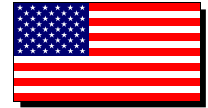




# HOLLYWOOD POLICE PENSION NEWS



A HOLLYWOOD POLICE OFFICERS' RETIREMENT SYSTEM PUBLICATION

Issue 5

Date of Issue:

First Quarter 2003

First Anniversary Edition

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## FOURTH QUARTER PENSION FUND SUMMARY

As of December 31, 2002, our fund had a total market value of \$137,769,000.

For the quarter, the fund experienced a positive gain of \$4,244,000. For the quarter, the average allocation of our fund was 47% invested in stocks, 41% in bonds, and 12% in cash equivalents (i.e., short term liquid interest bearing investments similar to money market funds).

Our target for investment in stocks is 54% of the total fund – we will usually be near that target, perhaps a little bit above or below. For the quarter ended December 31<sup>st</sup>, the total fund gained 3.17%.

In the previous quarter, the fund lost 5.60%, so the positive return was very good news. After investment management ex-

penses, for the quarter our fund net return was 3.08%. Stocks in general – large, small, international – and bonds were up for the quarter. The best performing sector among US stocks was telecommunication services, which rose 36.43% in the fourth quarter of 2002. The worst performing sector was consumer staples, which rose 0.54%. As you may recall, the worst performing sector for last quarter was telecommunication services, which dropped 26.63%.

*Continued page five*

*The Board of Trustees has retained a new investment management firm in an effort to further diversify the fund. Eagle Asset Management came on board after an exhaustive search January 1, 2003. Further details to follow. Details of the firm on our web site!*

## Retirees Receive Payments Early!

Until now a retired member received his/her payment on the first of the month.



However, when the first fell on the weekend or a holiday, they had to wait until the first business day thereafter for payment.

Effective immediately, the Board of Trustees have unanimously authorized the following: When the first of the month falls on the weekend or a holiday, the monthly payment will be made to each retiree (or beneficiary) on the last business day of the month preceding the weekend or holiday. *The only exception is with the January 1 payment.*

*The Board of Trustees felt this was a win-win situation for all. This is a non-cost issue to the plan and helps the retirees.*



**David Strauss,  
Pete Salvo &  
Tony Rode ask for  
your continued  
support as your  
elected pension  
trustees.**

### FRR VS. VRR



As reported, the last quarter of 2002 ended with a positive return for the system, which was a welcomed change. This positive return was even more evident to the DROP members who selected the VRR for their DROP account.

As you may recall, beginning October 1, 2002, DROP members were able to select either a fixed rate of return (FRR) or the variable rate of return (VRR) for their account.

The FRR is based on the actuarial assumed rate of return, which is 8% annualized. The VRR is based on the actual rate of return that the plan receives each month.

While it is certainly too early to say who will win the race, the turtle or the hare, the VRR is beating out the FRR. Only time will tell, the long term result will be the one that matters.

### SHARE ACCOUNT ON-LINE

You now have the ability to access your share account on-line. Simply complete a password request form and we will do the rest. You may obtain the form directly from our web site.

### Independent Audit



**A word from your auditors at Koch Reiss & Company, P.A.**

At the January 31, 2002 meeting we presented to the Board the Fund's audited financial statements for the September 30, 2002 fiscal year which included an unqualified (clean) opinion. This report is part of an annual independent process required by Florida Statute.

We want to thank the Fund's administrative staff for assisting us in completing the audit in a timely manner. We also thank the Board of Trustees for their confidence in our firm. We look forward to continue serving the Fund as its auditors.

### NOTICE

### Board Election

There will be three board positions open for the election in March. The incumbents up for re-election are David Strauss, Tony Rode and Pete Salvo.



On February 28th at 9:00 AM thru March 6th at noon, Dave Williams or Cheryl Winton will take nominations 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 warranted, the election dates will be March 7th at 9:00 AM thru March 14th at noon.

Ballots will be counted directly after the election in the Detective Bureau Conference Room. This process is open to any member. The top three pension board candidates receiving the most votes win.

The election ballots and ballot box will be located on the first floor, next to the pension bulletin board, adjacent to supply room. Thank you!

