



August 16, 2018

City of Fort Pierce

Second Quarter Performance
Review

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Market Environment 2Q18: Global Economy

The U.S. economy remained on strong footing in the second quarter. The unemployment rate dropped to 3.8% in May, the lowest since 2000, and wages inched up. Consumer spending was robust and consumer and business confidence remained elevated. Real U.S. GDP growth in the Second Quarter increased at an annual rate of 4.1%. First Quarter GDP growth was revised up to 2.2% from 2.0%. Overseas, signs of deceleration emerged, especially in Europe, Japan, and China.

- U.S. unemployment rate dropped to 3.8% in May
 - Lowest since 2000
 - Wages increased 2.7% (y/y) in May
- Inflation rising
 - Headline CPI was 2.9% in June (y/y); Core CPI was 2.3% (y/y)
 - PPI jumped 0.4% (3.4% y/y) in June
 - The Core PCE price index increased 2.0% in the second quarter
- Housing starts climbed to an eleven-year high
 - Home prices also continued to rise
- University of Michigan Consumer Sentiment Survey remained elevated
 - Survey measures attitudes of future economic prospects across 500 consumers
 - Retail sales beat forecasts, up 0.8% in May (6% y/y)
- The Fed raised rates
 - As expected, a 25 bp hike in June brought Fed Funds target to 1.75%–2.0%
 - The Fed expects two more rate hikes this year and three more in 2019
- U.S. dollar appreciated
 - Relatively high interest rates and the strength of the U.S. economy bolstered the currency
 - Gained 5% versus a basket of developed market currencies
- Threat of escalating trade wars ongoing as quarter closed
 - Tariffs being imposed on goods imported from China, Europe and Canada (and vice versa)
 - Outcome unclear as to impact on U.S. economic growth and inflation
- Overseas
 - Euro zone bankers trimmed their outlook for growth in 2018 to 2.1%, down from 2.4%, given weaker economic data
 - Politics in Italy worried investors, causing yields on Italian bond to surge
 - Brexit negotiations stalled, raising the prospect of a “hard” Brexit
 - Japan’s GDP contracted for the 1st time in two years in the 1st quarter
 - China also showed signs of slowing

Market Environment 2Q18: Global Equity

The U.S. equity market posted solid returns in the second quarter on the back of strong first quarter earnings as well as record share buybacks fueled by the Trump Administration's \$1.5 trillion tax cut. Small growth stocks continued to dominate in the U.S., which outperformed developed markets largely due to relative strength in the U.S. dollar. Emerging market equities underperformed developed markets.

U.S. Equity

- Small caps outperformed large caps
 - R1000: +3.6%; +2.9% y-t-d
 - R2000: +7.8%; +7.7% y-t-d
 - Small caps more immune to global trade spats
- Growth outperformed value
 - R1000 Growth: +5.8%; R1000Value: +1.2% (+7.3% vs. -1.7% y-t-d)
- Energy sector fueled by rising oil prices
 - S&P 500 +3.4%; +2.6% y-t-d
 - Energy sector +13.5%
 - Consumer Discretionary (+8.2%) and Technology stocks (+7.1%) also top performers
 - Financials and Industrials lagged (both -3.2%)
 - Amazon alone accounted for ~50% of y-t-d total return of S&P
 - “FAAMG” plus Netflix: accounted for 57% of Q2 return of S&P

	Q2	YTD
Facebook Inc A	21.6%	10.1%
Apple Inc	10.8%	10.2%
Amazon.com Inc	17.4%	45.3%
Microsoft Corp	8.5%	16.3%
Google (Alphabet A&C)	8.2%	13.8%
Netflix Inc	32.5%	103.9%

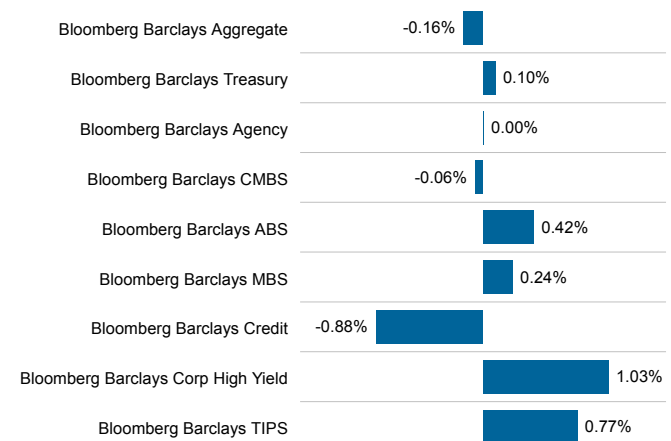
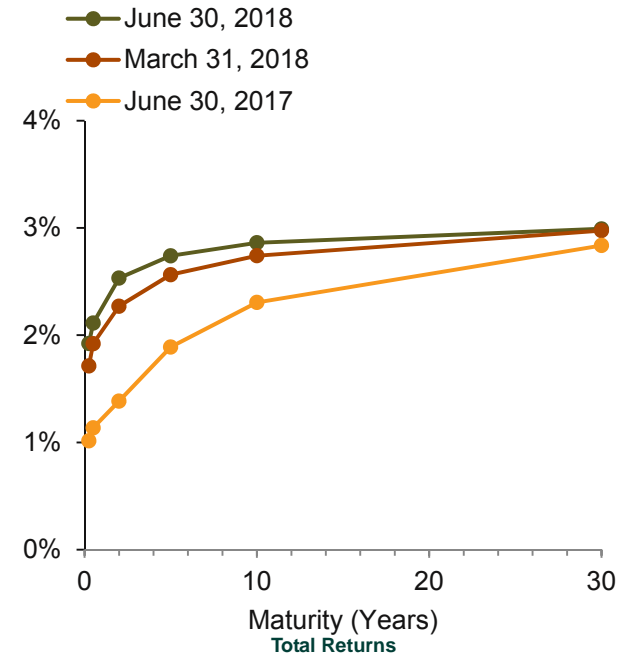
International Equity

