



May 15, 2014

**City of Fort Pierce**

First Quarter Performance  
Review

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# First Quarter Market Environment

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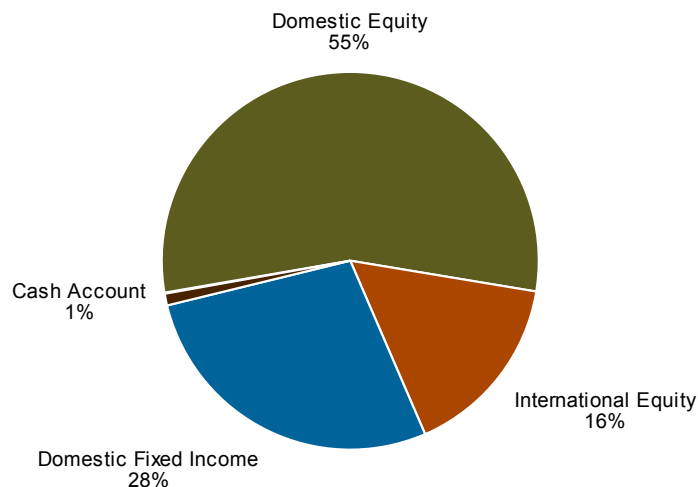
## U.S. Economy

*Economic data were weaker than expected in January and February with an especially cold and snowy winter largely to blame. Devaluations in several emerging markets currencies, concerns over a slowdown in China, and the unfolding crisis in Ukraine also weighed on investor sentiment throughout much of the quarter.*

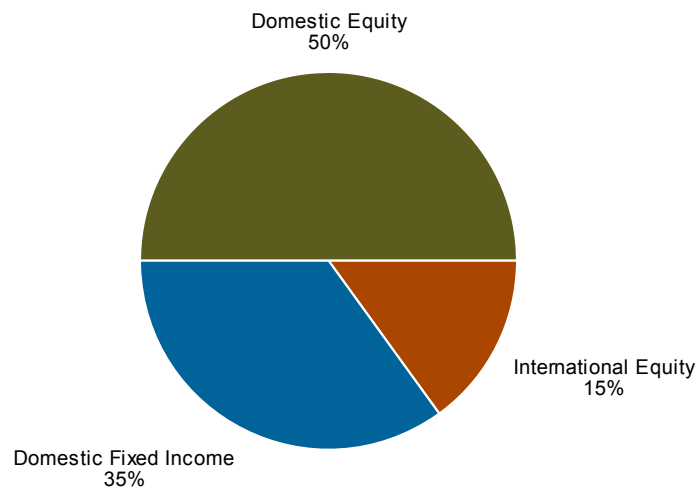
- Unemployment rate remained elevated at 6.7%
  - Long-term unemployed are of particular concern as skills atrophy and earnings power dwindles with age.
  - Labor force participation hovered at lowest rate in more than 3 decades.
  - Overseas unemployment is decidedly worse; 12% in Europe and more than 25% in Spain and Greece.
- Consumer confidence trended upward after a brutal winter
  - Consumer confidence, as measured by the Conference Board, rose to an index reading of 82.3 in March, the highest since January 2008.
- Real GDP for 4Q13 slowed to 2.6% following a robust 4.1% growth rate in 3Q13
  - In March, the FOMC lowered its forecast for 2014 GDP growth expectations to 2.8% - 3%, down slightly from the 2.8% - 3.2% expected at the December meeting.
- Still no sign of inflation
  - Headline CPI was 1.1% year-over-year as of February.
  - Core CPI (excluding Food and Energy) at 1.6%.
  - CPI still well below long term averages of 4.2% and 4.1% for the Headline and Core measures, respectively, and below Fed “target” of 2%.
- Rates fell as a “polar vortex” weighed on economic growth and geopolitical events led to investor angst.
  - 10-year U.S. Treasury yield closed the year at 3.04%, a 29-month high, and fell 31 bps during the quarter to 2.73%.
- The Fed
  - Fed continued to pare its monthly bond purchases by \$10 billion per month from \$85 billion in 2013 to \$55 billion.
  - Janet Yellen replaced Ben Bernanke as Fed Chair on Feb 3<sup>rd</sup>.
  - Comments from the Fed indicated that rates could be hiked sooner than expected surprised the markets at the end of the quarter, sparking a sell-off in short and intermediate U.S. Treasuries.

# Asset Allocation Review

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	97,055	55.3%	50.0%	5.3%	9,360
International Equity	27,935	15.9%	15.0%	0.9%	1,627
Domestic Fixed Income	48,662	27.7%	35.0%	(7.3%)	(12,723)
Cash Account	1,736	1.0%	0.0%	1.0%	1,736
<b>Total</b>	<b>175,388</b>	<b>100.0%</b>	<b>100.0%</b>		

**One Year Relative Attribution Effects**

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	53%	50%	22.94%	22.25%	0.35%	0.26%	0.60%
Domestic Fixed Income	30%	35%	0.42%	(0.10%)	0.17%	0.58%	0.76%
International Equity	16%	15%	13.54%	12.80%	0.10%	(0.02%)	0.08%
Cash Equiv	1%	0%	0.01%	0.01%	0.00%	(0.18%)	(0.18%)
<b>Total</b>			<b>14.01% = 12.75% + 0.62% + 0.63%</b>				<b>1.26%</b>

