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Retirement *quarterly*

NEW Faces at the Retirement Office

In January 2007, Carol Eland retired as Retirement Benefits Manager after 17 years of dedicated service. In February 2007, the firm of Bob Murray and Associates was hired to conduct a nationwide recruitment to screen candidates to fill this vacancy. After an extensive evaluation and interview process of all the qualified candidates, **Yvonne Arellano** was chosen as the most qualified, and on April 9, 2007, Yvonne transferred from the Payroll Division and was promoted to Retirement Benefits Manager. Yvonne brings with her many years of experience with the City of Fresno and in the administration of employee benefits.

The Retirement Benefits Manager reports directly to the Retirement Administrator and is responsible for the supervision of the functions of the three Retirement



Alex Villa and Yvonne Arellano

Counselors, including activities related to retirement counseling and disability retirement. The Retirement Benefits Manager recommends policies, develops and revises procedures and acts as a liaison with actuaries, City departments, and employee organizations.

Also in April 2007, **Alex Villa** was promoted from the Code Enforcement Division to fill the Senior Administrative Clerk vacancy in the Retirement Office. Alex has solid experience in customer service

and is currently a student at Fresno State University in pursuit of his Business/Marketing degree.

The Senior Administrative Clerk position directs all incoming clients, schedules appointments, answers phone calls as well as assist in the distribution of the Retirement Board agenda packets and mail.

Election of Board Chairs

At the Board meeting in July, Carla Lombardi was unanimously reelected to serve as Chair of the Employees Retirement Board and Marvell French was also reelected as Vice Chair.

This Newsletter is published for members of the City of Fresno Employees Retirement System



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INVESTMENT REPORT

By Stanley L. McDivitt, Retirement Administrator

Status of Investment Committee Projects

The Investment Committee conducted an analysis, search and evaluation of core plus fixed income investment managers during the first quarter of 2007. However, with the Board's Investment Consultant expected to conduct an Asset Allocation Study upon completion of the Actuarial Experience Studies in June, the Committee decided to postpone its decision on the core plus fixed income investment manager search.

Upon completion of the Asset Allocation Study in September, the Investment Committee will review, discuss and consider the Due Diligence Site Visitation Sub-Committee recommendations concerning on-site visitations with finalists in the core plus fixed income manager search and address policy issues, schedule an education session on commodities as a sub-asset class, explore opportunities in value-added, opportunity funds, foreign or global real estate markets and will consider investment manager searches for real estate and equity products.

Currently, the Committee is working to renew its contract with Northern Trust, the trustee and custodial bank service provider for the City of Fresno Retirement Systems. Northern Trust's contract expires on September 30, 2008, and due to the significant lead time needed to conduct a formal search the Committee concluded it would first request a renewal bid from Northern Trust and conduct a formal search issuing a Request for



Proposal only if the renewal fees are considered unreasonable or excessive.

The Economy

The Federal Reserve last raised their benchmark rate to 5.25 percent in June 2006. Now economists are forecasting that the Federal Reserve may hold it right there keeping the rate unchanged until 2008. If so, this rate change hiatus would be the longest since the 18-month pause that occurred in 1997-98 timeframe.

Reports show that the economy is now experiencing home price depreciation almost like never before, with the exception of the Great Depression. While prospects for a stronger U.S. growth in the second half of 2007 have dimmed as the housing recession deepens and businesses cut spending, the risks to both economic growth and inflation are up. Nevertheless, there are no clear signs of a recession. Therefore, the Federal Reserve may keep on hold any decisions regarding benchmark rate changes.

Investment Performance of the Systems

For the current twelve months ending June 30, 2007 our System's cumulative investment returns were 17.36 percent. Our investment

results remain solid with consistent annualized returns in excess of 10 percent over the past fifteen years. For the past five years the System's annualized return was 12.37% which compares very favorable with the five year return of the SP 500 return of 10.71%, the Russell 2000 Growth return of 13.88%, MSCI EAFE International Index return of 18.21 and the Lehman Aggregate bond index of 4.48%.

As of June 30, 2007, the Retirement System's portfolio had 63.4 percent in equities, 26.8 percent in fixed income, 9.6 percent in public and private open ended real estate investment funds and .2 percent in cash. The investments were further diversified into the following asset classes and target percentages:

	<u>Actual</u>	<u>Target</u>
Large-Cap equities	30.1%	30.0%
Small-Cap equities	10.8%	10.0%
International equities	19.1%	17.0%
Emerging Market equities	3.4%	3.0%
Domestic fixed income	22.5%	25.0%
High Yield fixed income	4.4%	5.0%
Real estate	9.5%	10.0%
Cash	0.2%	0.0%
Total	<u>100%</u>	<u>100.0%</u>

This asset class diversification along with portfolio investment style diversification is all part of the Retirement Board's Investment Risk Management Program.

