



Quarterly Review

December 31, 2014

City of Ormond Beach Pension Plans

Presented by:

Sawgrass Asset Management, L.L.C.
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Gregg Gosch
Institutional Client Service

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Equity Portfolio Manager

For Today's Meeting

-  Investment Objectives & Summary
-  Firm and Investment Performance
-  Market Review
-  Current Portfolio Review
-  Looking Forward

The Sawgrass Partnership with the Ormond Beach Pension Plans

 **Relationship Inception Date:** April 25, 2012

 **Portfolio Managed:** Diversified Large Growth Equity

 **Benchmark:** Russell 1000 Growth

 **Investment Policy Goals & Objectives:**

- Preserve purchasing power of Plan's assets and earn an above average real rate of return (after inflation) over the long term while minimizing the short term volatility of results
- Board of Trustees seeks to create a well diversified and balanced portfolio
- Sawgrass' equity securities shall not exceed 12.5% (at market) of the total portfolio value
- The volatility of the Fund's total returns is expected to be similar to that of the Target Index

 **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.

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

Sawgrass Asset Management – By the Numbers

- 100** Percent Employee-Owned
- 21** States in which Sawgrass Represents Clients
- 25** Average Years of Investment Experience for Our Team
- 17** Years Serving Our Institutional Clients
- 3.8** Billion in Assets Under Management
- 0** Equity Team Departures Since Inception

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 January 2015

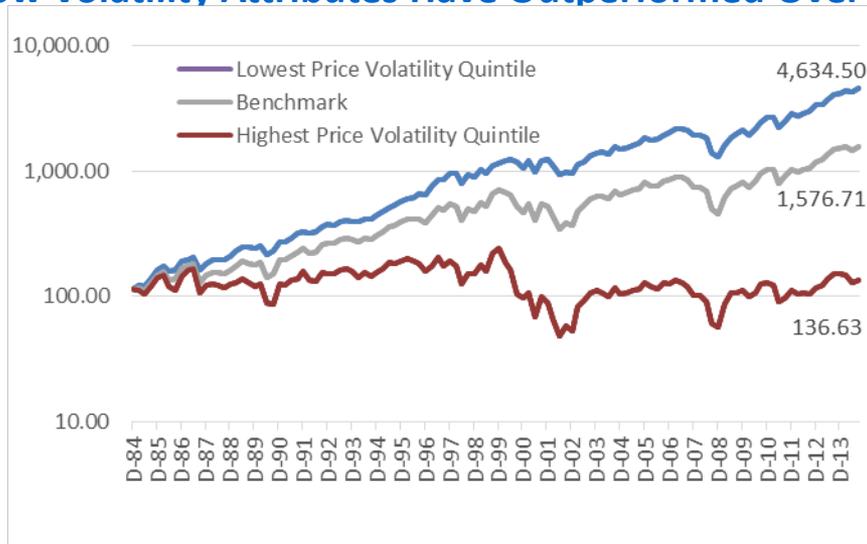
Our Alpha Thesis

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

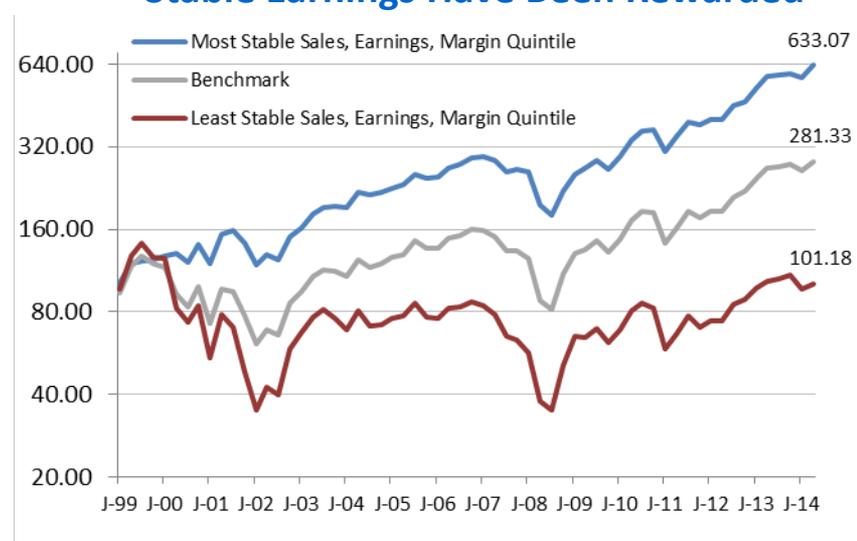
A Confirmation of Our Thesis

Cumulative Returns
12/31/84 → 9/30/14

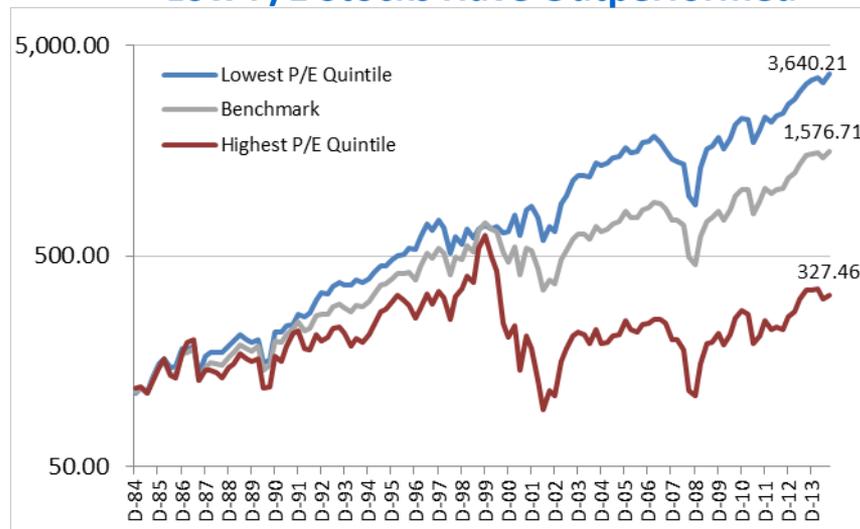
Low Volatility Attributes Have Outperformed Over Time



Stable Earnings Have Been Rewarded



Low P/E Stocks Have Outperformed



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



Ormond Beach Firefighters

Portfolio Market Values

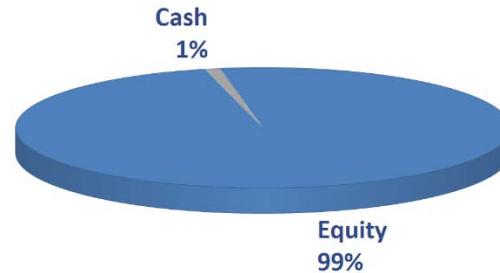
Change in Portfolio Value

Beginning Market Value on 12/31/13	2,839,918
Cash Additions	0
Cash Withdrawals	-166,704
Investment Gain/Loss	374,608
Ending Market Value on 12/31/14	3,047,822

Portfolio Summary

<u>Asset Class</u>	<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$ 38,334	1.3%
Equity	\$ 3,009,488	98.7%
TOTAL	\$ 3,047,822	100.0%

