# Police Pension News

*A Hollywood Police Officers' Retirement System Publication*

***Issue 56***

***Date of Issue:***

***Second Quarter 2016***


**Inside this issue:**



*Attention Retirees*

*The Annual Confirmation of Retirement Forms will be mailed our soon.*

*Please remember to complete and return to the Office of Retirement*

## PENSION FUND INVESTMENT SUMMARY

On March 31, 2016 our fund had a total market value of $255,233,407. For the quarter the total fund return was 1.47% (net) and its benchmark return was 1.66%. In the previous quarter the fund return was 2.92%. For the quarter the stock return was 0.77% and the benchmark return was 1.22%. The bond return was 3.26% and the benchmark return was 2.85%.

For the quarter the average allocation of our fund was 57.6% invested in stocks, 10.5% invested in real estate, 29.7% in bonds and 2.2% in cash equivalents (i.e., short term liquid interest bearing investments including money market funds and Israeli bonds). Our ongoing target for investment in stocks remain at 55% of the total fund.

Fiscal Year to Date (10/1/2015 – 03/31/2016)

For the fiscal year to date the total net return was 4.44%, the Inverness large cap stock return was 6.78%, the Garcia Hamilton & Associates growth stock return was 6.62%, the Eagle small cap stock return was 3.93%, the Rhumbline mid-cap stock index return was 6.38%, the Snow Capital large cap value stock return was -3.42%, the Wells Fargo large cap value stock return was 4.76% and the EnTrust Global Activist Fund return was -3.56%. The S&P 500 index return was 8.39%.

For the fiscal year the American Realty Advisors real estate return was 5.15% and the Intercontinental Real Estate Corp. real estate return was 5.25%. The NCREIF real estate index return was 5.19%.

Calendar Year to Date (1/1/2016 – 03/31/2016)

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Long-Term

Since December 31, 1992 the fund has an average rate of return of 7.38% (net) per year. For the last five years the total fund return was 6.77% (net) per year, which underperformed the overall combined stock and bond benchmark return of 7.51%. For the last three years the total return is 6.57% and the benchmark return is 6.98%.

For the last five years the stock return is 9.76% and the bond return is 4.01%. For the last three years the stock return is 10.20% and bond return is 2.49%. For the year the stock return is -2.78% and bond return is 2.90%.

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

## Major Economic Indicators

For the last year the best performing sector among S&P 500 stocks is Materials which increased 18.7% and the worst sector is Energy which decreased 5.2%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) increased 0.9% before seasonal adjustment for the twelve months ended in March. The Producer Price Index (PPI) for finished goods declined .1% before seasonal adjustment for the twelve months ended in March.

The seasonally adjusted unemployment rate is 5.0% in March unchanged from 5.0% in December. Real Gross Domestic Product (GDP) increased at an annual rate of .5% for the first quarter of 2016, compared with an increase of 2.0% in the third quarter of 2015.

# Top Ten Stocks

| INVERNESS | GARCIA HAMILTON | EAGLE ASSET | WELLS FARGO | RHUMBLINE |
|---|---|---|---|---|
| Microsoft | Apple Inc. | CyrusOne | BB&T Corp. | Jarden Corp. |
| Alphabet | Walt Disney | BGC Partners | Microsoft | LKQ Corp. |
| Facebook | Johnson & Johnson | ICU Medical | Lockheed | Acuity Brands |
| Adobe | Home Depot | ServiceMaster Global | Motorola | SPDR S&P MidCap |
| GE | CVS | Deluxe Corporation | Anheuser-Busch | Alaska Airgroup |
| Roper Technology | Coca Cola | Broadridge Financial | TJX Companies | Fortune Brands |
| Apple | Alphabet | Kite Realty | Honeywell | Global Payments |
| CVS | Visa | DST Systems | NextEra Energy | Mettler Toledo |
| Walt Disney | Lockheed Martin | Vail Resorts | Walt Disney | Foot Locker |
| Ecolab | Microsoft | Convergys | Accenture | Everest RE Group |

# *STOCK SPOTLIGHT*

**TJX Companies (Ticker: TJX)**

**Sector: Consumer Discretion**

**Industry: Apparel Retail**

**Market Capitalization: $51.2 billion**

**TJX is the world's leading off-price retailer of apparel and home fashions, operating 3,600 stores under the banners of T.J. Maxx, Marshalls, HomeGoods, A.J. Wright, Winners (Canada), HomeSense (Canada), T.K. Maxx (Europe), Trade Secret (Australia), and Sierra Trading Post (online). The targeted customer is a middle - to upper-middle income shopper of name-brand goods, comparable to department stores and specialty retailers, but with seeking discounts of 20-60%. The firm's competitive advantage rests with a network of 1,000 merchandise buyers negotiating with 18,000 vendors worldwide, ensuring a constantly fresh offering of on-trend product. Goods are generally sourced in-season directly from vendors, but excess goods are also acquired from vendors and full-price retailers with an intent to "pack away" for sale in future periods.**

