

Port of Houston Authority Pension Plan

First Quarter 2015 Report



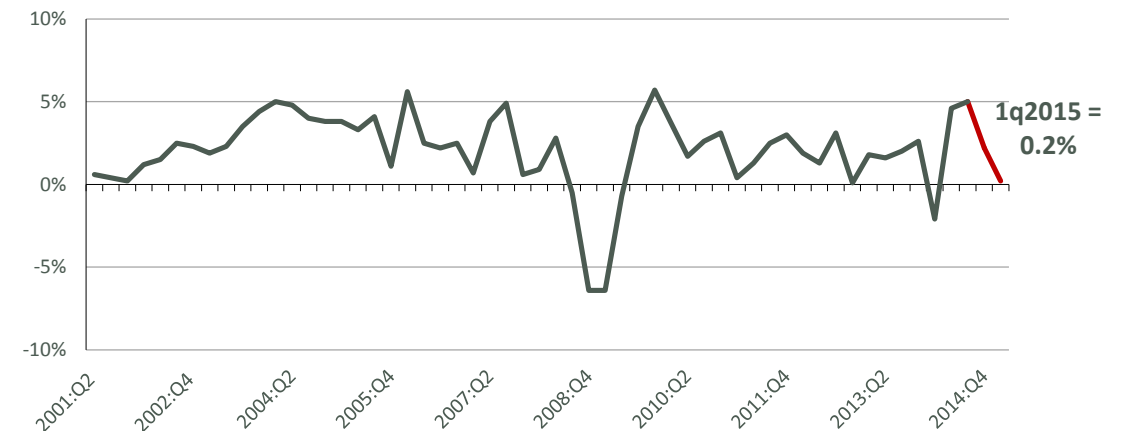
Market Environment – First Quarter, 2015

- The first quarter of 2015 displayed growing discrepancies among the world's economies. Asset prices performed generally well during the January to March period. World equity markets were led higher by European and Japanese shares. U.S. equities posted modest gains as evidence of a slowdown accumulated. **Oil prices remained relatively stable. While the dramatic drop in oil prices has hurt producers,** lower energy prices are a net positive for consumer driven economic growth.
- Domestic real GDP has reversed course over recent quarters. 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%. And a difficult winter is being blamed for the first quarter 2015 slowdown. **First quarter real GDP growth was just 0.2%**, even including a massive inventory buildup.
- Domestic equities were led by Healthcare. European stocks posted strong returns despite continuing problems in Greece and Ukraine. The European Central Bank announced large scale quantitative easing during the quarter. Bond yields in Europe remain at their all time lows. The US Dollar was strong versus the Euro during the quarter.
- The U.S. **unemployment rate improved modestly to 5.5%** from 5.6% during the quarter. Labor force participation was unchanged at 62.7%. Employment data remains mixed. Wage growth was unable to generate meaningful gains. Job losses were focused in the energy sector as lower oil prices reduced production.
- The **U.S. consumer price index rose 0.9%** over the year ended March 31, 2015. Interest rates remained extremely low even despite the end of the Federal Reserve's quantitative easing.
- International markets generated positive returns for U.S. based investors. The **US dollar remained strong during the quarter but was outweighed by asset price performance.** European markets were buoyed by the announcement of QE. Japanese stocks performed well despite economic weakness. Central bank policies are diverging as the US is attempting to normalize policy while the EU, Japan and China remain highly stimulative.
- **U.S. Short term interest rates remain pegged at 0.0%.** Highly scrutinized comments from the Federal Reserve suggest that they will remain low for a considerable period. U.S. Treasury bond interest rates are comparatively higher than other major market interest rates. Wide swathes of the European bond market display negative yields.

Labor Force Participation Rate



US Real GDP Growth - Annualized



Equity Markets – First Quarter, 2015

- U.S. equity market investors experienced elevated volatility and modest returns. Foreign markets were mostly positive in U.S. Dollar terms. The biggest story during the quarter was the launch of Europe’s Quantitative Easing program. **Small caps posted the quarter’s best returns, followed closely by mid caps. Large cap returns were positive but quite modest.** Broad market trailing year returns remained high (+12.7%).
- Health Care (+7.4%), Consumer Discretionary (+4.6%) and Information Technology (+1.4%) were the best performing sectors by contribution. Utilities were the poorest performing sector falling -2.3%. Energy (-2.3%) and Financials (-0.9%) were the only other sectors to suffer first quarter losses.
- The domestic equity market’s top contributing performers were **Apple (+13.2% return), Pfizer (+12.7%), and Anthem (+23.4%)**. The three largest detractors to the first quarter return Microsoft (-11.9%), ExxonMobil (-7.4%), and Bank of America (-13.7%).
- **Valuations are above average.** Based on historical measures, growth stocks much more reasonably valued than value stocks. The broad market forward P/E ratio was 16.9x at year end vs. 15.7x 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 56% higher than its previous high (October 2007) and 248% above the low set in March of 2009.
- Many foreign equity markets posted small gains in local currencies but were losses when translated into US Dollars. During the quarter, the **All Country World index posted a US Dollar return of 2.4% but was 7.6% higher in British Pounds and 15.4% higher in Euros. Emerging market returns stabilized.**
- The top performing sectors in the MSCI ACWI ex-US index were Health Care (+10.6%), Information Technology (+7.7%), and Consumer Discretionary (-7.1%). The three largest detractors were Energy (-4.0%), Utilities (-4.5%), and Materials (0.1%).
- Top performance contributors to the ACWI were **Tencent Holdings (+30.9% return), Novo Nordisk (+28.3%), and Novartis (+9.4%)**. Top detractors were HSBC (-8.1%), Royal Bank of Canada (-12.2%), and Royal Dutch Shell (-9.9%).
- Developed and emerging non-US equity valuations remain above average. The **forward P/E ratio for the MSCI World ex-US index ended the quarter at 16.0x vs. 13.1x** for its ten year average. Emerging markets valuations are were closer to average: the MSCI EM index forward P/E ratio was 11.9x vs. 11.2x for its ten year average.

