

City of Ormond Beach Firefighters Pension - International Equity Account

The United Kingdom's historic vote to leave the confines of the European Union (EU) whipsawed investors during the last week of the quarter. However, investors did well to heed the advice of the WWII British inspirational slogan "Keep Calm and Carry On," and just days after the Brexit vote, many major indices had recouped most of their Brexit-related losses. For the quarter, stock markets reacted to the uncertainty by rewarding, on a relative basis, the more stable countries and regions. That meant emerging markets took honors with the MSCI Emerging Market Index gaining 0.7% in U.S. dollar terms, compared to the MSCI EAFE Index, a measure of developed markets outside Canada and the U.S., which lost 1.5%.

The potentially drawn-out process for the U.K. to actually leave the EU will create further uncertainty in the markets. The economic effects on not only the U.K. but also the remaining 27 EU countries will be debated, but economists believe economic growth in the U.K. will suffer the most, with some calling for a recession by year-end (Chart 1). The consumer sector will come under pressure given expected rising unemployment and higher inflation as the British pound weakens further. There is no doubt the Bank of England is forming plans for

CHART 1: United Kingdom GDP Forecast Slashed After Brexit Vote

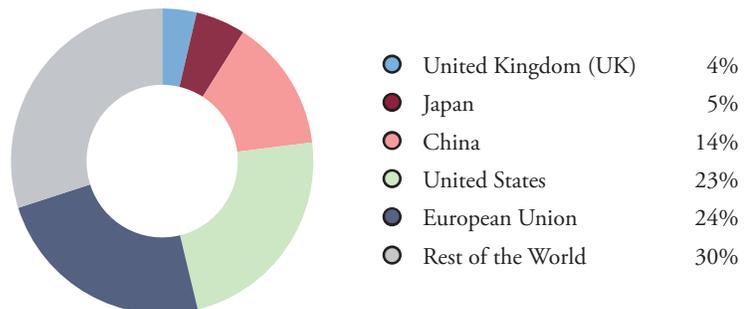
Annual Real GDP Growth (Year-Over-Year Change)

	2016 Estimate	2017 Estimate	2018 Estimate
Pre-Brexit Vote	1.90%	2.00%	2.00%
Post-Brexit Vote	1.60%	0.90%	0.90%

Data as of 6/27/16
Source: Fitch Ratings

CHART 2: The U.K. Economy Is a Small Percentage of Global GDP

2015 Nominal GDP in U.S. Dollars



Source: Bloomberg, World Bank

monetary stimulus, and we expect the government to add fiscal stimulus in support of the economy. However, an economic downturn seems inevitable.

The bigger question is what happens to the European Union, in particular the weaker southern European countries such as Portugal, Italy and Spain, areas

where our International Equity Strategy currently has no direct exposure. The U.K. by itself accounts for only 4% of world GDP. However, the EU represents 24% of the global economy so any slowdown within the EU will have ripple effects on the global economy (Chart 2). With interest rates already

MARKET VALUE SUMMARY

	Quarter Ending 6/30/16
Equities (\$)	\$990,819
Cash (\$)	\$37,289
Total Portfolio (\$)	\$1,028,108

PORTFOLIO PERFORMANCE⁽¹⁾

	Quarter Ending 6/30/16	Year-to-Date 6/30/16
Firefighters' International Pension (net of fees)	-3.4%	-4.5%
MSCI ACWI ex US Index ⁽²⁾	-0.6%	-1.0%

⁽¹⁾Performance and Benchmark data sources: Renaissance Research, Bloomberg, MSCI

⁽²⁾Renaissance primary benchmark.

low or even negative, the European Central Bank will need to be both creative and vigilant in providing support to the weak economic landscape seen across most of the union of nations.

