

YOUR PENSION MATTERS
12/31/14 Edition
End of 1st Quarter FY 2014 - 2015

by: Chief Paul O'Connell
Board Chairperson
2/20/15

“When you have finished changing, you are finished.” Benjamin Franklin

Or

“Change is the law of Life. And those who look only to the past or the present are certain to miss the future.” President John Kennedy

In the quotes above, **Benjamin Franklin and John Kennedy** remind us that the one true consistency in life is inconsistency; AKA **Change!** Allow us to put it in baseball terms: when you expect a fastball, you will get the change-up. Just when you are ready for the curve ball, here comes the knuckleball. That is the underlying reasoning of **diversification**. Our Fund is invested in **MANY** different assets classes, each with unique investment strategies which allow our Pension Fund to weather whatever storm (or economic stress) that comes our way. Thus, it is imperative to be ready for the unexpected; be ready to adjust, be ready to adapt and be ready to improvise. **Here is an example.**

Recall that in our 6-30-06 newsletter we wrote to you about the price of gasoline. Here was what we wrote:

*Supply is down: our country's oil production has **DECREASED** 32% in the last 25 years. At the same time, those countries which do produce oil have become more volatile: Middle East (Iraq & Iran), Nigeria and Venezuela to name a few. In recent weeks the news has gotten worse as the conflict in the Middle East approaches a full scale war. Thus, the speculators have driven the price of oil above the \$77/bal. mark and the future is uncertain.*

Of course we know that the price of oil peaked around \$147/barrel in 2008 and gasoline cost more than \$4/gallon. Demand fluctuated depending on the economy and the ability of the consumer to become less dependent on gasoline by driving less or driving cars which were more fuel efficient. A short history of oil prices would include the following: **OPEC** was formed in 1960 but really became news in 1973 with the outbreak of the **Yom Kippur War** and the oil embargo which followed. The price of oil more than tripled from \$3.50 to \$12.00 /barrel. The second oil shock came in 1979-80 with the **Iranian Revolution** and the taking of 52 hostages which lasted 444 days. But thereafter, with rising conservation and exploration, the price of oil settled back to \$10 / barrel. Then the third shock; **Iraq invaded Kuwait** in 1991. Oil shot up to \$40 / barrel; only to settle back to the \$10 mark as the economy suffered through the 91-92 recession. Then came the **commodity super-cycle of 2008** during which everything cost more (housing, etc.) and oil hit \$147/barrel. The **Great Recession** brought oil back to the \$40 mark; but with the long, slow economic recovery, oil regained the \$100 / barrel mark soon thereafter. Do you see the volatility? It was like a roller coaster!

However, on the supply side of the coin, that's where the incredible change, or should we say "change-up", has come. Our country is in the midst of a **renaissance** in energy exploration! Later this year we will begin exporting LNG (liquefied natural gas) and, perhaps soon thereafter, we will export oil (depending on Congress and other issues yet to be determined).

What is undisputed is that innovation has allowed our country to explore for new energy sources, in new areas using new technology. At our November 2014 meeting your Trustees diversified the Fund even further by hiring **Center Coast MLP**, voting to invest 5% of our portfolio into an investment strategy called a "**Master Limited Partnership.**" What is a Master Limited Partnership? In a nutshell, here is what we learned.

In the energy investment arena there are 3 parts: **upstream** (the actual exploration for and extraction of energy such as oil and natural gas); **mid-stream** (the transportation and storage of that which was extracted) and **downstream** (the delivery of energy to the consumer). "**Master Limited Partnerships**" (**MLPs**) are publically traded equity securities of businesses with income derived primarily from gathering, processing, transportation of and storage of natural gas, oil and refined oil products. We learned that MLPs have the potential to provide relatively high levels of income and relatively low correlation to the equity and fixed income markets, making them an attractive alternative investment strategy. We know the equity market is at all time highs and the bond market is in the state of flux as interest rates will certainly rise in the near future. This alternative investment strategy provides us the ability to "invest outside the box;" not in energy exploration, but in energy transportation and storage; the mid-stream arena as described above. You might be asking, "What about the recent drop in the cost of oil?" We refer you to the history of oil as described earlier and its roller coaster ride. The Board firmly believes and history has taught us that the price of oil will certainly recover. This presents an excellent opportunity to invest during a down cycle and that this asset investment style is an excellent strategy in the continued diversification of our Fund's assets.

