**POLICE AND FIRE PENSION FUND**
One West Adams Street, Suite 100
Jacksonville, Florida 32202-3616
Telephone Number (904) 255-7373
Fax Number (904) 353-8837


# M E M O R A N D U M

**TO:** Michael Corrigan, Chairman, Pension Sustainability Committee
Warren Jones, Vice Chairman
Reginald Brown
Stephen Joost
Henry Cook
Shelia Sharpe-Caulkins
Kerri Stewart
David Kilcrease

**FROM:** John Keane, Executive Director - Administrator

**SUBJECT:** PFPF Recovery over the Last 665 Days (1 year and 10 months)

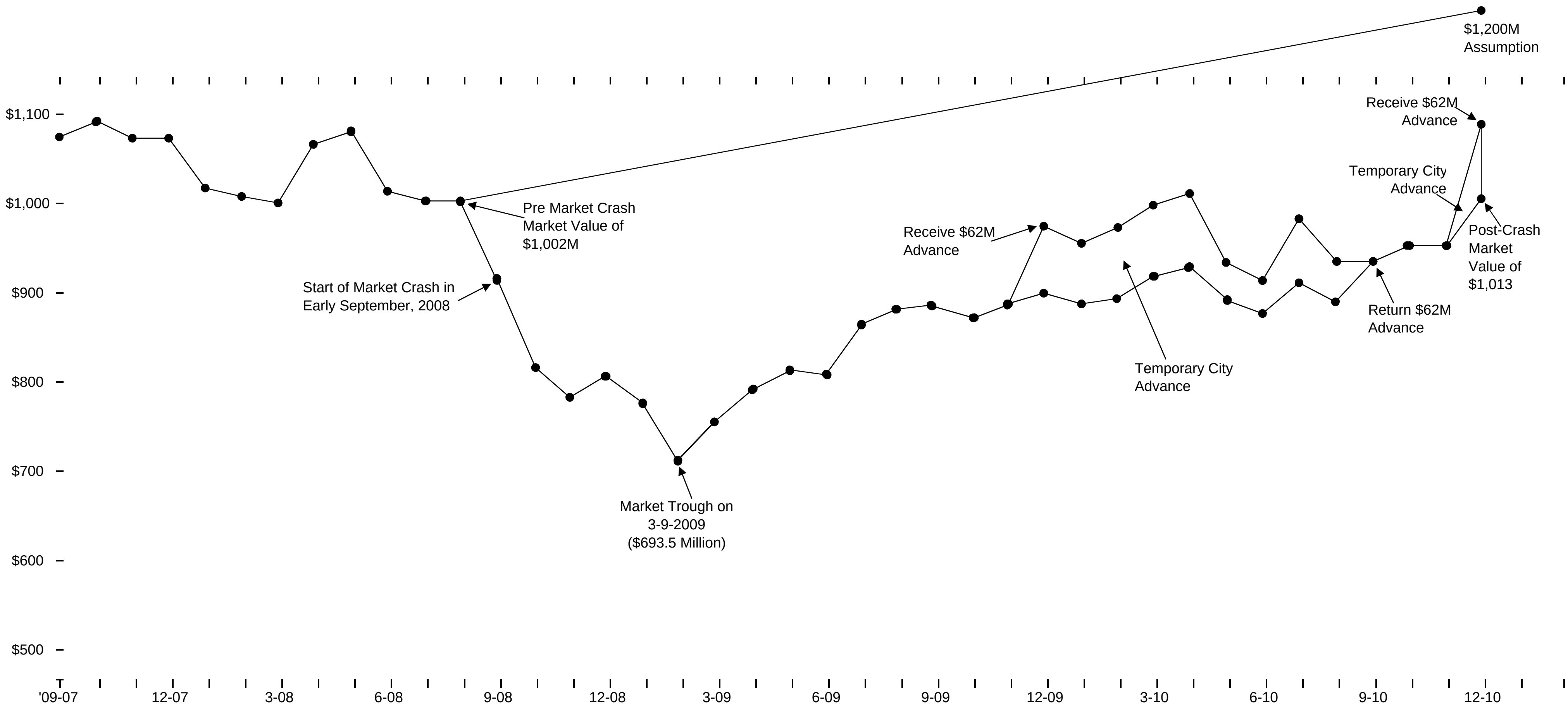
**DATE:** January 4, 2011

Many market observers have speculated that the stock market may have hit its trough on March 9, 2009 during this market cycle. Since March 9, 2009 all market indicies have recovered handsomely. This recovery is evidenced by the $337.4 million in market value gains that have been registered by the Jacksonville Police and Fire Pension Fund between March 9, 2009 and January 3, 2011. This advancement represents a return of 48.65% over this 665 day period. The following table reflects the past updates that have been provided to the Pension Sustainability Committee as we have tracked the progress of the current market recovery:

| Date | Market Value Gains | Return |
|---|---|---|
| 06-16-09 | $122.5 Million | 17.66% |
| 08-04-09 | $163.9 Million | 23.63% |
| 09-08-09 | $178.1 Million | 25.76% |
| 11-17-09 | $210.2 Million | 30.32% |
| 01-19-10 | $236.1 Million | 34.05% |
| 03-09-10 | $231.1 Million | 33.33% |
| 04-17-10 | $263.5 Million | 38.00% |
| 01-03-11 | $337.4 Million | 48.65% |

A similar recovery of about 50% or about $542 million has been experienced by the General Employees Pension Fund. **This means that all of the City's pension plans have increased by $879 million over the last 665 days.** In addition, a survey released today indicates that Wall Street experts believe that the S&P 500 will increase by 11% in 2011 (see attached). We have also attached a chart that tracks the market value of the PFPF portfolio on a monthly basis since September, 2007. This chart documents the fact that the Fund has now recovered from the market crash that commenced in September, 2008.

