

# Port of Houston Authority OPEB Trust

Second Quarter 2013 Report





# Market Environment – Tale of the *Taper*

Investors saw mixed returns during the second quarter as domestic equities enjoyed gains, while bonds and international equities suffered losses. The quarter started strong until the U.S. markets turned negative during late May when Fed Chairman Bernanke pronounced that the Fed would have to consider “tapering” bond purchases if the U.S. economy gained appreciable strength. While the statement was vague, investors interpreted an imminent end to the \$85 billion monthly asset purchases. Equities and bonds moved lower, but bonds were especially hard hit.

Worldwide economic growth remains challenged. Europe remains mired in recession. Emerging markets growth, especially China, has slowed. The U.S. economy is stuck in a subpar growth trajectory. With the possible exception of the U.S. energy renaissance, there are no stand out growth stories in the current economic environment.

Despite late quarter weakness, all segments of the domestic equity market enjoyed gains. Small caps outperformed. Value outperformed growth among large caps. Growth outperformed among mid and small caps.

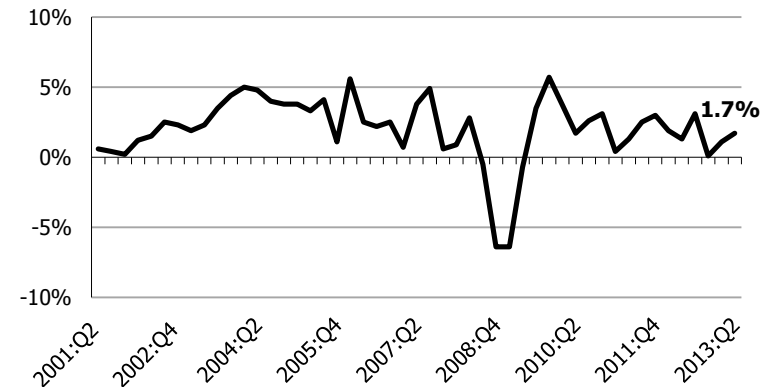
International equity investors saw most markets trade lower. Emerging markets were especially hard hit as China, Brazil and other nations saw slowing economic growth. Natural resource based economies have seen dramatic share declines this year. Japan was a standout, gaining more than 4% in US\$ terms.

Fixed income investors suffered losses during the quarter. Fed statements spooked bondholders who sold all segments of the bond market en masse. Falling bond prices spilled over into other income oriented assets such as REITS, high dividend paying stocks and MLPs.

Oil ended the quarter at \$96.56 barrel. Natural gas enjoyed a gain during the quarter, ending the period at \$3.58 in the U.S. Oil and natural gas production continues to expand at a rapid pace in the U.S.

Hedge funds posted modest returns during the quarter. Private equity investors were active, but deal activity continues to be predominantly focused in mid and lower market companies.

**US Real GDP Growth - Annualized**



	2011				2012				2013
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth quarter	First Quarter
Real GDP	0.1%	2.5%	1.3%	4.1%	2.0%	1.3%	3.1%	0.1%	1.1%
<b>Unemployment</b>	<b>8.9%</b>	<b>9.1%</b>	<b>9.1%</b>	<b>8.7%</b>	<b>8.3%</b>	<b>8.2%</b>	<b>8.1%</b>	<b>7.8%</b>	<b>7.7%</b>
Inflation (CPI)	2.1%	3.4%	3.8%	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%
<b>Prime Rate</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>	<b>3.3%</b>
91 Day T-Bill Yield	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>10 Year T-Bond Yield</b>	<b>3.4%</b>	<b>3.2%</b>	<b>2.4%</b>	<b>2.0%</b>	<b>2.0%</b>	<b>1.8%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.9%</b>



# Market Environment – Domestic Equity

Equity markets performed well during the first half of the quarter, hitting new all-time highs before fading into quarter end. Domestic stocks have provided investors with surprisingly strong returns despite a relatively weak domestic economy. Corporate America has done an admirable job cutting costs, reorganizing and remaining cautious with new investments. However, their cautious activity has restrained economic growth and slowed the recovery in private sector employment.

Large cap value was the top performing market segment during the second quarter. Mid cap value was the poorest. Growth outperformed value among small caps and mid cap but not large caps. Over the year to date period, mid cap value was the top performing segment while large cap growth was the poorest. Since the market low set in March of 2009, domestic equities have been led higher by mid cap value stocks, which have posted a cumulative return of 226%. The poorest performing segment over that time period has large cap growth, gaining 157%. Value outperformed growth among large and mid caps while growth edged value among small caps.

The quarter's top performing sectors were Financials (+7.3% return), Consumer Discretionary (+6.8%) and Health Care (+3.8%). Poorest performers were Utilities (-2.7%), Materials (-1.8%), and Energy (-0.4%). Top contributors to the S&P 500 were Microsoft (+22% quarterly return), Google (+11%), and Wells Fargo (+12%). The three worst contributions to the quarter's return were Apple (-10%), IBM (-10%), and Qualcomm (-8%).

The domestic equity market is trading within a historically normal range. The forward P/E ratio of the S&P 500 ended the quarter at 13.9x vs. 14.1x for its ten year average. It had a dividend yield of 2.2% vs. 2.1% ten year average. So far this year, the U.S. equity market has enjoyed a period of relatively low volatility and stock price correlation.

