

**YOUR PENSION MATTERS**  
**06/30/12**  
**End of 3<sup>rd</sup> Quarter – FY 2011 - 2012**

by: Chief Paul O'Connell  
Board Chairperson  
8/22/12

**It won't be the economy that will do in the investors; it will be the investors themselves."**  
*Warren Buffet*

**OUR INVESTMENT SHIP.....THERE ARE STORM CLOUDS ON THE HORIZON  
AND CHOPPY WATERS ARE AHEAD!!**

You will remember during the summer of 2011, when faced with tax reform, the expiration of the "Bush tax cuts," a growing deficit and federal spending that some felt was out of control, Congress chose to "punt" rather than face the tough choices. The day of reckoning is fast approaching!

Here is what will happen over the next few months:

- The Bush tax cuts will end, including the current lower tax rates on capital gains, dividends, income and estates.
- The fiscal stimulus measures, such as the payroll tax cut and extended unemployment benefits will end.
- Significant federal spending cuts (known as the "**Sequester**") are scheduled to be triggered automatically in January 2013 and will take effect because Congress failed to act.

Taken together as a whole, estimates are that the above actions will have a negative impact on our economy to the tune of 4-5% on our GDP (\$600 billion). Experts fear the economy would experience a significant slowdown and there would be major consequences for our financial markets. Gary Blank, writing for Fidelity public affairs and policy (June 25, 2012) sees 4 possible scenarios as this day of reckoning approaches:

- The most likely scenario is that Congress punts again and pushes the tough decisions deeper into 2013 after the inauguration and the new Congress arrives.
- Congress and the President reach compromises on some tax and spending provisions; not likely with the election looming.
- Even less likely, Congress and the President fail to reach any kind of agreement and allow the economy to fall into the abyss.
- Even less likely than that is **The Grand Bargain** where Congress and the President reach a long term deal addressing tax reform, spending reform and deficit reduction. President

Obama and House Speaker John Boehner were very close on this concept of a Grand Bargain last summer until the Speaker walked away from the table.

**Where to from here? THE MARKET:** First let us review the Fund's Third Quarter which ended 6/30/12: What a quarter we saw! It was indeed a difficult market as Europe continued to be a drag on the world economy. In the first eight weeks of this quarter we saw the Dow drop almost 11%.

But for the late June rally (just like in 2011) this would have been a deeply negative quarter. That late rally took a gloomy quarter for the market and quickly changed it into a relatively flat quarter.

As you read through the attached quarterly reports for the Fund's FY 3<sup>rd</sup> quarter ending June 30<sup>th</sup>, keep in mind that it is not the daily reading of the market that counts, it is the long term results that do count. We are still climbing out of the deepest recession of our lifetime and there is much work yet to be done. Know that we are going in the right direction and working hard for our members.

**Where to from here?** Here is the general report card for the market as a whole through the first six (6) months of 2012. The S&P 500 is up 8.3%, the Dow is up 5.4% and the NASDAQ is up 12.7%. Why such good numbers in light of a gloomy outlook? As one hedge fund manager stated, "*We are the healthiest horse in the glue factory.*" (John Brynjolfsson of Armored Wolf Funds) In other words, while the global markets continue to teeter on the brink of a second recession (especially Europe), the US market looks a whole lot better (but not great). Here is our job as a Board of Trustees: we must take all the emotion out of the many decisions we make and we must look into the future with a vision that entails a timeline of 20 years or more. We rely on many experts to guide us along the way - consultants, actuaries, money managers and a legal team - all of whom were selected based on their respective expertise. There is much work yet to be done by your Board of Trustees and hopefully by our Congress (as explained above). Know that we are working hard for you, our members.

**House Bill 401** – Mark Twain once stated, "**No one is safe when the Legislature is in session.**" We have proof of that! Enclosed is information regarding HB 401 which dramatically alters the playing field in the arena of annuitant designations. It truly is important for those of us who have gone through the trauma of losing our spouse by death or divorce. Please take time to **CAREFULLY** review this information provided to us by our Board Counsel, Robert Sugarman.

