YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2007

First Quarter Ended December 31, 2006

by: Paul O'Connell
Board Chairperson

"Why be a tenant when you can be a landlord?"
Your Pompano Beach Police & Fire Pension
Board of Trustees

Of all the newsletters I have written to date, this is, without a doubt, the most exciting! **We have a new home**! More than that, it is a home we own free and clear. It is an investment that will return to us financial reward and financial security for many years to come.

First, I must acknowledge the hard work done by our **Relocation Committee** (*Dan Christophers,* Chair; *Richard Avallone, Ernie Lee and Peter McGinnis*). The Committee logged hundreds of hours working to find a new home for our pension offices and our staff. You will recall that the old office was a victim of Hurricane Wilma in October 2005. Since that time, the pension office has been temporarily located at 627 East Atlantic Blvd. (thanks to the generosity of former City Commissioner Randy Kester). The work completed by the Committee entailed site visits, contract negotiations, a multitude of interviews and reading assignments including due diligence reports, prospective cash flows through ten years and beyond, land value calculations and valuation scenarios. It truly was an enormous task and an amazing feat to complete!

Their hard work paid off and your Pension Fund now has a new home at the **Bank of America Building** located at 2335 East Atlantic Blvd. The purchase price: $4.4 million. The building is four stories and is 100% leased (which includes our new office space). It has 38,701 total square feet of which 28,248 square feet are leasable (57% of which is occupied by the Bank of America). The cash flow based on projections from our acquisition advisor will result in an 11–12% return each year over the next 5 years.

The Relocation Committee (now renamed **Building Committee**) also worked with Kravit Architecture to design and build-out our office space in an effort to maximize its use and present an air of professionalism to those who visit us. This included schematic design, construction drawings upon which the construction would be based. Then the Committee hired the contractor to complete the build-out which included permitting the work to be done. The end product will be a new home for our offices and staff! Our goal is to be in the new office by the end of this year. In the meantime, we remain in our current temporary home.

What is truly exciting is that this purchase includes the value added potential of 1.2 acres of land next to the building. Should we develop it, improve it or simply maintain the status quo? These are questions the Board of Trustees will explore in the years to come. Regardless, there is no question that the potential for a great return on investment comes with this adjacent land. We are excited about the possibilities!

This acquisition is only part of the Board's venture into "alternative asset classes" of investment. The Board strongly believes that the stock market (equities and bonds) represents only part of a complete investment portfolio. In real estate, we are told the 3 most important factors are location, location and location. In the investment world, the 3 most important rules are diversify, diversify and diversify.

Thus, over the past 10 years your Board has worked very hard at spreading our investments over a broad range. For example, in 1997 we had three (3) money managers in the traditional investment world of U.S. based equities and bonds. Now we have seven (7) different managers covering a wide range of investments. In 2004, for the first time, we invested in the international arena. Over the past two years, we have aggressively studied real estate as an alternative investment. We learned that there are five primary reasons to add real estate to our portfolio: 1. a large universe from which to chose; 2. higher cash returns than stocks and bonds; 3. capital preservation; 4. reduced overall volatility; and 5. inflation protection. Once we determined that the strategy was sound, we selected three different routes to achieve our goal:

1. The purchase of the Bank of America building as discussed above;
2. Public **REIT** (real estate investment trust) through Invesco ($4 million); and
3. Private real estate investment ($4 million) also through Invesco.

A **REIT** is a company with the primary business of owning and managing income producing properties such as office buildings, shopping malls or hotels. A REIT is set up as a company, shares of which may be purchased or sold by individual investors. Thus, it provides **liquidity** (sale and purchase of shares with relative ease) and return on investment in the real estate arena without being "tied to the land" over an extended period of time. Total return on the investment is tied to the price of the stock. Because the investment return is tied to the stock price, this investment has inherent volatility. However, because the stock is tied to land and land use, the volatility is lower than equity stock. Since the 6/1/06 inception date of our portfolio with Invesco, the REIT investment has gained 19.7%.

On the other hand, private investment or **CORE** real estate is tied to the land. Thus, it is an illiquid investment. The key to this kind of investment is long term stable income from the most efficient use of the land (fully leased) and built-in annual lease escalations which mirror the rate of inflation. This ensures a predictable and projectable cash flow. Total return on the investment is tied to income or cash flow. Because the investment is tied to the land, volatility is lower than most other investments, including REITs. Since the 7/1/06 inception date of our core real estate portfolio with Invesco, this investment has returned 3.7%.

Mark your calendars! Your Pension Board of Trustees will be conducting its First Annual Educational Symposium on April 13 and 14, 2007 at the Embassy Suites Deerfield Beach Resort. You are invited to attend! On Friday afternoon, starting at 1 PM and ending at 6 PM, each of our money managers will make short presentations regarding their respective investments and how those investments have performed. More important, we will ask these managers, "Where to from here"? On Saturday, we will hear from a nationally recognized economist on his view of the economy in its current state and what he envisions for the future. In addition, we will have a roundtable at which all our money managers will sit and discuss their respective views of the economy's future and their outlook on our Pension Fund's investments. We believe this format will generate great discussion and diverse points of view. Should you have any questions, please call the pension office.

No doubt, you have noticed that end of quarter financial reports to you and this newsletter were delayed. In the past, the Board has been able to determine and accept financial reports within 4 to 5 weeks after the end of the fiscal quarter. This is no longer possible in light of our venture into real estate (as described above). Those two quarterly financial reports (**REIT** and **Core**) take much longer to calculate. Thus, starting with this newsletter and the enclosed end of 1st quarter reporting, future newsletters and reports will not be forwarded to you until 7 to 8 weeks after the end of each fiscal quarter. This will ensure accurate reporting the first time and every time. We hope you understand.

