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## **City of San Jose Police and Fire Department Retirement Plan – Health Care Trust**

### **Investment Performance Analysis For the period ending December 31, 2014**

February 24, 2015

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# City of San Jose Police and Fire Department Retirement Plan – Health Care Trust

## Total Fund Performance Summary – (Gross of Fees)

	Market Value (\$)	% of Portfolio	Ending December 31, 2014										Inception			
			3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)	Since
<b>Health Care Trust</b>	<b>55,066,805</b>	<b>100.0</b>	<b>0.3</b>	<b>79</b>	<b>-2.3</b>	<b>94</b>	<b>4.7</b>	<b>37</b>	--	--	--	--	--	--	<b>6.8</b>	<b>Jul-12</b>
<i>Policy Benchmark</i>			<i>0.8</i>	<i>58</i>	<i>-1.8</i>	<i>91</i>	<i>5.1</i>	<i>31</i>	--	--	--	--	--	--	<i>6.9</i>	<i>Jul-12</i>
<i>Allocation Index</i>			<i>1.0</i>	<i>53</i>	<i>-1.6</i>	<i>91</i>	<i>5.2</i>	<i>30</i>	--	--	--	--	--	--	<i>7.1</i>	<i>Jul-12</i>
<i>InvestorForce Health &amp; Welfare Gross Median</i>			<i>1.0</i>		<i>0.5</i>		<i>4.0</i>		<i>5.6</i>		<i>5.5</i>		<i>4.6</i>		<i>5.3</i>	<i>Jul-12</i>

Since the inception of the Health Care Trust 2.5 years ago, the Fund has returned 6.8%, trailing the policy benchmark by 0.1% and ranking in the 34<sup>th</sup> percentile of the InvestorForce Health & Welfare Funds Universe.

For the one-year period ending December 31, 2014, the Health Care Trust produced a net investment gain of \$1.1 million, which includes a net investment gain of \$0.1 million in the fourth calendar quarter. Assets increased from \$35.1 million one year ago to \$55.1 million on December 31, 2014, with \$18.9 million in net contributions during the year.

For the one-year period ending December 31, 2014, the Fund returned 4.7%, trailing the policy benchmark by 0.4% and ranking in the 37<sup>th</sup> percentile of its peers. The Fund's volatility ranks in the bottom quartile of its peers, resulting in a Sharpe Ratio that also ranks in the bottom quartile of its peers.

Please see the appendix for additional performance disclosures. Performance is reported gross of fees.

Composition of Policy Benchmark can be found on page 15.

### Since Inception Ending December 31, 2014

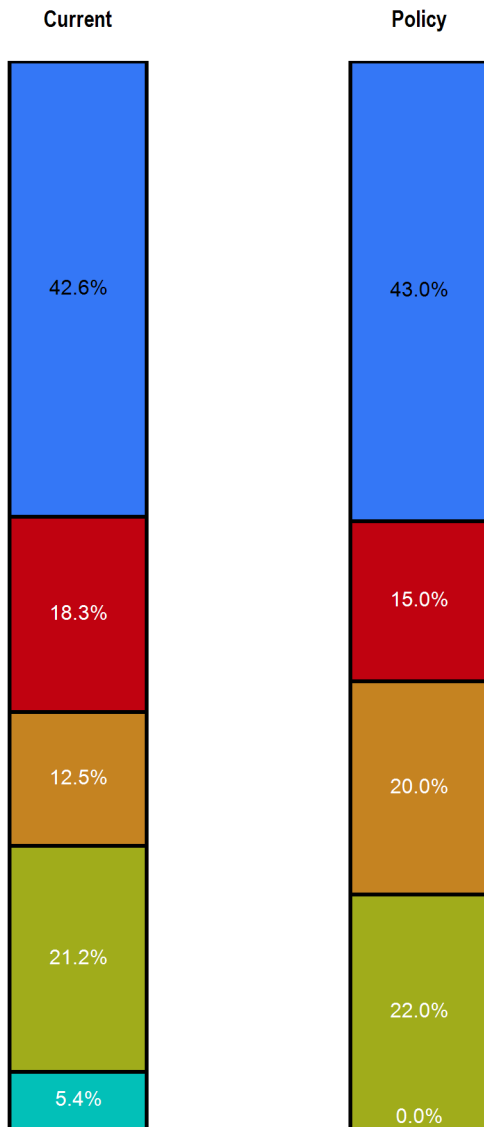
	Anlzd Return	Rank	Anlzd Standard Deviation	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
Health Care Trust	6.8%	34	5.6%	86	1.2	78	2.1	72
Policy Benchmark	6.9%	33	5.4%	83	1.3	76	2.2	71
Allocation Index	7.1%	32	5.4%	83	1.3	76	2.3	67
InvestorForce Health & Welfare Gross Median	5.3%	--	2.9%	--	1.8	--	3.1	--

### 1 Year Ending December 31, 2014

	Anlzd Return	Rank	Anlzd Standard Deviation	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
Health Care Trust	4.7%	37	6.2%	95	0.7	87	1.4	85
Policy Benchmark	5.1%	31	5.9%	91	0.9	83	1.3	85
Allocation Index	5.2%	30	5.8%	89	0.9	81	1.5	83
InvestorForce Health & Welfare Gross Median	4.0%	--	2.8%	--	1.5	--	3.5	--

Note: The InvestorForce Health & Welfare Funds Universe had 158 observations totaling \$13.2 billion in assets as of 12/31/2014.

