

Port of Houston Authority Pension Plan

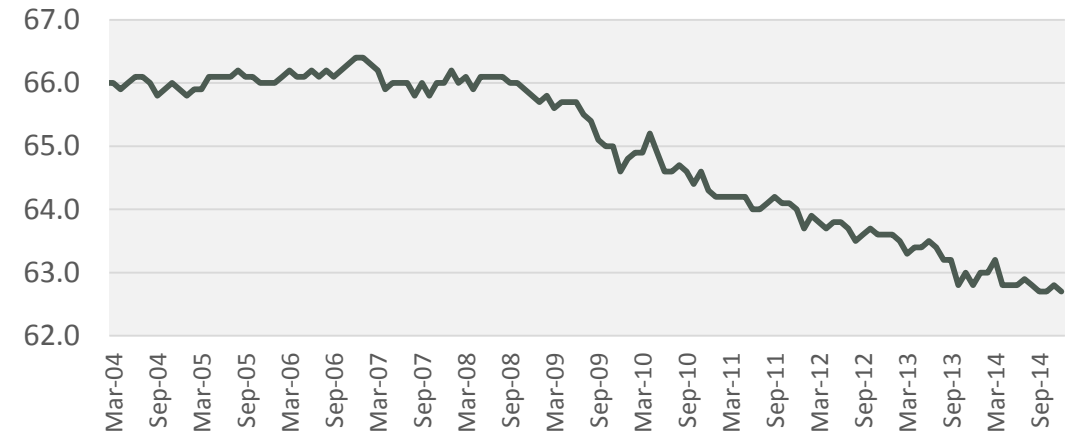
Fourth Quarter 2014 Report



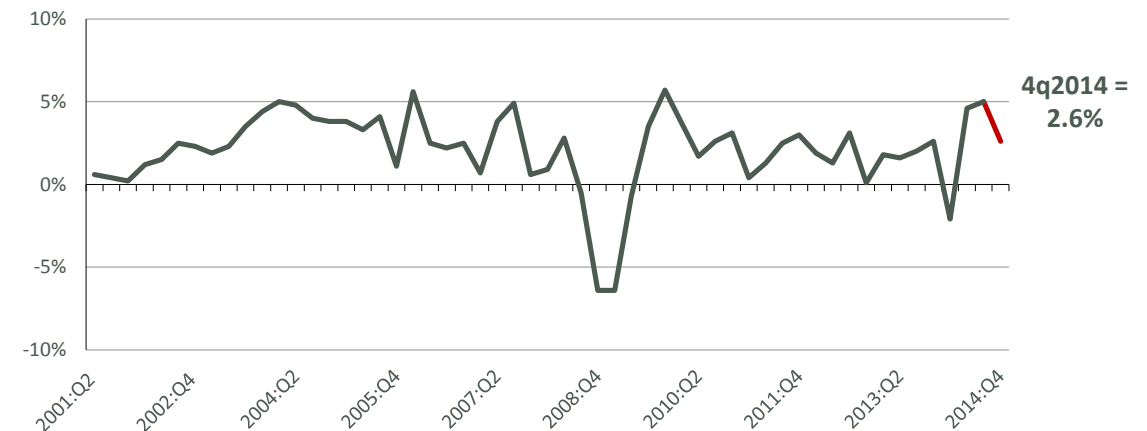
Market Environment – Fourth Quarter, 2014

- The fourth quarter was dramatic in terms of news flow and price change. The early part of the quarter was dominated by **Ebola fears** and the **Ukraine situation**. Equity prices fell, erasing the S&P 500's year to date gains. Next up was OPEC's Thanksgiving Day meeting which agitated the oil markets. **Oil prices fell by half** during 2014 as increasing supply, mainly from the U.S., met weakening demand and investor uncertainty. While we have seen this story unfold before, we have not seen Saudi Arabia act as independently as they are now. The drop in oil prices will hurt oil producers and test the cohesion of OPEC. However, lower energy prices are a net positive for consumer driven economic growth.
- Domestic real GDP reversed course during 2014. Second quarter real GDP growth came in at 4.6% while the final third quarter result was 5.0%. Fourth quarter GDP slowed dramatically, coming in at 2.6%. **U.S. household net worth reached an all-time high** during the third quarter as household debt service is very near its all time low in percentage terms.
- Domestic equities, except for the Energy sector, performed quite well during the quarter. International equities posted gains in local currency terms. Bonds posted positive returns. The US Dollar surged during the quarter.
- The U.S. **unemployment rate improved to 5.6%** from 5.9% during the quarter. Labor force participation was unchanged at 62.7%. Wage growth showed signs of weakness, emphasizing the new nature of employment for many Americans.
- The **U.S. consumer price index rose 0.8%** over the year ended December 31, 2014. Interest rates remained very low even after the end of the Federal Reserve's quantitative easing program.
- International markets were challenging for U.S. based investors. **A rally in the US dollar vs. other currencies reduced foreign asset values. The U.S. Dollar appreciated against all 31 of the next largest economies.** Further, most developed and emerging markets experienced difficult economic conditions if not recession. Monetary policies are beginning to diverge as a result with the US attempting to normalize policy while the EU, Japan and China remain highly stimulative.
- **Short term interest rates remain pegged at 0.0%**, They have been fixed at this level for six years. Highly scrutinized comments from the Federal Reserve suggest that they will remain low for a considerable period. The end of the Fed's latest Quantitative Easing had a limited impact on the bond market. U.S. Treasury bond interest rates are comparatively higher than other major market interest rates.

Labor Force Participation Rate



US Real GDP Growth - Annualized



Equity Markets – Fourth Quarter, 2014

- The U.S. equity market saw nice fourth quarter gains amid a pronounced volatility spike. The most prominent story during the quarter rapidly falling oil prices. The Energy sector saw significant declines while most other sectors saw gains. **Small caps posted outsized returns** to outperform mid caps and small caps. For the broad market, value stocks outperformed growth stocks. Broad market trailing year returns remained high (+13.2%).
- Financials (+7.4% return), Health Care (+7.8%), and Consumer Discretionary (+8.4%) were the best performing sectors by contribution. **Energy was the poorest returning sector, falling -12.2%**. Telecommunications (-4.2%) and Materials (-1.1%) also suffered fourth quarter losses.
- The market's top contributing performers were **Apple (+10.0% return), VISA (+23.1%), and Proctor and Gamble (+9.6%)**. The bottom three contributors were IBM (-14.9%), Halliburton (-38.8%), and Schlumberger (-15.6%).
- Valuations remain reasonable.** Based on historical measures, growth stocks are significantly cheaper than value stocks. The broad market forward P/E ratio was 16.2x at year end vs. 15.6x for its twenty five year average. The market's dividend yield was 1.9% vs. 2.1% for its long term average. The broad market is 54% higher than its previous high (October 2007) and 244% above the low set in March of 2009.
- Domestic equity performance ranked 4th among 33 established foreign equity markets for the full calendar year.
- Many foreign equity markets posted small gains in local currencies but were losses when translated into US Dollars. During the quarter, the **EAFE index posted a local currency return of 1.8% which fell to -3.5% when translated.** Russia was particularly hard hit as local currency returns were -5.9% but -32.8% in US Dollars. The MSCI All Country World index fell -3.7% during the quarter (\$USD). Emerging markets suffered a loss (-4.5% return) which underperformed developed markets (-3.6%) for the quarter. The U.S. economy is slowly improving while the remaining developed and emerging markets are in danger of falling back into recession.
- The top performing sectors in the MSCI ACWI ex-US index were Consumer Discretionary (+2.3%), Information Technology (+0.7%), and Telecommunications Services (-2.2%). The three largest detractors were Energy (-19.8%), Materials (-7.5%), and Financials (-0.5%).
- Top performance contributors to the ACWI were **Taiwan Semiconductor (+13.1% return), Toyota Motor (+7.2%), and Samsung (+8.7%)**. Top detractors were Total SA (-19.6%), Sanofi (-19.1%), and Roche Holdings (-8.3%).
- Developed non-US equity valuations remain above average. The **forward P/E ratio for the MSCI Europe index ended the quarter at 14.1x vs. 12.0x** for its ten year average. Emerging markets valuations are very close to average: the MSCI EM index forward P/E ratio was 10.3x vs. 11.0x for its ten year average.