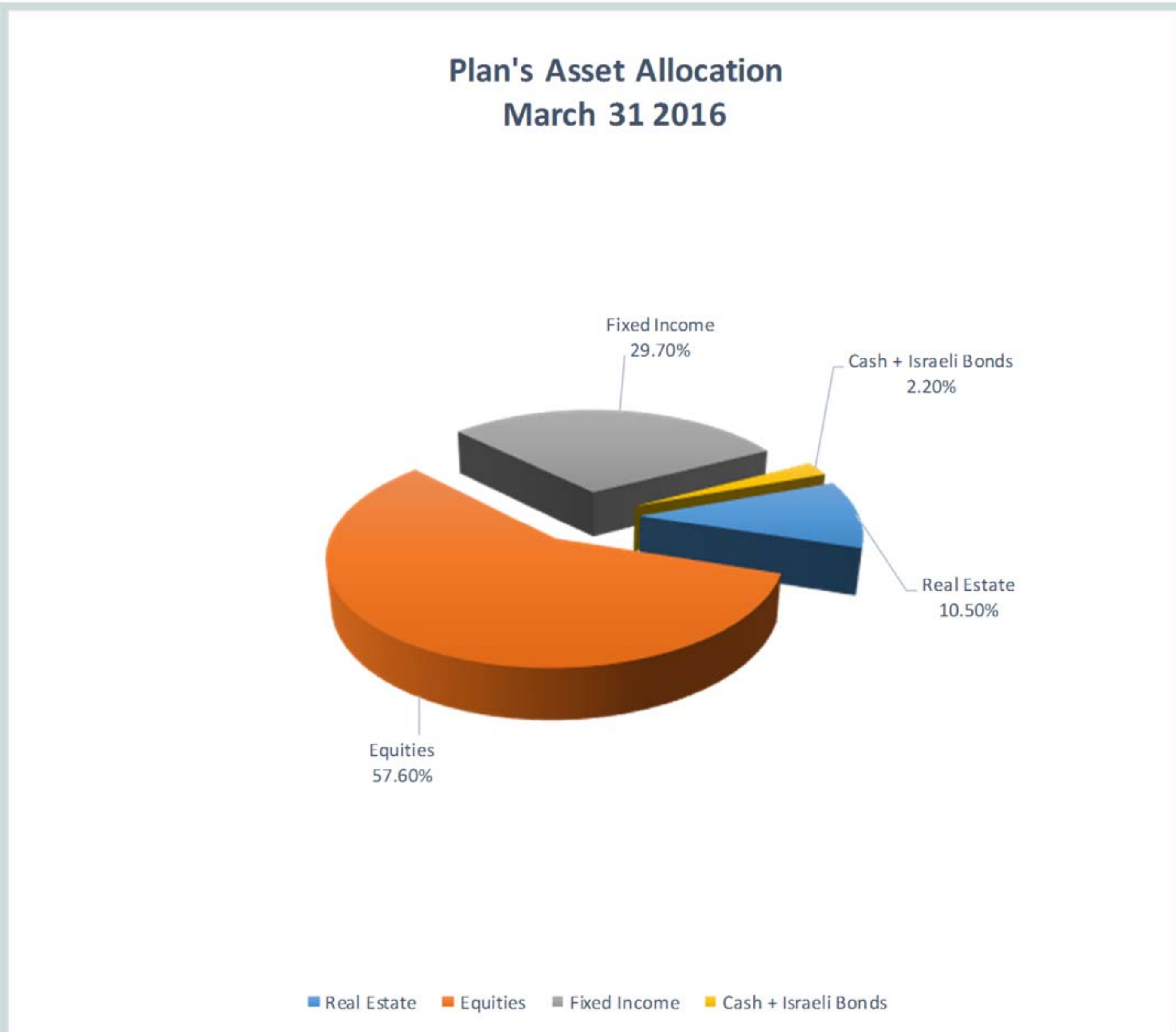
**TJX's extensive buyer network and low cost operating model positions it well to compete in an environment of cautious consumer demand. In an attempt to maintain revenues and operating leverage in a challenging environment, apparel vendors around the world are producing more product than full-price retailers can sell, providing extensive opportunities for TJX to acquire first-run goods at extreme discounts. The firm's large fleet of stores allows it to turn those goods rapidly and compete effectively on fashion-terms against so-called fast-fashion retailers. Internet retailers offer discount prices but cannot provide the tactile benefit of physical stores and few have the buying power of TJX.**

