

Fresno County Employees' Retirement Association

Investment Performance Review

Period Ending: December 31, 2004

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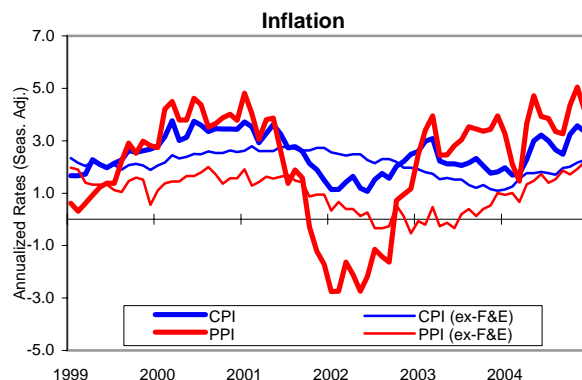
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The markets survived the presidential election, skyrocketing oil prices, three Federal Reserve rate hikes and a tsunami to finish the quarter well in the black. Most equity indices managed to post high single digit or low double digit returns for the fourth quarter as well as the year. The S&P 500 Index rallied in November and December to post a 9.2% quarterly return and bring its 2004 return to 10.9%. The Dow Jones Industrial Average, a more concentrated large cap index, had a tougher time due to its heavier weights in issue-stricken companies such as Merck (Vioxx recall), Pfizer (industry pressures as a result of Merck's problems), and American International Group (insurance industry scandal). The Dow's 7.6% return for the quarter helped it to a meager 5.3% return for 2004.

The Consumer Discretionary sector, which includes cyclical companies ranging from automobile and apparel manufacturers to hotels, restaurants and media companies, led the US markets with a 13.6% return. The Information Technology sector followed closely with a 13.2% return. The quarter's worst performing sector was Energy, which includes companies involved with oil drilling, manufacturing, refining and distribution. That sector was up only 4.7%, a disappointing figure following its first and second place returns in each of the last four quarters. The underperformance of the Energy sector relative to the broad market was a result of the retreat of oil prices during the quarter from a high of \$56 reached in mid-October. Oil prices ended the year at \$43, as measured by Bloomberg's West Texas Intermediate Cushing Crude Oil Spot Price. Despite the outperformance of Consumer Discretionary and Information Technology, two sectors generally considered more Growth-oriented, Value beat Growth in most capitalization ranges for the quarter. The large cap Russell 1000 Value beat its Growth counterpart for the second quarter in a row, but in a slight surprise the small cap Russell 2000 Growth beat its Value counterpart by 1.9%. Small cap by far outperformed large cap during the quarter, with a 4.3% margin, and the year, with a 6.9% margin. The Russell 2000 Value index led its domestic peers with an outstanding 22.3% return for 2004.

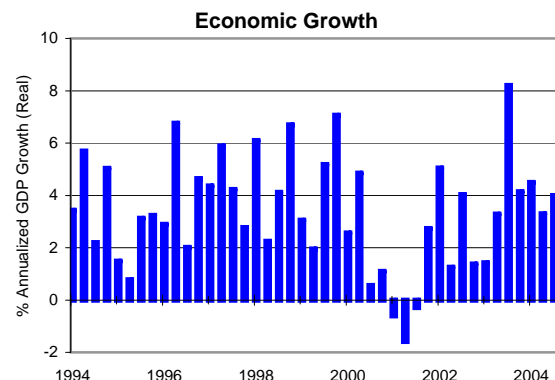
Non-US equity markets provided strong returns of 15.4%, in US dollar terms, for the quarter. This brings the year-to-date performance of the MSCI EAFE Index to 20.7%. Returns for the year in local currency terms were just 13.1% for the index due to the US dollar's continued slide over the year. The dollar declined approximately 9% versus the euro, a new low versus the 5-year old European Union common currency, and almost 8% versus the Japanese yen. Falling oil prices helped the European economy; however this was more than offset by the strong euro's negative impact on exports. Japan's economy decelerated due to export problems as well as a slowdown in industrial activity. The Japanese stock market, as measured by the MSCI Japan Index, still managed to post a 13.1% return for the quarter despite the economic issues. Japan's financial stocks, especially banks, performed very well as many banks made progress on some positive structural changes. Emerging markets rose 17.3% for the quarter, approximately half of which was due to currency, bringing the 2004 return for the group to 26.0%. Latin America showed strong performance during the period, with Brazil and Mexico each rising more than 20%. Asian emerging markets were much more mixed, with China lagging the MSCI Emerging Markets Index by over 24% for the year. The tsunami that struck Southeast Asia, although killing hundreds of thousands, apparently did not significantly impact most countries' business and industrial infrastructures, so there was no immediate impact on many of those stock markets. It will certainly take more time to determine the residual impact of this disaster on these emerging markets.