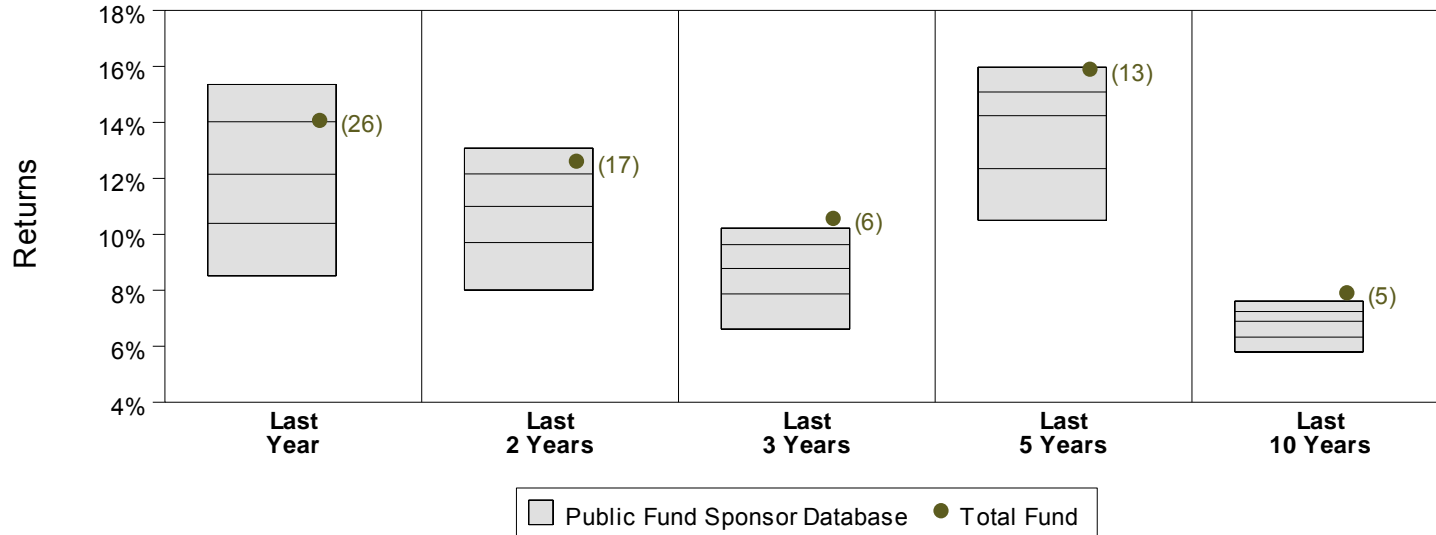
# Asset Distribution Across Investment Managers

	March 31, 2014					December 31, 2013		
	Market Value	Weight	Target	Net New Inv.	Inv. Return	Market Value	Weight	Target
<b>Domestic Equity</b>	<b>\$97,054,608</b>	<b>55.34%</b>	<b>50.00%</b>	<b>\$(43,823)</b>	<b>\$1,935,061</b>	<b>\$95,163,370</b>	<b>54.28%</b>	<b>50.00%</b>
Emerald Advisers, Inc.	8,440,336	4.81%	3.75%	(16,650)	276,720	8,180,266	4.67%	3.75%
Ceredex Value Advisors	7,947,667	4.53%	3.75%	(17,764)	57,879	7,907,552	4.51%	3.75%
SSgA S&P 500 Index	66,076,903	37.67%	35.00%	(6,817)	1,169,770	64,913,949	37.03%	35.00%
SSgA S&P 400 Index	14,589,702	8.32%	7.50%	(2,593)	430,692	14,161,603	8.08%	7.50%
<b>International Equity</b>	<b>\$27,934,829</b>	<b>15.93%</b>	<b>15.00%</b>	<b>\$(27,230)</b>	<b>\$(37,653)</b>	<b>\$27,999,712</b>	<b>15.97%</b>	<b>15.00%</b>
Morgan Stanley - Int'l Equity	12,589,957	7.18%	6.75%	(27,230)	58,780	12,558,407	7.16%	6.75%
Morgan Stanley - Emerging Mkts.	1,127,307	0.64%	0.75%	0	(5,979)	1,133,286	0.65%	0.75%
William Blair & Company	14,217,565	8.11%	7.50%	0	(90,453)	14,308,018	8.16%	7.50%
<b>Domestic Fixed Income</b>	<b>\$48,662,394</b>	<b>27.75%</b>	<b>35.00%</b>	<b>\$(35,390)</b>	<b>\$989,760</b>	<b>\$47,708,024</b>	<b>27.21%</b>	<b>35.00%</b>
Richmond Capital Management	48,662,394	27.75%	35.00%	(35,390)	989,760	47,708,024	27.21%	35.00%
<b>Cash Account</b>	<b>\$1,736,427</b>	<b>0.99%</b>	<b>-</b>	<b>\$(2,700,000)</b>	<b>\$104</b>	<b>\$4,436,322</b>	<b>2.53%</b>	<b>-</b>
<b>Total Fund</b>	<b>\$175,388,257</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$(2,806,443)</b>	<b>\$2,887,272</b>	<b>\$175,307,428</b>	<b>100.0%</b>	<b>100.0%</b>

- Investment returns were mostly positive during the quarter, leading to more than \$2.88 million in investment gains for the quarter.
- The City withdrew \$2.81 million from the fund during the quarter.

# City of Fort Pierce Total Fund

## Public Fund Sponsor Database



Investment Fund Style	Last Quarter		Last Year		Last 3 Years		Last 5 Years		Last 7 Years	
<b>Total Fund</b>	<b>1.65%</b>	<b>42</b>	<b>14.01%</b>	<b>26</b>	<b>10.51%</b>	<b>6</b>	<b>15.84%</b>	<b>13</b>	<b>6.65%</b>	<b>6</b>
Total Fund Benchmark(1)	1.69%	34	13.45%	33	9.89%	20	15.47%	17	5.97%	27
CPI + 5%	2.65%	3	6.41%	94	6.87%	89	7.34%	97	7.14%	2
Pub PInSponsor DB	1.57%		12.14%		8.78%		14.24%		5.48%	

- The Total Fund slightly trailed the benchmark by 0.04% during the quarter.
- Total Fund performance relative to the benchmark remains strong over longer-term time periods.



