

# YOUR PENSION MATTERS

## 09/30/12 Edition

### End of FY – 2011 - 2012

by: Chief Paul O'Connell  
Board Chairperson  
11/20/2012

*Middle age is the awkward period when Father Time starts to catch up with Mother Nature.  
Harold Coffin*

**Hello from Quantico!** I am attending the 251<sup>st</sup> Session of the National FBI Academy. It has been a challenging process and based on my experience and the quote above I can assure you that Father Time has certainly caught up to me! I am grateful to my fellow Trustees and our Pension staff for steering the ship in the right direction during my absence.....thank you!

**ONGOING LITIGATION:** Based on past newsletters to you, you know that your Board of Trustees has been and continues to be very active in holding responsible those corporations which breach their respective duties to the shareholders. We have seen too many examples of Wall Street greed controlling the corporate decision-making process rather than the best interest of the company and its shareholders. Here are just a few of the cases in which your Board of Trustees has participated and which we would like to highlight for your review:

**WaMu – Washington Mutual:** Let us go back in time to our November 19, 2008 newsletter to you. I am sure you remember the headlines from that time: **the economic meltdown** (a meltdown from which this country is still trying to recover). In that newsletter we wrote about the housing havoc that was the result of **Real Estate Fraud, Appraisal Fraud and Mortgage Loan Fraud**. Here is a quote from that newsletter: *“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.”* Washington Mutual was one of the biggest offenders and it ultimately became the largest bank in US history to fail. Your Board of Trustees became the lead plaintiff in a class action lawsuit against Washington Mutual which resulted in a settlement of over \$200 million for shareholders within the class. Unfortunately, this was pennies to the dollars that were lost. However, the litigation sent a strong message to Wall Street that shareholders (Pension Funds in particular) will fight back!

**LIBOR:** Just when you thought it was safe to return to your local bank, along comes the LIBOR scandal. LIBOR (short for London Interbank Offer Rate) impacts everyone who takes a bank loan (home, car, college, etc). LIBOR is the interest rate one bank charges another bank to borrow money. In essence, LIBOR is a measure of banks' trust in their own solvency. The costs, of course, are passed onto the customer (you & me). On June 27, 2012, Britain's Barclays Bank admitted that it deliberately understated that rate for years. As it turns out, many banks were manipulating the index as far back as 2005, raising their own profits at the expense of the consumer. The Economist magazine labeled it “the rotten heart of finance.” The Pompano Beach Fund has joined in a class of plaintiffs to pursue monetary damages it suffered as a result of this widespread fraud. To quote Gary Gensler, chairman of the U.S.

Commodity Futures Trading Commission (CFTC), “Libor is the mother of all financial indices, and it is at the heart of the consumer-lending markets. There have been winners and losers on both sides, but collectively, we all lose if the market is not perceived to be honest.” This litigation will be complex and lengthy. We do not anticipate results in the near future but we will give you updates when available.

**Dollar/Thrifty:** In April 2010 there was a proposed merger between Hertz Car Rental and Dollar/Thrifty (D/T). Hertz agreed to pay \$41/share to D/T shareholders and the Board of Directors for D/T agreed to the merger and the price per share. A class of shareholders, Pompano Beach included, objected to the price per share believing that it was grossly undervalued. The class sued the Board of Directors to prevent the merger at the proposed price. In the meantime, Avis Car Rental came to the table with a proposed merger at a significantly higher price. A bidding war between Hertz & Avis ensued which ended when Avis withdrew its proposal. As of the writing of this newsletter, shares for Dollar/Thrifty stood at just over \$85/share as Hertz continues to pursue the merger. All parties are awaiting approval by the FTC. Clearly, the fight by the shareholders was founded on solid ground as the original purchase price per share (\$41) now stands at \$85/ share. We will continue to monitor this activity and report back to you.

**Google:** This is a derivative suit which alleges that the company’s Board of Directors made decisions which were not in the best interest of the company. A derivative suit is one which questions “corporate governance” and the way in which internal policies are developed and executed. The class does not seek monetary damages, the class seeks to change the way decisions are made so that the corporation and its shareholders are protected. This case continues its course through the California Courts and we will report back to you when we know the end result.

**Las Vegas Sands:** Pompano Beach is the lead plaintiff along with the Alaskan Electrical Workers pension in this class action suit. The plaintiffs allege that throughout the class period (8/02/97 – 11/06/08) the Defendant failed to disclose material adverse facts about the company’s true financial condition and business prospects. For example, the liquidity crisis within the company and the adverse impact that crisis had on its construction projects in Southeast Asia. The suit continues its journey through the Federal District court in Nevada before Judge Kent Dawson.

