PARS: County of Contra Costa

Second Quarter 2013

Presented by
Andrew Brown, CFA

HIGHMARK®
CAPITAL MANAGEMENT

DISCUSSION HIGHLIGHTS

U.S Economic and Market Overview

The old adage "the Fed in motion tends to stay in motion" has typically proven true, at least until the economy approaches an inflection point. When the economy is strong and growth is accelerating, we expect the Fed to tighten monetary policy to slow economic expansion and suppress inflation. When the economy is slowing, we expect the Fed to relax monetary policy as a means to support employment growth. What we don't expect is a tightening of monetary policy during periods of low inflation, slow economic growth and high unemployment. Yet this appears to be the reality we are facing. Quantitative Easing (QE) may be coming to an end in Q3, the adage (once tried and true), may be broken, and the next several quarters will likely be atypical.

What positive momentum in the economy would prompt the Fed to begin a tapering of QE? Gross Domestic Product (GDP) in the first quarter was up 1.8%, after posting a 0.4% increase in Q4 2012. Neither reading was particularly strong, nor did the economy rapidly accelerate in Q2. Job growth continued in Q2, but not at a pace adequate to push unemployment below 7.6%. Meanwhile, inflation remained subdued, averaging below 1.5% over the quarter. Thus, the Fed either sees short-term improvement in economic data, or they are approaching a threshold in which they anticipate both diminishing benefit and increased risk from adding to their balance sheet (now at $3.4 trillion). Our view is that both factors are playing into their decision. It could be assumed that the Fed sees the economy approaching a point where it can stand on its own, and there is no need for them to assume incremental risk by continuing to manipulate interest rates adding to their balance sheet.

The notion that the Fed may dial back on asset purchases was not taken lightly by the markets. Over the week following the potential tightening announcement on June 19th, the 10-year Treasury yield climbed from 2.19% to 2.60%, reducing principal value by more than 3.5%. The S&P 500, demonstrating typical aversion to higher rates, plunged from 1651 to 1573, a decline of over 4.5%. The strong move in both markets suggests QE may no longer be a factor even though the Fed continues to buy $85 billion in assets monthly. In other words, so long as the economy appears to be stable or improving, interest rates should continue to normalize despite further Fed intervention.

Second Quarter Economic Highlights:

- The housing sector continued to improve. New and existing home sales accelerated, while housing starts and the issuance of new building permits expanded at a healthy pace. Construction spending grew and home prices moved higher.

DISCUSSION HIGHLIGHTS

- The consumer remains cautious. Consumer credit expanded at a slower rate over Q2, while retail sales improved modestly. One bright spot is consumer confidence. The Conference Board measure of consumer confidence jumped to 81.4% in June, the highest reading since January of 2008.

- Manufacturing continued to show signs of weakness over Q2. The Institute for Supply Management survey of purchasing managers averaged 50.2% over the quarter, below the 52.9% average for Q1. A reading below 50% suggests the sector is contracting.

- The economy continued to grow over the second quarter, but at a restrained pace. Higher taxes and sequestration continued to dampen spending, thereby limiting economic output. Job growth continued, but at a slow and stable rate. Non-farm job growth averaged 196,000 per month over the quarter, slightly below the 207,000 average for Q1, while inflation remained low.

We expect the current soft patch in economic activity will continue over the third quarter, followed by improved growth in GDP during the fourth quarter. However, it is important to note that our confidence in this forecast has been diminished by the recent rise in interest rates, since higher rates typically slow economic output. In an economic environment where the Fed is not manipulating interest rates, a forecast for higher rates would call for a slowdown in GDP growth. This time around should be different. Interest rates remain below normal. Our view is that rates can move up to near normal levels before consumption begins to erode. The housing market should be impacted, but the overall level of consumption should not be significantly impaired. The risk in this assumption lies in the fact that the US has never exited a QE program of the current magnitude. With no legitimate history to call upon, a higher level of uncertainty is embedded in our current forecast. US economic output continues to be subdued as a result of the ongoing recession in Europe. However, signs of slow improvement in many European economies are apparent and will be positive for the US. If Europe emerges from recession late in the fourth quarter, as we expect, prospects for economic growth in the US will improve. It is widely held that the current recession in Europe has taken 0.50% from the US economy. Eliminating this drag could help the US economy at a time when higher domestic interest rates could potentially dampen growth.

- The Plan returned -0.64% net of fees in the second quarter, which slightly trailed the County's blended benchmark target of -0.52%. With the performance differential so small, it follows that most of the investment performance decisions had only a marginal impact, either to the positive or to the negative in the quarter. Areas that were marginally positive included the global equity fund's performance and the small cap equity segment. Performance segments that produced modestly negative results were large cap domestic equities, mid-cap equities, international equities, and the Plan's fixed income segment. The only area that significantly detracted from performance was the emerging market segment.