Asset Allocation





Ormond Beach General Employees

Portfolio Market Values

Change in Portfolio Value

Beginning Market Value on 12/31/13	5,035,704
Cash Additions	0
Cash Withdrawals	-681,502
Investment Gain/Loss	645,029
Ending Market Value on 12/31/14	4,999,232

Portfolio Summary

<u>Asset Class</u>	<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$ 86,066	1.7%
Equity	\$ 4,913,165	98.3%
TOTAL	\$ 4,999,232	100.0%

Asset Allocation





Ormond Beach Police Officers

Portfolio Market Values

Change in Portfolio Value

Beginning Market Value on 12/31/13	3,439,814
Cash Additions	0
Cash Withdrawals	-324,929
Investment Gain/Loss	451,026
Ending Market Value on 12/31/14	3,565,911

Portfolio Summary

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	66,439	1.9%
Equity	\$	3,499,472	98.1%
TOTAL	\$	3,565,911	100.0%

Asset Allocation





Portfolio Performance

Ormond Beach Firefighters

	Q4 2014	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.0%	13.7%	23.9%	17.9%
Russell 1000 Growth	4.8%	13.0%	22.9%	17.1%

Ormond Beach General Employees

	Q4 2014	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.1%	14.1%	24.4%	18.2%
Russell 1000 Growth	4.8%	13.0%	22.9%	17.1%

Ormond Beach Police Officers

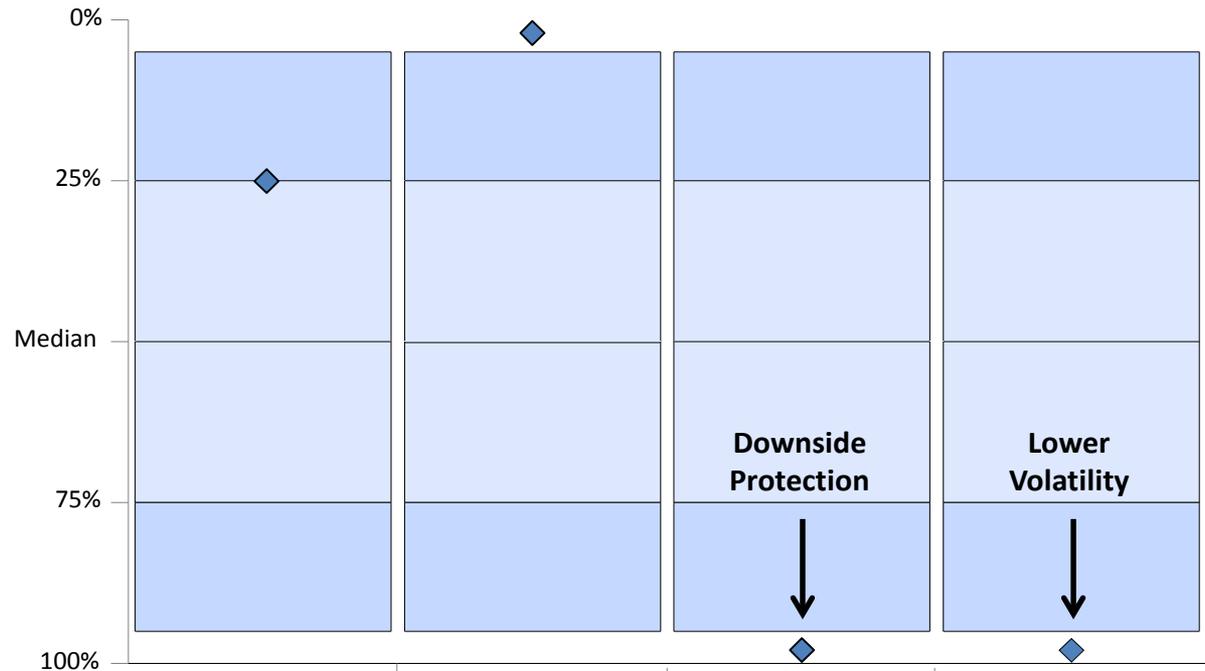
	Q4 2014	1 Year	2 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.0%	13.9%	24.5%	18.3%
Russell 1000 Growth	4.8%	13.0%	22.9%	17.1%

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

Sawgrass Diversified Large Growth Equity Peer Rankings

Top Ranked Returns with Less Risk

5 Years As Of: December 31, 2014



	Returns	Sharpe Ratio ¹	Down Market Capture ²	Standard Deviation ²
◆ Diversified Large Growth Equity	16.41	1.48	72.69	11.00
Rank	25	2	98	98

Sharpe Ratio – a measurement of efficiency utilizing the relationship between annualized risk-free return and standard deviation.

Downside Market Capture Ratio – a measure of the manager’s performance in down markets relative to the market itself.

Standard Deviation – a measure of the historical volatility of a products returns.

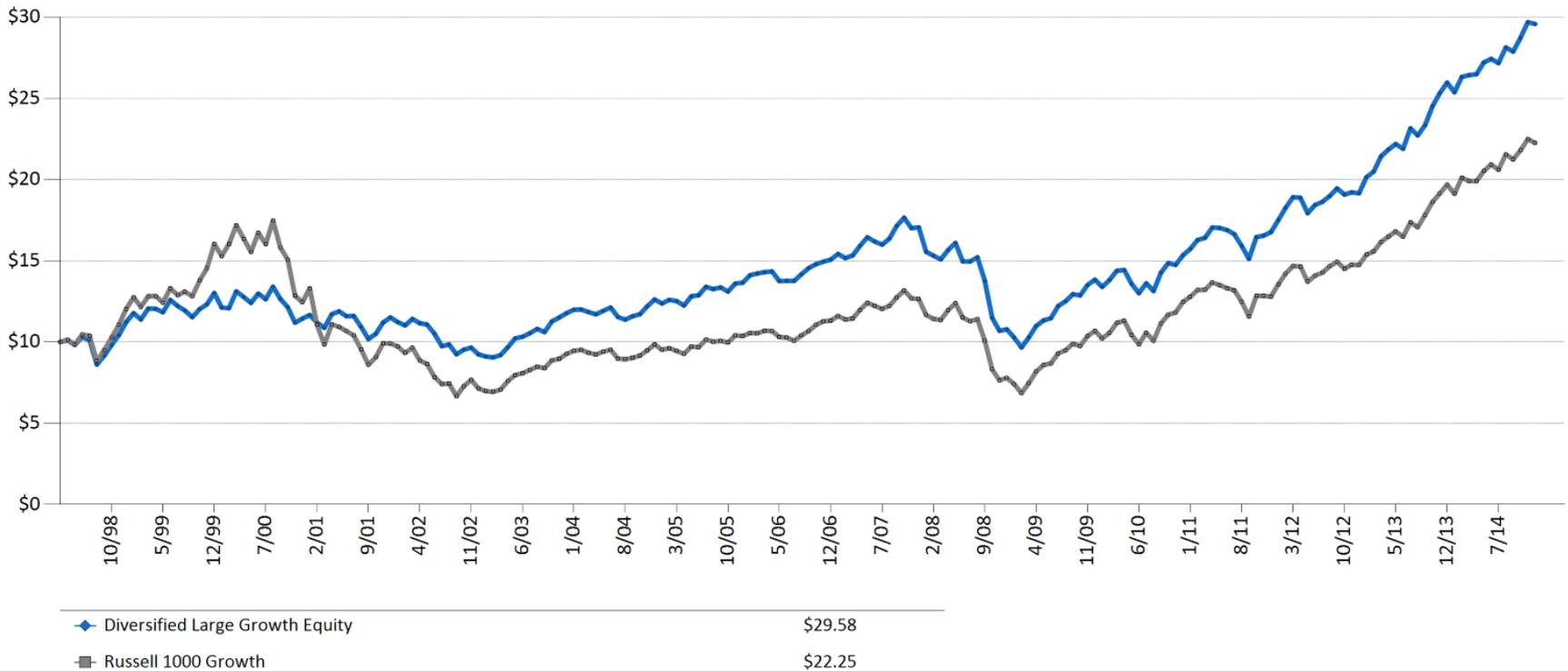
¹ Citigroup 3-Month T-Bill, ² Russell 1000 Growth

