Port of Houston Authority
Pension Plan

Fourth Quarter 2013 Report

Gregory W Group

Market Environment – **2013**: A Banner Year for Equity

2013 ended on a high note as the U.S. equity market enjoyed its strongest return in sixteen years. Developed foreign markets also moved higher during the year as the Great Financial Crisis somewhat faded from memory. Investors seemed to shrug off many of the year's worries during the fourth quarter. The U.S Federal Reserve surprised investors by announcing that they were reducing their $85 billion/month of asset purchases by $10 billion/month. While this is seen as a statement of confidence by the Fed, many questioned if the move was take too soon.

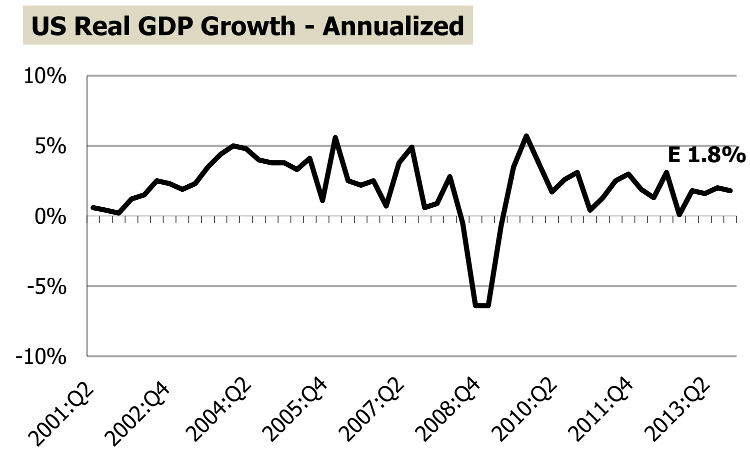
Unemployment continued to improve at a gradual pace. According to the Bureau of Labor Statistics (BLS), the unemployment rate dropped from 7.3% to 6.3%. Economic conditions and employment trends still vary dramatically by region in the U.S. However, labor force participation remains below long-term healthy standards. The U.S. economic growth outlook is below average. Thankfully, inflation has also stabilized at a very low level.

Worldwide economic growth remains hit and miss. U.S. growth was marginally better than expected during 2014 while Europe, China and emerging markets were disappointing. Emerging markets suffered a particularly poor year, showing losses vs. significant gains in the developed markets.

Bond markets continue to be dominated by monetary and fiscal policy. Since the Great Financial Crisis, natural demand for bonds has been supplemented by central banks attempting to spur real economic growth. Theses efforts have pushed interest rates to extremely low levels, forcing yield oriented investors to search for adequate yields. We expect these conditions to remain until well after economic growth improves.

West Texas Intermediate Oil ended the quarter at $98.17/barrel, down from $102.33 barrel last quarter. Natural gas prices started the quarter at $3.48 before surging to $4.31. Significant opportunities remain due to the U.S. energy production renaissance. Real estate investments were additive to portfolio returns as low interest rates and stable to improving economic conditions added to demand.

Hedge funds had a difficult time keeping up with the equity market. Hedge fund indexes lagged long only by significant margins during the quarter and over the year. Private equity had a positive year as rising public market prices boosted valuations and exits.



	2011				2012				2013		
	First Quarter	third quarter	Third Quarter	Fourth Quarter	First Quarter	third quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter
Real GDP	0.1%	2.5%	1.3%	4.1%	2.0%	1.3%	3.1%	0.4%	1.8%	1.6%	2.5%
Unemployment	**8.9%**	**9.1%**	**9.1%**	**8.7%**	**8.3%**	**8.2%**	**8.1%**	**7.8%**	**7.7%**	**7.6%**	**7.3**
Inflation (CPI)	2.1%	3.4%	3.8%	3.3%	2.8%	1.9%	1.7%	1.9%	1.7%	1.4%	1.6
Prime Rate	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3%**	**3.3**
91 Day T-Bill Yield	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0
10 Yr Bond Yield	**3.4%**	**3.2%**	**2.4%**	**2.0%**	**2.0%**	**1.8%**	**1.6%**	**1.7%**	**1.9%**	**2.1%**	**2.6**

Market Environment – Domestic Equity

The domestic equity market ended 2013 in remarkable fashion. The S&P 500 gained 10.5% during the quarter to end the year up 32.4%. The index had gained 202.8% since the market low in March of 2009 and stands 35.5% higher than its previous high in October of 2007. All market sectors posted gains for the quarter and full year period. Earnings were less important than previous quarters as investors found confidence in the improving domestic economy. Corporate profits remained strong due more to cost cutting than growth. Corporate activity was relatively strong during 2013 with a number of high profile IPOs and merger activity.

By capitalization, large stocks were the quarter's best performers. Small cap narrowly edged mid caps for second place. Over the full year, small caps posted the highest return, gaining almost 39%. Mid caps gained almost 35% while large caps were up 33%. Style wise, growth outperformed value among large caps while the reverse was true among mid caps and small caps. Growth outperformed value across the board for the year. The dispersions were wide among small caps and mid caps. Since the March 2009 market low, domestic equities have been led higher by mid cap value stocks, which have a cumulative return of 275%. Over that period, value outperformed growth among large and mid caps while growth edged value among small caps.

The fourth quarter's top performing sectors were Industrials (+14% return),Technology (+13%), and Consumer Discretionary (+11%). Poorest performers were Utilities (+3%), Telecommunications (+6%), and Consumer Staples (9%).

The largest contributors to the S&P 500 Index for the year were Google (+58% return), Microsoft (+44%), and General Electric (+38%). The largest detractors were Newmont Mining (-49%), Intuitive Surgical (-22%), and CenturyLink (-13%).

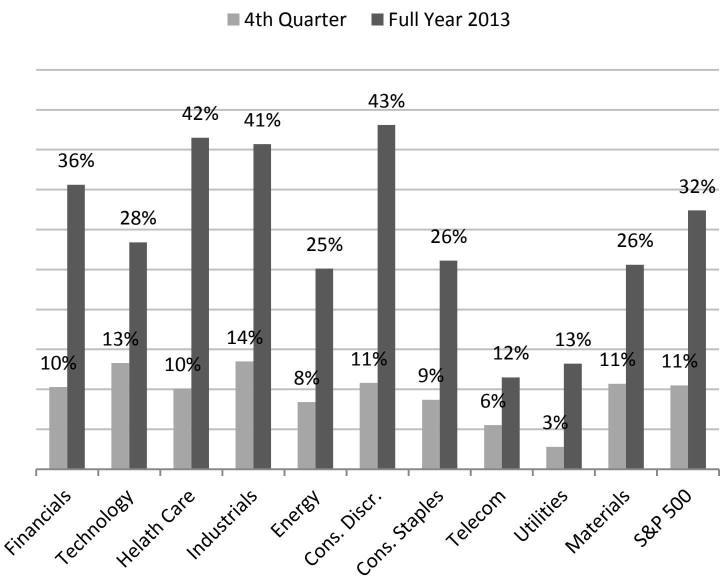
Despite the year's tremendous returns, domestic equity prices remain within a historically normal price range. The forward P/E ratio of the S&P 500 ended the quarter at 15.4x vs. 16.2x for its fifteen year average. It had a dividend yield of 1.9% vs. 1.7% for its twenty year average. The earnings yield of the S&P 500 (inverse of the forward p/e ratio) was 6.5% vs. 5.3% yield on a Baa rated corporate bond index, indicating stocks are relatively cheap versus bonds. The index's P/E ratio to earnings growth is 1.5x compared to 1.6x over the past fifteen years.

The world of private equity has thankfully passed below the horizon for most of the world. Returns have improved over recent years as deal sizes have normalized. Private equity investors still have plenty of capital to invest, but are more judicious and less prone to large, short-sighted deals. Activist investors seem to have taken part of the spotlight with their high profile, semi-hostile investments.

