

FLORIDA BOARD OF GOVERNORS FOUNDATION

PERFORMANCE REVIEW JUNE 30, 2018



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IMPORTANT DISCLOSURES

This report has been compiled from sources believed to be reliable but are not guaranteed to be accurate or complete.

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A LACKLUSTER AND VOLATILE YEAR

U.S. stocks made up their lost ground in the second quarter, but international developed and emerging market stocks continued to slide. Despite a solid U.S. (and global) economy, investor concerns about rising interest rates and escalating trade tensions stirred up market volatility.

- U.S. stocks outpaced international stocks in the second quarter, crawling into positive territory for the year. Strong earnings and economic activity have so far offset concerns about trade tensions.
- International developed stocks logged a small loss in the second quarter, held back by signs of slowing European economic growth and the return of political turmoil.
- Emerging market stocks continue to face headwinds from a stronger U.S. dollar. They are this year's laggards.
- Bonds held their own in the second quarter as interest rates backed off multiyear highs. They have notched a small loss for the year so far.
- Stabilizing interest rates boosted public real estate in Q2, placing the asset class in positive territory for 2018.
- Strategic opportunities have posted a slight gain for the year.



Asset class returns are represented by the following indexes: Russell 3000 Index (U.S. stocks), MSCI All-Country World ex USA Index (international stocks), Bloomberg Barclays U.S. Aggregate Bond Index (U.S. bonds), Dow Jones U.S. Real Estate Index (real estate), and HFRX Absolute Return Index (strategic opportunities).



Real Estate

DIGGING DEEPER - STOCKS AND BONDS

Equities

	QTD 2018	YTD 2018	Last 12 Months
U.S. Stocks	3.4%	2.7%	14.3%
- Best Sector: Energy	13.5%	6.8%	21.0%
- Worst Sector: Industrials	-3.2%	-4.7%	7.1%
International Stocks	-1.0%	-2.4%	5.9%
Emerging Market Stocks	-7.9%	-6.5%	5.4%

Fixed Income

	6.30.18	3.31.18	6.30.17
1-Year U.S. Treasury Yield	2.33%	2.09%	1.24%
10-Year U.S. Treasury Yield	2.85%	2.74%	2.31%
	QTD 2018	YTD 2018	Last 12 Months
10-Year U.S. Treasury Total Return	-0.23%	-2.36%	-1.73%

Equities - Relative Performance by Market Capitalization and Style

	Q2	2018			YTD	YTD 2018			2017			
	Value	Blend	Growth		Value	Blend	Growth		Value	Blend	Growth	
Large	1.2%	3.4%	5.8%	Large	-1.7%	2.6%	7.3%	Large	13.7%	21.8%	30.2%	
Mid	2.4%	2.8%	3.2%	Mid	-0.2%	2.3%	5.4%	Mid	13.3%	18.5%	25.3%	
Small	8.3%	7.8%	7.2%	Small	5.4%	7.7%	9.7%	Small	7.8%	14.6%	22.2%	

Asset class returns are represented by the following indexes: S&P 500 Index (U.S. stocks), MSCI EAFE Index (international stocks), and MSCI Emerging Markets Index (emerging market stocks). Relative performance by market capitalization and style is based upon the Russell Pure Style Indexes except for large-cap blend, which is based upon the S&P 500 Index. Source: Bloomberg and JP Morgan.



DIGGING DEEPER: U.S. EQUITY MARKETS

The S&P 500 Index is a market-capitalization-weighted index of U.S. large-cap stocks across 11 diverse industry sectors. The chart below shows second quarter and year-to-date returns for the sectors that make up the S&P 500 Index, along with the index's sector weightings.



Returns by S&P 500 Sector

Source: Standard & Poor's, J.P. Morgan Asset Management, Cornerstone Macro. Data as of 6.30.2018. All calculations are cumulative total return, not annualized, including dividends for the stated period. Past performance is not indicative of future returns.



DIGGING DEEPER: FIXED INCOME MARKET

Interest Rates	3 Month	2 Year	5 Year	10 Year	30 Year	Mortgage Rate
March 2018	1.70%	2.27%	2.56%	2.74%	2.97%	4.27%
June 2018	1.92%	2.53%	2.74%	2.86%	2.99%	4.40%
Change	0.22%	0.26%	0.18%	0.12%	0.02%	0.13%

Interest rates rose across the board, particularly for maturities under 10 years, as the yield curve continued to flatten. Mortgage rates continue to be cheap relative to long-term historical averages, although they have steadily risen from recent lows.

Bloomberg Barclays U.S. Aggregate Bond Index	Yield to Worst	Duration	Total Return	Spread	Treasury Rate	AA Spread	BBB Spread
March 2018	3.12%	6.08		0.41%	2.71%	0.57%	1.38%
June 2018	3.29%	6.01		0.44%	2.85%	0.62%	1.57%
Change	0.17%	-0.07	-0.16%	0.03%	0.14%	0.05%	0.19%

The Bloomberg Barclays U.S. Aggregate Bond Index fell 0.56% over the past quarter, driven primarily by rising interest rates. Widening spreads among BBB-rated issues were a modest contributor to the decline in Q2.

Bloomberg Barclays U.S. Long Credit Index	Yield to Worst	Duration	Total Return	Spread	Treasury Rate	AA Spread	BBB Spread
March 2018	4.40%	13.82		1.48%	2.92%	0.95%	1.85%
June 2018	4.69%	13.41		1.74%	2.95%	1.08%	2.17%
Change	0.29%	-0.41	-2.65%	0.26%	0.03%	0.13%	0.32%

At the long end of the yield curve, spread widening was a bigger driver of performance than rates, particularly for lower-quality bonds.

Source: Bloomberg, CAPTRUST



ECONOMIC OUTLOOK

The global economic picture typically consists of favorable attributes (tailwinds) and challenges (headwinds). Here, we provide our perspective on both and offer our view on which side has the upper hand.

TAILWINDS

Jobs Jump–Job Seekers Sought– by Employers

• More job openings than job seekers means full employment and strong consumer spending.

Tax Cut Catalyzes CAPEX and Buybacks, Boosts Confidence

- Stock buybacks and CAPEX have both increased this year due to repatriated cash and higher after-tax corporate profits.
- CAPEX grew 9% in the first quarter compared to last year.
- The NAM's Outlook Survey shows highs for business outlook, expected sales growth, production, employment, capital investments, and employee wage increases.

Stimulus Outweighing Tariff Troubles for Now

• The combination of the stimulus from lower individual and corporate taxes, higher government spending, and repatriation should be enough to outweigh proposed tariffs.

Diversified Portfolios Prove Beneficial

- U.S.-centric small-cap and mid-cap stocks have been a haven in the rough seas of tariff talks.
- PEs have fallen as earnings have grown, even while stock prices have been flat.

HEADWINDS

The U.S. Breaks Away from the Global Pack

- Global synchronized growth is fading. The tax deal has boosted U.S. growth, while Europe, Japan, and China are slowing.
- While geopolitical tensions are ebbing on the Korean peninsula, Italy's new government has increased investors' focus on European issues.

Tariff Negotiation Won't End Soon

- Tit-for-tat Trump tariff talks could lead to a decline in business confidence and corporate reinvestment. Also, concerns about midterm elections could produce more market volatility.
- A stronger dollar, in conjunction with higher U.S. interest rates, has negatively impacted emerging market stocks, even while aiding U.S. small-cap and mid-cap stocks.

Wages Higher–Gas Prices Higher, Too

- Although increasing, wage growth is still modest. If wage growth accelerates, inflation could increase, resulting in reduced consumer spending.
- Gas prices have declined 3% from their peak, but are 20% higher than a year ago, offsetting most of lower-paid workers' tax cuts.

Overall, the global economic backdrop continues to strengthen. Given current valuations, international stocks are more attractively priced than U.S. stocks.



LOW UNEMPLOYMENT BUT STAGNANT WAGE GROWTH?

Despite robust gross domestic product (GDP) growth and historically low unemployment, the growth in wages is slow and runs the risk of a real decline if inflation grows at a faster pace. Given that far more workers rely on wages than investment income and consumer spending's significance to the economy (70% of GDP), this will be a point to watch.



Average Hourly and Labor Force Participation

Source: Bureau of Labor Statistics, CAPTRUST

OBSERVATIONS

- Why the tepid growth in wages? One contributing factor may be the labor participation rate, which remains low relative to pre-2008 levels—and far below its peak at 67% in the late 1990s.
- This data series excludes people who are not searching for work.
- If strengthening labor market conditions lure non-participating workers back into the workforce, it could serve as a "shadow supply" of labor that could offset the inflationary pressures of low unemployment.



CAPEX: STRENGTHENING BUSINESS INVESTMENT

Capital expenditures—or CAPEX—are investments by businesses in new property, plants, and equipment, and are, therefore, an important component of current GDP growth. Strengthening domestic business conditions combined with a windfall from corporate tax relief—measured in the hundreds of billions of dollars—and repatriations of overseas cash, have accelerated business reinvestment. S&P 1500 companies reported sharp acceleration in Q1, with capital expenditures up more than 20% year over year, the fastest pace since 2011.



Percent of Firms Planning Increased Capital Expenditures





WEIGHING THE IMPACT OF TARIFFS

With the steady drumbeat of trade tensions and the first set of China tariffs effective on July 6—a 25% duty on \$34 billion of products—there is growing concern that escalation of trade disputes poses a risk to the economy (e.g., manufacturing activity and jobs). A number of U.S. companies with large exposures to China have seen stock price declines, particularly in the semiconductor sector. However, the direct impact of tariffs announced so far pales in comparison to the stimulative impact of tax cuts, fiscal spending, and repatriations—which amount to an \$800 billion shot in the arm.

Estimated Size of Tariffs, Fiscal Policy, and Repatriations in \$Billions (2018)



Source: Strategas



According to the National Association of Manufacturers' Second Quarter Outlook Survey, businesses continue to experience highly elevated levels of activity as a result of pro-growth policies like tax reform, with optimism once again breaking records. More than 95% of respondents were either somewhat or very positive about their companies' outlook, the highest level since the 20-year-old survey was introduced.



