Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 57

Date of Issue:

Third Quarter 2016

Inside this issue:

Attention Members

Supplemental Distribution Mediation Underway

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http://hollywoodpolicepensionfund.com/pdf/sharpscan_hollywoodfl_org_20160711_111412.pdf#zoom=100

PENSION FUND INVESTMENT SUMMARY

On June 30, 2016 our fund had a total market value of $254,874,780. For the quarter the total fund return was 1.54% (net) and its benchmark return was 2.35%. In the previous quarter the fund return was 1.47%. For the quarter the stock return was 1.44% and the benchmark return was 2.75%. The bond return was 2.17% and the benchmark return was 2.02%.

For the quarter the average allocation of our fund was 57.9% invested in stocks, 10.5% invested in real estate, 29.4% in bonds and 2.1% in cash equivalents (i.e., short term liquid interest bearing investments including money market funds). Our ongoing target for investment in stocks remains at 55% of the total fund.

Fiscal Year to Date (10/1/2015 – 06/30/2016)

For the fiscal year to date the total net return was 6.04%, the Inverness large cap stock return was 6.05%, the Garcia Hamilton & Associates growth stock return was 7.81%, the Eagle small cap stock return was 8.20%, the Rhumbline mid-cap stock index return was 10.58%, the Wells Fargo large cap value stock return was 5.23% and the EnTrustPermal Global Activist Fund return was -3.14%. The S&P 500 index return was 11.15%.

For the fiscal year the American Realty Advisors real estate return was 6.20% and the Intercontinental Real Estate Corp. real estate return was 6.93%. The NCREIF real estate index return was 7.33%.

Calendar Year to Date (1/1/2016 – 06/30/2016)

For the calendar year to date the total fund return was 3.03% (net) and its benchmark return was 4.17%. The stock return was 2.22% and the benchmark return was 4.01%. The bond return was 5.50% and the benchmark return was 4.93%.

Long Term

Since December 31, 1992 the fund has an average rate of return of 7.37% (net) per year. For the last five years the total fund return is 7.13% (net) per year, which under-performed the overall combined stock and bond benchmark return of 7.81%. For the last three years the total return was 7.09% and the benchmark return was 7.74%.

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

Major Economic Indicators

For the last year the best performing sector among the Russell 1000 stocks is Utilities which increased 31.5% and the worst sector is Energy which decreased 6.9%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 1.0% before seasonal adjustment for the twelve months ended in June. The Producer Price Index (PPI) for finished goods advanced .3% before seasonal adjustment for the twelve months ended in June.

The seasonally adjusted unemployment rate is 4.9% in June down from 5.0% in December. Real Gross Domestic Product (GDP) increased at an annual rate of 1.1% for the first quarter of 2016, compared with an increase of 1.4% in the fourth quarter of 2015.

Top Ten Stocks

INVERNESS	GARCIA HAMILTON	EAGLE ASSET	WELLS FARGO	RHUMBLINE
Microsoft	Apple Inc.	CyrusOne	BB&T Corp.	Mettler Toledo
Alphabet	Walt Disney	BGC Partners	Microsoft	Ingredion Inc.
Facebook	Johnson & Johnson	ICU Medical	Lockheed	Duke Realty Corp.
Adobe	Home Depot	ServiceMaster Global	EOG Resources	Resmed Inc.
GE	CVS	Apogee Enterprises	Anheuser-Busch	Cdk Global Inc.
Celgene	Coca Cola	Broadridge Financial	TJX Companies	Alleghany Corp
Home Depot	Amazon	Kite Realty	Honeywell	Idexx Labs Inc.
CVS	Visa	DST Systems	NextEra Energy	Atmos Energy Corp
Progressive Corp.	Lockheed Martin	Retail Opportunity Inv.	Allstate Corp.	Cooper Cos Inc.
Ecolab	Microsoft	Convergys	Gilead Sciences	Whitewave Foods Co

STOCK SPOTLIGHT

McCormick & Company, Inc. (Ticker: MKC)

Sector: Consumer Staples

Industry: Food

Market Capitalization: $11.9 billion

McCormick & Company was founded in Baltimore, MD, in 1889 by Willoughby M. McCormick to sell root beer, flavoring extracts, and fruit syrups door-to-door. From its beginnings, the firm's objective has been to raise the flavor profile of foods. Domestic consumer brands today include McCormick, Lawry's, Old Bay Seasoning, Simply Asia, Stubbs, Thai Kitchen, and Zatarains. Manufacturing and distribution operations are conducted around the world, though over 55% of sales are still generated in the United States. In addition to retail sales to consumers for at-home use, industrial customers include food manufactures such as Pepsico and food service operations.

