

YOUR PENSION MATTERS
12/31/09
End of 1st Quarter FY 2009 - 2010

by: Chief Paul O'Connell
Board Chairperson
02/18/10

"You want to learn from experience, but you want to learn from other people's experience when you can."
Warren Buffet

Or, as retired Pompano Beach Sgt. Paul Hurt once taught me, "Smart persons learn from their mistakes; while wise persons learn from the mistakes of others." (Thanks Paul, truer words were never spoken!!)

FORFEITURE HEARING: I have had the privilege of serving on your Pension Board of Trustees for just over 13 years and believe me, it has been an experience during which I have learned many things. Needless to say, there have been some difficult times (disability hearings have always been the most difficult). For the first time in my experience, the Pension Board will face the difficult challenge of a **forfeiture hearing**. I have no doubt that the Trustees will take this process and this awesome responsibility very seriously.

We cannot comment on the facts of the case or the law applicable to the facts. It is a public meeting, thus members can attend to observe the process that, by Florida Statute, the Board must follow.

Social Security – Is it Safe??

As reported in the October 2009 edition of *US News & World Report* (pg. 56), the Social Security System is on a "Countdown to Zero." In 2016 the System will reach its "break-even" point when it will begin to pay out more in benefits than it takes in by payroll tax revenue. Currently the 12.4% payroll tax is evenly split between the employer and the employee. The date was recently pushed up by one year because of the "Great Recession" during which the system experienced a significant reduction in tax revenue when the unemployment rate topped 10%.

Remember, this is a "pay as you go" system. In other words, the money that comes in immediately goes out to pay benefits to current retirees. So, what happens when the "break-even" point is reached? No worries, the System will simply dip into its \$2.4 Trillion Surplus Trust Fund. However, there are a couple of problems with this "safety net." **First**, the Trust Fund is currently held in government bonds, not cash. In other words, the federal government has borrowed this money and must be prepared to pay it back to the System; a difficult prospect in light of the current deficit the Federal Government is running. **Second**, there is a coming wave of retirements (the baby-boomers) that will exhaust this Trust Fund in 2037 (which was moved-up by 4 years, again due to this recession). Then what???

Our Federal Government will be faced with some very difficult decisions, not in 2037 or even in

2016. It must face these difficult decisions today! We can only hope Congress and the President will have the political courage to face the inevitable just as it did in 1983 when some significant changes were made to the System. The solution lies with either cuts in benefits or increases in payroll tax; or a combination of the two (as was done in 1983). Either way, this is a financial and political time-bomb that is ticking louder and louder as time goes on.

Mark your calendars! Your Pension Board of Trustees will be conducting its 4th Annual Educational Symposium for Pompano Beach Police & Firefighters' Pension Fund Investments to be hosted by your Board of Trustees and completely underwritten by our Money Managers (in other words, this event comes at **NO COST TO THE FUND**). The dates of the event are Thursday, April 22 (11:30 AM – 5 PM); Friday, April 23 (9 AM – 4 PM) and Saturday, April 24 (9 AM – 12 PM). **You are invited to attend!**

On Thursday afternoon (4/22), starting at 11:30 AM, the Board will meet with our Consultant and review the Fund's investment performance for the 2nd Quarter of FY 09-10. Then the Board will meet with each of our bond portfolio managers, the real estate manager (Invesco) and the fund of hedge fund managers. On Friday (4/23) we will review our equity managers, such as Lord Abbett (value) and Sands (large cap growth), and the international manager (Invesco). These presentations will be the Board's chance (and yours too) to ask questions about the 2009 performance numbers and the managers' perspective and outlook for 2010. In addition, the Board will also conduct its regular April board meeting. On Saturday, 4/24, we will hear from our new private equity manager and BCOM, the manager of our Bank of America building. Should you have any questions, please call the pension office or check our website for the latest schedule of events **as the above information is subject to change based on availability.**

As always, please stay safe and stay in touch!

