Police Pension News

A Hollywood Police Officers' Retirement System Publication

Issue 22

Date of Issue:

Second Quarter 2007

Inside this issue:

In Memory of Don Bellantoni, of Koch Reiss.

A friend to our System and many others throughout the State of Florida. He will be missed.

PENSION FUND INVESTMENT SUMMARY

On March 31, 2007 our fund had a total market value of $196,947,000. For the quarter, the fund gained **$4,543,000**.

For the quarter, the total fund gained 2.37% (net), beating its benchmark, which was up 1.22%.

In the previous quarter, the fund experienced a stellar gain of 3.55%.

For the fiscal year to date our fund gained 6.00% (net), while its benchmark was up 5.44%. Stocks are up 8.47%, while the benchmark was up 7.87%. Bonds are up 2.87%, while the benchmark was up 2.58%.

For the fiscal year to date, Inverness' large cap stocks are up 8.17%, Davis, Hamilton, & Jackson's growth stocks are up 5.55%, Buckhead's value stocks are up 7.82% and Eagle's small cap stocks are up an incredible 16.19%. The S&P 500 index is up 7.38%.

For the first quarter of 2007, the best performing sector among US stocks was health care, which rose 7.39% and the worst was telecommunications energy, which rose 1.61%.

Among the major economic indicators, the Consumer Price Index (CPI-Urban) rose 2.8% for the twelve months ended in March.

In the first quarter, consumer prices rose at a seasonally adjusted annual rate of 4.7%. The Producer Price Index (PPI) for finished goods rose 3.2% for twelve-month period ended in March.

The seasonally adjusted unemployment rate was 4.4% in March compared to 4.5% in December. Real Gross Domestic Product (GDP) rose at an annual rate of 2.5% (final) for the fourth quarter of 2006, compared with an increase of 2.0% (final) in the third quarter of 2006.

During the first quarter of 2007, 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.

Chairman's Note: Further investment details may also be viewed on our website.

Total Fund Summary

Trailing Year (04/01/06 to 3/31/07)

For the trailing year, our fund gained 8.68% (net), while its benchmark is up 8.93%. Stocks are up 11.03%, while the benchmark is up 11.15%. Inverness' large cap stocks are up 12.59%, Davis, Hamilton & Jackson's growth stocks are up 3.67%, Buckhead's value stocks are up 12.43% and Eagle's small cap stocks are up 12.62%. The S&P 500 stock index is up 11.83%. Bonds are up 6.53%, while the benchmark is up 6.26%.

Long Term

Since September 30, 1992 the fund has an average rate of return of 8.55% (net) per year. For the last five years the total fund has an average rate of return of 6.47% (net) per year, which out-performed the overall combined stock and bond markets' 6.19% return. During that time stocks averaged 7.50% and bonds averaged 5.55%, while their benchmarks averaged 6.52% and 5.24%. For the last three years stocks had an average return of 11.12%, while bonds averaged 3.05%.

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*
Alliant Techsystems	GE	KKR Financial	Dollar General
Fortune Brands	Microsoft	Ansys	ExxonMobil
National Oilwell Varco	Walt Disney	Arch Capital	Altria Group
Roper	AIG	Vail Resorts	NY Comm. Bank
Schlumberger	Cisco	General Communications	Tyco
Procter & Gamble	Air Products	UAP Holding	AT&T
Abbott Labs	Apache	Dolby Labs	Citigroup
PepsiCo	Franklin Resources	Novell	Automatic Data
Cisco	Danaher	Rockford Holding	Pfizer
Genworth	Precision Castparts	Tetra Technologies	Chevron

Looking Ahead

NEW YORK (MarketWatch)

U.S stocks rallied on April 25, 2007, allowing the Dow Jones Industrial Average to finish above the key 13,000 level for the <u>first time</u>, after news of better-than-expected orders for durable goods in March

