



Bowen, Hanes & Company
Incorporated

ATLANTA, GA
WINSTON-SALEM, NC

INVESTMENT SUMMARY

July 3, 2017

Our view is that the relatively strong performance of the stock market during the first half of the year has been driven primarily by a decent earnings story, favorable global liquidity conditions, and optimism regarding the implementation of growth-oriented economic policies, particularly on the tax and regulatory fronts. As we move into the second half of the year, uncertainties continue to swirl regarding the underlying strength of the U.S. economy, earnings growth, the pace of Federal Reserve rate hikes, and the prospects for the aforementioned policy agenda.

With the Fed and other global central banks, most notably the ECB, continuing to shift into a tightening mode, we view the biggest threat to the current expansion and bull market to be overzealous U.S. monetary authorities that move too far and too fast in the face of subdued inflationary pressures and sluggish economic activity. In fact, the Board's preferred measure of pricing pressures, the PCE Index, has been trending down over the past few months and has only hit their stated 2% target once in the last 5 years. Granted, this "tightening" is in reality a move from hyper-accommodative to simply accommodative, particularly considering the continuation of a negative real federal funds rate. Nevertheless, it does signal a shift in both philosophy and global liquidity conditions.

Related to this is the reflexive Phillips curve notion that tightening labor markets will result in both wage and inflationary pressures. However, this concept continues to wane as the "low" headline U-3 unemployment rate belies the true state of the labor market, where 10 to 12 million workers are potentially poised to reenter the civilian labor force under the right conditions. This development would be confirmed by the labor force participation rate trending higher, which we will be monitoring closely.

Coupled with this reduced accommodation are also indications from the Fed and other global monetary authorities that a gradual unwinding of their multitrillion dollar balance sheets will likely commence this year. This is significant, as central banks have become a key player on the buy side in global bond markets. In fact, the balance sheets of the European Central Bank (ECB), Bank of Japan (BOJ), and Federal Reserve Board (FRB), now total over \$13 trillion. While it is difficult to gauge exactly how this will impact the financial markets, as this particular set of monetary circumstances is unprecedented in our financial history, it should be interpreted as an additional signal regarding the direction of global liquidity.

On the earnings front, the first quarter 14% increase in S&P 500 profits certainly confirmed that the prior multiquarter period of contraction ended in resounding fashion. However, the market is a forward-looking discounting mechanism, meaning literally that this is yesterday's

news. Thus, as it begins to cast its eye on the prospects for the latter part of 2017 and the first part of 2018, meaningful policy reforms will become increasingly important to both the corporate profits story and the performance of the stock market. In this connection, while comprehensive individual tax reform likely will be delayed until 2018, significant reform of the corporate code continues to be a distinct possibility this year. This would likely include a sharp reduction in the statutory rate, a transition away from the current territorial system to a global system, a minimal repatriation penalty for the billions of corporate profits locked overseas, and the granting of immediate expensing for new business investment. This could be a first crucial step on the policy front needed to rejuvenate capital spending, productivity growth, real wage growth, and higher and sustainable levels of GDP growth.

One area that could become problematic under certain economic circumstances and should be monitored closely is commercial real estate. It is important to note that financial instability and problematic leverage in this sector contributed mightily to two of the last three recessions. Commercial real estate loans have grown rapidly on bank balance sheets and as a percentage of GDP over the last few years. Thus, a vibrant economic environment will be crucial for this sector to prosper, for any prolonged period of sluggishness would likely result in problematic consequences that could reach into the broader economy.

CONCLUSION

With the current economic expansion and bull market stretching into its ninth year, a resounding chorus of platitudes continues to rain down on the parade, as reflexively many feel that the current bull is both "long in the tooth" and "in the 8th inning." However, as Beryl Sprinkel, Chairman of President Reagan's Council of Economic Advisors, explained with astute clarity in the mid-1980's, economic expansions don't die of old age, they end because of inept economic policies. Our view is that there is a distinct possibility of a virtuous cycle unfolding over the next few years that would be anchored by the proper mix of growth-oriented monetary, tax, and regulatory policies, allowing the current period of growth to become the longest in U.S. history. This record-shattering event would occur in the spring of 2019. If history is any guide, the backbone of this policy framework must be price stability, thus making monetary policy the key entity in determining whether this virtuosity will come to fruition. The balance of 2017 and first part of 2018 will go a long way in determining if indeed policy makers will enable this scenario to unfold. Interest rate normalization, higher real interest rates, higher rates of top-line sales growth, and a continued expansion in corporate profits would all be byproducts of a growth agenda that was anchored by an intense focus on price stability emanating from the Fed. Cumulatively, this would provide a productive backdrop for the stock market, in our view.

