Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 42

Date of Issue:

Second Quarter 2012

Inside this issue:

Long Term Results	2
Track The Fund	3
Stock Spotlight	4
Retiree Corner	5
Tax Scams	6-8
NCPERS Study	9-10
In Closing	16

The Board of Trustees would like to recognize the efforts of Inverness Counsel....

Fixed Income Returns for the last five years have been ranked in the TOP 5%.

Keep up the great work!

PENSION FUND INVESTMENT SUMMARY

On March 31, 2012 our fund had a total market value of $233,398,000. For the quarter the fund gained $15,570,000. For the quarter the total fund return was 7.17% (net) and its benchmark return was 6.50%. In the previous quarter the fund return was 6.48%. For the quarter the stock return was 13.06% and the benchmark return was 12.86%. The bond return was 1.59% and the benchmark return was 0.38%.

For the quarter the average allocation of our fund was 51.4% invested in stocks, 45.0% in bonds and 3.6% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds and Israeli bonds). Our ongoing target for investment in stocks is 50% of the total fund.

Fiscal Year to Date

(10/1/2011 – 3/31/2012)

For the fiscal year to date the total fund return was 14.12% (net) and its benchmark return was 13.47%. The stock return was 27.45% and the benchmark return was 26.56%. The bond return was 2.86% and the benchmark return was 1.38%.

For the fiscal year to date the Inverness large cap stock return was 29.36%, the Garcia Hamilton & Associates growth stock return was 25.86%, the Buckhead value stock return was 22.26%, the Eagle small cap stock return was 24.95% and the Rhumbline mid-cap stock index return was 28.21%. The S&P 500 index return was 25.89%.

Major Economic Indicators

For the quarter the best performing sector among S&P 500 stocks was Financials which increased 21.46% and the worst sector was Utilities which decreased 2.68%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 2.7% before seasonal adjustment for the twelve months ended in March.

The Producer Price Index (PPI) for finished goods advanced 2.8% before seasonal adjustment for the twelve months ended in March.

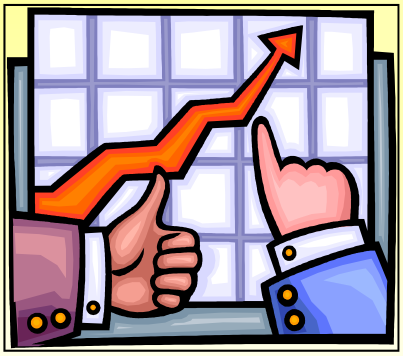
The seasonally adjusted unemployment rate was 8.2% in March compared to 8.5% in December.

Real Gross Domestic Product (GDP) increased at an annual rate of 3.0% for the fourth quarter of 2011, compared with an increase of 1.8% in the third quarter.

During the first 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.

Remember: A complete investment report is available on-line.

Total Fund Summary



Since September 30, 1992 the fund has an average rate of return of 7.45% (net) per year. For the last five years the total fund return was 4.33% (net) per year, which out-performed the overall combined stock and bond benchmark return of 4.19%. For the last three years the total return was 14.31% and the benchmark return is 15.33%. For the last year the total return was 5.68% and the benchmark return was 7.29%.

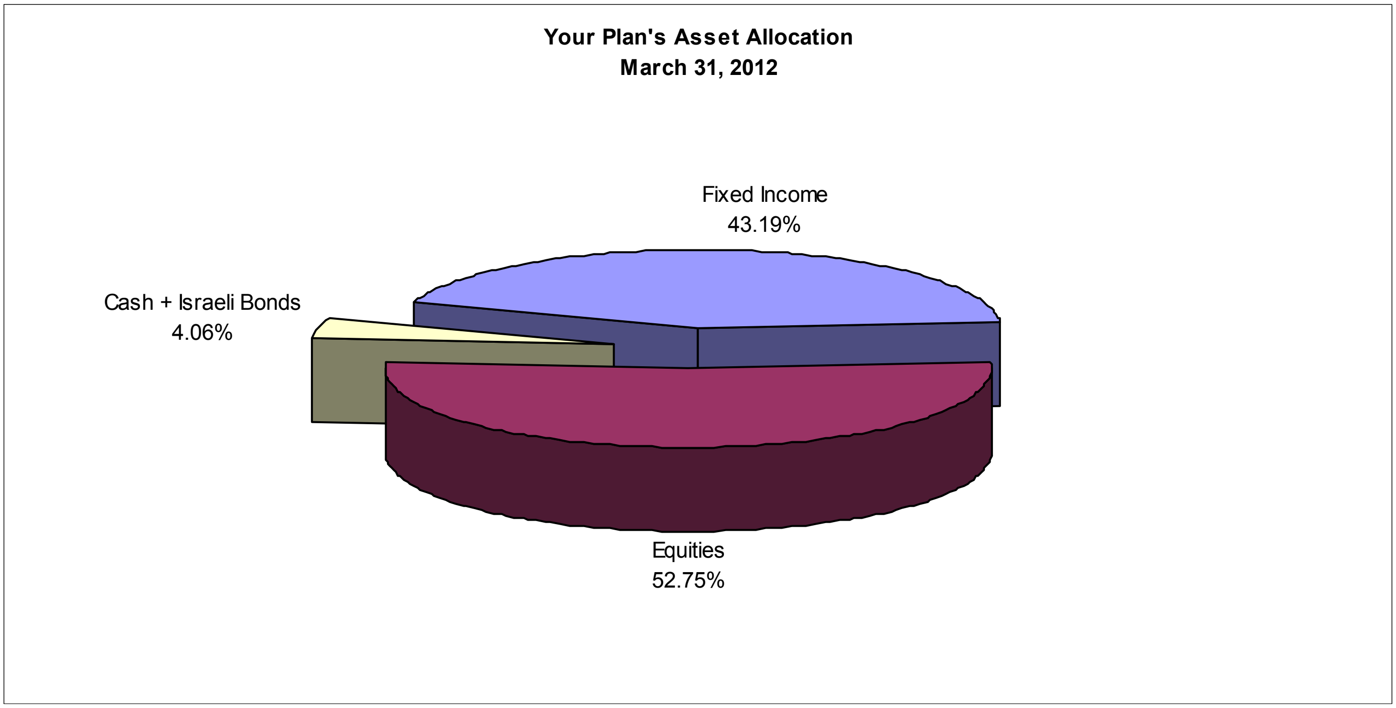
For the last five years the stock return is 3.50% and the bond return is 7.00%. For the last three years the stock return is 21.89% and bond return is 8.11%. For the year the stock return is 5.10% and bond return is 7.99%.

