

# FUND EVALUATION REPORT

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## San Jose Federated City Employees' Healthcare Trust Fund

Quarterly Review  
June 30, 2012



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### M E K E T A   I N V E S T M E N T   G R O U P

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**1. Executive Summary**

- Conditions as of June 30, 2012
- Aggregate Fund Overview
- Second Quarter Manager Summary

**2. Fund Summary**

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**4. Portfolio Reviews**





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- The World Markets in the Second Quarter of 2012
- Disclaimer, Glossary, and Notes

**Executive Summary  
As of June 30, 2012**

Conditions as of June 30, 2012<sup>1</sup>

<p><b>Earnings</b></p>		<p>Domestic earnings continued to make record highs. At quarter-end the S&amp;P 500 trailing one-year earnings reached \$99.04, more than double the late 2009 lows. Since little room remains for companies to further reduce costs, continued profitability growth will need to come from revenue growth. Earnings for companies in the EAFE index have declined steadily since year-end, while the recent rise in earnings for companies in the emerging markets appears to have stalled.</p>
<p><b>Credit Spreads</b></p>		<p>Credit spreads expanded during the quarter as investors transitioned into “safer” fixed income securities due to signs of slowing growth globally and sovereign debt concerns. In domestic markets, high yield bond spreads increased the most (+0.4%). Spreads for developed international and emerging markets bonds expanded as well, though the change was larger in emerging markets.</p>
<p><b>Commodities</b></p>		<p>Fears of slowing economic growth weighed broadly on commodities during the quarter. Energy commodities declined the most, with oil falling 17.5%. Economic weakness in China weighed on industrial metals, as aluminum and copper fell 12.6% and 10.3%, respectively. Natural gas was one of the few bright spots (+32.9%), though it remains near a record low. Agricultural commodity prices surged due to unfavorable growing conditions.</p>
<p><b>Currencies</b></p>		<p>The dollar and yen strengthened during the quarter, as they were perceived as safe havens in light of heightened sovereign debt concerns in Europe. The euro fell (-4.5%) versus the dollar, as did other currencies perceived to be riskier (e.g., the Brazilian real and Russian ruble).</p>

<sup>1</sup> Sources: FactSet, Bloomberg, U.S. Treasury. Data is as of June 30, 2012, unless otherwise noted.

**The value of the San Jose Federated City Employees' Healthcare Trust Fund was \$21.6 million on June 30, 2012, down \$0.7 million since the end of the previous quarter.**

- Second quarter performance for the Healthcare Trust Fund was -3.1% net of fees, bringing the fiscal year/trailing one-year return to 0.6% net of fees.
- The Healthcare Trust Fund underperformed the Policy Benchmark by 0.1% during the second quarter. For the fiscal year ending June 30, 2012, the Fund outperformed the Policy Benchmark by 2.7%, primarily due to a positive allocation effect, as equity and fixed income assets funded in mid-November 2011, and the Fund did not fully participate in negative equity market performance between July 2011 and October 2011.
- The Healthcare Trust Fund manager roster includes five passive and two active mandates. The equity and fixed income mandates are managed by five Vanguard index funds, and the real assets exposure is achieved through risk-parity investments with Credit Suisse and First Quadrant.

Investment Manager	Asset Class	Changes/ Announcements	Performance Concerns	Meketa Recommendation <sup>1</sup>	Comments
Vanguard	Equity & Fixed Income	Yes	---	Hold	
Vanguard Russell 3000	Global Equity	---	---	---	
Vanguard Developed Markets	Global Equity	Yes	---	Hold	
Vanguard Emerging Markets	Global Equity	Yes	---	Hold	
Vanguard Total Bond Market	Fixed Income	---	---	---	
Vanguard TIPS	Fixed Income	Yes	---	Hold	
Credit Suisse	Real Assets	---	---	---	
First Quadrant	Real Assets	---	---	---	

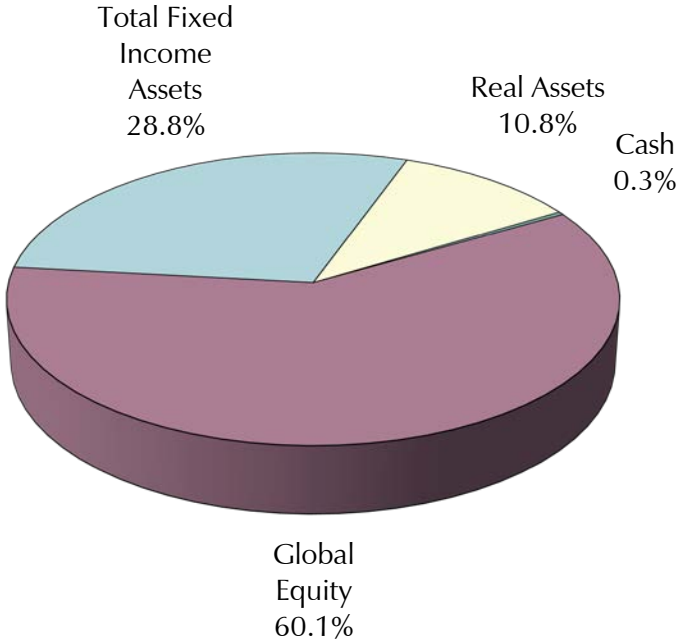
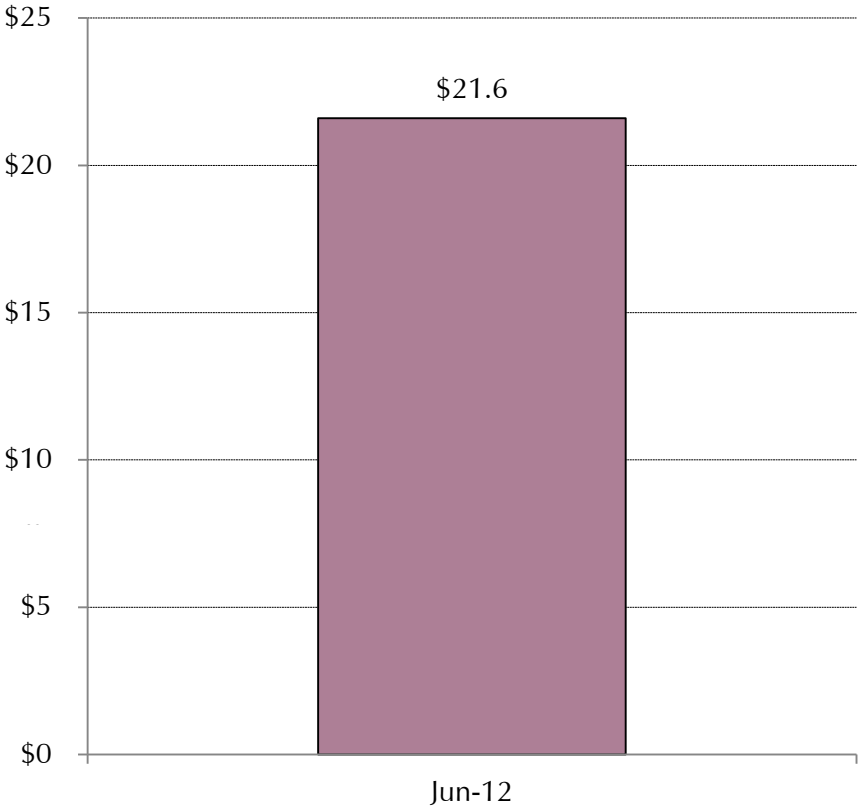
- **Vanguard** – CIO George Sauter is retiring effective December 31, 2012. Mortimer “Tim” Buckley will assume the role of CIO. Mr. Buckley has held various leadership positions during his 21 years at the firm.
- **Vanguard Developed Markets** – Vanguard eliminated the contingent redemption fee (2% fee on shares redeemed within two months of purchase).
- **Vanguard Emerging Markets** – Vanguard removed the 0.25% purchase fee and the 0.25% non-contingent redemption fee, and eliminated the 2% contingent redemption fee. Beginning September 2012, the fund will distribute dividends quarterly instead of annually, which is intended to reduce the market impact, and associated transaction costs, to the funds that may result from paying dividends annually.
- **Vanguard TIPS** – Vanguard reduced the minimum investment requirement for the institutional shares (VIPIX) from \$25 million to \$5 million. The Healthcare Trust is currently invested in the Admiral share class (VAIPX), which has an expense ratio of 0.11%. The expense ratio for the institutional shares is 0.07%.

<sup>1</sup> The Meketa Investment Group recommendations are based on organizational or resource changes at each manager.

**Fund Summary  
As of June 30, 2012**

**San Jose Federated City Employees' Healthcare Trust Fund**

**Aggregate Assets as of 6/30/12**





**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Aggregate Assets  
Asset Summary as of 6/30/12**

	<b>Market Value 6/30/12 (\$ mm)</b>	<b>% of Health Care Trust</b>	<b>Target Allocation (%)</b>	<b>Target Range (%)</b>	<b>Market Value 3/31/12 (\$ mm)</b>
<b>Total Fund Aggregate</b>	<b>21.6</b>	<b>100.0</b>	<b>NA</b>	<b>NA</b>	<b>22.3</b>
Global Equity Assets	13.0	60.1	59	53-65	13.7
Fixed Income Assets	6.2	28.8	28	23-33	6.1
Real Assets	2.3	10.8	13	8-18	2.5
Cash	0.1	0.3	0	0	0.1



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Aggregate Assets  
Portfolio Roster as of 6/30/12**

	Market Value 6/30/12 (\$ mm)	% of Asset Class	% of Health Care Trust	Target Allocation (%)	Target Range (%)	Market Value 3/31/12 (\$ mm)
<b>Total Fund Aggregate</b>	<b>21.6</b>	<b>NA</b>	<b>100.0</b>	<b>NA</b>	<b>NA</b>	<b>22.3</b>
<b>Global Equity Assets</b>	<b>13.0</b>	<b>100.0</b>	<b>60.1</b>	<b>59</b>	<b>53-65</b>	<b>13.7</b>
Vanguard Russell 3000	6.1	47.3	28.4			6.3
Vanguard Developed Markets Index	5.6	43.3	26.0			6.0
Vanguard Emerging Markets Stock Index	1.2	9.5	5.7			1.3
<b>Fixed Income Assets</b>	<b>6.2</b>	<b>100.0</b>	<b>28.8</b>	<b>28</b>	<b>23-33</b>	<b>6.1</b>
Vanguard Total Bond Market Index	3.5	57.0	16.4			3.5
Vanguard Inflation-Protected Securities	2.7	43.0	12.4			2.6
<b>Real Assets</b>	<b>2.3</b>	<b>100.0</b>	<b>10.8</b>	<b>13</b>	<b>8-18</b>	<b>2.5</b>
Credit Suisse Compound Risk Parity Commodity Index	1.2	51.2	5.5			1.2
First Quadrant Risk Parity Commodity Index	1.1	48.8	5.3			1.2
<b>Cash</b>	<b>0.1</b>	<b>100.0</b>	<b>0.3</b>	<b>NA</b>	<b>NA</b>	<b>0.1</b>



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Aggregate Assets  
Performance as of 6/30/12**

	2Q12 (%)	Calendar YTD (%)	Fiscal YR/ 1 YR (%)	Performance Inception Date	Since Inception (%)
<b>Total Fund Aggregate (Net of Fees)</b>	<b>-3.1</b>	<b>4.2</b>	<b>0.6</b>	<b>7/1/11</b>	<b>0.6</b>
<i>CPI Medical Care (Inflation)</i>	0.9	2.4	4.0		4.0
<i>San Jose Healthcare Policy Benchmark<sup>1</sup></i>	-3.0	4.2	-2.1		-2.1
<i>San Jose Healthcare Custom Benchmark<sup>2</sup></i>	-3.1	4.1	1.6		1.6
Global Equity Assets	-5.3	6.4	NA	12/1/11	5.3
<i>Global Equity HC Policy Benchmark<sup>3</sup></i>	-5.5	6.0	-6.4		5.8
<i>MSCI ACWI IMI</i>	-5.7	5.8	-6.9		5.5
Fixed Income Assets	2.6	3.1	NA	12/1/11	3.8
<i>Fixed Income HC Policy Benchmark<sup>4</sup></i>	2.6	3.1	9.4		3.8
<i>Barclays Aggregate</i>	2.1	2.4	7.5		3.5
<i>Barclays U.S. TIPS</i>	3.2	4.0	11.7		4.1
Real Assets	-5.4	-4.5	NA	8/1/11	-14.2
<i>Custom Risk Parity Benchmark<sup>5</sup></i>	-4.2	-2.7	-9.5		-12.2

<sup>1</sup> Policy Benchmark consists of 26.5% Russell 3000, 26.5% MSCI EAFE, 6% Emerging Markets, 16% Barclays Aggregate Float Adjusted, 12% Barclays U.S. TIPS, and 13% Custom Risk Parity Benchmark.

<sup>2</sup> Custom Benchmark consists of the individual benchmarks that comprise the Policy Benchmark weighted accordingly to actual allocations and re-adjusted monthly.

<sup>3</sup> Global Equity HC Policy Benchmark consists of 44.9% Russell 3000, 44.9% MSCI EAFE, and 10.2% MSCI Emerging Markets.

<sup>4</sup> Fixed Income HC Policy Benchmark consists of 57.1% Barclays Aggregate Float Adjusted, and 42.9% Barclays U.S. TIPS.

<sup>5</sup> Custom Risk Parity Benchmark returns provided by Staff.



