AGENDA

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

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

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

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

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

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

AUDIO: All Board of Retirement regular meetings are audio recorded. Audio recordings of the meetings are available after the meetings at 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 12, 2012, Administrative Meeting Minutes View
   b. Approval of StanCERA Holiday Office Closure on December 24, 2012 and December 31, 2012 View
6. Semi-Annual Performance Report by Delaware Investments

7. Strategic Investment Solutions (SIS), Inc.

8. Executive Director
   a. Overview of Asset/Liability Education Study Session
   b. Asset Allocation Study – Board of Retirement Risk Survey
   c. Public Employees’ Pension Reform Act of 2012 – AB 340 and AB 197

9. Closed Session
   a. 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(a)
   b. 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 Government Code Section 54956.9(b)

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

11. Adjournment
PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES September 12, 2012

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

Alternate Member Present: Joan Clendenin, Alternate Retiree Representative

Staff Present: Rick Santos, Executive Director
Luiana Irizarry, Interim Executive Assistant
Kelly Cerny, Executive Board Secretary
Dawn Lea, Benefits Manager
Kathy Herman, Operations Manager
Kathy Johnson, Accountant

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

1. Meeting called to order at 2:00 p.m. by Jim DeMartini, Chair.

2. Roll Call

3. Announcements

   None.

4. Public Comment

   None.

5. Consent Items

   Motion was made by Darin Gharat and seconded by Maria De Anda to approve the following items as listed.

   Motion carried.

   a. Approval of the August 28, 2012 Investment Meeting Minutes
5. Consent Items (Cont.)

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

1. Maggie Alcorto, Sheriff, Effective 08-21-12
2. John Aud, DER, Effective 09-12-12
3. Rebecca Bojorquez, CSA, Effective 09-08-12
4. Dedra Borges, City of Ceres, Effective 09-07-12
5. Bruce Copeland, Assessor, Effective 09-01-12
6. Jeannie Custer, CSA, Effective 09-08-12
7. Brenda Douglas, Alliance Worknet, Effective 09-01-12
8. Christine Edwards, HSA, Effective 09-05-12
9. Christopher Emerson, SBT, Effective 08-02-12
10. John Heilman, Sheriff, Effective 08-25-12
11. Louie Naranjo Jr., Probation, Effective 09-22-12
12. Bryan Ogden, SBT, Effective 08-24-12
13. Lena Rodabaugh, DCSS, Effective 09-08-12
14. Meribeth Ruiz, CSA, Effective 08-25-12
15. Julie Stephens, CSA, Effective 09-22-12

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

1. Kari Bettencourt, DA, Effective 06-01-12
2. Benjamin Cuellar, CSA, Effective 08-11-12
3. Timothy Hankins, City of Ceres, Effective 07-14-12
4. Michele Houston, City of Ceres, Effective 07-14-12
5. Pamela Lial, DER, Effective 05-18-12
6. Jodi Miller, Library, Effective 08-03-12
7. Shelley Miller, Superior Courts, Effective 06-30-12
8. John Moss, Sheriff, Effective 11-08-2011
9. Hien Nguyen, Public Defender, Effective 01-28-12
10. Noe Pena, Sheriff, Effective 08-25-12
11. Stephanie Poulsen, DER, Effective 07-26-12
12. Michael Riddell, City of Ceres, Effective 12-10-11
13. Kim Saing, CSA, Effective 05-26-12
14. Paris Scott, Auditor Controller, Effective 05-31-12
15. Jonathan Sweet, Sheriff, Effective 12-29-11
16. Yogeshwari Uma, Sheriff, Effective 09-10-11
17. Kristina Waldon, City of Ceres, Effective 07-28-12
6. **Executive Director**

   a. Discussion and Action on the State Association of County Retirement Systems; (SACRS) November 13-16, 2012 Fall Conference Voting Proxy Form

      Motion was made by Darin Gharat and seconded by Donna Riley to approve to designate Michael O'Neal as the voting delegate, during the SACRS Fall 2012 Conference Business Meeting on November 16, 2012. No alternate voting delegate was designated.

      Motion carried.

   b. Public Employees Pension Reform Act of 2012 – The Impact of AB 340 and AB 197 on CERL Systems

      Mr. Santos provided an update to Board members regarding the impact of AB 340 and AB 197 on CERL Systems.

R. Martin arrived at 2:07 p.m.

7. **Closed Session**

   No Closed Session.

   a. 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(a)

   b. 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

      Government Code Section 54956.9(b)

8. **Members’ Forum (Information and Future Agenda Requests Only)**

   Mr. Grover requested staff to provide information regarding fees paid to StanCERA money managers and sub managers.

   Mr. O’Neal reported the results from the September 12, 2012 Strategic Planning Objectives Committee meeting. Committee is moving forward with locating a Facilitator for StanCERA’s next three-year Strategic Plan.

   Mr. DeMartini requested information on the Opal Financial Summit taking place in January 2013.
9. **Adjournment**

Meeting adjourned at 2:23 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
For the Retirement Board meeting  
Held on September 25, 2012

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Holiday Office Closure

II. RECOMMENDATION: Close the office all day on Monday December 24 and Monday December 31

III. ANALYSIS: The normal office closures for the Christmas and New Years Holidays are at noon on Christmas Eve December 24 (if it falls on a work day) and all day on Christmas December 25 and New Years Day January 1.

This year Christmas and New Years Day fall on a Tuesday, which would cause StanCERA offices to be open ½ day and then closed again on Tuesday. Then again the following week StanCERA offices would be open one day and closed the next. Absent specific directions from the Retirement Board, StanCERA staff normally follows Stanislaus County personnel policies including (but not limited to) pay, leave time and holidays.

On September 11, 2012, the Stanislaus County Board of Supervisors approved closure of most “non-24/7 operations offices starting on Monday December 24 through Tuesday January 1, reopening on Wednesday January 2, 2013. Employees must use vacation or compensatory time off to ensure that there is no increased personnel cost.

StanCERA staff felt that closing the whole week could prove problematic for some of our members and staff since it is the last week of the month and the calendar year. I would like to recommend that in addition to the normal Holiday closure, we close the office two days, December 24 and December 31. Staff will use vacation or compensatory time off as approved for all County employees. This will allow StanCERA to maintain its customer service and still enjoy the holidays with family and friends.

IV. RISK: - None

V. STRATEGIC PLAN: Goal 3. Board and Staff Development. StanCERA will maintain excellence in governance and customer service through continuous organizational improvement.

VI. BUDGET IMPACT: - None
Focus growth equity investment review

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 25, 2012
Biographies

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, 2012

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

Assets $172.4 billion under management

By client type ($ billions)

- Institutional: $85.0 (49.3%)
- Retail: $42.6 (24.7%)
- Insurance: $44.8 (26.0%)
- Other: $2.4 (1.4%)

By asset class ($ billions)

- Domestic equity: $129.8 (75.3%)
- Domestic fixed income: $29.4 (17.0%)
- International fixed income: $10.8 (6.3%)
- International equity: $2.4 (1.4%)

Institutional profile

524 Institutional client accounts

- 342 Institutional equity accounts
- 182 Institutional fixed income accounts

By assets

- Sub-advisory: 52%
- Corporate: 20%
- Public: 14%
- Taft-Hartley: 3%
- High net worth: 2%
- NDT/VEBA: 7%
- Endowments and foundations: 2%
- Other: 1%

Staff

140 Investment professionals

- 41 Portfolio managers
- 61 Research analysts
- 28 Traders
- 10 Quantitative analysts
# Representative client list

As of June 30, 2012

<table>
<thead>
<tr>
<th>Corporate employee benefit</th>
<th>Endowments &amp; foundations</th>
<th>Taft-Hartley</th>
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</thead>
<tbody>
<tr>
<td>A. O. Smith Corporation</td>
<td>Gellert Foundation</td>
<td>Chicago Laborers</td>
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<tr>
<td>American Airlines, Inc.</td>
<td>The Oregon Community Foundation</td>
<td>Greater PA Regional Council of Carpenters</td>
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<td><strong>Boeing</strong></td>
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<td>Newspaper Guild International Pension</td>
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<tr>
<td>Cooper Tire &amp; Rubber Company</td>
<td></td>
<td>Plumbers and Pipefitters Local #421</td>
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<tr>
<td><strong>General Mills</strong></td>
<td><strong>Healthcare organizations</strong></td>
<td>Roofers &amp; Waterproofers Local #30</td>
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<tr>
<td>Glatfelter</td>
<td>John Muir Health</td>
<td>San Francisco Culinary Pension Fund</td>
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<tr>
<td>Oneok, Inc.</td>
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<td>Southwest Ohio Regional Council of Carpenters</td>
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<tr>
<td>Pactiv, Inc.</td>
<td><strong>Sub-advisory</strong></td>
<td>Teamsters Local #557 Pension Fund</td>
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<td>Textron Corporation</td>
<td>First Mercantile Trust Company</td>
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<td>USAA</td>
<td>GuideMark</td>
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<td></td>
<td>Lincoln National Corporation</td>
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<tr>
<td><strong>Public funds</strong></td>
<td><strong>Massachusetts Mutual Life Insurance Company</strong></td>
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<td>California State Teachers Retirement System</td>
<td>MLC Investments Limited</td>
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<tr>
<td>City of New Orleans Employees’ Retirement System</td>
<td>Nomura Funds Research and Technologies Co., Ltd</td>
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<td>Commonwealth of Pennsylvania</td>
<td><strong>Northern Trust</strong></td>
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<td><strong>Contra Costa County Employees’ Retirement Association</strong></td>
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<tr>
<td>Miami Firefighters and Police Officers</td>
<td><strong>PMC Funds</strong></td>
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<td>Ohio School Employees’ Retirement System</td>
<td><strong>RBS Asset Management</strong></td>
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<td>Oregon Public Employees’ Retirement System</td>
<td><strong>Russell Investment Company</strong></td>
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<td>Stanislaus County Employees’ Retirement Association</td>
<td><strong>SCS Financial Services LLC</strong></td>
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<td>SEI</td>
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<td></td>
<td>The Vanguard Group</td>
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<td></td>
<td>UBS</td>
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</table>

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.
Firm overview

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.
Focus Growth team
San Francisco
12 investment professionals
• Five institutional strategies
• $17.0 billion AUM

Institutional-grade service platform
$172.4 billion AUM

- Shared resources
- Aligned financial interests
- Synergistic opportunities for growth and distribution

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

Investment teams

<table>
<thead>
<tr>
<th>Growth equities ($17.0 billion*)</th>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Focus Growth team</strong> (San Francisco)</td>
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<tr>
<td>Large-Cap</td>
<td>Smid-Cap</td>
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<tr>
<th>Value equities ($10.3 billion*)</th>
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<tr>
<td><strong>Large Cap Value team</strong> (Philadelphia)</td>
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<tr>
<td>Large-Cap – Focus</td>
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<td><strong>Small, Mid Cap Value team</strong> (Philadelphia)</td>
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<td>Mid-Cap</td>
<td>Small-Cap</td>
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<th>Core equities ($2.1 billion*)</th>
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<td><strong>Core team</strong> (Philadelphia)</td>
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<td>Large-Cap</td>
<td>Small-Cap</td>
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| Core | Socially Responsible |
| Core | Socially Responsible |

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<tr>
<th>Global/International equities ($10.8 billion*)</th>
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<td><strong>Emerging Markets team</strong> (Boston)</td>
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<td>Emerging Markets</td>
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<td><strong>International Value Equity team</strong> (Boston)</td>
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<td>Global Value</td>
<td>International Value</td>
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<th>Fixed income securities ($132.2 billion*)</th>
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<td><strong>Fixed Income team</strong> (Philadelphia)</td>
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<tr>
<td>Intermediate</td>
<td>Corporate Bond</td>
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<tr>
<td>Core</td>
<td>Long Duration</td>
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<td>Core Plus</td>
<td>High Yield</td>
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<tr>
<td>Multisector</td>
<td>Convertibles</td>
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<tr>
<td>International</td>
<td>Private Placements</td>
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<td>Tax-exempt</td>
<td>Tax-managed</td>
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<td>Core</td>
<td>Core</td>
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<td>Core Plus</td>
<td>Core Plus</td>
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<td>Cash/Enhanced Cash</td>
<td>Limited Term/LT Multi-sector</td>
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<td>International</td>
<td>International</td>
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<td>Inflation Protected</td>
<td>Inflation Protected</td>
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<td>Government Quality</td>
<td>Government Quality</td>
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</tbody>
</table>

*Assets under management as of June 30, 2012. Includes all assets managed in this style, including institutional separate accounts, institutional mutual funds, retail mutual funds, and managed accounts. Institutional assets total $44.8 billion.

$4.1 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, 2012

Relationship inception . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . August 18, 2006

Investment style . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Large-Cap Growth

Benchmark . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . Russell 1000 Growth

Financials

Initial investment . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $104,130,987

Net contributions/withdrawals . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . ($27,500,272)

Net portfolio gain/loss . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $42,033,277

Current portfolio value . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . $118,663,992
Performance
Stanislaus County ERA For periods ended June 30, 2012

Returns

- 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.
- Performance is calculated as of first full month following inception.

<table>
<thead>
<tr>
<th>Year</th>
<th>Stanislaus County ERA (gross of fees)</th>
<th>Stanislaus County ERA (net of fees)</th>
<th>Russell 1000 Growth Index</th>
</tr>
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<tbody>
<tr>
<td>2012</td>
<td>10.97%</td>
<td>10.43%</td>
<td>5.76%</td>
</tr>
<tr>
<td>1 year</td>
<td>19.66%</td>
<td>19.07%</td>
<td>17.50%</td>
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<tr>
<td>3 year</td>
<td>4.20%</td>
<td>3.68%</td>
<td>2.87%</td>
</tr>
<tr>
<td>5 year Since Inception (8/31/06)</td>
<td>5.81%</td>
<td>5.29%</td>
<td>5.35%</td>
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Top five contributors to relative performance

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Contribution %</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROWN CASTLE INTERNATIONAL</td>
<td>TECHNOLOGY</td>
<td>0.65</td>
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<tr>
<td>VERISIGN</td>
<td>TECHNOLOGY</td>
<td>0.61</td>
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<td>VISA</td>
<td>FINANCIAL SERVICES</td>
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<td>PERRIGO</td>
<td>HEALTHCARE</td>
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<tr>
<td>MASTER CARD - CLASS A</td>
<td>FINANCIAL SERVICES</td>
<td>0.28</td>
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Bottom five contributors to relative performance

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<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Contribution %</th>
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<tbody>
<tr>
<td>EOG RESOURCES</td>
<td>ENERGY</td>
<td>-0.72</td>
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<tr>
<td>POLYCOM</td>
<td>TECHNOLOGY</td>
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<td>QUALCOMM</td>
<td>TECHNOLOGY</td>
<td>-0.56</td>
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<tr>
<td>NIKE - CLASS B</td>
<td>CONSUMER DISCRETIONARY</td>
<td>-0.39</td>
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<tr>
<td>STAPLES</td>
<td>CONSUMER DISCRETIONARY</td>
<td>-0.36</td>
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</table>

1 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.
2 Performance is calculated as of first full month following inception.
Performance
Stanislaus County ERA
For periods ended August 31, 2012

Returns¹

<table>
<thead>
<tr>
<th>Percent</th>
<th>YTD</th>
<th>1 year</th>
<th>3 year</th>
<th>5 year</th>
<th>Since Inception (8/31/06)²</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>14.51%</td>
<td>18.66%</td>
<td>18.31%</td>
<td>17.73%</td>
<td>15.59%</td>
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<td>14.14%</td>
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<tr>
<td></td>
<td>14.55%</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Top five contributors to relative performance

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Contribution %</th>
</tr>
</thead>
<tbody>
<tr>
<td>CROWN CASTLE INTERNATIONAL</td>
<td>TECHNOLOGY</td>
<td>1.07</td>
</tr>
<tr>
<td>TERADATA</td>
<td>TECHNOLOGY</td>
<td>0.83</td>
</tr>
<tr>
<td>NOVO NORDISK ADS</td>
<td>HEALTHCARE</td>
<td>0.65</td>
</tr>
<tr>
<td>APPLE</td>
<td>TECHNOLOGY</td>
<td>0.64</td>
</tr>
<tr>
<td>VISA</td>
<td>FINANCIAL SERVICES</td>
<td>0.54</td>
</tr>
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</table>

Bottom five contributors to relative performance

<table>
<thead>
<tr>
<th>Name</th>
<th>Sector</th>
<th>Contribution %</th>
</tr>
</thead>
<tbody>
<tr>
<td>APOLLO GROUP - CLASS A</td>
<td>CONSUMER DISCRETIONARY</td>
<td>-2.23</td>
</tr>
<tr>
<td>STAPLES</td>
<td>CONSUMER DISCRETIONARY</td>
<td>-0.73</td>
</tr>
<tr>
<td>ALLERGAN</td>
<td>HEALTHCARE</td>
<td>-0.71</td>
</tr>
<tr>
<td>POLYCOM</td>
<td>TECHNOLOGY</td>
<td>-0.59</td>
</tr>
<tr>
<td>PROGRESSIVE</td>
<td>FINANCIAL SERVICES</td>
<td>-0.53</td>
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</table>

¹ 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.

