Fresno County Employees' Retirement Association

Investment Performance Review

Period Ending: December 31, 2005

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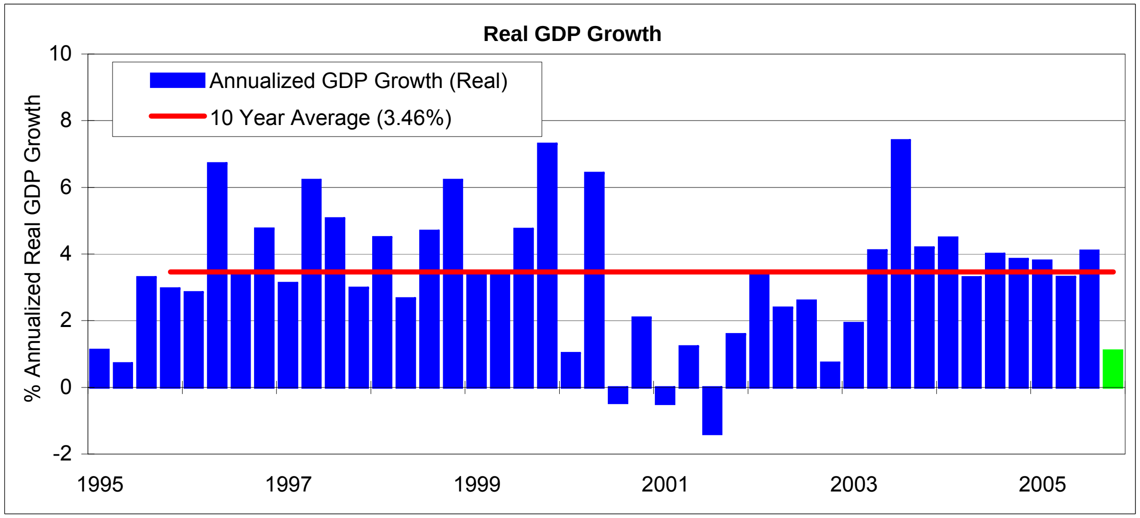
Economic Growth

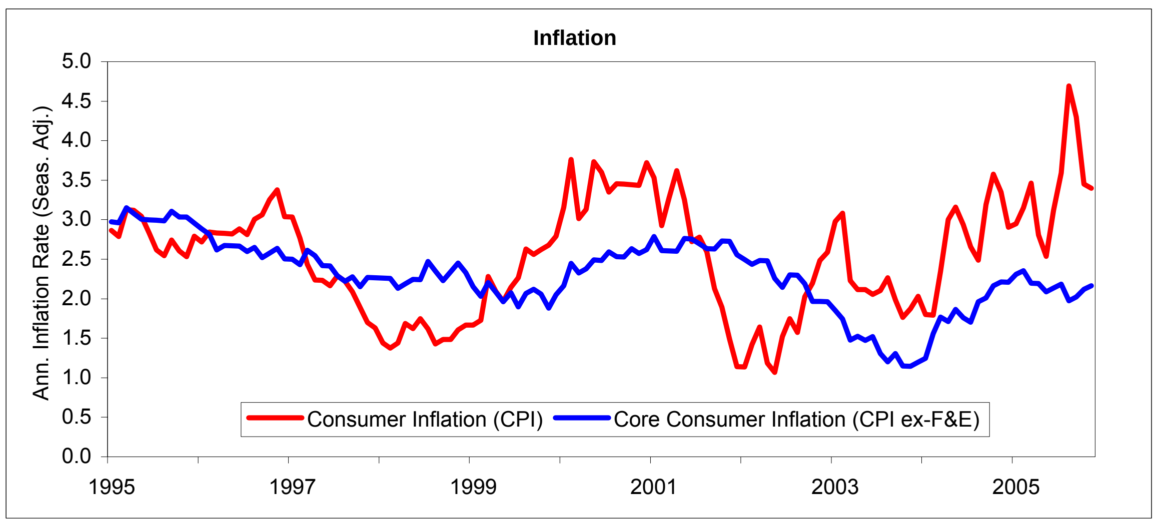


Source: Bureau of Economic Analysis. Green indicates preliminary estimate.