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Aggregate Assets  
Performance as of 6/30/12**

	2Q12 (%)	Calendar YTD (%)	Fiscal YR/ 1 YR (%)	Performance Inception Date	Since Inception (%)
<b>Global Equity Assets</b>	<b>-5.3</b>	<b>6.4</b>	<b>NA</b>	<b>12/1/11</b>	<b>5.3</b>
Vanguard Russell 3000	-3.2	9.3	NA	12/1/11	10.2
<i>Russell 3000</i>	-3.1	9.3	3.8		10.2
Vanguard Developed Markets Index	-6.8	3.9	NA	12/1/11	1.5
<i>MSCI EAFE</i>	-7.1	3.0	-13.8		2.0
Vanguard Emerging Markets Stock Index	-8.4	4.4	NA	12/1/11	1.0
<i>MSCI Emerging Markets</i>	-8.9	3.9	-16.0		2.7
<b>Fixed Income Assets</b>	<b>2.6</b>	<b>3.1</b>	<b>NA</b>	<b>12/1/11</b>	<b>3.8</b>
Vanguard Total Bond Market Index	2.2	2.4	NA	12/1/11	3.6
<i>Barclays Aggregate Float Adjusted</i>	2.1	2.4	7.6		3.6
Vanguard Inflation-Protected Securities	3.3	4.0	NA	12/1/11	4.2
<i>Barclays U.S. TIPS</i>	3.2	4.0	11.7		4.1



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Aggregate Assets  
Performance as of 6/30/12**

	<b>2Q12 (%)</b>	<b>Calendar YTD (%)</b>	<b>Fiscal YR/ 1 YR (%)</b>	<b>Performance Inception Date</b>	<b>Since Inception (%)</b>
<b>Real Assets</b>	<b>-5.4</b>	<b>-4.5</b>	<b>NA</b>	<b>8/1/11</b>	<b>-14.2</b>
Credit Suisse Compound Risk Parity Commodity Index	-4.3	-2.9	NA	8/1/11	-12.1
<i>Custom Risk Parity Benchmark<sup>1</sup></i>	-4.2	-2.7	-9.5		-12.2
<i>Dow Jones-Commodity U.S. Index</i>	-4.6	-3.7	-14.4		-16.8
First Quadrant Risk Parity Commodity Index	-6.5	-6.2	NA	8/1/11	-16.3
<i>Custom Risk Parity Benchmark<sup>1</sup></i>	-4.2	-2.7	-9.5		-12.2
<i>Dow Jones-Commodity U.S. Index</i>	-4.6	-3.7	-14.4		-16.8

<sup>1</sup> Custom Risk Parity Benchmark returns provided by Staff.

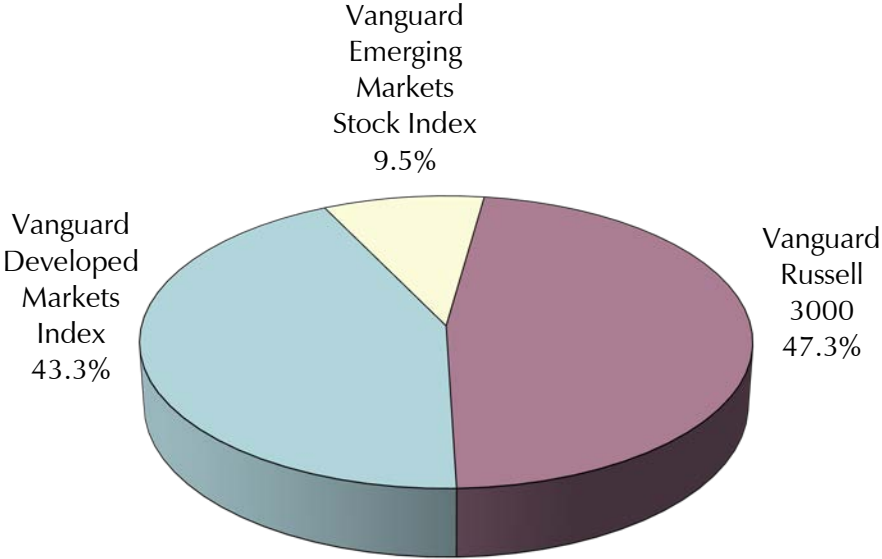
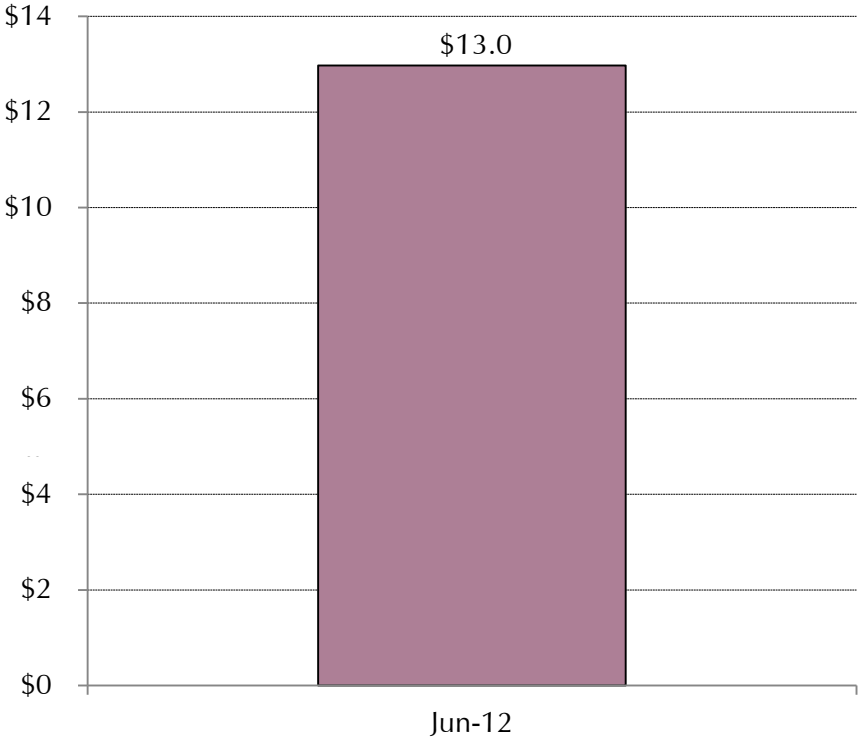


## Fund Detail

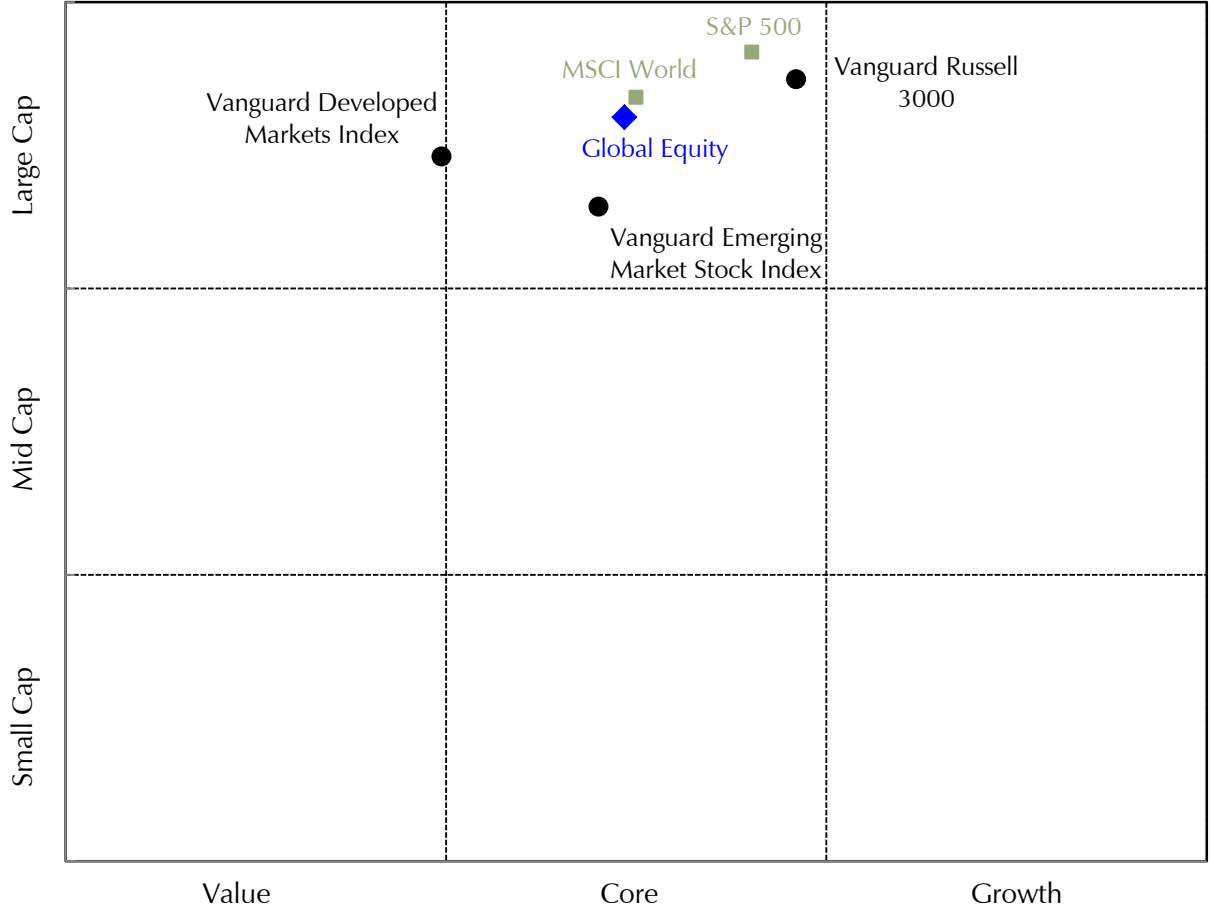
**Global Equity Assets  
As of June 30, 2012**

**San Jose Federated City Employees' Healthcare Trust Fund**

**Global Equity Assets as of 6/30/12**







**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Global Equity Assets  
Characteristics as of 6/30/12**

	<b>Aggregate Global Equity 6/30/12</b>	<b>MSCI ACWI IMI 6/30/12</b>	<b>Aggregate Global Equity 3/31/12</b>
<b>Capitalization Structure:</b>			
Weighted Average Market Cap. (US\$ billion)	69.0	65.7	70.4
Median Market Cap. (US\$ billion)	2.9	0.9	3.0
Large (% over US\$10 billion)	75	70	76
Medium (% US\$2 billion to US\$10 billion)	21	21	20
Small (% under US\$2 billion)	4	9	3
<b>Fundamental Structure:</b>			
Price-Earnings Ratio	18	18	18
Price-Book Value Ratio	2.8	2.8	2.9
Dividend Yield (%)	2.9	2.8	2.7
Historical Earnings Growth Rate (%)	7	8	7
Projected Earnings Growth Rate (%)	11	11	10

**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Global Equity Assets  
Diversification as of 6/30/12**

<b>Diversification:</b>	<b>Aggregate Global Equity 6/30/12</b>	<b>MSCI ACWI IMI 6/30/12</b>	<b>Aggregate Global Equity 3/31/12</b>
Number of Holdings	4,415	8,672	4,486
% in 5 largest holdings	5	5	5
% in 10 largest holdings	9	8	8

**Largest Five Holdings:**

Apple Computer  
ExxonMobil  
Nestle  
Microsoft  
HSBC Holdings Plc

**% of Portfolio**

1.7  
1.3  
0.9  
0.7  
0.7

**Economic Sector**

Technology Hardware  
Energy  
Food Beverage & Tobacco  
Software & Services  
Banks



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Global Equity Assets  
Sector Allocation as of 6/30/12**

<b>Sector Allocation (%):</b>	<b>Aggregate Global Equity 6/30/12</b>	<b>MSCI ACWI IMI 6/30/12</b>	<b>Aggregate Global Equity 3/31/12</b>
Health Care	10	9	9
Consumer Staples	11	10	10
Telecom	5	4	4
Utilities	4	4	4
Industrials	11	11	12
Financials	20	20	20
Consumer Discretionary	11	11	11
Materials	7	8	8
Information Technology	12	13	13
Energy	9	10	10



