Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 21

Date of Issue:

First Quarter 2007

Inside this issue:

David Strauss, Board Chairman & Board Trustees' Steve Diefenbacher & Van Szeto ask for your continued support as your elected pension trustees

QUARTERLY PENSION FUND SUMMARY

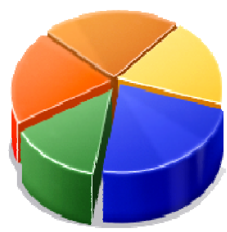
On December 31, 2006 our fund had a total market value of $192,800,000.

For the quarter, the fund gained $6,574,000. or 3.55% (net). In the previous quarter, the fund gained 3.83%.

For the quarter, the average allocation of our fund was 61.8% invested in stocks, 34.2% in bonds, and 4.0% in cash equivalents (i.e. short term liquid interest bearing investments similar to money market funds).

Our ongoing target for investment in stocks is 54% of the total fund.

For the fourth quarter of 2006, the best performing sector among US stocks was telecommunications, which rose 4.56% and the worst was energy, which declined –1.90%.



Among the major economic indicators, the Consumer Price Index (CPI-Urban) rose 2.5% for the twelve months ending in December. In the fourth quarter, consumer prices rose at a seasonally adjusted annual rate of 0.2%.

The Producer Price Index (PPI) for finished goods rose 1.1% for twelve-month period, ended in December.

The seasonally adjusted unemployment rate was 4.5% in December, compared to 4.6% in September. Real Gross Domestic Product (GDP) rose at an annual rate of 2.0% (final) for the third quarter of 2006, compared with an increase of 2.6% (final) in the second quarter of 2006.

During the fourth quarter of 2006, the Federal Reserve Open Market Committee kept its target for the federal funds rate at 5.25%. The federal funds rate is the interest rate that banks charge each other for overnight loans.

Total Fund Summary

Trailing Year (01/01/06 to 12/31/06)

For the trailing year, our fund gained 9.79% (net), while its benchmark is up 10.12%. Stocks are up 14.27%, while the benchmark is up 15.57%. Bonds are up 4.20%, while the benchmark is up 3.92%

Inverness' large cap stocks are up 16.39%, Davis, Hamilton & Jackson's growth stocks are up 3.75%, Buckhead's value stocks are up 15.91% and Eagle's small cap stocks are up 19.16%. The S&P 500 stock index is up 15.80%.

Long Term

Since September 30, 1992, the fund has an average rate of return of 8.52% (net) per year. For the last five years, the total fund has an average rate of return of 6.34% (net) per year, which out-performed the overall combined stock and bond markets' 5.88% return.

During that time stocks, averaged 7.53% and bonds averaged 5.22%, while their benchmarks averaged 6.27% and 4.84%. For the last three years, stocks had an average return of 10.44%, while bonds averaged 3.26%.

TOP 10 STOCKS

INVERNESS COUNSEL *Large Cap Core*	**DAVIS, HAMILTON & JACKSON** *Large Cap Growth*	**EAGLE ASSET MANAGEMENT** *Small Cap Core*	**BUCKHEAD CAPITAL MANAGEMENT** *Large Cap Value*
Fortune Brands	Microsoft	KKR Financial	ExxonMobil
Roper	General Electric	Ambassadors Group	Citigroup
Genworth	Cisco	Selective insurance	Altria Group
Cisco	Walt Disney	Vail Resorts	GE
American Express	Pfizer	Affiliated Managers	Automatic Data
Dean Foods	Wal-Mart	General Communications	Microsoft
Procter & Gamble	American International	Dolby Labs	Tyco International
GE	Apple	Ansys	3M Company
Alliant Techsystems	Schering Plough	Arch Capital	Chevron
McDermott Intl'.	Precision Castparts	ICON PLC ADR	American International

PPA Update

One step forward…..two steps back.

Well, in the last quarter we reported a tax advantage pursuant to Section 845 of the Pension Protection Act.

In part, the Act entitles retirees to a tax-free distribution from a pension plan of up to $3,000 per year (beginning 2007) for healthcare payments made directly from a payroll withdraw.

