

Investment Review

December 31, 2015

City of Ormond Beach Pension Trust Funds

Gregg Gosch

Institutional Client Service

Marc Davis, CFA

Equity Portfolio Manager



STEPHEN | CONRAD

For Today's Meeting

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

Partnering with Sawgrass Asset Management

Sawgrass Provides

Stability

100% Employee Owned
25 Year Experienced Team
17 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 Process
- Process Designed to Generate Excess Alpha with Lower Risk

- 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
 - 23** States in which Sawgrass Represents Clients
 - 25** Average Years of Investment Experience for Our Team
 - 18** Years Serving Our Institutional Clients
 - 3.8** Billion in Assets Under Management
 - 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 December 2015.*

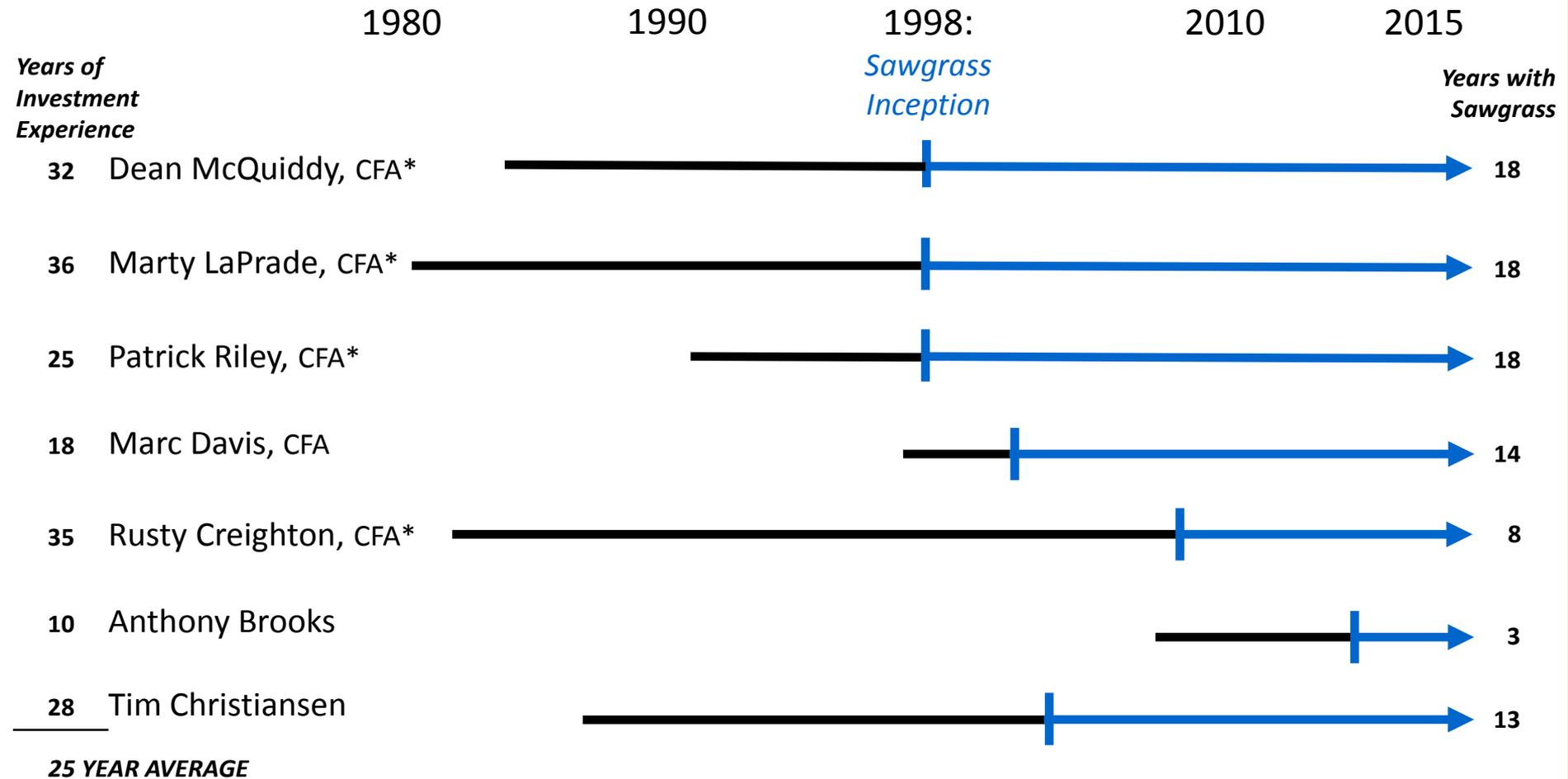
New Clients:

- 2014 – 12 New
 - Total New AUM: \$440 MM
 - Equity: \$373 MM
 - Fixed Income: \$67 MM
- 2015 – 15 New
 - Total New AUM: \$226 MM
 - Equity: \$97 MM
 - Fixed Income: \$129 MM

Total Firm AUM: \$3.8 Billion, including:

- Growth Equity: \$2.1 B
 - Large Cap Diversified & Focused: \$2.1 B (+ \$30 Model Portfolios Under Advisement)
 - Small Cap Growth & Genesis: \$8 MM (+ \$26 Model Portfolios Under Advisement)
- Fixed Income: \$1.5 B
- Diversified Income Fund: \$15 MM
- All Cap Equity: \$12 MM

The Sawgrass Equity Growth Team – *Experience & Continuity*



Sawgrass has experienced zero equity team departures since inception (portfolio managers/analysts).

**The core of our equity team has worked together for 25 years, dating back to Barnett Capital Advisors.*

Our Alpha Thesis

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

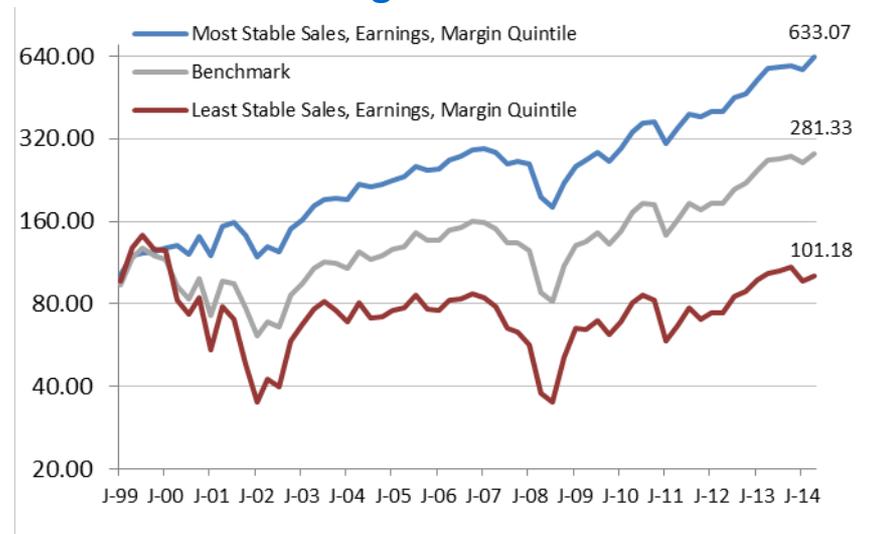
A Confirmation of Our Thesis

Cumulative Returns
12/31/84 → 12/31/14

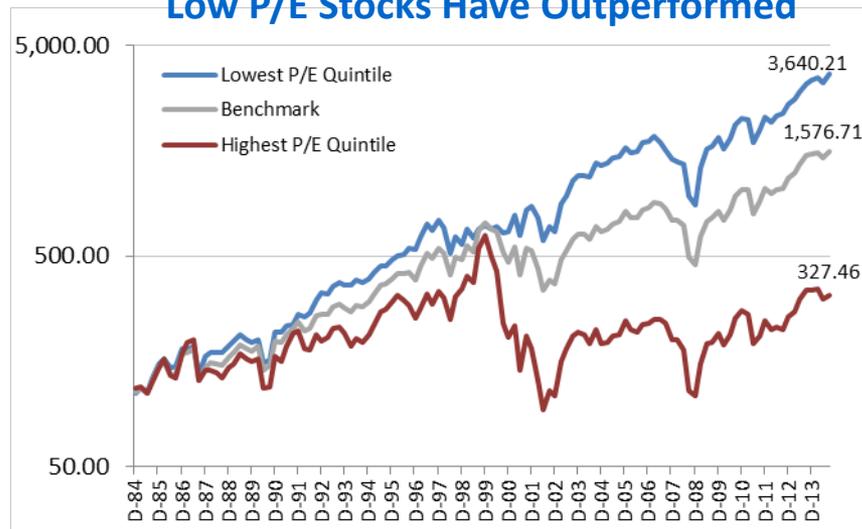
Low Volatility Attributes Have Outperformed Over Time



