

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2006

First Quarter Ended December 31, 2005

by: Paul O'Connell
Board Chairperson

As promised in our prior newsletter we will discuss current litigation. Your Pension Board is currently involved in many lawsuits, most as a plaintiff and one as a defendant. We will save the "best" for last, but first a quick review of those lawsuits in which your Pension Board is a plaintiff and seeks monetary damages for alleged corporate misconduct.

In re Citigroup, Inc. et al. (2nd Circuit Court of Appeal, Appellate Case # 04-5642): The Pompano Beach Police & Fire Pension Board is the "lead" plaintiff in this class action case in which we (among many other plaintiffs) allege that the defendant intentionally or recklessly engaged in illegal accounting practices contrary to SEC regulations which resulted in false earning statements. The case is currently on appeal from the trial Judge's decision to grant defendant's motion to dismiss.

In re Krispy Kreme, Inc. (Securities Litigation, Case # 04-CV-00416): pending in the U.S. District Court for the Middle District of North Carolina. The Pompano Beach Police & Fire Pension Board is again the "lead" plaintiff in this class action case in which we (among many other plaintiffs) allege that the defendant issued false and misleading statements representing that the Company's sales growth continued to rise exponentially. In reality, however, the sales growth had been declining rapidly. In addition, we allege that the defendant manipulated its financial statements to mask this negative trend.

In re Laboratory Corp. of America Holdings (Securities Litigation, Case # 03:CV-00591): also pending in the U.S. District Court for the Middle District of North Carolina. The Pompano Beach Police & Fire Pension Board is a "lead" plaintiff in this class action case in which we (among other plaintiffs) allege that the defendant falsely represented that volume growth was strong at the Company, that LabCorp was competing favorably with its competitors and that the Company was well-positioned in 2002 to achieve strong growth in both revenues and earnings. Subsequent to these statements, the true story of the Company's business was revealed and the stock dropped 34% in one day.

In re Newmont Mining Corp. (Securities Litigation, Case # 05:CV-01046): pending in the U.S. District Court for the District of Colorado. The Pompano Beach Police & Fire Pension Board is a “lead” plaintiff in this class action class action case in which we (among other plaintiffs) allege that the defendant, despite making repeated positive statements about the Company’s operations and financial expectations, and upon which investors relied, the company’s mining operations had grossly underperformed. On the reporting of the actual and accurate performance of its mines the stock price fell, thus inflicting financial damage upon investors.

Perhaps the one case of most interest to all of us is the case in which the Pension Board stands as a defendant. Here is the case in a “nutshell.” The City of Pompano Beach and the Broward Sheriff’s Office have joined together and sued the Pension Board for what they (plaintiffs) believe are the Board’s unilateral granting of enhanced pension benefits. (A prior and **careful** reading of Pompano Beach Municipal Ordinances (M.O.) Sections 34.045 – 34.073 is encouraged in an effort to better understand those rules that govern the Board’s actions). The plaintiff’s case or allegations can be divided into three segments: **A)** the unauthorized granting of the 1% variable COLA to police retirees contrary to municipal ordinance (M.O. 34.073); **B)** the unauthorized enhancement of police officers’ final statement of earnings (post 1999 merger) contrary to municipal ordinance (M.O. 34.055 and the definition of “earnings”); **C)** the constitutionality of M.O. 34.048 (F) which states that any change to the M.O. which controls the administration of the Police & Fire Pension must be approved by the Pension Board. It is **critical to remember** that the Pension Board does not bargain or negotiate. It merely administers the Pension Fund pursuant to the rules illustrated in the controlling municipal ordinances and implemented by the Pompano Beach City Commission; and **D)** your Pension Board has counter-sued BSO because of its failure to pay its legally required contributions to the Pension System. To date, BSO has underpaid the System by over \$1.75 million.

