PARS: County of Contra Costa

Third Quarter 2017

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HighMark® CAPITAL MANAGEMENT

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DISCUSSION HIGHLIGHTS

U.S. Economic and Market Overview

Global equity markets climbed steadily throughout the third quarter. Solid corporate earnings results and encouraging economic data helped investors shrug off worries about the impact of major hurricane damage and escalating tensions between the U.S. and North Korea. The domestic economy grew at a robust 3.1% rate in the second quarter driven by accelerating corporate profits and business spending, but we expect third quarter growth to slow due to the impact from the recent hurricanes. Employment was consistent with longer term trends in July (+138,000) and August (+169,000), but Hurricanes Irma and Harvey put a halt to seven years of job growth as 33,000 U.S. jobs were lost in September. Despite the job losses, wage growth ticked up to an annualized rate of 2.9% in September. West Texas Intermediate Crude oil price rallied to close the quarter at $51.58. Gasoline prices rose even more dramatically after refining capacity was taken offline due to storm damage. According to Reuters, S&P 500 earnings rose by over 12% in the second quarter, easily surpassing the Wall Street estimate of 6.4% going into the reporting season. After showing signs of softening in June, the Consumer Price Index (CPI) reaccelerated in August to 1.9% with the hurricane damage possibly causing temporary upward pressure on prices in the coming months.

The domestic economy, though not growing as fast as prior cycles, shows few signs of slowing down. Accommodative financial conditions continue to perpetuate steady economic growth amidst a backdrop of low inflation and unemployment, creating an environment supportive of equity-risk taking. Conversely, the bond market has struggled to find direction this year. Long-term bond yields fell for most of the quarter until an abrupt pivot in early September as investors were surprised by a better-than-expected headline inflation print. The Federal Reserve (Fed) officially implementing its plan to shrink its balance sheet, along with some hawkish comments from Chairwoman Yellen, added upward pressure to rates late in the quarter. While the Fed would like to reduce its monetary influence, it has remained concerned about the impact of withdrawing stimulus amid stubbornly low inflation. The Fed's preferred measure of inflation, the core personal consumption expenditures (PCE) index, increased just 1.3% in August and was well below the Fed's stated 2% target. In late September, President Trump and his Republican colleagues in Congress shifted attention from repealing the Affordable Care Act (ACA) to reforming the nation's tax code. Their proposal includes reducing corporate tax rates, establishing a business pass-through rate, and facilitating the repatriation of assets held overseas. Both companies and investors may benefit from repatriated cash as it could be used for capital expenditures, share buybacks and/or dividends. As well, the proposed business pass-through rate of 25% is a significant change and is expected to be a boost for the finances of small business owners, which could be reinvested back in their businesses and enhance overall economic activity.

By most measures, the global economy stands as strong as it has been since the beginning of the financial crisis. In concert with low real and nominal interest rates, economic stability is attractive for investors and is reflected by the healthy asset price appreciation over the past 12 to 18 months. However, an environment of low interest rates, narrow credit spreads and elevated equity market valuations lowers future upside return potential from stocks and bonds. As a result, past historical returns for major asset classes are unlikely to be matched or exceeded going forward.

Market Overview/Performance Discussion

Total Plan

The County of Contra Costa OPEB Plan returned 3.04% net of investment fees, in the third quarter, which exceeded the County's Plan benchmark target of 2.78%. The domestic large cap equity segment provided the largest contribution to performance as four of the five managers outperformed the Russell 1000 Index. Large cap growth provided the largest contribution with the Harbor Capital Appreciation Fund (+8.6%) and the T. Rowe Price Growth Stock Fund (+5.5%) well ahead of the benchmark targets. The Plan continues to benefit from an overweight to international equities, as the weak dollar was supportive of returns. Specifically, the Plan's investments in emerging markets was an area of strength with the Hartford Schroders Emerging Market Fund providing the top absolute return for the quarter of +9.3%. While the majority of asset class segments outperformed benchmark targets, the margin of outperformance was fairly modest. Fixed income returns outperformed by +0.12%, small cap equity exceeded the target by +0.06%, international equity outpaced the MSCI-EAFE Index by +0.17%, and REITs bested their benchmark by +0.25%. The one segment that lagged was alternatives, but by a modest -0.07%.

Domestic Equity

Aside from a brief period of risk-aversion in August amid heightened geopolitical tensions with North Korea, equities performed well for the quarter. The Russell 1000 Index rose 4.48% with Growth outperforming Value by almost three percentage points. However, the combination of reduced monetary stimulus expectations and the President's tax cut proposal in September led to a late quarter rotation into Value, the Financial sector, and more cyclical areas of the market. With increased expectations for greater growth from a tax cut, cyclicals performed well with the Energy and Materials sectors up 6.8% and 6.0% respectively. Higher interest rate expectations and increased growth potential contributed to gains in Financials with most of the quarter's 5.2% return being earned in September. The Technology sector's strength from the first half of the year continued in the third quarter and was the best performing sector up 8.2%. Consumer Discretionary lagged as media and consumer durables companies confronted weak demand during the quarter. With the bias towards risk, the defensive Consumer Staples sector declined 2.0%. After outperforming for two quarters, large cap stocks (Russell 1000 Index) trailed small cap stocks (Russell 2000 Index) by about a percent as investors began to be more optimistic on tax reform with small caps likely to be the biggest beneficiaries of lower taxes.