² Performance is calculated as of first full month following inception.
# Portfolio holdings

## Stanislaus County ERA  
As of August 31, 2012

<table>
<thead>
<tr>
<th>Sector</th>
<th>42.21</th>
<th>9.82</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td></td>
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</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>29.89</td>
<td>11.44</td>
</tr>
<tr>
<td>Apple</td>
<td>9.47</td>
<td>4.17</td>
</tr>
<tr>
<td>Crown Castle International</td>
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<td>QUALCOMM</td>
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<tr>
<td>Google - Class A</td>
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<td>Intuit</td>
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<tr>
<td>BMC Software</td>
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<tr>
<td>Adobe Systems</td>
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<td>VenSign</td>
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<td>Teradata</td>
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<tr>
<td>Polycom</td>
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<table>
<thead>
<tr>
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<tbody>
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<td>Russell 1000 Growth</td>
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<td>Visa</td>
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<tr>
<td>MasterCard - Class A</td>
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<tr>
<td>Intercontinental.Exchange</td>
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<td>Progressive</td>
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<td>CME Group - Class A</td>
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<table>
<thead>
<tr>
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<td>priceline.com</td>
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<td>Nike - Class B</td>
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<tr>
<td>Staples</td>
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<tr>
<td>Apollo Group - Class A</td>
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<td>Liberty Ventures</td>
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<thead>
<tr>
<th><strong>Healthcare</strong></th>
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<td>Allergan</td>
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<td>Novo Nordisk ADS</td>
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<table>
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<tr>
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<tbody>
<tr>
<td>Russell 1000 Growth</td>
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<td>EOG Resources</td>
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<td>Kinder Morgan</td>
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<td>Kinder Morgan Warrants Exp 05/25/2017</td>
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<table>
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<tr>
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<td>Walgreen</td>
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<table>
<thead>
<tr>
<th><strong>Materials &amp; Processing</strong></th>
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<tr>
<td>Russell 1000 Growth</td>
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<td>Syngenta ADS</td>
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<th><strong>Producer Durables</strong></th>
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<tr>
<td>Russell 1000 Growth</td>
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<td></td>
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<tr>
<td>Caterpillar</td>
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<table>
<thead>
<tr>
<th><strong>Cash</strong></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1.54</td>
</tr>
</tbody>
</table>

Holdings are current as of the day indicated and subject to change.
Portfolio characteristics*
Stanislaus County ERA
As of August 31, 2012

Weighted-average market capitalization

- **Stanislaus County ERA**: $99,605 million
- **Russell 1000 Growth Index**: $120,601 million

Five-year EPS growth rate

- **Stanislaus County ERA**: 20.9%
- **Russell 1000 Growth Index**: 17.1%

Median market capitalization

- **Stanislaus County ERA**: $22,298 million
- **Russell 1000 Growth Index**: $6,040 million

Price/earnings (weighted-average next 12 months)

- **Stanislaus County ERA**: 16.2 times
- **Russell 1000 Growth Index**: 14.8 times

Weighted-average revenues

- **Stanislaus County ERA**: $26,097 million
- **Russell 1000 Growth Index**: $46,447 million

Turnover (12 months trailing): 21.41%

*Characteristics are current as of the day indicated and subject to change.
Philosophy
Focus Growth Equity investment management

Our philosophy
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

• 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

Our team

<table>
<thead>
<tr>
<th>Name</th>
<th>Industry experience</th>
<th>Portfolio management</th>
<th>Analysis</th>
<th>Trading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jeff Van Harte</td>
<td>31 years</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Bonavico</td>
<td>24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ken Broad</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dan Prislin</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chris Ericksen</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patrick Fortier</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greg Heywood</td>
<td>19</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Van Tran</td>
<td>15</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ian Ferry</td>
<td>6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lisa Hansen</td>
<td>31</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deborah Sabo</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kevin Brown (Investment Specialist)</td>
<td>17</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 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
- Most concentrated product: 20 stocks or fewer
- Managed by four most seasoned portfolio managers
- Most opportunistic orientation

### 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
- Ken Broad
- Chris Bonavico
- Patrick Fortier
- Chris Ericksen
- Dan Prislin
- Jeff Van Harte
- Van Tran

### 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

Valuation/validation
- Discounted cash-flow valuation
- Quality of earnings

Advantaged business model
- Porter Five Forces
- Intrinsic business-value growth

Fundamental change
- Disruption can create opportunity for growth and the potential for excess returns
- Three primary forms: industry, product, and management
Investment process
Focus Growth Equity investment management

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

**Advantaged business model**
- 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**
- 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**
- 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**
- 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: 31 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 24 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 17 YEARS
2005 – Present Delaware Investments
2000 – 2005 Transamerica Investment Management
1994 – 2000 Franklin Templeton Group
Colgate University, BA
University of California, Los Angeles, MBA

Daniel J. Prislin, CFA
Senior Portfolio Manager / Analyst
INDUSTRY EXPERIENCE 19 YEARS
2005 – Present Delaware Investments
2000 – 2005 Transamerica Investment Management
1994 – 2000 Franklin Templeton Group
Colgate University, BA
University of California, Los Angeles, MBA

Patrick G. Fortier, CFA
Portfolio Manager / Analyst
INDUSTRY EXPERIENCE 17 YEARS
2005 – Present Delaware Investments
2000 – 2005 Transamerica Investment Management
1995 – 2000 Old Equity Research
University of Kentucky, BBA

Gregory M. Heywood, CFA
Portfolio Manager / Analyst
INDUSTRY EXPERIENCE 19 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 15 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
Analyst
INDUSTRY EXPERIENCE 6 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 17 YEARS
2006 – Present Delaware Investments
2003 – 2006 Merrill Lynch
2000 – 2003 Credit Suisse First Boston
1999 – 2000 Donaldson, Lufkin & Jenrette
1997 – 1999 JPMorgan
1995 – 1997 Robertson Stephens
University of California, Berkeley, BA
University of California, Los Angeles, MBA

Lisa L. Hansen
Senior Trader
INDUSTRY EXPERIENCE 31 YEARS
2005 – Present Delaware Investments
1997 – 2005 Transamerica Investment Management
University of California, Santa Cruz, BS

Deborah Sabo, CMT
Senior Trader
INDUSTRY EXPERIENCE 18 YEARS
2005 – Present Delaware Investments
1999 – 2001 Robertson Stephens
1996 – 1999 Deutsche Bank
1994 – 1996 Merrill Lynch
University of Pittsburgh, BA

Kevin J. Brown
Senior Investment Specialist
INDUSTRY EXPERIENCE 17 YEARS
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Senior Trader
INDUSTRY EXPERIENCE 18 YEARS
2005 – Present Delaware Investments
1999 – 2001 Robertson Stephens
1996 – 1999 Deutsche Bank
1994 – 1996 Merrill Lynch
University of Pittsburgh, BA
Composite performance and statistics

December 31, 2011

Composite statistics and performance

<table>
<thead>
<tr>
<th>Period end</th>
<th>Delaware Large-Cap Growth Equity return gross-of-fees</th>
<th>Delaware Large-Cap Growth Equity return net-of-fees</th>
<th>Russell 1000 Growth Index return</th>
<th>Internal dispersion</th>
<th>Standard deviation (3 year annualized)</th>
<th>Number of portfolios</th>
<th>Composite size ($mm)</th>
<th>Percentage of firm assets</th>
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<tbody>
<tr>
<td>2011</td>
<td>8.9%</td>
<td>8.4%</td>
<td>2.6%</td>
<td>0.1%</td>
<td>17.2%</td>
<td>49</td>
<td>9,159.6</td>
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<td>2010</td>
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<td>52</td>
<td>8,279.1</td>
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<td>2009</td>
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<td>7,474.1</td>
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<td>-42.9%</td>
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<td>6,119.0</td>
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<td>2007</td>
<td>13.6%</td>
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<td>11.8%</td>
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<td>58</td>
<td>10,585.2</td>
<td>13.5%</td>
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<td>2006</td>
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<td>2.6%</td>
<td>9.1%</td>
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<td>11,015.5</td>
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<td>2005</td>
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<td>7,862.3</td>
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<td>3.9%</td>
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<td>2003</td>
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<td>29.8%</td>
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<td>n/a</td>
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<td>482.9</td>
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<td>2002</td>
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<td>-28.9%</td>
<td>-27.9%</td>
<td>0.4%</td>
<td>n/a</td>
<td>7</td>
<td>561.7</td>
<td>1.8%</td>
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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 registered U.S. 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, 2011, would have been 8.4%, 2.9%, and 2.2%, 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.
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.
U.S. EQUITY

August was a positive month for equities as U.S. stocks and Non-US stocks were up 2-3% for the month. Within the U.S. markets, growth outperformed value and small caps outperformed large caps. The Russell 1000 Growth Index was up +2.7% for the month and the Russell 1000 Value Index was up +2.2%. The Russell 2000 Growth Index was up +3.6% and the Russell 2000 Value was up 3.1%. The S&P 500 Index ended the month up +2.25%.

The S&P 500 Index has a trailing 12-month P/E ratio of 16.2 (estimated P/E ratio of 13.6 on forward looking twelve-month operating earnings) and a dividend yield of 2.1%.

Dividend payments this year are expected to hit a record $275 billion, well above the previous record $248 billion paid in 2008.

Corporate merger highlights for the month included: Heineken reached an agreement with Singapore’s Fraser and Neave to buy its 40% stake in Asia Pacific Breweries for $4.1 billion; GlaxoSmithKline completed its $3 billion acquisition of long-time biotech partner Human Genome Sciences; Oilfield-services equipment maker National Oilwell Varco will acquire Robbins & Myers for $2.55 billion; Tesoro will acquire BP’s refining, marketing and infrastructure operations in Southern California in a deal valued at about $2.5 billion; Focus Media, a Chinese digital advertising company, received a $3.7 billion offer to take the company private; BP is seeking as much as $7.9 billion before tax payments for a group of Gulf of Mexico oilfields as it unloads assets following its 2010 spill in the region; The Carlyle Group will pay $3.3 billion to acquire Getty Images, the creator and distributor of photos, video and multi-media products; Best Buy rejected a takeover from its co-founder valuing the company at $8.8 billion; Aetna will buy fellow insurer Coventry Health Care for $5.7 billion; Heineken raised its bid for a controlling stake in Tiger Beer maker Asia Pacific Breweries to $4.5 billion; Health Care REIT, an Ohio-based owner of senior housing and health-care properties, will acquire Sunrise Senior Living in a deal valued at $1.9 billion; M&T Bank will buy Hudson City Bancorp in a $3.7 billion deal to expand its reach in the eastern U.S.; Hertz, more than two years after its original bid, finally agreed to buy Dollar Thrifty for about $2.3 billion; IBM will buy Kenexa, a provider of recruiting and talent-management services, for $1.3 billion; Clayton, Dubilier & Rice will buy David’s Bridal in a deal that values the private company at $1.05 billion; Japan’s Daikin Industries will pay $3.7 billion for Goodman Global; DuPont will sell its performance coatings business to The Carlyle Group for $4.9 billion; and, Bank of Nova Scotia will buy ING Bank of Canada from its Dutch parent ING Groep for $3.2 billion.

FIXED INCOME

The Labor Dept. reported that the unemployment rate inch ed up to 8.3% in July from 8.2% in June. Unemployment rates rose in 44 U.S. states in July. Nevada has the highest rate in the nation at 12.0%.

The Blue Chip forecast for growth in U.S. gross domestic product was revised down to 1.7% for the 3rd quarter and 1.9% for the 4th quarter. The economy grew at a revised 1.7% annual rate in the 2nd quarter, boosted by slightly stronger consumer spending and greater exports.

The Federal Reserve said that banks continued to ease lending standards for larger firms in the last three months but small businesses are still having a hard time accessing credit.

Long-term interest rates rose in the month of August. The bellwether 10-year Treasury note ended the month yielding 1.57% up from 1.47% at the close of June. At month-end, the 30-year bond yield was 2.68% with the 3-month T-bill at 0.09%. The Barclays Capital US Aggregate Index was up by 0.07% in August with high yield corporates the strongest sector up by 1.21% for the month as measured by the BofA Merrill Lynch US High Yield, Master II Index.

The Treasury Dept. will begin offering investors Treasury securities with variable interest rates, similar to those on some home mortgages.
On the economic front, the following key data was released in August, with the month’s data being quite reasonable:

THE GOOD
* The Commerce Dept. reported that construction spending rose 0.4% in June following an upwardly revised 1.6% gain in May.
* Same store sales at U.S. retailers, excluding drugstores rose 4.6% in July, well above the final estimate of 3.1%, according to Thomson Reuters.
* The Labor Dept. reported that worker productivity climbed at a faster-than-expected 1.6% in the 2nd quarter.
* The Commerce Dept. reported that the U.S. trade deficit narrowed a more than expected 10.7% in June to $42.9 billion from $48.0 billion in May.
* The national median price for single-family homes sold in the 2nd quarter was $181,500, up 7.3% from the same quarter a year ago.
* The Commerce Dept. reported that retail sales rose a better-than-expected 0.8% to a seasonally adjusted $403.9 billion in July, the largest increase in five months.
* The Labor Dept. reported that consumer prices were unchanged in July from June, as a small drop in energy costs offset slightly higher food prices.
* The National Association of Home Builders/Wells Fargo builder sentiment index rose to 37 in August, the highest reading since March 2007.
* The Conference Board’s index of leading economic indicators increased 0.4% in July after falling 0.4% in June, the latest report showing an improved economic outlook.
* The Commerce Dept. reported that sales of new single-family homes in the U.S. climbed to an annual rate of 372,000 in July from 359,000 in June.
* The Commerce Dept. reported that orders for durable goods jumped 4.2% in July, marking the biggest increase since last December.
* Median household incomes, before taxes and adjusted for inflation, rose 2.2% in the last year through June.
* Sales of new vehicles in the U.S. are expected to rise 18% in August from a year earlier, marking the highest monthly rate in more than 4 ½ years.
* Household debt declined to $11.4 trillion in the 2nd quarter, a $53 billion drop from the 1st quarter and a $1.3 trillion drop since its peak in the 3rd quarter of 2008.

