



August 18, 2016

City of Fort Pierce

Second Quarter Performance
Review

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Second Quarter Market Environment

U.S. Economy

The 2nd quarter was reasonably uneventful and markets were relatively placid **until** June 23rd, when British voters narrowly approved the Brexit referendum. Investor complacency was replaced with shock, and markets reacted fiercely. Volatility spiked, global bond yields fell sharply, the pound hit a 31-year low with a record intra-day swing of more than 10%, stock markets plunged, and gold surged. Brexit overshadowed US economic data that continued to point to sluggish, yet positive, growth.

- Advance estimate for real GDP growth in the US for 2Q16 was +1.2%, up from 0.8% from 1Q16.
 - Weaker y-o-y than the 2015 rate of 2.6%; positive contributions were offset by detractors private inventory investment and government spending among other things
 - Atlanta Fed forecasts 2016 GDP to be 2.3%
- Inflation neared the Fed's 2% target for the Personal Consumption Index ("PCE")
 - PCE Index +1.9% y-o-y as of June
 - Core CPI +0.2% as of June with Headline at +1.0% from the continued bounce back of energy
- Oil
 - Continued to rebound
 - Hit low of \$26/barrel on Feb 11 but closed quarter at \$48/barrel (WTI)
- Weak May labor report a surprise
 - 38,000 jobs vs expectations for 155,000
 - Unemployment at 4.7%
 - Labor force participation at 62.6%
- Manufacturing
 - June's Institute for Supply Management Index expanded to 53.2
 - 16-month high
- Continued Housing Strength
 - Existing home sales up 4.5% in May, the highest since 2007
- Weakness outside of US
 - Euro zone unemployment remains elevated at 10%
 - Euro zone GDP +0.6% in 1st quarter
 - Continued stimulus from ECB; began to purchase corporate bonds in June
 - Rate cuts and deterioration in UK economy expected in wake of Brexit
 - Japan still struggling to reflate economy; strengthening yen not helping

Market Environment 2Q16: Global Equity

In spite of the late quarter fireworks from the European Union, US equity benchmark performance was positive for the quarter. The S&P 500 staged a strong recovery in the wake of the sharp Brexit-related decline in late June, and closed up 2.5% for the quarter. At quarter end, the Index stood just 1.5% below its all-time high (May 21, 2015).

U.S. Equity

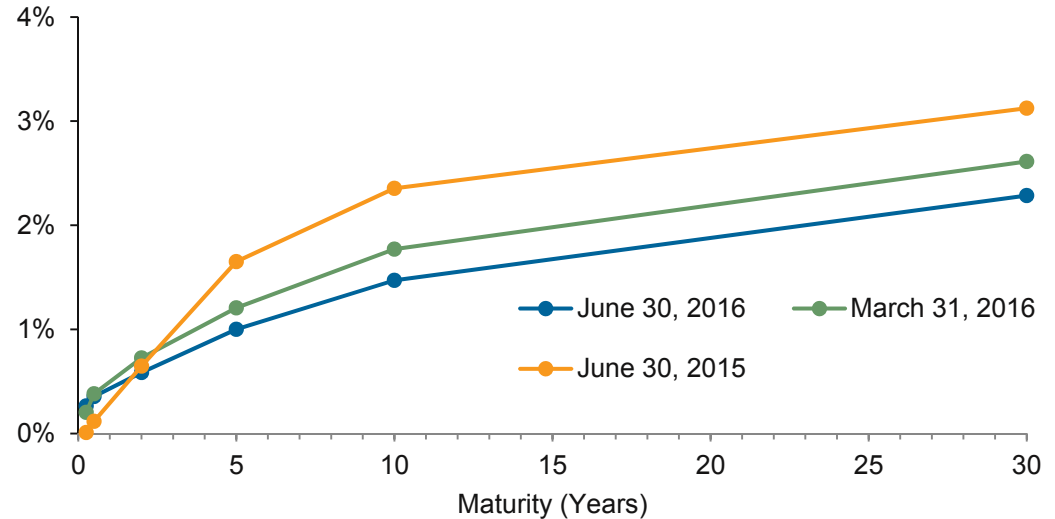
- Mid and small capitalization stocks outperformed
 - Russell Mid Cap gained 3.2%
 - Russell 2000 rose 3.8%
 - Value exceeded Growth across market capitalizations, helped by Energy and less exposure to Tech and Consumer Discretionary
- Sector performance divergent
 - Technology (-2.8%) and Consumer Discretionary (-0.9%) only sectors with negative returns
 - Energy strongest at +12%
 - Defensive Telecom and Utilities sectors also did well (+7%)
 - REITs (+7.4%) benefited from the decline in interest rates

International Equity

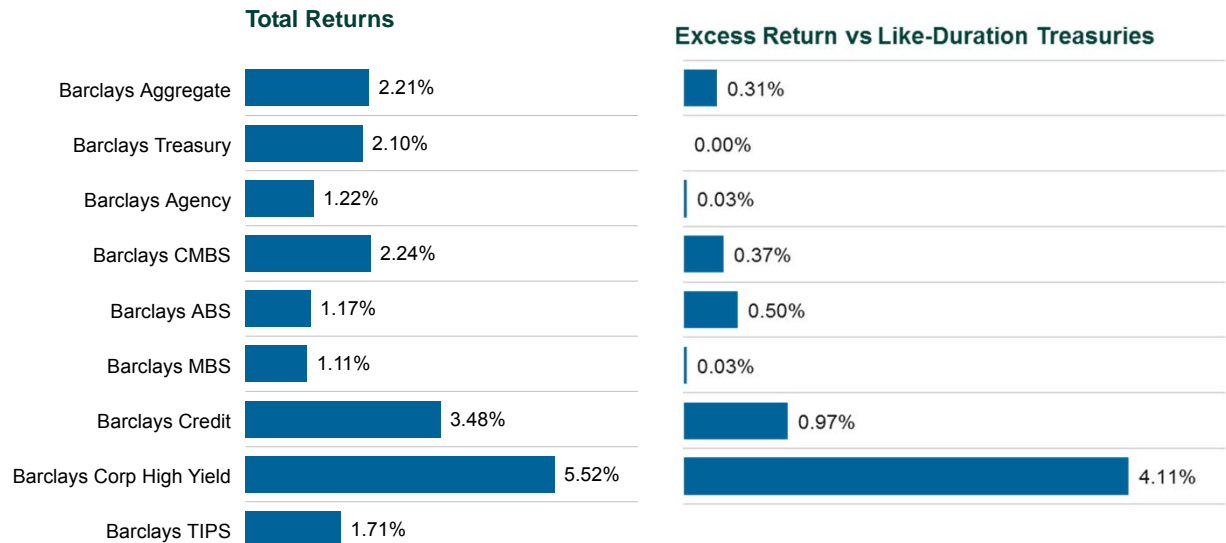
- Developed markets trailed US
 - MSCI EAFE: -1.5%
 - Best performer was Canada (+3.4%)
 - Worst was Italy (-10.4%)
- Emerging markets fared a bit better
 - MSCI EM: +0.7%
 - Brazil continued to rebound on stronger oil prices and returned +13.9% for the quarter; +46.3% y-t-d
 - Russia was also strong; +4.0% for the quarter and +20.4% y-t-d
 - Poland among the worst at -17.5%
 - India: +3.7%
 - China: +0.1%

