

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, October 23, 2017 9:30 AM

Board of Supervisors Chambers
County Government Center
San Luis Obispo, CA 93408

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 September 25, 2017 (Approve Without Correction).
3. Report of Deposits and Contributions for the month of September 2017 (Receive and File).
4. Report of Service Retirements, Disability Retirements and DROP Participants for the month of September (Receive, Approve and File).
5. Applications & Elections to participate in the Deferred Retirement Option Program (DROP) received through October 6, 2017 (Receive, Approve and File).
6. Resolution Modifying and Affirming Investment and Banking authority – Resolution 2017-05 (Recommend Approval).

APPLICATIONS FOR DISABILITY RETIREMENT

None

OLD BUSINESS

None

NEW BUSINESS

7. Resolution 2017-06 Honoring Debbie Villalon for her service to the Pension Trust

INVESTMENTS

8. Monthly Investment Report for September 2017 (Receive and File).
9. Asset Allocation - (Review, Discuss, and Direct Staff as necessary).

OPERATIONS

10. Staff Reports

11. General Counsel Reports

12. Committee Reports:

- | | |
|------------------------------|-----------|
| a. Audit Committee | No Report |
| b. Personnel Committee | Report |
| c. PAS Replacement Committee | Report |

13. Upcoming Board Topics (subject to change):

- a. November 27, 2017
 - i. Disability Hearing Report
 - ii. PEPPRA Compensation Limit – 2018
 - iii. Interest Crediting Rate – Normal Contributions – 2018
 - iv. Interest Crediting Rate – Additional Contributions - 2018
 - v. Quarterly Investment Report – 3Q17
 - vi. Investment Educational Presentation – TBD
- b. December 18, 2017
 - i. Actuarial Assumptions Peer Comparisons

- c. January 22, 2018
 - i. Election of Officers
 - ii. Committee Appointments
 - iii. Actuarial Audit report and presentation
 - iv. Annual Cashflow Analysis
- d. February 26, 2018
 - i. Disability case 2017-03 Hearing Referee recommendation
 - ii. 2018 Retiree COLA
 - iii. 2018 Actuarial Valuation and Experience Study Planning – Gabriel Roeder Smith
 - iv. Quarterly Investment Report
 - v. Capital Market Expectations & Asset Allocation Policy – Verus
 - vi. Investment Policy Peer Comparisons

14. Trustee Comments

REFERRED ITEMS

None

ADDED ITEMS

None

CLOSED SESSION

None

ADJOURNMENT

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Board of Trustees

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SEPTEMBER 25, 2017 MINUTES OF THE REGULAR MEETING OF THE PENSION TRUST BOARD OF TRUSTEES

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

STAFF: Carl Nelson
Andrea Paley
Amy Burke

COUNSEL: Chris Waddell, Esq.

OTHERS: Larry Batcheldor, SLOCREA
Scott Whalen, Verus
Vance Creekpaum, Verus
Paul Wood, Gabriel Roeder Smith

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

AGENDA ITEM NO. 1: PUBLIC COMMENT.

None.

ORGANIZATIONAL:

None.

CONSENT:

AGENDA ITEM NO. 2 - 5: CONSENT.

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

- ITEM 2:** The Minutes of the Regular Meeting of August 28, 2017 were approved without correction.
- ITEM 3:** The Report of Deposits and Contributions for the Month of August 2017, was received and filed.
- ITEM 4:** The Report of Service Retirements, Disability and DROP Retirements for the month of August 2017, was received, approved and filed.
- ITEM 5:** The Report of Applications for participation in the Deferred Retirement Option Program received through September 8, 2017 was received, approved and filed.

APPLICATIONS FOR DISABILITY RETIREMENT:

None.

OLD BUSINESS:

None.

NEW BUSINESS:

AGENDA ITEM NO. 6: ASSET / LIABILITY STUDY FUNDING AND INVESTMENT IMPLICATIONS.

Scott Whalen and Lance Creekpaum of Verus presented an analysis of the Pension Trust's long term liabilities and assets the effects of varying investment policies on funded status and contribution rates.

Mr. Whalen and Mr. Creekpaum responded to questions and discussion from staff and the board. No investment recommendations or action were taken on this item.

** 9:55 AM - Ms. Burke departed the meeting, returning at 11:18 AM

** 9:56 AM - Mr. Savage departed the meeting; returning at 10:08 AM

** 10:28 AM – Mr. Savage again departing to return at 10:36 AM

** 10:55 AM – Mr. Savage again departing to return at 11:15 AM

** 11:05 AM – Pres..Janssen called a short recess resuming meeting 11:15 AM

AGENDA ITEM NO. 7: ACTUARIAL PROJECTIONS.

Mr. Paul Wood, Actuary from Gabriel, Roeder, Smith, presented updated long term actuarial projections related to the funding of the retirement system stimulating interactive dialog between staff, the Board, the Investment Consultant and the Actuaries. No recommendations or actions were taken on this item.

** 11:40 – during this item President Janssen called for a short lunch recess

** 11:55 – discussion on item no. 7 resumed at this time

INVESTMENTS:

AGENDA ITEM NO. 8: INVESTMENT POLICY STATEMENT AMENDMENT.

Upon the motion of Mr. Sibbach, seconded by Mr. Hamm, and unanimously passed, staff recommendation to amend the Investment Policy Statement; section III INVESTMENT PHILOSOPHY adding the following language:

“ No. 3 Drawdown Risk – The Pension Trust is a retirement system in a negative cashflow status (benefits paid exceed contributions received annually). As a result, the Pension Trust 's funded level and required contributions are increasingly sensitive to periods when investment returns are negative even with

the expectation that investment markets will recover after such events. As part of its consideration of risk tolerance and asset allocation the Pension Trust will attempt to manage short-term drawdown risk when developing its long-term asset allocation policy and when shifting or rebalancing the portfolio.”

AGENDA ITEM NO. 9: INVESTMENT REPORT FOR AUGUST, 2017.

Upon the motion of Mr. Hamm, seconded by Mr. Janssen, and unanimously passed, the Investment Report for the period ending August 31, 2017 was received and filed.

AGENDA ITEM NO. 10: ASSET ALLOCATION.

Staff reported that no action regarding investment asset allocations were necessary at this time.

OPERATIONS:

** 12:49 PM – For the next item, Mr. Nelson and Ms. Burke departed the meeting returning at 12:51 PM

AGENDA ITEM NO. 11: EXECUTIVE COMPENSATION.

General Counsel reported on the Personnel Committee meeting held on September 15, 2017 recommending approval of a 3% increase to the Executive Secretary compensation retroactive to July 1, 2017. This action will have the effect of increasing the Deputy Executive Secretary’s compensation which is benchmarked to 80% of the Executive Secretary compensation.

The Personnel Committee’s recommendation was unanimously approved by a motion from Mr. Hamm, seconded by Mr. Janssen.

AGENDA ITEM NO. 12: STAFF ORAL REPORTS.

- A)** Staff reminded the Board that the first Disability Hearing in the new format using an independent referee will be held on October 10, 2017.
- B)** Staff reported the status of the draft plan amendment for appendix E on the disability hearing process which is being circulate by the County to

collective bargaining groups to offer the opportunity for a meet and confer process.

- C)** Staff provided an update on the process for the County to transition to the new medical insurance provider. Staff reported confusion and concerns from retirees.

AGENDA ITEM NO. 13: GENERAL COUNSEL ORAL REPORTS.

None at this time.

AGENDA ITEM NO. 14: COMMITTEE REPORTS – AS NEEDED.

- A)** AUDIT COMMITTEE: Nothing to report.
- B)** PERSONNEL COMMITTEE: See item 11 above.
- C)** PENSION ADMINISTRATION SYSTEM ADMINISTRATION (PASR) COMMITTEE: Mr. Erb reported that the PASRP appears to be on schedule, nothing further to report.

AGENDA ITEM NO. 15: 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. 16: TRUSTEE COMMENTS.

None.

REFERRED ITEMS: None.

ADDED ITEMS: None.

CLOSED SESSION:

**** Entered into Closed Session at 1:03 PM**

**** Returned to Open Session at 1:20 PM**

AGENDA ITEM NO. 17: PUBLIC EMPLOYEE EVALUATION.

Mr. Janssen returned the meeting to open session reporting no action was taken.

ADJOURNMENT.

There being no further business, the meeting was adjourned at 1:18 PM. The next Regular Meeting was set for October 23, 2017, at 9:30 AM, in the Board of Supervisors Chambers, New County Government Center, San Luis Obispo, California 93408.

