

# Port of Houston Authority OPEB Trust

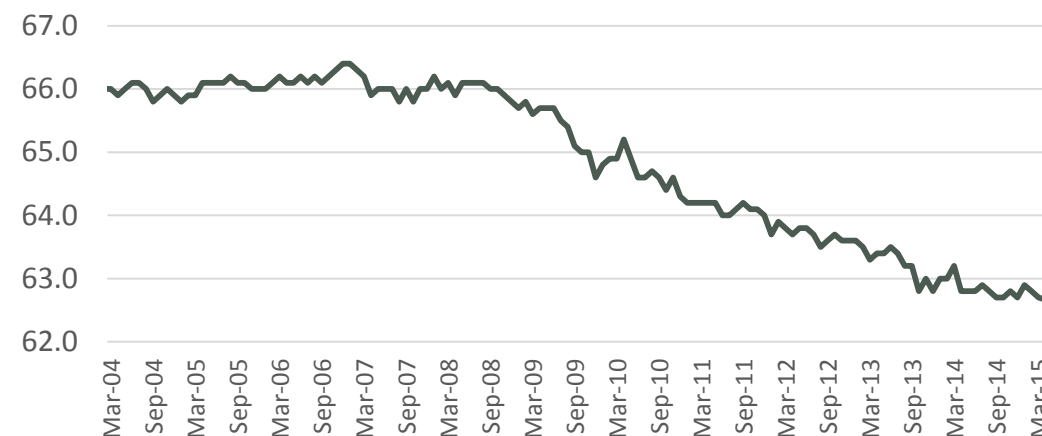
Second Quarter 2015 Report



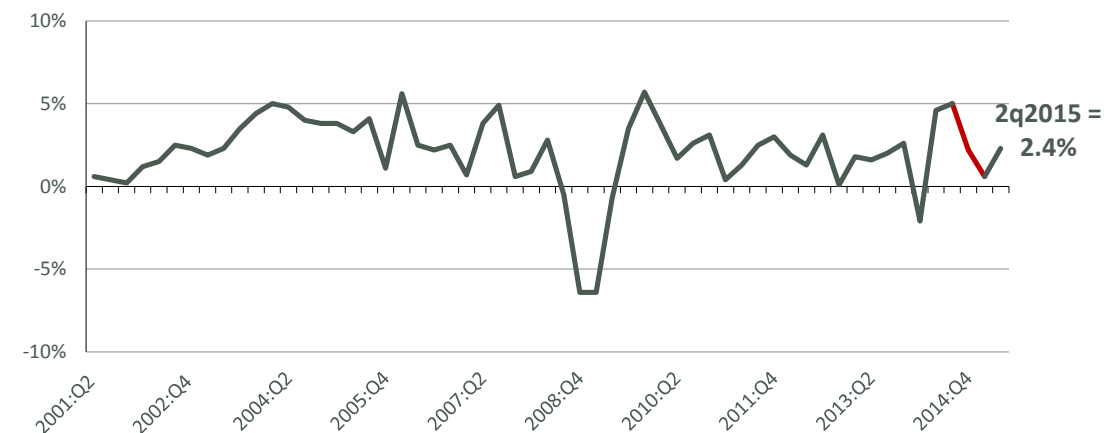
# Market Environment – Second Quarter, 2015

- The second quarter of 2015 was essentially flat for major equity market averages. Smaller and growth oriented companies tended to outperform as investors placed a premium on visible growth. Domestic economic data was unclear as conflicting data points indicated a two step forward, one step back pattern of progress in the US. **Oil prices stabilized for much of the quarter. While the dramatic drop in oil prices has hurt producers,** lower energy prices should eventually be a net positive for consumption driven economic growth. Markets are fixated on when the Federal Reserve will increase the Fed Funds rate for the first time since 2006.
- Domestic real GDP likely reversed course over the quarter. Second quarter growth is expected to rebound to 2.4% after a negative first quarter result.
- Domestic equities were again led by Healthcare. Biotech companies are receiving extremely pricey valuations at very early stages of product development. Corporate earnings were modestly higher in the first quarter of 2015. Second quarter earnings season is currently underway and reports are mixed. Bonds were generally negative as Treasury bond yield showed marked increases during the quarter. We expect bond market volatility to remain high as Central Banks pursue divergent strategies.
- The U.S. **unemployment rate improved modestly to 5.4%** from 5.5% during the first quarter. Labor force participation was virtually unchanged at 62.6%. Wage growth was unable to gain traction, indicating slack in the labor market. **Productivity has actually shown meaningful decrease this year.** Job losses were again focused in the energy sector as lower oil prices impacted production. Rig counts have stabilized and costs have decreased making production viable at roughly \$60/bbl.
- The **U.S. consumer price index rose 0.1%** over the year ended June 30, 2015. This is well below the Federal Reserve's target rate of 2.0%.
- International markets varied widely by region with Japan showing strength while the Eurozone was weak. The MSCI World index fell -0.5% in local currency terms but US Dollar weakness improved the return to +0.5% for unhedged US investors. Market moving news came from several familiar places: Greece, China, Russia, Ukraine, Iran, ISIS/ISIL, Puerto Rico and the Emerging Markets complex.

