



CITY OF SUNRISE, FLORIDA

POLICE OFFICERS' RETIREMENT PLAN



**13790 NW 4 Street, Suite 105
Sunrise, Florida 33325**

Telephone: (954) 845-0298

Fax: (954) 845-9852

March 18, 2013

Sent via E-Mail

Mayor Michael J. Ryan
City Commission Office
10770 West Oakland Park Blvd.
Sunrise, FL 33351

Deputy Mayor Joseph A. Scuotto
City Commission Office
10770 West Oakland Park Blvd.
Sunrise, FL 33351

Assistant Deputy Mayor Lawrence A. Sofield
City Commission Office
10770 West Oakland Park Blvd.
Sunrise, FL 33351

Commissioner Donald K. Rosen
City Commission Office
10770 West Oakland Park Blvd.
Sunrise, FL 33351

Commissioner Neil Kerch
City Commission Office
10770 West Oakland Park Blvd.
Sunrise, FL 33351

Dear Honorable Mayor & Commissioners:

I am writing on behalf of the Board of Trustees, City of Sunrise Police Officers' Retirement Plan. The purpose of this communication is to bring to your attention the Board's standing request to include real estate in our investment portfolio. Our prior request of October 10, 2012, resulted in a one line negative response from Ms. Kisslan.

I feel certain you know that real estate investments are commonplace in public funds such as ours. The Board of Trustees feels that it would be a prudent investment, and would supplement our fixed income return.

Our current ordinance (created in the 1980's) does not permit such an allocation, and the Board is formally requesting the Commission to consider this matter. The Board would like to be able to invest 10-15% of the fixed income portion of the portfolio in this investment vehicle. I have attached the original request (and back-up) that was transmitted to Ms. Kisslan. Further I have attached an updated asset allocation dated February 14, 2013 and a letter from Mr. McCann, Plan Performance Monitor of Thistle Asset Consulting. Mr. McCann indicated that he would be pleased to appear before the Commission to discuss his report in detail.

In the best interest of "the Plan" and "the Plan Sponsor" the Board of Trustees would like to thank you for your sincere consideration.

Respectfully,

David M. Williams, *Plan Administrator*
FOR THE BOARD

c: Board of Trustees

Please visit us at www.sunrisepolicepension.com

Office of the City Attorney
Kimberly A. Kisslan
City Attorney



Phone: (954) 746-3300
Fax: (954) 746-3307

Thomas P. Moss
Assistant City Attorney

November 5, 2012

Richelle Levy, Esq.
Ronald J. Cohen, P.A. Attorneys At Law
8100 Oak Lane, Suite 403
Miami Lakes, Florida 33016

COPY

Re: City of Sunrise Police Retirement Plan

Dear Ms. Levy:

I have received and thank you for your October 10, 2012 letter requesting an amendment to the pension ordinance to allow investment in real estate.

I have been advised that the City does not want to allow this type of investment.

Very truly yours,

Kimberly A. Kisslan

cc: Richard Salamon, Interim City Manager



RONALD J. COHEN, P.A.

ATTORNEYS AND COUNSELORS AT LAW



October 10, 2012

Kimberly Kisslan
Office of the City Attorney
10770 West Oakland Park Boulevard
Sunrise, FL 33351

Re: City of Sunrise Police Retirement Plan

Dear Ms. Kisslan:

We represent the City of Sunrise Police Retirement Plan. The Board of Trustees for this plan devote much of their time and energy on investments of the plan assets. They have engaged fund professionals in the form of investment managers and an investment consultant who makes recommendations as to the types of investments and managers. It has been recommended to the Board of Trustees by the Plan's independent investment consultant, Thistle Asset Management, that the Plan invest in real estate. I am enclosing a letter from John McCann of Thistle Asset Management explaining the basis for this recommendation. Currently, the ordinance does not allow for investment in real estate and would need to be amended to all for such. I have enclosed a proposed ordinance amendment for your consideration. Please feel free to contact me to discuss further.

Very truly yours,

Richelle Levy

cc: David Williams, Plan Administrator

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SUNRISE, FLORIDA
ORDINANCE NO. _____

AN ORDINANCE OF THE CITY OF SUNRISE,
FLORIDA, AMENDING CHAPTER 11, ARTICLE 11,
SECTION 11-15, INVESTMENT POLICY; PROVIDING
FOR CONFLICT; PROVIDING FOR SEVERABILITY;
PROVIDING FOR INCLUSION IN THE CITY CODE;
AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Board of Trustees of the City of Sunrise Police Officers' Retirement Plan has recommended an amendment to Chapter 11 of the City Code to allow the Plan to invest in real estate;

NOW, THEREFORE BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF SUNRISE , FLORIDA;

Section 1. That section 11-15 of the Code of the City of Sunrise, Florida is hereby amended to read as follows:

Sec. 11-15. - Investment policy.

