

YOUR PENSION MATTERS

09/30/2013 Edition

End of FY 2012 - 2013

by: Chief Paul O'Connell
Board Chairperson
11/19/13

"The past is never dead; it isn't even past." **Requiem for a Nun** by William Faulkner

Five Year Anniversary: During the past few months the media has revisited the Financial Meltdown of 2008 (AKA: The Great Recession). No doubt each of us has personal memories of the series of events that led to the meltdown and almost led this country into another Depression. Certainly each of us with personal portfolios spent many sleepless nights wondering if our respective families would financially survive the carnage. And certainly your Pension Board of Trustees has a vivid memory of watching the red ink flow as our Fund lost millions of dollars. What, as a country, have we learned? Well, it seems the answer is, **not much**; thus, the quote above which highlights that fact. Back in 2008 - 2009 the debate about our financial institutions was, "Too Big To Fail." Today the question is: are these same financial institutions (some of which are bigger today than they were in 2008) "Too Big To Manage" or even worse, "Too Big To Save"?? You decide. In support of the aforementioned.....

Time Magazine, in its September 23rd edition titled **How Wall Street Won**, published a series of articles which described the events leading up to the meltdown, what three key players did to prevent the onset of a deep Depression and how, because we have not learned our lesson, it could happen all over again. Those three key persons were **Hank Paulson**, Treasury Secretary under President Bush; **Timothy Geithner**, Treasury Secretary under President Obama and **Ben Bernanke**, Fed Chairman since 2006 (his second term ends January 31, 2014). Love them or vilify them, one cannot argue the impact these three men had on guiding this country through the wreckage and out of the abyss.

Please take some time to read **Your Pension Matters**, Special Edition dated October 21, 2008. Go to our Fund website: www.pbpfrs.org and hit the link to all of our past Newsletters. That particular edition of our continuing series of newsletters brought to light the work that we do and how we do it. Perhaps the most important quote from that Newsletter was, *"let us be very clear, panic is the enemy while calm, cool decision-making is our ally."* Your Board of Trustees works very hard to maintain its focus on the 30 Year horizon, not the daily, weekly or even monthly gyrations of Wall Street and the marketplace. We must and we do work in an emotional vacuum in order to be effective in the administration of our Fund assets. Know that we rely on our Consultant to recommend the very best money managers and develop a balanced asset portfolio. Then we rely on those money mangers to invest our money wisely with a good balance of risk and reward. Based on where the Fund was during those dark days at the end of the Recession (March 2009) and where we are now, we can say with confidence that we survived the storm; perhaps even thrived because we never panicked. Know that our tasks are ongoing; we will never post in our office a banner which states: "Mission

Accomplished” because our mission is endless; but our dedication is boundless. Thus we will continue to navigate the marketplace and share with you, in a transparent way, the decisions we make; how and why we make them. We will also share with you information that you can accept and utilize as you see fit; or you can simply and wholly reject. Information (such as the information in the following paragraph) is the critical element in making informed decisions in your respective financial situation. You have our commitment going forward that we will continue to share relevant and valuable information with you.

In the September 2013 issue of Consumer Reports there was an in-depth article titled “Grow Your Savings.” Here is what we took away from that informative article, which described the world of investing in private company 401(k) or mutual funds:

The **best** way to predict a fund’s performance is to look at the fees charged. You might think the most important element in picking a mutual fund is past performance or the experience of the fund’s manager. Those are important; but the one element that can have the greatest impact is the fees charged. Fees such as investment management fees, plan administration fees and insurance fees (for certain annuities) can add up. For example, consider the impact of a margin of just 1% in fees on a \$25,000 investment growing at an average 7% annually. Now, subtract an annual fee of 0.5%; that investment grows to \$227,000 over 35 years (assuming no additional contributions). Now change the annual fee to 1.5% and your final nest egg is reduced by 28% to \$163,000.

Index funds or target date / life cycle funds typically carry the least amount of fees but you should take care to measure those expenses carefully. Here is a comparison of a \$50,000 investment over a 20 year period that will “open your eyes.”

Fund family & ticker symbol	Expense Ratio (%)	total cost
Vanguard Target Retirement 2030 (VTHR)	0.17	\$3,531
TIAA-CREF Lifecycle 2030 (TCRIX)	0.47	\$9,416
Fidelity Freedom K 2030 (FFKEX)	0.62	\$12,199
Blackrock Life Path Active 2030 (BIPEX)	0.67	\$13,104
T. Rowe Price Retirement 2030 (TRRCX)	0.75	\$14,529

As you can see, the expenses do add up; even in the low cost index funds. Remember, fund performance and the experience / longevity of the fund manager are important. But fees paid over the life of your investment can have a significant impact as illustrated in this excellent article published by Consumer Reports in its September 2013 issue.

