

# Retirement Quarterly

*What's Inside?*

## INVESTMENT REPORT

Page 2

## BOARD MEETINGS

Page 3

## NEW APPOINTED MEMBER

Page 3

## RETIREES

Page 4



VISIT US MONDAY-FRIDAY, 8 AM TO 5 PM  
2828 FRESNO STREET SUITE 201  
FRESNO CA 93721

CALL FOR AN APPOINTMENT AT (559) 621-7080.

VISIT OUR WEBSITE AT [WWW.CFRS-CA.ORG](http://WWW.CFRS-CA.ORG)

EMAIL YOUR QUESTIONS OR COMMENTS TO  
[RETIRE@FRESNO.GOV](mailto:RETIRE@FRESNO.GOV).

## *Why the big discussion about the City's* **DEFERRED RETIREMENT OPTION PROGRAM?**

In early July, the Fresno Bee ran several articles that sensationalized misinformation about the City's **Deferred Retirement Option Program (DROP)** in what appeared to be their continuing pursuit of statewide pension reform. In response to these articles and to provide background and history information about the City's DROP, the City's Retirement Administrator submitted a report to the Mayor's Pension Task Force.

Bottom line to the discussion, in May of this year the Retirement Board's actuary issued their report stating that the City's DROP programs have been determined to be cost neutral to the Retirement Systems and actually provided savings to the Systems. It is also important to point out that the two City of Fresno Retirement Systems are the highest funded public defined benefit retirement Systems in the State of California. On an actuarial funded basis the Employees Retirement System was 122.5 percent funded as June 30, 2010 and the Fire and Police Retirement System was 110.8 percent funded as of June 30, 2010. Additionally, our investment returns for fiscal year ended June 30, 2011 was the highest ever earned by the Systems at 24.26 percent.

### **What is the DROP?**

The DROP option simply enables an employee to freeze their retirement benefit calculation while continuing to work and accrue pension benefits. Had the employee not entered the DROP, they would still continue to earn additional retirement benefits under the base retirement formula times the employee's final average compensation. Therefore the DROP member is accruing a similar benefit in an alternative fashion with different distribution options rather than accruing retirement service credit

for the years they work while participating in the DROP. The employee will accumulate a DROP account balance consisting of monthly DROP amounts credited to their DROP account including interest credits based on the actual five year average investment earnings of the retirement system less investment costs. The DROP deposit also receives an annual cost of living increase based on the formula in the Code.

Upon retirement, the DROP member has the following distribution options:

- lump sum payment, or
- roll-over to an IRA account; or
- an annuity of the DROP account balance or
- a combination of these three distribution options.

The City continues to make retirement contributions for all employees of the system whether or not the employee is in the DROP in order to fully fund their overall pension obligation over an average period of time. DROP accounts are invested in the same diversified portfolio as the systems' other pension funds.

### **History of DROP Active Member Interest Crediting Rates**

Active DROP Member interest crediting is defined in the FMC as the System's actual five year average of investment returns less investment expenses. It is important to acknowledge that the active member in DROP is taking interest rate risk and depending on the time frame that they participate in the DROP and the cycle of compounding, the member may or may not see good interest rates. Additionally, if the five year average less

# INVESTMENT PERFORMANCE



*Quarterly Investment Report*  
by Stanley McDivitt, Retirement Administrator

## Status of Investment Committee Projects

During the latter half of fiscal year 2011, the Investment Committee began conducting monthly sessions on Asset Allocation education in preparation for its Asset Allocation Study to be conducted with Wilshire Associates later this year. In connection with this study the Committee has and will continue to conduct several educational sessions to review, discuss and analyze information presented by Wilshire Associates on value-added real estate, real assets and the current environment for these alternative type investments.

In the coming months, the Committee will finalize its analysis and review of fixed income and real estate asset classes and complete the Asset Allocation Study.

