

# Callan



September 19, 2019

## City of Fort Pierce

Second Quarter Performance  
Review

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# Does Strong First Half Spell Problems for Second Half of 2019 and 2020?

Did we just “steal” the expected return for the next 18 months?

**Strong equity markets continue in Q2, adding to sharp rebound in Q1**

- S&P up 18.5%, ACWI ex USA up 13.6% y-t-d

Dovish Fed comments, solid corporate fundamentals, and even lower unemployment propel equity markets in Q2:

- low quality stocks outperform
- growth over value
- small cap lags large cap once again
- Developed non-U.S. equities continue rebound, EM stalls in Q2

Trade uncertainty slowed markets in May, hope of deal rebounded in June

**Fixed income markets participate, too**

- Investment grade is strongest performer in the U.S.
- Credit spreads continued rally in Q2
- Yield curve shifts lower across maturities, inverts from 3 months – 10 years; upward sloping from 1 year

## Returns for Periods ended June 30, 2019

	1 Quarter	1 Year	5 Years	10 Years	25 Years
<b>U.S. Equity</b>					
Russell 3000	4.10	8.98	10.19	14.67	9.98
S&P 500	4.30	10.42	10.71	14.70	9.97
Russell 2000	2.10	-3.31	7.06	13.45	9.26
<b>Non-U.S. Equity</b>					
MSCI World ex USA	3.79	1.29	2.04	6.75	5.01
MSCI Emerging Markets	0.61	1.22	2.49	5.81	--
MSCI ACWI ex USA Small Cap	1.21	-5.94	2.77	8.48	5.32
<b>Fixed Income</b>					
Bloomberg Barclays Aggregate	3.08	7.87	2.95	3.90	5.50
3-Month T-Bill	0.64	2.31	0.87	0.49	2.52
Bloomberg Barclays Long Gov/Credit	6.59	13.82	5.68	7.62	7.73
Bloomberg Barclays Global Agg ex-US	3.42	4.10	-0.12	2.10	4.49
<b>Real Estate</b>					
NCREIF Property	1.51	6.51	8.83	9.25	9.36
FTSE NAREIT Equity	1.24	11.21	7.92	15.46	10.25
<b>Alternatives</b>					
CS Hedge Fund	2.35	2.46	2.36	5.03	7.84
Cambridge Private Equity*	4.86	12.71	12.30	14.83	15.32
Bloomberg Commodity	-1.19	-6.75	-9.15	-3.74	1.69
Gold Spot Price	8.87	12.69	1.35	4.31	5.32
<b>Inflation - CPI-U</b>	0.76	1.65	1.45	1.73	2.22

\*Cambridge PE data are available through December 31, 2018

\*Source: Callan

# Q2 Rebound Continues, Global Stock Markets Surge Through First Half of 2019

## New record for the S&P 500 reached in Q2 2019

- 4.3% gain in Q2, on top of strongest first quarter (13.7%) since 2009

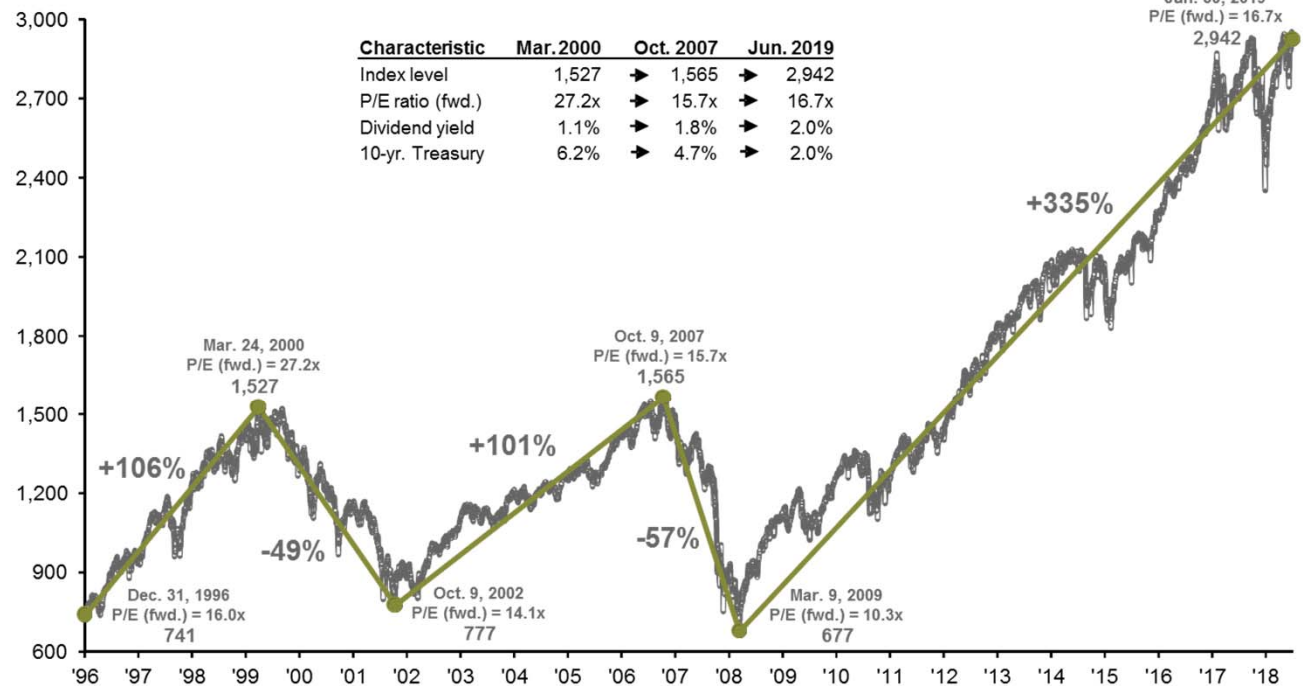
## Forward valuation rose back to 17.1 in Q2, above its 25-year average (16.2)

- Still nowhere near the peak set in 2000

## Yield on 10-year Treasury fell back to the level of the dividend yield on stocks

- Prior to GFC, Treasury yield typically exceeded that of the stock dividend; two yields were very close for eight years following GFC
- Gap began to widen with Fed tightening in 2017, but narrowed again in Q2 with reversal of Fed policy
- Vastly different relationship between stock and bond yields in 2000 and 2007

S&P 500 Price Index



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management. Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Guide to the Markets – U.S. Data are as of June 30, 2019.

