

Operating Fund Portfolio Update

Discussion of Active and Passive Management



2nd Quarter 2015

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Investment Objectives of the City of Fort Lauderdale Operating Fund Investment Policy Statement

A. Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to avoid capital losses, whether they are from securities defaults or erosion of market value. To attain this objective, the City will maintain a diversified portfolio so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

B. Maintenance of Liquidity

The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodic cash flow analyses will be performed in order to ensure that the portfolio is positioned to provide sufficient liquidity.

C. Return on Investment

Investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives as described. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

Maturity and Liquidity Requirements

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements.

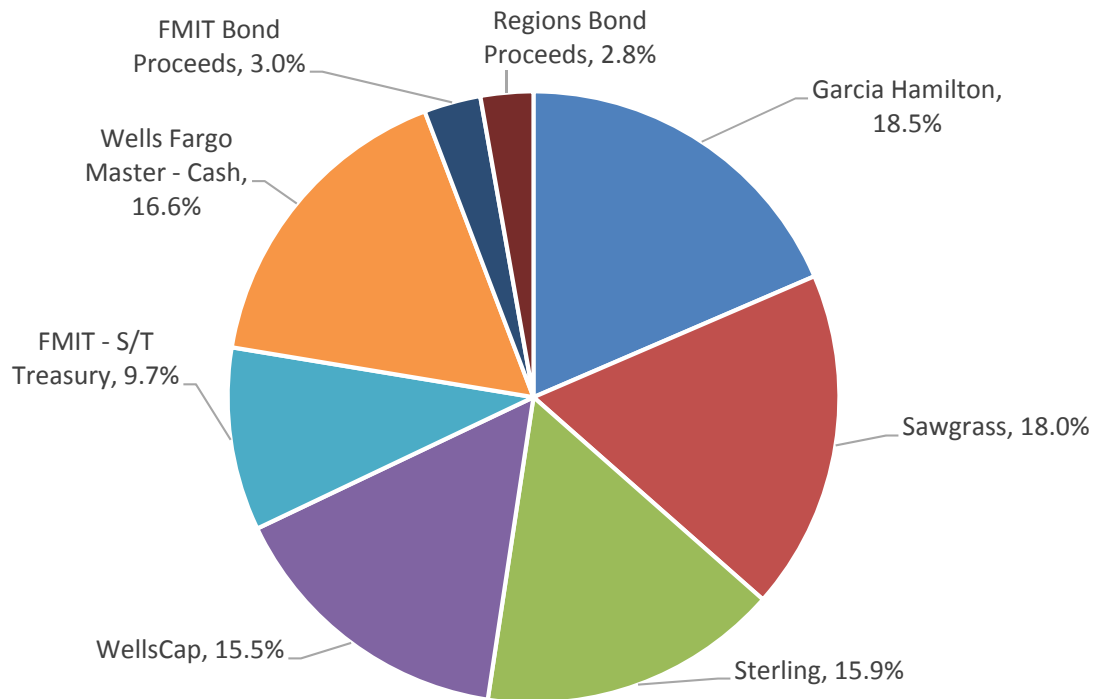
A. Maturity Guidelines

Securities purchased by or on behalf of the City shall have a final maturity of ten (10) years or less from the date of purchase. The overall weighted average duration of principal return for the portfolio shall be less than three (3) years. The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