Here is another example of your Trustees adjusting and adapting: at our January meeting held on January 20th the Board decided to sell its building at a slight profit over the purchase price paid in 2008 (this profit includes incidentals such as the ongoing build out of the second floor for our new tenant (Holy Cross Medical Group) which the buyer is assuming and the Fund loan to the buyer at a return of 4.25%). In other words, the Board felt it was a win/win to abandon the title of landlord and returned to being a tenant. Why? Simply put, the Board felt that 1) the return on this investment (owning the building) was less than 1% per year and the money invested in the Building could be better invested in other strategies in an effort to get that greater ROI. For example, Fund will realize a significantly higher ROI: 4.25% v. 1% for the life of the loan. Also, this ROI is higher than what the Fund has experienced on the Bond Market. 2) The many tasks and daily challenges of managing the complexities of overseeing a large commercial building were detracting from our primary task of serving our membership. The Board felt this particular type of investment was too "hands on" and we needed to return to the concept of hiring investment experts to do the investing for us. Those of you who were or are "landlords" understand the many demands that come with such a title.

FY 2013 – 2014 Audit Report – Our annual audit report was released to and adopted by the Board of Trustees at our January meeting. Here is a nutshell summary of that report which is available, in its entirety, at our Pension Office or on our website: www.pbpfors.org . For **FY** ending 9/30/14, the Fund showed a membership with **13 active police officers, 150 active firefighters and 395 benefit recipients.** During the FY net assets of the Fund increased by over \$14 million which was the result of continued improvement in our investment returns which was +9.97% (net of fees) !!!

Disability Decisions: one of the more difficult decisions your Board of Trustees must make from time to time is the review of disability applications. During the past six months we had two such reviews. **Fire-Fighters Peter Clavell & Mark Munson** (both personally appeared) and presented their respective applications to the Board and the Board granted said disabilities. We wish Peter & Mark the very best going forward and, needless to say, they will be missed!

Once again, ALL EYES ON TALLAHASSEE – As we have reported in past newsletters, the war drums are still beating in Tallahassee, this year louder than ever, as a new, more conservative Legislature will come into session shortly and a Governor empowered by his re-election. There is no doubt that during the 2015 Session there will be **intense** debate on the dismantling of public employee pensions as we have come to know and understand. Keep your attention focused on your respective State Representative / State Senator and how they vote on these bills coming onto the floors of the House or Senate. The 2015 Session will be **THE** linchpin in the battle to save our pensions!

First Quarter Performance – As you review the performance numbers for the first quarter of FY 14-15, (which ended on 12/31/14). I am sure you will see some good numbers (+**2.38%**). However, the second quarter (which we are in now and which ends 3.31.15) has been like a roller coaster! These fluctuations are part of the “ups and downs” of investing. The Board continues to believe in our prudent reliance on investment experts coupled with proper diversification combine for prudent decision making as we navigate the turbulent times in which we live.

For the entire calendar year of 2014 market performance was: **S&P 500 +11.4%; Dow Jones +7.5% and NASDAQ +13.4%**

Speaking of turbulent times and making informed investment decisions; here is your chance to access a wealth of information directly from those money managers upon whom we rely. Our **9th Annual Symposium** is scheduled for **May 7th – 9th 2015**. It will be held in Pompano Beach at the **Marriott Resort** located on A1A just south of the 14 Street Causeway; which was the site of last's year's event and it was a **GREAT** location and facility!! Please mark your calendars and join us if you can; we promise you it will be worth your time because of all the investment insight you will gain from the experts free of charge!! If you cannot make it, we will summarize the event in our next newsletter. Remember, at many of the preceding Symposiums we experienced the great turn outs of membership (active & retired) attending the event. Please watch our web site for the latest schedule of speakers (the agenda is still being developed as we write this newsletter). Please join us!!!!

In our next newsletter we will write to you about the reports we received from our experts at **9th Annual Symposium** and review the highlights of that event.

Until then, stay safe and stay in touch!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2014

Distribution of Assets:	
Equity	
-Large Cap. Value	\$31,313,085
-Large Cap. Growth	\$25,577,797
-Large Cap. Core	\$25,370,338
-Mid Cap. Value	\$13,895,768
-Small/Mid Cap. Growth	\$12,888,136
-International Value	\$10,967,863
-International Growth	\$11,804,289
Total Equity	\$131,817,276
Fixed Income	\$52,919,205
Private Real Estate	\$14,439,587
Fund of Hedge Funds	\$20,564,286
Private Equity	\$7,650,692
Cash (Non-Managed Account)	\$2,717,348
Total Portfolio	\$230,108,395

Distribution by Percentages:	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	13.61%
-Large Cap. Growth	10.00%	11.12%
-Large Cap. Core	10.00%	11.03%
-Mid Cap. Value	5.00%	6.04%
-Small/Mid Cap. Growth	5.00%	5.60%
-International Value	5.00%	4.77%
-International Growth	5.00%	5.13%
Total Equity	52.50%	57.28%
Fixed Income	25.00%	23.00%
Private Real Estate	7.50%	6.28%
Fund of Hedge Funds	10.00%	8.94%
Private Equity	5.00%	3.32%
Cash (Non-Managed Account)	0.00%	1.18%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)		
Private Real Estate	100.00%	\$12,209,587
Fees		\$0
Gain or (Loss)		\$418,001