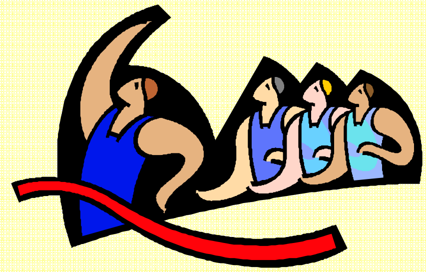
Like many new laws, the questions arose on how to apply the benefit(s). On January 10, 2007, the Internal Revenue Service issued Notice 2007-7 to provide guidance on the application.

Within the IRS response, it was clearly noted that their position was to exclude self-insured plans, such as the one the City of Hollywood offers.

Due to the far reaching negative consequence of this response, the ruling is being challenged. We will keep you posted.

PPA Updates may be viewed on our web site announcement page.

Retiree Corner



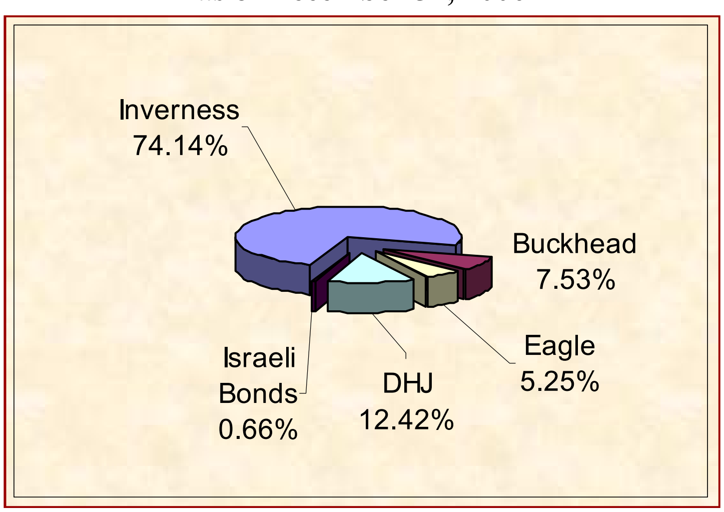
Congratulations to our latest DROP Members

Richard Sinclair	02-09-2007
Arthur Metzler	02-11-2007

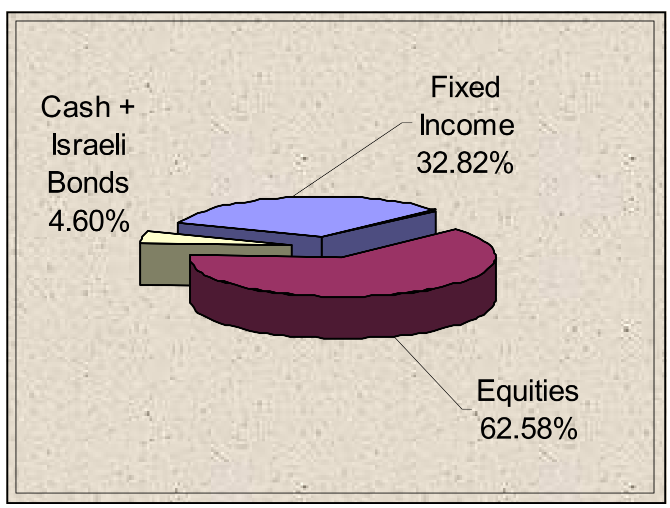
Congratulations to our latest Retirees

Kyle Berwick	11-10-2006
Fred Okamoto	01-08-2007
Peter Salvo	01-31-2007
Shawn McDermott	01-31-2007
Alejandro Recio	02-15-2007

Division of Assets by Manager as of December 31, 2006



Plan Asset Allocation as of December 31, 2006



Welcome New Pension Members!

Shaun Fowler

Gonzalo Gomez

Thomas Hughes

John Lorenzo

Walter Mays

Derrick Mears

Matthew Petty

Christian Pichardo

Barry Rumble

Larry Vandusseldorp

We all wish you continued success!

