

YOUR PENSION MATTERS

12/31/18 Edition

End of 1st Quarter FY 2018 - 2019

by: Chief Paul O'Connell
Board Chairperson
2/22/19

“Three (3) groups spend other people’s money: children, thieves & politicians. All 3 need close supervision”!
Richard Armev

As we enter 2019, certainly our “leaders” in Washington need close supervision!! We can only hope they put country before politics; we shall see!

Certainly the government shutdown, which lasted a record 35 days, did nothing to boost our confidence in DC. This was the 10th shutdown since 1980 and the second during the Trump Administration; this one he took full credit for stating, “I will be the one to shut it down.” It appears that the political polarization and government dysfunction has intensified and that is not a good thing. And, of course, there is the threat of a repeat should no agreement be reached on “the wall” before the end of February. Stand by!

Feelin’ pain: Following what was one of the most placid years in U.S. stock market history in 2017, volatility returned to financial markets with a vengeance in 2018. In 2017, U.S. stock investors experienced only 8 trading days, or just over 3% of the time, where the S&P 500 Index moved by more than 1% in either direction on any given trading day. This ranked as the fourth lowest reading over the past 90 years just behind 1964, 1944, and 1963 and just ahead of 1965 and 1972. And on no trading day in 2017 did the S&P 500 Index move by more than 2% in either direction.

On the other hand, in 2018, U.S. stock investors experienced 59 trading days, or nearly 25% of the time, where the S&P 500 Index moved by 1% or more. This included 17 trading days with moves of 2% or more. And with 13 of these 17 moves of 2% or more having been to the downside, 2018 stands to be the worst in at least a century in the percentage of major downside trading day moves relative to the overall total. In summary, 2018 was the worst market since 2008. To top things off, December 2018 was the worst December since 1930! Not quite as bad as **October 19, 1987 (Black Monday), when the Dow fell 22.6% in a single day**, but still a very crazy month of December and year of 2018. (Source: Marketwatch)

Also in December, the Fed again decided to raise interest rates by 25 basis points (+.25%) as they maintain the belief that the economy is better able to “stand on its own two feet” and progress in a slow growth

environment. Delivering this rate hike in December avoided the greater risk of surprising the market with no rate hike; we can rest assured this will continue to be a Fed that will not surprise us or the markets. The Fed made very clear its intent to forecast its trajectory. Raising the rate range to the upside doesn't suggest the sky's the limit for either our economy's growth or the Fed's interest-rate-hike policy. Only time will tell how well or how poorly our economy fares in 2019.

Along those lines, **Kiplinger** forecasted the following for 2019:

- Two rate hikes from the Fed.
- Economic growth will continue, but at a slower pace.
- Volatility on Wall Street will continue.
- Housing market will be a “mixed bag” with new home construction +2% but sales of existing homes facing headwinds from higher interest rates.
- Somehow, someday there will be a resolution with China on trade. However, watch for the end of the “cease fire” which is set for March 1st. Hopefully there will be a resolution before that deadline; or at least an extension of the “cease fire.”
- Britain’s exit from the European Union is set for March 29th (after being a member for 46 years). It will be painful for all parties and it will be messy.
- Global growth will slip to +3.4% from +3.7% for the year.

Write down the above and revisit in December to see how well Kiplinger did with its projections!

Mayor Lamar Fisher.....in January of 2018, we wrote to you about Mayor Fisher’s presentation of “The State of the City” in a gathering at the new City Cultural Center / Library (next to City Hall). It was a very impressive presentation which several Trustees attended. Although Mayor Fisher has “moved up” to become a County Commissioner, he left behind an impressive blueprint of the City which the voters (in November 2018) gave their collective thumbs up by electing a City Commission which shares that vision. We wish Lamar the very best in his new role! And, of course, we wish the new City Commission, led by **Mayor Rex Hardin**, the very best in their new roles as city leaders.

Important follow-up..... as you will recall your Board of Trustees voted to forfeit the pension earned by Detective Jeff Poole. That decision was appealed to the 4th D.C.A. On January 15th oral arguments were heard by the Court. Less than 48 hours later, on January 17th the Court issued its unanimous decision upholding the decision made by the Board of Trustees. Know that the decision made by the Board was not easy and there was intense debate during the full day review. In the end, the Board made the right, though difficult, decision and it was upheld by the District Court of Appeals.

