

SUNRISE POLICE PENSION FUND

PERFORMANCE REVIEW  
SEPTEMBER 2002

## INVESTMENT RETURN

On September 30th, the Sunrise Police Pension Fund's assets were valued at \$32,387,472, which was a decrease of \$2,862,300 from the June quarter's ending valuation of \$35,249,772. The Fund recorded aggregate net withdrawals totaling \$273,227, compounding the fund's net investment losses of \$2,589,073. The net investment loss was the result of income receipts totaling \$370,683 that were offset by realized and unrealized capital losses of \$2,959,756.

If the fund had earned a nominal 8.0% rate of return since March 2001, it would have been worth \$40.2 million, or \$7.8 million *more* than its actual quarter ending value.

## ECONOMIC ENVIRONMENT

The economy continued to expand at a respectable but not very exciting 2% rate during the third quarter. Corporate investment activity was still very weak, but consumer spending continued at a strong pace. Auto sales, spurred by various 0% financing offers and new home sales (and refinancing), driven by record low interest rates, picked up all of the slack. However, the wealth effect fueled by rising home prices and low interest rates was not sufficient to keep consumer confidence up. There is some concern that we are coming to the end of the road in refinancing and housing sales.

The estimated GDP growth rate of 2% was far below the 5.0 % rate recorded during the first quarter, but better than the second quarter's 1.3% rate.

Housing construction held up remarkably during the last three months, with new home sales up 1.9% in August. Housing starts were up 13% in September as well. Existing home sales fell slightly, but overall, sales are on a record pace in terms of volume and dollars.

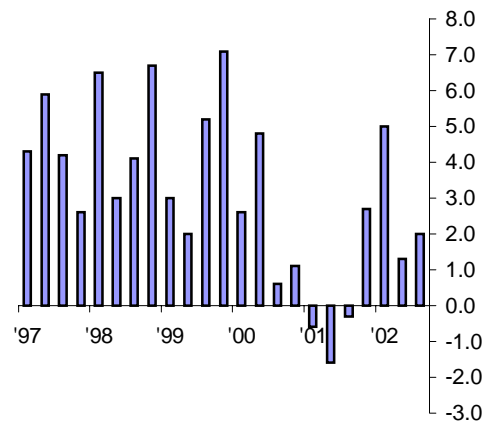
There were no interest rate changes during the quarter and the Federal Reserve indicated that while no near term changes were anticipated, the likelihood remains that the next change would be an increase.

Except for a small "blip" in July, the dollar was flat against both the Euro and the Yen during the quarter. In both cases, the dollar was approximately 12% below where it was on January 1st.

Unemployment declined from 5.9% in June to 5.6% in September. At first glance that figure seems very positive, however, it really does not reflect the true erosion of employment. Since March of 2000, 1.8 million jobs have been lost. In the month of September 2002 alone, 43,000 jobs were eliminated. The apparent contradiction between the job loss figures and the declining unemployment rate is due to the DoL's survey methodology which removes people from the available workforce: those who took involuntary early retirement or have given up looking for work, for whatever reason.

Inflation remained in check during the quarter. The only areas with significant steady inflation were the health care and transportation areas. The CPI rose 0.6% in the third quarter. For the trailing year, inflation (CPI-U) rose only 1.6%. European inflation remains steady at about 2%.

Real Economic Growth



Industrial output rose each month during the quarter (1.4% for the full quarter). Interestingly, consumer related production was flat while materials and manufacturing picked up. Capacity utilization is still fairly low at 76.1%, but up from 75.2% last quarter. American businesses can therefore produce far more output without inflation or a strain on capabilities.

Japan's weak deflationary economy appears to be slipping again. Without strong demand from the U.S. and a fairly strong yen hurting exports in general, economic growth in the world's second largest economy is nonexistent. The consensus estimate is that the economy contracted by 0.4% during the quarter. Deflation appears to have bottomed at -1.6% in January.

**EQUITY MARKET**

July and September were two of the worst months on record for the U.S. stock market. Investors lost confidence across the board, beating down the prices of every type of stock from blue chips to high tech, even consumer staples. Redemption from mutual funds reached a crescendo on July 21. The magnitude of the withdrawals was so great that Fidelity's mutual fund giant, the Magellan fund, sustained over \$1 billion in net withdrawals in July. August was a quiet month, with the markets going up slightly. In September the slide began again in earnest as fears of war with Iraq pushed up oil prices and rattled investors nerves. Even improving corporate profit reports were not sufficient to stop the downward pressure on prices.

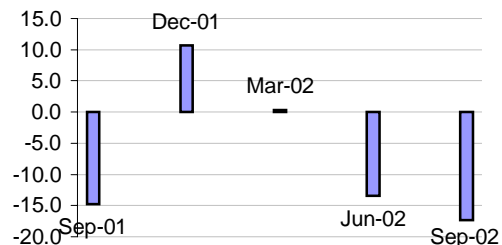
The overall market as measured by the Russell 3000 index was down 17.2% for the quarter. All stocks, value and growth, large and small did terribly. Large cap value stocks actually went down further than growth stocks, returning -18.8% versus -15.0%. Small cap stocks fared worse, with small cap value losing 21.3% and small cap growth losing 21.5%. During the third quarter, the Dow Jones Industrials declined from 9243 to 7592, well below the all time high of 11722.98.

The S&P 500 lost 17.3% for the quarter and 20.5% for the trailing year. Every sector of the market was down. Utilities was the worst performing sector, losing 24.6% for the quarter; the best performing was Transportation, which only lost 6.5%.

For the first time ever, the S&P had a negative five-year annualized trailing return, -1.6%.

At quarter end, the average yield of an S&P 500 issue was 1.2%, its average growth rate was 9.9%, and it sold at a price/earnings ratio of 20.8. The p/e ratio has come down substantially from its peak of 32, but is still higher than the historical normal range of between 14x and 16x.

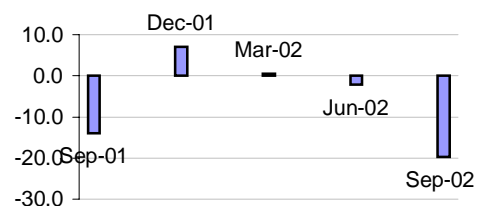
**S&P 500**



**INTERNATIONAL EQUITIES**

Abroad, equity markets were down strongly. Except for New Zealand, which only declined by 3.5%, all of the developed markets posted double-digit losses. Germany was down the most, -36.6%. Only a couple of tiny emerging markets posted gains. Pakistan and Sri Lanka were up as were Argentina and Venezuela. These exceptions were rebounds from earlier difficult quarters.

**EAFE**

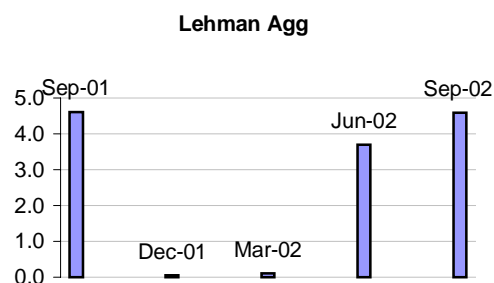


The international equities markets (as represented by the capitalization-weighted EAFE index) declined 19.7% during the quarter and 20.8% for the trailing year. On an equal weighted basis the EAFE index declined 29.4% for the quarter and 11.9% for the trailing year.

## **BOND MARKET**

During the third quarter of 2002, the yield curve dropped and flattened. Most treasuries were selling at record low yields. Short treasury yields fell about 1.1%; intermediates were down 1.4% and long treasury yields slipped 0.8%. Quality spreads (the difference in yield between a corporate bond and a treasury bond of the same maturity) widened across the board as confidence in corporate accounting practices continued to erode. What this means is that bond prices tended to rise and returns were better for longer bonds. Governments did better than corporates during the quarter in spite of their lower yields. Low quality corporates did terribly as the WorldCom meltdown pulled the index negative.

The Lehman Brothers Aggregate Bond Index produced a 4.58% third quarter return and a trailing year return of 8.6%. Intermediate and long treasuries both did well during the quarter returning 5.04% and 12.07% respectively. For the trailing year, intermediates returned 8.36% and long treasuries gained 14.51%. The US Government Index as a whole was up 6.66% for the quarter and up 10.04% for the trailing year. The Investment Grade Credit Index underperformed governments for the quarter (4.48%) and for the year (8.19%). High yield corporates (junk bonds) had a poor quarter, losing 2.93%. For the trailing year, high yield corporates returned -2.3%.



The average maturity of the Lehman Aggregate index decreased from 7.76 to 6.84 years during the quarter. The interest rate sensitivity (duration) dropped from 4.3 years (on an adjusted basis) to 3.8 years, and the average yield slipped from 5.27% to 4.29%.

Emerging market bonds fared poorly losing 1.1% for the quarter and 0.8% for the trailing year. Latin American bonds did quite poorly as a result of steep declines in the value of bonds from Ecuador and Uruguay (-23.1% and -26.8% respectively). Russian bonds continued to perform very well, returning 4.0% for the quarter and 42.8% for the trailing year.

## **CASH EQUIVALENTS**

Short-term yields fell during the quarter. The "risk-free" Treasury note return was 0.44%, producing a trailing 12-month total return on cash and equivalents of 2.01%.

