PARS: County of Contra Costa

First Quarter 2013

Presented by
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HIGHMARK®
CAPITAL MANAGEMENT

DISCUSSION HIGHLIGHTS

U.S. Economic and Market Overview

The first quarter of 2013 began with the clearing of muddy waters. After years of accommodative fiscal policy and ballooning deficits, clarity was finally achieved when a program to raise taxes and cut spending was put in place. The tax hike was intended to reduce excessive debt and improve the long-term prognosis for the U.S. economy. The stock market took a particular liking to this plan, as evidenced by the Dow Jones Industrial Average and S&P 500 reaching record-setting levels as the quarter came to a close.

Factors outside of dramatic changes in fiscal policy also added support to the market over the first two months of the year. Non-farm payrolls increased at an average of 208,000 over January and February, while unemployment decreased to 7.7%. Meanwhile, the housing market continued to stabilize, and a rising stock market brought an improved sense of well-being to consumers. March numbers delivered in early April, however, began to tell a shifting story. Non-farm payroll growth declined to 88,000, while unemployment dropped to 7.6% as a result of fewer people in the labor force. Signs that higher taxes and sequestration were influencing jobs also began creeping into focus. Although it is too early to predict with reasonable accuracy what the long-term impact will be of the new tax and spend policy, it's reasonable to expect businesses will hire less aggressively, until demand for goods and services under this new, more constrained, fiscal environment is better understood.

Gross Domestic Product in the fourth quarter of 2012 (at 0.4%) was weak and unimpressive. Net gains in employment early in Q1 2013 suggested a pick-up in economic output, but March numbers did warrant some caution. Many leading indicators have begun to roll over, indicating that we are likely in for a soft patch in economic activity over the next few months.

- Housing starts, the issuance of new building permits, new and existing home sales, and higher home prices have provided a solid underpinning to the economy. However, the most recent National Association of Home Builders data suggests a pullback in the upward trend for housing.
- Early Retail Sales numbers provided signs of economic expansion, but consumer confidence failed to climb above and maintain a level higher than the 80-85% it has struggled to exceed since the financial crisis.
- Worldwide we have seen a falloff in Manufacturing survey indices like the ISM, which here in the U.S., fell off after several months of strength.
- Prices of Industrial metals such as copper, aluminum, nickel and zinc, strong indicators of the economic cycle, have fallen 25% in the last two months.

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Such indications do not mean in any way that we are headed for a recession, only that economic growth over the next quarter or two will likely be positive, but at lower levels than we have seen over the last few years. The tepid growth of the fourth quarter reflected that, and we expect another quarter or two of such levels of expansion.

Although forecasting further out than that is difficult, the expectations are for the domestic economy to resume a higher level of growth later this year. The Fed is seeing these signs, as reflected by its actions. The Federal Open Market Committee has signaled increasing concern over the Fed's balance sheet and its exit strategy from Quantitative Easing (QE). All indications suggest a Fed strategy that includes a slow decline in asset purchases beginning within the next 12 months and continuing over a prolonged period of time. This strategy should allow interest rates to rise in the most predictable fashion. Risk remains, however, in our lack of understanding as to how rates will behave, as the U.S. has never exited a Quantitative Easing program of the current magnitude. Despite the Fed's best intentions, there exists the possibility that rates could spike once the Fed signals a wind down in QE. Any rapid rise in rates will impact economic output and detract from GDP. The magnitude of such an impact is difficult to pre-determine.

Risks to economic expansion continue to reside overseas, namely the recession in Europe, and questions about the sustainability of high growth rates in emerging markets. Negative growth in European economic output is expected to abate over the second half of 2013, with positive growth anticipated next year. Should the European economy fail to turn positive as expected later in 2013, U.S. economic forecasts will be adjusted downward. The recession in Europe is thought to have impacted U.S. GDP by approximately 0.5% in real terms.

- The Plan returned 4.73%, gross of fees in the first quarter, which closely matched the Plan benchmark target of 4.70%. The Plan's equity performance underperformed, with International equities the largest area of disappointment. Domestic fixed income outperformed the primary benchmark due mainly to both the high yield allocation, as well as the contribution from the PIMCO Total Return Fund. While our large cap equity exposure underperformed the benchmark, the overweighting of the large cap sector was the main source of positive attribution for the Plan in the quarter. The contribution from real estate, small-cap equities, mid-cap equities was basically neutral in respect to the Plan benchmark.