Current P/E Ratio as Percentage of Long Term Average

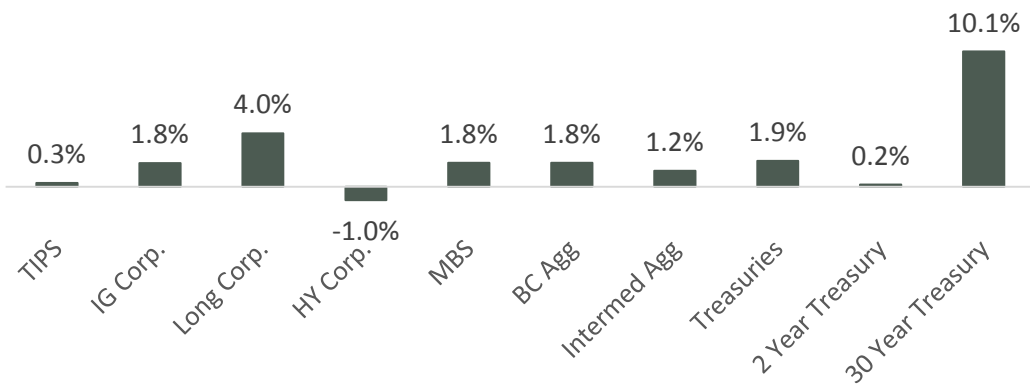
	Value	Blend	Growth
Large	110.0%	100.6%	89.0%
Mid	118.1%	112.7%	94.5%
Small	113.1%	104.4%	93.3%

Russell 1000 Sector Analytics	Ending Weight	4q 2014 Return	Contribution
Consumer Discretionary	12.7%	8.4%	1.0%
Consumer Staples	9.0%	8.3%	0.7%
Energy	7.8%	-12.2%	-1.1%
Financials	17.4%	7.4%	1.2%
Health Care	13.9%	7.8%	1.1%
Industrials	11.2%	6.7%	0.8%
Information Technology	19.0%	4.9%	0.9%
Materials	3.5%	-1.1%	-0.0%
Telecommunications	2.1%	-4.2%	-0.1%
Utilities	3.2%	12.7%	0.4%
Total	100.0%	4.9%	4.9%

Fixed Income – Fourth Quarter, 2014

- Interest rates had an active quarter as investors balanced slowing international economic growth, heightened risk awareness and potential future central bank activities. **The U.S. Treasury yield curve flattened** during the fourth quarter as short term interest rates rose while long term interest rates declined. Falling interest rates have been a notable surprise for investors. The long bond yield began 2014 at 3.9%, sank to 3.4% by mid-year and fell to 2.8% by December 31 and fell below 2.5% post year end.
- The **U.S. dollar continued to strengthen** during the fourth quarter, which depressed foreign asset prices. This had a relatively large negative impact on foreign bond prices. The Global ex. U.S. Aggregate bond index fell -2.6% during the quarter. The Japan Aggregate bond index fell -6.4% for the quarter and -8.4% for the full year. Emerging Market debt fell -0.6% during the quarter.
- There was some widening of credit spreads during the quarter.** High yield bonds were hardest hit. Energy related companies compose a large portion of the high yield market; falling energy prices worried investors and pushed bond prices lower. Defaults in high yield bonds remained low but investors worried that levered energy companies would start defaulting on bonds during 2015. The high yield bond market underperformed as bond investors favored higher credit quality bonds.

Barclays Index Returns – 4q2014



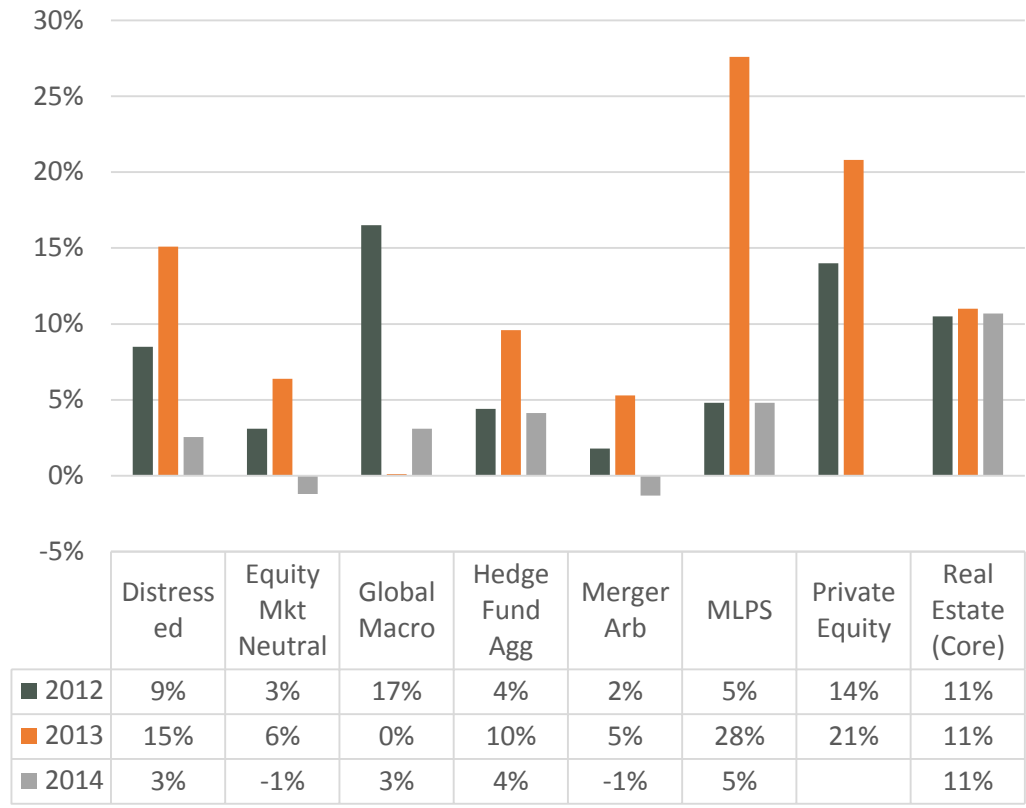
Risk Level	Interest Rate Forecast	Time Horizon			
		1 Year		3 Years	
		Terminal Yield	Total Return	Terminal Yield	Total Return
Low Risk	Pessimistic	2.50%	-2.9%	4.00%	-1.5%
2 Year Treasury	Most Likely	1.25%	-0.5%	3.00%	-0.8%
Present YTM: 0.67%	Optimistic	0.50%	1.0%	2.00%	-0.2%
Medium Risk	Pessimistic	4.00%	-12.8%	5.50%	-6.7%
10 Year Treasury	Most Likely	3.25%	-7.0%	4.50%	-4.1%
Present YTM: 2.17%	Optimistic	2.00%	3.7%	3.50%	-1.5%
High Risk	Pessimistic	4.75%	-29.0%	6.00%	-14.0%
30 Year Treasury	Most Likely	3.75%	-15.1%	5.00%	-9.6%
Present YTM: 2.75%	Optimistic	2.25%	13.6%	4.00%	-4.6%