The Federal Reserve raised interest rates a quarter point at each of its two meetings during the quarter, bringing the target Fed Funds Rate to 2.25%. The Fed cited moderate economic expansion, solid consumer spending and "subdued" but "slightly higher" core inflation figures in its decision to ease out of its accommodative stance to a more neutral stance. Again, the Fed stated that the rate increases would be at a measured pace. Real GDP growth for the quarter is estimated to be approximately 4% on an annualized basis. Despite the Fed's rate hikes, bond yields only climbed 10 basis points over the quarter. The resulting fall in bond prices was more than off-set by coupons, bringing the Lehman Brothers Aggregate Bond Index a positive 1.0% return for the quarter and 4.3% return for the year. High yield bonds' 4.6% return for the quarter led among the various fixed income sectors and also achieved the only double-digit return for 2004. The yield curve continued to flatten during the fourth quarter with yields on short term instruments increasing more than on longer term bonds.



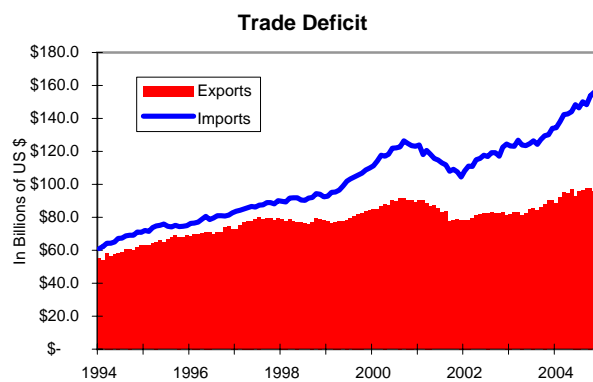
Source: BLS: PPI - Finished Goods; CPI - Urban Consumer - All Items

Consumer prices rose at a seasonally adjusted annual rate of 3.0% in the 4th quarter. This follows annualized increases of 5.1%, 4.8% and 0.6% for the first three quarters of the year, respectively. In all, consumer prices rose 3.3% for 2004, compared to just 1.9% in 2003. Excluding the more volatile food and energy component, CPI rose 2.2% in 2004. Producer prices rose 6.3% in the 4th quarter, pushed by crude energy materials such as oil. Excluding food and energy CPI rose 2.6% for the quarter.



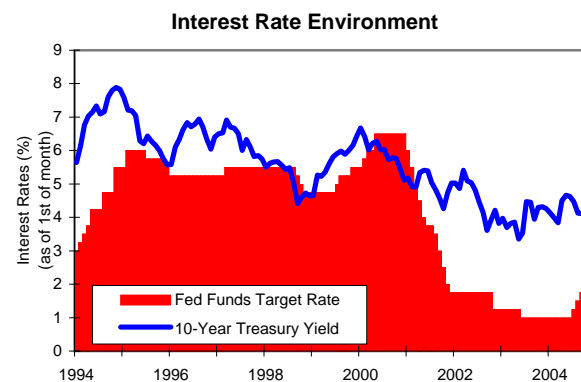
Source: Bureau of Economic Analysis (Red indicates forecast estimate)

Real GDP increased at a 4% annualized rate in the 3rd quarter, revised upward from the original estimate of 3.6%. Consumer expenditures, equipment and software, exports, government spending and residential spending were major contributors during that period. Expectations for the growth that occurred in the 4th quarter are very similar. A December survey by the Wall Street Journal of 56 economists resulted in an average expected real GDP growth rate of 3.9% for the last quarter of 2004. This same survey revealed expectations for 3.6% growth through 2005.



