

Fresno County Employees' Retirement Association

Investment Performance Review

Period Ending: June 30, 2005

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April showers brought May flowers this quarter, as the markets were mostly negative during the month of April but positive economic news lifted most equity indices in the months of May, continuing into June. The Dow Jones Industrial Average's trusty thirty didn't fare well during the quarter, with names such as IBM down -18.8%, DuPont down -16.1% and 3M down -15.6%. However, the more diversified equity indices were mostly positive. The Dow's total return for the quarter was -1.6% while the S&P 500 Index's was +1.4%. The best performing sectors for the quarter were Utilities, up 9.3%, Financials, up 4.3% and Health Care, up 4.3%.

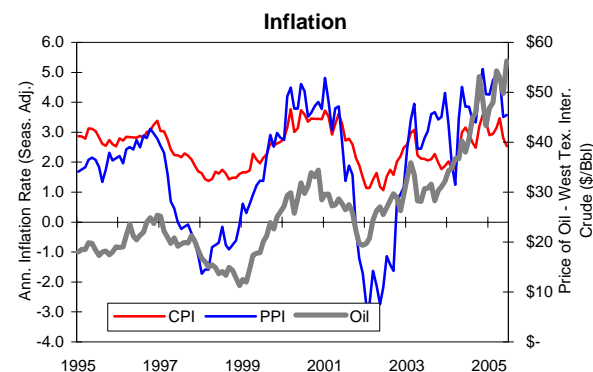
General Motors made the headlines during the quarter with a ratings downgrade for the company's bonds. However, the equity market liked this news and sent the stock up 15.7% for the quarter. The stock's return for 2005 remains in the red though, with a -15.1% loss for the six month period. The rise and fall of oil prices throughout the quarter also made headlines and caused more market jitters. The market appeared headed downward as the quarter came to a close with oil prices above \$60/barrel once again.

Generally speaking, small cap outperformed large cap and growth outperformed value. The Russell 1000 Growth Index had a particularly strong May, bringing its quarterly return to 2.5% despite negative April and June results. The Russell 1000 Value Index was up 1.7% for the quarter. Conversely, small cap value beat out its growth counterpart by about 160 basis points. Growth and value have continued to trade the lead over the last several quarters, with a few key sectors such as energy, financials and information technology being the primary drivers.

Overseas, US investors were hurt due to the dollar's strength during the quarter. The dollar rose 7.0% versus the euro and 3.5% versus the Japanese yen. The MSCI EAFE Index was up 4.6% in local currency terms, but down -1.0% after translation into US dollars. Europe offered some of the best returns among the world's developed markets, in local currencies, with the United Kingdom up 5.0%, Germany up 5.3% and France up 5.9%. Japan, on the other hand, was down -0.1% in local terms or -3.6% in US dollars due to weak economic data and concerns about energy costs. The best performing country across all developed and emerging markets was Egypt, up 31.2% (US \$). Egypt's year-to-date return was 105.2%, which many have attributed to the country's on-going economic reform. The MSCI Emerging Markets Index was up 4.2% (US \$) for the second quarter.

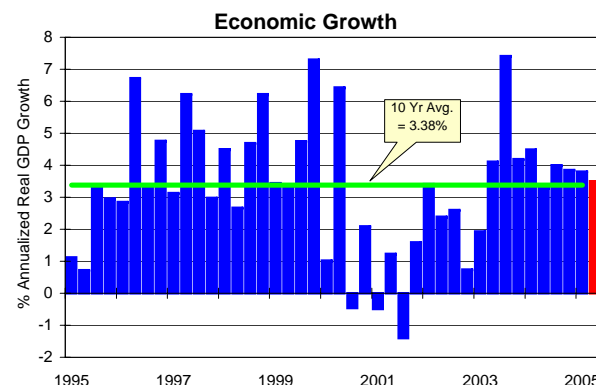
Fixed income instruments did surprisingly well during the quarter, despite two Fed rate hikes and the downgrades in the auto sector. The Lehman Brothers Aggregate Bond Index was up 3.0% for the period. GM's downgrade by S&P caused the markets to reassess credit risk, resulting in the corporate bond sector's underperformance relative to Treasuries. The Lehman Treasury index posted a 3.63% return for the quarter, while the Credit index was up just 3.58% and the CMBS Index was up 3.27%. High yield underperformed Treasuries as well. Long-term yields declined during the quarter as concerns about US and global economic growth led many to suspect that the Federal Reserve may soon cease its rate hikes. The 10-year Treasury yield fell nearly 60 basis points to end the quarter at 3.91%.

