West Palm Beach Police Pension News

A West Palm Beach Police Pension Fund Publication

Issue 24

Date of Issue:

First Quarter 2015

Inside this issue….

PONDER THIS!

REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT

QUARTERLY PENSION FUND SUMMARY

*To recap the prior quarter ending September 30, 2014, the rate of return for the Plan was –1.80%. While negative, that return placed the Plan in the **TOP 31** percentile of the investment universe. On a fiscal year basis, the Plan rate of return was 8.98%, which exceeded the assumed rate of return.*

On December 31, 2014 our fund had a total market value of $273,054,000. For the quarter the fund had investment gains of $7,723,000.

For the quarter the total fund return was 2.92% (net) placing it in the **TOP** 12 percentile of the investment universe; its benchmark return was 3.35%.

For the quarter the stock return was 3.38% and the benchmark return was 4.23%. The bond return was 1.41% and the benchmark return was 1.20%.

For the quarter end, the allocation of our fund was 64.9% invested in stocks, 21.9% in bonds, 9.1% in Real Estate, and 4.1% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds). Our ongoing target for investment in stocks is 65% of the total fund.

For the fiscal year-to-date, the Valley Forge large cap core stock return was 4.26%, the Garcia Hamilton & Associates large cap growth stock return was 5.44%, the BRC large cap value stock return was 3.35%, the Anchor mid-cap value stock return was 8.53%, the Oak Ridge mid cap growth stock return was 5.84%, the New Amsterdam SMID cap stock return was 7.84%, the GW Capital small cap value stock return was 4.46%, the Eagle small cap growth stock return was 8.44%, the WHV international stock return was -9.90%, the Vanguard international value stock return was -5.68%, the OFI emerging Markets International stock return was -6.68%, the Intercontinental Real Estate return was 3.84%, the J.P. Morgan Real Estate return was 3.78%, and the Garcia Hamilton & Associates aggregate fixed income return was 1.41%. The S&P 500 index return was 10.51%.

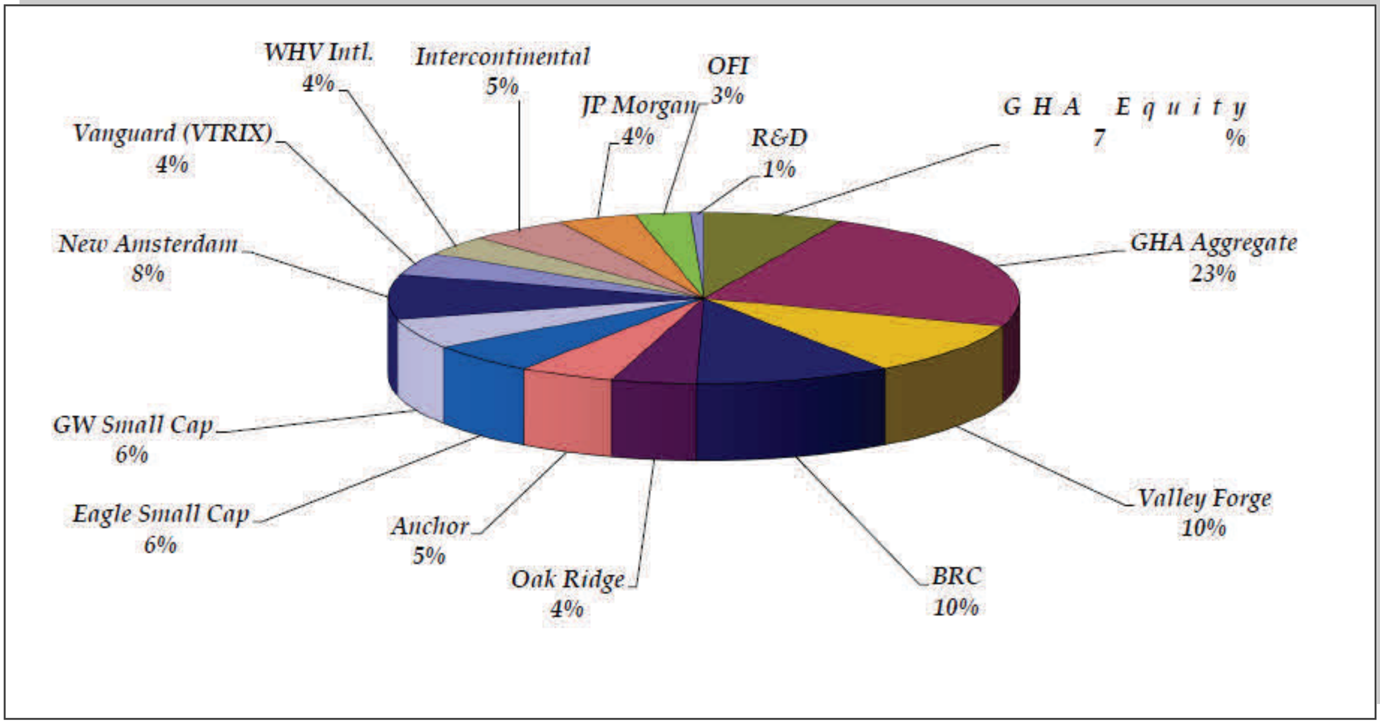
For the last year the best performing sector among S&P 500 stocks was Utilities which increased 24.29% and the worst sector was Energy which decreased 9.99%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 0.8% before seasonal adjustment for the twelve months ended in December. The Producer Price Index (PPI) for finished goods advanced 1.1% before seasonal adjustment for the twelve months ended in December.