- The preliminary release of fourth quarter GDP data showed growth of 1.1% (real, annualized), a sharp decline from the previous estimate of 3.2% by Wall Street Journal's survey of 56 economists.
- The sluggish fourth quarter growth, the weakest since the fourth quarter of 2002, is attributed to a drastic slowdown in consumer spending which accounts for two-thirds of US economic activity. Consumer spending was up only 1.1% for the final quarter of 2005 after an increase of 4.1% in the third quarter.
- The final release for third quarter GDP growth was 4.1%, up from a preliminary estimate of 3.8%.
- The Wall Street Journal survey of economists, conducted in mid December, shows a consensus estimate of 3.5% growth for the first half of 2006.

Inflation

- Inflation averaged 3.4% in 2005, the highest since 2000.
- Excluding food and energy, inflation averaged 2.2% for the year, the highest since 2002.
- The Federal Reserve reported that prices on retail and wholesale finished goods had risen only moderately or had remained stable in the fourth quarter.
- Food and energy prices continue to increase, rising 0.2% during each month of the fourth quarter.



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

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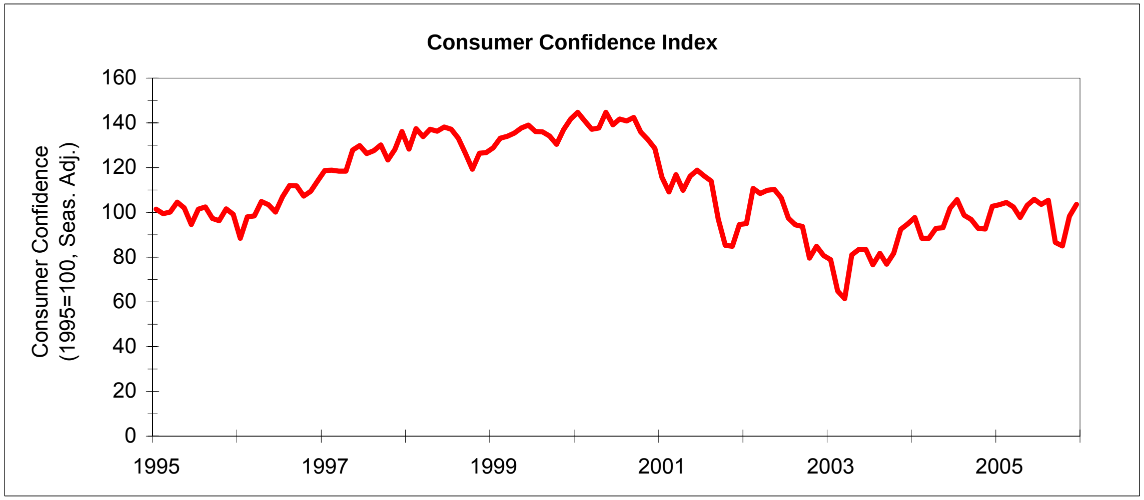
Consumer Confidence

