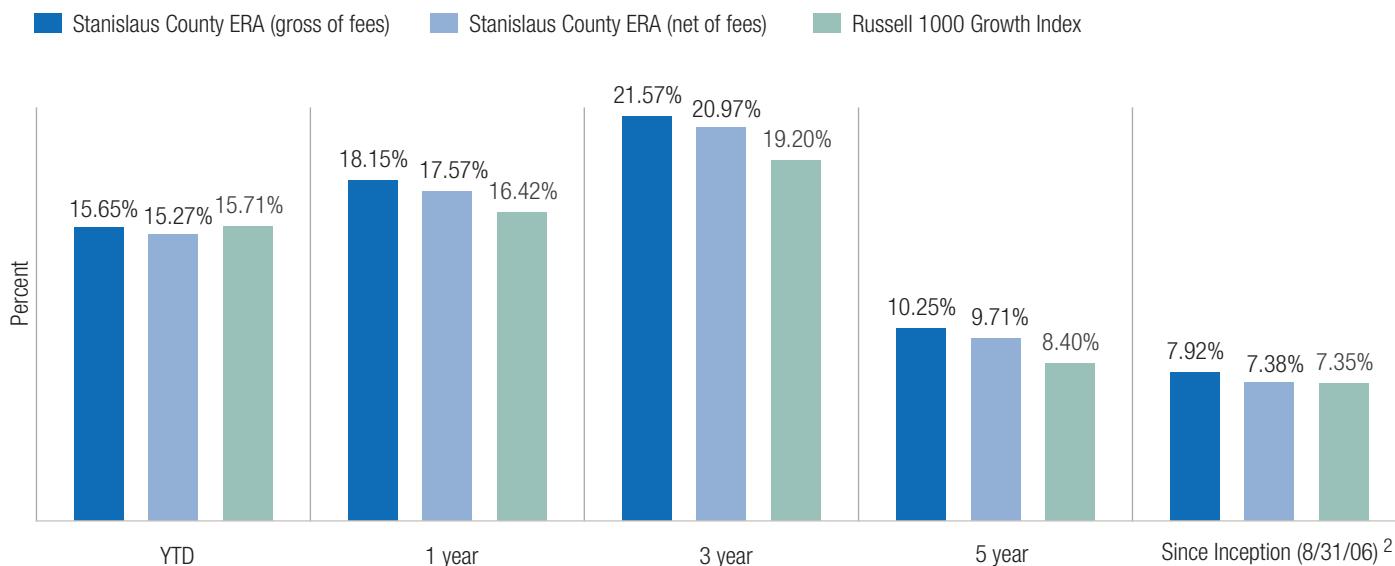
<sup>2</sup> Performance is calculated as of first full month following inception.

# Performance

Stanislaus County ERA

For periods ended August 31, 2013

## Returns<sup>1</sup>



## Top five contributors to relative performance

Name	Sector	Contribution %
CELGENE	HEALTHCARE	1.32
PRICELINE.COM	CONSUMER DISCRETIONARY	0.97
INTERCONTINENTALEXCHANGE	FINANCIAL SERVICES	0.71
EOG RESOURCES	ENERGY	0.67
WALGREEN	CONSUMER STAPLES	0.53

YTD

## Bottom five contributors to relative performance

CROWN CASTLE INTERNATIONAL	TECHNOLOGY	-0.91
TERADATA	TECHNOLOGY	-0.60
ALLERGAN	HEALTHCARE	-0.59
VERIFONE SYSTEMS	TECHNOLOGY	-0.56
MICROSOFT	TECHNOLOGY	-0.45

<sup>1</sup> Performance results are presented after the deduction of Delaware Investments investment advisory fees. Management fees and any other expenses incurred in the management of the account will reduce your return.

<sup>2</sup> Performance is calculated as of first full month following inception.

# Portfolio holdings

Stanislaus County ERA

As of August 31, 2013

## Technology 31.79

<i>Russell 1000 Growth</i>	22.36
QUALCOMM	4.76
Crown Castle International	4.68
Adobe Systems	4.32
Google - Class A	3.73
Microsoft	3.41
Intuit	3.00
Teradata	2.62
Apple	2.39
VeriSign	2.18
VeriFone Systems	0.70

## Financial Services 19.50

<i>Russell 1000 Growth</i>	8.03
Visa - Class A	5.72
MasterCard - Class A	5.23
IntercontinentalExchange	3.32
Progressive	2.95
CME Group - Class A	2.28

## Consumer Discretionary 17.97

<i>Russell 1000 Growth</i>	22.53
priceline.com	4.17
Liberty Interactive - Class A	4.15
L Brands	3.35
eBay	2.92
NIKE - Class B	2.16
Sally Beauty Holdings	1.22

## Healthcare 12.90

<i>Russell 1000 Growth</i>	11.90
Celgene	4.84
Allergan	3.61
Novo Nordisk ADR - Class B	2.55
Perrigo	1.90

## Energy 10.97

<i>Russell 1000 Growth</i>	4.82
EOG Resources	6.18
Kinder Morgan	4.59
Kinder Morgan Warrants	0.20

## Consumer Staples 3.98

<i>Russell 1000 Growth</i>	10.81
Walgreen	3.98

## Materials & Processing 2.15

<i>Russell 1000 Growth</i>	5.29
Syngenta ADR	2.15

## Cash 0.74

Holdings are current as of the day indicated and subject to change.



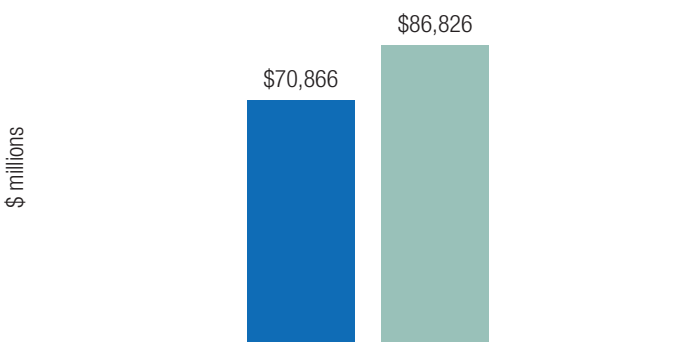
# Portfolio characteristics\*

Stanislaus County ERA

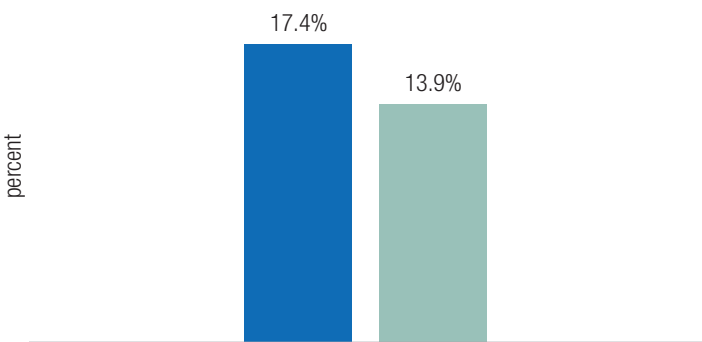
As of August 31, 2013

Stanislaus County ERA      Russell 1000 Growth Index

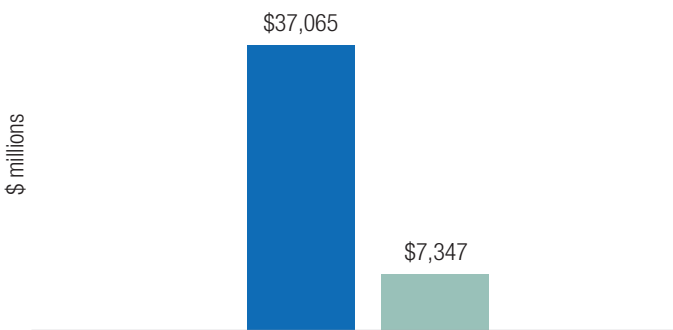
Weighted-average market capitalization



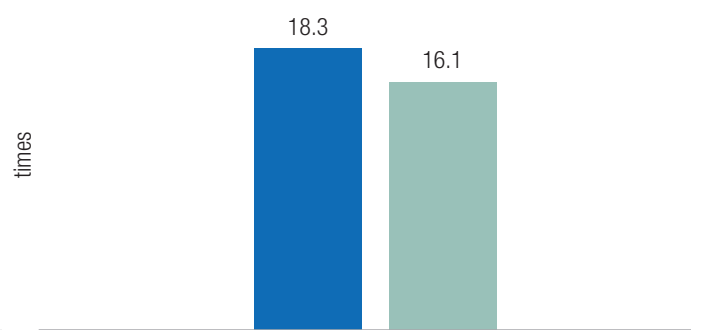
Five-year EPS growth rate



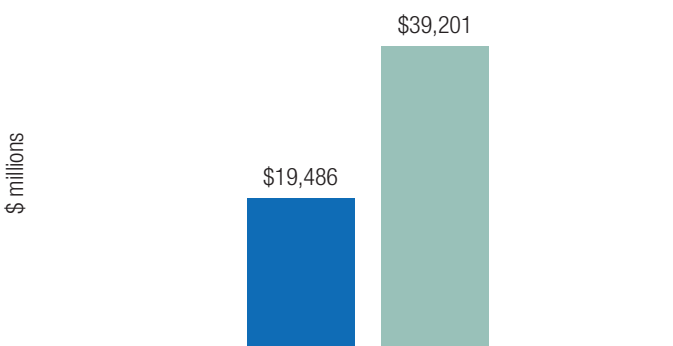
Median market capitalization



Price/earnings (weighted-average next 12 months)



Weighted-average revenues



Turnover (12 months trailing): **22.66%**

\*Characteristics are current as of the day indicated and subject to change.

# Philosophy

Focus Growth Equity investment management

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## Our philosophy

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We are growth investors. We believe that attractive returns can be realized by maintaining a [concentrated](#) portfolio of companies that we believe have enhanced business models, strong cash flows, and the opportunity to generate [consistent, long-term](#) growth of [intrinsic business value](#).

## Our strengths

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- [Differentiated growth philosophy](#), emphasizing intrinsic business value and cash economics
- [Concentrated portfolio](#) construction [reflects conviction](#) rather than benchmark
- Stable, veteran team with [high level of accountability](#) and [peer scrutiny](#)
- Flat team structure — [all team members are analysts](#) first and foremost
- [Entrepreneurial boutique structure](#) and [significant personal stakes](#) in products managed
- Performance-driven investment culture [limits asset capacity](#) in all products

Because the strategy expects to hold a concentrated portfolio of a limited number of securities, the strategy's risk is increased because each investment has a greater effect on the account's overall performance.

# Focus Growth Equity team

Focus Growth Equity investment management

As of June 30, 2013

## Our team

	Industry experience	Portfolio management	Analysis	Trading
Jeff Van Harte	32 years	●	●	
Chris Bonavico	25	●	●	
Ken Broad	18	●	●	
Dan Prislin	20	●	●	
Chris Ericksen	19	●	●	
Patrick Fortier	18	●	●	
Greg Heywood	20	●	●	
Van Tran	16	●	●	
Ian Ferry	7	●	●	
Lisa Hansen	32			●
Deborah Sabo	19			●
Kevin Brown (Investment Specialist)	18			

# Product structure

Focus Growth equity team

## One Team, One Philosophy

- Concentrated portfolios
- Long-term investment horizon
- Intrinsic value analysis

### Small-Mid Cap Growth – Focus

*Market cap range: <\$5B at purchase to \$10-12B*

#### Primary managers

Chris Bonavico  
Ken Broad

### Large Cap Growth

*Market cap range: >\$3B*

#### Primary managers

Jeff Van Harte  
Chris Bonavico  
Chris Ericksen  
Dan Prislin

### Select 20 Growth

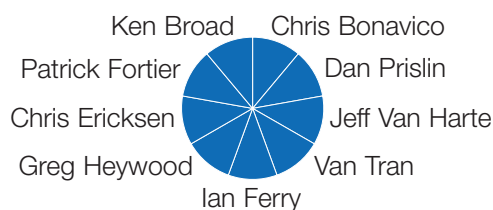
#### Primary managers

Jeff Van Harte  
Ken Broad  
Chris Bonavico  
Dan Prislin

- Most concentrated product: 20 stocks or fewer
- Managed by four most seasoned portfolio managers
- Most opportunistic orientation

### All Cap Growth

- Most diversified product: typically 40-60 stocks
- Sleeve weightings important for signaling degree of conviction



### Focus Global Growth

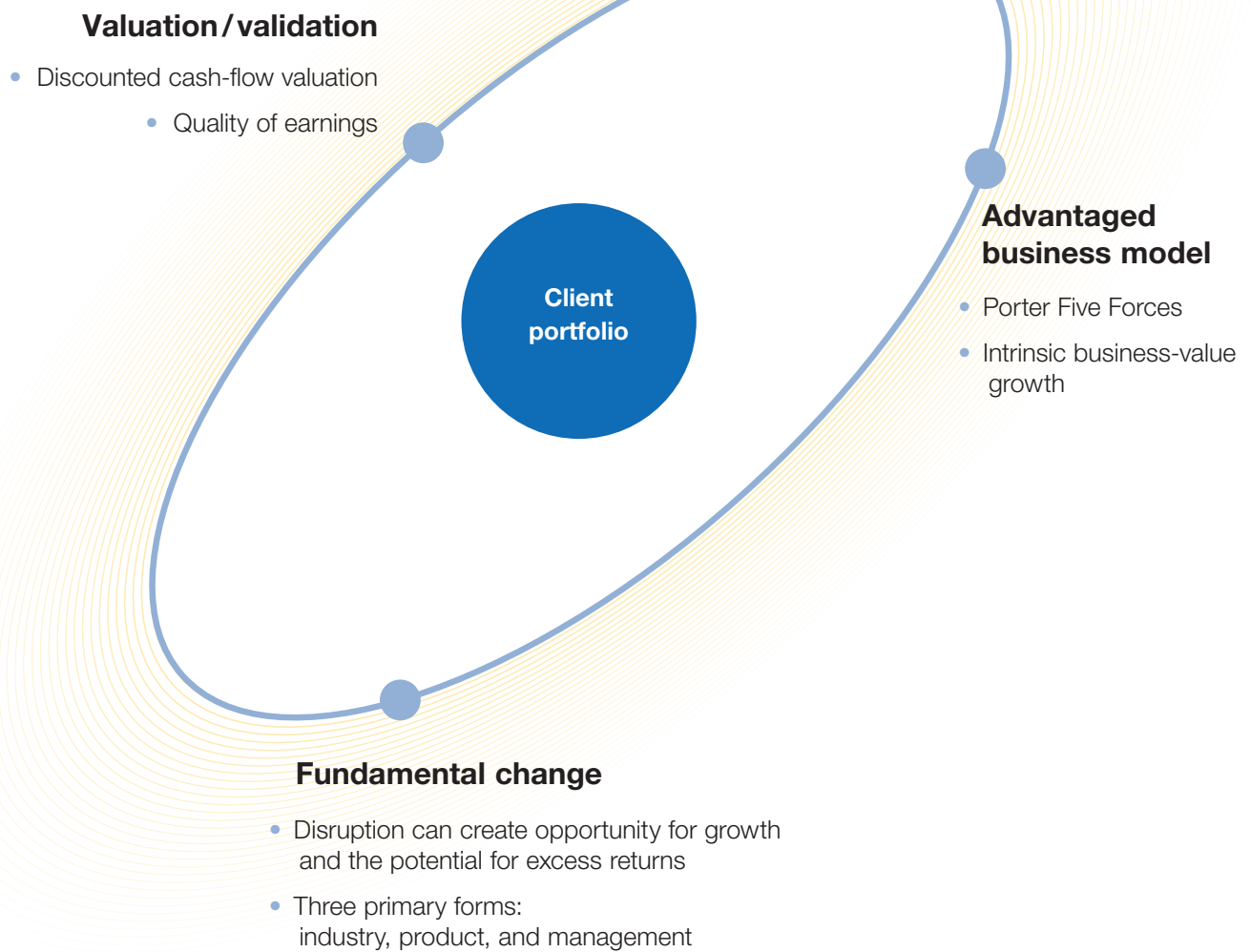
*Market cap range: >\$1B*

#### Primary managers

Greg Heywood  
Patrick Fortier  
Chris Bonavico

# Focus Growth Equity investment process

Focus Growth Equity investment management





# Investment process

Focus Growth Equity investment management

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## Idea sourcing

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- Rely primarily on qualitative idea generation (make little use of quantitative screens)
- Well-defined investment criteria preclude most companies from consideration
- Continuous pressure from new-idea pipeline

## Fundamental change

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- Disruption creates opportunity for growth and excess returns
- Three primary forms: industry, product, and management

## Advantaged business model

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- Seek strong barriers to entry and sustainable competitive advantage
- Returns on invested capital must be forecast to substantially exceed cost of capital
- Evaluate from a business owner's perspective

## Valuation/validation

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- Discounted cash-flow (DCF) analysis based on conservative projections of cash economics and risk-adjusted discount rate
- Seeking attractive absolute, not relative valuations
- Accounting earnings must reconcile with cash economics

## Portfolio construction

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- Concentrated portfolio: typically 25-35 holdings
  - high-return/low-risk positions at 4+%
  - moderate-return/low-risk positions at 3%-4%
  - high-return/high-risk positions at 2%-3%
  - maximum weight is typically 8%
- Seeks sector and industry diversification
  - Less than 20% non U.S.
- Low turnover: 25%-35% expected in most years
- Cash policy limit is 10% (typically 2–3%)

## Sell discipline

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- Better idea emerges from research “bench”
- Unexpected, negative fundamental change
- Valuation becomes stretched
- Portfolio construction considerations

# Team biographies

## Delaware Focus Growth Equity

### Jeffrey S. Van Harte, CFA

*Chief Investment Officer*

INDUSTRY EXPERIENCE: 32 YEARS

2005 – Present Delaware Investments

1980 – 2005 Transamerica Investment  
Management

California State University, Fullerton, BA

### Christopher J. Bonavico, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 25 YEARS

2005 – Present Delaware Investments

1993 – 2005 Transamerica Investment  
Management

1988 – 1993 Salomon Brothers

University of Delaware, BS

### Kenneth F. Broad, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 18 YEARS

2005 – Present Delaware Investments

2000 – 2005 Transamerica Investment  
Management

1994 – 2000 Franklin Templeton Group

1988 – 1992 KPMG Peat Marwick

Colgate University, BA

University of California, Los Angeles, MBA

### Daniel J. Prislin, CFA

*Senior Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 20 YEARS

2005 – Present Delaware Investments

1998 – 2005 Transamerica Investment  
Management

1994 – 1998 Franklin Templeton Group

University of California, Berkeley, BS and MBA

### Christopher M. Ericksen, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 19 YEARS

2005 – Present Delaware Investments

2004 – 2005 Transamerica Investment  
Management

1994 – 2004 Goldman Sachs

Carnegie Mellon University, BS

### Patrick G. Fortier, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 18 YEARS

2005 – Present Delaware Investments

2000 – 2005 Transamerica Investment  
Management

1995 – 2000 Olde Equity Research

University of Kentucky, BBA

### Gregory M. Heywood, CFA

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 20 YEARS

2005 – Present Delaware Investments

2004 – 2005 Transamerica Investment  
Management

2003 – 2004 Wells Capital Management

1996 – 2003 Montgomery Asset Management

1994 – 1996 Globalvest Management

University of California, Berkeley, BA and MBA

### Van Tran

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 16 YEARS

2005 – Present Delaware Investments

2000 – 2005 Transamerica Investment  
Management

1999 – 2000 PaineWebber

1996 – 1999 CIBC Oppenheimer

University of California, San Diego, BS

### Ian D. Ferry

*Portfolio Manager / Analyst*

INDUSTRY EXPERIENCE 7 YEARS

2011 – present Delaware Investments

2010 – 2011 Fidelity

2005 – 2008 Harbourvest Partners

2004 – 2005 Houlihan, Lokey, Howard & Zukin

Tulane University, BS

Wharton, University of Pennsylvania, MBA

### Kevin J. Brown

*Senior Investment Specialist*

INDUSTRY EXPERIENCE 18 YEARS

2006 – Present Delaware Investments

2003 – 2006 Merrill Lynch

2000 – 2003 Credit Suisse First Boston

1999 – 2000 Donaldson, Lufkin & Jenrette

1997 – 1999 JP Morgan

1995 – 1997 Robertson Stephens

University of California, Berkeley, BA

University of California, Los Angeles, MBA

### Lisa L. Hansen

*Senior Trader*

INDUSTRY EXPERIENCE 32 YEARS

2005 – Present Delaware Investments

1997 – 2005 Transamerica Investment  
Management

1983 – 1997 Husic Capital Management

University of California, Santa Cruz, BS

### Deborah Sabo, CMT

*Senior Trader*

INDUSTRY EXPERIENCE 19 YEARS

2005 – Present Delaware Investments

2003 – 2005 Morgan & Company

2002 – 2003 Husic Capital Management

1999 – 2001 Robertson Stephens

1996 – 1999 Deutsche Bank

1994 – 1996 Merrill Lynch

University of Pittsburgh, BA

# Composite statistics and performance

December 31, 2012

## Composite statistics and performance

Period end	Delaware Large-Cap Growth	Delaware Large-Cap Growth	Russell 1000 Growth Index return	Internal dispersion	Standard deviation (3 year annualized)		Number of portfolios	Composite size (\$mm)	Percentage of firm assets
	Equity return gross-of-fees	Equity return net-of-fees			Composite	Russell 1000 Growth Index			
2012	17.1%	16.6%	15.3%	0.2%	15.3%	15.9%	49	10,981.3	6.0%
2011	8.9%	8.4%	2.6%	0.1%	17.2%	18.0%	49	9,159.6	5.4%
2010	14.9%	14.4%	16.7%	0.2%	n/a	n/a	52	8,279.1	11.0%
2009	44.0%	43.5%	37.2%	0.6%	n/a	n/a	54	7,474.1	12.0%
2008	-42.6%	-42.9%	-38.4%	0.3%	n/a	n/a	62	6,119.0	12.5%
2007	13.6%	13.2%	11.8%	0.3%	n/a	n/a	58	10,585.2	13.5%
2006	3.0%	2.6%	9.1%	0.3%	n/a	n/a	62	11,015.5	11.9%
2005	15.3%	14.8%	5.3%	n/a	n/a	n/a	47	7,862.3	10.4%
2004	3.9%	3.4%	6.3%	n/a	n/a	n/a	<5	131.1	0.2%
2003	24.8%	24.3%	29.8%	n/a	n/a	n/a	5	482.9	1.2%

## Performance disclosures: Large-Cap Growth Equity composite

Delaware Investments claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with GIPS standards. Delaware Investments has been independently verified for the period from January 1, 2001 through December 31, 2010. The verification report is available upon request.

Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

Delaware Investments, a member of Macquarie Group, is the marketing name for Delaware Management Holdings, Inc. and its subsidiaries. Delaware Management Business Trust ("DMBT") is a U.S. registered investment advisor offering a comprehensive array of diversified investment management strategies across all major asset classes. Policies for valuing portfolios, calculating performance and preparing compliant presentations are available upon request. A complete list and description of Delaware Investments composites is available upon request.

The Delaware Large-Cap Growth Equity composite emphasizes long-term ownership of dominant companies which are taking advantage of fundamental change to drive growth in their intrinsic business value. This composite was created in 2000. In April 2005, responsibility for Large-Cap Growth Equity investment management was assumed by a new team. Composite returns are derived from all discretionary fee paying accounts. Performance results are shown as total returns, net of dividend withholding taxes, assume reinvestment of dividends and capital gains as well as no reductions for taxes, are presented before and after the deduction of Delaware Investments investment advisory fees, and are calculated in U.S. dollars. Delaware Investments investment advisory fees are described in Part II of our Form ADV. The Delaware Large-Cap Growth Equity fee schedule is as follows: first \$25 million, 0.75%; next \$25 million, 0.65%; next \$50 million, 0.55%; next \$200 million, 0.45%; amounts over \$300 million, 0.40%. Some clients may utilize a performance-based fee, therefore actual fees paid may be higher or lower than the maximum fixed fee. Management fees, and any other expenses incurred in the management of the account, will reduce your return. After inclusion of management fees, annualized performance for the periods of 1 year, 5 years, and 10 years through December 31, 2012, would have been 16.6%, 3.5%, and 7.3%, respectively. The actual fee schedule may vary. On January 1, 2006, the firm was redefined to reflect the consolidation of DMBT and DCM (formerly Delaware Capital Management, Inc.). This firm redefinition was completed in order to provide a more meaningful representation of how the firm is held out to clients or potential clients. The percentage of firm assets for 2005 and prior were restated in conjunction with the redefinition of the Firm. Internal dispersion is calculated using the asset-weighted standard deviation of the annual returns of all the portfolios that were included in the composite for the entire year. Internal dispersion is only shown if the composite has at least six accounts that were managed for the full calendar year. The performance data presented here should not be taken as any guarantee or other assurance as to future results.

The benchmark for the composite is the Russell 1000 Growth Index. The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Because the strategy expects to hold a concentrated portfolio of a limited number of securities, the strategy's risk is increased because each investment will have a greater effect on the strategy's overall performance.

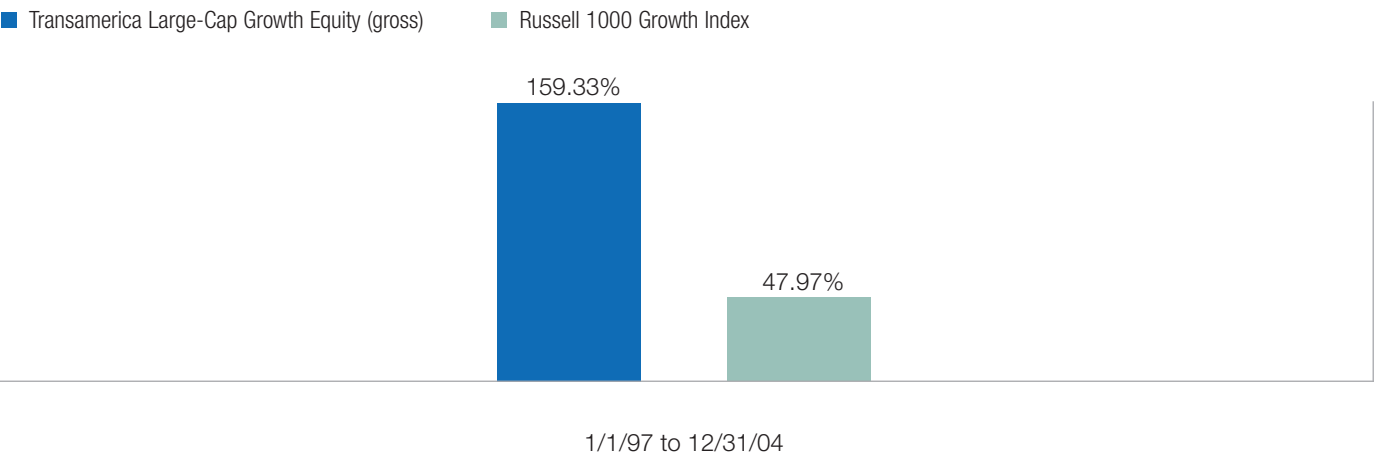
The information presented is available for institutional one-on-one presentations only. It is not intended and should not be construed to be a presentation of information concerning any U.S. mutual fund.

# Performance (supplemental)

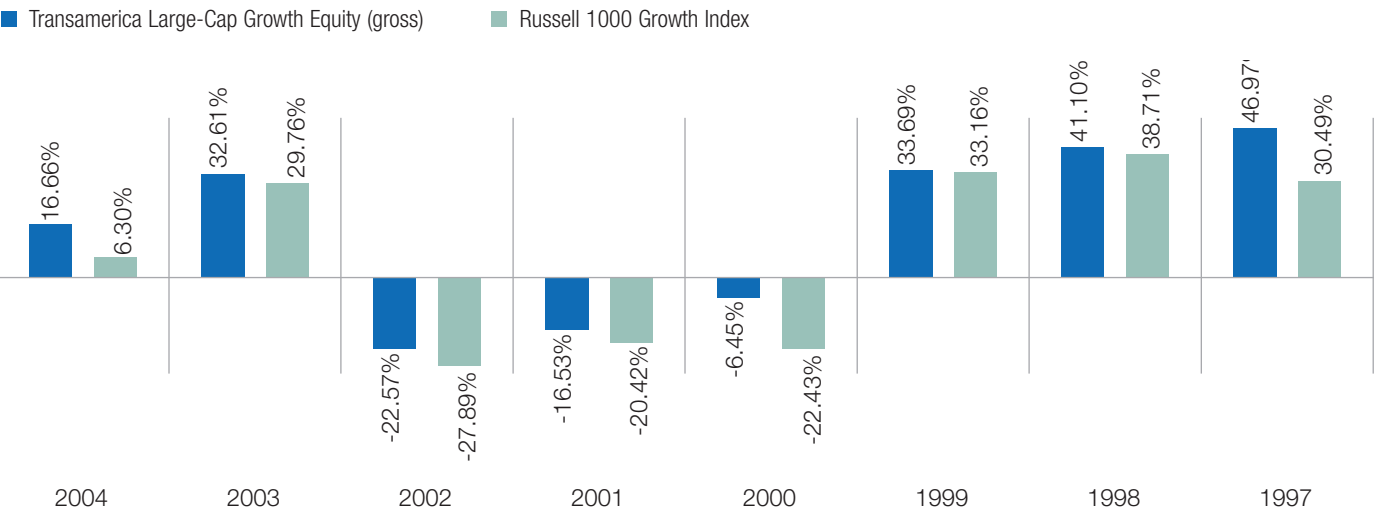
Transamerica Large-Cap Growth Composite

Source: PSN

## Cumulative performance of the Delaware Investments® Focus Growth Equity Team for period 1/1/97 through 12/31/04 while managing Transamerica's Large-Cap Growth product



## Calendar year returns



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Presented as supplemental performance information consistent with GIPS® standards, which standards can be found at [www.cfainstitute.org](http://www.cfainstitute.org).

Although presented in a manner consistent with applicable requirements, by providing this performance information Delaware is not claiming ownership of the performance record and acknowledges that the performance presented represents the track record generated by this portfolio management team while employed by Transamerica Investment Management, LLC. Past performance is no guarantee of future results.

# MARKET UPDATE

FOR AUGUST 2013

## U.S. EQUITY

Global stocks closed lower in the month of August as investors weighed a continuation of a rise in interest rates, economic data reports released, and the uncertainty of military action in Syria.

In the U.S. markets, Growth outperformed Value and Large caps outperformed Small caps. The Russell 1000 Growth Index was down -1.7% and the Russell 1000 Value Index down by -3.8% for the month. The Russell 2000 Growth Index was down -1.95% and the Russell 2000 Value was down -4.4%. The S&P 500 Index ended the month lower by -2.9%.

The S&P 500 Index has a trailing P/E ratio of 17.8, a forward 12-month estimate P/E ratio of 14.9 and dividend yield of 2.1%.

Corporate merger highlights for the month included: Jarden will acquire Yankee Candle for \$1.75 billion; Hub International will be acquired by Hellman & Friedman in a deal that values the insurance broker at \$4.4 billion; Spectra Energy Corp. will sell its remaining U.S. transmission, storage and liquid assets to Spectra Energy Partners for close to \$10 billion; Pioneer Natural Resources will buy Pioneer Southwest Energy Partners at roughly \$1.5 billion; The CEO of the Dole Food Company will buy full control of the fruit and vegetable producer for about \$1.6 billion; Rockwell Collins will buy the Carlyle Group's Arinc Inc. for \$1.4 billion; Baidu will buy mobile game operator 91 Wireless Websoft from NetDragon for \$1.85 billion; Statoil sold stakes in North Sea oil fields to Austria's OMV in a deal worth \$2.65 billion; Edwards Group will be acquired by Atlas Copco for up to \$1.2 billion; Blackstone will sell its 50% stake in London's Broadgate complex for more than \$2.7 billion; Biotech drugmaker Amgen will acquire cancer drug maker Onyx Pharmaceuticals for about \$10.4 billion; ING sold its South Korean insurance unit for \$1.7 billion to MBK Partners; and, TMS International will sell itself to the Pritzker family in a deal valued at \$1 billion.

## FIXED INCOME

U.S. gross domestic product grew at a 2.5% annual rate in the April-June period – much faster than originally estimated (+1.7%) – bolstering the case for the Fed to wind down a major economic stimulus program.

The Labor Dept. reported that the unemployment rate fell to 7.4% in July, its lowest level since December 2008. The Commerce Department's gauge of core inflation ticked up to 1.2% in June from 1.1% in May.

The yield on the bellwether 10-year Treasury note rose to 2.78% at the close of August from its July close at 2.59%. At month-end, the 30-year bond yield was 3.70% with the 3-month T-bill at 0.03%. The Barclays Capital US Aggregate Index was down -0.51% in August. Emerging Markets bonds were the weakest sector, down -4.1%, as measured by the JPM GBI-EM Global Diversified Unhedged Index.

The minutes of the FOMC's July 30-31 policy setting meeting revealed broad support for the start of tapering later this year. However, the minutes also showed less conviction that economic growth is on track as expected in the second half of the year.

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

## THE GOOD

\*The Institute of Supply Management reported that its index of factory activity rose to 55.4 in July from 50.9 in June.

\*The Commerce Dept. reported that consumer spending rose +0.5% in June, lifted by automobile purchases and higher gasoline prices.

\*The Institute of Supply Management reported that its services index rose to 56.0 from 52.2 in June, the fastest expansion since February.

\*The Commerce Dept. reported that the U.S. trade gap deficit plunged -22.4% to \$34.2 billion in June from a revised \$44.1 billion in May.

\*U.S. exports rose +2.2% to a record \$191.2 billion in June, the largest increase in nine months.

\*The Commerce Dept. reported that retail sales excluding car, gasoline and building materials rose +0.5% in July, the largest gain since December 2012.

\*The U.S. Dept. of Labor reported that the core producer price index, which excludes food and energy, increased +0.1% in July.

\*U.S. consumer prices rose by +0.2% in July as measured by CPI.



\*For the first time since 2009, previously occupied U.S. homes are selling at a pace associated with a healthy market. Sales jumped +6.5% in July to a seasonally adjusted annual rate of 5.4 million.

\*The index of leading indicators rose +0.6% last month to a reading of 96.0 suggesting economic growth is picking up after a weak start to the year.

\*The S&P Case-Shiller 20-city index showed that June home prices were up +12.1% from a year earlier and all 20 cities in the index posted gains on a monthly basis.

\*The Conference Board reported that its index of consumer attitudes rose to 81.5. from 80.3 in July, beating economists' expectations for 79.0.

## THE NOT SO GOOD

\*The Commerce Dept. reported that construction spending dropped -0.6% in June and was the biggest decline since January.

\*IDC expects global IT spending to grow +4.6% to \$2 trillion in 2013, down from its previous forecast of +4.9% and below growth of +5.6% in 2012.

\*U.S. wholesalers cut their inventories in June for a third straight month even as their sales rose again. The decline shows that many remain cautious and are keeping stockpiles lean, despite three months of solid sales growth.

\*U.S. worker productivity accelerated to a positive +0.9% annual pace between April and June but the trend remains sub-par.

\*The U.S. ran a budget deficit of \$98 billion in July and the Congressional Budget Office forecast that the annual budget deficit will be \$670 billion when the budget year ends September 30- far below last year's \$1.09 trillion.

\*Sales of new single-family homes in the U.S. fell sharply in July to their lowest level in nine months, casting a shadow over the country's housing recovery.

\*The Commerce Dept. reported that durable goods orders dropped -7.3% in July, the largest decline since August 2012.

\*U.S. consumer spending rose a weak +0.1% in July.

\*Personal income edged up just +0.1% in July as employee compensation slipped -0.2%, its first decline since January.

## NON-U.S. MARKETS

Britain's economy expanded +0.7% in the second quarter, faster than expected and on par with Germany.

The Bank of England kept its key lending rate at a record low 0.5% where it has stood since March 2009.

The eurozone recession appears to have ended. GDP grew +0.3% in the second quarter following six consecutive declines. However, the country data revealed quite a disparity among the members. Portugal (+1.1%), Germany (+0.7%) and Finland (+0.7%) were the best performers. The worst were Cyprus (-1.4%), Italy (-0.2%) and the Netherlands (-0.2%).

The European Central Bank held its key rates steady in August but said it was cautious about the eurozone's recovery and stood ready to cut rates again if the situation deteriorated.

Japan's gross domestic product grew at an annualized rate of +2.6% in the 2<sup>nd</sup> quarter, much weaker than the +3.6% growth forecast by economists.

China's exports and imports both increased in July, beating expectations and easing concerns over the slowdown in the world's second largest economy.

India's economy grew by +4.4% in the first three months of the fiscal year, the slowest quarterly expansion since 2009.

Brazil's central bank will launch a \$60 billion program designed to prop up its currency which has fallen in recent days to its lowest level since 2008.

Non-U.S. equities were lower in August. The MSCI ACWI Ex-U.S. was down -1.4 % (US dollars) for the month. International Developed stocks (EAFE) were down -1.3% while Emerging Markets lost -1.7%.

## CONCLUSION

The number of people aged 18-31, living at home rose to 36% last year, the highest percentage in the last four decades. One outcome of the recent financial crisis is a number of recent shifts in social trends:

- The challenges of college grads getting decent jobs and hence living at home
- Working people putting off retirement
- High unemployment of people aged 18-31
- The lowering of family formations

## Monthly Market Update

### US Equity Indices Trailing Performance

Annualized Performance to Date: Ending Aug-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Russell 3000 Index	-2.79	1.21	16.95	20.32	18.66	18.87	7.63	5.86	7.60
Russell TOP 200 Index	-2.80	0.75	15.76	17.75	18.39	18.31	7.02	5.24	6.50
Russell TOP 200 Growth Index	-1.62	0.95	14.16	13.51	16.58	18.86	8.18	7.17	6.57
Russell TOP 200 Value Index	-3.91	0.55	17.32	22.11	20.21	17.72	5.77	3.30	6.44
S&P 500 Index	-2.90	0.67	16.15	18.70	18.35	18.40	7.32	5.52	7.12
Russell 1000 Index	-2.76	1.05	16.69	19.84	18.58	18.74	7.59	5.82	7.50
Russell 1000 Growth Index	-1.71	1.55	15.71	16.43	16.90	19.20	8.40	7.34	7.24
Russell 1000 Value Index	-3.79	0.51	17.53	23.10	20.17	18.20	6.69	4.17	7.61
Russell Mid-Cap Index	-2.66	1.74	18.89	24.91	18.96	19.73	9.08	7.32	10.14
Russell Mid-Cap Growth Index	-1.90	2.93	19.52	23.97	17.69	20.27	9.14	7.95	9.42
Russell Mid-Cap Value Index	-3.50	0.43	18.01	25.37	19.97	19.14	8.87	6.36	10.37
Russell 2000 Index	-3.18	3.07	20.03	26.27	19.66	20.50	7.98	6.41	8.76
Russell 2000 Growth Index	-1.95	4.81	23.85	28.14	20.18	22.59	9.01	8.08	8.84
Russell 2000 Value Index	-4.42	1.31	16.36	24.38	19.12	18.36	6.88	4.66	8.55
DJ US REIT Index	-6.86	-7.79	-0.84	-0.54	9.08	12.54	4.56	2.17	9.32
DJ-UBS US Commodity Index TR	3.40	-0.13	-6.16	-10.60	-10.87	-0.02	-7.10	-2.66	2.41
DJ-UBS US Gold Index TR	6.33	0.06	-17.10	-17.76	-13.33	3.07	10.05	11.06	13.05

Down  
Month  
Equities

### Non-US Indices Trailing Performance

Annualized Performance to Date: Ending Aug-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
MSCI AC World Index ex USA	-1.36	-1.45	3.26	13.47	5.75	7.41	1.94	2.51	8.81
MSCI AC World Index	-2.04	-0.28	9.23	16.11	11.37	12.33	4.39	3.96	7.93
MSCI EAFE Index	-1.31	0.24	8.54	19.17	9.42	9.78	2.11	1.87	8.05
MSCI Emerging Markets Index	-1.68	-6.88	-9.94	0.87	-2.36	1.41	2.20	5.43	12.53
ML Global Government Bond Ex. U.S. Index	-0.07	1.56	-8.08	-11.62	-5.94	-0.39	4.03	4.92	5.13
Euro	-0.70	1.74	0.02	4.61	-4.30	1.23	-2.18	0.42	1.85
Japanese Yen	0.24	2.91	-11.87	-20.20	-11.72	-5.06	2.04	2.58	1.75
UK Pound Sterling	2.04	2.03	-4.83	-2.61	-2.53	0.22	-3.24	-2.91	-0.22

Non-US  
better  
than US

### US Fixed Income Indices Trailing Performance

Annualized Performance to Date: Ending Aug-13	1 Month	3 Months	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
ML 3-month T-bill Total Return Index	0.00	0.02	0.05	0.11	0.08	0.10	0.22	1.33	1.71
BarCap Aggregate Bond Index	-0.51	-1.92	-2.81	-2.47	1.57	2.58	4.93	5.11	4.77
ML U.S. Corp/Govt Master Index	-0.62	-2.34	-3.30	-2.82	1.83	2.67	4.97	5.13	4.75
ML U.S. Corporate Master Index	-0.67	-2.70	-3.25	-1.35	4.18	4.35	7.22	6.01	5.56
BarCap Mortgage Backed Securities Index	-0.29	-1.33	-2.38	-2.37	0.60	2.04	4.53	4.99	4.78
ML U.S. High Yield Master Index	-0.61	-1.43	2.73	7.44	10.21	9.52	11.05	8.55	8.80
JPM EMBI Global	-2.68	-6.70	-9.83	-5.45	3.75	4.98	7.83	7.38	8.79

Bonds  
down  
again

A

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING AUG 31, 2013**  
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

ASSET CLASS	MARKET VALUE	PERCENT	POLICY	
			TARGET	RANGE
DOMESTIC EQUITIES	718,039,701	45.9%	41.9%	36.9% - 46.9%
INTERNATIONAL EQUITIES	273,989,959	17.5%	19.0%	16.0% - 22.0%
FIXED INCOME	509,388,647	32.5%	35.6%	31.9% - 39.3%
DIRECT LENDING	29,690,768	1.9%	2.0%	1.0% - 3.0%
REAL ESTATE SECURITIES	21,008,368	1.3%	1.5%	1.0% - 2.0%
SECURITY LENDING	(705,164)	0.0%	0.0%	0.0% - 0.0%
CASH (equity managers only)	14,431,879	0.9%	0.0%	0.0% - 3.0%
TOTAL PORTFOLIO	1,565,844,158	100.0%	100.0%	

