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

Investment Performance Analysis For the period ending September 30, 2014

November 25, 2014

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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 September 30, 2014										Inception		
			3 Mo (%)	Rank	YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	10 Yrs (%)	Rank	Return (%)
Health Care Trust	54,799,589	100.0	-2.6	98	4.4	22	7.6	30	--	--	--	--	--	7.4	Jul-12
<i>Policy Benchmark</i>			-2.5	98	4.4	22	7.3	32	--	--	--	--	--	7.4	Jul-12
<i>Allocation Index</i>			-2.5	98	4.2	27	7.2	32	--	--	--	--	--	7.5	Jul-12
<i>InvestorForce Health & Welfare Gross Median</i>			-0.3		3.2		5.7		6.1		5.8		5.1	5.5	Jul-12

For the one year ending September 30, 2014, the Health Care Trust produced a net investment gain of \$2.0 million, which includes a net investment loss of \$1.5 million in the third calendar quarter. Assets increased from \$34.1 million one year ago to \$54.8 million on September 30, 2014, with \$18.7 million in net contributions during the year.

For the one-year period ending September 30, 2014, the Health Care Trust returned 7.6%, outperforming the policy benchmark by 0.3% and ranking in the 30th percentile of the InvestorForce Health & Welfare Funds Universe. The Fund's volatility ranks in the 93rd percentile of its peer group, resulting in a Sharpe Ratio that ranks in the 91st percentile. While performance has been strong on an absolute basis, risk-adjusted performance ranks below median due higher volatility.

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

Composition of Policy Benchmark can be found on page 15.

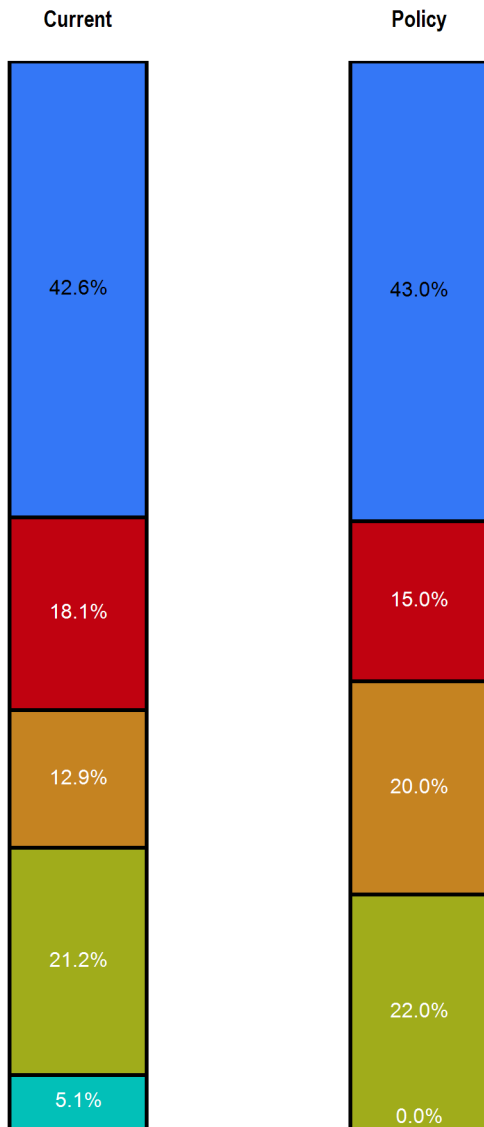
1 Year Ending September 30, 2014

	Anlzd Return	Rank	Anlzd Standard Deviation	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
Health Care Trust	7.6%	30	6.1%	93	1.2	91	1.7	93
Policy Benchmark	7.3%	32	5.9%	91	1.2	91	1.6	94
Allocation Index	7.2%	32	5.8%	89	1.2	91	1.7	92
InvestorForce Health & Welfare Gross Median	5.7%	--	2.8%	--	1.8	--	4.6	--

9 Months Ending September 30, 2014

	Anlzd Return	Rank	Anlzd Standard Deviation	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
Health Care Trust	4.4%	22	6.8%	96	0.6	85	1.1	90
Policy Benchmark	4.4%	22	6.4%	93	0.7	83	0.9	93
Allocation Index	4.2%	27	6.4%	91	0.7	85	1.0	90
InvestorForce Health & Welfare Gross Median	3.2%	--	3.0%	--	1.0	--	2.6	--