Manufacturing Business Outlook by Quarter

Source: National Association of Manufacturers

OBSERVATIONS

- The business environment is no longer the concern that it once was, with just 19.1% of respondents citing the tax and regulatory climate as a top concern.
- Two years ago, 75% of respondents cited the tax and regulatory climate as their top worry.
- Today, the major concern is the inability to attract and retain a quality workforce.
- Manufacturers are projecting historic growth in production, hiring, wages, and capital investment.





S&P 500 Index: Forward P/E Ratio

Source: Bloomberg, J.P. Morgan Asset Management

Valuation Measure	Description	Latest	25-year Average*	Std Dev Over-/Under- Valued
P/E	Forward P/E	16.1x	16.1x	0.0
CAPE	Shiller's P/E	32.1	26.6	0.9
Div. Yield	Dividend Yield	2.1%	2.0%	-0.2
P/B	Price to Book	3.0	2.9	0.1
P/CF	Price to Cash Flow	12.0	10.7	0.7
EY Spread	EY Minus Baa Yield	1.4%	-0.2%	-0.8

* Price to Cash Flow calculation is 20 years due to lack of cash flow data.





S&P 500 and MSCI ACWI Excluding U.S. Index Price Return (January 1996 = 100)

Source: Bloomberg, J.P. Morgan Asset Management

	P/E	20-Yr Avg	Dv Yield	20-Yr Avg
S&P 500	16.1x	15.9x	2.1%	2.0%
ACWI ex-U.S.	13.0x	14.4x	3.3%	3.0%







Source: CAPTRUST research, Bloomberg







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Russell 2000 Value vs. Russell 2000 Growth

S&P 500 vs. FTSE NAREIT - - Mean -1 Standard Deviation - +1 Standard Deviation - - -2 Standard Deviations - - +2 Standard Deviation Source: CAPTRUST research, Bloomberg







Large Value vs. Large Growth – – – Mean 🛶 - 1 Standard Deviation – – – +1 Standard Deviation – – – -2 Standard Deviations – – +2 Standard Deviations

Source: CAPTRUST research, Bloomberg



ASSET CLASS RETURNS

Period Ending 6.30.18 | Q2 18

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD 2018
Inter- national Equities 17.11%	Real Estate 35.92%	Inter- national Equities 17.12%	Fixed Income 5.24%	Inter- national Equities 42.14%	Real Estate 28.48%	Real Estate 8.69%	Real Estate 17.77%	Small-Cap Stocks 38.82%	Real Estate 30.38%	Strategic Oppor- tunities 2.86%	Small-Cap Stocks 21.31%	Inter- national Equities 27.77%	Small-Cap Stocks 7.66%
Mid-Cap Stocks 12.65%	Inter- national Equities 27.16%	Fixed Income 6.97%	Cash 1.51%	Mid-Cap Stocks 40.48%	Small-Cap Stocks 26.85%	Fixed Income 7.84%	Inter- national Equities 17.39%	Mid-Cap Stocks 34.76%	Large-Cap Stocks 13.24%	Real Estate 2.14%	Mid-Cap Stocks 13.80%	Large-Cap Stocks 21.69%	Large- Cap Stocks 2.85%
Real Estate 12.13%	Small-Cap Stocks 18.37%	Strategic Oppor- tunities 6.68%	Strategic Oppor- tunities -13.09%	Real Estate 28.61%	Mid-Cap Stocks 25.48%	Large-Cap Stocks 1.50%	Mid-Cap Stocks 17.28%	Large-Cap Stocks 33.11%	Mid-Cap Stocks 13.22%	Large-Cap Stocks 0.92%	Large-Cap Stocks 12.05%	Mid-Cap Stocks 18.52%	Mid-Cap Stocks 2.35%
Large-Cap Stocks 6.27%	Large-Cap Stocks 15.46%	Large-Cap Stocks 5.77%	Small-Cap Stocks -33.79%	Large-Cap Stocks 28.43%	Large-Cap Stocks 16.10%	Cash 0.10%	Large-Cap Stocks 16.42%	Inter- national Equities 15.78%	Fixed Income 5.97%	Fixed Income 0.55%	Real Estate 7.56%	Small-Cap Stocks 14.65%	Real Estate 1.41%
Small-Cap Stocks 4.55%	Mid-Cap Stocks 15.26%	Mid-Cap Stocks 5.60%	Large-Cap Stocks -37.60%	Small-Cap Stocks 27.17%	Inter- national Equities 11.60%	Mid-Cap Stocks -1.55%	Small-Cap Stocks 16.35%	Strategic Oppor- tunities 3.58%	Small-Cap Stocks 4.89%	Cash 0.05%	Inter- national Equities 5.01%	Real Estate 9.84%	Strategic Opportun ities 1.04%
Cash 3.35%	Strategic Oppor- tunities 7.43%	Cash 4.71%	Real Estate -37.97%	Fixed Income 5.93%	Fixed Income 6.54%	Strategic Opport- unities -3.71%	Fixed Income 4.22%	Real Estate 2.47%	Strategic Oppor- tunities 0.79%	Mid-Cap Stocks -2.44%	Fixed Income 2.65%	Fixed Income 3.54%	Cash 0.81%
Fixed Income 2.43%	Cash 5.08%	Small-Cap Stocks -1.57%	Mid-Cap Stocks -41.46%	Cash O.21%	Cash 0.13%	Small-Cap Stocks -4.18%	Strategic Oppor- tunities 0.88%	Cash 0.07%	Cash O.O3%	Small-Cap Stocks -4.41%	Cash 0.33%	Strategic Oppor- tunities 3.40%	Fixed Income -1.62%
Strategic Oppor- tunities -0.02%	Fixed Income 4.33%	Real Estate -16.82%	Inter- national Equities -45.25%	Strategic Oppor- tunities -3.58%	Strategic Oppor- tunities -0.12%	Inter- national Equities -13.33%	Cash O.11%	Fixed Income -2.02%	Inter- national Equities -3.44%	Intern- ational Equities -5.25%	Strategic Oppor- tunities 0.31%	Cash 0.86%	Internatio nal Equities -3.44%



Large-Cap Stocks (Russell 1000 Index)

The Russell 1000 Index tracks the performance of 1,000 of the largest public companies in the U.S. It includes more than 90% of the total market capitalization of all listed U.S. stocks.



Mid-Cap Stocks (Russell Mid-Cap Index)

The Russell Mid-Cap Index is a market-capitalization-weighted index representing the smallest 800 companies in the Russell 1000 Index.

Small-Cap Stocks (Russell 2000 Index)

The Russell 2000 Index tracks the performance of approximately 2,000 small-cap companies contained in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks.



International Equities (MSCI ACWI Ex-US Index)

The MSCI ACWI Ex-US Index tracks large- and mid-cap stocks from 22 of 23 developed market countries (excluding the U.S.) and 24 emerging markets countries. This index covers approximately 85% of the global equity opportunity set outside the United States.

Fixed Income (Bloomberg Barclays U.S. Aggregate Bond Index) The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index that tracks the majority of U.S.traded investment grade bonds. The index includes Treasurys, agency bonds, mortgage-backed bonds, corporate bonds, and a small amount of foreign bonds traded in United States.



Real Estate (Dow Jones US Real Estate Index)

The Dow Jones US Real Estate Index tracks the performance of publicly traded real estate equity. It is comprised of companies whose charter is the equity ownership and operation of commercial real estate.



Strategic Opportunities (HFRX Absolute Return Index) The HFRX Absolute Return Index measures the overall returns of

hedge funds. Since hedge funds explore unique investment strategies and seek to generate absolute returns rather than focus on beating a benchmark, the HFRX is representative of all hedge fund strategies.



Cash (BofA Merrill Lynch 3-Month Treasury Bill Index)

The BofA Merrill Lynch 3-Month Treasury Bill Index tracks the performance of the U.S. dollar denominated U.S. Treasury Bills publicly issued in the U.S. domestic market with a remaining term to maturity of less than 3 months.

The information contained in this report is from sources believed to be reliable, but not warranted by CAPTRUST Financial Advisors to be accurate or complete.



