



Quarterly Review

September 30, 2014

City of Ormond Beach Pension Plans

Presented by:

Sawgrass Asset Management, L.L.C.
(904) 493-5500

Gregg Gosch
Client Service Professional

Partnering with Sawgrass Asset Management

Sawgrass Provides

Stability

100% Employee Owned
25+ Year Experienced Team
16+ Year Team Continuity

Consistency

Repeatable Process
Focused Investment Models
Risk Management

Commitment

Priority on Client Needs
Direct Access to Managers
Customized Reporting

Client Benefits

- Fully Aligned Interests Between our Clients and Our Team
- Continuity of Leadership
- Long-term Investment Experience

- Clear Approach to Our Investment Decisions
- Consistent and Repeatable Results
- Excess Alpha with Low Volatility Over a Full Market Cycle

- Understanding of Client Challenges and Solutions
- Responsiveness to Client Needs
- Dependable, Accountable, Knowledgeable and Consistent Service



Ormond Beach Firefighters Portfolio Market Values

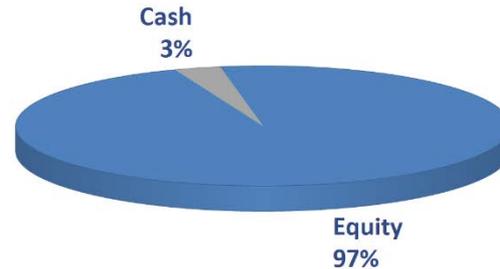
Change in Portfolio Value

Beginning Market Value on 06/30/14	2,985,573
Cash Additions	0
Cash Withdrawals	-154,294
Investment Gain/Loss	47,050
Ending Market Value on 09/30/14	2,878,329

Portfolio Summary

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	74,160	2.6%
Equity	\$	2,804,169	97.4%
TOTAL	\$	2,878,329	100.0%

Asset Allocation





Ormond Beach General Employees

Portfolio Market Values

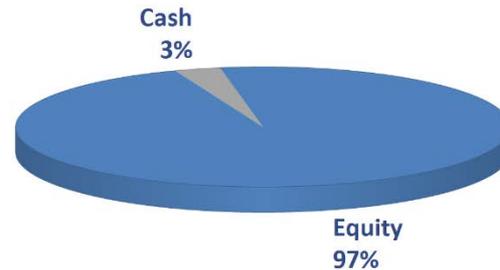
Change in Portfolio Value

Beginning Market Value on 06/30/14	5,098,078
Cash Additions	0
Cash Withdrawals	-457,333
Investment Gain/Loss	76,215
Ending Market Value on 09/30/14	4,716,960

Portfolio Summary

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	121,277	2.6%
Equity	\$	4,595,683	97.4%
TOTAL	\$	4,716,960	100.0%

Asset Allocation





Ormond Beach Police Officers Portfolio Market Values

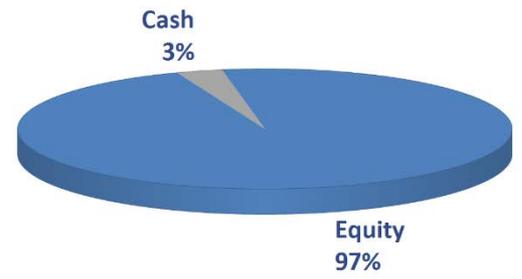
Change in Portfolio Value

Beginning Market Value on 06/30/14	3,569,783
Cash Additions	0
Cash Withdrawals	-255,135
Investment Gain/Loss	54,570
Ending Market Value on 09/30/14	3,369,218

Portfolio Summary

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	100,095	3.0%
Equity	\$	3,269,123	97.0%
TOTAL	\$	3,369,218	100.0%

Asset Allocation





Portfolio Performance
Ormond Beach Firefighters

	Q3 2014	Year to Date	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	1.7%	7.2%	19.1%	19.5%	17.1%
Russell 1000 Growth	1.5%	7.9%	19.1%	19.2%	16.8%
S&P 500	1.1%	8.3%	19.7%	19.6%	18.0%