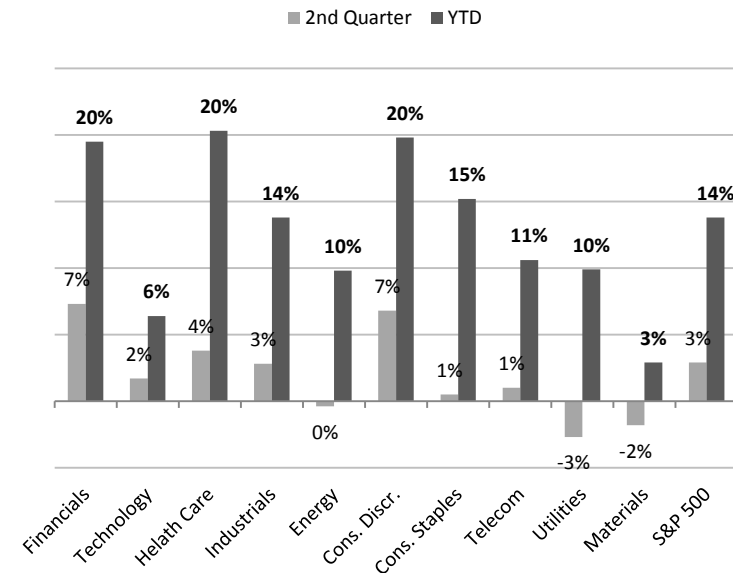
With the exception of the Carl Icahn vs. Michael Dell fight at Dell Computer, private equity remained largely under the radar. However, private equity investors have massive amounts of uninvested client capital. There has been some activity in the small to middle market, but virtually no deals in the large cap market.

The Master Limited Partnership sector enjoyed another positive quarter of returns despite rising interest rates. Shares did move lower during June, but outperformed other yield oriented investments. The sector remained very active with a number of IPOs and mergers so far this year. Real Estate Investment Trusts also traded lower as interest rates moved higher. Much of the selling pressure was attributed to excitable individual investors exiting the asset class.

S&P 500 Trailing 12-Month P/E Ratio



S&P 500 Sector Performance





# Market Environment – International Equity

**In U.S. Dollar terms, international equities were weak.** Japan (+3.4%) continued to be the best performing region as the Bank of Japan embarked on radical measures to increase their money supply and growth. Emerging Markets was the poorest performing region as commodity demand declined.

The developed non-U.S. equity market, as measured by the MSCI All Country World ex-U.S. Investable Market Index, fell -1.6% during the quarter. Emerging markets, according to the MSCI EMF Index, fell -9.1%.

Year to date, the top three performing equity markets (in U.S. \$ terms) were Japan (+15%), Ireland (+14%) and the U.S. (+13%). The three poorest performers were Brazil (-19%), South Africa (-16%) and Greece (-14%).

The European economic condition remain sluggish as manufacturing activity is showing incremental improvement despite serious unemployment throughout the region. May unemployment was 12.2% throughout the Euro area. Germany, the strongest country in Europe, had 5.3% unemployment while Spain and Greece suffered 26.9% and 26.8% rates respectively. Deteriorating economic indicators caused the European Central Bank to cut short term rates to 0.5%, their lowest ever level. Data indicated that Europe has suffered six consecutive quarters with negative growth, the longest recessionary period for the continent since the end of World War II. MSCI announced in June that Greece would be relegated from their developed market index to their emerging market index in November.

The U.S. Dollar gained 6% vs. the yen but fell -1% vs. the Euro. Emerging markets currencies moved sharply lower vs. the U.S. Dollar.

Japan embarked on an enormous economic stimulus/asset purchasing program during early April. Taking a page from the U.S. Federal Reserve, the Bank of Japan "printed yen" which initially drove equity prices rapidly higher and the yen lower. Japanese equities experienced a volatile quarter that saw prices surge, fall back, then recover some of their initial gains. MSCI Japan rose 10% during the quarter.

Emerging markets suffered losses during the quarter as fear of the U.S. Fed tapering caused shares to sell off. Disappointing economic growth in China coupled with lower materials and commodities prices pushed share prices lower. Political instability in specific markets (Brazil, Turkey, Egypt) also caused sell-offs. Emerging markets equities are trailing developed markets by a large margin year to date. Corporate and Sovereign emerging markets debt issuance was heavy during April and May before slowing in June. Petrobras, a Brazilian oil producer, sold \$11 billion in dollar denominated bonds in the largest ever emerging market bond deal in history.

	GDP Growth (2013 Estimate)*	Inflation (2013 Estimate)*
Global Economy	2.2%	2.4%
USA	1.7%	1.8%
Euro Area	-0.5%	1.5%
UK	1.0%	2.8%
Japan	1.5%	0.0%
Asia ex-Japan	6.0%	3.5%
Latin America	2.8%	6.9%

\*source: Bloomberg and the World Bank.

12-Month Forward P/E Ratio Comparison	Current	Post 1990 Average	Discount/ Premium
World	13.4	15.7	-14.6%
USA	13.9	16.4	-15.2%
Euro Area	12.4	13.9	-10.8%
UK	11.5	12.6	-8.7%
Japan	15.5	28.3	-45.2%
Asia ex-Japan	14.8	13.9	+6.5%



# Market Environment – Fixed Income

Bond prices fell rather dramatically during June as Federal Reserve Chairman Bernanke hinted that various activities that the Fed had relied on since 2008 to support the U.S. economy might be nearing their end. Investors reacted immediately through unwinding of leverage carry trades, retail bond fund redemptions and dealers slashing their inventory. Fed policies and comments will likely drive market behavior for the rest of 2013.

Central banks remained committed to various stimulative activities during the second quarter. Budget sequestration, which was expected to negatively impact the U.S. economy, has had little noticeable effect thus far. This is in contrast with Europe, whose austerity measures had substantial negative impacts on many countries, but focused on the southern rim of the European Union.

Treasury yields reacted to the Fed's talk of tapering by shifting higher. From May 2<sup>nd</sup> through July 5<sup>th</sup>, the yield on the ten year Treasury bond rose 0.87%, from 1.62% to 2.49%. For the quarter, the ten year Treasury suffered a -4.57% loss in total return terms.

All sectors of the bond market suffered losses during the quarter. Credit spreads expanded modestly during the quarter. Year to date returns have also turned negative except for lower quality high yield issues, which were insulated from losses by the elevated yields. Despite market weakness, corporate bond issuance was strong during the quarter. During April, Apple completed the largest corporate bond issue in history, floating \$17 billion in debt across the yield curve.

