YOUR PENSION MATTERS
09/30/14 Edition
End of FY 2013 - 2014

by: Chief Paul O'Connell
Board Chairperson
11/20/14

"Our favorite holding period for stocks is forever."
Warren Buffett

The above quote describes the investment style of Warren Buffett, who many believe is one of America's smartest investors. In essence, he searches for and finds companies which are well run, produce good products or services and have a leadership position in their particular market. When he buys, he holds, because the research tells him that the company will have a leading and lasting place in the marketplace.

The investment style of our Pension Fund is different than the above because the Board of Trustees has a fiduciary duty to the membership to diversify our investments over a wide variety of asset classes, not just equities. Thus, as you read the investment report attached hereto, you will see that the Board has hired over a dozen money managers in different investment categories such as bonds, stocks (domestic and international…growth, value, small cap, large cap, etc.), private equity and real estate. The Board believes in diversification because, over time, this has proven to be an investment style that gives the best return with the minimum of risk.

Our Fund's performance for FY 2013 – 2014; end of year: Attached you will find the performance report for our Fund. Although the quarterly rate of return is barely above zero (+0.04%), it was positive and, in light of the market volatility, that's not bad. In comparison, to the marketplace the Fund also performed well. Here are the general market numbers for the quarter ending (as of 9/30/14): **DOW +1.87% and S&P 500 + 1.13%.** Please remember our Fund has a mixture of equities, bonds and alternative investments. The Fund will **never** match the aforementioned indices. 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 quarter (October 1st to present) the market has been on a roller coaster ride. The Dow dropped almost 700 points in just three sessions (October 9, 10 & 13); the worst three day sell-off since August 2011. But since then the markets have recovered and then some! Of course the current market has been and continues to be extremely volatile in light of the political dysfunction in Washington and the run-up to the mid-terms elections. Those elections are now over and we can only hope that Washington gets its act together!! We shall see come January when the new Congress is sworn in and works with the President (we hope) to solve the many challenges that face our country.

A special invitation to each of you!!! As you know, each summer the Pompano Beach Police (the old guard) gather along the ICW to honor the memory of our fallen Pompano Beach Police Officers; **K-9 Officer Scott Winters** (EOW: 07-29-90) and **Sgt. Chris Reyka** (EOW: 08-

10-07). After consultation with Ted Martin, the President of the Pompano Beach Fire Fighters' Local 1549, it was agreed that it would be best to combine our efforts by adding **FF Billy Elliot** (EOW: 01-06-12) and conduct the memorial gathering in January each year. So, on Saturday, January 10th, the members of the Pompano Beach Fire Department and the Pompano Beach Police Department will gather at Club 3080 (the old FOP Hall) from noon to 3PM. Please join us as we honor these three men who gave their lives in service to our community.

The Fallacy of Defined Contribution (401k) – PBS Frontline presented an excellent documentary on this topic entitled **"The Retirement Gamble."** The documentary confirmed what we already knew - a defined benefit plan (DB plan), such as the one we belong to, provides true retirement security. In the meantime, a defined contribution plan (DC plan) falls far short of retirement security and it was proven by this documentary published by PBS. Your Board of Trustees purchased several copies of this documentary and these are available to you to borrow from (and return to) the Pension Office.

In addition, a recent story in **Business Week** (Facing America's Other Middle-Class Squeeze, October 20, 2014, pg. 43) confirms that the DC plans in place are creating what will be a new under class of retirees who are not financially prepared to live in retirement. What will follow will be millions of retirees who will be reliant on welfare & Medicaid. DC plans rely on the premise that workers are making informed investment decisions as they prepare for retirement and rational retirement decisions as they enter and live in retirement. As this article shows, nothing could be further from the truth! Most people are simply not educated about their retirement plans and how to manage / invest their respective retirement savings.

Finally, an excellent article in **Time** magazine entitled, "The Retirement Crisis" confirmed what was referred to above. The article identified the various generations now in place:

The Greatest Generation:	85+
The Silent Generation:	70 – 84
The Baby Boomers:	50 – 69
Gen X:	35 – 49
Millennial Generation:	15 – 34
Gen Z:	under 15

Two big questions: 1) Is there a looming Retirement Crisis? and 2) Will the generations which follow the Baby Boomers be financially better off?