DISCUSSION HIGHLIGHTS

- While in any quarter a variety of events drive markets, in the second quarter both equity and bond markets seemed to be most impacted by discussions related to quantitative easing (QE). Investors who had relied on the U.S. Federal Reserve to remain champions of easy money, had their expectations disappointed by Ben Bernanke, as he indicated that the Fed's QE measures might taper off in the near-term, providing the U.S. Economy improves. Stocks, bonds, and currencies reacted swiftly and negatively to those comments. Alternatively, when signals were offered by other members of the Fed that appeared to support the notion that the Fed may continue their QE operations, investors seemed to be inspired to purchase equities. As we segue to a more normalized interest rate environment, a certain level of volatility should be expected from both stock and bond markets. The process of "communicating" the direction of interest rates will likely lead to some volatility, however ultimately we believe it should be viewed as a positive sign in that the central bank interprets that the underlying fundamentals of the economy are improving.

- Within the large-cap sector, the S&P500 posted a +2.9% return, and on May 21, 2013 reached an all time high of 1,669. The Index was supported by consumer discretionary (+6.81%), financials (+7.23%) and health care (+3.81%) related issues in the quarter. The other seven primary sectors underperformed the benchmark in the quarter, with noticeable laggards including: utilities (-2.75%), materials (-1.81%), and energy (-0.38%). Large cap value outperformed large cap growth in the quarter (3.2% vs. 2.6%) due primarily to the large weighting in financial related issues (29% of the Russell 1000 Value Index). Additionally, the large weighting in technology issues (24% of the Russell 1000 Growth Index) produced a headwind for many large cap growth managers. Interest rate sensitive stocks in the utility and REIT sectors were negatively impacted by the Fed's communications surrounding the tapering of QE.

- On the strength of the financial, industrial, and material sectors, the Loomis Sayles Value Fund outperformed both the Russell 1000 Index and the Russell 1000 Value Index in the quarter. Financial related stocks such as JP Morgan (+11.9%), Wells Fargo (+12.4%), MetLife (+21.1%), State Street (+10.8%), and Ameriprise (10.5%), helped the Fund post a 3.31% return. An underweight in the material sector and an overweight in the consumer discretionary sector also supported returns in the quarter. The Fund ranked in the 52nd percentile of the Morningstar Large Value Universe.

- The T. Rowe Price Equity Income Fund returned 2.63% for the quarter, which ranked in the 70th percentile of the Morningstar Large Value Universe. Stock selection in the energy and material sectors hurt relative performance in the quarter. Technology contributed the most to relative gains due to stock selection and a large underweight position. An overweight in financials was also a source of relative gains with JP Morgan gaining in the quarter. Top contributors to the Fund in the quarter were: JP Morgan, Microsoft, Boeing, and Illinois Tool Works. Top detractors for the Fund in the quarter included: CONSOL Energy, Petrobras, Exelon, and Newmont Mining. Strategically, the managers are overweight to industrials and business services (+4% to the benchmark), with exposure to General Electric, Honeywell, and 3M. The financial

sector represents the largest allocation of any of the ten primary sectors (20.7% of Fund assets). In the quarter, the managers were net sellers of this sector, reducing a position in SLM Corporation. Health care was also a sector where the management team was a net seller in the quarter.

- The T. Rowe Price Growth Fund returned 3.17% for the second quarter, and ranked in the 18th percentile of the Morningstar Large Cap Growth Universe.The Fund maintained an extremely large bet on the consumer, in the form of a 27% allocation to the consumer discretionary sector. This is an overweight to both the S&P500 Index (+15%) as well as the Russell 1000 Large Cap Growth Index (+9%). In the quarter, Priceline (+20.1%), Starbucks (+15.4%), and Home Depot (+11.6%) supported performance. Quasi consumer related issues such as Visa (+7.8%) and MasterCard (+6.3%) also were additive to performance. While technology was a detractor to performance in the quarter, the Fund's large holding in Google (+10.9%) aided returns. The managers added new positions in Pepsi, Tesla Motors, and Under Armour, and completely sold out of positions in Fossil, Williams Companies, and Samsung Electronics in the quarter. The other large cap growth fund in the Plan, the Harbor Capital Appreciation Fund, outperformed their style benchmark, the Russell 1000 Growth Index, and returned 2.35%. As was the case with the T. Rowe Price Growth Fund, consumer related holdings in Priceline, Starbucks, Chipotle Mexican Grill (+11.8%), and Netflix (+11.5%) aided returns. Health care also was additive with Biogen (+11.7%), Vertex (+45.6%), Illumina (+38.6%), and United Health Group (+14.9%) positive contributors. Harbor ranked in the 37th percentile of large cap growth managers as ranked by Morningstar.

