

Port of Houston Authority OPEB Trust

First Quarter 2013 Report



March 2013 - Market Performance Update

Stocks Close the First Quarter on a High Note

Equity Total Returns

Index	Last Month	Last Year	Last 3 Years	Last 5 Years
Dow Jones Industrial Average	3.9	13.4	13.3	6.5
NASDAQ (prc chg only)	3.4	5.7	10.9	7.5
S&P 500 cap weighted	3.8	14.0	12.7	5.8
S&P 500 equal weighted	4.4	17.5	14.3	9.2
S&P Mid Cap	4.8	17.8	15.1	9.9
S&P Small Cap	4.2	16.1	15.2	9.2
S&P REIT	2.9	15.2	17.3	6.7
Russell 1000 Growth	3.8	10.1	13.1	7.3
Russell 1000 Value	4.0	18.8	12.7	4.9
Russell Mid Cap Growth	4.0	12.8	14.2	8.0
Russell Mid Cap Value	4.5	21.5	15.0	8.5
Russell 2000 Growth	5.1	14.5	14.8	9.0
Russell 2000 Value	4.2	18.1	12.1	7.3
Russell Top 200	3.7	13.2	12.2	5.3
Russell 1000	3.9	14.4	12.9	6.2
Russell Mid Cap	4.3	17.3	14.6	8.4
Russell 2500	4.4	17.7	14.6	9.0
Russell 2000	4.6	16.3	13.5	8.2
MSCI World Ex US	0.8	10.4	4.8	-0.8
MSCI World Ex US Growth	1.5	10.4	5.9	-0.4
MSCI World Ex US Value	0.1	10.4	3.6	-1.2
MSCI EAFE	0.8	11.3	5.0	-0.9
MSCI Emerging Markets	-1.7	2.0	3.3	1.1

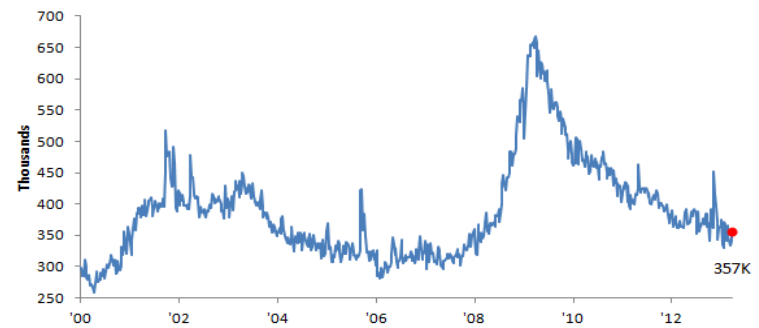
Bond Total Returns

Index	Last Month	Last Year	Last 3 Years	Last 5 Years
BC T-Bills	0.0	0.1	0.1	0.3
BC Long Treasury	-0.1	7.3	12.5	8.3
BC US Agg	0.1	3.8	5.5	5.5

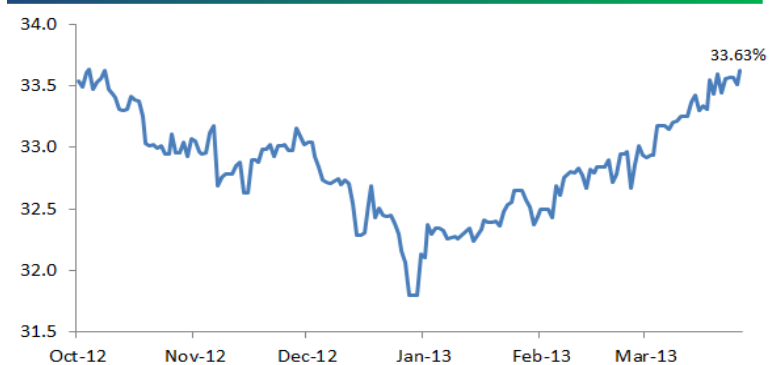
Year to Date Equity Market Sector Returns



Initial Jobless Claims (Seasonally Adjusted): 2000 - 2013



US % of World Market Cap



Risky assets outperformed less-risky assets by large margins during early 2013, despite economic uncertainty. International equities underperformed domestic equities during the month. Developed markets moved modestly higher while emerging markets moved lower.

Domestic equity performance was highly correlated. Value stocks outperformed growth stocks among large and mid caps. Small cap growth outperformed value during March. Small caps posted the highest returns during the month. Trailing year performance dispersion between domestic equity market expanded during March.

Trailing one and three year returns for domestic equity remained high. Since year end, five year returns have **improved dramatically**.

Fixed income returns were modest during March. Core bonds posted a modestly positive return while long duration Treasuries suffered a minor loss. Money market funds produced virtually no income.