The Fed raised rates to 3.25% at its last meeting on June 30th. The agency reiterated its same accommodative language. It appears that the Fed's concerns about inflation have subsided, but have been replaced by raised concerns about housing prices in the nation. Overseas, some central banks have started easing, which has caused many in the US to suspect that the Fed will follow suit soon. Consumer Price Inflation moderated for the first time in nearly a year, largely due to a down tick in energy prices in May. Consumer confidence moved up during the quarter and unemployment moved down to a nearly five year low of 5.0%, both strong signs for the US economy.



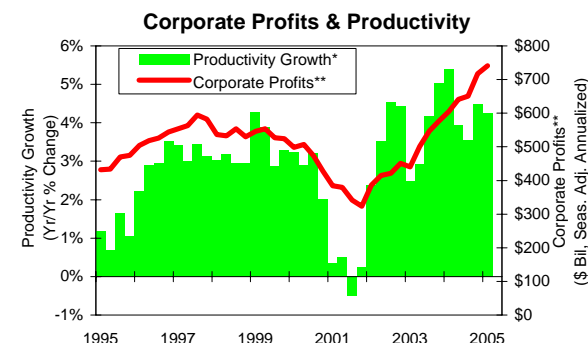
CPI & PPI includes food & energy. Oil is West Texas Intermediate.
Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

Both Consumer Price Inflation and Producer Price Inflation declined in May, influenced by a drop in energy prices. It was the first time in 10 months that the CPI figure had fallen. The indexes remained constant for the month of June. The core CPI figure, which excludes the more volatile food and energy components, advanced by a slim margin, resulting in a year-over-year increase of +2.1%, which was the lowest 12-month rate since October 2004. Oil prices fell in the first part of the quarter, but finished the quarter in an uptrend. Prices surpassed \$60/barrel in early July.



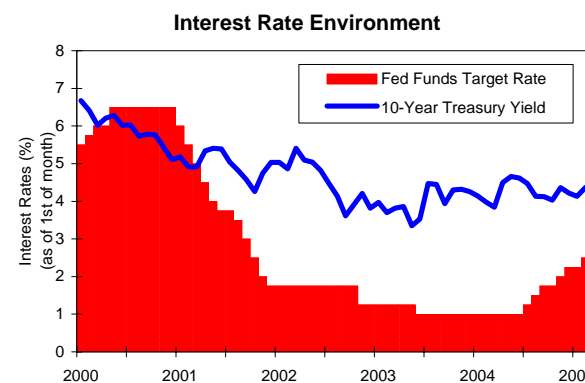
Source: Bureau of Economic Analysis, Wall Street Journal Red indicates estimate

The economy has expanded for over four and a half years now, and despite some concerns about oil and inflation, it continues to expand. The economy grew at a 3.8% annualized rate in the 1st quarter, a number which was revised significantly upward from the initial estimate of 3.1%. The revision was driven by higher exports and stronger residential investments than previously estimated. 2nd quarter GDP has not been released yet, but expectations are around 3.5%, which is between last quarter's figure and the 10-year average of 3.38%.



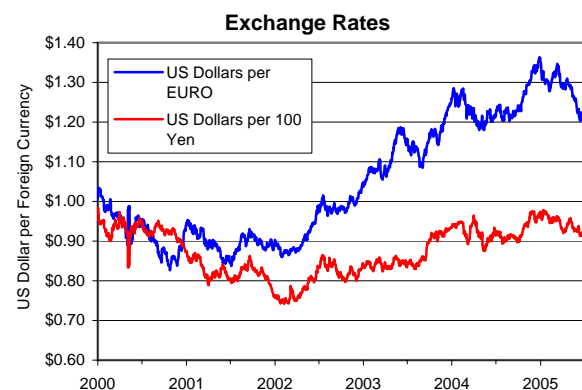
*Nonfinancial Corp. - Output Per Person All employees, **Nonfinancial Corp - Corporate profits with inventory valuation and capital consumption adjustments.
Source: Bureau of Labor Statistics; Bureau of Economic Analysis

Productivity has been an important factor driving the US economy since the last recession. It has impacted the unemployment rate, which went from a low of 3.9% in September 2000 to a high of 6.4% in June 2003. In recent months, the growth in worker productivity has started to decline. As such, unemployment fell to 5% in June, the lowest point since August 2001. Historically, productivity growth has slowed during similar points in the business cycle, as demonstrated by the corporate profits line.



