

*Second Quarter 2017*

# City of Ormond Beach

General Employees' Pension Plan  
Police Officers' Pension Trust Fund  
Firefighters' Pension Trust Fund

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# Ormond Beach Police Officers' Pension Trust Fund

## Q2 2017 Statement of Changes

	Cash	Equity	Total
Market Value at April 1, 2017	\$74,994	\$7,354,704	\$7,429,698
Contributions / (Withdrawals)	68,324	(146,979)	(78,655)
Interest and Dividends	80	44,662	44,742
Realized Gains / (Losses)	-	192,234	192,234
Unrealized Gains / (Losses)	-	(188,614)	(188,614)
<b>Market Value at June 30, 2017</b>	<b>143,398</b>	<b>7,256,007</b>	<b>7,399,405</b>
<b>Total Investment Return at June 30, 2017</b>	<b>\$80</b>	<b>\$48,282</b>	<b>\$48,362</b>
Equity Rate of Return	0.67%	Russell 1000 Value	1.34%
Total Fund Rate of Return	0.66%		

# City of Ormond Beach

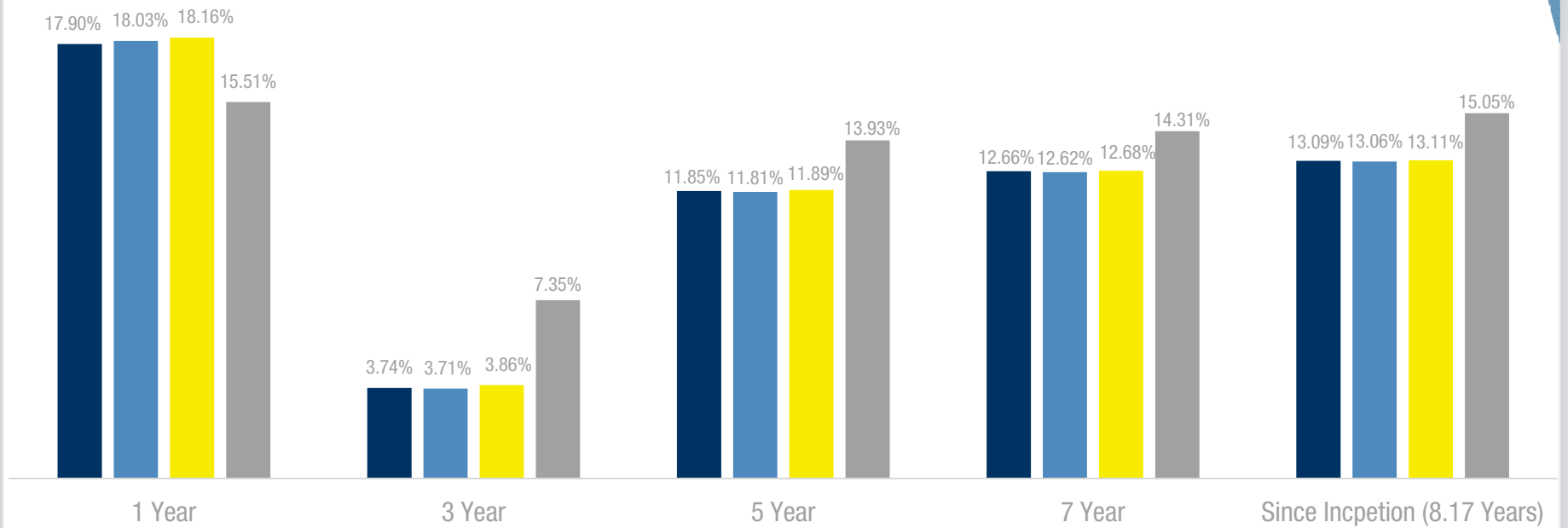
## Calendar Year End Performance

Year	General Employees'	Police Officers'	Firefighters'	Russell 1000 Value
May – Dec. 2009	27.55%	27.53%	27.62%	29.8%
2010	11.87%	11.90%	11.92%	15.51%
2011	0.75%	0.77%	0.69%	0.39%
2012	17.33%	16.98%	17.06%	17.51%
2013	33.20%	33.37%	33.20%	32.53%
2014	11.85%	11.81%	11.85%	13.45%
2015	-13.35%	-13.47%	-13.36%	-3.83%
2016	21.22%	21.36%	21.61%	17.32%
As of June 30, 2017	3.46%	3.44%	3.53%	4.66%
<b>Annualized as of June 2017</b>				
1 Year	17.90%	18.03%	18.16%	15.51%
3 Year	3.74%	3.71%	3.86%	7.35%
5 Year	11.85%	11.81%	11.89%	13.93%
7 Year	12.66%	12.62%	12.68%	14.31%