- (a) Trust funds may be invested in:

(6) Certain interests in real property and related personal property, including mortgages and related instruments on commercial or industrial real property, with provisions for equity or income participation or with provisions for convertibility to equity ownership; open and closed end partnerships and interests in collective investment funds.

Section 2. Conflict. All ordinances or parts of ordinances, all City Code Sections or parts of City Code Sections, and all resolutions or parts of resolutions in conflict with this ordinance are hereby repealed to the extent of such conflict.

Section 3. Severability. Should any provision of this Ordinance be declared by a court of competent jurisdiction to be invalid, the same shall not affect the validity of the Ordinance as a whole, nor any part thereof, other than the part declared to be invalid.

Section 4. Inclusion in the City Code. It is the intention of the City Commission, and it is hereby ordained that the provisions of this Ordinance shall become and be made a part of the Code of the City of Sunrise, Florida.

Section 5. Effective Date. This Ordinance shall be effective immediately upon its passage.

PASSED AND ADOPTED upon this first reading **the** ____ Day of _____, 2012.

PASSED AND ADOPTED upon this second reading the ____ Day of _____, 2012.



August 24, 2012

Board of Trustees
Sunrise Police Retirement Plan
13790 NW 4 Street, Suite 105
Sunrise, FL 33325

Board of Trustees:

Thistle Asset Consulting is recommending an allocation to Real Estate for the Sunrise Police Retirement Plan.

Enclosed with this letter is an asset allocation showing the impact of taking 10% of the fund assets from fixed income and allocating it to Real Estate. All the important information is contained on page 6. You can see near the bottom of the page, the current policy has an expected return of 8.16% with a standard deviation (risk or volatility) of 10.73%. By taking 10% from fixed income and allocating to Real Estate, the return expectation increases to 8.52% while the standard deviation increases to 11.08%.

Furthermore, in this low interest rate environment, investing a portion of the plan assets in Real Estate should increase the cash yield as well as provide some protection against potential future inflation.

Sincerely,

A handwritten signature in black ink, appearing to read "Brendon Vavrica".