- Unlike most strong stock market rallies, equities in the first quarter were led by the strength of many "defensive" sectors in the market. Usually in a market that is up over 10% in a three-month period of time, one would suspect that higher beta stocks, from more growth oriented sectors of the economy, would fare better than defensive-oriented issues. In the first quarter, this assumption did not hold. Health care stocks led the way, posting a +16% return. Consumer staples (+14.6%) and utilities (+13%) were the next two leading sectors. Other areas that posted double digit returns were consumer discretionary (+12.1%), financials (+11.4%) and industrials (+10.6%). At the other end of the spectrum, cyclically oriented sectors such as materials (+4.8%) and technology (+4.6%) were laggards. This disparity played a role in the outperformance of value-oriented funds versus growth- oriented funds in the large cap space during the quarter.

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- For the quarter, the large cap core, separately managed portfolio strategy had a total return of 9.63% compared to the Russell 1000 Index return of 10.96%. Strong relative performance from holdings in the industrials sector helped results. The largest contributors were JB Hunt Transportation (+24.7%) and Kansas City Southern (+33.1%). A lower weighting in the technology sector also aided portfolio performance. Additionally, strong relative performance from several holdings including Analog Devices (+11.3%), Ansys (+20.9%) and Accenture (+14.2%), also helped returns. Key Detractors to relative results included: holdings in the energy sectors, Occidental Petroleum (+3.1%) and Exxon Mobil (+4.8%). Weak relative performance from some of the holdings in the consumer discretionary sector detracted from performance. Here, Dick's Sporting Goods (+4.3%), and Petsmart (-9.1%) were the two most significant detractors. The managers are heavily overweighted to the materials and the industrial sectors.

- In comparison to the broader market, the Plan's large cap growth funds both struggled during the quarter, with the Harbor Capital Appreciation Fund returning 6.91% and the T. Rowe Price Large Cap Growth Fund posting a 7.73% return. In addition to underperforming their style benchmark, the Russell 1000 Growth Index (+9.54%), both funds placed in the bottom quartile of the Morningstar Large Cap Growth Universe. In a quarter where technology was the worst performing sector, the tech – heavy T. Rowe Price Fund (27.2% of portfolio) and Harbor Capital Appreciation (32% of portfolio) struggled. Similar technology holdings plagued both funds in the quarter with Apple (-16.3%), Baidu (-13.7%), Facebook (-3.9%), and Juniper Network (-5.7%) all declining. Technology shares represent over a third of the large cap growth index, so when this area of the market is down, it's negative impact will be felt. That said, outperformance or underperformance can never be attributed to a single factor. For the T. Rowe Price Growth Fund, other decisions that negatively impacted performance were stock selection in the consumer staples sector and stock picks in the telecommunication sector, specifically Crown Castle International. The Harbor Capital Appreciation Fund also suffered from performance issues within the consumer discretionary sector, with Lululemon (-18.2%) Youku Tudou (-8.1%) and Whole Foods (-4.6%) being negative contributors. With the recent underperformance of the Fund, we invited representatives of the management team to San Francisco to discuss the Fund. Harbor reiterated that there have been no departures to members of the analyst or portfolio management teams, in fact they have added several analysts over the past year, bolstering their consumer discretionary and health care teams. The portfolio management team has been together for over several decades, with the average tenure on the team of twenty-five years. In looking at three-year rolling return performance over the last twenty-three years, the managers have outperformed the Russell 1000 Growth Index seventy three percent of the time. There are times when this, or any manager will underperform. For now, while disappointed with the recent performance, we have a better understanding of why the managers have underperformed, and we are choosing to retain the investment with the Harbor Fund.

- Stock selection and sector positioning drove much of the success in our large cap value funds performance for the quarter. The T. Rowe Price Equity Income Fund returned 11.19% for the quarter, which ranked in the 49th percentile of the Morningstar Large Value Universe. For this fund, technology was the largest source of positive portfolio attribution in the quarter, thank to it's 9% underweighting in technology relative to the S&P500 Index. However, it was stock selection in technology that further bolstered the positive attribution. Holdings in

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Western Union (+11.4%), CA Technologies (+12.7%), Hewlett Packard (+68.2%), Computer Sciences (+23.4%) and Dell (+42.9%) aided returns. While underweight the consumer staples sector, this income-oriented sector also supported returns with Clorox (+21.8%), Campbell Soup (+30.0%), Avon Products (+44.8%), Energizer Holdings (+25.2%), and Archer-Daniels Midland (+23.8%) all additive to performance. Negative areas for the Fund included energy, as well as health care. Health care was the best performing sector in the S&P during the quarter. The managers, while exposed to some larger big pharma names such as Pfizer, Merck, Bristol-Myers, and Johnson & Johnson, have chosen to underweight this sector due to lack of growth, and concerns over the upcoming wave of patent expirations. The managers eliminated Amgen, Spectra Energy, and ConAgra from the portfolio in the quarter, while adding new names such as Joy Global and Western Union.

