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INVEST WITH CONFIDENCE

US STRUCTURED RESEARCH EQUITY STRATEGY

8 OCTOBER 2019

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Portfolio Manager

Ira Carnahan, CFA
Portfolio Specialist

Tedd M. Alexander III
Institutional Client
Service Executive

Employees' Retirement Fund
of the City of DALLAS

For Employees' Retirement Fund of the City of Dallas only. Not for further distribution.

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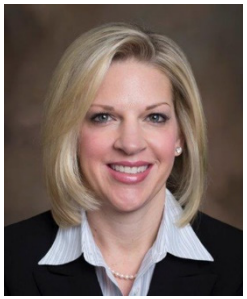
T. ROWE PRICE—PRESENTERS



Ann Holcomb, CFA

Portfolio Manager

- 24 years of investment experience
- 23 years with T. Rowe Price

Ira Carnahan, CFA

Portfolio Specialist

- 13 years of investment experience
- 13 years with T. Rowe Price

Tedd M. Alexander III

Institutional Client Service Executive

- 31 years of industry experience
- 4 years with T. Rowe Price

CLIENT OBJECTIVE

Employees' Retirement Fund of the City of Dallas

Total Assets: 142,681,625 USD

Inception Date: 21 March 2006
As of 30 September 2019

Objective

- Produce consistent excess return through the use of proprietary, fundamental research combined with rules-based portfolio construction.

Mandate

- US Structured Research Equity Strategy: Separately Managed Portfolio
- Strategy Assets as of 30 June 2019: 32.1 Billion USD[1]

Benchmark

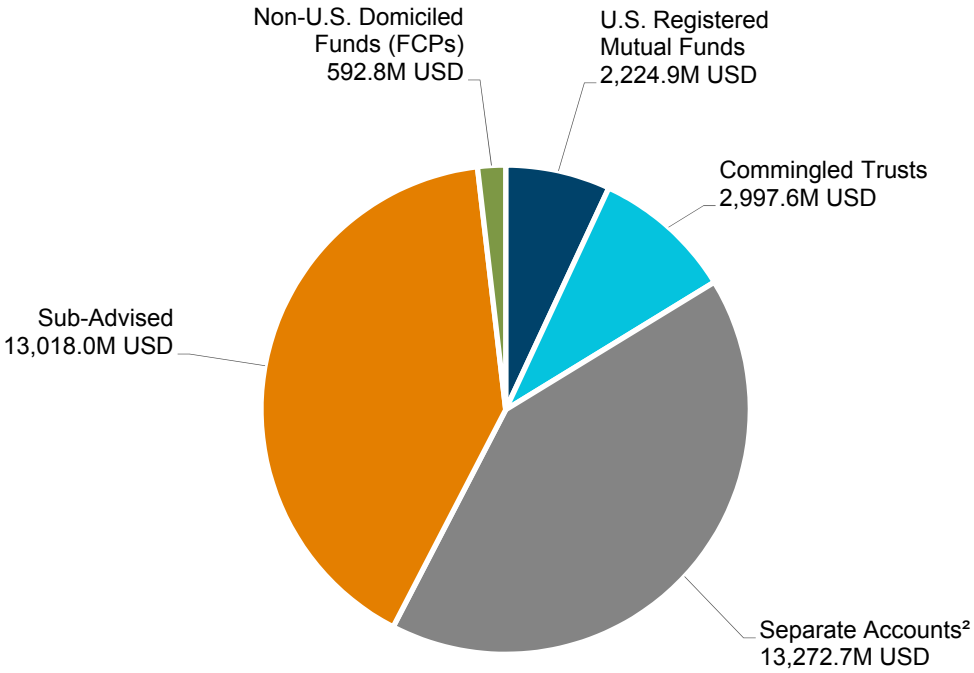
- S&P 500 Index

[1] The combined US Structured Research Equity Strategy assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates.

ASSETS UNDER MANAGEMENT

US Structured Research Equity Strategy: 32.1 Billion USD[1]

As of 30 June 2019



Structured Research investing is a significant business for T. Rowe Price.

[1] The combined US Structured Research Equity Strategy assets managed by T. Rowe Price Associates, Inc. and its investment advisory affiliates.

[2] Corporate, Public, Non-Profit, Taft-Hartley clients, and Endowment/Foundations.

Strategy assets under management for the T. Rowe Price U.S.-registered mutual funds and common trust funds are calculated based on the closing price of the security in its respective market and may differ from the net asset value of the fund.

Numbers may not total due to rounding.

EQUITY RESEARCH TEAM

As of 30 June 2019

BAL Baltimore HKG Hong Kong LON London SFO San Francisco SGP Singapore SYD Sydney TOK Tokyo ZUR Zurich

HEADS OF EQUITY

Christopher D. Alderson HKG
Co-Head of Global Equity
Head of International Equity

Eric L. Veiel, CFA BAL
Co-Head of Global Equity
Head of U.S. Equity

ASSOCIATE HEADS OF EMEA EQUITY

Oliver Bell, IMC LON
Emerging Markets

Mitchell Todd, CA LON
Developed Markets

DIRECTORS OF EQUITY RESEARCH

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EMEA and Latin America

Joshua Nelson BAL
North America

Tetsuji Inoue, CPA HKG
Asia

Stephon Jackson, CFA LON
Developed Europe

Jason Polun, CFA BAL
North America

Maria Elena Drew LON
Responsible Investing

Thomas Watson, CFA BAL
North America

ASSOCIATE DIRECTORS OF EQUITY RESEARCH

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Australia

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U.S. Biotech

Melissa Gallagher, Ph.D. LON
OUS Pharma/Biotech

John Hall, Ph.D. BAL
U.S. SMID Biotech

Jeffrey Holford, Ph.D., ACA BAL
Pharma

Rachel Jonas BAL
U.S. SMID Health Care

Anne Daub BAL
Biotech

Bin Shen, CFA LON
Euro. Healthcare Services & Medtech

Kim Tracey SYD
Australia Healthcare/REITs

Jon Wood, CFA BAL
U.S. Medical Devices/Tools

Rouven Wool-Lewis, Ph.D. BAL
U.S. Services & Hospitals

Nina Xu BAL
U.S. Services & Equipment

INDUSTRIALS

Peter Bates, CFA[1,2] BAL
U.S. Conglomerates

Jason Adams BAL
U.S. Aerospace and Defense

Andrew Chang SGP
Japanese Industrials

Simon Cheng, CFA, CPA HKG
Greater China Industrials

Andrew Davis BAL
U.S. Transports

Ryan Ferro, CFA BAL
U.S. SMID Industrials

Joel Grant, CFA BAL
U.S. Autos

Gianluca Guicciardi, CFA LON
Capital Goods

Dan Hirsch, CFA BAL
U.S. Industrials

Vivek Rajeswaran, CFA BAL
Machinery & Oil Services

Melanie Rizzo, CFA BAL
U.S. Trucking/Machinery

Rupinder Vig LON
Capital Goods

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Greater China Tech & Automation

Greg Dunham, CFA BAL
U.S. Software

Hiromasa Ikeda HKG
Japan Tech

Tobias Mueller, CFA[1] LON
Europe Semi./Software

Dom Rizzo LON
Europe Semi./Software

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U.S. Hardware

Anthony Wang BAL
U.S. Semi.