**San Jose Federated City Employees'  
Healthcare Trust Fund**

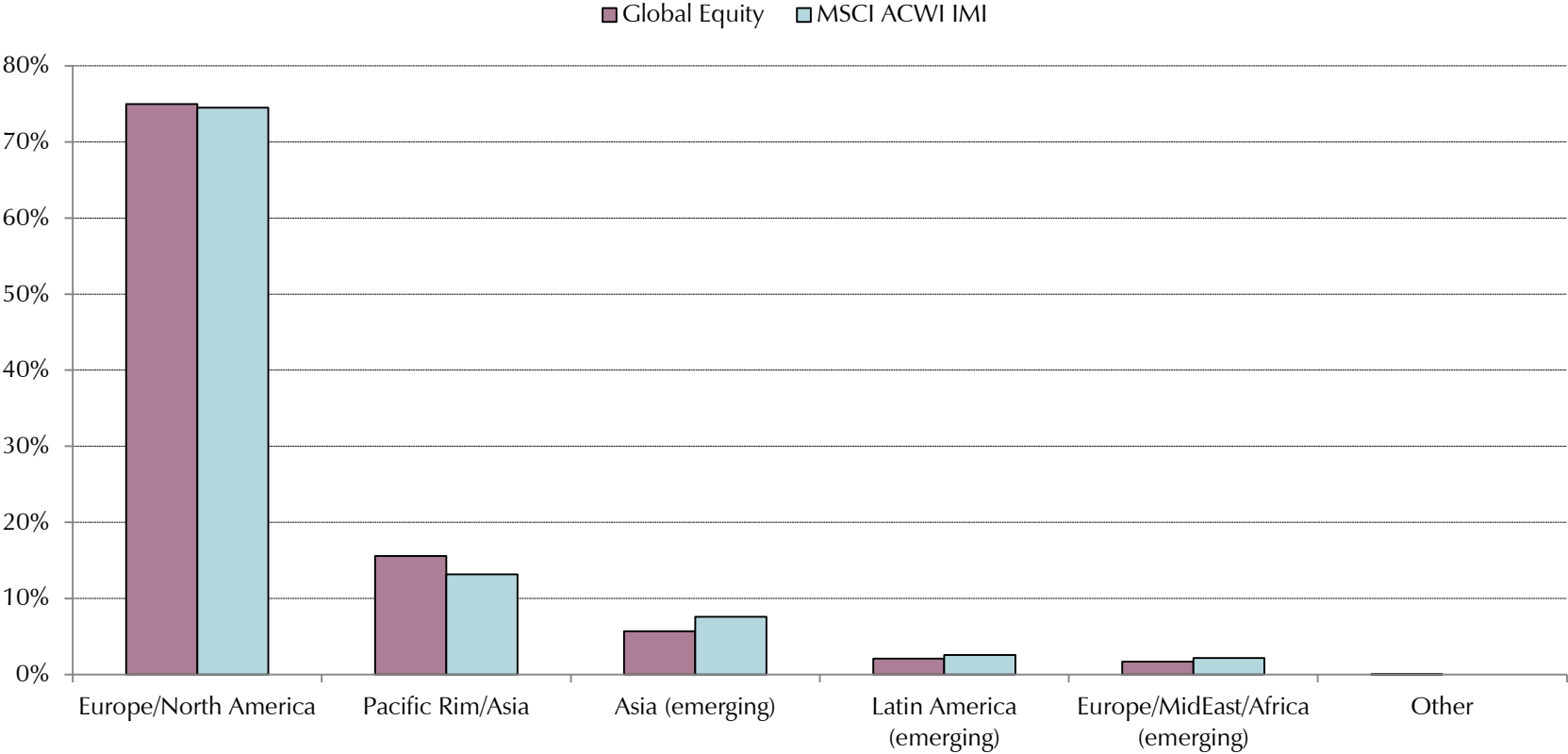
**Global Equity Assets  
Country & Region Breakdown as of 6/30/12**

	<b>Aggregate Global Equity 6/30/12 (%)</b>	<b>MSCI ACWI IMI 6/30/12 (%)</b>		<b>Aggregate Global Equity 6/30/12 (%)</b>	<b>MSCI ACWI IMI 6/30/12 (%)</b>
<b>Europe/North America</b>	<b>75.0</b>	<b>74.5</b>	<b>Asia (emerging)</b>	<b>5.7</b>	<b>7.6</b>
United Kingdom	10.1	8.1	South Korea	1.4	1.9
France	4.0	3.0	Taiwan	1.0	1.5
Switzerland	3.7	2.8	China	1.7	2.2
Germany	3.4	2.7	<b>Latin America (emerging)</b>	<b>2.1</b>	<b>2.6</b>
Netherlands	1.1	0.8	Brazil	1.3	1.5
Spain	1.2	0.9	<b>Europe/MidEast/Africa (emerging)</b>	<b>1.7</b>	<b>2.2</b>
Sweden	1.3	1.1	<b>Other</b>	<b>0.0</b>	<b>0.0</b>
United States	47.2	48.0			
<b>Pacific Rim/Asia</b>	<b>15.6</b>	<b>13.2</b>			
Japan	9.4	8.0			
Australia	3.8	3.1			
Hong Kong	1.3	1.1			



**San Jose Federated City Employees' Healthcare Trust Fund**

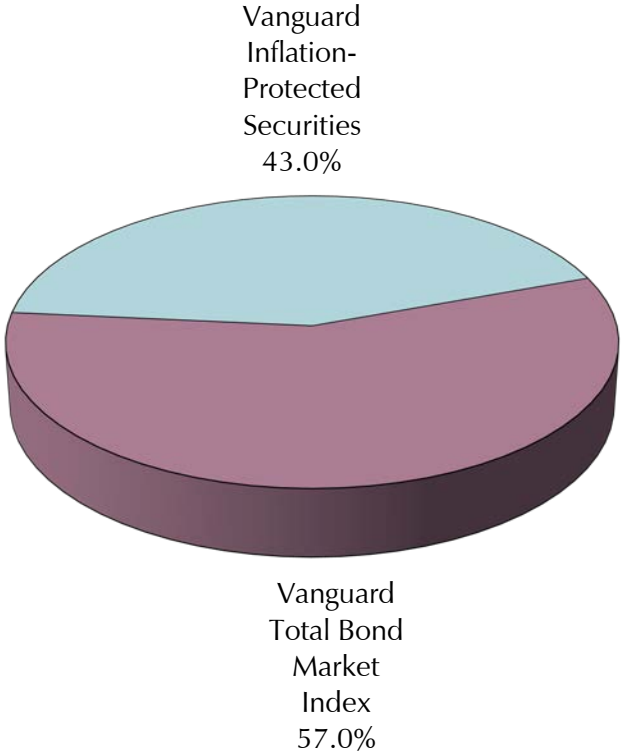
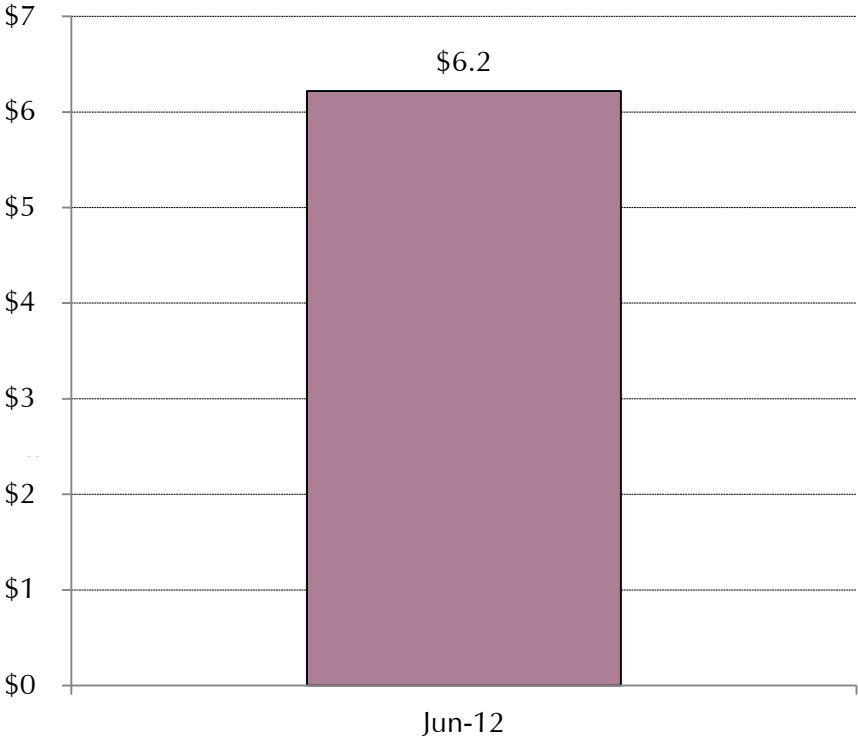
**Global Equity Assets  
Region Breakdown as of 6/30/12**



**Fixed Income Assets  
As of June 30, 2012**

San Jose Federated City Employees' Healthcare Trust Fund

Fixed Income Assets as of 6/30/12

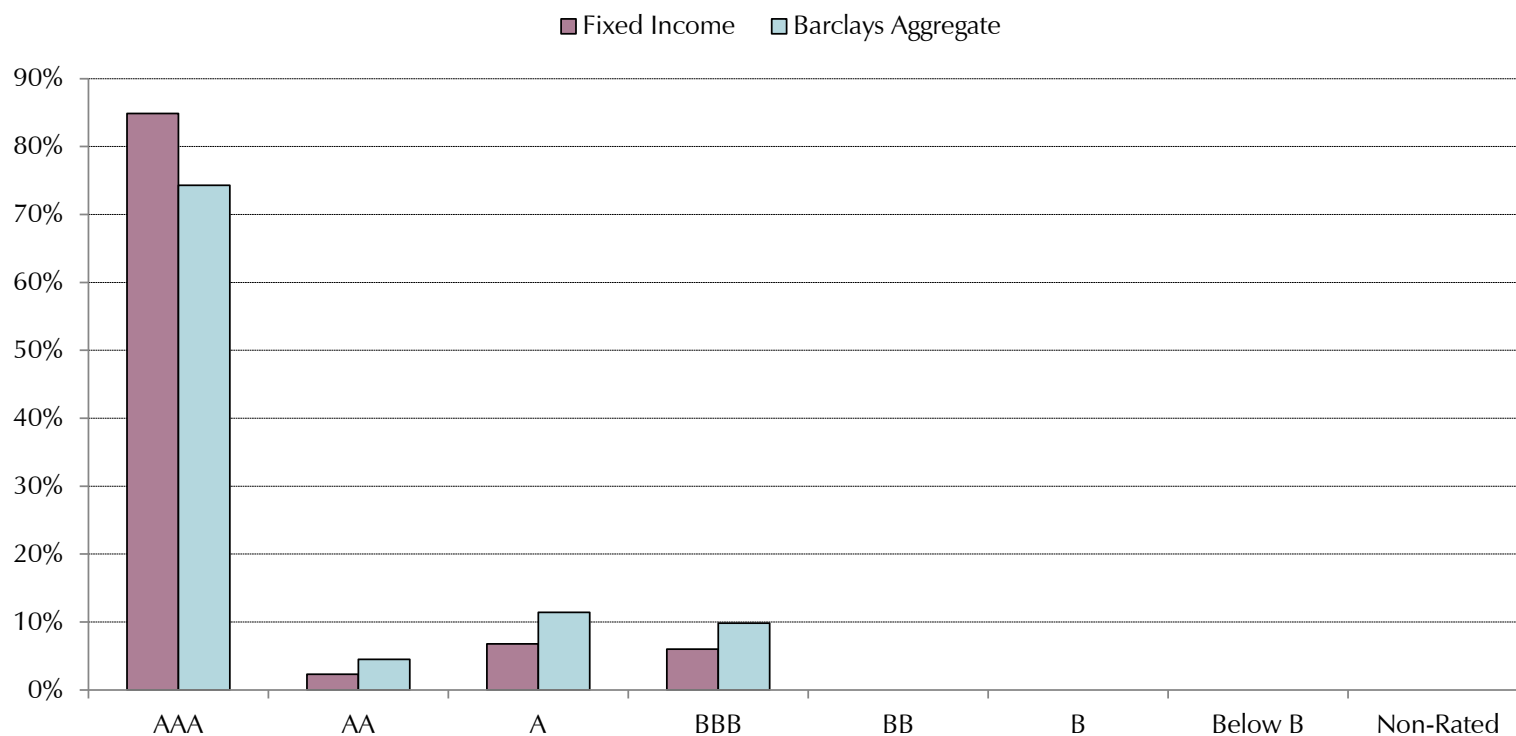




## San Jose Federated City Employees' Healthcare Trust Fund

## Fixed Income Assets Characteristics as of 6/30/12

Duration & Yield:	Aggregate Fixed Income 6/30/12	Barclays Aggregate 6/30/12	Aggregate Fixed Income 3/31/12
Average Effective Duration (years)	5.1	5.1	5.1
Yield to Maturity (%)	1.9	2.0	2.2



**San Jose Federated City Employees'  
Healthcare Trust Fund**

**Fixed Income Assets  
Diversification as of 6/30/12**

	<b>Aggregate Fixed Income 6/30/12</b>	<b>Barclays Aggregate 6/30/12</b>	<b>Aggregate Fixed Income 3/31/12</b>
<b>Market Allocation (%):</b>			
United States	96	92	96
Foreign (developed markets)	3	6	3
Foreign (emerging markets)	1	2	1
<b>Currency Allocation (%):</b>			
Non-U.S. Dollar Exposure	0	0	0
<b>Sector Allocation (%):</b>			
U.S. Treasury-Nominal	22	36	22
U.S. Treasury-TIPS	42	0	43
U.S. Agency	3	7	3
Mortgage Backed	15	31	16
Corporate	12	21	12
Bank Loans	0	0	0
Local & Provincial Government	0	1	0
Sovereign & Supranational	3	3	3
Commercial Mortgage Backed	1	2	1
Asset Backed	0	0	0
Cash Equivalent	0	0	0
Other	1	0	0

**Portfolio Reviews  
As of June 30, 2012**

**Global Equity Portfolio Reviews  
As of June 30, 2012**

## San Jose Federated City Employees' Healthcare Trust Fund

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$6.1 million  
**Portfolio Manager:** Team  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VRTTX)

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
 0.09% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**

Vanguard Russell 3000 Index Fund seeks to track the investment performance of the Russell 3000 index, an unmanaged benchmark representing the broad U.S. equity market. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index. Vanguard's Quantitative Equity Group manages the fund.

