

YOUR PENSION MATTERS

6/30/19

End of 3rd Quarter – FY 2018 - 2019

by: Chief Paul O'Connell
Board Chairperson
08/25/19

“The stock market is designed to transfer money from the active to the patient.” Warren Buffet

The above quote is exactly why your Pension Board of Trustees invests the way we do. It is a long game; a marathon not a sprint; a 30+ year vision and strong diversification designed to capture the upward movements of the market while minimizing the adverse impact of the downward movements which are inevitable. With this in mind, how did our Fund do in the 3rd Quarter of our current FY (2nd Quarter of the calendar year)?

The **Fund's FY Third Quarter** which ended 6/30/19 is illustrated herein. The overall the market continues its pattern of *“slow growth mode”*. Nothing wrong with that!! No doubt the American consumer is playing a vital role in keeping our economic engine running with *an average of +14% annual growth rate in retail spending*.

However, there are headwinds that complicate the world economy. The ongoing “trade war” with China and the coming exit of Great Britain from the EU are two of the important issues that must be resolved. The lack of resolution is taking its toll on the world markets. These world markets continue to watch as the US and China work to find common ground. In the UK, Prime Minister May has stepped down as she failed to find an acceptable way out of the European Union. The election to replace her resulted in Boris Johnson winning 66% of the vote from his Conservative Party. He was sworn-in as the 77th Prime Minister of the UK on 7/24 and his first order of business will be to guide the UK out of the European Union. In the meantime, the EU set a firm date of October 31, 2019 for Britain to solve the exit puzzle. If no solution can be found a “hard exit” from the EU will take place. Fasten your seat belts!

For the year through August 14, 2019, the S&P 500 was up +14.0%; the Wilshire 5000, the broadest measure of our domestic market, was up +14.3%; and the MSCI EAFE index, the broad measure of international markets, was up +7.7%.

For the reporting period (3rd Quarter) the **Dow** was up +3.2%; the **NASDAQ** was up +3.9% and the **S&P 500** was up +4.3%. The Fund gained +3.42% during this quarter (just over \$8.15 million.); but has gained ++7.14% over the past 12 months. There is no other way to describe our investment results other than to say; “steady but not exciting.” The Fund relies on our Consultant and our investment professionals to invest with prudence. In the meantime, our fund rate **DROP** rate of return for the 3rd Quarter ending June 30, 2019 has been set at +3.42% as certified by our Consultant.

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 do count. We are

STILL climbing out of the deepest recession of our lifetime and there is much work yet to be done. The current Bull Market is still moving up (the right direction with bumps in the road of course). March 2009 to August 2019 marks the longest sustain “Bull Market” in history.

Is inflation dead? This was a question we posed to the panel of investment managers during a roundtable at our most recent Pension Symposium. Of course we received a variety of answers. A recent writing noted that inflation truly is “in the eye of the beholder.” If it feels as though prices rise faster than the government’s inflation rate.....they do! Why is the “official” inflation rate over 2% lower than the rate at which many common goods and services go up in price? The answer lies in how the Feds crunch the numbers on quality gains. Take the sticker price of a Ford F-150 truck, which is up 22% from five years ago. That works out to almost 4.5% inflation in price! But government statisticians take into account the improvements and new features in the truck. They do this with all sorts of goods and discount the price increases accordingly.

Is this an exact science? No! Calculating how much more quality you get from a new product, and thus how to adjust the inflation figures, can be tricky. But note that many standard commodities, such as food products, have not risen much in recent years, suggesting that the overall inflation rate is not too high. Again, it is “in the eye of the beholder”! (Source: Kiplinger Letter, Vol.96, #26; 6/28/19)

Here are the inflation numbers since 2008 (source: *US Bureau of Labor Statistics*)
.....what do you think; is inflation dead?

2008	3.84%	2012	2.07%	2016	1.26%
2009	-.60%	2013	1.46%	2017	2.13%
2010	1.64%	2014	1.62%	2018	2.44%
2011	3.16%	2015	0.12%	2019	??

Fed Watch: Speaking of inflation; the Federal Reserve has two (2) primary tasks: low inflation and low unemployment. Unemployment is very low (some would say historic lows) so that box can be “checked.” The issue of inflation is a moving target. The waters are very muddy when we try to define inflation (read the above paragraph again!). On July 31st the Fed decided to reduce rates by .25%.

“Decumulation:” not a word we have seen before; but it stands for the proposition or process of spending down one’s retirement nest egg.

