

QUARTERLY REVIEW

Published by the San Bernardino County Employees' Retirement Association

WINTER
2009

In This Issue:

1 Membership Milestones: Part 2 Retirement Eligibility

by Christie L. Porter, CEBS, PMP
Chief, Member Services

2 News Flash

- 2008 CAFR
- Safety Election Results
- Children's Fund Reminder
- Winter Holiday Schedule
- Upcoming Benefit Pay Dates

2 Third Quarter 2008 Performance Review

by Brian Long, CFA
SBCERA Investment Officer

3 The World Has Changed... Or Has It?

by Timothy B. Barrett, CFA
SBCERA Executive Director/CIO

3 Retirement 101: Service Credit

MEMBERSHIP MILESTONES: PART 2 RETIREMENT ELIGIBILITY

by Christie L. Porter, CEBS, PMP
Chief, Member Services

Retirement directly from active service with a participating employer is called a service retirement. Your eligibility for retirement depends on a combination of your age, your years of service credit and your plan.

Most General and Safety members are first eligible to retire at age 50 with 10 years of service credit, or at age 70 regardless of their service credit. General members may also retire regardless of age after 30 years of service credit. Safety members may retire regardless of age after 20 years of service credit.

Members that are part-time employees at the time of retirement may retire when they have reached the age of 55, have been a member for at least 10 years, and have earned at least five years of eligible service credit.

Selecting a retirement date is a big decision requiring careful consideration and planning. It's important to think about several factors before finalizing your date:

- **Age/Birthday:** Retirement benefits increase with each quarter year of age until a General member reaches age 65. For a Safety member, the retirement benefit does not increase based on quarter-age factors past the age of 50.
- **Service Credit:** Service credit is a factor used to calculate your retirement allowance. The longer that you work, the more service credit that you earn, the more that your retirement benefit will increase.

(Continued on page 2)





NEWS FLASH

Upcoming Benefit Pay Dates

Jan. 30, Feb. 27, Mar 31

2008 CAFR

The Comprehensive Annual Financial Report (CAFR) for the fiscal period ending June 30, 2008 will be available in late January for anyone interested. To request a hard copy of this publication, please call SBCERA at (909) 885-7980, or toll free (877) 722-3721. Alternatively, an electronic version of the current CAFR will be posted online in a PDF format at the SBCERA website: www.sbcera.org. ■

WINTER HOLIDAY SCHEDULE

The Board and staff at SBCERA hope your holidays were bright and safe! The agency will be closed in observance of the following Winter quarter holidays:

Martin Luther King, Jr. Day	January 19
Presidents' Day	February 16

Our offices will resume normal business hours January 20th and February 17th, respectively. ■

SAFETY ELECTION RESULTS

The SBCERA Board and staff thank all the active Safety members who participated in the election on December 2, 2008, to fill the vacated Safety member seat. The Board of Retirement is happy to welcome Lieutenant David Williams of the San Bernardino County Sheriff's Department to serve the remainder of a vacated term; he will serve a one-year term, effective January 1, 2009. Lt. Williams garnered 313 votes. "I am very pleased to have this opportunity to serve on the SBCERA Board of Retirement and I appreciate the confidence and trust of the members who voted for me," said Williams. "The SBCERA Staff and Board Members have done a remarkable job at navigating our retirement fund through these extremely turbulent financial times. I want to do whatever I can to help ensure our fund stays solvent and our retirements stay secure." ■

CHILDREN'S FUND REMINDER

On behalf of Children's Fund, SBCERA reminds payees that you can donate via monthly deductions. Contact SBCERA for a deduction form or get one at www.sbcera.org. Children's Fund looks ahead to a new year with increased opportunities to further their mission to prevent child abuse in our community; to ensure that at-risk children who are abused, neglected, impoverished, or abandoned receive adequate food, shelter, clothing, medical care and education; and to provide equal opportunity for social development for these children. For more information on how you can help Children's Fund, please visit their website www.childrensfundsbcounty.org! ■

THIRD QUARTER 2008 PERFORMANCE REVIEW

by Brian Long, CFA
SBCERA Investment Officer

The third quarter of 2008 saw a complete deterioration and freezing of the credit markets. What began as a sub-prime mortgage bubble at the beginning of the year culminated in an extraordinary chain of events, with Fannie Mae and Freddie Mac being taken into conservatorship, the near collapse of AIG, the bankruptcy of Lehman Brothers, and the demise of Washington Mutual and Wachovia.