We are sure you have heard of **Jack Bogle**, the father of Index Fund investing and the Vanguard Funds. He passed away last month at the age of 89. Not bad for a man who had a heart transplant in 1996 (surely

everyday thereafter was a gift!). If you're not going to plunge into any of Jack's short and highly readable books (and you really should!), in one essay Mr. Bogle neatly distills his life's work into seven timeless lessons, which are listed below unedited:

- ***Invest you must.*** The biggest risk facing investors is not short-term volatility but, rather, the risk of not earning a sufficient return on their capital as it accumulates.
- ***Time is your friend.*** Investing is a virtuous habit best started as early as possible. Enjoy the magic of compounding returns. Even modest investments made in one's early 20s are likely to grow to staggering amounts over the course of an investment lifetime.
- ***Impulse is your enemy.*** Eliminate emotion from your investment program. Have rational expectations for future returns and avoid changing those expectations in response to the ephemeral noise coming from Wall Street. Avoid acting on what may appear to be unique insights that are in fact shared by millions of others.
- ***Basic arithmetic works.*** Net return is simply the gross return of your investment portfolio less the costs you incur. Keep your investment expenses low, for the tyranny of compounding costs can devastate the miracle of compounding returns.
- ***Stick to simplicity.*** Basic investing is simple—a sensible allocation among stocks, bonds, and cash reserves; a diversified selection of middle-of-the-road, high-grade securities; a careful balancing of risk, return, and (once again) cost.
- ***Never forget reversion to the mean.*** Strong performance by a mutual fund is highly likely to revert to the stock market norm—and often below it. Remember the biblical injunction, "So the last shall be first, and the first last" (Matthew 20:16, King James Bible).
- ***Stay the course.*** Regardless of what happens in the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor. (Just ask investors who moved a significant portion of their portfolio to cash during the depths of the financial crisis, only to miss out on part or even all of the subsequent eight-year—and counting—bull market that we have enjoyed ever since.) "Stay the course" is the most important piece of advice I can give you.

Our First Quarter Performance – As you review the performance numbers for the first quarter of the Fund's FY 18-19, (which ended on 12/31/18), we are sure you will see some, perhaps mostly, bad numbers; it was an ugly quarter. While investors are eager to put 2018 in the rearview mirror, the biggest question most have is what is in store for 2019? January 2019 was one of the best Januarys on record; but in no way tells us what to expect for the remainder of 2019!

First, let's look at the **2018 calendar** year numbers as the market ended the year on December 31st.

The **S&P 500 finished -4.4%** and the **NASDAQ finished -3.8%** and the Emerging Market Index was **-14.6%** for the entire calendar year. For the quarter itself (October 1 – December 31) the numbers were:

S&P 500 -13.52% and the NASDAQ -17.29%; as you can see, the markets were and are being spooked by the chaos in Washington. Will that hold true through 2019? No one knows the answer to that question.

During the current second quarter (which will end in about 4 weeks on 3.31.19) the roller coaster continues with volatility as intense as ever. It continues to be ugly.....

Regardless, the Board continues to believe in our prudent reliance on investment experts which is coupled with proper diversification. All of this is done in an emotional vacuum. This “cold style” of investing is a necessary and critical ingredient as we navigate the turbulent times in which we live. Speaking of turbulent times and making informed investment decisions; here is your chance to access a wealth of information directly from those money managers upon whom we rely. Our **13th Annual Symposium** is scheduled for **May 2nd – 4th, 2019**. It will be held in Pompano Beach at the **Marriott Resort** located on A1A just south of the 14 Street Causeway. Please mark your calendars and join us if you can; we promise you it will be worth your time because of all the investment insight you will gain from the experts ... free of charge!! If you cannot make it, we will summarize the event in our next newsletter. Remember, at many of the preceding Symposiums we experienced great attendance by our membership (active & retired). Please watch our web site for the latest schedule of speakers (the agenda is still being developed as we write this newsletter). Please join us!!!!

