

# FUND EVALUATION REPORT

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## San Francisco Retiree Health Care Trust Fund

January 25, 2016



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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

BOSTON  
MASSACHUSETTS

CHICAGO  
ILLINOIS

MIAMI  
FLORIDA

PORTLAND  
OREGON

SAN DIEGO  
CALIFORNIA

LONDON  
UNITED KINGDOM

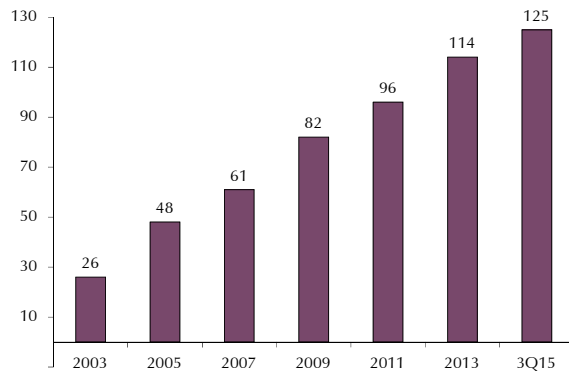
[www.meketagroup.com](http://www.meketagroup.com)

1. **Corporate Update**
2. **Executive Summary**
3. **San Francisco Retiree Health Care Trust Fund Performance Update as of 12/31/15**
4. **San Francisco Community College District Health Care Trust Fund Performance Update as of 12/31/15**
5. **Appendices**
  - Corporate Update and Fourth Quarter 2015 Economic & Market Review
  - Capital Markets Outlook
  - The World Markets in the Fourth Quarter of 2015
  - The Case for Diversification
  - Disclaimer, Glossary, and Notes

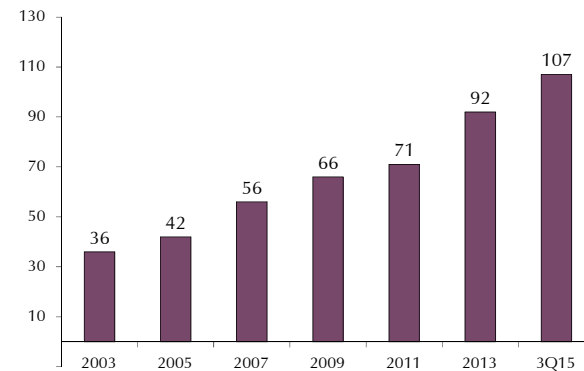
# **Meketa Investment Group Corporate Update**

- Staff of 125, including 75 investment professionals and 24 CFA Charterholders
- 107 clients, with over 180 funds throughout the United States
- Significant investment in staff and resources
- Offices in Boston, Miami, Portland (OR), San Diego, and London
- Clients have aggregate assets of over \$800 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 4.9 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>

**Executive Summary  
as of December 31, 2015**

### San Francisco Retiree Health Care Trust Fund

- During the fourth quarter, the Fund continued investing the accumulated cash balance into three investment vehicles: the Northern Trust S&P 500 Index, the Northern Trust EAFE Index, and the BlackRock U.S. Debt Index Fund.
- As of quarter end, the San Francisco Retiree Health Care Trust Fund's cash position was 17%, down from 64% at the end of the third quarter. This will be reduced further during the first quarter as the accumulated cash balance is transferred to the aforementioned index funds.
- The market value of the San Francisco Retiree Health Care Trust Fund increased from \$79.4 million to \$87.3 million during the quarter due to net cash inflows of \$6.9 million and positive performance.

### San Francisco Community College District Retiree Health Care Trust Fund

- During the fourth quarter, the Fund continued investing the accumulated cash balance into three investment vehicles: the Northern Trust S&P 500 Index, the Northern Trust EAFE Index, and the BlackRock U.S. Debt Index Fund.
- As of quarter end, the San Francisco Retiree Health Care Trust Fund's cash position was 17%, down from 67% at the end of the third quarter. This will be reduced further during the first quarter as the accumulated cash balance is transferred to the aforementioned index funds.
- The market value of the San Francisco Retiree Health Care Trust Fund increased from \$2.5 million to \$2.6 million during the quarter due to positive performance.

**San Francisco Retiree Health Care Trust Fund  
Performance Update  
as of December 31, 2015**



San Francisco Retiree Health Care Trust Fund

Aggregate Assets  
Asset Summary as of 12/31/15

	Market Value 12/31/15 (\$ mm)	% of Health Care Trust	Target Allocation (%)	Target Range (%)	Market Value 9/30/15 (\$ mm)
<b>Total Fund</b>	<b>87.3</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>79.4</b>
Domestic Equities	27.1	31	37	27-47	10.5
International Equities	26.5	30	37	27-47	10.4
Fixed Income	18.5	21	26	16-36	7.5
Cash	15.3	17	0	NA	51.1



## San Francisco Retiree Health Care Trust Fund

## Aggregate Assets Portfolio Roster as of 12/31/15

	Market Value 12/31/15 (\$ mm)	% of Asset Class	% of Health Care Trust	Target Allocation (%)	Target Range (%)	Market Value 9/30/15 (\$ mm)
<b>Total Fund</b>	<b>87.3</b>	<b>NA</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>79.4</b>
<b>Domestic Equity Assets</b>	<b>27.1</b>	<b>100</b>	<b>31</b>	<b>37</b>	<b>27-47</b>	<b>10.5</b>
Northern Trust S&P 500 Index	27.1	100	31			10.5
<b>International Equity Assets</b>	<b>26.5</b>	<b>100</b>	<b>30</b>	<b>37</b>	<b>27-47</b>	<b>10.4</b>
Northern Trust EAFE Index	26.5	100	30			10.4
<b>Fixed Income Assets</b>	<b>18.5</b>	<b>100</b>	<b>21</b>	<b>26</b>	<b>16-36</b>	<b>7.5</b>
BlackRock U.S. Debt Index "B"	18.5	100	21			7.5
<b>Cash</b>	<b>15.3</b>	<b>100</b>	<b>17</b>	<b>0</b>	<b>NA</b>	<b>51.1</b>
Treasury Cash	15.2	100	17			51.1
Northern Trust Cash	0.0	< 1	< 1			0.0



San Francisco Retiree Health Care Trust Fund

Aggregate Assets  
Performance as of 12/31/15

	4Q15 (%)	YTD (%)	Inception Date	Since Inception (%)
<b>Total Fund</b>	<b>1.3</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.8</b>
<i>CPI Medical Care (Inflation)</i>	NA	NA		NA
Domestic Equity	7.1	NA	9/1/15	4.4
<i>S&amp;P 500</i>	7.0	1.4		4.4
International Equity	4.7	NA	9/1/15	-0.6
<i>MSCI EAFE</i>	4.7	-0.8		-0.6
Fixed Income	-0.6	NA	9/1/15	0.1
<i>Barclays Aggregate</i>	-0.6	0.5		0.1
Cash	0.2	NA	9/1/15	0.2
<i>90-Day T-Bills</i>	0.0	0.0		0.0



## San Francisco Retiree Health Care Trust Fund

## Aggregate Assets Performance as of 12/31/15

	4Q15 (%)	YTD (%)	Inception Date	Since Inception (%)
<b>Total Fund</b>	<b>1.3</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.8</b>
<i>CPI Medical Care (Inflation)</i>	NA	NA		NA
<b>Domestic Equity</b>	<b>7.1</b>	<b>NA</b>	<b>9/1/15</b>	<b>4.4</b>
Northern Trust S&P 500 Index	7.1	NA	9/1/15	4.4
<i>S&amp;P 500</i>	7.0	1.4		4.4
<b>International Equity</b>	<b>4.7</b>	<b>NA</b>	<b>9/1/15</b>	<b>-0.6</b>
Northern Trust EAFE Index	4.7	NA	9/1/15	-0.6
<i>MSCI EAFE</i>	4.7	-0.8		-0.6
<b>Fixed Income</b>	<b>-0.6</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.1</b>
BlackRock U.S. Debt Index "B"	-0.6	NA	9/1/15	0.1
<i>Barclays Aggregate</i>	-0.6	0.5		0.1
<b>Cash</b>	<b>0.2</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.2</b>
<i>90-Day T-Bills</i>	0.0	0.0		0.0



**San Francisco Community College District  
Health Care Trust Fund  
Performance Update  
as of December 31, 2015**

San Francisco Community College District  
Health Care Trust Fund

Aggregate Assets  
Asset Summary as of 12/31/15

	Market Value 12/31/15 (\$ mm)	% of Fund	Target Allocation (%)	Target Range (%)	Market Value 9/30/15 (\$ mm)
<b>Total Fund</b>	<b>2.6</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>2.5</b>
Domestic Equities	0.8	31	37	27-47	0.3
International Equities	0.8	31	37	27-47	0.3
Fixed Income	0.5	21	26	16-36	0.2
Cash	0.4	17	0	NA	1.7

San Francisco Community College District  
Health Care Trust Fund

Aggregate Assets  
Portfolio Roster as of 12/31/15

	Market Value 12/31/15 (\$ mm)	% of Asset Class	% of Fund	Target Allocation (%)	Target Range (%)	Market Value 9/30/15 (\$ mm)
<b>Total Fund</b>	<b>2.6</b>	<b>NA</b>	<b>100</b>	<b>NA</b>	<b>NA</b>	<b>2.5</b>
<b>Domestic Equity Assets</b>	<b>0.8</b>	<b>100</b>	<b>31</b>	<b>37</b>	<b>27-47</b>	<b>0.3</b>
Northern Trust S&P 500	0.8	100	31			0.3
<b>International Equity Assets</b>	<b>0.8</b>	<b>100</b>	<b>31</b>	<b>37</b>	<b>27-47</b>	<b>0.3</b>
Northern Trust EAFE Index	0.8	100	31			0.3
<b>Fixed Income</b>	<b>0.5</b>	<b>100</b>	<b>21</b>	<b>26</b>	<b>16-36</b>	<b>0.2</b>
BlackRock US Debt Index Fund "B"	0.5	100	21			0.2
<b>Cash</b>	<b>0.4</b>	<b>100</b>	<b>17</b>	<b>0</b>	<b>NA</b>	<b>1.7</b>
Treasury Cash	0.4	100	17			1.7
Northern Trust Cash	0.0	< 1	< 1			0.0



San Francisco Community College District  
Health Care Trust Fund

Aggregate Assets  
Performance as of 12/31/15

	4Q15 (%)	YTD (%)	Inception Date	Since Inception (%)
<b>Total Fund</b>	<b>1.2</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.8</b>
<i>CPI Medical Care (Inflation)</i>	NA	NA		NA
Domestic Equity	7.1	NA	9/1/15	4.4
<i>S&amp;P 500</i>	7.0	1.4		4.4
International Equity	4.7	NA	9/1/15	-0.6
<i>MSCI EAFE</i>	4.7	-0.8		-0.6
Fixed Income	-0.6	NA	9/1/15	0.1
<i>Barclays Aggregate</i>	-0.6	0.5		0.1
Cash	0.1	NA	9/1/15	0.1
<i>90-Day T-Bills</i>	0.0	0.0		0.0



San Francisco Community College District  
Health Care Trust Fund

Aggregate Assets  
Performance as of 12/31/15

	4Q15 (%)	YTD (%)	Inception Date	Since Inception (%)
<b>Total Fund</b>	<b>1.2</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.8</b>
<i>CPI Medical Care (Inflation)</i>	NA	NA		NA
<b>Domestic Equity</b>	<b>7.1</b>	<b>NA</b>	<b>9/1/15</b>	<b>4.4</b>
Northern Trust S&P 500	7.1	NA	9/1/15	4.4
<i>S&amp;P 500</i>	7.0	1.4		4.4
<b>International Equity</b>	<b>4.7</b>	<b>NA</b>	<b>9/1/15</b>	<b>-0.6</b>
Northern Trust EAFE Index	4.7	NA	9/1/15	-0.6
<i>MSCI EAFE</i>	4.7	-0.8		-0.6
<b>Fixed Income</b>	<b>-0.6</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.1</b>
BlackRock US Debt Index Fund "B"	-0.6	NA	9/1/15	0.1
<i>Barclays Aggregate</i>	-0.6	0.5		0.1
<b>Cash</b>	<b>0.1</b>	<b>NA</b>	<b>9/1/15</b>	<b>0.1</b>
<i>90-Day T-Bills</i>	0.0	0.0		0.0



# Appendices

**Corporate Update and Fourth Quarter 2015  
Economic & Market Review**



# MEMORANDUM

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**To:** All Clients  
**From:** Meketa Investment Group  
**Date:** January 19, 2016  
**Re:** Meketa Investment Group Corporate Update and  
Fourth Quarter 2015 Economic & Market Review

## 2015 MARKET REVIEW

It is difficult to remark on 2015 without initial thoughts on the significant volatility experienced over the beginning of 2016.

As we describe in greater detail below, the past year saw several global macroeconomic issues begin to punish capital markets around the globe: lower oil prices and broadly falling commodity prices, China's stock market crash and yuan devaluation, Greece's ongoing budget/debt crisis, an appreciating U.S. dollar, and the first Fed interest rate hike in almost a decade.

Many of these concerns continued into 2016, with global equity markets losing 8% to 11% in the first half of January. During the first ten trading days of 2016, the S&P 500 declined more than 1% during six individual days and lost over 2% three times.

The continued slide in oil prices was one of the biggest financial issues in 2015. After declining 44% in 2014, a barrel of crude oil fell from \$53 to \$37, or almost 33% in 2015. Then, in early 2016, crude oil dropped another 20%, falling below the price level reached during the Global Financial Crisis (GFC).

For 2015, U.S. equity market returns were the lowest since the GFC. In 2015, U.S. equities and domestic investment grade bonds managed only tiny (under 1%) returns. However, these small gains loomed large when compared to losses from virtually every other publicly traded asset class, except for real estate investment trusts (REITs). The largest losses came from the commodity index, which lost almost 25%.

Despite their 2015 weakness, U.S. equities outperformed the non-U.S. developed and emerging equity markets. The continued strength of the dollar played a significant role in the returns of foreign markets for U.S. investors. The dollar appreciated strongly against most currencies and rallied more than 10% relative to the euro in 2015.

This year marked the fifth time in the past six years that U.S. equities outperformed international equities. Over the three years ending in December 2015, U.S. equities outperformed developed international equities by nine percentage points per year and outperformed emerging market equities by 21 percentage points annually.

Cycles of outperformance among the global equity markets are not unusual. During the decade 2001 to 2010, for example, emerging market equities outpaced U.S. equities in nine of ten years, trailing only in 2008.

### 2015 Investment Returns

	(%)
MSCI U.S. REIT	2.5
Barclays Aggregate	0.6
Russell 3000	0.5
MSCI EAFE	-0.8
Barclays TIPS	-1.4
HFRI Hedge Fund	-0.9
Barclays High Yield	-4.5
JPM GBI-EM Global Diversified	-12.4
MSCI Emerging Markets	-14.9
Bloomberg Commodity	-24.7

### CHINA

According to the International Monetary Fund, China represents approximately 15% of global GDP, but greater than half of global GDP growth. Thus, changes in China's internal economic growth rate have an enormous effect on global economic growth. Certainly, a number of emerging market countries have been hurt by the decline in demand for raw materials from China.

During the first part of 2015, China spent considerable reserves to maintain their currency's long-term peg to the U.S. dollar. Then, in August, China's central bank acted to allow the yuan to decline 3% versus the dollar in three days. The yuan is now allowed to float more freely versus the dollar.

This major shift in monetary policy led some market observers to conclude that the Chinese economy is slowing too sharply and that the transition from an investment-led to a consumption-led economic model was not proceeding well. The reaction in global equity markets, in general, and China, specifically, was sharp and severe. China's equity market declined 20% from August 17 through August 24, while the S&P 500 declined 10% over the same period.

In addition, the Chinese government has struggled when they have tried to control volatile capital markets. Their effort to reverse a crashing stock market in August was unsuccessful, and cost them credibility as effective technocrats.

In our view, Chinese growth will continue at a significantly lower pace, but we do not expect a violent slowdown in the Chinese economy as it rebalances its economic model. The slowdown should continue to impact the U.S., mainly through lower exports, along with some reduction in U.S. corporate profits.

## OIL PRICES

While crude oil prices plummeted close to 70% during the past eighteen months, production in the U.S. has barely changed. This contradicts the conventional wisdom that the production of oil through fracking would decline with the price of oil, given the relatively high cost of fracking.

There are three main reasons why U.S. oil production remained high in the face of falling oil prices:

- The number of wells drilled per pad grew dramatically.
- The ability to move rigs more quickly allowed producers to increase the pace of extraction.
- Drilling time per well was reduced by half over the past year.

Spurred by falling oil prices, U.S. producers squeezed greater efficiencies from oil extraction than anyone thought possible. Those efficiencies reduced the average cost of oil extraction to approximately \$50 per barrel. While the industry has effectively kept production high, this production level should fall in the intermediate term as the price of oil remains below the marginal cost. For just five of the largest U.S. shale oil producers, 2015 losses through September totaled \$25 billion.

In the Middle East, additional oil supply has come on line. Saudi Arabia's decision to not reduce production has been widely discussed. However, most of the new overseas oil supply comes from the revival of Iraq as a major oil producer. Iraq's production added over a million barrels of oil per day, enough to absorb all new global demand.

While much focus has been on China's slowing economy and its effect on the demand for oil, the data show that Chinese oil imports continued to expand in 2015 compared to the 2014 level.

Finally, oil prices have not declined in a vacuum. Nearly all commodity prices fell sharply since 2014. If oil had fallen just in line with the other major industrial commodities, it would be priced at approximately \$60 per barrel. Therefore, about half of the decline in oil may be due to broad global factors.

## GLOBAL MONETARY POLICY

Currently, two major issues drive the decisions of major monetary policymakers:

- The rebalancing of the Chinese economy and its impact on the broader global economy
- The divergence of U.S. and European monetary policies

China's economic slowdown is real, with major consequences around the globe. Its primary effect is the reduction of aggregate global demand through several vectors. First, the lack of fiscal stimulus in China depresses Chinese growth well below potential, leading to price declines. Second, China's lower demand for commodities results in lower commodity prices, which reduces investment in commodity sectors worldwide, particularly in the emerging markets. Also, oil-exporting nations are forced to reduce

spending to offset the lower oil revenues. Lower oil prices also have many global beneficiaries, but these effects are more diffuse and subtle.

Although worldwide conditions are weak, the Federal Reserve began to move away from an expansionary monetary policy. In mid-December, the Fed raised the target discount rate by twenty-five basis points, from 0.25% to 0.50%. This marked the Fed's first move to increase interest rates since mid-2006. During 2007 and 2008, the Fed rapidly reduced the short-term rate to close to zero, and then kept it near zero for seven years while also engaging in various creative expansionary monetary actions.

