



Investment Update for ACERA Website

**Investment Update – 2nd Quarter
Second Quarter 2017**

Developed and emerging economies have exhibited coordinated positive growth for the first time in this recovery. Absolute growth remains subdued relative to history.

During the second quarter, economic releases have begun to miss expectations in the U.S. and U.K. after much upside surprise. The Eurozone continued to deliver positive surprises, but by a smaller margin. Heightened expectations help to explain some of the recent date disappointment.

Despite a healthy economy and longer than average expansion there is little indication of overheating in the U.S. This suggests the current expansion may have more room to run.

Treasury yields fell slightly over the quarter. Credit Spreads are tight, implying limited upside performance potential. U.S. credit markets have stabilized from recent defaults in the energy and metals/mining sectors.

U.S. equities are expected to deliver robust earnings growth in Q2 of 6.8% year over year. Energy sector earnings have provided much of this improvement after a challenging period a year ago.

While central banks are still accommodative outside of the U.S., most appear to be in later stages of the easing cycle. Developed central banks appear to be broadly entering a period of policy normalization.

For the quarter ending June 30, 2017, ACERA's Total Fund had gross returns of 3.8%, (3.8% net of fees), compared to the Policy Index return of 3.5%. For the year ending 6/30/2017, the total fund returned 16.3% gross (16.0% net of fees), compared to the policy index of 15.2%. The Total Fund's results ranked in the top 8th and 2nd percentile for the quarter and one year periods, respectfully. For 2Q2017, ACERA's U.S. Equity, International Equity, and Fixed Income asset classes returned 3.5% net, 6.2% net, and 2.7% net, compared to the respective benchmarks with returns of 3.0%, 6.1%, and 1.9%, respectively.

As of 06/30/2017, U.S. Equity accounted for 33.3% of the Total Fund, International Equity 29.9%, and Fixed Income 16.0%. As of 06/30/2017, the market value of the Total Fund was \$7,558,634,864.

ACERA's real estate portfolio, including the Oakland Building, returned a 3.36% gross return (3.09% net) for Q2 2017 and 9.33% gross return (8.27% net) for the 1-year period ending 06/30/2017 compared to the gross NCREIF-ODCE benchmark of 1.70% (1.47% net) and 7.87% (6.90% net), respectively.

The total market value of ACERA's real estate portfolio was \$518.6 million; approximately 6.86% of ACERA's total Fund.