Brendon Vavrica, CFP®

Asset Allocation Analysis

August 24, 2012

Asset Allocation Analysis
for
Sunrise Police
by
Thistle Asset Consulting

Asset Allocation Analysis

Scenario Assumptions

August 24, 2012

Sunrise Police

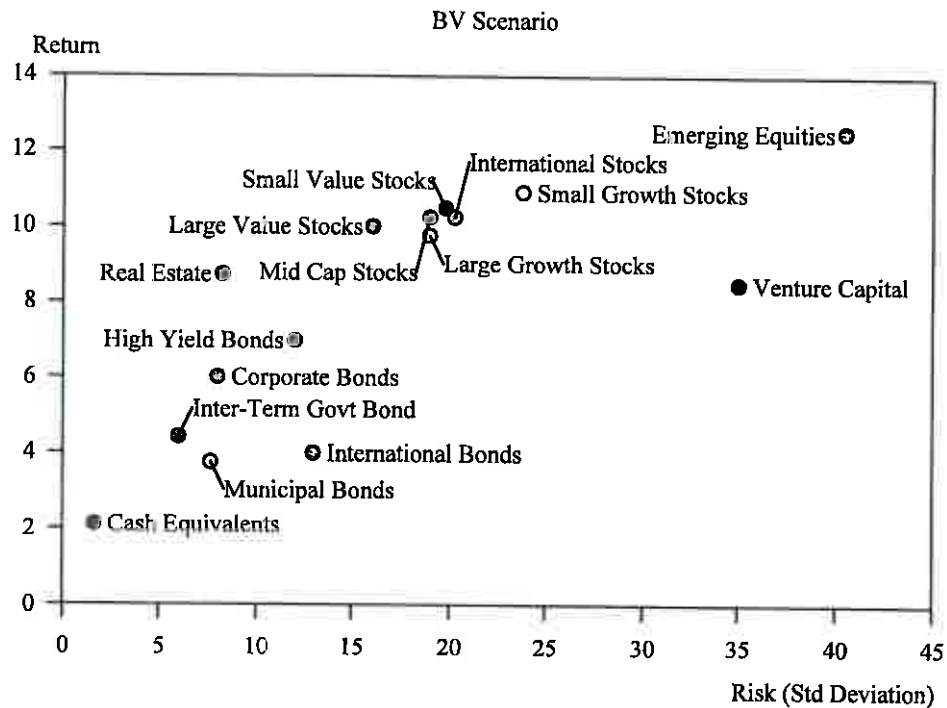
BV Scenario

Asset Class	Proxy	Return	Risk	Yield
Cash Equivalents	FED 3-Mo T-Bill (\$)	2.10%	1.75%	2.10%
Inter-Term Govt Bond	CITI Treas/Agy 1-10y	4.40	6.00	4.40
Municipal Bonds	BarCap MunicipalBond	3.75	7.75	3.75
Corporate Bonds	BarCap Credit Bond	6.00	8.00	6.00
High Yield Bonds	BarCap High Yield	7.00	12.00	9.10
Large Value Stocks	RUSS 1000 Value	10.00	16.00	2.20
Large Growth Stocks	RUSS 1000 Growth	9.75	19.00	1.55
Small Value Stocks	RUSS 2000 Value	10.50	19.75	2.15
Small Growth Stocks	RUSS 2000 Growth	10.95	23.75	1.50
Mid Cap Stocks	RUSS MidCap Index	10.25	19.00	1.90
Real Estate	Wilshire RESI	8.75	8.25	6.65
Venture Capital	CAMB US Venture Cap	8.50	35.00	0.00
International Stocks	MSCI EAFE Index-\$	10.25	20.25	1.70
International Bonds	CITI World Bnd-All \$	4.00	13.00	4.00
Emerging Equities	MSCI Emerg Free-\$	12.50	40.50	0.75
Inflation		2.50		

Scenario Assumptions

August 24, 2012

Sunrise Police



Asset Allocation Analysis

Scenario Correlation Matrix

August 24, 2012

Sunrise Police

Asset Class	BV Scenario										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Cash Equivalents	1.00	0.14	0.00	0.06	0.02	0.15	0.13	0.10	0.08	0.11	0.03
(2) Inter-Term Govt Bond	0.14	1.00	0.72	0.91	0.10	-0.06	-0.11	-0.12	-0.18	-0.09	-0.02
(3) Municipal Bonds	0.00	0.72	1.00	0.72	0.17	0.11	0.07	0.04	0.00	0.09	0.09
(4) Corporate Bonds	0.06	0.91	0.72	1.00	0.22	0.14	0.10	0.06	0.01	0.12	0.12
(5) High Yield Bonds	0.02	0.10	0.17	0.22	1.00	0.53	0.53	0.45	0.45	0.52	0.35
(6) Large Value Stocks	0.15	-0.06	0.11	0.14	0.53	1.00	0.95	0.81	0.82	0.93	0.60
(7) Large Growth Stocks	0.13	-0.11	0.07	0.10	0.53	0.95	1.00	0.82	0.83	0.93	0.60
(8) Small Value Stocks	0.10	-0.12	0.04	0.06	0.45	0.81	0.82	1.00	0.72	0.80	0.51
(9) Small Growth Stocks	0.08	-0.18	0.00	0.01	0.45	0.82	0.83	0.72	1.00	0.81	0.52
(10) Mid Cap Stocks	0.11	-0.09	0.09	0.12	0.52	0.93	0.93	0.80	0.81	1.00	0.59
(11) Real Estate	0.03	-0.02	0.09	0.12	0.35	0.60	0.60	0.51	0.52	0.59	1.00
(12) Venture Capital	0.11	-0.27	-0.15	-0.18	0.20	0.42	0.44	0.38	0.40	0.42	0.26
(13) International Stocks	0.08	-0.05	0.07	0.10	0.37	0.65	0.65	0.56	0.57	0.64	0.41
(14) International Bonds	0.04	0.61	0.45	0.57	0.07	-0.03	-0.06	-0.07	-0.10	-0.04	0.00
(15) Emerging Equities	0.09	-0.21	-0.05	-0.06	0.37	0.69	0.70	0.61	0.62	0.68	0.43