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Alison Yip HKG
Asia Ex-Japan Tech Hardware

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Paul Cho SFO
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Jacqueline Liu HKG
Asia Ex-Japan Internet

Jim Stillwagon BAL
U.S. Advertising/Media

Christopher Whitehouse LON
Europe Media/Telecom

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Paulina Amieva BAL
Latin America Generalist

Tim Bei, CFA SFO
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Jon Casper BAL
U.S. Consumer

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Michael Jacobs TOK
SMID Japan/Consumer & Services

Rekha Marda BAL
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Sridhar Nishtala SGP
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Sebastian Schrott LON
European Luxury/Retail

Vivian Si BAL
U.S. Mass Merch./Apparel

Brian Solomon, CFA BAL
U.S. Cruise/Lodging

Konstantin Stoev, CFA ZUR
European Staples and Auto

John Williams, CFA BAL
Large-Cap Consumer Staples

Eric Yuan HKG
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U.S. Small-Cap Banks

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Japan Financials

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U.S. P&C Insurance

Jihong Min SGP
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U.S. Banks

Matt Snowling, CFA BAL
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Zenon Voyiatzis LON
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U.S. Real Estate

Pavel Vedrov LON
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Asia Ex-Japan Utilities/Infra.

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Jon Hussey BAL
U.S. Agriculture

Shinwoo Kim BAL
Majors/U.S. E&P

Matt Mahon BAL
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Chris O'Neill BAL
U.S. E&P

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Metals & Mining

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Australian Metals & Mining

John Sherman BAL
European Chemicals/Indus.

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U.S. Business Services

Maria Muller, CA LON
Europe Bus. Serv.

Ashley Woodruff, CFA BAL
U.S. Business Services

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Iona Dent LON
EMEA Banks

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Greater China SMID-Cap

Vishnu Gopal HKG
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Global

Jacob Kann, CFA BAL
Global

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EMEA

Johannes Loefstrand LON
EMEA

Oxana Lyalina, CFA LON
EMEA

Aaron Mazur SYD
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Europe Small-Cap

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EMEA

Todd Reese BAL
OUS

Alexander Roik, CFA BAL
SMID Value

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Europe Small-Cap

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Latin America

Verena Wachnitz, CFA[1] LON
Latin America

Dai Wang HKG
Global

Marta Yago LON
Latin America

Yang Yang, CFA TOK
Japan

159 Equity Research Professionals worldwide[4]

[1] Also has portfolio management responsibilities.
[2] Sector Team Leader.
[3] Sector Team Leader without official research coverage.
[4] 10 sector portfolio managers, 94 research analysts, 40 associate research analysts, 7 quantitative analysts, and 8 specialty analysts as of 30 June 2019.
Highlighted names reflect analysts with coverage responsibilities for portfolio holdings.
Subject to change without notice.

US STRUCTURED RESEARCH EQUITY STRATEGY—ANALYST EXPERIENCE

As of 30 June 2019

Analyst	Sector	% of US Structured Research Analyst Representative Portfolio Allocation	Years of Investment Experience
Paul Greene	Communication Services	11.50%	
Emily Scudder, CFA, CPA	Information Technology	6.91	
Ken Allen	Information Technology	6.69	
Jon Friar	Information Technology	5.90	
John Williams, CFA	Consumer Staples	5.33	
Jeff Holford, Ph.D.	Health Care	5.05	
Gregory Locraft	Financials	4.36	
Ryan Hedrick, CFA	Utilities	3.92	
Jon Wood	Health Care	3.86	
Paul Cho	Communication Services	3.75	
Jason Adams	Industrials & Business Services	3.42	
Tony Wang	Information Technology	3.36	
Gabriel Solomon, CFA	Financials	3.35	
Rouven Wool-Lewis, Ph.D.	Health Care	2.86	
Peter Bates, CFA	Industrials & Business Services	2.82	
Eric Devilbiss, CFA	Consumer Discretionary	2.76	
Shinwoo Kim	Energy	2.67	
Vivian Si	Consumer Discretionary	2.61	
Vincent DeAugustino, CFA	Financials	2.46	
Vivek Rajeswaran, CFA	Materials	1.96	
Jason Nogueira, CFA	Consumer Discretionary	1.95	
Andrew Davis	Industrials & Business Services	1.88	
Ziad Bakri, CFA, M.D.	Health Care	1.85	
Joel Grant, CFA	Consumer Discretionary	1.45	
Matt Mahon	Materials	1.28	
Matt Snowling, CFA	Financials	1.24	
Christian O'Neill	Energy	0.97	
Preeta Ragavan, CFA	Real Estate	0.87	
Jon Hussey	Consumer Staples	0.65	

The representative portfolio is an account we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of other accounts in the strategy. Information regarding the representative portfolio and the other accounts in the strategy is available upon request.

