

Anchorage Police & Fire Retirement System

BENEFIT NEWS

March 6, 2008

RETIREMENT RETURNS WEAK FOR 2007: HOUSING/ CREDIT PROBLEMS

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Well, it was a long, good, rewarding run in a "Bull" market, but it pretty-much came to a bumpy halt in late 2007. The System's investment return, as of November 30th was over 9%. In December, and continuing on into the 2008 year, the markets continued to drop as a result of the full realization by investors of the impact of the housing (sub-prime and credit) meltdown.

The Retirement System ended the year with a return of only 5.47%. We started the year with \$419.8 Million and ended the year with \$413.8 Million, but we also paid out \$26 Million in Retirement Benefits. And another \$2.1 Million in expenses such as bank fees, investment manager fees and

consultant expenses.

One of our members asked for this information a while back, so here it is (for the 2007 year):

- Plan I Benefits: \$8,400,000
- Plan II Benefits: \$5,300,000
- Plan III Benefits: \$12,500,000
- Total: \$26,200,000
- Bank Fees: \$142,500
- Money Mgr's: \$1,100,000
- Investment Consultant Fees: \$70,200

Actuary Fees: \$71,500

Auditors: \$22,000

Legal Fees: \$7,000

Staff & Admin: \$650,000

Overall, total administrative expenses are about 1/2 of 1 %.

(Note: See attached Investment Performance reports for the Pension Trust and the Surplus Account Program.)

BOARD OF TRUSTEES:

- Jim Bauman, Chairman, Retired Paramedic/Firefighter**
- Andy Provencio, Active Fire Captain**
- Paul Burns, Retired Fire Captain**
- John Gentile, Retired Police Officer**
- Joe Caswell, Retired Police Officer**
- Gereth Stillman, Retired Police Officer**
- Michael Abbott, Deputy Municipal Manager**
- Dan Moore, Municipal Treasurer**
- David Gottstein, Public Member (Investment Professional)**

Inside this issue:

- Investments and Expenses 1
- Valuation Audit 1
- Annual KPMG Audit 2
- Vanguard Communication Program 2
- See Also, Attachments Related to Investments

Actuarial Audit Results

As you may recall from the December Newsletter, the Board hired an independent Actuarial Firm to do an audit of the System's Actuary, Milliman, Inc. The audit was performed during November and December 2007 with the results presented to the Board at its January

3, 2008 Board meeting.

The firm, Gabriel, Roeder & Smith Company, reported that the work by Milliman was both accurate and the actuarial methods, assumptions and process were all reasonable. The Board, with advice from the auditor,

will probably conduct a long-term asset/Liability Study within the next five years to make sure that, long-term, we are still on track with the funding and analysis of our pension liabilities.

Annual Financial Audit of the Retirement System

Every year, the Retirement System is audited by an external accounting firm to insure that the System's financial assets are safe and well-managed. The audit also reviews accounting reports and procedures to make sure that everything is done in accordance with sound business practices.

The Board currently has a contract with KPMG, LLP, a large, nationally recognized accounting and auditing firm. KPMG has offices in Anchorage which insures local availability and lower costs for the audit. Our annual audit expenses are very low, approximately \$24,000.

The audit involves reviewing detailed financial reports provided by

our Trust/Custody Bank, Bank Of New York Mellon a new organization as a result of a recent merger (BNY Mellon). Formerly, we used Mellon and prior to 1997, The Bank of New York was our Custody Bank.

Along with those reports, the auditors analyze portfolio reports from each of our investment managers, including the accurate pricing of securities. The auditors also request, receive and review confirmation reports from each of our consultants (lawyers, actuaries, investment consultants) to verify that services paid for were actually performed.

The Audit is actually underway as this newsletter is being sent to you. The results of the audit will be pre-

sent to the Retirement Board at its April Board meeting. We expect a perfect score again as we have received for the last 11 years now. The auditors have never determined that our financial reporting is inaccurate or that there are any procedural faults to be corrected. We will provide you with the final results of the annual audit when we issue the June Newsletter. In the meantime, attached are the routine performance reports for the last quarter of 2007 that you may find of interest. They are:

4th Q Performance Report, APFRS;
4th Q Performance, Surplus Funds;
Annual Performance History, APF.

Vanguard Participant Education Program

The Retirement System Staff have just completed coordination with Vanguard, the Third-Party Service Provider and Record keeper for the Surplus Benefit Account Program, regarding a new participant communication and education campaign. For those of you that are still in the program, please watch for some interesting and useful information that will be sent to you;

both from Vanguard in direct mailings and as information contained on your Quarterly Statements. The Retirement Office will also be sending you Investment Education information from time to time.

The subjects will include "Retirement Planning" for those of you who are not yet retired, but also for those of you who are working

after retirement towards a second retirement. Other educational pieces will deal with "Diversification", "Asset Allocation", and "The Life Strategy Funds" available in the program. You can also find many interesting and helpful investing articles on the Vanguard Website (See Below).