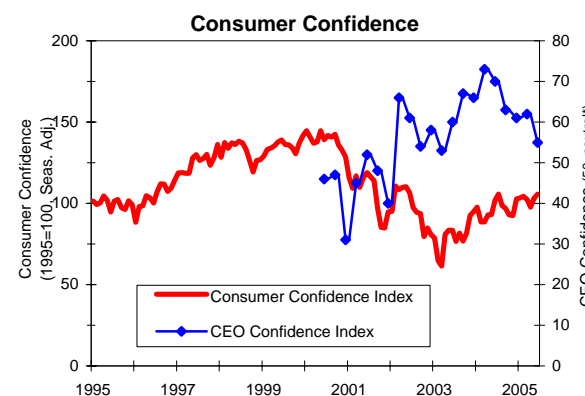
Source: Federal Reserve; Yahoo Finance (yahoo.com), Wall Street Journal

The Federal Reserve's June 30th meeting marked the 9th time in a row that the agency has raised interest rates and the one-year anniversary of the start of this tightening cycle. The Fed's two meetings during the 2nd quarter each resulted in 0.25% rate hikes, bringing the Fed Funds rate to 3.25%. In its statement, the Fed reiterated its belief that the monetary policy stance remains "accommodative" and is "providing ongoing support to economic activity." The Fed also noted that although inflation pressures remain, "longer term inflation expectations remain well contained."



Source: Federal Reserve Bank, Daily Press
Rev. 07/15/2005

The US dollar rose 3.5% against the yen and 7.0% against the euro during the second quarter. The dollar's rally through the first half of 2005 marks a sharp reversal from 2004 when the dollar reached its worst level ever versus the euro. The strength of the dollar may be the result of the growing interest rate differential between the US and Europe. The US trade deficit showed signs of stabilizing earlier this year, which can affect currency, but there was a disconnect in this relationship during the 2nd quarter. The trade deficit widened in June, but the dollar continued to strengthen.