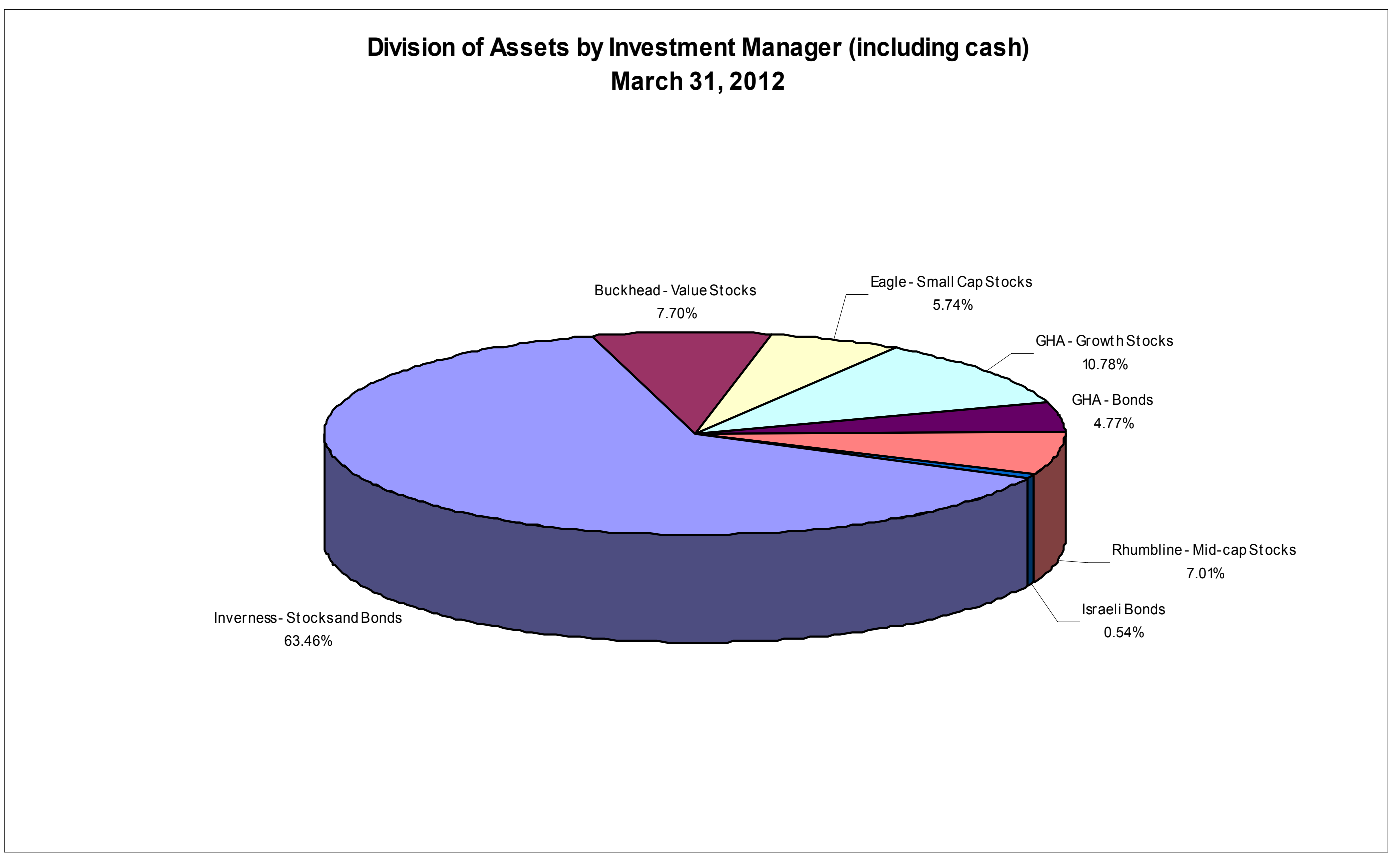
The Total Fund was in the TOP 12% of the investment universe for 5 year return!

Top Ten Stocks

INVERNESS	GARCIA HAMILTON	EAGLE SMALL CAP	BUCKHEAD	RHUMBLINE
Microsoft	Apple Inc.	Aspen Technology	Cisco	Monster Beverage
Roper	IBM	IAC / InterActive	Microsoft	Regeneron Pharma.
McDonald's	Microsoft	Macquarie	PepsiCo	Vertex Pharma.
US Bancorp	Qualcomm	Graphic Packaging	Staples	Kansas City South.
Qualcomm	Grainger	Acacia Research	Exxon Mobil	Ametek
National Oilwell	Coca Cola	Cardtronics	GE	Macerich Co.
Cognizant Tech.	Occidental Petroleum	ICU Medical	Lockheed Martin	Equinix
Deere & Co.	Exxon Mobil	Cogent Comm.	US Bancorp	Church & Dwight
PepsiCo	Roper Industry	Dorman Products	Pfizer	Fossil Inc.
Baxter Int'l.	Google	John Wiley & Sons	Blackrock Inc.	Henry Schein

Track The Fund!





STOCK SPOTLIGHT

Celgene Corporation (Ticker = CELG)

Sector: Health Care

Industry: Pharmaceuticals & Biotechnology

Market Capitalization: $31.0 Billion

Celgene Corporation is a global biopharmaceutical company. The Company focuses on the discovery, development, and commercialization of therapies designed to treat cancer and immune-inflammatory related diseases. We initiated a position in this biotech company as its key cancer drug Revlimid, which is seeing usage grow across both cancer indications and geographic markets. Demand for this drug positions the Company well within the Health Care sector to perform in a constructive market where investors are not turning to Health Care names purely as an overall defensive move.

