City of San Leandro

Second Quarter 2021

Presented by
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HighMark® Capital Management

Selected Period Performance

City of San Leandro OPEB Plan

Period Ending: 6/30/2021

	3 Months	Year to Date (6 Months)	1 Year	3 Years	5 Years	10 Years	Inception to Date 07/01/2009
Cash Equivalents	.01	.01	.03	1.14	1.00	.52	.47
Lipper Money Market Funds Index	*.00*	*.00*	*.01*	*1.11*	*.95*	*.48*	*.40*
Total Fixed Income	2.07	-.62	2.53	5.31	3.36	3.45	4.22
BBG Barclays US Aggregate Bd Index	*1.83*	*-1.60*	*-.33*	*5.34*	*3.03*	*3.39*	*3.93*
Total Equities	7.21	14.67	45.37	15.91	16.30	11.88	13.73
Large Cap Funds	9.17	16.83	45.06	18.77	18.70	14.49	15.41
S&P 500 Composite Index	*8.55*	*15.25*	*40.79*	*18.67*	*17.65*	*14.84*	*16.05*
Mid Cap Funds	7.27	16.05	49.51	16.27	15.52	11.86	
Russell Midcap Index	*7.50*	*16.25*	*49.80*	*16.45*	*15.62*	*13.24*	*16.11*
Small Cap Funds	3.83	14.30	59.82	15.01	17.77	14.24	17.15
Russell 2000 Index	*4.29*	*17.54*	*62.03*	*13.52*	*16.47*	*12.34*	*14.99*
International Equities	4.24	8.27	38.20	10.75	11.99	5.33	7.87
MSCI EAFE Index	*5.17*	*8.83*	*32.35*	*8.27*	*10.28*	*5.89*	*7.74*
MSCI EM Free Index	*5.05*	*7.45*	*40.90*	*11.27*	*13.03*	*4.28*	*7.55*
REIT Funds	11.43	21.15	33.80	11.72	7.22		
Wilshire REIT Index	*12.84*	*22.78*	*37.52*	*10.06*	*6.36*	*9.38*	*14.66*
Total Managed Portfolio	3.66	3.98	14.27	8.65	7.26	6.01	6.79

***Account Inception: 7/1/2009, Initial Contribution received June 2009.**
Aggregate is composed of account [redacted] from 07/01/2009 until 08/31/2015 and of account [redacted] from 09/01/2015 until present. Returns are gross of account level investment advisory fees and net of any fees, including fees to manage mutual fund or exchange traded fund holdings. Returns for periods over one year are annualized. The information presented has been obtained from sources believed to be accurate and reliable. Past performance is not indicative of future returns. Securities are not FDIC insured, have no bank guarantee, and may lose value.

Asset Allocation
As of June 30, 2021

Current Asset Allocation			Investment Vehicle	
Equity	**31.34%**		***Range: 20%-40%***	**6,828,846**
Large Cap Core	3.10%	COFYX	Columbia Contrarian Core Inst3	675,162
	5.83%	VGIAX	Vanguard Growth & Income Adm	1,271,031
Large Cap Value	2.70%	DODGX	Dodge & Cox Stock Fund	587,452
	1.26%	IVE	iShares S&P 500 Value ETF	275,349
Large Cap Growth	1.75%	HNACX	Harbor Capital Appreciation Retirement	380,925
	1.75%	PRUFX	T. Rowe Price Growth Stock Fund I	380,351
Mid Cap Core	2.28%	IWR	iShares Russell Mid-Cap ETF	496,439
Small Cap Value	2.25%	UBVFX	Undiscovered Managers Behavioral Val R6	490,760
Small Cap Growth	2.28%	RSEJX	Victory RS Small Cap Growth R6	496,789
International Core	2.15%	DFALX	DFA Large Cap International I	468,357
International Value	1.08%	DODFX	Dodge & Cox International Stock Fund	235,427
International Growth	1.10%	MGRDX	MFS® International Growth R6	239,332
Emerging Markets	2.78%	HHHFX	Hartford Schroders Emerging Mkts Eq F	605,295
Real Estate	1.04%	VNQ	Vanguard Real Estate ETF	226,177
Fixed Income	**67.71%**		***Range: 50%-80%***	**14,752,777**
High Yield	2.67%	PHIYX	PIMCO High Yield Instl	582,735
Short-Term	11.71%	VFSUX	Vanguard Short-Term Investment-Grade Adm	2,551,300
Intermediate-Term	17.73%	DBLFX	DoubleLine Core Fixed Income I	3,862,318
	17.79%	PTTRX	PIMCO Total Return Instl Fund	3,876,423
	17.81%	PTRQX	Prudential Total Return Bond Q	3,880,001
Cash	**0.94%**		***Range: 0%-20%***	**205,228**
	0.94%	FGZXX	First American Government Oblig Z	205,228
TOTAL	**100.00%**			**$21,786,851**

