

Port of Houston Authority OPEB Trust

First Quarter 2014 Report



March 2014 - Market Performance Update

Mixed Month for Investors

Equity Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
Dow Jones Industrial Average	0.9	15.7	13.1	19.9
NASDAQ (prc chg only)	-2.5	28.5	14.7	22.4
S&P 500 cap weighted	0.8	21.9	14.7	21.2
S&P 500 equal weighted	0.7	24.6	15.4	26.6
S&P Mid Cap	0.4	21.2	13.4	24.9
S&P Small Cap	0.7	27.8	16.0	26.2
S&P REIT	0.5	4.2	10.6	28.7
Alerian MLP	1.5	8.5	13.5	27.3
Russell 1000 Growth	-1.0	23.2	14.6	21.7
Russell 1000 Value	2.4	21.6	14.8	21.8
Russell Mid Cap Growth	-1.9	24.2	13.5	24.7
Russell Mid Cap Value	1.5	23.0	15.2	26.4
Russell 2000 Growth	-2.5	27.2	13.6	25.2
Russell 2000 Value	1.2	22.7	12.7	23.3
Russell Top 200	1.1	21.9	14.9	20.3
Russell 1000	0.6	22.4	14.8	21.7
Russell Mid Cap	-0.3	23.5	14.4	25.6
Russell 2500	-0.4	24.0	14.0	25.3
Russell 2000	-0.7	24.9	13.2	24.3
MSCI World Ex US	-0.5	16.5	6.3	15.9
MSCI World Ex US Growth	-0.5	13.9	5.9	15.3
MSCI World Ex US Value	-0.5	19.1	6.6	16.4
MSCI EAFE	-0.6	17.6	7.2	16.0
MSCI Emerging Markets	3.1	-1.4	-2.9	14.5

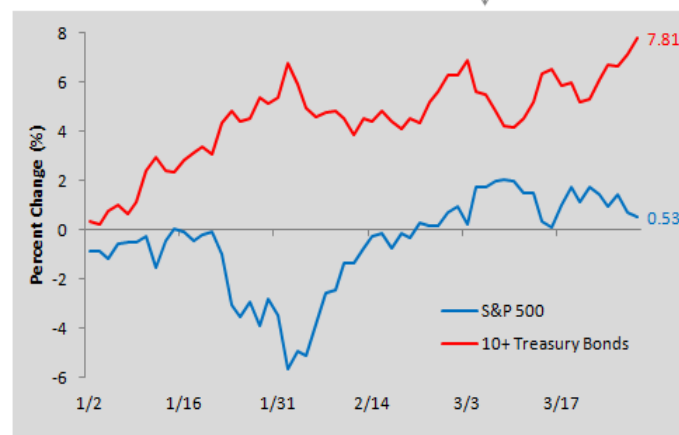
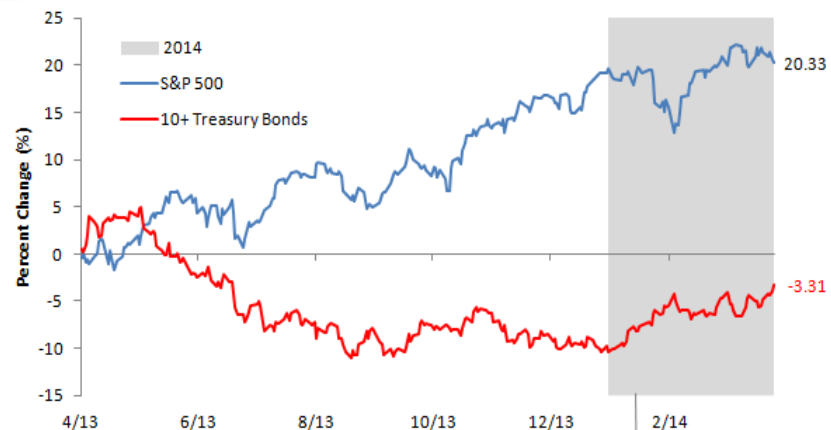
Tension in eastern Europe and Fed Chair Janet Yellen's first press conference were performance drivers during March. Share price volatility rose during the month from reasonably placid levels. Some segments of the domestic equity market suffered losses on the month. International shares were down in U.S. Dollar terms while Emerging Markets rebounded.

Domestic stock index returns were modest for the month. Large cap stocks outperformed mid caps and small caps during March as investors sought stability. Value outperformed growth across the market during the month but trailed over the past year.