Ormond Beach General Employees

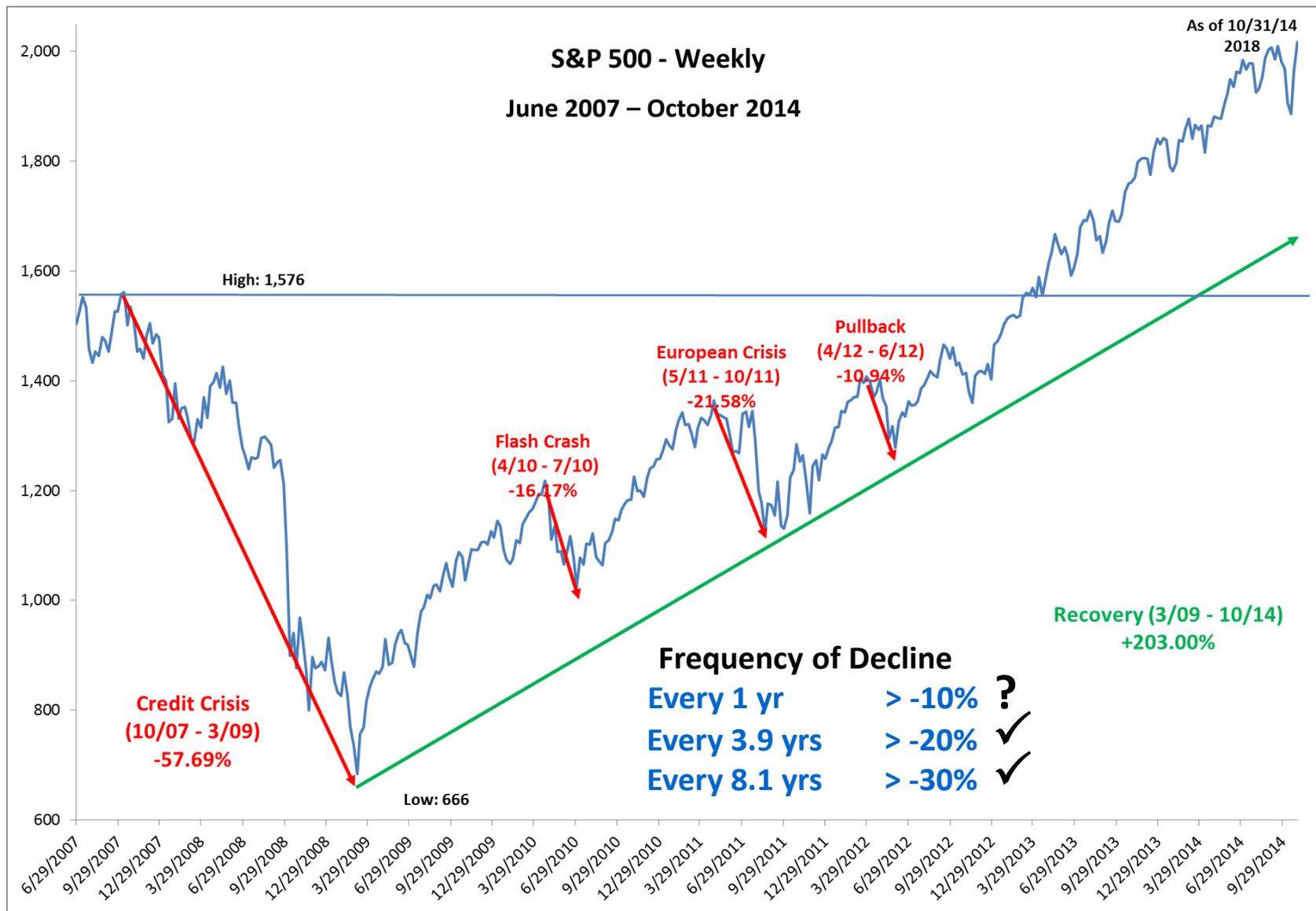
	Q3 2014	Year to Date	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	1.7%	7.5%	19.7%	19.9%	17.4%
Russell 1000 Growth	1.5%	7.9%	19.1%	19.2%	16.8%
S&P 500	1.1%	8.3%	19.7%	19.6%	18.0%

Ormond Beach Police Officers

	Q3 2014	Year to Date	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	1.7%	7.5%	19.8%	20.0%	17.5%
Russell 1000 Growth	1.5%	7.9%	19.1%	19.2%	16.8%
S&P 500	1.1%	8.3%	19.7%	19.6%	18.0%