The Fed's recent increase of short-term rates was long anticipated, given the health of the U.S. economy relative to the rest of the developed world. The Fed Chair stated, "With the economy performing well and expected to continue to do so, the committee judges that a modest increase in the federal funds rate is appropriate." Likely, the Fed believed that the distortions caused by keeping short-term rates near zero were potentially dangerous, and that the U.S. economy could withstand a mild tightening. Also, the longer the Fed kept short-term rates near zero, the greater the risk that they would face a future recession without the ability to lower interest rates. We expect that the monetary tightening in the U.S. will be very gradual, given the many global uncertainties and imbalances.

The European Central Bank (ECB) has struggled over the past several years to provide a boost to the countries within the Eurozone. In 2015, the ECB's aggressive quantitative easing was effective, and combined with the beneficial effect of lower oil prices for consumers, helped reinvigorate economic growth. Still, unemployment remains extremely high in all major Eurozone (France, Spain, and Italy) countries, except Germany. The decline in the price of oil has many effects; for Europe, a much greater oil consumer than producer, the effects are beneficial and should continue for much time.

The ECB will likely continue with accommodative monetary policies for a number of years after the U.S. has begun to tighten. If the Eurozone falters economically, the ECB has few if any, remaining monetary tools to assist in a recovery.

The past year saw the European community struggle to respond to an enormous humanitarian and refugee crisis. More than a million refugees crossed into Europe from the Middle East and North Africa in 2015. Asylum seekers came from more than a dozen countries, but the largest numbers came from Syria, Afghanistan, Kosovo, and Iraq. Among European countries, Germany and Sweden accepted the largest numbers of asylum seekers.

#### **CORPORATE UPDATE**

2015 was a productive year at Meketa Investment Group. Jim Meketa, our firm's founder, became Chairman of the firm's Board of Directors. Steve McCourt and Peter Woolley became Co-Chief Executive Officers. We expanded our ownership to eight additional senior investment professionals, bringing to twenty the number of employee-shareholders for the firm. In addition, most recently, during the fourth quarter of 2015, we opened our sixth office, in Chicago, to enhance our services and expand our presence in the Midwest.

The year 2015 was also a strong one for client growth. We are honored and pleased to be retained by 18 new clients. Our organization now works with 112 clients across a broad spectrum of funds (Taft-Hartley, public funds, endowments, foundations, and corporates) and mandates. We continue to build on the success of the past 37 years and are proud to work with all of our clients.

#### **LOOKING AHEAD**

Numerous economic difficulties and uncertainties remain across the world. In Europe, persistently high unemployment along with high levels of debt make sustained economic growth challenging. These problems are exacerbated by the long-running political tensions within the Eurozone. The U.S. economy's solid growth over the past several years stands out from the rest of the developed world, but weakness in corporate profits, after years of unusually rapid growth, is likely.

Emerging market countries are contending with the effects of slower Chinese growth and lower commodity prices. Also, the beginning of a cycle of U.S. monetary tightening creates added financial strains for borrowers in the emerging markets. India remains a notable exception, as that economy substantially benefits from commodity price weakness.

For long-term investors, the market's downside volatility can be beneficial, as it recalibrates risk premiums and provides an opportunity to find attractively priced investment opportunities, with the potential for high long-term returns.

We look forward to discussing our thoughts with you in more detail at your next meeting. Please do not hesitate to contact us with any questions you may have in the interim.



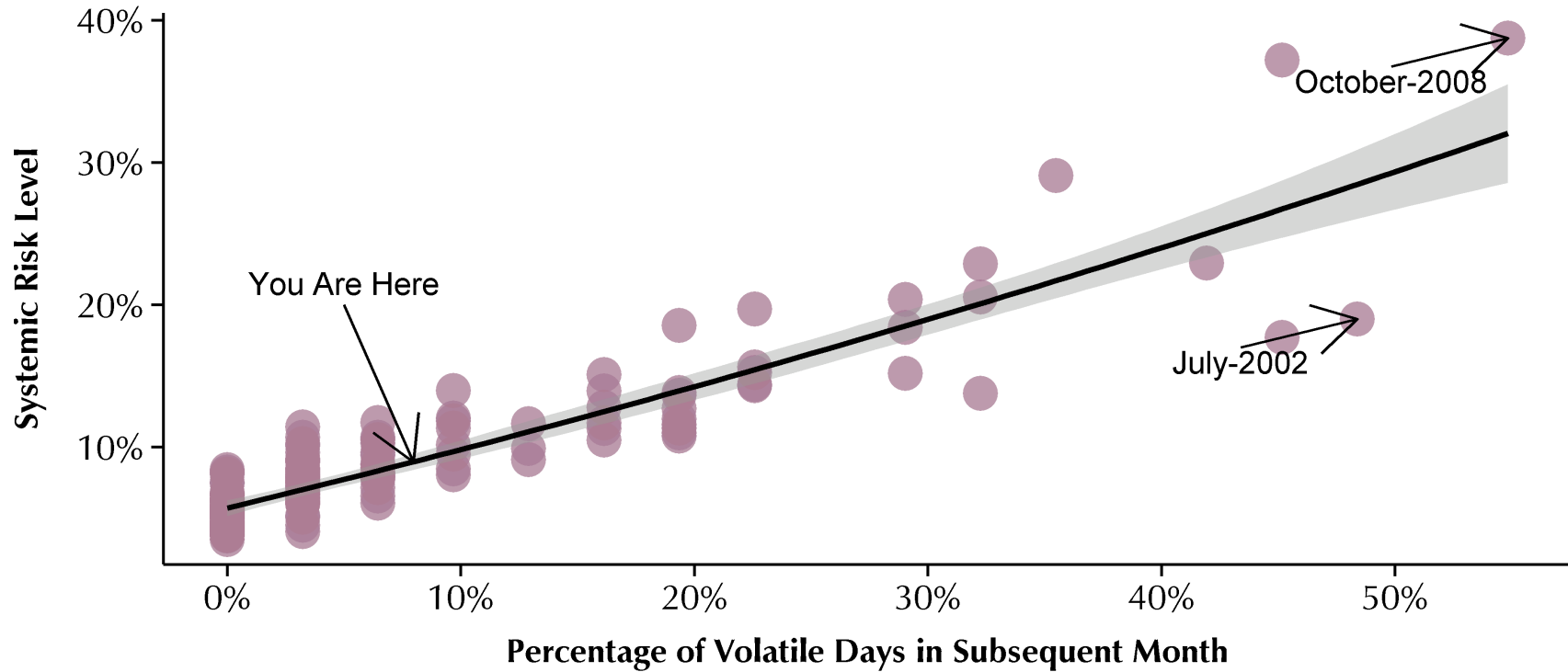
# Capital Markets Outlook

### Capital Markets Outlook<sup>1</sup>

- Investors are faced with four primary issues in the near-term: 1) historically low bond yields, 2) the potential for a transition into a rising rate environment, 3) the potential for deteriorating corporate earnings, and 4) the possibility of much lower energy prices for a sustained period.
  - The price of the U.S. stock market relative to ten-year average earnings has trended up after the financial crisis, and remains above its historical average (28.4x versus 21.8x).
    - Small cap domestic stocks' valuations remain expensive relative to large cap stocks.
  - Developed international and emerging market stocks are trading at lower valuations than U.S. stocks.
    - Sovereign debt issues and weak economic growth in Europe, and a cyclical slowdown in emerging economies, are weighing down valuations.
  - Risk across markets measured by our Systemic Risk metric have returned to be within a reasonable zone after experiencing a 'critical' elevation that began in August.
    - However, monetary policy changes by central banks and political upheaval will continue to have a meaningful impact.
  - At the end of December, spreads for high yield corporate and investment grade bonds (6.6% and 1.7%, respectively) were just above their long-term averages.
  - At 2.3%, the yield on the ten-year Treasury remained far below its post-WWII average of 5.6%.
  - Crude Oil prices continue on a steep decline which has had wide ranging effects across several markets.

<sup>1</sup> Sources: Thomson Reuters, U.S. Treasury, and Standard & Poor's. Data is as of December 31, 2015.

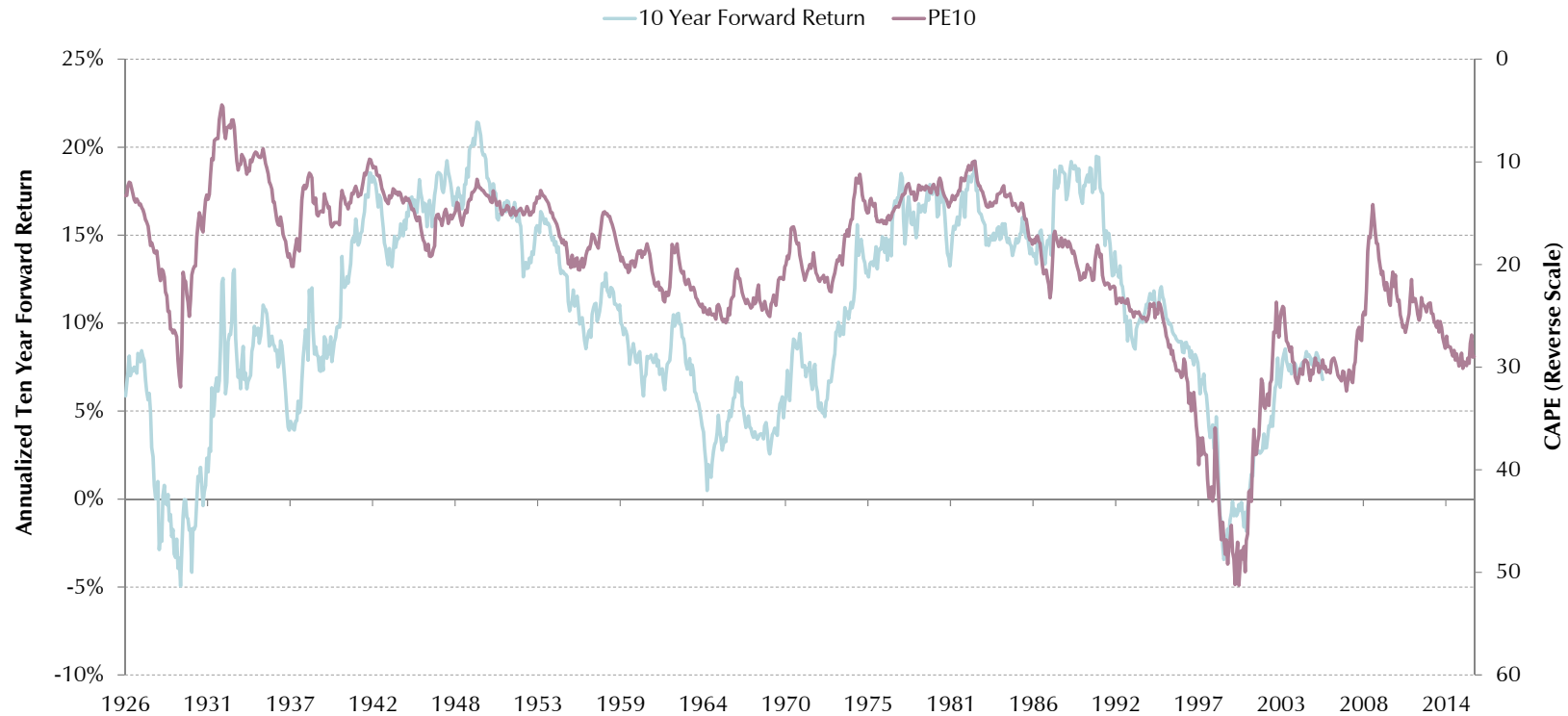
Systemic Risk and Volatile Market Days<sup>1</sup>



- Systemic Risk, which measures risk across markets, is important because the more contagion of risk that exists between assets, the more likely it is that markets will experience volatile periods.
- After a short recovery from sustained high Systemic Risk this past fall, Systemic Risk levels have begun to creep back up in January.

<sup>1</sup> Source: Meketa Investment Group, as of January 11, 2015. Volatile days are defined as the top 10 percent of realized turbulence which is a multivariate distance between asset returns.

### The U.S. Cyclically Adjusted P/E<sup>1</sup> and Long-Term Equity Returns

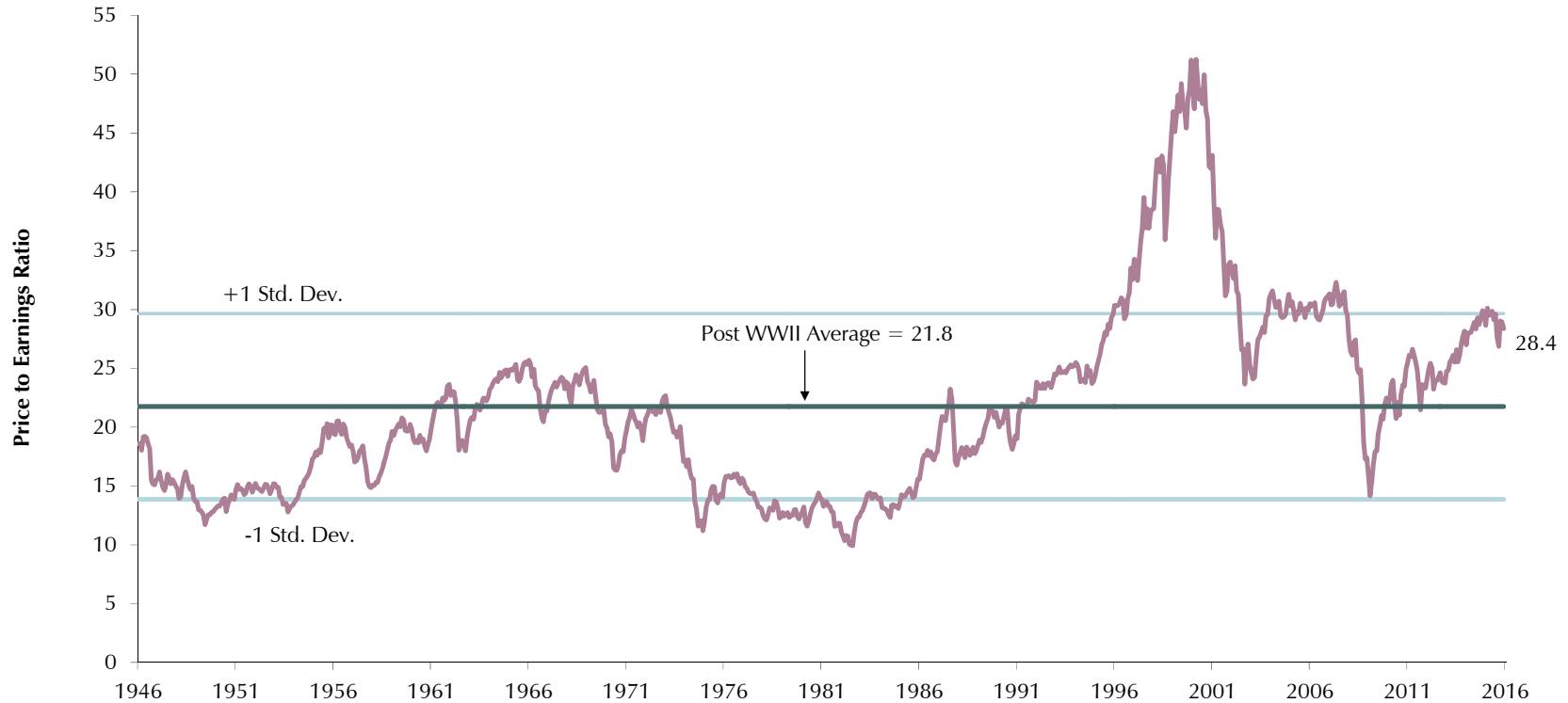


- One of the most powerful predictors of long-term equity returns has been the Cyclically Adjusted Price to Earnings Ratio (CAPE).
- This fundamentally driven measure is highly correlated with future returns, which are shown in the chart above using the CAPE metric on a reverse scale.

<sup>1</sup> Source: PE data are from Robert Shiller’s website from 1926 - 1946; S&P and Thomson Reuters 1946 – present. S&P 500 equity returns are from Morningstar Direct for the entire period. Data is from January 31, 1926 to December 31, 2015.



U.S. Equity Cyclically Adjusted P/E<sup>1</sup>

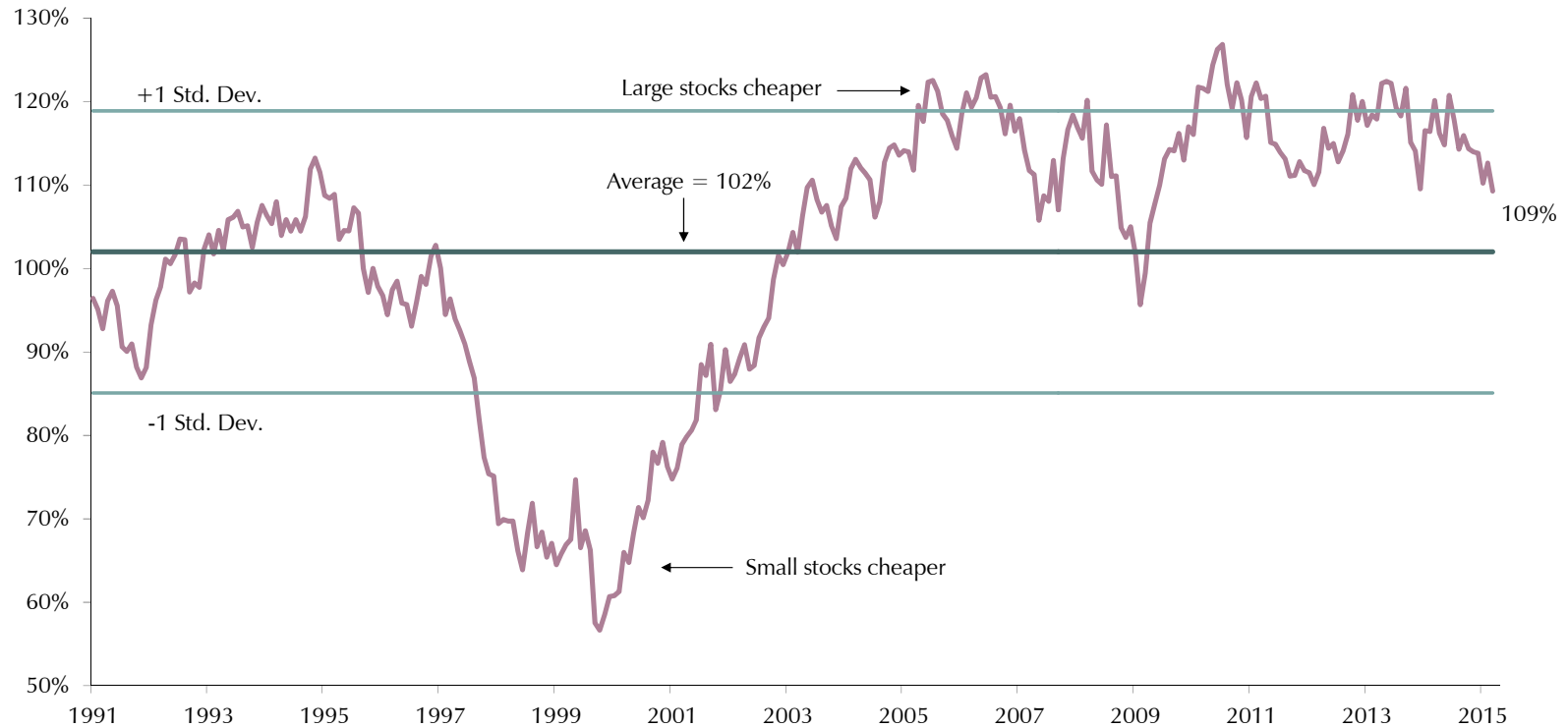


- The cyclically adjusted P/E ratio for the S&P 500 finished December at 28.4x, above its post-WWII average of 21.8x.
- Due to the recent pullback in equity markets, this metric has fallen slightly below the positive standard deviation threshold. Historically, a P/E ratio at this level has led to roughly average future returns over a 10 year horizon.