## Domestic Equity Performance

# First Quarter Market Environment

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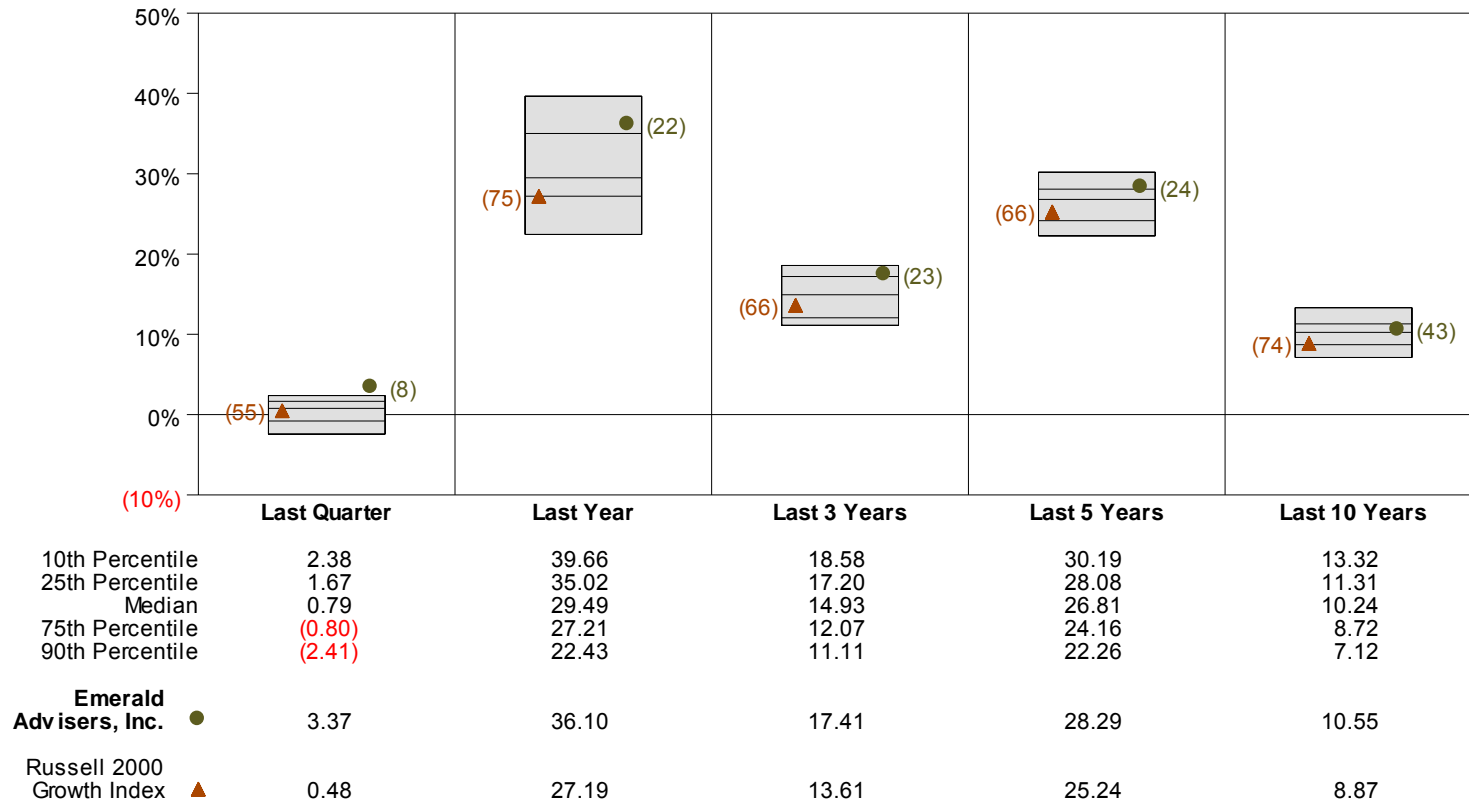
## Domestic Equity

*U.S. equities delivered modest gains in the 1<sup>st</sup> quarter, masking significant intra-quarter volatility. In late January, U.S. equities fell by more than 5% as several emerging countries appeared on the brink of a currency crisis and economic data were weaker than expected. Sentiment turned positive in February, stocks recovered and remained range bound through most of March before a sharp Fed-driven rally on the final day of the quarter.*

- The S&P 500 closed the quarter near a record high:
  - The S&P 500 returned 1.8% for the quarter.
  - Small stocks trailed; the Russell 2000 index was up 1.1%.
- Value sharply outpaced growth across the cap spectrum with the largest outperformance in midcaps:
  - Russell Mid Value +5.2%; Russell Mid Growth +2.0%.
- Low quality continued its trend of outperformance versus high quality:
  - S&P LQ +4.7% vs. S&P HQ +1.8%.
- Utilities and Health Care were the best performing sectors.
  - Utilities (+10.1%) and Health Care (+5.8%).
  - Consumer Discretionary was the only sector to post a negative return (-2.8%).