INDEX PERFORMANCE

Period Ending 6.30.18 | Q2 18

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	INDEXES	Q2 2018	YTD 2018	2017	2016	2015	2014	2013	1 YEAR	3 YEAR	5 YEAR	10 YEAR
	90-Day US Treasury	0.45%	0.81%	0.86%	0.33%	0.05%	0.03%	0.07%	1.36%	0.68%	0.42%	0.35%
	Bloomberg Barclays Government 1-3	0.21%	0.06%	0.45%	0.87%	0.57%	0.64%	0.37%	0.03%	0.42%	0.59%	1.32%
	Bloomberg Barclays Intermediate Govt	0.06%	-0.67%	1.14%	1.05%	1.18%	2.52%	-1.25%	-0.73%	0.63%	1.04%	2.41%
	Bloomberg Barclays Muni Bond	0.87%	-0.25%	5.45%	0.25%	3.30%	9.05%	-2.55%	1.56%	2.85%	3.53%	4.43%
	Bloomberg Barclays Intermediate Govt/Credit	0.01%	-0.97%	2.14%	2.08%	1.07%	3.13%	-0.86%	-0.58%	1.16%	1.60%	3.08%
	Bloomberg Barclays Intermediate Credit	-0.08%	-1.45%	3.67%	3.68%	0.90%	4.16%	-0.17%	-0.36%	1.96%	2.51%	4.37%
	Bloomberg Barclays Aggregate Bond	-0.16%	-1.62%	3.54%	2.65%	0.55%	5.97%	-2.02%	-0.40%	1.72%	2.27%	3.72%
	Bloomberg Barclays Corporate IG Bond	-0.98%	-3.27%	6.42%	6.11%	-0.68%	7.46%	-1.53%	-0.83%	3.07%	3.51%	5.39%
	Bloomberg Barclays High Yield	1.03%	0.16%	7.50%	17.13%	-4.47%	2.45%	7.44%	2.62%	5.53%	5.51%	8.19%
	Bloomberg Barclays US Long Corporate	-2.83%	-6.77%	12.09%	10.97%	-4.61%	15.73%	-5.68%	-1.75%	5.10%	5.47%	7.40%
	S&P 500	3.43%	2.65%	21.83%	11.96%	1.38%	13.69%	32.39%	14.37%	11.93%	13.42%	10.17%
	Dow Jones Industrial Average	1.26%	-0.73%	28.11%	16.50%	0.21%	10.04%	29.65%	16.31%	14.07%	12.96%	10.78%
	NASDAQ Composite	6.31%	8.79%	28.24%	7.50%	5.73%	13.40%	38.32%	22.31%	14.62%	17.15%	12.60%
	Russell 1000 Value	1.18%	-1.69%	13.66%	17.34%	-3.83%	13.45%	32.53%	6.77%	8.26%	10.34%	8.49%
	Russell 1000	3.57%	2.85%	21.69%	12.05%	0.92%	13.24%	33.11%	14.54%	11.64%	13.37%	10.20%
	Russell 1000 Growth	5.76%	7.25%	30.21%	7.08%	5.67%	13.05%	33.48%	22.51%	14.98%	16.36%	11.83%
	Russell Mid-Cap Value Index	2.41%	-0.16%	13.34%	20.00%	-4.78%	14.75%	33.46%	7.60%	8.80%	11.27%	10.06%
	Russell Mid-Cap Index	2.82%	2.35%	18.52%	13.80%	-2.44%	13.22%	34.76%	12.33%	9.58%	12.22%	10.23%
	Russell Mid-Cap Growth Index	3.16%	5.40%	25.27%	7.33%	-0.20%	11.90%	35.74%	18.52%	10.73%	13.37%	10.45%
	MSCI EAFE	-0.97%	-2.37%	25.62%	1.51%	-0.39%	-4.48%	23.29%	7.37%	5.41%	6.93%	3.33%
	MSCI ACWI ex US	-2.39%	-3.44%	27.77%	5.01%	-5.25%	-3.44%	15.78%	7.79%	5.56%	6.48%	3.01%
	Russell 2000 Value	8.30%	5.44%	7.84%	31.74%	-7.47%	4.22%	34.52%	13.10%	11.22%	11.18%	9.88%
	Russell 2000	7.75%	7.66%	14.65%	21.31%	-4.41%	4.89%	38.82%	17.57%	10.96%	12.46%	10.60%
	Russell 2000 Growth	7.23%	9.70%	22.17%	11.32%	-1.38%	5.60%	43.30%	21.86%	10.60%	13.65%	11.24%
	MSCI Emerging Markets	-7.86%	-6.51%	37.75%	11.60%	-14.60%	-1.82%	-2.27%	8.59%	5.98%	5.39%	2.60%
	Dow Jones US Real Estate Index	7.78%	1.41%	9.84%	7.56%	2.14%	27.24%	1.77%	5.19%	8.88%	8.61%	7.74%
	HFRX Absolute Return Index	0.74%	1.04%	3.40%	0.31%	2.86%	0.79%	3.58%	3.04%	1.85%	2.04%	-0.77%
	Consumer Price Index (Inflation)	1.04%	1.99%	2.11%	2.07%	0.73%	0.76%	1.50%	2.71%	1.78%	1.55%	1.41%
	BLENDED BENCHMARKS	Q2 2018	YTD 2018	2017	2016	2015	2014	2013	1 YEAR	3 YEAR	5 YEAR	10 YEAR
-	25% S&P 500/5% MSCI EAFE/70% Barclays Agg	0.70%	-0.53%	8.93%	5.00%	0.92%	7.37%	7.01%	3.60%	4.51%	5.32%	5.55%
	30% S&P 500/10% MSCI EAFE/60% Barclays Agg	0.84%	-0.34%	10.90%	5.43%	0.95%	7.21%	9.92%	4.73%	5.22%	6.13%	5.91%
	35% S&P 500/15% MSCI EAFE/50% Barclays Agg	0.98%	-0.16%	12.90%	5.85%	0.97%	7.04%	12.89%	5.86%	5.93%	6.93%	6.23%
	40% S&P 500/20% MSCI EAFE/40% Barclays Agg	1.12%	0.01%	14.93%	6.26%	0.96%	6.87%	15.93%	7.00%	6.63%	7.73%	6.54%
	45% S&P 500/25% MSCI EAFE/30% Barclays Agg	1.26%	0.18%	16.99%	6.65%	0.93%	6.69%	19.04%	8.13%	7.32%	8.52%	6.81%
	60% S&P 500/40% Barclays Agg	2.04%	1.10%	14.21%	8.31%	1.28%	10.62%	17.56%	8.45%	7.99%	9.07%	8.14%

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WHICH HAT ARE YOU WEARING?

Most plan sponsor committee members are aware of their fiduciary responsibilities for plan investments and participants. However, many may not be as familiar with their parallel role as "settlor" (plan sponsor). It's important to clearly identify what decisions need to be made as a fiduciary and what are settlor choices. Independence should be maintained between the two roles.

FIDUCIARY	SETTLOR
Responsibilities to prudently invest assets and ensure benefit administration must be done in participants' sole interest.	The decision to offer a retirement plan and evaluate organizational costs and risks are plan sponsor tasks.
 Select and monitor plan investments and fees (duty of care, exclusive purpose, and diversification) Manage the plan in participants' and beneficiaries' best interest (duty of loyalty) Discharge duties consistent with documents governing the plan Maintain documentation of prudent process During plan termination: Identify a process to evaluate annuity providers, potentially utilizing an independent expert Conduct due diligence using key criteria of DOL IB 95-1 guidance such as creditworthiness Select insurance company and annuity structure Communication with participants 	 Make decision to offer a retirement plan Determine plan contribution policy Retain actuarial and other professional advice for settlor decisions paid from corporate assets Decide to maintain the plan, settle part of the liability, or terminate the plan: Offer lump sums Annuity buyout Plan termination During plan termination: Hire a consultant to develop settlement strategy Communicate with other stakeholders about plan termination

Plan sponsors may be familiar with the fiduciary and settlor roles as it relates to an ongoing plan. However, pension risk transfer activities—such as plan termination—can introduce complex new responsibilities that are more difficult to define. Plan sponsors should engage legal counsel early in the plan termination or pension risk transfer process to remove potential conflicts and create clarity of roles.



FIRST TAKE: LINKS BETWEEN ASSET ALLOCATION, RETURN, AND RISK

Nonprofit investors use a wide variety of investment objectives to support their organizations' missions. Our recent survey of endowments and foundations provides interesting perspective on how return goals influence asset allocation.

	Less than 5%	5% - 6%	6% - 7%	7% - 8%	More than 8%
# of Responses	7	19	16	18	5
	Cash	Fixed Income	Domestic Equity	International Equity	0 Other
		Me	ean Asset Allocatio	on	
Cash	3.4%	3.5%	4.6%	1.7%	6.2%
Fixed Income	37.4%	24.0%	23.9%	22.1%	31.6%
Domestic Equity	38.7%	45.4%	39.5%	44.4%	32.4%
International Equity	14.7%	17.1%	19.1%	21.3%	18.4%
Other	5.7%	9.9%	12.8%	10.5%	11.4%

What is your expected return on assets?

As an organization's return expectation increases, so does its allocation to equities and other nonfixed income assets. Nonprofits with return targets below 5%, on average, allocate 41% of assets to fixed income. Peers with a 7% to 8% return objective invest only 24% in cash and bonds. One anomaly is that groups with the highest return expectations allocate to fixed income and cash at a rate similar to the most conservative organizations.



FIRST TAKE: LINKS BETWEEN ASSET ALLOCATION, RETURN, AND RISK

The good news is that many nonprofit organizations have likely met their investment goals. The chart below highlights how each group's asset allocation strategy would have performed over historical periods ending 12.31.2017. Our findings indicate that many organizations with moderate expectations achieved their stated objectives, while higher expectations were more difficult to meet.

		-	-		
	Less than 5%	5% - 6%	6% - 7%	7% - 8%	More than 8%
1 Year	13.5%	15.3%	14.7%	16.1%	13.1%
3 Years	6.7%	7.4%	7.0%	7.6%	6.2%
5 Years	8.3%	9.5%	8.8%	9.6%	7.7%
10 Years	5.6%	5.7%	5.3%	5.6%	5.0%
20 Years	6.2%	6.3%	6.1%	6.3%	6.0%

What is your expected return on assets?

Quarterly rebalancing assumed. Simulation indexes include ML 3-Month T-Bill Index (cash); BBrg U.S. Agg Bond Index (fixed income); S&P 500 Index (domestic equity); MSCI EAFE Index (international equity); HFRI FOF Conservative Index (other).

	How large of a portfolio decline are you willing to experience in a given year to achieve your return objective?								
# of Responses	14	20	17	18	8				
Less than 5%	57%	40%	53%	33%	50%				
5% - 10%	21%	30%	24%	28%	25%				
10% - 15%	14%	20%	18%	22%	O%				
More than 15%	7%	10%	6%	17%	25%				

While most organizations with modest return objectives matched their goals, we see a breakdown when trying to align those return objectives with the ability to tolerate risk. Nonprofits with the lowest return objectives maintained the least appetite for loss. However, peers with annual investment return expectations between 5% and 6% had the second highest willingness to lose more than 10%. On the other hand, organizations with return goals higher than 8% were more averse to losses above 10% than those with return goals of 5% to 6%.



FIRST TAKE: LINKS BETWEEN ASSET ALLOCATION, RETURN, AND RISK

Examination of survey data reveals a significant disconnect between risk appetite and asset allocation among respondents.

When we simulated the past 20 years of drawdown history, we found that the average allocations of respondents willing to experience losses of less than 5%, 5-10%, and 10-15% would have, in fact, realized declines greater than 20% twice during that period.

To limit historical losses to 15% or less, investors would have needed to allocate at least 3/4s of the assets in a globally diversified portfolio to fixed income. Even a 95% fixed income portfolio would have lost more than 5% in 2008.