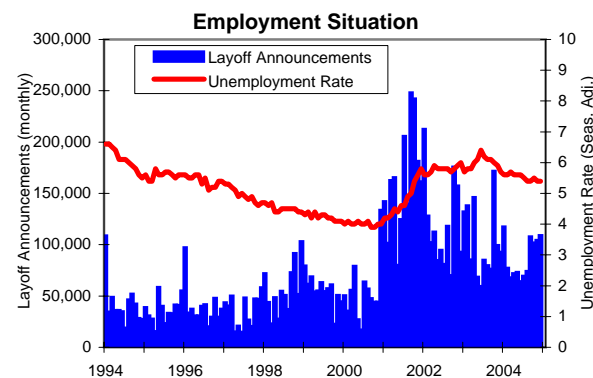
Source: Census Bureau, Bureau of Economic Analysis & Dept of Commerce

The US trade deficit grew to \$60.3 billion in November, \$4.3 billion more than October. December figures have not yet been released. For the first eleven months of 2004, America's accumulated deficit for trade in goods and services for 2004 stood at \$561.3 billion, nearly \$65 billion more than in all of 2003. The US trade deficit with China was \$147.7 billion of that, up nearly 30% from the same period a year ago. The deficit with the European Union (25 countries) was \$99.7 billion. The trade deficit has continued to grow despite the weakening US dollar.



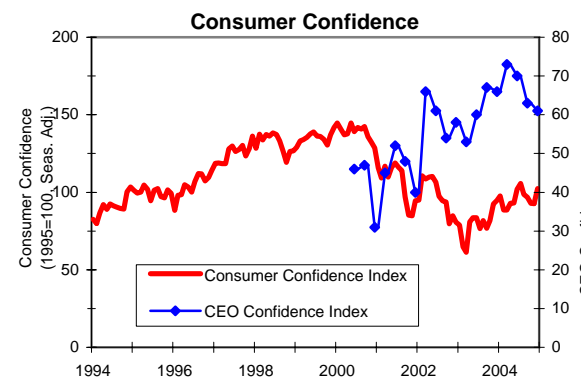
Source: Federal Reserve; Yahoo Finance (yahoo.com), Wall Street Journal

The Federal Reserve raised interest rates 50 basis points during the quarter -- the December 14th rate hike marking the agency's fifth consecutive quarter-point increase. The Fed's December statement included reference to the Committee's belief that the fed funds rate target "remained below the level it most likely would need to reach to keep inflation stable and output at its potential." The Fed stated that they would continue to move toward a more neutral economic policy at a "measured" pace subject to changes in economic prospects.



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

Nonfarm payroll employment increased by 606,000 jobs during the quarter and the unemployment rate stayed unchanged at 5.4%. The unemployment rate has been at either 5.4% or 5.5% since July; its most recent peak was 6.4% in June 2003. Layoff announcements picked up in the last four months of the year, with each month posting over 100,000. The total number for the year was 1,039,735, down from the 1,236,426 in the 2003, as reported by Challenger, Gray & Christmas based on layoffs announced in the media.



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

Consumer confidence, after trending down in October and November, surged upward in December. The Conference Board, which compiles the survey data, attributed the increase to the overall improvement in the economy and job growth. Consumers' assessment of current conditions improved and expectations for the next six months were also more optimistic. Conversely, CEO confidence, which is only measured quarterly, continued its year-long fall. Expectations are still for economic growth in 2005, however TCB's survey results suggest that CEOs are now less confident in that growth than they were previously.

