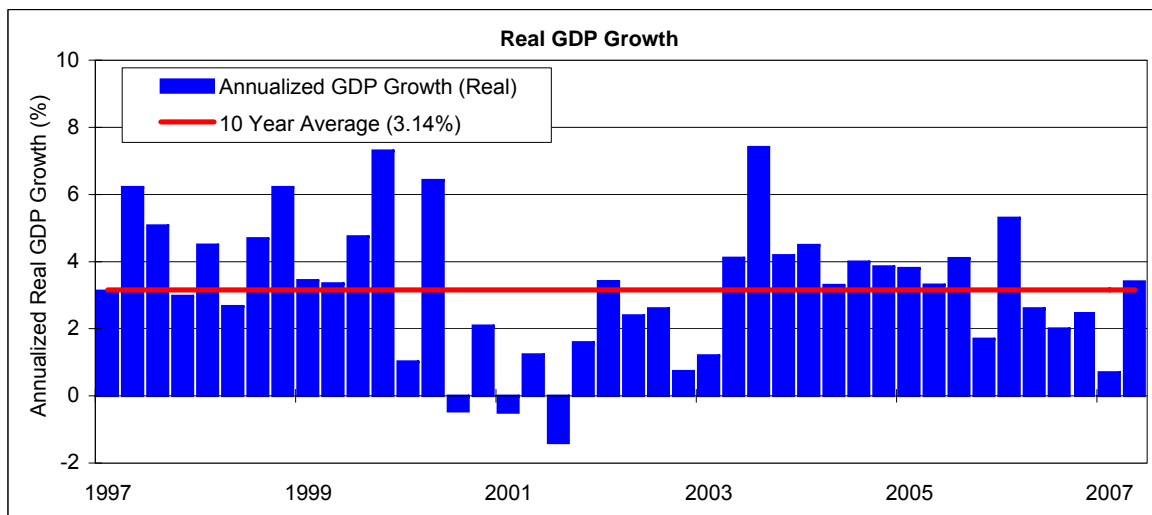


Fresno County Employees' Retirement Association
Investment Performance Review
Period Ending: June 30, 2007

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2321 Rosecrans Avenue, Suite 2250
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Economic Growth

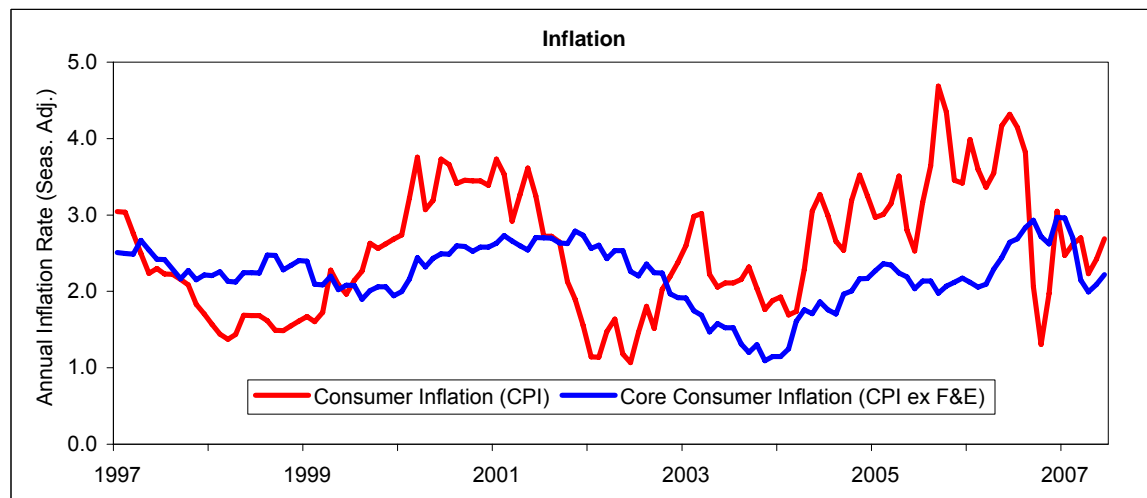


Source: Bureau of Economic Analysis.