Market Environment 2Q16: Fixed Income

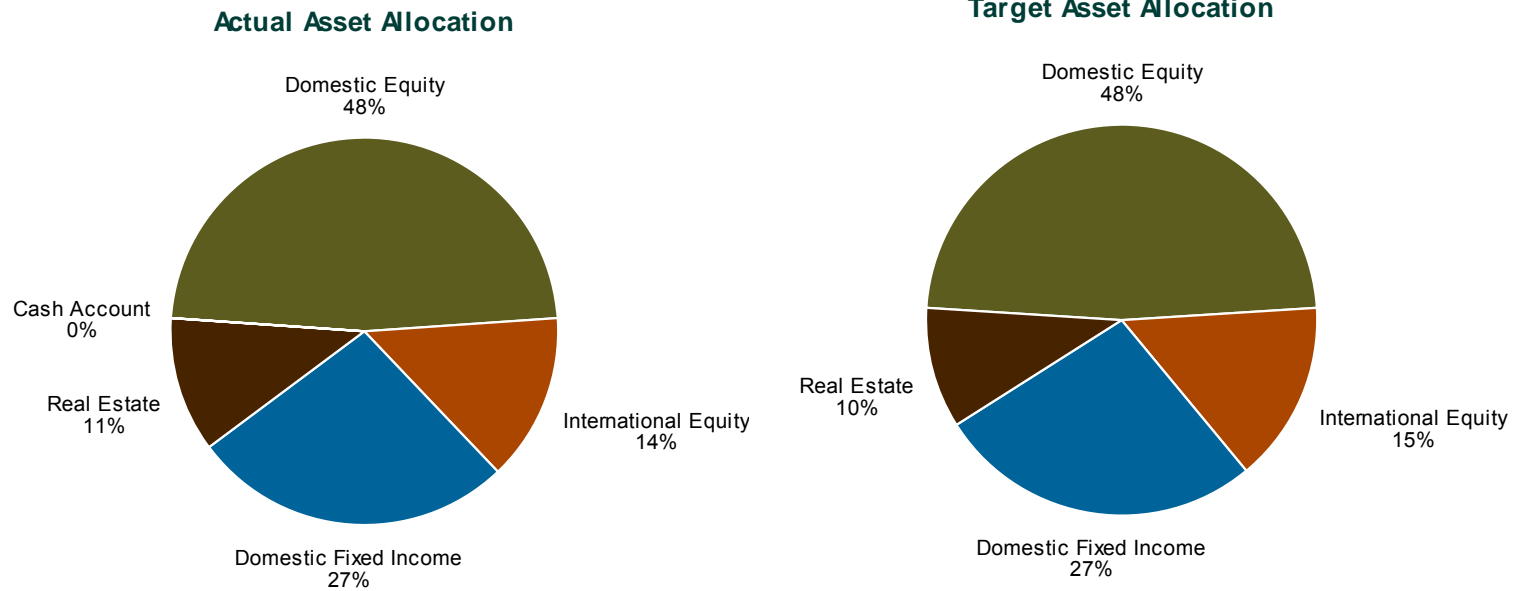
- Barclays U.S. Aggregate Index returned 2.2% for the quarter
 - Corporates outperformed like-duration Treasuries
 - Long duration assets posted double-digit returns with the Barclays Long US Government/Credit +6.6% for the quarter and +14.3% for six months
- High yield gyrated
 - High yield was the best performing fixed income sector. Barclays High Yield Index returned 5.5% for the quarter and is up 9.1% year-to-date



- Interest rates in developed markets fell and the dollar weakened
 - The yen gained 8% and the euro depreciated 2% vs. the dollar
 - Brexit worries put pressure on the pound, down 7% vs. the greenback
 - Barclays Global Aggregate returned 2.9% (+2.5% hedged)
 - Within the EMBI Global Diversified Index, Latin America (+7%) was the best performing region, helped by outsized returns from Argentina (+10%), Brazil (+8%) and Venezuela (+23%)



Asset Allocation Review



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	84,303	47.8%	48.0%	(0.2%)	(412)
International Equity	24,787	14.0%	15.0%	(1.0%)	(1,687)
Domestic Fixed Income	47,400	26.9%	27.0%	(0.1%)	(252)
Real Estate	19,961	11.3%	10.0%	1.3%	2,312
Cash Account	38	0.0%	0.0%	0.0%	38
Total	176,489	100.0%	100.0%		

Relative Attribution Effects for Quarter ended June 30, 2016

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	47%	48%	3.03%	2.90%	0.06%	(0.00%)	0.06%
Domestic Fixed Income	27%	27%	2.26%	2.21%	0.01%	(0.00%)	0.01%
Real Estate	11%	10%	2.05%	1.97%	0.01%	(0.00%)	0.01%
International Equity	14%	15%	0.20%	(0.40%)	0.09%	0.02%	0.10%
Cash Account	0%	0%	0.05%	0.05%	0.00%	(0.00%)	(0.00%)
Total			2.31%	2.13%	+ 0.17%	+ 0.01%	0.18%