STOCK SPOTLIGHT

Pfizer (Ticker = PFE)

Sector: Health Care

Industry: Drugs

Market Capitalization: $194 Billion

Pfizer is one of the world's largest pharmaceutical manufacturers, with drugs such as Lipitor, Celebrex, Viagra and Zoloft. The company generates strong cash flow and has a very solid balance sheet (AAA rated debt). The stock sells at a modest 13 times earnings and has a 4.3% dividend yield. The company has raised the cash dividend in each of the past five years. Pfizer has a new CEO who has pledged to rationalize Pfizer's cost structure in line with its slower growth. We expect Pfizer to return capital to shareholder's in the form of dividends and through stock buybacks using the $16 billion it received from the sale of it's consumer health business to Johnson & Johnson at the end of 2006.

The average cost in the Hollywood Police portfolio is $24.90. The stock is currently trading at $26.88.

Intercontinental Exchange (Ticker = ICE)

Sector: Financials

Industry: Financial Exchanges

Market Capitalization: $9.1 Billion

Electronic Commodities Exchange

Headquartered in Atlanta, Intercontinental Exchange operates the leading global exchange for the trading of energy commodities and derivatives with the bulk of volume related to crude oil and natural gas based futures and physical contracts. Volumes in these products have grown tremendously as trading has gone fully electronic. ICE recently closed on the acquisition of the New York Board of Trade (NYBOT), the leading soft commodity exchange with contracts related to cocoa, coffee, cotton, ethanol, sugar, and orange juice. The acquisition will allow ICE to bring the clearing of NYBOT trades in-house and will also introduce electronic trading into these new commodity categories.

Average Cost in Hollywood Police Portfolio: $81.93 per share, currently trading at $134.86.

Cisco Systems (CSCO)