The improved economic outlook in the U.S., accelerating earnings growth, and still low financing costs, were beneficial for equity returns in the quarter. While the Fed indicated it would tighten monetary policy, the expectation is for a very slow rate of interest rate increases and reduction in the size of its balance sheet. The Fed actions may present modest headwinds for the economy, but the extremely modest pace of tightening on its own is unlikely to materially impact equity returns. On the fiscal side, tax reform would most likely help to offset any monetary tightening and be a net benefit for 2018.

- **The Plan's large cap equity segment returned 4.99% in the quarter, which outperformed the Russell 1000 Index return of 4.48%.**
  - The iShares Russell 1000 ETF 4.44% in the third quarter.
  - The Columbia Contrarian Core Fund returned 4.17% in the quarter, which underperformed the benchmark. The Fund ranked in the 58th percentile of the Morningstar Large Cap Blend Universe.
  - The Harbor Capital Appreciation Fund returned 8.64% in the quarter, which outperformed the Russell 1000 Growth Index's return of 5.90%. The Fund ranked in the 3rd percentile of the Morningstar Large Cap Growth Universe.
  - The T. Rowe Price Growth Stock Fund returned 5.48% in the quarter, which underperformed the Russell 1000 Growth Index. The Fund ranked in the 47th percentile of the Morningstar Large Cap Growth Universe.
  - The Dodge and Cox Stock Fund returned 4.76% in the quarter, and outperformed the Russell 1000 Value Index's return of 3.11%. The Fund ranked in the 20th percentile of the Morningstar Large Cap Value Universe.
  - The Vanguard Growth and Income Fund posted a 4.89% return in the quarter, which exceeded the Russell 1000 Index. The Fund ranked in the 20th percentile of the Morningstar Large Cap Blend Universe.

- **The mid cap equity segment returned 3.47% in the quarter, which matched the Russell Mid Cap Index return of 3.47%.**
  - The iShares Russell Mid Cap ETF returned 3.44% in the third quarter.

- **The small cap equity segment returned 5.73% in the quarter, which slightly exceeded the Russell 2000 Index return of 5.67%.**
  - The iShares Russell 2000 ETF returned 5.68% in the third quarter.
  - The T. Rowe Price New Horizons Fund returned 6.71% in the quarter, and outperformed the Russell 2000 Growth Index return of 6.22%. The Fund ranked in the 26th percentile of Morningstar's Small Cap Growth Universe.
  - The Undiscovered Managers Behavioral Value Fund returned 4.54% in the quarter, and underperformed the Russell 2000 Value Index's return of 5.11%. The Fund ranked in the 57th percentile of Morningstar's Small Cap Value Universe.

Real Estate

For the fifth consecutive quarter, REIT equity was the weakest performing equity segment in the Plan, with the Wilshire REIT Index returning 0.61%. Negative earning revisions dragged down the REIT sector in the quarter, with most of the revisions taking place in the regional mall (-21.8%) and shopping center (-21.7%) segments. Leading REIT segments in the quarter included Industrials (+18.1%), Lodging/Leisure (+21.2%), and Data Centers (+29.6%). The hawkish commentary from the Fed this quarter put additional downward pressure on equity prices in the REIT sector. However as previously mentioned, Core PCE inflationary readings are not overly worrisome. We have not seen landlords able to pass on substantial rent hikes to tenants, which is another headwind to the prospects for several REIT subsectors. A favorable growth backdrop for business, combined with strong balance sheets, and reasonable valuations (especially when compared to other domestic equity segments) could support a turn around in the prospects for REITs.

The Vanguard REIT ETF returned 0.90% which ranked in the 39th percentile.

International/Global Equity

International equities continued the trend of the first half of the year and outperformed domestic equities in the third quarter. The MSCI-EAFE Developed market index was higher by 5.4% and the Emerging market MSCI-EM index was up 7.9% for the quarter. After declining in the prior quarter, the energy and commodity leveraged equity markets including Russia and Brazil were higher by over 18%. Commodity producer Chile was up over 12% as well. As earnings growth picked up, the more diversified markets also performed well including France (+7.4%), Germany (+7.1%), Canada (+8.1%), and China (8.6%).

Europe continued to improve. Factors including a stabilizing political environment, improving economic indicators, and attractive relative valuations for European equity markets have all contributed to the region's resurgence. As a result, we remain optimistic for the region. The concern that the populism movement that had begun in the U.S. and U.K. would spread across Europe continued to abate as the incumbent Merkel was re-elected in Germany. Europe's competitive currency and a cyclical upswing in global demand have sparked rejuvenation in economic activity in the region. The IHS Markit's Flash Eurozone Composite Purchasing Managers' Index (PMI) rose again in August, to 55.8, which is the highest level that the index has reached in over six years. The European labor market has also tightened significantly, with the unemployment rate at its lowest level in almost a decade. Europe's improving economy provides a catalyst for corporate earnings growth, which has been anemic since the continent's sovereign debt crisis.

Both Japan and China also improved during the quarter with the economic data supportive of growth. China's PMI data continued its upward trend from the lows in mid-2016, suggesting that growth can be sustained. After a long period of decline, China GDP growth actually rose earlier in the year and has so far been stable. Monetary and fiscal stimulus has accelerated economic activity in Japan. Having begun a recovery from very depressed levels in mid-2016, the PMI and inflation data continued to improve for the quarter and signaled expansion for the economy. Japan GDP growth has commensurately improved and has also trended higher over the past year. This quarter marked the sixth straight quarter of economic expansion. With equity market valuations relatively attractive overseas along with improving earnings expectations, the international investment outlook continues to be favorable.