Current P/E Ratio as Percentage of Long Term Average

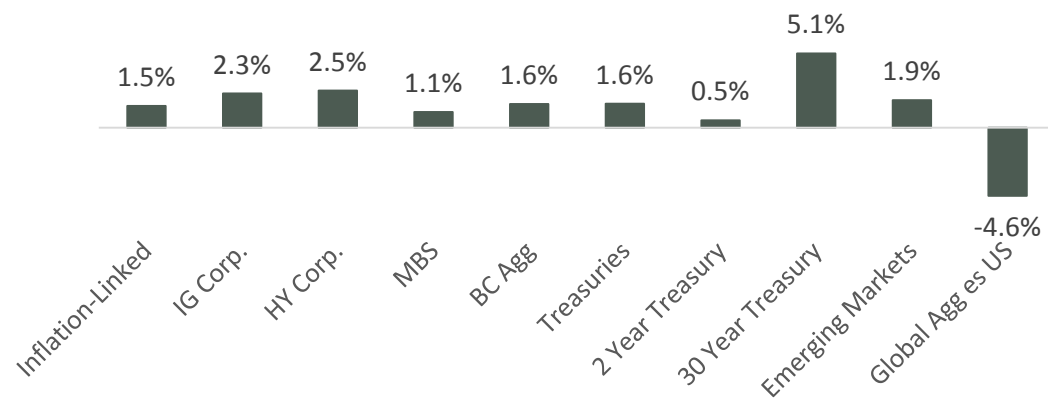
	Value	Blend	Growth
Large	116.4%	104.3%	91.7%
Mid	124.4%	118.1%	98.5%
Small	114.3%	107.1%	97.4%

S&P 500 Sector Analytics	Ending Weight	1q 2015 Return	Beta to S&P 500	Forward P/E Ratio
Consumer Discretionary	12.1%	4.8%	1.13	19.0x
Consumer Staples	9.8%	1.0%	0.58	19.6x
Energy	8.4%	-2.9%	0.99	26.7x
Financials	16.6%	-2.1%	1.44	13.2x
Health Care	14.2%	6.5%	0.69	17.7x
Industrials	10.4%	-0.9%	1.20	15.4x
Information Technology	19.7%	0.6%	1.11	15.7x
Materials	3.2%	1.0%	1.27	16.9x
Telecommunications	2.3%	1.5%	0.63	13.6x
Utilities	3.2%	-5.2%	0.47	16.5x
Total	100.0%	1.0%	1.00	16.9x

Fixed Income – First Quarter, 2015

- Bond markets were active during the first quarter as investors balanced slowing international economic growth, heightened risk awareness and potentially divergent central bank policies. **The U.S. Treasury yield curve flattened** and moved lower during the first quarter as short term interest rates remained anchored at 0% while long term interest rates declined. While long term Treasury yields ended the quarter slightly off their lows, it is hard to see them rising significantly due to the levels of other sovereign debt. **More than twenty central banks cut interest rates during the first quarter.**
- The **U.S. dollar remained strong during the first quarter**, which had a negative effect on foreign asset returns. The Global ex. U.S. Aggregate bond index fell -4.6% during the quarter. Emerging Market debt posted a gain of 1.9% during the quarter.
- Spreads were mixed during the first quarter.** High yield bond defaults remain significantly below their long term average, despite the expectation that falling oil prices would trigger a wave of 2015 defaults. The average high yield bond spread is 5.5% vs. long term average of 5.9%. The only bond market sector to decline during the quarter were foreign bonds which declined sharply because of the strong U.S. Dollar.

Barclays Index Returns – 1q2015



Risk Level	Interest Rate Forecast	Time Horizon			
		1 Year		3 Years	
		Terminal Yield	Total Return	Terminal Yield	Total Return
Low Risk	Pessimistic	2.50%	-3.2%	4.00%	-1.6%
2 Year Treasury	Most Likely	1.25%	-0.8%	3.00%	-1.0%
Present YTM: 0.56%	Optimistic	0.50%	0.7%	2.00%	-0.4%
Medium Risk	Pessimistic	4.00%	-15.1%	5.50%	-7.7%
10 Year Treasury	Most Likely	3.00%	-7.3%	4.50%	-5.2%
Present YTM: 1.92%	Optimistic	2.00%	1.2%	3.50%	-2.5%
High Risk	Pessimistic	4.75%	-32.6%	6.00%	-15.7%
30 Year Treasury	Most Likely	3.50%	-15.2%	5.00%	-11.3%
Present YTM: 2.54%	Optimistic	2.25%	8.9%	4.00%	-6.2%

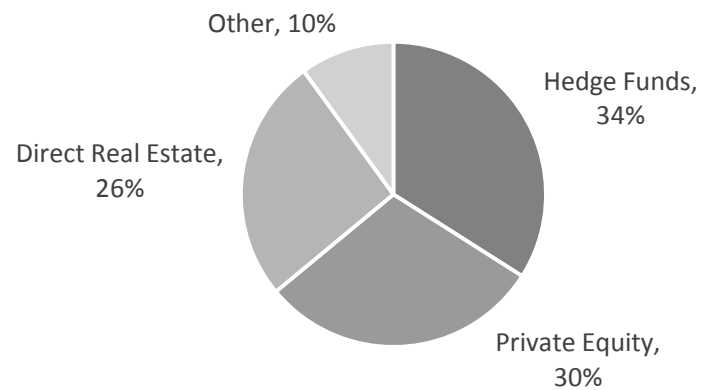
Yield Curve and Spreads	12/31/2014	3/31/2015
3 Month T-Bill	0.04%	0.02%
2 Year Treasury	0.67%	0.56%
10 Year Treasury	2.17%	1.92%
30 Year Treasury	2.75%	2.54%
10 Year – 2 Year Spread	1.50%	1.36%
30 Year – 2 Year Spread	2.08%	1.98%

Alternative Investments – First Quarter, 2015

- **Inflows to alternative investments remained steady.** Institutions remain interested in non-traditional assets.
- **Hedge funds again posted modest returns during the quarter and full year.** The HFRI weighted composite index gained 3.6% for the full trailing year. The S&P 500 was up 12.7% over the same time frame.
- Domestic real estate investments continue to perform quite well. The resilience of the **US economy and the strength on the Dollar are attracting significant interest from property investors.** Low-risk core real estate income returns remain attractive. Prime property markets remain competitive.
- **Private equity returns have been strong.** The asset class posted high teen gains for periods ended 9/30/2014 and indications remain positive for returns moving forward.
- **Master Limited Partnerships (energy infrastructure/transport entities) stabilized during the quarter.** Prices have not fully recovered, but it appears that necessary business model adjustments are underway inside the sector.