Retiree Corner

Congratulations to our latest DROP Member

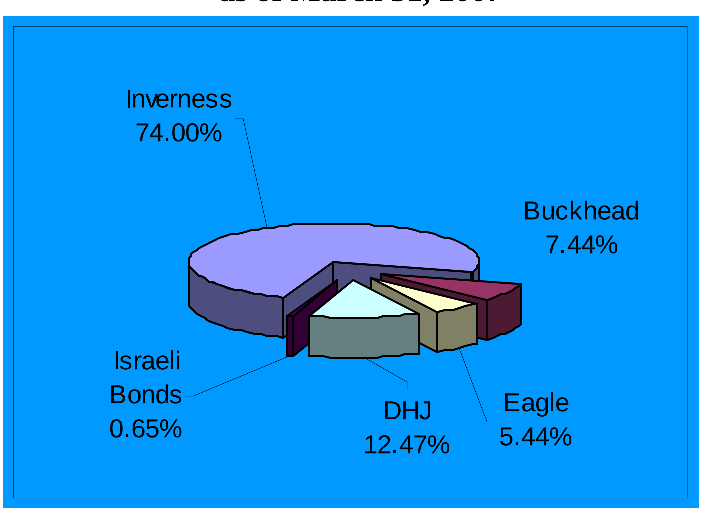
Joseph Healey	05-27-2007

Congratulations to our latest Retirees

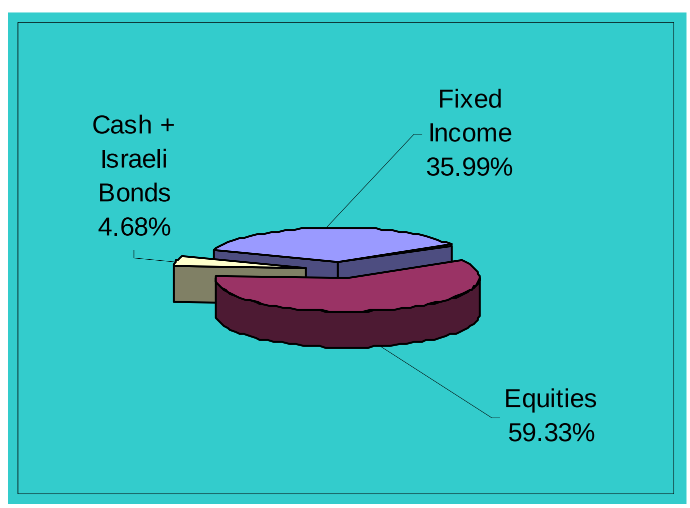
Angel Delarosa	03-31-2007
Richard Friedman	03-31-2007
Michael Morman	04-30-2007
Donald Phillips	04-30-2007
Debbie Ramsey	04-30-2007
John Kerns	05-31-2007

Division of Assets by Manager

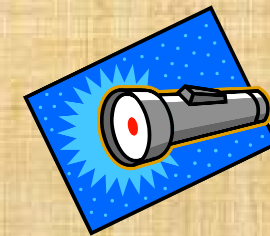
as of March 31, 2007



Plan Asset Allocation as of March 31, 2007



STOCK SPOTLIGHT



Vail Resorts (Ticker: MTN)

Sector: Services

Industry: Resorts and Casinos

Market Capitalization: 2.23B

Comments: operates mountain resorts, including five premium ski resorts, in the United States. The stock has traded up as the market has become more aware of the value of Vail's properties in light of high private-equity interest in premium gaming, lodging and leisure-sector assets as well as recent private-equity transactions for similar properties going at high multiples. Operations at the resorts appear – in our view – to be running smoothly.

Average cost in the Hollywood Police Portfolio: $20.75, currently trading at $57.41.

LoJack Corp. (Ticker: LOJN)

Sector: Consumer Discretionary

Industry: Consumer Electronics

Market Capitalization: $363 Million

LoJack designs, manufacturers and sells stolen property recovery devices with a 90% recovery rate. The stock dropped 30% in May, 2006, because of an unexpected decline in margins and sales, which have since rebounded. LOJN has no major competitors and only has 7% penetration in the U.S. Once a monitoring network is built, incremental revenues offer substantial earnings leverage. Management's goal is to reach 20% penetration domestically, which can be done without significant capital investment in the U.S. because of its mature network. These factors show that Return on Invested Capital (ROIC) can expand from 19% to 30% over the next 5 years. Expansion in international markets and into tracking high value cargo also offers significant earnings growth.

