

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2008

Third Quarter Ended June 30, 2008

by: Chief Paul O'Connell
Board Chairperson
August 20, 2008

"The greatest danger for most of us is not that our aim is too high and we miss it; but that our aim is too low and we reach it." Michelangelo

Your Pension Board of Trustees aims high and our expectations are even higher. Our "par" (or assumed rate of return) is an 8.5% return on investments which, comparatively speaking, is high; but this is our expectation; this is our goal. The Board accomplishes this "par" by hiring competent money managers who have a proven and established track record of identifying good companies, buying and holding them.

The Board's **Financial Consultant** (Charles Mulfinger) helps us achieve our goal (*our 30 year average is 9.2%*) by guiding us through the "financial minefield" called the *MARKET PLACE*, identifying these money managers and hiring them under reasonable terms and conditions.

As explained to you over the past few years in our quarterly newsletters, the Fund portfolio was diversified over a variety of investments. When I joined the Board in 1996, the Fund portfolio (approximately \$85 million) had three (3) money managers which spread our investments into a mix of 60% equities and 40% fixed income. In the late 90's the Board gravitated towards a more aggressive investment philosophy with higher exposure to equities when it increased our equity investment to 65% and lowered our investment in fixed income (bonds) because we firmly believed the returns on fixed income would not help us attain our investment goal. The Board also increased the number of investment managers (from 3 money managers to 9 managers) in an effort to maximize our investment diversification.

Now the Board is working to increase our equity exposure even further moving to a mix of 70% equities and 30% fixed income. We are in the process of accomplishing this by **1)** reducing our investments in the bond market; **2)** buying our own building (stop by for a visit, it is your building!); **3)** establishing some exposure to small and mid cap investments (interviews of four small cap & mid cap money managers took place at our extended 8/18 meeting); **4)** participating in the real estate market through REITs and CORE real estate exposure and **5)** just within the last few months, investing in the **hedge fund market**.

Hedge Funds – A New Strategy: A hedge fund is classified as an *alternative investment*, different than traditional investments of buying stocks, bonds, and cash. The purpose of a hedge fund is to allow the professional money manager hired more flexibility in how they choose to invest. A hedge fund manager can take advantage of a falling market by shorting (borrowing and selling a security they don't own in hopes of buying it back at a later time, for a lower price) and using leverage (borrowing money on behalf of the plan and investing it to make a return on the money greater than the interest they were charged to borrow).

The objective of the hedge fund is to hire managers who have demonstrated skill in managing portfolios and can take advantage of the added flexibility within the permitted guidelines. The managers use many

different strategies to invest and demonstrate their expertise. Since they can be short the market, many hedge funds' objectives are to achieve absolute returns (positive returns whether the market is rising or falling). As part of a diversified portfolio, hedge funds can reduce risks since their returns are expected to be lower correlated (how the returns increase or decrease in relation to your other investments) to the traditional investment you already own. It is our belief that investing the hedge fund arena enhances our ability to reach our investment goals. Our hedge fund investments are in "fund of funds" which means each investment manager invests in several hedge funds to take advantage of different strategies and investment talents while minimizing volatility and diversifying risk. The Board has hired 2 "fund of funds" managers (Ironwood Capital Management and UBP Asset Management) and transferred approximately \$5 million to each.

25 & Out: After much debate in front of the Pompano Beach City Commission, a new and separate definition of "normal retirement" was added to the City Ordinance. This provision applies to fifteen (15) Police Officers only and allows them, **at their sole and exclusive discretion and at their own expense**, to retire after 25 years of service, but before they reach 47 years of age. The new language that was added to the definition of "normal retirement" can be found on our web site.

We are very grateful to the City Commission, the City Manager, BSO Sheriff Al Lamberti, PBA President Dick Brickman for their support and all of our Pension Board Professionals who assisted us in designing and implementing this new provision!!