Total Fund Asset Allocation vs Policy Targets

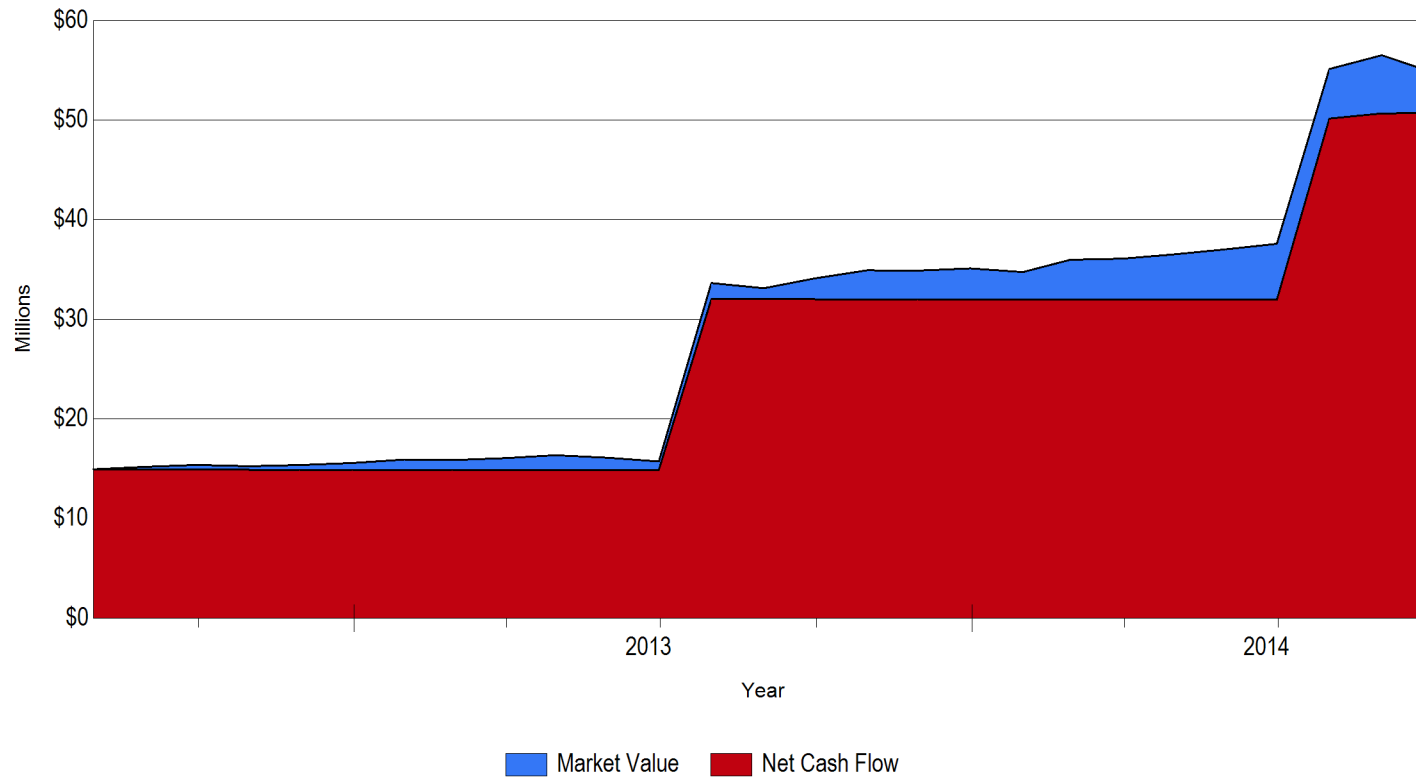


	Current Balance	Current Allocation	Policy	Difference *	Policy Range	Within IPS Range?
Equities	\$23,367,904	42.6%	43.0%	-0.4%	25.0% - 50.0%	Yes
Fixed Income	\$9,905,560	18.1%	15.0%	3.1%	5.0% - 25.0%	Yes
Global Asset Allocation	\$7,084,009	12.9%	20.0%	-7.1%	0.0% - 25.0%	Yes
Inflation-Linked	\$11,639,363	21.2%	22.0%	-0.8%	12.0% - 25.0%	Yes
Cash	\$2,802,753	5.1%	0.0%	5.1%	0.0% - 5.0%	No
Total	\$54,799,589	100.0%	100.0%			

*Difference between Policy and Current Allocation

Health Care Trust Asset Growth Summary

Since Inception Ending Sep 30, 2014



Sources of Portfolio Growth	Last Three Months	Year-To-Date	One Year	Inception 7/1/12
Beginning Market Value	\$37,582,148	\$35,109,252	\$34,105,466	\$0
Net Additions/Withdrawals	\$18,757,831	\$18,723,847	\$18,693,793	\$50,708,387
Investment Earnings	-\$1,540,390	\$966,490	\$2,000,329	\$4,091,202
Ending Market Value	\$54,799,589	\$54,799,589	\$54,799,589	\$54,799,589