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2009

TRADITIONAL INVESTMENTS

| LORD ABBETT | | Your Returns | | | | |
|---|------------------|---------------------|--------|-------------------|-------------------|--------------------|
| <i>Large Cap. Value</i> | | Gross | Net | Russ 1000 Value | PSN Money Mgrs. | S&P 500 |
| | Quarter | 1.55 | 1.40 | 4.22 | 5.49 | 6.04 |
| | 1 year | 20.45 | 19.70 | 19.69 | 23.20 | 26.46 |
| | 3 year | (7.40) | (7.95) | (8.96) | (5.67) | (5.63) |
| | Since 10/31/2004 | 0.97 | 0.40 | 1.35 | NA | 1.83 |
| <i>Lord Abbett/Boston - Since 9/30/2002</i> | | 6.21 | | 7.00 | 7.54 | 6.51 |
| <i>Lord Abbett/Boston - Since 6/30/1995</i> | | 6.86 | | 7.92 | 8.51 | 6.96 |
| SANDS CAPITAL | | | | | | |
| <i>Large Cap. Growth</i> | | | | Russ 1000 Growth | PSN Money Mgrs. | |
| | Quarter | 10.80 | 10.64 | 7.94 | 6.53 | |
| | 1 year | 74.57 | 73.58 | 37.21 | 32.99 | |
| | 3 year | 2.86 | 2.28 | (1.88) | (2.33) | |
| | 5 year | 2.90 | 2.32 | 1.64 | 2.33 | |
| | Since 5/31/2003 | 7.78 | 7.19 | 4.56 | NA | |
| CORNERSTONE | | | | | | |
| <i>Large Cap. Core</i> | | | | S&P 500 | PSN Money Mgrs. | |
| | Quarter | 0.42 | 0.23 | 6.04 | 6.02 | |
| | Since 1/31/2009 | 32.79 | 32.14 | 38.10 | NA | |
| VOYAGEUR | | | | | | |
| <i>Mid Cap. Value</i> | | | | Russ Mid Value | PSN Money Mgrs. | |
| | Quarter | 6.57 | 6.38 | 5.20 | 5.56 | |
| | Since 1/31/2009 | 40.45 | 39.78 | 49.66 | NA | |
| WELLS | | | | | | |
| <i>Small/Mid Cap. Growth</i> | | | | Russ 2500 Growth | PSN Money Mgrs. | |
| | Quarter | 7.12 | 6.88 | 5.56 | 4.88 | |
| | Since 1/31/2009 | 47.23 | 46.38 | 50.71 | NA | |
| INVESCO | | | | | | |
| <i>International Value</i> | | | | MSCI EAFE Net | | |
| | Quarter | 3.56 | 3.39 | 2.18 | | |
| | 1 year | 31.84 | 30.76 | 31.78 | | |
| | 3 year | (4.28) | (4.96) | (6.04) | | |
| | 5 year | 4.41 | 3.73 | 3.54 | | |
| | Since 1/31/2004 | 6.80 | 6.12 | 5.99 | | |
| RENAISSANCE | | | | | | |
| <i>International Growth</i> | | | | MSCI AC Wrld x US | | |
| | Quarter | 6.87 | 6.69 | 3.74 | | |
| | Since 1/31/2009 | 48.94 | 48.32 | 55.19 | | |
| STANDISH MELLON | | | | | | |
| <i>Fixed Income</i> | | | | BC Aggregate | BC Int. Aggregate | BC Int. Gov/Credit |
| | Quarter | 0.44 | 0.37 | 0.20 | 0.53 | 0.31 |
| | 1 year | 8.58 | 8.26 | 5.93 | 6.46 | 5.25 |
| | 3 year | 5.86 | 5.54 | 6.04 | 6.11 | 5.91 |
| | 5 year | 4.91 | 4.60 | 4.97 | 4.97 | 4.66 |
| | Since 4/30/2003 | 4.59 | 4.24 | 4.65 | 4.57 | 4.24 |
| MUNDER CAPITAL | | | | | | |
| <i>Fixed Income</i> | | | | BC Aggregate | BC Int. Aggregate | BC Int. Gov/Credit |
| | Quarter | 0.41 | 0.35 | 0.20 | 0.53 | 0.31 |
| | 1 year | 7.17 | 6.91 | 5.93 | 6.46 | 5.25 |
| | 3 year | 6.90 | 6.63 | 6.04 | 6.11 | 5.91 |
| | 5 year | 5.65 | 5.41 | 4.97 | 4.97 | 4.66 |
| | Since 9/30/2002 | 5.16 | 4.89 | 4.81 | 4.68 | 4.46 |