	How large of a portfolio decline are you willing to experience In a given year to achieve your return objective?							
	Less than 5%	5% - 10%	10% - 15%	More than 15%				
# of Responses	23	11	10	7				
		Mean Asset Allo	ocation					
Cash	2.9%	4.1%	1.2%	3.3%				
Fixed Income	24.3%	28.7%	29.3%	18.3%				
Domestic Equity	41.3%	33.5%	49.3%	46.0%				
International Equity	18.7%	20.1%	12.9%	20.1%				
Other	12.8%	13.5%	7.3%	12.3%				

20-Year Historical Simulation of Peak-to-Trough Drawdowns



Monthly rebalancing assumed. Simulation Indexes include ML 3-Month T-Bill Index (cash); BBrg U.S. Agg Bond Index (fixed income); S&P 500 Index (domestic equity); MSCI EAFE Index (international equity); HFRI FOF Conservative Index (other).



Portfolio Allocation as of June 30, 2018

Actual Portfolio Allocation

Target Portfolio Allocation





Portfolio	Actual (\$)	Actual (%)	Target (\$)	Target (%)	Difference (\$)	Difference (%)
	2 079 695	27 200/	2 222 662	40.000/	(144.079)	2 (10)
Sawgrass - IFI	2,078,685	37.39%	2,223,663	40.00%	(144,978)	-2.61%
Vanguard 500 - LCE	1,745,521	31.40%	1,667,747	30.00%	77,774	1.40%
Great Lakes - SMID	930,719	16.74%	833,874	15.00%	96,846	1.74%
Vanguard Total - IE	804,232	14.47%	833,874	15.00%	(29,641)	-0.53%
Total Fund	\$5,559,157	100.00%	\$5,559,157	100.00%	\$0	0.00%

All dollar values are shown in actual dollars.

Executive Summary as of June 30, 2018

Account Reconciliation

	06/30/2018	2018	04/30/2015
	QTR	Fiscal YTD	Incept
Beginning Value	5,679,065	5,308,259	4,967,284
Net Flows	-209,234	-209,234	-409,214
Investment G/L	89,326	460,133	1,001,087
Ending Value	5,559,157	5,559,157	5,559,157

Investment Policy	
Index	Weight
BBgBarc Interm Gov't/Credit Index	40.00
S&P 500	30.00
MSCI AC Wrld X US Fr	15.00
Russell 2500	15.00

Trailing Returns Through June 30, 2018

											04/30/2015
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	Incept
	0.67	0.02	(7(6.07
Account	8.67	9.93	6.76								6.07
Policy	7.52	9.28	6.45								5.81
Diff	1.15	0.65	0.31								0.26

Fiscal Year Returns Ending June

	QTR	2018 YTD	2017	2016	2015	2014	2013	2012	2011	2010	2009
Account	1.57	8.67	11.20	0.70							
Policy	1.49	7.52	11.07	1.01							
Diff	0.09	1.15	0.13	-0.31							

Returns In Up Markets

	1 Yr	3 Yr	5 Yr	10 Yr	
Account	9.3	10.5			A
Policy	8.3	10.4			F
Ratio	111.1	101.2			F

Returns In Down Markets									
	1 Yr	3 Yr	5 Yr	10 Yr					
Account	-0.5	-5.2							
Policy	-0.8	-5.7							
Ratio	72.0	90.3							

Fiscal year ends in June.

Returns for periods exceeding one year are annualized. Returns are net time weighted return.

Please see Appendix for page explanations.

Risk Measures

1 Year	Fund	Policy	Diff
Negative Periods	2.00	3.00	-1.00
Positive Periods	10.00	9.00	1.00
Batting Average	75.00	25.00	50.00
Worst Qtr	-0.55	-0.76	0.21
Best Qtr	4.36	3.43	0.93
Range	4.91	4.19	0.72
Worst 4 Qtrs	8.67	7.52	1.15
Standard Deviation	5.00	4.48	0.52
Beta	0.00	0.00	0.00
Alpha	0.00	0.00	0.00
R-Squared	0.00	0.00	0.00
Sharpe Ratio	0.00	0.00	0.00
Treynor Ratio	0.00	0.00	0.00
Tracking Error	0.80	0.00	0.80
Information Ratio	1.38	0.00	1.38

3 Years	Fund	Policy	Diff
Negative Periods	8.00	9.00	-1.00
Positive Periods	28.00	27.00	1.00
Batting Average	58.33	41.67	16.67
Worst Qtr	-4.63	-4.98	0.35
Best Qtr	4.36	3.86	0.50
Range	8.99	8.84	0.15
Worst 4 Qtrs	0.70	1.01	-0.31
Standard Deviation	6.04	6.09	-0.05
Beta	0.00	0.00	0.00
Alpha	0.00	0.00	0.00
R-Squared	0.00	0.00	0.00
Sharpe Ratio	0.00	0.00	0.00
Treynor Ratio	0.00	0.00	0.00
Tracking Error	0.66	0.00	0.66
Information Ratio	0.44	0.00	0.44

5 Years	Fund	Policy	Diff
Negative Periods	n/a	n/a	n/a
Positive Periods	n/a	n/a	n/a
Batting Average	n/a	n/a	n/a
Worst Qtr	n/a	n/a	n/a
Best Qtr	n/a	n/a	n/a
Range	n/a	n/a	n/a
Worst 4 Qtrs	n/a	n/a	n/a
Standard Deviation	n/a	n/a	n/a
Beta	0.00	0.00	0.00
Alpha	0.00	0.00	0.00
R-Squared	0.00	0.00	0.00
Sharpe Ratio	0.00	0.00	0.00
Treynor Ratio	0.00	0.00	0.00
Tracking Error	0.00	0.00	0.00
Information Ratio	0.00	0.00	0.00

Since Inception	Fund	Policy	Diff
Negative Periods	9.00	10.00	-1.00
Positive Periods	29.00	28.00	1.00
Batting Average	53.85	46.15	7.69
Worst Qtr	-4.63	-4.98	0.35
Best Qtr	4.36	3.86	0.50
Range	8.99	8.84	0.15
Worst 4 Qtrs	0.70	1.01	-0.31
Standard Deviation	5.97	6.02	-0.05
Beta	0.00	0.00	0.00
Alpha	0.00	0.00	0.00
R-Squared	0.00	0.00	0.00
Sharpe Ratio	0.00	0.00	0.00
Treynor Ratio	0.00	0.00	0.00
Tracking Error	0.65	0.00	0.65
Information Ratio	0.37	0.00	0.37

Performance Summary Through June 30, 2018

10.00 9.00 9.00 7.00 6.00 5.00 9.00 7.00 6.00 9.00 9.00 9.00 9.00 9.00 9.00 9	YTD		Yr	3 Yr		5 Yr		cept
	Co	ombined Portf	olio Review	Blnd Idx				
	QTR	YTD	1 Yr	3 Yr	5 Yr	Incept	Inception Date	Current Assets
Net Time Weighted Return	1.57	8.67	8.67	6.76		6.07	04/30/2015	\$5,559,157
Blnd Idx	1.49	7.52	7.52	6.45		5.81		
Vanguard 500 Index - Large Cap Ec	quity 3 51	14 43	14 43	11 95	, ,	11.05	04/30/2015	\$1 745 521
S&P 500	3.31	14.37	14.43	11.03		11.03	04/30/2013	\$1,7 4 3,321
	16	21	14.57 21	11.95		11.03		
(100.00% S&P 500; established 04/2015)	10	21	21	2				
Great Lakes - Small/Mid Cap Equit	y							
Net Time Weighted Return	5.46	20.35	20.35	10.74		10.38	04/30/2015	\$930,719
Russell 2500	5.71	16.24	16.24	10.30		10.23		
%-tile (100.00% Russell 2500; established 04/2015)	65	1	1	25		36		
Vanguard Total International Stock	- Internati	ional Equit	ty					
Net Time Weighted Return	-3.12	7.16	7.16	5.35		3.85	04/30/2015	\$804,232
MSCI AC Wrld X US Fr	-2.61	7.28	7.28	5.07		3.35		
%-tile (100.00% MSCI AC Wrld X US Fr; established 04/2015)	66	38	38	31		43		
Sawgrass - Intermediate Fixed Incol	ne							
Net Time Weighted Return	0.04	0.00	0.00	1.58		1.23	04/30/2015	\$2,078,685
BBgB Int Gov't/Cred	0.01	-0.58	-0.58	1.16		0.91		
%-tile	13	23	23	56		44		
(100.00% BBgB Int Gov't/Cred; established 04/2015)								

Fiscal Year ends in June. Returns for periods exceeding one year are annualized.

Shaded areas represent where the investment objective was achieved either by:

1) The investment return versus the index; 2) The investment return universe ranking (The lower the number the better the ranking).



The inception date is April 30, 2015. All dollar values are shown in actual dollars.

Quarterly Comparison Analysis (\$)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	4,919,065	4,919,065	0
Sep 30 2015	4,691,298	4,673,899	17,399
Dec 31 2015	4,819,441	4,807,077	12,364
Mar 31 2016	4,880,129	4,879,738	391
Jun 30 2016	4,953,322	4,968,526	-15,203
Sep 30 2016	5,115,214	5,128,840	-13,625
Dec 31 2016	5,171,615	5,184,451	-12,836
Mar 31 2017	5,368,773	5,384,516	-15,743
Jun 30 2017	5,308,259	5,318,617	-10,358
Sep 30 2017	5,471,938	5,489,877	-17,938
Dec 31 2017	5,710,450	5,677,960	32,490
Mar 31 2018	5,679,065	5,634,595	44,470
Jun 30 2018	5,559,157	5,509,255	49,902

Please see Appendix for page explanations. All dollar values are shown in actual dollars.