Rising sentiment supporting populist and nationalist parties throughout the EU are increasing the risk that other countries may also hold their own ref-

erendums to leave the EU in the future, possibly causing the EU to take a tough stance in trade negotiations with the U.K. in order to send a signal that leaving the EU will have severe economic implications. More restrictive trade treaties may further hurt economic growth and overall levels of trade between the EU and the U.K.; however, this tough stance may ulti-

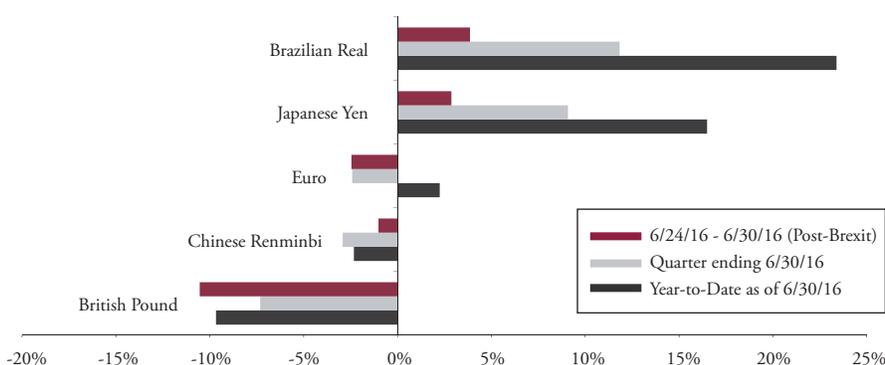
mately keep other countries from following suit.

Currency swings affected U.S. dollar-denominated returns wildly during the quarter. The British pound, which sank 11% in the two days following the vote, ended 7% lower versus the greenback. Meanwhile, safe-haven currencies such as the Japanese yen surged with the yen ending 9% stronger versus the U.S. dollar (Chart 3). While the U.S. dollar on average ended up slightly stronger for the quarter, the divergent movements in the major currencies mostly cancelled each other out, resulting in the MSCI ACWI ex US Index dropping 0.6% in U.S. dollar terms and 0.1% in local currency returns.

The Energy sector was the best-performing group in the MSCI ACWI ex US as commodities once again rallied during the quarter. Crude oil jumped 17%, while safe-haven investment gold climbed 7% (Chart 4). Our portfolio continues to have no direct energy-related exposure as we are not convinced the oil rally is sustainable. Crude oil supplies remain high and with global economic growth set to weaken, it is unlikely demand will increase enough to sustain a rally in oil prices (Chart 5).

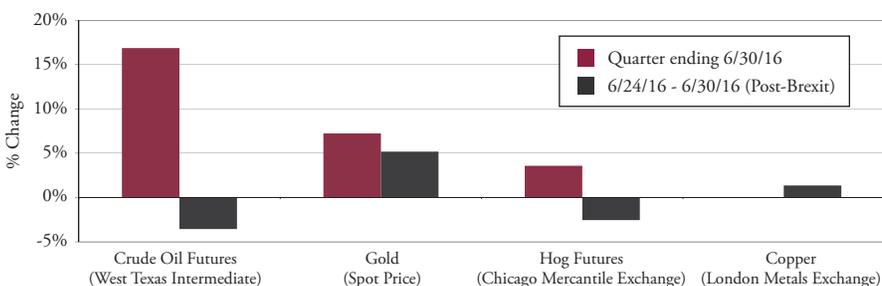
Our portfolio performance lagged our benchmark, weighed down by weak stock selection in our Consumer Discretionary holdings. A consistent theme in our portfolio has been to capitalize on the increased discretionary income from global consumers. Companies in the auto, tourism and homebuilding segments benefit from growing consumer incomes, but fears of slower global growth, compounded by the Brexit debacle, resulted in many of our Consumer Discretionary holdings bearing the brunt of the sell-off. In fact, 7 of our 10 worst-contributing portfolio holdings for the quarter came from the Consumer Discretionary sector. U.K. homebuilder