- The large cap core separately managed portfolio strategy returned 1.18% compared to the Russell 1000 Index return of 2.65%. Stock selection in technology, health care, consumer discretionary, and consumer staples stood out as primary detractors to performance. Covidien (-7.0%), American Tower (-4.2%), Qualcomm (-8.3%), Ansys (-10.2%), Yum Brands (-3.3%), and Eli Lilly (-13.5%) were just some of the laggards that spread across a multitude of sectors. The internal HighMark team has struggled over the past four quarters, with the struggles mainly stemming from stock selection in the health care, technology, and consumer discretionary sectors. A decision was made in July to replace this team with the portfolio management teams from the Columbia Contrarian Core Fund and from the Sentinel Common Stock Fund.

- The Russell Mid-Cap Index gained 2.21% in the second quarter which trailed both small caps (+3.1%) and large caps (+2.6%). The Geneva Mid-Cap Growth Fund returned -0.04%, which underperformed both the Russell Mid-Cap Growth Index (+2.87%) as well as the Russell Mid-Cap Index. The Fund ranked in the 95th percentile of the Morningstar Mid-Cap Growth Universe. Technology and health care were the two sectors that detracted most from performance with Trimble Navigation (-13.3%), Cognizant (-18.2%), Ansys, and Varian Medical Systems (-6.3%) the primary detractors from these two sectors. The Fund has struggled over the past four quarters, with stock selection in the consumer discretionary sector serving as the primary factor behind the underperformance. Two potential positive developments in the quarter included a pick-up in the performance of many of the consumer discretionary names in the portfolio: Panera Bread (+12.5%), Tractor Supply (+13.1%), LKQ (+18.3%) and O'Reilly Automotive (+9.9%). The other positive element was strong performance in the month of June where the Fund

DISCUSSION HIGHLIGHTS

ranked in the 12th percentile of Mid-cap growth managers. While one month does not make a trend, we do hope it can mark the beginning of a change in the tide.

- The TIAA-CREF Mid-Cap Value Fund returned 2.11% for the quarter which outperformed their mid-cap style benchmark target, and performed in line with the Russell Mid-Cap Index. This performance ranked in the 64th percentile for the Morningstar Mid-Cap Value Universe. Sector selection was a slight negative, while stock selection was additive to performance. Sectors that contributed to performance included energy, consumer staples, and materials, and those that hurt performance included consumer discretionary and industrial sectors. The managers are tilting the Fund towards more economically sensitive sectors such as consumer discretionary, energy, industrials, and technology. They are underweight defensive sectors such as utilities and consumer staples. Within the consumer discretionary sectors, the Fund is focused on housing, auto-related companies, general retail, and media stocks. The managers see utilities and consumer staples as two areas that are fully valued and likely to be under pressure in a rising interest rate environment. They expect to maintain an underweight to these sectors.

- While the small cap equity segment shed some of their gains in the last month of the quarter, the segment was the strongest performer in the Plan for the quarter, with the Russell 2000 Index returning 3.1%. Small cap growth outperformed value by 1.2% (3.7% vs. 2.5%). The Russell 2000 Value Index (small cap value) is comprised of roughly 40% financial related issues. In a quarter where interest rates spiked, some financials responded well to this event, but other financial stocks such as REITs sold off in response. The Columbia Small Cap Value Fund posted a 2.73% return, which ranked in the 53rd percentile within the Morningstar Small Cap Value Universe. While the Fund benefited by having a relative underweight in financial related stocks (34% vs. the benchmark allocation of 37%), holdings in Amerisafe (-8.7%), First Industrial Realty (-10.9%), and American Asset Trust (-2.9%) weighed on returns. The Fund benefited from merger and acquisitions in the quarter as five of the eight top contributors to performance resulted from M&A activity. While value funds can never rely on such activity to consistently bolster returns, it is a positive reflection on the investment selection process that several of their holdings were acquired. Within the small cap growth segment, consumer discretionary shares were a strong contributor to both the benchmark return and our fund, the T. Rowe Price New Horizons Fund. The T. Rowe Price New Horizons Fund returned 5.79% in the quarter, and ranked in the 14th percentile of the Morningstar Small Cap Growth Universe. Groupon (+39.7%), Fifth & Pacific (+18.3%), Youku Tudou (+14.4%), Panera Bread (+12.5%), Netflix (+11.5%) and Lumber Liquidators (+10.9%) supported performance. Other notable contributors included Regeneron (+27.1%), Allegiant travel (+19.4%), and Waste Connections (+14.6%).