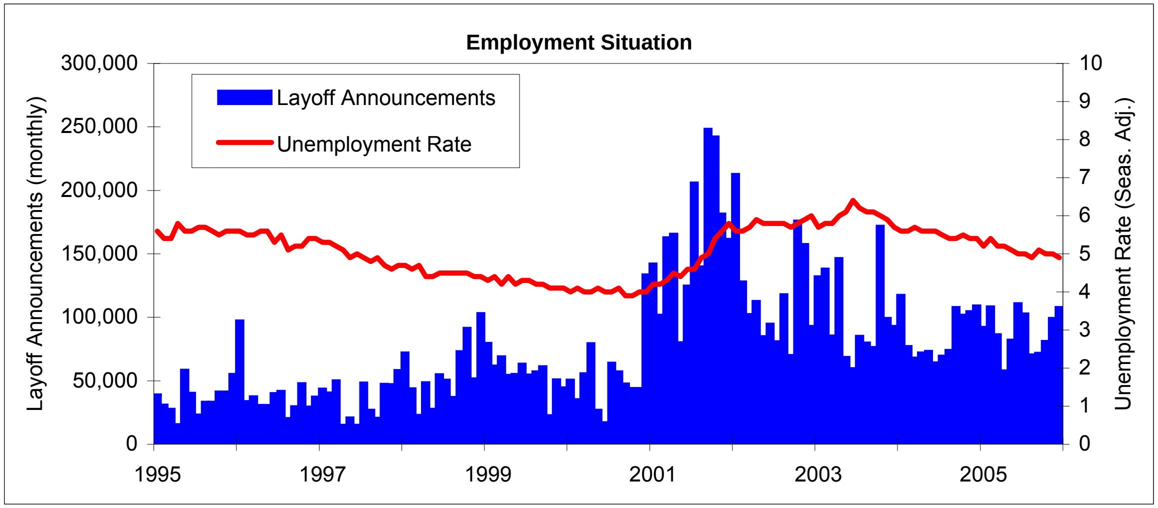


Source: The Conference Board

- Consumer confidence was bolstered in the fourth quarter by a resilient economy, slightly lower gas prices, and job growth.
- Although expectations remain lower than in early 2005, consumers seem confident that the economy will continue to expand in 2006.
- CEO confidence also increased in the fourth quarter due to falling gas prices and the resiliency of the economy post-Katrina.

Employment Situation

- The unemployment rate dropped below 5% in the final month of the quarter for the second time this year. With the exception of August 2005, the last time unemployment was this low was in August 2001.
- Although layoff announcements were slightly up in the fourth quarter, employment growth remains strong in food services, professional and business services, health care, and manufacturing .



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

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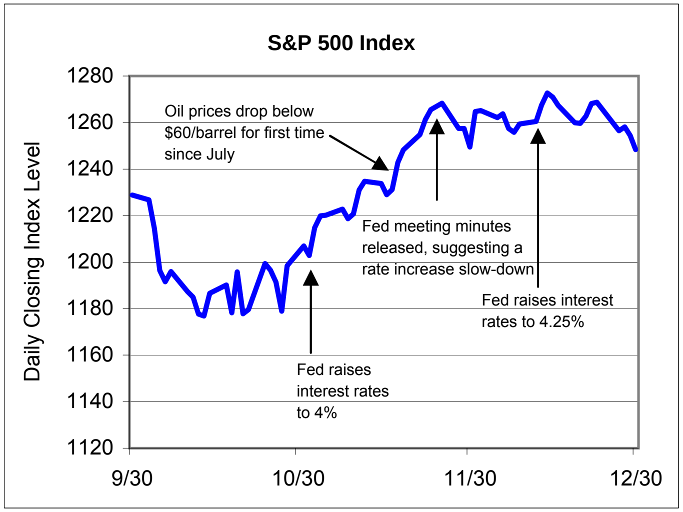
US Stock Market Highlights



Source: Yahoo! Finance

Sector Performance

	Quarter	Year
Consumer Disc.	1.4	(5.9)
Consumer Staples	0.8	3.4
Energy	(7.3)	31.4
Financials	8.2	6.6
Health Care	1.4	6.5
Industrials	4.9	2.1
Info. Technology	1.0	0.9
Materials	11.0	4.3
Telecom. Services	(1.4)	(6.2)
Utilities	(5.5)	16.8

- After a tumble early in the fourth quarter, the stock market rebounded, ending the year up 4.9% (S&P 500).
- Although it fell 7.3% in the fourth quarter, Energy, which comprises 9.4% of the S&P 500 Index, led sector performance in 2005.
- Utilities, which make up 3.4% of the S&P 500 Index, also had a strong year despite a fall in the last quarter.
- The Consumer Discretionary sector was hard hit in 2005 due to tightened consumer spending.
- The Telecommunications sector also fell for the quarter and the year. The fourth quarter union of Verizon and MCI, the second large telecommunications merger in the fourth quarter after AT&T and SBC joined forces in November, did not sit well with investors.

Equity Market Performance

- Midcap outperformed both small and large cap for the quarter and for the year 2005.
- Large cap stocks outperformed small cap stocks by 1.5% for the year. This ended a six-year streak of small cap outperforming large cap.
- Growth outperformed value in all capitalization ranges during the quarter, but Value retained its lead for the year.
- Despite their outperformance in 2005, large cap stocks may have missed out on the recent energy boom because many money managers often focus on undervalued stocks among large corporations instead of trying to predict macroeconomic trends, such as rising oil prices.