CHART 3: European and Chinese Currencies Weaken Versus U.S. Dollar



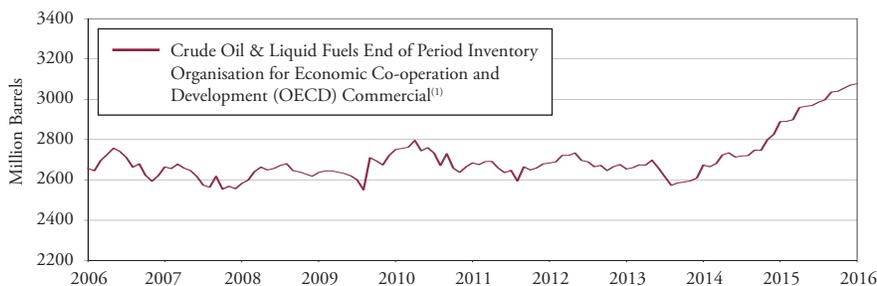
Data as of 6/30/16
Source: Bloomberg

CHART 4: Oil and Gold Lead Commodities Rally in the Quarter



Data as of 6/30/16
Source: Bloomberg

CHART 5: Elevated Inventories Could Prevent Further Rise in Crude Oil Prices



⁽¹⁾Monthly Data from 5/31/06 through 5/31/16
Source: Bloomberg, U.S. Department of Energy

Persimmon sank 35%, French car manufacturer **Renault** dropped 22% and U.K.-based cruise ship operator **Carnival** sank 17%.

Industrials were the second worst-contributing sector due to exposure to the airline industry, which typically experiences higher volatility in uncertain times. Irish low-cost airline **Ryanair** fell 19%, while aircraft lessor **Aercap** dipped 13%.

Consumer Staples was the best-contributing sector for the portfolio. In general, more defensive sectors such as Consumer Staples and Health Care performed better as investors moved to a risk-off mentality (Chart 6). Pork producer **WH Group** added 12%, while **Unilever** gained 7%. Information Technology also did well in the portfolio led by Chinese online gaming firm **NetEase**, which rallied 35% to recoup losses from earlier in the year, and **AAC Technologies**, whose speaker and vibration technology is being incorporated into more and more smartphones, added 13%.

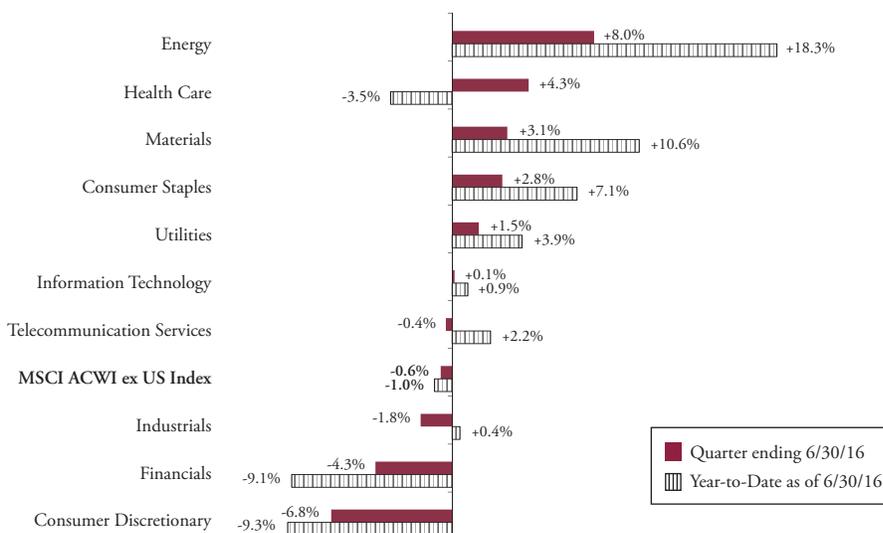
Our portfolio performance by nation showed that the United Kingdom was the worst-contributing country led lower by **Persimmon** (-35%) and broadcaster **ITV** (-27%), which we sold in late June. France was also weak, with poor returns from auto industry holdings **Renault** (-22%) and **Valeo** (-13%). Among other developed nations, Japan, our largest single-country allocation, was led by telecom provider **KDDI Corporation** (+13%) and **Mitsubishi Electric** (+12%). Our emerging market holdings enjoyed much better returns overall than our developed market positions, with China and Hong Kong performing well. By country of domicile, our International Equity portfolio has exposure to the United Kingdom through positions held in Consumer Discretionary, Telecommunications Services and Consumer Staples. However, we

