SAWGRASS Asset Management, L.L.C.
Blending the Art & Science of Investing

Investment Review

March 31, 2017

City of Jacksonville Police And Fire Pension Fund

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For Today's Meeting

- Account & Performance Review
- Market Review
- Current Portfolio Positioning
- Looking Forward

The Sawgrass Partnership with the Jacksonville Police & Fire Pension Fund

- **Relationship Inception Date:** October 10, 2013
- **Portfolio Managed:** Diversified Large Growth Equity
- **Benchmark:** Russell 1000 Growth
- **Investment Policy Goals & Objectives:**
  - Provide long-term benefits to the Fund's participants and their beneficiaries
  - Preserve the purchasing power of the Fund's assets and earn a reasonable real rate of return (after inflation) over the long term while minimizing, to the extent reasonable, the short-term volatility of returns
  - Prudently manage the inherent investment risks that are related to the achievement of the Fund's investment objectives.
  - Primary investment objective of the Board is to maximize the probability of achieving an investment return that satisfies the Actuarial Rate of Return assumed for the Fund's investment portfolio, subject to risk considerations.
- **Our Client Mission Statement:**

Sawgrass' goal is to strengthen the financial security of our clients through active management of investment portfolios producing strong long term results. Our relationships are driven by our core values of integrity, respect, hard work, and ethical behavior.

Sawgrass Asset Management – By the Numbers

100	Percent Employee-Owned
26	States in which Sawgrass Represents Clients
25	Average Years of Investment Experience for Our Team
19	Years Serving Our Institutional Clients
4	Billion in Assets Under Advisement
0	Equity Team Departures Since Inception *(PM's/Analysts)*

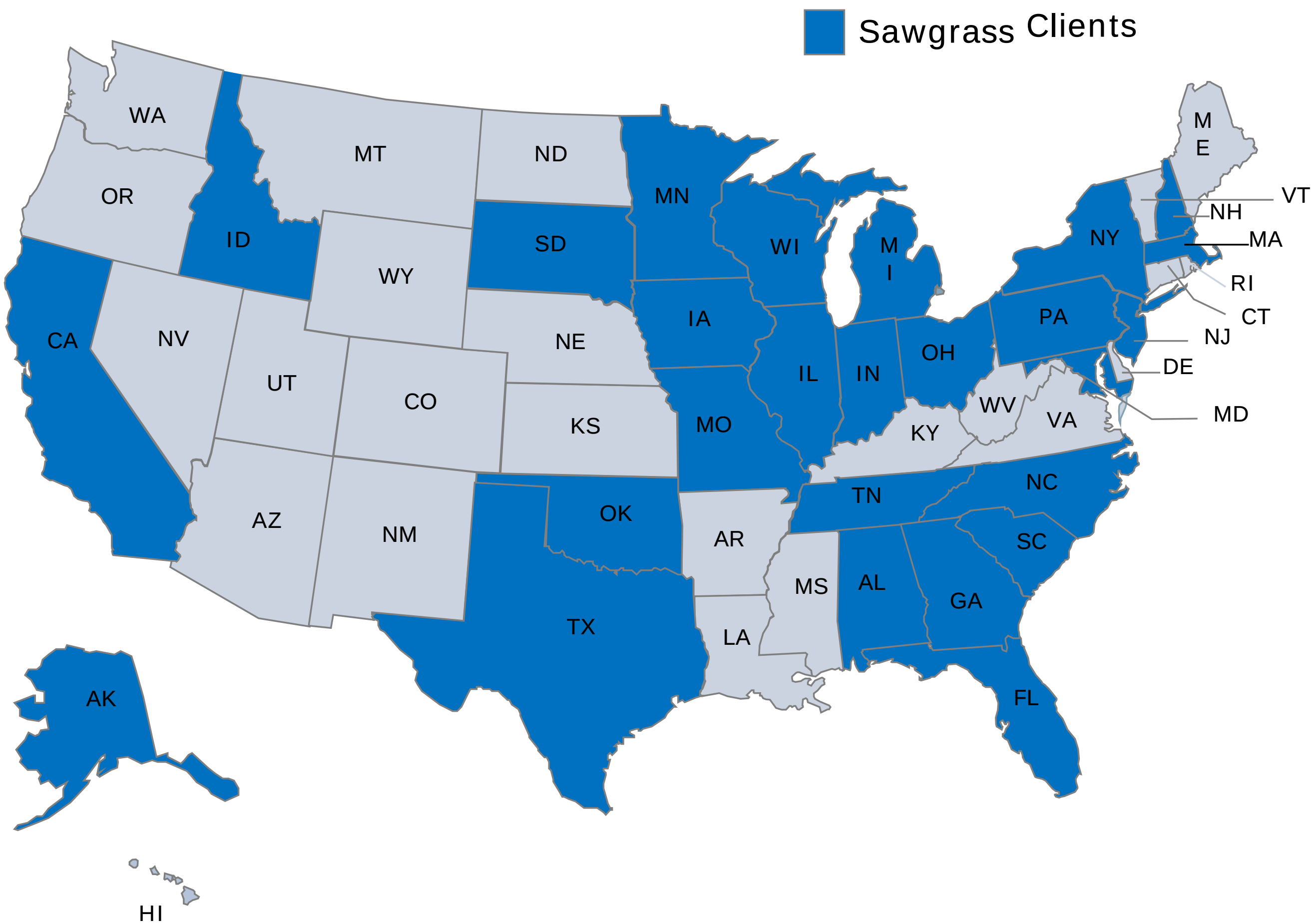
Sawgrass Mission Statement to Clients and Employees:

To strengthen the financial security of our clients through active management of high quality portfolios producing strong long term investment results. Our relationships are driven by our core values of integrity, respect, hard work, and ethical behavior.

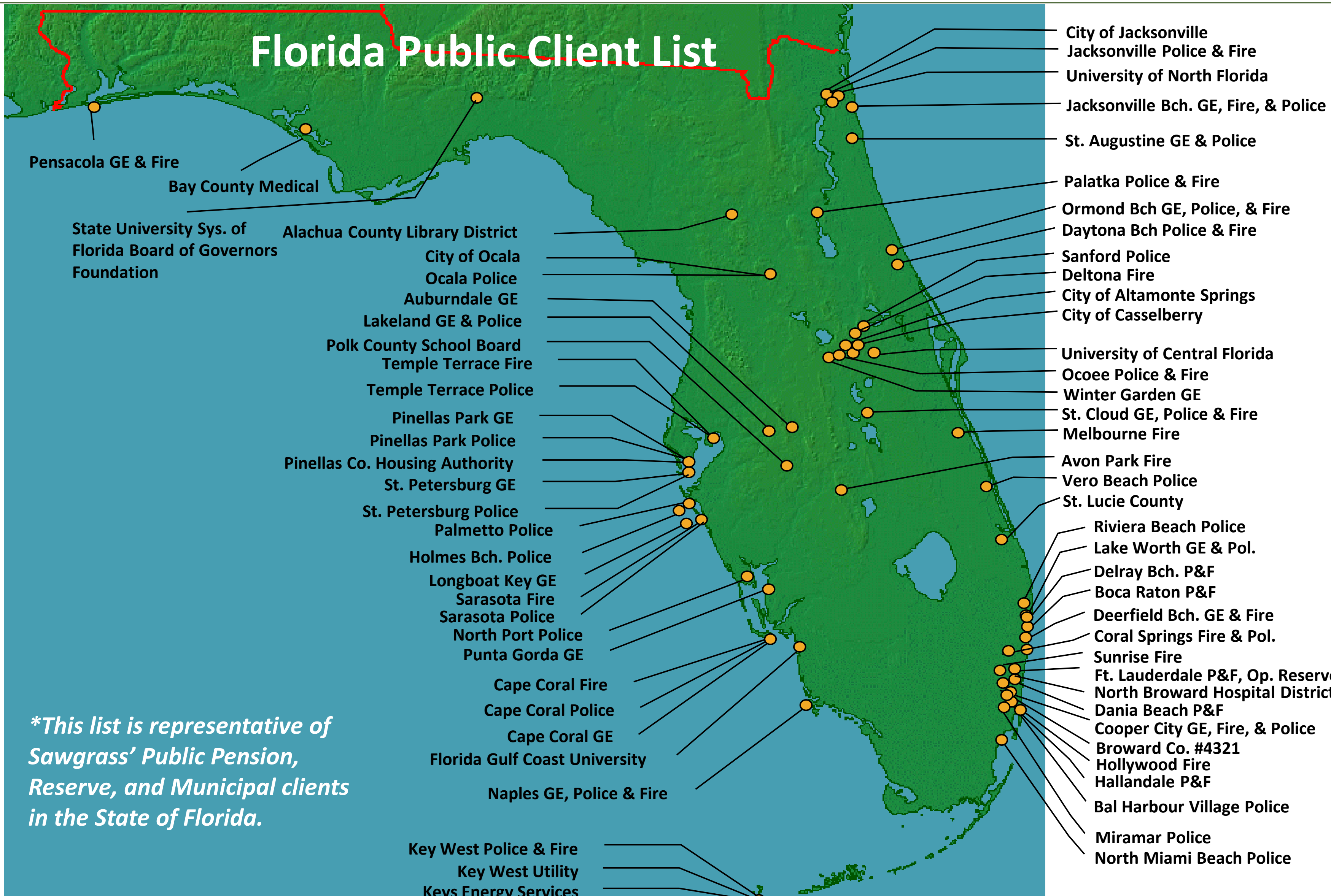
**Information as of March 2017.*

Sawgrass Asset Management Clients

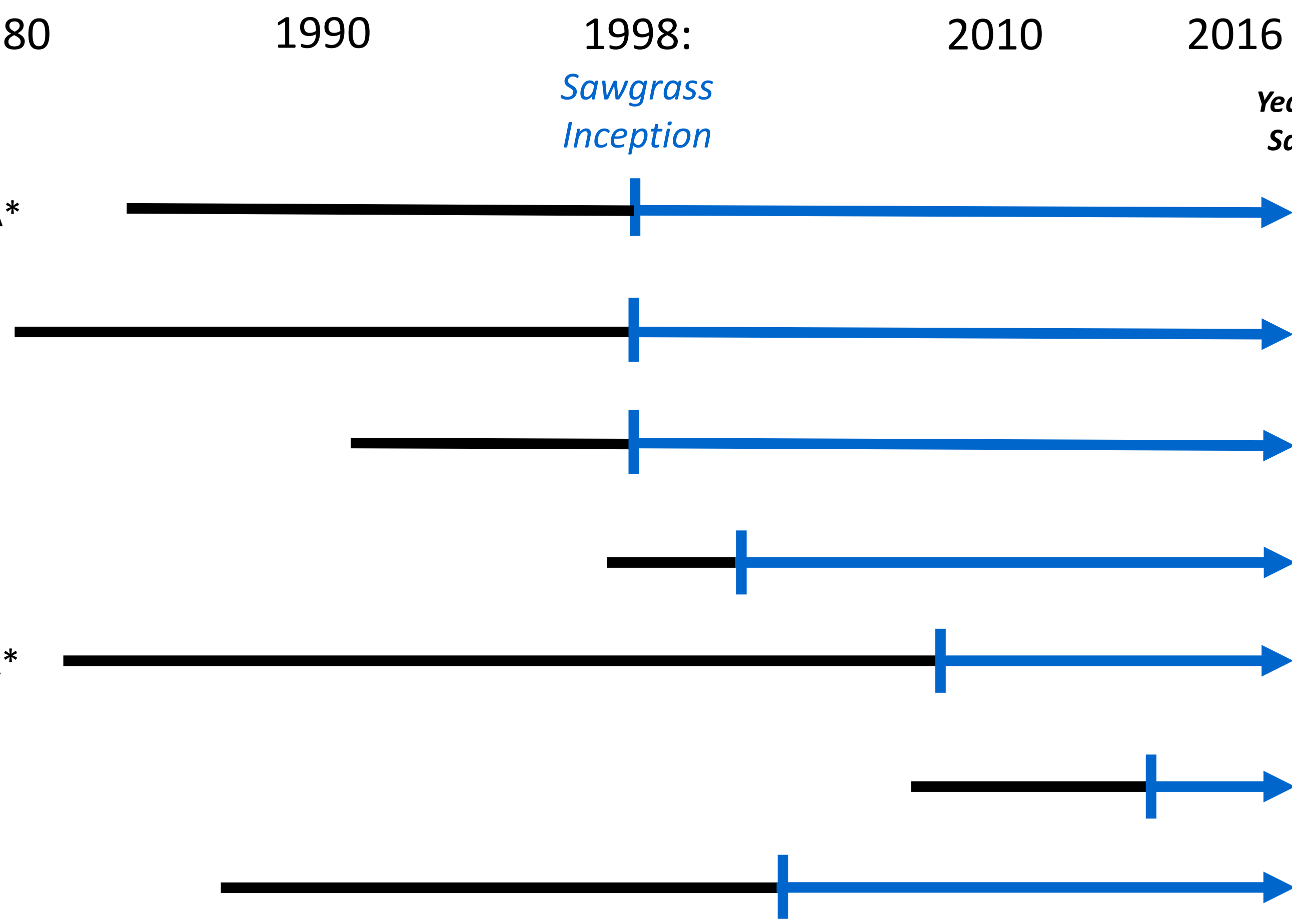
PROUDLY SERVING CLIENTS IN 26 STATES



Experience Working with Municipal Plans in Florida



The Sawgrass Growth Equity Team – *Experience & Continuity*



Years of Investment Experience		*Years with Sawgrass*
33	Dean McQuiddy, CFA*	**19**
37	Marty LaPrade, CFA*	**19**
26	Patrick Riley, CFA*	**19**
19	Marc Davis, CFA	**15**
36	Rusty Creighton, CFA*	**9**
11	Anthony Brooks	**4**
29	Tim Christiansen	**14**