Asset Allocation Analysis

Scenario Correlation Matrix

August 24, 2012

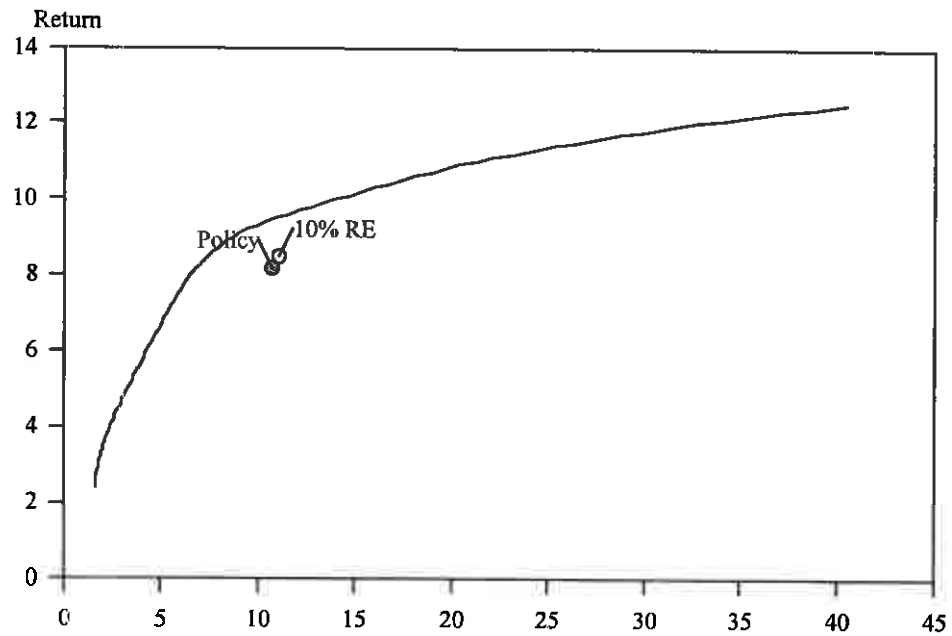
Sunrise Police

Asset Class	BV Scenario			
	(12)	(13)	(14)	(15)
(1) Cash Equivalents	0.11	0.08	0.04	0.09
(2) Inter-Term Govt Bond	-0.27	-0.05	0.61	-0.21
(3) Municipal Bonds	-0.15	0.07	0.45	-0.05
(4) Corporate Bonds	-0.18	0.10	0.57	-0.06
(5) High Yield Bonds	0.20	0.37	0.07	0.37
(6) Large Value Stocks	0.42	0.65	-0.03	0.69
(7) Large Growth Stocks	0.44	0.65	-0.06	0.70
(8) Small Value Stocks	0.38	0.56	-0.07	0.61
(9) Small Growth Stocks	0.40	0.57	-0.10	0.62
(10) Mid Cap Stocks	0.42	0.64	-0.04	0.68
(11) Real Estate	0.26	0.41	0.00	0.43
(12) Venture Capital	1.00	0.29	-0.17	0.35
(13) International Stocks	0.29	1.00	-0.02	0.47
(14) International Bonds	-0.17	-0.02	1.00	-0.12
(15) Emerging Equities	0.35	0.47	-0.12	1.00

Efficient Frontier

August 24, 2012

Sunrise Police



	Risk (Std Deviation)	
	<u>Return</u>	<u>Risk</u>
Policy	8.16%	10.73%
10% RE	8.52%	11.08%

Asset Allocation Analysis

Investment Alternatives

August 24, 2012

Sunrise Police

<u>Asset Class</u>	<u>Policy</u>	<u>10% RE</u>
Cash Equivalents	0.00%	0.00%
Inter-Term Govt Bond	20.00	15.00
Municipal Bonds	0.00	0.00
Corporate Bonds	20.00	15.00
High Yield Bonds	0.00	0.00
Large Value Stocks	15.50	15.50
Large Growth Stocks	15.50	15.50
Small Value Stocks	5.00	5.00
Small Growth Stocks	5.00	5.00
Mid Cap Stocks	10.00	10.00
Real Estate	0.00	10.00
Venture Capital	0.00	0.00
International Stocks	9.00	9.00
International Bonds	0.00	0.00
Emerging Equities	0.00	0.00
Return	8.16%	8.52%
Std Deviation	10.73%	11.08%
Yield	3.19%	3.33%
Sharpe Ratio	0.53	0.54

Asset Allocation Analysis

Target Returns

August 24, 2012

Sunrise Police

	Probability of Exceeding Target Return				
	Year 1	Year 20	Year 25	Year 30	Year 40
Target Return 7.80%					
Policy	49.37%	47.20%	46.87%	46.57%	46.04%
10% RE	50.56	52.51	52.80	53.07	53.54
Target Return 8.30%					
Policy	47.51	39.00	37.74	36.62	34.64
10% RE	48.75	44.42	43.77	43.18	42.14
Target Return 8.80%					
Policy	45.66	31.30	29.29	27.53	24.53
10% RE	46.95	36.60	35.09	33.75	31.41

