

# FUND EVALUATION REPORT

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## San Jose Federated Retiree Health Care Trust Fund

Quarterly Review  
September 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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- Conditions as of September 30, 2012
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- Third Quarter Manager Summary

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**4. Portfolio Reviews**





**5. Corporate Update**

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

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

### Conditions as of September 30, 2012<sup>1</sup>

<b>Earnings</b>		Domestic earnings remain close to historic highs, but revenue growth has recently shown signs of slowing. At the end of 2011 sales for the S&P 500 grew at a rate of close to 8% from one year prior, while September 2012 sales are estimated to have grown only 1.6% from the same quarter one year ago. If this trend continues going forward it could weigh on domestic equities. Earnings for companies in the EAFE index and emerging markets have declined year-to-date, with the decline being more prominent in the EAFE index.
<b>Credit Spreads</b>		In a reversal of the prior quarter trend, credit spreads compressed in the third quarter as investors moved back into “riskier” fixed income securities. Year-to-date, domestic high yield and investment grade corporate bond spreads fell 150 and 80 basis points, respectively. Spreads for developed international and emerging market bonds fell as well, though the decline was larger in emerging markets.
<b>Commodities</b>		Commodities rebounded broadly from their difficult second quarter. Energy commodities led the way, with gasoline up close to 30%. Precious metals rallied as additional easing by the Federal Reserve was beneficial to the sector. Gold and silver rose 10.6% and 25.2%, respectively, during the quarter. Industrial metals increased as well, based on signs of a stabilizing global economy and the additional monetary stimulus.
<b>Currencies</b>		The U.S. dollar weakened against most major currencies due in part to the Federal Reserve’s decision to launch its third round of quantitative easing (QE3). The euro strengthened during the quarter (+1.6%) as the European Central Bank (ECB) announced further supportive measures. Several “riskier” currencies had the strongest performance relative to the dollar during the quarter, particularly the Indian rupee and Russian ruble.

<sup>1</sup> Sources: FactSet, Bloomberg, U.S. Treasury. Standard & Poors. Data is as of September 30, 2012.

**The value of the San Jose Federated Retiree Health Care Trust Fund was \$41.7 million on September 30, 2012, up from \$21.6 million since the end of the previous quarter.**

- The increase in assets during the quarter was primarily due to a contribution of \$18.0 million in July 2012.
- Third quarter performance for the Health Care Trust Fund was 5.4% net of fees, bringing the trailing one-year return to 7.2% net of fees.
- Performance for the Health Care Trust Fund equaled the Policy Benchmark during the third quarter.
  - Portfolio allocation detracted 0.3% from total performance during the third quarter.
  - Active management added 0.3% to total performance during the third quarter.
- At the end of the third quarter, all asset classes were within target ranges.
- With the additional investment made in July, the Health Care Trust Fund's investment in the Vanguard Total Bond Market Index Fund qualified for a different share class with a lower expense ratio. The Health Care Trust Fund is now invested in the Institutional Shares (VBTIX), which has a 0.07% expense ratio and a \$5 million minimum investment, compared to the Signal Shares (VBT SX), which has a 0.10% expense ratio.

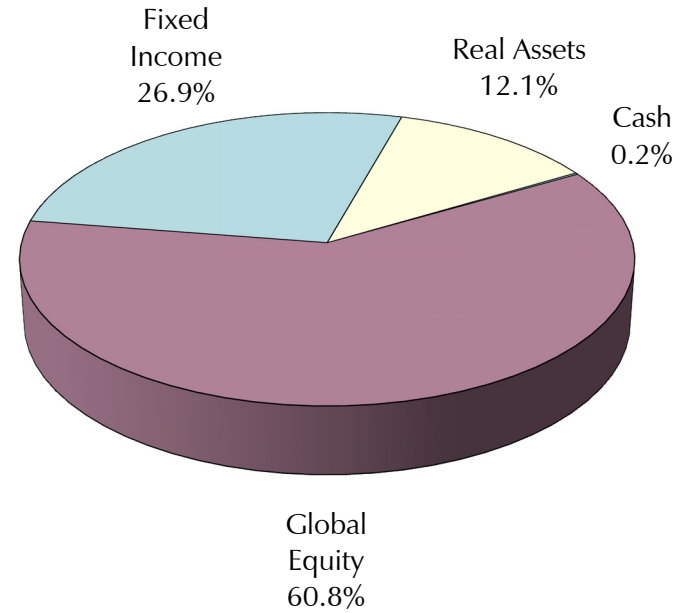
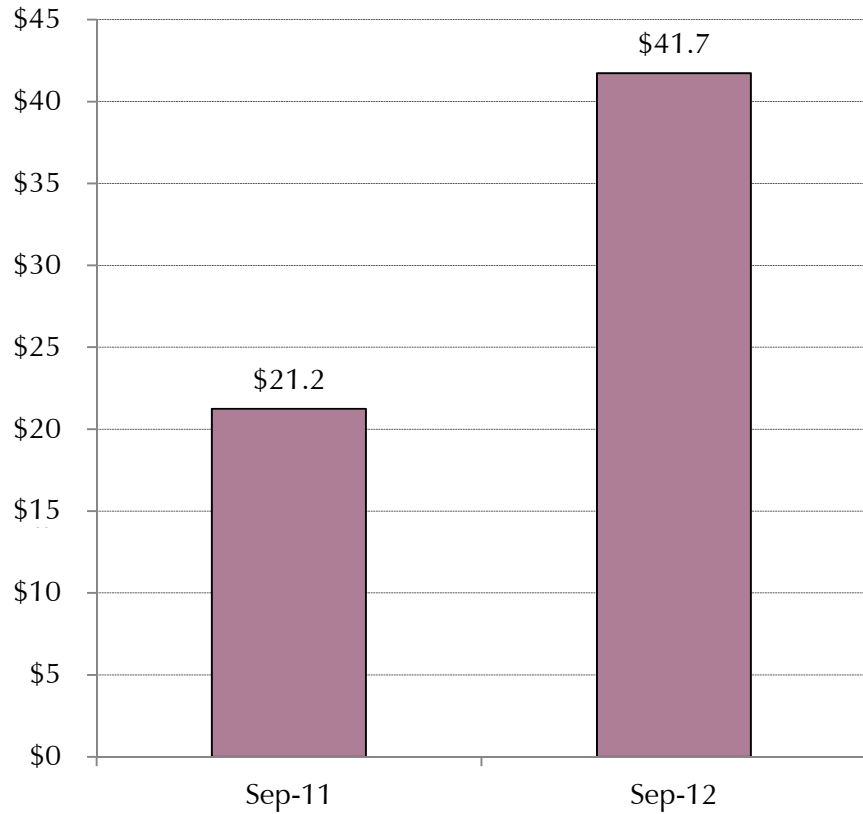
Investment Manager	Asset Class	Changes/ Announcements	Performance Concerns	Meketa Recommendation <sup>1</sup>	Comments
Vanguard					
Vanguard Russell 3000	Global Equity	---	---	---	
Vanguard Developed Markets	Global Equity	Yes	---	Hold	Changing benchmark
Vanguard Emerging Markets	Global Equity	Yes	---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

- Vanguard** – In an effort to maintain low operating costs and potentially lower expense ratios in the future, Vanguard is changing the benchmark for 22 of its index funds. Vanguard will be replacing MSCI benchmarks with those maintained by FTSE and CRSP. The transition is expected to take place over a number of months.
  - The Vanguard Developed Markets Index will change its benchmark from the MSCI EAFE Index to the FTSE Developed ex-North America Index.
  - The Vanguard Emerging Markets Index will change its benchmark from the MSCI Emerging Markets Index to the FTSE Emerging Index.

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



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





San Jose Federated Retiree Health Care Trust Fund

Aggregate Assets  
Asset Summary as of 9/30/12

	Market Value 9/30/12 (\$ mm)	% of Health Care Trust	Target Allocation (%)	Target Range (%)	Market Value 6/30/12 (\$ mm)
<b>Total Fund Aggregate</b>	<b>41.7</b>	<b>100.0</b>	<b>NA</b>	<b>NA</b>	<b>21.6</b>
Global Equity	25.4	60.8	59	53-65	13.0
Fixed Income	11.2	26.9	28	23-33	6.2
Real Assets	5.1	12.1	13	8-18	2.3
Cash	0.1	0.2	NA	NA	0.1



## San Jose Federated Retiree Health Care Trust Fund

## Aggregate Assets Portfolio Roster as of 9/30/12

	Market Value 9/30/12 (\$ mm)	% of Asset Class	% of Health Care Trust	Target Allocation (%)	Target Range (%)	Market Value 6/30/12 (\$ mm)
<b>Total Fund Aggregate</b>	<b>41.7</b>	<b>NA</b>	<b>100.0</b>	<b>NA</b>	<b>NA</b>	<b>21.6</b>
<b>Global Equity</b>	<b>25.4</b>	<b>100.0</b>	<b>60.8</b>	<b>59</b>	<b>53-65</b>	<b>13.0</b>
Vanguard Developed Markets Index	11.5	45.2	27.5			5.6
Vanguard Russell 3000	11.4	44.8	27.2			6.1
Vanguard Emerging Markets Stock Index	2.5	10.0	6.1			1.2
<b>Fixed Income</b>	<b>11.2</b>	<b>100.0</b>	<b>26.9</b>	<b>28</b>	<b>23-33</b>	<b>6.2</b>
Vanguard Total Bond Market Index	6.4	57.0	15.3			3.5
Vanguard Inflation-Protected Securities	4.8	43.0	11.6			2.7
<b>Real Assets</b>	<b>5.1</b>	<b>100.0</b>	<b>12.1</b>	<b>13</b>	<b>8-18</b>	<b>2.3</b>
Credit Suisse Compound Risk Parity Commodity Index	2.6	51.1	6.2			1.2
First Quadrant Risk Parity Commodity Index	2.5	48.9	5.9			1.1
<b>Cash</b>	<b>0.1</b>	<b>100.0</b>	<b>0.2</b>	<b>NA</b>	<b>NA</b>	<b>0.1</b>



## San Jose Federated Retiree Health Care Trust Fund

## Aggregate Assets Performance as of 9/30/12

	3Q12 (%)	Calendar YTD (%)	1 YR (%)	Performance Inception Date	Since Inception (%)
<b>Total Fund Aggregate (Net of Fees)</b>	<b>5.4</b>	<b>9.8</b>	<b>7.2</b>	<b>7/1/11</b>	<b>4.8</b>
<i>CPI Medical Care (Inflation)</i>	0.6	3.1	4.1		3.7
<i>San Jose Healthcare Policy Benchmark<sup>1</sup></i>	5.4	9.9	15.1		2.5
<i>San Jose Healthcare Custom Benchmark<sup>2</sup></i>	5.2	9.5	8.0		5.4
Global Equity	7.3	14.2	NA	12/1/11	13.1
<i>Global Equity HC Policy Benchmark<sup>3</sup></i>	6.7	13.1	21.4		12.9
<i>MSCI ACWI IMI</i>	6.8	13.0	21.1		12.7
Fixed Income	1.6	4.8	NA	12/1/11	5.5
<i>Fixed Income HC Policy Benchmark<sup>4</sup></i>	1.8	5.0	6.9		5.7
<i>Barclays Aggregate</i>	1.6	4.0	5.2		5.1
<i>Barclays U.S. TIPS</i>	2.1	6.2	9.1		6.3
Real Assets	7.3	2.4	0.4	8/1/11	-6.8
<i>Custom Risk Parity Benchmark<sup>5</sup></i>	7.3	4.4	3.5		-5.0

<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 Retiree Health Care Trust Fund

## Aggregate Assets Performance as of 9/30/12

	3Q12 (%)	Calendar YTD (%)	1 YR (%)	Performance Inception Date	Since Inception (%)
<b>Global Equity</b>	<b>7.3</b>	<b>14.2</b>	<b>NA</b>	<b>12/1/11</b>	<b>13.1</b>
Vanguard Developed Markets Index	6.5	10.7	NA	12/1/11	8.1
<i>MSCI EAFE</i>	6.9	10.1	13.8		9.0
Vanguard Russell 3000	6.2	16.1	NA	12/1/11	17.0
<i>Russell 3000</i>	6.2	16.1	30.2		17.1
Vanguard Emerging Markets Stock Index	6.5	11.2	NA	12/1/11	7.6
<i>MSCI Emerging Markets</i>	7.7	12.0	16.9		10.6
<b>Fixed Income</b>	<b>1.6</b>	<b>4.8</b>	<b>NA</b>	<b>12/1/11</b>	<b>5.5</b>
Vanguard Total Bond Market Index	1.6	4.0	NA	12/1/11	5.2
<i>Barclays Aggregate Float Adjusted Index</i>	1.6	4.1	5.3		5.2
Vanguard Inflation-Protected Securities	2.1	6.2	NA	12/1/11	6.4
<i>Barclays U.S. TIPS</i>	2.1	6.2	9.1		6.3