27 YEAR AVERAGE

*Sawgrass has experienced zero equity team departures since inception (portfolio managers/analysts). *The core of our equity team has worked together for over 25 years, dating back to Barnett Capital Advisors.*

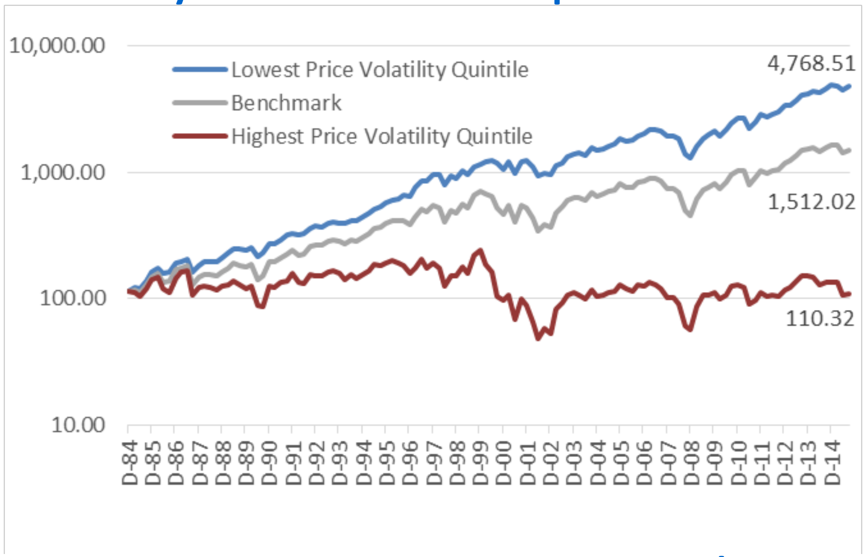
The Sawgrass Growth Equity Alpha Thesis

- Risk is Often Mispriced
- Consistent Growth is Underappreciated
- Lower Volatility Rewarded Over Time
- Valuation Anomaly Persists

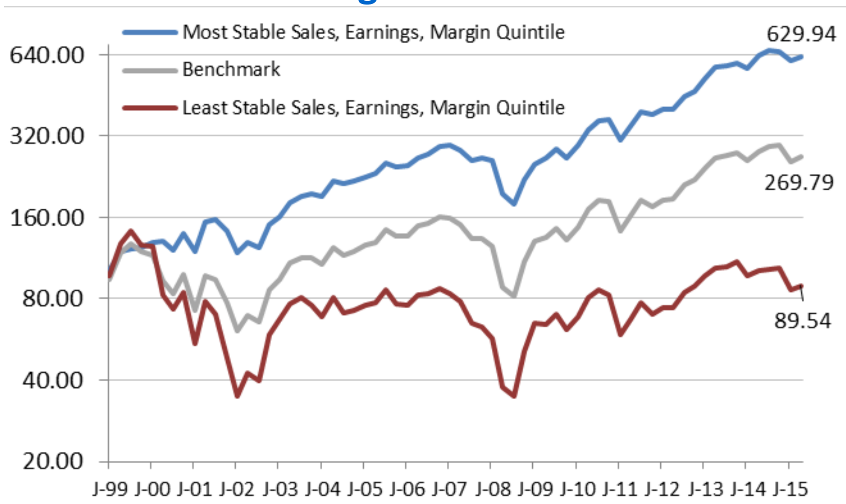
A Confirmation of Our Thesis

Cumulative Returns
12/31/84 → 12/31/15

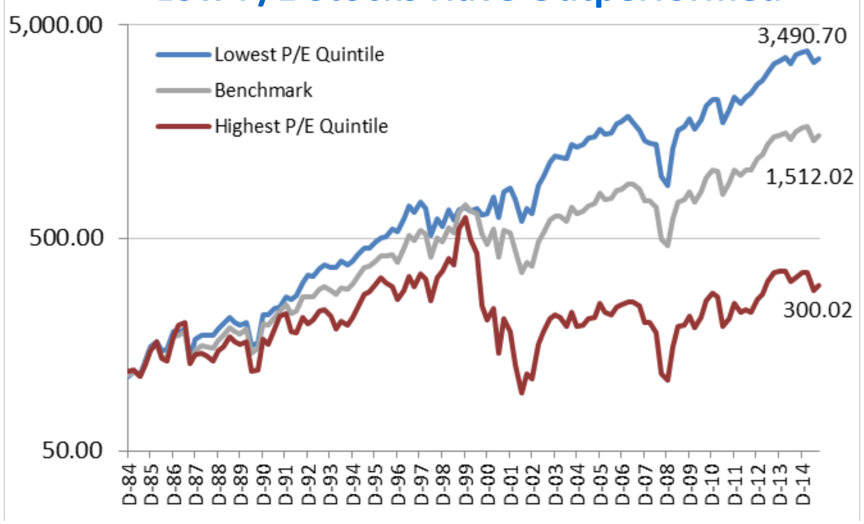
Low Volatility Attributes Have Outperformed Over Time



Stable Earnings Have Been Rewarded



Low P/E Stocks Have Outperformed



**Source: FactSet, Axioma, Russell. Universe: Russell 3000 Growth, 3 Month Rebalance, Linked Returns.*

Fundamental Research

- Review of Quantitative Scoring
- Financial Statement Analysis
- Management Story
- Analyst View and Estimate Revisions
- Final Risk/Reward Analysis

Where We Start: Quantitative Analysis

- Tool: FactSet Analytics
- Universe: 1) Russell 1000 > $2B
- Model: Sector Specific – Russell Definition
- 6 Factor Groupings: <u>24 Factors</u> We Rank Based on

<u>Low:</u>

1) *Business Valuation*
2) *Price Volatility*
3) *Equity Valuation*

<u>High:</u>

1) *Sales/Earnings/Margin Stability*
2) *Profitability*
3) *Earnings Quality*

- Sector Specific Weighting
- Continuous Scoring

Putting It All Together: Portfolio Construction

- Deliberate Risk Taking
  - *Factor*
  - *Industry*
  - *Beta*
  - *Stock Specific*
  - *Targeted Tracking Error*
- Relative Risk Exposure
- Absolute Risk Profile
  - *Historic Volatility Less than Benchmark*
  - *Downside Protection*

40-60 Stocks

± 10% Sector Exposure

± 5% Industry Exposure

Active Stock Weighting

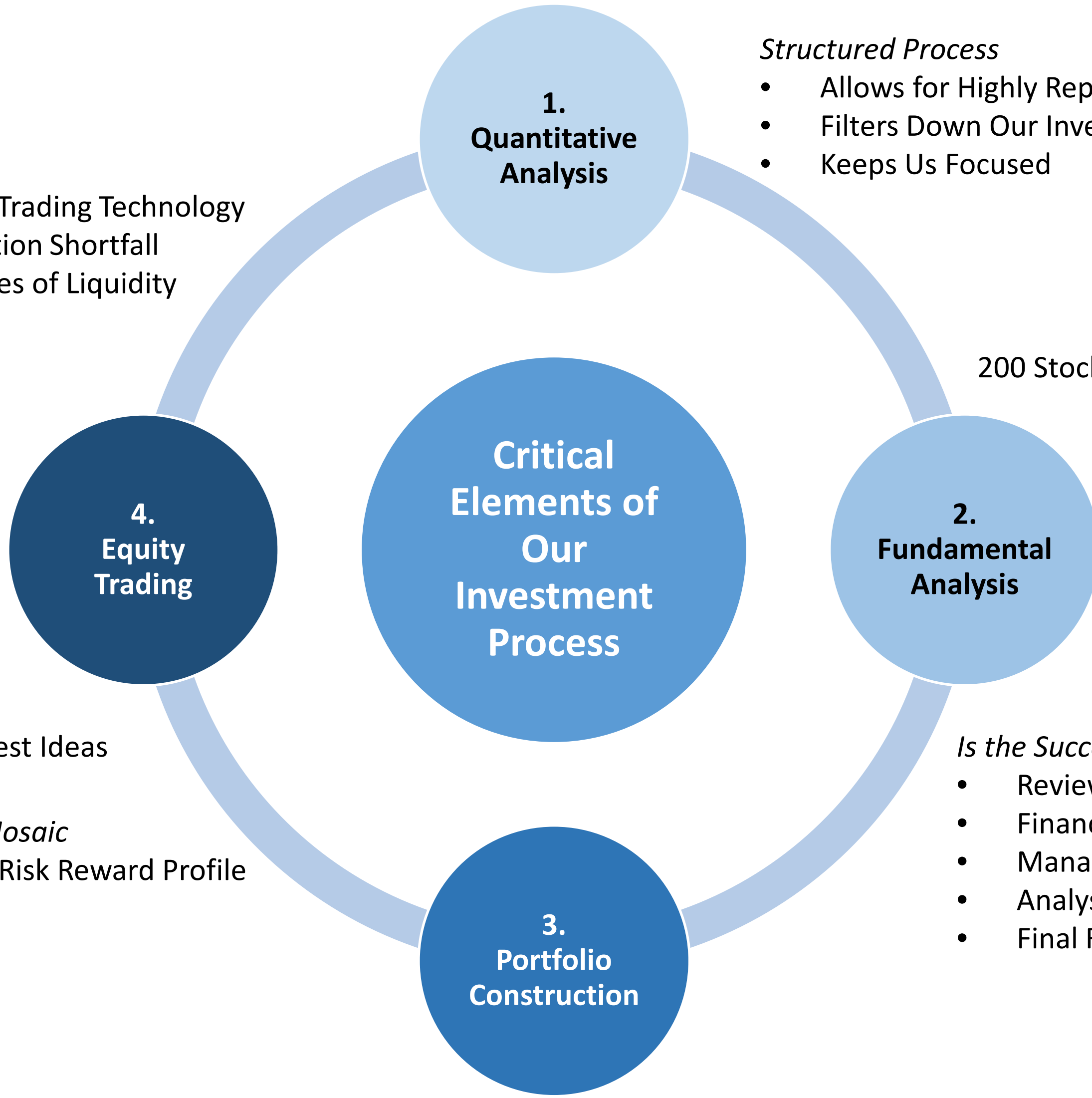
Positions < 5%

Building Your Portfolio: The Sawgrass Diversified Large Growth Investment Process

Russell 1000

Structured Process
- Allows for Highly Repeatable Discipline
- Filters Down Our Investable Universe
- Keeps Us Focused

Implementation
- Evaluate & Test Latest Trading Technology
- Minimize Implementation Shortfall
- Engage Multiple Sources of Liquidity