Respectfully submitted,

**Carl Nelson
Executive Secretary**

**REPORT OF DEPOSITS AND CONTRIBUTIONS FOR THE MONTH OF
SEPTEMBER 2017**

| PP 18 9/1/2017 | Pensionable | Employer | Employer | Employee | Employee | Combined | Additional | Buy | TOTAL |
|------------------------------|-----------------------|----------------------|---------------|----------------------|---------------|---------------|------------------|-------------------|------------------------|
| By Employer and Tier: | Salary | Contributions | Rate | Contributions | Rate | Rate | Contributions | Backs | Contributions |
| County Tier 1 | 4,124,068.96 | 911,678.01 | 22.11% | 772,514.51 | 18.73% | 40.84% | 1,687.50 | 706.22 | 1,686,586.24 |
| County Tier 2 | 929,880.41 | 210,263.56 | 22.61% | 109,325.90 | 11.76% | 34.37% | 1,980.13 | 760.78 | 322,330.37 |
| County Tier 3 | 1,510,421.24 | 324,651.58 | 21.49% | 151,521.91 | 10.01% | 31.50% | - | 723.96 | 476,897.45 |
| Superior Court Tier 1 | 296,546.98 | 71,299.38 | 24.04% | 45,413.32 | 15.31% | 39.36% | - | - | 116,712.70 |
| Superior Court Tier 3 | 45,071.04 | 10,152.22 | 22.52% | 4,534.57 | 10.06% | 32.59% | - | 114.54 | 14,801.33 |
| APCD Tier 1 | 76,129.37 | 16,016.57 | 21.04% | 14,003.21 | 18.39% | 39.43% | - | - | 30,019.78 |
| APCD Tier 3 | 6,692.00 | 1,398.95 | 20.90% | 767.62 | 11.47% | 32.38% | - | - | 2,166.57 |
| Pension Trust Staff Tier 1 | 6,959.59 | 1,526.93 | 21.94% | 1,421.85 | 20.43% | 42.37% | - | - | 2,948.78 |
| Pension Trust Staff Tier 2 | 7,791.20 | 1,709.38 | 21.94% | 849.25 | 10.90% | 32.84% | - | - | 2,558.63 |
| Pension Trust Staff Tier 3 | 8,453.82 | 1,813.34 | 21.45% | 996.55 | 11.79% | 33.24% | - | - | 2,809.89 |
| LAFCO Tier 1 | 12,494.29 | 3,248.51 | 26.00% | 1,996.22 | 15.98% | 41.98% | - | - | 5,244.73 |
| | 7,024,508.90 | 1,553,758.43 | 22.12% | 1,103,344.91 | 15.71% | 37.83% | 3,667.63 | 2,305.50 | \$ 2,663,076.47 |
| PP 19 9/15/2017 | Pensionable | Employer | Employer | Employee | Employee | Combined | Additional | Buy | TOTAL |
| By Employer and Tier: | Salary | Contributions | Rate | Contributions | Rate | Rate | Contributions | Backs | Contributions |
| County Tier 1 | 4,121,900.13 | 911,257.44 | 22.11% | 772,955.49 | 18.75% | 40.86% | 1,687.50 | 706.22 | 1,686,606.65 |
| County Tier 2 | 926,205.03 | 209,486.33 | 22.62% | 112,591.30 | 12.16% | 34.77% | 327.72 | 760.78 | 323,166.13 |
| County Tier 3 | 1,989,826.74 | 418,305.65 | 21.02% | 209,329.21 | 10.50% | 31.52% | - | 723.96 | 628,358.82 |
| Superior Court Tier 1 | 300,358.10 | 72,195.06 | 24.04% | 45,750.07 | 15.23% | 39.27% | - | - | 117,945.13 |
| Superior Court Tier 3 | 45,041.45 | 10,145.86 | 22.53% | 4,514.28 | 10.02% | 32.55% | - | 114.54 | 14,774.68 |
| APCD Tier 1 | 76,129.35 | 16,016.57 | 21.04% | 14,003.20 | 18.39% | 39.43% | - | - | 30,019.77 |
| APCD Tier 3 | 6,692.00 | 1,398.95 | 20.90% | 767.62 | 11.47% | 32.38% | - | - | 2,166.57 |
| Pension Trust Staff Tier 1 | 6,959.59 | 1,526.93 | 21.94% | 1,421.85 | 20.43% | 42.37% | - | - | 2,948.78 |
| Pension Trust Staff Tier 2 | 7,791.20 | 1,709.38 | 21.94% | 849.25 | 10.90% | 32.84% | - | - | 2,558.63 |
| Pension Trust Staff Tier 3 | 8,543.32 | 1,832.54 | 21.45% | 1,007.77 | 11.80% | 33.25% | - | - | 2,840.31 |
| LAFCO Tier 1 | 12,494.29 | 3,248.51 | 26.00% | 1,996.22 | 15.98% | 41.98% | - | - | 5,244.73 |
| | 7,501,941.20 | 1,647,123.22 | 21.96% | 1,165,186.26 | 15.53% | 37.49% | 2,015.22 | 2,305.50 | \$ 2,816,630.20 |
| PP 20 9/29/2017 | Pensionable | Employer | Employer | Employee | Employee | Combined | Additional | Buy | TOTAL |
| By Employer and Tier: | Salary | Contributions | Rate | Contributions | Rate | Rate | Contributions | Backs | Contributions |
| County Tier 1 | 4,089,590.41 | 903,743.94 | 22.10% | 766,458.23 | 18.74% | 40.84% | 1,687.50 | 706.22 | 1,672,595.89 |
| County Tier 2 | 932,583.73 | 210,682.13 | 22.59% | 112,591.79 | 12.07% | 34.66% | 319.95 | 760.78 | 324,354.65 |
| County Tier 3 | 2,035,069.70 | 428,802.59 | 21.07% | 214,492.46 | 10.52% | 31.59% | - | 1,676.26 | 644,971.31 |
| Superior Court Tier 1 | 296,988.42 | 71,529.22 | 24.08% | 45,417.60 | 15.29% | 39.38% | - | - | 116,946.82 |
| Superior Court Tier 3 | 51,329.52 | 10,990.00 | 21.41% | 5,134.45 | 10.00% | 31.41% | - | 114.54 | 16,238.99 |
| APCD Tier 1 | 76,129.34 | 16,016.57 | 21.04% | 14,003.20 | 18.39% | 39.43% | - | - | 30,019.77 |
| APCD Tier 3 | 6,692.00 | 1,398.95 | 20.90% | 767.62 | 11.47% | 32.38% | - | - | 2,166.57 |
| Pension Trust Staff Tier 1 | 6,959.59 | 1,526.93 | 21.94% | 1,421.85 | 20.43% | 42.37% | - | - | 2,948.78 |
| Pension Trust Staff Tier 2 | 7,791.20 | 1,709.38 | 21.94% | 849.25 | 10.90% | 32.84% | - | - | 2,558.63 |
| Pension Trust Staff Tier 3 | 8,543.33 | 1,832.54 | 21.45% | 1,007.77 | 11.80% | 33.25% | - | - | 2,840.31 |
| LAFCO Tier 1 | 12,494.29 | 3,248.51 | 26.00% | 1,996.22 | 15.98% | 41.98% | - | - | 5,244.73 |
| | 7,524,171.53 | 1,651,480.76 | 21.95% | 1,164,140.44 | 15.47% | 37.42% | 2,007.45 | 3,257.80 | \$ 2,820,886.45 |
| TOTAL FOR THE MONTH | 22,050,621.63 | 4,852,362.41 | 22.01% | 3,432,671.61 | 15.57% | 37.57% | 7,690.30 | 7,868.80 | \$ 8,300,593.12 |
| TOTAL YEAR TO DATE | 147,327,889.96 | 32,113,752.38 | 21.80% | 22,850,698.81 | 15.51% | 37.31% | 49,687.79 | 289,622.86 | 55,303,761.84 |

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

SEPTEMBER 2017

| RETIREE NAME | DEPARTMENT | DATE | MONTHLY ALLOWANCE |
|-------------------------|--------------------------------------|------------|---------------------|
| AHERN, MARY BETH | AG COMMISSIONER | 09-02-2017 | 1420.26 |
| BENCH, JAMES TED (DROP) | PLANNING | 09-01-2017 | 5760.27 96.26* |
| CARDONA, CRYSTAL | PLANNING | 09-03-2017 | 2029.78 882.98** |
| DISHEN, JANET (DROP) | SHERIFF-CORONER | 09-01-2017 | 4620.45 103.01* |
| FULEKI, OLGA | SOCIAL SERVICES | 09-30-2017 | Awaiting calcs |
| GARRETT, MARY | BEHAVIORAL HEALTH | 09-22-2017 | Awaiting calcs |
| HARKER, BRENDA | PUBLIC HEALTH | 09-16-2017 | 2435.01 |
| KURTZMAN, KIMBERLY | PROBATION | 09-09-2017 | Awaiting calcs |
| LOPEZ, ROBERT | AG COMMISSIONER | 09-09-2017 | 4092.54 |
| MAHRT, GEORGE ROBERT | PUBLIC WORKS | 09-16-2017 | 3670.63 |
| MATICH, DANIEL | PROBATION | 09-16-2017 | 4076.62 |
| SCOTTO, DOUGLAS (DROP) | SHERIFF-CORONER | 09-01-2017 | 6045.61 |
| STEWART, KATHLEEN | AUDITOR CONTROLLER/TREAS TAX COLLECT | 09-09-2017 | 1819.33 |
| TROUT, CLAIRE | SUPERIOR COURT | 09-09-2017 | 4899.89 |
| ADDENDUM: | | | |
| TRYON, ROSE | SOCIAL SERVICES / RECIPROCAL | 04-01-2017 | Awaiting calcs |
| ENGLISH, KATHRYN | AUDITOR-CONTROLLER / RECIPROCAL | 07-15-2017 | Awaiting calcs |
| FAHEY, SANDRA | MENTAL HEALTH / RECIPROCAL | 07-29-2017 | Awaiting calcs |
| CAMERON, SUSAN | LAW ENFORCEMENT MEDICAL CARE | 08-01-2017 | Option selection |
| HACKER, JOHN (DROP) | SHERIFF-CORONER | 08-01-2017 | Awaiting calcs |
| HURLA, BERTA | GENERAL HOSPITAL / RESERVE | 08-06-2017 | Option selection |
| McCRUDDEN, LYNN | PUBLIC HEALTH | 08-26-2017 | 6328.95 61.30* |
| PHILLIPS, KIMBERLY ROSE | SHERIFF-CORONER / ALT PAYEE | 08-05-2017 | 1246.77 5.98* |

* 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: October 23, 2017
To: Board of Trustees
From: Carl Nelson – Executive Secretary

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

Recommendation:

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, 2017 | Rita Jordison, Mental Health |
| NOVEMBER 1, 2017 | Lori Hustad, Social Services |
| NOVEMBER 1, 2017 | Kathleen Zucker, Social Services |
| NOVEMBER 1, 2017 | Mark S. Wagner, Parks & Recreation |
| NOVEMBER 1, 2017 | Rusty A. Hall, Agricultural Commission |
| JANUARY 1, 2018 | Ricky Monroe, Facilities Maintenance |

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Board of Trustees

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Date: October 23, 2017

To: Board of Trustees

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

Agenda Item 6: Investment and Banking Authority

Recommendation:

Staff recommends that the Board approve and adopt the attached Resolution 2017-05 and accompanying Incumbency Certificate designating authorized signers for various investment and banking relationships.

Discussion:

Due to the departure of Debra Villalon, it is necessary that SLOCPT update the designated authorized signers for various investment and banking relationships. These designations are necessary to the everyday operations of the SLOCPT. The Board last approved and adopted such documents at the regular meeting of July 24, 2017.

Resolution 2017-05 and its referenced Incumbency Certificate are attached. The approval of a resolution of this type is anticipated to be a routine item before the Board of Trustees biannually or whenever authorized signers are changed.

**SAN LUIS OBISPO COUNTY
PENSION TRUST**

PRESENT: Matt Jansen, Will Clemens, Guy Savage, Gere Sibbach,
James Erb, Jeff Hamm, James Hamilton

RESOLUTION NO. 2017-05

A Resolution Affirming Investment and Banking Authority

Whereas, the San Luis Obispo County Pension Trust conducts investment and banking activities as part of its normal course of business and finds it necessary to affirm and/or appoint which of its officers and employees are authorized signers for such activities.

NOW, THEREFORE, BE IT RESOLVED AND ORDERED AS FOLLOWS:

The attached San Luis Obispo County Pension Trust Investment and Banking Authority Incumbency Certificate dated October 23, 2017, is hereby approved.

