# WEST PALM BEACH POLICE PENSION NEWS

*A West Palm Beach Police Pension Fund Publication*

***Issue 17***

***Date of Issue:***

***First Quarter 2013***


*Inside this issue….*




**Trustee Wilton White accepted the Board's nomination for reappointment to serve another term as a Trustee.**

**Wil is the 5th Member of the Board and is appointed by the other four members.**

**Wil has faithfully served this Fund since February 20, 1997.**

**Join the Board in Thanking Wil for his voluntary service to the Fund.**

# FOURTH QUARTER SUMMARY

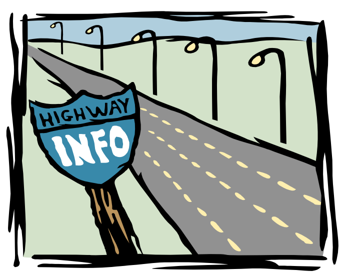
On December 31, 2012 our fund had a total market value of $217,514,000. For the quarter the fund had investment gains of $1,607,000.

For the quarter ending December 31, 2013, the total fund return was 0.73% (net), that return was outperformed by the benchmark return which was 1.25%. In the previous quarter the fund return was 4.14%.

For the quarter the (equity) stock return was 0.68% and the benchmark return was 1.80%. The bond return was 0.82% and the benchmark return was 0.18%.

For the quarter ending December 31, 2012, the allocation of our fund was 64.9% invested in stocks, 25.1% in bonds, 5.2% in Real Estate, and 4.8% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds). Our ongoing target for investment in stocks remains at 65% of the total fund.

For the fiscal year-to-date, the Valley Forge large cap core stock return was -3.48%, the Earnest Partners large cap value stock return is -0.37%, the Garcia Hamilton & Associates large cap growth stock return was -2.52%, the Anchor mid-cap value stock return was -0.70%, the Oak Ridge mid cap growth stock return was 0.14%, the DFA international stock return was 7.66%, the GW Capital small cap value stock return was 5.61%, the Eagle small cap growth stock return was 3.30%, the WHV international stock return was 3.57%, the Intercontinental Real Estate return was 3.31%, and the Garcia Hamilton & Associates aggregate fixed income return was 0.82%. The S&P 500 index return was -0.38%.




**Long Term**

Since September 30, 2007 the fund has an annualized rate of return of 2.95% (net) per year.

For the last three years the total fund has an annualized rate of return of 8.21% (net) per year. For the last three years the stocks had an annualized return of 9.59% and the benchmark had a return 10.84%. Bonds had an annualized return of 6.07% versus the benchmark of 5.34%.

**Major Economic Indicators**

For the last year the best performing sector among S&P 500 stocks was Financials which increased 26.26% and the worst sector was Utilities which decreased 2.91%.

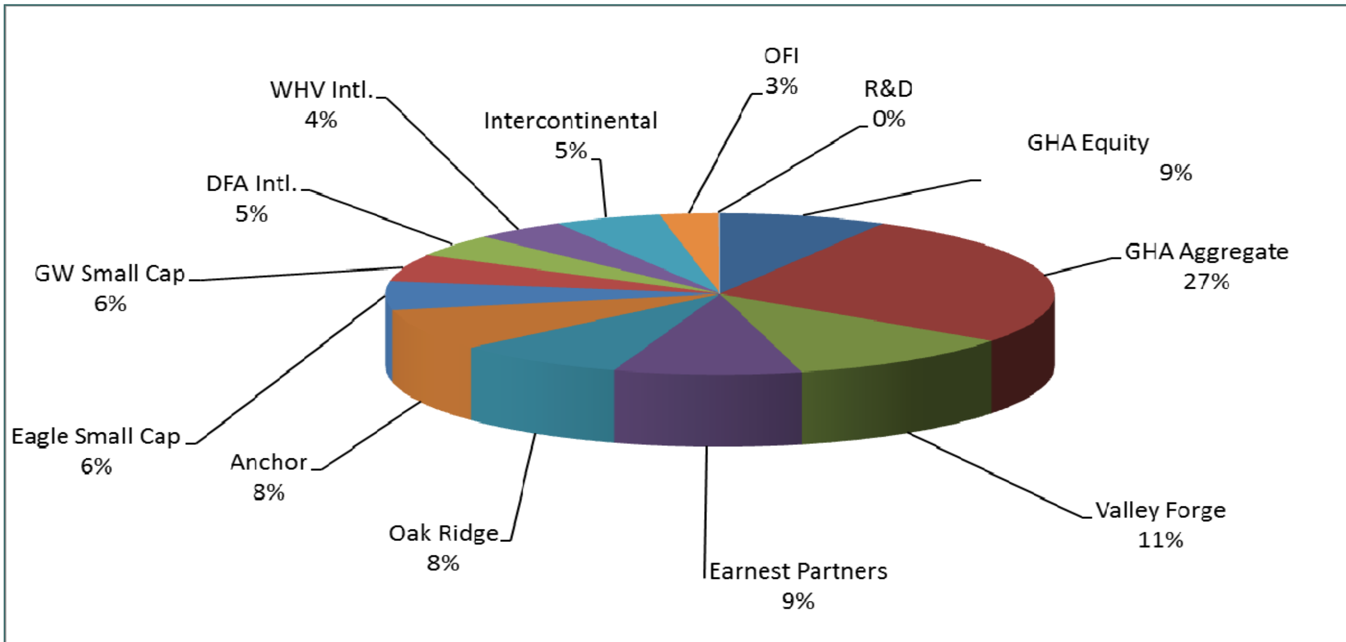
Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 1.7% before seasonal adjustment for the twelve months ended in December.