Jay Bowen
JB:vcb

Q&A

How Tampa's Fire and Police Pension Meets Return Target and Stays 95% Funded

**Harold J. Bowen, III, President, CEO and CIO of Bowen, Hanes & Co.**

- The Tampa Fire and Police Pension Fund, managed by Bowen, Hanes & Co., returned 13.2 percent in the year ended Sept. 30, 2016
- The fund has an investment return assumption of 8.5 percent and is 95 percent funded
- The fund is focused on long-term performance and avoids riskier assets like hedge funds and private equity

Bowen spoke with Amanda Albright on June 1. Comments have been edited and condensed for clarity.

Q: Many public pension funds have struggled to meet their investment return assumptions. Your fund has a return target of 8.5 percent but has managed to stay well-funded. What are you doing differently?

A: Tampa is unique in a variety of ways. Foremost, we've managed every penny for 43 years. My father forged the relationship in 1974 when the fund was around \$12 million. Assets are now approaching \$2 billion. I know I'm biased but I would argue it's probably the most successful municipal fund in the history of municipal fund management — not only from an investment return standpoint but just in terms of being funded and the prudent way the fund's been run from an administrative standpoint. It's an exceptionally run city.

I don't know of another plan in the country that employs the Tampa model. What I'm talking about primarily is the fact that Tampa only has one manager, and the board allows us to take a really high-quality long-term investment approach.

Q: Where do you think other pension funds go wrong?

A: The core issue with these other funds is there is an entity involved there, an investment consultant, who comes in and becomes the key player in terms of investment strategy. Investment consultants decide they're going to have a stable of money managers. For a \$1 billion fund, typically you'll have 20 or 30 money managers. You'll have every discipline under the sun — small-cap, large-cap, value, growth, foreign, fixed income, private equity, hedge funds — and it all flows from modern portfolio management theory that you need to be

diversified. In theory, it might look very good and sophisticated. But in practice, oftentimes it leads to mediocre performance.

Tampa has never done that — Tampa does not have an investment consultant with a stable of money managers that are constantly being changed and evaluated on a quarterly basis.

Q: How are you seeing public pensions change their strategy?

A: You're seeing a big move toward passive investing or index investing. Municipal funds like Calpers and a host of others are deciding that, particularly on the stock side, they need to do much more passive investing. A lot of them are giving up on hedge funds because of the fees and the lackluster returns.

Q: What's your biggest concern in the market?

A: The Federal Reserve seems hell bent on normalizing interest rates. But the inflation data is moving against them, and the biggest risk right now to the market is that they could normalize rates too quickly based on an artificially distorted unemployment rate.

If you look at the labor force participation rate and you look at the employment-population ratio, those have just really trended down since the financial crisis and since the mid-2000s. The unemployment rate is really not what they should be focused on. I think they should be focused on price stability.

It's the inflation data that worries me, we still have not slayed these deflationary demons. I would hate to see a situation where they invert the yield curve. To me, that's the biggest danger.

Q: Where are you finding value?

A: Europe is attractive right now relative to the U.S. The global investment community is underweight European stocks and I think that's going to change. You're having some of the political uncertainty dissipate in Europe and you're having a pick up in economic activity, especially in manufacturing, which will feed into higher GDP growth. What we look at is these really high-quality, globally-oriented companies, like a Siemens or ABB.

On the American side, we're range-bound until we get clarity on the monetary policy and fiscal policy front.

Q: What solutions do you see for the public pension funding crisis?

A: What will help is if we get the economy growing again — if we get to 3 or 4 percent. That's going to really help.