US STRUCTURED RESEARCH EQUITY ADDITIONS/DEPARTURES

Three Months Ended 30 June 2019

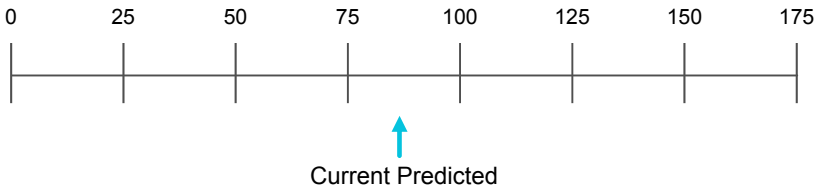
US Structured Research Equity Investment Professional Departures			
Departed	**Name**	**Responsibilities**	**Reason for Leaving**
2Q19	Ian McDonald, CFA	Financials	–

PORTFOLIO CONSTRUCTION RISK MANAGEMENT TARGETS

Employees' Retirement Fund of the City of Dallas vs. S&P 500 Index

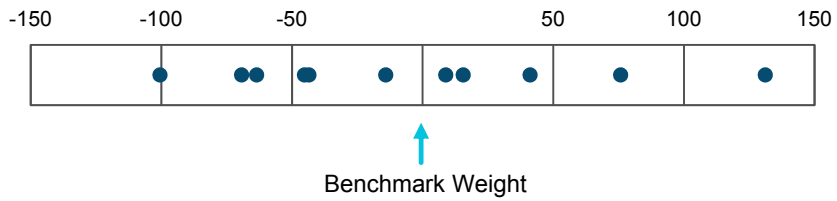
As of 30 June 2019

Tracking Error[1]



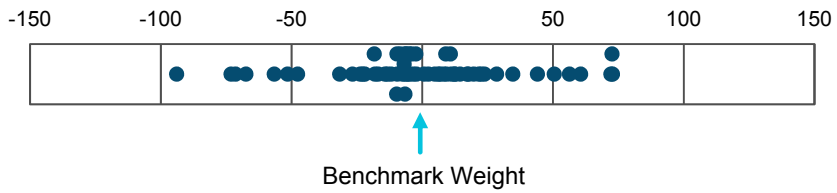
Less than 175 bps vs. benchmark

Sector Exposure (11 Sectors)



± 150 bps vs. benchmark

Industry Exposure (63 Industries)



± 100 bps vs. benchmark

Maximum Active Position Size

± 100 bps for stocks <3% of benchmark
± 150 bps for stocks >3% of benchmark

Weight of Non-Index Stocks

10% limit

Maximum Position Size of Non-Index Stocks

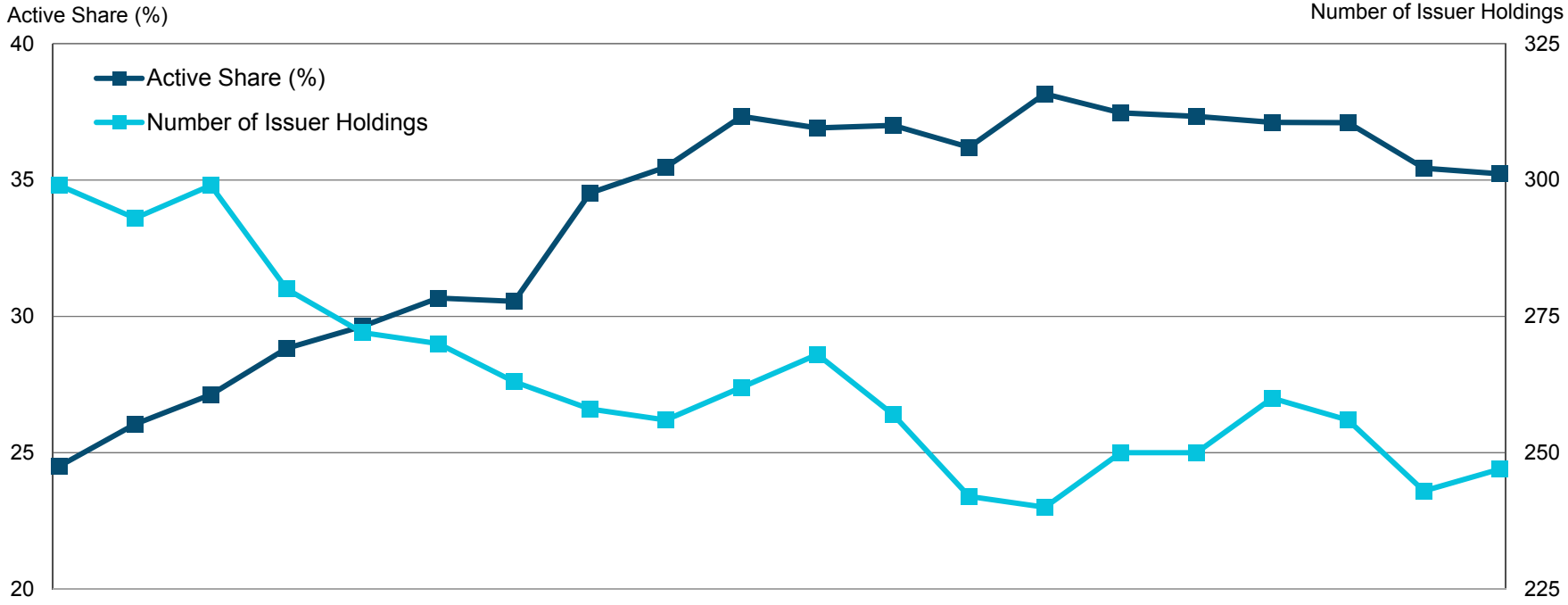
40 bps max or 50 bps if strong buy-rated

[1] BARRA, Inc.'s analytics and data (mscibarra.com) were used in the preparation of this report. Copyright© 2019, BARRA, Inc. All rights reserved.

HISTORICAL ACTIVE SHARE AND NUMBER OF HOLDINGS

Employees' Retirement Fund of the City of Dallas vs. S&P 500 Index

31 December 2009 Through 30 June 2019



	31 Dec 2009	30 Jun 2010	31 Dec 2010	30 Jun 2011	31 Dec 2011	30 Jun 2012	31 Dec 2012	30 Jun 2013	31 Dec 2013	30 Jun 2014	31 Dec 2014	30 Jun 2015	31 Dec 2015	30 Jun 2016	31 Dec 2016	30 Jun 2017	31 Dec 2017	30 Jun 2018	31 Dec 2018	30 Jun 2019
Active Share (%)	24.51	26.05	27.13	28.83	29.64	30.67	30.55	34.52	35.47	37.33	36.91	37.00	36.20	38.16	37.46	37.33	37.11	37.10	35.43	35.23
Number of Issuer Holdings	299	293	299	280	272	270	263	258	256	262	268	257	242	240	250	250	260	256	243	247

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Active Share is a holdings-based measure of active management representing the percentage of a portfolio's holdings that differ from those in its benchmark. Compared with tracking error, which measures the standard deviation of the difference in a manager's returns versus the index returns, Active Share allows investors to get a clearer understanding of what a manager is doing to drive performance, rather than drawing conclusions from observed returns. The greater the difference between the asset composition of a product and its benchmark, the greater the active share is.