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of 12/31/14.

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 \$7.3 million (gross of fees) over the index over the last 16.75 year period.

G \$10 16.75 Years as Of: December 31, 2014

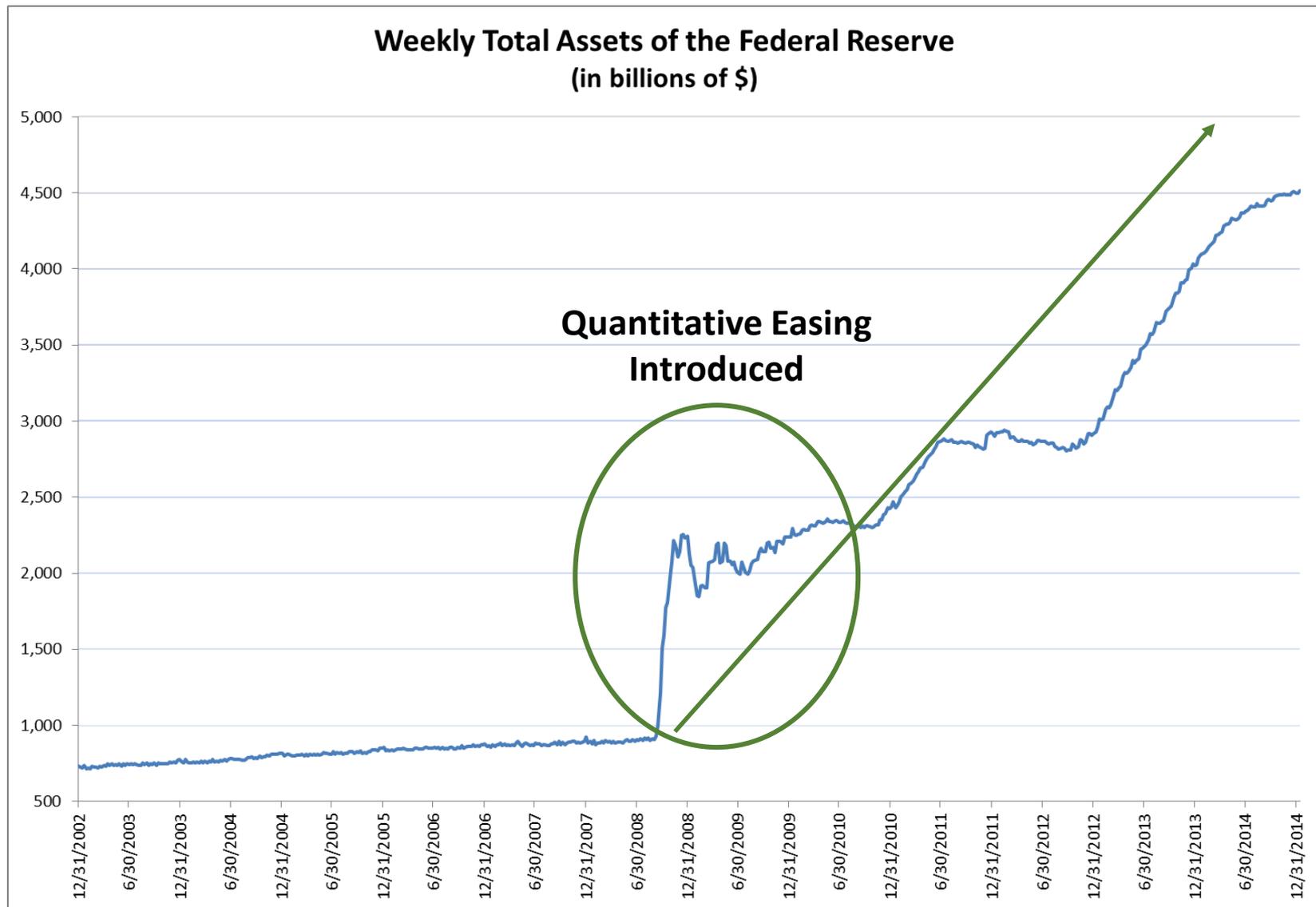


Results displayed in US Dollar (USD)