**Total Fund Asset Allocation vs Policy Targets**

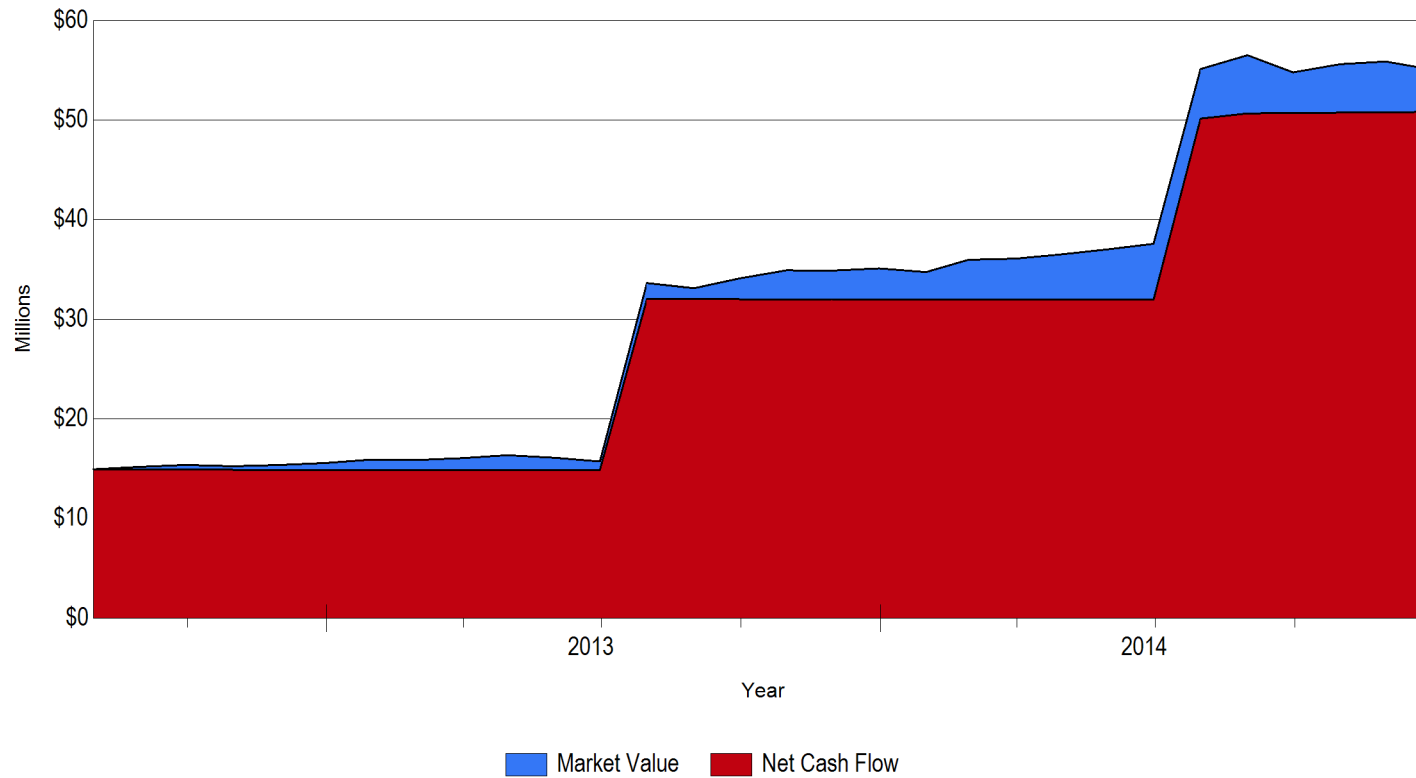


	Current Balance	Current Allocation	Policy	Difference *	Policy Range	Within IPS Range?
Equities	\$23,464,486	42.6%	43.0%	-0.4%	25.0% - 50.0%	Yes
Fixed Income	\$10,076,507	18.3%	15.0%	3.3%	5.0% - 25.0%	Yes
Global Asset Allocation	\$6,899,238	12.5%	20.0%	-7.5%	0.0% - 25.0%	Yes
Inflation-Linked	\$11,657,836	21.2%	22.0%	-0.8%	12.0% - 25.0%	Yes
Cash	\$2,968,738	5.4%	0.0%	5.4%	0.0% - 5.0%	No
<b>Total</b>	<b>\$55,066,805</b>	<b>100.0%</b>	<b>100.0%</b>			

\*Difference between Policy and Current Allocation

Health Care Trust Asset Growth Summary

Since Inception Ending Dec 31, 2014



Sources of Portfolio Growth	Last Three Months	Fiscal Year-To-Date	One Year	Inception 7/1/12
Beginning Market Value	\$54,799,589	\$37,582,148	\$35,109,252	\$0
Net Additions/Withdrawals	\$129,493	\$18,887,324	\$18,853,340	\$50,837,880
Investment Earnings	\$137,723	-\$1,402,667	\$1,104,213	\$4,228,925
<b>Ending Market Value</b>	<b>\$55,066,805</b>	<b>\$55,066,805</b>	<b>\$55,066,805</b>	<b>\$55,066,805</b>

**Health Care Trust Asset Growth Summary Detail**

**Cash Flow Summary**  
**3 Month Ending Dec 31, 2014**

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$2,802,753	\$0	\$165,985	\$165,985	\$0	\$2,968,738
Credit Suisse	\$4,738,028	-\$4,444	\$0	-\$4,444	-\$551,275	\$4,182,309
GMO	\$3,577,627	-\$7,596	\$0	-\$7,596	-\$20,465	\$3,549,566
PIMCO	\$3,506,382	-\$8,105	\$0	-\$8,105	-\$148,604	\$3,349,672
Vanguard REIT Index Fund	\$5,358,159	-\$1,503	\$0	-\$1,503	\$769,374	\$6,126,031
Vanguard Total Bond Market Index Fund	\$9,905,560	-\$1,758	\$0	-\$1,758	\$172,706	\$10,076,507
Vanguard Total World Stock Index Fund	\$23,367,904	-\$9,468	\$0	-\$9,468	\$106,050	\$23,464,486
Wellington	\$1,543,176	-\$3,618	\$0	-\$3,618	-\$190,063	\$1,349,496
<b>Total</b>	<b>\$54,799,589</b>	<b>-\$36,492</b>	<b>\$165,985</b>	<b>\$129,493</b>	<b>\$137,723</b>	<b>\$55,066,805</b>

