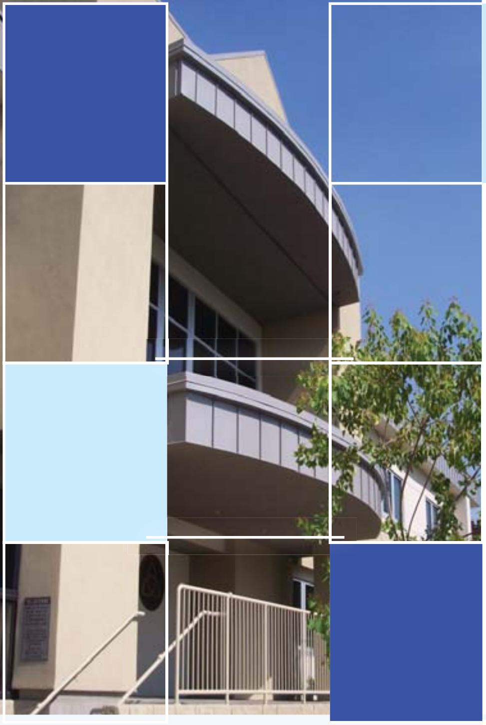

CITY OF FRESNO FIRE & POLICE RETIREMENT SYSTEM

Retirement Quarterly

JUNE 2014

Three things your family needs to know abour your retirement benefit.

Whether you are Retired, Active or Deferred Vested you should talk to your loved ones about your retirement benefit.

1 You are a member of the City of Fresno Fire and Police Retirement System.

All sworn Fire and Police personnel are members of the City of Fresno Fire and Police Retirement System. Part-time Public Safety employees are not eligible to participate in the Plan. At the beginning of each fiscal year (July 1), you will receive an Annual Membershp Statement showing your employee contributions and accumulated interest in the System as of the last day of the prior fiscal year. Retirees receive IRS Form 1099-R in January.

2 You may be entitled to a benefit.

Active, Deferred and Retired members are entitled to a benefit or a return of their contributions. Deferred Vested members (those with at least ten years of service if you are in Tier 1 and after you complete five years of service if you are in Tier 2; or, a combination of CFRS and a reciprocal system service credit) can collect a lifetime benefit when they meet eligibility criteria and choose to retire. Non-vested members may be eligible for a monthly benefit only if they establish reciprocity.

3 Your survivor may be entitled to a benefit.

As an Active employee

- If you die before completing 10 years of service for Tier 1 or 5 years of service for Tier 2, your beneficiary will receive a single lump sum payment equal to your contributions and accumulated interest and one month's salary for each year of service, up to a maximum of six months of salary.
- If you die after completing 10 or more years of service for Tier 1 or 5 or more years of service for Tier 2, your qualified beneficiary may be entitled to a monthly benefit. If you are under age 50, your beneficiary will receive two-thirds of your service retirement benefit using years of service projected to age 50. If you are over age 50, your beneficiary will receive two-thirds of your service retirement benefit. If you do not have a qualified beneficiary, your beneficiary will receive a single lump sum payment equal to your contributions and accumulated interest and one month's salary for each year of service, up to a maximum of six months of salary.

You should keep all of your retirement information together in a safe place. Let you loved ones know there may be a benefit payable upon your death.

Although you are entitled to designate a beneficiary for these benefits, your surviving spouse/domestic partner or unmarried children under age 18 or your parents if they are financially dependent on you, nullify any other designation.

Keep your beneficiary information up-to-date so survivor benefits are distributed according to your wishes.

Visit www.CFRS-CA.org for beneficiary designation form.

Investment Report

by Stanley McDivitt, Retirement Administrator

Status of Investment Projects

During the first half of 2014, the Joint Boards reviewed, discussed and evaluated Global Tactical Asset Allocation and Absolute Return strategies and retained PIMCO, of Newport Beach, California, to manage an Unconstrained Bond Fund for the City of Fresno Retirement Systems with implementation of the new portfolio commencing in June 2014. The Boards also continued monthly evaluations of existing managers and conducted a preliminary review of their Asset Allocation. Effective March 31, 2014, the Boards decided to terminate the Batterymarch Emerging Markets and Pyramis Select EAFE International Equity portfolios due to underperformance and a strategic decision to allocate international equity to an ACWI-EX-US structure. The Boards' Investment Consultant presented a review of the 2014 NEPC Outlook, the Boards scheduled meetings for Asset Allocation education and Asset Allocation Liability modeling.