¹4/1998 - 12/2014

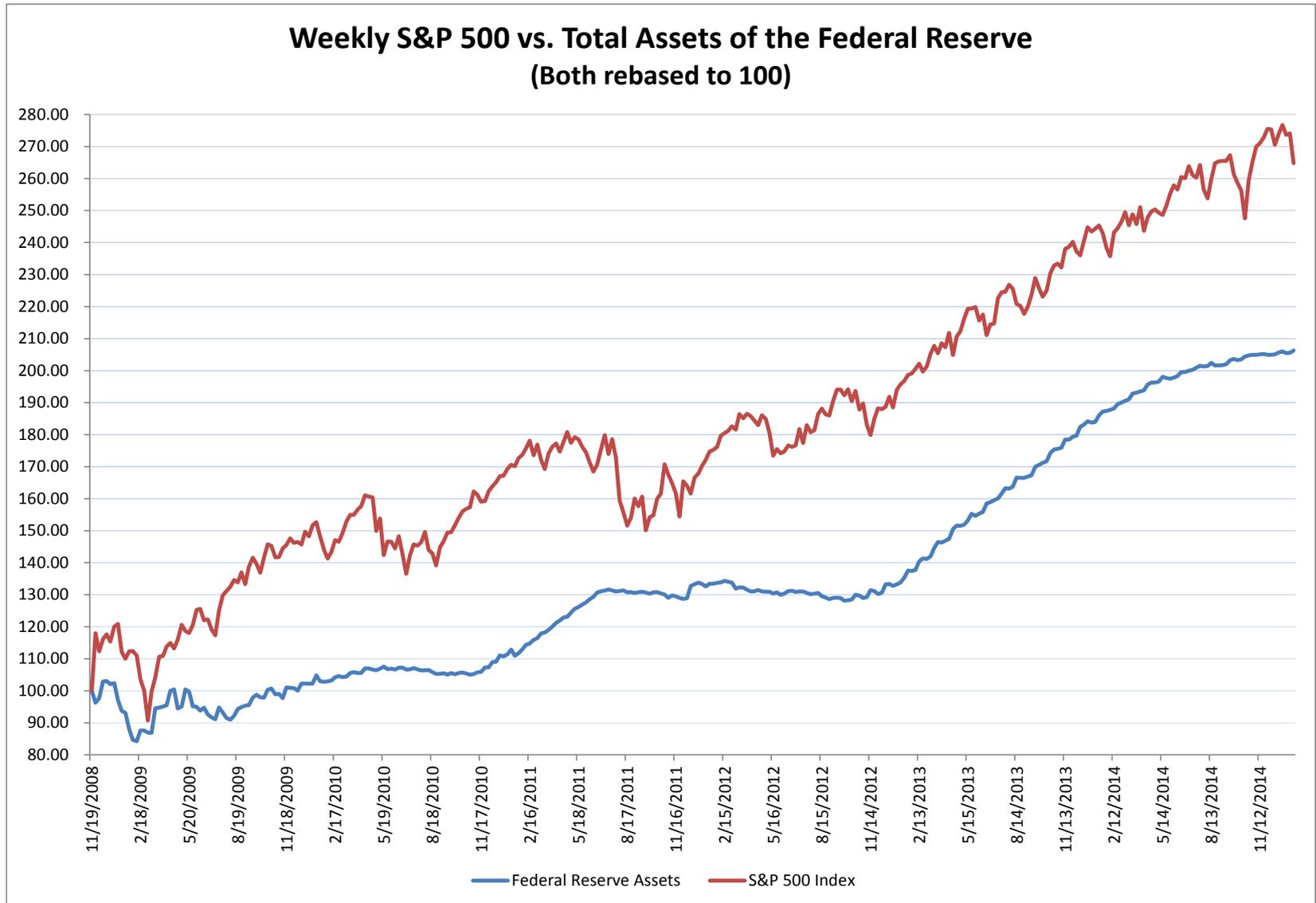
Source: eVestment Alliance using monthly calculations as of 12/31/14.

An Explosion of Liquidity Fueled Speculative Stocks



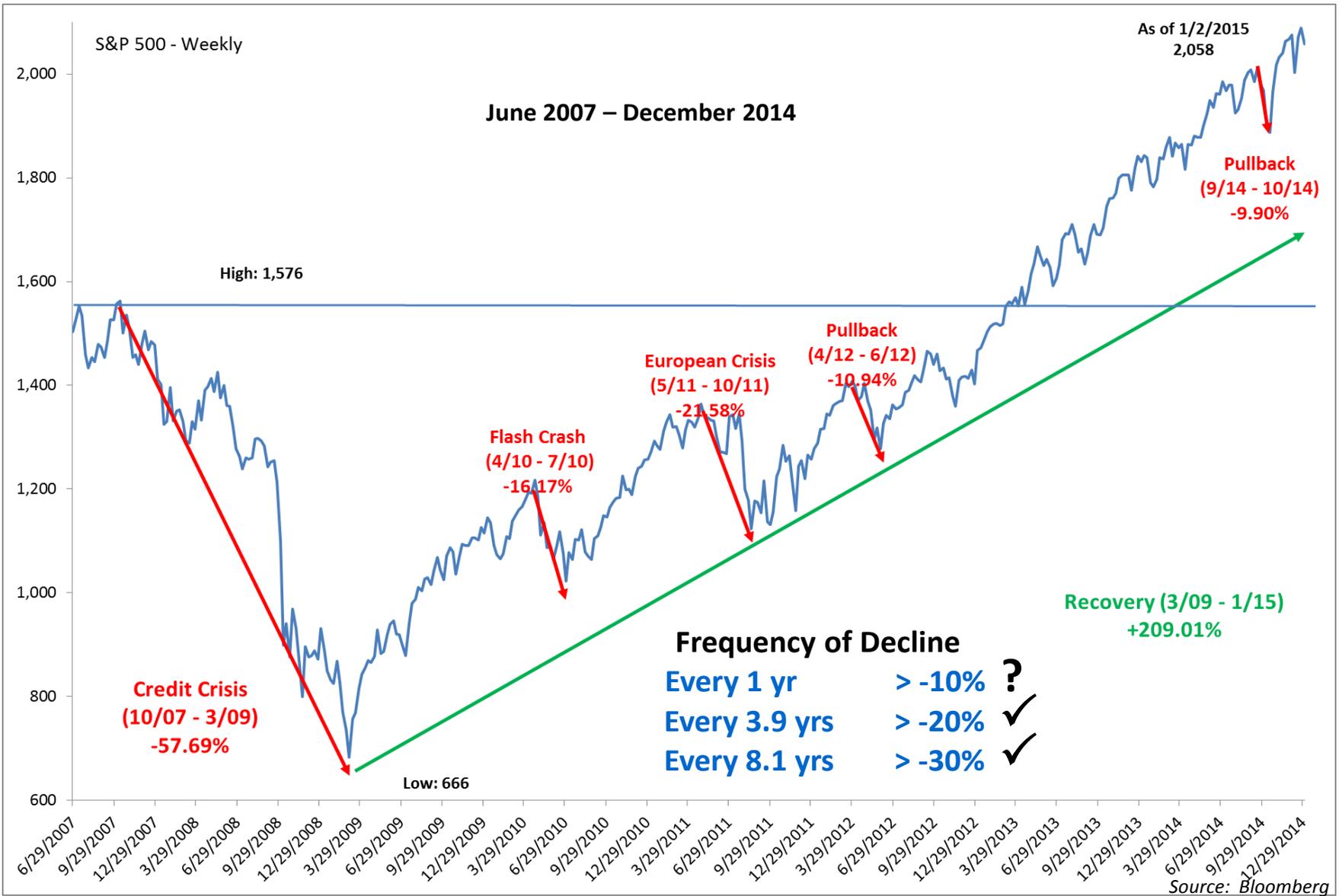
Source: Bloomberg

The Stock Market Has Followed, Fed Driven, Liquidity



Source: Bloomberg

A Market Extended?