### TOP 10 STOCKS

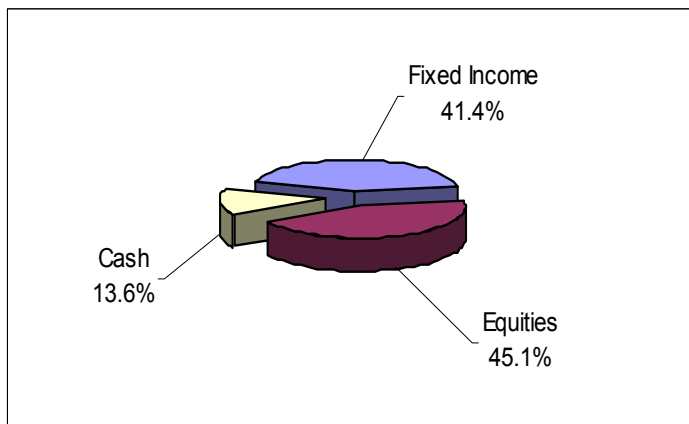
INVERNESS	DAVIS HAMILTON JACKSON
Proctor & Gamble	Microsoft Corp.
Union Pacific	Exxon Mobil Corp.
Carlisle Companies	Wal Mart
Johnson & Johnson	Johnson & Johnson
Apollo Group	Pfizer
IBM	Wells Fargo
Honeywell	General Electric
American International	US Bancorp
Pepsico	3M
Bank America	Proctor & Gamble

## Total Fund Summary

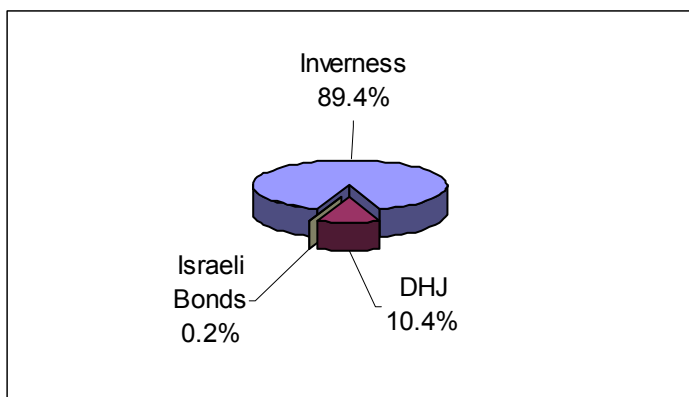
**One Year** For the last year our fund experienced a loss of 4.74%, while its beating out our benchmark (target return) was down 8.21%. Stocks were down 16.72%, while the benchmark was down 22.10%. Bonds were up 10.55%, while the benchmark was up 10.42%. Our core equity (stock) manager, Inverness, outperformed our growth stock manager, Davis Hamilton Jackson, for the year ending December 31, 2002, -16.08% vs. -18.73%, while the S&P 500 was down 22.10%.

**Long Term** Since September 30, 1992, the fund has an average rate of return of 8.48% per year. For the last five years, the total fund has an average rate of return of 3.88% per year, which beat the overall combined stock and bond markets' 2.90% return. During that time, stocks averaged 0.62% and bonds 7.62%, while their respective benchmarks averaged -0.57% and 7.55%. For 2000, 2001 and 2002, bonds have outperformed stocks. For the last three years, stocks had an average return of -13.87%, while bonds averaged 9.96%.

### Your Plan's Asset Allocation



### Division of Assets by Investment Manager



### RETIREE CORNER

#### *Congratulations to our new Retirees*

Andrew Albury	12-31-02
Thomas Alexander	12-31-02
Manny Baerga	12-31-02
Gary Baney	12-31-02
Steve Dalick	12-31-02
Phyllis Wright	12-31-02

#### *Congratulations to our new DROP Member*

John DePinho	01-01-03
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**Reminder: If a retiree would like to announce an upcoming event, please let us know!!!**

## OBSERVATIONS ON A LOUSY YEAR

**DH&A**  
DAVIS HAMILTON JACKSON & ASSOCIATES

It would be natural to express feelings of relief as we close 2002. However, since this is the third down year in a row for the U. S. equities markets, such expressions have proven quite premature in the past. Therefore, it is hard to feel anything other than ambivalence about the year just ended. The fact is that it was a lousy year. Equity investors would certainly agree. But more generally it was a lousy year as the country has been forced to resign itself to deal with some unpleasant realities.

Of course the most important and difficult of these has been our return to the brink of war. The celebration of the peace dividend when the cold war ended has given way to the realization that the world remains quite dangerous. In some respects, it is even more dangerous than when we had a single visible, more predictable adversary in the Soviet Union. When our old adversary collapsed, many academics were discussing "The End of History." It was suggested that it was the end of Totalitarian states. Democracy and individual freedom had triumphed. But we now know that history has certainly not ended.

Conflicts based on religion are as old as man. The conflicts between the Muslim world and secular Western societies have been the basis of history for a thousand years. The rise and fall of totalitarianism in the twentieth century appears as a brief departure from the basic conflict.