<b>Since Inception (8.17 Years)</b>				
Cumulative	173.11%	172.48%	173.57%	214.21%
Annualized	13.09%	13.06%	13.11%	15.05%

# City of Ormond Beach

## Annualized Performance as of June 30, 2017

- General Employees
- Police Officers
- Firefighters
- Russell 1000 Value



Source: HGK Asset Management, Inc.

# Large Cap Value

## Attribution Analysis Q2 2017

	HGK Large Cap Value			Russell 1000 Value			Attribution Analysis		
	Average Weight	Total Return	Contrib. To Return	Average Weight	Total Return	Contrib. To Return	Allocation Effect	Selection Effect	Total Effect
<b>Total</b>	<b>100.00</b>	<b>0.74</b>	<b>0.74</b>	<b>100.00</b>	<b>1.34</b>	<b>1.34</b>	<b>0.10</b>	<b>-0.71</b>	<b>-0.60</b>
<b>Consumer Discretionary</b>	10.98	5.83	0.64	4.67	3.14	0.17	0.09	0.29	0.39
<b>Telecommunication Services</b>	2.48	3.43	0.09	3.42	-7.09	-0.25	0.08	0.27	0.35
<b>Financials</b>	23.70	5.19	1.21	26.28	3.79	0.93	-0.01	0.31	0.30
<b>Health Care</b>	13.28	6.16	0.80	11.30	6.21	0.63	0.16	-0.00	0.16
<b>Information Technology</b>	12.60	1.04	0.14	9.90	0.73	0.11	-0.05	0.05	-0.00
<b>Real Estate</b>	--	--	--	4.74	1.64	0.08	-0.01	--	-0.01
<b>Utilities</b>	6.48	1.62	0.11	6.39	2.18	0.15	-0.01	-0.04	-0.04
<b>Materials</b>	3.84	-1.28	-0.03	2.88	0.08	0.00	-0.00	-0.04	-0.04
<b>Consumer Staples</b>	5.59	-2.25	-0.12	8.63	1.16	0.10	0.02	-0.19	-0.17
<b>Industrials</b>	6.32	-5.10	-0.29	10.13	3.10	0.31	-0.05	-0.51	-0.56
<b>Energy</b>	12.59	-13.27	-1.82	11.66	-7.09	-0.89	-0.09	-0.85	-0.94

