

First Quarter 2016 *Investment Review*



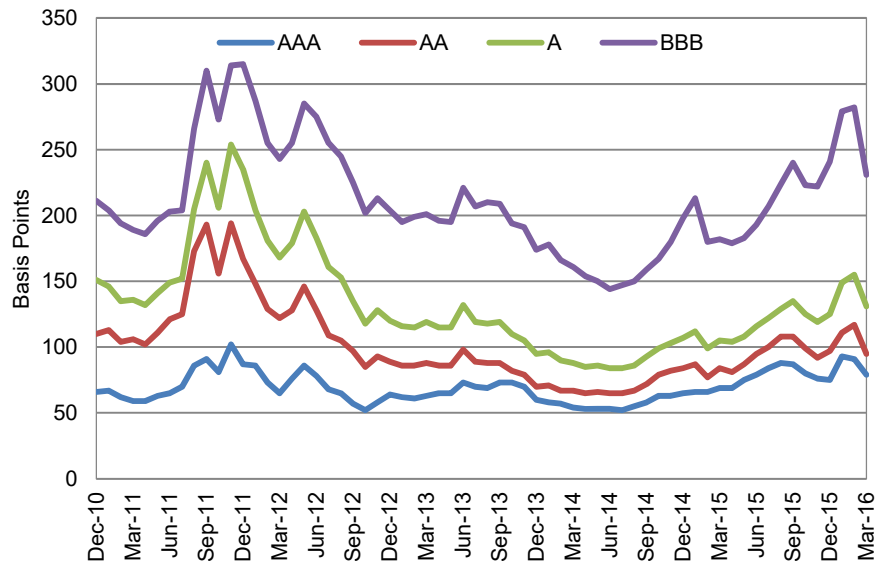
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MARKET SNAPSHOT

MARCH 31, 2016

<u>Index</u>	<u>Qtr</u>	<u>One Year</u>	<u>Three Year</u>	<u>Five Year</u>
S&P 500	1.3%	1.8%	11.8%	11.6%
Dow Jones Industrial	2.2%	2.1%	9.3%	10.3%
Wilshire 5000	0.8%	-1.2%	10.7%	10.7%
MSCI EAFE Index	-3.0%	-8.3%	2.2%	2.3%
Barclays Aggregate	3.0%	2.0%	2.5%	3.8%
BofA ML G/C 1-5 Yr A+	1.6%	1.7%	1.3%	1.8%
BofA ML 3 Month T-Bill	0.1%	0.1%	0.1%	0.1%

Credit Rebounded in the First Quarter



Source: Merrill Lynch

- After a tough start in January the equity and credit markets rebounded in March driven by reassurances that the Fed would take a slow approach to increasing rates. This also led to a decline in the US dollar that helped international assets and commodities.
- Declining corporate profits and relatively high valuations make the US stock markets vulnerable. The length of the current recovery since 2009 is now second only to the tech boom.
- International stock valuations, especially the emerging markets, are close to historical lows. But low growth and debt problems continue to plague Europe and Japan, despite unprecedented stimulus.
- The IMF continues to downgrade their growth projections, which now stand at 2.4% for the US, 1.8% for the EU, 0.5% for Japan, and 6.5% for China. China will remain a focus for the emerging markets as they transition from growth based on investment to growth based on consumption.
- The Fed has not been able to increase short term interest rates since the 0.25% increase in December despite the plan to raise rates 2 to 4 times in 2016.
- The price of oil has rebounded from the sub \$30 lows set in the first quarter driven by talks of OPEC freezing production (it did not happen), dollar weakness, declines in rig counts, and short covering.
- Bond yields remain negative in major European and Asian markets driven by low inflation, slow growth, and central bank stimulus. The goal of the ECB and BOJ is clearly to stimulate economic activity, but investors are worried that the long-term side effects may overwhelm the short term benefits.