Retirement Program Plan Summary

As of March 31, 2013

Manager	Three Month	One Year	Three Year	Five Year	Market Value	% of Total	Inception Date
Smith Affiliated	0.25%	-	-	-	\$5,683,699	32.7%	6/25/2012
Barclays Capital Aggregate	-0.12%	3.77%	5.52%	5.47%			
Loomis Sayles High Income	5.22%	-	-	-	\$869,178	5.0%	
ML High Yield	2.85%	13.06%	10.89%	11.32%			
FAMCO	19.30%	-	-	-	\$984,545	5.7%	7/26/2012
Alerian MLP	19.74%	23.06%	21.50%	18.45%			
Fiduciary Management	9.72%	-	-	-	\$2,698,472	15.5%	8/14/2012
Russell 1000 Value	12.31%	18.77%	12.74%	4.85%			
S&P 500	10.61%	13.96%	12.67%	5.81%			
Stephens Mid Cap Growth	11.55%	-	-	-	\$2,230,963	12.9%	12/18/2012
Russell Mid Cap Growth	11.51%	12.76%	14.23%	7.98%			
Barrow Hanley Small Cap	16.86%	-	-	-	\$1,943,720	11.2%	7/19/2012
Russell 2000 Value	11.63%	18.09%	12.12%	12.12%			
Eagle Global	3.41%	-	-	-	\$2,073,946	11.9%	12/18/2012
MSCI EAFE	5.13%	11.26%	5.00%	-0.89%			
Cohen & Steers Real Estate	7.67%	-	-	-	\$871,829	5.0%	
FTSE NAREIT ALL REITS	8.10%	17.11%	17.68%	7.10%			
Cash	-	-	-	-	\$0	0.0%	
Total Plan	6.65%	-	-	-	\$17,356,351	100.0%	
Benchmark	6.63%	-	-	-			
Actuarial Assumption	1.77%	7.25%	7.25%	7.25%			

Benchmark was updated on 12/1/12 to reflect new long-term asset allocation. Current benchmark reflects IPS that was formally approved on January 22, 2013.

The Total Plan Benchmark is composed as follows; S&P 500 (15%), Russell Mid Cap (12.5%), Russell 2000 (10%), MSCI EAFE (12.5%), Barclays US Aggregate (35%), Merrill Lynch US High Yield Master II (5%), NAREIT ALL REITS (5%), and the Alerian MLP (5%)

All performance shown net of fees.

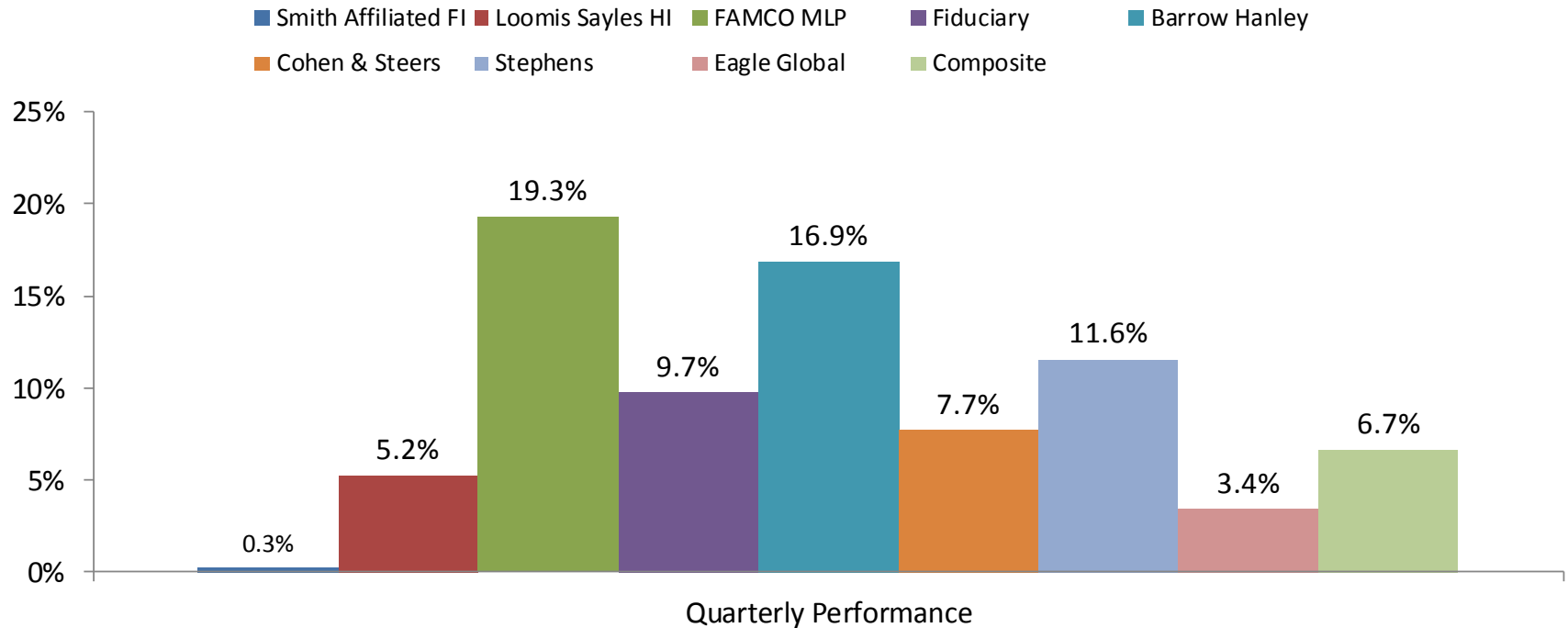
Sources: First Southwest, Morningstar, and Investment Managers

Data believed to be accurate, but cannot be guaranteed.