	CURRENT	TARGET
DODGE & COX - LARGE CAP VALUE	10.6%	9.8%
BlackRock - R1000 VALUE INDEX	6.4%	6.0%
DELAWARE - LARGE CAP GROWTH	8.3%	7.3%
BlackRock - R1000 GROWTH INDEX	5.4%	5.0%
CAPITAL PROSPECTS	5.5%	4.5%
LEGATO CAPITAL	5.1%	4.0%
BNY - S&P 500 INDEX	5.4%	5.3%
LSV ASSET MGMT - INTL EQ	8.6%	9.5%
PYRAMIS - INTL EQ	9.0%	9.5%
DODGE & COX FIXED INCOME	25.6%	28.1%
PIMCO	6.9%	7.5%
MEDLEY	1.1%	1.0%
RAVEN	0.6%	1.0%
WHITE OAK	0.2%	0.0%
BlackRock - US REAL ESTATE SECURITIES INDEX	1.3%	1.5%
SECURITY LENDING	0.0%	0.0%
TOTALS	100.0%	100.0%

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING AUG 31, 2013**  
PRELIMINARY BASIS

**GROWTH OF ASSETS AND CHANGES IN ALLOCATION**

ASSET CLASS MARKET VALUE	CURRENT MONTH	PRIOR MONTH	% CHANGE *	PRIOR YEAR	% CHANGE *
DOMESTIC EQUITIES	718,039,701	739,240,684	-2.87%	619,154,024	15.97%
INTERNATIONAL EQUITIES	273,989,959	279,231,693	-1.88%	234,698,413	16.74%
FIXED INCOME	509,388,647	512,655,071	-0.64%	532,839,159	-4.40%
DIRECT LENDING	29,690,768	26,990,553	10.00%	0	N/A
REAL ESTATE	21,008,368	22,542,159	-6.80%	20,447,680	2.74%
SECURITIES LENDING	(705,164)	(731,475)	3.60%	(2,318,615)	69.59%
CASH (equity managers only)	14,431,879	11,794,195	22.36%	14,808,600	-2.54%
TOTAL PORTFOLIO	1,565,844,158	1,591,722,881	-1.63%	1,419,629,262	10.30%
ASSET ALLOCATION (ACTUAL)		- \$26 MM		+ \$146 MM	
DOMESTIC EQUITIES	45.86%	46.44%	-0.6%	43.61%	2.2%
INTERNATIONAL EQUITIES	17.50%	17.54%	0.0%	16.53%	1.0%
FIXED INCOME	32.53%	32.21%	0.3%	37.53%	-5.0%
DIRECT LENDING	1.90%	1.70%	0.2%	0.00%	1.9%
REAL ESTATE SECURITIES	1.34%	1.42%	-0.1%	1.44%	-0.1%
SECURITY LENDING	-0.05%	-0.05%	0.0%	-0.16%	0.0%
CASH (equity managers only)	0.92%	0.74%	0.2%	1.04%	-0.1%
TOTAL PORTFOLIO	100.0%	100.0%	0.0%	100.0%	0.0%

\* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

Page 2

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING AUG 31, 2013**  
PRELIMINARY BASIS

**MANAGER ALLOCATION**

ASSET CLASS	MARKET VALUE	PERCENT	POLICY TARGET	RANGE
<b>DOMESTIC EQUITIES</b>				
DODGE & COX - LARGE CAP VALUE	165,510,113	10.6%	9.8%	7.8% - 11.8%
BLACKROCK - R1000 VALUE INDEX	99,551,570	6.4%	6.0%	5.0% - 7.0%
DELAWARE - LARGE CAP GROWTH	129,985,273	8.3%	7.3%	5.8% - 8.8%
BLACKROCK - R1000 GROWTH INDEX	84,306,285	5.4%	5.0%	4.0% - 6.0%
CAPITAL PROSPECTS - SMALL CAP VALUE	85,512,243	5.5%	4.5%	3.5% - 5.5%
LEGATO CAPITAL - SMALL CAP GROWTH	79,507,597	5.1%	4.0%	3.0% - 5.0%
BNY - S&P 500 INDEX	85,295,520	5.4%	5.3%	4.3% - 6.3%
TOTAL DOMESTIC EQUITIES	729,668,601	46.6%	41.9%	
<b>FIXED INCOME</b>				
DODGE & COX	401,138,418	25.6%	28.1%	25.6% - 30.6%
PIMCO	108,250,229	6.9%	7.5%	6.0% - 9.0%
TOTAL FIXED INCOME	509,388,647	32.5%	35.6%	
<b>DIRECT LENDING</b>				
MEDLEY CAPITAL	17,055,976	1.1%	1.5%	1.0% - 3.0%
RAVEN CAPITAL	9,862,672	0.6%	0.5%	0.0% - 2.0%
WHITE OAK	2,772,120	0.2%	0.0%	0.0% - 2.0%
TOTAL DIRECT LENDING	29,690,768	1.9%	2.0%	
<b>INTERNATIONAL INVESTMENTS</b>				
LSV ASSET MGMT	135,312,068	8.6%	9.5%	8.0% - 11.0%
PYRAMIS	141,480,870	9.0%	9.5%	8.0% - 11.0%
TOTAL INTERNATIONAL EQUITIES	276,792,939	17.7%	19.0%	
<b>REAL ESTATE SECURITIES</b>				
BlackRock - US RE SECURITIES INDEX	21,008,368	1.3%	1.5%	1.0% - 2.0%
TOTAL SPECIAL SITUATIONS	21,008,368	1.3%	1.5%	0.0% - 3.0%
<b>SECURITIES LENDING</b>	(705,164)	0.0%	0.0%	0.0% - 0.0%
<b>TOTAL StancERA PORTFOLIO</b>	1,565,844,158	100.0%	100.0%	

**STANCERA**  
**MONTHLY PERFORMANCE REVIEW**  
**PERIOD ENDING AUG 31, 2013**  
**PRELIMINARY**

	TOTAL FUND			
	CASH	BONDS	EQUITIES	TOTAL
DOMESTIC EQUITIES				
DODGE & COX - LARGE CAP VALUE	4,983,485		160,526,628	165,510,113
BLACKROCK - R1000 VALUE INDEX	0		99,551,569	99,551,570
DELAWARE - LARGE CAP GROWTH	1,681,019		128,304,254	129,985,273
BLACKROCK - R1000 GROWTH INDEX	0		84,306,285	84,306,285
CAPITAL PROSPECTS - SMALL CAP VALUE	3,089,807		82,422,436	85,512,243
LEGATO CAPITAL - SMALL CAP GROWTH	1,874,360		77,633,238	79,507,597
BNY - S&P 500 INDEX	228		85,295,292	85,295,520
TOTAL DOMESTIC EQUITIES	11,628,900		718,039,701	729,668,601
FIXED INCOME				
DODGE & COX	8,555,017	392,583,401		401,138,418
PIMCO	9,620,475	98,629,753		108,250,229
TOTAL FIXED INCOME	18,175,492	491,213,155		509,388,647
DIRECT LENDING				
MEDLEY	0	17,055,976		17,055,976
RAVEN	0	9,862,672		9,862,672
WHITE OAK	0	2,772,120		2,772,120
TOTAL DIRECT LENDING	0	29,690,768		29,690,768
INTERNATIONAL INVESTMENTS				
LSV ASSET MGMT	530,403		134,781,665	135,312,068
PYRAMIS	2,272,576		139,208,295	141,480,870
TOTAL INTERNATIONAL EQUITIES	2,802,979		273,989,959	276,792,939
REAL ESTATE SECURITIES				
BLACKROCK - US REAL ESTATE SECURITIES INDEX	0		21,008,368	21,008,368
TOTAL SPECIAL SITUATIONS	0		21,008,368	21,008,368
SECURITIES LENDING	(705,164)			(705,164)
TOTAL STANCERA PORTFOLIO	31,902,207	520,903,923	1,013,038,029	1,565,844,158
	2.0%	33.3%	64.7%	100.0%

4

**STANCERA**  
MONTHLY PERFORMANCE REVIEW  
PERIOD ENDING AUG 31, 2013  
PRELIMINARY BASIS

CURRENT PERFORMANCE

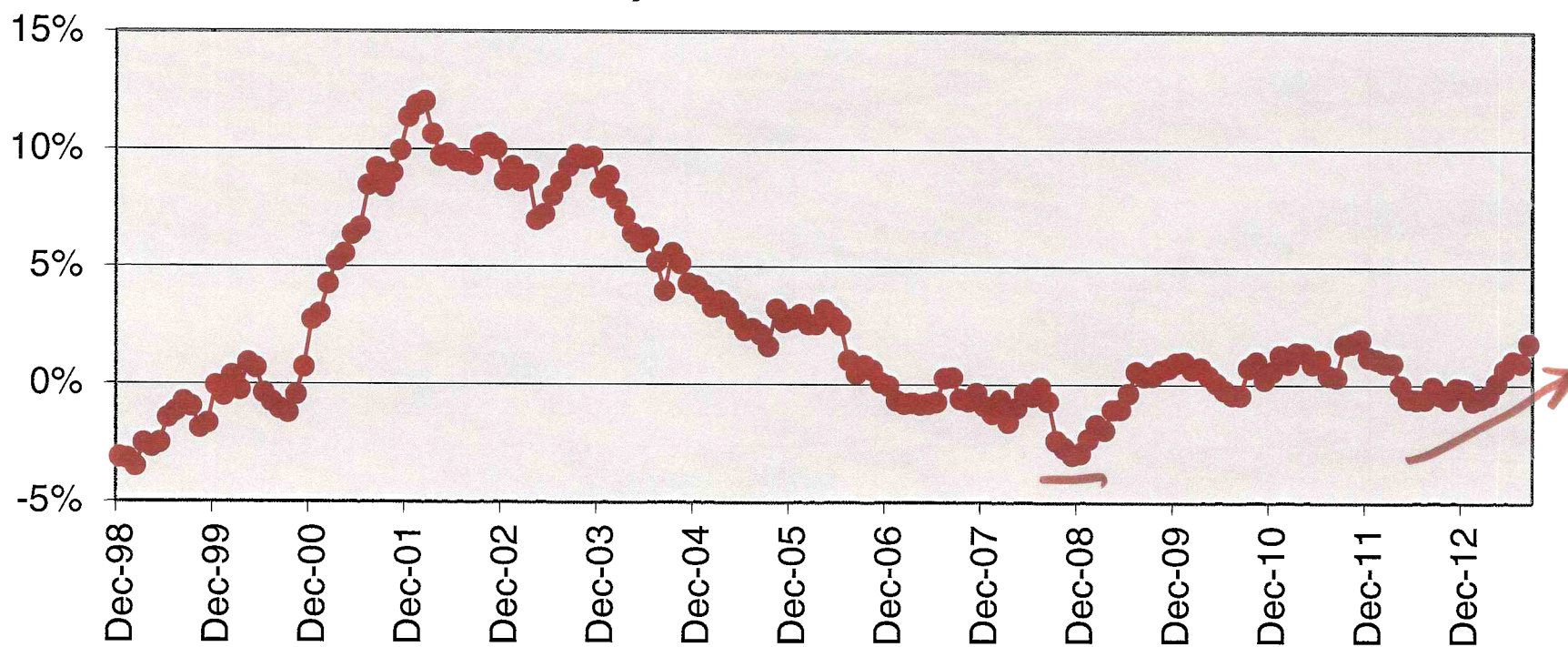
	MARKET VALUE	AUG	ALPHA	JULY	ALPHA	FISCAL YTD	ALPHA
<b>DOMESTIC EQUITIES</b>							
DODGE & COX - LARGE CAP VALUE	160,526,628	-2.86%	0.93%	5.61%	0.21%	2.59%	1.18%
RUSSELL 1000 VALUE		-3.79%		5.40%		1.41%	
BLACKROCK - R1000 VALUE INDEX	99,551,569	-3.77%	0.02%	5.40%	0.00%	1.42%	0.01%
RUSSELL 1000 VALUE		-3.79%		5.40%		1.41%	
DELAWARE - LARGE CAP GROWTH	128,304,254	-0.75%	0.96%	5.19%	-0.11%	4.40%	0.95%
RUSSELL 1000 GROWTH		-1.71%		5.30%		3.45%	
BLACKROCK - R1000 GROWTH INDEX	84,306,285	-1.73%	-0.02%	5.30%	0.00%	3.48%	0.03%
RUSSELL 1000 GROWTH		-1.71%		5.30%		3.45%	
CAPITAL PROSPECTS	82,422,436	-3.02%	1.40%	7.03%	0.60%	3.80%	2.07%
RUSSELL 2000 VALUE		-4.42%		6.43%		1.73%	
LEGATO CAPITAL	77,633,238	-0.96%	0.99%	6.87%	-0.69%	5.84%	0.39%
RUSSELL 2000 GROWTH		-1.95%		7.56%		5.46%	
BNY - S&P 500 INDEX	85,295,292	-2.90%	0.00%	5.09%	0.00%	2.04%	0.00%
S&P 500		-2.90%		5.09%		2.04%	
<b>TOTAL DOMESTIC EQUITY</b>	718,039,701	-2.31%	0.40%	5.71%	0.23%	3.27%	0.73%
Russell 3000 Index		-2.79%		5.48%		2.54%	
<b>FIXED INCOME</b>							
DODGE & COX	401,138,418	-0.38%	0.13%	0.53%	0.39%	0.15%	0.52%
BARCLAYS US AGGREGATE BOND		-0.51%		0.14%		-0.37%	
PIMCO	108,250,229	-0.71%	-0.20%	0.03%	-0.11%	-0.68%	-0.31%
BARCLAYS US AGGREGATE BOND		-0.51%		0.14%		-0.37%	
<b>TOTAL FIXED INCOME</b>	509,388,647	-0.45%	0.06%	0.42%	0.28%	-0.03%	0.34%
BARCLAYS US AGGREGATE BOND		-0.51%		0.14%		-0.37%	
<b>DIRECT LENDING</b>							
MEDLEY CAPITAL	17,055,976	0.00%	-0.75%	1.55%	0.80%	1.55%	0.05%
CUSTOM 9% ANNUAL		0.75%		0.75%		1.50%	
RAVEN CAPITAL	9,862,672	1.13%	0.38%	0.16%	-0.59%	1.13%	-0.37%
CUSTOM 9% ANNUAL		0.75%		0.75%		1.50%	
WHITE OAK	2,772,120	0.00%	-0.75%			0.00%	-0.75%
CUSTOM 9% ANNUAL		0.75%				0.75%	
<b>TOTAL DIRECT LENDING</b>	29,690,768	0.38%	-0.37%	1.04%	0.29%	1.42%	-0.08%
CUSTOM 9% ANNUAL		0.75%		0.75%		1.50%	
<b>INTERNATIONAL EQUITY</b>							
LSV ASSET MGMT	134,781,665	-1.61%	-0.23%	5.10%	0.70%	3.41%	0.45%
MSCI ACWI ex-US		-1.38%		4.40%		2.96%	
PYRAMIS	139,208,295	-2.16%	-0.78%	4.34%	-0.06%	2.08%	-0.88%
MSCI ACWI ex-US		-1.38%		4.40%		2.96%	
<b>TOTAL INTERNATIONAL EQUITY</b>	273,989,959	-1.89%	-0.51%	4.71%	0.31%	2.73%	-0.23%
MSCI ACWI ex-US		-1.38%		4.40%		2.96%	
<b>REAL ESTATE SECURITIES</b>							
BlackRock US RE Index	21,008,368	-6.80%	0.01%	0.74%	-0.01%	-6.12%	-0.02%
DOW JONES US SELECT RE INDEX		-6.81%		0.75%		-6.10%	
<b>SECURITIES LENDING</b>							
BNY MELLON	(705,164)						
<b>CASH and SHORT-TERM INVESTMENTS</b>							
CASH	14,431,879	0.02%	0.00%	0.02%	0.00%	0.04%	0.00%
90-day US Treasury Bill		0.02%		0.02%		0.04%	
<b>Total StanCERA Fund</b>	1,565,844,158	-1.44%	0.28%	3.32%	0.03%	1.83%	0.32%
Policy Index		-1.72%		3.29%		1.51%	
Actuary Rate of Assumption (8.00%)		0.67%	-2.11%	0.67%	2.65%	1.34%	0.49%
Actuary Rate of Inflation (3.50%)		0.29%	-1.73%	0.29%	3.03%	0.58%	1.25%

Once again  
active managers  
outperform on  
relative basis!