San Jose Federated Retiree Health Care Trust Fund

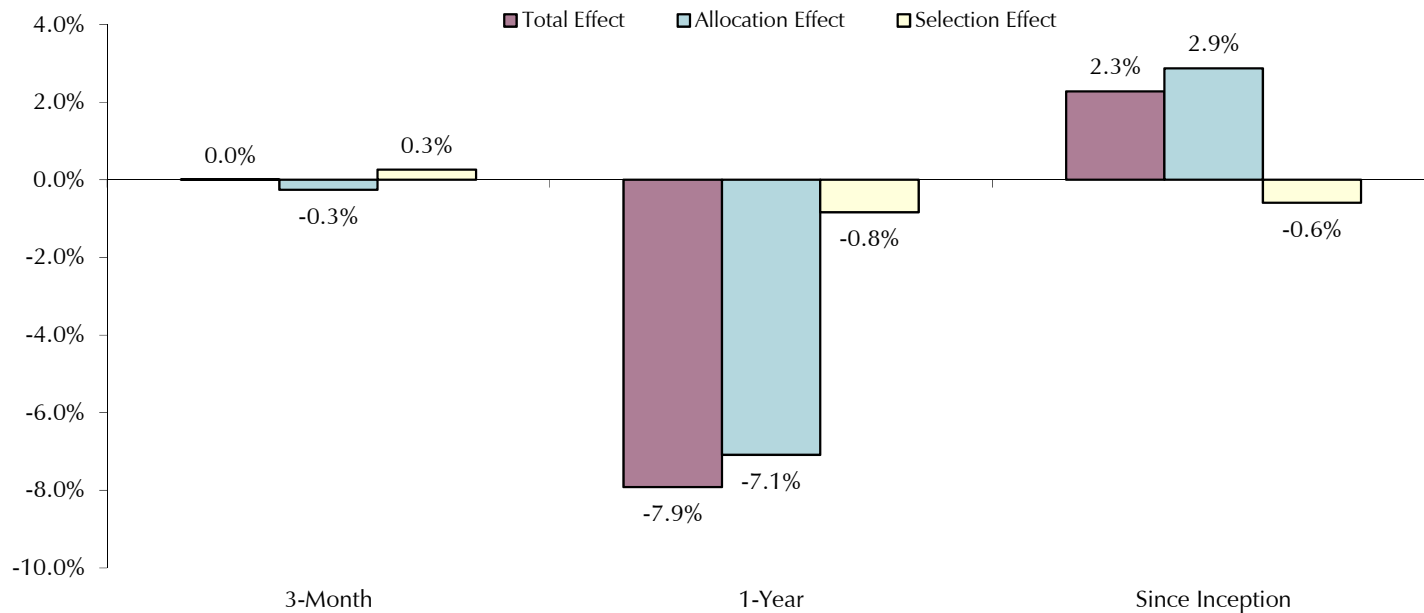
Aggregate Assets  
Performance as of 9/30/12

	3Q12 (%)	Calendar YTD (%)	1 YR (%)	Performance Inception Date	Since Inception (%)
<b>Real Assets</b>	<b>7.3</b>	<b>2.4</b>	<b>0.4</b>	<b>8/1/11</b>	<b>-6.8</b>
Credit Suisse Compound Risk Parity Commodity Index	7.7	4.6	3.5	8/1/11	-4.6
<i>Custom Risk Parity Benchmark<sup>1</sup></i>	7.3	4.4	3.5		-5.0
<i>Dow Jones-UBS Commodity Index</i>	9.7	5.6	5.9		-7.6
First Quadrant Risk Parity Commodity Index	6.8	0.2	-2.5	8/1/11	-9.1
<i>Custom Risk Parity Benchmark<sup>1</sup></i>	7.3	4.4	3.5		-5.0
<i>Dow Jones-UBS Commodity Index</i>	9.7	5.6	5.9		-7.6

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



**Performance Attribution: Total Fund vs. Policy Benchmark**  
as of 9/30/12



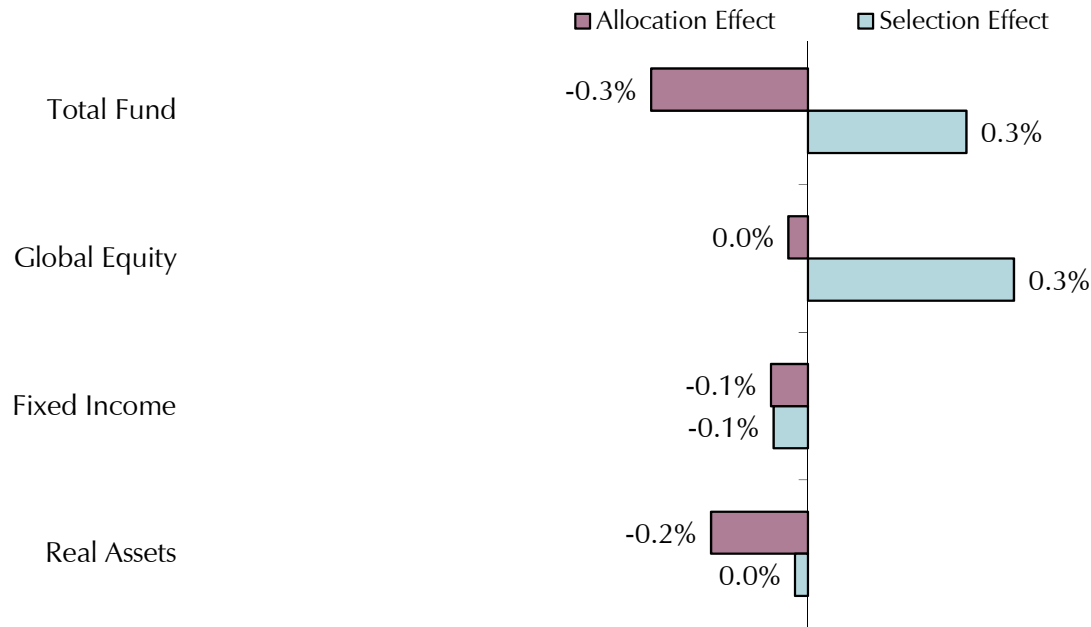
**Total Effect:** The total effect is the difference between the performance of the total fund and the return for the policy benchmark. The total effect is calculated by adding the allocation effect and the selection effect.

**Allocation Effect:** The allocation effect measures the impact of over- and under-weighting the fund allocations compared to the target allocations. The allocation effect is calculated by subtracting the Policy Benchmark return from the Custom Benchmark return.

**Selection Effect:** The selection effect measures the contribution of active management. For this analysis, the interaction effect, which measures the combined impact of selection and allocation, is included in the selection effect. Therefore, the selection effect is calculated by subtracting the Custom Benchmark return from the Total Fund return.

**Performance Attribution (Total Fund): Asset Class vs. Policy Benchmark**  
as of 9/30/12

3Q12



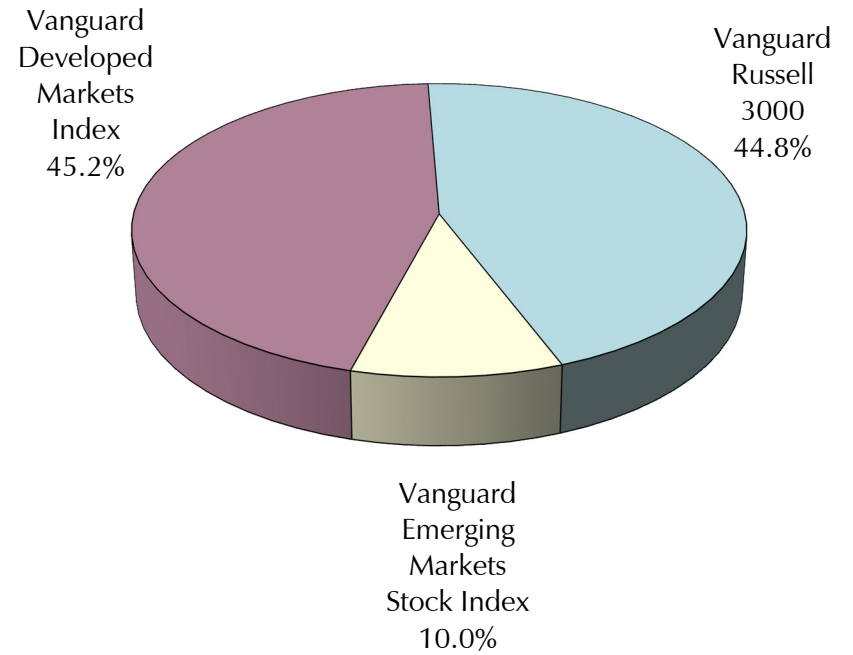
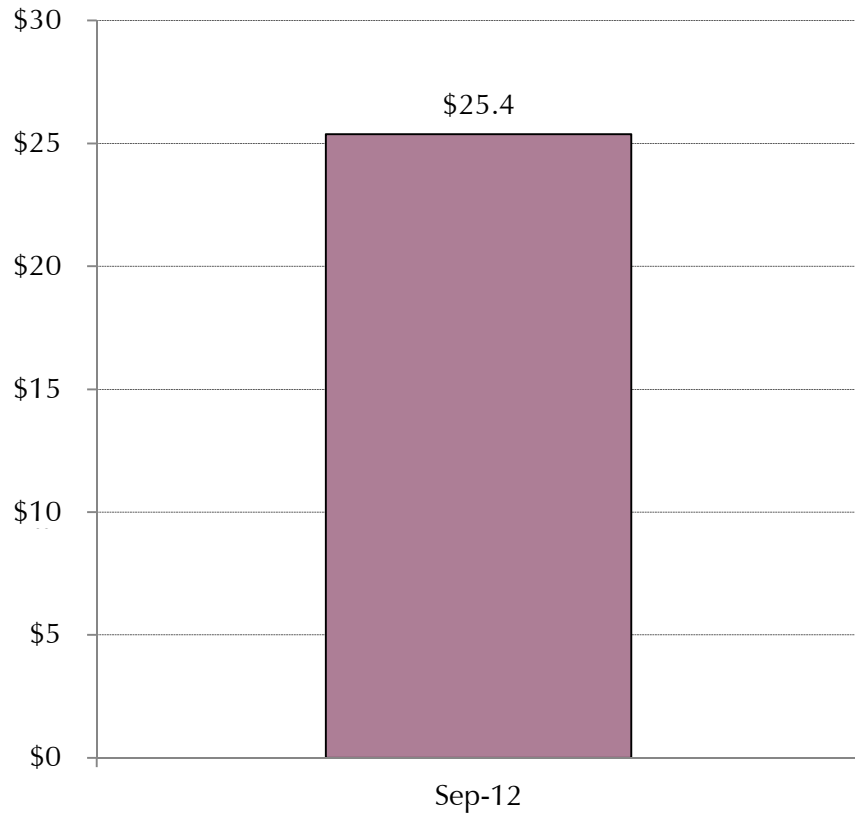
**Allocation Effect:** The allocation effect measures the impact of over- and under-weighting the fund allocations compared to the target allocations at the Total Fund level. The allocation effect is calculated by subtracting the asset class benchmark return from the asset class custom benchmark return.