<sup>1</sup> Source: Standard & Poor's. Earnings figures represent the average of monthly "as reported" earnings over the previous ten years. Data is from January 31, 1946 to December 31, 2015.



Small Cap P/E vs. Large Cap P/E<sup>1</sup>



- The P/E ratio of small cap stocks (Russell 2000) relative to large cap stocks (Russell 1000) points to comparatively expensive small cap stocks.
- This relative valuation metric has remained largely range bound since 2010.

<sup>1</sup> Source: Russell Investments. Earnings figures represent 12-month “as reported” earnings. Data is as of December 31, 2015.



Growth P/E vs. Value P/E<sup>1</sup>

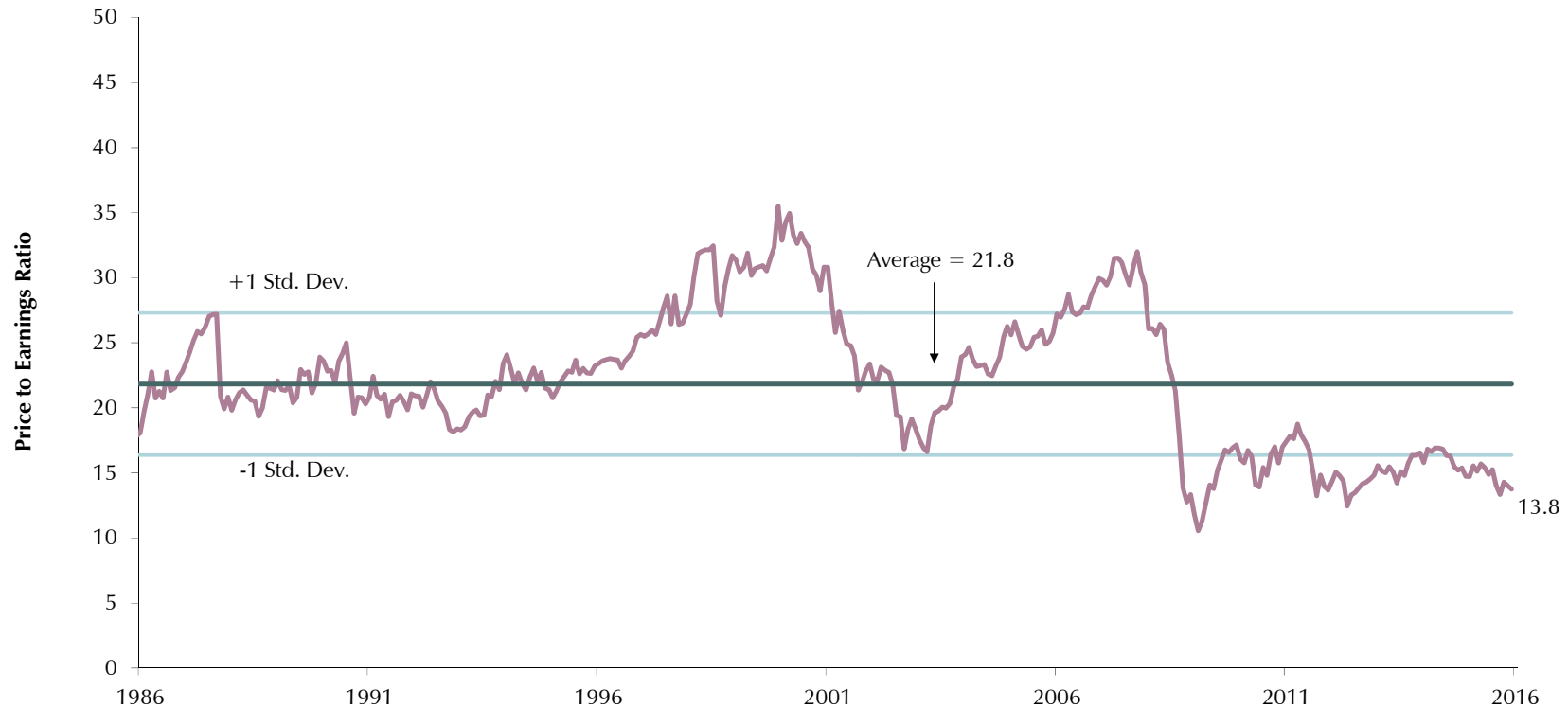


- The P/E ratio of growth stocks (Russell 3000 Growth) relative to value stocks (Russell 3000 Value) finished December at 129%, well above its level four years prior but still below its long-term average.
- Of note, the long-term average was sharply influenced by the technology bubble of the late 1990s.

<sup>1</sup> Source: Russell Investments. Earnings figures represent 12-month “as reported” earnings. Data is as of December 31, 2015.



Developed International Equity Cyclically Adjusted P/E<sup>1</sup>



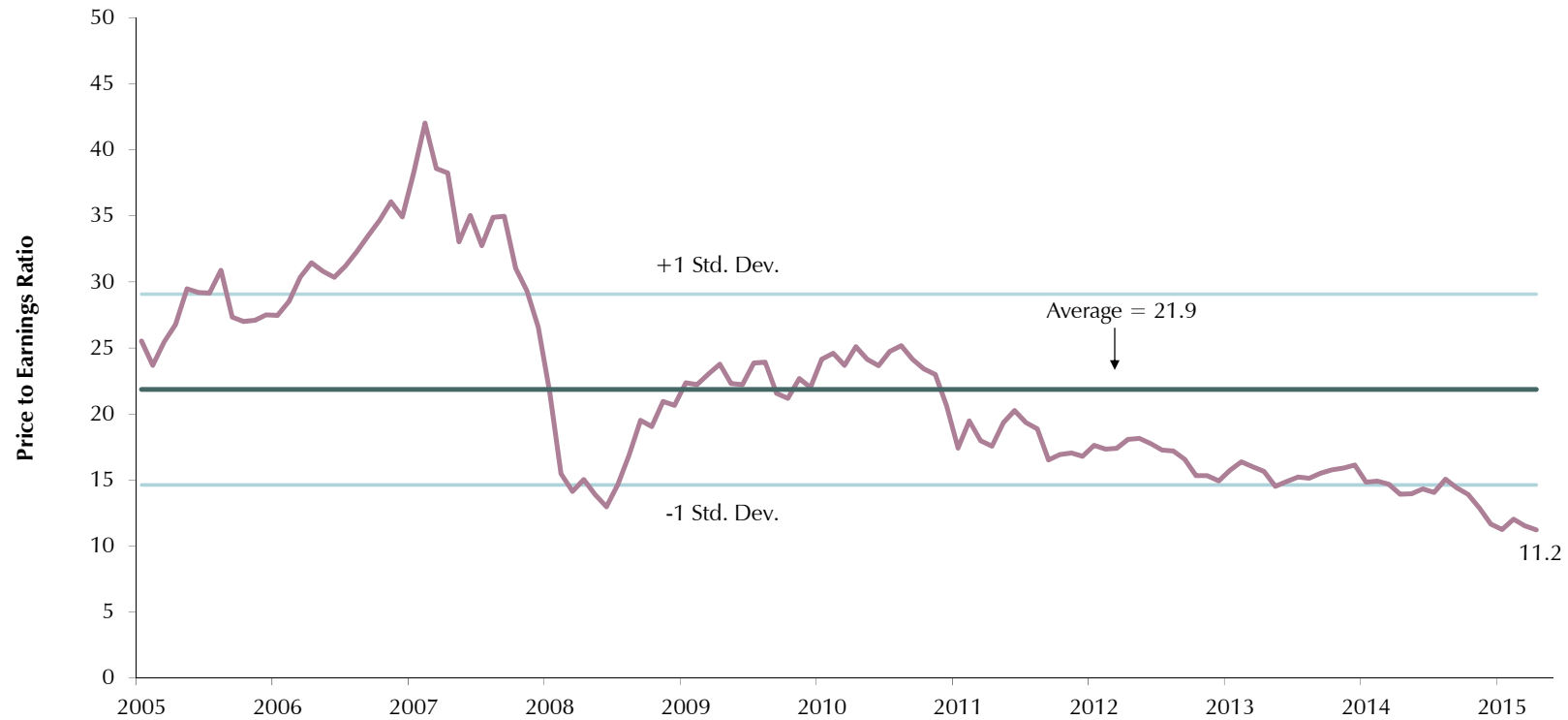
- Valuations for the MSCI EAFE (ex-Japan) remain more than one standard deviation cheaper than their historical average.
- Sovereign debt concerns and the slow pace of economic growth in Europe likely account for the low valuation levels.

<sup>1</sup> Source: MSCI and Thomson Reuters. Earnings figures represent the average of monthly “as reported” earnings over the previous ten years. Data is as of December 31, 2015.





Emerging Market Equity Cyclically Adjusted P/E<sup>1</sup>



- Emerging market equities (MSCI Emerging Markets) are priced more than one standard deviation below their (brief) historical average.
- By this metric, emerging market equities are trading at a much lower valuation than U.S. equities, and at a slightly lower valuation than non-U.S. developed market equities.

<sup>1</sup> Source: MSCI and Thomson Reuters. Earnings figures represent the average of monthly “as reported” earnings over the previous ten years. Data is as of December 31, 2015.



Ten-Year Treasury Yields<sup>1</sup>

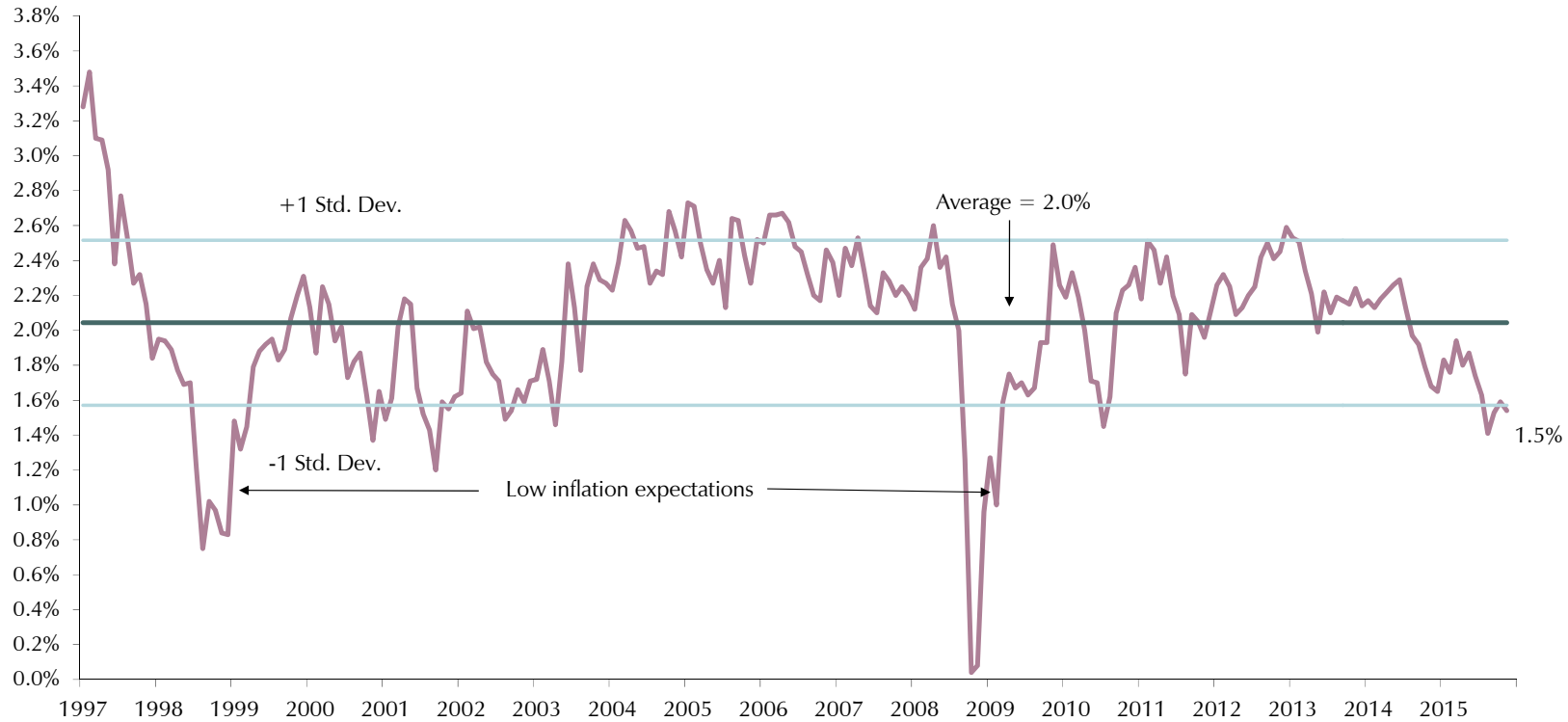


- Ten-year Treasury yields finished December at 2.3%, well below both their post-WWII average and the levels of one year ago.
- Markets have begun to focus on the path of central bank interest rates; the most recent FOMC meeting began the first rising rate environment since 2006, but the guidance remains relatively dovish.

<sup>1</sup> Source: U.S. Treasury. Data is as of December 31, 2015.



Ten-Year Breakeven Inflation<sup>1</sup>

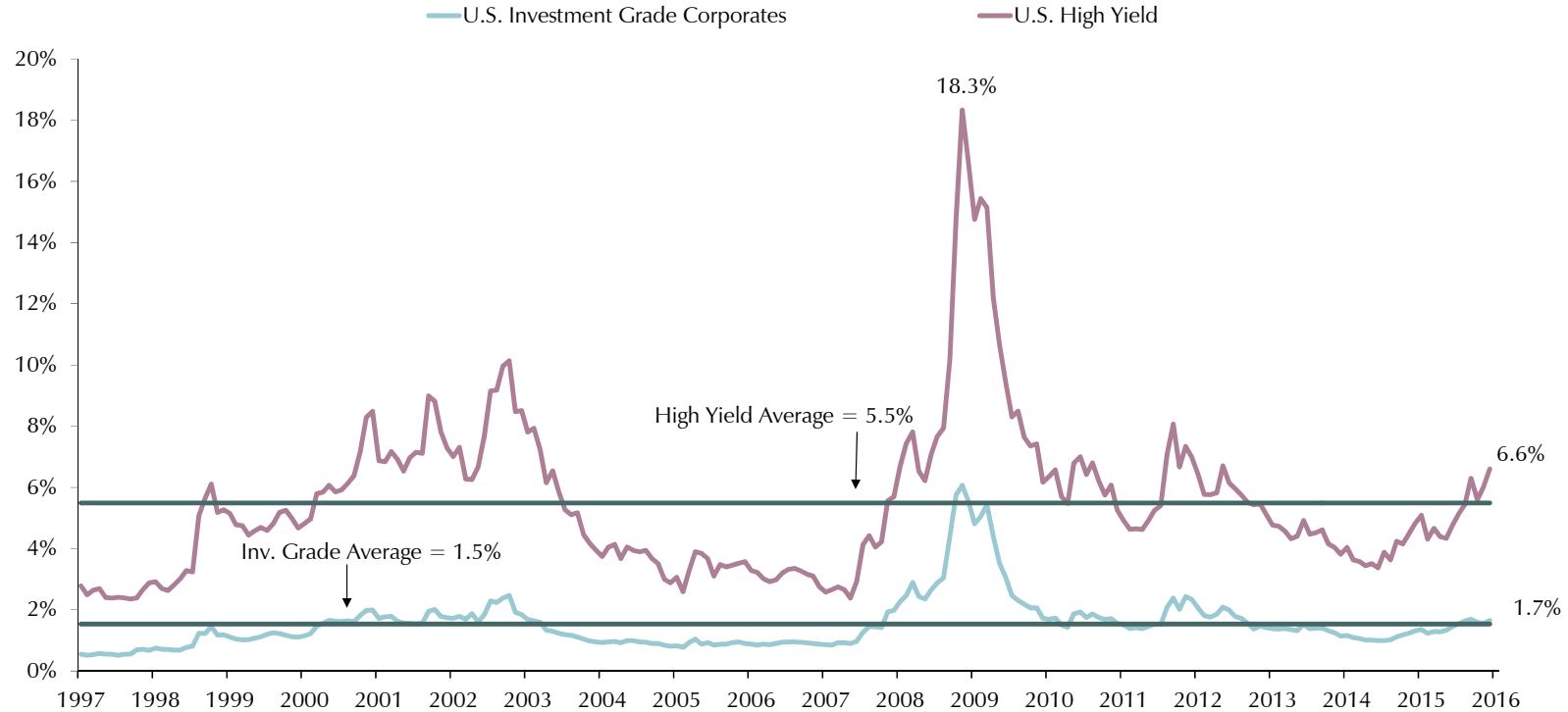


- Breakeven (or expected) inflation, the difference between the nominal yield on a ten-year Treasury and the real yield on a ten-year TIPS, has fallen well below its long-term average.
- Sharp falls in commodity prices have put pressure on inflation. The most recent Year over Year (YoY) inflation rate was only 0.5%, and deflation from commodities (especially energy) is a major headwind.

<sup>1</sup> Source: U.S. Treasury and Federal Reserve. Data is as of December 31, 2015 for TIPS and Treasuries. Inflation is measured by the Consumer Price Index (CPI-U NSA) for which the most recent data point is from November 30, 2015.