I think this is a dangerous time to focus on bonds. I think a lot of these municipalities need to re-allocate their portfolios towards stocks. If you have a municipal fund that has 25 to 35 percent in fixed income, you can lose an enormous amount of money if we have a bear market in bonds. I just don't see where the money's going to be made in the bond market. Funds also need to move away from high-fee active managers and more towards passive investing.

Probably the end result is what you're seeing in Houston, where they've proposed issuing bonds to help fund the gap. There's going to be a reduction in benefits. There's going to be a balanced approach in terms of spreading the misery.



Bowen, Hanes & Company
Incorporated

ATLANTA, GA
WINSTON-SALEM, NC

July 1, 2017

Town of Indian Shores Police Officers' Pension Fund
19305 Gulf Boulevard
Indian Shores, FL 33785

STATEMENT OF MANAGEMENT FEES

For The Period April 1, 2017 - June 30, 2017	
Portfolio Valuation as of 06-30-17	3,070,656.39
3,070,656 @ 0.6500% per annum	<hr/> 4,989.82
Quarterly Management Fee	4,989.82
 TOTAL DUE AND PAYABLE	 4,989.82

Original for Payment: U.S. Bank Institutional Trust & Custody
ATTN: David Dahm (via email @ david.dahm@usbank.com)

Cc: Town of Indian Shores Police Officers' Pension Fund
ATTN: Officer Shaun Griffin (sgriffin@myindianshores.com)
Officer Steve Janik (sjanik@myindianshores.com)
Don Vinel (donkathy@gmail.com)
Mark McKee (mrmckee68@gmail.com)
Don Bauer (danbauer039@gmail.com)

PORTFOLIO SUMMARY
TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND
June 30, 2017

Security Type	Total Cost	Market Value	Pct. Assets	Cur. Yield	Est. Annual Income
Short Term Investments:					
Cash/Money Market	350,904.33	350,904.33	11.4	0.8	2,852.50
	350,904.33	350,904.33	11.4	0.8	2,852.50
Fixed Income					
U.S. Govt. Sponsored Agencies	26,459.68	26,235.83	0.9	3.0	795.78
Corporate Bonds	380,513.39	385,335.11	12.5	2.5	9,617.03
Municipal Bonds	75,195.00	82,678.87	2.7	2.1	1,721.30
	482,168.07	494,249.81	16.1	2.5	12,134.11
Common Stocks					
Common Stocks	1,636,462.35	2,225,502.25	72.5	2.0	44,752.30
	1,636,462.35	2,225,502.25	72.5	2.0	44,752.30
TOTAL PORTFOLIO	2,469,534.75	3,070,656.39	100.0	1.9	59,738.91

Clients will receive a statement, usually monthly but no less than quarterly, directly from your account custodian. Bowen, Hanes & Co. urges clients to review the information on the statement for accuracy

PORTFOLIO APPRAISAL
TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND
June 30, 2017

