

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2008

Second Quarter Ended March 31, 2008

by: Paul O'Connell
Board Chairperson

"You only learn who has been swimming naked when the tide goes out – and what we see is an ugly sight." Warren Buffet

Likewise, the 2nd Quarter of our Fiscal Year (end of the 2008 1st Quarter) was not a pretty sight as the economic tide went out based on a combination of events all of which wrecked havoc on our investment portfolio. Front and center of course is the price of gasoline; it is crushing the American consumer. Just 4 years ago a barrel of oil was priced at about \$20/barrel. Now we have seen the price go above \$110/barrel and it is maintaining this level. No doubt, our spending habits and our summer vacation plans have been altered as a result. (Please see our 6/30/06 Newsletter to you in which we discussed ways to reduce your consumption of and dependence on gasoline).

Next, is the credit crunch coupled with the housing bubble. We have read many articles on this economic phenomenon, but perhaps the best explanation was written by Seth Jayson, "[A Nation of Enrons](http://www.fool.com/investing/small-cap/2008/03/20/a-nation-of-enrons.aspx)" (3/20/08; www.fool.com/investing/small-cap/2008/03/20/a-nation-of-enrons.aspx) in which he spread the blame for this economic crisis on many people, including the American public. In a nutshell, Mr. Jayson wrote that: A) The American public got caught up in the belief that the price of homes **ALWAYS** goes up and invested accordingly buying and flipping houses (we have learned a very difficult lesson that this belief is false, housing prices do not always go up; they can go down as we have seen). B) The Fed dropped the ball by keeping interest rates artificially low for too long a time period. C) The construction industry kept building until the supply of houses far outweighed the demand (the inventory of unsold homes is at its highest level since 1981). D) The banking industry forgot its core concept; lending money to *homeowners*. Instead, the industry lent money to people that simply were not qualified to own a house or wanted to invest in real estate. The combination of these flaws made for an economic poison as too many of those investors simply could not make multiple mortgage payments (one for their home, others for their "investment real estate projects"). Then the bottom fell out, making a bad situation worse.

All of this led to what was the worst investment quarter since 2002. Enclosed are the financials for the second quarter of the Fund's 2007 – 2008 fiscal year. As you can see, the Fund experienced a significant loss for the quarter. No doubt it was (& will continue to be) a difficult investment environment; but will, over time, work itself out. Remember, we are in this for the long haul and our investment vision extends over 20 years; not 20 minutes!

News on the Pension Front: For our active members of the Police side of the Fund, a change in the definition of "*Normal Retirement*" (M.O. 34.053 (A)) has been proposed. Your Pension Board of Trustees has forwarded to the City a request to add the following to the definition of "**Normal Retirement**":

A police officer Member who attains 25 years of continuous service prior to attaining 47 years of age may elect to purchase, at the Member's sole expense, a normal retirement age and unreduced normal

retirement benefit commencing the first of the month following or coincident with completion of 25 years of continuous service. In order to purchase this earlier normal retirement age, the police officer Member must pay to the Fund the full actuarial cost of the earlier normal retirement age, as determined by the Fund's actuary. Payment shall be made by cash lump sum payment, direct transfer or rollover of an eligible rollover distribution from a qualified or eligible plan in accordance with section 34.0602 herein, or a combination of both.

The effect of this change is to allow a dozen active police members to advance their respective retirement date to a "25 years and out" designation; **regardless of age**. Under the old definition, when these members were to have reached 25 years of service (thus, the absolute cap of 75% pay out) but not yet reached 47 years of age, they were ineligible to retire. As a result, these members would have spent some time in "**Limbo**" waiting to reach age 47 while already maxed out. This was time lost because the members' benefits were frozen (maxed-out) while they continued to contribute to the System. The end result was lost time and money.

This change in the M.O. will allow these members to purchase the benefit of "25 and out" with a Trustee to Trustee transfer of funds (most will simply transfer 457 pre-tax money to the Pension Trust, which is also pre-tax). This is a "**COST NEUTRAL**" benefit paid for by the affected members. There will be no cost to the City, no cost to BSO and no cost to the Pension Fund. Note that the Firefighters addressed this inequity through contract negotiations several years ago. Should you have any questions about this event, do not hesitate to contact your respective Pension or union representative. Our hope is that the City Commission will adopt this change in the controlling Municipal Ordinance and allow this inequity to be corrected.

Your Pension Board of Trustees held its Second Annual Educational Symposium this past April at the Deerfield Beach Embassy Suites.

You were invited to attend, unfortunately no one came! Regardless, the entire Board of Trustees was there and we heard from all our money managers, our consultant and two (2) economists, each of whom gave us their particular outlook for the investment future. In a nutshell, the Symposium was "*A Tale of Two Perspectives*". On Thursday afternoon, we heard from our bond managers who gave us a good investment report (bonds are doing well), but a gloomy picture on the immediate future as it was their opinion that the recession we are in will be long and deep. On Friday, we heard from our equity managers. Their investment reports were gloomy (equities did not do well over the 1st quarter); but their outlook for the immediate investment future was upbeat as they believed the recession we are in will be short lived. All in all, it was a great learning experience for all of us. We will be doing this again next year and we hope you will find the time to take advantage of this opportunity. Needless to say, we were disappointed that no one found the time to attend this Symposium as it was an excellent opportunity to learn from the investment experts upon whom we rely in making our investments decisions.