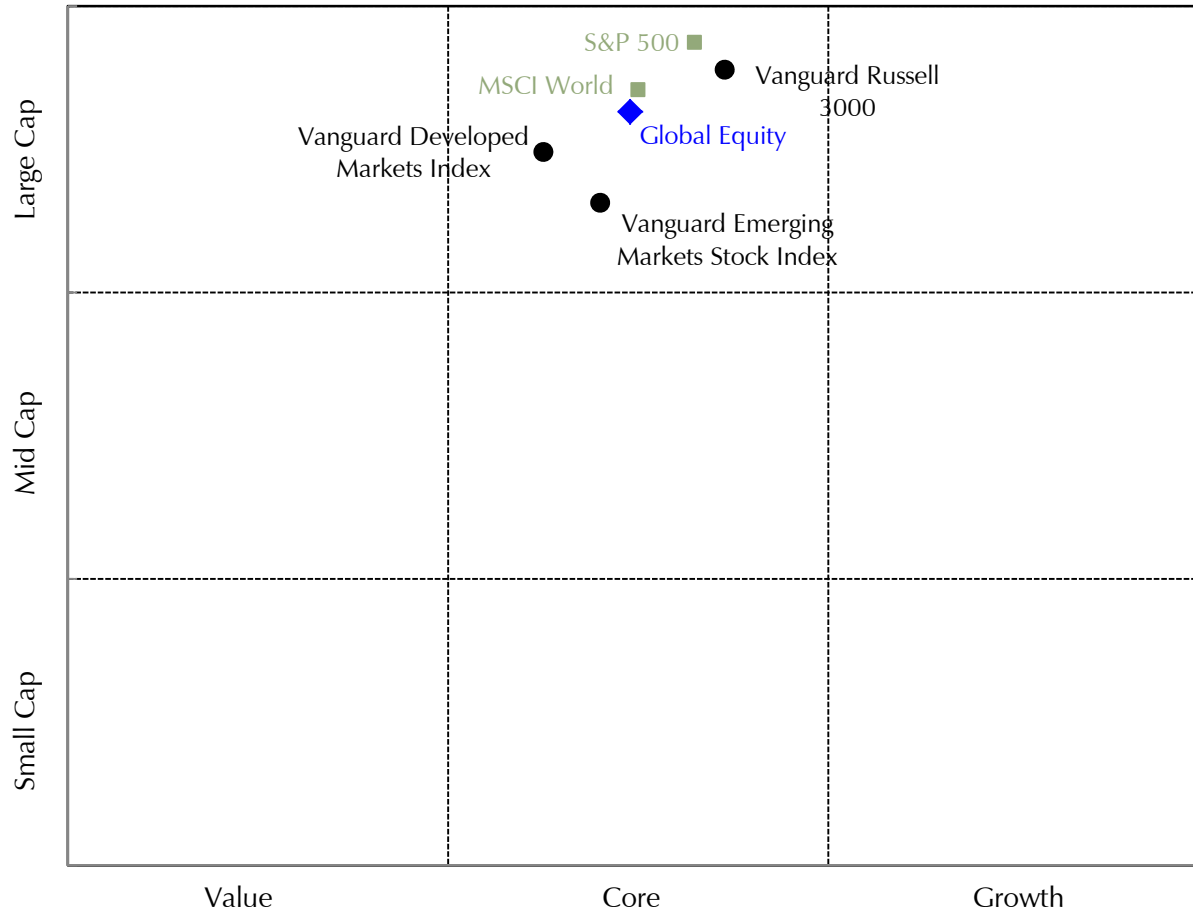
**Selection Effect:** The selection effect measures the contribution of active management at the Total Fund level. For this analysis, the interaction effect, which measures the combined impact of selection and allocation, is included in the selection effect. Therefore, the selection effect is calculated by subtracting the asset class custom benchmark return from the asset class contribution to the Total Fund return.

## Fund Detail



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





	Aggregate Global Equity 9/30/12	MSCI ACWI IMI 9/30/12	Aggregate Global Equity 6/30/12
<b>Capitalization Structure:</b>			
Weighted Average Market Cap. (US\$ billion)	73.7	71.3	69.0
Median Market Cap. (US\$ billion)	2.9	1.0	2.9
Large (% over US\$10 billion)	76	71	75
Medium (% US\$2 billion to US\$10 billion)	20	20	21
Small (% under US\$2 billion)	4	8	4
<b>Fundamental Structure:</b>			
Price-Earnings Ratio	19	19	18
Price-Book Value Ratio	2.9	2.9	2.8
Dividend Yield (%)	2.8	2.7	2.9
Historical Earnings Growth Rate (%)	7	7	7
Projected Earnings Growth Rate (%)	12	12	11

Diversification:	Aggregate Global Equity 9/30/12	MSCI ACWI IMI 9/30/12	Aggregate Global Equity 6/30/12
Number of Holdings	4,491	8,611	4,415
% in 5 largest holdings	5	5	5
% in 10 largest holdings	8	8	9

**Largest Five Holdings:**

Apple Computer  
ExxonMobil  
Nestle  
HSBC Holdings PLC  
General Electric

**% of Portfolio**

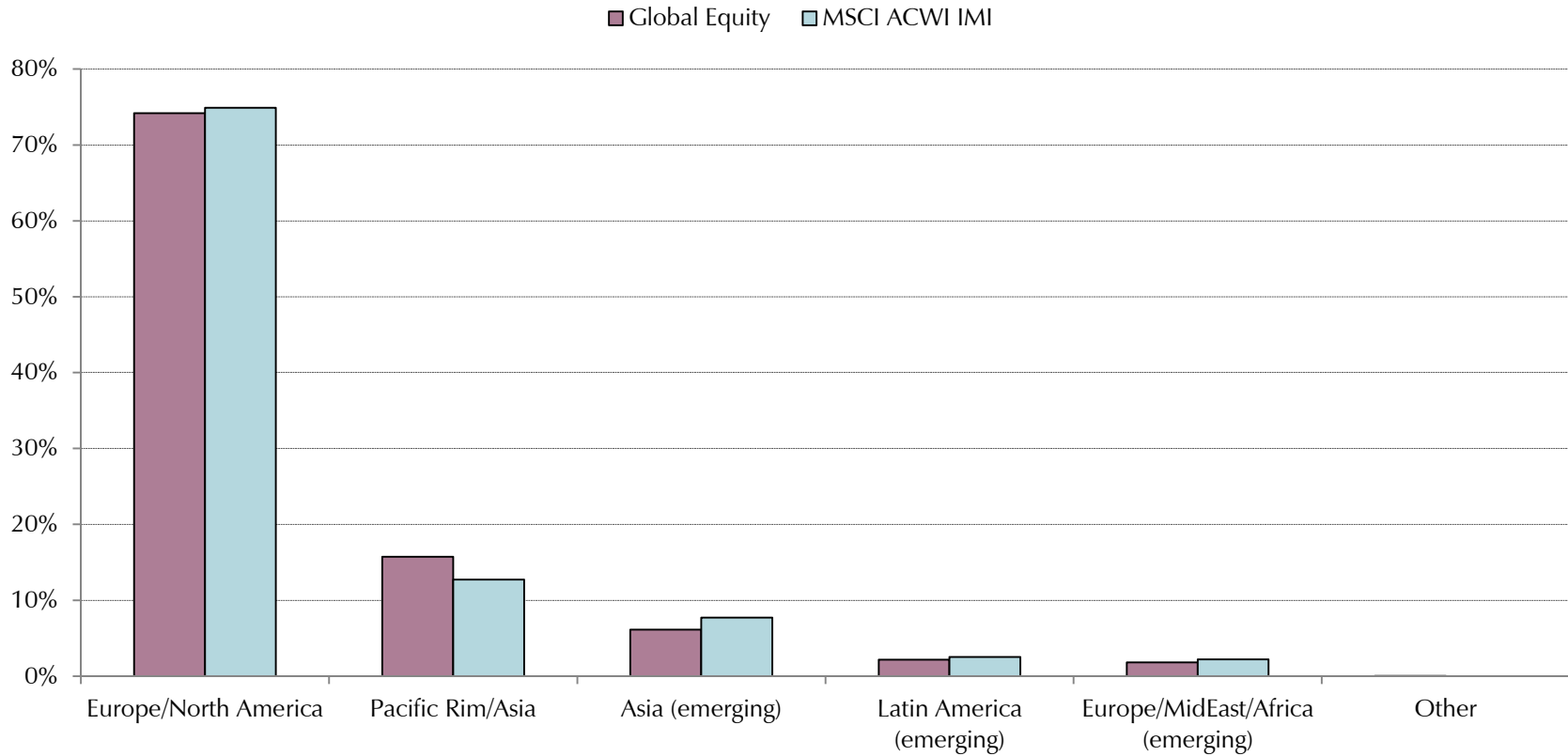
1.8  
1.2  
0.9  
0.7  
0.7

**Economic Sector**

Technology Hardware  
Energy  
Food Beverage & Tobacco  
Banks  
Capital Goods

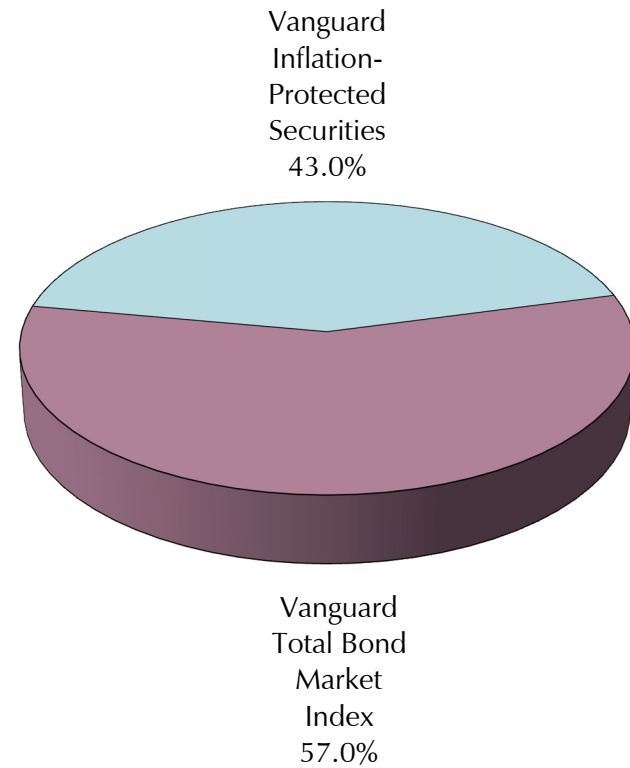
Sector Allocation (%):	Aggregate Global Equity 9/30/12	MSCI ACWI IMI 9/30/12	Aggregate Global Equity 6/30/12
Consumer Staples	11	10	11
Health Care	10	9	10
Telecom	5	4	5
Financials	20	20	20
Utilities	4	4	4
Industrials	11	11	11
Consumer Discretionary	11	11	11
Materials	7	8	7
Information Technology	12	13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

	Aggregate Global Equity 9/30/12 (%)	MSCI ACWI IMI 9/30/12 (%)		Aggregate Global Equity 9/30/12 (%)	MSCI ACWI IMI 9/30/12 (%)
<b>Europe/North America</b>	<b>74.2</b>	<b>74.9</b>	<b>Asia (emerging)</b>	<b>6.1</b>	<b>7.7</b>
United Kingdom	10.5	8.2	China	1.8	2.1
France	4.2	3.0	South Korea	1.6	2.0
Switzerland	3.9	2.8	Taiwan	1.1	1.5
Germany	3.9	2.9	<b>Latin America (emerging)</b>	<b>2.2</b>	<b>2.5</b>
Spain	1.3	1.0	Brazil	1.3	1.5
Sweden	1.5	1.1	<b>Europe/MidEast/Africa (emerging)</b>	<b>1.8</b>	<b>2.2</b>
Netherlands	1.1	0.8	<b>Other</b>	<b>0.0</b>	<b>0.0</b>
Italy	1.0	0.8			
United States	44.6	47.7			
<b>Pacific Rim/Asia</b>	<b>15.7</b>	<b>12.7</b>			
Japan	9.1	7.4			
Australia	4.0	3.2			
Hong Kong	1.4	1.1			