Yields and Spreads	9/30/2014	12/31/2014
3 Month T-Bill	0.02%	0.04%
2 Year Treasury	0.57%	0.67%
10 Year Treasury	2.49%	2.17%
30 Year Treasury	3.20%	2.75%
Yield Curve 2-10 Year	192	150
Yield Curve 2-30 Year	263	208

Alternative Investments – Fourth Quarter, 2014

- Alternative investments posted varied returns during the fourth quarter. Real estate returns remained strong while most hedge fund returns produced disappointing returns. The energy sector was hard hit by plummeting oil prices while private equity remained active.
- Inflows to alternative investments remained steady.** A few high profile investment pools have recently withdrawn from the hedge fund space. However, few expect a widespread retreat from alternative investments.
- Hedge funds posted modest returns during the fourth quarter and full year.** The HFRI weighted composite index gained 1.6% during the quarter and 3.6% for the full year. The top performing hedge fund categories were commodity trading and shareholder activist funds.
- Domestic real estate investments performed well over the full year 2014. The **US economy appears the strongest among the world’s most prominent property markets.** Demand from US and foreign investors remained healthy. Low-risk core real estate returns remain attractive as investors invest in the asset class as fixed income alternative.
- Private equity returns have been positive.** The asset class gained just over 20% during 2013 and indications are for a positive 2014. The Initial Public Offering market has been relatively strong.
- Oil prices fell by half during the closing quarter of 2014 as U.S. production has increased dramatically (20% gain since 2013) while European and Chinese demand weakened. Saudi Arabia appears to be actively pushing prices lower to cripple shale production in the U.S. They have declined to decrease production to support prices at levels high enough to support profitable fracking. Natural gas prices also declined despite a harsh winter in parts of the U.S. Price volatility boosted returns of some hedge funds.
- Master Limited Partnerships (energy infrastructure/transport entities) saw a dramatic repricing during the quarter.** The fall in oil prices affected upstream MLPs most, with several falling more than 50%. The larger, less commodity price sensitive MLPs fell much less. MLPs actually saw two market corrections bookending a mid quarter recovery. U.S. Domestic energy production is being scaled back quickly to deal with the rapid decline in crude prices.

Alternative Asset Category Returns



Domestic Equity	Last Quarter	Last Year	Last Three Years Annualized	Last Five Years Annualized	Last Ten Years Annualized
S&P 500	4.9	13.7	20.4	15.5	7.7
Russell 1000	4.9	13.2	20.6	15.6	8.0
Russell 1000 Value	5.0	13.5	20.9	15.4	7.3
Russell 1000 Growth	4.8	13.1	20.3	15.8	8.5
Russell 3000	5.2	12.6	20.5	15.6	7.9
Russell Midcap	5.9	13.2	21.4	17.2	9.6
Russell Midcap Value	6.1	14.8	22.0	17.4	9.4
Russell Midcap Growth	5.8	11.9	20.7	16.9	9.4
Russell 2000	9.7	4.9	19.2	15.6	7.8
Russell 2000 Value	9.4	4.2	18.3	14.3	6.9
Russell 2000 Growth	10.1	5.6	20.1	16.8	8.5
Alerian MLP	-12.3	4.8	11.9	16.7	13.8
Fixed Income					
Barclays Capital Aggregate Bond	1.8	6.0	2.7	4.5	4.7
Barclays Capital Credit	1.8	7.5	4.8	6.3	5.5
Barclays Capital Government	1.9	4.9	1.4	3.7	4.3
Barclays Capital Govt/Credit	1.8	6.0	2.8	4.7	4.7
Barclays Capital Interm Credit	0.8	4.2	4.0	5.0	4.9
Barclays Capital Interm Govt	1.0	2.5	1.0	2.8	3.8
Barclays Capital Interm Govt/Cred	0.9	3.1	2.0	3.5	4.1
Barclays Capital Long Credit	4.1	16.4	7.0	9.7	7.1
Barclays Capital Long Term Govt	8.6	25.1	4.2	10.0	7.5
Barclays Capital Long Govt/Credit	5.6	19.3	5.8	9.8	7.4
Barclays Capital Fixed Rate MBS	1.8	6.2	2.4	3.8	4.8
Merrill Lynch US High Yield Master II	-1.1	2.5	8.4	8.9	7.6
91 Day T-Bill	0.0	0.0	0.1	0.1	1.5
International					
MSCI EAFE	-3.6	-4.9	11.1	5.3	4.4
MSCI World ex US	-3.7	-4.3	10.5	5.2	4.6
MSCI Europe	-5.0	-7.2	11.1	4.8	4.4
MSCI Japan	-2.4	-4.0	9.7	5.5	2.3
MSCI Pacific ex Japan	-1.5	-0.5	9.4	5.9	8.4
MSCI Emerging Markets	-4.5	-2.2	4.0	1.8	8.4