Quarterly Comparison Analysis (%)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	-0.97	-0.87	-0.10
Sep 30 2015	-4.63	-4.98	0.35
Dec 31 2015	2.73	2.85	-0.12
Mar 31 2016	1.26	1.51	-0.25
Jun 30 2016	1.50	1.82	-0.32
Sep 30 2016	3.27	3.23	0.04
Dec 31 2016	1.10	1.08	0.02
Mar 31 2017	3.81	3.86	-0.05
Jun 30 2017	2.60	2.49	0.11
Sep 30 2017	3.08	3.22	-0.14
Dec 31 2017	4.36	3.43	0.93
Mar 31 2018	-0.55	-0.76	0.21
Jun 30 2018	1.57	1.49	0.09

Please see Appendix for page explanations. Returns for periods exceeding one year are annualized.

Market Values and Cash Flows

Period Ending	Beginning Value	Net Flows	Unrealized Gain/Loss	Ending Value	Return (%)
Jun 30 2015	N/A	5,000,000	-80,935	4,919,065	-0.97
Sep 30 2015	4,919,065	0	-227,767	4,691,298	-4.63
Dec 31 2015	4,691,298	0	128,143	4,819,441	2.73
Mar 31 2016	4,819,441	0	60,687	4,880,129	1.26
Jun 30 2016	4,880,129	0	73,194	4,953,322	1.50
Sep 30 2016	4,953,322	0	161,892	5,115,214	3.27
Dec 31 2016	5,115,214	0	56,400	5,171,615	1.10
Mar 31 2017	5,171,615	0	197,158	5,368,773	3.81
Jun 30 2017	5,368,773	-199,980	139,466	5,308,259	2.60
Sep 30 2017	5,308,259	0	163,680	5,471,938	3.08
Dec 31 2017	5,471,938	0	238,512	5,710,450	4.36
Mar 31 2018	5,710,450	0	-31,385	5,679,065	-0.55
Jun 30 2018	5,679,065	-209,234	89,326	5,559,157	1.57

Please see Appendix for page explanations. All dollar values are shown in actual dollars. Returns for periods exceeding one year are annualized.

Executive Summary as of June 30, 2018

Investment Policy

Account Reconciliation

	06/30/2018	2018	04/30/2015
	QTR	Fiscal YTD	Incept
Beginning Value	1,770,581	1,601,549	1,479,333
Net Flows	-87,209	-87,209	-287,189
Investment G/L	62,149	231,181	553,377
Ending Value	1,745,521	1,745,521	1,745,521

Index	Weight
S&P 500	100.00

Trailing Returns Through June 30, 2018

											04/30/2015
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	Incept
Account	14.43	16.17	11.95								11.05
Policy	14.37	16.12	11.93								11.03
Diff	0.06	0.05	0.02								0.02

Fiscal Year Returns Ending June

	QTR	2018 YTD	2017	2016	2015	2014	2013	2012	2011	2010	2009
Account	3.51	14.43	17.93	3.95							
Policy	3.43	14.37	17.90	3.99							
Diff	0.08	0.06	0.04	-0.04							

Returns In Up Markets

	1 Yr	3 Yr	5 Yr	10 Yr
Account	15.3	18.0		
Policy	15.2	17.9		
Ratio	100.5	100.2		

Returns In Down Markets								
	1 Yr	3 Yr	5 Yr	10 Yr				
Account	-0.8	-7.2						
Policy	-0.8	-7.1						
Ratio	101.2	100.3						

Fiscal year ends in June.

Returns for periods exceeding one year are annualized. Returns are net time weighted return.

Please see Appendix for page explanations.

Risk Measures

1 Year	Fund	Policy	Diff
Negative Periods	2.00	2.00	0.00
Positive Periods	10.00	10.00	0.00
Batting Average	25.00	75.00	-50.00
Worst Qtr	-0.77	-0.76	-0.01
Best Qtr	6.64	6.64	-0.01
Range	7.41	7.40	0.00
Worst 4 Qtrs	14.43	14.37	0.06
Standard Deviation	8.23	8.24	0.00
Beta	1.00	1.00	0.00
Alpha	0.06	0.00	0.06
R-Squared	99.99	100.00	-0.01
Sharpe Ratio	1.59	1.58	0.01
Treynor Ratio	13.12	13.05	0.07
Tracking Error	0.08	0.00	0.08
Information Ratio	0.65	0.00	0.65

3 Years	Fund	Policy	Diff
Negative Periods	8.00	8.00	0.00
Positive Periods	28.00	28.00	0.00
Batting Average	16.67	83.33	-66.67
Worst Qtr	-6.45	-6.44	-0.01
Best Qtr	7.04	7.04	-0.01
Range	13.49	13.48	0.01
Worst 4 Qtrs	3.95	3.99	-0.04
Standard Deviation	10.01	10.02	0.00
Beta	1.00	1.00	0.00
Alpha	0.02	0.00	0.02
R-Squared	100.00	100.00	0.00
Sharpe Ratio	1.13	1.13	0.00
Treynor Ratio	11.31	11.29	0.02
Tracking Error	0.06	0.00	0.06
Information Ratio	0.25	0.00	0.25

5 Years	Fund	Policy	Diff
Negative Periods	n/a	16.00	n/a
Positive Periods	n/a	44.00	n/a
Batting Average	n/a	n/a	n/a
Worst Qtr	n/a	-6.44	n/a
Best Qtr	n/a	10.51	n/a
Range	n/a	16.95	n/a
Worst 4 Qtrs	n/a	3.99	n/a
Standard Deviation	n/a	9.73	n/a
Beta	n/a	1.00	n/a
Alpha	n/a	0.00	n/a
R-Squared	n/a	100.00	n/a
Sharpe Ratio	n/a	1.34	n/a
Treynor Ratio	n/a	13.03	n/a
Tracking Error	n/a	0.00	n/a
Information Ratio	n/a	0.00	n/a

Since Inception	Fund	Policy	Diff
Negative Periods	9.00	9.00	0.00
Positive Periods	29.00	29.00	0.00
Batting Average	23.08	76.92	-53.85
Worst Qtr	-6.45	-6.44	-0.01
Best Qtr	7.04	7.04	-0.01
Range	13.49	13.48	0.01
Worst 4 Qtrs	3.95	3.99	-0.04
Standard Deviation	9.88	9.89	0.00
Beta	1.00	1.00	0.00
Alpha	0.02	0.00	0.02
R-Squared	100.00	100.00	0.00
Sharpe Ratio	1.06	1.05	0.00
Treynor Ratio	10.45	10.42	0.02
Tracking Error	0.06	0.00	0.06
Information Ratio	0.29	0.00	0.29

Quarterly Comparison Analysis (%)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	-0.67	-0.67	0.01
Sep 30 2015	-6.45	-6.44	-0.01
Dec 31 2015	7.04	7.04	-0.01
Mar 31 2016	1.34	1.35	-0.01
Jun 30 2016	2.45	2.46	-0.01
Sep 30 2016	3.84	3.85	-0.01
Dec 31 2016	3.82	3.82	0.00
Mar 31 2017	6.05	6.07	-0.01
Jun 30 2017	3.14	3.09	0.06
Sep 30 2017	4.48	4.48	-0.01
Dec 31 2017	6.64	6.64	-0.01
Mar 31 2018	-0.77	-0.76	-0.01
Jun 30 2018	3.51	3.43	0.08

Please see Appendix for page explanations. Returns for periods exceeding one year are annualized.

Market Values and Cash Flows

Period Ending	Beginning Value	Net Flows	Unrealized Gain/Loss	Ending Value	Return (%)
Jun 30 2015	N/A	1,500,000	-30,507	1,469,493	-0.67
Sep 30 2015	1,469,493	0	-94,790	1,374,703	-6.45
Dec 31 2015	1,374,703	0	96,726	1,471,429	7.04
Mar 31 2016	1,471,429	0	19,677	1,491,106	1.34
Jun 30 2016	1,491,106	0	36,470	1,527,576	2.45
Sep 30 2016	1,527,576	0	58,723	1,586,299	3.84
Dec 31 2016	1,586,299	0	60,616	1,646,915	3.82
Mar 31 2017	1,646,915	0	99,685	1,746,600	6.05
Jun 30 2017	1,746,600	-199,980	54,929	1,601,549	3.14
Sep 30 2017	1,601,549	0	71,674	1,673,223	4.48
Dec 31 2017	1,673,223	0	111,071	1,784,294	6.64
Mar 31 2018	1,784,294	0	-13,713	1,770,581	-0.77
Jun 30 2018	1,770,581	-87,209	62,149	1,745,521	3.51

Please see Appendix for page explanations. All dollar values are shown in actual dollars. Returns for periods exceeding one year are annualized.

Executive Summary as of June 30, 2018

Account Reconciliation

The count file contains			
	06/30/2018	2018	04/30/2015
	QTR	Fiscal YTD	Incept
Beginning Value	972,234	851,933	750,000
Net Flows	-94,000	-94,000	-94,000
Investment G/L	52,485	172,786	274,719
Ending Value	930,719	930,719	930,719

Weight
100.00

Trailing Returns Through June 30, 2018

											04/30/2015
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	Incept
Account	20.35	19.83	10.74								10.38
Policy	16.24	18.03	10.30								10.23
Diff	4.11	1.80	0.44								0.15

Fiscal Year Returns Ending June

	OTD	2018	2017	2017	2015	2014	2012	2012	2011	2010	2000
	QIR	ΎΙD	2017	2016	2015	2014	2013	2012	2011	2010	2009
Account	5.46	20.35	19.30	-5.41							
Policy	5.71	16.24	19.84	-3.67							
Diff	-0.25	4.11	-0.54	-1.74							

Returns In Up Markets

	1 Yr	3 Yr	5 Yr	10 Yr
Account	19.5	16.8		
Policy	16.5	17.6		
Ratio	117.9	95.3		

Returns In Down Markets								
	1 Yr	3 Yr	5 Yr	10 Yr				
Account	0.7	-7.8						
Policy	-0.2	-10.5						
Ratio	-303.4	74.4						

Fiscal year ends in June.

Returns for periods exceeding one year are annualized. Returns are net time weighted return.

Please see Appendix for page explanations.

