

YOUR PENSION MATTERS

09/30/18 Edition

End of FY 2017 - 2018

by: Chief Paul O'Connell
Board Chairperson
11/21/18

“We have to focus on the forest of spend, not the trees of trade and then we can make the big money.”
Jim Cramer

That is what the CNBC personality recently stated as he attempted to refocus investors' attention on what really drives our economy...not global trade but consumer spending!! There is real merit to this statement because consumer spending accounts for 70% of America's total GDP!! Watch for consumer spending during the coming holidays.....hopefully the consumers will open their wallets and drive our economy in the right direction.

The above quote can also be applied to how your Pension Board of Trustees has approached our investment decisions. In other words; what worked in the 1980's certainly could **NOT** work in today's investment world. Through experience and diversification, our Fund has been better able to weather the storms we have faced: the Tech Bubble, 9/11 and the Great Recession were just a few extreme examples. Of course the future challenge will be **WASHINGTON, D.C.** Now that the 2018 mid-term elections (36 state Governor races; 35 Senate seats & all House seats) are in the past we must wonder: what will Washington do next and how we can best prepare for it (proactive) or deal with it (reactive)??

So, as we close out our **FY 17 – 18** let us take a look at the results. For the calendar year through October 31st the **S&P 500** is up 3.0%; the **Wilshire 5000**, the broadest measure of our domestic market, is up 2.4%; the **EAFE index**, a broad measure of international markets, is down 9.2%; and the **Bloomberg Barclays U.S. Aggregate Bond Index**, a broad measure of U.S. investment-grade bonds, is down 2.1%.

Our Fund's performance for FY 2017 – 2018; end of year: Attached you will find the performance reports for our Fund. The quarterly rate of return was 3.05%. In comparison, the policy index performed 3.10%. The general market numbers for the quarter ending (as of 9/30/18): **DOW +9.63% and S&P 500 +7.71%**. Please remember our Fund has a mixture of equities, bonds and alternative investments. The Fund will **never** match the aforementioned indexes. Our Fund diversifies over a broad range of investments in an effort to capture most of the up market and as little as possible of the down market.

As you know, since the beginning of the current FY and Quarter #1 (October 1st to present) the market has been a roller coaster with *intense volatility*. October was an absolute blood bath! In

fact, it was the worst October since 2008!! November is following in the footsteps of October; volatility is in full force!

Remember, we are in the longest “bull market” in history: 10 years and counting! We know a “bear market” is around the corner; we just don’t know when it will arrive, how intense it will be or how long it will last. We do know bear markets are a normal and inevitable part of market cycles. Since WWII there have been 11 bears markets defined as -20% from peak to trough.

<u>START (peak)</u>	<u>DURATION</u>	<u>S&P 500 RETURN</u>
5/29/46	36 MONTHS	-30%
8/02/56	15 MONTHS	-22%
12/12/61	6 MONTHS	-28%
2/09/66	8 MONTHS	-22%
11/29/68	18 MONTHS	-36%
1/11/73	21 MONTHS	-48%
11/28/80	20 MONTHS	-27%
8/25/87	3 MONTHS	-34%
7/16/90	3 MONTHS	-20%
3/27/2000	31 MONTHS	-49%
10/09/07	17 MONTHS	-57%

(source: [Seeking Alpha](#) – 9/05/18)

In an interesting article written by Richard Quinn, (published in Market Watch, 8/21/18) was the **10 Commandments of Retirement**. Here are the top 5:

1. Remember, **Social Security** is designed to replace no more than 40% of preretirement income. The remainder will come from your savings and your pension. Plan accordingly!
2. Have a **financial plan** and an **estate plan** in place! There will be no U-Haul truck following the hearse!
3. Recognize that your taxes may **NOT** be lower during retirement. No two individuals are the same and the tax rules have changed dramatically. Consult with an expert!
4. Place **health care** at the **TOP** of the list of expenses you will incur during your years in retirement. Medicare only covers a fraction of your costs.

5. Invest in ways that will provide a **steady income stream** in retirement. In many ways, retirement is not different from your working years: that steady flow of income helps you meet the steady flow of bills you will face while in retirement! We are indeed fortunate to have our Pension in place and your Board of Trustees are committed to act in a fiduciary way to ensure your monthly pension check which we have all **earned**.

