

YOUR PENSION MATTERS
6/30/18
End of 3rd Quarter – FY 2017 - 2018

by: Chief Paul O'Connell
Board Chairperson
08/25/18

“I will prepare and someday my opportunity will come.” Abraham Lincoln

Sgt. Chris Reyka Park Dedication – the new date has been set!

Sunday, October 7th at noon!! The Park is located at 200 North Riverside. Parking will be on the east side of the road. Refreshments will be provided!!

See you there!!

Social Security – no doubt you have read the headlines – *Social Security depletion date will occur in late 2034 and Medicare’s hospital insurance fund depletion date will occur in late 2026.* Kind of scary!

What does this really mean?? The SSA Trustees announced *“the total annual cost of the program is projected to exceed the total annual income in 2018 for the first time since 1982, and remain higher throughout the 75-year projection period.”* The Social Security Trustees then projected the SS trust fund will run out of money by 2034 and Medicare’s fund for paying costly hospital bills will be depleted by 2026.

Put another way, the government is giving out more money in benefits than it is taking in via Security/Medicare taxes and the Fund must soon dip into reserves. Needless to say, this cannot last forever, thus the new depletion dates were part of this report. If nothing is done, then around 2034 Social Security benefits will automatically be reduced by approximately 25%.

Here is where things may get more complicated: The *Wall Street Journal* reports (6-23-18) that **more than 40% of households headed by people 55 – 70 YOA** lack sufficient resources to maintain their living standard in retirement. Now add to that the disappearance of defined benefit pension plans for most private companies. Then add the fact that we are currently in a decline in working age population. Thus, there are less workers contributing into SS – Medicare. Also remember, **10,000 baby boomers enter SS every day!** Finally, **health care costs:** since 1999, average worker contributions toward individual health insurance premiums have risen 281% during a period of 47% inflation. Those same costs carry over into retirement.....**remember Medicare DOES NOT** cover all medical expenses. The retiree must cover the deductibles and many other items not covered by Medicare. Pretty grim picture is being painted of the near future for retirees; either current or nearing retirement!

Treasury Secretary Steven Mnuchin stated, “(l)ackluster economic growth in previous years, as well as the

aging population, has contributed to shortages for both Social Security and Medicare.” **AARP** said in a statement the recent report (issued by the trustees of the program on June 5, 2018) sounds the alarm for action. “In particular, we need to take further steps to lower the cost of health care, especially the ever-raising price of prescription drugs.”

First and foremost, Congress needs to act! Just like it did in 1982 – 1983, when then **President Reagan and House Speaker Tip O’Neil** worked together to boost the financial strength of both systems by providing the system changes necessary for a secure financial future. That time has come again! Can Congress do its job? Only time will tell.....so stand by.

We respectfully suggest that you **VOTE** in August (primary) and in November, 2018. You don’t vote; you don’t count!!

THE MARKET:

First, everything in the market is being complicated by the Trump Administration’s **Trade War with the World, which has moved from “trade war talk to trade war action.”**

We will attempt to explain this battle with the help of Jill Schlesinger, CFP, in her recent column “Jill on Money” (6/24/18)

- First - what is a trade deficit? It occurs when a nation imports more than it exports. In 2017 the US imported \$2.9 trillion in goods and services while it exported \$2.3 trillion resulting in a trade deficit of \$566 billion. We import oil, computers, automobiles, etc. Meanwhile, we export intellectual property, natural gas, tourism, aircraft and medical equipment, etc.
- Next – is our trade deficit increasing? During good economic times, companies and consumers spend more, especially on products made overseas (travel, cars, TV etc.). Strange as it may seem, the Trump Administration’s own tax policy (cuts) may be contributing to the current trade deficit, because those cuts have led to more spending, more imports and less savings. Additionally, the strengthening US economy has led to higher interest rates, which makes foreign investors more eager to place their money in the US – another contributing factor to the deficit.
- Are trade deficits bad? – Although Commerce Secretary Wilbur Ross said that trade deficits “weaken our economy,” economists say that it is not the case that deficits do not mean the US loses; nor surpluses mean the US wins. Imports have no effect on GDP, positive or negative, and most economists say that trade **boosts** the overall economy by lowering prices and increasing productivity.
- Our biggest trade deficit is with.....China (not a surprise!). In 2017, the value of Chinese goods imported to the US was roughly \$375 billion while the US exported to China about \$38.5 billion in services & products; leading to a trade deficit of about \$336 billion. Our next largest trade deficit is with the EU and in 2017 it was approximately \$101 billion.
- The US trade surplus is with six of the 15 major trading partners; Hong Kong \$35 billion, Brazil \$28 billion, Singapore \$20 billion and the UK \$14 billion are the top four.

