Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 58

Date of Issue:

Fourth Quarter 2016

Inside this issue:

Happy Holidays

From our family to yours....

Warmly

Board of Trustees

In Memoriam – Trustee Melville Pollak

The Board of Trustees sadly announce the passing of Board Trustee - Melville Pollak on September 24, 2016 at age 88.

Mel was appointed to the Board of Trustees in 2014. Although his time on the Board may have been short, his impact was large. Mel was a quick learn and became a strong advocate for the Police Officers' and this Plan.

Mel's indomitable spirit was reportedly with him to the end. Mel was born on April 16, 1928, in Mount Vernon, NY, the son of Edward and Caroline Pollak. After attending Davis High School, he pursued a business degree at NYU, where he received a BS in accounting. Following a stint as an Army corporal during the Korean War, Mel set off on a long and varied career in retail merchandising. Not one to retire, Mel spent his "leisure" years developing his passions for photography, politics and world travel. He visited more than 50 countries and every continent, documenting their people and culture in his stunning, award-winning photographs. Between adventures, Mel cherished his role as a civic leader in the community he was proud to call home. He actively served as President of the Hollywood Hills Civic Association (6 years), President of the Hollywood Council of Civic Associations, and a member of CERT.

As noted, he was appointed to the Hollywood Police Pension Board by Mayor Peter Bober, and was instrumental in establishing the Johnson Street Festival. In addition to his beloved wife Arlene, Mel is lovingly remembered by his daughters Barbara Mango (Greg) and Joan Pollak (Patrick Cragin), his three grandchildren and one brand-new great grandchild.

Peace be with Mel and his loving family........... he will be missed!

Top Ten Stocks

INVERNESS	GARCIA HAMILTON	EAGLE ASSET	WELLS FARGO	RHUMBLINE
Microsoft	Apple Inc.	ICU Medical, Inc.	Motorola Solutions	Regency Centers
Alphabet	Walt Disney	DST Systems, Inc.	Microsoft	Ingredion Inc.
Facebook	Johnson & Johnson	LogMeIn, Inc.	U.S. Bancorp	Duke Realty Corp.
Adobe	Home Depot	Convergys Corporation	EOG Resources	ResMed Inc.
GE	CVS	Deluxe Corporation	Anheuser-Busch	CDK Global Inc.
Pepsico	Coca Cola	Kite Realty Group Trust	TJX Companies	Alleghany Corp
Home Depot	Alphabet	Vail Resorts, Inc.	Honeywell	Idexx Labs Inc.
Kraft Heinz	Visa	Carpenter Technology	NextEra Energy	Atmos Energy Corp
Progressive Corp.	Lockheed Martin	Liberty Media Corp.	Allstate Corp.	Cooper Cos Inc.
Ecolab	Microsoft	CDW Corp.	Accenture Plc	Whitewave Foods Co

Fund Review

Short-Term

On September 30, 2016 our fund had a total market value of $257,616,659. For the quarter the total fund return is 3.31% (net) and its benchmark return is 2.82%. In the previous quarter the fund return was 1.54%. For the quarter the stock return is 5.22% and the benchmark return is 4.63%. The bond return is 0.26% and the benchmark return is 0.29%.

For the quarter the average allocation of our fund is 59% invested in stocks, 10.6% invested in real estate, 28.1% in bonds and 2.4% in cash equivalents (i.e., short term liquid interest bearing investments including money market funds). Our ongoing target for investment in stocks is 55% of the total fund.

Fiscal Year to Date (10/1/2015 – 09/30/2016)

For the fiscal year to date the total net return is 9.55%, the Inverness large cap stock return is 11.49%, the Garcia Hamilton & Associates growth stock return is 12.36%, the Eagle small cap stock return is 19.02%, the Rhumbline mid-cap stock index return is 15.21%, the Wells Fargo large cap value stock return is 9.68% and the EnTrustPermal Global Activist Fund return is 2.90%. The S&P 500 index return is 15.43%.

For the fiscal year the American Realty Advisors real estate return is 9.05% and the Intercontinental Real Estate Corp. real estate return is 13.08%. The NCREIF real estate index return is 9.22%.