Health Care Trust Asset Growth Summary Detail

Cash Flow Summary 3 Months Ending Sep 30, 2014

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$46,022	-\$18,130,000	\$20,886,730	\$2,756,730	\$1	\$2,802,753
Credit Suisse	\$3,321,368	-\$4,718	\$1,770,000	\$1,765,282	-\$348,622	\$4,738,028
GMO	--	-\$6,284	\$3,650,000	\$3,643,716	-\$66,089	\$3,577,627
PIMCO	--	-\$2,747	\$3,650,000	\$3,647,253	-\$140,872	\$3,506,382
Vanguard REIT Index Fund	\$3,741,073	-\$1,383	\$1,800,000	\$1,798,617	-\$181,531	\$5,358,159
Vanguard Total Bond Market Index Fund	\$11,986,600	-\$2,101,875	\$0	-\$2,101,875	\$20,835	\$9,905,560
Vanguard Total World Stock Index Fund	\$17,400,141	-\$9,493	\$6,670,000	\$6,660,507	-\$692,744	\$23,367,904
Wellington	\$1,086,944	-\$2,399	\$590,000	\$587,601	-\$131,369	\$1,543,176
Total	\$37,582,148	-\$20,258,900	\$39,016,730	\$18,757,831	-\$1,540,390	\$54,799,589

Cash Flow Summary YTD Ending Sep 30, 2014

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$62,431	-\$19,136,186	\$21,876,507	\$2,740,321	\$1	\$2,802,753
Credit Suisse	\$3,500,005	-\$510,762	\$1,770,000	\$1,259,238	-\$21,215	\$4,738,028
First Quadrant	\$489,777	-\$489,777	\$0	-\$489,777	\$0	--
GMO	--	-\$6,284	\$3,650,000	\$3,643,716	-\$66,089	\$3,577,627
PIMCO	--	-\$2,747	\$3,650,000	\$3,647,253	-\$140,872	\$3,506,382
Vanguard REIT Index Fund	\$3,179,447	-\$3,161	\$1,800,000	\$1,796,839	\$381,874	\$5,358,159
Vanguard Total Bond Market Index Fund	\$11,533,894	-\$2,106,019	\$0	-\$2,106,019	\$477,685	\$9,905,560
Vanguard Total World Stock Index Fund	\$16,343,699	-\$23,082	\$6,670,000	\$6,646,918	\$377,288	\$23,367,904
Wellington	\$0	-\$4,642	\$1,590,000	\$1,585,358	-\$42,182	\$1,543,176
Total	\$35,109,252	-\$22,282,660	\$41,006,507	\$18,723,847	\$966,490	\$54,799,589

Health Care Trust Asset Growth Summary Detail

Cash Flow Summary 1 Year Ending Sep 30, 2014

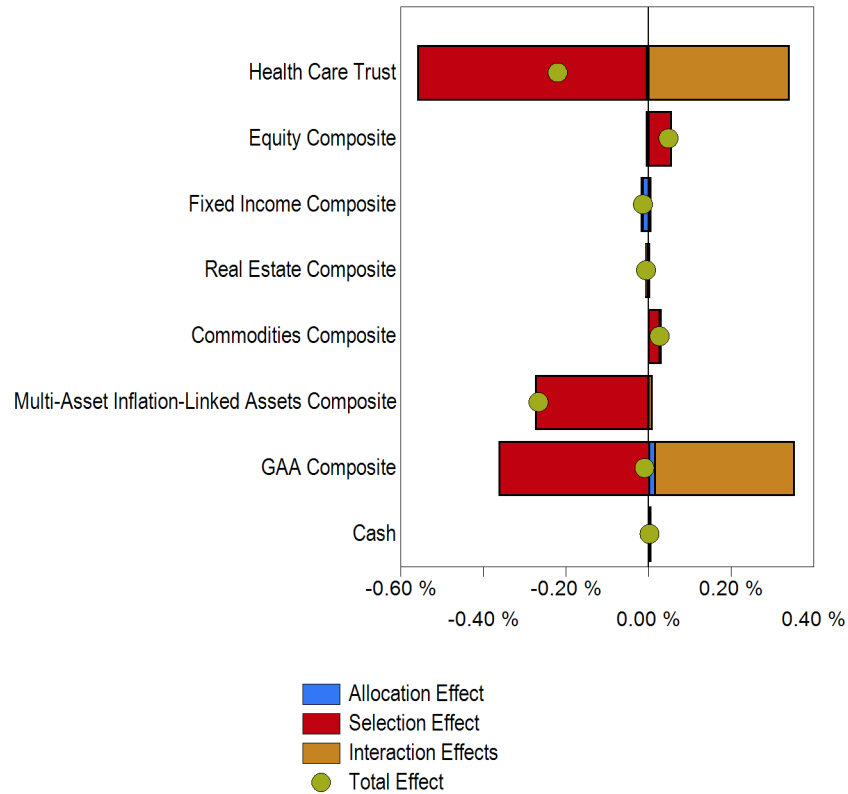
	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$78,981	-\$19,163,039	\$21,886,810	\$2,723,771	\$1	\$2,802,753
Credit Suisse	\$3,543,066	-\$514,172	\$1,770,000	\$1,255,828	-\$60,866	\$4,738,028
First Quadrant	\$493,861	-\$490,206	\$0	-\$490,206	-\$3,655	--
GMO	--	-\$6,284	\$3,650,000	\$3,643,716	-\$66,089	\$3,577,627
PIMCO	--	-\$2,747	\$3,650,000	\$3,647,253	-\$140,872	\$3,506,382
Vanguard REIT Index Fund	\$3,202,346	-\$3,969	\$1,800,000	\$1,796,031	\$359,782	\$5,358,159
Vanguard Total Bond Market Index Fund	\$11,556,118	-\$2,108,049	\$0	-\$2,108,049	\$457,491	\$9,905,560
Vanguard Total World Stock Index Fund	\$15,231,094	-\$29,909	\$6,670,000	\$6,640,091	\$1,496,719	\$23,367,904
Wellington	--	-\$4,642	\$1,590,000	\$1,585,358	-\$42,182	\$1,543,176
Total	\$34,105,466	-\$22,323,017	\$41,016,810	\$18,693,793	\$2,000,329	\$54,799,589