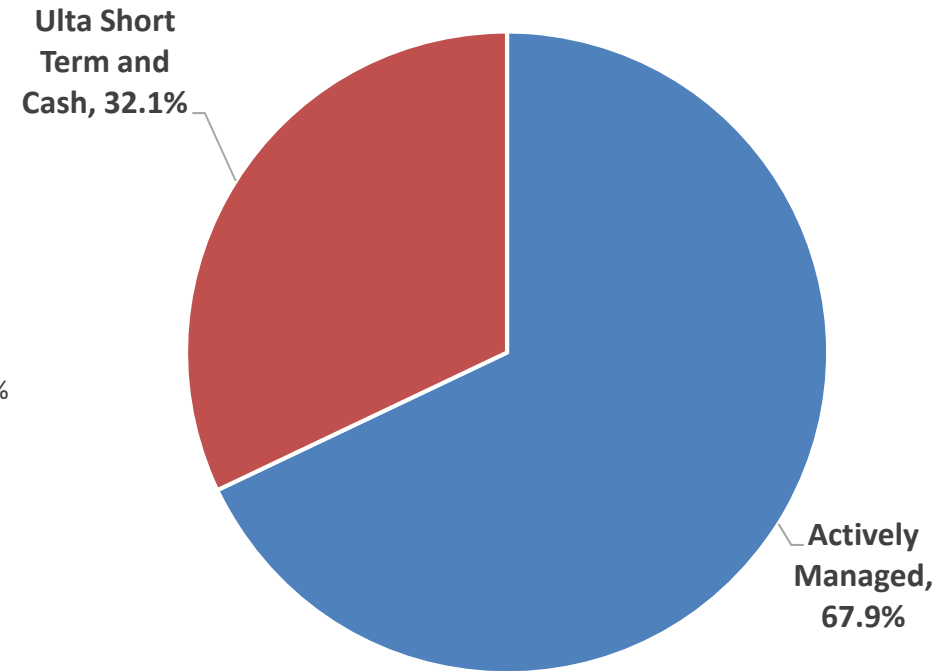
B. Liquidity Requirements

Investment maturities will match known cash needs and anticipated cash flow requirements

Manager Allocation at 6/30/15



Portfolio Allocation at 6/30/15



Comparative Performance

	QTR	YTD	FYTD	1 YR	Inception	Inception Date
Total Operating Assets	0.01	0.45	0.66	0.69	0.60	07/01/2012
BofA Merrill Lynch 1-3 yr Gov/Credit A or Better	0.13	0.69	0.87	0.91	0.86	
90 Day U.S. Treasury Bill	0.01	0.02	0.02	0.03	0.05	

Returns for periods greater than one year are annualized.

City of Fort Lauderdale Operating Funds

Manager Portfolio Sector Allocations

Investment Performance Review							
Authorized Investments	Sterling Enhanced Cash	Wells Fargo S/T Fixed (1- 3yr)	Garcia Hamilton S/T Fixed (1- 3yr)	Sawgrass Short (1-5yr)	FMIT (1-3) Year	Wells Fargo (Cash Accounts)	Regions (Bond Accounts)
Cash & Money Market Accounts	0.00%	0.00%	0.00%	5.61%	0.00%	100.00%	0.00%
Money Market Funds	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
Local Govt Investment Pool	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%
US Treasury Bond/ Note	2.02%	28.09%	34.84%	34.98%	0.00%	0.00%	0.00%
Federal Agency Bond/Note	48.81%	25.40%	26.64%	23.37%	0.00%	0.00%	0.00%
Federal Agency MBS/CMO/CMBS	1.62%	2.55%	22.90%	1.68%	0.00%	0.00%	0.00%
Municipal Bond/Note	15.31%	8.55%	0.00%	0.00%	0.00%	0.00%	0.00%
Corporate Note	34.26%	35.43%	15.61%	34.35%	0.00%	0.00%	0.00%
Commercial Paper	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Average YTM	0.65%	0.83%	1.28%	1.13%	0.53%	0.00%	0.01%
Current Portfolio Yield	1.79%	1.11%	3.06%	1.28%			

City of Fort Lauderdale Operating Funds

Account Performance as of June 30, 2015

Comparative Performance

	QTR		YTD		FYTD		1 YR		Inception		Inception Date
Surplus Funds	0.00		0.63		0.91		0.94		0.87		04/01/2013
Barclays 1-3 Govt	0.15		0.69		0.88		0.91		0.70		
Garcia Short Duration Opportunistic	-0.20	(96)	0.73	(72)	1.29	(22)	1.34	(23)	1.41	(17)	04/01/2013
BofAML 1-3 Yr. Gov/Corp A Rated & Above	0.13	(37)	0.69	(81)	0.87	(78)	0.91	(77)	0.80	(86)	
IM U.S. Short Duration Fixed Income (SA+CF) Median	0.11		0.80		1.06		1.07		1.09		
Wells Cap 1-3 yr Short Duration	0.11	(46)	0.66	(86)	0.85	(81)	0.87	(84)	0.77	(88)	04/01/2013
BofAML 1-3 Yr. Gov/Corp A Rated & Above	0.13	(37)	0.69	(81)	0.87	(78)	0.91	(77)	0.80	(86)	
IM U.S. Short Duration Fixed Income (SA+CF) Median	0.11		0.80		1.06		1.07		1.09		
Sawgrass 1-5 yr Short Term	-0.05	(89)	0.80	(52)	1.13	(33)	1.15	(35)	0.97	(63)	04/01/2013
BofA Merrill Lynch 1-5 Yr Gov/Corp A Rated & Above	-0.01	(81)	0.95	(24)	1.44	(13)	1.38	(21)	0.99	(59)	
IM U.S. Short Duration Fixed Income (SA+CF) Median	0.11		0.80		1.06		1.07		1.09		
Sterling Enhanced Cash	0.13	(47)	0.51	(33)	0.64	(17)	0.69	(29)	0.69	(42)	04/01/2013
1 Year U.S. Treasury Note	0.04	(97)	0.09	(98)	0.01	(100)	0.02	(100)	0.09	(99)	
IM U.S. Cash Fixed Income (SA+CF) Median	0.11		0.44		0.44		0.52		0.56		
FMIT Other Bonds & Subsidiary Account	0.13		0.45		0.52		0.55		0.49		07/01/2012
BofA Merrill Lynch 1-3 Year Government	0.15		0.67		0.85		0.89		0.66		
Total Operating and Restricted Funds	0.04		0.07		0.09		0.11		0.10		07/01/2012
90 Day U.S. Treasury Bill	0.01		0.02		0.02		0.03		0.05		
Wells Fargo Master Account	0.03		0.03		0.04		0.05		0.03		07/01/2012
90 Day U.S. Treasury Bill	0.01		0.02		0.02		0.03		0.05		
FMIT W&S Bonds	0.13		0.45		0.52		0.55		0.49		07/01/2012
BofA Merrill Lynch 1-3 Year Government	0.15		0.67		0.85		0.89		0.66		
Regions Go Bonds	0.00		0.00		0.01		0.01		0.01		07/01/2012
90 Day U.S. Treasury Bill	0.01		0.02		0.02		0.03		0.05		