Average cost in the Hollywood Police portfolio: $18.24, currently trading at $19.29.

MEMC Electronic Materials (Ticker = WFR)

Sector: Information Technology

Industry: Semiconductor Equipment

Market Capitalization: $14.0 Billion

MEMC Electronic Materials produces silicon wafers used in the production of computer chips and solar panels. Currently, 85% of sales are to the semiconductor industry but mix should increasingly shift toward the much faster growing market for materials used in the construction of solar panels. Strong demand and tight supply for the company's silicon wafers has led to an increase in management's 2007 guidance and should continue to drive better than expected earnings in coming quarters.

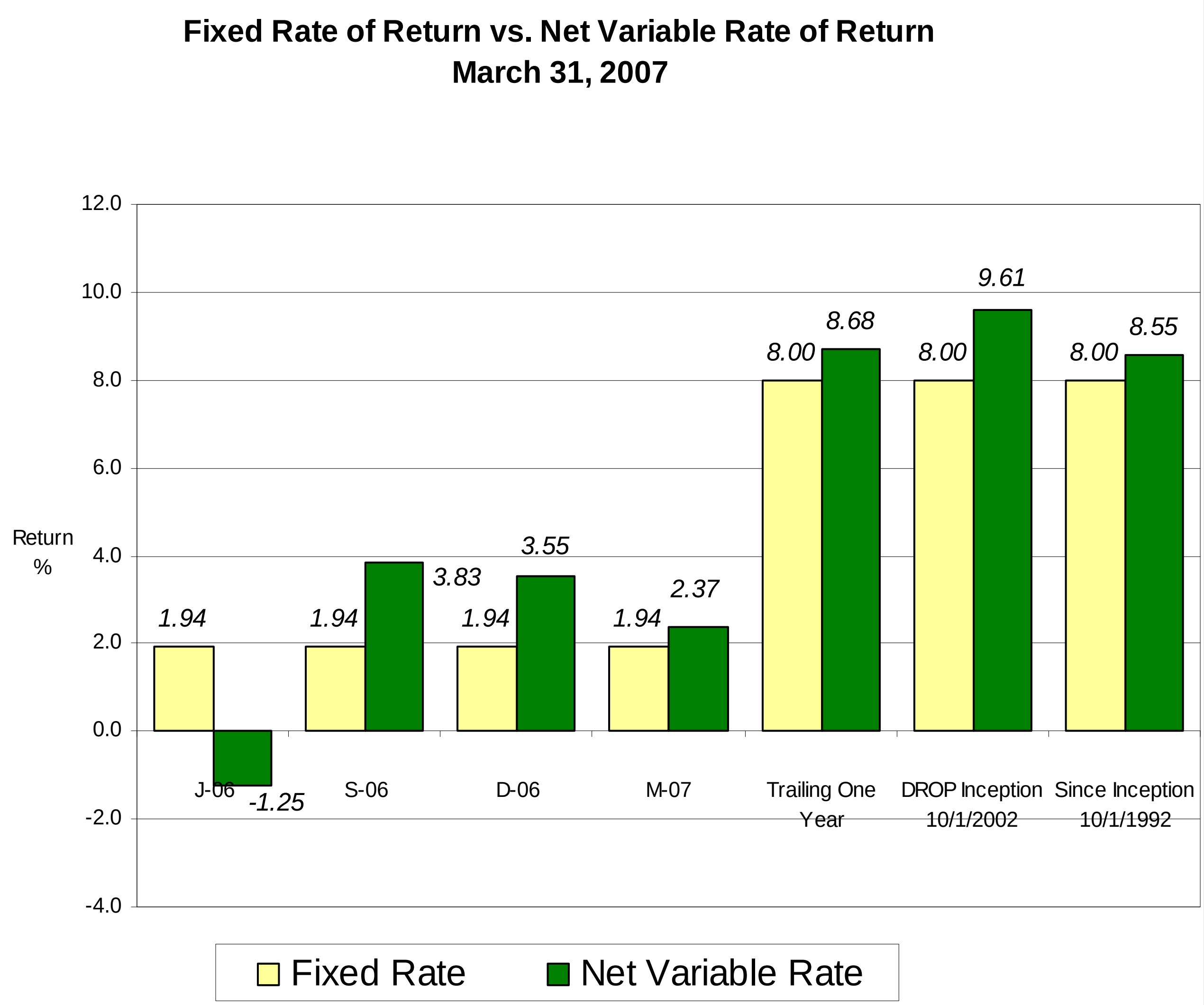
Average cost in the Hollywood Police portfolio: $41.95 per share, currently trading at $62.40.