OFFICE BUILDING		
Total Assets	100.00%	\$2,230,000
Gain or (Loss)		(\$84,772)

UBP Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$774,078
Gain or (Loss)		\$1,223

MAIN ACCOUNT (NON-MANAGED)		
Cash	100.00%	\$2,717,348
Gain or (Loss)		\$2,334

Other Important Facts:		
Total Portfolio		\$230,108,395
Total Gain or (Loss) - Gross of Fees		\$5,358,215

BLACKROCK			
Total Assets	100.00%	\$31,313,085	
Equity	75.70%	\$23,703,248	
Cash	24.30%	\$7,609,837	
Fees		(\$44,687)	
Gain or (Loss)		\$1,228,337	

SANDS CAPITAL MANAGEMENT			
Total Assets	100.00%	\$25,577,797	
Equity	94.99%	\$24,295,237	
Cash	5.01%	\$1,282,559	
Fees		(\$38,077)	
Gain or (Loss)		\$977,871	

CORNERSTONE			
Total Assets	100.00%	\$25,370,338	
Equity	95.97%	\$24,346,826	
Cash	4.03%	\$1,023,512	
Fees		(\$34,459)	
Gain or (Loss)		\$1,100,405	

RBC GLOBAL			
Total Assets	100.00%	\$13,895,768	
Equity	90.30%	\$12,548,361	
Cash	9.70%	\$1,347,407	
Fees		(\$27,739)	
Gain or (Loss)		\$1,139,692	

WELLS			
Total Assets	100.00%	\$12,888,136	
Equity	98.08%	\$12,640,996	
Cash	1.92%	\$247,140	
Fees		(\$28,697)	
Gain or (Loss)		\$696,499	

Ironwood Fund of Hedge Fund			
Fund of Hedge Fund	100.00%	\$10,096,596	
Gain or (Loss)		\$76,167	

Pine Grove Fund of Hedge Fund			
Fund of Hedge Fund	100.00%	\$9,693,612	
Gain or (Loss)		(\$174,425)	

LAZARD (International Value)			
Total Assets	100.00%	\$10,967,863	
Equity	97.17%	\$10,657,980	
Cash	2.83%	\$309,883	
Fees		(\$14,920)	
Gain or (Loss)		(\$423,342)	

RENAISSANCE (International Growth)			
Total Assets	100.00%	\$11,804,289	
Equity	98.19%	\$11,590,302	
Cash	1.81%	\$213,987	
Fees		(\$20,777)	
Gain or (Loss)		(\$578,713)	

STANDISH MELLON			
Total Assets	100.00%	\$25,413,257	
Fixed	96.97%	\$24,643,423	
Cash	3.03%	\$769,834	
Fees		(\$37,416)	
Gain or (Loss)		\$411,985	

MUNDER CAPITAL MANAGEMENT			
Total Assets	100.00%	\$27,505,948	
Fixed	85.32%	\$23,468,865	
Cash	14.68%	\$4,037,084	
Fees		(\$13,532)	
Gain or (Loss)		\$474,599	

NB CROSSROADS (PRIVATE EQUITY) #1			
Total Assets	100.00%	\$3,710,418	
Gain or (Loss)		\$28,861	

NB CROSSROADS (PRIVATE EQUITY) #2			
Fund of Hedge Fund	100.00%	\$514,080	
Gain or (Loss)		(\$10,921)	

BLACKSTONE (PRIVATE EQUITY)			
Total Assets	100.00%	\$2,028,259	
Gain or (Loss)		\$4,421	

GOLDMAN SACHS (PRIVATE EQUITY)			
Total Assets	100.00%	\$1,397,935	
Gain or (Loss)		\$69,992	