As you can see, the market is filled with landmines of many kinds. Here are some lessons to take away from the market carnage of the past few years and written by Steve Beck of the Wall Street Journal (July 18, 2012) when he wrote about the LIBOR scandal as described above, “When it comes to your money, the LIBOR scandal teaches us three simple principles of money management. First off, be suspicious of any steward put in charge of your wealth. At all times, beware of the liar and do your utmost to establish trust. Next, remember the danger of agency risk. For every person you put between you and your money, you compound the risk of a dishonest manager damaging your portfolio. Finally, demand transparency. One of the big problems with LIBOR, according to Ben Bernanke, was a lack of transparency and data used to establish rates.” Transparency is the key to our (your Trustees) communication with you (members). That is the reason we write to you on quarterly a basis and give you updates and news; good news or bad news: The Good, The Bad & The Ugly. As your Trustees, we cherish the trust you place in us. However, as stated by President Reagan, “**Trust but Verify!**”

**THE MARKET:** Let us take a second trip back in time – this time to **October 1, 2011 (just over one year ago)**. Here is a quote from our newsletter at that time: *“To say the least, it was ugly. Just as we, as a Plan, were approaching our high water mark (2008 we hit \$194 million); the bottom fell out again as fears of a double dip recession, fears of European banking collapse and fears of Congressional Gridlock took a stranglehold on the markets. We saw losses across the board.”*

What a difference a year makes! The Fund, as of 9/30/12, sits at \$198 million. Our return for the final quarter of the FY was +4.59 and for the last 12 months +17.39 (time weighted) return. No doubt those results were good; but our work continues and we must and we will remain vigilant!

**THE ELECTIONS:** One final trip back in time, this time back to our **November 2008 newsletter**. *“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.”* That quote from 2008 rings just as true today but for different reasons. Our President will remain in office for four more years and he will again face a divided Congress. The **FISCAL CLIFF** (as we wrote about in our last newsletter) is fast approaching and we can only hope that Washington will have the political courage to steer this country in the right direction rather than over that cliff. Stay tuned!!

**In the meantime and 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, 2012**

<b>Distribution of Assets:</b>		
<b>Equity</b>		
-Large Cap. Value	\$30,536,563	
-Large Cap. Growth	\$20,803,151	
-Large Cap. Core	\$20,958,149	
-Mid Cap. Value	\$10,842,643	
-Small/Mid Cap. Growth	\$10,863,521	
-International Value	\$10,440,011	
-International Growth	\$10,244,258	
Total Equity	\$114,688,296	
Fixed Income	\$50,477,551	
Private Real Estate	\$12,535,408	
Fund of Hedge Funds	\$17,343,803	
Private Equity	\$1,512,123	
Cash (Non-Managed Account)	\$1,460,746	
Total Portfolio	\$198,017,927	

<b>Distribution by Percentages:</b>	<b>Policy</b>	<b>Current</b>
<b>Equity Breakdown</b>		
-Large Cap. Value	15.00%	15.42%
-Large Cap. Growth	10.00%	10.51%
-Large Cap. Core	10.00%	10.58%
-Mid Cap. Value	5.00%	5.48%
-Small/Mid Cap. Growth	5.00%	5.49%
-International Value	5.00%	5.27%
-International Growth	5.00%	5.17%
Total Equity	55.00%	57.92%
Fixed Income	25.00%	25.49%
Private Real Estate	7.50%	6.33%
Fund of Hedge Funds	10.00%	8.76%
Private Equity	2.50%	0.76%
Cash (Non-Managed Account)	0.00%	0.74%
Total Portfolio	100.00%	100.00%

<b>UBP Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$5,422,565
Gain or (Loss)		\$64,815
<b>Ironwood Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$5,493,723
Gain or (Loss)		\$116,394
<b>Pine Grove Fund of Hedge Fund</b>		
Fund of Hedge Fund	100.00%	\$6,427,515
Gain or (Loss)		\$145,292
<b>INVESCO (Private Real Estate)</b>		
Private Real Estate	100.00%	\$9,535,408
Fees		(\$26,483)
Gain or (Loss)		\$292,112
<b>MAIN ACCOUNT (NON-MANAGED)</b>		
Cash	100.00%	\$1,460,746
Gain or (Loss)		\$12
<b>OFFICE BUILDING</b>		
Total Assets	100.00%	\$3,000,000
Gain or (Loss)		(\$16,097)
<b>NB Crossroads (Private Equity)</b>		
Total Assets	100.00%	\$1,512,123
Gain or (Loss)		(\$15,900)

