



Investment Update for ACERA Website

Investment Update – 4th Quarter Fourth Quarter 2015

Even though the equity markets embarked on a price recovery in the fourth quarter of 2015, most could not erase losses from earlier in the year. In the last month of 2015, the Federal Reserve raised its target rate for federal funds 25 basis points after nearly seven years of near-zero interest rates. US equities embraced the Fed's tightening in stride, causing the S&P 500 index to rise 7.0% in the fourth quarter. Small Cap Stocks, as measured by the Russell 2000 index, continued to lag large cap equities, appreciating 3.6%. Overall, the Russell 3000 index increased 6.3%. Longer term, one-year returns for the S&P 500, Russell 200, and Russell 3000 were 1.4%, -4.4%, and 0.5%, respectively. The DJIA increased 7.7% for the quarter and 0.2% for the year. The NASDAQ increased 8.7% for the fourth quarter and 7.0% for the year.

The Fed's decision to raise rates caused longer-term, rate-sensitive areas of the bond market to experience losses, resulting in a 0.6% fourth-quarter decline in the Barclays Aggregate index. For the one-year period, the index rose 0.6%.

Developed markets continued to outperform emerging markets in the quarter, though continued accommodative monetary policy in the Eurozone did not considerably reflate regional equity prices. Overall, the MSCI EAFE returned 4.8% in the fourth quarter and -0.4% for the one-year period.

Emerging markets stocks were hurt by multiple factors in 2015. A collapse in commodities, weak currencies, low energy prices, and political uncertainties highlighted by the unknown path of the Chinese yuan, all conspired to depress returns. Overall, the MSCI EM index increased 0.7% for the fourth quarter. For the one-year period, the index fell 14.6% making this the third straight year of declines for emerging market investors.

For the quarter ending December 31, 2015, ACERA's Total Fund returned 3.2%, ranking it in the 15th percentile amongst its peers, and finished the fourth quarter at a market value of \$6.6 billion. Domestic Equities returned 5.8% (52nd percentile), International Equities returned 4.2% (31st percentile), and Fixed Income returned -0.6% (49th percentile) in the quarter. ACERA's Real Estate managers composite and Private Equity and Alternatives Return Leading Strategies¹ (PEARLS) composite returned 5.2% and -0.2%, respectively, during the fourth quarter. The Real Return Pool composite decreased 4.3%. 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 amongst its peers.

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