This was discussed in the April 2019 edition of the **Kiplinger Retirement Report** which explained some “safe rules of thumb” in one’s effort to make their retirement portfolio last through their retirement years. However, these rules of thumb may not be as safe or as clear cut as they used to be. Deciding how much to pull from your portfolio each year is just one part of the overall retirement equation. Other issues may impact your decision making such as health costs or other unforeseen expenses.

One significant change in the IRA rule has bipartisan support in both houses of Congress. The **Required Minimum Distribution (RMD)** is about to change if the **SECURE Act** passes Congress and is signed by the President. The significant change is that the start date of RMD rather than starting at 70.5 years of age will be pushed out to 72 years of age; thus allowing the money in your tax deferred account to grow another 18

months. If you hold an IRA, please be sure to consult with your financial advisor and/or your tax preparer to ensure you follow the rules for required minimum distribution. The penalty for not following these rules can be very expensive!

We are certainly fortunate that in retirement we have our monthly pension checks and monthly Social Security checks. The question each of us must answer: “will this be enough”? No two persons are the same and no two situations will match; so there is no clear answer. Some suggestions in the Retirement Report:

Do it yourself: This may be the right approach for those who like to be in control and have the self-discipline to do the homework which is absolutely necessary. These types of folks must be willing and able to adjust to market fluctuations and adjust their respective lifestyle. To assist, there are Internet websites and blogs which specialize in this financial arena (such as www.obliviousinvestor.com). You will certainly save money on fees; however, can you trust yourself (discipline & control of emotions) or trust someone you cannot see? You decide!

Do it for me: There are a plethora of financial services out there! You have seen the commercials: Fidelity, Trans-America; Vanguard, etc. There are also new, less know firms such as: United Income (www.unitedinceom.com) and Personal Capital (www.personalcapital.com). Again, you must tread carefully and closely monitor whichever organization you select. Do your homework and research the respective track record and always remember **FEES!** Costs of services (fees) can drain your portfolio just as quickly as a down market.

“7 Deadly Sins” of retirement planning: MarketWatch recently published a column written by *Brett Arends* (April 9, 2019) which identifies the 7 sins of planning for retirement committed by the Baby Boomer Generation. Sadly, only 10 – 15% of those born between 1946 – 1964 have saved enough to retire in comfort. More specifically, only 11% have saved at least \$500,000. Nearly half have no retirement savings at all!

Perhaps we can all learn from the mistakes of others?

1. **Not saving enough** – pretty simple rule to live by but it does take discipline. Save until it hurts and then add 10%. Then the hard part....**let it grow and do not touch!**
2. **Raiding the cookie jar.** Too often we save for retirement but raid the cash before we enter retirement. The effects can be devastating as you live in retirement.
3. **No goal in place.** How can you hit the target when you do not establish the mark? Having a goal in place helps maintain your self-discipline.
4. **Health care costs:** remember, Medicare only covers part of your health care expenses. Supplement plans will certainly assist (or in the alternative Medicare Advantage Plans), but there will be monthly charges. Plan accordingly!
5. **Long term care costs:** Medicare does not cover this expense, so again, plan accordingly.
6. **Mishandling your retirement date:** Yes, for those in our system, there will be a fixed date. But then, “now what”? Can anyone afford to fully retire at age 45 – 50? Good news, you will likely live another 30 – 40 years after you retire from your public safety job. Bad news, your monthly pension check will be there every month, **BUT**, because of inflation and other unforeseen issues, it may not be enough.
7. **Not setting your affairs in order:** we have all witnessed the tragedy of an unforeseen death. That

tragedy will be amplified when the proper documents are not in place to ease the pain of those you leave behind. As we have written in the past, at minimum you should have the following documents in place and in order: Will (or Trust); Health Care Surrogate; Living Will & Power of Attorney. **PLEASE** take the time to consult with an attorney you trust and get your affairs in order!!

ALWAYS REMEMBER.....Last month (July 29, 2019) marked the **29th 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 (FYI...a brand new sign now appears at *K-9 Officer Scott Winters Park* on Riverside Drive....our thanks to the City of Pompano Beach). This month marks the **12th Anniversary** of **Sgt. Chris Reyka's** death (EOW 8/10/07). In January 2020 we will mark the **8th Anniversary** of **Billy Elliot's** death (EOW 1/06/12). We will remember these three men because:

“A Hero Remembered Never Dies!”

Rededication of the Scott Winters Park: please mark your calendar....