The article confirms that indeed there is a looming crisis as the baby boomers enter retirement ill-prepared and far short of the financial means to "truly" retire. Remember, 10,000 baby boomers turn 65 years of age each day and that trend will continue for the next 19 years! It is estimated that each person will need $240,000 for medical costs **ABOVE & BEYOND** what will be covered by Medicare. Yet, the average retirement savings for a baby boomer entering retirement is less than $100,000! Many will be compelled to work in retirement just to make ends meet.

The generations which follow the baby boomers will have serious challenges ahead. The last 5 years have seen stagnant wages, high unemployment or underemployment and college graduates entering the workforce with crushing debt averaging about $29,000 in student loans. In fact, the income of a median household, adjusted for inflation, is **3% LOWER** than at the worst point of the 07 – 09 Recession (Sentier Research). How can they possibly begin to save for their retirement under these conditions? There are serious challenges ahead for all generations. That is why a functioning Government engaged in designing solutions rather than engaging in “scorched earth politics” is so important. Let’s hope so!

In the meantime, your new Board of Trustees is seated and hard at work. Several Trustees attended the International Foundation of Employee Benefits Conference in Boston which was an amazing three days of intense classroom work and exposure to the investment experts from around the country. Several other 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
David Hall
Pete McGinnis
Jorge Rossi

Building Committee:
Pete McGinnis, Chair
Sharra Aaronian
Vinnie Femia
David Hall

Professional Advisory Committee:
Rich Samolewicz, Chair
Vinnie Femia
Pat Fletcher
David Hall

Communications Committee:
Pat Fletcher, Chair
Sharra Aaronian
Jorge Rossi
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.

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!

We will see you at the Memorial on January 10th!!

SUMMARY OF RELEVANT FACTS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2014

Distribution of Assets:		
Equity		
-Large Cap. Value	$31,802,195	
-Large Cap. Growth	$25,476,876	
-Large Cap. Core	$24,931,433	
-Mid Cap. Value	$13,417,526	
-Small/Mid Cap. Growth	$12,595,737	
-International Value	$11,391,205	
-International Growth	$12,687,751	
Total Equity		$132,302,723
Fixed Income		$52,032,591
Private Real Estate		$14,055,259
Fund of Hedge Funds		$20,661,322
Private Equity		$6,585,719
Cash (Non-Managed Account)		$1,438,667
Total Portfolio		$227,076,282

Distribution by Percentages:	Policy	Current
Equity Breakdown		
-Large Cap. Value	12.50%	14.01%
-Large Cap. Growth	10.00%	11.22%
-Large Cap. Core	10.00%	10.98%
-Mid Cap. Value	5.00%	5.91%
-Small/Mid Cap. Growth	5.00%	5.55%
-International Value	5.00%	5.02%
-International Growth	5.00%	5.59%
Total Equity	52.50%	58.26%
Fixed Income	25.00%	22.91%
Private Real Estate	7.50%	6.19%
Fund of Hedge Funds	10.00%	9.10%
Private Equity	5.00%	2.90%
Cash (Non-Managed Account)	0.00%	0.63%
Total Portfolio	100.00%	100.00%

INVESCO (Private Real Estate)

Private Real Estate	100.00%	$11,825,259
Fees		($32,560)
Gain or (Loss)		$402,915

OFFICE BUILDING

Total Assets	100.00%	$2,230,000
Gain or (Loss)		$395,733

UBP Fund of Hedge Fund

Fund of Hedge Fund	100.00%	$772,856
Gain or (Loss)		$4,596

MAIN ACCOUNT (NON-MANAGED)

Cash	100.00%	$1,438,667
Gain or (Loss)		$1,962

Other Important Facts:

Total Portfolio	$227,076,282
Total Gain or (Loss) - Gross of Fees	$32,025

BLACKROCK

Total Assets	100.00%	$31,802,195
Equity	96.76%	$30,771,459
Cash	3.24%	$1,030,736
Fees		($46,709)
Gain or (Loss)		$125,617

SANDS CAPITAL MANAGEMENT

Total Assets	100.00%	$25,476,876
Equity	97.76%	$24,905,783
Cash	2.24%	$571,093
Fees		($37,363)
Gain or (Loss)		$846,716

CORNERSTONE

Total Assets	100.00%	$24,931,433
Equity	97.92%	$24,412,514
Cash	2.08%	$518,918
Fees		($34,391)
Gain or (Loss)		($2,930)

RBC GLOBAL

Total Assets	100.00%	$13,417,526
Equity	99.31%	$13,324,532
Cash	0.69%	$92,994
Fees		($11,995)
Gain or (Loss)		($391,600)

