

YOUR PENSION MATTERS
06/30/2013
End of 3rd Quarter – FY 2012 - 2013

by: Chief Paul O'Connell
Board Chairperson
8/20/13

A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.

Winston Churchill

Trustee (former Vice Chairman) Richard Avallone: to say “thank you” hardly meets the mark when acknowledging all the work and dedication Richie has devoted to the Pension Board of Trustees for these past 18 years! But it is all we have and we hope Richie knows and understands that he will be missed. We certainly wish him the very best in his retirement years. **Well Done Richie!!**

Pension Protection Act of 2006 – you will recall in a prior newsletter (9/30/06) we wrote to you about the **P.P.A.** which Congress passed in 2006. Remember, the law allows public safety retirees who buy health, dental or long-term care insurance to exclude up to \$3,000 of that expense from their taxable income.

In order to qualify for the exclusion, you must have taken a normal or disability retirement from the City of Pompano Beach or BSO and the premium payment must be deducted from the Retirement System’s pension check and remitted directly to your insurer. If you took an early retirement or deferred vested retirement, you do not qualify for the exclusion. Also, the exclusion does not apply to your surviving dependants.

Although the Retirement System will take the deduction from your pension check, it will not make a determination regarding your eligibility for the exclusion or report the information on your annual 1099-R report. Therefore, you will be responsible for tracking the amount of your premiums and determining your eligibility in conjunction with your tax professional. We advise that you always keep your December check stub or deposit advice showing the year-to-date deductions. **Finally, consult with your tax advisor or you can refer to IRS Publication 575 issued in 2012 for more information.**

If you are making qualified health, dental or long-term care insurance premiums that are not currently deducted from your pension check, please contact our Pension Board staff and they will provide you with a form whereby you can authorize the deduction from your monthly pension payments.

THE MARKET: First, let us review the Fund’s FY Third Quarter which ended 6/30/13: all market cylinders were pumping in the right direction and the various markets were approaching record levels in May. Then June came along and, what promised to be an exceptionally good quarter, turned into an “okay” quarter. The S&P 500 gained +2.91% while the DJIA rose 2.92% and the Russell 1000 Index gained +2.61% (the Fund gained +0.87%). The Bond Markets took a hit across the board as the Federal Reserve hinted that the “Quantitative Easing” may be tapered

in the near future. That being said, the market machine gathered strength in July and August and record levels are back on the table. In fact, the S&P reached a new record of \$1,698.38 on July 22nd. So, while the numbers you see in the 6/30/13 report look “okay”, the Fund continues to grow at a positive rate; higher than our assumed rate of return (which is our benchmark).

Where to from Here? In a recent article in **Time** magazine (*Roger Altman*; August 12, 2013) the current economy was front and center. The article put forth the idea that the economy is ready to “Pop” and put forth five reasons in support of this proposition.

- **Housing:** Just like the “housing bubble” triggered the Great Recession, the recent and significant improvement in the housing market just may trigger the market recovery. Housing starts are up and housing prices have increased 12% over the last year. This has a domino effect because growth in housing causes growth in other areas such as manufacturing of appliances, pipes, wiring and furniture.
- **Energy:** What a difference a ½ decade can make!! Remember our 12/31/08 newsletter in which we wrote about the energy crisis and America’s “addiction to foreign oil”? Well, here we are in 2013 and America has reduced its oil consumption (thanks to better efficiency) and America is slated to increase its oil production from 5 million barrels a day (2008) to over 9 million barrels a day (2020). How did we do this? Technology and innovation is how. America has never shined brighter in the ability to adapt, invent and produce!
- **The Consumer:** About 70% of the U.S. economic activity comes from consumer spending. Since the Great Recession, Americans have paid down debt from 138% of income (2008) to 105% of income (2013). Now the America consumer seems ready to spend again. Retail sales grew 5.7% in June 2013 compared to a year ago. Car manufacturing has exploded as the Big Three are making record profits. This means more jobs which, in turn, means more consumer spending!
- **The Banks:** If the housing bubble was the trigger for the Great Recession, the Banks’ fingerprints were on that trigger. Now we have something different. After TARP and bailouts amounting to \$13 trillion, the Banks have recovered and are making loans again (up over 30% since 2008). And the Banks repaid these TARP loans with interest and are making record profits.
- **Technology:** “The rate of patenting by U.S. inventors is near an all-time high.” Tech firms are pouring record amounts of cash into R&D budgets. For example, last year Microsoft spent \$9.8 billion, Intel spent \$10 billion, Google spent \$6.8 billion and IBM spent \$6.3 billion on R&D.