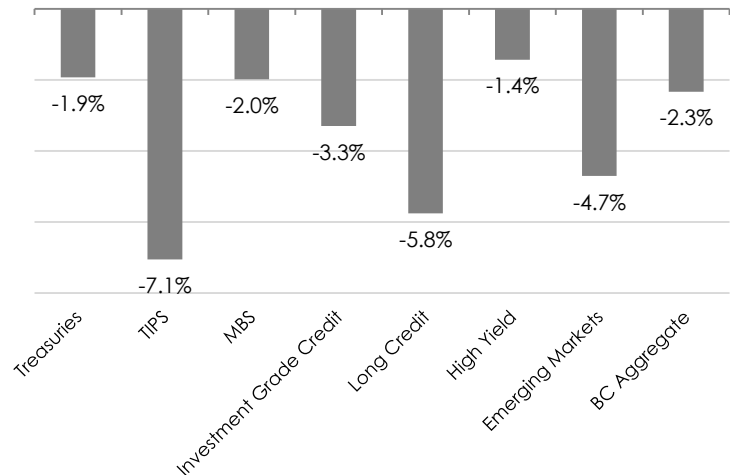
High yield bonds were the top performing segment of the U.S. fixed income market. The high yield index ended the quarter with a yield of 6.7% vs. 2.4% for the broad market. High yield defaults remain extremely low, 1.1% vs. 4.2% long-term average. Funds flowing into high yield decreased substantially on a year over year basis.

U.S. unemployment did not improve during the quarter. Unemployment rates were close to unchanged while the number of part time workers did increase. Inflation remains low to nonexistent as the U.S. growth outlook remains slightly above 2%, below average.

Residential real estate continued its recovery during the second quarter. Home prices increased in March and April at the fast pace since 2006, although higher mortgage rates are expected to slow activity. Late in the quarter, the U.S. Commerce Department reduced its initial estimate of first quarter GDP growth from 2.4% to 1.8%. Hourly wages for non-farm workers saw their largest drop on record as the payroll tax increase took effect. Commercial real estate posted modest gains during the second quarter.

Risk Level	Time Horizon			
	One Year		Three Years (annualized)	
	Terminal Yield	Total Return	Terminal Yield	Total Return
<b>Low Risk</b>				
2 Year Treasury	2.50%	-3.8%	4.00%	-2.0%
(6.30 = 0.36%)	1.25%	-1.4%	3.00%	-1.4%
	0.50%	0.1%	2.00%	-0.7%
<b>Medium Risk</b>				
10 Year Treasury	4.50%	-13.5%	5.50%	-5.4%
(6.30 = 2.49%)	3.50%	-6.0%	4.50%	-2.9%
	2.00%	6.9%	3.50%	-0.3%
<b>High Risk</b>				
30 Year Treasury	5.50%	-25.7%	6.00%	-8.6%
(6.30 = 3.50%)	4.50%	-12.8%	5.00%	-4.2%
	3.00%	13.4%	4.00%	0.8%

## Second Quarter 2013 Returns





# Market Environment – Index Comparison

Domestic Equity	Last Quarter	Last Year	Last Three Years Annualized	Last Five Years Annualized	Last Ten Years Annualized
S&P 500	2.9	20.6	18.5	7.0	7.3
Russell 1000	2.7	21.2	18.6	7.1	7.7
Russell 1000 Value	3.2	25.3	18.5	6.7	7.8
Russell 1000 Growth	2.1	17.1	18.7	7.5	7.4
Russell 3000	2.7	21.5	18.6	7.3	7.8
Russell Midcap	2.2	25.4	19.5	8.3	10.7
Russell Midcap Value	1.7	27.7	19.5	8.9	10.9
Russell Midcap Growth	2.9	22.9	19.5	7.6	9.9
Russell 2000	3.1	24.2	18.7	8.8	9.5
Russell 2000 Value	2.5	24.8	17.3	8.6	9.3
Russell 2000 Growth	3.7	23.7	20.0	8.9	9.6
Alerian MLP	1.9	28.4	21.0	18.2	16.3
<b>Fixed Income</b>					
Barclays Capital Aggregate Bond	-2.3	-0.7	3.5	5.2	4.5
Barclays Capital Credit	-3.4	0.8	5.5	7.0	5.1
Barclays Capital Government	-1.9	-1.5	2.9	4.4	4.1
Barclays Capital Govt/Credit	-2.5	-0.6	3.9	5.3	4.4
Barclays Capital Interm Credit	-2.3	2.0	4.8	6.3	4.8
Barclays Capital Interm Govt	-1.4	-0.6	2.3	3.8	3.7
Barclays Capital Interm Govt/Cred	-1.7	0.3	3.1	4.6	4.0
Barclays Capital Long Credit	-6.3	-2.0	7.6	9.2	6.3
Barclays Capital Long Term Govt	-5.7	-8.2	6.2	7.5	6.1
Barclays Capital Long Govt/Credit	-6.1	-4.7	7.0	8.5	6.2
Barclays Capital Fixed Rate MBS	-2.0	-1.1	2.5	4.8	4.7
Merrill Lynch US High Yield Master II	-1.4	9.6	10.4	10.6	8.7
91 Day T-Bill	0.0	0.1	0.1	0.2	1.6
Consumer Price Index	-0.4	1.4	2.2	1.5	2.4
<b>International</b>					
MSCI EAFE	-1.0	18.6	10.0	-0.6	7.7
MSCI World ex US	-1.6	17.1	9.4	-0.8	7.9
MSCI Europe	-0.5	18.9	10.5	-1.4	7.5
MSCI Japan	4.4	22.3	8.6	-0.2	6.2
MSCI Pacific ex Japan	-10.9	12.3	11.1	3.3	12.7
MSCI Emerging Markets	-9.1	0.3	0.8	-2.9	11.0
Citigroup Non-\$ World Gov	-3.4	-5.7	2.6	2.6	4.8