**Cash Flow Summary**  
**Fiscal YTD Ending Dec 31, 2014**

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$46,022	-\$18,130,000	\$21,052,715	\$2,922,715	\$1	\$2,968,738
Credit Suisse	\$3,321,368	-\$9,162	\$1,770,000	\$1,760,838	-\$899,898	\$4,182,309
GMO	--	-\$13,880	\$3,650,000	\$3,636,120	-\$86,554	\$3,549,566
PIMCO	--	-\$10,852	\$3,650,000	\$3,639,148	-\$289,476	\$3,349,672
Vanguard REIT Index Fund	\$3,741,073	-\$2,885	\$1,800,000	\$1,797,115	\$587,844	\$6,126,031
Vanguard Total Bond Market Index Fund	\$11,986,600	-\$2,103,634	\$0	-\$2,103,634	\$193,541	\$10,076,507
Vanguard Total World Stock Index Fund	\$17,400,141	-\$18,961	\$6,670,000	\$6,651,039	-\$586,694	\$23,464,486
Wellington	\$1,086,944	-\$6,017	\$590,000	\$583,983	-\$321,431	\$1,349,496
<b>Total</b>	<b>\$37,582,148</b>	<b>-\$20,295,391</b>	<b>\$39,182,715</b>	<b>\$18,887,324</b>	<b>-\$1,402,667</b>	<b>\$55,066,805</b>

City of San Jose Police and Fire Department Retirement Plan – Health Care Trust

Health Care Trust Asset Growth Summary Detail

**Cash Flow Summary**  
1 Year Ending Dec 31, 2014

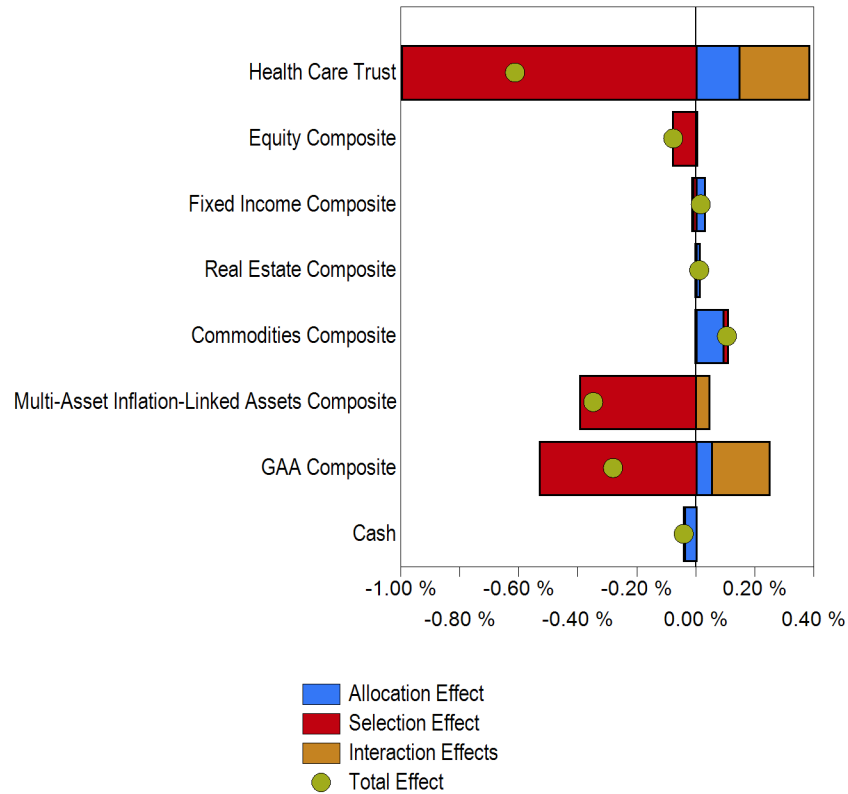
	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$62,431	-\$19,136,186	\$22,042,492	\$2,906,306	\$1	\$2,968,738
Credit Suisse	\$3,500,005	-\$515,206	\$1,770,000	\$1,254,794	-\$572,490	\$4,182,309
First Quadrant	\$489,777	-\$489,777	\$0	-\$489,777	\$0	--
GMO	--	-\$13,880	\$3,650,000	\$3,636,120	-\$86,554	\$3,549,566
PIMCO	--	-\$10,852	\$3,650,000	\$3,639,148	-\$289,476	\$3,349,672
Vanguard REIT Index Fund	\$3,179,447	-\$4,664	\$1,800,000	\$1,795,336	\$1,151,248	\$6,126,031
Vanguard Total Bond Market Index Fund	\$11,533,894	-\$2,107,778	\$0	-\$2,107,778	\$650,391	\$10,076,507
Vanguard Total World Stock Index Fund	\$16,343,699	-\$32,550	\$6,670,000	\$6,637,450	\$483,337	\$23,464,486
Wellington	\$0	-\$8,259	\$1,590,000	\$1,581,741	-\$232,245	\$1,349,496
<b>Total</b>	<b>\$35,109,252</b>	<b>-\$22,319,152</b>	<b>\$41,172,492</b>	<b>\$18,853,340</b>	<b>\$1,104,213</b>	<b>\$55,066,805</b>

