PARS: County of Contra Costa

Second Quarter 2012

Presented by Andrew Brown, CFA



- In the second quarter, the Plan returned -1.28% net of fees, which basically matched the Contra Costa County blended benchmark return of -1.21%. From an asset allocation perspective, decisions that were positive for performance included an overweight to real estate equities, an underweight to small cap stocks, and an underweight to international/globally equities. Decisions that detracted from performance in the second quarter included our underweight to fixed income and, conversely our overweight to equities. Regarding investment performance, our real estate equities and our domestic large cap equity portfolio outperformed their respective benchmarks. Our small cap equity, international equity, large cap growth funds, and our separately managed fixed income bond portfolio all slightly underperformed their benchmark targets for the quarter.
- A familiar pattern seems to be emerging. The stock market rally that started towards year end, continued into the first quarter as the impact of the most recent central bank intervention(s) was accompanied by a more positive tone in U.S. economic data. Then, as if someone flipped a switch, the specter of a European contagion reared its ugly head at the same time the economic data took a turn for the worse, which caused the market to decline sharply, causing investors to turn to central bankers (and various other authorities and rescue funds) for solutions. In rough terms, this was the story that played out in both 2010 and 2011. And now, in 2012, an eerily similar scenario is unfolding. Within Europe, the cast of players and their respective roles has not changed. Greece remains the potential contagion catalyst that everyone fears. Spain and Italy are the dominoes that are too big to fall. Germany is the set of broad shoulders, which everyone is ultimately counting on to carry the burden of peripheral Europe. The ECB meanwhile is the reluctant lender of last resort, imploring the other parties to find a solution that doesn't involve the ECB firing up its printing press.
- Domestically, the situation also seems reminiscent of the recent past. The economic data that was looking so much better earlier this year has now turned far less convincing. While there are pockets of bright spots, like the apparent bottoming in the housing market, other areas like employment, look less encouraging. As before, the market continues to look to the Fed, and the Fed continues to be far more proactive than its European counterpart. Although its decision in late June to extend Operation Twist until the end of the year failed to create any incremental enthusiasm for risk assets, the Fed again signaled its intent to act more forcefully in the event of a material deterioration in the economy.
- In addition to the events in Europe, we are concerned about the upcoming Fiscal Cliff of 2013. The Fiscal Cliff relates to a term dubbed by Fed Chairman Bernanke in describing several fiscal stimulus measures that are scheduled to expire at the end of 2012. Items encompassed within the "cliff" include: expiration of the Bush tax cuts, elimination of the payroll tax reduction, elimination of the emergency unemployment compensation benefit, indexing AMT to inflation, and the Budget Control Act of 2011. Various estimates have been developed to quantify the potential impact to the economy. Ranges we have seen have spanned from \$350 billion to \$750 billion of economic impact. If our representatives in Washington DC can come together to formulate a policy response, these negative impacts may be mitigated. However, in light of last summer's disappointing outcome surrounding the debt ceiling negotiations, it is hard to see how progress will be made on this front until after the elections. And frankly, one could easily forecast scenarios whereby a set of policy responses are not devised until next year. While the declines in the market in the second quarter cannot really be blamed on the fiscal cliff, there is little doubt that as we progress throughout the year, this will become a bigger issue... One that potentially could argue for a more conservative stance within our asset allocation framework.