Adopted: October 23, 2017

Approved as to Form and Legal Effect

Chris Waddell
General Counsel

SIGNED: _____
Matt Janssen
President, Board of Trustees
San Luis Obispo County Pension Trust

ATTEST: _____
Carl Nelson, Executive Secretary

Board of Trustees

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Investment and Banking Authority Incumbency Certificate

Effective Date: October 23, 2017
Date of Certification: October 23, 2017

The undersigned, being an officer of the Board of Trustees of the San Luis Obispo County Pension Trust ("SLOCPT"), organized under the laws of the State of California does hereby certify on behalf of the SLOCPT that the persons named below are officers or other designated staff members of the SLOCPT and that the title and signature at the right of said name, respectively, are the true title and genuine signature of said person and that the persons listed below are each an authorized signatory for the SLOCPT for **any and all investment and banking related matters**.

| <u>Name</u> | <u>Title</u> | <u>Signature</u> |
|----------------|-------------------------------|------------------|
| Carl A. Nelson | Executive Secretary | _____ |
| Amy Burke | Deputy Executive Secretary | _____ |
| Lisa Winter | Retirement Program Specialist | _____ |
| Anna Bastidos | Retirement Program Specialist | _____ |

Furthermore, the undersigned does certify that the SLOCPT's Board of Trustees as of the date noted above are:

Matt Janssen, President
Will Clemens, Vice President
Guy Savage
James Hamilton

James Erb
Jeff Hamm
Gere Sibbach

Signed: _____
Matt Janssen, President
San Luis Obispo County Pension Trust
Board of Trustees

Date: _____

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**SAN LUIS OBISPO COUNTY
PENSION TRUST**

RESOLUTION NO. 2017-06

**A Resolution Honoring
Debra P. Villalon
on Her Retirement from the Pension Trust**

Whereas, Debbie Villalon completed 16 years of dedicated service to the County of San Luis Obispo from 1978 to 1994 followed by 24 years of equally dedicated service to the Pension Trust from 1994 to 2017; and

Whereas, Debbie Villalon is now initiating a well-deserved retirement after nearly 40 years of combined service; and

Whereas, throughout her career, Debbie Villalon has applied her prodigious work ethic and principled attention to accomplishing nearly all aspects of the Pension Trust's mission from paying benefits through administering complex software changes, as well as all manner of administrative duties that have kept the Pension Trust functioning successfully; and

Whereas, Debbie Villalon has throughout her service to the Pension Trust gone above and beyond to perform her many duties with unfailing commitment, discretion, prudence and compassion for the Members and Participants of the Pension Trust; and

Whereas, Debbie Villalon has demonstrated those attributes that constitute the qualities fostered by the Pension Trust – honesty, integrity, reliability and dedication to her customers.

Now, Therefore Be It Resolved and Ordered as follows:

That this Board of Trustees hereby does recognize, commend, congratulate and honor Debbie Villalon on her retirement after 24 years of loyal service to the Pension Trust.

Adopted: October 23, 2017

SIGNED: _____
Matt Janssen
President, Board of Trustees
San Luis Obispo County Pension Trust

ATTEST: _____
Carl Nelson
Executive Secretary

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Board of Trustees

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Date: October 23, 2017

To: Board of Trustees

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

Agenda 8: Investment Report for September 2017

| | September | Year to Date 2017 | 2016 | 2015 | 2014 | 2013 |
|-----------------------------------|---------------|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Total Trust Investments (\$ 000s) | \$1,329,333 | | \$1,196,775 year end | \$1,148,315 year end | \$1,190,316 year end | \$1,131,022 year end |
| Total Fund Return | 1.1% Gross | 12.0% Gross | 6.6 % Gross | -0.8 % Gross | 5.1 % Gross | 13.8% Gross |
| Policy Index Return (r) | 0.9% | 9.4% | 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:

Some of the significant factors in the global economy for September and into mid-October have been –

Tailwinds to the Economy and Capital Markets –

- Global Economic Growth – Since early 2016 the unusual circumstance of coordinated global growth has been in place with all major economies posting positive growth – albeit at varying rates.

- Fed Policy – The Fed is committed to rate-normalization with increasing interest rates and the unwinding of the large Fed balance sheet from Quantitative Easing. The likelihood of an additional interest rate hike in 2017 remains high and the Fed has indicated its intent for three rate increases in 2018. The markets' view of Fed action is positive based mostly on the measured pace of Fed policy, clear signaling and a stable and predictable path forward.
- Equity Market Momentum – Risk based assets continue to benefit from strong momentum in returns and increasing valuations.
- Domestic GDP Growth – US domestic growth remains on a positive, moderate growth path with no near term indication of recessionary pressures. The Atlanta Fed forecast of real GDP growth was adjusted down from 3.2% to 2.7% - but still positive.
- Consumer Confidence – Surveys of consumer confidence remain high supported in part by low unemployment rates. Fed surveys of household net worth show seven consecutive quarters of increase.
- US Dollar declines – With the value of the US dollar declining – down 8.7% year to date in 2017 – a positive impact on US exports, manufacturing and energy.
- Corporate Profitability – Forecasts for corporate revenue and profits remain positive with an estimated S&P 500 earnings growth over the last year of 4.9%.

Headwinds to the Economy and Capital Markets –

- Equity Market Valuations – The long-running bull market in domestic equities has propelled stock valuation to historically high levels. With the Shiller Price/Earnings Ratio for the S&P 500 at 31.2x, it is well above its 10 year average of 23.2. Since long term equity returns correlate with profitability, the current high valuation of equities implies suppressed future returns. A high starting point is not likely to continue high without increased corporate earnings to support valuations. As the attached Verus report notes, if the average P/E ratio were to move to its historical average over the last 30 years, it would imply a -15% rate of return. A return to the long-term average P/E ratio since 1926 would imply a -37% rate of return.
- Interest Rates – Interest rates remain near 30 year lows as the result of unprecedented accommodative monetary policy since the Global Financial Crisis. With inflationary expectations modest the future returns from fixed income investments remains deeply suppressed compared to historical norms. Also, the unwinding of the Fed balance sheet through bond maturities without new purchases can be expected to put upward pressure on interest rates. Since the monetary experiment of Quantitative Easing was without precedent, history does not offer much guidance as the Fed liquidates massive amounts of assets.
- Fed Policy – While stable and predictable Fed policy on rate normalization is seen as a positive, any deviation from that expectation can be expected to induce substantial risk.

Scenarios where such a shift could occur include an unanticipated uptick in inflation and the Fed tightening monetary policy faster than the markets expect.

Confused Winds to the Economy and Capital Markets –

- **Wage Growth** – The last year has seen wage growth at lower than expected rates given the historically low unemployment rate. Increased productivity from technology may contribute to this lower than expected wage growth rate. However, median household income (which included changes in employment rates) has shown gains in 2015 and 2016 (+3.2%) to push median household income to its highest real level since 1999 at \$59,039. While this is a positive, the confused concern is for an uptick in wage growth that is good for workers, but a negative for inflationary expectations and Fed policy.
- **Optimism Over Tax Reform** – For the moment, the capital market's optimism over tax reform – particularly US domestic corporate tax reform – contributes to rising valuations. However, the actual results of tax reform are uncertain and secondary concerns over increasing Federal deficits and their impact on inflation and interest rates cloud the horizon.

Investment Markets:

The attached report from Verus covers the investment returns of the SLOCPT portfolio and general market conditions through the end of September. The robust capital market returns year to date have been aided by generally above-benchmark returns from SLOCPT's investment managers.

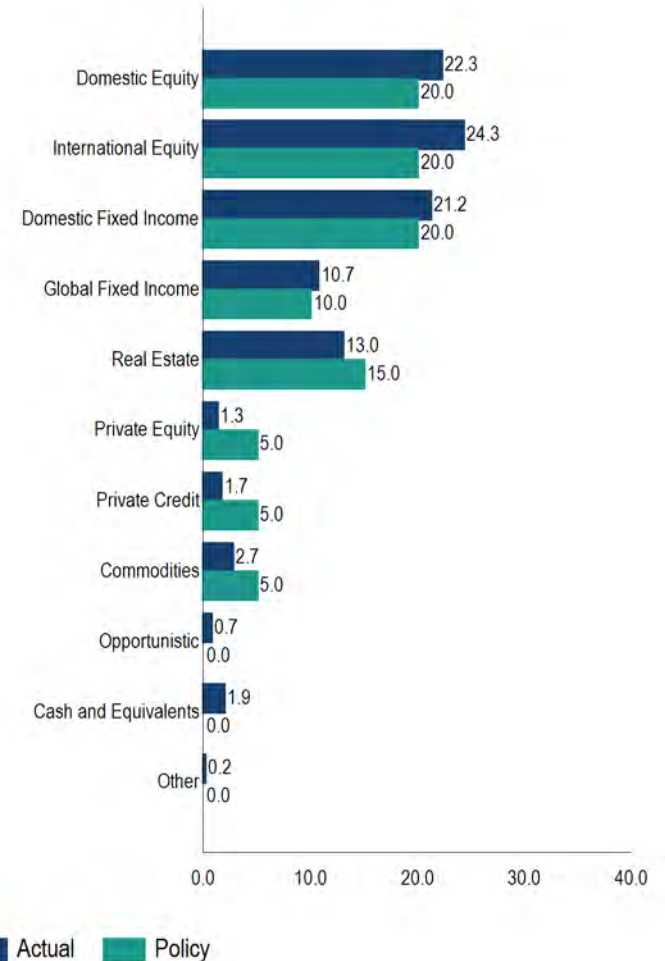
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: September 30, 2017

| | Market Value | % of Portfolio | 1 Mo | QTD | YTD |
|------------------------------------|----------------------|----------------|------------|------------|-------------|
| Total Fund | 1,329,333,412 | 100.0 | 1.1 | 3.5 | 12.0 |
| Total Fund ex Clifton | 1,327,335,978 | 99.8 | 1.1 | 3.6 | 11.8 |
| Policy Index | | | 0.9 | 2.9 | 9.4 |
| Total Domestic Equity | 295,825,593 | 22.3 | 2.5 | 5.0 | 16.5 |
| Russell 3000 | | | 2.4 | 4.6 | 13.9 |
| SSGA S&P 500 Flag. | 11,705,968 | 0.9 | 2.1 | 4.5 | 14.3 |
| S&P 500 | | | 2.1 | 4.5 | 14.2 |
| PIMCO RAE Fundamental PLUS Instl | 55,400,081 | 4.2 | 3.3 | 4.5 | 9.0 |
| S&P 500 | | | 2.1 | 4.5 | 14.2 |
| Loomis Sayles Large Cap Growth | 91,001,101 | 6.8 | 1.1 | 6.4 | 25.9 |
| Russell 1000 Growth | | | 1.3 | 5.9 | 20.7 |
| Boston Partners Large Cap Value | 80,756,611 | 6.1 | 3.1 | 4.8 | -- |
| Russell 1000 Value | | | 3.0 | 3.1 | -- |
| Atlanta Capital Mgmt | 56,961,832 | 4.3 | 3.3 | 3.9 | 15.6 |
| Russell 2500 | | | 4.5 | 4.7 | 11.0 |
| Total International Equity | 322,703,258 | 24.3 | 2.2 | 5.9 | 22.5 |
| MSCI ACWI ex USA Gross | | | 1.9 | 6.3 | 21.6 |
| Dodge & Cox Intl Stock | 169,909,075 | 12.8 | 3.5 | 7.1 | 23.1 |
| MSCI EAFE Gross | | | 2.5 | 5.5 | 20.5 |
| WCM International Growth | 152,794,183 | 11.5 | 0.9 | 4.6 | -- |
| MSCI ACWI ex USA Gross | | | 1.9 | 6.3 | -- |
| Total Domestic Fixed Income | 281,974,922 | 21.2 | 0.0 | 1.2 | 3.5 |
| BBgBarc US Aggregate TR | | | -0.5 | 0.8 | 3.1 |
| BlackRock Core Bond | 95,233,462 | 7.2 | -0.3 | 1.1 | -- |
| BBgBarc US Aggregate TR | | | -0.5 | 0.8 | -- |
| Dodge & Cox Income Fund | 99,817,619 | 7.5 | 0.1 | 1.2 | -- |
| BBgBarc US Aggregate TR | | | -0.5 | 0.8 | -- |
| Pacific Asset Corporate Loan | 67,866,605 | 5.1 | 0.4 | 1.3 | 3.4 |
| S&P/LSTA Leveraged Loan Index | | | 0.4 | 1.0 | 3.0 |
| SSGA TIPS | 19,057,234 | 1.4 | -0.6 | 0.9 | 1.7 |
| BBgBarc US TIPS TR | | | -0.6 | 0.9 | 1.7 |

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. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 6/30/2017 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. All data is preliminary.