What does it all mean?

The chart below 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 (see the last page of this newsletter for details). 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 most other periods, the VRR has outpaced the FRR.



Buckhead Capital Management

Macbeth's description of human life could just as well sum up the equity markets in the first quarter of 2007: filled with a "sound and fury" that in the end left them right about where they started. Sparked by a one-day 9% drop in the Chinese stock market in late February, the U.S. equity markets offered quite a roller coaster ride in the first quarter. After gaining 3.2% (total return) through February 20, the S&P 500 lost 5.8% in the next nine trading days, before rising 3.5% to finish the quarter up 0.6%. Smaller stocks showed even greater volatility but a higher return, as the Russell 2000 Index gained 2.0%, while the NASDAQ Composite Index eked out a total return of 0.4% for the quarter.

Value stocks once again performed better than growth stocks. The S&P 500 / Citigroup Value Index gained 1.3% in the first quarter compared with a loss of 0.1% for the S&P 500 / Citigroup Growth Index. One of the reasons the value indices performed better was due to the strong performance of utility stocks, perhaps in reaction to the increased volatility in the market. For the first three months of 2007, Utilities (+9.2%), Materials (+8.9%), and the Telecommunications (+7.2%) were the best performing sectors in the S&P 500. The worst performing sectors (all with greater weighting in the S&P 500 than the best sectors) were Financials (-2.8%), Information Technology (-0.9%), and Consumer Discretionary (-0.7%).

As equity markets dropped in late February, fixed income investors sought safety in higher quality bonds. However, much like the equity markets, all the "sound and fury" in the quarter resulted, in the end, in little change. The yield of the benchmark 10-year Treasury, which began the quarter at 4.71%, fell to a low of 4.50% in early March before ending the quarter at 4.65%. The preference for greater safety was more persistent among high-yield bond investors as junk-bond spreads rose from their quarter low of 2.5% to a high of 3.0% before ending the quarter at 2.9%. Bonds generally provided greater returns than equities in the first quarter, with the major exception being sub-prime mortgage backed securities.

Overshadowing every other economic development in the first quarter were the problems in the sub-prime mortgage market, as the combination of historically loose lending standards and adjustable-rate mortgage rate re-sets came back to haunt both borrowers and lenders. The most widely debated economic question in the quarter was to what extent those problems would affect the rest of the economy. Despite the frequent headlines about the problems of distressed homeowners and sub-prime mortgage lenders (52 of whom have gone out of business since late 2006), the immediate threat to the economy would appear to be pretty well contained. Around one-third of homeowners have no mortgage and 75% of those with a mortgage have a fixed rate mortgage. Only 10% of residential mortgages are sub-prime loans and only 2% are sub-prime adjustable rate loans.

Nevertheless, it is difficult to imagine that the troubles in the sub-prime area will not have a broader effect on the economy. Lenders have already begun to respond to increased losses by tightening credit standards. At the margin, this tightening reduces demand for home ownership, hurting both employment and the value of existing homes. So even if the problems seen with sub-prime loans are <u>not</u> replicated with higher quality loans, the economy is likely to feel the effects of reduced spending as housing / mortgage industry jobs are lost and homeowners react to stagnant / falling home prices. To the extent that the problems seen today in the sub-prime market emerge in higher quality loans, the damage to the broader economy will be even greater. An even more significant risk to the economy is that federal or state government actions to correct perceived problems in the mortgage market exacerbate the effects of this natural tightening of credit standards.