Blackrock (Ticker = BLK)

Sector: Financials

Industry: Asset Managers

Market Capitalization: $30 Billion

BlackRock is the largest publicly traded investment management firm with over $3.3 trillion in assets under management. The firm employs more than 10,200 professionals in 27 countries around the world. Their offerings cover equities, fixed income, multi-asset class, alternative investments, and cash management. Products are offered directly and through intermediaries in mutual funds, iShares ETFs, investment trusts, and separate accounts. We expect the company to leverage advantages in distribution and development into sustainable earnings growth. BlackRock has historically been very disciplined in its capital allocation. At the time we purchased the stock at a compelling valuation in the fourth quarter, it offered a 3.2% dividend yield.

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.

Retiree Corner

Congratulations to our latest Retirees

Carlos Negron	*03-30-2012*
John Nevins	*04-01-2012*
Kevin Murphy	*04-05-2012*
Cynthia Bates	*04-30-2012*
Danzell Brooks	*04-30-2012*
Lawrence Burgess	*04-30-2012*
Kathy Wilde	*04-30-2012*
Jeffrey Walters	*05-14-2012*
Louis Granteed	*06-14-2012*
Dwight Baldwin	*06-30-2012*
James Weatherford III	*06-30-2012*
Joseph Healey	*07-08-2012*

IRS Releases the Dirty Dozen Tax Scams for 2012

IR-2012-23

WASHINGTON –– The Internal Revenue Service today issued its annual "Dirty Dozen" ranking of tax scams, reminding taxpayers to use caution during tax season to protect themselves against a wide range of schemes ranging from identity theft to return preparer fraud.

The Dirty Dozen listing, compiled by the IRS each year, lists a variety of common scams taxpayers can encounter at any point during the year. But many of these schemes peak during filing season as people prepare their tax returns.

"Taxpayers should be careful and avoid falling into a trap with the Dirty Dozen," said IRS Commissioner Doug Shulman. "Scam artists will tempt people in-person, on-line and by e-mail with misleading promises about lost refunds and free money. Don't be fooled by these scams."

Illegal scams can lead to significant penalties and interest and possible criminal prosecution. The IRS Criminal Investigation Division works closely with the Department of Justice to shutdown scams and prosecute the criminals behind them.

The following is the Dirty Dozen tax scams for 2012:

Identity Theft

Topping this year's list Dirty Dozen list is identity theft. In response to growing identity theft concerns, the IRS has embarked on a comprehensive strategy that is focused on preventing, detecting and resolving identity theft cases as soon as possible. In addition to the law-enforcement crackdown, the IRS has stepped up its internal reviews to spot false tax returns before tax refunds are issued as well as working to help victims of the identity theft refund schemes.

Identity theft cases are among the most complex ones the IRS handles, but the agency is committed to working with taxpayers who have become victims of identity theft. The IRS is increasingly seeing identity thieves looking for ways to use a legitimate taxpayer's identity and personal information to file a tax return and claim a fraudulent refund. An IRS notice informing a taxpayer that more than one return was filed in the taxpayer's name or that the taxpayer received wages from an unknown employer may be the first tip off the individual receives that he or she has been victimized.

The IRS has a robust screening process with measures in place to stop fraudulent returns. While the IRS is continuing to address tax-related identity theft aggressively, the agency is also seeing an increase in identity crimes, including more complex schemes. In 2011, the IRS protected more than $1.4 billion of taxpayer funds from getting into the wrong hands due to identity theft.

In January, the IRS announced the results of a massive, national sweep cracking down on suspected identity theft perpetrators as part of a stepped-up effort against refund fraud and identity theft. Working with the Justice Department's Tax Division and local U.S. Attorneys' offices, the nationwide effort targeted 105 people in 23 states.

Anyone who believes his or her personal information has been stolen and used for tax purposes should immediately contact the IRS Identity Protection Specialized Unit. For more information, visit the special identity theft page at www.IRS.gov/identitytheft.

Phishing

Phishing is a scam typically carried out with the help of unsolicited email or a fake website that poses as a legitimate site to lure in potential victims and prompt them to provide valuable personal and financial information. Armed with this information, a criminal can commit identity theft or financial theft.

If you receive an unsolicited email that appears to be from either the IRS or an organization closely linked to the IRS, such as the Electronic Federal Tax Payment System (EFTPS), report it by sending it to phishing@irs.gov.

It is important to keep in mind the IRS does not initiate contact with taxpayers by email to request personal or financial information. This includes any type of electronic communication, such as text messages and social media channels. The IRS has information that can help you protect yourself from email scams.

Return Preparer Fraud

About 60 percent of taxpayers will use tax professionals this year to prepare and file their tax returns. Most return preparers provide honest service to their clients. But as in any other business, there are also some who prey on unsuspecting taxpayers.

Questionable return preparers have been known to skim off their clients' refunds, charge inflated fees for return preparation services and attract new clients by promising guaranteed or inflated refunds. Taxpayers should choose carefully when hiring a tax preparer. Federal courts have issued hundreds of injunctions ordering individuals to cease preparing returns, and the Department of Justice has pending complaints against many others.

In 2012, every paid preparer needs to have a Preparer Tax Identification Number (PTIN) and enter it on the returns he or she prepares.

Please continue to next page of this publication

Signals to watch for when you are dealing with an unscrupulous return preparer would include that they:

- Do not sign the return or place a Preparer Tax identification Number on it.
- Do not give you a copy of your tax return.
- Promise larger than normal tax refunds.
- Charge a percentage of the refund amount as preparation fee.
- Require you to split the refund to pay the preparation fee.
- Add forms to the return you have never filed before.
- Encourage you to place false information on your return, such as false income, expenses and/or credits.