Stable Earnings Have Been Rewarded

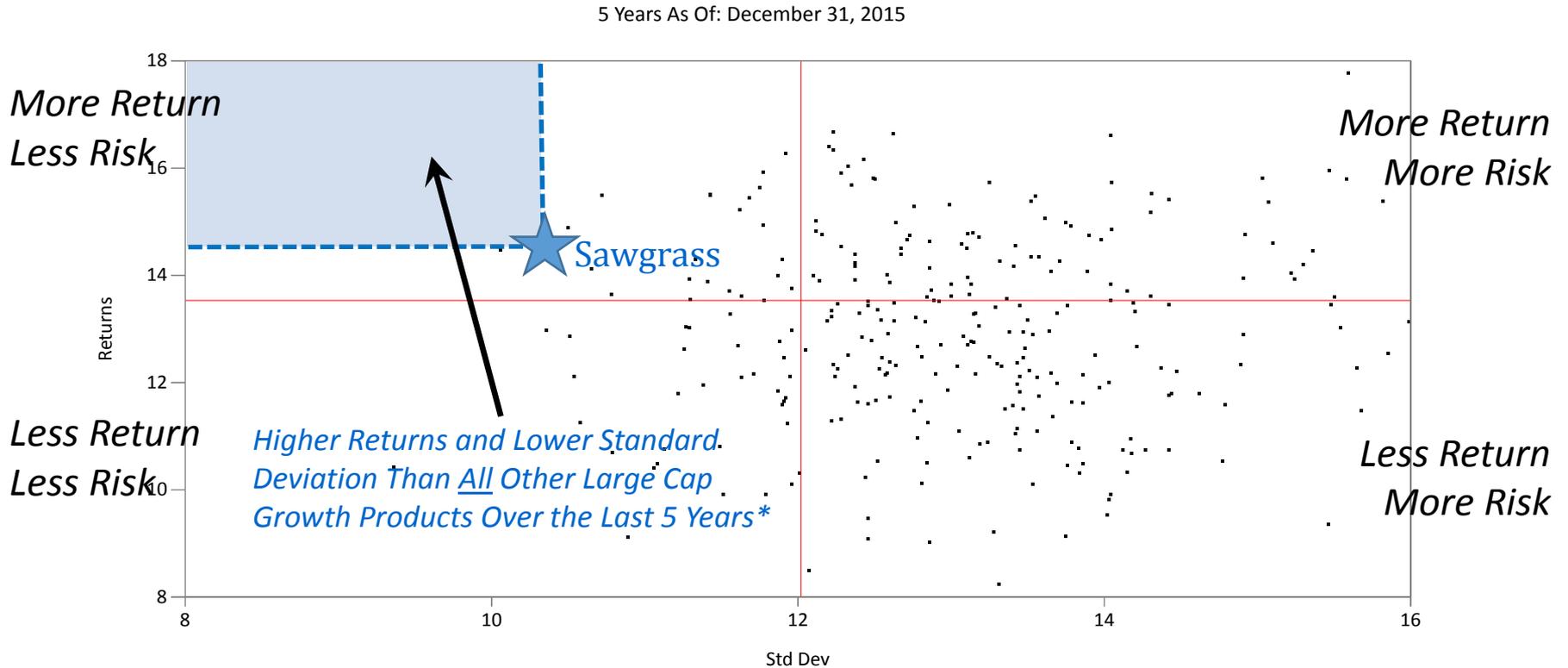


Low P/E Stocks Have Outperformed



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

Better Risk and Return than 100% of Other Managers



Universe: eVestment US Large Cap Growth Equity

As Of: December 31, 2015

	Returns	Std Dev
◆ Diversified Large Growth Equity	14.55	10.34
✚ Russell 1000 Growth	13.53	12.02

**Of the 297 active updated products that have 5 year performance, 0 products in the universe had higher returns and lower risk than Sawgrass' Diversified Large Growth product. (Data run on 1/22/16)*

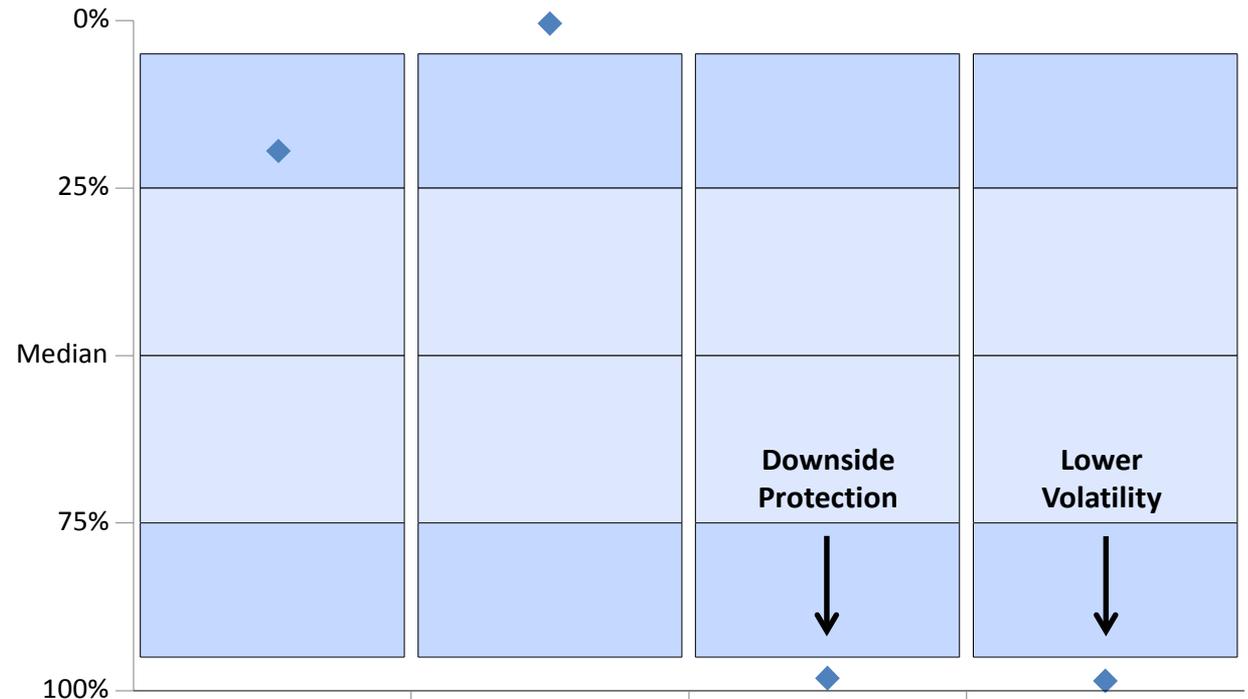
Results displayed in US Dollar (USD)

Source: eVestment Alliance, Universe Consists of Large Cap Growth Universe Members with 5 Year Product Performance as of December 31, 2015

Sawgrass Diversified Large Growth Equity Peer Rankings

Strong Returns with Less Risk

5 Years As Of: December 31, 2015



	Returns	Sharpe Ratio ¹	Down Market Capture ²	Standard Deviation
◆ Diversified Large Growth Equity	14.55	1.40	77.41	10.34
Rank	20	1	98	99

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 product’s returns.