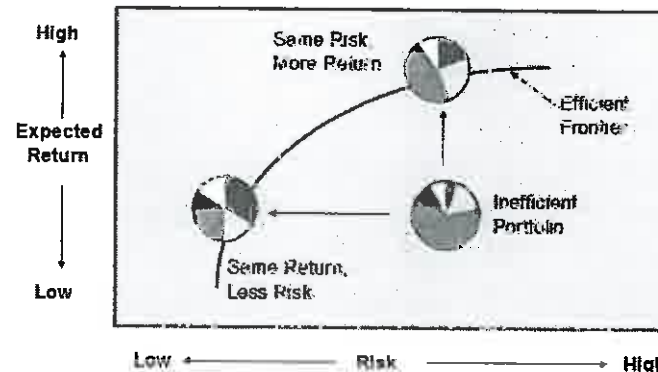
The Efficient Frontier

August 24, 2012

Sunrise Police

The Efficient Frontier traces out the portfolios that offer the greatest amount of return for given levels of risk. All portfolios on the frontier are efficient and selection of the proper portfolio depends upon the investor's goals and tolerance for risk.

The diagram below illustrates the concept of efficiency. The "Inefficient Portfolio" does not lie on the frontier because an alternate portfolio can be found that offers more return for the same amount of risk. A second portfolio can be found that offers the same return, but less risk. Both of these "efficient" portfolios are more desirable to investors trying to maximize return and minimize risk.



When calculating the efficient frontier, multiple factors are considered:

- Market expectations for return, risk and correlation of assets
- Constraints limiting investment in particular asset classes
- Your tax rates

Portfolio optimization is a mathematical technique for finding the portfolios that lie along the efficient frontier. These ideas were developed by Dr. Harry Markowitz and earned him a Nobel Prize in Economics in 1990. These theories are collectively known as Modern Portfolio Theory.

Importance of Asset Allocation

August 24, 2012

Sunrise Police

Asset allocation policy is the main determinant of total return.



A 1991 study by Brinson, Singer and Beebower investigated the determinants of portfolio performance.¹ By studying the quarterly returns of 82 pension plans over a 10-year period, they concluded that:

- The selection which asset classes to invest in and how much to invest in each explained 91.5% of the variation in the plan's returns.
- Market timing, security selection and other factors combined accounted for only 8.5% of the differences in returns.

¹ Brinson, G.P., Singer, B.D. and G.L. Beebower, "Determinants of Portfolio Performance II: An Update", Financial Analysts Journal, May-June 1991.

February 14, 2013

To Whom It May Concern:

Thistle Asset Consulting is the Consultant to the Board of the Sunrise Police Pension Plan. Interest rates are at historically low levels, and are likely to begin rising sometime in the relatively near future. With such low yields, and the prospect of rising rates potentially leading to negative returns, we have been recommending real estate portfolios (diversified commercial real estate) as a viable alternative to fixed income investing. Usually investing between 10% to 15% in real estate coming from the fixed income allocation. There are two main components to real estate returns. First is the appreciation of the property which is typically 1-4% annually but could be lower or much higher in an inflationary environment. The second, and more significant component, is the income generated which is normally between 5% and 8% per year. We recommend taking the income out every quarter, i.e. not reinvesting, as this would be used to pay benefits and expenses. It creates a realized gain and is similar to the interest that was earned by the bonds, although approximately three times larger in this interest rate environment. We have 12 of our clients (out of 35) with a real estate allocation, example: Hollywood Police, Miami Beach Fire & Police, Palm Beach Gardens Police, North Palm Beach Fire & Police, North Miami Police etc.

We believe this type of investment is very necessary to the well-being and funding of the Plan. We believe that not being allowed to make such an investment is tying the hands of the Board and jeopardizing their fiduciary responsibility to the Plan.

Attached to this document is an Asset Allocation. Page 6 shows that the projected return increases from 8.50% now to 9.07% and the risk decreases from 10.69% to 10.62%.

I would be happy to discuss this matter with anyone at the City of Sunrise or to make a short presentation to the City Commission if that would be helpful.