ALTERNATIVE INVESTMENTS

| INVESCO | | Gross | Net | NAREIT | |
|----------------------------|-----------------|---------|---------|---------------|-----------------|
| <i>REIT</i> | | | | | |
| | Quarter | 9.50 | 9.29 | 9.40 | |
| | 1 year | 30.78 | 30.04 | 27.99 | |
| | 3 year | (9.77) | (10.38) | (12.41) | |
| | Since 6/30/2006 | (3.60) | (4.28) | (6.05) | |
| INVESCO | | | | NCREIF | |
| <i>Private Real Estate</i> | | | | | |
| | Quarter | (4.17) | (4.17) | (2.11) | |
| | 1 year | (32.59) | (32.59) | (16.85) | |
| | 3 year | (10.52) | (10.52) | (3.41) | |
| | Since 7/31/2006 | (8.34) | (8.34) | (0.74) | |
| OFFICE BUILDING | | | | BC Aggregate | 90-Day T-Bill |
| <i>Private Real Estate</i> | | | | | |
| | Quarter | (31.56) | (31.56) | 0.20 | 0.01 |
| | 1 year | (28.66) | (29.02) | 5.93 | 0.14 |
| | Since 3/31/2007 | (8.48) | (8.73) | 6.03 | 1.63 |
| UBP | | | | HFRI FOF Cons | |
| <i>Fund of Hedge Funds</i> | | | | | |
| | Quarter | 1.51 | 1.51 | 1.08 | |
| | 1 year | 9.39 | 9.39 | 9.63 | |
| | Since 4/30/2008 | (6.21) | (6.21) | (6.16) | |
| Ironwood | | | | HFRI FOF Cons | |
| <i>Fund of Hedge Funds</i> | | | | | |
| | Quarter | 2.16 | 2.16 | 1.08 | |
| | 1 year | 16.84 | 16.84 | 9.63 | |
| | Since 7/31/2008 | (10.86) | (10.86) | (6.73) | |
| Pine Grove | | | | HFRI FOF Cons | |
| <i>Fund of Hedge Funds</i> | | | | | |
| | Quarter | 3.11 | 3.11 | 1.08 | |
| | 1 year | 20.05 | 20.05 | 9.63 | |
| | Since 9/30/2008 | 5.62 | 5.62 | (2.37) | |
| TOTAL FUND * | | | | Policy Index | Composite Index |
| | Quarter | 3.26* | 3.13 | 3.67 | 3.83 |
| | 1 year | 25.30 | 24.74 | 21.01 | 21.59 |
| | 3 year | 0.07 | (0.37) | (1.00) | (0.44) |
| | 5 year | 2.72 | 2.27 | 2.86 | 3.31 |
| | Since 9/30/2002 | 6.58 | 6.13 | 6.77 | 7.02 |
| | Since 6/30/1995 | 6.38 | | | |

For periods since 4/30/2008: 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 6.5% S&P 500/8% MSCI EAFE Net/ 22.5% BC Aggregate/ 10% BC Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF/ 3% HFRI FOF Conservative For periods 4/30/2006 to 4/30/2008: 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 9.5% S&P 500/ 8% MSCI EAFE Net/ 22.5% BC Aggregate/ 10% BC Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF For periods 1/31/2004 to 4/30/2006: 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 12% Dynamic Index/ 8% MSCI EAFE Net/ 23% BC Aggregate/ 12% BC Int. Aggregate For periods prior to 1/31/2004: 25% Russell 1000 Value/ 25% Russell 1000 Growth/ 15% Dynamic Index/ 23% LB Aggregate/ 12% BC Int. Aggregate

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.

* This return was impacted by the decline in the latest appraised value of the Bank of America office building investment (-31.56% for the quarter).