- Clearly, the Trump Administration wants to “*level the trading floor*” as it attempts to impose tariffs on goods imported into the US from China, Canada, Mexico, the EU, etc. The “problem” with this strategy is those countries will respond in kind by imposing tariffs on US goods & services coming into their respective countries. Uncertainty lies ahead for the marketplace. Stand by for a bumpy ride and fasten your seat belts

A little history brought to you by *North Carolina Congressman Mark Meadows (R)* who acknowledged it is understandable that many people are worried that a full blown trade war would be bad for the economy. Staunch Trump supporter **Congressman Mark Meadows** recently stated:

“The Commerce Department’s recommendation to impose tariffs ignores history, and it ignores the reality that US manufacturing will ultimately be the loser with these protectionist policies,” - Rep. Mark Meadows

That history that Meadows is referring to includes the infamous Smoot-Hawley Act of 1930, which was passed to help alleviate The Great Depression. However, that law raised 900 tariffs on various goods (by 40% to 48%) and resulted in a full-blown global trade war that [actually made the Depression worse](#) as US exports fell off a cliff. In fact, between 1929 and 1933, Smoot-Hawley caused US exports to decline by 67%. Meanwhile global trade in general collapsed by 65% and many US manufacturers went out of business as a result.

Can we learn from history?

Now, let us review the **Fund’s FY Third Quarter** which ended 6/30/18: overall the market continues its pattern of “*slow growth mode*”. Nothing wrong with that!! But the ride has been volatile (see above)!! Indeed, this market set a new record for a *Bull Market* on August 23rd as it entered market day # 3,543. In addition, our job market is very strong; but wages are stagnating. Anyone can find a job; no one can get a raise.

For the reporting period (3rd Quarter) the **Dow** was +1.26%; the **NASDAQ** was +6.61% and the **S&P 500** was +3.43%. The Fund gained +2.16% during this quarter (\$5,038,798); and gained +9.21% over the past twelve months. 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.

Our Fund now stands at \$237+ million! Know that we are going in the right direction and working hard for our members.

ALWAYS REMEMBER.....Last month (July 29, 2018) marked the **28th Anniversary** of the murder of **K-9 Officer Scott Winters** (EOW July 29, 1990). Scott was the first Pompano Beach Police Officer killed in the line of duty. Although the years have passed, the memory of Scott, his great deeds as a police officer and as a person have not faded. This month marks the **11th Anniversary** of **Sgt. Chris Reyka’s** death (EOW 8/10/07), please attend the Park Dedication set for **October 7, 2018** (see above). In January 2019 we will mark the **7th Anniversary** of **Billy Elliot’s** (EOW 1/06/12) death. We will remember these three men because:

“A Hero Remembered Never Dies!”

Board Elections:

Fire: **Trustee Peter McGinnis:** congratulations to Peter as he was re-elected by acclamation to a three year term as no one applied to run for this term in office.

Police: **Trustee Paul O'Connell:** congratulations to Paul as he was re-elected by acclamation to a three year term as no one applied to run for this term in office.

Both **Fire Marshall McGinnis** and **Chief O'Connell** express their respective gratitude to the membership for their continued trust in the work we do. This is a labor of focused dedication to ensure a safe and secure Pension Fund for the entire membership!

Congratulations to **David Hall** as he 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!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2018

Distribution of Assets:

Equity	
-Large Cap. Value	\$29,702,430
-Large Cap. Growth	\$32,316,503
-Mid Cap. Value	\$11,937,304
-Small/Mid Cap. Growth	\$12,374,737
-International Value	\$17,289,651
-International Growth	\$16,969,285
Total Equity	\$120,589,909
Fixed Income	\$52,497,672
Private Real Estate	\$19,661,748
Fund of Hedge Funds	\$22,233,421
Master Limited Partnerships	\$10,753,464
Private Equity	\$9,859,353
Cash (Non-Managed Account)	\$1,459,548
Total Portfolio	\$237,055,117

Distribution by Percentages:

	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	12.53%
-Large Cap. Growth	12.50%	13.63%
-Mid Cap. Value	5.00%	5.04%
-Small/Mid Cap. Growth	5.00%	5.22%
-International Value	7.50%	7.29%
-International Growth	7.50%	7.16%
Total Equity	50.00%	50.87%
Fixed Income	22.50%	22.15%
Private Real Estate	7.50%	8.29%
Fund of Hedge Funds	10.00%	9.38%
Master Limited Partnerships	5.00%	4.54%
Private Equity	5.00%	4.16%
Cash (Non-Managed Account)	0.00%	0.62%
Total Portfolio	100.00%	100.00%

Other Important Facts:

Total Portfolio	\$237,055,117
Total Gain or (Loss) - Gross of Fees	\$5,038,798

BLACKROCK

Total Assets	100.00%	\$29,702,430
Equity	96.43%	\$28,640,654
Cash	3.57%	\$1,061,776
Fees		(\$18,264)
Gain or (Loss)		\$686,716