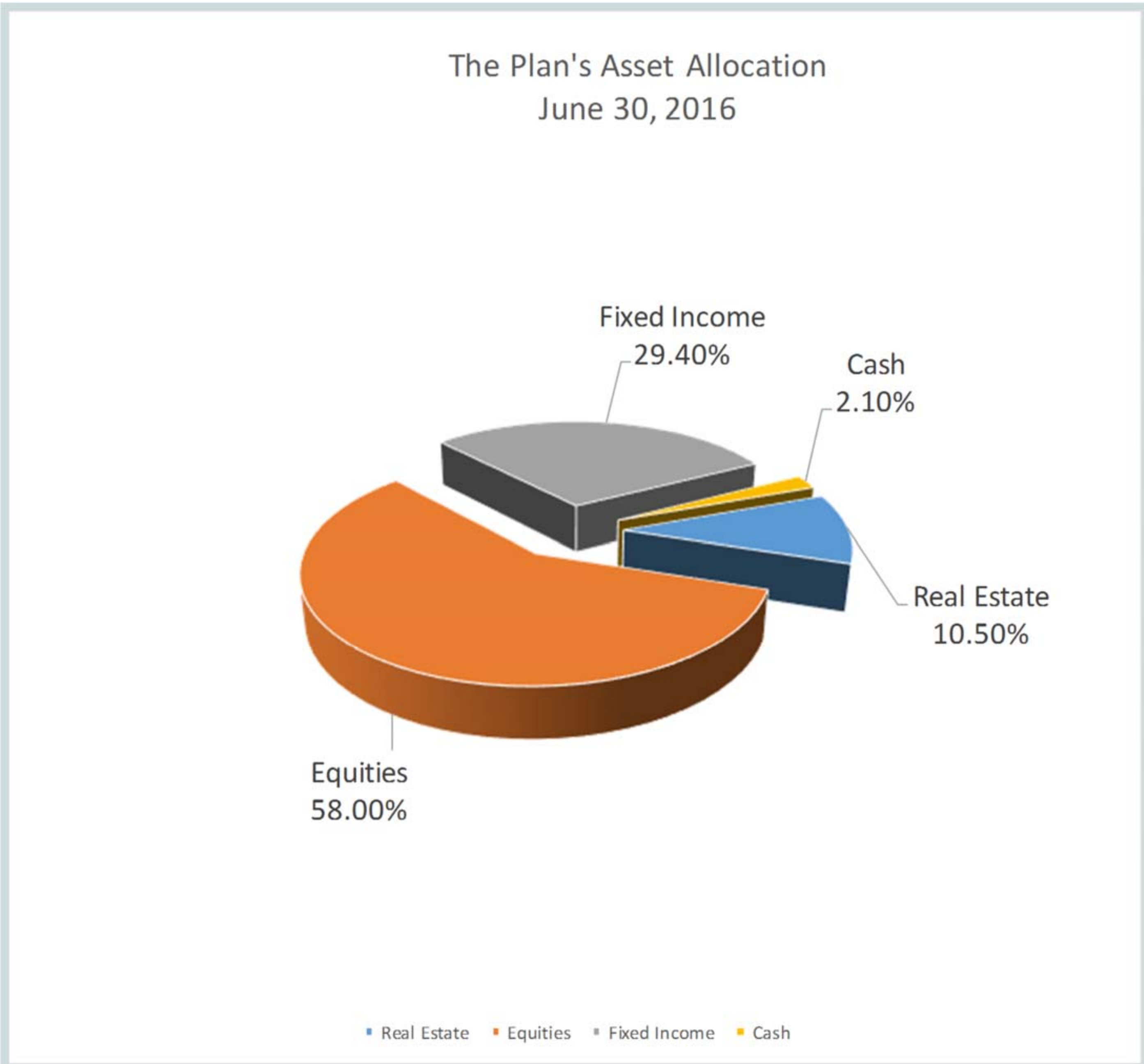
Acquisitions have been integral to the firm's growth strategy since its early years. The purchase of F.G. Emmett Spice Company in 1896 provided McCormick's initial expansion into spices. The purchase of A. Schilling of San Francisco in 1947 allowed McCormick to expand distribution coast-to-coast. Two significant United Kingdom acquisitions in 1984 marked significant expansion efforts outside of North America. Acquisitions today typically allow expanded geographic, category, or brand reach.

Earnings are expected to grow near 10% annually over the investment horizon on mid-single digit sales expansion. Sales gains will typically consist of equal parts volume, pricing, and acquisitions. Margins should expand as the firm's Comprehensive Continuous Improvement (CCI) initiative fuels productivity and operating leverage. The firm's pristine balance sheet provides ample funding for acquisitions, common stock repurchases, and dividend increases. MKC has increased its dividend for 26 consecutive years, with a current yield of 1.8%.