So we are resigned to deal with it. We are fighting a war with the ghost like terrorist of Al Queda and we must take a stand against the secular power of Sadam Hussein who uses religion to generate support for his own ambitions.

The collapse of the Soviet Union also freed us temporarily from the daily

fears of the use of weapons of mass destruction. The nuclear threat went out of our daily mindset. Biological and chemical weapons were never really in it. Now they are certainly part of our consciousness. The North Korean nuclear threat seems crazy, but it is real, and must be dealt with. The government is serious about setting up emergency measures to deal with anthrax and small pox.

We are resigned to this more dangerous world. The mood seems similar to the 1970's when the outcome of the cold war was still very much in doubt. The effect is to lower our collective expectations.

The second reality is that the business cycle has not been repealed. Except for a brief, shallow episode in 1990, the U. S. had not experienced an economic recession in close to twenty years. Alan Greenspan was knighted for his adept handling of the economic reins at the Federal Reserve. The new economy brought unprecedented productivity gains that would power the economy ever upward. Wishful thinking!

We are resigned to the fact that cycles are always with us. Our free society embraces the returns that come from opportunity and cannot avoid the risks that also come with it. This return to reality has the effect of lowering our collective expectations.

The third reality that we have faced is that corporate America is just as fallible as the rest of the country. After close to twenty years of no serious economic slowdown, excesses (say greed) got into the system. Investment bankers, accountants, CEO's, CFO's, shareholders, etc. didn't want the merry-go-round to stop. The rules were stretched. Shareholders, regulators, auditors all winked. We have become resigned to be skeptical again. The effect is to lower our collective expectations.

The U. S. equity market has been adjusting to the lowering of expectations for the last three years. In the year 2000, the expected growth rate of earnings for the companies in the S&P 500 was over 19%. Now it is about 12%. Historically, expected earnings growth of 10-12% has been the "norm." In the year 2000, the price/earnings ratio of the S&P 500 was about 35X expected earnings. Now it is close to 16X. Historically, 16X is reasonably close to the "norm." Excessive expectations have been dashed. The market is priced more consistently with longer term reality.

Meanwhile, we are dealing with reality. The risk of war is near and great. But we are resigned to it and have prepared. The economy is recovering from the recession. Fiscal policy and certainly monetary policy are stimulative and will remain so. Companies are lean. Profits should recover nicely over the next two years. The antibodies are working on the culture of corporate greed. Enron, Worldcom, etc. will be mentioned in the back pages of the paper, if at all, this time next year.

Expectations are more consistent with history and reality. I think returns on equities will be positive in 2003. I believe stocks will outperform bonds for the first time in a long time.

All of us at Davis Hamilton Jackson & Associates wish you and yours a healthy and peaceful New Year.

*-Robert C. Davis, CFA  
December 31, 2002*

## New pension plan favored by just a few

Reprinted with permission from the Tallahassee Democrat January 13, 2003

For good reasons - namely, the economy and skepticism of an aging, shrinking work force - the state's new pension investment plan is off to a slow start.

A staff analysis by the Senate Governmental Oversight and Productivity Committee says enrollment in the Public Employee Optional Retirement Plan has fallen far short of estimates. The 2003 Legislature may have to recalculate funding rates that hundreds of state, city, county and other agencies pay for employee pensions.

Florida is the only state known to have both a "defined benefit" and "defined contribution" plan federally qualified under ERISA, the landmark pension-security law that stands for "Enron Really Isn't So Awful." (Just trying to see if you're paying attention; people tend to nod off when reading about pensions. It's really the Employee Retirement Income Security Act.)

State employees like the old defined benefit system, in which the State Board of Administration invests pension money while you work and the Florida Retirement System does it out when you retire. They're wary of the "defined contribution" plan, which lets employees direct their own investments.

"The initial estimates anticipated a cumulative asset transfer range between \$8 billion and \$13 billion and a plan-wide enrollment of 178,000 employees. Subsequent recalculations reduced the estimate to 150,000," the Senate staff study said.

At the end of the first enrollment period, which was for state employees, "fewer than 6 percent of eligible participants had elected to join the new

plan and only \$112 million of assets had changed hands." About two-thirds of state workers didn't even bother making a choice, which meant they defaulted into the pension plan, and 94 percent of those who did make a written choice opted to stay put.

In the second phase of enrollment, which was for nearly 300,000 employees of school districts and community colleges, only 7,620 switched to the investment plan, the Senate committee staff found.

The Senate staff cited four reasons for the lack of interest among employees.

"First, the overall uncertainty of the economy may have reinforced behaviors that stress stability." In a full-employment economy, portability and risk-taking look good; "in a retrenching economy," stability is more important.

