



Investment Update for ACERA Website

Investment Update –1st Quarter First Quarter 2016

The US equities market finished the first quarter of 2016 modestly above where it began the year, despite dipping over 10% by mid-February. Markets suffered from concerns of negative news related to China's growth and currency, falling commodity prices, and the possibility of a US recession. After some moderately positive economic numbers, a stabilization of commodity prices, and a more cautious tone from Janet Yellen on the pace of future rate increases, the markets stabilized, and then rebounded in March. The S&P 500 index rose 1.4% in the first quarter. Small Cap Stocks, as measured by the Russell 2000 index depreciated 1.5%. Overall, the Russell 3000 index increased 1.0%. Longer term, one-year returns were 1.8%, -9.8%, and -0.3%, respectively. The DJIA increased 2.2% for the quarter and 2.1% for the year. The NASDAQ was down 2.4% for the first quarter but finished up 0.6% for the year.

The bond market had an excellent start to 2016. The market turbulence and global uncertainty resulted in the Federal Reserve erring on the side of caution. They do not want to derail the recent stabilization by tightening and making policy changes too quickly, so the Federal Reserve is lowering its expectation of interest rate increases from four to two this year. Overall, the Barclays Aggregate index finished up 3.0% during the first quarter. For the one-year period, the index rose 2.0%

Developed markets continue to lose ground in the first quarter of 2016. With the expectation that the Federal Reserve would begin raising interest rates at regular intervals and European and Japanese equity markets would outperform by implementing global accommodative policies, but there has been little evidence this has helped the markets. Overall, the MSCI EAFE dropped 2.9% in the first quarter and dropped 7.9% for the one-year period ending 3/31/2016.

Emerging market stocks bounced back after three straight years of declines. Historically, emerging market performance has been strongly influenced by the US dollar and commodities. For the first quarter of 2016, the dollar has weakened, playing an important role in stabilizing commodity prices and other currencies due to the Fed's dovish stance. Overall, the MSCI EM index increased 5.8% for the first quarter. For the one-year period, the index fell 11.7%. Despite the rally, uncertainty still persists and it will take more than one quarter to know if the rally is sustainable.

For the quarter ending March 31, 2016 ACERA's Total Fund had gross returns of 0.2%, ranking it in the 96th percentile amongst its peers, and finished the first quarter at a market value of \$6.6 billion. Domestic Equities returned -2.5% (96th percentile), International Equities returned 0.8% (20th percentile), and Fixed Income returned 4.4% (21st percentile) in the quarter. ACERA's Real Estate managers composite and Private Equity and Alternatives Return Leading Strategies¹ (PEARLS) composite returned 2.0% and - 1.3%, respectively, during the first quarter. Gross return for the Real Assets class was 2.0%. ACERA is a long-term investor with a well-diversified portfolio and has generated 8.0% annualized returns over the last 20 years, ranking it in the fifth percentile among its peers.

¹ Real Estate and PEARLS composite returns are subject to a quarter lag in reporting results.