Performance (%):	2Q12	Calendar YTD	Since 12/1/11
<b>Vanguard Russell 3000</b>	<b>-3.2</b>	<b>9.3</b>	<b>10.2</b>
Russell 3000	-3.1	9.3	10.2

## Vanguard Russell 3000 Portfolio Detail as of 6/30/12

	6/30/12		3/31/12	
	Vanguard Russell 3000	Russell 3000	Vanguard Russell 3000	Russell 3000
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	90.7	90.5	91.9	92.0
Median Market Cap. (US\$ billion)	1.3	1.0	1.3	1.0
Large (% over US\$10 billion)	75	75	75	75
Medium (% US\$2 billion to US\$10 billion)	18	18	18	18
Small (% under US\$2 billion)	7	7	7	7
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	20	20	20	20
Price-Book Value Ratio	3.4	3.4	3.4	3.6
Dividend Yield (%)	1.9	1.8	1.8	1.8
Historical Earnings Growth Rate (%)	9	9	9	9
Projected Earnings Growth Rate (%)	12	12	12	12
<b>Sector Allocation (%):</b>				
Industrials	11	11	11	11
Materials	4	4	4	4
Consumer Discretionary	12	12	12	12
Information Technology	19	19	20	20
Consumer Staples	10	10	9	9
Utilities	4	4	4	3
Telecom	3	3	2	2
Energy	10	10	10	10
Financials	16	16	16	16
Health Care	12	12	11	11
<b>Diversification:</b>				
Number of Holdings	2,587	2,993	2,653	2,918
% in 5 largest holdings	11	11	11	11
% in 10 largest holdings	17	17	17	17
<b>Region Allocation (%):</b>				
Europe/North America	100	100	100	100
Pacific Rim/Asia	0	0	0	0
Asia (emerging)	0	0	0	0
Latin America (emerging)	0	0	0	0
Europe/MidEast/Africa (emerging)	0	0	0	0
Other	0	0	0	0
<b>Largest Five Holdings:</b>				
			<b>Industry</b>	
Apple Computer	3.6		Technology Hardware	
ExxonMobil	2.7		Energy	
Microsoft	1.5		Software & Services	
General Electric	1.5		Capital Goods	
IBM	1.4		Software & Services	



## San Jose Federated City Employees' Healthcare Trust Fund

## Vanguard Developed Markets Index Portfolio Detail as of 6/30/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$5.6 million  
**Portfolio Manager:** Duane Kelly & Michael Perre  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VIDMX)

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
0.08% on all assets

**Liquidity Constraints:**  
Daily

**Strategy:**

The Vanguard Developed Markets Index Fund seeks to track the performance of the MSCI EAFE Index, which measures the investment return of stocks issued by companies located in the major markets of Europe and the Pacific Region. The fund employs a passive management investment approach by investing all, or substantially all, of its assets in the common stocks included in the MSCI EAFE Index.

Performance (%):	2Q12	Calendar YTD	Since 12/1/11
<b>Vanguard Developed Markets Index</b>	<b>-6.8</b>	<b>3.9</b>	<b>1.5</b>
MSCI EAFE	-7.1	3.0	2.0

	6/30/12		3/31/12	
	Vanguard Developed Markets	MSCI EAFE	Vanguard Developed Markets	MSCI EAFE
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	51.9	51.9	54.0	54.1
Median Market Cap. (US\$ billion)	6.7	6.5	7.1	7.1
Large (% over US\$10 billion)	78	78	80	80
Medium (% US\$2 billion to US\$10 billion)	22	22	20	20
Small (% under US\$2 billion)	1	1	0	0
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	16	16	17	17
Price-Book Value Ratio	2.3	2.3	2.3	2.4
Dividend Yield (%)	4.0	4.0	3.6	3.5
Historical Earnings Growth Rate (%)	3	3	3	2
Projected Earnings Growth Rate (%)	10	10	8	9
<b>Sector Allocation (%):</b>				
Utilities	4	4	4	4
Consumer Staples	12	12	11	11
Information Technology	4	5	5	5
Telecom	6	6	5	5
Energy	8	8	9	9
Materials	10	10	10	10
Health Care	10	10	9	9
Consumer Discretionary	11	11	11	11
Industrials	12	12	13	13
Financials	23	23	23	23
<b>Diversification:</b>				
Number of Holdings	931	919	934	922
% in 5 largest holdings	8	8	7	7
% in 10 largest holdings	13	14	13	13
<b>Region Allocation (%):</b>				
Americas	0	0	0	0
Europe	64	64	65	65
Pacific Rim	36	36	35	35
<b>Largest Five Holdings:</b>				
			<b>Industry</b>	
Nestle	2.0		Food Beverage & Tobacco	
HSBC Holdings Plc	1.6		Banks	
Vodafone	1.4		Telecommunication Services	
Novartis	1.3		Pharmaceuticals & Biotech	
BP	1.3		Energy	



## San Jose Federated City Employees' Healthcare Trust Fund

## Vanguard Emerging Markets Stock Index Portfolio Detail as of 6/30/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$1.2 million  
**Portfolio Manager:** Duane Kelly & Michael Perre  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VERSX)

	Value	Core	Growth
Large			
Medium			
Small			

**Fee Schedule:**  
 0.20% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 The Vanguard emerging Market Stock Index Strategy seeks to replicate the characteristics and returns of the MSCI Emerging Markets Index, a broad index of stocks issued by companies located in emerging markets around the world.

Performance (%):	2Q12	Calendar YTD	Since 12/1/11
Vanguard Emerging Markets Stock Index	-8.4	4.4	1.0
MSCI Emerging Markets	-8.9	3.9	2.7

	6/30/12		3/31/12	
	Vanguard EM Index	MSCI Emerging Markets	Vanguard EM Index	MSCI Emerging Markets
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	36.1	41.7	39.8	47.1
Median Market Cap. (US\$ billion)	4.8	4.6	5.3	5.0
Large (% over US\$10 billion)	62	64	65	67
Medium (% US\$2 billion to US\$10 billion)	35	32	32	30
Small (% under US\$2 billion)	4	4	3	3
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	15	15	16	15
Price-Book Value Ratio	2.7	2.6	2.8	2.8
Dividend Yield (%)	3.2	3.2	2.9	2.8
Historical Earnings Growth Rate (%)	15	15	15	15
Projected Earnings Growth Rate (%)	13	13	13	13
<b>Sector Allocation (%):</b>				
Financials	25	25	24	24
Utilities	4	4	4	4
Consumer Discretionary	8	8	8	8
Industrials	7	7	7	7
Health Care	1	1	1	1
Information Technology	14	14	14	14
Telecom	8	8	8	8
Materials	12	12	13	13
Consumer Staples	8	8	8	8
Energy	13	13	14	14
<b>Diversification:</b>				
Number of Holdings	898	819	900	819
% in 5 largest holdings	9	10	8	10
% in 10 largest holdings	14	16	14	16
<b>Region Allocation (%):</b>				
Asia	60	60	59	59
Latin America	22	22	23	23
Europe, Middle East and Africa	18	18	18	18
Canada	0	0	0	0
<b>Largest Five Holdings:</b>				
		<b>Industry</b>		
Samsung	2.3	Technology Hardware		
China Mobile	2.0	Telecommunication Services		
America Movil	1.5	Telecommunication Services		
China Const Bank	1.5	Banks		
Gazprom	1.3	Energy		



**Fixed Income Portfolio Reviews  
As of June 30, 2012**



## San Jose Federated City Employees' Healthcare Trust Fund

## Vanguard Total Bond Market Index Portfolio Detail as of 6/30/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$3.5 million  
**Portfolio Manager:** Gregory Davis, CFA  
 Kenneth Volpert, CFA  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VBTSX)

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**  
 0.10% on all assets

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 The Vanguard Total Bond Market Index portfolio is structured to mirror the Barclays U.S. Aggregate index, a broad basket consisting mainly of U.S. government, mortgage-backed, and investment-grade corporate fixed income securities. Vanguard passively manages the strategy using index sampling to create an intermediate-duration portfolio that provides moderate income while maintaining high credit quality.

Performance (%):	2Q12	Calendar YTD	Since 12/1/11
<b>Vanguard Total Bond Market Index</b>	<b>2.2</b>	<b>2.4</b>	<b>3.6</b>
Barclays Aggregate Float Adjusted	2.1	2.4	3.6

	6/30/12		3/31/12	
	Vanguard Bond Mkt Index	Barclays Agg Float Adjusted Index	Vanguard Bond Mkt Index	Barclays Agg Float Adjusted Index
<b>Duration &amp; Yield:</b>				
Average Effective Duration (years)	5.1	5.2	5.1	5.1
Yield to Maturity (%)	1.9	2.0	2.2	2.2
<b>Quality Structure (%):</b>				
Average Quality	AA+	AAA	AA+	AAA
AAA (includes Treasuries and Agencies)	73	73	73	73
AA	4	5	5	5
A	12	12	11	12
BBB	11	10	10	10
BB	0	0	0	0
B	0	0	0	0
Below B	0	0	0	0
Non-Rated	0	0	0	0
<b>Sector Allocation (%):</b>				
U.S. Treasury-Nominal	39	38	38	38
U.S. Treasury-TIPS	0	0	0	0
U.S. Agency	5	7	5	7
Mortgage Backed	26	27	27	27
Corporate	22	22	22	22
Bank Loans	0	0	0	0
Local & Provincial Government	0	2	0	2
Sovereign & Supranational	5	3	6	3
Commercial Mortgage Backed	2	2	2	2
Asset Backed	0	0	0	0
Cash Equivalent	0	0	0	0
Other	1	0	0	0
<b>Market Allocation (%):</b>				
United States	94	91	94	91
Foreign (developed markets)	5	6	5	6
Foreign (emerging markets)	2	2	2	2
<b>Currency Allocation (%):</b>				
Non-U.S. Dollar Exposure	0	0	0	0



## San Jose Federated City Employees' Healthcare Trust Fund

## Vanguard Inflation-Protected Securities Portfolio Detail as of 6/30/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$2.7 million  
**Portfolio Manager:** John Hollyer, CFA  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VAIPX)

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**

0.11% on all assets

**Liquidity Constraints:**

Daily

**Strategy:**

The Vanguard Inflation-Protected Securities strategy seeks long-term returns that exceed inflation by investing at least 80% of its assets in high-quality inflation-indexed bonds. These securities, primarily issued by the U.S. Treasury, government agencies, and domestic corporations, automatically adjust their principal and interest payments over time in response to changes in inflation.

Performance (%):	2Q12	Calendar YTD	Since 12/1/11
<b>Vanguard Inflation-Protected Securities</b>	<b>3.3</b>	<b>4.0</b>	<b>4.2</b>
Barclays U.S. TIPS	3.2	4.0	4.1

Quality Structure (%):	6/30/12		3/31/12	
	Vanguard TIPS Index	Barclays TIPS	Vanguard TIPS Index	Barclays TIPS
Average Quality	AAA	AAA	AAA	AAA
AAA (includes Treasuries and Agencies)	100	100	100	100
AA	0	0	0	0
A	0	0	0	0
BBB	0	0	0	0
BB	0	0	0	0
B	0	0	0	0
Below B	0	0	0	0
Non-Rated	0	0	0	0
Sector Allocation (%):				
U.S. Treasury-Nominal	0	0	0	0
U.S. Treasury-TIPS	99	100	100	100
U.S. Agency	0	0	0	0
Mortgage Backed	0	0	0	0
Corporate	0	0	0	0
Bank Loans	0	0	0	0
Local & Provincial Government	0	0	0	0
Sovereign & Supranational	0	0	0	0
Commercial Mortgage Backed	0	0	0	0
Asset Backed	0	0	0	0
Cash Equivalent	0	0	0	0
Other	1	0	0	0
Market Allocation (%):				
United States	100	100	100	100
Foreign (developed markets)	0	0	0	0
Foreign (emerging markets)	0	0	0	0
Currency Allocation (%):				
Non-U.S. Dollar Exposure	0	0	0	0



**Real Assets Portfolio Reviews  
As of June 30, 2012**

## San Jose Federated City Employees' Healthcare Trust Fund

## Credit Suisse Compound Risk Parity Commodity Index Portfolio Detail as of 6/30/12

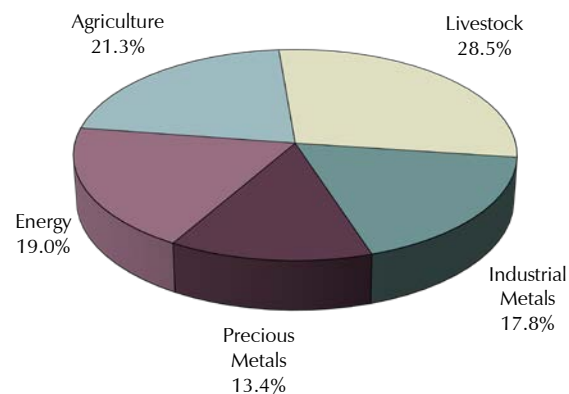
**Mandate:** Commodity  
**Active/Passive:** Active  
**Market Value:** \$1.2 million  
**Portfolio Manager:** Christopher Burton  
**Location:** New York, New York  
**Inception Date:** 8/1/2011  
**Account Type:** Commingled Fund

**Fee Schedule:**  
 0.42% on first \$100 mm; 0.37% thereafter

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 Credit Suisse Asset Management (CSAM) seeks to provide a commodity-based investment return with reduced risk, measured by standard deviation, versus traditional commodity indices. The team aims to capture the spot return of commodities while employing active management techniques to exploit commodity market inefficiencies. The commodities team at CSAM utilizes futures to replicate the risk-based index. The portfolio consists of five commodity complexes (energy, industrial metals, precious metals, agriculture, and livestock) and 24 commodities included in the S&P- Goldman Sachs Commodities Index. CSAM allocates 20% of capital to each of the commodity complexes. Within each commodity complex, the strategy equal weights the specific commodities. The portfolio is rebalanced on a monthly basis. Active strategies used by CSAM seek to exploit the time period (roll date) the fund purchases commodities, using a quantitative and qualitative assessment. Collateral for the fund is actively managed and invested in U.S. Treasuries and agency securities.