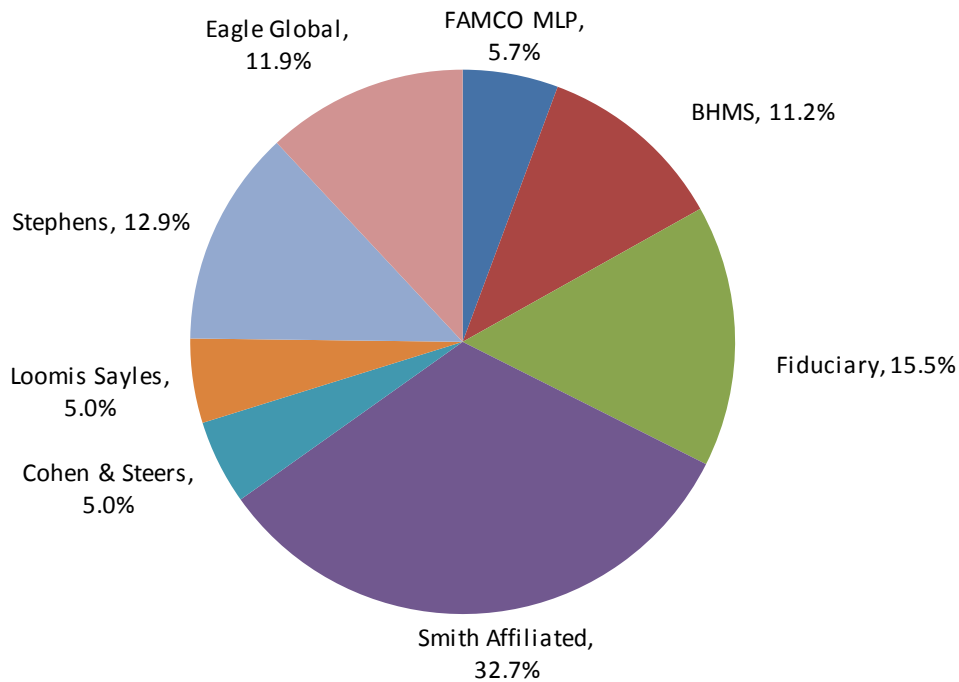


Performance Summary

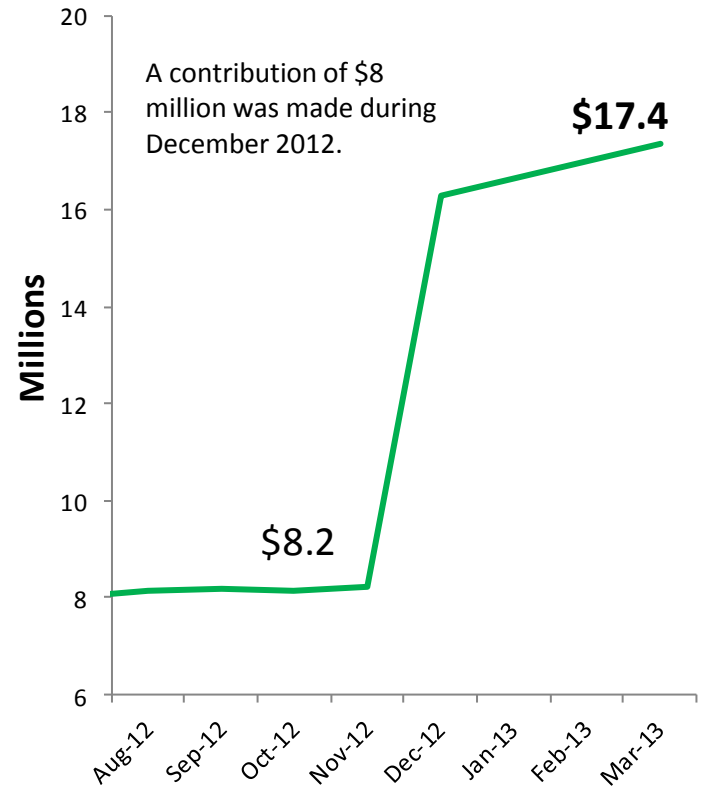
Periods ended March 31, 2013



Portfolio Review



Market Value History



Discussion Items

- The portfolio was fully funded during the third quarter of 2012.
- An additional \$8 million was contributed during the fourth quarter of 2012.
- The International Equity portion of the Plan suffered a performance setback during the quarter.
- We recommend a full review of International Equity.