Credit Spreads<sup>1</sup>

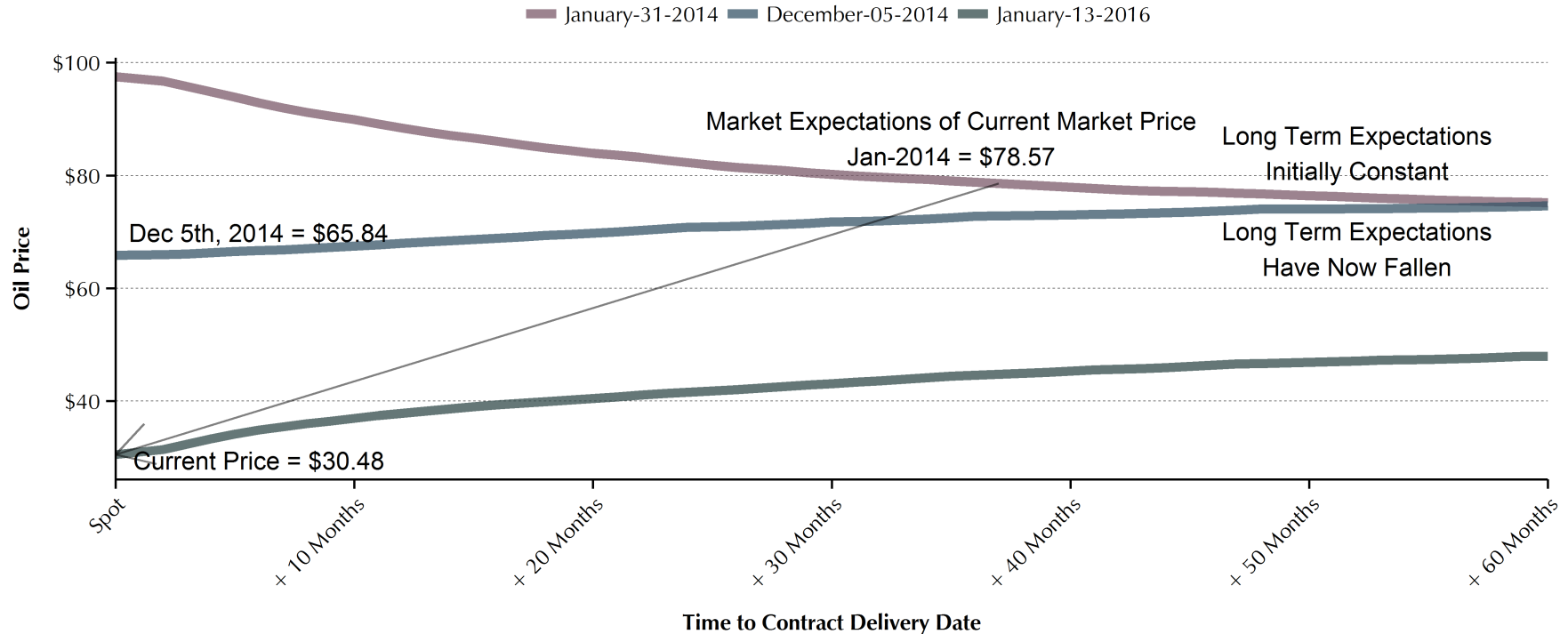


- Credit spreads (versus U.S. Treasury bonds) for both high yield and investment grade corporate bonds finished December close to their respective historical averages.
- The recent jump in market risk caused a widening in spreads, especially within high yield which was affected by oil price declines.

<sup>1</sup> Source: Barclays Capital. High Yield is proxied by the Barclays High Yield index and Investment Grade Corporates are proxied by the Barclays U.S. Corporate Investment Grade index. Data is as of December 31, 2015.



Oil Price Futures Curves<sup>1</sup>



- The chart above shows the WTI Crude Oil futures prices as of January and December of 2014 and December of this year. This highlights how large the recent price fall has been, especially relative to expectations.
- Looking further out on the curve we can see that initially, long-term price expectations remained the same. As the oil price has continued to fall, long-term expectations have settled at a lower price.

<sup>1</sup> Source: WTI Crude Oil Futures Price via Bloomberg. Data is as of December 15, 2015.



### U.S. High Yield Sectors<sup>1</sup>

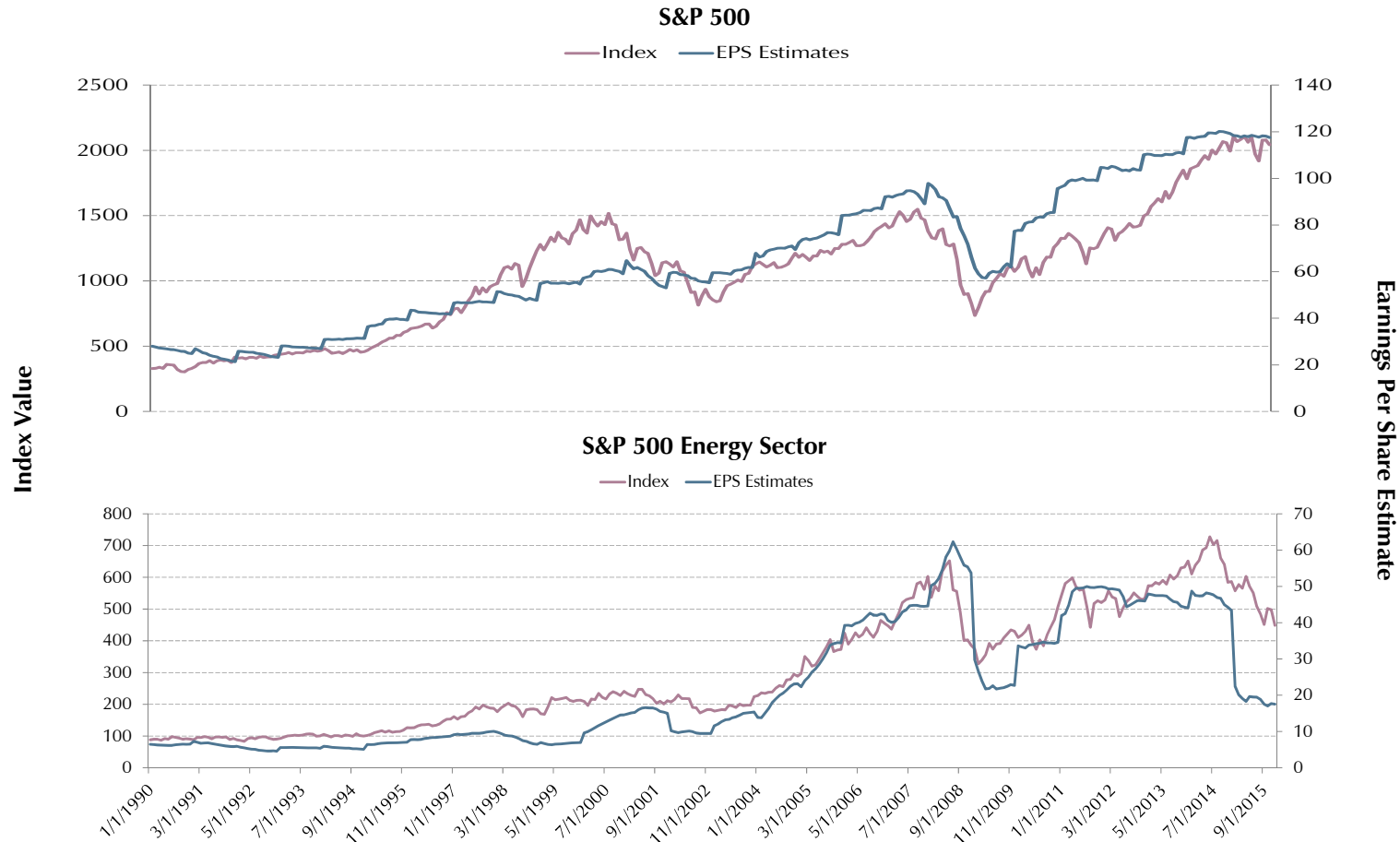


- The oil price decline has been a major contributing factor to the recent widening of spreads within U.S. High Yield.
- The energy sector represents roughly 15% of the index, and as illustrated above, most widening of spreads has come from the energy sector.

<sup>1</sup> Source: Barclays and Thompson Reuters. Data is as of December 15, 2015.



### U.S. Corporate Earnings<sup>1</sup>

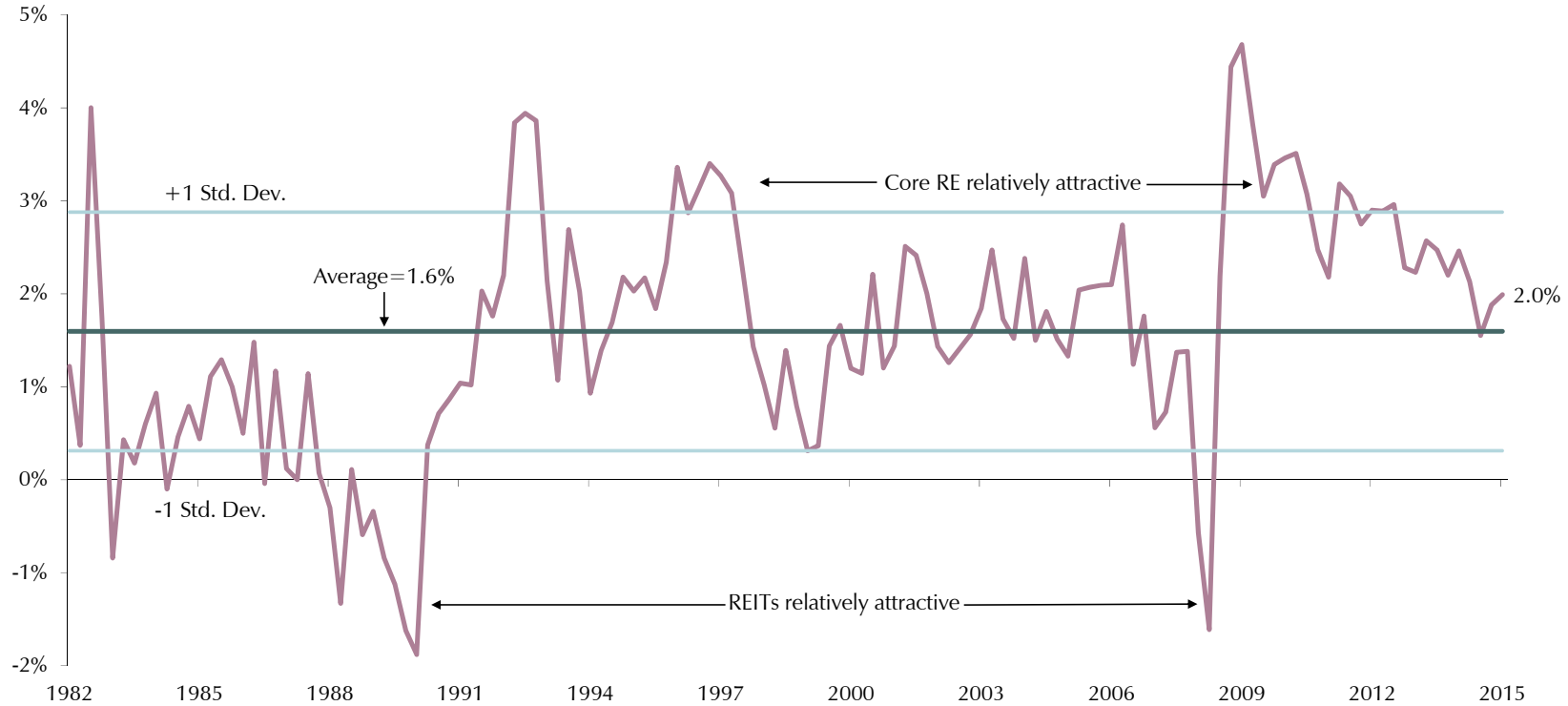


- The oil price decline has also had a major effect on U.S. earnings expectations. Earnings have fallen recently in that sector but much less than estimates. Aggregating all sectors, estimates have recently fallen only slightly.

<sup>1</sup> Source: Bloomberg. Earnings Per Share Estimates are the average current quarter estimates of market analyst. Data is as of December 31, 2015.



Core Real Estate vs. REITs<sup>1</sup>



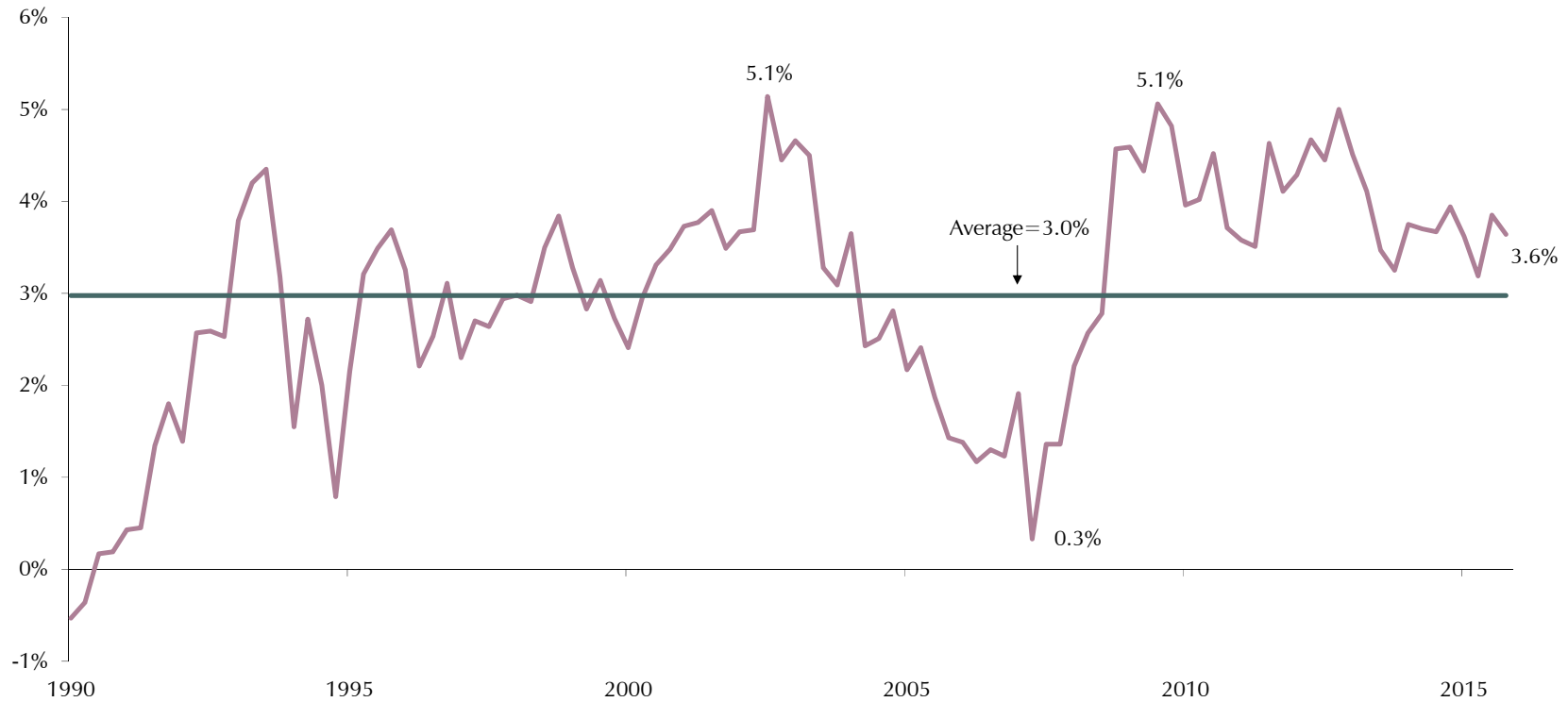
- At the end of December, the spread between core real estate cap rates and REIT yields was 2.0%, reaching just above the long term historical average level.
- REITs were yielding 3.9%, well below the 10.1% level of early 2009.

<sup>1</sup> Sources: Thomson Reuters and NCREIF. Core Real Estate is proxied by the transaction-based cap rate for the NCREIF NPI index and REITs are proxied by the yield for the NAREIT Equity index. NPI transactional capitalization rates are calculated on a quarterly basis and lagged in their release. Data is as of September 30, 2015 for the NCREIF NPI and December 31, 2015 for the NAREIT Equity index.





**Core Real Estate Spread vs. Ten-Year Treasury<sup>1</sup>**

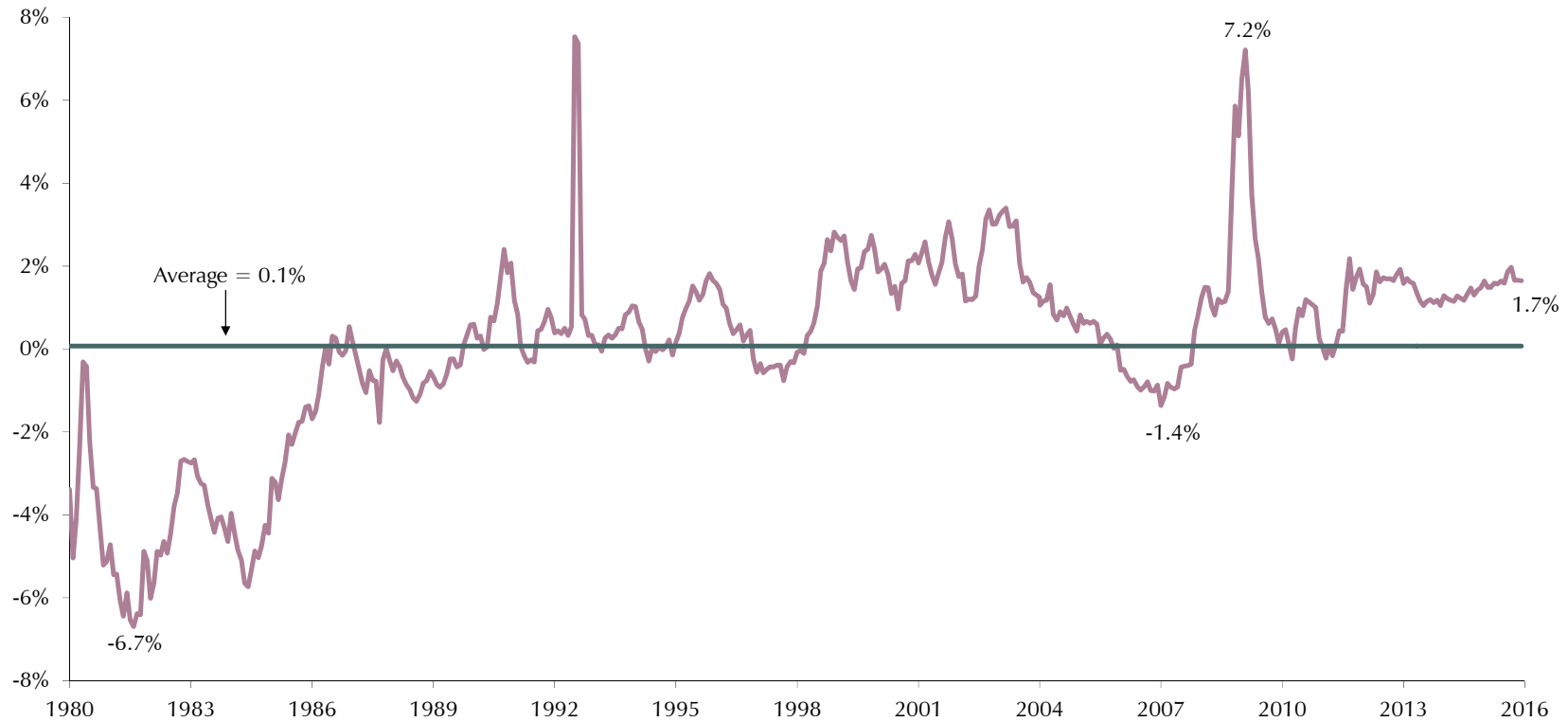


- At 3.6%, the difference between the 5.9% cap rate for core real estate and the 2.3% yield for the ten-year Treasury has come back towards its historical average.
- Still, the absolute level of core real estate cap rates is near a historical low.