## Labor Force Participation Rate



## US Real GDP Growth - Annualized



# Equity Markets – Second Quarter, 2015

- U.S. equity market investors experienced modest returns during the second quarter. Foreign markets were also slightly positive in U.S. Dollar terms. The possible exit of Greece from the EU (the Grexit) dominated the financial news cycle. Slowing growth in China and Europe were also significant. The S&P 500's trailing year returns moderated during the quarter, declining from +12.7% to 7.4%. Volatility moved higher during the quarter, ending very near its long term average.
- Healthcare remained red hot, leading all sectors during the quarter with a gain of slightly less than 3%. Financials (+1.8%) and Consumer Discretionary (+1.9%) rounded out the top three performing sectors by contribution. Utilities were the poorest performing sector for the second straight quarter, falling -5.8%. Industrials and Consumer Staples both detracted -0.2% to the market's second quarter return.
- The domestic equity market's top contributing performers were **Microsoft (+9.3% return)**, **Gilead Sciences (+19.7%)**, and **JP Morgan Chase (+1.6%)**. The three largest detractors to the second quarter return were Wal-Mart Stores (-13.2%), Berkshire Hathaway (-5.7%), and Chevron Corporation (-7.2%).
- Equity market valuations remain higher than average.** Based on historical measures, growth stocks are still much more reasonably valued than value stocks. The U.S. broad equity market forward P/E ratio was 16.4x at quarter end (down slightly) vs. 15.7x for its twenty five year average. The market's dividend yield ended the quarter at 2.0% vs. 2.1% for its long term average. The broad market is 56% higher than its previous high (October 2007) and 249% above the low set in March of 2009.
- The US Dollar declined versus some foreign currencies during the first half of 2015. This put pressure on foreign investment returns to US Dollar investors.
- Top performing sectors in the MSCI ACWI ex-US index by contribution were Financials (+2.1%), Energy (+2.6%), and Telecommunication Services (-3.6%). The largest detractors were Information Technology (-2.4%), Health Care (-1.1%) and Industrials (-0.5%).
- Top performance contributors to the ACWI were **BG Group (+36.5% return)**, **Mitsubishi UFJ Financial Group (+15.9%)**, and **Hong Kong Exchanges and Clearing (+45.1%)**. Top detractors were Samsung (-12.4%), Westpac Banking (-15.6%), and the Commonwealth Bank of Australia (-8.3%).

Current P/E Ratio as Percentage of Long Term Average

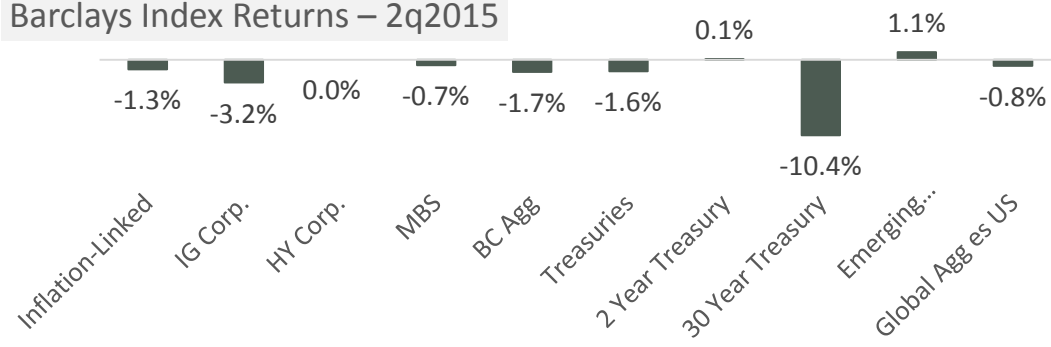
	Value	Blend	Growth
Large	110.2%	101.0%	88.6%
Mid	120.2%	113.6%	94.4%
Small	118.0%	108.6%	96.7%

S&P 500 Sector Analytics	Ending Weight	2q 2015 Return	Beta to S&P 500	Forward P/E Ratio
Consumer Discretionary	12.1%	1.9%	1.12	18.8x
Consumer Staples	9.8%	-1.7%	0.58	18.9x
Energy	8.4%	-1.9%	0.99	24.8x
Financials	16.6%	1.7%	1.44	13.1x
Health Care	14.2%	2.8%	0.70	17.4x
Industrials	10.4%	-2.2%	1.20	15.7x
Information Technology	19.7%	0.2%	1.11	15.5x
Materials	3.2%	-0.5%	1.27	16.3x
Telecommunications	2.3%	1.6%	0.63	13.2x
Utilities	3.2%	-5.8%	0.49	15.2x
Total	100.0%	0.3%	1.00	16.4x

# Fixed Income – Second Quarter, 2015

- Bond markets absorbed significant amount of information during the quarter as domestic and international markets and interest rates were unusually uncertain. **The U.S. Treasury yield curve steepened and moved higher** during the second quarter. Short term interest rates remained anchored at 0% while long term interest rates moved more than one half of a percent higher. Despite slowing growth in the US, and no indications of a “lift off” of growth, investors believe the Federal Reserve will raise short term interest rates before year end. If so, it would be the first time since the 1990s that the Fed moved in a different direction than the Bank of Japan and European central banks. Outside of the US, central banks are generally easing monetary policy to boost low levels of economic growth.
- The Global ex U.S. Aggregate bond index fell -4.7% during the quarter after declining -4.6% during the first quarter. Eurozone bond yields rose approximately 1% during the quarter as the European Central Bank began purchasing 60 billion Euro/month as part of their QE program. They should have declined. Emerging Market debt posted a gain of 1.7% during the quarter. Correlations between short term US and German bonds recently moved negative.
- Yield spreads were mixed during the second quarter.** The average high yield bond spread is 4.8% vs. long term median of 4.9%. High yield default rates moved sharply lower during the quarter to 0.7% of issues outstanding. Cash flows to high yield bond funds were negative for the quarter but still positive over the trailing one year.

Barclays Index Returns – 2q2015



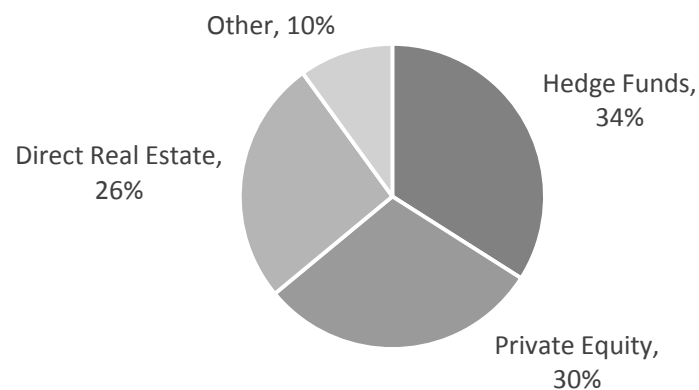
Risk Level	Interest Rate Forecast	Time Horizon			
		1 Year		3 Years	
		Terminal Yield	Total Return	Terminal Yield	Total Return
Low Risk	Pessimistic	2.50%	-2.9%	4.00%	-1.5%
2 Year Treasury	Most Likely	1.25%	-0.5%	3.00%	-0.9%
6/30 YTM: 0.65%	Optimistic	0.50%	0.9%	2.00%	-0.2%
Medium Risk	Pessimistic	4.00%	-11.1%	5.50%	-5.9%
10 Year Treasury	Most Likely	3.00%	-3.2%	4.50%	-3.4%
6/30 YTM: 2.35%	Optimistic	2.00%	5.5%	3.50%	-0.8%
High Risk	Pessimistic	4.75%	-22.8%	6.00%	-11.3%
30 Year Treasury	Most Likely	3.50%	-3.5%	5.00%	-6.9%
6/30 YTM: 3.12%	Optimistic	2.25%	22.0%	4.00%	-1.9%