FY 2017 – 2018 Audit Report – Our annual audit report was completed and was released in January. The Board of Trustees adopted the audit report at our February 2019 meeting. Here is a nutshell summary of the report, available in its entirety, at our Pension Office or on our website: www.pbpfrs.org. For **FY** ending 9/30/18, the Fund shows a membership with **2 active police officers, 176 active firefighters** and over **400 benefit recipients**. The report shows that during the fiscal year net assets of the Fund increased by over \$8.4 million!! The Fund, as of 9/30/18, stands at just over \$240 million and, when compared to our future liabilities, the Fund is just over 70% funded. Remember, from October through the present, the market has not been kind to investors. Again, we remind you it is not the monthly or yearly gyrations that count; it is the long term returns which have proven to be the wisest course to follow.

In our next newsletter we will write to you about the reports we received from our experts at **13th Annual Symposium**. Please attend if you can....it is **FREE!**

Until then, stay safe and stay in touch!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2018

Distribution of Assets:

Equity	
-Large Cap. Value	\$26,607,468
-Large Cap. Growth	\$27,520,649
-Mid Cap. Value	\$11,250,855
-Small/Mid Cap. Growth	\$10,469,118
-International Value	\$15,447,902
-International Growth	\$14,370,062
Total Equity	\$105,666,053
Fixed Income	\$51,503,945
Private Real Estate	\$20,360,299
Fund of Hedge Funds	\$21,831,182
Master Limited Partnerships	\$9,660,551
Private Equity	\$9,792,066
Cash (Non-Managed Account)	\$7,438,595
Total Portfolio	\$226,252,692

Distribution by Percentages:

	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	11.76%
-Large Cap. Growth	12.50%	12.16%
-Mid Cap. Value	5.00%	4.97%
-Small/Mid Cap. Growth	5.00%	4.63%
-International Value	7.50%	6.83%
-International Growth	7.50%	6.35%
Total Equity	50.00%	46.70%
Fixed Income	22.50%	22.76%
Private Real Estate	7.50%	9.00%
Fund of Hedge Funds	10.00%	9.65%
Master Limited Partnerships	5.00%	4.27%
Private Equity	5.00%	4.33%
Cash (Non-Managed Account)	0.00%	3.29%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)

Private Real Estate	100.00%	\$17,360,299
Fees		(\$48,148)
Gain or (Loss)		\$367,823

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%	\$11,518,522
Gain or (Loss)		(\$288,828)

MAIN ACCOUNT (NON-MANAGED)

Cash	100.00%	\$7,438,595
Gain or (Loss)		\$4,476

Other Important Facts:

Total Portfolio		\$226,252,692
Total Gain or (Loss) - Gross of Fees		(\$18,966,035)

BLACKROCK

Total Assets	100.00%	\$26,607,468
Equity	95.45%	\$25,397,312
Cash	4.55%	\$1,210,156
Fees		(\$19,463)
Gain or (Loss)		(\$3,937,058)

SANDS CAPITAL MANAGEMENT

Total Assets	100.00%	\$27,520,649
Equity	97.37%	\$26,796,327
Cash	2.63%	\$724,322
Fees		(\$47,940)
Gain or (Loss)		(\$5,819,482)

NUANCE

Total Assets	100.00%	\$11,250,855
Equity	92.25%	\$10,378,447
Cash	7.75%	\$872,408
Fees		(\$12,190)
Gain or (Loss)		(\$751,239)

WELLS

Total Assets	100.00%	\$10,469,118
Equity	95.85%	\$10,034,989
Cash	4.15%	\$434,129
Fees		(\$27,687)
Gain or (Loss)		(\$2,622,499)

Pine Grove Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$10,312,660
Gain or (Loss)		(\$249,942)

Center Coast Master Limited Partnerships

Fund of Hedge Fund	100.00%	\$9,660,551
Gain or (Loss)		(\$1,819,758)

NB CROSSROADS (PRIVATE EQUITY) #1

Total Assets	100.00%	\$3,739,123
Gain or (Loss)		\$0

LAZARD (International Value)

Total Assets	100.00%	\$15,447,902
Equity	94.13%	\$14,541,090
Cash	5.87%	\$906,812
Fees		(\$21,028)
Gain or (Loss)		(\$1,995,971)