<sup>1</sup> Source: NCREIF, U.S. Treasury. NPI transactional capitalization rates are calculated on a quarterly basis. Data is as of September 30, 2015 for the NCREIF NPI and December 31, 2015 for the ten-year Treasury.



**REITs Dividend Yield Spread vs. Ten-Year Treasury<sup>1</sup>**

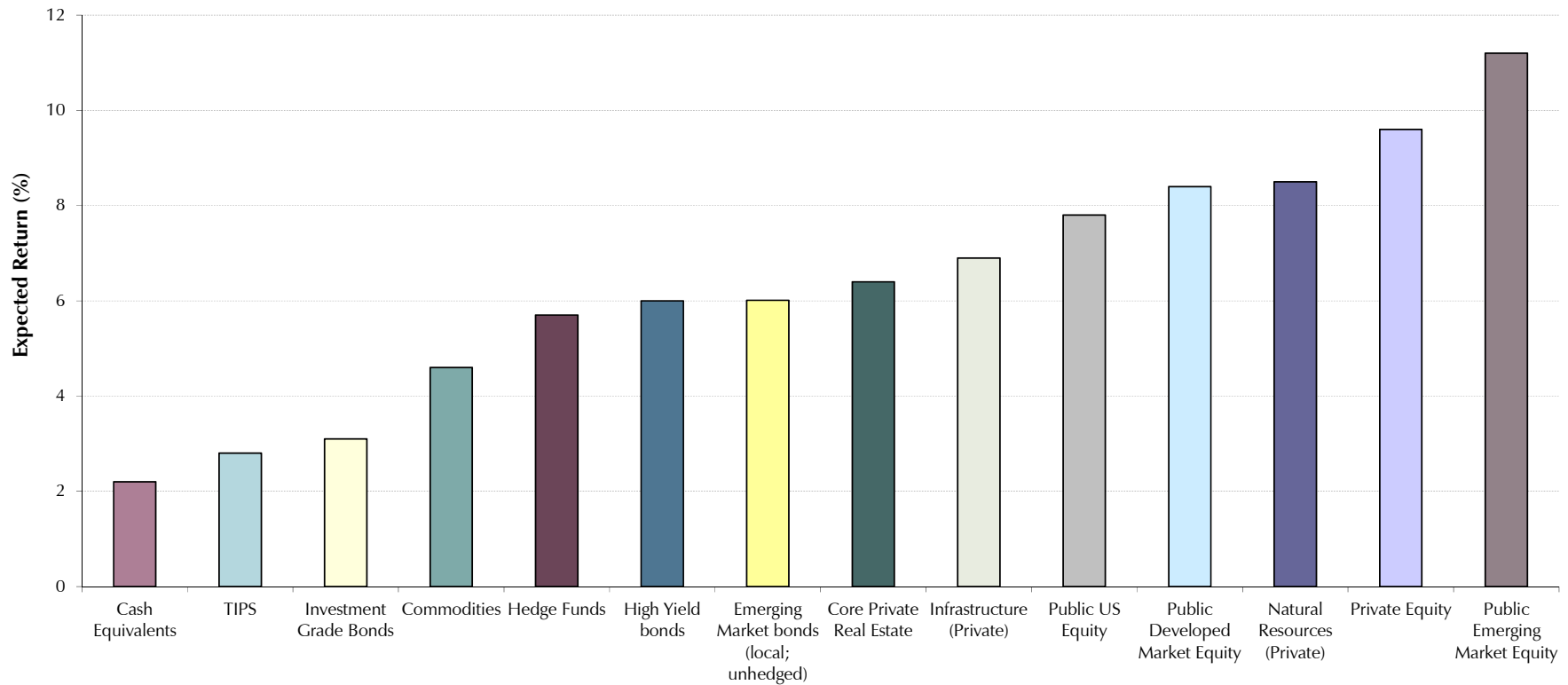


- REIT yield spreads were 1.7% at the end of December. This spread gradually increased last year despite strong REIT performance.
- As with core real estate, the absolute level of REIT dividend yields is near a historical low.

<sup>1</sup> Source: NAREIT, U.S. Treasury. REITs are proxied by the yield for the NAREIT Equity index. Data is as of December 31, 2015.



Long-Term Outlook<sup>1</sup>



- Based on Meketa Investment Group’s long-term expectations, only a handful of asset classes are priced to produce returns above 8% per year. All of these asset classes incorporate a high degree of volatility.

<sup>1</sup> Twenty-year expected returns based upon Meketa Investment Group’s 2015 Annual Asset Study.



**Total Return Comparison of Barclays U.S. Aggregate Minus Barclays U.S. TIPS<sup>1</sup>**

		Changes In Rates (bps)				
		-100	-50	0	50	100
Inflation Rate Scenarios	4.0%	-5.22%	-3.74%	-2.42%	-1.25%	-0.25%
	3.0%	-4.22%	-2.74%	-1.42%	-0.25%	0.75%
	2.0%	-3.22%	-1.74%	-0.42%	0.75%	1.75%
	1.0%	-2.22%	-0.74%	0.58%	1.75%	2.75%
	0.0%	-1.22%	0.26%	1.58%	2.75%	3.75%

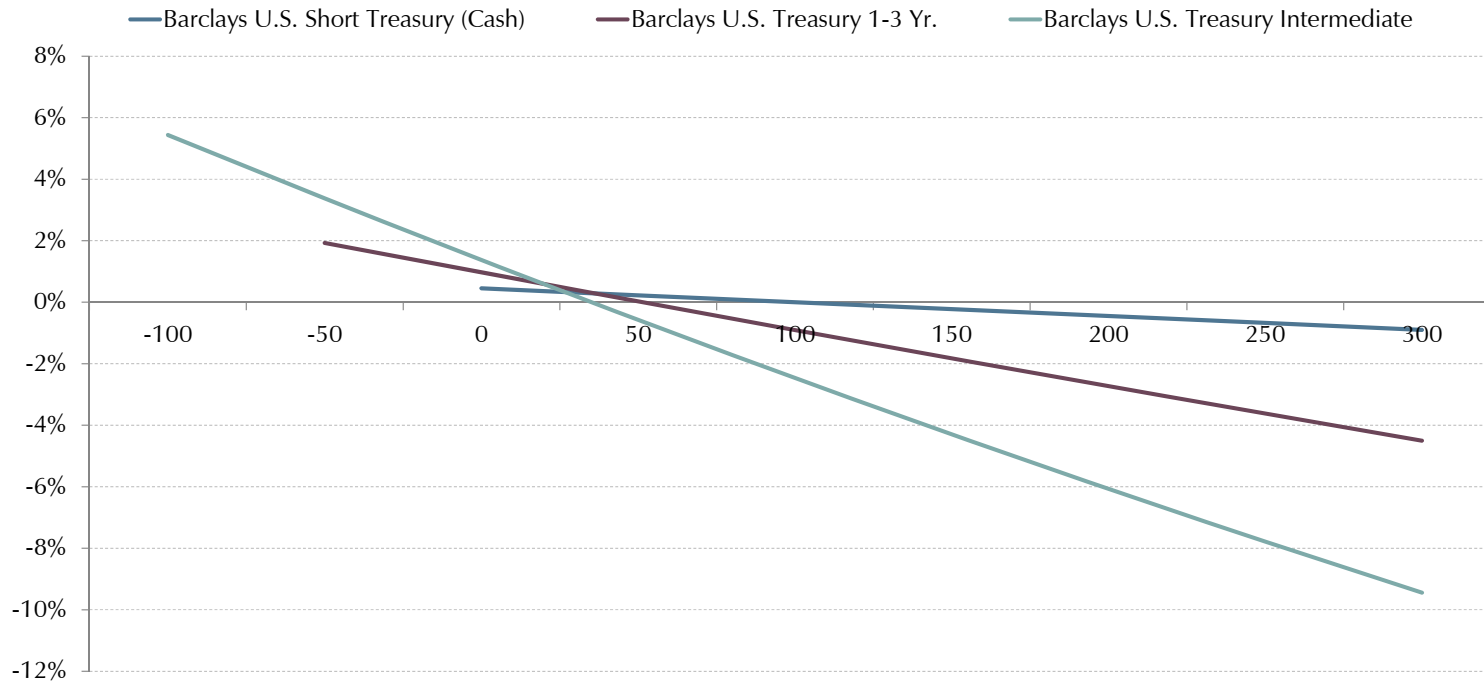
**Total Return Scenario: 100 bps Rate Increase and 2% Inflation**

Total Return Over Longer Holding Periods	1 Year	3 Year	5 Year	7 Year	10 Year
Barclays U.S. Aggregate	-3.17%	1.09%	1.96%	2.34%	2.62%
Barclays U.S. Treasury U.S. TIPS	-4.92%	0.86%	2.06%	2.58%	2.97%

<sup>1</sup> Data is as of December 31, 2015 via Barclays, Bloomberg, and Thomson Reuters. Scenario assumes that the rate increase happens over one year.



**Total Return Given Changes in Interest Rates (bps)<sup>1</sup>**



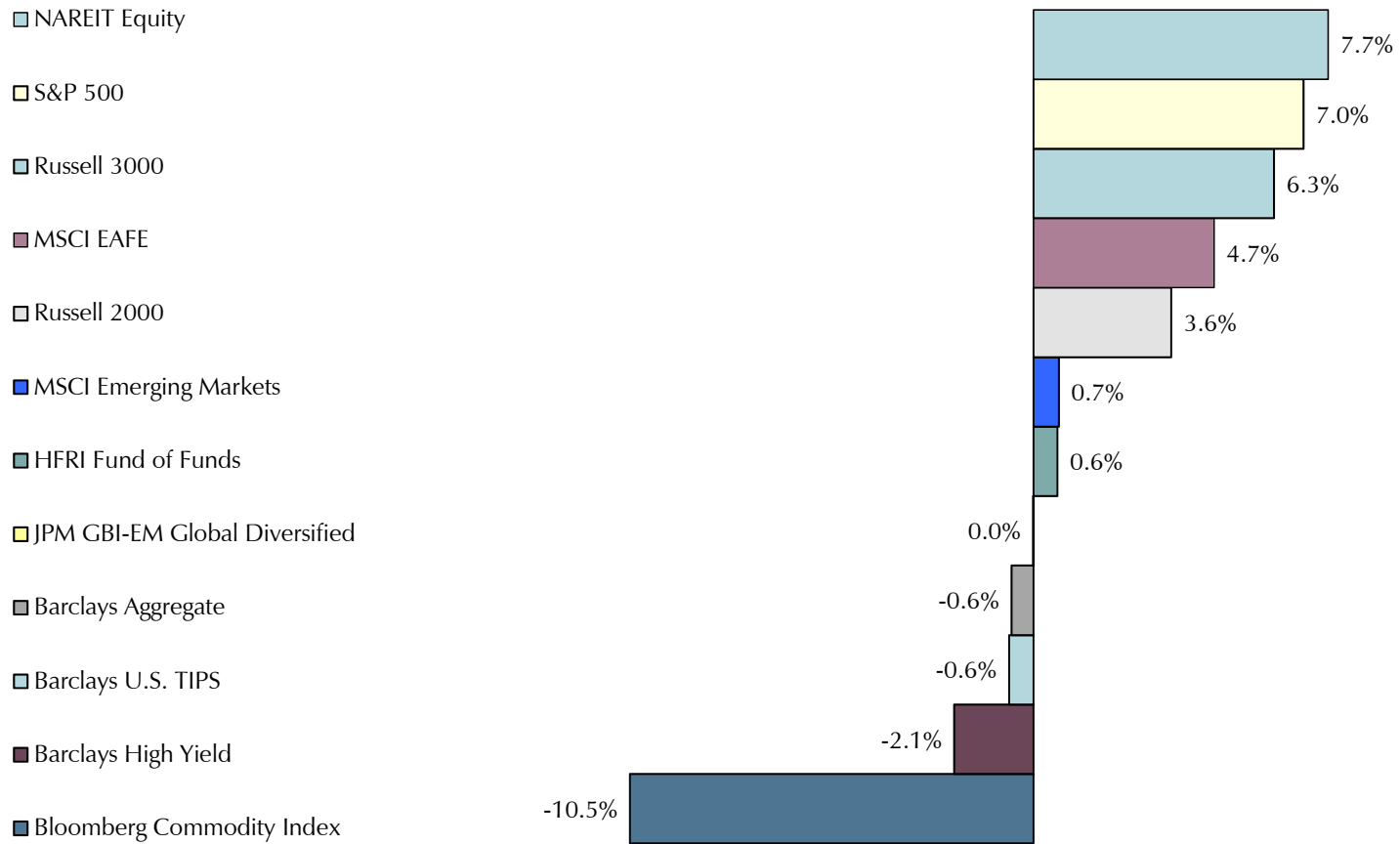
	Total Return for Given Changes in Interest Rates (bps)									Statistics	
	-100	-50	0	50	100	150	200	250	300	Duration	YTW
Barclays U.S. Short Treasury (Cash)			0.5%	0.2%	0.0%	-0.2%	-0.4%	-0.7%	-0.9%	0.45	0.45%
Barclays U.S. Treasury 1-3 Yr.		1.9%	1.0%	0.0%	-0.9%	-1.8%	-2.7%	-3.6%	-4.5%	1.9	0.97%
Barclays U.S. Treasury Intermediate	5.4%	3.4%	1.4%	-0.6%	-2.5%	-4.3%	-6.1%	-7.8%	-9.4%	3.95	1.37%
Barclays U.S. Treasury Long	22.3%	12.0%	2.7%	-5.5%	-12.7%	-18.9%	-24.1%	-28.3%	-31.4%	17.5	2.74%

<sup>1</sup> Data represents the expected total return from a given change in interest rates (shown in basis points) over a 12-month period assuming a parallel shift in rates. Data is as of December 31, 2015 via Barclays and Thomson Reuters.