For advice on how to find a competent tax professional, see Tips for Choosing a Tax Preparer.

Hiding Income Offshore

Over the years, numerous individuals have been identified as evading U.S. taxes by hiding income in offshore banks, brokerage accounts or nominee entities, using debit cards, credit cards or wire transfers to access the funds. Others have employed foreign trusts, employee-leasing schemes, private annuities or insurance plans for the same purpose.

The IRS uses information gained from its investigations to pursue taxpayers with undeclared accounts, as well as the banks and bankers suspected of helping clients hide their assets overseas. The IRS works closely with the Department of Justice to prosecute tax evasion cases.

While there are legitimate reasons for maintaining financial accounts abroad, there are reporting requirements that need to be fulfilled. U.S. taxpayers who maintain such accounts and who do not comply with reporting and disclosure requirements are breaking the law and risk significant penalties and fines, as well as the possibility of criminal prosecution.

Since 2009, 30,000 individuals have come forward voluntarily to disclose their foreign financial accounts, taking advantage of special opportunities to bring their money back into the U.S. tax system and resolve their tax obligations. And, with new foreign account reporting requirements being phased in over the next few years, hiding income offshore will become increasingly more difficult.

At the beginning of this year, the IRS reopened the Offshore Voluntary Disclosure Program (OVDP) following continued strong interest from taxpayers and tax practitioners after the closure of the 2011 and 2009 programs. The IRS continues working on a wide range of international tax issues and follows ongoing efforts with the Justice Department to pursue criminal prosecution of international tax evasion. This program will be open for an indefinite period until otherwise announced.

The IRS has collected $3.4 billion so far from people who participated in the 2009 offshore program, reflecting closures of about 95 percent of the cases from the 2009 program. On top of that, the IRS has collected an additional $1 billion from up front payments required under the 2011 program. That number will grow as the IRS processes the 2011 cases.

"Free Money" from the IRS & Tax Scams Involving Social Security

Flyers and advertisements for free money from the IRS, suggesting that the taxpayer can file a tax return with little or no documentation, have been appearing in community churches around the country. These schemes are also often spread by word of mouth as unsuspecting and well-intentioned people tell their friends and relatives.

Scammers prey on low income individuals and the elderly. They build false hopes and charge people good money for bad advice. In the end, the victims discover their claims are rejected. Meanwhile, the promoters are long gone. The IRS warns all taxpayers to remain vigilant.

There are a number of tax scams involving Social Security. For example, scammers have been known to lure the unsuspecting with promises of non-existent Social Security refunds or rebates. In another situation, a taxpayer may really be due a credit or refund but uses inflated information to complete the return.

Beware. Intentional mistakes of this kind can result in a $5,000 penalty.

False/Inflated Income and Expenses

Including income that was never earned, either as wages or as self-employment income in order to maximize refundable credits, is another popular scam. Claiming income you did not earn or expenses you did not pay in order to secure larger refundable credits such as the Earned Income Tax Credit could have serious repercussions. This could result in repaying the erroneous refunds, including interest and penalties, and in some cases, even prosecution.

Additionally, some taxpayers are filing excessive claims for the fuel tax credit. Farmers and other taxpayers who use fuel for off-highway business purposes may be eligible for the fuel tax credit. But other individuals have claimed the tax credit when their occupations or income levels make the claims unreasonable. Fraud involving the fuel tax credit is considered a frivolous tax claim and can result in a penalty of $5,000.

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

IRS Releases the Dirty Dozen Tax Scams for 2012

Continued from page 7

False Form 1099 Refund Claims

In this ongoing scam, the perpetrator files a fake information return, such as a Form 1099 Original Issue Discount (OID), to justify a false refund claim on a corresponding tax return. In some cases, individuals have made refund claims based on the bogus theory that the federal government maintains secret accounts for U.S. citizens and that taxpayers can gain access to the accounts by issuing 1099-OID forms to the IRS.

Don't fall prey to people who encourage you to claim deductions or credits to which you are not entitled or willingly allow others to use your information to file false returns. If you are a party to such schemes, you could be liable for financial penalties or even face criminal prosecution.

Frivolous Arguments

Promoters of frivolous schemes encourage taxpayers to make unreasonable and outlandish claims to avoid paying the taxes they owe. The IRS has a list of frivolous tax arguments that taxpayers should avoid. These arguments are false and have been thrown out of court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey the law.

Falsely Claiming Zero Wages

Filing a phony information return is an illegal way to lower the amount of taxes an individual owes. Typically, a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 is used as a way to improperly reduce taxable income to zero. The taxpayer may also submit a statement rebutting wages and taxes reported by a payer to the IRS.

Sometimes, fraudsters even include an explanation on their Form 4852 that cites statutory language on the definition of wages or may include some reference to a paying company that refuses to issue a corrected Form W-2 for fear of IRS retaliation. Taxpayers should resist any temptation to participate in any variations of this scheme. Filing this type of return may result in a $5,000 penalty.

Abuse of Charitable Organizations and Deductions

IRS examiners continue to uncover the intentional abuse of 501(c)(3) organizations, including arrangements that improperly shield income or assets from taxation and attempts by donors to maintain control over donated assets or the income from donated property. The IRS is investigating schemes that involve the donation of non-cash assets –– including situations in which several organizations claim the full value of the same non-cash contribution. Often these donations are highly overvalued or the organization receiving the donation promises that the donor can repurchase the items later at a price set by the donor. The Pension Protection Act of 2006 imposed increased penalties for inaccurate appraisals and set new standards for qualified appraisals.

Disguised Corporate Ownership

Third parties are improperly used to request employer identification numbers and form corporations that obscure the true ownership of the business.

These entities can be used to underreport income, claim fictitious deductions, avoid filing tax returns, participate in listed transactions and facilitate money laundering, and financial crimes. The IRS is working with state authorities to identify these entities and bring the owners into compliance with the law.