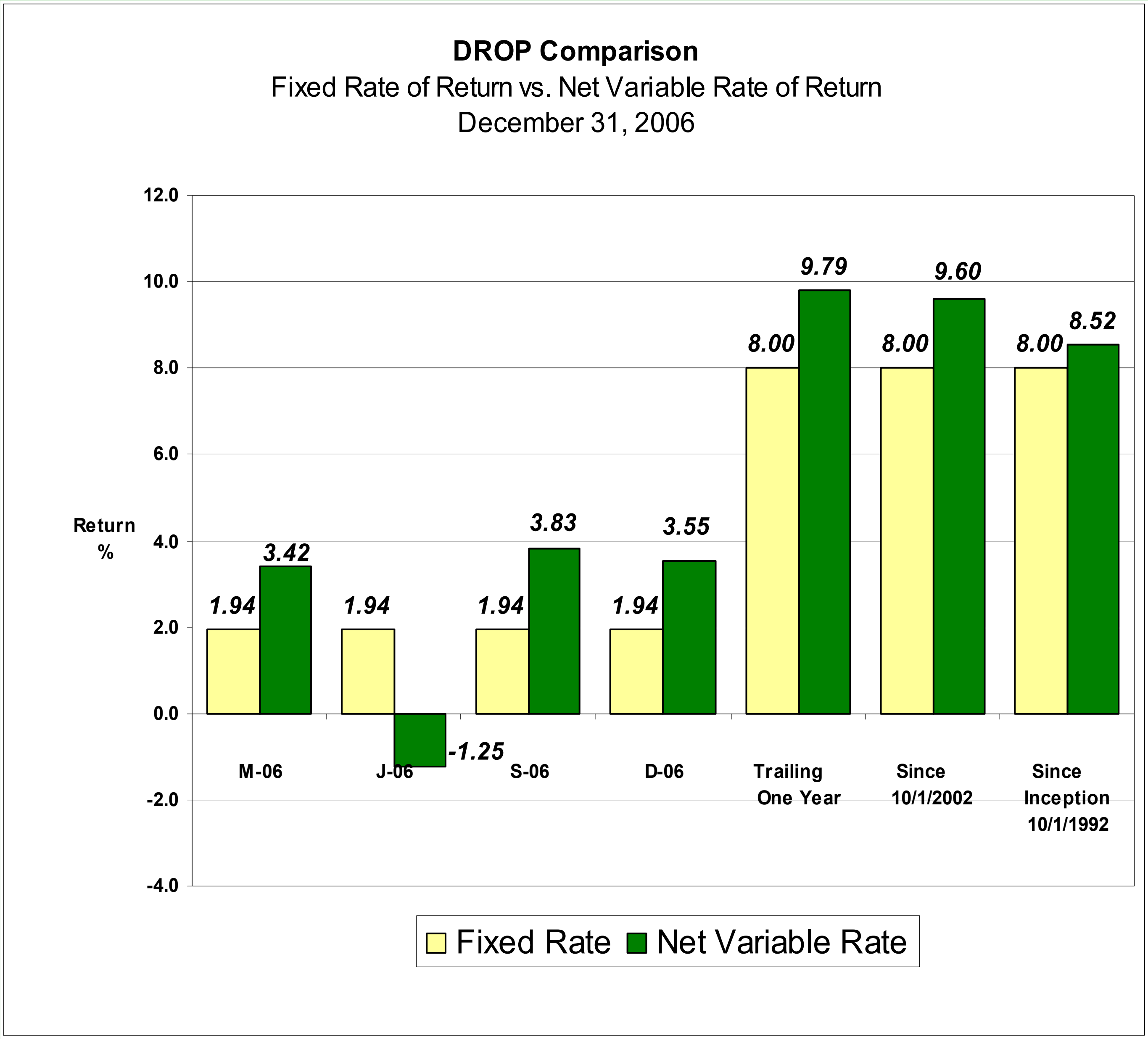
Sector: Information Technology

Industry: Communications Equipment

Market Cap: $170.9 Billion

Cisco Systems, Inc. designs, manufactures, and sells IP-based networking and other products relating to communications and information technology industry worldwide. It provides products for transporting data, voice, and video. It offers routers, which interconnect computer networks; and switching systems, which offer connectivity to end users, workstations, and servers. The company also offers application networking services products; home networking products, such as voice and data modems, network cards, media adapters, Internet video cameras, and USB adapters; and hosted small-business systems, including integrated voice and data products.

Average Cost in Hollywood Police Portfolio $17.93 Currently Trading at $27.71



What does it all mean?

This chart compares the rate of return of the plan (VRR) to the fixed rate of return (FRR) . Each DROP participant makes a personal selection upon entering the DROP to receive the VRR or the FRR for his/her DROP assets. Once the selection is made, the participant is locked in for a one year period. After that year elapses, there are four window periods that allow a member to change. Upon making another selection, the member is again locked in for a one year period.

This chart also demonstrates that since inception, as well as various other periods, the VRR has outpaced the FRR.

Buckhead Capital Management

By: Michael Harhai, CFA

Coming on the heels of a desultory 2005, the markets in 2006 were poised to provide some excitement, although of what kind was open to question. As it turned out, except for a brief spell in early summer, greed won out over fear in 2006. The S&P 500 delivered a rousing 15.8% total return for the year, with a nice assist from the fourth quarter's 6.7% return. Not to be outdone by their larger cap brethren, smaller stocks also put in a bravura performance in 2006 as the Russell 2000 Index had a total return of 8.9% in the fourth quarter and 18.4% for the full year. However, while the more technology oriented NASDAQ Composite Index gained 7.2% in the fourth quarter, its total return for the year was "only" 10.4%.

Despite several years of forecasted out-performance, and a brief show of it in the third quarter, growth stocks in the S&P 500 underperformed their value counterparts for both the fourth quarter and full year. The S&P 500 / Citigroup Value Index had a total return of 7.8% in the fourth quarter, compared to a 5.7% gain for the S&P 500 / Citigroup Growth Index. For all of 2006, the value index returned 20.9% compared to 11.0% for the growth index.

Once again, the strong performance of stocks in the energy sector goes a long way toward explaining the substantial out-performance of value stocks in 2006. In the fourth quarter, the Energy (+10.7%), Materials (+10.7%), and Consumer Discretionary (+9.8%) sectors provided the best returns, while the Health Care (+1.4%), Consumer Staples (+2.9%), and Industrial (+5.3%) sectors provided lower but still positive returns. For the full year, all sectors provided positive returns but the Telecommunications (+34.1%), Energy (+23.1%), and Utilities (+20.5%) sectors substantially outperformed the weakest sectors, Health Care (+7.4%), Information Technology (+8.0%), and Industrial (+12.0%).