Calendar Year to Date (1/1/2016 – 09/30/2016)

For the calendar year to date the total fund return is 6.45% (net) and its benchmark return is 7.10%. The stock return is 7.56% and the benchmark return is 8.82%. The bond return is 5.78% and the benchmark return is 5.23%.

Long-Term

Since December 31, 1992 the fund has an average rate of return of 7.44% (net) per year. For the last five years the total fund return is 9.47% (net) per year, which underperformed the overall combined stock and bond benchmark return of 9.85%. For the last three years the total return is 6.86% and the benchmark return is 7.48%.

For the last five years the stock return is 15.57% and the bond return is 3.50%. For the last three years the stock return is 9.44% and bond return is 3.87%. For the year the stock return is 13.08% and bond return is 5.40%.

Major Economic Indicators

For the last year the best performing sector among the S&P 500 stocks is Telecommunications Services which increased 26.82% and the worst sector is Financials which decreased 7.44%.

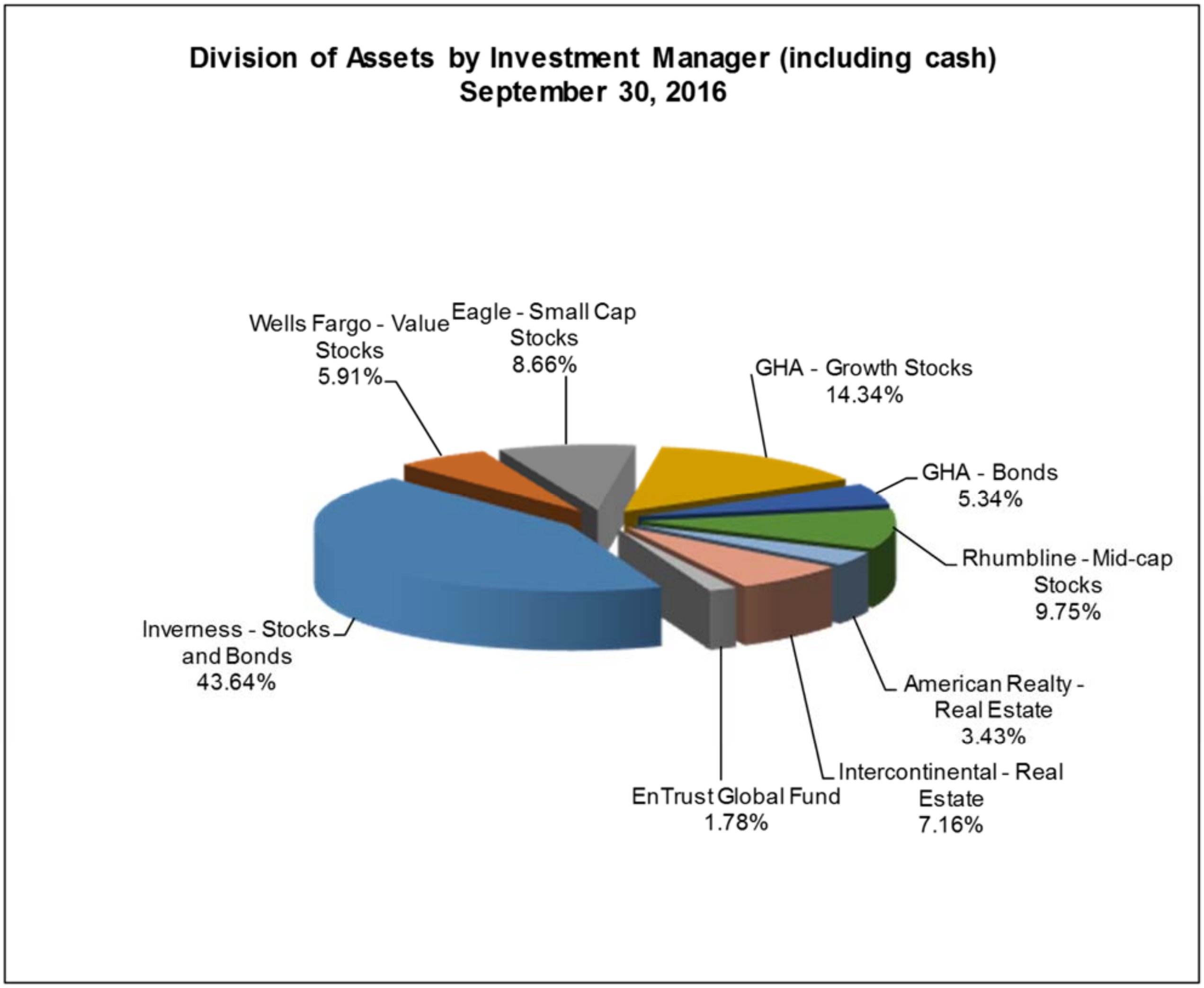
Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 1.5% before seasonal adjustment for the twelve months ended in September. The Producer Price Index (PPI) for finished goods advanced 0.7% before seasonal adjustment for the twelve months ended in September.

