



Investment Update – 3rdQuarter

3rd Quarter 2013

The Federal Reserve announced it will maintain the pace of its bond purchases while it awaits conclusive evidence that the economy will strengthen. The continued postponement of the tapering of quantitative easing has led to broad increases in the major indices during the third quarter. This decision sent equities higher and government bond yields lower. The Federal Reserve will thus calibrate the pace of their tightening based on how economic conditions evolve rather than according to any pre-set schedule.

The S&P 500 index rose 5.2% during the third quarter of 2013. Smaller stocks performed the best with the Russell 2000 index, appreciating 10.2%. Overall, the Russell 3000 index returned 6.4% during the quarter. The one-year returns for the indices were 19.3%, 30.1%, and 21.6%, respectively. The DJIA appreciated 2.1% for the third quarter and 15.6% for the year. The NASDAQ rose 11.2% for the third quarter and 22.5% for the year. The fixed income markets also had minor gains. The Barclays Capital Aggregate returned 0.6% for the quarter. Non-U.S. equities also performed well in the third quarter thanks to improved Chinese growth metrics and European outlook. The MSCI EAFE returned 11.6%, while the MSCI EM index returned 5.9%. For the one-year period, the MSCI EAFE appreciated 24.3%.

ACERA is a long-term investor with a well-diversified, conservative portfolio. For the quarter ending September 30, 2013, ACERA's Total Fund returned 6.2%, ranking in the upper 5th percentile and finished the third quarter at a market value of about \$6.3 billion. Domestic Equities returned 7.8%, International Equities returned 9.5%, and Fixed Income returned 0.8% during the third quarter. ACERA's Real Estate managers composite and Private Equity and Alternatives Return Leading Strategies¹ (PEARLS) composite returned 2.9% and 1.8%, respectively, during the third quarter. The Real Return Pool composite returned 1.6% during the third quarter.

¹ Real Estate and PEARLS composite returns are subject to a quarter lag in reporting results.