5

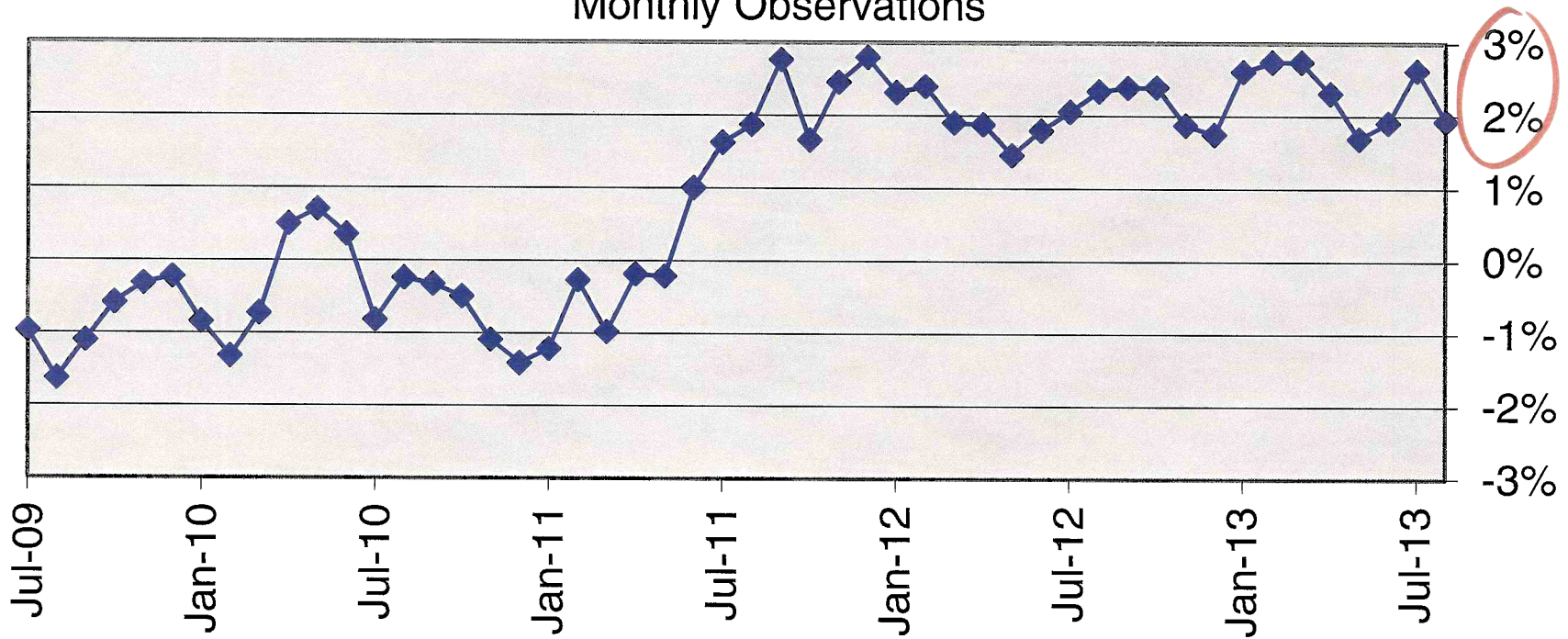


Dodge & Cox Equity  
Rolling 3-Years Annualized Alpha  
Monthly Observations



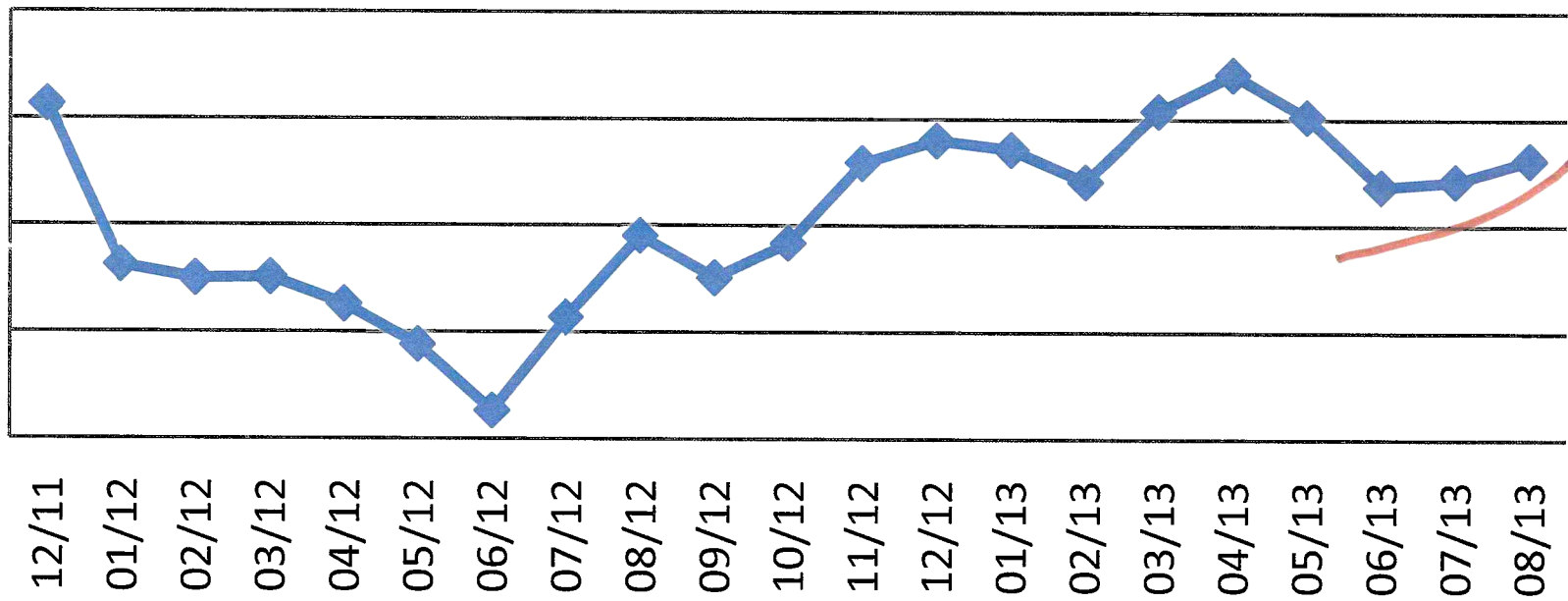


Delaware  
Rolling 3-Years Annualized Alpha  
Monthly Observations



Capital Prospects  
Rolling 3-Year  
Alphas  
Monthly Observations

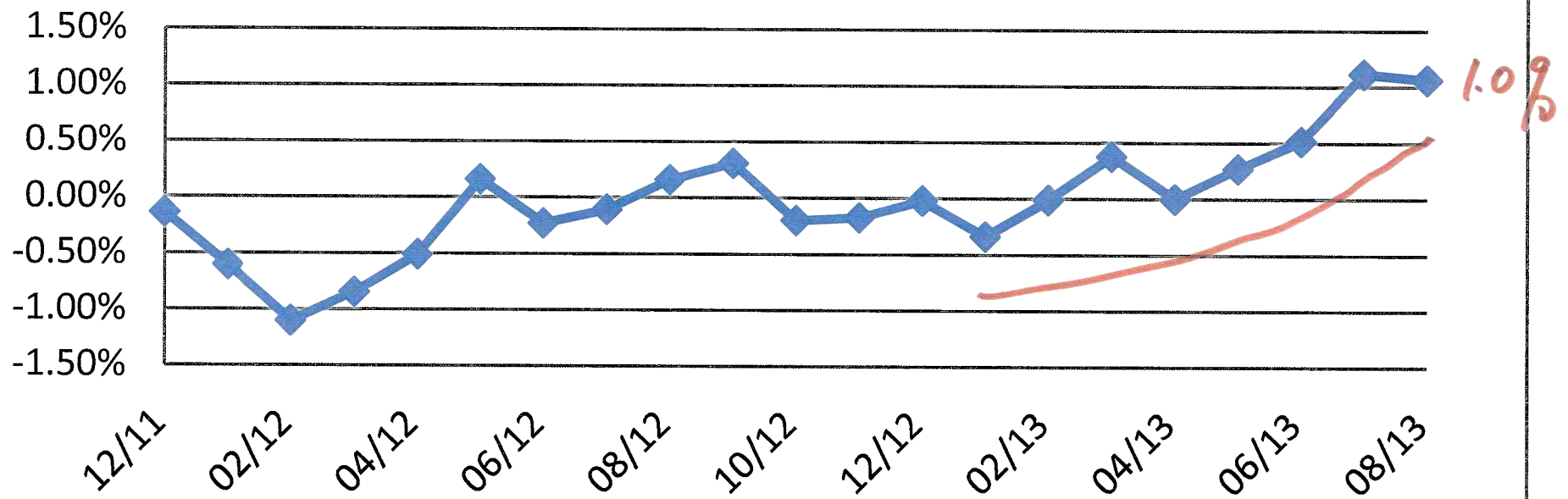
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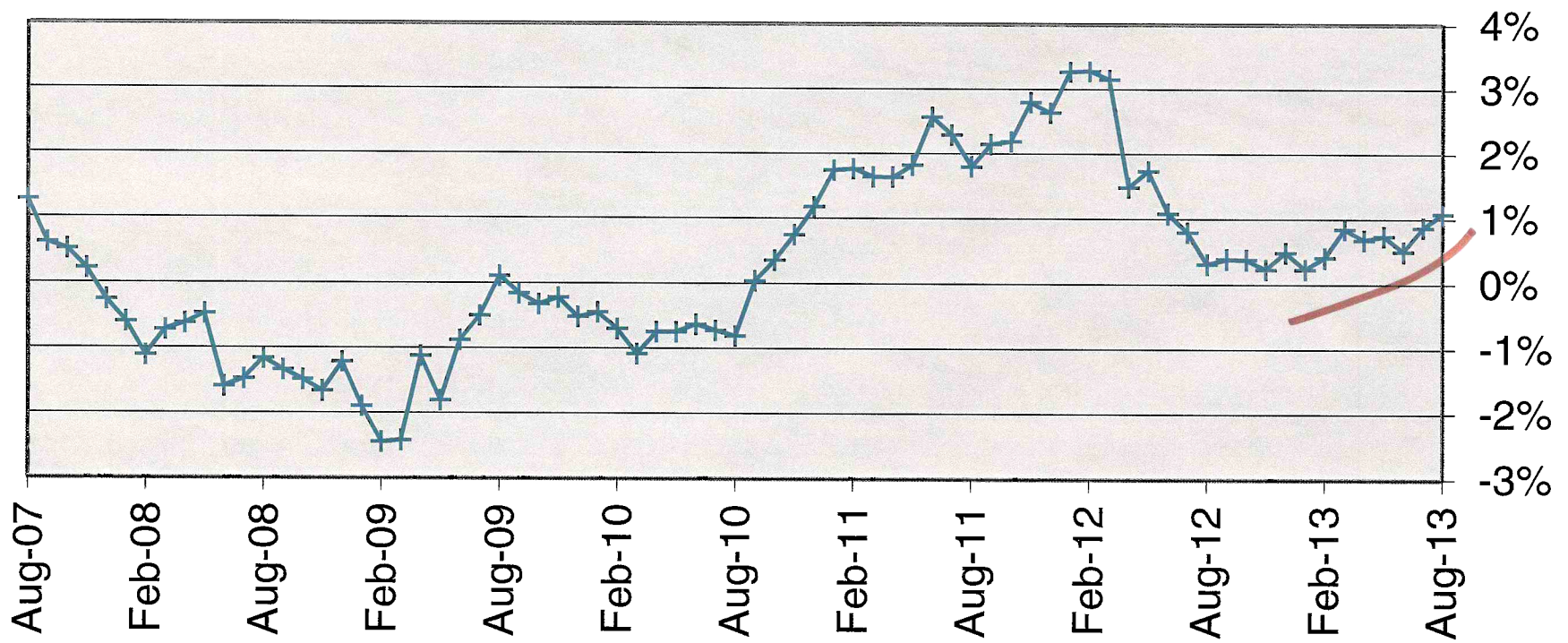
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Legato Rolling  
3-Year Alphas  
Annualized  
Monthly Observations

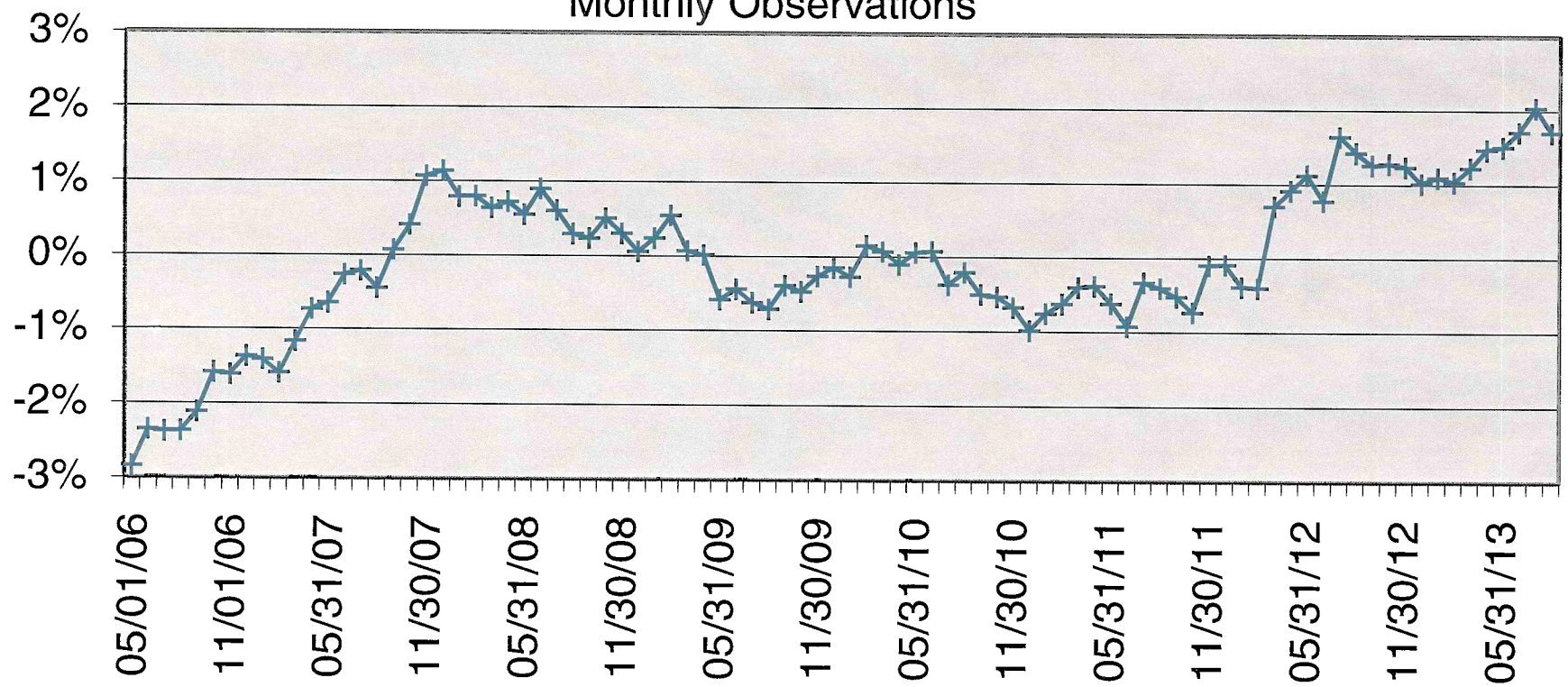


LSV  
Rolling 3-Years Annualized Alpha  
Monthly Observations





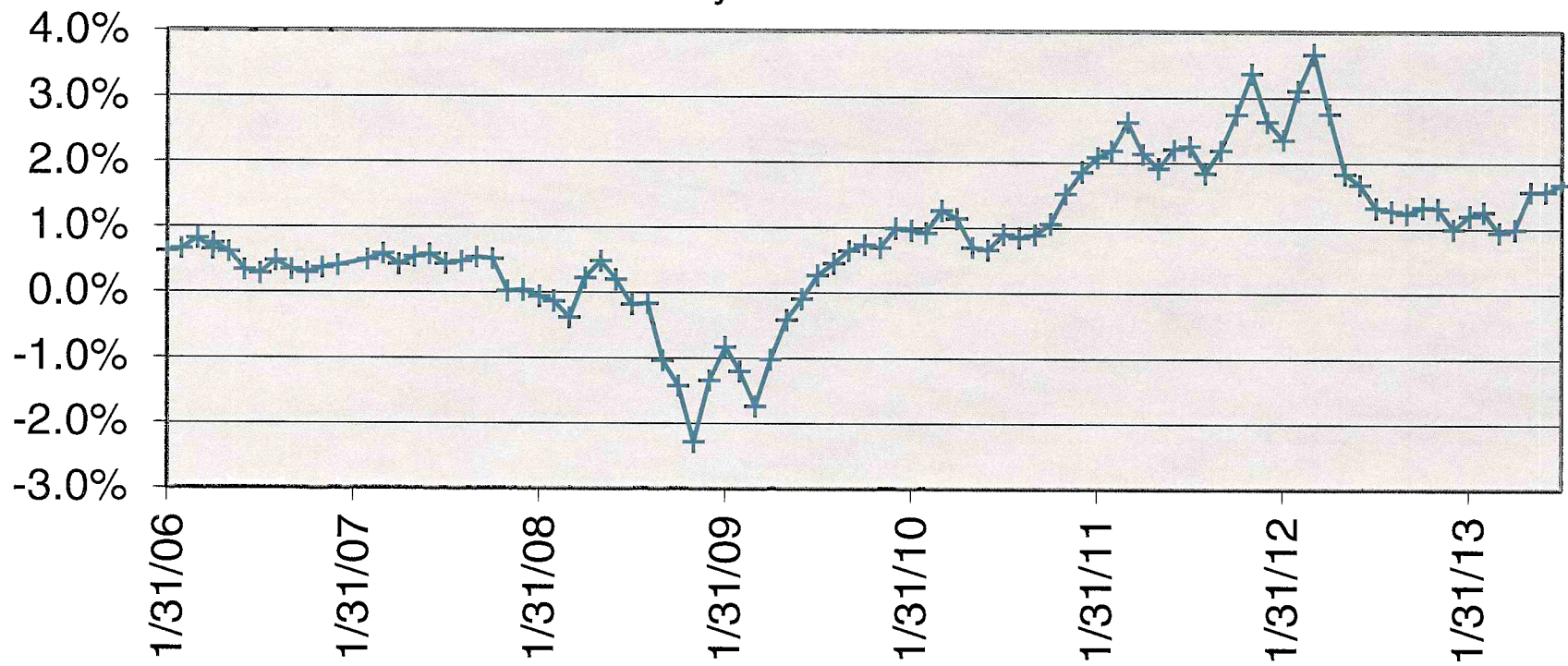
Pyramis (May 2006)  
Rolling 3-Years Annualized Alpha  
Monthly Observations



2%

//

Dodge & Cox Fixed Income  
Rolling 3-Year Alphas Annualized  
Monthly Observations



STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	6,264	\$3,051,888	3.62%	0.19%	487.22	464.9	-4.58%	-8.43%
Microsoft Corp.	MSFT	78,248	\$2,613,495	3.10%	0.17%	33.4	33.03	-1.11%	-4.95%
Google Inc.	GOOG	2,698	\$2,284,700	2.71%	0.15%	846.9	889.07	4.98%	1.13%
INTL Business Machines	IBM	10,546	\$1,922,183	2.28%	0.12%	182.27	192.17	5.43%	1.58%
Coca-Cola Co.	KO	37,097	\$1,416,346	1.68%	0.09%	38.18	38.69	1.34%	-2.51%
Philip Morris Intl.	PM	16,469	\$1,374,192	1.63%	0.09%	83.44	87.78	5.20%	1.35%
Verizon Communications	VZ	27,936	\$1,323,609	1.57%	0.08%	47.38	47.76	0.80%	-3.04%
Pepsico Inc.	PEP	15,015	\$1,197,149	1.42%	0.08%	79.73	80.32	0.74%	-3.11%
QUALCOMM Inc.	QCOM	16,917	\$1,121,274	1.33%	0.07%	66.28	68.58	3.47%	-0.38%
Oracle Corp	ORCL	35,194	\$1,121,274	1.33%	0.07%	31.86	32.46	1.88%	-1.96%
TOP TEN HOLDINGS			\$17,426,109	20.67%	1.11%	Russell 1000 Growth:		3.85%	

Total Portfolio Value  
Total StanCERA Value

**\$84,306,285**  
\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
EXXON MOBIL CORP	XOM	51,969	\$4,529,596	4.55%	0.29%	87.16	88.40	1.42%	-1.82%
GENERAL ELECTRIC CO	GE	123,902	\$2,867,085	2.88%	0.08%	23.14	23.78	2.77%	-0.48%
CHEVRON CORP	CVX	22,898	\$2,757,578	2.77%	0.08%	120.43	124.14	3.08%	-0.16%
PROCTER & GAMBLE CO	PG	32,336	\$2,518,655	2.53%	0.16%	77.89	79.05	1.49%	-1.75%
JOHNSON & JOHNSON	JNJ	28,917	\$2,498,744	2.51%	0.16%	86.41	88.57	2.50%	-0.74%
WELLS FARGO & CO	WFC	57,918	\$2,379,283	2.39%	0.15%	41.08	42.19	2.70%	-0.54%
BERKSHIRE HATHAWAY INC	BRK-B	21,303	\$2,369,327	2.38%	0.06%	111.22	113.54	2.09%	-1.16%
JPMORGAN CHASE & CO	JPM	45,707	\$2,309,596	2.32%	0.06%	50.53	52.59	4.08%	0.83%
PFIZER INC	PFE	77,990	\$2,200,090	2.21%	0.06%	28.21	28.51	1.06%	-2.18%
AT&T INC	T	62,974	\$2,130,404	2.14%	0.14%	33.83	34.32	1.45%	-1.80%
TOP TEN HOLDINGS			\$26,560,359	26.68%	1.25%	Russell 1000 Value		<b>3.24%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$99,551,570**  
\$1,565,844,158



STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000V	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
Hillenbrand, Inc	HI	51,805	\$1,282,684	1.50%	0.08%	0.09%	24.76	27.15	9.65%	5.85%
Belden Inc	BDC	21,107	\$1,197,171	1.40%	0.08%	0.17%	56.72	63.47	11.90%	8.09%
Regal Beloit Corp	RBC	14,767	\$940,635	1.10%	0.06%	0.00%	63.70	64.89	1.87%	-1.94%
Littelfuse, Inc	LFUS	12,751	\$940,635	1.10%	0.06%	0.11%	73.77	78.38	6.25%	2.44%
Amer Equity Invst	AEL	47,483	\$940,635	1.10%	0.06%	0.09%	19.81	20.65	4.24%	0.43%
Hexcel Corp New	HXL	24,041	\$855,122	1.00%	0.05%	0.00%	35.57	37.85	6.41%	2.60%
Polyone Corporation	POL	31,648	\$855,122	1.00%	0.05%	0.00%	27.02	28.08	3.92%	0.12%
A. O. Smith Corp	AOS	20,336	\$855,122	1.00%	0.05%	0.00%	42.05	44.19	5.09%	1.28%
MB Financial, Inc	MBFI	31,683	\$855,122	1.00%	0.05%	0.10%	26.99	27.54	2.04%	-1.77%
Waddell & Reed	WDR	16,161	\$769,610	0.90%	0.05%	0.00%	47.62	50.92	6.93%	3.12%
TOP TEN HOLDINGS			\$9,491,859	11.10%	0.61%	0.56%	Russell 2000 Value:		<b>3.81%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$85,512,243**  
\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000G	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
EOG Resources, Inc.	EOG	51,150	\$8,033,108	6.18%	0.51%	0.47%	157.05	166.44	5.98%	2.13%
Visa Inc. Class A	V	42,625	\$7,434,653	5.72%	0.47%	1.08%	174.42	189.00	8.36%	4.51%
MasterCard Incorporated Class A	MA	11,225	\$6,803,248	5.23%	0.43%	0.84%	606.08	666.41	9.95%	6.11%
Celgene Corporation	CELG	44,925	\$6,288,602	4.84%	0.40%	0.69%	139.98	149.48	6.79%	2.94%
QUALCOMM Incorporated	QCOM	93,350	\$6,187,238	4.76%	0.40%	1.36%	66.28	68.58	3.47%	-0.38%
Crown Castle International Corp.	CCI	87,700	\$6,088,134	4.68%	0.39%	0.24%	69.42	69.86	0.63%	-3.21%
Kinder Morgan, Inc.	KMI	157,140	\$5,960,320	4.59%	0.38%	0.27%	37.93	35.08	-7.51%	-11.36%
Adobe Systems Incorporated	ADBE	122,875	\$5,621,531	4.32%	0.36%	0.11%	45.75	47.76	4.39%	0.55%
priceline.com Incorporated	PCLN	5,775	\$5,420,011	4.17%	0.35%	0.57%	938.53	966.82	3.01%	-0.83%
Liberty Interactive Corporation Class A	LINTA	238,700	\$5,389,846	4.15%	0.34%	0.01%	22.58	23.56	4.34%	0.49%
TOP TEN HOLDINGS			\$63,226,690	48.64%	4.04%	5.64%	Russell 1000 Growth:		3.85%	

Total Portfolio Value  
Total StanCERA Value

**\$129,985,273**  
\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R1000G	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
WELLS FARGO & CO	WFC	160,072	\$6,575,757	3.97%	0.42%	2.40%	41.08	42.19	2.70%	-1.14%
CAPITAL ONE FINANCIAL CORP	COF	92,500	\$5,970,875	3.61%	0.38%	0.50%	64.55	67.49	4.55%	0.71%
COMCAST CORP-CLASS A	CMCSA	135,063	\$5,684,801	3.43%	0.36%	0.10%	42.09	43.97	4.47%	0.62%
MICROSOFT CORP	MSFT	170,000	\$5,678,000	3.43%	0.36%	0.00%	33.40	33.03	-1.11%	-4.95%
MERCK & CO. INC.	MRK	120,000	\$5,674,800	3.43%	0.36%	1.70%	47.29	47.79	1.06%	-2.79%
HEWLETT-PACKARD CO	HPQ	225,005	\$5,026,611	3.04%	0.32%	0.50%	22.34	22.07	-1.21%	-5.06%
GENERAL ELECTRIC CO	GE	210,000	\$4,859,400	2.94%	0.31%	2.90%	23.14	23.78	2.77%	-1.08%
TIME WARNER INC	TWX	80,232	\$4,856,442	2.93%	0.31%	0.70%	60.53	62.56	3.35%	-0.49%
GLAXOSMITHKLINE PLC-SPON ADR	GSK	95,000	\$4,834,550	2.92%	0.31%	0.00%	50.89	51.41	1.02%	-2.82%
NOVARTIS AG-ADR	NVS	66,000	\$4,816,680	2.91%	0.31%	0.00%	72.98	76.20	4.41%	0.57%
TOP TEN HOLDINGS			\$53,977,916	32.61%	3.45%	8.80%	Russell 1000 Growth:		<b>3.85%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$165,510,113**  
\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight R2000G	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
CoStar Group, Inc.	CSGP	7,874	\$1,169,367.74	1.47%	0.07%	0.57%	148.51	167.97	13.10%	8.14%
The Ultimate Software Group, Inc.	ULTI	7,065	\$990,583.65	1.25%	0.06%	0.52%	140.21	145.75	3.95%	-1.01%
Portfolio Recovery Associates, Inc.	PRAA	18,210	\$965,858.40	1.21%	0.06%	0.36%	53.04	58.47	10.24%	5.28%
Semtech Corporation	SMTC	28,168	\$837,152.96	1.05%	0.05%	0.27%	29.72	31.71	6.70%	1.74%
United Natural Foods, Inc.	UNFI	12,977	\$786,795.51	0.99%	0.05%	0.40%	60.63	67.73	11.71%	6.75%
athenahealth, Inc.	ATHN	7,411	\$781,786.39	0.98%	0.05%	0.52%	105.49	112.97	7.09%	2.13%
The GEO Group, Inc.	GEO	24,115	\$752,629.15	0.95%	0.05%	0.13%	31.21	31.98	2.47%	-2.49%
Cepheid	CPHD	20,778	\$743,436.84	0.94%	0.05%	0.32%	35.78	38.16	6.65%	1.69%
Proto Labs, Inc.	PRLB	10,390	\$738,105.60	0.93%	0.05%	0.16%	71.04	72.26	1.72%	-3.24%
MAXIMUS, Inc.	MMS	18,746	\$703,162.46	0.88%	0.04%	0.35%	37.51	39.61	5.60%	0.64%
TOP TEN HOLDINGS			\$ 8,468,878.70	10.65%	0.54%	3.60%	Russell 2000 Growth:		<b>4.96%</b>	

