



Date: April 20, 2015  
To: Board of Trustees, Jacksonville Police & Fire Pension Plan  
From: Dan Holmes  
Subject: Summary of 1<sup>st</sup> Quarter, 2015 Flash Report

The comments below are intended as a brief summary of Summit's "Flash Report" for the periods ending March 31, 2015. Please note this report is preliminary and unaudited.

### Capital Market Review

The US economy continued to expand in the First Quarter but short of expectations. Real GDP was finalized at 2.2% (annualized) for the Fourth Quarter, 2014 and 2.4% (annualized) for the calendar year. The Federal Reserve Bank of Atlanta has estimated 0% for the First Quarter of 2015. The ISM Purchasing Managers' Index remains above 51% (an indicator of economic expansion) but its rate has decreased in recent months. The unemployment rate remained unchanged during the latest month and ended at 5.5% at the end of March. CPI increase 0.2% in February. Growth assets finished the First Quarter in generally positive territory with the exception of MLPs, due to continued selling pressure on the energy sector, and emerging market debt, due to the strengthening US Dollar. Despite this, international equities outperformed domestic equities for the quarter, and small cap bested large cap equities. Domestic fixed income enjoyed modest positive returns for the quarter, as rates declined, but international bonds finished negative. Real estate indices have not yet been priced.

The Police & Fire Pension Plan ended the quarter with \$1,645,061,141 in market value. Asset allocation was in-line with permissible policy ranges but remains overweight relative to target in domestic equities and underweight in real estate. The Plan earned a total rate of return of 1.96% for the quarter and outperformed the Policy Index by 45 basis points. For the fiscal year-to-date (FYTD), the Plan earned a total rate of return of 3.93% (3.69% net of fees), outperforming the Policy Index by 1.4%. The total return for the Plan has outperformed its Policy Index over trailing 1-10 years as shown on the Flash Report.

The Domestic Equity Composite returned 1.14% for the quarter and 7.44% for the FYTD, falling short of the domestic equity index by 66 basis points for the quarter, but outperforming by 31 basis points for the FYTD. Performance has been improving for GAMCO and Brown over the last 6 months, each performing well on an absolute and relative basis. In fact, Brown has been the best performing manager for the FYTD. Conversely, Sawgrass, DRZ and Pinnacle underperformed their benchmarks during these periods.

The International Equity Composite was the leader for the Quarter returning 4.59% for the quarter and 1.69% for the FYTD, outperforming the international equity index by 1% and 2.05% for the respective periods. All

international equity managers are ahead of their respective indices CYTD, with only Acadian lagging over the latest quarter.

The Fixed Income Composite returned 1.77% for the quarter and 3.14% for the FYTD, outperforming the fixed income index by 16 basis points for the quarter but falling 29 basis points short for the FYTD. Eaton Vance senior bank loans and TIPS have been a drag on relative performance FYTD; however TIPS offer cheap inflation protection now and parts of the bank loan market now appear expensive.

The Real Estate Composite shows a 3.44% return for the quarter (on a preliminary basis) and 6.71% for the FYTD. Energy infrastructure MLPs continued their slide over the quarter returning -1.98%, but -9.18% for the FYTD.

### Valuation

Overvalued: domestic equity, private bank loans, long Treasuries, cash.

Undervalued: emerging market debt and equity, MLPs, relative value hedge funds.

### May Meeting

Summit intends to discuss the following at the May Board Meeting: value-added real estate education, opportunities and managers; replacement of Eaton Vance; follow-up to asset allocation discussion.