RENAISSANCE (International Growth)

Total Assets	100.00%	\$14,370,062
Equity	98.35%	\$14,132,839
Cash	1.65%	\$237,223
Fees		(\$25,991)
Gain or (Loss)		(\$2,813,520)

STANDISH MELLON

Total Assets	100.00%	\$25,710,197
Fixed	99.49%	\$25,580,125
Cash	0.51%	\$130,071
Fees		(\$16,426)
Gain or (Loss)		\$387,140

INCORE/VICTORY (FORMERLY MUNDER)

Total Assets	100.00%	\$25,793,749
Fixed	98.91%	\$25,511,597
Cash	1.09%	\$282,151
Fees		(\$13,158)
Gain or (Loss)		\$540,948

NB CROSSROADS (PRIVATE EQUITY) #2

Fund of Hedge Fund	100.00%	\$2,802,575
Gain or (Loss)		\$0

BLACKSTONE (PRIVATE EQUITY)

Total Assets	100.00%	\$2,122,395
Gain or (Loss)		(\$0)

GOLDMAN SACHS (PRIVATE EQUITY)

Total Assets	100.00%	\$1,127,973
Gain or (Loss)		\$0

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2018

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns				
<i>Large Cap. Value</i>		Gross	Net	Russ 1000 Value	PSN Money Mgrs.	S&P 500
	Quarter	(12.81)	(12.87)	(11.72)	(12.70)	(13.52)
	1 year	(7.08)	(7.31)	(8.27)	(7.95)	(4.38)
	3 year	7.94	7.45	6.95	7.42	9.26
	5 year	6.40	5.86	5.95	6.23	8.49
	Since 1/31/2013	8.62	8.06	8.96	NA	11.38
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	(17.41)	(17.55)	(15.89)	(15.14)	
	1 year	7.42	6.80	(1.51)	(2.19)	
	3 year	10.89	10.24	11.15	9.55	
	5 year	9.22	8.58	10.41	8.84	
	Since 5/31/2003	12.15	11.51	9.40	NA	
NUANCE				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
	Quarter	(6.21)	(6.30)	(14.95)	(16.37)	
	Since 6/30/2018	(3.66)	(3.75)	(12.15)	(13.64)	
	Nuance/RBC Global - 1 year	(2.57)	(2.83)	(12.29)	(12.41)	
	Nuance/RBC Global - 3 year	5.27	4.81	6.06	5.98	
	Nuance/RBC Global - 5 year	5.92	5.42	5.44	5.26	
	Nuance/RBC Global - Since 1/31/2009	13.97	13.35	14.40	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
	Quarter	(20.03)	(20.22)	(20.08)	(20.96)	
	1 year	(5.91)	(6.73)	(7.47)	(4.69)	
	3 year	10.14	9.17	8.11	9.61	
	5 year	6.19	5.24	6.19	6.33	
	Since 1/31/2009	16.81	15.80	15.62	NA	
LAZARD				MSCI AC Wld x US		
<i>International Value</i>						
	Quarter	(11.44)	(11.56)	(11.46)		
	1 year	(13.49)	(13.91)	(14.19)		
	3 year	3.82	3.30	4.48		
	5 year	1.07	0.56	0.68		
	Since 1/31/2013	3.00	2.50	2.33		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
	Quarter	(16.37)	(16.51)	(11.46)		
	1 year	(19.03)	(19.53)	(14.19)		
	3 year	0.76	0.13	4.48		
	5 year	(0.39)	(1.04)	0.68		
	Since 1/31/2009	7.96	7.29	7.63		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	1.52	1.45	1.64	1.80	1.65
	1 year	0.09	(0.10)	0.01	0.92	0.88
	3 year	2.14	1.87	2.06	1.72	1.70
	5 year	2.51	2.19	2.52	2.09	1.86
	Since 4/30/2003	3.95	3.62	3.82	3.53	3.32
INCORE/VICTORY (Munder)				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	2.11	2.06	1.64	1.80	1.65
	1 year	0.55	0.35	0.01	0.92	0.88
	3 year	2.44	2.26	2.06	1.72	1.70
	5 year	2.73	2.58	2.52	2.09	1.86
	Since 9/30/2002	4.25	4.03	3.92	3.62	3.45

The prices, quotes, or statistics contained herein have been obtained from sources believed to be reliable, however, its accuracy cannot be guaranteed. Past performance is not a guarantee of future results.