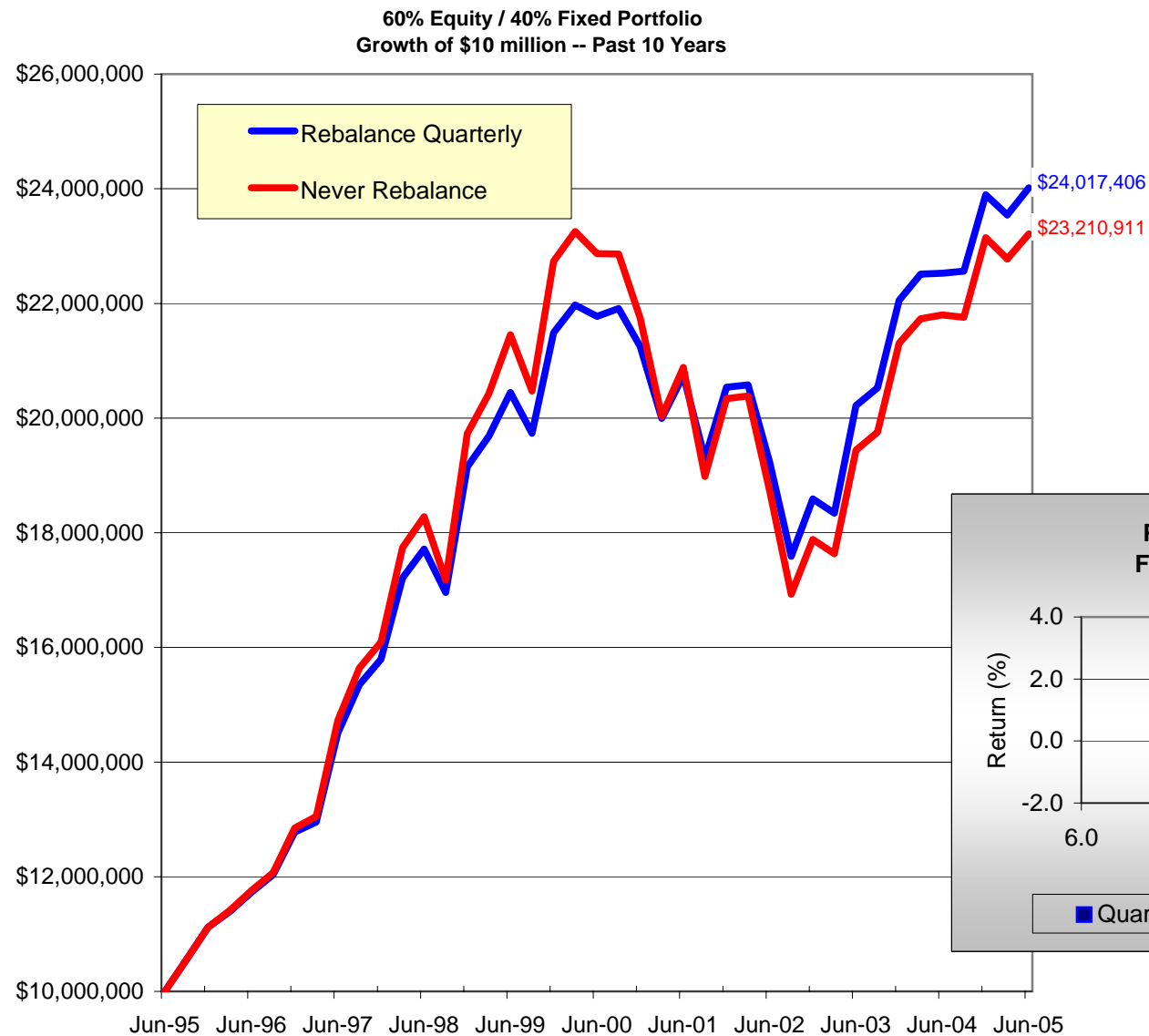
Source: The Conference Board - *CEO Conf.: > 50 = more positive than negative results

Consumer confidence hit a 3-year high in June, as measured by the Conference Board's monthly survey of 5,000 households. The confidence index had dropped suddenly in April due to concerns about the outlook for the economy. The index resurged in May and June as improved economic news made its way to consumers. June's survey revealed increased optimism about business conditions and employment. The CEO confidence survey fell to 55 in June, down from 62 last quarter, reflecting CEO's diminishing confidence in the economy. A score greater than 50 reflects a positive outlook.

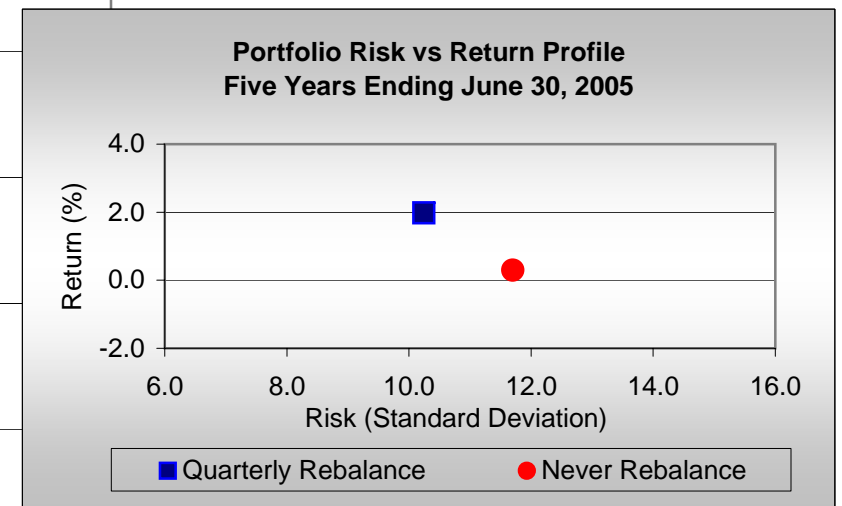
To Rebalance or Not to Rebalance

The Benefits of Rebalancing Portfolios Regularly

Second Quarter, 2005



| | Cumulative Performance | |
|----------------|-------------------------------|------------------------|
| | <i>Annualized</i> | |
| | Rebalance Quarterly | Never Rebalance |
| 10 Year | 9.2 | 8.8 |
| 5 Year | 2.0 | 0.3 |
| 3 Year | 7.7 | 7.4 |
| 1 Year | 6.6 | 6.5 |