Our Fund’s performance for FY 2012 – 2013: Attached you will find the performance reports for our Fund. In comparison, the marketplace also performed well year-to-date (YTD). Here

are the general market numbers YTD (as of 9/30/13): **DOW +15.5%; S&P 500 + 17.9% and NASDAQ +24.9%**. Please remember our Fund has a mixture of equities, bonds and alternative investments. The Fund will never match the aforementioned indexes. Our Fund diversifies over a broad range of investments in an effort to capture most of the up market and as little as possible of the down market.

Of course the current market has been extremely volatile in light of the political dysfunction in Washington and the 2½ week shutdown of the Federal Government. That dysfunction has had a negative impact on the marketplace and continues to place uncertainty in the job market. It seems that scoured earth politics has taken the place of leadership. The “Deal” that was reached on October 16th was only a deal to “kick the can down the road” i.e. short term relief. The stage is set for another confrontation in early 2014 when the country has to suffer through more uncertainty because of Washington’s lack of leadership.

A special invitation to our Retired FF!! Many years ago the Board of Trustees issued an invitation to our retired members to select one person from among their respective ranks (one from PD and one from FF) to attend all of our meetings and speak on behalf of our retirees. Retired Chief of Police Gary Morton (a Trustee on the **ORIGINAL** Board of Trustees in 1972 and a former Chairman) answered the call and has given his insight to the Board for the past eight (8) years. No one expressed an interest from the retired FF side of the membership. So, the Board is once again extending an invitation to our retired FF to select one person among their ranks to attend Board meetings and speak on behalf of his/her fellow retirees. Please call or write to our staff to express an interest in this important position. Your voice should be heard!

DROP – Self-Directed: for those of us who have DROP monies in the self-directed investment option, some changes are now in effect. Tegrit was the Administrator for those investment options. Tegrit has been purchased by Alerus Retirement Solutions. During the transition, there was a “blackout” period during which members of this group were unable to access their respective accounts to change investments or receive a distribution.

This is a very normal element of a transition period when one administrator purchases another administrator. Our Board staff worked very hard with both Alerus and Tegrit to ensure a seamless transition. In addition, our staff sent several notices to all of those affected by this transition and worked with our members to ensure there were no “bumps in the road” during this short time period. Many thanks to Glenda and Debra for their hard work! By the way, please visit the new website and take a look at the enhanced research options which apply to those mutual funds which are offered as investment vehicles to those members who like to control their own destiny. The website is www.alerusretirementsolutions.com. Should you have any questions, do not hesitate to contact our staff at our pension office.

Congratulations to Firefighter Jorge Rossi who was elected to a three-year term by his fellow Firefighters! Trustee Rossi will now serve on the Pension Board of Trustees until September 2016. Welcome to the Board Jorge and be ready to work!!

Committee work is where the seeds of our accomplishments are planted. Committee work may seem tedious and mundane; but this work is critical to getting the job done. At our September Board meeting we appointed the following Trustees to the following Committees:

Investment Committee: Sharra Aaronian, Chair
David Hall
Jorge Rossi
Dan Christophers
Peter McGinnis

Professional Advisory Committee: Richard Samolewicz, Chair
John DeVoe
Pat Fletcher
David Hall

Building Committee: Peter McGinnis, Chair
Sharra Aaronian
John DeVoe
David Hall

Communications Committee: Pat Fletcher, Chair
Sharra Aaronian
John DeVoe

The Board of Trustees selected Paul O'Connell as Chairperson and Richard Samolewicz as Vice-Chairperson for the Board of Trustees for the coming fiscal year. Both Richard and I extend our thanks to the Board Trustees for their continued trust and confidence in us.

In the meantime and on behalf of the Pension Board of Trustees, I wish you a very happy holiday season as we look forward to a New Year.

As always, please stay safe and stay in touch!

