



Investment Update for ACERA Website

Investment Update – 3rd Quarter Third Quarter 2017

During the third quarter, growth strengthened across developed and emerging economies. Business surveys suggest conditions are improving in both manufacturing and service industries. The U.S. job market tightened as unemployment dropped from 4.4% to 4.2% despite disappointing job growth data. Unemployment has not been this low since March of 2001.

Improving economic growth, low inflation, low unemployment, and supportive monetary policy across most markets has created a positive environment for global risk assets, justifying a moderate overweight risk position.

Global interest rates are still at historic lows and very little monetary tightening is expected in across developed markets over the next few years. Even in the U.S., the market is only expecting two rate hikes through the end of next year.

Valuations across global equities and credit are elevated, and have been so for the past few years. Further price appreciation through equity multiple expansion or credit spread contraction is unlikely.

Equity performance remains strong. Year to date returns have been fundamentally driven, supported by earnings growth rather than valuation expansion.

U.S. real gross domestic product grew 2.2% year over year in the 2nd quarter, consistent with the trend of slow, but steady growth in the current expansion. Consumer spending and business investment were the primary drivers of growth.

For 3Q2017, ACERA's Total Fund returned 4.2% gross (4.2% net of fees), compared to the Policy Index return of 4.5%. For the year ending 9/30/2017, the Total Fund returned 15.5% gross (15.2% net of fees) compared to the Policy Index of 15.3%. The Total Fund's results ranked in the top 7th and 4th percentile for the quarter and one year periods, respectively. Total commitments to the PEARLS program, as of 06/30/2017, were \$1.2 billion (16.4%), including \$895.1 million towards Private Equity and \$344.8 million to Alternatives. Total commitments to the Real Assets Portfolio, as of 6/30/2017 were \$421.7 million (5.6%).

ACERA's real estate portfolio, including the Oakland Building, returned 1.75% gross (1.50% net) for 3Q2017 and 9.03% gross (7.96% net) for the 1-year period ending 9/30/2017 versus the NCREIF-ODCE benchmark of 1.87% gross (1.64% net) and 7.66% gross (6.70% net), respectively.

The market value of ACERA's real estate portfolio was as of 9/30/2017 \$519.2 million.

As of 09/30/2017, the market value of the Total Fund was \$7,827,753,145.