## **RELATIVE PERFORMANCE**

### **Total Fund**

Last quarter, the total aggregate portfolio lost 7.4%. That return ranked in the 53rd percentile of the CDA universe of balanced funds, 0.2% below the -7.2% median balanced return. The return for the last 12 months was -7.2%, which ranked in the 62nd percentile. For the cumulative 1½ years covered by this report, the fund lost 9.4% or -6.3% per annum, and ranked in the 55th percentile.

### **Equities**

Last quarter, the stocks in the aggregate portfolio lost 18.0%, ranking below the CDA equity fund universe median in the 64th percentile, 0.7% below the S&P 500's -17.3% return. The return for the trailing year was -20.9%, which ranked below the median in the 69th percentile. For the cumulative 1½-year period, the aggregate stocks returned -27.5% (-19.3% annualized) and ranked in the 56th percentile, 0.5% per year above the S&P 500's -19.8% annualized return.

### **Bonds**

The aggregate fixed income segment recorded a third quarter return of 5.5% and ranked in the 17th percentile of the fixed income universe. That performance was 0.9% better than the Lehman Aggregate bond index's return of 4.6%. The return for the trailing year was 9.3%, which ranked well above the median in the 12th percentile. Over the cumulative 1½ years, the bonds earned 15.5% (10.1% per annum) and ranked in the 8th percentile; the annualized return trailed the annualized index return (9.3%) by just 0.8%.

### **International**

The American Euro Pacific and Putnam together lost 19.2% for the September quarter, ranking in the 56th percentile of the CDA/Cadence universe of international equity funds, trailing the EAFE index (-19.7%) by 0.5%. Over the last twelve months, the international equities segment fell 14.7% ranking in the 57th percentile. Over the cumulative period, the international portfolio lost 25.8% or -18.0% per annum, ranking in the 49th percentile.

INTERNATIONAL EQUITY RANKINGS		
% TILE	QUARTER	YEAR
5	-10.70%	11.05%
25	-16.13%	-3.03%
50	-18.51%	-13.40%
75	-20.94%	-17.83%
95	-23.84%	-22.56%

### **Asset Allocation**

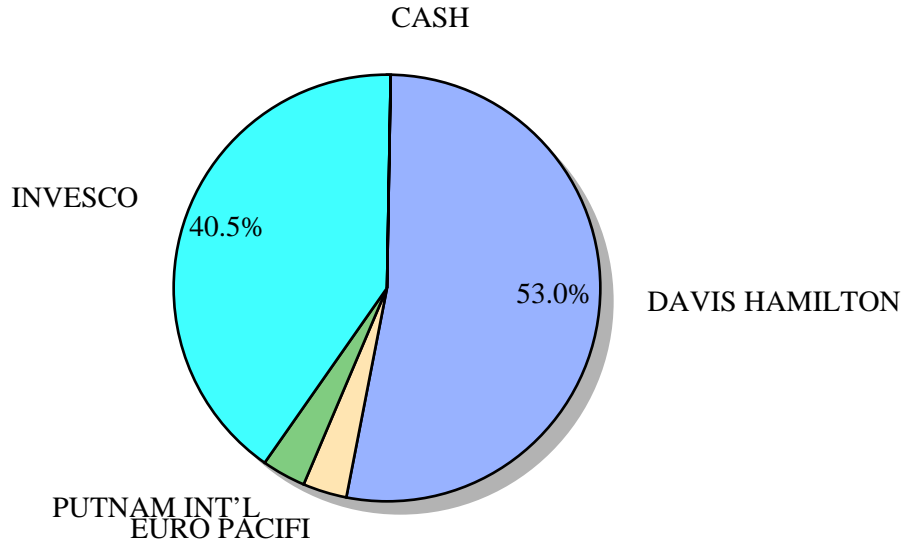
At the end of September 2002, 44.2% (\$14.3 million) of the aggregate portfolio was held in equities. The fixed income segment represented 44.8% (\$14.5 million), while cash and equivalents comprised 4.4% (\$1.4 million). The international segment represented 6.5% (\$2.1 million).






**SUNRISE POLICE  
PERFORMANCE REVIEW  
SEPTEMBER 30TH, 2002**

ACCOUNT		MARKET VALUE	( % )	QTR	(Rank)	12 MOS	(Rank)
<b>DAVIS HAMILTON</b>	<b>Total Account</b>	\$ 17,172,050	(100.0)	-5.5	( 22 )	-5.6	( 50 )
	<b>Equities</b>	\$ 8,206,308	(47.8)	-15.2	( 30 )	-17.7	( 50 )
	<b>Bonds</b>	\$ 7,883,143	(45.9)	4.7	( 30 )	8.2	( 25 )
	<b>Cash</b>	\$ 1,082,595	(6.3)	---	---	---	---
<b>EURO PACIFI</b>	<b>Total Account</b>	\$ 1,045,592	(100.0)	-17.6	( 40 )	-12.3	( 47 )
	<b>Int'l</b>	\$ 1,045,592	(100.0)	-17.6	( 40 )	-12.3	( 46 )
<b>PUTNAM INT'L</b>	<b>Total Account</b>	\$ 1,063,544	(100.0)	-20.7	( 72 )	-16.8	( 69 )
	<b>Int'l</b>	\$ 1,063,544	(100.0)	-20.7	( 72 )	-16.8	( 69 )
<b>INVESCO</b>	<b>Total Account</b>	\$ 13,106,180	(100.0)	-7.6	( 57 )	-7.9	( 67 )
	<b>Equities</b>	\$ 6,118,345	(46.7)	-21.4	( 89 )	-24.9	( 85 )
	<b>Bonds</b>	\$ 6,637,502	(50.6)	6.3	( 10 )	10.7	( 6 )
	<b>Cash</b>	\$ 350,324	(2.7)	---	---	---	---
<b>CASH</b>	<b>Total Account</b>	\$ 108	(100.0)	0.0	---	0.0	---
	<b>Cash</b>	\$ 108	(100.0)	---	---	---	---
<b>TOTAL FUND</b>	<b>Total Account</b>	\$ 32,387,470	(100.0)	-7.4	( 53 )	-7.2	( 62 )
	<b>Equities</b>	\$ 14,324,650	(44.2)	-18.0	( 64 )	-20.9	( 69 )
	<b>Bonds</b>	\$ 14,520,650	(44.8)	5.5	( 17 )	9.3	( 12 )
	<b>Cash</b>	\$ 1,433,027	(4.4)	---	---	---	---
	<b>Int'l</b>	\$ 2,109,136	(6.5)	-19.2	( 56 )	-14.7	( 57 )

INDEX	QTR	12 MOS
<b>S&amp;P 500</b>	<b>-17.3</b>	<b>-20.5</b>
<b>RUSSELL 1000</b>	<b>-16.9</b>	<b>-19.5</b>
<b>RUSSELL 1000 GRO</b>	<b>-15.1</b>	<b>-22.5</b>
<b>RUSSELL 1000 VAL</b>	<b>-18.8</b>	<b>-17.0</b>
<b>RUSSELL 2000</b>	<b>-21.4</b>	<b>-9.3</b>
<b>LEHMAN AGG</b>	<b>4.6</b>	<b>8.6</b>
<b>EAFE</b>	<b>-19.7</b>	<b>-15.3</b>

**SUNRISE POLICE  
MANAGER ALLOCATIONS  
SEPTEMBER 30TH, 2002**



MANAGER	MARKET VALUE	(PERCENT)
 DAVIS HAMILTON	\$ 17,172,050	(53.0%)
 EURO PACIFI	\$ 1,045,592	(3.2%)
 PUTNAM INT'L	\$ 1,063,544	(3.3%)
 INVESCO	\$ 13,106,180	(40.5%)
 CASH	\$ 108	(0.0%)
<b>TOTAL FUND</b>	<b>\$ 32,387,470</b>	<b>(100.0%)</b>

## SUNRISE POLICE

### PERFORMANCE SUMMARY Quarter ended September 30, 2002

RATES OF RETURN	QUARTER	(rank)	Y-T-D	(rank)	12 MOS	(rank)	3/2001 Through 9/2002		
							CUMUL	ANNUAL	(rank)
<b>Total Portfolio</b>	- 7.4%	( 53)	- 11.6%	( 57)	- 7.2%	( 62)	- 9.4%	- 6.3%	( 55)
SHADOW INDEX	- 7.0		- 11.5		- 6.9		- 9.9	- 6.7	
<b>Equities</b>	- 18.0	( 64)	- 28.0	( 56)	- 20.9	( 69)	- 27.5	- 19.3	( 56)
S&P 500	- 17.3		- 28.1		- 20.5		- 28.2	- 19.8	
RUSSELL 3000	- 17.2		- 27.4		- 18.8		- 26.8	- 18.8	
RUSS 1000 GRO	- 15.1		- 32.7		- 22.5		- 32.3	- 22.9	
RUSS 1000 VAL	- 18.8		- 22.7		- 17.0		- 22.4	- 15.6	
<b>Bonds</b>	5.5	( 17)	9.4	( 17)	9.3	( 12)	15.5	10.1	( 8)
LEHMAN AGG	4.6		8.5		8.6		14.2	9.3	
GOV/CREDIT	5.7		9.1		9.2		14.8	9.6	
<b>Intl Equities</b>	- 19.2	( 56)	- 21.6	( 58)	- 14.7	( 57)	- 25.8	- 18.0	( 49)
EAFE	- 19.7		- 20.8		- 15.3		- 27.7	- 19.5	