CITY OF SAN LEANDRO

For Period Ending June 30, 2021

Fund Name	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
LARGE CAP EQUITY FUNDS							
Columbia Contrarian Core Inst3	1.86	8.36	16.09	44.13	20.19	17.45	15.01
Vanguard Growth & Income Adm	2.06	8.38	15.89	41.52	18.08	17.18	14.86
Dodge & Cox Stock	-0.20	8.83	26.09	58.92	15.79	17.44	13.89
iShares S&P 500 Value ETF	-1.18	4.96	16.18	39.27	12.96	12.36	11.67
Harbor Capital Appreciation Retirement	8.01	13.55	9.73	43.18	26.38	26.57	18.51
T. Rowe Price Growth Stock I	7.00	12.73	15.63	45.33	23.22	24.36	18.06
S&P 500 TR USD	**2.33**	**8.55**	**15.25**	**40.79**	**18.67**	**17.65**	**14.84**
MID CAP EQUITY FUNDS							
iShares Russell Mid-Cap ETF	1.45	7.43	16.15	49.53	16.29	15.44	13.06
Russell Mid Cap TR USD	**1.47**	**7.50**	**16.25**	**49.80**	**16.45**	**15.62**	**13.24**
SMALL CAP EQUITY FUNDS							
Undiscovered Managers Behavioral Val R6	-2.30	4.18	27.85	84.83	10.16	12.80	12.70
Victory RS Small Cap Growth R6	3.86	3.09	0.44	34.82	15.92	22.23	14.64
Russell 2000 TR USD	**1.94**	**4.29**	**17.54**	**62.03**	**13.52**	**16.47**	**12.34**
INTERNATIONAL EQUITY FUNDS							
Dodge & Cox International Stock	-1.61	4.66	12.15	40.39	7.48	10.22	5.52
DFA Large Cap International I	-1.44	5.55	10.41	34.71	8.60	10.56	5.85
MFS International Growth R6	-0.24	7.01	7.77	31.10	12.74	14.08	8.16
MSCI EAFE NR USD	**-1.13**	**5.17**	**8.83**	**32.35**	**8.27**	**10.28**	**5.89**
Hartford Schroders Emerging Mkts Eq F	0.56	2.90	6.54	43.85	13.28	15.03	5.57
MSCI EM NR USD	**0.17**	**5.05**	**7.45**	**40.90**	**11.27**	**13.03**	**4.28**

Source: SEI Investments, Morningstar Investments

Returns less than one year are not annualized. Past performance is no indication of future results. The information presented has been obtained from sources believed to be accurate and reliable. Securities are not FDIC insured, have no bank guarantee and may lose value.