Hedge Funds (a/o 2/28/15)	1 Year	3 Year	5 Year
HFRI Weighted Composite	3.6%	5.1%	5.0%
Equity Market Neutral	2.9%	3.8%	2.7%
Credit Arbitrage	1.6%	6.0%	6.8%
Multi-Strategy	5.1%	7.3%	5.9%
Event Driven	0.8%	6.4%	6.0%
Merger Arbitrage	2.6%	3.2%	3.2%
Macro	7.9%	1.9%	2.6%
Relative Value	3.7%	6.5%	6.4%
Private Equity (a/o 9/30/14)	1 Year	3 Year	5 Year
Private Equity	18.1%	17.0%	16.8%
Venture Capital	24.5%	15.2%	14.9%

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



Domestic Equity	Last Quarter	Last Year	Last Three Years Annualized	Last Five Years Annualized	Last Ten Years Annualized
S&P 500	1.0	12.7	16.1	14.5	8.0
Russell 1000	1.6	12.7	16.5	14.7	8.3
Russell 1000 Value	-0.7	9.3	16.4	13.8	7.2
Russell 1000 Growth	3.8	16.1	16.3	15.6	9.4
Russell 3000	1.8	12.4	16.4	14.7	8.4
Russell Midcap	4.0	13.7	18.1	16.2	10.0
Russell Midcap Value	2.4	11.7	18.6	15.8	9.6
Russell Midcap Growth	5.4	15.6	17.4	16.4	10.2
Russell 2000	4.3	8.2	16.3	14.6	8.8
Russell 2000 Value	2.0	4.4	14.8	12.5	7.5
Russell 2000 Growth	6.6	12.1	17.7	16.6	10.0
Alerian MLP	-5.2	-2.5	9.2	13.7	13.0
Fixed Income					
Barclays Capital Aggregate Bond	1.6	5.7	3.1	4.4	4.9
Barclays Capital Credit	2.2	6.7	4.9	6.2	5.8
Barclays Capital Government	1.6	5.2	2.3	3.8	4.5
Barclays Capital Govt/Credit	1.8	5.9	3.4	4.8	5.0
Barclays Capital Interm Credit	1.8	4.3	3.7	4.9	5.2
Barclays Capital Interm Govt	1.3	3.2	1.5	2.8	4.0
Barclays Capital Interm Govt/Cred	1.5	3.6	2.3	3.5	4.3
Barclays Capital Long Credit	3.1	12.8	7.8	9.9	7.5
Barclays Capital Long Term Govt	4.0	21.4	7.7	10.6	7.9
Barclays Capital Long Govt/Credit	3.4	15.7	7.7	10.2	7.7
Barclays Capital Fixed Rate MBS	1.1	5.6	2.6	3.7	4.9
Merrill Lynch US High Yield Master II	2.5	2.1	7.5	8.4	8.0
91 Day T-Bill	0.0	0.0	0.1	0.1	1.4
International					
MSCI EAFE	4.9	-0.9	9.0	6.2	5.0
MSCI World ex US	3.8	-1.4	8.2	5.7	5.0
MSCI Europe	3.4	-5.7	8.4	5.8	4.7
MSCI Japan	10.2	12.1	9.4	5.9	3.5
MSCI Pacific ex Japan	3.1	-0.3	6.6	5.9	8.7
MSCI Emerging Markets	2.2	0.4	0.3	1.8	8.5
Citigroup Non-\$ World Gov	2.3	9.6	5.8	4.8	4.8

Portfolio Trailing Year Performance

+7.98%

Retirement Program Plan Summary

As of March 31, 2015

	Last Quarter	% Rank	Last Year	% Rank	Three Years	% Rank	Five Years	% Rank	Since Inception ¹	Allocation % of Total	Inception Date
MacKay Shields	1.89%		-		-		-		3.66%	\$28,446,839	4/15/2014
<i>Barclays Capital Aggregate</i>	1.61%		5.72%		3.10%		4.41%		3.60%	16.8%	
Smith Graham	1.94%		5.49%		3.29%		5.04%		4.76%	\$24,097,794	8/15/2002
<i>Barclays Capital Aggregate</i>	1.61%		5.72%		3.10%		4.41%		4.70%	14.2%	
Loomis Sayles High Income	0.98%		2.07%		10.64%		-		12.61%	\$8,455,916	11/4/2011
<i>ML High Yield</i>	2.54%		2.05%		7.47%		8.40%		8.54%	5.0%	
Advisory Research MLP	-0.84%		6.29%		14.27%		-		14.26%	\$8,833,922	5/3/2011
<i>Alerian MLP</i>	-5.23%		-2.50%		9.20%		13.67%		10.16%	5.2%	
Fiduciary Management	1.97%		12.66%		16.90%		13.81%		9.99%	\$14,594,267	10/13/2005
<i>Russell 1000 Value</i>	-0.72%		9.33%		16.44%		13.75%		7.04%	8.6%	
<i>S&P 500</i>	0.95%		12.73%		16.11%		14.47%		7.87%		
Stacey Braun	5.22%		15.09%		15.87%		15.52%		10.72%	\$14,050,101	4/15/2008
<i>Russell 1000 Growth</i>	3.84%		16.09%		16.34%		15.63%		10.89%	8.3%	
<i>S&P 500</i>	0.95%		12.73%		16.11%		14.47%		9.74%		
Stephens	4.67%		8.49%		-		-		19.33%	\$21,884,295	12/28/2012
<i>Russell Midcap Growth</i>	5.38%		15.56%		17.41%		16.43%		23.25%	12.9%	
Barrow Hanley Small Cap	5.43%		8.18%		18.31%		16.35%		12.54%	\$17,894,484	12/1/2004
<i>Russell 2000 Value</i>	1.98%		4.43%		14.79%		12.54%		6.92%	10.6%	
Causeway	4.58%		-1.22%		-		-		5.66%	\$20,195,313	9/16/2013
<i>MSCI EAFE</i>	4.88%		-0.92%		9.02%		6.16%		3.59%	11.9%	
Cohen & Steers Real Estate	4.80%		25.72%		14.96%		-		16.47%	\$10,780,735	11/2/2011
<i>FTSE NAREIT All REITS</i>	3.98%		22.68%		14.05%		15.60%		16.42%	6.4%	
Cash										\$521,478	-
											0.3%
Total Plan - Gross of Fees	3.13%		7.98%		10.58%		10.14%		8.07%	\$169,334,263	8/1/2002
Total Plan - Net of Fees	2.98%		7.32%		9.95%		9.48%		7.35%		
<i>Benchmark</i>	2.31%		7.54%		10.14%		9.71%		8.10%		
<i>Actuarial Assumption</i>	1.71%		7.00%		7.12%		7.19%		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.