**The World Markets  
Fourth Quarter of 2015**

The World Markets  
Fourth Quarter of 2015

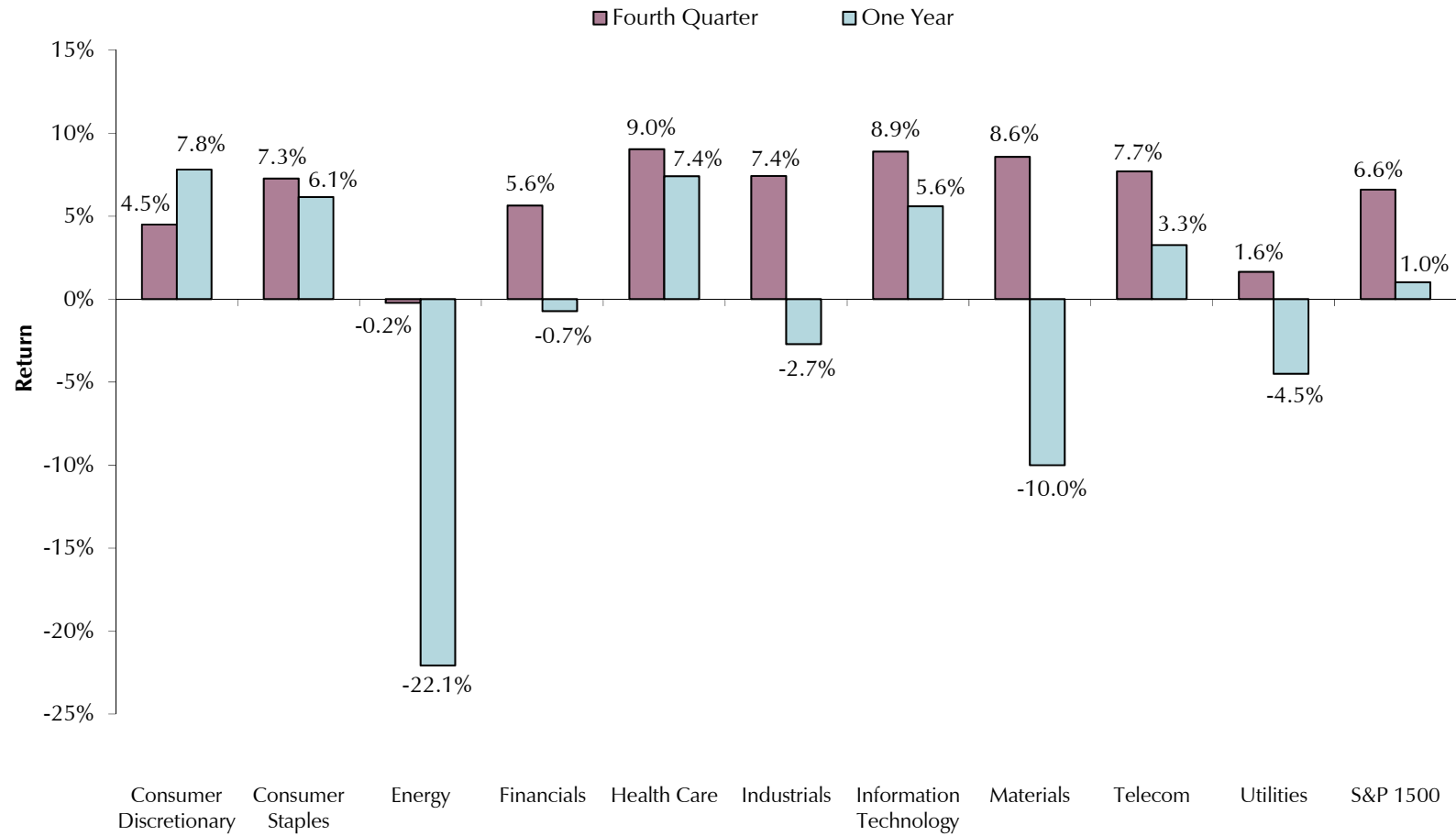


## Index Returns

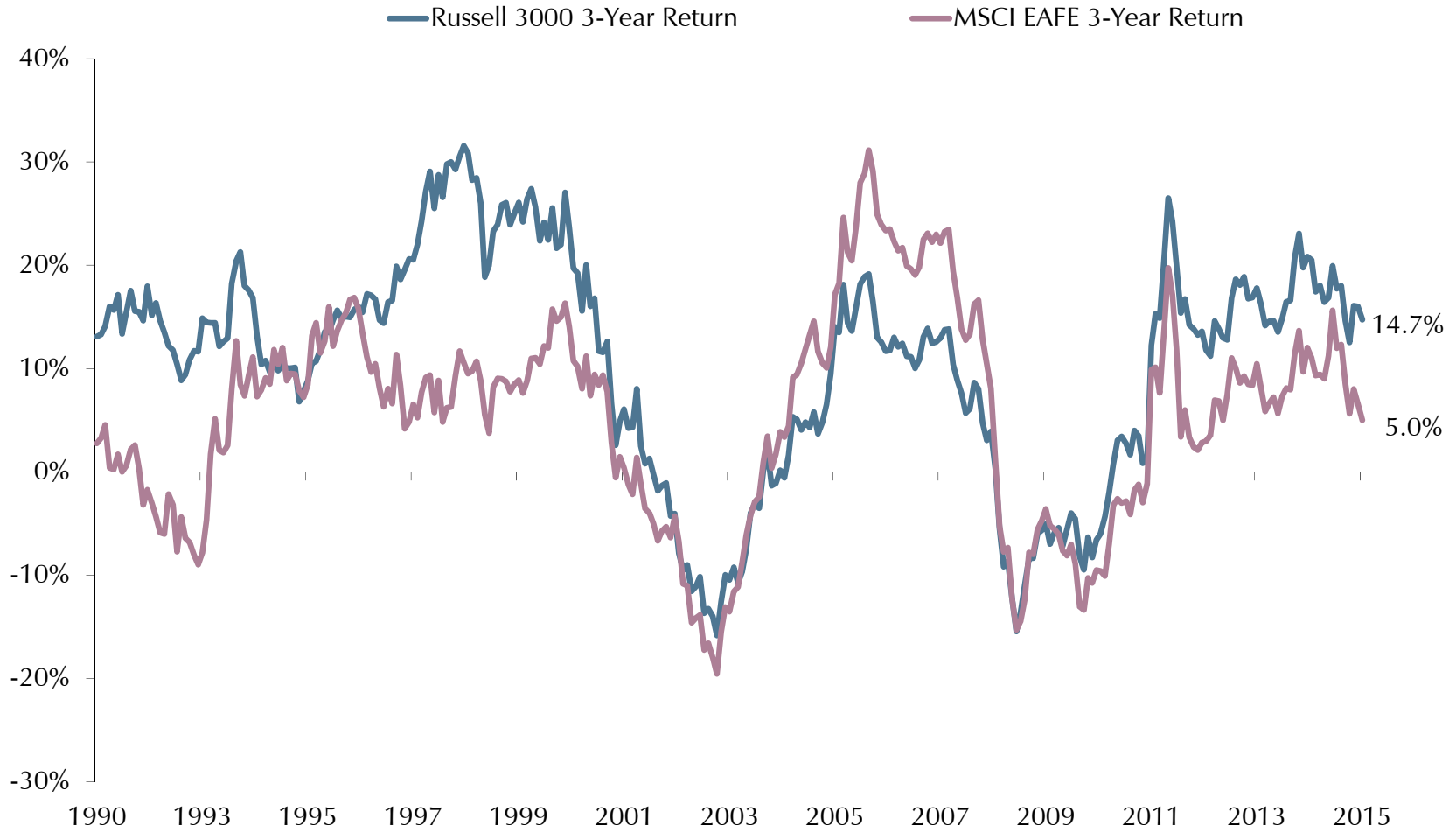
	4Q15 (%)	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
<b>Domestic Equity</b>					
Russell 3000	6.3	0.5	14.7	12.2	7.4
Russell 1000	6.5	0.9	15.0	12.4	7.4
Russell 1000 Growth	7.3	5.7	16.8	13.5	8.5
Russell 1000 Value	5.6	-3.8	13.1	11.3	6.2
Russell MidCap	3.6	-2.4	14.2	11.4	8.0
Russell MidCap Growth	4.1	-0.2	14.9	11.5	8.2
Russell MidCap Value	3.1	-4.8	13.4	11.3	7.6
Russell 2000	3.6	-4.4	11.7	9.2	6.8
Russell 2000 Growth	4.3	-1.4	14.3	10.7	8.0
Russell 2000 Value	2.9	-7.5	9.1	7.7	5.6
<b>Foreign Equity</b>					
MSCI ACWI (ex. U.S.)	3.2	-5.7	1.5	1.1	2.9
MSCI EAFE	4.7	-0.8	5.0	3.6	3.0
MSCI EAFE (local currency)	6.3	5.3	12.3	7.9	3.2
MSCI EAFE Small Cap	6.8	9.6	10.4	6.3	4.6
MSCI Emerging Markets	0.7	-14.9	-6.8	-4.8	3.6
MSCI Emerging Markets (local currency)	1.5	-5.8	0.8	0.9	6.0
<b>Fixed Income</b>					
Barclays Universal	-0.5	0.4	1.5	3.5	4.7
Barclays Aggregate	-0.6	0.5	1.4	3.2	4.5
Barclays U.S. TIPS	-0.6	-1.4	-2.3	2.5	3.9
Barclays High Yield	-2.1	-4.5	1.7	5.0	7.0
JPMorgan GBI-EM Global Diversified	0.0	-14.9	-10.0	-3.5	4.3
<b>Other</b>					
NAREIT Equity	7.7	2.8	10.6	11.9	7.4
Bloomberg Commodity Index	-10.5	-24.7	-17.3	-13.5	-6.4
HFRI Fund of Funds	0.6	-0.4	3.9	2.1	2.3