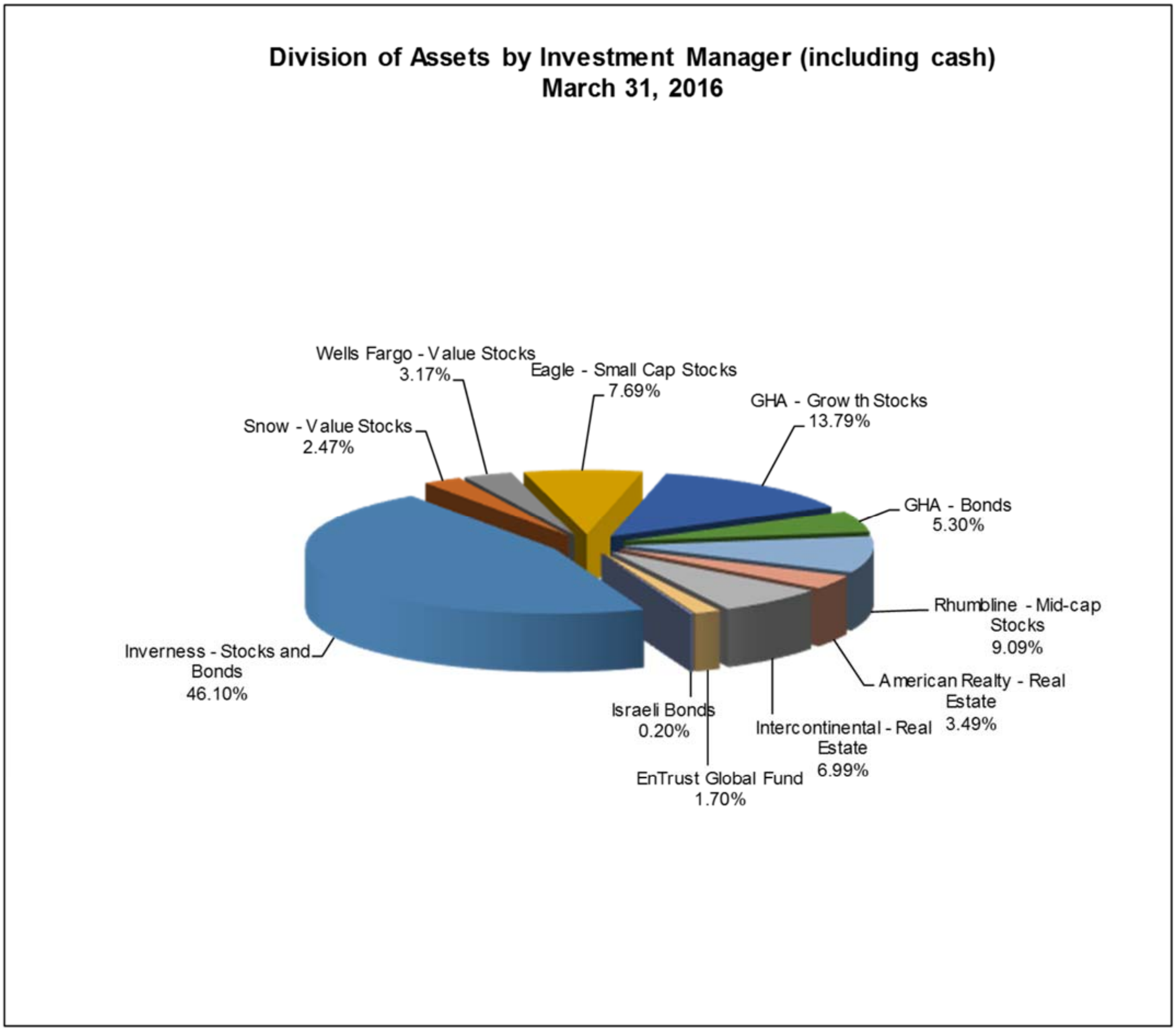
**Earnings are expected to grow at low double-digit rates over the investment horizon due to expansion of the store base and product offerings. With just 530 units outside North America, international square footage could easily double. The high-quality firm maintains a pristine balance sheet with $2.4 billion in cash against $1.6 billion in debt at year end. Inventories turn an impressive 6.4 times, indicating merchandise is on the store floor well less than 57 days. Add a 1.3% dividend yield and expected returns approach the low teens.**