Investor expectations for signs of monetary easing were dashed again in March by a Federal Reserve statement indicating greater concern with inflation than a slowing economy. With the economy and corporate profit growth slowing, expectations for the timing of a rate reduction by the Fed dominate the debate about the probability of hard vs. soft landings. While we at Buckhead Capital enjoy a lively debate as much as anyone, it doesn't affect our day-to-day activity very much. We continue to spend our time looking for attractively valued securities and constructing portfolios that will help our clients achieve their financial goals.

Your Buckhead Capital Investment Team thanks you for your continued confidence and support.

Davis Hamilton Jackson - Market Spin

The market took a well-earned breather during the first quarter of 2007. Its gains over the past two quarters resulted in multi-year highs for stocks and, since bottoming in 2003, the S&P 500 has advanced in 12 out of 15 quarters. The market's enduring rally stalled in late February with an abrupt sell-off stemming from profit-taking in the high-flying Chinese stock market which ultimately spread to global markets. Over the ensuing weeks, sluggish economic data coupled with a growing concern that a burgeoning sub-prime real estate crisis could become a drag on the economy contributed to a 7% correction in the S&P 500 from its highs just 3 weeks prior. Investor sentiment quickly turned cautious. By mid-March, the periodic Investors Intelligence survey, which measures the level of investor optimism and is typically a great short term contra-indicator, reported that the percentage of "bulls" among newsletter writers was at the lowest level since September 2006 … that set the bottom of the market for the quarter! During the final stretch, investors resumed their bid for stocks driven by renewed optimism that strong M&A and stock buy-back activity would continue and provide support for the market. Also bolstering market sentiment was Fed Chief Bernanke's commentary that while recent economic data had been mixed, and the "adjustment" in the housing sector would persist, the economy would continue to grow at a modest pace. Importantly, the Fed also shifted its position away from a restrictive stance on interest rates—a long anticipated move by investors.

Final returns for the S&P 500 and the Russell 1000 Growth Index were +0.64% and +1.19% respectively. The gain in your portfolio bested both indices. By capitalization, the divergence in performance was noteworthy as midcap stocks handily outperformed large and small stocks. The Russell Midcap Index gained 4.38%, while the Russell Top 200 Index was virtually unchanged (-.05%) and the Russell 2000 Index, which is a measure of small cap stock returns, rose 1.95%. One explanation for the outsized gain in midcap stocks is that companies in this capitalization range are in the valuation sweet spot of private equity investors who have enormous pools of funds at their disposal.

In last quarter we suggested that while stocks could consolidate in the near term, we are constructive on the equity market for 2007 based on the market factors that we monitor. As we navigate further into the year, we remain watchful for any spreading of the sub-prime mortgage flu into other areas of the housing market and any signs of higher than expected inflation.

We believe the rate of economic growth combined with recent inflation data is enough to keep the Fed at bay for now regarding a more accommodative position on interest rates. However, modest growth in the economy leading to relaxed inflationary pressures can be a very positive environment for stocks, particularly when combined with attractive equity valuations, robust liquidity, and healthy international growth. We are particularly enthusiastic about the positioning of your portfolio which is made up of large cap, high quality, growth companies.

PPA Update

Still no response from the Internal Revenue Service regarding their final interpretation of the Pension Protection Act (PPA).

As you may recall in a prior publication, there was reportedly a tax advantage to you pursuant to Section 845 of the PPA. To recap, the PPA 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.

On January 10, 2007, the Internal Revenue Service issued Notice 2007-7 to provide guidance on the application of the law. Within the IRS' response, it was clearly noted that their position was to <u>exclude</u> self-insured plans, such as the one the City of Hollywood offers. We will keep you advised.

On another related note, our bank (Fiduciary Trust) began tracking healthcare payments for year end reporting purposes. This was noted on your monthly retirement statement. We received many calls about the new line item on the monthly stub. However, now that the IRS has ruled against self-insured plans, Fiduciary will most likely revert back to the old format.