Portfolio Diversification

Asset Class Rankings Over the Past Twenty Years

Fourth Quarter, 2004

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
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	n/a
	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	22.3
	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	20.7
	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	16.5
	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	14.3
	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
	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
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


 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)

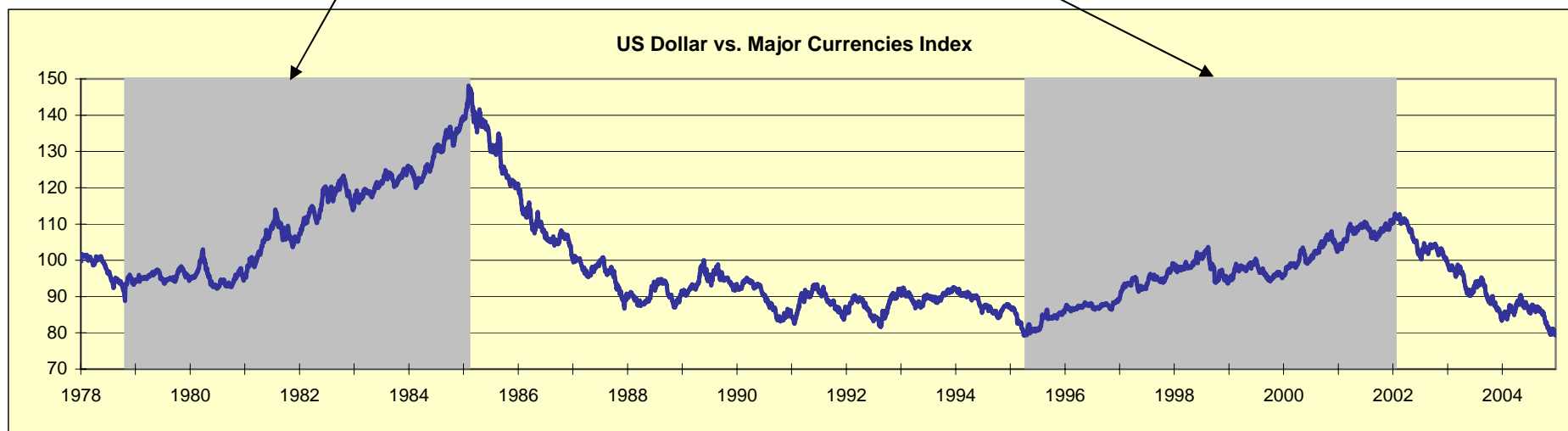
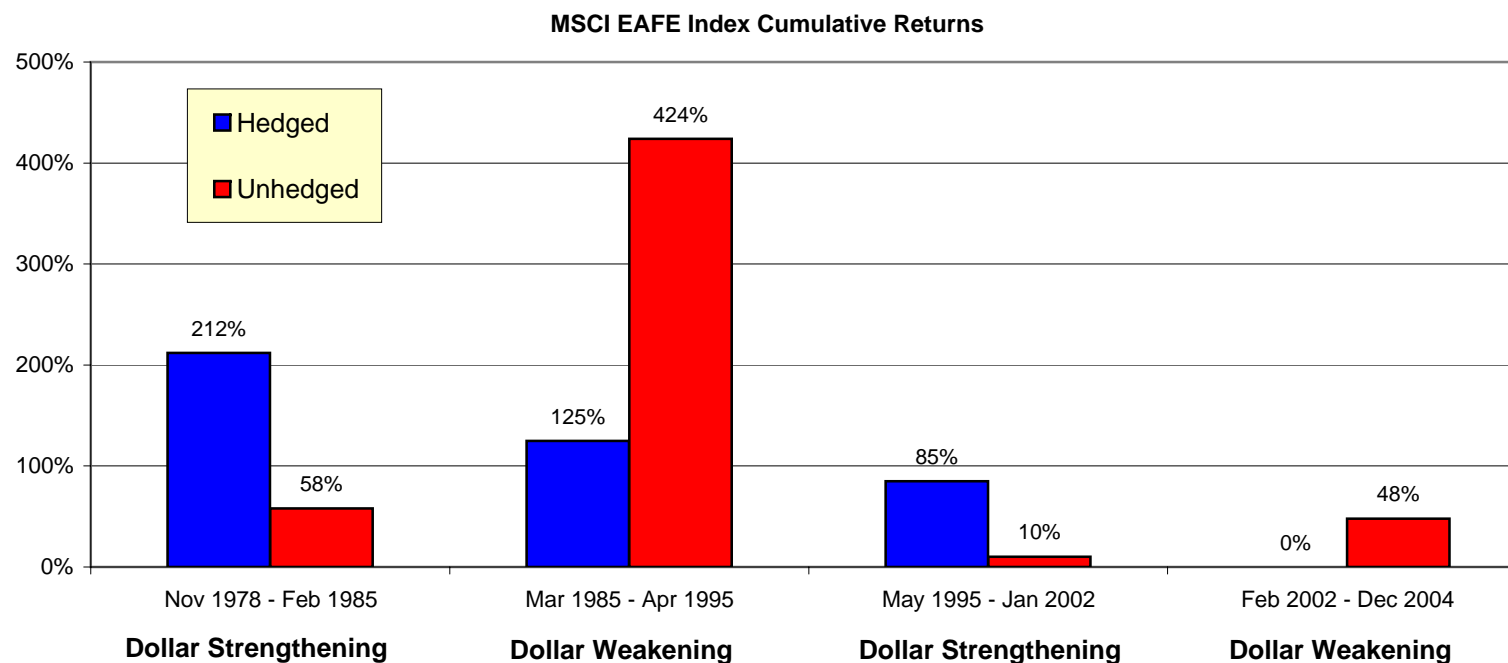
 Real Estate (NCREIF Property Index)

