

# Pension Trust

1000 Mill Street  
San Luis Obispo, CA 93408  
(805) 781-5465 Phone  
(805) 781-5697 Fax  
www.SLOPensionTrust.org



## AGENDA

### PENSION TRUST BOARD OF TRUSTEES

**Monday, September 24, 2018 9:30 AM**

Room 161/162  
County Government Center  
San Luis Obispo, CA 93408

*Materials for the meeting may be found at  
<http://www.slocounty.ca.gov/Departments/Pension-Trust/Board-of-Trustees>*

## PUBLIC COMMENT

1. Public Comment: Members of the public wishing to address the Board on matters other than scheduled items may do so when recognized by the Chair. Presentations are limited to three minutes per individual.

## ORGANIZATIONAL

None

## CONSENT

2. Minutes of the Regular Meeting of August 27, 2018 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of August 2018 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of August 2018 (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through September 7, 2018 (Receive, Approve and File).

## **APPLICATIONS FOR DISABILITY RETIREMENT**

None

## **OLD BUSINESS**

None

## **NEW BUSINESS**

None

## **INVESTMENTS**

6. Monthly Investment Report for August 2018 (Receive and File).
7. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

## **OPERATIONS**

8. Staff Reports
9. General Counsel Reports
10. Committee Reports:

a. Audit Committee	No Report
b. Personnel Committee	Report
c. PAS Replacement Committee	Report
11. Upcoming Board Topics (subject to change):
  - a. October 22, 2018
    - i. Disability Case(s)
    - ii. Financial Auditor selection (Audit Committee recommendation)
    - iii. Elected Trustee vacancy – appointment process
    - iv. Disability Application Medical Review Process
    - v. Private Equity Fund – Indemnification Provisions
  - b. November 26, 2018
    - i. PEPRA Compensation Limit – policy approval

- ii. Interest Crediting Rate – Normal Contributions
  - iii. Interest Crediting Rate – Additional Contributions
  - iv. 3Q18 Quarterly Report
  - v. Emerging Market Bonds – Strategy Modification
  - vi. Private Equity Outlook
  - vii. ESG/SRI Update
  - viii. Liquidity Study – illiquid investments
  - ix. Investment Rebalancing
- c. December 17, 2018
- i. Resolution honoring Jim Erb for service as a Trustee
  - ii. Actuarial Assumptions – Peer Comparisons
  - iii. Elected Trustee Vacancy - Appointment

12. Trustee Comments

**REFERRED ITEMS**

None

**ADDED ITEMS**

None

**CLOSED SESSION**

13. PUBLIC EMPLOYEE EVALUATION. The Board will convene in closed session pursuant to Gov. Code section 54957(b)(1) to conduct the annual employee evaluation of the Executive Secretary.

**ADJOURNMENT**

**NOTE – THE ANNUAL STRATEGIC PLANNING MEETING OF THE BOARD OF TRUSTEES WILL IMMEDIATELY FOLLOW THE REGULAR MEETING. A SEPARATE AGENDA IS PROVIDED.**

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# Board of Trustees

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## **AUGUST 27, 2018 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES**

**BOARD MEMBERS PRESENT:** Will Clemens, Vice President  
Guy Savage  
Gere Sibbach  
Jim Hamilton  
Jim Erb  
Jeff Hamm

**BOARD MEMBERS ABSENT:** Matt Janssen, President

**STAFF:** Carl Nelson  
Amy Burke

**COUNSEL:**

**OTHERS:** Jennifer Alderete, Pension Trust  
Dan Andoetoe, retiree

The meeting was called to order by Vice President Clemens at 9:30 AM, who presided over same.

### **AGENDA ITEM NO. 1: PUBLIC COMMENT.**

None.

**ORGANIZATIONAL:**

None.

**CONSENT:**

**AGENDA ITEM NO. 2 - 5: CONSENT.**

Public comment: None

Upon the motion of Mr. Sibbach, seconded by Mr. Savage, and unanimously passed, the following action was taken:

- ITEM 2:** The Minutes of the Regular Meeting of July 23, 2018 were approved without correction.
- ITEM 3:** The Report of Deposits and Contributions for the Month of July 2018, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of July 2018, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through August 10, 2018 was received, approved and filed.

**APPLICATIONS FOR DISABILITY RETIREMENT:**

None.

**OLD BUSINESS:**

None.

**NEW BUSINESS:**

**AGENDA ITEM NO. 6: JUNE 30, 2018 MID-YEAR FINANCIAL STATEMENTS AND FISCAL YEAR 2017-2018 ADMINISTRATIVE BUDGET STATUS**

Public comment: None

Staff presented unaudited mid-year (calendar year based accounting) financial statements as of June 30, 2018 for the SLOCPT. In addition, Staff presented a budget-year (July 1 fiscal year based) report for the completed fiscal year 2017-2018 noting that the SLOCPT completed the fiscal year approximately 12% under-budget.

Upon the motion of Mr. Hamm, seconded by Mr. Savage, and unanimously passed, the Mid-Year Financial Statements and Fiscal Year 2017-2018 Administrative Budget Status Report, were received and filed.

**INVESTMENTS:**

**AGENDA ITEM NO. 7: QUARTERLY INVESTMENT REPORT PRESENTED BY VERUS.**

Mr. Scott Whalen, Investment Consultant with Verus reviewed the Second Quarter 2018 investment landscape and portfolio performance with the Board. Mr. Whalen noted that the asset allocation policy of the SLOCPT is somewhat lower risk than many peer retirement systems. Mr. Whalen also commented that a future recommendation from Verus to the Board is likely to involve a conversion of the existing use of Stone Harbor's emerging market bonds – local currency strategy to a broader Stone Harbor emerging market bond strategy that includes currency management.

Public comment: None

Upon the motion of Mr. Clemens, seconded by Mr. Savage, and unanimously passed, the Investment Report for the Second Quarter, 2018 was received and filed.

**AGENDA ITEM NO. 8: MONTHLY INVESTMENT REPORT FOR JULY 2018.**

Public comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Clemens, and unanimously passed, the Investment Report for the period ended July 31, 2018 was received and filed.

**AGENDA ITEM NO. 9: INVESTMENT MANAGER STRUCTURE REVIEW.**

Scott Whalen, Investment Consultant with Verus presented an educational presentation on Investment Manager Structure addressing investment benchmark risk, active management risk and asset allocation drift risk.

Public comment: None

Upon the motion of Mr. Clemens, seconded by Mr. Savage, and unanimously passed, the Investment Manager Structure Review report was received and filed.

**10:40 AM – Vice President Clemens called for a break**

**10:52 AM – Meeting reconvened**

**AGENDA ITEM NO. 10: PRIVATE EQUITY – 2018 COMMITMENT RECOMMENDATION.**

Scott Whalen, Investment Consultant with Verus presented a recommendation on four Verus focus list Private Equity fund-of-funds as candidates for the SLOCPT 2018 additional \$20 million commitment to Private Equity. After extensive discussion of the alternative funds, Mr. Whalen and Staff recommended the selection of the Harbourvest 2018 Global Fund.

Public comment: None

Upon the motion of Mr. Sibbach, seconded by Mr. Savage, and unanimously passed, Staff was directed to implement a \$20 million commitment to the Harbourvest 2018 Global Fund subject to documents acceptable to General Counsel and Staff.

**AGENDA ITEM NO. 11: REAL ASSETS OUTLOOK.**

Scott Whalen, Investment Consultant with Verus presented an educational presentation on the firm's outlook for Real Assets (e.g., real estate, commodities, infrastructure, etc.).

Public comment: None

Upon the motion of Mr. Hamm, seconded by Mr. Savage, and unanimously passed, the Real Asset Outlook report was received and filed.

**AGENDA ITEM NO. 12: INVESTMENT CONSULTANT ORGANIZATIONAL UPDATE.**

At the request of Staff, Scott Whalen, Investment Consultant with Verus presented an update on Verus' ownership, organization, staffing and recent changes.

Public comment: None

Upon the motion of Mr. Savage, seconded by Mr. Clemens, and unanimously passed, the Investment Consultant Organizational Update report was received and filed.

**AGENDA ITEM NO. 13: ALTERNATIVE INVESTMENTS FEE DISCLOSURE – CA CODE 7514.7.**

Staff presented an annual report on alternative investments fees in compliance with California Code Section 7514.7.

Public comment: None

Upon the motion of Mr. Clemens, seconded by Mr. Erb, and unanimously passed, the Alternative Investments Fee Disclosure report was received and filed.

**AGENDA ITEM NO. 14: ASSET ALLOCATION.**

Staff reported that as a result of the County agreeing to prefund the contributions for Fiscal Year 2018/2019 the planned asset rebalancing transfers announced at the July 23, 2018 Board of Trustees meeting were implemented at the start of August. This is a no action item regarding investment asset allocations except to apprise the Board of rebalancing activity.

## **OPERATIONS:**

### **AGENDA ITEM NO. 15: STAFF ORAL REPORTS.**

- A)** Staff reported that the J. P. Morgan Strategic Properties Fund that the SLOCPT uses for its core real estate investment is being restructured. The SPF which is a bank collective trust fund structure. In addition, the SPF will add parallel Limited Partnership / REIT structures to allow non-ERISA, non-public pension clients to participate in the SPF investments. This change will broaden the client base for the SPF and enhance liquidity in this open-end real estate fund. Staff and Verus have reviewed the SPF restructuring and have no concerns.
- B)** Staff distributed the 2019 schedule of Board of Trustees meetings.
- C)** Staff reported that within the Fiduciary Properties, Inc. local real estate portfolio the Tenwise property being marketed for sale is expected to go into escrow with a potential buyer in September.