THE NOT SO GOOD
* The Commerce Dept. reported that consumer spending increased 0.4% in July after being unchanged in June and declining in May.
* The University of Michigan-Thomson Reuters’ consumer sentiment gauge rose to 74.3 in August.

THE NOT SO GOOD
* The Commerce Dept. reported that factory orders fell 0.5% in June after rising by the same margin the prior month.
* The Dept. of Agriculture forecast national corn production at 10.8 billion bushels in 2012, down 13% from 2011 and the lowest production since 2006.
* The Empire State index fell below zero, sinking to negative 5.9 in August, worse than the 7.4 reading in July.
* The Commerce Dept. reported that construction of single-family homes and apartments dipped 1.1% in July compared with June to a seasonally adjusted annual rate of 746,000.
* The median price of new homes declined 2.1% to $224,200 in July.
* Total cost of health care coverage is expected to increase 5.9% per employee in 2012 and rise 5.3% in 2013.

NON-U.S. MARKETS
GDP for all 27 members of the European Union fell by 0.2% in the 2nd quarter compared to the prior quarter. Year-over-year GDP fell by 0.4%.

Industrial production in the U.K. plunged in June dropping by 2.5% for the month, the largest decline since November 2008. Inflation pressures in the U.K. continue to ease as PPI was unchanged in July and has not risen in three consecutive months. GDP in the U.K. fell by 0.5% in the second quarter, a decline two ticks lower that was reported in the preliminary print.

German real factory orders fell 1.7% in June. Year-over-year, orders fell by 7.7%. Industrial production fell 0.9% in June and year-over-year production fell by 0.5% in Germany. GDP in Germany rose 0.3% in Q2 following a 0.5% gain in the first quarter. The French economy appears in worse shape as year-over-year production fell 2.3% and Q2 GDP was unchanged. The Italian economy appears to be in much worse shape as GDP fell 0.7% in Q2, the fourth consecutive decline, leaving it 2.5% lower than a year ago.
Spain’s bad loan rate rose to a record 9.42% in June, with more than $201 billion in loans to households and businesses at least three months behind in payments.

The Japanese economy has completed its recovery from the tsunami, but not from the Great Recession. GDP is now 1.1% above its pre-tsunami peak, but still 1.7% below it pre-recession peak. GDP grew by a disappointing 0.3% in the second quarter, following an upwardly revised 1.3% gain in the first.

Brazil unveiled a $66 billion stimulus package aimed at improving the nation’s infrastructure and investor confidence.

Non-U.S. equities were up for the month of July. The MSCI ACWI Ex-U.S. was up +1.4% (US dollars) in July. Developed stocks (EAFE) were up +1.2% while Emerging Markets gained +2.0% for the month.

**CONCLUSION**

Despite the continuation of negative news on the Eurozone and weakening Chinese growth, stocks have rallied during the summer months. Markets continue to look to central banks for intervention support and some developing economies seem to be shifting policy to include increased spending, with the hope of reinvigorating growth. “Risk on” has definitely been on for the month of August as equity markets and commodities (energy and gold) rallied.

The month of August also witnessed more upbeat economic activity prints in the U.S. The Fed minutes struck a more dovish tone, raising investor hopes for more monetary stimulus soon and perhaps even another stage of quantitative easing.

Mario Draghi, President of the European Central Bank, promises of support have produced reversals in European equity markets which also has narrowed sovereign debt spreads in Spain and Italy.

The coordinated easing by Central Banks has resulted in the U.S. Federal Reserve to promote pro-inflation policies to attempt to de-leverage the U.S. The printing of money, zero rates implementation and quantitative easing are all signs of this policy.
### Monthly Market Update

#### US Equity Indices Trailing Performance

<table>
<thead>
<tr>
<th>Annualized Performance to Date: Ending Aug-12</th>
<th>1 Month</th>
<th>3 Months</th>
<th>YTD</th>
<th>1 Year</th>
<th>2 Years</th>
<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
<th>10 Years</th>
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<td>Russell Mid-Cap Index</td>
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#### Non-US Indices Trailing Performance

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<thead>
<tr>
<th>Annualized Performance to Date: Ending Aug-12</th>
<th>1 Month</th>
<th>3 Months</th>
<th>YTD</th>
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<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
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<td>MSCI AC World Index ex USA</td>
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<td>MSCI AC World Index</td>
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#### US Fixed Income Indices Trailing Performance

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<th>Annualized Performance to Date: Ending Aug-12</th>
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<th>3 Months</th>
<th>YTD</th>
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<th>3 Years</th>
<th>5 Years</th>
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<td>0.06</td>
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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING AUGUST 31, 2012
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

<table>
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<tr>
<th>ASSET CLASS</th>
<th>MARKET VALUE</th>
<th>PERCENT</th>
<th>POLICY TARGET</th>
<th>RANGE</th>
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<tr>
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<td>43.6%</td>
<td>41.9%</td>
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<tr>
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<td>37.6%</td>
<td>33.9% - 41.3%</td>
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<td>SPECIAL SITUATIONS</td>
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<tr>
<td>SECURITY LENDING</td>
<td>(2,318,615)</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>0.0% - 0.0%</td>
</tr>
<tr>
<td>CASH (equity managers only)</td>
<td>14,808,630</td>
<td>1.0%</td>
<td>0.0%</td>
<td>0.0% - 3.0%</td>
</tr>
<tr>
<td>TOTAL PORTFOLIO</td>
<td>1,419,629,292</td>
<td>100.0%</td>
<td>100.0%</td>
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</tr>
</tbody>
</table>

CURRENT TARGET

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>CURRENT</th>
<th>TARGET</th>
</tr>
</thead>
<tbody>
<tr>
<td>DODGE &amp; COX - LARGE CAP VALUE</td>
<td>9.9%</td>
<td>9.8%</td>
</tr>
<tr>
<td>BGI - R1000 VALUE INDEX</td>
<td>6.4%</td>
<td>6.0%</td>
</tr>
<tr>
<td>DELAWARE - LARGE CAP GROWTH</td>
<td>8.4%</td>
<td>7.3%</td>
</tr>
<tr>
<td>BGI - R1000 GROWTH INDEX</td>
<td>5.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>CAPITAL PROSPECTS</td>
<td>4.6%</td>
<td>4.5%</td>
</tr>
<tr>
<td>LEGATO CAPITAL</td>
<td>4.3%</td>
<td>4.0%</td>
</tr>
<tr>
<td>BNY - S&amp;P 500 INDEX</td>
<td>5.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>LSV ASSET MGMT - INTL EQ</td>
<td>8.2%</td>
<td>9.5%</td>
</tr>
<tr>
<td>PYRAMIS - INTL EQ</td>
<td>8.6%</td>
<td>9.5%</td>
</tr>
<tr>
<td>DODGE &amp; COX FIXED INCOME</td>
<td>29.7%</td>
<td>30.1%</td>
</tr>
<tr>
<td>PIMCO</td>
<td>7.8%</td>
<td>7.5%</td>
</tr>
<tr>
<td>INVECO - GLOBAL REIT</td>
<td>1.4%</td>
<td>1.5%</td>
</tr>
<tr>
<td>SECURITY LENDING</td>
<td>-0.2%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

TOTALS 100.0% 100.0%
## STANCERA
### MONTHLY PERFORMANCE REVIEW
#### PERIOD ENDING AUGUST 31, 2012
##### PRELIMINARY BASIS

### GROWTH OF ASSETS AND CHANGES IN ALLOCATION

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>CURRENT MARKET VALUE</th>
<th>PRIOR MARKET VALUE</th>
<th>% CHANGE *</th>
<th>PRIOR YEAR MARKET VALUE</th>
<th>% CHANGE *</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DOMESTIC EQUITIES</strong></td>
<td>619,154,024</td>
<td>602,786,199</td>
<td>2.72%</td>
<td>527,663,402</td>
<td>17.34%</td>
</tr>
<tr>
<td><strong>INTERNATIONAL EQUITIES</strong></td>
<td>234,698,413</td>
<td>231,149,389</td>
<td>1.54%</td>
<td>238,681,128</td>
<td>-1.67%</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td>532,839,159</td>
<td>532,978,525</td>
<td>-0.03%</td>
<td>522,971,061</td>
<td>1.89%</td>
</tr>
<tr>
<td><strong>SPECIAL SITUATIONS</strong></td>
<td>20,447,680</td>
<td>20,331,038</td>
<td>0.57%</td>
<td>36,200,541</td>
<td>-43.52%</td>
</tr>
<tr>
<td><strong>SECURITIES LENDING</strong></td>
<td>(2,318,615)</td>
<td>(2,533,570)</td>
<td>8.48%</td>
<td>(2,642,642)</td>
<td>12.26%</td>
</tr>
<tr>
<td><strong>CASH (equity managers only)</strong></td>
<td>14,808,630</td>
<td>13,957,936</td>
<td>6.09%</td>
<td>10,183,811</td>
<td>45.41%</td>
</tr>
<tr>
<td><strong>TOTAL PORTFOLIO</strong></td>
<td>1,419,629,292</td>
<td>1,398,669,517</td>
<td>1.50%</td>
<td>1,333,057,300</td>
<td>6.49%</td>
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</tbody>
</table>

### ASSET ALLOCATION (ACTUAL)

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>CURRENT %</th>
<th>PRIOR %</th>
<th>% CHANGE</th>
<th>PRIOR %</th>
<th>% CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DOMESTIC EQUITIES</strong></td>
<td>43.61%</td>
<td>43.10%</td>
<td>0.5%</td>
<td>39.58%</td>
<td>4.0%</td>
</tr>
<tr>
<td><strong>INTERNATIONAL EQUITIES</strong></td>
<td>16.53%</td>
<td>16.53%</td>
<td>0.0%</td>
<td>17.90%</td>
<td>-1.4%</td>
</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td>37.53%</td>
<td>38.11%</td>
<td>-0.6%</td>
<td>39.23%</td>
<td>-1.7%</td>
</tr>
<tr>
<td><strong>SPECIAL SITUATIONS</strong></td>
<td>1.44%</td>
<td>1.45%</td>
<td>0.0%</td>
<td>2.72%</td>
<td>-1.3%</td>
</tr>
<tr>
<td><strong>SECURITY LENDING</strong></td>
<td>-0.16%</td>
<td>-0.18%</td>
<td>0.0%</td>
<td>-0.20%</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>CASH (equity managers only)</strong></td>
<td>1.04%</td>
<td>1.00%</td>
<td>0.0%</td>
<td>0.76%</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>TOTAL PORTFOLIO</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>0.0%</td>
<td>100.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns.
STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING AUGUST 31, 2012
PRELIMINARY BASIS

MANAGER ALLOCATION

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>MARKET VALUE</th>
<th>PERCENT</th>
<th>POLICY TARGET RANGE</th>
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<tbody>
<tr>
<td>DOMESTIC EQUITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DODGE &amp; COX LARGE CAP VALUE</td>
<td>140,807,958</td>
<td>9.9%</td>
<td>9.8% 7.6% - 11.2%</td>
</tr>
<tr>
<td>BLACKROCK R1000 VALUE INDEX</td>
<td>91,264,770</td>
<td>6.4%</td>
<td>6.0% 5.0% - 7.0%</td>
</tr>
<tr>
<td>DELAWARE LARGE CAP GROWTH</td>
<td>118,644,237</td>
<td>8.4%</td>
<td>7.3% 5.8% - 8.8%</td>
</tr>
<tr>
<td>BLACKROCK R1000 GROWTH INDEX</td>
<td>77,010,366</td>
<td>5.4%</td>
<td>5.0% 4.0% - 6.0%</td>
</tr>
<tr>
<td>CAPITAL PROSPECTS SMALL CAP VALUE</td>
<td>65,717,750</td>
<td>4.0%</td>
<td>4.5% 3.5% - 5.5%</td>
</tr>
<tr>
<td>LEGATO CAPITAL SMALL CAP GROWTH</td>
<td>60,381,147</td>
<td>4.3%</td>
<td>4.0% 3.5% - 5.0%</td>
</tr>
<tr>
<td>BNY S&amp;P 500 INDEX</td>
<td>75,630,584</td>
<td>5.3%</td>
<td>5.3% 4.0% - 6.3%</td>
</tr>
<tr>
<td>TOTAL DOMESTIC EQUITIES</td>
<td>629,556,823</td>
<td>44.3%</td>
<td>41.9%</td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DODGE &amp; COX</td>
<td>421,976,984</td>
<td>29.7%</td>
<td>30.1% 27.6% - 32.6%</td>
</tr>
<tr>
<td>PIMCO</td>
<td>110,862,875</td>
<td>7.3%</td>
<td>7.5% 6.5% - 9.0%</td>
</tr>
<tr>
<td>TOTAL FIXED INCOME</td>
<td>532,839,159</td>
<td>37.5%</td>
<td>37.6%</td>
</tr>
<tr>
<td>INTERNATIONAL INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LSV ASSET MGMT</td>
<td>116,965,086</td>
<td>8.2%</td>
<td>9.5% 8.0% - 11.0%</td>
</tr>
<tr>
<td>PYRAMIS</td>
<td>122,108,149</td>
<td>8.6%</td>
<td>9.5% 8.0% - 11.0%</td>
</tr>
<tr>
<td>TOTAL INTERNATIONAL EQUITIES</td>
<td>239,073,235</td>
<td>16.8%</td>
<td>19.0%</td>
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<tr>
<td>SPECIAL SITUATIONS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INVESCO (Global REITs)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL SPECIAL SITUATIONS</td>
<td>20,447,580</td>
<td>1.4%</td>
<td>1.5% 1.0% - 2.0%</td>
</tr>
<tr>
<td>SECURITIES LENDING FUND</td>
<td>(2,316,615)</td>
<td>-0.2%</td>
<td>0.0% 0.0% - 0.0%</td>
</tr>
<tr>
<td>TOTAL STANCERA PORTFOLIO</td>
<td>1,419,629,262</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td>TOTAL FUND</td>
<td>CASH</td>
<td>BONDS</td>
<td>EQUITIES</td>
</tr>
<tr>
<td>-------------</td>
<td>---------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>DOMESTIC EQUITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DODGE &amp; COX LARGE CAP VALUE</td>
<td>4,482,006</td>
<td>136,325,962</td>
<td>140,807,958</td>
</tr>
<tr>
<td>BLACKROCK R1000 VALUE INDEX</td>
<td>6,244</td>
<td>91,358,525</td>
<td>91,364,770</td>
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<tr>
<td>DELAWARE LARGE CAP GROWTH</td>
<td>1,771,897</td>
<td>116,872,339</td>
<td>118,644,237</td>
</tr>
<tr>
<td>BLACKROCK R1000 GROWTH INDEX</td>
<td>0</td>
<td>77,010,368</td>
<td>77,010,366</td>
</tr>
<tr>
<td>CAPITAL PROSPECTS SMALL CAP VALUE</td>
<td>2,238,395</td>
<td>63,479,306</td>
<td>65,717,760</td>
</tr>
<tr>
<td>LEGATO CAPITAL SMALL CAP GROWTH</td>
<td>1,904,034</td>
<td>56,477,113</td>
<td>62,361,147</td>
</tr>
<tr>
<td>BNY S&amp;P 500 INDEX</td>
<td>222</td>
<td>75,630,363</td>
<td>75,630,584</td>
</tr>
<tr>
<td>TOTAL DOMESTIC EQUITIES</td>
<td>10,402,799</td>
<td>619,154,024</td>
<td>629,556,823</td>
</tr>
<tr>
<td>FIXED INCOME</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DODGE &amp; COX</td>
<td>16,762,392</td>
<td>405,213,892</td>
<td>421,976,284</td>
</tr>
<tr>
<td>PIMCO</td>
<td>16,256,923</td>
<td>94,603,952</td>
<td>110,862,675</td>
</tr>
<tr>
<td>TOTAL FIXED INCOME</td>
<td>33,031,792</td>
<td>499,817,844</td>
<td>532,639,159</td>
</tr>
<tr>
<td>INTERNATIONAL INVESTMENTS</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>LSV ASSET MGMT.</td>
<td>2,614,289</td>
<td>114,380,797</td>
<td>116,995,066</td>
</tr>
<tr>
<td>PYRAMIS</td>
<td>1,791,533</td>
<td>120,317,617</td>
<td>122,109,149</td>
</tr>
<tr>
<td>TOTAL INTERNATIONAL EQUITIES</td>
<td>4,405,822</td>
<td>234,698,413</td>
<td>239,104,215</td>
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<tr>
<td>SPECIAL SITUATIONS</td>
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</tr>
<tr>
<td>INVESCO (Global REITs)</td>
<td>0</td>
<td>20,447,680</td>
<td>20,447,680</td>
</tr>
<tr>
<td>TOTAL SPECIAL SITUATIONS</td>
<td>0</td>
<td>20,447,680</td>
<td>20,447,680</td>
</tr>
<tr>
<td>SECURITIES ENDING MARKET VALUE</td>
<td>(2,318,615)</td>
<td>(2,318,615)</td>
<td></td>
</tr>
<tr>
<td>TOTAL STANCERA PORTFOLIO</td>
<td>45,511,300</td>
<td>499,817,844</td>
<td>874,300,118</td>
</tr>
</tbody>
</table>