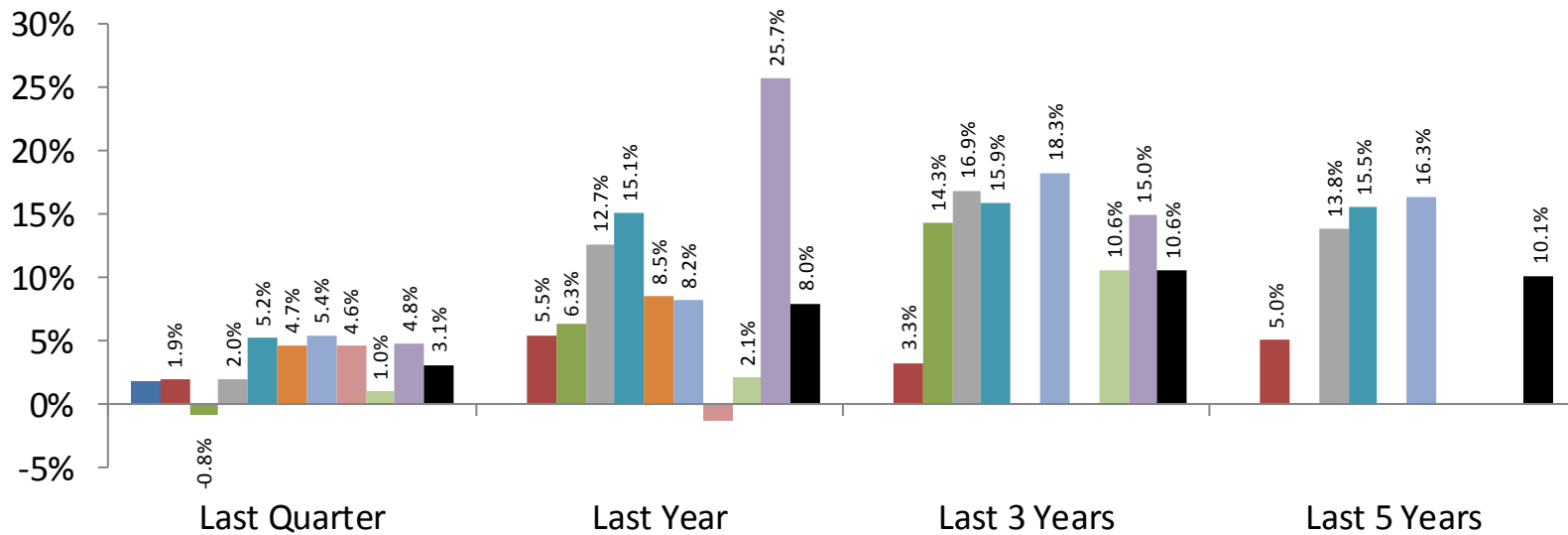
¹Since inception performance calculated using the first whole quarter as the inception date.



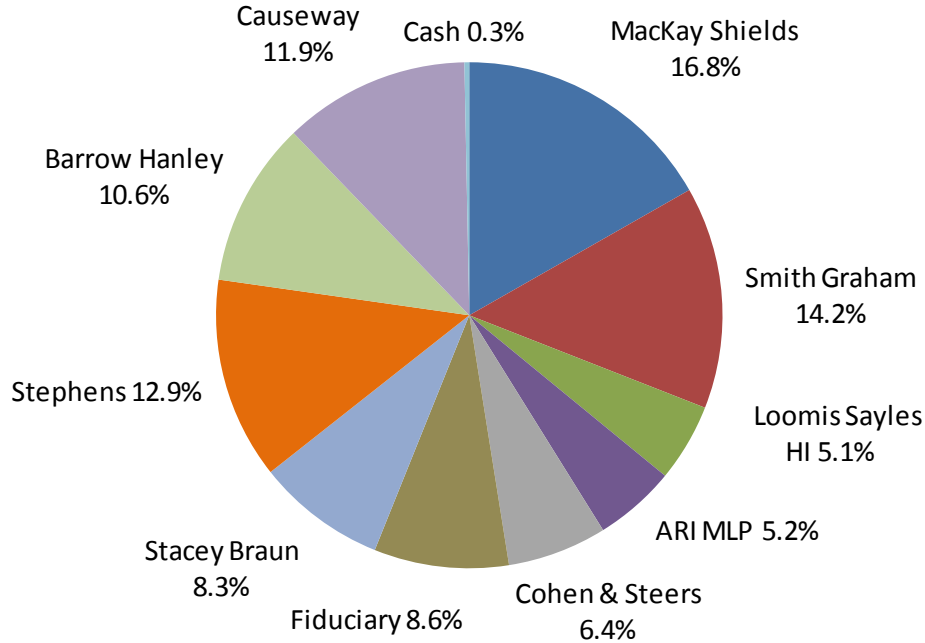
Performance Summary

Periods ended March 31, 2015

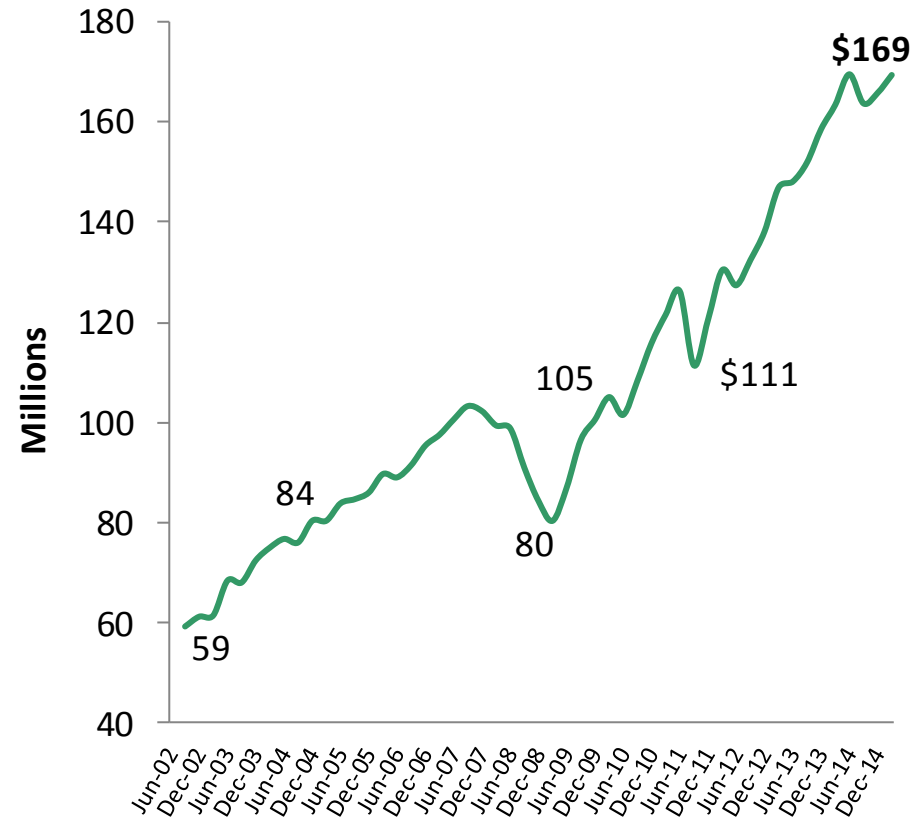
- MacKay Shields FI
- Smith Graham FI
- ARI MLP
- Fiduciary
- Stacey Braun
- Stephens
- Barrow Hanley
- Causeway
- Loomis Sayles HY
- Cohen & Steers
- Composite



