

# YOUR PENSION MATTERS

## 3/31/19

### End of 2<sup>nd</sup> Quarter – FY 2018 - 2019

by: Chief Paul O'Connell  
Board Chairperson  
5/25/19

“You're neither **right nor wrong** because other people (the market) agree with you. **You're right because your facts are right and your reasoning is right** - that's the only thing that makes you right. And **if your facts and reasoning are right, you don't have to worry about anybody else.**”- *Warren Buffett*  
(emphasis added)

\*\*Before we expand on Warren Buffet's quote shown above, we believe it is important to acknowledge a **VERY SPECIAL** event which took place this past March. The members of the **Pompano Beach Police Department** held a reunion at Galuppi's and it was, to say the least, an exceptional event and very well attended. It was so good to see and speak with the girls and boys of old Pompano Blue. In addition, some “old timers” from **Pompano Fire Rescue** stopped by to say hello! Lots of stories were exchanged (most were true; some were not). **Thank you** to those who organized the event as it was a “job well done.” Perhaps this event should be done more often??

Now back to business.....so let's expand further on some investment guidelines from Warren Buffett via [ZeeBusiness.com](http://ZeeBusiness.com):

#### 1. Buy and hold your investments:

“If you aren't willing to own a stock for 10 years, don't even think about owning it for ten minutes,” said Buffett in one of his interviews. This strategy is the easiest tip for investors to turn their investments into huge stock of money. But sadly, people tend to remain impatient when investing. Warren Buffett believes that an investor should buy and hold on to his/her investments to earn the most. Of course you must do your homework BEFORE you invest in a particular company.

#### 2. Cash is important:

Warren Buffett believes that an investor should possess adequate cash and liquidity for himself /herself as a stand by for emergencies and contingencies. Emergency or urgent requirements never ask before coming, therefore an investor should keep a good amount of liquid cash available to tackle these situations. Buffett is one of the richest investors in the world, but he suggests not investing each penny of your hard earned money in the markets.

#### 3. Be fearful when others are greedy:

This is one of the most famous lines, which he has shared at number of occasions. Buffett says, “When others are greedy, I remain fearful and when others remain fearful, I turn greedy.” This means, that an investor should

never follow or listen to others while investing. An individual should have enough faith in himself or herself for any decision he / she makes. Walking outside of crowd helps you establish a different image in the market, therefore when others are investing, you pull off and do vice or versa.

#### **4. Buy undervalued shares:**

Buffett says that an investor should prefer buying undervalued stocks. The undervalued shares are those stocks which possess huge capacity to have high returns on investments but remain outside the portfolios of people. Undervalued stocks could be those companies which are doing great business and has been there in the segment or market for years. The investor should ideally perform proper research before picking these companies and invest in fixed patterns.

#### **5. Dividend payout should be high:**

The dividends are a sign of good corporate health, according to Warren Buffett. He believes a good company should have a brilliant dividend payout ratio. The company that pays good dividends to its shareholders should be a preferable buy. If a company is paying out regular or growing dividends each year, it covers the volatility risk of the equity investment. Dividends are the part of profits of the company which are distributed annually, half yearly or quarterly to shareholders.

**NEXT.....After the pain we all felt in the last quarter of 2018** (a meltdown of sorts) the beginning of 2019 saw stocks soar extending their 2019 winning streak over a period of 10 consecutive weeks on a reversal of Federal Reserve interest rate policy and on positive trade talk news. That's the longest calendar year opening weekly winning streak in 24 years! That was good news for all investors as in the first quarter of 2019 we recovered much of what we lost in the last quarter of 2018. The **Wilshire 5000** (the broadest measure of the domestic market) was +13% in the 1<sup>st</sup> Quarter while the **EAFE** (international market measure) was +9.6%. Moving forward into the 2<sup>nd</sup> Quarter and beyond, there are two (2) real concerns.....1. Brexit (this is still smoldering in the UK with no end in sight... a new deadline has been set for **10/31/19**) and 2. trade talks with China which is still a "*WORK IN PROGRESS*." The work seems counterproductive and the "progress" seems little or none; perhaps even "in reverse." Since May 10<sup>th</sup>, the news from Washington has been negative. All we can say at this point is "fasten your seatbelts"!