# Emerald Advisors Small Cap Growth

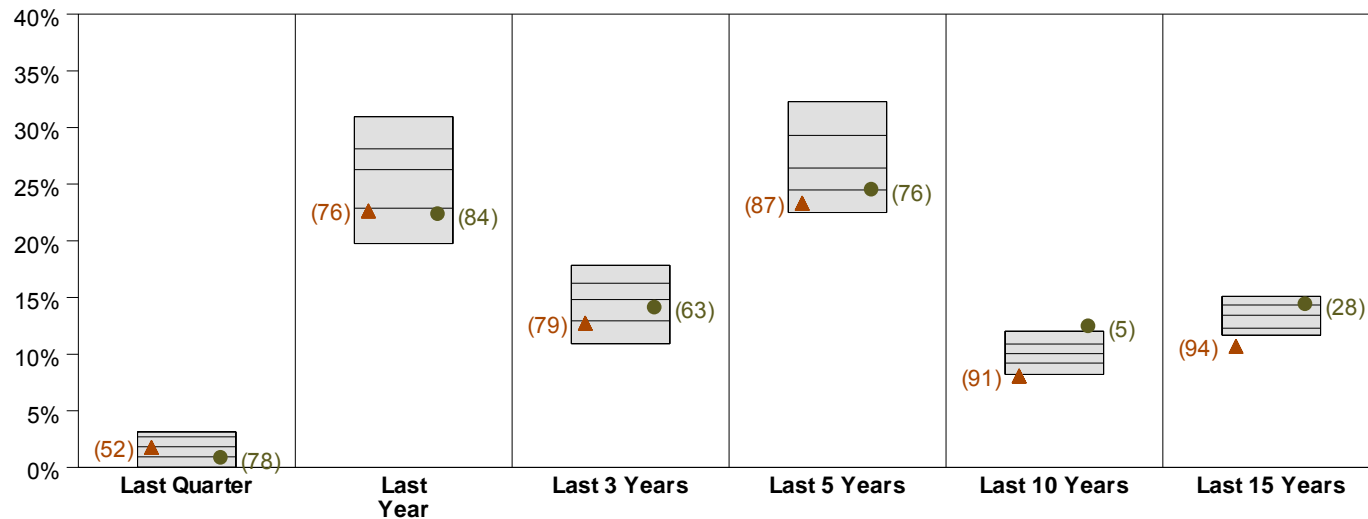
## Performance vs CAI Small Cap Growth Style (Gross)



- Emerald outperformed the benchmark by 2.89% during the quarter.
- Emerald has strong long-term returns well above the benchmark for all observed trailing periods.
- Stock selection in Biotechnology and Pharmaceuticals drove performance. Stock selection within Financial Services, Producer Durables, Materials and Energy also contributed positively.

# Ceredex Value Advisors Small Cap Value

## Performance vs CAI Small Cap Value Style (Gross)

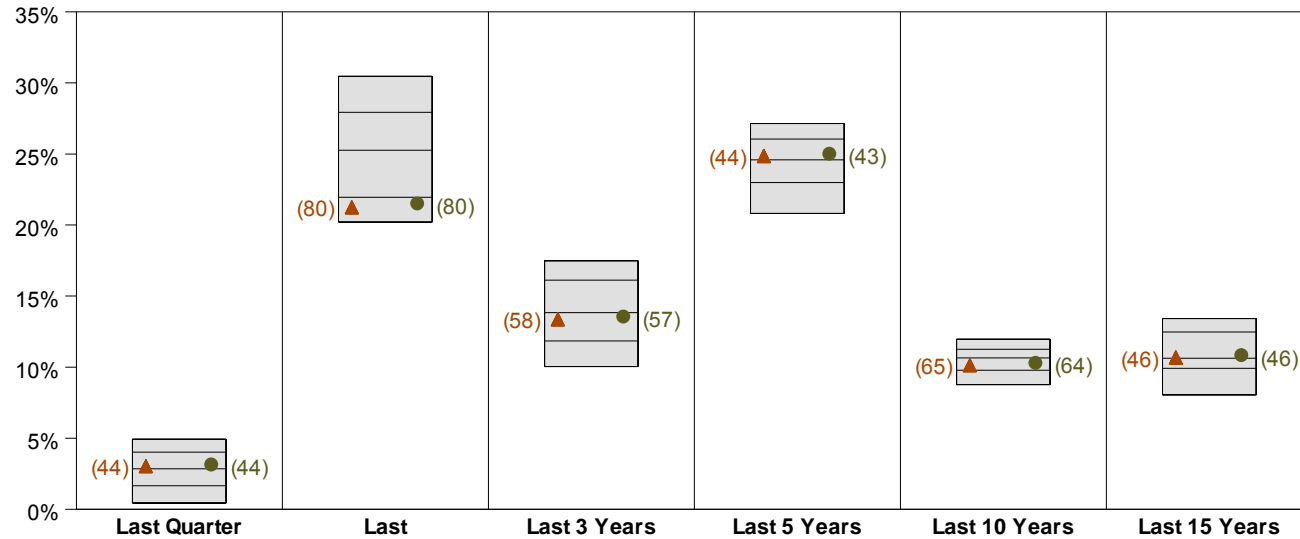


10th Percentile	3.14	30.96	17.84	32.29	12.02	15.10
25th Percentile	2.70	28.12	16.26	29.31	10.90	14.34
Median	1.84	26.29	14.82	26.44	10.06	13.43
75th Percentile	0.94	22.88	12.94	24.49	9.21	12.29
90th Percentile	0.02	19.77	10.92	22.50	8.21	11.67
<b>Ceredex Value Advisors</b>	● 0.75	22.26	14.01	24.41	12.36	14.31
Russell 2000 Value Index	▲ 1.78	22.65	12.74	23.33	8.07	10.70

- Ceredex underperformed the benchmark by 1.03% for the quarter and 0.39% over the last year.
- Long-term results are strong. The fund ranks in the top decile relative to peers over the last ten years.
- Stock selection in Consumer Discretionary, Information Technology and Financials drove underperformance.