- The U.S. dollar appreciated vs most currencies
 - Up 5% versus a basket of developed market currencies
 - Benefitted from higher interest rates and relatively strong U.S. economy
- Developed markets
 - MSCI EAFE (in \$US): -1.2%; -2.7% y-t-d
 - MSCI EAFE (local): +3.5%; -1.0% y-t-d
 - ACWI ex-US -2.6%; -3.8% y-t-d
 - Energy +7.3% on rising oil prices
 - Financials, 22% of the ACWI ex-US, sank 7.3%
 - Italy down sharply on political woes (-7.3%)
 - UK (+2.9%) and Australia (+5.2%) were bright spots, both benefitting from energy companies
 - As in the U.S., growth outperformed value
- Emerging Markets
 - MSCI EM (in \$US): -8.0%; -6.7% y-t-d
 - Brazil (-26.4%); Russia (-6.0%); India (-0.6%); China (-3.5%)

Market Environment 2Q18: Fixed Income

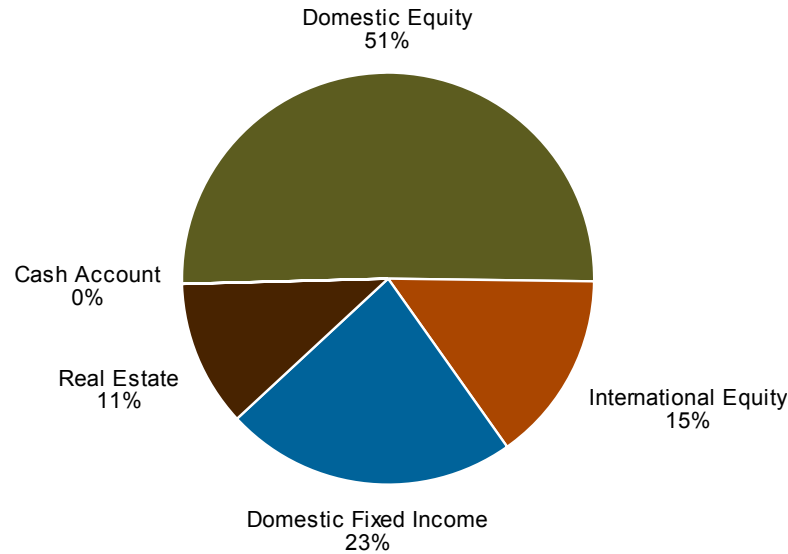
U.S. rates rose in the second quarter and the yield curve continued its flattening trend. The yield on the 10-year U.S. Treasury note hit an intra-quarter high of 3.11% in May but closed the quarter at 2.85%. Concerns over mounting trade tensions and slower global growth pushed yields lower going into quarter-end. Overseas, changes in interest rates were modest (with the exception of Italy, where yields spiked on political news) and U.S. dollar strength drove returns for unhedged bonds.

- U.S. rates rose modestly and the yield curve continued to flatten
 - 10-year U.S. Treasury yield up 11 bps to 2.85%
 - 2-year U.S. Treasury yield up 25 bps to 2.52%
 - Spread between the 2-year and 10-year (33 bps) lowest in more than 10 years
- Investment grade bonds roughly flat for the quarter
 - Bloomberg Barclays Aggregate -0.2%; -1.6% y-t-d
 - Investment grade corporates underperformed Treasuries as heavy supply weighed on the market; Corporate Index -1.0%; -3.3% y-t-d
- High yield corporates outperformed investment grade
 - Bloomberg Barclays High Yield: +1.0%; +0.2% y-t-d
- Foreign bonds (unhedged) hurt by U.S. dollar strength
 - Blmbg Barclays Global Agg ex-U.S. (hedged): +0.5%; +1.4% y-t-d
 - Blmbg Barclays Global Agg ex-U.S. (unhedged): -4.8%; -1.3% y-t-d
- Emerging markets sank
 - Higher interest rates in the U.S. and trade concerns weighed on markets
 - The JPM EMBI Global Diversified Index: -3.5%; -5.2% y-t-d
 - EM currencies hit especially hard; local currency-denominated JPM GBI-EM Global Diversified Index: -10.4%; -6.4% y-t-d

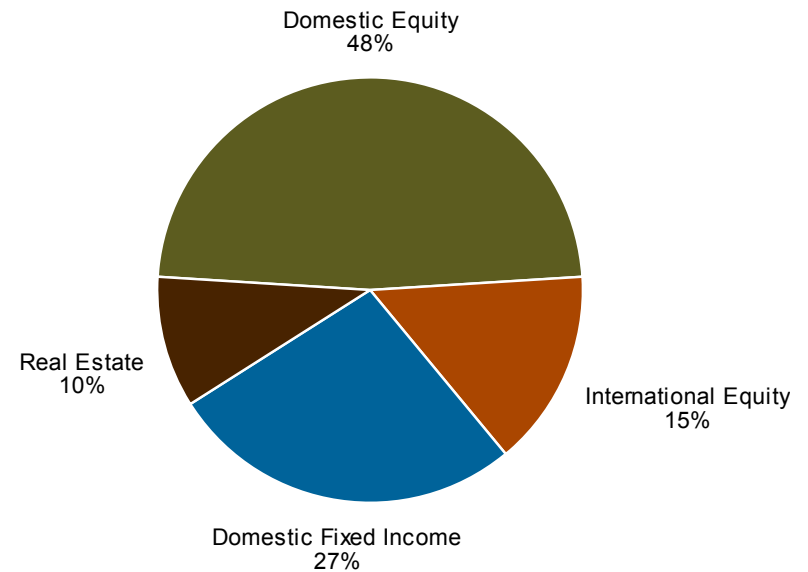


Asset Allocation Review

Actual Asset Allocation



Target Asset Allocation



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	101,193	50.6%	48.0%	2.6%	5,281
International Equity	29,917	15.0%	15.0%	(0.0%)	(55)
Domestic Fixed Income	45,757	22.9%	27.0%	(4.1%)	(8,194)
Real Estate	22,902	11.5%	10.0%	1.5%	2,920
Cash Account	48	0.0%	0.0%	0.0%	48
Total	199,818	100.0%	100.0%		