PORTFOLIO SUMMARY
MARCH 31, 2016

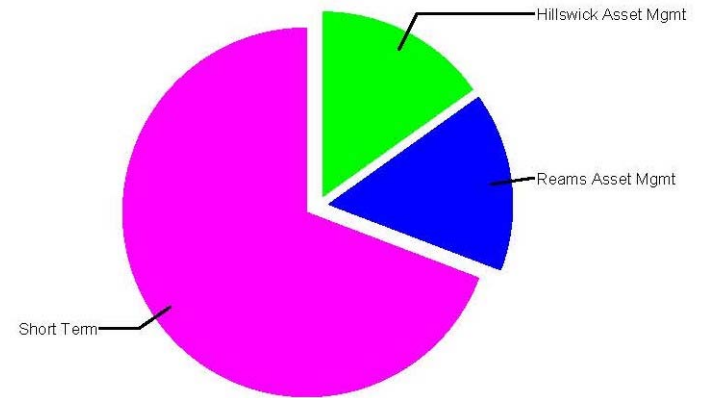
	<u>Assets</u>	<u>Weight</u>
Managed Accounts		
Hillswick Asset Mgmt	\$169,352,174	15%
Reams Asset Mgmt	<u>\$175,062,859</u>	<u>16%</u>
Total External Managed	\$344,415,033	31%
Short-Term Account	<u>\$774,403,064</u>	<u>69%</u>
Grand Total	\$1,118,818,097	100%

- The value of the Total Fund decreased by \$142.1 million in the first quarter, due to net cash outflow of \$148.8 million offset by an investment gain of \$6.7 million.
- Net investment gain/loss for the quarter were:

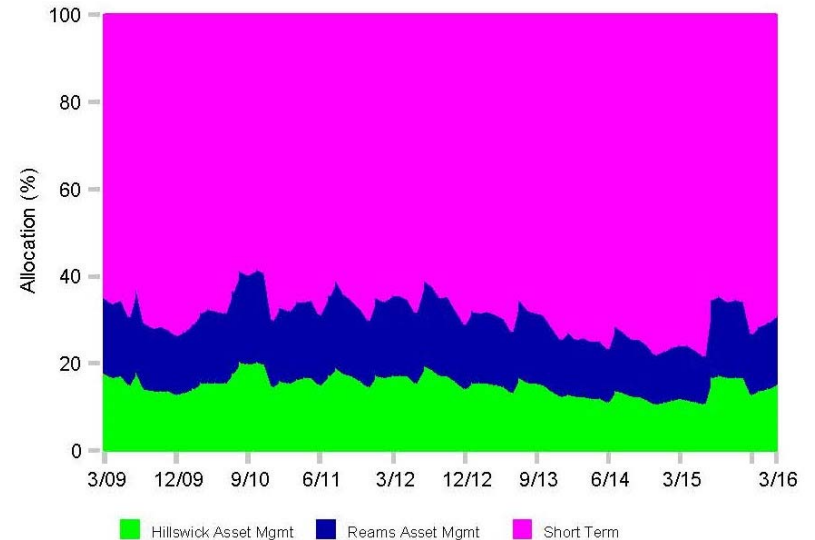
Hillswick	\$2.9 million
Reams	\$2.1 million
Short-Term	<u>\$1.6 million</u>
Total	\$6.7 million

Note: Totals may differ slightly due to rounding.

CURRENT ALLOCATION



HISTORICAL ALLOCATION



PERFORMANCE SUMMARY - TOTAL RETURN
MARCH 31, 2016

Manager	QTR	Fiscal YTD	1 Year	3 Yrs	5 Yrs
Total Fund	0.6%	0.8%	0.8%	0.8%	1.2%
Benchmark ¹	0.5%	0.5%	0.5%	0.4%	0.5%
Hillswick Asset Mgmt	1.8%	2.0%	1.8%	1.6%	2.3%
BofA ML G/C 1-5 yr. A	1.6%	1.7%	1.7%	1.3%	1.8%
Reams Asset Mgmt	1.2%	1.4%	1.6%	1.4%	2.1%
BofA ML G/C 1-5 yr. A	1.6%	1.7%	1.7%	1.3%	1.8%
Total External Managers	1.5%	1.7%	1.7%	1.5%	2.2%
BofA ML G/C 1-5 yr. A	1.6%	1.7%	1.7%	1.3%	1.8%
Short-Term Account	0.2%	0.4%	0.5%	0.5%	0.6%
BofA ML 90-day T-Bill	0.1%	0.1%	0.1%	0.1%	0.1%

¹ The benchmark for the Total Fund is based on the average asset allocation between the Externally Managed and Short-term Accounts, incorporating the BofA Merrill Lynch Government/Corporate 1-5 yr A & above and the BofA Merrill Lynch 3 Month T-Bill.