Energy remains a highly visible area of growth within the U.S. Recoverable reserves have increased dramatically since widespread adoption of new exploration and drilling technologies. Master Limited Partnerships, which are a group of specially organized companies that focus on energy infrastructure, continue to grow in prominence. Their returns during the quarter were attractive, gaining 5.3%. They gained 27.6% for the trailing year.

	4q2013			Full Year 2013		
	Value	Blend	Growth	Value	Blend	Growth
Large	10.0%	10.5%	10.4%	32.5%	32.4%	33.5%
Mid	8.6%	8.4%	8.2%	33.5%	34.8%	35.7%
Small	9.3%	8.7%	8.2%	34.5%	38.8%	43.3%

S&P 500 Sector Performance



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Market Environment – International Equity

In U.S. Dollar terms, developed market international equities produced solid returns during 2013. Returns varied widely by country and region. A stark example was emerging markets, which trailed developed markets by nearly 30%. The MSCI ACWI ex-US index gained 5.6% in U.S. Dollar terms during the quarter as both share prices and foreign currencies rose. Europe posted the highest return among major regions, gaining almost 8% for the quarter and just over 25% for the full year. Marginal economic improvement encouraged investors to regain equity exposure. Japan gained just over -2% for the quarter but led all regions for the year, gaining 27%. The Pacific ex Japan region performed poorly in comparison, gaining less than 1% during the quarter and less than 6% for the full year. These performance disparities naturally caused wide dispersion of return among investment managers.

For the full year period, the top three performing equity markets (in U.S. $ terms) were Ireland (+42%), Greece (+39%), and Finland (+36%). The three poorest performers were Indonesia (-24%), Chile (-22%), and Brazil (-17%). The Latin America region fell -15% for the year while Asia/Pacific and Western Europe gained 10% and 20% respectively. Top contributing international equity market sectors (ACWI ex-US) during the year 2013 were Financials (+17%), Consumer Discretionary (+30%), and Industrials (+22%). Materials (-7%), Utilities (+10%), and Energy (+4%) were the leading detractors.

The largest individual stock contributors to the ACWI ex-US 2013 return were Vodafone Group (+65% return), Roche Holding Ltd Genussch. (+44%), and Softbank (+143%). The largest detractors were Barrick Gold (-49%), Samsung Electronics (-9%), and BHP Billiton Ltd (-9%).

Eurozone economic conditions remained slow but there were some signs that a recovery may finally be gaining traction. While the impediments to growth remain significant, the region should experience growth stemming from improvement in the manufacturing sector. Unemployment within the Eurozone remains high, but showed some improvement in the second half of the year. Japan is pursuing a bold economic experiment ("Abenomics") which is similar to the Quantitative Easing program of our own Federal Reserve.

Continuing their recent trend. emerging markets trailed developed markets during the quarter and for the one and three year periods just ended. China's economy has slowed from a growth rate of 10% in 2010 to 7.8% for 2012. Analysts expect a return of around 7% for 2013. Brazil's economy suffered a subpar growth year as agriculture and industrials declined. Investors seemed to abandon emerging markets en masse during the year as developed markets showed signs of improvement. However, valuations are starting to appear attractive. The forward P/E ratio for the overall EM index ended September at 10.2x vs. 13.8x for the ACWI. The EM index yielded 2.7% vs. 3.1% for the developed only EAFE Index. The P/E of China's market was 9.0x vs. 12.0x for its ten year average. Russia's market ended 2013 with a P/E of 4.8x and a yield of 4.2%, both substantially below average. It appears that investor interest in emerging markets peaked just before they began underperforming and now, after three difficult years of performance, they are moving out of the asset class.

	GDP Growth (2014 Estimate)*	**GDP Growth Five Year 2012 – 2016 Estimated CAGR**
Global Economy	3.0%	2.8%
USA	2.4%	2.4%
Euro Area	1.0%	0.4%
UK	2.3%	1.7%
Japan	1.5%	1.6%
Asia ex-Japan	6.1%	6.1%
Latin America	2.7%	2.7%

**source: Bloomberg and the World Bank.*

12-Month Forward P/E Ratio Comparison	**Current**	**10 Year Average**	***Dividend Yield***
World (ACWI)	13.8	13.1	***2.5%***
EAFE	13.3	12.6	***3.1%***
USA	15.4	14.0	***1.9%***
Germany	12.5	11.2	***3.7%***
UK	12.3	11.5	***3.0%***
Japan	14.1	16.5	***1.5%***

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Market Environment – Fixed Income

Low interest rates continued to frustrate bond investors during 2013. The potential of rising interest rates punished bond prices, turning fourth quarter and full year returns negative. Because of their historically low starting values, it was almost inevitable that domestic and international bond returns were negative during 2013, with the Barclays Aggregate bond index falling -2.0%. The biggest driver of the loss was U.S. Treasuries – the Barclays Long Term Government index fell by -12.5% in 2013. Lower duration bonds outperformed as did corporate bonds. U.S. high yield bonds performed very well gaining 3.5% on the quarter and 7.4% for the year. Their one year return outperformed the Aggregate index by more than 9%.

The Federal Reserve surprised the markets in December by announcing that it would start to unwind the Quantitative Easing (QE) program. The program was launched in the fourth quarter of 2008 to stabilize financial markets. The market consensus was that "tapering" would begin during early 2014 as the economy hadn't gained enough traction to move forward without QE. The program had been buying $85 billion in Treasury and Mortgage Backed securities before the December tapering announcement. Post December, the Fed would buy *only* $75 billion per month. Regardless of the QE taper, the FOMC will maintain its target range for the federal funds rate at 0-0.25% for the foreseeable future. During the quarter, Janet Yellen was announced as Ben Bernanke's replacement. She was confirmed in early January assumed her Chairmanship of the Fed in early February. It is widely expected that she will follow in the footsteps of her predecessor

Treasury yields reacted to the Fed's action by rising, but not excessively as was the case earlier in the year. Ten year Treasury bond yields rose 42 basis points to end the year at 3.03% which was 0.14% higher than pre taper announcement. Interest rose during 2013 but not uniformly. The yield curve steepened as longer term debt yields rose further than short term bonds. Two year Treasuries ended the year with a yield of 0.38% while the thirty year bond yielded 3.97%, 1.02% higher than at the beginning of 2013.

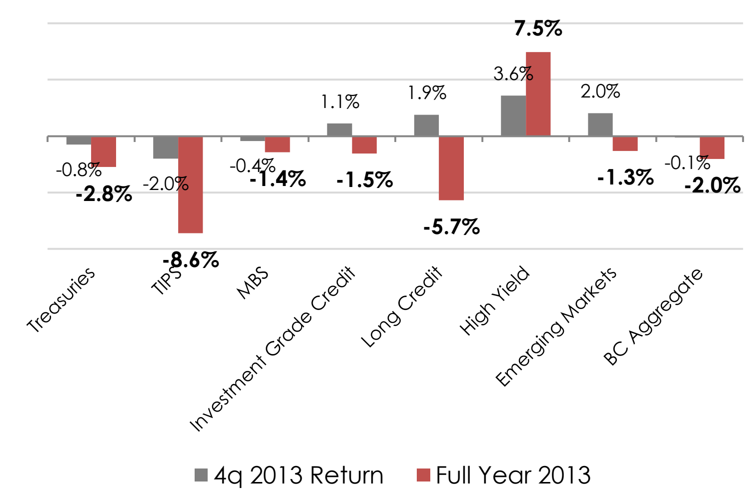
High yield bonds were the top performing segment of the U.S. fixed income market for the third consecutive quarter. High yield bond yield spreads vs. Treasuries ended the quarter at 4.4% vs. their long term average of 5.9%. Defaults remained extremely low at 0.7% vs. 4.1% long term average. Bond issuance remained strong through the quarter.

