



Timothy J. Nash  
The Bogdahn Group  
4901 Vineland Road, Suite 600  
Orlando, FL 32811  
Telephone: (863)-904-0866  
Facsimile: (863)-292-8717  
E-mail: timn@bogdahngroup.com

March 17, 2015

Re: Key West Police and Firefighters' Retirement Fund Current Financial Review

Dear Mayor Cates and City Commissioners:

The Bogdahn Group serves as investment consultant for the Key West Police and Firefighters' Retirement Fund. Our Company is headquartered in Orlando, FL with regional offices in New York, Illinois, Wisconsin, Pennsylvania, and Texas. We serve the investment consulting needs of over 240 clients across the U.S. with over \$50 billion in assets under advisement. Specifically in the State of Florida, we provide investment consulting services to over 170 Police, Fire and General Employee Pension Funds. I personally have the pleasure of working with Key West Police and Firefighters' Retirement Fund, Key West General Employees' Pension Fund and the Utility Board of Key West General Employee Pension Fund.

In connection with the upcoming ordinance review, I wanted to provide current financial information for the Key West Police and Firefighters' Retirement Fund that might be useful in your decision making process. The Key West Police and Firefighters' Retirement Fund generated strong investment returns in excess of the 7.9% actuarial assumption for each of the last three fiscal years. The rolling 5 year average investment return of the Plan is 10.42% for the period ending December 31, 2104.

The return information is as follows:

	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Fiscal 2012</u>
Fund Investment Return <sub>(Gross)</sub>	12.90% (5 <sup>th</sup> )	15.58% (7 <sup>th</sup> )	18.82% (31 <sup>st</sup> )

The Fund exceeded the 7.9% return assumption, out-performed the target benchmark and ranked in the top 5<sup>th</sup> percentile, top 7<sup>th</sup> percentile and top 31<sup>st</sup> percentile among other public pension plans in the National Public Fund Plan Sponsor Universe provided by Rogerscasey Data Services. The Rogerscasey National Public Fund Plan Sponsor Universe database is an independent third party providing the Bogdahn Group with investment return, asset allocation and other analytical data for approximately 430 public pension funds across the United States which range in size from \$1 million to multi-billion dollar market values.

For the first fiscal quarter, the total market value of the fund increased from \$79,861,194 to \$83,269,654. The quarterly dollar increase of the fund was \$2,659,543. The quarterly total fund investment return of 3.33% outperformed the benchmark return of 2.29% and ranked in the top 12<sup>th</sup> percentile of the National Public Fund Plan Sponsor Universe. The asset allocation of the fund as of December 31, 2014 is as follows: 55.3% Domestic Equity, 10.6% International Equity, 15.1% Fixed Income, 4.2% International Fixed Income, 6.3% Real Estate, 6.4% Infrastructure, and 2.1% Cash.

There has been significant improvement in the market value of assets since September 30, 2011. The September 30, 2011 valuation period marked an extreme low point for the market value of assets as



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Demonstrated by the quarterly plan market values:

Market Value Period Ending September 30, 2011:	\$51,837,011
Market Value Period Ending September 30, 2012:	\$67,373,101
Market Value Period Ending September 30, 2013:	\$71,144,740
Market Value Period Ending September 30, 2014:	\$79,861,530
Market Value Period Ending December 31, 2014:	\$83,269,654

The Board of Trustees approved several changes to the investment program over the last three years. These changes include terminating and replacing non-performing investment managers, lowering investment fees for the Infrastructure Fund, and improving diversification by adding global bonds and real estate. The short term and longer term results of the new managers are significantly better than the performance of the terminated managers. I am pleased to highlight some of the immediate benefits from these changes:

1. Cambiar Investors, the small cap value manager, generated a 2014 fiscal year to date return of 11.71% vs. 4.31 for the Russell 2000 Value Index and ranked in the top 15<sup>th</sup> percentile of small value managers across the United States.
2. Schroders Fixed Income, the core bond manager generated a 2014 fiscal year to date return of 6.50% vs. 3.96% for the Barclays Aggregate Index and ranked in the top 26<sup>th</sup> percentile of core bond managers across the United States.
3. Templeton Global Bond Fund, the new global bond manager generated a 2014 fiscal year to date return of 6.32% vs. -0.07% for the Citigroup World Bond Index and ranked in the top 13<sup>th</sup> percentile of global bond managers across the United States.
4. The real estate investment generated a 2014 fiscal year to date return of 21.39%. This investment is projected to generate annual income in the 6%-7% range which is double the income we anticipate from domestic core bonds in future years.
5. The Board of Trustees evaluated and approved a \$25,000 reduction in investment management fees from the J.P. Morgan Infrastructure Fund effective immediately. This will reduce the overall investment cost of the fund.

We believe the changes to the investment managers, investment fee reduction, enhanced diversification and stronger market environment have and will continue to contribute to improving results for the pension program. If you have any questions, please feel free to contact me at (863)-904-0866 or timn@bogdahngroup.com.

Sincerely,

Timothy Nash  
Senior Consultant

Cc: Susy Pita; Plan Administrator