 Cash (SB 3-Mo Treasury)

International Investing

The Significant Impact of Currency

Fourth Quarter, 2004



INDEX PERFORMANCE

	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
Equity Funds Median	10.5	13.0	23.1	6.0	3.2	13.2
Equity Only Median	10.8	13.5	23.3	6.1	2.7	13.3
Standard & Poor's 500 Index	9.2	10.9	19.5	3.6	-2.3	12.1
S & P 500 Equal Weighted Index	12.3	17.0	28.4	10.5	8.1	14.2
Wilshire 5000 Index	10.2	12.5	21.7	5.4	-1.4	11.9
Dow Jones Industrial Average	7.6	5.3	16.2	4.7	0.7	13.1
NASDAQ OTC Composite	14.7	8.6	27.6	3.7	-11.8	11.2
S & P Mid Cap 400 Index	12.2	16.5	25.7	10.5	9.5	16.1
Russell 1000 Index	9.8	11.4	20.3	4.3	-1.8	12.2
Russell 2000 Index	14.1	18.3	32.0	11.5	6.6	11.5
Russell 3000 Index	10.2	12.0	21.1	4.8	-1.2	12.0
MSCI EAFE Index	15.4	20.7	29.6	12.3	-0.8	5.9
MSCI EAFE Index Ex. Japan	16.0	22.2	30.8	12.3	1.0	10.1

MANAGER STYLE PERFORMANCE

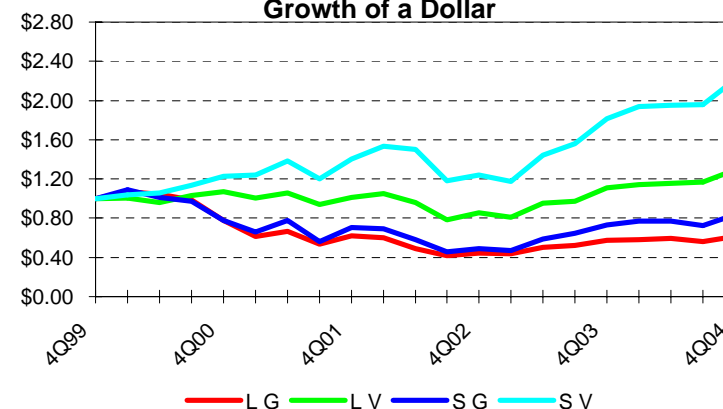
	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
Large Cap Growth Index (LG)	9.2	6.3	17.4	-0.2	-9.3	9.6
Large Cap Value Index (LV)	10.4	16.5	23.1	8.6	5.3	13.8
Small Cap Growth Index (SG)	15.1	14.3	30.3	5.8	-3.6	7.1
Small Cap Value Index (SV)	13.2	22.3	33.6	16.5	17.2	15.2