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

Source: eVestment Alliance using monthly calculations, Large Cap Growth equity universe as of 12/31/15.

Diversified Large Growth Equity - 4Q15 Portfolio Review & Outlook

Market Review:

- In similar fashion to 4Q last year, the equity markets sharply rallied as the S&P 500 rose 7% in the 4th quarter erasing the 3Q decline and leaving the S&P 500 barely positive for the year at 1.4%.
- The rally was led by larger momentum oriented stocks which have been nicknamed FANG (Facebook, Amazon, Netflix, and Google). These 4 stocks were up on average more than 20% for the quarter and have led the market for the entire year. This narrow leadership is evidenced by the difference between the cap weighted return of the S&P 500 of 1.4% vs. the equal weighted return of -2.4% for 2015.
- For both the quarter and the year, large stocks led small stocks and growth led value. Looking at the year, the growth/value spread was particularly wide as the Russell 3000 Growth vs. Value spread was 5.1% to -3.8%, and continues a trend which has been in place for several years.
- Materials, Technology, and Health Care led returns for the quarter, while Discretionary, Utilities, and Energy lagged. For the year, sector returns had more of a defensive flavor as Staples and Health Care led and Energy and Materials posted the most negative returns.
- On the whole, it was an unusual year as most equity investors saw negative returns, while the chosen FANG few rose on average more than 70% for 2015

Portfolio Review:

- As the market returned to a more “risk-on” flavor during this quarter, our portfolio lagged. Despite having strong performers in many sectors, we could not keep pace with the larger momentum stocks which have led the growth index for the year.
- In Health Care, our lack of exposure to Biotech hurt performance. In Finance, stock selection was poor in this strong group, and in Industrials, Stericycle had a negative earnings report hurting performance in this sector.
- Modest positives for the quarter included a positive return in a very negative energy sector and an overweight to the surprisingly strong Telecom sector .
- The 4th quarter was a tough close to a challenging year. As we look back, we find that we made many positive changes to the portfolio during the year. However, it was not enough to keep pace with the Russell 1000 Growth index, which was by far the strongest part of the market led in large part by the more volatile momentum stocks that our investment approach does not favor.
- On a positive note, despite a weak 2015 we are pleased to have outperformed the R1G over the strong 5 year period during which the R1G led the markets.

Outlook:

- As we enter 2016 equities have begun to show some vulnerability. The question is whether it is the beginning of a more significant decline or another “buy the dip” opportunity.
- Despite flat returns for 2015, the three & five year annualized returns for the S&P 500 (15.2% & 12.6% respectively) are still well above long-term averages.
- The performance of the FANG stocks anecdotally indicates that there is still risk seeking in the market.
- We would feel more comfortable about stocks if valuations were near more normal levels, especially with the looming prospect of rising interest rates.
- One positive note is that investor sentiment appears to be more negative than positive providing some support for an otherwise extended stock market.
- Taken together we feel that the risk/reward scale is tilted to the risk side and feel comfortable with our risk conscious approach to the portfolio.

Sawgrass Composite Portfolio versus Russell 1000 Growth (as of 4th Qtr 2015):

What Helped:

Stock Selection in Energy
Modest Overweight in Telecom

Lack of Exposure in Biotech

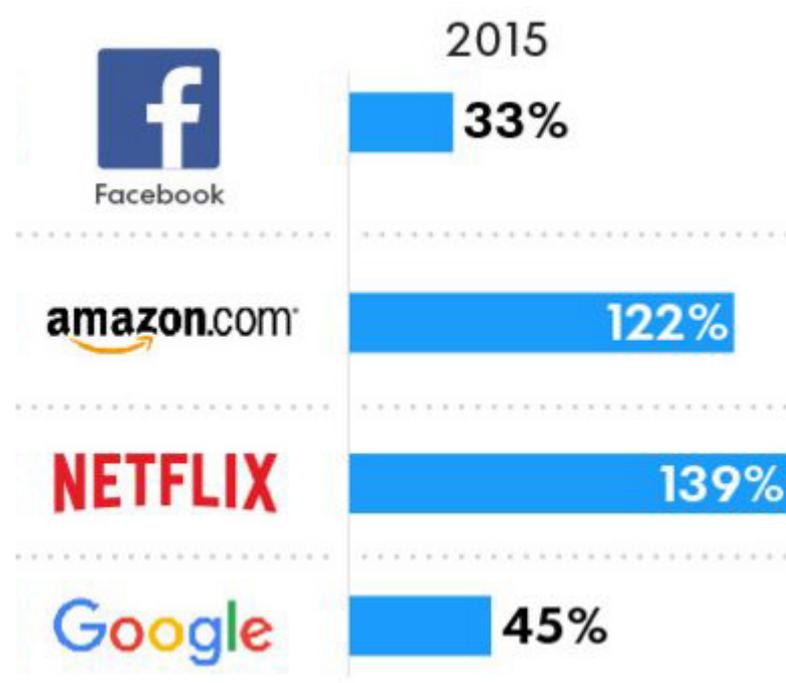
Stock Selection in Finance
Stock Selection in Industrials

What Hurt:

2015: A “Narrow Market” Led by Four Stocks

- Sustainable Price Growth?

“FANG” Stocks Represented 59% of the Russell 1000 Growth Indexes Total Return



Average FANG P/E: 251
Russell 1000 Growth P/E: 33

**Source: USA Today Research.*



Portfolio Market Values

Ormond Beach Firefighters

Beginning Market Value on 09/30/15	2,920,015
Cash Additions	0
Cash Withdrawals	-237
Investment Gain/Loss	174,252
Ending Market Value on 12/31/15	3,094,030

Ormond Beach General Employees

Beginning Market Value on 09/30/15	4,790,154
Cash Additions	0
Cash Withdrawals	-107,389
Investment Gain/Loss	293,964
Ending Market Value on 12/31/15	4,976,729

Ormond Beach Police Officers

Beginning Market Value on 09/30/15	3,295,453
Cash Additions	0
Cash Withdrawals	-20,268
Investment Gain/Loss	196,564
Ending Market Value on 12/31/15	3,471,749

Portfolio Summary

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	112,637	3.6%
Equity	\$	2,981,393	96.4%
TOTAL	\$	3,094,030	100.0%

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	49,481	1.0%
Equity	\$	4,927,248	99.0%
TOTAL	\$	4,976,729	100.0%

<u>Asset Class</u>		<u>Market Value</u>	<u>Percent of Assets</u>
Cash	\$	107,727	3.1%
Equity	\$	3,364,022	96.9%
TOTAL	\$	3,471,749	100.0%



Portfolio Performance

Ormond Beach Firefighters

	Q4 2015	1 Year	3 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.0%	2.1%	16.2%	13.4%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.9%

Ormond Beach General Employees

	Q4 2015	1 Year	3 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.1%	2.3%	16.5%	13.7%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.9%

Ormond Beach Police Officers

	Q4 2015	1 Year	3 Years Annualized	Since Inception Annualized*
TOTAL PORTFOLIO	6.0%	2.0%	16.5%	13.6%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.9%

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



Portfolio Characteristics

	Portfolio*	Russell 1000 Growth
1 Yr Forecast EPS Growth (FE)	6.8	9.9
PE LTM (FF)	21.8	23.0
Price to Cash Flow	14.8	16.2
Price to Sales	3.1	3.9
Price to Book	5.6	6.2
Weighted Average – Market Cap - \$ Billion	148.5	137.7
# of Securities	44	644