Sunday, January 12, 2020 we will rededicate this park to mark the 30th Anniversary of Scott's supreme sacrifice...yes, it is about six (6) months early; but we wanted the ceremony to parallel the death of Firefighter Bill Elliott (it will be the 8th Anniversary of his death).

As noted above, the City placed a new sign at the Park, closer to Riverside Drive, thus more visible. Plan for this event are a work in progress.

Member Self-Service Portal:

On June 3, 2019, the Board of Trustees rolled out the new member self-service portal located on the Plan's website. The portal is a dynamic tool that is available to all active, retired and DROP members. The portal can be accessed by navigating to the tool bar at the top of the home page on the Plan's website at www.pbpfrs.org. By clicking this link, you will be asked to create your own unique login credentials to access your account information.

To date, there have been 38 members who have registered for access to the portal. Many members have found it useful for 24-hour access to do things such as check their beneficiaries of record, download account statements and 1099-R forms, generate pension verification letters, generate estimates of pension benefits, and many other features.

It only takes a moment to click the self-registration link and go through the easy step-by-step instructions to establish your credentials. If you have any questions, please feel free to contact the Pension Office for assistance.

Board Elections:

Fire: **Trustee Jorge Rossi:** congratulations to Battalion Chief Jorge Rossi as he was re-elected by acclamation to a three-year term (2022) as no one applied to run for this term in office.

Police: **Trustee-elect Patrick Hanrahan:** congratulations to Mr. Hanrahan as he was elected by the Police members to a three-year term (2022).

Both **Chief Rossi** and **Patrick Hanrahan** express their respective gratitude to the membership for their trust in the work we do going forward. This is a labor of focused dedication to ensure a safe and secure Pension Fund for the entire membership!

Congratulations to **Sharra Aaronian** as she 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, 2019

Distribution of Assets:

Equity		
-Large Cap. Value	\$30,249,762	
-Large Cap. Growth	\$31,812,354	
-Mid Cap. Value	\$12,573,709	
-Small/Mid Cap. Growth	\$13,511,954	
-International Value	\$18,778,286	
-International Growth	\$18,265,345	
Total Equity	\$125,191,410	
Fixed Income	\$54,520,952	
Private Real Estate	\$20,632,474	
Fund of Hedge Funds	\$22,749,639	
Master Limited Partnerships	\$11,574,959	
Private Equity	\$8,633,922	
Cash (Non-Managed Account)	\$1,345,175	
Total Portfolio	\$244,648,530	

Distribution by Percentages:

	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	12.36%
-Large Cap. Growth	12.50%	13.00%
-Mid Cap. Value	5.00%	5.14%
-Small/Mid Cap. Growth	5.00%	5.52%
-International Value	7.50%	7.68%
-International Growth	7.50%	7.47%
Total Equity	50.00%	51.17%
Fixed Income	22.50%	22.29%
Private Real Estate	7.50%	8.43%
Fund of Hedge Funds	10.00%	9.30%
Master Limited Partnerships	5.00%	4.73%
Private Equity	5.00%	3.53%
Cash (Non-Managed Account)	0.00%	0.55%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)

Private Real Estate	100.00%	\$17,632,474
Fees		(\$48,918)
Gain or (Loss)		\$181,196

OFFICE BUILDING

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

Center Coast Master Limited Partnerships

Fund of Hedge Fund	100.00%	\$11,574,959
Gain or (Loss)		\$3,763

Other Important Facts:

Total Portfolio	\$244,648,530
Total Gain or (Loss) - Gross of Fees	\$8,152,335

BLACKROCK

Total Assets	100.00%	\$30,249,762
Equity	95.38%	\$28,851,300
Cash	4.62%	\$1,398,462
Fees		(\$18,918)
Gain or (Loss)		\$1,457,702

SANDS CAPITAL MANAGEMENT

Total Assets	100.00%	\$15,913,975
Equity	97.11%	\$15,453,944
Cash	2.89%	\$460,030
Fees		(\$23,775)
Gain or (Loss)		\$633,226

SAWGRASS ASSET MANAGEMENT

Total Assets	100.00%	\$15,898,380
Equity	99.61%	\$15,837,013
Cash	0.39%	\$61,367
Fees		(\$18,866)
Gain or (Loss)		\$713,592

NUANCE

Total Assets	100.00%	\$12,573,709
Equity	92.78%	\$11,665,282
Cash	7.22%	\$908,426
Fees		(\$12,135)
Gain or (Loss)		\$723,569