A) Pursuant to collective bargaining agreements and M.O. 34.073 a 2% COLA is guaranteed to those retirees who have been retired for a minimum of five (5) years. In addition, the Police & Fire Pension may grant an additional 1% COLA (the “variable 1% COLA”) only when the cost of said addition can be paid for by investment earnings **OR** when there is no cost to the City for said addition (see the definition of “sufficiently funded”).

Your Pension Board has, in the past, granted the “variable” 1% COLA each year to retired police officers but only once to retired firefighters. Why? For retired firefighters, there has been only one investment year since 2000 in which our investment earnings have covered the cost of such enhancement **OR** such enhancement came at no cost to the city. For retired police officers the situation has been different as a result of the city’s decision to outsource police services to the Broward Sheriff’s Office. Pursuant to the contract for police services, the Broward Sheriff’s Office pays all pension costs related to maintaining the

actuarial soundness of the Pension Fund on the police officer side of the Fund. Thus, the granting of the “variable 1% COLA” came at “no cost to the city” and satisfied one of the two prongs of the controlling ordinance. This litigation focuses the 2003 and 2004 decision. The Board has yet to decide on the 1% variable COLA for 2005.

On February 10, 2006 your Pension Board held an Evidentiary Hearing during which the City and BSO argued against the Board granting the 1% Variable COLA for 2005 – 2006. Robert Klausner was hired as special counsel to argue in favor of granting the COLA. Both sides gave sound arguments which reflected their respective positions. The Board instructed the parties to file summary briefs to the Board on or before March 31, 2006. Once filed, the Board will set a date to make a final determination based on the evidence presented by the parties.

B) Subsequent to the outsourcing of police services to the Broward Sheriff's Office the Pension Board calculated “earnings” without including the employee contributions paid on your behalf by your new employer, BSO. Before the outsourcing, the contributions paid on your behalf by your former employer, the city, had been included in earnings and used to calculate pensions. As several police officers (now a Deputy Sheriff) approached normal retirement, they brought to the attention of the Pension Board that it was “under-reporting” earnings by not including the Broward Sheriff's Office's pick-up of the employees' 8.6% pension contribution. After consultation with its Pension Board attorney (and attempts to consult with the City of Pompano Beach which did not respond to our inquiries), the Board agreed with the position taken by these retirees and corrected the earnings statements, retroactive to the date of retirement for all police officers who retired after August 1, 1999 (date of the merger). The City of Pompano Beach and the Broward Sheriff's Office allege that this unilateral action was an enhancement of benefits without bargaining. On February 13, 2006, our Motion for Summary Judgment was heard before Judge Eade. Arguments were given by both sides during this three hour hearing. Judge Eade reserved a ruling on the motion pending submittal of closing briefs from each side. No date was set for the submittal of these briefs.

C) M.O. 34.048 (F) states, “no change in any of the provisions of the system shall be made without the approval of a majority of the Board of Trustees.” The City of Pompano Beach seeks to have this M.O. declared unconstitutional. The Pension Board has stated that the City, not the Pension Board, wrote this ordinance and thus the City should and must abide by its own rules and cannot change these rules “in the middle of the game.”

D) The Retirement System has countersued BSO because BSO has paid less than the legally required amount to the Retirement System. For the 2004-05 fiscal year that ended 9/30/05, BSO underpaid by over \$1.2 MILLION and we expect BSO to continue to underpay each quarter.

It goes without saying that your Pension Board remains extremely active in fulfilling its fiduciary duties to protect your pension from unscrupulous corporate practices which cause financial loss to our pension (not unlike other investors throughout the country). In addition, the Pension Board works diligently to conform to the controlling municipal ordinances and to inform all parties (friend or foe) of its actions and the reasoning behind these actions. **Simply put, we remain committed to protecting your financial future by all legal means necessary.**

Now, a review of our performance during 2005 is in order. In a word, the financial markets almost across the board can be described as “**flat.**” In light of the increased cost of fuel, the continued hostilities in the Middle East (the markets hate uncertainty) and the natural disasters the country encountered last year; this performance can be seen as a positive outcome. The S&P 500 Index was up +4.91% (energy and utilities were the top performing sectors) and the Bond market (LB aggregate) was up 2.43%. By comparison your Pension Fund showed the following (all figures shown are gross – pre-fee):

As of December 31, 2005 our Pension Fund’s total portfolio stood at \$162,066,541 and was allocated 68% in equities and 30% in bonds (the remainder in cash). The total return for the year 2005 was 5.6% and for the past 3 years the Fund has averaged 11.66% return per year. The Fund has attained its performance expectations and we will continue to steer all our efforts to that effect. Please refer to the enclosure for more detailed information.