- The managers of the Loomis Sayles Value Fund, up 12.3% for the quarter, believe that the U.S. Economy is slowly recovering. They see the back-drop of an improving housing market, low interest rates, and equities that are trading at fair valuation levels as lending support to a positive equity market. Stock selection in the financial sector aided returns, with State Street (+26.8%), Ameriprise (+18.3%), and Metlife (+16%) especially noteworthy. The strongest contributor to the portfolio in the quarter was Hess (+35.4%).

- For the first quarter, midcap stocks were the leading domestic equity market, slightly edging out small-caps and large cap stocks. The Russell Midcap Index gained 12.95%. In the mid-cap space, value outperformed growth, 14.2% versus 11.5%. Within the Plan, the two mid-cap funds both posted double-digit returns, but both underperformed their style-based benchmarks. The HighMark Geneva Mid-Cap Growth Fund gained 10.58% in the quarter, which was slightly below the median ranking for mid-cap growth managers in the Morningstar Universe (55th percentile). While technology was a disappointment with F5 Networks (-8.3%), Teradata Corp (-5.4%), and Red Hat (-4.5%) negatively impacting returns, it was stock selection in the consumer discretionary sector that had a bigger negative impact. Ulta Salon (-17.4%), Coach (-9.4%), Celanese (0.0%), and Urban Outfitters (0.0%) were not only detractors, but really represented an opportunity cost as many other consumer discretionary stocks rallied in response to the “better than feared” results from the fiscal cliff outcome. While the managers are frustrated with their current performance, they maintain high conviction in their investments. In the quarter, the managers sold one stock, C.H Robinson, and added J.B. Hunt and Chart Industries. The mid-cap value fund in the Plan, the TIAA-CREF Mid-Cap Value Fund, gained 12.57% which ranked in the 57th percentile of the Morningstar Mid-Cap Value Universe. The management team has struggled over the last three quarters with an overall sector positioning that was tilted towards defensive sectors such as health care, consumer staples, and utilities. These conservative tilts were established in the early summer months of 2012, and while the managers made some modest shifts in portfolio positioning, they still maintained a reasonable balance to defensive sectors in preparation of the Washington budget battles and any potential slowdown or recession caused by sequestration. To balance the slightly defensive stance, the Fund has modest overweights in energy and industrials. The Fund is underweight technology, telecommunications, and financials. Within the mid-cap value Index, the financial sector is 30% of the benchmark. The Fund lightened up in this sector as the quarter progressed, with the Fund ending the quarter with a 25.8% allocation to the financial sector.

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- The small cap equity segment was one of the strongest contributors to performance in the first quarter, returning 13.76% versus the Russell 2000 Index return of 12.39%. Both of the Plan's funds, turned in strong performances. The Columbia Small Cap Value Fund posted a 13.95% return, which bested the benchmark and ranked in the 16th percentile within the Morningstar Small Cap Value Universe. Most sectors within the small cap value universe posted low double digit returns with consumer discretionary (+13.6%), industrials (+12.9%) energy (+12.3%) and consumer staples (+11.9%) the leading sectors. At the low end, technology (+7.8%) and materials (+6.9%) were laggard sectors. Given the tightly connected returns between sectors, allocation had minimal impact on performance in the quarter. That said, strong performers for the Fund hailed from the financial sector with Amerisafe (+30.7%), the Geo Group (+35.2%), CNO Financial (+22.9%), First Industrial Realty (+22.3%), and Amtrust Financial (+21.6%) leading the way. Other stock holdings that aided returns were Tower International, Alaska Air Group and Swift Transportation. In their quarterly outlook, aside from being slightly overweight health care, industrials, and materials, the managers did not point to any theme or specific strategy that they were looking to exploit. Instead they will continue to rely on their bottom-up stock picking process to drive portfolio value. Within the small cap growth segment, the T. Rowe Price New Horizons Fund also registered strong absolute and relative performance during the quarter. The Fund returned 13.42% and ranked in the 26th percentile of the Morningstar Small Cap Growth Universe. Overweights in both consumer discretionary and technology stocks served the fund well in the quarter. Netflix, which ended the quarter as the Fund's second largest holding, was a home run for the fund, with a +104% gain for the quarter. Investors were encouraged that their business strategy was regaining traction. Other consumer oriented stocks that supported gains were Vail Resorts (+15.6%), O'Reilly Automotive (+14.6%), Fifth Pacific (+51.6%), and Lumber Liquidators (+32.9%). While technically classified as technology issues, consumer-tech companies such as Angie's List (+64.8%) and Opentable (+29.1%) also aided returns.