Recently, we attended the **Annual Memorial & BBQ for K-9 Officer Scott Winters** at the Scott Winters' Park. This year we faced the dark reality of adding **Sgt. Chris Reyka** to the roll call of Pompano Beach Police & Firefighters killed in the line of duty. We also attended a march and rally to commemorate the 1st Anniversary of Chris' death (August 10, 2007). This case remains unsolved and BSO will not rest until the culprits are caught and brought to justice. **WE WILL NOT FORGET.**

Our Pensions Are Under Attack! – As always, the Board is at your service and we work very hard to secure your retirement, weather you are currently enjoying it, be it around the corner or many years into the future. However, our job is getting more and more difficult and storm clouds are gathering. Please read the enclosed copy of a 6/30/08 **Orlando Sentinel** editorial which calls for the disbanding of all defined benefit pensions for government employees. As you can read in the editorial, Leesburg, Florida, did just that and there are many other cities in the process of doing the same thing. So, when we say we are under attack, we mean **WE ARE UNDER ATTACK.** All of us must remain vigilant and our guard must be up against those who would seek to take from us that which we have earned!

CONGRATULATIONS: BSO Sgt. Dan Christophers & Fire Inspector John DeVoe were re-elected without opposition for a three year term. Commission appointee Richard Samolewicz was re-appointed by the Pompano Beach City Commission. Congratulations to all three Trustees and **THANK YOU** for your many hours of work you have dedicated to this Fund.

Until then, stay safe and stay in touch!

EDITORIAL

We think: It's good to see some cities scrapping costly pension systems

June 30, 2008

As cities slash their budgets in response to a sagging economy and the public's demand for lower taxes, more and more are finally beginning to attack their bloated pension programs.

Leesburg is the latest Central Florida city to recognize its pension plan -- which grew during the boom years -- is getting harder and harder to support as retirees live longer and investments take a dive. Leesburg commissioners wisely decided to cap pensions and begin providing employees the government's equivalent of a 401(k) plan that most businesses adopted years ago.

The move will save the city an estimated \$500,000 next year. It's a good decision in lean or fat times because government's relaxed retirement policies and retirees' longer life spans are threatening to put taxpayers across Florida and the nation on the hook.

If Leesburg city commissioners can make this move, Florida's Legislature ought to be able to find the courage to take on the state's unions and reform the pension plan. So far, though, the Legislature has preferred to ignore the economic realities that are as dangerous as a hurricane churning off the Florida coast -- it's only a matter of time before it hits.

A tame proposal by Sen. Mike Fasano to require new state employees to enter a defined-contribution plan rather than the defined-benefits plan couldn't even get a hearing during this year's session. And Mr. Fasano wasn't even proposing capping current employee pensions.

Let's be clear: Florida's pension plan for state and county workers is well funded and secure, but there are warning signs. During boom years, the pension fund's investments grew by as much as 18 percent. Last year, though, the growth was about 3 percent.

And the number of retirees supported by this plan continues to grow. In 1995, there were 100 workers for every 25 pensioners. Now there are better than 47 retirees for every 100 workers.

Remember, most government employees can retire after 30 years' service, roughly around age 55. As life expectancies improve, these retirees can receive benefits for 30 years or longer.

That's why pension plans across the country are hemorrhaging. The Government Accountability Office, Congress' investigative arm, reported 40 percent of state and local pension plans are seriously underfunded. State governments nationwide have fallen at least \$750 billion behind their obligations to retirees.

Could it happen in Florida? Well, a number of cities, including Miami and Fort Lauderdale, are struggling to feed their pensions.

Lawmakers shouldn't wait for a crisis to act. They ought to go one better than Mr. Fasano's proposal and do what Leesburg and other cities have done: Freeze pensions and adopt a defined-contribution plan.