Sincerely,



John McCann, CIMA

Consultant

February 14, 2013

Asset Allocation Analysis
for
Sunrise Police
by
Thistle Asset Consulting

Scenario Assumptions

February 14, 2013

Sunrise Police

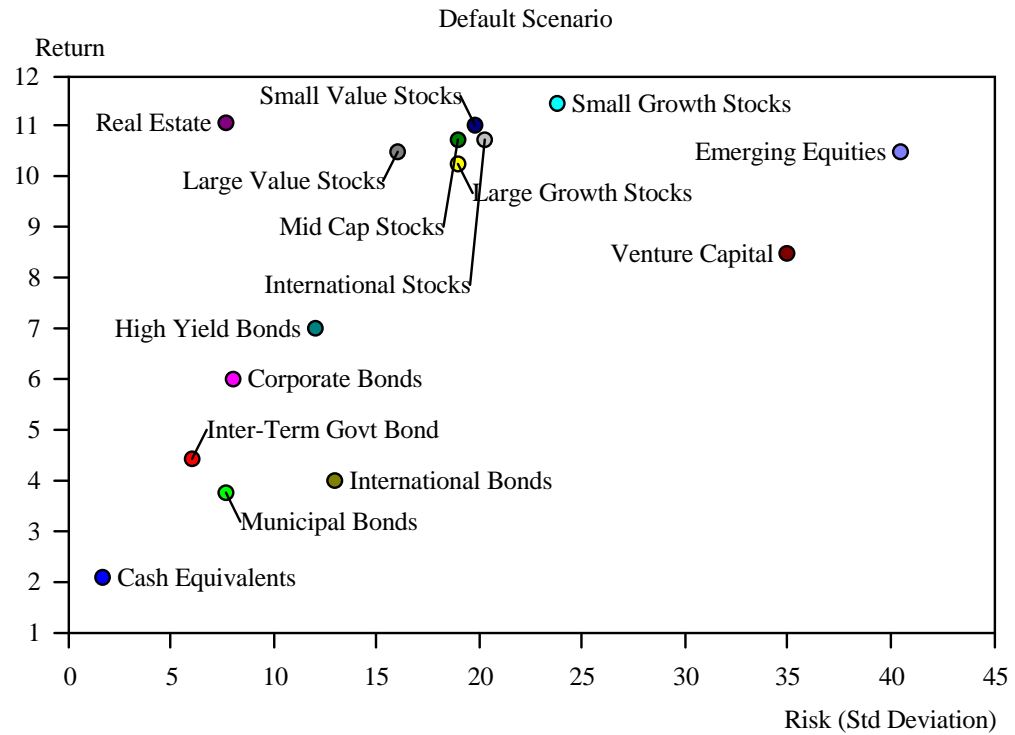
Default Scenario

Asset Class	Proxy	Return	Risk	Yield
Cash Equivalents	FED 3-Mo T-Bill (S)	2.10%	1.75%	2.10%
Inter-Term Govt Bond	CITI Treas/Agy 1-10y	4.40	6.00	2.00
Municipal Bonds	BarCap MunicipalBond	3.75	7.75	3.75
Corporate Bonds	BarCap Credit Bond	6.00	8.00	3.00
High Yield Bonds	BarCap High Yield	7.00	12.00	9.10
Large Value Stocks	RUSS 1000 Value	10.50	16.00	2.20
Large Growth Stocks	RUSS 1000 Growth	10.25	19.00	1.55
Small Value Stocks	RUSS 2000 Value	11.00	19.75	2.15
Small Growth Stocks	RUSS 2000 Growth	11.45	23.75	1.50
Mid Cap Stocks	RUSS MidCap Index	10.75	19.00	1.90
Real Estate	NCRF Property Index	11.08	7.72	6.00
Venture Capital	CAMB US Venture Cap	8.50	35.00	0.00
International Stocks	MSCI EAFE Index-\$	10.75	20.25	1.70
International Bonds	CITI World Bnd-All \$	4.00	13.00	4.00
Emerging Equities	MSCI Emerg Free-\$	10.50	40.50	0.75
Inflation		2.50		