In a recent column on “the perfect retirement”, written by Paul Merriman (8/15/18) he identified some factors which might impact your well-being in retirement, here are two of them:

- 1) **Spending:** no, not spending your money which you squirreled away during your working years. Rather, how will you spend your time??? No doubt, mapping out your expenses while in retirement will be important. However, relationships will be critical to your emotional health. Plan accordingly as you select not just where to live, but how to live. Strive to be useful such as volunteer work. Be kind and generous to those who have less and think about creating a legacy to leave behind.
- 2) **Life is short!** We are very fortunate in that our Pension Fund provides for a monthly pension check which *cannot go down*. In fact, it also includes a 2% COLA each year (starting with year #6 in retirement). Hopefully, you have also saved via other means such as a 457 fund or a Roth IRA. Taken together, these income streams will help you enjoy your retirement years! Spend it wisely. Perhaps you should plan for the **trip of a lifetime** (based on your years of service, you have earned it!). Research and team work are the keys to a successful adventure.

Bottom line: it is not so much how you will spend your money; rather it is how you will spend your time!

Thank you, Paul Merriman for the above guidance!!

Along these same lines, another financial guru, Suze Orman, offered some guidance. In a recent publication she offered the following five (5) rules:

- 1) **70 is the new 65!** By this she means we are living longer! That’s good news and bad news. Good because it gives us more time to enjoy family and friends. Bad because our savings must last longer. Plan accordingly!
- 2) **Downsize!** This is an important step in controlling our expenses so our savings will last longer (see #1 above). *Live below your means but within your needs*. In other words, think about driving a Ford rather than a BMW or living in a condo rather than a castle.
- 3) **Beware of scams artists!** As the baby boomers enter retirement (10,000 people turn 65 years of age every day!) there are scammers out there who are thinking of more ways to separate you from your money. If it is too good to be true, it probably is.
- 4) **Spend wisely!** Prioritize and determine the difference between what you need and what

you want. Needs = health care & food. Wants = 80" TV when a 60" TV would work just as well.

- 5) **Sign these papers!** At the very least you **MUST** have the following in place: Advanced Health Care Directive; a Will, a Living Will & a Durable Power of Attorney. Consult with an attorney to guide you through the process of planning; those you leave behind will be grateful because you have lessened their burden! This will be time and money well spent.

The Sgt. Chris Reyka Park dedication on Sunday **10/07/18** was a success as the Reyka Family was in full attendance and Kim, on behalf of the entire family, expressed sincere gratitude to those in attendance! **Mayor Lamar Fisher** (newly elected Broward County Commissioner) and **County Commissioner Chip LaMarca** (newly elected as State Representative) gave excellent remarks to commemorate the occasion.

We must give a special shout out to **Trustee Dan Christophers** who "came to the rescue" when the caterer came down with the flu! Dan worked hard to deliver and serve the refreshments! Also, special thanks to **Fire Chief John Jurgle** and his Pompano Fire Rescue team for hosting the event in their Beach Fire Station and their **CERT Team** members who assisted in so many ways. Lots of hands were involved in this successful event!

Just as important, the event was very well attended by members of the community; so **THANK YOU** for attending!

Are you in Self-Directed DROP?? If you answer YES, there will be material changes to this program starting soon and you must prepare for these changes. Since its inception, the pension fund has paid the state required investment consulting fee to monitor the mutual funds that are offered to self-directed DROP participants. Currently, this administrative fee is \$15,000/year. Over the years, participation in the program has dwindled. At this time, there are only six (6) members participating in the self-directed option [5 are in the mutual funds (stocks/bonds) and 1 is in only the money market]. In a nutshell, the money spent to administer the self-directed DROP program outweighs the benefit of offering it as a result of the low participation rates.

Thus, going forward the Board will assess a quarterly administrative fee to those who participate in the self-directed option to recoup the \$15,000 investment consulting fee. On January 1, 2019, one quarter of this fee, in the amount of \$3,750, will be allocated equally to every member who is a participant in a self-directed DROP account on December 31, 2018. For example, if there are 5 participants in the self-directed option on December 31, then each participant's account will be assessed a fee of \$750 on January 1, 2019. This fee will continue to be assessed on the first day of each quarter thereafter and allocated equally to those participating on the last day of the previous quarter.

This administrative fee will NOT be assessed to those in the fund rate option and those who are self-directed and invested only in the money market fund. If you are unsure of your status, contact the Pension Office. You may change your form of investment option between the fund rate and the self-directed once per calendar year by filing the Investment Election Form with the Pension Office.

This form can be found on the Plan's website at [Investment Election Form](#) or by contacting the Pension Office.