- **The Plan's international/global equity segment returned 5.57% in the quarter. This return exceeded the MSCI EAFE Index 5.40%, and outperformed the MSCI ACWI Index return of 5.18%.**
    - The iShares MSCI EAFE Index ETF returned 5.35% in the quarter.
    - The Nationwide Bailard International Equity Fund returned 5.79% in the quarter, which outperformed the MSCI EAFE Index. The Fund ranked in the 37th percentile of the Morningstar Foreign Large Blend Universe.
    - The Dodge & Cox International Stock Fund returned 6.94% in the quarter and outperformed the MSCI EAFE Index. The Fund ranked in the 10th percentile of the Foreign Large Blend Universe as measured by Morningstar.
    - The MFS International Fund returned 4.87% in the quarter and underperformed the MSCI EAFE Index. The Fund ranked in the 76th percentile for foreign large cap growth managers as measured by Morningstar.
    - The iShares MSCI ACWI Index ETF returned 5.26% in the quarter.
    - The American Funds New Perspective Fund recorded a 5.49% return in the third quarter, which outperformed the MSCI ACWI Index and ranked in the 27th percentile within the Morningstar World Stock Universe
    - The MFS Global Equity R5 Fund returned 2.75%, which underperformed the benchmark and ranked in the 89th percentile of the Morningstar World Stock Universe.
    - The Hartford Schroders Emerging Market Equity Fund returned 9.32% during the quarter and outperformed the MSCI Emerging Market benchmark return of 7.89%. The Fund ranked in the 22nd percentile of the Morningstar Emerging Market Universe.

Fixed Income

The Bloomberg Barclays U.S. Aggregate Index return of 0.85% for the third quarter was almost entirely due to interest income as US Treasury yields remained nearly unchanged. Quarterly returns for Treasuries across the maturity spectrum from 3-months to 30-years ranged between 0.2% and 0.3%, while US Corporate bonds outperformed Treasuries for the 8th consecutive quarter. Investment-grade corporate bond spreads tightened by 8 basis points this quarter, resulting in a 1.3% return. Investment-grade corporate bonds now trade at an average spread of 106 basis points, which matches the low in June 2014, but otherwise is the tightest since 2007. Among investment-grade corporates, the best performing industries included Basic Industry, Energy, REIT's, Utilities, and Banks. Industry laggards included Capital Goods, Communications, Transportation, Consumer Non-Cyclical, and Consumer Cyclical. Lower quality bonds outperformed as the Bloomberg Barclays High Yield index returned 2% for the quarter and 7% year-to-date. Mortgage-backed securities outperformed Treasuries this quarter with a return of 1.0% after three consecutive quarters of underperformance.

Fixed Income (Cont.)

The U.S. is now in the 9th year of an economic expansion while the Federal Reserve is just beginning the process of removing the extraordinary policy measures that were adopted during the financial crisis. Beginning in December 2015 the Fed has raised the funds rate four times, or a total of 1%, from a range of 0-.25% to 1.0%-1.25%. Current market expectations are for another rate hike in December and only one, or at most two, additional hikes in 2018. However, the Fed continues trying to convince investors that rates should go higher sooner and that at least three increases are needed next year, despite the fact that inflation has been below their 2% target for most of the last five years. Further complicating the outlook for monetary policy is the uncertainty over who will be Chairman of the Federal Reserve Board after Janet Yellen's term is up in February next year. While Mrs. Yellen may be reappointed, it's also possible that any one of several other candidates could be the next chairman. In addition, there are currently three vacant seats on the Board of Governors, and possibly four if Mrs. Yellen is not reappointed. Given the current administration's preference for people with business experience rather than Ph.D.'s in Economics, the FOMC could potentially have a much different outlook next year.

The Fed also seems increasingly concerned with financial market stability and is becoming more and more uncomfortable with the $4.2 trillion of government securities that were acquired as part of the financial system rescue. Although in October the Fed will begin to let some securities mature without being reinvested, initially it will start at a modest $10 billion/month, gradually increasing to $50 billion/month. It will take many years to significantly reduce the balance sheet.

The combination of additional rate hikes along with the beginning of balance sheet reduction could put some modest upward pressure on interest rates in the last quarter of the year, particularly if inflation does move higher. However, as long as GDP growth remains near the 2% average it has been for the last eight years we expect interest rates also to remain within the same range they have been for several years.

Duration positioning had almost no impact on third quarter performance as interest rates moved very little. The largest move came from the two-year Treasury which increased 10 basis points, while ten-year and longer maturities ended only 2 to 3 basis points higher. The County's separately managed core fixed income portfolio lagged its benchmark by one basis point this quarter, due primarily to more conservative security selection. In a quarter when interest rates were nearly unchanged, the extra income from lower rated and longer duration securities was enough to make a difference. On the positive side, the overweight to corporate bonds was a benefit as investment grade corporates outperformed Treasuries by +85 basis points. Over longer time periods the Plan's portfolio continues to benefit from an overweight to high quality corporate bonds, which have not only provided additional income, but also some market value appreciation in recent time periods. Although investment-grade corporate bonds are not cheap from a historical standpoint, they continue to offer a significant yield advantage over Treasuries.