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of December 31, 2014

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns		Russ 1000 Value	PSN Money Mgrs.	S&P 500
<i>Large Cap. Value</i>		Gross	Net			
	Quarter	3.93	3.78	4.99	4.44	4.93
	1 year	9.05	8.43	13.46	12.33	13.69
	Since 1/31/2013	14.88	14.22	19.73	NA	20.57
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
	Quarter	3.85	3.70	4.79	4.80	
	1 year	9.74	9.08	13.06	11.85	
	3 year	25.28	24.54	20.26	20.38	
	5 year	20.82	20.11	15.82	15.18	
	Since 5/31/2003	13.23	12.59	9.27	NA	
CORNERSTONE				S&P 500	PSN Money Mgrs.	
<i>Large Cap. Core</i>						
	Quarter	4.46	4.32	4.93	4.91	
	1 year	8.52	7.92	13.69	13.06	
	3 year	18.95	18.26	20.42	20.46	
	5 year	14.60	13.91	15.46	15.46	
	Since 1/31/2009	17.71	17.02	19.25	NA	
RBC GLOBAL				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
	Quarter	8.74	8.45	6.06	5.51	
	1 year	19.23	18.61	14.75	10.68	
	3 year	23.53	22.82	21.97	20.02	
	5 year	18.42	17.69	17.42	16.58	
	Since 1/31/2009	22.18	21.44	22.62	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
	Quarter	5.57	5.34	7.48	7.96	
	1 year	1.57	0.65	7.04	4.41	
	3 year	19.83	18.77	20.47	19.72	
	5 year	18.99	17.94	17.26	17.05	
	Since 1/31/2009	23.65	22.61	22.62	NA	
LAZARD				MSCI AC Wld x US		
<i>International Value</i>						
	Quarter	(3.72)	(3.84)	(3.88)		
	1 year	(4.56)	(5.06)	(3.87)		
	Since 1/31/2013	3.98	3.52	3.34		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
	Quarter	(4.66)	(4.82)	(3.88)		
	1 year	(4.12)	(4.76)	(3.87)		
	3 year	12.22	11.50	9.00		
	5 year	7.01	6.33	4.43		
	Since 1/31/2009	13.27	12.58	11.73		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	1.65	1.50	1.78	1.20	0.89
	1 year	5.91	5.44	5.96	4.11	3.12
	3 year	3.24	2.88	2.66	2.19	2.03
	5 year	4.95	4.61	4.45	3.72	3.54
	Since 4/30/2003	4.74	4.40	4.56	4.20	3.94
MUNDER CAPITAL				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
	Quarter	1.76	1.71	1.78	1.20	0.89
	1 year	6.01	5.90	5.96	4.11	3.12
	3 year	3.50	3.35	2.66	2.19	2.03
	5 year	4.83	4.63	4.45	3.72	3.54
	Since 9/30/2002	5.02	4.79	4.66	4.29	4.09

ALTERNATIVE INVESTMENTS

INVESCO					
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE
	Quarter	3.54	3.25	3.04	3.26
	1 year	12.50	11.25	11.82	12.49
	3 year	11.74	10.49	11.12	12.45
	5 year	13.18	11.89	12.14	13.93
	Since 7/31/2006	3.61	2.45	6.72	5.02
OFFICE BUILDING					
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate
	Quarter	(3.73)	(3.73)	0.01	1.78
	1 year	18.99	18.99	0.03	5.96
	3 year	(11.66)	(11.66)	0.05	2.66
	5 year	(7.97)	(7.97)	0.07	4.45
	Since 3/31/2007	(8.45)	(8.45)	0.63	5.01
UBP					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	0.16	0.16	0.26	
	1 year	(2.22)	(2.22)	3.14	
	3 year	2.65	2.65	5.00	
	5 year	1.90	1.90	3.25	
	Since 4/30/2008	(0.17)	(0.17)	0.81	
Ironwood					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	0.76	0.76	0.26	
	1 year	7.03	7.03	3.14	
	3 year	9.40	9.40	5.00	
	5 year	7.73	7.73	3.25	
	Since 7/31/2008	3.34	3.34	0.96	
Pine Grove					
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	
	Quarter	(1.77)	(1.77)	0.26	
	1 year	2.94	2.94	3.14	
	3 year	6.01	6.01	5.00	
	5 year	4.40	4.40	3.25	
	Since 9/30/2008	4.65	4.65	2.10	
Neuberger Berman					
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	0.82	0.81	4.93	
	1 year	14.89	14.85	13.69	
	3 year	11.48	12.57	20.42	
	Since 3/31/2010	(0.75)	9.54	15.06	
Neuberger Berman					
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	(2.51)	(2.40)	4.93	
	Since 7/31/2014	(2.51)	(2.61)	7.60	
Blackstone					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	0.25	0.00	4.93	
	1 year	6.57	3.72	13.69	
	Since 11/30/2013	6.05	3.64	15.20	
Goldman Sachs					
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	
	Quarter	6.55	6.12	4.93	
	Since 12/31/2013	2.60	16.33	13.69	
TOTAL FUND					
<i>Time-Weighted Return (TWR)</i>				Policy Index	Composite Index
	Quarter	2.38	2.25	2.67	2.89
	1 year	6.74	6.22	7.82	8.43
	3 year	12.65	12.08	12.25	12.81
	5 year	10.49	9.93	10.22	10.53
	Since 9/30/2002	8.15	7.65	8.03	8.40
	Since 6/30/1995	7.42			
TOTAL FUND					
<i>Dollar-Weighted Net Return (IRR)</i>				Actuarial Rate	CPI +3
	Quarter		2.23	1.82	0.11
	1 year		6.18	7.50	3.63
	3 year		12.17	7.50	4.35
	5 year		9.93	7.50	4.66
	Since 9/30/2002		7.62	7.50	5.23