- 9.2%  35.2%  61.6%  100.0%
### CURRENT PERFORMANCE

<table>
<thead>
<tr>
<th>Category</th>
<th>Market Value</th>
<th>August</th>
<th>Alpha</th>
<th>July</th>
<th>Alpha</th>
<th>Fiscal YTD</th>
<th>Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DOMESTIC EQUITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dodge &amp; Cox - Large Cap Value</td>
<td>136,325,682</td>
<td>2.22%</td>
<td>0.65%</td>
<td>2.00%</td>
<td>0.97%</td>
<td>4.88%</td>
<td>1.06%</td>
</tr>
<tr>
<td>Russell 1000 Value</td>
<td>2.17%</td>
<td></td>
<td></td>
<td>1.03%</td>
<td>3.22%</td>
<td></td>
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</tr>
<tr>
<td>Blackrock R1000 Value Index</td>
<td>91,358,525</td>
<td>2.18%</td>
<td>0.01%</td>
<td>1.08%</td>
<td>0.05%</td>
<td>3.28%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Russell 1000 Value</td>
<td>2.17%</td>
<td></td>
<td></td>
<td>1.03%</td>
<td>3.22%</td>
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</tr>
<tr>
<td>Delaware Large Cap Growth</td>
<td>116,872,339</td>
<td>2.81%</td>
<td>0.12%</td>
<td>0.91%</td>
<td>-0.43%</td>
<td>3.75%</td>
<td>-0.32%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>2.69%</td>
<td></td>
<td></td>
<td>1.34%</td>
<td>4.07%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blackrock R1000 Growth Index</td>
<td>77,010,366</td>
<td>2.70%</td>
<td>0.01%</td>
<td>1.37%</td>
<td>0.03%</td>
<td>4.11%</td>
<td>0.04%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>2.69%</td>
<td></td>
<td></td>
<td>1.34%</td>
<td>4.07%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Prospects</td>
<td>63,479,066</td>
<td>4.85%</td>
<td>1.77%</td>
<td>-0.34%</td>
<td>0.83%</td>
<td>4.50%</td>
<td>2.47%</td>
</tr>
<tr>
<td>Russell 2000 Value</td>
<td>3.06%</td>
<td></td>
<td></td>
<td>-2.02%</td>
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<tr>
<td>Legato Capital</td>
<td>58,477,113</td>
<td>4.65%</td>
<td>1.05%</td>
<td>-2.51%</td>
<td>-0.77%</td>
<td>2.02%</td>
<td>0.73%</td>
</tr>
<tr>
<td>Russell 2000 Growth</td>
<td>3.59%</td>
<td></td>
<td></td>
<td>-1.74%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BNY S&amp;P 500 Index</td>
<td>75,630,363</td>
<td>2.26%</td>
<td>0.01%</td>
<td>1.39%</td>
<td>0.00%</td>
<td>3.68%</td>
<td>0.01%</td>
</tr>
<tr>
<td>Russell 1000 Growth</td>
<td>2.59%</td>
<td></td>
<td></td>
<td>1.39%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL DOMESTIC EQUITY</strong></td>
<td>619,154,024</td>
<td>3.32%</td>
<td>0.55%</td>
<td>0.82%</td>
<td>-0.17%</td>
<td>3.87%</td>
<td>0.99%</td>
</tr>
<tr>
<td>Russell 2000 Index</td>
<td>2.59%</td>
<td></td>
<td></td>
<td>0.99%</td>
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<td></td>
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</tr>
<tr>
<td><strong>FIXED INCOME</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dodge &amp; Cox</td>
<td>421,976,284</td>
<td>0.36%</td>
<td>0.29%</td>
<td>1.52%</td>
<td>0.14%</td>
<td>1.89%</td>
<td>0.44%</td>
</tr>
<tr>
<td>Barclays US Aggregate Bond</td>
<td>0.07%</td>
<td></td>
<td></td>
<td>1.36%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pimco</td>
<td>116,866,275</td>
<td>0.31%</td>
<td>0.24%</td>
<td>1.37%</td>
<td>-0.01%</td>
<td>1.68%</td>
<td>0.23%</td>
</tr>
<tr>
<td>Barclays US Aggregate Bond</td>
<td>0.07%</td>
<td></td>
<td></td>
<td>1.36%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL FIXED INCOME</strong></td>
<td>532,839,159</td>
<td>0.35%</td>
<td>0.28%</td>
<td>1.49%</td>
<td>0.11%</td>
<td>1.85%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Barclays US Aggregate Bond</td>
<td>0.07%</td>
<td></td>
<td></td>
<td>1.28%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>INTERNATIONAL INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lsv Asset Mgmt</td>
<td>114,360,797</td>
<td>2.60%</td>
<td>0.51%</td>
<td>1.84%</td>
<td>0.49%</td>
<td>4.48%</td>
<td>0.92%</td>
</tr>
<tr>
<td>MSCI ACWI Free ex-US</td>
<td>2.60%</td>
<td></td>
<td></td>
<td>1.44%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pyramis</td>
<td>120,317,617</td>
<td>0.66%</td>
<td>-1.43%</td>
<td>3.22%</td>
<td>1.75%</td>
<td>3.90%</td>
<td>0.34%</td>
</tr>
<tr>
<td>MSCI ACWI Free ex-US</td>
<td>0.66%</td>
<td></td>
<td></td>
<td>1.44%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL INTERNATIONAL EQUITY</strong></td>
<td>234,688,413</td>
<td>1.61%</td>
<td>0.48%</td>
<td>2.55%</td>
<td>1.11%</td>
<td>4.20%</td>
<td>0.66%</td>
</tr>
<tr>
<td>MSCI ACWI Free ex-US</td>
<td>1.61%</td>
<td></td>
<td></td>
<td>1.44%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SPECIAL SITUATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Invesco</td>
<td>20,447,660</td>
<td>0.57%</td>
<td>0.30%</td>
<td>3.01%</td>
<td>-0.45%</td>
<td>3.60%</td>
<td>-0.14%</td>
</tr>
<tr>
<td>Equity SPDR/MSCI Global REIT</td>
<td>0.57%</td>
<td></td>
<td></td>
<td>3.45%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SECURITIES LENDING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bny Mellon</td>
<td>(2,318,615)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>CASH AND SHORT-TERM INVESTMENTS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>13,987,026</td>
<td>0.01%</td>
<td>0.00%</td>
<td>0.01%</td>
<td>0.00%</td>
<td>0.02%</td>
<td>0.00%</td>
</tr>
<tr>
<td>90-day US Treasury Bill</td>
<td>0</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.01%</td>
<td>0.02%</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total StanCERA Fund</strong></td>
<td>1,416,778,598</td>
<td>1.71%</td>
<td>0.15%</td>
<td>1.47%</td>
<td>0.35%</td>
<td>3.21%</td>
<td>0.55%</td>
</tr>
<tr>
<td>Policy Index</td>
<td>1.62%</td>
<td></td>
<td></td>
<td>1.12%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actuary Rate of Assumption</td>
<td>0.67%</td>
<td>1.04%</td>
<td>0.67%</td>
<td>0.00%</td>
<td>1.34%</td>
<td>1.87%</td>
<td></td>
</tr>
<tr>
<td>Actuary Rate of Inflation</td>
<td>0.29%</td>
<td>1.42%</td>
<td>0.29%</td>
<td>1.10%</td>
<td>0.58%</td>
<td>2.62%</td>
<td></td>
</tr>
</tbody>
</table>

**Preliminary Basis**

**Period Ending August 31, 2012**
Dodge & Cox Equity
Rolling 3-Years Annualized Alpha
Monthly Observations

Dec-98 | Dec-99 | Dec-00 | Dec-01 | Dec-02 | Dec-03 | Dec-04 | Dec-05 | Dec-06 | Dec-07 | Dec-08 | Dec-09 | Dec-10 | Dec-11

-5% --- 0% --- 5% --- 10% --- 15%
Delaware
Rolling 3-Years Annualized Alpha
Monthly Observations
Capital Prospects
Rolling 3-Year
Alphas
Monthly Observations

12/11  01/12  02/12  03/12  04/12  05/12  06/12  07/12  08/12
Legato Rolling
3-Year Alphas
Annualized
Monthly Observations

12/11 01/12 02/12 03/12 04/12 05/12 06/12 07/12 08/12
Pyramis (May 2006)
Rolling 3-Years Annualized Alpha
Monthly Observations
LSV
Rolling 3-Years Annualized Alpha
Monthly Observations

Aug-07 | Feb-08 | Aug-08 | Feb-09 | Aug-09 | Feb-10 | Aug-10 | Feb-11 | Aug-11 | Feb-12 | Aug-12

0%
Dodge & Cox Fixed Income
Rolling 3-Year Alphas Annualized
Monthly Observations
BlackRock
Passive Large Cap Growth Manager
Positions as of August 31, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value Position 8/31/2012</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>AAPL</td>
<td>10,152</td>
<td>$6,753,809</td>
<td>8.77%</td>
<td>0.48%</td>
<td>665.24</td>
<td>699.78</td>
<td>5.19%</td>
<td>1.96%</td>
</tr>
<tr>
<td>Microsoft Corp.</td>
<td>MSFT</td>
<td>79,709</td>
<td>$2,456,631</td>
<td>3.19%</td>
<td>0.17%</td>
<td>30.82</td>
<td>31.21</td>
<td>1.27%</td>
<td>-1.96%</td>
</tr>
<tr>
<td>INTL Business Machines</td>
<td>IBM</td>
<td>12,094</td>
<td>$2,356,517</td>
<td>3.06%</td>
<td>0.17%</td>
<td>194.85</td>
<td>207.15</td>
<td>6.31%</td>
<td>3.08%</td>
</tr>
<tr>
<td>Google Inc.</td>
<td>GOOG</td>
<td>2,799</td>
<td>$1,917,558</td>
<td>2.49%</td>
<td>0.14%</td>
<td>685.09</td>
<td>709.98</td>
<td>3.63%</td>
<td>0.40%</td>
</tr>
<tr>
<td>Coca-Cola Co.</td>
<td>KO</td>
<td>41,666</td>
<td>$1,547,908</td>
<td>2.01%</td>
<td>0.11%</td>
<td>37.15</td>
<td>38.35</td>
<td>3.23%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Philip Morris Intl.</td>
<td>PM</td>
<td>16,385</td>
<td>$1,463,197</td>
<td>1.90%</td>
<td>0.10%</td>
<td>89.30</td>
<td>90.69</td>
<td>1.56%</td>
<td>-1.67%</td>
</tr>
<tr>
<td>Verizon Communications</td>
<td>VZ</td>
<td>30,847</td>
<td>$1,324,578</td>
<td>1.72%</td>
<td>0.09%</td>
<td>42.94</td>
<td>44.58</td>
<td>3.82%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Oracle Corp</td>
<td>ORCL</td>
<td>41,607</td>
<td>$1,316,877</td>
<td>1.71%</td>
<td>0.09%</td>
<td>31.65</td>
<td>33.10</td>
<td>4.58%</td>
<td>1.35%</td>
</tr>
<tr>
<td>QUALCOMM INC</td>
<td>QCOM</td>
<td>18,998</td>
<td>$1,162,857</td>
<td>1.51%</td>
<td>0.08%</td>
<td>61.21</td>
<td>64.81</td>
<td>5.88%</td>
<td>2.65%</td>
</tr>
<tr>
<td>Pepsico Inc.</td>
<td>PEP</td>
<td>16,068</td>
<td>$1,155,155</td>
<td>1.50%</td>
<td>0.08%</td>
<td>71.89</td>
<td>70.39</td>
<td>-2.09%</td>
<td>-5.32%</td>
</tr>
</tbody>
</table>

**TOP TEN HOLDINGS**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Russell 1000 Growth:</th>
<th>3.23%</th>
</tr>
</thead>
</table>

