Fresno County Employees' Retirement Association

Investment Performance Review

Period Ending: September 30, 2005

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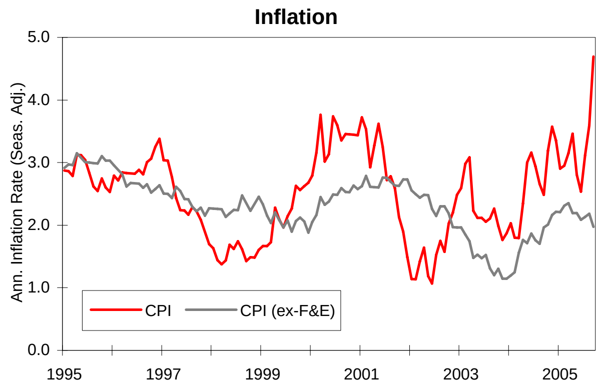
US and nearly all foreign equity markets experienced positive returns during the third quarter. Although the quarter was volatile, filled with rising oil prices and one of our nation's worst natural disasters, the S&P 500 posted a 3.6% return for the period. The Dow Jones Industrial Average made a strong recovery from last quarter's stumble with a 3.4% return. As expected due to strength in oil prices, this quarter's best performing sectors were Energy (up 18.2%) and Utilities (up 7.3%), once again. Companies that rely on energy as a key input, such as many industrial and chemical companies, have underperformed for most of the year. Rising energy prices and faltering consumer confidence took its toll on the Consumer Discretionary sector this quarter, as the sector was the worst of the S&P 500 Index with a -0.7% return.

Small cap stocks outperformed large cap during the quarter, but large cap maintained the lead for the year-to-date period. Same story went for the equity styles – growth outperformed value during the quarter, but value kept the lead for the nine months ended September 30. Small cap growth's 6.3% return for the quarter was nearly twice its value counterpart's return.

The US dollar strengthened just slightly versus major currencies, allowing most foreign equity indices to handily outpace US indices. The MSCI EAFE Index was up 10.4% ($) for the period, driven by exceptionally strong performance in Japan. The MSCI Japan Index returned 19.2% for the three-month period as the country benefited from significant upward revisions to economic growth estimates and improvements in consumer demand, exports and capital spending. European equity markets were up about 8% for the quarter, as most European countries have not reacted as negatively to rising oil prices as the US markets have. German markets held up reasonably well, posting a 9.7% return, despite experiencing significant political uncertainty. Emerging markets posted exceptional returns once again, supported by strong gains in energy, materials and utility stocks. The MSCI Emerging Markets index returned 18.1% for the period. Latin American markets, up 30.3%, benefited not only from the export of resources and energy, but also growing domestic consumer demand. Emerging European and Middle Eastern countries did nearly as well, up 29.3%, also due to strength in oil prices.

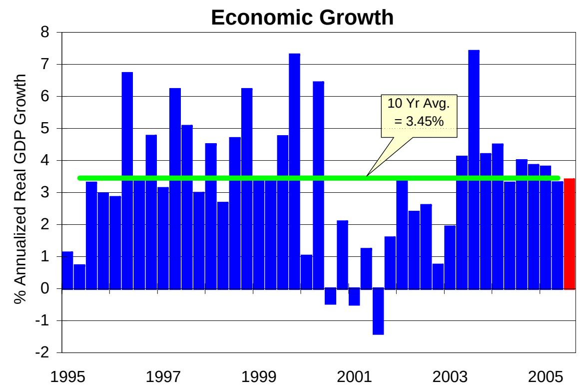
Fixed income markets finally began to feel the effect of rising interest rates and as a result most bond indices were flat to negative. The Lehman Aggregate Index posted a -0.7% return for the period. Yields rose across the board, as longer-term bond yields followed short-term rates higher for the first time since the Fed started raising rates over a year ago. The 10-year Treasury yield ended the quarter at 4.33%, up 28bps from the start of July. The best performing sectors for the period were High Yield and TIPS, up 0.92% and 0.02%, respectively. All other sectors posted negative returns, with the Lehman Treasury Bond index faring the worst with a -1.12% return. Shorter duration bonds outperformed their longer counterparts.