- REIT securities posted a modest negative return in the quarter, with the Dow Jones Wilshire REIT Index declining -1.38%. While the decline was modest, it was the worst quarter in almost two years for REITs. While interest rates are not near normalized levels, investors are beginning to worry about the impact of rising rates, and how this might impact the REIT environment. As with other asset classes this

DISCUSSION HIGHLIGHTS

quarter, REITS were negatively impacted by Ben Bernanke's conference were he indicated that QE may be winding down. Rising rates impact REITs on several levels. On the one hand, higher rates can potentially make other higher yielding investments, such as bonds, more attractive in comparison to the dividends garnered by REITs. The average REIT dividend yield is currently 3.4%, based on the Dow Jones REIT Index. While this is still greater than the ten-year treasury yield of 2.60%, fixed income is slowly becoming more competitive from a yield stand point. The other impact to REITs from a rise in rates, is the general over-hang of rising borrowing costs on the operations for REITs. In the quarter, with the exception of Self storage (+2.3%) and multi-family REITs (3.5%), all retail sectors posted a negative return. Healthcare (-4.4%), Strip malls (-3.6%), Office (-3.1%), and Hotels (-2.8%) were noticeable lagging sectors. In this environment, the Nuveen First American Real Estate Securities Fund posted a -1.62% return, which was slightly beneath the benchmark return of -1.38%. American Campus Communities (-9.5%), a REIT that focuses on lodging for a variety of college campuses, was the largest detractor in the quarter.

- International developed markets declined slightly during the quarter, with the MSCI-EAFE Index off -0.97. With the exception of Japan (+10%), France (+2.7%), and Germany (+2.7%) no region exhibited any strength from an investment standpoint in the quarter. International markets were negatively impacted by a variety of events in the quarter. First, concerns about a slowing US, in light of concerns regarding the tapering of the Federal Reserve's QE program, worried some investors that there may be a spill over effect to other global markets. Second, the People's Bank of China (PBoC), China's central bank, allowed interest rates to climb. The overnight Chinese interest rates spiked towards the later part of the quarter, which impacted China's equity markets negatively. Third, while events in Egypt did not have a large immediate negative impact on international markets, they did lead to a "bid" in oil prices to some degree. Finally, throughout the course of the quarter, the US dollar's appreciation against developed international market currencies provided a headwind for performance. The Plan's three developed market international funds provided mixed results in the quarter. The Dodge and Cox International Stock Fund was the strongest performer, returning 1.7%, which ranked in the fourth percentile of the Morningstar Foreign Large Blend category. Stock selection played a large role in the performance of the fund, especially in light of the Fund's underweight position in Japan, and overweight position in emerging markets. Standout performers for the Fund included: Nidec (+16%), NGK Spark Plug (+31%), Banking Group (+30%), and Naspers (+18%).

- The other two international equity funds: MFS International Growth (-3.55%), and the HighMark International Opportunities Fund (-2.61%) lagged the benchmark in the quarter, primarily due to emerging market equity exposure. Both funds ended the quarter with a 16% allocation. For the HighMark International Opportunities Fund, country allocation subtracted more than 1.5%, due principally to an underweight position in Japan and allocations to both Brazil and Turkey. While not sufficient to overcome country allocation results, stock selection within the Fund was positive on average, helped mainly by selection within Japan, the U.K., and France. Additionally, currency hedging actually added several basis points as the yen weakened during the quarter. The Fund's performance ranked in the 81st percentile of the Morningstar Foreign

DISCUSSION HIGHLIGHTS

Large Blend Category. The MFS International Fund ranked in the 82nd percentile of the Morningstar Foreign Large Growth Universe. From a regional perspective, the Fund's emerging market exposure was a negative on results with specific investments in Credicorp/Peru, Itau Unibanco/Brazil, INPEX/Japan, and Saipem/Italy serving as notable detractors.

- Emerging market equities were a significant negative for the Plan in the second quarter. Every emerging market region posted a negative return for the quarter with Emerging Asia (-4.18%), Latin America (-9.9%), and Emerging Europe (-7.4%) all down. The MSCI-Emerging Market Index returned -8.1%. The sell-off gained momentum as the dollar strengthened in the quarter, and continued news out of China seemed to indicate that the region was under going a soft patch of growth. The continued pressure of a devalued yen has made Japanese exporters more competitive relative to their emerging Asia export competitors. Further, political uncertainty in Brazil, India, and Egypt have weighed on some investors, increasing the perceived political risks regarding emerging market investing. While we still view emerging markets as offering an attractive combination of growth, relative to current valuations, we reduced the allocation to emerging markets in the quarter by a 0.5%, taking the allocation down from 2.5% to 2.0%.