- Most of the market pullback in the second quarter took place in the month of May, as equity markets around the world grew cautious in the face of the European situation, coupled with slowing economic data in the United States. Defensive sectors outperformed cyclical sectors within the Russell 1000 Index for the quarter as telecommunications (+14.1%), utilities (+6.5%) and consumer staples (+2.9%) led returns. The more economically sensitive sectors such as technology (-6.7%) financials (-6.8%), energy (-6.1%) and materials (-4.3%) pressured markets into negative territory for the second quarter. The separately managed large cap core portfolio performed well compared to the benchmark, returning -0.61% vs. the Russell 1000 Index of -3.12%. The outperformance was driven largely by stock selection. Top contributors for the quarter included Vertex Pharmaceuticals (+24.8%), Ecoblab Inc. (+11.4%), Petsmart (+19.4%), Altria Group (13.3%) and American Tower (+11.7%). Bottom contributors included Riverbed Technology (-44.1%), EMC (-14.2%), Qualcomm (-17.8%), Danaher (-6.9%) and Praxair (-4.6%). During the quarter, the managers sold out of the position in Riverbed. Recent earnings disappointments called into question the company's ability to generate a level of long-term growth that would justify the valuation. Additionally, the managers sold their position in Vertex Pharmaceuticals. Following the company's release of preliminary data on their new Cystic Fibrosis combination therapy, the stock appreciated substantially. Shortly afterward, the company released additional data and disclosures, both of which created controversy with regards to the interpretation of the preliminary data release. The managers felt the risk and reward no longer justified maintaining the position.
- Large cap value, as measured by the Russell Indices, outperformed large cap growth (-2.20% vs. -4.02%) in the quarter. With the market in "risk-off" mode, stocks in the value index tended to offer more defensive characteristics for investors, as opposed to the more cyclically oriented growth index. Our two large cap value funds outperformed the Russell 1000 Index for the quarter. The T. Rowe Price Equity Income Fund registered a -2.73% return for the quarter. While sector positioning was a modest benefit, the Fund benefitted primarily from stock selection that spanned a variety of economic sectors. Holdings such as AT&T (+15.6%), Kimberly-Clark (+14.4%), Disney (+10.8%), Merck (+9.8%), and Allstate (+7.3%), were the fund's leading gainers during the quarter. The Loomis Sayles Value Fund slightly outperformed the Russell 1000 Index, and returned -3.0%. Performance for the quarter would have been likely very strong had it not been for the fund's third largest holding JP Morgan (-21.6%) holding back returns. Top holdings that were additive to performance were AT&T, Merck, Edison International (+9.4%), Comcast (+7.6%), and Pepsico (+7.3%).
- Our two large cap growth funds underperformed the benchmark during the quarter. As much as the technology sector supported returns for the first quarter, this sector was a bit of a "tech wreck" in the second quarter for our two funds. Both funds maintained sector allocations to technology in the 30% range during the quarter. The Harbor Capital Appreciation Fund declined by -6.87% in the quarter, which ranked in the 78th percentile of the Morningstar Large Cap Growth Universe. The Fund was negatively impacted by holdings in Network Appliance (-28.9%), Rackspace (-24.0%), VM Ware (-19%), Qualcomm (-17.8%), Altera (-14.8%) and EMC (-14.2%). The T. Rowe Price Growth Stock Fund was off -4.91%, and ranked in the 35th percentile of the Morningstar Growth Universe. Technology holdings that impacted the fund included Juniper (-28.7%), Baidu (-21.1%), Qualcomm, and Google (-9.5%). Both management teams will be quick to tell you that for the first six months of 2012, both funds are in the top quartile of large cap growth managers, as well as both funds have posted strong absolute returns: +10.9% for the Harbor Fund, and +13.3% for T. Rowe Price.



- Mid-cap stocks performed the poorest of all domestic equity segments within the Plan for the second quarter. The Russell Mid-Cap Index returned -4.41% in the quarter. The TIAA-CREF Mid-Cap Value returned -3.79%, which on a relative basis ranked in the 21st percentile of mid-cap value funds in the Morningstar Universe. REITs and utilities supported performance during the quarter with Sempra Energy (+15.9%), Progress Energy (+14.5%), Edison International (+9.4%), Boston Properties (+3.7%), and Vornado Realty Trust (-0.6%) supporting returns. REITs comprise roughly 13% of the mid-cap value benchmark, and REITs enjoyed a strong second quarter. The HighMark Geneva Mid-Cap Growth Fund despite posting a loss of -5.2% in the quarter, ranked solidly in the mid-cap growth fund universe of Morningstar, placing in the 38th percentile. An overweight to technology combined with an underweight to materials hurt relative performance. Stock selection in health care, industrials, and consumer staples contributed to relative performance during the quarter. SXC Health Solutions in the health care sector was a positive contributor. Stock selection in the energy and consumer discretionary sectors hurt performance with Coach, Oasis Petroleum, and Whiting Petroleum hurting performance.
- Despite a negative environment for equities, REIT stocks posted gains in the second quarter. REITs shrugged off the disappointing employment results in the U.S. during the second quarter to register a 3.71% return as measured by the Dow Jones Wilshire REIT Index. Gains in the REIT sector were positive throughout almost all of the REIT sub-sectors. The leading sectors included: Healthcare (+10.2%), Free Standing Mall (+7.2%), Regional Mall (+6.2%), Self-Storage (+4.9%), and Shopping Centers (+3.8%). Apartment REITS, which had been performing very well over the last few quarters, returned only a modest 0.9% in the quarter. The Nuveen Real Estate Securities Fund outperformed the benchmark for the quarter, returning 3.91%. The Nuveen Fund was helped by holdings in the healthcare sector: HCP (+13.2%) and Health Care REIT Inc. (+7.4%). Additionally, an overweight to the index's largest holding, Simon Property Group (+7.5%) also supported returns.
- Our small cap funds returned -4.10%, which underperformed the Russell 2000 Index return of -3.47%. The T. Rowe Price New Horizons Fund (small cap growth) underperformed the Russell 2000 benchmark for the quarter, and posted a -3.61% return. While underperforming the benchmark, the Fund did rank in the 22nd percentile of Small Cap Growth Funds as ranked by Morningstar. The strong relative performance was supported by stocks from the health care/bio tech sector: Athenahealth (+6.8%), Alexion Pharmaceuticals (+6.9%), and SXC Health Solutions (+32.4%). The fund's underperformance relative to the Index is mainly attributed to energy and technology related issues. The Columbia Small Cap Value Fund lagged the Russell 2000 Index as well during the quarter, and returned -4.51%. The fund suffered most of their decline in May. The fund managers reported that sector allocation in the portfolio was negative overall, with an overweight to technology shares detracting from performance. As well, an underweighting in the defensive areas in the market such as utilities and consumer staples hurt the fund. Additionally, as mentioned previously, REITs were a strong performer in the second quarter, and the managers do not find REITs attractively valued, hence they have underweight this sector for some time. This underweight was a detractor to performance for the second quarter.