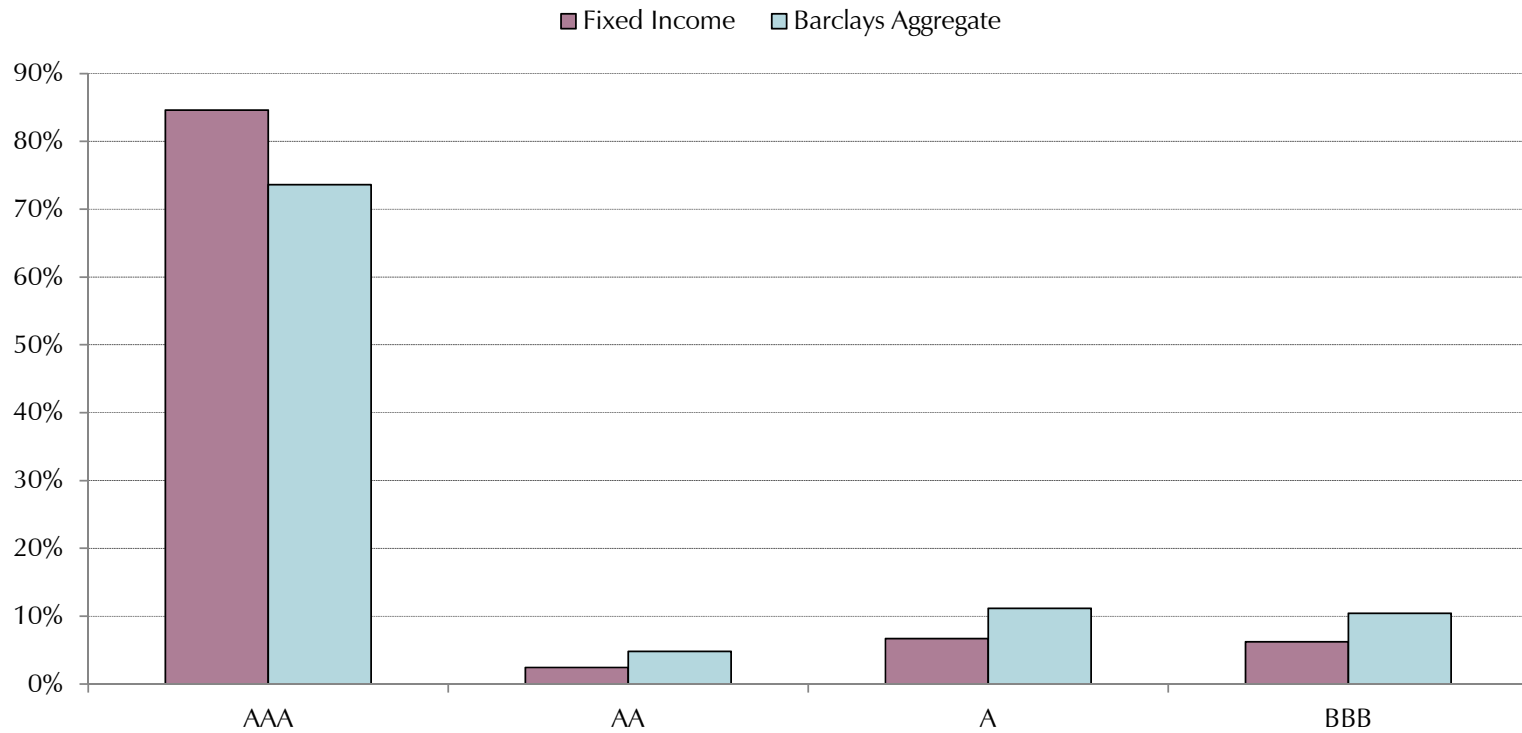




**Fixed Income Assets  
As of September 30, 2012**



Duration & Yield:	Aggregate Fixed Income 9/30/12	Barclays Aggregate 9/30/12	Aggregate Fixed Income 6/30/12
Average Effective Duration (years)	5.0	4.9	5.1
Yield to Maturity (%)	1.6	1.6	1.9



	Aggregate Fixed Income 9/30/12	Barclays Aggregate 9/30/12	Aggregate Fixed Income 6/30/12
<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	43	0	42
U.S. Agency	2	6	3
Mortgage Backed	15	30	15
Corporate	13	21	12
Bank Loans	0	0	0
Local & Provincial Government	0	1	0
Sovereign & Supranational	0	3	0
Commercial Mortgage Backed	1	2	1
Asset Backed	0	0	0
Cash Equivalent	0	0	0
Other	3	0	4

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

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

## San Jose Federated Retiree Health Care Trust Fund

## Vanguard Developed Markets Index Portfolio Detail as of 9/30/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$11.5 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 (%):	3Q12	YTD	Since 12/1/11
<b>Vanguard Developed Markets Index</b>	<b>6.5</b>	<b>10.7</b>	<b>8.1</b>
MSCI EAFE	6.9	10.1	9.0
Peer International Core	6.9	11.3	8.8
Peer Ranking (percentile)	59	59	58

	9/30/12		6/30/12	
<b>Capitalization Structure:</b>	Vanguard Developed Markets	MSCI EAFE	Vanguard Developed Markets	MSCI EAFE
Weighted Average Market Cap. (US\$ billion)	55.1	55.0	51.9	51.9
Median Market Cap. (US\$ billion)	7.0	6.9	6.7	6.5
Large (% over US\$10 billion)	80	79	78	78
Medium (% US\$2 billion to US\$10 billion)	20	20	22	22
Small (% under US\$2 billion)	1	1	1	1
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	17	17	16	16
Price-Book Value Ratio	2.4	2.5	2.3	2.3
Dividend Yield (%)	3.7	3.7	4.0	4.0
Historical Earnings Growth Rate (%)	3	3	3	3
Projected Earnings Growth Rate (%)	12	12	10	10
<b>Sector Allocation (%):</b>				
Industrials	12	12	12	12
Materials	10	10	10	10
Consumer Discretionary	10	10	11	11
Utilities	4	4	4	4
Health Care	10	10	10	10
Information Technology	4	4	4	5
Telecom	5	5	6	6
Consumer Staples	12	12	12	12
Energy	8	8	8	8
Financials	24	24	23	23
<b>Diversification:</b>				
Number of Holdings	931	920	931	919
% in 5 largest holdings	8	8	8	8
% in 10 largest holdings	13	13	13	14
<b>Region Allocation (%):</b>				
Americas	0	0	0	0
Europe	65	65	64	64
Pacific Rim	35	35	36	36
<b>Largest Five Holdings:</b>	<b>Industry</b>			
Nestle	2.0	Food Beverage & Tobacco		
HSBC Holdings PLC	1.6	Banks		
Novartis	1.4	Pharmaceuticals & Biotech		
BP	1.3	Energy		
Vodafone	1.3	Telecommunication Services		



## San Jose Federated Retiree Health Care Trust Fund

## Vanguard Russell 3000 Portfolio Detail as of 9/30/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$11.4 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 (%):	3Q12	YTD	Since 12/1/11
<b>Vanguard Russell 3000</b>	<b>6.2</b>	<b>16.1</b>	<b>17.0</b>
Russell 3000	6.2	16.1	17.1
Peer Global Equity	6.4	13.2	11.4
Peer Ranking (percentile)	57	14	3

Capitalization Structure:	9/30/12		6/30/12	
	Vanguard Russell 3000	Russell 3000	Vanguard Russell 3000	Russell 3000
Weighted Average Market Cap. (US\$ billion)	99.9	99.9	90.7	90.5
Median Market Cap. (US\$ billion)	1.2	1.0	1.3	1.0
Large (% over US\$10 billion)	76	75	75	75
Medium (% US\$2 billion to US\$10 billion)	18	18	18	18
Small (% under US\$2 billion)	7	7	7	7

Fundamental Structure:	9/30/12	6/30/12	9/30/12	6/30/12
Price-Earnings Ratio	21	21	20	20
Price-Book Value Ratio	3.4	3.4	3.4	3.4
Dividend Yield (%)	1.8	1.8	1.9	1.8
Historical Earnings Growth Rate (%)	9	9	9	9
Projected Earnings Growth Rate (%)	11	11	12	12

Sector Allocation (%):	9/30/12	6/30/12	9/30/12	6/30/12
Consumer Discretionary	12	12	12	12
Telecom	3	3	3	3
Consumer Staples	9	9	10	10
Information Technology	19	19	19	19
Utilities	4	4	4	4
Health Care	12	12	12	12
Industrials	11	11	11	11
Energy	10	10	10	10
Financials	16	16	16	16
Materials	4	4	4	4

Diversification:	9/30/12	6/30/12	9/30/12	6/30/12
Number of Holdings	2,667	2,961	2,587	2,993
% in 5 largest holdings	11	11	11	11
% in 10 largest holdings	17	17	17	17

Region Allocation (%):	9/30/12	6/30/12	9/30/12	6/30/12
Europe/North America	100	100	100	100
Pacific Rim/Asia	0	0	0	0
Latin America (emerging)	0	0	0	0
Other	0	0	0	0

Largest Five Holdings:	9/30/12	Industry
Apple Computer	3.9	Technology Hardware
ExxonMobil	2.7	Energy
General Electric	1.5	Capital Goods
Chevron	1.4	Energy
IBM	1.4	Software & Services





## San Jose Federated Retiree Health Care Trust Fund

## Vanguard Emerging Markets Stock Index Portfolio Detail as of 9/30/12

**Mandate:** Global Equities  
**Active/Passive:** Passive  
**Market Value:** \$2.5 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 (%):	3Q12	YTD	Since 12/1/11
<b>Vanguard Emerging Markets Stock Index</b>	<b>6.5</b>	<b>11.2</b>	<b>7.6</b>
MSCI Emerging Markets	7.7	12.0	10.6
Peer Emerging Markets	6.9	12.2	7.8
Peer Ranking (percentile)	67	61	56

	9/30/12		6/30/12	
	Vanguard EM Index	MSCI Emerging Markets	Vanguard EM Index	MSCI Emerging Markets
<b>Capitalization Structure:</b>				
Weighted Average Market Cap. (US\$ billion)	38.1	44.6	36.1	41.7
Median Market Cap. (US\$ billion)	5.3	4.9	4.8	4.6
Large (% over US\$10 billion)	64	66	62	64
Medium (% US\$2 billion to US\$10 billion)	33	31	35	32
Small (% under US\$2 billion)	3	3	4	4
<b>Fundamental Structure:</b>				
Price-Earnings Ratio	17	17	15	15
Price-Book Value Ratio	2.8	2.8	2.7	2.6
Dividend Yield (%)	3.0	3.0	3.2	3.2
Historical Earnings Growth Rate (%)	15	15	15	15
Projected Earnings Growth Rate (%)	12	12	13	13
<b>Sector Allocation (%):</b>				
Financials	25	25	25	25
Utilities	4	4	4	4
Industrials	7	7	7	7
Consumer Staples	8	8	8	8
Health Care	1	1	1	1
Telecom	8	8	8	8
Information Technology	14	14	14	14
Materials	12	12	12	12
Consumer Discretionary	8	8	8	8
Energy	13	13	13	13
<b>Diversification:</b>				
Number of Holdings	894	817	898	819
% in 5 largest holdings	9	11	9	10
% in 10 largest holdings	14	16	14	16
<b>Region Allocation (%):</b>				
Asia	61	61	60	60
Latin America	21	21	22	22
Europe, Middle East and Africa	18	18	18	18
<b>Largest Five Holdings:</b>				
		<b>Industry</b>		
Samsung	2.5	Technology Hardware		
China Mobile	1.9	Telecommunication Services		
China Const Bank	1.4	Banks		
America Movil	1.4	Telecommunication Services		
Taiwan Semiconductor	1.4	Technology Hardware		



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

## San Jose Federated Retiree Health Care Trust Fund

## Vanguard Total Bond Market Index Portfolio Detail as of 9/30/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$6.4 million  
**Portfolio Manager:** Gregory Davis, CFA  
 Kenneth Volpert, CFA  
**Location:** Valley Forge, Pennsylvania  
**Inception Date:** 12/1/2011  
**Account Type:** Mutual Fund (VBTIX)

	Short	Int.	Long
High			
Medium			
Low			

**Fee Schedule:**  
 0.07% 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 (%):	3Q12	YTD	Since 12/1/11
<b>Vanguard Total Bond Market Index</b>	<b>1.6</b>	<b>4.0</b>	<b>5.2</b>
Barclays Aggregate Float Adjusted Index	1.6	4.1	5.2
Peer Core Fixed Income	1.7	4.1	5.3
Peer Ranking (percentile)	70	51	52

	9/30/12		6/30/12	
	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)	5.0	5.0	5.1	5.2
Yield to Maturity (%)	1.6	1.6	1.9	2.0
<b>Quality Structure (%):</b>				
Average Quality	AA+	AAA	AA+	AAA
AAA (includes Treasuries and Agencies)	73	72	73	73
AA	4	5	4	5
A	12	12	12	12
BBB	11	11	11	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	39	38
U.S. Treasury-TIPS	0	0	0	0
U.S. Agency	4	6	5	7
Mortgage Backed	26	26	26	27
Corporate	22	22	22	22
Bank Loans	0	0	0	0
Local & Provincial Government	0	2	0	2
Sovereign & Supranational	0	3	0	3
Commercial Mortgage Backed	2	2	2	2
Asset Backed	0	0	0	0
Cash Equivalent	0	0	0	0
Other	6	0	6	0
<b>Market Allocation (%):</b>				
United States	94	91	94	91
Foreign (developed markets)	5	7	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 Retiree Health Care Trust Fund

## Vanguard Inflation-Protected Securities Portfolio Detail as of 9/30/12

**Mandate:** Fixed Income  
**Active/Passive:** Passive  
**Market Value:** \$4.8 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 (%):	3Q12	YTD	Since 12/1/11
<b>Vanguard Inflation-Protected Securities</b>	<b>2.1</b>	<b>6.2</b>	<b>6.4</b>
Barclays U.S. TIPS	2.1	6.2	6.3
Peer TIPS	2.0	5.9	6.0
Peer Ranking (percentile)	36	25	31

Quality Structure (%):	9/30/12		6/30/12	
	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 (%):	9/30/12	6/30/12
U.S. Treasury-Nominal	0	0
U.S. Treasury-TIPS	100	99
U.S. Agency	0	0
Mortgage Backed	0	0
Corporate	0	0
Bank Loans	0	0
Local & Provincial Government	0	0
Sovereign & Supranational	0	0
Commercial Mortgage Backed	0	0
Asset Backed	0	0
Cash Equivalent	0	0
Other	0	1