**For the calendar year through March 31<sup>st</sup>** the S&P 500 was up +13.65%; the DJIA was up +11.81% and the EAFE index, the broad measure of international markets, was up +9.98%. As a reminder, our Fund is diversified over **16 different managers (17 total funds)**:

#### **FIVE US EQUITY FUNDS:**

##### **Large Cap Value**

Blackrock

##### **Mid Cap Value**

Nuance Investments

##### **Large Cap Growth**

Sands Capital Management

Sawgrass Asset Management (which joined the investment team in late 2018)

**Mid Cap Growth** Wells Capital Management

**TWO FIXED INCOME FUNDS:**

**Bonds** Mellon (formerly Standish)  
Incore (formerly Munder)

**TWO INTERNATIONAL FUNDS:**

**International Value:** Lazard Asset Management

**International Growth:** Renaissance Investment Management

**SEVEN ALTERNATIVE INVESTMENT FUNDS:**

**Fund of Fund Hedge Funds** Ironwood Capital Management  
Pine Grove Associates, Inc.

**Core Real Estate:** Invesco

**Private Equity:** Blackstone Tactical Opportunities Fund, LP  
Goldman Sachs Asset Management  
Neuberger Berman Alternatives Advisers, LLC (two funds)

**MLP:** Brookfield (Center Coast)

Those of you who were lucky enough to attend our 13<sup>th</sup> Annual Symposium received critical information directly from the market experts; the people who invest millions of dollars on a daily basis. In fact, our keynote speaker was Gary Schlossberg, Senior Economist with Wells Capital Management. Mr. Schlossberg discussed the main drivers of strength in the economy and potential recession risks in 2019-2020.

For those of you who could not attend, here is a nutshell view from our money managers and their collective vision of how we performed during the last year, where we stand now and what to expect during the remainder of the 2019 [Link to Manager Presentations](#).

The **2<sup>nd</sup> Quarter** of the Fund's current fiscal year (January 1 – March 30<sup>th</sup>), helped all investors recover from the 2018 4<sup>th</sup> Quarter "meltdown". Attached you will find an investment results summary from the Quarter ending March 31, 2019.

The **current Quarter**, which spans April 1<sup>st</sup> through June 30<sup>th</sup>, has been a victim of the ongoing trade war talk which has turned into negative action between the U.S. and China. Uncertainty in the marketplace continues to be a headwind as we all await news on a trade agreement with China and the Brexit showdown has been put on hold until October 31<sup>st</sup> of this year. As the Board of Trustees listened to our line-up of money managers, the theme for the investment future was pretty much unanimous; slow growth (last year) and this year looks like even slower growth. (hopefully in the right direction!). As I am sure you have read in many places; past results may not necessarily reflect the future returns. *Put another way; the future is not guaranteed*

**Federal Income Taxes:** so as we ended the 2018 tax season last month, a first season under new rules passed by Congress in 2017 (effective with the 2018 earning year). Here were some interesting facts from our friends at the IRS which applied to **tax year 2016**.....**BEFORE** the new rules went into effect:

- The **top 1% of taxpayers** paid 37.3% of all federal income taxes in 2016. A top 1% taxpayer was one who earned at least \$480,804 (AGI) in 2016.
- The **highest 5%**, each of whom had an AGI of \$197,651 or higher in 2016, paid 58.2% of the total income tax collected in 2016.
- The **top 10%** of filers (AGI of \$139,713 or higher) bore 69.5% of the tax burden.
- The **bottom 50%** of all filers paid 3% of the total federal income tax bill.

This is exactly how a “graduated” income tax system is designed to work. From those who earn much, much is expected. How the above percentages change under the new tax rules of 2018 will be a very, very interesting comparison! Stand by!!

**Mark your calendars for next year.** Please join us if you can for our **Fourteenth Annual Pension Educational Symposium** tentatively scheduled for April 30 through May 2, 2020!!

If your son or daughter is graduating from High School, congratulations! If he or she will be attending Broward College, please consider applying for a scholarship with the Pension Board staff. Remember, this scholarship program is sponsored by our Legal Team, *Sugarman & Susskind* and is available (regardless of age) to the spouses, children and grandchildren of our members; retired or active.

**On a sad note, the Pompano Beach Police and Firefighters Pension Board of Trustees (as well as thousands of other Public Pension Trustees throughout Florida) pass onto the Sugarman family our sincerest condolences on the passing of Marilyn Seskin, our long-time Board attorney Bob Sugarman’s wife.**

**To All: Enjoy your summer and in the meantime, stay safe and stay in touch!**

**SUMMARY OF RELEVANT FACTS**  
**Pompano Beach Police & Firefighters' Retirement System**  
**As of March 31, 2019**

**Distribution of Assets:**

<b>Equity</b>	
-Large Cap. Value	\$30,367,060
-Large Cap. Growth	\$31,775,536
-Mid Cap. Value	\$12,285,245
-Small/Mid Cap. Growth	\$12,847,532
-International Value	\$18,053,995
-International Growth	\$18,049,534
<b>Total Equity</b>	<b>\$123,378,901</b>
Fixed Income	\$52,964,271
Private Real Estate	\$20,500,196
Fund of Hedge Funds	\$22,352,829
Master Limited Partnerships	\$11,571,196
Private Equity	\$9,123,158
Cash (Non-Managed Account)	\$1,381,807
<b>Total Portfolio</b>	<b>\$241,272,359</b>