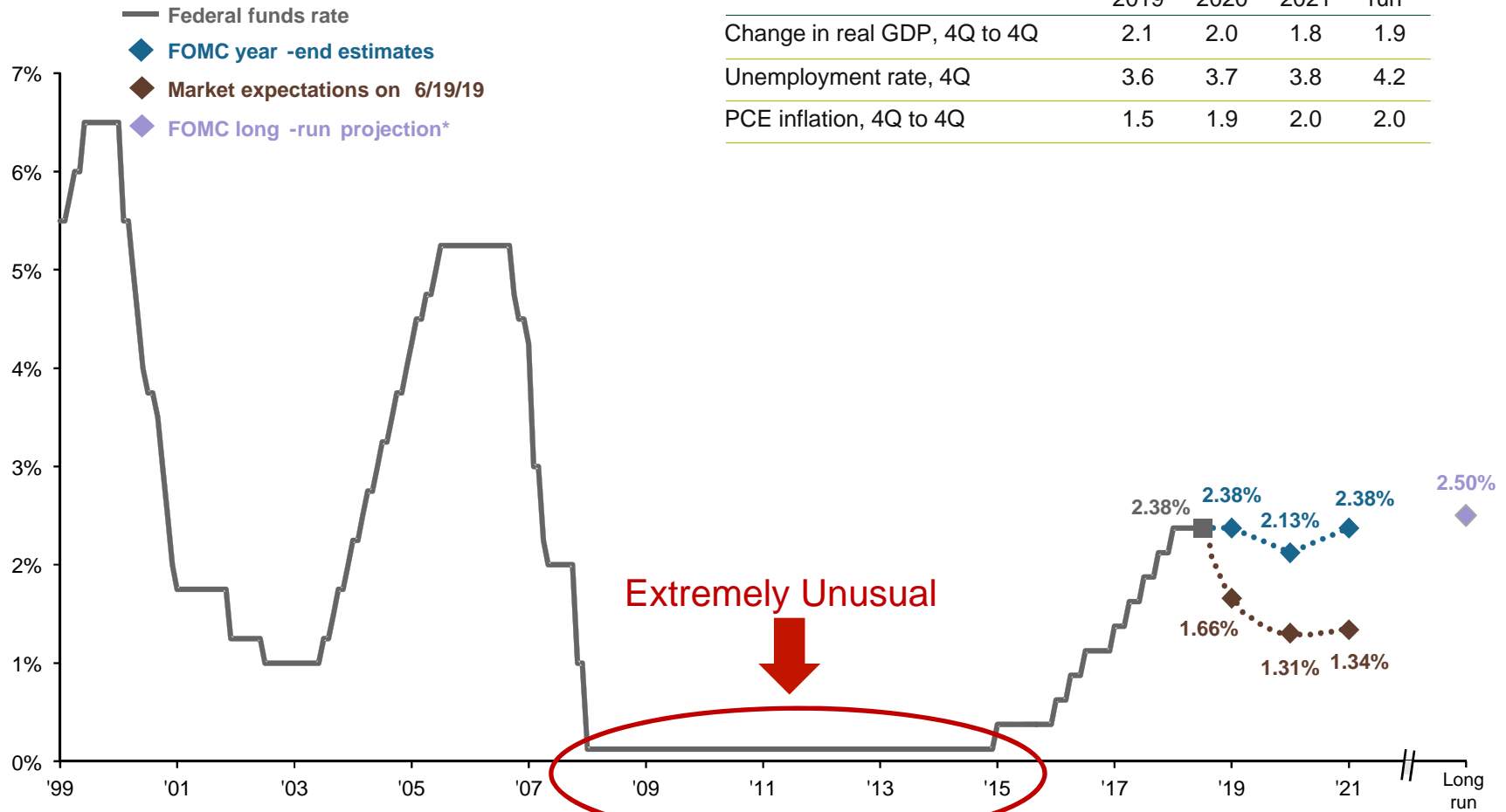
Source: J.P. Morgan Asset Management.

# Fed Interest Rate Setting: Response to Economy, Policy Reversal, or Capitulation?

Fed halted interest rate increases in January 2019; suggesting cuts as soon as Q3 2019

## Federal funds rate expectations

FOMC and market expectations for the fed funds rate



Sources: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.

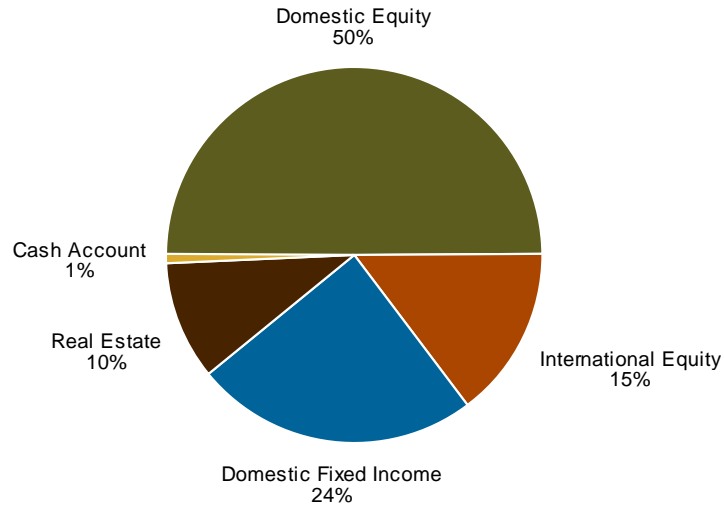
Market expectations are the federal funds rates priced into the fed futures market as of the date of the June 2019 FOMC meeting and are through December 2021.

\*Long run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.

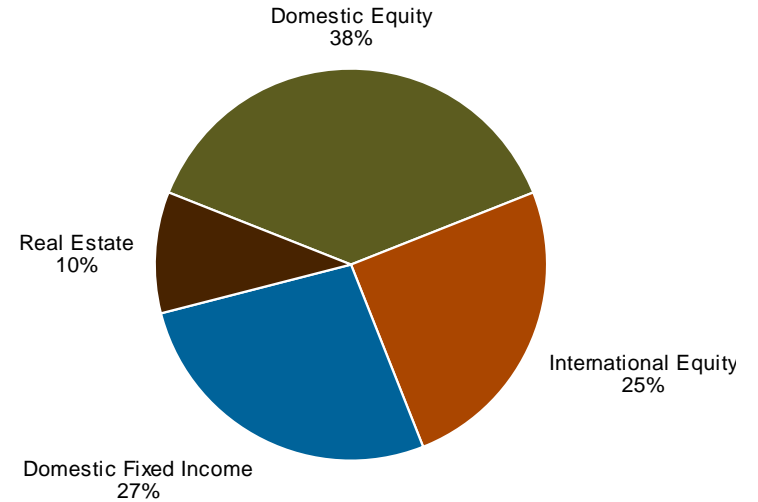
Guide to the Markets – U.S. Data are as of June 30, 2019.