are underweight to both the U.K. and Western Europe relative to our benchmark MSCI ACWI ex US. An analysis of our portfolio exposure to the U.K., based on annual revenue for each of our companies in the strategy, indicates that less than 10% of portfolio's total revenue is attributable to sales from the U.K., a small percentage in our minds. However, as an active manager, we will continue to evaluate our holdings to determine if any changes are warranted

as a result of the repercussions of this unexpected vote.

Valuation is an important component of our investment process. From a broad sector perspective, certain sectors such as Energy and Consumer Staples are trading at significant premiums relative to their 10-year Price-to-Earnings history, while other sectors such as Financials and Consumer Discretionary are relatively inexpensive compared to the past (Chart 7). We also look

CHART 6: Energy Sector Once Again Leads Market Returns
(Based on MSCI ACWI ex US Index)



Data as of 6/30/16
Source: FactSet, MSCI

CHART 7: Global Sector Valuations

	Price-to-Earnings Ratio As of 6/30/16	Price-to-Earnings Ratio Versus 10-Year Average: Premium/(Discount)
MSCI All Country World Index	15.4X	1%
Energy	19.4X	59%
Materials	17.7X	14%
Industrials	16.6X	1%
Consumer Discretionary	16.8X	-9%
Consumer Staples	21.6X	18%
Health Care	16.9X	7%
Financials	10.9X	-20%
Information Technology	16.0X	-13%
Telecommunication Services	15.5X	4%
Utilities	14.0X	-9%

Quarterly Data from 9/30/06 through 6/30/16 using current year Price-to-Earnings ratios
Source: Renaissance Research, FactSet, MSCI

at growth, earnings momentum and quality in our company evaluations, but better valuation in certain sectors indicates the opportunity set in those sectors may yield more potential candidates for favorable price appreciation.

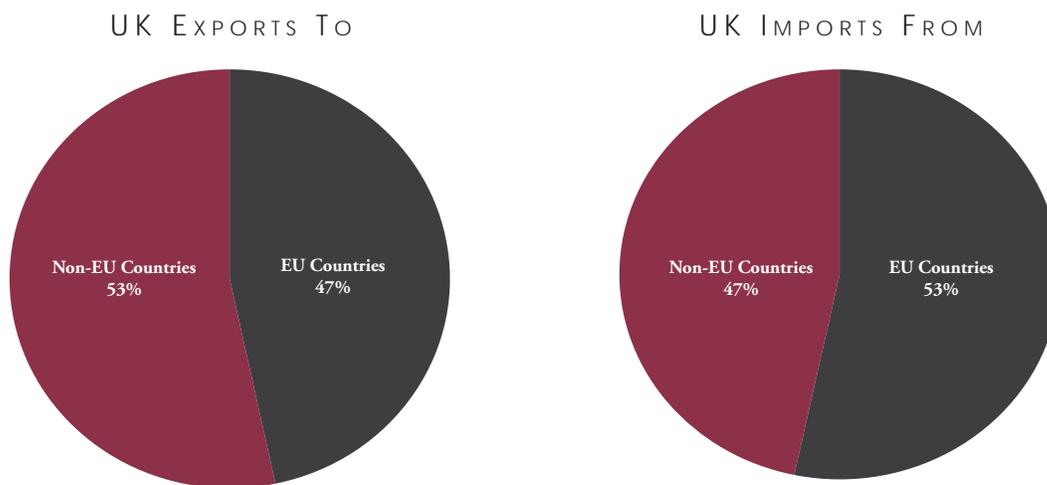
By month end, equity markets seemed to have calmed down given the expected long lead time (up to two years) for the full effects of the Brexit to be known. Until then, the U.K.'s ability to renegotiate trade agreements on a

favorable basis will weigh on many European markets. As Chart 8 shows, roughly half of U.K. imports and exports are tied to the EU, making it critical for the British government to establish favorable trade terms. Until the air clears, European markets will remain volatile.