# Retirement Program Plan Summary

As of June 30, 2013

Manager	Three Month	One Year	Three Year	Five Year	Since Inception	Market Value	% of Total <sup>1</sup>	Inception Date
Smith Affiliated	-3.80%	-	-	-	-1.91%	\$5,999,034	34.6%	6/25/2012
Barclays Capital Aggregate	-2.33%	-0.69%	3.51%	5.19%	-2.10%			
Loomis Sayles High Income	1.70%	-	-	-	14.33%	\$882,448	5.1%	
ML High Yield	-1.35%	9.55%	10.42%	10.62%	6.18%			
FAMCO MLP	4.89%	-	-	-	33.10%	\$929,316	5.4%	7/26/2012
Alerian MLP	1.94%	28.38%	20.98%	18.18%	20.25%			
Fiduciary Management	3.55%	-	-	-	20.11%	\$2,645,053	15.2%	8/14/2012
Russell 1000 Value	3.20%	25.32%	18.51%	6.67%	21.40%			
S&P 500	2.91%	20.60%	18.45%	7.01%	16.33%			
Stephens Mid Cap Growth	2.75%	-	-	-	19.95%	\$2,192,287	12.6%	12/18/2012
Russell Mid Cap Growth	2.87%	22.88%	19.53%	7.61%	14.70%			
Barrow Hanley Small Cap	2.04%	-	-	-	36.89%	\$1,782,334	10.3%	7/19/2012
Russell 2000 Value	2.47%	24.77%	17.33%	17.33%	22.28%			
Eagle Global	-0.46%	-	-	-	6.45%	\$2,064,491	11.9%	12/18/2012
MSCI EAFE	-0.98%	18.62%	10.04%	-0.63%	14.23%			
Cohen & Steers Real Estate	-1.31%	-	-	-	11.19%	\$856,006	4.9%	
FTSE NAREIT All REITS	-3.39%	9.72%	17.98%	7.94%	5.41%			
Cash	-	-	-	-	-	\$0	0.0%	
<b>Total Plan - Gross of Fees</b>	<b>-0.03%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.42%</b>	<b>\$17,350,968</b>	<b>100.0%</b>	
<b>Total Plan - Net of Fees</b>	<b>-0.17%</b>				<b>6.97%</b>			
Benchmark	-0.06%	-	-	-	11.09%			
Actuarial Assumption	1.77%	7.25%	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%)

Sources: First Southwest, Morningstar, and Investment Managers

Data believed to be accurate, but cannot be guaranteed.

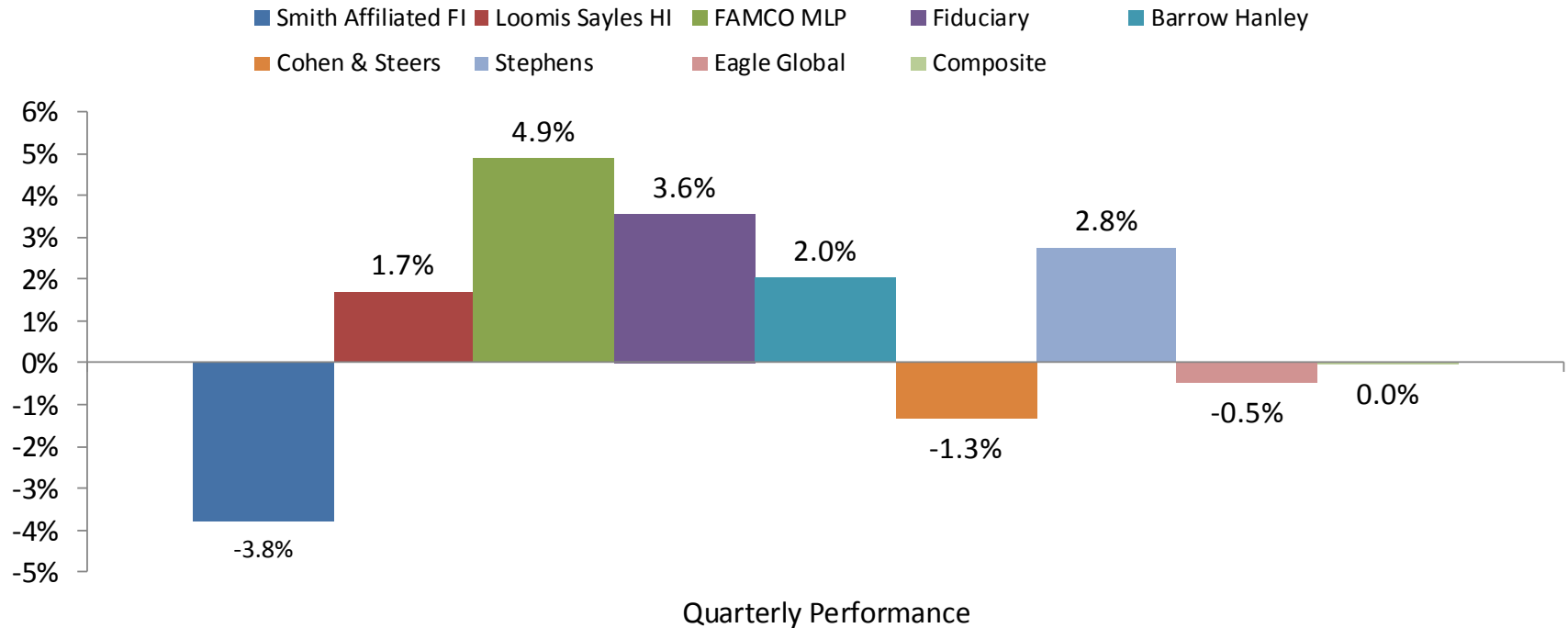
<sup>1</sup>Since inception performance calculated using the first whole quarter as the inception date.