In our next newsletter we will review our bond money managers, who they are and how they have performed. Until then, stay safe and stay in touch!

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2005

LORD ABBETT/BOSTON *		Your Returns		Russ 1000 Value	Money Mgrs.	S&P 500
Large Cap. Value		Gross	Net			
	Quarter	2.10	1.95	1.26	1.84	2.08
	1 year	2.22	1.65	7.04	7.40	4.89
	Since 10/31/2004	9.16	8.64	13.75	NA	10.92
	Lord Abbett/Boston - 3 year	14.11		17.48	17.34	14.39
	Lord Abbett/Boston - Since 9/30/2002	16.24		19.22	18.65	16.07
	Lord Abbett/Boston - 5 year	2.08		5.27	5.30	0.54
	Lord Abbett/Boston - Since 6/30/1995	10.14		11.96	11.73	10.03

SANDS CAPITAL		Your Returns		Russ 1000 Growth	Money Mgrs.
Large Cap. Growth		Gross	Net		
	Quarter	7.09	6.93	2.98	3.44
	1 year	11.66	11.03	5.27	7.85
	Since 5/31/2003	19.51	18.89	10.75	NA

FREEDOM CAPITAL *		Your Returns		Dynamic Index**	S&P 500
Large Cap. Asset Allocator		Gross	Net		
	Quarter	1.53	1.45	1.45	2.08
	1 year	3.41	3.10	3.47	4.89
	3 year	11.57	11.24	12.01	14.39
	Since 9/30/2002	13.90	13.56	14.31	16.07
	Since 3/31/2002	2.29		2.63	4.10

INVESCO		Your Returns		MSCI EAFE Net
International		Gross	Net	
	Quarter	3.40	3.23	4.75
	1 year	12.97	12.24	15.67
	Since 1/31/2004	16.67	15.99	16.78

ALLEGIANCE CAPITAL		Your Returns		LB Int. Aggregate	LB Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net			
	Quarter	0.32	0.26	0.56	0.59	0.52
	1 year	2.23	1.97	2.01	2.43	1.57
	Since 5/31/2003	2.33	2.10	2.46	2.60	1.77

STANDISH MELLON		Your Returns		LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net			
	Quarter	0.64	0.57	0.59	0.56	0.52
	1 year	3.01	2.71	2.43	2.01	1.57
	3 year	3.71		3.62	3.18	2.96
	Since 9/30/2002	3.83		3.84	3.42	3.26

MUNDER CAPITAL		Your Returns		LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net			
	Quarter	0.58	0.51	0.59	0.56	0.52
	1 year	3.08	2.82	2.43	2.01	1.57
	3 year	3.74	3.45	3.62	3.18	2.96
	Since 9/30/2002	3.77	3.47	3.84	3.42	3.26

TOTAL FUND *		Your Returns		Total Fund Index
		Gross	Net	
	Quarter	2.76	2.65	1.68
	1 year	5.60	5.14	5.16
	3 year	11.66	11.21	11.25
	Since 9/30/2002	12.49	12.03	12.42
	5 year	3.22		
	Since 6/30/1995	8.09		

Total Fund 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 and 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 after January 31, 2004.

* 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 Smith Barney Consulting Group.

** Dynamic Index represents blended performance of S&P 500 BARRA Value for periods prior to July 31, 2003 and S&P 500 BARRA Growth for periods after July 31,