The U.S. unemployment trend showed modest improvement during the fourth quarter. However, looking deeper into the figures showed that the reported rate of unemployment edged slightly lower while the proportion of citizens actually working deteriorated.

Fixed income investors continued their search for yield outside of traditional asset categories. Real assets (real estate and infrastructure) were popular diversions for fixed income investors. During the year, some large, traditional fixed income investment managers saw significant outflows of client assets.

Risk Level	**Time Horizon**			
	One Year		**Three Years (annualized)**	
	Terminal Yield	**Total Return**	Terminal Yield	**Total Return**
Low Risk				
2 Year	2.50%	-3.7%	4.00%	-2.0%
Treasury	1.25%	-1.3%	3.00%	-1.3%
(YTM = 0.38%)	0.50%	0.1%	2.00%	-0.7%
Medium Risk				
10 Year	4.50%	-8.7%	5.50%	-3.2%
Treasury	3.75%	-2.9%	4.50%	-0.8%
(YTM = 3.03%)	2.05%	7.7%	3.50%	1.8%
High Risk				
30 Year	5.50%	-18.3%	6.00%	-5.5%
Treasury	4.50%	-4.7%	5.00%	-1.1%
(YTM = 3.97%)	3.00%	23.1%	4.00%	2.8%

Fourth Quarter 2013 Returns



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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	10.5	32.4	16.2	17.9	7.4
Russell 1000	10.2	33.1	16.3	18.6	7.8
Russell 1000 Value	10.0	32.5	16.1	16.7	7.6
Russell 1000 Growth	10.4	33.5	16.5	20.4	7.8
Russell 3000	10.1	33.6	16.2	18.7	7.9
Russell Midcap	8.4	34.8	15.9	22.4	10.2
Russell Midcap Value	8.6	33.5	16.0	21.2	10.3
Russell Midcap Growth	8.2	35.7	15.6	23.4	9.8
Russell 2000	8.7	38.8	15.7	20.1	9.1
Russell 2000 Value	9.3	34.5	14.5	17.6	8.6
Russell 2000 Growth	8.2	43.3	16.8	22.6	9.4
Alerian MLP	5.3	27.6	15.0	29.6	15.0
Fixed Income					
Barclays Capital Aggregate Bond	-0.1	-2.0	3.3	4.4	4.6
Barclays Capital Credit	0.9	-2.0	5.1	7.9	5.2
Barclays Capital Government	-0.7	-2.6	2.7	2.3	4.1
Barclays Capital Govt/Credit	0.0	-2.4	3.6	4.4	4.5
Barclays Capital Interm Credit	0.7	-0.2	4.4	7.3	4.9
Barclays Capital Interm Govt	-0.4	-1.3	2.1	2.2	3.7
Barclays Capital Interm Govt/Cred	0.0	-0.9	2.9	4.0	4.1
Barclays Capital Long Credit	1.5	-6.6	7.2	9.8	6.4
Barclays Capital Long Term Govt	-3.0	-12.5	5.5	2.4	5.9
Barclays Capital Long Govt/Credit	-0.1	-8.8	6.7	6.4	6.4
Barclays Capital Fixed Rate MBS	-0.4	-1.4	2.4	3.7	4.6
Merrill Lynch US High Yield Master II	3.5	7.4	9.0	18.7	8.5
91 Day T-Bill	0.0	0.1	0.1	0.1	1.6
Consumer Price Index	0.2	1.2	2.1	1.9	2.4
International					
MSCI EAFE	5.7	22.8	8.2	12.4	6.9
MSCI World ex US	5.6	21.0	7.3	12.5	7.1
MSCI Europe	7.9	25.2	9.9	13.4	7.3
MSCI Japan	2.3	27.2	5.6	7.7	4.2
MSCI Pacific ex Japan	0.3	5.5	4.7	18.3	11.2
MSCI Emerging Markets	1.5	-5.0	-4.5	12.1	8.5
Citigroup Non-$ World Gov	-1.2	-4.6	0.6	2.3	4.1

Portfolio Trailing Year Performance

+18.15%

Retirement Program Plan Summary
As of December 31, 2013

	Last Quarter	% Rank	Last Year	% Rank	Three Years	% Rank	Five Years	% Rank	Since Inception[1]	Allocation % of Total	Inception Date
Smith Affiliated	**-0.35%**	**79**	**-3.83%**	**81**	**3.57%**	**66**	**2.87%**	**96**	**4.57%**	**$23,798,710**	**12/27/2004**
Barclays Capital Aggregate	*-0.14%*		*-2.02%*		*3.26%*		*4.44%*		*4.57%*	15.0%	
Smith Graham	**0.25%**	**41**	**-1.83%**	**47**	**3.80%**	**49**	**6.04%**	**46**	**4.53%**	**$23,862,367**	**8/15/2002**
Barclays Capital Aggregate	*-0.14%*		*-2.02%*		*3.26%*		*4.44%*		*4.66%*	15.1%	
Loomis Sayles High Income	**4.49%**	**3**	**15.84%**	**2**	**-**		**-**		**17.29%**	**$7,980,553**	**11/4/2011**
ML High Yield	*3.50%*		*7.42%*		*9.03%*		*18.65%*		*11.43%*	5.0%	
Advisory Research MLP	**4.96%**	**-**	**28.34%**	**-**	**-**		**-**		**17.08%**	**$8,109,300**	**5/3/2011**
Alerian MLP	*5.28%*		*27.58%*		*15.04%*		*29.55%*		*15.93%*	5.1%	
Fiduciary Management	**9.02%**	**59**	**32.43%**	**56**	**15.96%**	**55**	**17.97%**	**48**	**9.62%**	**$14,261,306**	**10/13/2005**
Russell 1000 Value	*10.01%*		*32.53%*		*16.06%*		*16.67%*		*6.59%*	9.0%	
S&P 500	*10.51%*		*32.39%*		*16.18%*		*17.94%*		*7.29%*		
Stacey Braun	**11.85%**	**15**	**33.88%**	**52**	**16.48%**	**49**	**18.31%**	**77**	**10.16%**	**$11,302,814**	**4/15/2008**
Russell 1000 Growth	*10.44%*		*33.49%*		*16.45%*		*20.39%*		*10.27%*	7.1%	
S&P 500	*10.51%*		*32.39%*		*16.18%*		*17.94%*		*9.32%*		
Stephens	**6.72%**	**83**	**36.37%**	**61**	**-**		**-**		**36.37%**	**$22,165,826**	**12/28/2012**
Russell Midcap Growth	*8.39%*		*34.76%*		*15.88%*		*22.36%*		*35.74%*	14.0%	
Barrow Hanley Small Cap	**12.95%**	**14**	**48.60%**	**6**	**18.55%**	**21**	**31.69%**	**4**	**13.36%**	**$19,439,248**	**12/1/2004**
Russell 2000 Value	*9.30%*		*34.52%*		*14.49%*		*22.36%*		*7.90%*	12.3%	
Causeway	**6.70%**	**22**	**-**		**-**		**-**		**6.45%**	**$20,256,214**	**9/16/2013**
MSCI EAFE	*5.71%*		*22.78%*		*8.17%*		*12.44%*		*5.71%*	12.8%	
Cohen & Steers Real Estate	**0.20%**	**-**	**4.23%**	**-**	**-**		**-**		**9.49%**	**$7,356,944**	**11/2/2011**
FTSE NAREIT All REITS	*-0.17%*		*2.86%*		*10.06%*		*16.90%*		*11.36%*	4.6%	
Cash										**$3,242**	**-**
										0.0%	
Total Plan - Gross of Fees	**5.35%**	**47**	**18.15%**	**30**	**10.84%**	**22**	**12.35%**	**48**	**8.08%**	**$158,536,524**	**8/1/2002**
Total Plan - Net of Fees	**5.20%**		**17.53%**		**10.27%**		**11.66%**		**7.35%**		
Benchmark	*4.57%*		*16.31%*		*10.31%*		*12.25%*		*8.13%*	100.0%	
Actuarial Assumption	*1.71%*		*7.19%*		*7.22%*		*7.31%*		*7.42%*		

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: BBVA Trust Company, Investment Managers, and Morningstar.
Data believed to be accurate, but cannot be guaranteed.
[1]Since inception performance calculated using the first whole quarter as the inception date.