Misuse of Trusts

For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts. While there are legitimate uses of trusts in tax and estate planning, some highly questionable transactions promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. Such trusts rarely deliver the tax benefits promised and are used primarily as a means of avoiding income tax liability and hiding assets from creditors, including the IRS.

IRS personnel have seen an increase in the improper use of private annuity trusts and foreign trusts to shift income and deduct personal expenses. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering a trust arrangement.

NCPERS 2012 PUBLIC FUND STUDY

The National Conference on Public Employee Retirement Systems undertook the most comprehensive study to date addressing retirement issues for this segment of the public sector. NCPERS has collected and analyzed the most current data available on member funds' fiscal condition and steps they are taking to ensure fiscal and operational integrity.

The 2012 NCPERS Public Fund Study includes responses from 147 state and local government pension funds with a total number of active and retired memberships surpassing 7.5 million and assets exceeding $1.2 Trillion. The majority, 84 percent, were local pension funds, while 16 percent were state pension funds.

The study finds that public funds continue to respond to changes in the economic, political and social landscape by adopting substantial organizational and operational changes to ensure long-term sustainability for their stakeholders. Efforts include increasing age and service requirements, increasing member contributions, stronger operational practices and more diligent oversight.

Here are some key findings:

- With the market declines in recent years, the market and actuarial value of fund assets has declined; however, both 1-year and 20-year returns reported by participating funds point to continuing long-term improvement in funded status. While the 1-year returns were slightly lower than 2011, all longer-term returns are higher.
- Income used to fund pension programs generally comes from three sources: member contributions, employer contributions and investment returns. As usual, investment returns are the most significant source -- 73 percent. Member contributions make up 10 percent of fund income. Employer contributions equal about 17 percent.
- Overall, funds reported domestic equity exposure at 36 percent (down from 39 percent last year), and international equity exposure remaining steady at 17 percent. In the next two years, funds plan to reduce domestic equity slightly and increase allocations to private equity/hedge funds, commodities and other investments. Funds with the highest 10-year returns had significantly lower allocation to domestic equity, international fixed income and high-yield bonds, but they had higher allocations to international equity, domestic fixed income and other asset classes.
- The average funded level is a solid 74.9 percent, slightly below 76.1 percent in the 2011 study. Plans that include members who are eligible for Social Security have an average funded level of 80.4 percent, down from 84.7 percent. The most significant reason for this decline was market volatility.
- Pension funds are designed to pay off liabilities over a period of time (amortization period) to ensure long-term stability, and to make annual budgeting easier through more predictable contribution levels. For responding funds, that period of time averages to 24.6 years, down from 25.8 years in 2011.
- The study asked "How satisfied are you with your readiness to address retirement trends and issues over the next two years?" Respondents provided an overall "confidence rating" of 7.7 on a 10-point scale (very satisfied =10), up from 7.4 in 2011. Social Security eligible and non-eligible funds rated this question 7.8 and 7.4, respectively.

Please continue to page 10 for the conclusion

NCPERS 2012 PUBLIC FUND STUDY - *Continued from page 9*

✦ The overall average expense for respondents to administer funds and to pay investment manager fees is 73.1 basis points, a slight increase from the 2011 level of 69.2 percent. According to the 2011 *Investment Company Fact Book*, the average expenses and fees of most equity/hybrid mutual funds average 95 basis points. The conclusion means funds with lower expenses provide a higher level of benefit to members and produce a higher economic impact for the communities those members live in than most mutual funds.

✦ Several areas that showed increased activity over 2011: increased employee contributions, increased age/service requirements, reduced wage inflation assumption, tightened use of overtime in calculation of a benefit, made benefit enhancements more difficult, reduced the multiplier, shortened amortization period and closed plans to new hires.

✦ Other areas that showed increased activity include: increased audit of actuarial practices, increased death audits, strengthened asset allocation studies, improved records management and scanning, destruction of old copier hard drives, and increased operational benchmarking.

The entire 37-page report is available athttp://www.ncpers.org/Files/2012_ncpers_public_fund_study_report.pdf.

Source: Steve Cypen

FLORIDA PERC DEFINES "FINANCIAL URGENCY"

Section 447.4095, Florida Statutes, provides: In the event of a financial urgency requiring modification of an agreement, the chief executive officer or his or her representative and the bargaining agent or its representative shall meet as soon as possible to negotiate the impact of the financial urgency. If after a reasonable period of negotiation which shall not exceed 14 days, a dispute exists between the public employer and the bargaining agent, an impasse shall be deemed to have occurred, and one of the parties shall so declare in writing to the other party and to the commission. The parties shall then proceed pursuant to the provisions of s. 447.403. An unfair labor practice charge shall not be filed during the 14 days during which negotiations are occurring pursuant to this section.

In a recent appellate decision the Florida Public Employees Relations Commission was charged to define the term "financial urgency." Now, PERC has responded by defining financial urgency as a financial condition requiring immediate attention and demanding prompt and decisive action, which requires modification of an agreement; however, it is not necessarily a financial emergency or a bankruptcy. Determination of financial emergency requires a close examination of the employer's complete financial picture on a case-by-case basis. Resolving a financial urgency case requires a finding that the financial condition of the employer constituted a compelling governmental interest, which required immediate modification of the parties' agreement. When invoking Section 447.4095, Florida Statutes, the employer is held to the standard of good faith as defined in Section 447.203(17), Florida Statutes. Good faith is a matter of intent; it is a state of mind that is usually determined by inference from a party's conduct.

Walter E. Headley, Jr., Miami Lodge #20, Fraternal Order of Police, Inc. v. City of Miami, Case No. CA-2010-119 (FPER March 27, 2012).

N.Y. state pension chief hammers at 401(k) option

In a recent report, New York state Comptroller Thomas DiNapoli on Tuesday continued his criticism of 401(k) plans being offered as options to public employees, calling the DC option “woefully inadequate” for people who rely on them for the primary source of retirement income.

