

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2008

Fourth Quarter Ended September 30, 2008

by: Chief Paul O'Connell
Board Chairperson
November 19, 2008

"If we accept that investing through uncertain times is the rule, not the exception, then the question to ask is: *Not whether or when to invest, but how to invest.*" Shelby Davis, Founder of Davis Advisors

INVESTMENT RETURNS: As you review our investment returns for the last quarter of FY2008 and for the entire FY, you are no doubt struck by the negative numbers. Needless to say, it has been a tough investment year; not just for us, but for the market as a whole. In fact, during the FY the DOW has fallen just over 34%. In the meantime, our Fund has lost approximately 20%. As stated in the quote above, your Pension Board of Trustees is committed to investing the Fund's assets during good times and bad. Thus, the above quote truly strikes a cord with us as we navigate the current investment storm and the rough waters that surely lie ahead of us. Remember, we invest with a long term horizon. We are not swayed by the emotions of today. We hire money managers that are very good at picking winning companies that are uniquely positioned to compete in the marketplace over a long time period.

What we have witnessed over the past two months has been, as stated in our last newsletter, labeled as the "Panic of 2008." The word panic implies emotion. There is no room for emotion in our decision making. Likewise, there should be no emotion in your personal investment decision making. (My 401K is now a 201K!) Our decisions must be made based on correct, clear and concise information. As a Board we practice the "3 Ps of Investing:" **P**rofit in an up market; **P**rotect in a down market and **P**reserve in a choppy market. That is what your Board of Trustees is dedicated to accomplishing as we move forward. This practice will not change.

Housing Havoc – The Collateral Damage

No doubt you have felt the adverse impact of the housing market meltdown. It appears as though the entire market (banks, real estate agents, buyers/sellers and mortgage brokers) forgot the basic rules: reasonable market valuation of the house, reasonable loan to value equations and a true ability to repay the loan are just a few of the rules that were ignored which ultimately led to the housing mess this country is now experiencing. One more factor that seems to have "flown under the radar" is mortgage fraud which has helped lead to the housing market meltdown.

Our communities have not been untouched by the subprime mortgage crisis. As bad as that has been, a bigger problem has been the mortgage fraud that has plagued our state and, in particular, the tri-county area of South Florida. Did you know that Florida has ranked #1 in the

nation in mortgage fraud for the past two years? In 2006, 217 of every 1,000 mortgages issued were fraudulent in some manner. In 2007, the numbers were not much better as 215 of every 1,000 mortgages were fraudulent. Florida also ranked #2 in the country in foreclosures with more than 270,000 in 2007. This represented a 124 percent increase over 2006 and averaged out to two foreclosures for every 100 homes in the state. Your best defense is to become aware of the various types of mortgage fraud:

- **Real Estate Fraud:** An individual may use fraudulent documents to steal the title or deed to the property of a legitimate owner without the owner's knowledge. Most commonly, the perpetrator will then obtain a loan on the property with the intent to commit mortgage fraud, take the money and run, leaving the legitimate owner with the outstanding debt.
- **Appraisal Fraud:** In this case, a property is purchased using an initial mortgage. The property is then appraised at a much higher value using an unscrupulous appraiser. A second mortgage is then secured based on the inflated value, and the perpetrator walks away with the money.
- **Mortgage Loan Fraud:** To obtain mortgages for which they are not qualified, potential buyers obtain loans using fraudulent income, credit, employment or appraisal documents. This type of fraud hurts the lenders as many unqualified buyers are eventually forced to default on their loans. Often, these buyers are assisted by "professionals" who hope to increase their personal profits.

Regardless of the type of fraud, the adverse effect on the real estate market is the same. Home prices have crashed, abandoned properties litter our neighborhoods, association dues have gone unpaid and tax receipts have fallen dramatically. The good people are the collateral damage and have been left behind to bear the brunt of bad deeds committed by others.

The Bail-out: The current government bailout should not cause us to "panic." This is not the first time something like this has happened. In fact, over the past 40 years there have been eight (8) similar "bail-outs." 1970 – Penn Central; 1971 – Lockheed; 1974 – Franklin National Bank; 1975 – New York City; 1980 – Chrysler; 1984 Continental Illinois; 1989 – Savings & Loans Industry and 2001 – the Airline Industry.

Granted, no bail-out of this size has ever happened. Our hope is that there will be proper oversight and a reasonable recovery of taxpayer monies. **FYI** - of the eight bail-outs listed above four resulted in full recovery of the money invested plus some profit (Lockheed: + \$112 million; New York City: full interest payments, Chrysler: + \$660 million; & the Airline Industry: + \$200 million). *Source: Milton Ezrati of Lord Abbett Investments.*

The elections are over and our country will, in a very short time, have new leadership in place. Hopefully, this new leadership will provide us with not just transition, but transformation in how work gets done in Washington and throughout this country as we sail into a very new and difficult period of time.