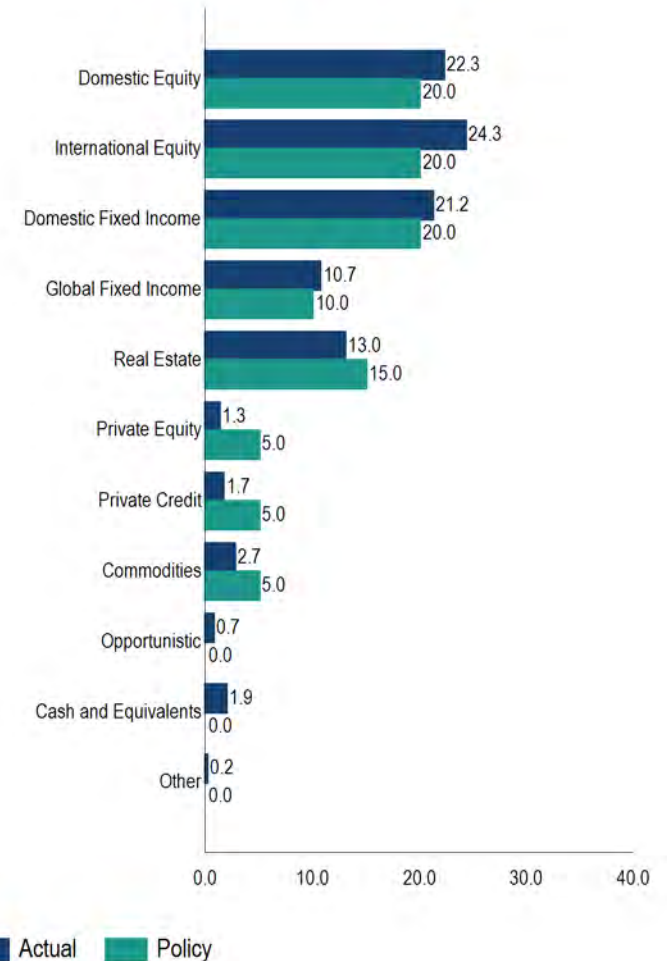
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: September 30, 2017

| | Market Value | % of Portfolio | 1 Mo | QTD | YTD |
|--|--------------------|----------------|-------------|------------|-------------|
| Total Global Fixed | 142,423,018 | 10.7 | -0.5 | 3.5 | 14.3 |
| <i>Citi World Govt Bond Index</i> | | | -1.2 | 1.8 | 6.4 |
| Brandywine Global Fixed Income | 71,883,585 | 5.4 | -0.6 | 3.1 | 12.8 |
| <i>Citi WGBI Non-USD</i> | | | -1.4 | 2.6 | 8.6 |
| Stone Harbor Local Markets Ins | 70,539,432 | 5.3 | -0.5 | 3.9 | 15.8 |
| <i>JPM GBI-EM Global Diversified TR USD</i> | | | -0.3 | 3.6 | 14.3 |
| Total Real Estate | 173,172,944 | 13.0 | 0.5 | 1.6 | 5.8 |
| <i>NCREIF Property Index</i> | | | | | |
| JP Morgan Core Real Estate | 148,431,989 | 11.2 | 0.6 | 1.5 | 4.5 |
| <i>NCREIF-ODCE</i> | | | | | |
| <i>NCREIF Property Index</i> | | | | | |
| ARA American Strategic Value Realty | 11,414,694 | 0.9 | 0.0 | 2.4 | 5.2 |
| <i>NCREIF-ODCE</i> | | | | | |
| <i>NCREIF Property Index</i> | | | | | |
| Direct Real Estate | 13,103,242 | 1.0 | 0.0 | 1.7 | 14.4 |
| <i>NCREIF-ODCE</i> | | | | | |
| <i>NCREIF Property Index</i> | | | | | |
| Fidelity Real Estate Growth III | 223,019 | 0.0 | 1.1 | 2.2 | -32.6 |
| <i>NCREIF-ODCE</i> | | | | | |
| <i>NCREIF Property Index</i> | | | | | |
| Total Commodities | 36,387,022 | 2.7 | 0.1 | 3.7 | -0.3 |
| <i>Bloomberg Commodity Index TR USD</i> | | | -0.1 | 2.5 | -2.9 |
| Gresham MTAP Commodity Builder | 36,387,022 | 2.7 | 0.1 | 3.7 | -0.3 |
| <i>Bloomberg Commodity Index TR USD</i> | | | -0.1 | 2.5 | -2.9 |
| Total Private Equity | 17,050,220 | 1.3 | | | |
| Harbourvest Partners IX Buyout Fund L.P. | 12,342,827 | 0.9 | | | |
| Pathway Private Equity Fund Investors 9 L.P. | 4,707,393 | 0.4 | | | |
| <i>Russell 3000 +3%</i> | | | | | |

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. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 6/30/2017 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. All data is preliminary.

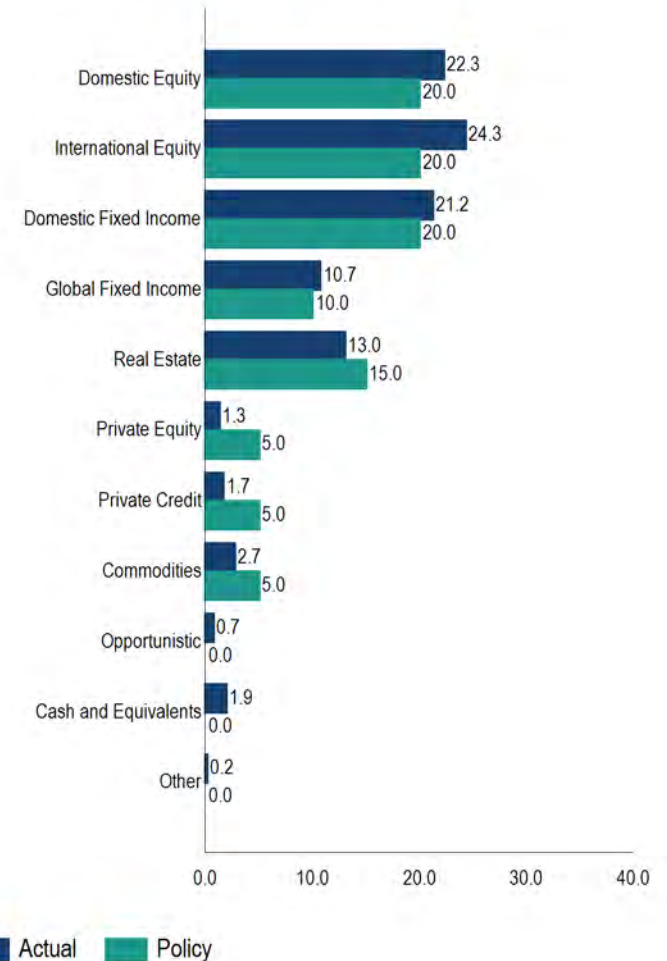
San Luis Obispo County Pension Trust

Executive Summary - Preliminary (Gross of Fees)

Period Ending: September 30, 2017

| | Market Value | % of Portfolio | 1 Mo | QTD | YTD |
|--|-------------------|----------------|------------|------------|------------|
| Total Private Credit | 22,224,329 | 1.7 | | | |
| TPG Diversified Credit Program | 22,224,329 | 1.7 | | | |
| BBgBarc High Yield +2% (Lagged) | | | | | |
| Total Cash | 25,801,335 | 1.9 | 0.0 | 0.0 | 0.6 |
| 91 Day T-Bills | | | 0.1 | 0.3 | 0.6 |
| Cash Account | 25,801,335 | 1.9 | 0.0 | 0.0 | 0.6 |
| 91 Day T-Bills | | | 0.1 | 0.3 | 0.6 |
| Total Opportunistic | 9,773,338 | 0.7 | | | |
| Kohlberg Kravis Roberts & Co. Mezzanine Partners I | 8,283,044 | 0.6 | | | |
| PIMCO Distressed Credit Fund | 1,490,294 | 0.1 | | | |
| 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. ARA American funded 6/22/2016. ARA American and Direct Real Estate MVs as of 6/30/2017 +/- calls and distributions. Fidelity Real Estate Growth II liquidated 12/31/2015. TPG funded 11/21/16. Loomis Sayles LC Growth funded 12/31/16. PIMCO Core Plus liquidated 1/6/2017. BlackRock Core Bond funded 1/19/2017. Dodge & Cox Income Fund funded 1/19/2017. Boston Partners funded 2/1/2017. WCM Intl Growth replaced Vontobel on 2/15/2017. Pathway 9 funded 4/7/2017. All data is preliminary.



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

SEPTEMBER 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- As of October 2nd, the Q3 Atlanta Fed GDPNow forecast for real U.S. GDP growth was 2.7% (QoQ annualized). The forecast was adjusted downward from the September 1st estimate of 3.2% on lower expectations of private fixed investment.
- On September 20th, the Federal Reserve announced the fed funds target rate would remain unchanged at 1.00% - 1.25% and confirmed that the balance sheet unwind would begin in October 2017.
- The implied probability of a rate hike in December increased after the September FOMC meeting comments were perceived as relatively hawkish. Additionally, FOMC members have projected three rate hikes to take place in 2018.
- The U.S. dollar continued its downward trend and depreciated by -1.0% in September against a trade weighted basket of currencies. The currency was down -8.7% year-to-date.
- President Trump and Democratic congressional leaders raised the federal debt ceiling. The Bipartisan Policy Center estimated that the legislation effectively pushed the next debt limit deadline to March of 2018.

DOMESTIC EQUITIES

- Domestic equities provided positive returns in September (S&P 500 +2.1%). Domestic small cap equities outperformed large cap equities by over 4%, as the Russell 2000 returned 6.2% in the month.
- According to FactSet, as of October 6th, the estimated Q3 earnings and revenue growth rates of the S&P 500 were 2.8% and 4.9% YoY, respectively.