Using history as a guide, equity markets tend to act like a pendulum in times of excessive uncertainty with markets moving rapidly to the down-

side only to reverse course as fear dissipates. Despite all the negative news regarding the Brexit, there will undoubtedly be opportunities created for long-term investors. For example, a weaker British pound will help British exporters as their goods become more attractive. As an active manager, we will seek out those opportunities as we believe portfolios that exhibit characteristics such as good growth and reasonable valuation can add value for our clients.

CHART 8: U.K. Trade Is Much More Dependent on European Union (EU)



Data based on trade flow from calendar year 2015.

Source: Bloomberg

Individual securities and their returns listed in the commentary are based upon a representative account of the strategy discussed.

The opinions stated in this presentation are those of the authors as of the date listed on this presentation and are subject to change at any time due to changes in market or economic conditions.

Unless otherwise notified, Renaissance assumes our clients receive statements from their custodian at least quarterly and encourages them to compare the account balance included in this report with their custodial statement. If you do not receive statements from your custodian at least quarterly, or if you have any questions, please contact us immediately.

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City of Ormond Beach Firefighters Pension - International Equity Portfolio

<u>Shares/Face</u>	<u>Security Description</u>	<u>Unit Cost</u>	<u>Total Cost</u>	<u>Price</u>	<u>Market Value</u>	<u>% of Total Assets</u>
Bermuda						
468	VALIDUS HOLDINGS LTD	34.10	\$15,957	48.59	\$22,740	2.3%
	TOTAL Bermuda		\$15,957		\$22,740	2.2%
Canada						
380	CANADIAN NATL RAILWAY	39.58	\$15,040	59.06	\$22,443	2.3%
552	COLLIERS INTERNATIONAL GROUP INC	38.67	\$21,348	34.14	\$18,845	1.9%
552	MAGNA INTERNATIONAL INC	47.61	\$26,279	35.07	\$19,359	2.0%
1,096	MANULIFE FINANCIAL CORP	18.35	\$20,108	13.67	\$14,982	1.5%
	TOTAL Canada		\$82,774		\$75,629	7.4%
China						
704	CHINA EASTERN AIRLINES CORP LTD	29.19	\$20,551	25.34	\$17,839	1.8%
121	NETEASE INC	59.90	\$7,248	193.22	\$23,380	2.4%
	TOTAL China		\$27,798		\$41,219	4.0%
Denmark						
650	PANDORA A/S	17.11	\$11,122	33.86	\$22,009	2.2%
868	VESTAS WIND SYSTEMS A/S	18.02	\$15,639	22.73	\$19,725	2.0%
	TOTAL Denmark		\$26,761		\$41,734	4.1%
France						
242	ARKEMA SA	76.07	\$18,409	76.73	\$18,569	1.9%
476	CAP GEMINI SA	32.31	\$15,382	43.44	\$20,676	2.1%
1,109	RENAULT SA	18.92	\$20,986	15.21	\$16,865	1.7%
714	UNIBAIL-RODAMCO SE	25.75	\$18,383	25.96	\$18,533	1.9%
843	VALEO SA ADR	8.56	\$7,220	22.29	\$18,791	1.9%
	TOTAL France		\$80,380		\$93,435	9.1%
Germany						
1,253	ALLIANZ SE	12.28	\$15,387	14.40	\$18,043	1.8%
	TOTAL Germany		\$15,387		\$18,043	1.8%
Hong Kong						
264	AAC TECHNOLOGIES HOLDINGS INC	66.95	\$17,675	84.88	\$22,409	2.3%
282	CHINA MOBILE LTD	44.95	\$12,676	57.90	\$16,328	1.6%
1,093	TECHTRONIC INDUSTRIES CO LTD	19.10	\$20,873	20.75	\$22,680	2.3%
1,195	WH GROUP LTD	10.75	\$12,846	15.67	\$18,730	1.9%
	TOTAL Hong Kong		\$64,071		\$80,147	7.8%
India						
546	TATA MOTORS ADR	26.57	\$14,508	34.67	\$18,930	1.9%
1,929	WIPRO LTD	12.17	\$23,474	12.36	\$23,842	2.4%
	TOTAL India		\$37,982		\$42,772	4.2%
Indonesia						
2,841	PT BANK MANDIRI	9.10	\$25,866	7.21	\$20,481	2.1%
	TOTAL Indonesia		\$25,866		\$20,481	2.0%
Ireland						
244	ICON PLC	54.86	\$13,386	70.01	\$17,082	1.7%
248	RYANAIR HOLDINGS PLC	69.64	\$17,271	69.54	\$17,246	1.7%