* Since Inception 4/25/12
Returns are gross of investment management fees

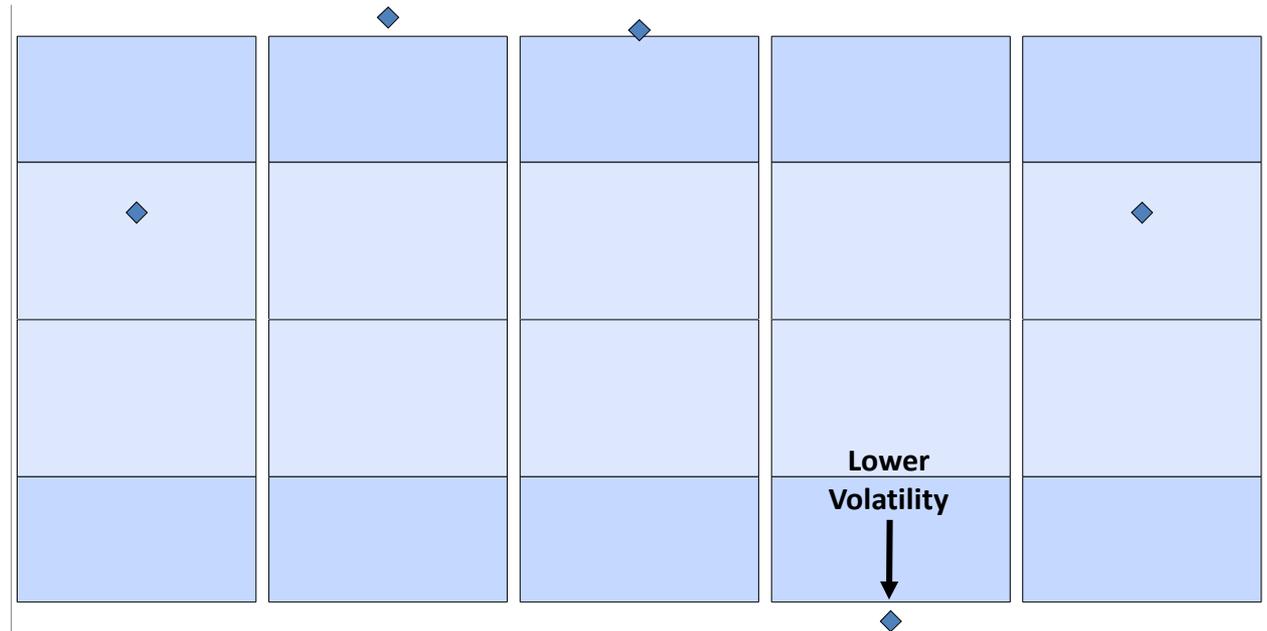
A Market Extended?



Sawgrass Diversified Large Growth Equity Peer Rankings

Top Ranked Risk-Adjusted Returns

5 Years As Of: September 30, 2014



	Information Ratio ¹	Sharpe ²	Alpha ¹	Standard Deviation	Returns
◆ Diversified Large Growth Equity	0.02	1.49	3.18	11.08	16.59

Information Ratio – a measure of the value added per unit of active risk by a manager over an index

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 products returns

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

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of 6/30/14.



Portfolio Characteristics

	Portfolio*	Russell 1000 Growth
1 Yr Forecast EPS Growth (FE)	13.4	14.8
PE LTM (FF)	19.2	23.1
Price to Cash Flow	14.1	16.1
Price to Sales	3.2	3.7
Price to Book	5.0	6.0
Weighted Average Market Cap - \$ Billion	136.9	119.1
# of Securities	44	674

