



MARCH 2009 • 2nd QUARTER
City of Fresno Fire and Police Retirement System

Retirement Quarterly

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BOARD ADOPTS RATES AND PRSB FOR 2009

At the Board meeting in January, the Fire and Police Retirement Board held a public hearing to review and consider adoption of a monthly benefit amount for the Post Retirement Supplemental Benefit (PRSB) for the calendar year 2009. Upon review of the actuarial valuation prepared by The Segal Company, the Board determined that the PRSB rate will be \$404.22 per month for calendar year 2009. All qualified retirees and beneficiaries will receive this amount in their retirement benefit checks through calendar year 2009. The \$404.22 appeared on the January 31, 2009, retirement benefit.

Also at the Board meeting in January, the Board adopted employees contribution rates for the fiscal year 2009/2010. The City's normal contribution rates for the Fire and Police Retirement System will be 26.38 percent (a decrease of .87) for Tier 1 and 18.49 percent (an increase of 1.15) for Tier 2. The prefunded actuarial accrued liabilities and the City's prepayment of contributions will partially offset the City's normal pension contribution requirement, leaving a net City normal pension contribution rate of 11.74 percent for the fiscal year 2009/2010. Upon application of the financial reporting requirements, the actuary determined that the actuarial value of the System's assets was \$1.067 billion (with an asset market value of \$1.088 billion) and the related actuarial accrued liabilities were \$830.0 million. The funded ratio as of June 30, 2008, was 128.5 percent, which is a 0.77 percent decrease from the prior year. Adopted rates will be effective July 1, 2009.





INVESTMENT NEWS

By Stanley L. McDivitt, Retirement Administrator

Status of Investment Committee Projects

In November 2008, the Investment Committee completed its search for investment related legal services with the recommendation and Boards approval to retain the firm of K&L|Gates. K&L|Gates will review and evaluate our master agreement for investment managers and review disclosure and agreement documents relating to the Systems' evaluation of Core and Valued-Added Real Estate products. Given the current state of the economy, the Investment Committee is continuing its efforts to ensure that a thorough evaluation of the real estate market conditions is completed before moving forward with a recommendation and proposal concerning real estate opportunities.

During the first quarter of 2009, the Investment Committee will focus on a review of the Systems' historical Asset Allocation decisions; manager searches and retention, process and procedures; and performance compared to other Public Pension Systems to ensure that our processes are effective.

Phase II implementation of the new Asset Allocation Plan increases the real estate allocation from 10% to 15% and lowers the System's total allocation to fixed income from 30% to 25%. The Phase II implementation of the Asset Allocation will be formally proposed to the Boards upon completion of the real estate and fixed income manager searches.

The Economy

By all accounts, the year 2008 will be deemed to have been a monumentally difficult period in history and a significantly challenging period in the global investment markets.

Housing weakness, creative financing and poor underwriting in the loan-origination processes, to name a few, led to massive rating downgrades by the major rating agencies in the home equity and non-agency residential mortgage backed sectors of the fixed income market. The lack of liquidity and the massive amount of leverage in the financial markets led to takeover of Bears Stearns, the demise of Lehman Brothers and forced sales of several major banks in the U.S. which led to a great lack of confidence in the global investment markets.

Despite the challenges that the economy faces which appear more profound than a recession or a financial crisis, the Retirement Systems remain well funded and have provided a solid rate of return from a long-term perspective. We remain confident

that new investment opportunities will arise from the current financial crisis and with the required amount of due diligence and vigilance we will position the Systems investments for future long-term growth.

Investment Performance of the Systems

For the first six months of our fiscal year 2009 ending December 31, 2008, our System's cumulative investment returns were -24.87 percent. For the past five years the System's annualized return was 1.29% which compares somewhat favorably with the five year return of the DJWilshire 5000 composite index return of -1.69%, SP 500 return of -2.19%, the Russell 2000 Growth return of -2.35%, MSCI EAFE International Index return of 2.10% and the Lehman Aggregate bond index of 4.65%.

Over the past year and a half, the global investment markets have been experienced unprecedented turbulence culminating in the severe downturn of all equity, fixed income and real estate markets following the bankruptcy of Lehman Brothers in September 2008. With this severe downturn in the investment markets, the Systems' annualized returns are 6.93 over the past fifteen years, 0.22 percent above the Systems' weight benchmark return of 6.71 percent and 1.32 percent below the target investment rate of 8.25 percent.