**Cash Flow Summary**  
Since Inception Ending Dec 31, 2014

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$0	-\$51,183,277	\$54,151,575	\$2,968,298	\$440	\$2,968,738
Credit Suisse	--	-\$524,276	\$5,300,000	\$4,775,724	-\$593,415	\$4,182,309
First Quadrant	--	-\$742,610	\$890,000	\$147,390	-\$147,390	--
GMO	--	-\$13,880	\$3,650,000	\$3,636,120	-\$86,554	\$3,549,566
PIMCO	--	-\$10,852	\$3,650,000	\$3,639,148	-\$289,476	\$3,349,672
Vanguard REIT Index Fund	--	-\$7,696	\$4,988,695	\$4,980,999	\$1,145,032	\$6,126,031
Vanguard Total Bond Market Index Fund	--	-\$2,115,165	\$11,610,434	\$9,495,269	\$581,239	\$10,076,507
Vanguard Total World Stock Index Fund	--	-\$58,198	\$19,671,390	\$19,613,192	\$3,851,294	\$23,464,486
Wellington	--	-\$8,259	\$1,590,000	\$1,581,741	-\$232,245	\$1,349,496
<b>Total</b>	<b>\$0</b>	<b>-\$54,664,214</b>	<b>\$105,502,094</b>	<b>\$50,837,880</b>	<b>\$4,228,925</b>	<b>\$55,066,805</b>

Health Care Trust Attribution Analysis - Net of Fees

**Attribution Effects**  
3 Months Ending December 31, 2014

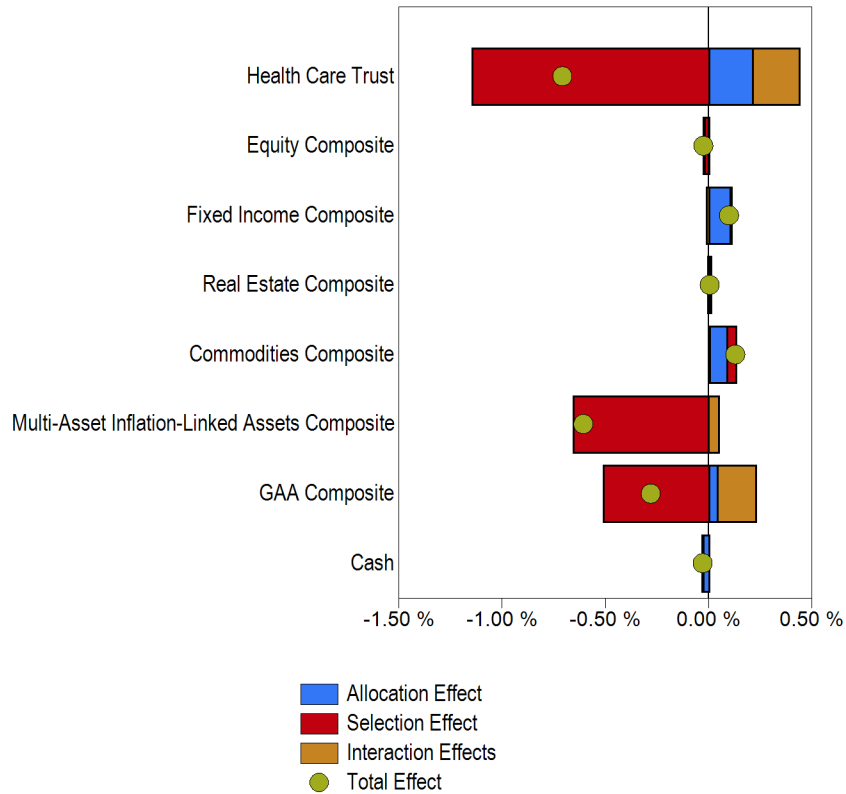


**Attribution Summary**  
3 Months Ending December 31, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	0.4%	0.6%	-0.2%	-0.1%	0.0%	0.0%	-0.1%
Fixed Income Composite	1.7%	1.8%	-0.1%	0.0%	0.0%	0.0%	0.0%
Real Estate Composite	14.3%	14.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Commodities Composite	-11.7%	-11.9%	0.1%	0.0%	0.1%	0.0%	0.1%
Multi-Asset Inflation-Linked Assets Composite	-12.6%	-0.1%	-12.4%	-0.4%	0.0%	0.0%	-0.3%
GAA Composite	-2.6%	0.0%	-2.6%	-0.5%	0.1%	0.2%	-0.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>0.2%</b>	<b>0.8%</b>	<b>-0.6%</b>	<b>-1.0%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>-0.6%</b>