Total Portfolio Value  
Total StanCERA Value

**\$79,507,597**  
\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	8/31/2013 \$ PX	9/15/2013 \$ PX	Position % Change	Relative % Change
Apple Inc.	AAPL	4,884	\$2,379,745	2.79%	0.15%	487.22	464.90	-4.58%	-8.10%
Exxon Mobil Corp	XOM	25,444	\$2,217,684	2.60%	0.14%	87.16	88.40	1.42%	-2.09%
Johnson & Johnson	JNJ	16,287	\$1,407,376	1.65%	0.09%	86.41	88.57	2.50%	-1.02%
General Electric Co	GE	60,820	\$1,407,376	1.65%	0.09%	23.14	23.78	2.77%	-0.75%
Microsoft	MSFT	41,626	\$1,390,317	1.63%	0.09%	33.40	33.03	-1.11%	-4.62%
Chevron Corp	CVX	11,261	\$1,356,199	1.59%	0.09%	120.43	124.14	3.08%	-0.44%
Google Inc.	GOOG	1,581	\$1,339,140	1.57%	0.09%	846.90	889.07	4.98%	1.46%
Procter & Gamble	PG	15,879	\$1,236,785	1.45%	0.08%	77.89	79.05	1.49%	-2.03%
Wells Fargo & Co.	WFC	28,861	\$1,185,608	1.39%	0.08%	41.08	42.19	2.70%	-0.81%
Berkshire Hathaway Inc	BRK-B	10,583	\$1,177,078	1.38%	0.08%	111.22	113.54	2.09%	-1.43%
TOP TEN HOLDINGS			\$15,097,307	17.70%	0.96%	S&P 500 Index:		<b>3.52%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$85,295,520</b>
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\$1,565,844,158

STANCERA  
Price Monitor Position Report

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

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	8/31/2013 \$ PX*	9/15/2013 \$ PX*	Position % Change	Relative % Change
ROYAL DUTCH SHELL	RDS-A	London	48,393	\$3,125,709	2.31%	0.20%	1.30%	64.59	65.49	1.39%	-4.62%
ASTRAZENECA PLC	AZN	London	47,295	\$2,327,368	1.72%	0.15%	0.38%	49.21	50.65	2.93%	-3.09%
BT GROUP PLC	BT	Paris	42,520	\$2,137,931	1.58%	0.14%	0.25%	50.28	55.01	9.41%	3.39%
MAGNA INTERNATIONAL INC	MGA	Canada	26,821	\$2,070,275	1.53%	0.13%	0.11%	77.19	82.05	6.30%	0.28%
ALLIANZ SE	ALV.DE	Germany	18,225	\$1,975,556	1.46%	0.13%	0.40%	108.40	112.75	4.01%	-2.00%
LEGAL & GENERAL GROUP PLC	LGEN.L	Japan	10,358	\$1,934,963	1.43%	0.12%	0.11%	186.80	197.90	5.94%	-0.08%
SANOFI S.A.	SNY	London	39,931	\$1,907,900	1.41%	0.12%	0.71%	47.78	47.96	0.38%	-5.64%
VODAFONE GROUP PUBLIC LTD CO	VOD	London	56,049	\$1,813,182	1.34%	0.12%	0.97%	32.35	33.59	3.83%	-2.18%
NOVARTIS AG	NVS	France	23,732	\$1,731,994	1.28%	0.11%	1.04%	72.98	76.20	4.41%	-1.61%
ENI - ENTE NAZIONALE IDROCARBURI	ENI	Spain	107,051	\$1,691,401	1.25%	0.11%	0.36%	15.80	16.52	4.56%	-1.46%
TOP TEN HOLDINGS				\$20,716,278	15.31%	1.32%	5.63%	MSCI ACWI ex-U.S.		<b>6.02%</b>	

Total Portfolio Value  
Total StanCERA Value

<b>\$135,312,068</b>
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\$1,565,844,158

\*Company quotes are provided directly in USD

STANCERA  
Price Monitor Position Report

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

Company	Symbol	Market	# Shares	\$ Value Position	Weight Manager	Weight StanCERA	Weight ACWI xUS	8/31/2013 PX*	9/15/2013 PX*	Position % Change	Relative % Change
TOYOTA MOTOR CORP	6900643	Hong Kong	35,400	\$2,143,809	1.52%	0.14%	1.02%	60.07	63.40	5.54%	-0.47%
NESTLE SA (REG)	7123870	Switzerland	31,498	\$2,062,995	1.46%	0.13%	1.29%	61.05	62.25	1.97%	-4.05%
HSBC HOLDINGS PLC (UK REG)	540528	London	183,674	\$1,921,271	1.36%	0.12%	1.18%	10.60	11.05	4.25%	-1.77%
SANOFI	5671735	Paris	19,577	\$1,877,005	1.33%	0.12%	0.70%	24.85	24.05	-3.22%	-9.24%
ROYAL DUTCH SHELL PLC CL A(NL)	B09CBL4	Amsterdam	52,805	\$1,705,723	1.21%	0.11%	1.28%	24.49	24.70	0.86%	-5.16%
VODAFONE GROUP PLC	B16GWD5	London	492,638	\$1,572,229	1.11%	0.10%	0.95%	2.41	2.53	4.98%	-1.04%
BAYER AG	5069211	Germany	13,992	\$1,550,995	1.10%	0.10%	0.56%	111.07	111.50	0.39%	-5.63%
UBS AG (REGD)	B18YFJ4	London	78,819	\$1,523,755	1.08%	0.10%	0.43%	19.30	20.91	8.34%	2.32%
LLOYDS BANKING GROUP PLC	870612	London	1,262,703	\$1,417,531	1.00%	0.09%	0.31%	1.13	1.25	10.62%	4.60%
GLAXOSMITHKLINE PLC	925288	London	53,652	\$1,366,086	0.97%	0.09%	0.76%	50.89	51.41	1.02%	-5.00%
TOP TEN HOLDINGS				\$17,141,398	12.12%	1.09%	8.49%	MSCI ACWI ex-US:		6.02%	

Total Portfolio Value  
Total StanCERA Value

**\$141,480,870**  
\$1,565,844,158

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

Enhancing core fixed income allocations

# Stanislaus County Employees' Retirement Association

24 September 2013

Pacific Investment Management  
Company LLC, 840 Newport Center  
Drive, Newport Beach, CA 92660,  
949.720.6000

This material is to be used for one-  
on-one separate account  
presentations to institutional  
investors and not for any other  
purpose





# Biography

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## **Mark A. Romano, CFA**

Mr. Romano is an executive vice president and an account manager in the Newport Beach office focusing on investment consulting firms, clients and developing new client relationships. Prior to joining PIMCO in 1997, he was with Wells Fargo's institutional money management group. Prior to that, Mr. Romano was director of fixed income and a portfolio manager for the Pacifica family of mutual funds; he also invested assets for pension plans, foundations, financial institutions, corporations and trust accounts. In addition, Mr. Romano reported the daily business news for the San Diego ABC-TV affiliate. He has 31 years of investment experience and holds an MBA from San Diego State University. He earned an undergraduate degree in accounting from Shippensburg University, Pennsylvania.

## **Todd A. Staley, CFA**

Mr. Staley is a vice president and account manager in the Newport Beach office, focusing on institutional client servicing. Prior to joining PIMCO in 2011, he worked as a structured finance associate on the non-mortgage asset backed securitization team at Bank of America. He has seven years of investment experience and holds an MBA from the Kenan-Flagler Business School at the University of North Carolina as well as an undergraduate degree from the University of Cincinnati.

# Table of contents

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1. Current fixed income landscape
2. Increasing investment discretion
3. Additional information

# 1. Current fixed income landscape

# The fixed income landscape is changing

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## What we know

- Institutional investors have traditionally looked to core bonds to serve as a liquid, income producing, equity risk diversifying asset class within portfolios
- Over the last 30 years, this approach has generally delivered strong returns
- However, Treasury yields near historic lows create asymmetric portfolio risk going forward
- Core bond portfolios are unlikely to deliver historic characteristics and returns requiring investors to adopt a more tactical “unconstrained” approach

Consider the following...

Refer to the appendix for additional investment strategy and risk information.

# Investors today receive less compensation for taking interest rate risk

- The 10-year U.S. Treasury yield has fallen from 13.98% to 2.49% since 1981
- Lower yields create an environment of lower expected returns, while also forcing investors to take additional, and potentially asymmetric, duration risk

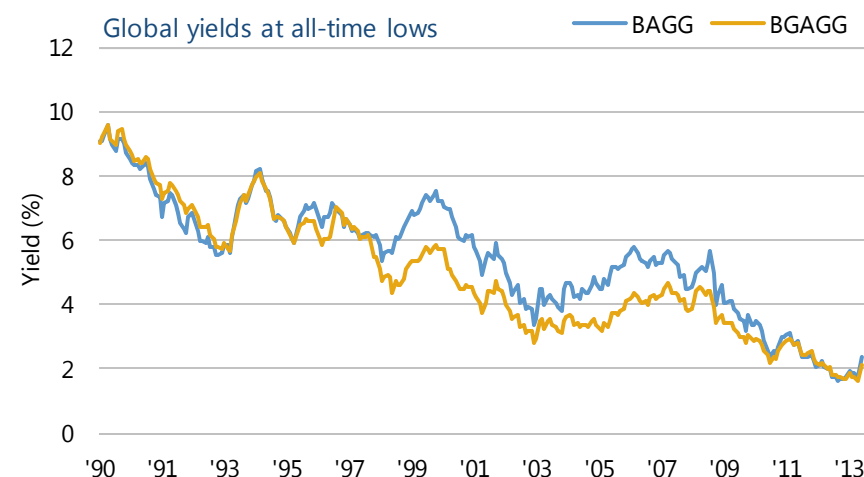
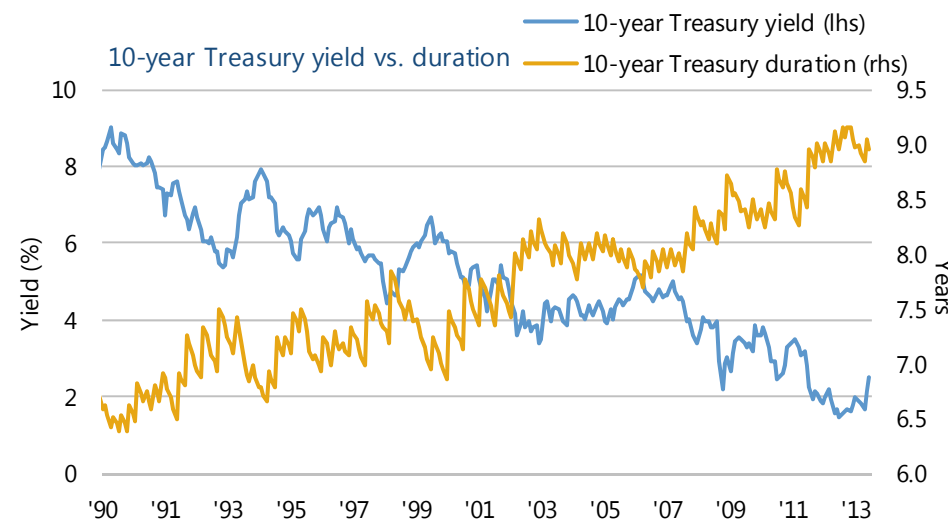
	Yield	Duration (yrs)	Change in rates that offsets yield <sup>1</sup>
10-year U.S. Treasury	2.49%	8.95	+ 28 bps
Barclays U.S. Aggregate (BAGG)	2.35%	5.49	+ 43 bps
Barclays Global Aggregate USD Unhedged (BGAGG)	2.10%	6.17	+ 34 bps
Barclays U.S. Aggregate Corporate	3.35%	6.87	+ 49 bps
Barclays Global Aggregate Corporate Index (USD Unhedged)	3.07%	5.95	+ 52 bps

As of 30 June 2013

SOURCE: Bloomberg, Barclays

<sup>1</sup> Assumes a parallel shift in interest rates

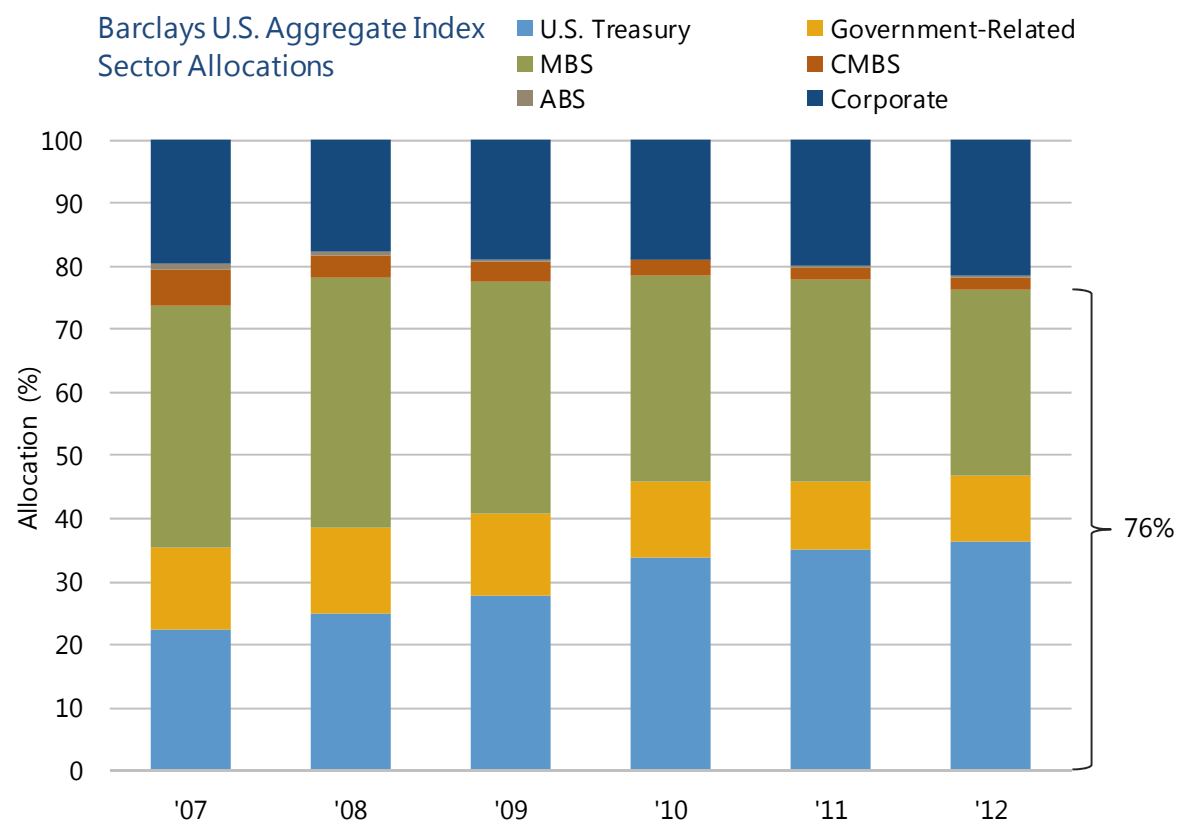
<sup>2</sup> Within a range of -3 to +8 years, vs. +/- 2 years vs. BAGG  
Refer to Appendix for additional index information.



# Core Bonds: Unprecedented government intervention has transformed the Barclays U.S. Aggregate Index

Government securities and MBS, two sectors that are structurally “rich”, account for 76% of the index

- Treasury market has increased by over \$6 trillion since 2007
  - 2008: 25% of BAGG
  - 2012: 36% of BAGG
- Fed’s \$40B/month MBS purchase and \$45B/month Treasury purchase programs have driven down yields



As of 31 December 2012  
SOURCE: Barclays  
Refer to the Appendix for additional risk and index information.

# Themes for optimizing fixed income allocation and implementing an unconstrained approach

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## Theme #1

*Increase duration flexibility:* higher discretion promotes more active positioning to hedge against rising rates or potentially capitalize on them

## Theme #2

*Employ tactical spread exposure:* maintain an attractive yield premium relative to government bonds in an effort to avoid financial repression

## Theme #3

*Embrace global diversification:* global approach may help minimize exposure to countries with high levels of indebtedness

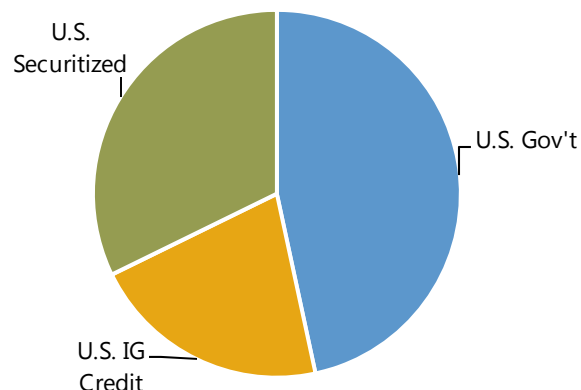
Refer to the appendix for additional investment strategy and risk information.

## 2. Increasing investment discretion

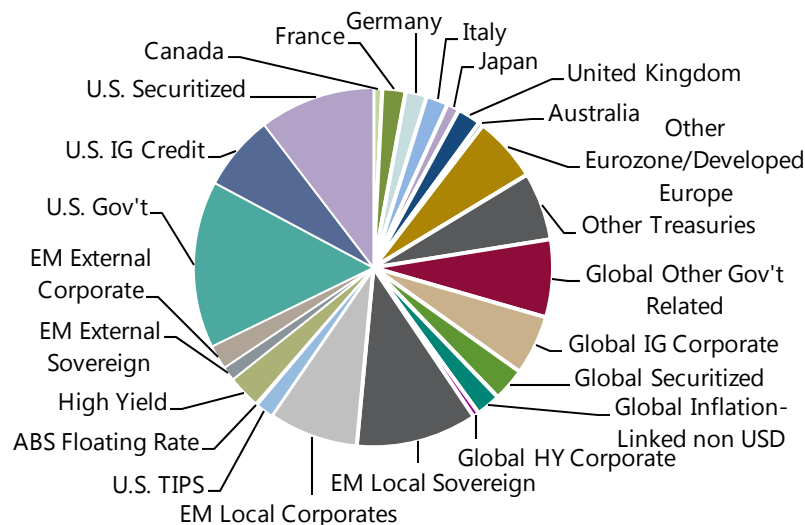


# A broader investment universe with fewer systematic biases helps capitalize on the global opportunity set

Barclays aggregate
Opportunity set



Global fixed income
Opportunity set



- Many bond benchmarks have significant exposure to government and related issuer risk
- The Barclays U.S. Aggregate Bond index for example has the majority of its risk sourced from only three sectors, all tied to U.S. interest rate risk
- PIMCO believes a more efficient approach to fixed income investing is to look globally and across all sectors for the best opportunities
- Unconstrained Bond can also take counter-positions in regions and sectors with undesirable risk

SOURCE: Barclays, BofA.

## Sample for illustrative purposes only

The above global fixed income opportunity set is not indicative of the portfolio structure of any Unconstrained Bond portfolio. The Sector breakdown generally reflects the opportunity set the Fund may look to seek investment.