	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
Core Index Performance:						
Standard & Poor's 500	2.1	4.9	4.9	14.4	0.6	9.1
S&P 500 Equal Weighted	2.5	8.1	8.1	21.2	7.8	11.9
Dow Jones Industrial Average	2.1	1.7	1.7	11.2	2.0	9.8
Russell 1000	2.1	6.3	6.3	15.4	1.1	9.3
Russell 2000	1.1	4.6	4.6	22.1	8.2	9.3
Russell 3000	2.0	6.1	6.1	15.9	1.6	9.2
Russell Mid Cap	2.3	12.7	12.7	23.8	8.5	12.5
Style Index Performance:						
Russell 1000 Growth	3.0	5.3	5.3	13.2	(3.6)	6.7
Russell 1000 Value	1.3	7.1	7.1	17.5	5.3	10.9
Russell 2000 Growth	1.6	4.1	4.1	20.9	2.3	4.7
Russell 2000 Value	0.7	4.7	4.7	23.2	13.6	13.1

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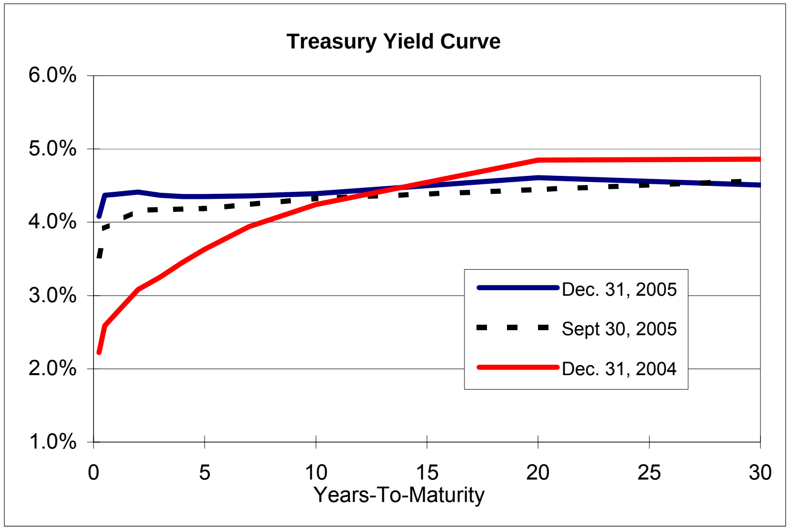
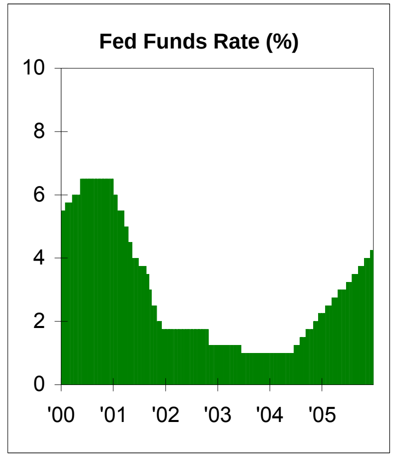
Interest Rate Environment



Source: State Street Corp.



Source: Federal Reserve

- The Fed raised rates twice during the quarter. The Fed Funds Rate stood at 4.25% at quarter end.
- The Fed has raised rates 13 consecutive times.
- The Fed's minutes from its December meeting suggested just one or two more "measured" rate increases in the next few months. The minutes noted eased concerns over inflation due to the effects of a slowing housing market and flat consumer spending.
- The yield curve inverted for the first time in 5 years. The yield on a 2-year bond was 4.41% at quarter-end while a 10-year bond yielded 4.39%.
- The Fed's increase in short-term rates and the lack of movement in long-term rates kept the yield curve flat throughout the year.
- Bernanke replaces Greenspan as Chairman of the Fed on January 31, 2006.

Bond Markets

- Emerging Markets was the best performing sector in the fourth quarter due to improved finances and ratings upgrades.
- Long-term bonds outperformed shorter duration bonds during the quarter.
- The Fed's persistent raising of interest rates made it a tough year on fixed income investments with investors instead preferring money market funds, which have benefited from the rising short-term rates.
- Wurts & Associates' capital market expectations for the next ten years estimate US fixed income returns of approximately 5.3%, annualized.