# Asset Allocation

**Actual Asset Allocation**



**Target Asset Allocation**



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	100,770	49.9%	38.0%	11.9%	23,968
International Equity	29,961	14.8%	25.0%	(10.2%)	(20,567)
Domestic Fixed Income	49,219	24.4%	27.0%	(2.6%)	(5,351)
Real Estate	20,539	10.2%	10.0%	0.2%	328
Cash Account	1,622	0.8%	0.0%	0.8%	1,622
<b>Total</b>	<b>202,111</b>	<b>100.0%</b>	<b>100.0%</b>		

**Relative Attribution Effects for Quarter ended June 30, 2019**

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	49%	38%	3.92%	3.75%	0.08%	0.07%	0.15%
Domestic Fixed Income	24%	27%	2.92%	3.08%	(0.04%)	0.00%	(0.04%)
Real Estate	10%	10%	(0.58%)	1.12%	(0.18%)	(0.01%)	(0.18%)
International Equity	14%	25%	3.89%	2.98%	0.13%	0.01%	0.14%
Cash Account	2%	0%	0.56%	0.56%	0.00%	(0.06%)	(0.06%)

**Total** 3.13% = 3.11% + (0.00%) + 0.02%

## Asset Distribution Across Investment Managers

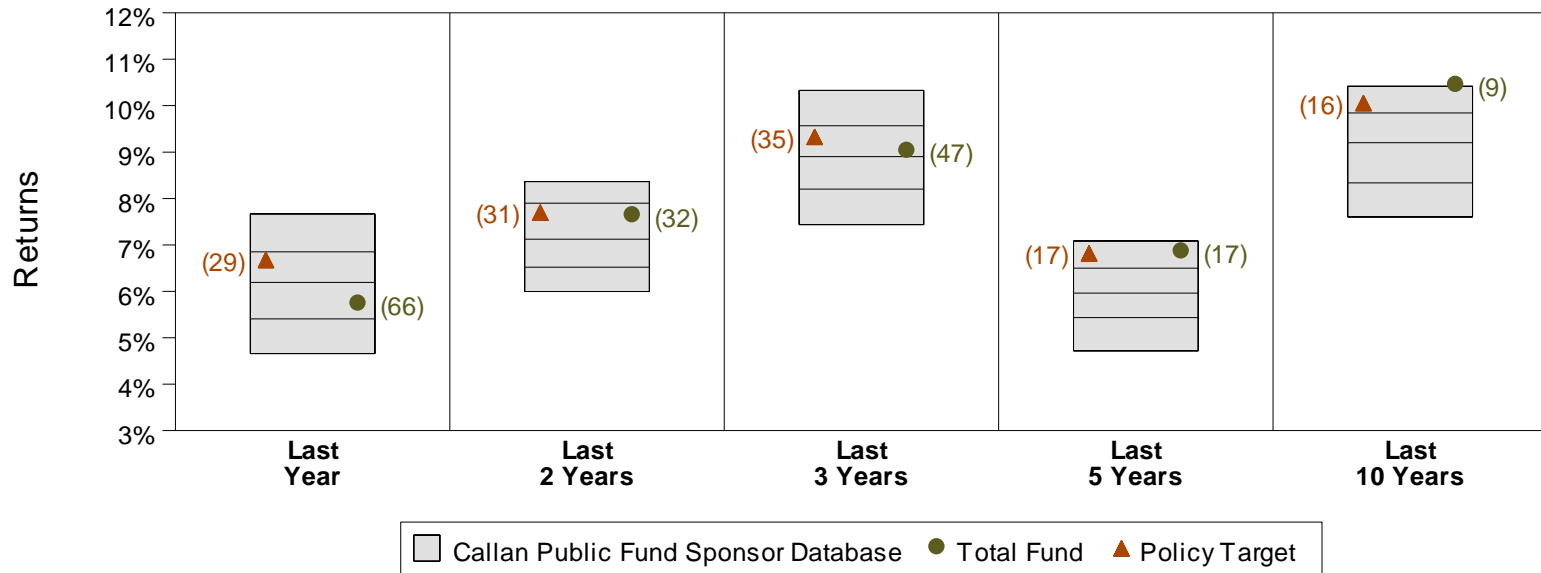
	June 30, 2019					March 31, 2019		
	Market Value	Weight	Target	Net New Inv.	Inv. Return	Market Value	Weight	Target
<b>Domestic Equity</b>	<b>\$100,769,624</b>	<b>49.86%</b>	<b>38.00%</b>	<b>\$(1,045,256)</b>	<b>\$3,833,936</b>	<b>\$97,980,944</b>	<b>48.63%</b>	<b>38.00%</b>
Emerald Advisers, Inc.	8,705,161	4.31%	3.00%	(1,018,829)	348,216	9,375,773	4.65%	3.00%
Ceredex Value Advisors	7,691,891	3.81%	3.00%	(16,920)	176,931	7,531,880	3.74%	3.00%
SSgA S&P 500 Index	68,549,888	33.92%	26.00%	(6,467)	2,834,057	65,722,297	32.62%	26.00%
SSgA S&P 400 Index	15,822,684	7.83%	6.00%	(3,040)	474,731	15,350,993	7.62%	6.00%
<b>International Equity</b>	<b>\$29,961,007</b>	<b>14.82%</b>	<b>25.00%</b>	<b>\$(25,917)</b>	<b>\$1,121,456</b>	<b>\$28,865,469</b>	<b>14.33%</b>	<b>25.00%</b>
Morgan Stanley Int'l Equity	14,087,317	6.97%	10.00%	(25,917)	388,905	13,724,330	6.81%	10.00%
Morgan Stanley Emerging Mkts.	1,270,070	0.63%	2.50%	0	29,751	1,240,319	0.62%	2.50%
William Blair & Company	14,603,621	7.23%	12.50%	0	702,800	13,900,821	6.90%	12.50%
<b>Domestic Fixed Income</b>	<b>\$49,218,842</b>	<b>24.35%</b>	<b>27.00%</b>	<b>\$(35,445)</b>	<b>\$1,395,665</b>	<b>\$47,858,622</b>	<b>23.75%</b>	<b>27.00%</b>
Richmond Capital Management	49,218,842	24.35%	27.00%	(35,445)	1,395,665	47,858,622	23.75%	27.00%
<b>Real Estate</b>	<b>\$20,539,132</b>	<b>10.16%</b>	<b>10.00%</b>	<b>\$0</b>	<b>\$(120,206)</b>	<b>\$20,659,338</b>	<b>10.25%</b>	<b>10.00%</b>
Heitman	20,539,132	10.16%	10.00%	0	(120,206)	20,659,338	10.25%	10.00%
<b>Cash Account</b>	<b>\$1,622,074</b>	<b>0.80%</b>	<b>0.00%</b>	<b>\$(4,500,000)</b>	<b>\$15,804</b>	<b>\$6,106,270</b>	<b>3.03%</b>	<b>0.00%</b>
<b>Total Fund</b>	<b>\$202,110,679</b>	<b>100.0%</b>	<b>100.0%</b>	<b>\$(5,606,618)</b>	<b>\$6,246,654</b>	<b>\$201,470,643</b>	<b>100.0%</b>	<b>100.0%</b>