The consequences of these events caused a market environment where there was virtually no place to hide. Equities, fixed income securities, and commodities all traded down sharply. US Treasuries were the

only positive performers in the period, with investors rushing to a flight to quality. The Treasury and Federal Reserve responded by reducing interest rates, injecting markets with liquidity and providing enormous bail-out and rescue programs to stabilize the market.

The total SBCERA portfolio outperformed its policy benchmark for the quarter (-7.3% vs. -8.9%) and for the 12 months ending September 30, 2008 (-11.2% vs. -12.8%). Total assets at the end of the third quarter were approximately \$5.7 billion.

As mentioned in the Fall newsletter, The Board, along with staff, continue to adjust the overall portfolio allocation in order to take advantage of the tremendous opportunities in the credit markets due to the current dislocation. The reduction in equity exposure and increase in credit strategies has reduced the overall risk of the portfolio, while providing an opportunity for gains in the future. The Board continues to adhere to a disciplined process to ensure broad portfolio diversification, while achieving our long-term actuarial required return. ■

Membership Milestones: Part 2 Continued from Page 1

- Importance of April 1st: If you retire on or before April 1st in a given year, you become eligible for the annual Cost-of-Living Adjustment (COLA) increase that may be added to your benefit on April 1st of that year. If you retire after April 1st, you will not be eligible for this increase until April 1st of the following year.

Whether you're three months away or three decades away from being eligible for service retirement, friendly, knowledgeable Retirement Specialists are available to answer your retirement-related questions Monday through Friday from 8:00a.m. to 5:00p.m. To speak with one of them, call 909-885-7980 or 1-877-722-3721. You may also visit the SBCERA web site at www.sbcera.org. ■





THE WORLD HAS CHANGED... OR HAS IT?

by Timothy B. Barrett, CFA
Executive Director/CIO

Often during a raging bull market, financial pundits argue that it is a new paradigm. In other words, fundamentals no longer matter – the world has changed. This was the case in the Technology, Media, and Telecom bubble in 1999. You may recall that the companies with no earnings actually performed better based on the belief that the internet was going to change consumer behavior. In the end, we all know that earnings always matter – a company must eventually produce profits! We have more recently entered the exact opposite phase, where the media and financial experts are arguing again that the world has changed; only instead of a bull market, we are in the throws of a powerful bear market. Has the world really changed, or is the market simply clearing for the next cycle?

Every market is somewhat different. This bear market began with the bursting of the housing

bubble. At first, most felt that the problems with sub-prime mortgages would not spread to other segments of the market. As we now know, the housing bubble spread and caused a global deleveraging that continues today. The global deleveraging is freezing capital markets – halting loans between banks and causing credit lines to be pulled. In turn, this has forced some institutional investors to sell assets in a declining environment further exacerbating the downturn. In some cases, banks are pulling credit lines on real estate that is performing, or, in other words where the tenants are paying their leases. This is due to the bank's desire to raise capital and deleverage their balance sheet. The justification for pulling the credit lines is based on the fact that the underlying economy has retracted and the value of the real estate is being priced lower at a point in time where investors are completely risk averse. As with the bull market in 1999, irrational behavior has returned in the current market. In short, extreme markets are always marked by irrational behavior.

It is highly improbable that the equity market will turn the corner until the credit markets begin to thaw. We are beginning to see signs that this is the case, albeit at a very slow pace. The key difference in this recession, as opposed to recessions past, is government intervention. Not the typical intervention that resulted in lower interest rates and fiscal stimulus – but direct ownership in corporations. While I am not a proponent of state-owned institutions, the rescue package should help thaw the credit markets. Estimates vary, but most economists are bracing for a protracted recession through 2009, possibly into 2010. As with all bear markets, it is those that have liquidity and invest during times of fear that perform best.