### Current Risk Allocation:



Performance (%)	2Q12	Calendar YTD	Since 8/1/11
<b>Credit Suisse Compound Risk Parity Commodity Index</b>	<b>-4.3</b>	<b>-2.9</b>	<b>-12.1</b>
Custom Risk Parity Benchmark <sup>1</sup>	-4.2	-2.7	-12.2
Dow Jones-Commodity U.S. Index	-4.6	-3.7	-16.8

<sup>1</sup> Custom Risk Parity Benchmark returns provided by Staff.



## San Jose Federated City Employees' Healthcare Trust Fund

## First Quadrant Risk Parity Commodity Index Portfolio Detail as of 6/30/12

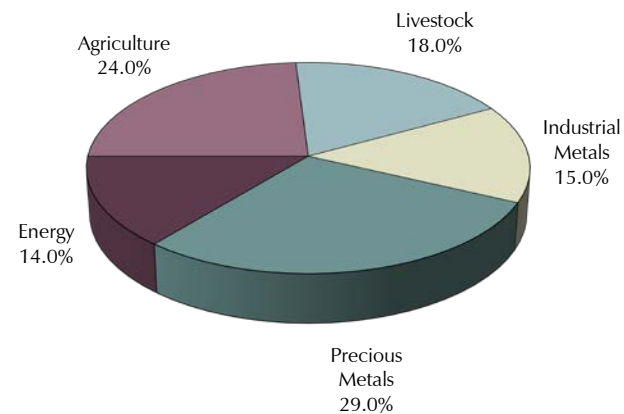
**Mandate:** Commodity  
**Active/Passive:** Active  
**Market Value:** \$1.1 million  
**Portfolio Manager:** Team  
**Location:** Pasadena, California  
**Inception Date:** 8/1/2011  
**Account Type:** Separately Managed

**Fee Schedule:**  
 0.50% on first \$100 mm; 0.30% thereafter

**Liquidity Constraints:**  
 Daily

**Strategy:**  
 First Quadrant believes that there are inherent flaws to commodity indices, and they seek to produce a strategy which providing investors a higher correlation to inflation over the long run. First Quadrant utilizes futures and swaps to gain exposure to five commodity complexes, representing twenty specific commodities, and targets 20% risk to each of the commodity complexes. The complexes are energy, industrial metals, precious metals, agriculture, and livestock. The firm employs a quantitative methodology and uses risk as the weighting for each commodity product, making adjustments to the allocations depending upon the perceived volatility environment (high risk, low risk, or moderate risk). The firm will modify the investment exposure based upon the predicted environment ranging from 88% (in a high volatility environment) to 146% (in a low volatility environment). Collateral for the portfolio is actively managed and invested in U.S. Treasuries and agency securities.

### Current Risk Allocation:



Performance (%):	2Q12	Calendar YTD	Since 8/1/11
<b>First Quadrant Risk Parity Commodity Index</b>	<b>-6.5</b>	<b>-6.2</b>	<b>-16.3</b>
Custom Risk Parity Benchmark <sup>1</sup>	-4.2	-2.7	-12.2
Dow Jones-Commodity U.S. Index	-4.6	-3.7	-16.8

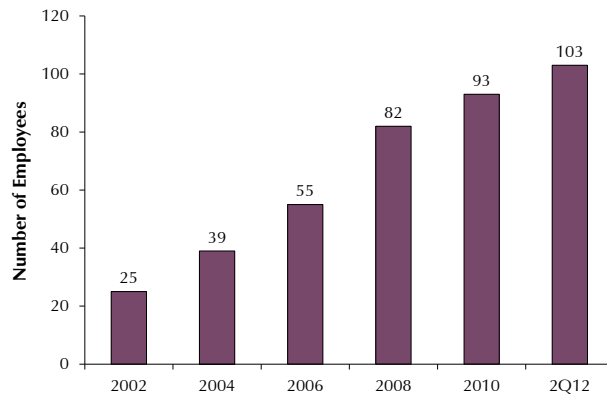
<sup>1</sup> Custom Risk Parity Benchmark returns provided by Staff.



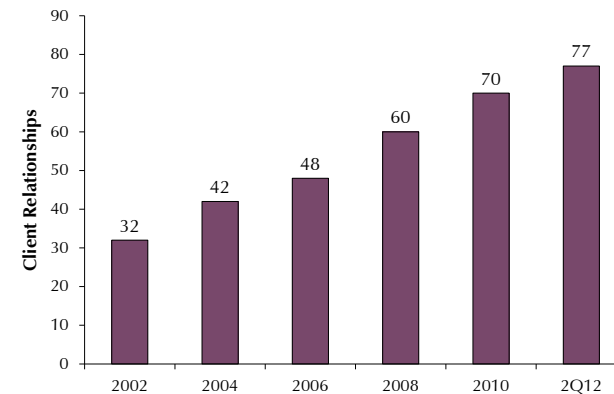
# **Meketa Investment Group Corporate Update**

- Staff of 103, including 60 investment professionals and 17 CFA charterholders
- 77 clients, with over 150 funds throughout the United States
- Significant investment in staff and resources
- Offices in Boston, Miami, and San Diego
- Clients have aggregate assets of approximately \$475 billion
  - Over \$20 billion in assets committed to alternative investments
    - Private Equity
    - Real Estate
    - Infrastructure
    - Hedge Funds
    - Natural Resources
    - Commodities

Employee Growth



Client Growth



**Meketa Investment Group is proud to work for 3.2 million American families everyday**



**Asset Classes Followed Intensively by Meketa Investment Group**

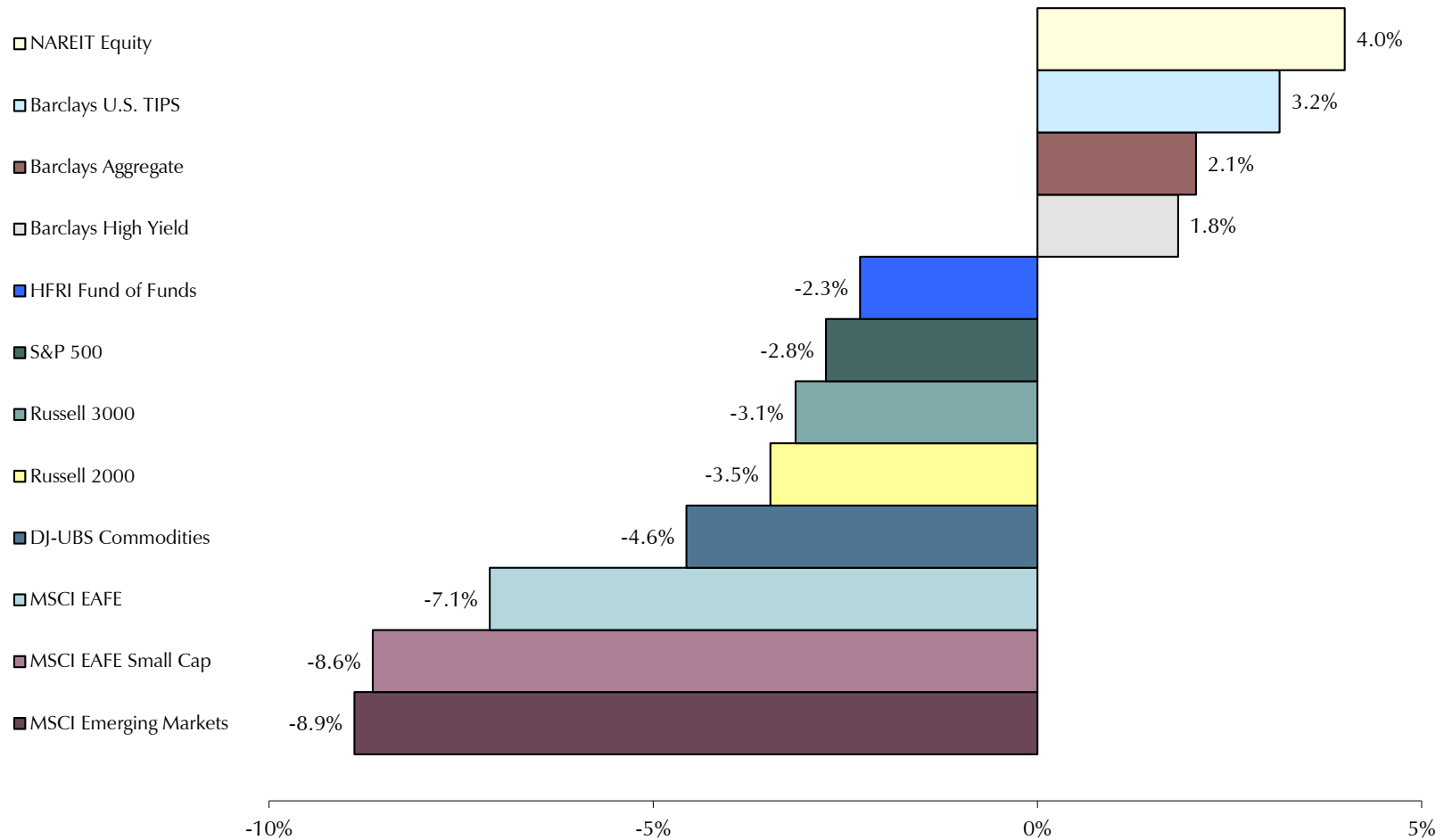
Domestic Equities	International Equities	Private Equity	Real Assets	Fixed Income	Hedge Funds
<ul style="list-style-type: none"> <li>- Passive</li> <li>- Enhanced Index</li> <li>- Large Cap</li> <li>- Midcap</li> <li>- Small Cap</li> <li>- Microcap</li> <li>- 130/30</li> </ul>	<ul style="list-style-type: none"> <li>- Large Cap Developed</li> <li>- Small Cap Developed</li> <li>- Emerging Markets</li> <li>- Frontier Markets</li> </ul>	<ul style="list-style-type: none"> <li>- Buyouts</li> <li>- Venture Capital</li> <li>- Private Debt</li> <li>- Special Situations</li> <li>- Secondaries</li> <li>- Fund of Funds</li> </ul>	<ul style="list-style-type: none"> <li>- Public REITs</li> <li>- Core Real Estate</li> <li>- Value Added Real Estate</li> <li>- Opportunistic Real Estate</li> <li>- Infrastructure</li> <li>- Timber</li> <li>- Natural Resources</li> <li>- Commodities</li> </ul>	<ul style="list-style-type: none"> <li>- Short-Term</li> <li>- Core</li> <li>- Core Plus</li> <li>- TIPS</li> <li>- High Yield</li> <li>- Bank Loans</li> <li>- Distressed</li> <li>- Global</li> <li>- Emerging Markets</li> </ul>	<ul style="list-style-type: none"> <li>- Long/Short Equity</li> <li>- Event Driven</li> <li>- Relative Value</li> <li>- Fixed Income Arbitrage</li> <li>- Multi Strategy</li> <li>- Market Neutral</li> <li>- Global Macro</li> <li>- Fund of Funds</li> <li>- Portable Alpha</li> </ul>