CITY OF SAN LEANDRO

For Period Ending June 30, 2021

Fund Name	1-Month Return	3-Month Return	Year-to-Date	1-Year Return	3-Year Return	5-Year Return	10-Year Return
REAL ESTATE FUNDS							
Vanguard Real Estate ETF	2.62	11.66	21.37	34.33	11.92	7.06	9.72
BOND FUNDS							
PIMCO Total Return Instl	0.75	2.09	-1.06	1.47	5.77	3.84	3.77
PGIM Total Return Bond R6	1.25	3.14	-1.44	2.70	6.24	4.31	4.76
Vanguard Short-Term Investment-Grade Adm	-0.05	0.68	0.21	2.13	4.18	2.80	2.61
DoubleLine Core Fixed Income I	0.60	1.86	-0.25	3.33	4.70	3.29	4.23
BBgBarc US Agg Bond TR USD	**0.70**	**1.83**	**-1.60**	**-0.33**	**5.34**	**3.03**	**3.39**
PIMCO High Yield Instl	1.26	2.48	2.54	12.44	6.89	6.59	5.99
ICE BofA US High Yield Mstr II Index	**1.37**	**2.77**	**3.70**	**15.62**	**7.15**	**7.30**	**6.53**

Source: SEI Investments, Morningstar Investments

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As of: July 31, 2021

Economic and Market Commentary
Third Quarter 2021

Market Overview

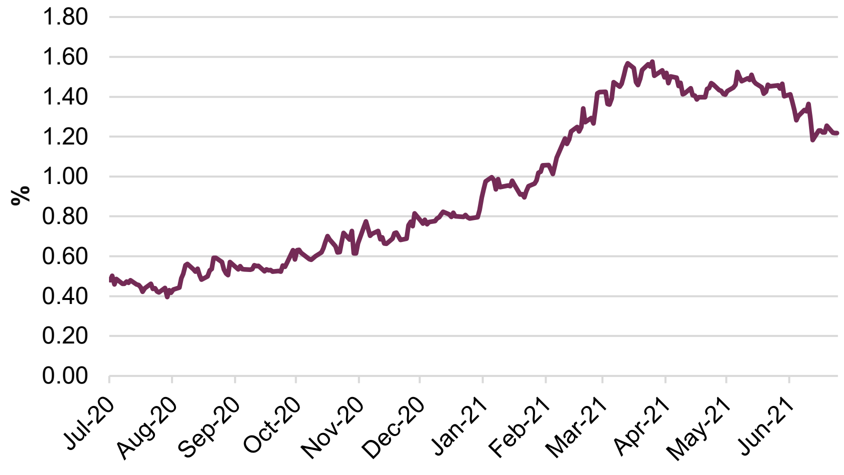
Brushing aside mounting concerns about higher inflation and a more contagious Covid variant spreading around the world, investors bought assets of almost any stripe in the second quarter. For the fifth consecutive quarter, global equities marched higher as corporate earnings continued a strong recovery that outperformed already lofty expectations. In a bid to hedge potential inflation risk, asset classes like commodities and real estate[1] have seen increasing demand this year leading to strong performance. Meanwhile, the bond market rallied throughout most of the second quarter and snapped its trend of rising interest rates that began last August.

Global equities closed the second quarter at record highs, capping off a strong first half of 2021 that saw shares advance 12.8 percent.[2] Bullish sentiment was buoyed by the accelerating pace of vaccine distribution globally, leading to further lifting of pandemic-related economic restrictions. Worry about elevated valuation levels stayed on the back burner as investors continued to find paltry yields offered in the bond market.

U.S. stocks carried the torch in the second quarter, outperforming international equity markets.[3] However, in a pivot from the prior two quarters, sectors with more sensitivity to the strength of the economic cycle took a backseat to more secular growth-oriented areas as questions emerged about the sustainability of fiscal and monetary policy support.

Falling long-term interest rates also reflected the possibility of a premature moderation in fiscal and monetary stimulus. The rate on the bellwether 10-year Treasury note fell 30 basis points from 1.74 percent at the end of March to 1.44 percent by the end of June. A flattening of the yield curve, as measured by the spread between longer- and shorter-maturity bonds, and further compression in credit spreads helped the bond market post healthy returns in the second quarter after fighting a steepening curve over the prior ten months.