Long dated Treasuries outperformed the core bond market during March. Investor interest in long-term Treasury bonds was steady increased due to heightened equity market volatility and international tensions. Short term interest rates stayed near zero.

Bond Total Returns				
Index	Last Month	Last Year	Last 3 Years	Last 5 Years
BC T-Bills	0.0	0.0	0.1	0.1
BC Long Treasury	0.7	-4.2	8.3	4.8
BC US Agg	-0.2	-0.1	3.8	4.8

Total Return of Stocks vs Treasuries: Last 12 Months



Portfolio Trailing Year Performance

+12.21%



OPEB Trust Plan Summary

As of March 31, 2014

Manager	Last Quarter	% Rank	Last Year	% Rank	Three Years	% Rank	Five Years	% Rank	Since Inception ¹	Market Value	% of Total	Inception Date
MacKay Shields	-		-		-		-		-	\$9,420,400	34.0%	3/25/2014
<i>Barclays Capital Aggregate</i>	1.84%		-0.10%		3.75%		4.80%		-			
Loomis Sayles High Income	4.75%	3	15.14%	5	-		-		15.97%	\$1,409,641	5.1%	12/18/2012
<i>ML High Yield</i>	3.00%		7.57%		8.71%		18.19%		9.70%			
Advisory Research MLP	5.64%	-	17.34%	-	-		-		24.33%	\$1,474,200	5.3%	7/26/2012
<i>Alerian MLP</i>	1.87%		8.54%		13.53%		27.30%		16.89%			
Fiduciary Management	2.71%	51	21.89%	53	-		-		22.18%	\$4,249,434	15.3%	8/14/2012
<i>Russell 1000 Value</i>	3.02%		21.57%		14.80%		21.75%		25.35%			
<i>S&P 500</i>	1.81%		21.86%		14.66%		21.16%		22.41%			
Stephens Mid Cap Growth	0.58%	74	22.77%	70	-		-		28.60%	\$3,459,220	12.5%	12/18/2012
<i>Russell Mid Cap Growth</i>	3.53%		23.52%		14.39%		25.55%		29.78%			
Barrow Hanley Small Cap	0.41%	93	27.47%	34	-		-		35.71%	\$2,830,840	10.2%	7/19/2012
<i>Russell 2000 Value</i>	1.78%		22.65%		12.74%		23.33%		27.20%			
Causeway	0.31%	90	-	-	-		-		20.27%	\$3,423,623	12.4%	9/16/2013
<i>MSCI EAFE</i>	0.66%		17.56%		7.22%		16.02%		6.41%			
Cohen & Steers Real Estate	9.84%	7	6.15%	70	-		-		10.62%	\$1,436,435	5.2%	12/18/2012
<i>FTSE NAREIT All REITS</i>	8.52%		3.25%		10.41%		28.31%		9.54%			
Cash	-		-		-		-		-	\$0	0.0%	
Total Plan - Gross of Fees	2.22%	24	12.21%	39	-		-		11.76%	\$27,703,793	100.0%	
Total Plan - Net of Fees	2.17%		11.99%						11.57%			
<i>Benchmark</i>	2.22%		11.50%		-		-		14.08%			
<i>Actuarial Assumption</i>	1.71%		7.13%		-		-		7.18%			

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%)