Forfeiture of Retirement Benefits

There have been numerous inquiries about retirement forfeitures recently. Here is the state statue for your review.

112.3173 Felonies involving breach of public trust and other specified offenses by public officers and employees; forfeiture of retirement benefits.--

(1) INTENT.--It is the intent of the Legislature to implement the provisions of s. 8(d), Art. II of the State Constitution.

(2) DEFINITIONS.--As used in this section, unless the context otherwise requires, the term:

(a) "Conviction" and "convicted" mean an adjudication of guilt by a court of competent jurisdiction; a plea of guilty or of nolo contendere; a jury verdict of guilty when adjudication of guilt is withheld and the accused is placed on probation; or a conviction by the Senate of an impeachable offense.

(b) "Court" means any state or federal court of competent jurisdiction which is exercising its jurisdiction to consider a proceeding involving the alleged commission of a specified offense.

(c) "Public officer or employee" means an officer or employee of any public body, political subdivision, or public instrumentality within the state.

(d) "Public retirement system" means any retirement system or plan to which the provisions of part VII of this chapter apply.

(e) "Specified offense" means:

1. The committing, aiding, or abetting of an embezzlement of public funds;

2. The committing, aiding, or abetting of any theft by a public officer or employee from his or her employer;

3. Bribery in connection with the employment of a public officer or employee;

4. Any felony specified in chapter 838, except ss. 838.15 and 838.16;

5. The committing of an impeachable offense; or

6. The committing of any felony by a public officer or employee who, willfully and with intent to defraud the public or the public agency for which the public officer or employee acts or in which he or she is employed of the right to receive the faithful performance of his or her duty as a public officer or employee, realizes or obtains, or attempts to realize or obtain, a profit, gain, or advantage for himself or herself or for some other person through the use or attempted use of the power, rights, privileges, duties, or position of his or her public office or employment position.

(3) FORFEITURE.--Any public officer or employee who is convicted of a specified offense committed prior to retirement, or whose office or employment is terminated by reason of his or her admitted commission, aid, or abetment of a specified offense, shall forfeit all rights and benefits under any public retirement system of which he or she is a member, except for the return of his or her accumulated contributions as of the date of termination.

(4) NOTICE.--

(a) The clerk of a court in which a proceeding involving a specified offense is being conducted against a public officer or employee shall furnish notice of the proceeding to the Commission on Ethics. Such notice is sufficient if it is in the form of a copy of the indictment, information, or other document containing the charges. In addition, if a verdict of guilty is returned by a jury or by the court trying the case without a jury, or a plea of guilty or of nolo contendere is entered in the court by the public officer or employee, the clerk shall furnish a copy thereof to the Commission on Ethics.

Please continue to page 9

(b) The Secretary of the Senate shall furnish to the Commission on Ethics notice of any proceeding of impeachment being conducted by the Senate. In addition, if such trial results in conviction, the Secretary of the Senate shall furnish notice of the conviction to the commission.

(c) The employer of any member whose office or employment is terminated by reason of his or her admitted commission, aid, or abetment of a specified offense shall forward notice thereof to the commission.

(d) The Commission on Ethics shall forward any notice and any other document received by it pursuant to this subsection to the governing body of the public retirement system of which the public officer or employee is a member or from which the public officer or employee may be entitled to receive a benefit. When called on by the Commission on Ethics, the Department of Management Services shall assist the commission in identifying the appropriate public retirement system.

(5) FORFEITURE DETERMINATION.--

(a) Whenever the official or board responsible for paying benefits under a public retirement system receives notice pursuant to subsection (4), or otherwise has reason to believe that the rights and privileges of any person under such system are required to be forfeited under this section, such official or board shall give notice and hold a hearing in accordance with chapter 120 for the purpose of determining whether such rights and privileges are required to be forfeited. If the official or board determines that such rights and privileges are required to be forfeited, the official or board shall order such rights and privileges forfeited.

(b) Any order of forfeiture of retirement system rights and privileges is appealable to the district court of appeal.