As we enter our new FY 18-19, your new Board of Trustees is seated and hard at work. Several Trustees attended the Florida Public Pension Trustee Association (FPPTA) School in Bonita Springs as they worked to attain the designation of "*Certified Public Pension Trustee*" which is a grueling challenge to master the many facets of pension law and pension fund investment.

Finally, committee work is where the seeds of our accomplishments are planted. Committee work may seem tedious and mundane; but this work is critical to getting the job done. At our September Board meeting we appointed the following Trustees to the following Committees:

Investment Committee: **Sharra Aaronian**, Chair
Dan Christophers
Robert Drago
David Hall
Peter McGinnis
Jorge Rossi

Professional Advisors Review Committee: **Richard Samolewicz**, Chair
Vincent Femia
David Hall
Jorge Rossi

Budget Committee: **David Hall**, Chair
Paul O'Connell
Peter McGinnis

Communications Committee: **Jorge Rossi**, Chair
Sharra Aaronian
Robert Drago
Rich Samolewicz

The Board of Trustees selected Paul O'Connell as Chairperson and Richard Samolewicz as Vice-Chairperson for the Board of Trustees for the coming FY. Both Richard and I extend our thanks to the Board Trustees for their continued trust and confidence in us.

Mark your calendar.....the Annual Symposium is right around the corner....**May 2, 3 & 4, 2019** and held at the Pompano Beach Marriott on A1A.

The meantime and on behalf of the Pension Board of Trustees and our staff, I wish you a very happy and safe holiday season as we look forward to a New Year.....2019 here we come!!

As always, please stay safe and stay in touch!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2018

Distribution of Assets:	
Equity	
-Large Cap. Value	\$31,169,527
-Large Cap. Growth	\$33,575,131
-Mid Cap. Value	\$12,262,093
-Small/Mid Cap. Growth	\$13,091,617
-International Value	\$17,443,873
-International Growth	\$17,183,581
Total Equity	\$124,725,822
Fixed Income	\$52,485,907
Private Real Estate	\$20,040,624
Fund of Hedge Funds	\$22,369,952
Master Limited Partnerships	\$11,480,309
Private Equity	\$9,507,623
Cash (Non-Managed Account)	\$1,216,370
Total Portfolio	\$241,826,607

Distribution by Percentages:		
	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	12.89%
-Large Cap. Growth	12.50%	13.88%
-Mid Cap. Value	5.00%	5.07%
-Small/Mid Cap. Growth	5.00%	5.41%
-International Value	7.50%	7.21%
-International Growth	7.50%	7.11%
Total Equity	50.00%	51.58%
Fixed Income	22.50%	21.70%
Private Real Estate	7.50%	8.29%
Fund of Hedge Funds	10.00%	9.25%
Master Limited Partnerships	5.00%	4.75%
Private Equity	5.00%	3.93%
Cash (Non-Managed Account)	0.00%	0.50%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)		
Private Real Estate	100.00%	\$17,040,624
Fees		(\$47,257)
Gain or (Loss)		\$426,133

OFFICE BUILDING		
Total Assets	100.00%	\$3,000,000
Gain or (Loss)		\$42,500

Ironwood Fund of Hedge Fund		
Fund of Hedge Fund	100.00%	\$11,807,350
Gain or (Loss)		\$133,645

MAIN ACCOUNT (NON-MANAGED)		
Cash	100.00%	\$1,216,370
Gain or (Loss)		\$3,659

Other Important Facts:	
Total Portfolio	\$241,826,607
Total Gain or (Loss) - Gross of Fees	\$7,195,127

BLACKROCK			
Total Assets	100.00%	\$31,169,527	
Equity	96.23%	\$29,994,693	
Cash	3.77%	\$1,174,834	
Fees		(\$18,551)	
Gain or (Loss)		\$1,837,097	

SANDS CAPITAL MANAGEMENT			
Total Assets	100.00%	\$33,575,131	
Equity	97.55%	\$32,753,783	
Cash	2.45%	\$821,348	
Fees		(\$45,929)	
Gain or (Loss)		\$2,191,628	

NUANCE			
Total Assets	100.00%	\$12,262,093	
Equity	91.51%	\$11,221,373	
Cash	8.49%	\$1,040,720	
Fees		\$0	
Gain or (Loss)		\$324,790	

WELLS			
Total Assets	100.00%	\$13,091,617	
Equity	97.73%	\$12,794,553	
Cash	2.27%	\$297,064	
Fees		(\$26,176)	
Gain or (Loss)		\$1,048,880	