WELLS

Total Assets	100.00%	$12,595,737
Equity	99.57%	$12,542,005
Cash	0.43%	$53,731
Fees		($28,512)
Gain or (Loss)		($416,582)

Ironwood Fund of Hedge Fund

Fund of Hedge Fund	100.00%	$10,020,429
Gain or (Loss)		$124,278

Pine Grove Fund of Hedge Fund

Fund of Hedge Fund	100.00%	$9,868,037
Gain or (Loss)		($17,888)

LAZARD (International Value)

Total Assets	100.00%	$11,391,205
Equity	98.70%	$11,242,783
Cash	1.30%	$148,422
Fees		($15,860)
Gain or (Loss)		($696,915)

RENAISSANCE (International Growth)

Total Assets	100.00%	$12,687,751
Equity	98.48%	$12,495,414
Cash	1.52%	$192,338
Fees		($21,947)
Gain or (Loss)		($598,312)

STANDISH MELLON

Total Assets	100.00%	$25,001,271
Fixed	99.13%	$24,784,336
Cash	0.87%	$216,935
Fees		($18,646)
Gain or (Loss)		$14,423

MUNDER CAPITAL MANAGEMENT

Total Assets	100.00%	$27,031,319
Fixed	99.34%	$26,852,429
Cash	0.66%	$178,891
Fees		($13,448)
Gain or (Loss)		$13,493

NB CROSSROADS (PRIVATE EQUITY) #1

Total Assets	100.00%	$3,531,557
Gain or (Loss)		$139,477

NB CROSSROADS (PRIVATE EQUITY) #2

Fund of Hedge Fund	100.00%	$435,000
Gain or (Loss)		$0

BLACKSTONE (PRIVATE EQUITY)

Total Assets	100.00%	$1,536,022
Gain or (Loss)		$43,295

GOLDMAN SACHS (PRIVATE EQUITY)

Total Assets	100.00%	$1,083,140
Gain or (Loss)		$43,748

BREAKDOWN OF RETURNS
Pompano Beach Police & Firefighters' Retirement System
As of September 30, 2014

TRADITIONAL INVESTMENTS

	Your Returns				
BLACKROCK *Large Cap. Value*	Gross	Net	Russ 1000 Value	PSN Money Mgrs.	S&P 500
Quarter	0.41	0.27	(0.18)	0.01	1.13
1 year	14.98	14.34	18.89	18.36	19.74
Since 1/31/2013	14.61	13.96	19.47	NA	20.47
SANDS CAPITAL *Large Cap. Growth*			Russ 1000 Growth	PSN Money Mgrs.	
Quarter	3.43	3.28	1.49	1.04	
1 year	16.45	15.74	19.15	17.94	
3 year	27.20	26.45	22.45	22.13	
5 year	22.40	21.67	16.50	15.64	
Since 5/31/2003	13.16	12.52	9.04	NA	
CORNERSTONE *Large Cap. Core*			S&P 500	PSN Money Mgrs.	
Quarter	(0.01)	(0.15)	1.13	0.63	
1 year	16.65	16.02	19.74	18.85	
3 year	21.04	20.32	23.00	22.95	
5 year	13.70	13.00	15.70	15.68	
Since 1/31/2009	17.65	16.95	19.16	NA	
RBC GLOBAL *Mid Cap. Value*			Russ Mid Value	PSN Money Mgrs.	
Quarter	(2.80)	(2.89)	(2.64)	(2.68)	
1 year	21.04	20.63	17.45	14.97	
3 year	27.09	16.40	24.71	22.33	
5 year	17.94	17.24	17.23	16.62	
Since 1/31/2009	21.45	20.75	22.45	NA	
WELLS *Small/Mid Cap. Growth*			Russ 2500 Growth	PSN Money Mgrs.	
Quarter	(3.18)	(3.39)	(4.21)	(5.04)	
1 year	4.39	3.45	8.04	5.43	
3 year	23.41	22.33	22.68	22.05	
5 year	19.33	18.28	16.84	16.40	
Since 1/31/2009	23.62	22.58	22.16	NA	
LAZARD *International Value*			MSCI AC Wrld x US		
Quarter	(5.75)	(5.87)	(5.26)		
1 year	6.58	6.03	4.76		
Since 1/31/2013	7.00	6.53	6.34		
RENAISSANCE *International Growth*			MSCI AC Wrld x US		
Quarter	(4.48)	(4.64)	(5.26)		
1 year	11.11	10.38	4.76		
3 year	16.96	16.21	11.80		
5 year	9.48	8.79	6.03		
Since 1/31/2009	14.86	14.16	13.06		
STANDISH MELLON *Fixed Income*			BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Quarter	0.06	(0.02)	0.17	0.03	(0.03)
1 year	4.34	3.96	3.96	2.74	2.20
3 year	3.05	2.71	2.43	2.09	2.02
5 year	4.70	4.37	4.12	3.58	3.42
Since 4/30/2003	4.70	4.36	4.50	4.19	3.95
MUNDER CAPITAL *Fixed Income*			BC Aggregate	BC Int. Aggregate	BC Int. Gov/Credit
Quarter	0.05	0.00	0.17	0.03	(0.03)
1 year	4.45	4.40	3.96	2.74	2.20
3 year	3.43	3.28	2.43	2.09	2.02
5 year	4.55	4.35	4.12	3.58	3.42
Since 9/30/2002	4.98	4.74	4.61	4.28	4.10