The Producer Price Index (PPI) for finished goods advanced 1.3% before seasonal adjustment for the twelve months ended in December.

The seasonally adjusted unemployment rate was 7.8% in December compared to 7.8% in September. Real Gross Domestic Product (GDP) increased at an annual rate of 3.1% for the third quarter of 2012, compared with an increase of 1.3% in the second quarter.

During the fourth quarter of 2012 the Federal Reserve Open Market Committee kept the target range for the federal funds rate of 0.00% to 0.25%. The federal funds rate is the interest rate that banks charge each other for overnight loans.

# Track the Fund




## Plan Asset Allocation & Diversification as of December 31, 2012

| | Domestic Equities | Int'l Equities | Emerging Markets | Fixed Income | Real Estate | Cash | Total | % of Total |
|---|---|---|---|---|---|---|---|---|
| *GHA Equity* | $17,356,000 | | | | | $307,000 | $17,663,000 | |
| *GHA Aggregate* | | | | $54,622,000 | | $3,677,000 | $58,299,000 | |
| *GHA Total* | | | | | | | $75,962,000 | 34.9% |
| | | | | | | | | 41.0% |
| *Valley Forge* | $23,046,000 | | | | | $1,193,000 | $24,239,000 | 11.1% |
| | | | | | | | | 9.0% |
| *Earnest Partners* | $18,769,000 | | | | | $944,000 | $19,713,000 | 9.1% |
| | | | | | | | | 9.0% |
| *Oak Ridge* | $16,987,000 | | | | | $907,000 | $17,894,000 | 8.2% |
| | | | | | | | | 8.0% |
| *Anchor* | $16,552,000 | | | | | $1,722,000 | $18,274,000 | 8.4% |
| | | | | | | | | 8.0% |
| *Eagle Small Cap* | $12,416,000 | | | | | $33,000 | $12,449,000 | 5.7% |
| | | | | | | | | 5.0% |
| *GW Small Cap* | $11,433,000 | | | | | $555,000 | $11,988,000 | 5.5% |
| | | | | | | | | 5.0% |
| *DFA Intl.* | | $9,556,000 | | | | $268,000 | $9,824,000 | 4.5% |
| | | | | | | | | 5.0% |
| *WHV Intl.* | | $8,930,000 | | | | $690,000 | $9,620,000 | 4.4% |
| | | | | | | | | 5.0% |
| *Intercontinental* | | | | | $11,223,000 | | $11,223,000 | 5.2% |
| | | | | | | | | 5.0% |
| *OFI* | | | $6,210,000 | | | | $6,210,000 | 2.9% |
| | | | | | | | | 3.0% |
| *R&D* | | | | | | $120,000 | $120,000 | 0.1% |
| | | | | | | | | 0.0% |
| *Totals* | $116,559,000 | $18,486,000 | $6,210,000 | $54,622,000 | $11,223,000 | $10,416,000 | $217,516,000 | 100.0% |
| | | | | | | | | 100.0% |
| *% of Total* | 53.6% | 8.5% | 2.9% | 25.1% | 5.2% | 4.8% | 100.0% | |
| *Target %* | 52.0% | 10.0% | 3.0% | 30.0% | 5.0% | 0.0% | 100.0% | |

| GHA | Eagle | Valley Forge | Earnest Partners | Oak Ridge |
|---|---|---|---|---|
| Apple | Geospace Tech | Pfizer | Cimmins Inc. | Petsmart Inc. |
| IBM | Vitamin Shoppe | Newmont Mining | TJX Inc. | Alliance Data Sys. |
| Qualcomm Inc. | Genesco Inc. | Goldcorp Inc. | IBM | Ross Stores |
| Microsoft | Sirona Dental | Barrick Gold Corp. | American Tower | Transdigm Group |
| Coca Cola | Quaker Chemical | Bristol-Myers | Exxon Mobil | AO Smith |
| American Tower | Obagi Medical | Procter & Gamble | Occidental Petrol. | Airgas |
| Roper Industries | Texas Industries | AT&T | Wells Fargo & Co. | Marriott Intl |
| Google | Lufkin Industries | Waste Mangement | Travelers Cos. | Roper Industries |
| Walt Disney | Louisiana-Pacific | Verizon Comm. | Union Pacific | Triumph Group |
| Nordstrom | Centene Corp | Johnson & Johnson | Express Scripts | Mead Johnson |

# Top Ten Equity Holdings

| Anchor | GW | OFI | DFA | WHV |
|---|---|---|---|---|
| Sun Communities | Avis Budget Group | Baidu Inc. | Royal Dutch Shell | Canadian Pacific Rail |
| American Capital | Brookdale Sn. Living | American Movil | BP PLC | Rio Tinto PLC |
| Sempra Energy | Redwood Trust Inc. | Fomento Economico | Vodafone Group | Noble Corp. |
| McKesson Cp. | Chemtura Corp. | Infosys Tech. Ltd. | Suncor Energy | Schlumberger LTD |
| Heinz H J Co. | Omega Healthcare | Magnit OJSC | Diamler AG | Diageo PLC |
| HCP Inc. | Esterline Tech. | Carlsberg A/S | Mitsubishi UFJ | Suncor Energy |
| Analog Devices Inc. | Darling Intl. | Anglo American PLC | Westfarmers LTD | BHP Billiton LTD |
| NY Cmnty Bancorp | CNO Financial Grp. | Housing Devmt Fin. | Xstrata PLC | Canadian Nat. Rail. |
| Old Republic Intl. | Post Holdings | Novatek OAO | HSBC Holdings PLC | Potash Corp. |
| Chubb corp. | Simpson Manuf. | NHN Corp | Vodafone Grp. PLC | British Amer. Tobac. |