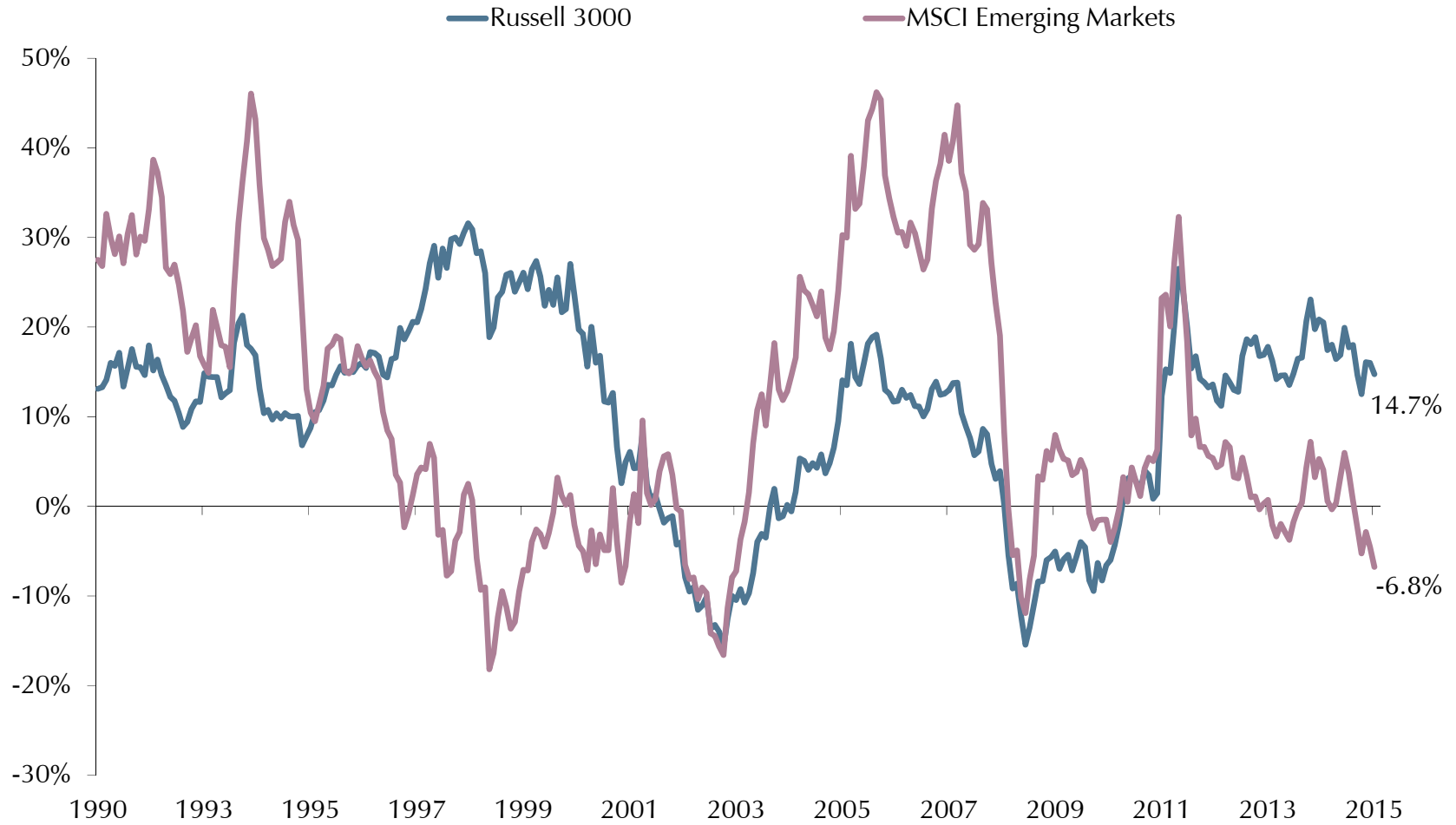
S&P Sector Returns



U.S. and Developed Market Foreign Equity Rolling Three Year Returns

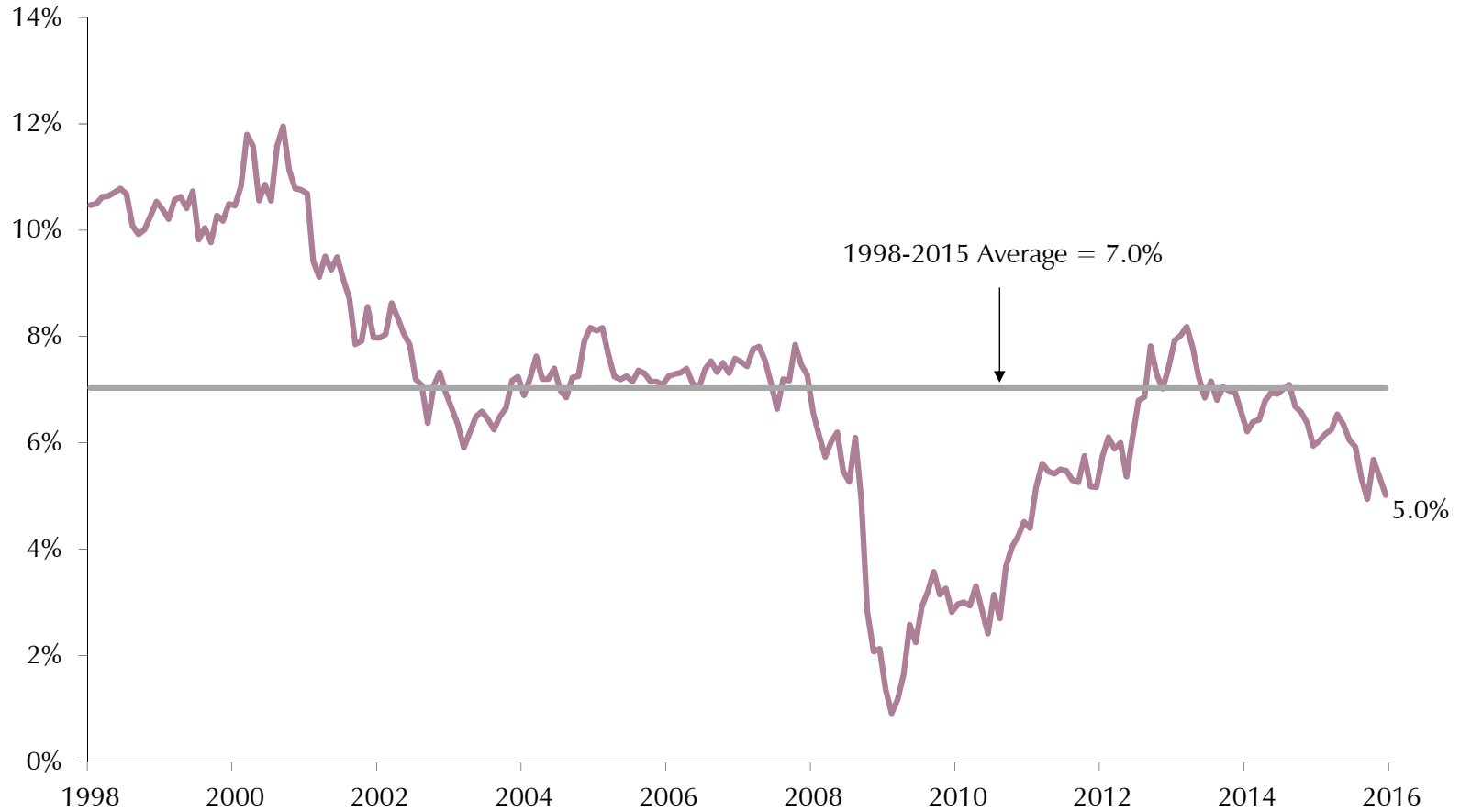


U.S. and Emerging Market Equity Rolling Three Year Returns

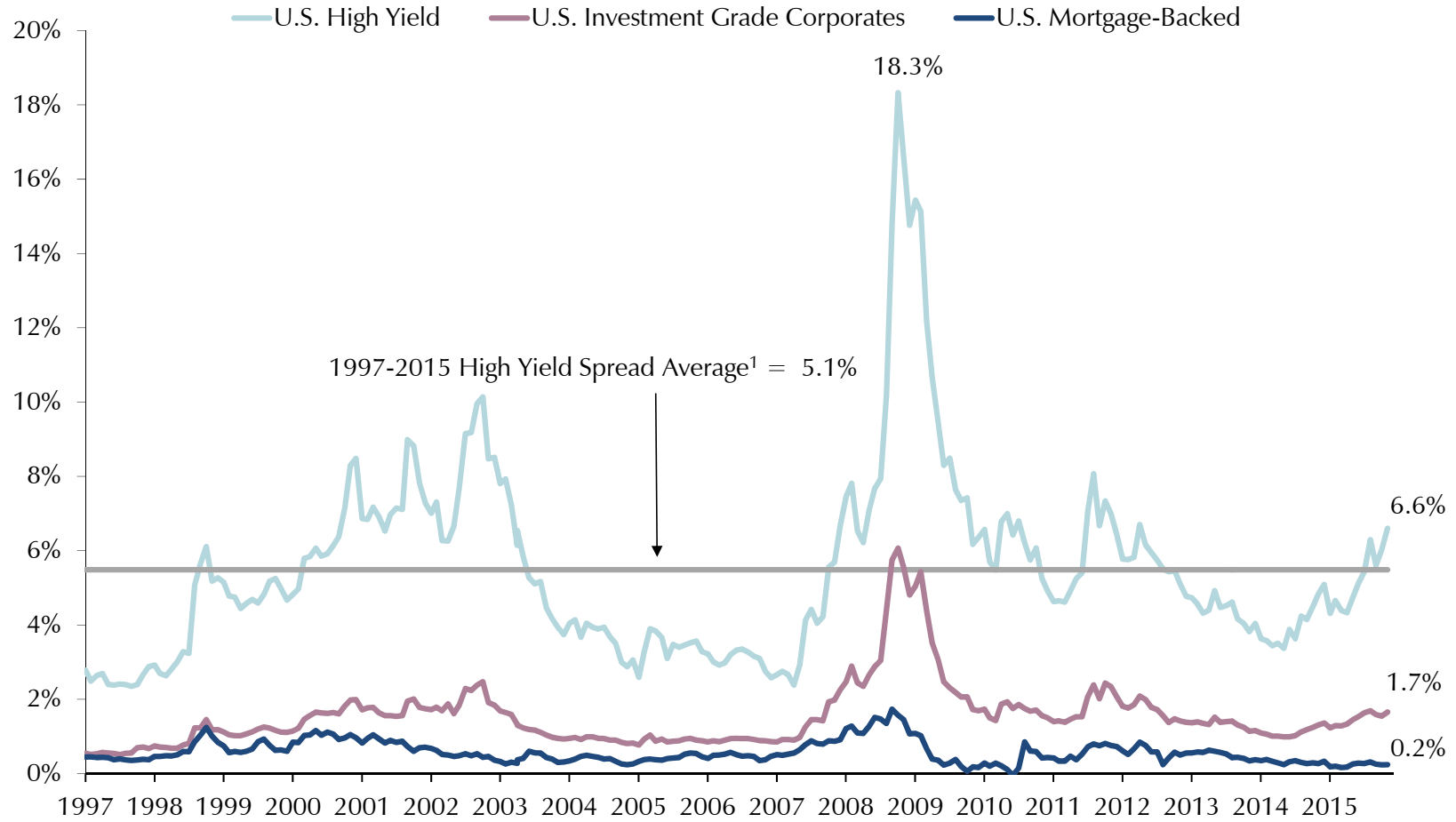


**Rolling Ten-Year Returns: 65% Stocks and 35% Bonds**

— 65% Stocks (MSCI ACWI) / 35% Bonds (Barclays Aggregate) 10-Year Rolling Return



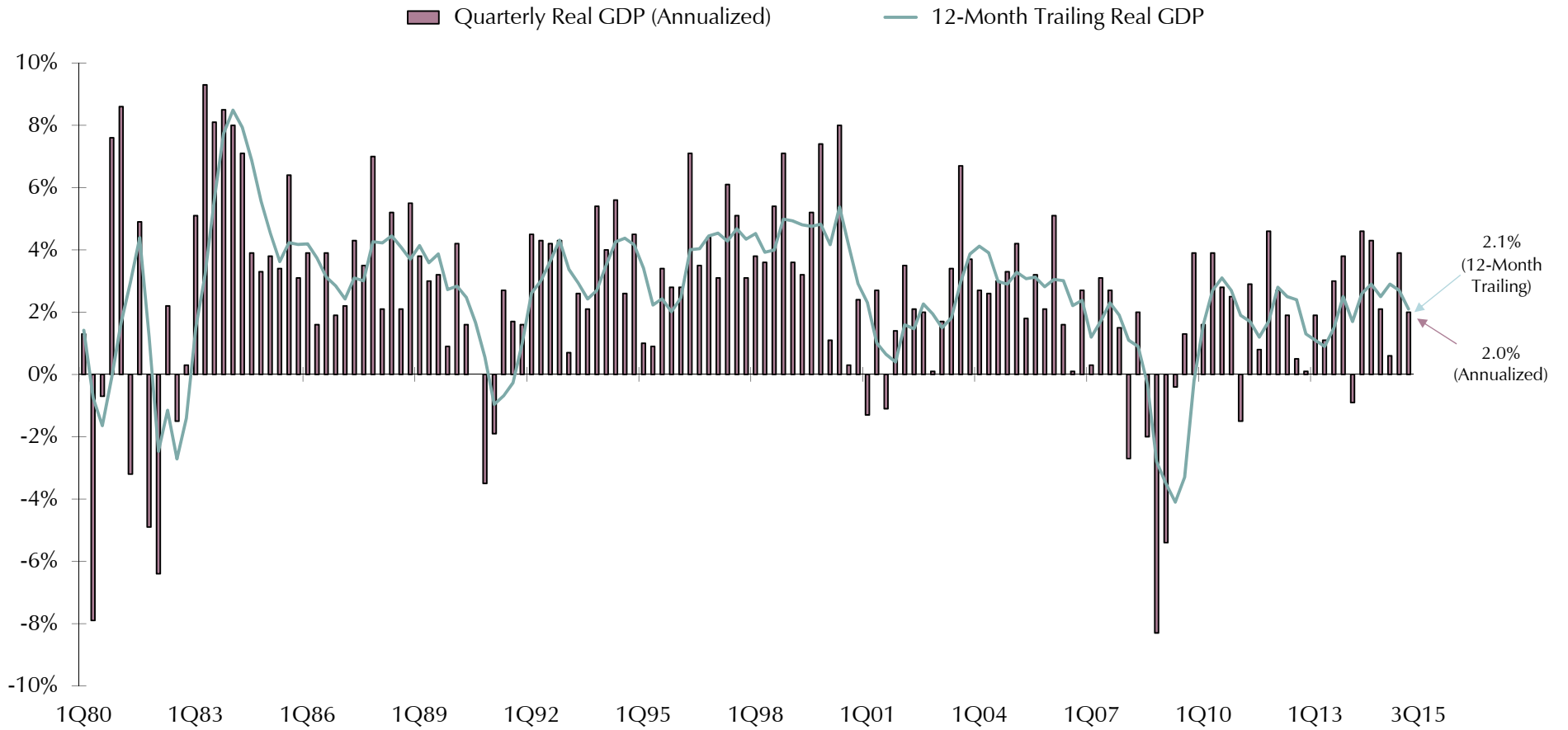
Credit Spreads vs. U.S. Treasury Bonds



<sup>1</sup> Median high yield spread average was 5.1% from 1997-2015.



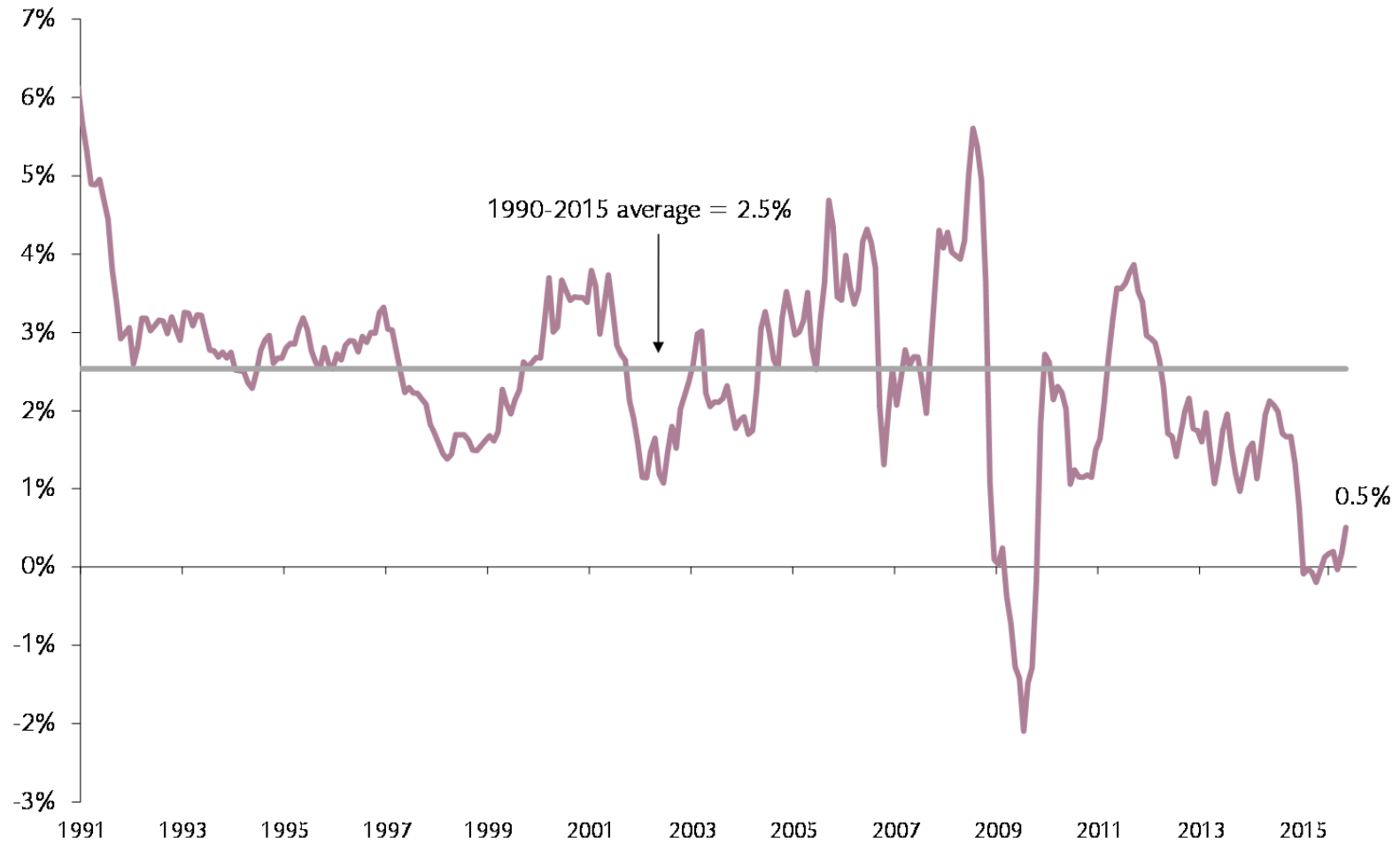
U.S. Real Gross Domestic Product (GDP) Growth<sup>1</sup>



<sup>1</sup> Fourth quarter GDP data is not yet available. Data is for the third quarter.



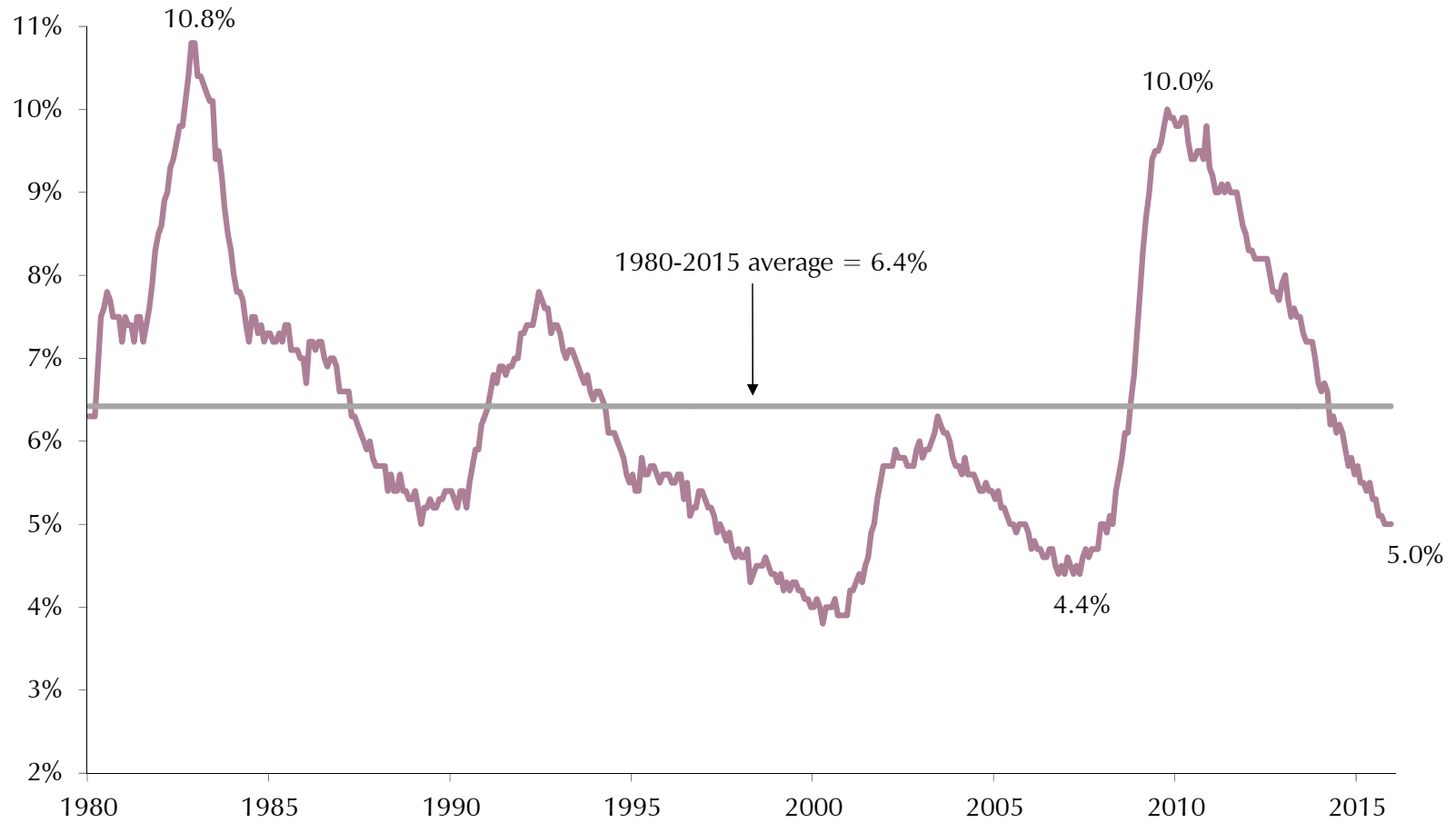
**U.S. Inflation (CPI)  
Trailing Twelve Months<sup>1</sup>**



<sup>1</sup> Data is non-seasonally adjusted CPI, which may be volatile in the short-term. Data is as of November 30, 2015.



U.S. Unemployment





**Meketa Investment Group**  
**The Case for Diversification**

Periodic Table of Returns<sup>1</sup>

- Even a naively diversified portfolio (U.S. 60/40) achieves a much more stable return stream than its components: U.S. Equity and Core Bonds.

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Long Term Bonds 20.3%	US Core Bonds 8.4%	Long Term Bonds 16.8%	US Equity 31.1%	Global 60/40 12.5%	Long Term Bonds 9.6%	US Equity 15.7%	Long Term Bonds 9.8%	Long Term Bonds 24.0%	US Equity 28.3%	US Equity 16.9%	Long Term Bonds 29.9%	US Equity 16.4%	US Equity 33.6%	Long Term Bonds 25.1%
US Core Bonds 11.6%	Long Term Bonds 4.2%	US Core Bonds 10.3%	Global 60/40 24.9%	US Equity 11.9%	US Equity 6.1%	Global 60/40 14.7%	Global 60/40 9.2%	US Core Bonds 5.2%	Global 60/40 20.8%	US 60/40 12.8%	US Core Bonds 7.8%	US 60/40 11.5%	US 60/40 19.3%	US Equity 12.6%
US 60/40 0.2%	US 60/40 -3.5%	Global 60/40 -5.3%	US 60/40 20.3%	US 60/40 8.9%	US 60/40 4.6%	US 60/40 11.2%	US Core Bonds 7.0%	US 60/40 -20.3%	US 60/40 19.4%	Long Term Bonds 9.4%	US 60/40 3.8%	Global 60/40 11.2%	Global 60/40 15.0%	US 60/40 9.9%
Global 60/40 -6.6%	Global 60/40 -9.5%	US 60/40 -8.8%	US Core Bonds 4.1%	Long Term Bonds 7.7%	Global 60/40 3.9%	US Core Bonds 4.3%	US 60/40 5.9%	Global 60/40 -22.5%	US Core Bonds 5.9%	Global 60/40 9.3%	US Equity 1.0%	US Core Bonds 4.2%	US Core Bonds -2.0%	US Core Bonds 6.0%
US Equity -7.5%	US Equity -11.5%	US Equity -21.5%	Long Term Bonds 2.5%	US Core Bonds 4.3%	US Core Bonds 2.4%	Long Term Bonds 1.9%	US Equity 5.1%	US Equity -37.3%	Long Term Bonds -12.9%	US Core Bonds 6.5%	Global 60/40 -1.1%	Long Term Bonds 3.6%	Long Term Bonds -12.7%	Global 60/40 3.2%

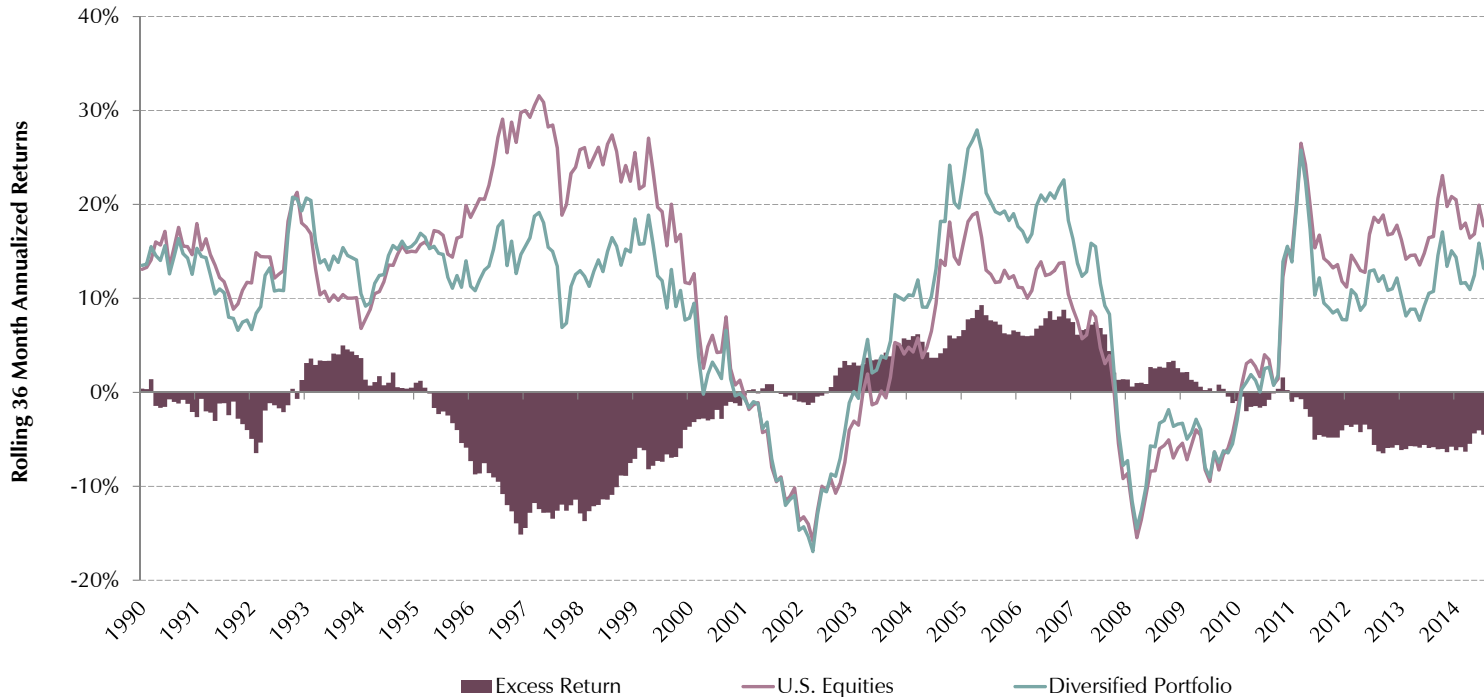
<sup>1</sup> U.S. Equity represented by Russell 3000 Index, Long Term Bonds represented by Barclays Long Term Treasury, Core Bonds represented by Barclay's Aggregate, US 60/40 invests 60% in Russell 3000 and 40% in Barclays Aggregate, Global 60/40 invests 60% in MSCI World and 40% in Barclays Global Aggregate.



Returns are Cyclical

- U.S. Equities outperformed a diversified portfolio by 7.4% and 5.3% per annum during the 1995-2001 and 2010-2015 periods, respectively. However, U.S. Equities trailed by 8.7% and 6.5% annually during the 1993-1994 and 2002-2007 periods, respectively.

**Rolling 36-month Annualized Returns of U.S. Equities vs Diversified Equities Portfolio<sup>1</sup>**  
 January 2001 – August 2015



<sup>1</sup> U.S. Equities represented by Russell 3000 Index. Diversified Equities Portfolio composition: 50% Russell 3000, 30% MSCI EAFE Index and 20% MSCI EM Index.



### Performance Chasing Detracts Value<sup>1</sup>

- Investors performance lag actual fund performance due to performance chasing, a practice that effectively translates into buying high and selling low.

#### Asset-Weighted and Average Total and Investor Returns: Trailing Through Dec. 31, 2013

	Average 10 Year Total Return (%)	Asset-Weighted 10 Year Investor Return (%)	Returns Gap (%)
US Equity	8.18	6.52	-1.66
Sector Equity	9.46	6.32	-3.14
Balanced	6.93	4.81	-2.12
International Equity	8.77	5.76	-3.01
Taxable Bond	5.39	3.15	-2.24
Municipal	3.53	1.65	-1.88
Alternative	0.96	-1.15	-2.11
All Funds	7.30	4.81	-2.49

Source: Morningstar.