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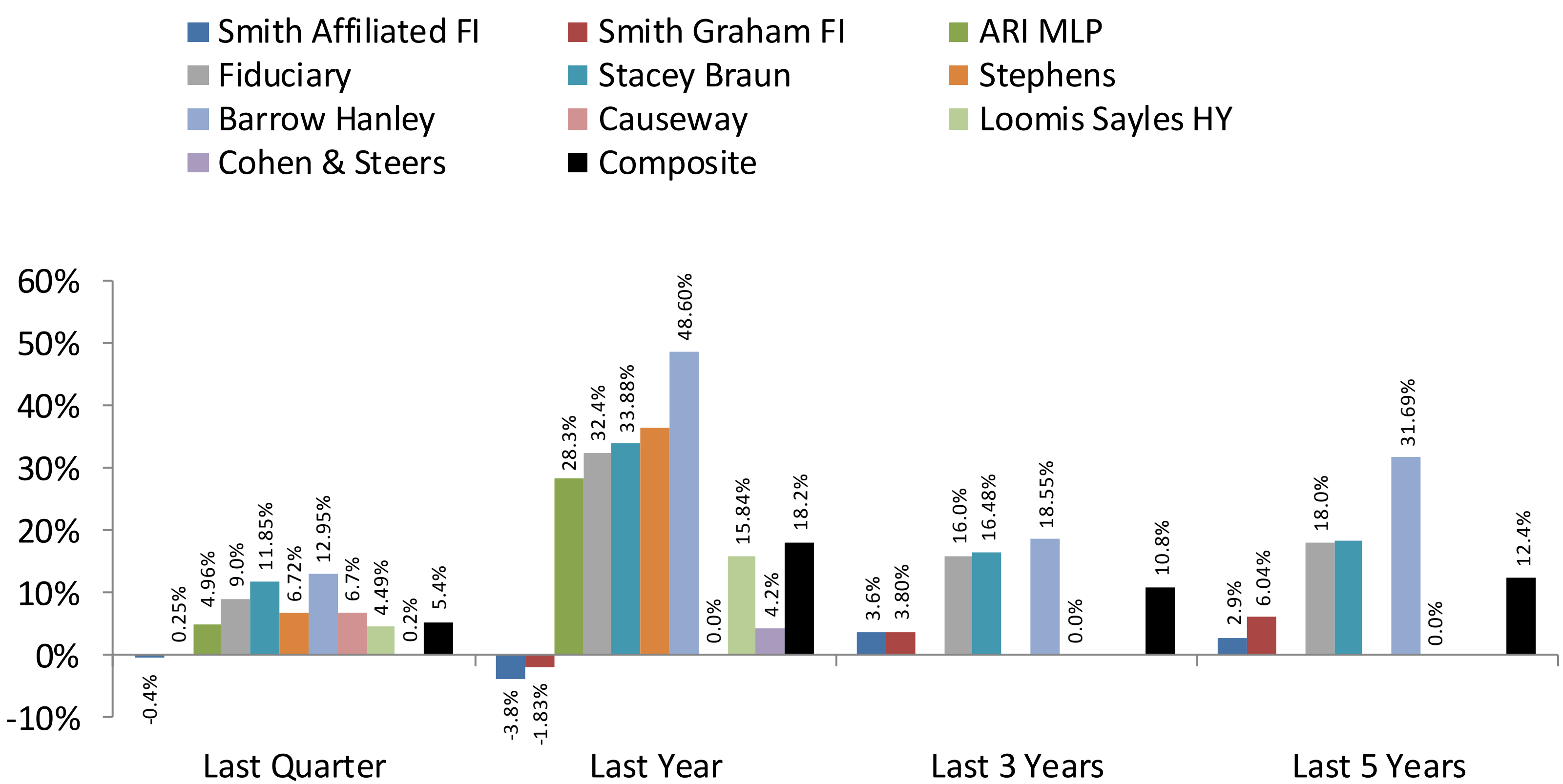
Performance Summary

Periods ended December 31, 2013



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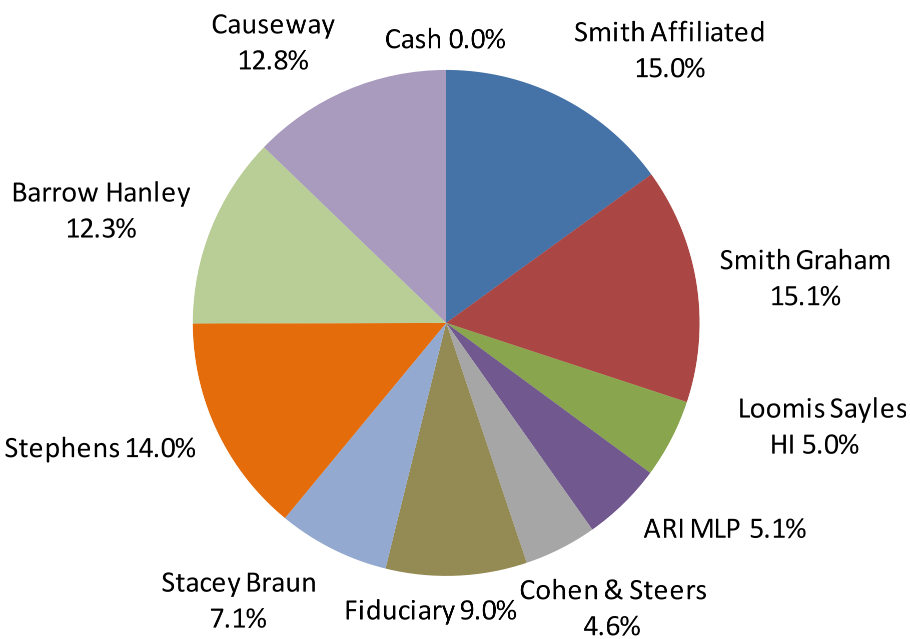
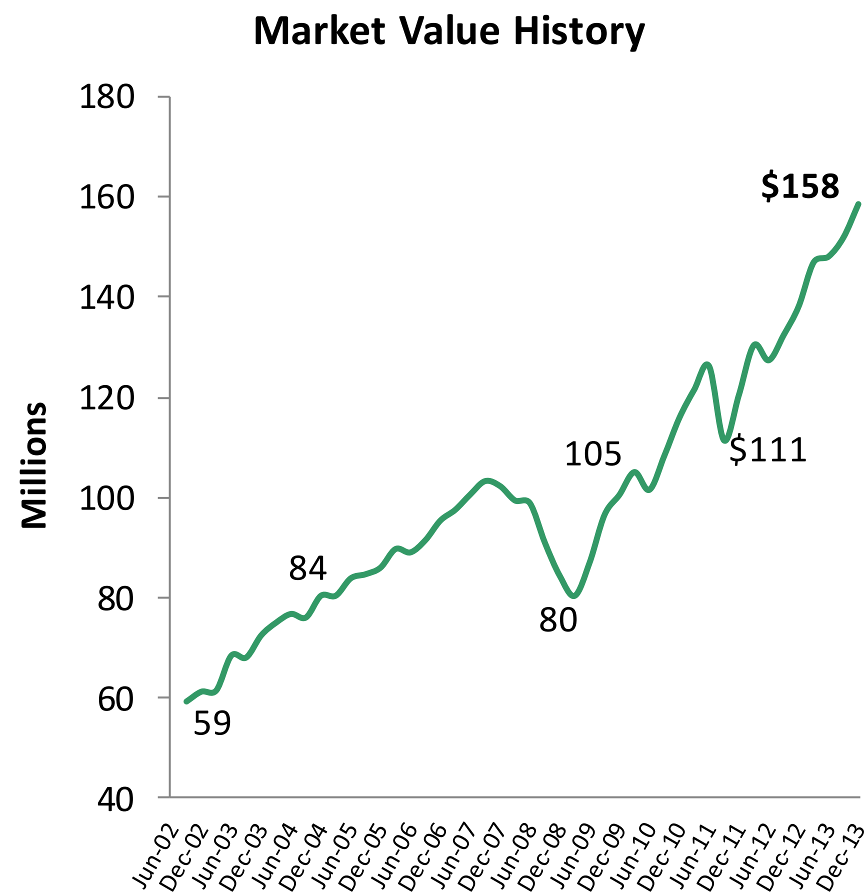
Portfolio Review