# SSgA S&P Mid Cap 400 Index

Performance vs CAI Mid Capitalization Style (Gross)

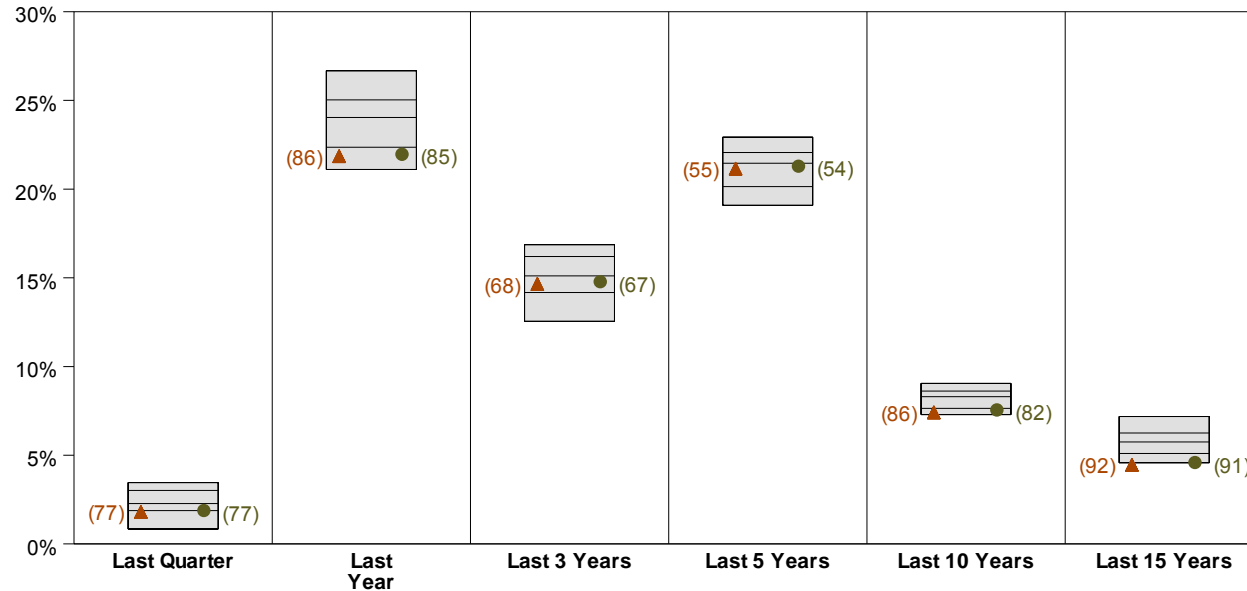


10th Percentile	4.93	30.46	17.49	27.14	11.98	13.42
25th Percentile	4.03	27.93	16.12	26.05	11.26	12.47
Median	2.85	25.26	13.83	24.59	10.65	10.63
75th Percentile	1.66	21.96	11.84	22.99	9.78	9.92
90th Percentile	0.44	20.21	10.04	20.81	8.77	8.05
<b>SSgA S&amp;P 400 Index</b> ●	3.04	21.40	13.44	24.91	10.19	10.74
S&P Mid Cap 400 Index ▲	3.04	21.24	13.37	24.86	10.14	10.68

- The fund continues to track the index closely at a very low fee.

# SSgA S&P 500 Index

Performance vs CAI Large Cap Core Style (Gross)



10th Percentile	3.46	26.66	16.87	22.93	9.05	7.18
25th Percentile	3.02	25.03	16.20	22.06	8.62	6.26
Median	2.28	24.04	15.11	21.46	8.30	5.75
75th Percentile	1.87	22.36	14.17	20.14	7.64	5.10
90th Percentile	0.84	21.10	12.55	19.09	7.28	4.57
<b>SSgA S&amp;P 500 Index</b> ●	1.80	21.88	14.69	21.21	7.47	4.51
<b>S&amp;P 500 Index</b> ▲	1.81	21.86	14.66	21.16	7.42	4.46

- The fund continues to track the index closely at a very low fee.



## International Equity Performance

# First Quarter Market Environment

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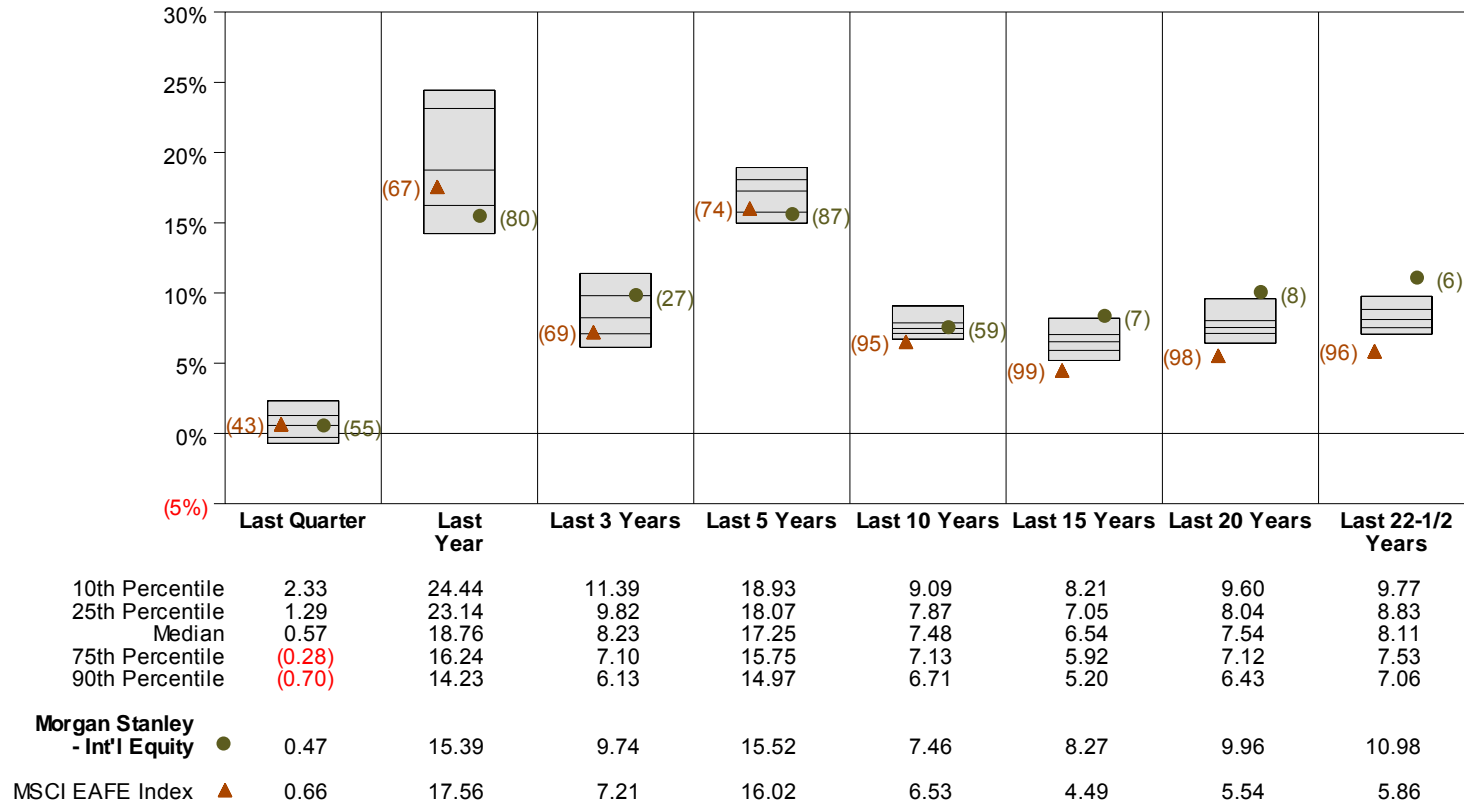
## International Equity