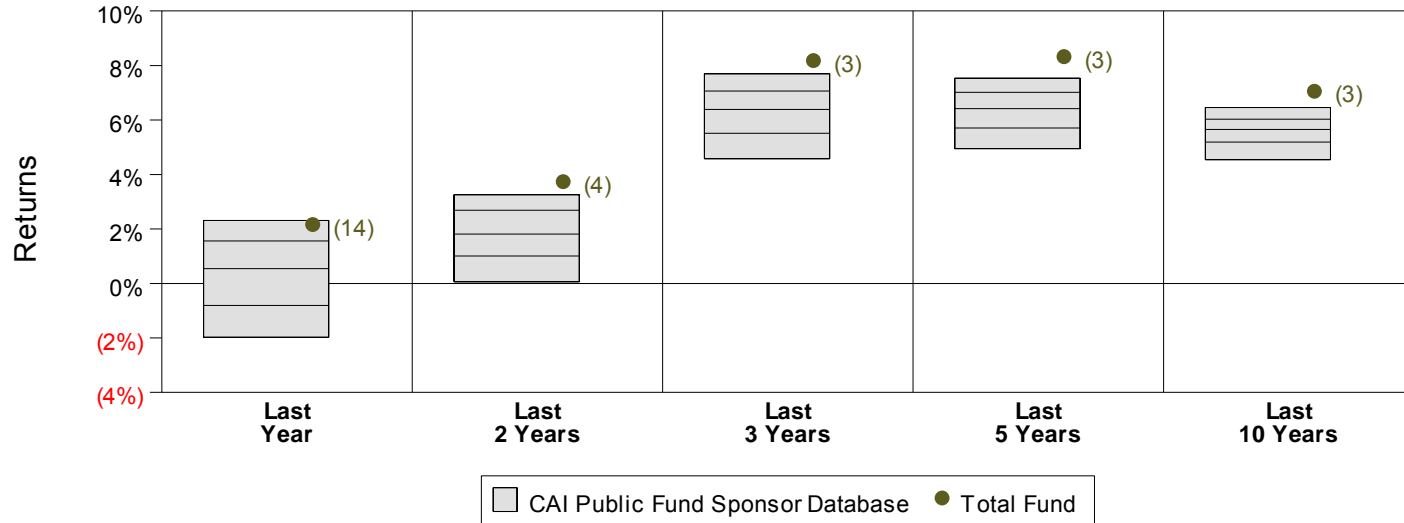
Asset Distribution Across Investment Managers

	June 30, 2016					March 31, 2016		
	Market Value	Weight	(min)	Target	(max)	Market Value	Weight	Target
Domestic Equity	\$84,302,673	47.77%	40.00%	48.00%	56.00%	\$81,843,436	47.42%	48.00%
Emerald Advisers, Inc.	5,990,493	3.39%	2.75%	3.75%	4.75%	5,839,544	3.38%	3.75%
Ceredex Value Advisors	7,189,911	4.07%	2.75%	3.75%	4.75%	6,770,296	3.92%	3.75%
SSgA S&P 500 Index	57,505,799	32.58%	28.00%	33.00%	38.00%	56,139,531	32.53%	33.00%
SSgA S&P 400 Index	13,616,471	7.72%	6.50%	7.50%	8.50%	13,094,065	7.59%	7.50%
International Equity	\$24,786,700	14.04%	12.00%	15.00%	18.00%	\$24,762,769	14.35%	15.00%
Morgan Stanley Int'l Equity	11,622,387	6.59%	6.00%	7.00%	8.00%	11,559,298	6.70%	7.00%
Morgan Stanley Emerging Mkts.	1,034,429	0.59%	0.00%	1.00%	2.00%	1,015,191	0.59%	1.00%
William Blair & Company	12,129,883	6.87%	6.00%	7.00%	8.00%	12,188,280	7.06%	7.00%
Domestic Fixed Income	\$47,400,385	26.86%	22.00%	27.00%	32.00%	\$46,387,814	26.88%	27.00%
Richmond Capital Management	47,400,385	26.86%	22.00%	27.00%	32.00%	46,387,814	26.88%	27.00%
Real Estate	\$19,960,920	11.31%	5.00%	10.00%	12.00%	\$19,560,887	11.33%	10.00%
Heitman	19,960,920	11.31%	5.00%	10.00%	12.00%	19,560,887	11.33%	10.00%
Cash Account	\$38,448	0.02%	0.00%	0.00%	1.00%	\$38,430	0.02%	0.00%
Total Fund	\$176,489,126	100.0%		100.0%		\$172,593,336	100.0%	100.0%

- The total fund increased by \$3.98 million over the quarter to \$176.48 million as of June 30, 2016

City of Fort Pierce Total Fund

CAI Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years					
Total Fund	2.31%	10	2.11%	14	8.13%	3	8.27%	3	11.04%	3
Total Fund Benchmark(1)	2.13%	16	2.21%	12	7.62%	10	7.59%	10	10.44%	11
CPI + 5%	2.52%	6	5.65%	1	5.77%	68	6.13%	62	6.57%	96
CAI Public Fund Spr DB	1.62%		0.54%		6.39%		6.42%		9.20%	

- The Total Fund outperformed the benchmark by 0.18% for the quarter
- Total Fund performance relative to the benchmark and peers has remained strong over time

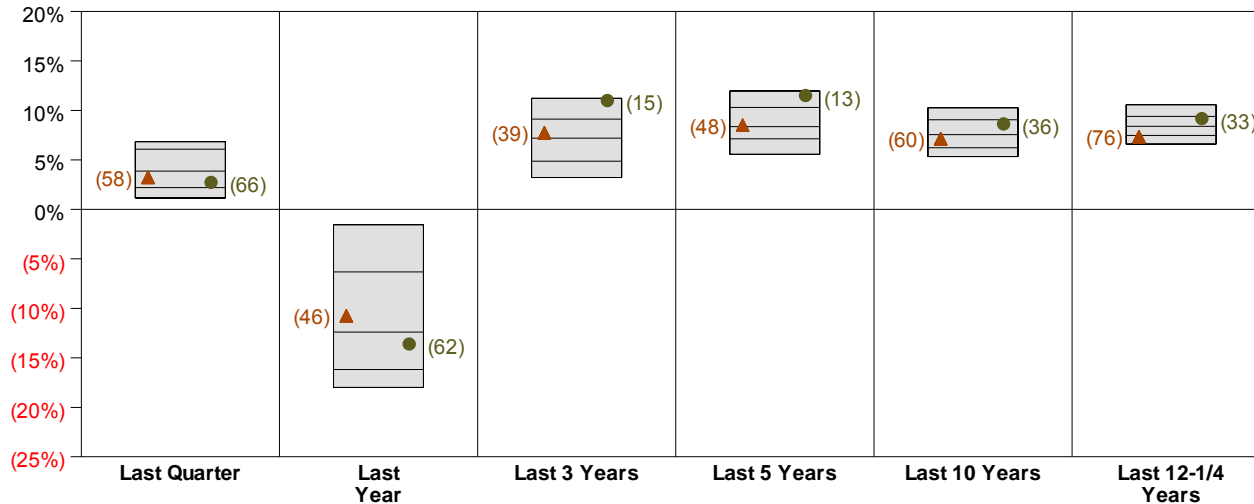
* Current Quarter Target = 33.0% S&P 500 Index, 27.0% Barclays Aggregate Index, 15.0% MSCI ACWI ex US Index, 10.0% NFI-ODCE Equal Weight Net, 7.5% S&P Mid Cap 400 Index, 3.8% Russell 2000 Growth Index and 3.8% Russell 2000 Value Index.