Par Value or Shares	Security	Unit Cost	Total Cost	Market Price	Market Value	% Gain (Loss)	Ind Div/Int Rate	Estimated Annual Income	Yield
Cash/Money Market									
	MONEY MARKET		350,904.33		350,904.33	0.0	0.81	2,853	0.8
U.S. Govt. Sponsored Agencies									
26,526	FHLMC REMIC SERIES 4065 3.000% Due 01-15-41	99.75	26,459.68	98.91	26,235.83	-0.8	3.00	796	3.0
Corporate Bonds									
3,000.00	MARATHON OIL CORP 6.000% Due 10-01-17	100.12	3,003.54	100.95	3,028.49	0.8	6.00	180	5.9
25,000.00	AIR PRODUCTS & CHEMICALS 1.200% Due 10-15-17	100.00	25,000.00	99.91	24,977.00	-0.1	1.20	300	1.2
25,000.00	KINDER MORGAN 2.000% Due 12-01-17	99.95	24,987.50	100.05	25,013.50	0.1	2.00	500	2.0
25,000.00	CR BARD 1.375% Due 01-15-18	99.75	24,937.50	99.94	24,985.80	0.2	1.37	344	1.4
25,000.00	FREEPORT-MCMORAN 2.375% Due 03-15-18	98.45	24,612.50	99.50	24,875.00	1.1	2.37	594	2.4
25,000.00	STRYKER CORP 1.300% Due 04-01-18	99.98	24,995.00	99.80	24,951.25	-0.2	1.30	325	1.3
25,000.00	CORNING 1.500% Due 05-08-18	99.98	24,995.00	99.93	24,982.07	-0.1	1.50	375	1.5
25,000.00	EMC CORP 1.875% Due 06-01-18	96.55	24,137.50	99.46	24,865.30	3.0	1.87	469	1.9
25,000.00	TOYOTA MOTOR CREDIT 1.478% Due 12-12-18	99.00	24,750.00	99.96	24,989.37	1.0	1.48	370	1.5
25,000.00	DUKE ENERGY 1.946% Due 06-15-20	99.40	24,850.00	98.67	24,666.70	-0.7	1.95	486	2.0
35,000.00	MORGAN STANLEY 3.474% Due 03-15-21	100.00	35,000.00	99.27	34,746.14	-0.7	3.47	1,216	3.5
25,000.00	INTERNATIONAL PAPER TRUST 3.000% Due 08-15-21	96.37	24,093.75	98.19	24,547.10	1.9	3.00	750	3.1
10,000.00	PACIFIC GAS 3.250% Due 09-15-21	99.86	9,986.40	102.89	10,288.52	3.0	3.25	325	3.2
30,000.00	MURPHY OIL CORP 4.000% Due 06-01-22	90.02	27,004.75	96.75	29,025.00	7.5	4.00	1,200	4.1
30,000.00	CONTINENTAL RESOURCES INC 5.000% Due 09-15-22	93.92	28,174.95	98.25	29,475.00	4.6	5.00	1,500	5.1
30,000.00	CITIGROUP 2.280% Due 05-17-24	99.95	29,985.00	99.73	29,918.85	-0.2	2.28	684	2.3
Total Corporate Bonds			<u>380,513.39</u>		<u>385,335.11</u>	<u>1.3</u>		<u>9,617</u>	<u>2.5</u>
Municipal Bonds									
25,000	NORTHERN CALIFORNIA GAS AUTHORITY 1.500% Due 07-01-19	83.25	20,812.50	99.64	24,910.25	19.7	1.50	375	1.5
25,000	GEORGIA ST MUNI ELECTRIC AUTHORITY 3.250% Due 01-01-21	100.00	25,000.00	100.43	25,108.32	0.4	3.25	812	3.2
34,000	INDIANA BOND BANK SPL PROGRAM GAS REV SER-B-2 1.570% Due 10-15-22	86.42	29,382.50	96.06	32,660.30	11.2	1.57	534	1.6
Total Municipal Bonds			<u>75,195.00</u>		<u>82,678.87</u>	<u>10.0</u>		<u>1,721</u>	<u>2.1</u>

PORTFOLIO APPRAISAL
TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND
June 30, 2017