Pine Grove Fund of Hedge Fund			
Fund of Hedge Fund	100.00%	\$10,562,602	
Gain or (Loss)		\$2,885	

Center Coast Master Limited Partnerships			
Fund of Hedge Fund	100.00%	\$11,480,309	
Gain or (Loss)		\$713,833	

NB CROSSROADS (PRIVATE EQUITY) #1			
Total Assets	100.00%	\$3,605,482	
Gain or (Loss)		\$0	

LAZARD (International Value)			
Total Assets	100.00%	\$17,443,873	
Equity	96.61%	\$16,851,873	
Cash	3.39%	\$591,999	
Fees		(\$20,800)	
Gain or (Loss)		\$154,222	

RENAISSANCE (International Growth)			
Total Assets	100.00%	\$17,183,581	
Equity	98.89%	\$16,992,977	
Cash	1.11%	\$190,605	
Fees		(\$25,446)	
Gain or (Loss)		\$214,296	

STANDISH MELLON			
Total Assets	100.00%	\$26,248,097	
Fixed	97.49%	\$25,589,702	
Cash	2.51%	\$658,395	
Fees		(\$16,346)	
Gain or (Loss)		\$54,567	

INCORE/VICTORY (FORMERLY MUNDER)			
Total Assets	100.00%	\$26,237,810	
Fixed	99.51%	\$26,108,880	
Cash	0.49%	\$128,931	
Fees		(\$13,132)	
Gain or (Loss)		(\$66,332)	

NB CROSSROADS (PRIVATE EQUITY) #2			
Fund of Hedge Fund	100.00%	\$2,614,595	
Gain or (Loss)		\$0	

BLACKSTONE (PRIVATE EQUITY)			
Total Assets	100.00%	\$2,156,529	
Gain or (Loss)		\$113,324	

GOLDMAN SACHS (PRIVATE EQUITY)			
Total Assets	100.00%	\$1,131,017	
Gain or (Loss)		\$0	

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2018

TRADITIONAL INVESTMENTS

BLACKROCK		Your Returns				
<i>Large Cap. Value</i>		Gross	Net	Russ 1000 Value	PSN Money Mgrs.	S&P 500
Quarter		6.19	6.12	5.70	5.46	7.71
1 year		12.15	11.83	9.45	11.00	17.91
3 year		15.79	15.24	13.55	14.40	17.31
5 year		11.38	10.80	10.72	11.30	13.95
Since 1/31/2013		11.69	11.10	11.80	NA	14.82
SANDS CAPITAL				Russ 1000 Growth	PSN Money Mgrs.	
<i>Large Cap. Growth</i>						
Quarter		6.78	6.64	9.17	7.79	
1 year		35.17	34.42	26.30	21.58	
3 year		22.58	21.88	20.55	17.77	
5 year		15.71	15.03	16.58	14.57	
Since 5/31/2003		13.77	13.13	10.80	NA	
NUANCE				Russ Mid Value	PSN Money Mgrs.	
<i>Mid Cap. Value</i>						
Since 6/30/2018		2.72	2.72	3.30	2.96	
Nuance/RBC Global - 1 year		6.33	6.10	8.81	9.60	
Nuance/RBC Global - 3 year		8.29	7.82	13.09	14.04	
Nuance/RBC Global - 5 year		9.43	8.91	10.72	10.78	
Nuance/RBC Global - Since 1/31/2009		15.12	14.49	16.74	NA	
WELLS				Russ 2500 Growth	PSN Money Mgrs.	
<i>Small/Mid Cap. Growth</i>						
Quarter		8.47	8.25	7.17	7.45	
1 year		25.21	24.16	23.13	26.07	
3 year		19.42	18.37	17.96	19.79	
5 year		12.87	11.87	12.88	13.33	
Since 1/31/2009		20.02	18.99	18.77	NA	
LAZARD				MSCI AC Wld x US		
<i>International Value</i>						
Quarter		0.89	0.77	0.71		
1 year		2.72	2.22	1.76		
3 year		9.37	8.82	9.97		
5 year		5.07	4.54	4.12		
Since 1/31/2013		5.37	4.86	4.65		
RENAISSANCE				MSCI AC Wld x US		
<i>International Growth</i>						
Quarter		1.26	1.11	0.71		
1 year		(0.39)	(0.98)	1.76		
3 year		9.16	8.48	9.97		
5 year		5.31	4.63	4.12		
Since 1/31/2009		10.19	9.51	9.20		
STANDISH MELLON				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
Quarter		0.21	0.15	0.02	0.11	0.21
1 year		(0.70)	(0.90)	(1.22)	(0.93)	(0.96)
3 year		1.43	1.16	1.31	0.95	0.91
5 year		2.23	1.91	2.16	1.70	1.52
Since 4/30/2003		3.91	3.59	3.77	3.47	3.27
INCORE/VICTORY (Munder)				BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
<i>Fixed Income</i>						
Quarter		(0.25)	(0.30)	0.02	0.11	0.21
1 year		(1.08)	(1.27)	(1.22)	(0.93)	(0.96)
3 year		1.51	1.33	1.31	0.95	0.91
5 year		2.36	2.21	2.16	1.70	1.52
Since 9/30/2002		4.18	3.96	3.88	3.56	3.40