Cash Flow Summary Since Inception Ending Sep 30, 2014

	Beginning Market Value	Withdrawals	Contributions	Net Cash Flow	Net Investment Change	Ending Market Value
Cash	\$0	-\$51,183,277	\$53,985,591	\$2,802,313	\$440	\$2,802,753
Credit Suisse	--	-\$519,832	\$5,300,000	\$4,780,168	-\$42,140	\$4,738,028
First Quadrant	--	-\$742,610	\$890,000	\$147,390	-\$147,390	--
GMO	--	-\$6,284	\$3,650,000	\$3,643,716	-\$66,089	\$3,577,627
PIMCO	--	-\$2,747	\$3,650,000	\$3,647,253	-\$140,872	\$3,506,382
Vanguard REIT Index Fund	--	-\$6,193	\$4,988,695	\$4,982,502	\$375,657	\$5,358,159
Vanguard Total Bond Market Index Fund	--	-\$2,113,407	\$11,610,434	\$9,497,027	\$408,533	\$9,905,560
Vanguard Total World Stock Index Fund	--	-\$48,730	\$19,671,390	\$19,622,660	\$3,745,244	\$23,367,904
Wellington	--	-\$4,642	\$1,590,000	\$1,585,358	-\$42,182	\$1,543,176
Total	\$0	-\$54,627,723	\$105,336,110	\$50,708,387	\$4,091,202	\$54,799,589