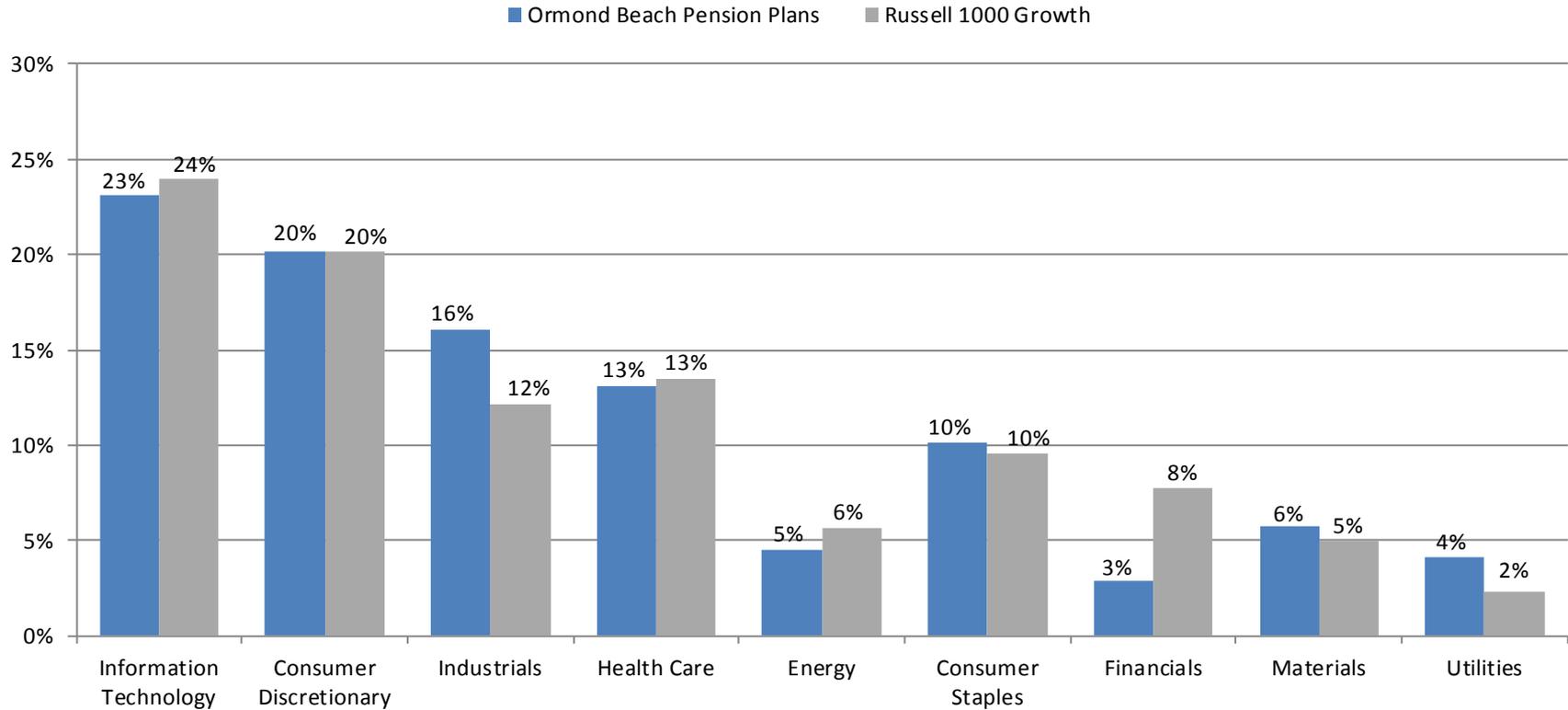
Top 10 Holdings

<u>Ten Largest Holdings</u>	<u>Percent of Equity</u>
Apple Inc	4.95%
Verizon Communications Com	4.10%
Comcast Corp New Cl A	4.08%
Oracle Corporation	3.73%
Qualcomm Inc Com	3.61%
Wal Mart Stores Inc Com	3.31%
Emc Corp/Mass	3.27%
Coca Cola Co Com	3.23%
Schlumberger Ltd Foreign Ord	2.94%
Cvs Health Corp	2.89%
TOTAL	36.11%

*Diversified Large Growth Equity Composite Data



Sector Breakdown





Contribution to Return - Quarter

<u>Security Name</u>	<u>Ending Percent of Total</u>	<u>Price Change (%)</u>	<u>Contribution To Return</u>
Top 10 Performers			
Apple Inc.	4.95	8.41	0.41
Sigma-Aldrich Corporation	1.58	34.03	0.39
Amgen Inc.	2.20	18.66	0.36
EMC Corporation	3.24	11.09	0.35
Southwest Airlines Co.	1.11	25.73	0.32
Home Depot, Inc.	1.82	13.32	0.23
Union Pacific Corporation	2.48	8.69	0.21
CVS Health Corporation	2.89	5.60	0.17
TJX Companies, Inc.	1.44	11.33	0.15
VeriSign, Inc.	1.61	12.93	0.14
Bottom 10 Performers			
General Mills, Inc.	2.02	-3.98	-0.06
Expeditors International of Washington, Inc.	1.31	-8.11	-0.09
American Express Company	1.31	-7.73	-0.11
AutoZone, Inc.	2.82	-4.96	-0.14
QUALCOMM Incorporated	3.60	-5.59	-0.20
Oracle Corporation	3.73	-5.55	-0.20
Viacom Inc. Class B	1.70	-11.29	-0.21
United Technologies Corporation	2.48	-8.53	-0.22
Southwestern Energy Company	1.57	-23.17	-0.42
Schlumberger NV	2.94	-13.79	-0.46

**Diversified Large Growth Equity Composite Data*



Portfolio Changes - Quarter

	Portfolio Weight				Portfolio Weight		
	6/30/2014	9/30/2014	Changes		6/30/2014	9/30/2014	Changes
Sawgrass Russell Sector							
Consumer Discretionary	19.64	19.57		Industrials	15.89	15.67	
AutoZone, Inc.	2.95	2.76		3M Company	1.90	1.84	
Comcast Corporation Class A	4.04	3.98		Danaher Corporation	1.65	1.56	
Costco Wholesale Corporation	1.44	1.54		Expeditors International of Washington	0.94	1.28	0.33
DIRECTV	1.45	1.45		FedEx Corporation	1.28	1.34	
Home Depot, Inc.	1.60	1.78		Honeywell International Inc.	1.45	1.42	
TJX Companies, Inc.	1.29	1.41		Southwest Airlines Co.	1.34	1.09	(0.26)
Viacom Inc. Class B	1.90	1.66		Stericycle, Inc.	2.37	2.30	
Wal-Mart Stores, Inc.	3.23	3.22		Union Pacific Corporation	2.27	2.42	
Walt Disney Company	1.75	1.79		United Technologies Corporation	2.69	2.42	
Consumer Staples	11.14	9.91		Information Technology	21.72	22.73	
Coca-Cola Company	3.17	3.14		Apple Inc.	4.53	4.82	
CVS Health Corporation	2.72	2.82		EMC Corporation	2.91	3.16	
General Mills, Inc.	2.08	1.97		Google Inc. Class A	2.05	2.03	
Kroger Co.	3.16	1.98	(1.18)	Google Inc. Class C	2.02	2.00	
Energy	4.93	4.40		International Business Machines Corp	1.36	2.00	0.64
Schlumberger NV	3.38	2.87		Oracle Corporation	3.91	3.63	
Southwestern Energy Company	1.55	1.53	(0.02)	QUALCOMM Incorporated	3.79	3.51	
Financials	3.12	2.97		VeriSign, Inc.	1.15	1.57	0.42
American Express Company	1.41	1.27		Materials	5.29	5.60	
MasterCard Incorporated Class A	1.71	1.69		Ecolab Inc.	2.00	2.02	
Health Care	11.94	12.73		Praxair, Inc.	2.13	2.03	
Abbott Laboratories	2.36	2.35		Sigma-Aldrich Corporation	1.17	1.54	
AbbVie, Inc.	1.44	1.88	0.44	Utilities	3.94	3.97	
Amgen Inc.	1.84	2.14		Verizon Communications Inc.	3.94	3.97	
Express Scripts Holding Company	2.40	2.40		[Cash]	2.40	2.46	
Johnson & Johnson	2.52	2.53					
McKesson Corporation	1.39	1.42					