Domestic growth remained strong during the third quarter, despite the impact of the hurricanes in the south. Estimates for real GDP growth are around 3.4%, just slightly higher than the growth experienced during the second quarter. Although the hurricanes impacted supply chains and employment in the affected region, the Federal Reserve does not appear to be concerned about the lasting impact on US economic growth. Instead, the Fed is increasingly focused on fighting inflation. The Fed raised interest rates twice during the quarter, with the last hike the 11th consecutive hike since June 2004. The Fed Funds rate now stands at 3.75%. The Fed reiterated its intent to raise rates at a "measured" pace and no indication has been given regarding how far they plan to go. Inflation figures have continued to pick up. For the year-over-year period ended September, broad consumer prices rose 4.97%. In September alone, prices jumped 1.2% – the largest increase since 1980 – due almost entirely to gas prices passing $3/gallon for the first time ever. However, "core" inflation, which strips out energy and food prices, was just 2.0% for the year.



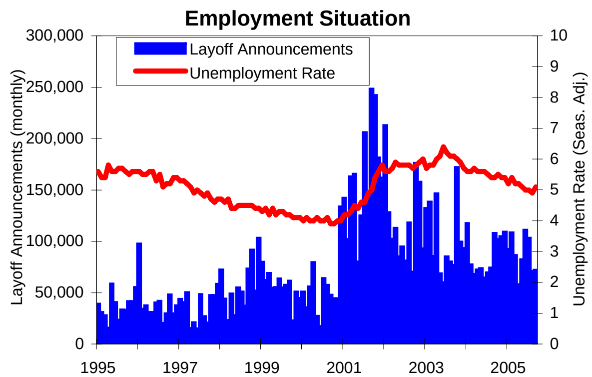
Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

Consumer prices rose 1.2% in September alone (not annualized), marking the largest jump in prices since 1980. Prices, including food and energy, rose 4.97% for the year. Most of increase in prices was due to energy costs, which rose a record 12% in September due to the hurricanes' disruption of oil and gasoline supplies. Gasoline surpassed $3/gallon for the first time ever. "Core" consumer inflation, which excludes food and energy, rose 2.0% for the year.



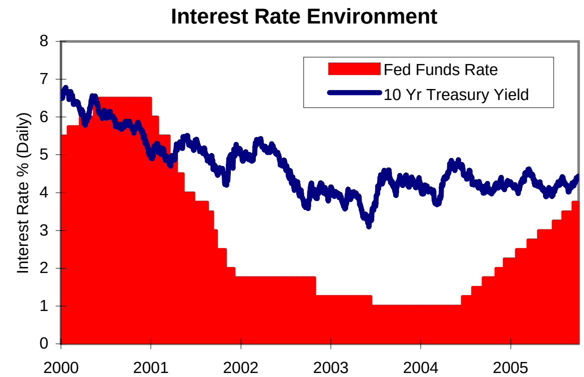
Source: Bureau of Economic Analysis, Wall Street Journal Red indicates estimate

The economy grew at a real annualized rate of 3.3% during the second quarter (revised), supported by consumer spending, strong investment activity, net exports and government spending. Expectations for 3rd quarter growth faltered following Hurricane Katrina, however economists are now estimating growth of approximately 3.4% as impact on GDP appears to be moderate. The impact on inflation was certainly more concerning to economists and the Fed (See left and below).



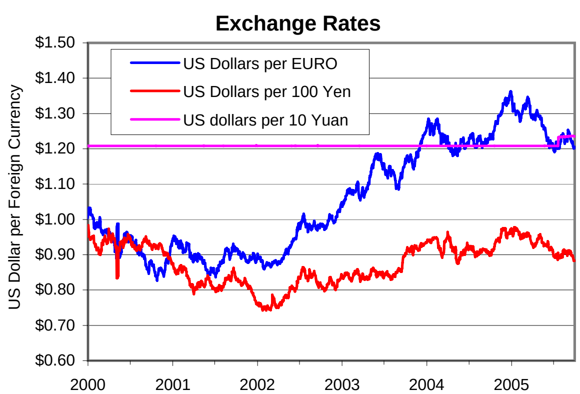
Source: Bureau of Labor Statistics; Challenger, Gray & Christmas, Inc.