### ASSET ALLOCATION

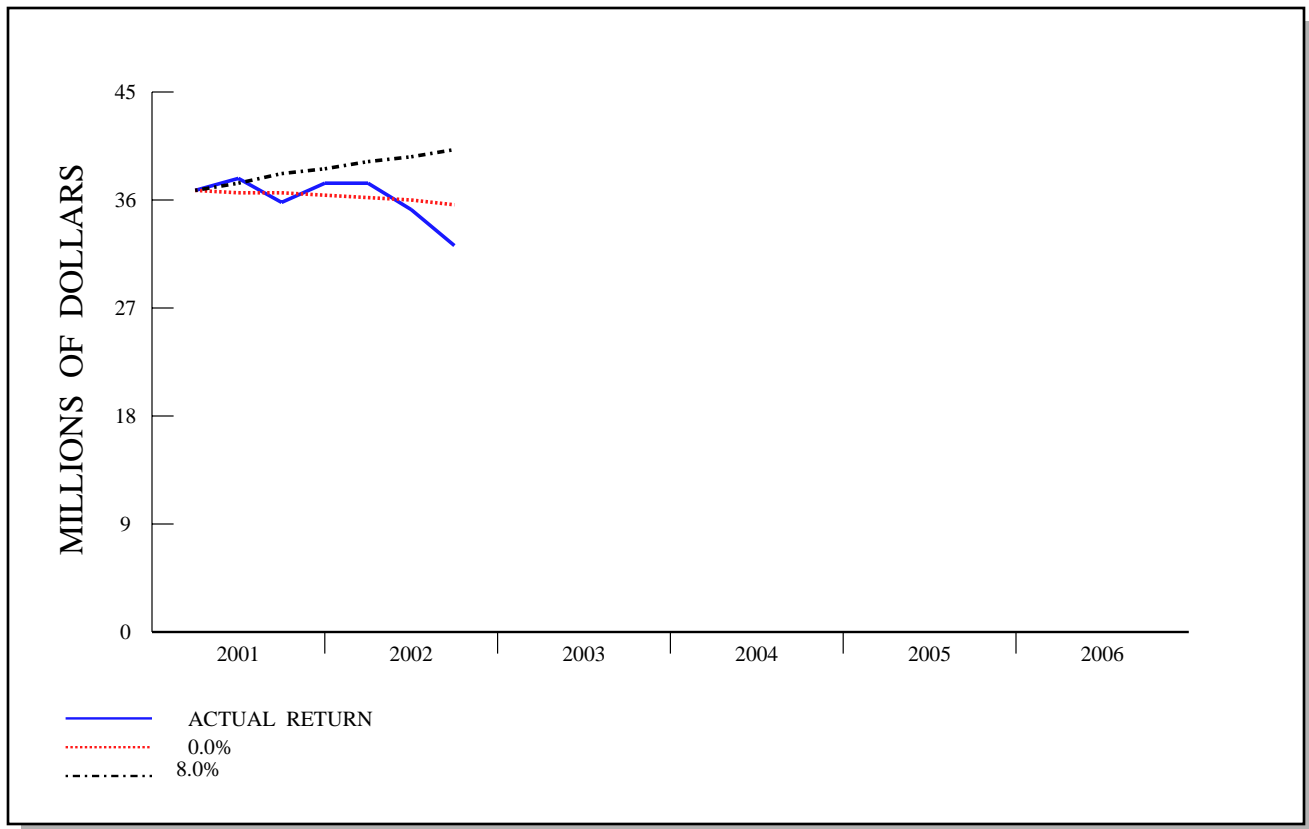
Equities	44.2%	\$ 14, 324, 652.
Bonds	44.8%	14, 520, 644.
Cash	4.4%	1, 433, 026.
Real Estate	0.0%	0.
Intl Equities	6.5%	2, 109, 135.
Small Cap	0.0%	0.
Other	0.0%	0.
<b>Total Portfolio</b>	<b>100.0%</b>	<b>\$ 32, 387, 472.</b>

### INVESTMENT RETURN

Market Value 6/02	\$ 35,249,772.
Contribs / Withdrwls	-273,227.
Income	370,683.
Capital Gains / Losses	- 2,959,756.
Market Value 9/02	\$ 32,387,472.



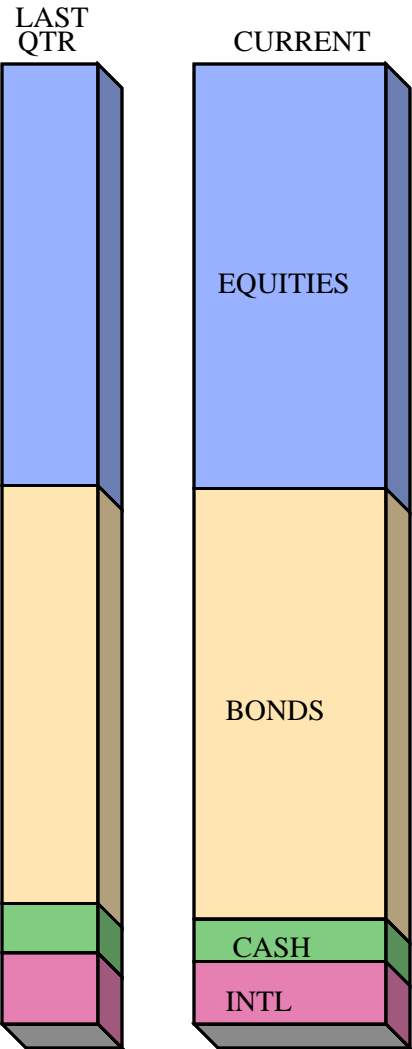
## INVESTMENT GROWTH



	<u>LAST QUARTER</u>	<u>PERIOD 3/01 - 9/02</u>
BEGINNING VALUE	\$ 35,249,772	\$ 36,987,352
NET CONTRIBUTIONS	-273,227	-1,246,317
INVESTMENT RETURN	-2,589,073	-3,353,563
ENDING VALUE	\$ 32,387,472	\$ 32,387,472
INCOME	370,683	1,928,429
CAPITAL GAINS (LOSSES)	-2,959,756	-5,281,992
INVESTMENT RETURN	-2,589,073	-3,353,563