U.S. Treasury Yield Curve: 10-Year Bond Minus 2-Year Bond



Source: Bloomberg

At first glance, falling interest rates seem counterintuitive amid the highest inflation readings seen in decades. After all, it makes sense that investors should demand higher -- not lower -- yields if inflation is heating up. But it's the second derivative of inflation that has the market's attention. Namely, the implications for future economic policy and ultimately growth potential.

[1] The Bloomberg Commodity Index returned 21.15 percent and the S&P U.S. REIT Index returned 21.70 percent for the year-to-date period ending June 30, 2021.
[2] S&P Global Broad Market index including dividends
[3] The S&P 500 Index returned 8.55 percent in the second quarter versus international stocks as represented by MSCI EAFE which returned 5.17 percent over the same period.

As of: July 31, 2021

Economic Enigma

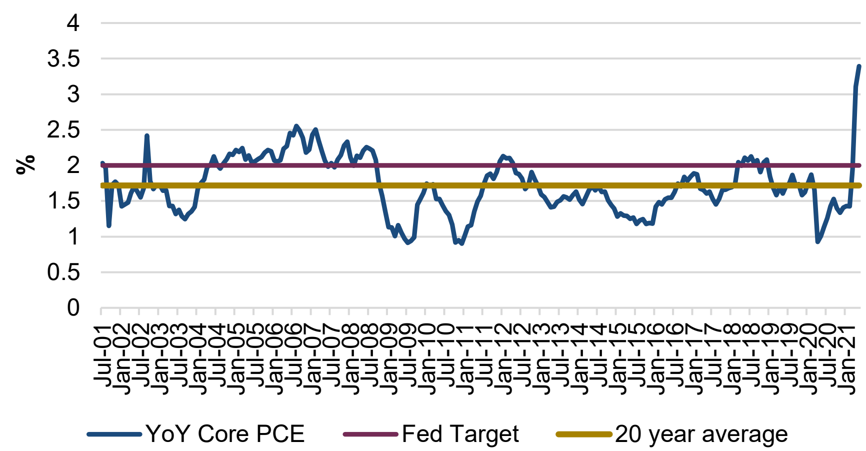
From toilet paper shortages to soaring home prices, the global pandemic has brought with it many atypical economic phenomena. Wild swings in both supply and demand across virtually all assets, goods and services have kept economists perplexed as to what current economic data says about the future. What began with fears of a deflationary death spiral at the onset of the pandemic had completed a one-eighty into worries over out-of-control inflation entering the second quarter of 2021. An unprecedented fiscal and monetary policy response to a rare, but economically devastating, event has muddied the economic waters by stirring up questions about a sustainable long-term equilibrium for both growth and inflation.

A key question for the U.S. economy and financial markets alike centers on the inflation outlook and its implications for monetary policy. The Federal Reserve (Fed) has been keenly focused on achieving a full labor market recovery while relaxing its mandate to keep prices in check under its recently revised policy-making framework. However, the exact length of the longer inflation leash remains in question as a surge in reopening demand is met by supply chain disruptions.

Prior to the pandemic, the Fed consistently undershot its stated goal of 2 percent inflation despite what at the time was the largest expansion of its balance sheet in history following the Global Financial Crisis. Embedded in the Fed's mindset was that monetary policy impacted longer-term inflation, but with a lagged effect. In other words, they felt it was necessary to be more proactive than reactive to the price stability mandate. But even as unemployment fell to record low levels by the end of the last decade, models like the Phillips Curve that tie employment conditions to inflation proved to be "dogs that didn't bark".

Recognizing a disconnect between the academic assumptions about the impact of monetary policy on inflation and employment and the empirical experience, policy makers decided they had some cover to see how far they could push the limits of monetary policy to address the current crisis. Under the new framework, the U.S. central bank now aims to "achieve inflation that averages 2 percent *over time*"[4] (emphasis added), while also seeking broader-based positive employment outcomes. This simple yet significant change opened the door for inflation targeting "moderately above 2 percent for some time" to compensate for the prior cycle's underachievement.