Portfolio Trailing Year Performance

+6.75%

Retirement Program Plan Summary

As of December 31, 2014

	Last Quarter	% Rank	Last Year	% Rank	Three Years	% Rank	Five Years	% Rank	Since Inception ¹	Allocation % of Total	Inception Date
MacKay Shields	1.04%		-		-		-		-	\$27,947,335	3/27/2014
<i>Barclays Capital Aggregate</i>	1.79%		5.97%		2.66%		4.45%		4.05%	16.9%	
Smith Graham	1.94%		5.49%		3.29%		5.04%		4.60%	\$24,878,008	8/15/2002
<i>Barclays Capital Aggregate</i>	1.79%		5.97%		2.66%		4.45%		4.77%	15.0%	
Loomis Sayles High Income	-1.12%		5.88%		13.34%		-		13.36%	\$8,387,686	11/4/2011
<i>ML High Yield</i>	-1.06%		2.50%		8.37%		8.88%		7.98%	5.1%	
Advisory Research MLP	-8.48%		12.08%		15.06%		-		15.63%	\$8,910,150	5/3/2011
<i>Alerian MLP</i>	-12.29%		4.80%		11.90%		16.74%		10.82%	5.4%	
Fiduciary Management	5.83%		13.56%		20.39%		14.72%		10.05%	\$14,334,206	10/13/2005
<i>Russell 1000 Value</i>	4.98%		13.45%		20.89%		15.42%		7.27%	8.6%	
<i>S&P 500</i>	4.93%		13.69%		20.41%		15.45%		8.00%		
Stacey Braun	4.17%		10.97%		19.02%		16.20%		10.29%	\$13,368,301	4/15/2008
<i>Russell 1000 Growth</i>	4.78%		13.05%		20.26%		15.81%		10.48%	8.1%	
<i>S&P 500</i>	4.93%		13.69%		20.41%		15.45%		9.14%		
Stephens	3.09%		4.27%		-		-		19.24%	\$20,950,841	12/28/2012
<i>Russell Midcap Growth</i>	5.84%		11.90%		20.71%		16.94%		23.25%	12.6%	
Barrow Hanley Small Cap	9.76%		3.14%		23.61%		17.47%		12.27%	\$17,007,668	12/1/2004
<i>Russell 2000 Value</i>	9.40%		4.22%		18.29%		14.26%		7.08%	10.3%	
Causeway	-4.66%		-5.25%		-		-		3.50%	\$19,360,579	9/16/2013
<i>MSCI EAFE</i>	-3.57%		-4.90%		11.06%		5.33%		0.42%	11.7%	
Cohen & Steers Real Estate	15.50%		31.77%		17.03%		-		16.20%	\$10,306,674	11/2/2011
<i>FTSE NAREIT All REITS</i>	12.94%		28.03%		16.38%		16.91%		15.77%	6.2%	
Cash										\$521,478	-
										0.3%	
Total Plan - Gross of Fees	2.87%		6.75%		12.41%		10.26%		7.97%	\$165,756,912	8/1/2002
Total Plan - Net of Fees	2.75%		6.07%		11.79%		9.60%		7.25%		
<i>Benchmark</i>	2.61%		7.45%		11.83%		9.94%		8.07%		
<i>Actuarial Assumption</i>	1.71%		7.00%		7.14%		7.21%		7.38%	100.0%	

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.

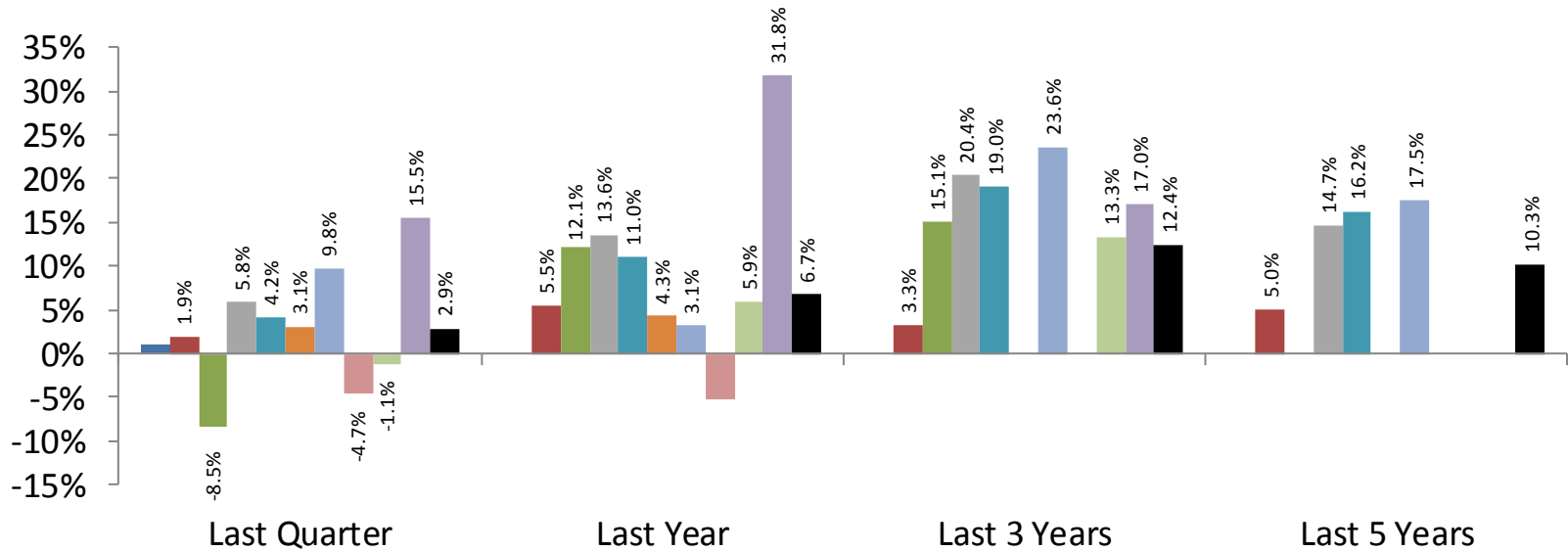
¹Since inception performance calculated using the first whole quarter as the inception date.