PERFORMANCE

Employees' Retirement Fund of the City of Dallas

Periods Ended 30 September 2019
Figures are Calculated in U.S. Dollars

				Annualized			
	Three Months	Year-to-Date	One Year	Three Years	Five Years	Ten Years	Since Client Inception 21 Mar 2006
Employees' Retirement Fund of the City of Dallas (Gross of Fees)[1]	1.64%	21.65%	5.13%	14.48%	11.90%	13.76%	9.42%
Employees' Retirement Fund of the City of Dallas (Net of Fees)[2]	1.56	21.38	4.81	14.14	11.54	13.41	9.09
S&P 500 Index[3]	1.70	20.55	4.25	13.39	10.84	13.24	8.54
Value Added (Net of Fees)[4]	-0.14	0.83	0.56	0.75	0.70	0.17	0.55

Past performance is not a reliable indicator of future performance.

[1] Performance figures are shown gross of advisory fees. Total returns would be lower as a result of the deduction of such fees.

[2] Net returns reflect the deduction of advisory fees.

[3] Returns shown with gross dividends reinvested.

[4] The Value Added row is shown as Employees' Retirement Fund of the City of Dallas (Net of Fees) minus the benchmark in the previous row.

Source: T. Rowe Price Modified Dietz Rate of Return.

Total returns include all realized and unrealized gains and losses plus income.

All investments are subject to risk, including the possible loss of the money you invest.

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PERFORMANCE

Employees' Retirement Fund of the City of Dallas

Periods Ended 30 June 2019
Figures are Calculated in U.S. Dollars

				Annualized			
	Three Months	Year-to-Date	One Year	Three Years	Five Years	Ten Years	Since Client Inception 21 Mar 2006
Employees' Retirement Fund of the City of Dallas (Gross of Fees)[1]	4.45%	19.69%	10.88%	15.54%	11.68%	15.20%	9.48%
Employees' Retirement Fund of the City of Dallas (Net of Fees)[2]	4.37	19.51	10.54	15.19	11.33	14.85	9.14
S&P 500 Index[3]	4.30	18.54	10.42	14.19	10.71	14.70	8.57
Value Added (Net of Fees)[4]	0.07	0.97	0.12	1.00	0.62	0.15	0.57

Calendar Years	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Employees' Retirement Fund of the City of Dallas (Gross of Fees)[1]	-36.03%	30.18%	14.18%	1.95%	16.78%	33.45%	12.88%	3.68%	10.93%	24.37%	-3.94%
Employees' Retirement Fund of the City of Dallas (Net of Fees)[2]	-36.23	29.80	13.84	1.63	16.42	33.06	12.53	3.31	10.58	24.00	-4.23
S&P 500 Index[3]	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38	11.96	21.83	-4.38
Value Added (Net of Fees)[4]	0.77	3.34	-1.22	-0.48	0.42	0.67	-1.16	1.93	-1.38	2.17	0.15

Past performance is not a reliable indicator of future performance.

[1] Performance figures are shown gross of advisory fees. Total returns would be lower as a result of the deduction of such fees.

[2] Net returns reflect the deduction of advisory fees.

[3] Returns shown with gross dividends reinvested.

[4] The Value Added row is shown as Employees' Retirement Fund of the City of Dallas (Net of Fees) minus the benchmark in the previous row.

Source: T. Rowe Price Modified Dietz Rate of Return.

Total returns include all realized and unrealized gains and losses plus income.

All investments are subject to risk, including the possible loss of the money you invest.

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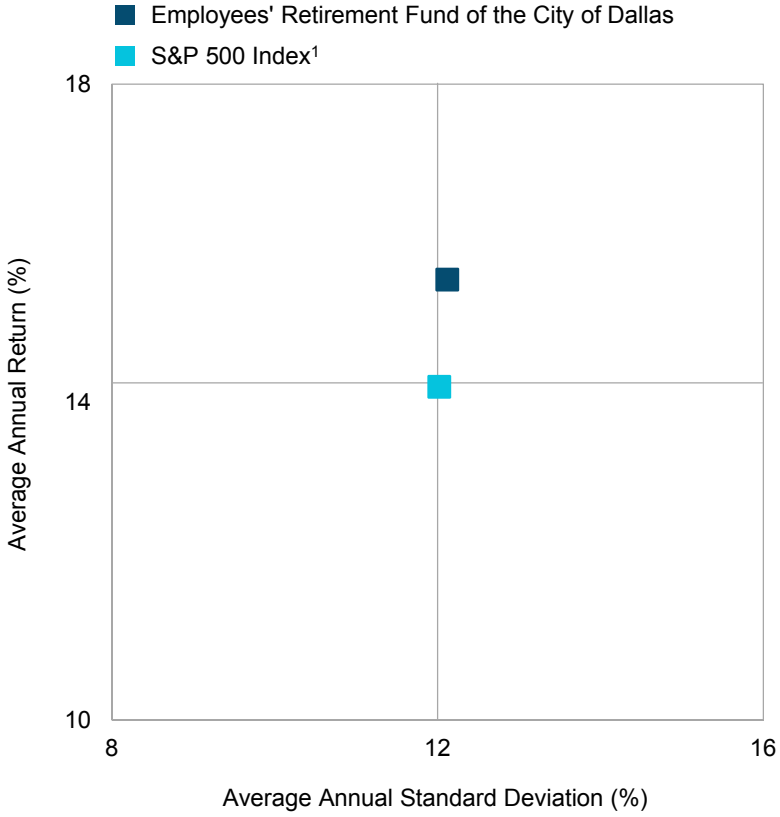
TOTAL RETURN PERFORMANCE

Risk/Return Characteristics

Three Years Ended 30 June 2019
Figures are Calculated in U.S. Dollars

	Three Years	
	Employees' Retirement Fund of the City of Dallas	**S&P 500 Index[1]**
Annualized Total Return	15.54%	14.19%
Annualized Standard Deviation	12.12%	12.02%
Historical Tracking Error	1.08%	0.00%
Beta	1.00	1.00
R-Squared	0.99	1.00
Alpha	1.15%	0.00%
Sharpe Ratio	1.15	1.05
Information Ratio	1.25	0.00



Past performance is not a reliable indicator of future performance.