Total Portfolio Value

$77,010,366

Total StanCERA Value

$1,419,629,292
<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value Position</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>Position % Change</th>
<th>Relative % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXXON MOBIL CORP</td>
<td>XOM</td>
<td>59,445</td>
<td>$5,189,519</td>
<td>5.68%</td>
<td>0.37%</td>
<td>87.30</td>
<td>91.91</td>
<td>5.28%</td>
<td>-0.03%</td>
</tr>
<tr>
<td>GENERAL ELECTRIC CO</td>
<td>GE</td>
<td>54,205</td>
<td>$1,122,586</td>
<td>3.08%</td>
<td>0.06%</td>
<td>20.71</td>
<td>22.05</td>
<td>6.47%</td>
<td>1.16%</td>
</tr>
<tr>
<td>CHEVRON CORP</td>
<td>CVX</td>
<td>10,044</td>
<td>$1,126,567</td>
<td>3.04%</td>
<td>0.08%</td>
<td>112.16</td>
<td>117.14</td>
<td>4.44%</td>
<td>-0.87%</td>
</tr>
<tr>
<td>AT&amp;T INC</td>
<td>T</td>
<td>71,815</td>
<td>$2,631,305</td>
<td>2.88%</td>
<td>0.19%</td>
<td>36.64</td>
<td>37.60</td>
<td>2.62%</td>
<td>-2.69%</td>
</tr>
<tr>
<td>PFIZER INC</td>
<td>PFE</td>
<td>89,986</td>
<td>$2,147,072</td>
<td>2.35%</td>
<td>0.21%</td>
<td>23.86</td>
<td>24.02</td>
<td>0.67%</td>
<td>-4.64%</td>
</tr>
<tr>
<td>WELLS FARGO &amp; CO</td>
<td>WFC</td>
<td>62,557</td>
<td>$2,128,799</td>
<td>2.33%</td>
<td>0.22%</td>
<td>34.03</td>
<td>35.33</td>
<td>3.82%</td>
<td>-1.49%</td>
</tr>
<tr>
<td>PROCTER &amp; GAMBLE CO</td>
<td>PG</td>
<td>12,027</td>
<td>$808,103</td>
<td>2.31%</td>
<td>0.15%</td>
<td>67.19</td>
<td>69.25</td>
<td>3.07%</td>
<td>-2.24%</td>
</tr>
<tr>
<td>JPMORGAN CHASE &amp; CO</td>
<td>JPM</td>
<td>21,651</td>
<td>$804,122</td>
<td>2.08%</td>
<td>0.06%</td>
<td>37.14</td>
<td>41.19</td>
<td>10.90%</td>
<td>5.59%</td>
</tr>
<tr>
<td>BERKSHIRE HATHAWAY INC</td>
<td>BRK/B</td>
<td>9,865</td>
<td>$831,988</td>
<td>2.08%</td>
<td>0.06%</td>
<td>84.34</td>
<td>88.52</td>
<td>4.96%</td>
<td>-0.35%</td>
</tr>
<tr>
<td>JOHNSON &amp; JOHNSON</td>
<td>JNJ</td>
<td>26,015</td>
<td>$1,754,204</td>
<td>1.92%</td>
<td>0.08%</td>
<td>67.43</td>
<td>68.24</td>
<td>1.22%</td>
<td>-4.09%</td>
</tr>
<tr>
<td><strong>TOP TEN HOLDINGS</strong></td>
<td></td>
<td></td>
<td><strong>$18,544,265</strong></td>
<td><strong>27.75%</strong></td>
<td><strong>1.33%</strong></td>
<td><strong>Russell 1000 Value</strong></td>
<td><strong>5.31%</strong></td>
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</tbody>
</table>

Total Portfolio Value  **$91,364,770**
Total StanCERA Value **$1,419,629,292**
STANCERA
Price Monitor Position Report

Capital Prospects
Active US Small Cap Value Manager
Positions as of August 31, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value 8/31/2012</th>
<th>Weight Position</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>Weight R2000V</th>
<th>8/31/2012 PX</th>
<th>9/17/2012 PX</th>
<th>% Change 8/31</th>
<th>% Change 9/17</th>
<th>Relative Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regal Beloit Corp</td>
<td>RBC</td>
<td>12,553</td>
<td>$854,331</td>
<td>1.30%</td>
<td>0.06%</td>
<td>0.00%</td>
<td>68.06</td>
<td>71.70</td>
<td>5.35%</td>
<td>-0.78%</td>
<td>68.06 to 71.70</td>
<td></td>
</tr>
<tr>
<td>Hanesbrands Inc</td>
<td>HBI</td>
<td>24,317</td>
<td>$788,613</td>
<td>1.20%</td>
<td>0.06%</td>
<td>0.00%</td>
<td>32.43</td>
<td>33.57</td>
<td>3.52%</td>
<td>-2.61%</td>
<td>32.43 to 33.57</td>
<td></td>
</tr>
<tr>
<td>Polyone Corporation</td>
<td>POL</td>
<td>45,956</td>
<td>$722,895</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.05%</td>
<td>15.73</td>
<td>16.85</td>
<td>7.12%</td>
<td>0.99%</td>
<td>15.73 to 16.85</td>
<td></td>
</tr>
<tr>
<td>The Brink's Co</td>
<td>BCO</td>
<td>32,475</td>
<td>$722,895</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.00%</td>
<td>22.26</td>
<td>25.00</td>
<td>12.31%</td>
<td>6.18%</td>
<td>22.26 to 25.00</td>
<td></td>
</tr>
<tr>
<td>Meredith</td>
<td>MDP</td>
<td>22,202</td>
<td>$722,895</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.21%</td>
<td>32.56</td>
<td>36.96</td>
<td>13.51%</td>
<td>7.38%</td>
<td>32.56 to 36.96</td>
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</tr>
<tr>
<td>Belden Inc</td>
<td>BDC</td>
<td>21,205</td>
<td>$722,895</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.03%</td>
<td>34.09</td>
<td>39.42</td>
<td>15.64%</td>
<td>9.51%</td>
<td>34.09 to 39.42</td>
<td></td>
</tr>
<tr>
<td>Gulfport Energy Corp</td>
<td>GPOR</td>
<td>27,487</td>
<td>$722,895</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.17%</td>
<td>26.30</td>
<td>32.56</td>
<td>23.80%</td>
<td>17.67%</td>
<td>26.30 to 32.56</td>
<td></td>
</tr>
<tr>
<td>Littelfuse, Inc</td>
<td>LFUS</td>
<td>12,813</td>
<td>$657,178</td>
<td>1.00%</td>
<td>0.05%</td>
<td>0.02%</td>
<td>51.29</td>
<td>55.17</td>
<td>7.56%</td>
<td>1.43%</td>
<td>51.29 to 55.17</td>
<td></td>
</tr>
<tr>
<td>A. O. Smith Corp</td>
<td>AOS</td>
<td>12,012</td>
<td>$657,178</td>
<td>1.00%</td>
<td>0.05%</td>
<td>0.26%</td>
<td>54.71</td>
<td>55.75</td>
<td>1.90%</td>
<td>-4.23%</td>
<td>54.71 to 55.75</td>
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</tr>
<tr>
<td>NEWELL</td>
<td>NWL</td>
<td>36,652</td>
<td>$657,178</td>
<td>1.00%</td>
<td>0.05%</td>
<td>0.00%</td>
<td>17.93</td>
<td>19.39</td>
<td>8.14%</td>
<td>2.01%</td>
<td>17.93 to 19.39</td>
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</tr>
<tr>
<td><strong>TOP TEN HOLDINGS</strong></td>
<td></td>
<td></td>
<td>$7,228,954</td>
<td>11.00%</td>
<td>0.51%</td>
<td>0.75%</td>
<td>Russell 2000 Value:</td>
<td>6.13%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Portfolio Value

$65,717,760

Total StanCERA Value

$1,419,629,292
## Active Large Cap Growth Portfolio Positions as of August 31, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value Position</th>
<th>Weight Position</th>
<th>Weight StanCERA</th>
<th>Weight R1000G</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>AAPL</td>
<td>16,900</td>
<td>$11,242,556</td>
<td>9.62%</td>
<td>0.79%</td>
<td>8.76%</td>
<td>665.24</td>
<td>699.78</td>
<td>5.19%</td>
<td>2.08%</td>
</tr>
<tr>
<td>Crown Castle International Corp.</td>
<td>CCI</td>
<td>101,200</td>
<td>$6,422,152</td>
<td>5.50%</td>
<td>0.45%</td>
<td>0.26%</td>
<td>63.46</td>
<td>64.16</td>
<td>1.10%</td>
<td>-2.01%</td>
</tr>
<tr>
<td>Visa Inc.</td>
<td>V</td>
<td>46,900</td>
<td>$6,014,925</td>
<td>5.15%</td>
<td>0.42%</td>
<td>0.94%</td>
<td>128.25</td>
<td>133.87</td>
<td>4.38%</td>
<td>1.27%</td>
</tr>
<tr>
<td>QUALCOMM Inc.</td>
<td>QCOM</td>
<td>97,100</td>
<td>$5,967,766</td>
<td>5.11%</td>
<td>0.42%</td>
<td>1.48%</td>
<td>61.46</td>
<td>64.81</td>
<td>5.45%</td>
<td>2.34%</td>
</tr>
<tr>
<td>EOG Resources Inc.</td>
<td>EOG</td>
<td>54,950</td>
<td>$5,951,085</td>
<td>5.09%</td>
<td>0.42%</td>
<td>0.41%</td>
<td>108.30</td>
<td>116.40</td>
<td>7.48%</td>
<td>4.37%</td>
</tr>
<tr>
<td>MasterCard Inc. Cl A</td>
<td>MA</td>
<td>13,050</td>
<td>$5,518,845</td>
<td>4.72%</td>
<td>0.39%</td>
<td>0.65%</td>
<td>422.90</td>
<td>453.50</td>
<td>7.24%</td>
<td>4.13%</td>
</tr>
<tr>
<td>Google Inc. Cl A</td>
<td>GOOG</td>
<td>7,700</td>
<td>$5,275,193</td>
<td>4.52%</td>
<td>0.37%</td>
<td>2.50%</td>
<td>685.09</td>
<td>709.68</td>
<td>3.59%</td>
<td>0.48%</td>
</tr>
<tr>
<td>Allergan Inc.</td>
<td>AGN</td>
<td>57,400</td>
<td>$4,943,862</td>
<td>4.23%</td>
<td>0.35%</td>
<td>0.37%</td>
<td>86.13</td>
<td>88.85</td>
<td>3.16%</td>
<td>0.05%</td>
</tr>
<tr>
<td>Kinder Morgan Inc.</td>
<td>KMI</td>
<td>130,315</td>
<td>$4,661,368</td>
<td>3.99%</td>
<td>0.33%</td>
<td>0.25%</td>
<td>35.77</td>
<td>36.24</td>
<td>1.31%</td>
<td>-1.80%</td>
</tr>
<tr>
<td>Intuit Inc.</td>
<td>INTU</td>
<td>77,700</td>
<td>$4,548,558</td>
<td>3.89%</td>
<td>0.32%</td>
<td>0.24%</td>
<td>58.54</td>
<td>60.15</td>
<td>2.75%</td>
<td>-0.36%</td>
</tr>
</tbody>
</table>

**TOP TEN HOLDINGS**

<table>
<thead>
<tr>
<th>$ Value Position</th>
<th>Weight Position</th>
<th>Weight StanCERA</th>
<th>Weight R1000G</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>$60,546,310</td>
<td>51.82%</td>
<td>4.26%</td>
<td>15.86%</td>
<td>Russell 1000 Growth:</td>
<td>3.11%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Portfolio Value**

$118,644,237

**Total StanCERA Value**

$1,419,629,292
<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value Position</th>
<th>Weight Position</th>
<th>Weight StanCERA</th>
<th>Weight R1000V</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMCAST CORP-CLASS A</td>
<td>CMCSA</td>
<td>177,763</td>
<td>$5,960,393</td>
<td>4.24%</td>
<td>0.42%</td>
<td>0.65%</td>
<td>33.53</td>
<td>35.06</td>
<td>4.56%</td>
<td>-0.75%</td>
</tr>
<tr>
<td>WELLS FARGO &amp; CO</td>
<td>WFC</td>
<td>160,072</td>
<td>$5,447,250</td>
<td>3.88%</td>
<td>0.38%</td>
<td>2.31%</td>
<td>34.03</td>
<td>35.33</td>
<td>3.82%</td>
<td>-1.49%</td>
</tr>
<tr>
<td>MERCK &amp; CO. INC.</td>
<td>MRK</td>
<td>122,500</td>
<td>$5,273,625</td>
<td>3.75%</td>
<td>0.37%</td>
<td>1.82%</td>
<td>43.05</td>
<td>44.00</td>
<td>2.11%</td>
<td>-3.10%</td>
</tr>
<tr>
<td>CAPITAL ONE FINANCIAL CORP</td>
<td>COF</td>
<td>92,500</td>
<td>$5,229,025</td>
<td>3.72%</td>
<td>0.37%</td>
<td>0.46%</td>
<td>56.53</td>
<td>58.76</td>
<td>3.94%</td>
<td>-1.37%</td>
</tr>
<tr>
<td>GENERAL ELECTRIC CO</td>
<td>GE</td>
<td>230,000</td>
<td>$4,763,300</td>
<td>3.39%</td>
<td>0.34%</td>
<td>3.05%</td>
<td>20.71</td>
<td>22.05</td>
<td>6.47%</td>
<td>1.16%</td>
</tr>
<tr>
<td>TIME WARNER INC</td>
<td>TWX</td>
<td>100,032</td>
<td>$4,156,329</td>
<td>2.96%</td>
<td>0.29%</td>
<td>0.55%</td>
<td>41.55</td>
<td>44.87</td>
<td>7.99%</td>
<td>2.68%</td>
</tr>
<tr>
<td>SANOFI-ADR</td>
<td>SNY</td>
<td>98,255</td>
<td>$4,023,542</td>
<td>2.86%</td>
<td>0.28%</td>
<td>-</td>
<td>40.95</td>
<td>43.68</td>
<td>6.67%</td>
<td>1.36%</td>
</tr>
<tr>
<td>NOVARTIS AG-ADR</td>
<td>NVS</td>
<td>62,000</td>
<td>$3,658,620</td>
<td>2.60%</td>
<td>0.26%</td>
<td>-</td>
<td>59.01</td>
<td>60.17</td>
<td>1.97%</td>
<td>-3.34%</td>
</tr>
<tr>
<td>PFIZER INC</td>
<td>PFE</td>
<td>153,100</td>
<td>$3,652,966</td>
<td>2.60%</td>
<td>0.26%</td>
<td>2.48%</td>
<td>23.86</td>
<td>24.02</td>
<td>0.67%</td>
<td>-4.64%</td>
</tr>
<tr>
<td>MICROSOFT CORP</td>
<td>MSFT</td>
<td>115,000</td>
<td>$3,544,300</td>
<td>2.52%</td>
<td>0.25%</td>
<td>-</td>
<td>30.82</td>
<td>31.21</td>
<td>1.27%</td>
<td>-4.04%</td>
</tr>
<tr>
<td><strong>TOP TEN HOLDINGS</strong></td>
<td></td>
<td></td>
<td><strong>$45,709,350</strong></td>
<td><strong>32.52%</strong></td>
<td><strong>3.22%</strong></td>
<td>11.32%</td>
<td><strong>Russell 1000 Value:</strong></td>
<td><strong>5.31%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total Portfolio Value
$140,807,958