**Average Cost: $73.19 per share, Q216 ending price $77.23.**

**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)
March 31, 2016
Wells Fargo - Value Stocks
3.17%
Eagle - Small Cap Stocks
7.69%
GHA - Growth Stocks
13.79%
Snow - Value Stocks
2.47%
GHA - Bonds
5.30%
Rhumbline - Mid-cap Stocks
9.09%
Inverness - Stocks and Bonds
46.10%
American Realty - Real Estate
3.49%
Israeli Bonds
0.20%
Intercontinental - Real Estate
6.99%
EnTrust Global Fund
1.70%

# ECONOMIC ENVIRONMENT

Steady As She Goes

The first quarter of 2016 saw the US economy grow at 0.5%, according to the advance estimate from the BEA, slower than the fourth quarter's 1.4%, but still a positive figure. Still, there was a lot of good news to report. Plenty of jobs added and there was also a strong feeling of consumer satisfaction. By March, there was enough of an increase in manufacturing and service activity to point to an awakening economy. The Federal Reserve Board weighed these positive developments against low inflation, a recovering housing market, the low level of exports and extreme investor jitters in the equity and commodity markets. As a result, it announced the Fed funds rate would remain unchanged for the present. A more detailed commentary about the economy follows:

A disappointing 0.5% expansion (advance estimate) in GDP during the first quarter was a decline from Q4's modest 1.4% advance. Full year 2015 growth was 2.4%, identical to that of 2014.

Non-farm payrolls increased by a healthy 215,000 in March and averaged a 209,000 monthly gain for the quarter. March employment increased in the retail, construction and health care sectors. Job losses occurred in manufacturing and mining. The unemployment rate initially ticked down to 4.9% and then reverted to 5.0% in March. More importantly, new unemployment claims have been below 300,000 for 58 consecutive weeks, the longest period since 1973. Quite favorably, the labor participation rate has edged up 0.6% since last September to 63.0%. In addition, the average earnings rate, including benefits, has risen slightly to $25.43/hour.

Consumer confidence helped to buoy expectations. The Consumer Confidence Index grew from February's 94.0 to 96.2 in March.

Home prices climbed 6.8% for the year ending in February and are within 6.5% of the 2006 peak. Colorado, Washington, and Oregon were the leaders in price appreciation.

The March ISM Manufacturing Index was encouraging as March was the first month since last fall to move into an expansion phase (51.8%). Production looked even better, rising from 52.8% the prior month to 55.3% in March; likewise, new orders climbed from 51.5% to 58.3%. Manufacturing gains were greatest in the printing, furniture, mineral products, machinery and plastics sectors. However, activity declined among apparel, electronic products, and transportation equipment.

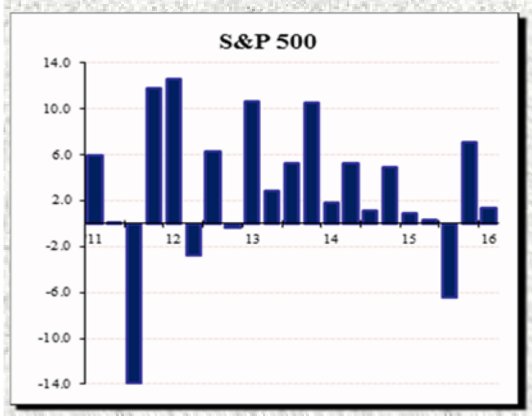
The Non-Manufacturing Index also moved higher, from 53.4% in February to 54.5%. Service sector gains were widespread among education, information, wholesale trade, finance, insurance and health care.

Weak demand in China continued to depress commodity prices. Nonetheless, there was significant price change disparity among 29 different commodities. The best performers were gold (+16%); iron ore (+24%); and lumber (+21%). Gold's first quarter gain was the highest in years and represented a massive flight to safety in the January/February period. Higher iron ore prices reflected renewed confidence in the global economy while lumber mirrored US gains in furniture making and homebuilding. Energy posted a turnaround of sorts. While gasoline prices rose 14%, natural gas prices plummeted 16% due to high inventories and a generally warm winter.

Inflation or the lack of it remains a challenge for the Fed. Gas prices at the pump began to rise and there was a tiny increase in salaries. Import prices also ticked up as the US dollar fell in value against most other currencies. These changes were enough to nudge up the inflation rate, but probably not enough to satisfy the Fed. The March quarter's CPI increase was -0.1%.