[1] Returns shown with gross dividends reinvested.

Total return includes all realized and unrealized gains and losses plus income. Statistics based on monthly gross returns. Returns would have been lower as the result of the deduction of applicable fees.

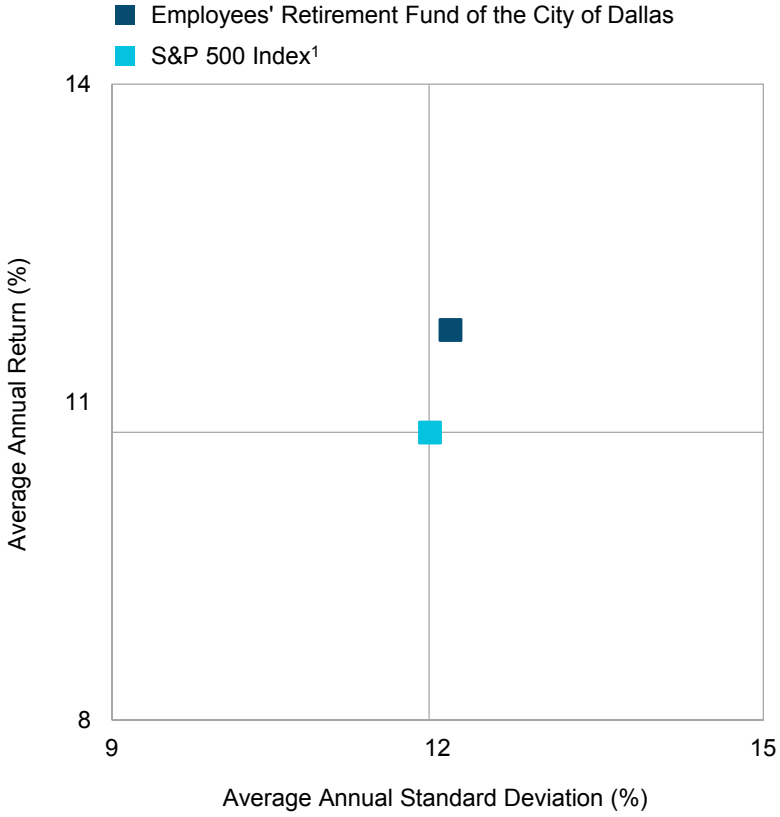
201811-610610

TOTAL RETURN PERFORMANCE

Risk/Return Characteristics

Five Years Ended 30 June 2019
Figures are Calculated in U.S. Dollars

	Five Years	
	Employees' Retirement Fund of the City of Dallas	**S&P 500 Index[1]**
Annualized Total Return	11.68%	10.71%
Annualized Standard Deviation	12.12%	11.93%
Historical Tracking Error	1.05%	0.00%
Beta	1.01	1.00
R-Squared	0.99	1.00
Alpha	0.78%	0.00%
Sharpe Ratio	0.89	0.82
Information Ratio	0.92	0.00



Past performance is not a reliable indicator of future performance.

[1] Returns shown with gross dividends reinvested.

Total return includes all realized and unrealized gains and losses plus income. Statistics based on monthly gross returns. Returns would have been lower as the result of the deduction of applicable fees.

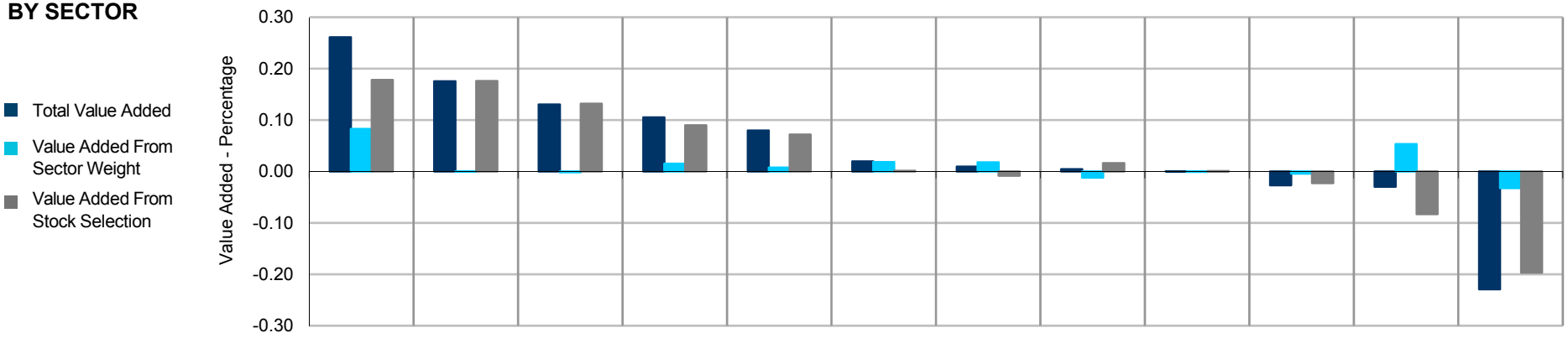
201811-610610

ATTRIBUTION ANALYSIS (USD)

Employees' Retirement Fund of the City of Dallas vs. S&P 500 Index[1]

Three Months Ended 30 June 2019

BY SECTOR



	Total	Indust & Bus Svcs	Utilities	Consum Disc	Information Technology	Real Estate	Comm Svcs	Financials	Materials	Consum Stpls	Energy	Health Care
Over (Under) Weight	–	-0.45	0.16	1.31	0.41	-1.00	0.76	0.09	-0.14	-0.43	-0.63	-0.69
Portfolio Weight (Ending)	100.00	8.93	3.47	11.51	21.89	2.05	10.95	13.16	2.57	6.93	4.41	13.51
Index Weight (Ending)	100.00	9.38	3.31	10.19	21.48	3.05	10.19	13.07	2.71	7.36	5.05	14.20
Portfolio Performance	4.56	5.64	7.51	6.09	6.42	2.53	4.34	8.13	6.77	3.33	-4.61	-0.08
Index Performance	4.30	3.57	3.48	5.28	6.06	2.46	4.49	8.00	6.86	3.61	-2.83	1.38

Past performance is not a reliable indicator of future performance.

[1] Returns shown with gross dividends reinvested.

Numbers may not total due to rounding; all numbers are percentages.

Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that that will not receive a classification assignment in the detailed structure shown. Returns will not match official T. Rowe Price performance because FactSet uses different exchange rate sources and does not capture intra-day trading. Performance for each security is obtained in the local currency and, if necessary, is converted to U.S. dollars using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested.

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Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees.

PERFORMANCE ATTRIBUTION

Employees' Retirement Fund of the City of Dallas

Three Months Ended 30 June 2019
Figures are Calculated in U.S. Dollars

SIGNIFICANT CONTRIBUTORS RELATIVE TO THE S&P 500 INDEX

Stock	Ending Over/ Underweight	Net Contribution	Industry	Business Description
American International Group	47 bps	10 bps	Insurance	American International Group is a global insurance company.
Facebook	55	8	Interactive Media & Services	Facebook is focused on building products that enable people to connect and share through mobile devices, personal computers and other surfaces.
3M	-41	8	Industrial Conglomerates	3M is a technology company.
Intel	-88	7	Semiconductors & Semiconductor Equipment	Intel is engaged in designing and manufacturing products and technologies, such as the cloud.
Northrop Grumman	33	7	Aerospace & Defense	Northrop Grumman is a global security company.

SIGNIFICANT DETRACTORS RELATIVE TO THE S&P 500 INDEX

Stock	Ending Over/ Underweight	Net Contribution	Industry	Business Description
Walt Disney	-40 bps	-8 bps	Entertainment	Walt Disney, formerly TWDC Holdco 613 Corp, is a worldwide entertainment company.
Lockheed Martin	-37	-7	Aerospace & Defense	Lockheed Martin is a security and aerospace company.
Qualcomm	26	-7	Semiconductors & Semiconductor Equipment	Qualcomm is engaged in the development and commercialization of a digital communication technology called code division multiple access (CDMA).
Adobe	-59	-6	Software	Adobe, formerly Adobe Systems Incorporated, is a software company.
Eli Lilly	-5	-6	Pharmaceuticals	Eli Lilly is engaged in drug manufacturing business.

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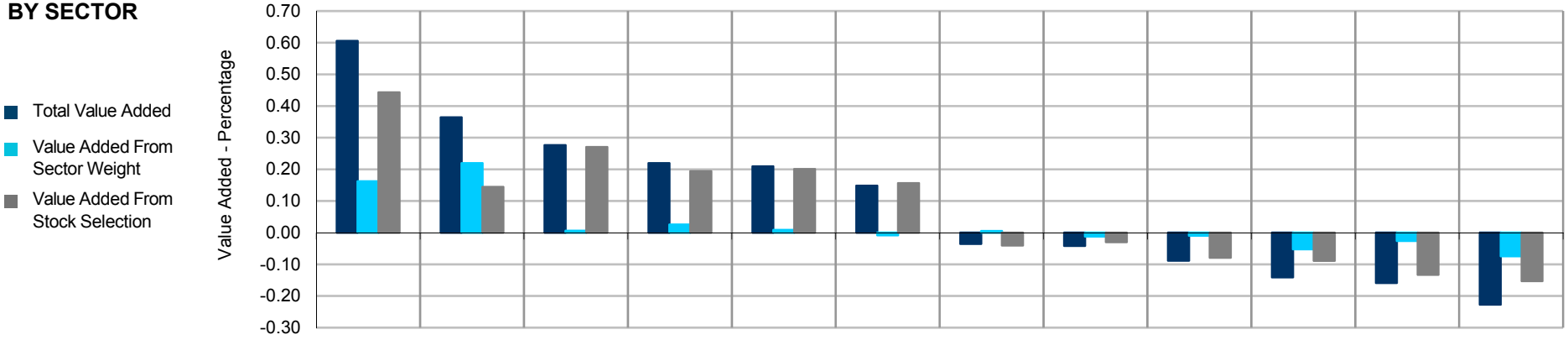
ATTRIBUTION ANALYSIS (USD)

Employees' Retirement Fund of the City of Dallas vs. S&P 500 Index[1]

One Year Ended 30 June 2019

BY SECTOR



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Over (Under) Weight	–	-0.63	0.41	0.16	1.31	-0.14	-0.45	0.76	0.09	-1.00	-0.43	-0.69
Portfolio Weight (Ending)	100.00	4.41	21.89	3.47	11.51	2.57	8.93	10.95	13.16	2.05	6.93	13.51
Index Weight (Ending)	100.00	5.05	21.48	3.31	10.19	2.71	9.38	10.19	13.07	3.05	7.36	14.20
Portfolio Performance	11.02	-10.86	19.68	25.65	13.25	9.87	10.33	3.97	5.85	11.62	13.78	11.79
Index Performance	10.42	-13.25	18.13	19.03	11.35	3.73	10.43	4.48	6.31	16.80	16.27	12.99

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PERFORMANCE ATTRIBUTION

Employees' Retirement Fund of the City of Dallas

One Year Ended 30 June 2019
Figures are Calculated in U.S. Dollars

SIGNIFICANT CONTRIBUTORS RELATIVE TO THE S&P 500 INDEX

Stock	Ending Over/ Underweight	Net Contribution	Industry	Business Description
Red Hat	-14 bps	18 bps	Software	Red Hat provides open source software solutions, using a community-powered approach to develop and offer operating system, virtualization, management, middleware, cloud, mobile and storage technologies.
Roper Technologies	54	15	Industrial Conglomerates	Roper Technologies is a technology company.
Comcast	52	14	Media	Comcast is a media and technology company.
Air Products & Chemicals	20	12	Chemicals	Air Products & Chemicals is an industrial gases company.
GE	31	12	Industrial Conglomerates	GE is a global digital industrial company.

SIGNIFICANT DETRACTORS RELATIVE TO THE S&P 500 INDEX

Stock	Ending Over/ Underweight	Net Contribution	Industry	Business Description
NVIDIA	17 bps	-16 bps	Semiconductors & Semiconductor Equipment	NVIDIA focuses on personal computer (PC) graphics, graphics processing unit (GPU) and also on artificial intelligence (AI).
Qualcomm	26	-15	Semiconductors & Semiconductor Equipment	Qualcomm is engaged in the development and commercialization of a digital communication technology called code division multiple access (CDMA).
Electronic Arts	26	-13	Entertainment	Electronic Arts develops, markets, publishes and distributes games, content and services that can be played by consumers on a range of platforms, which include consoles, personal computers (PCs), mobile phones and tablets.
Berkshire Hathaway	-51	-12	Diversified Financial Services	Berkshire Hathaway is a holding company owning subsidiaries engaged in various business activities.
Adobe	-59	-11	Software	Adobe, formerly Adobe Systems Incorporated, is a software company.