Sources: First Southwest, Morningstar, and Investment Managers

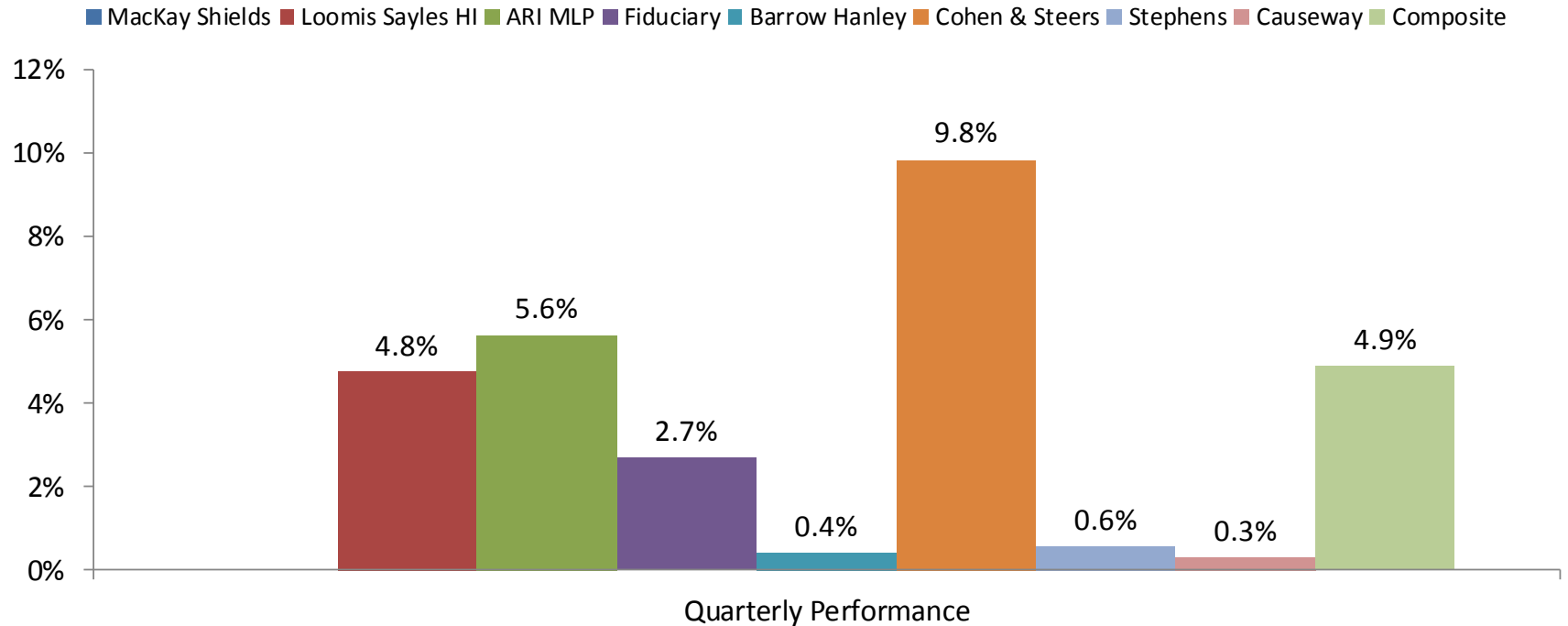
Data believed to be accurate, but cannot be guaranteed.

¹Since inception performance calculated using the first whole quarter as the inception date.