Health Care Trust Attribution Analysis - Net of Fees

Attribution Effects
3 Months Ending September 30, 2014

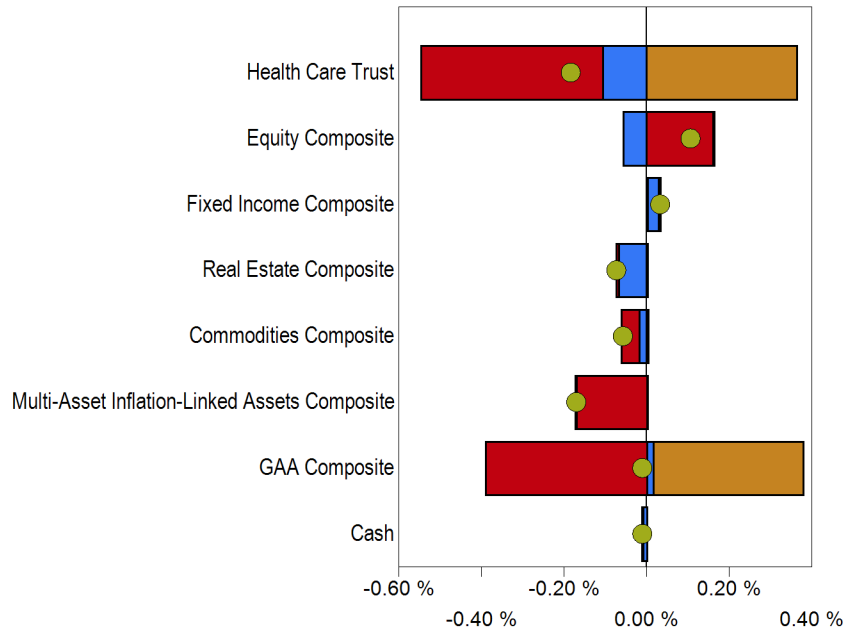


Attribution Summary
3 Months Ending September 30, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	-2.7%	-2.8%	0.1%	0.1%	0.0%	0.0%	0.0%
Fixed Income Composite	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Real Estate Composite	-3.1%	-3.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Commodities Composite	-6.8%	-7.1%	0.3%	0.0%	0.0%	0.0%	0.0%
Multi-Asset Inflation-Linked Assets Composite	-8.0%	1.1%	-9.1%	-0.3%	0.0%	0.0%	-0.3%
GAA Composite	--	-1.5%	--	-0.4%	0.0%	0.3%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	-2.6%	-2.5%	-0.2%	-0.6%	0.0%	0.3%	-0.2%

Health Care Trust Attribution Analysis - Net of Fees

Attribution Effects
YTD Ending Sep 30, 2014



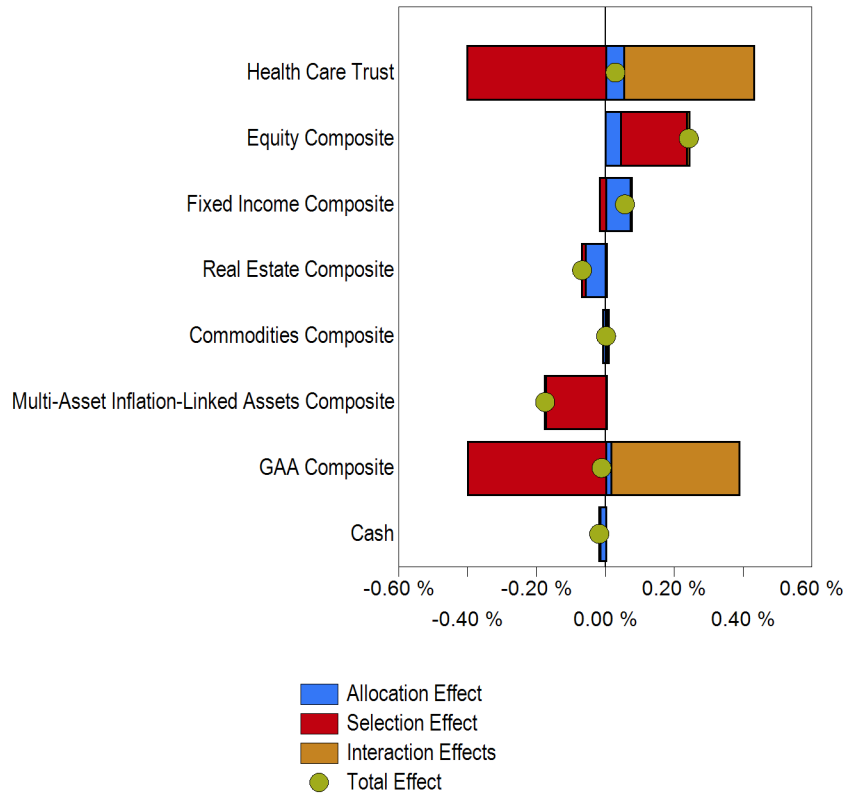
- Allocation Effect
- Selection Effect
- Interaction Effects
- Total Effect

Attribution Summary
YTD Ending Sep 30, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	3.6%	3.2%	0.3%	0.2%	-0.1%	0.0%	0.1%
Fixed Income Composite	4.1%	4.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Real Estate Composite	14.0%	14.0%	-0.1%	0.0%	-0.1%	0.0%	-0.1%
Commodities Composite	3.2%	3.6%	-0.4%	0.0%	0.0%	0.0%	-0.1%
Multi-Asset Inflation-Linked Assets Composite	0.0%	5.9%	-5.9%	-0.2%	0.0%	0.0%	-0.2%
GAA Composite	--	--	--	-0.4%	0.0%	0.4%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	4.3%	4.4%	-0.2%	-0.4%	-0.1%	0.4%	-0.2%