Domestic Equity Performance

Emerald Advisors Small Cap Growth

Performance vs CAI Small Cap Growth (Gross)

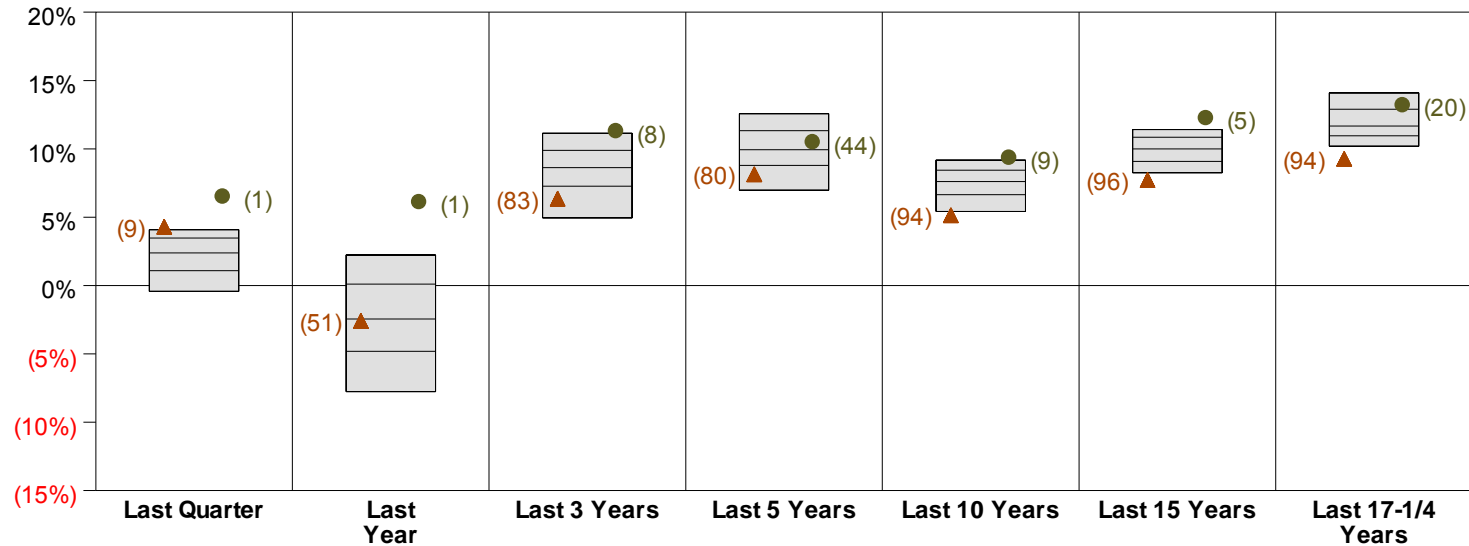


10th Percentile	6.84	(1.56)	11.21	11.97	10.27	10.56
25th Percentile	6.08	(6.31)	9.11	10.29	9.05	9.40
Median	3.87	(12.40)	7.18	8.37	7.55	8.38
75th Percentile	2.21	(16.18)	4.87	7.12	6.22	7.47
90th Percentile	1.14	(17.99)	3.22	5.57	5.34	6.61
Emerald Advisors, Inc.	2.58	(13.75)	10.86	11.35	8.49	9.01
Russell 2000 Growth Index	3.24	(10.75)	7.74	8.51	7.14	7.35

- Emerald underperformed the benchmark by 0.66% during the quarter and underperformed by 3.00% over the last year
- Emerald has strong long-term returns well above the benchmark over longer time frames
- Positive contributors were the utilities, consumer discretionary, and producer durables sectors. All posted a positive contribution to return. The primary detractor was technology, more specifically, poor equity selection in the semiconductor and software industries.

Ceredex Value Advisors Small Cap Value

Performance vs CAI Small Cap Value (Gross)