## The Economy

The economy, which expanded at a 3.1 percent annual rate in the final quarter of 2010, slowed to a 1.9 percent pace in the first three months of this year. The recovery advanced during the second quarter at a 2 percent pace, according to the median forecast economists surveyed recently. Impediments to growth in the first three months of the year, including energy prices and a shortage of parts to U.S. factories because of the earthquake in Japan, will probably prove temporary and that growth will rebound in the second half of this year. However, the level of uncertainty related to the pace of recovery has increased.

The renewed debt crisis in Europe coupled with our own domestic regulatory uncertainty has decreased investors' appetite for risk. Thus, the Fed plans to sustain record stimulus and hold its benchmark rate near zero for an "extended period." With unemployment at 9.2 percent, the Federal Reserve Chairman told lawmakers that the "economy still needs a good deal of support". While there is certainly an added basis for continued caution, we remain confident that our focus on managers with the ability to generate returns on invested capital will continue to create long-term value for the Retirement Systems.

## Investment Performance of the Systems

For the twelve months ending June 30, 2011, our System's cumulative investment returns were 24.26 percent. Our one

year results were very favorable, despite the overwhelming challenges of the economy, when compared to the 20.7 percent gain for the State CalPERS Systems and 23.1% gain for the State's CalSTRS System. For the past five years our System's annualized return was 4.70% which compares favorably with the five year return of the Wilshire 5000 composite index return of 2.96%, SP 500 return of 2.94%, the Russell 2000 return of 4.08%, MSCI EAFE International Index return of 1.96% and the BC U.S. Aggregate bond index of 6.52%.

Global investment markets have experienced unprecedented turbulence and uncertainty over the past few years with huge losses in Fiscal Year 2009 and strong rebounds in both Fiscal Year 2010 and 2011. Despite this severe and continued volatility in the investment markets, the Systems' annualized returns are 7.74 percent over the past fifteen years, 0.24 percent above the Systems' weighted benchmark return of 7.50 percent and 0.51 percent below the target investment rate of 8.25 percent. More importantly, the System's annualized twenty-year return is 9.06%; twenty-five year return is 8.86%; and since October 1985, the system has earned an annualized rate of 9.75%.

As of June 30, 2011, the Retirement System's portfolio had 61.76 percent in equities, 28.75 percent in fixed income, 9.39 percent in public and private open ended real estate investment funds. The investments were further diversified into the following asset classes and target percentages:

	<u>Actual</u>	<u>Target</u>
Large-Cap equities	21.76%	22.5%
Small-Cap equities	9.17%	7.5%
International equities	26.28%	25.0%
Emerging Market equities	4.55%	5.0%
Domestic fixed income	23.91%	25.0%
High Yield fixed income	4.84%	7.0%
Real estate	9.39%	10.0%
Cash	<u>0.10%</u>	<u>0.0%</u>
Total	100.00%	100.0%

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



# Board Meetings Open and Transparent

**The City of Fresno Retirement Boards are committed to increasing our transparency and keeping you informed about your benefits and any new developments that may be of interest. We want to ensure you stay connected with CFRS.**

## Open Meetings

CFRS Board Meetings are held in the Board Chamber at the Retirement Office located at 2828 Fresno Street Suite 202 and are open to the public. All meeting agendas are posted at City Hall and are available on the Systems website at [www.CFRS-CA.org](http://www.CFRS-CA.org) at least 5 days before every meeting. If Board documents are available at the time of distribution, there are direct links to every non-confidential Board report. These documents are provided to allow members to review the Boards important investment decisions, and the implementation of administrative policies and procedures.

## CFRS MISSION STATEMENT

*To provide System members and the Employer with flexible, cost-effective, participant orientated benefits through prudent investment management and superior member services.*

## Moved Recently?

If you are a retiree or in DROP and you have recently moved, make sure CFRS has your current mailing address and phone number on file to avoid delays in communications. You can submit address changes by submitting the Change of Address form located on the Systems' website at [CFRS-CA.org/Communications/Forms](http://CFRS-CA.org/Communications/Forms) or call the Retirement Office at (559) 621-7080 to request a Change of Address Form.