The unemployment rate rose slightly to 5.10% in September, up from 5.0% in June. Although it is believed that Hurricane Katrina is at fault for the modest increase, the impact was much lower than anticipated.



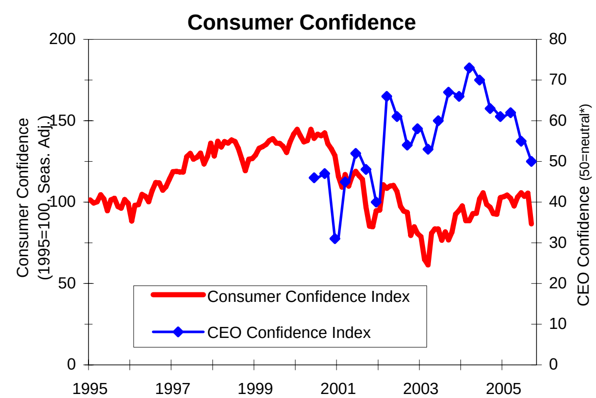
Source: Federal Reserve; Yahoo Finance (yahoo.com), Wall Street Journal

The Federal Reserve raised interest rates for the 11th consecutive time in September. Raising rates a quarter point to 3.75%, the Fed reiterated its intent to raise rates further at a "measured" pace. The latest hike occurred at the regularly scheduled meeting, which followed close on the tail of Hurricane Katrina. The contractionary move came as a surprise to some economists due to the economic uncertainty the hurricane created. However, the markets took the move as a sign of the Fed's increasing concern over inflation. The Fed has been raising rates since June of 2004, when rates stood at a 46-year low of 1%.



Source: Federal Reserve Bank, Daily Press

The US dollar strengthened slightly versus European and many Asian currencies during the quarter. The Euro and yen fell about 0.3% and 2.1%, respectively, during the period. Most significantly, China made a change to its long-standing currency policy which pegged the renminbi, or yuan, to the US dollar. China switched the peg to a basket of currencies of major trading partners and also revalued the currency, effectively appreciating it about 2% against the dollar. While the revaluation will likely have little immediate impact on the US trade gap, the use of the basket of currencies may result in a reduction in China's purchases of US Treasuries.



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

Consumer confidence plunged in September following Hurricane Katrina as households reevaluated present economic conditions and prospects for the future. Some economists predict that consumer confidence could rebound as long as labor markets remain healthy. And as the chart on employment situation shows, the unemployment rate stayed steady during the quarter. Business confidence, which was already falling due to rising energy costs, continued to fall.