- International equity markets struggled during the quarter as macroeconomic concerns surrounding both Europe and the fate of the Euro pressed markets. In addition to Europe, concerns about a potential slowdown in China, as well as unemployment figures in the United States, combined to pressure markets lower. The primary international equity benchmark that the Plan looks to outperform is the MSCI-EAFE Index. This Index currently is approximately 64% exposed to Europe and the United Kingdom, thus with the pressures that this region is facing, it will have a significant impact on international equity returns. It is no surprise then that the MSCI-EAFE Index declined -7.13% during the quarter. Regions that most negatively impacted the MSCI-EAFE during the quarter included: Germany (-12.4%), Portugal (-18.4%), Italy (-12.1%), Spain (-12.5%), and France (-9.0%).
- Our international equity segment returned -7.93%, which underperformed the MSCI-EAFE Index return of -7.13%. The performance was hampered by our exposure to both European stocks as well as emerging market equities held in our funds. Our three developed market international equity funds posted lackluster returns. The "leader" for the quarter was the HighMark International Equity Fund which returned -6.2%. The Fund has favored an overweight to Asia, specifically to Japan, and an underweight to Europe. While the fund still has a 15% allocation to emerging markets, the managers have reduced their holdings in emerging markets by almost 5% during the quarter. On top of this, they were able to avoid much of the downturn in the Brazil and Indian markets during the quarter. The managers increased their allocation to Japan in the quarter as they see a number of things that make them feel better about the country; (Japan is poised to see a jump in M&A activity, a good number of companies trade below book value and there has been a change in the legal landscape that is conducive to merger transactions).
- The Dodge and Cox International Fund underperformed the benchmark by 1.2% for the quarter. The fund's holdings in technology (-22% compared to -14% for the index) hindered returns. Holdings in Nokia (-60%), Infineon Technologies (-34%) and Nintendo (-23%) were the primary poor performers. Additionally financial sector holdings such as Credit Suisse (-33%) and Barclays (-32%) negatively impacted performance. The managers of the fund still are constructive on their holdings, as well as the current state of international equity investing. They cite that the MSCI-EAFE is trading at a 3.8% dividend yield, compared to an average yield of 2.9% over the last 42 years. Furthermore, the index trades at 13 times trailing earnings, compared to a 19 times price to earnings ratio over the same period of time. The near-term challenge for an international value equity fund is that stocks potentially representing the best 'value" may have some exposure to areas of the market that are most volatile. For example, the fund is currently invested in European financial sector holdings such as Credit Suisse, Banco Santander, and UniCredit (SPA). Additional European investments such as Nokia, Telefonica, and Telecom Italy also are holdings that appear attractive to the mangers, yet have been under pressure this year.



- The MFS International Growth Fund matched the benchmark return of -7.1% for the second quarter. The fund ranked in the 54th percentile of the Morningstar Large Cap Growth Universe.
- In an environment where "risk-off" thrived, our emerging market segment suffered the biggest declines during the quarter. In a rush for safety, emerging market opportunities offered little to investors. The areas of safety, or "least amount of risk" for emerging market investors focused on consumer staple companies in the beverage industry, or telecommunication firms. These types of investments are not what the RS Emerging Market Fund focuses on typically. Instead the RS Emerging Market Fund looks for companies that have more longer-term attractive growth opportunities than what an investor might find from a consumer staple or utility type stock. The managers of the Fund concede that China is in fact seeing a slowdown in growth rates, however they are encouraged that China can find a sustainable equilibrium level of growth. For the second quarter, the RS Emerging Market Fund returned -11.02%, underperforming both the MSCI-EAFE Index, and the more representative benchmark the MSCI Emerging Markets Index return of -8.77%. With the decline in energy prices, the energy sector impacted performance negatively. Four of the top five largest country weightings in the Fund saw strong declines: Brazil (-18.8%), China (-5.5%) India (-9.5%) and South Korea (-8.6%). The declines in the performance attribution was broad based.
- An overweight to European stocks was the primary challenge for the Templeton Global Opportunities Fund. The Fund returned -7.4% for the quarter, which underperformed the MSCI-ACWI benchmark return of -5.6%. The Fund placed in the 72nd percentile of the Morningstar World Stock Universe. The value opportunities that the managers are finding, tend to be the beaten up, unloved names from Europe. On a global allocation basis, the Fund at quarter end maintained a 42.3% allocation to Europe, compared to the MSCI-ACWI allocation of 24.2%. In a quarter where the European market sold off, the impact to having almost twice the benchmark allocation was severe. European holdings that impaired performance were -39.2%, Credit Suisse Group (-33%), Credit Agricole (-28.4%), Akzo Nobel (-17.8%), Deutsche Lufthansa (-16%), BNP Paribras (-14.9%), and AXA (-14.3%). As the Templeton Fund has a deep value tilt, there will be times when the investments that the managers invest in, will be unloved and out of favor. And, as these companies sell off, they can become more attractive as an investment opportunity. The Templeton Fund has struggled, and they are under internal review for possible elimination from the Plan. While on the one hand, they do provide the Plan with a diversification element that we do not get elsewhere within the Plan. On the other hand, we do look for them to outperform a benchmark, and throughout the Plan's seventeen month history the results have been disappointing.