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2008

LORD ABBETT/BOSTON *		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
Large Cap. Value		Gross	Net			
Quarter		(5.89)	(6.02)	(5.32)	(3.73)	(2.73)
1 year		(16.48)	(16.95)	(18.79)	(15.50)	(13.12)
3 year		3.85	3.27	3.51	4.57	4.40
Since 10/31/2004		4.49	3.93	5.70	NA	5.44
Lord Abbett/Boston - Since 9/30/2002		10.00		11.48	11.66	10.18
Lord Abbett/Boston - Since 6/30/1995		8.61		10.01	10.44	8.63
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
Large Cap. Growth						
Quarter		6.31	6.18	1.26	1.24	
1 year		(0.06)	(0.60)	(5.96)	(5.29)	
3 year		4.97	4.39	5.91	6.76	
5 year		9.58	8.98	7.33	9.04	
Since 5/31/2003		9.87	9.28	7.50	NA	
VOYAGEUR *				S&P 500	Dynamic Index**	
Large Cap. Asset Allocator						
Quarter		1.26	1.19	(2.73)		1.26
1 year		(5.04)	(5.33)	(13.12)		(5.96)
3 year		6.15	5.82	4.40		5.35
5 year		7.18	6.85	7.58		6.80
Since 9/30/2002		10.05	9.71	10.18		9.84
Since 3/31/2002		3.46		3.65		3.22
INVESCO				MSCI EAFE Net		
International						
Quarter		(3.90)	(4.04)	(2.26)		
1 year		(15.09)	(15.65)	(10.61)		
3 year		9.94	9.29	12.84		
Since 1/31/2004		10.77	10.13	12.52		
ALLEGIANCE CAPITAL				LB Int. Aggregate	LB Aggregate	LB Int. Gov/Credit
Fixed Income						
Quarter		(1.19)	(1.26)	(0.96)	(1.02)	(1.52)
1 year		5.13	4.86	7.18	7.13	7.39
3 year		3.46	3.21	4.35	4.08	4.27
5 year		3.31	3.06	3.85	3.86	3.49
Since 5/31/2003		3.27	3.02	3.79	3.75	3.42
STANDISH MELLON				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income						
Quarter		(1.00)	(1.08)	(1.02)	(0.96)	(1.52)
1 year		6.33	6.02	7.13	7.18	7.39
3 year		3.80	3.49	4.08	4.35	4.27
5 year		3.76	3.39	3.86	3.85	3.49
Since 4/30/2003		3.94	3.58	4.06	3.98	3.76
MUNDER CAPITAL				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income						
Quarter		(0.61)	(0.68)	(1.02)	(0.96)	(1.52)
1 year		7.91	7.64	7.13	7.18	7.39
3 year		4.48	4.26	4.08	4.35	4.27
5 year		4.28	4.04	3.86	3.85	3.49
Since 9/30/2002		4.46	4.20	4.32	4.18	4.08
INVESCO				NAREIT		
REIT						
Quarter		(4.90)	(5.09)	(4.93)		
1 year		(11.25)	(11.91)	(13.64)		
Since 6/30/2006		(0.46)	(1.23)	(1.40)		
INVESCO				NCREIF		
Private Real Estate						
Quarter		1.66	1.66	0.56		
1 year		7.79	7.79	9.21		
Since 7/31/2006		9.92	9.92	13.77		
OFFICE BUILDING				LB Aggregate	90-Day T-Bill	
Private Real Estate						
Quarter		1.50	1.50	(1.02)		0.41
1 year		4.81	4.81	7.13		2.77
Since 3/31/2007		5.05	5.05	5.22		3.17
UBP				HFRI FOF Cons		
Fund of Hedge Funds						
Since 4/30/08		1.00	1.00	1.15		
TOTAL FUND *				Policy Index	Composite Index	
Quarter		(0.51)	(0.62)	(1.42)	(1.53)	
1 year		(3.67)	(4.08)	(5.42)	(5.24)	
3 year		5.06	4.60	5.45	5.68	
5 year		6.95	6.50	7.31	7.46	
Since 9/30/2002		8.53	8.07	9.08	9.09	
Since 6/30/1995		7.21				

Policy Index comprised of 25% Russell 1000 Value/ 25% Russell 1000 Growth/ 15% Dynamic Index/ 23% LB Aggregate/ 12% LB Int. Aggregate for periods prior to January 31, 2004; 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 12% Dynamic Index/ 8% MSCI EAFE Net/ 23% LB Aggregate/ 12% LB Int. Aggregate for periods from January 31, 2004 to April 30, 2006; and 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 9.5% S&P 500/ 8% MSCI EAFE Net/ 22.5% LB Aggregate/ 10% LB Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF for periods thereafter.

* Per the Board's request, all performance results (including but not limited to rates of return, risk, measures, unit values, and dollar values) prior to September 30, 2002, were provided by GRS Asset Consulting Group, who was the previous consultant. The performance data is believed to be accurate, but there is no assurance. Smith Barney Consulting Group has not calculated or independently verified

the accuracy of the returns or market values and is not responsible or liable for any mistake or miscalculations. Effective September 30, 2002, all valuations and rates of return are calculated by Citi Institutional Consulting.

** Dynamic Index represents blended performance of S&P 500 BARRA Value for periods prior to July 31, 2003, S&P 500 BARRA Growth for periods from July 31, 2003 to April 30, 2006, & Russell 1000 Growth for periods thereafter