The seasonally adjusted unemployment rate was 5.6% in December down from 5.9% in September. Real Gross Domestic Product (GDP) increased at an annual rate of 5.0% for the third quarter of 2014, compared with an increase of 4.6% in the second quarter of 2014.

Please remember a complete detail investment report can viewed on-line……

Track the Fund



Plan Asset Allocation & Diversification as of December 31, 2014

	Domestic Equities	Int'l Equities	Emerging Markets	Fixed Income	Real Estate	Cash	Total	% of Total
GHA Equity	$19,011,000					$467,000	$19,478,000	7.2%
GHA Aggregate				$62,846,000		$35,000	$62,881,000	23.1%
GHA Total							$82,359,000	30.3% 33.0%
Valley Forge	$26,546,000					$706,000	$27,252,000	10.0% 9.0%
BRC	$27,091,000					$313,000	$27,404,000	10.1% 9.0%
Oak Ridge	$11,560,000					$260,000	$11,820,000	4.3% 4.0%
Anchor	$12,053,000					$1,291,000	$13,344,000	4.9% 4.0%
Eagle Small Cap	$15,459,000					$142,000	$15,601,000	5.7% 5.0%
GW Small Cap	$14,762,000					$712,000	$15,474,000	5.7% 5.0%
New Amsterdam	$22,871,000					$113,000	$22,984,000	8.4% 8.0%
Vanguard (VTRIX)		$11,393,000				$1,000	$11,394,000	4.2% 5.0%
WHV Intl.		$9,529,000				$677,000	$10,206,000	3.8% 5.0%
Intercontinental					$13,736,000	$0	$13,736,000	5.0% 5.0%
JP Morgan					$10,973,000	$0	$10,973,000	4.0% 5.0%
OFI			$7,688,000			$0	$7,688,000	2.8% 3.0%
R&D						$1,820,000	$1,820,000	0.7% 0.0%
Totals	$149,353,000	$20,922,000	$7,688,000	$62,846,000	$24,709,000	$6,537,000	$272,055,000	100.0% 100.0%
% of Total	54.9%	7.7%	2.8%	23.1%	9.1%	2.4%	100.0%	
Target %	52.0%	10.0%	3.0%	25.0%	10.0%	0.0%	100.0%	

GHA	Eagle	Valley Forge	BRC	Oak Ridge
Apple	Natus Medical	Microsoft	Electronic Arts	Affiliated Mgr. Grp.
Walt Disney	Quaker Chemical	Cisco Systems	Aetna Inc.	Mallinckrodt
Blackrock Inc.	Imperva Inc.	General Electric	Kroger Co.	Penske Auto Grp.
Coca Cola	Genesco Inc.	Oracle Corp.	Constellation Brands	Ulta Beauty
CVS Health Corp	Universal Electronics	Procter & Gamble	Sealed Air Corp.	PRA Group
Goldman Sachs	Centene Corp.	Intel Corp.	Jones Lang Lasalle	Robert Half Intl.
Home Depot	Martin Marietta	Bank of America	Time Warner	Gartner
Express Scripts	Cavium Inc.	Du Pont E.I.	Goodyear Tire	Marriott Intl.
Qualcomm Inc.	Pantry Inc.	CSX Corp.	Suntrust Banks	O'Reilly Auto.
Baxter Intl.	Vitamin Shoppe	Sysco Corp.	Edison Intl.	Akorn Inc.

Top Ten Equity Holdings

Anchor	GW	New Amsterdam	OFI	Vanguard
Sun Cmntys. Inc.	Prestige Brands	Amtrust Financial	Baidu Inc.	Novartis AG
McKesson Cp.	Esterline Tech	Primerica Inc.	Tencent Hlds.	Sumitomo Mitsui
Alcoa Inc.	Kulicke & Soffa Ind.	Lithia Mtrs. Inc.	Novatek OAO	Samsung Elec.
Invesco Limited	Casey's General St.	Quaker Chem.	Yandex NV	KDDI Corp
First Amer. Financial	Portland General	Lakeland Financial	Magnit	BNP Paribas
Chubb Corp.	Unifirst Corp.	Buckle Inc.	Infosys Limited	Royal Dutch Shell SAP
Quest Diagnostics	Chemtura Corp.	United Stationers	Housing Dev. Fin.	Royal Bk. Scotland
TECO Energy	Sensient Tech.	HCI Group Inc.	Taiwan Semi.	Fresenius Medical
St. Jude Med. Inc.	Iberiabank Corp	Emergent Biosolu.	Carlsberg A/S	Taiwan Semi.
RPM Intl. Inc.	Clearwater Paper	DST Systems Inc.	America Movil SA	

STOCK SPOTLIGHT

Health Care REIT Inc. (Ticker = HCN)

Sector: Financials

Industry: Health Care REITs

Market Capitalization: $24.9 Billion

Health Care REIT, Inc. is a real estate investment trust. The Company's portfolio has range of seniors housing and healthcare real estate, including seniors housing communities, skilled nursing/post-acute facilities, medical office buildings, inpatient and outpatient medical centers and life science facilities. The Company operates in three segments: seniors housing triple-net, seniors housing operating and medical facilities. Its properties primarily consist of land, building, improvements and related rights. Demand for various types of senior housing and medical facilities should remain healthy in the coming years, as the elderly population is expected to increase significantly. Medical care is advancing rapidly and is becoming more widely available. HCN has been busy making investments, notably, in the U.K. which is a fast growing market. The REIT's strong balance sheet will support strategic transactions for future growth.