Benefit Newsletter Disclaimer: "The information and opinions appearing in this newsletter reflect the views of the writer(s) and do not constitute an official expression of policy of the Anchorage Police & Fire Retirement System or the Board of Trustees. While we do attempt to make statements of fact as accurately as possible, nothing in this newsletter may alter the provisions of the Retirement system or Plans nor constitute a contract for benefits."

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Web Page Address:

<http://www.muni.org/apfrs>

(Note: on this web site, you will find information about your plan, the Board, and you can find various forms such as those required for address and bank changes.)

Vanguard Contact Information:

Web Page: www.Vanguard.com

Vanguard's "VOICE" System (or to speak with a Participant Services Associate, 8:30 a.m. to 9:00 p.m., Eastern Time):

Phone Number: (800) 523-1188

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended June 30, 2007. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

Returns for Periods Ended December 31, 2007

	Market Value \$(Dollars)	Ending Weight	December 31 Performance	4Q Performance	Year To Date
Domestic Equities					
Russell 1000 Value Fund	33,082,309	7.99%	(0.96%)	(5.77%)	(0.07%)
Victory Capital	34,139,174	8.25%	(0.74%)	(1.80%)	10.80%
INTECH	31,855,895	7.70%	0.91%	1.29%	8.32%
Voyageur	17,678,978	4.27%	0.25%	(0.56%)	11.43%
Ark Asset Management	20,126,930	4.86%	(1.81%)	(6.72%)	(0.91%)
Vanguard Explorer	20,111,345	4.86%	(0.53%)	(4.03%)	5.26%
Balanced Category					
Dodge & Cox	40,155,147	9.70%	(1.61%)	(2.82%)	1.73%
International Equities					
Morgan Stanley	34,426,612	8.32%	(2.06%)	(0.72%)	10.62%
Capital Guardian	33,121,161	8.00%	(1.54%)	(0.75%)	12.72%
Domestic Fixed-Income					
Columbia Management	99,459,832	24.03%	0.14%	2.22%	5.71%
Real Estate/Mortgages					
Adelante Capital	19,289,655	4.66%	(6.02%)	(14.43%)	(17.61%)
UBS Realty	30,052,157	7.26%	1.91%	1.91%	13.87%
Wells Fargo	27,790	0.01%	0.01%	2.50%	9.56%
TOTAL DB PLAN	\$413,813,946	100.00%	(0.75%)	(1.62%)	5.47%

Investment Manager Returns

The table below details the rates of return for the fund's investment managers over various time periods ended June 30, 2007. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized.

Surplus Benefit Account Program Returns for Periods Ended December 31, 2007

	Market Value \$(Dollars)	Ending Weight	December 31 Performance	4Q Performance	Year To Date
Domestic Equities					
Vanguard Morgan Growth	1,513,852	7.71%	0.09%	(1.59%)	11.21%
Davis NY Venture	1,441,402	7.34%	(0.82%)	(2.05%)	4.97%
Vanguard 500 Index	1,446,098	7.37%	(0.70%)	(3.36%)	5.39%
Vanguard Windsor II	1,017,492	5.18%	(2.56%)	(6.07%)	2.22%
Vanguard Select Value	607,973	3.10%	(0.89%)	(3.88%)	(0.24%)
Vanguard Explorer	781,754	3.98%	(0.55%)	(4.07%)	5.07%
Balanced Category					
Vanguard Wellington	1,021,210	5.20%	(0.54%)	(0.88%)	8.31%
International Equities					
Vanguard Int'l Growth	859,621	4.38%	(2.01%)	(0.42%)	19.55%
Vanguard Total Int'l Stock Index	777,230	3.96%	(2.28%)	(1.24%)	15.53%
Vanguard Int'l Value	657,396	3.35%	(2.06%)	(1.93%)	12.65%
Domestic Fixed-Income					
Vanguard Total Bond Index	1,020,360	5.20%	0.32%	3.08%	6.92%
Stable Value					
Vanguard Savings Trust	5,804,162	29.56%	-	1.21%	4.84%
Real Estate					
Adelante Real Estate	434,761	2.21%	(5.47%)	(13.80%)	(16.75%)
Short Term					
Vanguard Prime Money Market	676,810	3.45%	0.39%	1.21%	5.14%
Lifestyle Funds					
Vanguard LifeStrat Cons Growth	52,171	0.27%	(0.23%)	0.17%	6.98%
Vanguard LifeStrat Growth	770,299	3.92%	(0.75%)	(1.97%)	7.42%
Vanguard LifeStrat Mod Growth	749,438	3.82%	(0.49%)	(0.81%)	7.31%
TOTAL SURPLUS	\$19,632,029	100.00%	-	-	-