Yield Curve and Spreads	12/31/2014	3/31/2015	6/30/2015
3 Month T-Bill	0.04%	0.02%	0.01%
2 Year Treasury	0.67%	0.56%	0.64%
10 Year Treasury	2.17%	1.92%	2.35%
30 Year Treasury	2.75%	2.54%	3.11%
10 Year – 2 Year Spread	1.50%	1.36%	1.71%
30 Year – 2 Year Spread	2.08%	1.98%	2.47%

# Alternative Investments – Second Quarter, 2015

- **Inflows to alternative investments remained steady.** Institutions remain interested in non-traditional assets. However, CALPERS will make meaningful reductions to their private equity and real estate allocations over the next few years.
- **Hedge fund returns remained modest during the quarter and full year.** The HFRI weighted composite index gained 5.0% for the full trailing year. The S&P 500 was up 7.4% over the same period.
- Domestic real estate investment returns remained strong. The relative strength of the **US economy and the relative stability of the Dollar continue to attract significant investment from yield seeking investors.** Low-risk core real estate income returns remain attractive. Prime property market transaction volumes remain strong and prices competitive.
- **Private equity returns were strong.** The asset class posted double digit gains for periods ended 12/31/2014 and indications remain positive for returns moving forward. Venture capital gained over 20% over the trailing year.
- **Master Limited Partnerships (energy infrastructure/transport entities) were under pressure during the quarter.** Merger activity increased during the second quarter.

Institutional Investor Allocation to Alternatives  
Percentage of Alternative Allocation of Survey Participants



Hedge Funds (a/o 5/30/15)	1 Year	3 Year	5 Year
HFRI Weighted Composite	5.0%	7.0%	5.2%
Equity Market Neutral	3.4%	4.7%	3.0%
Credit Arbitrage	3.2%	6.7%	6.8%
Multi-Strategy	6.7%	9.8%	6.6%
Event Driven	2.1%	8.1%	6.1%
Merger Arbitrage	4.6%	4.0%	3.7%
Macro	7.4%	2.2%	2.3%
Relative Value	3.6%	7.2%	6.6%
Private Equity (a/o 12/31/14)	1 Year	3 Year	5 Year
Private Equity	11.3%	15.6%	15.8%
Venture Capital	21.5%	18.0%	16.1%

Domestic Equity	Last Quarter	Last Year	Last Three Years Annualized	Last Five Years Annualized	Last Ten Years Annualized
S&P 500	0.3	7.4	17.3	17.3	7.9
Russell 1000	0.1	7.4	17.7	17.6	8.1
Russell 1000 Value	0.1	4.1	17.3	16.5	7.1
Russell 1000 Growth	0.1	10.6	18.0	18.6	9.1
Russell 3000	0.1	7.3	17.7	17.5	8.2
Russell Midcap	-1.5	6.6	19.3	18.2	9.4
Russell Midcap Value	-2.0	3.7	19.1	17.7	8.9
Russell Midcap Growth	-1.1	9.5	19.2	18.7	9.7
Russell 2000	0.4	6.5	17.8	17.1	8.4
Russell 2000 Value	-1.2	0.8	15.5	14.8	6.9
Russell 2000 Growth	2.0	12.3	20.1	19.3	9.9
Alerian MLP	-6.1	-19.8	7.8	11.5	11.4
Fixed Income					
Barclays Capital Aggregate Bond	-1.7	1.9	1.8	3.4	4.4
Barclays Capital Credit	-2.9	0.9	3.0	4.9	5.1
Barclays Capital Government	-1.5	2.3	0.9	2.6	4.0
Barclays Capital Govt/Credit	-2.1	1.7	1.8	3.5	4.4
Barclays Capital Interm Credit	-0.9	1.5	2.9	4.2	4.8
Barclays Capital Interm Govt	-0.4	1.8	0.9	2.1	3.7
Barclays Capital Interm Govt/Cred	-0.6	1.7	1.6	2.8	4.0
Barclays Capital Long Credit	-7.3	-0.4	3.4	7.0	6.0
Barclays Capital Long Term Govt	-8.3	6.3	1.2	6.2	6.2
Barclays Capital Long Govt/Credit	-7.6	1.9	2.5	6.7	6.1
Barclays Capital Fixed Rate MBS	-0.8	2.3	1.9	2.9	4.6
Merrill Lynch US High Yield Master II	-0.1	-0.6	6.8	8.4	7.8
91 Day T-Bill	0.0	0.0	0.1	0.1	1.3
International					
MSCI EAFE	0.6	-4.2	12.0	9.5	5.1
MSCI World ex US	0.5	-5.3	11.2	9.0	5.2
MSCI Europe	0.5	-8.4	11.5	9.4	4.8
MSCI Japan	3.1	8.3	13.3	8.8	4.2
MSCI Pacific ex Japan	-2.5	-6.8	7.5	8.7	7.9
MSCI Emerging Markets	0.7	-5.1	3.7	3.7	8.1
Citigroup Non-\$ World Gov	-3.2	4.0	4.3	3.8	4.1