- Real estate securities posted a respectable absolute return in the quarter, but lagged broader domestic equity segments. Investors in REITs must weigh a balancing act between valuations and fundamentals. On the one hand, fundamentals continue to be encouraging. Rising occupancy rates, improving cash flow growth, strong balance sheets, and earnings growth support the investment thesis. These fundamentals, are further bolstered by a continually improving employment situation. However, when valuations are factored in, many REITs seem to be fairly valued in the current environment. At quarter-end, the Dow Jones Wilshire REIT Index has rallied over 17%, annualized over the last three years. The current asset allocation to REITs remain at a neutral 4% target. For the quarter, the Nuveen Real Estate Securities Fund returned 6.79%, which trailed the Dow Jones Wilshire REIT benchmark return of 7.43%. Exposure to the apartment sector, through Post Properties (-4.7%) and Avalon Bay (-5.8%) detracted from performance. Additionally, an overweight to the benchmark's largest holding, Simon Properties (+1%) also negatively impacted returns on a relative basis. Exposure to retail oriented REITs aided performance with National Retail Properties (+17.2%), DDR Corp. (+12.1%), and Macerich (+11.4%) leading performers in the quarter.

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- Developed international equity markets enjoyed a relatively strong quarter by essentially holding on to January's gains, driven by renewed optimism in Japan and relief over the New Year's fiscal cliff deal in the U.S. Japan registered the strongest returns (+11.6) in U.S. dollar terms for the benchmark. Prime Minister Abe has continued his pledge to end deflation, by displaying a greater willingness to put the Bank of Japan's monetary tools at the service of the government's goals. While the Japanese economy has yet to show any signs of success, investors seem to be displaying some confidence that the measures will be successful. Developed markets, as measured by the MSCI-EAFE, outperformed the emerging market benchmark (MSCI-EAFE Emerging Market Index) by a wide margin 5.13% versus -1.62%. Emerging markets were negatively impacted by a confluence of events. First, Europe's slowing economies have impacted those emerging market nations that have strong trading-ties to the region: China, Hungary, and Poland. Second, a drastically weaker yen, impacted those emerging market nations who compete in export markets with Japan, especially South Korea, Malaysia, and Taiwan. Third, stagnant commodity prices, which reflect a combination of global slack and a reduction in commodity demand in China, were a negative. Fourth, South Africa faced trouble in the mining sector, which led to the country being one of the largest drags (-9%) in the emerging market benchmark. With the Plan allocated at a 2.5% allocation, the exposure to emerging markets was a large blemish for the quarter.

- The formula for successful international equity investing in the first quarter was to overweight Japan, and ignore emerging markets. Unfortunately, our three international developed equity market funds did the opposite, and hence all trailed the MSCI-EAFE Index for the quarter. The Dodge & Cox International Equity Fund returned 3.64% in the quarter. In addition to a 15% allocation to emerging market investments, the Fund maintained an 11% allocation to Japan, versus the 21.3% benchmark allocation for Japan in the MSCI-EAFE Index. The HighMark International Fund performed a little better, returning 4.59%. While the Fund increased their allocation to Japan throughout the quarter, the Fund ended the quarter with 14.2% exposure to Japan. Additionally, the HighMark Fund had a 17.1% allocation to emerging markets. Finally, the MFS international Fund had a similar positioning to that of the Dodge & Cox Fund: 15% in emerging market equity exposure, and an 11% allocation to Japan. Performance was similar as well: 4.32% total return, which underperformed the MSCI-EAFE benchmark.

- Emerging market equities were the main blemish for the Plan in the quarter. As highlighted previously, there were numerous challenges to emerging markets during the quarter: the decline in the yen due to BOJ quantitative easing, weakness in Europe, a drop-off in commodity demand in China, and certain idiosyncratic country events which in combination caused emerging market equities to trail other equity markets by a considerable margin. The Schroeder's Emerging Market Fund declined -2.69% for the quarter, which ranked in the 76th percentile of the Morningstar Diversified Emerging Market Universe. For the Fund, country allocation was actually a positive, while stock selection was a negative factor for returns. Overweights in Turkey and Thailand, and an underweight allocation to South Africa aided returns. Thailand and Turkey gained, after credit agencies upgraded the ratings on their sovereign debt. Stock selections in South Korea, India, and Brazil were challenges to the Fund. The managers, in their quarterly outlook, still believe that it could be a reasonable year for

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emerging market returns. Their baseline forecast calls for China to grow between 8 – 8.5%. They also look for Brazil to improve their economic output in response to the aggressive monetary easing that was witnessed in 2012. Finally, they believe India is poised to post up to 6% growth for the year. That is not to say the managers do not recognize the challenges in the market, which in their eyes consist of: a potential return to a crisis in Europe, the spill-over affects of a continuing strong dollar, and possible problems in the China banking sector. The managers though, believe that the risks should be manageable and that emerging markets will continue to generate attractive growth rates.