**Distribution by Percentages:**

	Policy	Current
<b>Equity Breakdown</b>		
-Large Cap. Value	12.50%	12.59%
-Large Cap. Growth	12.50%	13.17%
-Mid Cap. Value	5.00%	5.09%
-Small/Mid Cap. Growth	5.00%	5.32%
-International Value	7.50%	7.48%
-International Growth	7.50%	7.48%
<b>Total Equity</b>	<b>50.00%</b>	<b>51.14%</b>
Fixed Income	22.50%	21.95%
Private Real Estate	7.50%	8.50%
Fund of Hedge Funds	10.00%	9.26%
Master Limited Partnerships	5.00%	4.80%
Private Equity	5.00%	3.78%
Cash (Non-Managed Account)	0.00%	0.57%
<b>Total Portfolio</b>	<b>100.00%</b>	<b>100.00%</b>

**INVESCO (Private Real Estate)**

Private Real Estate	100.00%	\$17,500,196
Fees		(\$48,547)
Gain or (Loss)		\$188,444

**OFFICE BUILDING**

Total Assets	100.00%	\$3,000,000
Gain or (Loss)		\$42,501

**Center Coast Master Limited Partnerships**

Fund of Hedge Fund	100.00%	\$11,571,196
Gain or (Loss)		\$1,910,645

**Other Important Facts:**

Total Portfolio		\$241,272,359
Total Gain or (Loss) - Gross of Fees		\$20,159,873

**BLACKROCK**

Total Assets	100.00%	\$30,367,060
Equity	93.84%	\$28,495,133
Cash	6.16%	\$1,871,927
Fees		(\$16,610)
Gain or (Loss)		\$3,158,043

**SANDS CAPITAL MANAGEMENT**

Total Assets	100.00%	\$15,980,749
Equity	96.94%	\$15,491,375
Cash	3.06%	\$489,374
Fees		(\$40,649)
Gain or (Loss)		\$3,341,457

**SAWGRASS ASSET MANAGEMENT**

Total Assets	100.00%	\$15,794,787
Equity	98.69%	\$15,587,943
Cash	1.31%	\$206,845
Fees		\$0
Gain or (Loss)		\$2,328,430

**NUANCE**

Total Assets	100.00%	\$12,285,245
Equity	94.46%	\$11,604,206
Cash	5.54%	\$681,039
Fees		(\$11,799)
Gain or (Loss)		\$1,404,390

**WELLS**

Total Assets	100.00%	\$12,847,532
Equity	96.83%	\$12,439,847
Cash	3.17%	\$407,685
Fees		(\$23,879)
Gain or (Loss)		\$2,513,414

**Pine Grove Fund of Hedge Fund**

Fund of Hedge Fund	100.00%	\$10,526,051
Gain or (Loss)		\$213,390

**Ironwood Fund of Hedge Fund**

Fund of Hedge Fund	100.00%	\$11,826,778
Gain or (Loss)		\$308,256

**MAIN ACCOUNT (NON-MANAGED)**

Cash	100.00%	\$1,381,807
Gain or (Loss)		\$7,675

**LAZARD (International Value)**

Total Assets	100.00%	\$18,053,995
Equity	96.16%	\$17,361,410
Cash	3.84%	\$692,585
Fees		(\$18,827)
Gain or (Loss)		\$1,486,093

**RENAISSANCE (International Growth)**

Total Assets	100.00%	\$18,049,534
Equity	98.91%	\$17,853,398
Cash	1.09%	\$196,137
Fees		(\$21,725)
Gain or (Loss)		\$1,704,472

**STANDISH MELLON**

Total Assets	100.00%	\$26,464,085
Fixed	98.65%	\$26,106,234
Cash	1.35%	\$357,851
Fees		(\$15,514)
Gain or (Loss)		\$753,798

**INCORE/VICTORY (FORMERLY MUNDER)**

Total Assets	100.00%	\$26,500,187
Fixed	98.82%	\$26,186,890
Cash	1.18%	\$313,296
Fees		(\$12,973)
Gain or (Loss)		\$706,438