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

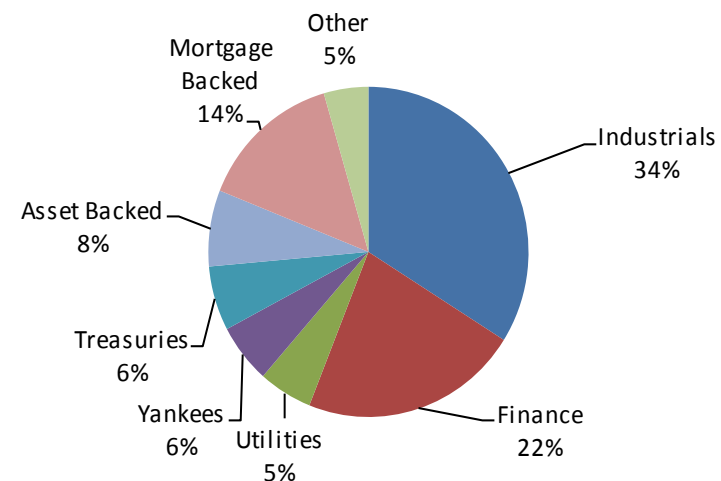
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
MacKay Shields	1.89%	-	-	-
Barclays Capital Aggregate Bond	1.61%	5.72%	3.10%	4.41%

Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.3	5.5
Maturity	11.6	7.7
Trailing 12 Month Yield	3.1	3.0
Yield to Maturity	3.1	2.4
Average Credit Quality	A-	AA
Average Number of Issues	127	3613
Expense Ratio	0.35%	-

Holding Summary

Market Value	\$28,446,839
Percentage of Plan	16.80%



*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	1.61%	5.72%	3.10%	4.41%

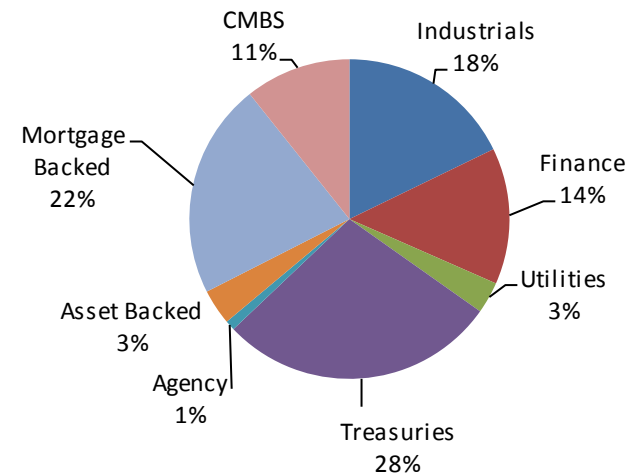
Key Characteristics

	Portfolio	BC Agg
Effective Duration	5.5	5.5
Maturity	7.5	7.7
Trailing 12 Month Yield	2.2	3.0
Yield to Maturity	2.1	2.4
Average Credit Quality	AA	AA
Average Number of Issues	110	3613
Expense Ratio	0.30%	-

Holding Summary

Market Value	\$24,097,794
Percentage of Plan	14.23%

*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

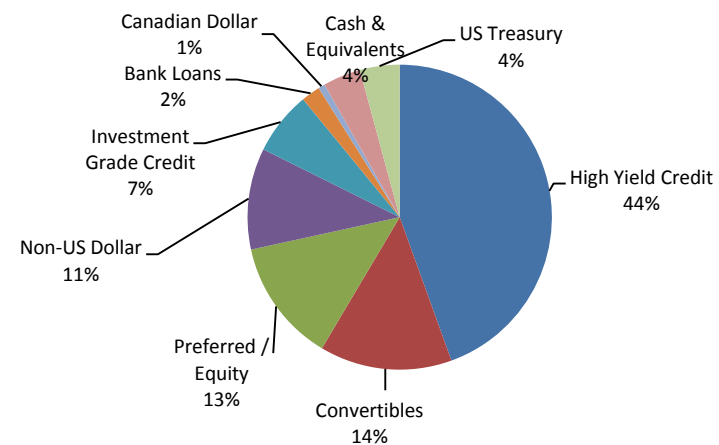
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Loomis Sayles	0.98%	2.07%	10.64%	-
Merill Lynch High Yield Master II	2.54%	2.05%	7.47%	8.40%

Key Characteristics

	Portfolio	ML HY II
Effective Duration	5.2	4.2
Maturity	8.0	6.4
Trailing 12 Month Yield	5.6	-
Average Credit Quality	B	B
Number of Issues	361	-
Expense Ratio	0.68%	-

Holding Summary

Market Value	\$8,455,916
Percentage of Plan	4.99%



Advisory Research (ARI)

MLP

The ARI Master Limited Partnerships (MLPs) strategy is a diversified portfolio consisting primarily of publicly traded partnerships focused in the natural resources and energy infrastructure industries. The objective is to provide high levels of total returns and a growing cash yield. It offers low correlation to the broader equity market over the long-term. The three largest holdings as of March 31, 2015 were **Enterprise Products Partners** (8.6% of the total fund), **Energy Transfer Equity** (8.5%), and **The Williams Companies** (8.4%). The fund has had a cumulative return of **64.86%** since inception.

Performance

	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Advisory Research (ARI)	-0.84%	6.29%	6.29%	-
Alerian MLP	-5.23%	-2.50%	9.20%	13.67%

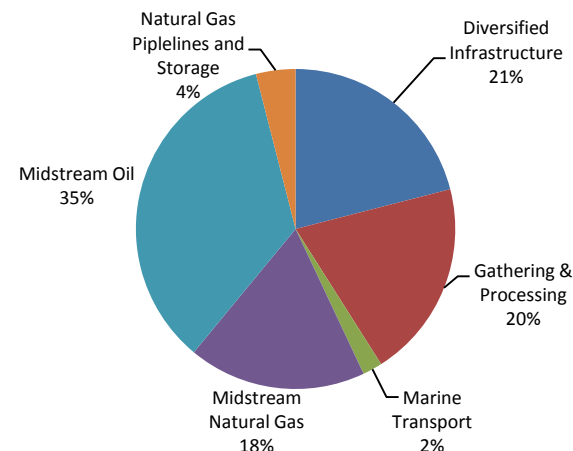
Key Characteristics

	Portfolio	Alerian MLP
P/E Ratio	23.7	23.9
P/B Ratio	9.4	2.3
Beta - 5 Year	0.94	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. \$MM	9094	12638
Total Number of Holdings	31	50
Prospective Dividend Yield	4.9%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$8,833,922
Percentage of Plan	5.22%

*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 **UnitedHealth Group Inc** (6.1% of the total fund), **Potash** (5.6%), and **Accenture PLC** (5.5%).