- In the Plan's global equity segment, the Templeton Global Equity Fund returned 3.63%, which underperformed the MSCI-ACWI Index return of 6.50%. The Fund ranked in the 90th percentile of the Morningstar World Fund Universe. The underperformance resided in their under allocation to Japan (4.2% allocation) and their considerable overweight to Europe (44% of Fund assets). The managers of the Fund recognize that it is not wise to fight the Fed, or in this case, the Bank of Japan. However, they also believe that these QE measures are likely to only offer a short-term "pop" to stock prices, and for longer-term investors these measures will not spur the necessary structural reforms so needed within Japanese companies. Unless Japanese companies take steps to cut costs and improve capital efficiency, the liquidity-fueled central bank rally may prove unsustainable in the eyes of the Templeton Fund Managers. The Fund's biggest detractor in the quarter came from its exposure to European banks. After more than doubling the return of the broader market since the middle of last year (based on the Euro Stoxx Bank Index), European banks gave back some gains at quarter-end. Templeton is quick to point out the they had added to European financials when volatility resurfaced in the spring of 2011 and 2012, so many of these positions represent strong gains. While these stocks have declined recently, they are still "very cheap" in the eyes of the managers, and there are no plans to reduce exposure to this sector. Finally, the managers reiterated in their quarterly report, that based on trend earnings multiples, the world's 10 cheapest markets are all European.

Fixed Income

- The Barclays U.S. Aggregate Bond Index declined -0.12% in the first quarter, as slightly higher interest rates resulted in marginally negative returns for long-term bonds. Intermediate and short-term bonds had slight positive returns as rates in that portion of the curve were mostly unchanged The Barclays U.S. Treasury Index lost -0.19% during the quarter as 10-year bond yields rose 9 basis points, while 30-year bond yields increased 15 basis points. It was a mixed quarter, as risk assets posted modest outperformance, whereas mortgages and asset-backed securities slightly underperformed. High yield corporate bonds returned 2.4%, supported by the continued search for yield by investors, solid employment numbers, and strong housing data. Agency mortgaged-backed securities returned -0.5% during the quarter, underperforming Treasuries by +13 basis points as option-adjusted spreads widened by 22 basis points. The Fed continues to follow their program to reinvest principal payments and maturities from its existing portfolio into agency mortgage-backed securities, which approximates $25 to $30 billion per month, while purchasing an additional $40 billion per month until the labor market outlook improves.

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- The core fixed income portfolio generated a 0.17%. The duration target of the portfolio was slightly under the benchmark at the end of the quarter, 4.7 years vs. 5.0 years for the benchmark. The portfolio was aided by the overweight to corporate bonds, where positioning in financials and utilities proved additive. Holdings which helped during the quarter included Hewlett Packard, Comcast, Build America Bond holdings, and a United Airlines Equipment Trust Certificate. Performance was hurt during the quarter by the Fund's overall positioning in industrials, as well by positions in Verizon, AT&T, Time Warner, and Clorox. The managers continue to favor the intermediate portion of the curve (7-10 year). They also are continuing to lighten up on higher beta, more cyclical names in favor of consumer-driven names such as Walgreens and Clorox, which derive a large portion of their revenue from domestic sources. The managers are contemplating increasing their allocation to U.S. Treasuries, which stood at a low 24.3% level at quarter-end, versus 36.3% for the Aggregate Index. The managers feel that QE III is distorting the capital markets, and they do not see QE ending any time soon since the U.S. economy is not yet self-sustaining and the Fed wants to see unemployment down to a 6.5% level before they will back away from their purchases of Treasuries and mortgages.