Despite the strong showing by energy stocks (driven in large part by the large cap integrated oil companies), energy commodity prices did not fare so well in 2006. Oil prices were down slightly in the fourth quarter to $61 per barrel, essentially unchanged for the year. The more volatile price of natural gas increased 50% in the fourth quarter to $5.48 per metric cubic foot, but was down 42% from the beginning of 2006.

Bond investors had a more challenging year than equity investors in 2006 as the 10-year Treasury bond yield rose from 4.4% at the beginning of the year to 4.7% at the end of the year. However, thanks to narrowing risk premiums over Treasuries, the Lehman Brothers U.S. Aggregate Bond Index returned 4.3% and the lower quality high yield ("junk") bonds returned 11.6% as their spread dropped from 3.7% to 2.8%. Corporate and other issuers of debt were quick to take advantage of the relatively low level of rates and the decline in spreads. Bond issuance in 2006 set a record of $1.1 trillion, including $150.5 billion in high yield bonds.

The economy slowed in 2006, due in large part to the housing downturn. Inflation-adjusted Gross Domestic Product grew in each of the second and third quarters at a slower rate than the prior quarter. Although fourth quarter GDP has not yet been released, the final third quarter growth rate was 2.0%. But while economic growth was slowing, core inflation (i.e., excluding food and energy) remained above 2.0%, which the Federal Reserve has indicated it views as too high. So, although the Fed kept its discount rate at 5.25% from August through the end of the year (after increasing it 17 times since the summer of 2004), it has implied the rate is more likely to go up than down in the near future.

As we begin 2007, most analysts have a sanguine view of the prospects for the economy and the equity markets. The general expectation seems to be that in 2007 we will experience a "soft landing" in which the economy slows enough to reduce inflationary pressures (and the need for the Fed to raise rates) but not so much as to produce a recession. Those with less cheerful dispositions worry about a more severe housing market downturn significantly reducing consumer spending. Those with a sunnier outlook on life point to the recent drop in energy costs as a boost to consumer spending and corporate profit margins (which have been unusually high). And of course, all of these debates could be overwhelmed by adverse developments in Iraq, Iran, North Korea or some other part of the world.

We at Buckhead Capital do not spend too much time trying to forecast future economic or political developments. Rather, we focus our work on identifying mis-priced securities and constructing portfolios whose diversification will serve you well in a variety of macro-economic scenarios. We prefer to concentrate on those investment fundamentals, where we can hope to add value, rather than speculating about the future, an activity where we know we can add very little value.

We appreciate the opportunity to work with the Hollywood Police Officers' Retirement System in the management of your investments.

Successfully Serving the Public and the Public Servant

Defined benefit (DB) plans have increasingly come under attack. Many political officials, encouraged by several national conservative organizations, want the public sector to follow the lead of the private sector and convert traditional defined benefit pensions to defined contribution (DC) accounts. A move such as this would place the burden of investment risk on the employees, cost the local municipalities an excessive amount of administrative fees and give employees no financial guarantee during their golden years. Defined benefit plans are vital to public service positions: they not only help to attract and retain qualified professionals to provide taxpayers with quality, professional services, they also reward public servants with the retirement security they deserve. This analysis is meant to give you an accurate account of the present condition of defined public pension plans and to clear popular misconceptions concerning the need for pension reform.

Key Differences Between Public and Private Sector Pensions

* The pubic has a compelling interest in ensuring that certain positions remain filled with qualified and experienced personnel (Police officers, firefighters, school teachers, correctional officers, health professionals, etc.)

* Public pension plans are not subject to federal regulations that make them expensive to administer and maintain.

* Government's stream of revenue is more consistent and reliable than the private sector.

