

YOUR PENSION MATTERS

Pompano Beach Police & Firefighters' Retirement System

Fiscal Year 2006

Second Quarter Ended March 31, 2006

by: Paul O'Connell
Board Chairperson

"I used to think that money was the most important thing in life. Now that I'm old, I know it is." Oscar Wilde

Our investments decisions are guided by the Pension Board's adopted "investment guidelines" which act as the backbone of our investment philosophy (a copy of the guidelines can be obtained from our pension office). Remember, our investment strategy is a long term strategy (20 years and beyond) which seeks to invest for maximum returns with minimum risks. Currently, our guidelines call for an investment split of 65% equities and 35% bonds which can vary month to month depending on investment returns, price fluctuations, and sales.

In this newsletter I will discuss bonds, a less flashy investment, but certainly a steadier performer. In a nutshell, bonds are loans which come in many forms. Some bonds are more risky than others, but their potential returns are greater thus financially rewarding those willing to take extra risk. Bonds act as a counter-balance to the volatility of equity investments. For example, during the recent 2000/2002 recession the equity market suffered double digit losses while the bond market had double digits gains. Thus, the equity losses experienced by your pension fund were mitigated by the positive returns of our bond investments.

Types of bonds are Treasury, Agency, Corporate, Asset-backed, Municipal and Mortgage-backed. Also, there are taxable and non-taxable bonds. However, because our pension fund is a tax-qualified plan, we invest only in taxable bonds, but pay no taxes as a result of our status.

Types of **government bonds** are Treasury Bills (0 – 1 year maturity); Treasury Notes (1 – 10 years maturity); T-bonds (greater than 10 year maturity) and TIPS (Treasury Inflation Protection Security) These investments are safe (backed by the U.S. Government), liquid (easy to get in & get out) and form the benchmark by which all other bonds are quoted.

Types of **agency bonds** are Fannie Mae (FNMA); Freddie Mac (FHLMC); Federal Home Loan Bank (FHLB); Federal Farm Credit Bank and Sallie Mae (SLMA). The first three are in the home loan market, the next to last is in the farm loan market and the last is in the student loan market. All are safe investments but not as risk adverse as government bonds. These bonds can be callable or non-callable and are quoted as a spread to Treasuries.

Corporate bonds involve substantially more risk because the company's ability to pay back the bond is tied to the company's survival (remember Enron and World Com?). These bonds are not as liquid as government bonds and are classified by 2 rating agencies: Moody's and Standard & Poor's. By our own guidelines, the pension board invests only in treasury and agency bonds (government and semi-government), mortgage-backed bonds and those corporate bonds at or above investment grade ratings (i.e. BBB and above).

Our Pension Fund currently has 3 money managers dedicated solely to the Board's investments in bonds: Standish Mellon (\$15 million); Munder Capital (\$17 million) and Allegiance Capital (\$17 million) for a total of \$49 million or approximately 32% of the total fund. As you can read from the performance report enclosed, all three money managers have performed near or above the benchmark during the various time spans illustrated therein. In a nutshell, the Board is, to date, extremely pleased with the performance of these money managers whose performance we review on a quarterly basis.

THE REALITY OF MORTALITY

Over the past few months it seems we have buried some of our friends too early in their life. With that in mind it is important to ask ourselves: **what will we leave behind when it is our time?** This question is not about money or valuables we leave behind, it is about important documents which give clarity and direction to our family. There are four essential estate planning documents each of us must strive to have in place:

1. **Will** – ensures that after death, your assets will be distributed according to your wishes
2. **Durable Power of Attorney** – appoints a family member or friend to make financial decisions on your behalf if you are incapacitated
3. **Health-care surrogate** – authorizes a family member or friend to make medical and end-of-life decisions if you are incapacitated.
4. **Living Will** – outlines your health-care and end-of-life wishes. Without this document, the government may be making decisions for you. Terry Schiavo's legacy: government cannot be trusted to make these decisions for us in a rational, reasonable and private way.