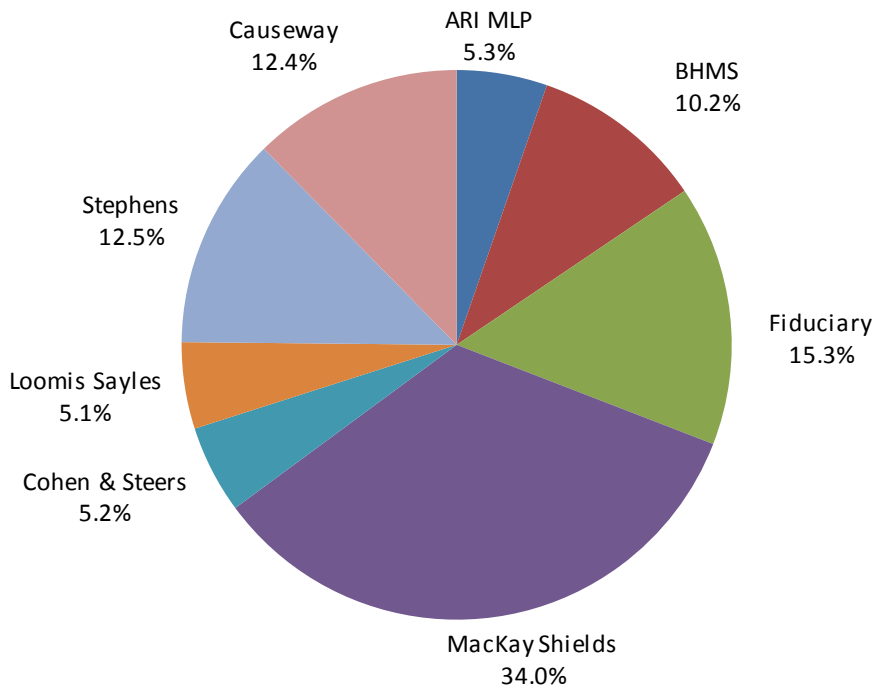


Performance Summary

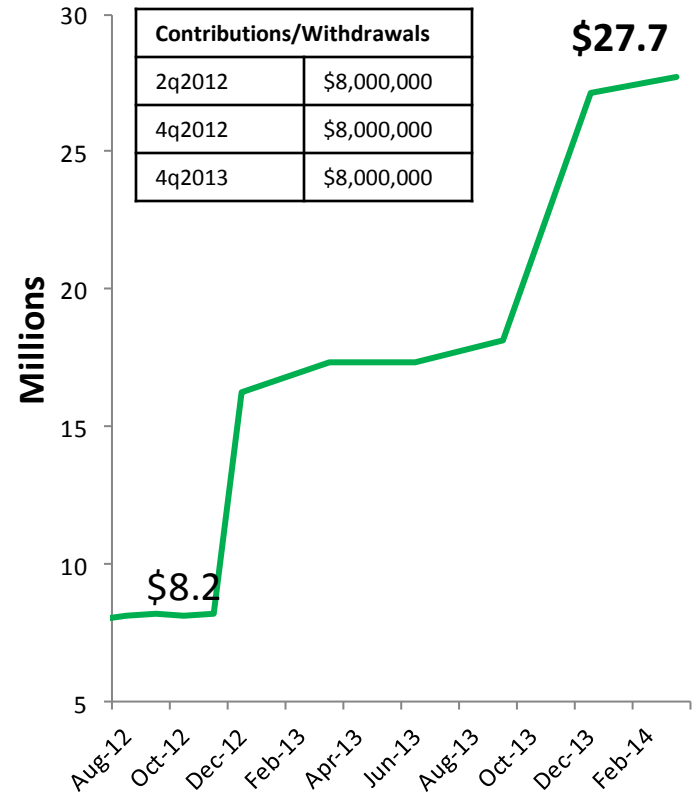
Period ended March 31, 2014



Portfolio Review



Market Value History



Discussion Items

- On September 16th, 2013 Eagle Global was replaced with Causeway Capital as the portfolio's international equity manager. Causeway returned 0.31% during the quarter. Over the last two quarters the fund 7.03% versus 6.41% for the MSCI EAFE.
- The fixed income portfolio managed by Smith Affiliated was replaced by Mackay Shields on March 25, 2014.



MacKay Shields

Fixed Income

Mackay Shields Core Plus seeks to outperform the benchmark by eliminating or reducing uncompensated risk while opportunistically allocating investments across a range of core and off-benchmark sectors. The strategy strives to achieve an information ratio of greater than 1. The fund typically invests in the same sectors represented by the Barclays U.S. Aggregate Bond Index, as well as high yield (20%), emerging market debt (10%) and non-US Dollar exposure (10%). This portfolio replaced Smith Affiliated during the first quarter of 2014.

Performance

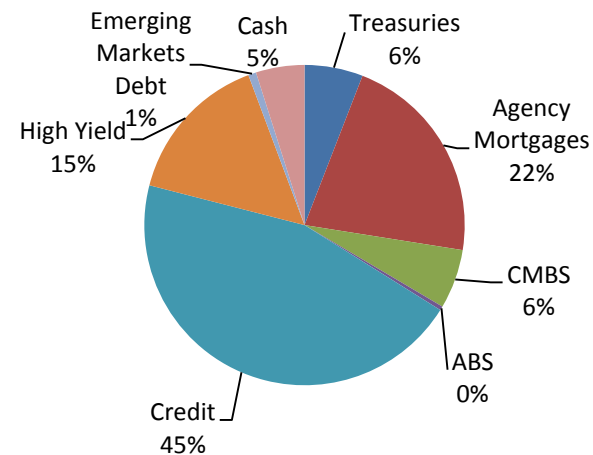
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
MacKay Shields	-	-	-	-
Barclays Capital Aggregate Bond	1.84%	-0.10%	3.75%	4.80%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	4.2	5.7
Maturity	8.3	7.7
Trailing 12 Month Yield	5.2	3.2
Yield to Maturity	2.9	2.4
Average Credit Quality	A+	AA
Average Number of Issues	355	8441
Expense Ratio	0.35%	-