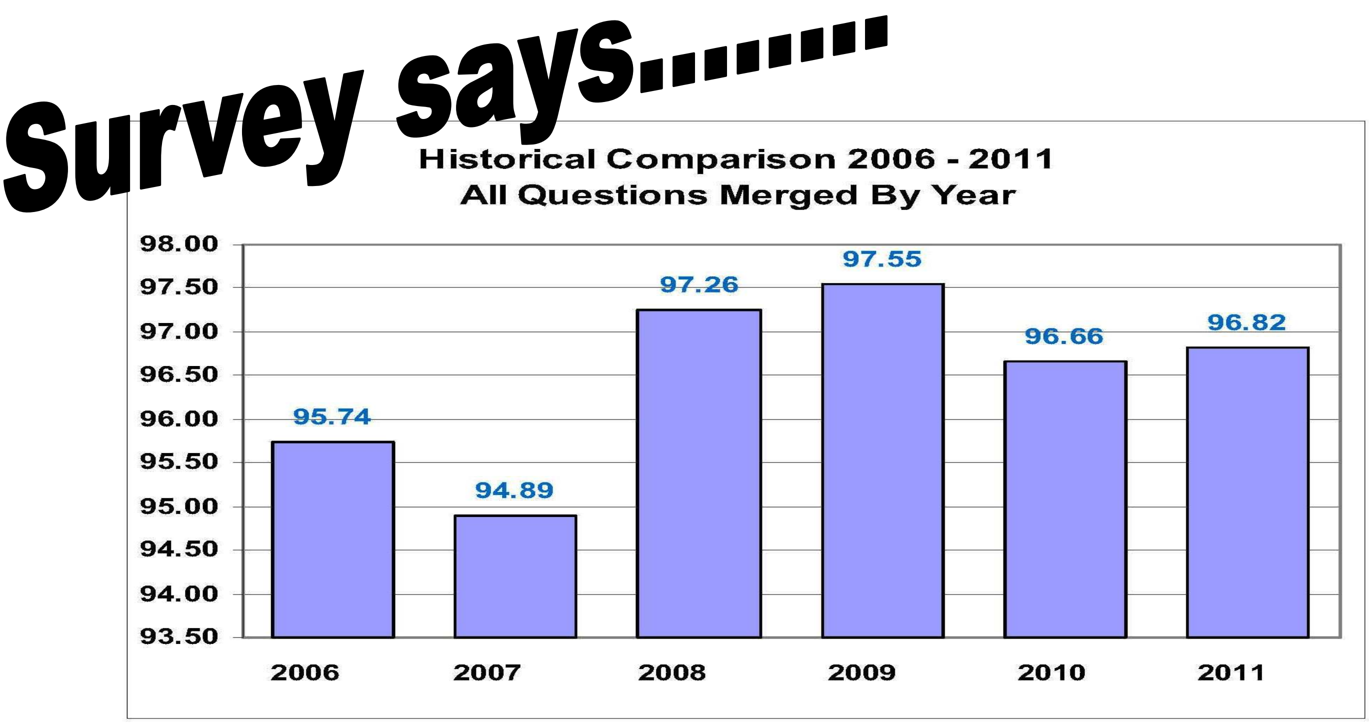
Speaking at the National Conference on Public Employee Retirement Systems conference in New York on Tuesday, Mr. DiNapoli said he's glad the New York state Legislature this year did not approve Gov. Andrew Cuomo's proposal to make a 401(k) plan an option for all new public employees along with the state's defined benefit plan.

A bill signed into law by Mr. Cuomo in March allows only new non-union employees earning $75,000 or more per year to choose a 401(k) plan.

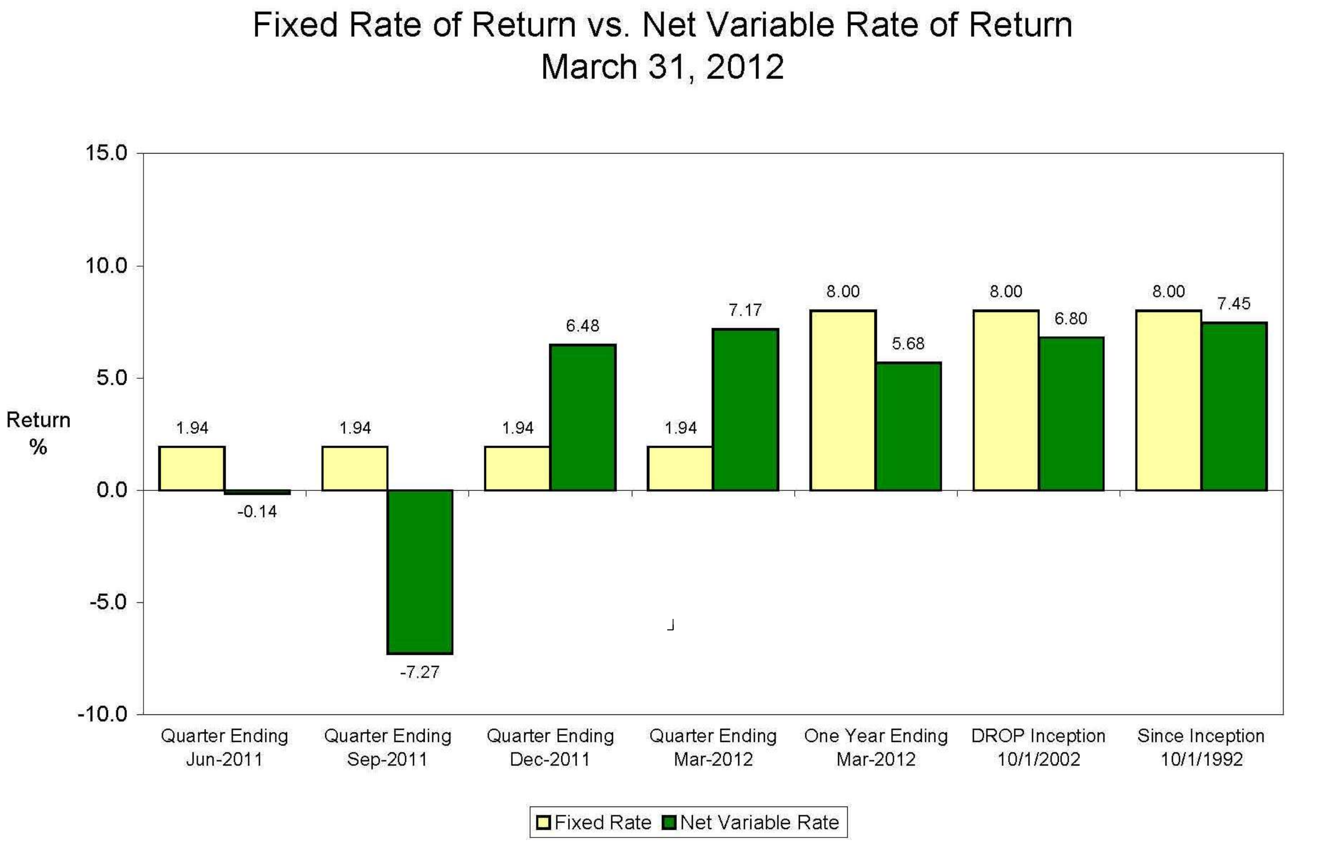
“The good news” was that most of the governor's proposal did not make it into law, said Mr. DiNapoli, sole trustee of the $147.2 billion New York State Common Retirement Fund, Albany. “I made no secret of the fact that I thought moving from our current defined benefit to a 401(k)-style defined contribution plan would be a very bad idea,” he said.