Relative Attribution Effects for Quarter ended June 30, 2018

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	50%	48%	4.46%	4.25%	0.11%	0.04%	0.15%
Domestic Fixed Income	23%	27%	(0.03%)	(0.16%)	0.03%	0.07%	0.10%
Real Estate	11%	10%	1.85%	1.89%	(0.00%)	0.00%	(0.00%)
International Equity	16%	15%	(1.36%)	(2.61%)	0.19%	(0.02%)	0.17%
Cash Account	0%	0%	0.40%	0.40%	0.00%	(0.00%)	(0.00%)

Total **2.21% = 1.79% + 0.33% + 0.09%** **0.41%**

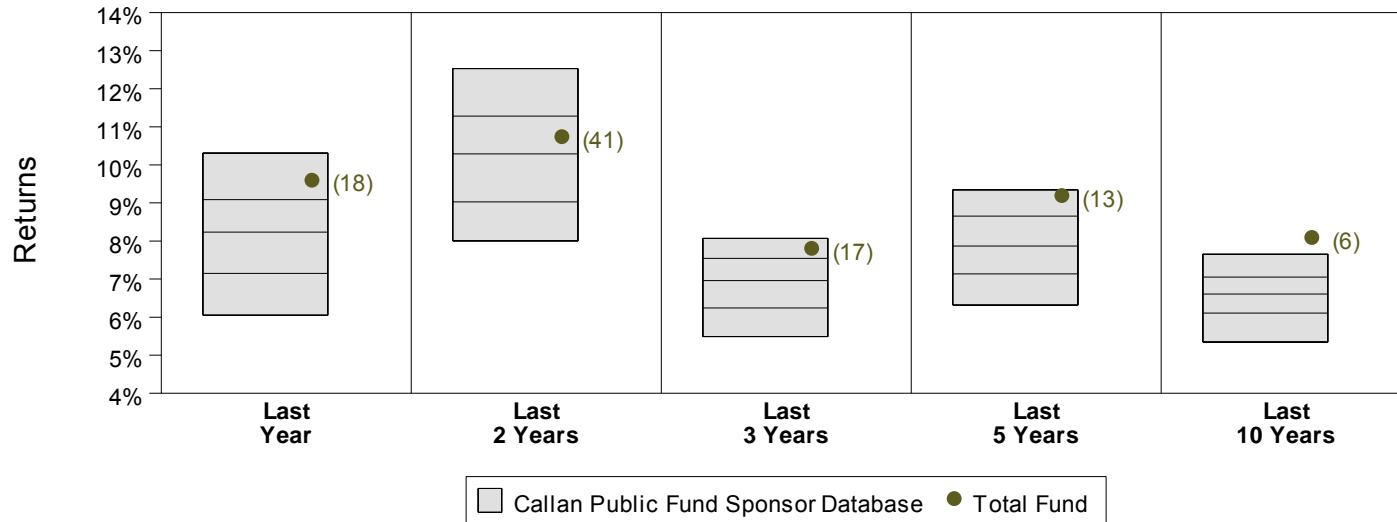
Asset Distribution Across Investment Managers

	June 30, 2018					March 31, 2018		
	Market Value	Weight	Target	Net New Inv.	Inv. Return	Market Value	Weight	Target
Domestic Equity	\$101,193,335	50.64%	48.00%	\$(62,149)	\$4,324,145	\$96,931,339	49.55%	48.00%
Emerald Advisers, Inc.	9,349,852	4.68%	3.75%	(35,028)	794,160	8,590,720	4.39%	3.75%
Ceredex Value Advisors	8,032,711	4.02%	3.75%	(16,664)	631,717	7,417,657	3.79%	3.75%
SSgA S&P 500 Index	68,193,040	34.13%	33.00%	(7,362)	2,257,357	65,943,045	33.71%	33.00%
SSgA S&P 400 Index	15,617,733	7.82%	7.50%	(3,095)	640,910	14,979,918	7.66%	7.50%
International Equity	\$29,917,443	14.97%	15.00%	\$(26,759)	\$(412,979)	\$30,357,181	15.52%	15.00%
Morgan Stanley Int'l Equity	14,060,446	7.04%	7.00%	(26,759)	12,779	14,074,427	7.19%	7.00%
Morgan Stanley Emerging Mkts.	1,269,315	0.64%	1.00%	0	(155,161)	1,424,475	0.73%	1.00%
William Blair & Company	14,587,682	7.30%	7.00%	0	(270,598)	14,858,280	7.60%	7.00%
Domestic Fixed Income	\$45,756,777	22.90%	27.00%	\$(34,678)	\$(13,813)	\$45,805,268	23.41%	27.00%
Richmond Capital Management	45,756,777	22.90%	27.00%	(34,678)	(13,813)	45,805,268	23.41%	27.00%
Real Estate	\$22,902,250	11.46%	10.00%	\$0	\$415,411	\$22,486,839	11.49%	10.00%
Heitman	22,902,250	11.46%	10.00%	0	415,411	22,486,839	11.49%	10.00%
Cash Account	\$47,866	0.02%	0.00%	\$0	\$192	\$47,674	0.02%	0.00%
Total Fund	\$199,817,671	100.0%	100.0%	\$(123,586)	\$4,312,955	\$195,628,302	100.0%	100.0%

- The total fund increased by \$4.2 million over the quarter to \$199.8 million as of June 30, 2018

City of Fort Pierce Total Fund

Callan Public Fund Sponsor Database



	Last Quarter		Last Year		Last 3 Years		Last 5 Years		Last 7 Years	
Total Fund	2.21%	3	9.56%	18	7.76%	17	9.15%	13	8.96%	8
Total Fund Benchmark(1)	1.79%	6	8.73%	33	7.76%	17	8.79%	21	8.41%	19
CPI + 5%	2.31%	2	8.09%	52	6.74%	57	6.37%	90	6.46%	84
Callan Public Fund Spr DB	0.95%		8.23%		6.96%		7.87%		7.44%	