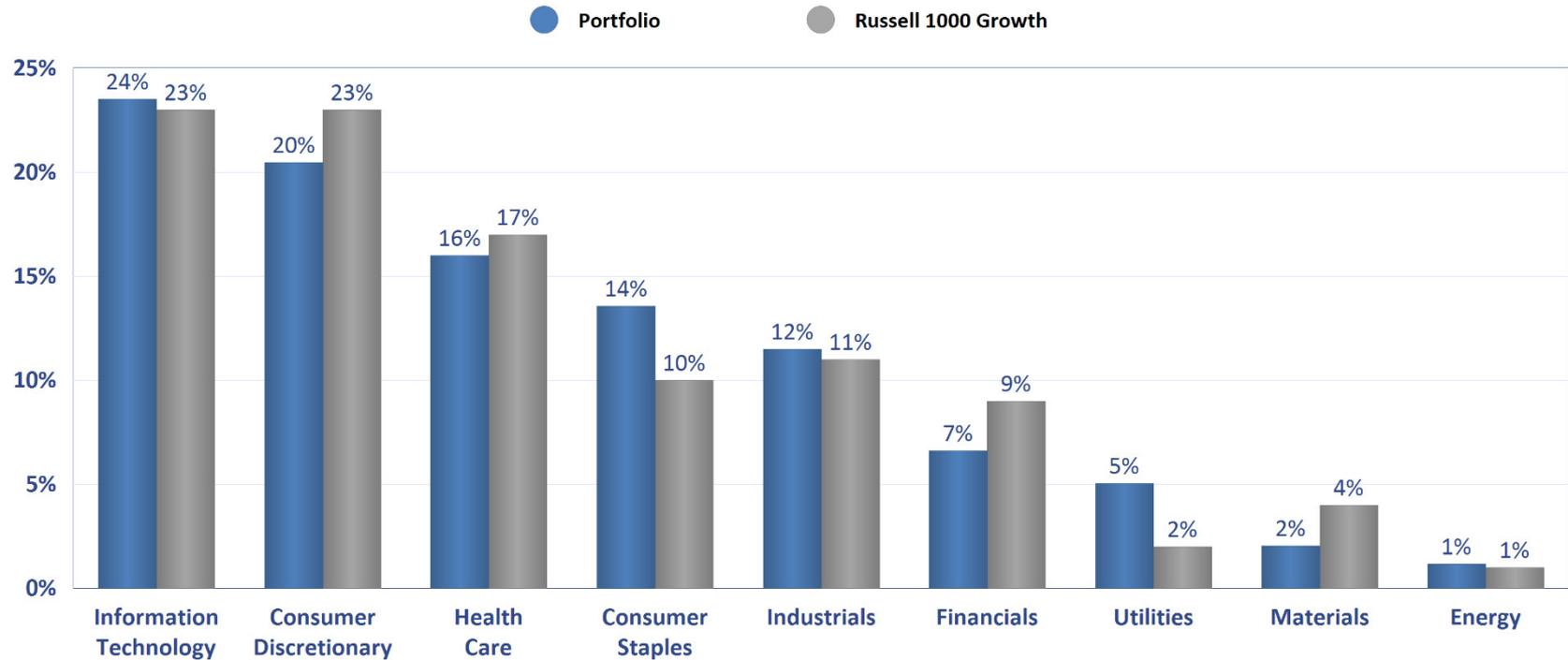
Top 10 Holdings

<u>Ten Largest Holdings</u>	<u>Percent of Equity</u>
Apple Inc	5.1%
Alphabet Inc Cl A	4.9%
Microsoft Corp Com	4.5%
Verizon Communications Com	4.4%
Coca Cola Co Com	4.3%
Dollar Tree Stores Com	3.5%
Express Scripts Holding Co Com	3.4%
Laboratory Amer Hldgs Com New	3.2%
Autozone Inc Com	3.0%
Mcdonalds Corp Com	2.8%
TOTAL	39.2%

**Diversified Large Growth Equity Composite
Source: FactSet*



Sector Breakdown



Security Changes

Port. Weight

Sawgrass Diversified Large Growth

	9/30/2015	12/31/2015	Changes		9/30/2015	12/31/2015	Changes
Sawgrass Russell Sector							
Consumer Discretionary	20.67	20.08		Industrials	12.30	11.24	
AutoZone, Inc.	3.03	2.96		3M Company	0.96	1.07	
Comcast Corporation Class A	2.19	2.45	0.26	Danaher Corporation	1.72	1.93	0.21
Costco Wholesale Corporation	2.76	2.73		Expeditors International of Washington, Inc.	2.06	1.96	
Dollar Tree, Inc.	2.50	3.40	0.90	FedEx Corporation	1.19	0.62	(0.57)
Home Depot, Inc.	3.02	2.16	(0.86)	Honeywell International Inc.	1.42	1.58	0.16
McDonald's Corporation	1.23	2.82	1.59	Stericycle, Inc.	2.69	1.71	(0.98)
TJX Companies, Inc.	2.73	2.15	(0.58)	Verisk Analytics Inc	2.27	2.37	
Wal-Mart Stores, Inc.	2.16	0.00	(2.16)	Information Technology	25.44	22.32	
Walt Disney Company	1.05	1.40	0.35	Alphabet Inc. Class A	3.66	4.24	
Consumer Staples	10.99	13.32		Apple Inc.	5.26	4.89	(0.37)
Coca-Cola Company	3.11	4.17	1.06	Citrix Systems, Inc.	1.20	1.55	0.34
CVS Health Corporation	2.00	2.50	0.51	EMC Corporation	2.58	2.73	0.15
General Mills, Inc.	2.43	2.50		International Business Machines Corporatio	2.71	1.16	(1.55)
Kroger Co.	1.38	2.00	0.61	Microsoft Corporation	2.85	4.35	1.50
McCormick & Company, Incorporated	2.06	2.14		Oracle Corporation	2.73	2.62	
Energy	1.19	1.14		QUALCOMM	2.48	0.00	(2.48)
Schlumberger NV	1.19	1.14		VeriSign, Inc.	1.98	0.79	(1.19)
Financials	5.67	6.47		Materials	2.87	2.00	
American Express Company	1.05	0.94		Ecolab Inc.	1.91	2.00	
Berkshire Hathaway Inc. Class B	0.00	1.20	1.20	Praxair, Inc.	0.96	0.00	(0.96)
CBOE Holdings, Inc.	1.23	1.26		Utilities	4.87	4.92	
Marsh & McLennan Companies, Inc.	1.35	1.60	0.25	AT&T Inc.	0.67	0.67	
MasterCard Incorporated Class A	2.03	1.47		Verizon Communications Inc.	4.20	4.25	
Health Care	12.60	15.71					
Abbott Laboratories	0.90	1.45	0.55				
AbbVie, Inc.	1.66	0.82	(0.84)				
Express Scripts Holding Company	3.25	3.34					
Johnson & Johnson	2.17	2.71	0.53				
Laboratory Corporation of America Holdings	2.32	3.16	0.84				
McKesson Corporation	1.33	2.11	0.77				
UnitedHealth Group Incorporated	0.96	2.12	1.15				

<u>New</u>	<u>Sold</u>
Berkshire Hathaway	Walmart
	QUALCOMM
	Praxair, Inc.