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Discussion Items

- On September 16th, 2013 Eagle Global was replaced with Causeway Capital as the portfolio's international equity manager. Causeway returned 6.70% during the quarter.

- The fixed income portfolio managed by Smith Affiliated is being replaced by Mackay Shields.

Smith Affiliated — Fixed Income

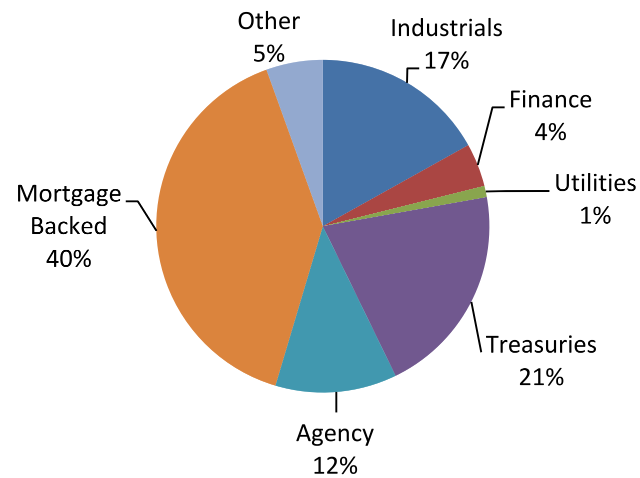
Smith Affiliated seeks to provide a stable income stream, principal protection, and to outperform market-weighted inflation on a risk-adjusted total return basis versus the relevant benchmark. The strategy provides a high degree of liquidity with an asset allocation heavily weighted in high quality fixed 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. **This portfolio is in the process of being replaced.**

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Smith Affiliated	-0.35%	-3.83%	3.57%	2.87%
Barclays Capital Aggregate Bond	-0.14%	-2.02%	3.26%	4.44%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	6.1	5.6
Maturity	8.3	7.6
Trailing 12 Month Yield	2.5	3.2
Yield to Maturity	2.6	2.4
Average Credit Quality	AA	AA
Total Number of Holdings	47	8727
Expense Ratio	0.25%	-



Holding Summary

Market Value	**$23,798,710**
Percentage of Plan	**15.01%**

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

Smith Graham Fixed Income

Smith Graham uses a bottom-up methodology with independent examination of each investment opportunity, rather than being process driven by an economic view. The portfolio focuses on opportunities where they believe the reward is at least two times greater than the visible risk. The investment team focuses on five key factors; security selection, sector rotation, yield curve positioning, volatility management, and duration management.

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Smith Graham	0.25%	-1.83%	3.80%	6.04%
Barclays Capital Aggregate Bond	-0.14%	-2.02%	3.26%	4.44%

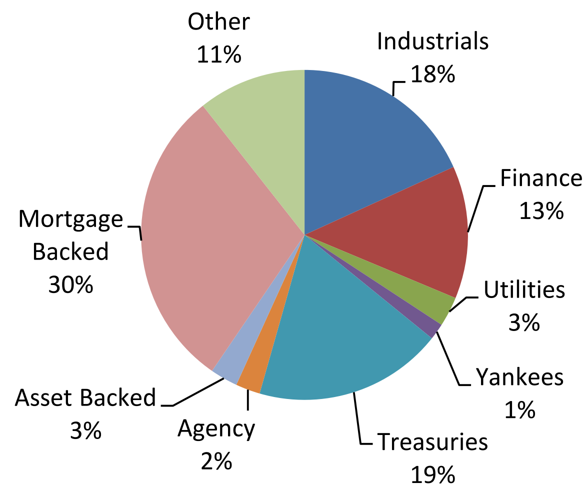
Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.5	5.6
Maturity	7.3	7.6
Trailing 12 Month Yield	3.8	3.2
Yield to Maturity	2.6	2.4
Average Credit Quality	AA	AA
Total Number of Holdings	118	8727
Expense Ratio	0.40%	-

Holding Summary

Market Value	**$23,862,367**
Percentage of Plan	**15.05%**

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



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Loomis Sayles — High Yield Fixed Income

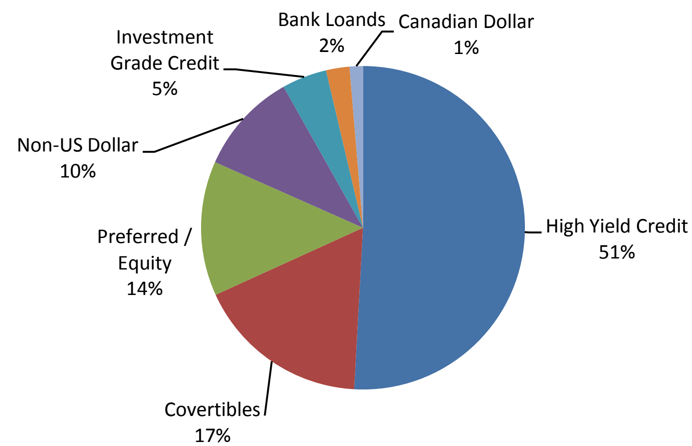
The Loomis Sayles High Income Fund invests primarily in lower-rated fixed income securities and may invest up to 50% of assets in foreign securities, including emerging markets securities. An emphasis on issue selection is a key driver of returns. The fund also uses sector rotation within and outside 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	4.49%	15.84%	-	-
Merill Lynch High Yield Master II	3.50%	7.42%	9.03%	18.65%

Key Characteristics

	Portfolio	ML HY II
Effective Duration	4.9	4.2
Maturity	8.4	6.6
Trailing 12 Month Yield	**6.1%**	7.4
Yield to Maturity	6.3	6.3
Average Credit Quality	B	B+
Total Number of Holdings	351	2235
Expense Ratio	0.68%	-