VALUE ASSUMING 8.0% RETURN                      40,203,259

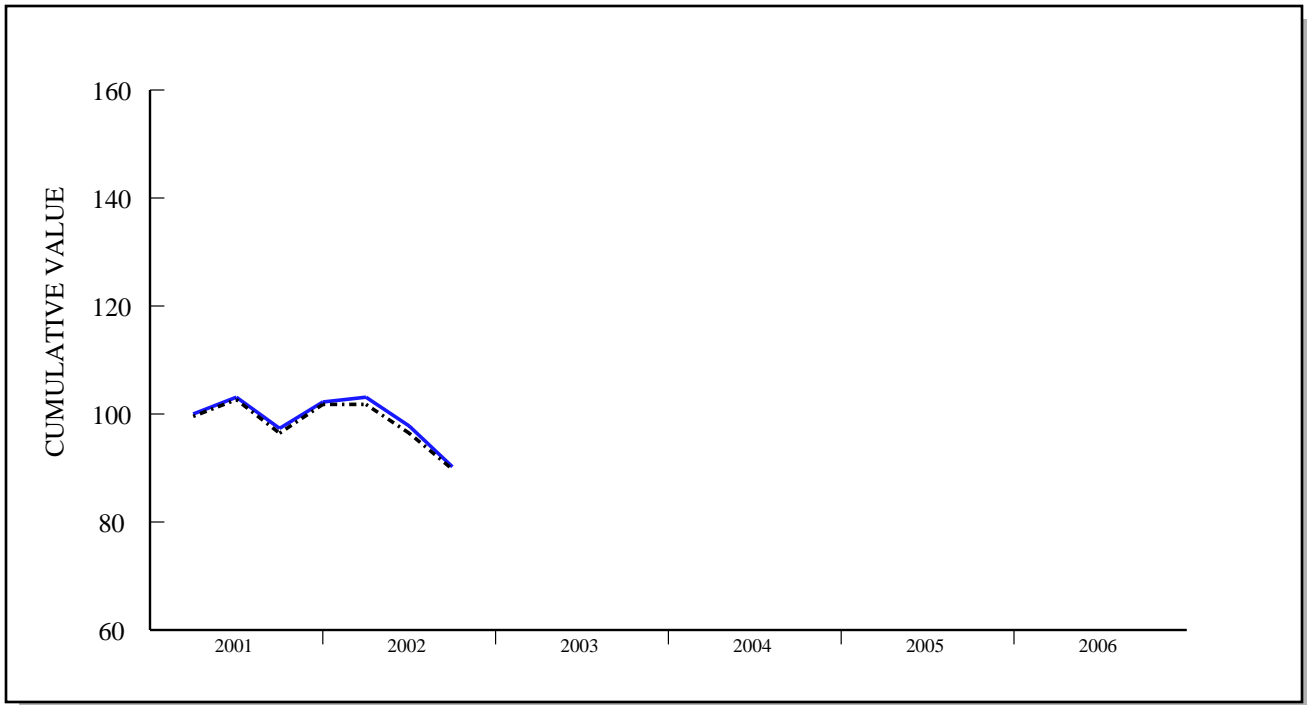
# ASSET ALLOCATION



AS OF SEPTEMBER 2002

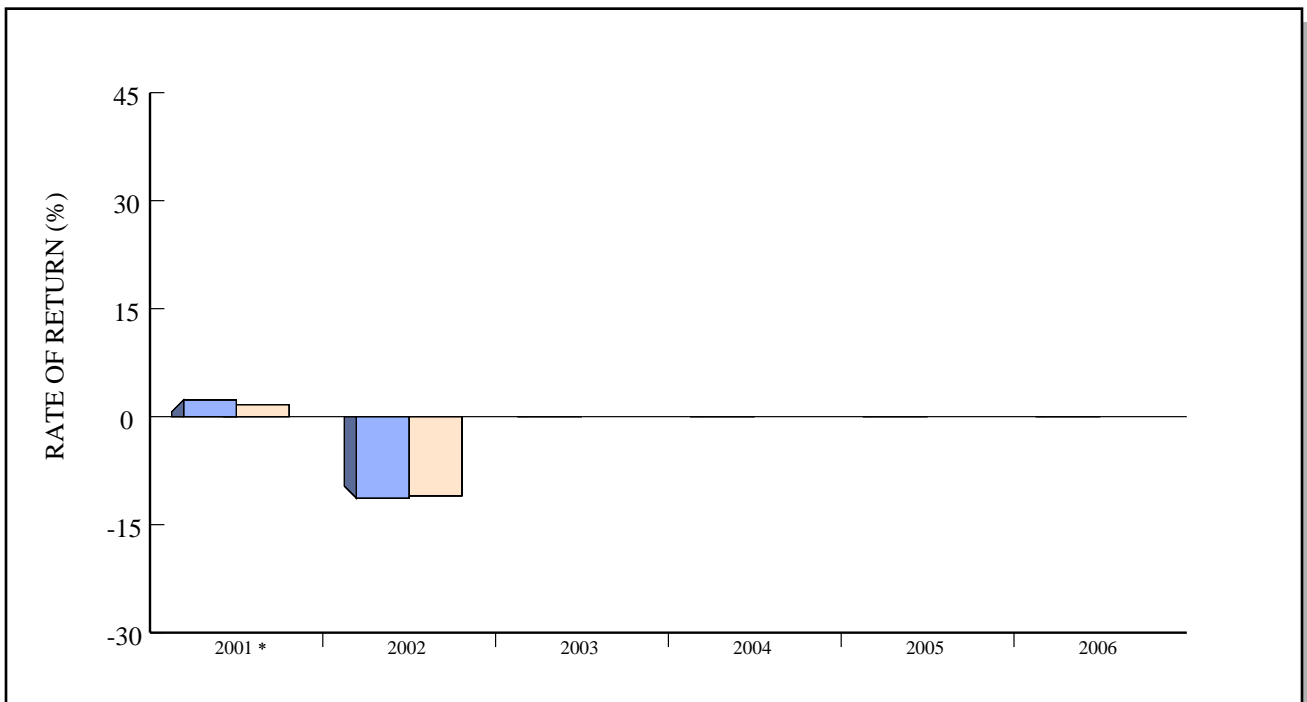
	<u>VALUE</u>	<u>PERCENT</u>	<u>TARGET</u>	DIFFERENCE <u>+ / -</u>
EQUITIES	\$ 14, 324, 653.	44.2%	50.0%	-5.8%
BONDS	14, 520, 645.	44.8%	40.0%	4.8%
CASH & EQUIV	1, 433, 027.	4.4%	0.0%	4.4%
INTL EQUITIES	2, 109, 136.	6.5%	10.0%	-3.5%
TOTAL FUND	\$ 32, 387, 472.	100.0%		