<b>Other Important Facts:</b>		
Total Portfolio		\$198,017,927
Total Gain or (Loss) - Gross of Fees		\$8,704,529
<b>LORD ABBETT</b>		
Total Assets	100.00%	\$30,536,563
Equity	99.43%	\$30,362,755
Cash	0.57%	\$173,808
Fees		(\$41,498)
Gain or (Loss)		\$1,666,912
<b>SANDS CAPITAL MANAGEMENT</b>		
Total Assets	100.00%	\$20,803,151
Equity	98.89%	\$20,571,679
Cash	1.11%	\$231,472
Fees		(\$29,607)
Gain or (Loss)		\$1,613,575
<b>CORNERSTONE</b>		
Total Assets	100.00%	\$20,958,149
Equity	95.85%	\$20,087,869
Cash	4.15%	\$870,280
Fees		(\$32,206)
Gain or (Loss)		\$1,774,502
<b>RBC GLOBAL</b>		
Total Assets	100.00%	\$10,842,643
Equity	97.07%	\$10,524,800
Cash	2.93%	\$317,842
Fees		(\$18,091)
Gain or (Loss)		\$656,204
<b>WELLS</b>		
Total Assets	100.00%	\$10,863,521
Equity	98.40%	\$10,689,823
Cash	1.60%	\$173,699
Fees		(\$23,838)
Gain or (Loss)		\$503,121
<b>INVESCO (International Value)</b>		
Total Assets	100.00%	\$10,440,011
Equity	93.64%	\$9,775,942
Cash	6.36%	\$664,069
Fees		(\$14,249)
Gain or (Loss)		\$546,516
<b>RENAISSANCE (International Growth)</b>		
Total Assets	100.00%	\$10,244,258
Equity	98.21%	\$10,060,913
Cash	1.79%	\$183,344
Fees		(\$16,124)
Gain or (Loss)		\$277,950
<b>STANDISH MELLON</b>		
Total Assets	100.00%	\$24,324,562
Fixed	95.74%	\$23,289,216
Cash	4.26%	\$1,035,346
Fees		(\$17,802)
Gain or (Loss)		\$518,527
<b>MUNDER CAPITAL MANAGEMENT</b>		
Total Assets	100.00%	\$23,462,722
Fixed	84.83%	\$19,903,185
Cash	15.17%	\$3,559,537
Fees		\$0
Gain or (Loss)		\$482,740
<b>MUNDER - OTHER ASSETS</b>		
Total Assets	100.00%	\$2,690,267
Fixed	87.03%	\$2,341,221
NCREIF	12.97%	\$349,047
Fees		\$0
Gain or (Loss)		\$77,854