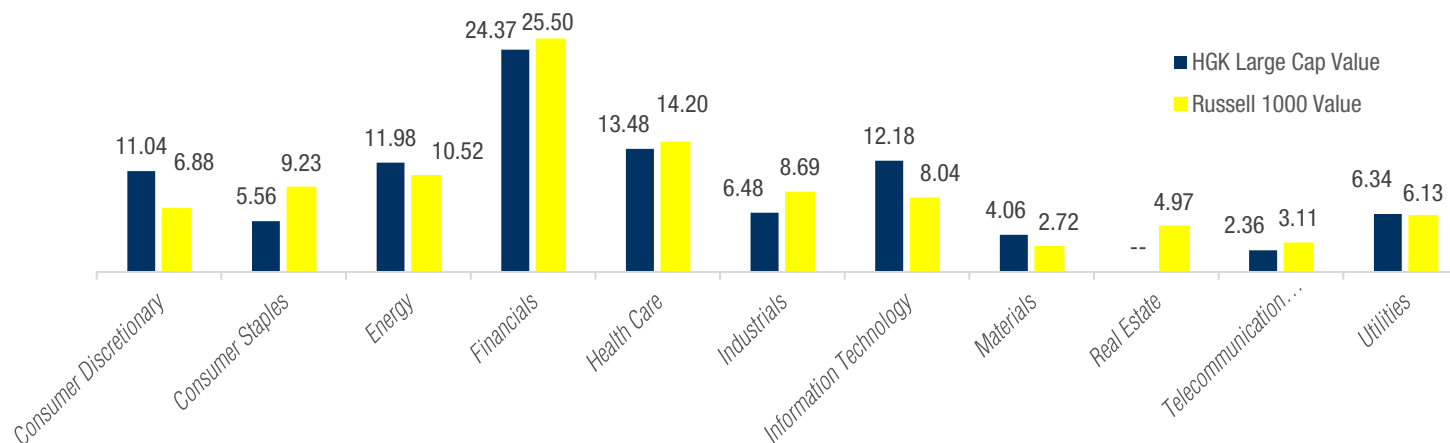
Source: FactSet

Excludes cash. For informational purposes only. Slight rounding errors may occur.

# Large Cap Value

## Portfolio Characteristics as of June 30, 2017

	Fund	Russell 1000 Value
Weighted Average Market Cap	\$96.9 billion	\$114.4 billion
Median Market Cap	\$39.8 billion	\$65.4 billion
Number of Holdings	50	719
P/E Ratio	15.6x	17.1x
ROE	12.0%	12.3%
Dividend Yield	2.44%	2.44%
Active Share	78.3%	--
Upside Capture (SI)	96.5%	--
Downside Capture (SI)	96.9%	--



Source: HGK Asset Management, Inc.



# Large Cap Value

## Top Ten Holdings as of June 30, 2017

Issue	Sector	% of Portfolio
Chevron Corp.	Energy	3.12%
Citigroup Inc.	Financials	2.84%
State Street Corporation	Financials	2.8%
MetLife Inc.	Financials	2.62%
Bristol-Myers Squibb Company	Health Care	2.58%
UnitedHealth Group Incorporated	Health Care	2.52%
Johnson & Johnson	Health Care	2.48%
CVS Health Corporation	Consumer Staples	2.4%
Cisco Systems, Inc.	Information Technology	2.38%
Hartford Financial Services Group, Inc.	Financials	2.36%
	<b>TOTAL</b>	<b>26.10%</b>

Source: HGK Asset Management, Inc.