Health Care Trust Attribution Analysis - Net of Fees

**Attribution Effects**  
Fiscal YTD Ending Dec 31, 2014



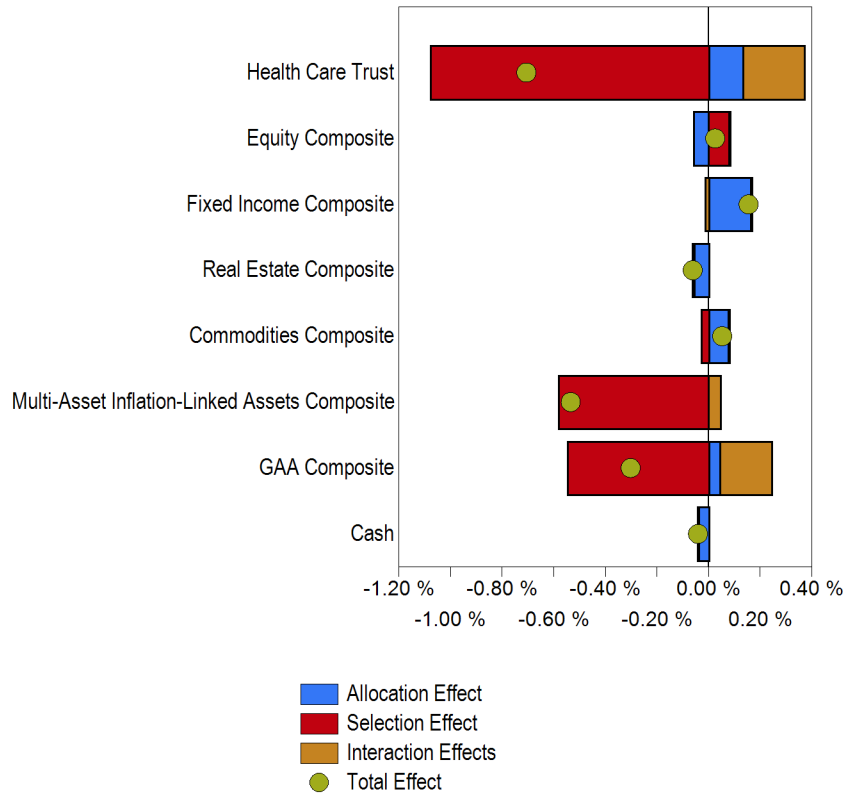
**Attribution Summary**  
Fiscal YTD Ending Dec 31, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	-2.3%	-2.3%	-0.1%	0.0%	0.0%	0.0%	0.0%
Fixed Income Composite	1.9%	2.0%	-0.1%	0.0%	0.1%	0.0%	0.1%
Real Estate Composite	10.7%	10.8%	0.0%	0.0%	0.0%	0.0%	0.0%
Commodities Composite	-17.7%	-18.1%	0.4%	0.0%	0.1%	0.0%	0.1%
Multi-Asset Inflation-Linked Assets Composite	-19.5%	1.0%	-20.5%	-0.7%	0.0%	0.0%	-0.6%
GAA Composite	--	-1.5%	--	-0.5%	0.0%	0.2%	-0.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>-2.4%</b>	<b>-1.8%</b>	<b>-0.7%</b>	<b>-1.1%</b>	<b>0.2%</b>	<b>0.2%</b>	<b>-0.7%</b>



**Health Care Trust Attribution Analysis - Net of Fees**

**Attribution Effects**  
1 Year Ending December 31, 2014

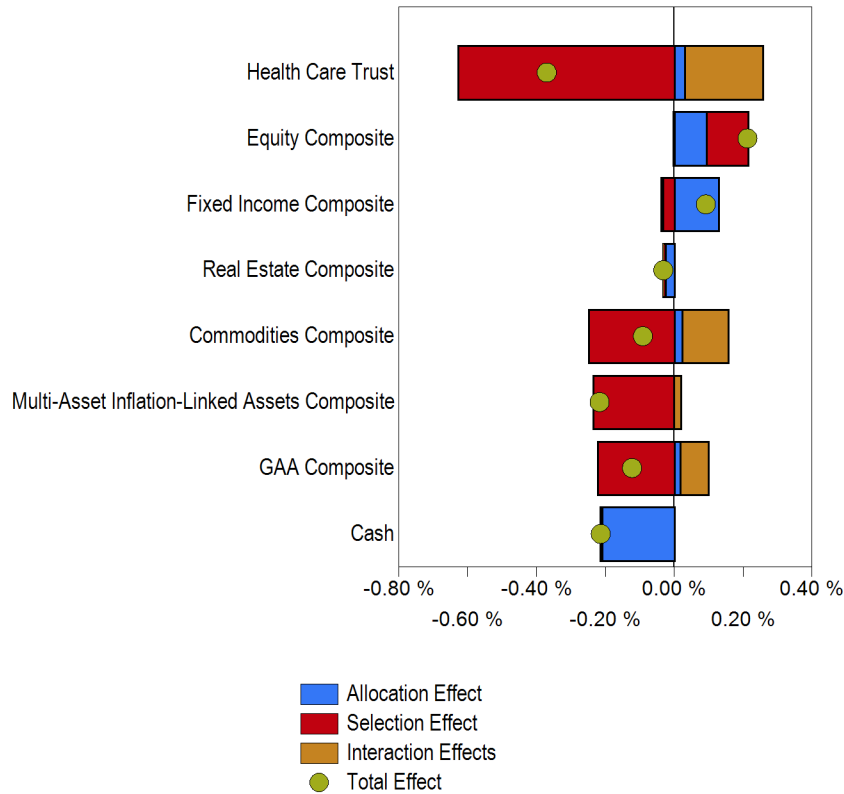


**Attribution Summary**  
1 Year Ending December 31, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	4.0%	3.8%	0.2%	0.1%	-0.1%	0.0%	0.0%
Fixed Income Composite	5.9%	6.0%	-0.1%	0.0%	0.2%	0.0%	0.2%
Real Estate Composite	30.3%	30.4%	-0.1%	0.0%	-0.1%	0.0%	-0.1%
Commodities Composite	-8.9%	-8.7%	-0.2%	0.0%	0.1%	0.0%	0.1%
Multi-Asset Inflation-Linked Assets Composite	-12.5%	5.8%	-18.3%	-0.6%	0.0%	0.0%	-0.5%
GAA Composite	--	--	--	-0.5%	0.0%	0.2%	-0.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>4.5%</b>	<b>5.1%</b>	<b>-0.7%</b>	<b>-1.1%</b>	<b>0.1%</b>	<b>0.2%</b>	<b>-0.7%</b>

Health Care Trust Attribution Analysis - Net of Fees

**Attribution Effects**  
Since Inception Ending Dec 31, 2014



**Attribution Summary**  
Since Inception Ending Dec 31, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	--	14.3%	--	0.1%	0.1%	0.0%	0.2%
Fixed Income Composite	--	1.7%	--	0.0%	0.1%	0.0%	0.1%
Real Estate Composite	--	12.5%	--	0.0%	0.0%	0.0%	0.0%
Commodities Composite	--	-7.5%	--	-0.2%	0.0%	0.1%	-0.1%
Multi-Asset Inflation-Linked Assets Composite	--	--	--	-0.2%	0.0%	0.0%	-0.2%
GAA Composite	--	--	--	-0.2%	0.0%	0.1%	-0.1%
Cash	0.0%	0.0%	0.0%	0.0%	-0.2%	0.0%	-0.2%
<b>Total</b>	<b>6.6%</b>	<b>6.9%</b>	<b>-0.4%</b>	<b>-0.6%</b>	<b>0.0%</b>	<b>0.2%</b>	<b>-0.4%</b>