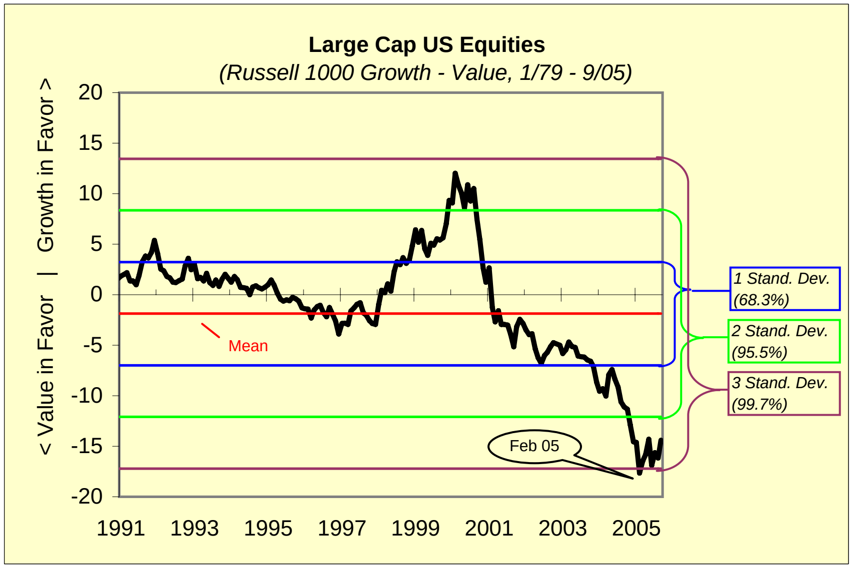
Rev. 10/17/2005

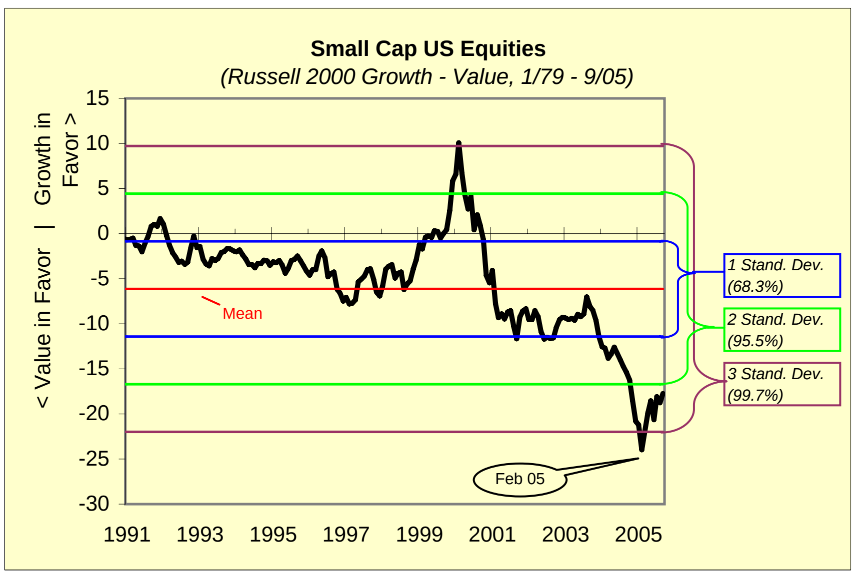
Update on the Growth Versus Value Dynamic:

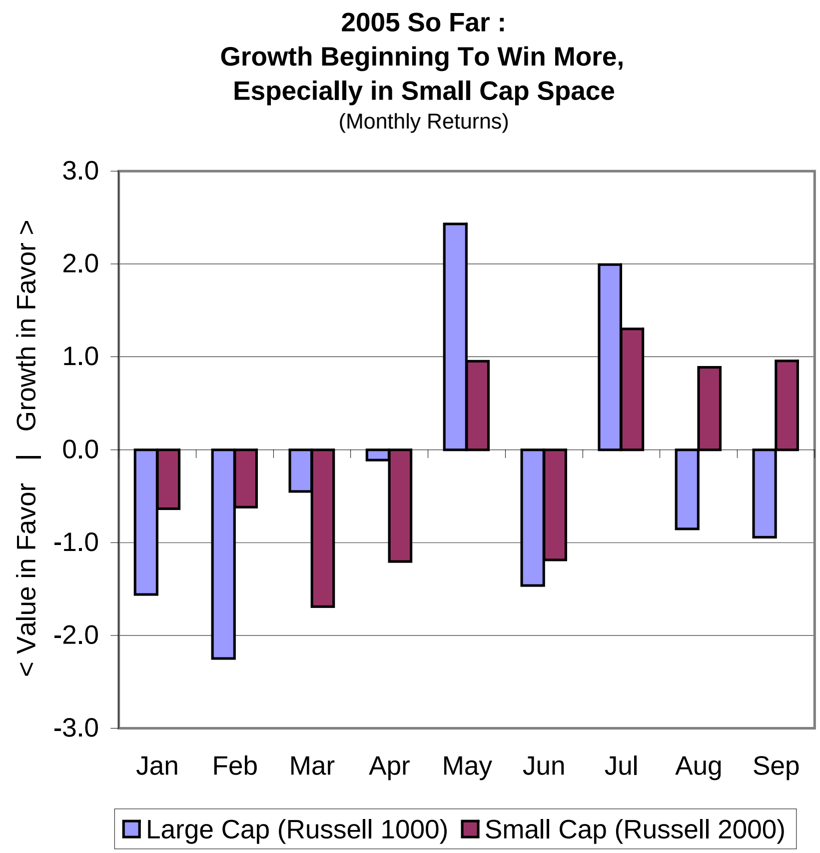
Growth Is Beginning to Make a Comeback

Third Quarter, 2005

Monthly Rolling Five Year Excess Returns, Annualized







Rev. 10/17/2005. Data sources: Ibbotson and ICC.

INDEX PERFORMANCE

	One Quarter	YTD	One Year	Three Years	Five Years	Ten Years
Equity Funds Median	4.4	5.0	16.8	20.1	3.1	10.8
Equity Only Median	4.5	5.1	17.1	20.3	2.7	10.7
Standard & Poor's 500 Index	3.6	2.8	12.3	16.7	-1.5	9.5
S & P 500 Equal Weighted Index	4.8	5.4	18.4	24.7	8.1	12.1
Wilshire 5000 Index	4.0	4.1	14.7	18.5	-0.5	9.4
Dow Jones Industrial Average	3.5	-0.3	7.2	14.1	1.9	10.4
NASDAQ OTC Composite	4.7	-1.0	13.5	22.5	-10.1	7.5
S & P Mid Cap 400 Index	4.9	8.9	22.2	22.1	7.1	14.1
Russell 1000 Index	3.9	4.1	14.3	17.7	-1.3	9.7
Russell 2000 Index	4.7	3.4	18.0	24.1	6.5	9.4
Russell 3000 Index	4.0	4.0	14.6	18.1	-0.7	9.5
MSCI EAFE Index	10.4	9.5	26.3	25.1	3.5	6.2
MSCI EAFE Index Ex. Japan	8.0	8.6	26.0	27.0	5.0	9.3

MANAGER STYLE PERFORMANCE

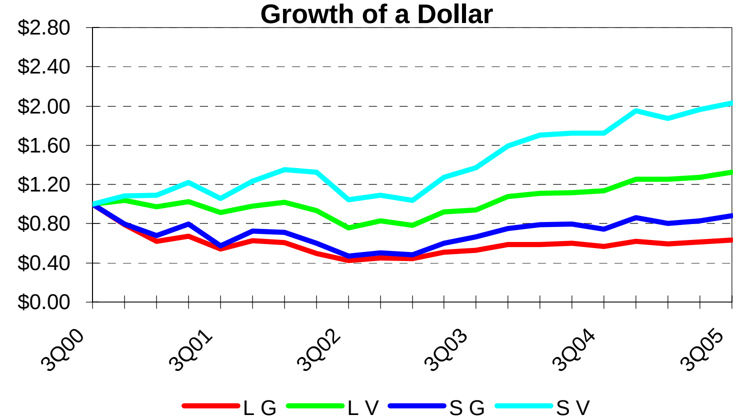
	One Quarter	YTD	One Year	Three Years	Five Years	Ten Years
Large Cap Growth Index (LG)	4.0	2.2	11.6	14.7	-8.6	6.9
Large Cap Value Index (LV)	3.9	5.7	16.7	20.5	5.8	11.5
Small Cap Growth Index (SG)	6.3	2.5	18.0	23.2	-2.6	4.7
Small Cap Value Index (SV)	3.1	4.0	17.7	24.9	15.2	13.3

Note: Style indices provided by Frank Russell Company

SECTOR PERFORMANCE

	One Quarter	One Year
Consumer Discretionary	-0.7	5.4
Consumer Staples	2.7	10.7
Energy	18.2	48.5
Financials	0.8	6.3
Health Care	1.4	10.3
Industrials	2.1	7.1
Information Technology	5.9	13.1
Materials	1.9	2.0
Telecommunications Services	-0.5	2.6
Utilities	7.3	38.7