Hershey Company (Ticker = HSY)

Sector: Consumer Staples

Industry: Packaged Foods

Market Capitalization: $23.1 Billion

The Hershey Company is a producer of chocolate in North America and a provider in chocolate and sugar confectionery. The Company's principal product groups include chocolate and sugar confectionery products; pantry items, such as baking ingredients, toppings and beverages, and gum and mint refreshment products. It manufactures, markets, sells and distributes its products under more than 80 brand names. The Company markets its products in approximately 70 countries worldwide. Hershey has a dominant position in the confectionary sector with a growing pipeline. This firmly positions the Company for long term growth. Furthermore, HSY's global reach continues to expand at a healthy pace. A growing dividend and strong balance sheet are also a plus.

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.

IRS THROWS A CURVE

The Internal Revenue Service National Office issued a memorandum indicating that (1) defined contribution deferred retirement option programs are not defined contributions plans for purposes of applying the IRS limit on plan contributions and (2) the annual DROP deposits (that is, the annual sum of the monthly return of benefit adjustments credited to a particular DROP account) are not subject to the annual additions limitation applicable to defined contribution plans (See C&C Special Supplement Newsletter for January 8, 2015 and C&C Special Supplement Newsletter for January 13, 2015).

At the time, it was believed the memo resolved all the IRS issues relating to defined contribution DROPs (which refer to DROP accounts that are adjusted for the actual investment performance of a particular investment options). However, according to Florida attorney Rick Burke, the issue has not been completely resolved. Burke says the IRS National Office informed the IRS Cincinnati District Office (which is in charge of the governmental plans favorable determination letter project) that the memo was only intended to address application of the rules relating to the IRS limit on plan contributions/benefits and no other qualification requirement.

Unfortunately, due to the change in position reflected in the memo, the IRS Cincinnati District Office is now uncertain how DC DROP accounts satisfy the definitely determinable benefit requirement. Essentially, that rule requires the level of benefits must be determinable from an examination of the plan documents and from factors not within control of the sponsoring employer. Based on this concern, Burke says the Cincinnati District Office intends to request an explanation from representatives of the approximately 75 pending governmental plan favorable determination letter requests containing DC DROPs as to why these arrangements satisfy the definitely determinable benefit rule.

Based on the IRS National Office's former position, the definitely determinable benefit rule was not a concern. Thus, Burke says, this new problem stems solely from the change of position contained in the memo. It is very disturbing to receive guidance from the IRS National Office that DC DROPs are not subject to the annual additions limitation applicable to defined contribution plans, only to be subsequently informed that this position raises concerns with the determinable benefit rule!

The Board Thanks Steve Cypen for this contribution.

Retiree Corner

Congratulations to our latest Retirees

Brian T. Arlotta

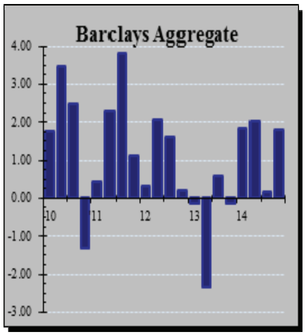
John P. Kelly

Chris Fragakis

Brian J. Gaudette

Maria V. Olsen

BOND MARKET - Investors Sought Safety in US Treasuries



Investment grade bonds reversed course from the lackluster 3rd quarter. Still, the fourth quarter turnaround was generally less dramatic than that of the stock market. The Barclays Aggregate Index advanced 1.8%. Treasuries, corporate debt, and mortgage-backed debt performed in line with the aggregate. Asset-backed securities (ABS) were up a fractional 0.6%, while commercial mortgage debt (CMBS) posted +1.3%.

The long maturity Treasury sector was the clear winner as Treasuries with maturities of 20-years and longer turned in an astounding 9.4%.

The Aggregate Index was well into positive territory for the full year, returning 6.0%. This performance beat both 2012 returns (+4.2%) and those of 2013 (-2.0%).

High yield/junk bonds disappointed investors again, as the Barclays High Yield Corporate Index was down 1% for the quarter. Those investors who took on more credit risk by buying lower credit ratings suffered more. BA-rated names, the highest grade of junk bonds, were the best performers, gaining 0.9%, while the lowest-rated CAA-D issues plunged almost 24%. Energy companies that had issued junk bonds were an important part of this market. These energy issues fell a whopping 10.6% due to falling oil prices, thereby hammering the entire junk bond market! For the year, the return for the High Yield Index was a modestly positive 2.5%.