200 Stocks

Is the Success Sustainable?
- Review of Quantitative Scoring
- Financial Statement Analysis
- Management Story
- Analyst View & Estimate Revisions
- Final Risk/Reward Analysis

40-60 Best Ideas

Crafting the Mosaic
- Optimize Risk Reward Profile

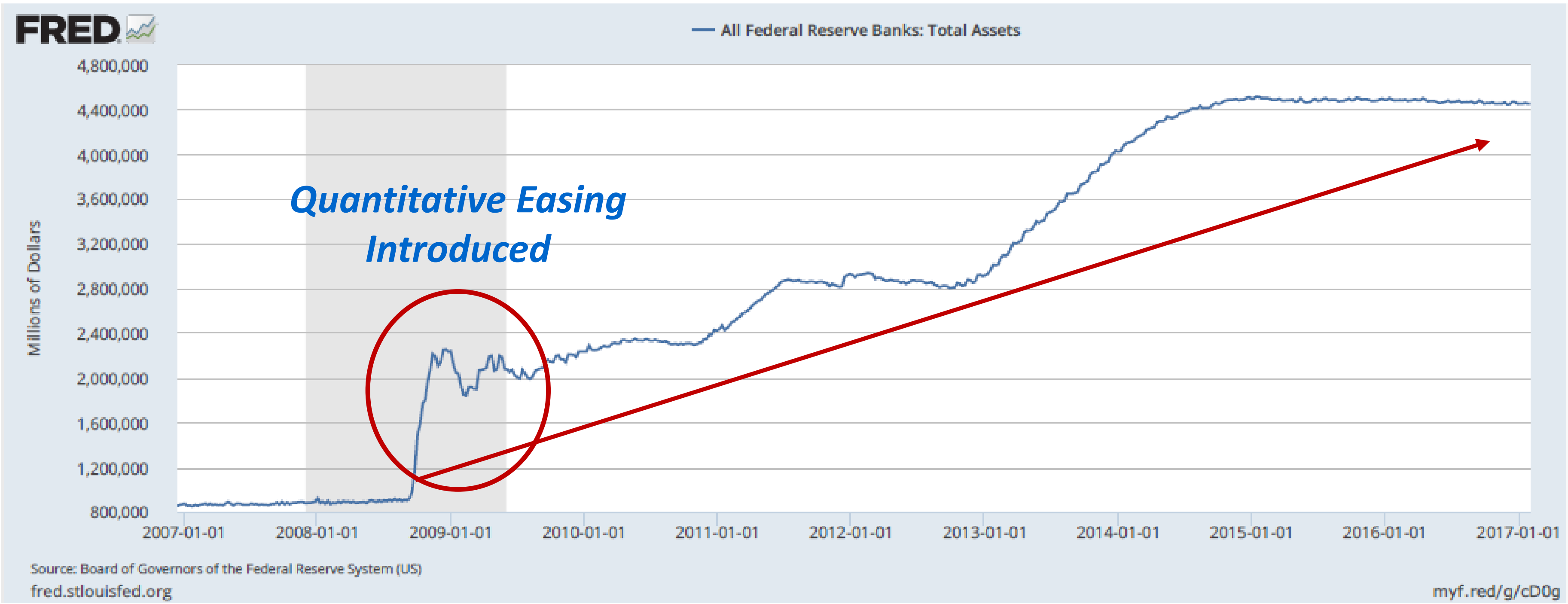
When It's Time to Move On: A Consistently Applied Sell Discipline

Stocks are Sold When:

- Quantitative Ranking Deteriorates
- Fundamental Factors Experience Significant Change
- Risk Profile Realignment is Necessary
- More Attractive Stocks Identified as a Replacement

Unprecedented Fed Liquidity – Explosion of the Federal Reserve Balance Sheet

This Chart Looks a Lot Like the S&P 500



**Source: St. Louis Fed*

Can We Keep This Rally Going?

Diversified Large Growth Equity – 1Q17 Portfolio Review & Outlook

Market Review

- The first quarter of 2017 extended the rally which began on election day as the S&P 500 gained 6.1% for a total gain of 13+% from election day.
- The leadership of the rally significantly shifted as Financials and Industrials gave way to new leadership in Technology and Healthcare while Growth led Value this quarter and large stocks led small. This is somewhat confusing as much of the expected political change which sparked the rally was focused on finance reform and infrastructure spending, and yet these groups did not maintain their leadership.
- Returns in large cap were more concentrated at the top as the ten largest contributors in the S&P 500 represented 37% of the index return, more than double their index weighting of 14%.
- From a factor perspective, momentum gained traction in the quarter and the market seemed to have a more "Risk On" tone as evidenced by the FANG stocks which had an equal weighted return of almost 17%.
- It is noteworthy that the market celebrated its 8th anniversary with annualized returns of 19+% (310% cumulative S&P 500). There have been very few periods with returns of this magnitude.

Portfolio Review

- The portfolio lagged the Russell 1000 Growth index in this quarter when large growth led the market with returns of almost 9%. The index arguably had a more "Risk On" flavor which did not favor our risk conscious approach.
- Most of our underperformance came in the strong Technology and Discretionary sectors. Our performance was weak in Technology primarily from not owning Facebook and Broadcom. Discretionary was weak due to our lack of Amazon and weak performance from AutoZone.
- Factor impact on the portfolio was difficult to discern other than some negative impact from being over weighted in some retail groups which were negatively impacted by the prospect of a border tax. Those companies were AutoZone, Dollar Tree, Costco and TJX.
- Overall our portfolio struggled in this quarter when a few large stocks led the index and investors favored a more risky tone.

Diversified Large Growth Equity - 1Q17 Portfolio Review & Outlook (Cont.)

Outlook

- With the recent rally to new highs, valuations are even more stretched after a strong 8 year bull market when stock prices well outpaced earnings growth.
- The prospect of rising interest rates also has a negative effect on relatively high valuations.
- Since the election the market has been buoyed by the expectation of an improved environment for earnings growth. This expectation has been predicated on the prospect of change, notably in reduced taxes, infrastructure spending, healthcare reform and finance reform. Thus far these changes have difficult to enact. Any meaningful increase in stock prices will ultimately require more than just hope.
- Given relatively high valuations, the prospect of rising interest rates, and postelection optimism, we find the risk reward balance leaning toward the risk side for stocks.

Sawgrass Composite Portfolio versus Russell 1000 Growth (as of 1st Qtr 2017):

What Helped:

Favorable Stock Selection in Healthcare

A Market Weight in Apple, the Largest Contributor to the Index

What Hurt:

Poor Selection in Technology

Poor Selection in Discretionary

A Lower Risk Profile in a More “Risk On” Quarter

Portfolio Market Values

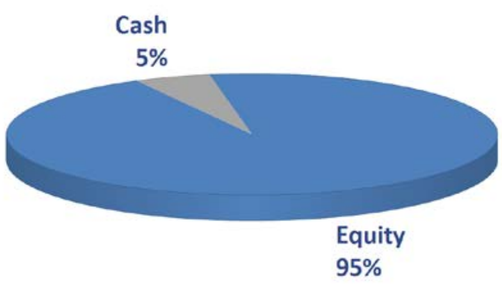
Change in Portfolio Value

Beginning Market Value on 03/31/16	**106,626,541**
Cash Additions	0
Cash Withdrawals	-21,532,180
Investment Gain/Loss	9,622,438
Ending Market Value on 03/31/17	**94,716,800**

Portfolio Summary

Asset Class		Market Value	Percent of Assets
Cash	$	4,467,202	4.7%
Equity	$	90,249,598	95.3%
TOTAL	**$**	**94,716,800**	**100.0%**

Asset Allocation

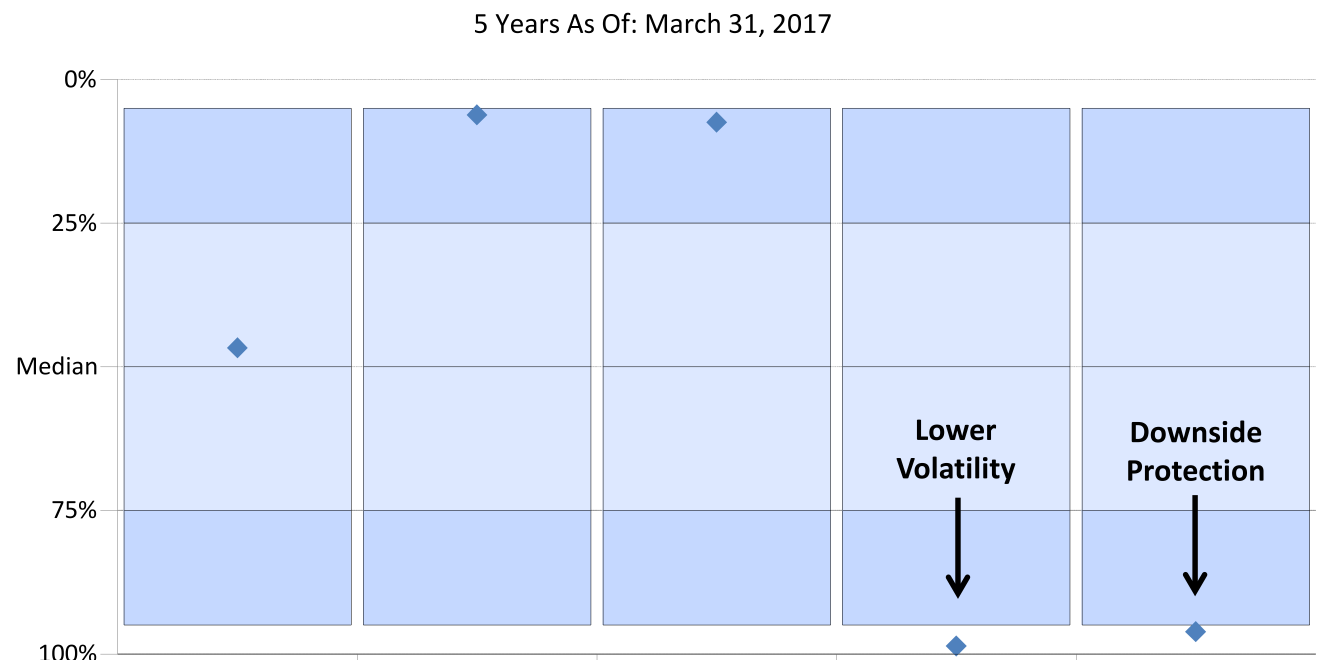


Portfolio Performance

	Q1 2017	1 Year	3 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	**6.7%**	**10.3%**	**9.2%**	**11.7%**
Russell 1000 Growth	8.9%	15.8%	11.3%	13.2%
S&P 500	6.1%	17.2%	10.4%	-

** Since Inception 10/10/13*
Returns are gross of investment management fees

Strong Returns with Less Risk: Equity Peer Rankings



	Returns	Sharpe[2]	Alpha[1]	Standard Deviation	Down Market Capture[1]
◆ Diversified Large Growth Equity	12.73	1.33	1.33	9.46	83.02
Rank	47	6	7	99	96