### **AGENDA ITEM NO. 16: GENERAL COUNSEL ORAL REPORTS.**

In the absence of the General Counsel, the Executive Secretary reported on a request from the National Council of Public Employee Retirement Systems (NCPERS) to advocate with the SLOCPT's Federal Congress Members and Senators in opposition to the proposed PEPTA legislation. Before taking an advocacy action the Board of Trustees requested Staff to research the position taken on PEPTA by the SACRS organization and the positions of Senators Feinstein and Harris and Congressman Carbuja and report to the Board at the September meeting.

### **AGENDA ITEM NO. 17: COMMITTEE REPORTS – AS NEEDED.**

- A)** AUDIT COMMITTEE: Nothing to report.
- B)** PERSONNEL COMMITTEE: Nothing to report.
- C)** PENSION ADMINISTRATION SYSTEM ADMINISTRATION (PASR) COMMITTEE: Nothing to report.

**AGENDA ITEM NO. 18: UPCOMING BOARD TOPICS.**

The planned topics for the next three board meetings were included in the agenda summary. This is an information item, nothing further to report.

**AGENDA ITEM NO. 19: TRUSTEE COMMENTS.**

None.

**REFERRED ITEMS:** None.

**ADDED ITEMS:** None.

**CLOSED SESSION:** None.

**ADJOURNMENT.**

There being no further business, the meeting was adjourned at 12:08 PM. The next Regular Meeting was set for September 24, 2018, at 9:30 AM, in Room 161/162, New County Government Center, San Luis Obispo, California 93408.

**Respectfully submitted,**

**Carl Nelson  
Executive Secretary**

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**REPORT OF DEPOSITS AND CONTRIBUTIONS FOR THE MONTH OF  
AUGUST 2018**

PP 16 8/3/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for	Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
					Employee Contributions					
<b>By Employer and Tier:</b>										
County Tier 1	3,831,673.56	896,576.94	23.40%	438,667.57	326,242.56	19.96%	43.36%	1,287.50	5,289.79	<b>1,668,064.36</b>
County Tier 2	963,089.26	230,640.80	23.95%	45,812.14	81,174.76	13.19%	37.13%	70.08	709.70	<b>358,407.48</b>
County Tier 3	2,426,113.57	542,178.80	22.35%	284,298.89	-	11.72%	34.07%	-	342.70	<b>826,820.39</b>
Superior Court Tier 1	269,259.71	67,488.14	25.06%	43,779.33	-	16.26%	41.32%	-	-	<b>111,267.47</b>
Superior Court Tier 3	72,993.98	17,466.56	23.93%	7,960.25	-	10.91%	34.83%	-	114.54	<b>25,541.35</b>
APCD Tier 1	66,777.81	14,655.94	21.95%	8,563.20	4,340.21	19.32%	41.27%	-	-	<b>27,559.35</b>
APCD Tier 3	10,367.21	2,238.00	21.59%	1,396.23	-	13.47%	35.06%	-	-	<b>3,634.23</b>
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-	<b>3,186.42</b>
Pension Trust Staff Tier 2	9,848.00	2,263.07	22.98%	237.37	914.88	11.70%	34.68%	-	-	<b>3,415.32</b>
Pension Trust Staff Tier 3	7,263.70	1,633.61	22.49%	939.21	-	12.93%	35.42%	-	-	<b>2,572.82</b>
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-	<b>5,828.61</b>
	<b>7,677,783.26</b>	<b>1,780,671.98</b>	<b>23.19%</b>	<b>833,244.26</b>	<b>414,567.25</b>	<b>16.25%</b>	<b>39.44%</b>	<b>1,357.58</b>	<b>6,456.73</b>	<b>\$ 3,036,297.80</b>
PP 17 8/17/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for Employee Contributions	Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
<b>By Employer and Tier:</b>										
County Tier 1	3,821,042.08	894,071.34	23.40%	437,350.67	325,467.16	19.96%	43.36%	1,287.50	504.83	<b>1,658,681.50</b>
County Tier 2	960,457.27	230,062.32	23.95%	47,786.05	80,934.09	13.40%	37.36%	68.99	709.70	<b>359,561.15</b>
County Tier 3	2,430,618.95	542,771.51	22.33%	284,176.59	-	11.67%	34.00%	-	639.20	<b>827,587.30</b>
Superior Court Tier 1	267,129.79	66,874.12	25.03%	43,435.68	-	16.26%	41.29%	-	-	<b>110,309.80</b>
Superior Court Tier 3	72,783.48	17,419.19	23.93%	7,934.45	-	10.90%	34.83%	-	114.54	<b>25,468.18</b>
APCD Tier 1	65,540.24	14,387.78	21.95%	8,402.34	4,269.02	19.33%	41.29%	-	-	<b>27,059.14</b>
APCD Tier 3	10,006.07	2,161.51	21.60%	1,346.82	-	13.46%	35.06%	-	-	<b>3,508.33</b>
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-	<b>3,186.42</b>
Pension Trust Staff Tier 2	9,995.20	2,296.90	22.98%	241.27	928.55	11.70%	34.68%	-	-	<b>3,466.72</b>
Pension Trust Staff Tier 3	7,475.78	1,681.31	22.49%	967.16	-	12.94%	35.43%	-	-	<b>2,648.47</b>
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-	<b>5,828.61</b>
	<b>7,665,445.32</b>	<b>1,777,256.10</b>	<b>23.19%</b>	<b>833,231.10</b>	<b>413,493.66</b>	<b>16.26%</b>	<b>39.45%</b>	<b>1,356.49</b>	<b>1,968.27</b>	<b>\$ 3,027,305.62</b>
PP 18 8/31/2018	Pensionable Salary	Employer Contributions	Employer Rate	Employee Contributions	Employer for Employee Contributions	Employee Rate	Combined Rate	Additional Contributions	Buy Backs	TOTAL Contributions
<b>By Employer and Tier:</b>										
County Tier 1	3,803,665.87	890,244.58	23.40%	433,190.66	323,964.10	19.91%	43.31%	1,287.50	504.83	<b>1,649,191.67</b>
County Tier 2	968,336.65	232,191.51	23.98%	45,817.16	81,589.60	13.16%	37.14%	68.99	709.70	<b>360,376.96</b>
County Tier 3	2,449,566.23	549,083.35	22.42%	287,781.25	-	11.73%	34.14%	-	1,183.01	<b>838,047.61</b>
Superior Court Tier 1	268,257.14	67,151.14	25.03%	43,621.67	-	16.26%	41.29%	-	-	<b>110,772.81</b>
Superior Court Tier 3	77,274.74	18,522.42	23.97%	8,551.37	-	11.07%	35.04%	-	114.54	<b>27,188.33</b>
APCD Tier 1	65,540.22	14,387.77	21.95%	8,402.34	4,269.02	19.33%	41.29%	-	-	<b>27,059.13</b>
APCD Tier 3	9,118.34	1,973.48	21.64%	1,225.38	-	13.44%	35.08%	-	-	<b>3,198.86</b>
Pension Trust Staff Tier 1	7,168.55	1,647.33	22.98%	873.13	665.96	21.47%	44.45%	-	-	<b>3,186.42</b>
Pension Trust Staff Tier 2	9,995.20	2,296.90	22.98%	241.27	928.55	11.70%	34.68%	-	-	<b>3,466.72</b>
Pension Trust Staff Tier 3	7,422.75	1,669.38	22.49%	960.17	-	12.94%	35.43%	-	-	<b>2,629.55</b>
LAFCO Tier 1	13,227.91	3,882.79	29.35%	716.94	1,228.88	14.71%	44.06%	-	-	<b>5,828.61</b>
	<b>7,679,573.60</b>	<b>1,783,050.65</b>	<b>23.22%</b>	<b>831,381.34</b>	<b>412,646.11</b>	<b>0.16199173</b>	<b>0.39417268</b>	<b>1,356.49</b>	<b>2,512.08</b>	<b>\$ 3,030,946.67</b>
<b>TOTAL FOR THE MONTH</b>	<b>23,022,802.18</b>	<b>5,340,978.73</b>	<b>23.20%</b>	<b>2,497,856.70</b>	<b>1,240,707.02</b>	<b>16.24%</b>	<b>39.44%</b>	<b>4,070.56</b>	<b>10,937.08</b>	<b>\$ 9,094,550.09</b>
<b>TOTAL YEAR TO DATE</b>	<b>137,889,859.85</b>	<b>31,871,045.52</b>	<b>23.11%</b>	<b>14,877,723.68</b>	<b>7,608,919.87</b>	<b>16.31%</b>	<b>39.42%</b>	<b>28,327.93</b>	<b>131,847.61</b>	<b>54,517,864.61</b>

