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Retirement *quarterly*

"To assist our members in obtaining information about their retirement benefits and provide valuable information about CFRS and the benefits offered to our members."

FY 2007 DROP RATE GOES UP

At the Fire and Police Retirement Board meeting held on July 19, 2006, the Board approved the Annual Net Effective DROP Interest Rate for fiscal year 2006 at 7.05 percent. The interest rate is based on the System's average net investment earnings over the prior five years.

The Fire and Police Retirement Board is required under Fresno Municipal Code sections 2-1744 and 2-1744A "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 2006.



BOARD MEMBER RECRUITMENT

With the vacancy created by the resignation of Stephen Guinn, a recruitment for the Outside Member of the Fire and Police Retirement System was conducted. Notices were distributed to the Fresno Bee, Business Journal, CSUF-Craig School of Business, Rotary and Kiwanis Clubs and the Fresno Chamber of Commerce. After careful review and consideration of all applications received, the Board narrowed the list to six finalists; and in December 2005, conducted interviews and a new Outside Board member was selected in February.



KC Chen, Ph.D. is currently a Dean of the Finance Department at the Craig School of Business, CSUF.

NEW OUTSIDE BOARD MEMBER APPOINTED

KC received his Ph.D. in Finance in 1982 and MBA in Finance in 1978 from Ohio State University; and the CFA in 1999. He has taught courses in Investments, Options and Futures, Student Investment Funds, Principles of Finance at both graduate and undergraduate levels since 1982. He also served on the Investment Committee of the CSUF Foundation which oversees Foundation's endowment investments and performance evaluations.

KC was sworn-in by the City Clerk at the Board meeting on February 10, 2006.



INVESTMENT REPORT

By Stanley L. McDivitt, Retirement Administrator

Status of Investment Committee Projects

The Investment Committee recently completed its analysis, search and evaluation of international core equity investment managers. The Boards approved the Committees' recommendation to replace the two existing managers INVESO and Pyrford due to underperformance and the Committee's desire to lower the performance deviations from the international equity index benchmark. Effective June 1, 2006, the Boards hired Acadian Asset Management, The Boston Company and Fidelity to manage an international active core equity portfolio in the amount of approximately \$115 million each. In addition, the Boards have rebalanced equities and fixed income by allocating approximately \$9 million each to two fixed income portfolios managed by Aberdeen, located in Philadelphia, Pennsylvania, and Dodge & Cox, located in San Francisco.

Currently, the Boards delegate to their investment managers the responsibility for voting proxy ballots. The Boards primary objective is to have proxy ballots voted according to the best economic interest of the Systems' members. Therefore, in the coming months, the Committee will

issue a Request for Information to analyze and evaluate the services provided by third-party proxy voting service providers. In addition, the Committee will begin to explore other opportunities in fixed income and real estate.

The Economy

On June 29, 2006, the Federal Reserve raised the fed funds rate to 5.25 percent, its highest level since January 2001. The Federal Reserve started to tighten credit in June 2004, and this was the 17th straight increase in an attempt to control inflation. There is speculation about another rate increase in August, but that depends on the course of the economy -- jobs, income and inflation.

It is not just short-term rates that are rising; long-term rates that are set by the market (not the Fed) are also rising. Recent numbers suggest that the 30-year fixed mortgages are now nearing a four-year high. This will make home ownership more expensive. However, many analysts expect that the rising interest rates and a gradually slowing economy will result in a housing market that will revert to historical averages in terms of home price appreciation.

There is some good news as the higher rates mean that consumers can now invest in money markets or mutual funds or CDs, as some of these accounts are beginning to offer interest payments of 5 percent or more.

Investment Performance of the Systems

For the current twelve months ending June 30, 2006, our System's cumulative investment returns were 12.12 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 7.53% which compares very favorably with the five year return of the SP 500 return of 2.49%, the Russell 2000 Growth return of 3.49%, MSCI EAFE International Index return of 10.02 and the Lehman Aggregate bond index of 4.97%.

As of June 30, 2006, the Retirement System's portfolio had 61.5 percent in equities, 28.4 percent in fixed income, 10.0 percent in public and private open ended real estate investment funds and .1 percent in cash. The investments were further diversified into the following asset classes and target percentages:

| | |
|--------------------------|-------------|
| Large-Cap equities | 30.4% |
| Small-Cap equities | 11.1% |
| International equities | 17.0% |
| Emerging Market equities | 3.0% |
| Domestic fixed income | 24.0% |
| High Yield fixed income | 4.4% |
| Real estate | 10.0% |
| Cash | <u>0.1%</u> |
| Total | 100% |

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

SYSTEMS REVISED HANDBOOK IN MAILBOXES NOW

The Retirement Boards and staff have made the final updates to the retirement handbooks and the NEW Summary Plan Description will be sent out to all active members. Updates to the handbooks include the most recent benefit changes and language for domestic partners. The Summary Plan Description can be found on the City's website at <http://www.fresno.gov/retirement> and will soon be found on the Retirement System's web page coming soon in August.