# Portfolio Trailing Year Performance

+2.10%



# OPEB Trust Plan Summary

## As of June 30, 2015

Manager	Last Quarter	% Rank	Last Year	% Rank	Three Years	% Rank	Five Years	% Rank	Since Inception <sup>1</sup>	Market Value	% of Total	Inception Date
Mackay Shields	-1.45%		1.23%		-		-		1.23%	\$13,034,638	34.9%	4/15/2014
Barclays Capital Aggregate	-1.68%		1.86%		1.83%		3.35%		2.37%			
Loomis Sayles High Income	-0.96%		-3.90%		-		-		4.92%	\$1,816,666	4.9%	12/18/2012
ML High Yield	-0.05%		-0.55%		6.81%		8.41%		4.13%			
Advisory Research MLP	-1.62%		-9.98%		-		-		14.98%	\$1,798,314	4.8%	7/26/2012
Alerian MLP	-6.09%		-19.81%		7.76%		11.53%		3.82%			
Fiduciary Management	0.45%		6.74%		-		-		16.64%	\$5,641,305	15.1%	8/14/2012
Russell 1000 Value	0.11%		4.13%		17.34%		16.50%		16.03%			
S&P 500	0.28%		7.42%		17.31%		17.34%		16.72%			
Stephens Mid Cap Growth	2.35%		8.82%		-		-		16.60%	\$4,936,666	13.2%	12/18/2012
Russell Mid Cap Growth	-1.14%		9.45%		19.24%		18.69%		18.07%			
Barrow Hanley Small Cap	-1.93%		5.63%		-		-		20.72%	\$3,856,043	10.3%	7/19/2012
Russell 2000 Value	-1.20%		0.78%		15.50%		14.81%		13.12%			
Causeway	1.03%		-2.03%		-		-		9.75%	\$4,668,820	12.5%	9/16/2013
MSCI EAFE	0.62%		-4.22%		11.97%		9.54%		4.44%			
Cohen & Steers Real Estate	-9.46%		6.20%		-		-		11.00%	\$1,641,222	4.4%	12/18/2012
FTSE NAREIT All REITS	-9.06%		4.14%		9.06%		14.36%		9.72%			
Cash	-		-		-		-		-	\$3,285	0.0%	
<b>Total Plan - Gross of Fees</b>	<b>-1.21%</b>		<b>2.10%</b>		<b>-</b>		<b>-</b>		<b>9.21%</b>	<b>\$37,396,959</b>	<b>100.0%</b>	
<b>Total Plan - Net of Fees</b>	<b>-1.38%</b>		<b>1.41%</b>						<b>8.49%</b>			
Benchmark	-1.49%		1.83%		-		-		9.36%			
Actuarial Assumption	1.71%		7.00%		-		-		7.09%			

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.

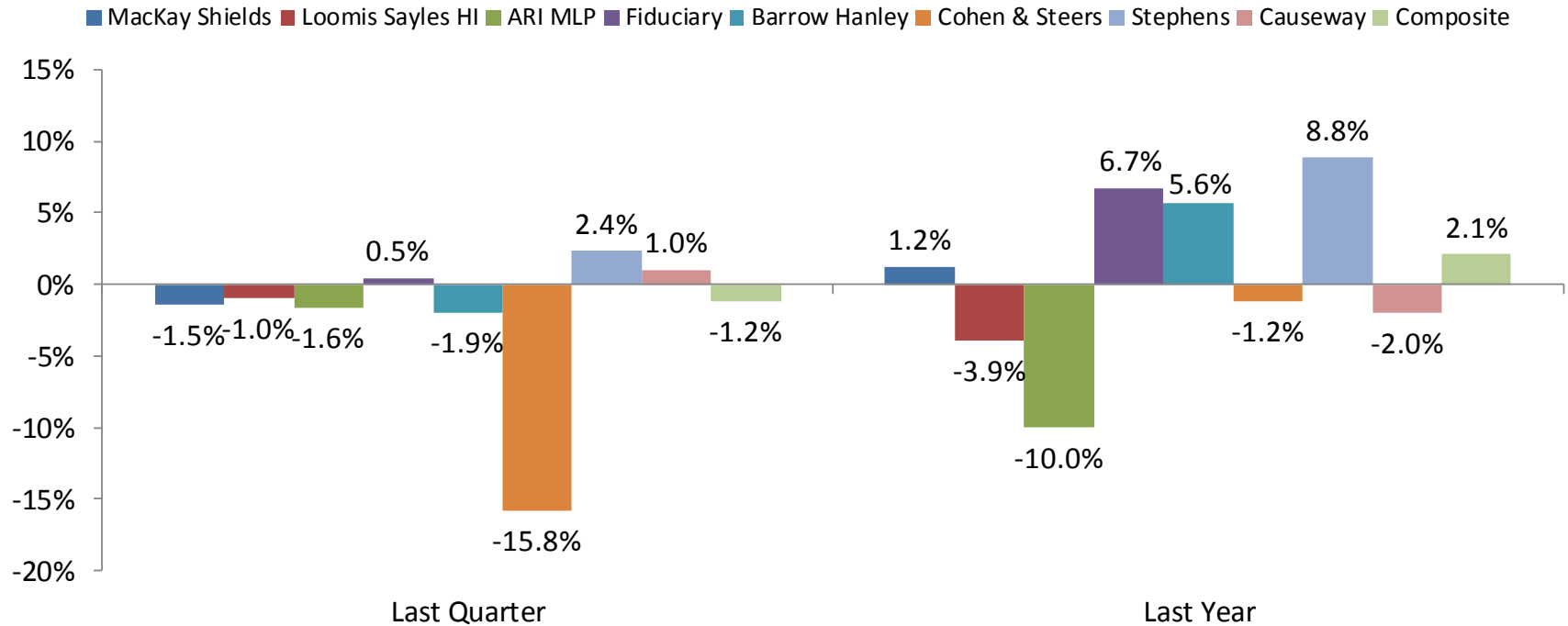
<sup>1</sup>Since inception performance calculated using the first whole quarter as the inception date.