- Despite an anemic first quarter, the Commerce Department reports a 3.4% growth in GDP for the second quarter. Economists attribute this sharp growth to expanding business inventories, a rise in exports, and a lessened effect of the housing market's woes.
- A Wall Street Journal survey of 60 economists estimates the likelihood of a U.S. recession in 2007 at 23%, down from 27% at the start of the year.
- Meanwhile, the Bureau of Economic Analysis revised its first quarter GDP estimate from 0.6% to 0.7%, the slowest pace of economic growth since 2002. The revision was primarily attributed to higher exports than previously estimated.

Inflation

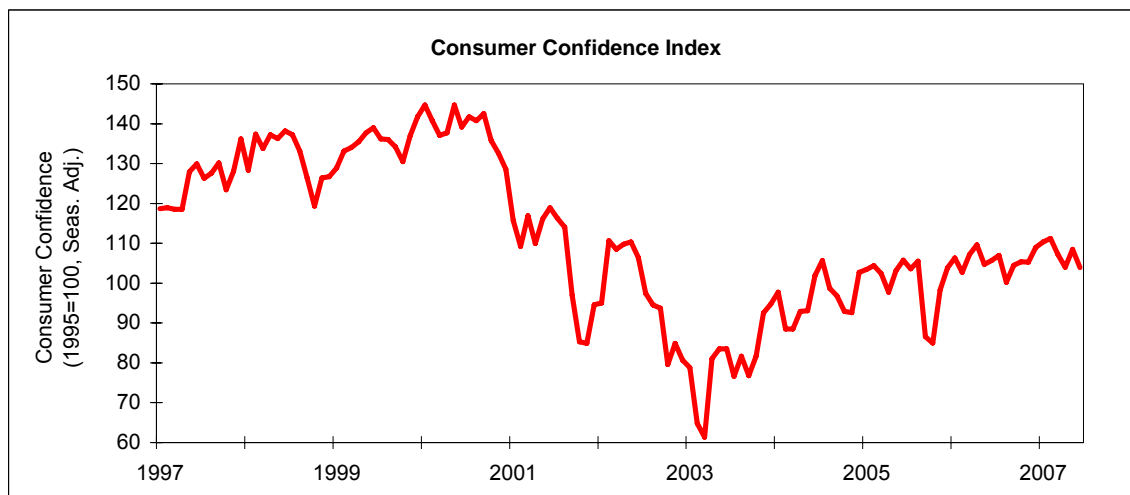
- Consumer prices, as measured by the Consumer Price Index, rose 2.7% from June 2006. Energy was the largest contributor as higher gasoline prices have caused the energy index to rise 4.6% from last year.
- Excluding food and energy, consumer prices have risen 2.2% over the past year. This "core" CPI reading remains near the upper end of the Fed's implied comfort zone and strongly implies that the central bank will not lower interest rates in the near future.
- Within CPI, medical care and housing experienced increases of 4.0% and 3.7% over the past year, respectively. Apparel was the only category to experience negative inflation since last year (-1.4%).



Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

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Consumer Confidence

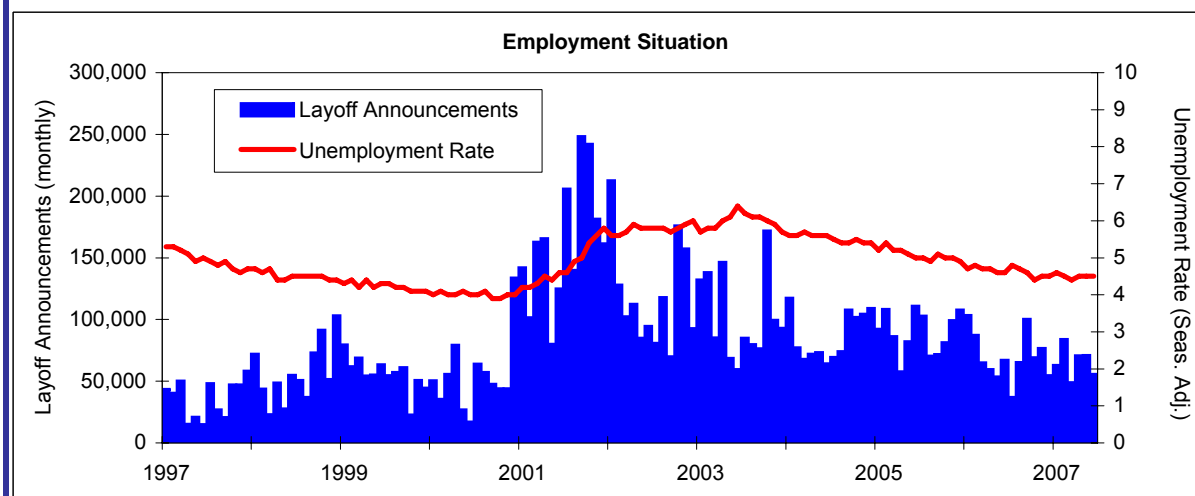


Source: The Conference Board

- The Conference Board's Consumer Confidence Index fell to 103.9 in June from 108.5 in May. In addition, the Present Situation Index fell 8.2 points during the latest month. The tepid results indicate that consumers are apprehensive of current conditions.
- June's pullback, according to the Conference Board's Consumer Research Center, was partly attributed to "a perceived softening in present-day business and employment conditions."
- Consumers' appraisal of short-term prospects also illustrated caution. The proportion of respondents who believe that business conditions will worsen rose from 10.2% to 11.0% in June.

Employment

- The June unemployment rate remained flat at 4.5% based on data from the Bureau of Labor Statistics. Unemployment continues to remain within a narrow band of 4.4% to 4.6% since September 2006.
- Non-farm employment rose by 444,000 during the second quarter. The employment gains were mainly concentrated in service industries including health care and food services. Meanwhile, manufacturing continued to lose jobs with a loss of 25,000 positions from May through June.
- The total U.S. employment figure of 146.1 million and employment-population ratio of 63.1% were relatively unchanged from the first quarter.



Source: Bureau of Labor Statistics; Challenger, Gray & Christmas, Inc.

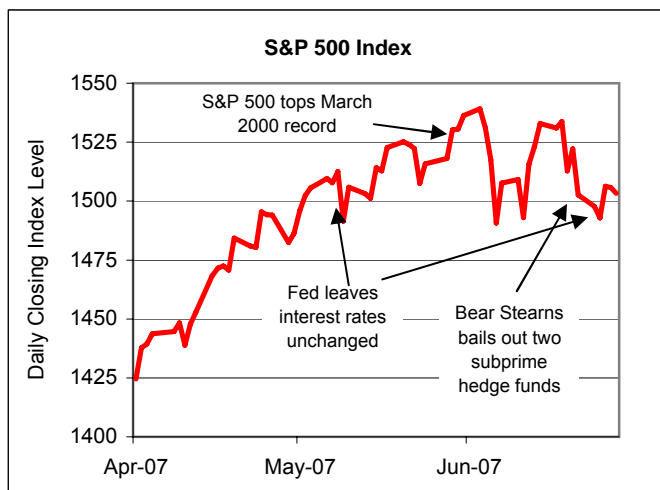
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Market Environment

U.S. Equity Market

Second Quarter, 2007

US Stock Market Highlights



Source: Yahoo! Finance

Sector Performance

	<u>Quarter</u>	<u>One Yr</u>
Consumer Disc.	1.9	17.3
Consumer Staples	2.7	14.8
Energy	14.7	28.5
Financials	2.1	14.7
Health Care	5.0	18.4
Industrials	9.4	16.8
Info. Technology	10.4	25.9
Materials	7.7	27.7
Telecom. Services	7.7	36.4
Utilities	(0.4)	26.3

- The S&P 500 bounced back from a flat first quarter to return 6.3%. The index also reached a milestone by closing above its record peak of 1527.46 set in March of 2000, thus marking a full recovery from its October 2002 low.
- Performance was driven by the energy and technology sectors, which both posted double-digit returns. Energy benefited from a 16% spike in oil prices since the start of the year.
- Mergers and acquisitions activity continued to be strong as the quarter witnessed three leveraged buyouts valued at more than \$25 billion: Alltel, Sallie Mae and First Data.