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

Distribution of Assets:

Equity	
-Large Cap. Value	\$32,609,722
-Large Cap. Growth	\$25,240,093
-Large Cap. Core	\$22,626,164
-Mid Cap. Value	\$12,143,907
-Small/Mid Cap. Growth	\$13,136,765
-International Value	\$10,991,049
-International Growth	\$12,438,591
Total Equity	\$129,186,291
Fixed Income	\$49,854,564
Private Real Estate	\$13,646,337
Fund of Hedge Funds	\$18,703,267
Private Equity	\$2,483,839
Cash (Non-Managed Account)	\$1,537,685
Total Portfolio	\$215,411,982

Distribution by Percentages:

	Policy	Current
Equity Breakdown		
-Large Cap. Value	15.00%	15.14%
-Large Cap. Growth	10.00%	11.72%
-Large Cap. Core	10.00%	10.50%
-Mid Cap. Value	5.00%	5.64%
-Small/Mid Cap. Growth	5.00%	6.10%
-International Value	5.00%	5.10%
-International Growth	5.00%	5.77%
Total Equity	55.00%	59.97%
Fixed Income	25.00%	23.14%
Private Real Estate	7.50%	6.33%
Fund of Hedge Funds	10.00%	8.68%
Private Equity	2.50%	1.15%
Cash (Non-Managed Account)	0.00%	0.71%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)

Private Real Estate	100.00%	\$10,646,337
Fees		(\$28,419)
Gain or (Loss)		\$234,233

OFFICE BUILDING

Total Assets	100.00%	\$3,000,000
Gain or (Loss)		(\$19,592)

UBP Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$5,672,577
Gain or (Loss)		\$79,373

Other Important Facts:

Total Portfolio	\$215,411,982
Total Gain or (Loss) - Gross of Fees*	\$11,797,986

BLACKROCK

Total Assets	100.00%	\$32,609,722
Equity	96.16%	\$31,358,012
Cash	3.84%	\$1,251,709
Fees		(\$127,074)
Gain or (Loss)		\$1,184,508

SANDS CAPITAL MANAGEMENT

Total Assets	100.00%	\$25,240,093
Equity	99.44%	\$25,098,724
Cash	0.56%	\$141,369
Fees		(\$32,616)
Gain or (Loss)		\$4,091,274

CORNERSTONE

Total Assets	100.00%	\$22,626,164
Equity	96.79%	\$21,900,143
Cash	3.21%	\$726,020
Fees		(\$32,206)
Gain or (Loss)		\$1,075,379

RBC GLOBAL

Total Assets	100.00%	\$12,143,907
Equity	96.40%	\$11,707,274
Cash	3.60%	\$436,633
Fees		(\$10,335)
Gain or (Loss)		\$730,774

WELLS

Total Assets	100.00%	\$13,136,765
Equity	99.23%	\$13,035,060
Cash	0.77%	\$101,705
Fees		(\$27,196)
Gain or (Loss)		\$1,485,338

Ironwood Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$6,097,784
Gain or (Loss)		\$136,363

Pine Grove Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$6,932,906
Gain or (Loss)		\$77,976

LAZARD (International Value)

Total Assets	100.00%	\$10,991,049
Equity	96.83%	\$10,642,511
Cash	3.17%	\$348,538
Fees		(\$13,191)
Gain or (Loss)		\$894,124

RENAISSANCE (International Growth)

Total Assets	100.00%	\$12,438,591
Equity	97.93%	\$12,181,075
Cash	2.07%	\$257,516
Fees		(\$18,119)
Gain or (Loss)		\$1,464,571

STANDISH MELLON

Total Assets	100.00%	\$23,960,279
Fixed	98.53%	\$23,608,631
Cash	1.47%	\$351,648
Fees		(\$36,441)
Gain or (Loss)		\$206,279

MUNDER CAPITAL MANAGEMENT

Total Assets	100.00%	\$23,186,673
Fixed	90.97%	\$21,092,226
Cash	9.03%	\$2,094,447
Fees		\$0
Gain or (Loss)		\$102,661

MUNDER - OTHER ASSETS

Total Assets	100.00%	\$2,707,612
Fixed	90.65%	\$2,454,381
Cash	9.35%	\$253,231
Fees		\$0
Gain or (Loss)		\$11,635

NB Crossroads (Private Equity)

Total Assets	100.00%	\$2,483,839
Gain or (Loss)		\$42,978

MAIN ACCOUNT (NON-MANAGED)