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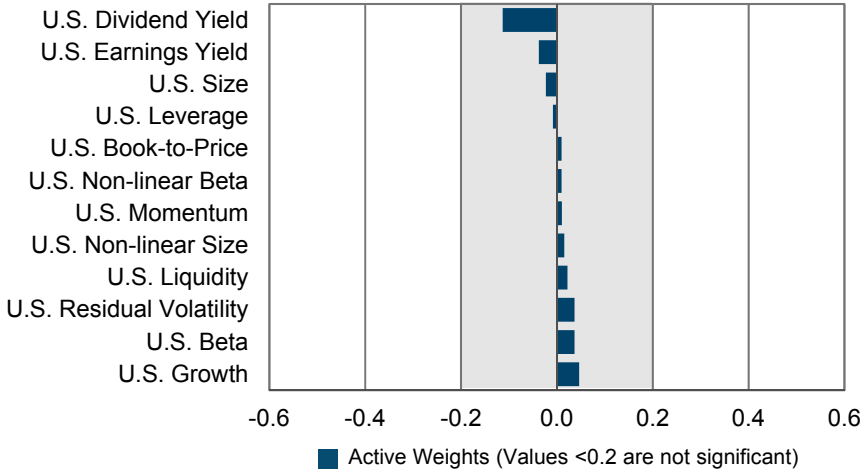
PORTFOLIO SNAPSHOT

Portfolio Characteristics As of 30 June 2019	Employees' Retirement Fund of the City of Dallas	S&P 500 Index
Projected Earnings Growth Rate (3 to 5 Years)[1,2,3]	10.6%	10.6%
Price to Earnings (12 Months Forward)[1,2,3]	20.3X	19.0X
Price to Book[3]	5.0X	5.0X
Return on Equity (Last 12 Months)[3]	21.9%	24.6%
Long-Term Debt as % of Capitalization[3]	45.2%	45.2%
Investment Weighted Median Market Capitalization (Millions USD)	114,589	114,589
Investment Weighted Average Market Capitalization (Millions USD)	246,878	243,501
Portfolio Turnover (Last 12 Months)	30.9%	–
Number of Holdings	247	500
% of Portfolio in Top 20 Holdings	35.8%	32.8%

201808-585014

Barra[4] Risk Factors for Employees' Retirement Fund of the City of Dallas — Active Weights—
As of 30 June 2019



Over/Underweights 30 June 2019	Employees' Retirement Fund of the City of Dallas	S&P 500 Index	Over/Under Weight
Overweights			
Boeing	1.3%	0.8%	0.6%
Facebook	2.5	1.9	0.6
Roper Technologies	0.7	0.2	0.5
Sempra Energy	0.7	0.2	0.5
Symantec	0.6	0.1	0.5
Comcast	1.3	0.8	0.5
NextEra Energy	0.9	0.4	0.5
Fortive	0.6	0.1	0.5
Becton, Dickinson & Company	0.8	0.3	0.5
American International Group	0.7	0.2	0.5
Underweights			
Intel	0.0%	0.9%	-0.9%
Chevron	0.4	1.0	-0.6
Adobe	0.0	0.6	-0.6
Bank of America	0.5	1.0	-0.6
Berkshire Hathaway	1.2	1.7	-0.5
IBM	0.0	0.5	-0.5
Union Pacific	0.0	0.5	-0.5
3M	0.0	0.4	-0.4
Walt Disney	0.6	1.0	-0.4
Lockheed Martin	0.0	0.4	-0.4

Major Position Changes Three Months Ended 30 June 2019	30 Jun 2019 % of Portfolio	31 Mar 2019 % of Portfolio	Difference
Major Position Size Increases			
Qualcomm	0.6%	0.2%	0.4%
Linde	0.6	0.2	0.4
Salesforce.com	0.8	0.4	0.4
Applied Materials	0.6	0.2	0.3
AbbVie[5]	0.3	0.0	0.3
Major Position Size Decreases			
Alphabet	5.9%	6.7%	-0.8%
Eli Lilly	0.3	1.0	-0.7
Texas Instruments	0.1	0.5	-0.4
Pfizer	1.3	1.7	-0.4
Red Hat[6]	0.0	0.4	-0.4

[1] Source: I/B/E/S © 2019 Thomson Reuters. All rights reserved.

[2] These statistics are based on the portfolio's underlying holdings and are not a projection of future portfolio performance. Actual results may vary.

[3] Statistics are based on investment-weighted median.

[4] Barra, Inc.'s analytics and data (www.mscibarra.com) were used in the preparation of this report. Copyright 2019, BARRA, Inc. All rights reserved.

Source: T. Rowe Price.

[5] New Holding.

[6] Eliminated.

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Major position changes are based on security purchases and sales, as well as fluctuations in market value.

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PORTFOLIO EXAMPLE FOR A HEALTH CARE ANALYST

Investment Analyst

Jeff Holford, Ph.D., ACA

Vice President—Investment Analyst

- 18 years of investment experience;
- 1 year with T. Rowe Price

Jeff Holford, Ph.D., ACA

Jeff Holford is a vice president of T. Rowe Price Associates, Inc. He is an investment analyst on the health care team in the U.S. Equity Division of T. Rowe Price. Jeff is an Investment Advisory Committee member of the Health Sciences Equity Strategy and International Core Equity Strategy.

Prior to joining the firm in 2018, Jeff was a managing director at Jefferies Financial Group, with global coverage of the large-cap pharmaceutical industry. Prior to that, Jeff was vice president and co-head of the Institutional Investor-ranked European Pharmaceutical Equity Research Team at Credit Suisse.

Jeff earned a B.Sc., first-class honors, in biochemistry from the University of Surrey School of Biological Sciences. He also earned a Ph.D. in biochemistry, with a focus on preclinical cancer drug development, molecular biology, and molecular pharmacology, from London University. He also has earned the Association of Chartered Accountants qualification.