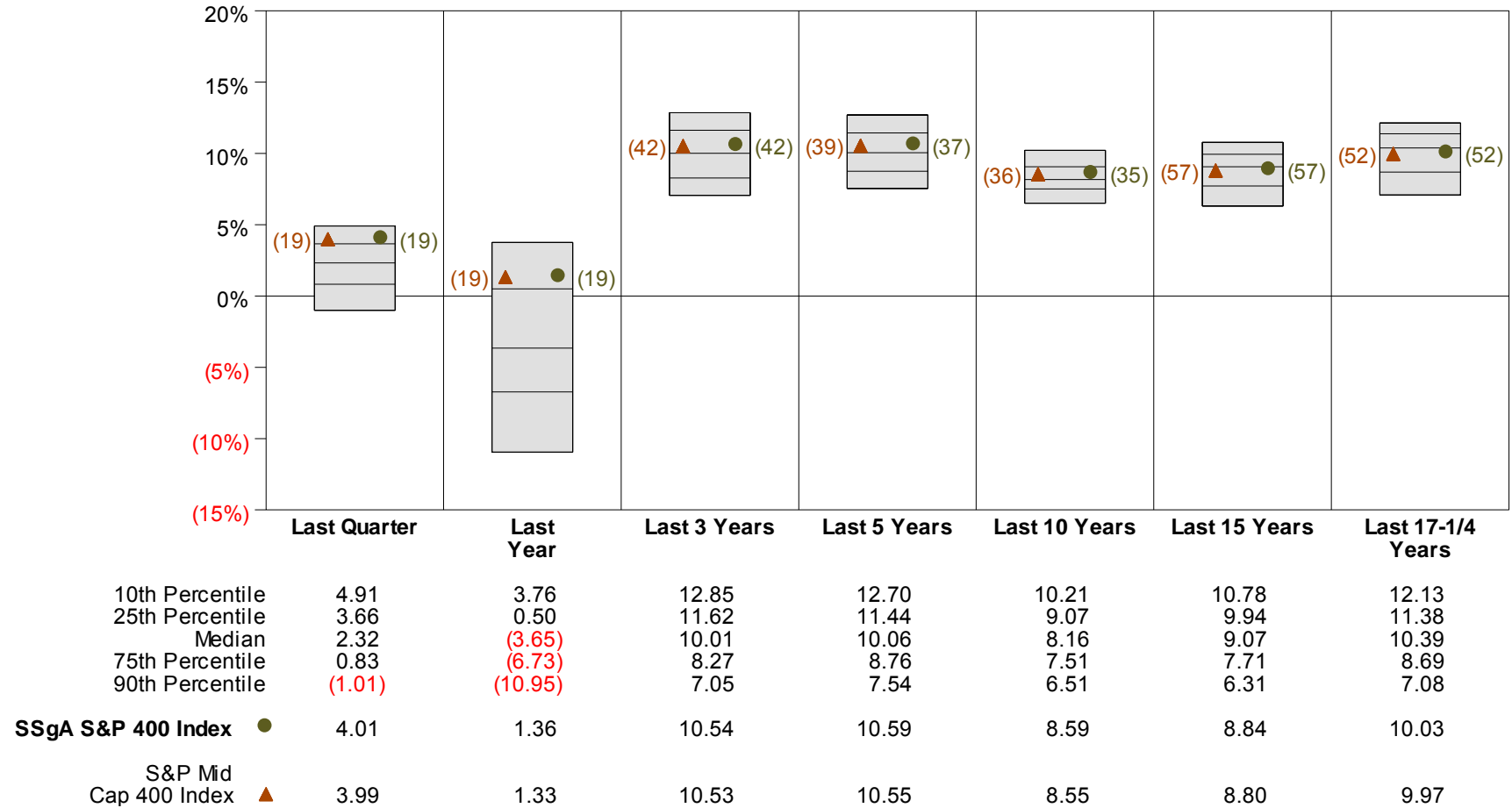


	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	Last 17-1/4 Years
10th Percentile	4.08	2.25	11.15	12.58	9.18	11.42	14.10
25th Percentile	3.48	0.11	9.89	11.34	8.44	10.86	12.90
Median	2.40	(2.44)	8.63	9.94	7.61	10.00	11.68
75th Percentile	1.09	(4.80)	7.27	8.80	6.65	9.09	10.96
90th Percentile	(0.41)	(7.75)	4.95	6.98	5.42	8.25	10.21
Ceredex Value Advisors ●	6.43	6.04	11.21	10.41	9.27	12.18	13.12
Russell 2000 Value Index ▲	4.31	(2.58)	6.36	8.15	5.15	7.73	9.27

- Ceredex outperformed the benchmark by 2.12% for the quarter and outperformed by 8.62% over the last year
- Long-term results are strong. The fund has outperformed the benchmark for all trailing periods shown.
- Overweight positions in the consumer staples and industrials sectors led to the fund outperforming the benchmark for the quarter

SSgA S&P Mid Cap 400 Index

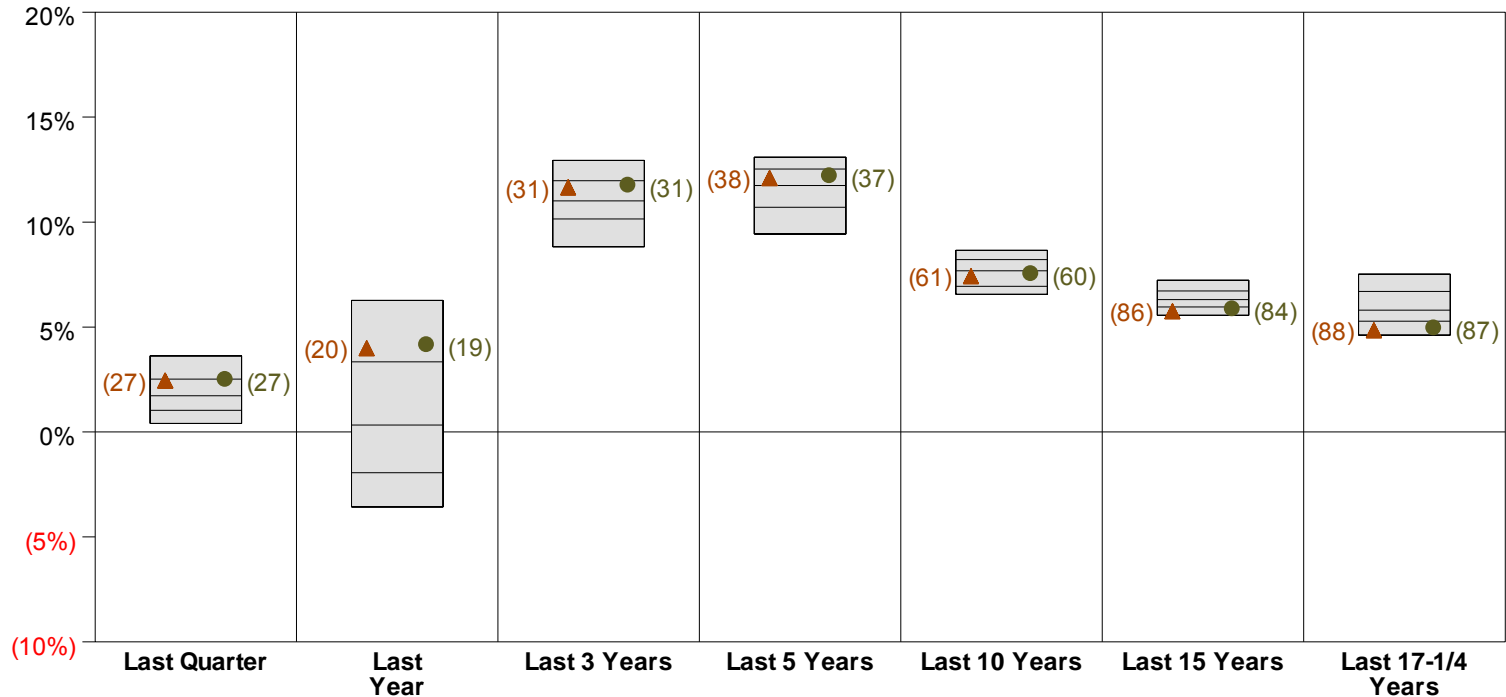
Performance vs CAI Mid Capitalization (Gross)



