

QUARTERLY REVIEW

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MEMBERSHIP MILESTONES: PART 1 BECOMING "VIP" – VESTED IN THE PLAN

All members of SBCERA are Very Important People. However, not every member is "VIP", or Vested In the Plan. Becoming vested is the first major milestone of your SBCERA plan membership.

"Vesting" is a term used to explain the amount of years of service credit required for you to guarantee your right to receive a retirement allowance. Essentially, it is an employee's right of ownership of retirement benefits. In SBCERA, you are considered vested or eligible to receive a future benefit after earning five years of service credit. Once vested, you may receive a retirement benefit when you meet SBCERA's minimum age and service credit requirements. This status also entitles you to terminate employment and defer receiving your retirement allowance until you are eligible and/or ready to apply for retirement.

Reciprocal service credit also counts toward vesting. Reciprocity is a special relationship that SBCERA has with certain other California public retirement systems. This statute-bound relationship supports public employees in moving from one system to another while protecting the retirement benefits earned by employees under two or more retirement systems. Under reciprocity, your years of service earned under the reciprocal system will count toward meeting the SBCERA service credit requirements for vesting and retirement.

For example, if you worked for seven years with an employer covered by a reciprocal system and then entered SBCERA-covered employment within 180 days, you would be eligible for reciprocal rights

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NEWS FLASH

RETIREE OPEN ENROLLMENT MEETINGS

The County of San Bernardino Employee Benefits & Services Division (EBSB) will host a series of meetings throughout November to support retirees with their benefit elections. Additionally, a Health Fair will be held on November 13 at the San Bernardino Public Employees Association in San Bernardino. For a schedule, please refer to the 2009 Retiree Benefits Guide, or you can log on to www.sbcera.org or www.co.san-bernardino.ca.us/hr/benefits/Retiree.asp to obtain an electronic version of the guide. Also, retirees are always welcome to call EBSB at (909) 387-5787 with questions about their medical and dental insurance offerings from the County. ■

FISCAL YEAR END 2008 PERFORMANCE UPDATE

by Timothy Barrett, CFA
Executive Director/CIO

As most of you are aware from media reports and your personal investment accounts, the last 12 months have been extremely difficult to navigate from an investment perspective. On the heels of last fiscal year's 19.70% net return, we began this fiscal year with high hopes. Those were soon dashed as the credit crisis began to unfold in July and August of 2007.

The "credit crisis," as coined by the media, is better termed a "credit contagion" as it started with sub-prime debt, spreading to other securities as investors de-levered their portfolios. This contagion infected some of the world's strongest financial companies, resulting in the liquidation of Bear Stearns and questions as to the viability of many financial institutions. In addition, commodities prices continued to soar throughout the year, fueling inflation concerns— coupled with a

MID-CAREER SEMINAR SCHEDULE FOR 2009

SBCERA launched a new series called the Mid-Career Seminar: A Reality Check. It was designed to remind mid-career members about the essential elements of their retirement; to identify how they can make a positive impact on their monthly retirement benefit; and, with ING's help, to learn how career planning and deferred compensation participation combine for a comprehensive plan to guarantee the income you need to retire comfortably.

Because of its success, the seminar will continue for 2009. Seminars will be conducted from February through October on the last Thursday of each month from 5:15 p.m. to 7 p.m. at SBCERA in San Bernardino. Active SB County employees who are vested and are five or more years from retirement are encouraged to attend. For more information or to register, contact SBCERA at (909) 885-7980. ■

falling dollar— resulting in most investment strategies becoming correlated and producing negative returns in virtually all asset types.

While we did not meet our performance objective this fiscal year, there are positives to take away. Near the end of the fiscal year, we conducted a new asset allocation study, cutting our overall public equity exposure from 47% to 35%. The 12% reduction at the end of May substantially lessened potential losses due to the equity meltdown in June which was the second worst monthly return (-8.4%) for the S&P 500 in history. We also increased our target exposure to credit strategies from 4% to 13%.

FY Ending June 30, 2008	1 Year	3 Years	5 Years
SBCERA	-2.65	9.10	10.70
Policy Benchmark	-1.32	8.49	10.18

Upcoming Benefit Pay Dates
October 31st
November 26th
December 30th

SBCERA HOLIDAY SCHEDULE

The holidays are already upon us and the Board and staff at SBCERA extend warmest greetings to our members and their families! For your planning, SBCERA will be closed in honor of the following holidays:

Columbus Day	October 13
Veterans Day	November 11
Thanksgiving	November 27-28
Christmas	December 24-25
New Years	December 31 and January 1, 2009

The opportunity for patient investors in the credit markets is substantial and is a direct result of the credit contagion that has unfolded over the last year in the mortgage and asset-backed securities markets, in addition to the corporate credit markets. The reduction in equity, in conjunction with the increase in credit strategies, has dramatically reduced the overall risk of the portfolio, while providing a substantial opportunity for future gains. The SBCERA portfolio has performed well over longer periods. The Board adheres to a disciplined process to ensure broad diversification, while achieving our long-term actuarial required return.



AN OPEN LETTER TO THE SBCERA MEMBERSHIP

by Timothy B. Barrett, CFA
Executive Director/CIO

NOTE: The information below is accurate as of the printing of this newsletter. As noteworthy events unfold, please look to the SBCERA website for more timely updates.