Is your address on file current?

Please look at your most recent pay advice (actives) or your direct deposit notification (retirees) to verify that your home address is accurate. If you are an active employee, contact your division payroll clerk to submit a change of address card.

If you are a retiree and plan on moving OR if deferred vested, please make sure to contact CFRS as soon as possible to keep us updated with a current address and phone number so you can continue to receive important retirement information.

RETIREES WILL RECEIVE

2.4% COLA

Retirees and other members who receive a monthly benefit from CFRS will see a 2.4% cost-of-living (COLA) beginning with their July 1, 2007, retirement benefit. The increase, was approved by the Retirement Board at its regular meeting held in March.

Pursuant to Section 2-1840.4 of the Fresno Municipal Code, the Employees Retirement Board is required to determine on or before April 1 of each year, by reference to the Consumer Price Index (United States city average for urban wage earners and clerical workers) as published by the Bureau of Labor Statistics, the percentage of annual increase in the cost-of-living during the preceding calendar year. This percentage is then used to calculate cost-of-living adjustments.

FY 2008 DROP RATE

At the Employees Retirement Board meeting held on July 20, 2007, the Board approved the Annual Net Effective DROP Interest Rate for fiscal year 2008 at 11.89 percent. The interest rate is based on the System's average net investment earnings over the prior five years.

The Employees Retirement Board is required under Fresno Municipal Code section 2-1852 "Deferred Retirement Option Program" to annually adopt an effective DROP interest rate, which shall apply to each DROP account during the Retirement System's fiscal year in which the Board sets the rate. Because DROP has initially been determined to be cost neutral to the Retirement System, it is not necessary for the Board to consider any adjustments to the rate to maintain cost neutrality of the System for fiscal year 2008.

PENSIONABLE COMPENSATION LITIGATION RESOLVED FOR RETIREES AND A TENTATIVE AGREEMENT REACHED FOR ACTIVE EMPLOYEES

Recently, the City of Fresno, the Employees Retirement Board and retirees of the Employees Retirement System settled a long standing class action litigation case on the issue of pensionable compensation. As a result of the settlement agreement, the Retirement System made a one time lump-sum settlement payment at the end of April to individuals who were retired prior to December 31, 2005. This one-time payment to retirees who were retired as of December 31, 2005 was in-lieu of any future benefit increases relating to the litigation settlement.

For individuals who were active employees or were retired on or after December 31, 2005, the parties have also reached a tentative settlement agreement. Active employees and individuals who retired on or after December 31, 2005 will be receiving a special notice explaining the details of the proposed settlement during the first week of August. Once the tentative agreement is approved by the Court, it will determine the types of pay that should be includible in pensionable compensation for employees that retire in the future and participants in the Deferred Retirement Option Program (DROP). We will have to calculate and determine the amount of retro-active payments for those retirees that retired on or after December 31, 2005 up to the settlement date. We will also have to recalculate active employees' DROP accounts.

The Employees Retirement Board would like to thank all the parties that worked diligently to resolve these



RETIREES

January 1 through June 30, 2007

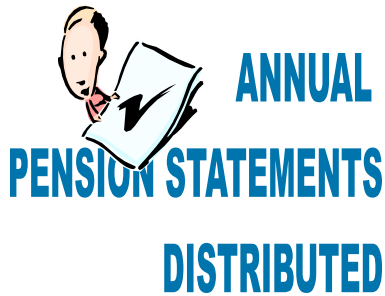
Daniel Alvarado
Lonzy Armstrong Jr.
Dennis Arzoian
Brooke Atherton
Jesse Avila
Joseph Bain
Christine Bakalian
Daryl Balch
Rudy Bernal

Elaine Brown
Jacob Caine
Daniel Card
Carolyn Downs
John Eland
Ronald Fennese
Randall Flores
Devin Ham
Dennis Hansen



Patricia Healy
Debra Hendricks
David Martinez
Richard Mehelic
Albert Miller
Roger Montero
Judyth Moordigian
Donald Oates

Regina Peters
David Pillow
Robert Rendon
Jack Rocha
Manuel Romo
Leland Rowe
Sally Schneider
Mina Spears
Kenneth Thomas



In August, the Annual Member Pension Statements were distributed to all active members. The Annual Member Pension Statement includes the contributions you have made to your Pension System and contains your beneficiary information.

The Annual Pension Statement can be helpful to you in retirement planning and you can also provide the Statement to financial institutions that require information regarding your pension benefits. However, please note that you may not borrow against your pension contributions.

Remember to check address & beneficiary information!

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