Investment returns were positive for the quarter at \$6.2 million

The total portfolio overseen by Callan is approximately \$202.1 million as of June 30, 2019

# City of Fort Pierce Total Fund

## Callan Public Fund Sponsor Database



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 7 Years
<b>Total Fund</b>	<b>3.13%</b>	<b>5.72%</b>	<b>9.02%</b>	<b>6.85%</b>	<b>9.31%</b>
Total Fund Benchmark(1)	3.11%	6.68%	9.33%	6.82%	9.00%
CPI + 5%	2.00%	6.44%	7.01%	6.25%	6.44%
Callan Public Fund Spr DB	3.27%	6.19%	8.91%	5.96%	8.11%
	<b>61</b>	<b>66</b>	<b>47</b>	<b>17</b>	<b>14</b>
	63	29	35	17	21
	98	39	94	41	93

The Total Fund was ahead of the benchmark for the quarter and modestly trailed the peer group median

Total Fund performance relative to the benchmark and peers has remained strong over time

(1) The Total Fund Benchmark consists of 26% S&P500 Index, 27% Blmbg Aggregate Index, 25% MSCI ACWI ex US (Net), 10% NFI-ODCE Equal Weight Net, 6% S&P MidCap 400, 3% Russell 2000 Growth and 3% Russell 2000 Value.

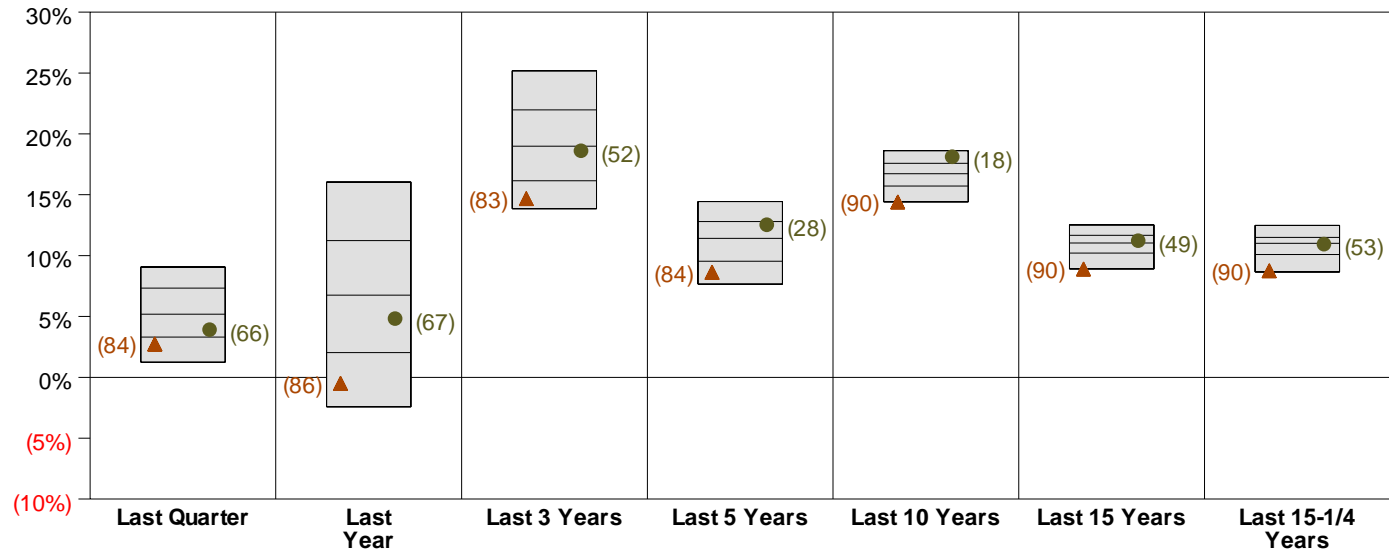
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**Domestic Equity Performance**

# Emerald Advisors Small Cap Growth

## Performance vs Callan Small Cap Growth (Gross)



10th Percentile	9.07	16.05	25.18	14.45	18.62	12.52	12.48
25th Percentile	7.32	11.23	21.97	12.81	17.58	11.67	11.49
Median	5.19	6.75	18.99	11.41	16.73	11.04	11.01
75th Percentile	3.31	2.04	16.15	9.54	15.71	10.21	10.10
90th Percentile	1.25	(2.43)	13.84	7.67	14.42	8.90	8.66
<b>Emerald Advisors, Inc.</b>	● 3.79	4.70	18.48	12.41	18.00	11.09	10.81
Russell 2000 Growth Index	▲ 2.75	(0.49)	14.69	8.63	14.41	8.90	8.76