**NB CROSSROADS (PRIVATE EQUITY) #1**

Total Assets	100.00%	\$3,355,935
Gain or (Loss)		\$0

**NB CROSSROADS (PRIVATE EQUITY) #2**

Fund of Hedge Fund	100.00%	\$2,812,830
Gain or (Loss)		\$0

**BLACKSTONE (PRIVATE EQUITY)**

Total Assets	100.00%	\$2,010,893
Gain or (Loss)		\$92,424

**GOLDMAN SACHS (PRIVATE EQUITY)**

Total Assets	100.00%	\$943,500
Gain or (Loss)		(\$0)

**BREAKDOWN OF RETURNS**  
**Pompano Beach Police & Firefighters' Retirement System**  
**As of March 31, 2019**

**TRADITIONAL INVESTMENTS**

<b>BLACKROCK</b>		<b>Your Returns</b>				
<i>Large Cap. Value</i>		<b>Gross</b>	<b>Net</b>	<b>Russ 1000 Value</b>	<b>PSN Money Mgrs.</b>	<b>S&amp;P 500</b>
	Quarter	11.55	11.49	11.93	11.68	13.65
	1 year	5.71	5.45	5.67	5.40	9.50
	3 year	11.65	11.18	10.45	10.84	13.51
	5 year	8.57	8.04	7.72	8.01	10.91
	Since 1/31/2013	10.19	9.64	10.58	NA	13.22
<b>SANDS CAPITAL</b>				<b>Russ 1000 Growth</b>	<b>PSN Money Mgrs.</b>	
<i>Large Cap. Growth</i>						
	Quarter	18.73	18.50	16.10	15.68	
	1 year	16.23	15.50	12.75	10.92	
	3 year	21.35	20.64	16.53	14.97	
	5 year	12.88	12.21	13.50	11.71	
	Since 5/31/2003	13.17	12.52	10.28	NA	
<b>SAWGRASS</b>				<b>Russ 1000 Growth</b>	<b>PSN Money Mgrs.</b>	
<i>Large Cap. Growth</i>						
	Since 1/31/2019	7.62	7.62	6.53	NA	
<b>NUANCE</b>				<b>Russ Mid Value</b>	<b>PSN Money Mgrs.</b>	
<i>Mid Cap. Value</i>						
	Quarter	12.55	12.43	14.37	13.68	
	Since 6/30/2018	8.43	8.21	0.47	NA	
	Nuance/RBC Global - 1 year	10.14	9.82	2.89	1.44	
	Nuance/RBC Global - 3 year	9.48	9.05	9.50	10.28	
	Nuance/RBC Global - 5 year	7.20	6.69	7.22	6.98	
	Nuance/RBC Global - Since 1/31/2009	14.93	14.31	15.54	NA	
<b>WELLS</b>				<b>Russ 2500 Growth</b>	<b>PSN Money Mgrs.</b>	
<i>Small/Mid Cap. Growth</i>						
	Quarter	23.19	22.96	18.99	17.35	
	1 year	12.09	11.14	7.55	9.50	
	3 year	19.57	18.54	15.60	17.36	
	5 year	10.97	9.99	9.72	9.51	
	Since 1/31/2009	18.77	17.76	17.19	NA	
<b>LAZARD</b>				<b>MSCI AC Wld x US</b>		
<i>International Value</i>						
	Quarter	9.16	9.03	10.31		
	1 year	(5.62)	(6.08)	(4.07)		
	3 year	6.98	6.45	8.09		
	5 year	2.79	2.27	2.57		
	Since 1/31/2013	4.35	3.84	3.87		
<b>RENAISSANCE</b>				<b>MSCI AC Wld x US</b>		
<i>International Growth</i>						
	Quarter	10.90	10.75	10.31		
	1 year	(10.63)	(11.16)	(4.07)		
	3 year	4.69	4.04	8.09		
	5 year	1.75	1.10	2.57		
	Since 1/31/2009	8.86	8.19	8.48		
<b>STANDISH MELLON</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<i>Fixed Income</i>						
	Quarter	2.93	2.87	2.94	2.28	2.32
	1 year	4.54	4.28	4.48	4.33	4.24
	3 year	2.17	1.90	2.03	1.71	1.66
	5 year	2.72	2.41	2.74	2.31	2.12
	Since 4/30/2003	4.08	3.75	3.95	3.62	3.42
<b>INCORE/VICTORY (Munder)</b>				<b>BC Aggregate</b>	<b>BC Int. Aggregate</b>	<b>BC Int. Gov/Credit</b>
<i>Fixed Income</i>						
	Quarter	2.74	2.69	2.94	2.28	2.32
	1 year	4.50	4.29	4.48	4.33	4.24
	3 year	2.50	2.30	2.03	1.71	1.66
	5 year	2.89	2.72	2.74	2.31	2.12
	Since 9/30/2002	4.36	4.14	4.04	3.70	3.54