(c) The payment of retirement benefits ordered forfeited, except payments drawn from nonemployer contributions to the retiree's account, shall be stayed pending an appeal as to a felony conviction. If such conviction is reversed, no retirement benefits shall be forfeited. If such conviction is affirmed, retirement benefits shall be forfeited as ordered in this section.

(d) If any person's rights and privileges under a public retirement system are forfeited pursuant to this section and that person has received benefits from the system in excess of his or her accumulated contributions, such person shall pay back to the system the amount of the benefits received in excess of his or her accumulated contributions. If he or she fails to pay back such amount, the official or board responsible for paying benefits pursuant to the retirement system or pension plan may bring an action in circuit court to recover such amount, plus court costs.

(6) FORFEITURE NONEXCLUSIVE.--

(a) The forfeiture of retirement rights and privileges pursuant to this section is supplemental to any other forfeiture requirements provided by law.

(b) This section does not preclude or otherwise limit the Commission on Ethics in conducting under authority of other law an independent investigation of a complaint which it may receive against a public officer or employee involving a specified offense.

The Board's adopted forfeiture proceedings may be viewed on-line under the announcement page.

Public Employees – Board of Trustees of retirement trust fund properly ordered forfeiture of former police chief's retirement benefits after he was convicted of mail fraud. Former police chief appealed an order from the board of trustees of the city's firefighters' and police officers' retirement trust, which directed the forfeiture of his retirement benefits, after he was convicted of mail fraud for diverting funds from a private, not-for-profit corporation for personal use. Section 112.3171(3), F.S., requires the forfeiture of retirement benefits from a public retirement system when a public officer or employee commits a "specified offense," including the embezzlement of public funds. The former police chief argued that he did not commit a "specified offense" within the meaning of section 112.3171(3) because he did not take public funds – only private funds. The Third DCA disagreed. It concluded the funds at issue were in fact public where the city transferred public funds to the not-for-profit corporation, which was required to use the funds to carry out city functions. *Warshaw v. City of Miami Firefighters' and Police Officers' Retirement Trust*, 29 Fla. L. Weekly D2076 (Fla. 3d DCA, Sept. 15, 2004).

Don't Forget To Visit Us !!!

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Window Periods — DROP Investment Return Selection

As a reminder, the Board of Trustees have selected four window periods to make or change 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.

Once a new selection is elected, you are locked in for one year.

Disclaimer

In Closing....

In Memory -

The Board is saddened to announce the following retired member who we recently lost.

Samuel Kraft, age 81, HPD Member 1961-1980.

After & Pre-Tax Contribution

An issue for retirees that the Board would like to remind you about is your after tax contribution to the system. Prior to 1994, members of the plan contributed to the retirement system before taxes were withheld. This meant that if you made $100.00, you were taxed on that gross number and then your contribution was deducted. Since 1994, your contribution to the system was deducted and then you are taxed on the net number. After tax contributions may have also been made on buy-backs of probation time.

Retirees… you may be entitled to reduce the amount of your pension income reported on your tax return by the tax free portion of the payment represented by after tax contribution you already made.

If you are retired and do not know how much you contributed to the system on an after tax basis, please let us know. We will provide you with a letter of after tax contribution to share with your tax professional.

Mark Your Calendars

The 9th Annual Hollywood Police Alumni Association Reunion will be held at the Ramada Inn located in Ocala, Florida on October 19th to 21st, 2007. Further details coming…….

NEVER GIVE UP THE SHIP…..

From Steve Cypen… Few great leaders have encountered defeat so consistently before finally winning. Consider the following about one such individual:

1. 1831 Failed in business;
2. 1832 Defeated for Legislature;
3. 1834 Failed in business;
4. 1835 Sweetheart died;
5. 1836 Had a nervous breakdown;
6. 1838 Lost political race;
7. 1843 Defeated for Congress;
8. 1846 Defeated for Congress;
9. 1848 Defeated for Congress;
10. 1855 Defeated for U.S. Senate;
11. 1856 Defeated for Vice President;
12. 1858 Defeated for U.S. Senate

Who was this loser? Why, Abraham Lincoln, who was elected President in 1860. *Never give up the ship.*