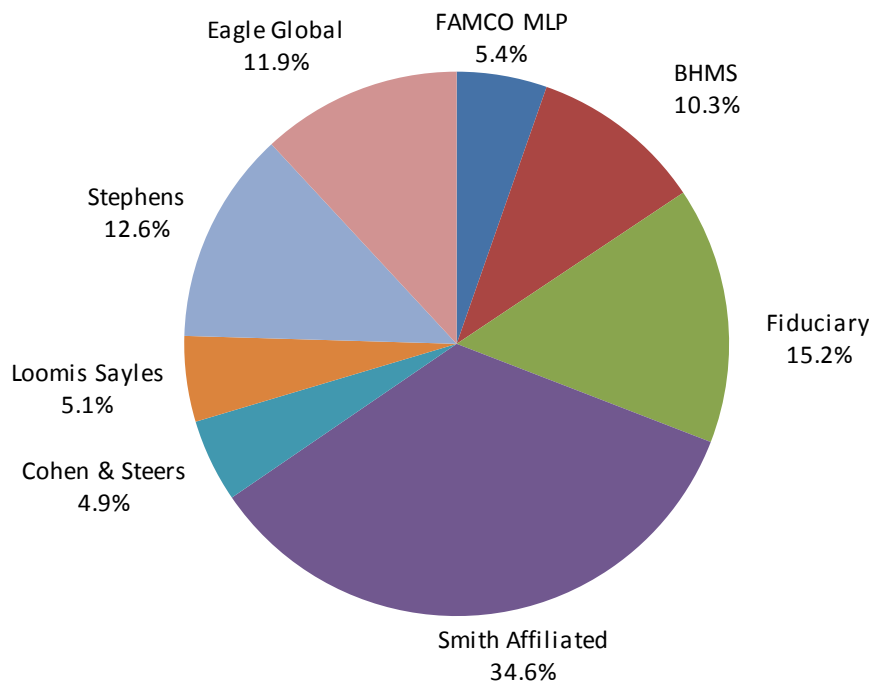
# Performance Summary

Period ended June 30, 2013

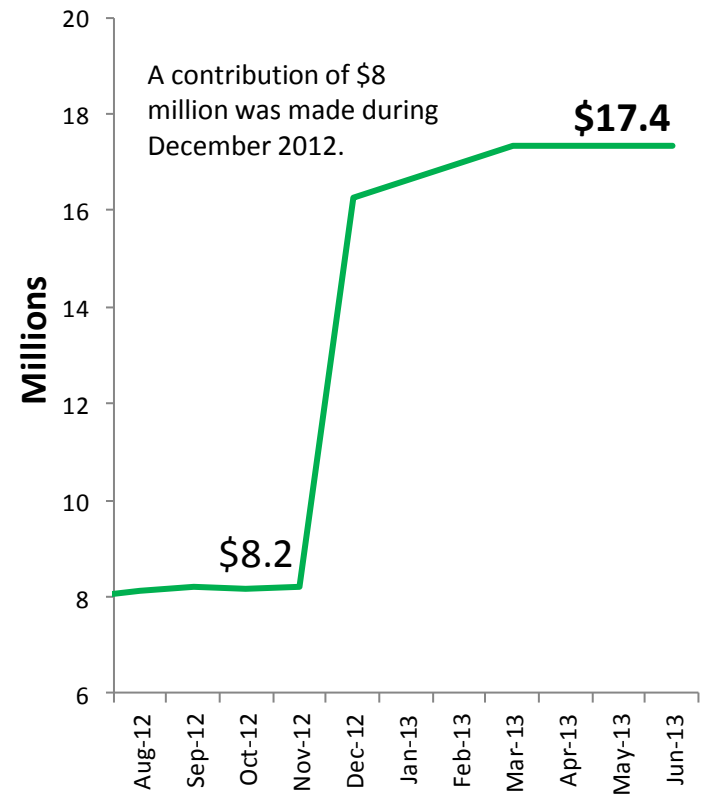




# Portfolio Review



## Market Value History





# Discussion Items

- An International Equity search was conducted during the quarter. The Pension & Benefits Committee voted to recommend replacing Eagle Global with Causeway Capital.



## 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

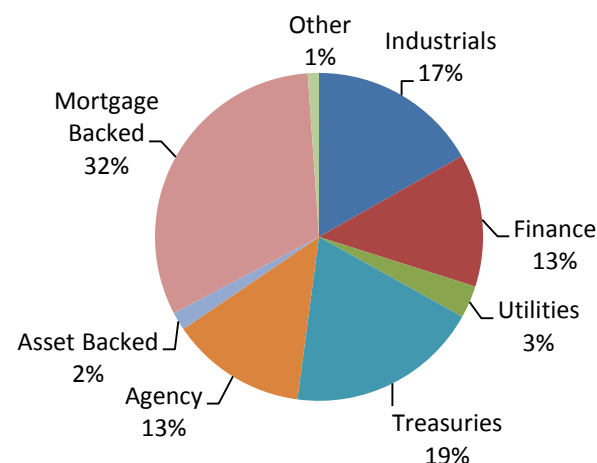
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Smith Affiliated	-3.80%	-	-	-
Barclays Capital Aggregate Bond	-2.33%	-0.69%	3.51%	5.19%

## Key Characteristics

	Portfolio	BC Agg
Effective Duration	6.4	5.5
Maturity	8.1	7.5
Trailing 12 Month Yield	2.07	3.2
Yield to Maturity	3.50	2.4
Average Credit Quality	AA	AA
Average Number of Issues	30	8395
Expense Ratio	0.25%	-