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

SSgA S&P 500 Index

Performance vs CAI Large Cap Core (Gross)



10th Percentile	3.62	6.27	12.94	13.09	8.65	7.23	7.52
25th Percentile	2.52	3.34	11.97	12.52	8.21	6.72	6.69
Median	1.73	0.33	11.02	11.74	7.68	6.31	5.81
75th Percentile	1.03	(1.94)	10.15	10.70	6.94	5.96	5.28
90th Percentile	0.40	(3.57)	8.82	9.44	6.56	5.57	4.61

SSgA S&P 500 Index ●	2.44	4.09	11.70	12.14	7.48	5.81	4.90
S&P 500 Index ▲	2.46	3.99	11.66	12.10	7.42	5.75	4.85

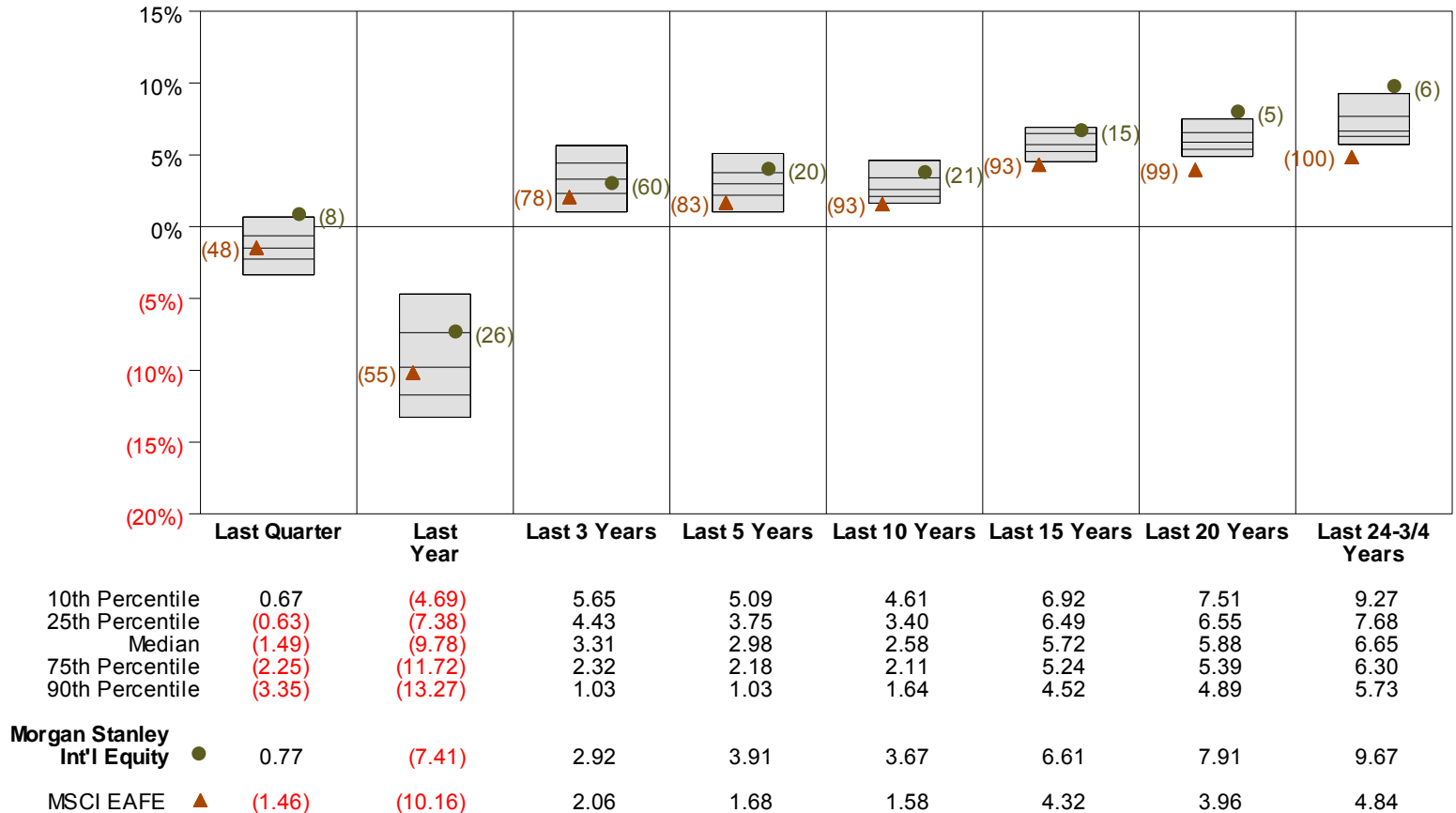
- The fund continues to track the index closely at a very low fee



International Equity Performance

Morgan Stanley Developed International Equity

Performance vs CAI Core International Equity Style (Gross)



- The fund outperformed for the quarter and outperformed the index by 2.75% over the last year
- Long-term performance remains strong. Outperformance for the quarter was driven by commodities (energy and materials) and defensives (health care, utilities, and consumer staples).