Risk Measures

1 Year	Fund	Policy	Diff
Negative Periods	5.00	2.00	3.00
Positive Periods	7.00	10.00	-3.00
Batting Average	50.00	50.00	0.00
Worst Qtr	0.73	-0.24	0.97
Best Qtr	9.37	5.71	3.66
Range	8.65	5.95	2.70
Worst 4 Qtrs	20.35	16.24	4.11
Standard Deviation	9.02	8.09	0.93
Beta	1.03	1.00	0.03
Alpha	3.14	0.00	3.14
R-Squared	85.62	100.00	-14.38
Sharpe Ratio	2.11	1.84	0.27
Treynor Ratio	18.43	14.92	3.52
Tracking Error	3.43	0.00	3.43
Information Ratio	1.05	0.00	1.05

3 Years	Fund	Policy	Diff
Negative Periods	14.00	11.00	3.00
Positive Periods	22.00	25.00	-3.00
Batting Average	41.67	58.33	-16.67
Worst Qtr	-8.49	-10.30	1.81
Best Qtr	9.37	6.56	2.81
Range	17.86	16.86	1.00
Worst 4 Qtrs	-5.41	-3.67	-1.74
Standard Deviation	11.83	12.12	-0.29
Beta	0.95	1.00	-0.05
Alpha	0.89	0.00	0.89
R-Squared	94.37	100.00	-5.63
Sharpe Ratio	0.85	0.80	0.06
Treynor Ratio	10.66	9.66	1.00
Tracking Error	2.87	0.00	2.87
Information Ratio	0.11	0.00	0.11

5 Years	Fund	Policy	Diff
Negative Periods	n/a	20.00	n/a
Positive Periods	n/a	40.00	n/a
Batting Average	n/a	n/a	n/a
Worst Qtr	n/a	-10.30	n/a
Best Qtr	n/a	9.08	n/a
Range	n/a	19.37	n/a
Worst 4 Qtrs	n/a	-3.67	n/a
Standard Deviation	n/a	12.02	n/a
Beta	n/a	1.00	n/a
Alpha	n/a	0.00	n/a
R-Squared	n/a	100.00	n/a
Sharpe Ratio	n/a	0.99	n/a
Treynor Ratio	n/a	11.89	n/a
Tracking Error	n/a	0.00	n/a
Information Ratio	n/a	0.00	n/a

Since Inception	Fund	Policy	Diff
Negative Periods	15.00	12.00	3.00
Positive Periods	23.00	26.00	-3.00
Batting Average	38.46	61.54	-23.08
Worst Qtr	-8.49	-10.30	1.81
Best Qtr	9.37	6.56	2.81
Range	17.86	16.86	1.00
Worst 4 Qtrs	-5.41	-3.67	-1.74
Standard Deviation	11.54	11.85	-0.32
Beta	0.94	1.00	-0.06
Alpha	0.66	0.00	0.66
R-Squared	94.13	100.00	-5.87
Sharpe Ratio	0.85	0.81	0.04
Treynor Ratio	10.36	9.62	0.73
Tracking Error	2.87	0.00	2.87
Information Ratio	0.02	0.00	0.02

Quarterly Comparison Analysis (%)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	0.66	1.43	-0.77
Sep 30 2015	-8.49	-10.30	1.81
Dec 31 2015	2.39	3.28	-0.89
Mar 31 2016	0.35	0.39	-0.04
Jun 30 2016	0.60	3.57	-2.98
Sep 30 2016	6.61	6.56	0.05
Dec 31 2016	6.01	6.12	-0.12
Mar 31 2017	2.61	3.76	-1.14
Jun 30 2017	2.88	2.13	0.74
Sep 30 2017	3.59	4.74	-1.15
Dec 31 2017	9.37	5.24	4.13
Mar 31 2018	0.73	-0.24	0.97
Jun 30 2018	5.46	5.71	-0.25

Please see Appendix for page explanations. Returns for periods exceeding one year are annualized.

Market Values and Cash Flows

Period Ending	Beginning Value	Net Flows	Unrealized Gain/Loss	Ending Value	Return (%)
Jun 30 2015	N/A	750,000	4,954	754,954	0.66
Sep 30 2015	754,954	0	-64,092	690,863	-8.49
Dec 31 2015	690,863	0	16,496	707,359	2.39
Mar 31 2016	707,359	0	2,489	709,848	0.35
Jun 30 2016	709,848	0	4,235	714,083	0.60
Sep 30 2016	714,083	0	47,212	761,295	6.61
Dec 31 2016	761,295	0	45,733	807,028	6.01
Mar 31 2017	807,028	0	21,093	828,120	2.61
Jun 30 2017	828,120	0	23,813	851,933	2.88
Sep 30 2017	851,933	0	30,582	882,515	3.59
Dec 31 2017	882,515	0	82,714	965,228	9.37
Mar 31 2018	965,228	0	7,006	972,234	0.73
Jun 30 2018	972,234	-94,000	52,485	930,719	5.46

Please see Appendix for page explanations. All dollar values are shown in actual dollars. Returns for periods exceeding one year are annualized.

Executive Summary as of June 30, 2018

Account Reconciliation

	06/30/2018	2018	04/30/2015
	QTR	Fiscal YTD	Incept
Beginning Value	858,478	776,156	737,951
Net Flows	-28,025	-28,025	-28,025
Investment G/L	-26,220	56,102	94,306
Ending Value	804,232	804,232	804,232
1			

Investment Policy	
Index	Weight
MSCI AC Wrld X US Fr	100.00

Trailing Returns Through June 30, 2018

											04/30/2015
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	Incept
Account	7.16	13.42	5.35								3.85
Policy	7.28	13.67	5.07								3.35
Diff	-0.13	-0.25	0.28								0.50

Fiscal Year Returns Ending June

		2018									
	QTR	YTD	2017	2016	2015	2014	2013	2012	2011	2010	2009
Account	-3.12	7.16	20.05	-9.11							
Policy	-2.61	7.28	20.44	-10.24							
	2.01	,0	20000	10.21							
Diff	0.50	0.12	0.20	1 1 2							
DIII	-0.50	-0.13	-0.39	1.13							

Returns In Up Markets

	1 Yr	3 Yr	5 Yr	10 Yr
Account	11.1	25.0		
Policy	11.5	25.4		
Ratio	96.9	98.5		

Returns In Down Markets								
	1 Yr	3 Yr	5 Yr	10 Yr				
Account	-3.6	-11.2						
Policy	-3.8	-12.0						
Ratio	94.7	93.8						

Fiscal year ends in June.

Returns for periods exceeding one year are annualized. Returns are net time weighted return.

Please see Appendix for page explanations.

Risk Measures

1 Year	Fund	Policy	Diff
Negative Periods	4.00	4.00	0.00
Positive Periods	8.00	8.00	0.00
Batting Average	25.00	75.00	-50.00
Worst Qtr	-3.12	-2.61	-0.50
Best Qtr	5.95	6.17	-0.22
Range	9.07	8.78	0.29
Worst 4 Qtrs	7.16	7.28	-0.13
Standard Deviation	9.25	9.47	-0.22
Beta	0.96	1.00	-0.04
Alpha	0.09	0.00	0.09
R-Squared	97.37	100.00	-2.63
Sharpe Ratio	0.63	0.63	0.00
Treynor Ratio	6.05	5.96	0.09
Tracking Error	1.54	0.00	1.54
Information Ratio	-0.10	0.00	-0.10

3 Years	Fund	Policy	Diff
Negative Periods	15.00	15.00	0.00
Positive Periods	21.00	21.00	0.00
Batting Average	50.00	50.00	0.00
Worst Qtr	-11.61	-12.17	0.57
Best Qtr	8.47	7.86	0.61
Range	20.08	20.03	0.05
Worst 4 Qtrs	-9.11	-10.24	1.13
Standard Deviation	11.26	12.00	-0.74
Beta	0.93	1.00	-0.07
Alpha	0.54	0.00	0.54
R-Squared	97.97	100.00	-2.03
Sharpe Ratio	0.42	0.37	0.05
Treynor Ratio	5.07	4.43	0.65
Tracking Error	1.82	0.00	1.82
Information Ratio	0.09	0.00	0.09

5 Years	Fund	Policy	Diff
Negative Periods	n/a	25.00	n/a
Positive Periods	n/a	35.00	n/a
Batting Average	n/a	n/a	n/a
Worst Qtr	n/a	-12.17	n/a
Best Qtr	n/a	10.09	n/a
Range	n/a	22.27	n/a
Worst 4 Qtrs	n/a	-10.24	n/a
Standard Deviation	n/a	11.55	n/a
Beta	n/a	1.00	n/a
Alpha	n/a	0.00	n/a
R-Squared	n/a	100.00	n/a
Sharpe Ratio	n/a	0.48	n/a
Treynor Ratio	n/a	5.60	n/a
Tracking Error	n/a	0.00	n/a
Information Ratio	n/a	0.00	n/a

Since Inception	Fund	Policy	Diff
Negative Periods	17.00	17.00	0.00
Positive Periods	21.00	21.00	0.00
Batting Average	53.85	46.15	7.69
Worst Qtr	-11.61	-12.17	0.57
Best Qtr	8.47	7.86	0.61
Range	20.08	20.03	0.05
Worst 4 Qtrs	-9.11	-10.24	1.13
Standard Deviation	11.13	11.87	-0.74
Beta	0.93	1.00	-0.07
Alpha	0.65	0.00	0.65
R-Squared	97.97	100.00	-2.03
Sharpe Ratio	0.29	0.23	0.06
Treynor Ratio	3.50	2.74	0.76
Tracking Error	1.80	0.00	1.80
Information Ratio	0.21	0.00	0.21

Quarterly Comparison Analysis (%)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	-3.61	-4.31	0.69
Sep 30 2015	-11.61	-12.17	0.57
Dec 31 2015	2.74	3.25	-0.51
Mar 31 2016	-0.17	-0.37	0.20
Jun 30 2016	0.26	-0.65	0.90
Sep 30 2016	6.65	6.91	-0.26
Dec 31 2016	-1.93	-1.25	-0.68
Mar 31 2017	8.47	7.86	0.61
Jun 30 2017	5.82	5.78	0.05
Sep 30 2017	5.95	6.17	-0.22
Dec 31 2017	4.88	5.01	-0.12
Mar 31 2018	-0.46	-1.18	0.72
Jun 30 2018	-3.12	-2.61	-0.50

Please see Appendix for page explanations. Returns for periods exceeding one year are annualized.