## TOTAL PORTFOLIO CUMULATIVE RATE OF RETURN



——— PORTFOLIO  
 - - - - SHADOW INDEX

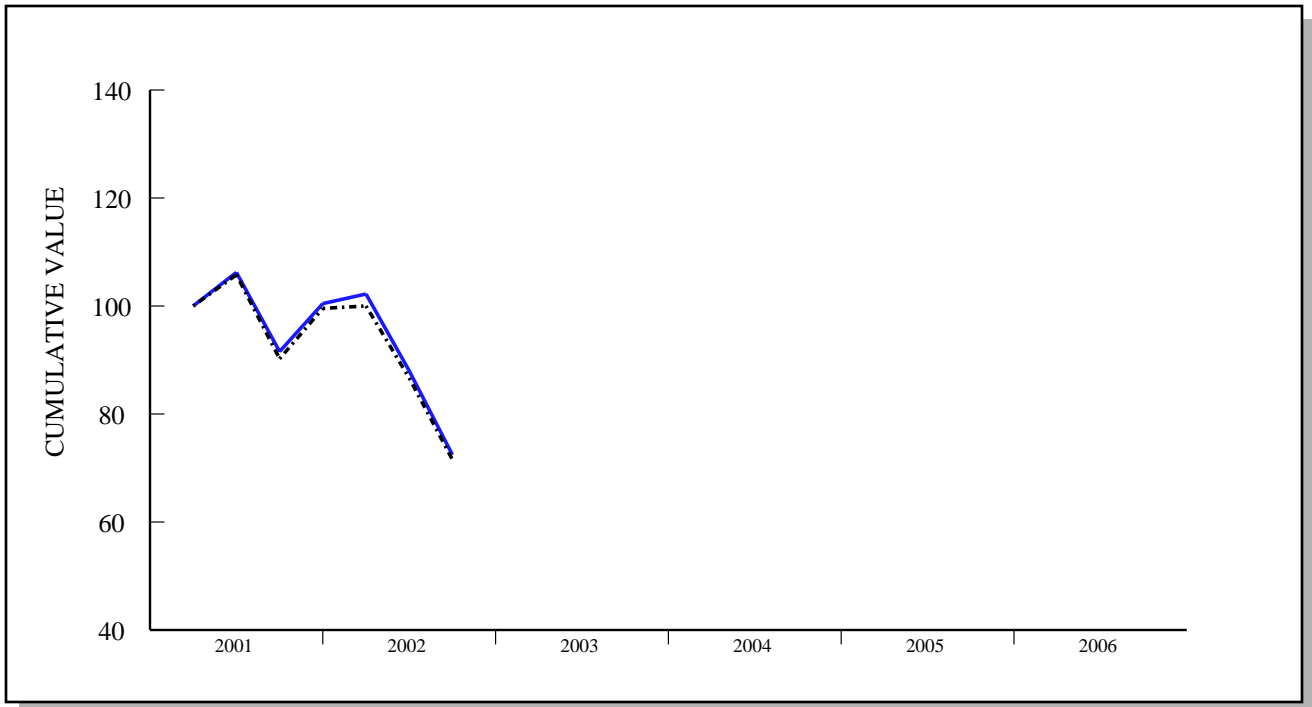
## YEAR BY YEAR



\* PARTIAL PERIOD

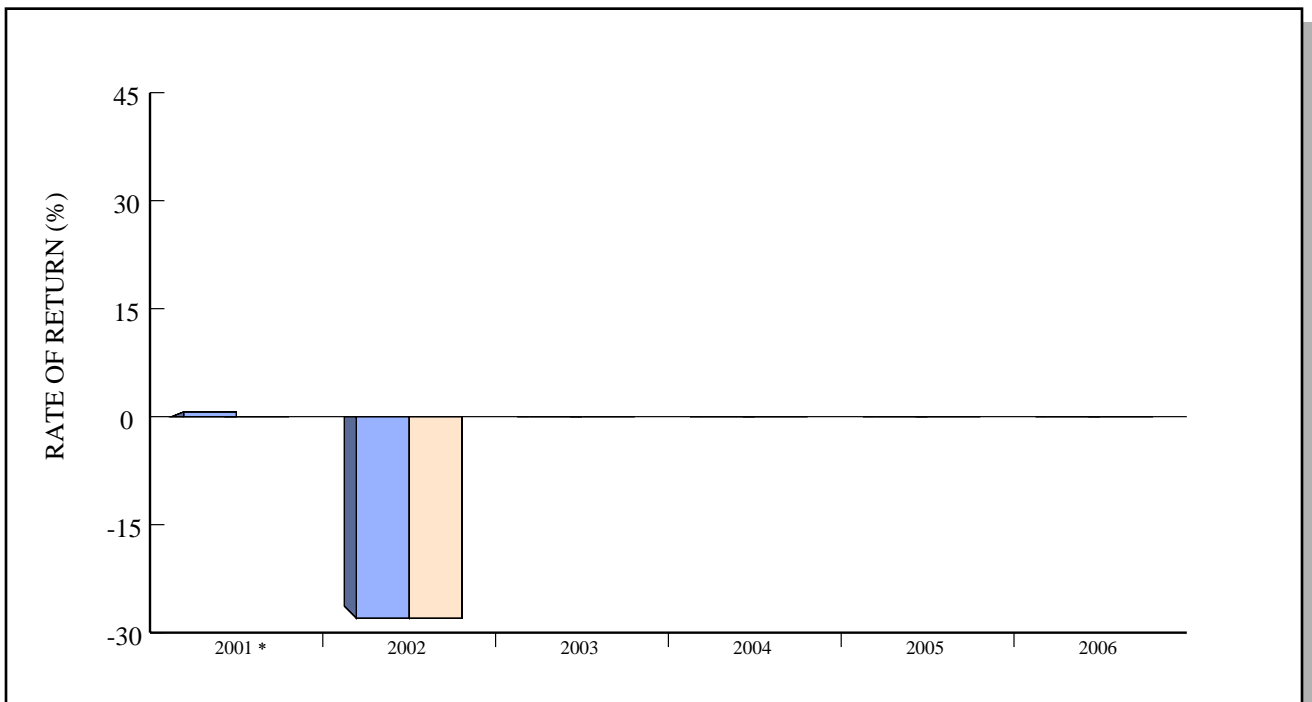
\*\* YEAR TO DATE

## EQUITY PORTFOLIO CUMULATIVE RATE OF RETURN



——— PORTFOLIO  
 - - - S&P 500

## YEAR BY YEAR

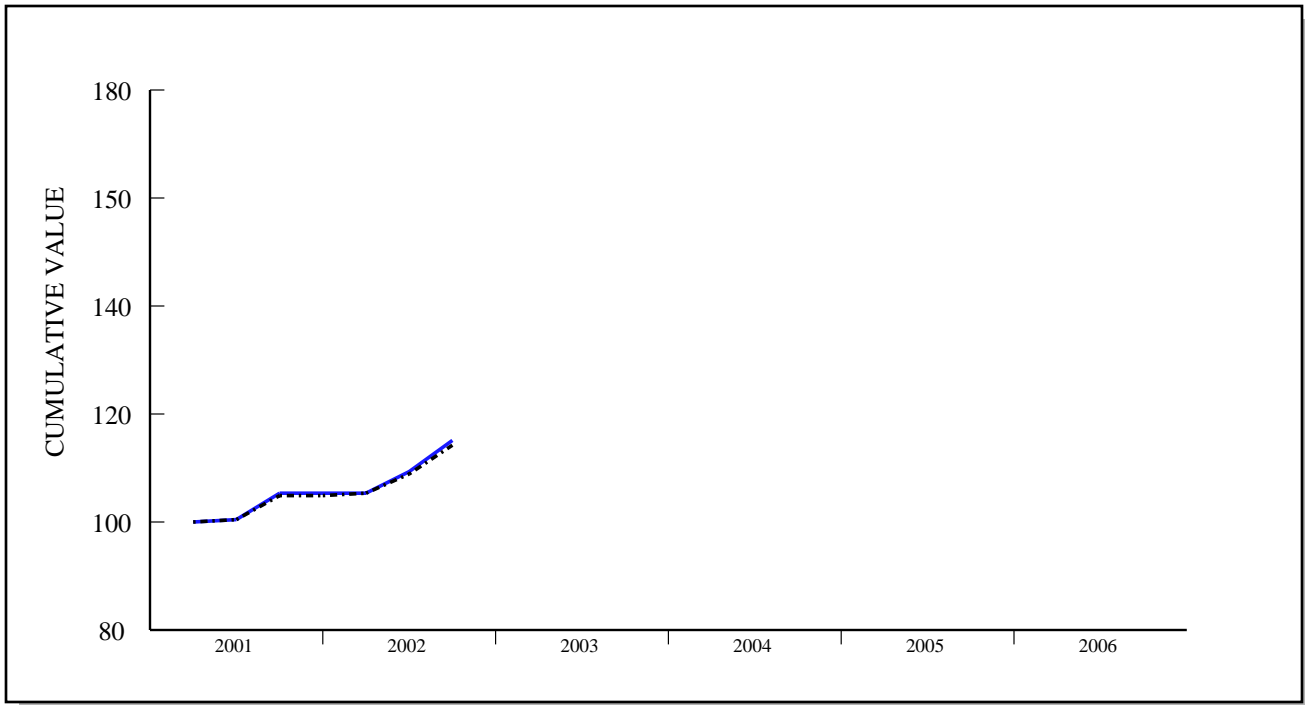


\* PARTIAL PERIOD

\*\* YEAR TO DATE

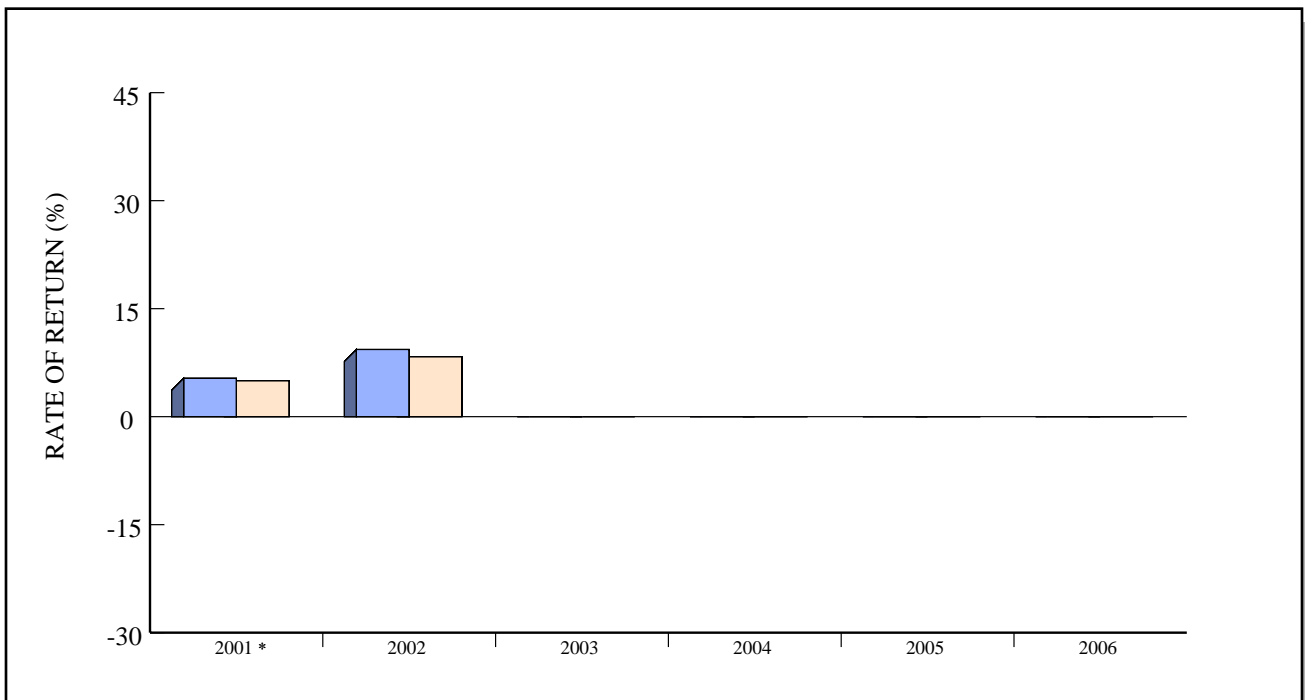
# BOND PORTFOLIO

## CUMULATIVE RATE OF RETURN



■ — PORTFOLIO  
■ - - - LEHMAN AGG

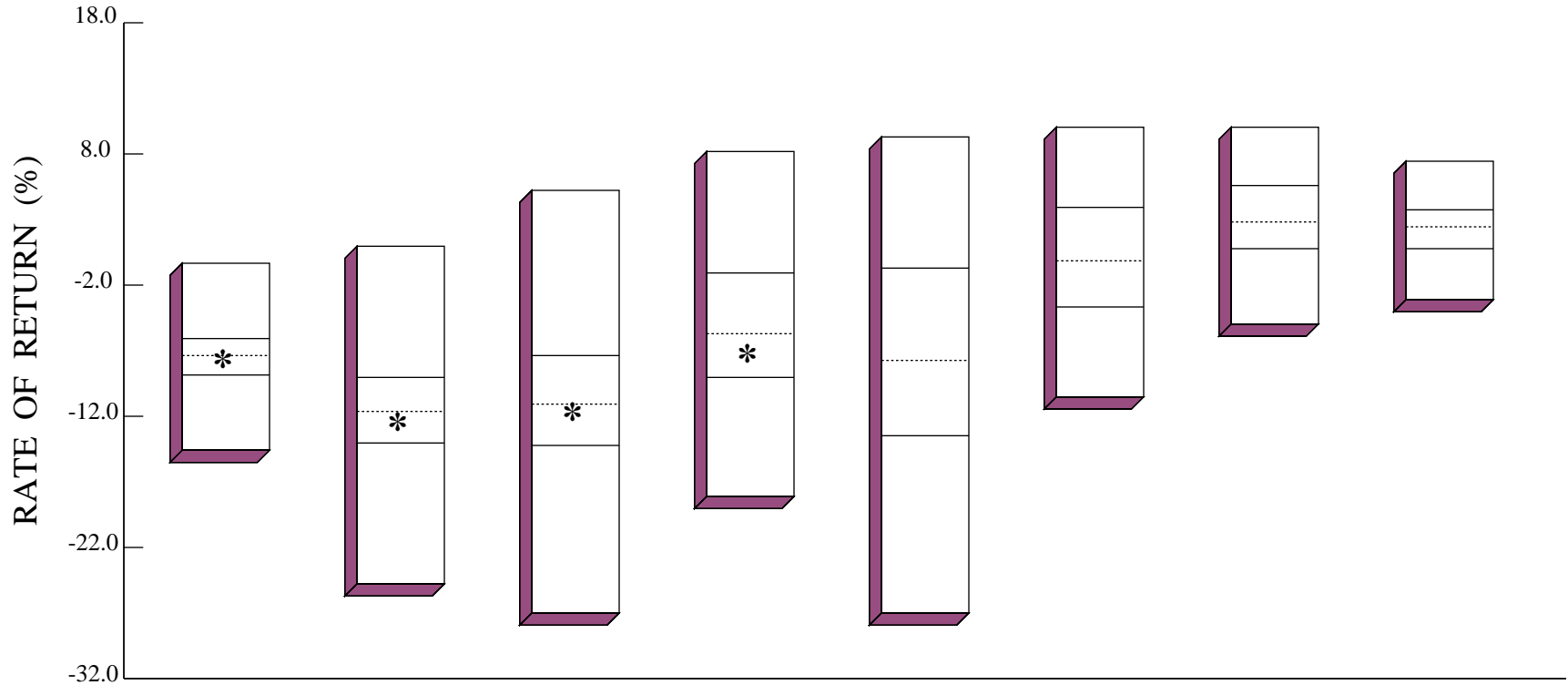
## YEAR BY YEAR



\* PARTIAL PERIOD

\*\* YEAR TO DATE

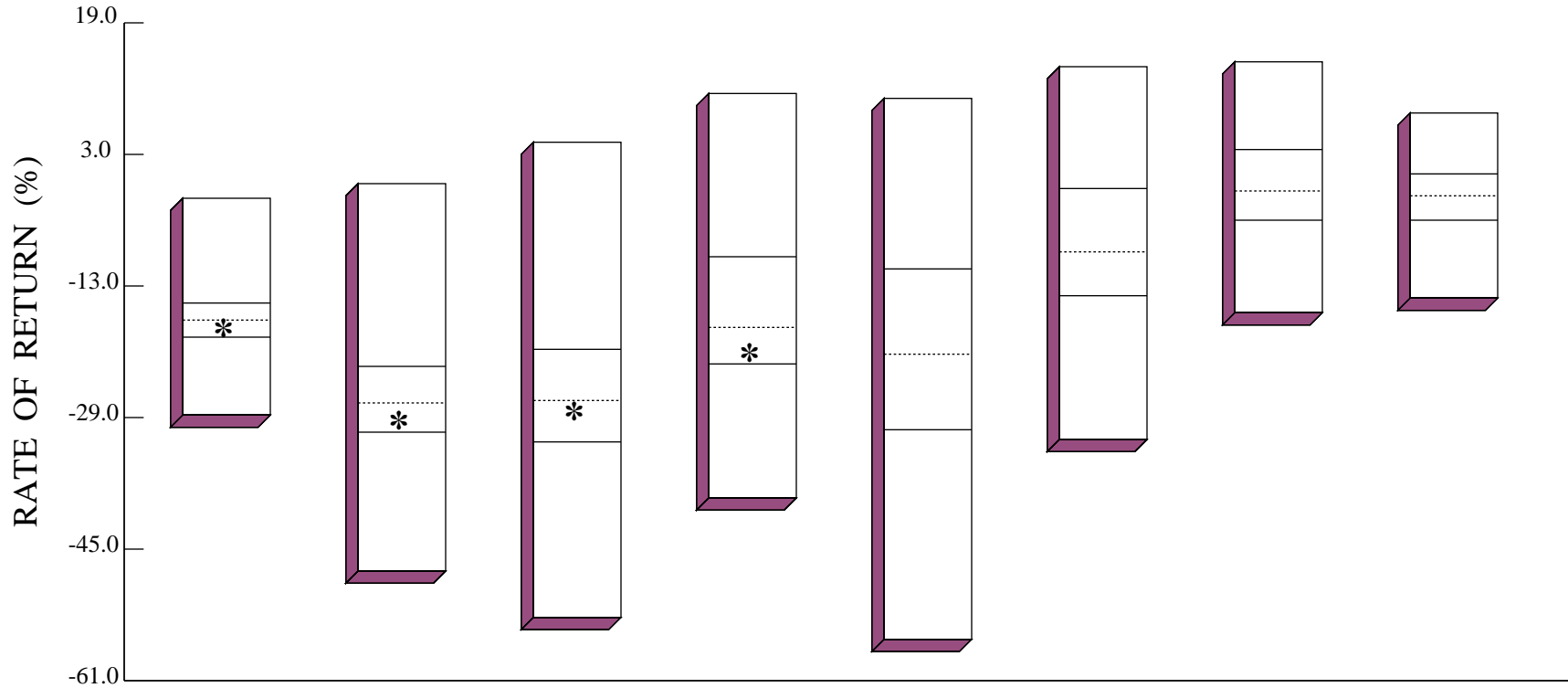
## TOTAL RATE OF RETURN COMPARISONS



13

	<u>LAST QTR</u>	<u>LST 2QTRS</u>	<u>LST 3QTRS</u>	<u>LST YEAR</u>	----- ANNUALIZED -----			
					<u>LST 2YRS</u>	<u>LST 3YRS</u>	<u>LST 4YRS</u>	<u>LST 5YRS</u>
RETURN	- 7. 4	- 12. 3	- 11. 6	- 7. 2	*****	*****	*****	*****
(RANK)	53	60	57	62	0	0	0	0
HIGHEST	- 0. 2	1. 0	5. 4	8. 2	9. 5	10. 2	10. 2	7. 6