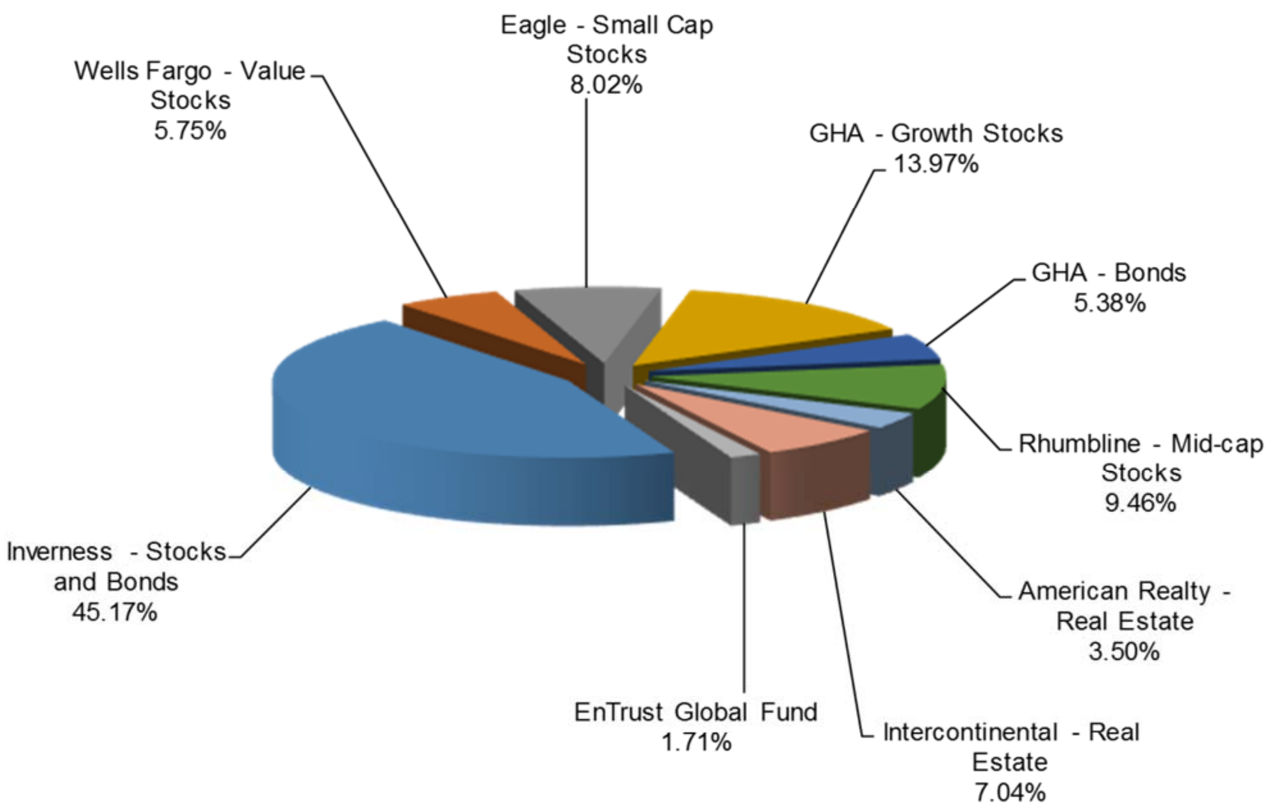
Average Cost in Hollywood Police Portfolio: $62.48 per share, Q316 ending price $99.92.

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.

Track The Fund!



Division of Assets by Investment Manager (including cash)
June 30, 2016



ECONOMIC ENVIRONMENT

Slow Steady Growth

The BEA's "advance" estimate for GDP in the second quarter of 2016 was a tame 1.2%, just a tick above a somewhat disappointing 1.1% growth in the first quarter. The Conference Board had a rosier projection for GDP, about a percent higher. Consumers appeared to be more content this past quarter, which corresponded with a sharp rise in manufacturing and service activity and a surge in housing prices and sales. Further, the all-important job market came alive in June after a very weak May. Finally, commodity prices, especially energy-related, showed considerable strength. Still, the Fed remained very cautious in its June announcement. Citing weaker-than-expected new jobs through May, inflation well-below target and Brexit concerns (even before the actual vote), the Fed held steady its funds rates.

The often conservative early estimates from the BEA tend to be revised upward, so the Conference Board's optimism may not be totally off base. The economy benefited from higher personal consumption, state and local government spending and exports. However, reduced federal spending, lower inventories and less corporate investment hindered further growth.

June non-farm hires surprised everyone, jumping 287,000. June's job figure was the best in eight months, coming on the heels of May's extremely weak 11,000 (revised). The major June gains were spread among several service sectors: (1) leisure, (2) healthcare, (3) social services, (4) financial, (5) information (e.g. Verizon strikers returning to work), (6) retail trade and (7) professional services. Manufacturing gains numbered just 11,000. The second quarter job growth totaled 147,000 per month - good, but down from 196,000 per month in the first quarter and the 229,000 monthly average for all of 2015. Unemployment ticked up to 4.9% as more people actively sought employment. Hourly earnings have grown 2.6% since June 2015, compatible with the Fed's inflation target.