Portfolio Changes - Quarter

12/31/14

	9/30/2014	12/31/2014	Changes		9/30/2014	12/31/2014	Changes
Consumer Discretionary	19.57	21.39		Industrials	15.67	16.51	
AutoZone, Inc.	2.76	3.16		3M Company	1.84	2.02	
Comcast Corporation Class A	3.98	4.05		Danaher Corporation	1.56	1.66	
Costco Wholesale Corporation	1.54	1.64		Expeditors International of Washington, Inc.	1.28	1.32	
DIRECTV	1.45	1.37		FedEx Corporation	1.34	1.36	
Dollar Tree, Inc.	0.00	1.02	1.02	Honeywell International Inc.	1.42	1.44	
Home Depot, Inc.	1.78	1.92		Southwest Airlines Co.	1.09	1.28	
TJX Companies, Inc.	1.41	1.54		Stericycle, Inc.	2.30	2.43	
Viacom Inc. Class B	1.66	1.53		Union Pacific Corporation	2.42	2.51	
Wal-Mart Stores, Inc.	3.22	3.38		United Technologies Corporation	2.42	2.48	
Walt Disney Company	1.79	1.79		Information Technology	22.73	22.49	
Consumer Staples	9.91	9.47		Apple Inc.	4.82	4.62	(0.20)
Coca-Cola Company	3.14	1.99	(1.15)	EMC Corporation	3.16	3.03	
CVS Health Corporation	2.82	3.20		Google Inc. Class A	2.03	2.17	0.14
General Mills, Inc.	1.97	1.96		Google Inc. Class C	2.00	1.71	
Kroger Co.	1.98	2.31		International Business Machines Corporation	2.00	2.10	0.11
Energy	4.40	4.56		Oracle Corporation	3.63	4.03	
Schlumberger NV	2.87	2.59	(0.28)	QUALCOMM Incorporated	3.51	3.29	
Southwestern Energy Company	1.53	1.98	0.44	VeriSign, Inc.	1.57	1.53	
Financials	2.97	3.14		Materials	5.60	3.93	
American Express Company	1.27	1.28		Ecolab Inc.	2.02	1.74	
MasterCard Incorporated Class A	1.69	1.86		Praxair, Inc.	2.03	2.19	0.16
Health Care	12.73	13.18		Sigma-Aldrich Corporation	1.54	0.00	(1.54)
Abbott Laboratories	2.35	2.40		Utilities	3.97	3.50	
AbbVie, Inc.	1.88	2.01		Verizon Communications Inc.	3.97	3.50	
Amgen Inc.	2.14	2.29		[Cash]	2.46	1.82	
Express Scripts Holding Company	2.40	2.71		U.S. Dollar	2.46	1.82	
Johnson & Johnson	2.53	2.34					
McKesson Corporation	1.42	1.43					

New: DLTR

Sold: SIAL

*Diversified Large Growth Equity Composite Data Source: FactSet

STABILITY

CONSISTENCY

COMMITMENT

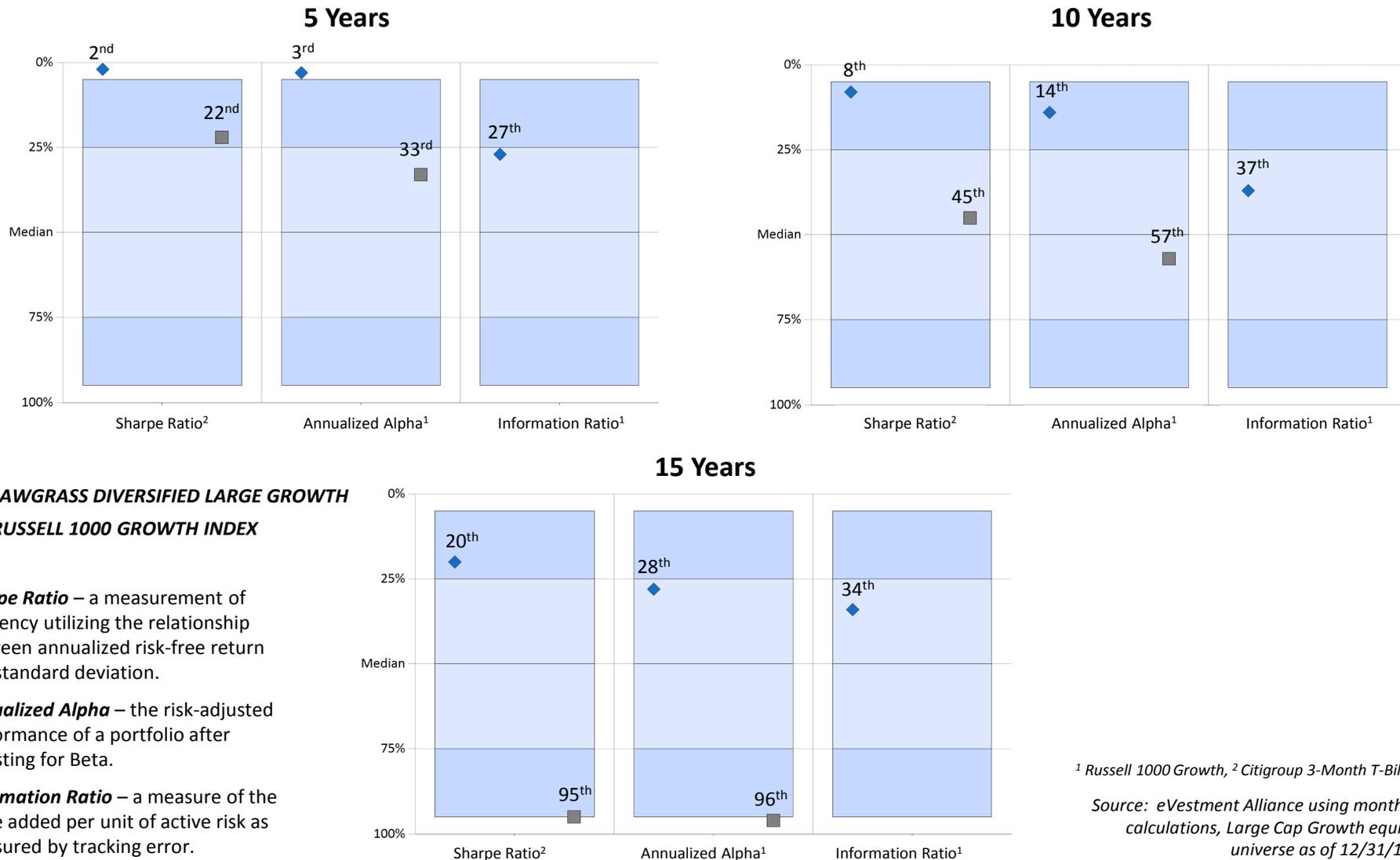
SAWGRASS
Asset Management, L.L.C.

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Risk Adjusted Return Rankings

All Information as of Dec 2014

Sawgrass Diversified Large Growth versus Russell 1000 Growth Index – eVestment Universe Quartile Rankings



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

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of 12/31/14.