Fixed Income

- The Barclays Capital ("BC") U.S. Aggregate Bond Index gained 2.06% in the second quarter, as investment-grade corporate bonds, agency mortgage-backed securities and U.S. Treasuries all posted positive returns. The quarter experienced a significant amount of volatility, driven primarily by events within the Eurozone as sovereign and banking concerns drove bond yields in Greece, Spain and Italy sharply higher as investors opted for safe havens. At the most recent European summit, leaders agreed to establish a Eurozone financial supervisor, after which the ESM (European Stability Mechanism) would be allowed to invest capital directly into banks, a potentially positive development. Earlier in the quarter, the Spanish government requested \$125 billion from the European Central Bank to recapitalize its troubled banks, a signal that the financial crisis was worse than many had expected. Concerns over stagnating growth and continued high unemployment levels in the U.S. led the Federal Reserve to extend their \$400 billion "Operation Twist" program originally announced in September 2011 which expired in June. The Federal Reserve will replace an additional \$267 billion of short-term government debt held in their portfolio with longer-dated Treasury securities through the end of 2012. The Fed also reiterated its plan to keep short-term interest rates at record lows until at least late 2014 and is prepared to act with additional stimulus if the economy deteriorates further
- The Pimco Total Return Bond Fund (+2.79%) had a strong quarter, outperforming the Barclay's Aggregate Index and placing in the 5th percentile of the Morningstar Intermediate-Term Bond Universe. While high yield bonds underperformed in general during the quarter, the fund's exposure to high yield was additive to performance in the quarter. Additionally, an overweight to Agency mortgage backed securities was also a highlight. In terms of strategy, the managers seek to remain broadly defensive in their positioning, with a focus on yield derived from high quality sources over price appreciation. The managers have reduced their duration overweight in recent months to where the duration now stands at 4.82 years, compared to the Barclay's Aggregate Index of 5.07 years. The Fund seeks to maintain positions in agency mortgages as they are perceived as offering an important source of high quality yield. The Fund is minimizing corporate holdings in companies dependent on revenue from regions which are in the earlier stages of their deleveraging cycles, such as Europe. Finally, the managers seek to maintain their positions in emerging market corporate and quasi-sovereign bonds in higher quality balance sheet nations such as Brazil, Mexico, and Russia.
- The core bond strategy returned 1.79% in the second quarter. The strategy underperformed this quarter, primarily due to its shorter duration, but also due to the higher weighting in corporate bonds rather than Treasuries. Positive Contributors to the Fund's performance included several industrial names, such as Georgia Pacific, Ecolab, Magellan, Verizon, and Lab Corp of America. Issues that detracted from performance included companies with foreign exposure or more cyclical businesses such as Telefonica, Hewlett Packard, Petrobras, and Teck Resources. The strategy chooses to remain underweight treasuries, agencies, mortgages and sovereign issues. The manager is overweight investment-grade corporate bonds and asset backed securities. The portfolio's overall quality rating is A1. New holdings added to the portfolio this quarter included Hydro-Quebec, United Technologies, Amgen, AT&T, Sempra Energy, Petrobras International, and GE Capital.



High yield bonds posted gains in absolute terms during the quarter, helped mainly by a decline in Treasury yields. However, the asset class underperformed investment grade credit in this "risk-off" environment. The Pimco High Yield Bond Fund returned 1.46% which underperformed the Merrill Lynch U.S. High Yield BB-B Rated Index return of 1.91%. As we saw in the equity market, an underweight to the energy sector was beneficial to the fund, due to declining energy prices in the quarter. Holdings in the automotive sector were a positive as a benchmark issuer (Ford Motors) was upgraded to investment grade by Moody's and Fitch in the quarter. However, the lag in performance relative to the benchmark was a function of some exposure to European high yield issues, as well as security selection in financials – specifically in European banks. The managers point to a low maturity schedule over the next two years as a factor that may mitigate default risk to the holdings in the Fund. The managers seek to overweight sectors that are industrial, defensive in nature, non-cyclical, and asset rich. In terms of credit quality, the managers are focusing on opportunities among lower rate tiers of high yield, where there is a high level of conviction. The Fund's duration currently remains at 3.1 years, with an average coupon of 7.6%.