Holding Summary

Market Value	$7,980,553
Percentage of Plan	5.03%

Gregory W Group

Advisory Research (ARI) MLP

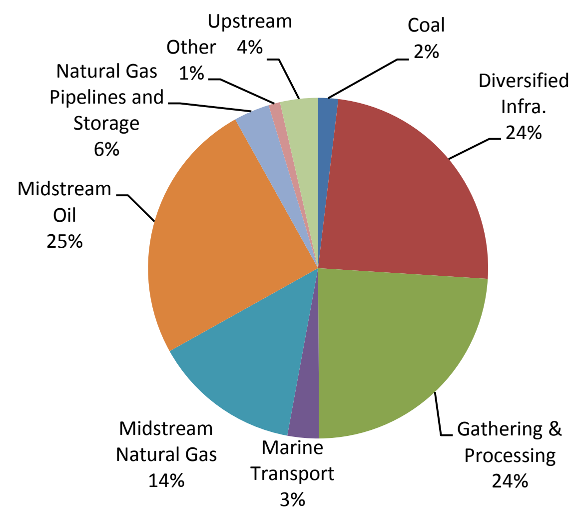
The ARI Asset Management Master Limited Partnerships (MLPs) strategy is a diversified portfolio consisting primarily of publicly traded partnerships focused in the natural resources and energy infrastructure industries. The objective is to provide high levels of total returns and a growing cash yield. It offers low correlation to the broader equity market over the long-term. The three largest holdings as of quarter end were **Energy Transfer Equity** (6.8% of the total fund), **Plains All American Pipeline** (6.3%), and **DCP Midstream Partners** (5.6%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Advisory Research (ARI)	4.96%	28.34%	-	-
Alerian MLP	5.28%	27.58%	15.04%	29.55%

Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	24.2	22.8
P/B Ratio	4.1	2.5
Beta - 5 Year	0.95	1.00
R2 - 5 Year	96	100
Wt. Avg Market Cap. $MM	9014	12085
Earnings Growth - 5 Year	13.1	-
Total Number of Holdings	30	50
Prospective Dividend Yield	**5.3%**	-
Expense Ratio	0.75%	-



Holding Summary

Market Value	$8,109,300
Percentage of Plan	5.12%

Fiduciary Management — Large Cap Value

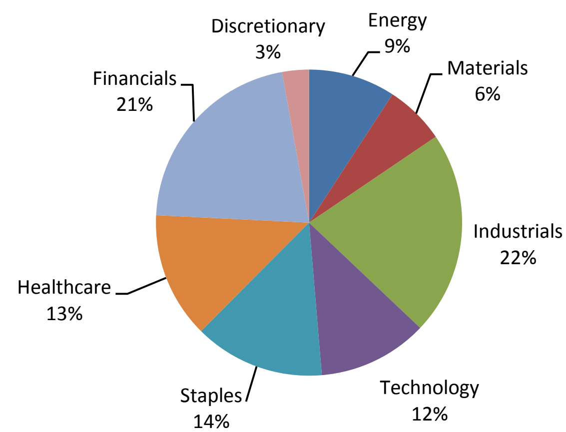
Fiduciary's objective is to buy durable business at value prices in order to achieve top in class investment results over a three to five year time horizon. Fiduciary considers themselves long-term investors, not traders. They will typically hold between 20-30 companies in their portfolio with an average 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 a single portolio manager. The three largest holdings as of quarter end were **Potash** (5.2% of the total fund), **3M** (5.1%), and **Illinois Tool Works** (4.9%)

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	9.02%	32.43%	15.96%	17.97%
Russell 1000 Value	10.01%	32.53%	16.06%	16.67%
S&P 500 Index	10.51%	32.39%	16.18%	17.94%

Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	15.3	15.9
P/B Ratio	3.1	1.8
Beta - 5 Year	0.81	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. $MM	65594	51073
Total Number of Holdings	25	690
Prospective Dividend Yield	1.9%	2.5%
Expense Ratio	0.55%	-



Holding Summary

Market Value	$14,261,306
Percentage of Plan	9.00%

Stacey Braun — Large Cap Growth

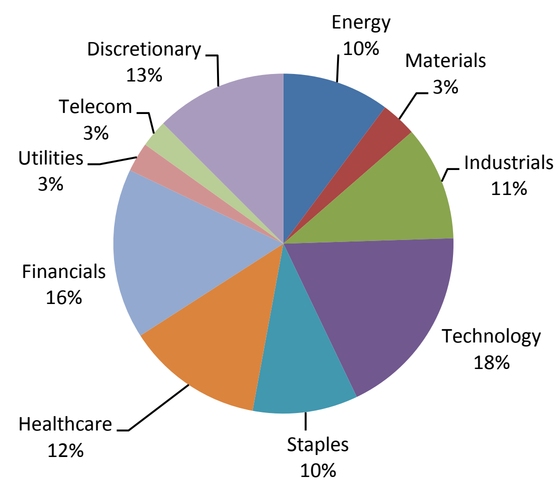
Stacey Braun utilizes a sector neutral, bottom up equity strategy which closely aligns their sector weightings to those of the S&P 500 Index. The firm employs an active flexible investment approach. Cash equivalents are used as a defensive measure in times of declining equity markets. Their equity portfolios consist of a diverse group of stocks selected through fundamental and technical analysis. Securities are chosen through their analysis are compared to their peers before purchase. This process results in an emphasis on growth at a reasonable price. The three largest holdings as of quarter end were **Jazz Pharmaceuticals** (2.5% of the total fund), **Apple** (2.1%), and **Fifth and Pacific** (1.8%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stacey Braun	11.85%	33.88%	16.48%	18.31%
Russell 1000 Growth	10.44%	33.49%	16.45%	20.39%
S&P 500 Index	10.51%	32.39%	16.18%	17.94%

Key Characteristics

	Portfolio	R 1000 G
P/E Ratio	18.2	21.9
P/B Ratio	2.5	4.9
Sharpe Ratio - 3 Year	1.1	1.3
Sharpe Ratio - 5 Year	0.44	-
Beta - 5 Year	0.99	1.00
R2 - 5 Year	99	100
Wt. Avg Market Cap. $MM	78400	49572
Earnings Growth - 5 Year	2.4%	-
Total Number of Holdings	101	567
Prospective Dividend Yield	1.6%	1.8%
Expense Ratio	0.45%	-



Holding Summary

Market Value	$11,302,814
Percentage of Plan	7.13%

Gregory W Group

Stephens Mid Cap Growth

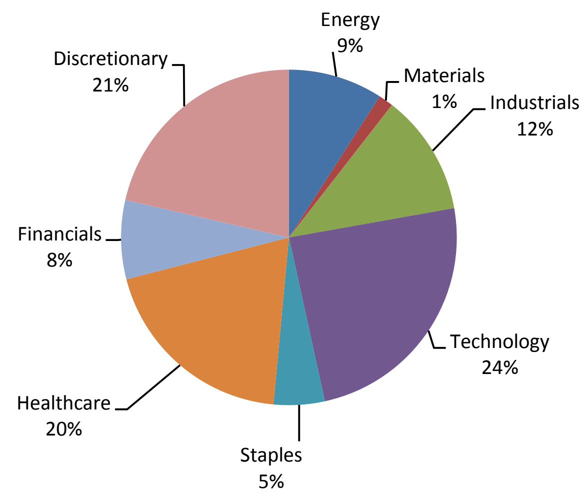
The Stephens Mid Cap Growth portfolio is a diversified portfolio that seeks long term growth of capital by investing primarily in common stock of U.S. companies with market capitalizations of between $1.5 billion to $12.5 billion. They select mid cap growth companies that are established growth companies that have achieved above average growth. The combination of core growth and catalyst growth stocks positions the portfolio for varying market conditions. The three largest holdings as of quarter end were **LKQ** (1.7% of the total fund), **Cerner** (1.7%), and **Portfolio Recovery Associates** (1.6%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	6.72%	36.37%	-	-
Russell Mid Cap Growth	8.39%	34.76%	15.88%	22.36%

Key Characteristics

	Portfolio	R MCG
P/E Ratio	25.3	19.5
P/B Ratio	4.0	2.6
Beta - 5 Year	0.90	1.00
R2 - 5 Year	97	100
Wt. Avg Market Cap. $MM	8499	9664
Earnings Growth - 5 Year	17.2%	-
Total Number of Holdings	107	795
Prospective Dividend Yield	0.3%	1.6%
Expense Ratio	0.75%	-