**Board Elections:** Congratulations to Peter McGinnis and Paul O'Connell who were re-elected by acclamation to new three year terms. Also, congratulations to David Hall, who was re-appointed by the Pompano Beach City Commission to another three year term on the Board. The stability on the Board we have witnessed over the past years has been unmatched and we believe it is reflective of the trust you have in us as we continue to serve you. Our pledge to you is to continue this work and remain transparent in our actions.

**General Elections: Please remember to vote! If you don't vote, you don't count!!**

**Next issue: our year end report and what do the election results mean to us! Until then, stay safe and stay in touch!**

**SUMMARY OF RELEVANT FACTS**  
**Pompano Beach Police & Firefighters' Retirement System**  
**As of June 30, 2012**

<b>Distribution of Assets:</b>		
<b>Equity</b>		
-Large Cap. Value	\$29,409,651	
-Large Cap. Growth	\$19,739,576	
-Large Cap. Core	\$19,833,646	
-Mid Cap. Value	\$10,186,439	
-Small/Mid Cap. Growth	\$10,360,400	
-International Value	\$9,893,496	
-International Growth	\$9,966,308	
Total Equity	\$109,389,516	
Fixed Income	\$49,898,430	
Private Real Estate	\$12,295,609	
Fund of Hedge Funds	\$17,012,152	
Private Equity	\$1,319,920	
Cash (Non-Managed Account)	\$81,665	
Total Portfolio	\$189,997,291	

<b>Distribution by Percentages:</b>	<b>Policy</b>	<b>Current</b>
<b>Equity Breakdown</b>		
-Large Cap. Value	15.00%	15.48%
-Large Cap. Growth	10.00%	10.39%
-Large Cap. Core	10.00%	10.44%
-Mid Cap. Value	5.00%	5.36%
-Small/Mid Cap. Growth	5.00%	5.45%
-International Value	5.00%	5.21%
-International Growth	5.00%	5.25%
Total Equity	55.00%	57.57%
Fixed Income	25.00%	26.26%
Private Real Estate	7.50%	6.47%
Fund of Hedge Funds	10.00%	8.95%
Private Equity	2.50%	0.69%
Cash (Non-Managed Account)	0.00%	0.04%
Total Portfolio	100.00%	100.00%

<b>UBP Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$5,357,751
Gain or (Loss)		(\$22,029)
<b>Ironwood Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$5,372,178
Gain or (Loss)		(\$7,338)
<b>Pine Grove Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$6,282,223
Gain or (Loss)		(\$31,437)
<b>INVESCO (Private Real Estate)</b>		
Private Real Estate	100.00%	\$9,295,609
Fees		(\$25,471)
Gain or (Loss)		\$148,842
<b>MAIN ACCOUNT (NON-MANAGED)</b>		
Cash	100.00%	\$81,665
Gain or (Loss)		\$13
<b>OFFICE BUILDING</b>		
Total Assets	100.00%	\$3,000,000
Gain or (Loss)		\$11,210
<b>NB Crossroads (Private Equity)</b>		
Total Assets	100.00%	\$1,319,920
Gain or (Loss)		\$0

<b>Other Important Facts:</b>			
Total Portfolio			\$189,997,291
Total Gain or (Loss) - Gross of Fees			(\$6,403,588)
<b>LORD ABBETT</b>			
Total Assets	100.00%		\$29,409,651
Equity	96.02%		\$28,238,145
Cash	3.98%		\$1,171,506
Fees			(\$42,514)
Gain or (Loss)			(\$1,640,445)
<b>SANDS CAPITAL MANAGEMENT</b>			
Total Assets	100.00%		\$19,739,576
Equity	99.76%		\$19,692,935
Cash	0.24%		\$46,641
Fees			(\$41,198)
Gain or (Loss)			(\$1,923,661)
<b>CORNERSTONE</b>			
Total Assets	100.00%		\$19,833,646
Equity	96.47%		\$19,133,768
Cash	3.53%		\$699,879
Fees			(\$32,709)
Gain or (Loss)			(\$1,171,663)
<b>RBC GLOBAL</b>			
Total Assets	100.00%		\$10,186,439
Equity	99.12%		\$10,096,955
Cash	0.88%		\$89,484
Fees			(\$19,127)
Gain or (Loss)			(\$960,137)
<b>WELLS</b>			
Total Assets	100.00%		\$10,360,400
Equity	97.54%		\$10,105,134
Cash	2.46%		\$255,266
Fees			(\$24,549)
Gain or (Loss)			(\$565,993)
<b>INVESCO (International Value)</b>			
Total Assets	100.00%		\$9,893,496
Equity	95.94%		\$9,491,406
Cash	4.06%		\$402,089
Fees			(\$14,202)
Gain or (Loss)			(\$615,993)
<b>RENAISSANCE (International Growth)</b>			
Total Assets	100.00%		\$9,966,308
Equity	98.60%		\$9,827,261
Cash	1.40%		\$139,047
Fees			(\$16,114)
Gain or (Loss)			(\$667,102)
<b>STANDISH MELLON</b>			
Total Assets	100.00%		\$23,806,034
Fixed	96.82%		\$23,049,988
Cash	3.18%		\$756,046
Fees			(\$17,552)
Gain or (Loss)			\$448,968
<b>MUNDER CAPITAL MANAGEMENT</b>			
Total Assets	100.00%		\$23,479,982
Fixed	86.95%		\$20,415,428
Cash	13.05%		\$3,064,555
Fees			(\$15,275)
Gain or (Loss)			\$537,676
<b>MUNDER - OTHER ASSETS</b>			
Total Assets	100.00%		\$2,612,413
Fixed	88.05%		\$2,300,302
Cash	11.95%		\$312,112
Fees			\$0
Gain or (Loss)			\$55,501