- **The Plan's fixed income segment returned 0.97% in the quarter, which slightly outperformed the Bloomberg Barclays Aggregate Index return of 0.85%.**
  - The separately managed fixed income portfolio returned 0.84% which was in-line with the benchmark. The portfolio would have ranked approximately in the 52nd percentile of the Morningstar Intermediate Term Bond Universe.
  - The PIMCO Total Return Bond Fund posted a 1.50% gain in the quarter, which placed it in the 4th percentile of Morningstar's Intermediate-Term Bond Universe. The Fund outperformed the Index.
  - The Prudential Total Return Bond Fund returned 1.38% in the quarter. This ranked in the 5th percentile of Morningstar's Intermediate-Term Bond Universe and outperformed the benchmark.
  - The Eaton Vance Floating Rate High Income Fund returned 0.93% in the quarter.

Alternative Investments

The alternative investment segment of the Plan returned 1.32% in the third quarter, slightly trailing the Wilshire Liquid Alternatives Index 1.39. Despite lagging the benchmark, alternatives did outperform both cash and fixed income in the quarter. The AQR Equity Market Neutral Fund's return of 3.8% was the leading contributor in the quarter. Net long positions in the domestic equity market and Europe supported returns. Long positions in General Motors (+16.8%), Gilead Sciences (+14.4%), and Ebay (+10.1%) were top contributors. The AQR Managed Futures Fund (0.00%) benefitted from bullish trends in equities, but reversals in other asset classes related to an increasingly hawkish central banking environment, rising geopolitical risks, and seasonal speculation in agricultural commodities equated to a flat return for the quarter. Equity "long" positions in the MSCI Emerging Market Index, Hang Seng Index, and the NASDAQ 100 were additive to performance. Commodity investments in gold futures (-0.53%), soybean futures (-0.32%), and WTI Crude (-0.25%) were negatives. The Eaton Vance Global Macro Fund (+0.53%) benefitted from sovereign credit investments in Belarus and El Salvador. Currency investments in the Sri Lankan Rupee, Serbian Dinar, and the Colombian Peso also aided returns. From a regional perspective Western Europe was the only area of weakness, with investments in Icelandic equities and the Icelandic Krona declining, and a short position in the British Pound also a negative on performance.

- **The alternative investment segment returned 1.32% in the third quarter, which slightly underperformed the Wilshire Liquid Alternatives Index return of 1.38%.**
  - The AQR Managed Futures Fund returned 0.00%, and ranked in the 68th percentile of the Morningstar Managed Futures Universe.
  - The Eaton Vance Global Macro Absolute Return Fund posted a 0.53% return, which placed in the 79th percentile of the Morningstar Non-Traditional Bond Universe.
  - The AQR Equity Market Neutral Fund return of 3.80% ranked in the 9th percentile of Morningstar's Market Neutral Universe.

Asset Allocation/Portfolio Transitions

There were no changes to managers in the quarter. Following the dramatic out-performance of the domestic large cap growth style year-to-date, we modestly reduced large cap growth and increased large cap value during the quarter. The valuation difference between value and growth had widened to relatively high levels for the year, and we believed that the fundamentals would favor value going forward. For fixed income, we reduced the floating rate note position and allocated the proceeds to a diversified bond position. Given the potential for increased re-financings for floating rate notes and our shift to a more agnostic view on the fixed income market as a whole, we increased the position to the Plan's core bond holding position.

Manager Watch List

Name of Fund	Date on watch list	Date exiting watch list	Recommendation	Rationale
AQR Managed Futures Fund	2Q 2017		Maintain on watch	1-Year performance of -13.1% is below expectations.

Asset Allocation
Period Ending September 30, 2017

Asset Allocation		6/30/2017 Market Value	6/30/2017 % of Total		9/30/2017 Market Value	9/30/2017 % of Total	Target Allocation
Large Cap Equities							
Columbia Contrarian Core Z		6,312,736	2.7%		7,277,343	3.0%	--
iShares Russell 1000 ETF		13,911,708	5.9%		14,586,547	6.0%	--
Vanguard Growth & Income Adm		6,308,073	2.7%		7,344,827	3.0%	--
Dodge & Cox Stock Fund		5,754,594	2.5%		7,505,501	3.1%	--
Harbor Capital Appreciation Retirement		2,907,316	1.2%		2,448,078	1.0%	--
T. Rowe Price Growth Stock Fund		2,943,594	1.3%		2,422,674	1.0%	--
Total Large Cap Equities	**$**	**38,138,021**	**16.2%**	**$**	**41,584,970**	**17.2%**	**17.0%**
			Range			*Range*	*13-32%*
Mid Cap Equities							
iShares Russell Mid-Cap ETF		10,405,446	4.4%		10,945,571	4.5%	--
Total Mid Cap Equities	**$**	**10,405,446**	**4.4%**	**$**	**10,945,571**	**4.5%**	**6.0%**
			Range			*Range*	*2-10%*
Small Cap Equities							
iShares Russell 2000 ETF		9,318,758	4.0%		9,798,847	4.1%	--
Undiscovered Mgrs Behavioral Value Inst		4,670,118	2.0%		4,881,916	2.0%	
T. Rowe Price New Horizons Fund		4,575,660	1.9%		4,882,734	2.0%	--
Total Small Cap Equities	**$**	**18,564,536**	**7.9%**	**$**	**19,563,497**	**8.1%**	**8.0%**
			Range			*Range*	*4-12%*
International Equities							
Nationwide Bailard Intl Equities I		6,940,746	3.0%		7,342,592	3.0%	--
iShares MSCI EAFE Index Fund		11,534,988	4.9%		12,174,443	5.0%	--
Dodge & Cox International Stock Fund		3,473,520	1.5%		3,714,748	1.5%	--
MFS® International Growth R6		3,429,918	1.5%		3,595,895	1.5%	--
Hartford Schroders Emerging Mkts Eq Y		4,632,962	2.0%		4,830,390	2.0%	--
Total International Equities		**30,012,135**	**12.8%**	**$**	**31,658,066**	**13.1%**	**9.0%**
			Range			*Range*	*4-16%*
Global Equities							
MSCI iShares ACWI Index ETF		9,021,902	3.8%		9,723,371	4.0%	
American Funds New Perspective R6		3,525,869	1.5%		3,719,336	1.5%	
MFS Global Equity FD CL R5 #4818		3,526,896	1.5%		3,623,974	1.5%	
Total Global Equities	**$**	**16,074,668**	**6.8%**	**$**	**17,066,681**	**7.1%**	**7.0%**
			Range			*Range*	*4-12%*