INVESTMENT STRATEGY AS OF June 30, 2012

Tactical Asset Allocation

| Asset Class | <u>% P</u> | ortfolio Weig | ghting | <u>Rationale</u> |
|---------------------|------------|---------------|------------|--|
| | | Current | Over/Under | |
| | Target | Portfolio | Weighting | |
| Cash | 1% | 8.6% | 7.6% | End of quarter cash balance high due to contribution received at the end of the quarter. Cash target for most of the quarter was 2%. |
| Fixed Income | 45% | 38.6% | -6.4% | Bonds still appear overvalued, with potential returns for intermediate-term bonds at 2-3% over the next five years. We also remain cautious on inflationary readings which could also put pressure on bonds. Allocation target for the quarter was 41.5% |
| High Yield | 0% | 3.2% | 3.2% | High yield should continue to offer attractive opportunities, despite a slowing U.S. economy. Default rates are predicted to remain low. Target allocation was 3% for the quarter. |
| Real Estate (REITS) | 4% | 4.7% | 0.7% | With funding costs likely to remain low and demand showing signs of strength, the fundamentals should support the REIT sector. The sector seems to be fairly valued across a number of metrics. Our target allocation for the quarter was 5% |



Tactical Asset Allocation % Portfolio Weighting

Rationale

| | Target | Current Portfolio | Over/Under Weighting | | |
|---------------------------|---------------|----------------------|-------------------------|-------|---|
| Global Equity | 8% | 5.8% | -2.2% | ۰ | We remain underweight in international equities. The combination of a slowdown in China and continued problems in Europe have compelled us to be underweight. Valuations in European equities are beginning to look tempting and we may look to narrow this underweight position during the quarter. Our target allocation was 7% in the quarter. |
| International (Developed) | 10% | 4.2% | -5.8% | ٠ | See above. Our target allocation in the quarter was 5%. |
| International (Emerging) | 0% | 2.8% | 2.8% | ٠ | We continue to maintain the maximum allocation to emerging markets (by Plan Policy). We believe that emerging markets represent an attractive combination of growth at reasonable valuations. Target allocation 3% |
| Total Domestic Equity | 32% | 35.2% | 3.2% | | |
| Large Cap | 18% | 22.4% | 4.4% | • | Given the risk factors present from international markets, and given the current valuations of large cap domestic stocks, we remain overweight in large cap domestic equities. Target allocation in the quarter was 23%. |
| Mid Cap | 6% | 6.6% | .6% | ٠ | Our target allocation during the quarter was 7%. |
| Small Cap | 8% | 6.2% | -1.8% | • | We have reduced our allocation to small cap during the quarter by 1%. Small cap stocks do not appear as attractive relative to large cap domestic equities based on valuation. Currently small cap stocks are trading at 18X next year's earnings. Allocation target in the quarter |
| HICHMARK® | June 30, 2012 | PARS | : County of Cont | ra Co | was 6.5%. |

June 30, 2012

Investment Summary Period Ending June 30, 2012

| Investment Summary | Se | cond Quarter |
|-------------------------------|----|---------------|
| Beginning Value | \$ | 75,769,915.95 |
| Net Contributions/Withdrawals | | 10,635,008.13 |
| Fees Deducted | | -28,775.44 |
| Income Received | | 409,577.27 |
| Market Appreciation | | -1,256,098.21 |
| Net Change in Accrued Income | | -5,115.92 |
| Ending Market Value | \$ | 85,524,511.78 |