Holding Summary

Market Value	\$9,420,400
Percentage of Plan	34.00%



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

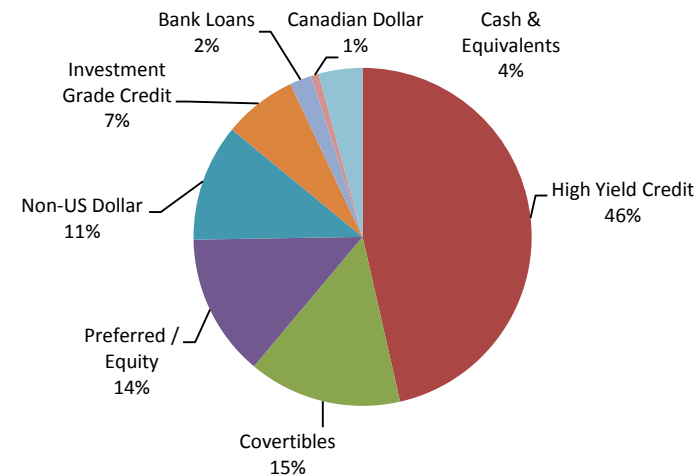
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	4.75%	15.14%	-	-
Merill Lynch High Yield Master II	3.00%	7.57%	8.71%	18.19%

Key Characteristics

	Portfolio	ML HY II
Effective Duration	5.0	4.0
Maturity	8.0	6.5
Trailing 12 Month Yield	5.6	5.9
Yield to Maturity	5.1	6.3
Average Credit Quality	B	B+
Average Number of Issues	296	2235
Expense Ratio	0.68%	-

Holding Summary

Market Value	\$1,409,641
Percentage of Plan	5.09%



Advisory Research (ARI) MLP

The ARI 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 31, 2014 were **Energy Transfer Equity, LP** (8.6% of the total fund), **Plains American Pipeline, LP** (8.4%), and **Enterprise Products Partners, LP** (8.1%).

Performance

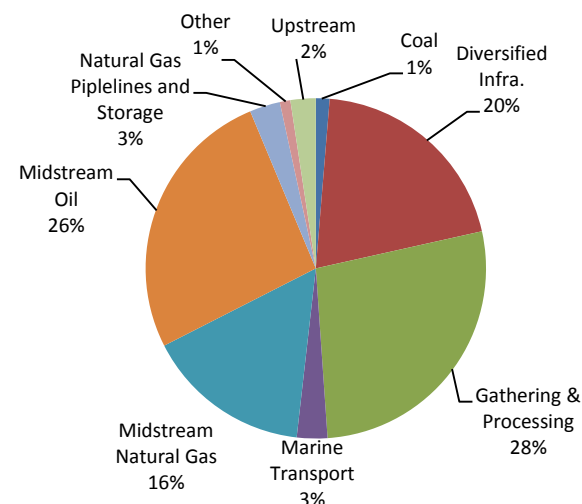
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Advisory Research (ARI)	5.64%	17.34%	-	-
Alerian MLP	1.87%	8.54%	13.53%	27.30%

Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	26.7	25.3
P/B Ratio	6.5	2.5
Beta - 5 Year	0.92	1.00
R2 - 5 Year	90	100
Wt. Avg Market Cap. \$MM	9965	12684
Standard Deviation - 5 Year, monthly	12.0	-
Total Number of Holdings	26	50
Prospective Dividend Yield	4.3%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$1,474,200
Percentage of Plan	5.32%



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, 2014 were **Potash** (6.2% of the total portfolio), **United Health Group** (5.0%), and **Bank of NY Mellon** (4.8%).

Performance

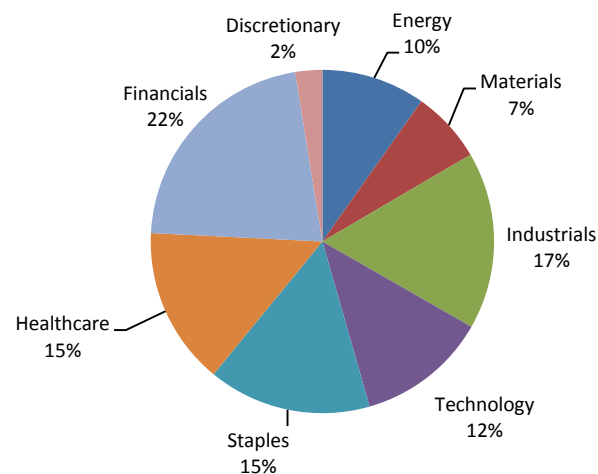
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	2.71%	21.89%	-	-
Russell 1000 Value	3.02%	21.57%	14.80%	21.75%
S&P 500 Index	1.81%	21.86%	14.66%	21.16%

Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	18.1	16.1
P/B Ratio	3.2	1.8
Beta - 5 Year	0.86	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. \$MM	82229	51203
Earnings Growth - 3 Year	10.2%	-
Standard Deviation - 5 Year, monthly	14.4%	-
Total Number of Holdings	25	690
Prospective Dividend Yield	1.8%	2.6%
Expense Ratio	0.55%	-

Holding Summary

Market Value	\$4,249,434
Percentage of Plan	15.34%



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, 2014 were **Illumina** (2.1% of the total portfolio), **Cerner Corp.** (1.7%), and **Core Laboratories** (1.6%).