Total StanCERA Value
$1,419,629,292
### STANCERA
Price Monitor Position Report

Legato Capital Management
Active US Small Cap Growth Manager
Positions as of August 31, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value 8/31/2012</th>
<th>Weight Position</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>Weight R2000G</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
<th>Position 9/17/2012</th>
<th>Relative % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>ULTIMATE SOFTWARE GROUP INC</td>
<td>ulti</td>
<td>10,003</td>
<td>992,197.57</td>
<td>1.64%</td>
<td>0.07%</td>
<td>0.46%</td>
<td>99.19</td>
<td>100.88</td>
<td>1.70%</td>
<td>-4.04%</td>
<td>99.19</td>
<td>100.88</td>
<td></td>
</tr>
<tr>
<td>KENEXA CORP</td>
<td>knxa</td>
<td>18,049</td>
<td>827,366.16</td>
<td>1.37%</td>
<td>0.06%</td>
<td>0.22%</td>
<td>45.84</td>
<td>45.91</td>
<td>0.15%</td>
<td>-5.59%</td>
<td>57.48</td>
<td>45.91</td>
<td></td>
</tr>
<tr>
<td>UNITED NATURAL FOODS INC</td>
<td>unfi</td>
<td>13,397</td>
<td>770,059.56</td>
<td>1.28%</td>
<td>0.05%</td>
<td>0.49%</td>
<td>57.48</td>
<td>59.79</td>
<td>4.02%</td>
<td>-1.72%</td>
<td>57.48</td>
<td>45.91</td>
<td></td>
</tr>
<tr>
<td>PORTFOLIO RECOVERY ASSOCIATES I</td>
<td>praa</td>
<td>7,567</td>
<td>759,348.45</td>
<td>1.26%</td>
<td>0.05%</td>
<td>0.30%</td>
<td>100.35</td>
<td>102.25</td>
<td>1.89%</td>
<td>-3.85%</td>
<td>100.35</td>
<td>102.25</td>
<td></td>
</tr>
<tr>
<td>LKQ CORP</td>
<td>lkq</td>
<td>19,060</td>
<td>719,324.40</td>
<td>1.19%</td>
<td>0.05%</td>
<td>-</td>
<td>37.74</td>
<td>38.47</td>
<td>1.93%</td>
<td>-3.81%</td>
<td>37.74</td>
<td>38.47</td>
<td></td>
</tr>
<tr>
<td>GEO GROUP INC</td>
<td>geo</td>
<td>25,825</td>
<td>679,455.75</td>
<td>1.13%</td>
<td>0.05%</td>
<td>-</td>
<td>26.31</td>
<td>27.88</td>
<td>5.97%</td>
<td>0.23%</td>
<td>26.31</td>
<td>27.88</td>
<td></td>
</tr>
<tr>
<td>CEPHEID INC</td>
<td>cphd</td>
<td>17,546</td>
<td>662,186.04</td>
<td>1.10%</td>
<td>0.05%</td>
<td>0.43%</td>
<td>37.74</td>
<td>39.22</td>
<td>3.92%</td>
<td>-1.82%</td>
<td>37.74</td>
<td>39.22</td>
<td></td>
</tr>
<tr>
<td>HEALTH MANAGEMENT ASSOC INC</td>
<td>hma</td>
<td>82,737</td>
<td>633,765.42</td>
<td>1.05%</td>
<td>0.04%</td>
<td>-</td>
<td>7.66</td>
<td>8.42</td>
<td>9.92%</td>
<td>4.18%</td>
<td>7.66</td>
<td>8.42</td>
<td></td>
</tr>
<tr>
<td>COSTAR GROUP INC</td>
<td>csgp</td>
<td>7,704</td>
<td>625,950.00</td>
<td>1.04%</td>
<td>0.04%</td>
<td>0.37%</td>
<td>81.25</td>
<td>83.07</td>
<td>2.24%</td>
<td>-3.50%</td>
<td>81.25</td>
<td>83.07</td>
<td></td>
</tr>
<tr>
<td>ROLLINS INC COM</td>
<td>rol</td>
<td>26,442</td>
<td>615,569.76</td>
<td>1.02%</td>
<td>0.04%</td>
<td>-</td>
<td>23.28</td>
<td>23.74</td>
<td>1.98%</td>
<td>-3.76%</td>
<td>23.28</td>
<td>23.74</td>
<td></td>
</tr>
</tbody>
</table>

**TOP TEN HOLDINGS**

|              |        |          | $ 7,285,223.11    | 12.07%          | 0.51%          | 2.27%          | Russell 2000 Growth: | 5.74% |

**Total Portfolio Value**

$ 60,381,147

**Total StanCERA Value**

$1,419,629,292
## STANCERA
### Price Monitor Position Report

**BNY - S&P 500 Index**  
Passive S&P 500 Index Fund  
Positions as of August 31, 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th># Shares</th>
<th>$ Value Position</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>8/31/2012 $ PX</th>
<th>9/17/2012 $ PX</th>
<th>% Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>AAPL</td>
<td>5,514</td>
<td>$3,668,083</td>
<td>4.85%</td>
<td>0.26%</td>
<td>665.24</td>
<td>699.78</td>
<td>5.19%</td>
<td>1.29%</td>
</tr>
<tr>
<td>Exxon Mobil Corp</td>
<td>XOM</td>
<td>28,069</td>
<td>$2,450,431</td>
<td>3.24%</td>
<td>0.17%</td>
<td>87.30</td>
<td>91.91</td>
<td>5.28%</td>
<td>1.38%</td>
</tr>
<tr>
<td>INTL Business Machines</td>
<td>IBM</td>
<td>6,948</td>
<td>$1,353,787</td>
<td>1.79%</td>
<td>0.10%</td>
<td>194.85</td>
<td>207.15</td>
<td>6.31%</td>
<td>2.41%</td>
</tr>
<tr>
<td>General Electric Co</td>
<td>GE</td>
<td>64,273</td>
<td>$1,331,098</td>
<td>1.76%</td>
<td>0.09%</td>
<td>20.71</td>
<td>22.05</td>
<td>6.47%</td>
<td>2.57%</td>
</tr>
<tr>
<td>Microsoft Corp.</td>
<td>MSFT</td>
<td>42,944</td>
<td>$1,323,535</td>
<td>1.75%</td>
<td>0.09%</td>
<td>30.82</td>
<td>31.21</td>
<td>1.27%</td>
<td>-2.63%</td>
</tr>
<tr>
<td>Chevron Corp</td>
<td>CVX</td>
<td>11,733</td>
<td>$1,315,972</td>
<td>1.74%</td>
<td>0.09%</td>
<td>112.16</td>
<td>117.14</td>
<td>4.44%</td>
<td>0.54%</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>T</td>
<td>33,852</td>
<td>$1,240,341</td>
<td>1.64%</td>
<td>0.09%</td>
<td>36.64</td>
<td>37.60</td>
<td>2.62%</td>
<td>-1.28%</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>WFC</td>
<td>32,004</td>
<td>$1,089,080</td>
<td>1.44%</td>
<td>0.08%</td>
<td>34.03</td>
<td>35.33</td>
<td>3.82%</td>
<td>-0.08%</td>
</tr>
<tr>
<td>Procter &amp; Gamble Co</td>
<td>PG</td>
<td>15,984</td>
<td>$1,073,954</td>
<td>1.42%</td>
<td>0.08%</td>
<td>67.19</td>
<td>69.25</td>
<td>3.07%</td>
<td>-0.83%</td>
</tr>
<tr>
<td>Johnson &amp; Johnson</td>
<td>JNJ</td>
<td>15,815</td>
<td>$1,066,391</td>
<td>1.41%</td>
<td>0.08%</td>
<td>67.43</td>
<td>68.25</td>
<td>1.22%</td>
<td>-2.68%</td>
</tr>
<tr>
<td><strong>TOP TEN HOLDINGS</strong></td>
<td></td>
<td></td>
<td><strong>$15,912,675</strong></td>
<td>21.04%</td>
<td>1.12%</td>
<td><strong>S&amp;P 500 Index:</strong></td>
<td><strong>3.90%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total Portfolio Value**  
$75,630,584

**Total StanCERA Value**  
$1,419,629,292
## Price Monitor Position Report

**LSV Asset Management**

**International Large Cap Value**

**Positions as of August 31, 2012**

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Market</th>
<th># Shares</th>
<th>$ Value 8/31/2012</th>
<th>Weight 8/31/2012</th>
<th>Weight 9/17/2012</th>
<th>Position Relative Change</th>
<th>Position Relative Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROYAL DUTCH SHELL PLC</td>
<td>RDS/A</td>
<td>London</td>
<td>48,992</td>
<td>$3,427,955</td>
<td>2.93%</td>
<td>2.16%</td>
<td>0.24%</td>
<td>3.06%</td>
</tr>
<tr>
<td>SANOFI S.A.</td>
<td>SNY</td>
<td>Paris</td>
<td>61,712</td>
<td>$2,527,093</td>
<td>2.16%</td>
<td>1.8%</td>
<td>0.66%</td>
<td>40.95</td>
</tr>
<tr>
<td>ASTRazeneca PLC</td>
<td>AZN</td>
<td>London</td>
<td>42,257</td>
<td>$1,977,217</td>
<td>1.69%</td>
<td>1.4%</td>
<td>0.4%</td>
<td>46.79</td>
</tr>
<tr>
<td>ENI - ENTE NAZIONALE IDROCARBURI</td>
<td>ENI</td>
<td>Italy</td>
<td>102,291</td>
<td>$1,684,729</td>
<td>1.44%</td>
<td>1.2%</td>
<td>0.38%</td>
<td>16.47</td>
</tr>
<tr>
<td>CHINA PETROLEUM &amp; CHEMICAL CORP</td>
<td>SNP</td>
<td>Hong Kong</td>
<td>17,627</td>
<td>$1,661,330</td>
<td>1.42%</td>
<td>0.12%</td>
<td>0.11%</td>
<td>94.25</td>
</tr>
<tr>
<td>VODAFONE GROUP PUBLIC LIMITED</td>
<td>VOD</td>
<td>London</td>
<td>57,446</td>
<td>$1,661,330</td>
<td>1.42%</td>
<td>0.12%</td>
<td>0.96%</td>
<td>28.92</td>
</tr>
<tr>
<td>OLD MUTUAL PLC</td>
<td>OML.L</td>
<td>London</td>
<td>9,562</td>
<td>$1,591,133</td>
<td>1.36%</td>
<td>0.11%</td>
<td>0.09%</td>
<td>166.40</td>
</tr>
<tr>
<td>CANADIAN IMPERIAL BANK OF COMMERCIAL</td>
<td>CM</td>
<td>Canada</td>
<td>20,119</td>
<td>$1,556,034</td>
<td>1.33%</td>
<td>0.11%</td>
<td>0.21%</td>
<td>77.34</td>
</tr>
<tr>
<td>ALLIANZ SE</td>
<td>ALV.DE</td>
<td>Germany</td>
<td>17,830</td>
<td>$1,556,034</td>
<td>1.33%</td>
<td>0.11%</td>
<td>0.35%</td>
<td>87.27</td>
</tr>
<tr>
<td>BASF SE</td>
<td>BAS.DE</td>
<td>Germany</td>
<td>24,796</td>
<td>$1,532,635</td>
<td>1.31%</td>
<td>0.11%</td>
<td>0.4%</td>
<td>61.81</td>
</tr>
</tbody>
</table>

**TOP TEN HOLDINGS**

$19,175,491 16.39% 1.35% 6.71% MSCI ACWI ex-U.S. 6.88%

**Total Portfolio Value**

$116,995,066

**Total StanCERA Value**

$1,419,629,292
## Price Monitor Position Report

**Pyramis Global Advisors**  
**Active Non-US Growth Manager**  
**Positions as of August 31, 2012**

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Market</th>
<th># Shares</th>
<th>$ Value Position</th>
<th>Weight Manager</th>
<th>Weight StanCERA</th>
<th>Weight ACWI xUS</th>
<th>8/31/2012</th>
<th>9/17/2012</th>
<th>Position</th>
<th>Relative % Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROYAL DUTCH SHELL PLC CL A(NL)</td>
<td>B09CBL4</td>
<td>Amsterdam</td>
<td>56835</td>
<td>$1,992,323</td>
<td>1.63%</td>
<td>0.14%</td>
<td>1.54%</td>
<td>69.97</td>
<td>72.65</td>
<td>3.83%</td>
<td>-3.05%</td>
<td></td>
</tr>
<tr>
<td>NESTLE SA (REG)</td>
<td>7123870</td>
<td>Switzerland</td>
<td>30756</td>
<td>$1,916,196</td>
<td>1.57%</td>
<td>0.13%</td>
<td>1.41%</td>
<td>62.31</td>
<td>62.97</td>
<td>1.06%</td>
<td>-5.82%</td>
<td></td>
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<tr>
<td>BP PLC</td>
<td>798059</td>
<td>Paris</td>
<td>225629</td>
<td>$1,581,701</td>
<td>1.30%</td>
<td>0.11%</td>
<td>0.91%</td>
<td>42.06</td>
<td>43.27</td>
<td>2.88%</td>
<td>-4.00%</td>
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<tr>
<td>VODAFONE GROUP PLC</td>
<td>B16GWD5</td>
<td>London</td>
<td>544581</td>
<td>$1,569,948</td>
<td>1.29%</td>
<td>0.11%</td>
<td>0.98%</td>
<td>181.50</td>
<td>173.65</td>
<td>-4.33%</td>
<td>-1.12%</td>
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<tr>
<td>SANOFI</td>
<td>5671735</td>
<td>Paris</td>
<td>18625</td>
<td>$1,527,167</td>
<td>1.25%</td>
<td>0.11%</td>
<td>0.68%</td>
<td>40.95</td>
<td>43.68</td>
<td>6.67%</td>
<td>-0.21%</td>
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<tr>
<td>SAMSUNG ELECTRONICS CO LTD</td>
<td>6771720</td>
<td>So. Korea</td>
<td>1274</td>
<td>$1,385,461</td>
<td>1.14%</td>
<td>0.10%</td>
<td>0.82%</td>
<td>123.30</td>
<td>131.50</td>
<td>6.65%</td>
<td>-0.23%</td>
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<tr>
<td>ROCHE HLDGS GENUSSCHEINE</td>
<td>7110388</td>
<td>Swiss</td>
<td>7223</td>
<td>$1,317,822</td>
<td>1.08%</td>
<td>0.09%</td>
<td>0.88%</td>
<td>178.40</td>
<td>181.50</td>
<td>1.74%</td>
<td>-5.14%</td>
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<tr>
<td>BRITISH AMER TOBACCO PLC (UK)</td>
<td>287580</td>
<td>London</td>
<td>25100</td>
<td>$1,316,228</td>
<td>1.08%</td>
<td>0.09%</td>
<td>0.71%</td>
<td>104.74</td>
<td>102.11</td>
<td>-2.51%</td>
<td>-9.39%</td>
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<td>BAYER AG</td>
<td>5069211</td>
<td>Germany</td>
<td>14132</td>
<td>$1,103,216</td>
<td>0.90%</td>
<td>0.08%</td>
<td>0.44%</td>
<td>57.66</td>
<td>61.69</td>
<td>6.99%</td>
<td>0.11%</td>
<td></td>
</tr>
<tr>
<td>SAP AG</td>
<td>4848288</td>
<td>Germany</td>
<td>16206</td>
<td>$1,076,559</td>
<td>0.88%</td>
<td>0.08%</td>
<td>0.42%</td>
<td>52.41</td>
<td>54.90</td>
<td>4.75%</td>
<td>-2.13%</td>
<td></td>
</tr>
</tbody>
</table>

**TOP TEN HOLDINGS**  

| $14,786,621 | 11.73% | 1.04% | 8.79% | MSCI ACWI ex-US: | 6.88% |

**Total Portfolio Value**  

$122,109,149

**Total StanCERA Value**  

$1,419,629,292
STANISLAUS COUNTY EMPLOYEES’ RETIREMENT ASSOCIATION

ASSET/LIABILITY EDUCATION STUDY SESSION

SEPTEMBER 25, 2012

Strategic Investment Solutions, Inc.

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

Paul S. Harte
Vice President
Plan Management Framework

Manager Selection (5%-10%)

Manager Structure (10%-15%)
  Style/Cap Tilts/Active/Passive

Asset Allocation (80%-90%)
  Target Policy Mix

Asset Allocation is the primary driver of investment results.