- The Schroeder Emerging Market Fund registered a -8.07% return in the quarter, which matched the MSCI-Emerging Market Index Return of -8.08%. The managers are taking an "out of consensus" investment view on many of their portfolio positions. They are overweight China, as they view current valuations on a forward PE basis of 8.3X as attractive. They are overweight the country of South Korea, which is facing competitive pressures from a Japanese exporting machine bolstered by a devalued yen. Additionally, they are overweight Russia, which is facing challenges from rising inflation (+7.4% Y/Y) and declining auto sales (-12% y/y). One area where they are more in-line with the consensus, is regarding their underweight position in Latin America. Weak growth prospects in Brazil and Columbia, balance of trade issues in Chile, and valuation concerns in Mexico and Peru are factors that compel the managers to stay underweight emerging Latin America.

- In the Plan's global equity segment, the Templeton Global Equity Fund returned 1.55%, which outperformed the MSCI-ACWI Index return of -0.42%. The Fund ranked in the 24th percentile of the Morningstar World Fund Universe. From a sector standpoint, the financials sector was the leading contributor to relative performance. Stock selection and an overweight in the health care sector also boosted relative returns, as did stock selection in the consumer discretionary sector. Financial sector holdings from deep-value European and insurance related companies such as ING Groep, AXA, Lloyds Banking Group, and Aviva helped returns. In the healthcare sector Actavis and Saliz Pharmaceuticals had strong quarters. From a regional standpoint, stock selection in Europe and the United States contributed to relative outperformance. A lack of exposure to Australia benefitted relative performance. Stock selection in Asia hindered relative results as overweight allocations in South Korea and China detracted from relative portfolio performance. The managers slightly reduced their allocation to Europe in the quarter, from 44% to 40% of Fund assets, but with a benchmark allocation of 25%, this is still a sizable overweight, and one that will likely continue to be a driver of performance

DISCUSSION HIGHLIGHTS

Fixed Income

- The Barclays Capital U.S. Aggregate Bond Index declined -2.33% in the second quarter, as investment-grade corporate bonds, agency mortgage-backed securities and U.S. Treasuries posted large negative returns. Sharply higher rates across the curve caused by a perceived change in Fed policy resulted in all risk assets underperforming for the quarter. The second quarter was highlighted by global credit market volatility, a spike in U.S. interest rates, and a widening of corporate bond spreads following Federal Reserve comments regarding an earlier than expected exit from quantitative easing. In May, the Fed hinted that the $85 billion per month pace of Treasury and mortgage-backed security purchases could be scaled back if economic data continued to remain within their expectations. This was a departure from prior language targeting a 6.5% unemployment level and 2.5% inflation before any reduction in asset purchases. Subsequent comments by Chairman Bernanke at the June FOMC meeting caused rates to rise even further as the Fed laid out an explicit time table for scaling back bond purchases beginning later this year and an end to the program by June 2014. While the Fed continues to say that policy remains dependent on incoming economic data, the time table for ending asset purchases surprised the markets. Ten-year and thirty-year Treasuries reacted negatively as both yields soared approximately 100 basis points from their lows. Although the unemployment rate remains elevated, housing sales, home prices, and recent job growth numbers are signs that the economy is slowly gaining traction to a more sustainable pace of growth, encouraging the Fed to begin a gradual reduction in quantitative easing

- The separately managed intermediate-term fixed income portfolio generated a -2.6% return, which underperformed the -2.33% benchmark return. The duration of the fund at quarter-end was 4.68 years, which was 86% of the Barclays Aggregate duration position. This duration positioning was a benefit for the Plan in the quarter The strategy's overweight position to corporate issues was a slight negative in the quarter. Issues such as Time Warner, Kinder Morgan, and Capital One were slight detractors on performance. The two Build America Bonds also declined, as municipal bonds declined in the quarter. The main detractor to performance in the quarter was a heavy concentration in the intermediate portion of the curve. Over the course of the quarter, the 10-year rose 64 basis points, while the 30-year portion of the curve rose only 40 basis points. The strategy's concentrated positions in the intermediate part of the curve was a detractor, and represented most of the underperformance relative to the benchmark. The manager will continue to maintain a benchmark duration at roughly 90% of the benchmark target. The team does not see the Fed raising rates for roughly 12 to 18 months. The managers will seek to maintain an underweight to treasuries, and an overweight to high quality corporate bonds.

- The PIMCO Total Return Bond Fund struggled in the quarter, posting a -3.6% return and underperformed the Barclays Aggregate Index return. The Fund ranked in the 94th percentile of the Morningstar Intermediate-Term Bond Universe. The managers pointed to three issues that detracted from returns. One, the Fund's allocation to Treasury inflation protected securities hurt returns when break-even inflation rates

narrowed. Second, exposure to non-Agency mortgages hurt as these investments sold off in the quarter. Finally, a duration target that was greater than the benchmark (5.8 years vs. Bar Cap Aggregate 5.5 years) hurt returns. Given that the Fund ranked in the 94th percentile in the quarter, there were not many silver linings that the managers could point to in the second quarter. The managers did reiterate that they will maintain a strategy that will concentrate on intermediate-term U.S. maturities. They are retaining their U.S. Treasury Inflation Protected Securities allocation that they see as a hedge against potentially higher long-term inflation. The managers continue to move into, "risk reduction" mode, moving their focus to high quality income over price appreciation, as spreads to treasuries look less appealing. The managers shifted some of their allocation from high yield bonds to bank loan investments, which are more senior in the capital structure. Additionally they plan to maintain an allocation to high quality municipal bonds with a focus on essential service revenue bonds such as water and sewer, power and airports.