## Holding Summary

Market Value	\$5,999,034
Percentage of Plan	34.57%





## 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

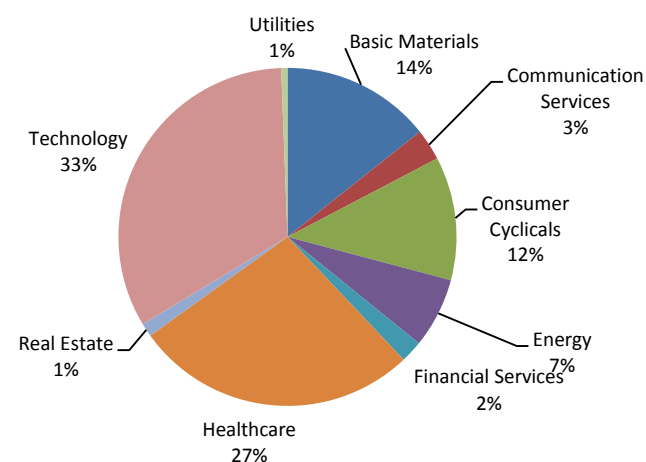
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	1.70%	-	-	-
Merill Lynch High Yield Master II	-1.35%	9.55%	10.42%	10.62%

### Key Characteristics

	Portfolio	ML HY II
Effective Duration	4.8	4.5
Maturity	8.1	6.6
Trailing 12 Month Yield	6.3	6.8
Yield to Maturity	5.1	-
Average Credit Quality	B	B-
Average Number of Issues	352	2147
Expense Ratio	0.68%	-

### Holding Summary

Market Value	\$882,448
Percentage of Plan	5.09%





## Fiduciary Asset Management Co. (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 June 30, 2013 were **Energy Transfer Equity** (7.6%, of the total fund), **Enterprise Products Partners** (7.4%), and **Plains All American Pipeline** (7.3%).

## Performance

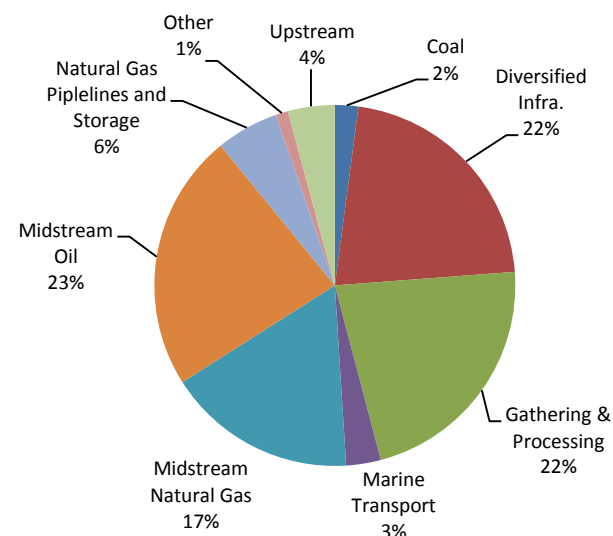
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Asset Management Co. (FAMCO)	4.89%	-	-	-
Alerian MLP	1.94%	28.38%	20.98%	18.18%

## Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	23.8	23.6
P/B Ratio	4.1	2.7
Beta - 5 Year	0.95	1.00
R2 - 5 Year	92	100
Wt. Avg Market Cap. \$MM	9312	11569
Earnings Growth - 5 Year	8.5	-
Standard Deviation - 5 Year, monthly	0.2	-
Total Number of Holdings	25	50
Prospective Dividend Yield	4.9%	-
Expense Ratio	0.75%	-

## Holding Summary

Market Value	\$929,316
Percentage of Plan	5.36%





## 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 June 30, 2013 were **3M** (6.7%, of the total portfolio), **Berkshire Hathaway** (5.6%), and **Illinois Tool Works** (4.6%).

## Performance

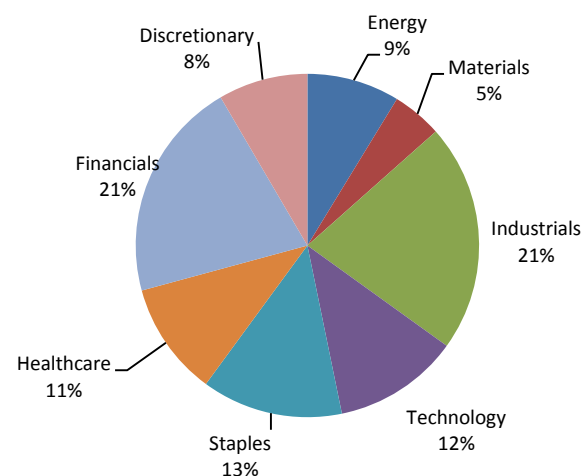
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	3.55%	-	-	-
Russell 1000 Value	3.20%	25.32%	18.51%	6.67%
S&P 500 Index	2.91%	20.60%	18.45%	7.01%

## Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	15.8	14.5
P/B Ratio	2.9	1.7
Beta - 5 Year	0.81	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. \$MM	67458	42810
Earnings Growth - 3 Year	9.4%	-
Standard Deviation - 5 Year, monthly	18.6%	-
Total Number of Holdings	25	690
Prospective Dividend Yield	1.9%	2.5%
Expense Ratio	0.55%	-

## Holding Summary

Market Value	\$2,645,053
Percentage of Plan	15.24%





## 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 June 30, 2013 were **Cerner** (2.0%, of the total portfolio), **Stericycle** (1.8%), and **Portfolio Recovery Associates** (1.7%).

## Performance

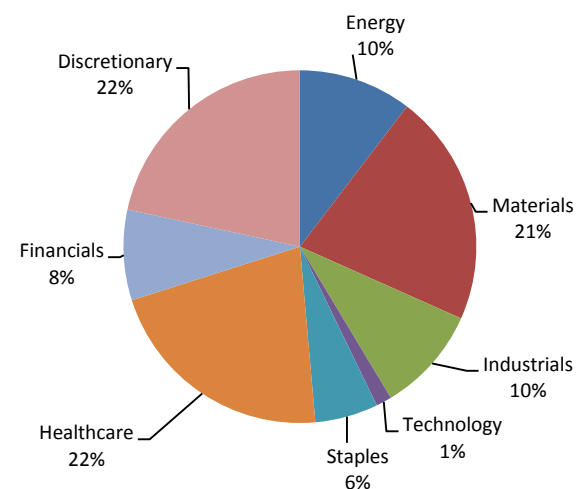
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	2.75%	-	-	-
Russell Mid Cap Growth	2.87%	22.88%	19.53%	7.61%