PORTFOLIO EXAMPLE FOR A HEALTH CARE ANALYST

As of 30 June 2019

	% of Employees' Retirement Fund of the City of Dallas	% of S&P 500 Index	Active Weight (Total Portfolio)	% of Analyst Portfolio	% of S&P 500 Industry	Active Weight (Analyst Portfolio)
Pfizer	1.35%	0.98%	0.36%	26.82%	19.66%	7.15%
Elanco Animal Health	0.31	0.00	0.31	6.26	0.00	6.26
Johnson & Johnson	1.80	1.51	0.29	35.90	30.23	5.67
Eli Lilly	0.35	0.39	-0.05	6.87	7.83	-0.96
Celgene	0.22	0.27	-0.05	4.33	5.33	-1.00
AbbVie	0.33	0.44	-0.11	6.50	8.79	-2.29
Merck	0.67	0.88	-0.21	13.33	17.65	-4.32
Zoetis	0.00	0.22	-0.22	0.00	4.44	-4.44
Bristol-Myers Squibb	0.00	0.30	-0.30	0.00	6.06	-6.06
Totals	**5.02%**	**5.01%**		**100.00%**	**100.00%**	

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PORTFOLIO EXAMPLE FOR A HEALTH CARE ANALYST

T. Rowe Price equity research analyst Jeff Holford manages investments in health care companies in the US Structured Research Equity Strategy (SRS). Specifically, he focuses on pharmaceuticals & biotechnology investments. Relative to other equity analysts, his sectors comprise a smaller number of stocks due to high barriers to entry, such as large research and development (R&D) budgets, specialized technology, and tightening FDA regulations, as well as recent industry consolidation. Another distinguishing aspect of Jeff's space is that most of his companies are global businesses.

There is a widely held assumption that an aging U.S. population with growing medical needs is beneficial for health care companies. However, as baby boomers are retiring, the percentage of taxpayers is reduced, creating a situation in which per capita contributions into health care programs are decreasing while the need for health care is increasing. This has created a renewed focus on controlling health care costs, specifically drug prices, which are perceived as easy to target due to patent expirations and the availability of generics. U.S. democrats hoping to challenge President Trump in the 2020 election cycle are already campaigning on the idea of a single-payer health care system, such as the proposed Medicare For All policy, in which the government would control the costs of health care services, drugs, and medical equipment.

Drug pricing faces additional pressure as multiple companies with similar products have created highly commoditized areas of the market and product classes in which there is little innovation gap. Jeff believes these factors have negatively affected profitability potential within the industry, and, as such, he generally seeks investments with more balanced exposure to U.S. pharmaceuticals. He looks for companies with unique technologies or products that he believes can bridge the innovation gap and push back against pricing pressures.

In determining which companies to invest in, Jeff evaluates the asset lives and structural mix of a company's product portfolio. Because pharmaceutical drugs are subject to patent expirations, a company's portfolio mix can drastically change over the course of a few years. Jeff considers the strength and duration of the company's current portfolio mix as well as the visibility of its pipeline in order to determine a weighted average P/E multiple from the various revenue streams. He also uses bottom-up margin forecasting to evaluate the profitability of each product, considering its manufacturing cost, the number of years until the product faces loss of exclusivity (LOE), and any royalty stacks or profit-sharing agreements. Evaluating the margins and asset lives across a company's entire product portfolio helps Jeff forecast how profitable the investment might be over the next two to five years. Lastly, because the health care sector is often used for defensive rotation, Jeff looks at a company's relative P/E valuation within the context of its historical range to evaluate when an investment is trading high or low relative to the cash flows it might drive.

Pfizer (PFE), which specializes in medicines, vaccines, and consumer health care, is the largest overweight position in Jeff's portfolio. He likes the company's relatively low multiple versus its peers and its diversified product mix, which he believes is underappreciated by the market. After more than a decade without any organic growth, Pfizer refocused its R&D efforts to a handful of therapeutic areas and has recently had several new drugs approved, with more expected through 2020. Jeff believes that the company's lower exposure to product LOEs driven by its young portfolio, combined with strong growth from in-line products and new or upcoming launches, could drive a positive inflection in growth through at least 2025.

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PORTFOLIO EXAMPLE FOR A HEALTH CARE ANALYST

Elanco (ELAN), which develops, manufactures, and markets products for companion and food animal health, is also an overweight in Jeff's portfolio. He likes the animal health industry's strong fundamentals, including positive demographic trends, a limited number of competitors with scale, relatively low-risk R&D, reduced impact from generics, and a predominately self-pay market. Within the space, Elanco runs on substantially lower operating margins than many of its major peers. This is partly due to its product mix, which has higher exposure to lower-margin Food Animal feed additives, but also a result of inefficiencies at the manufacturing level. Jeff expects substantial operating margin improvement as the mix improves and management drives efficiency and benefits from overall leverage of a growing sales base.

Johnson & Johnson (JNJ), which develops, manufactures, and sells pharmaceuticals, medical devices, and consumer health care products, also represents a top overweight in Jeff's portfolio. He likes that the company has less exposure to U.S. pharmaceuticals due to its medical devices and consumer divisions. The stock is trading below its average historical P/E relative range and Jeff recently added to his position on weakness due to investor concerns over the company's talc litigation as well as its involvement in the opioid crisis. While these headline risks may continue in the near term, Jeff is optimistic about Johnson & Johnson's track record of consistent growth and the strength of many of its leading pharmaceutical products.

Conversely, Merck (MRK), one of the largest pharmaceutical companies in the world, is a top underweight in Jeff's portfolio. He likes the company's strong fundamentals but has concerns over its high relative P/E multiple and product concentration onto Keytruda, a cancer drug with the best data in its class. Keytruda has driven much of the company's growth in the past few years and its patent is effective until 2028; however, it faces significant potential competitive risk given the number of other companies developing drugs in the oncology space. Additionally, Merck's pipeline is weaker than its peers, leaving it with few other revenue drivers if Keytruda's success is challenged by a competitor's cancer therapy.

Looking ahead, Jeff expects the next 12 to 18 months to be a challenging time to invest in the health care sector due to uncertainty surrounding the 2020 U.S. election cycle and health care reform. While the headline noise doesn't affect his fundamental view on his investments, companies within the sector tend to underperform when there are questions around pricing power. Jeff plans to continue investing in companies he believes have more balanced exposure to U.S. pharmaceuticals and those that support pricing in any environment. He will also look for opportunities where market uncertainty has led to companies with strong fundamental trading in the lower range of their historical relative P/E valuation range.

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