- Weak global growth caused big declines in both the stock and credit markets in early 2016. It also caused the Fed to set-aside plans for further rate increases, which led to a rebound in March and April.
- Bond yields are actually below the levels prior to the Fed rate increase in December. Falling interest rates produced gains of 2% to 4% in the US bond market and an amazing 9% return in the international bond market.
- Hillswick was right again about the direction of yields and credit spreads, and their portfolio benefitted from the rebound in government bonds. They have also managed the duration of the portfolio to capture additional capital gains.
- Some investors have been attracted by higher corporate bond spreads, but Hillswick believes that more pain lies ahead. They expect the ten-year bond yield to fall to 1.5% which will allow them to capture even more capital gains for the portfolio.
- Macro factors (e.g., duration, yield curve, etc.) were largely negative for the Reams portfolio, but they are expected to add value through security selection. The return for Reams was below the benchmark due to the higher weight to both corporate and mortgage bonds; in particular, finance and energy bonds held back performance.
- The staff-managed Short-Term Account was able to take advantage of higher spreads and higher short-term yields, after the Fed rate hike. Continued strong performance from this yield strategy is shown in the peer group comparison on page 5.

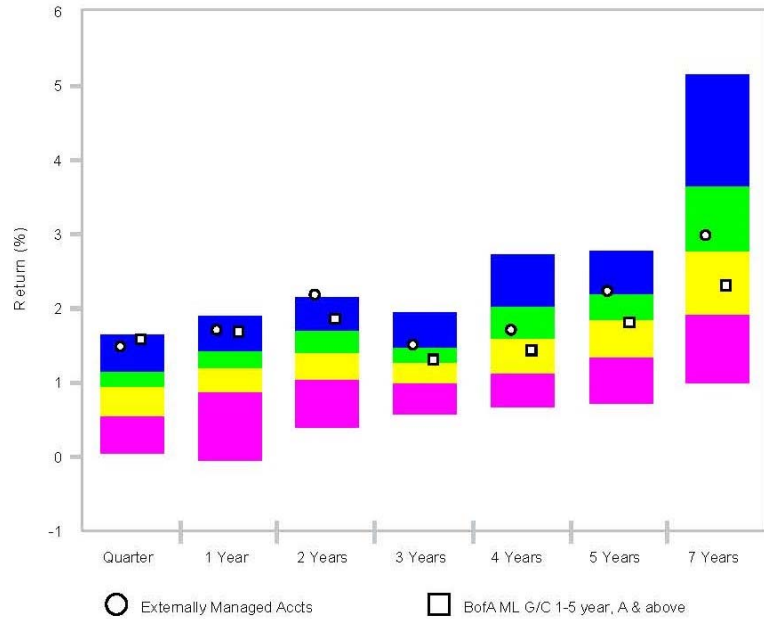
**CONSOLIDATED BALANCE SHEET and
CASH FLOW SUMMARY FOR THE FISCAL YEAR**

JULY 1, 2015 TO MARCH 31, 2016

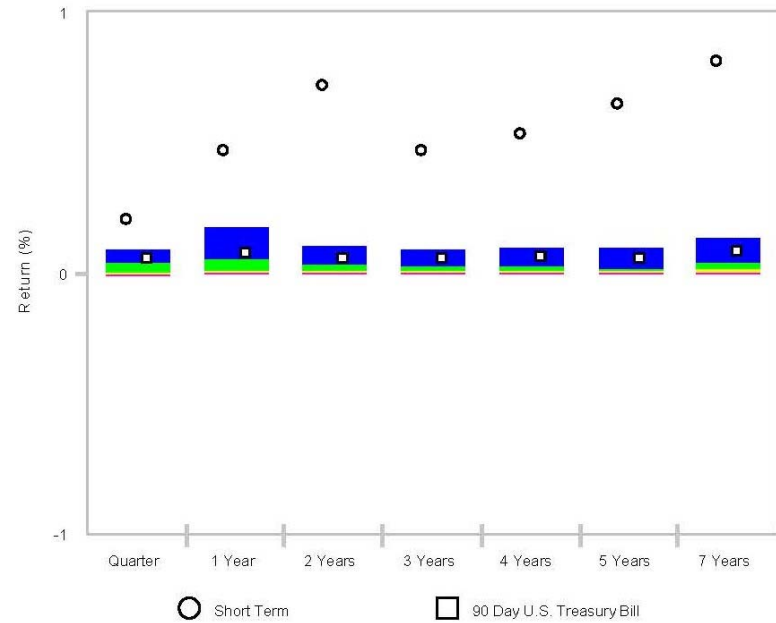
Manager	Beginning Balance	Net Cash Flows	Income	Gain/(Loss)	Ending Balance
Total Fund	\$1,544,474,095	(\$434,449,352)	\$9,640,730	(\$847,375)	\$1,118,818,097
Externally Managed					
Hillswick Asset Mgmt	\$165,968,580	\$0	\$2,573,199	\$810,396	\$169,352,174
Reams Asset Mgmt	\$172,581,353	<u>\$0</u>	<u>\$2,288,573</u>	<u>\$192,934</u>	<u>\$175,062,859</u>
Total Externally Managed	\$338,549,932	\$0	\$4,861,771	\$1,003,329	\$344,415,033
Short-Term Account	\$1,205,924,163	(\$434,449,352)	\$4,778,958	(\$1,850,705)	\$774,403,064

Note: Totals may differ slightly due to rounding.