Smith Affiliated **Fixed Income**

Smith Affiliated seeks to provide a stable income stream, principal protection, and to outperform market-weighted inflation on a risk-adjusted total return basis versus the relevant benchmark. The strategy provides a high degree of liquidity with an asset allocation heavily weighted in high quality fixed income securities. The fund's asset allocation is driven by a two-tier approach: a 'top-down' view of global markets followed by Smith Affiliated's qualitative and quantitative 'bottom-up' approach.

Performance

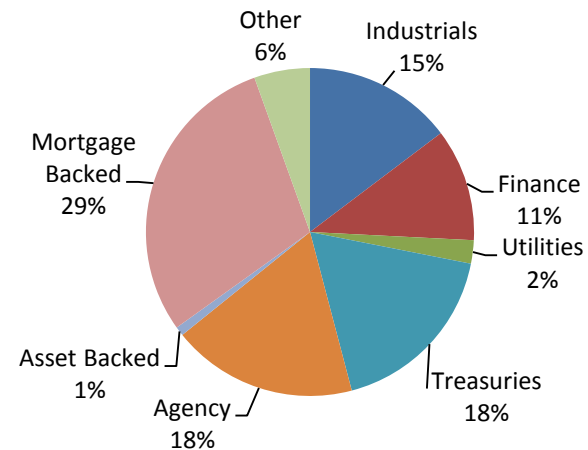
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Smith Affiliated	0.25%	-	-	-
Barclays Capital Aggregate Bond	-0.12%	3.77%	5.52%	5.47%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.8	5.3
Maturity	7.57	7.3
Trailing 12 Month Yield	2.05	3.2
Yield to Maturity	1.84	-
Average Credit Quality	AA	AA
Average Number of Issues	27	8286
Expense Ratio	0.25%	-

Holding Summary

Market Value	\$5,683,699
Percentage of Plan	32.75%



*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.

Loomis Sayles

High Yield Fixed Income

The Loomis Sayles High Income Fund invests primarily in lower-rated fixed income securities and may invest up to 50% of assets in foreign securities, including emerging markets securities. An emphasis on issue selection is a key driver of returns. The fund also uses sector rotation within and outside of the benchmark to add alpha. The Loomis Sayles Fixed Income team responsible for the management of the fund was named the Fixed Income Team of the Year for 2009 by Morningstar.

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	5.22%	-	-	-
Merill Lynch High Yield Master II	2.85%	13.06%	10.89%	11.32%

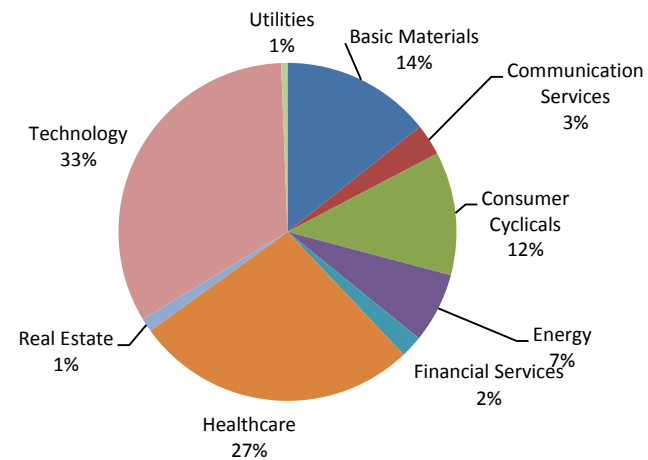
Key Characteristics

	Portfolio	ML HY II
Effective Duration	4.50	4.1
Maturity	7.70	6.4
Trailing 12 Month Yield	6.38	5.8
Yield to Maturity	5.10	-
Average Credit Quality	B	B-
Average Number of Issues	344	2138
Expense Ratio	0.68%	-

Holding Summary

Market Value	\$869,178
Percentage of Plan	5.01%

*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.