Portfolio Characteristics

	Portfolio*	Russell 1000 Growth
1 Yr Forecast EPS Growth (FE)	12.6	13.9
PE LTM (FF)	19.6	22.7
Price to Cash Flow	14.9	17.3
Price to Sales	3.2	3.7
Price to Book	5.2	6.4
Market Cap - Weighted Average - \$ Billion	138.3	121.3
# of Securities	44	682

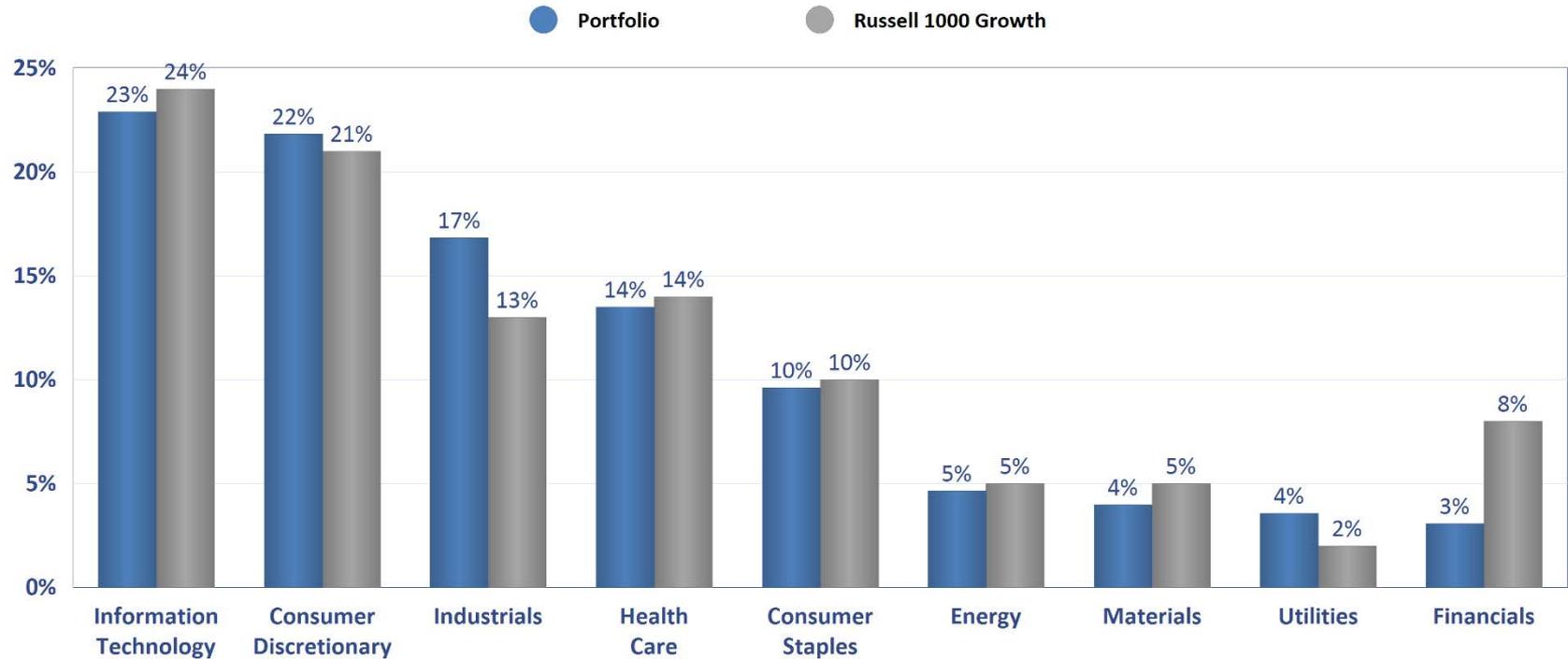
Top 10 Holdings

<u>Ten Largest Holdings</u>	<u>Percent of Equity</u>
Apple Inc	4.63%
Comcast Corp New Cl A	4.12%
Oracle Corporation	4.10%
Verizon Communications Com	3.59%
Wal Mart Stores Inc Com	3.48%
Qualcomm Inc Com	3.36%
Autozone Inc Com	3.28%
Cvs Health Corp	3.27%
Emc Corp/Mass	3.11%
Express Scripts Holding Co Com	2.76%
TOTAL	35.70%

*Diversified Large Growth Equity Composite Data



Sector Breakdown





Contribution to Return – 1 Year

Top 10 Performers	Ending Percent Of Total	Price Change %	Contribution To Return	Bottom 10 Performers	Ending Percent Of Total	Price Change %	Contribution To Return
APPLE INC	4.7	37.7	1.72	CELGENE CORP COM	0.0	32.4	-0.03
KROGER CO	2.3	62.4	1.39	UNITED PARCEL SERVICE CL B	0.0	5.8	-0.08
SOUTHWEST AIRLS CO COM	1.3	124.6	1.13	VERISIGN INC COM	1.6	-4.7	-0.11
CVS HEALTH CORP	3.3	34.6	1.03	SCHLUMBERGER LTD FOREIGN	2.6	-5.2	-0.20
UNION PAC CORP COM	2.6	41.8	0.99	GOOGLE INC CL A	4.0	-5.4	-0.24
AMGEN INC COM	2.3	39.6	0.94	VIACOM INC CL B	1.6	-13.8	-0.27
AUTOZONE INC COM	3.2	29.5	0.90	CONAGRA INC COM	0.0	7.7	-0.32
ORACLE CORPORATION	4.1	17.5	0.77	INTERNATIONAL BUS MACH COM	2.1	-14.5	-0.32
DIRECTV COM	1.4	25.5	0.70	PETSMART INC COM	0.0	11.7	-0.40
EMC CORP/MASS	3.1	18.3	0.63	SOUTHWESTERN ENERGY CO COM	2.0	-30.6	-0.92

**Diversified Large Growth Equity Composite Data*

Sawgrass Diversified Large Growth Equity – 4Q14 Portfolio Review/Outlook

Market Review: Strong Finish Solid Year

- Despite pullbacks of 8% in early October and 5% in early December, the S&P 500 rallied to new highs posting a 4.9% gain for the quarter and a very solid 13.7% for 2014.
- The S&P 500 posted its third consecutive 10%+ return in 2014 and extends the rally which began in March 2009. The cumulative 6 year return for the S&P 500 is an impressive 160%.
- U.S. equity markets led the world. Largest S&P 500/EAFE spread since 1997, 13.7% vs -4.5%
- The U.S. dollar was very strong for the year as oil fell 40%+ mostly in the 4th quarter.
- Small stocks led the quarter with Russell 2000/1000 9.7% vs 4.9% despite lagging for the year 4.9% vs 13.2%
- Style was neutral for the quarter Russell 3000 Value/Growth 5.3% vs 5.2 % and the year 12.7% vs 12.4%

Portfolio Review:

- The portfolio performed well in a very strong quarter led by small caps as we outpaced the Russell 1000 Growth and finished 2014 ahead of the benchmark in a year that was challenging for active managers.
- Volatility during the quarter aided performance as we protected well in the pullbacks and participated in the sharp rallies.
- Our factor positioning continued to help as lower volatility, lower beta and stability factors all performed well for both the quarter and the year.
- Stock selection was strong especially in Discretionary (AZO, WMT), Staples (CVS, KR) and Industrials (SRCL, LUV).
- As we evaluate our performance for the quarter and the year, we always focus on areas of improvement. During 2014 we were early taking profits in several stocks which continued to rally. Given that we are 6 years into this strong bull market, it is hard to resist profit taking. We were rewarded however in remaining disciplined in the application of our models in a very challenging year.

Outlook:

- After 6 years of a bull market, we can't help begin to look over our shoulder. Expectations for the equity markets should be more modest given the length and magnitude of this bull market rally.
- While 2014 was mostly tame with no more than 3 consecutive down days for the S&P 500 during the year, the 4th quarter saw more volatility with 2 pullbacks followed by sharp rallies and may be an indicator of a more rocky 2015.
- It is hard to quantify the dislocation caused by the dramatic drop in oil prices, but suffice it to say it is not universally positive as the oil complex has been a positive for the U.S. economy and there is a significant amount of debt tied to oil.
- On the whole we feel that equity risk is elevated but recognize that cheap money and the momentum of this market can move equity prices higher.