**BREAKDOWN OF RETURNS**  
**Pompano Beach Police & Firefighters' Retirement System**  
**As of September 30, 2012**

**TRADITIONAL INVESTMENTS**

<b>LORD ABBETT</b>		<b>Your Returns</b>		<b>Russ 1000 Value</b>	<b>PSN Money Mgrs.</b>	<b>S&amp;P 500</b>
<b>Large Cap. Value</b>		<b>Gross</b>	<b>Net</b>			
	Quarter	5.74	5.59	6.49	5.83	6.35
	1 year	23.14	22.43	30.90	28.06	30.20
	3 year	8.41	7.77	11.83	12.49	13.20
	5 year	(1.69)	(2.27)	(0.90)	1.14	1.05
	Since 10/31/2004	3.56	2.96	4.70	NA	5.28
	Lord Abbett/Boston - Since 9/30/2002	6.86		8.17	8.72	8.01
	Lord Abbett/Boston - Since 6/30/1995	7.13		8.45	8.98	7.76
<b>SANDS CAPITAL</b>				<b>Russ 1000 Growth</b>	<b>PSN Money Mgrs.</b>	
<b>Large Cap. Growth</b>						
	Quarter	8.33	8.17	6.11	6.20	
	1 year	36.80	36.02	29.19	27.44	
	3 year	22.22	21.51	14.73	12.96	
	5 year	8.75	8.12	3.24	2.23	
	Since 5/31/2003	11.22	10.60	6.97	NA	
<b>CORNERSTONE</b>				<b>S&amp;P 500</b>	<b>PSN Money Mgrs.</b>	
<b>Large Cap. Core</b>						
	Quarter	9.10	9.10	6.35	6.33	
	1 year	26.80	26.19	30.20	29.70	
	3 year	10.75	10.11	13.20	12.69	
	Since 1/31/2009	17.32	16.66	18.95	NA	
<b>RBC GLOBAL</b>				<b>Russ Mid Value</b>	<b>PSN Money Mgrs.</b>	
<b>Mid Cap. Value</b>						
	Quarter	6.44	6.26	5.79	5.49	
	1 year	32.82	31.91	29.26	27.02	
	3 year	13.88	13.10	13.85	12.78	
	Since 1/31/2009	19.92	19.15	22.42	NA	
<b>WELLS</b>				<b>Russ 2500 Growth</b>	<b>PSN Money Mgrs.</b>	
<b>Small/Mid Cap. Growth</b>						
	Quarter	4.86	4.86	5.22	5.45	
	1 year	34.47	33.60	29.52	29.91	
	3 year	20.07	19.10	15.17	14.05	
	Since 1/31/2009	26.67	25.63	23.70	NA	
<b>INVESCO</b>				<b>ACWI x US/EAFE*</b>		
<b>International Value</b>						
	Quarter	5.52	5.38	7.40		
	1 year	11.38	10.68	14.49		
	3 year	(0.56)	(1.19)	1.98		
	5 year	(5.65)	(6.29)	(5.32)		
	Since 1/31/2004	3.97	3.31	4.50		
<b>RENAISSANCE</b>				<b>MSCI AC Wld x US</b>		
<b>International Growth</b>						
	Quarter	2.79	2.62	7.40		
	1 year	15.84	15.11	14.49		
	3 year	4.43	3.77	3.17		
	Since 1/31/2009	13.43	12.77	14.49		
<b>STANDISH MELLON</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<b>Fixed Income</b>						
	Quarter	2.18	2.10	1.58	1.36	1.40
	1 year	6.24	5.93	5.16	4.31	4.41
	3 year	6.90	6.59	6.19	5.34	5.18
	5 year	6.89	6.57	6.53	5.96	5.71
	Since 4/30/2003	5.39	5.06	5.24	4.88	4.62
<b>MUNDER CAPITAL</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<b>Fixed Income</b>						
	Quarter	2.08	2.08	1.58	1.36	1.40
	1 year	6.96	6.75	5.16	4.31	4.41
	3 year	6.49	6.24	6.19	5.34	5.18
	5 year	7.12	6.85	6.53	5.96	5.71
	Since 9/30/2002	5.65	5.31	5.32	4.94	4.76

\* Invesco comparison index comprised of 100% MSCI AC World ex US for periods since 6/30/11 & 100% MSCI EAFE for periods prior to 6/30/11

**ALTERNATIVE INVESTMENTS**

<b>INVESCO</b>					
<i>Private Real Estate</i>		Gross	Net	NCREIF	
	Quarter	3.15	2.58	1.59	
	1 year	9.93	8.21	10.18	
	3 year	10.96	9.90	10.63	
	5 year	(1.53)	(2.10)	2.12	
	Since 7/31/2006	0.93	0.46	4.97	
<b>OFFICE BUILDING</b>					
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate
	Quarter	(0.54)	(0.54)	0.02	1.58
	1 year	(1.54)	(1.54)	0.08	5.16
	3 year	(14.13)	(14.13)	0.09	6.19
	5 year	(6.72)	(6.86)	0.50	6.53
	Since 3/31/2007	(5.68)	(5.81)	0.87	6.36
<b>UBP</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	1.21	1.21	1.65	
	1 year	2.41	2.41	2.41	
	3 year	2.13	2.13	1.59	
	Since 4/30/2008	(1.32)	(1.32)	(1.56)	
<b>Ironwood</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	2.16	2.16	1.65	
	1 year	6.12	6.12	2.41	
	3 year	6.29	6.29	1.59	
	Since 7/31/2008	(0.03)	(0.03)	(1.48)	
<b>Pine Grove</b>					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	2.31	2.31	1.65	
	1 year	5.12	5.12	2.41	
	3 year	4.01	4.01	1.59	
	Since 9/30/2008	3.97	3.97	0.17	
<b>Neuberger Berman</b>					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	(1.04)	(1.05)	6.35	
	1 year	3.24	2.60	30.20	
	Since 3/31/2010	(13.13)	(3.17)	11.00	
<b>TOTAL FUND</b>					
<i>Time-Weighted Return (TWR)</i>				Policy Index	Composite Index
	Quarter	4.59	4.45	4.31	4.40
	1 year	17.39	16.78	17.57	17.82
	3 year	9.51	8.96	9.51	9.60
	5 year	3.16	2.67	2.52	3.02
	Since 9/30/2002	7.28	6.80	7.29	7.52
	Since 6/30/1995	6.82			
<b>TOTAL FUND</b>					
<i>Dollar-Weighted Net Return (IRR)</i>				Actuarial Rate	CPI +3
	Quarter		4.41	1.92	1.95
	1 year		16.83	7.90	4.76
	3 year		9.02	7.90	5.21
	5 year		2.50	7.90	5.06
	Since 9/30/2002		6.86	7.90	5.52

**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.