**REPORT OF SERVICE & DISABILITY RETIREMENTS &  
DROP PARTICIPANTS FOR THE MONTH OF:**

**AUGUST 2018**

RETIREE NAME	DEPARTMENT	DATE	MONTHLY ALLOWANCE
BACHUS, LYNN	SOCIAL SERVICES	08-04-2018	2066.48
BIRKS, WILLIAM	SHERIFF-CORONER / RESERVE	08-01-2018	1844.92
BOYAN, PAUL (DROP)	SHERIFF-CORONER	08-01-2018	5075.65
CARLSON, DEAN	APCD	08-25-2018	6580.73 1.03*
DRAGGOO, DAVID	SOCIAL SERVICES	08-25-2018	3398.37
GEMIGNANI, DINO	PROBATION	08-18-2018	5032.35 1.62*
JORDAN, JOAN	ASSESSOR / RESERVE	08-11-2018	Awaiting calcs
OUWERKERK, BRENDA	AGRICULTURAL COMMISSIONER	08-04-2018	9704.38
STAPLES, PATTI (DROP)	SHERIFF-CORONER	08-01-2018	2192.66
<b>ADDENDUM:</b>			
MINSK, JANNA	PLANNING & BUILDING / RECIPROCAL	06-13-2018	Option selection
RICHARDS, RYAN	SUPERIOR COURT	07-24-2018	1165.89
STECK, SHELLY	CLERK-RECORDER / RECIPROCAL	07-21-2018	147.34

\* *Employee Additional Contribution Allowance (per Sections 5.07, 27.12, 28.12, 29.12, 30.12, and 31.12 of the Plan)*

\*\* *Social Security Coordinated Temporary Annuity (per Section 13.06 of the Plan)*

## Board of Trustees

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Date: September 24, 2018  
To: Board of Trustees  
From: Carl Nelson – Executive Secretary

**Agenda Item 5: Applications & Elections to Participate in the Deferred Retirement Option Program (DROP)**

**Recomendation:**

It is recommended that you receive and approve the Application & Election to Participate in DROP for the individuals listed below.

**Discussion:**

The San Luis Obispo County Pension Trust has received an Application & Election to Participate in DROP from the following members listed below:

**NOVEMBER 1, 2018**  
**OCTOBER 1, 2018**

**Vince E. Hartman, Sheriff Department**  
**Craig Kesler, Public Works**

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Date: September 24, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 6: Investment Report for August 2018**

	August	Year to Date 2018	2017	2016	2015	2014	2013
Total Trust Investments (\$ millions)	\$1,384		\$1,351 year end	\$1,196 year end	\$1,148 year end	\$1,190 year end	\$1,131 year end
<b>Total Fund Return</b>	-0.1% Gross	<b>2.3%</b> Gross	15.5 % Gross	6.6 % Gross	-0.8 % Gross	5.1 % Gross	13.8% Gross
Policy Index Return (r)	0.6%	2.2%	13.4 %	7.7 %	-0.5 %	5.2 %	13.4%

(r) Policy index as of Aug. 2016 revision to Strategic Asset Allocation Policy: 20% domestic equity, 20% international equity, 15% core bonds, 5% bank loans, 5% global bonds, 5% emerging market debt, 15% real estate, 5% commodities, 5% private equity, 5% private credit.

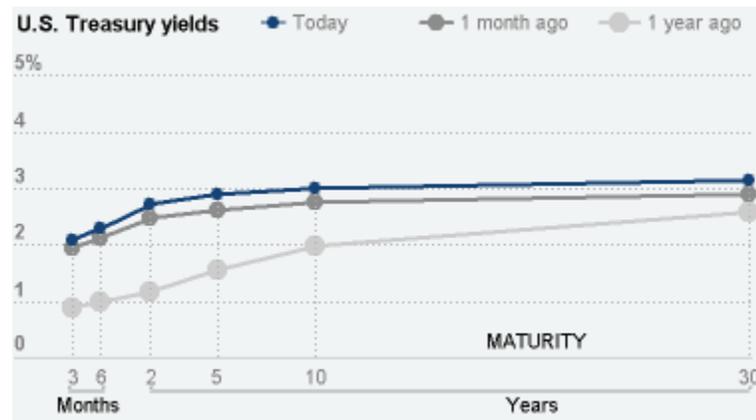
### **The Economy and Capital Markets:**

Some significant factors in the economy for August and into mid-September have been –

- **Fed Policy** – The Fed continues on a steady course on rate normalization. Following the June 13<sup>th</sup> increase in the Fed Funds rate – the second increase for the year - to the range of 1.75% to 2.00%, markets expect one more rate increase in 2018.

- **Interest Rates –**

- Economists and investors alike have been focusing their most recent “wall of worry” around the flattening yield curve. The 10 year Treasury crept higher in yield and crossed the 3% threshold and was trading at a 3.08% yield on September 21st. The 2 year Treasury yield increased more, to 2.82% for a spread between the 2 year Treasury and the 10 year near a historically low level of 0.18%. This level of yield curve flattening combined with expected Fed rate normalization raises concerns over the historically strong correlation between inverted yield curves and the onset of economic recessions within two years. The general interpretation of an inverted yield curve is that it reflects market expectations of fading growth and increasing inflation. The Fed appears to be on track to cause an inverted yield curve by the end of 2018 which is suggestive of a recession level GDP growth in late 2019-early 2020. The yield curve as of September 21<sup>st</sup> is shown below.



- The following exhibit (excerpted from Advisor Perspectives – August 20, 2018 – see below) illustrates the inverted yield curve and recession relationship.

## History of 10-year minus two-year yield spreads, 1977-2018



Source: Charles Schwab; underlying sources are Charles Schwab, FactSet, as of April 20, 2018. Bps=basis points.

- An interesting counter argument on this topic was provided by Laurence Siegal (Gary P. Brinson Director of Research at the CFA Institute Research Foundation) in Advisor Perspectives of August 20, 2018 excerpted below. It is a lengthy excerpt, but worthwhile reading. Of course, it is also useful to remember the old saying - The four most dangerous words in economics are “This time it’s different...”.

“It’s reasonable to be worried. The current recovery or expansion is quite old, having begun in June 2009, nine years ago. The all-time record is 10 years (1991-2001). But something *is* different this time. The recovery began slowly and didn’t build up momentum until 2014; then it slowed again, and only recently accelerated. The whole last decade has been something of a disappointment in the real economy (“secular stagnation,” according to Larry Summers), although it’s been great for the S&P 500.

This means that, as I said at the outset, for the first time in at least 40 years there’s a fundamental economic reason why the current yield curve near-inversion might *not* forecast a recession. At least according to some, the excesses that need to be corrected by a recession – high inflation, high levels of debt, rich stock market valuations, and tightness in the labor market – aren’t there in any convincing quantity. (The stock market is a little rich by historical standards, but not enough to get excited about.)

The sluggish recovery after 2009, then, was more like a continued recession than like the boom conditions that typically follow a bust. The expansion could have a ways to run.

John Cochrane, a professor at Stanford's Hoover Institution and an intellectual heir to Milton Friedman although disagreeing with him on many specifics, believes the expansion has substantial room to run. His work on the relationship between macroeconomics, monetary policy, and fiscal policy is startling in its originality. Everything he writes is worth reading. Cochrane advises:

“The economy has finally recovered from the 2008 recession. Demand is over [that is, there is no more inadequacy of demand]. Further growth depends on [growth in] supply – larger productivity or [a larger] labor force, and supply depends on incentives. *It is the end of the beginning, not the beginning of the end.*”

We will grow until something happens. Recessions don't happen on their own, and a longer expansion does not make a recession more probable. A recession needs a spark, something to go wrong.

[Martin] Feldstein is right, a panic monetary tightening from the Fed could be that spark, as it has so many times before... A war or a trade war could be that spark. “Don't screw up” is policy advice often overlooked in the quest for dramatic action.

One thing we know for sure – recessions are unpredictable. If we knew for sure a recession would happen in the near future, then it would already have happened today [because]...if companies knew business would be bad next year, they would stop investing, and business would be bad today.”

I couldn't have said it better – or nearly as well. Don't panic. The relation between yield curve inversions and recessions is likely to break down, as did the Phillips curve in the 1960s and the relation between stimulus and inflation in the 2010s.”

- **GDP Growth –**

- Revised estimates of 2Q18 U.S. Real GDP growth increased to a 4.2% rate following the 1Q18 increase of 2.2%. The 2Q18 GDP growth was the highest quarterly rate since 2014 and was due in part to strong consumer spending. A surge in exports fueled by concerns over pending trade restrictions and tariffs also contributed to the strong 2Q18 growth. Business spending and investment remained subdued despite the fiscal stimulus of tax cuts.
- Economists' consensus is still for a slowing in GDP growth in the last half of 2018 as the U.S. economy continues its growth at a sustainable rate. The initial surge in economic activity following the tax reductions of late 2017 and the trade war based pre-tariff fear inspired spending is expected to moderate as a source of growth.

- **Trade Protectionism, International Tensions, Economic Fallout –**
  - The building trade disputes between the U.S. and nearly all other countries continued to create economic uncertainty in August as a potentially exogenous disruptive factor. However, year to date equity markets have shown U.S. domestic stocks outperforming other developed markets and with China related stocks underperforming further.
  - In September the Trump Administration added 10% tariffs on \$200 billion of Chinese imports with threats of increasing tariffs to 25% next year and broadening the list of tariff-subject imports. China retaliated with its own increased tariffs. If increased tariffs persist, the costs are expected to be passed on to consumers in the U.S. offsetting a large portion of the personal tax reduction from the 2017 Tax Act. Retaliatory tariffs also will impact portions of the U.S. economy such as agriculture. The historical pattern of response to past trade wars includes disrupted supply chains as imports change to lower tariff nations. Also, the movement of foreign manufacturers to move production onto U.S. soil in foreign owned plants can occur as happened with tire imports in the Obama Administration.
  