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86	SHIRE PLC	248.19	\$21,345	184.08	\$15,831	1.6%
	TOTAL Ireland		\$52,002		\$50,159	4.9%
Israel						
1,652	BEZEQ THE ISRAEL TELECOM LTD	11.03	\$18,220	9.91	\$16,376	1.7%
271	CHECK POINT SOFTWARE TECH	23.80	\$6,451	79.68	\$21,593	2.2%
351	TEVA PHARMACEUTICAL INDUSTRIES	61.54	\$21,601	50.23	\$17,631	1.8%
	TOTAL Israel		\$46,272		\$55,600	5.4%
Japan						
1,013	BRIDGESTONE CORP	17.03	\$17,254	15.93	\$16,139	1.6%
1,383	KDDI CORPORATION	10.19	\$14,095	15.17	\$20,983	2.1%
968	MITSUBISHI ELECTRIC CORP	24.77	\$23,976	23.55	\$22,796	2.3%
561	MURATA MANUFACTURING CO LTD	35.39	\$19,853	27.73	\$15,558	1.6%
413	NIPPON TELEPHONE & TELEGRAPH ADR	22.48	\$9,283	47.08	\$19,444	2.0%
274	ORIX CORPORATION	78.57	\$21,529	63.91	\$17,511	1.8%
1,484	SMC CORP	13.06	\$19,383	12.14	\$18,013	1.8%
1,095	TORAY INDUSTRIES INC	16.98	\$18,589	16.95	\$18,559	1.9%
159	TOYOTA MOTOR CORP	128.99	\$20,510	99.99	\$15,898	1.6%
	TOTAL Japan		\$164,472		\$164,902	16.0%
Mexico						
1,052	CONTROLADORA VUELA COMPANIA DE AVIACI	19.60	\$20,623	18.69	\$19,662	2.0%
728	GRUPO FINANCIERO BANORTE SAB DE CV	28.38	\$20,661	27.69	\$20,160	2.0%
	TOTAL Mexico		\$41,283		\$39,822	3.9%
Netherlands						
498	AERCAP HOLDINGS NV	13.96	\$6,952	33.59	\$16,728	1.7%
873	AKZO NOBEL NV	22.36	\$19,524	20.88	\$18,224	1.8%
453	HEINEKEN NV	45.55	\$20,634	45.98	\$20,828	2.1%
208	NXP SEMICONDUCTORS NV	105.35	\$21,912	78.34	\$16,295	1.6%
	TOTAL Netherlands		\$69,022		\$72,074	7.0%
Singapore						
334	DBS GROUP HOLDINGS LTD	60.67	\$20,264	46.84	\$15,644	1.6%
	TOTAL Singapore		\$20,264		\$15,644	1.5%
South Korea						
925	KOREA ELECTRIC POWER CORP	20.59	\$19,046	25.93	\$23,985	2.4%
703	SK TELECOM LTD	16.02	\$11,262	20.92	\$14,707	1.5%
	TOTAL South Korea		\$30,308		\$38,692	3.8%
Taiwan						
2,948	ADVANCED SEMICONDUCTOR ENGINEERING	4.88	\$14,396	5.58	\$16,450	1.7%
784	TAIWAN SEMICONDUCTOR MANUFACTURING C	14.36	\$11,260	26.23	\$20,564	2.1%
	TOTAL Taiwan		\$25,656		\$37,014	3.6%
Thailand						
721	KASIKORNBANK	27.57	\$19,876	19.35	\$13,952	1.4%
	TOTAL Thailand		\$19,876		\$13,952	1.4%
United Kingdom						
509	BT GROUP PLC	18.35	\$9,338	27.85	\$14,176	1.4%