- The PIMCO Total Return Bond Fund's return of 0.60% in the first quarter outperformed the Barclays Aggregate Index return and placed the Fund in the 20th percentile of the Morningstar Intermediate-Term Bond Universe for the quarter. Fund returns were positive in a quarter marked by "risk-on" behavior. The Fund benefited by focusing on intermediate-term maturities, which outperformed longer dated issues. Decisions that benefitted the Fund included: an allocation to non-Agency mortgages, holdings in Build America Bonds (BABs), modest exposure to high yield corporate bonds, and selective holdings in emerging market issues. The managers are beginning to shift into what they term, "risk reduction" mode, moving their focus to high quality income over price appreciation, as spreads to treasuries look less appealing. Over the quarter, the managers increased their allocation to U.S. Treasury holdings from 26% to 33%. The managers will maintain their positions in higher quality international issuers such as Australia, Canada, Brazil, and Mexico. Additionally, they will look to maintain an overall neutral currency stance with slight overweight positions in emerging market currencies.

- In the high yield sector, spreads over U.S. Treasuries continued to tighten, ending the quarter at +486 bps, 45 bps tighter since the beginning of the year. High yield issuance was strong with $85 billion worth of new bonds coming into the market in the quarter. Investor inflows also are supporting momentum in the high yield sector with $870 million of investor inflows into the sector over the last three months. Default activity remains at modest levels with $2.3 billion of defaults in the quarter, which compares favorably to the first quarter of 2012 which had $2.5 billion of defaults. The PIMCO High Yield Bond Fund recorded a 2.23% return for the quarter, which ranked in the 74th percentile of the Morningstar High Yield Universe. The return lagged the B of A Merrill Lynch U.S. High Yield, BB-B Rated Index return of 2.40%. The Fund maintained an overweight position to European high yield issues, which was a detractor in the quarter. Exposure to the energy sector and automobile sectors also held back returns in the first quarter. Finally, the managers pointed to modest cash drag as a detriment to performance. Strategically, the managers are favoring defensive sectors of the market, but do seek out select opportunities in lower rated bonds in the CCC/Caa rated area. The managers are hesitant to significantly increase their weightings to this higher risk segment as they feel the risk is not likely to be rewarded, and their current 8% allocation, is a bit high in terms of historical levels of exposure maintained by the Fund.

INVESTMENT STRATEGY

As of March 31, 2013

Tactical Asset Allocation

Asset Class	% Portfolio Weighting			Rationale
	Target	Current Portfolio	Over/Under Weighting	
Cash	1.00%	1.50%	.50%	
Fixed Income	45.00%	42.50%	-2.50%	▪ Our outlook for fixed income is for returns between 2% - 3% for intermediate-term bonds. We do not anticipate the Fed to raise rates until 2015.
High Yield	0.00%	2.50%	-	▪ High yield spreads continue to tighten. While high yield looks less attractive due to spread tightening, our expectations that default levels will remain at lower levels, persuade us to maintain the 2.5% allocation.
Real Estate (REITS)	4.00%	4.00%	-	▪ Rising occupancy rates, improving cash flow growth, strong balance sheets, and earnings growth support the investment thesis. However, valuations are stretched. Hence, we are equal weight with the benchmark target.
Global Equity	8.00%	7.50%	-.50%	▪ We maintain a slight underweight in global equities. China's economic output has been inconsistent from quarter to quarter. Europe is struggling, but the central banks in Europe have provided a backstop to support both European stock and bond markets. Valuations are beginning to look more attractive, which at quarter end stood at 13X forward earnings for the MSCI-ACWI.
International (Developed)	10.00%	5.00%	-2.50%	▪ Japan is the latest economy to resort to quantitative easing. It is difficult to be overweight international equities when it seems market's are being propped up by central bank actions.
International (Emerging)	0.00%	2.50%	-	▪ We believe emerging market troubles that arose in the quarter are mainly transitory. The BOJ's quantitative easing though, could cause trouble for some emerging market nations by making Japanese exports more competitive, at the expense of some Asian exporters. Current valuations are still compelling tor long-term investors and we wish to maintain an allocation towards the upper-end of the Plan's range.
Total Domestic Equity	32.00%	37.00%	5.00%	
Large Cap	18.00%	23.50%	5.50%	▪ We increased our allocation to large cap domestic stocks in the quarter. Compared to other equity segments: international, small-cap, and mid-cap markets, large cap U.S. equities appear to be the most compelling risk and reward proposition.
Mid Cap	6.00%	7.00%	1.00%	▪ The strong performance of mid-caps in the first quarter has stretched valuations to almost 16X next year's earnings. We may look to reduce the overweight in the second quarter.
Small Cap	8.00%	6.50%	-1.50%	▪ Small caps valuations as well are somewhat stretched after rising 11% in the first quarter. Our preference is to overweight large cap stocks relative to small cap stocks.