SECTOR PERFORMANCE

	One Quarter	One Year
Consumer Discretionary	13.6	13.4
Consumer Staples	7.9	8.2
Energy	4.7	31.3
Financials	7.9	10.9
Health Care	5.0	1.6
Industrials	10.0	18.1
Information Technology	13.2	2.5
Materials	8.5	13.2
Telecommunications Services	8.0	19.6
Utilities	12.2	24.6

MANAGER STYLE ANALYSIS

Growth of a Dollar



U.S. FIXED INCOME MARKET PERFORMANCE REVIEW

Fourth Quarter, 2004

INDEX PERFORMANCE

	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
Fixed Income Funds Median	1.1	4.7	5.0	6.6	7.9	8.0
Fixed Income Only Median	1.1	4.8	5.0	6.7	7.9	8.0
Lehman Brothers Aggregate Index	1.0	4.3	4.2	6.2	7.7	7.7
Lehman Brothers G/C Index	0.8	4.2	4.4	6.6	8.0	7.8
Lehman Brothers G/C Interm. Index	0.4	3.0	3.7	5.7	7.2	7.2
Lehman Brothers G/C Long Index	2.2	8.6	7.2	9.7	10.5	9.7
Lehman Brothers US TIPS Index	2.5	8.5	8.4	11.1	10.8	n/a
CITI Broad Inv Grade Index	1.0	4.5	4.3	6.2	7.7	7.7
91-Day U.S. Treasury Bills	0.5	1.3	1.2	1.4	3.0	4.1
Consumer Price Index	0.2	3.2	2.6	2.5	2.5	2.5
NAREIT All Index	14.7	30.4	34.4	23.9	22.5	14.9
NAREIT Equity Index	15.2	31.6	34.3	23.3	22.0	14.8
NCREIF Classic Property Index*	3.4	13.1	11.0	9.6	9.7	10.7

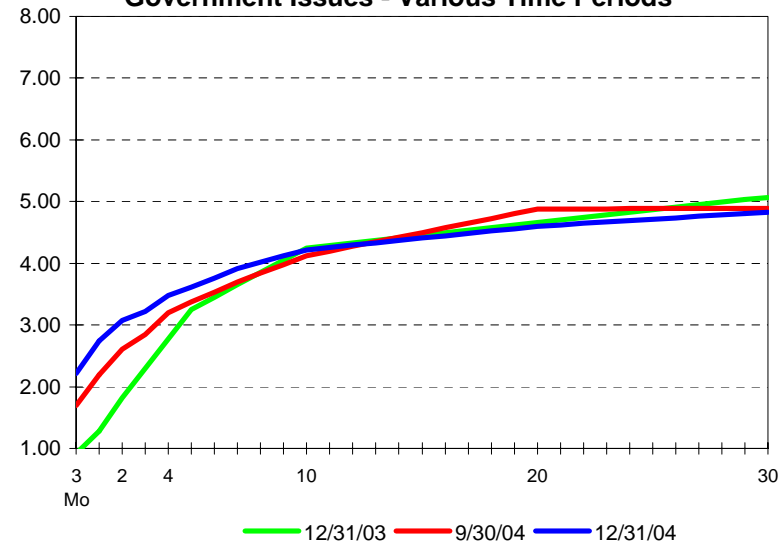
MATURITY EVALUATION

	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
Merrill Lynch 1-3 Year Index	0.0	0.9	1.4	2.8	4.9	5.7
Merrill Lynch 3-5 Year Index	-0.1	2.1	2.3	5.3	7.0	7.1
Merrill Lynch 5-7 Year Index	0.1	2.8	2.7	6.0	7.8	7.7
Merrill Lynch 7-10 Year Index	0.3	4.3	3.1	6.7	8.3	8.1

ISSUER PERFORMANCE

	One Quarter	One Year
Government/Agency	0.5	3.5
GNMA Pass-Through	1.2	4.4
U.S. Credit	1.3	5.3
Mortgage	1.3	4.7
High Yield	4.6	11.1