## EAGLE MID CAP GROTH — FOURTH QUARTER INVESTMENT REVIEW

**Market Commentary** The Russell Midcap Growth Index (up 1.7 percent) posted modest gains during the fourth quarter, trailing the strong 3.9 percent gain for the Russell Midcap Value Index. For the full year, the Russell Midcap Growth benchmark (up 15.8 percent) trailed its value-oriented counterpart (up 18.5 percent). After running a tight race through the first nine months, weak relative performance from the growth index's information technology sector allowed value investing to push ahead. Sector returns within the Russell Midcap Growth Index were mixed in the fourth quarter, led by industrials (up 10 percent), telecommunication services (up 8 percent) and materials (up 7 percent). The nominally weighted utilities sector (down 7 percent) as well as information technology (down 2 percent) and healthcare (down 2 percent) were down most notably on an absolute basis during the fourth quarter.

**Portfolio Review (1,2)** Eagle Mid Cap Growth portfolios outpaced (on a gross basis) the benchmark Russell Midcap Growth Index for the quarter. The consumer discretionary sector led the outperformance, as several of the benchmark's largest specialty retail industry firms, which the Eagle portfolios did not own, did poorly during the quarter. In addition, solid returns by industrials holding Terex contributed to sector outperformance. Performance was somewhat tempered by soft results in consumer staples, where previous winner Fresh Market gave back some ground during the period.

Also, Eagle Mid Cap Growth portfolios beat (on a gross basis) the Russell Midcap Growth Index for the year. The consumer discretionary and energy sectors outperformed, boosted by Sirius XM Radio in consumer discretionary and Cabot Oil & Gas within energy. We lagged in information technology, as weak performance from software holding Rovi detracted from relative returns in the sector.

Our three best-performing stocks for the quarter included Mylan, SBA Communications and Royal Caribbean Cruises. Mylan, primarily a generic pharmaceuticals manufacture, has benefitted materially from the continued expiration of branded drugs, underscored by solid sales of Mylan's EpiPen product as well as signs of stabilization within the firm's European segment after a multiyear period of moderate sales growth. SBA Communications owns and operates wireless communication towers throughout North America. The firm has negotiated a significant amount of new business with core industry providers, such as AT&T and Verizon; expanded its existing relationships with Sprint; and recently has closed on its acquisition of TowerCo, which will greatly expand the firm's communications-tower portfolio to support future growth. Shares of cruise-line operator Royal Caribbean performed well during the quarter as booking continued to improve following last year's Concordia accident.

Our three worst-performing stocks during the period were Vertex Pharmaceuticals, Edwards Lifesciences and TIBCO Software. Vertex Pharmaceuticals is a biotech firm focused on the discovery and development of drugs used to treat serious diseases, such as hepatitis C and cystic fibrosis. One of the firm's currently marketed hepatitis C drugs is facing a potential challenge as competitor Gilead's drug candidate, currently in clinical trials, is expected to emerge as a viable alternative to Vertex's current drug. Vertex is currently in the preliminary stages of developing a new therapy expected to rival that of Gilead's, and initial data has been substantially positive. Edwards Lifesciences develops and manufactures medical devices used in the treatment of structural heart disease. Recently, the company reported lower-than-expected revenues and earnings due to late U.S. Food and Drug Administration (FDA) approval of the firm's Sapien percutaneous (less-invasive) heart valve for patients who are eligible for conventional heart valves but whose risk profiles make them candidates for percutaneous heart valves. Surgeons were awaiting this approval and, as such, a backlog of patients awaiting the device. TIBCO Software provides data-integration software that enables business-intelligence analytics in real-time. The firm, along with many tech companies, is experiencing a lengthening of the sales cycle and some customer hesitancy with regard to capital spending in the current environment. That has to some concerns about near-term order-growth slowdowns. TIBCO should, in our view, continue to see favorable secular-growth trends maintained in real-time data analytics and complex event processing.

**Sector Weightings**[2] (as a percentage; as of Dec. 31, 2012)

| Sectors | Eagle | Russell Midcap Growth | Difference |
|---|---|---|---|
| Consumer Discretionary | 21.0 | 25.1 | *-4.1* |
| Consumer Staples | 6.6 | 7.7 | *-1.1* |
| Energy | 7.4 | 5.2 | *2.2* |
| Financials | 8.2 | 7.5 | *0.7* |
| Healthcare | 14.2 | 12.9 | *1.3* |
| Industrials | 17.1 | 15.1 | *2.0* |
| Information Technology | 15.2 | 17.2 | *-2.0* |
| Materials | 5.9 | 6.7 | *-0.8* |
| Telecommunication Services | 3.2 | 1.9 | *1.3* |
| Utilities | -- | 0.7 | *-0.7* |
| Cash | 1.2 | -- | *1.2* |
| **Total** | **100%** | **100%** | |

*Source: Eagle research, FactSet*

## Eagle Review—Continued from Page 4

**Recent Transactions (1,2)**

**Buys** Flowserve provides fluid management-control products and industrial pumps used in oil and natural-gas production. The firm's line of industrial equipment is well-aligned with the North American shale-gas revolution, as the secular growth tailwinds of low-cost natural gas are more than likely to draw producers to the region and generate demand for Flowserve's products.