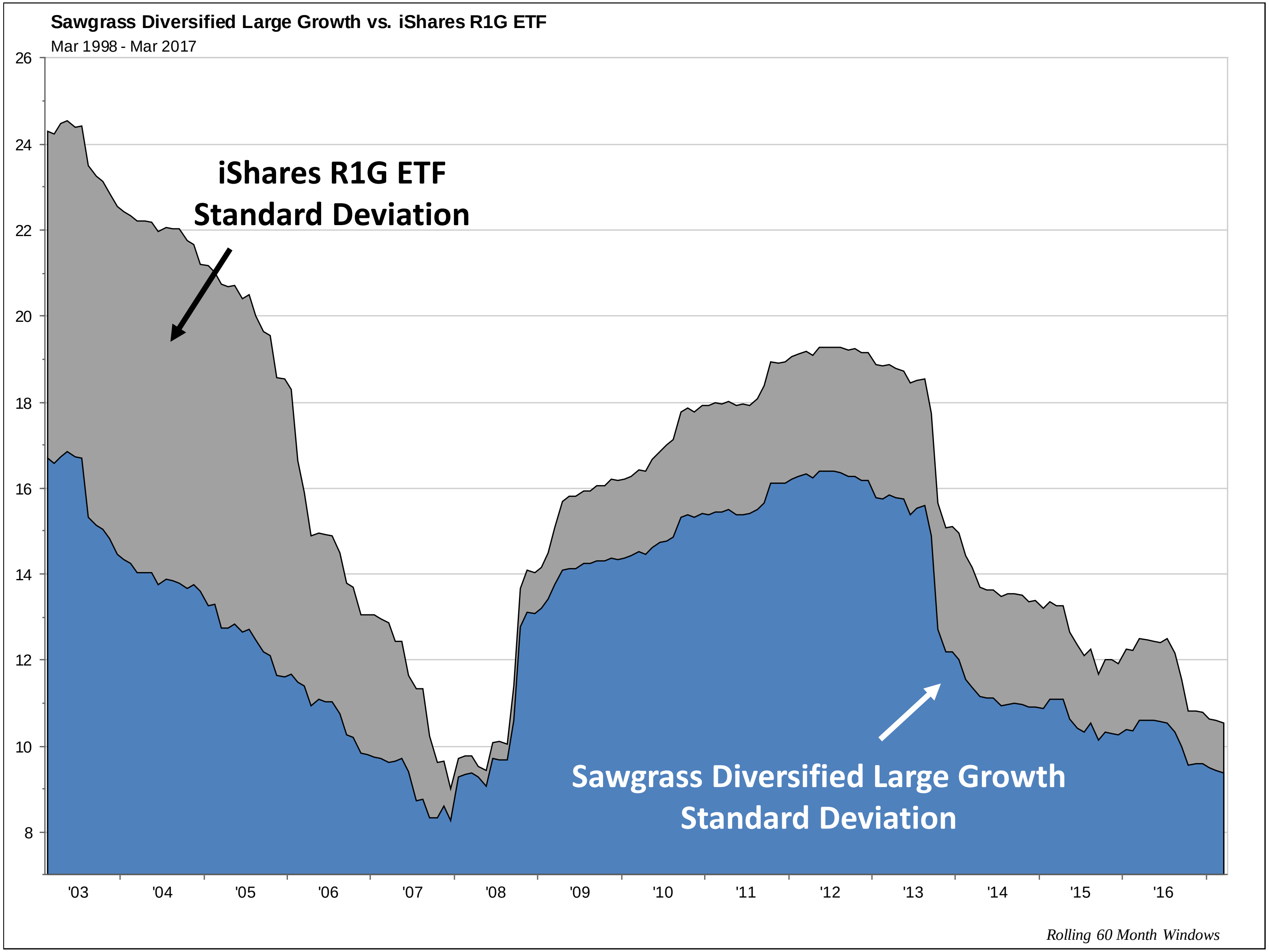
Sharpe Ratio – a measurement of efficiency utilizing the relationship between annualized risk-free return and standard deviation.
Alpha – is the extra return of a product due to non-market factors
Standard Deviation – a measure of the historical volatility of a product's returns.
Downside Market Capture Ratio – a measure of the manager's performance in down markets relative to the market itself.

[1] Russell 1000 Growth, [2] Citigroup 3-Month T-Bill

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of 3/31/17.

Consistently Less Risk than the Index

Source: FactSet SPAR2



Performance: Three Phases of a Market Cycle

Consistent Results Across Various Markets

Negative Markets			Positive Markets (0-15% Returns)			Strong Positive Markets (>15% Returns)		
Year	**Sawgrass**	**R1000G**	**Year**	**Sawgrass**	**R1000G**	**Year**	**Sawgrass**	**R1000G**
2000	-12.10%	-22.42%	2004	7.11%	6.30%	1998*	12.37%	20.45%
2001	0.65%	-20.42%	2005	8.16%	5.26%	1999	15.80%	33.16%
2002	-19.74%	-27.88%	2006	10.42%	9.07%	2003	27.47%	29.75%
2008	-36.83%	-38.44%	2007	13.20%	11.81%	2009	28.54%	37.21%
			2011	9.29%	2.64%	2010	10.85%	16.71%
			2014	13.92%	13.05%	2012	14.28%	15.26%
			2015	2.28%	5.67%	2013	35.51%	33.48%
Number of Years Sawgrass Outperformed			2016	6.54%	7.08%			
	4/ 4			**6/ 8**			**1/ 7**	

Performance Across Various Markets

As of Year-End 2016	Sawgrass	R1000G
Cumulative Return*	222.48%	151.77%
Annualized Return*	6.44%	5.05%
Standard Deviation*	13.59	17.48

**Since March 31, 1998 Inception*

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Portfolio Characteristics

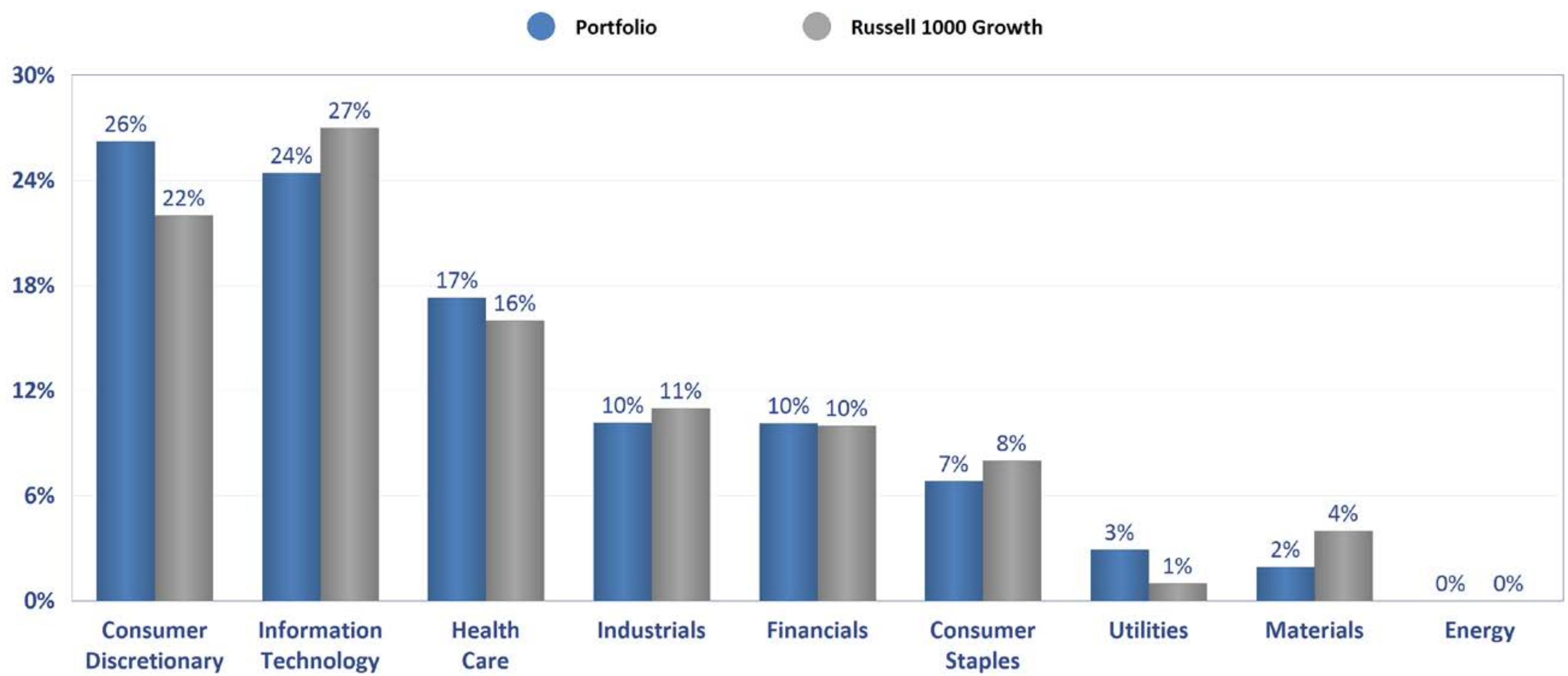
	Portfolio*	Russell 1000 Growth
1 Yr Forecast EPS Growth (FE)	7.3	10.3
PE LTM (FF)	22.9	23.2
Price to Cash Flow	15.9	17.9
Price to Sales	3.7	4.6
Price to Book	6.9	7.2
Weighted Average – Market Cap - $ Billion	179.6	176.5
# of Securities	49	609

Top 10 Holdings

Ten Largest Holdings	Percent of Equity
Apple Inc	5.08%
Alphabet Inc Cl A	4.81%
Microsoft Corp Com	4.59%
Home Depot Inc Com	3.22%
Autozone Inc Com	3.03%
Verizon Communications Com	2.91%
United Healthcare Corp Com	2.90%
Disney Walt Co Com	2.85%
Mastercard Inc Cl A	2.73%
Nike Inc. Cl B.	2.72%

**Diversified Large Growth Equity Composite*

Sector Breakdown



Portfolio Changes

Sawgrass Diversified Large Growth
U.S. Dollar

Sawgrass Russell Sector	12/30/2016	03/31/2017	Changes
Consumer Discretionary	**23.8**	**23.1**	
AutoZone, Inc.	2.7	2.9	0.2
Comcast Corporation Class A	3.0	2.5	(0.5)
Costco Wholesale Corporation	2.7	1.7	(1.0)
Dollar Tree, Inc.	2.4	1.0	(1.4)
Home Depot, Inc.	2.6	3.1	0.5
McDonald's Corporation	1.9	1.9	
NIKE, Inc. Class B	1.3	2.6	1.3
Omnicom Group Inc	1.0	1.0	
Starbucks Corporation	1.5	1.5	
TJX Companies Inc	2.3	2.3	
Walt Disney Company	2.3	2.7	0.4
Consumer Staples	**7.6**	**6.5**	
Coca-Cola Company	2.7	2.6	
Dr Pepper Snapple Group, Inc.	1.5	1.6	
General Mills, Inc.	1.7	0.0	(1.7)
McCormick & Company, Incorporated	1.6	2.4	0.7
Financials	**8.9**	**8.7**	
Berkshire Hathaway Inc. Class B	1.8	1.8	
Broadridge Financial Solutions, Inc.	1.1	1.3	0.2
CBOE Holdings, Inc.	1.5	1.0	(0.5)
Marsh & McLennan Companies, Inc.	2.0	2.0	
Mastercard Incorporated Class A	2.6	2.6	
Health Care	**16.9**	**16.6**	
Abbott Laboratories	0.7	0.8	
AbbVie, Inc.	1.2	1.7	0.5
Celgene Corporation	1.9	1.9	
Cooper Companies, Inc.	0.0	1.0	1.0
Danaher Corporation	1.6	1.7	
Express Scripts Holding Company	0.7	0.0	(0.66)
Henry Schein, Inc.	0.9	0.9	
Johnson & Johnson	2.3	2.3	
Laboratory Corporation of America Holdings	2.7	2.1	(0.62)
McKesson Corporation	0.9	0.0	(0.91)
UnitedHealth Group Incorporated	2.9	2.8	
Varex Imaging Corporation	0.0	0.1	0.15
Varian Medical Systems, Inc.	1.1	1.3	0.20

Sawgrass Russell Sector	12/30/2016	03/31/2017	Changes
Industrials	**11.24**	**12.68**	
3M Company	1.5	1.5	
Expeditors International of Washington, Inc.	2.1	2.3	0.2
FedEx Corporation	1.2	1.1	
Fortive Corp.	0.6	0.6	
Honeywell International Inc.	2.4	2.4	
Illinois Tool Works Inc.	0.0	1.4	1.4
Union Pacific Corporation	1.0	1.0	
Verisk Analytics Inc	2.5	2.4	
Information Technology	**23.2**	**22.5**	
Alphabet Inc. Class A	4.6	4.6	
Apple Inc.	5.3	6.0	
Citrix Systems, Inc.	2.3	1.7	(0.7)
Dell Technologies Inc Class V	0.3	0.3	
F5 Networks, Inc.	1.5	1.7	0.2
Intel Corporation	2.4	2.3	
LogMeIn, Inc.	0.0	0.0	0.0
Microsoft Corporation	4.4	4.4	
Oracle Corporation	2.5	1.7	(0.8)
Materials	**2.9**	**3.8**	
Ecolab Inc.	1.6	1.9	0.2
Fastenal Company	1.3	1.9	0.6
Utilities	**3.2**	**2.8**	
Verizon Communications Inc.	3.2	2.8	
[Cash]	2.2	3.3	1.1