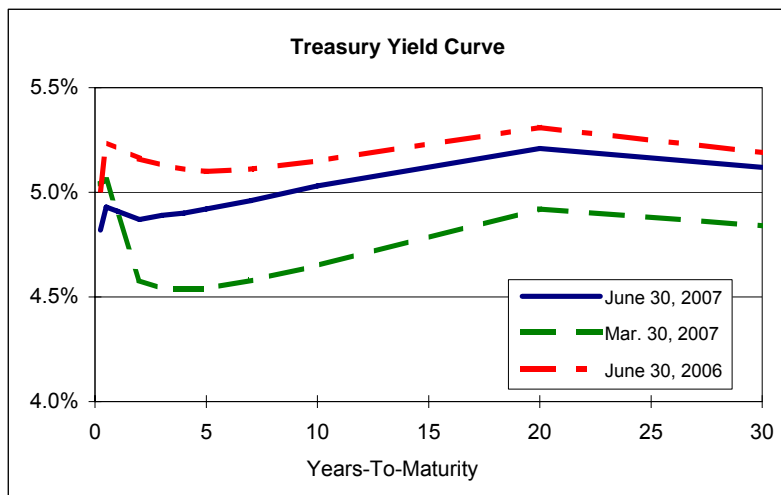
Equity Market Performance

- Large cap equities reversed recent trends by outperforming small caps during the quarter. The Russell 1000's 7.2% return year-to-date is 70 basis points ahead of the Russell 2000. Mid-caps continue to outperform both large and small caps year to date.
- Mega-caps bounced back from poor recent performance to return 9.1% as measured by the Dow Jones Industrial Average. Among Dow components, all but two of the 30 stocks posted positive returns.
- In another reversal of fortune, growth outperformed value in both large and small caps. The difference within small caps was particularly wide as the Russell 2000 Growth outperformed Value by 440 basis points.

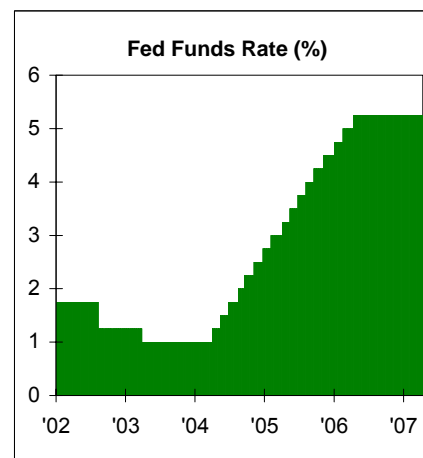
	<u>Quarter</u>	<u>YTD</u>	<u>One Yr</u>	<u>Three Yrs</u>	<u>Five Yrs</u>	<u>Ten Yrs</u>
<u>Core Index Performance:</u>						
Standard & Poor's 500	6.3	7.0	20.6	11.7	10.7	7.1
S&P 500 Equal Weighted	5.9	8.9	21.1	14.5	15.2	11.5
Dow Jones Industrial Average	9.1	8.8	23.0	11.2	10.2	8.2
Russell Top 200	6.2	6.1	20.3	10.5	9.5	6.2
Russell 1000	5.9	7.2	20.4	12.3	11.3	7.6
Russell 2000	4.4	6.5	16.4	13.4	13.9	9.1
Russell 3000	5.8	7.1	20.1	12.4	11.5	7.6
Russell Mid Cap	5.3	9.9	20.8	17.2	16.4	11.9
<u>Style Index Performance:</u>						
Russell 1000 Growth	6.9	8.1	19.1	8.7	9.3	4.4
Russell 1000 Value	4.9	6.2	21.9	15.9	13.3	9.9
Russell 2000 Growth	6.7	9.3	16.8	11.8	13.1	5.3
Russell 2000 Value	2.3	3.8	16.1	15.0	14.6	12.1

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Interest Rate Environment



Source: State Street Corp.



Source: Federal Reserve

- The Fed held rates steady at 5.25% over the quarter's two meetings, its 12th straight meeting of inaction. The Fed's statements implied that inflation remains in check and that rate hikes are not likely anytime soon.
- The fed futures market shows that investors expect rates to remain steady through October. The implied probability of rates remaining unchanged through October stands at over 80%.
- During the quarter, the yield curve returned to a more normal slope.