TREASURY YIELD CURVE
Government Issues - Various Time Periods



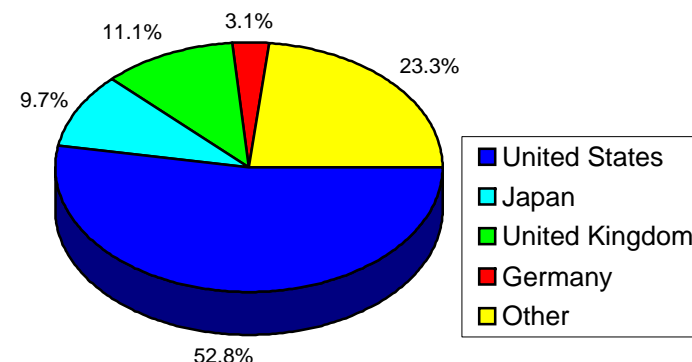
GLOBAL EQUITY INDEX PERFORMANCE

	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
MSCI World Index	12.1	15.3	24.2	7.5	-2.1	8.5
MSCI EAFE Index	15.4	20.7	29.6	12.3	-0.8	5.9
MSCI EAFE Index Ex. Japan	16.0	22.2	30.8	12.3	1.0	10.1
MSCI EAFE Small Cap Index	17.6	31.3	45.9	25.4	9.9	n/a
MSCI EAFE Growth Index	15.2	16.5	24.2	9.1	-5.8	3.4
MSCI EAFE Value Index	15.5	24.9	35.0	15.4	4.1	8.4
MSCI Europe Index	16.0	21.4	30.0	11.5	0.3	10.9
MSCI Japan Index (Net)	13.1	15.9	25.5	12.2	-6.4	-2.2
MSCI Emerging Mkts Index (Gross)	17.3	26.0	40.3	22.8	4.6	n/a
MSCI Emerging Mkts Index (Net)	17.2	25.6	39.9	22.5	4.5	3.2
Standard & Poor's 500 Index	9.2	10.9	19.5	3.6	-2.3	12.1

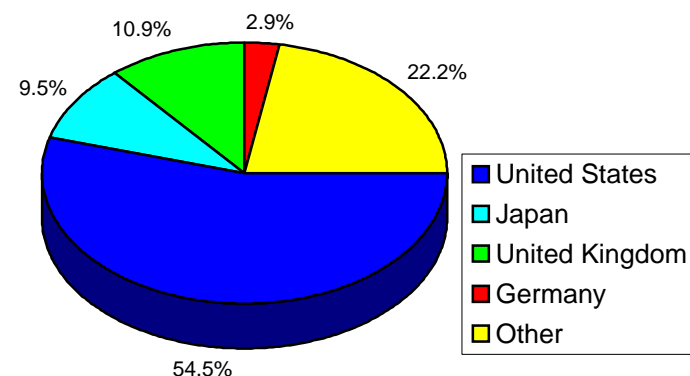
GLOBAL FIXED INCOME INDEX PERFORMANCE

	One Quarter	One Year	Two Years	Three Years	Five Years	Ten Years
JPM Non-US Govt Index (Unhedged)	10.6	12.0	15.3	17.5	8.8	7.6
JPM Non-US Govt Index (Hedged)	2.1	5.2	3.6	4.7	6.0	8.5
JPM Global Govt Index (Unhedged)	8.2	10.1	12.3	14.6	8.9	7.8
JPM Global Govt Index (Hedged)	1.8	4.9	3.5	5.1	6.5	8.1
JPM Emerging Mkts Bond Index Plus	5.1	11.8	20.0	18.0	13.6	15.1
Lehman Aggregate Bond Index	1.0	4.3	4.2	6.2	7.7	7.7
CITI Broad Inv Grade Index	1.0	4.5	4.3	6.2	7.7	7.7

GLOBAL COUNTRY ALLOCATION WORLD MARKET CAPITALIZATION Period Ending December 31, 2004



Period Ending September 30, 2004



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