*Diversified Large Growth Equity Composite Data



Portfolio Holdings

Consumer Discretionary

	% Weight
Comcast Corp New Cl A	4.1
Costco Companies Inc C	1.6
Autozone Inc Com	2.9
Directv Com	1.5
Disney Walt Co Com	1.8
Home Depot Inc Com	1.8
Viacom Inc Cl B	1.7
Wal Mart Stores Inc Co	3.3
Tjx Cos Inc New Com	1.4

Consumer Staples

Cvs Health Corp	2.9
General Mills Inc	2.0
Kroger Co	2.0
Coca Cola Co Com	3.2

Energy

Schlumberger Ltd Forei	2.9
Southwestern Energy Co	1.6

Financials

American Express Co	1.3
Mastercard Inc Cl A	1.6

Health Care

Amgen Inc Com	2.2
Abbott Labs Com	2.4
Abbvie Inc. Com	2.0
Mckesson Corp	1.5

% Weight

Portfolio Holdings

Express Scripts Holdin	2.5
Johnson & Johnson Com	2.6
Industrials	
Danaher Corp Com	1.6
Fedex Corp Com	1.4
3m Co	1.9
Honeywell Intl Inc Com	1.5
Expeditors Intl Wash C	1.3
Stericycle Inc Com	2.4
Southwest Aircls Co Com	1.1
Union Pac Corp Com	2.5
United Technologies Cp	2.5

Information Technology

Apple Inc	5.0
International Bus Mach	1.9
Google Inc	4.0
Oracle Corporation	3.7
Emc Corp/Mass	3.3
Qualcomm Inc Com	3.6
Verisign Inc Com	1.7

Materials

Ecolab Inc Com	2.1
Praxair Inc Com	2.1
Sigma Aldrich Corp Com	1.6

% Weight

Portfolio Holdings

Utilities	
Verizon Communications	4.1
# of Securities	44

% Weight

Sawgrass Diversified Large Growth Equity – 3Q14 Portfolio Review/Outlook

Market Review:

- The equity markets marginally added to their bull market gains in the third quarter by posting a 1 % increase (S&P 500) to continue the 5+ year run that has been able to persist despite numerous perceived obstacles.
- The dichotomy between the performance of the large cap indices and their smaller counterparts was stark and continued a trend of underperformance for small and midcap stocks that has been prevalent for most of the year.
- While the action on the surface was relatively tame, the activity underneath favored more “risk off” characteristics as lower volatility, lower beta, higher quality, larger size, and more attractive valuation were generally rewarded.
- Growth and large cap outperformed value and small cap as the best performing sectors were healthcare, information technology, and consumer staples while the relative laggards were energy, materials, and industrials.

Portfolio Review:

- Our portfolios narrowly outperformed for the quarter as many of the factors that we emphasize were rewarded in a more risk-off environment.
- Much of our performance for the quarter, from a factor perspective, was due to the strong returns to lower volatility, valuation, and larger size.
- Strong stock selection in industrials (LUV, UNP) and materials (SIAL) was mostly offset by weak selection in energy (SWN, SLB) and information technology (QCOM, ORCL).
- While we were able to outpace the index over the last three months, we would have hoped to outperform by a greater margin given the effectiveness during this period of the factor groupings that make up our quantitative models.
- We are pleased, however, with the ability of our risk conscious portfolios to provide solid absolute, relative, and risk adjusted performance over the last 1, 3, and 5 year periods. This is somewhat surprising in a market environment which has posted returns well above average. The recipe for these results has been the attractive upside participation/downside protection balance that is one of the primary goals of our investment thesis and process.

Outlook:

- The continued underperformance of leadership groups, such as small cap and consumer discretionary, highlight some of the ongoing divergences that indicate some evidence of a tiring bull that is in need of a pause or more significant retracement than has been seen over the last few years.
- The continued tapering by the Federal Reserve has gone relatively smoothly so far but the much larger unwinding of their balance sheet looms along with its eventual effects on markets given the outsized influence on investor behavior toward risk during the last six years.
- With a combination of elevated valuation, a less accommodative Federal Reserve, and lack of any significant downside in over two years, we feel positive about where our style of growth investing is positioned in the current market environment.