In the coming months the Boards will conclude further evaluation and education related to direct lending, Master Limited Partnerships (MLPs), along with private value-added real estate, and finalize its new Asset Allocation Study.

The Economy

After six very long years of extreme volatility in the global markets, we are experiencing some calmer times and hear forecasts that suggest better times lie ahead for the economy. Following the horrific housing bust, financial crisis and recession as well as the federal budget sequester, repeated budget and debt dramas plus Europe's meltdown, it's a welcome change.

Of course, there will still be wide swings of volatility, with such events as the unexpectedly low job creation seen in December. And something could go badly wrong — an oil price spike, a plunge in China's growth rate or a breakdown of Washington's budget and debt cease-fire. But the likelihood of an upside surprise bringing economic improvement faster than now expected is greater than that of another downside blow according to many economists.

After hitting bottom in 2009, consumer confidence is finally headed back to the range seen around 2004, when the economy was booming and jobs were easy to come by. That, plus job growth, could translate into rising demand across the board, though services, including health care, travel, auto leasing and more, are likely to gain more swiftly than goods. The housing renaissance will also provide a welcome lift, potentially lending extra pop to GDP growth if the push from pent-up housing demand outweighs any dampening from mortgage rate hikes. Tight new-home inventories make that at least a decent bet.

As for government spending, don't expect much lift from it. States and cities will spend a bit more this year than last. But the Federal Government will again spend less this fiscal year than they did last, holding spending by all government — local, state and federal — about flat for the year.

Fed Chairman Janet Yellen has so far indicated a strong pro-growth stance, primarily based on concerns about full recovery in the labor market. That would suggest that the Fed will hold off raising short-term interest rates this year, even as GDP growth rebounds after a dreadful first quarter and strengthens further in the second half of 2014. At some point in 2015, the Fed will have to tighten, however, and long-term Treasury bond rates will start to rise when investors begin to sense some stirring at the Fed.

Investment Performance of the Systems

During the first quarter of 2014, the markets continued to show moderate signs of improvement despite economic fears related to unexpected low job growth. The S&P 500 Index generated a 1.81% total return for the quarter, while the System's total quarter-to-date return was 1.79 percent, 0.17 below our index benchmarks for the quarter ending March 31, 2014.

For the current fiscal year-to-date period ending March 31, 2014, our System's cumulative investment returns were 13.13 percent which is 0.28 percent above our index benchmarks. For the twelve months ending March 31, 2014, our System's cumulative investment returns were 12.89 percent which is 0.47 percent above our index benchmarks. For the past five years our System's annualized return was 15.83 percent which is 0.51 percent above our benchmarks and compares favorably with the five year return of the SP 500 return of 21.16 percent, the Russell 2000 return of 24.31 percent, MSCI EAFE International Index return of 16.56 percent and the Barclay (BC) Aggregate bond index of 4.80 percent.

As of March 31, 2014, the Retirement System's portfolio had 61.20 percent in equities, 27.80 percent in fixed income, and 10.90 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	21.20%	21.0%
Small-Cap equities	8.80%	7.0%
International equities	24.90%	21.3%
Emerging Market equities	6.30%	6.7%
Domestic fixed income	17.60%	14.0%
High Yield fixed income	10.20%	10.0%
Real estate	10.90%	15.0%
Inflation Protection Assets	0.0%	5.0%
Cash	0.1%	0.0%
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.