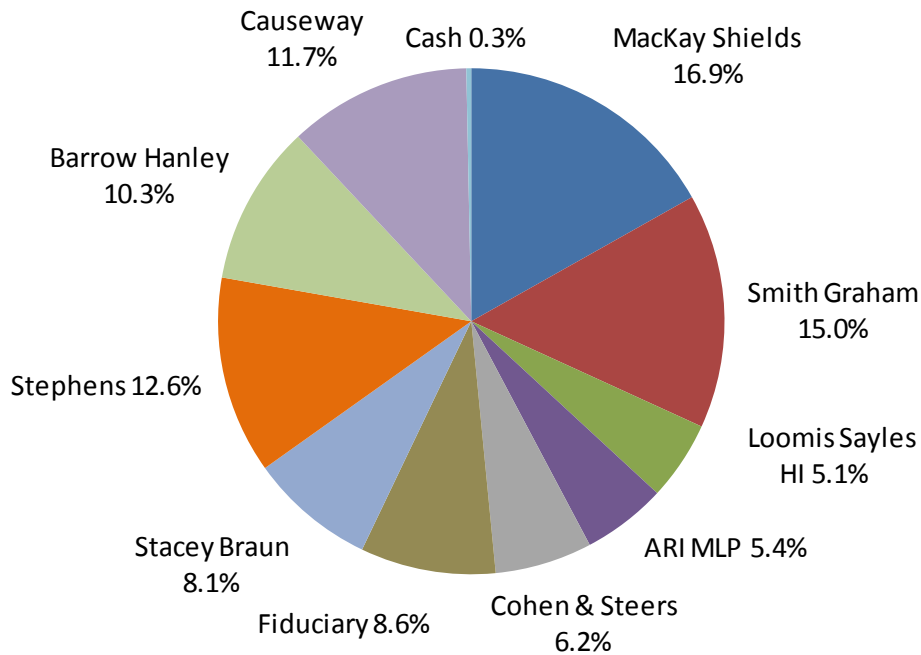
Performance Summary

Periods ended December 31, 2014

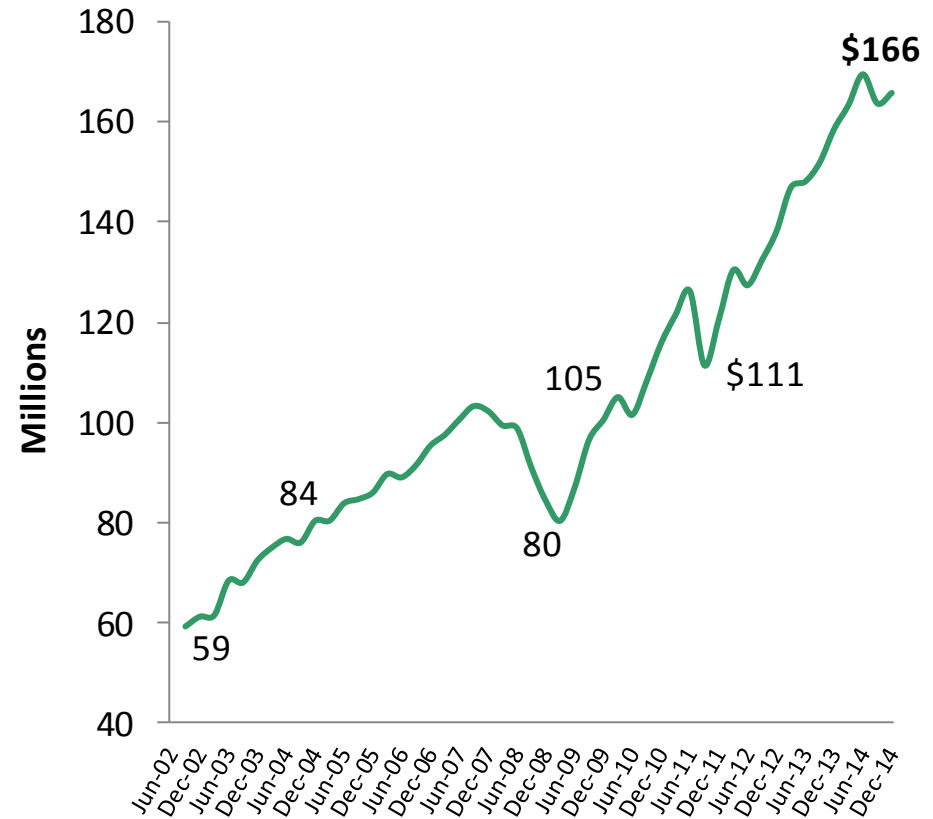
- MacKay Shields FI
- Fiduciary
- Barrow Hanley
- Cohen & Steers
- Smith Graham FI
- Stacey Braun
- Causeway
- Composite
- ARI MLP
- Stephens
- Loomis Sayles HY



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 replace Smith Affiliated during the first quarter of 2014.**

Performance

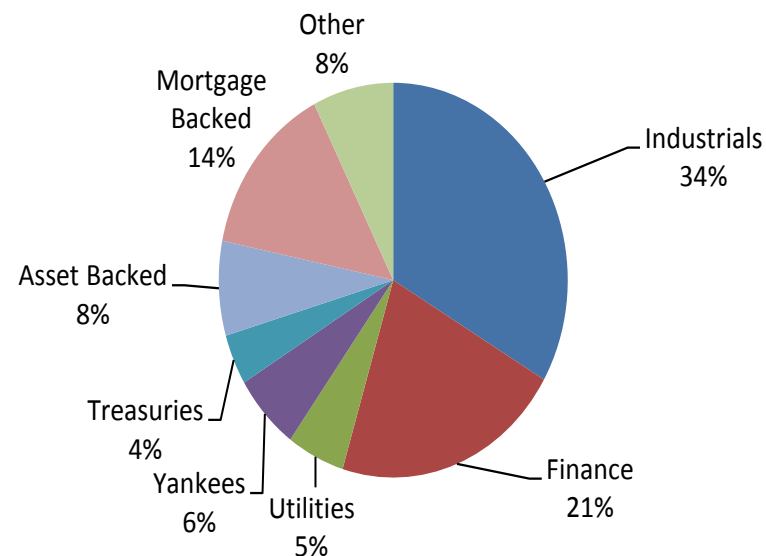
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
MacKay Shields	1.04%	-	-	-
Barclays Capital Aggregate Bond	1.79%	5.97%	2.66%	4.45%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	4.8	5.3
Maturity	10.8	7.6
Trailing 12 Month Yield	3.1	3.1
Yield to Maturity	3.2	2.4
Average Credit Quality	A-	A
Number of Issues	123	3328
Expense Ratio	0.35%	-

Holding Summary

Market Value	\$27,947,335
Percentage of Plan	16.86%



*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

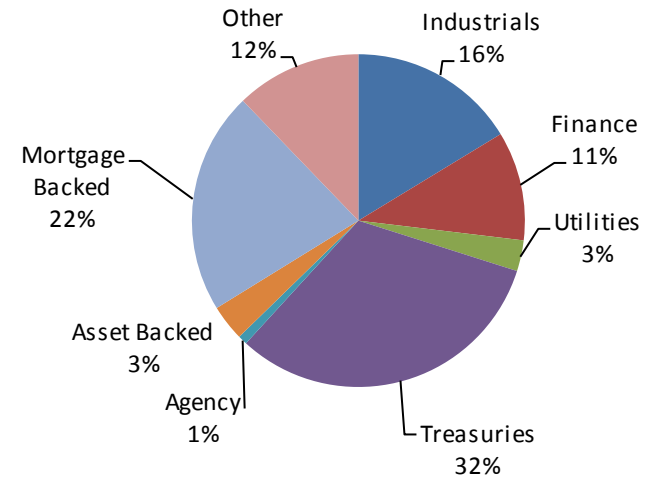
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Smith Graham	1.94%	5.49%	3.29%	5.04%
Barclays Capital Aggregate Bond	1.79%	5.97%	2.66%	4.45%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.8	5.3
Maturity	7.8	7.6
Trailing 12 Month Yield	2.2	3.1
Yield to Maturity	2.3	2.4
Average Credit Quality	AA	A
Number of Issues	109	3328
Expense Ratio	0.30%	-

Holding Summary

Market Value	\$24,878,008
Percentage of Plan	15.01%



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

Loomis Sayles

High Yield Fixed Income

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

Performance

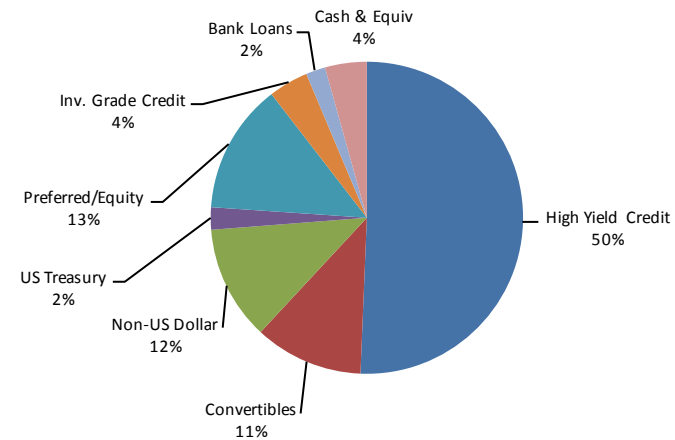
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	-1.12%	5.88%	13.34%	-
Merill Lynch High Yield Master II	-1.06%	2.50%	8.37%	8.88%

Key Characteristics

	Portfolio	ML HY II
Effective Duration	4.3	4.5
Maturity	6.3	6.5
Trailing 12 Month Yield	4.3	-
Average Credit Quality	BB	B
Number of Issues	349	2314
Expense Ratio	0.68%	-

Holding Summary

Market Value	\$8,387,686
Percentage of Plan	5.06%



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 quarter end were **Energy Transfer Equity** (10.0% of the total fund), **Plains GP Holdings LP** (8.1%), and **Western Gas Equity Partners LP** (8.1%). The fund has had a cumulative return of 66.25% since inception.