New
Cooper Companies
Illinois Tool Works

Sold
General Mills
Express Scripts
McKesson

Source: FactSet

Contribution to Return – Top 10/Bottom 10 – 1 Year

Sawgrass Diversified Large Growth
03/31/2016 to 03/31/2017
U.S. Dollar

Ticker	Security Name	Port. Beginning Weight	Port. Ending Weight	Total Return	Contribution To Return
AAPL	Apple Inc.	3.54	6.00	34.60	1.84
MSFT	Microsoft Corporation	4.38	4.37	22.38	0.97
UNH	UnitedHealth Group Incorporated	2.42	2.80	29.40	0.77
CMCSA	Comcast Corporation Class A	2.77	2.54	25.17	0.72
LH	Laboratory Corporation of America Holdings	3.11	2.07	22.49	0.60
CTXS	Citrix Systems, Inc.	1.68	1.67	33.79	0.60
JNJ	Johnson & Johnson	2.97	2.35	18.28	0.53
MA	Mastercard Incorporated Class A	1.49	2.61	19.98	0.50
MMC	Marsh & McLennan Companies, Inc.	1.83	2.02	24.04	0.47
DIS	Walt Disney Company	1.77	2.72	15.87	0.41
					7.41
VZ	Verizon Communications Inc.	4.97	2.77	(5.92)	(0.15)
DVA	DaVita Inc.	0.00	0.00	(16.13)	(0.17)
VRSN	VeriSign, Inc.	0.83	0.00	(15.24)	(0.19)
MCK	McKesson Corporation	1.75	0.00	(4.57)	(0.21)
DLTR	Dollar Tree, Inc.	2.58	0.99	(4.85)	(0.21)
KO	Coca-Cola Company	4.66	2.60	(5.43)	(0.25)
AZO	AutoZone, Inc.	2.61	2.89	(9.24)	(0.25)
KR	Kroger Co.	2.43	0.00	(9.07)	(0.39)
SRCL	Stericycle, Inc.	1.28	0.00	(32.54)	(0.49)
CVS	CVS Health Corporation	2.77	0.00	(23.69)	(0.79)
					(3.09)

Too Many Double-Digit Declines in a Strong Year

Source: FactSet

Attribution – Performance by Sector – 1 Year

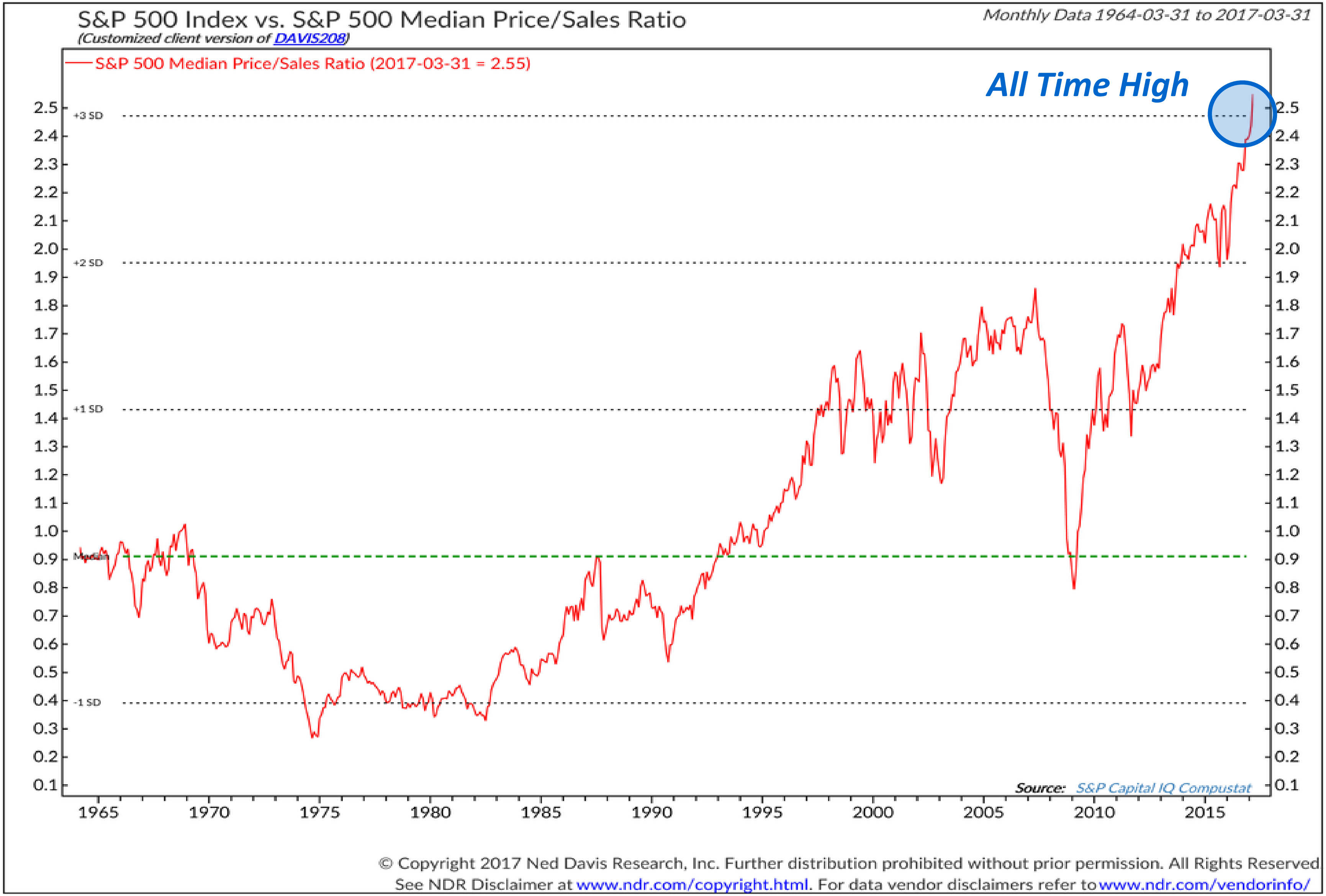
Sawgrass Diversified Large Growth vs. Russell 1000 Growth
03/31/2016 to 03/31/2017
U.S. Dollar

	Sawgrass Diversified Large Growth			Russell 1000 Growth			Variation			Attribution Analysis		
Sawgrass Russell Sector	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Average Weight Difference	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection + Interaction	Total Effect
Total	**100.00**	**10.44**	**10.44**	**100.00**	**15.75**	**15.75**	**0.00**	**(5.30)**	**(5.30)**	**(1.36)**	**(3.94)**	**(5.30)**
Consumer Discretionary	22.29	6.42	1.50	22.34	14.46	3.25	(0.05)	(8.04)	(1.75)	0.01	**(1.85)**	(1.84)
Consumer Staples	10.76	(7.20)	(1.02)	9.29	2.33	0.21	1.47	(9.53)	(1.23)	0.05	**(1.29)**	(1.24)
Energy	0.00	0.00	0.00	0.59	21.32	0.13	(0.59)	(21.32)	(0.13)	(0.03)	0.00	(0.03)
Financials	7.84	20.42	1.63	9.92	14.44	1.45	(2.08)	5.98	0.17	0.00	0.47	0.48
Health Care	16.84	17.61	2.67	16.18	10.63	1.80	0.66	6.97	0.86	(0.13)	**1.11**	0.98
Industrials	10.23	7.23	0.86	11.47	16.58	1.92	(1.24)	(9.36)	(1.06)	(0.08)	**(0.93)**	(1.01)
Information Technology	21.66	19.50	4.41	24.71	25.73	6.32	(3.06)	(6.23)	(1.91)	(0.24)	**(1.29)**	(1.53)
Materials	2.56	18.31	0.44	4.07	14.97	0.62	(1.52)	3.34	(0.18)	(0.01)	0.05	0.04
Utilities	3.98	(5.17)	(0.06)	1.43	0.28	0.04	2.55	(5.45)	(0.10)	(0.30)	(0.21)	(0.51)
[Cash]	3.84	0.39	0.02	0.00	0.00	0.00	3.84	0.39	0.02	(0.64)	0.00	(0.64)

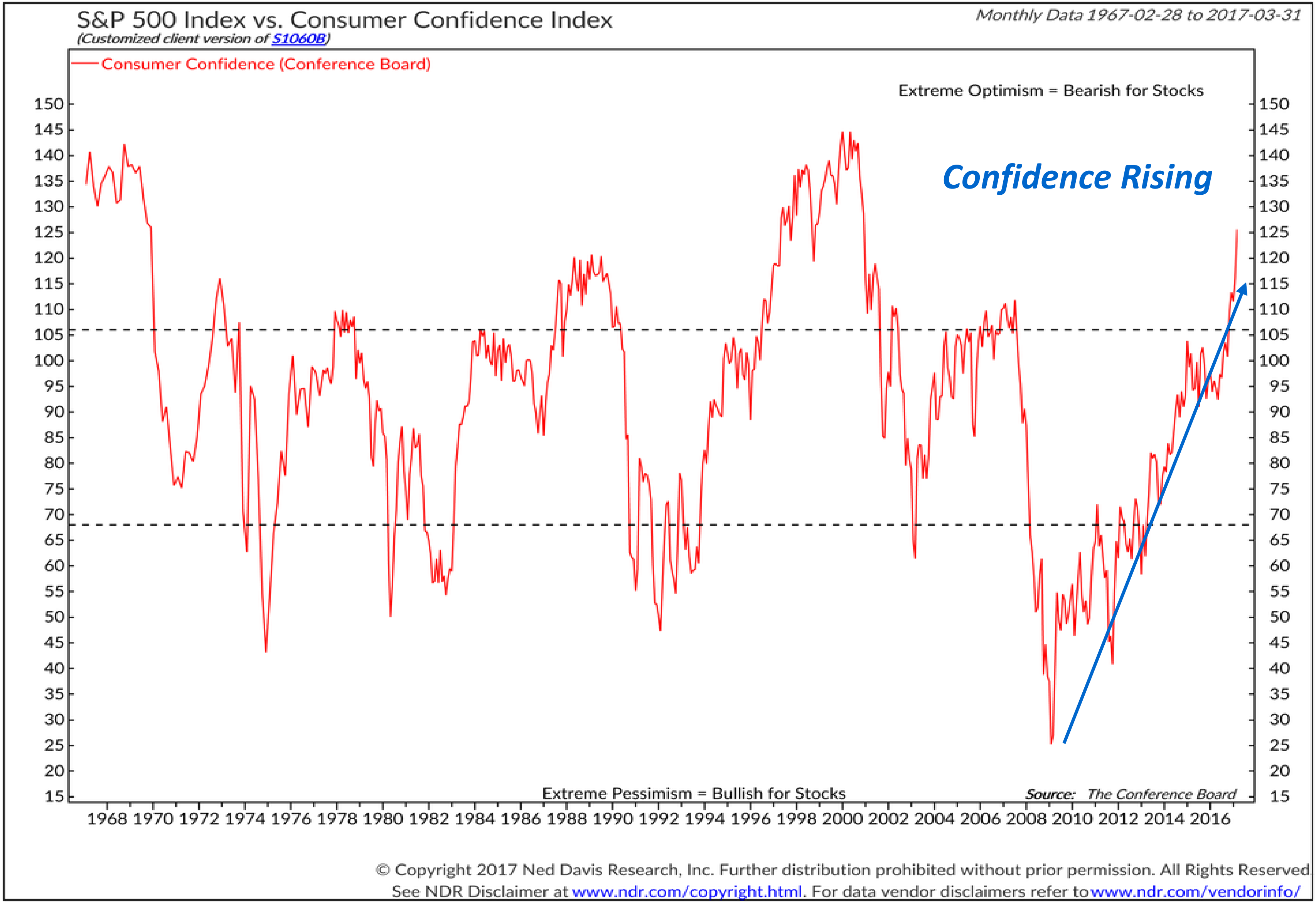
Weak Stock Selection in a Strong Year. A Combination of Not Owning Several Large, Strong Performers and Too Many Portfolio Torpedoes.