- The Pimco High Yield Fund returned -1.55% in the second quarter, which was in-line with the Bof A Merrill Lynch U.S. High Yield, BB-B Rated Index return of -1.65%. While not an oxymoron, the team is emphasizing higher quality-high yield issues, those issues rated BB to BB+. Further, the managers are favoring defensive sectors of the market, those sectors linked to infrastructure, where they feel asset coverage is high. The managers also have stated a desire to maintain liquidity, in order to take advantage of new investment opportunities. In the quarter, these elevated cash levels (Cash and Cash equivalent 7% of Fund assets at quarter-end) added to returns for the Fund. The Fund did however post a negative return, and elements that detracted from performance in the quarter included security selection in the energy sector, an underweight to the technology sector, and security selection in the media and cable industries.

Asset Allocation

- On June 14, the asset allocation committee at HighMark Capital recommended reducing the equity allocation for Balanced portfolios by three percent. This reduction in the equity allocation resulted in lowering large cap core by -0.5%, reducing large cap value by -1.0%, reducing mid-cap value by -0.5%, reducing emerging market equity by -0.5%, and reducing global equity by -0.5%. The proceeds were placed in cash/money market, while we awaited the adoption of the new investment guideline document. On the final day of the quarter, a $5.6 million contribution was made to the Plan, which slightly skewed the quarter-ending asset allocation. For example, we ended the quarter with an 8.6% cash position. Absent this cash contribution we would have rebalanced to the following asset allocation targets: 48.5% equities, 43.5% fixed income, 4% REIT equity, and 4% cash/money market.

INVESTMENT STRATEGY

As of June 30, 2013

Tactical Asset Allocation

Asset Class	% Portfolio Weighting			Rationale
	Target	Current Portfolio	Over/Under Weighting	
Cash	1.00%	8.60%	7.60%	▪ $5.6 million contribution at the end of the quarter inflates the target cash allocation. We ended the quarter with a 4% cash allocation.
Fixed Income	45.00%	41.00%	-4.00%	▪ We maintain an underweight to fixed income. Our outlook for fixed income is for returns to range between 2-3% for intermediate-term bonds. We do not expect the Fed to raise rates until 2015. We see the 10-year treasury yielding 3% by the end of the year.
High Yield	0.00%	1.90%	1.90%	▪ We reduced the high yield allocation by 0.5% in the quarter. While default rates are anticipated to remain low, near-term we expect volatility to increase and we would prefer slightly increasing our exposure to higher quality fixed income investments.
Real Estate (REITS)	4.00%	3.90%	-0.10%	▪ Rising occupancy rates, improving cash flow growth, and strong balance sheets support the investment thesis. A rising interest rate environment may see some additional selling pressure from investors.
Global Equity	8.00%	6.70%	-1.30%	▪ We maintain our underweight in global equities. China's PBoC is trying to prop up growth in the country. Europe continues to struggle, with the central banks providing a backstop here as well. Unemployment in Eurozone is 12%. Japan's version of quantitative easing seems to be generating some positive results, but it is early.
International (Developed)	10.00%	4.80%	-5.20%	▪ While valuations are getting more attractive for global/international equities, the risk-reward proposition does not warrant moving closer to an equal weighting position at this point.
International (Emerging)	0.00%	2.00%	2.00%	▪ We reduced the Plan allocation to emerging market by -0.5%, now targeting a 2% position. Current valuations compel us to maintain a position in emerging market equities, but numerous challenges exist throughout the various emerging market regions: emerging Asia, emerging Europe, and Emerging Latin America.
Total Domestic Equity	32.00%	33.00%	1.00%	
Large Cap	18.00%	21.00%	3.00%	▪ With the reduction in the overall equity allocation, we reduced the large cap allocation by 1.5%. The large cap equity allocation is still an "overweight" in the Plan. Compared to small cap and mid cap equities, large cap stocks appear to be more reasonably valued.
Mid Cap	6.00%	6.20%	0.20%	▪ Reduced our allocation to mid-cap value equities by 0.5%. We still are targeting a small overweight to mid-cap equities based on valuation and growth prospects.
Small Cap	8.00%	5.80%	-2.20%	▪ We are underweight small cap stocks. Valuations at 19X next year's earnings appear to be overvalued