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ALTERNATIVE INVESTMENTS

INVESCO						
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE	BC Aggregate
	Quarter	2.56	2.27	1.67	2.09	0.02
	1 year	9.43	8.22	7.16	8.68	(1.22)
	3 year	9.13	7.92	7.76	8.80	1.31
	5 year	11.08	9.86	9.58	10.72	2.16
	Since 7/31/2006	6.49	5.36	7.40	6.59	4.03
OFFICE BUILDING						
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate	
	Quarter	1.43	1.43	0.50	0.02	
	1 year	4.71	4.71	1.57	(1.22)	
	3 year	4.47	4.47	0.80	1.31	
	5 year	8.73	8.73	0.49	2.16	
	Since 3/31/2007	0.69	0.63	0.71	3.80	
Ironwood						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	1.14	1.14	0.93	0.02	
	1 year	5.89	5.89	3.78	(1.22)	
	3 year	4.63	4.63	2.86	1.31	
	5 year	5.42	5.42	2.96	2.16	
	Since 7/31/2008	3.68	3.68	1.48	3.67	
Pine Grove						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	0.03	0.03	0.93	0.02	
	1 year	4.24	4.24	3.78	(1.22)	
	3 year	3.76	3.76	2.86	1.31	
	5 year	2.80	2.80	2.96	2.16	
	Since 9/30/2008	3.77	3.77	2.21	3.77	
Center Coast						
<i>Master Limited Partnerships</i>				Alerian MLP		
	Quarter	6.64	6.52	6.57		
	1 year	0.19	(0.29)	4.89		
	3 year	3.52	3.01	4.43		
	Since 1/31/2015	(5.79)	(6.21)	(5.45)		
Neuberger Berman						
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (June)	BC Aggregate	
	Quarter	0.00	0.00	0.50	0.02	
	1 year	10.91	11.16	10.02	(1.22)	
	3 year	12.27	11.98	14.63	1.31	
	5 year	13.69	13.58	12.38	2.16	
	Since 3/31/2010	4.95	11.12	12.77	2.99	
Neuberger Berman						
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (June)	BC Aggregate	
	Quarter	0.00	0.00	0.50	0.02	
	1 year	11.16	10.96	10.02	(1.22)	
	3 year	10.57	11.04	14.63	1.31	
	Since 7/31/2014	6.76	9.29	10.83	1.75	
Blackstone						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	BC Aggregate	
	Quarter	5.51	5.16	7.71	0.02	
	1 year	22.70	20.30	17.91	(1.22)	
	3 year	12.96	10.25	17.31	1.31	
	Since 11/30/2013	12.55	9.53	12.70	2.15	
Goldman Sachs						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (June)	BC Aggregate	
	Quarter	0.00	0.00	0.50	0.02	
	1 year	1.19	1.55	10.02	(1.22)	
	3 year	6.74	7.36	14.63	1.31	
	Since 12/31/2013	6.96	8.55	10.72	2.31	

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.

TOTAL FUND				Policy Index
<i>Time-Weighted Return (TWR)</i>				
Quarter	3.05	2.95	3.10	
1 year	9.08	8.63	7.52	
3 year	9.67	9.17	9.31	
5 year	7.60	7.09	7.33	
Since 9/30/2002	7.83	7.34	7.56	
Since 6/30/1995	7.30			

TOTAL FUND				Actuarial Rate	CPI +3
<i>Dollar-Weighted Net Return (IRR)</i>					
Quarter		2.95	1.82	1.22	
1 year		8.66	7.50	5.43	
3 year		9.13	7.50	5.05	
5 year		7.01	7.50	4.53	
Since 9/30/2002		7.56	7.50	5.13	

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.