25TH %ILE	- 5. 9	- 9. 0	- 7. 3	- 1. 0	- 0. 6	4. 1	5. 7	3. 9
MEDIAN	- 7. 2	- 11. 5	- 11. 0	- 5. 7	- 7. 7	0. 0	2. 9	2. 5
75TH %ILE	- 8. 9	- 14. 0	- 14. 1	- 8. 9	- 13. 4	- 3. 6	0. 8	0. 9
LOWEST	- 14. 4	- 24. 7	- 26. 8	- 18. 0	- 26. 9	- 10. 4	- 4. 9	- 3. 0
SHADOW INDEX	- 7. 0	- 11. 7	- 11. 5	- 6. 9	*****	*****	*****	*****

## EQUITY RATE OF RETURN COMPARISONS



14

	<u>LAST QTR</u>	<u>LST 2QTRS</u>	<u>LST 3QTRS</u>	<u>LST YEAR</u>	----- ANNUALIZED -----			
					<u>LST 2YRS</u>	<u>LST 3YRS</u>	<u>LST 4YRS</u>	<u>LST 5YRS</u>
RETURN	- 18. 0	- 29. 1	- 28. 0	- 20. 9	*****	*****	*****	*****
(RANK)	64	67	56	69	0	0	0	0
HIGHEST	- 2. 1	- 0. 3	4. 6	10. 5	9. 8	13. 8	14. 4	8. 2
25TH %ILE	- 14. 8	- 22. 6	- 20. 5	- 9. 2	- 10. 9	- 0. 9	3. 8	0. 9
MEDIAN	- 17. 1	- 27. 2	- 26. 9	- 17. 8	- 21. 1	- 8. 6	- 1. 4	- 1. 9
75TH %ILE	- 19. 2	- 30. 6	- 31. 7	- 22. 2	- 30. 2	- 14. 0	- 5. 0	- 4. 7
LOWEST	- 28. 6	- 47. 5	- 53. 1	- 38. 6	- 55. 9	- 31. 5	- 16. 1	- 14. 5
S&P 500	- 17. 3	- 28. 3	- 28. 1	- 20. 5	*****	*****	*****	*****