Bond Markets

- A rise in long-term interest rates weighed on bonds during the quarter as the Lehman Aggregate posted a negative return and the Lehman Long Treasury index returned -1.9%.
- Shorter term bonds posted strong relative performance while higher risk bond sectors such as emerging markets performed poorly, implying that investors have become increasingly risk averse.
- High yield bonds returned flat performance as new bond issuance remained high amid strong leveraged buyout activity. The second quarter saw \$56 billion in new high yield bond issuances, the second-highest total in history.

	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
<u>Index Performance:</u>						
LB Aggregate	(0.5)	1.0	6.1	4.0	4.5	6.0
LB US TIPS	(0.8)	1.7	4.0	3.8	6.0	6.7
90 Day US Treasury Bills	1.3	2.5	5.2	3.8	2.8	3.8
<u>Maturity Evaluation:</u>						
LB 1-3 Yr Treasury	0.7	2.1	5.1	2.9	2.8	4.6
LB Intermediate Treasury	0.0	1.5	5.3	3.0	3.3	5.2
LB Long Treasury	(1.9)	(0.9)	6.0	5.1	5.9	7.3
<u>Issuer Performance:</u>						
LB Intermediate Agency	0.1	1.6	5.7	3.6	3.8	5.6
LB U.S. Credit	(0.7)	0.8	6.7	4.2	5.1	6.3
LB Mortgage	(0.5)	1.0	6.4	4.3	4.1	5.9
LB High Yield	0.2	2.9	11.6	9.0	11.9	6.3
JPM Emer Mkts Bond Plus	(1.9)	0.6	11.9	12.7	15.2	10.0
JPM Non-US Govt (Hedged)	(0.9)	0.0	4.0	4.4	4.2	5.9

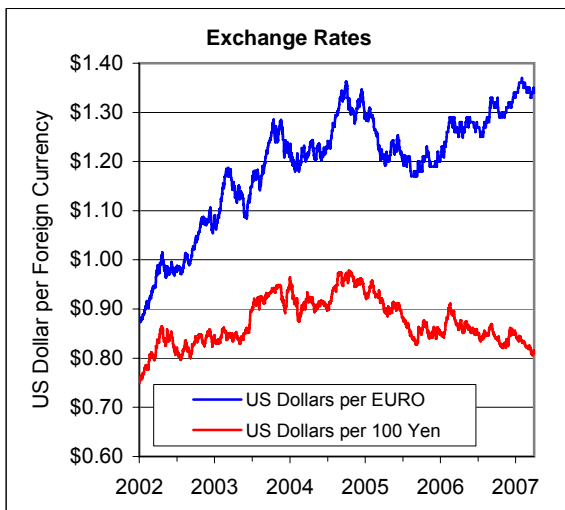
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Market Environment

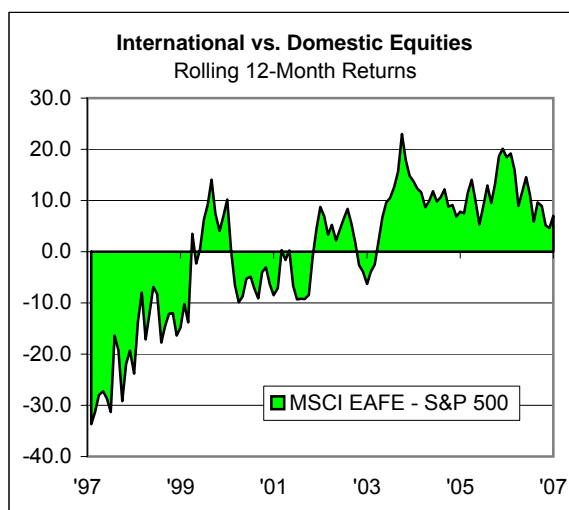
International Market

Second Quarter, 2007

International Market Environment



Source: Federal Reserve Bank, Daily Press



Source: Ibbotson

- International equities continued to outperform domestics during the quarter, albeit by a smaller margin than in recent quarters.
- Despite the Fed's inaction, the U.S. dollar fell to record lows against the euro. As of quarter end, the exchange stood at \$1.3535 per euro. The dollar's weakness helped performance for U.S. investors as the MSCI EAFE returned 6.2% locally versus a total return of 6.7%.
- The Japanese yen weakened nearly 5% against the dollar in part due to weak inflation. Japan's economy has experienced five consecutive months of no increases in core inflation.