Performance

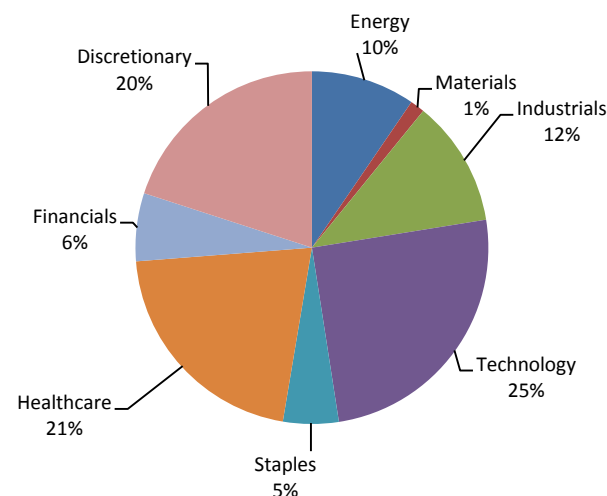
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	0.58%	22.77%	-	-
Russell Mid Cap Growth	3.53%	23.52%	14.39%	25.55%

Key Characteristics

	Portfolio	R MCG
P/E Ratio	26.2	19.8
P/B Ratio	4.2	2.6
Beta - 5 Year	0.88	1.00
R2 - 5 Year	95	100
Wt. Avg Market Cap. \$MM	9397	10010
Earnings Growth - 5 Year	18.3%	-
Standard Deviation - 5 Year, monthly	15.1%	-
Total Number of Holdings	108	795
Prospective Dividend Yield	0.3%	1.7%
Expense Ratio	0.80%	-

Holding Summary

Market Value	\$3,459,220
Percentage of Plan	12.49%



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, 2014 were **HealthSouth** (3.8% of the total portfolio), **Mobile Mini** (3.8%), and **Terex** (3.7%).

Performance

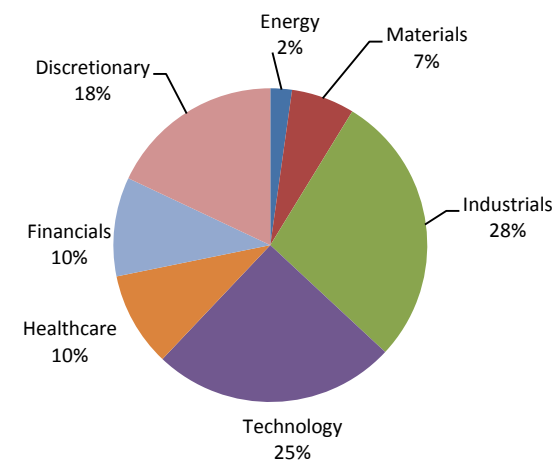
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley Mewhinney & Strauss	0.41%	27.47%	-	-
Russell 2000 Value	1.78%	22.65%	12.74%	23.33%

Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	19.7	18.5
P/B Ratio	2.2	1.6
Beta - 5 Year	1.54	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. \$MM	2800	1284
Earnings Growth - 5 Year	13.2%	-
Total Number of Holdings	42	1406
Prospective Dividend Yield	1.0%	2.1%
Expense Ratio	1.00%	-

Holding Summary

Market Value	\$2,830,840
Percentage of Plan	10.22%



Causeway

International Equity

The goal of the Causeway International Value fund is to construct a portfolio that provides consistent long-term, risk-adjusted returns. The Causeway International Value Fund is a fully invested, 50-80 stock portfolio, typically with a value bias. Sector and regional weights are by-products of their bottom-up approach to stock selection. Their international investment philosophy is value-driven with a fundamentally based, bottom-up approach to stock selection. They believe that companies derive their value from the contribution of yield and profitable re-investment back into the company. The three largest country allocations as of quarter end were to **Japan** (12.9% of the fund), **France** (12.7%), and **Germany** (10.6%). The three largest holdings as of quarter end were **Azko Nobel** (3.5% of the total fund, Netherlands), **Novartis AG** (3.1%, Switzerland), and **UBS AG** (3.0%, Switzerland). **This fund replaced Eagle Global during the third quarter of 2013.**