Refer to Appendix for additional investment strategy and risk information

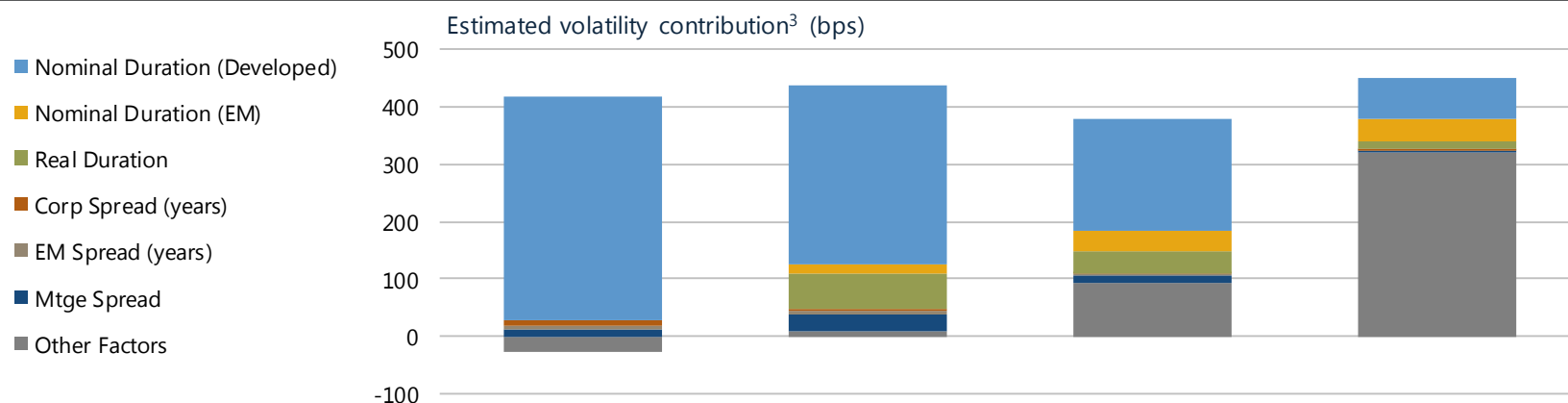
# A comparison between Unconstrained Bond and Total Return strategies

RISK/RETURN	TOTAL RETURN / StanCERA		UNCONSTRAINED
Investment process	Driven by PIMCO's investment process		Driven by PIMCO's investment process
Return type	Relative – seeks attractive risk-adjusted returns over BAGG		Absolute – seeks attractive risk-adjusted positive returns, unconstrained by benchmark
Benchmark	BAGG		LIBOR
Total volatility	Similar to BAGG, broad bond market volatility		Similar to BAGG, broad bond market volatility
Active risk	Positions selected relative to BAGG		Positions selected relative to LIBOR, as cash equivalent reference point
Risk scaling	Exposures governed by expected tracking error to benchmark		Exposures scaled based on areas of strongest conviction and perceived downside risk
Downside risk mitigation	Relative to BAGG – focus on limited tracking error to benchmark		Explicit goal – focus on limited downside risk over full market cycle
CORRELATION PROFILE	TOTAL RETURN / StanCERA		UNCONSTRAINED
BAGG	High		Moderate
S&P500	Low		Low
SUGGESTED INVESTMENT GUIDELINES	TOTAL RETURN	StanCERA	UNCONSTRAINED
Duration	+/- 2 years versus BAGG	+/- 35% of Index	-3 to +8 years
High yield	10%	10%	40%
Emerging markets	15%	15%	50%
Non-USD	30%	15%	No Limit
Currency exposure	20%	15%	35%
Derivatives	Yes	No	Yes

As of 30 June 2013

Refer to Appendix for additional index, investment strategy and risk information.

# Risk factor exposures



Key Risk Factors	Barclays U.S. Aggregate Bond Index		100% Total Return Representative Account		50% / 50% Total Return Representative Account		100% Unconstrained Representative Account	
	Factor Weight (%)	Volatility (bps)	Factor Weight (%)	Volatility (bps)	Factor Weight (%)	Volatility (bps)	Factor Weight (%)	Volatility (bps)
Nominal Duration (Developed)	5.08	388	4.47	310	2.72	195	0.96	72
Nominal Duration (EM)	0.00	0	0.14	15	0.24	33	0.34	39
Real Duration	0.00	0	1.18	62	0.85	39	0.52	14
EM Spread (years)	0.17	5	0.14	4	0.12	3	0.11	2
Mtge Spread	1.52	13	1.76	30	1.16	16	0.57	4
Corp Spread (years)	2.03	11	0.97	5	0.55	0	0.12	1
Developed Currency	0.00	0	0.00	0	-0.03	-3	-0.05	1
EM Currency	0.00	0	0.01	-1	0.00	-1	-0.01	1
Other Factors <sup>1</sup>		-28		11		95		317
<b>Estimated Return<sup>2</sup></b>		<b>170</b>		<b>270</b>		<b>350</b>		<b>430</b>
<b>Estimated Volatility<sup>3</sup></b>		<b>390</b>		<b>435</b>		<b>378</b>		<b>450</b>
<b>Estimated Return / Volatility</b>		<b>0.44</b>		<b>0.62</b>		<b>0.93</b>		<b>0.96</b>

As of 30 June 2013

SOURCE: PIMCO

**Hypothetical example for illustrative purposes only.**

<sup>1</sup> Other factors include size, value, momentum, swap spread and Idiosyncratic (specific) risk.

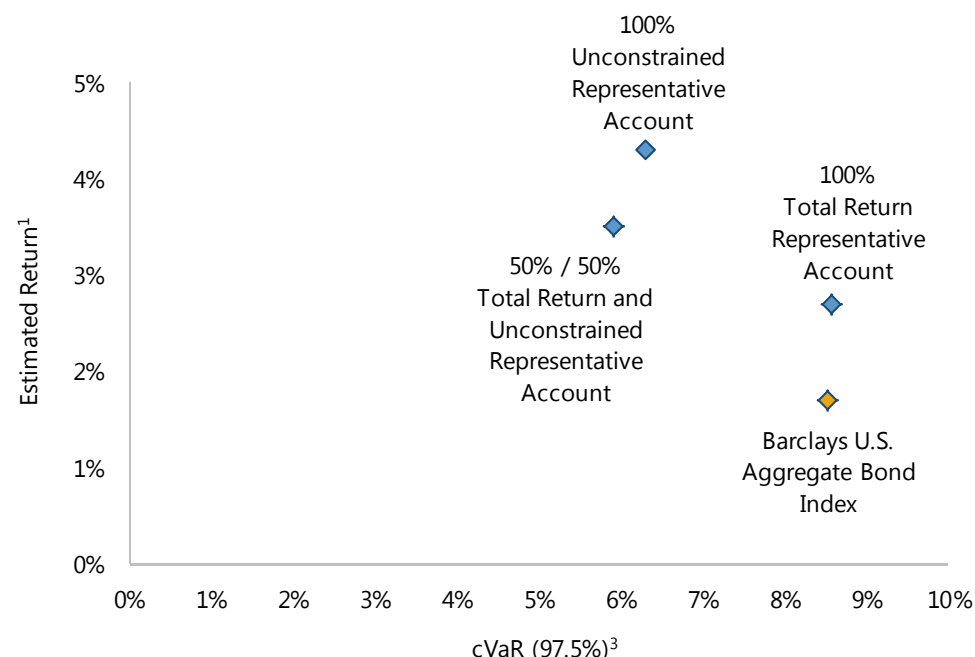
<sup>2</sup> Return estimates are derived from an internal process based on a combination of methods, pulling together historical data, valuation metrics and qualitative inputs based on PIMCO's secular views. For the PIMCO Representative Accounts, we illustrate the estimated return of the strategy benchmark and include alpha assumptions before fees.

<sup>3</sup> See Appendix for additional information regarding volatility estimates.

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite and the PIMCO Core Plus - Total Return Full Authority Composite performance presentations included in the Appendix. Refer to Appendix for additional performance and fee, hypothetical example, investment strategy, portfolio analysis, representative account, return assumption and risk information.

# Diversified risk factor exposure may lead to better outcomes

- Unconstrained Bond strategy has greater flexibility around risk factor exposures, which may diversify sources of risk and return
- Increasing the duration flexibility of a fixed income portfolio may enhance estimated return per unit of risk, particularly in rising interest rate environments



Portfolio Characteristics	Barclays U.S. Aggregate Bond Index	100% Total Return Representative Account	50% / 50% Total Return Representative Account Unconstrained Representative Account	100% Unconstrained Representative Account
Estimated return <sup>1</sup>	1.7%	2.7%	3.5%	4.3%
Estimated volatility <sup>2</sup>	3.9%	4.4%	3.8%	4.5%
Estimated return/volatility	0.44	0.62	0.93	0.96
Estimated Maximum Drawdown	4.2%	4.5%	3.6%	4.2%
Conditional Value at Risk (97.5%) <sup>3</sup>	8.5%	8.6%	5.9%	6.3%

As of 30 June 2013  
SOURCE: PIMCO

**Hypothetical example for illustrative purposes only.**

<sup>1</sup> Return estimates are derived from an internal process based on a combination of methods, pulling together historical data, valuation metrics and qualitative inputs based on PIMCO's secular views. For the PIMCO Representative Accounts, we illustrate the estimated return of the strategy benchmark and include alpha assumptions before fees.

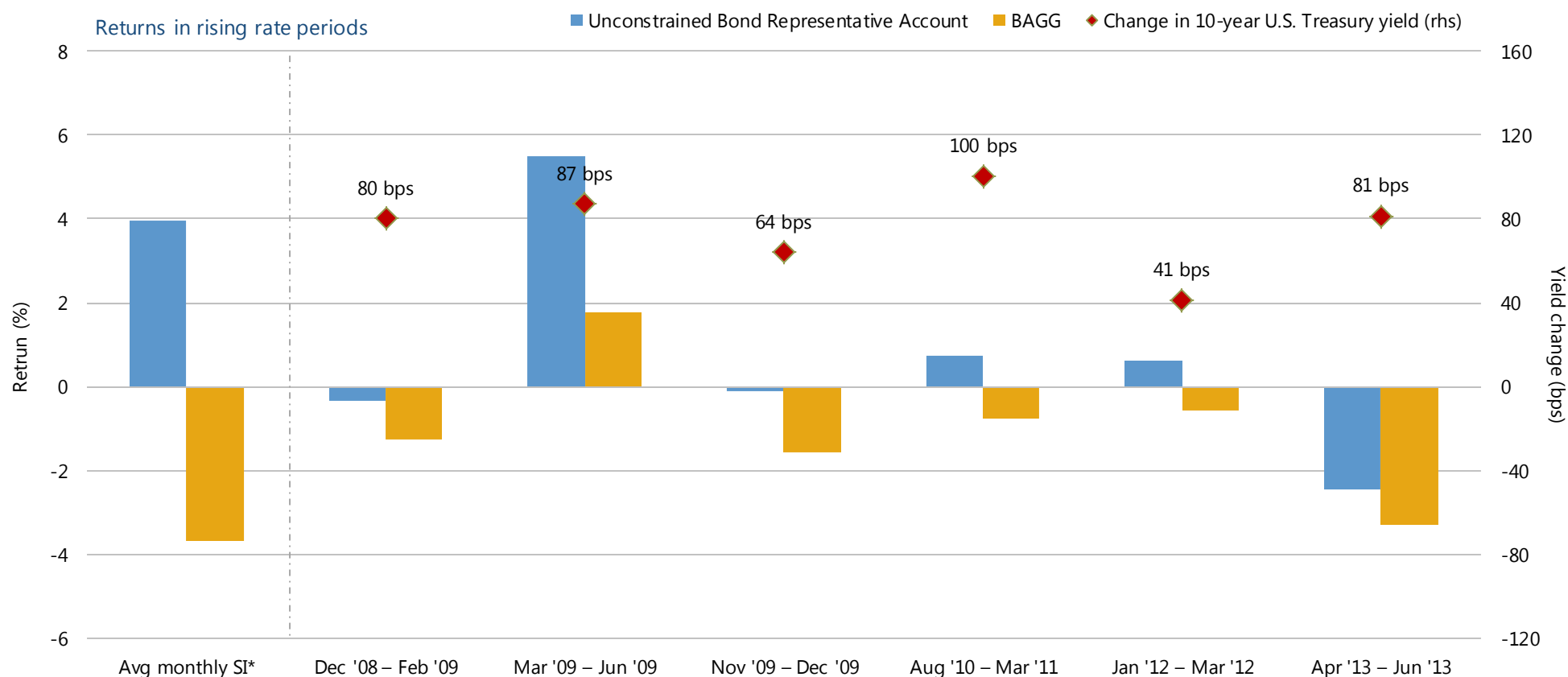
<sup>2</sup> See Appendix for additional information regarding volatility estimates.

<sup>3</sup> Conditional Value-at-Risk (CVAR) is an estimate of the minimum expected loss at a desired level of significance.

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite and the PIMCO Core Plus - Total Return Full Authority Composite performance presentations included in the Appendix.

Refer to Appendix for additional performance and fee, cVaR, hypothetical example, investment strategy, portfolio analysis, representative account, return assumption and risk information.

# Comparing strategies during rising rate environments



As of 30 June 2013

\* **Hypothetical example for illustrative purposes only.** Shows annualized average return for BAGG and Unconstrained Bond Representative Account in all months of rising rates. In total, 30 of the 60 months since inception through 30 June 2013 were rising-rate months.

For all other periods in the chart, annualized average returns during select periods for BAGG and Unconstrained Bond Rep Account are shown. Criteria for chosen periods takes all periods of consecutive rising-rate months, in which the cumulative rate increase over the periods exceeds 40 bps.

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentation included in the Appendix.

Refer to Appendix for additional performance and fee, chart, hypothetical example, index, representative account and risk information.

# PIMCO Unconstrained Bond Strategy performance highlights

SINCE UNCONSTRAINED BOND INCEPTION <sup>1</sup>	PIMCO Unconstrained Bond representative account	BAGG	PIMCO Total Return representative account
Volatility	3.0%	3.7%	4.4%
Max Drawdown	-2.4%	-3.7%	-4.7%

SHARPE RATIO <sup>2</sup>	
PIMCO Unconstrained Bond representative account	1.69
PIMCO Total Return representative account	1.49
Barclays U.S. Aggregate Index	1.20
Barclays Global Aggregate Index	0.44
S&P 500 Index	0.34
MSCI World Index	0.10
RISING RATE RETURN <sup>3</sup>	
PIMCO Unconstrained Bond representative account	3.96%
PIMCO Total Return representative account	0.33%
Barclays U.S. Aggregate Index	-3.68%

As of 30 June 2013

<sup>1</sup> Since Unconstrained Bond Strategy representative account inception 30 June 2008. Volatility is the annualized standard deviation of monthly returns (after fees).

<sup>2</sup> The Sharpe ratio measures the risk-adjusted performance. The risk-free rate is subtracted from the rate of return for a portfolio and the result is divided by the standard deviation of the portfolio returns.

<sup>3</sup> Rising 10-year rate return are calculated as the annualized return (after fees) when including only those months where 10-year U.S. Treasury yields increased. The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite and the PIMCO Core Plus – Total Return Full Authority Composite performance presentations included in the Appendix. Refer to Appendix for additional performance and fee, index, representative account and risk information.

# PIMCO Unconstrained Bond Strategy retains the valuable diversification benefits traditionally associated with core bonds

Asset class	Market indices	Correlations to asset classes <sup>1</sup>			Annualized volatility <sup>2</sup>
		PIMCO Unconstrained Bond representative account	BAGG	PIMCO Total Return representative account	
Global equity	MSCI World Index	0.18	-0.14	0.23	23.36
U.S. equity	S&P 500 Index	0.09	-0.21	0.14	22.60
Commodities	DJ UBS Commodity TR Index	0.17	-0.13	0.15	20.75
Emerging market bonds	JPM EMBI Global Index	0.32	0.21	0.46	12.00
U.S. HY bonds	Barclays U.S. High Yield Index	0.37	0.14	0.46	10.84
Bank loans	Credit Suisse Leveraged Loan Index	0.31	0.09	0.29	6.50
Global bonds	Barclays Global Aggregate Index	0.37	0.60	0.57	5.93
Hedge funds	HFRX Global Hedge Fund Index	0.27	0.06	0.38	5.04
U.S. bonds	Barclays U.S. Aggregate Index	0.50	1.00	0.78	3.69

As of 30 June 2013

<sup>1</sup> Based on weekly returns (after fees) data from 30 June 2008

<sup>2</sup> Volatility is the annualized standard deviation of weekly returns

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite and the PIMCO Core Plus – Total Return Full Authority Composite performance presentations included in the Appendix.

Refer to Appendix for additional correlation, index, representative account and risk information.

# Conclusion: The fixed income landscape is changing

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- The future landscape for fixed income will be very different from the landscape of the past 30 years
- Adapting bond allocations will be critical to achieving long term goals
- There are costs and benefits associated with any strategy
- We believe investors should consider strategies that:
  - Increase investment flexibility
  - Utilize a broad, global set of investments
  - Exploit tactical opportunities

Refer to the appendix for additional investment strategy and risk information.



### 3. Additional information

# Assets under management by strategy

Alternatives		Billions (\$)
Liquid Absolute Return	Unconstrained bond strategies, credit absolute return, other absolute return strategies	43.80
Hedge Funds	Global macro, long/short credit, multi-asset volatility arbitrage strategies	12.13
Opportunistic/Distressed	Opportunistic strategies focusing on real estate related assets (residential, commercial), corporate credit	7.10
Asset Allocation		
Asset Allocation Strategies	Global Multi Asset, All Asset, EM Multi Asset, Real Retirement, Inflation-Response Multi Asset, DRA	91.73
Equities		
StocksPLUS®	Combines derivatives-based equity exposure with active bond management	16.60
Active Equities	Pathfinder, Emerging Markets, Dividend, Global Long/Short	4.08
Real Return		
Inflation-Linked Bonds	U.S., Global	75.46
Commodities	Actively managed commodity exposure enhanced with actively managed collateral portfolios	23.95
Real Estate	Real-estate linked exposure enhanced with actively managed collateral portfolios	1.46
Fixed Income		
Intermediate*	Total Return, Moderate Duration	557.28
Credit	Investment Grade Corporates, Bank Loans, High Yield Corporates, Convertibles	174.78
Cash Management*	Money Market, Short-Term, Low Duration	144.10
Long Duration	Focus on long-term bonds; asset liability management	112.90
Global	Non-U.S. and global multiple currency formats	119.25
Emerging Markets	Local debt, external debt, currency	74.13
Mortgages	Agency MBS, structured credit (non-Agency MBS, CMBS, and ABS)	51.61
Income	Income-oriented, insurance income	46.72
Diversified Income	Global credit combining corporate and emerging markets debt	27.69
Municipals	Tax-efficient total return management	14.20
Other		10.31
Total assets under management		\$ 1,609.26 B
Stable Value	Stable income with emphasis on principal stability	30.40
Tail-Risk Hedging**	Pooled and customized portfolios of actively managed tail-risk hedges	43.79

As of 30 June 2013

SOURCE: PIMCO

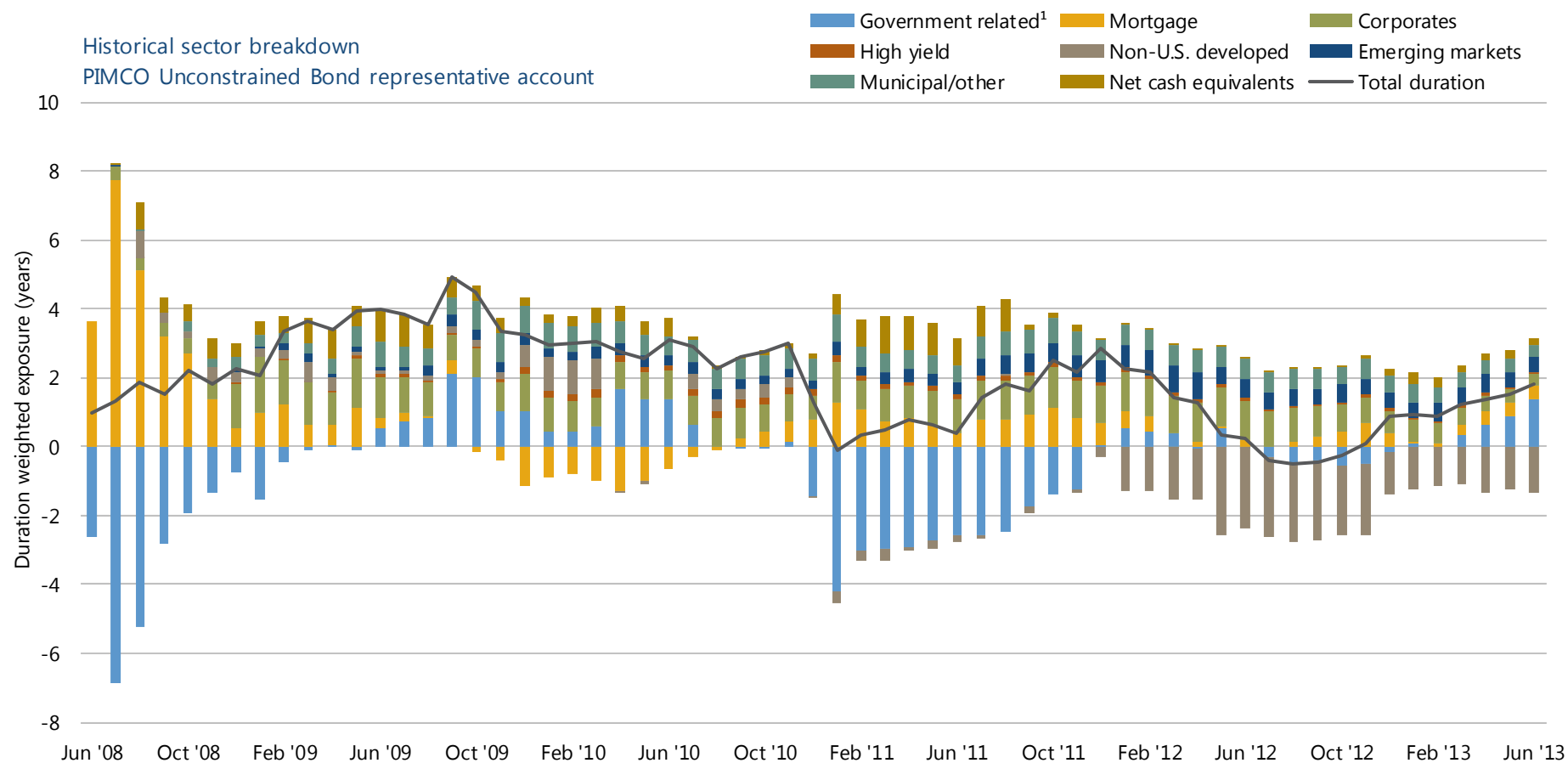
Assets reflect those managed on behalf of third-party clients and exclude affiliated assets. Fund of funds assets have been netted from each strategy.