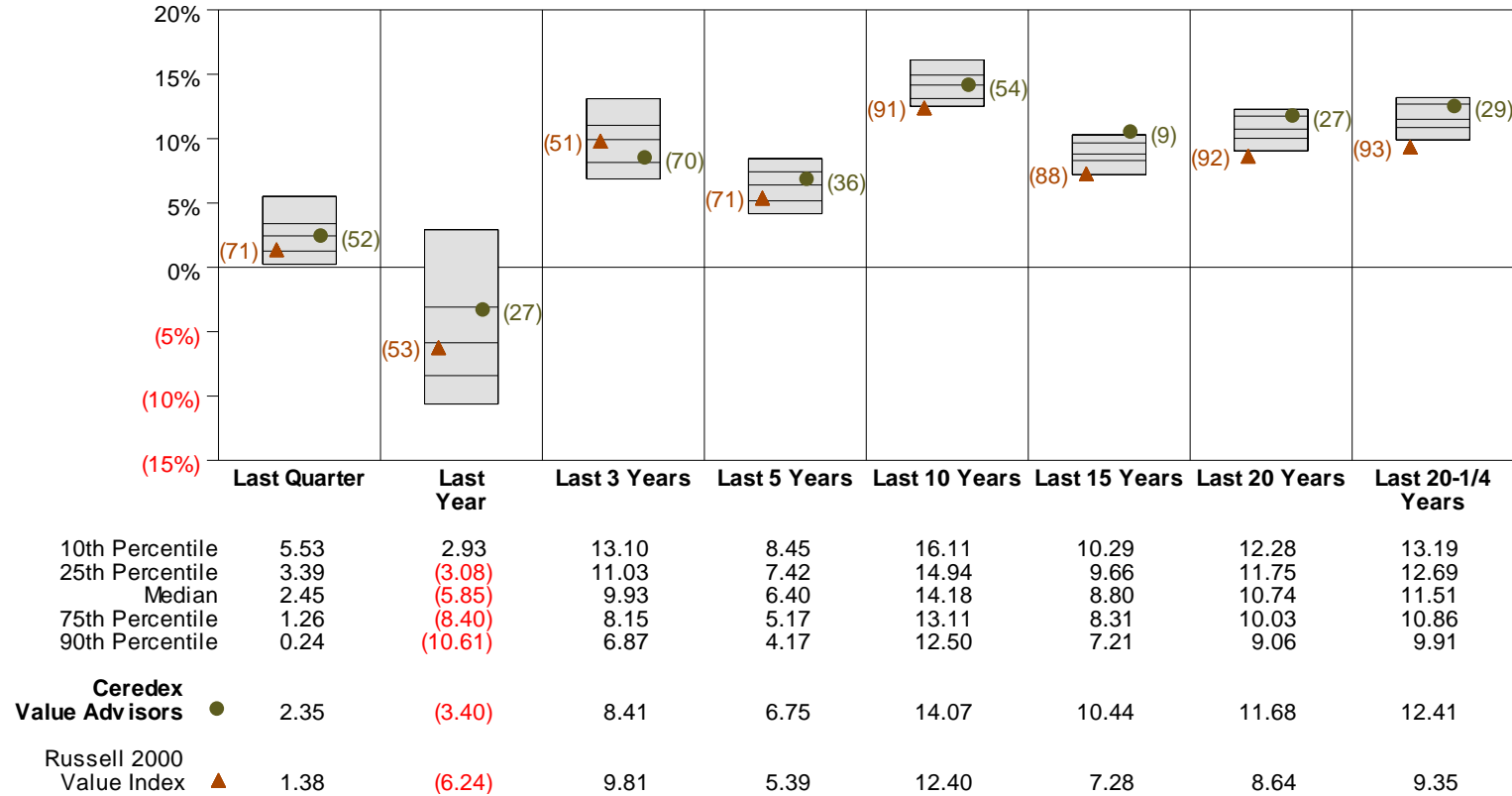
Emerald has strong long-term returns well above the benchmark

Emerald outperformed the benchmark by 1.04% during the quarter and outperformed by 5.19% over the last year

Outperformance for the quarter was driven by stock selection in the Healthcare, Financial Services and Consumer Staples sectors

# Ceredex Value Advisors Small Cap Value

## Performance vs Callan Small Cap Value (Gross)



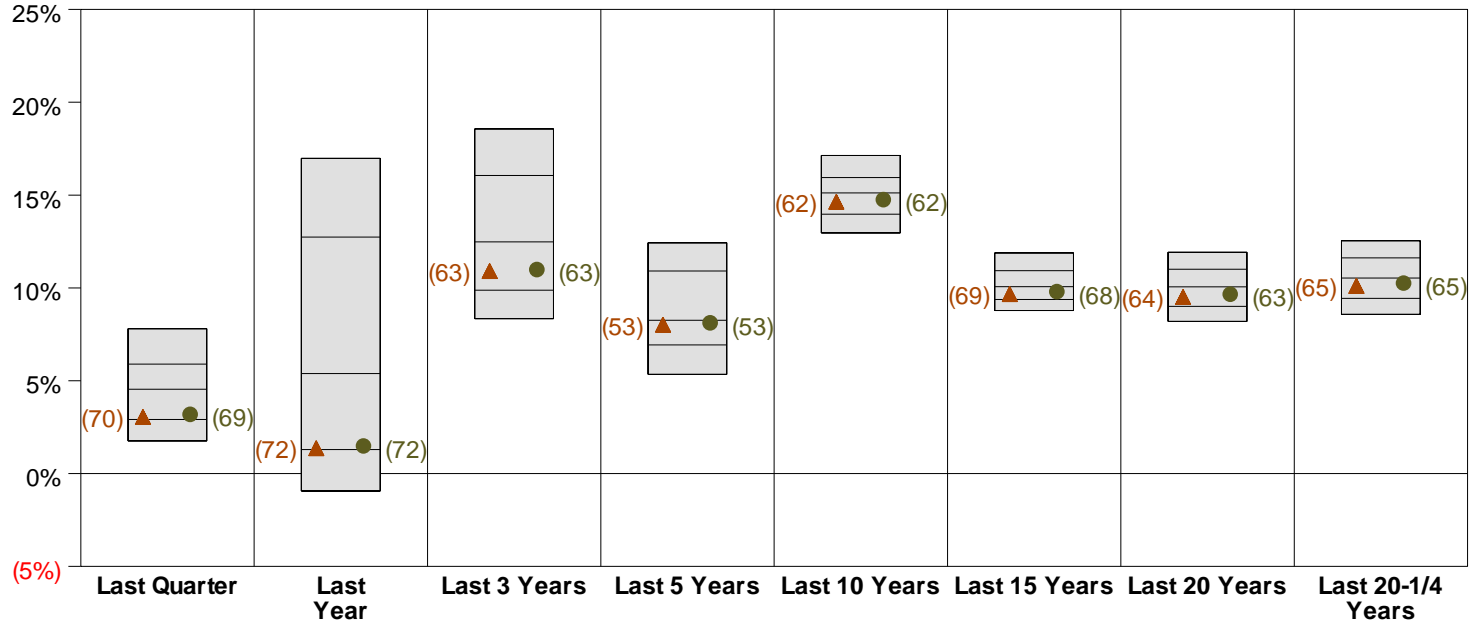
Ceredex outperformed the benchmark by 0.97% for the quarter and outperformed by 2.84% over the last year