Key Differences Between Social Security and Public Pension Plans

Social Security

* Is a *pay-as-you-go* plan

* Is highly sensitive to demographic changes

* Has a trust fund with no tangible assets

Public Pensions

* Are mostly *pre-funded:* the aggregate actuarial funding level of public pensions is currently around 86%

* Are less sensitive to demographic changes

* Hold $2.7 trillion in tangible assets

Traditional pensions for public employees are good for the economy

* An important source of financing for venture capital

* Through investment returns that exceed those of DC plans, public DB funds are an important source of economic stimulus

* Stimulus reaches every city and town in the nation

* Generates additional tax revenue

A DC plan is an unreliable vehicle for promoting retirement financial security

* DC plans are leaky – participants cash out, take loans and lump sums

* Many DC plan participants arrive at retirement with insufficient assets to last the remainder of their lives

* DC plans alone are particularly perilous when participants are not Social Security-eligible

* The administrative fees for the many individual accounts of a DC plan is more expensive than those of the one large account of a DB plan

* Disability and Survivor benefits are not considered in a defined contribution plan. These additional costs DC plans are already considered in most DB plans

Case Studies and summation continued on page 8 of this publication

"Instead of loving your enemies, treat your friends a little better."

Ed Howe

Board Nomination Process & Election

There will be three board positions open in March 2007. All of the incumbents will be seeking re-election. The members up for re-election are *David Strauss, Steven Diefenbacher and Van Szeto.*

On February 26th at 9:00 AM thru March 1st at 9:00 AM, *self nominations* will be taken by phone or in person by any active member wishing to run for the Board. For active members who work after hours, please leave a message with the service.

If an election is warranted, the election dates will be March 3rd at 9:00 AM thru March 8th at 9:00 AM. The election ballots and ballot box will be located on the first floor, next to the pension bulletin board, adjacent to supply room. Read the instructions carefully or your vote won't count.

Ballots will be counted directly after the election in the First Floor Classroom. The counting process is open to any member. The top three pension board candidates receiving the most votes win.

REMINDER OF DROP WINDOW PERIODS

The Board of Trustees have selected four window periods to make a "DROP Investment Return Selection".

They are as follows: August 1-31st for the October 1 Quarter; November 1-30th for the January 1 Quarter; February1-28th for the April 1 Quarter and May 1-31st for the July 1 Quarter.

Successfully Serving the Public and the Public Servant (*Con't from page 7*)

Case Studies

* Nebraska – Moved away from a DC plan in 2000. Over a 16 year period, DC investment returns averaged only 6 percent compared to DB's 11 percent.

* West Virginia – In 2005, a bill passed to allow teachers to transfer funds into a DB plan. The change would save $1.8 billion in 30 years.

* North Dakota – Established a DC plan in 1966. In 1977, the state moved back to DB plans stating the need to provide adequate retirement benefits.

* Florida – Offered a DC plan to all 600,000 members of the Florida Retirement system in 2002. Only about 5 percent elected to convert.

* Michigan – Offered a DC plan to public employees in 1966. 94 percent opted to stay with their DB plan.

Funding a pension benefit is like amortizing a mortgage:

* It takes place over many years

* All liabilities are not due tomorrow or next year, but come due gradually. This gives the plan time to accumulate the assets required to attain full funding

* Unfunded state and local pension liabilities: $380 billion

* Outstanding residential mortgages in the U.S.: $8.8 trillion

What's the Problem?

* Our public pension plans are funded at 86%.

* If you had 86% of your mortgage paid off – would anyone consider you in financial trouble?

* Why destroy a proven system?

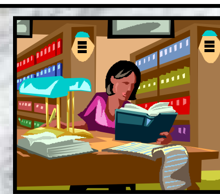
* Traditional pensions are a tried and true system that benefits taxpayers.

* New system will be costly and chaotic.

Information gathered from NASRA, NCPERS and a number of other think tanks specializing in this issue.

The Board thanks, Chairman David Strauss for providing this valuable piece.

Recent *Viewed* Bumper Stickers



Ordinance Update

The city's final draft version of the proposed pension ordinance was presented to the pension board on February 16, 2007. The changes to the ordinance are a direct result of the collective bargaining agreement and the subsequent pension election approved by the membership.