FAMCO **MLP**

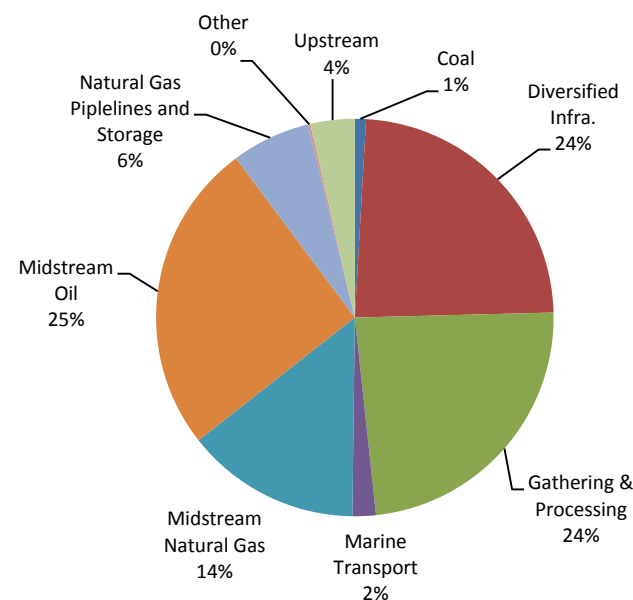
The FAMCO Master Limited Partnerships (MLPs) strategy is a diversified portfolio consisting primarily of publicly traded partnerships focused in the natural resources and energy infrastructure industries. The objective is to provide high levels of total returns and a growing cash yield. It offers low correlation to the broader equity market over the long-term. The three largest holdings as of March 31st, 2013 were **Energy Transfer Equity** (7.0%, of the total fund), **Plains All American Pipeline** (6.9%), and **Genesis Energy** (6.9%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
FAMCO	19.30%	-	-	-
Alerian MLP	19.74%	23.06%	21.50%	18.45%

Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	26.1	24.2
P/B Ratio	3.6	2.7
Sharpe Ratio - 3 Year	-	1.4
Sharpe Ratio - 5 Year	-	-
Beta - 5 Year	0.92	1.00
R2 - 5 Year	91	100
Wt. Avg Market Cap. \$MM	9109	10895
Earnings Growth - 5 Year	9.7	-
Standard Deviation - 5 Year, monthly	N/A	-
Total Number of Holdings	29	50
Prospective Dividend Yield	4.9%	-
Expense Ratio	0.75%	-



Holding Summary

Market Value	\$984,545
Percentage of Plan	5.67%

*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.

Fiduciary Management

Large Cap Value

Fiduciary's objective is to buy durable business at value prices in order to achieve top in class investment results over a three to five year time horizon. Fiduciary considers themselves long-term investors, not traders. They will typically hold between 20-30 companies in their portfolio with an average turnover of 35%. The research process is geared toward finding six new investment ideas for the portfolio in a given year. All investment ideas are generated by a research team consisting of six individuals, rather than relying on the portfolio manager. The top three holdings as of March 31, 2013 were **3M** (5.5%, of the total portfolio), **Bank of NY Mellon** (5.5%), and **Berkshire Hathaway** (5.4%).

Performance

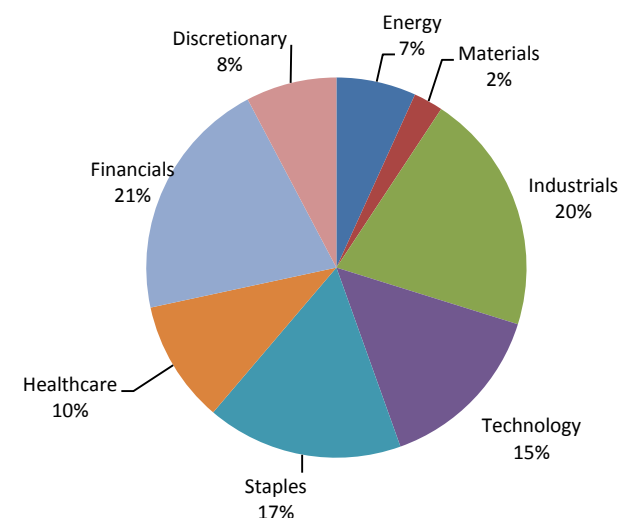
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	9.72%	-	-	-
Russell 1000 Value	12.31%	18.77%	12.74%	4.85%
S&P 500 Index	10.61%	13.96%	12.67%	5.81%

Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	16.4	14.7
P/B Ratio	3.4	1.6
Sharpe Ratio - 3 Year	-	0.8
Sharpe Ratio - 5 Year	-	-
Beta - 5 Year	0.81	1.00
R2 - 5 Year	96	100
Wt. Avg Market Cap. \$MM	64469	40450
Earnings Growth - 5 Year	11.1%	-
Standard Deviation - 5 Year, monthly	1.9%	-
Total Number of Holdings	28	690
Prospective Dividend Yield	2.0%	2.5
Expense Ratio	0.55%	-

Holding Summary

Market Value	\$2,698,472
Percentage of Plan	15.55%



*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.

Stephens

Mid Cap Growth

The Stephens Mid Cap Growth portfolio is a diversified portfolio that seeks long term growth of capital by investing primarily in common stock of U.S. companies with market capitalizations of between \$1.5 billion to \$12.5 billion. They select mid cap growth companies that are established growth companies that have achieved above average growth. The combination of core growth and catalyst growth stocks positions the portfolio for varying market conditions. The top three holdings as of March 31, 2013 were **Cerner** (2.0%, of the total portfolio), **Stericycle** (1.8%), and **Discovery Communications** (1.7%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	11.55%	-	-	-
Russell Mid Cap Growth	11.51%	12.76%	14.23%	7.98%