Analysis based on 60% S&P 500 Index, 40% Lehman Brothers Aggregate Bond Index - July 1, 1995 - June 30, 2005
Source: Ibbotson Associates

Portfolio Diversification

Asset Class Rankings Over the Past Twenty Years

Second Quarter, 2005

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | YTD 05 |
|-------|------|------|-------|------|------|-------|------|-------|------|------|------|------|------|------|------|-------|-------|-------|------|------|--------|
| Best | 56.7 | 69.9 | 24.9 | 29.5 | 35.9 | 8.9 | 51.2 | 29.1 | 32.9 | 8.1 | 38.3 | 23.1 | 35.2 | 38.7 | 43.1 | 22.8 | 14.0 | 10.3 | 48.5 | 22.3 | 9.0 |
| | 32.9 | 20.0 | 8.0 | 28.6 | 25.2 | 7.9 | 41.7 | 13.8 | 23.8 | 6.4 | 37.2 | 21.6 | 31.8 | 20.3 | 33.2 | 12.3 | 8.4 | 6.7 | 46.0 | 20.7 | 2.5 |
| | 31.5 | 15.4 | 5.9 | 23.2 | 20.2 | 2.3 | 41.2 | 7.8 | 18.1 | 4.2 | 31.0 | 21.4 | 30.5 | 16.2 | 27.3 | 11.6 | 7.3 | 1.8 | 38.6 | 16.5 | 1.8 |
| | 31.0 | 15.3 | 5.3 | 20.4 | 14.5 | -0.3 | 24.6 | 7.4 | 13.4 | 2.7 | 25.8 | 11.3 | 13.9 | 15.6 | 11.4 | 7.0 | 4.1 | -11.4 | 30.0 | 14.3 | 1.3 |
| | 31.0 | 8.3 | 2.7 | 11.3 | 12.4 | -8.1 | 16.0 | 5.0 | 9.8 | -1.5 | 18.5 | 10.3 | 12.9 | 8.7 | 7.3 | 6.0 | -5.6 | -15.5 | 29.7 | 13.1 | 0.9 |
| | 22.1 | 7.4 | 0.5 | 9.6 | 10.8 | -17.4 | 12.5 | 3.6 | 3.1 | -2.0 | 11.6 | 6.4 | 9.7 | 5.1 | 4.7 | -14.0 | -9.2 | -15.7 | 9.0 | 6.3 | -0.9 |
| | 11.2 | 6.2 | -7.1 | 7.9 | 8.6 | -21.8 | 5.8 | -4.3 | 2.9 | -2.4 | 7.5 | 5.3 | 5.2 | 1.2 | -0.8 | -22.4 | -20.4 | -27.9 | 4.1 | 4.3 | -1.7 |
| Worst | 7.8 | 3.6 | -10.5 | 6.8 | 7.8 | -23.2 | -5.6 | -11.9 | 1.4 | -2.9 | 5.8 | 3.6 | 2.1 | -6.5 | -1.5 | -22.4 | -21.2 | -30.3 | 1.2 | 1.2 | -3.6 |


 Large Cap Growth US Stocks (Russell 1000 Growth Index)


 Large Cap Value US Stocks (Russell 1000 Value Index)


 Small Cap Growth US Stocks (Russell 2000 Growth Index)

 Small Cap Value US Stocks (Russell 2000 Value Index)

 International Stocks (MSCI EAFE Index)

 Domestic Fixed Income (LB Aggregate Bond Index)

 Real Estate (NCREIF Property Index)

 Cash (SB 3-Mo Treasury)