Market Values and Cash Flows

Period Ending	Beginning Value	Net Flows	Unrealized Gain/Loss	Ending Value	Return (%)
Jun 30 2015	N/A	750,000	-38,704	711,296	-3.61
Sep 30 2015	711,296	0	-82,547	628,749	-11.61
Dec 31 2015	628,749	0	17,237	645,986	2.74
Mar 31 2016	645,986	0	-1,122	644,864	-0.17
Jun 30 2016	644,864	0	1,652	646,516	0.26
Sep 30 2016	646,516	0	42,989	689,505	6.65
Dec 31 2016	689,505	0	-13,331	676,175	-1.93
Mar 31 2017	676,175	0	57,274	733,448	8.47
Jun 30 2017	733,448	0	42,707	776,156	5.82
Sep 30 2017	776,156	0	46,192	822,348	5.95
Dec 31 2017	822,348	0	40,139	862,486	4.88
Mar 31 2018	862,486	0	-4,009	858,478	-0.46
Jun 30 2018	858,478	-28,025	-26,220	804,232	-3.12

Please see Appendix for page explanations. All dollar values are shown in actual dollars. Returns for periods exceeding one year are annualized.

Executive Summary as of June 30, 2018

Account Reconciliation

	06/30/2018	2018	04/30/2015
	QTR	Fiscal YTD	Incept
Beginning Value	2,077,772	2,078,622	2,000,000
Net Flows	0	0	0
Investment G/L	912	63	78,685
Ending Value	2,078,685	2,078,685	2,078,685

Investment Policy	
Index	Weight
BBgBarc Interm Gov't/Credit Index	100.00

Trailing Returns Through June 30, 2018

											04/30/2015
	1 Yr	2 Yr	3 Yr	4 Yr	5 Yr	6 Yr	7 Yr	8 Yr	9 Yr	10 Yr	Incept
Account	0.00	0.33	1.58								1.23
Policy	-0.58	-0.40	1.16								0.91
Diff	0.58	0.72	0.42								0.32

Fiscal Year Returns Ending June

	QTR	2018 YTD	2017	2016	2015	2014	2013	2012	2011	2010	2009
Account	0.04	0.00	0.65	4.13							
Policy	0.01	-0.58	-0.21	4.33							
Diff	0.04	0.58	0.87	-0.21							

Returns In Up Markets

	1 Yr	3 Yr	5 Yr	10 Yr	
Account	0.8	3.7			1
Policy	0.6	3.8			I
Ratio	127.9	99.2			I

Returns In Down Markets						
	1 Yr	3 Yr	5 Yr	10 Yr		
Account	-0.8	-2.6				
Policy	-1.2	-3.9				
Ratio	65.1	67.6				

Fiscal year ends in June.

Returns for periods exceeding one year are annualized. Returns are net time weighted return.

Please see Appendix for page explanations.

Risk Measures

1 Year	Fund	Policy	Diff
Negative Periods	6.00	7.00	-1.00
Positive Periods	6.00	5.00	1.00
Batting Average	75.00	25.00	50.00
Worst Qtr	-0.98	-0.98	0.00
Best Qtr	0.73	0.60	0.13
Range	1.72	1.58	0.14
Worst 4 Qtrs	0.00	-0.58	0.58
Standard Deviation	1.27	1.61	-0.35
Beta	0.77	1.00	-0.23
Alpha	0.14	0.00	0.14
R-Squared	93.02	100.00	-6.98
Sharpe Ratio	-1.04	-1.18	0.14
Treynor Ratio	-1.73	-1.91	0.18
Tracking Error	0.51	0.00	0.51
Information Ratio	1.14	0.00	1.14

3 Years	Fund	Policy	Diff
Negative Periods	11.00	16.00	-5.00
Positive Periods	25.00	20.00	5.00
Batting Average	58.33	41.67	16.67
Worst Qtr	-1.76	-2.07	0.30
Best Qtr	1.99	2.45	-0.46
Range	3.75	4.51	-0.76
Worst 4 Qtrs	0.00	-0.58	0.58
Standard Deviation	1.64	1.98	-0.34
Beta	0.79	1.00	-0.21
Alpha	0.52	0.00	0.52
R-Squared	90.43	100.00	-9.57
Sharpe Ratio	0.57	0.26	0.31
Treynor Ratio	1.18	0.52	0.67
Tracking Error	0.66	0.00	0.66
Information Ratio	0.62	0.00	0.62

5 Years	Fund	Policy	Diff
Negative Periods	n/a	27.00	n/a
Positive Periods	n/a	33.00	n/a
Batting Average	n/a	n/a	n/a
Worst Qtr	n/a	-2.07	n/a
Best Qtr	n/a	2.45	n/a
Range	n/a	4.51	n/a
Worst 4 Qtrs	n/a	-0.58	n/a
Standard Deviation	n/a	2.01	n/a
Beta	n/a	1.00	n/a
Alpha	n/a	0.00	n/a
R-Squared	n/a	100.00	n/a
Sharpe Ratio	n/a	0.60	n/a
Treynor Ratio	n/a	1.20	n/a
Tracking Error	n/a	0.00	n/a
Information Ratio	n/a	0.00	n/a

Since Inception	Fund	Policy	Diff
Negative Periods	13.00	17.00	-4.00
Positive Periods	25.00	21.00	4.00
Batting Average	53.85	46.15	7.69
Worst Qtr	-1.76	-2.07	0.30
Best Qtr	1.99	2.45	-0.46
Range	3.75	4.51	-0.76
Worst 4 Qtrs	0.00	-0.58	0.58
Standard Deviation	1.66	1.96	-0.30
Beta	0.81	1.00	-0.19
Alpha	0.37	0.00	0.37
R-Squared	89.96	100.00	-10.04
Sharpe Ratio	0.37	0.15	0.22
Treynor Ratio	0.77	0.30	0.47
Tracking Error	0.66	0.00	0.66
Information Ratio	0.47	0.00	0.47

Quarterly Comparison Analysis (%)

Period Ending	Portfolio	Policy	Diff
Jun 30 2015	-0.83	-0.59	-0.25
Sep 30 2015	0.69	0.95	-0.26
Dec 31 2015	-0.12	-0.69	0.57
Mar 31 2016	1.99	2.45	-0.46
Jun 30 2016	1.52	1.59	-0.07
Sep 30 2016	0.63	0.16	0.47
Dec 31 2016	-1.76	-2.07	0.30
Mar 31 2017	0.94	0.78	0.15
Jun 30 2017	0.87	0.94	-0.07
Sep 30 2017	0.73	0.60	0.13
Dec 31 2017	0.22	-0.20	0.42
Mar 31 2018	-0.98	-0.98	0.00
Jun 30 2018	0.04	0.01	0.04

Please see Appendix for page explanations. Returns for periods exceeding one year are annualized.

Market Values and Cash Flows

Period Ending	Beginning Value	Net Flows	Unrealized Gain/Loss	Ending Value	Return (%)
Jun 30 2015	N/A	2,000,000	-16,678	1,983,322	-0.83
Sep 30 2015	1,983,322	0	13,661	1,996,983	0.69
Dec 31 2015	1,996,983	0	-2,316	1,994,667	-0.12
Mar 31 2016	1,994,667	0	39,644	2,034,310	1.99
Jun 30 2016	2,034,310	0	30,837	2,065,148	1.52
Sep 30 2016	2,065,148	0	12,968	2,078,116	0.63
Dec 31 2016	2,078,116	0	-36,618	2,041,498	-1.76
Mar 31 2017	2,041,498	0	19,107	2,060,604	0.94
Jun 30 2017	2,060,604	0	18,017	2,078,622	0.87
Sep 30 2017	2,078,622	0	15,232	2,093,853	0.73
Dec 31 2017	2,093,853	0	4,588	2,098,442	0.22
Mar 31 2018	2,098,442	0	-20,669	2,077,772	-0.98
Jun 30 2018	2,077,772	0	912	2,078,685	0.04

Please see Appendix for page explanations. All dollar values are shown in actual dollars. Returns for periods exceeding one year are annualized.



REPORT EXPLANATIONS

Executive Summary

The Executive Summary provides an overview of the fund's performance. It shows the performance in dollars, percent, and relative to the investment policy. These statistics are provided over different time periods including up and down markets. All rates of return are annualized if the period for which they are calculated exceeds one year.

Account Reconciliation: This section shows the performance of the account in dollars, during the most recent quarter, the calendar year, and since the inception date. The Beginning Value is the value at the start of each period. The Ending Value shows the value as of the date of the report. Net contributions are the total contributions less the total withdrawals during the period. The Investment G/L is the gain or loss resulting from the investments. It is the difference between the beginning and ending values that cannot be explained by the net contributions. Positive investment G/L figures represent a profit, and negative values represent a loss.

Investment Policy: This section defines the benchmark against which the fund is being compared. Generally, this is the most important objective for a fund to achieve. The performance of the fund relative to this measure over longer periods of time, such as market cycles, is the strongest indicator of the success or failure of the investment strategy. This objective should be reasonable, and the performance of the fund should be measured against the investment policy after adjusting for risk.

Trailing Returns: This section shows the cumulative time weighted returns over the last 1 year, 2 years, and so on up through 10 years if available, as well as since the inception date. A positive difference indicates the fund has exceeded the policy's returns. The investor would prefer that this difference be positive for all time periods; however, it is more important for it to be positive for the longer periods rather than the shorter periods.

Calendar Year Returns: This section gauges the consistency of performance over one year time periods. Each calendar year of performance represents the return from January 1st through December 31st. Watch out for a trend of declining relative performance in recent periods.

Time Weighted Return: This statistic demonstrates a measure of the compound rate of growth in a portfolio. Because this method eliminates the distorting effects created by the size and timing of cash flows, it is used to compare the returns of investment managers.