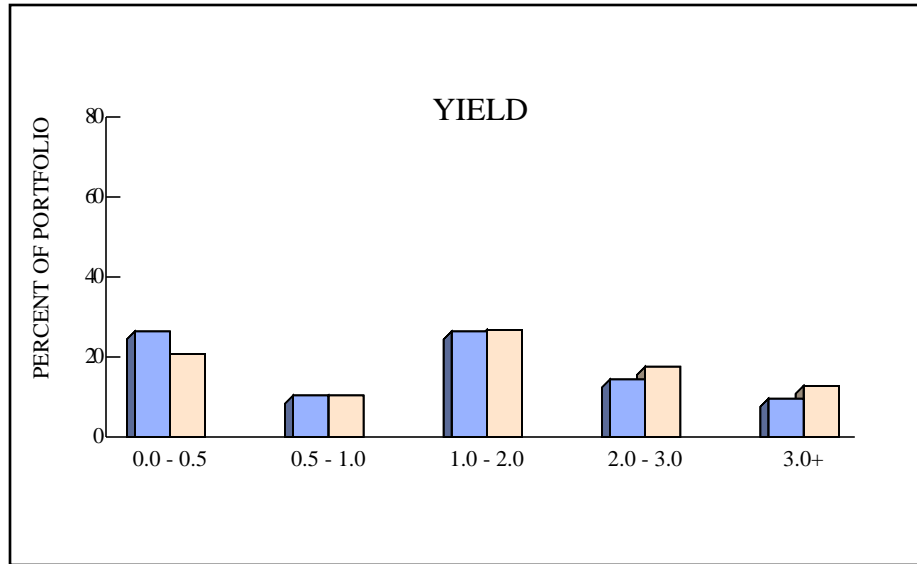
## BOND RATE OF RETURN COMPARISONS



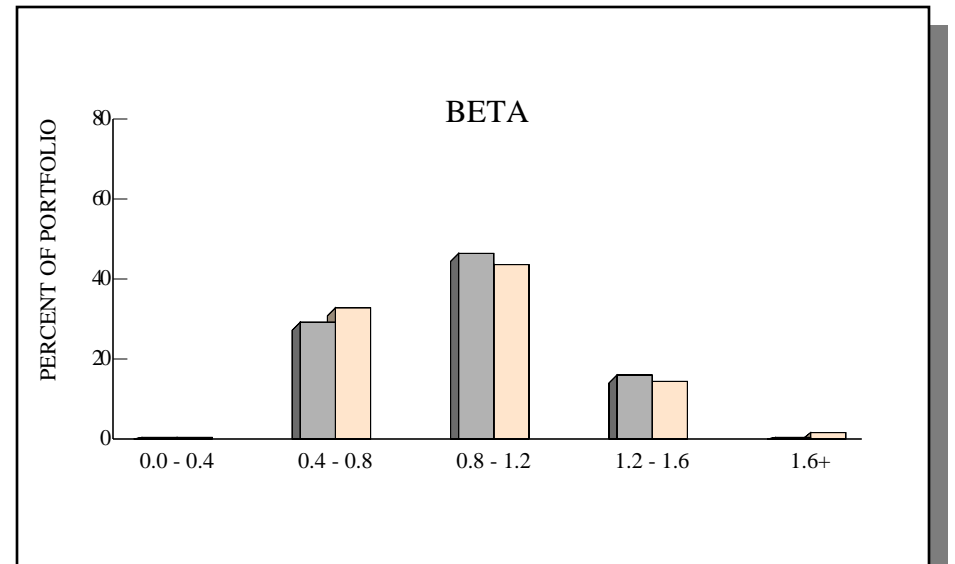
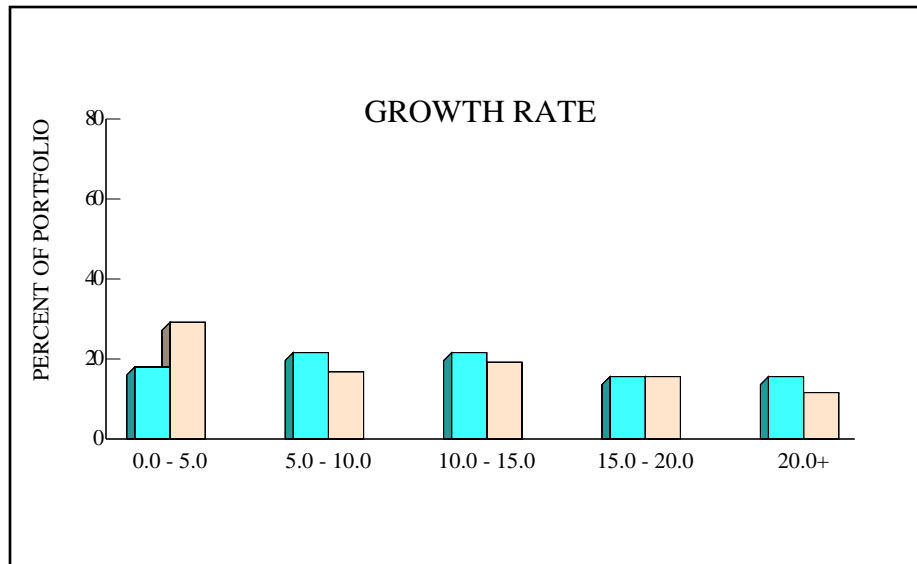
15

	<u>LAST QTR</u>	<u>LST 2QTRS</u>	<u>LST 3QTRS</u>	<u>LST YEAR</u>	----- ANNUALIZED -----			
					<u>LST 2YRS</u>	<u>LST 3YRS</u>	<u>LST 4YRS</u>	<u>LST 5YRS</u>
RETURN	5.5	9.5	9.4	9.3	*****	*****	*****	*****
(RANK)	17	17	17	12	0	0	0	0
HIGHEST	11.0	18.4	16.6	14.1	14.7	12.8	8.0	10.2
25TH %ILE	4.8	8.9	8.7	8.1	10.1	8.8	6.4	7.2
MEDIAN	3.9	7.2	7.2	7.0	9.2	8.0	5.7	6.6
75TH %ILE	2.4	5.0	5.3	5.6	7.9	7.2	5.2	6.0
LOWEST	-0.8	-1.1	-0.9	-0.8	0.3	2.6	3.0	3.3
LEHMAN AGG	4.6	8.4	8.5	8.6	*****	*****	*****	*****