Morgan Stanley Emerging Markets Equity

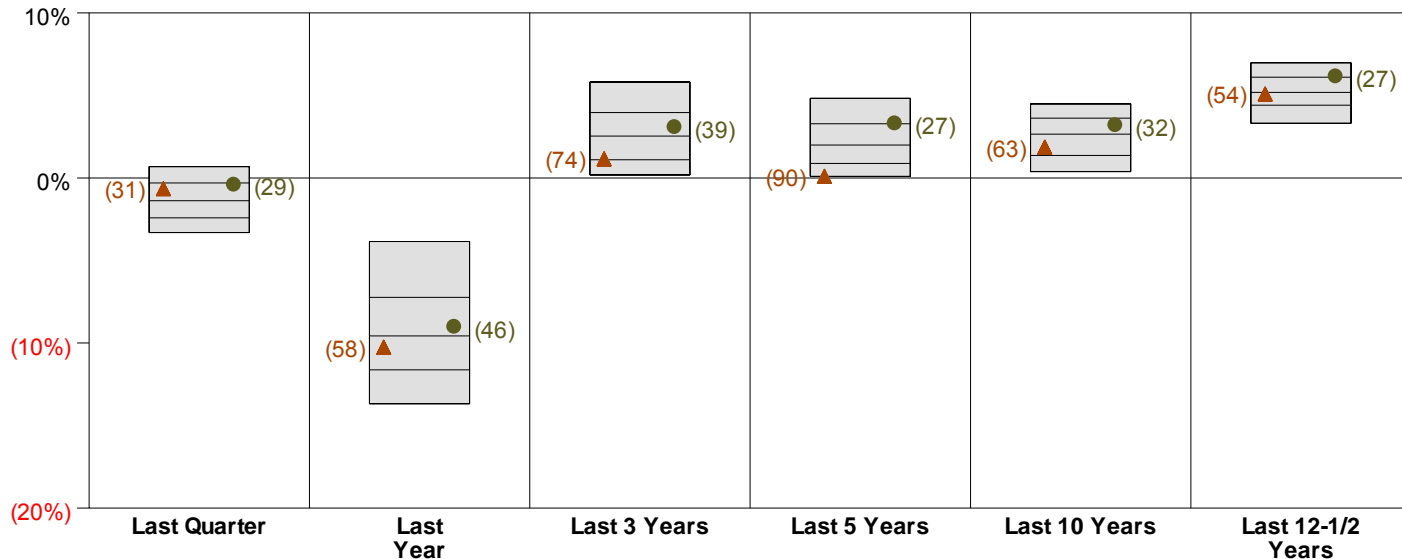
Performance vs CAI Emerging Markets Equity Mut Funds (Cheapest Net)



- The fund outperformed the index by 1.24% for the quarter and outperformed by 3.23% over the last year
- Long-term results remain above median, outperforming the index and peers over the past 19 years
- Stock selection in financials, IT, and materials companies contributed most to returns, while stock selection and an overweight in industrials detracted

William Blair International Growth Equity

Performance vs CAI Non US Equity Mutual Funds (Cheapest Net)



10th Percentile	0.69	(3.85)	5.82	4.82	4.48	6.98
25th Percentile	(0.30)	(7.24)	3.96	3.28	3.62	6.11
Median	(1.38)	(9.57)	2.54	1.99	2.65	5.18
75th Percentile	(2.42)	(11.62)	1.10	0.88	1.37	4.40
90th Percentile	(3.31)	(13.68)	0.18	0.09	0.39	3.31
William Blair & Company	● (0.48)	(9.09)	3.00	3.22	3.12	6.08
MSCI ACWI ex US	▲ (0.64)	(10.24)	1.16	0.10	1.87	5.10

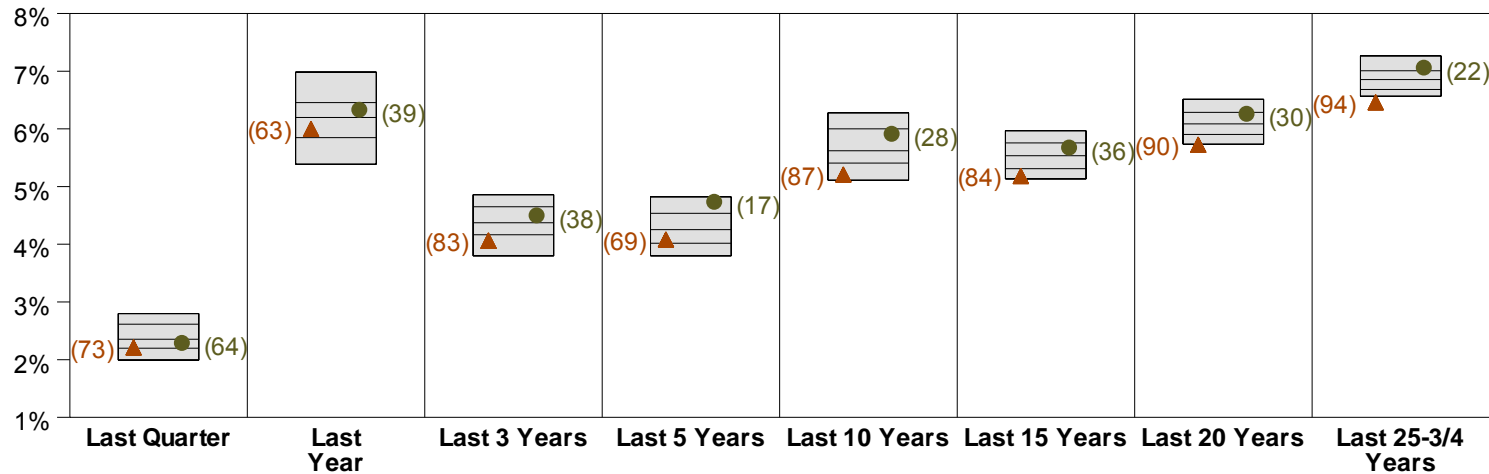
- The fund outperformed by 0.16% for the quarter and outperformed by 1.15% over the last year
- Long-term performance remains strong. The fund is above median for the observed time periods.
- Consumer staples, industrials, and financials were all sectors that buoyed the fund, however the subcategory of financials and materials located in the U.K. offset much of the positive impacts of Japan and Latin America positions



Fixed Income

Richmond Capital Core Fixed Income

Performance vs CAI Core Bond Fixed Income (Gross)



10th Percentile	2.80	6.98	4.86	4.82	6.28	5.97	6.52	7.27
25th Percentile	2.62	6.46	4.65	4.54	6.00	5.76	6.29	7.01
Median	2.36	6.20	4.37	4.25	5.62	5.54	6.09	6.86
75th Percentile	2.20	5.85	4.17	4.02	5.41	5.31	5.90	6.68
90th Percentile	2.00	5.39	3.80	3.80	5.11	5.13	5.74	6.57

Richmond Capital Management	●	2.26	6.30	4.47	4.70	5.88	5.65	6.23	7.03
Blended Benchmark*	▲	2.21	6.00	4.06	4.08	5.21	5.18	5.73	6.46