Dollar Weighted Return: This demonstrates the rate of return for an asset or portfolio of assets. It is calculated by finding the rate of return that will set the present values of all cash flows and terminal values equal to the value of the initial investment. The dollar weighted rate of return incorporates the size and timing of cash flows and is equivalent to the internal rate of return (IRR).

Returns In Up/Down Markets: This section shows how the fund performed in both up and down markets. The methodology utilized segregates the performance for each time period into the quarters in which the market, as defined by the policy, was positive and negative. Quarters with negative policy returns are treated as down markets, and quarters with positive policy returns are treated as up markets. Thus, in a 3 year or 12 quarter period, there might be 4 down quarters and 8 up quarters. Up market returns are calculated for the fund and the policy based on the up quarters. Down market returns are calculated for the fund and the policy based on the up markets to that of the policy is the up market capture ratio. The ratio of the fund's return in up markets capture ratio. Ideally, the fund would have a greater up market capture ratio and a smaller down market capture ratio.

Risk Measures

The evaluation of a fund's performance should extend beyond return to encompass measures of risk. The next two pages illustrate the level of risk to which the fund has been exposed, and whether the return has been commensurate with the risk taken. All measures are calculated for the fund and the policy as well as the difference between the two. Up to four time periods are evaluated depending on the age of the fund.

Of Negative Qtrs/# Of Positive Qtrs: Number of negative quarters shows the number of quarters in which the return was less than zero. The number of positive quarters is the number of quarterly returns which were greater or equal to zero.

Batting Average: The batting average is a measure of consistency. It shows the percent of the quarters the fund has beaten the policy and the percent of the quarters the policy has outperformed the fund. A high average for the fund (e.g. over 50) is desirable, indicating the fund has beaten the policy frequently.

Worst Quarter/Best Quarter/Range: The worst quarter is the lowest quarterly return experienced during the period, a measure of downside risk. The best quarter is the highest quarterly return, and the range is the difference of the high and low, and indicates dispersion.

Standard Deviation: Standard deviation measures the total volatility of the fund, by measuring dispersion. Higher standard deviation indicates higher risk. If the quarterly or monthly returns are all the same the standard deviation will be zero. The more they vary from one another, the higher the standard deviation. Thus, it measures uncertainty, which is a measure of risk.

Alpha/Beta/R-Squared: If the policy is appropriate, then the alpha should be positive, the beta close to one, and the r-squared should be high. Beta measures risk relative to the policy. A beta of 1 suggests risk equivalent to the policy. Higher betas indicate higher relative risk. A beta of 1.2 indicates 20% more risk than the policy. The alpha measures the return adjusted for beta. A higher alpha indicates a higher risk adjusted return. R-squared measures the relationship between the policy and the fund. A high r squared means the returns of the fund can largely be explained by movements of the policy. A higher r-squared indicates a more reliable alpha and beta. R-squared may range from 0 to 100. Beta, alpha and r-squared are derived from regression analysis using the fund and policy returns as the dependent and independent variables respectively. Roughly, one would expect the fund's performance to equal the return of the policy multiplied by the beta plus the alpha.

Sharpe Ratio/Treynor Ratio: The Sharpe and Treynor ratios are similar. The Sharpe ratio is the excess return per unit of total risk as measured by standard deviation. The Treynor ratio is the excess return per unit of market risk as measured by beta. Both of these should be compared against the corresponding value for the policy. Higher numbers are better, indicating more return for the level of risk that was experienced.

Tracking Error/Information Ratio: Tracking error is a measure of how closely a portfolio follows the index to which it is benchmarked, or a measure of the deviation from the benchmark. Dividing portfolio return by portfolio tracking error gives the information ratio, which is a risk adjusted performance metric.

Quarterly Comparison Analysis (\$)

This report shows the performance, in dollars, of the fund relative to the objectives. The purpose is to show a hypothetical value that reflects what the account would be worth if it had instead invested in each objective.

The column titled "Portfolio" shows the actual values in the portfolio at the end of the quarter. The amount shown for the first date is the same for each objective as that of the fund. This is the amount assumed to be invested in each objective. All other values for the objectives are based on reinvesting the preceding amount, earning the return of the objective, and adjusting for contributions or withdrawals to the fund.

A positive difference between the fund and an objective represents the additional dollars that are in the fund that would not be available if the fund had actually experienced the return of the objective. A negative difference may be thought of as the cost incurred in experiencing the actual performance instead of the objective performance.

The report will show results since the inception of the fund, or quarterly results over the last five years, whichever is less.

Quarterly Comparison Analysis (%)

This page compares the returns of the portfolio to the returns of the investment policy and to the other investment objectives quarter by quarter for the last five years. The last row shows the returns since inception.

The purpose of this page is to indicate how closely the portfolio has tracked its objectives, particularly the investment policy. If the quarterly differences are small, then the portfolio has tracked the objectives closely. Wide discrepancies suggest that the portfolio is being invested in a fashion which does not resemble the underlying objective. It is not likely a portfolio invested in stocks and/or bonds will track a fixed (e.g. 10%) rate of return, or inflation very closely. However, a portfolio invested in securities should be able to track an index comprised of similar securities.

This page also provides a measure of the portfolio's ability to meet its objectives frequently. If the portfolio often outperforms the objective, then the difference column will have a preponderance of positive values.

If the investment policy or the objectives have changed over time, the heading at the top of each column will only reflect the current policy and objectives, even though the quarterly returns include the alterations.

Market Values and Cash Flows

This page summarizes the market values, cash flows, unrealized net gain or loss and returns for the fund. Net flows refer to the contributions less the withdrawals from the fund. This page illustrates the change in market value through time, and suggests whether changes were due to contributions, withdrawals, or unrealized investment profits.

EQUITY INVESTMENT STYLES

In an attempt to achieve diversification, investors may invest in a variety of asset classes. Different asset classes, such as small, mid, large and all capitalization, offer vastly different levels of risk and potential rewards, but so does investment style diversification. Growth and Value investments tend to go in and out of favor in a cyclical pattern. Dividing your portfolio among asset classes that do not respond to the same market environments the same way at the same time has the potential to help minimize the effects of market volatility, as well as help to maximize the chances of increased returns over time. Ideally, when investments in one class are performing poorly, the assets in another class are doing well. The gains in the latter would potentially offset the losses in the former, minimizing the overall effect on your portfolio. Note that one can diversify away much of the risks of holding a single investment, but one cannot diversify away the risks of simply being invested in the market.

Equity investment managers will typically fall into a particular "Style" category, purchasing stocks with either growth or value characteristics. Understanding the intricacies of the particular equity styles allows you to combine investment managers with complementary styles more efficiently. Or, if you select a single investment style, knowledge of the style categories may help you plan for the ups and downs associated with a particular style. Below are descriptions of the different investment styles.

Deep Value	True Value	Relative Value	Core	GARP (Growth at a Reasonable Price)	True Growth	Aggressive Growth	
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The Core Style

The philosophy behind a core investment style is to have no bias towards growth or value, only the quality of the position. Typically a core portfolio searches to buy shares in companies that an investment manager believes would perform well in all market environments. As a result, they tend to contain a mixture of both growth and value shares.

The Value Style

A simple way to describe value investing is that it is an approach that seeks to buy companies that offer the best value for the money. Value managers look for companies with prices that are believed to be undervalued relative to the market. Undiscovered companies or stocks that have price movements that do not correspond to the company's long-term fundamentals are generally considered to be value investments.

Relative value: investment will employ a value-oriented strategy that is "diluted" in nature in comparison with the true value style. Relative value managers tend to outperform their deeper value peers during periods when growth is outperforming value, however tend to trail during market conditions that favor a deeper value posture. Relative value managers have a definite value emphasis, but often have some growth overlays in security selection.

True value: investment style exhibits characteristics similar to those of the Russell 1000 Value Index. We often times refer to true value as a "plain vanilla" value investment approach. This type of portfolio will hold many of the same positions as the Russell 1000 Value Index, or positions whose characteristics in aggregate are similar to the overall characteristics of the Index.

Deep value: investing is the extreme of the value-oriented styles. A deep value strategy will avoid stocks that are the latest market fad. A deep value manager will typically invest in companies or industries that are out of favor, with the anticipation that the tides will turn and the investment will pay off. Deep value managers tend to demonstrate performance volatility, as they usually outperform their less value -biased peers during periods when value is outperforming growth. The reverse takes place when growth is outperforming, the deeper value styles will generally underperform their relative and true value peers.

The Growth Style

Investment managers who chose to implement a growth style search for companies that are growing their earnings at a rapid pace. The companies are expected to grow faster than the stock market average. A growth investor tends to aim for big gains over the long term and must be willing to withstand the ups and downs of the growth oriented market.

Growth at a Reasonable Price ("GARP") investing combines the search for sustainable earnings growth with an emphasis on valuation. GARP investing reflects the desire to find companies that could be undervalued, but have solid sustainable growth potential. A GARP investment has historically been favored when the economy begins to slow because the consistent earnings of high quality companies become increasingly attractive. GARP investment managers maintain, generally speaking, that over long periods of time, stocks go up for one reason - underlying earnings growth.

True Growth: A true growth portfolio will typically display characteristics similar to those of the Russell 1000 Growth Index. A manager who employs a true growth management style will purchase many of the same companies that are in the Russell 1000 Growth Index, or a portfolio of holdings whose characteristics are similar to those of the Index. They seek to purchase only companies that remain faithful to the category of a "growth" investment style.

Aggressive Growth: Investment managers that seek the highest of earnings growth, regardless of valuation, are considered aggressive growth managers. They seek aggressive and sometimes emerging growth stocks, and are often dramatically overweight traditional growth-oriented sectors like Technology, for example.

Which is the best style? Many investors buy into a particular investment style that experienced above- average performance results after those performance results were achieved, only to sell out of that particular style when it begins to suffer a more difficult performance run. We maintain that it is prudent for investors not only to seek out investment managers who have demonstrated consistency as it relates to people, philosophy/process and performance, but also to choose managers in whom they can maintain conviction over the long term, so as to avoid the untimely cost of switching styles. We believe that understanding the uniqueness of each investment style is key to staying the course.

Source: Wells Fargo Advisors, LLC