As of December 31, 2008, the Retirement System's portfolio had 50.0 percent in equities, 38.2 percent in fixed income, 11.9 percent in public and private open ended real estate investment funds. The investments were further diversified into the following asset classes and target percentages:

Actual	Target	
Large-Cap equities	19.3%	22.5%
Small-Cap equities	7.7%	7.5%
International equities	19.8%	25.0%
Emerging Market equities	3.1%	5.0%
Domestic fixed income	33.4%	25.0%
High Yield fixed income	4.8%	5.0%
Real estate	11.9%	10.0%
Total	100%	100.0%

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

Additional DROP Distribution Option



Reminder for Retirees:

As an annual reminder to retirees that are still receiving a monthly DROP distribution benefit payment, last year the Retirement Board approved a supplementary DROP distribution option.

This supplementary option allows a retiree to request a partial lump sum distribution from their DROP account once per calendar year. Upon distribution of an amount requested from a DROP account, your remaining DROP account balance will be recalculated (to a reduced amount) and distributed based on the remaining DROP distribution period that you initially selected at the time of retirement. Remember that any distribution made from your DROP account may not be redeposited into the Retirement System.

For more information, call the Retirement Office at (559) 621-7080 to schedule an appointment or speak to a Retirement Counselor.

Should I be Concerned About My Retirement Benefits or My Member Account Balance Due to the Current Economic Crisis?

Your retirement benefits and member contribution account balances are protected against any declines due to the economic crisis and are NOT based on the investment earnings of the System. At retirement, your benefits are calculated based on a formula that uses your years of service as a member of the System, your final average salary and your age. (Our website at CFRS-CA.org has a benefit calculator to estimate your benefit).

1. Because the City's pension plans are defined benefit plans, your pension contributions are established in the Fresno Municipal Code. The City of Fresno is then responsible for making sufficient pension contributions that will maintain proper funding of the System as determined by the Retirement Board. Your base pension benefit does not fluctuate with the earnings or losses in the stock market or the strength or weakness of the economy. For those active members who are participating in the City's DROP program, your DROP account can be impacted by the investment earnings of the System, however, your account is credited with the actual five year moving average investment earnings of the System net of investment costs which allows for a smoothing of gains and losses and should help smooth any negative impact.

Doesn't the System Need Investment Earnings to Pay Benefits?

The Board's goal is to earn an average investment return of 8.25% over long periods of time. So while the System lost 6.05% in fiscal year 2008 and more during the first six months of the current fiscal year, over the five previous years, the System has had an average investment return of 10.04% which includes the loss in fiscal year 2008. Our five year average return of 10.04% exceeded the Board's benchmark of weighted indexes by .15% and exceeded the median public fund return in our consultant's database of 7.56% by 2.48%. Remember that the Board does not use any hedge fund managers or risky private equity managers to achieve their returns.

The Retirement Board maintains a diversified portfolio of domestic and international equities along with fixed income and real estate investments. The Board and their consultants expect the System to continue over the longer term to earn its assumed rate of return.

RETIREEES



James Barnard	Sam Champion	Albert Orozco
Brian Borchardt	Alan Davis	Carlos Ramirez
James Brewer	Kevin Kos	Rod Russell
Michael Brown	Kevin Llanos	Fred Weiss
Michael Cavallero	Patrick Marriott	



**October 1, 2008
to
March 31, 2009**

RETIREMENT BENEFIT DATES

March 31, 2009

April 30, 2009

May 29, 2009

ATTENTION DROP MEMBERS AND RETIREEES!

If you move or have a change in marital status, remember to notify the Retirement Office. Providing this information to department payroll personnel will not update the Retirement Office records.



On January 6, 2009, Jim Lennon, Central Printing Technician passed away after a long and courageous battle with cancer. In his 19 years of service in the Central Printing Division, Jim always made a consistent and concerted daily effort to treat and make his customers feel that they were his highest priority.

The Retirement Boards and Staff will always appreciate and remember Jim's positive attitude and warm smile.

On February 3, 2009, the City Council renamed the City Hall Copy Center (Room 1087) to the "Jim Lennon Copy Center".



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