*Non-U.S. developed and emerging markets equities underperformed domestic stock indices in the first quarter. Escalating tensions in Crimea were a significant source of volatility in international markets.*

- Foreign equities lagged their US counterparts in both local and US dollar terms:
  - MSCI EAFE US\$ +.7%; MSCI EAFE Local Currency -.3%.
  - Japan worst performer among developed markets -5.6%.
  - Euro and UK pound essentially flat versus U.S. dollar while yen, Australian and NZ dollars gained.
- Emerging markets continued to trail developed markets:
  - MSCI EM US\$ -0.4%
- Russia was the worst performer:
  - Crisis in Ukraine caused a sharp dislocation in Russia's equity and currency markets (MSCI Russia US\$: -14.4%, Local: -9.7%).
- The other BRICs posted mixed results:
  - MSCI Brazil US\$: +2.9%; MSCI India US\$: +8.2; MSCI China US\$: -5.9%.

# Morgan Stanley Developed International Equity

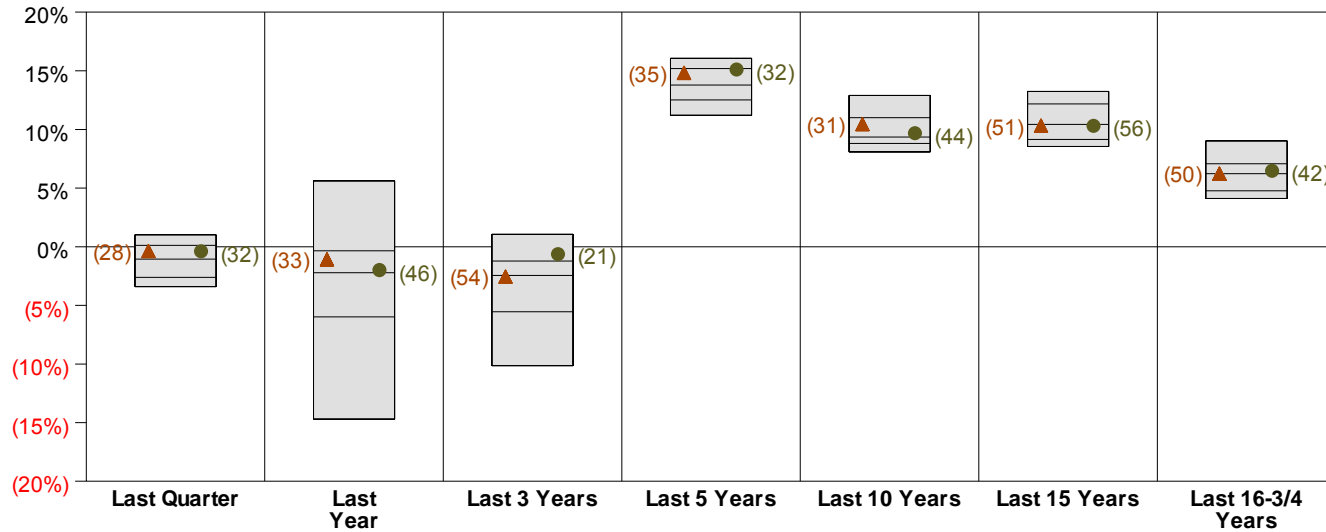
Performance vs CAI Core International Equity Style (Gross)



- The fund slightly underperformed for the quarter and trailed the index by 2.17% over the last year.
- Long-term performance remains strong. The fund ranks in the 7<sup>th</sup> percentile over the last 15 years.
- Negative results within Health Care, Energy, Technology and Financials drove underperformance.
- On January 17, 2014, the firm announced that co-lead Portfolio Manager Peter Wright will be retiring in December 2014 after 18 years at the firm.