"Second, the state of Florida is not in the direct hiring mode it once was." Almost 40 percent of the state budget goes to special-category appropriations and payments to outside contractors - which tend to have investment plans for their employees, funded by government contracts.

"And, third, governments across the board are populated with employees beginning their exit into retirement." You get cautious as retirement looms near.

"And, fourth, more than two-thirds of the assets transferred to the investment plan were allocated among products offered through the SBA's own in-house funds." The Senate study said employees trust the SBA but have "a much more circumspect view of the outside financial markets."

There's one other reason. The FRS sent eligible employees side-by-side comparisons of how much they might reasonably expect to reap from each type of plan - and the defined benefit plan was far better, for most of them.

*Continued from page one*

### FOURTH QUARTER

### PENSION FUND SUMMARY

Among the major economic indicators, the Consumer Price Index (CPI Urban) rose 2.4% for the twelve months ended in December. This compares to an increase of 1.5% for the twelve months ended in September. The Producer Price Index (PPI) for finished goods rose 1.2% for 12-month period ended in December. The seasonally adjusted annual rate for the 3 months ended in December was 2.6%.

The unemployment rate was 6.0% in



December, compared to 5.6% in September. Real Gross Domestic Product

(GDP) rose at an annual rate of 4.0% (final) for the third quarter, 2002, compared with an increase of 1.3% (final) in the second quarter, 2002. The Federal Reserve lowered the discount rate to 0.75% in the fourth quarter of 2002. The discount rate is the interest rate that the Federal Reserve charges banks for short-term loans.

*Consumer Price Index (CPI)* measures prices of a fixed basket of goods bought by a typical consumer, including food, transportation, shelter, utilities, clothing, medical care, entertainment and other items. The CPI is published monthly by the Dept. of Labor and is widely used as a cost-of-living benchmark.

A HOLLYWOOD POLICE OFFICERS'  
RETIREMENT SYSTEM PUBLICATION

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**Probationary Officers..... Just the facts!**

When you complete your probation period, you become a member of the pension system. As a member, you are entitled to buy-back your first year as well as your additional service time. You have one year to buy back your time in the system interest free. If you wait beyond that period, interest begins to accrue from inception. Buying back your time also benefits your entitlement to additional credit in your share account. If you have any questions, please give the pension office a call. We are here for you!

**Disclaimer**

The information contained herein is provided for informational purposes only. The foregoing information/summary/prices/quotes/statistics have been obtained from sources we believe to be reliable, but cannot guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes investment, tax and/or legal advice from the Board of Trustees and/or any and all entities thereof. Please consult your professional investment, tax and/or legal advisor for such guidance.

**Odds and Ends**

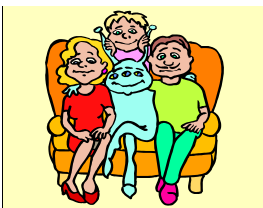


**In Memoriam**

The Board of Trustees wishes to extend their condolences to *Constance Hagen* for the loss of her husband, retiree *John Hagen*. John retired from the HPD in 1977.

**Picture This!**

Do you have any old police photos to share? Please let us know.



The Board of Trustees are hanging police photos in the pension office for all our visitors to enjoy. If you need the original photo back, we can scan it and return it to you. Please take a look and let us know.

**Retiree health Insurance**

Did you know there are 82 retired members paying for a combination of health, dental and/or life insurance? The average retiree is paying \$264.98.

**CPPT what does it mean?**

You may have noticed the CPPT designation after the Trustees name and wondered what it meant. There is an organization called the *Florida Public Pension Trustees Association*. The organization's primary goal is to educate public pension trustees in all phases of operating a pension fund. It was founded in 1983 and is a not for profit organization.

The FPPTA offers a Certified Public Pension Trustee (CPPT) Certificate Program which all your Trustees are either enrolled in or completed. The Trustees gain an understanding of investment principles, broaden public pension duties.

Other curriculum covers: Asset Allocation Capital Markets/Bonds, Capital Markets/Stocks, Economics, Fiduciary Responsibility, Pension Fundamentals, Performance Reporting, Public Pension Issues, Selected Investment Topics.

The CPPT program is a three-level certification process Basic, Intermediate and Advanced, where the Trustees have must pass a written test to move on the to next level.

**Refinancing?...who isn't?**

Just to let you know, generally if you refinance, the mortgage company wants to know your assets. One such asset is your pension account balance.

Don't wait till the last minute. If you are refinancing, give Dave or Cheryl a call in the pension office. They will get your request processed asap!

**Ponder This New Years Resolution**



"The only reason I would take up jogging is so I could hear heavy breathing again."  
--Erma Bombeck