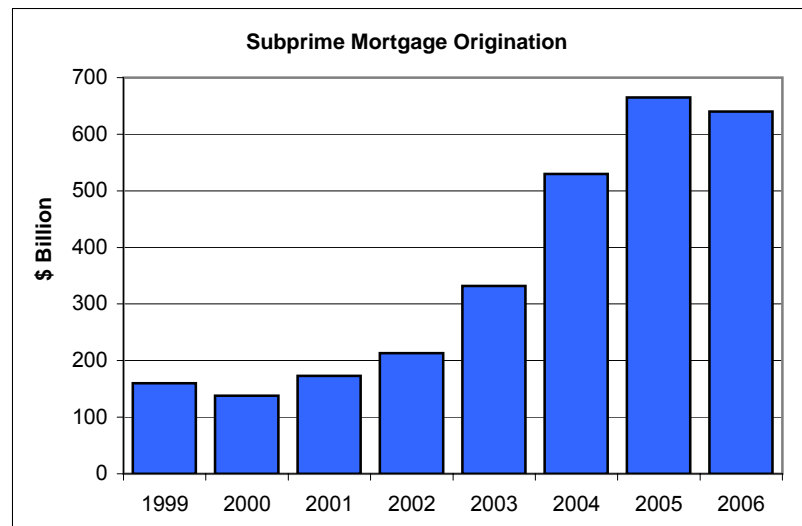
International Equity Market Performance

- International equity markets followed the lead of the U.S. in posting strong performance. The MSCI World, which includes the U.S., returned 6.7% while the MSCI EAFE returned 6.7% (versus 6.3% for the S&P 500).
- Emerging markets continued their strong recent performance by returning 15.1% during the recent quarter. Over the past year, emerging markets are up a staggering 45.4%. Latin America has been particularly strong, returning an annualized 57.3% over the past three years.
- Within style, growth slightly outperformed value. However, value continues to outperform growth over the past one, three, and five year periods.

	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
<u>Broad Index Performance:</u>						
MSCI EAFE	6.7	11.1	27.5	22.8	18.2	8.0
MSCI World	6.7	9.5	24.2	17.3	14.6	7.5
MSCI EAFE ex. Japan	8.8	13.5	34.2	25.8	19.9	10.4
MSCI Emerging Markets	15.1	17.8	45.4	38.7	30.7	n/a
MSCI EAFE Small Cap	4.4	11.9	25.6	25.2	24.8	n/a
<u>Style Index Performance:</u>						
MSCI EAFE Growth	6.9	12.2	25.7	21.1	15.8	5.5
MSCI EAFE Value	6.5	10.0	29.3	24.4	20.6	10.4
<u>Regional Index Performance:</u>						
MSCI Europe ex-UK	9.2	14.0	36.1	27.0	20.4	11.6
MSCI United Kingdom	7.6	10.8	27.4	21.6	n/a	n/a
MSCI Japan	(0.6)	2.9	7.3	12.9	n/a	n/a
MSCI Asia	18.5	18.8	47.2	34.4	n/a	n/a
MSCI Latin America	19.8	27.1	62.6	57.3	43.3	15.2