ALTERNATIVE INVESTMENTS

INVESCO						
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE	BC Aggregate
	Quarter	2.16	1.88	1.37	0.00	1.64
	1 year	9.29	8.08	6.71	6.47	0.01
	3 year	9.00	7.79	7.22	7.62	2.06
	5 year	10.82	9.61	9.33	10.03	2.52
	Since 7/31/2006	6.54	5.40	7.36	6.46	4.08
OFFICE BUILDING						
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate	
	Quarter	1.07	1.07	0.57	1.64	
	1 year	4.34	4.34	1.86	0.01	
	3 year	4.47	4.47	0.99	2.06	
	5 year	20.87	20.87	0.60	2.52	
	Since 3/31/2007	0.77	0.70	0.74	3.86	
Ironwood						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	(2.45)	(2.45)	(3.55)	1.64	
	1 year	1.62	1.62	(1.05)	0.01	
	3 year	3.79	3.79	1.63	2.06	
	5 year	4.08	4.08	1.67	2.52	
	Since 7/31/2008	3.34	3.34	1.09	3.74	
Pine Grove						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	(2.37)	(2.37)	(3.55)	1.64	
	1 year	0.56	0.56	(1.05)	0.01	
	3 year	3.48	3.48	1.63	2.06	
	5 year	1.83	1.83	1.67	2.52	
	Since 9/30/2008	3.43	3.43	1.79	3.84	
Center Coast						
<i>Master Limited Partnerships</i>				Alerian MLP		
	Quarter	(15.85)	(15.97)	(17.30)		
	1 year	(14.26)	(14.68)	(12.42)		
	3 year	(1.83)	(2.33)	(1.06)		
	Since 1/31/2015	(9.51)	(9.91)	(9.59)		
Neuberger Berman						
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Sept)	BC Aggregate	
	Quarter	0.00	0.00	0.57	1.64	
	1 year	3.51	3.49	11.19	0.01	
	3 year	12.09	12.12	14.89	2.06	
	5 year	12.55	12.63	11.82	2.52	
	Since 3/31/2010	4.88	10.88	13.35	3.09	
Neuberger Berman						
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Sept)	BC Aggregate	
	Quarter	0.00	0.00	0.57	1.64	
	1 year	7.08	7.05	11.19	0.01	
	3 year	11.27	11.67	14.89	2.06	
	Since 7/31/2014	7.26	9.78	12.08	2.02	
Blackstone						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Sept)	BC Aggregate	
	Quarter	0.00	(0.28)	0.57	1.64	
	1 year	15.49	14.21	11.19	0.01	
	3 year	12.23	9.90	14.89	2.06	
	5 year	11.37	9.02	11.82	2.52	
	Since 11/30/2013	11.89	9.09	12.16	2.36	
Goldman Sachs						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Sept)	BC Aggregate	
	Quarter	0.00	0.00	0.57	1.64	
	1 year	6.05	4.85	11.19	0.01	
	3 year	10.02	10.18	14.89	2.06	
	Since 12/31/2013	8.21	9.42	11.82	2.52	

The prices, quotes, or statistics contained herein have been obtained from sources believed to be reliable, however, its accuracy cannot be guaranteed. Past performance is not a guarantee of future results.

TOTAL FUND				Policy Index
<i>Time-Weighted Return (TWR)</i>				
Quarter	(7.84)	(7.94)		(7.92)
1 year	(2.21)	(2.61)		(4.14)
3 year	5.63	5.15		5.49
5 year	4.65	4.16		4.50
Since 9/30/2002	7.17	6.68		6.92
Since 6/30/1995	6.85			

TOTAL FUND				Actuarial Rate	CPI +3
<i>Dollar-Weighted Net Return (IRR)</i>					
Quarter		(7.96)		1.82	0.98
1 year		(2.46)		7.50	4.98
3 year		5.29		7.50	5.01
5 year		4.19		7.50	4.52
Since 9/30/2002		6.96		7.50	5.11

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.