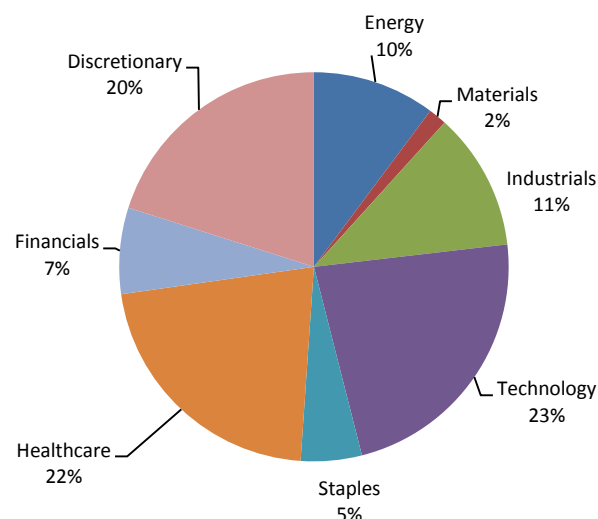
Key Characteristics

	Portfolio	R MCG
P/E Ratio	20.2	20.9
P/B Ratio	4.3	4.3
Sharpe Ratio - 3 Year	-	0.8
Sharpe Ratio - 5 Year	-	-
Beta - 5 Year	0.91	1.00
R2 - 5 Year	95	100
Wt. Avg Market Cap. \$MM	7737	8579
Earnings Growth - 5 Year	17.0%	-
Standard Deviation - 5 Year, monthly	19.1%	-
Total Number of Holdings	105	454
Prospective Dividend Yield	0.5%	1.2
Expense Ratio	0.80%	-

Holding Summary

Market Value	\$2,230,963
Percentage of Plan	12.85%

*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.



Barrow Hanley MeWhinney & Strauss

Small Cap Value

The strategy is designed to exploit inefficiencies in the small cap sector of the market by carefully employing high value-added proprietary research in a universe of small capitalization, low-expectation stocks. This process is directed toward the discovery of companies in which the value of the underlying business is significantly greater than the market price. The portfolio's goal is to consistently generate superior returns while assuming below average levels of risk. The top three holdings as of March 31, 2013 were **Terex** (2.0%, of the total portfolio), **Oshkosh** (1.8%), and **Mobile Mini** (1.7%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley MeWhinney & Strauss	16.86%	-	-	-
Russell 2000 Value	11.63%	18.09%	12.12%	12.12%

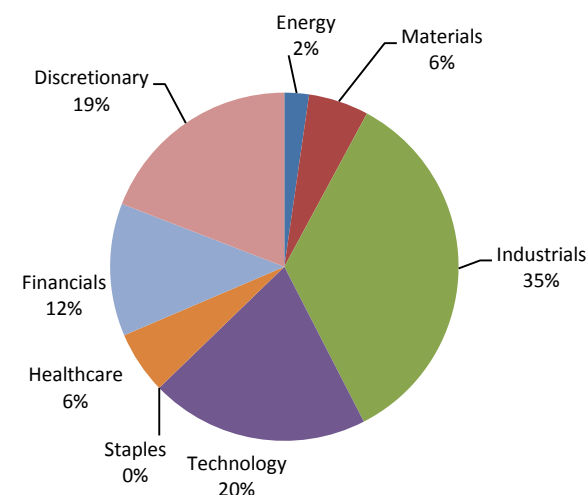
Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	16.6	15.2
P/B Ratio	1.9	1.3
Sharpe Ratio - 3 Year	-	0.7
Sharpe Ratio - 5 Year	0.35	-
Beta - 5 Year	1.33	1.00
R2 - 5 Year	89	100
Wt. Avg Market Cap. \$MM	2386	990
Earnings Growth - 5 Year	13.2%	-
Total Number of Holdings	50	1406
Prospective Dividend Yield	0.8%	2.3
Expense Ratio	1.00%	-

Holding Summary

Market Value	\$1,943,720
Percentage of Plan	11.20%

*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.



Eagle Global

International Equity

Eagle invests in companies that generate consistent earnings, cash flows and returns on equity with strong management teams that reward patient investors with above market returns while limiting risk over the long-term. The strategy focuses on companies with a global scale that they believe possess a sustainable competitive advantage. Their actions are driven primarily by stock selection, with the fund typically holding 45 to 60 holdings. Their disciplined process incorporates both top-down and bottom-up elements and is designed to identify companies with improving growth prospects that have not been incorporated into current valuations. Eagle Global uses ADRs to build international equity portfolios. The top three holdings as of March 31, 2013 were **Nestle** (5.3%, of the total portfolio), **Sanofi Aventis** (3.8%), and **BASF** (3.3%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Eagle Global	3.41%	-	-	-
MSCI EAFE	5.13%	11.26%	5.00%	-0.89%