WELLS

Total Assets	100.00%	\$13,511,954
Equity	96.97%	\$13,102,698
Cash	3.03%	\$409,257
Fees		(\$27,208)
Gain or (Loss)		\$1,359,423

Pine Grove Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$10,664,016
Gain or (Loss)		\$137,965

Ironwood Fund of Hedge Fund

Fund of Hedge Fund	100.00%	\$12,085,623
Gain or (Loss)		\$258,845

MAIN ACCOUNT (NON-MANAGED)

Cash	100.00%	\$1,345,175
Gain or (Loss)		\$5,010

LAZARD (International Value)

Total Assets	100.00%	\$18,778,286
Equity	96.24%	\$18,072,727
Cash	3.76%	\$705,559
Fees		(\$21,011)
Gain or (Loss)		\$804,291

RENAISSANCE (International Growth)

Total Assets	100.00%	\$18,265,345
Equity	98.28%	\$17,951,972
Cash	1.72%	\$313,373
Fees		(\$26,710)
Gain or (Loss)		\$350,811

STANDISH MELLON

Total Assets	100.00%	\$27,248,204
Fixed	95.28%	\$25,961,731
Cash	4.72%	\$1,286,473
Fees		(\$14,372)
Gain or (Loss)		\$784,054

INCORE/VICTORY (FORMERLY MUNDER)

Total Assets	100.00%	\$27,272,748
Fixed	99.36%	\$27,096,951
Cash	0.64%	\$175,797
Fees		(\$13,094)
Gain or (Loss)		\$772,561

NB CROSSROADS (PRIVATE EQUITY) #1

Total Assets	100.00%	\$3,405,628
Gain or (Loss)		\$0

NB CROSSROADS (PRIVATE EQUITY) #2

Fund of Hedge Fund	100.00%	\$2,790,318
Gain or (Loss)		\$0

BLACKSTONE (PRIVATE EQUITY)

Total Assets	100.00%	\$1,541,551
Gain or (Loss)		(\$65,547)

GOLDMAN SACHS (PRIVATE EQUITY)

Total Assets	100.00%	\$896,425
Gain or (Loss)		\$0

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of June 30, 2019

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
Large Cap. Value		Gross	Net			
	Quarter	4.96	4.90	3.84	3.80	0.61
	1 year	8.40	8.13	8.46	7.37	3.06
	3 year	11.92	11.48	10.19	11.07	11.06
	5 year	8.85	8.33	7.46	8.00	6.07
	Since 1/31/2013	10.61	10.06	10.80	NA	8.49
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
Large Cap. Growth						
	Quarter	4.07	3.91	4.64	5.11	
	1 year	8.97	8.28	11.56	11.40	
	3 year	23.07	22.34	18.07	16.52	
	5 year	13.46	12.78	13.39	11.81	
	Since 5/31/2003	13.23	12.58	10.42	NA	
SAWGRASS				Russ 1000 Growth	PSN Money Mgrs.	
Large Cap. Growth						
	Quarter	4.63	4.51	4.64	5.11	
	Since 1/31/2019	12.60	12.47	11.47	NA	
NUANCE				Russ Mid Value	PSN Money Mgrs.	
Mid Cap. Value						
	Quarter	6.01	5.91	3.19	3.05	
	Since 6/30/2018	14.95	14.60	3.68	1.04	
	Nuance/RBC Global - 3 year	11.94	11.58	8.95	10.29	
	Nuance/RBC Global - 5 year	7.12	6.60	6.72	6.41	
	Nuance/RBC Global - Since 1/31/2009	15.19	14.57	15.48	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
Small/Mid Cap. Growth						
	Quarter	11.01	10.77	4.14	4.21	
	1 year	18.62	17.64	6.13	3.51	
	3 year	21.70	20.66	16.14	17.44	
	5 year	13.20	12.20	9.98	10.34	
	Since 1/31/2009	19.48	18.45	17.20	NA	
LAZARD				MSCI AC Wld x US		
International Value						
	Quarter	4.47	4.35	2.98		
	1 year	1.89	1.40	1.29		
	3 year	8.05	7.52	9.39		
	5 year	2.72	2.20	2.16		
	Since 1/31/2013	4.89	4.38	4.19		
RENAISSANCE				MSCI AC Wld x US		
International Growth						
	Quarter	1.94	1.79	2.98		
	1 year	(4.26)	(4.83)	1.29		
	3 year	6.43	5.79	9.39		
	5 year	1.03	0.39	2.16		
	Since 1/31/2009	8.84	8.17	8.57		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Fixed Income						
	Quarter	2.96	2.91	3.08	2.39	2.59
	1 year	7.81	7.56	7.87	6.73	6.93
	3 year	2.35	2.10	2.31	2.03	1.99
	5 year	2.87	2.57	2.95	2.46	2.39
	Since 4/30/2003	4.20	3.87	4.08	3.72	3.53
INCORE/VICTORY (Munder)				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Fixed Income						
	Quarter	2.91	2.87	3.08	2.39	2.59
	1 year	7.70	7.48	7.87	6.73	6.93
	3 year	2.68	2.47	2.31	2.03	1.99
	5 year	3.05	2.87	2.95	2.46	2.39
	Since 9/30/2002	4.47	4.25	4.17	3.79	3.65