City of San Jose Police and Fire Department Retirement Plan – Health Care Trust

Health Care Trust Performance Summary – Net of Fees

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	Return (%)	Since
<b>Health Care Trust</b>	<b>55,066,805</b>	<b>100.0</b>	<b>0.2</b>	--	<b>-2.4</b>	--	<b>4.5</b>	--	--	--	--	--	<b>6.6</b>	<b>Jul-12</b>
<i>Policy Benchmark</i>			<i>0.8</i>	--	<i>-1.8</i>	--	<i>5.1</i>	--	--	--	--	--	<i>6.9</i>	<i>Jul-12</i>
Over/Under			<i>-0.6</i>		<i>-0.6</i>		<i>-0.6</i>						<i>-0.3</i>	
<i>Allocation Index</i>			<i>1.0</i>	--	<i>-1.6</i>	--	<i>5.2</i>	--	--	--	--	--	<i>7.1</i>	<i>Jul-12</i>
<b>Equity Composite</b>	<b>23,464,486</b>	<b>42.6</b>	<b>0.4</b>	<b>65</b>	<b>-2.3</b>	<b>61</b>	<b>4.0</b>	<b>51</b>	--	--	--	--	<b>15.1</b>	<b>Aug-12</b>
Vanguard Total World Stock Index Fund	23,464,486	42.6	0.4	65	-2.3	61	4.0	51	--	--	--	--	15.1	Aug-12
MSCI ACWI IMI (Net)			<u>0.6</u>	62	<u>-2.3</u>	61	<u>3.8</u>	52	<u>14.3</u>	63	<u>9.5</u>	66	<u>14.8</u>	Aug-12
Over/Under			<i>-0.2</i>		0.0		0.2						0.3	
eA All Global Equity Net Median			1.2		-1.4		4.0		15.3		10.6		15.1	Aug-12
<b>Fixed Income Composite</b>	<b>10,076,507</b>	<b>18.3</b>	<b>1.7</b>	<b>18</b>	<b>1.9</b>	<b>20</b>	<b>5.9</b>	<b>29</b>	--	--	--	--	<b>1.6</b>	<b>Aug-12</b>
Vanguard Total Bond Market Index Fund	10,076,507	18.3	1.7	18	1.9	20	5.9	29	--	--	--	--	1.6	Aug-12
Barclays Aggregate			<u>1.8</u>	15	<u>2.0</u>	18	<u>6.0</u>	28	<u>2.7</u>	62	<u>4.4</u>	57	<u>1.7</u>	Aug-12
Over/Under			<i>-0.1</i>		<i>-0.1</i>		<i>-0.1</i>						<i>-0.1</i>	
eA All US Fixed Inc Net Median			0.7		0.7		3.9		3.5		4.8		2.2	Aug-12
<b>Inflation-Linked Composite</b>	<b>11,657,836</b>	<b>21.2</b>	<b>0.2</b>	--	<b>-5.2</b>	--	<b>7.6</b>	--	--	--	--	--	<b>0.1</b>	<b>Aug-12</b>
<b>Real Estate Composite</b>	<b>6,126,031</b>	<b>11.1</b>	<b>14.3</b>	<b>52</b>	<b>10.7</b>	<b>71</b>	<b>30.3</b>	<b>57</b>	--	--	--	--	<b>12.9</b>	<b>Aug-12</b>
Vanguard REIT Index Fund	6,126,031	11.1	14.3	52	10.7	71	30.3	57	--	--	--	--	12.9	Aug-12
MSCI US REIT			<u>14.0</u>	69	<u>10.1</u>	80	<u>28.8</u>	76	<u>15.0</u>	94	<u>15.7</u>	96	<u>11.6</u>	Aug-12
Over/Under			0.3		0.6		1.5						1.3	
eA US REIT Net Median			14.4		11.1		30.7		16.5		17.6		13.3	Aug-12
<b>Commodities Composite</b>	<b>4,182,309</b>	<b>7.6</b>	<b>-11.7</b>	--	<b>-17.7</b>	--	<b>-8.9</b>	--	--	--	--	--	<b>-10.3</b>	<b>Oct-12</b>
Custom Commodity Risk Parity Index			<u>-11.9</u>	--	<u>-18.1</u>	--	<u>-8.7</u>	--	<u>-5.6</u>	--	--	--	<u>-9.2</u>	Oct-12
Over/Under			0.2		0.4		-0.2						-1.1	
Credit Suisse	4,182,309	7.6	-11.7	--	-17.7	--	-8.9	--	--	--	--	--	-8.2	Nov-12
Custom Commodity Risk Parity Index			<u>-11.9</u>	--	<u>-18.1</u>	--	<u>-8.7</u>	--	<u>-5.6</u>	--	--	--	<u>-8.2</u>	Nov-12
Over/Under			0.2		0.4		-0.2						0.0	
<b>Multi-Asset Inflation-Linked Assets Composite</b>	<b>1,349,496</b>	<b>2.5</b>	<b>-12.6</b>	--	<b>-19.5</b>	--	<b>-12.5</b>	--	--	--	--	--	<b>-12.5</b>	<b>Jan-14</b>
Wellington	1,349,496	2.5	-12.6	--	-19.5	--	-12.5	--	--	--	--	--	-12.5	Jan-14
CPI + 5% (Unadjusted)			<u>-0.1</u>	--	<u>1.0</u>	--	<u>5.8</u>	--	<u>6.4</u>	--	<u>6.8</u>	--	<u>5.8</u>	Jan-14
Over/Under			<i>-12.5</i>		<i>-20.5</i>		<i>-18.3</i>						<i>-18.3</i>	

Note: Composition of Policy Benchmark can be found on page 15.

