

PALM BAY POLICE & FIREFIGHTERS' PENSION FUND

INVESTMENT PERFORMANCE PERIOD ENDING MARCH 31, 2011

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Palm Bay Police & Firefighters' Pension Fund
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Looking For A Safe Harbor

During the past 30 years, balanced portfolios have been comprised of various asset classes with the intent of achieving an expected return. Bonds have universally served as the low volatility asset class that countered the volatility of stocks. Bonds, until recently, were the primary income source and considered the safe harbor for balanced portfolios. The low interest rate Fed policy of the past three years has made bonds potentially more volatile. As bond coupons have declined, the risk associated with interest rate change (duration), has steadily risen.

Traditional alternatives to bonds:

- Cash certainly remains the safest choice, but the absence of any yield makes it very expensive.
- Certificates of deposit offer higher yields than cash, but have limited FDIC insurance and liquidity.
- Stable-value products (annuities) offer bond-like yields, but are encumbered by limited liquidity.
- Deep value equity income products provide attractive yields, but have downside risk that is similar to the S&P 500 index.
- Private mortgage pools offer attractive income, but limited liquidity.
- Small Business Administration loans have implied U. S. government Agency backing, but yields are less attractive.
- Municipal bonds provide low volatility and attractive yields in today's market.
- Private real estate pooled trusts offer attractive yields and capital appreciation, but face occasional liquidity restrictions.

Non-traditional alternatives to bonds:

Hedge funds have evolved during the past 10 years as a possible solution to the volatility associated with traditional balanced stock/bond portfolios. Many of these strategies address the goal of an absolute return program with low volatility that has little correlation to the broad stock and bond markets. While these approaches are attractive in concept, the use of leverage during 2008-2009 has brought to light the high level of risk associated with some of these strategies thought by many to be low risk. A closer review reveals a broad range of hedge fund strategies that may include: distressed debt, equity/debt arbitrage, long/short, currencies, commodities, private equity, private loans, sale of company assets, and special situations.

BCA will continue to seek out and review bond alternatives, along with a broad range of solutions designed to achieve absolute return goals.



Palm Bay Police & Firefighters' Pension Fund
Total Fund
Investment Summary
March 31, 2011

- o For the quarter, the Pension Fund earned \$5,227,598 (+4.0% net) vs. +3.8% for the Target Index.
- o For the fiscal year to date, the Pension Fund earned \$12,953,508 (+10.7% net) vs. +10.3% for the Target Index.
- o For the year, the Pension Fund earned \$16,586,917 (+14.2% net vs. +13.0% for the Target Index), ranking in the top 48th percentile of the PSN Balanced Aggressive Universe.
- o For both the three and five-year rolling periods, the Fund beat the Target Index and ranked in the top 21st and top 14th percentiles, respectively.
- o RidgeWorth total equity portfolio was ahead of the benchmark for all periods.
- o The RidgeWorth Mid-Cap Core Equity fund was sold in February 2011.
- o While struggling the past two quarters, the RidgeWorth fixed income portfolio was in line with the benchmark for 3 and 5 years.
- o EuroPacific slightly trailed the benchmark for the fiscal year, but was significantly ahead for all other time periods.
- o J.P. Morgan Real Estate was ahead of the benchmark for the year.



**Palm Bay Police & Firefighters' Pension Fund
Total Fund
Investment Performance
March 31, 2011**

	Dollars		
	<u>Quarter</u>	<u>Fiscal Year</u>	<u>One Year</u>
Beginning Market Value	128,422,356	121,074,786	117,371,775
Ending Market Value	134,078,073	134,078,073	134,078,073
Net Flows	+428,119	+49,779	+119,381
Investment Gain/(Loss)	+5,227,598	+12,953,508	+16,586,917
Investment Return, Net	+4.0%	+10.7%	+14.2%
Target Index	+3.8%	+10.3%	+13.0%
<i>Added Value</i>	+0.2	+0.4	+1.2

Fiscal Year: October 1st – September 30th