ALTERNATIVE INVESTMENTS

INVESCO *Private Real Estate*	Gross	Net	NCREIF	NCREIF ODCE
Quarter	3.52	3.23	2.63	3.24
1 year	12.32	11.07	11.26	12.40
3 year	11.81	10.54	11.09	12.35
5 year	11.50	10.23	11.00	12.40
Since 7/31/2006	3.29	2.12	6.54	3.10
OFFICE BUILDING *Private Real Estate*			90-Day T-Bill	BC Aggregate
Quarter	21.34	21.34	0.01	0.17
1 year	(26.39)	(26.39)	0.04	3.96
3 year	(10.70)	(10.70)	0.06	2.43
5 year	(14.46)	(14.46)	0.07	4.12
Since 3/31/2007	(8.25)	(8.25)	0.65	4.93
UBP *Fund of Hedge Funds*			HFRI FOF Cons	
Quarter	0.04	0.04	0.24	
1 year	0.07	0.07	5.63	
3 year	2.35	2.35	4.93	
5 year	2.20	2.20	3.42	
Since 4/30/2008	(0.20)	(0.20)	0.80	
Ironwood *Fund of Hedge Funds*			HFRI FOF Cons	
Quarter	1.35	1.35	0.24	
1 year	10.50	10.50	5.63	
3 year	9.18	9.18	4.93	
5 year	8.05	8.05	3.42	
Since 7/31/2008	3.35	3.35	0.95	
Pine Grove *Fund of Hedge Funds*			HFRI FOF Cons	
Quarter	(0.14)	(0.14)	0.24	
1 year	7.27	7.27	5.63	
3 year	6.74	6.74	4.93	
5 year	5.42	5.42	3.42	
Since 9/30/2008	5.16	5.16	2.14	
Neuberger Berman *Private Equity #1*	Time-Wtd	Dollar-Wtd	S&P 500	
Quarter	4.11	4.08	1.13	
1 year	20.54	20.24	19.74	
3 year	12.00	13.52	23.00	
Since 3/31/2010	(0.97)	10.18	14.72	
Neuberger Berman *Private Equity #2*	Time-Wtd	Dollar-Wtd	S&P 500	
Since 7/31/2014	0.00	0.00	2.54	
Blackstone *Private Equity*	Time-Wtd	Dollar-Wtd	S&P 500	
Quarter	2.99	2.37	1.13	
Since 11/30/2013	6.31	4.80	11.09	
Goldman Sachs *Private Equity*	Time-Wtd	Dollar-Wtd	S&P 500	
Quarter	8.49	6.75	1.13	
Since 12/31/2013	(3.80)	5.31	8.34	
TOTAL FUND *Time-Weighted Return (TWR)*			Policy Index	Composite Index
Quarter	0.04	(0.09)	(0.52)	(0.46)
1 year	10.49	9.97	10.78	11.52
3 year	14.07	13.49	13.70	14.21
5 year	10.67	10.11	10.42	10.73
Since 9/30/2002	8.12	7.61	8.03	8.33
Since 6/30/1995	7.68			

TOTAL FUND *Dollar-Weighted Net Return (IRR)*			Actuarial Rate	CPI +3
Quarter		(0.11)	1.82	0.71
1 year		10.03	7.50	4.59
3 year		13.62	7.50	4.53
5 year		10.11	7.50	4.89
Since 9/30/2002		7.59	7.50	5.33