City of San Jose Police and Fire Department Retirement Plan – Health Care Trust

Health Care Trust Performance Summary – Net of Fees

	Market Value (\$)	% of Portfolio	3 Mo (%)	Rank	Fiscal YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	Return (%)	Since
<b>GAA Composite</b>	<b>6,899,238</b>	<b>12.5</b>	<b>-2.6</b>	--	--	--	--	--	--	--	--	--	<b>-5.4</b>	<b>Sep-14</b>
60% MSCI World (Net) / 40% CITI WGBI			<u>0.0</u>	--	<u>-2.8</u>	--	<u>2.8</u>	--	<u>8.7</u>	--	<u>6.9</u>	--	<u>-2.9</u>	Sep-14
Over/Under			<b>-2.6</b>										<b>-2.5</b>	
<b>GMO</b>	<b>3,549,566</b>	<b>6.4</b>	<b>-0.8</b>	--	--	--	--	--	--	--	--	--	<b>-2.7</b>	<b>Sep-14</b>
60% MSCI World (Net) / 40% CITI WGBI			<u>0.0</u>	--	<u>-2.8</u>	--	<u>2.8</u>	--	<u>8.7</u>	--	<u>6.9</u>	--	<u>-2.9</u>	Sep-14
Over/Under			<b>-0.8</b>										<b>0.2</b>	
<b>PIMCO</b>	<b>3,349,672</b>	<b>6.1</b>	<b>-4.5</b>	--	--	--	--	--	--	--	--	--	<b>-8.2</b>	<b>Sep-14</b>
60% MSCI World (Net) / 40% CITI WGBI			<u>0.0</u>	--	<u>-2.8</u>	--	<u>2.8</u>	--	<u>8.7</u>	--	<u>6.9</u>	--	<u>-2.9</u>	Sep-14
Over/Under			<b>-4.5</b>										<b>-5.3</b>	
<b>Cash</b>	<b>2,968,738</b>	<b>5.4</b>	<b>0.0</b>	--	<b>0.0</b>	--	<b>0.0</b>	--	--	--	--	--	<b>0.0</b>	<b>Jul-12</b>
Cash	2,968,738	5.4	<u>0.0</u>	--	<u>0.0</u>	--	<u>0.0</u>	--	--	--	--	--	<u>0.0</u>	Jul-12
91 Day T-Bills			<u>0.0</u>	--	<u>0.0</u>	--	<u>0.0</u>	--	<u>0.0</u>	--	<u>0.1</u>	--	<u>0.0</u>	Jul-12
Over/Under			<u>0.0</u>		<u>0.0</u>		<u>0.0</u>						<u>0.0</u>	

## City of San Jose Police and Fire Department Retirement Plan – Health Care Trust

### Due Diligence Monitor

The items below summarize the recent quarter's performance and any changes or announcements from the Plan's managers/products. A "-" indicates there were no material announcements. A "Yes" indicates there was an announcement and a brief summary is provided on the following pages. NEPC's Due Diligence Committee meets every two weeks to review events as they relate to investment managers and determine if any action should be taken (by NEPC and/or by our clients). Events are rated: No Action, Watch, Hold, Client Review or Terminate. NEPC's recommendation in view of the recent quarter's developments (performance, manager events, and any of the longer-term trending data) is refreshed quarterly.

Investment Options	Performance (Recent Quarter)	Changes/Announcements (Recent Quarter)	NEPC Due Diligence Committee Recommendations	Plan Recommendation	Comments
Vanguard Total World Stock Index	-	-	-	-	
Vanguard Total Bond Market Index	-	-	-	-	
Vanguard REIT Index	-	-	-	-	
Credit Suisse Risk Parity Commodity Fund	N/A	-	Hold	No Action	
Wellington Diversified Inflation Hedges	N/A	-	-	-	
GMO Benchmark-Free Allocation Fund	N/A	-	-	-	Funded 8/2014
PIMCO All Asset All Authority Fund	N/A	-	Client Review	Client Review	Funded 8/2014

#### NEPC Due Diligence Committee Recommendation Key

<b>No Action</b>	Informational items have surfaced; no action is recommended.
<b>Watch</b>	Issues have surfaced to be concerned over; manager can participate in future searches, but current and prospective clients must be made aware of the issues.
<b>Hold</b>	Serious issues have surfaced to be concerned over; manager cannot participate in future searches unless a client specifically requests, but current and prospective clients must be made aware of the issues.
<b>Client Review</b>	Very serious issues have surfaced with an Investment Manager; manager cannot participate in future searches unless a client specifically requests. Current clients must be advised to review the manager.
<b>Terminate</b>	We have lost all confidence in the product; manager would not be recommended for searches and clients would be discouraged from using. The manager cannot participate in future searches unless a client specifically requests. Current clients must be advised to replace the manager.

**PIMCO (12/31/14 Assets Under Management (“AUM”) Update)**

PIMCO released information on total firm asset levels for the year ending 12/31/2014. The data referenced here now includes separate account and pooled fund assets, which is only made available on a quarterly basis. PIMCO lost \$239 billion in assets over the period, 70% of that coming from the Total Return strategy platform, which was managed by Bill Gross. Some summary statistics are listed below:

- Total firm AUM fell \$239 billion, or 12% of assets, to \$1.68 trillion in 2014
- Assets in institutional mutual funds dropped by \$129 billion over the year
- Separate account AUM fell by close to \$50 billion
- The PIMCO Total Return strategy has experienced net asset outflows for the 20 consecutive months ended December 31, 2014. As of December 31, Total Return mutual fund assets were reported at \$143 billion, down more than half from a peak of \$292.9 billion in April 2013. Outflows for the strategy (across all vehicles) totaled \$170 billion in 2014 and more than \$220 billion since peak.