ASSET ALLOCATION
IN RELATION TO:
PLAN’S LIABILITIES +
RISK TOLERANCE LEVEL +
OTHER FACTORS
Asset Liability Modeling

CONTRIBUTIONS

Focus of StanCERA, Staff, Consultants

Focus of StanCERA and Plan Sponsor

PENSION FUND DOLLARS OUT

INVESTMENT EARNINGS

Focus of StanCERA, Staff, Consultants

Pressure Gauge
Investment Earnings

Employee Contribution Valve

Employer Contribution Valve

Expenses

Benefit Value to Pensioners
Typical Pension Funding Objectives

- Intergenerational Equity (Matching Costs to Services)
- Limit Contribution Rates
- Limit Contribution Rate Volatility
- Maintain Certain Funded Status
- Sustain Benefit Structure
- Meet Actuarial Earnings Rate
- Limitation

While these objectives may be achievable over a long time period (30+ years), none of them recognizes the market’s risk characteristics (i.e., they all may be impossible to meet in a protracted bear market).
Specific StanCERA Pension Funding Considerations

IDENTIFYING GOALS
- Maximize the Probability of Paying the StanCERA Members’ Earned Benefits
- Improve StanCERA Funding Ratio
- Reduce Volatility of Returns on Assets
- Stabilize Plan Sponsor Contributions – Employer Rate Stability

OPTIMIZATION
- Define Potential Risks and Prioritize
- Select an Appropriate Plan Risk Level and Maximize Return
- Define Time Horizon for Study
- Tools Utilized for Study - Risk Metrics and Analysis

IMPLEMENTATION
- Implementation Alternatives
- Monitoring and Evaluation
A Look at Potential Plan Risks, Tools and Solutions

- Investment Returns “Left Tail Risk”. Potential Solution: Tail Risk Hedging
- Adverse Economic Scenarios. Potential Solution: A More Balanced Portfolio (StanCERA probably needs to move in this direction)
- Development of Risk Measures using Scenario/Sensitivity Testing
- Development of a Risk Tolerance Framework
- Allocation of “Risk” rather than just “Assets”
- Concept of Risk Parity
- Concept of “STABLE Funding” (A Form of Immunization)
Relationship Between Assets and Liabilities

- Funded status often affects asset allocation decision
- **Well-funded Plan**
  - Higher contribution volatility can lead to less risk-taking
  - Funded status “buffer” can lead to more risk-taking
- **Poorly-funded Plan**
  - Lower contribution volatility can lead to more risk-taking
  - Low funded status can lead to less risk-taking
- **EFI STABLE Funding**
  - Creates a separate pool of assets that increases as funding ratio improves
  - Separate pool of assets invested in liability matching bonds
Possible StanCERA Objectives

- What is StanCERA Trying to Achieve?
  - Intergenerational Equity
  - Employer Rate Stability
  - Improved Funding Status
  - Initiation of “STABLE Funding” or Immunization Program
  - Maximizing Return at Chosen Level of Risk

- What is StanCERA Trying to Avoid?
  - A Deterioration in Funding Status
  - High Cost/Average Contribution Rate
  - Large Changes in Contribution Rates Over Short-Term
  - Significant Negative Cash Flow or Liquidity Problems
  - Left-sided “Fat Tail” Events on Investment Returns

- What Are “Unacceptable Outcomes”?
  - Funded Status? (Inactive Funding Ratio a Critical Variable)
  - Contribution Level? (Above 40% Level is Not Desired)
  - Changes in Contribution Level?
  - Pension System Failure – Can’t Afford to Realize Another 2008 Type of Return
Liabilities

The Actuarial Liability of the Plan Is the Sum of Several Components:
- Present Value of Benefits to Retirees
- Present Value of Benefits to Former Employees with Vested Pension Rights but Not Yet Retired
- Present Value of Vested Benefits Accrued to Date for Active Employees
- Present Value of Non-Vested Benefits for Active Employees
- Present Value of Future Salary Increases on Service Benefits Accrued to Date

The Liability Essentially Means the Sum of the Cumulative Employer Contributions

Output Is Expected and Range of Possibilities of:
- Range of Realized Returns/Market Values
- Contributions as a Percentage of Pay
- Funded Status
- Plan Membership Demographics
- Projected Payroll
- Benefit Payments
- Actuarial Liability
- Ultimate Net Cost of the Plan
Integrating Asset and Liability Forecasts

- Liability projections are integrated with range of asset projections (5th to 95th percentile) each year via stochastic* simulations (5000 multi-year outcomes).
- Review 99th percentile outcomes to preview “2008” experience.
- Model estimates actuarial valuation at start of each new year, using actuary’s (EFI) assumptions and methods.
- Decision Making.
- Project future financial condition under range of policy portfolios over five or seven years.
- Focus on Ultimate Net Cost (PV of Cumulative Contributions plus PV of Unfunded Liability) less any surplus at horizon.
- Trade off gains (lower Ultimate Net Costs) at median versus shortfalls (higher costs) at 95th (worst 1 in 20) percentile.

*See Appendix for Glossary of Terms
Asset/Liability Modeling

- A Dynamic Process Designed to Enhance the Long-Term Return and Risk Profile of a Multiple Asset Class Portfolio
- Portfolio Management at its Highest Level
- Risk Management at its Most Fundamental Level
- Greatly Impacts the Long-Term Level and Variability of Total Fund Returns
- Dependent Upon a Rational Interpretation of Existing Capital Market Risk and Return Characteristics
- Liability Really Means the Employer Contribution Rate
- **Plan Objective:** To Achieve the Systematic Construction of a Total Fund Portfolio Consistent with the Investment Objective of Maximizing the Expected Return for the Chosen Level of Risk
Asset/Liability Modeling

- **Asset Simulations**
  - Monte Carlo – 5000 “Random” Multi-Year Outcomes

- **Liability Simulations/Contribution Determinations**
  - Based on Range of Investment Results
  - Annual Valuation for Range of Outcomes
  - Year-by-Year, NOT Straight-Line Projection
Asset Allocation: Risk Management

Asset Allocation Policy Addresses Three Primary Risks:

- **Contribution Volatility Risk** (trade-off with long-term level)
- **Asset Shortfall Risk** (liquid assets insufficient to meet current obligations)
- **Inflation Risk** (changes in liabilities as related to changes in inflation)
- StanCERA will consider additional Risks

Objective: To simultaneously hedge these risks, given investment opportunity set and resources available to the sponsor.

- A Written Investment Policy Documents a Plan Sponsor’s Strategy to Address These Risks.

Objective: To mitigate the greatest risk all investors face: Human Nature Risk, the risk you will abandon a very well conceived strategy at its least comfortable moment.
Investment Policy Today

- Current Investment Climate
  - Huge deterioration in pension plan funded status – recent rally (2009-2011), some relief, and a lost year (2012)
  - Volatile capital markets – recent global “crisis of trust” has passed?
  - Illiquidity challenges still prevalent – “deleveraging — risk repricing”
  - More stringent regulatory environment likely

- Key Elements to Investment Policy:
  - Establish strategic (long-term) asset allocation targets and investment guidelines
  - Develop tactical (short-term) strategy to consider market environment and take advantage of available opportunities – Special Situations bucket
  - Continued monitoring and evaluation
  - Disciplined approach to rebalancing
Asset Mix Optimization*

- Three Inputs (In Order of Importance)
  - Return (Geometric*; Annual Growth Rate)
  - Risk (Standard Deviation Around Expectation)
  - Correlation (Degree to Which Assets Move Together)

- Determining Inputs
  - How Are You Going to Use Them? Tactically or Strategically?
  - Extrapolate Trends, Mean Reversion* or Full History?

- Output
  - Certain Assets Are Difficult to Price and Model in Mean Variance Optimization
  - Efficient Frontier* — Lowest Level of Risk Per Unit of Return; Highest Available Return Per Unit of Risk

* See Appendix for Glossary of Terms
SIS Capital Market Assumptions

- Strategic Purpose - Horizon = 2 to 3 Market Cycles
- Based on Capital Asset Pricing Model (CAPM*) — Investor Must Be Compensated for Taking Higher Risk
- Economic Growth Forecasts
- Stay Within Long-Term Real Return Corridors, Combined with Mean Reversion*
- Qualitative Overlay — Expectations Must Produce Reasonable Portfolios and a “Stable Frontier”
- Data Sources/Return
  - Complete Monthly Return History
  - Blue Chip Economic Forecast (Inflation, GDP Growth Estimates)
  - Wall Street Forecasts
  - Global Manager Forecasts
  - CAPM (For “Difficult” Asset Classes)
- Correlations* — Most Stable (90-Month Half-Life, 1985 to Present)
- Risks — Fairly Stable defined in terms of Standard Deviation (Two Factor Model*; Historical 1976 to present, Half-Life 1985 to Present)

* See Appendix for Glossary of Terms
## SIS Capital Markets Expectation Methodology

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Methodology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>Yield to Worst on Aggregate Index (compare to historic bond risk premium);</td>
</tr>
<tr>
<td>Inflation</td>
<td>Consensus of economists’ forecasts, TIPS</td>
</tr>
<tr>
<td>US Large Cap</td>
<td>CAPM, 3% to 6% equity premium, macroeconomic DDM</td>
</tr>
<tr>
<td>Cash</td>
<td>Inflation + 1% to 2% premium</td>
</tr>
<tr>
<td>US Small Cap</td>
<td>CAPM, (beta of ~1.2)</td>
</tr>
<tr>
<td>Private Equity</td>
<td>CAPM, (beta of ~1.6); adjusted for OPERF</td>
</tr>
<tr>
<td>International Equity</td>
<td>Weighted sum of local market premium + local risk free rate; composition is World ex-US</td>
</tr>
<tr>
<td>Emerging Mkt Equity</td>
<td>Weighted sum of local market premium + local risk free rate; composition is Emerging Markets</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Historical behavior of equity REITs; current appraisal cap rates; CAPM</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>Expected net premium to LIBOR (2-4%); 0.30 Sharpe Ratio</td>
</tr>
<tr>
<td>High Yield FI</td>
<td>Historical ratio: spread of High Yield over US Fixed Income divided by spread of Large Cap over US Fixed Income</td>
</tr>
<tr>
<td>TIPs*</td>
<td>Current real yield on Barclay’s US TIPs Index plus SIS inflation expectation</td>
</tr>
</tbody>
</table>

* See Appendix for Glossary of Terms
## StanCERA Target Portfolio Expectations

**Projected StanCERA Results**

<table>
<thead>
<tr>
<th>Asset</th>
<th>Expected Return</th>
<th>Expected Std Dev</th>
<th>Current Yield</th>
<th>Current Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Lrg Cap</td>
<td>8.00%</td>
<td>18.00%</td>
<td>2.20%</td>
<td>33.10%</td>
</tr>
<tr>
<td>US Sml Cap</td>
<td>8.30%</td>
<td>21.00%</td>
<td>1.20%</td>
<td>8.30%</td>
</tr>
<tr>
<td>US Fixed</td>
<td>2.80%</td>
<td>4.50%</td>
<td>2.80%</td>
<td>37.10%</td>
</tr>
<tr>
<td>Intl Stock</td>
<td>8.00%</td>
<td>18.50%</td>
<td>3.50%</td>
<td>15.00%</td>
</tr>
<tr>
<td>EM Stock</td>
<td>8.50%</td>
<td>27.50%</td>
<td>2.70%</td>
<td>5.00%</td>
</tr>
<tr>
<td>Real Est</td>
<td>6.60%</td>
<td>18.50%</td>
<td>2.50%</td>
<td>1.50%</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>100.00%</strong></td>
<td></td>
<td></td>
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</table>

**Median Return** 6.61%

**Gm. Mean Return** 6.63%

**Ar. Mean Return** 7.21%

**Real Return** 4.2%

(6.6% - 2.4% Inflation)
Defining Risk

- The basic definition of investment risk is variability of return. The alternative policies, or “asset mixes,” that will be presented as part of this study are built to minimize this variability given an expected level of return over a long period of time. These mixes we call efficient. The method used to build them is an improved version of standard mean-variance optimization. The probabilities of continuously compounded returns to each asset class are assumed to approximate a bell shaped curve, or normal distribution. In other words, returns are random, and returns near the expected average are more likely than extreme returns. The likelihood of extreme returns is expressed as standard deviation. The probability of a particular asset-class return depends on the returns provided by every other asset class; this interdependence is expressed as correlation. Thus asset-class return expectations are commonly presented as three sets of numbers: mean returns, standard deviations, and correlations.
New Asset Classes for Consideration – High Yield Bonds

- Definition – Bond (corporate) that has rating of BB or lower and that pays a higher yield to compensate for its greater risk.

- High-yield bonds are widely held by investors worldwide. The yield spread between investment grade and high-yield will fluctuate over time, depending on the state of the economy, as well as company and sector-specific events.

- Generally, investors in high-yield bonds can expect at least 150 to 300 basis points greater yield compared to investment-grade bonds at any given time.

- The Bank of America Merrill Lynch High Yield Index has returned +14.6% for 3-years; +9.6% for 5-years; and, +10.7% for 10-years to 8/31/12.

- Pension Funds can access High Yield Bonds from a separate assignment or part of a Core Plus assignment (Investment Grade + Non-Investment Grade).
New Asset Classes for Consideration – Emerging Markets Debt

- Definition - A nation's economy that is progressing toward becoming advanced, as shown by some liquidity in local debt and equity markets and the existence of some form of market exchange and regulatory body.

- Debt issued by emerging markets economies. EM Debt primarily includes sovereign, local currency, and corporate bonds.

- EM Debt can either be investment grade or non-investment grade.

- Emerging markets are sought by investors for the prospect of high returns, as they often experience faster economic growth as measured by GDP. Investments in emerging markets come with greater risk due to political instability, domestic infrastructure problems, and currency volatility.

- The JPM EMBI + has returned +13.7% for 3-years; +10.5% for 5-years; and, +12.6% for 10-years to 8/31/12.

- Pension Funds can access High Yield Bonds from a separate assignment or part of a Core Plus assignment (Investment Grade + Non-Investment Grade).
New Asset Classes for Consideration – Real Estate

- Real Estate Investment Trust (REIT) company, usually traded publicly, that manages a portfolio of real estate to earn profits for shareholders. REITs make investments in a diverse array of real estate. To avoid taxation at the corporate level, 75% or more of the REIT’s income must be from real property and 95% in net earnings must be distributed to shareholders annually. REITs tend to pay high yields of 5% to 10%.

- Real Estate Limited Partnership (Private RE) buys properties and passes rental income to limited partners. If the properties appreciate in value over time, they can be sold and the profit passed to limited partners.

- Private RE tends to have a higher fee structure and is illiquid in nature.

- Private RE can be divided into Core, Value-added and Opportunistic.
New Asset Classes for Consideration – Private Equity

- **Definition** - *Equity* capital that is not quoted on a public exchange. Private equity consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public equity. Capital for private equity is raised from retail and institutional investors, and can be used to fund new technologies, expand working capital within an owned company, make acquisitions, or to strengthen a balance sheet.

- Private equity comprised primarily of Buyouts, Venture Capital and Debt Related.

- Private equity tends to have a higher fee structure and is illiquid in nature.

- An illiquidity premium of Public Market equities + 300 bps is typically modeled.

- J-Curve effect is generally present due to fees and start-up of a PE program.
New Asset Classes for Consideration – Commodities

- **Definition** – bulk goods such as grains, metals, foods and energy (oil, natural gas) traded on exchanges or spot market.

- **Commodities** are thought to be inflation-hedging instruments.

- **Return from commodities** generally is comprised of two parts: the underlying spot price of the commodity and the rolling of futures associated with the underlying commodity.

- **Commodities can be invested in four primary ways:** index return, active management (beta 0-100% long); long-short strategy; and, rolling management of futures.
New Asset Classes for Consideration – Hedge Funds

- **Definition:** A managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

- Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a very large initial minimum investment. Investments in hedge funds are illiquid as they often require investors keep their money in the fund for at least one year.

- Hedge funds have a role in asset allocation if they: 1. Offer positive expected returns. 2. Are uncorrelated to markets, especially equities. 3. Are liquid.

- Hedge funds as sources of alternative returns can be broken into three strategies: 1. Relative Value Strategies. 2. Arbitrage Strategies. 3. Timing Strategies.