As you read through the attached quarterly reports for the Fund’s FY 3rd quarter ending June 30th, keep in mind that it is not the daily reading of the market that counts, it is the long term results that count. We are **STILL** climbing out of the deepest recession of our lifetime and there is much work yet to be done. The current Bull Market is in its 53rd month: March 2009 to August 2013! Know that we are going in the right direction and working hard for our members.

Some more good news!! One of our money managers; **Ironwood Capital Management**, was awarded the **Fund of Hedge Funds of the Year**. The Ironwood team was recognized for its performance, innovation, reputation, and due diligence in protecting / investing its clients' funds. Again, this is a reflection of your Board of Trustees' continued dedication in finding the very best money managers to invest our monies in a way that limits risk while, at the same time, getting the very highest return possible.

Board Elections: Please remember to vote! If you don't vote, you don't count!! Remember, those you elect to the Board of Trustees act as your voice on the Board. The decisions the Board makes carry enormous long term consequences for all of us. Deadline is August 23rd at 5PM. If necessary, stop by the office to drop off your ballot.

Here is the line-up for Board Elections:

Fire: Mark Baker Mark Munson Jorge Rossi Rich Sandell

Police: Trustee Patrick Fletcher: congratulations to Patrick as he was re-elected by acclamation to another three-year term.

Congratulations to **Sharra Aaronian** as she was re-appointed by the Pompano Beach City Commission to another three-year term on your Board of Trustees!!

Next issue: our fiscal year end report! Until then, stay safe and stay in touch!

August 21, 2013

Dear Retirement System Participants both active and retired,

It is hard to believe that the past eighteen years have gone by so fast. It seems impossible that I participated in my very first pension board meeting as an elected trustee in September 1995. The total balance of our pension fund was \$89.5 million.

At that time, the pension board's office was transitioning from a small space, located at the F.A.A. tower within the city airport. The pension fund was growing and so were the responsibilities of the pension board trustees to produce higher investment returns. The late Joe McCoy was the Chairman of the Board, and the fund itself had three money managers handling our investments.

The world was a different place back then and keeping up the pension systems protocol, has become much more challenging since 1995. With these challenges the functions of a Pension Board Trustee have become much more demanding. The future of our pension system is dependent on Trustee involvement. Defined benefit pension systems are constantly under attack, not just in Pompano but across our nation. The pressure to produce significant investment returns for the nation's pension systems has been a relentless battle. In the 1980's, 1990's, and early 2000's, we had all grown accustomed to double-digit annual investment returns.

Unfortunately, that all came to a screeching halt with the September 11, 2001 terrorist attack in New York City. In the years following this event we were on our way to recouping the financial losses the fund had incurred and experiencing good investment returns seemed promising to all. As fate would have it, we were forced to encounter the worst financial collapse in 2008 and the nation's financial system suffered, almost to the extent, of the great depression. Our pension system had once again navigated its way through this catastrophic event in time and survived in true recovery mode. To this day we are still moving in an efficient and certainly positive direction.

At our last board meeting, Monday August 21, 2013, the total pension fund balance reported, as of June 30, 2013, was \$205,726,845. Our funds are much more diversified and we currently have 14 different money managers overseeing all of our various investments and 2 more are being added soon. Today our Retirement System owns a four story office building, on two acres of prime real estate, located on East Atlantic Blvd and N.E. 24th Avenue in the City of Pompano Beach. Seven years ago the board decided to institute an Annual Educational Symposium so our members, retirees, city officials and city residents can witness and review how the fund monies are handled and invested; transparency is paramount.

This progress and these accomplishments are due to the dedicated efforts and commitment of the men and woman who have served, and continue to serve, as Pension Board Trustees (see the attached list). The leadership of Board Chairman, Paul O'Connell, and our professional staff, currently Glenda and Debbie and formerly Kathy, Lindsay, Barbara and Brian, are and were an ideal balance of professionalism.

Over the years I have had the pleasure of serving on the board with many dedicated people. The current board of trustee members has been a pleasure to serve amongst. I would like to thank the fire department active members and the retirees for their support in making the Pompano Beach Retirement System a chapter in my life that I have been proud to take part in. Believe me, it's been a great experience.