**PIMCO (Firm Announcement)**

On October 30, 2014, PIMCO announced two additions to the firm and one new appointment. Rejoining PIMCO will be Michael Spence and Jeremie Banet. Recall that Jeremie Banet left the firm earlier in the year to pursue an entrepreneurial venture (there were also rumors that a strained relationship with Bill Gross drove him to resign). Mr. Banet will be returning to the Real Return team where he will focus on inflation-linked strategies. He will report to Mihir Worah, CIO of Real Return. Michael Spence, a Nobel Laureate and Professor at NYU Stern School of Business, will be rejoining the firm as a consultant similar to the role he held until early 2014. He will focus on macroeconomic and global policy issues, and he will be contributing to the secular and cyclical forums and directly to the investment committee upon his return. The third announcement is that Rahul Seksaria will become a member of the Global Multi-Asset Fund and the PIMCO Absolute Return Strategy (PARS) strategy teams. Mr. Seksaria is a member of the Real Return team and is the PM that took over for Mr. Banet’s accounts following his departure this past June. He will remain on the Real Return team and continue to report to Mihir Worah.

On November 3, 2014, PIMCO announced that Marc Seidner will re-join the firm effective November 12 after spending only eight months with GMO as the head of fixed income. Mr. Seidner will be named CIO of Non-Traditional strategies, joining the five platform CIOs and Global CIO Dan Ivascyn. He will be working out of the New York offices and will act as Head of Portfolio Management in New York, a position previously held by Curtis Mewbourne. Mr. Mewbourne will move to Newport Beach, where he will continue in his previous responsibilities, including lead portfolio manager on the Diversified Income strategy. Mr. Seidner will also be named a member of the Investment Committee and will take on some generalist portfolio management responsibilities. Mr. Seidner resigned from PIMCO earlier this year, following the departure of former CEO and co-CIO Mohamed El-Erian, and moved to Boston to lead GMO’s fixed income team. While previously at PIMCO, Mr. Seidner held the title of Managing Director and managed separate account portfolios across several strategies including Unconstrained Bond, Total Return, and Low Duration. He was a highly respected member of the investment team and was considered for one of the original Deputy CIO roles appointed in January of this year.

**PIMCO (Firm Announcement)**

These announcements come in the wake of Bill Gross' departure after the individuals were away from the firm for only a short period of time. It is clear that PIMCO is working to restore investor confidence after Mr. Gross' departure by luring former employees back. Regardless of the drivers for these individuals leaving PIMCO originally, we view these developments as positive. Mr. Spence and Mr. Banet return with years of investment expertise and a familiarity with the PIMCO investment process. In addition, the investment teams have not changed materially since leaving, so the transition into their roles should be seamless. Mr. Seksaria's change in responsibilities is logical given that Mr. Banet will be returning as he will not need to spend as much time managing accounts.

**PIMCO (Firm Announcement)**

On January 12, 2015, PIMCO announced that Saumil Parikh, Portfolio Manager on the Unconstrained Bond Fund, and permanent member of the Investment Committee will be leaving the firm to join a competitor. Mr. Parikh also led the firm's cyclical economic forums, a post he has held since 2010. Replacing him as Portfolio Manager on the Unconstrained Bond strategy will be Marc Seidner (CIO of Non-Traditional strategies), who rejoined the firm in December after being at GMO for less than a year; Mr. Seidner will remain in the New York City office. Andrew Balls, CIO of Global Fixed Income, will take over as the lead on the cyclical forum. We have no information on why Mr. Parikh resigned, just that he will be pursuing an asset allocation opportunity at a competing firm. The timing is not surprising as bonuses are paid at the end of the year for PIMCO employees.

Mr. Parikh's departure is a significant one given his level of responsibility at the Firm; however, his departure does little to change the fact that PIMCO remains a deep and talented organization.

**NEPC maintains a due diligence status of Client Review for all PIMCO strategies.**

***Our recommendation to the City of San Jose is to stay invested in the PIMCO All Asset All Authority Fund as the strategy is not directly impacted by the departure of Bill Gross and the subsequent organizational developments.***

## Policy Benchmark History

- **7/1/12 – 7/31/12:** 90 day T-Bills
- **8/1/12 – 12/31/13:** 43% MSCI ACWI IMI (Net)/35% Barclays Capital U.S. Aggregate/10% MSCI U.S. REIT/12% Custom Commodity Risk Parity Index
- **1/1/14 – 7/31/2014:** 43% MSCI ACWI IMI (Net)/35% Barclays Capital U.S. Aggregate/10% MSCI U.S. REIT/9% Custom Commodity Risk Parity Index/3% CPI + 5% (Unadjusted)
- **8/1/14 - present:** 43% MSCI ACWI IMI (Net)/15% Barclays Capital U.S. Aggregate/10% MSCI U.S. REIT/9% Custom Commodity Risk Parity Index/3% CPI + 5% (Unadjusted)/20% 60/40 MSCI World (Net)/Citi World Government Bond Index



## Reporting Methodology

- **The client’s custodian bank is NEPC’s preferred data source unless otherwise directed. NEPC reconciles custodian data to manager data. If the custodian cannot provide accurate data, manager data may be used.**
- **Trailing time period returns are determined by geometrically linking the holding period returns, from the first full month after inception to the report date. Rates of Return are annualized when the time period is longer than a year. Performance is presented gross and/or net of fees as indicated.**
- **For managers funded in the middle of a month, the ‘since inception’ return will start with the first full month, although actual inception dates and cash flows are included in all respective Composite calculations.**
- **This report may contain forward-looking statements that are based on NEPC’s estimates, opinions and beliefs, but NEPC cannot guarantee that any plan will achieve its targeted return or meet other goals.**

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- **Past performance is no guarantee of future results.**
- **All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.**
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