Combined, the G-6 (G-7 x-US) Global Treasuries lost 3.3%. Canada, France, Germany, and Italy sovereign returns were closely packed, all falling between 1% and 2%. Japan's government debt fell more (-6.4%). The UK was the only country to gain ground (+2.6%). Full year return for the G-6 index was -3.5%.

The Board Thanks Dahab Associates for this review

DOMESTIC EQUITIES - *Positive Quarter and Double Digit Advances for the Year*

All of the popular market indices advanced in Q4. The bellwether S&P 500 and DJIA climbed 4.9% and 5.2%, respectively. The tech-laden NASDAQ gained a modestly higher 5.7%. Small caps experienced a strong turnaround, as the Russell 2000 Index added 9.7% and its growth stock component pushed slightly above 10%. Unlike earlier quarters, growth and value stocks marched up together, whether they were large-cap, mid-cap or small-cap. The one exception was in the liquid real estate market (REITs). That sector, viewed as part of the small-cap value space, rocketed up 12.9% in line with the economy's increasing strength. The overall domestic market, represented by the Russell 3000 Index, advanced 5.2%.

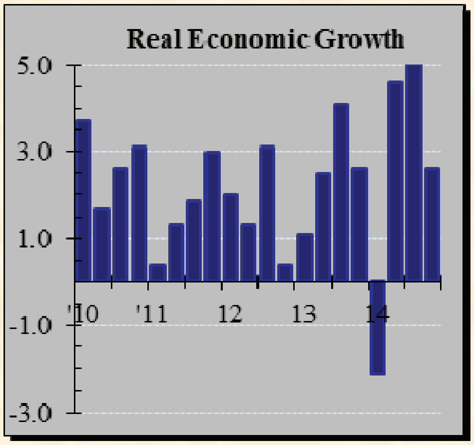
For the full year, large and mid-cap stocks gained double-digit returns. The Russell 1000 (large caps) and Russell Midcap Indices each added a healthy 13.2%. However, small-cap stocks trailed considerably, with the Russell 2000 Index posting a much lower 4.9%. Again, real estate was the sector that dazzled investors as the NAREIT Index shot up 28%.

S&P sector returns varied widely. At the top was the small-sized transportation sector where companies earned an average of 13.9%, a clear indicator of economic strength. Consumer service also performed well (+11.8%). Autos and other manufacturing helped propel consumer durables up 10.9%. Financials and tech companies (excluding computer technology) each earned more than 8%. Utilities, which were thought to be fully priced, climbed 6.7% more. Consumer non-durables were mixed, but collectively added 5.9%. Finally, it's no surprise that energy stock prices fell dramatically. The sector dropped 9.1%, after an 8.6% third quarter decline, reflecting pummeled oil prices. While investors grieved, consumers celebrated their good fortune as they filled up for the holiday travel season.

As of year-end, half of the S&P components saw dividend yields of 2% or less and a trailing year price/earnings ratio of 20x or greater. One could argue that the market has become fully priced.

ECONOMIC ENVIRONMENT - Looking Pretty Good

The second half of 2014 was a very bright period for the U.S. economy after a long sluggish recovery. That growth came in spite of several major issues, including economic malaise in both Europe and Japan, the horrific Ebola crisis and Russian intransigence. Rapidly falling oil and gas prices put extra cash into the hands of consumers and made for a better Christmas. The effect of the drop in gasoline prices equated to better than a $1,200 tax cut for the average American family and was the strongest stimulus since 2009.



Despite these issues (and in part because of them), the US economy expanded at its fastest rate since 1999. Q3 GDP grew at a 5% annual rate and the Q4 advance estimate came in at 2.6%. Growth was attributable to substantial job gains, growth in the manufacturing and service sectors, higher consumer confidence, and steady and reassuring Fed announcements. More details follow:

Real GDP growth in Q3 increased at a 5% annual rate – higher still than the prior quarter; however, the Q4 growth rate was 2.6%. A key driver was increased federal spending, particularly for defense. Personal consumption expenditures (PCE) also grew. Imports were down while exports were up, further spurring growth.

December payrolls rose by 252,000, as the unemployment rate fell to 5.6%. Just a year earlier, unemployment was at 6.7%; in fairness, part of the drop reflected those workers who stopped looking for work. For the full year, average job growth was 246,000 per month vs. 194,000 a year earlier. The only, yet important, downside was the data related to hourly wage rates. Wages have risen just 1.7% for the year, while economists had been hoping for a much stronger uptick. Without wage gains, personal consumption and consumer confidence are constrained.

Housing consultant CoreLogic reported that home prices gained 5.5% for the fiscal year ended November (latest data available). The five states with the highest year-over-year gains were Michigan (9.0%); Colorado (8.8%); Texas (8.5%); Nevada (7.9%); and North Dakota (7.9%). Nationally, however, prices remain roughly 13% below their April 2006 peak.

The Institute of Supply Management (ISM) reported continuing advances in both the manufacturing and service sectors of the economy. December marked the 19th consecutive month for manufacturing growth. The ISM Manufacturing Index registered 55.5% (greater than 50% represents expansion). Eleven manufacturing industries showed positive growth vs. seven that were contracting. The ISM Non-manufacturing Index (service index) recorded a 56.2% level – up for the 59th consecutive month. Twelve service industries experienced positive activity vs. five that contracted.