Mr. DiNapoli repeated his criticism of “anti-pension advocates” who try to blame public pension plans for damaging state and local budgets and for handing out allegedly inflated payments.

“Another well-worn line of attack on public pension funds — an argument that particularly disturbs me — is that they are bloated with retirees making six-figure pensions,” he said. “The vast majority of retirees in our system are receiving modest benefits.”



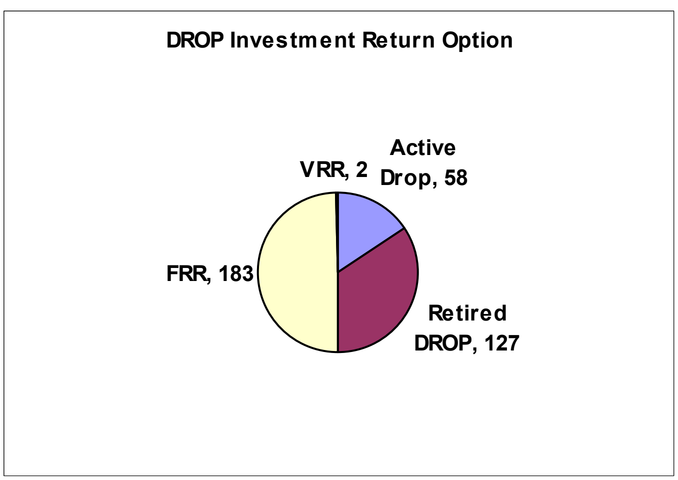
The latest pension satisfaction survey was presented to the Board of Trustees on May 18, 2012. The chart above tallies the overall level of satisfaction in all categories of the survey. The average over this timeline was 96.48. The entire survey is available online. The Board & the Staff would like to thank the members who took the time to respond. Going forward this survey will be conducted on a bi-annual basis.



What does this mean?

This chart above outlines the rate of return of our system (VRR), in comparison to the fixed rate of return (FRR). The chart outlines & breakdowns each quarter for the last year, the return since the optional rate of return was established in 2002, and finally a long term snapshot back to 1992.

The fixed rate of return is what members in the DROP are guaranteed, even if the fund returns less or more than that. While you can see it fluctuates each quarter, since the inception of the FRR/VRR option, the fund return was 6.80% vs 8.0% or 1.2% less then the guarantee. The fixed rate of return is based on the assumption rate of return set by the Board of Trustees.



What are your peers doing?

While we understand this is a sensitive issue now, we also want to keep the all members informed of various aspects of the plan. The chart on the left denotes how many DROP Members we have in our system as of May 2012, and how they breakdown between Active and Retired DROP Members.

The chart also highlights what investment option the members have selected.

<u>This data should NOT be relied upon for your individual investment decision.</u>

2012 Q1 Market Recap—Garcia Hamilton

Continued improvements in U.S. economic activity, progress on the European debt crisis, and supportive central banks encouraged investors back into equities during the first three months of 2012. The domestic stock market, as measured by the S&P 500 Index, gained an impressive 12.6% including dividends for the quarter ending March 31.

Unlike recent quarters, volatility was low and gains were steady as each month experienced positive returns. However, one hallmark of this recovery remained -- gains were broad, with all capitalization ranges and all major domestic indices posting double-digit improvements. Pro-cyclic sectors were the highlight, including Information Technology and Consumer Discretion.

Looking forward, equity markets are apt to move higher by year end even though some mid-year pause would be welcomed and healthy. Supportive factors include improving employment, low interest rates, low inflation rates, an accommodative Federal Reserve, low Price/Earnings multiples, and stellar corporate balance sheets. Yet, a possible European recession, Middle East tensions, and persistent government deficit spending are sufficient concerns to check investor enthusiasm.

In a challenging economic environment, companies able to generate internal revenue and earnings growth appear increasingly attractive. Large cap, high quality companies seem particularly well-positioned, combining an ability to exploit opportunities around the globe with the comfort of strong balance sheets and healthy cash flows.

What does that mean?

Definition of 'Procyclic'

A condition of positive correlation between the value of a good, a service or an economic indicator and the overall state of the economy. In other words, the value of the good, service or indicator tends to move in the same direction as the economy, growing when the economy grows and declining when the economy declines.

Some examples of procyclic economic indicators are GDP, labor and marginal cost. Most consumer goods are also considered procyclic, because consumers tend to buy more discretionary goods when the economy is in good shape.

Economic indicators can have one of three different relationships to the economy: procyclic, countercyclic (indicator and economy move in opposite directions) or acyclic (indicator has no relation to the health of the economy).