Sirona Dental manufactures state-of-the-art dental equipment and instruments. The firm's primary business segments include digital imaging and computer-aided design and manufacturing. It sells products such as the OmniCam, which has helped position Sirona for substantial growth as dentists continue to convert from film-based to digital x-rays. In addition, the firm is seeing significant adoption rates of the company's flagship product, which allows a patient to receive a crown or onlay in one appointment vs. multiple appointments.

Wynn Resorts develops and operates casino resort properties in Las Vegas and Macau. As its Macau properties continue to see increased popularity and gaming traffic. Macau has made several enhancements to the infrastructure and transportation in the area, allowing for more convenient trips to Macau and Wynn's resorts there.

**Sales** Cerner is a supplier of healthcare IT solutions, services and hardware. The firm continues to take market share from competitors and report positive bookings growth but we sold the stock as much of the demand created by the initial (and largest) phase of the healthcare stimulus has been substantially worked through, tempering Cerner's growth trajectory.

Dollar Tree operates discount variety stores across the United States. The firm has experienced some moderation of sales growth in recent periods, in part due to increased competition as well as substantial square footage growth in the value retailer space. We sold the stock.

Red Hat develops and supports Linux and open-source software solutions. We sold the stock on concerns that the macroeconomic environment would negatively affect commercial spending, with the expectation of growth deceleration to follow in the near-term.

**Outlook** We believe the strong equity performance of recent years will continue into 2013. The focus on the "fiscal cliff" now has shifted to concerns over the national debt ceiling and resultant reductions in federal spending. Like the "fiscal-cliff" debate, we believe the immediate concerns will be addressed in the 24th hour. Congress will lift the ceiling, nominally cut federal spending and both Republicans and Democrats alike will be unhappy. Recent economic data from China have been encouraging and Europe seems to have successfully pushed the can down the proverbial road. Domestically, we should benefit from recoveries in both autos and housing. Current consensus forecasts of 2 percent-3 percent gross domestic product (GDP) growth could prove conservative. Given our expectations of a reasonably strong economy, we believe interest rates will start creeping up but be offset somewhat by Federal Reserve actions to keep rates in check. Weakness in fixed-income markets could enable a return to equity markets by retail investors who abandoned them in 2008-09 in favor of the relative safety of bonds. We continue to favor companies leveraged to housing. We believe financials should continue to perform well, as should cyclical groups such as energy and materials. After a very strong 2012, consumer stocks could lag as higher taxes could prove a drag on consumer spending.

Prospects for a recovering global economy should support oil prices while the natural-gas market continues to recover from a very difficult 2012. On the oil side, we continue to prefer companies with exposure to the Bakken shale region in North Dakota, where drilling efficiencies are rapidly lowering costs. During the course of 2012, Oasis Petroleum reduced its completed-well cost by 16 percent (from $10.5 million to $8.8 million) and it appears likely that costs will decline further in 2013. Assuming oil prices remain robust, that drop in well costs bodes well for Oasis' return on invested capital and production growth. With respect to natural gas, we hold positions in low-cost producers that can thrive in an extended period of low prices. Recent prolific well results from Cabot Oil & Gas in the Marcellus shale region are among the most economic natural-gas wells in North America.

Within the industrials and materials sectors, we continue to favor companies with exposure to the aerospace and housing end markets, which are both experiencing strong cyclical growth. Longstanding aerospace holdings include Hexcel and Triumph Group, which are leveraged to the construction of new aircraft as Boeing and Airbus continue to ratchet up production rates to bring down their order backlogs. With respect to housing, we expect new-home starts will climb sharply in 2013 from extremely depressed levels as inventories have declined significantly. We also anticipate a solid increase in repair-and-remodel spending as rising home prices boost consumer confidence. Current holdings that should benefit from improving fundamentals in residential construction include Fortune Brands Home and Security, Stanley Black and Decker and Eagle Materials. Another theme across our materials and industrials holdings are companies that benefit from the shale-gas revolution in North America, which is spurring a renaissance

# Eagle Review — Continued from Page 5

in North American manufacturing and petrochemical industries. Firms likely to benefit from the secular-growth tailwinds of low-cost natural gas in North America include Chicago Bridge & Iron, CF Industries, Westlake, Colfax and Flowserve.

2012 was filled with confusion and uncertainty about "Obamacare." It was deemed constitutional last summer and President Obama winning re-election and Democrats maintaining control of the Senate effectively guaranteed the Affordable Care Act would be implemented in the New Year. Some of the provisions scheduled to be enacted this year include a 0.9 percent supplemental Medicare tax for Americans with incomes greater than $200,000; elimination of the employer-tax subsidy that helped retirees pay for drug benefits; and drastically reduced caps on flexible medical-spending accounts. That will force more Americans, on average, to utilize a greater amount of after-tax money on their healthcare expenses.

Against this backdrop, we believe there are still attractive growth opportunities in the $2.3 trillion healthcare industry. Those include "cash pay" healthcare, where individuals pay out of pocket (subsequently void of reimbursement risk) for aesthetic, dental or veterinary services. Our investment in Sirona Dental is an example of this thesis. Companies that are part of the drug-distribution supply chain (e.g., Catamaran, AmerisourceBergen and Mylan) and that are aggressively trying to increase the use of generic drugs stand to benefit.