## Upcoming Scheduled Board Meetings

Retirement Board meetings are held at 2:00 p.m. on the 2nd Wednesday of every month.

For the remainder of 2011, the next meetings are scheduled on: 8/10/2011, 9/14/2011, and 10/12/2011, 11/9/2011, 12/14/2011

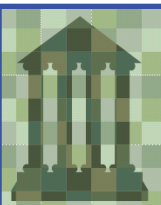
Administrative Committee meetings are held at 8:30 am on the 3rd Tuesday of every month.

For the remainder of 2011, the next meetings are scheduled on: 8/16/2011, 9/20/2011, and 10/18/2011, 11/15/2011, 12/20/2011

Investment Committee meetings are held at 8:30 am on the 4th Tuesday of every month.

For the remainder of 2011, the next meetings are scheduled on: 8/23/2011, 9/27/2011, and 10/25/2011, 11/22/2011, 12/27/2011

Note: All meeting dates are subject to change, especially during the holidays. For more information, please call the Retirement Office at (559) 621-7085 or visit the Systems website at [www.CFRS-CA.org/Agendas-Minutes](http://www.CFRS-CA.org/Agendas-Minutes).



### APPOINTED MEMBERS RETIRE-NEW APPOINTMENTS PENDING

On June 30, 2011, Police Chief Jerry Dyer and Fire Chief Joel Aranaz retired from the City of Fresno. Therefore, they are no longer eligible to serve on the Retirement Board.

In accordance with FMC 3-305, the appointed member shall be two members who are City management employees appointed by the Mayor and approved by the City Council.

We expect new Board appointments will be presented at the next available City Council meeting.

# Retirees April 1 through June 30, 2011

Michael Agnew  
 Joel Aranz  
 Rodney Brisendine  
 Ronald Caldwell  
 Benito Castellanos  
 Daniel Castro  
 Diana Dyer

Jerry Dyer  
 Luis Galindo  
 Michael Harris  
 Ricky Harris  
 Ervin Justin  
 Pamela Le Sage  
 Arthur Lucero

Mark Madden  
 Richard Mendoza  
 Dan Montevecchi  
 Arthur Page  
 George Parga  
 Robert Quinn  
 Gerardo Rodriguez

Raymond Sandoval  
 Kurt Smith  
 Reynaud Wallace  
 Timothy Edwards  
 John Radovich  
 Kevin Vu

## DROP continued from Page 1

interest crediting rate is negative. The historical active member interest crediting rates since inception of the DROP are illustrated in the following table:

Historical Active Member Interest Crediting Rates	Fiscal Years
13.92%	1998
15.02%	1999
17.31%	2000
15.63%	2001
10.59%	2002
5.76%	2003
2.82%	2004
3.74%	2005
3.62%	2006
7.05%	2007
11.52%	2008
9.52%	2009
1.30%	2010
1.98%	2011
5.49%	2012

It should be noted that although the five year average interest rates were high in the early years, the DROP account balances were very small. As you can see, the DROP interest crediting rates have certainly created neutrality in interest rate crediting. The average five-year interest crediting rate since inception has been 8.56%, however, the average from 2003 to 2011 has only been 5.26% on more material DROP balances.

## Board Approves Annual Active Member Interest Rate for DROP

The Board recently approved the Annual DROP Interest Crediting Rate for Fiscal Year 2012 in the amount of 5.49 percent for all active member DROP accounts. The DROP interest crediting rate is based on the System's average investment earnings over the prior five years net of investment expenses. Under the provisions of the Fresno Municipal Code, the Board is annually required to adopt this active member DROP interest crediting rate which also takes into consideration where the City's DROP is cost neutral to the Retirement System.