Asset Allocation Period Ending June 30, 2012

| | 3/31/2012 | | 3/31/2012 | 6/30/2012 | | 6/30/2012 | Target |
|---|-----------|-------------|------------|-----------|-------------|------------|------------|
| Asset Allocation | M | arket Value | % of Total | M | arket Value | % of Total | Allocation |
| Domestic Equity | | | | | | | |
| Large Cap Core Holdings | \$ | 10,271,575 | 13.6% | \$ | 10,985,023 | 12.9% | - |
| T. Rowe Price Equity Income Fund | | 2,677,130 | 3.5% | | 2,650,913 | 3.1% | - |
| Loomis Sayles Value Fund | | 2,689,279 | 3.6% | | 2,655,443 | 3.1% | - |
| Harbor Capital Appreciation Instl | | 1,178,323 | 1.6% | | 1,377,672 | 1.6% | - |
| T. Rowe Price Growth Stock Fund | | 1,176,898 | 1.6% | | 1,407,218 | 1.6% | - |
| TIAA-CREF Mid-Cap Value Instl | | 3,167,107 | 4.2% | | 3,234,484 | 3.8% | |
| HighMark Geneva Mid Cap Growth Fund | | 2,402,512 | 3.2% | | 2,396,176 | 2.8% | - |
| Columbia Small Cap Value Fund II | | 3,016,108 | 4.0% | | 3,071,369 | 3.6% | - |
| T. Rowe Price New Horizons Fund | | 2,250,622 | 3.0% | | 2,214,579 | 2.6% | - |
| Total Domestic Equity | \$ | 28,829,553 | 38.2% | \$ | 29,992,876 | 35.2% | 32.0% |
| | | , , | Range | | | Range | 21-57% |
| International | | | | | | | |
| HighMark International Opportunity Fund | | 1,133,658 | 1.5% | | 1,225,583 | 1.4% | - |
| Dodge & Cox International Stock Fund | | 1,117,679 | 1.5% | | 1,200,742 | 1.4% | - |
| MFS International Growth Fund | | 1,168,835 | 1.5% | | 1,234,751 | 1.4% | - |
| RS Emerging Markets Y | | 2,212,128 | 2.9% | | 2,347,369 | 2.8% | - |
| Total International | \$ | 5,632,301 | 7.5% | \$ | 6,008,445 | 7.0% | 10.0% |
| | | | Range | | | Range | 4-19% |
| Global | | | | | | | |
| Templeton Global Opportunities A LW | | 4,093,344 | 5.4% | | 4,943,832 | 5.8% | - |
| Total Real Estate | \$ | 4,093,344 | 5.4% | \$ | 4,943,832 | 5.8% | 8.0% |
| | | | Range | | | Range | 4-12% |
| Real Estate | | | | | | | |
| Nuveen Real Estate Secs I Fund | | 3,853,595 | 5.1% | | 4,035,258 | 4.7% | - |
| Total Real Estate | \$ | 3,853,595 | 5.1% | \$ | 4,035,258 | 4.7% | 4.0% |
| | | | Range | | | Range | 0-8% |
| Fixed Income | | | | | | | |
| Core Fixed Income Holdings | \$ | 22,671,035 | 30.0% | \$ | 23,984,435 | 28.1% | - |
| PIMCO Total Return Instl Fund | | 6,417,773 | 8.5% | | 6,225,037 | 7.3% | - |
| PIMCO High Yield InstI | | 2,622,963 | 3.5% | | 2,752,695 | 3.2% | |
| Total Fixed Income | \$ | 31,711,770 | 42.0% | \$ | 32,962,167 | 38.6% | 45.0% |
| | | | Range | | | Range | 35-67% |
| Cash | | | | | | | |
| HighMark Diversified MM Fund | \$ | 1,417,156 | 1.9% | | 7,355,938 | 8.6% | |
| Total Cash | \$ | 1,417,156 | 1.9% | \$ | 7,355,938 | 8.6% | 1.0% |
| | | | Range | | | Range | 0-5% |
| TOTAL | \$ | 75,537,718 | 100.0% | \$ | 85,298,516 | 100.0% | 100.0% |
| | Ψ | 70,001,110 | .00.070 | Ψ | 30,200,0.0 | 100.070 | 100.070 |



Selected Period Performance

PARS/COUNTY OF CONTRA COSTA PRHCP

Account 6746038001

Period Ending: 06/30/2012

| | | Year to Date | | Inception to Date |
|---|----------------|-----------------|----------------|-------------------|
| Sector | 3 Months | (6 Months) | 1 Year | (17 Months) |
| Cash Equivalents | .00 | .01 | .02 | .02 |
| iMoneyNet, Inc. Taxable | . <i>00</i> | . <i>00</i> | .00 | .00 |
| Total Fixed Income BC US Aggregate Bd Index | 2.00 | 3.69 | 7.68 | 7.65 |
| | 2.06 | 2.37 | 7.48 | 7.16 |
| Total Equities | -3.47 | 9.34 | .35 | 1.46 |
| Indiv Domestic Common Stock | 61 | 13.46 | 9.38 | 5.50 |
| Large Cap Funds | -3.94 | 9.50 | 2.74 | 1.58 |
| Russell 1000 Index | <i>-3.12</i> | 9.38 | <i>4</i> .38 | 5.88 |
| Mid Cap Funds Russell Midcap Index | -4.40 | 7.65 | 09 | 2.30 |
| | -4.41 | 7.96 | -1.67 | 2.85 |
| Small Cap Funds Russell 2000 Index | -4.17 | 8.77 | .83 | 3.24 |
| | -3. <i>4</i> 7 | 8.53 | <i>-2.0</i> 6 | 3.00 |
| REIT Funds Wilshire REIT Index | 4.07 | 14.44 | 12.46 | 12.27 |
| | 3.71 | 14.90 | 13.22 | 14.57 |
| International Equities MSCI EAFE Index | -7.93 | 5.16 | -12.73 | -7.48 |
| | <i>-7.13</i> | 2.96 | <i>-13.8</i> 3 | -8.35 |
| Total Managed Portfolio County of Contra Costa | -1.28 | 6.37 | 3.25 | 3.13 |
| | -1.21 | 5.29 | 2.32 | <i>4.21</i> |

^{*}Inception Date: 02/01/2011

Returns are gross-of-fees unless otherwise noted. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.



^{**}Benchmark: 18% Russell 1000 Index, 6% Russell Midcap Index, 8% Russell 2000 Index, 8% MSCI AC World ex US Index, 10% MSCI EAFE Index, 45% Barclays Aggregate Index, 4% DJ Wilshire REIT Index, 1% Citigroup 3 Month T-Bill Index.