Returns for periods greater than one year are annualized.

	<u>Garcia Hamilton</u>	<u>WellsCap</u>	<u>Sawgrass</u>	<u>Sterling</u>
Dollar Allocation	\$ 87,519,783	\$ 73,447,900	\$ 84,890,645	\$ 75,048,863
Wtd Average Fee	0.09%	0.08%	0.07%	0.08%

Active Manger Portfolio Fee	0.08%
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- Passive investment strategies are designed to offer investors products that replicate holdings in various market indices:
 - S&P 500
 - MSCI EAFE
 - Barclays Aggregate Bond Index
- Passive management allows investors to “own the market” whereas active management offers investors portfolios that can exhibit very different holdings characteristics than market benchmarks.
 - Active portfolios typically have sector allocations that differ from a market benchmark as well as holding far fewer securities than a typical market benchmark
- Passive management helps lessen organizational risk or manager risk
- Passive management typically offers cost savings as benchmark replication does not require the investment in research that a typical active strategy requires
- Passive management is typically utilized in “efficient” segments of the investment market where research and sector rotation over time have not generated superior results vs the benchmark and peer group and it is easy to purchase securities and replicate the indicated market segment
 - US Large Cap Stocks
 - US Mid Cap Stocks
 - In these areas the average passive fee is 0.5% to 0.20% vs active fees ranging 0.45% to 1.50%
- Fixed Income markets are not typically accessed through passive management
 - Fixed income indices are built based upon debt issuance – the largest debt issuers represent the largest parts of an index – thus passive management by design weights a portfolio to the most indebted companies
 - Fixed income indices may not truly represent the desired bond market
 - The Barclays Aggregate Bond Index represents 49% of the US bond market and 17% of the global bond market
 - The Aggregate Index only reflects debt issuance of greater than \$250 million which creates opportunity
 - Fees for passive short term bond funds are roughly 0.07% and don’t offer the discount to active management seen in equities
 - Managers offer investors layers of protection against credit risk, interest rate risk, and call risk

Comparison of Asset Management in Equities

PASSIVE		ACTIVE	
Strengths	Weaknesses	Strengths	Weaknesses
<ul style="list-style-type: none"> ✓ Low Cost ✓ Implementation Efficiency ✓ Consistency of Returns (you “get the market”) ✓ Difficult to beat net of fees ✓ “Safe” choice for decision makers and plan sponsors 	<ul style="list-style-type: none"> ✓ Aggregate of the market ✓ No potential for excess return ✓ Cap weighted benchmarks are inefficient ✓ Subject to market fads ✓ Net of fees, typically underperform index it is tracking 	<ul style="list-style-type: none"> ✓ Potential for above market return ✓ Potentially more efficient portfolio than passive ✓ Opportunity to avoid market fads ✓ Can be critical in low-return environments ✓ Compounding positive relative returns can be powerful advantage over the long-term 	<ul style="list-style-type: none"> ✓ Higher Cost ✓ Difficult to identify managers who can consistently outperform ✓ Potential for periods of large underperformance ✓ Requires patience and long-term perspective ✓ Requires additional due diligence