Consumer confidence grew modestly from November to December. The Consumer Confidence Index stands at 92.6. This was the highest reading in years, reflecting the consumer's favorable assessment of current economic and labor market conditions. As a result, the so-called Present Situation Index hit 98.6, its highest level since February 2008. Still, consumers remained cautious. For example, 27.7% of those surveyed still thought jobs were hard to find. Importantly, CEO confidence improved a bit in the 4th quarter.

CPI inflation remained low. Abundant agricultural and energy supplies helped to dampen retail prices. In addition, very small increases in real wages curtailed consumer demand. The December CPI actually dipped slightly (□0.6). For the year as a whole, consumer prices only rose 0.8%.

Certain industrial metals including nickel, zinc, and aluminum were the only commodities in the S&P/Goldman Sachs Commodity Index to advance in 2014 and the combined index slid 33.1% for the year. Most commodities fell dramatically. The steepest declines were in the energy sector, which fell an amazing 43%!

The Fed made good on its promise to end its bond purchasing program (QE3), designed to help boost lending activity and thereby strengthen the economy.

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices Ranked in Order of Performance (1995–2014)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
S&P 500 Growth 38.13%	S&P 500 Growth 23.97%	S&P 500 Growth 36.52%	S&P 500 Growth 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	Barclays Agg 10.26%	MSCI Emerging Markets 56.28%	MSCI Emerging Markets 25.95%
S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	Russell 2000 Growth 43.09%	Barclays Agg 11.63%	Barclays Agg 8.43%	Barclays Corp High Yield -1.41%	Russell 2000 Growth 48.54%	Russell 2000 Value 22.25%
S&P 500 Value 36.99%	S&P 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P 500 Growth 28.24%	S&P 500 Value 6.08%	Barclays Corp High Yield 5.28%	MSCI Emerging Markets -6.00%	Russell 2000 47.25%	MSCI EAFE 20.25%
Russell 2000 Growth 31.04%	Russell 2000 Value 21.37%	S&P 500 Value 29.98%	S&P 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 -3.02%	Russell 2000 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 46.03%	Russell 2000 18.33%
Russell 2000 28.45%	Russell 2000 16.49%	Russell 2000 22.36%	Barclays Agg 8.70%	Russell 2000 21.26%	Barclays Corp High Yield -5.86%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	MSCI EAFE 38.59%	S&P 500 Value 15.71%
Russell 2000 Value 25.75%	Barclays Corp High Yield 11.35%	Russell 2000 Growth 12.95%	Barclays Corp High Yield 1.87%	S&P 500 21.04%	S&P 500 -9.11%	Russell 2000 Growth -9.23%	Russell 2000 -20.48%	S&P 500 Value 31.79%	Russell 2000 Growth 14.31%
Barclays Corp High Yield 19.18%	Russell 2000 Growth 11.26%	Barclays Corp High Yield 12.76%	Russell 2000 Growth 1.23%	S&P 500 Value 12.73%	MSCI EAFE -14.17%	S&P 500 Value -11.71%	S&P 500 Value -20.85%	Barclays Corp High Yield 28.97%	Barclays Corp High Yield 11.13%
Barclays Agg 18.46%	MSCI EAFE 6.05%	Barclays Agg 9.64%	Russell 2000 -2.55%	Barclays Corp High Yield 2.39%	S&P 500 Growth -22.08%	S&P 500 -11.89%	S&P 500 -22.10%	S&P 500 28.68%	S&P 500 10.88%
MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	Barclays Agg -0.82%	Russell 2000 Growth -22.43%	S&P 500 Growth -12.73%	S&P 500 Growth -23.59%	S&P 500 Growth 25.66%	S&P 500 Growth 6.13%
MSCI Emerging Markets -5.21%	Barclays Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.26%	Barclays Agg 4.10%	Barclays Agg 4.34%