Par Value or Shares	Security	Unit Cost	Total Cost	Market Price	Market Value	% Gain (Loss)	Ind Div/Int Rate	Estimated Annual Income	Yield
Common Stocks									
BEVERAGES / SNACK FOODS									
520 PEPSICO		67.44	35,068.59	115.49	60,054.80	71.2	3.22	1,674	2.8
PERSONAL CARE / HOUSEHOLD PRODUCTS									
1,290 CHURCH AND DWIGHT		22.21	28,650.13	51.88	66,925.20	133.6	0.76	980	1.5
1,200 NEWELL BRANDS		41.48	49,777.68	53.62	64,344.00	29.3	0.92	1,104	1.7
			78,427.81		131,269.20	67.4		2,084	1.6
PHARMACEUTICALS									
225 ALLERGAN PLC (IL)		228.05	51,311.25	243.09	54,695.25	6.6	2.80	630	1.2
550 JOHNSON & JOHNSON		102.66	56,463.50	132.29	72,759.50	28.9	3.36	1,848	2.5
			107,774.75		127,454.75	18.3		2,478	1.9
PUBLISHING / MEDIA									
580 S & P GLOBAL		81.88	47,488.02	145.99	84,674.20	78.3	1.64	951	1.1
555 WALT DISNEY		36.71	20,374.56	106.25	58,968.75	189.4	1.56	866	1.5
			67,862.59		143,642.95	111.7		1,817	1.3
COMMUNICATIONS EQUIPMENT									
760 HARRIS		79.91	60,730.17	109.08	82,900.80	36.5	2.12	1,611	1.9
COMPUTER HARDWARE / PERIPHERALS									
1,950 CISCO SYSTEMS		28.29	55,160.43	31.30	61,035.00	10.6	1.16	2,262	3.7
COMPUTER SOFTWARE / SERVICES / SOLUTIONS									
85 ALPHABET INC CLASS C		633.58	53,854.67	908.73	77,242.05	43.4	0.00	0	0.0
SEMICONDUCTOR / INTEGRATED CIRCUITS									
1,030 TEXAS INSTRUMENTS		55.76	57,430.45	76.93	79,237.90	38.0	2.00	2,060	2.6
ELECTRONICS / DIVERSIFIED									
585 TELEDYNE TECHNOLOGIES		57.70	33,751.74	127.65	74,675.25	121.2	0.00	0	0.0
PRECISION INSTRUMENTS / IMAGING									
415 THERMO FISHER SCIENTIFIC		135.84	56,372.91	174.47	72,405.05	28.4	0.60	249	0.3
MERCHANDISING / DISTRIBUTION									
440 HOME DEPOT INC		92.70	40,787.08	153.40	67,496.00	65.5	3.56	1,566	2.3
750 WALGREENS BOOTS ALLIANCE		82.14	61,607.48	78.31	58,732.50	-4.7	1.50	1,125	1.9
			102,394.56		126,228.50	23.3		2,691	2.1
HOUSEHOLD DURABLES / MANUFACTURING									
1,330 LEGGETT & PLATT		39.88	53,040.89	52.53	69,864.90	31.7	1.44	1,915	2.7
AEROSPACE / DEFENSE EQUIPMENT									
260 LOCKHEED MARTIN		225.74	58,693.60	277.61	72,178.60	23.0	7.28	1,893	2.6
CAPITAL GOODS / DIVERSIFIED									
1,925 GENERAL ELECTRIC		30.29	58,301.95	27.01	51,994.25	-10.8	0.96	1,848	3.6
550 HONEYWELL INTL		89.84	49,413.86	133.29	73,309.50	48.4	2.66	1,463	2.0
			107,715.81		125,303.75	16.3		3,311	2.6
CHEMICALS / DIVERSIFIED									
900 DUPONT		69.19	62,271.99	80.71	72,639.00	16.6	1.52	1,368	1.9

PORTFOLIO APPRAISAL
TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND
June 30, 2017

Par Value or Shares	Security	Unit Cost	Total Cost	Market Price	Market Value	% Gain (Loss)	Ind Div/Int Rate	Estimated Annual Income	Yield
1,100	FMC CORP	36.44	<u>40,081.36</u>	73.05	<u>80,355.00</u>	<u>100.5</u>	0.66	<u>726</u>	<u>0.9</u>
102,353.35									
SPECIALTY CHEMICALS / MATERIALS									
335	3M COMPANY	81.32	27,242.04	208.19	69,743.65	156.0	4.70	1,574	2.3
800	AVERY DENNISON	59.54	47,633.68	88.37	70,696.00	48.4	1.80	1,440	2.0
2,775	CORNING	18.27	<u>50,695.24</u>	30.05	<u>83,388.75</u>	<u>64.5</u>	0.62	<u>1,720</u>	<u>2.1</u>
125,570.96									
125,570.96									
223,828.40									
78.2									
4,735									
2,094									
1.4									
BUILDING PRODUCTS									
450	VULCAN MATERIALS	113.73	51,178.50	126.68	57,006.00	11.4	1.00	450	0.8
MACHINERY / EQUIPMENT									
450	CUMMINS INC	139.18	62,631.00	162.22	72,999.00	16.6	4.10	1,845	2.5
380	SNAP-ON	154.37	<u>58,658.90</u>	158.00	<u>60,040.00</u>	<u>2.4</u>	2.84	<u>1,079</u>	<u>1.8</u>
121,289.90									
121,289.90									
133,039.00									
9.7									
2,924									
2.2									
ENERGY PRODUCTION / DISTRIBUTION									
1,925	VERMILION ENERGY (CA)	32.42	62,405.86	31.73	61,080.25	-2.1	2.58	4,966	8.1
TRANSPORTATION									
650	UNION PACIFIC	92.78	60,304.01	108.91	70,791.50	17.4	2.42	1,573	2.2
FINANCIAL SERVICES									
650	AMERICAN EXPRESS	78.47	51,002.51	84.24	54,756.00	7.4	1.28	832	1.5
2,285	CHARLES SCHWAB CORP	32.33	73,877.66	42.96	98,163.60	32.9	0.32	731	0.7
3,750	MANULIFE FINL CORP ADR (CA)	16.05	<u>60,200.63</u>	18.76	<u>70,350.00</u>	<u>16.9</u>	0.64	<u>2,400</u>	<u>3.4</u>
185,080.80									
185,080.80									
223,269.60									
223,269.60									
20.6									
3,963									
1.8									
Total Common Stocks									
1,636,462.35									
1,636,462.35									
2,225,502.25									
2,225,502.25									
36.0									
44,752									
2.0									
TOTAL PORTFOLIO									
2,469,534.75									
3,070,656.39									
24.3									
59,739									
1.9									