**BREAKDOWN OF RETURNS**  
**Pompano Beach Police & Firefighters' Retirement System**  
**As of June 30, 2012**

**TRADITIONAL INVESTMENTS**

<b>LORD ABBETT</b>		<b>Your Returns</b>		<b>Russ 1000 Value</b>	<b>PSN Money Mgrs.</b>	<b>S&amp;P 500</b>
<i>Large Cap. Value</i>		<b>Gross</b>	<b>Net</b>			
	Quarter	(5.88)	(6.03)	(2.20)	(2.64)	(2.75)
	1 year	(3.34)	(3.92)	3.00	3.64	5.45
	3 year	12.42	11.76	15.80	15.92	16.40
	5 year	(2.38)	(2.96)	(2.19)	0.24	0.22
	Since 10/31/2004	2.92	4.70	4.00	NA	4.61
	<i>Lord Abbett/Boston - Since 9/30/2002</i>	6.43		7.69	8.25	7.55
	<i>Lord Abbett/Boston - Since 6/30/1995</i>	6.89		8.18	8.67	7.49
<b>SANDS CAPITAL</b>				<b>Russ 1000 Growth</b>	<b>PSN Money Mgrs.</b>	
<i>Large Cap. Growth</i>						
	Quarter	(6.69)	(6.82)	(4.02)	(4.71)	
	1 year	10.65	10.02	5.76	1.98	
	3 year	27.24	26.50	17.50	15.81	
	5 year	9.06	8.43	2.87	1.78	
	Since 5/31/2003	10.57	9.95	6.48	NA	
<b>CORNERSTONE</b>				<b>S&amp;P 500</b>	<b>PSN Money Mgrs.</b>	
<i>Large Cap. Core</i>						
	Quarter	(5.74)	(5.89)	(2.75)	(3.04)	
	1 year	3.74	3.08	5.45	4.44	
	3 year	13.54	12.81	16.40	15.86	
	Since 1/31/2009	15.72	15.02	18.32	NA	
<b>RBC GLOBAL</b>				<b>Russ Mid Value</b>	<b>PSN Money Mgrs.</b>	
<i>Mid Cap. Value</i>						
	Quarter	(8.60)	(8.77)	(3.26)	(2.67)	
	1 year	(3.95)	(4.63)	(0.37)	2.76	
	3 year	17.96	17.16	19.92	17.05	
	Since 1/31/2009	19.32	18.56	22.21	NA	
<b>WELLS</b>				<b>Russ 2500 Growth</b>	<b>PSN Money Mgrs.</b>	
<i>Small/Mid Cap. Growth</i>						
	Quarter	(5.05)	(5.26)	(5.37)	(5.27)	
	1 year	2.61	1.68	(3.18)	(3.77)	
	3 year	24.38	23.29	19.38	18.47	
	Since 1/31/2009	27.10	26.07	23.79	NA	
<b>INVESCO</b>				<b>ACWI x US/EAFE*</b>		
<i>International Value</i>						
	Quarter	(8.31)	(8.48)	(7.61)		
	1 year	(15.22)	(15.79)	(14.56)		
	3 year	3.47	2.81	5.66		
	5 year	(6.42)	(7.06)	(6.26)		
	Since 1/31/2004	3.43	2.77	3.75		
<b>RENAISSANCE</b>				<b>MSCI AC Wld x US</b>		
<i>International Growth</i>						
	Quarter	(7.03)	(7.18)	(7.61)		
	1 year	(10.77)	(11.33)	(14.56)		
	3 year	8.93	8.25	6.97		
	Since 1/31/2009	13.56	12.90	13.24		
<b>STANDISH MELLON</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<i>Fixed Income</i>						
	Quarter	1.92	1.92	2.06	1.32	1.48
	1 year	8.21	7.97	7.47	5.27	5.42
	3 year	7.84	7.55	6.93	5.98	5.81
	5 year	6.93	6.63	6.79	6.25	6.01
	Since 4/30/2003	5.30	4.97	5.21	4.86	4.59
<b>MUNDER CAPITAL</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<i>Fixed Income</i>						
	Quarter	2.34	2.34	2.06	1.32	1.48
	1 year	7.75	7.54	7.47	5.27	5.42
	3 year	7.33	7.08	6.93	5.98	5.81
	5 year	7.33	7.07	6.79	6.25	6.01
	Since 9/30/2002	5.57	5.31	5.30	4.93	4.73