Each state has its own laws that govern the form and function of the documents illustrated above so it is critically important that you consult an attorney when drafting such documents. In addition, each of us has different financial and family circumstances that may dictate a different approach or different alternatives to these important decisions (a Trust rather than a Will, children or dependents who need a guardian, etc.). So, do your homework so that those we leave behind will not be burdened with guesswork. Because we have chosen a profession that put our lives at higher risk each day, we should have these documents in place....NOW.

As a reminder, here are 2 **VERY IMPORTANT** things to remember regarding your pension:

- A) Be sure to keep your beneficiary designation up to date (your ex-spouse getting your survivor benefits can lead to unpleasant consequences).
- B) Be sure to notify the pension office of any change in address. It is difficult to find you if we don't know where you are!

LEGAL UPDATE: May 22, 10:30 AM, Judge Eade (Room 1030B). The City will present its Motion for Summary Judgment v. the Pension Board and the Pension Board will present its Motion for Summary Judgment v. BSO (for under-payments to the Board). Hopefully, we will have positive results to report in our next newsletter. Until then, stay safe and stay in touch!

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

LORD ABBETT/BOSTON *		Your Returns			Russ 1000 Value	Money Mgrs.	S&P 500
Large Cap. Value		Gross	Net				
	Quarter	5.65	5.50		5.92	NA	4.21
	1 year	10.94	10.30		13.29	NA	11.71
	Since 10/31/2004	11.73	11.18		15.81	NA	12.12
	Lord Abbett/Boston - 3 year	17.88			21.76	NA	17.21
	Lord Abbett/Boston - Since 9/30/2002	16.81			19.69	NA	16.20
	Lord Abbett/Boston - 5 year	4.17			7.78	NA	3.96
	Lord Abbett/Boston - Since 6/30/1995	10.46			12.27	NA	10.21

SANDS CAPITAL		Your Returns			Russ 1000 Growth	Money Mgrs.
Large Cap. Growth		Gross	Net			
	Quarter	(1.33)	(1.47)		3.10	NA
	1 year	21.12	20.43		13.16	NA
	Since 5/31/2003	17.09	16.48		10.95	NA

FREEDOM CAPITAL *		Your Returns			Dynamic Index**	S&P 500
Large Cap. Asset Allocator		Gross	Net			
	Quarter	2.97	2.89		2.92	4.21
	1 year	8.52	8.20		8.51	11.71
	3 year	14.82	14.48		15.25	17.21
	Since 9/30/2002	13.79	13.45		14.16	16.20
	Since 3/31/2002	2.89			3.20	4.92

INVESCO		Your Returns			MSCI EAFE Net
International		Gross	Net		
	Quarter	8.12	7.95		9.40
	1 year	22.04	21.25		24.41
	Since 1/31/2004	18.82	18.12		19.56

ALLEGIANCE CAPITAL		Your Returns			LB Int. Aggregate	LB Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net				
	Quarter	(0.12)	(0.18)		(0.26)	(0.64)	(0.39)
	1 year	2.23	1.98		2.32	2.26	2.07
	Since 5/31/2003	2.06	1.83		2.15	2.13	1.47

STANDISH MELLON		Your Returns			LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net				
	Quarter	(0.61)	(0.69)		(0.64)	(0.26)	(0.39)
	1 year	2.53	2.23		2.26	2.32	2.07
	3 year	3.00			2.93	2.66	2.32
	Since 9/30/2002	3.35			3.37	3.09	2.91

MUNDER CAPITAL		Your Returns			LB Aggregate	LB Int. Aggregate	LB Int. Gov/Credit
Fixed Income		Gross	Net				
	Quarter	(0.43)	(0.43)		(0.64)	(0.26)	(0.39)
	1 year	2.60	2.41		2.26	2.32	2.07
	3 year	3.10	2.85		2.92	2.66	2.32
	Since 9/30/2002	3.37	3.09		3.37	3.09	2.91

TOTAL FUND *		Your Returns			Total Fund Index
		Gross	Net		
	Quarter	1.94	1.84		2.93
	1 year	11.00	10.52		9.67
	3 year	12.83	12.38		13.03
	Since 9/30/2002	12.16	11.70		12.41
	5 year	5.01			
	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 and 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 after January 31, 2004.

* 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 and S&P 500 BARRA Growth for periods after July 31, 2003