A full text version is now available on our website. Kindly look under the announcement page for details.

Inverness Counsel, Robert K. Maddox III

After a strong year it is natural to question what opportunities 2007 can bring. The Energy market moved up but has since pulled back. Housing construction has started to slow and commercial building can't be too far behind. The new Congress looks like it will follow through on campaign promises to be tougher on big business, taxes and defense spending. For these reasons, the industrial sector, with some exceptions, may have a tough time repeating the strong performance of the last 12 months. The drop in the 10 year U.S. Treasury rate was beneficial to stocks in the second half of 2006 but that may have run its course. We remain cautious about what oil prices and inflation could do to the economy and to the market. Thus, we support a market position in the energy sector. We see continuing signs that the new year will evidence strong demand for communications and tech equipment. The tech companies providing such equipment should benefit. We think that consumers will be very enthusiastic about these new features and will require improved equipment and considerably more bandwidth to send and receive personal Video Instant Messaging (VIM). We think that corporations will embrace this technology as a way to cut travel costs and increase collaboration of a far flung work-force. This will push demand for more powerful equipment for the users as well as the networks and communication companies supporting them. This in turn will drive a new fabrication cycle. Accordingly, we are excited by Cisco, Corning, Microsoft and Applied Materials. We regard these companies as business equipment cyclicals whose turn should arrive sometime this year.

In the financial sector, we are still concerned about inflation but hopeful that the yield curve will return to a more healthy shape one way or another. This should benefit companies like Citigroup, American Express and Bank of America. There is still a huge overhang of US dollars overseas. This is likely to start showing up in the cost of non-energy goods which would have mixed implications for the market since it would drive up inflation but also mean a higher revenues and sales volumes for American companies. It could also show up in the demand for American investments of all sorts from real estate to equities. That would be quite favorable for the market

At the same time, the consumer may be able to spend a little more on durable goods if the cost of filling the car stays at current or lower levels. So, following a soft landing in the beginning of the year, we are looking for consumer spending to start moving back up possibly by the end of the year.

Overall, we are looking for more modest but positive performance in the S&P 500 names.

Don't Forget To Visit Us !!!

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Attention Active Members!

Did you know that the *Web DROP Calculator* has now been updated to 96 months?

The new calculator has been designed to default your years of service to 22 and 80%. Simply enter your best three year salary, the months of participation in the DROP (*up to 30 years of service with the city*) and the calculator will do the rest!

In Closing….

In Memory -

This has been a very difficult period for our retirees….

The Board is saddened to announce the following retired members (widows) who we recently lost.

Edith Young, (12-19-2006), the widow of HPD retiree Bruce Young. Bruce retired from the HPD in 1987 and predeceased Edith.

Charles Copson, (12-29-2006) HPD retiree 1959-1969.

James Prigodich, (01-21-2007) HPD retiree 1962-1988.

Supplemental Distribution

The Board of Trustees recently announced that a supplemental distribution will be made this year.

Notification was mailed to each retiree on January 25, 2007. If you have not received your distribution notice, kindly call the office as soon as possible. Distributions are set for March 1, 2007.

While the distribution pales in comparison from years past, it brought good news that our assumption was met.

The distribution is based in part, by the *liability of the retiree's portion of the system*. The liability amount is determined by our Actuary.

Let us remind you that this payment is not guaranteed and should not be relied upon. Furthermore, although the stock market did well, our plan held over 34% in bonds, which pulled back the overall return to 8.03%, gross of fees for the fiscal year.

Audit Report

On February 16, 2007, the Board of Trustees received the results from an *independent* audit.

Mr. Clement Johns of Koch, Reiss and Company had a clean & unqualified opinion of the plan. *This is the highest recommendation that can be given.* Mr. Johns reported that the financial statements presented fairly in all material respects and were in conformity with accounting principles accepted in the United States.

The Board thanked Ms. Elisabeth Capota and Mr. Johns for their efforts.

Promotion

Officer Jeff Devlin was promoted to Sergeant on January 17, 2007. Join the Board of Trustees' in congratulating Jeff and wishing him continued success.