Inflation Off Target



Source: Bloomberg, Bureau of Economic Analysis (as of May 31, 2021)

On one hand, the change was welcomed by financial markets because the new framework gives the Fed more flexibility to get the economy back up to full speed. On the other hand, it introduces greater uncertainty given the ambiguity around the time horizon and, consequently, makes predicting the Fed's next move that much more challenging. The exact definitions of "moderately" and "some time" remains elusive, perhaps even to the Fed itself.

May's Core Personal Consumption Expenditures Index (the Fed's preferred inflation marker), along with other inflation measures, came in at 3.39 percent, well above expectations and at levels not seen in decades. This data was taken in stride by policy makers and financial markets with the expectation that current data is not necessarily indicative of a longer-term trend. As evidence of the transitory nature of the spike in prices, economists point to items like used car prices, which are surging as a knock-on effect of the supply chain disruption in the new car market.

The Fed's employment bogey is clearer. 6.8 million fewer Americans are employed relative to pre-pandemic levels.[5] Achieving the objective of bringing that number

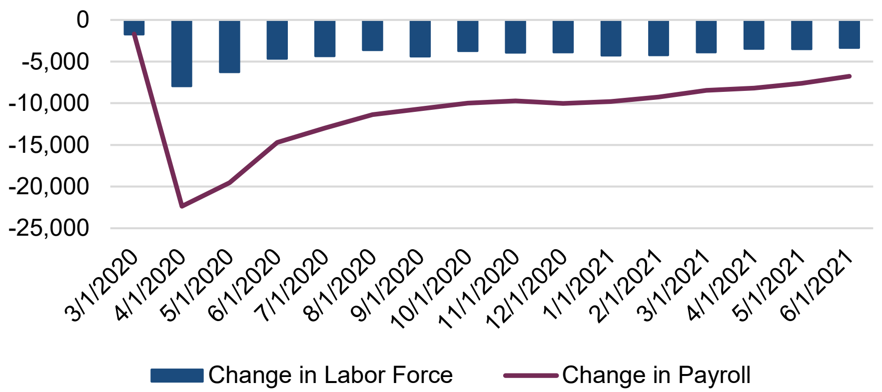
[4] Federal Reserve Board - 2020 Statement on Longer-Run Goals and Monetary Policy Strategy

[5] Source: U.S. Bureau of Labor Statistics

closer to zero, or what the Fed deems "maximum employment", hit a snag as the pace of hiring fell short of expectations in April and May despite job openings and quit rates hitting new highs. Explanations for the failure to meet the increasing demand for labor ranged from enhanced unemployment benefits to caregiving challenges to ongoing pandemic fear. In reality, the shortfall appears to be a combination of these factors.

June's increase of 850,000 non-farm payrolls relieved some concerns that the pace of hiring was off track after two consecutive disappointing months.[6] Most encouragingly, employment in the sector most impacted by the pandemic, leisure and hospitality, saw the lion's share of growth with 343,000 new jobs added in June.[7] However, the nearly 2 million Americans that have left the workforce in the wake of the pandemic present a troublesome obstacle to achieving a full labor market recovery. [8]

Closing the Gap
Cumulative Change in Labor Force & Payrolls Since February 2020 (in thousands)



Source: U.S. Bureau of Labor Statistics

The "transitory" inflation narrative firmly planted in the market's psyche prompted close scrutiny of June's Federal Open Market Committee (FOMC) meeting for hints as to when monetary policy accommodation will be weaned from the system. Heightened attention was paid to the survey of FOMC members' projections, also known as the "Dot Plot", that suggested the timeline for tapering quantitative easing and eventual rate hikes could be shorter than previously expected.