Market Allocation (%):	9/30/12	6/30/12
United States	100	100
Foreign (developed markets)	0	0
Foreign (emerging markets)	0	0

Currency Allocation (%):	9/30/12	6/30/12
Non-U.S. Dollar Exposure	0	0



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

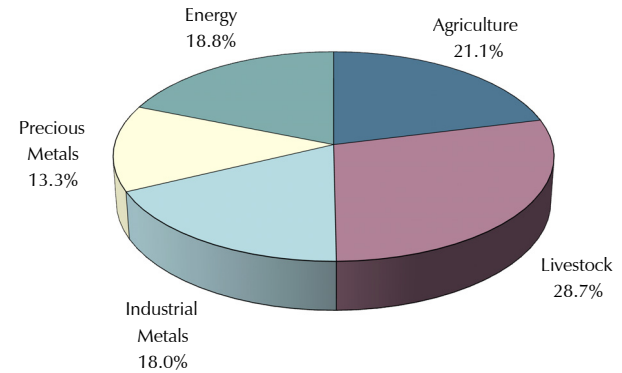
**Mandate:** Commodity  
**Active/Passive:** Active  
**Market Value:** \$2.6 million  
**Portfolio Manager:** Christopher Burton  
**Location:** New York, New York  
**Inception Date:** 8/1/2011  
**Account Type:** Commingled Fund

**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 (%):	3Q12	YTD	1 YR	Since 8/1/11
<b>Credit Suisse Compound Risk Parity Commodity Index</b>	<b>7.7</b>	<b>4.6</b>	<b>3.5</b>	<b>-4.6</b>
Custom Risk Parity Benchmark <sup>1</sup>	7.3	4.4	3.5	-5.0
Dow Jones-Commodity U.S. Index	9.7	5.6	5.9	-7.6

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



# San Jose Federated Retiree Health Care Trust Fund

## First Quadrant Risk Parity Commodity Index Portfolio Detail as of 9/30/12

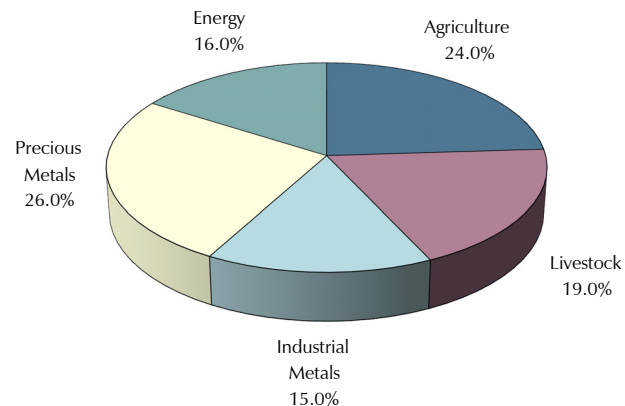
**Mandate:** Commodity  
**Active/Passive:** Active  
**Market Value:** \$2.5 million  
**Portfolio Manager:** Team  
**Location:** Pasadena, California  
**Inception Date:** 8/1/2011  
**Account Type:** Commingled Fund

**Fee Schedule:**  
 0.35% on all assets

**Liquidity Constraints:**  
 Monthly

**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 (%):	3Q12	YTD	1 YR	Since 8/1/11
<b>First Quadrant Risk Parity Commodity Index</b>	<b>6.8</b>	<b>0.2</b>	<b>-2.5</b>	<b>-9.1</b>
Custom Risk Parity Benchmark <sup>1</sup>	7.3	4.4	3.5	-5.0
Dow Jones-Commodity U.S. Index	9.7	5.6	5.9	-7.6

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

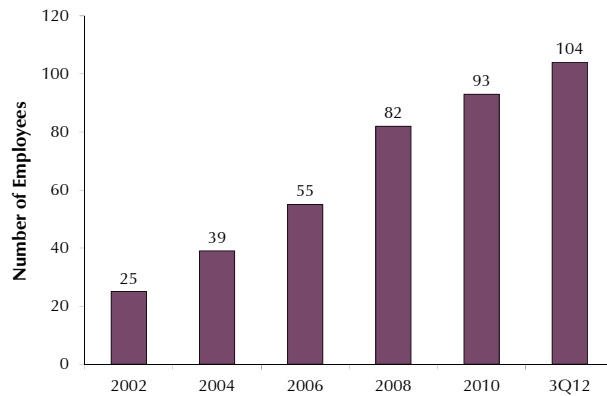


# **Meketa Investment Group Corporate Update**

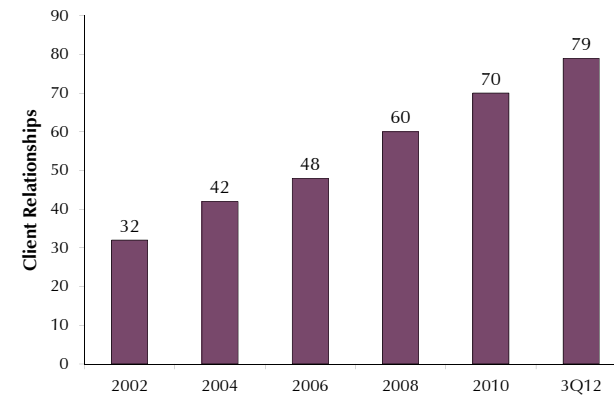


- Staff of 104, including 61 investment professionals and 19 CFA charterholders
- 79 clients, with over 160 funds throughout the United States
- Significant investment in staff and resources
- Offices in Boston, Miami, and San Diego
- Clients have aggregate assets of approximately \$470 billion
  - Over \$20 billion in assets committed to alternative investments
    - Private Equity
    - Infrastructure
    - Natural Resources
    - Real Estate
    - Hedge Funds
    - Commodities

Employee Growth



Client Growth



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



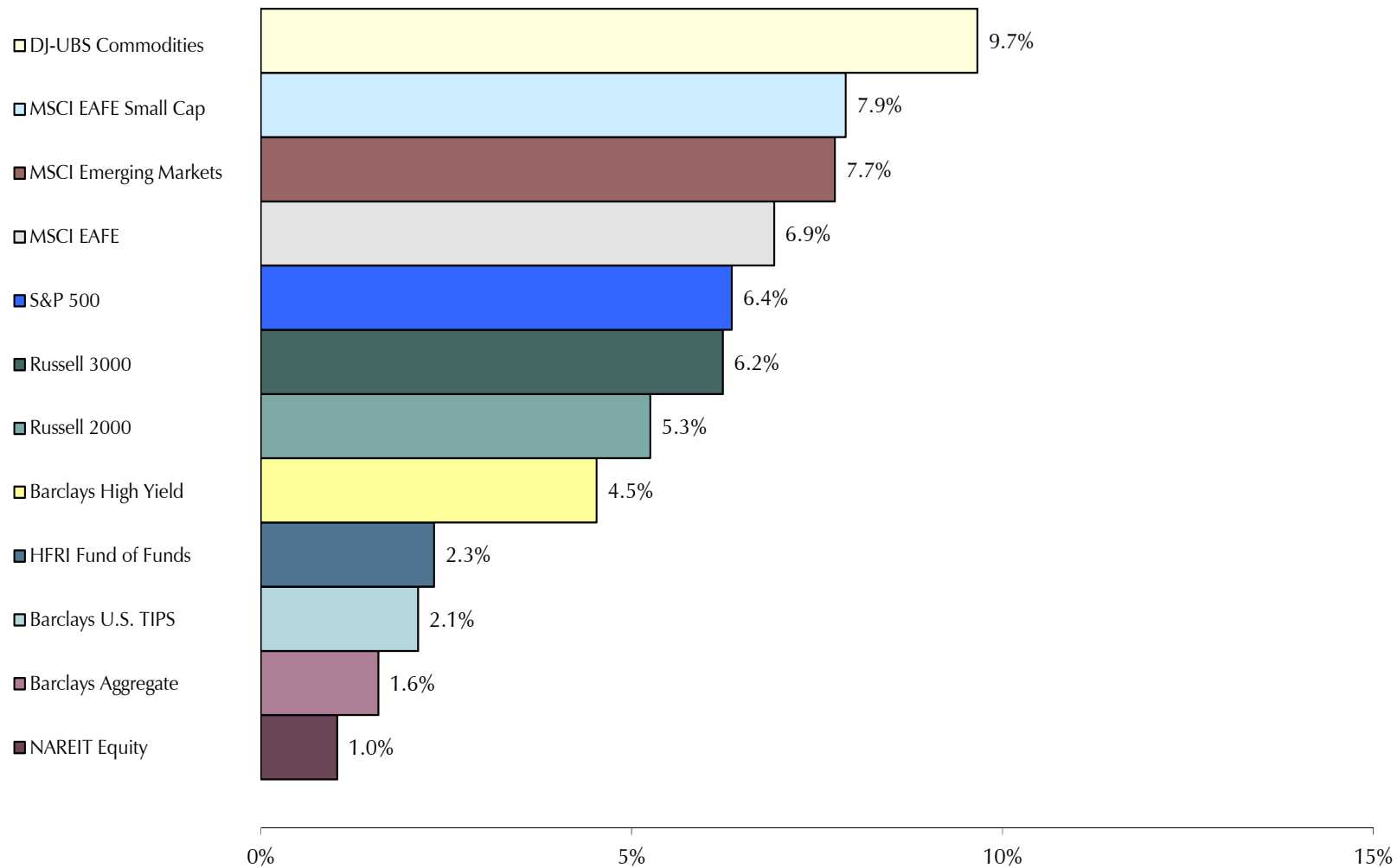
**Asset Classes Followed Intensively by Meketa Investment Group**

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  
Third Quarter of 2012**

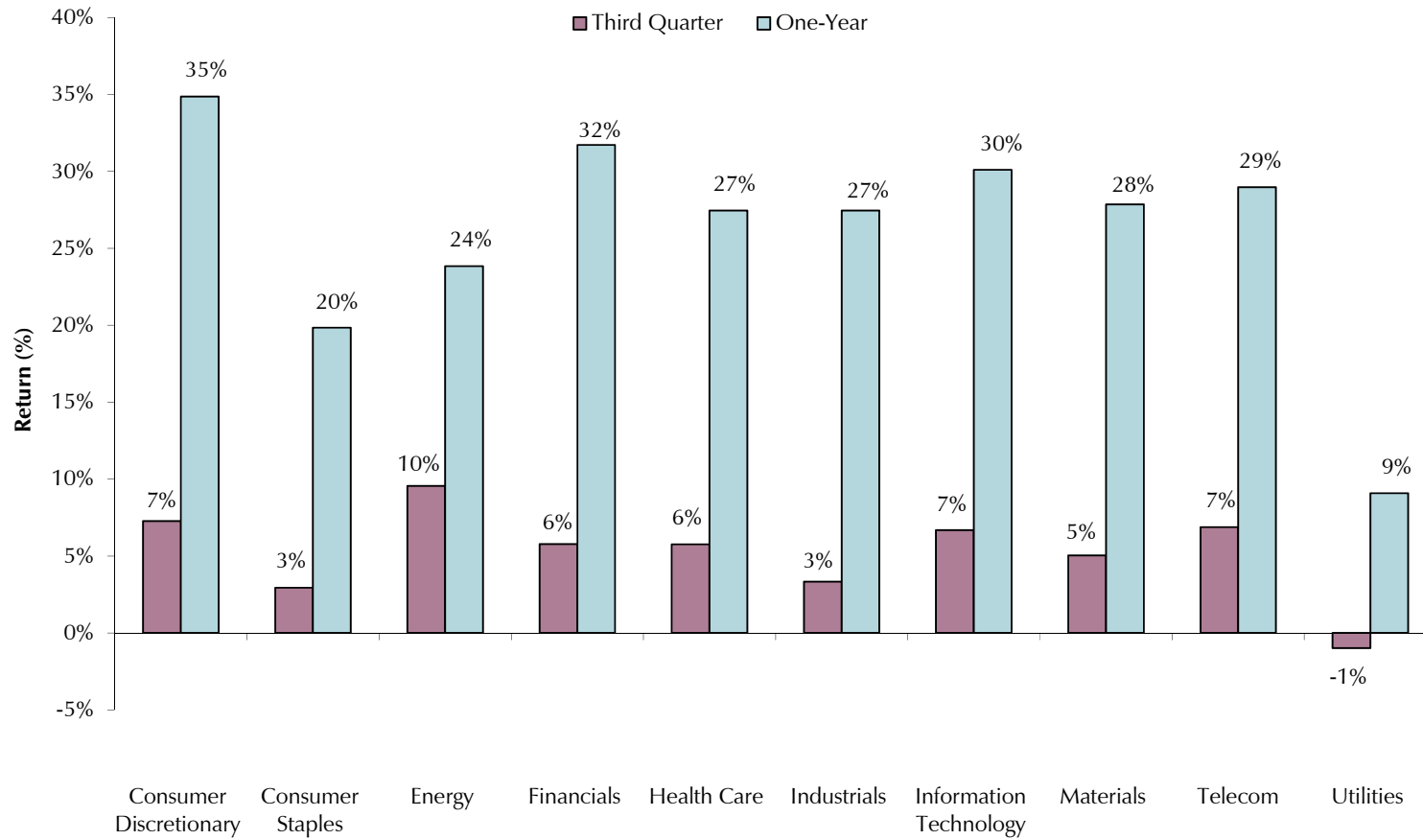
The World Markets  
Third Quarter of 2012