Board Action

COST OF LIVING FY2007 APPROVED

Effective January 1, 2007, a 3.0 percent COST-OF-LIVING (COLA) increase will be applied to all retirees' benefit payments and DROP deposits. The retirees' increase will first appear on the January 31, 2007 retirement benefit check. Pursuant to Section 2-1727A of the Fresno Municipal Code, the Fire and Police 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. Since the increase in CPI was 3.5% and under Municipal Code provisions no more than 3% may be applied as COLA in any year, the remaining half of a percent will be banked for each retiree and used during a year when COLAs are less than the 3.0% cap.

ANNUAL PENSION STATEMENTS SENT OUT

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

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

If you did not receive a statement, it may have been mailed to an old address. If you have moved, please contact your Department/Division's payroll clerk and change your records in the City's Payroll System (PeopleSoft). The Retirement Office downloads information for active employees from the City's payroll system into our pension administration database. ALL ACTIVE DROP MEMBERS must notify the Retirement Office of any address change.

To receive a copy of your pension statement, please call the Retirement Office at (559) 621-7080.

CalPERS Long-Term Care Program 2006

FACTS AT-A-GLANCE ABOUT LONG-TERM CARE

Think You'll Only Need Care When You're Older?

40% of those receiving long-term care services are under the age of 65.

What Are the Odds You'll Need Care?

60% of people over age 65 will need some type of long term care.

What If You Had to Provide Care?

It is estimated that 15% of the workforce is actively involved in caregiving for an adult family member or friend. Caring for a loved one who has long-term care coverage reduces the stress and enhances the emotional and social well-being of working caregivers.

Talk to your eligible family members today!

To participate in a live on-line educational seminar, or to request an application kit for you and your spouse, parents, parents-in-law, or adult siblings, visit

www.beginswithaplan.com or call 1-800-266-1050.



Boards Purchase Pension Gold Secure Platinum as part of the Disaster Plan

In the face of the recent disaster in New Orleans, the Retirement Board and staff questioned "what would happen if a major disaster struck Fresno?" Are we prepared to serve our clients and could we continue with our processes in the face of a disaster?

In evaluating this question staff found that Levi, Ray and Shoup, the Springfield, Illinois, software company which developed our Pension Gold Retirement Administration System, is currently offering a plan which provides business continuation services in the event of a disaster. At the Board meeting on May 22, the Retirement Boards voted to purchase the highest level of service offered under this plan. The Pension Gold Secure Platinum solution will begin by working with staff to document the procedures for Retirement staff and Pension Gold staff to follow in the event of an interruption in our business.

This plan will provide a nightly backup of the system data files and a monthly backup of the entire Retirement Administration software program with both types of backup housed on the LRS hardware in Springfield, Illinois. In addition to the City of Fresno Information Services Department, which currently provides a local backup of our Systems, these procedures will provide the basis for a Disaster Recovery Plan currently being formalized by Retirement staff.

The goal is to be prepared to serve our clients in the event of a disaster, large or small, local or regional. In the event of a disaster, staff will have the ability to process a retirement payroll, print checks and 1099s, and process normal changes in the Pension Gold software system using the backups provided by Pension Gold to a local site or, in the event of a regional disaster, using the LRS facilities in Springfield, Illinois.

RETIREEES JAN-JUNE 2006



*Jonathan Brown
Dale Bryant
Gregory Ellis
Michael Guthrie
Wayne Hawkins*

*Dwayne Johnson
Clyde Lansing
John Martinez
Richard Mata
Salvatore Mistretta*

*Harold Nilsen
Stephen O'Neal
Julian Perea, Jr.
Patrick Peyton
Merced Raya*

*Pete Santellano
Terry Snapp Gilmore
Lynn Weiss*

**Look for our new
CFRS WEB PAGE
COMING SOON!
AUGUST 2006
BENEFIT CALCULATORS
DROP CALCULATORS
AND MUCH MORE!**

**CITY OF FRESNO RETIREMENT SYSTEMS
2828 FRESNO STREET ROOM 201
FRESNO, CA 93721-1327
ADDRESS SERVICE REQUESTED**