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
MSCI Emerging Markets 34.54%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 39.78%	Barclays Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	Barclays Agg 7.84%	MSCI Emerging Markets 18.63%	Russell 2000 Growth 43.30%	S&P 500 Growth 14.89%
MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Barclays Corp High Yield -26.16%	Barclays Corp High Yield 58.21%	Russell 2000 26.85%	Barclays Corp High Yield 4.98%	Russell 2000 Value 18.05%	Russell 2000 38.82%	S&P 500 13.69%
S&P 500 Value 5.82%	Russell 2000 Value 23.48%	S&P 500 Growth 9.13%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 24.50%	S&P 500 Growth 4.65%	S&P 500 Value 17.68%	Russell 2000 Value 34.52%	S&P 500 Value 12.36%
S&P 500 4.91%	S&P 500 Value 20.81%	Russell 2000 Growth 7.05%	Russell 2000 -33.79%	MSCI EAFE 31.78%	MSCI Emerging Markets 19.20%	S&P 500 2.11%	MSCI EAFE 17.32%	S&P 500 Growth 32.75%	Barclays Agg 5.97%
Russell 2000 Value 4.71%	Russell 2000 18.37%	Barclays Agg 6.97%	S&P 500 Growth -34.92%	S&P 500 Growth 31.57%	Barclays Corp High Yield 15.12%	S&P 500 Value -0.48%	Russell 2000 16.35%	S&P 500 32.39%	Russell 2000 Growth 5.60%
Russell 2000 4.55%	S&P 500 15.79%	S&P 500 5.49%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 Value 15.10%	Russell 2000 Growth -2.91%	S&P 500 16.00%	S&P 500 Value 31.99%	Russell 2000 4.89%
Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P 500 Value 1.99%	Russell 2000 Growth -38.54%	S&P 500 26.47%	S&P 500 15.06%	Russell 2000 -4.18%	Barclays Corp High Yield 15.81%	MSCI EAFE 22.78%	Russell 2000 Value 4.22%
S&P 500 Growth 4.00%	Barclays Corp High Yield 11.85%	Barclays Corp High Yield 1.87%	S&P 500 Value -39.22%	S&P 500 Value 21.17%	S&P 500 Growth 15.05%	Russell 2000 Value -5.50%	S&P 500 Growth 14.61%	Barclays Corp High Yield 7.44%	Barclays Corp High Yield 2.45%
Barclays Corp High Yield 2.74%	S&P 500 Growth 11.01%	Russell 2000 -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%	Russell 2000 Growth 14.59%	Barclays Agg -2.02%	MSCI Emerging Markets -1.82%
Barclays Agg 2.43%	Barclays Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	Barclays Agg 5.93%	Barclays Agg 6.54%	MSCI Emerging Markets -18.17%	Barclays Agg 4.21%	MSCI Emerging Markets -2.27%	MSCI EAFE -4.90%

The Callan Periodic Table of Investment Returns conveys the strong ***case for diversification*** across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalizations (large vs. small), and equity markets (U.S. vs. international). The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance, as returns for the top-performing asset class span a wide range over the past 20 years.

A printable copy of The Callan Periodic Table of Investment Returns is available on our website at ***www.callan.com****.*

Callan | **Knowledge. Experience. Integrity.**

The Callan Periodic Table of Investment Returns 1995–2014

Callan's Periodic Table of Investment Returns depicts annual returns for 10 asset classes, ranked from best to worst performance for each calendar year. The asset classes are color-coded to enable easy tracking over time. We describe the well-known, industry-standard market indices that we use as proxies for each asset class in the text below.

Barclays Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index) includes U.S. government, corporate, and mortgage-backed securities with maturities of at least one year.

Barclays High Yield Bond Index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt.

MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.

MSCI Emerging Markets is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.

Russell 2000 measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX, and NASDAQ.

Russell 2000 Value and Russell 2000 Growth measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

S&P 500 measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX, and NASDAQ. The weightings make each company's influence on the Index performance directly proportional to that company's market value.

S&P 500 Growth and S&P 500 Value measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 Index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.

Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on more than $1.8 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

Corporate Headquarters
San Francisco 800.227.3288

Regional Consulting Offices
Atlanta 800.522.9782
Chicago 800.999.3536
Denver 855.864.3377
Summit 800.274.5878

www.callan.com

KLAUSNER KAUFMAN JENSEN & LEVINSON

A PARTNERSHIP OF PROFESSIONAL ASSOCIATIONS
ATTORNEYS AT LAW

MEMORANDUM

To: Board of Trustees

From: Bonni S. Jensen

Subject: State Law Update - Senate Bill 172 and Senate Bill 242

Date: January, 2015

The Florida 2015 Legislative Session will begin on March 3rd. Two bills have been filed in the Senate which provides for changes to Florida Statutes Chapters 112, 175, and 185.

Changes to Florida Statutes §§112.63 and 112.664 - SB 242

This proposed bill will require all governmental pension plans to use the mortality table being used by the Florida Retirement System ("FRS"). Additionally, it changes the reporting requirements under SB 534 to also require reporting based upon the FRS mortality table.

Changes to Florida Statutes Chapters 175/185 - SB 172

In essence, the changes provide for the use of future Chapter money (including currently accumulated unallocated dollars) to offset municipal contributions and to establish share account plans for the members. The changes are described below.

1. 175.021 and 185.01 Legislative declaration.— Amends provisions to establish that all municipal and special district pension plans must meet required benefits and minimum standards of 175/185 to be eligible to receive a distribution of insurance premium tax revenues under the law.

2. 175.032 and 185.02 Definitions.— Amends definitions as follows:

    a. Adds definition of "Additional premium tax revenues" which means revenues received by a municipality or special fire control district pursuant to s. 175.121 /185.10 which exceed base premium tax revenues.