The current low-interest-rate environment, combined with weak market-trading activity, continues to pressure industry profits as we enter the new calendar year. It's clearly expected to be a gradual change but it is increasingly likely that interest-rates will creep upward in the near- to mid-term as economic conditions show signs of improvement domestically and overseas. Regulatory reforms should lead to higher industry costs and more stringent capital requirements. Despite the sustained pressure in this context, the overall economy – and, more importantly, the real-estate market – is continuing to demonstrate meaningful traction toward a recovery. Against this backdrop, we continue to own selective real-estate recovery stories (e.g., MFA Financial) that we believe should benefit from improving conditions in the housing market.

In the technology sector, macroeconomic issues continue to weigh on enterprise spending with increasing investor focus shifting toward the spending portion of the fiscal cliff and debt-ceiling negotiations. We would not be surprised by some first-quarter, cliff-induced negative earnings announcements but, looking further out, an improving economy should provide solid outlooks. We are finding reasonable valuations and are likely to see accelerating revenue and earnings growth rates on a year-over-year basis for many of our companies. We continue to focus on firms with strong competitive positions and solid business models in addition to our secular growth themes: internet-based commercial applications, security software, real-time analytics and disruptive technologies. An example holding is Teradyne, which provides chip testers for semiconductor companies. We expect orders to improve throughout the year, driven by smartphone and tablet-chip testing. Teradyne should benefit from economies of scale that would allow more of each dollar received to drop to the bottom line as shipment and revenue growth increase.

The very strong consumer sector lost some relative momentum in the fourth quarter as fears of significantly higher taxes weighed on the group. During the back half of the year, we reduced our holdings and now have a significant underweight position in consumer discretionary. We continue to like cruise-line operator Royal Caribbean. Our position in Sirius XM Radio is reflective of our belief in the auto-industry recovery and PulteGroup is a representative housing holding.

1. References to specific securities are intended to illustrate the types of securities Eagle may hold in this portfolio. They are not intended as representations of specific investment recommendations that would have been profitable to an investor. Past performance is not a guarantee of future results.

2. Source: FactSet, Frank Russell Co. Statistics represent an aggregate of all Mid Cap Growth portfolios.

# *STOCK SPOTLIGHT*

## Louisiana-Pacific Corp. (Ticker = LPX)

Sector: Materials
Industry: Forest Products
Market Capitalization: $2.7 Billion

Louisiana-Pacific manufactures wood building materials for residential and commercial applications. Recently the firm has done well largely due to sustained improvement in the domestic housing picture as fundamentals continue to strengthen into the 2013 calendar year. With respect to housing, we expect new-home starts will climb sharply in 2013 from extremely depressed levels as inventories have declined significantly. We also anticipate a solid increase in repair-and-remodel spending as rising home prices boost consumer confidence and Louisiana-Pacific is well-positioned to benefit from this trend.

Average Cost in West Palm Beach Police Portfolio: $11.13 per share, currently trading at $27.11

## Cinemark Holdings Inc. (Ticker = CNK)

Sector: Consumer Discretionary

Industry: Movies & Entertainment

Market Capitalization: $3.15 Billion

Cinemark operates one of the largest chains of movie theaters in the US, Canada, and Mexico. Higher ticket prices tied to 3-D and a healthy movie business in general is likely to hold up even in a slowing economy and has provided the company with strong free cash flow that it has used to rapidly expand its operations in Latin American countries where the penetration of movie theaters is still in the early stages of growth. On top of strong revenue growth from Latin America, the company also rewards investors with a 3.1% dividend yield.

Average Cost in West Palm Beach Police Portfolio: $23.34 per share, currently trading at $27.41.

**Please note that the Board of Trustees provide this data for informational purposes only. It is in no way to be interpreted as investment advice.**

For the US Small Cap equity market, the year 2012 closed out much more subdued than it opened. Although the Russell 2000 index eeked out a modest gain in the 4th Quarter, it was nowhere near the excitement of the strong double digit triumph posted in the 1st Quarter. Oversaturation of our eardrums with the phrase "Fiscal Cliff" and the back and forth uncertainty surrounding the election season may have kept a lid on the quarter, but a gain is still a gain. In itself, US Small Cap equities posted a very respectable 14.6% to 18.1% return for the year, depending on your allegiance to either the Growth or Value strains of the Russell 2000 index. It was the first year since 2008 that the Value folks held bragging rights over their Growth brethren, with the Core folks right where we'd expect them, somewhere in the middle. The 4th Quarter played out similarly, with Value outperforming Growth by nearly 280 bps (the spread was about 350 bps for the year).

Often, a quarterly performance can be characterized as driven by a primary characteristic, such as a low quality rally, or a flight to safety. In such cases, either the low quality or high quality metrics dominate. Last quarter was not easily characterized as either in US Small Cap. Yes, the higher beta stocks within Small Cap outperformed the lower beta stocks. Yes, some of the best performing market sectors of the Russell 2000 were Materials, Industrials and Consumer Discretionary while more traditional defensive sectors such as Healthcare and Utilities were underperformers. On the other hand, in general, dividend paying stocks in the market outperformed, as did lower P/E and higher market capitalization stocks – all traits normally seen in a flight to safety period.

Specific to the GW Capital portfolio, we were pleased to outperform the Russell 2000 Core and Value indices for the 4th Quarter as well as calendar year 2012. As has been the case for a few years, the primary driver of outperformance last quarter was Issue Selection rather than Sector Allocation.

On the sector side, our thematic weightings modestly detracted in aggregate from quarterly performance against the Russell 2000 Value index. In an almost exact replication of the struggles our Sector Allocation delivered in the 1st Quarter of 2012, our underweights to the better performing market sectors of Consumer Discretionary and Technology combined with our overweights to the poorer performing sectors of Consumer Staples, Energy and Utilities all hurt the portfolio. The positive glimmer came from our sizable weighting in Industrials, which was a top market sector performer last quarter.