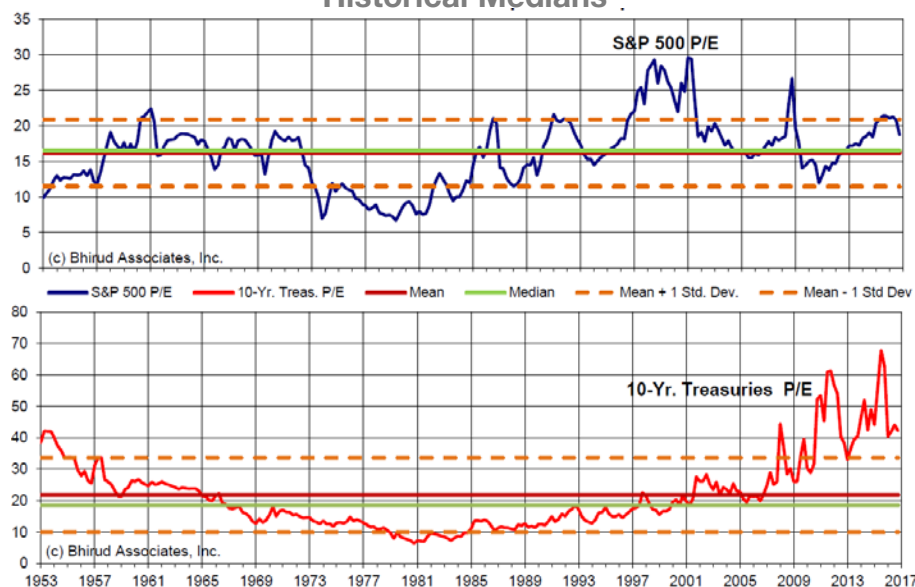
# HGK Equity Review

## Second Quarter 2017

2017 has marked a continuation in the upward trend for the equity markets despite economic and political uncertainties. Year-to-date, the Russell 1000 Index has gained 9.3%. The leadership of Growth stocks over Value shares has been the dominant theme for the U.S. stock market this year with the Russell 1000 Growth index returning 14.0% vs. 4.7% for the Russell 1000 Value Index YTD. As we have stated in previous commentary, news on policy initiatives by the current administration will continue to drive short-term movements in markets. Most recently the inability of the Trump administration to follow through on any of its pre-election economic or reform initiatives has narrowed broad based growth prospects and heightened investors' almost exclusive preference for companies with the highest growth characteristics.

Following its eight year uptrend, the current bull market is long by modern standards. Although we are alert to the prospect of a market correction, in our view, the critical question is whether the long-term fundamentals are still in place. Thus far, there is no indication of a change in underpinnings of the current environment and as such we remain cautiously optimistic.

**S&P 500 P/E and 10-Year Treasuries P/E Compared to Respective Historical Medians**



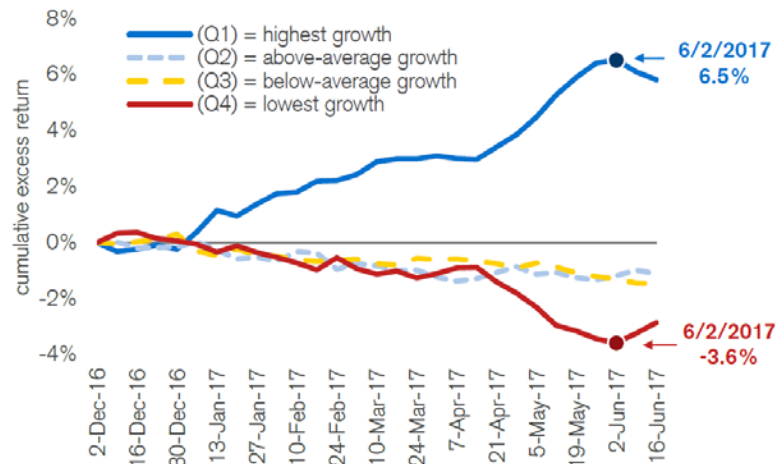
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# HGK Equity Review Second Quarter 2017

As we consider the tenor of the recent market rally, the stock specific price movements are unusual, providing even more opportunity than usual for patient investors. This recent leg has led by a relatively few companies with high growth profiles. Year to date Factor analysis is showing Growth massively outperforming Value +16% vs. -9%. The cumulative spread by growth quartiles is at very high levels and factors that generally underperform in the long run have significantly outperformed in the short run. We believe one major reason for the growing opportunity set is the massive growth in assets in recently created products like thematic ETFs. For instance, from 2009 to 2016, low volatility ETF strategies have grown assets at a 150% annual rate creating outsized P/E distortions (and therefore price appreciation) in the underlying shares that will likely need to unwind.