**Jacksonville Police and Fire Pension Fund**
**Analysis of Market Value of Investment Portfolio**
**from September 30, 2007 to December 31, 2010**



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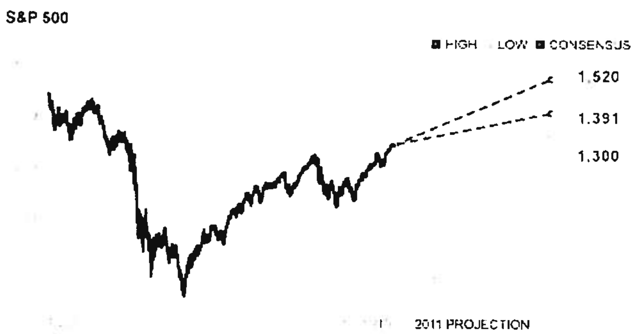
# Stock outlook for 2011: Recovery rally will continue




By Hibah Yousuf, staff reporter

January 4, 2011: 5:19 AM ET

NEW YORK (CNNMoney) -- Stocks have had a great run since bottoming out nearly two years ago, and Wall Street experts anticipate 2011 to be no different.

Investment strategists and money managers expect the S&P 500 to rise 11%, on average, according to an **exclusive CNNMoney survey**. In fact, not one of the 32 experts surveyed by CNNMoney think the S&P 500 will decline this year.

"Everything seems to be in place for the stock market to rise," said Weeden & Co. market strategist Steven Goldman, whose 12-month target for the S&P 500 fell right in line with consensus estimates of 1,390. "We still have decent earnings growth and stimulative policies from the government that will help stocks keep up their performance."

According to the survey, corporate profits will improve 10% over the course of year, with earnings per share in the S&P 500 averaging just above $92 per share in 2011.

But that outlook might be too sunny, cautions Wells Fargo Advisors' chief macro strategist Gary Thayer. He projects corporate earnings will only increase 6%.

"A lot of the company balance sheets up to this point have benefited from significant cost cutting, not sustained revenue growth," Thayer said. "And we don't expect to see strong revenue growth in 2011 either."

He added that government moves like the **$858 billion tax cut compromise** and the **Federal Reserve's $600 billion injection** will prop up the markets in the first half of the year but will lose steam during the latter half.

"If the Fed winds down its program in the middle of the year, as it has suggested, we think the second half of the year could be more volatile and challenging for the stock market," Thayer said.

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His year-end target for the S&P 500 is tied for the worst at 1,300 -- that's up only 3% from where the index ended 2010.

But other experts are more optimistic, including Goldman Sachs' David Kostin, whose forecast for a 13% rise in the S&P 500 in 2010 was exactly where the index closed out the year.

For 2011, he is predicting another 15% jump to 1,450 by the end of the year, arguing that company balance sheets have never been stronger, with more than **$1 trillion in cash**, and the path to earnings growth has rarely been smoother.

The market hasn't even caught up with the profit growth that companies have already delivered, said Riley Asset Management's chief investment strategist Ned Riley, who's among the most bullish of the survey respondents. He's calling for the S&P 500 to be up 20% by the end of the year.

"Profit growth has outpaced the rise in stock prices for the year, and normally we see the reverse of that," Riley said. "That means the overall market is still cheap."

That includes hot stocks like Apple (**AAPL**, **Fortune 500**), which climbed rapidly to all-time highs over $300 a share in 2010, but is considered a better value than it was two years ago, Riley said.

Stocks should also get a nice boost from the return of retail investors, who are just beginning to pull their money out of the bond market and investing it back into stocks, Riley added.

"More people have joined the bullish bandwagon for 2011 because individual investors are ready to purchase stocks for the first time in a long time," Riley said. "Retail investors are typically late to the game because they wait for confirmation that the economy is improving."

With a forecast for modest economic growth ahead, market experts are still favoring the industrial stocks to be among the best performing sectors in 2011 -- the sector already rose 25% in 2010. Strategists are also fans of energy, as commodity prices continue to soar; and technology companies, which boast some of the strongest balance sheets.

Meanwhile, the utilities sector, which is sensitive to changing interest rates, will likely be the worst-performing sector as investors anticipate rising rates. Market strategists aren't too enthusiastic about consumer discretionary stocks either, since most Americans will hold off on avoidable expenses until the unemployment rate improves. ■