Cash	100.00%	\$1,537,685
Gain or (Loss)		\$113

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

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
<i>Large Cap. Value</i>		Gross	Net			
	Quarter	3.74	3.34	3.95	4.35	5.25
	Since 1/31/2013	9.17	8.74	13.13	NA	13.91
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	19.17	19.00	8.12	7.88	
	1 year	29.21	28.44	19.27	20.81	
	3 year	24.61	23.89	16.94	16.21	
	5 year	21.13	20.42	12.07	11.21	
	Since 5/31/2003	12.85	12.22	8.11	NA	
CORNERSTONE				S&P 500	PSN Money Mgrs.	
<i>Large Cap. Core</i>						
	Quarter	4.93	4.62	5.25	5.47	
	1 year	19.90	19.17	19.35	20.47	
	3 year	16.06	15.33	16.27	16.45	
	Since 1/31/2009	17.87	17.16	19.03	NA	
RBC GLOBAL				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
	Quarter	6.31	6.22	5.89	5.82	
	1 year	27.67	26.92	27.76	26.53	
	3 year	17.39	16.62	17.26	16.46	
	Since 1/31/2009	21.54	20.77	23.54	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
	Quarter	12.63	12.38	11.94	11.12	
	1 year	33.91	32.75	31.94	32.54	
	3 year	22.75	21.69	19.79	19.78	
	Since 1/31/2009	28.18	25.80	25.42	NA	
LAZARD				MSCI ACWI x US		
<i>International Value</i>						
	Quarter	8.86	8.72	10.09		
	Since 1/31/2013	5.02	4.80	5.75		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
	Quarter	13.28	13.10	10.09		
	1 year	24.31	23.53	16.50		
	3 year	10.00	9.30	5.96		
	Since 1/31/2009	15.68	14.99	14.92		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	0.87	0.71	0.57	0.76	0.62
	1 year	(1.30)	(1.59)	(1.68)	(0.71)	(0.49)
	3 year	3.42	3.11	2.86	2.58	2.42
	5 year	6.20	5.88	5.41	4.95	4.96
	Since 4/30/2003	4.73	4.40	4.56	4.33	4.12
MUNDER CAPITAL				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	0.44	0.44	0.57	0.76	0.62
	1 year	(0.97)	(1.10)	(1.68)	(0.71)	(0.49)
	3 year	3.45	3.22	2.86	2.58	2.42
	5 year	5.98	5.74	5.41	4.95	4.96
	Since 9/30/2002	5.03	5.03	4.67	4.42	4.27

ALTERNATIVE INVESTMENTS

INVESCO					
<i>Private Real Estate</i>		Gross	Net	Russell NCREIF	NCREIF ODCE
	Quarter	2.25	1.97	2.59	3.56
	1 year	12.89	11.65	11.01	13.04
	3 year	13.36	12.05	12.68	14.27
	5 year	(0.15)	(0.95)	3.36	0.68
	Since 7/31/2006	2.52	1.95	5.90	3.76
OFFICE BUILDING					
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate
	Quarter	(0.65)	(0.65)	0.01	0.57
	1 year	(1.75)	(1.75)	0.06	(1.68)
	3 year	(1.83)	(1.83)	0.07	2.86
	5 year	(8.03)	(8.03)	0.10	5.41
	Since 3/31/2007	(5.09)	(5.09)	0.74	5.08
UBP					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	1.42	1.42	1.54	
	1 year	4.61	4.61	6.93	
	3 year	2.24	2.24	2.75	
	5 year	0.78	0.78	1.52	
	Since 4/30/2008	(0.25)	(0.25)	(0.01)	
Ironwood					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	2.29	2.29	1.54	
	1 year	11.00	11.00	6.93	
	3 year	7.56	7.56	2.75	
	5 year	4.17	4.17	1.52	
	Since 7/31/2008	2.02	2.02	0.13	
Pine Grove					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	1.14	1.14	1.54	
	1 year	7.86	7.86	6.93	
	3 year	4.25	4.25	2.75	
	Since 9/30/2008	4.74	4.74	1.52	
Neuberger Berman					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	1.81	1.77	5.25	
	1 year	9.39	9.84	19.35	
	3 year	3.28	3.79	16.27	
	Since 3/31/2010	(6.38)	4.42	13.33	
TOTAL FUND					
<i>Time-Weighted Return (TWR)</i>				Policy Index	Composite Index
	Quarter	5.78	5.57	4.39	4.64
	1 year	14.36	13.74	12.83	13.38
	3 year	10.99	10.41	10.42	10.63
	5 year	9.25	8.70	8.20	8.75
	Since 9/30/2002	7.91	7.42	7.79	8.04
	Since 6/30/1995	7.22			
TOTAL FUND					
<i>Dollar-Weighted Net Return (IRR)</i>				Actuarial Rate	CPI +3
	Quarter		5.53	1.87	1.24
	1 year		13.72	7.70	4.23
	3 year		10.41	7.70	5.28
	5 year		8.58	7.70	4.29
	Since 9/30/2002		7.42	7.70	5.40

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.