- The Total Fund was ahead of the benchmark for the quarter and above the majority of peers
- Total Fund performance relative to the benchmark and peers has remained strong over time

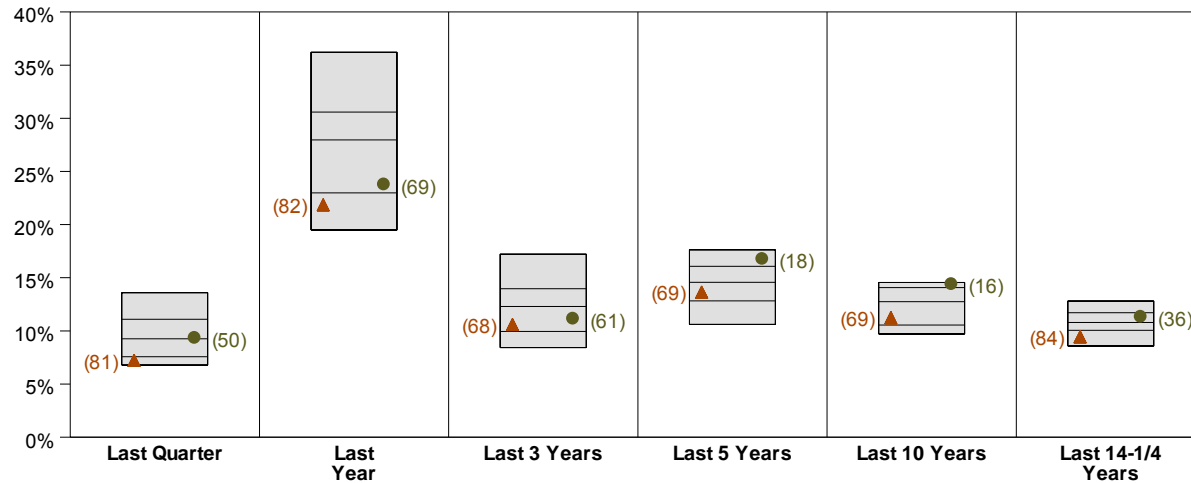
(1) The Total Fund Benchmark consists of 33% S&P 500 Index, 27% Blmbg Aggregate Index, 15% MSCI ACWI ex US (Net), 10% NFI-ODCE Equal Weight Net, 7.50% S&P MidCap 400, 3.75% Russell 2000 Growth and 3.75% Russell 2000 Value.



Domestic Equity Performance

Emerald Advisors Small Cap Growth

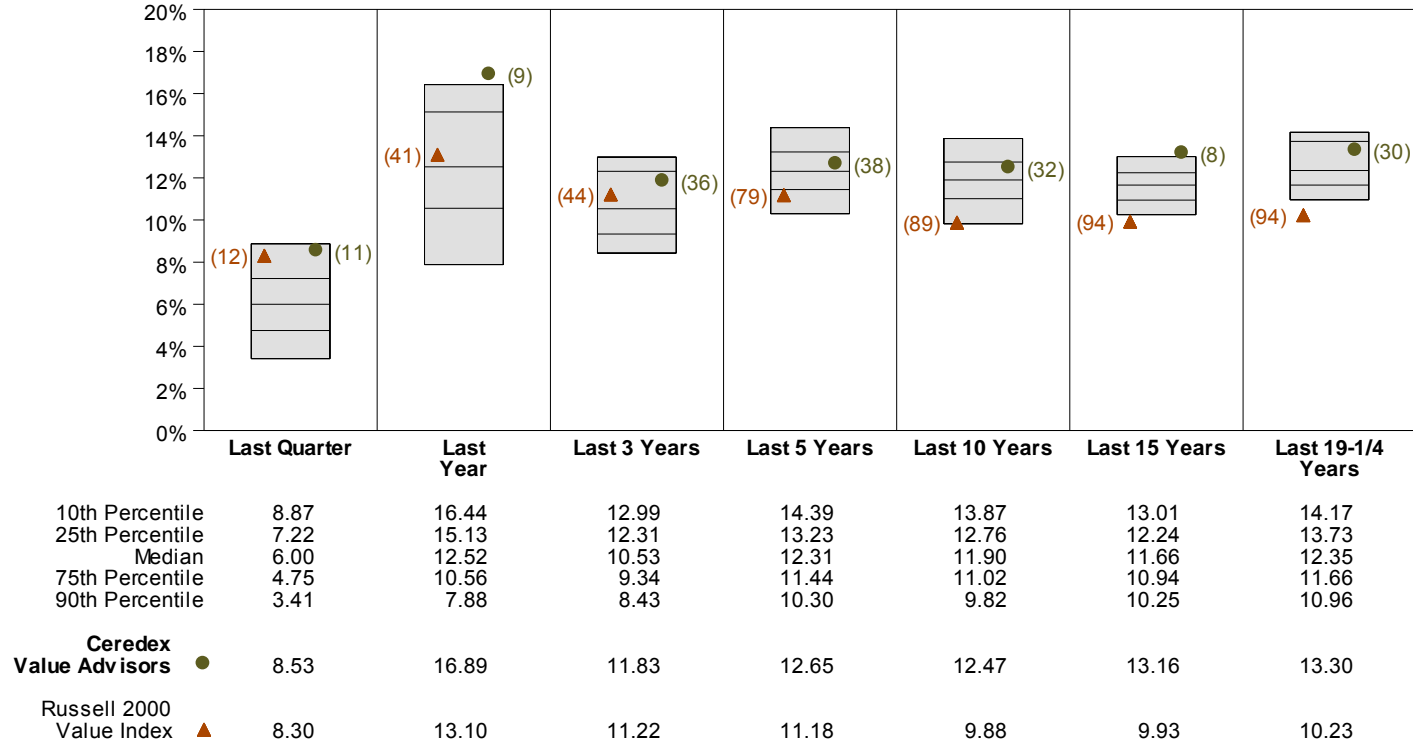
Performance vs Callan Small Cap Growth (Gross)



- Emerald outperformed the benchmark by 2.02% during the quarter and outperformed by 1.83% over the last year
- Emerald has strong long-term returns well above the benchmark over longer time frames
- Emerald and 1251 Capital Group have entered into an agreement in which 1251 will acquire a partnership stake in Emerald. 1251 Capital Group is a financial services company focusing on asset management and insurance industries. Transaction is contingent on the consent of clients.