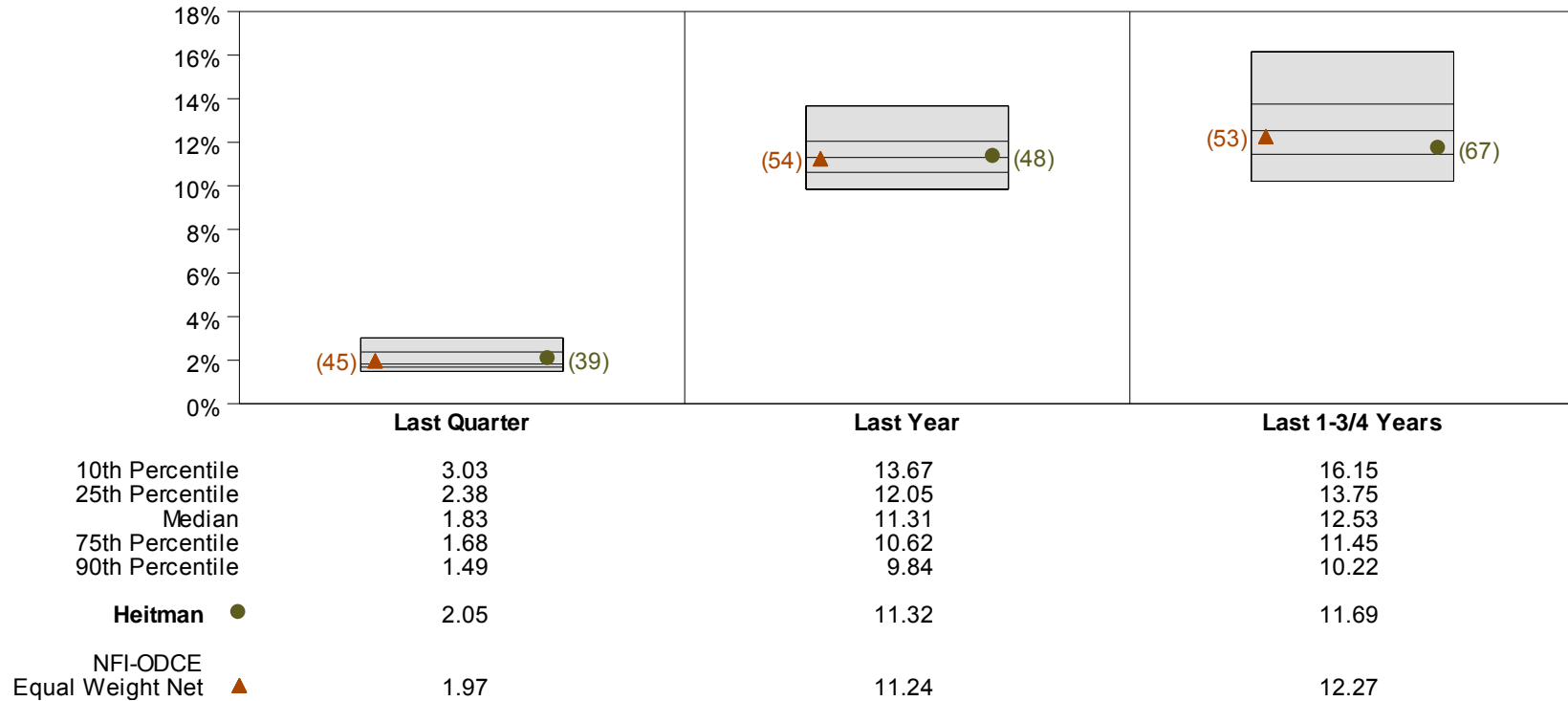
- Richmond slightly outperformed for the quarter and outperformed over the year by 0.30%
- Long-term performance remains strong. The fund has outperformed by 0.67% over the last 10 years



Real Estate

Heitman America Real Estate Trust

Performance vs CAI Open End Core Commingled Real Estate (Net)



- Seventh full quarter of performance for Heitman. The fund outperformed the index by 0.08% over the last year
- The portfolio is 95% leased and same-property net operating income grew by 7.9% over the quarter

Investment Manager Objectives

Manager	Objective	Comments
Total Fund	CPI + 5% over long term.	Met.
Richmond	Outperform BC Aggregate over rolling 3-year periods by 0.50%.	Not Met.
	Outperform the median fixed income manager over rolling 3-year periods.	Met.
Morgan Stanley Developed	Outperform the MSCI EAFE over rolling 3-year periods by 0.50%.	Met.
	Outperform the median international equity manager over rolling 3-year periods.	Not Met.
Morgan Stanley Emerging	Outperform the MSCI Emerging Markets Index over rolling 3-year periods by 1.00%.	Not Met.
	Outperform the median emerging markets equity manager over rolling 3-year periods.	Not Met.
William Blair	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.
Ceredex	Outperform the Russell 2000 Value Index over time.	Met.
Emerald	Outperform the Russell 2000 Growth Index over time.	Met.
SSgA S&P MidCap 400 Index	Replicate the return of the S&P MidCap 400 Index.	Met.
SSgA S&P 500 Index	Replicate the return of the S&P 500 Index.	Met.
Heitman (HART)	Outperform the NFI-ODCE Index by 1% or more over rolling 5-year periods	N/A



Education

Best Practices for Effective Investment Committees

Tips from Callan's Upcoming White Paper

- Building a Committee

- Effective chairperson is critical. Should be skilled at running meetings and encouraging debate among committee members. Should keep discussions factual and data driven and always bring conversations back to the question at hand.
- Every committee member should understand the following: purpose of the assets, time horizon of the plan, the nature of the liabilities tied to the assets and legal/regulatory constraints. Members should also recognize that their job is to oversee the plan – not to actually implement investment decisions or second guess portfolio managers.
- Embrace diverse viewpoints. Dealing with investment issues is important, but also valuable to have perspective from legal, accounting, human resource and employee representatives.
- Limit committees to 5-10 members.
- Build for continuity. High turnover erodes institutional memory about why decisions were made.

- Creating an Effective Investment Policy Statement

- Goal of the IPS is to maintain the committee's focus on executing investment activities over the long-term through the lens of the organization's stated policy, as opposed to reacting to the current market environment.
- Key role of the policy statement is to instill discipline.

Best Practices for Effective Investment Committees

Tips from Callan's Upcoming White Paper

- Developing an Effective Review Process
 - Performance is rarely a black and white exercise. It's easy to get caught up in absolute numbers, but the best committees recognize that capital markets are extremely complex and that a multitude of factors will impact an investment manager's performance.
 - Meetings should regularly address the following topics
 - *Capital market environment*
 - *Total fund performance*
 - *Individual manager performance*
 - *Risk-adjusted performance*
 - *Portfolio positioning relative to strategic targets*
 - Pre-meeting preparation is extremely helpful
- Fiduciary Training and Continuing Education are Critical
 - Devote time to education on the group's fiduciary responsibilities.
 - Regular education on capital markets trends