# EQUITY MARKET DOWNTURN WEIGHS ON INSTITUTIONAL ASSET OWNERS

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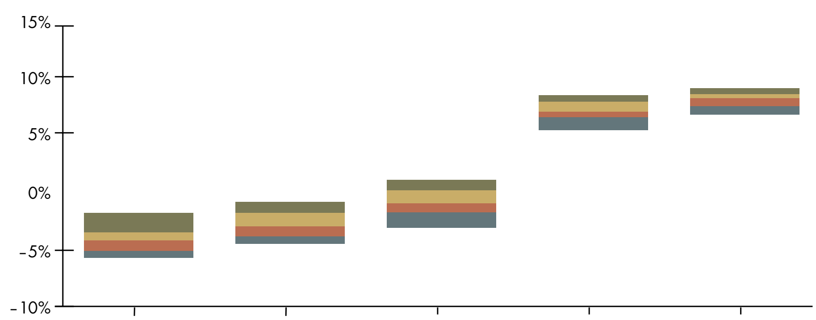
Public Fund returns turned negative in the third quarter with the median plan losing 4.9%. This was the first quarter in 2015 with negative returns, and the magnitude of the losses weighed on longer-term figures. The one-, three-, five- and 10-year median returns came in at –0.6%, 7.4%, 8.3% and 5.9%, respectively.

Within the Public Funds universe, domestic equities comprise the largest allocation at 34.1% as of September 30, 2015. Volatility hit its highest level since 2011 in the third quarter as concerns of slowing growth in China and globally weighed on investors. The U.S. equity market finished the third quarter down substantially, driven by large losses in August and September. Broad-based domestic equity indexes such as the S&P 500 and Russell 3000 posted declines of 6.4% and 6.8%, respectively, for the quarter. Large cap stocks significantly outperformed small cap stocks during the quarter as the Russell 2000 returned –11.9%. Large cap growth out performed value while the opposite was true for small cap equities with value outpacing growth – albeit both with significantly negative returns.

Continued concerns around China, the eurozone and Japan led international markets significantly lower for the third quarter. The MSCI EAFE and MSCI ACWI ex US indexes finished the quarter with losses of 10.2% and 12.1%, respectively. Despite heavy government intervention in China, emerging markets were hammered during the quarter. The MSCI Emerging Markets

**PUBLIC FUNDS – TOTAL RETURNS SEPTEMBER 30, 2015**




| | CURRENT QUARTER | YTD | 1 YEAR | 3 YEARS | 5 YEARS |
|---|---|---|---|---|---|
| 10th Percentile | –2.4% | –0.2% | 1.5% | 8.8% | 9.2% |
| 1st Quartile | –4.2% | –1.2% | 0.6% | 8.3% | 8.7% |
| Median | –4.9% | –2.4% | –0.6% | 7.4% | 8.3% |
| 3rd Quartile | –5.9% | –3.8% | –1.4% | 6.8% | 7.6% |
| 90th Percentile | –6.5% | –4.2% | –2.7% | 5.7% | 6.9% |

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index posted a loss of 17.8% in the quarter. As of September 30, 2015, the Public Funds composite allocation to international equities was 15.8%.

The domestic and foreign fixed income allocations within the Public Funds universe were 21.7% and 0.9%, respectively, at the end of the third quarter. Bond prices rose during the quarter as the Fed delayed its long-awaited rate hike and investors sought refuge from plummeting equity prices. Domestic fixed income, represented by the Barclays Capital US Aggregate Index, generated a gain of 1.2% for the quarter. Foreign fixed income, represented by the Citi-Group WGBI ex US index, showed a gain of 1.7%.

Real estate and private equity allocations within the Public Funds composite were 4.8% and 5.8%, respectively, at the end of the quarter. Real estate markets rebounded nicely from a rough second quarter with the Wilshire REIT index up 2.9% in the third quarter. Over longer periods, real estate has continued to be an important asset class with one-, three- and five-year returns of 11.7%, 10.1% and 12.5%, respectively.

Public Funds broke their hot streak in the third quarter but have still had gains in 11 of the last 14 quarters. There is more uncertainty around global growth at the end of this quarter than last, but plan sponsors are still hopeful that the United States can lead the way and investment returns will help close the gap on their long-term return assumptions while boosting their funded status.

**COMPOSITE ASSET ALLOCATION – PUBLIC FUNDS**

| | Current | 1 Year Ago | 3 Years Ago | 5 Years Ago |
|---|---|---|---|---|
| U.S. Equity | 31% | 33% | 31% | 34% |
| Global/Non-U.S. Equity | 21% | 24% | 21% | 20% |
| U.S. Fixed Income | 19% | 17% | 22% | 25% |
| Global/Non-U.S. Bonds | 4% | 6% | 5% | 5% |
| Private Equity/Hedge Funds | 11% | 9% | 11% | 8% |
| Cash & Other | 13% | 12% | 11% | 10% |

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Returns are shown gross of fees. Index returns assume reinvestment of dividends and earnings and do not reflect the deduction of any trading costs or other expenses. It is not possible to invest directly in an index. Periods greater than one year are annualized. Past performance does not indicate future results.