Long-term results are strong as the fund has outperformed the benchmark for most of the trailing periods shown

Stock selection in the Industrials, Consumer Discretionary, Information Technology, and Financials contributed to relative performance

# SSgA S&P Mid Cap 400 Index

## Performance vs Callan Mid Capitalization (Gross)



	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 20-1/4 Years
10th Percentile	7.80	16.97	18.56	12.43	17.14	11.89	11.92	12.54
25th Percentile	5.90	12.73	16.06	10.92	15.95	10.94	11.01	11.61
Median	4.54	5.38	12.49	8.26	15.12	10.07	10.05	10.53
75th Percentile	2.92	1.29	9.88	6.94	13.97	9.38	9.01	9.44
90th Percentile	1.76	(0.94)	8.35	5.35	12.96	8.79	8.20	8.58
<b>SSgA S&amp;P 400 Index</b> ●	3.09	1.39	10.90	8.02	14.66	9.70	9.56	10.16
S&P Mid Cap 400 Index ▲	3.05	1.36	10.90	8.02	14.64	9.67	9.51	10.11

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	6.03	15.68	15.90	11.74	15.50	9.71	8.02	8.35
25th Percentile	5.13	11.82	15.18	10.91	15.00	9.51	7.39	7.72
Median	4.28	9.25	13.81	10.32	14.41	9.20	6.83	7.22
75th Percentile	3.74	6.38	12.89	9.23	13.95	8.79	6.29	6.61
90th Percentile	2.59	5.08	12.05	8.49	12.88	8.57	5.91	6.15
<b>SSgA S&amp;P 500 Index</b> ●	4.31	10.45	14.23	10.76	14.75	8.80	5.95	6.23
<b>S&amp;P 500 Index</b> ▲	4.30	10.42	14.19	10.71	14.70	8.75	5.90	6.18

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

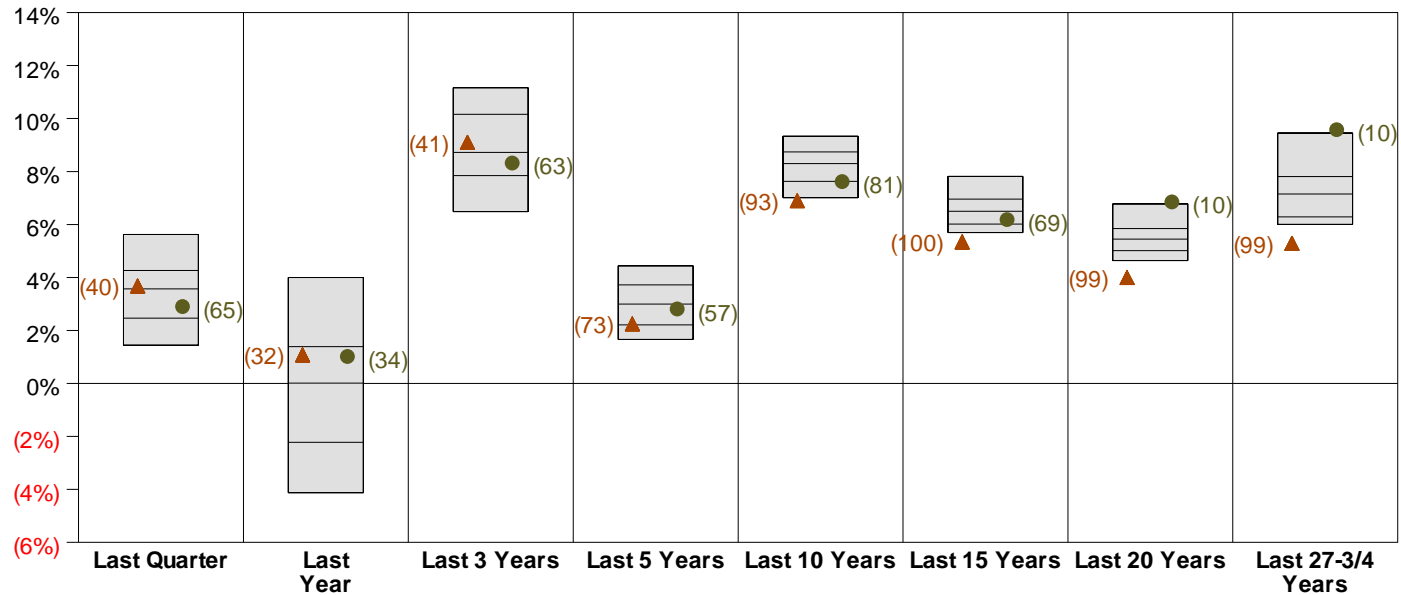
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**International Equity Performance**