Needless to say, if we generated alpha and it didn't come from our sector positioning, then our Issue Selection in aggregate must have done well – and it did. While we had some ugly returns come from our Energy holdings (where each of our names had negative performance), the portfolio featured 13 stocks with positive double digit returns last quarter. Strong performing stocks came from several sectors, led by winners in Financials, but also Industrials, Materials, Healthcare and Consumer Discretionary. Compared to the Russell 2000 and 2000 Value market sectors, our sector holdings outperformed in each of the market sectors held except Energy (where we lost badly) and the top performing Industrial sector, where, despite having a couple double digit winners, it wasn't quite enough for us to keep pace.

Turning to transactions, the quarter was relatively light all around. In terms of new names bought into the portfolio, we added a new Industrials company, and that was it. On the sell side, we were extremely light, with no outright sales for the quarter. What transaction activity we had was more focused in the add/prune space. We added to 3 positions during the quarter, each one on what we felt was a valuation opportunity, across multiple sectors. We pruned a stock in the Financial sector as our returns continued to excel there. Good performance had brought our Financial sector weight near or above the 25% maximum we seek to limit.

Looking ahead, as we've been saying for some time, given global macro-economic concerns and their potential to disrupt the US modest economic recovery, we are holding to our outlook of Two steps forward – One and a half steps back. Even with an agreement in hand on US taxes, the upcoming congressional debate and wrangling over the debt ceiling will certainly provide some market angst. While the US credit markets remain supportive, the threat of a default on US Treasuries would obviously provide significant disruption. As economic data continues to come in very mixed, we remain doubtful of a US double-dip recession occurring in the near term. However, the wild card remains, as it has for more than 3 years, the situation in Europe, where we think recessions are very likely in several countries. We anticipate the uncertainty across the Atlantic to remain a fuel for market volatility here. A wrong move there could dramatically upset the fragile foundation of the US recovery. More so than before, we are also casting a wary eye towards China, as economic reports there remain mixed as to the ongoing strength of their economic engine.

# GW Capital

# Words To Ponder


While reading the manager reports bring you insight from the frontlines of the investment world, at times it brings some questions. One manager cited “consensus earnings or estimates”. This quarter we will outline that for you.

**Definition of 'Consensus Estimate'**

A figure based on the combined estimates of the analysts covering a public company. Generally, analysts give a consensus for a company's earnings per share and revenue; these figures are most often made for the quarter, fiscal year and next fiscal year. The size of the company and the number of analysts covering it will dictate the size of the pool from which the estimate is derived.

**Investopedia explains 'Consensus Estimate'**

When you hear that a company has "missed estimates" or "beaten estimates", these are references to consensus estimates. Based on projections, models, sentiments and research, analysts strive to come up with an estimate of what the company will do in the future.

Obviously, consensus estimates are not an exact science. This leads some market pundits to believe that the market is not as efficient as often purported, and that the efficiency is driven by estimates about a multitude of future events that may not be accurate. This might help to explain why a company's stock quickly adjusts to the new information provided by quarterly earnings and revenue numbers when these figures diverge from the consensus estimate.

Read more: http:// www.investopedia.com/terms/c/consensusestimate.asp#ixzz2N4fU7ic7

*Readers: Want something highlighted? Let us know….*

EARNEST PARTNERS

U.S. equity markets posted gains in the fourth quarter and generated strong returns for the year. For the fourth quarter, the Russell 2000 small cap market rose 2%, while the Russell 1000 large cap market finished flat. Despite a second quarter pull-back, both the small cap and large cap markets finished the year up over 16%. International equity markets outpaced the U.S. markets for the second straight quarter with both the MSCI ACWI ex-US and the MSCI Emerging Markets indices returning over 5%. Both benchmarks also posted strong gains for 2012, increasing 17% and 19%, respectively.

The strongest gains of the year came in the first quarter as a result of incremental improvements in the U.S. economy, along with moderating fears regarding the European debt crisis. However, market optimism proved short-lived as global macroeconomic challenges resurfaced in the second quarter. Equity prices pulled back, driven by concerns regarding the cohesiveness of the European Union, decelerating growth in emerging markets, and a stagnate U.S. job market. Markets rebounded in the third quarter as central banks and governments stepped in to provide support to local economies. The European Central Bank (ECB) made clear that it would take whatever steps necessary to keep the Euro intact, averting a further escalation of the debt crisis. At the forefront of ECB support was a sovereign debt buying program that helped reduced borrowing costs for countries like Spain and Italy. Meanwhile in the U.S., the Federal Reserve (Fed) introduced further quantitative easing in the form of an open-ended commitment to purchase $40 billion in agency mortgage-backed securities each month to keep interest rates low. In China, the National Development and Reform Committee approved a one trillion yuan (~$160 billion) stimulus plan targeting infrastructure projects throughout the country. These fiscal and monetary efforts helped push global equity markets up by over 5% during the third quarter.