## Dissecting the Growth Rally of 2017

Cumulative excess return by growth quartile / Largest 1000 US Stocks by market cap



**Leadership of Growth over Value, specifically the divergence between the extreme ends of the Growth spectrum has been both dominant and unusual given the last 25 years of market history.**

Source Credit Suisse

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## Primary Factors: Fundamental and Technical

Factor <sup>1</sup> - Market Neutral	Performance (Total Return)				
	2016	YTD	Trailing		
			3M	1M	1W
Growth (High vs. Low)	1%	16%	8%	1%	-1%
Value (Cheapest vs. Richest)	9%	-9%	-7%	0%	2%
Balance Sheet (Strong vs. Weak)	-8%	6%	3%	0%	-1%
Integrated (High vs. Low)	1%	1%	-2%	-1%	0%
Short Interest (Low vs. High)	-4%	-1%	-1%	-2%	0%
Momentum (Leaders vs. Laggards)	-21%	3%	4%	-2%	-3%
Financial Returns (High vs. Low)	-14%	1%	0%	-2%	-1%
Size (Large vs. Small)	-21%	2%	1%	-3%	-1%
Volatility (Low vs. High)	-18%	1%	1%	-4%	-1%

Source GoEim an Sachs

# HGK Equity Review

## Second Quarter 2017

As a result of these new anomalies, HGK feels opportunities for a long-term fundamental investing approach with a strong valuation underpinning are increasing. We continue to believe that over the long run, well managed businesses that compound cash flows and trade at a reasonable valuation will be the highest returning investments. HGK continues to ensure that our portfolio is best positioned to achieve long-term performance. We embrace short-term anomalies while taking advantage of increased dislocations to upgrade the quality and valuation within the portfolio. We continue to execute our disciplined investment process based on our philosophy. HGK believes that investing in companies with strong competitive moats, which generate significant cash flow from their existing asset bases and whose valuations imply strong upside with significant margin of safety are the best investments for our clients. These types of fundamentally strong, undervalued firms have an opportunity to provide robust returns through the market cycles and permit our clients to reap returns that are independent of the headlines news items of the moment.

Michael Pendergast, CFA  
CEO / CIO  
HGK Asset Management, Inc.

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# Ormond Beach Police Officers' Pension Trust Fund

## Current Holdings as of June 30, 2017

<u>QUANTITY (UNITS)</u>	<u>SECURITY DESCRIPTION</u>	<u>MARKET PRICE</u>	<u>MARKET VALUE</u>	<u>% INV TYPE</u>	<u>COST PRICE</u>	<u>COST VALUE</u>	<u>CPN/DIV YLD</u>	<u>ACCR DVD</u>
<i>- MATERIALS -</i>								
2,900	Nucor Corp.	57.87	167,823	2.32%	48.09	139,602	2.6%	1,094.75
2,400	RPM International Inc.	54.55	130,920	1.81%	53.35	128,157	2.2%	0.00
<i>TOTAL MATERIALS</i>			298,743	4.12%		267,759	2.4%	1,094.75
<i>- INDUSTRIALS -</i>								
935	Carlisle Cos.	95.40	89,199	1.23%	98.72	92,347	1.5%	0.00
2,800	Fluor Corp.	45.78	128,184	1.77%	58.66	164,383	1.8%	588.00
550	General Dynamics Corp.	198.10	108,955	1.50%	83.15	45,752	1.7%	0.00
1,175	Lear Corp.	142.08	166,944	2.30%	137.86	162,049	1.4%	0.00
970	Snap-On Inc.	158.00	153,260	2.11%	153.13	148,586	1.8%	0.00
<i>TOTAL INDUSTRIALS</i>			646,542	8.92%		613,116	1.6%	588.00
<i>- CONSUMER DISCRETIONARY -</i>								
3,600	Comcast Corp. (Cl A)	38.92	140,112	1.93%	30.59	110,204	1.6%	567.00
3,200	Kohl's Corp.	38.67	123,744	1.71%	48.80	156,309	5.7%	0.00
1,400	Newell Rubbermaid Inc.	53.62	75,068	1.04%	48.64	68,162	1.7%	0.00
2,750	VF Corp.	57.60	158,400	2.19%	41.56	114,348	2.9%	0.00
800	Whirlpool Corp.	191.62	153,296	2.11%	157.36	125,926	2.3%	0.00
<i>TOTAL CONSUMER DISCRETIONARY</i>			650,620	8.98%		574,948	2.9%	567.00
<i>- CONSUMER STAPLES -</i>								
3,950	Archer Daniels Midland Co.	41.38	163,451	2.25%	31.79	125,747	3.1%	0.00
1,000	Colgate-Palmolive Co.	74.13	74,130	1.02%	64.40	64,453	2.2%	0.00
2,200	CVS Caremark Corp.	80.46	177,012	2.44%	61.80	136,053	2.5%	0.00
<i>TOTAL CONSUMER STAPLES</i>			414,593	5.72%		326,253	2.7%	0.00