	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
Index Performance:						
LB Aggregate	0.6	2.4	2.4	3.6	5.9	6.2
LB TIPS	0.1	2.8	2.8	6.5	8.7	n/a
91 Day US Treasury Bills	0.9	3.1	3.1	1.8	2.3	3.9
Maturity Evaluation:						
LB 1-3 Yr Treasury	0.7	1.6	1.6	1.5	3.7	n/a
LB Intermediate Treasury	0.6	1.7	1.7	2.1	4.8	5.5
LB Long Treasury	1.0	6.6	6.6	5.7	7.6	7.4
Issuer Performance:						
LB Intermediate Agency	0.5	1.9	1.9	2.4	5.2	5.8
LB U.S. Credit	0.5	2.0	2.0	4.9	7.1	6.5
LB Mortgage	0.6	2.6	2.6	3.5	5.4	6.2
LB High Yield	0.7	2.7	2.7	13.8	8.9	6.5
JPM Emerg. Mkts Bond Index	2.1	11.9	11.9	17.2	12.8	13.6
Non-US Gov't Bond (Hedged)	0.8	5.6	5.6	4.2	5.2	7.3

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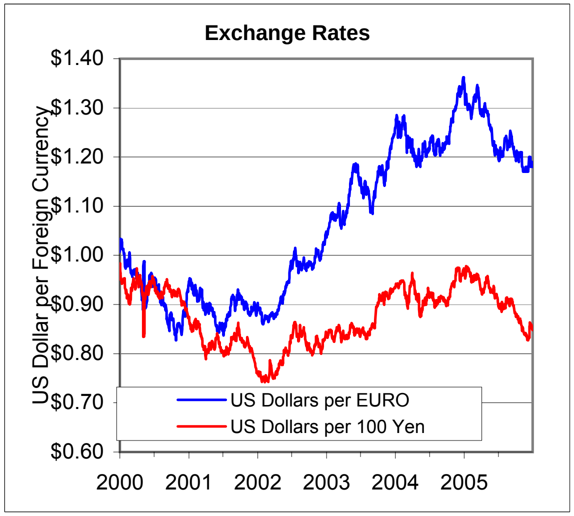
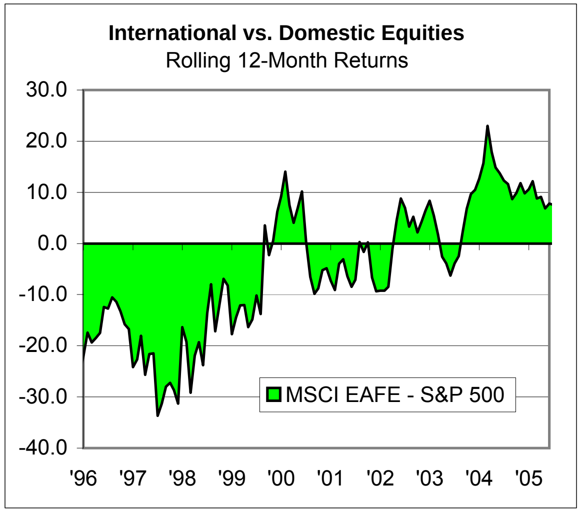
International Market Environment



Source: Federal Reserve Bank, Daily Press



Source: Ibbotson

- The US dollar saw little movement in the fourth quarter, ending slightly higher. For the year 2005, the dollar gained 12.7% against the euro and 15.2% against the yen.
- The dollar's growth is due in large part to record capital inflows and the policy decisions of major central banks from which the dollar clearly benefited.
- Some experts say the dollar's 2005 rally is just an interruption of a longer-term decline because at some point the imbalance of the US trade deficit must be addressed.
- Global money managers were encouraged to put more money in US short-term debt securities due to stronger returns sparked by the Fed's rising interest rates.

International Equity Market Performance

- International equities have continued to outperform US equities. The MSCI EAFE Index beat the S&P 500 by 9% in 2005 and 2% for the fourth quarter.
- Emerging markets posted another strong quarterly return, outperforming all other developed market indices for 2005.
- Japan followed its strong 3rd quarter performance with another double-digit gain, bringing its longer-term cumulative performance closer to the black.
- Wurts & Associates' capital market expectations for the next ten years estimate that International Large Equities will return 8.6% annualized (over the next 10 years), International Small Equities 9.1% and Emerging Markets 9.6%. The latter two estimates were recently reduced.