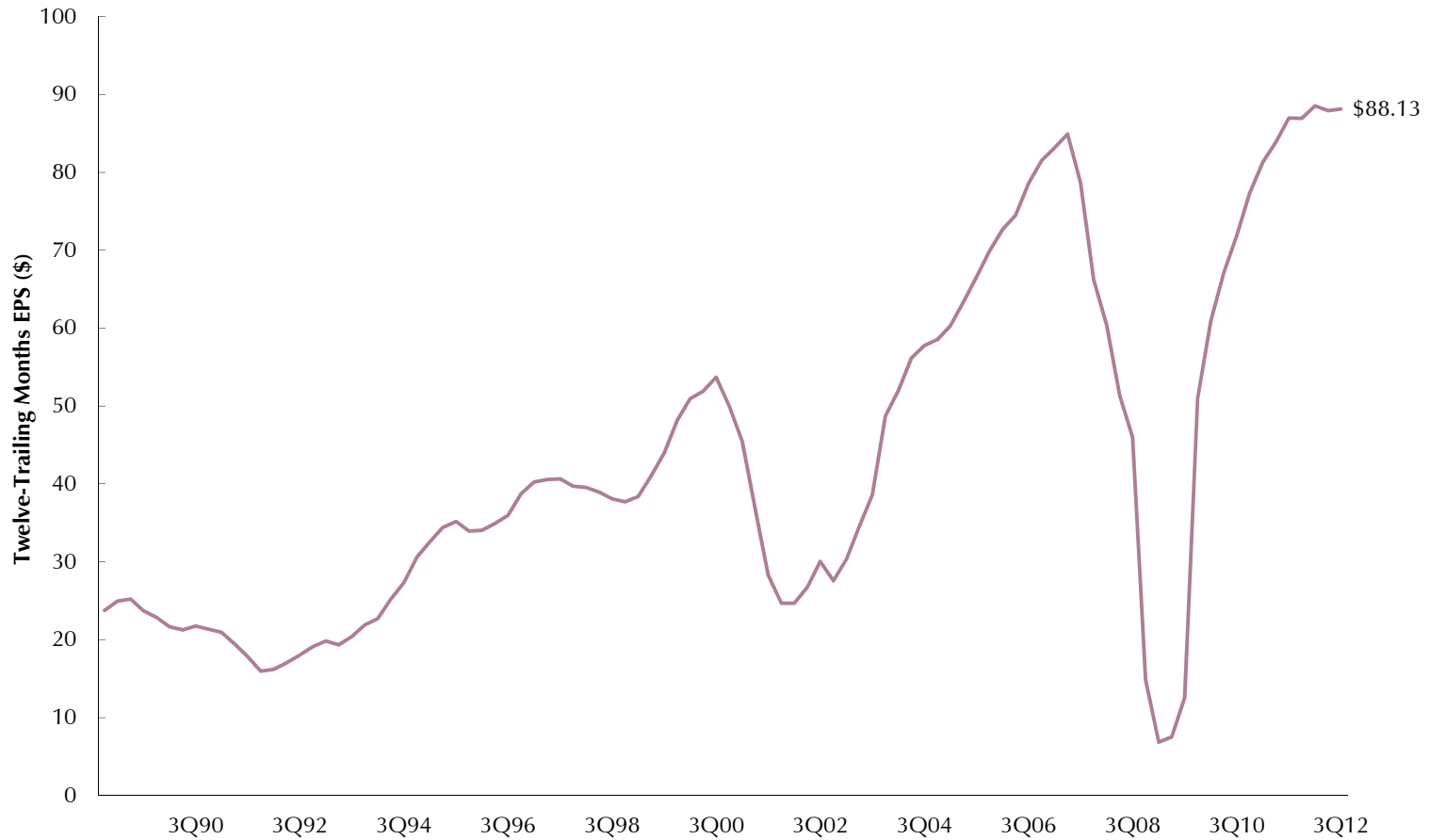
## Index Returns

	3Q12 (%)	YTD (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Domestic Equity</b>						
Russell 3000	6.2	16.1	30.2	13.3	1.3	8.5
Russell 1000	6.3	16.3	30.1	13.3	1.2	8.4
Russell 1000 Growth	6.1	16.8	29.2	14.7	3.2	8.4
Russell 1000 Value	6.5	15.7	30.9	11.8	-0.9	8.2
Russell MidCap	5.6	14.0	28.0	14.3	2.2	11.2
Russell MidCap Growth	5.3	13.9	26.7	14.7	2.5	11.1
Russell MidCap Value	5.8	14.0	29.3	13.9	1.7	11.0
Russell 2000	5.3	14.2	31.9	13.0	2.2	10.2
Russell 2000 Growth	4.8	14.1	31.2	14.2	3.0	10.5
Russell 2000 Value	5.7	14.4	32.6	11.7	1.3	9.7
<b>Foreign Equity</b>						
MSCI ACWI (ex. U.S.)	7.4	10.4	14.5	3.2	-4.1	9.8
MSCI EAFE	6.9	10.1	13.8	2.1	-5.2	8.2
MSCI EAFE (local currency)	4.7	9.1	13.5	1.3	-6.2	4.9
MSCI EAFE Small Cap	7.9	13.2	12.6	4.7	-3.0	11.2
MSCI Emerging Markets	7.7	12.0	16.9	5.6	-1.3	17.0
MSCI Emerging Markets (local currency)	5.9	11.1	16.4	5.8	0.0	14.9
<b>Fixed Income</b>						
Barclays Universal	2.0	4.9	6.4	6.7	6.6	5.7
Barclays Aggregate	1.6	4.0	5.2	6.2	6.5	5.3
Barclays U.S. TIPS	2.1	6.2	9.1	9.3	7.9	6.6
Barclays High Yield	4.5	12.1	19.4	12.9	9.3	11.0
JPMorgan GBI-EM Global Diversified	4.8	12.1	12.7	9.4	8.7	NA
<b>Other</b>						
NAREIT Equity	1.0	16.1	33.8	20.7	2.3	11.5
DJ-UBS Commodities	9.7	5.6	5.9	5.2	-3.6	4.0
HFRI Fund of Funds	2.3	3.3	2.9	1.5	-1.6	3.6

S&P Sector Returns



S&P 500 Earnings Per Share<sup>1</sup>

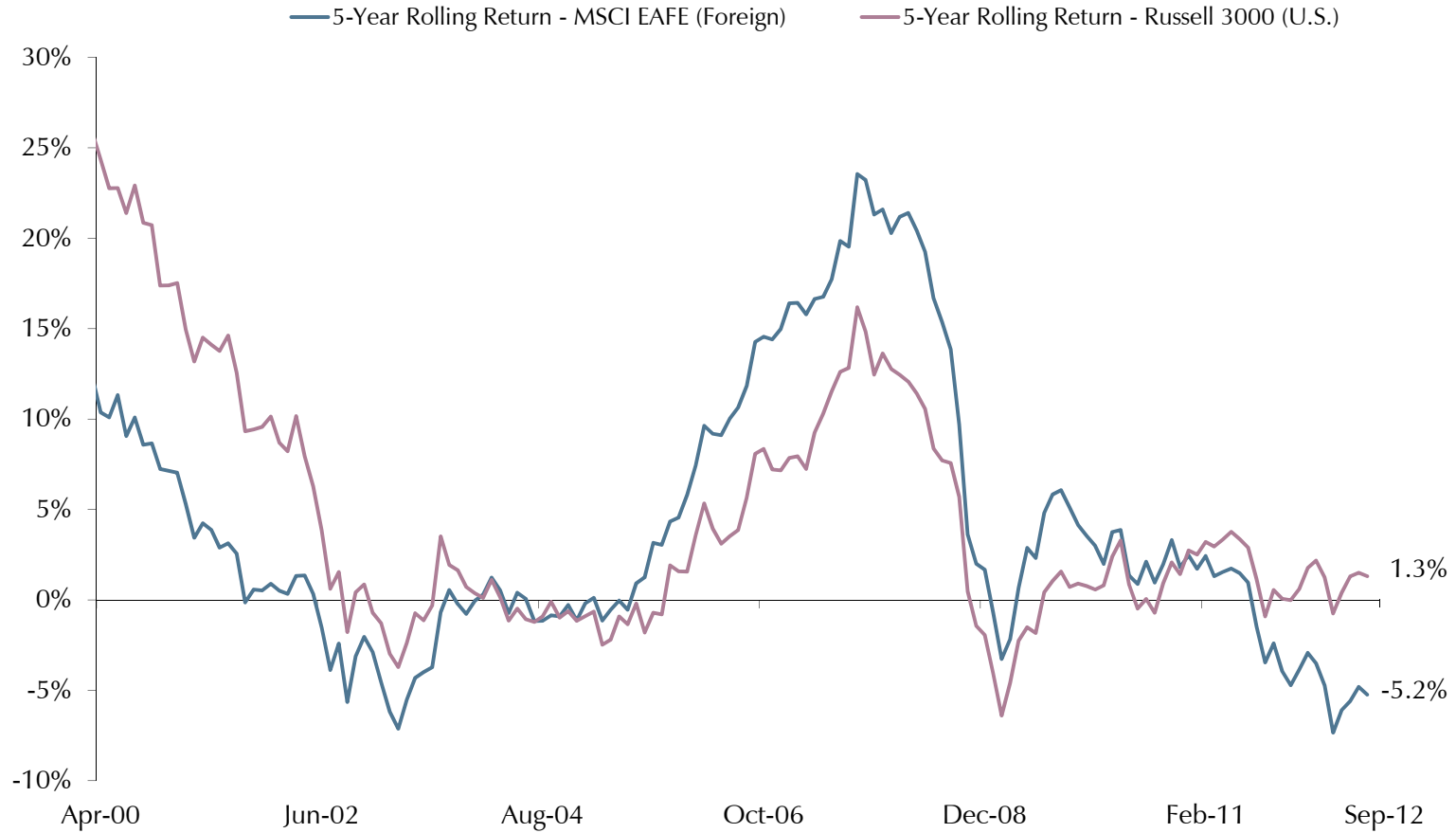


<sup>1</sup> The September 30, 2012 number is an estimate based on the approximately one-third of S&P 500 companies that reported earnings to date.