Diversified Large Growth Equity Composite
Source: FactSet



Contribution to Return Quarter

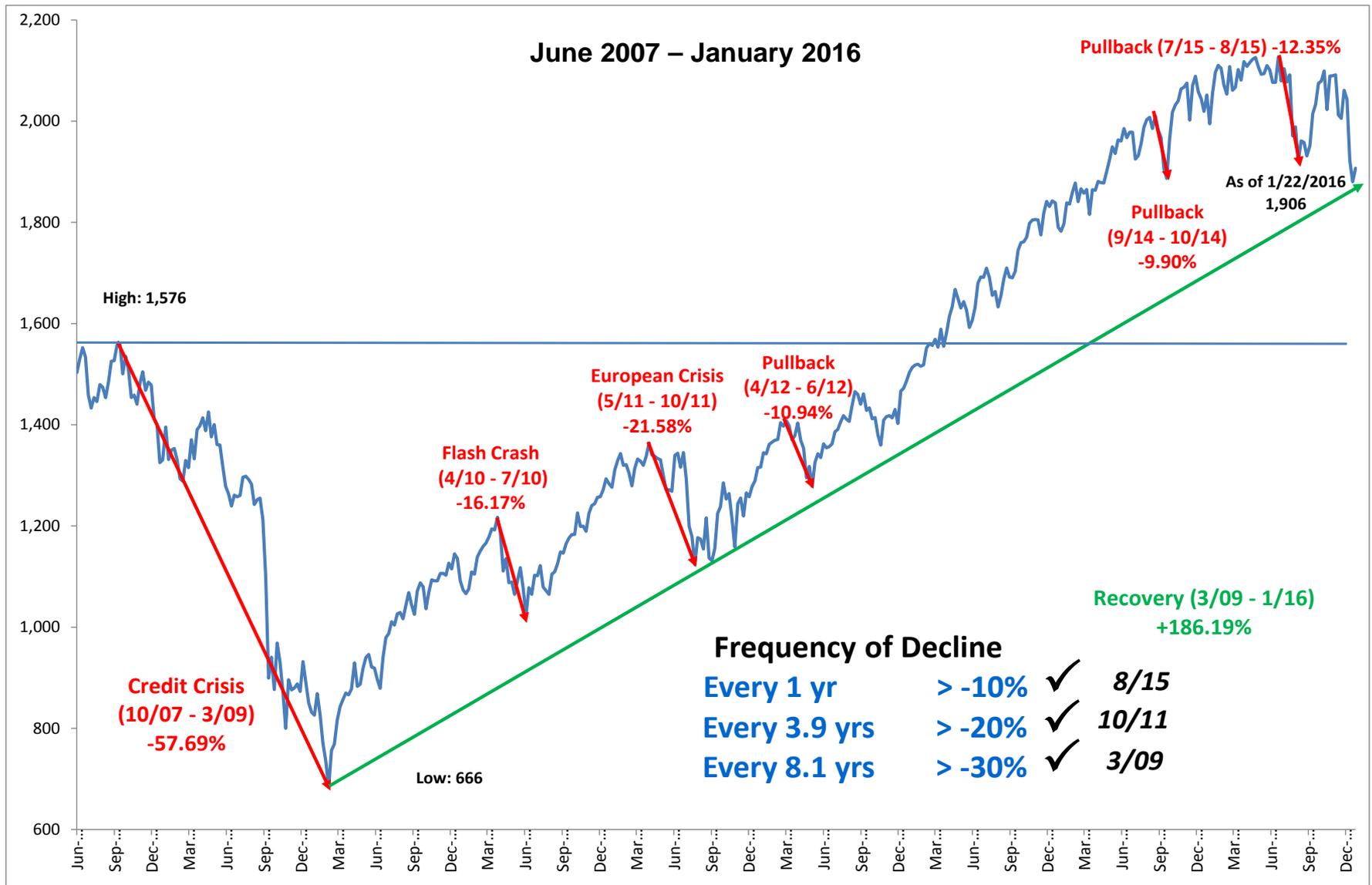
Top 10 Performers	Ending Percent Of Total	Price Change %	Contribution To Return	Bottom 10 Performers	Ending Percent Of Total	Price Change %	Contribution To Return
ALPHABET INC CL A	4.4	46.6	1.38	FEDEX CORP COM	0.6	-14.2	-0.20
VERISIGN INC COM	0.8	53.3	0.71	UNION PAC CORP COM	0.0	-34.4	-0.26
AUTOZONE INC COM	3.0	19.8	0.62	PRAXAIR INC COM	0.0	-21.0	-0.28
MICROSOFT CORP COM	4.5	19.4	0.59	INTERNATIONAL BUS MACH COM	1.2	-14.2	-0.34
HOME DEPOT INC COM	2.2	26.0	0.58	AMERICAN EXPRESS CO	1.0	-25.2	-0.34
KROGER CO	2.1	30.3	0.53	SCHLUMBERGER LTD FOREIGN	1.2	-18.3	-0.35
COSTCO COMPANIES INC COM	2.8	13.9	0.47	EMC CORP/MASS	2.8	-13.7	-0.41
MCDONALDS CORP COM	2.9	26.1	0.34	ORACLE CORPORATION	2.7	-18.8	-0.68
ALPHABET INC CL C	0.0	44.6	0.31	QUALCOMM INC COM	0.0	-32.8	-0.91
MASTERCARD INC CL A	1.5	13.0	0.28	WAL MART STORES INC COM	0.0	-28.6	-0.93

*Diversified Large Growth Equity Composite
Source: FactSet*



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).

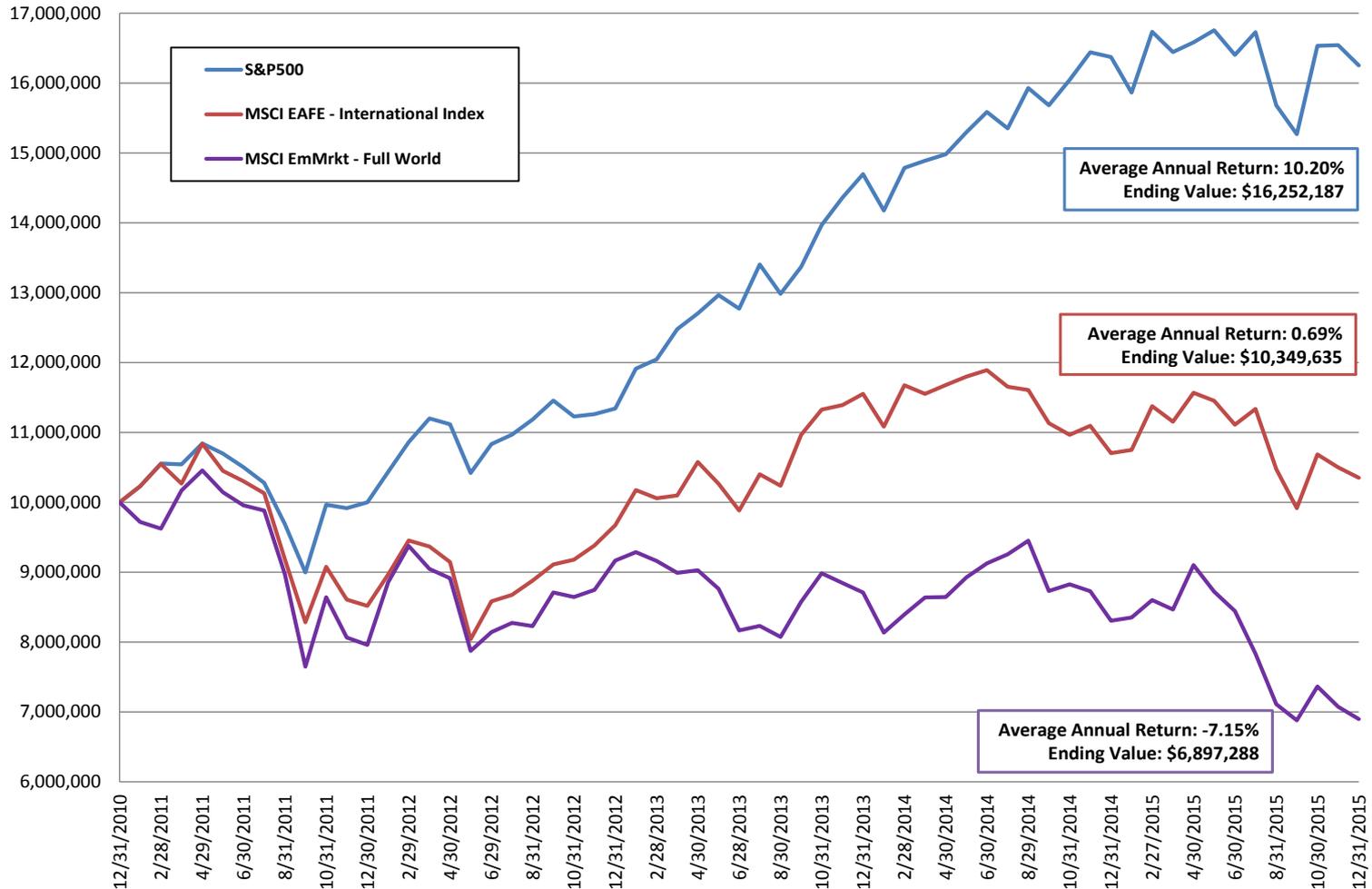
A Change in the Rate of ASCENT?