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Advisory Research (ARI)	-8.48%	12.08%	15.06%	-
Alerian MLP	-12.29%	4.80%	11.90%	16.74%

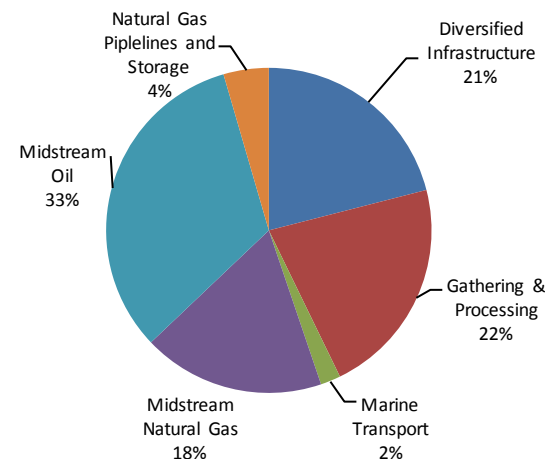
Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	24.4	24.7
P/B Ratio	10.8	2.5
Beta - 5 Year	0.95	1.00
R2 - 5 Year	94	100
Wt. Avg Market Cap. \$MM	9517	13110
Number of Holdings	27	50
Prospective Dividend Yield	4.6%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$8,910,150
Percentage of Plan	5.38%

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



Fiduciary Management

Large Cap Value

Fiduciary's objective is to buy durable business at value prices in order to achieve top in class investment results over a three to five year time horizon. Fiduciary considers themselves long-term investors, not traders. They will typically hold between 20-30 companies in their portfolio with an average turnover of 35%. The research process is geared toward finding six new investment ideas for the portfolio in a given year. All investment ideas are generated by a research team consisting of six individuals, rather than relying on a single portfolio manager. The three largest holdings as of quarter end were **Potash** (5.7% of the total fund), **UnitedHealth Group Inc** (5.4%), and **Berkshire Hathaway** (5.2%)

Performance

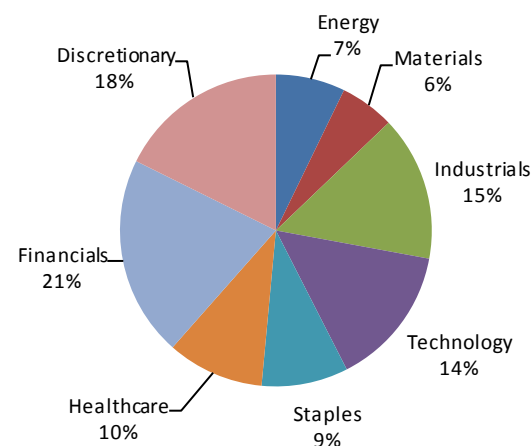
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	5.83%	13.56%	20.39%	14.72%
Russell 1000 Value	4.98%	13.45%	20.89%	15.42%
S&P 500 Index	4.93%	13.69%	20.41%	15.45%

Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	20.2	16.6
P/B Ratio	4.1	1.8
Beta - 5 Year	0.88	1.00
R2 - 5 Year	0.98	100
Wt. Avg Market Cap. \$MM	82943	53247
Number of Holdings	25	698
Prospective Dividend Yield	1.7%	-
Expense Ratio	0.55%	

Holding Summary

Market Value	\$14,334,206
Percentage of Plan	8.65%



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 **Apple** (4.1% of the total fund), **Exxon Mobil** (2.1%) and **Jazz Pharmaceuticals** (1.7%).

Performance

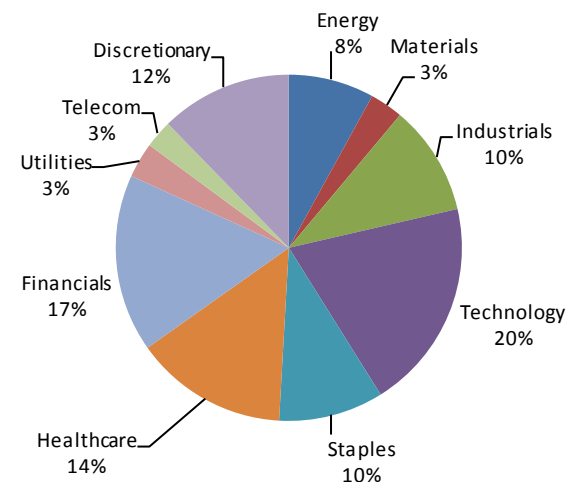
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stacey Braun	4.17%	10.97%	19.02%	16.20%
Russell 1000 Growth	4.78%	13.05%	20.26%	15.81%
S&P 500 Index	4.93%	13.69%	20.41%	15.45%

Key Characteristics

	Portfolio	R 1000 G
P/E Ratio	19.6	21.8
P/B Ratio	2.8	5.2
Sharpe Ratio - 3 Year	1.9	2.0
Sharpe Ratio - 5 Year	1.2	-
Beta - 5 Year	1.02	1.00
R2 - 5 Year	96	100
Wt. Avg Market Cap. \$MM	106100	55707
Earnings Growth - 5 Year	3.4%	-
Number of Holdings	98	679
Prospective Dividend Yield	1.5%	-
Expense Ratio	0.45%	-

Holding Summary

Market Value	\$13,368,301
Percentage of Plan	8.07%



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 **Illumina** (2.1% of the total fund), **Monster Beverage** (1.9%), and **Fortinet** (1.8%). **The fund was placed On Alert during the fourth quarter of 2014 due to performance.**

Performance

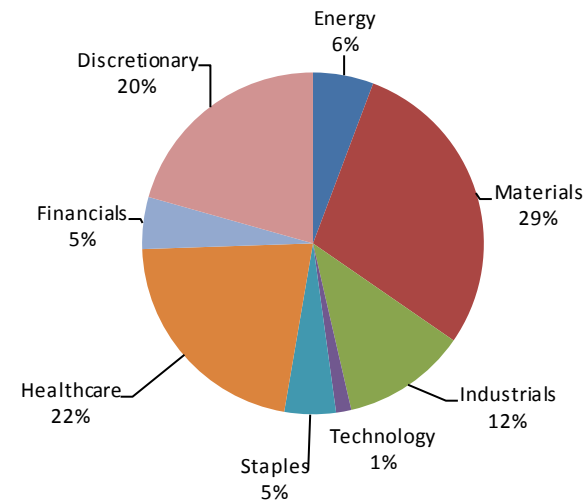
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	3.09%	4.27%	-	-
Russell Mid Cap Growth	5.84%	11.90%	20.71%	16.94%

Key Characteristics

	Portfolio	R MCG
P/E Ratio	25.9	24.4
P/B Ratio	4.7	4.8
Beta - 5 Year	0.93	1.00
R2 - 5 Year	94	100
Wt. Avg Market Cap. \$MM	9742	11696
Earnings Growth - 5 Year	17.7%	-
Number of Holdings	101	549
Prospective Dividend Yield	0.0%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$20,950,841
Percentage of Plan	12.64%



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 **American Axle & Manufacturing Holdings** (4.3% of the total fund), **Whirlpool** (4.1%), and **Brunswick** (3.7%).