Source: FactSet

Hard to Make a Case for a "Cheap" Market



Consensus Feeling More Confident



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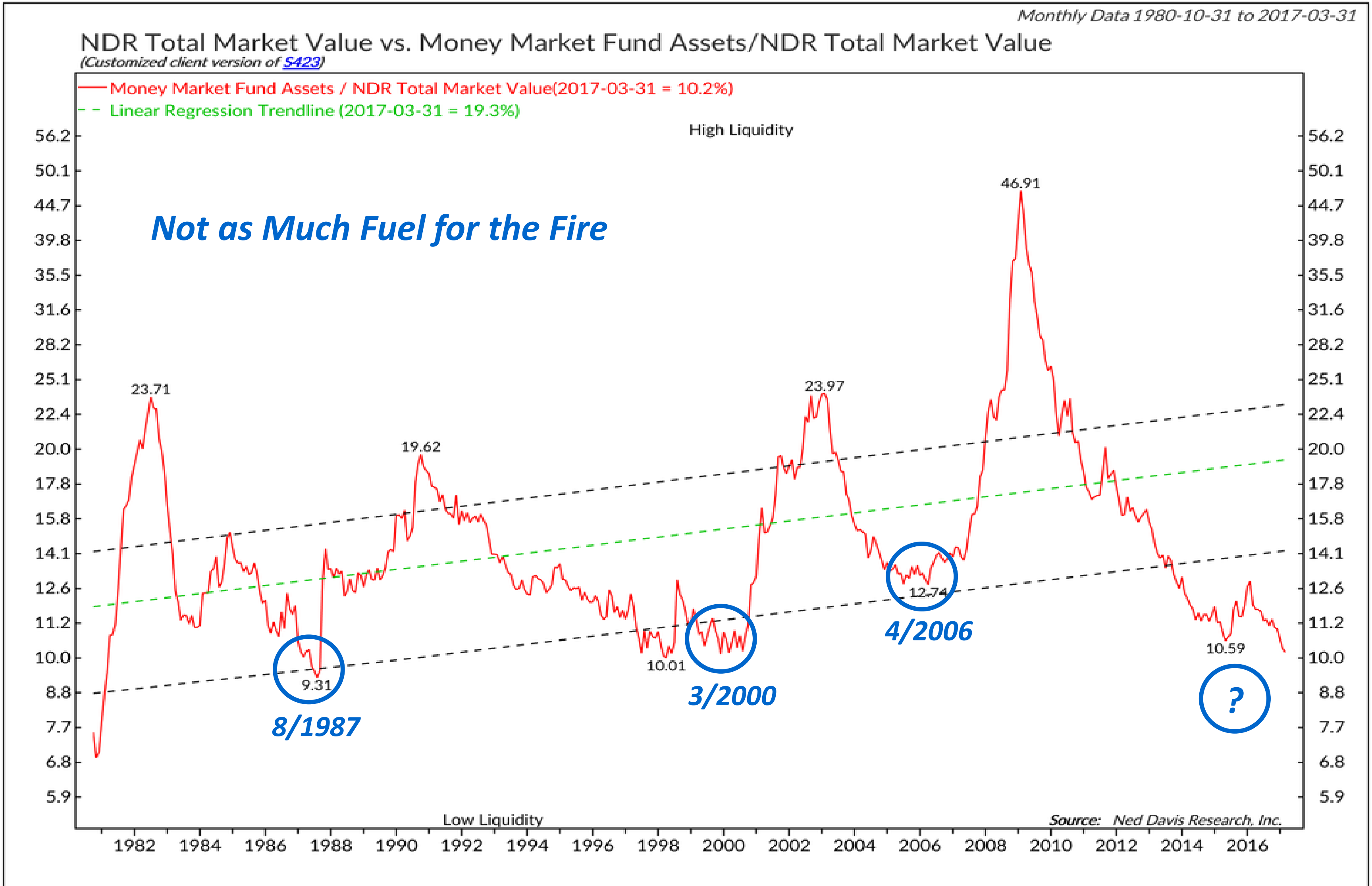
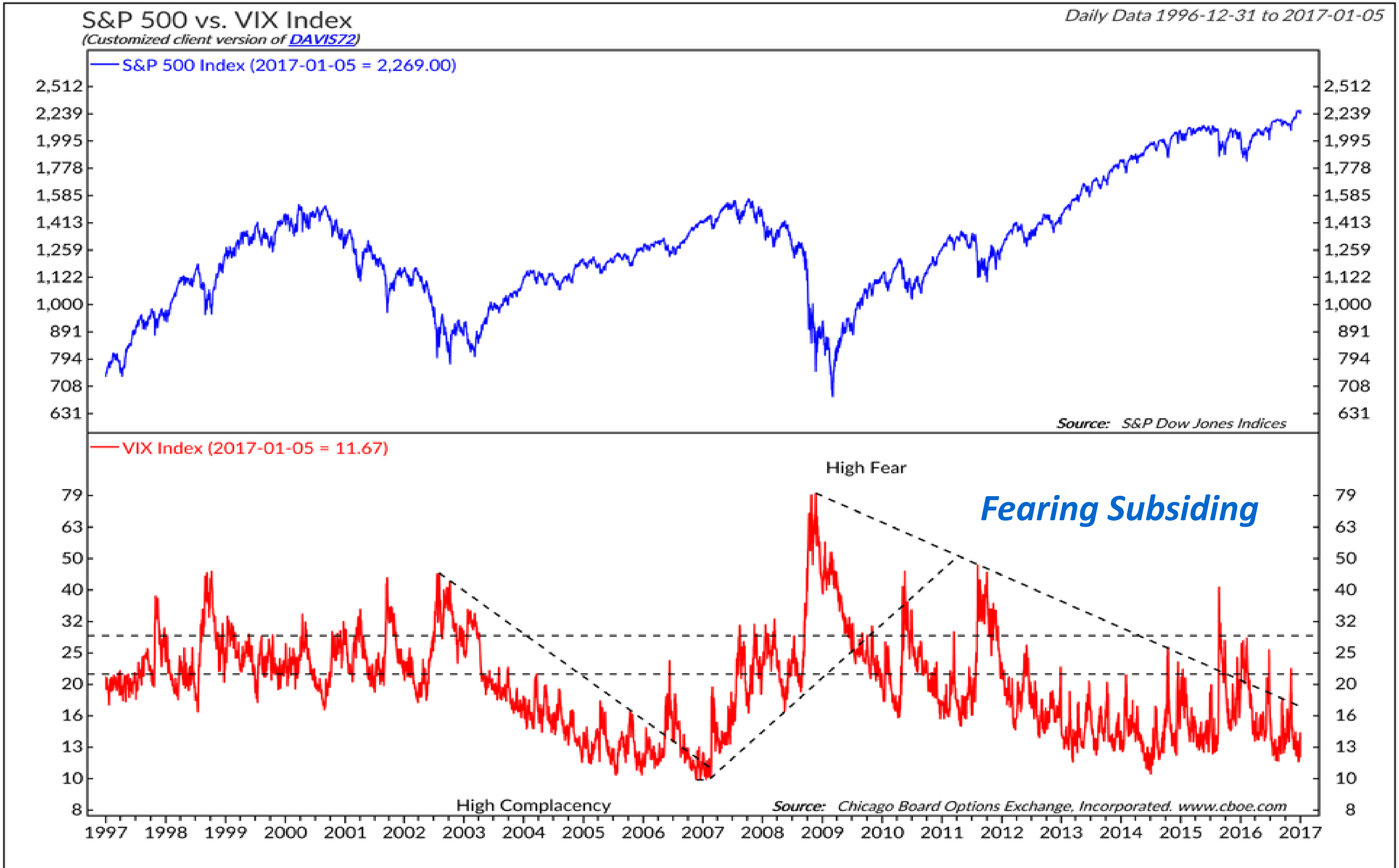
Blending the Art & Science of Investing