\* Invesco comparison index comprised of 100% MSCI AC World ex US for periods since 6/30/11 & 100% MSCI EAFE for periods prior to 6/30/11

**ALTERNATIVE INVESTMENTS**

<b>INVESCO</b>					
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE
	Quarter	1.63	1.35	2.68	2.58
	1 year	8.91	7.50	12.05	12.43
	3 year	7.17	6.34	8.82	8.39
	5 year	(1.59)	(2.05)	2.51	(0.90)
	Since 7/31/2006	0.44	0.05	4.90	NA
<b>OFFICE BUILDING</b>					
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate
	Quarter	0.37	0.37	0.02	2.06
	1 year	(1.50)	(1.50)	0.07	7.47
	3 year	(13.92)	(13.92)	0.10	6.93
	5 year	(6.40)	(6.54)	0.71	6.79
	Since 3/31/2007	(5.85)	(5.98)	0.90	6.35
<b>UBP</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	(0.41)	(0.41)	(1.25)	
	1 year	(2.59)	(2.59)	(2.71)	
	3 year	2.75	2.75	2.43	
	Since 4/30/2008	(1.68)	(1.68)	(1.92)	
<b>Ironwood</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	(0.14)	(0.14)	(1.25)	
	1 year	0.25	0.25	(2.71)	
	3 year	7.51	7.51	2.43	
	Since 7/31/2008	(0.60)	(0.60)	(1.86)	
<b>Pine Grove</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	(0.50)	(0.50)	(1.25)	
	1 year	(1.02)	(1.02)	(2.71)	
	3 year	5.42	5.42	2.43	
	Since 9/30/2008	3.61	3.61	(0.12)	
<b>Neuberger Berman</b>					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	0.00	0.00	(2.75)	
	1 year	(2.39)	(1.74)	5.45	
	Since 3/31/2010	(14.33)	(3.44)	9.27	
<b>TOTAL FUND</b>					
<i>Time-Weighted Return (TWR)</i>				Policy Index	Composite Index
	Quarter	(3.22)	(3.34)	(1.91)	(1.72)
	1 year	1.54	1.00	1.77	2.32
	3 year	12.44	11.87	11.77	12.14
	5 year	3.04	2.56	1.79	2.61
	Since 9/30/2002	6.98	6.50	6.84	7.26
	Since 6/30/1995	6.64			
<b>TOTAL FUND</b>					
<i>Dollar-Weighted Net Return (IRR)</i>				Actuarial Rate	CPI +3
	Quarter		(3.36)	1.97	0.44
	1 year		1.09	8.10	4.76
	3 year		12.06	8.10	5.00
	5 year		2.44	8.10	4.94
	Since 9/30/2002		6.59	8.10	5.45

**Note**

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. Graystone Consulting 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 Graystone Consulting.