DOMESTIC FIXED INCOME

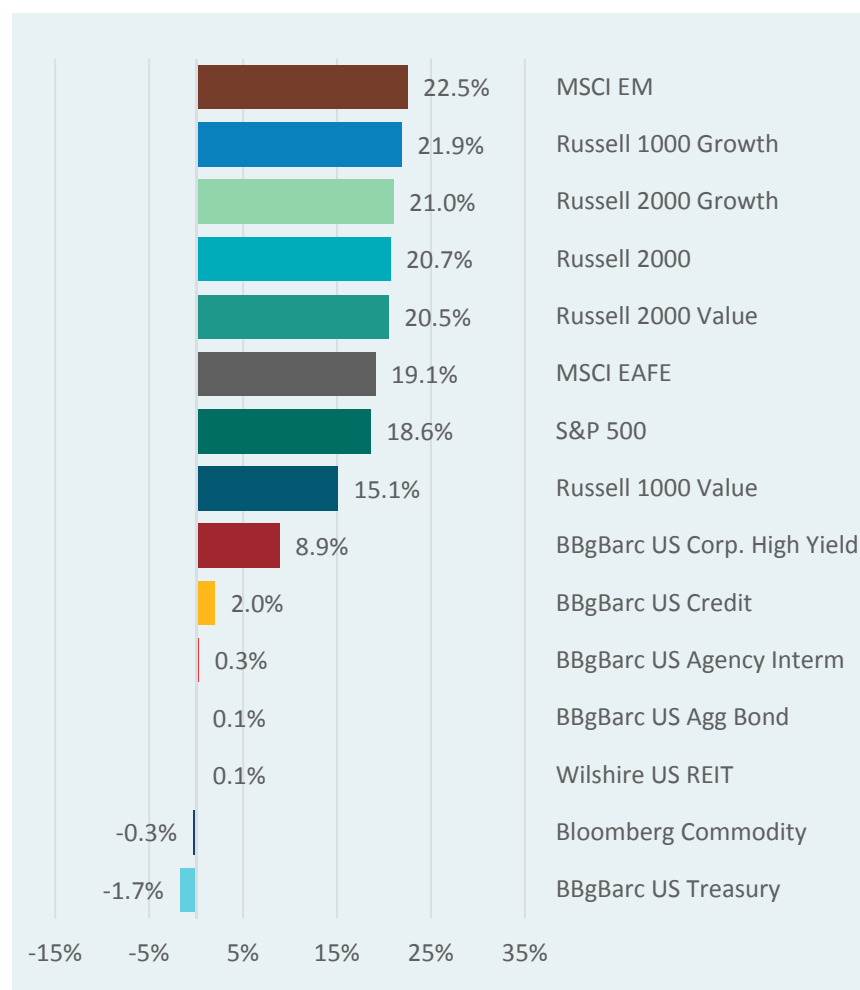
- Domestic fixed income returns were negative in September as the Bloomberg Barclays U.S. Aggregate Index returned -0.5%.
- U.S. Treasury yields broadly increased – 10-year yield rose by 21 bps to 2.33%. The yield curve steepened slightly as the 10-year minus 2-year expanded 7 bps to 0.86%.
- On September 8th, U.S. 10-year Treasury Inflation-Indexed yields hit their lowest point since November 2016 (+0.25%) before ending the month at 0.49% (+13 bps month-over-month).

INTERNATIONAL MARKETS

- Developed international equities underperformed domestic equities (S&P 500 +2.1%) as the MSCI ACWI ex U.S. Index returned 1.9% (+2.2% hedged).
- Eurozone CPI was relatively stable in September and increased by 1.5% YoY, unchanged from August. CPI ex Energy was 1.3% YoY, 10 bps higher than the prior month.
- U.K. manufacturing (PMI 55.9) expanded in September, but at a slightly lower rate than August, while U.K. construction activity contracted (PMI 48.1). Construction was negatively affected by a material decrease in civil engineering activity. PMI readings above 50 indicate a general expansion.
- According to the IMF, the prospects of global economic growth have strengthened. Their global growth projections increased by 10 bps to 3.6% in 2017 and 3.7% in 2018. The U.K. was the only G7 country projected to experience slowing growth.

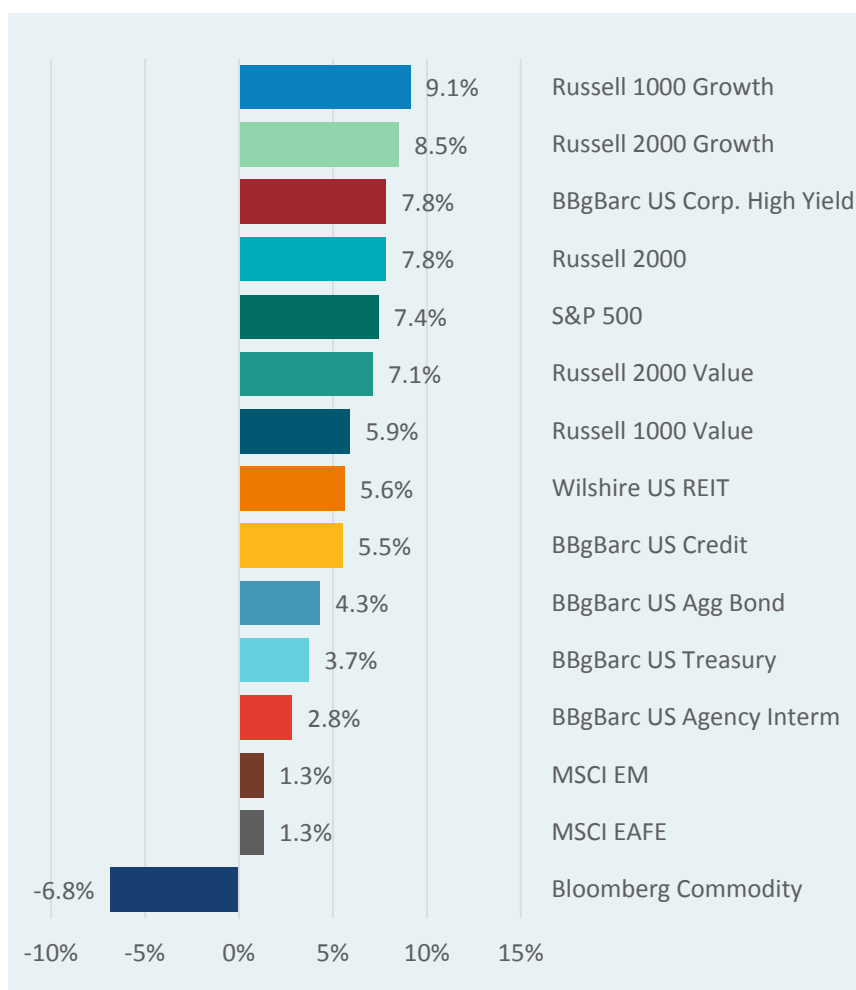
Major asset class returns

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

TEN YEARS ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

U.S. large cap equities

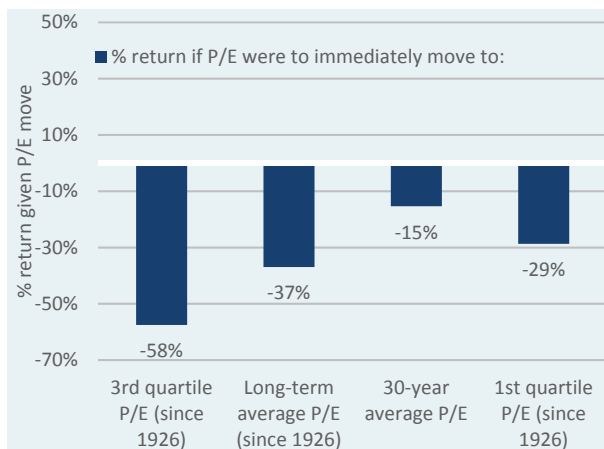
- Large cap equities posted a positive return for an eleventh consecutive month (S&P 500 +2.1%).
- According to FactSet, as of October 6th, the estimated Q3 earnings growth rate of the S&P 500 was 2.8% YoY, down from 7.5% on June 30th. Hurricane impacts contributed to most of this decline. Q3 earnings estimates for the insurance industry dropped 48% to \$5.1 billion.
- Energy was the best performing sector in September, returning 9.9% during the month (-6.6% year-to-date). The sectors' Q3 bottom-up EPS estimate increased 3.1% during September.
- The Shiller P/E ratio of the S&P 500 rose to 31.2. The cyclically adjusted valuation metric remained above its 10-year average of 23.2. The forward P/E ratio also increased in September to 19.3, above its 10-year average of 15.4.

U.S. LARGE CAP EQUITIES



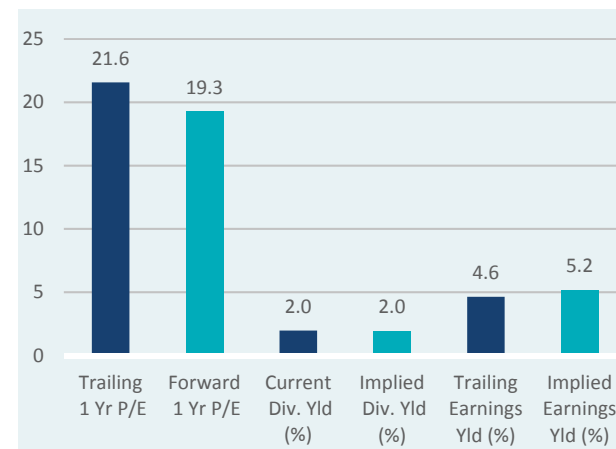
Source: Bloomberg, as of 9/30/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 9/30/17

S&P 500 VALUATION SNAPSHOT

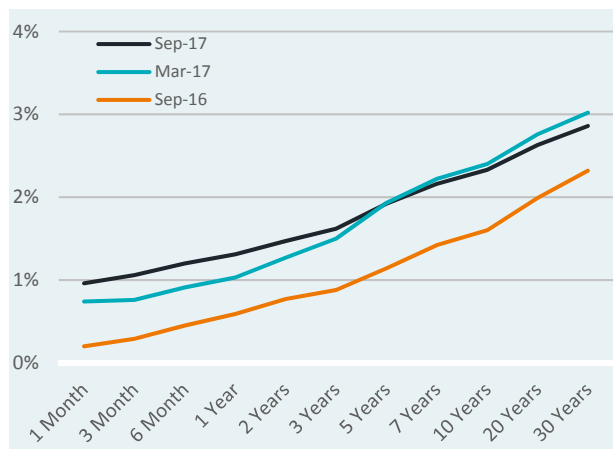


Source: Bloomberg, as of 9/30/17

Fixed income

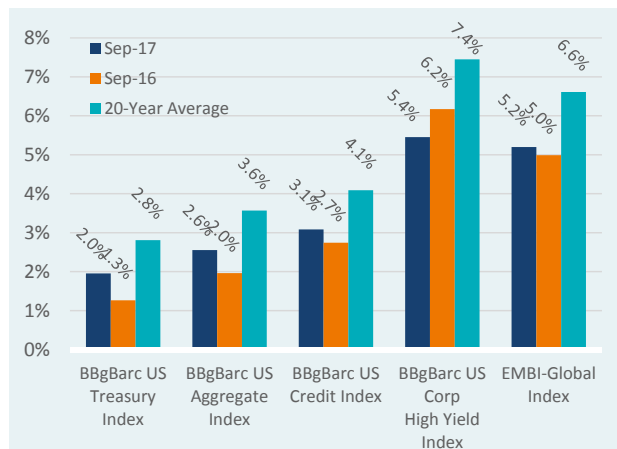
- U.S. Treasury yields rose across all maturities in September. The 10-year yield increased 21 bps to 2.33%. The shorter duration Bloomberg Barclays U.S. Treasury 1-3 Year (-0.2%) outperformed the broad U.S. Treasury Index (-0.9%).
- Market-based implied inflation rose slightly during the month. The 5-year TIPS breakeven rate increased 10 bps to 1.7%, below the recent high in January of 1.9%.
- The Federal Reserve held the fed funds target rate unchanged at 1.00% - 1.25% and confirmed that the balance sheet unwind would begin in October. As planned, \$6 billion in Treasuries (allocated across maturities) and \$4 billion in mortgage-backed securities will be rolled off of the balance sheet, increasing every three months to a limit of \$30 billion and \$20 billion, respectively.