Asset Allocation
Period Ending March 31, 2013

Asset Allocation		12/31/2012 Market Value	12/31/2012 % of Total		3/31/2013 Market Value	3/31/2013 % of Total	Target Allocation
Domestic Equity							
Large Cap Core Holdings	$	12,057,862	12.7%		$14,657,125.64	14.0%	-
T. Rowe Price Equity Income Fund		2,864,100	3.0%		3,413,979	3.3%	-
Loomis Sayles Value Fund		2,865,974	3.0%		3,397,674	3.3%	-
Harbor Capital Appreciation Instl		1,433,298	1.5%		1,583,172	1.5%	-
T. Rowe Price Growth Stock Fund		1,448,246	1.5%		1,585,580	1.5%	-
TIAA-CREF Mid-Cap Value Instl		3,811,253	4.0%		4,099,389	3.9%	
HighMark Geneva Mid Cap Growth Fund		2,843,063	3.0%		3,166,524	3.0%	-
Columbia Small Cap Value Fund II		3,641,307	3.8%		4,061,122	3.9%	-
T. Rowe Price New Horizons Fund		2,161,047	2.3%		2,559,281	2.5%	-
Total Domestic Equity	**$**	**33,126,150**	**34.9%**	**$**	**38,523,846**	**36.9%**	**32.0%**
			Range			*Range*	*21-57%*
International							
HighMark International Opportunity Fund		1,942,873	2.0%		2,062,238	2.0%	-
Dodge & Cox International Stock Fund		1,426,977	1.5%		1,545,271	1.5%	-
MFS International Growth Fund		1,433,261	1.5%		1,561,703	1.5%	-
Schroder Emerging Market Equity		2,478,079	2.6%		2,640,985	2.5%	-
Total International	**$**	**7,281,190**	**7.7%**	**$**	**7,810,196**	**7.5%**	**10.0%**
			Range			*Range*	*4-19%*
Global							
Templeton Global Opportunities A LW		7,163,700	7.5%		7,763,035	7.4%	-
Total Real Estate	**$**	**7,163,700**	**7.5%**	**$**	**7,763,035**	**7.4%**	**8.0%**
			Range			*Range*	*4-12%*
Real Estate							
Nuveen Real Estate Secs I Fund		3,831,568	4.0%		4,184,731	4.0%	-
Total Real Estate	**$**	**3,831,568**	**4.0%**	**$**	**4,184,731**	**4.0%**	**4.0%**
			Range			*Range*	*0-8%*
Fixed Income							
Core Fixed Income Holdings	$	30,210,293	31.8%		$33,072,683.88	31.7%	-
PIMCO Total Return Instl Fund		8,084,422	8.5%		8,827,774	8.5%	-
PIMCO High Yield Instl		2,334,249	2.5%		2,590,250	2.5%	-
Total Fixed Income	**$**	**40,628,964**	**42.8%**	**$**	**44,490,708**	**42.6%**	**45.0%**
			Range			*Range*	*35-67%*
Cash							
HighMark Diversified MM Fund	$	2,879,942	3.0%		1,679,063	1.6%	-
Total Cash	**$**	**2,879,942**	**3.0%**	**$**	**1,679,063**	**1.6%**	**1.0%**
			Range			*Range*	*0-5%*
TOTAL	**$**	**94,911,514**	**100.0%**	**$**	**104,451,579**	**100.0%**	**100.0%**

Investment Summary
Period Ending March 31, 2013

Investment Summary		First Quarter
Beginning Value	**$**	**95,144,923.26**
Net Contributions/Withdrawals		4,943,008.87
Fees Deducted		-33,853.44
Income Received		376,999.03
Market Appreciation		4,252,069.81
Net Change in Accrued Income		43,592.04
Ending Market Value	**$**	**104,726,739.57**

Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 03/31/2013

Sector	3 Months	1 Year	Inception to Date (26 Months)
Cash Equivalents	.00	.02	.02
iMoneyNet, Inc. Taxable	*.00*	*.00*	*.00*
Total Fixed Income	.39	5.68	6.67
BC US Aggregate Bd Index	*-.12*	*3.79*	*5.44*
Total Equities	8.57	12.36	8.29
Indiv Domestic Common Stock	9.63	10.21	8.62
Large Cap Funds	10.34	14.16	9.41
Russell 1000 Index	*10.96*	*14.41*	*12.09*
Mid Cap Funds	11.72	12.81	9.56
Russell Midcap Index	*12.95*	*17.28*	*11.93*
Small Cap Funds	13.76	15.68	11.37
Russell 2000 Index	*12.39*	*16.30*	*11.11*
International Equities	3.14	9.57	2.99
MSCI EAFE Index	*5.12*	*11.25*	*2.67*
MSCI AC World Index	*6.48*	*10.52*	*5.71*
REIT Funds	6.68	14.17	12.57
Wilshire REIT Index	*7.43*	*14.02*	*14.19*
Total Managed Portfolio	4.73	8.92	6.78
*County of Contra Costa**	*4.70*	*9.25*	*7.62*

Inception Date: 02/01/2011

*Benchmark: 18% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 8% MSCI AC World ex US Index, 10% MSCI EAFE Index, 45% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 1% Citigroup 3 Month T-Bill Index.