Asset Allocation
Period Ending September 30, 2017

Asset Allocation	6/30/2017 Market Value	6/30/2017 % of Total	9/30/2017 Market Value	9/30/2017 % of Total	Target Allocation
Real Estate					
Vanguard REIT ETF	6,924,153	2.9%	7,225,008	3.0%	
	$ 6,924,153	**2.9%**	**$ 7,225,008**	**3.0%**	**4.0%**
		Range		*Range*	*0-8%*
Fixed Income					
Core Fixed Income Holdings	62,668,366	26.7%	65,915,120	27.3%	--
PIMCO Total Return Instl Fund	8,967,559	3.8%	10,223,749	4.2%	--
Prudential Total Return Bond Q	9,022,734	3.8%	10,237,814	4.2%	--
Eaton Vance Floating-Rate High Inc	3,473,847	1.5%	2,416,810	1.0%	--
Total Fixed Income	**$ 84,132,506**	**35.8%**	**$ 88,793,493**	**36.7%**	**38.0%**
		Range		*Range*	*30-50%*
Alternatives					
AQR Managed Futures I	7,872,380	3.4%	8,230,683	3.4%	--
Eaton Vance Glbl Macro Abs Ret I	8,093,658	3.4%	8,275,149	3.4%	--
AQR Equity Market Neutral I	6,902,827	2.9%	7,311,230	3.0%	--
Total Alternatives	**$ 22,868,865**	**9.7%**	**$ 23,817,061**	**9.8%**	**10.0%**
		Range		*Range*	*5-20%*
Cash					
Money Market	7,614,826	3.2%	1,219,149	0.5%	--
Total Cash	**$ 7,614,826**	**3.2%**	**$ 1,219,149**	**0.5%**	**1.0%**
		Range		*Range*	*0-5%*
TOTAL	**$ 234,735,157**	**100.0%**	**$ 241,873,496**	**100.0%**	**100.0%**

Investment Summary

Period Ending September 30, 2017

Investment Summary	Third Quarter 2017	Year to Date 2017
Beginning Value	**$ 235,222,340.14**	**$ 206,343,794.94**
Net Contributions/Withdrawals	-46,220.22	15,343,301.75
Fees Deducted	-47,257.43	-140,014.46
Income Received	1,131,721.24	3,203,242.05
Market Appreciation	6,100,095.76	17,571,143.38
Net Change in Accrued Income	-41,470.43	-2,258.60
Ending Market Value*	**$ 242,319,209.06**	**$ 242,319,209.06**

Investment Summary	Third Quarter 2016	Year to Date 2016
Beginning Value	**$ 195,885,034.30**	**$ 175,078,576.28**
Net Contributions/Withdrawals	-39,944.37	14,959,999.01
Fees Deducted	-45,187.25	-132,741.45
Income Received	1,087,359.87	2,953,806.91
Market Appreciation	4,781,743.33	8,826,225.87
Net Change in Accrued Income	-54,683.92	-71,544.66
Ending Market Value*	**$ 201,614,321.96**	**$ 201,614,321.96**

*Ending Market Value differs from total market value on the previous page due to differences in reporting methodology. The above ending market value is reported as of trade date and includes accruals. The Asset Allocation total market value is reported as of settlement date.

INVESTMENT STRATEGY

As of September 30, 2017

Tactical Asset Allocation

Asset Class	% Portfolio Weighting			Rationale
	Target	Current Portfolio	Over/Under Weighting	
Cash	1.0%	0.5%	-0.5%	
Fixed Income	38.0%	37.0%	-1.0%	▪ We forecast the Fed will raise the Fed Funds rate in December 2017 by 25 basis points. We have lowered our year-end 2017 target for the 10-year treasury to 2.5%. We forecast the Fed will raise rates in 2018 by 25 to 50 basis points. Fixed income expected returns would be modest in this environment. It is our belief that the Federal Reserve's plan to shrink their balance sheet may also lead to a gradual increase in interest rates.
Alternatives	10.0%	10.0%	-	▪ Alternatives serve to mitigate the impact of a decline in the bond market, due to a potential rise in interest rates. Additionally near-term expectations for cash and equities remain depressed due to the low interest rate environment, equity market valuations, and earnings growth expectations.
Real Estate (REITS)	4.0%	3.0%	-1.0%	▪ While the fundamentals for the REIT sector remain encouraging (low unemployment, GDP, positive consumer/business confidence), a more aggressive Federal Reserve could put pressure on the relative attractiveness of the sector. REITs are currently undergoing a downward revision in earnings for next year, due primarily to muted expectations in regional malls and shopping centers.
Global Equity	7.0%	7.0%	-	▪ With numerous global equity markets posting double digit returns year to date through September, valuations are entering a 'fair value' region. As such, the allocation remains neutral to the target.
International (Developed)	9.0%	11.0%	+2.0%	▪ Monetary and fiscal support has contributed to economic improvement in developed markets. Europe has demonstrated positive earnings momentum and the trend appears set to continue. After many years of low inflation and economic growth, the Japanese economy has shown a positive turnaround with 6 quarters of improvement. Given that the positive outlook remains, developed international remains overweight.
International (Emerging)	0.0%	2.0%	+2.0%	▪ Emerging markets have performed well from a pick up in global trade and U.S. Dollar weakness. While these factors may soften near-term, valuations are roughly within their long-term average levels which is attractive in comparison to high U.S. market valuations. China is expected to hit their growth targets and the economies of many other countries have stabilized. With valuation support and earnings growth potential, the allocation remains overweight.
Total Domestic Equity	31.0%	29.5%	-1.5%	
Large Cap	17.0%	17.0%	-	▪ The multi-year outperformance of domestic equities has led to stretched valuations degrading the near-term outlook. Forecasted earnings for 2017 have increased slightly due to expected gains from the financial and energy sectors. With supportive earnings growth but higher valuations, we are currently neutral to the target allocation.
Mid Cap	6.0%	4.5%	-1.50%	▪ We continue to remain underweight based on valuation concerns, with the Russell Mid-Cap Index trading at a 20X forward PE ratio.
Small Cap	8.0%	8.0%	-	▪ Valuations are at the upper-end of the long-term range. The potential for tax legislation, which would benefit small cap companies, offsets the higher valuation justifying the neutral weight.

Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 09/30/2017

Sector	3 Months	Year to Date (9 Months)	1 Year	3 Years	5 Years	Inception to Date (80 Months)
Cash Equivalents	.21	.51	.58	.28	.17	.14
Citigroup 3 Month T-Bill Index	*.25*	*.56*	*.64*	*.29*	*.19*	*.16*
Fixed Income ex Funds	.84	3.17	.54	2.97	2.24	3.67
Total Fixed Income	.97	3.64	.94	3.05	2.40	3.78
BC US Aggregate Bd Index	*.85*	*3.14*	*.07*	*2.71*	*2.06*	*3.29*
Total Equities	4.96	16.25	18.58	8.90	11.59	9.75
Large Cap Funds	4.99	15.70	20.41	10.86	14.40	12.07
Russell 1000 Index	*4.48*	*14.17*	*18.54*	*10.63*	*14.27*	*12.90*
Mid Cap Funds	3.47	11.53	15.09	8.77	12.23	10.20
Russell Midcap Index	*3.47*	*11.74*	*15.32*	*9.54*	*14.26*	*12.09*
Small Cap Funds	5.73	13.37	21.27	12.33	15.48	12.85
Russell 2000 Index	*5.67*	*10.94*	*20.74*	*12.18*	*13.79*	*11.72*
International Equities	5.57	21.64	19.97	5.76	8.59	5.90
MSCI AC World Index	*5.18*	*17.25*	*18.65*	*7.43*	*10.20*	*8.03*
MSCI EAFE Index	*5.40*	*19.96*	*19.10*	*5.04*	*8.38*	*5.32*
MSCI EM Free Index	*7.89*	*27.78*	*22.46*	*4.90*	*3.99*	*2.01*
REIT Funds	.86	3.64	1.59	9.61	9.39	9.68
Wilshire REIT Index	*.61*	*2.44*	*.10*	*9.65*	*9.51*	*10.17*
Alternatives	1.32	.51	-1.15	1.40		
Dynamic Alternatives Index	*1.39*	*3.50*	*3.48*	*1.07*	*1.08*	*-.13*
Total Managed Portfolio	3.06	9.66	9.52	5.86	6.92	6.47
Total Account Net of Fees	3.04	9.60	9.43	5.76	6.81	6.35
County of Contra Costa	*2.78*	*8.60*	*9.02*	*6.03*	*7.22*	*6.90*

Inception Date: 02/01/2011

* Benchmark from February 1, 2011 to June 30, 2013: 18% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 8% MSCI ACWI Index, 10% MSCI EAFE Index, 45% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 1% Citigroup 3 Month T-Bill Index. From July 1, 2013 to June 30, 2015: 17% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 7% MSCI AC World US Index, 9% MSCI EAFE Index, 38% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 10% HFRI FOF Market Defensive Index, 1% Citigroup 3 Month T-Bill Index. From July 1, 2015: 17% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 7% MSCI AC World Index, 9% MSCI EAFE Index, 38% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 10% Wilshire Liquid Alternative Index, 1% Citigroup 3 Month T-Bill Index

** Dynamic Alternatives Index represents the HFRI FOF Market Defensive Index from 07/01/2013 until 06/30/2015, and then the Wilshire Liquid Alternatives Index from 07/01/2015 forwards.