In our next newsletter, we will update you on the 3rd quarter investment results which we hope will be brighter.

Until then, stay safe and stay in touch!

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of March 31, 2008

LORD ABBETT/BOSTON *		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
<i>Large Cap. Value</i>		Gross	Net			
	Quarter	(9.03)	(9.17)	(8.72)	(8.81)	(9.45)
	1 year	(6.31)	(6.83)	(10.01)	(7.32)	(5.08)
	3 year	5.77	5.17	6.00	6.36	5.85
	Since 10/31/2004	6.70	6.13	7.84	NA	6.71
	<i>Lord Abbett/Boston - Since 9/30/2002</i>	11.70		13.14	13.14	11.23
	<i>Lord Abbett/Boston - Since 6/30/1995</i>	9.30		10.68	11.01	9.05
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	(15.49)	(15.61)	(10.19)	(10.44)	
	1 year	(1.87)	(2.41)	(0.75)	(0.06)	
	3 year	5.54	4.95	6.33	7.17	
	Since 5/31/2003	9.02	8.43	7.62	NA	
VOYAGEUR *				S&P 500	Dynamic Index**	
<i>Large Cap. Asset Allocator</i>						
	Quarter	(9.59)	(9.67)	(9.45)	(10.19)	
	1 year	0.26	(0.06)	(5.08)	(0.75)	
	3 year	5.75	5.42	5.85	4.96	
	5 year	10.53	10.19	11.32	10.28	
	Since 9/30/2002	10.28	9.94	11.23	10.06	
	Since 3/31/2002	3.39		4.28	3.14	
INVESCO				MSCI EAFE Net		
<i>International</i>						
	Quarter	(10.51)	(10.66)	(8.91)		
	1 year	(6.02)	(6.64)	(2.70)		
	3 year	11.15	10.49	13.32		
	Since 1/31/2004	12.52	11.87	13.94		
ALLEGIANCE CAPITAL				LB Int. Aggregate	LB Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	1.50	1.44	2.35	2.17	3.01
	1 year	5.75	5.49	7.84	7.67	8.90
	3 year	4.77	4.51	5.52	5.48	5.67
	Since 5/31/2003	3.70	3.45	4.20	4.17	3.93
STANDISH MELLON				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	2.12	2.04	2.17	2.17	3.01
	1 year	6.58	6.27	7.67	7.67	8.90
	3 year	5.18	4.87	5.48	5.48	5.67
	Since 4/30/2003	4.35	3.99	4.49	4.39	4.28
MUNDER CAPITAL				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	2.38	2.32	2.17	2.35	3.01
	1 year	8.09	7.83	7.67	7.84	8.90
	3 year	5.72	5.50	5.48	5.52	5.67
	5 year	4.77	4.52	4.58	4.44	4.36
	Since 9/30/2002	4.79	4.52	4.72	4.56	4.56
INVESCO				NAREIT		
<i>REIT</i>						
	Quarter	2.86	2.67	1.40		
	1 year	(16.10)	(16.73)	(17.37)		
	Since 6/30/2006	2.38	1.58	1.28		
INVESCO				NCREIF		
<i>Private Real Estate</i>						
	Quarter	1.30	1.30	1.60		
	1 year	9.80	9.80	13.59		
	Since 7/31/2006	10.40	10.40	15.60		
OFFICE BUILDING				LB Aggregate	90-Day T-Bill	
<i>Private Real Estate</i>						
	Quarter	1.12	1.12	2.17	0.43	
	1 year	4.78	4.78	7.67	3.55	
	Since 3/31/2007	4.78	4.78	7.67	3.55	
TOTAL FUND *				Policy Index	Composite Index	
	Quarter	(6.48)	(6.58)	(5.12)	(4.82)	
	1 year	(0.37)	(0.80)	(0.72)	(0.56)	
	3 year	6.12	5.66	6.66	6.92	
	5 year	9.11	8.66	9.87	9.93	
	Since 9/30/2002	9.03	8.58	9.80	9.83	
	Since 6/30/1995	7.40				

Policy Index comprised of 25% Russell 1000 Value/25% Russell 1000 Growth/15% Dynamic Index/23% LB Aggregate/12% LB Int. Aggregate for periods prior to January 31, 2004; 22.5% Russell 1000 Value/22.5% Russell 1000 Growth/12% Dynamic Index/8% MSCI EAFE Net/23% LB Aggregate/12% LB Int. Aggregate for periods from January 31, 2004 to April 30, 2006; and 22.5% Russell 1000 Value/22.5% Russell 1000 Growth/9.5% S&P 500/8% MSCI EAFE Net/22.5% LB Aggregate/10% LB Int. Aggregate/2.5% NAREIT/2.5% NCREIF for periods thereafter.

* 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. Smith Barney Consulting Group 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 Citi Institutional Consulting.

** Dynamic Index represents blended performance of S&P 500 BARRA Value for periods prior to July 31, 2003, S&P 500 BARRA Growth for periods from July 31, 2003 to April 30, 2006, & Russell 1000 Growth for periods thereafter