MANAGER STYLE ANALYSIS
Growth of a Dollar



INDEX PERFORMANCE

	One Quarter	YTD	One Year	Three Years	Five Years	Ten Years
Fixed Income Funds Median	-0.3	2.1	3.3	4.7	6.9	6.9
Fixed Income Only Median	-0.4	2.0	3.2	4.7	7.0	6.9
Lehman Brothers Aggregate Index	-0.7	1.8	2.8	4.0	6.6	6.5
Lehman Brothers G/C Index	1.0	1.8	2.6	4.1	6.9	6.6
Lehman Brothers G/C Interm. Index	-0.5	1.1	1.5	3.4	6.2	6.1
Lehman Brothers G/C Long Index	-2.6	4.4	6.6	6.9	9.4	8.1
Lehman Brothers US TIPS Index	0.0	2.7	5.3	6.7	9.5	n/a
CITI Broad Inv Grade Index	-0.7	1.9	2.9	4.1	6.7	6.6
91-Day U.S. Treasury Bills	0.8	2.1	2.6	1.7	2.5	3.9
Consumer Price Index	2.2	4.5	4.7	3.2	2.7	2.7
NAREIT All Index	1.9	6.9	22.6	24.9	19.4	14.2
NAREIT Equity Index	3.8	10.4	27.2	26.0	19.6	14.8
NCREIF Property Index	4.4	13.9	19.2	13.0	11.0	11.6
Dow Jones AIG Commodity Index	17.6	25.2	19.6	20.8	13.3	10.2
Goldman Sachs Commodity Index	21.5	41.5	26.3	27.4	14.1	11.9

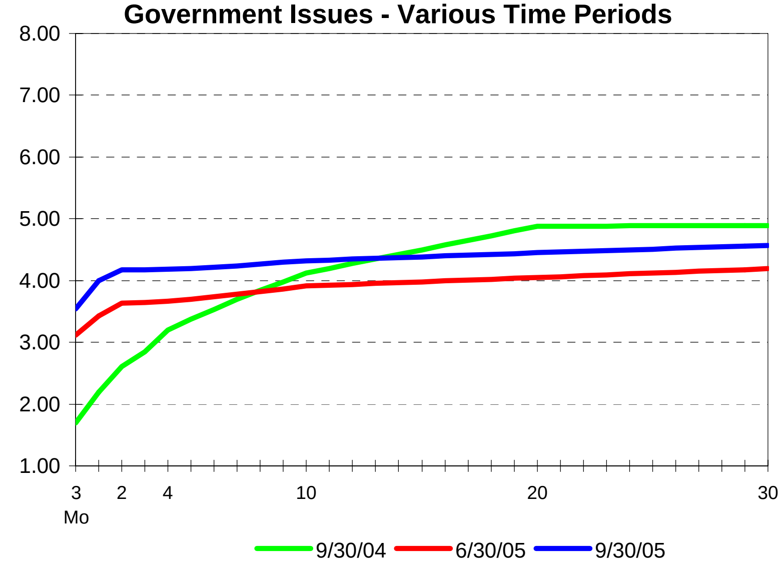
MATURITY EVALUATION

	One Quarter	YTD	One Year	Three Years	Five Years	Ten Years
Merrill Lynch 1-3 Year Index	0.1	0.9	1.0	1.5	4.1	5.0
Merrill Lynch 3-5 Year Index	-0.8	0.3	0.3	1.9	5.7	5.9
Merrill Lynch 5-7 Year Index	-1.2	0.9	1.0	2.3	6.4	6.4
Merrill Lynch 7-10 Year Index	-1.7	1.8	2.1	2.7	7.0	6.7

ISSUER PERFORMANCE

	One Quarter	One Year
Government/Agency	-1.0	2.5
GNMA Pass-Through	0.1	3.4
U.S. Credit	-1.0	2.8
Mortgage	-0.2	3.3
High Yield	0.9	6.7