In Europe, equity markets continued to rally in the fourth quarter. The ECB's actions have helped calm markets for the time being, but have done little to directly address another major issue for the region – unemployment. The euro-zone unemployment rate is currently above 11% with Spain and Greece over 25%. At these levels, growth is difficult as consumers are unable to reduce debt and increase spending. The recession in Europe has, in turn, impacted emerging market economies, especially within the BRIC countries (Brazil, Russia, India, and China). Three of the four BRIC countries ushered in new leadership in 2012, and those leaders are searching for growth both internally and externally as developed economies continue to struggle. Perceptions around China's growth improved markedly in the fourth quarter as investors anticipated that the new leadership would introduce additional stimulus in 2013 to maintain a targeted 7.5% growth rate. Stimulus is likely to come in the form of higher fixed-asset investment – in infrastructure, housing, and roads. The expected stimulus, along with improving economic data, particularly in the industrial and real estate sectors, helped China outperform other emerging markets by 700 basis points in the fourth quarter. The U.S. economy also showed signs of improvement in the fourth quarter. Employment growth picked up again after a slowdown mid-year, and the unemployment rate dropped to 7.8% in December - the lowest level in four years and down from 8.5% at the beginning of the year. And for the first time in nearly seven years, the housing sector is expected to be a contributor rather than a detractor to economic growth. Inventories of existing homes have reached their lowest level since 2001, while year-over-year new home sales were up 20% through November and prices were up over 4%. To help keep the economic recovery on track, the Fed announced that it would keep rates low at least until unemployment drops below 6.5% and inflation projections are no more than 2.5%. This replaces the Fed's earlier view that rates would stay near zero at least through the middle of 2015. The Fed also announced that they would expand their asset purchase program by buying $45 billion of Treasury securities each month. Despite the monetary infusions, banks have not substantially increased their lending activities due to economic and political uncertainty, as well as weak demand from high quality borrowers. At year-end, a portion of the political uncertainty cleared when Congress finally reached agreement on individual income tax rates. Businesses overall, however, remain cautious and continue to maintain large cash reserves that could eventually spur a stronger economic recovery.

The EARNEST Partners Large Cap Value portfolio finished flat for the quarter.

For the year, the portfolio posted a positive return driven by absolute gains in the first and third quarter. Absolute returns benefited from strong stock performance in a number of sectors. Not your typical insurance company, Aflac is one of the largest supplemental health insurance providers in both the United States and Japan. The company's risk is limited as it insures very specific health hazards with fixed pay offs. It has been consistently more profitable than its insurance peers with ROE typically 18 to 20%. The company has a strong product/marketing team and constantly innovates to meet client needs, adapting its product offering to changing regulations and customer demands. In particular, sales in Japan continue to be strong as the company has focused on improving product design and directing sales towards higher-margin products. Its hybrid life/long-term care product saw 30% year-over-year growth in Japan. Shares rose 12% during the quarter as Aflac reported operating earnings per share ahead of consensus expectations.

***Please continue to the next page of this publication for the conclusion***

## Earnest Partners - Continued

Financial holding JPMorgan Chase & Co. is a leading global financial services firm with assets of $2 trillion and operations in more than 60 countries. With strong capital levels and stable funding sources, the firm is a leader in investment banking, commercial banking, brokerage, asset management, and private equity. The acquisitions of Bear Stearns and Washington Mutual during the last crisis provided JPMorgan dominant positions in both trading and retail banking. These activities not only translate into higher profit margins, but also provide for many cross-selling opportunities, serving to continuously reinforce the company's market position. In addition, the company's Investment Banking division saw revenue growth of 15% in the most recent quarter, suggesting market share gains in both debt issuance and Mergers and Acquisition advisory. Shares were up 9% during the quarter as a result of these trends.

The portfolio's Energy holdings were among the weakest performers. Apache Corporation is an independent Exploration and Production (E&P) company with oil and gas production operations in the United States, Canada, Egypt, Australia, the North Sea, and Argentina. The company has a well balanced portfolio of oil/gas, land/off-shore, U.S./international productions, along with a solid balance sheet which gives it ability to make acquisitions or ramp up capital spending without taking on excessive debt. Shares of the company fell 9% in 4Q due to concerns about uncertainties in Egypt and Argentina disrupting Apache's operations. While these fears caused investors to reduce production and cash flow estimates and to discount the stock by approximately 20%, there have been no actual interruptions to any of the company's activities or operations in those countries. Apache is trading at an attractive valuation of 8X 2013 consensus earnings and 3X price to cash flow.

### AFLAC

Aflac

- Not your typical insurance company, Aflac is one of the largest supplemental health insurance providers in both the United States and Japan. The company's risk is limited as it insures very specific health hazards with fixed pay offs. It has been consistently more profitable than its insurance peers with ROE typically 18 to 20%.
- The company has a strong product/marketing team and constantly innovates to meet client needs, adapting its product offering to changing regulations and customer demands. In particular, sales in Japan continue to be strong as the company has focused on improving product design and directing sales towards higher-margin products. Its hybrid life/long-term care product saw 30% year-over-year growth in Japan.
- Shares rose 12% during the quarter as Aflac reported operating earnings per share ahead of consensus expectations.

### Boeing

BOEING

- Boeing is among the largest global aircraft manufacturers and also provides related support services to the commercial airline industry worldwide.
- During 2012, orders for Boeing commercial aircraft rose nearly 40% due to global demand for narrow-body aircraft, while deliveries increased 20% year over year as management increased aircraft production rates.
- Boeing dominates the market for long range, wide-body twinjets and continues to take market share from Airbus. Airlines operating the new 787 Dreamliner have seen operating cost savings in excess of 20% over the past 12 months.
- The stock was up 9% for the quarter as the company reported EPS 20% ahead of expectations.