# Appendices

**The World Markets  
Second Quarter of 2012**

The World Markets  
Second Quarter of 2012

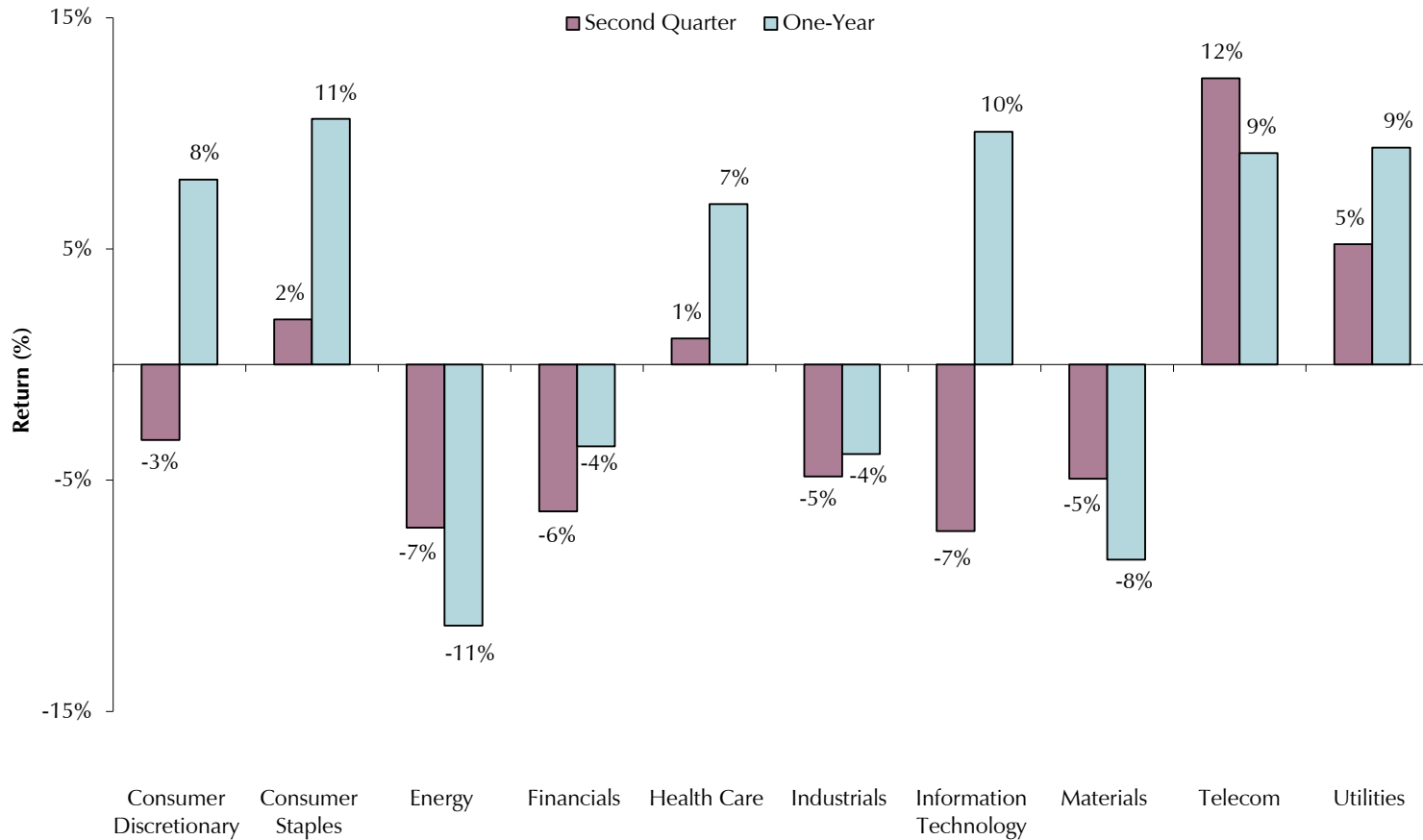


Index Returns

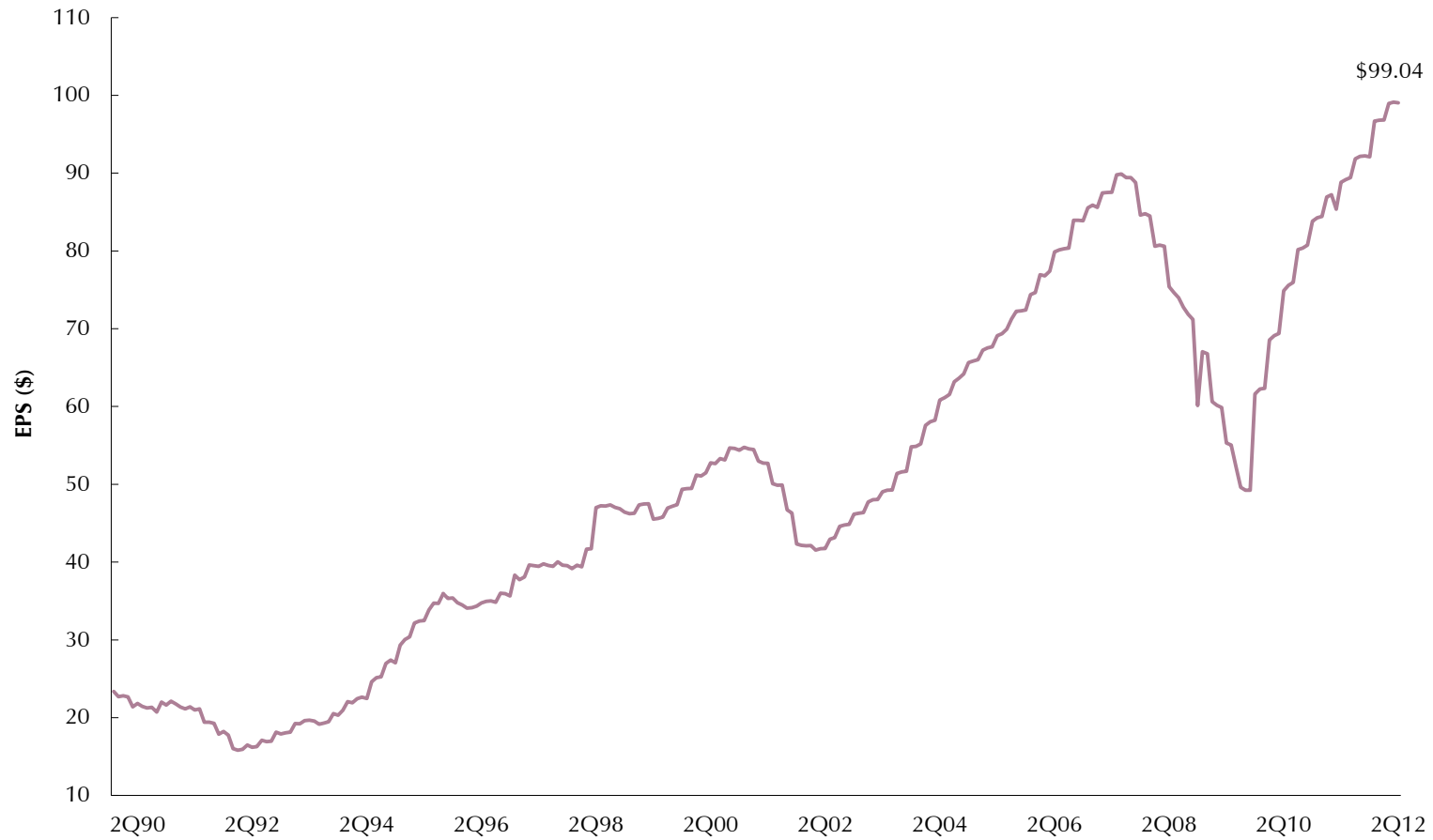
	2Q12 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Domestic Equity</b>						
Russell 3000	-3.1	9.3	3.8	16.7	0.4	5.8
Russell 1000	-3.1	9.4	4.4	16.6	0.4	5.7
Russell 1000 Growth	-4.0	10.1	5.8	17.5	2.9	6.0
Russell 1000 Value	-2.2	8.7	3.0	15.8	-2.2	5.3
Russell MidCap	-4.4	8.0	-1.7	19.4	1.1	8.5
Russell MidCap Growth	-5.6	8.1	-3.0	19.0	1.9	8.5
Russell MidCap Value	-3.3	7.8	-0.4	19.9	-0.1	8.2
Russell 2000	-3.5	8.5	-2.1	17.8	0.5	7.0
Russell 2000 Growth	-3.9	8.8	-2.7	18.1	2.0	7.4
Russell 2000 Value	-3.0	8.2	-1.4	17.4	-1.0	6.5
<b>Foreign Equity</b>						
MSCI ACWI (ex. U.S.)	-7.6	2.8	-14.6	7.0	-4.6	6.7
MSCI EAFE	-7.1	3.0	-13.8	6.0	-6.1	5.1
MSCI EAFE (local currency)	-5.4	4.2	-8.6	4.4	-7.5	2.1
MSCI EAFE Small Cap	-8.6	4.9	-15.1	9.2	-5.3	8.5
MSCI Emerging Markets	-8.9	3.9	-16.0	9.8	-0.1	14.1
MSCI Emerging Markets (local currency)	-5.3	4.9	-6.6	9.3	1.2	12.7
<b>Fixed Income</b>						
Barclays Universal	2.0	2.9	7.4	7.6	6.8	6.0
Barclays Aggregate	2.1	2.4	7.5	6.9	6.8	5.6
Barclays U.S. TIPS	3.2	4.0	11.7	9.6	8.4	7.2
Barclays High Yield	1.8	7.3	7.3	16.3	8.4	10.2
JPMorgan GBI-EM Global Diversified	-1.2	7.0	-1.7	10.7	8.8	NA
<b>Other</b>						
NAREIT Equity	4.0	14.9	12.5	32.4	2.6	10.3
DJ-UBS Commodities	-4.6	-3.7	-14.4	3.4	-4.4	3.8
HFRI Fund of Funds	-2.3	1.0	-4.5	2.2	-2.0	3.2