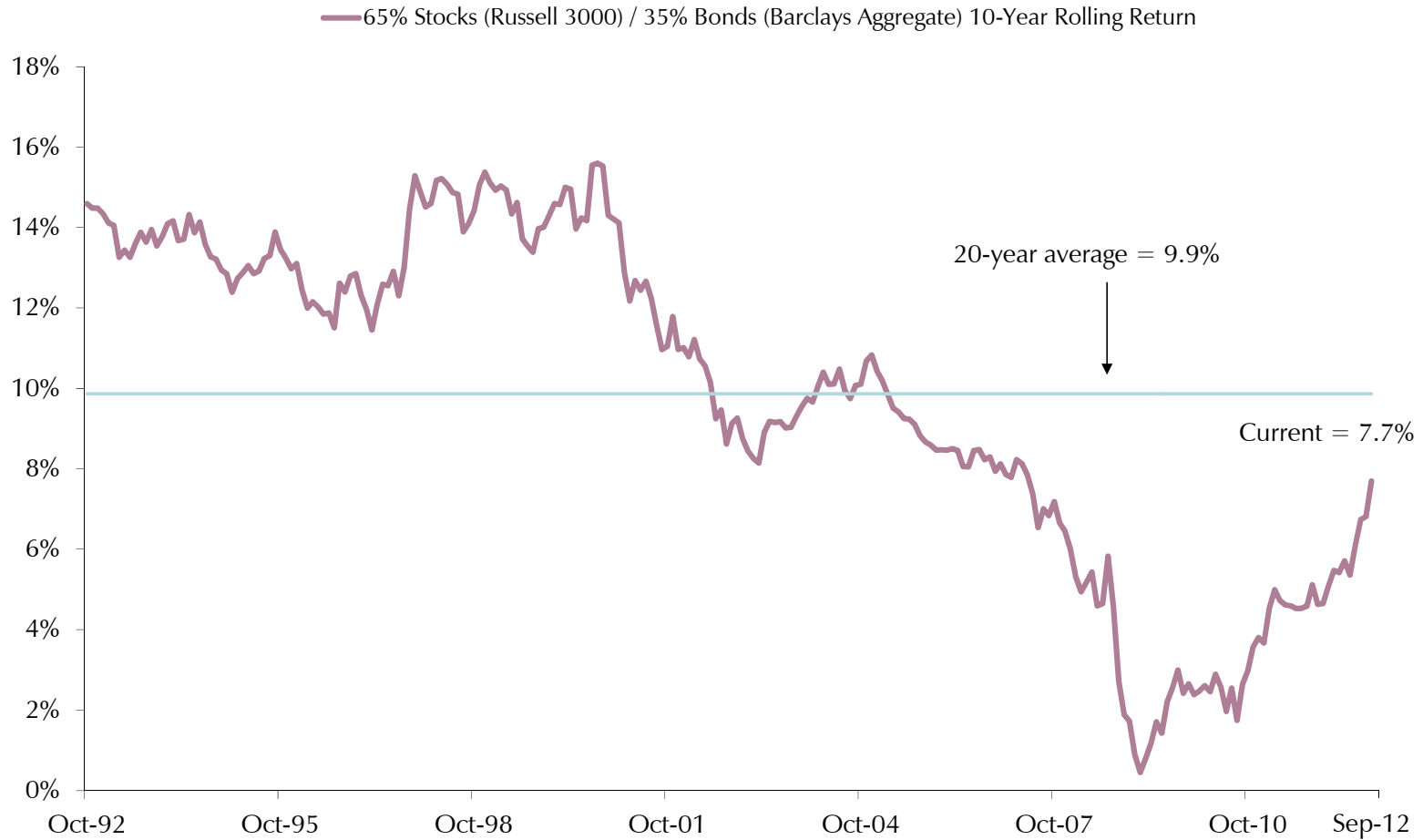




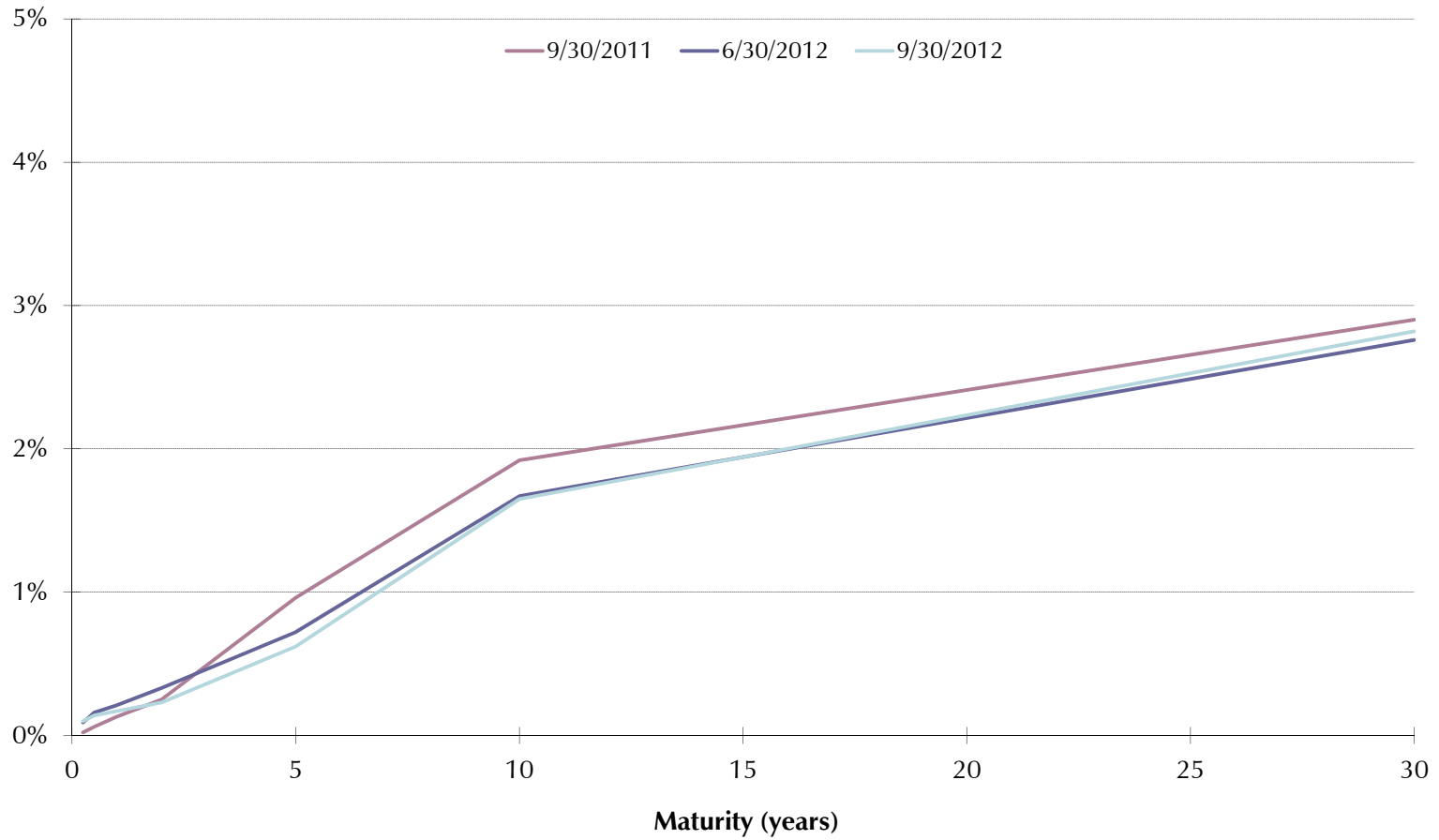
Equity Markets



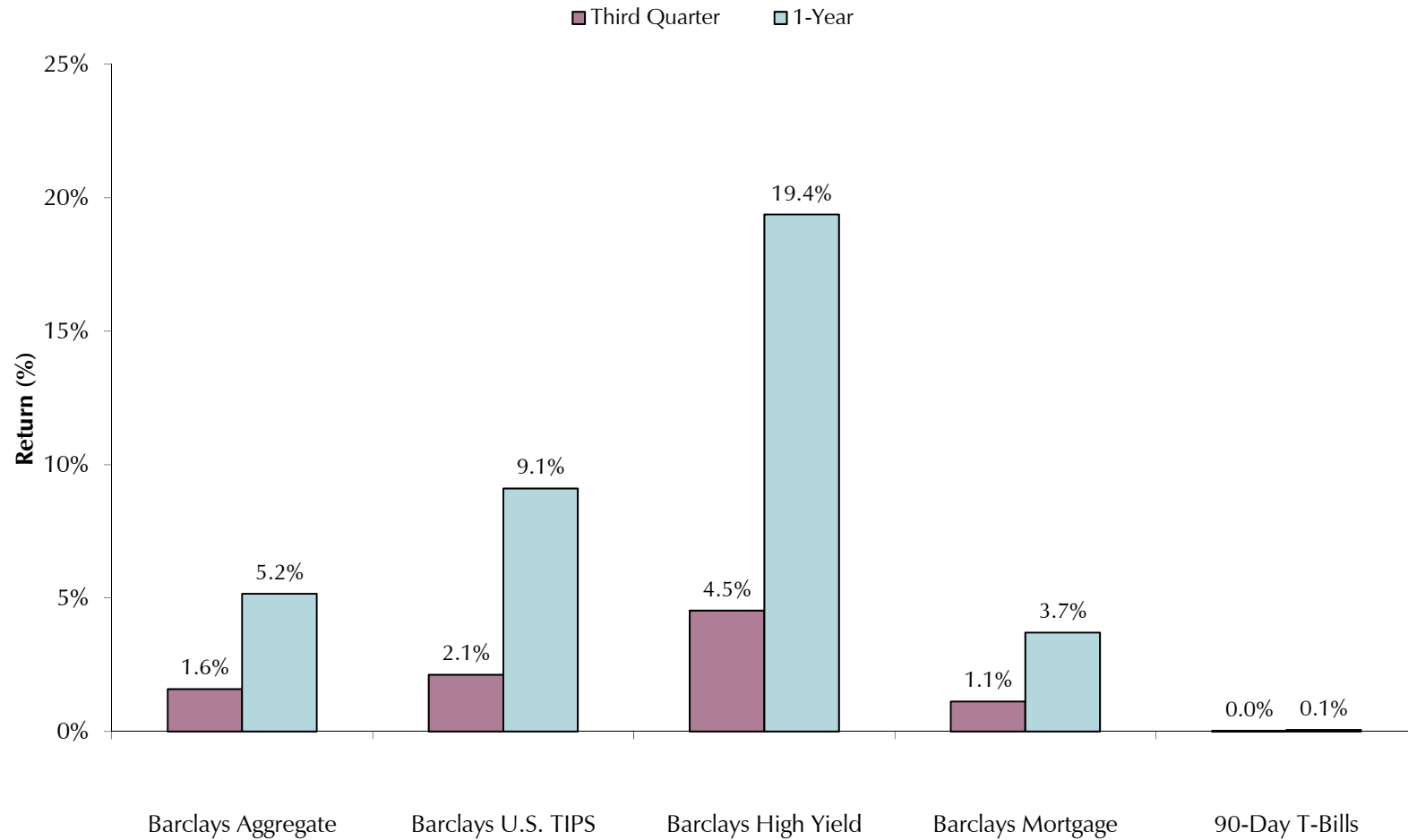
**Rolling Ten-Year Returns: 65% Stocks and 35% Bonds**