October 1, 2008

With the ongoing uncertainty in the investment world, I wanted to take this opportunity to provide you with an update of the impact of recent market failures on the San Bernardino County Employees' Retirement Association fund. I will also describe the current defensive position of the portfolio which will allow us to take advantage of unprecedented opportunities which currently exist in the markets.

Since my last letter to you via the website on September 18, 2008, Goldman Sachs and Morgan Stanley, the last two investment banks, were granted their request to change their status to bank holding companies by the Federal Reserve in order to avert bankruptcy. Washington Mutual deposits were seized by the Federal Deposit Insurance Corporation (FDIC) and the company was sold to JP Morgan; and most recently, Wachovia is considering selling itself.

On Monday, September 29th, when congress was unable to reach agreement on a proposed rescue plan, the stock market sold off with the Dow Jones Industrial Average plummeting 777.68 points, making it the worst one-day point decline in history. Despite these painful occurrences, we believe that the

SBCERA portfolio is well positioned to weather the current market storm and is prepared to benefit from the eventual recovery that should occur in the global credit markets.

As I noted in my previous letter, the fund had very limited exposure to the entities that have collapsed up to this point due to overwhelming stress from the credit markets. We had no exposure to Bear Stearns. We had no active direct exposure, debt or equity, to Fannie Mae or Freddie Mac. The only exposure to these securities would be in relation to their relative equity weighting within the S&P 500 or other broad market indices to which the fund has index-based exposure. With regard to the S&P 500 Index, they represented only approximately 0.015% of the index on September 9, 2008, one day prior to being dropped from that index.

In regard to Lehman Brothers, the fund had direct exposure to slightly less than one million dollars of the preferred equity securities and approximately two million dollars of debt security exposure. In addition, we have exposure to a \$10 million face value principal-protected note that we are currently reviewing with outside counsel. Our internal estimates of the total worst-case loss related to Lehman from all of these positions should be limited to approximately \$8 million, or only 0.13% of the fund's \$6 billion value. While no investor takes losses easily, this is a remarkable outcome in these unprecedented times.

The SBCERA portfolio has also suffered less than many funds with regard to equity market losses. In strategic response to the challenging environment, the SBCERA Board of Retirement made substantial asset allocation shifts earlier this year, resulting in a more defensive position. The portion of the portfolio invested *(Continued on page 4)*

MEMBERSHIP MILESTONES: *Continued from page 1*

and be considered fully vested in the SBCERA plan. Therefore, you are guaranteed some retirement benefit for your employment service under the SBCERA system, even if you have earned less than five years of service credit under the SBCERA system.

If you experience breaks in your employment service, i.e. unpaid medical leave, workers' compensation incidents, etc.,

you may take longer to vest if your situation prevented your employer from deducting retirement contributions from your pay at that time. However, certain situations qualify for a service credit purchase of that time in order to restore the lost service credit. For more information on how to buy back qualified time, contact SBCERA at (877) 722-3721 toll free, or (909) 885-7980.

If you have less than five years of service in the SBCERA plan, you have something to look forward to celebrating when you achieve your VIP status. If you have more than five years, give yourself a "high five" and look toward your next Membership Milestone: Minimum Retirement Eligibility. We'll review the details of that event in the next issue of *Quarterly Review*.

Overcome
CORNER

in public equity, or stocks, was reduced from 47% to 35% while credit strategies, inclusive of both corporate debt and asset-backed bonds, were increased to take advantage of the dislocation and higher yields in the bond markets.

Additionally, over the last few years, we have been reducing portfolio risk by building positions in distressed debt, real estate debt and private debt strategies relative to our equity exposure in order to be better positioned in the event of a market downturn. Those allocation changes will benefit the plan with contractual cash flows contributing a

larger portion of total investment returns while reducing dependence upon equity price movements.

These changes are some of the most recent actions that the Board and staff have implemented as part of a successful investment program that consistently ranks as top-performer in both absolute and risk-adjusted performance. On a three and five-year basis ending June 30, 2008, SBCERA's performance ranked it in the top 5% and 8%, respectively. On a risk-adjusted basis, SBCERA ranked in the top 5% of all public funds on both a trailing three and five-year basis. While

no strategy works immediately, due to the actions of the Board and staff the fund is well positioned to take advantage of current market dislocations and is anticipated to perform very well over the next 24 to 36 months.

These are serious and unprecedented times in the financial markets; however, your pension plan remains the *Foundation for a Secure Retirement* through continued planned strategy and professional management by your Board of Retirement. ■

SBCERA PURPOSE STATEMENT

It is the purpose of the San Bernardino County Employees' Retirement Association to provide the members and their beneficiaries with those retirement and related benefits and services which they have earned and which are commensurate with their years of service and compensation.

It is the responsibility of those charged with administration of the Association to:

- (a) effectively collect contributions to fund liabilities incurred;
- (b) diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return;
- (c) administer the benefits impartially, fairly and in accordance with the applicable law;
- (d) deliver service to the membership in an accurate, courteous, prompt, professional and cost-effective manner;
- (e) strategically plan for the future.

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San Bernardino County Employees' Retirement Association

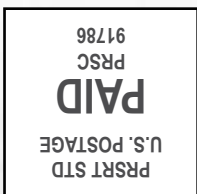
348 W. Hospitality Lane, Third Floor

San Bernardino, CA 92415-0014

909-885-7980 • Toll Free 1-877-722-3721 or 1-877-SBCERA-1

<http://www.sbcera.org>

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County Employees' Retirement Association
348 W. Hospitality Lane, Third Floor
San Bernardino, CA 92415-0014