Sawgrass Composite Portfolio versus Russell 1000 Growth (as of 4th Qtr 2014):

What Helped:

Low Volatility Bias Low Beta Bias
Selection in Discretionary, Staples & Industrials

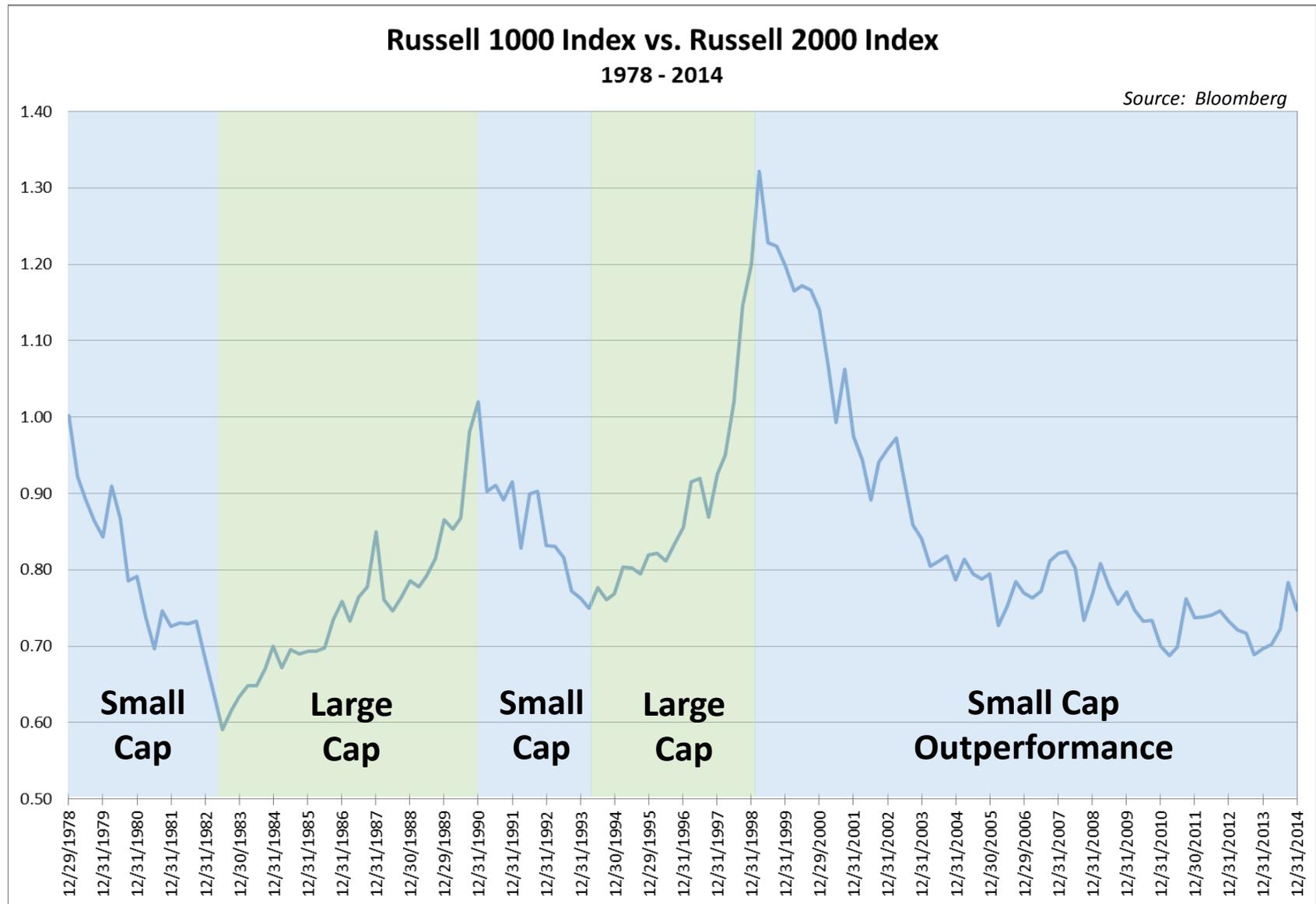
What Hurt:

Larger Size



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).

Unprecedented Small Cap Run Since 1999



Performance: Three Phases of a Market Cycle

Consistent Results Across Various Markets

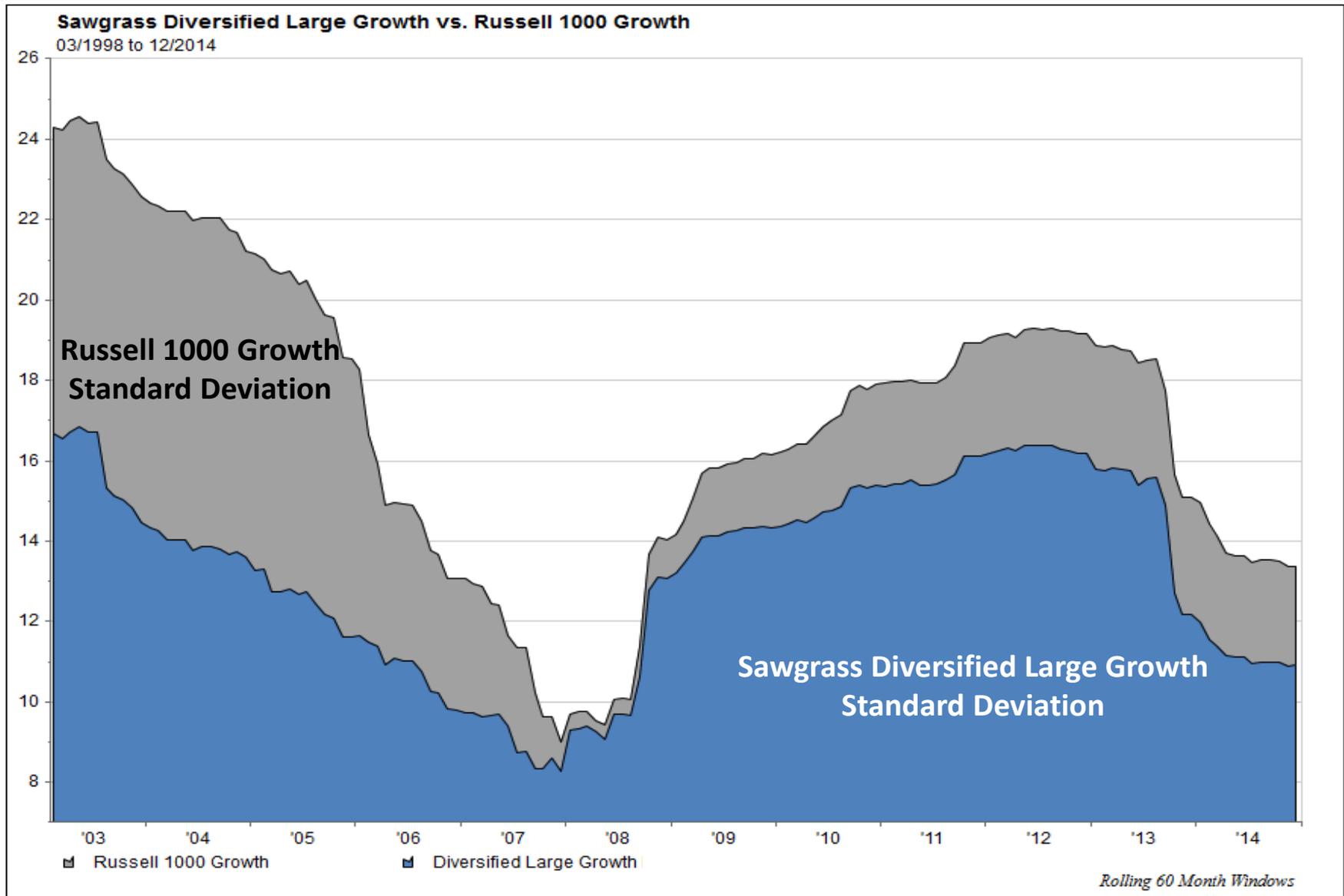
Negative Markets			Positive Markets (0-15% Returns)			Strong Positive Markets (>15% Returns)		
Year	Sawgrass	R1000G	Year	Sawgrass	R1000G	Year	Sawgrass	R1000G
2000	-12.10%	-22.42%	2004	7.11%	6.30%	1998*	12.37%	20.45%
2001	0.65%	-20.42%	2005	8.16%	5.26%	1999	15.80%	33.16%
2002	-19.74%	-27.88%	2006	10.42%	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%
						2013	35.51%	33.48%
Number of Years Sawgrass Outperformed	4/ 4		6/ 6			1/ 7		