Scenario Assumptions

February 14, 2013

Sunrise Police



Asset Allocation Analysis

Scenario Correlation Matrix

February 14, 2013

Sunrise Police

Asset Class	Default Scenario										
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
(1) Cash Equivalents	1.00	0.14	0.00	0.06	0.02	0.15	0.13	0.10	0.08	0.11	0.31
(2) Inter-Term Govt Bond	0.14	1.00	0.72	0.91	0.10	-0.06	-0.11	-0.12	-0.18	-0.09	-0.11
(3) Municipal Bonds	0.00	0.72	1.00	0.72	0.17	0.11	0.07	0.04	0.00	0.09	-0.10
(4) Corporate Bonds	0.06	0.91	0.72	1.00	0.22	0.14	0.10	0.06	0.01	0.12	-0.10
(5) High Yield Bonds	0.02	0.10	0.17	0.22	1.00	0.53	0.53	0.45	0.45	0.52	0.05
(6) Large Value Stocks	0.15	-0.06	0.11	0.14	0.53	1.00	0.95	0.81	0.82	0.93	0.16
(7) Large Growth Stocks	0.13	-0.11	0.07	0.10	0.53	0.95	1.00	0.82	0.83	0.93	0.17
(8) Small Value Stocks	0.10	-0.12	0.04	0.06	0.45	0.81	0.82	1.00	0.72	0.80	0.14
(9) Small Growth Stocks	0.08	-0.18	0.00	0.01	0.45	0.82	0.83	0.72	1.00	0.81	0.14
(10) Mid Cap Stocks	0.11	-0.09	0.09	0.12	0.52	0.93	0.93	0.80	0.81	1.00	0.15
(11) Real Estate	0.31	-0.11	-0.10	-0.10	0.05	0.16	0.17	0.14	0.14	0.15	1.00
(12) Venture Capital	0.11	-0.27	-0.15	-0.18	0.20	0.42	0.44	0.38	0.40	0.42	0.13
(13) International Stocks	0.08	-0.05	0.07	0.10	0.37	0.65	0.65	0.56	0.57	0.64	0.11
(14) International Bonds	0.04	0.61	0.45	0.57	0.07	-0.03	-0.06	-0.07	-0.10	-0.04	-0.08
(15) Emerging Equities	0.09	-0.21	-0.05	-0.06	0.37	0.69	0.70	0.61	0.62	0.68	0.14

Asset Allocation Analysis

Scenario Correlation Matrix

February 14, 2013

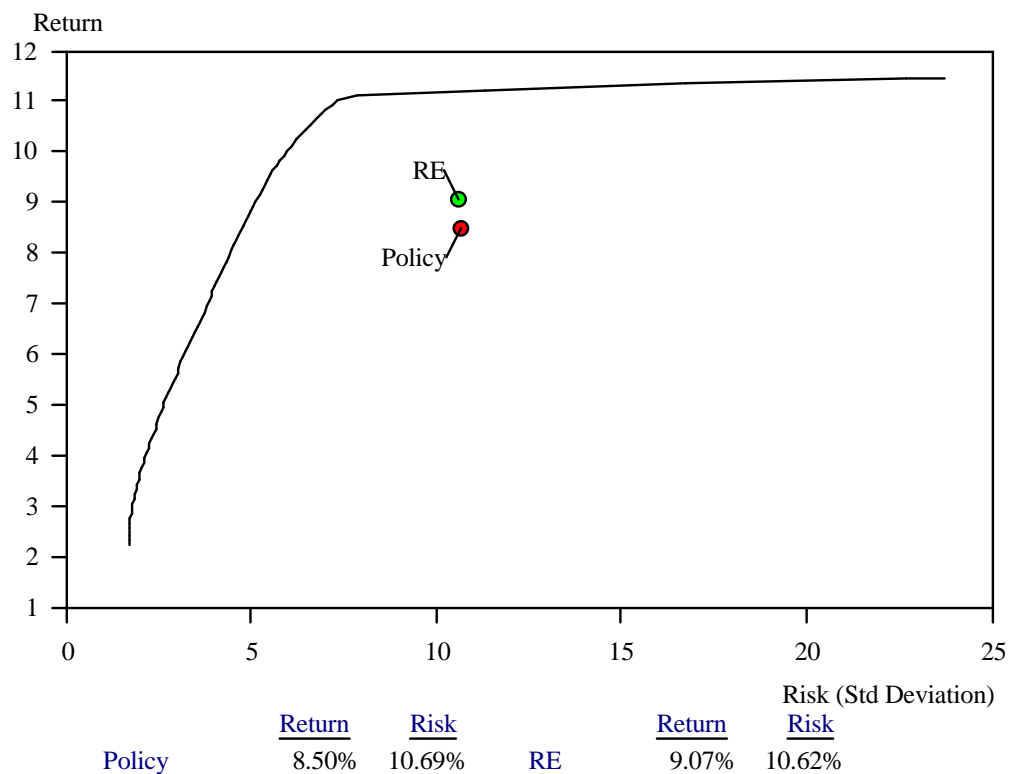
Sunrise Police

Asset Class	(12)	(13)	(14)	Default Scenario (15)
(1) Cash Equivalents	0.11	0.08	0.04	0.09
(2) Inter-Term Govt Bond	-0.27	-0.05	0.61	-0.21
(3) Municipal Bonds	-0.15	0.07	0.45	-0.05
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Efficient Frontier