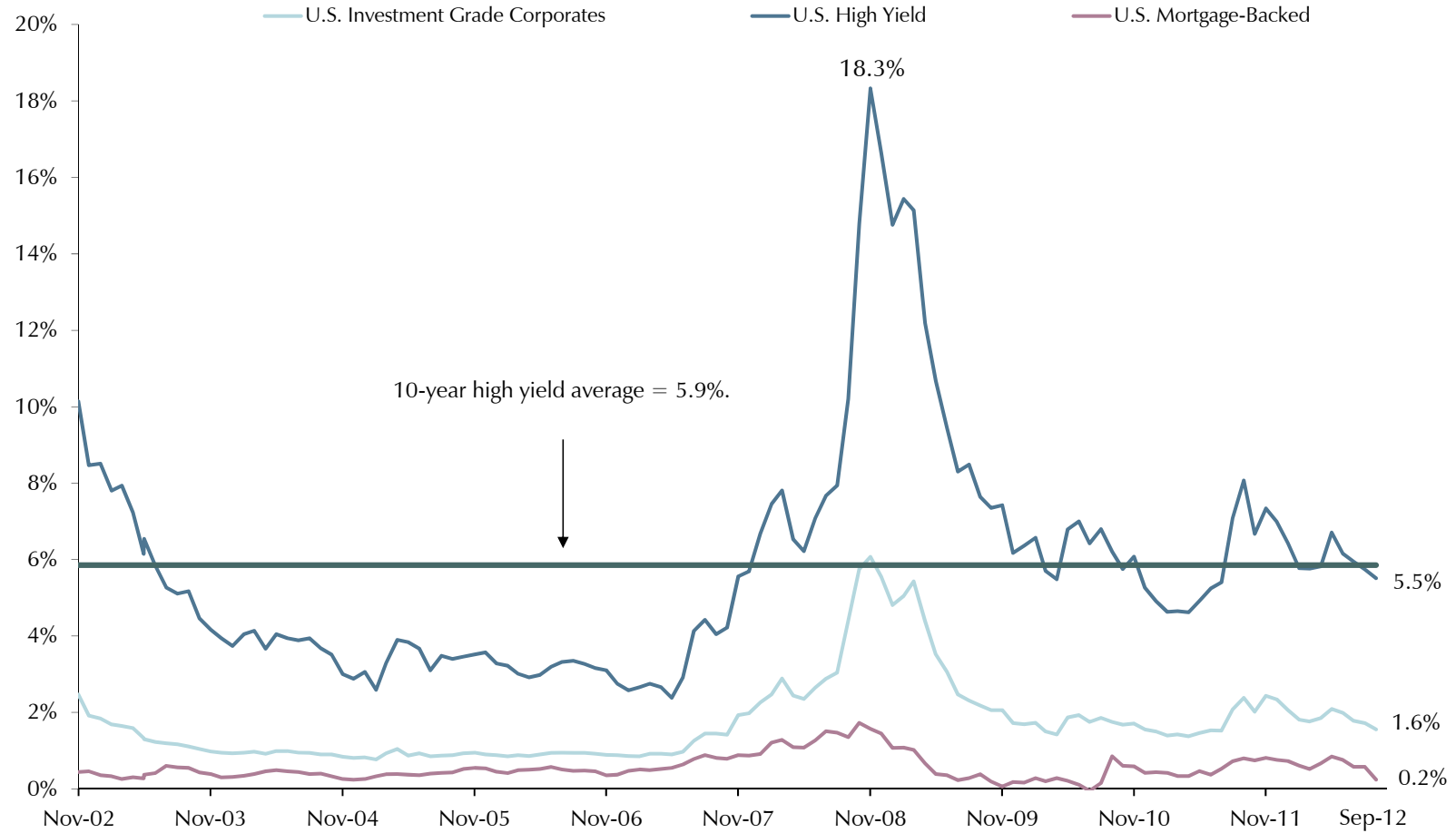
Treasury Yields



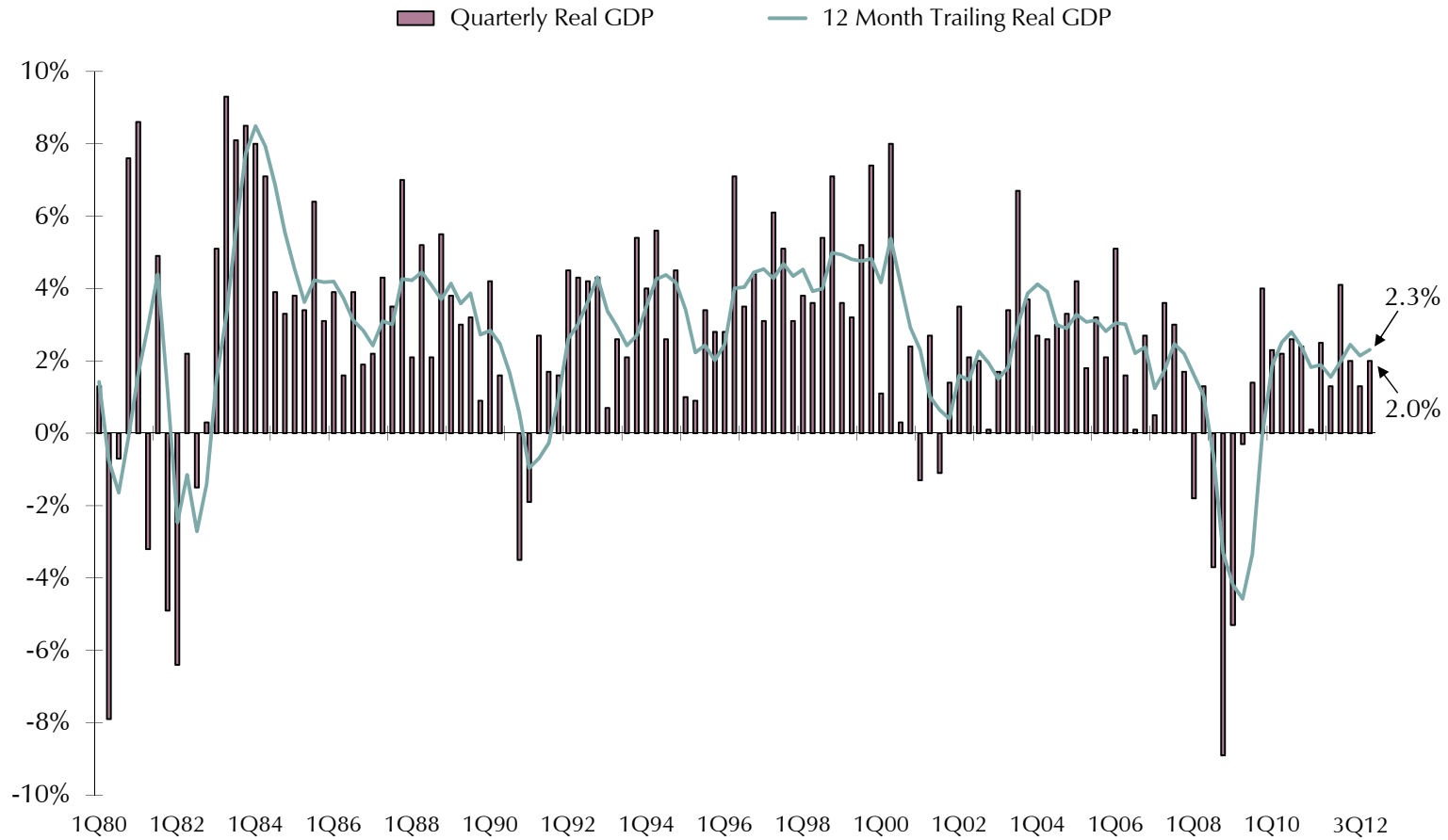
U.S. Fixed Income Markets



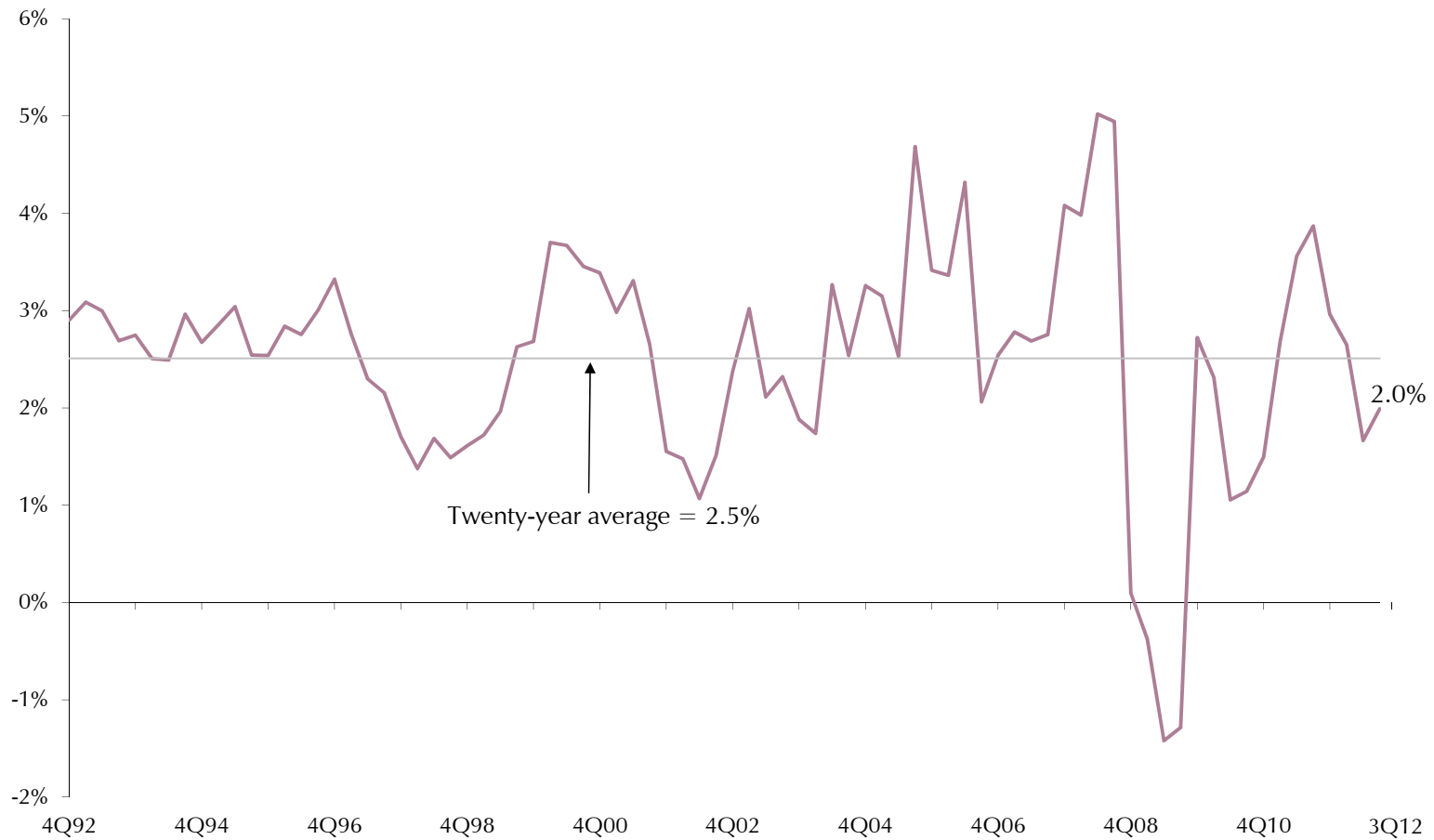
Credit Spreads vs. U.S. Treasury Bonds



### Real Gross Domestic Product (GDP) Growth



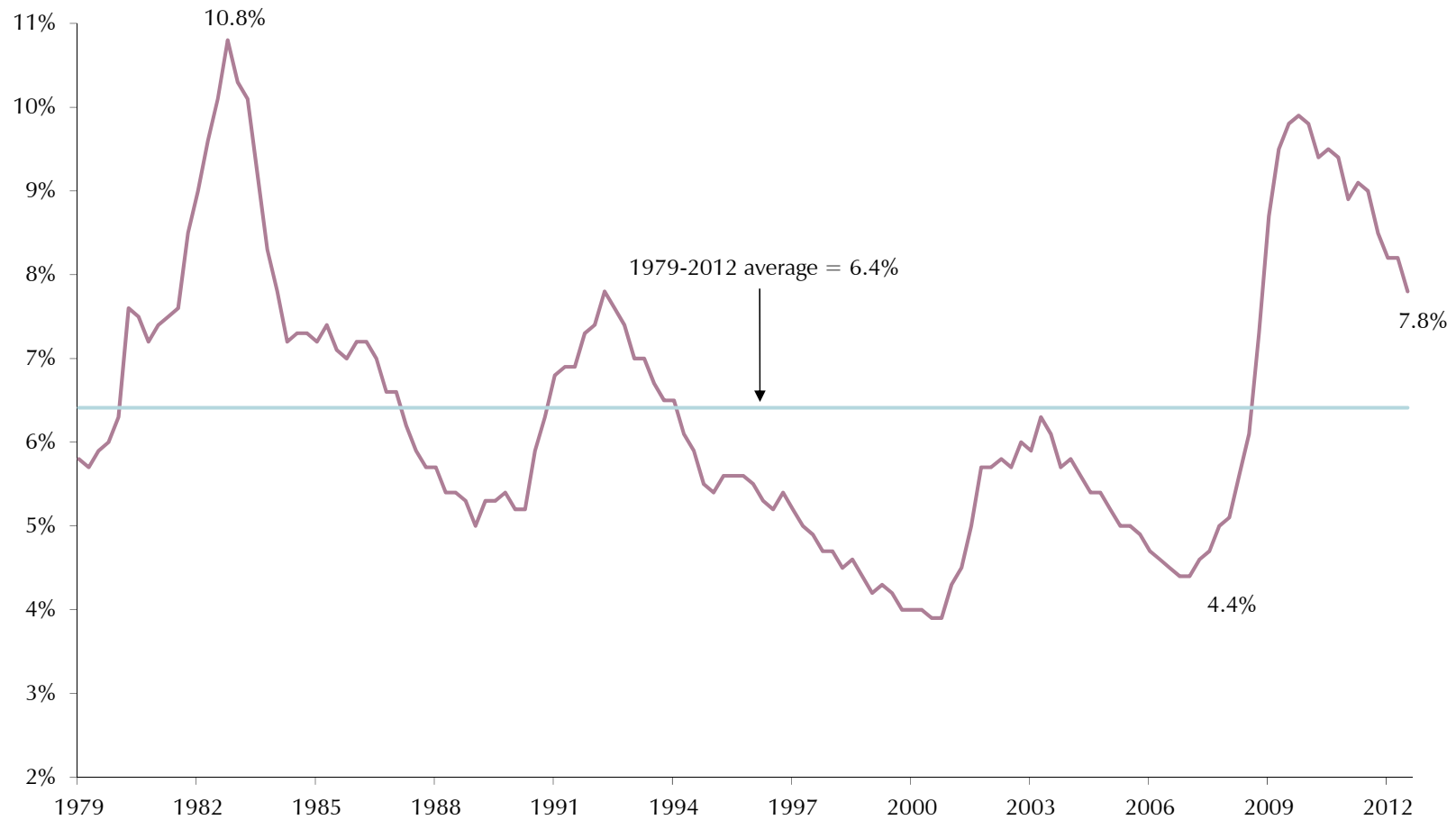
**U.S. Inflation (CPI)  
Trailing Twelve Months<sup>1</sup>**



<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 September 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.