Ceredex Value Advisors Small Cap Value

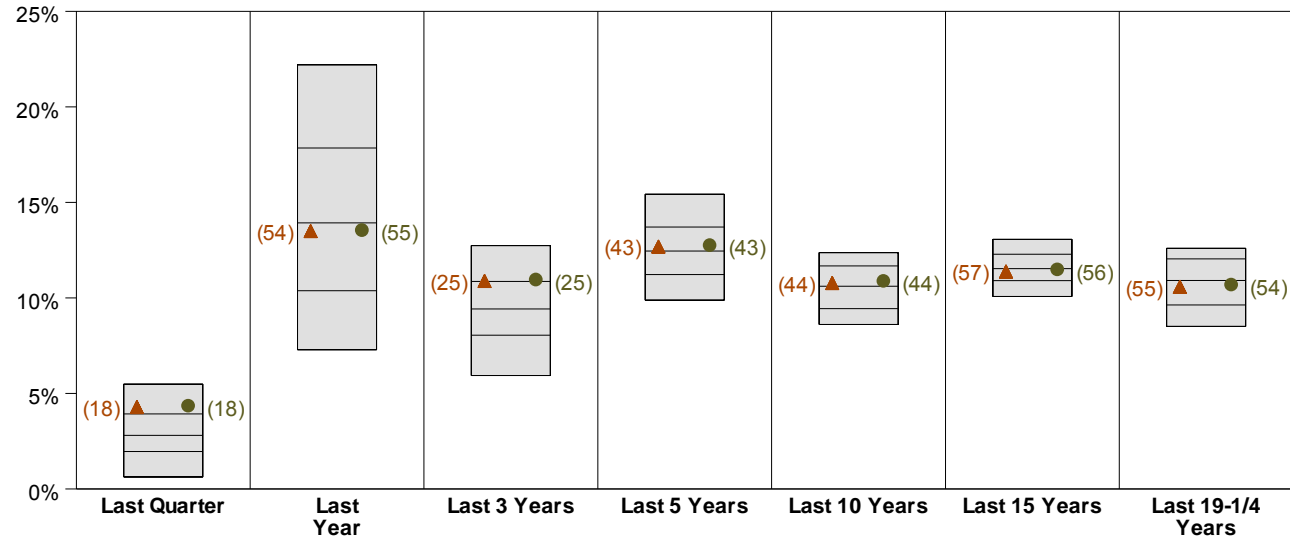
Performance vs Callan Small Cap Value (Gross)



- Ceredex outperformed the benchmark by 0.22% for the quarter and outperformed by 3.80% over the last year
- Long-term results are strong as the fund has outperformed the benchmark for all trailing periods shown
- Stock selection in Financials, Consumer Staples, and Information Technology contributed to the outperformance for the quarter

SSgA S&P Mid Cap 400 Index

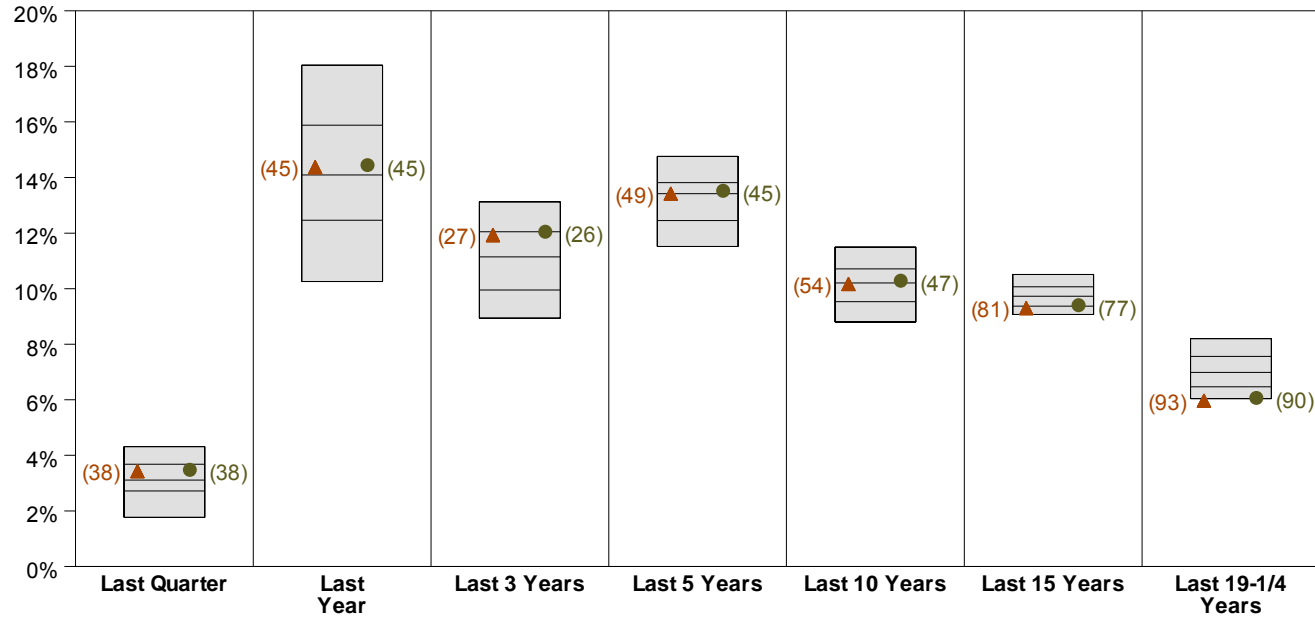
Performance vs Callan Mid Capitalization (Gross)