The seasonally adjusted unemployment rate increased to 5.0% in September from 4.9% in the month of June. Real Gross Domestic Product (GDP) increased at an annual rate of 2.9% for the third quarter of 2016, compared with an increase of 1.4% in the second quarter of 2016.

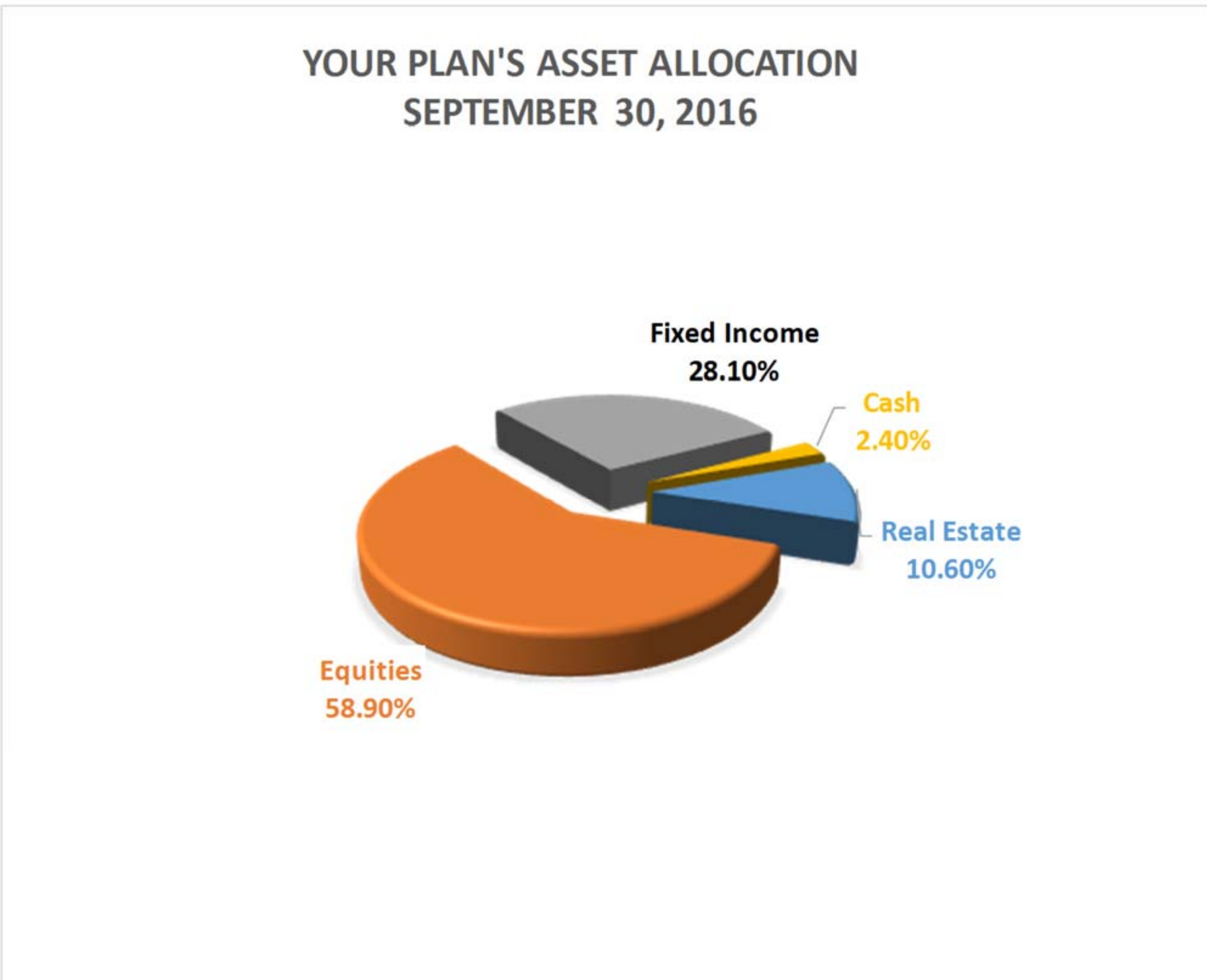
During the quarter the Federal Reserve Open Market Committee decided to maintain the target range for the federal funds rate to 0.25% to 0.50%. The federal funds rate is the interest rate that banks charge each other for overnight loans.