U.S. EQUITY MARKET PERFORMANCE REVIEW

Second Quarter, 2005

INDEX PERFORMANCE

| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|--------------------------------|----------------|------|-------------|----------------|---------------|--------------|
| Equity Funds Median | 2.4 | 0.3 | 8.6 | 10.6 | 3.1 | 11.1 |
| Equity Only Median | 2.4 | 0.3 | 8.7 | 10.6 | 2.4 | 11.1 |
| Standard & Poor's 500 Index | 1.4 | -0.8 | 6.3 | 8.3 | -2.4 | 9.9 |
| S & P 500 Equal Weighted Index | 2.8 | 0.5 | 10.6 | 13.9 | 8.3 | 12.3 |
| Wilshire 5000 Index | 2.3 | 0.1 | 8.2 | 10.0 | -1.3 | 10.0 |
| Dow Jones Industrial Average | -1.6 | -3.7 | 0.7 | 5.9 | 1.7 | 10.6 |
| NASDAQ OTC Composite | 2.9 | -5.5 | 0.5 | 12.0 | -12.3 | 8.2 |
| S & P Mid Cap 400 Index | 4.3 | 3.9 | 14.0 | 13.2 | 8.5 | 14.7 |
| Russell 1000 Index | 2.1 | 0.1 | 7.9 | 9.2 | -1.9 | 10.2 |
| Russell 2000 Index | 4.3 | -1.3 | 9.5 | 12.8 | 5.7 | 9.9 |
| Russell 3000 Index | 2.2 | 0.0 | 8.1 | 9.5 | -1.4 | 10.1 |
| MSCI EAFE Index | -0.8 | -0.9 | 14.1 | 12.5 | -0.2 | 5.6 |
| MSCI EAFE Index Ex. Japan | 0.0 | 0.6 | 19.1 | 14.0 | 1.8 | 8.9 |

MANAGER STYLE PERFORMANCE

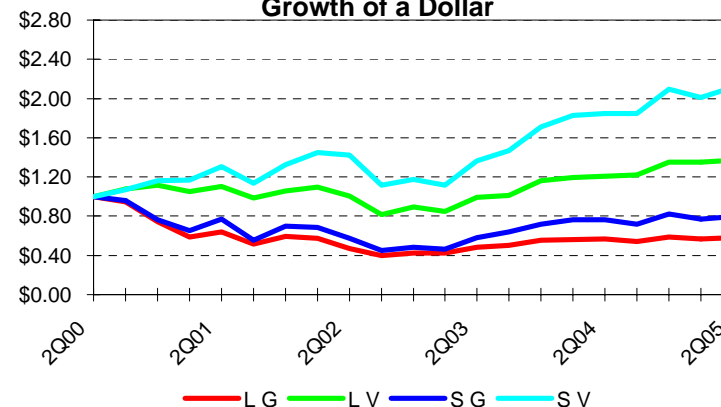
| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|-----------------------------|----------------|------|-------------|----------------|---------------|--------------|
| Large Cap Growth Index (LG) | 2.5 | -1.7 | 1.7 | 7.3 | -10.4 | 7.4 |
| Large Cap Value Index (LV) | 1.7 | 1.8 | 14.1 | 11.0 | 6.6 | 12.0 |
| Small Cap Growth Index (SG) | 3.5 | -3.6 | 4.3 | 11.4 | -4.5 | 5.2 |
| Small Cap Value Index (SV) | 5.1 | 0.9 | 14.4 | 14.2 | 16.1 | 13.9 |

Note: Style indices provided by Frank Russell Company

SECTOR PERFORMANCE

| | One Quarter | One Year |
|-----------------------------|----------------|-------------|
| Consumer Discretionary | -1.0 | 4.9 |
| Consumer Staples | -0.7 | 1.8 |
| Energy | 2.0 | 39.5 |
| Financials | 4.3 | 5.8 |
| Health Care | 4.3 | 3.1 |
| Industrials | -3.1 | 4.8 |
| Information Technology | 1.8 | -3.8 |
| Materials | -9.4 | 3.6 |
| Telecommunications Services | 3.6 | 9.8 |
| Utilities | 9.3 | 38.0 |