Many retired members have inquired about the Pension Protection Act of 2006 and its impact on us as public safety retirees. You will recall that in our 9/30/06 newsletter we made reference to this new law as follows:

1. Starting in **2007** our current and future retirees who, through deductions from their pension checks, buy health insurance or long term care insurance from their former employer will be able to reduce their taxable pension income by up to $3,000. The pension office will be sending a full explanation of this benefit which should save each retiree between $750 and $1000 in federal taxes every year.

2. Starting immediately, withdrawals from DROP accounts for normal retirement and disability retirees who were age 50 or over in the calendar year they retired are no longer subject to the federal tax 10% early withdrawal penalty. The age was dropped down from 55 years of age. The withdrawal will still be taxed as regular income tax rates. As before, tax free rollovers are available at any age.

As to **#1** above, the IRS has issued its ruling on this law and how it should be implemented. Your Pension Board will be sending to all retirees a separate mailing which will explain the tax benefit and how it must be implemented and filed with your individual tax return.

As to **#2** above, some police retirees (but still employed by BSO) have inquired about withdrawing their DROP money prior to termination of employment with BSO. This was an issue of concern in 2001 and the Board secured an opinion from both our Auditor (Cherry, Bekaert and Holland) and our then Board Attorney (S. Cypen). It was determined that DROP money could not be withdrawn prior to termination of employment because of the "same desk rule." To do so would jeopardize the special tax status of the Fund. We have asked the CPA firm to review this issue in light of the new law cited above and determine if any changes are in play.

In our next newsletter we will review some new ideas about retirement living. Until then, stay safe and stay in touch!

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2006

LORD ABBETT/BOSTON *	**Your Returns**				
Large Cap. Value	**Gross**	**Net**	**Russ 1000 Value**	**Money Mgrs.**	**S&P 500**
Quarter	6.19	6.04	7.99	7.39	6.70
1 year	19.49	18.82	19.49	18.39	15.80
Since 10/31/2004	13.81	13.22	17.58	NA	13.14
Lord Abbett/Boston - 3 year	10.85	10.31	15.07	13.55	10.43
Lord Abbett/Boston - Since 9/30/2002	17.00		19.93	18.67	16.00
Lord Abbett/Boston - 5 year	5.79		10.86	9.91	6.19
Lord Abbett/Boston - Since 6/30/1995	10.93		12.82	12.60	10.52
SANDS CAPITAL					
Large Cap. Growth			**Russ 1000 Growth**	**Money Mgrs.**	
Quarter	3.14	3.00	5.93	5.59	
1 year	(5.06)	(5.59)	9.08	9.19	
3 year	8.58	7.96	6.87	8.65	
Since 5/31/2003	12.08	11.48	10.28	NA	
FREEDOM CAPITAL *					
Large Cap. Asset Allocator			**S&P 500**		**Dynamic Index****
Quarter	5.72	5.65	6.70		5.93
1 year	9.91	9.56	15.80		8.63
3 year	6.45	6.13	10.43		6.24
Since 9/30/2002	12.95	12.61	16.00		13.09
Since 3/31/2002	3.85		6.47		3.89
INVESCO					
International			**MSCI EAFE Net**		
Quarter	8.48	8.30	10.35		
1 year	25.22	24.63	26.34		
Since 1/31/2004	19.54	18.88	19.97		
ALLEGIANCE CAPITAL					
Fixed Income			**LB Int. Aggregate**	**LB Aggregate**	**LB Int. Gov/Credit**
Quarter	1.25	1.19	1.26	1.24	1.03
1 year	4.59	4.32	4.57	4.33	4.07
3 year	3.51	3.25	3.44	3.70	2.89
Since 5/31/2003	2.94	2.70	3.05	3.08	2.40
STANDISH MELLON					
Fixed Income			**LB Aggregate**	**LB Int. Aggregate**	**LB Int. Gov/Credit**
Quarter	0.95	0.87	1.24	1.26	1.03
1 year	3.99	3.69	4.33	4.57	4.07
3 year	3.81	3.45	3.70	3.44	2.89
Since 9/30/2002	3.55		3.95	3.69	3.45
MUNDER CAPITAL					
Fixed Income			**LB Aggregate**	**LB Int. Aggregate**	**LB Int. Gov/Credit**
Quarter	1.12	1.12	1.24	1.26	1.03
1 year	4.52	4.46	4.33	4.57	4.07
3 year	3.99	3.80	3.70	3.44	2.89
Since 9/30/2002	3.95	3.70	3.95	3.69	3.45
INVESCO					
REIT			**NAREIT**		
Quarter	10.31	10.10	9.47		
Since 6/30/2006	19.72	19.20	19.61		
INVESCO					
Private Real Estate			**LB Aggregate**		
Quarter	2.32	2.32	1.24		
Since 7/31/2006	3.67	3.67	3.69		
TOTAL FUND *					
			Total Fund Index		
Quarter	4.03	3.92	5.24		
1 year	8.06	7.60	12.58		
3 year	8.11	7.66	9.10		
Since 9/30/2002	11.43	10.97	12.60		
5 year	5.59				
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; 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/ 25% LB Aggregate/ 10% LB Int. Aggregate/ 2.5% NAREIT 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 Smith Barney Consulting Group.

** 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