## Key Characteristics

	Portfolio	R MCG
P/E Ratio	21.8	16.8
P/B Ratio	4.2	2.3
Beta - 5 Year	0.90	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. \$MM	7905	8507
Earnings Growth - 5 Year	17.0%	-
Standard Deviation - 5 Year, monthly	20.2%	-
Total Number of Holdings	103	454
Prospective Dividend Yield	0.4%	1.7%
Expense Ratio	0.80%	-

## Holding Summary

Market Value	\$2,192,287
Percentage of Plan	12.63%





## Barrow Hanley MeWhinney &amp; 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 June 30, 2013 were **Oshkosh** (4.3%, of the total portfolio), **PolyOne** (4.1%), and **American Axe Manufacturing Holdings** (4.1%).

## Performance

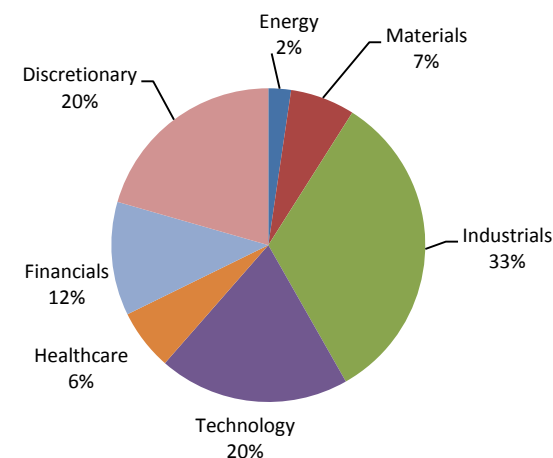
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley MeWhinney & Strauss	2.04%	-	-	-
Russell 2000 Value	2.47%	24.77%	17.33%	17.33%

## Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	15.6	15.8
P/B Ratio	1.8	1.4
Beta - 5 Year	1.33	1.00
R2 - 5 Year	89	100
Wt. Avg Market Cap. \$MM	2260	1078
Earnings Growth - 5 Year	13.5%	-
Total Number of Holdings	42	1406
Prospective Dividend Yield	0.8%	2.4%
Expense Ratio	1.00%	-

## Holding Summary

Market Value	\$1,782,334
Percentage of Plan	10.27%





## 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 June 30, 2013 were **Sanofi Aventis** (3.9%, of the total portfolio, Health Care, France), **Nestle** (3.9%, Consumer Staples, Switzerland), and **BASF** (3.4%, Consumer Staples, Switzerland).

## Performance

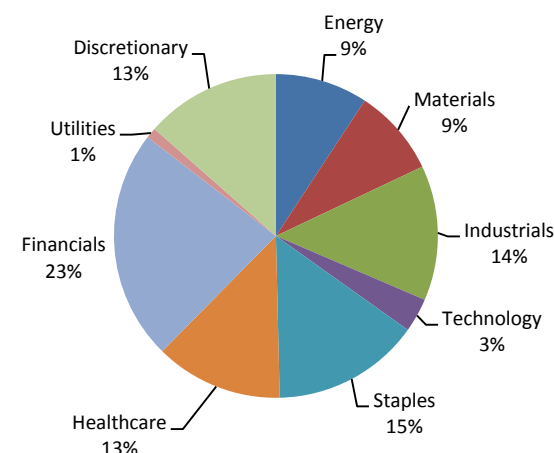
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Eagle Global	-0.46%	-	-	-
MSCI EAFE	-0.98%	18.62%	10.04%	-0.63%

## Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	13.8	15.0
P/B Ratio	1.7	1.4
Beta - 5 Year	1.05	1.00
Wt. Avg Market Cap. \$MM	66047	32138
Earnings Growth - 5 Year	1.7%	-
Total Number of Holdings	59	920
Prospective Dividend Yield	2.9%	3.1%
Expense Ratio	1.00%	-

## Holding Summary

Market Value	\$2,064,491
Percentage of Plan	11.90%





## 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 June 30, 2013 were **Simon Property Group** (11.4%, of the total fund), **Ventas** (5.1%) and **ProLogis** (4.8%).

## Performance

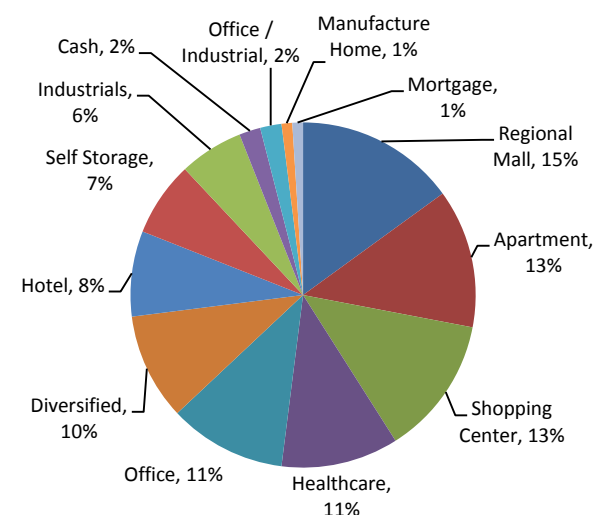
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	-1.31%	-	-	-
FTSE NAREIT All REITS	-3.39%	9.72%	17.98%	7.94%

## Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	45.1	42.6
P/B Ratio	2.5	2.2
Sharpe Ratio - 3 Year	1.0	1.1
Beta - 3 Year	0.89	-
R2 - 3 Year	68	-
Wt. Avg Market Cap. \$MM	8190	8243
Standard Deviation - 5 Year, monthly	31.6%	-
Total Number of Holdings	67	131
Prospective Dividend Yield	3.1%	3.7%
Expense Ratio	0.75%	-