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

SSgA S&P 500 Index

Performance vs Callan Large Cap Core (Gross)



10th Percentile	4.31	18.04	13.12	14.76	11.50	10.51	8.20
25th Percentile	3.68	15.89	12.05	13.81	10.71	10.07	7.56
Median	3.11	14.09	11.14	13.42	10.21	9.73	6.99
75th Percentile	2.72	12.46	9.95	12.45	9.53	9.37	6.47
90th Percentile	1.77	10.26	8.94	11.52	8.80	9.07	6.04
SSgA S&P 500 Index ●	3.42	14.39	11.99	13.46	10.23	9.35	6.01
S&P 500 Index ▲	3.43	14.37	11.93	13.42	10.17	9.30	5.97

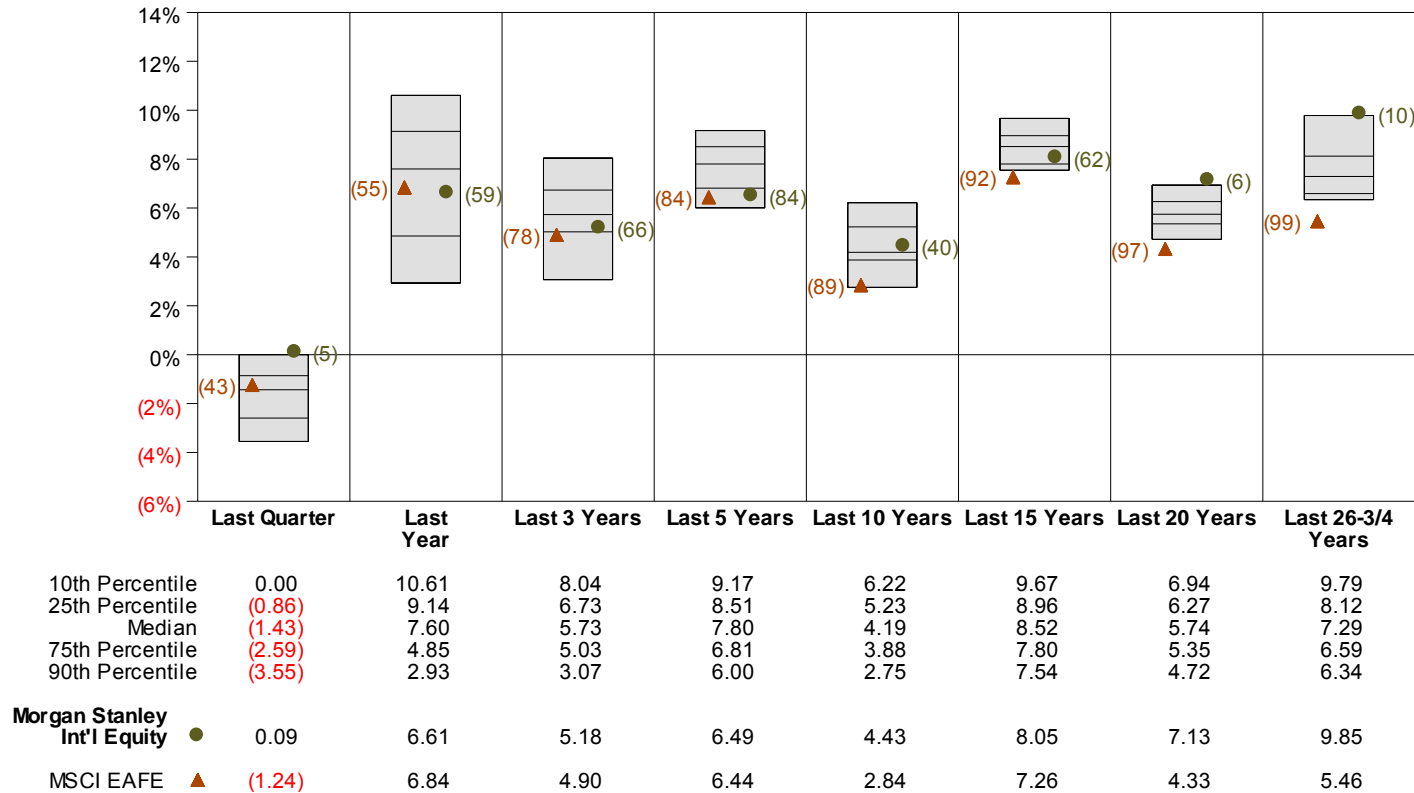
- The fund continues to track the index closely at a very low fee



International Equity Performance

Morgan Stanley Developed International Equity

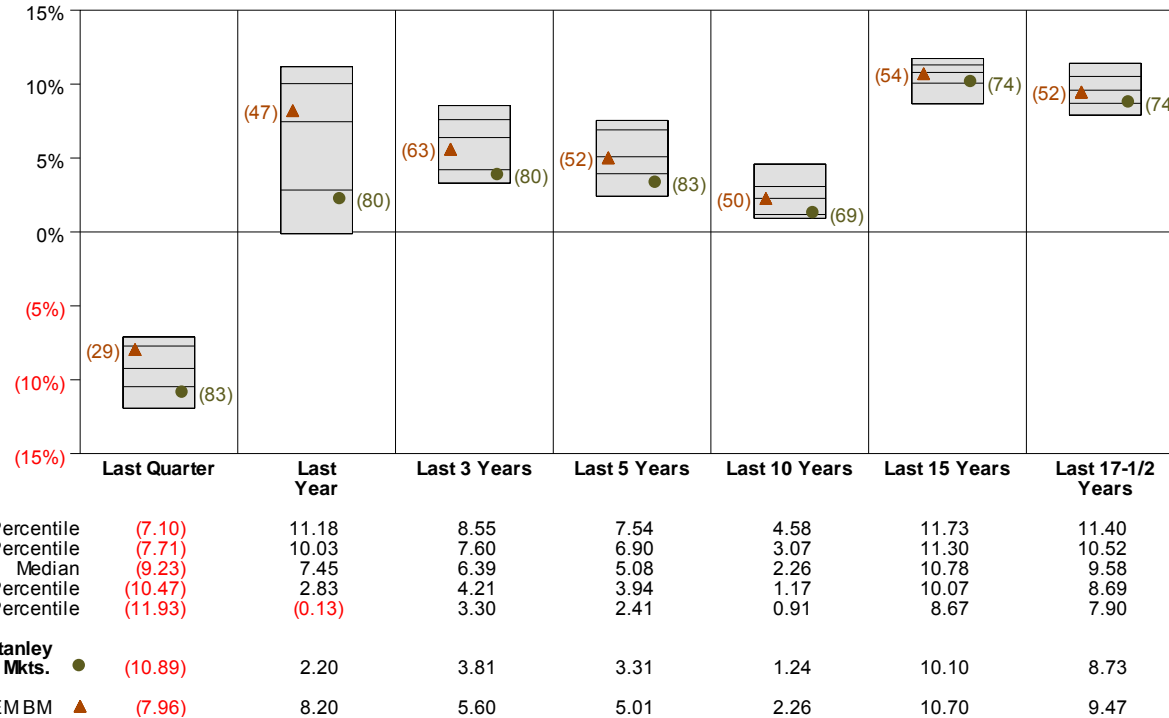
Performance vs Callan Non-US Developed Core Equity (Gross)