PERFORMANCE SUMMARY AND INVESTMENT HISTORY

TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND

June 30, 2017

PERFORMANCE SUMMARY

Time-Weighted Return

	Fiscal Year To Date 09/30/16-06/30/17	Last 12 Months 06/30/16-06/30/17	Inception To Date (Annualized) 11/29/11-06/30/17
Total Portfolio	10.3	13.3	9.4
Common Stocks	14.3	18.3	14.0
S&P 500 Index (Total Return)	13.5	17.9	15.9
Russell 1000	11.8	15.7	13.6
U.S. Gov/Credit Index	-0.8	-0.4	2.8
50% S&P500 INDEX & 50% U.S. GOV/CREDIT INDEX	6.2	8.4	9.3

INVESTMENT HISTORY

CURRENT FISCAL YEAR

Beginning Market Value on 09/30/16	2,783,323.61
Capital Appreciation	247,850.36
Income Received	40,835.89
Cash or Securities Added	100,658.80
Cash or Securities Withdrawn	-87,168.02
Management Fees	-13,974.31
Custodian Fees	-869.94
Ending Market Value on 06/30/17	3,070,656.39

FROM INCEPTION

Beginning Market Value on 11/29/11	1,408,843.93
Net Additions/Withdrawals	502,872.87
Capital Appreciation and Income	1,158,939.59
Ending Market Value on 06/30/17	3,070,656.39

COMMISSION PURPOSE
TOWN OF INDIAN SHORES POLICE OFFICERS' PENSION FUND
From 10-01-16 to 06-30-17

	Commission Amount	Avg. Commission Per Share	Percent of Total Commission
BTIG - EXECUTION - DTC #0005			
Commission Purpose - Undefined	140.32	0.010	100.0%
Subtotal	140.32	0.010	100.0%
TOTAL	140.32	0.010	100%



Bowen, Hanes & Company
Incorporated

ATLANTA, GA
WINSTON-SALEM, NC

TO: Town of Indian Shores Police Officers' Pension Fund
ATTN: Officer Joe Ferro, Chairman
19305 Gulf Boulevard
Indian Shores, FL 33785

FROM: David L. Kelly, III *(Signature)*
Executive Vice President

DATE: June 30, 2017

We hereby certify that in accordance with Section B.8 of our investment management agreement, the corporate governance of all equities held by the plan is sound, and that we are in compliance with the security restrictions in Section IV of the Pension Fund's Investment Policy Statement, with the exceptions listed below. Furthermore, in accordance with the SBA PFIA's 6/14/17 quarterly report, the Fund owned no scrutinized companies.

Equities were 72.5% of the market value of the plan assets.

Freeport-McMoran 2.375% due 3/15/18 (35671DBD6) carried a rating of BB- by S&P, B1 by Moody's, and BB+ by Fitch.

Continental Resources, Inc. 5% due 9/15/22 (212015AH4) carried a rating of BB+ by S&P, BA3 by Moody's, and was not rated by Fitch.

DLK:vcb