Performance Across Various Markets		
As of Year-End 2014	Sawgrass	R1000G
Cumulative Return*	195.95%	122.52%
Annualized Return*	6.69%	4.89%
Standard Deviation*	13.89	18.02

**Since March 31, 1998 Inception*

Consistently Less Risk than the Index

Source: FactSet SPAR2



Stock Market: Quarter in Review

- Despite pullbacks of 8% in early October and 5% in early December, the S&P 500 rallied to new highs posting a 4.9% gain for the quarter and a very solid 13.7% for 2014.
- The S&P 500 posted its third consecutive 10%+ annual return in 2014 and extended the rally which began in March 2009. The cumulative 6 year return for the S&P 500 is an impressive 160%.
- Despite the notable gains for the quarter and year, the market had more of a cautious tone from a factor standpoint as lower beta, lower volatility, and stability were generally rewarded.
- Small stocks led the way during the quarter but significantly lagged for the year. Value and growth were neutral for the quarter and year. Sector performance was quite varied for the quarter as Energy, Materials and Telecom posted negative returns as all other sectors saw solid gains.

Stock Market: The Quarter Ahead

- Stocks enter 2015 on a six year winning streak with the large cap indices up over 200% from the March 2009 lows, an impressive run in duration and magnitude similar to some of the great bull markets of the past. As we enter the new year, headwinds persist and new concerns could keep investors on edge.
- The dramatic drop in oil prices and moderate economic growth unable to sustain higher interest rates are in sharp contrast to a stock market that continues to make new highs.
- Valuations have become more elevated as the bull market has progressed with multiple expansions above and beyond the level of earnings growth leaving stocks with less room for disappointment.
- The markets have been able to rally for almost three years at a 20%+ annualized rate while enduring no significant selloffs. This unusually low volatility, high return run has in all likelihood greatly increased investor complacency.
- It is noteworthy that small stocks and cyclical industries have underperformed as the market has made new highs. This is not typical at this stage of a bull market.
- As equities make new highs, the Fed removes stimulus, interest rates remain low, oil prices fall, and valuations expand, our expectation for stock returns are, let us say, modest.

4th Quarter Scorecard

Table 1

Index	Quarter	1 Year
S&P 500	4.9%	13.7%
Russell 1000	4.9%	13.2%
Russell 2000	9.7%	4.9%
Russell 3000	5.2%	12.6%
Russell 3000 Growth	5.2%	12.4%
Russell 3000 Value	5.3%	12.7%
Barclays Capital US Aggregate	1.8%	6.0%
3 Month T-Bills	0.00%	0.03%

Source: Bloomberg & Russell Investments



A Couple Means Two

Over a decade ago, then Federal Reserve Chairman Alan Greenspan was testifying before a Congressional panel. During the question and answer portion, a congressman stated, “Dr. Greenspan, I don’t understand what you just said.” The Fed Chair’s response defined the communication policy of the day. “Congressman, it would trouble me if you had.” A purposeful intent of obfuscation with the skill level beyond that of even Congress coined a new language, Fedspeak. The Federal Reserve Chair is legally required to testify before congress twice per year. Dr. Greenspan was worried that the markets would interpret, or worse – misinterpret his words and cause violent market gyrations. Less is more. Over the years, the following Fed Chair, Ben Bernanke believed a more open communication style would benefit their guidance of market forces. Dr. Bernanke went so far as to add press conferences to many of the Federal Open Market Committee meetings.

Today, current Chair Janet Yellen continues on the path of openness. While still battling the lasting effects of the Great Recession, the Fed is slowly removing the unprecedented stimulus provided over the past seven years. Doing this effectively requires increased communication. Wall Street analysts have published historical correlations between the Fed’s balance sheet (large) and the number of words in Dr. Yellen’s press releases (long). Others time the length of her prepared remarks. Each one has been longer than the last. All we want to know is, “When will interest rates rise?” Chair Yellen was asked just that during her most recent Q&A. Part of her answer included, “Not for the next couple of meetings.” The next reporter, trying to impress his editor asked, “Does a couple mean two?” As a student of the dismal science, I can envision Dr. Greenspan replying, “A couple of meetings, a couple of quarters, a couple of years...” Surely Dr. Bernanke would trot out the learned phrase, “On the other hand...” This day Dr. Yellen answered, “Yes.” She even cited *Webster’s* as her source material.

This clarity adds importance to the Fed’s main message of Data Dependency. Stronger economic data will allow for increasing rates sooner while weaker economic data will delay lift-off. We invite you to contact us about our current economic thoughts and investment strategies for the coming year. With quarterly GDP at 5.0% and unemployment down to 5.8%, the data could be telling.

Interest Rate Summary

Table 2

	12/31/13	9/30/14	12/31/14	Qtr Change	12-Month Change
3 Month T-Bills	0.1	0.0	0.0	0.0	0.0
5 Year Treasury	1.7	1.8	1.7	-0.1	-0.1
10 Year Treasury	3.0	2.5	2.2	-0.3	-0.9
30 Year Treasury	4.0	3.2	2.8	-0.4	-1.2
5 Year Corporate ('A')	2.3	2.3	2.3	0.0	0.0
10 Year Corporate ('A')	3.9	3.5	3.2	-0.2	-0.7
30 Year Fixed Rate Mortg.	4.5	4.1	4.0	-0.1	-0.6

Source: Bloomberg