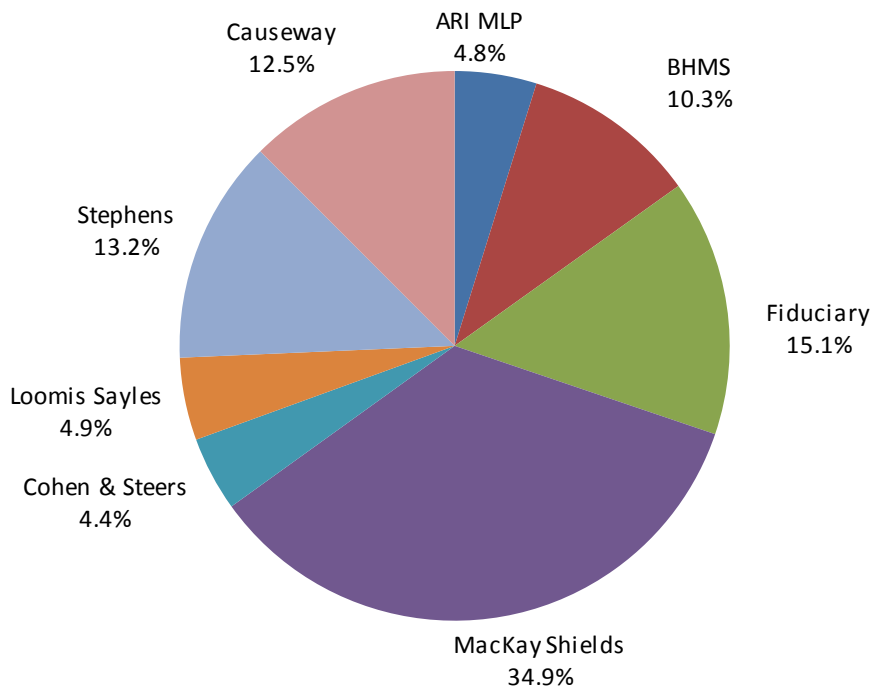


# Performance Summary

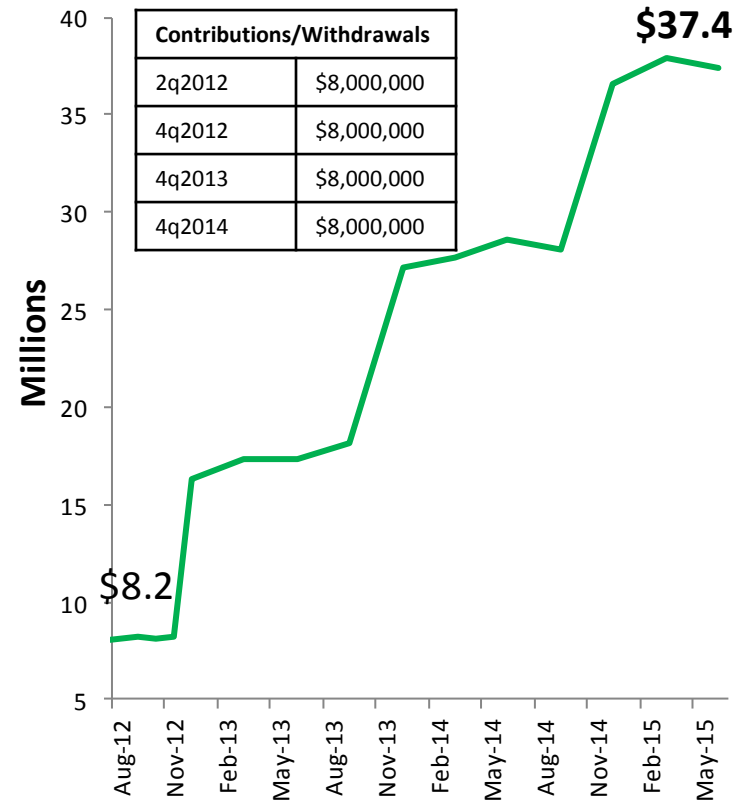
Period ended June 30, 2015



# Portfolio Review



## Market Value History



## 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 fund typically invests in the same sectors represented by the Barclays U.S. Aggregate Bond Index, as well as high yield, emerging market debt, and non-US Dollar exposure. Their philosophy is centered on their pursuit of consistent, superior rates of return with low volatility. Their goal for the product is to provide enhanced returns over a full market cycle with lower-than market risk. **This portfolio replaced Smith Affiliated during the second quarter of 2014.**

## Performance

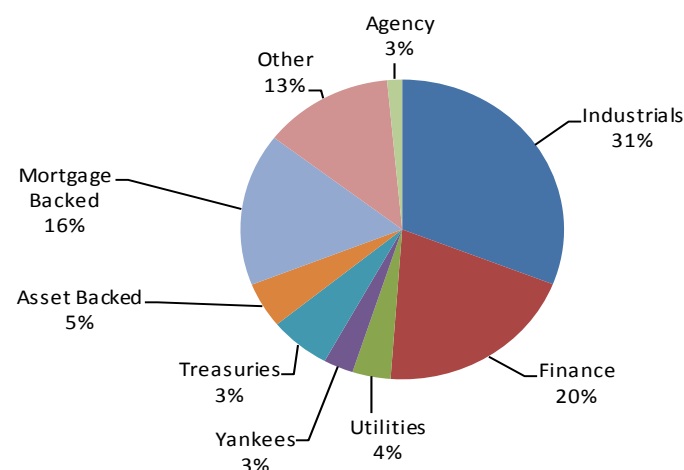
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
MacKay Shields	-1.45%	1.23%	-	-
Barclays Capital Aggregate Bond	-1.68%	1.86%	1.83%	3.35%

## Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.1	5.6
Maturity	6.8	7.9
Trailing 12 Month Yield	3.0	3.1
Yield to Maturity	3.0	2.4
Average Credit Quality	A	AA
Number of Issues	168	9496
Expense Ratio	0.35%	-