Returns are gross-of-fees unless otherwise noted. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

COUNTY OF CONTRA COSTA

For Period Ending September 30, 2017

Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
LARGE CAP EQUITY FUNDS											
Columbia Contrarian Core Z	(7/13)	4.17	58	15.51	14	17.67	58	10.61	21	14.76	8
T. Rowe Price Growth Stock I		5.48	47	26.14	13	26.28	6	14.03	7	16.34	11
Harbor Capital Appreciation Retirement		8.64	3	27.46	9	25.01	11	13.07	15	15.91	15
Dodge & Cox Stock	(10/14)	4.76	20	11.89	19	23.88	3	9.83	13	15.65	2
Vanguard Growth & Income Adm	(12/16)	4.89	20	13.21	55	17.81	56	10.74	15	14.40	12
iShares Russell 1000	(3/15)	4.44	41	14.05	34	18.38	44	10.50	26	14.13	22
Idx: Russell 1000		**4.48**	**--**	**14.17**	**--**	**18.54**	**--**	**10.63**	**--**	**14.27**	**--**
MID CAP EQUITY FUNDS											
iShares Russell Mid-Cap	(3/15)	3.44	52	11.60	31	15.14	63	9.36	40	14.07	31
Idx: Russell Mid Cap TR USD		**3.47**	**--**	**11.74**	**--**	**15.32**	**--**	**9.54**	**--**	**14.26**	**--**
SMALL CAP EQUITY FUNDS											
Undiscovered Mgrs Behavioral Value Inst	(9/16)	4.54	57	7.47	16	16.28	69	11.89	19	15.70	2
Idx: Russell 2000 Value		**5.11**	**--**	**5.68**	**--**	**20.55**	**--**	**12.12**	**--**	**13.27**	**--**
iShares Russell 2000	(3/15)	5.68	36	10.96	22	20.77	32	12.24	24	13.84	40
T. Rowe Price New Horizons I		6.71	26	25.81	6	24.88	19	14.95	11	17.38	4
Idx: Russell 2000 Growth		**6.22**	**--**	**16.81**	**--**	**20.98**	**--**	**12.17**	**--**	**14.28**	**--**
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		6.94	10	22.47	23	26.58	2	3.87	79	10.13	8
Nationwide Bailard Intl Eqs Instl		5.79	37	20.15	60	16.71	70	5.50	39	8.81	22
MFS® International Growth Fund Class R6		4.87	76	25.20	46	18.25	46	8.13	22	8.13	65
MFS Global Equity R5	(3/15)	2.75	89	18.80	34	18.13	47	9.19	19	12.20	20
iShares MSCI EAFE	(3/15)	5.35	50	19.94	66	19.03	41	4.96	56	8.28	37
iShares MSCI ACWI	(3/15)	5.26	33	17.44	43	19.02	36	7.65	46	10.42	52
American Funds New Perspective R6	(3/15)	5.49	27	23.52	13	21.22	16	10.73	7	12.86	12
Idx: MSCI EAFE		**5.40**	**--**	**19.96**	**--**	**19.10**	**--**	**5.04**	**--**	**8.38**	**--**
Idx: MSCI ACWI		**5.18**	**--**	**17.25**	**--**	**18.65**	**--**	**7.43**	**--**	**10.20**	**--**
Hartford Schroders Emerging Mkts Eq Y	(11/12)	9.32	22	31.91	19	25.41	16	6.71	14	4.91	32
Idx: MSCI Emerging Markets		**7.89**	**--**	**27.78**	**--**	**22.46**	**--**	**4.90**	**--**	**3.99**	**--**

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending September 30, 2017

Fund Name	Inception	3-Month Return	Rank	YTD Return	Rank	1-Year Return	Rank	3-Year Return	Rank	5-Year Return	Rank
REIT EQUITY FUNDS											
Vanguard REIT ETF	(6/17)	0.90	39	3.51	47	0.43	43	9.54	27	9.48	21
Idx: Wilshire REIT Index		**0.61**	**--**	**2.44**	**--**	**0.10**	**--**	**9.65**	**--**	**9.51**	**--**
BOND FUNDS											
Core Fixed Income Portfolio		0.84	52	3.17	60	0.54	57	2.97	25	2.24	45
Pimco Total Return Inst'l		1.50	4	5.01	6	2.43	10	3.22	15	2.43	33
Prudential Total Return Bond Fund Class (	(5/16)	1.38	5	5.53	3	2.35	11	4.11	3	3.64	3
Idx: BarCap US Aggregate Bond		**0.85**	**--**	**3.14**	**--**	**0.07**	**--**	**2.71**	**--**	**2.06**	**--**
Eaton Vance Floating-Rate & Hi Inc Inst	(12/16)	0.93	49	3.66	5	6.23	8	4.29	5	4.26	14
ALTERNATIVE FUNDS											
AQR Managed Futures	(7/13)	0.00	68	-5.58	84	-13.11	89	-1.07	59	1.89	40
AQR Equity Market Neutral I	(2/16)	3.80	9	4.93	20	9.26	9	--	--	--	--
Eaton Vance Glbl Macro Abs Ret	(7/13)	0.53	79	3.17	56	3.49	61	3.40	31	2.44	48
Idx: Dynamic Alternatives		**1.39**	**--**	**3.50**	**--**	**3.48**	**--**	**1.07**	**--**	**1.08**	**--**