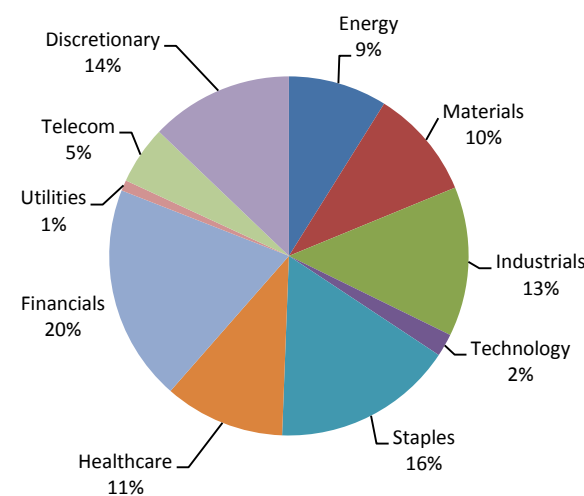
Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	15.9	13.0
P/B Ratio	1.9	1.5
Sharpe Ratio - 3 Year	-	0.3
Sharpe Ratio - 5 Year	0.35	-
Beta - 5 Year	1.05	1.00
Wt. Avg Market Cap. \$MM	72000	32870
Earnings Growth - 5 Year	10.1%	-
Total Number of Holdings	60	920
Prospective Dividend Yield	2.7%	3.1
Expense Ratio	1.00%	-

Holding Summary

Market Value	\$2,073,946
Percentage of Plan	11.95%

*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.



Cohen & Steers Real Estate & Investment Trusts

The investment objective of the Fund is total return through investment in real estate securities. In pursuing total return, the Fund seeks both capital appreciation and current income with approximately equal emphasis. Under normal market conditions, the Fund invests at least 80%, and normally substantially all, of its total assets in common stocks and other equity securities issued by real estate companies. The Fund may invest up to 20% of its total assets in securities of foreign issuers which meet the same criteria for investment as domestic companies. The three largest holdings as of March 31st, 2013 were **Simon Property Group** (11.4%, of the total fund), **Ventas** (5.1%) and **ProLogis** (4.8%).

Performance

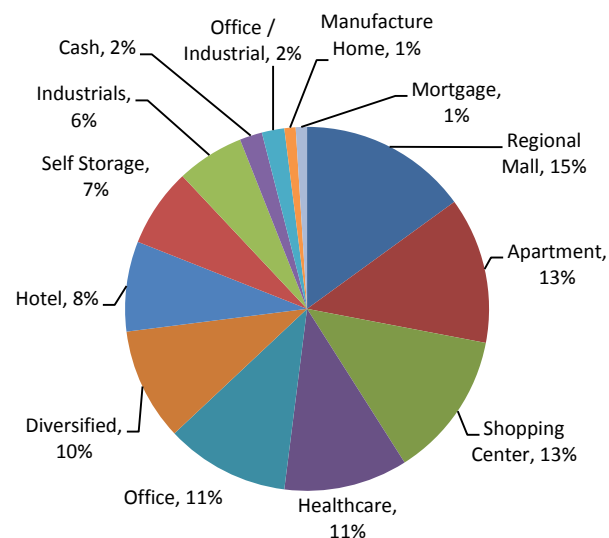
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	7.67%	-	-	-
FTSE NAREIT All REITS	8.10%	17.11%	17.68%	7.10%

Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	41.7	42.7
P/B Ratio	2.3	2.4
Sharpe Ratio - 3 Year	0.9	1.1
Sharpe Ratio - 5 Year	-	-
Beta - 3 Year	0.85	-
R2 - 3 Year	68	-
Wt. Avg Market Cap. \$MM	8951	8288
Standard Deviation - 5 Year, monthly	31.6%	-
Total Number of Holdings	59	131
Prospective Dividend Yield	3.1%	3.7
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$871,829
Percentage of Plan	5.02%



*Other includes preferred stocks, convertible bonds, convertible preferreds, warrants and options.

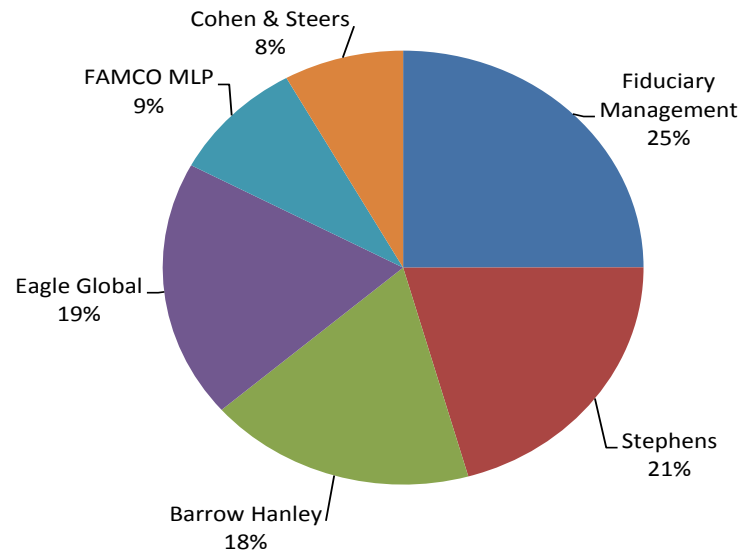
EQUITY PORTFOLIO SNAPSHOT — DATA AS OF MARCH 31ST, 2013

Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	20.0	16.6
P/B Ratio	3.0	2.3
Beta - 5yr.	0.98	1.00
R2 - 5yr.	90	100

Holding Summary

Total Market Value	\$10,803,474
Percentage of Total Trust	62.25%



*Statistics calculated using weighted average of current fund lineup.