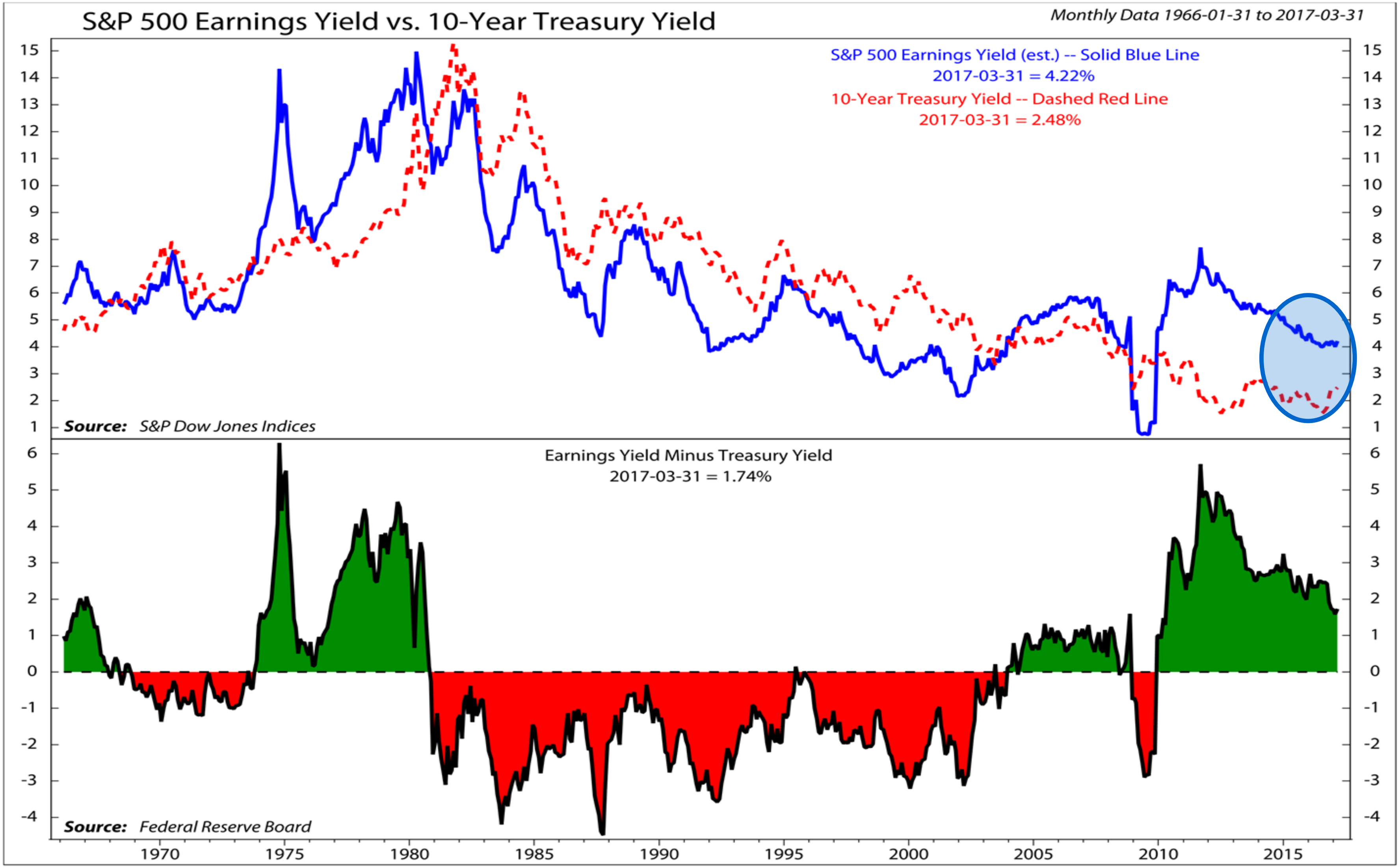
Cash Historically Low



Fear Index Not Worried



Low Rates Make Stocks Look Attractive



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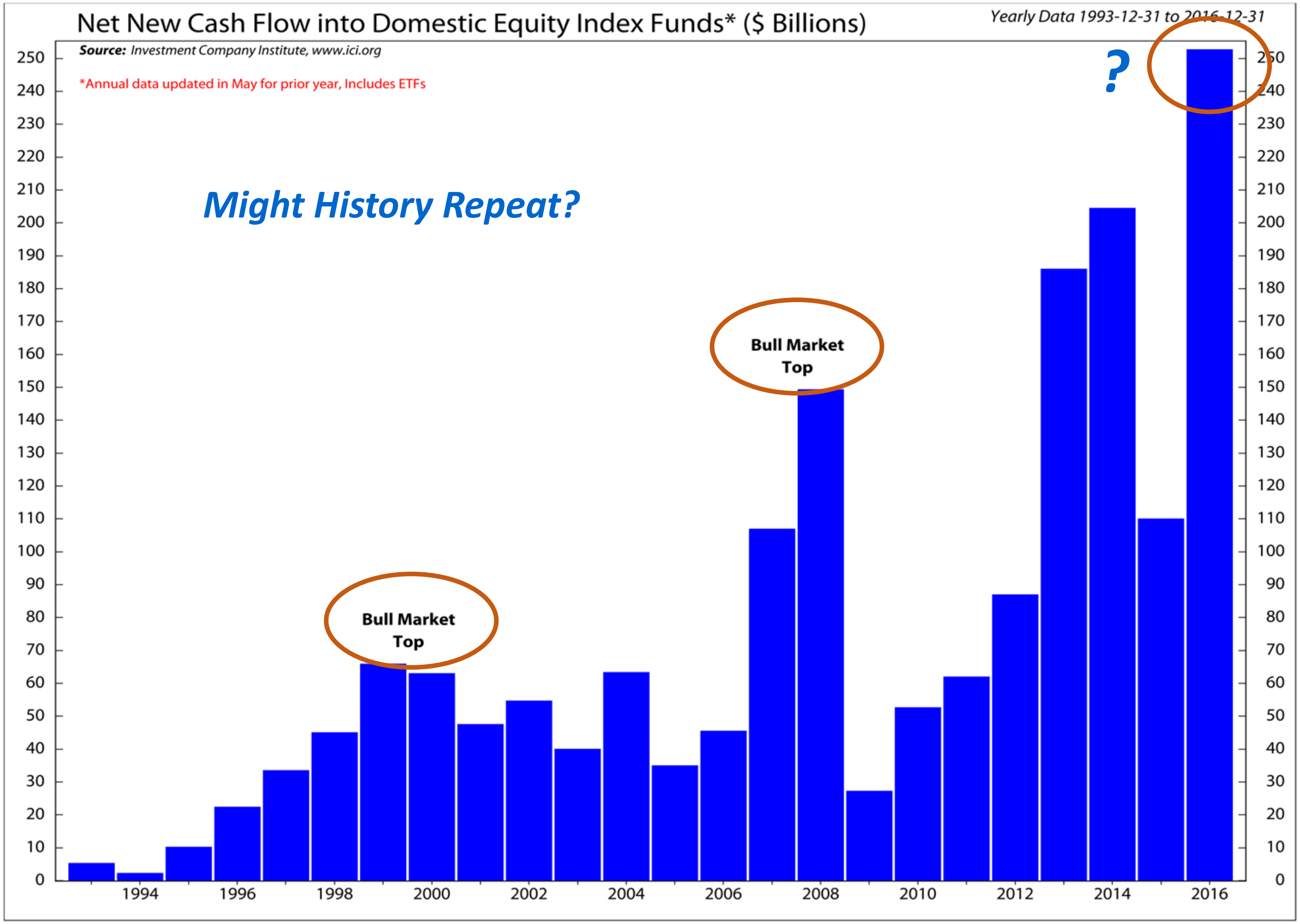
Follow the Money



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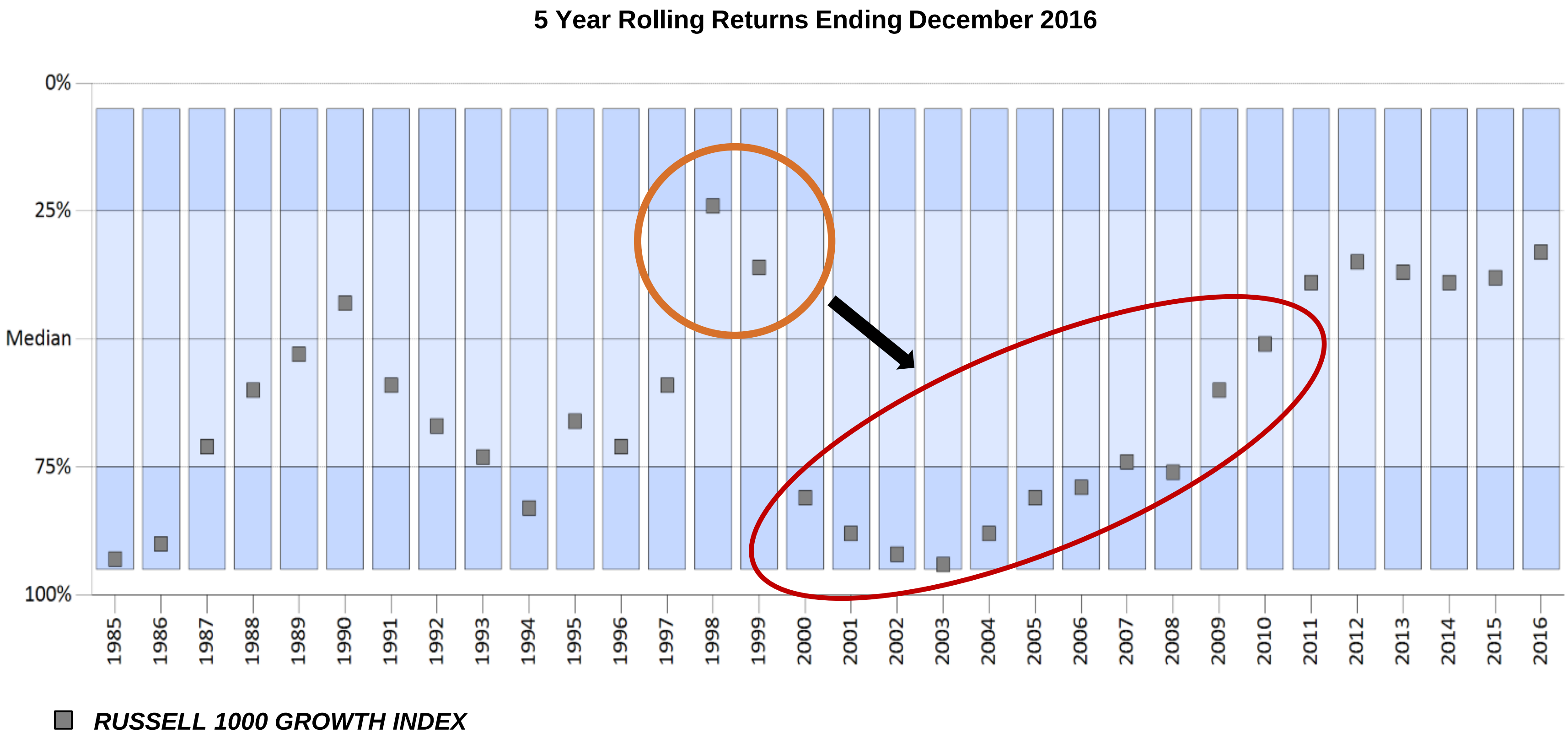
Large Cap Growth Index Performance Ranking Over Time –

Below Median Returns 80% of the Time!

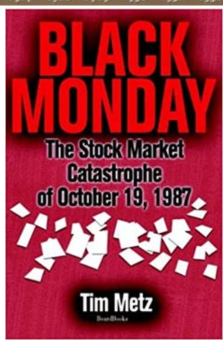


The last time the index ranked this strongly, it was followed by 11 consecutive years of below median 5 year returns.

**Source: eVestment Alliance, Large Cap Growth Universe as of 12/31/16.*

Similar Periods of Strong Returns Have Been Followed by Market Weakness

Only Three Other Periods in the Last 100 Years Have Been as Strong as This One:



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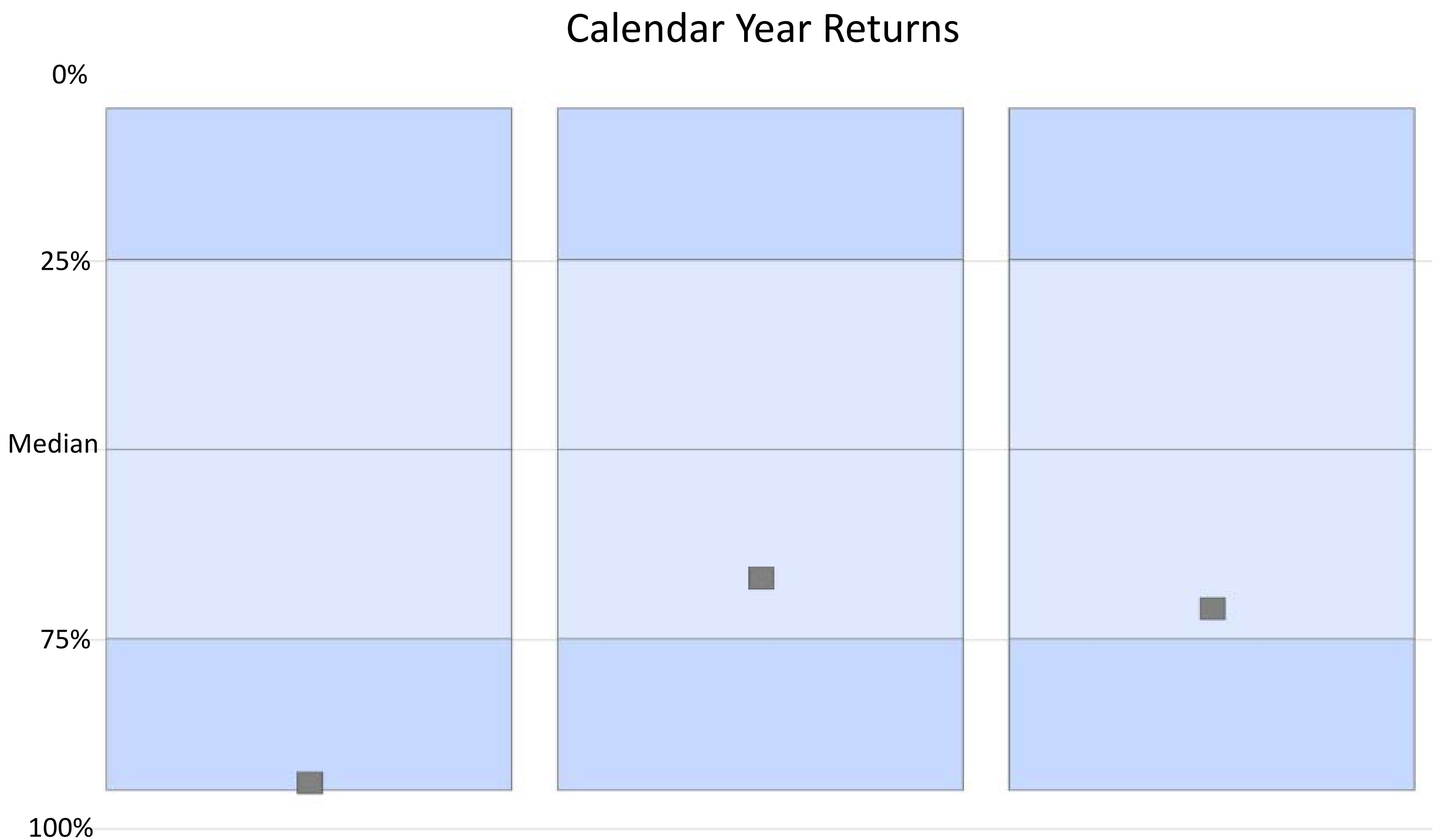
		Prior Long-term Annualized Return	
1929 Black Tuesday	March 1921 - March 1929	25.8%	*(Dow Jones 8 Yr Return)*
1987 Black Monday	August 1979 – August 1987	15.0%	*(S&P 500 8 Yr Return)*
2000 Tech Bubble	March 1992 – March 2000	19.0%	*(Dow Jones 8 Yr Return)*
		20.5%	*(S&P 500 8 Yr Return)*
1Q2017	March 2009 – March 2017	19.6%	*(S&P 500 8 Yr Return)*

Source: Bloomberg and S&P Dow Jones.