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	1.04	0.76	1.51	0.99	3.08
	1 year	7.02	5.83	6.50	6.41	7.87
	3 year	7.95	6.75	6.89	7.57	2.31
	5 year	10.22	9.01	8.83	9.76	2.95
	Since 7/31/2006	6.46	5.32	7.34	6.54	4.40
OFFICE BUILDING						
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate	
	Quarter	1.07	1.07	0.61	3.08	
	1 year	5.08	5.08	2.29	7.87	
	3 year	4.59	4.59	1.36	2.31	
	5 year	21.02	21.02	0.84	2.95	
	Since 3/31/2007	0.94	0.88	0.81	4.21	
Ironwood						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	2.19	2.19	1.48	3.08	
	1 year	3.53	3.53	1.87	7.87	
	3 year	6.26	6.26	3.73	2.31	
	5 year	4.10	4.10	2.07	2.95	
	Since 7/31/2008	3.64	3.64	1.47	4.13	
Pine Grove						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	1.31	1.31	1.48	3.08	
	1 year	0.99	0.99	1.87	7.87	
	3 year	4.98	4.98	3.73	2.31	
	5 year	1.54	1.54	2.07	2.95	
	Since 9/30/2008	3.59	3.59	2.14	4.23	
Center Coast						
<i>Master Limited Partnerships</i>				Alerian MLP		
	Quarter	0.03	(0.09)	0.12		
	1 year	7.52	7.00	3.09		
	3 year	0.96	0.46	(0.42)		
	Since 1/31/2015	(4.66)	(5.08)	(5.27)		
Neuberger Berman						
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	MSCI AC Wrlld / 90-Day T-Bill	BC Aggregate	
	Quarter	0.00	0.00	0.61	3.08	
	1 year	1.84	1.77	3.06	7.87	
	3 year	11.35	11.95	11.06	2.31	
	5 year	10.81	11.05	6.07	2.95	
	Since 3/31/2010	4.75	10.47	8.39	3.59	
Neuberger Berman						
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	MSCI AC Wrlld / 90-Day T-Bill	BC Aggregate	
	Quarter	0.00	0.00	0.61	3.08	
	1 year	8.29	8.32	3.06	7.87	
	3 year	12.18	12.13	11.06	2.31	
	Since 7/31/2014	7.43	9.69	6.44	3.05	
Blackstone						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	BC Aggregate	
	Quarter	(4.08)	(4.00)	4.30	3.08	
	1 year	2.39	2.16	10.42	7.87	
	3 year	10.96	10.28	14.19	2.31	
	5 year	9.17	7.80	10.71	2.95	
	Since 11/30/2013	10.18	8.05	11.40	3.24	
Goldman Sachs						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	MSCI AC Wrlld / 90-Day T-Bill	BC Aggregate	
	Quarter	0.00	0.00	0.61	3.08	
	1 year	(0.40)	(0.35)	3.06	7.87	
	3 year	6.58	8.47	11.06	2.31	
	5 year	7.02	7.62	6.07	2.95	
	Since 12/31/2013	5.91	7.74	6.72	3.40	

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	3.42	3.32	2.98	
1 year	7.14	6.70	6.31	
3 year	9.52	9.05	8.16	
5 year	6.29	5.80	5.53	
Since 9/30/2002	7.71	7.23	7.33	
Since 6/30/1995	7.24			

TOTAL FUND				Actuarial Rate	CPI +3
<i>Dollar-Weighted Net Return (IRR)</i>					
Quarter		3.32	1.82	1.20	
1 year		6.75	7.50	4.83	
3 year		9.16	7.50	5.11	
5 year		5.64	7.50	4.47	
Since 9/30/2002		7.45	7.50	5.12	

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.