- The fund outperformed by 1.32% for the quarter, gaining back most of the underperformance over the last year
- Stock selection in Industrials, Consumer Staples, and Information Technology added to outperformance for the quarter

Morgan Stanley Emerging Markets Equity

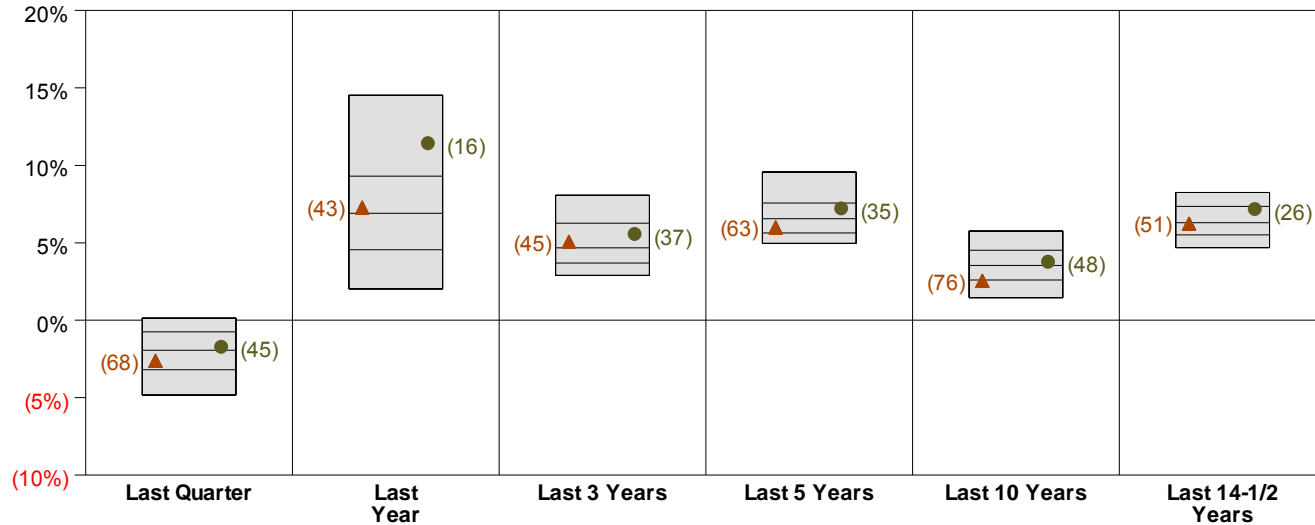
Performance vs Callan Emerging Markets Equity Mut Funds (Institutional Net)



- The fund underperformed the index by 2.93% for the quarter and underperformed by 6.01% over the last year
- The primary detractors from performance during the quarter were stock selection in India, South Africa, Argentina and Poland

William Blair International Growth Equity

Performance vs Callan Non US Equity Mutual Funds (Institutional Net)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 14-1/2 Years
10th Percentile	0.14	14.53	8.07	9.56	5.76	8.24
25th Percentile	(0.75)	9.31	6.26	7.57	4.52	7.35
Median	(1.93)	6.90	4.68	6.55	3.54	6.30
75th Percentile	(3.19)	4.55	3.70	5.63	2.60	5.51
90th Percentile	(4.83)	2.02	2.90	4.96	1.45	4.69
William Blair & Company ●	(1.82)	11.31	5.46	7.11	3.68	7.09
MSCI ACWI ex US ▲	(2.61)	7.28	5.07	5.99	2.54	6.24

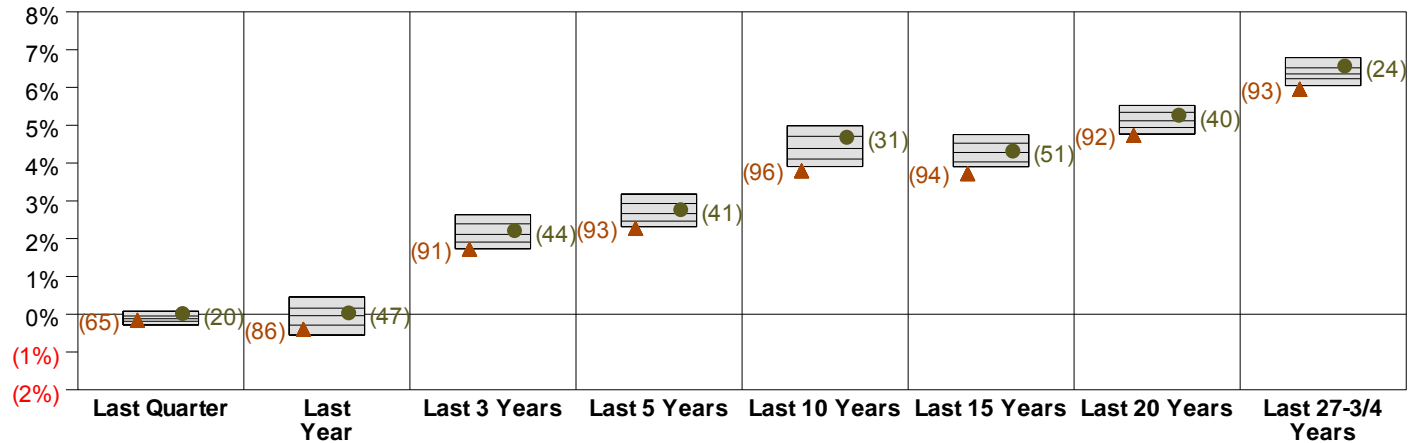
- The fund outperformed by 0.79% for the quarter and outperformed by 4.04% over the last year
- Long-term performance remains strong, as the fund has outperformed for all time periods presented
- Stock selection within the Consumer Staples sector was a key contributor to outperformance for the quarter