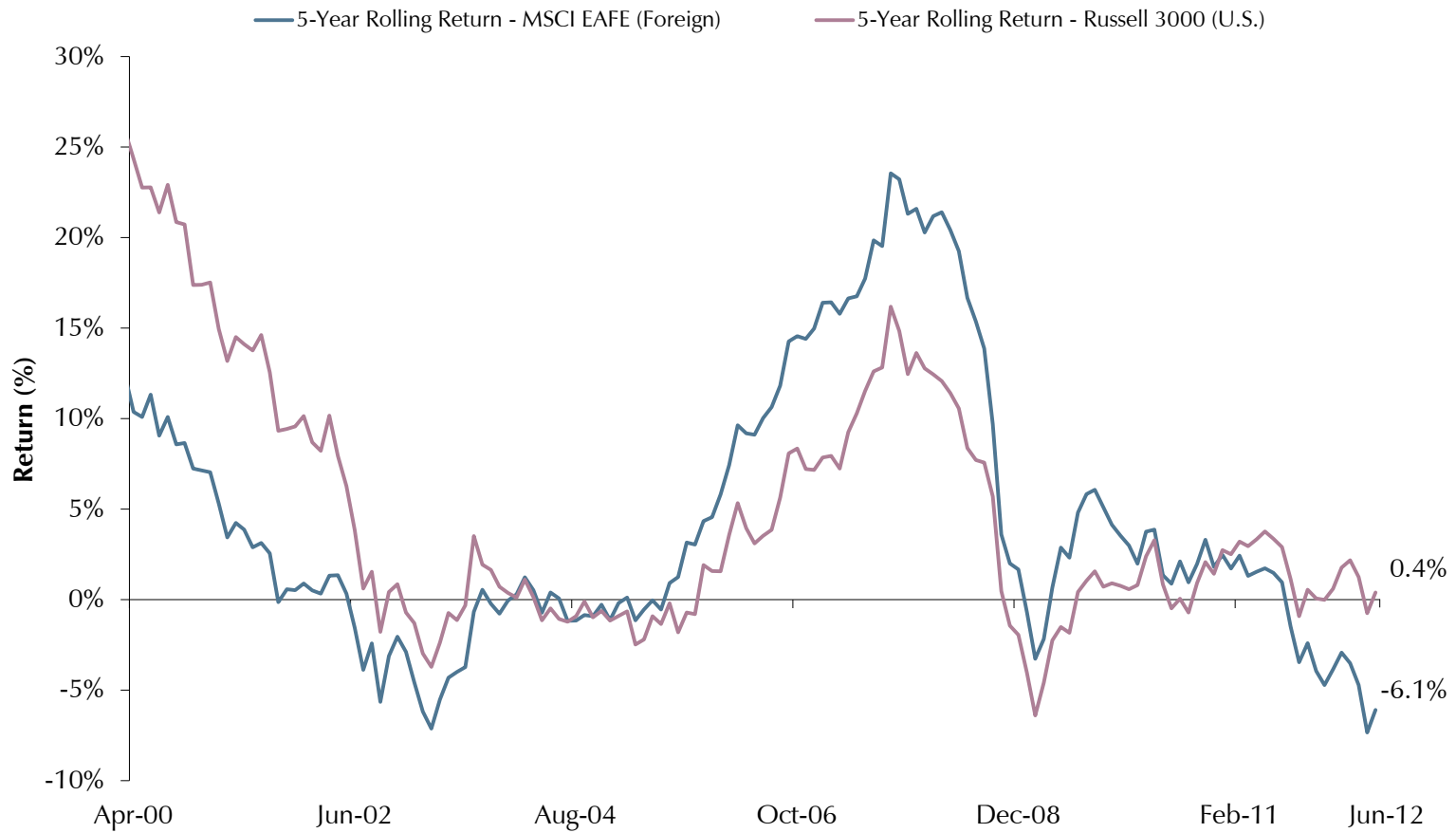
S&P Sector Returns



S&P 500 Earnings Per Share



Equity Markets

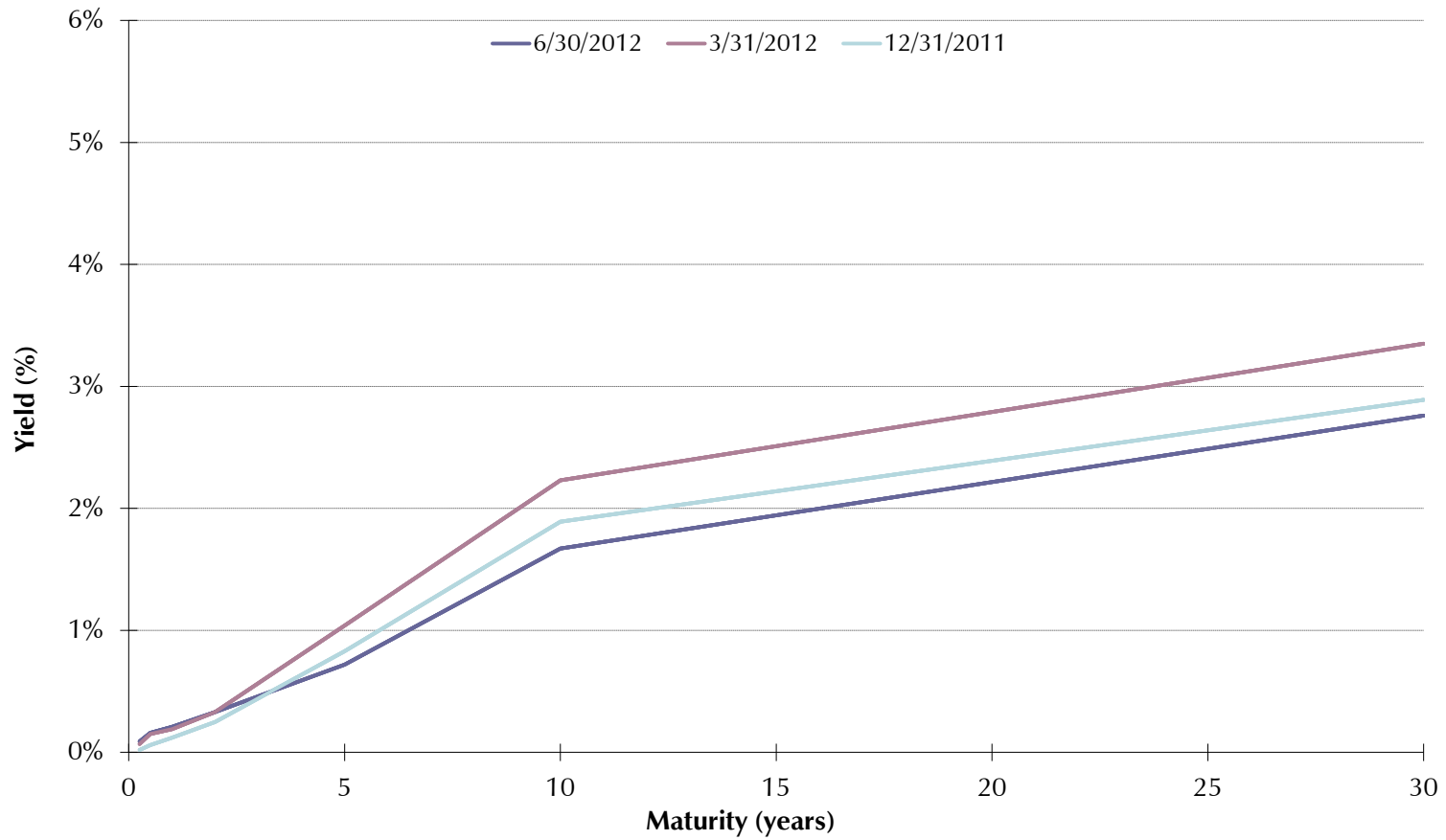


**Rolling Ten-Year Returns: 65% Stocks and 35% Bonds**

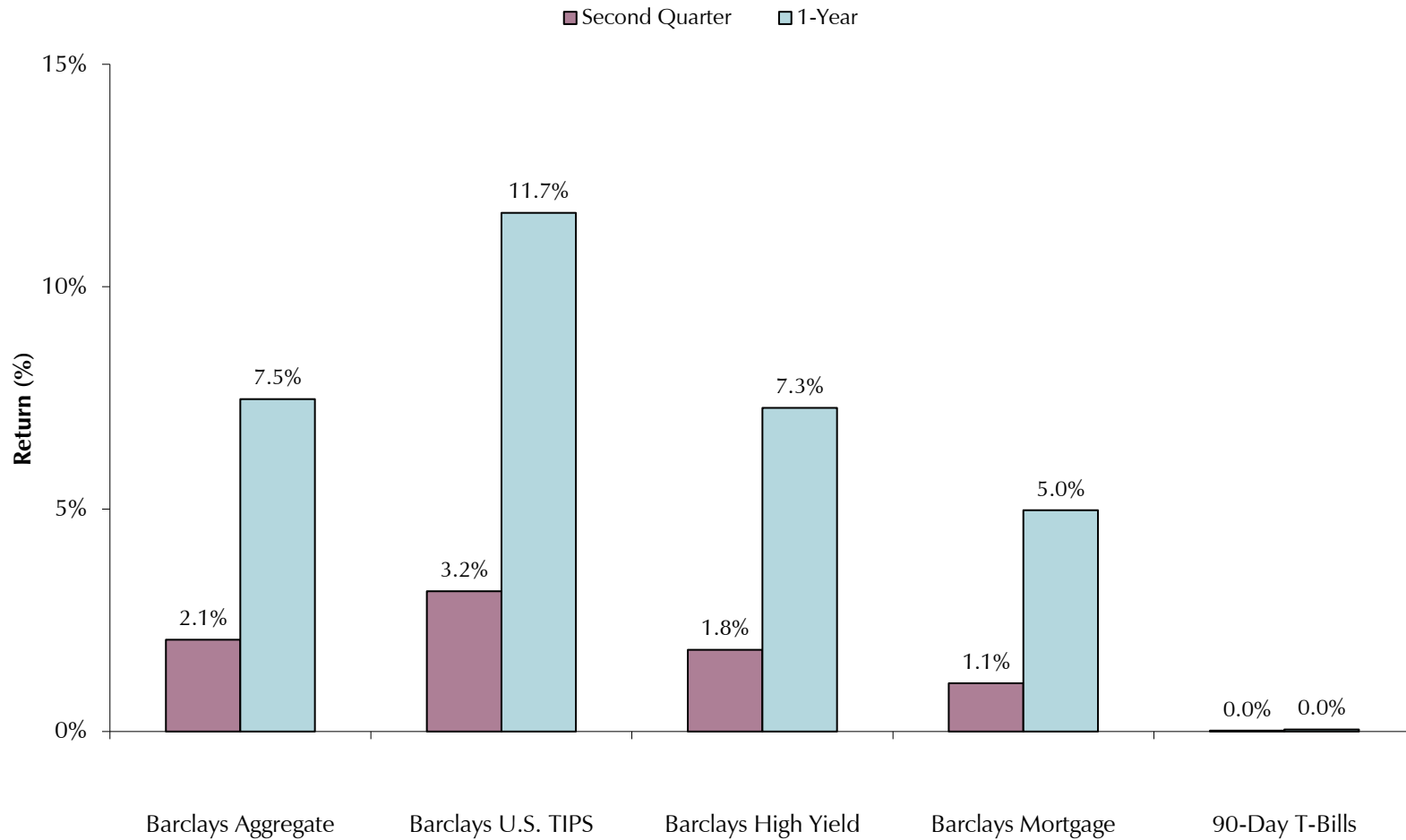




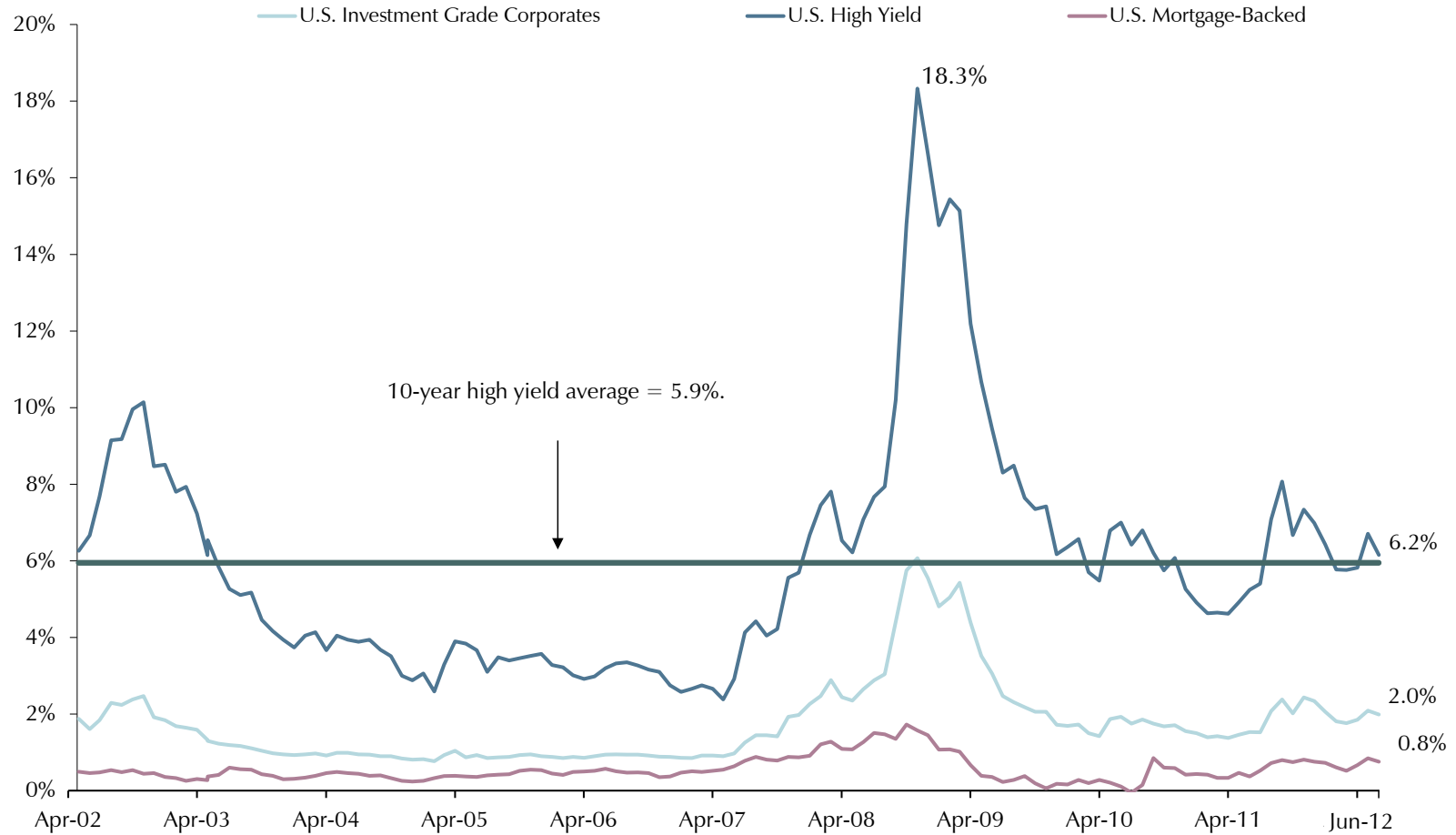
Treasury Yields



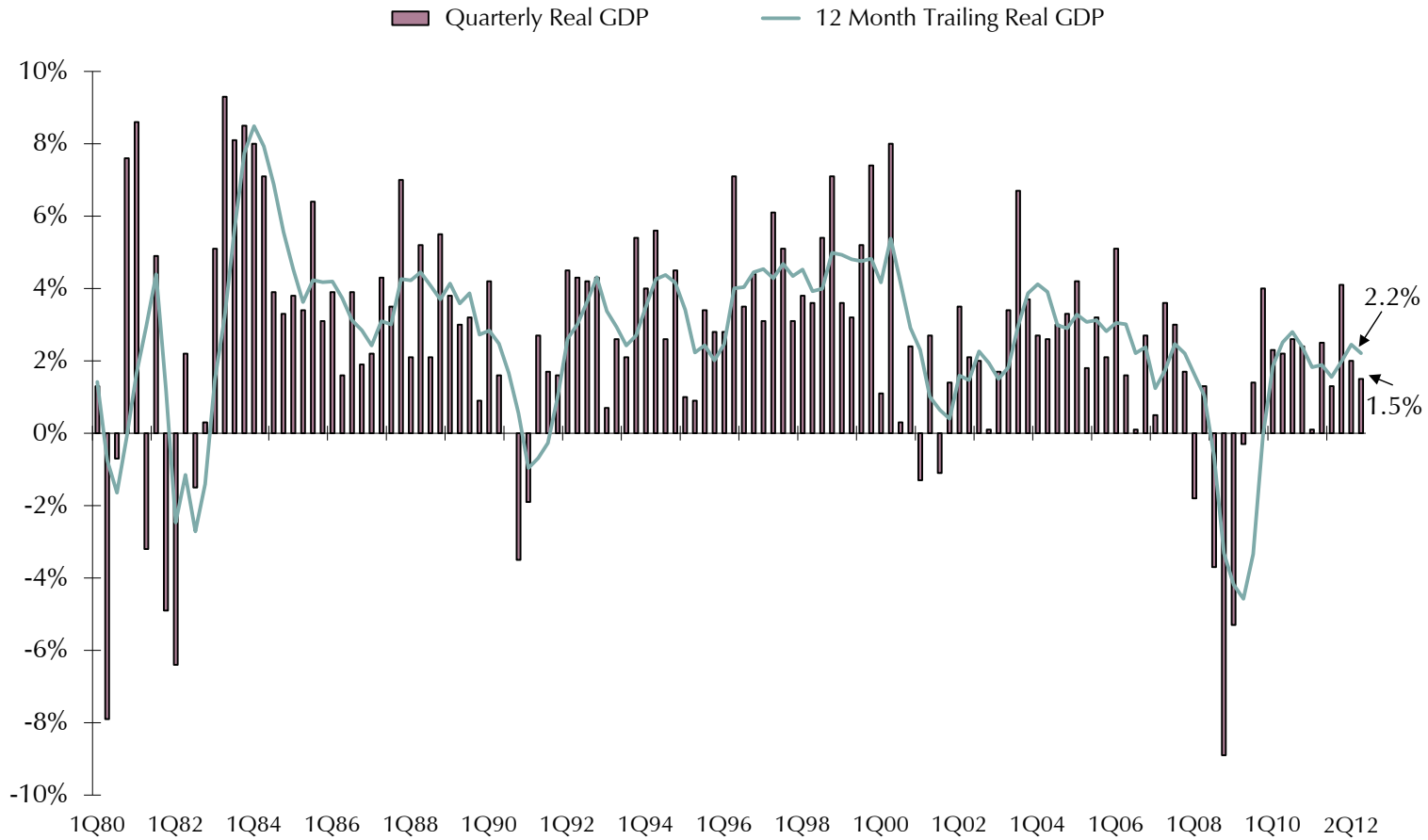
U.S. Fixed Income Markets



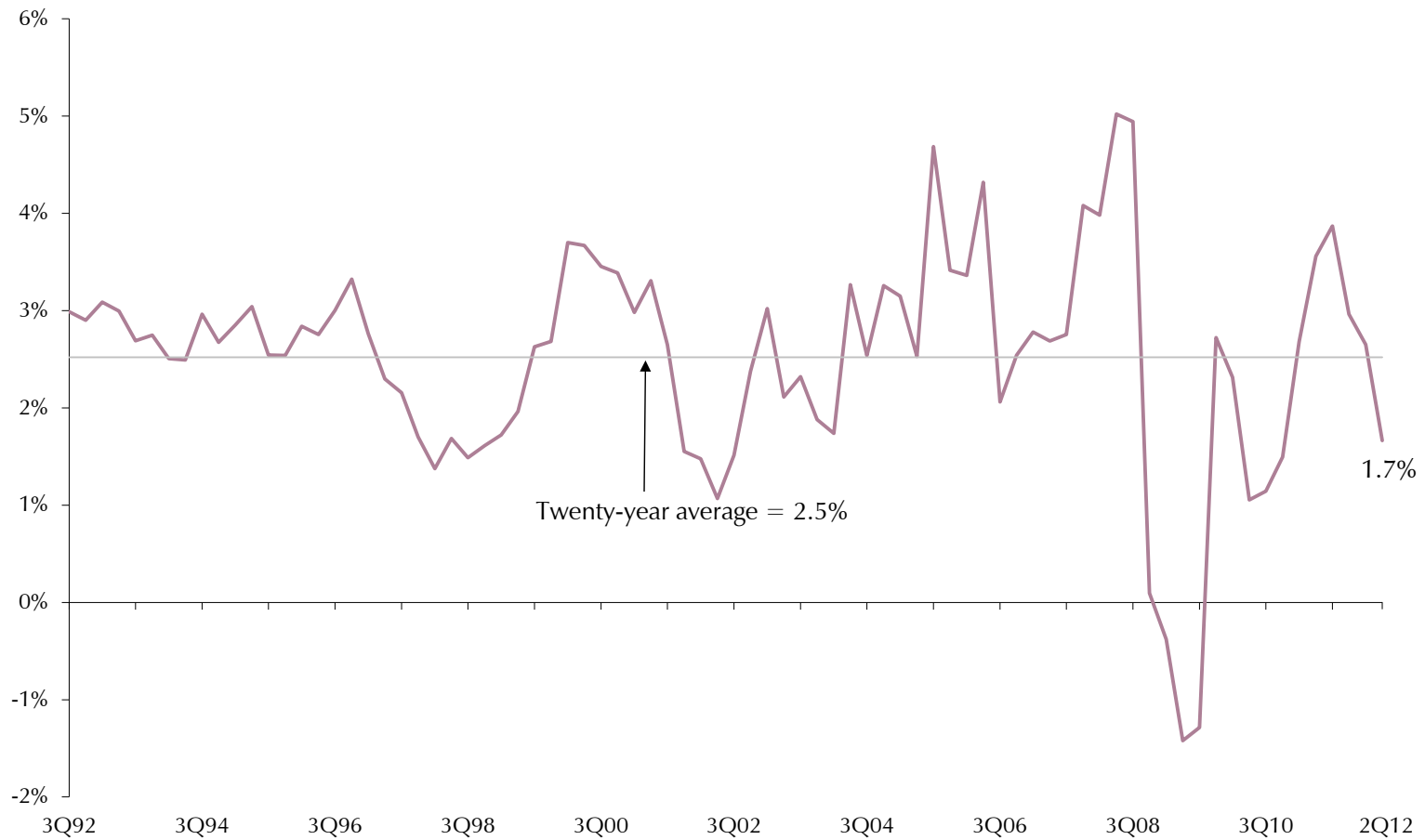
Credit Spreads vs. U.S. Treasury Bonds



### Real Gross Domestic Product (GDP) Growth



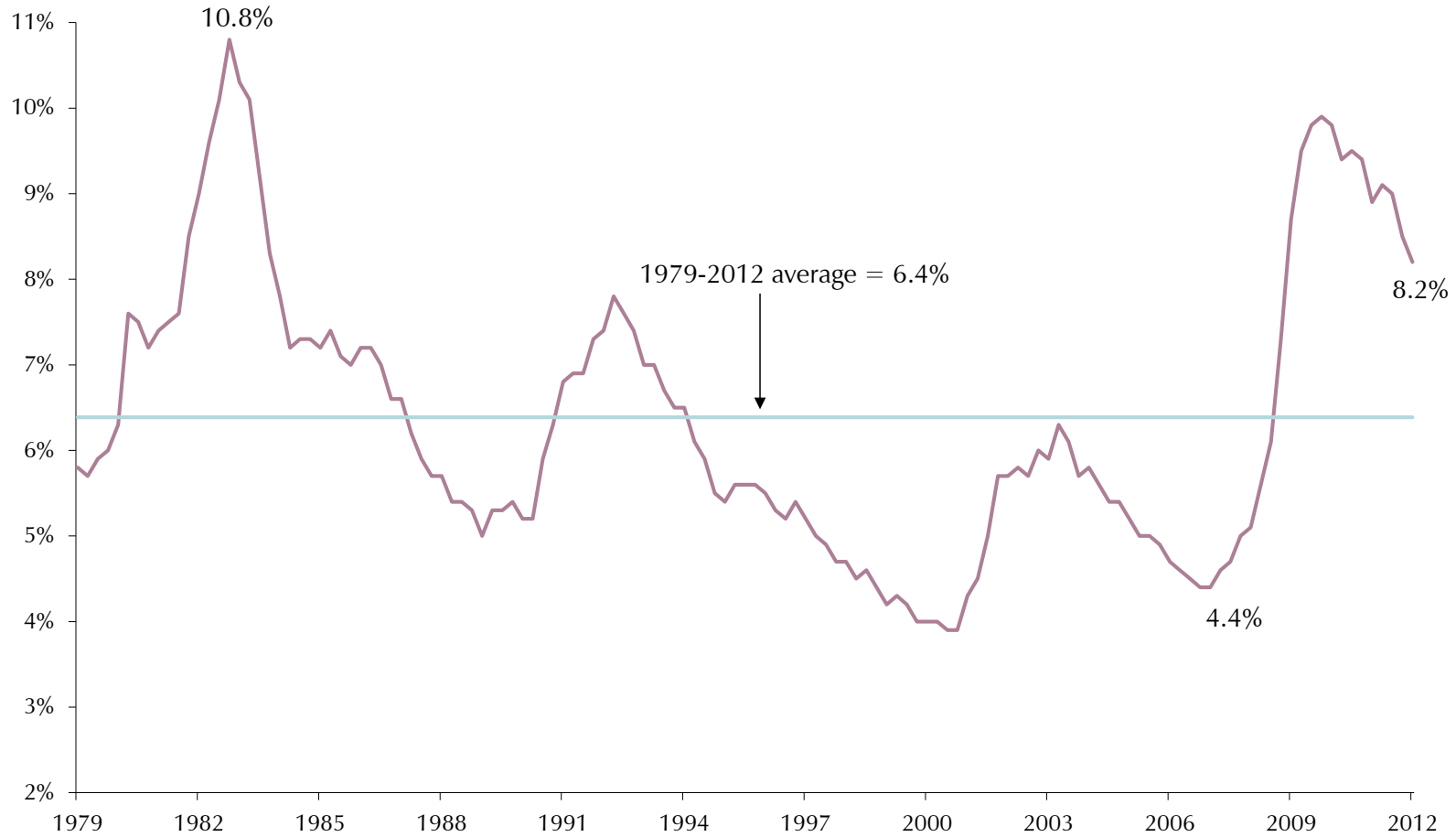
**U.S. Inflation (CPI)  
Trailing Twelve Months<sup>1</sup>**



<sup>1</sup> Data is non-seasonally adjusted CPI, which may be volatile in the short-term.



U.S. Unemployment



**Glossary and Notes  
As of June 30, 2012**

**Credit Risk:** Refers to the risk that the issuer of a fixed income security may default (i.e., the issuer will be unable to make timely principal and/or interest payments on the security.)

**Duration:** Measure of the sensitivity of the price of a bond to a change in its yield to maturity. Duration summarizes, in a single number, the characteristics that cause bond prices to change in response to a change in interest rates. For example, the price of a bond with a duration of three years will rise by approximately 3% for each 1% decrease in its yield to maturity. Conversely, the price will decrease 3% for each 1% increase in the bond's yield. Price changes for two different bonds can be compared using duration. A bond with a duration of six years will exhibit twice the percentage price change of a bond with a three-year duration. The actual calculation of a bond's duration is somewhat complicated, but the idea behind the calculation is straightforward. The first step is to measure the time interval until receipt for each cash flow (coupon and principal payments) from a bond. The second step is to compute a weighted average of these time intervals. Each time interval is measured by the present value of that cash flow. This weighted average is the duration of the bond measured in years.

**Information Ratio:** This statistic is a measure of the consistency of a portfolio's performance relative to a benchmark. It is calculated by subtracting the benchmark return from the portfolio return (excess return), and dividing the resulting excess return by the standard deviation (volatility) of this excess return. A positive information ratio indicates outperformance versus the benchmark, and the higher the information ratio, the more consistent the outperformance.

**Market Capitalization:** For a firm, market capitalization is the total market value of outstanding common stock. For a portfolio, market capitalization is the sum of the capitalization of each company weighted by the ratio of holdings in that company to total portfolio holdings; thus it is a weighted-average capitalization. Meketa Investment Group considers the largest 65% of the broad domestic equity market as large capitalization, the next 25% of the market as medium capitalization, and the smallest 10% of stocks as small capitalization.

**Market Weighted:** Stocks in many indices are weighted based on the total market capitalization of the issue. Thus, the individual returns of higher market-capitalization issues will more heavily influence an index's return than the returns of the smaller market-capitalization issues in the index.

**Maturity:** The date on which a loan, bond, mortgage or other debt/security becomes due and is to be paid off.

**Prepayment Risk:** The risk that prepayments will increase (homeowners will prepay all or part of their mortgage) when mortgage interest rates decline; hence, investors' monies will be returned to them in a lower interest rate environment. Also, the risk that prepayments will slow down when mortgage interest rates rise; hence, investors will not have as much money as previously anticipated in a higher interest rate environment. A prepayment is any payment in excess of the scheduled mortgage payment.

**Price-Book Value (P/B) Ratio:** The current market price of a stock divided by its book value per share. Meketa Investment Group calculates P/B as the current price divided by Compustat's quarterly common equity. Common equity includes common stock, capital surplus, retained earnings, and treasury stock adjusted for both common and nonredeemable preferred stock. Similar to high P/E stocks, stocks with high P/B's tend to be riskier investments.