Asset Allocation
Period Ending June 30, 2013

Asset Allocation	3/31/2013 Market Value	3/31/2013 % of Total	6/30/2013 Market Value	6/30/2013 % of Total	Target Allocation
Domestic Equity					
Large Cap Core Holdings	$ 14,657,126	14.0%	$14,754,218	12.9%	-
T. Rowe Price Equity Income Fund	3,413,979	3.3%	2,978,329	2.6%	-
Loomis Sayles Value Fund	3,397,674	3.3%	2,998,953	2.6%	-
Harbor Capital Appreciation Instl	1,583,172	1.5%	1,635,066	1.4%	-
T. Rowe Price Growth Stock Fund	1,585,580	1.5%	1,643,878	1.4%	-
TIAA-CREF Mid-Cap Value Instl	4,099,389	3.9%	3,868,210	3.4%	
HighMark Geneva Mid Cap Growth Fund	3,166,524	3.0%	3,284,013	2.9%	-
Columbia Small Cap Value Fund II	4,061,122	3.9%	3,958,275	3.5%	-
T. Rowe Price New Horizons Fund	2,559,281	2.5%	2,748,305	2.4%	-
Total Domestic Equity	**$ 38,523,846**	**36.9%**	**$ 37,869,247**	**33.1%**	**32.0%**
		Range		*Range*	*21-57%*
International					
HighMark International Opportunity Fund	2,062,238	2.0%	2,185,724	1.9%	-
Dodge & Cox International Stock Fund	1,545,271	1.5%	1,651,364	1.4%	-
MFS International Growth Fund	1,561,703	1.5%	1,632,913	1.4%	-
Schroder Emerging Market Equity	2,640,985	2.5%	2,243,387	2.0%	-
Total International	**$ 7,810,196**	**7.5%**	**$ 7,713,388**	**6.8%**	**10.0%**
		Range		*Range*	*4-19%*
Global					
Templeton Global Opportunities A LW	7,763,035	7.4%	7,645,972	6.7%	-
Total Real Estate	**$ 7,763,035**	**7.4%**	**$ 7,645,972**	**6.7%**	**8.0%**
		Range		*Range*	*4-12%*
Real Estate					
Nuveen Real Estate Secs I Fund	4,184,731	4.0%	4,404,004	3.9%	-
Total Real Estate	**$ 4,184,731**	**4.0%**	**$ 4,404,004**	**3.9%**	**4.0%**
		Range		*Range*	*0-8%*
Fixed Income					
Core Fixed Income Holdings	$ 33,072,684	31.7%	$34,801,043	30.5%	-
PIMCO Total Return Instl Fund	8,827,774	8.5%	9,782,858	8.6%	-
PIMCO High Yield Instl	2,590,250	2.5%	2,209,808	1.9%	-
Total Fixed Income	**$ 44,490,708**	**42.6%**	**$ 46,793,709**	**41.0%**	**45.0%**
		Range		*Range*	*35-67%*
Cash					
HighMark Diversified MM Fund	$ 1,679,063	1.6%	9,840,681	8.6%	-
Total Cash	**$ 1,679,063**	**1.6%**	**$ 9,840,681**	**8.6%**	**1.0%**
		Range		*Range*	*0-5%*
TOTAL	**$ 104,451,579**	**100.0%**	**$ 114,267,002**	**100.0%**	**100.0%**

Investment Summary
Period Ending June 30, 2013

Investment Summary		Second Quarter
Beginning Value	**$**	**104,726,739.57**
Net Contributions/Withdrawals		10,585,610.08
Fees Deducted		-35,879.50
Income Received		575,112.46
Market Appreciation		-1,302,637.45
Net Change in Accrued Income		14,345.65
Ending Market Value	**$**	**114,563,290.81**

Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 06/30/2013

Sector	3 Months	Year to Date (6 Months)	1 Year	Inception to Date (29 Months)
Cash Equivalents	.00	.01	.02	.02
iMoneyNet, Inc. Taxable	*.02*	*.02*	*.02*	*.01*
Total Fixed Income	-2.63	-2.26	.88	4.80
BC US Aggregate Bd Index	*-2.33*	*-2.45*	*-.67*	*3.85*
Total Equities	.88	9.39	17.28	7.73
Indiv Domestic Common Stock	1.18	10.92	12.20	8.22
Large Cap Funds	2.91	13.54	22.29	9.68
Russell 1000 Index	*2.65*	*13.90*	*21.23*	*11.98*
Mid Cap Funds	1.18	13.04	19.40	9.06
Russell Midcap Index	*2.21*	*15.44*	*25.39*	*11.64*
Small Cap Funds	3.92	18.22	25.44	11.91
Russell 2000 Index	*3.09*	*15.86*	*24.20*	*11.29*
REIT Funds	-1.64	4.93	7.90	10.44
Wilshire REIT Index	*-1.38*	*5.95*	*8.42*	*11.98*
International Equities	-1.28	1.82	17.49	2.13
MSCI EAFE Index	*-.97*	*4.10*	*18.63*	*1.98*
MSCI AC World Index	*-.39*	*6.06*	*16.57*	*4.93*
Total Account Net of Fees	-.64	4.03	9.51	5.65
*County of Contra Costa**	*-.52*	*4.16*	*10.02*	*6.57*