Fixed Income

Richmond Capital Core Fixed Income

Performance vs Callan Core Bond Fixed Income (Gross)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 27-3/4 Years
10th Percentile	0.08	0.46	2.63	3.18	4.98	4.75	5.53	6.79
25th Percentile	(0.05)	0.16	2.39	2.93	4.71	4.52	5.34	6.52
Median	(0.12)	(0.04)	2.11	2.67	4.39	4.28	5.12	6.36
75th Percentile	(0.19)	(0.29)	1.91	2.46	4.11	4.03	4.94	6.23
90th Percentile	(0.28)	(0.55)	1.73	2.32	3.91	3.91	4.76	6.05
Richmond Capital Management ●	(0.03)	(0.01)	2.16	2.72	4.64	4.27	5.22	6.52
Blended Benchmark* ▲	(0.16)	(0.40)	1.72	2.27	3.80	3.72	4.73	5.96

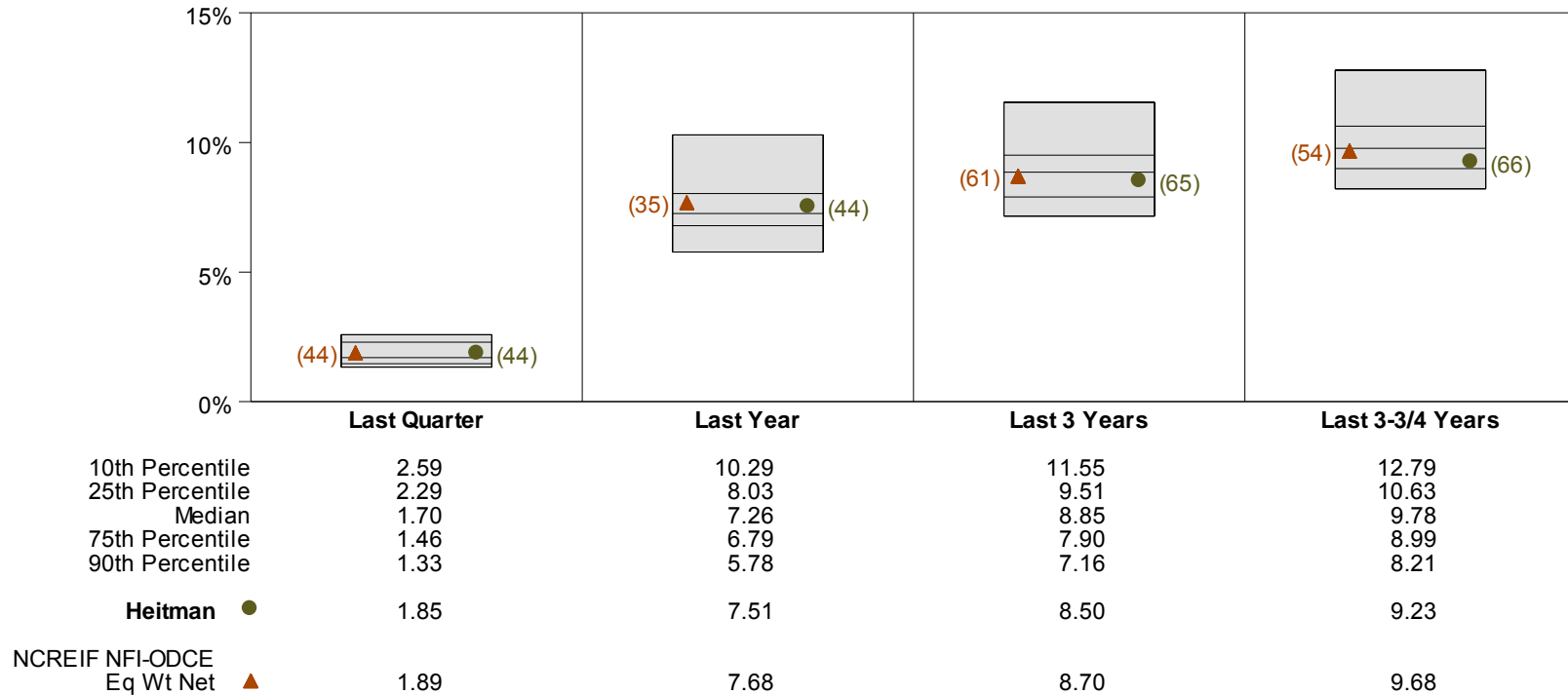
- Richmond outperformed for the quarter and outperformed over the year by 0.39%
- Long-term performance remains strong. The fund has outperformed by 0.84% over the last 10 years



Real Estate

Heitman America Real Estate Trust

Performance vs Callan Open End Core Cmmingled Real Est (Net)



- Eleventh full quarter of performance for Heitman. The fund underperformed the index by 0.18% over the last year
- Approximately half of the return from the quarter came from income, with the other half driven by capital appreciation. Appreciation was most pronounced in among the Fund's industrial holdings.

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%.	Not 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