February 14, 2013

Sunrise Police



Asset Allocation Analysis

Investment Alternatives

February 14, 2013

Sunrise Police

<u>Asset Class</u>	<u>Policy</u>	<u>RE</u>
Cash Equivalents	0.00%	0.00%
Inter-Term Govt Bond	16.00	12.00
Municipal Bonds	0.00	0.00
Corporate Bonds	24.00	18.00
High Yield Bonds	0.00	0.00
Large Value Stocks	15.50	15.50
Large Growth Stocks	15.50	15.50
Small Value Stocks	10.00	10.00
Small Growth Stocks	0.00	0.00
Mid Cap Stocks	10.00	10.00
Real Estate	0.00	10.00
Venture Capital	0.00	0.00
International Stocks	9.00	9.00
International Bonds	0.00	0.00
Emerging Equities	0.00	0.00
Return	8.50%	9.07%
Std Deviation	10.69%	10.62%
Yield	2.18%	2.52%
Sharpe Ratio	0.56	0.62

Asset Allocation Analysis

Target Returns

February 14, 2013

Sunrise Police

Probability of Exceeding Target Return					
	Year 10	Year 20	Year 30	Year 35	Year 40
Target Return 7.70%					
Policy	53.33%	54.71%	55.76%	56.22%	56.65%
RE	60.22	64.30	67.32	68.61	69.79
Target Return 8.20%					
Policy	47.39	46.32	45.49	45.13	44.80
RE	54.32	56.09	57.45	58.04	58.58
Target Return 8.70%					
Policy	41.54	38.12	35.56	34.46	33.45
RE	48.34	47.65	47.13	46.90	46.68

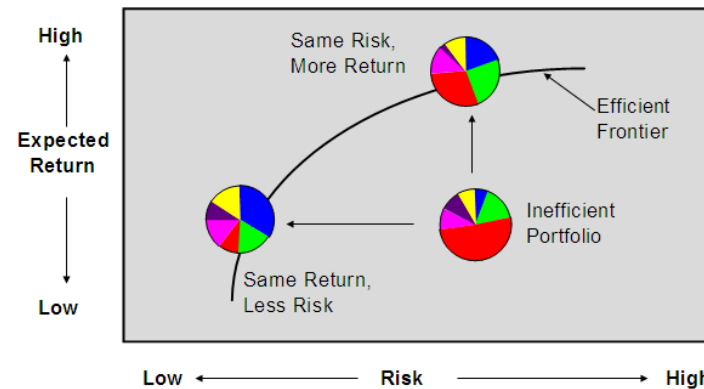
The Efficient Frontier

February 14, 2013

Sunrise Police

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When calculating the efficient frontier, multiple factors are considered:

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- Constraints limiting investment in particular asset classes
- Your tax rates

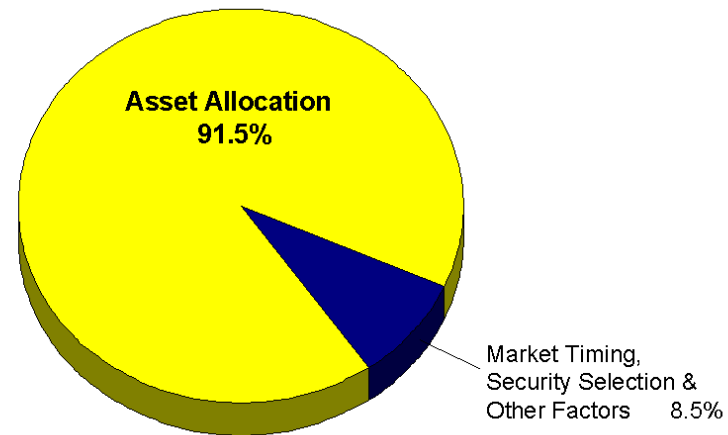
Portfolio optimization is a mathematical technique for finding the portfolios that lie along the efficient frontier. These ideas were developed by Dr. Harry Markowitz and earned him a Nobel Prize in Economics in 1990. These theories are collectively known as Modern Portfolio Theory.

Importance of Asset Allocation

February 14, 2013

Sunrise Police

Asset allocation policy is the main determinant of total return.



A 1991 study by Brinson, Singer and Beebower investigated the determinants of portfolio performance.¹ By studying the quarterly returns of 82 pension plans over a 10-year period, they concluded that:

- The selection which asset classes to invest in and how much to invest in each explained 91.5% of the variation in the plan's returns.
- Market timing, security selection and other factors combined accounted for only 8.5% of the differences in returns.

¹ Brinson, G.P., Singer, B.D. and G.L. Beebower, "Determinants of Portfolio Performance II: An Update", Financial Analysts Journal, May-June 1991.