Sincerely,

Richard E. Avallone, Trustee (Fire)
Pompano Beach Police & Firefighters' Retirement System

Pompano Beach Police & Firefighters' Retirement System

Established August 15, 1972

We wish to acknowledge those who have dedicated service to our Board of Trustees.

Charles E. Kirkland	1972 - 1981	Citizen
Paul Brorstrom	1972	Citizen
John Coffey	1972 - Chairman 1973 - 1977, 1985 - 1994	Citizen
James E. Taylor	1972 - Chairman 1972, 1973 - 1982	Police
John Riley	1972 - 1973	Police
Gary G. Morton	1972	Police
Eugene C. Hedges	1972 - 1976	Fire
Terry Vollmer	1972 - 1975	Fire
Billy F. Smith	1972 - 1988	Fire
Jerry K. Bowman	1973 & 1975	Citizen
Eugene Laramie	1973 - 1975	Police
F.L. Gillespie	1974 - 1984	Citizen
James C. Greene	1974 - 1975, 1987 - 1995	Police
David M. Cassell	1976 - 1978	Police
James E. Soderlund	1976 - Chairman 1978 - 1984	Fire
Shaun L. Leary	1977	Police
J. G. De Marco	1977 - 1979	Fire
Joe K. McCoy	1978 - Chairman 1984 - 2001	Citizen
Robert P. Adelman	1979 - 1985	Police
James N. Sposato	1979 - 1980	Police
David M. Praisler	1980 - 1995	Fire
William Elfo	1981 - 1982	Police
Bert Chesnut	1982 - 1986	Citizen
Raymond J. Kubas	1983 - 1986, 1988 - 1991	Police
David H. Flynn	1983 - 1984	Police
William C. Grainger	1984 - 1986	Fire
Barry A. DeRose	1985 - 1996	Police
Richard J. Healy	1986 - 1987	Police
Thomas E. Northrop	1987 - 1993	Fire
Morris Banner	1987 - 1988	Citizen
Bruce R. Gritter	1988 - 1990	Fire
James McKinley	1988 - 1991	Citizen
Woodrow J. Poitier	1991 - 1993	Fire
Kevin P. Butler	1992 - 1995	Police
James L. Jones	1993 - 1998	Citizen
Daniel O. Rosenquist	1993 - Chairman 2001 - 2005	Fire
Stephen K. Metcalf	1994 - 1996	Fire
Thomas F. Oliveto	1994 - 2000	Citizen
Robert R. Drago	1995 - 1996	Police
Ian R. Riffield	1995 - 1996	Police
Richard E. Avallone	1995 - present	Fire
Robert W. Lynn	1996 - 2006	Fire
Paul D. O'Connell	1996 - Chairman 2005 - present	Police
Gregory J. Flynn	1996 - 2004	Police
Brian K. McDonald	1996 - 1999	Police
Daniel M. Christophers	1999 - present	Police
Karl K. Weaver	1999	Citizen
Andrew J. Johnston	2000 - 2005	Citizen
Paul Livingway	2000 - 2006	Citizen
Kathy Rayson	2001 - 2004	Citizen
Patrick S. Fletcher	2004 - present	Police
Sharra Aaronian	2004 - present	Citizen
Ernest J. Lee, Jr.	2005 - 12/30/2010	Citizen
Richard H. Samolewicz	2005 - present	Citizen
Jeffery J. Valerga	2005 - 2008	Fire
Pete J. McGinnis	2006 - present	Fire
John P. DeVoe	2008 - present	Fire
David Hall	2010 - present	Citizen

Our Board is comprised of nine Trustees; three of these are appointed by the City Commission and are listed as "citizen". Police and Fire Trustees, three each, are elected by their respective pension plan participants.

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2013

Distribution of Assets:	
Equity	
-Large Cap. Value	\$31,800,213
-Large Cap. Growth	\$21,748,819
-Large Cap. Core	\$22,025,785
-Mid Cap. Value	\$11,833,134
-Small/Mid Cap. Growth	\$12,051,427
-International Value	\$10,096,925
-International Growth	\$11,174,020
Total Equity	\$120,730,323
Fixed Income	\$49,533,988
Private Real Estate	\$13,440,523
Fund of Hedge Funds	\$18,409,556
Private Equity	\$2,340,861
Cash (Non-Managed Account)	\$1,271,595
Total Portfolio	\$205,726,845