U.S. TREASURY YIELD CURVE



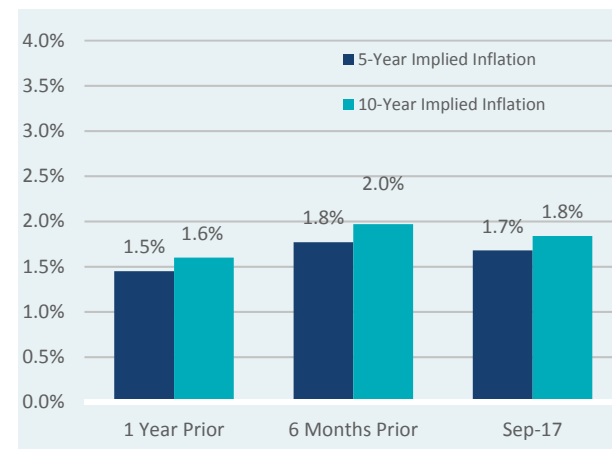
Source: Federal Reserve, as of 9/30/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 9/30/17

IMPLIED INFLATION (TIPS BREAKEVEN)

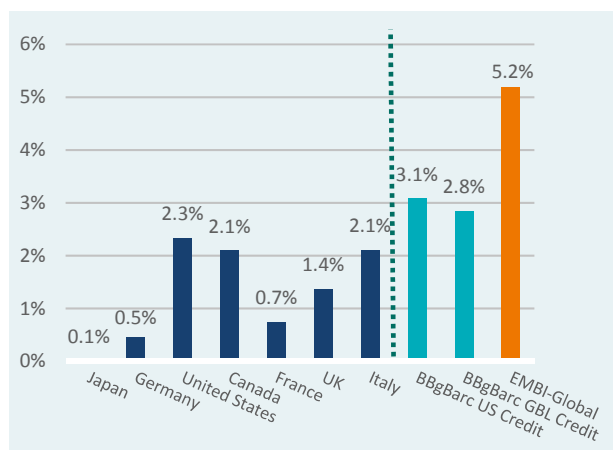


Source: Federal Reserve, as of 9/30/17

Global markets

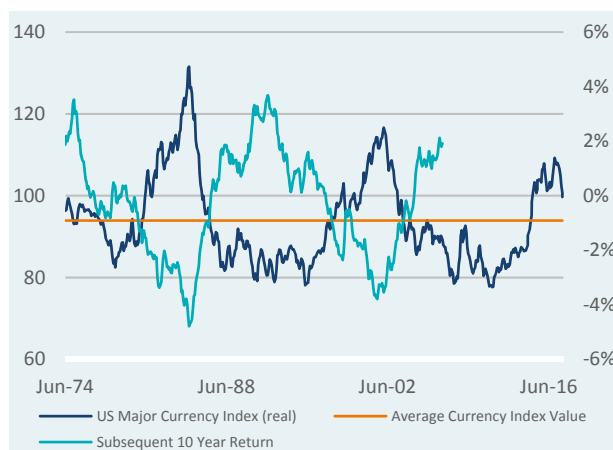
- Global sovereign 10-year bond yields were broadly up in September. U.K. 10-year yields experienced the largest change, increasing by 33 bps to 1.37% following relatively hawkish comments from Bank of England Governor Mark Carney.
- Japanese equities continued upward in September (+2.0% unhedged, +4.3% hedged) after Prime Minister Shinzo Abe's announcement to hold snap elections. The upcoming election will be in December, two years ahead of schedule.
- The Parliament of Catalonia held and passed an independence referendum on October 1st. The vote was in defiance of the Constitutional Court of Spain who deemed the vote illegal. Uncertainty remains as to whether Catalonia's leader Puigdemont will officially declare independence. Despite the political turmoil and uncertainty, the unhedged MSCI Euro equity index rose 3.9% in September (+2.9% hedged).

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



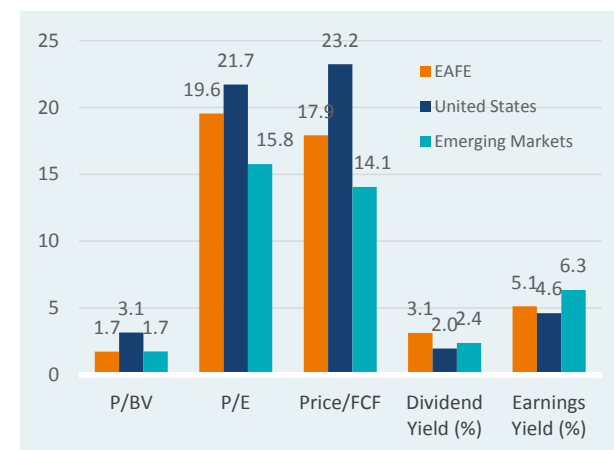
Source: Morningstar, as of 9/30/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 9/30/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

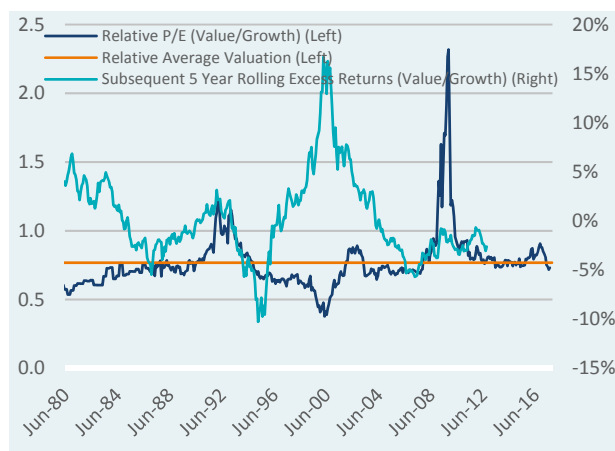


Source: Bloomberg, as of 9/30/17

Style tilts: U.S. large value vs. growth

- Value equities outperformed growth equities in September. The Russell 1000 Value and Russell 1000 Growth returned 3.0% and 1.3%, respectively.
- The relative trailing P/E ratio of value to growth equities remained below the long-term average of 0.77 at 0.73. Both value and growth trailing P/E ratios were above their 10-year highs, and ended September at 19.1 and 26.2, respectively.
- The value index benefitted from a higher relative concentration to Energy and Financial Services. The Russell 1000 Energy sub-index outperformed all of the sectors and returned 10.1% over the month. The Russell 1000 Financial Services sub-index returned 3.5%.

RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



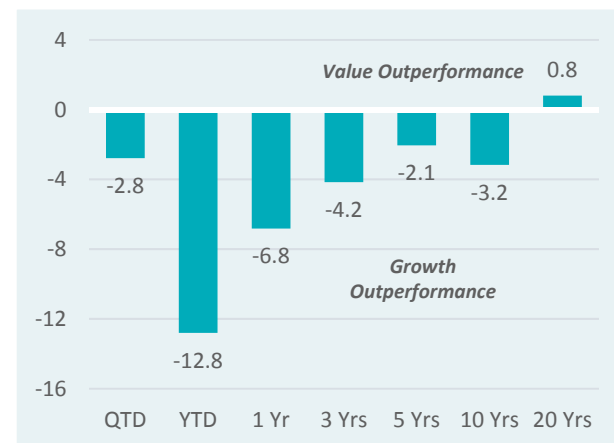
Source: Russell, Bloomberg, as of 9/30/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

| | RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE % | RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE % |
|----------|---|--|
| QTD | 3.1 | 5.9 |
| YTD | 7.9 | 20.7 |
| 1 YEAR | 15.1 | 21.9 |
| 3 YEARS | 8.5 | 12.7 |
| 5 YEARS | 13.2 | 15.3 |
| 10 YEARS | 5.9 | 9.1 |
| 20 YEARS | 7.3 | 6.5 |
| | SHARPE RATIO | SHARPE RATIO |
| 3 YEARS | 0.65 | 1.05 |
| 5 YEARS | 1.29 | 1.46 |
| 10 YEARS | 0.42 | 0.63 |
| 20 YEARS | 0.41 | 0.34 |

Source: Morningstar, as of 9/30/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

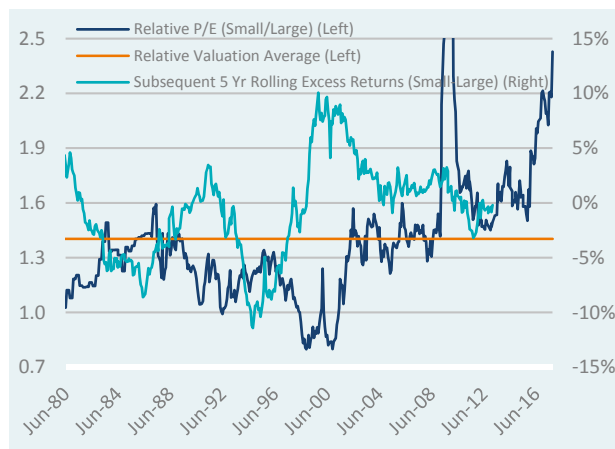


Source: Morningstar, as of 9/30/17

Style tilts: U.S. large vs. small

- U.S. small cap equities outperformed large cap equities, as the Russell 2000 index and Russell 1000 index returned 6.2% and 2.1%, respectively. Large cap equities have still outperformed year-to-date with an excess return of 3.2%.
- The Consumer Discretionary sector produced the largest performance differential between large and small cap equities. Small cap equities in the sector outperformed large cap equities by 7.1%.
- The relative trailing P/E ratio of small to large cap equities increased in September to a new business cycle high of 2.4, well above the long-term average of 1.4. According to Bloomberg, the trailing P/E ratio of the Russell 2000 index finished the month at 53.6.
- Large cap equities have provided superior risk-adjusted returns (Sharpe Ratio) relative to small cap equities over all time periods examined below.

RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE



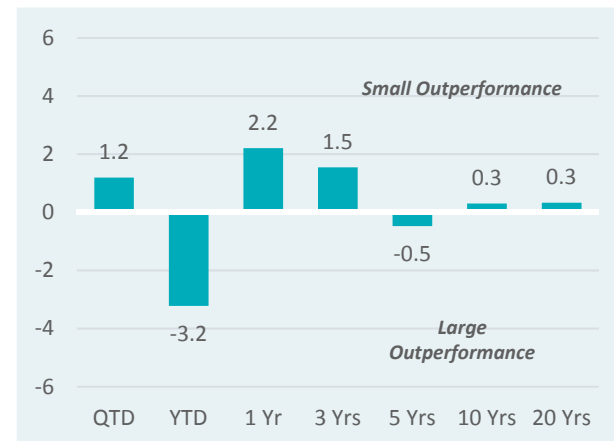
Source: Russell, Bloomberg, as of 9/30/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

| | RUSSELL 1000 INDEX | RUSSELL 2000 INDEX |
|----------|-----------------------------|-----------------------------|
| | ANNUALIZED RETURN TO DATE % | ANNUALIZED RETURN TO DATE % |
| QTD | 4.5 | 5.7 |
| YTD | 14.2 | 10.9 |
| 1 YEAR | 18.5 | 20.7 |
| 3 YEARS | 10.6 | 12.2 |
| 5 YEARS | 14.3 | 13.8 |
| 10 YEARS | 7.5 | 7.8 |
| 20 YEARS | 7.2 | 7.5 |
| | SHARPE RATIO | SHARPE RATIO |
| 3 YEARS | 0.89 | 0.55 |
| 5 YEARS | 1.42 | 0.95 |
| 10 YEARS | 0.53 | 0.44 |
| 20 YEARS | 0.40 | 0.36 |

Source: Morningstar, as of 9/30/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 9/30/17

Commodities

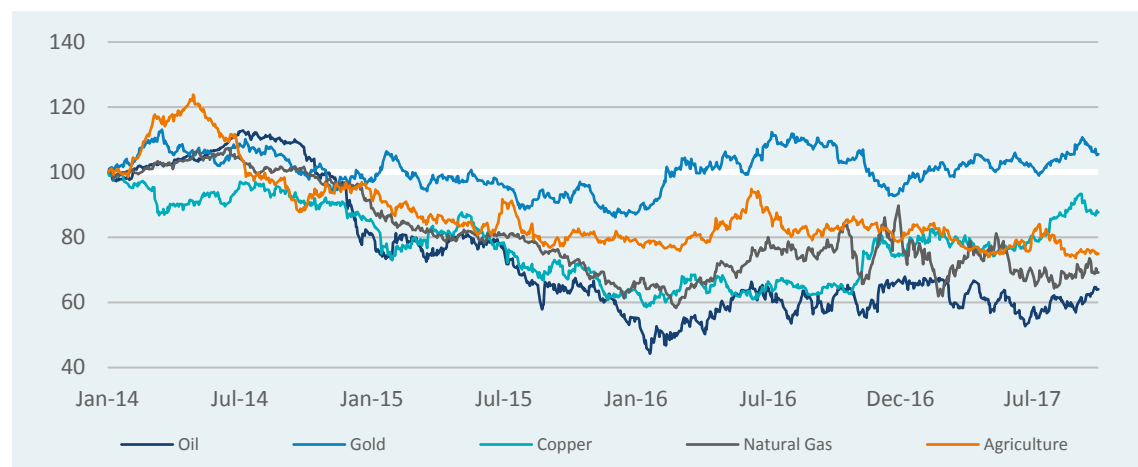
- The broad Bloomberg Commodity Index was flat in September (-0.1%) as gains from energy (3.5%) were offset by losses from industrial metals (-3.8%) and precious metals (-3.3%).
- Crude oil prices increased by 9.4% in September and ended the month at \$51.67 per barrel. U.S. oil inventories were 465 million barrels at month-end, well below the recent high of 535 million barrels in March.
- Precious Metals declined in September, as gold prices fell by -3.1% to \$1,280 per ounce and silver dropped by -5.3% to \$16.66 per ounce. Precious metals were negatively affected by an increase in real rates during the month.
- The recent rally in Industrial Metals took a step back in September – the Bloomberg sub-index fell by -3.8%. The index was negatively effected by decreases in Copper (-4.6%) and Nickel (-11.3%) prices.

INDEX AND SECTOR PERFORMANCE

| | Month | QTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|-----------------------------|-------|-------|--------|--------|--------|--------|---------|
| Bloomberg Commodity | (0.1) | 2.5 | (2.9) | (0.3) | (10.4) | (10.5) | (6.8) |
| Bloomberg Agriculture | (0.0) | (6.1) | (9.2) | (11.1) | (6.2) | (11.4) | (3.9) |
| Bloomberg Energy | 3.5 | 9.8 | (12.2) | (2.9) | (26.6) | (17.7) | (17.3) |
| Bloomberg Grains | 1.3 | (9.5) | (6.8) | (5.5) | (6.2) | (14.0) | (5.7) |
| Bloomberg Industrial Metals | (3.8) | 9.9 | 16.8 | 24.0 | (1.3) | (4.5) | (5.1) |
| Bloomberg Livestock | 3.6 | (7.5) | 3.0 | 24.4 | (9.3) | (2.3) | (7.1) |
| Bloomberg Petroleum | 5.8 | 15.1 | (5.8) | 2.1 | (25.6) | (17.1) | (11.8) |
| Bloomberg Precious Metals | (3.3) | 2.3 | 8.7 | (6.6) | 0.4 | (8.8) | 4.0 |
| Bloomberg Softs | (3.4) | (0.7) | (19.0) | (28.1) | (10.1) | (10.5) | (3.5) |

Source: Morningstar, as of 9/30/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/17

Appendix

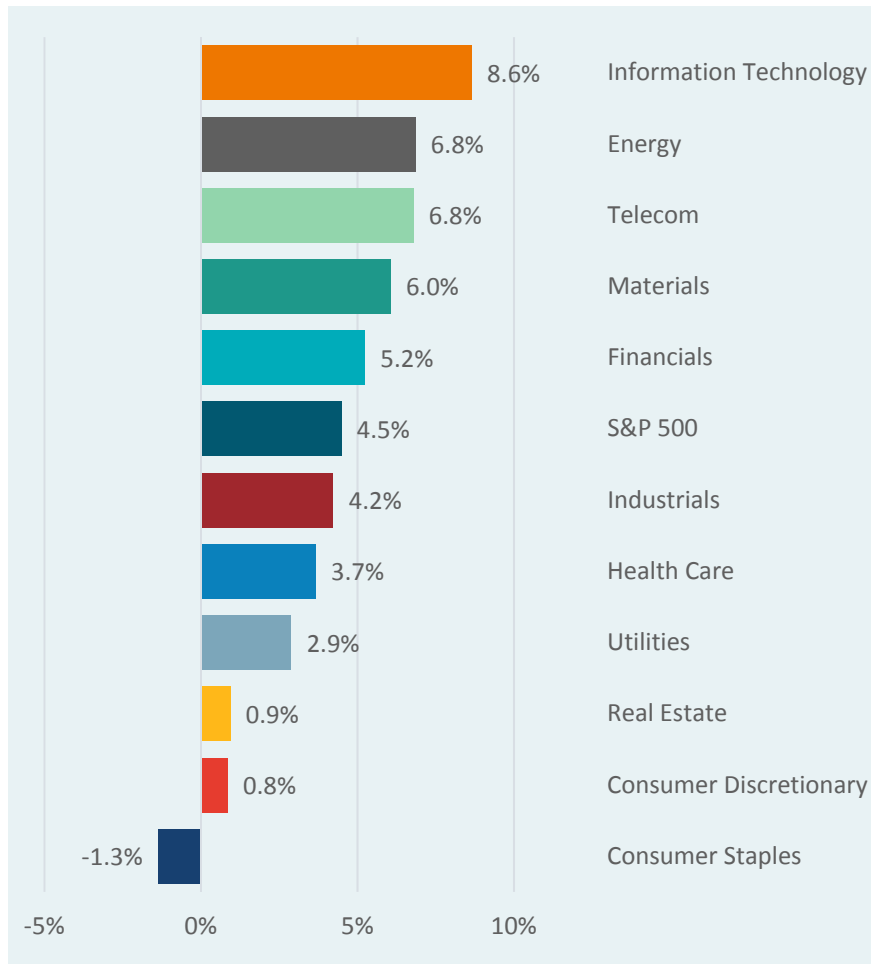
Periodic table of returns

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | YTD | 5-Year | 10-Year | |
|-------|---------------------------------------|------|------|------|-------|-------|------|-------|-------|-------|------|------|------|------|------|-------|-------|------|-------|------|------|-------|-------|------|--------|---------|------|
| BEST | Emerging Markets Equity | 16.6 | 38.4 | 23.2 | 35.2 | 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 | 13.3 | 31.7 | 27.8 | 15.3 | 9.1 | |
| | Large Cap Growth | 8.1 | 37.8 | 23.1 | 32.9 | 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 | 20.7 | 14.3 | 8.5 |
| | International Equity | 6.4 | 37.2 | 22.4 | 31.8 | 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 | 20.0 | 14.3 | 7.8 |
| | Small Cap Growth | 4.4 | 31.0 | 21.6 | 30.5 | 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 | 16.8 | 13.8 | 7.5 |
| | Large Cap Equity | 3.2 | 28.5 | 21.4 | 22.4 | 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 | 14.2 | 13.3 | 7.1 |
| | 60/40 Global Portfolio | 2.6 | 25.7 | 16.5 | 16.2 | 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 | 12.7 | 13.2 | 6.4 |
| | Small Cap Equity | 0.4 | 19.6 | 14.4 | 13.9 | 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 | 10.9 | 10.5 | 5.9 |
| | Large Cap Value | -1.5 | 18.5 | 11.3 | 12.9 | 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 | 7.9 | 8.4 | 4.3 |
| | Small Cap Value | -1.8 | 15.2 | 10.3 | 10.6 | 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 | 5.7 | 6.3 | 4.0 |
| | Hedge Funds of Funds | -2.0 | 11.6 | 9.9 | 9.7 | -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 | 5.5 | 4.0 | 1.3 |
| | Real Estate | -2.4 | 11.1 | 6.4 | 5.2 | -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 | 3.3 | 3.8 | 1.3 |
| | US Bonds | -2.9 | 7.5 | 6.0 | 2.1 | -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 | 3.1 | 2.1 | 1.1 |
| | Cash | -3.5 | 5.7 | 5.1 | -3.4 | -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 | 0.6 | 0.2 | 0.4 |
| | Commodities | -7.3 | -5.2 | 3.6 | -11.6 | -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 | -2.9 | -10.5 | -6.8 |
| WORST | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Large Cap Equity | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Large Cap Value | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Large Cap Growth | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Small Cap Equity | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Small Cap Value | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Small Cap Growth | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | International Equity | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Emerging Markets Equity | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | US Bonds | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Cash | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Commodities | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Real Estate | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Hedge Funds of Funds | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 60% MSCI ACWI/40% BBgBarc Global Bond | | | | | | | | | | | | | | | | | | | | | | | | | | |

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 6/30/17.