# Morgan Stanley Developed International Equity

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



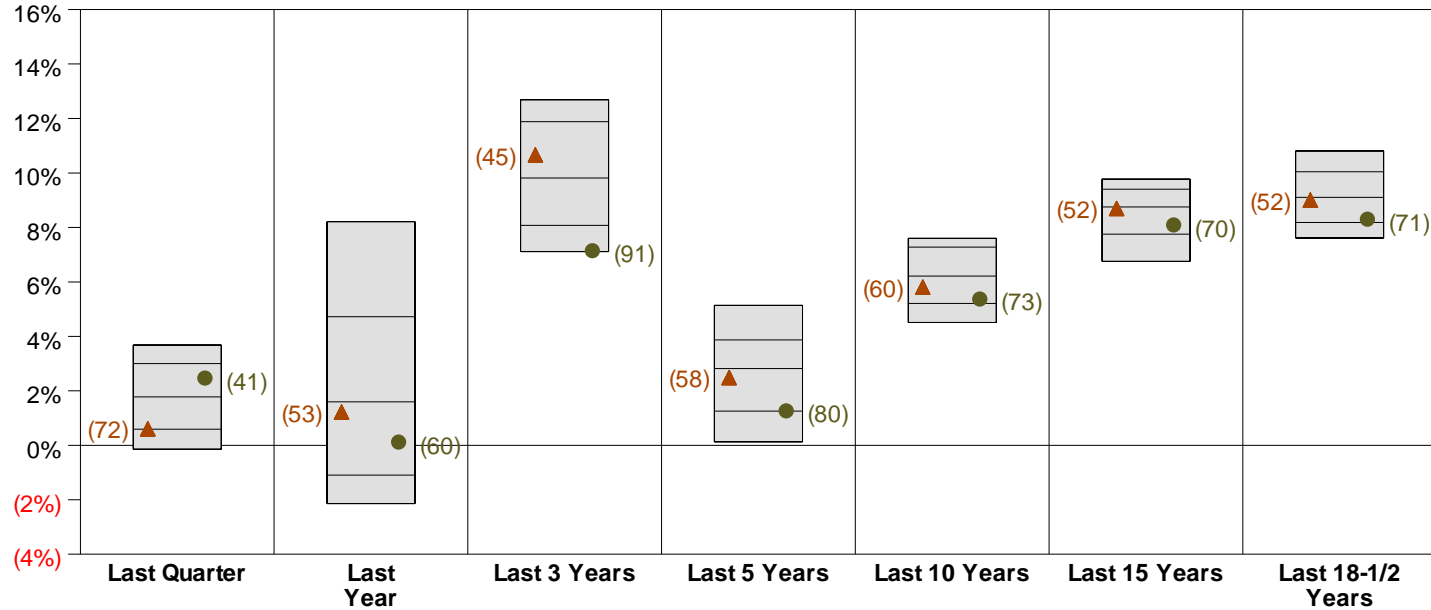
	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 27-3/4 Years
10th Percentile	5.62	4.00	11.16	4.44	9.33	7.82	6.78	9.45
25th Percentile	4.27	1.39	10.16	3.72	8.74	6.96	5.85	7.81
Median	3.57	0.01	8.72	3.00	8.30	6.50	5.45	7.15
75th Percentile	2.47	(2.22)	7.85	2.21	7.63	6.01	5.01	6.28
90th Percentile	1.44	(4.12)	6.48	1.66	7.01	5.69	4.64	6.01
<b>Morgan Stanley Int'l Equity</b> ●	2.84	0.95	8.25	2.74	7.55	6.12	6.78	9.51
<b>MSCI EAFE</b> ▲	3.68	1.08	9.11	2.25	6.90	5.35	4.00	5.30

The fund underperformed by 0.84% for the quarter and underperformed for the year by 0.13%

Poor stock selection and a significant overweight in Consumer Staples detracted from performance for the quarter

# Morgan Stanley Emerging Markets Equity

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



10th Percentile	3.68	8.21	12.69	5.14	7.60	9.78	10.81
25th Percentile	3.00	4.72	11.88	3.87	7.28	9.41	10.05
Median	1.78	1.60	9.81	2.81	6.22	8.75	9.11
75th Percentile	0.59	(1.10)	8.08	1.25	5.21	7.76	8.19
90th Percentile	(0.14)	(2.14)	7.11	0.13	4.51	6.75	7.61

**Morgan Stanley Emerging Mkts.** ●

**MSCI EMBM** ▲

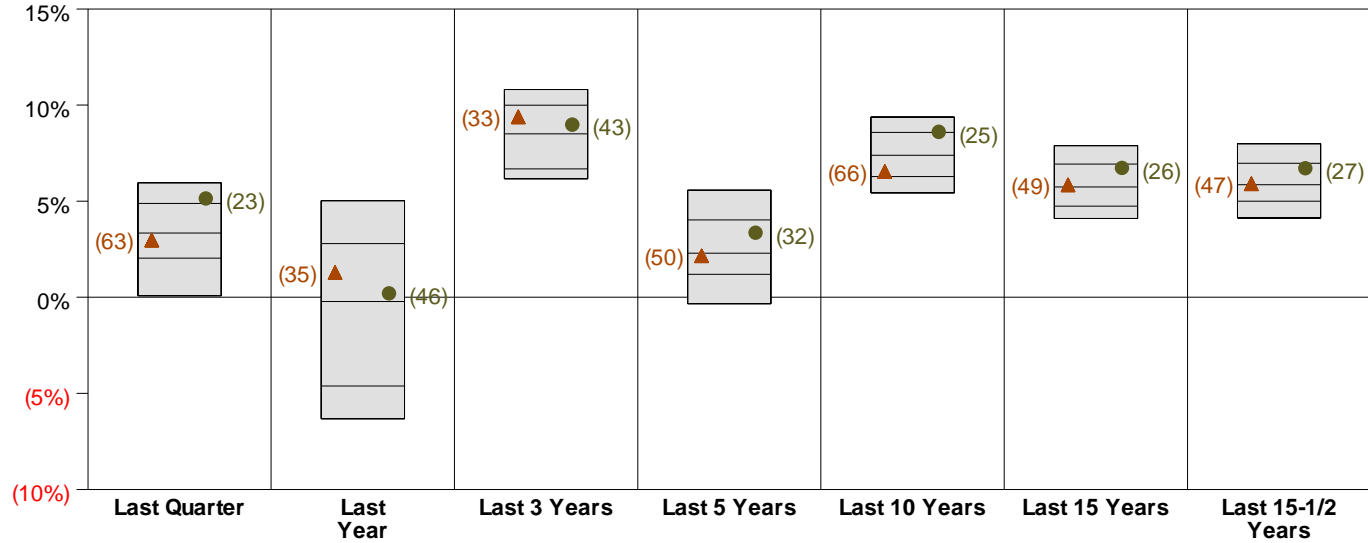
2.40	0.06	7.08	1.20	5.31	8.03	8.24
0.61	1.22	10.66	2.49	5.81	8.70	9.00

The fund outperformed the index by 1.79% for the quarter and underperformed by 1.16% over the last year

India stock selection and weighting contributed to outperformance for the quarter

# 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 15 Years	Last 15-1/2 Years
10th Percentile	5.95	5.03	10.81	5.58	9.37	7.89	7.99
25th Percentile	4.89	2.79	9.99	4.03	8.58	6.93	6.97
Median	3.34	(0.22)	8.51	2.29	7.39	5.75	5.85
75th Percentile	2.04	(4.61)	6.68	1.19	6.28	4.74	5.01
90th Percentile	0.08	(6.33)	6.16	(0.34)	5.43	4.10	4.13
<b>William Blair &amp; Company</b> ●	5.06	0.11	8.90	3.28	8.53	6.64	6.62
MSCI ACWI ex US ▲	2.98	1.29	9.39	2.16	6.54	5.85	5.91

The fund outperformed by 2.07% for the quarter and underperformed by 1.18% over the last year

Long-term performance remains strong, as the fund has outperformed over longer periods

Industrials, Financials and Healthcare sectors were the most notable contributors to relative return for the quarter