- **Employment and Wages –**
  - The August DOL report on nonfarm employment showed -
    - New jobs up 201k in August – above expectations. However, revisions to new job estimates for June and July were lower making the three month average for new jobs 185k/month.
    - Unemployment remained at 3.9% - down 0.5% from one year ago. The broader U-6 unemployment measure that adds in workers marginally attached to the workforce (e.g., part time workers who would prefer full time) ended August at 7.4% - the lowest level since April 2001.
    - Labor Force participation fell slightly to 62.7% in August.
    - The California unemployment rate held steady at 4.2%.
  - For the year ending with August, average hourly earnings increased 2.9%. However, the recent wage gains were mostly in skilled and professional occupations. For lower skilled jobs the year over year increase in wages has lagged the inflation rate.
  - Median Household Income reported by the Census Bureau for 2017 reached \$61,372 – finally returning to its level from 2007. However, the gains in household income came mostly from increased employment while average annual earnings for both male and female full-time workers actually decreased in 2017.
  
- **Economy and the markets –**
  - The corporate profits of the S&P 500 companies rose approximately 27% in 1Q18 and 25% in 2Q18 aided by lower corporate tax rates and strong demand. Strength in the Technology sector accounted for most of the increase in Q218 corporate

earnings. Encouraged by strong corporate profits the S&P 500 continued to reach new highs, trading above 2,930 on September 21<sup>st</sup>.

- Domestic equity markets have traded higher into mid September bringing the YTD S&P 500 to 9.9%. Globally, emerging markets declined under the effects of trade issues and currency weakness.

**SLOCPT Investment Returns:**

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of August. Subsequent market movements in September will be reported on in next month's investment report.

Respectfully submitted

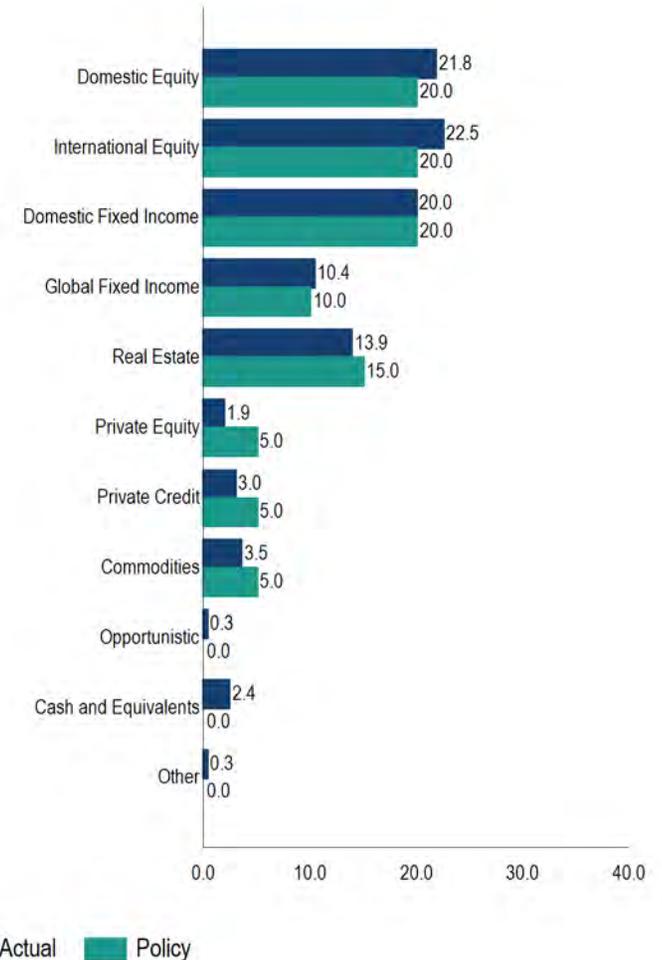
# San Luis Obispo County Pension Trust

## Executive Summary - Preliminary (Gross of Fees)

Period Ending: August 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Fund</b>	<b>1,383,510,679</b>	<b>100.0</b>	<b>-0.1</b>	<b>2.3</b>
Total Fund ex Overlay	1,378,837,833	99.7	-0.1	2.3
Policy Index			0.6	2.2
<b>Total Domestic Equity</b>	<b>301,468,865</b>	<b>21.8</b>	<b>3.2</b>	<b>9.5</b>
Russell 3000			3.5	10.4
PIMCO RAE Fundamental PLUS Instl	63,989,129	4.6	2.7	8.0
S&P 500			3.3	9.9
Loomis Sayles Large Cap Growth	84,550,369	6.1	3.8	11.4
Russell 1000 Growth			5.5	16.4
Boston Partners Large Cap Value	87,455,044	6.3	2.1	5.2
Russell 1000 Value			1.5	3.7
Atlanta Capital Mgmt	65,474,323	4.7	4.6	14.0
Russell 2500			4.3	12.1
<b>Total International Equity</b>	<b>311,288,789</b>	<b>22.5</b>	<b>-1.1</b>	<b>-0.2</b>
MSCI ACWI ex USA Gross			-2.1	-3.2
Dodge & Cox Intl Stock	146,346,450	10.6	-4.1	-6.3
MSCI EAFE Gross			-1.9	-1.9
WCM International Growth	164,942,339	11.9	1.6	6.1
MSCI ACWI ex USA Gross			-2.1	-3.2
<b>Total Domestic Fixed Income</b>	<b>276,163,963</b>	<b>20.0</b>	<b>0.5</b>	<b>0.8</b>
BBgBarc US Aggregate TR			0.6	-1.0
BlackRock Core Bond	100,271,847	7.2	0.7	-0.3
BBgBarc US Aggregate TR			0.6	-1.0
Dodge & Cox Income Fund	99,743,998	7.2	0.3	-0.2
BBgBarc US Aggregate TR			0.6	-1.0
Pacific Asset Corporate Loan	76,148,119	5.5	0.6	3.7
S&P/LSTA Leveraged Loan Index			0.4	3.3
<b>Total Global Fixed</b>	<b>143,716,417</b>	<b>10.4</b>	<b>-5.5</b>	<b>-8.1</b>
Citi World Govt Bond Index			-0.2	-1.5
Brandywine Global Fixed Income	73,785,484	5.3	-2.7	-3.1
Citi WGBI ex US			-0.7	-2.0
Stone Harbor Local Markets Ins	69,930,933	5.1	-8.3	-13.0
JPM GBI-EM Global Diversified TR USD			-6.1	-10.5

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

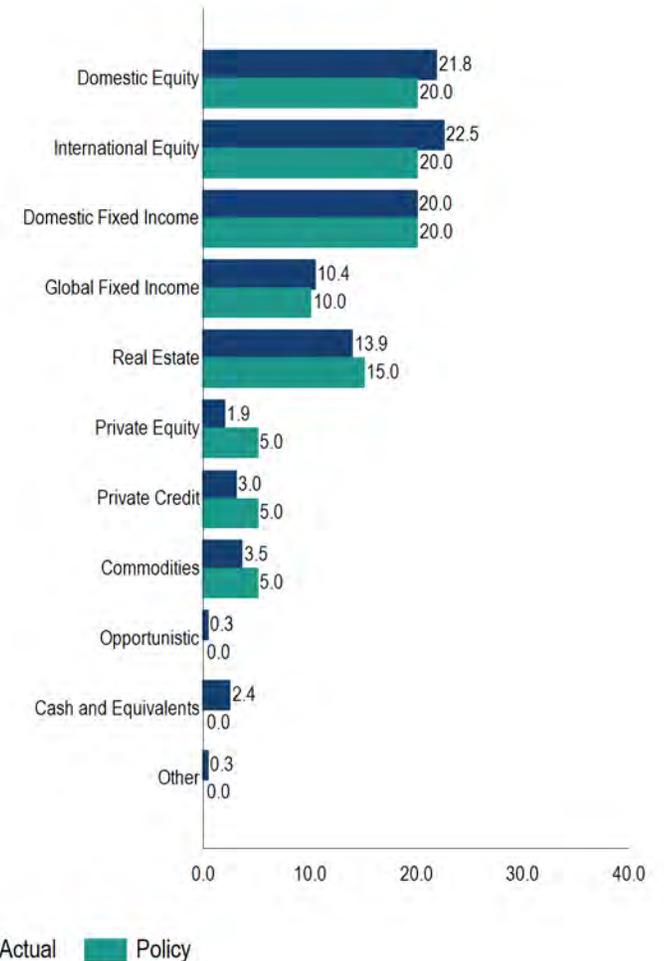
Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. SSGA TIPS liquidated on 12/7/2017. Fidelity Real Estate Growth III liquidated on 12/29/2017. SSGA Flagship S&P 500 liquidated 2/1/2018. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 8/31/2018. All data is preliminary.