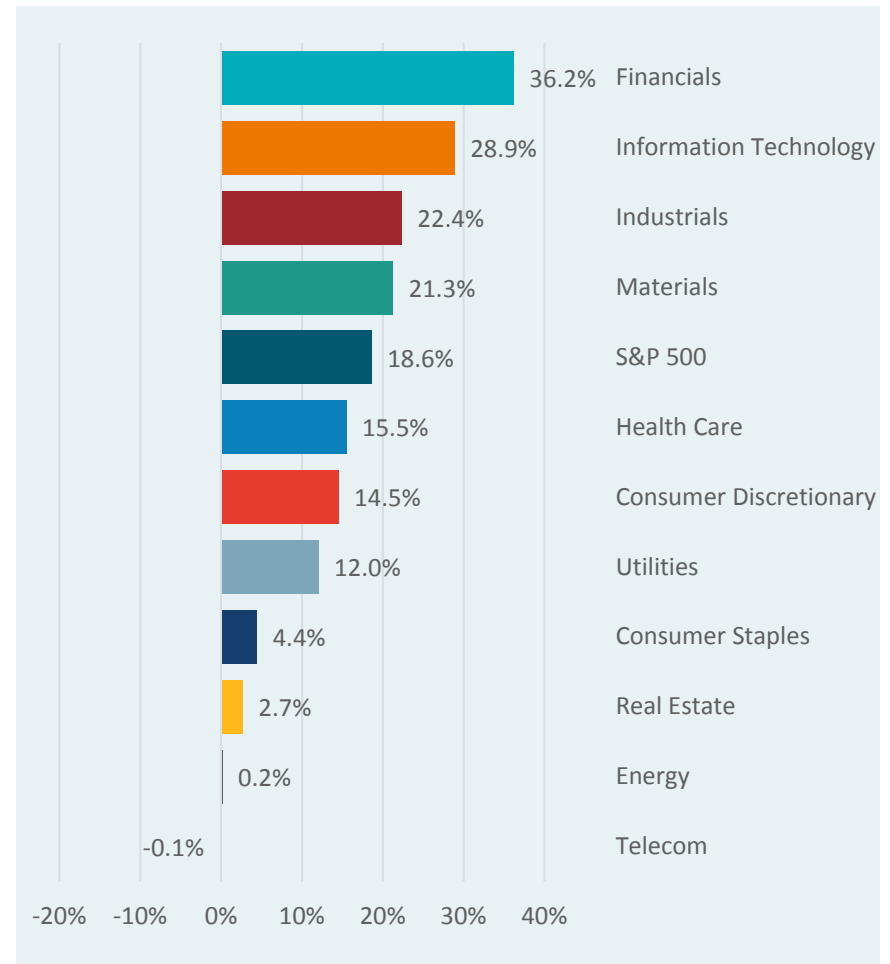
S&P 500 sector returns

QTD



Source: Morningstar, as of 9/30/17

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

Detailed index returns

DOMESTIC EQUITY

| | Month | QTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|------------------------|-------|-----|------|--------|--------|--------|---------|
| Core Index | | | | | | | |
| S&P 500 | 2.1 | 4.5 | 14.2 | 18.6 | 10.8 | 14.2 | 7.4 |
| S&P 500 Equal Weighted | 2.9 | 3.6 | 11.9 | 16.2 | 10.1 | 15.0 | 8.9 |
| DJ Industrial Average | 2.2 | 5.6 | 15.5 | 25.5 | 12.3 | 13.6 | 7.7 |
| Russell Top 200 | 1.9 | 4.9 | 15.1 | 19.8 | 11.1 | 14.3 | 7.3 |
| Russell 1000 | 2.1 | 4.5 | 14.2 | 18.5 | 10.6 | 14.3 | 7.5 |
| Russell 2000 | 6.2 | 5.7 | 10.9 | 20.7 | 12.2 | 13.8 | 7.8 |
| Russell 3000 | 2.4 | 4.6 | 13.9 | 18.7 | 10.7 | 14.2 | 7.6 |
| Russell Mid Cap | 2.8 | 3.5 | 11.7 | 15.3 | 9.5 | 14.3 | 8.1 |
| Style Index | | | | | | | |
| Russell 1000 Growth | 1.3 | 5.9 | 20.7 | 21.9 | 12.7 | 15.3 | 9.1 |
| Russell 1000 Value | 3.0 | 3.1 | 7.9 | 15.1 | 8.5 | 13.2 | 5.9 |
| Russell 2000 Growth | 5.4 | 6.2 | 16.8 | 21.0 | 12.2 | 14.3 | 8.5 |
| Russell 2000 Value | 7.1 | 5.1 | 5.7 | 20.5 | 12.1 | 13.3 | 7.1 |

INTERNATIONAL EQUITY

| | | | | | | | |
|------------------------|-------|------|------|------|-------|-------|-------|
| Broad Index | | | | | | | |
| MSCI ACWI | 1.9 | 5.2 | 17.3 | 18.6 | 7.4 | 10.2 | 3.9 |
| MSCI ACWI ex US | 1.9 | 6.2 | 21.1 | 19.6 | 4.7 | 7.0 | 1.3 |
| MSCI EAFE | 2.5 | 5.4 | 20.0 | 19.1 | 5.0 | 8.4 | 1.3 |
| MSCI EM | (0.4) | 7.9 | 27.8 | 22.5 | 4.9 | 4.0 | 1.3 |
| MSCI EAFE Small Cap | 2.9 | 7.5 | 25.4 | 21.8 | 11.1 | 12.8 | 4.6 |
| Style Index | | | | | | | |
| MSCI EAFE Growth | 1.9 | 4.9 | 22.4 | 15.7 | 6.5 | 8.9 | 2.1 |
| MSCI EAFE Value | 3.1 | 5.9 | 17.6 | 22.5 | 3.5 | 7.8 | 0.5 |
| Regional Index | | | | | | | |
| MSCI UK | 3.3 | 5.2 | 15.7 | 14.6 | 0.8 | 4.9 | 0.7 |
| MSCI Japan | 2.0 | 4.0 | 14.3 | 14.1 | 7.7 | 10.6 | 1.7 |
| MSCI Euro | 3.9 | 8.0 | 25.9 | 28.4 | 5.6 | 9.9 | (0.0) |
| MSCI EM Asia | (0.0) | 7.0 | 31.8 | 23.8 | 8.0 | 7.4 | 2.7 |
| MSCI EM Latin American | 1.6 | 15.1 | 26.7 | 25.6 | (0.3) | (1.9) | (0.8) |

Source: Morningstar, as of 9/30/17

FIXED INCOME

| | Month | QTD | YTD | 1 Year | 3 Year | 5 Year | 10 Year |
|-----------------------------|-------|-----|-----|--------|--------|--------|---------|
| Broad Index | | | | | | | |
| BBgBarc US Treasury US TIPS | (0.6) | 0.9 | 1.7 | (0.7) | 1.6 | 0.0 | 3.9 |
| BBgBarc US Treasury Bills | 0.1 | 0.3 | 0.6 | 0.6 | 0.3 | 0.2 | 0.5 |
| BBgBarc US Agg Bond | (0.5) | 0.8 | 3.1 | 0.1 | 2.7 | 2.1 | 4.3 |
| Duration | | | | | | | |
| BBgBarc US Treasury 1-3 Yr | (0.2) | 0.2 | 0.7 | 0.2 | 0.8 | 0.6 | 1.7 |
| BBgBarc US Treasury Long | (2.2) | 0.6 | 6.0 | (6.4) | 4.9 | 2.8 | 6.9 |
| BBgBarc US Treasury | (0.9) | 0.4 | 2.3 | (1.7) | 2.0 | 1.2 | 3.7 |
| Issuer | | | | | | | |
| BBgBarc US MBS | (0.2) | 1.0 | 2.3 | 0.3 | 2.4 | 2.0 | 4.1 |
| BBgBarc US Corp. High Yield | 0.9 | 2.0 | 7.0 | 8.9 | 5.8 | 6.4 | 7.8 |
| BBgBarc US Agency Interm | (0.3) | 0.3 | 1.4 | 0.3 | 1.5 | 1.1 | 2.8 |
| BBgBarc US Credit | (0.2) | 1.3 | 5.1 | 2.0 | 3.9 | 3.2 | 5.5 |

OTHER

| | | | | | | | |
|------------------------|-------|-------|-------|--------|--------|--------|-------|
| Index | | | | | | | |
| Bloomberg Commodity | (0.1) | 2.5 | (2.9) | (0.3) | (10.4) | (10.5) | (6.8) |
| Wilshire US REIT | (0.1) | 0.6 | 2.4 | 0.1 | 9.7 | 9.5 | 5.6 |
| CS Leveraged Loans | 0.4 | 1.1 | 3.0 | 5.4 | 4.0 | 4.4 | 4.4 |
| Regional Index | | | | | | | |
| JPM EMBI Global Div | 0.0 | 2.6 | 9.0 | 4.6 | 6.5 | 4.9 | 7.5 |
| JPM GBI-EM Global Div | (0.3) | 3.6 | 14.3 | 7.3 | 0.3 | (0.9) | 3.8 |
| Hedge Funds | | | | | | | |
| HFRI Composite | 0.5 | 2.1 | 5.7 | 6.9 | 3.3 | 4.7 | 3.1 |
| HFRI FOF Composite | 0.4 | 2.2 | 5.5 | 6.4 | 2.2 | 3.8 | 1.1 |
| Currency (Spot) | | | | | | | |
| Euro | (0.6) | 3.7 | 12.1 | 5.2 | (2.2) | (1.7) | (1.8) |
| Pound | 4.1 | 3.3 | 8.6 | 3.3 | (6.1) | (3.6) | (4.1) |
| Yen | (2.2) | (0.2) | 3.6 | (10.0) | (0.9) | (7.1) | 0.2 |

Definitions

IHS Markit/CIPS UK Construction PMI - The Purchasing Managers' Survey is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 170 construction companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to GDP. IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. (www.ihsmarkit.com)

IHS Markit/CIPS UK Manufacturing PMI - The IHS Markit/CIPS UK Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group and company workforce size, based on the industry and company size contributions to GDP. IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. (www.ihsmarkit.com)

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Date: October 23, 2017

To: Board of Trustees

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

Agenda Item 9: Asset Allocation October 2017

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.

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