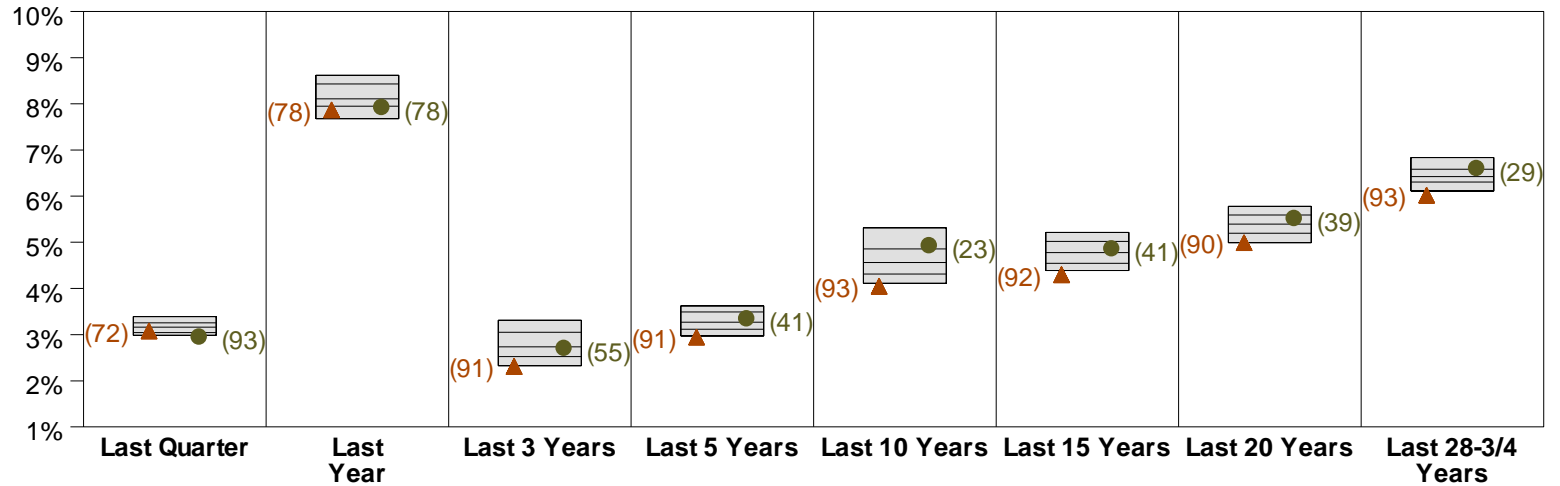
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**Fixed Income**

# 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 28-3/4 Years
10th Percentile	3.39	8.61	3.31	3.62	5.31	5.22	5.78	6.83
25th Percentile	3.25	8.43	3.05	3.49	4.86	5.02	5.59	6.58
Median	3.16	8.10	2.73	3.27	4.56	4.78	5.39	6.42
75th Percentile	3.04	7.95	2.52	3.12	4.31	4.55	5.19	6.31
90th Percentile	2.98	7.68	2.33	2.97	4.11	4.39	4.99	6.11

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years	Last 20 Years	Last 28-3/4 Years
<b>Richmond Capital Management</b> ●	2.92	7.89	2.67	3.31	4.90	4.83	5.48	6.57
Blended Benchmark* ▲	3.08	7.87	2.31	2.95	4.05	4.30	4.99	6.02

Richmond underperformed for the quarter by 0.16% and outperformed over the year by 0.02%

Long-term performance remains strong. The fund has outperformed for all time periods presented

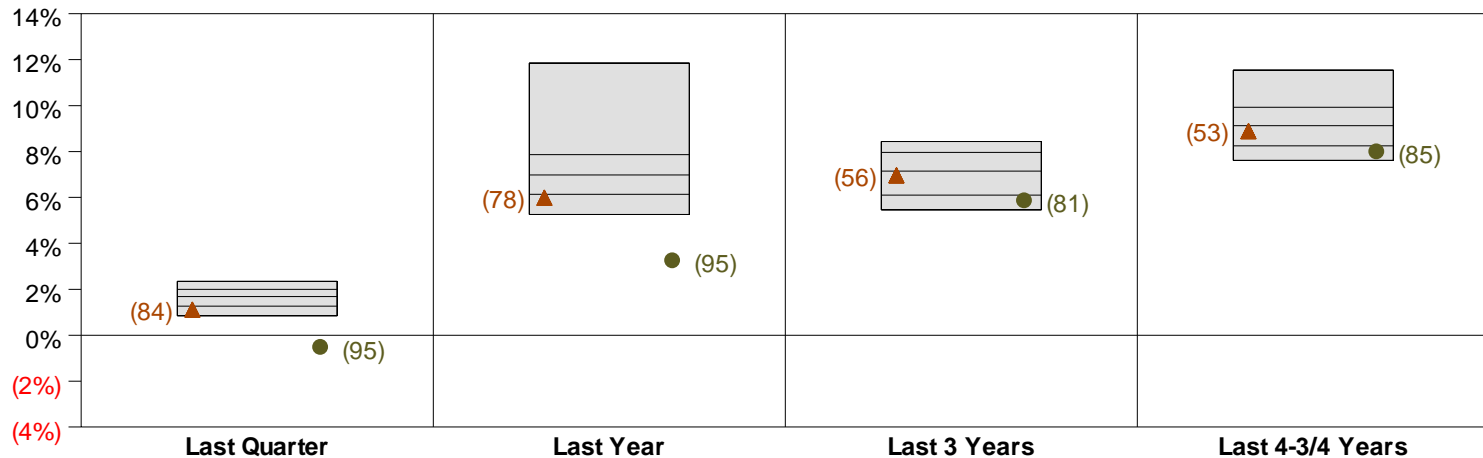
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**Real Estate**

# Heitman America Real Estate Trust

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



	Last Quarter	Last Year	Last 3 Years	Last 4-3/4 Years
10th Percentile	2.34	11.84	8.44	11.54
25th Percentile	2.00	7.87	7.96	9.93
Median	1.69	6.98	7.15	9.12
75th Percentile	1.26	6.14	6.10	8.25
90th Percentile	0.85	5.26	5.46	7.61
<b>Heitman</b> ●	<b>(0.58)</b>	3.20	5.79	7.93
NCREIF NFI-ODCE Eq Wt Net ▲	1.12	5.99	6.97	8.89

Heitman underperformed the index by 1.7% for the quarter 2.79% over the last year

A decrease in valuation for the retail assets detracted from quarterly results. The fund wrote down the valuation of 5 mall properties by 17%, in response to negative sentiment and recent sales of comparable properties. Several other core real estate managers have written down retail properties in the first half of 2018.

## 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.	Not 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.	Not 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 over rolling 5-year periods.	N/A