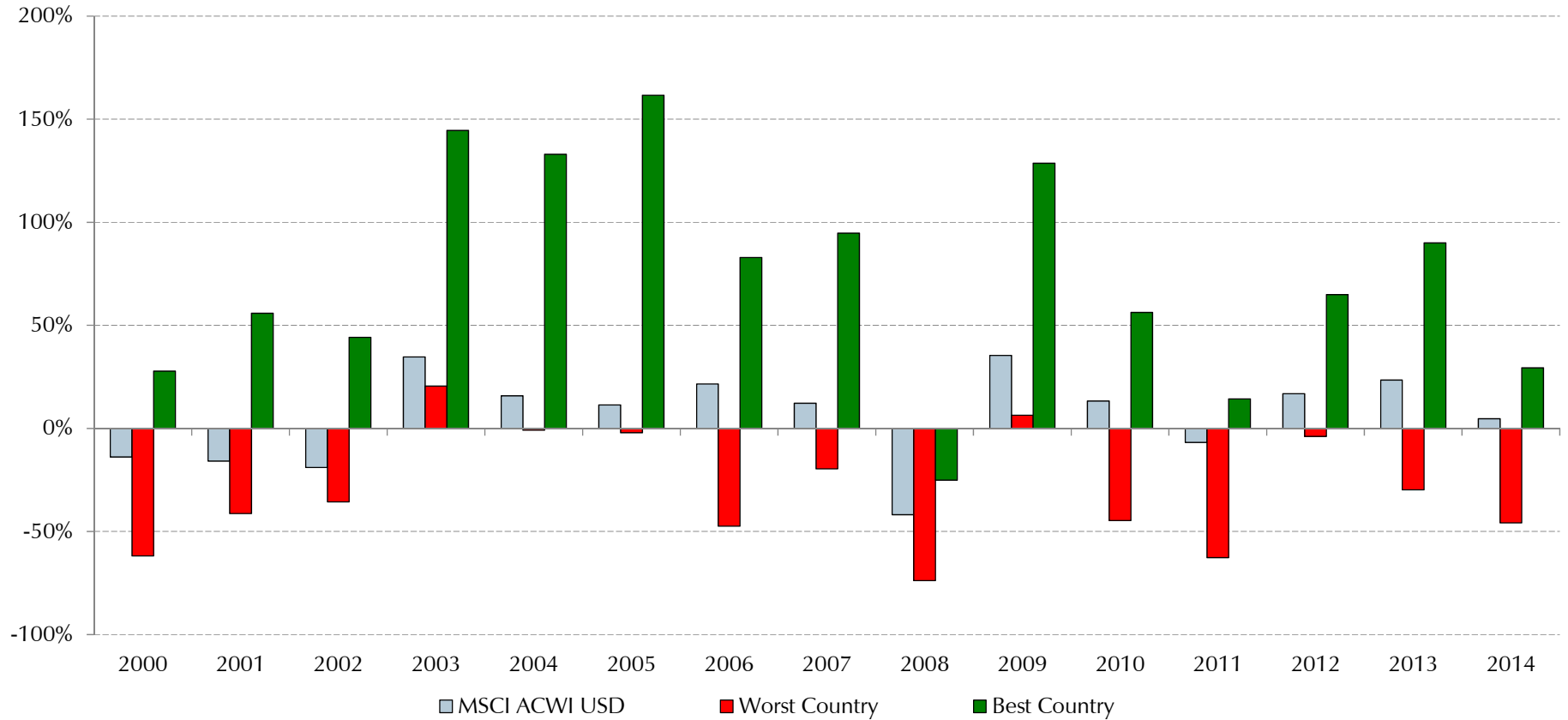
<sup>1</sup> Source: Morningstar. Kinnel, Russel. "Mind the Gap 2014". February 27<sup>th</sup>, 2014. <http://news.morningstar.com/articlenet/article.aspx?id=637022>

**Diversification reduces Volatility**

- Taken together, the MSCI ACWI index is far less volatile than its constituents

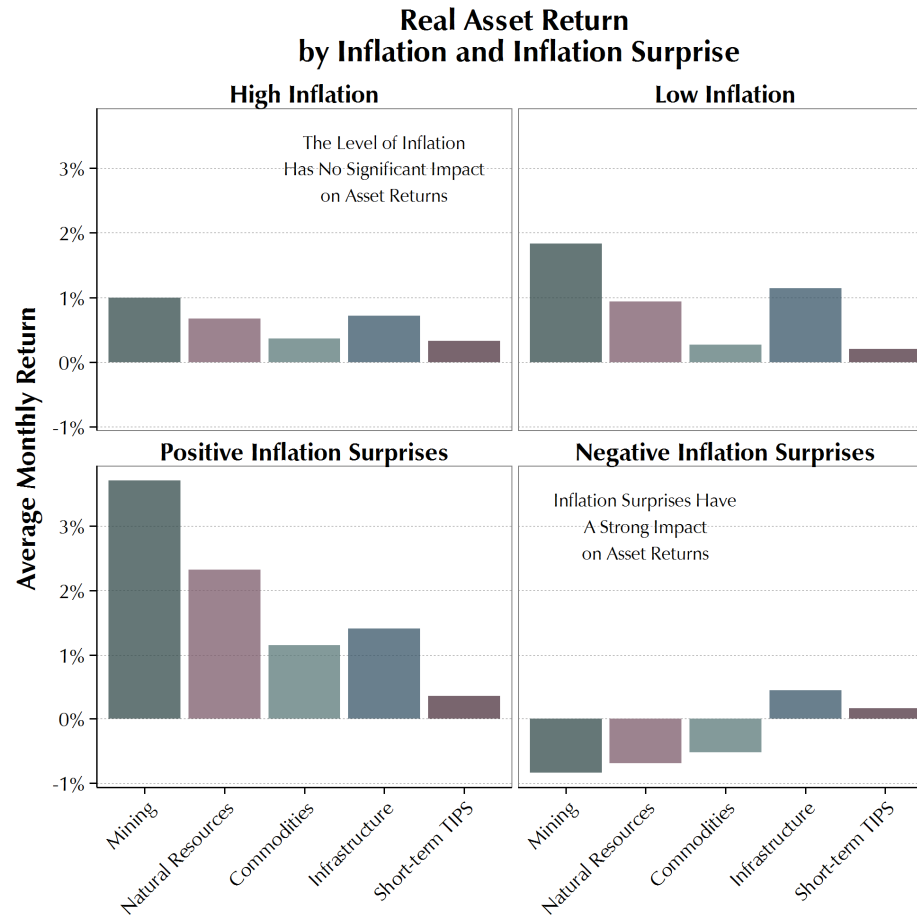
**MSCI ACWI**

January 1995 – December 2014



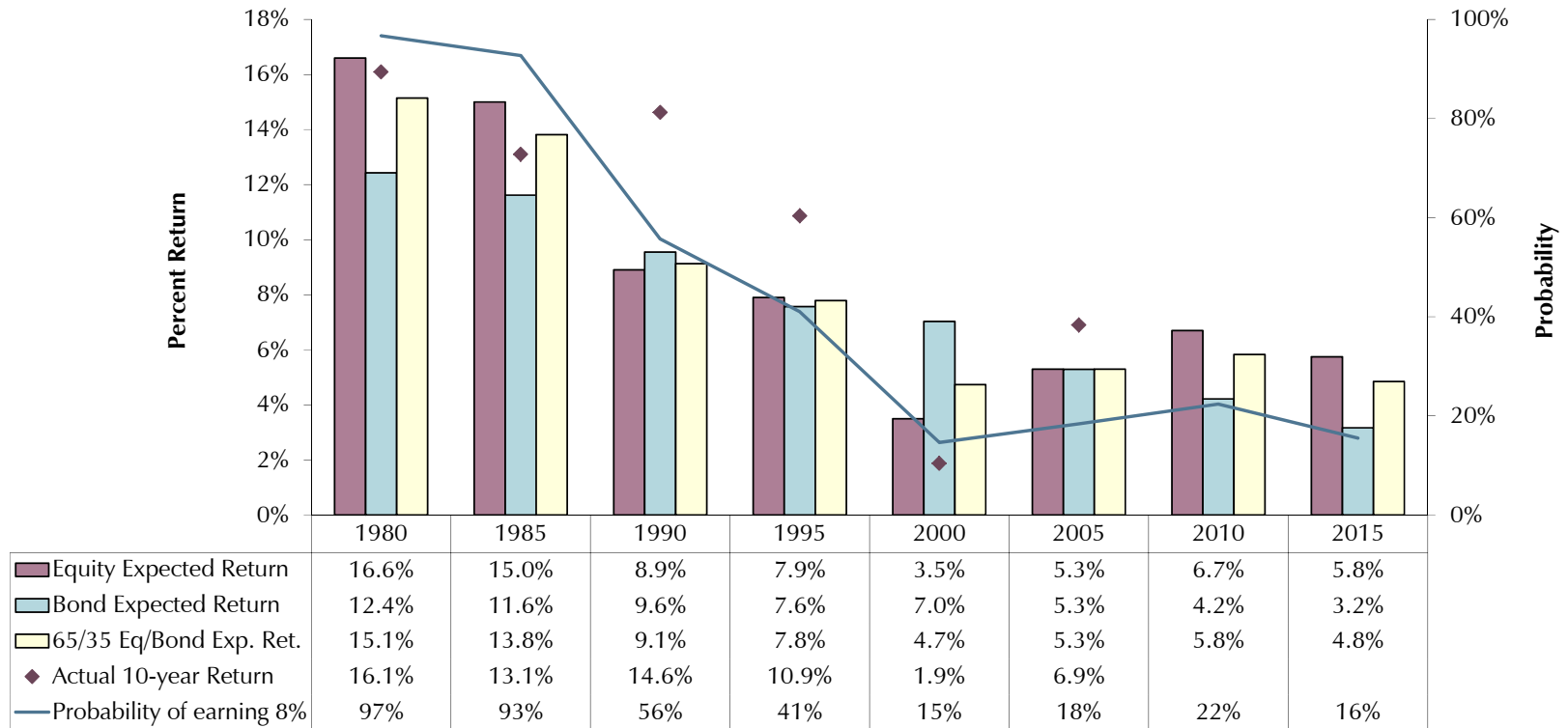
**The Value of Inflation When There Is No Inflation**

- Markets factor inflation into asset prices. When inflation is much higher (or lower) than what is expected, asset prices react strongly to these “surprises.”



The Secular Decline in Investment Returns<sup>1</sup>

- A portfolio composed of 65% domestic stocks and 35% investment grade bonds has produced diminishing expected returns as well as actual returns over the past thirty years

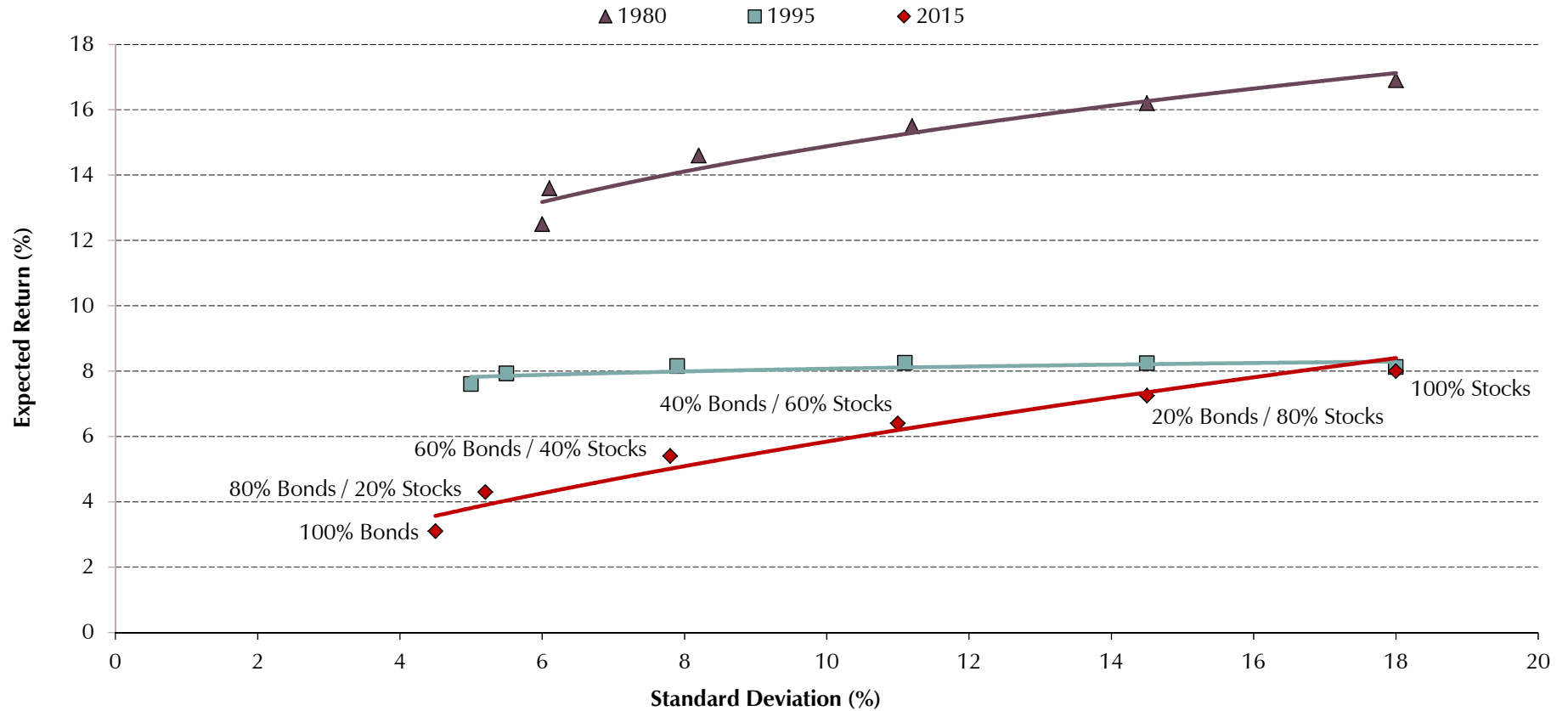


<sup>1</sup> Expected return assumptions for 1) Bonds equals the yield of the ten-year Treasury plus 100 basis points, and 2) Equities equals the dividend yield plus the earnings yield of the S&P 500 index (using the inflation-adjusted trailing 10-year earnings). Probability calculation is for the subsequent ten years.



The Long View: Less Return for the Risk

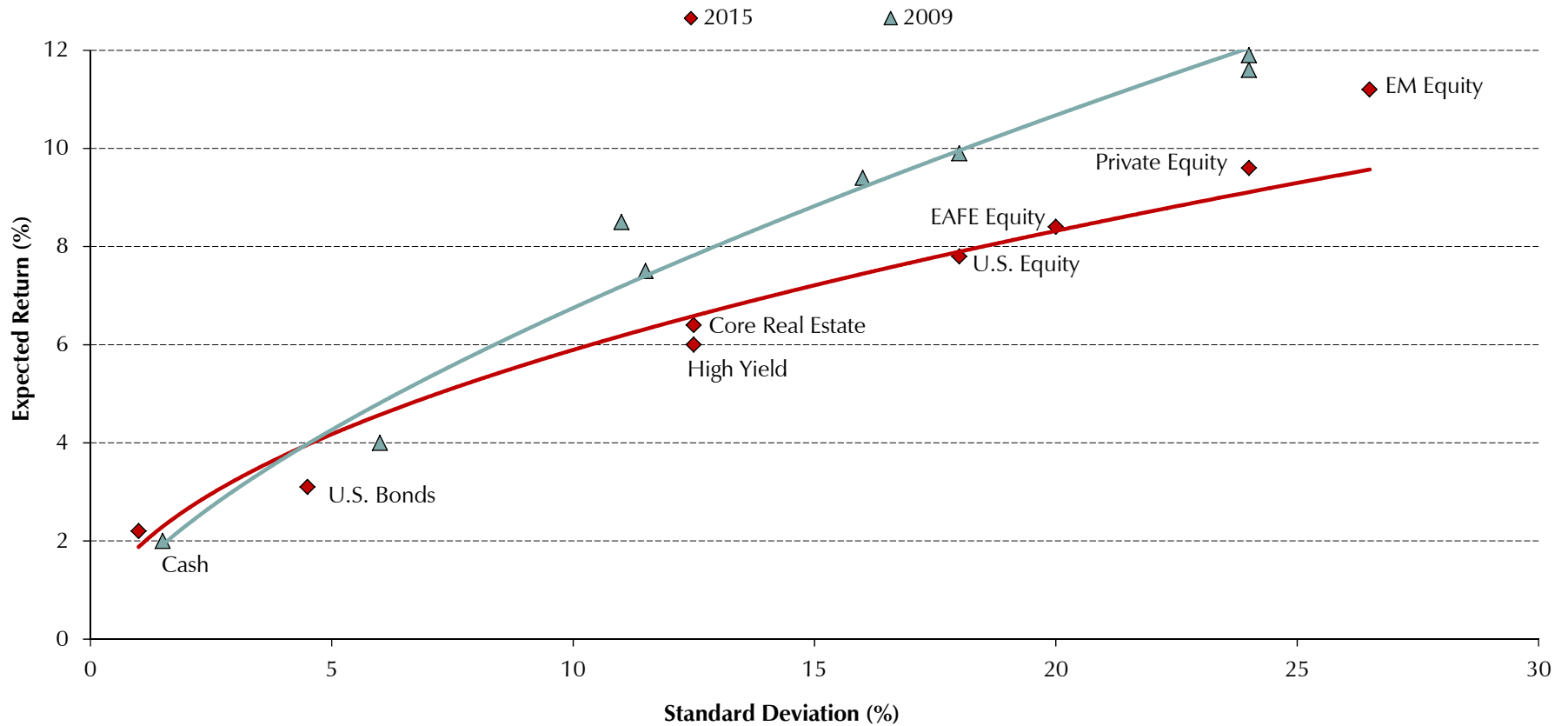
- As return expectations have declined, the efficient frontier has shifted down. Hence investors need to accept considerably more risk to target the same returns they could have achieved historically.





**Less Return for the Same or More Risk**

- Expected Returns for most major asset classes have continued to decline. Hence investors need to accept greater risk to target the same returns they could have achieved historically for less risk.



**Disclaimer, Glossary, and Notes**  
**As of December 31, 2015**

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In general, the valuation numbers presented in this report are prepared by the custodian bank for listed securities, and by the fund manager or appropriate General Partner in the case of unlisted securities. The data used in the market comparison sections of this report are sourced from various databases. These data are continuously updated and are subject to change.

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In some cases Meketa Investment Group assists the Trustees in handling capital calls or asset transfers among investment managers. In these cases we do not make any representations as to the managers’ use of the funds, but do confirm that the capital called or transferred is within the amounts authorized by the Trustees.

**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.