Distribution by Percentages:	Policy	Current
Equity Breakdown		
-Large Cap. Value	15.00%	15.46%
-Large Cap. Growth	10.00%	10.57%
-Large Cap. Core	10.00%	10.71%
-Mid Cap. Value	5.00%	5.75%
-Small/Mid Cap. Growth	5.00%	5.86%
-International Value	5.00%	4.91%
-International Growth	5.00%	5.43%
Total Equity	55.00%	58.68%
Fixed Income	25.00%	24.08%
Private Real Estate	7.50%	6.53%
Fund of Hedge Funds	10.00%	8.95%
Private Equity	2.50%	1.14%
Cash (Non-Managed Account)	0.00%	0.62%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)		
Private Real Estate	100.00%	\$10,440,523
Fees		(\$27,770)
Gain or (Loss)		\$470,203
OFFICE BUILDING		
Total Assets	100.00%	\$3,000,000
Gain or (Loss)		(\$16,825)
UBP Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$5,593,204
Gain or (Loss)		(\$7,911)
Ironwood Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$5,961,421
Gain or (Loss)		\$109,684
Pine Grove Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$6,854,930
Gain or (Loss)		\$126,433
MAIN ACCOUNT (NON-MANAGED)		
Cash	100.00%	\$1,271,595
Gain or (Loss)		\$4
NB Crossroads (Private Equity)		
Total Assets	100.00%	\$2,340,861
Gain or (Loss)		\$60,831

Other Important Facts:		
Total Portfolio		\$205,726,845
Total Gain or (Loss) - Gross of Fees*		\$1,820,360
BLACKROCK		
Total Assets	100.00%	\$31,800,213
Equity	97.81%	\$31,105,358
Cash	2.19%	\$694,855
Fees		\$0
Gain or (Loss)		\$300,845
SANDS CAPITAL MANAGEMENT		
Total Assets	100.00%	\$21,748,819
Equity	99.34%	\$21,606,129
Cash	0.66%	\$142,689
Fees		(\$32,938)
Gain or (Loss)		\$376,217
CORNERSTONE		
Total Assets	100.00%	\$22,025,785
Equity	96.90%	\$21,344,070
Cash	3.10%	\$681,715
Fees		(\$32,206)
Gain or (Loss)		\$786,459
RBC GLOBAL		
Total Assets	100.00%	\$11,833,134
Equity	98.82%	\$11,693,033
Cash	1.18%	\$140,100
Fees		(\$20,417)
Gain or (Loss)		\$287,796
WELLS		
Total Assets	100.00%	\$12,051,427
Equity	99.84%	\$12,031,982
Cash	0.16%	\$19,445
Fees		(\$26,262)
Gain or (Loss)		\$594,064
LAZARD (International Value)		
Total Assets	100.00%	\$10,096,925
Equity	98.93%	\$9,988,770
Cash	1.07%	\$108,154
Fees		(\$9,138)
Gain or (Loss)		(\$242,074)
RENAISSANCE (International Growth)		
Total Assets	100.00%	\$11,174,020
Equity	99.31%	\$11,096,546
Cash	0.69%	\$77,475
Fees		(\$17,842)
Gain or (Loss)		\$125,013
STANDISH MELLON		
Total Assets	100.00%	\$23,754,000
Fixed	108.42%	\$25,753,523
Cash	-8.42%	(\$1,999,523)
Fees		\$0
Gain or (Loss)		(\$611,228)
MUNDER CAPITAL MANAGEMENT		
Total Assets	100.00%	\$23,084,011
Fixed	81.36%	\$18,781,323
Cash	18.64%	\$4,302,688
Fees		\$0
Gain or (Loss)		(\$495,688)
MUNDER - OTHER ASSETS		
Total Assets	100.00%	\$2,695,977
Fixed	82.53%	\$2,225,020
Cash	17.47%	\$470,957
Fees		\$0
Gain or (Loss)		(\$43,463)