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.

PARS/COUNTY OF CONTRA COSTA

For Period Ending March 31, 2013

Fund Name	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
LARGE CAP EQUITY FUNDS							
T. Rowe Price Equity Income (4)	3.81	11.19	11.19	17.20	11.84	5.53	9.04
Harbor Capital Appreciation Instl (2)	3.11	6.91	6.91	3.87	10.55	6.84	9.01
Loomis Sayles Value Fund (5)	4.25	12.30	12.30	19.88	11.39	4.79	10.54
T. Rowe Price Growth Stock	2.70	7.73	7.73	7.53	12.46	6.97	9.24
Russell 1000 Index	**3.86**	**10.96**	**10.96**	**14.43**	**12.93**	**6.15**	**8.97**
MID CAP EQUITY FUNDS							
HighMark Geneva Mid Cap Growth (1)	2.94	10.58	10.58	7.40	15.54	9.34	11.24
Russell Mid Cap Growth Index	**3.99**	**11.51**	**11.51**	**12.76**	**14.23**	**7.98**	**11.53**
TIAA-Cref Mid-Cap Value Instl (1)	4.72	12.57	12.57	17.04	13.23	6.83	12.96
Russell Mid Cap Value Index	**4.48**	**14.21**	**14.21**	**21.49**	**14.96**	**8.53**	**12.57**
SMALL CAP EQUITY FUNDS							
Columbia Small Cap Value II Z	4.45	13.95	13.95	16.92	14.05	7.64	12.62
T. Rowe Price New Horizons	3.98	13.42	13.42	13.63	19.99	13.74	14.30
Russell 2000 Index	**4.62**	**12.39**	**12.39**	**16.30**	**13.45**	**8.24**	**11.52**
INTERNATIONAL EQUITY FUNDS							
Dodge & Cox Intl Stock	0.53	3.64	3.64	11.28	4.94	1.09	13.43
HighMark Int'l Opportunities Fid	0.69	4.59	4.59	12.10	5.70	-0.94	10.96
Schroder Emerging Market Equity (7)	-1.98	-2.69	-2.69	4.12	3.51	1.82	--
MFS International Growth I	0.95	4.32	4.32	9.00	8.18	2.96	12.17
Templeton Global Opportunities A LW	0.52	3.63	3.63	12.61	5.90	0.65	10.54
MSCI EAFE Index	**0.82**	**5.13**	**5.13**	**11.25**	**5.00**	**-0.89**	**9.69**
MSCI ACWI Index	**1.83**	**6.50**	**6.50**	**10.55**	**7.78**	**2.06**	**9.36**
REIT EQUITY FUNDS							
Nuveen Real Estate Secs I	2.45	6.79	6.79	14.11	17.16	8.30	13.95
Wilshire REIT Index	**2.78**	**7.43**	**7.43**	**14.02**	**17.35**	**5.53**	**11.82**
BOND FUNDS							
HighMark Bond Fid	0.06	0.24	0.24	5.32	6.42	6.25	5.31
Pimco Total Return Inst'l	0.33	0.60	0.60	7.92	6.92	7.77	6.66
Vanguard Short-Term Investment-Grade Adm	0.17	0.48	0.48	3.47	3.45	3.97	3.95
BarCap US Aggregate Bond	**0.08**	**-0.12**	**-0.12**	**3.77**	**5.52**	**5.47**	**5.02**
Pimco High Yield Inst'l (6)	0.81	2.23	2.23	11.42	9.82	9.25	8.72
Merrill Lynch US High Yield BB-B	**0.68**	**1.92**	**1.92**	**11.94**	**10.60**	**10.00**	**8.98**

Source: SEI Investments, Morningstar Investments

(1) Fund was added to the Plan in February 2010
(2) Fund was added to the Plan in July 2010
(3) Fund was added to the Plan in August 2010
(4) Fund was added to the Plan in March 2011
(5) Fund was added to the Plan in July 2011
(6) Fund was added to the Plan in February 2012
(7) Fund was added to the Plan in November 2012

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