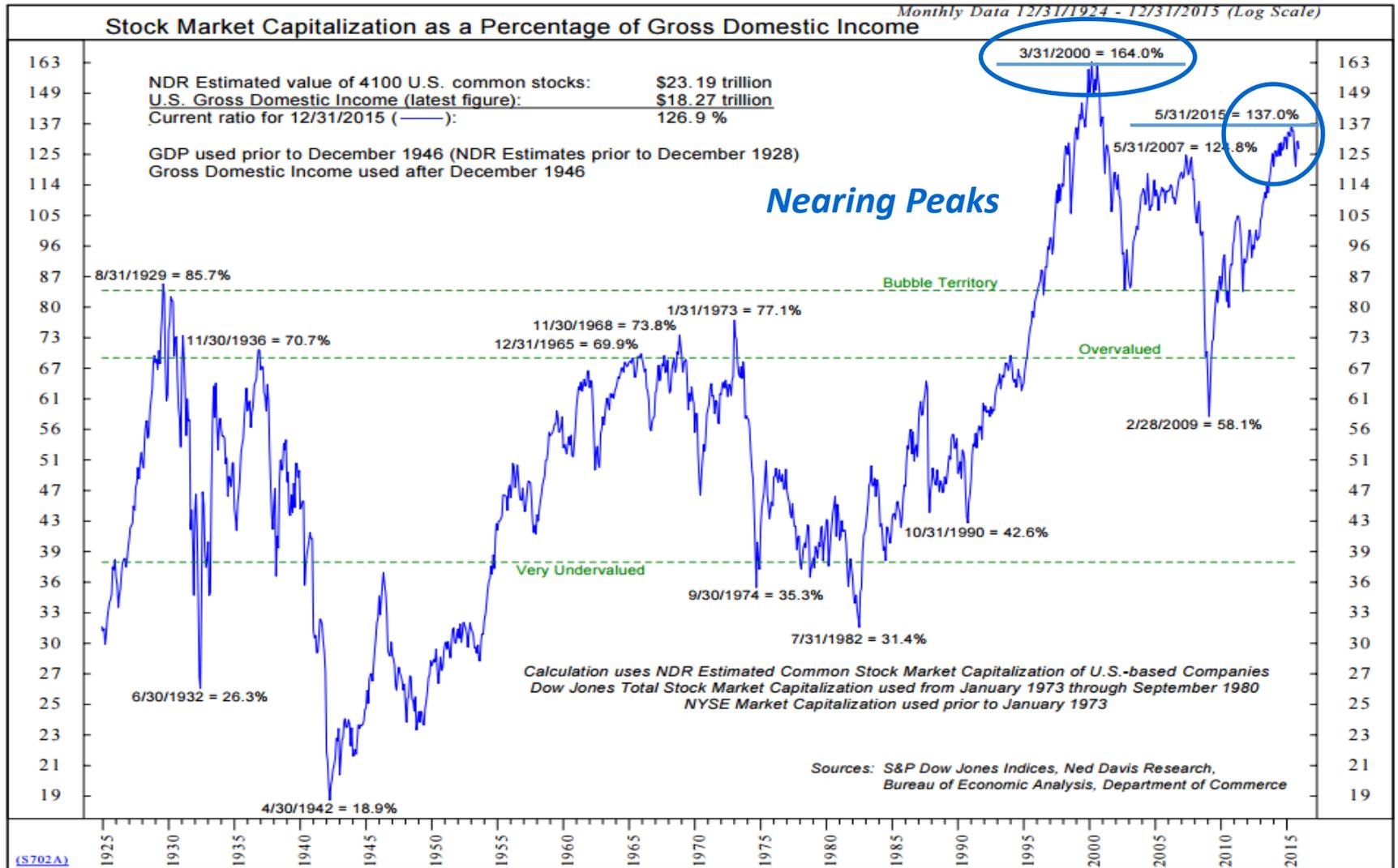
Don't Forget About U.S.

Source: Bloomberg

Global Market Returns Growth of \$10,000,000 5 Years ending 12/31/2015

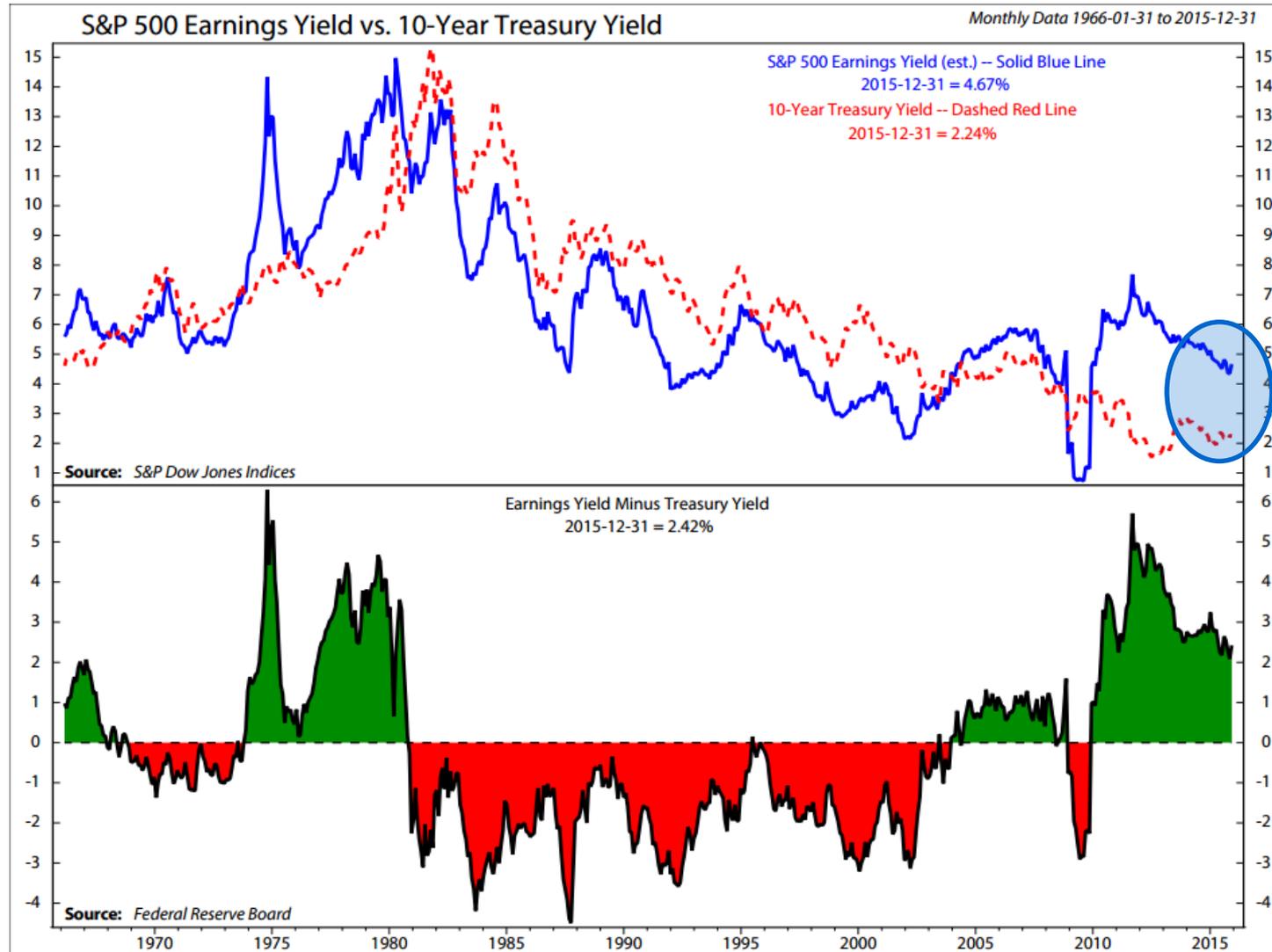


Nearing Peak Valuations



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Low Rates Make Stocks Look Attractive