	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
Broad Index Performance:						
MSCI EAFE	4.1	14.0	14.0	24.2	4.9	6.2
MSCI World	3.2	10.0	10.0	19.3	2.6	7.5
MSCI EAFE ex. Japan	1.7	10.4	10.4	23.6	4.9	9.2
MSCI Emerging Markets	7.2	34.5	34.5	38.4	19.4	n/a
MSCI EAFE Small Cap	7.9	26.6	26.6	39.2	17.0	n/a
Style Index Performance:						
MSCI EAFE Growth	4.4	13.6	13.6	20.6	2.2	3.6
MSCI EAFE Value	3.9	14.4	14.4	27.8	7.6	8.6
Regional Index Performance:						
MSCI Europe ex-UK	3.0	11.3	11.3	25.1	4.2	10.3
MSCI United Kingdom	0.2	7.4	7.4	19.3	n/a	n/a
MSCI Japan	11.9	25.6	25.6	25.6	n/a	n/a
MSCI Asia	8.7	27.5	27.5	30.5	n/a	n/a
MSCI Latin America	3.5	50.4	50.4	53.9	23.0	14.6

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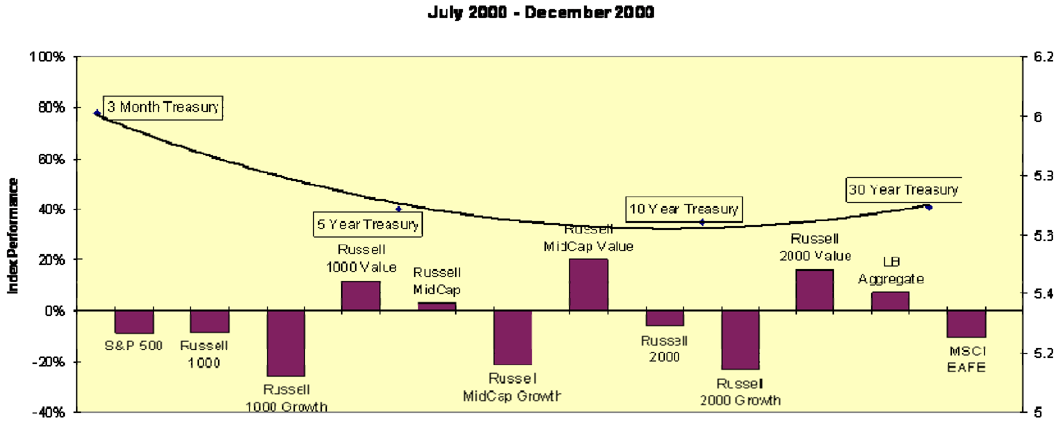
A Historical Perspective of Inverted Yield Curves



- A yield curve is inverted when short term rates are higher than long term rates.
- Since January 1960, there have been 7 time periods where the yield curve has become inverted.
- An inverted yield curve is often used as a predictor of a recession.
- In 4 out of the 7 observations, a recession occurred during the year after the inverted yield curve.

Time Frame Where Yield Curve Was Inverted[1]	Number of Months in Time Frame	Month Treasury Yield Spread was Most Inverted	Spread[1]	Index Performance During Yield Curve Inversion: S&P 500 Index	MSCI EAFE	LB Aggregate	Did Recession[2] Occur During Period[3]	Did Recession[2] Occur During Year Following[3]	Did Recession[2] Occur During Second Year Following
Aug 1966 to Jan 1967	6	Oct-66	-0.55	5.6%	n/a	n/a	no	no	no
Jun 1969 to Feb 1970	9	Dec-69	-1.14	-11.2%	n/a	n/a	yes	no	no
Jun 1973 to Apr 1974	11	Aug-73	-1.38	-11.4%	n/a	n/a	no	yes	no
Nov 1978 to Mar 1980	17	Oct-79, Dec-79, Mar-80	-1.93	12.8%	-4.9%	-4.0%	no	yes	yes
Oct 1980 to Feb 1981	5	Dec-80	-2.32	6.9%	-0.1%	-0.5%	no	yes	no
Apr 1981 to Aug 1981	5	May-81	-2.04	-7.7%	-2.7%	-4.3%	no	yes	no
Jul 2000 - Dec 2000	6	Aug-00	-0.44	-8.7%	-10.4%	7.4%	no	no	no
							1 out of 7	4 out of 7	1 out of 7

[1]Yield curve inversion determined by spread between 30-year and 3-month Treasuries.
[2]A recession is described as two consecutive quarters of negative GDP growth
[3]Inverted Yield Curve time period includes quarters when yield curve began and ended inversior