# Morgan Stanley Emerging Markets Equity

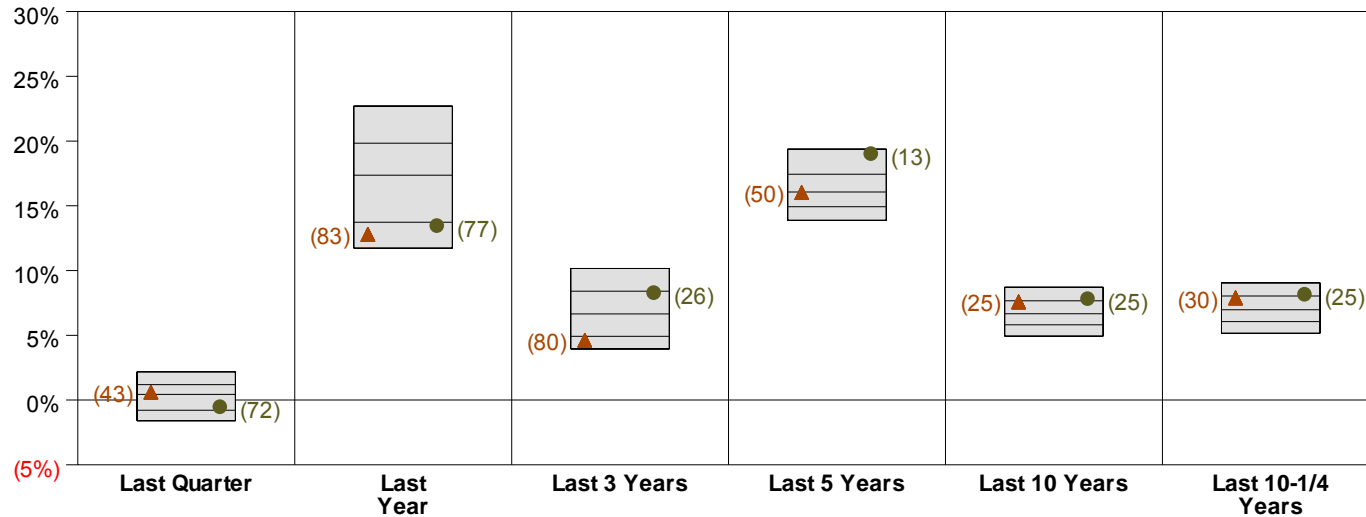
Performance vs CAI MF - Emerging Markets Style (Net)



- The fund underperformed the index by 1.05% over the last year.
- Long-term performance remains above median, slightly outperforming the index by 0.11% over the past 16.75 years.
- Stock selection within IT and Consumer Staples was the primary driver of underperformance.

# William Blair International Growth Equity

## Performance vs CAI MF - Non-US Equity Style (Net)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 10-1/4 Years
10th Percentile	2.18	22.71	10.17	19.38	8.72	9.05
25th Percentile	1.20	19.84	8.41	17.45	7.68	8.04
Median	0.44	17.37	6.65	16.08	6.67	6.98
75th Percentile	(0.77)	13.74	4.93	14.93	5.82	6.06
90th Percentile	(1.59)	11.74	3.95	13.88	4.94	5.17
<b>William Blair &amp; Company</b> ●	(0.63)	13.35	8.18	18.91	7.71	8.05
MSCI ACWI ex US Index ▲	0.61	12.80	4.63	16.04	7.59	7.90

- Difficult quarter for William Blair, however, over the last year, the fund has outperformed by 0.55%.
- Long-term performance remains strong. The fund has outperformed by 2.87% over the last 5 years.
- Stock selection in Energy and Financials drove underperformance.



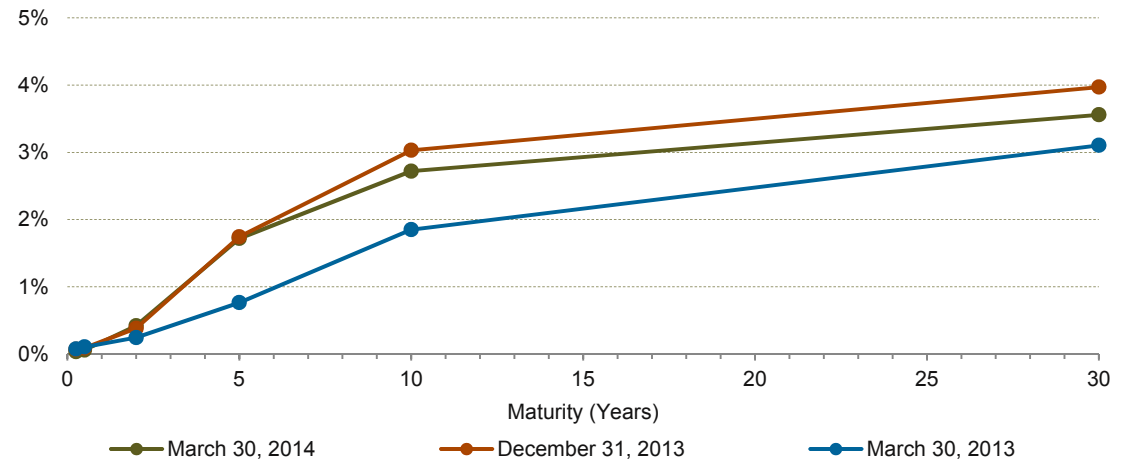
Fixed Income

# First Quarter Market Environment

## Fixed Income

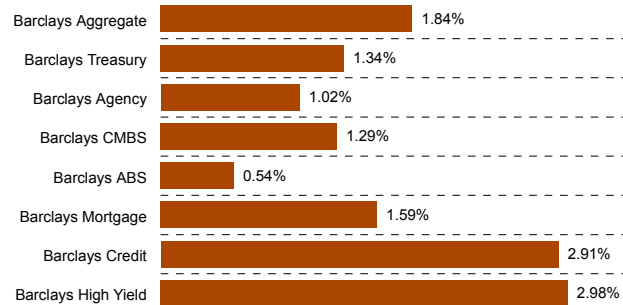
- The U.S. Treasury 10-year yield fell 31 bps during the quarter from 3.04%, the highest since mid-2011, to 2.73%.
  - The yield curve flattened with 30-year yields falling 40 bps and 2-year yields rising 6 bps.
  - The Barclays Aggregate index returned 1.84% for the quarter with longer maturities sharply outperforming shorter bonds.
  - The Barclays Long U.S. Treasury index returned 7.10% while the Intermediate U.S. Treasury index was up only 0.65%.
  - Corporate bonds continued to outperform U.S. Treasuries with the Corporate sector returning 2.94%.
- High yield continued to post strong returns.
  - Barclays U.S. High Yield index returned 2.98% for the quarter.
- TIPS performed in line with nominal U.S. Treasuries.
  - Barclays TIPS index returned 1.95% for the quarter; shorter duration Barclays 1-10 Year TIPS index up 1.03%.