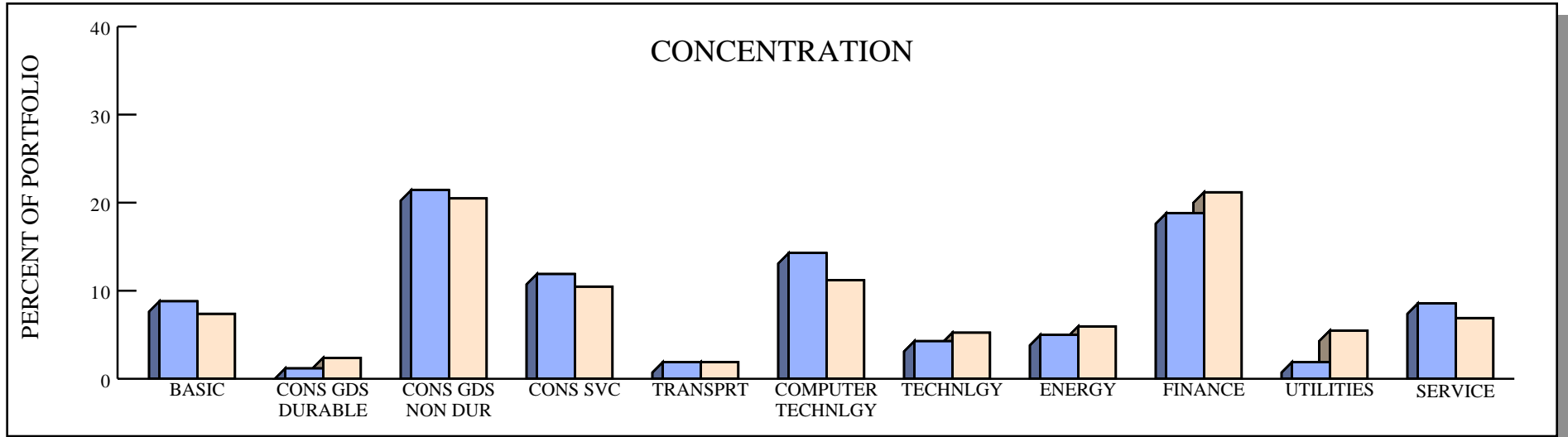




	YIELD	GROWTH	P/E	BETA
PORTFOLIO	1.4%	9.7%	22.3	0.95
S&P 500	1.6%	9.0%	20.8	1.00

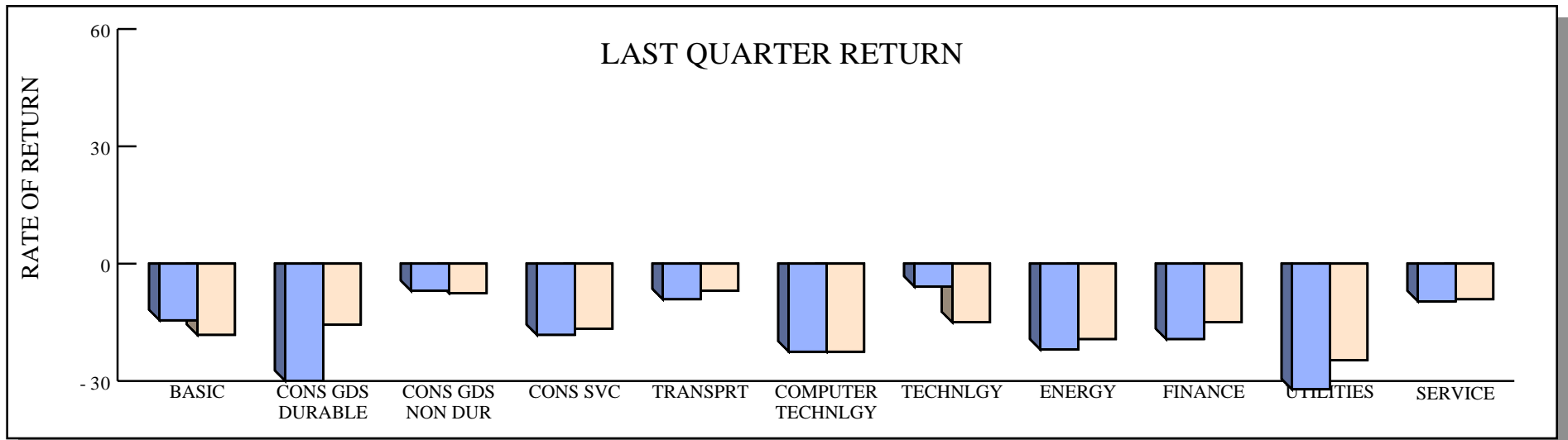


# INDUSTRY ANALYSIS



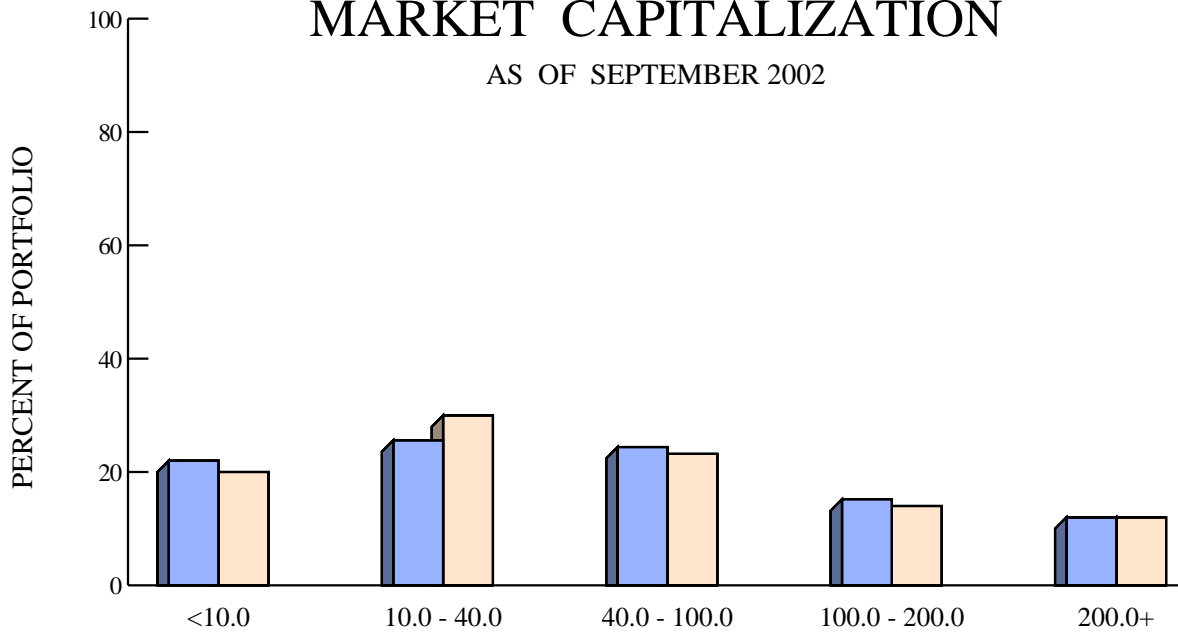
■ PORTFOLIO  
 ■ S&P 500

SEPTEMBER 2002



## MARKET CAPITALIZATION

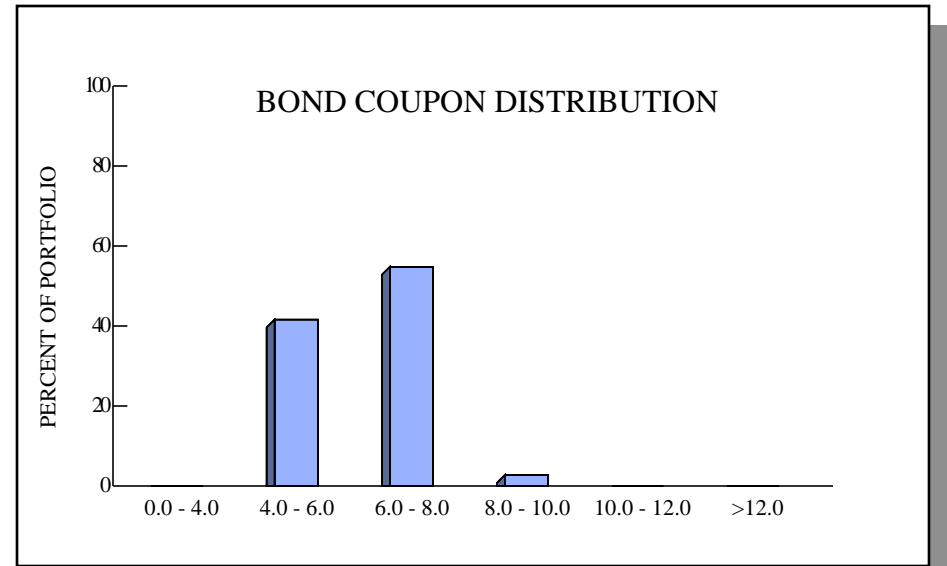
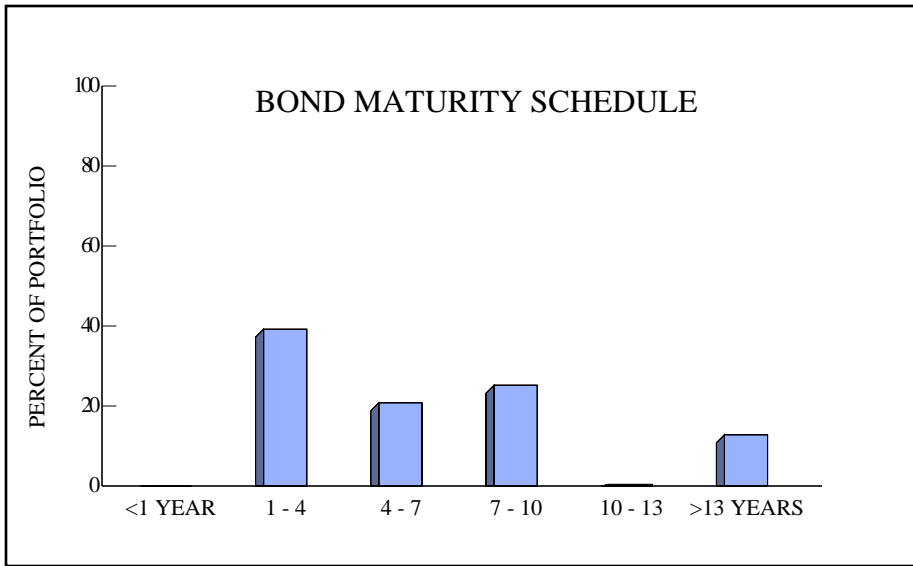
AS OF SEPTEMBER 2002



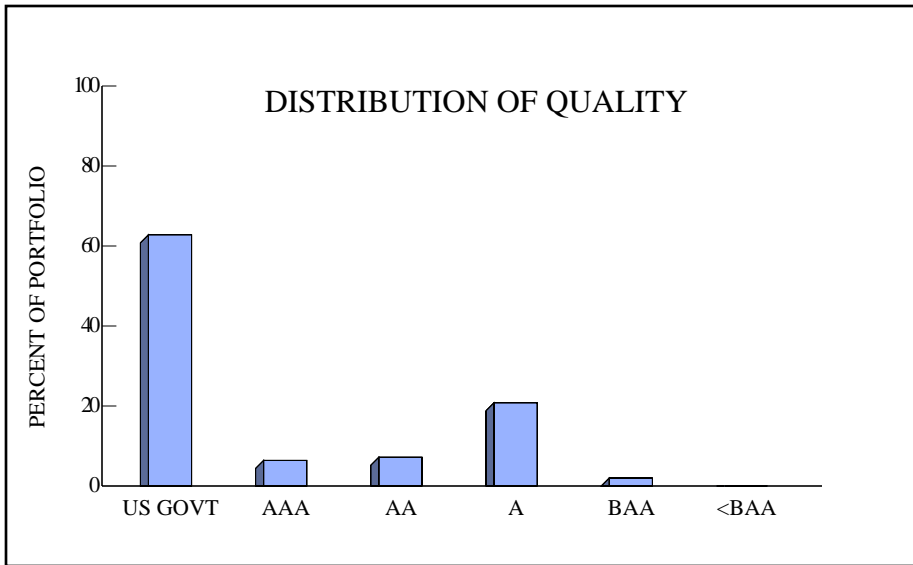
WTD AVG IN BILLIONS	
PORTFOLIO	74.2
S&P 500	71.8

## TOP TEN EQUITY HOLDINGS

RANK	TICKER	NAME	VALUE	% EQUITY	RETURN
1	MSFT	Microsoft Corp	\$ 494,918	3.46%	-20.0%
2	XOM	Exxon Mobil Corp	492,823	3.44%	-21.5%
3	GE	General Electric	410,792	2.87%	-14.5%
4	C	Citigroup Inc	397,636	2.78%	-17.5%
5	JNJ	Johnson & Johnso	396,947	2.77%	3.8%
6	PFE	Pfizer Inc	393,221	2.75%	-16.7%
7	PG	Procter & Gamble	356,626	2.49%	0.5%
8	MRK	Merck & Co. Inc.	324,084	2.26%	-9.1%
9	AIG	American Interna	319,065	2.23%	-19.8%
10	WMT	Wal-mart Stores	300,364	2.10%	-10.3%



61



**SEPTEMBER 2002**

	<b>PORTFOLIO</b>	<b>LEHMAN AGG</b>
No. of Securities	95	6929
Effective Duration	4.94	3.81
YTM	4.40	4.29
Average Coupon	6.26	6.29
Average Maturity	7.00	6.84
Average Quality	AAA	USG-AAA
Percent Mortgages	38.11	N/A