San Luis Obispo County Pension Trust  
 Executive Summary - Preliminary (Gross of Fees)

Period Ending: August 31, 2018

	Market Value	% of Portfolio	1 Mo	YTD
<b>Total Real Estate</b>	<b>192,305,611</b>	<b>13.9</b>	<b>0.3</b>	<b>5.0</b>
NCREIF Property Index			0.0	3.5
JP Morgan Core Real Estate	158,888,581	11.5	0.4	4.5
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
ARA American Strategic Value Realty	21,645,006	1.6	0.0	7.3
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
Direct Real Estate	11,772,024	0.9	0.0	9.0
NCREIF-ODCE			0.0	4.3
NCREIF Property Index			0.0	3.5
<b>Total Commodities</b>	<b>48,804,795</b>	<b>3.5</b>	<b>-0.7</b>	<b>-1.9</b>
Bloomberg Commodity Index TR USD			-1.8	-3.9
Gresham MTAP Commodity Builder	48,804,795	3.5	-0.7	-1.9
Bloomberg Commodity Index TR USD			-1.8	-3.9
<b>Total Private Equity</b>	<b>26,172,799</b>	<b>1.9</b>		
Harbourvest Partners IX Buyout Fund L.P.	13,891,440	1.0		
Pathway Private Equity Fund Investors 9 L.P.	12,281,359	0.9		
<b>Total Private Credit</b>	<b>41,187,643</b>	<b>3.0</b>		
TPG Diversified Credit Program	41,187,643	3.0		
<b>Total Cash</b>	<b>33,159,791</b>	<b>2.4</b>	<b>0.0</b>	<b>1.0</b>
91 Day T-Bills			0.2	1.2
Cash Account	33,159,791	2.4	0.0	1.0
91 Day T-Bills			0.2	1.2
<b>Total Opportunistic</b>	<b>4,569,160</b>	<b>0.3</b>		
Kohlberg Kravis Roberts & Co. Mezzanine Partners I	4,407,942	0.3		
PIMCO Distressed Credit Fund	161,218	0.0		
CPI + 5%				

Actual vs Target Allocation (%)



\*Other balance represents Clifton Group.

Policy Index (10/1/2016): 20% Russell 3000, 20% MSCI ACWI ex. US, 30% BBgBarc Aggregate, 15% NCREIF Property, 5% Bloomberg Commodity, 5% Russell 3000 + 300 bp, 5% BBgBarc High Yield + 200 bp lagged. Effective 1/01/2017, only traditional asset class (public equity, public fixed income, REITs) investment management fees will be included in the gross of fee return calculation. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. SSGA TIPS liquidated on 12/7/2017. Fidelity Real Estate Growth III liquidated on 12/29/2017. SSGA Flagship S&P 500 liquidated 2/1/2018. Most recently reported market values for private equity/credit, opportunistic, and illiquid real estate funds adjusted for calls and distributions through 8/31/2018. All data is preliminary.



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

AUGUST 2018  
Capital Markets Update

# Market commentary

## U.S. ECONOMICS

- Nonfarm payrolls expanded by 201,000 in August, exceeding expectations of a 191,000 increase. Average hourly wage growth also beat expectations, coming in at 2.9% for the month, the highest reading since April 2009.
- The University of Michigan's consumer sentiment index fell from 97.9 in July to 96.2 in August, the lowest since January – economists had expected a reading of 95.5. Much of the decline was attributed to less favorable assessments of buying conditions.
- Core CPI increased 2.4% year-on-year in July, the highest rate since 2008. Core PCE, which is monitored more closely than CPI by the Federal Reserve, advanced 2.0% year-on-year, meeting expectations.

## U.S. EQUITIES

- The S&P 500 returned 3.3% in August, its 5<sup>th</sup> consecutive month of positive performance. The index has now fully recovered from the February correction, and is up 9.9% year-to-date.
- The technology sector led the way (+4.9%) as computer hardware and software firms outperformed.
- The CBOE VIX Index jumped to 14.8 midway through August amidst concerns relating to trade, geopolitical tension, and idiosyncratic emerging market stories. The VIX Index finished at 12.9, essentially unchanged during the month.

## U.S. FIXED INCOME

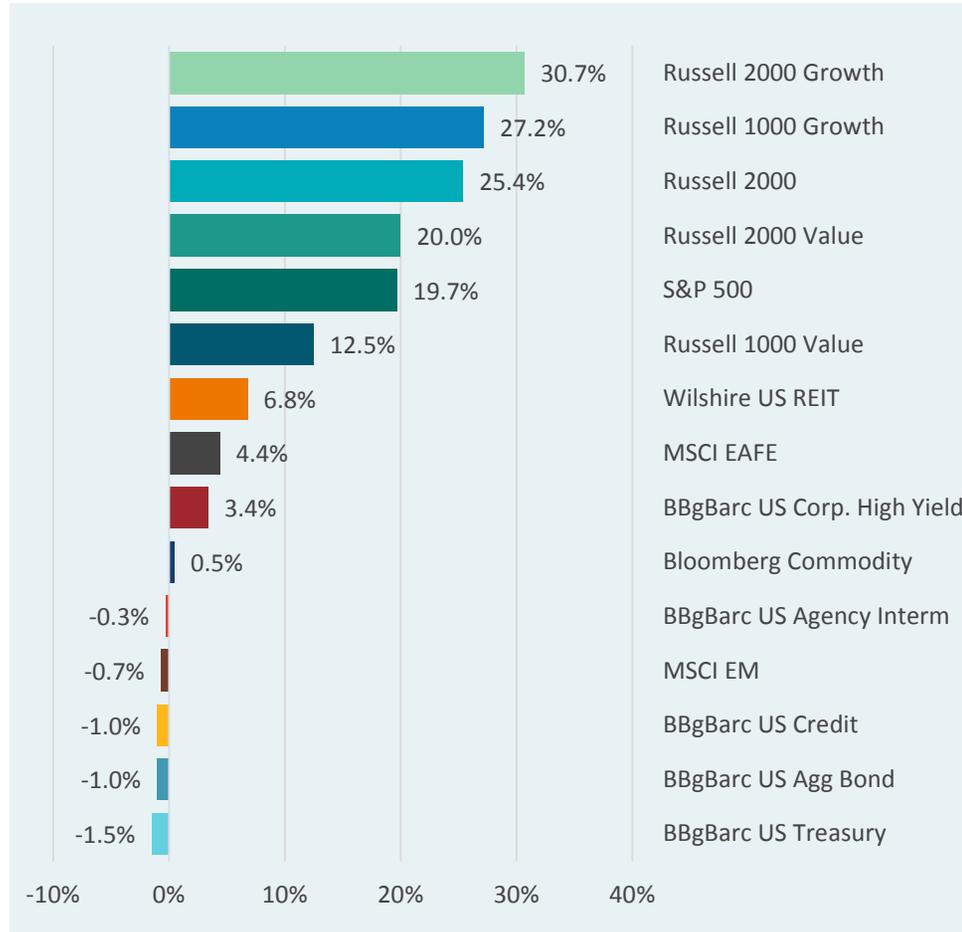
- Domestic fixed income performance was strong in August – the Bloomberg Barclays Aggregate and High Yield indices advanced 0.6% and 0.7% respectively.
- Yields on 10-year Treasuries fell 10 basis points, from 2.96% to 2.86%.
- The yield curve continued to flatten; the spread between the 10-year U.S. Treasury yield and the 2-year yield compressed from 29 bps to 23 bps.

## INTERNATIONAL MARKETS

- While President Trump and President Xi remain hopeful about working towards a trade deal before year-end, tariffs of 25% on \$200 billion of Chinese imports could take effect as early as September 6<sup>th</sup>.
- Trade representatives from the United States and Mexico reached a preliminary agreement on a new trade deal which would replace NAFTA. Canada is not currently included in the new trade agreement, although Canadian Foreign Affairs Minister Chrystia Freeland is optimistic about the progression of negotiations.
- Tensions between the United States and Turkey have continued to rise, while economic conditions in Turkey have steadily fallen. The Turkish CPI rose from 15.9% year-on-year in July to 17.9% in August, while the lira depreciated 27.5% relative to the US dollar.