Performance

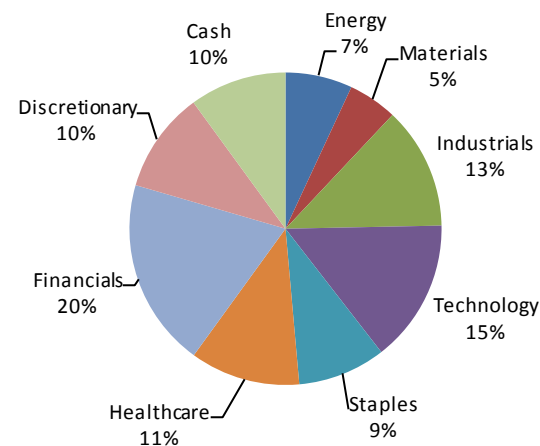
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Fiduciary Management	1.97%	12.66%	16.90%	13.81%
Russell 1000 Value	-0.72%	9.33%	16.44%	13.75%
S&P 500 Index	0.95%	12.73%	16.11%	14.47%

Key Characteristics

	Portfolio	R 1000 V
P/E Ratio	17.0	17.5
P/B Ratio	4.2	1.9
Beta - 5 Year	0.87	1.00
R2 - 5 Year	0.97	100
Wt. Avg Market Cap. \$MM	78690	52495
Total Number of Holdings	24	700
Prospective Dividend Yield	1.7%	-
Expense Ratio	0.55%	-

Holding Summary

Market Value	\$14,594,267
Percentage of Plan	8.62%



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 March 31, 2015 were **Apple** (4.4% of the total fund), **Exxon Mobil** (1.9%) and **Walt Disney** (1.4%).

Performance

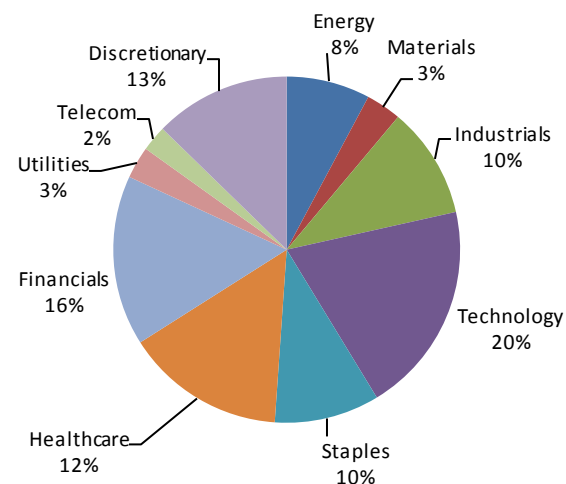
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stacey Braun	5.22%	15.09%	15.87%	15.52%
Russell 1000 Growth	3.84%	16.09%	16.34%	15.63%
S&P 500 Index	0.95%	12.73%	16.11%	14.47%

Key Characteristics

	Portfolio	R 1000 G
P/E Ratio	21.3	22.1
P/B Ratio	2.9	5.4
Sharpe Ratio - 3 Year	1.5	1.6
Sharpe Ratio - 5 Year	1.19	-
Beta - 5 Year	1.00	1.00
R2 - 5 Year	96	100
Wt. Avg Market Cap. \$MM	106600	57680
Earnings Growth - 5 Year	6.2%	-
Total Number of Holdings	98	681
Prospective Dividend Yield	1.5%	-
Expense Ratio	0.45%	-

Holding Summary

Market Value	\$14,050,101
Percentage of Plan	8.30%



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 **Monster Beverage** (2.1% of the total fund), **Ilumina** (2.0%), and **Fortinet** (1.97%). **The fund was placed On Alert during the fourth quarter of 2014 due to performance.** Recent performance has struggled due to Stephens' preference for companies with strong balance sheets and positive earnings.

Performance

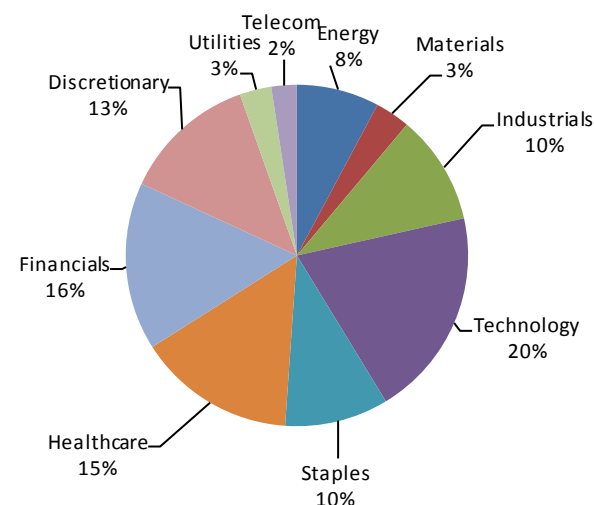
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Stephens	4.67%	8.49%	-	-
Russell Mid Cap Growth	5.38%	15.56%	17.41%	16.43%

Key Characteristics

	Portfolio	R MCG
P/E Ratio	24.7	24.1
P/B Ratio	4.9	5.0
Beta - 5 Year	0.93	1.00
R2 - 5 Year	93	100
Wt. Avg Market Cap. \$MM	10381	12342
Earnings Growth - 5 Year	19.3%	-
Total Number of Holdings	101	551
Prospective Dividend Yield	39.0%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$21,884,295
Percentage of Plan	12.92%



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** (4.6% of the total fund), **Trex** (4.3%), and **Whirlpool** (4.1%).

Performance

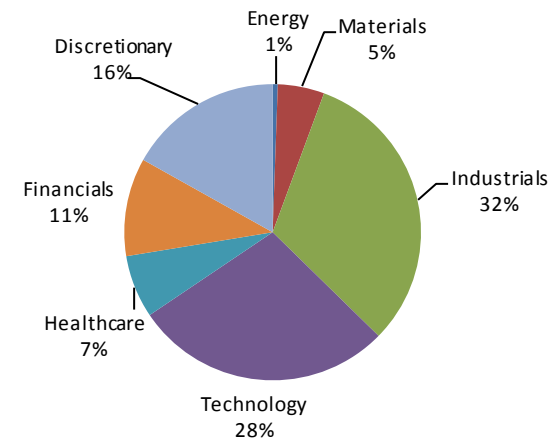
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Barrow Hanley MeWhinney & Strauss	5.43%	8.18%	18.31%	16.35%
Russell 2000 Value	1.98%	4.43%	14.79%	12.54%

Key Characteristics

	Portfolio	R 2000 V
P/E Ratio	18.2	18.5
P/B Ratio	2.2	1.5
Beta - 5 Year	1.51	1.00
R2 - 5 Year	0.97	100
Wt. Avg Market Cap. \$MM	2760	1391
Earnings Growth - 5 Year	10.8%	-
Total Number of Holdings	40	1362
Prospective Dividend Yield	1.0%	-
Expense Ratio	0.78%	-

Holding Summary

Market Value	\$17,894,484
Percentage of Plan	10.57%



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 March 31, 2015 were to the **United Kingdom** (23.4% of the fund), **Japan** (15.8%), and **France** (13.8%). The three largest holdings as of March 31, 2015 were **Akzo Nobel** (3.4% of the total fund, Netherlands), **KDDI** (3.1%, Japan), and **Reed Elsevier** (3.0%, Netherlands). This fund replaced Eagle Global during the third quarter of 2013. Since funding, the portfolio has returned 5.66% versus 3.59% for the index.

