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Bowen, Hanes & Company  
Incorporated

TO: Board of Trustees  
Pension Fund for Firefighters and Police Officers, Tampa, Florida

DATE: July 06, 2009

RE: Investment Summary

As we move into the second half of the year, economic and policy uncertainty are again reasserting themselves. While stocks staged a significant rebound in the second quarter as fears of a protracted and acute global deflationary recession dissipated, concerns over the strength of the recovery, combined with policy and regulatory uncertainty in key areas such as taxes, spending, energy and healthcare, are dominating the financial markets. It is our view that developments on the fiscal, monetary, and regulatory fronts over the past few months have set the stage for a tepid "jobless" recovery that will generate relatively weak numbers from both an employment and income growth standpoint. In this connection, the combination of stagnant to falling incomes and rising savings rates in order to repair household balance sheets will keep a lid on consumer spending for a protracted period. Thus, while we do think that an exceedingly accommodative Fed, along with inventory rebuilding, infrastructure spending, and a gradual stabilization in the housing market over the next few months, will result in a cyclical, monetary led recovery, we also believe that we are in for a period of below trend economic growth and an unemployment rate that will remain stubbornly high. The implications for the stock market revolve around focusing on those industries and companies that can prosper in the type of domestic and global economic environment that we envision over both the short and longer term. This includes financially strong, globally oriented companies with secure and rising dividends and an aggressive international business plan to exploit the relatively high-growth regions of the world. In this vein, we have felt for some time that dividends could account for over half a stock's total return in the environment we see unfolding where top-line growth will be difficult to generate. Thus, strong balance sheets and cash flows will be of paramount importance. Exposure to the tangible asset area also makes sense in our view not only as a play on global growth and what are often relatively attractive dividends, but also as a way to hedge against what we perceive to be a legitimate inflation concern looking out over the next two to three years. This story will have to be followed closely, as laid out in the final paragraph of this letter. Also, we continue to remain committed to the global infrastructure theme which will impact a variety of industries, in our view.

Concerning fiscal policy, the U.S. appears to be embarking on a course that resembles a Japanese/Western European hybrid model based on dramatic increases in government debt, spending, and taxes as a percent of our GDP. In fact, Japan has been engaged in a futile attempt to fight a 20-year period of economic stagnation and recession by embarking on massive deficit spending programs, which has resulted in its outstanding federal debt to GDP ratio increasing from 68% to over 200%, with no meaningful results.

With the U.S. budget deficit scheduled to exceed \$2 trillion in 2009 and 2010, and with the federal debt burden poised to increase from 70% to over 100% of our economy during this period, it is impossible to ignore the similarities to the failed Japanese model. Additionally, a recent study by the European Central Bank demonstrated that increases in government spending as a share of GDP over the last 40 years have had negative growth implications for Western Europe. The end result vis-a-vis the U.S. has been slower trend GDP growth, lower productivity, and higher unemployment. With local, state, and federal outlays poised to reach 40% of GDP in the U.S. in 2009, which is up substantially from the prior 30-year average, it is imperative that we consider the growth and financial market implications of such a policy direction. Also, because of the emerging and widening gap between federal tax receipts and federal outlays, there is a legitimate possibility of an economy-wide European style sales tax or carbon tax being proposed in order to fund the government's extravagant spending agenda. This would also have a profound impact on the economy and financial markets in our view and should be monitored closely.

While similarities to Japan and Western Europe abound on the fiscal front, the U.S. Federal Reserve Board has forged quite a different agenda regarding monetary policy. Their aggressive quantitative easing strategy has led to a doubling in the monetary base over the past several months, resulting in excess reserves at banks moving from \$2 billion to \$844 billion. The potential long-term inflation implications from this policy are significant and real; thus, the future direction of Fed policy must be monitored closely. In order to assuage this potential trend, it will be crucial for the Central Bank to withdraw a significant amount of these excess reserves before the banks begin to lend and monetary velocity accelerates. While deflation will remain the primary concern over the short term as the massive global deleveraging process continues, over the longer term, a combination of factors on both the fiscal and monetary fronts leads us to believe that we are destined for higher levels of inflation and interest rates, which would certainly have an impact on our sector, industry, and stock allocation and emphasis.

Jay Bowen

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