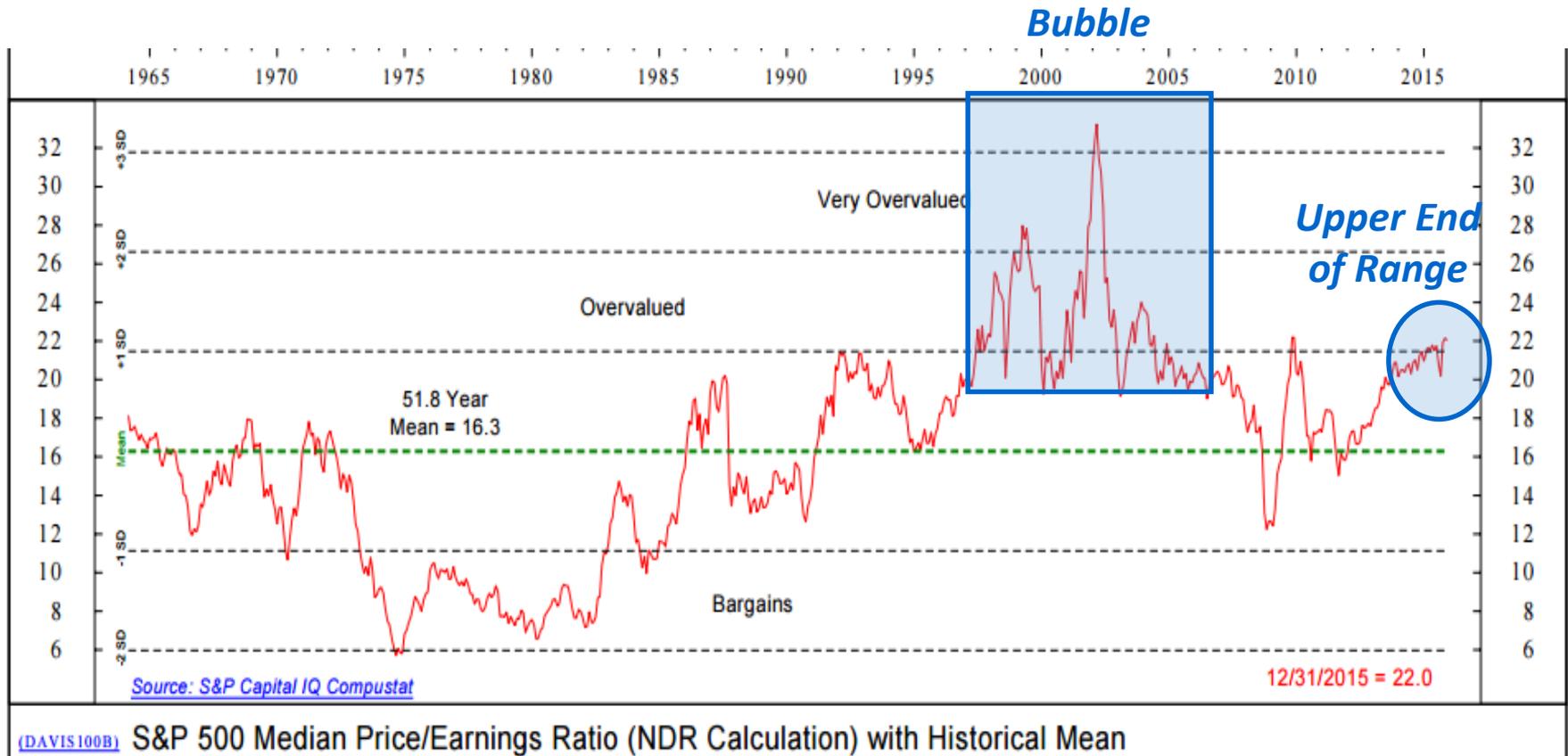
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Historically Overvalued

Standard & Poor's 500 Stock Index

Monthly Data 3/31/1964 - 12/31/2015 (Log Scale)

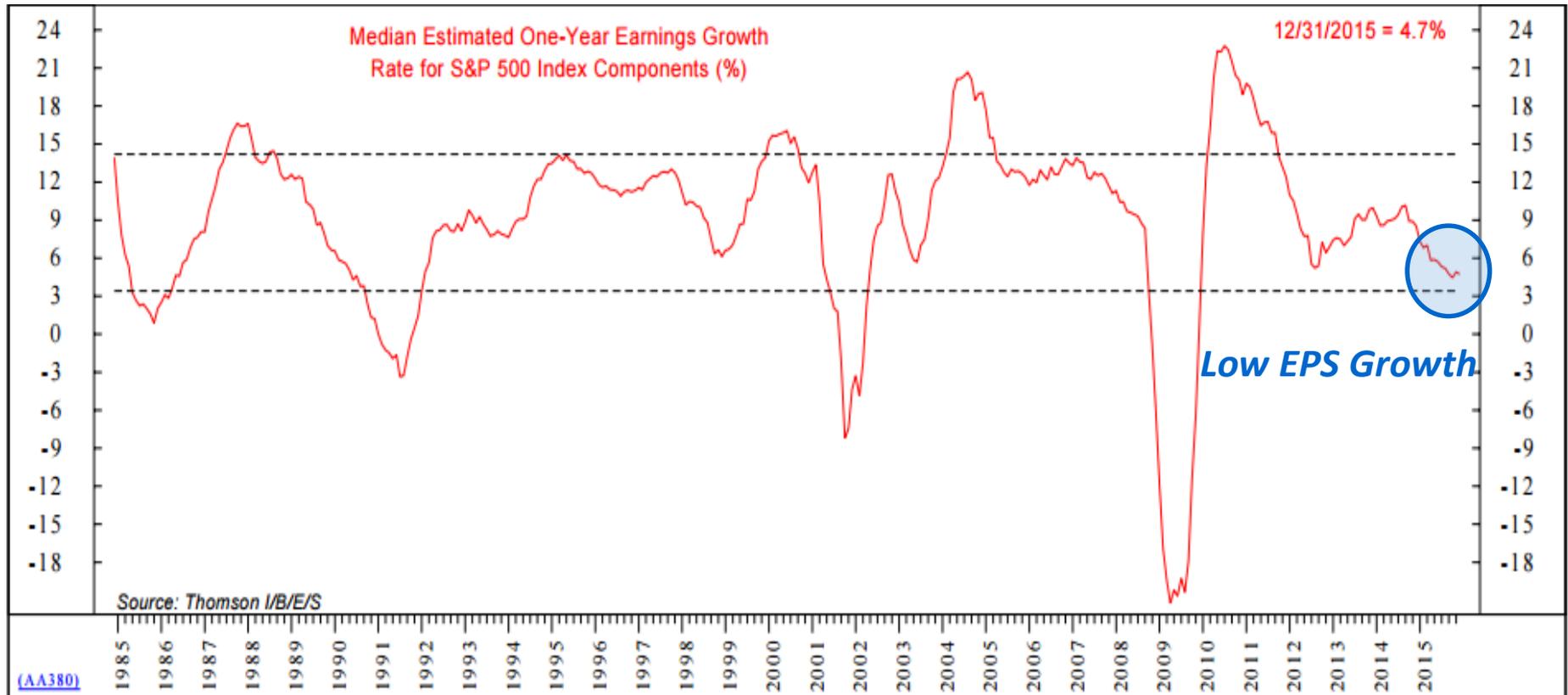


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Low Growth Environment

S&P 500 vs Median Expected Earnings Growth

Monthly Data 12/31/1984 - 12/31/2015 (Log Scale)