Performance

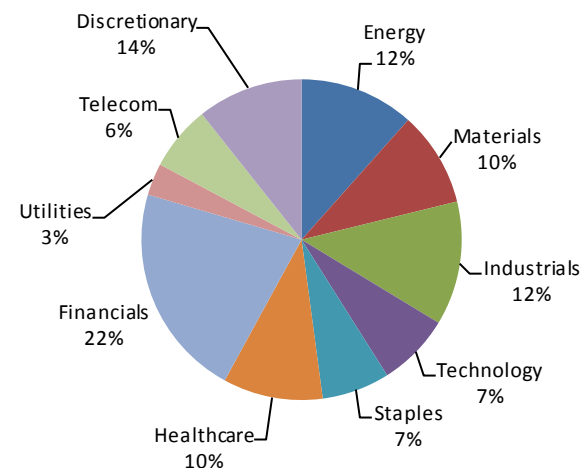
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Causeway	4.58%	-1.22%	-	-
MSCI EAFE	4.88%	-0.92%	9.02%	6.16%

Key Characteristics

	Portfolio	MSCI EAFE
P/E Ratio	16.7	17.7
P/B Ratio	1.9	1.7
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	51051	36210
Total Number of Holdings	51	909
Prospective Dividend Yield	2.6%	-
Expense Ratio	0.99%	-

Holding Summary

Market Value	\$20,195,313
Percentage of Plan	11.93%



Cohen & Steers

Real Estate & Investment Trusts

The investment objective of the Fund is total return through investment in real estate securities. In pursuing total return, the Fund seeks both capital appreciation and current income with approximately equal emphasis. Under normal market conditions, the Fund invests at least 80%, and normally substantially all, of its total assets in common stocks and other equity securities issued by real estate companies. The Fund may invest up to 20% of its total assets in securities of foreign issuers which meet the same criteria for investment as domestic companies. The three largest holdings as of March 31, 2015 were **Simon Property Group** (9.9%, of the total fund), **Equity Residential** (7.2%) and **Health Care REIT** (7.0%).

Performance

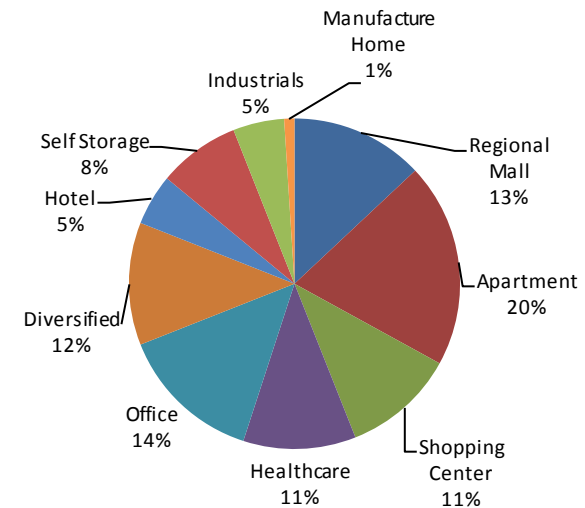
	Last Quarter	Last 12 Months	Last 3 Years	Last 5 Years
Cohen & Steers	4.80%	25.72%	14.96%	-
FTSE NAREIT All REITS	3.98%	22.68%	14.05%	15.60%

Key Characteristics

	Portfolio	FTSE NAREIT
P/E Ratio	43.8	34.8
P/B Ratio	2.5	2.7
Sharpe Ratio - 3 Year	1.2	1.1
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	10839
Total Number of Holdings	51	161
Prospective Dividend Yield	3.0%	-
Expense Ratio	0.75%	-

Holding Summary

Market Value	\$10,780,735
Percentage of Plan	6.37%



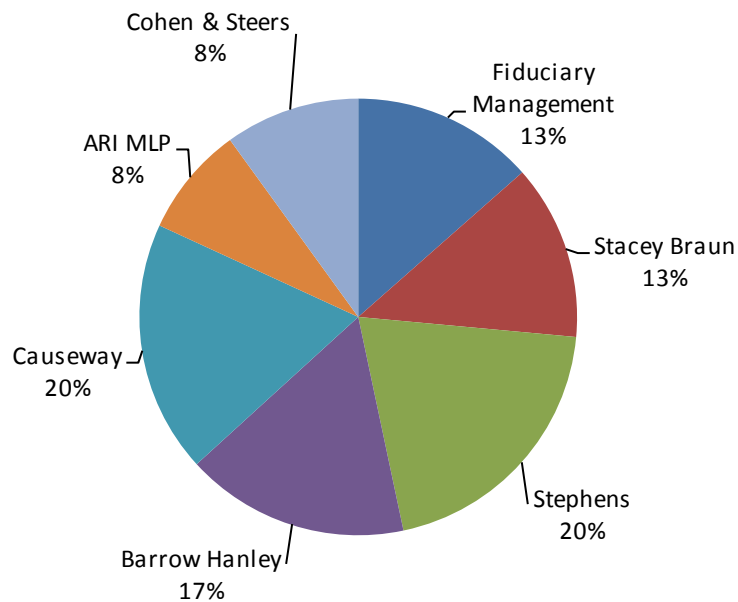
TOTAL EQUITY SNAPSHOT
AS OF MARCH 31, 2015

Portfolio Statistics

	Portfolio	S&P 500
P/E Ratio	22.5	19.5
P/B Ratio	3.7	2.8
Beta - 5yr.	1.04	1.00
R2 - 5yr.	55	100

Holding Summary

Total Market Value	\$108,233,116
Percentage of Total Portfolio	63.9%



*Statistics calculated using weighted average of current fund lineup.