## Holding Summary

Market Value	\$13,034,638
Percentage of Plan	34.85%



## 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

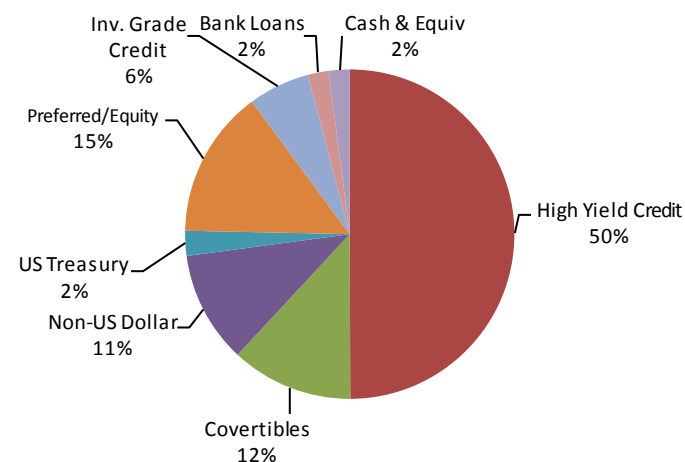
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	-0.96%	-3.90%	-	-
Merill Lynch High Yield Master II	-0.05%	-0.55%	6.81%	8.41%

### Key Characteristics

	Portfolio	ML HY II
Effective Duration	5.1	4.4
Maturity	7.8	6.4
Trailing 12 Month Yield	5.7	6.6
Average Credit Quality	B	B
Number of Issues	380	-
Expense Ratio	0.68%	-

### Holding Summary

Market Value	\$1,816,666
Percentage of Plan	4.86%



## 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 June 30, 2015 were **Enterprise Products Partners L.P.** (8.4% of the total fund), **Energy Transfer Equity** (8.4%), and **Plains GP Holdings L.P.** (8.0%).

## Performance

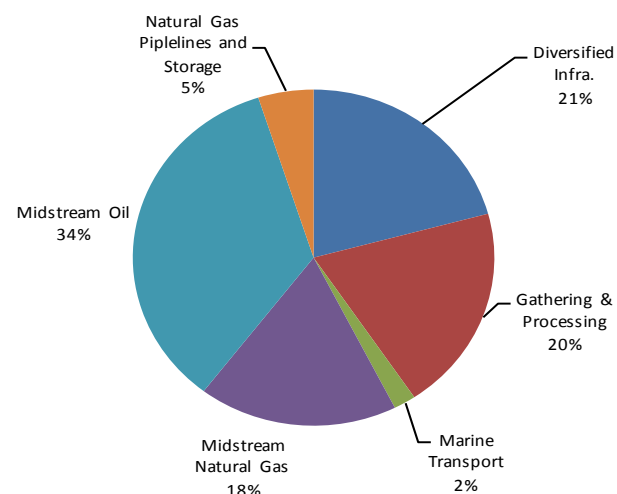
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Advisory Research (ARI)	-1.62%	-9.98%	-	-
Alerian MLP	-6.09%	-19.81%	7.76%	11.53%

## Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	22.5	25.1
P/B Ratio	8.0	2.1
Beta - 5 Year	0.94	1.00
R2 - 5 Year	90	100
Wt. Avg Market Cap. \$MM	8804	12319
Number of Holdings	33	50
Prospective Dividend Yield	5.1%	-
Expense Ratio	0.75%	-

## Holding Summary

Market Value	\$1,798,314
Percentage of Plan	4.81%



## 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 equity holdings as of June 30, 2015 were **Accenture PLC** (5.6% of the total portfolio), **Bank of New York Mellon** (5.0%), and **Potash** (5.0%).

## Performance

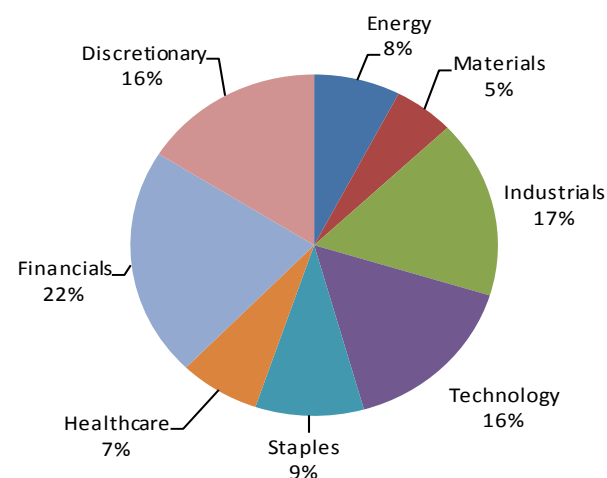
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	0.45%	6.74%	-	-
Russell 1000 Value	0.11%	4.13%	17.34%	16.50%
S&P 500 Index	0.28%	7.42%	17.31%	17.34%

## Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	18.0	16.8
P/B Ratio	3.8	1.8
Beta - 5 Year	0.89	1.00
R2 - 5 Year	0.94	100
Wt. Avg Market Cap. \$MM	78157	51274
Earnings Growth - 3 Year	9.0%	-
Standard Deviation - 5 Year, monthly	11.4%	-
Number of Holdings	26	684
Prospective Dividend Yield	1.8%	-
Expense Ratio	0.55%	-

## Holding Summary

Market Value	\$5,641,305
Percentage of Plan	15.08%



## 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, 2015 were **Illumina** (2.1% of the total portfolio), **Fortinet Inc.** (2.0%), and **Netflix** (1.8%). **The fund was placed On Alert during the fourth quarter of 2014 due to performance. Recent performance has improved and outperformed the benchmark.**