MANAGER STYLE ANALYSIS Growth of a Dollar



U.S. FIXED INCOME MARKET PERFORMANCE REVIEW

Second Quarter, 2005

INDEX PERFORMANCE

| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|-----------------------------------|----------------|-----|-------------|----------------|---------------|--------------|
| Fixed Income Funds Median | 2.8 | 2.5 | 7.0 | 6.3 | 7.7 | 7.2 |
| Fixed Income Only Median | 2.9 | 2.4 | 7.0 | 6.4 | 7.7 | 7.1 |
| Lehman Brothers Aggregate Index | 3.0 | 2.5 | 6.8 | 5.8 | 7.4 | 6.8 |
| Lehman Brothers G/C Index | 3.4 | 2.7 | 7.3 | 6.4 | 7.7 | 6.9 |
| Lehman Brothers G/C Interm. Index | 2.5 | 1.6 | 4.8 | 5.1 | 6.9 | 6.3 |
| Lehman Brothers G/C Long Index | 7.1 | 7.2 | 16.9 | 11.1 | 10.6 | 8.7 |
| Lehman Brothers US TIPS Index | 3.1 | 2.7 | 9.3 | 9.4 | 10.0 | n/a |
| CITI Broad Inv Grade Index | 3.1 | 2.6 | 7.0 | 5.9 | 7.5 | 6.9 |
| 91-Day U.S. Treasury Bills | 0.7 | 1.3 | 2.2 | 1.6 | 2.6 | 4.0 |
| Consumer Price Index | 0.7 | 2.3 | 2.6 | 2.7 | 2.5 | 2.5 |
| NAREIT All Index | 13.5 | 4.9 | 30.0 | 20.3 | 20.7 | 14.6 |
| NAREIT Equity Index | 16.8 | 8.5 | 35.3 | 21.4 | 20.9 | 15.1 |
| NCREIF Property Index | 5.3 | 9.0 | 18.0 | 12.1 | 10.6 | 11.3 |

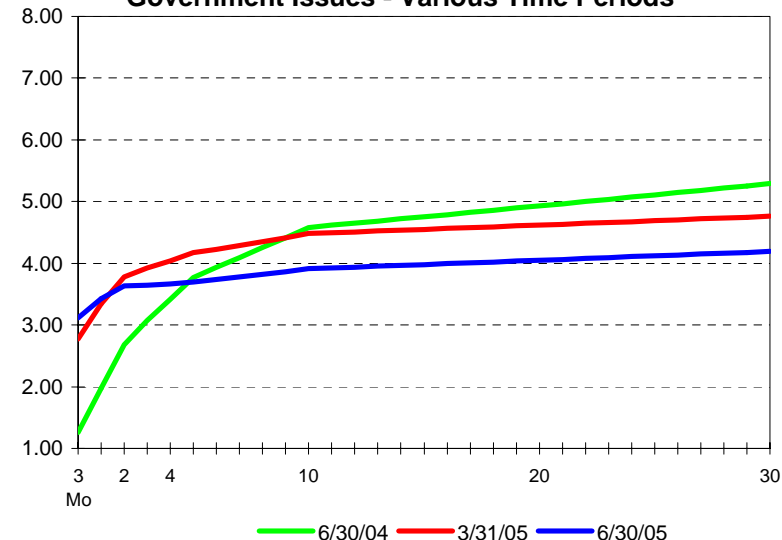
MATURITY EVALUATION

| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|-------------------------------|----------------|-----|-------------|----------------|---------------|--------------|
| Merrill Lynch 1-3 Year Index | 1.1 | 0.8 | 1.8 | 2.3 | 4.5 | 5.1 |
| Merrill Lynch 3-5 Year Index | 2.4 | 1.1 | 3.6 | 4.3 | 6.5 | 6.2 |
| Merrill Lynch 5-7 Year Index | 3.3 | 2.2 | 5.4 | 5.3 | 7.3 | 6.7 |
| Merrill Lynch 7-10 Year Index | 4.7 | 3.5 | 8.4 | 6.4 | 7.9 | 7.1 |

ISSUER PERFORMANCE

| | One Quarter | One Year |
|-------------------|----------------|-------------|
| Government/Agency | 3.4 | 6.6 |
| GNMA Pass-Through | 2.0 | 5.9 |
| U.S. Credit | 3.6 | 8.2 |
| Mortgage | 2.3 | 6.1 |
| High Yield | 2.8 | 10.9 |