SANDS CAPITAL MANAGEMENT

Total Assets	100.00%	\$32,316,503
Equity	95.60%	\$30,895,201
Cash	4.40%	\$1,421,302
Fees		(\$45,388)
Gain or (Loss)		\$3,365,371

NUANCE/RBC GLOBAL

Total Assets	100.00%	\$11,937,304
Equity	92.35%	\$11,024,455
Cash	7.65%	\$912,849
Fees		(\$10,265)
Gain or (Loss)		\$186,956

WELLS

Total Assets	100.00%	\$12,374,737
Equity	95.98%	\$11,877,244
Cash	4.02%	\$497,493
Fees		(\$27,096)
Gain or (Loss)		\$589,246

Pine Grove Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$10,559,717
Gain or (Loss)		\$174,724

Center Coast Master Limited Partnerships

Fund of Hedge Fund	100.00%	\$10,753,464
Gain or (Loss)		\$950,099

NB CROSSROADS (PRIVATE EQUITY) #1

Total Assets	100.00%	\$3,605,274
Gain or (Loss)		\$0

LAZARD (International Value)

Total Assets	100.00%	\$17,289,651
Equity	95.88%	\$16,577,490
Cash	4.12%	\$712,161
Fees		(\$21,317)
Gain or (Loss)		(\$577,692)

RENAISSANCE (International Growth)

Total Assets	100.00%	\$16,969,285
Equity	98.84%	\$16,772,595
Cash	1.16%	\$196,691
Fees		(\$26,647)
Gain or (Loss)		(\$862,993)

STANDISH MELLON

Total Assets	100.00%	\$26,193,530
Fixed	98.27%	\$25,739,473
Cash	1.73%	\$454,057
Fees		(\$16,394)
Gain or (Loss)		(\$43,022)

INCORE/VICTORY (FORMERLY MUNDER)

Total Assets	100.00%	\$26,304,143
Fixed	99.50%	\$26,173,904
Cash	0.50%	\$130,239
Fees		(\$13,137)
Gain or (Loss)		(\$37,930)

INVESCO (Private Real Estate)

Private Real Estate	100.00%	\$16,661,748
Fees		(\$45,485)
Gain or (Loss)		\$302,429

OFFICE BUILDING

Total Assets	100.00%	\$3,000,000
Gain or (Loss)		\$31,875

Ironwood Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$11,673,704
Gain or (Loss)		\$208,384

MAIN ACCOUNT (NON-MANAGED)

Cash	100.00%	\$1,459,548
Gain or (Loss)		\$1,720

NB CROSSROADS (PRIVATE EQUITY) #2

Fund of Hedge Fund	100.00%	\$2,583,737
Gain or (Loss)		\$0

BLACKSTONE (PRIVATE EQUITY)

Total Assets	100.00%	\$2,277,608
Gain or (Loss)		\$62,914

GOLDMAN SACHS (PRIVATE EQUITY)

Total Assets	100.00%	\$1,392,734
Gain or (Loss)		\$0

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2018

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns				
<i>Large Cap. Value</i>		Gross	Net	Russ 1000 Value	PSN Money Mgrs.	S&P 500
	Quarter	2.35	2.29	1.18	1.81	3.43
	1 year	10.31	9.90	6.77	9.63	14.37
	3 year	11.06	10.50	8.26	9.28	11.93
	5 year	10.86	10.21	10.34	11.11	13.42
	Since 1/31/2013	11.02	10.42	11.24	NA	13.98
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	11.00	10.85	5.76	4.17	
	1 year	35.28	34.53	22.51	18.60	
	3 year	16.75	16.07	14.98	12.15	
	5 year	18.28	17.58	16.36	14.52	
	Since 5/31/2003	13.52	12.88	10.35	NA	
NUANCE/RBC GLOBAL				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
	Nuance/RBC Global - Quarter	1.58	1.49	2.41	3.35	
	Nuance/RBC Global - 1 year	2.75	2.43	7.60	11.15	
	Nuance/RBC Global - 3 year	3.17	2.63	8.80	9.73	
	Nuance/RBC Global - 5 year	10.19	9.65	11.27	11.77	
	Nuance/RBC Global - Since 1/31/2009	15.22	14.57	16.81	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
	Quarter	4.89	4.66	5.53	8.62	
	1 year	21.95	20.91	21.54	24.65	
	3 year	11.57	10.58	10.86	12.18	
	5 year	13.73	12.71	13.87	14.33	
	Since 1/31/2009	19.57	18.54	18.44	NA	
LAZARD				MSCI AC Wld x US		
<i>International Value</i>						
	Quarter	(3.23)	(3.35)	(2.61)		
	1 year	8.10	7.57	7.28		
	3 year	5.32	4.79	5.07		
	5 year	6.68	6.14	5.99		
	Since 1/31/2013	5.45	4.94	4.74		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
	Quarter	(4.84)	(4.98)	(2.61)		
	1 year	4.08	3.45	7.28		
	3 year	4.00	3.35	5.07		
	5 year	7.70	7.00	5.99		
	Since 1/31/2009	10.33	9.65	9.37		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	(0.16)	(0.23)	(0.16)	0.09	0.01
	1 year	(0.06)	(0.27)	(0.40)	(0.32)	(0.58)
	3 year	1.73	1.46	1.72	1.27	1.16
	5 year	2.36	2.03	2.27	1.83	1.60
	Since 4/30/2003	3.97	3.64	3.84	3.52	3.31
INCORE/VICTORY (Munder)				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	(0.14)	(0.19)	(0.16)	0.09	0.01
	1 year	0.07	(0.13)	(0.40)	(0.32)	(0.58)
	3 year	1.94	1.77	1.72	1.27	1.16
	5 year	2.50	2.36	2.27	1.83	1.60
	Since 9/30/2002	4.27	4.05	3.94	3.61	3.44