Remember our entire investment report is available on line...

Track The Fund!




Happy
Holidays


YOUR PLAN'S ASSET ALLOCATION
SEPTEMBER 30, 2016
Fixed Income
28.10%
Cash
2.40%
Real Estate
10.60%
Equities
58.90%

ECONOMIC ENVIRONMENT

A Strong Pickup

The second quarter ended with investors breathing a sigh of relief when the Brexit vote was not followed by instant catastrophe. While there is sure to be long-term uncertainty over when, how, and even if Brexit will actually happen, for now those concerns don't seem to be worrying the economy too much. In the US, employment was healthy, housing prices pushed upward, both the manufacturing and service sectors gained ground, consumer confidence was strong, and the Fed held rates steady. GDP in the third quarter advanced 2.9%, stronger than the prior four quarters.

Overall, it was a good quarter in a good year, despite what feels like a mediocre quarter in a bad year.

September brought 156,000 new hires, though the unemployment rate inched up to 5.0%. The latter was mainly attributable to the number of unemployed workers who had gained enough confidence to restart their job searches. New jobs were strongest in the professional, business services, and healthcare categories. Clearly, job gains have eased, averaging 178,000 so far this year vs. 229,000 for the same period last year. Average hourly earnings rose six cents in September to $25.79; the wage gains were viewed as an encouraging sign by both the Fed and the rank and file. For the fiscal year ended September, wage gains have been a healthy 2.6%.

Home prices rose another 1.1% in August, the latest month available. Year-over-year, prices have risen 6.2%. Price gains have been chugging along for 55 straight months and are only 5.6% below their April 2006 peaks. Notably, prices in eighteen states have reached new highs. In particular, price hikes were over 10% in both Oregon and Washington during the latest year. However, in three states prices remained far off their prior peaks: Nevada (-31%), Florida (-23%) and Arizona (-22%).

September's manufacturing activity grew 2.1%, reaching 51.5% (greater than 50% represents growth). New orders and production climbed 6% and 3.2%, respectively. Minerals, furniture, textiles and food all advanced; but, printing, coal, oil and wood products were key laggards. The service sector rose almost 6% in September to a robust 57.1%. Business activity and new orders components reached 60%. 14 out of 18 industries reported growth, with agriculture, forestry, and fishing, and retail the big winners. Only mining, real estate, entertainment, arts, and educational services declined.

Consumer confidence correlated with manufacturing and service activity, as the Consumer Confidence Index climbed to 104.1. That level was the highest reported since the beginning of the Great Recession in 2008-2009. Workers were encouraged regarding their current situations as well as their expectations for the next six-months.

The Bloomberg Commodity Index fell 3.9% in the third quarter. Abundant supplies accounted for the big losses: natural gas (-8%), lean hogs (-32%), wheat (-14%), and soybeans (-17%). However, several "soft" agricultural commodities and metals rose in price. Sugar climbed 10%; cotton was up 6%; zinc soared 13%; and nickel prices surged 11%. There were some signs of inflation, mainly due to relatively higher oil prices and wages.