10059 Northwest 1st Court, Plantation, Florida 33324

Phone: (954) 916-1202 • Fax: (954) 916-1232
www.robertdklausner.com

b. Adds definition of “Base premium tax revenues” which means revenues received by a local law municipality or special fire control district in effect on October 1, 1998 pursuant to s. 175.121 /185.10 equal to the amount of such revenues received for calendar year 1997. This is the original “frozen chapter money.” For a local law plan created between October 1, 1998 and March 1, 2015, “base premium tax revenues” means tax collections received in the second year of participation.

c. For police only, eliminating the 300 hour minimum for overtime to be included in the definition of “compensation” or “salary" and providing for limitations on overtime prior to July 1, 2011 in accordance with the Plan provisions.

d. Adds a definition of “Defined contribution plan” which means a component of a local law defined benefit plan to which deposits are made to provide benefits for firefighters and police officers. The defined benefit plan must meet the required benefits and minimum standards of the chapter.

e. Redefines “Local law plan” to require both a defined benefit plan component and a defined contribution plan component.

f. Adds a definition of "Minimum benefits" which means those benefits provided for in Florida Statutes 175.021-175.341 and 175.361-175.401 / 185.01-185.341 and 185.37-185.50.

g. Adds a definition of "Minimum standards" which means standards set forth in Florida Statutes 175.021-175.401 / 185.01-185.50.

h. Adds a definition of "Special Act Plan" which means a plan subject to provisions of Chapter 175/185, created by an act of the legislature and requires state legislative amendment.

i. Adds a definition of “Special benefits” which means benefits provided in a defined contribution plan for firefighters/police officers.

j. Amends definition of “Supplemental plan” to provide that any supplemental plan in existence on March 1, 2015 shall be deemed a defined contribution plan.

3. 175.071(7)/185.06(6) General powers and duties of board of trustees is amended to provide that the actuary used by the Board must be an "enrolled" actuary as defined by the law.

4. 175.091/185.07 Creation and maintenance of fund. Provides for the funding of the Plans as follows:

   (1) The firefighters'/police officers' pension trust fund in each municipality and in each special fire control district shall be created and maintained in the following manner:

      (d) By payment by the municipality or other sources of a sum equal to the normal cost and the amount required to fund any actuarial deficiency shown by an actuarial valuation conducted under ~~as provided in~~ part VII of chapter 112 after taking into account the amounts described in paragraphs (b), (c), (e), (f), and (g) and the tax proceeds described in paragraph (a) which are used to fund defined benefit plan benefits.

      Note: Paragraph (b) is member contributions; Paragraph (c) is fines and forfeitures of the members for pension fund rule violations; Paragraph (e) is gifts, bequests, and devises donated to the fund; Paragraph (f) is "accretions" to the fund by way of interest or dividends; Paragraph (g) is all other sources.

5. 175.162/185.16 deletes requirement for incremental funding of minimum benefits and adds a 2.75% multiplier as a minimum benefit. If the plan does not have a 2.75% multiplier, then the multiplier does not have to be increased to that level, but the current multiplier cannot be reduced. Additionally, if the multiplier is increased to 2.75% or higher, then the multiplier cannot later be reduced below the 2.75%. This section is effective July 1, 2015.

6. 175.351/185.35 Municipalities and special fire control districts having their own pension plans for firefighters. The new language:

   - Clarifies that if the municipality/special district meets the minimum benefits and minimum standards, it is entitled to participate in the shares of the 175/185 money.
   - Explains how the 175/185 dollars are to be allocated, for non-collectively bargained plans, effective October 1, 2015 or for collectively bargained plans, effective upon the entry into a collective bargaining agreement on or

after July 1, 2015.
  - the premium tax income must be placed into the plan as an integral part to fund benefits exclusively for firefighters/police officers.
  - base premium tax revenues (see definitions section) are to be used to fund minimum benefits or agreed benefits in excess of minimum.
  - Premium tax revenues in excess of that received in calendar year 2012 will be used:
    - 50% used to fund minimum benefits (will offset employer contributions); and
    - 50% to fund defined contribution plan special benefits.
- Additional premium tax revenues not already allocated are to be used to fund benefits not included in the minimum benefits. This language seems to refer to increases in premium tax dollars received between 1997 and 2013 which are to be allocated to benefits passed after March 12, 1999. If these revenues exceed the full annual cost of the benefits in excess of the minimum benefits, then the excess is to be used 50% to offset employer costs and 50% for defined contribution plan special benefits.
- Any accumulations of premium tax dollars which have not been applied to benefits in excess of the minimums must be allocated 50% to offset unfunded and 50% to special benefits. Once the unfunded is paid, then all excess accumulations go to special benefits.
- Plans created after March 1, 2015 must use up to 50% to fund the defined benefit components of the new plan and the remainder is to be used for special benefits.
- Benefits offered in excess of minimum benefits may be reduced if the plan meets the minimum benefits and minimum standards (including the 2.75% multiplier), except that no supplemental benefits in effect on September 30, 2014 may be reduced. The premium tax dollars that had been used to fund the now reduced benefit improvements are to be allocated like the post calendar year 2013 premium taxes.
- Notwithstanding any of the allocation scheme, the parties (the Union or a majority of the firefighters/police officers and the municipality or special fire control district) may agree to their own allocation scheme, including accumulated additional premium tax revenues, provided the plan continues to meet the minimum benefits and minimum standards of the law.
  - If minimums are not met, the benefits do not have to be improved for the benefits in place on October 1, 2012, but they cannot be decreased.
  - Special act or supplemental plans are considered to have agreed to such a deviation as of July 1, 2015 regarding the existing

Board of Trustees

State Law Update - Senate Bill 172 and Senate Bill 242
January 9, 2015
Page 5 of 5

arrangement for the use of the premium taxes.