ALTERNATIVE INVESTMENTS

INVESCO						
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE	BC Aggregate
	Quarter	1.85	1.57	1.81	2.05	(0.16)
	1 year	8.28	7.07	7.20	8.44	(0.40)
	3 year	9.28	8.07	8.26	9.36	1.72
	5 year	11.01	9.80	9.77	11.04	2.27
	Since 7/31/2006	6.41	5.27	7.41	6.55	4.11
OFFICE BUILDING						
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate	
	Quarter	1.07	1.07	0.44	(0.16)	
	1 year	4.34	4.34	1.32	(0.40)	
	3 year	4.35	4.35	0.64	1.72	
	5 year	8.29	8.29	0.39	2.27	
	Since 3/31/2007	0.58	0.51	0.64	3.89	
Ironwood						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	1.82	1.82	1.15	(0.16)	
	1 year	7.73	7.73	4.12	(0.40)	
	3 year	3.75	3.75	1.91	1.72	
	5 year	5.66	5.66	3.01	2.27	
	Since 7/31/2008	3.65	3.65	1.42	3.76	
Pine Grove						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	1.68	1.68	1.15	(0.16)	
	1 year	5.24	5.24	4.12	(0.40)	
	3 year	2.78	2.78	1.91	1.72	
	5 year	3.03	3.03	3.01	2.27	
	Since 9/30/2008	3.86	3.86	2.16	3.87	
Center Coast						
<i>Master Limited Partnerships</i>				Alerian MLP	BC Aggregate	
	Quarter	9.69	9.56	11.80	(0.16)	
	1 year	(7.16)	(7.61)	(4.58)	(0.40)	
	3 year	(7.57)	(8.03)	(5.93)	1.72	
	Since 1/31/2015	(7.95)	(8.35)	(7.58)	1.58	
Neuberger Berman						
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Mar)	BC Aggregate	
	Quarter	0.00	0.00	0.44	(0.16)	
	1 year	10.77	11.00	11.06	(0.40)	
	3 year	12.37	12.16	10.84	1.72	
	5 year	13.33	13.23	12.76	2.27	
	Since 3/31/2010	4.68		12.71	3.08	
Neuberger Berman						
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Mar)	BC Aggregate	
	Quarter	0.00	0.00	0.44	(0.16)	
	1 year	13.52	13.42	11.06	(0.40)	
	3 year	10.62	11.45	10.84	1.72	
	Since 7/31/2014	6.88		10.59	1.86	
Blackstone						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	BC Aggregate	
	Quarter	2.80	2.42	3.43	(0.16)	
	1 year	19.29	16.63	14.37	(0.40)	
	3 year	11.56	9.14	11.93	1.72	
	Since 11/30/2013	11.96		11.62	2.26	
Goldman Sachs						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Mar)	BC Aggregate	
	Quarter	0.00	0.00	0.44	(0.16)	
	1 year	6.06	6.55	11.06	(0.40)	
	3 year	7.26	7.55	10.84	1.72	
	Since 12/31/2013	7.57		10.50	2.43	

TOTAL FUND				Policy Index
<i>Time-Weighted Return (TWR)</i>				
Quarter		2.16	2.05	1.68
1 year		9.21	8.74	7.21
3 year		6.50	5.99	6.05
5 year		8.15	7.61	7.56
Since 9/30/2002		7.75	7.25	7.47
Since 6/30/1995		7.27		

TOTAL FUND				Actuarial Rate	CPI +3
<i>Dollar-Weighted Net Return (IRR)</i>					
Quarter			2.05	1.82	1.30
1 year			8.80	7.50	6.03
3 year			5.80	7.50	4.85
5 year			7.66	7.50	4.52

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.