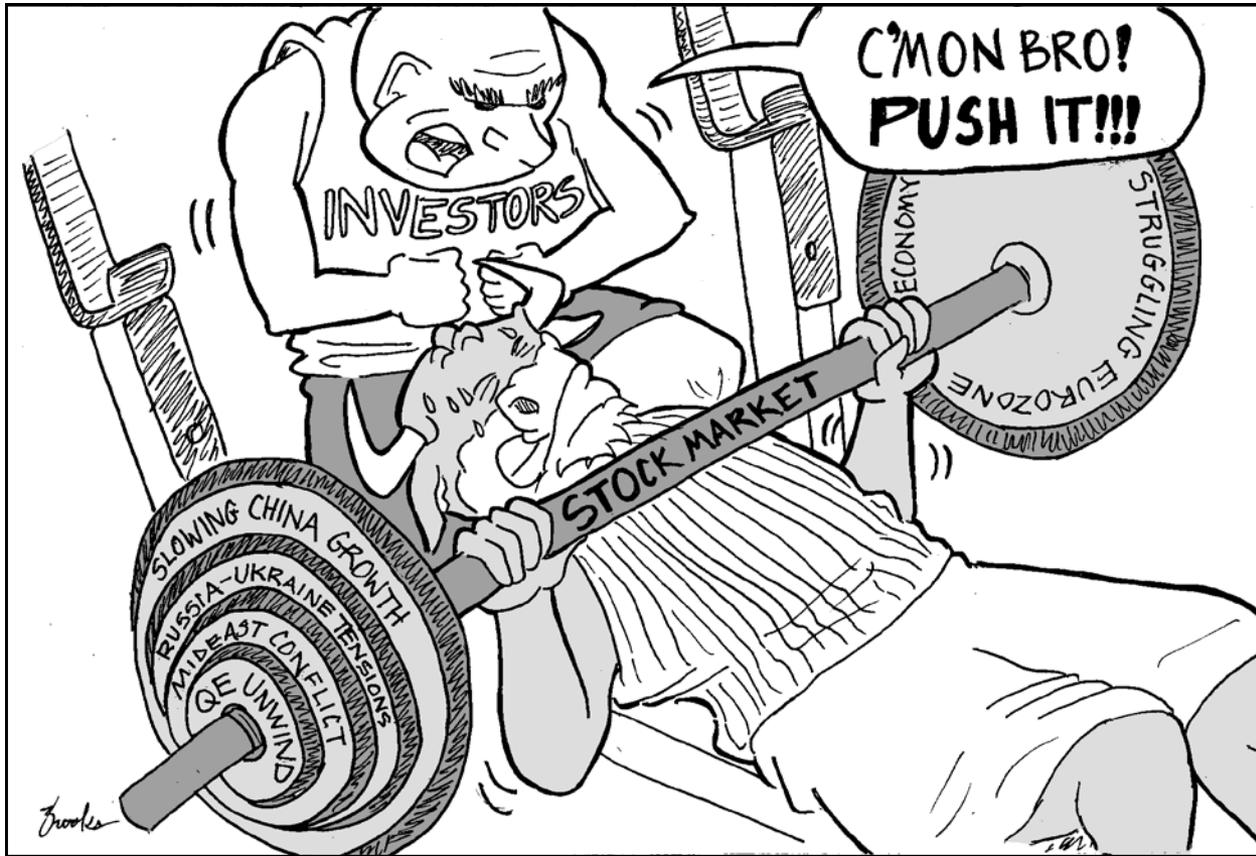
Sawgrass Composite Portfolio versus Russell 1000 Growth (as of 3rd Qtr 2014):

What Helped:

Low Volatility Bias Favorable Valuation
Larger Size Lower Beta Bias

What Hurt:

Energy Selection
Technology Selection



About the Artist: Anthony Brooks is an Equity Portfolio Analyst for Sawgrass Asset Management. During his college years, Anthony worked as a staff cartoonist for various publications including the Jacksonville Free Press, Jacksonville Advocate, and The FSView/Florida Flambeau (Florida State University's student newspaper).

Stock Market: Quarter in Review

- The equity markets posted another quarterly gain, their sixth straight, as the bull market rolled on with the major indices averaging 15+ percent over the last five years and 20+ percent over the last three years.
- Despite ongoing concerns about the pace of economic growth, the continued tapering operations by the Federal Reserve, and escalated geopolitical risks, the major indices continued their upward march and avoided the long anticipated correction that has now been absent for over two years, a historically unusual period of relative calm.
- While the overall quarterly gains were modest and the markets seemingly stable, the success of less risky characteristics led to a more “risk off” environment that favored lower volatility, higher quality, and more attractively valued securities.
- Growth and large cap outperformed value and small cap as the best performing sectors were healthcare, information technology, and consumer staples while the relative laggards were energy, materials, and industrials.