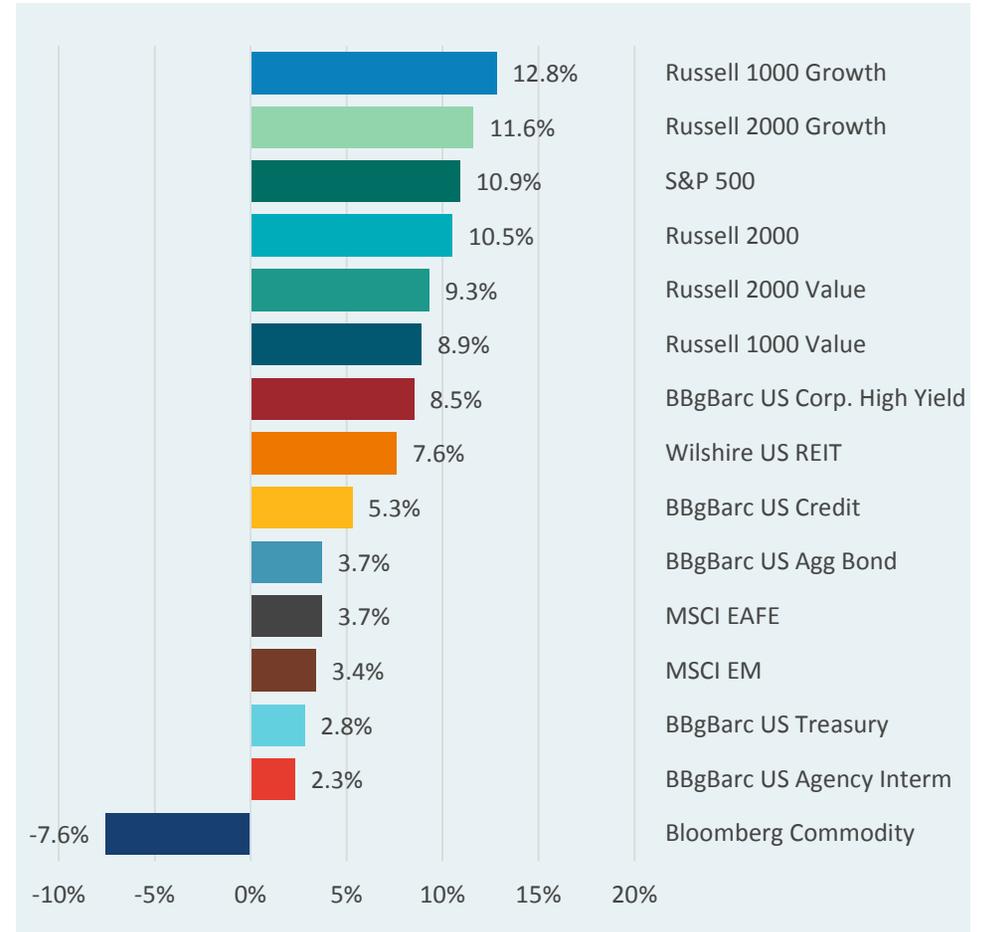
# Major asset class returns

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/18

TEN YEARS ENDING AUGUST



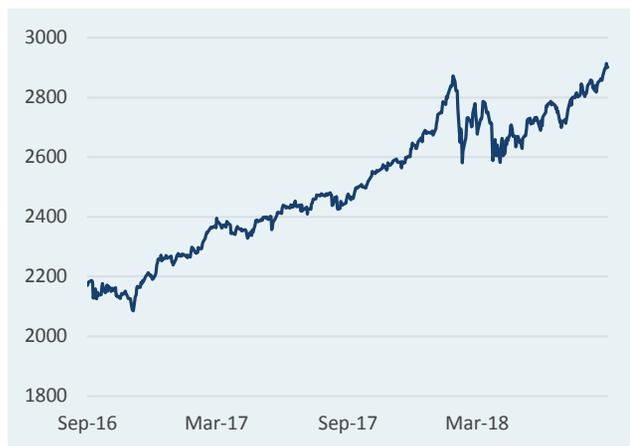
Source: Morningstar, as of 8/31/18

# U.S. large cap equities

- The S&P 500 Index advanced 3.3% in August, reaching new all-time highs and ending the month at 2902. The index has now fully recovered from the February and March drawdowns. Over the past five months, the S&P 500 has gained 10.8%.
- Within the S&P 500 Index, Information Technology (+6.9%), Consumer Discretionary, (+5.1%), and Healthcare (+4.4%) outperformed. Energy (-3.3%), and Materials (-0.5%) underperformed the overall index.
- Big tech names continued to lead the advance in August. Apple, Amazon, and Microsoft contributed 40.5% of the overall S&P 500 return for the month. The largest detractor from S&P 500 performance was Chevron (-6.4%).
- Apple alone contributed 22.5% to the S&P 500 monthly return, and became the first US company to pass \$1 trillion in market capitalization. At month-end, Amazon's market cap was \$980.2 billion.

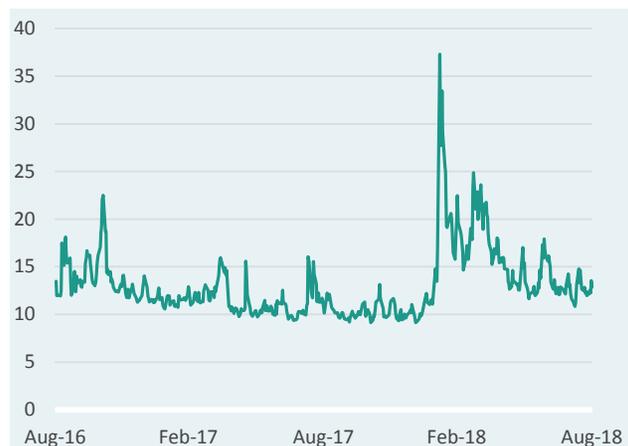
Cyclical sectors outperformed

S&P 500 PRICE INDEX



Source: Bloomberg, as of 8/31/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 8/31/18

S&P 500 VALUATION SNAPSHOT



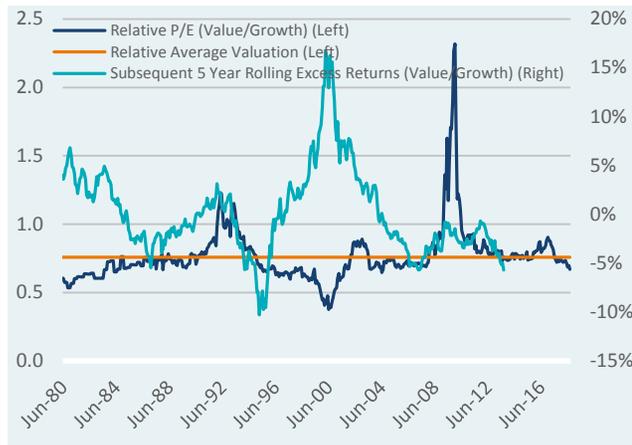
Source: Bloomberg, as of 8/31/18

# Domestic equity size and style

- The Russell 2000 Index and Russell 1000 Index returned 4.3% and 3.5% in August, respectively.
- Growth equities significantly outperformed value. The Russell 1000 Growth Index and Russell 1000 Value Index returned 5.5% and 1.5%, respectively. In the small-cap space, the Russell 2000 Growth Index and Russell 2000 Value Index returned 6.2% and 2.4% respectively.
- The Russell 2000 Growth Index is now trading 11.4% above its 200-day simple moving average, indicating that the asset class has benefitted from strong momentum over the past 200 days.
- Growth equities have gotten more expensive year-to-date. The ratio of the Russell 1000 Value P/E relative to the Russell 1000 Growth P/E declined from 0.70 in July to 0.67 in August. At the beginning of the year, the ratio was 0.74.

Growth and momentum led stocks higher

VALUE VS. GROWTH RELATIVE VALUATIONS



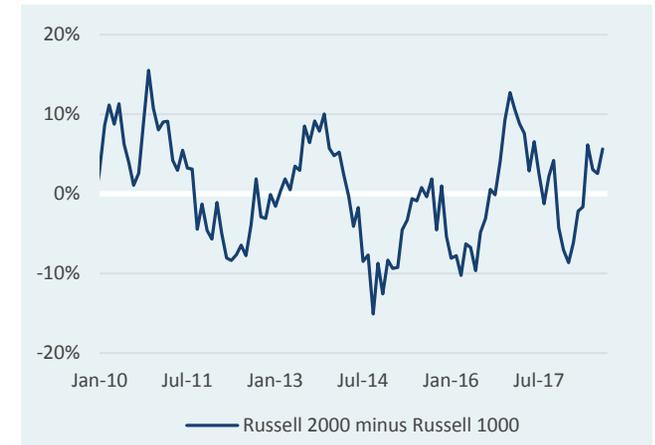
Source: Russell, Bloomberg, as of 8/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 8/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 8/31/18

# Fixed income

- The Bloomberg Barclays Aggregate Index returned 0.6% in August, as Treasury yields moved lower across the curve.
- The spread over the sovereign curve on the Bloomberg Barclays Global High Yield Index reversed in August, expanding from 3.8% to 4.2% during the month. The index lost 0.9% on a USD-hedged and 1.0% on an unhedged basis, as dollar strength presented a slight headwind.
- The 10-year Italian bond yield spread over German bund yields of the same maturity expanded from 2.3% to 2.9%. Uncertainty regarding the Italian government’s adherence to EU fiscal spending rules likely impacted Italian yields over the period.
- The Central Bank of Argentina hiked its benchmark interest rate from 45% to 60%, hoping to support its rapidly depreciating currency. Concerns related to the speed of payments from the IMF’s bailout package exacerbated the weakness of the peso, which has lost around 50% of its value over the year.