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Subprime Market

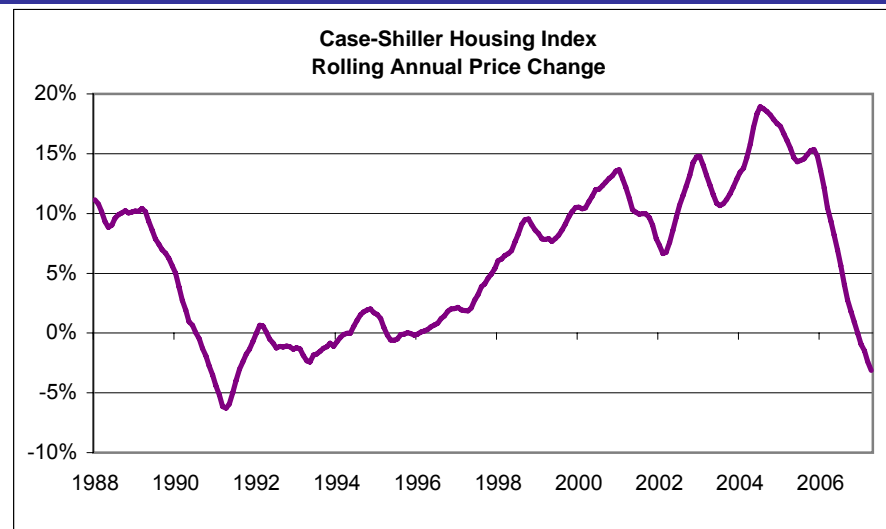


Source: Credit Suisse

- Over the past year, falling residential home prices and rising mortgage interest rates have caused problems in lower quality mortgages, which are often referred to as subprime mortgages. These challenges in the housing market have been recently highlighted by news that some hedge funds and lenders have suffered substantial losses.
- In order to sell more homes during the recent housing boom, the market experienced a huge spike in subprime mortgage origination. In fact, twice as many subprime mortgages were originated in 2005 and 2006 as in 2003.
- According to Lehman Brothers, subprimes now comprise about 15% of the aggregate mortgage universe, or about \$1.2 trillion. The impact of recent originations are beginning to affect the market as home foreclosures hit a 30-month high in May. In addition, according to RealtyTrac, June's pace of foreclosures is 87% higher than last year.

Subprime and the Markets

- The subprime debacle also affected other areas of the market:
- Equities: Subprime concerns led to higher volatility in the equity markets. For example, the S&P 500 experienced 12 trading days of 1% price movements during the quarter compared to 7 days during the first quarter.
- Fixed Income: Many subprime mortgages were packaged as bonds and sold to investors. As a result, some bond managers held subprime in their portfolios and thus posted poor performance. In addition, ratings agencies have begun to downgrade many of these bonds, causing spreads to widen significantly.
- Alternatives: Hedge funds were among the most active players in the subprime market. As a result, some suffered substantial losses and a few high profile funds (e.g. Bear Stearns) were completely wiped out.



Source: Standard & Poor's

Portfolio Diversification

Asset Class Rankings Over the Past Twenty Years

Second Quarter, 2007

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
Best	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	18.9	26.9	11.1
	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	14.0	23.5	9.3
	5.9	23.2	20.2	2.6	41.2	8.0	18.1	4.2	31.0	21.4	30.5	16.2	27.3	11.6	7.3	1.8	38.6	16.5	7.1	22.2	8.1
	5.3	20.4	18.8	2.3	24.6	7.8	13.4	2.7	25.8	14.1	18.6	15.6	13.0	7.0	4.1	-8.6	30.0	14.3	7.1	16.1	7.4
	4.6	11.7	14.5	-0.3	21.7	7.4	11.5	-0.8	24.6	11.3	13.9	13.6	11.4	6.0	-2.7	-11.4	29.7	13.1	5.3	13.4	6.2
	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	1.9	-5.6	-15.5	21.6	11.1	4.7	12.8	4.0
	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	4.1	9.1	3.8
	-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	3.1	4.8	2.5
Worst	-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	2.4	4.3	1.0



Large Cap Growth US Stocks (Russell 1000 Growth Index)



International Stocks (MSCI EAFE Index)



Large Cap Value US Stocks (Russell 1000 Value Index)



Domestic Fixed Income (LB Aggregate Bond Index)



Small Cap Growth US Stocks (Russell 2000 Growth Index)



Real Estate (NCREIF Property Index)



Small Cap Value US Stocks (Russell 2000 Value Index)



Cash (SB 3-Mo Treasury)



ICC Universe Median (Total Funds)

Data: Ibbotson Associates, 2007; Institutional Consultants Cooperative.
Rev. 7/26/07