City of Ormond Beach Firefighters Pension - International Equity Portfolio

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352	CARNIVAL PLC	55.48	\$19,529	44.79	\$15,766	1.6%
330	PERSIMMON PLC	58.01	\$19,143	38.69	\$12,767	1.3%
502	UNILEVER PLC	42.07	\$21,118	47.91	\$24,051	2.4%
	TOTAL United Kingdom		\$69,128		\$66,759	6.5%
	TOTAL EQUITIES		\$915,261		\$990,819	96.4%
	Total Cash		\$37,289		\$37,289	3.6%
	Total Portfolio		\$952,550		\$1,028,108	100.0%
	Accrued Income				\$1,524	
	Total Portfolio plus Accrued Income				\$1,029,631	

Commission Report

Start Date: 4/1/2016
End Date: 6/30/2016
Range: 2Q2016
Account: IE0217 - City of Ormond Beach Firefighters Pension - International Equity Portfolio

Group By: Broker
Metric: Dollars
Type: Discretionary

Broker	Shares	Value	Cents per Share	Commission Recapture	Directed	Execution Only	Minority	Research	Soft Dollar	Total Commission
ConvergEx	3,053	53,936	2.00	0.00	0.00	61.06	0.00	0.00	0.00	61.06
Lynch, Jones, and Ryan	3,603	58,543	5.00	180.15	0.00	0.00	0.00	0.00	0.00	180.15
National Alliance Capital Markets	1,140	39,891	1.50	0.00	0.00	17.11	0.00	0.00	0.00	17.11
Totals	7,796	152,370	3.31	180.15	0.00	78.17	0.00	0.00	0.00	258.32

2Q2016 Corporate Governance Rankings

<u>Holdings</u>	<u>CGQ Index</u>	<u>CGQ Industry</u>
AACAY	N/A	N/A
AER	N/A	N/A
AKZOY	44.80	40.50
ARKAY	N/A	N/A
ASX	N/A	N/A
AZSEY	69.00	54.50
BRDCY	16.40	34.80
BT	72.70	57.10
BZQIY	N/A	N/A
CEA	N/A	N/A
CGEMY	98.10	99.00
CHKP	N/A	N/A
CHL	66.40	60.00
CIGI	21.00	25.00
CNI	66.10	75.00
CUK	28.00	40.00
DBSDY	15.40	25.00
GBOOY	N/A	N/A
HEINY	16.80	20.00
ICLR	N/A	N/A
IX	6.10	7.70
KDDIY	11.80	1.80
KEP	33.50	29.10
KPCPY	N/A	N/A
MFC	45.20	47.40
MGA	16.10	100.00
MIELY	11.80	10.80
MRAAY	20.00	28.50
NTES	N/A	N/A
NTT	36.30	14.50
NXPI	N/A	N/A
PNDZY	N/A	N/A
PPERY	N/A	N/A
PSMMY	70.90	75.40
RNLSY	64.30	84.10
RYAAY	12.60	25.00
SHPG	57.30	66.70
SKM	57.60	45.50
SMCA Y	25.30	25.40
TEVA	N/A	N/A
TM	8.30	11.60
TRYIY	25.50	26.60
TSM	N/A	N/A
TTM	N/A	N/A
TTNDY	64.60	72.00
UL	69.90	60.00
UNRDY	94.60	98.90
VLEEY	81.80	97.10
VLRS	N/A	N/A
VR	N/A	N/A
VWDRY	52.60	57.50
WGHPY	N/A	N/A
WIT	N/A	N/A

*All numbers provided by Bloomberg