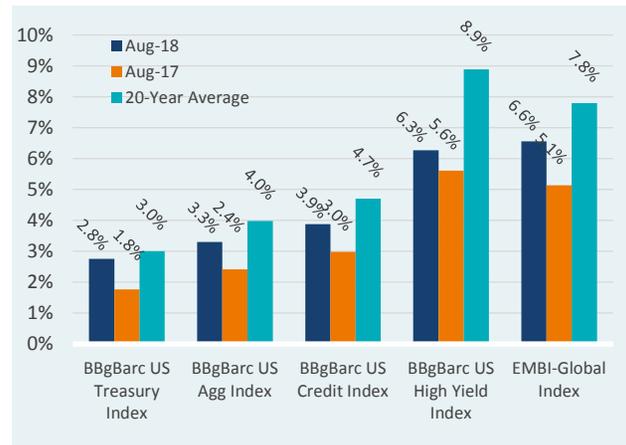
Treasury yields fell across the curve

U.S. TREASURY YIELD CURVE



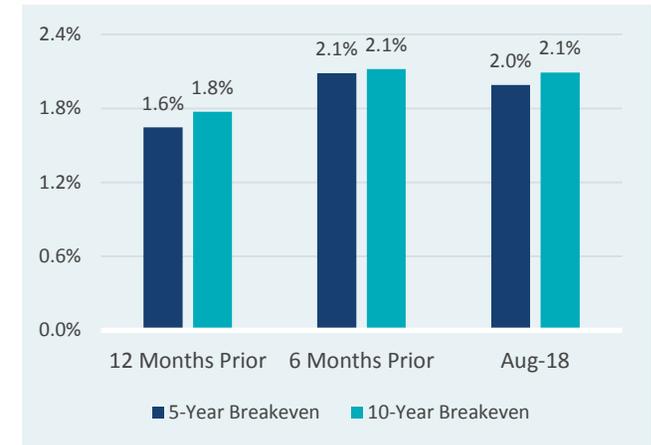
Source: Bloomberg, as of 8/31/18

NOMINAL YIELDS



Source: Morningstar, as of 8/31/18

BREAKEVEN INFLATION RATES



Source: Bloomberg, as of 8/31/18

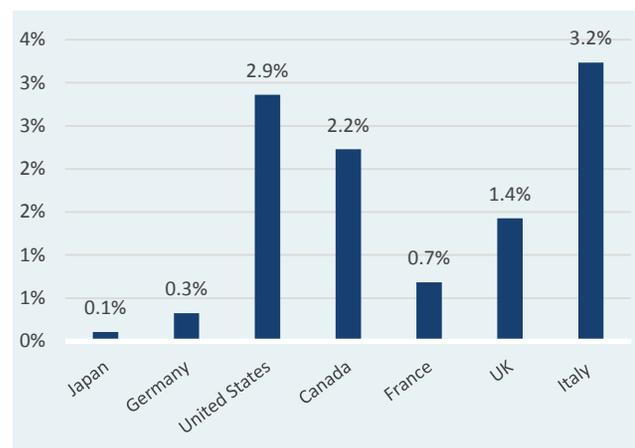
# Global markets

- Emerging market assets sold off in August, possibly affected by lingering trade concerns, currency weakness, and geopolitical tensions. The JPM GBI-EM Global Diversified Index fell 1.7% and the MSCI Emerging Markets Index fell 2.7%.
- The MSCI Emerging Markets Currency Index fell another 2.0% in August, bringing the year-to-date decline to 5.0%. Weakness in the South African rand, Chinese yuan, Russian ruble, and Indian rupee have detracted from performance.

- South Africa entered a technical recession, as real GDP contracted for the second consecutive quarter. Real GDP contracted at an annualized quarterly rate of 0.7% in Q2, following a contraction of 2.6% in the Q1. Year-to-date, the MSCI South Africa index is down 20.0%.
- U.S. equity price-to-earnings multiples continued to expand relative to emerging market equity multiples. The spread in trailing P/E ratios between the MSCI USA Index over the MSCI EM Index moved from 7.3 to 8.0 in August.

Weakness in emerging market assets continued

GLOBAL SOVEREIGN 10-YEAR YIELDS



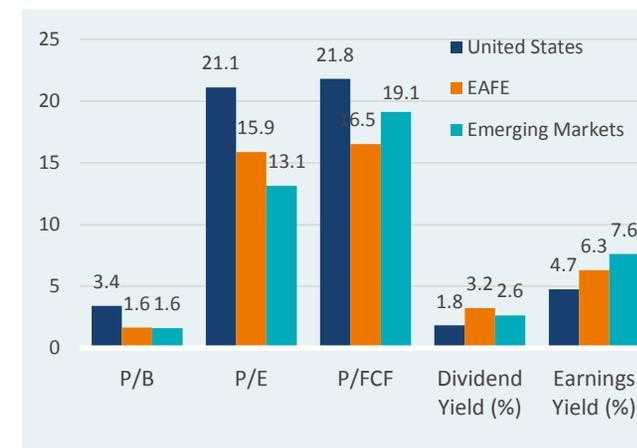
Source: Bloomberg, as of 8/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 8/31/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 8/31/18

# Commodities

- The Bloomberg Commodity Index fell another 1.8% in August, bringing the trailing three-month loss to 7.2%. All sub-sectors except for energy and petroleum declined over the month.
- The Bloomberg Grains Index declined 6.1% in August, which was influenced by the Russian agriculture ministry stating that there was no plan to restrict wheat exports, and soybean surpluses continued to build.

- Oil and petroleum rebounded in August (Bloomberg Petroleum 3.6%). Iranian crude exports declined at a pace exceeding expectations, which likely helped oil prices climb higher. The United States has expressed a willingness to impose sanctions on countries that continue to buy Iranian oil after November 4th.
- Towards the end of the month, concerns regarding the impact of Tropical Storm Gordon on domestic oil production helped send crude higher – WTI oil closed just below \$70 per barrel.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.8)	(3.9)	(3.9)	0.5	(1.9)	(8.0)	(7.6)
Bloomberg Agriculture	(6.0)	(3.4)	(9.0)	(10.9)	(6.2)	(10.0)	(6.0)
Bloomberg Energy	3.8	(0.8)	11.8	26.1	(4.7)	(14.4)	(17.5)
Bloomberg Grains	(6.1)	0.0	(3.3)	(6.8)	(8.5)	(11.7)	(7.7)
Bloomberg Industrial Metals	(4.3)	(8.8)	(13.7)	(8.0)	6.6	(1.5)	(4.3)
Bloomberg Livestock	(0.3)	(4.7)	(9.5)	(3.2)	(5.7)	(3.8)	(5.7)
Bloomberg Petroleum	3.6	(1.1)	17.0	44.2	1.2	(13.1)	(12.3)
Bloomberg Precious Metals	(3.1)	(5.7)	(10.4)	(11.6)	0.7	(5.2)	2.4
Bloomberg Softs	(5.3)	(10.7)	(21.3)	(20.0)	(4.3)	(9.8)	(5.1)

Source: Morningstar, as of 8/31/18

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 8/31/18

# Appendix

# Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	18.5	17.5	12.8
Large Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	16.4	14.4	11.6
Small Cap Equity	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	14.3	14.2	10.9
Large Cap Equity	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	10.1	13.0	10.5
Small Cap Value	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	9.9	11.7	9.3
Large Cap Value	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	3.7	11.2	8.9
Real Estate	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	3.5	9.8	6.2
Hedge Funds of Funds	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	2.1	6.4	5.4
60/40 Global Portfolio	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	1.5	5.7	3.7
Cash	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	1.2	5.0	3.7
US Bonds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.0	3.7	3.4
International Equity	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-2.3	2.5	2.0
Commodities	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-3.9	0.5	0.3
Emerging Markets Equity	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-7.2	-8.0	-7.6

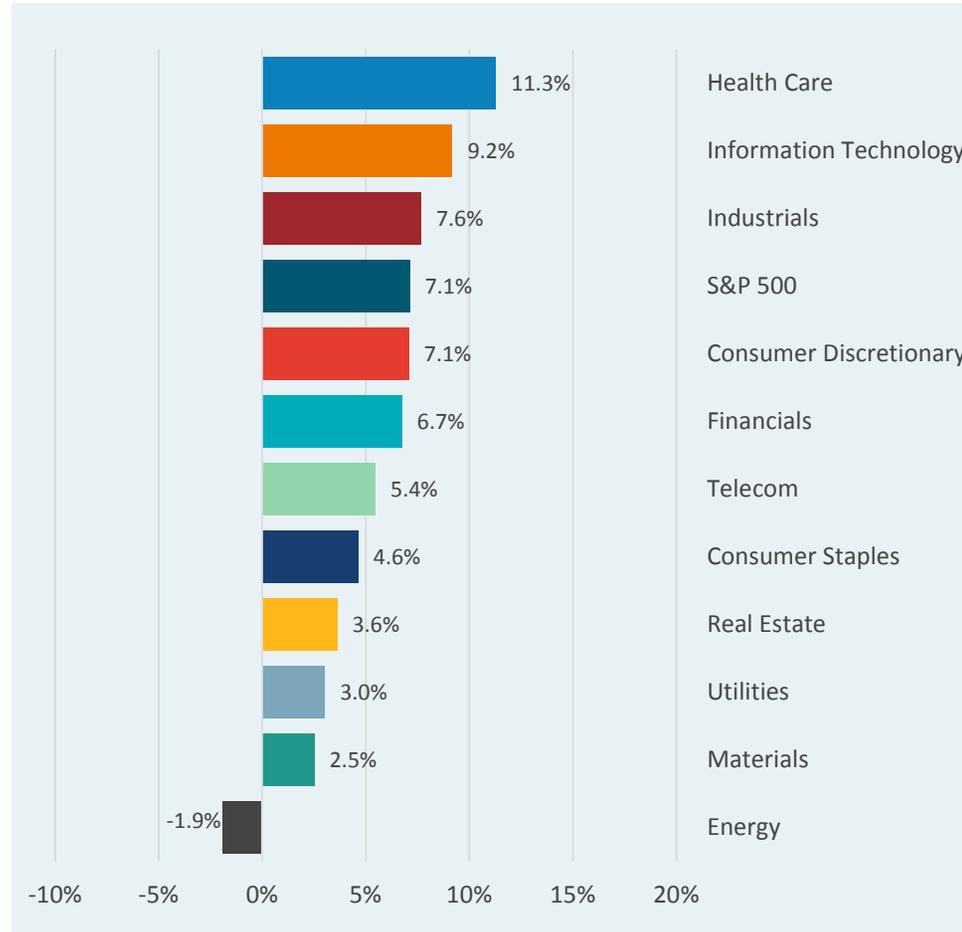
BEST  
↑  
↓  
WORST



Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 6/30/18.