Stock Market: The Quarter Ahead

- As equities approach year end and the sixth anniversary of their current bull market in March, the major indices have pushed the returns from the lows of 2009 to upwards of 200 percent, an extraordinary run that is approaching the time length and percentage gains of some of the great bull markets of the past.
- The notable relative weakness of the more speculative and economically sensitive small and midcap indices has persisted for much of the year and has reached levels that have often been a harbinger of greater weakness in equity markets.
- The continued tapering by the Federal Reserve has gone relatively smoothly so far but the much larger unwinding of their balance sheet looms along with its eventual effects on markets given the outsized influence on investor behavior toward risk during the last six years.
- While a lack of a correction by the major large cap indices over the last couple of years has been a prevalent topic of discussion, the ability of the markets to withstand for so long what is part of healthy bull markets has created greater uncertainty about the eventual investor response to the inevitable rebalancing of expectations.
- Despite the impressive resilience of the major indices during the past five plus years, the coming months could see equity price movement become more volatile and further gains more difficult given an aging bull market in its sixth year, less favorable valuation, and ongoing political, monetary, and fiscal uncertainties.

3rd Quarter Scorecard

Table 1

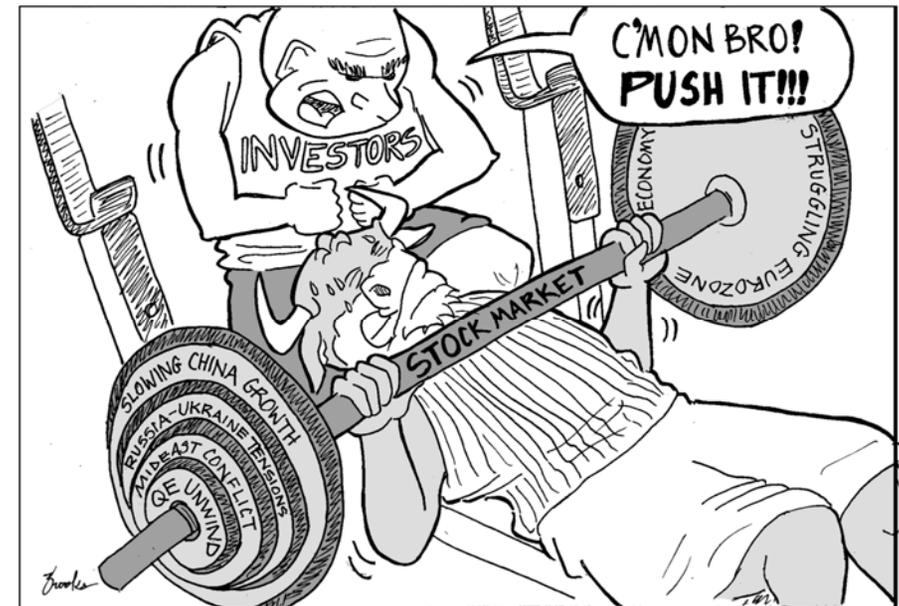
Index	Quarter	1 Year
S&P 500	1.1%	19.7%
Russell 1000	0.7%	19.0%
Russell 2000	-7.4%	3.9%
Russell 3000	0.0%	17.8%
Russell 3000 Growth	0.9%	17.9%
Russell 3000 Value	-0.9%	17.7%
Barclays Capital US Aggregate	0.2%	4.0%
3 Month T-Bills	0.01%	0.05%

Source: Bloomberg & Russell Investments

Well...Now What? Heisenberg Help Us.

In the previous edition of our Financial Review and Outlook we discussed where we are in the economic cycle. Is the growth in the US Economy, now in its sixth year of expansion, self-sustaining? What is the Fed to do? This month, October of 2014 is expected