Housing prices continued to climb. In May alone (latest available), prices rose 1.3%. The year-over-year gain was close to 6%, representing 52 consecutive months of increases, but still 7% below the April 2006 peak. Colorado, Washington state and Oregon showed the highest yearly gains, between 9% and 11%.

In June, manufacturing sector activity expanded for the fourth month in a row, while the overall economy enjoyed its 85th monthly consecutive advance. The June ISM Manufacturing Index moved up almost 2% from May, to 53.2 [an index number above 50 represents growth]. New orders advanced 1.3% and production gains exceeded 2%. Printing, textiles and petroleum were the three best-performing industries.

The Non-Manufacturing Index rose dramatically in June, to 56.5%. New orders outpaced the prior month by almost 6%, rising to 59.9%. Mining services, entertainment and management services saw the biggest gains.

Consumer confidence was yet another positive. The Consumer Confidence Index rose from 92.4 in May to 98.0 in June. Reflecting consumers' satisfaction with their present situation, the related index gained over five points, climbing to 118.3. The Expectations Index showed more promise still, gaining 6.4 points to peak at 84.5.

The combined Bloomberg Commodity Index rose 12.8% for the quarter despite China's weak demand for raw materials. Drought/flood conditions boosted the agricultural commodity sector. Energy was the big winner, surging 20.3%. Steady energy demand and moderating production sparked the increase. Among agricultural products, sugar and soybean prices each soared almost 30%. Gold and especially silver prices rose in sync with global economic concerns.

Overall inflation remained stubbornly low. Only wages and energy costs moved upwards. Low inflation contributed to the steady hold on the fed funds rate. The second quarter's core CPI increase was an unadjusted 1.2% (1.0% year over year).

The Fed held rates steady in the face of slowing job gains through May, continuing low inflation and Brexit concerns. The Federal Open Market Committee's June 15th announcement also implied that there would be no rate changes in the near term. There was more positive news based on the Fed's latest bank stress tests. Among the 33 largest bank holding companies, the Fed required only Deutsche Bank and Santander to make additional capital infusions.

The Board would like to thank Dahab Associates, Source.

Meet the Board Actuary

Principal and Consulting Actuary

Jose is a Principal and Consulting Actuary at CMC. Jose is a professional actuary who has consulted with clients in the public sector since 1980. Jose has a broad range of experience in the design, administration and funding of public retirement plans, proposed legislation analysis, experience studies, asset liability forecasts and actuarial audits.

Jose has dedicated his career to providing high quality, timely service to clients. Over the last 15 years, Jose was responsible for managing benefits consulting services to clients for a major competitor.

Jose is a graduate of St. Peter's College where he earned a B.S. in mathematics. He is bilingual in Spanish and often works with clients whose employees require communications in Spanish.

Jose is a credentialed professional actuary with the following designations:

- Associate, Society of Actuaries
- Enrolled Actuary under ERISA
- Member, American Academy of Actuaries
- Fellow, Conference of Consulting Actuaries

Jose Fernandez

ASA, EA, MAAA, FCA

Learn more about

Cavanaugh Macdonald (CMC)
CONSULTING, LLC.

https://cavmacconsulting.com/

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ATTENTION MEMBERS

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Click here!

http://hollywoodpolicepensionfund.com/announcements.asp

In Closing....

Garcia Hamilton

2016 Q3 Market Recap

Equity

Stocks posted attractive returns for the quarter, with the S&P 500 Index rising 3.9%, including dividends. These gains were notable given the backdrop of persistent slow global economic growth, modestly higher interest rates, and declining corporate profitability. Reductions in projected earnings leave full year 2016 estimates 1.5% below 2015 results, marking the longest streak of quarterly declines since the financial crisis of 2009.

Investors were in a risk-seeking mode this quarter, with low-quality factors dominating overall returns. Specifically, Information Technology was the leading contributor to index returns and small capitalization indices outperformed large-cap indices. Traditional defensive or higher-yielding sectors were a source of funds, in general.

Looking forward, equity prices could post mid-single to high-single digit gains over the next twelve months. Since earnings expectations were revised lower throughout the quarter, actual reported earnings may surprise positively, consistent with a well-developed pattern. Global central banks seem steadfast in their support of financial markets, if necessary.

Seven years after the financial crisis, stock price movements are still being driven by central bank statements, liquidity flows, and macro risks more than fundamental factors. High-quality large-cap growth companies have experienced only modest valuation improvements, relative to higher-risk and smaller-cap arenas. At some point, financial markets will normalize and the safety and attractiveness of companies offering solid balance sheets and superior cash flows will be rewarded.