## Holding Summary

Market Value	\$856,006
Percentage of Plan	4.93%





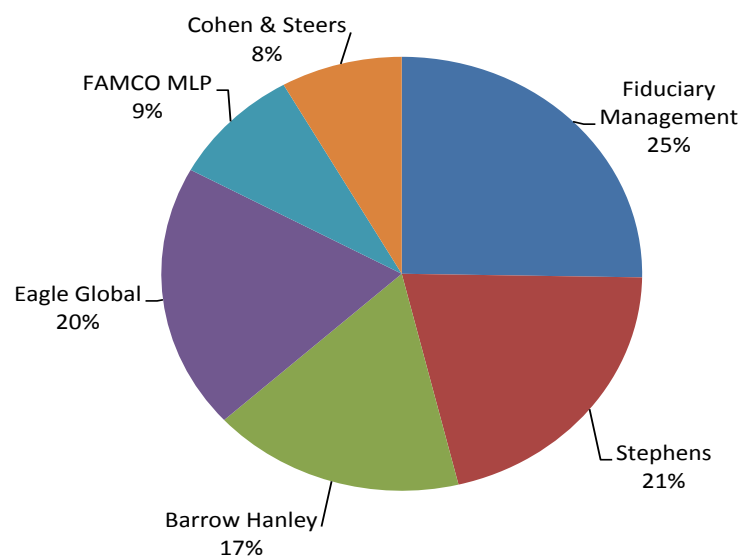
# EQUITY PORTFOLIO SNAPSHOT — DATA AS OF JUNE 30, 2013

## Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	19.7	16.6
P/B Ratio	2.8	2.3
Beta - 5yr.	0.98	1.00
R2 - 5yr.	91	100

## Holding Summary

Total Market Value	\$10,469,487
Percentage of Total Trust	60.34%



\*Statistics calculated using weighted average of current fund lineup.



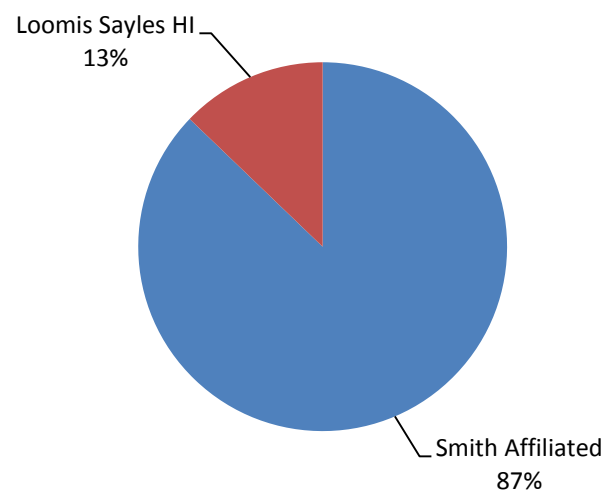
## FIXED INCOME PORTFOLIO SNAPSHOT — DATA AS OF JUNE 30, 2013

**Portfolio Statistics**

	Portfolio	BC Agg
Total # of Issues	382	8395
Average Credit Quality	A	AA
Average YTM	3.7	2.4
Average Modified Duration	6.2	5.5
Time to Maturity	8.1	7.5
Average Coupon	2.6	3.2

**Holding Summary**

Total Market Value	\$6,881,482
Percentage of Total Trust	39.66%



\*Statistics calculated using weighted average of current fund lineup.



## RETIREMENT PROGRAM - MANAGER STATUS SUMMARY

### AS OF JUNE 30, 2013

Manager	Mandate	Status	Note
Fixed Income			
Smith Affiliated	Core Fixed Income	In Compliance	
Loomis Sayles	High Yield Fixed Income	In Compliance	
Domestic Equity			
Fiduciary	Large Cap Equity	In Compliance	Beta 1.33 vs. Investment Policy Statement of 1.20
Stephens	Mid Cap Growth	In Compliance	
Barrow Hanley	Small Cap Equity	Non Compliance	
International Equity			
Eagle Global	International Equity	In Compliance	
MLPs			
FAMCO	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.



## RETIREMENT PROGRAM - MANAGER EXPENSE REVIEW

### AS OF JUNE 30, 2013

Manager	Mandate	Expense Ratio	Category Average	Difference
<b>Domestic Equity</b>				
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%
<b>Fixed Income</b>				
Smith Affiliated	Fixed Income	0.25%	0.97%	0.72%
Loomis Sayles	High Yield Fixed Income	0.68%	1.18%	0.50%
<b>International Equity</b>				
Eagle Global	International Equity	1.00%	1.48%	0.48%
<b>MLP</b>				
FAMCO	Master Limited Partnership	0.75%	1.00%	0.25%
<b>Real Estate</b>				
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%
<b>Total Plan</b>		<b>0.57%</b>	<b>1.22%</b>	<b>0.65%</b>

Source: Morningstar



## RETIREMENT PROGRAM – ASSET ALLOCATION ANALYSIS

### AS OF JUNE 30, 2013

Manager	Actual Portfolio <sup>1</sup>	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	15.2%	<b>15.0%</b>	0.2%	0.0%	20.0%
Mid Cap Domestic Equity	12.6%	<b>12.5%</b>	0.1%	0.0%	17.5%
Small Cap Domestic Equity	10.3%	<b>10.0%</b>	0.3%	0.0%	15.0%
International Equity	11.9%	<b>12.5%</b>	-0.6%	0.0%	17.5%
Core Fixed Income	34.6%	<b>35.0%</b>	-0.4%	30.0%	75.0%
High Yield Fixed Income	5.1%	<b>5.0%</b>	0.1%	0.0%	10.0%
Real Estate	4.9%	<b>5.0%</b>	-0.1%	0.0%	10.0%
Master Limited Partnerships	5.4%	<b>5.0%</b>	0.4%	0.0%	10.0%
Cash	0.0%	<b>0.0%</b>	0.0%	-	-
<b>Total</b>	100.0%	<b>100.0%</b>		100.0%	100.0%