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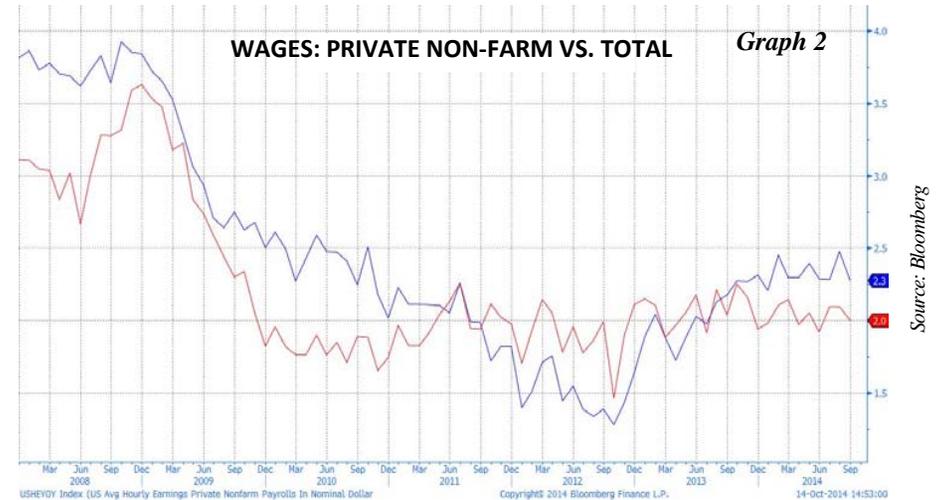
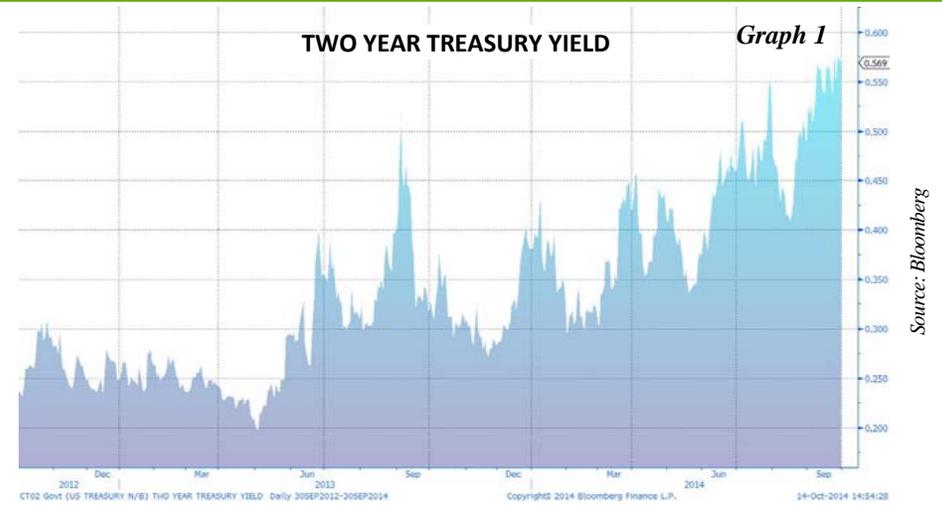


to bring an end to the Federal Reserve’s bond buying program known as QE III. Reinvestment of interest payments and mortgage pay-downs will continue but outright purchases, starting at \$85 billion per month will have been tapered down to zero. The Federal Reserve’s balance sheet now measures near \$4.5 trillion – yes with a “T” – an astonishing target of policy accommodation. The market is now trying to prepare for what might follow. Interest rates as measured by the two-year US Treasury note have increased to their highest level in three years (see Graph 1). That time dates back to the initial announcement of the prior QE II program. However, long-term US Treasury bond yields are *lower* over the same time frame (Table 1).

While the massive bond buying program was a carefully crafted objective, another target to achieve was a reduction of the unemployment rate to near 6%. While that target has been achieved, Fed Chair Yellen expressed uncertainty as to the quality of a single measure of employment. Wages, she highlights, have not been increasing. Without increasing wages, accommodation should continue without a fear of overheating inflation. In Graph 2 we see her point in stable average hourly earnings (red line). We might suggest that the stickiness in total wages limited the decrease during the recession and can be limiting the measured upside since. Looking deeper at private, non-farm wages an increasing trend emerges (blue line). The more we measure, the less we know.

Forecasted GDP is expected near 3%, down from 2Q14’s 4.6% but still suggesting strength. A stabilized real estate market and growth from corporate capital expenditure plans are helping. Renewed weakness from Europe and China are not. Fear winning the current battle in the stock market adds to the uncertainty. Flight from high yield markets is tugging at investment grade valuations (see Graph 3). Stable high quality issuers are faring better.

Looking forward, the FOMC has added the year 2017 to their assessments of appropriate monetary policy – the now famous dots. The summation of their recent forecasts can be higher rates at a faster pace, but not yet. Their “long run” estimates are similar to their three years expectations with over-night rates increasing by 3.5%. Three years is not a long time. Uncertainty continues. Will this study of what could go wrong lead to selling? Does an understanding of the current strengths in the economy lead to growth? Heisenberg, help us indeed.



Interest Rate Summary		<i>Table 2</i>			
	<u>9/30/13</u>	<u>6/30/14</u>	<u>9/30/14</u>	<u>Qtr Change</u>	<u>12-Month Change</u>
3 Month T-Bills	0.0	0.0	0.0	0.0	0.0
5 Year Treasury	1.4	1.6	1.8	+0.1	+0.4
10 Year Treasury	2.6	2.5	2.5	0.0	-0.1
30 Year Treasury	3.7	3.4	3.2	-0.2	-0.5
5 Year Corporate ('A')	2.2	2.1	2.3	+0.2	+0.1
10 Year Corporate ('A')	3.7	3.4	3.5	+0.1	-0.2
30 Year Fixed Rate Mortg.	4.3	4.2	4.1	0.0	-0.2

Source: Bloomberg