Holding Summary

Market Value	**$22,165,826**
Percentage of Plan	**13.98%**

Barrow Hanley MeWhinney & Strauss — Small Cap Value

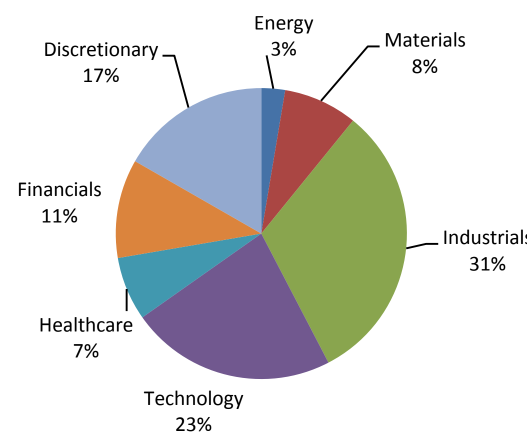
The strategy is designed to exploit inefficiencies in the small cap sector of the market by carefully employing high value-added proprietary research in a universe of small capitalization, low-expectation stocks. This process is directed toward the discovery of companies in which the value of the underlying 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 three largest holdings as of quarter end were **Oshkosh Corp** (5.0% of the total fund), **PolyOne** (4.6%), and **Terex** (4.2%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley MeWhinney & Strauss	12.95%	48.60%	18.55%	31.69%
Russell 2000 Value	9.30%	34.52%	14.49%	22.36%

Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	16.5	17.7
P/B Ratio	2.0	1.5
Beta - 5 Year	1.34	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. $MM	2560	1217
Earnings Growth - 5 Year	12.7%	-
Total Number of Holdings	38	1406
Prospective Dividend Yield	0.8%	1.9%
Expense Ratio	0.76%	-



Holding Summary

Market Value	$19,439,248
Percentage of Plan	12.26%

Gregory W Group

Causeway International Equity

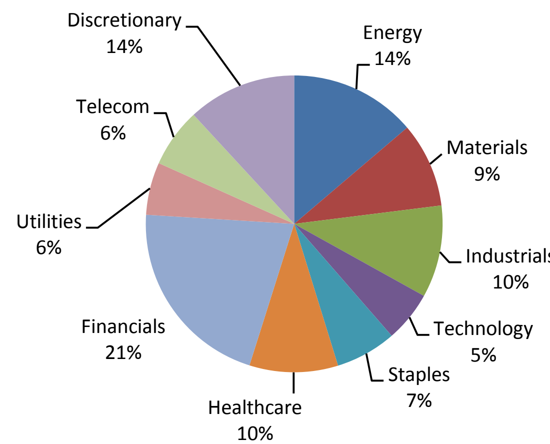
The goal of the Causeway International Value fund is to construct a portfolio that provides consistent long-term, risk-adjusted returns. Causeway International Value Fund is a fully invested, 50-80 stock portfolio, typically with a value bias. Sector and regional weights are by-products of their bottom-up 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 coutry 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** (3.7% of the total fund, Netherlands), **Reed Elsevier** (3.4%, Netherlands), and **KDDI** (2.9%, Japan). **This fund replaced Eagle Global during the third quarter of 2013.**

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Causeway	6.70%	-	-	-
MSCI EAFE	5.71%	22.78%	8.17%	12.44%

Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	14.8	15.4
P/B Ratio	1.2	1.6
Sharpe Ratio - 3 Year	0.68	0.6
Sharpe Ratio - 5 Year	0.47	0.39
Beta - 5 Year	1.11	1.00
Wt. Avg Market Cap. $MM	31653	38053
Total Number of Holdings	67	920
Prospective Dividend Yield	**3.0%**	2.8%
Expense Ratio	0.99%	-



Holding Summary

Market Value	$20,256,214
Percentage of Plan	12.78%

Cohen & Steers — Real Estate & Investment Trusts

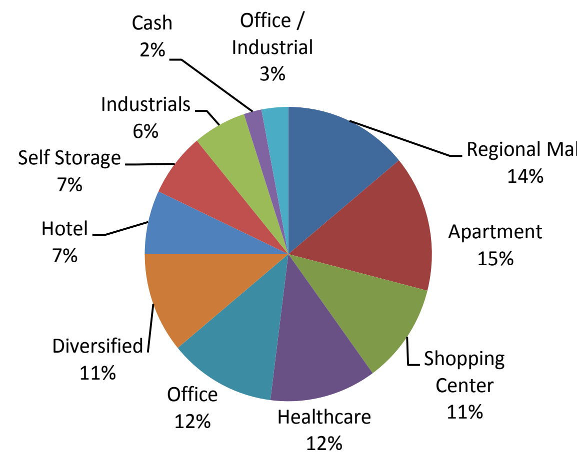
The investment objective of the Fund is total return through investment in real estate securities. In pursuing total return, the Fund seeks both capital appreciation and current income with approximately equal emphasis. Under normal market conditions, the Fund invests at least 80%, and normally substantially 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 December 31, 2013 were **Simon Property Group** (11.5%, of the total fund), **Vornado Realty Trust** (5.6%) and **Equity Residential** (5.2%).

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	0.20%	4.23%	-	-
FTSE NAREIT All REITS	-0.17%	2.86%	10.06%	16.90%

Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	47.6	34.7
P/B Ratio	2.3	2.1
Beta - 5 Year	1.03	1.00
R2 - 5 Year	99	100
Wt. Avg Market Cap. $MM	8826	7443
Total Number of Holdings	60	131
Prospective Dividend Yield	2.5%	3.7%
Expense Ratio	0.75%	-



Holding Summary

Market Value	$7,356,944
Percentage of Plan	4.64%

Gregory W Group

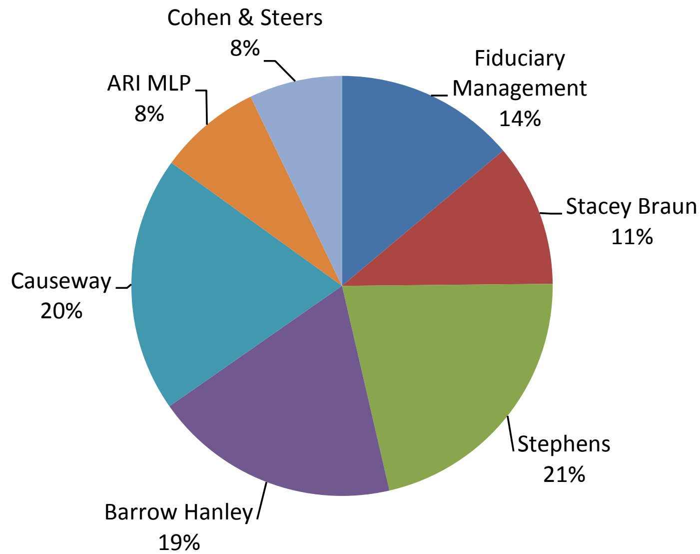
TOTAL EQUITY SNAPSHOT
AS OF DECEMBER 31, 2013

Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	20.9	18.6
P/B Ratio	2.7	2.6
Beta - 5yr.	1.04	1.00
R2 - 5yr.	96	100

Holding Summary

Total Market Value	$102,891,652
Percentage of Total Portfolio	64.90%



*Statistics calculated using weighted average of current fund lineup.

