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RETIREMENT BENEFITS SECURE AMID MARKET DOWNTURN

Please be assured that **NO** City of Fresno Retirement Systems ("CFRS") members' or retirees' benefits are in jeopardy even though we are currently experiencing unprecedented volatility in the global financial markets. CFRS has sufficient assets and reserves to more than adequately weather this financial storm and pay accrued benefits for members and retirees for many decades. According to our most recent actuarial valuation, the Employees Retirement System was approximately 148% funded and the Fire and Police Retirement System was approximately 130% funded making them the two highest funded public pension systems in California. Given the current negative market conditions, it is expected that our funding status will be somewhat reduced in the near future, but given our current funding status, it should be without impact to our members base benefits. The markets will likely have a negative impact on the Post Retirement Supplemental Benefit ("PRSB") paid to retirees which are not currently known. The Retirement Boards will likely have their actuary study the projected impacts on contribution rates and the PRSB benefit amount once the investment markets stabilize.

CFRS consists of two separate defined benefit plans that, by law, guarantee lifetime retirement benefits for its members.

All institutional investors have suffered significant paper losses as a result of the recent stock market fluctuations. However, a snapshot taken on any one day or week is likely to be misleading due to the unprecedented market volatility. As an example, on October 13, 2008, the DOW index closed up over 936 points returning over 11% for the day.

How the financial crisis developed

Today's credit crisis stems from a variety of causes that trace back in our markets over the last 5-10 years. They include:

- Excessive optimism on the part of mortgage borrowers.
- Independent mortgage brokers made many bad loans focusing on quantity rather than quality of loans issued.
- Housing boom was driven by faith in an endless rise in home prices which in truth is not sustainable.
- Excessive leverage among lenders. Some experts allege that the investment banks and other financial institutions holding the packages of mortgage securities didn't know how much their portfolios had been leveraged.
- Insufficient understanding of financial innovations that developed during this time.
- Little regulatory oversight and supervision.

Investment banks pulled the stock market down with them. Lenders tightened credit, reducing the flow of money needed to keep the economy moving. Many investors cashed out their stocks, reducing share values.

Next steps to fix the market

- Continuing federal action is needed to restore stability -- step by step, market by market – to remove leveraging and take losses.
- The federal rescue plan is a positive first effort of what should be a comprehensive, thoughtful review of the federal role in overseeing the financial markets. The focus should be on solving the problem and implementing the lessons learned.
- There's talk in Washington, D.C., of changing the regulatory environment to eliminate gaps in oversight and make it more comprehensive. These changes might entail stronger capitalization rules, realistic leveraging limits, and better reporting rules.

CFRS is a long-term investor with a well diversified conservative portfolio. Our Asset Allocation Plan targets 60% of our holdings in equities, 25% in fixed income and 15% in real estate. CFRS's portfolio is global and holds securities in well-established and fundamentally sound companies. Since we don't have all our eggs in one basket, we can soften stock market losses by investments in other asset classes. CFRS is diligently monitoring all investments and taking advantage of opportunities on a risk controlled basis.

We expect the investment markets to eventually recover from this volatility, although it is not clear when a full recovery will take place.

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