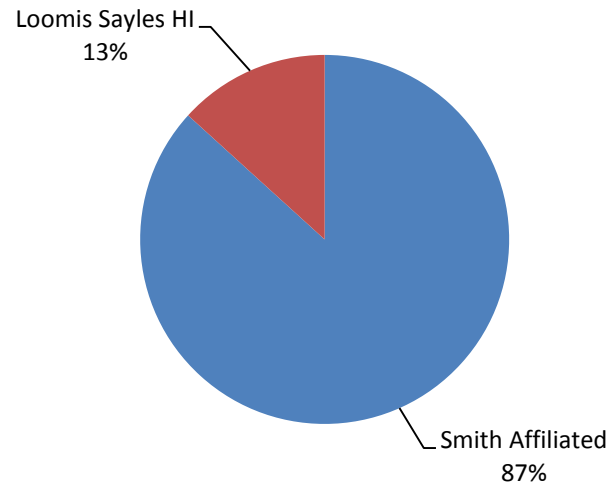
FIXED INCOME PORTFOLIO SNAPSHOT — DATA AS OF MARCH 31ST, 2013

Portfolio Statistics

	Portfolio	BC Agg
Total # of Issues	371	8286
Average Credit Quality	A	AA
Average YTM	2.3	-
Average Modified Duration	5.6	5.3
Time to Maturity	7.6	7.3
Average Coupon	2.6	3.2

Holding Summary

Total Market Value	\$6,552,877
Percentage of Total Trust	37.8%



*Statistics calculated using weighted average of current fund lineup.

RETIREMENT PROGRAM - MANAGER STATUS SUMMARY
AS OF MARCH 31, 2013

Manager	Mandate	Status	Note
Fixed Income			
Smith Affiliated	Core Fixed Income	In Compliance	
Domestic Equity			
Fiduciary	Large Cap Equity	In Compliance	
Stephens	Mid Cap Growth	In Compliance	
Barrow Hanley	Small Cap Equity	In Compliance	
International Equity			
Eagle Global	International Equity	In Compliance	
MLPs			
FAMCO	Master Limited Partnership	In Compliance	

In Compliance – The portfolio is acting in full compliance with its guidelines and it is performing according to expectations.

On Alert – Concerns exist with the portfolio’s performance, a change in investment characteristics, management style, ownership structure, staff or other related events.

On Notice – A continued and serious problem with any of the issues mentioned above. If the situation is not resolved to the Committee’s satisfaction, a replacement will be selected and hired.

RETIREMENT PROGRAM - MANAGER EXPENSE REVIEW

AS OF MARCH 31, 2013

Manager	Mandate	Expense Ratio	Category Average	Difference
Domestic Equity				
Fiduciary Management	Large Cap Equity	0.55%	1.31%	0.76%
Stephens	Mid Cap Growth	0.80%	1.40%	0.60%
Barrow Hanley	Small Cap Value Equity	1.00%	1.48%	0.48%
Fixed Income				
Smith Affiliated	Fixed Income	0.25%	0.97%	0.72%
Loomis Sayles	High Yield Fixed Income	0.68%	1.18%	0.50%
International Equity				
Eagle Global	International Equity	1.00%	1.48%	0.48%
MLP				
FAMCO	Master Limited Partnership	0.75%	1.00%	0.25%
Real Estate				
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%
Total Plan		0.58%	1.23%	0.65%

Source: Morningstar

RETIREMENT PROGRAM – ASSET ALLOCATION ANALYSIS
AS OF MARCH 31, 2013

Manager	Actual Portfolio ¹	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	15.5%	15.0%	0.5%	0.0%	20.0%
Mid Cap Domestic Equity	12.9%	12.5%	0.4%	0.0%	17.5%
Small Cap Domestic Equity	11.2%	10.0%	1.2%	0.0%	15.0%
International Equity	11.9%	12.5%	-0.6%	0.0%	17.5%
Core Fixed Income	32.7%	35.0%	-2.3%	30.0%	75.0%
High Yield Fixed Income	5.0%	5.0%	0.0%	0.0%	10.0%
Real Estate	5.0%	5.0%	0.0%	0.0%	10.0%
Master Limited Partnerships	5.7%	5.0%	0.7%	0.0%	10.0%
Cash	0.0%	0.0%	0.0%	-	-
Total	100.0%	100.0%		100.0%	100.0%