TOTAL EXTERNAL MGRS VS. PEER GROUP



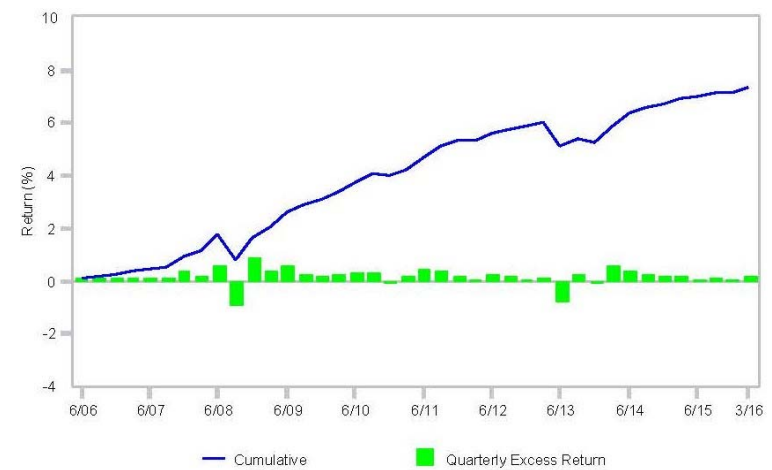
SHORT-TERM VS. PEER GROUP



TOTAL EXTERNAL MGRS VALUE ADDED



SHORT-TERM VALUE ADDED



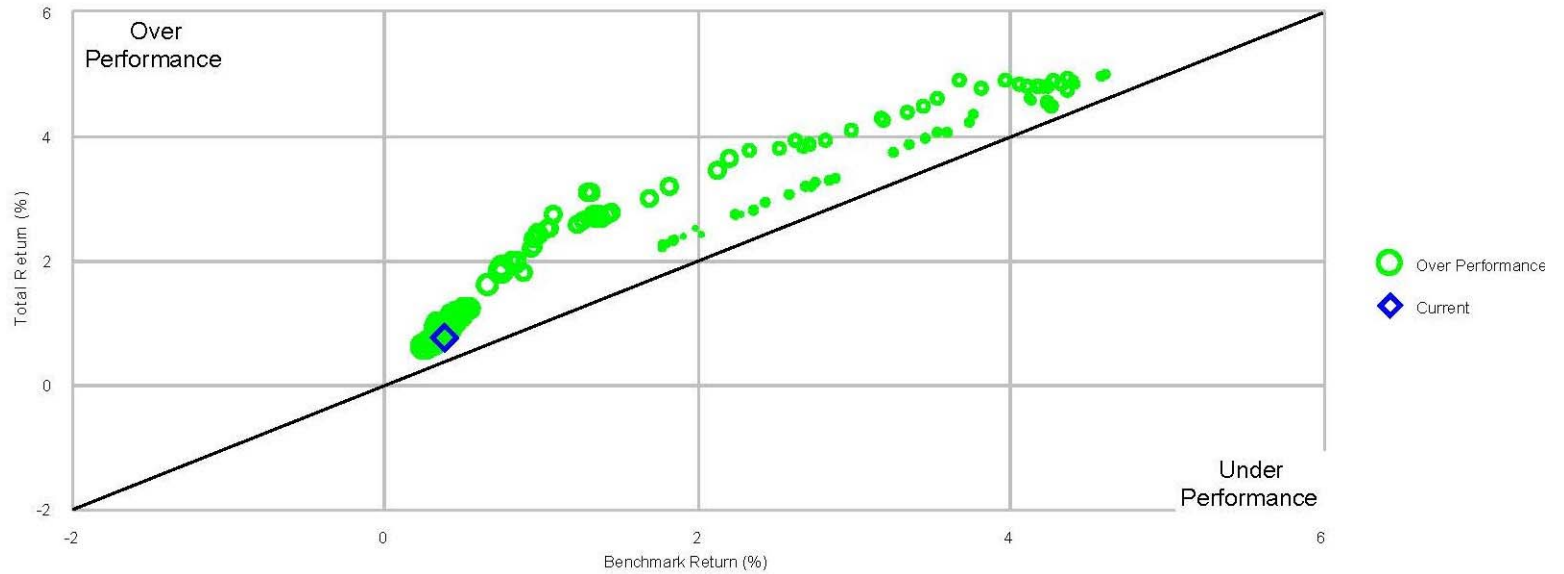
MANAGER SCORECARD
SINCE INCEPTION OF MANAGER

Manager	<u>Return</u>	<u>Index Return</u>	<u>Std Dev</u>	<u>Alpha</u>	<u>Beta</u>	<u>Batting Average</u>	<u>Incept</u>
Total Fund	2.63	1.93	1.04	0.59	1.06	74.25	5/02
Hillswick Asset Mgmt.	3.70	3.28	2.43	0.07	1.11	53.89	5/02
Reams Asset Mgmt.	3.86	3.28	2.69	1.05	0.86	55.69	5/02
Short-Term Account	1.97	1.34	0.68	0.83	0.85	79.04	5/02

INVESTMENTS PORTFOLIOS VS. POLICY BENCHMARKS

Manager	1 Year Benchmark	1 Year Univ Med	3 Year Benchmark	3 Year Univ Med	Alpha	Beta <1.10
Total Fund	Exceed	NA	Exceed	NA	Positive	OK
Hillswick Asset Mgmt	OK	Exceed	Exceed	Exceed	Positive	High
Reams Asset Mgmt	OK	Exceed	OK	Exceed	Positive	Low
Short-Term Account	Exceed	Exceed	Exceed	Exceed	Positive	Low

**3-YEAR ROLLING VALUE ADDED FOR TOTAL FUND
(FROM INCEPTION)**



Each green circle above the line represents a 3-year period above the benchmark, larger circles = more recent periods

Alpha

Alpha is a measure of the value added (or the excess return of a portfolio versus the benchmark - adjusted for risk) for an actively managed portfolio. It is generally interpreted as a measure of a manager's skill as the result of security selection and asset allocation - the higher the number the better.

Batting Average

Batting Average is a measure of how often the manager has beaten the benchmark. A batting average of 600 indicates that the manager has beaten the portfolio benchmark (or comparable market index) six out of every ten quarters, or 60% of the time.

Beta

Beta is a measure of a manager's risk vs the benchmark. A beta of 1.0 indicates that a portfolio has roughly the same volatility as the benchmark. A beta greater than 1.0 indicates that the portfolio is more volatile or sensitive to changes in the market.

Duration

Duration is a measure of the sensitivity in the price of a bond to changes in interest rates, so it is a measure of risk in a fixed income portfolio. As a rule of thumb, a fixed income portfolio with a duration of 5 (years) will decline 5% in value for every 1% upward movement in comparable interest rates.

Standard Deviation

Standard deviation is a measure of the dispersion of a portfolio's return around its expected return. A higher standard deviation indicates greater dispersion and, therefore, lower predictability of future returns.