## Performance

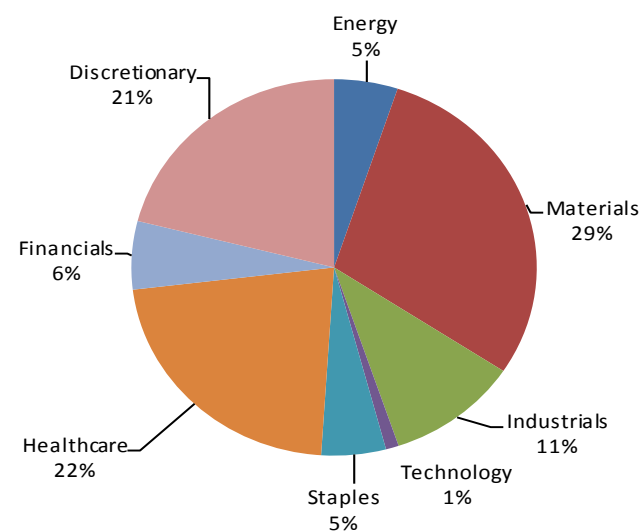
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	2.35%	8.82%	-	-
Russell Mid Cap Growth	-1.14%	9.45%	19.24%	18.69%

## Key Characteristics

	Portfolio	R MCG
P/E Ratio	25.1	25.0
P/B Ratio	5.4	5.4
Sharpe Ratio - 3 Year	1.6	1.8
Sharpe Ratio - 5 Year	1.3	-
Beta - 5 Year	0.92	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. \$MM	10744	11529
Earnings Growth - 5 Year	23.0%	-
Standard Deviation - 5 Year, monthly	13.7%	-
Number of Holdings	101	507
Prospective Dividend Yield	37.0%	-
Expense Ratio	0.80%	-

## Holding Summary

Market Value	\$4,936,666
Percentage of Plan	13.20%



## 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, 2015 were **Texas Capital Bancshares** (4.2% of the total portfolio), **Tempur Sealy International** (4.1%), and **Men's Warehouse** (3.8%).

## Performance

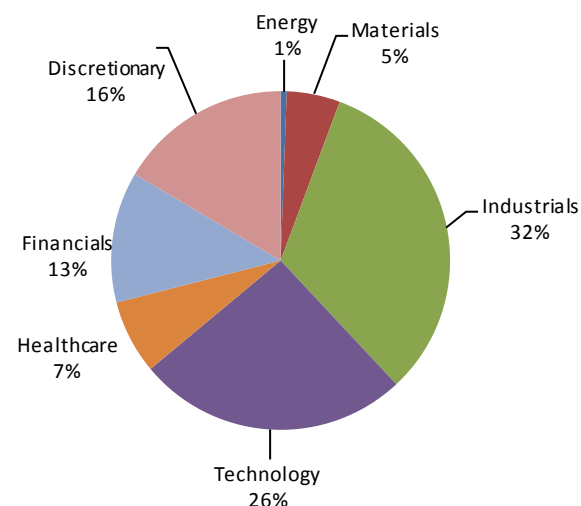
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley Mewhinney & Strauss	-1.93%	5.63%	-	-
Russell 2000 Value	-1.20%	0.78%	15.50%	14.81%

## Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	17.8	17.0
P/B Ratio	2.2	1.4
Sharpe Ratio - 5 Year	0.76	-
Beta - 5 Year	1.42	1.00
R2 - 5 Year	0.95	100
Wt. Avg Market Cap. \$MM	2607	1376
Earnings Growth - 5 Year	15.8%	-
Number of Holdings	40	1319
Prospective Dividend Yield	1.1%	-
Expense Ratio	1.00%	-

## Holding Summary

Market Value	\$3,856,043
Percentage of Plan	10.31%





## 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 June 30, 2015 were to the **United Kingdom** (22.7% of the fund), **Japan** (15.3%), and **France** (13.9%). The three largest holdings as of June 30, 2015 were **Akzo Nobel** (3.3% of the total fund, Netherlands), **KDDI** (3.2%, Japan), and **Reed Elsevier** (3.0%, Netherlands). **This fund replaced Eagle Global during the third quarter of 2013.**

## Performance

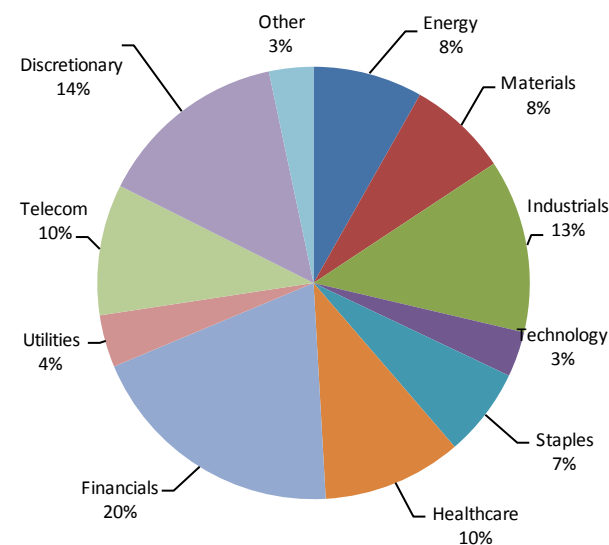
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Causeway	1.03%	-2.03%	-	-
MSCI EAFE	0.62%	-4.22%	11.97%	9.54%

## Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	16.0	16.9
P/B Ratio	1.7	1.7
Sharpe Ratio - 3 Year	1.20	1.13
Sharpe Ratio - 5 Year	0.50	0.39
Beta - 5 Year	1.04	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. \$MM	39969	34448
Number of Holdings	124	911
Prospective Dividend Yield	2.6%	-
Expense Ratio	0.99%	-

## Holding Summary

Market Value	\$4,668,820
Percentage of Plan	12.48%



## Cohen &amp; Steers

## Real Estate &amp; 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, 2015 were **Simon Property Group** (10.4%, of the total fund), **Equity Residential** (6.8%), and **Vornado Realty Trust** (6.0%).