Performance

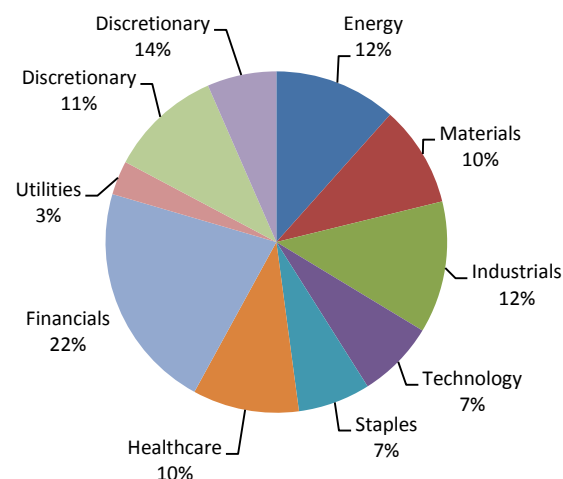
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Causeway	0.31%	-	-	-
MSCI EAFE	0.66%	17.56%	7.22%	16.02%

Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	14.3	15.4
P/B Ratio	1.6	1.6
Sharpe Ratio - 3 Year	0.58	0.50
Sharpe Ratio - 5 Year	0.87	0.39
Beta - 3 Year	1.29	1.00
Wt. Avg Market Cap. \$MM	43704	37580
Total Number of Holdings	67	920
Prospective Dividend Yield	3.0%	2.7%
Expense Ratio	0.99%	-

Holding Summary

Market Value	\$3,423,623
Percentage of Plan	12.36%



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 31, 2014 were **Simon Property Group** (11.0% of the total fund), **Equity Residential** (5.5%) and **Prologis** (5.2%).

Performance

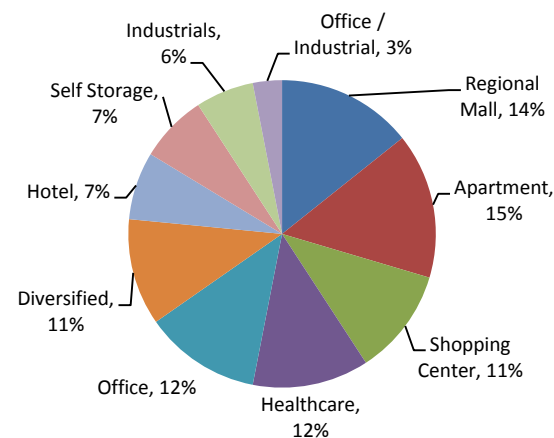
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	9.84%	6.15%	-	-
FTSE NAREIT All REITS	8.52%	3.25%	10.41%	28.31%

Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	42.0	39.4
P/B Ratio	2.5	2.2
Beta - 5 Year	0.85	1.00
R2 - 5 Year	99	100
Wt. Avg Market Cap. \$MM	9525	8324
Total Number of Holdings	51	131
Prospective Dividend Yield	3.8%	3.7%
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$1,436,435
Percentage of Plan	5.18%



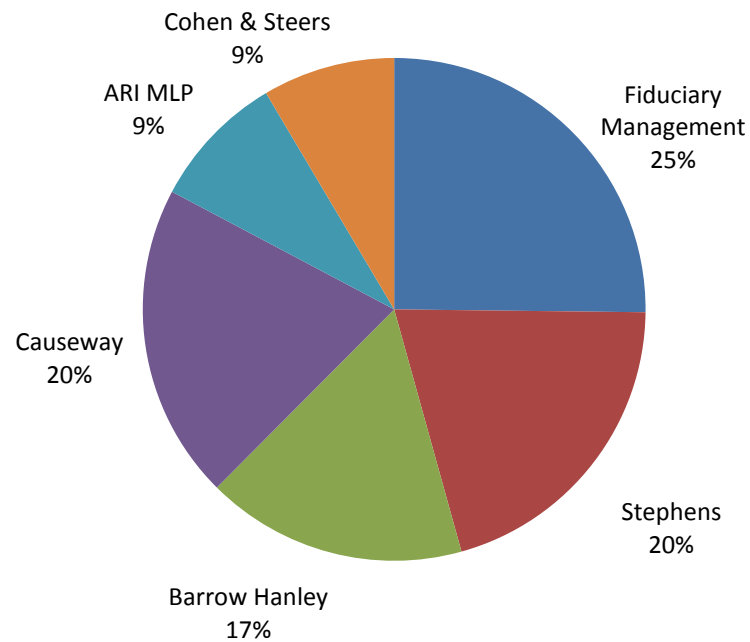
EQUITY PORTFOLIO SNAPSHOT — DATA AS OF MARCH 31, 2014

Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	22.0	18.0
P/B Ratio	3.1	2.6
Beta - 5yr.	1.07	1.00
R2 - 5yr.	96	100

Holding Summary

Total Market Value	\$16,873,752
Percentage of Total Trust	60.91%



*Statistics calculated using weighted average of current fund lineup.