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**ALTERNATIVE INVESTMENTS**

<b>INVESCO</b>						
<i>Private Real Estate</i>		Gross	Net	NCREIF	NCREIF ODCE	BC Aggregate
	Quarter	1.09	0.81	1.80	1.42	2.94
	1 year	7.87	6.68	6.82	7.52	4.48
	3 year	8.86	7.65	7.07	7.97	2.03
	5 year	10.69	9.47	9.13	10.18	2.74
	Since 7/31/2006	6.50	5.36	7.36	6.59	4.24
<b>OFFICE BUILDING</b>						
<i>Private Real Estate</i>				90-Day T-Bill	BC Aggregate	
	Quarter	1.43	1.43	0.60	2.94	
	1 year	5.08	5.08	2.11	4.48	
	3 year	4.59	4.59	1.17	2.03	
	5 year	21.08	21.08	0.72	2.74	
	Since 3/31/2007	0.87	0.81	0.78	4.03	
<b>Ironwood</b>						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	2.68	2.68	3.14	2.94	
	1 year	3.15	3.15	1.62	4.48	
	3 year	5.86	5.86	3.40	2.03	
	5 year	4.10	4.10	2.04	2.74	
	Since 7/31/2008	3.52	3.52	1.36	3.93	
<b>Pine Grove</b>						
<i>Fund of Hedge Funds</i>				HFRI FOF Cons	BC Aggregate	
	Quarter	2.07	2.07	3.14	2.94	
	1 year	1.36	1.36	1.62	4.48	
	3 year	4.99	4.99	3.40	2.03	
	5 year	1.65	1.65	2.04	2.74	
	Since 9/30/2008	3.55	3.55	2.05	4.04	
<b>Center Coast</b>						
<i>Master Limited Partnerships</i>				Alerian MLP		
	Quarter	19.78	19.65	16.82		
	1 year	17.90	17.34	15.11		
	3 year	5.63	5.11	5.69		
	Since 1/31/2015	(4.94)	(5.36)	(5.60)		
<b>Neuberger Berman</b>						
<i>Private Equity #1</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Dec)	BC Aggregate	
	Quarter	0.00	0.00	0.60	2.94	
	1 year	1.61	1.80	(3.08)	4.48	
	3 year	10.82	11.39	8.99	2.03	
	5 year	10.99	11.35	8.24	2.74	
	Since 3/31/2010	4.46	10.34	11.15	3.34	
<b>Neuberger Berman</b>						
<i>Private Equity #2</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Dec)	BC Aggregate	
	Quarter	0.00	0.00	0.60	2.94	
	1 year	5.37	5.33	(3.08)	4.48	
	3 year	10.99	11.09	8.99	2.03	
	Since 7/31/2014	6.94	9.13	7.99	2.55	
<b>Blackstone</b>						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500	BC Aggregate	
	Quarter	4.81	4.32	13.65	2.94	
	1 year	9.74	8.24	9.50	4.48	
	3 year	12.71	10.71	13.51	2.03	
	5 year	11.08	8.89	10.91	2.74	
	Since 11/30/2013	11.55	8.85	11.08	2.81	
<b>Goldman Sachs</b>						
<i>Private Equity</i>		Time-Wtd	Dollar-Wtd	S&P 500 / 90 Day T-Bill (Dec)	BC Aggregate	
	Quarter	0.00	0.00	0.60	2.94	
	1 year	(3.14)	(2.60)	(3.08)	4.48	
	3 year	4.98	6.62	8.99	2.03	
	5 year	9.15	8.37	8.24	2.74	
	Since 12/31/2013	5.81	7.75	8.20	2.97	

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TOTAL FUND				Policy Index
<i>Time-Weighted Return (TWR)</i>				
Quarter	9.00	8.89	8.61	
1 year	5.78	5.35	5.22	
3 year	9.04	8.55	8.10	
5 year	6.15	5.66	5.83	
Since 9/30/2002	7.61	7.12	7.34	
Since 6/30/1995	7.20			

TOTAL FUND				Actuarial Rate	CPI +3
<i>Dollar-Weighted Net Return (IRR)</i>					
Quarter		8.92	1.82	1.35	
1 year		5.44	7.50	4.94	
3 year		8.69	7.50	5.24	
5 year		5.56	7.50	4.56	
Since 9/30/2002		7.36	7.50	5.12	

**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.