## Performance

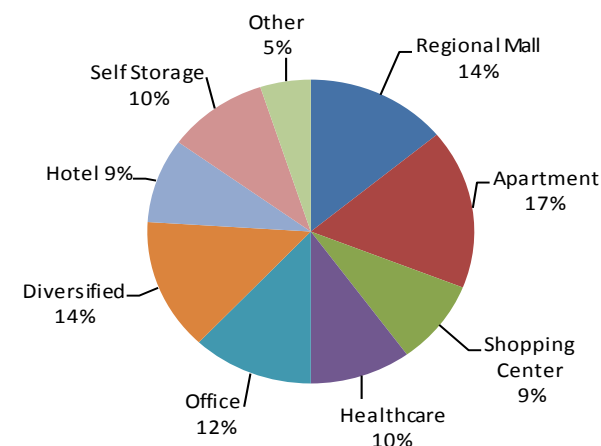
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	-9.46%	6.20%	-	-
FTSE NAREIT All REITS	-9.06%	4.14%	9.06%	14.36%

## Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	34.9	31.8
P/B Ratio	2.5	2.4
Beta - 5 Year	0.75	1.00
R2 - 5 Year	42.7	100
Wt. Avg Market Cap. \$MM	9732	9758
Number of Holdings	52	166
Prospective Dividend Yield	<b>3.0%</b>	-
Expense Ratio	0.75%	-

## Holding Summary

Market Value	\$1,641,222
Percentage of Plan	4.39%



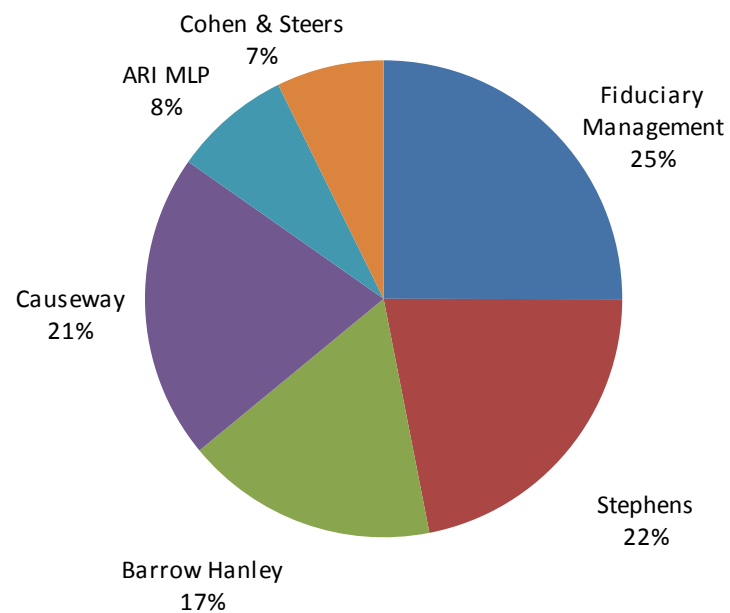
# EQUITY PORTFOLIO SNAPSHOT

## Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	20.7	19.0
P/B Ratio	3.7	2.8
Beta - 5yr.	1.01	1.00
R2 - 5yr.	41	100

## Holding Summary

Total Market Value	\$22,542,370
Percentage of Total Trust	60.28%



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

# FIXED INCOME PORTFOLIO SNAPSHOT

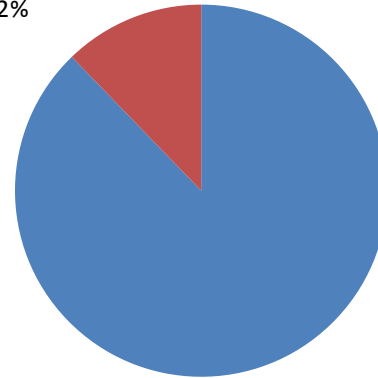
## Portfolio Statistics

	Portfolio	BC Agg
Total # of Issues	548	9496
Average Credit Quality	A	AA
Yield to Maturity	3.1	2.4
Modified Duration	5.1	5.6
Time to Maturity	7.0	7.9
Average Coupon	3.3	3.1

## Holding Summary

Total Market Value	\$14,851,304
Percentage of Total Trust	39.71%

Loomis Sayles  
HI  
12%



MacKay Shields  
88%

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

## OPEB TRUST - MANAGER STATUS SUMMARY

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	<b>On Alert</b>	4Q2014 - Performance
Barrow Hanley	Small Cap Equity	Non Compliance	Beta 1.42 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

Manager	Mandate	Expense Ratio	Category Average	Difference	Annual Savings
<b>Domestic Equity</b>					
Fiduciary Management	Large Cap Equity	0.55%	1.21%	0.66%	\$37,233
Stephens	Mid Cap Growth	0.80%	1.35%	0.55%	\$27,152
Barrow Hanley	Small Cap Value Equity	1.00%	1.40%	0.40%	\$15,424
<b>Fixed Income</b>					
Mackay Shields	Fixed Income	0.35%	0.89%	0.54%	\$70,387
Loomis Sayles	High Yield Fixed Income	0.68%	1.13%	0.45%	\$8,175
<b>International Equity</b>					
Causeway	International Equity	0.99%	1.41%	0.42%	\$19,376
<b>MLP</b>					
Advisory Research	Master Limited Partnership	0.75%	1.00%	0.25%	\$4,496
<b>Real Estate</b>					
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%	\$10,504
<b>Total Plan</b>		<b>0.64%</b>	<b>1.15%</b>	<b>0.52%</b>	<b>\$192,746</b>

Source: Investment Managers and Morningstar

## OPEB TRUST – ASSET ALLOCATION ANALYSIS

Manager	Actual Portfolio <sup>1</sup>	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	15.1%	<b>15.0%</b>	0.1%	0.0%	20.0%
Mid Cap Domestic Equity	13.2%	<b>12.5%</b>	0.7%	0.0%	17.5%
Small Cap Domestic Equity	10.3%	<b>10.0%</b>	0.3%	0.0%	15.0%
International Equity	12.5%	<b>12.5%</b>	0.0%	0.0%	17.5%
Core Fixed Income	34.9%	<b>35.0%</b>	-0.1%	30.0%	75.0%
High Yield Fixed Income	4.9%	<b>5.0%</b>	-0.1%	0.0%	10.0%
Real Estate	4.4%	<b>5.0%</b>	-0.6%	0.0%	10.0%
Master Limited Partnerships	4.8%	<b>5.0%</b>	-0.2%	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%

Please note: a new long-term Asset Allocation was recently approved. The new Asset Allocation was implemented mid-August.