TREASURY YIELD CURVE
Government Issues - Various Time Periods



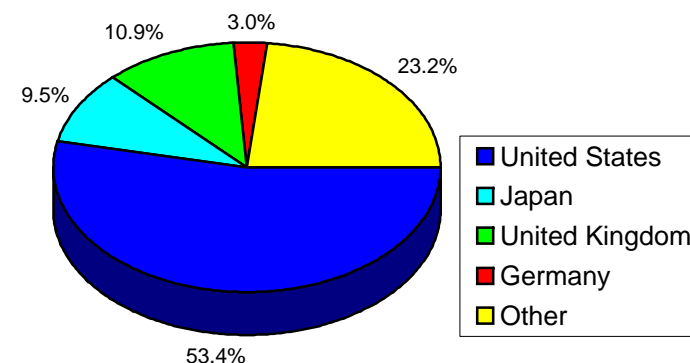
GLOBAL EQUITY INDEX PERFORMANCE

| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|----------------------------------|----------------|------|-------------|----------------|---------------|--------------|
| MSCI World Index | 0.6 | -0.4 | 10.6 | 10.6 | -1.7 | 7.5 |
| MSCI EAFE Index | -0.8 | -0.9 | 14.1 | 12.5 | -0.2 | 5.6 |
| MSCI EAFE Index Ex. Japan | 0.0 | 0.6 | 19.1 | 14.0 | 1.8 | 8.9 |
| MSCI EAFE Small Cap Index | 0.4 | 4.8 | 21.5 | 23.2 | 9.5 | n/a |
| MSCI EAFE Growth Index | -0.7 | -1.5 | 11.7 | 9.4 | -4.5 | 2.9 |
| MSCI EAFE Value Index | -0.8 | -0.2 | 16.5 | 15.6 | 4.1 | 8.1 |
| MSCI Europe Index | -0.5 | 0.0 | 17.4 | 13.1 | 0.9 | 9.5 |
| MSCI Japan Index (Net) | -3.6 | -5.8 | -1.5 | 7.2 | -6.5 | -2.0 |
| MSCI Emerging Mkts Index (Gross) | 4.2 | 6.3 | 34.9 | 24.4 | 7.7 | n/a |
| MSCI Emerging Mkts Index (Net) | 4.1 | 6.1 | 34.5 | 24.1 | 7.5 | 4.2 |
| Standard & Poor's 500 Index | 1.4 | -0.8 | 6.3 | 8.3 | -2.4 | 9.9 |

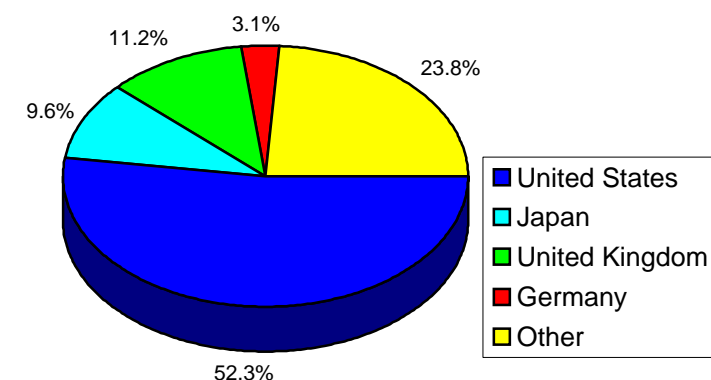
GLOBAL FIXED INCOME INDEX PERFORMANCE

| | One Quarter | YTD | One Year | Three Years | Five Years | Ten Years |
|-----------------------------------|----------------|------|-------------|----------------|---------------|--------------|
| JPM Non-US Govt Index (Unhedged) | -2.6 | -5.6 | 7.9 | 11.1 | 8.0 | 5.1 |
| JPM Non-US Govt Index (Hedged) | 3.2 | 4.5 | 9.3 | 5.6 | 6.1 | 8.1 |
| JPM Global Govt Index (Unhedged) | -1.1 | -3.6 | 7.8 | 9.8 | 8.0 | 5.8 |
| JPM Global Govt Index (Hedged) | 3.4 | 4.2 | 8.9 | 5.7 | 6.4 | 7.5 |
| JPM Emerging Mkts Bond Index Plus | 6.8 | 5.5 | 21.4 | 19.9 | 13.0 | 14.6 |
| Lehman Aggregate Bond Index | 3.0 | 2.5 | 6.8 | 5.8 | 7.4 | 6.8 |
| CITI Broad Inv Grade Index | 3.1 | 2.6 | 7.0 | 5.9 | 7.5 | 6.9 |

GLOBAL COUNTRY ALLOCATION WORLD MARKET CAPITALIZATION Period Ending June 30, 2005



Period Ending March 31, 2005



Note: Information courtesy of Morgan Stanley Capital International World Index.