Index Rankings in Negative Markets

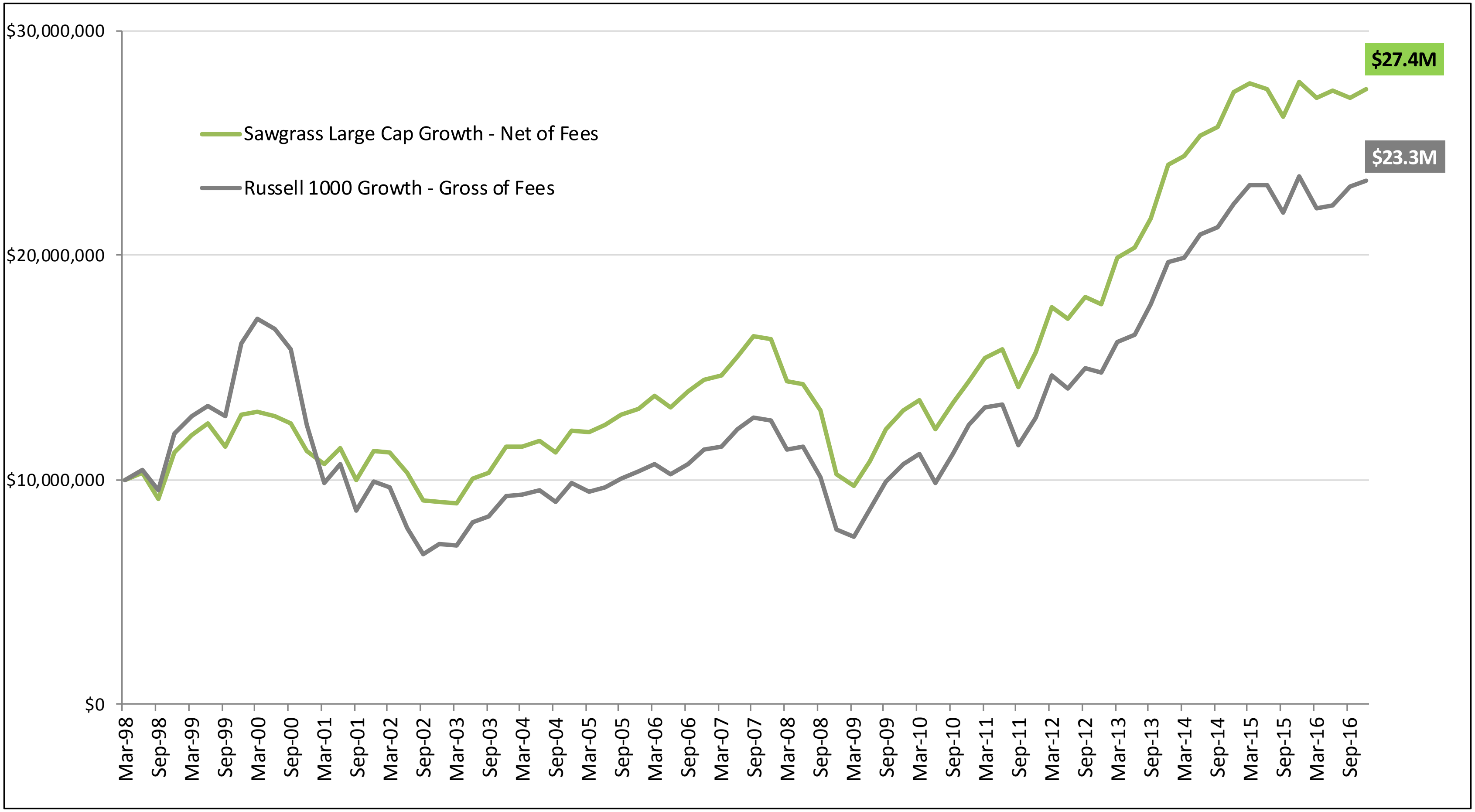


	2000	Rank	2001	Rank	2002	Rank
Russell 1000 Growth	-22.4	94	-20.4	67	-27.9	71

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of the calendar year end dates stated above.

Growth of $10 Million

This chart shows that with an initial placement of $10 million, Sawgrass' Diversified Large Growth product would have provided you with an additional $4.1 million (net of fees) over the index over the last 18.75 year period.



Source: Advent Axys as of 12/31/16. Fee utilized was 50 basis points annually.

SAWGRASS
Asset Management, L.L.C.

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Stock Market: Quarter in Review

- The equity markets continued their post-election rally in the first quarter to post an impressive gain and mark the bull market's eighth anniversary.
- Despite an ongoing lack of concrete details about future catalysts, the markets continued to climb in anticipation of a better earnings and economic growth backdrop.
- Stocks endured very little in the way of pullbacks as the improvement in investor sentiment helped buoy the major indices.
- There were no major themes from a factor standpoint in the quarter but the more selective nature stood in contrast to the broader participation at the beginning of the post-election rally.
- Large outperformed small and growth outpaced value as the sector leaders were information technology, healthcare, and consumer discretionary while the laggards were energy, utilities, and financials.

Stock Market: The Quarter Ahead

- As we enter the second quarter, the S&P 500 has risen 13+% from the election day low primarily on the hope of a better environment for earnings growth. From this point, more measurable signs may be needed to move the market meaningfully higher.
- The defeat of the healthcare reform and the waning prospect of immediate tax reform deals a significant blow to those investors looking for positive change.
- Valuations have expanded with the most recent rally from already stretched levels leaving less upside if earnings growth rates fail to accelerate.
- The potential for a higher interest rate environment also makes current valuations even less attractive and increases the risks for valuation multiple contraction if rates rise to more normal levels.
- Much of the cyclically-oriented, higher growth theme that flourished in the earlier portions of the rally has recently dissipated.
- Despite a more challenging fundamental environment, positive investor sentiment and the technical breakout to new highs could see the market drift higher.
- However, the length of the current bull market and recent gains that are well above long-term historical averages should moderate investor expectations for returns to continue at the current pace.
- After an impressive run since the election, increased risks for downside volatility and lower return prospects leave the equity markets with a less favorable risk/reward balance at current levels.

1st Quarter Scorecard — **Table 1**

Index	Quarter	1 Year
S&P 500	6.1%	17.2%
Russell 1000	6.0%	17.4%
Russell 2000	2.5%	26.2%
Russell 3000	5.7%	18.1%
Russell 3000 Growth	8.6%	16.3%
Russell 3000 Value	3.0%	20.0%
Barclays Capital US Aggregate	0.8%	0.4%
3 Month T-Bills	0.1%	0.4%

Source: Bloomberg & Russell Investments

Fixed Income Markets

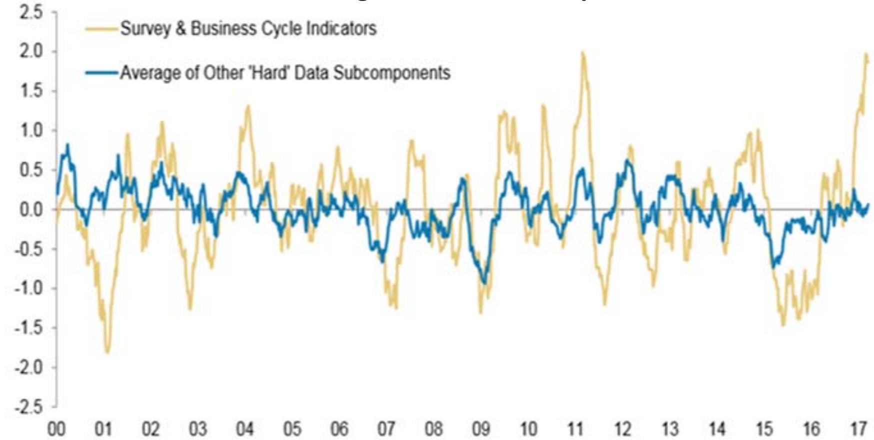
Just Right or Three Bears?

The stock market continued its celebratory mood, advancing on the prospects of President Trump's political agenda. Expectations are high as the S&P 500 added over 6% this quarter. The bond market meanwhile marked time fearing a stronger economy would allow the Federal Reserve to raise interest rates for the third time this cycle. Mid-March brought us both the Federal Open Market Committee's rate hike and the Republican's stumble during their first attempt to enact policy. The failure to bring the American Health Care Act to the floor of Congress gave the market pause. While the Fed raised rates on the Ides of March, the prospects for two or three more increases in 2017 remain. Short-term rates moved higher, while long-term rates drifted stubbornly lower (see Table 2), driven by still slow economic growth. Concern is mounting over the administration's ability to pass the rest of the economic agenda, tax cuts and infrastructure spending. The Bloomberg Barclay's Aggregate added 0.82% for the quarter, barely over its yield. In addition to the challenge of assessing growth prospects, the Fed is also eyeing what may be a changing inflation picture. In fact, on a year over year basis, the Consumer Price Index is currently registering a 2.7% increase for the 12 months ending February versus 1.0% for the prior 12 month period. In the category of 'be careful for what you ask for,' by the end of March, the United Kingdom's Prime Minister, Theresa May invoked Article 50, starting the clock on Brexit reality. The celebratory mood changed to disappointment. Who knew health-care was so hard? The Fed stopped being so soft.

Too Hard or Too Soft?

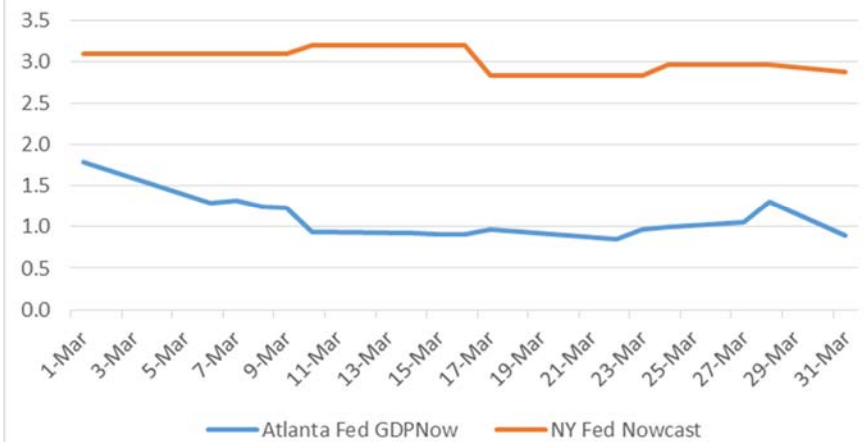
Considering the recent economic data, hard, quantifiable indicators continue their sluggish path. Soft data, from surveys or sentiment, show robust growth. The economists from Morgan Stanley highlighted this divergence as seen in Graph 1. The Federal Reserve Bank of Atlanta forecasts GDP utilizing hard data. Their current forecast for the quarter just ended is 0.9%, down from the prior quarter's 2.1% pace. In contrast, the Federal Reserve Bank of New York includes some soft data in their model of GDP growth leading to their estimate of 2.9% (see Graph 2). While the quarter is over, we must wait until the end of April to get the initial measurement of first quarter GDP. Will expectations lead actual growth, as the equity markets suggest, or will low growth bring expectations down?

Graph 1 **Bloomberg US Economic Surprise Index**



Source: Morgan Stanley, Bloomberg

Graph 2 **1Q GDP: On the Other Hand**



Source: Bloomberg

Interest Rate Summary					Table 2
	3/31/16	12/31/16	3/31/17	Qtr Change	12-Month Change
3 Month T-Bills	0.2	0.5	0.8	0.3	0.6
5 Year Treasury	1.2	1.9	1.9	0.0	0.7
10 Year Treasury	1.8	2.4	2.4	-0.1	0.6
30 Year Treasury	2.6	3.1	3.0	-0.1	0.4
5 Year Corporate ('A')	2.1	2.6	2.6	0.0	0.5
10 Year Corporate ('A')	2.9	3.4	3.4	0.0	0.4
30 Year Fixed Rate Mortgage	3.7	4.1	4.0	-0.1	0.3

Source: Bloomberg