Learn more about how CFRS has built a growing $2.5 billion fund in the Comprehensive Financial Report (CAFR). In December of every year, the Boards review and approve the Systems CAFR audited by the Boards Independant Auditor, Brown Armstrong Accountacy Corporation. To see the complete CAFR as well as previous years, visit the Reports section of the System website at **www.CFRS-CA.org.**

CFRS BOARD ELECTION UPDATE

Following a NOTICE OF ELECTION, the Fire Members re-elect Paul Cliby as Fire Member on the Fire and Police Retirement Board.

In April 2014, a Notice of Election was posted announcing the election for the Fire member of the City of Fresno Fire and Police Retirement Board for the term ending June 30, 2018. All Fire Members of the City of Fresno Fire and Police Retirement System are eligible to become candidates for membership on the Board. Any member desiring to become a candidate and in order to qualify for placement on the ballot for election were to submit a nomination petition signed by not less than 25 nor more than 35 of the Fire members of the System. As of Friday, May 9, 2014, the last day to receive nomination petitions, only one nomination petition was received by the Retirement Office. In accordance with Section 13 of Article 6 of the Joint Boards Rules and Regulations, whenever at the close of the time for filing nomination petitions only one candidate qualified for placement on the ballot for the election, the Secretary shall make a certification of that fact, naming the candidate, and candidate shall be deemed elected to the office and no election shall be held for that office. **That candidate is PAUL CLIBY.**

Paul has served on the Retirement Board since 2002 and served as Chair in Fiscal Years 2004-2007 and 2010-2013. Paul is an Firefighter Specialist for the City of Fresno Fire Department and has been with the City of Fresno for over 26 years.

COLA a 1.68% COST-OF-LIVING ADJUSTMENT (COLA) FOR **TIER 2** RETIRED AND DROP MEMBERS

Beginning in January 2014, retired members' and beneficiaries benefit payments received a boost from the cost-of-living (COLA) adjustment.

Consistent with Section 3-411 of the Fresno Municipal Code, on or before April 1st of each year the Fire and Police Retirement Board shall determine the annual cost-of-living adjustment by referencing the Consumer Price Index, United States City average for urban wage earners and clerical workers-all items, as published by the Bureau of Labor Statistics of the United States Department of Labor for each of the two preceding calendar years.

The change in CPI as reported by the Bureau of Labor Statistics was a positive 3.723 points, resulting in a cost of living increase of 1.68 percent effective January 1, 2014. Cost-of-living adjustments in excess of 3 percent are to be banked and applied to successor years.

DROP Interest Rate Change Effective July 2014 for Certain Retirees

If you retired after June 30, 2011 and still have a monthly DROP benefit payment, in accordance with the provisions in the Fresno Municipal Code and the Board's Joint Board Rules relating to your DROP account, the interest rate on your DROP account balance is subject to change relative to the actuarial investment return assumption adopted by the Retirement Board.

Effective July 2014, based on the advice of the Boards' actuary, the Retirement Board adopted a conservative assumed actuarial investment return assumption of 7.50 percent. That means if you retired after June 30, 2011 your remaining DROP account balance will now earn interest at the rate of 7.50 percent (formerly 8.0 percent) and your remaining monthly DROP distribution payments will be recalculated using a 7.50 percent interest rate. The change in your monthly DROP payment will be on your July benefit payment.

The 7.50 percent investment return assumption is a realistic actuarial assumption and is critical for maintaining adequate funding of our retirement system. The rate change is important in keeping our system properly funded and capable of paying the promised retirement benefits to all participants --both current and future retirees.

Retirees

January 1 - June 1, 2014

Len Gleim	Roland Rico	Paul Martinez
Al Maroney	Frank Sabato	David Maynez
Michael Mollica	Mark Bindenagel	Wallace Zoerb
Clint Nichols	Jackson Gage	

Retirement Board Meetings

Second Wednesday and Fourth Tuesday of each month at the CFRS Retirement Office, Retirement Board Chamber, 2nd Floor, Room 202, 1:00 pm.

Retirement Benefit Payment Dates

July 31; Aug 29; Sept 30; Oct 31; Nov 28; Dec 31

Observed Holidays (office closed)

July 4th, Sept 1; Nov 11, 27 & 28; Dec 25

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

Email your questions or comments to retire@fresno.gov.

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