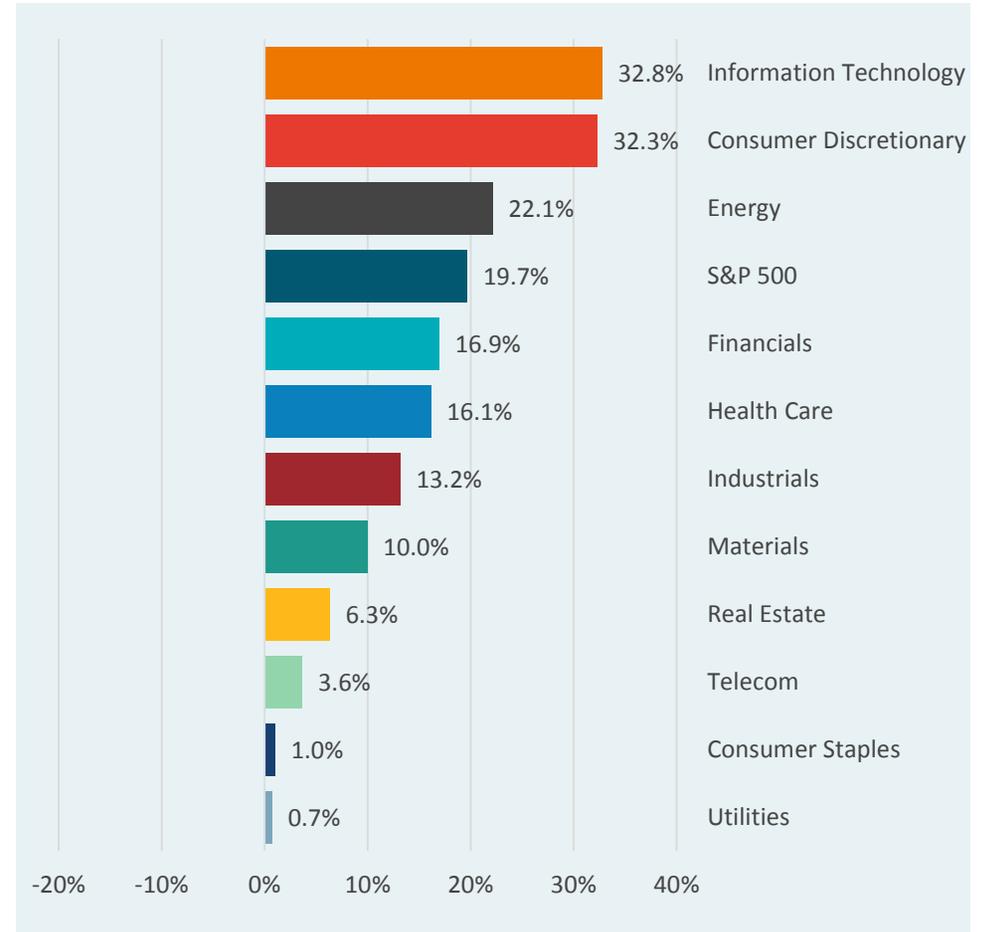
# S&P 500 sector returns

QTD



Source: Morningstar, as of 8/31/18

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/18

# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	3.3	7.1	9.9	19.7	16.1	14.5	10.9
S&P 500 Equal Weighted	2.0	5.3	7.1	17.1	14.1	13.3	11.9
DJ Industrial Average	2.6	7.5	6.7	21.0	19.2	14.6	11.3
Russell Top 200	3.6	7.5	10.8	20.6	16.9	15.0	10.9
Russell 1000	3.4	7.0	10.1	19.8	15.8	14.4	10.9
Russell 2000	4.3	6.1	14.3	25.4	16.1	13.0	10.5
Russell 3000	3.5	6.9	10.4	20.2	15.9	14.3	10.9
Russell Mid Cap	3.1	5.7	8.2	17.9	13.4	12.8	10.9
<b>Style Index</b>							
Russell 1000 Growth	5.5	8.6	16.4	27.2	19.3	17.5	12.8
Russell 1000 Value	1.5	5.5	3.7	12.5	12.3	11.2	8.9
Russell 2000 Growth	6.2	8.1	18.5	30.7	16.4	14.2	11.6
Russell 2000 Value	2.4	4.2	9.9	20.0	15.7	11.7	9.3

## INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
MSCI ACWI	0.8	3.8	3.4	11.4	11.8	9.7	6.7
MSCI ACWI ex US	(2.1)	0.2	(3.5)	3.2	8.1	5.4	3.4
MSCI EAFE	(1.9)	0.5	(2.3)	4.4	7.0	5.7	3.7
MSCI EM	(2.7)	(0.6)	(7.2)	(0.7)	11.4	5.0	3.4
MSCI EAFE Small Cap	(0.8)	(0.2)	(1.5)	7.5	11.4	10.0	7.7
<b>Style Index</b>							
MSCI EAFE Growth	(0.3)	1.8	0.8	8.1	8.9	7.1	4.5
MSCI EAFE Value	(3.6)	(0.9)	(5.4)	0.6	5.1	4.3	2.7
<b>Regional Index</b>							
MSCI UK	(4.2)	(3.4)	(4.4)	4.5	4.0	3.0	3.1
MSCI Japan	0.2	0.6	(1.4)	9.0	8.4	7.8	4.4
MSCI Euro	(3.8)	(0.3)	(3.5)	0.7	6.6	5.8	1.7
MSCI EM Asia	(0.8)	(0.1)	(5.2)	2.7	13.6	8.2	6.5
MSCI EM Latin American	(8.4)	0.1	(11.1)	(11.8)	9.0	(1.6)	(2.0)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	0.7	0.2	0.2	0.8	2.2	1.9	3.0
BBgBarc US Treasury Bills	0.2	0.3	1.1	1.4	0.8	0.5	0.4
BBgBarc US Agg Bond	0.6	0.7	(1.0)	(1.0)	1.8	2.5	3.7
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.3	0.3	0.4	(0.1)	0.5	0.6	1.2
BBgBarc US Treasury Long	1.6	0.1	(2.9)	(2.8)	2.3	5.1	5.8
BBgBarc US Treasury	0.8	0.3	(0.7)	(1.5)	0.8	1.7	2.8
<b>Issuer</b>							
BBgBarc US MBS	0.6	0.5	(0.5)	(0.5)	1.4	2.4	3.5
BBgBarc US Corp. High Yield	0.7	1.8	2.0	3.4	7.0	5.6	8.5
BBgBarc US Agency Interm	0.5	0.4	0.2	(0.3)	0.8	1.3	2.3
BBgBarc US Credit	0.5	1.2	(1.8)	(1.0)	3.3	3.6	5.3

## OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Index</b>							
Bloomberg Commodity	(1.8)	(3.9)	(3.9)	0.5	(1.9)	(8.0)	(7.6)
Wilshire US REIT	3.0	(3.4)	5.1	6.8	9.3	10.6	7.6
CS Leveraged Loans	0.4	(0.8)	3.6	5.3	5.0	4.3	5.2
Alerian MLP	1.6	8.3	7.6	7.3	(0.7)	(2.0)	7.3
<b>Regional Index</b>							
JPM EMBI Global Div	(1.7)	0.8	(4.5)	(3.4)	5.1	5.6	6.6
JPM GBI-EM Global Div	(6.1)	(4.3)	(10.5)	(10.0)	3.2	(1.3)	1.9
<b>Hedge Funds</b>							
HFRI Composite	0.7	1.2	2.0	5.3	5.1	4.6	4.0
HFRI FOF Composite	1.1	1.4	2.1	4.7	3.0	3.7	2.0
<b>Currency (Spot)</b>							
Euro	(0.6)	(0.3)	(3.1)	(2.1)	1.3	(2.5)	(2.3)
Pound	(0.9)	(0.1)	(3.9)	0.9	(5.5)	(3.4)	(3.3)
Yen	1.0	(0.1)	1.6	(0.7)	3.0	(2.4)	(0.2)

Source: Morningstar, HFR, as of 8/31/18

# Notices & disclosures

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## Board of Trustees

1000 Mill Street  
San Luis Obispo, CA 93408  
Phone: (805) 781-5465  
Fax: (805) 781-5697  
www.SLOPensionTrust.org



Date: September 24, 2018

To: Board of Trustees

From: Carl Nelson – Executive Secretary  
Amy Burke – Deputy Executive Secretary

### **Agenda Item 7: Asset Allocation September 2018**

This item on the agenda provides a properly noticed opportunity for the Board of Trustees to discuss and take action if necessary regarding asset allocation and related investment matters.

As planned, the Pension Trust will complete the 3Q18 at September 30<sup>th</sup> with the Treasury portfolio at its policy target of 3 months of benefit payments. September 30<sup>th</sup> will also see cash positions in the investment portfolios at minimal levels as planned. As a result, the quarterly rebalancing of asset mix will be planned in early October based on 9/30/18 asset values to: a) rebalance asset mix towards target; and, b) raise liquid funds for anticipated capital calls for the Private Equity and Private Credit commitments. This routine rebalancing will be reported to the Board of Trustees in October.

No Board action is necessary at this point.

Respectfully submitted

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