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 June 30, 2013

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											
T. Rowe Price Equity Income	(3/11)	2.63	70	14.12	68	23.66	46	17.49	39	7.37	25
Harbor Capital Appreciation Instl	(7/10)	2.35	37	9.43	71	14.16	77	16.74	46	6.85	30
Loomis Sayles Value Fund	(7/11)	3.31	52	16.02	28	27.69	14	18.36	21	6.35	47
T. Rowe Price Growth Stock		3.17	18	11.14	47	16.66	54	18.49	17	7.06	27
Idx: Russell 1000		**2.65**	**--**	**13.90**	**--**	**21.23**	**--**	**18.63**	**--**	**7.12**	**--**
MID CAP EQUITY FUNDS											
TIAA-CREF Mid-Cap Value Instl	(2/10)	2.11	64	14.95	67	24.22	75	18.76	32	7.37	55
Idx: Russell Mid Cap Value		**1.65**	**--**	**16.10**	**--**	**27.65**	**--**	**19.53**	**--**	**8.87**	**--**
HighMark Geneva Mid Cap Growth Fiduciary	(2/10)	-0.04	95	10.54	85	13.28	93	17.96	34	8.35	21
Idx: Russell Mid Cap Growth		**2.87**	**--**	**14.70**	**--**	**22.88**	**--**	**19.53**	**--**	**7.61**	**--**
SMALL CAP EQUITY FUNDS											
Columbia Small Cap Value II Z		2.73	53	17.06	26	25.78	46	19.55	11	8.23	67
Idx: Russell 2000 Value		**2.47**	**--**	**14.39**	**--**	**24.76**	**--**	**17.33**	**--**	**8.59**	**--**
T. Rowe Price New Horizons		5.79	14	19.99	13	24.71	29	26.15	1	14.60	1
Idx: Russell 2000 Growth		**3.74**	**--**	**17.44**	**--**	**23.67**	**--**	**19.97**	**--**	**8.89**	**--**
INTERNATIONAL EQUITY FUNDS											
Dodge & Cox International Stock		1.70	4	5.40	9	23.47	4	10.99	21	1.61	11
HighMark International Opportunity Fid		-2.61	81	1.87	65	16.39	49	9.63	47	-1.51	66
MFS International Growth I		-3.55	82	0.62	65	13.18	51	10.90	42	2.51	17
Templeton Global Opportunities A LW		1.55	24	5.24	78	23.44	15	11.62	72	1.33	79
Idx: MSCI EAFE		**-0.97**	**--**	**4.10**	**--**	**18.63**	**--**	**10.04**	**--**	**-0.63**	**--**
Idx: MSCI ACWI		**-0.39**	**--**	**6.06**	**--**	**16.57**	**--**	**12.36**	**--**	**2.30**	**--**
Schroder Emerging Market Equity	(11/12)	-8.07	53	-10.54	70	2.26	60	4.23	46	-0.15	36
Idx: MSCI Emerging Markets		**-8.08**	**--**	**-9.57**	**--**	**2.87**	**--**	**3.38**	**--**	**-0.43**	**--**
REIT EQUITY FUNDS											
Nuveen Real Estate Secs Y		-1.62	50	5.06	44	8.03	29	18.11	15	8.86	9
Idx: Wilshire REIT		**-1.38**	**--**	**5.95**	**--**	**8.42**	**--**	**18.50**	**--**	**7.21**	**--**
BOND FUNDS											
Pimco Total Return Inst'l		-3.60	94	-3.02	81	1.20	37	4.67	34	7.26	13
BarCap US Aggregate Bond		**-2.32**	**--**	**-2.44**	**--**	**-0.69**	**--**	**3.51**	**--**	**5.19**	**--**
Pimco High Yield Inst'l	(2/12)	-1.55	58	0.65	71	8.12	65	9.39	62	8.91	44
Merrill Lynch US High Yield BB-B		**-1.65**	**--**	**0.24**	**--**	**7.57**	**--**	**9.90**	**--**	**9.32**	**--**

Data Source: Morningstar, SEI Investments

Returns less than one year are not annualized. Past performance is not indicative of future returns. The information presented has been obtained from sources believed accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.