Health Care Trust Attribution Analysis - Net of Fees

Attribution Effects
1 Year Ending September 30, 2014

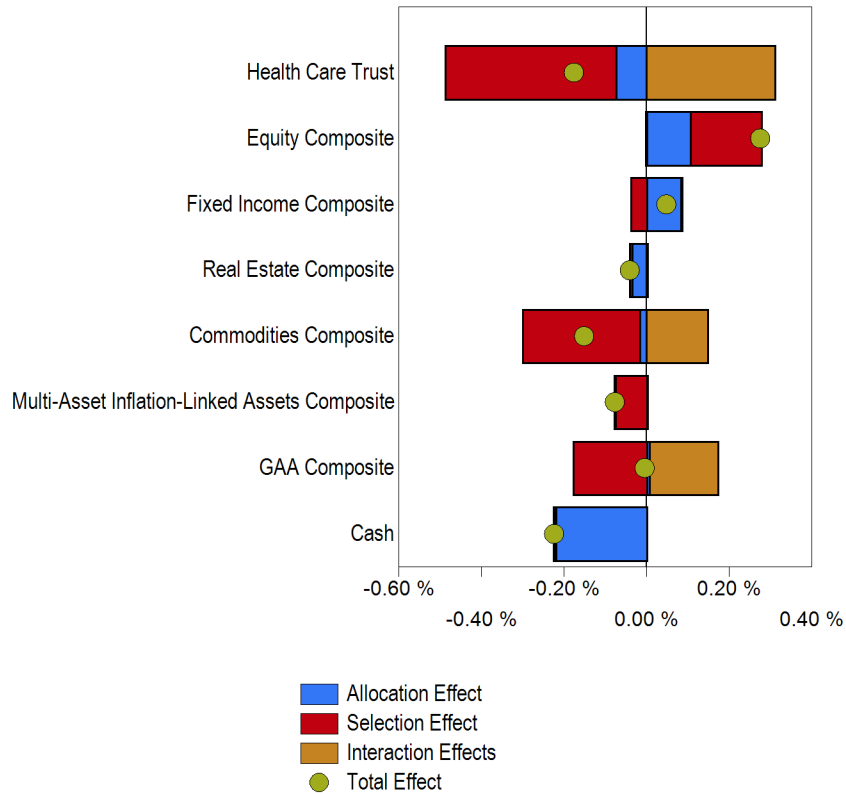


Attribution Summary
1 Year Ending September 30, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	11.1%	10.7%	0.4%	0.2%	0.0%	0.0%	0.2%
Fixed Income Composite	3.9%	4.0%	0.0%	0.0%	0.1%	0.0%	0.1%
Real Estate Composite	13.2%	13.3%	-0.1%	0.0%	-0.1%	0.0%	-0.1%
Commodities Composite	2.0%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Multi-Asset Inflation-Linked Assets Composite	--	--	--	-0.2%	0.0%	0.0%	-0.2%
GAA Composite	--	--	--	-0.4%	0.0%	0.4%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	7.4%	7.3%	0.0%	-0.4%	0.1%	0.4%	0.0%

Health Care Trust Attribution Analysis - Net of Fees

Attribution Effects
Since Inception Ending Sep 30, 2014



Attribution Summary
Since Inception Ending Sep 30, 2014

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Equity Composite	--	15.6%	--	0.2%	0.1%	0.0%	0.3%
Fixed Income Composite	--	1.1%	--	0.0%	0.1%	0.0%	0.0%
Real Estate Composite	--	7.4%	--	0.0%	0.0%	0.0%	0.0%
Commodities Composite	--	-3.1%	--	-0.3%	0.0%	0.1%	-0.2%
Multi-Asset Inflation-Linked Assets Composite	--	--	--	-0.1%	0.0%	0.0%	-0.1%
GAA Composite	--	--	--	-0.2%	0.0%	0.2%	0.0%
Cash	0.0%	0.0%	0.0%	0.0%	-0.2%	0.0%	-0.2%
Total	7.3%	7.4%	-0.2%	-0.4%	-0.1%	0.3%	-0.2%

