Investment Update for ACERA Website

Investment Update – 4th Quarter
Fourth Quarter 2017

Global growth forecasts for 2018 have been revised higher, most notably in the Eurozone. U.S. expected 2018 GDP growth is 2.6%, above the expansion average. The Eurozone has experienced an impressive economic recovery. In the third quarter, a real GDP accelerated to 2.6%, the fastest pace of growth since 2011. The House and Senate agreed to a final tax bill that was signed into law by President Trump on December 22nd. The bill, formally known as the Tax Cuts and Job Act, represents a major overhaul of the U.S. tax system.

Global equities produced strong returns over the quarter and finished the year on a positive note. Emerging market equities led the way, driven by high earnings growth and expansion of valuation multiples off of low levels.

The outlook for U.S. equity earnings has improved further, following the signing of the Tax cuts and Jobs Act S&P 500 earnings expectations for 2018 were revised upwards from 11.1% to 13.1%.
U.S. high yields spreads became increasingly tight. Credit premiums are near all time low, which may warrant an underweight to U.S. credit.

Risk assets continue to deliver strong performance, fueled by improving fundamentals and accelerating growth. The current environment appears accommodative for further gains.

U.S. real GDP grew 2.3% from the previous year in the third quarter, the fastest pace in more than two years. Growth was driven by consumer spending, private inventory accumulation, and business investment. Core inflation rose slightly from 1.7% to 1.8% over the quarter, driven by higher shelter prices. Strong demand, higher raw material prices, and a weaker dollar may provide modest pressures on inflation, but overall levels remain low. Any material rise in inflation would likely be met by more aggressive monetary tightening that what is priced into markets.

The Federal Reserve Bank raised interest rates for the third time this year to a target rate of 1.25% - 1.50%. Officials noted that the strong economic growth is expected to continue, and raised the 2018 GDP forecast from 2.1% to 2.5%.

For 4Q2017, ACERA's Total Fund returned 4.3% gross (4.3% net of fees), compared to the Policy Index return of 4.2%. For the year ending 12/31/2017, the Total Fund returned 19.5% gross (19.2% net of fees) compared to the Policy Index of 18.6%. The Total Fund's results ranked in the top 6th and 3th percentile for the quarter and one year periods, respectively.

ACERA's real estate portfolio, including the Oakland Building, returned 2.39% gross (2.15% net) for 4Q2017 and 9.65% gross (8.58% net) for the 1-year period ending 12/31/2017 versus the NCREIF-ODCE benchmark of 2.07% gross (1.85% net) and 7.62% gross (6.66% net), respectively.
As of 12/31/2017, the market value of ACERA's real estate portfolio was $520.8 million.

As of 12/31/2017, the market value of the Total Fund was $8,108,480,756.

Prepared by: AD