# Ormond Beach Police Officers' Pension Trust Fund

## Current Holdings as of June 30, 2017

<u>QUANTITY (UNITS)</u>	<u>SECURITY DESCRIPTION</u>	<u>MARKET PRICE</u>	<u>MARKET VALUE</u>	<u>% INV TYPE</u>	<u>COST PRICE</u>	<u>COST VALUE</u>	<u>CPN/DIV YLD</u>	<u>ACCR DVD</u>
<i>- HEALTH CARE -</i>								
3,400	Bristol-Myers Squibb Co.	55.72	189,448	2.61%	58.28	198,317	2.8%	0.00
2,000	HCA Healthcare, INC	87.20	174,400	2.41%	78.27	156,640	0.7%	0.00
1,400	Johnson & Johnson	132.29	185,206	2.55%	76.96	107,783	2.5%	0.00
1,025	McKesson Corp.	164.54	168,654	2.33%	162.94	167,065	0.7%	315.00
2,900	Pfizer Inc.	33.59	97,411	1.34%	31.06	90,199	3.8%	0.00
1,000	UnitedHealth Group Inc.	185.42	185,420	2.56%	63.37	63,397	1.6%	0.00
<b>TOTAL HEALTH CARE</b>			<b>1,000,539</b>	<b>13.80%</b>		<b>783,401</b>	<b>1.9%</b>	<b>315.00</b>
<i>- ENERGY -</i>								
3,700	ConocoPhillips	43.96	162,652	2.24%	48.73	180,428	2.4%	0.00
2,250	Chevron Corp.	104.33	234,743	3.24%	87.07	195,972	4.1%	0.00
3,950	Devon Energy Corp.	31.97	126,282	1.74%	54.58	215,759	0.8%	0.00
6,200	ENSCO International Inc.	5.16	31,992	0.44%	45.87	284,623	0.8%	0.00
8,800	Marathon Oil Corp.	11.85	104,280	1.44%	20.33	179,257	1.7%	0.00
4,600	Murphy Oil Corp.	25.63	117,898	1.63%	46.12	212,364	3.9%	0.00
1,800	Occidental Petroleum Corp.	59.87	107,766	1.49%	63.18	113,795	5.1%	1,368.00
<b>TOTAL ENERGY</b>			<b>885,612</b>	<b>12.22%</b>		<b>1,382,198</b>	<b>3.0%</b>	<b>1,368.00</b>
<i>- FINANCIAL -</i>								
2,800	American Int'l Group Inc	62.52	175,056	2.41%	41.95	117,573	2.0%	0.00
1,650	Allstate Corp.	88.44	145,926	2.01%	71.20	117,563	1.7%	666.00
6,600	Bank of America Corp.	24.26	160,116	2.21%	13.87	91,857	1.2%	0.00
2,400	Franklin Resources Inc.	44.79	107,496	1.48%	52.37	125,793	1.8%	480.00
875	BERKSHIRE HATHAWAY B	169.37	148,199	2.04%	145.89	127,696	0.0%	0.00
3,100	Citigroup Inc.	66.88	207,328	2.86%	51.83	160,804	1.9%	0.00
1,700	Capital One Financial Corp.	82.62	140,454	1.94%	54.26	92,314	1.9%	0.00
650	Goldman Sachs Group Inc.	221.90	144,235	1.99%	154.12	100,201	1.4%	0.00
3,300	Hartford Financial Services	52.57	173,481	2.39%	22.91	75,735	1.8%	782.00
3,600	MetLife Inc.	54.94	197,784	2.73%	33.28	119,887	2.9%	0.00