Buckhead Capital - Market Review

After rebounding off its October low in the fourth quarter, the stock market posted its biggest first quarter gain since 1998. Described by one observer as "a seller's strike", it was a quarter marked less by substantial good news and more by the absence of bad news. Continued slow growth in the U.S. economy and the absence of any flare-ups in the European debt crisis led to a steady increase in equity prices through the quarter. Volatility fell sharply as trading volumes declined, even as individual investors pulled over $15 billion from equity mutual funds. Differences between investment styles were muted, with both small and large cap stocks, as well as growth and value strategies, all doing well. However, dividend paying stocks did trail the overall market.

Performance Update

Buckhead Capital Management's Value Equity portfolio gained 10.5% during the first quarter, but slightly trailed the benchmark Russell 1000 Value Index (+11.1%). Most of the shortfall relative to the benchmark was due to the portfolio's cash holding. Relative performance in the quarter was also hurt primarily by stock selection and an underweight position in the Financial sector and stock selection in the Consumer Staples sector. Relative performance was enhanced by stock selection in the Industrials and Consumer Discretionary sectors and underweight allocations to the Utilities and Telecommunications sectors.

Trading and Portfolio Strategy

Although no new companies were added to the portfolio and no existing positions were eliminated, we were reasonably active in adjusting our holdings in response to changing relative valuations. We added to our positions in Blackrock, Exelis, ExxonMobil, General Electric, Hewlett-Packard, Novartis, PepsiCo, and Staples. We reduced our positions in Atwood, Devon, Duke Energy, EOG Resources, Johnson & Johnson, Lockheed Martin, Proctor & Gamble, Spectra Energy, and TJX.

During the first quarter, investors were encouraged by gradual improvements in the U.S. economy. In addition, further monetary easing by the European Central Bank and a restructuring agreement on Greece's debt reduced investor concerns about the sovereign debt problems of Europe. However, the economic recovery in the U.S. remained very weak by historical standards and threatened by a number of issues, including rising gasoline prices, falling home prices, and the political gridlock and uncertainty associated with a presidential election. As for Europe, the problems of excessive debt and significantly different levels of productivity and economic growth within the Euro-zone remain unresolved. It is hard to escape the sense that investors are whistling past the graveyard and counting on central banks to save them from any ghouls.

At Buckhead Capital we continue to focus our research on out-of-favor companies with sustainable free cash flow, solid balance sheets, and sensible capital allocation. We prefer companies with management teams willing to return a substantial portion of that free cash flow as dividends to investors. (At the end of the quarter, the dividend yield on the equity portfolio was 3.2%, compared to 2.5% for the Russell 1000 Value and 1.9% for the S&P 500.) Such companies are able to take advantage of difficult economic conditions to increase the value of their businesses and reward shareholders over the long term.

Investments in Real Estate

The Board of Trustees will be interviewing real estate investment firms in the coming months. The investment consultant for the plan, has suggested an investment in this area, to further diversify the plan investments and to create a revenue stream for expenses.

The firms being interviewed are American Realty Advisors & Intercontinental Real Estate Corporation. As the Board moves forward, you will be kept advised.

The following is a snapshot of each firm under consideration:

American Realty Advisors and its principals have been providing innovative real estate investment solutions to public and corporate pension funds, endowments, foundations, and Taft-Hartley trust funds for over 23 years. With over $4.5 billion in assets under management, American is a SEC registered investment advisor and has qualified as a Qualified Professional Asset Manager (QPAM), investment manager and fiduciary under ERISA.

Intercontinental provides a full spectrum of real estate investment and management services including acquisitions, asset management, portfolio management, finance, development, construction management and property management. Intercontinental is built on the experience and longevity of its principals and senior managers. We have always maintained a culture of significant co-investment and strictly adhere to a conservative process of investment analysis. Intercontinental has achieved investment results over many real estate cycles and has a reputation in dealing with complex situations that require vision, creativity, persistence and flexibility.

SAMPLE PROPERTY

Riverview at Upper Landing - St. Paul, MN

- 344-unit residential community located on the banks of the Mississippi River.
- Situated near downtown St. Paul with easy access to major interstate transportation systems as well as the Minneapolis-St. Paul International Airport.
- Residents benefit from living in close proximity to: employment centers, the arts, restaurants, shopping and front-door access to miles of walking and biking trails along the scenic river trail system.
- Downtown area has a strong employment base that adds to Riverview at Upper Landing's historically high occupancy rates.

Don't Forget To Visit Us !!!

www.hollywoodpolicepensionfund.com

Office & Mailing Address
4205 Hollywood Blvd., Suite 4
Hollywood, Florida 33021

Phone: 954.967.4395
Out of town? - Please Call Toll Free: 866.738.4776
Fax: 954.967.4387

QUOTABLE QUOTE

Be sure your wisest words are those you do not say.

Robert W. Service

Disclaimer

In Closing....

In Memoriam

The Board of Trustees sadly announces the passing of Donald Korn (Retired 1992) & Rose Hubbard (Widow of George Hubbard - Retired 1979).

They are forever remembered & their families remain in our thoughts and prayers.

Litigation Update

No formal update at this point, but please remember that any announcements or updated information will be posted to the announcement page of the web site.

VA Benefit!!!!

A little known benefit that everyone should know about! Are you aware of the VA Aid & Attendance Benefit available to wartime veterans and surviving spouses? Wartime veterans may qualify for up to $1,644/month and Surviving Spouses may receive up to $1,056/month. To help you understand this valuable VA benefit, the application process, and how to become eligible, plan on attending a seminar presented by Carole Donohoo, Professional Member of The American Association for Wartime Veterans.

www.USAWarVet.org Call 561-844-4543 for locations and reservations.

DROP Distributions - Reminder

If you are a retired Drop Member who has been withdrawing funds from his/her Drop Account, you have until September 30th to notify the Office of Retirement of any change for the 2013 distribution year.

If no such change is requested, you will receive the same amount as this year!