Performance

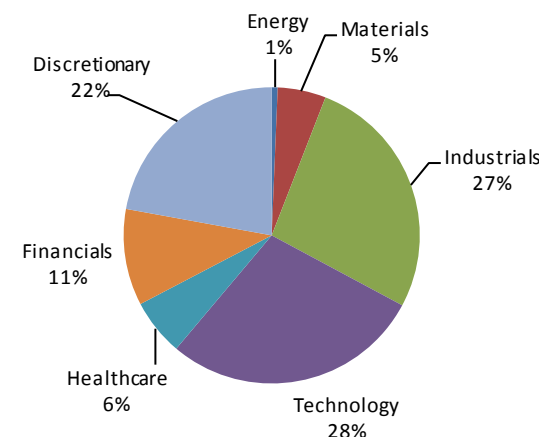
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley MeWhinney & Strauss	9.76%	3.14%	23.61%	17.47%
Russell 2000 Value	9.40%	4.22%	18.29%	14.26%

Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	20.8	18.5
P/B Ratio	2.2	1.5
Beta - 5 Year	0.90	1.00
R2 - 5 Year	1	100
Wt. Avg Market Cap. \$MM	2746	1340
Earnings Growth - 5 Year	13.1%	-
Number of Holdings	42	1348
Prospective Dividend Yield	1.1%	-
Expense Ratio	0.79%	-

Holding Summary

Market Value	\$17,007,668
Percentage of Plan	10.26%



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 country allocations as of September 30, 2014 were to the **United Kingdom** (20.7% of the fund), **France** (15.9%), and **Japan** (14.2%). The three largest holdings as of September 30, 2014 were **Akzo Nobel** (3.4% of the total fund, Netherlands), **Reed Elsevier** (3.2%, Netherlands), and **Sanofi** (3.2%, France). **This fund replaced Eagle Global during the third quarter of 2013.**

Performance

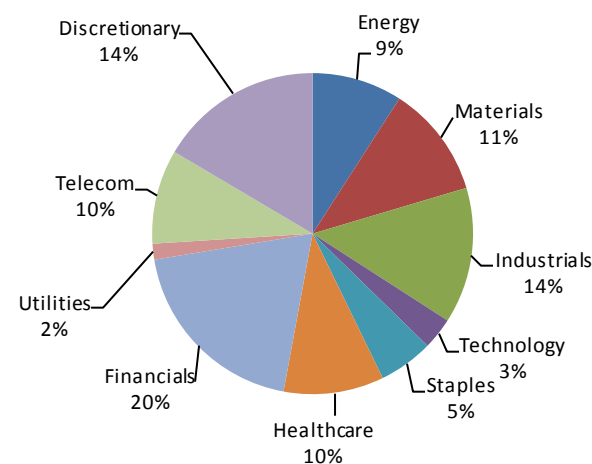
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Causeway	-4.66%	-5.25%	-	-
MSCI EAFE	-3.57%	-4.90%	11.06%	5.33%

Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	29.4	16.2
P/B Ratio	3.7	1.6
Sharpe Ratio - 3 Year	1.01	0.56
Sharpe Ratio - 5 Year	0.50	0.74
Beta - 5 Year	1.05	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. \$MM	3494	35929
Number of Holdings	105	908
Prospective Dividend Yield	2.6%	-
Expense Ratio	0.99%	-

Holding Summary

Market Value	\$19,360,579
Percentage of Plan	11.68%



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, 2014 were **Simon Property Group** (7.0% of the total fund), **Equity Residential** (6.9%) and **Health Care REIT** (5.7%).

Performance

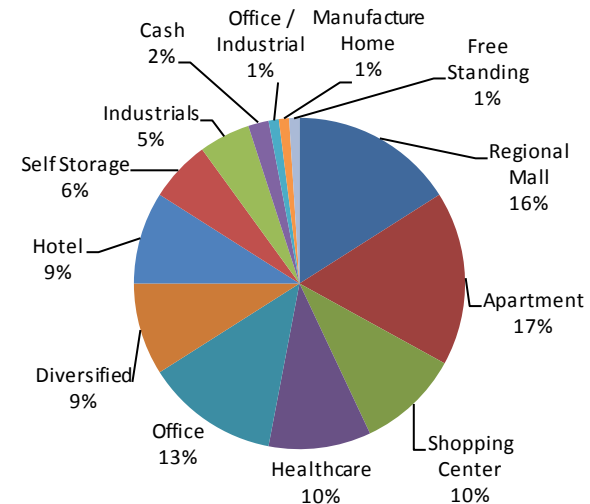
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	15.50%	31.77%	17.03%	-
FTSE NAREIT All REITS	12.94%	28.03%	16.38%	16.91%

Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	43.8	39.2
P/B Ratio	2.5	2.6
Sharpe Ratio - 3 Year	1.2	1.3
Sharpe Ratio - 5 Year	0.98	1.32
Beta - 5 Year	0.85	1.00
R2 - 5 Year	56	100
Wt. Avg Market Cap. \$MM	10085	10592
Number of Holdings	51	152
Prospective Dividend Yield	3.0%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$10,306,674
Percentage of Plan	6.22%



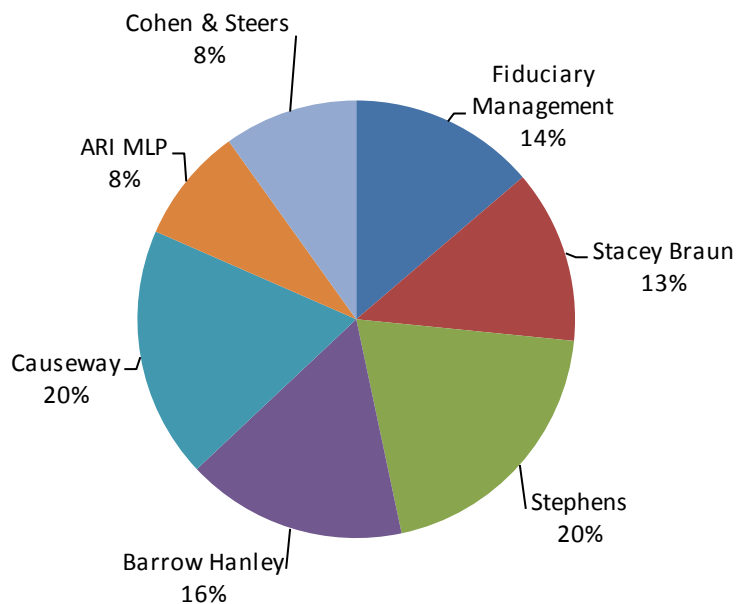
TOTAL EQUITY SNAPSHOT
AS OF DECEMBER 31, 2014

Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	25.8	18.7
P/B Ratio	4.1	2.7
Beta - 5yr.	0.95	1.00
R2 - 5yr.	56	100

Holding Summary

Total Market Value	\$104,238,418
Percentage of Total Portfolio	62.9%



*Statistics calculated using weighted average of current fund lineup.