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2013

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
<i>Large Cap. Value</i>		Gross	Net			
	Quarter	0.92	0.92	3.20	3.11	2.92
	Since 1/31/2013	5.23	5.23	8.83	NA	5.16
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	1.70	1.55	2.06	2.25	
	1 year	17.45	16.75	17.05	18.61	
	3 year	23.87	23.14	18.67	17.91	
	5 year	12.64	11.98	7.47	6.56	
	Since 5/31/2003	11.23	10.61	7.48	NA	
CORNERSTONE				S&P 500	PSN Money Mgrs.	
<i>Large Cap. Core</i>						
	Quarter	3.58	3.58	2.92	2.88	
	1 year	24.66	24.07	20.60	21.28	
	3 year	18.30	17.60	18.45	18.45	
	Since 1/31/2009	17.68	17.01	18.83	NA	
RBC GLOBAL				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
	Quarter	2.46	2.29	1.66	2.92	
	1 year	27.83	26.96	27.64	24.33	
	3 year	19.42	18.61	19.52	18.23	
	Since 1/31/2009	21.20	20.41	23.42	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
	Quarter	5.05	4.82	3.22	3.85	
	1 year	24.66	23.58	24.02	26.18	
	3 year	23.28	22.19	20.22	20.08	
	Since 1/31/2009	26.55	25.80	23.84	NA	
LAZARD				MSCI ACWI x US		
<i>International Value</i>						
	Quarter	(2.34)	(2.43)	(3.11)		
	Since 1/31/2013	(3.52)	(3.61)	(3.95)		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
	Quarter	1.11	0.95	(3.11)		
	1 year	12.81	12.08	13.65		
	3 year	10.19	9.49	8.00		
	Since 1/31/2009	13.39	12.72	13.33		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	(2.51)	(2.51)	(2.33)	(1.78)	(1.70)
	1 year	(0.01)	(0.24)	(0.69)	(0.12)	0.29
	3 year	4.06	3.77	3.51	3.02	3.14
	5 year	5.63	5.33	5.19	4.76	4.58
	Since 4/30/2003	4.76	4.44	4.61	4.36	4.16
MUNDER CAPITAL				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	(2.10)	(2.10)	(2.33)	(1.78)	(1.70)
	1 year	0.65	0.45	(0.69)	(0.12)	0.29
	3 year	4.25	4.00	3.51	3.02	3.14
	5 year	5.84	5.58	5.19	4.76	4.58
	Since 9/30/2002	5.10	5.10	4.72	4.45	4.31

ALTERNATIVE INVESTMENTS

INVESCO					
<i>Private Real Estate</i>		Gross	Net	BC AGG/ NCREIF	NCREIF ODCE
	Quarter	4.71	4.43	2.87	NA
	1 year	13.89	12.32	10.73	NA
	3 year	15.47	14.05	13.15	NA
	5 year	(0.50)	(1.24)	2.80	NA
	Since 7/31/2006	2.28	1.73	5.73	NA
OFFICE BUILDING					
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate
	Quarter	(0.56)	(0.56)	0.01	(2.33)
	1 year	(1.64)	(1.64)	0.07	(0.69)
	3 year	1.61	1.61	0.08	3.51
	5 year	(7.59)	(7.59)	0.17	5.19
	Since 3/31/2007	(5.19)	(5.19)	0.77	5.19
UBP					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	(0.14)	(0.14)	0.65	
	1 year	4.39	4.39	7.05	
	3 year	2.54	2.54	2.93	
	5 year	(0.75)	(0.75)	(0.57)	
	Since 4/30/2008	(0.53)	(0.53)	(0.34)	
Ironwood					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	1.87	1.87	0.65	
	1 year	10.86	10.86	7.05	
	3 year	7.81	7.81	2.93	
	Since 7/31/2008	1.65	1.65	(0.20)	
Pine Grove					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	1.88	1.88	0.65	
	1 year	9.12	9.12	7.05	
	3 year	4.77	4.77	2.93	
	Since 9/30/2008	4.75	4.75	1.24	
Neuberger Berman					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	2.79	2.78	2.92	
	1 year	9.73	10.43	20.60	
	3 year	(7.95)	4.01	18.45	
	Since 3/31/2010	(7.36)	3.97	12.64	
TOTAL FUND					
<i>Time-Weighted Return (TWR)</i>				Policy Index	Composite Index
	Quarter	0.87	0.81	0.69	0.73
	1 year	13.11	12.56	12.87	13.18
	3 year	12.04	11.49	11.86	11.95
	5 year	6.41	5.89	5.83	6.33
	Since 9/30/2002	7.54	7.05	7.55	7.79
	Since 6/30/1995	6.99			
TOTAL FUND					
<i>Dollar-Weighted Net Return (IRR)</i>				Actuarial Rate	CPI +3
	Quarter		0.83	1.87	0.94
	1 year		12.62	7.70	4.75
	3 year		11.62	7.70	5.35
	5 year		5.75	7.70	4.33
	Since 9/30/2002		7.10	7.70	5.41

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.