Potential differences in asset totals are due to rounding.

\* Stable value assets have not been netted from U.S. Total Return, U.S. Moderate Duration and U.S. Low Duration assets

\*\* Tail-risk hedging assets reflect total notional value of dedicated mandates and are not counted towards PIMCO total assets under management.

# Risk positions are actively managed and sized to target market opportunities and mitigate risk



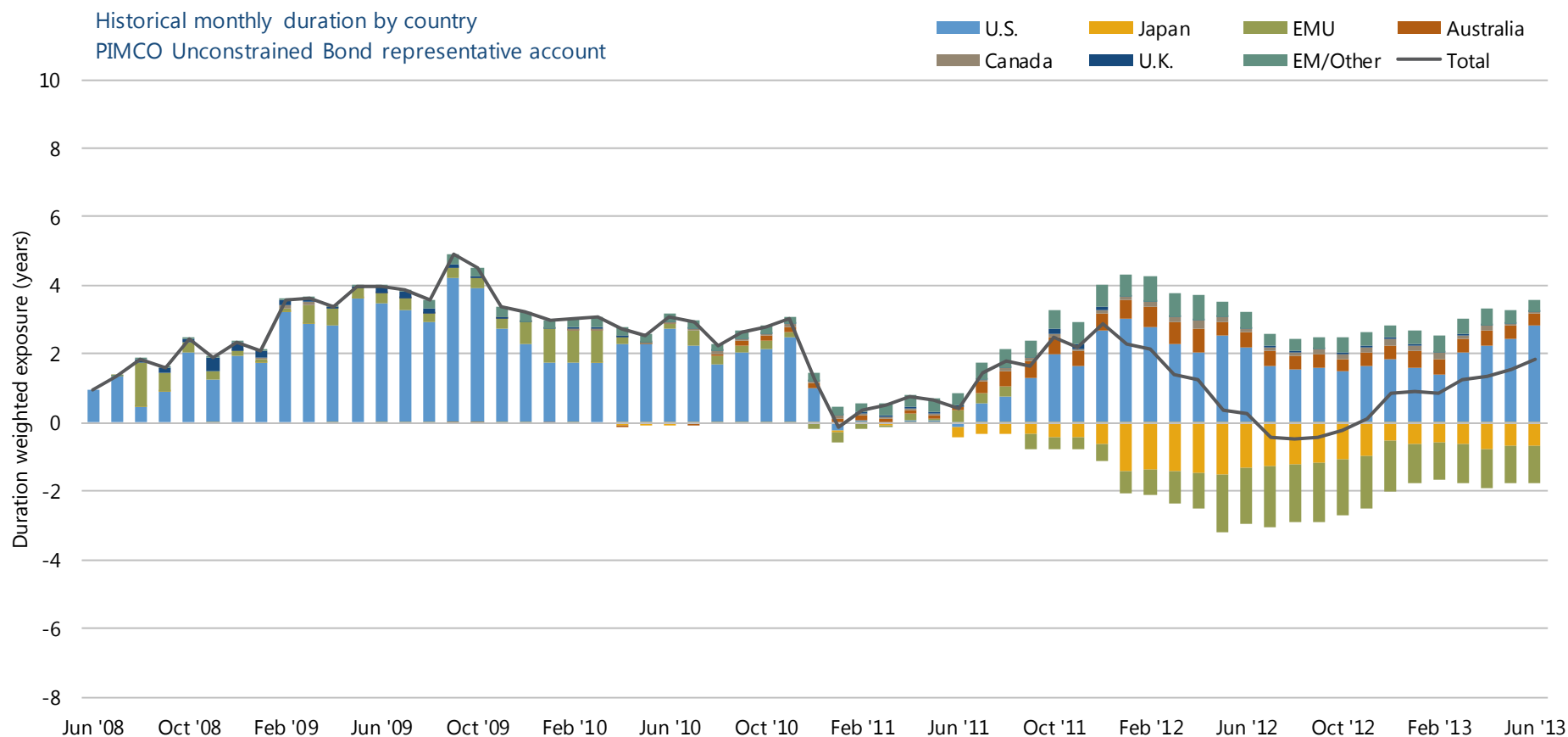
As of 30 June 2013

SOURCE: PIMCO

<sup>1</sup> Government related may include nominal and inflation-protected Treasuries, agencies, interest rate swaps, Treasury futures and options, FDIC-guaranteed and government-guaranteed corporate securities.

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentation included in the Appendix. Refer to Appendix for additional portfolio structure, representative account and risk information.

# Country exposures reflect PIMCO's investment views across global opportunity set

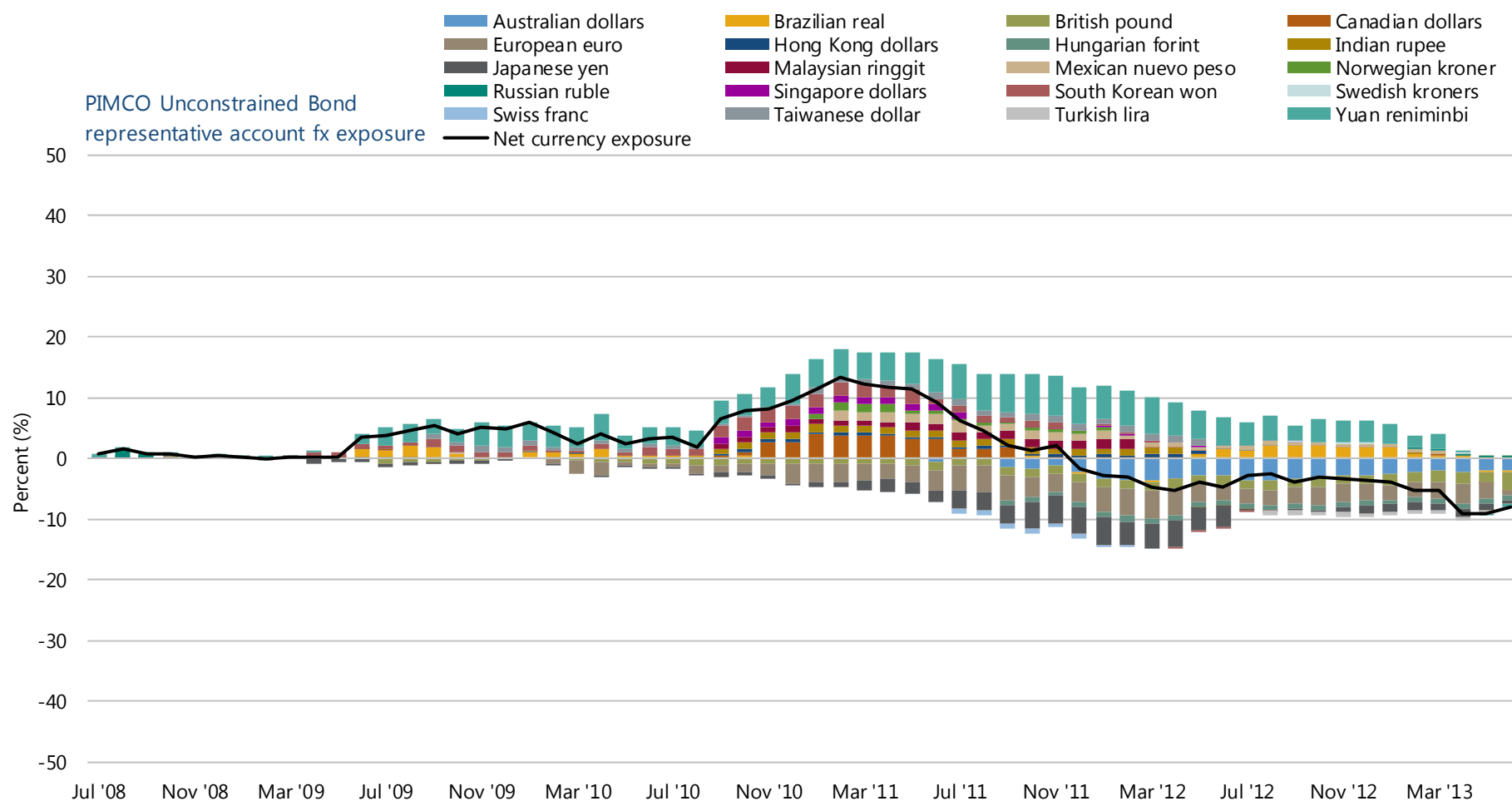


As of 30 June 2013

SOURCE: PIMCO

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentations included in the Appendix. Refer to Appendix for additional portfolio structure, representative account and risk information.

# Currency exposures reflect PIMCO's macro views across currency markets



As of 30 June 2013

SOURCE: PIMCO

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentations included in the Appendix. Refer to Appendix for additional portfolio structure, representative account, and risk information.

# PIMCO Unconstrained Bond Representative Account:

## Current portfolio positioning

Sector	Net position	Key longs/shorts
Interest rate exposures	1.8 yrs Total portfolio duration	<div><div>Duration contr (Yrs)</div><div><div><div>4.0</div><div>2.8</div><div>2.0</div><div>0.0</div><div>-2.0</div></div><div><div>U.S.</div><div>Australia</div><div>Brazil</div><div>Mexico</div><div>Canada</div><div>Japan</div><div>Eurozone</div></div><div><div>0.4</div><div>0.3</div><div>0.1</div><div>0.0</div><div>-0.7</div><div>-1.1</div></div></div></div>
Corporates	-0.2 yrs Corporate spread duration contribution	<div><div>Corp Sprd Contr (Yrs)</div><div><div><div>0.4</div><div>0.3</div><div>0.2</div><div>0.0</div><div>-0.2</div><div>-0.4</div><div>-0.6</div></div><div><div>IG financials</div><div>Select HY bonds</div><div>Bank loans</div><div>IG other</div><div>HY CDS/CDX</div></div><div><div></div><div></div><div></div><div>-0.4</div><div>-0.4</div></div></div></div>
Agency MBS	0.1 yrs Mortgage spread duration contribution	<div><div>Mtge Sprd Contr (Yrs)</div><div><div><div>2.0</div><div>1.1</div><div>1.0</div><div>0.0</div><div>-1.0</div><div>-2.0</div></div><div><div>Lower coupon *</div><div>Higher coupon</div></div><div><div></div><div></div></div></div></div>
Non-Agency MBS	0.5 yrs Mortgage spread duration contribution (12%MV)	<div><div>Mtge sprd contr (Yrs)</div><div><div><div>0.6</div><div>0.4</div><div>0.2</div><div>0.0</div></div><div><div>Non-Agency</div><div>CMBS</div><div>ABS - Consumer</div></div><div><div></div><div>0.0</div><div>0.0</div></div></div></div>

As of 30 June 2013

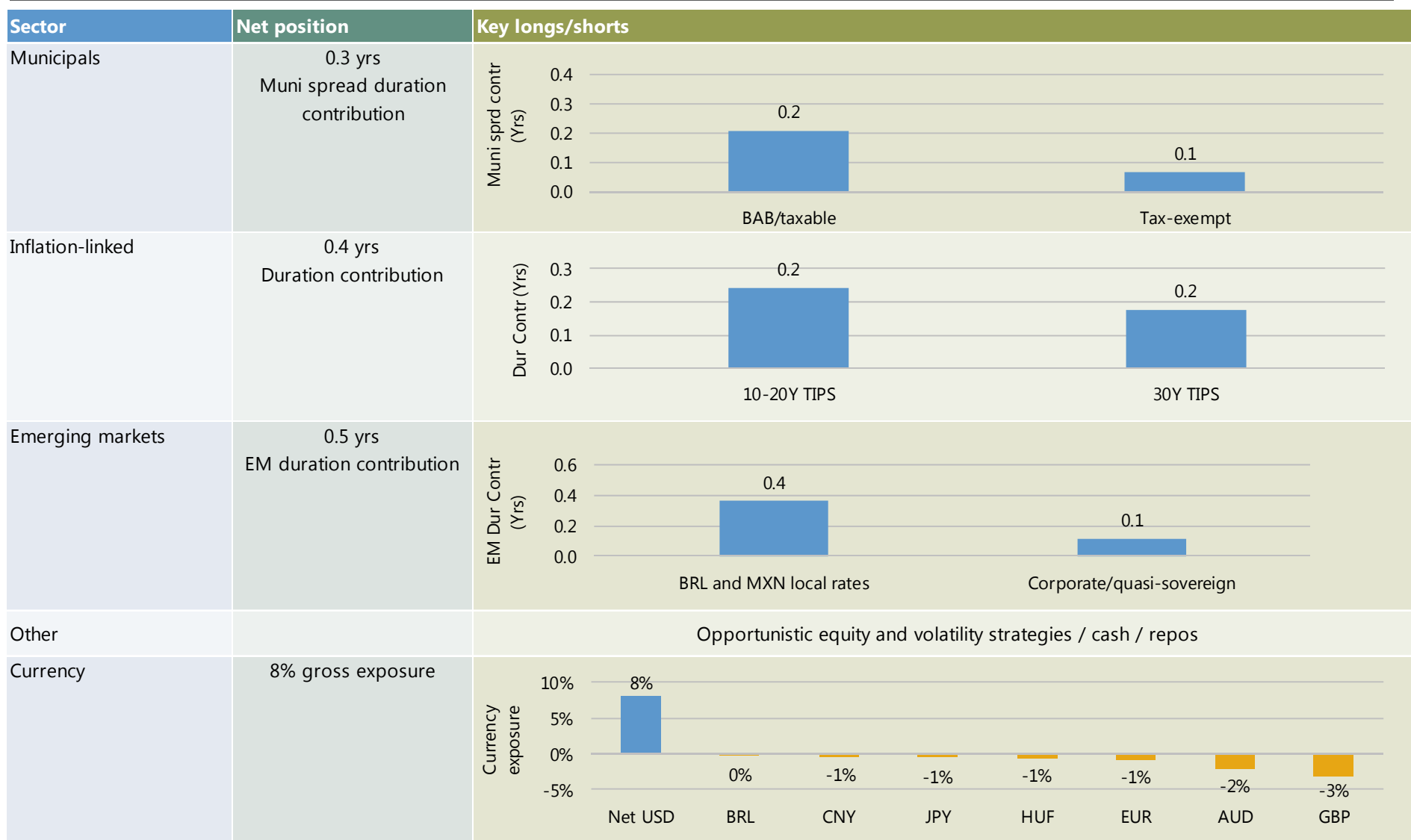
\* "Lower coupons" denotes TBAs with coupons of 3.0% or below.

TBA (To be announced); CDS (Credit default swaps); CDX (credit derivative index); CMBS (Commercial mortgage-backed securities); ABS (Asset-backed securities)

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentations included in the Appendix.

Refer to Appendix for additional investment strategy, portfolio structure and risk information.

# PIMCO Unconstrained Bond Representative Account: Current portfolio positioning cont'd.

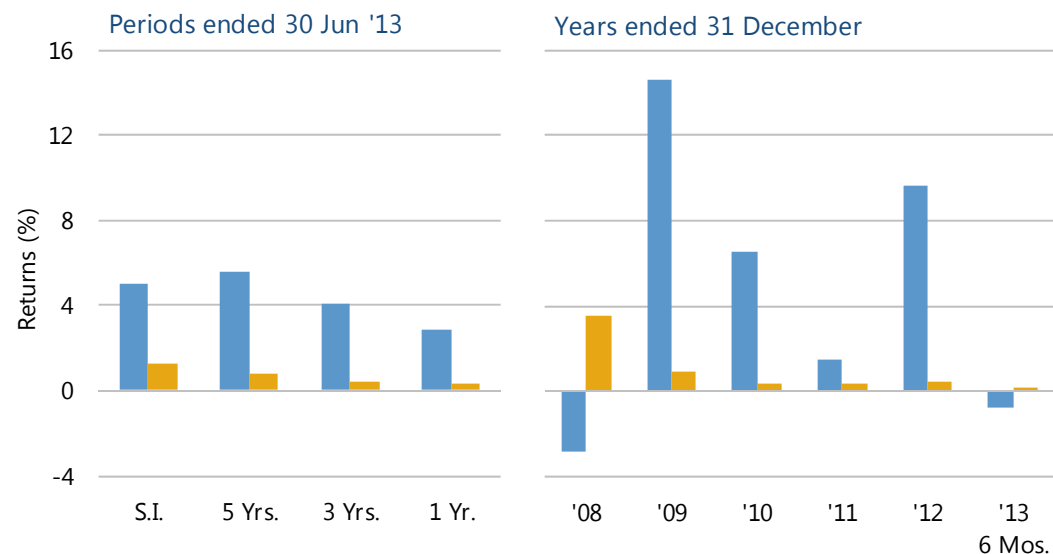


SOURCE: PIMCO. As of 30 June 2013

Treasury Inflation-Protected Securities (TIPS)

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentations included in the Appendix. Refer to Appendix for additional investment strategy, portfolio structure and risk information.

# PIMCO Unconstrained Full Authority Composite performance



PIMCO Unconstrained Full Authority Composite  
(Inception: 30 Sep '07)

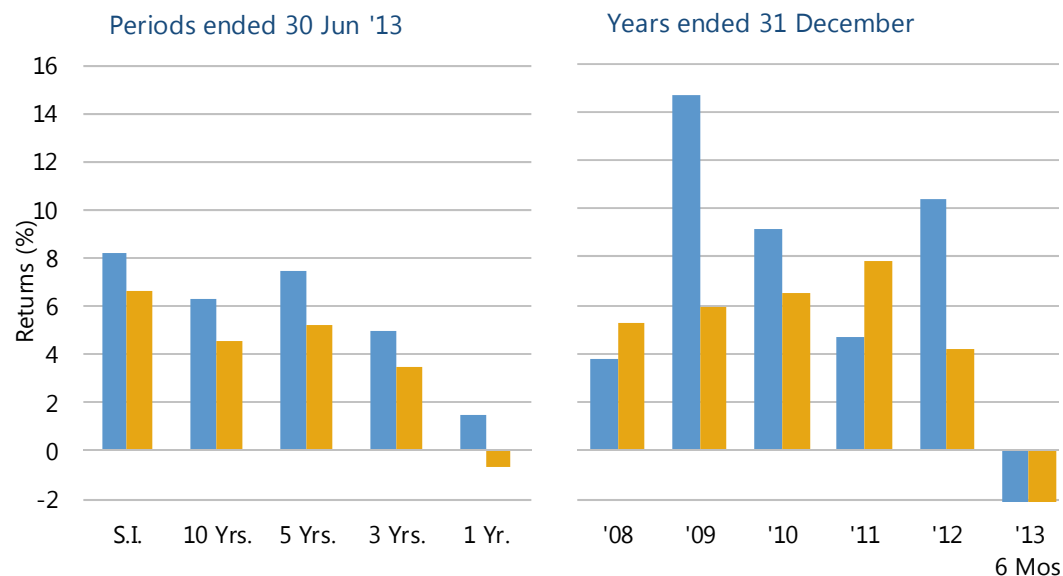
■ Before fees (%)	5.0	5.5	4.0	2.9	-2.9	14.6	6.5	1.4	9.6	-0.8
■ After fees (%)	4.3	4.7	3.1	2.0	-3.2	13.7	5.6	0.5	8.7	-1.2
■ 3-Month LIBOR										
■ Rate Index (%)	1.2	0.8	0.4	0.4	3.6	0.9	0.3	0.3	0.5	0.1
Value added before fees (bps)	382	478	366	251	-644	1374	619	113	918	-96

As of 30 June 2013  
Refer to Appendix for additional performance and fee, chart, composite, index, and risk information.