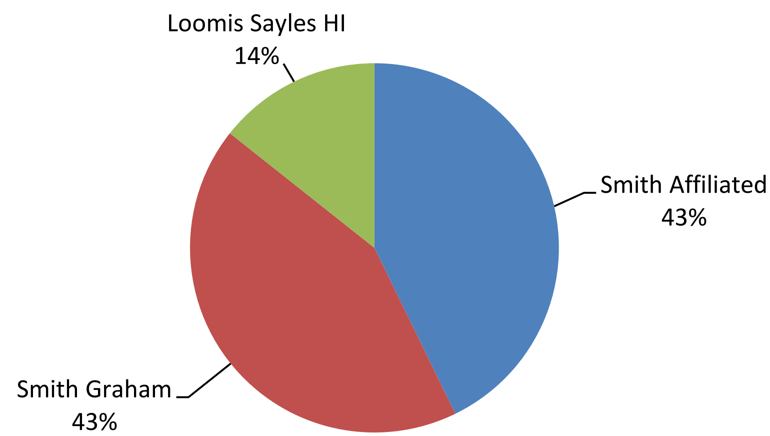
Total Fixed Income Snapshot
As of December 31, 2013

Portfolio Statistics

	Portfolio	BC Agg
Total # of Issues	516	8727
Average Credit Quality	AA	AA
Average YTM	3.1	2.4
Average Modified Duration	5.6	5.6
Time to Maturity	7.9	7.6
Average Coupon	2.7	3.2

Holding Summary

Total Market Value	$55,641,630
Percentage of Total Trust	35.1%



*Statistics calculated using weighted average of current fund lineup.

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

Manager	Mandate	Status	Note
Fixed Income			
Smith Affiliated	Core Fixed Income	In Compliance	Pending Termination
Smith Graham	Core Fixed Income	In Compliance	
High Yield			
Loomis Sayles	High Yield Fixed Income	In Compliance	
MLP			
Advisory Research	MLPs	In Compliance	
Real Estate			
Cohen & Steers	Real Estate	In Compliance	
Domestic Equity			
Fiduciary	Large Cap Equity	In Compliance	
Stacey Braun	Large Cap Equity	In Compliance	
Stephens	Mid Cap Equity	In Compliance	
Barrow Hanley	Small Cap Equity	Non Compliance	Beta 1.33 vs. Investment Policy Statement of 1.20
International Equity			
Causeway	International Equity	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 December 31, 2013

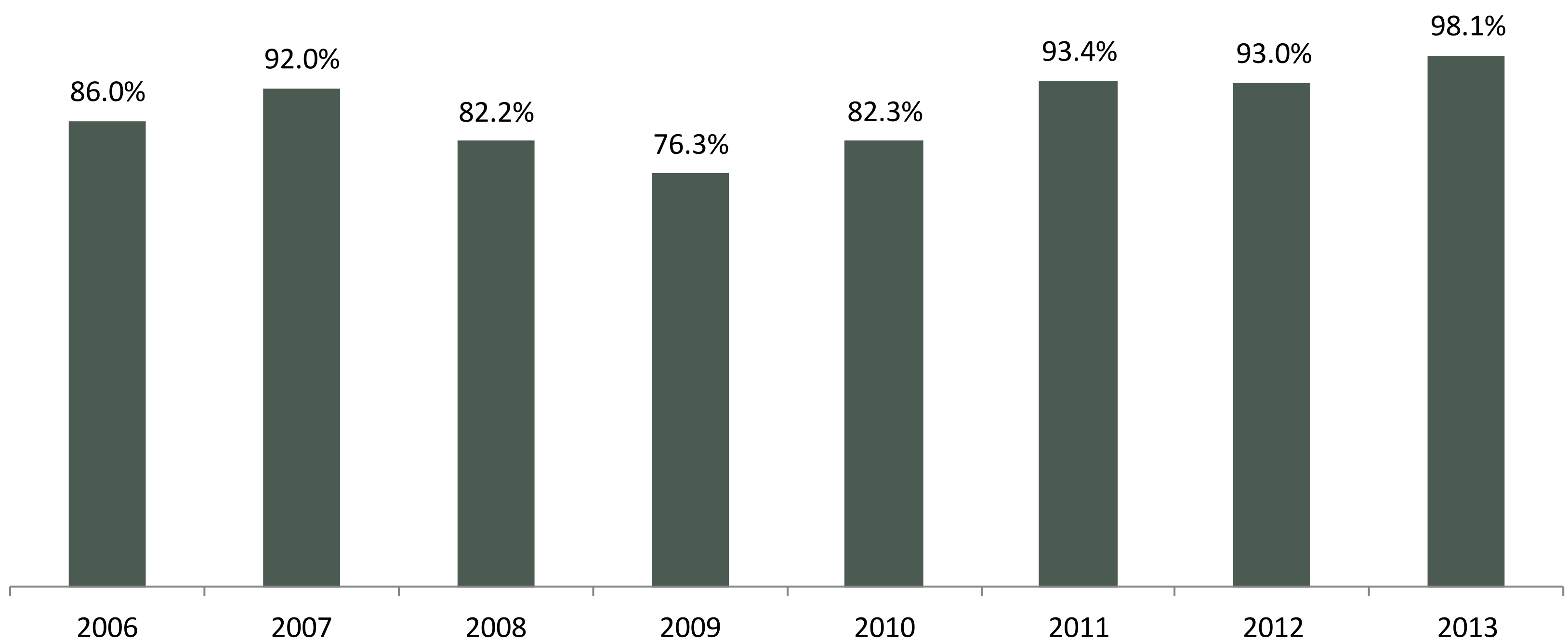
Manager	Mandate	Expense Ratio	Category Average	Difference	Estimated Annual Savings
Domestic Equity					
Fiduciary Management	Large Cap Equity	0.55%	1.21%	**0.66%**	$94,125
Stacey Braun	Large Cap Equity	0.45%	1.21%	**0.76%**	$85,901
Stephens	Mid Cap Growth Equity	0.75%	1.35%	**0.60%**	$134,078
Barrow Hanley	Small Cap Value Equity	0.76%	1.40%	**0.64%**	$124,953
International Equity					
Causeway	International Value Equity	0.99%	1.37%	**0.38%**	$76,974
Fixed Income					
Smith Affiliated	Fixed Income	0.25%	0.89%	**0.64%**	$152,312
Smith Graham	Fixed Income	0.40%	0.89%	**0.49%**	$116,926
Loomis Sayles	High Yield Fixed Income	0.68%	1.13%	**0.45%**	$35,912
MLP					
Advisory Research	Master Limited Partnership	0.75%	1.00%	**0.25%**	$20,273
Real Estate					
Cohen & Steers	Real Estate	0.75%	1.39%	**0.64%**	$47,084
Total Plan		**0.61%**	**1.17%**	**0.56%**	**$888,538**

Source: Morningstar and Investment Managers

Retirement Program – Asset Allocation Analysis
As of December 31, 2013

Manager	Actual Portfolio	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	16.1%	**15.0%**	1.1%	10.0%	20.0%
Mid Cap Domestic Equity	14.0%	**12.5%**	1.5%	7.5%	17.5%
Small Cap Domestic Equity	12.3%	**10.0%**	2.3%	5.0%	15.0%
International Equity	12.8%	**12.5%**	0.3%	7.5%	17.5%
Core Fixed Income	30.1%	**35.0%**	-4.9%	30.0%	40.0%
High Yield Fixed Income	5.0%	**5.0%**	0.0%	0.0%	10.0%
Real Estate	4.6%	**5.0%**	-0.4%	0.0%	10.0%
Master Limited Partnerships	5.1%	**5.0%**	0.1%	0.0%	10.0%
Cash	0.0%	**0.0%**	0.0%	-	-
Total	100.0%	**100.0%**		100.0%	100.0%

Funded Status Monitor



Source: Port of Houston Authority Restated Retirement Plan Actuarial Valuation Report as of August 1, 2013. The funded ratio is calculated by dividing the actuarial value of assets by the actuarial accrued liability.

The 2013 funded status was calculated as 100.7%, prior to reduction of the actuarial assumption from 7.25% to 7.00%.