PARS/COUNTY OF CONTRA COSTA PRHCP

For Periods Ending June 30, 2012

| 1-Month 3-Month Year-to- 1-Year 3-Year 5-Year 10-Year Return Date Return Date Return Return Date Return Return Date Return Return Return Date Return Date Return Return Return Return Return Return Date Return Return Return Return Date Return Return Return Return Return Date | | LARGE | CAP EQUITY | FUNDS | | | | | |
|--|--|----------|-------------|----------|--------|--------|--------|---------|--|
| T. Rowe Price Equity Income (1) | | 1-Month | 3-Month | Year-to- | 1-Year | 3-Year | 5-Year | 10-Year | |
| Loomis Sayles Value (2) | Fund Name | Return | Return | Date | Return | Return | Return | Return | |
| Harbor Capital Appreciation Inst 1.61 | T. Rowe Price Equity Income (1) | 4.21 | -2.73 | 8.20 | 2.64 | 15.40 | -0.94 | 5.28 | |
| T. Rowe Price Growth Stock 2.12 -4.91 13.29 6.58 17.74 1.97 6.82 Russell 1000 Index MID CAP EQUITY FUNDS MID CAP EQUITY FUNDS High Mark Geneva Mid Cap Growth 0.21 -5.23 7.31 2.66 20.13 5.42 8.65 TIAA-Cref Mid-Cap Value Instit 2.54 -3.79 7.90 -2.08 17.09 0.00 Russell Mid Cap Index 2.81 -4.40 7.97 -1.65 19.44 1.06 8.45 SMALL CAP EQUITY FUNDS Columbia Small Cap Value II Z 3.01 -4.51 6.63 -3.23 18.15 0.26 8.08 8.45 Russell 2000 Index 4.99 -3.47 8.53 -2.08 17.80 0.59 10.85 Russell 2000 Index International Cap Value II Z 3.41 -11.02 4.44 -13.66 2.57 1.83 -4.99 8.10 -8.94 -1.07 -1.73 -2.94 1.1.07 -1.13 -8.49 8.10 -8.94 | , , , | 4.36 | -3.00 | 8.76 | -0.10 | 12.60 | -1.42 | 6.33 | |
| Russell 1000 Index 3.83 -3.12 9.38 4.37 16.64 0.39 5.72 | Harbor Capital Appreciation Instl | 1.61 | -6.87 | 10.89 | 2.88 | 15.52 | 3.52 | 5.86 | |
| Mill Cap Equity Funds Fu | T. Rowe Price Growth Stock | 2.12 | -4.91 | 13.29 | 6.58 | 17.74 | 1.97 | 6.82 | |
| HighMark Geneva Mid Cap Growth 0.21 -5.23 7.31 2.66 20.13 5.42 8.65 TIAA-Cref Mid-Cap Value Instl 2.54 -3.79 7.90 -2.08 17.09 0.00 | Russell 1000 Index | 3.83 | -3.12 | 9.38 | 4.37 | 16.64 | 0.39 | 5.72 | |
| TIAA-Cref Mid-Cap Value Instl 2.54 -3.79 7.90 -2.08 17.09 0.00 | | MID C | AP EQUITY F | UNDS | | | | | |
| Russell Mid Cap Index 2.81 -4.40 7.97 -1.65 19.44 1.06 8.45 | HighMark Geneva Mid Cap Growth | 0.21 | -5.23 | 7.31 | 2.66 | 20.13 | 5.42 | 8.65 | |
| Columbia Small Cap Value I Z 3.01 | TIAA-Cref Mid-Cap Value Instl | 2.54 | -3.79 | 7.90 | -2.08 | 17.09 | 0.00 | | |
| Columbia Small Cap Value II Z | Russell Mid Cap Index | 2.81 | -4.40 | 7.97 | -1.65 | 19.44 | 1.06 | 8.45 | |
| T. Rowe Price New Horizons Russell 2000 Index 4.99 -3.47 -3.61 -3.61 -3.63 -2.08 -3.63 -2.08 -3.60 -3.61 -3.63 -3.60 - | | SMALL | CAP EQUITY | FUNDS | | | | | |
| NTERNATIONAL EQUITY FUNDS | Columbia Small Cap Value II Z | 3.01 | -4.51 | 6.63 | -3.23 | 18.15 | 0.26 | 8.08 | |
| Dodge & Cox Intl Stock 6.34 | T. Rowe Price New Horizons | 2.63 | -3.61 | 11.80 | 6.46 | 25.98 | 6.59 | 10.85 | |
| Dodge & Cox Intl Stock 6.34 -8.34 3.32 -15.71 7.83 -4.99 8.10 HighWark Int'l Opportunities Fid 6.70 -6.19 5.79 -14.96 7.06 -5.79 6.89 RS Emerging Markets Y 3.41 -11.02 4.44 -14.56 9.90 0.47 14.54 MFS International Growth I 4.41 -7.11 6.43 -9.24 11.07 -1.13 8.43 MSCI EAFE Index 7.01 -7.13 2.96 -13.83 5.96 -6.10 5.14 Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 </td <td>Russell 2000 Index</td> <td>4.99</td> <td>-3.47</td> <td>8.53</td> <td>-2.08</td> <td>17.80</td> <td>0.54</td> <td>7.00</td> | Russell 2000 Index | 4.99 | -3.47 | 8.53 | -2.08 | 17.80 | 0.54 | 7.00 | |