On behalf of the Pension Board of Trustees, I wish you a very Happy Holiday Season as we look forward to a New Year. As always, please stay safe and stay in touch!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2008

Distribution of Assets:	
Equity	
-Large Cap. Value	\$34,624,915
-Large Cap. Growth	\$32,295,376
-Large Cap. Asset Allocator	\$9,814,803
-International	\$11,150,827
Total Equity	\$87,885,922
Fixed Income	\$41,259,695
Real Estate (REIT)	\$4,207,474
Private Real Estate	\$9,007,491
Fund of Hedge Funds	\$15,927,704
Cash (Non-Managed Account)	\$2,956,587
Total Portfolio	\$161,244,873

Distribution by Percentages:	Policy*	Current
Equity Breakdown		
-Large Cap. Value	22.50%	21.47%
-Large Cap. Growth	22.50%	20.03%
-Large Cap. Asset Allocator	6.50%	6.09%
-International	6.00%	6.92%
Total Equity	57.50%	54.50%
Fixed Income	25.00%	25.59%
Real Estate (REIT)	2.50%	2.61%
Private Real Estate	5.00%	5.59%
Fund of Hedge Funds	10.00%	9.88%
Cash (Non-Managed Account)	0.00%	1.83%
Total Portfolio	100.00%	100.00%

* Policy %s may differ from IPS due to small/mid allocations still needed

UBP Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$5,457,401
Gain or (Loss)		(\$350,369)
Ironwood Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$4,970,303
Gain or (Loss)		(\$529,696)
Pine Grove Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$5,500,000
Gain or (Loss)		\$0
INVESCO (REIT)		
REIT	100.00%	\$4,207,474
Fees		(\$7,799)
Gain or (Loss)		\$171,559
INVESCO (Private Real Estate)		
Private Real Estate	100.00%	\$4,607,491
Fees		\$0
Gain or (Loss)		\$21,875
NON-MANAGED ACCOUNT		
Cash	100.00%	\$2,956,587
Gain or (Loss)		\$6,187
OFFICE BUILDING		
Total Assets	100.00%	\$4,400,000
Gain or (Loss)		\$82,309

Other Important Facts:		
Total Portfolio		\$161,244,873
Total Gain or (Loss)		(\$12,590,525)
LORD ABBETT		
Total Assets	100.00%	\$34,624,915
Equity	97.55%	\$33,777,407
Cash	2.45%	\$847,509
Fees		(\$52,463)
Gain or (Loss)		(\$2,348,738)
SANDS CAPITAL MANAGEMENT		
Total Assets	100.00%	\$32,295,376
Equity	94.67%	\$30,573,932
Cash	5.33%	\$1,721,444
Fees		(\$54,967)
Gain or (Loss)		(\$6,678,783)
VOYAGEUR		
Total Assets	100.00%	\$9,814,803
Equity	96.43%	\$9,464,124
Cash	3.57%	\$350,679
Fees		(\$8,353)
Gain or (Loss)		(\$1,334,837)
INVESCO (Int'l Equity)		
Total Assets	100.00%	\$11,150,827
Equity	95.75%	\$10,676,936
Cash	4.25%	\$473,892
Fees		(\$20,722)
Gain or (Loss)		(\$1,560,355)
ALLEGIANCE CAPITAL		
Total Assets	100.00%	\$10,292,099
Fixed	114.47%	\$11,781,490
Cash	-14.47%	(\$1,489,391)
Fees		(\$10,844)
Gain or (Loss)		\$248,909
STANDISH MELLON		
Total Assets	100.00%	\$15,283,558
Fixed	157.72%	\$24,105,442
Cash	-57.72%	(\$8,821,884)
Fees		(\$12,962)
Gain or (Loss)		(\$282,197)
MUNDER CAPITAL MANAGEMENT		
Total Assets	100.00%	\$15,684,038
Fixed	97.51%	\$15,293,335
Cash	2.49%	\$390,703
Fees		(\$11,001)
Gain or (Loss)		(\$36,389)

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.