**Price-Earnings (P/E) Ratio:** A stock's market price divided by its current or estimated future earnings. Lower P/E ratios often characterize stocks in low growth or mature industries, stocks in groups that have fallen out of favor, or stocks of established blue chip companies with long records of stable earnings and regular dividends. Sometimes a company that has good fundamentals may be viewed unfavorably by the market if it is an industry that is temporarily out of favor. Or a business may have experienced financial problems causing investors to be skeptical about its future. Either of these situations would result in lower relative P/E ratios. Some stocks exhibit



above-average sales and earnings growth or expectations for above average growth. Consequently, investors are willing to pay more for these companies' earnings, which results in elevated P/E ratios. In other words, investors will pay more for shares of companies whose profits, in their opinion, are expected to increase faster than average. Because future events are in no way assured, high P/E stocks tend to be riskier and more volatile investments. Meketa Investment Group calculates P/E as the current price divided by the I/B/E/S consensus of twelve-month forecast earnings per share.

**Quality Rating:** The rank assigned a security by such rating services as Fitch, Moody's, and Standard & Poor's. The rating may be determined by such factors as (1) the likelihood of fulfillment of dividend, income, and principal payment of obligations; (2) the nature and provisions of the issue; and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, BBB) are considered investment grade because they are eligible bank investments as determined by the controller of the currency.

**Sharpe Ratio:** A commonly used measure of risk-adjusted return. It is calculated by subtracting the risk free return (usually three-month Treasury bill) from the portfolio return and dividing the resulting excess return by the portfolio's total risk level (standard deviation). The result is a measure of return per unit of total risk taken. The higher the Sharpe ratio, the better the fund's historical risk adjusted performance.

**Standard Deviation:** A measure of the total risk of an asset or a portfolio. Standard deviation measures the dispersion of a set of numbers around a central point (e.g., the average return). If the standard deviation is small, the distribution is concentrated within a narrow range of values. For a normal distribution, about two thirds of the observations will fall within one standard deviation of the mean, and 95% of the observations will fall within two standard deviations of the mean.

**STIF Account:** Short-term investment fund at a custodian bank that invests in cash-equivalent instruments. It is generally used to safely invest the excess cash held by portfolio managers.

**Style:** The description of the type of approach and strategy utilized by an investment manager to manage funds. For example, the style for equities is determined by portfolio characteristics such as price-to-book value, price-to-earnings ratio, and dividend yield. Equity styles include growth, value, and core.

**Yield to Maturity:** The yield, or return, provided by a bond to its maturity date; determined by a mathematical process, usually requiring the use of a "basis book." For example, a 5% bond pays \$5 a year interest on each \$100 par value. To figure its current yield, divide \$5 by \$95—the market price of the bond—and you get 5.26%. Assume that the same bond is due to mature in five years. On the maturity date, the issuer is pledged to pay \$100 for the bond that can be bought now for \$95. In other words, the bond is selling at a discount of 5% below par value. To figure yield to maturity, a simple and approximate method is to divide 5% by the five years to maturity, which equals 1% pro rata yearly. Add that 1% to the 5.26% current yield, and the yield to maturity is roughly 6.26%.

$$\frac{5\% \text{ (discount)}}{5 \text{ (yrs. to maturity)}} = 1\% \text{ pro rata, plus } 5.26\% \text{ (current yield)} = 6.26\% \text{ (yield to maturity)}$$

Sources: [Investment Terminology](#), International Foundation of Employee Benefit Plans, 1999.  
[The Handbook of Fixed Income Securities](#), Fabozzi, Frank J., 1991.

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Throughout this report, numbers may not sum due to rounding.

Returns for periods greater than one year are annualized throughout this report.

Values shown are in millions of dollars, unless noted otherwise.