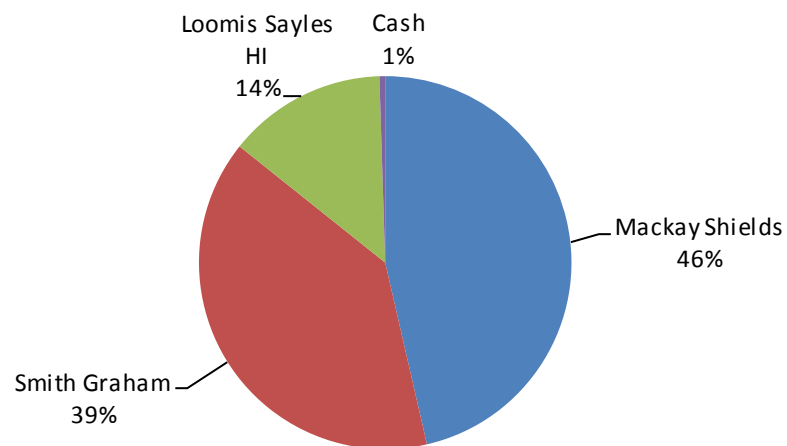
TOTAL FIXED INCOME SNAPSHOT AS OF MARCH 31, 2015

Portfolio Statistics

	Portfolio	BC Agg
Total # of Issues	598	3613
Average Credit Quality	AA	AA
Average YTM	2.9	2.4
Average Modified Duration	5.4	5.5
Time to Maturity	9.5	7.7
Average Coupon	3.1	3.0

Holding Summary

Total Market Value	\$61,306,014
Percentage of Total Trust	36.2%



*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

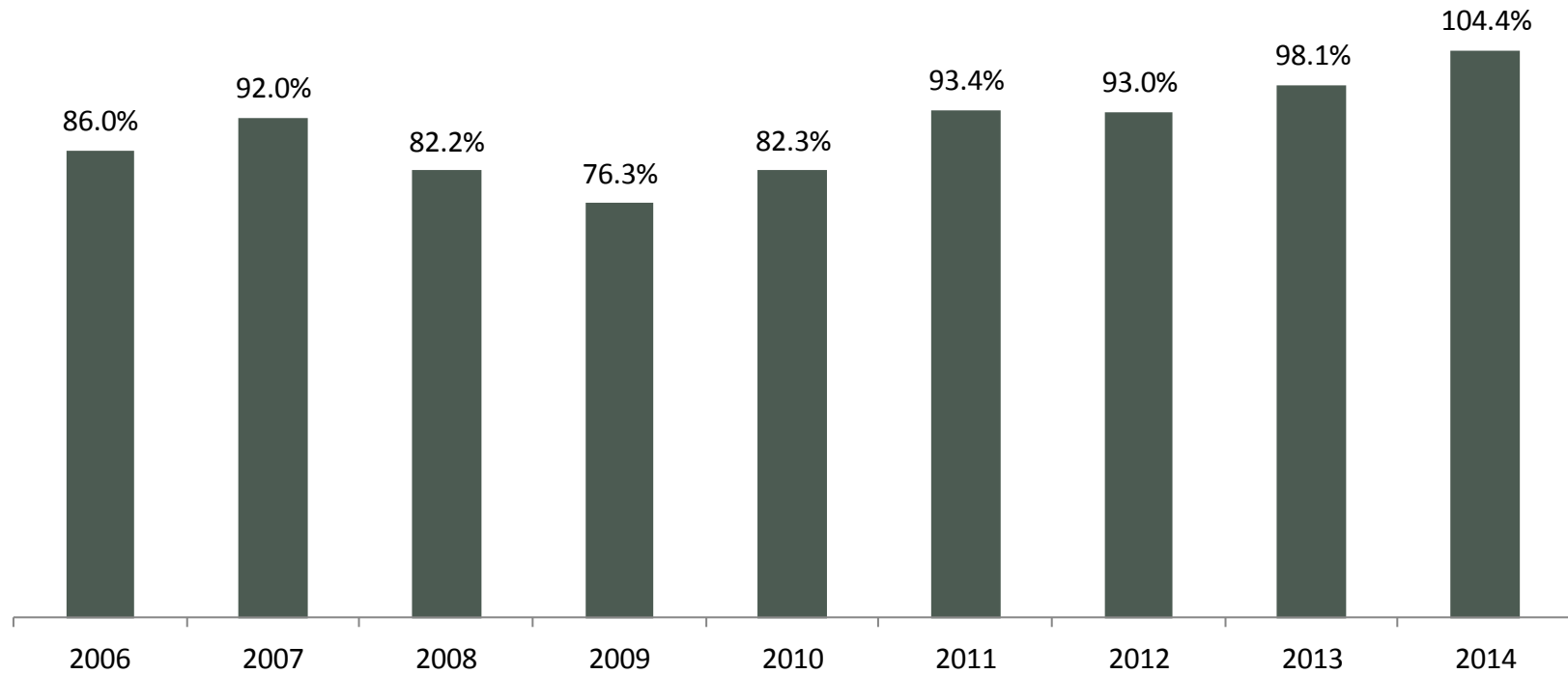
Manager	Mandate	Expense Ratio	Category Average	Difference	Estimated Annual Savings
Domestic Equity					
Fiduciary Management	Large Cap Equity	0.55%	1.21%	0.66%	\$96,322
Stacey Braun	Large Cap Equity	0.45%	1.21%	0.76%	\$106,781
Stephens	Mid Cap Growth Equity	0.75%	1.35%	0.60%	\$132,248
Barrow Hanley	Small Cap Value Equity	0.78%	1.40%	0.62%	\$111,050
International Equity					
Causeway	International Value Equity	0.99%	1.37%	0.38%	\$76,742
Fixed Income					
Mackay Shields	Fixed Income	0.35%	0.89%	0.54%	\$153,613
Smith Graham	Fixed Income	0.30%	0.89%	0.59%	\$142,177
Loomis Sayles	High Yield Fixed Income	0.68%	1.13%	0.45%	\$38,052
MLP					
Advisory Research	Master Limited Partnership	0.75%	1.00%	0.25%	\$22,085
Real Estate					
Cohen & Steers	Real Estate	0.75%	1.39%	0.64%	\$68,997
Total Plan		0.60%	1.16%	0.56%	\$948,066

Source: Morningstar and Investment Managers

RETIREMENT PROGRAM – ASSET ALLOCATION ANALYSIS

Manager	Actual Portfolio	Investment Policy Target	Difference	Minimum	Maximum
Large Cap Domestic Equity	16.9%	15.0%	1.9%	10.0%	20.0%
Mid Cap Domestic Equity	12.9%	12.5%	0.4%	7.5%	17.5%
Small Cap Domestic Equity	10.6%	10.0%	0.6%	5.0%	15.0%
International Equity	11.9%	12.5%	-0.6%	7.5%	17.5%
Core Fixed Income	31.0%	35.0%	-4.0%	30.0%	40.0%
High Yield Fixed Income	5.0%	5.0%	0.0%	0.0%	10.0%
Real Estate	6.4%	5.0%	1.4%	0.0%	10.0%
Master Limited Partnerships	5.2%	5.0%	0.2%	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%.