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Average Volatility Per Year

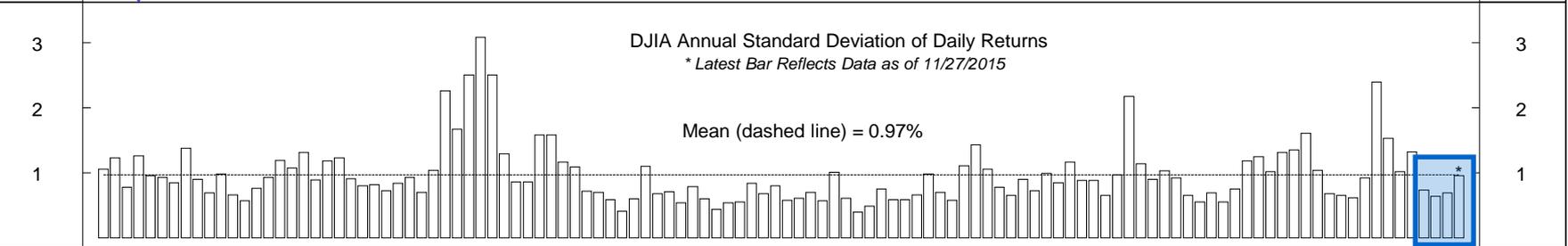
Yearly Data 12/31/1900 - 12/31/2015 (Log Scale)



DJIA Annual Standard Deviation of Daily Returns

* Latest Bar Reflects Data as of 11/27/2015

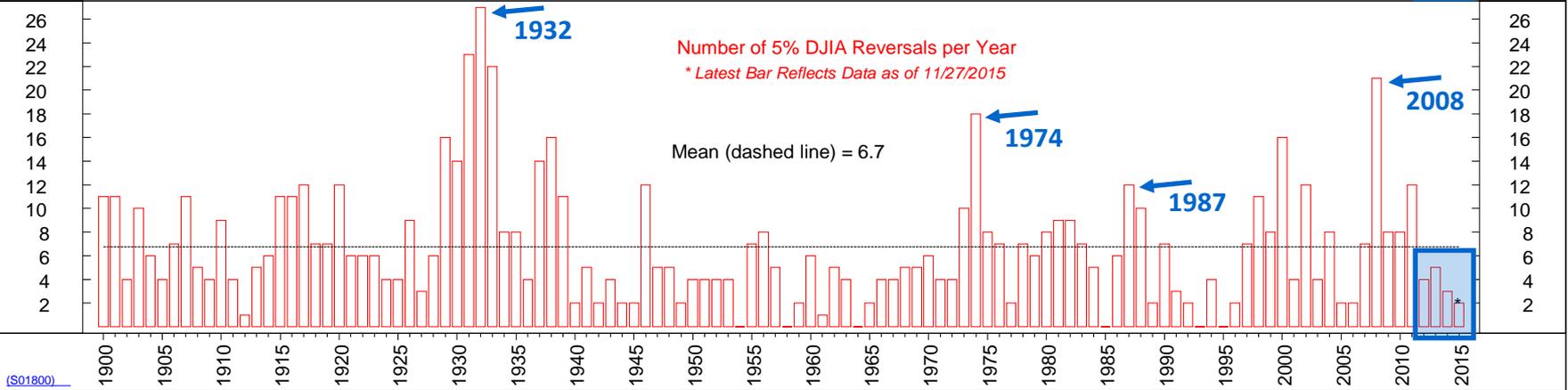
Mean (dashed line) = 0.97%



Number of 5% DJIA Reversals per Year

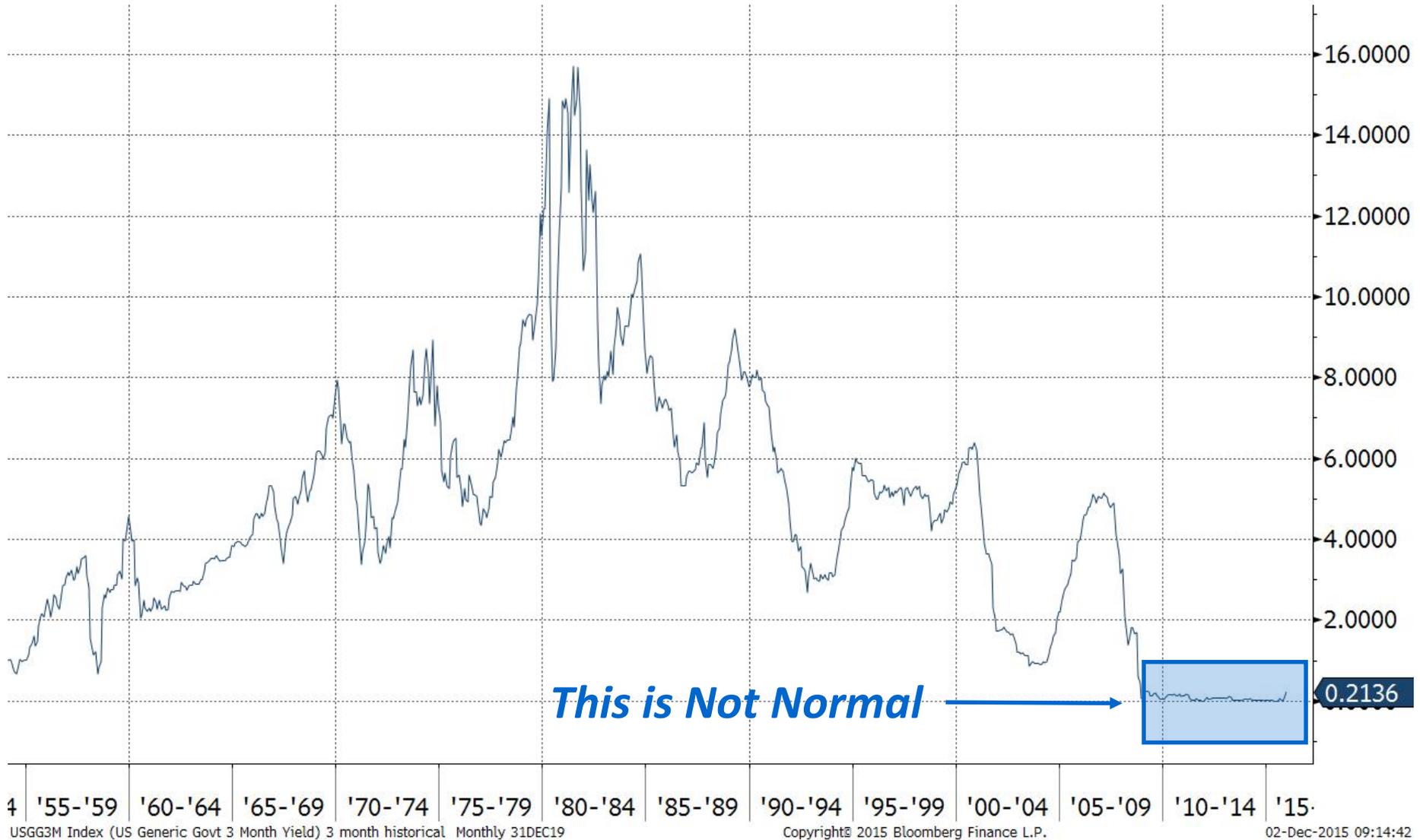
* Latest Bar Reflects Data as of 11/27/2015

Mean (dashed line) = 6.7



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3 Month T-Bill Yields



USGG3M Index (US Generic Govt 3 Month Yield) 3 month historical Monthly 31DEC19

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02-Dec-2015 09:14:42



Protecting Florida's Investments Act Compliance

Re: Protecting Florida's Investments Act

This notification is intended to inform you of Sawgrass Asset Management's understanding of and compliance with the Protecting Florida's Investments Act (PFIA). As you may know, the Florida State Board of Administration has issued a guidance regarding some prohibited investments for municipal plans in Florida.

We have reviewed the information from the December 2015 Board of Administration quarterly report and can verify that we hold no securities in your portfolio(s) that are identified on the list of scrutinized companies and any of the other companies on watch regarding the PFIA.

We will continue to monitor this list and notify you should we have any questions regarding our ability to comply. Given the nature of this list, we believe it is unlikely that we would have any problems.

Please contact us if you have any questions regarding the PFIA or your investment with Sawgrass Asset Management.

Best Regards,

Sawgrass Asset Management Team