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	YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	Return (%)	Since
Health Care Trust	54,799,589	100.0	-2.6	--	4.3	--	7.4	--	--	--	--	--	7.3	Jul-12
<i>Policy Benchmark</i>			<u>-2.5</u>	--	<u>4.4</u>	--	<u>7.3</u>	--	--	--	--	--	<u>7.4</u>	<i>Jul-12</i>
Over/Under			-0.1		-0.1		0.1						-0.1	
<i>Allocation Index</i>			-2.5	--	4.2	--	7.2	--	--	--	--	--	7.5	<i>Jul-12</i>
Equity Composite	23,367,904	42.6	-2.7	45	3.6	42	11.1	41	--	--	--	--	16.7	Aug-12
Vanguard Total World Stock Index Fund	23,367,904	42.6	-2.7	45	3.6	42	11.1	41	--	--	--	--	16.7	Aug-12
<i>MSCI ACWI IMI (Net)</i>			<u>-2.8</u>	49	<u>3.2</u>	48	<u>10.7</u>	47	<u>16.7</u>	54	<u>10.3</u>	63	<u>16.3</u>	<i>Aug-12</i>
Over/Under			0.1		0.4		0.4						0.4	
<i>eA All Global Equity Net Median</i>			-3.0		2.9		10.2		17.3		11.3		16.3	<i>Aug-12</i>
Fixed Income Composite	9,905,560	18.1	0.2	28	4.1	36	3.9	51	--	--	--	--	1.0	Aug-12
Vanguard Total Bond Market Index Fund	9,905,560	18.1	0.2	28	4.1	36	3.9	51	--	--	--	--	1.0	Aug-12
<i>Barclays Aggregate</i>			<u>0.2</u>	30	<u>4.1</u>	36	<u>4.0</u>	51	<u>2.4</u>	67	<u>4.1</u>	59	<u>1.1</u>	<i>Aug-12</i>
Over/Under			0.0		0.0		-0.1						-0.1	
<i>eA All US Fixed Inc Net Median</i>			0.0		3.5		4.0		3.3		4.6		1.7	<i>Aug-12</i>
Inflation-Linked Composite	11,639,363	21.2	-5.3	--	7.5	--	6.4	--	--	--	--	--	0.0	Aug-12
Real Estate Composite	5,358,159	9.8	-3.1	74	14.0	63	13.2	80	--	--	--	--	7.6	Aug-12
Vanguard REIT Index Fund	5,358,159	9.8	-3.1	74	14.0	63	13.2	80	--	--	--	--	7.6	Aug-12
<i>MSCI US REIT</i>			<u>-3.4</u>	88	<u>13.0</u>	89	<u>11.9</u>	94	<u>15.3</u>	93	<u>14.6</u>	96	<u>6.4</u>	<i>Aug-12</i>
Over/Under			0.3		1.0		1.3						1.2	
<i>eA US REIT Net Median</i>			-2.7		14.2		14.3		16.9		16.2		8.1	<i>Aug-12</i>
Commodities Composite	4,738,028	8.6	-6.8	--	3.2	--	2.0	--	--	--	--	--	-5.9	Oct-12
<i>Custom Commodity Risk Parity Index</i>			<u>-7.1</u>	--	<u>3.6</u>	--	<u>2.0</u>	--	<u>-1.9</u>	--	--	--	<u>-4.5</u>	<i>Oct-12</i>
Over/Under			0.3		-0.4		0.0						-1.4	
Credit Suisse	4,738,028	8.6	-6.8	--	3.2	--	1.9	--	--	--	--	--	-3.1	Nov-12
<i>Custom Commodity Risk Parity Index</i>			<u>-7.1</u>	--	<u>3.6</u>	--	<u>2.0</u>	--	<u>-1.9</u>	--	--	--	<u>-3.1</u>	<i>Nov-12</i>
Over/Under			0.3		-0.4		-0.1						0.0	
Multi-Asset Inflation-Linked Assets Composite	1,543,176	2.8	-8.0	--	0.0	--	--	--	--	--	--	--	0.0	Jan-14
Wellington	1,543,176	2.8	-8.0	--	0.0	--	--	--	--	--	--	--	0.0	Jan-14
<i>CPI + 5% (Unadjusted)</i>			<u>1.1</u>	--	<u>5.9</u>	--	<u>6.7</u>	--	<u>6.7</u>	--	<u>7.1</u>	--	<u>5.9</u>	<i>Jan-14</i>
Over/Under			-9.1		-5.9		--						-5.9	

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	YTD (%)	Rank	1 Yr (%)	Rank	3 Yrs (%)	Rank	5 Yrs (%)	Rank	Return (%)	Since
GAA Composite	7,084,009	12.9	--	--	--	--	--	--	--	--	--	--	-2.9	Sep-14
60% MSCI World (Net) / 40% CITI WGBI			<u>-2.8</u>	--	<u>2.8</u>	--	<u>7.2</u>	--	<u>10.4</u>	--	<u>7.3</u>	--	<u>-3.0</u>	Sep-14
Over/Under													0.1	
GMO	3,577,627	6.5	--	--	--	--	--	--	--	--	--	--	-1.9	Sep-14
60% MSCI World (Net) / 40% CITI WGBI			<u>-2.8</u>	--	<u>2.8</u>	--	<u>7.2</u>	--	<u>10.4</u>	--	<u>7.3</u>	--	<u>-3.0</u>	Sep-14
Over/Under													1.1	
PIMCO	3,506,382	6.4	--	--	--	--	--	--	--	--	--	--	-3.9	Sep-14
60% MSCI World (Net) / 40% CITI WGBI			<u>-2.8</u>	--	<u>2.8</u>	--	<u>7.2</u>	--	<u>10.4</u>	--	<u>7.3</u>	--	<u>-3.0</u>	Sep-14
Over/Under													-0.9	
Cash	2,802,753	5.1	0.0	--	0.0	--	0.0	--	--	--	--	--	0.0	Jul-12
Cash	2,802,753	5.1	0.0	--	0.0	--	0.0	--	--	--	--	--	0.0	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			0.0		0.0		0.0						0.0	

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

No Action	Informational items have surfaced; no action is recommended.
Watch	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.
Hold	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.
Client Review	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.
Terminate	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.

