



Agenda Item 33

DATE: February 24, 2015

TO: Board of Supervisors

FROM: Donald C. Kendig, CPA
Retirement Administrator

SUBJECT: Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2014

RECOMMENDED ACTION:

Receive and file the Fresno County Employees' Retirement Association (FCERA) Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2014, a copy of which is on file with the Clerk to the Board's Office.

ALTERNATIVE ACTION(s):

There is no viable alternative to the recommended action.

FISCAL IMPACT:

There is no fiscal impact to the County of Fresno (County) or the Fresno County Employees' Retirement Association (FCERA) from the receiving and filing of the Comprehensive Annual Financial Report (CAFR) for fiscal year ended June 30, 2014.

DISCUSSION:

Statement of Fiduciary Net Position and Changes in Fiduciary Net Position

The Comprehensive Annual Financial Report for FCERA as of June, 30, 2014 indicates that FCERA's net position, as reported on the Statement of Fiduciary Net Position, totaled \$4,050,129,000 as of June 30, 2014, resulting in an increase in Net Position of \$550,677,000, or 15.7%, over the Net Position of \$3,499,452,000 as of June 30, 2013, consistent with economic and market conditions throughout the fiscal year. The increase in assets was primarily due to the net appreciation to investments in the current fiscal year.

ADMINISTRATIVE OFFICE REVIEW _____

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Official Action of
Board of Supervisors

Susan Bishop
Deputy

APPROVED AS RECOMMENDED

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The Statement of Changes in Fiduciary Net Position indicates \$794,790,000 in gross additions consisting of \$195,463,000 employer and employee contributions (24.6%), \$597,581,000 gross income from investment activities (75.2%) and securities lending investment income of \$1,746,000 (0.2%). Total investment expenses for the fiscal year were \$16,158,000 (2.7% of gross income).

The total net additions were \$778,632,000. This was an increase of \$550,677,000 over prior year. Deductions totaled \$227,995,000, comprised of benefits paid \$222,289,000 (97.5%), refunds of member contributions \$2,103,000 (0.9%), administrative expenses \$3,542,000 (1.6%) and information technology \$21,000 (less than 0.1%%).

Investment Performance

The FCERA investment portfolio experienced a return net of fees of 17.1% for the fiscal year ended June 30, 2014 compared to a return of 11.9% net of fees for the fiscal year ended June 30, 2013 (reported in the prior year CAFR). The Portfolio outperformed the Fund's Policy Index by 0.5% (net) for the fiscal year ending June 30, 2014.

The main drivers of performance for the fiscal year were domestic and international equity markets, which rallied significantly in the third and fourth quarter of 2013 as well as the second quarter of 2014. Largely attributable to an improving economic backdrop in the United States, domestic stocks were up 25.2% for the year. International stocks fared similarly well, up 22.3% over the same period. In aggregate, real estate investments appreciated 10.4% (net). The private equity program returned 22.1% (net). Fixed income markets experienced strong risk-adjusted performance. This was driven by falling interest rates, despite continued tapering of quantitative easing by the Federal Reserve. Active management proved most beneficial within the fixed income space. The FCERA's fixed income composite outperformed its benchmark by 2.0% after fees. As a comparison, the Barclays U.S. Aggregate Bond index was up 4.4%. The Plan's worst performing investment was the allocation to hedge funds which gained 6.0% (net) for the year and underperformed its benchmark by 1.6%. Detailed performance information can be found in Exhibit A

For the last three years ending June 30, 2014, the Portfolio returned 9.3% net of fees on an annualized basis, underperforming the Policy benchmark by 0.1%. Over the five-year period ending June 30, 2014, the Portfolio returned 13.1% net of fees, outperforming the Policy benchmark by 0.8%. For the trailing ten-year period, the Portfolio returned 8.0% net, outperforming the Policy by 1.1%. In computing individual manager returns Wurts & Associates, FCERA's investment consultant employs the industry standard approach of computing a time-weighted rate of return based on the market rate of return.

Because investment returns are the greatest single factor affecting changes to required contributions to the fund, FCERA's actuary converts year-to-year gains or losses over a 5-year period, phasing any such gains or losses over time, in order to "smooth" the effects on contributions over a period of five years.

**FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
INVESTMENT RESULTS
AS OF JUNE 30, 2014**

Investments	Current Year	3-Year Return	5-year Return
Fixed Income			
Domestic	7.3%	5.9%	8.2%
Benchmark : BC Aggregate Index	4.4%	3.7%	4.9%
Emerging Markets Debt	4.7%	0.0% ¹	0.0% ¹
Benchmark : JP Morgan GBI EM Diversified	4.3%	0.0%	0.0%
TIPS Index Fund	4.4%	3.5%	5.5%
BC US TIPS	4.4%	3.6%	5.6%
Equities			
Domestic Large Capital Value	26.1%	18.0%	20.2%
Benchmark: Russell 1000 Value	23.8%	16.9%	19.2%
Domestic Large Capital	24.6%	16.6%	18.9%
Benchmark: S & P 500 Index	24.6%	16.6%	18.8%
Domestic Large Capital Growth	29.7%	15.6%	0.0% ¹
Benchmark: Russell 1000 Growth	26.9%	16.3%	0.0%
Domestic Small Capital Growth	19.1%	13.5%	22.4%
Benchmark: Russell 2000 Growth	24.7%	14.5%	20.5%
Domestic Small/Mid Capital Value	30.2%	15.8%	0.0% ¹
Benchmark : Russell 2500 Value	24.9%	16.0%	0.0%
Emerging Markets Equity	10.3%	3.4%	11.1%
Benchmark: MSCI Emerging Markets Free	14.7%	-0.1%	9.6%
International Equity	27.6%	10.7%	0.0%
Benchmark : MSCI EAFE	24.1%	8.6%	0.0%
International Equity Small Cap	21.7%	9.4%	0.0% ¹
Benchmark : S&P Developed ex US SC Index	29.9%	9.1%	0.0%
Private Markets			
Real Estate	11.0%	11.1%	9.7%
Benchmark : NCREIF Classic Property	12.7%	12.4%	10.0%
Hedge Funds	5.5%	4.5%	0.0%
Benchmark : HFRI FOF Composite Index	7.6%	3.3%	0.0%
Private Equity	22.4%	11.9%	14.8%
Benchmark : RUSS 3000 + 250 BP	28.3%	19.3%	22.3%
Commodities	8.6%	-4.8%	0.0% ¹
Benchmark : DJ UBS Commodity TR Index	8.2%	-5.2%	0.0%
Cash, Custodial and Investment Pool			
Cash	0.0%	0.2%	0.6%
Benchmark: 90-Day Treasury Bill	0.0%	0.0%	0.1%
Total Fund	17.5%	9.7%	13.5%

Notes: Hedge Funds, Private Equity and Commodities are net of fees. Private Equity returns are lagged one quarter.

Other investments are reported gross of fees. Investment results were prepared using a time-weighted rate of return based on the market rate of return.

¹ There were no 3-year, 5-year or 10-year results available due to managers' mandates were funded between fiscal years 2008 to 2014.