Economists were equally divided in their views regarding a Fed rate hike, as were the Fed Board members themselves. But a majority voted against such a hike, based on somewhat weak business spending and inflation still below target. Given that decision, the Board's late September press release intimated that there likely would be a rate increase in the near-term. Our understanding is to expect a small one by year-end.

DOMESTIC EQUITIES

Record Highs

It was a risk-on quarter for US stocks with economic indicators that were largely positive. Higher-than-expected earnings by major companies helped, and every major index was positive. Some indexes even touched all-time peaks before declining a bit by quarter-end. With such positive sentiment, the S&P 500 rose 3.9%, and a turnaround among the NASDAQ's better known tech compwith the most significant difference occurring among large-cap names; the Russell 1000 Growth Index added 4.6% vs. 3.5% for the Russell 1000 Value Index. Smaller-sized stocks leaped past their large-cap brethren. As evidence, the Russell 2000 Index rose 9.0% vs. 4.0% for the Russell 1000. REITs, a new, separate S&P sector, ended its string of top-performing quarters; correspondingly, the NAREIT Index fell a modest 1.2%.

Computer technology was the best-performing S&P sector, with outsized price gains by Apple, Google and Microsoft. Runner-up was the much smaller transportation sector (+11.2%), as rails and airline stocks performed well due to higher capacity utilization and low energy prices. Finance stocks advanced 6.2%, despite the infamous dealings at Wells Fargo. On the other hand, investors disfavored utilities, a safe haven and dividend-driven sector that declined 2.2% after a long run. Energy was another weak performer, adding only 1.3% amid rising oil inventories.

S&P's dividend yield fell slightly, to 2.1%. Higher corporate earnings reduced the index' price/earnings ratio from 23.6 to 22.6. Nonetheless, the P/E remains historically high.

DOW CLOSES ABOVE 19000 FOR FIRST TIME

On November 22, 2016, the Dow Jones Industrial Average finished above 19000 for the first time, continuing a streak of milestones for U.S. stock indexes. It was November 4 when the blue-chip index last closed below 18000. Since then, a rally following the U.S. presidential election has in particular benefited the shares of industrial companies and banks, bolstering the Dow. The Dow industrials rose 67.2 points, or 0.35%, to 19023.87. The S&P 500 added 0.2% to 2203 and the Nasdaq Composite gained 0.3% to 5386 ~ fresh records for both indexes according the Wall Street Journal.

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ATTENTION MEMBERS

Remember to stay up to date with Board activity by reviewing the minutes on-line. Also the latest information is also posted to the announcement page of the web site.

Raytheon Company (Ticker: RTN)

Stock Spotlight

Sector: Industrials

Industry: Aerospace & Defense

Market Capitalization: $42.3 billion

Raytheon was founded in 1922 in Cambridge, MA, by three engineers including the eventual dean of the MIT School of Engineering. Their initial innovation was the S gas rectifier tube which allowed the home radio to be plugged into a wall socket, transforming it into an affordable, must-have device. As a major electronics manufacturer during World War II, Raytheon provided nearly all the magnetron tubes used in radar systems by U.S. and British troops, as well as proximity fuses for anti-aircraft shells. Perhaps its most popular invention is the microwave oven, developed after a Raytheon engineer noticed the candy bar in his pocket melted when standing in front of an active magnetron.

After the war, a series of acquisitions expanded the company's capabilities in defense electronics while divestiture of all consumer and commercial operations in the 1990s narrowed the firm's focus solely on domestic and international governmental customers. Raytheon's Patriot missile received particular international publicity during the Persian Gulf War. Other major product lines today include air traffic control systems, communications systems, cybersecurity, radar, and sensors.

Following several years of reduced U.S. defense procurement, Congress is expected to increase Department of Defense budgets at a mid-single digit rate through the end of the decade. Defense electronics and weapons systems spending should increase slightly faster, leading to high-single digit earnings growth for RTN over the investment horizon. Free cash flow is sufficient to boost the dividend, currently yielding 2.0%. With net debt equal to just 20% of total capital, the stock is rated "A" on the S&P Earnings and Dividend Quality ranking.

Average Cost in model portfolio: $137.17 per share, currently trading price $143.90.