- Some “Dark Sides” of Hedge Funds – illiquidity, high correlation to equities, crowded strategies, lack of transparency, etc.
New Asset Classes for Consideration – Risk Parity

- A diversified portfolio where each asset class contributes equally to overall risk
- Fixed income and other lower volatility assets comprise a greater percentage of the dollars invested
- Reduces the proportion of risk explained by equities while lowering overall risk of the portfolio
- Risk Parity portfolios generally utilize leverage
- Consider returns over broad sets of economic environments
- Building a risk parity portfolio balanced against growth and inflation surprises reduces the overall volatility
Glossary of Terms

- **Asset Allocation** – (1) The way investments are distributed and weighted among different asset classes. (2) The distribution of investments among categories of assets, such as equities, fixed income, cash equivalents, and real estate.

- **CAPM** – Capital Asset Pricing Model. A system of equations that describes the way prices of individual assets are determined in efficient markets, that is, in markets where information is freely available and reflected instantaneously in asset prices. According to this model, prices are determined in such a way that risk premiums are proportional to systematic risk, measured by the beta coefficient, which cannot be eliminated by diversification. CAPM provides an explicit expression of the expected returns for all assets. Basically, the model holds that if investors are risk averse, high-risk stocks must have higher expected returns than low-risk stocks. CAPM maintains that the expected return of a security or a portfolio is equal to the rate on a risk-free investment plus a risk premium.

- **Correlation** – A relationship between two quantities, such that when one changes, the other does. A measure (ranging in value from 1.00 to -1.00) of the association between a dependent variable (fund, portfolio) and one or more independent variables (index). Correlation is a measure, not necessarily of causality, but rather of the strength of a relationship. A correlation coefficient of 1.00 implies that the variables move perfectly in lockstep; a correlation coefficient of -1.00 implies that they move inversely in lockstep; and a coefficient of 0.00 implies that the variables as calibrated are uncorrelated. A correlation half-life is the amount of time it takes for the amount of the measured time period to diminish by half exponentially.

- **Efficient Frontier** – A set of optimal portfolios, one for each level of expected return, with minimum risk.

- **Expected Return** – Estimate of the return of an investment or portfolio from a probability distribution curve of all possible rates of return; statistically, it is the mean (either geometric mean or arithmetic mean) of the distribution or the “most likely” outcome.

- **Factor Model** – Regression-based mathematical calculation used to determine the extent to which macroeconomic factors or other explanatory variables affect the value or price movement of a specific security or portfolio.
Glossary of Terms

- **Geometric Return** – Similar to the arithmetic mean, which is what most people think of with the word "average", except that instead of adding the set of returns and then dividing the sum by the number of return observations (N), the numbers are multiplied and then the Nth root of the resulting product is taken. Also known as compound return.

- **Mean Reversion** – Statistical phenomenon stating that the greater the deviation of a given observation (e.g. a quarterly or annual return) from its mean, the greater the probability that the next measured observation will deviate less far. In other words, an extreme event is likely to be followed by a less extreme event.

- **Optimization** – Process of determining the portfolio composition such that expected return is maximized for a given risk level, or risk is minimized for a given expected return level. Other optimizations could target risk of shortfall, maximization of Sharpe ratio, or minimization of tracking error.

- **Sharpe Ratio** – A ratio of return to volatility, useful in comparing two portfolios or stocks in terms of risk-adjusted return. The higher the Sharpe Ratio, the more sufficient are returns for each unit of risk. It is calculated by first subtracting the risk free rate from the return of the portfolio, then dividing by the standard deviation of the portfolio.

- **Stochastic Simulation** – Uses random processes to simulate the various sources of uncertainty that affect the value of the instrument, portfolio or investment in question, and calculates a representative value or distribution of possible outcomes given the simulated values of the underlying inputs.

- **Treasury Inflation-Protected Securities (TIPS)** – Inflation-indexed bonds issued by the U.S. Treasury. The principal is adjusted to the Consumer Price Index (CPI), the commonly used measure of inflation. The coupon rate is constant, but generates a different amount of interest when multiplied by the inflation-adjusted principal, thus protecting the holder against inflation. TIPS are currently offered in 5-year, 10-year and 20-year maturities. Beginning in February 2010, the U.S. Treasury will once again offer 30-year TIPS bonds.
For the Retirement Board meeting
Held on September 25, 2012

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Risk survey to be used in the asset allocation study

II. RECOMMENDATION: None

III. ANALYSIS: On November 7, the StanCERA Board will be participating in a one-day asset liability/allocation study to determine the strategic asset allocation policy for a 3 year period. One of the processes staff will use to determine the answer to the asset allocation question is the presentation of candidate portfolios. Each portfolio will have different risk characteristics and be comprised of various asset classes with associated weights attached to them.

This agenda item is meant to assist staff in forming candidate portfolios for the Board to entertain. Attached to this item is a survey of 30 questions of varying length meant to determine the Board’s perspective on risk, portfolio performance, manager performance and investment type. We would like to narrow the universe of portfolios to a manageable number and this survey will facilitate that task.

Staff would like this information back in our hands by no later than the October 10th administration meeting. You may return this information by regular mail, email or bring it with you on the 10th. Your identification on this survey is not necessary.

IV. RISK: None

V. STRATEGIC PLAN: Goal 1, Strategy C. Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy

VI. BUDGET IMPACT: None

Rick Santos, Executive Director
Asset Liability Risk Survey

*Overall Portfolio Performance*

1. Over the next 5 years, what do you feel is a realistic average annual return the portfolio can earn?
   
   a) 0 to 3%
   b) 3% to 5%
   c) 5% to 6.5%
   d) 6.5% to 8%
   e) Greater than 8%

2. Over the next 10 years, what do you feel is a realistic average annual return the portfolio can earn?
   
   a) 0 to 3%
   b) 3% to 5%
   c) 5% to 6.5%
   d) 6.5% to 8%
   e) Greater than 8%

3. Over the next 30 years, what do you feel is a realistic average annual return the portfolio can earn?
   
   a) 0 to 3%
   b) 3% to 5%
   c) 5% to 6.5%
   d) 6.5% to 8%
   e) Greater than 8%

4. How important is it that our absolute investment results outperform our peers (San Joaquin County, CalPERS, etc.)?
   
   a) Very important
   b) Somewhat important
   c) Not important
   d) I don’t care about other System’s returns
5. You are given the following pattern of funded ratios over the next 5 years from StanCERA and the average of all other 1937 Act Systems:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>StanCERA</th>
<th>Average 37 System</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>2</td>
<td>72%</td>
<td>69%</td>
</tr>
<tr>
<td>3</td>
<td>70%</td>
<td>62%</td>
</tr>
<tr>
<td>4</td>
<td>74%</td>
<td>72%</td>
</tr>
<tr>
<td>5</td>
<td>79%</td>
<td>82%</td>
</tr>
</tbody>
</table>

Which of the following statements best describes your feelings about the progression of funded ratios?

a) I’m not comfortable that in 5 years, we are below the average
b) I am more comfortable with the lower volatility in our progression
c) I don’t mind our progression, as long as we are making steady progress towards full funding
d) I don’t mind the volatility in the average System funded ratio. I want to stay near the average
e) I don’t feel we are performing our fiduciary duty if we constantly underperform our peers when markets are doing well
f) I’m fine with the progressions, we’ve beaten the other Systems 3 out of 4 years

6. In the early 90’s, it would have been possible for a pension plan to invest in a portfolio that consisted mostly of fixed income treasuries and high grade corporate bonds and in the process, insure the payment of its liabilities and earn yields close to or even above our current discount rate of 8%. However, during that same decade, most pension plans averaged equity returns around 16% annually and on an absolute basis, outperformed the all bond portfolio by a considerable margin.

If the same opportunity ever arose in the future giving the fund the ability to insure its benefits and reduce asset risk at yields around our current discount rate, would you consider a fixed income portfolio even though:

I. Traditional pension portfolios may outperform considerably
II. Your peers would possibly earn returns twice yours
III. You’d be keeping employer contributions at levels similar to today while other System’s would be enjoying much lower contributions?

a) No; It would be difficult for me to watch other Systems achieve returns twice ours
b) Yes; I would feel fortunate if we could “lock” in returns that are close to our current discount rate
c) No; I would not want our employers to be the only ones paying high contribution rates when the current economic environment is flourishing
d) Yes; The elimination of contribution rate volatility is worth the underperformance relative to our peers
Investment Manager Performance

7. How many basis points of return above the benchmark (alpha) do you believe an active manager should be able to consistently earn over time (net of fees)?

a) 0 to 1 (0.00% to 0.01%)
b) 1 to 5 (0.01% to 0.05%)
c) 5 to 50 (0.05% to 0.50%)
d) 50 to 200 (0.50% to 2%)
e) Above 200 (above 2%)

8. “The level or amount of excess return (alpha) above the benchmark that an investment manager earns needs to be considered within the context of his or her strategy/style” (in other words, would you expect more excess return from a manager that manages an emerging market portfolio compared to one that manages a large cap US equity portfolio)

a) Strongly Disagree
b) Disagree
c) Neutral
d) Agree
e) Strongly Agree

9. “The success of an individual manager is best measured by their performance against managers of similar strategies”

a) Strongly Disagree
b) Disagree
c) Neutral
d) Agree
e) Strongly Agree

10. The success of an individual manager is best measured by their performance against the appropriate benchmark

a) Strongly Disagree
b) Disagree
c) Neutral
d) Agree
e) Strongly Agree
11. The success of an individual manager is best measured by their absolute or total return

   a) Strongly Disagree
   b) Disagree
   c) Neutral
   d) Agree
   a) Strongly Agree

12. If you are given data about a particular active manager and that data shows the manager outperformed the benchmark for 6 consecutive years, which of the following best describes your thoughts on his/her performance?

   a) That manager is using the wrong benchmark
   b) That manager has superior asset picking skills
   c) That manager has simply been lucky over the past 6 years
   d) The performance data is flawed

13. Consider an active manager of one of our equity portfolios. How long would a manager have to consistently and significantly underperform its benchmark and/or peer group before you would propose terminating that manager?

   a) 3 months
   b) 6 months
   c) 1 year
   d) 3 years
   e) 5 years

14. An example of a Leveraged Buyout (LBO) is when an active manager looks for companies that aren't being managed properly but have potential value. An LBO borrows money, takes a major stake in the company, turns it around and sells their interest at a significant profit some years later. How long would the manager have to consistently and significantly underperform its benchmark and/or peer group before you would propose terminating that manager?

   a) 6 months
   b) 1 year
   c) 3 years
   d) 5 years
   e) 10 Years

15. Would you consider a portfolio or individual manager that is outperforming its benchmark but underperforming its peer group acceptable?

   a) Yes
   b) No
16. The objective of a balanced asset allocation, in conjunction with its strategic plan, is to withstand market volatility while completing a clear set of goals in a defined period of time. During this period, if an individual manager or investment class is consistently under performing, which of the following would you feel most inclined to do?

a) Trust the investment to work as intended and revisit at the end of the period
b) Terminate the investment manager and place the funds in a passive equity fund until the next asset allocation study
c) Terminate the under performing manager and move money to a different manager in the same investment class
d) Place the manager on "Under Review" status and work with them to understand and correct the underperformance

17. Would you consider a portfolio or individual manager that is outperforming its peer group but underperforming its benchmark acceptable?

a) Yes
b) No

Investment Types

18. What place do you feel options, futures, swaps or other derivatives have when funding pension plans (circle any that apply)?

a) These types of investments should never be used for any reason
b) They can/should be used as a speculative investment
c) They can/should be used as a hedge against short-term transitory risks
d) They can/should be used to gain exposure to specific asset classes over short periods of time

19. What place do you feel the use of leverage (borrowing) has in pension funding (circle any that apply)?

a) Leverage should never be used under any circumstance
b) Leverage should/can be used to fund short-term cash flow imbalances
c) Leverage should/can be used in the context of a long-short strategy
d) Leverage should/can be used as a speculative play to enhance returns
20. Because an investor has to tie up capital for extended periods of time, real estate, venture capital and leveraged buy-out opportunities should compensate investors at a return greater than typically provided by common equity (stock market)

   a) Strongly Disagree
   b) Disagree
   c) Neutral
   d) Agree
   e) Strongly Agree

21. In the context of pension funding, if a hedge fund existed that was consistently able to provide a return 1% greater than the yield on 30-year government treasuries, would you consider it as an alternative to 30-year government treasuries?

   a) I would never invest in a hedge fund
   b) Yes
   c) No, but I would consider other hedge fund strategies

22. How do you feel about the following statement? “Generally, direct real estate is a good long-term investment and if an investor is willing to hold that investment for 20 years, there is a high probability that the investment will meet or even exceed expectations”

   a) Strongly Disagree
   b) Disagree
   c) Neutral
   d) Agree
   e) Strongly Agree

23. How do you feel about the following statement? “A well diversified portfolio of high-yield bonds should never be part of a pension plan’s portfolio because there is too great a risk that many of the bonds will default”

   a) Strongly Disagree
   b) Disagree
   c) Neutral
   d) Agree
   e) Strongly Agree
24. How do you feel about the following statement? “The ability for an active manager to exploit an alternative strategy for a long period of time isn’t possible, since the rest of the market will eventually figure it out and eliminate that advantage”

a) Strongly Disagree
b) Disagree
c) Neutral
d) Agree
e) Strongly Agree

Investment Fees

25. Which best describes your feelings regarding the following hypothetical statement: “Over the last 5 years, it can be shown that a passive investment strategy net of fees, would have produced a portfolio value today greater than that derived from an active strategy net of fees with the same asset allocation”

a) The statement cannot be true
b) The evidence suggests that we should be considering more passive strategies
c) The evidence suggests that we should always invest passively
d) The data set is an anomaly. In the long run, active investing after fees will always outperform passive investing
e) Regardless of the data, in the long run, passive investing will always outperform active investing after fees

Risk Preferences

26. Please choose values for X and Y that complete the following statement: “In 5 years from now, I want to be X% sure that the funded ratio of the System is Y% or better”

So for example, if X = 75 and Y = 90, the statement would be “In 5 years from now, I want to be 75% sure that the funded ratio of the System is 90% or better”.

\[
X = \quad Y =
\]

Note that as of June 30, 2011 the funded ratio of the System was 78.1%

27. Please rank the following in order of importance to you (1 being most important).

_____ Low employer contribution rates
_____ High funded ratio
_____ Contribution rates that don’t change much from year to year
_____ Ability of the System to fund all contractual benefits
_____ Paying off the unfunded liability
28. Please rank the following in order of importance to you (1 being most important).

_____ Short amortization periods of the unfunded liability
_____ Applying the new GASB principles to actual funding (as opposed to just reporting)
_____ A lower discount rate
_____ Ability of the System to fund all contractual benefits

29. StanCERA’s most recently reported funded ratio stood at 78% on a market value basis. How low could the funded ratio go before you would begin to feel uncomfortable?

a) I’m already uncomfortable with the funded ratio
b) 70%
c) 65%
d) 60%
e) Below 55%

30. StanCERA’s most recently reported funded ratio stood at 78% on a market value basis. How low could the funded ratio go before you would begin to feel that the ability of the fund to pay all future benefits is in jeopardy?

a) I’m already uncomfortable with the plan’s ability to pay future benefits
b) 70%
c) 65%
d) 60%
e) Below 55%

31. What level of employer contribution rates do you feel is unsustainable for our plan sponsors?

a) Current level (around 17%)
b) 21%
c) 25%
d) 30%
e) 40%

32. What percentage of total portfolio assets invested in alternative investments do you believe appropriate for a pension plan?

a) 0%
b) 5%
c) 10%
d) 25%
e) 50%