FIXED INCOME PORTFOLIO SNAPSHOT — DATA AS OF MARCH 31, 2014

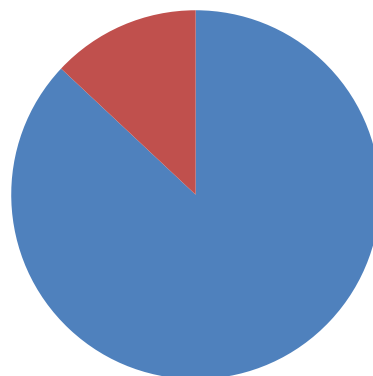
Portfolio Statistics

	Portfolio	BC Agg
Total # of Issues	651	8441
Average Credit Quality	A	AA
Average YTM	3.2	2.4
Average Modified Duration	4.3	5.7
Time to Maturity	8.3	7.7
Average Coupon	5.3	3.2

Holding Summary

Total Market Value	\$10,830,041
Percentage of Total Trust	39.09%

Loomis Sayles HI
13%



MacKay Shields
87%

*Statistics calculated using weighted average of current fund lineup.

OPEB TRUST - MANAGER STATUS SUMMARY AS OF MARCH 31, 2014

Manager	Mandate	Status	Note
Fixed Income			
Mackay Shields	Core Fixed Income	In Compliance	
Loomis Sayles	High Yield Fixed Income	In Compliance	
Domestic Equity			
Fiduciary	Large Cap Equity	In Compliance	
Stephens	Mid Cap Growth	In Compliance	
Barrow Hanley	Small Cap Equity	Non Compliance	Beta 1.54 vs. Investment Policy Statement of 1.20
International Equity			
Causeway	International Equity	In Compliance	
MLPs			
Advisory Research	Master Limited Partnership	In Compliance	
Real Estate			
Cohen & Steers	Real Estate	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.

OPEB TRUST - MANAGER EXPENSE REVIEW

AS OF MARCH 31, 2014

Manager	Mandate	Expense Ratio	Category Average	Difference	Annual Savings
Domestic Equity					
Fiduciary Management	Large Cap Equity	0.55%	1.21%	0.66%	\$28,046
Stephens	Mid Cap Growth	0.80%	1.35%	0.55%	\$19,026
Barrow Hanley	Small Cap Value Equity	1.00%	1.40%	0.40%	\$11,323
Fixed Income					
MacKay Shields	Fixed Income	0.35%	0.89%	0.54%	\$50,870
Loomis Sayles	High Yield Fixed Income	0.68%	1.13%	0.45%	\$6,343
International Equity					
Causeway	International Equity	0.99%	1.41%	0.42%	\$14,208
MLP					
Advisory Research	Master Limited Partnership	0.75%	1.00%	0.25%	\$3,685
Real Estate					
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%	\$9,193
Total Plan		0.64%	1.16%	0.52%	\$142,696

Source: Morningstar

OPEB TRUST – ASSET ALLOCATION ANALYSIS

AS OF MARCH 31, 2014

Manager	Actual Portfolio¹	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	15.3%	15.0%	0.3%	0.0%	20.0%
Mid Cap Domestic Equity	12.5%	12.5%	0.0%	0.0%	17.5%
Small Cap Domestic Equity	10.2%	10.0%	0.2%	0.0%	15.0%
International Equity	12.4%	12.5%	-0.1%	0.0%	17.5%
Core Fixed Income	34.0%	35.0%	-1.0%	30.0%	75.0%
High Yield Fixed Income	5.1%	5.0%	0.1%	0.0%	10.0%
Real Estate	5.2%	5.0%	0.2%	0.0%	10.0%
Master Limited Partnerships	5.3%	5.0%	0.3%	0.0%	10.0%
Cash	0.0%	0.0%	0.0%	-	-
Total	100.0%	100.0%		100.0%	100.0%