### JPMorgan Chase

JPMorgan

- JPMorgan Chase & Co. is a leading global financial services firm with assets of $2 trillion and operations in more than 60 countries. With strong capital levels and stable funding sources, the firm is a leader in investment banking, commercial banking, brokerage, asset management, and private equity.
- The acquisitions of Bear Stearns and Washington Mutual during the last crisis provided JPMorgan dominant positions in both trading and retail banking. These activities not only translate into higher profit margins, but also provide for many cross-selling opportunities, serving to continuously reinforce the company's market position.
- The company's Investment Banking division saw revenue growth of 15% in the most recent quarter, suggesting market share gains in both debt issuance and Mergers and Acquisition advisory.
- Shares were up 9% during the quarter.

| Fund Totals | |
|---|---|
| Ending Portfolio Value | $19,711,501 |
| Estimated Annual Income | $391,596 |
| Yield on Equities | 2.1% |

OAK RIDGE
INVESTMENTS

# 2013 OUTLOOK

We continue to see a slowly growing economy with a backdrop of improving housing trends, low interest rates and improving business confidence as uncertainty over elections and the fiscal cliff fade. However, we are mindful of continued uncertainty due to intense political battles over government spending cuts, the debt ceiling authorization, as well as the impact of recent tax rate increases and the frailties in Europe. The outlook for equities continues to be favorable despite these tampered growth conditions due to stable to improving global economic conditions. Also, valuations are still below historical norms and particularly attractive net of cash. We continue to be focused on quality stock picks that will reward the patient investor over time.

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**PORTFOLIO SNAPSHOT AS OF 12-31-2012**

| | Pension Plan |
|---|---|
| Start Date | 2/22/2011 |
| Starting Market Value | $16,353,445.38 |
| Contributions | $479,453.28 |
| Withdrawals | $176,963.99 |
| Appreciation | $1,235,380.51 |
| Account Value: 12/31/2012 | $17,891,315.18 |

# Congratulations to our most recent DROP Members!

| | |
|---|---|
| Brian Arlotta | 09-30-2012 |
| Daren Bennett | 09-30-2012 |
| Craig Bryan | 09-30-2012 |
| Gregory Campbell | 09-30-2012 |
| Gerald Chaparro | 09-30-2012 |
| Augusto Chavez | 09-30-2012 |
| Carl Cooper | 09-30-2012 |
| Robert Garrett | 09-30-2012 |
| Eddie Guevarez | 09-30-2012 |
| Richard Halsey | 09-30-2012 |
| Jason Houston | 09-30-2012 |
| David Howard | 09-30-2012 |
| Joseph Luciano | 09-30-2012 |
| Garry Mason | 09-30-2012 |
| Wendy Morse | 09-30-2012 |
| David Salvador | 09-30-2012 |
| Kelly Tucker | 10-31-2012 |
| Ray Utecht | 10-31-2012 |
| Phillip Williams | 09-30-2012 |
| Stanley Woods | 09-30-2012 |


| | |
|---|---|
| James Chatman | 01-31-2013 |
| Kevin Coppin | 09-21-2012 |

THE BOARD OF TRUSTEES WELCOME OUR NEWEST MEMBERS. WE WISH YOU A SAFE AND REWARDING CAREER.

Brideau, Charles

Barquin, Jason

Chase, Christopher

Dickson, Terrance

Forbes, Ryan

Palladino, Nicola

Placeres, Kassandra

Vautin, Bryan

INTERCONTINENTAL
REAL ESTATE CORPORATION

**Brief Commercial Real Estate Market Update:**

Vacancies have improved for all property types form the peaks experienced during the recession.

Expect rents for office, apartments, and industrial to grow at 2-3% on annualized basis for the remainder of 2012 and into 2013; retail vacancy remains high so retail rents will likely be flat.

Further out rent inflation should gain additional momentum as the recovery accelerates and new supply of space remains low by historical standards.

Investment sales volume continues to improve; 19% increase year over year for Q3'12.

Recent purchases highlighted below

**Capital Commitment**
$9,211,297

**Capital Called**
$9,211,297

**Most Recent Capital Call Date**
1/19/12

**Dividends Reinvested to Date**
$427,273

**Net Asset Value**
$10,987,096

**Pro Rata Ownership**
1.884%

***500 Crocker Drive***
***Vacaville, CA***

- 582,900 SF industrial complex, 100% occupied
- The tenant, Mariani is the world's largest privately owned fruit processor
- 15-year lease contract extension guarantees stability

- **Investment Rationale:** Situated on a 45+ acre parcel, the property boasts extensive amenities including its own water well, two water storage tanks, guard house with truck scales, steam boiler, lighted parking, and an extensive solar farm which generates significant power for the facility.

***Madison St. & Racine Ave***
***Chicago, IL***

- 1.1 Acres of land located in the heart of downtown Chicago in the West Loop
- 9-story residential tower with 216 Class A apartment units, 227 parking spaces and 10,000 SF of ground retail

- **Investment Rationale:** The Chicago multifamily market remains stable as home purchases remain low and apartment communities lose fewer residents to home ownership. Oak Park is the perfect solution for those wanting to live in the suburbs without compromising any of the amenities offered by a big city.


Thanks Again to National Association of Police Organizations (NAPO) for this most recent offer.

Remember the CODE: **HPNAPO**

Scan the QR or follow the link

http://hobie.promotive.com/

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E-mail Comments and Suggestions to:

Email: info@wpbppf.com

Remember to keep us updated with your move!

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In Memoriam

The Board of Trustees are saddened to announce the death of Retirees

THOMAS J. WITHINGTON & RICHARD KNOWLES, JR.

Our thoughts and prayers are with their widows

MARY LOIS WITHINGTON & ANNIE M KNOWLES