Due Diligence Commentary

Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

Manager Changes/Announcements

PIMCO

On September 26, 2014 PIMCO announced several changes to senior leadership and portfolio management in reaction to the sudden resignation of founder and CIO Bill Gross. The following changes were announced:

- Bill Gross resigned from the firm, effective immediately, and will join Janus Capital Group, Inc.
- Daniel Ivascyn was elected Global CIO, succeeding Bill Gross
- PIMCO appointed Andrew Balls, CIO Global; Mark Kiesel, CIO Global Credit; Virginie Maissonneuve, CIO Equities; Scott Mather CIO U.S. Core strategies; and Mihir Worah, CIO Real Return and Asset Allocation
- Scott Mather and Mark Mihir were appointed Portfolio Managers for the Total Return Fund
- Saumil Parikh, Mohsen Fahmi, and Dan Ivascyn will serve as Portfolio Managers for the Unconstrained Bond Fund.
- PIMCO also announced Chris Dialynas will return from sabbatical in the fourth quarter of 2014

The news comes on the heels of a number of organizational related developments at PIMCO, including the departures of co-CIO and CEO Mohammed El-Erian and Managing Director Marc Seidner, the appointment of six deputy CIOs, as well as numerous unfavorable media profiles of Mr. Gross and his at times erratic behavior. At that time, NEPC believed that many of the announcements were disconcerting and a potential risk to the overall health of the organization; however, because Mr. Gross remained with the firm, the investment process was unaltered, and the enactment of a Deputy CIO structure tempered succession concerns, NEPC did not believe PIMCO's investment capabilities would suffer. NEPC conducted many meetings, phone calls, and e-mail correspondence with senior personnel at PIMCO, including Bill Gross and the then Deputy CIOs in response to aforementioned developments. We felt that while the situation was transient at the time, the placement of the six Deputy CIOs had cleared some uncertainty regarding leadership transition after the heir-apparent, Mohammed El-Erian, resigned from PIMCO.

Organizational and Business Risk

Risk of additional turnover at senior ranks within the organization is a concern to NEPC in the near term. During NEPC's onsite meeting with PIMCO, they expressed that they are doing all they can to structure incentive plans and compensation arrangements to mitigate turnover risk in the intermediate term. On a positive note, we view the appointment of a clear successor in Dan Ivascyn as constructive given the uncertainty surrounding leadership transition in recent months. After speaking with various members of the firm, including a member of the CIO selection committee, it is clear that Mr. Ivascyn was a leading candidate and is a very well-respected leader and investor at PIMCO. Longer-term business impact is another aspect we will be monitoring. PIMCO has experienced significant outflows as a result of this announcement, totaling approximately 7% (\$40 B) as at September 30, 2014. A reduction in assets will negatively impact the firm's revenue, which has broader implications on staffing, compensation, and growth in the mid- to long term. This is an area that NEPC will investigate further in order to assess critical asset levels.

Due Diligence Commentary

Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

Manager Changes/Announcements

PIMCO (continued)

Cultural Impact

Bill Gross' resignation also brings about concerns regarding firm culture, and the potential for it to evolve. PIMCO is known as an incredibly competitive meritocracy, a culture championed by Bill Gross over the years. In a conversation with senior investment professionals at PIMCO, including Dan Ivascyn, Scott Mather (CIO of Core Strategies), and Saumil Parikh (Managing Director and Investment Committee member), all three separately refuted that culture would change significantly. On the margin, they expressed that investment discussions could become less centralized, creating a more collegial environment, which we would view as a positive.

Investment Impact

The All Asset funds are products that Bill Gross was not the lead portfolio manager for, nor was he an intricate part of the team for these products. PIMCO is a leading investment manager in the fixed income markets and has been successful in the management of a broad array of strategies for many years. Notwithstanding Mr. Gross' resignation, PIMCO maintains a talented and experienced team of investment staff, led by an impressive group of CIOs who have worked together for periods of 10 years and longer. Bill Gross' departure does not change this significantly, given that he was dedicated to a small number of strategies as lead portfolio manager (Total Return and Unconstrained Bond). PIMCO expressed to us that the investment process will largely remain the same with a few minor process enhancements that may take place over an extended period of time. PIMCO's top-down investment committee and secular and cyclical forum decision-making structure will remain in place and continue to drive portfolio positioning and implementation. We do, however, realize that Mr. Gross has been a key contributor and the most influential decision maker at the firm since its inception. NEPC believes this generates uncertainty regarding the potential for adverse impact on long-term investment process and performance.

NEPC recommends 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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- **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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