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	7.1	6.7	19.5	21.0	0.7	7.6
MSCI EAFE Index	10.4	9.5	26.3	25.1	3.5	6.2
MSCI EAFE Index Ex. Japan	8.0	8.6	8.6	27.0	5.0	9.3
MSCI EAFE Small Cap Index	12.0	17.4	38.1	35.6	13.7	n/a
MSCI EAFE Growth Index	10.5	8.9	25.4	21.3	-0.2	3.5
MSCI EAFE Value Index	10.4	10.1	27.3	28.9	7.2	8.7
MSCI Europe Index	7.8	7.8	25.0	26.5	4.0	9.9
MSCI Japan Index (Net)	19.2	12.2	26.9	18.6	-1.0	-0.7
MSCI Emerging Mkts Index (Gross)	18.1	25.5	47.2	39.6	14.5	n/a
MSCI Emerging Mkts Index (Net)	18.0	25.1	46.7	39.1	14.2	6.0
Standard & Poor's 500 Index	3.6	2.8	12.3	16.7	-1.5	9.5

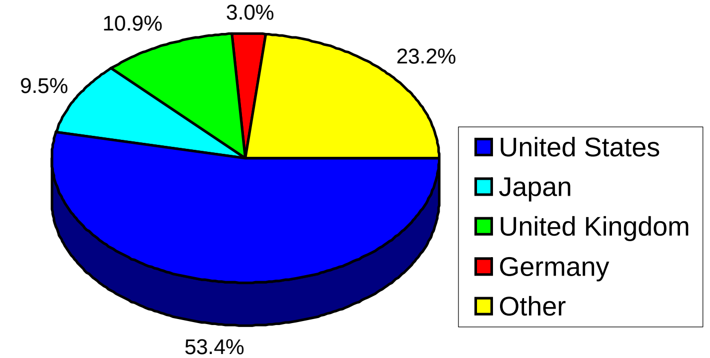
GLOBAL FIXED INCOME INDEX PERFORMANCE

	One Quarter	YTD	One Year	Three Years	Five Years	Ten Years
JPM Non-US Govt Index (Unhedged)	-1.2	-6.7	3.1	9.6	8.7	5.1
JPM Non-US Govt Index (Hedged)	0.3	4.8	7.0	4.5	5.8	7.7
JPM Global Govt Index (Unhedged)	-1.2	-4.7	3.1	7.9	8.3	5.7
JPM Global Govt Index (Hedged)	-0.1	4.2	6.0	4.2	6.0	7.2
JPM Emerging Mkts Bond Index Plus	0.0	5.5	21.4	19.9	13.0	14.6
Lehman Aggregate Bond Index	-0.7	1.8	2.8	4.0	6.6	6.5
CITI Broad Inv Grade Index	-0.7	1.9	2.9	4.1	6.7	6.6

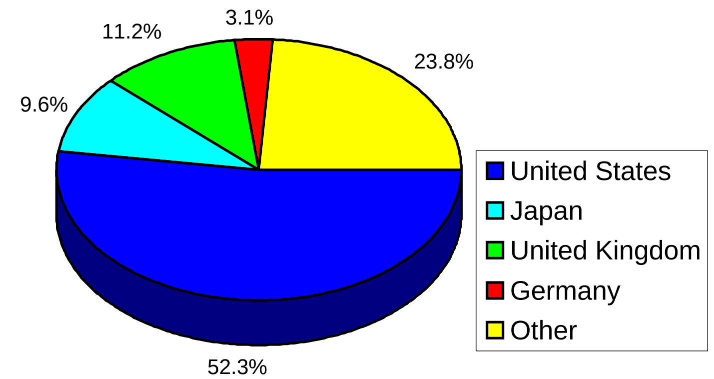
GLOBAL COUNTRY ALLOCATION

WORLD MARKET CAPITALIZATION

Period Ending June 30, 2005



Period Ending March 31, 2005



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