| HighMark Int'l Opportunities Fid 6.70 -6.19 5.79 -14.96 7.06 -5.79 6.89 RS Emerging Markets Y 3.41 -11.02 4.44 -14.56 9.90 0.47 14.54 MFS International Growth I 4.41 -7.11 6.43 -9.24 11.07 -1.13 8.43 MSCI EAFE Index 7.01 -7.13 2.96 -13.83 5.96 -6.10 5.14 Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Inst! 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | | INTERNAT | TIONAL EQUI | TY FUNDS | | | | | |
| RS Emerging Markets Y 3.41 -11.02 4.44 -14.56 9.90 0.47 14.54 MFS International Growth I 4.41 -7.11 6.43 -9.24 11.07 -1.13 8.43 MSCI EAFE Index 7.01 -7.13 2.96 -13.83 5.96 -6.10 5.14 Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | Dodge & Cox Intl Stock | 6.34 | -8.34 | 3.32 | -15.71 | 7.83 | -4.99 | 8.10 | |
| MFS International Growth I 4.41 -7.11 6.43 -9.24 11.07 -1.13 8.43 MSCI EAFE Index 7.01 -7.13 2.96 -13.83 5.96 -6.10 5.14 Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Insti 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | HighMark Int'l Opportunities Fid | 6.70 | -6.19 | 5.79 | -14.96 | 7.06 | -5.79 | 6.89 | |
| MSCI EAFE Index 7.01 -7.13 2.96 -13.83 5.96 -6.10 5.14 Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | RS Emerging Markets Y | 3.41 | -11.02 | 4.44 | -14.56 | 9.90 | 0.47 | 14.54 | |
| Templeton Global Opportunities A LW 6.43 -7.36 4.24 -12.79 5.88 -4.63 5.49 MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Inst! 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | MFS International Growth I | 4.41 | -7.11 | 6.43 | -9.24 | 11.07 | -1.13 | 8.43 | |
| MSCI ACWI Index 4.94 -5.56 5.64 -6.49 10.78 -2.71 5.73 REIT EQUITY FUNDS Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Insti 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | | 7.01 | -7.13 | 2.96 | -13.83 | 5.96 | -6.10 | 5.14 | |
| Nuveen Real Estate Secs 5.48 3.91 15.09 12.59 32.64 4.56 12.43 | Templeton Global Opportunities A LW | 6.43 | -7.36 | 4.24 | -12.79 | 5.88 | -4.63 | 5.49 | |
| Nuveen Real Estate Secs I 5.48 3.91 15.09 12.59 32.64 4.56 12.43 DJ US Select REIT Index 5.53 3.75 14.91 13.29 33.52 1.97 10.27 BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | MSCI ACWI Index | 4.94 | -5.56 | 5.64 | -6.49 | 10.78 | -2.71 | 5.73 | |
| BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Inst! 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | REIT EQUITY FUNDS | | | | | | | | |
| BOND FUNDS Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | Nuveen Real Estate Secs I | 5.48 | 3.91 | 15.09 | 12.59 | 32.64 | 4.56 | 12.43 | |
| Pimco Total Return Inst'l 0.46 2.79 5.75 6.96 8.68 9.23 6.98 BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Insti 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | DJ US Select REIT Index | 5.53 | 3.75 | 14.91 | 13.29 | 33.52 | 1.97 | 10.27 | |
| BarCap US Aggregate Bond Index 0.04 2.06 2.37 7.47 6.93 6.79 5.63 PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | BOND FUNDS | | | | | | | | |
| PIMCO High Yield Instl 2.18 1.46 6.64 6.34 15.79 7.14 8.84 | Pimco Total Return Inst'l | 0.46 | 2.79 | 5.75 | 6.96 | 8.68 | 9.23 | 6.98 | |
| · · · · · · · · · · · · · · · · · · · | BarCap US Aggregate Bond Index | 0.04 | 2.06 | 2.37 | 7.47 | 6.93 | 6.79 | 5.63 | |
| Merrill Lynch US High Yield BB-B Index 1.82 2.35 6.57 7.57 14.54 7.60 8.99 | PIMCO High Yield Instl | 2.18 | 1.46 | 6.64 | 6.34 | 15.79 | 7.14 | 8.84 | |
| | Merrill Lynch US High Yield BB-B Index | 1.82 | 2.35 | 6.57 | 7.57 | 14.54 | 7.60 | 8.99 | |

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.



⁽¹⁾ Fund was added to the Plan in March 2011

⁽²⁾ Fund was added to the Plan in June 2011