- Definition of “Additional Premium Tax Revenue” and “Extra Benefits” are deleted.
- Definition of “Supplemental Plans” is maintained as are the exceptions for the definition of salary or compensation and the board make up.
- Requires creation of the defined contribution plan component by October 1, 2015 for local plans or upon entering into a collective bargaining agreement after July 1, 2015.
- A municipality or special district that has implemented or proposed changes based on reliance on a “Naples letter” after August 14, 2012 but before March 4, 2015 may continue with such changes. “Reliance” must be evidenced by formal correspondence between the municipality/special district and the department which describes the specific changes to the local law plan dated before March 4, 2015. These changes which are contrary to Chapters 175/185 can remain in effect until the earlier of October 1, 2018 or the effective date of the next collective bargaining agreement.

7. The Legislature finds that a proper and legitimate state purpose is served when employees and retirees of this state and its political subdivisions, and the dependents, survivors, and beneficiaries of such employees and retirees, are extended the basic protections afforded by governmental retirement systems that provide fair and adequate benefits and that are managed, administered, and funded in an actuarially sound manner as required under s. 14, Article X of the State Constitution and part VII of chapter 112, Florida Statutes. Therefore, the Legislature determines and declares that this act fulfills an important state interest.

8. A July 1, 2015 effective date is proposed.

The bills will continue to be monitored and the status will be reported.

CHALLENGES FOR REFORMING GOVERNMENT PENSIONS

The Urban Institute has released a research report entitled "Reforming Government Pensions to Better Distribute Benefits." Efforts to reform the retirement plans provided to state and local government employees are gaining momentum across the country. From 2009 to 2011, 43 states significantly revised their state retirement plans. Ten states made major structural changes to their plans in 2012. More recent reforms have passed in such states as Kentucky, Tennessee and Illinois. These initiatives have been driven primarily by financial concerns. The 2007 financial crisis depleted much of the reserves held by many state and local plans. By their own accounting, plans had set aside enough funds in 2012 to cover only about three-quarters of their future obligations. Absent any reforms, this funding gap may force state and local governments to increase their payment to pension funds, raising pressure on government budgets and threatening to crowd out other public services or lead to tax hikes. This report highlights promising reform options that could more fairly distribute retirement benefits across the public sector workforce, and help governments recruit and retain productive employees. The report begins by describing how traditional plans work and how they distribute benefits across the workforce. The author then identifies various reform options ~ such as extending Social Security to all government employees (many of whom are currently uncovered), changing the benefit formula in traditional retirement plans and pursuing alternative plan designs ~ that could improve the fair distribution of benefits. The final section discusses various challenges to pension reform:

States and localities can take a number of steps to improve the distribution of retirement benefits offered to public-sector employees, make retirement plans more appealing to young workers, and create better retention incentives. However, they face several obstacles. The most promising pension reforms would not improve benefits for every public-sector employee. Rather, certain government workers, especially very long-term employees and employees who begin public service relatively late in their lives, would experience benefit cuts. These groups would likely oppose such reforms. Any proposed changes to pension benefits are sometimes viewed as a subterfuge for cutting benefits, even if average benefits remain unchanged, generating further political opposition. Some reforms we have outlined would require governments to fully fund state and local retirement plans. But state and local governments may prefer the option they currently hold to defer pension funding when budgets are tight. Additionally, pension reform is complicated and does not directly affect the lives of most taxpayers. Thus, it is often difficult to galvanize public opinion around the issue and force change.

A key question for reform involves how incumbent employees would be treated. Most reforms have grandfathered existing workers, leaving their benefits unchanged and changing plan provisions only for new hires. As a result, most reforms do not have much immediate impact on plan finances. More importantly, shielding incumbent workers from any reforms creates different classes of employees, which violates norms of basic fairness and may create morale problems.

Source: Cypen.com

Office & Mailing Address
2100 North Florida Mango Road
West Palm Beach, Florida 33409

Phone: 561.471.0802
Fax: 561.471.5027

E-mail Comments and Suggestions to:

Email: info@wpbppf.com

IS YOUR BENEFICIARY FORM CURRENT ?

If not, please protect your loved ones.

Complete and submit an updated beneficiary form to your plan administrator.

Forms are available on-line.

http://wpbppf.com/docs/penDocs/BeneficiaryDesignationFormWPBPPF_120831.pdf#zoom=100

In Closing....

In Memoriam

The Board of Trustees sadly announces the passing of Jean Cook (Beneficiary of Willard Cook) & Roy Winebrenner (Retiree).

Join the Board by keeping their respective families in our thoughts and prayers.

Supplemental Distributions

There will be no 13th check this year as the plan did not have a net actuarial gain last fiscal year.

Tax Withholding Changes

Member please remember it is tax time again and you may wish to change your withholding. The W-4P may be found on-line or by calling the office. The form must be received by the 15th of the month in order to make the change for next month.

1099R

All 1099R's were sent out by our bank by January 31, 2015 for the prior calendar year. If you did not receive your copy of if you have any other issue please let us know. We are here to assist you!

CLEVER

I want my children to have all the things I could not afford. Then I want to move in with them.
- Phyllis Diller

Did you know?

What do bulletproof vests, fire escapes, windshield wipers and laser printers have in common? All were invented by women.