# PIMCO's Core Plus – Total Return Full Authority Composite performance

- Consistently added value over the long term (before fees)

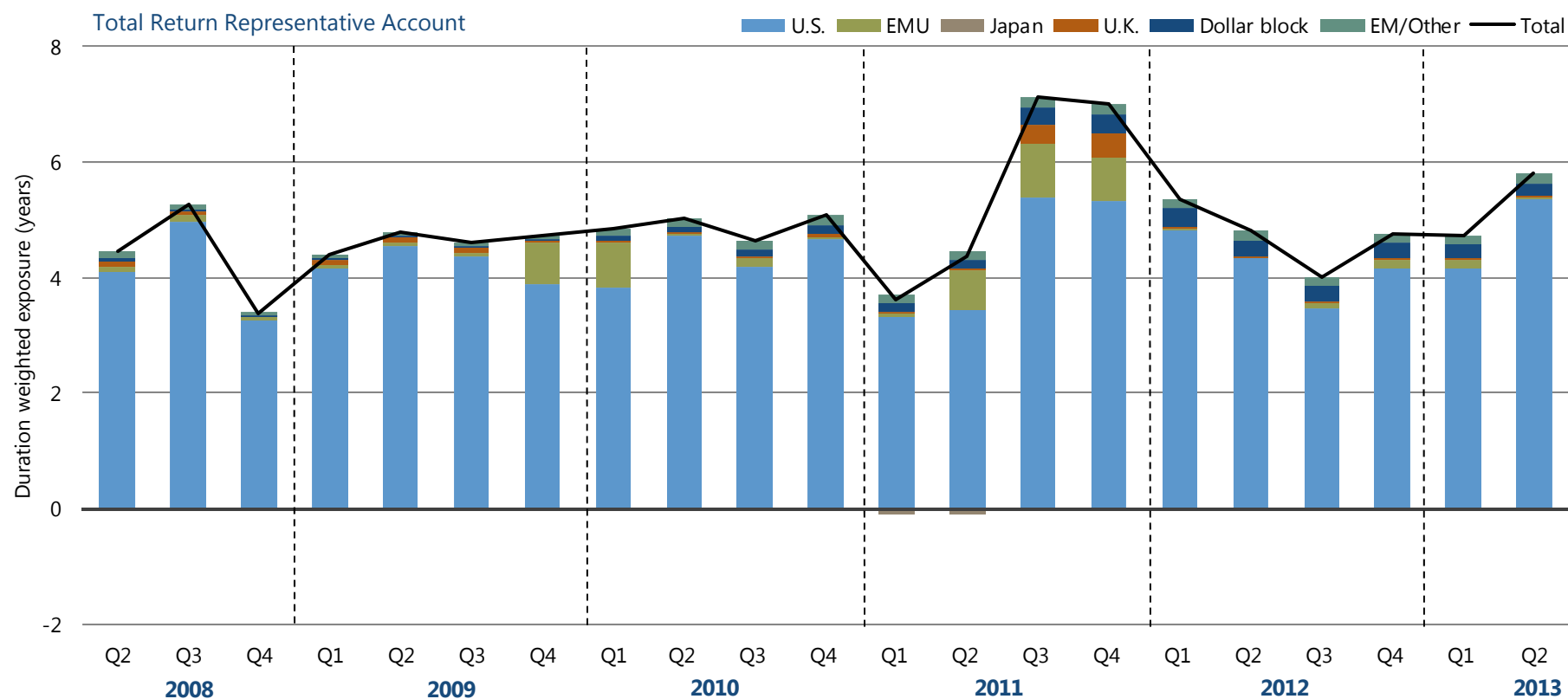


PIMCO Core Plus - Total Return Full Authority Composite  
(Inception: 30 Nov '89)

■ Before fees (%)	8.20	6.27	7.47	4.95	1.51	3.79	14.68	9.12	4.68	10.35	-2.75
■ After fees (%)	7.70	5.81	6.99	4.48	1.06	3.34	14.17	8.62	4.20	9.86	-2.96
■ Barclays U.S. Aggregate Bond Index (%)	6.63	4.52	5.19	3.51	-0.69	5.24	5.93	6.54	7.84	4.21	-2.44
Value added before fees (bps)	157	175	228	144	220	-145	875	258	-316	614	-31

Refer to Appendix for additional performance and fee, composite, index, and risk information.

# Total Return Representative Account

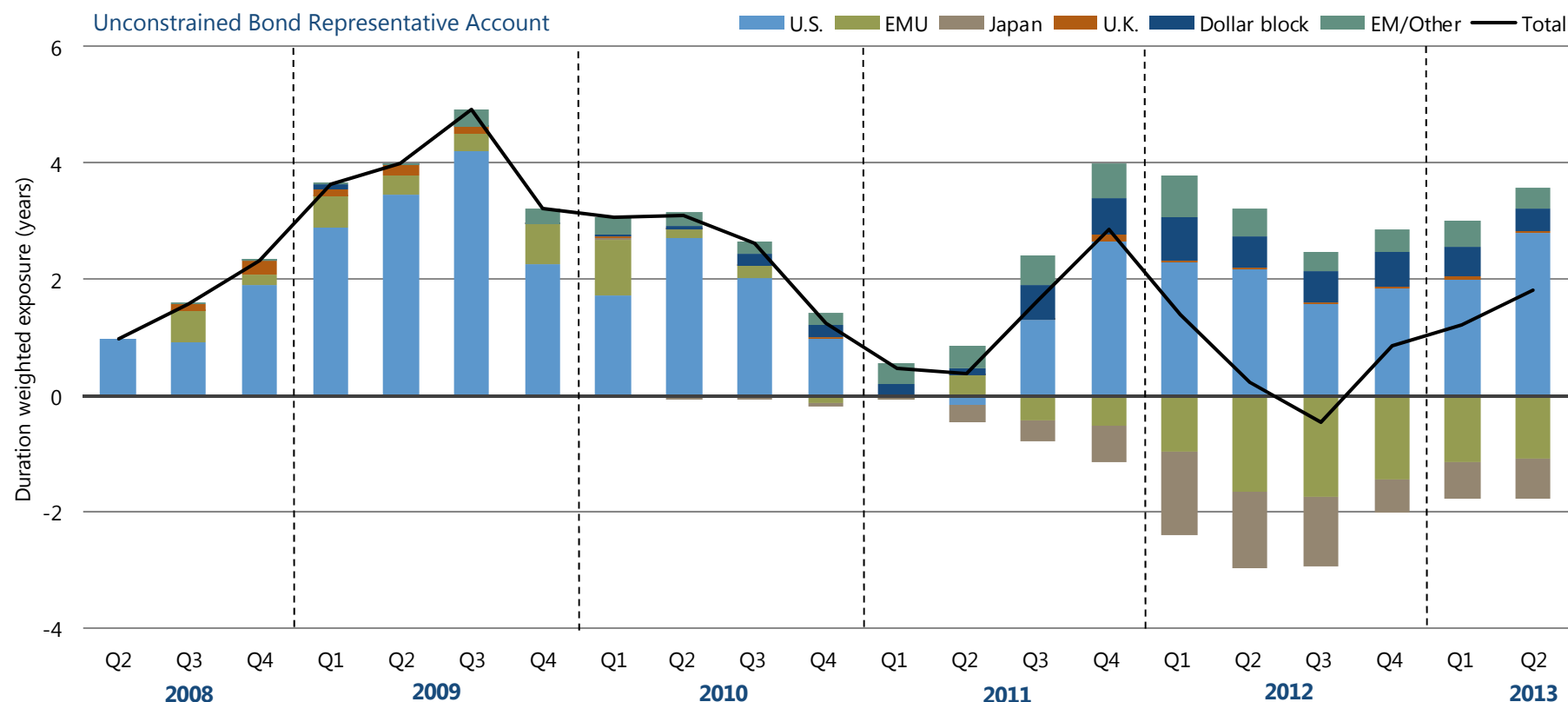


As of 30 June 2013

The representative account information presented is provided as supplemental information to the PIMCO Core Plus – Total Return Full Authority Composite performance presentations included in the Appendix.

Refer to Appendix for additional portfolio structure, representative account, and risk information.

# Unconstrained Bond Representative Account duration by country over time



As of 30 June 2013

The representative account information presented is provided as supplemental information to the PIMCO Unconstrained Full Authority Composite performance presentations included in the Appendix.

Refer to Appendix for additional portfolio structure, representative account and risk information.

# Appendix

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## PERFORMANCE AND FEE

**Past performance is not a guarantee or a reliable indicator of future results.** Certain performance figures do not reflect the deduction of investment advisory fees (described in Part II of PIMCO's Form ADV) in the case of both separate investment accounts and mutual funds; but they do reflect commissions, other expenses (except custody), and reinvestment of earnings. Such fees that a client may incur in the management of their investment advisory account may reduce the client's return. For example, over a five-year period, annual advisory fees of 0.425% would reduce compounding at 10% annually from 61.05% before fees to 57.96% after fees. The "net of fees" performance figures reflect the deduction of actual investment advisory fees but do not reflect the deduction of custodial fees. All periods longer than one year are annualized. Separate account clients may elect to include PIMCO sector funds in their portfolio; sector funds may be subject to additional terms and fees. For a copy of net of fees performance, unless included otherwise, please contact your PIMCO representative.

## CHART

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

## COMPOSITE

Composite performance is preliminary until the 12th business day of the month.

## CORRELATION

The correlation of various indices or securities against one another or against inflation is based upon data over a certain time period. These correlations may vary substantially in the future or over different time periods that can result in greater volatility.

## CVAR

Conditional Value at Risk (CVAR) estimates the risk of loss of an investment or portfolio over a given time period under normal market conditions in terms of an average of loss after a specific percentile threshold of loss (i.e., for a given threshold of X%, under the specific modeling assumptions used, the portfolio will incur an average loss in excess of the CVAR X percent of the time. Different CVAR calculation methodologies may be used. CVAR models can help understand what future return or loss profiles might be. However, the effectiveness of a CVAR calculation is in fact constrained by its limited assumptions (for example, assumptions may involve, among other things, probability distributions, historical return modeling, factor selection, risk factor correlation, simulation methodologies). It is important that investors understand the nature of these limitations when relying upon CVAR analyses.

## FORECAST

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be interpreted as investment advice, as an offer or solicitation, nor as the purchase or sale of any financial instrument. Forecasts and estimates have certain inherent limitations, and unlike an actual performance record, do not reflect actual trading, liquidity constraints, fees, and/or other costs. In addition, references to future results should not be construed as an estimate or promise of results that a client portfolio may achieve.

## HYPOTHETICAL EXAMPLE

No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown. Hypothetical or simulated performance results have several inherent limitations. Unlike an actual performance record, simulated results do not represent actual performance and are generally prepared with the benefit of hindsight. There are frequently sharp differences between simulated performance results and the actual results subsequently achieved by any particular account, product or strategy. In addition, since trades have not actually been executed, simulated results cannot account for the impact of certain market risks such as lack of liquidity. There are numerous other factors related to the markets in general or the implementation of any specific investment strategy, which cannot be fully accounted for in the preparation of simulated results and all of which can adversely affect actual results.

## INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are suitable for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

## OUTLOOK

Statements concerning financial market trends are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions, and each investor should evaluate their ability to invest for the long-term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

# Appendix

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## PORTFOLIO ANALYSIS

The portfolio analysis is based on sample model portfolios comprised of representative accounts and are intended to illustrate our risk factor modeling capabilities. No representation is being made that the structure of the average portfolio or any account will remain the same or that similar returns will be achieved. The analysis may not be attained and should not be construed as the only possibilities that exist. Real results will vary and are subject to change with market conditions. Different weightings in the asset allocation illustration will produce different results. Actual results will vary and are subject to change with market conditions. There is no guarantee that results will be achieved. No fees or expenses were included in the estimated results and distribution. The scenarios assume a set of assumptions that may, individually or collectively, not develop over time. The analysis reflected in this information is based upon data at time of analysis. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product.

PIMCO routinely reviews, modifies, and adds risk factors to its proprietary models. Due to the dynamic nature of factors affecting markets, there is no guarantee that simulations will capture all relevant risk factors or that the implementation of any resulting solutions will protect against loss. All investments contain risk and may lose value. Simulated risk analysis contains inherent limitations and is generally prepared with the benefit of hindsight. Realized losses may be larger than predicted by a given model due to additional factors that cannot be accurately forecasted or incorporated into a model based on historical or assumed data.

## PORTFOLIO STRUCTURE

Portfolio structure is subject to change without notice and may not be representative of current or future allocations.

## REPRESENTATIVE ACCOUNT

This account was chosen because it represents the account with the largest market value in its composite. No guarantee is being made that the structure or actual account holdings of any account will be the same or that similar returns will be achieved. PIMCO may or may not own the securities referenced and, if such securities are owned, no representation is being made that such securities will continue to be held.

## RETURN ASSUMPTIONS

Return assumptions are for illustrative purposes only and are not a prediction or a projection of return. Return assumption is an estimate of what investments may earn on average over a ten year period (after fees). Actual returns may be higher or lower than those shown and may vary substantially over shorter time periods.

## RISK

Investing in the **bond market** is subject to certain risks including market, interest-rate, issuer, credit, and inflation risk. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Investors should consult their investment professional prior to making an investment decision.

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# Appendix

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## INDEX DESCRIPTIONS

The 3-Month LIBOR (London Interbank Offered Rate) Index is an average interest rate, determined by the British Bankers Association, that banks charge one another for the use of short-term money (3 months) in England's Eurodollar market.

Barclays U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

The Dow Jones UBS Commodity Total Return Index is an unmanaged index composed of futures contracts on 19 physical commodities. The index is designed to be a highly liquid and diversified benchmark for commodities as an asset class. Prior to May 7, 2009, this index was known as the Dow Jones AIG Commodity Total Return Index.

HFRX Global Hedge Fund Index is an unmanaged index designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. The strategies are asset weighted based on the distribution of assets in the hedge fund industry.

The JPMorgan Emerging Markets Bond Index Global is an unmanaged index which tracks the total return of U.S.-dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady Bonds, loans, Eurobonds, and local market instruments.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. Since June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The index represents the unhedged performance of the constituent stocks, in US dollars.

The S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The index focuses on the Large-Cap segment of the U.S. equities market.

It is not possible to invest in an unmanaged index.

## PIMCO UNCONSTRAINED FULL AUTHORITY COMPOSITE

	COMPOSITE RETURN (%) BEFORE FEES	COMPOSITE RETURN (%) AFTER FEES	BENCHMARK <sup>a</sup> RETURN (%)	COMPOSITE DISPERSION <sup>b</sup> BEFORE FEES	COMPOSITE 3-YR STD DEV <sup>c</sup> BEFORE FEES	BENCHMARK 3-YR STD DEV <sup>c</sup>	NUMBER OF PORTFOLIOS	TOTAL ASSETS (USD) MILLIONS	PERCENTAGE OF FIRM ASSETS	UNCONSTRAINED FULL AUTHORITY FEE SCHEDULE:
Oct - Dec 07	1.39	1.36	1.30	N/A	N/A	N/A	Five or Fewer	114	<1	1st \$200 Million 0.600%
2008	-2.86	-3.18	3.10	N/A	N/A	N/A	Five or Fewer	594	<1	Thereafter 0.550%
2009	14.63	13.67	0.36	N/A	N/A	N/A	Five or Fewer	3,951	<1	
2010	6.53	5.60	0.28	N/A	4.39	0.42	6	18,319	1	
2011	1.44	0.54	0.31	0.65	3.02	0.02	13	22,988	2	
2012	9.65	8.69	0.47	1.93	2.08	0.03	18	31,217	2	

a 1 Month LIBOR (inception - Dec. 2010), thereafter 3 Month LIBOR Index(quarterly reset)

b Equal-weighted standard deviation of annual returns for all portfolios in the composite for the full year. Not statistically meaningful for periods shorter than a year or for years in which five or fewer portfolios were included for the full year.

c The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Pacific Investment Management Company LLC (PIMCO) is an SEC registered investment adviser that provides global investment solutions to institutions, individuals, and government entities worldwide. For GIPS compliance purposes, PIMCO has been defined to include its investment management activities as well as those of its subsidiaries, which include PIMCO Australia Pty Ltd, PIMCO Canada Corp., PIMCO Europe Ltd, PIMCO Japan Ltd, PIMCO Asia Pte Ltd, and PIMCO Asia Limited, as well as those of its affiliate PIMCO Deutschland GmbH. In March 2012, the firm was redefined to include assets managed on behalf of Allianz's affiliated companies. In addition, in January 2010, the firm definition was expanded to include fixed income assets managed in collaboration with Allianz Global Investors using the PIMCO investment process. Prior to 2010, country-specific limitations restricted the full implementation of the PIMCO investment process for these assets. A complete list of composite descriptions is available upon request.

PIMCO claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. PIMCO has been independently verified for the period January 1987 through December 2012 by PricewaterhouseCoopers LLP. The verification report is available upon request. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation.

The Unconstrained Full Authority Composite includes all discretionary, fee-paying, USD-based accounts with an absolute return strategy U.S. LIBOR benchmark that have a target duration range from -2 to 6 years. Accounts must allow Futures (long & short), Options (long & short), Swaps (credit default swaps and interest rate swaps), Non-USD investments (permitted allocation of at least 50%), High Yield (permitted allocation of at least 20%), and Emerging Markets (permitted allocation of at least 30%) to meet the Full Authority criteria. PIMCO's Unconstrained Bond Strategy is an absolute return-oriented, fixed income strategy that embodies PIMCO's secular thinking, global themes, and integrated investment process without the constraints of a benchmark or significant sector/instrument limitations. The strategy is designed to offer the traditional benefits of a core bond approach – capital preservation, liquidity and diversification – but with higher alpha potential and the opportunity to mitigate downside risk. The composite creation date is October 2010.

The 3-Month LIBOR (London Interbank Offered Rate) Index is an average interest rate, determined by the British Bankers Association, that banks charge one another for the use of short-term money (3 months) in England's Eurodollar market. The BofA Merrill Lynch U.S. Dollar 1 Month LIBOR (London Interbank Offered Rate) Index is an average interest rate, determined by the British Bankers Association, that banks charge one another for the use of short-term money (1 month) in England's Eurodollar market.

Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income. Net results reflect the deduction of actual management fees and, in some instances, custodial and administrative fees. When applicable, composite performance is net of any actual withholding tax paid and not reclaimable. Index returns are gross of withholding tax. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Fixed income derivatives are frequently used in a non-leveraged manner as substitutes for physical securities. Futures, options, and swaps may be used to gain, hedge or restructure exposure to interest rates, volatility, spreads, foreign bond markets and currencies within the parameters allowed by individual portfolio guidelines. Use of these instruments may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Diversification does not ensure against loss.

**Past performance is not a guarantee or a reliable indicator of future results.**

## PIMCO CORE PLUS - TOTAL RETURN FULL AUTHORITY COMPOSITE

	COMPOSITE RETURN (%) BEFORE FEES	COMPOSITE RETURN (%) AFTER FEES	BENCHMARK <sup>a</sup> RETURN (%)	COMPOSITE DISPERSION <sup>b</sup> BEFORE FEES	COMPOSITE 3-YR STD DEV <sup>c</sup> BEFORE FEES	BENCHMARK 3-YR STD DEV <sup>c</sup>	NUMBER OF PORTFOLIOS	TOTAL ASSETS (USD) MILLIONS	PERCENTAGE OF FIRM ASSETS	TOTAL RETURN SEPARATE ACCOUNT FEE SCHEDULE:
2003	6.30	5.86	4.10	1.08	4.56	4.20	183	129,915	35	1st \$25 Million 0.500%
2004	5.65	5.21	4.34	0.48	4.30	4.28	198	143,191	32	Next \$25 Million 0.375%
2005	3.31	2.89	2.43	0.31	4.09	4.07	213	167,015	32	Thereafter 0.250%
2006	4.60	4.17	4.33	0.39	3.12	3.21	226	188,043	31	
2007	9.34	8.88	6.97	0.82	3.17	2.77	226	214,522	32	
2008	3.79	3.34	5.24	2.54	4.59	3.97	222	223,749	32	
2009	14.68	14.17	5.93	2.38	4.99	4.11	206	320,710	34	
2010	9.12	8.62	6.54	1.22	4.91	4.17	210	388,980	31	
2011	4.68	4.20	7.84	1.71	3.68	2.78	211	390,199	29	
2012	10.35	9.86	4.21	0.98	3.06	2.38	216	453,320	23	

a Barclays U.S. Aggregate Bond Index

b Equal-weighted standard deviation of annual returns for all portfolios in the composite for the full year. Not statistically meaningful for periods shorter than a year or for years in which five or fewer portfolios were included for the full year

c The three-year annualized ex-post standard deviation measures the variability of the composite and the benchmark returns over the preceding 36-month period.

Pacific Investment Management Company LLC (PIMCO) is an SEC registered investment adviser that provides global investment solutions to institutions, individuals, and government entities worldwide. For GIPS compliance purposes, PIMCO has been defined to include its investment management activities as well as those of its subsidiaries, which include PIMCO Australia Pty Ltd, PIMCO Canada Corp., PIMCO Europe Ltd, PIMCO Japan Ltd, PIMCO Asia Pte Ltd, and PIMCO Asia Limited, as well as those of its affiliate PIMCO Deutschland GmbH. In March 2012, the firm was redefined to include assets managed on behalf of Allianz's affiliated companies. In addition, in January 2010, the firm definition was expanded to include fixed income assets managed in collaboration with Allianz Global Investors using the PIMCO investment process. Prior to 2010, country-specific limitations restricted the full implementation of the PIMCO investment process for these assets. A complete list of composite descriptions is available upon request.

PIMCO claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. PIMCO has been independently verified for the period January 1987 through December 2012 by PricewaterhouseCoopers LLP. Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. The Core Plus - Total Return Full Authority Composite has been examined for the period December 1989 through December 2012. Benchmark returns and composite returns after fees were not examined and are not covered by the report of independent accountants. The verification and performance examination reports are available upon request.

The Core Plus - Total Return Full Authority Composite includes all discretionary, fee-paying, U.S. dollar based, Total Return accounts that meet the U.S. Total Return Core Plus Full Authority criteria. PIMCO's Total Return accounts are managed to a core bond strategy that seeks to maximize price appreciation and current income with index-like volatility. Beginning January 1993, accounts must allow futures (long & short), options (long & short), non-U.S. dollar investments (permitted allocation of at least 20%), high yield (permitted allocation of at least 10%) and emerging markets to meet the Full Authority criteria. The composite creation date is November 2002.

The Barclays U.S. Aggregate Bond Index represents securities that are SEC-registered, taxable, and U.S. dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. Prior to November 2008, the index was published by Lehman Brothers.

Valuations are computed and performance is reported in U.S. dollars. Returns are presented gross and net of management fees and include the reinvestment of all income. Net results reflect the deduction of actual management fees and, in some instances, custodial and administrative fees. When applicable, composite performance is net of any actual withholding tax paid and not reclaimable. Index returns are gross of withholding tax. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request.

Fixed income derivatives are frequently used in a non-leveraged manner as substitutes for physical securities. Futures, options, and swaps may be used to gain, hedge or restructure exposure to interest rates, volatility, spreads, foreign bond markets and currencies within the parameters allowed by individual portfolio guidelines. Use of these instruments may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested. Diversification does not ensure against loss.

**Past performance is not a guarantee or a reliable indicator of future results.**