In his press conference following the FOMC meeting, Chairman Powell was quick to downplay this shift in expectations by saying the projections should be "taken with a grain of salt", and reinforcing the highly uncertain speed of the recovery given the unusual nature of the downturn in the economy. However, reading between the lines, one might suspect that the FOMC voting members are a least thinking about tapering despite comments to the contrary.[9]

Forecasting future economic conditions is always challenging and this cycle's unique forces in both directions makes that endeavor even more difficult. At the foundation of the "wall of worry" for investors today remains the central bank's ability to support the recovery. Should the inflation outlook shift from being transitory to something longer lasting, it will likely have major implications for Fed policy and subsequently all financial assets. More specifically, it might force the Fed to confront the paradox of having to tap the breaks to curtail inflation before the economy gets fully back on its feet.

Having learned important lessons from the 2013 "taper tantrum" and 2018's "autopilot" remarks, the Fed is keenly aware of the market's sensitivity to not only its policy actions, but also to mere guidance on what it might do in the future. For this reason, we expect the Fed to be extremely careful about when and how it introduces a pivot toward removing accommodation. There is no ambiguity about the delicate co-dependency between financial markets and the real economy – a reality policy makers cannot afford to ignore.

In for a penny, in for a pound

As an encore to the $1.9 trillion fiscal stimulus package passed earlier in the first quarter, the Biden administration crossed the aisle to reach an agreement in principle for the largest ever infrastructure plan with a price tag of $579 billion. While significantly scaled back from President Biden's original infrastructure proposal[10] that included

[6] Source: U.S. Bureau of Labor Statistics
[7] Source: U.S. Bureau of Labor Statistics
[8] U.S. Bureau of Labor Statistics, Employment Situation Summary, July 2, 2021

[9] Chairmen Powell reiterated that the Fed is "not even thinking about thinking about raising rates" at the post FOMC meeting press conference.
[10] President Biden's proposed American Jobs Plan called for $2.25 trillion in spending on infrastructure

funding for a variety of social programs, the package will add another booster shot to the already staggering $6.2 trillion economic antidote from the fiscal side of the house. In addition to scaling back the scope of the bill, an agreement with Republicans required that corporate tax rates remain unchanged. As a compromise, the new spending will instead be funded by increased enforcement of the existing tax code.

Up next on the fiscal policy agenda are more spending priorities that will include offsetting tax increases which will need to clear the budget reconciliation process to bypass a Republican filibuster in the Senate. Of particular concern for equity and corporate bond markets would be higher corporate tax rates that may accompany new spending proposals. With Democrats holding the narrowest of majorities in Congress, the administration's wish list for its budget is expected to be scaled back to earn the support of more moderate members of the party.

Looking Ahead

Heading into the back half of 2021 we expect a continuation of the global economic momentum driving the speedy recovery in corporate fundamentals, while we are keeping a close eye out for potential catalysts that would alter the global economy's longer-term trajectory. Despite our sanguine economic outlook, corporate earnings expectations have already reset to reflect a fairly optimistic scenario and comparisons to prior periods will become more challenging.

For this reason, we believe the pace of appreciation in equity markets over the first half-year is unlikely to be maintained in the second half. We remain most constructive on the more economically sensitive areas of the equity market, including energy, financials and industrials, that appear heavily discounted compared to more defensive peers in the healthcare, consumer staples, and technology sectors.

Within fixed income markets we expect intermediate to longer maturity interest rates to retrace their recent move lower and restart their upward trajectory as the global glut of liquidity slowly diminishes. Further, while corporate fundamentals continue to improve, increased merger and acquisition activity, dividend payouts and share buybacks could become a limiting factor to that trend. Given the already low risk premiums offered, we foresee limited opportunity for additional credit spread compression.

Among the most significant risks to our outlook and the current narrative in general is the fragile feedback loop between economic data and monetary policy discussed above. More specifically, the Fed's pragmatism could be tested if inflation starts to look less than transitory. While some recent drivers of higher inflation readings are indeed likely to fade, other variables have the potential to take the baton and flip the script on the transitory story. Perhaps the most notable of those variables is rent, which represents about a third of the Consumer Price Index calculation and has yet to meaningfully accelerate despite a record surge in home prices.