*The Board would like to thank Dahab Associates, Source.*

## DOMESTIC EQUITIES




***One Heck of a Ride***

From the first trading day of the year until February 11$^{th}$, the market was in free fall. The financial press was obsessed with China's economic slowdown and market mismanagement; European deflation; malaise or worse among emerging markets; free-falling oil and related commodity prices; and the circus surrounding the US Presidential candidates. Most worrisome was the prospect of looming domestic and global recession. Jittery investors sold down stocks close to the point of a bear market. No stock sector was spared. Miraculously, China pulled its act together; the European Central Bank creatively expanded its quantitative easing program; emerging markets rose from the ashes in sync with firming commodity prices; and domestic economic statistics began to brighten. Further, geopolitical events tilted positive (e.g. the fragile Syrian cease fire and minor inroads against ISIS) and, importantly, the Fed made it clear that rake hikes were deferred. Investors were back to "risk-on" for the rest of the quarter. By March 31$^{st}$, the US stock market pretty much ended where it started. The whole rapid fire sequence of events was startling as though a tornado had passed through and then put everything back into place.

In spite of all the volatility, the S&P 500 achieved a decent 1.3% return while the NASDAQ lost 2.4%. The more defensive DJIA added 2.2%. It was clearly a value style quarter, with every value index trumping its growth counterpart. The Russell Large Cap Growth Index rose 0.7%, but was outpaced by the Russell Large Cap Value Index (+1.6%). Mid-cap and small-cap style differences were more pronounced, as the Russell Mid Cap Growth Index rose a modest 0.6% while the Russell Mid Cap Value Index added 3.9%. The Russell Small Cap Growth Index lost 4.7% compared to the Russell Small Cap Value Index, which gained 1.7%. Investors focused on dividends, cyclicality, defensive orientation and beaten down names and all favored value stocks. Real estate stocks (REITs), soon to be represented by their own S&P sector, performed at the top of the major indices; the NAREIT index rose 5.8%.

Below is a table demonstrating how negative all markets became by February 11$^{th}$, only to be followed by a dramatic updraft between that date and quarter-end. This V–shaped market roller coaster ride, all within a 90-day period, was a new phenomenon:

| Index | Jan 4 – Feb 11 | Feb 12- Mar 31 | Full quarter |
|---|---|---|---|
| S&P 500 | -10.3 | +13.0 | +1.3 |
| NASDAQ | -14.7 | +14.3 | -2.4 |
| DJIA | -9.8 | +13.3 | +2.2 |
| Russell 2000 | -15.9 | +17.1 | -1.5 |

Most S&P sector returns were positive, but it was the defensive utility stocks that grabbed center stage, surging more than 16%. The commodity turnaround gave basic industry stocks a hefty 8.3% boost with a 4.4% lift to energy stocks, in particular. Diversified service stocks, ranging from internet providers to media, pushed ahead 6.5%. The financial sector was the worst performer, losing almost 4%, as banks contended with low lending rates and regulatory scrutiny. Weak sales for big-ticket consumer products and drug pricing concerns led to a modest slide in the non-durable consumer sector.

By quarter-end, the S&P dividend yield held steady at 2.1%. The average price/earnings ratio dropped slightly, to 22.9. Yet more than 50% of the index companies had P/E ratios north of 20, indicating that the current market is not cheap.

*Don't Forget To Visit Us !!!*

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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.**



## In Closing....

### *Garcia Hamilton*

**2016 Q2 Market Recap**

**Equity**

Stocks posted moderate gains for the quarter, with the S&P 500 Index rising 2.5%, including dividends. Yet these returns masked a dramatic 2-day decline of 5.3% and subsequent 3-day recovery of 5.0% as investors mulled the implications of Britain's decision to leave the European Union. While the vote grabbed headlines, global economic activity remained soft. Earnings estimate reductions continued, leaving full year 2016 profit projections now 1% below 2015 levels.

Reflecting a low interest rate environment and global challenges, classic "defensive" sectors were favored this quarter, including Utilities, Telecommunications, Healthcare, and Consumer Staples. Energy stocks experienced a sizable recovery, as crude oil prices nearly doubled from their recent lows. Several Wall Street darlings such as Apple, Google, Microsoft, Netflix, and Starbucks were sources of funds.

Looking forward, equity prices could post mid-single to high-single digit gains over the next twelve months. Earnings expectations have been revised lower but a weaker U.S. dollar may give management budgets some breathing room for the second half of the year. Global central banks seem steadfast in their support of financial markets.

Seven years after the financial crisis, stock price movements are still being driven by central banker statements, liquidity flows, and macro risks more than fundamental factors. High-quality large-cap growth companies have maintained pristine balance sheets and cash flows, seeing only modest improvements in relative valuation. The safety and attractiveness of these stocks will be apparent as financial markets normalize.