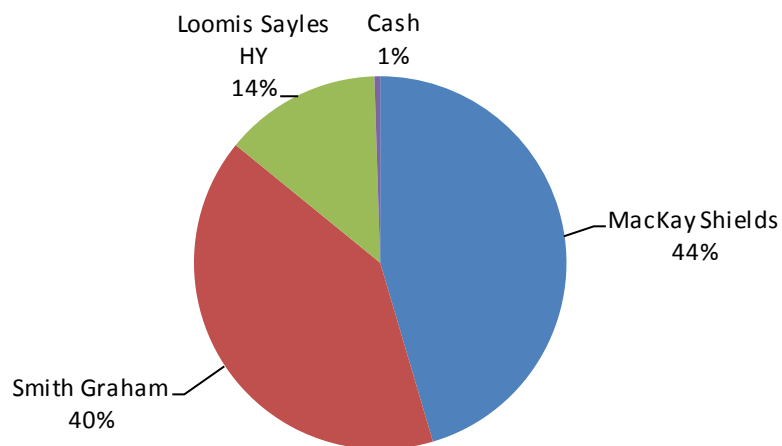
TOTAL FIXED INCOME SNAPSHOT
AS OF DECEMBER 31, 2014

Portfolio Statistics

	Portfolio	BC Agg
Number of Issues	581	3328
Average Credit Quality	AA	A
Average YTM	3.1	-
Average Modified Duration	5.1	5.3
Time to Maturity	8.9	7.6
Average Coupon	2.9	3.1

Holding Summary

Total Market Value	\$61,518,494
Percentage of Total Trust	37.1%



*Statistics calculated using weighted average of current fund lineup.

RETIREMENT PROGRAM - MANAGER STATUS SUMMARY

Manager	Mandate	Status	Note
Fixed Income			
MacKay Shields	Core Fixed Income	In Compliance	
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	On Alert	4Q2014 - Performance
Barrow Hanley	Small Cap Equity	In Compliance	
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

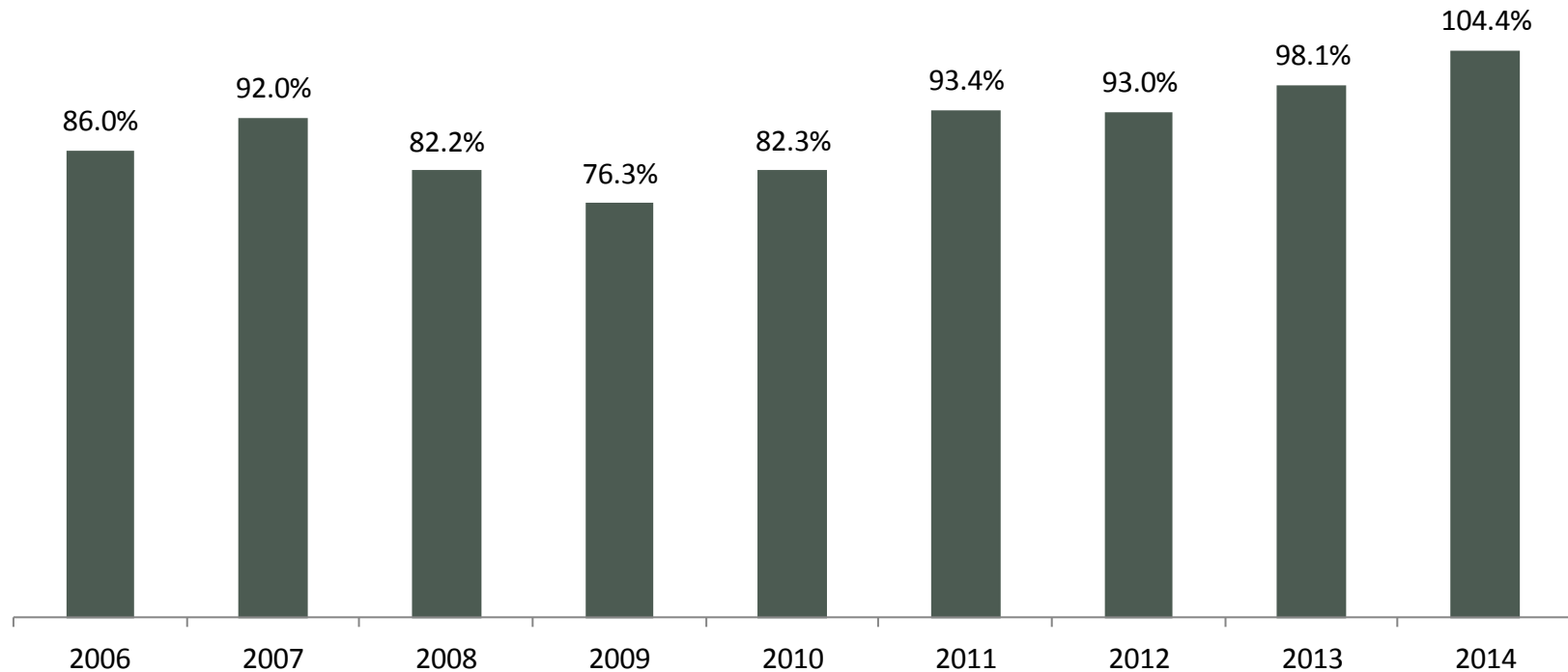
Manager	Mandate	Expense Ratio	Category Average	Difference	Estimated Annual Savings
Domestic Equity					
Fiduciary Management	Large Cap Equity	0.55%	1.21%	0.66%	\$94,606
Stacey Braun	Large Cap Equity	0.45%	1.21%	0.76%	\$101,599
Stephens	Mid Cap Growth Equity	0.75%	1.35%	0.60%	\$126,180
Barrow Hanley	Small Cap Value Equity	0.79%	1.40%	0.61%	\$103,069
International Equity					
Causeway	International Value Equity	0.99%	1.37%	0.38%	\$73,570
Fixed Income					
Mackay Shields	Fixed Income	0.35%	0.89%	0.54%	\$150,916
Smith Graham	Fixed Income	0.30%	0.89%	0.59%	\$146,780
Loomis Sayles	High Yield Fixed Income	0.68%	1.13%	0.45%	\$37,745
MLP					
Advisory Research	Master Limited Partnership	0.75%	1.00%	0.25%	\$22,275
Real Estate					
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%	\$65,963
Total Plan		0.60%	1.16%	0.56%	\$922,703

Source: Morningstar and Investment Managers

RETIREMENT PROGRAM – ASSET ALLOCATION ANALYSIS

Manager	Actual Portfolio	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	16.7%	15.0%	1.7%	10.0%	20.0%
Mid Cap Domestic Equity	12.6%	12.5%	0.1%	7.5%	17.5%
Small Cap Domestic Equity	10.3%	10.0%	0.3%	5.0%	15.0%
International Equity	11.7%	12.5%	-0.8%	7.5%	17.5%
Core Fixed Income	31.9%	35.0%	-3.1%	30.0%	40.0%
High Yield Fixed Income	5.1%	5.0%	0.1%	0.0%	10.0%
Real Estate	6.2%	5.0%	1.2%	0.0%	10.0%
Master Limited Partnerships	5.4%	5.0%	0.4%	0.0%	10.0%
Cash	0.2%	0.0%	0.2%	-	-
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, 2014. 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%.