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2016

Fund Name	Inception	2016 Return	Rank	2015 Return	Rank	2014 Return	Rank	2013 Return	Rank	2012 Return	Rank	2011 Return	Rank
LARGE CAP EQUITY FUNDS													
Columbia Contrarian Core Z	(7/13)	8.64	74	3.02	9	12.92	31	35.73	17	18.67	10	-0.93	52
T. Rowe Price Growth Stock I (PRUFX)		1.58	63	10.93	--	8.83	--	39.20	--	18.92	--	-0.97	--
T. Rowe Price Growth Stock (PRGFX)		1.41	66	10.85	4	8.83	65	39.20	12	18.92	14	-0.97	39
Vanguard Growth & Income Adm	(12/16)	12.12	24	2.03	16	14.16	13	32.74	37	17.05	19	2.54	15
Harbor Capital Appreciation Instl		-1.07	85	10.99	4	9.93	53	37.66	17	15.69	43	0.61	24
Loomis Sayles Value Fund	Out (12/16)	11.62	81	-4.19	58	10.76	48	35.54	14	19.70	4	-2.81	66
Dodge & Cox Stock	(10/14)	21.28	6	-4.49	62	10.40	54	40.55	2	22.01	2	-4.08	74
iShares Russell 1000 ETF		11.91	27	0.82	30	13.08	28	32.93	35	16.27	29	1.36	28
Idx: Russell 1000		**12.05**	**--**	**0.92**	**--**	**13.24**	**--**	**33.11**	**--**	**16.42**	**--**	**1.50**	**--**
MID CAP EQUITY FUNDS													
iShares Russell Mid-Cap ETF		13.58	61	-2.57	30	13.03	8	34.50	46	17.13	43	-1.67	27
SMALL CAP EQUITY FUNDS													
Undiscovered Managers Behavioral Val L	(9/16)	20.84	81	3.43	1	5.70	26	37.64	38	23.55	4	-1.53	24
Idx: Russell 2000 Value		**31.74**	**--**	**-7.47**	**--**	**4.22**	**--**	**34.52**	**--**	**18.05**	**--**	**-5.50**	**--**
T. Rowe Price New Horizons I (PRJIX)		7.95	69	4.54	--	6.10	--	49.11	--	16.20	--	6.63	--
T. Rowe Price New Horizons (PRNHX)		7.79	71	4.50	7	6.10	19	49.11	10	16.20	22	6.63	2
Idx: Russell 2000 Growth		**11.32**	**--**	**-1.38**	**--**	**5.60**	**--**	**43.30**	**--**	**14.59**	**--**	**-2.91**	**--**
iShares Russell 2000 ETF		21.36	43	-4.33	44	4.94	44	38.85	35	16.39	34	-4.19	58
INTERNATIONAL EQUITY FUNDS													
Dodge & Cox International Stock		8.26	2	-11.35	98	0.08	9	26.31	8	21.03	16	-15.97	81
Nationwide Bailard Intl Eqs Instl (NWHMX)		-2.13	83	0.93	23	-1.90	15	21.84	--	21.07	--	-15.39	--
Nationwide Bailard International Equities Fund (NWHNX)		-2.38	86	0.86	24	-1.94	15	21.68	28	20.87	17	-15.58	74
MFS International Growth I		2.64	7	0.30	55	-5.10	58	13.84	79	19.71	31	-10.62	40
iShares MSCI EAFE Index Fund		0.96	47	-0.90	46	-5.04	46	22.62	18	17.22	66	-12.18	27
Idx: MSCI EAFE		**1.00**	**--**	**-0.81**	**--**	**-4.90**	**--**	**22.78**	**--**	**17.32**	**--**	**-12.14**	**--**
Schroder Emerging Market Equity	(11/12)	10.41	37	-12.68	37	-4.61	70	-2.28	54	21.73	19	-16.70	20
Idx: MSCI Emerging Markets		**11.19**	**--**	**-14.92**	**--**	**-2.19**	**--**	**-2.60**	**--**	**18.22**	**--**	**-18.42**	**--**
American Funds New Perspective F2		2.10	77	5.56	6	3.46	41	27.11	39	21.07	15	-7.39	44
MFS Global Equity R5		7.43	27	-1.34	48	4.08	33	27.93	34	23.14	--	-5.13	--
iShares MSCI ACWI		8.22	21	-2.39	62	4.64	28	22.91	63	15.99	51	-7.60	46
Idx: MSCI ACWI		**7.86**	**--**	**-2.36**	**--**	**4.16**	**--**	**22.80**	**--**	**16.13**	**--**	**-7.35**	**--**

Data Source: Morningstar, SEI Investments

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COUNTY OF CONTRA COSTA

For Period Ending December 31, 2016

		2016		2015		2014		2013		2012		2011	
Fund Name	**Inception**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**	**Return**	**Rank**
REIT EQUITY FUNDS													
Nuveen Real Estate Secs Y		6.79	38	3.48	37	31.28	17	1.32	58	18.34	22	7.96	50
Idx: Wilshire REIT		**7.24**	**--**	**4.23**	**--**	**31.78**	**--**	**1.86**	**--**	**17.59**	**--**	**9.24**	**--**
BOND FUNDS													
Core Fixed Income Portfolio		3.63	37	0.78	14	4.74	70	-1.40	41	5.42	69	8.41	5
Pimco Total Return Inst'l		2.60	63	0.73	15	4.69	71	-1.92	60	10.36	12	4.16	87
Prudential Total Return Bond Q	(5/16)	4.83	13	0.09	44	7.25	5	-0.91	28	9.96	14	7.93	8
Idx: BarCap US Aggregate Bond		**2.65**	**--**	**0.55**	**--**	**5.97**	**--**	**-2.02**	**--**	**4.21**	**--**	**7.84**	**--**
Eaton Vance Floating-Rate & Hi Inc Inst	(12/16)	11.55	15	-1.50	57	0.90	33	5.23	50	9.51	38	2.81	9
ALTERNATIVE FUNDS													
AQR Managed Futures	(7/13)	-8.43	81	2.00	31	9.69	40	9.40	6	2.99	5	-6.37	29
AQR Equity Market Neutral I	(2/16)	5.85	18	17.60	1	--	--	--	--	--	--	--	--
Eaton Vance Glbl Macro Abs Ret	(7/13)	4.00	61	2.63	7	3.03	18	-0.24	58	4.11	79	-0.39	44

Data Source: Morningstar, SEI Investments

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