U.S. Treasury Yield Curves



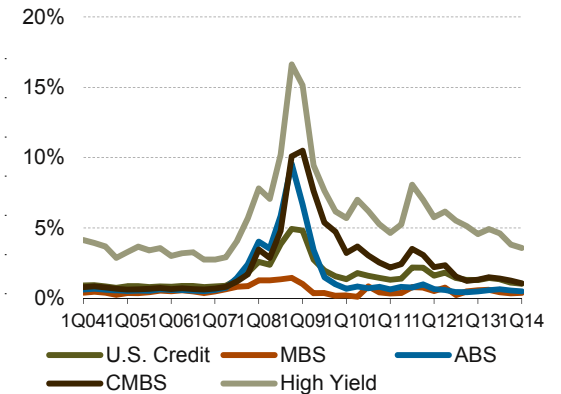
Source: Bloomberg

Absolute Returns for Quarter ended March 31, 2014



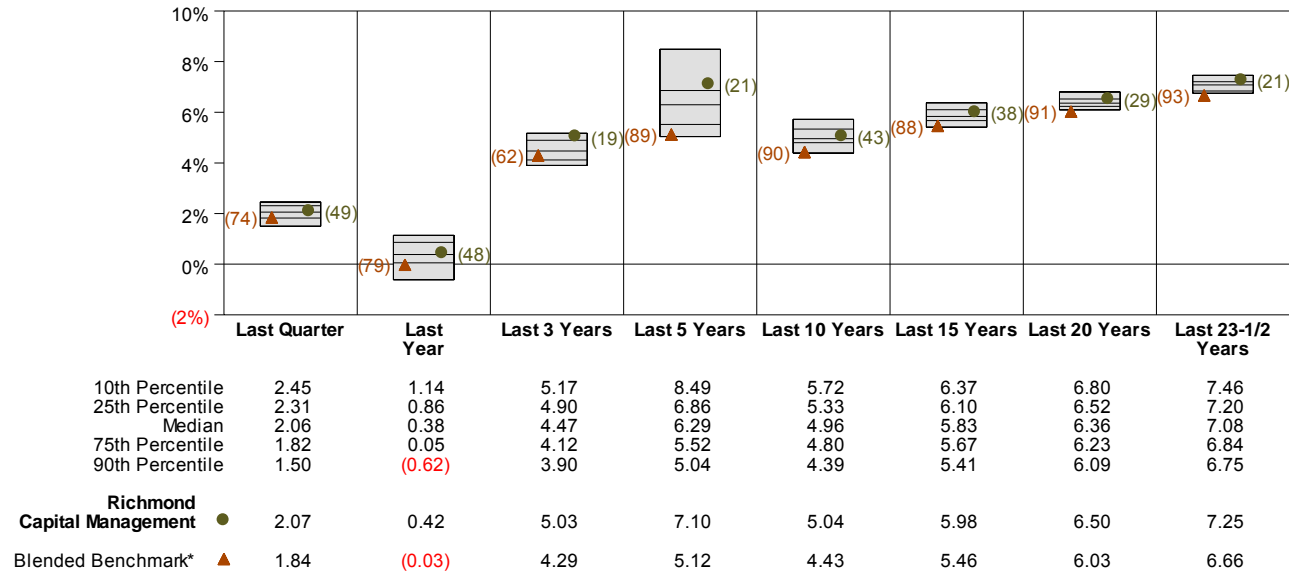
Source: Barclays

Effective Yield Over Treasuries



# Richmond Capital Core Fixed Income

Performance vs CAI Core Bond Fixed-Inc Style (Gross)



- Richmond slightly outperformed for the quarter and outperformed for the year by 0.45%.
- Long-term performance remains strong. The fund has outperformed by 0.61% over the last 10 years.
- An overweight allocation to Corporate bonds and underweight allocation to Treasuries drove outperformance.

# Investment Manager Objectives

Manager	Objective	Comments
<b>Total Fund</b>	CPI + 5% over long term.	Met.
<b>Richmond</b>	Outperform BC Aggregate over rolling 3-year periods by 0.50%.	Met.
	Outperform the median fixed income manager over rolling 3-year periods.	Met.
<b>Morgan Stanley Developed</b>	Outperform the MSCI EAFE over rolling 3-year periods by 0.50%.	Met.
	Outperform the median international equity manager over rolling 3-year periods.	Met.
<b>Morgan Stanley Emerging</b>	Outperform the MSCI Emerging Markets Index over rolling 3-year periods by 1.00%.	Met.
	Outperform the median emerging markets equity manager over rolling 3-year periods.	Met.
<b>William Blair</b>	Outperform the MSCI ACWI ex-US Index over rolling 3-year periods.	Met.
	Outperform the median international equity manager over rolling 3-year periods.	Met.
<b>Ceredex</b>	Outperform the Russell 2000 Value Index over time.	Met.
<b>Emerald</b>	Outperform the Russell 2000 Growth Index over time.	Met.
<b>SSgA S&amp;P MidCap 400 Index</b>	Replicate the return of the S&P MidCap 400 Index.	Met.
<b>SSgA S&amp;P 500 Index</b>	Replicate the return of the S&P 500 Index.	Met.