# Ormond Beach Police Officers' Pension Trust Fund

## Current Holdings as of June 30, 2017

<u>QUANTITY (UNITS)</u>	<u>SECURITY DESCRIPTION</u>	<u>MARKET PRICE</u>	<u>MARKET VALUE</u>	<u>% INV TYPE</u>	<u>COST PRICE</u>	<u>COST VALUE</u>	<u>CPN/DIV YLD</u>	<u>ACCR DVD</u>
<i>TOTAL FINANCIAL</i>								
2,400	- cont. State Street Corp.	89.73	215,352	2.97%	48.36	116,178	1.9%	912.00
<i>TOTAL FINANCIAL</i>			1,815,427	25.04%		1,245,602	1.7%	2,840.00
<i>- INFORMATION TECHNOLOGY -</i>								
1,050	Apple Inc.	144.02	151,221	2.09%	107.38	112,800	1.7%	0.00
3,400	Applied Materials Inc.	41.31	140,454	1.94%	17.88	60,913	1.0%	0.00
5,700	Cisco Systems Inc.	31.30	178,410	2.46%	22.99	131,298	3.7%	0.00
825	International Business Machine	153.83	126,910	1.75%	152.48	125,836	3.9%	0.00
4,700	Intel Corp.	33.74	158,578	2.19%	27.79	130,829	3.2%	0.00
1,200	MasterCard Inc. (Cl A)	121.45	145,740	2.01%	107.83	129,461	0.7%	0.00
<i>TOTAL INFORMATION TECHNOLOGY</i>			901,313	12.43%		691,137	2.4%	0.00
<i>- UTILITIES -</i>								
1,900	Consolidated Edison Inc.	80.82	153,558	2.12%	78.88	149,969	3.4%	0.00
2,200	Entergy Corp.	76.77	168,894	2.33%	67.70	148,998	4.5%	0.00
3,400	Public Service Enterprise Gro	43.01	146,234	2.02%	32.07	109,179	4.0%	0.00
<i>TOTAL UTILITIES</i>			468,686	6.47%		408,147	4.0%	0.00
<i>- TELECOMMUNICATION SERVICE</i>								
7,000	CenturyLink Inc.	23.88	167,160	2.31%	30.04	210,599	9.0%	0.00
<i>TOTAL TELECOMMUNICATIONS</i>			167,160	2.31%		210,599	9.0%	0.00
<i>TOTAL EQUITIES</i>			7,249,234	100.00%		6,503,160	2.5%	6,772.75

# Ormond Beach Police Officers' Pension Trust Fund

## Current Holdings as of June 30, 2017

SECTOR	MARKET VALUE	% INV TYPE	% INV. TYPE	COST VALUE	CPN/DIV YLD
***** CASH *****					
CASH	143,414.	1.9%	100.0%	143,414	0.0%
TOTAL CASH	143,414.	1.9%	100.0%	143,414	0.0%
***** EQUITIES *****					
MATERIALS	298,743.	4.0%	4.1%	267,759	2.4%
INDUSTRIALS	646,542.	8.7%	8.9%	613,116	1.6%
CONSUMER DISCRETI	650,620.	8.8%	9.0%	574,948	2.9%
CONSUMER STAPLES	414,593.	5.6%	5.7%	326,253	2.7%
HEALTH CARE	1,000,539.	13.5%	13.8%	783,401	1.9%
ENERGY	885,612.	12.0%	12.2%	1,382,198	3.0%
FINANCIAL	1,815,427.	24.6%	25.0%	1,245,602	1.7%
INFORMATION TECH	901,313.	12.2%	12.4%	691,137	2.4%
UTILITIES	468,686.	6.3%	6.5%	408,147	4.0%
TELECOMMUNICATIO	167,160.	2.3%	2.3%	210,599	9.0%
TOTAL EQUITIES	7,249,234.	98.1%	100.0%	6,503,160	2.5%
TOTAL	7,392,648.	100.0%		6,646,574	2.4%