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2008

LORD ABBETT/BOSTON *		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
<i>Large Cap. Value</i>		Gross	Net			
Quarter		(6.35)	(6.49)	(6.11)	(6.45)	(8.37)
1 year		(23.38)	(23.81)	(23.57)	(21.05)	(21.98)
3 year		0.46	(0.10)	0.08	0.96	0.21
Since 10/31/2004		2.46	1.91	3.64	NA	2.76
<i>Lord Abbett/Boston - Since 9/30/2002</i>		8.37	6.06	9.80	9.85	8.15
<i>Lord Abbett/Boston - Since 6/30/1995</i>		7.90		9.28	9.59	7.75
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
Quarter		(17.14)	(17.26)	(12.32)	(12.98)	
1 year		(24.63)	(25.05)	(20.87)	(20.83)	
3 year		(3.32)	(3.86)	0.05	0.98	
5 year		4.14	3.56	3.74	6.32	
Since 5/31/2003		5.60	5.03	4.52	NA	
VOYAGEUR *				S&P 500	Dynamic Index**	
<i>Large Cap. Asset Allocator</i>						
Quarter		(11.97)	(12.04)	(8.37)	(12.32)	
1 year		(19.95)	(20.20)	(21.98)	(20.87)	
3 year		0.52	0.20	0.21	(0.41)	
5 year		3.75	3.43	5.16	3.28	
Since 9/30/2002		7.31	6.98	8.15	7.04	
Since 3/31/2002		1.32		2.13	1.03	
INVESCO				MSCI EAFE Net		
<i>International</i>						
Quarter		(12.28)	(12.43)	(20.56)		
1 year		(26.48)	(26.96)	(30.51)		
3 year		1.98	1.37	1.12		
Since 1/31/2004		7.12	6.49	6.43		
ALLEGIANCE CAPITAL				LB Int. Aggregate	LB Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
Quarter		1.61	1.54	(0.13)	(0.48)	(1.19)
1 year		4.79	4.51	4.17	3.66	3.15
3 year		4.19	3.93	4.44	4.15	4.04
5 year		3.66	3.40	3.79	3.79	3.25
Since 5/31/2003		3.42	3.17	3.58	3.48	3.02
STANDISH MELLON				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
Quarter		(1.82)	(1.89)	(0.48)	(0.13)	(1.19)
1 year		1.95	1.64	3.66	4.17	3.15
3 year		3.33	3.02	4.15	4.44	4.04
5 year		3.42	3.07	3.79	3.79	3.25
Since 4/30/2003		3.40	3.05	3.78	3.76	3.35
MUNDER CAPITAL				LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
<i>Fixed Income</i>						
Quarter		(0.23)	(0.30)	(0.48)	(0.13)	(1.19)
1 year		4.44	4.16	3.66	4.17	3.15
3 year		4.58	4.36	4.15	4.44	4.04
5 year		4.14	3.90	3.79	3.79	3.25
Since 9/30/2002		4.24	3.97	4.05	3.98	2.74
INVESCO				NAREIT		
<i>REIT</i>						
Quarter		4.24	4.05	5.55		
1 year		(11.26)	(11.92)	(11.14)		
Since 6/30/2006		1.45	0.67	1.15		
INVESCO				NCREIF		
<i>Private Real Estate</i>						
Quarter		0.47	0.47	(0.17)		
1 year		5.32	5.32	5.28		
Since 7/31/2006		8.96	8.96	12.00		
OFFICE BUILDING				LB Aggregate	90-Day T-Bill	
<i>Private Real Estate</i>						
Quarter		1.79	1.79	(0.48)		0.36
1 year		5.44	5.44	3.66		2.06
Since 3/31/2007		5.43	5.43	4.00		2.88
UBP				HFRI FOF Cons		
<i>Fund of Hedge Funds</i>						
Quarter		(6.03)	(6.03)	(6.78)		
Since 4/30/2008		(5.09)	(5.09)	(5.72)		
Ironwood				HFRI FOF Cons		
<i>Fund of Hedge Funds</i>						
Since 7/31/2008		(9.63)	(9.63)	(5.04)		
TOTAL FUND *				Policy Index	Composite Index	
Quarter		(7.27)	(7.37)	(6.65)	(6.46)	
1 year		(14.14)	(14.50)	(13.75)	(13.38)	
3 year		1.33	0.89	2.11	2.34	
5 year		4.71	4.26	5.44	5.62	
Since 9/30/2002		6.80	6.36	7.45	7.50	
Since 6/30/1995		6.46				

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; 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 from 4/30/06 to 4/30/08; and 22.5% Russell 1000 Value/ 22.5% Russell 1000 Growth/ 6.5% S&P 500/ 8% MSCI EAFE Net/ 22.5% LB Aggregate/ 10% LB Int. Aggregate/ 2.5% NAREIT/ 2.5% NCREIF/ 3% HFRI FOF Conservative 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