While the markets are precarious, the Board continues to manage the portfolio in a defensive manner. Prior to the downturn, we reduced public equity exposure from 47% to 35%. Since the downturn, we have reduced public equity another 10%, resulting in a 25% exposure. At the same time, we are deploying assets into the credit markets at depressed prices that are expected to greatly benefit the fund over the next few years.

Performance for the more recent periods has been difficult. The table below is performance for the period ending November 30, 2008.

SBCERA Fund Performance					
Manager vs Benchmark: Return through November 2008					
(not annualized if less than 1 year)					
	FYTD	YTD	1 year	3 years	5 years
Total Plan	-22.24%	-25.03%	-25.43%	-1.38%	3.36%
SBCERA Policy	-23.50%	-26.75%	-26.74%	-2.31%	2.86%
S&P 500	-29.23%	-37.66%	-38.09%	-8.67%	-1.39%

While no asset class performed well in this bear market, the Board continues to proactively manage the portfolio to achieve the best risk-adjusted return for our members and plan sponsors.

Retirement 101: Service Credit

Service Credit is one of the important factors used to calculate the benefit you will receive when you retire. Your retirement service credit is the number of years that you have earned working for an SBCERA-covered employer which count toward benefits in the SBCERA retirement plan. Service credit is one of the major factors that determines the monthly retirement benefit you receive when you retire; therefore, the more years of service credit you have, the higher your monthly retirement benefit will be.

One year of service credit is equal to 2,087 hours, excluding overtime hours. This often differs from the service hours used by your employer to determine a service year, which may be 2,080 hours. The seven additional hours used by SBCERA takes into account the variation in calendar years and payroll schedules, i.e. every four years February has an extra day, in 2008 there were 27 pay periods. To increase your service credit other than by working, you may want to investigate some service credit purchase options. Service credit purchases may be made for previous employment

(Continued on page 4)

Overcome
CORNER

time that qualifies as permanent, seasonal or temporary service that you provided for an SBCERA-covered employer prior to becoming eligible for SBCERA membership. Also, you may purchase service credit when you return from certain leaves such as authorized sick leave without pay or military leave of absence. If you are a returning employee and were previously an SBCERA member but terminated service and withdrew your retirement contributions, you may restore the withdrawn service credit in full by re-depositing your previously withdrawn contributions, plus interest. The purchase of any of the aforementioned types of service credit will count toward vesting and retirement eligibility requirements.

The purchase of service credit for Prior Public Agency Service (PPAS) service is another way to enhance your retirement benefit. You may purchase service credit for all or part of prior service with the U.S. military, the U.S. Federal government, the State of California, and some public employers in the State of California. However, you may not purchase PPAS if you are currently receiving a retirement benefit from that employer or if you will become eligible to receive a retirement benefit in the future from that employer. Prior public agency service will increase your total years of service credit and is used in the calculation of your SBCERA retirement benefit, but it will not count toward the minimum requirements to become vested or retire from the SBCERA plan.

Finally, Additional Retirement Credit (ARC) is available for purchase to increase your service credit total. It is not based on actual employment and you must be an Active vested member in order to purchase ARC. It may be purchased in monthly increments, with a minimum purchase of one year, up to a maximum purchase of five years. ARC time may not be used toward vesting or retirement eligibility requirements.

The Retirement 101 column will dive deeper into the details and requirements for how to make service credit purchases in future editions of Quarterly Review. However, you are always encouraged to contact SBCERA at any time for more details. ■

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.

Board of Retirement

Bret Henry, Dick Larsen,
Christopher Leggio, Robert McDonald,
Don Neely, Marvin Reiter, Paul Russ,
Dawn Stafford, Ellen Weisser, Dave Williams

Executive Staff

Executive Director/CIO – Timothy B. Barrett, CFA
Chief, Member Services – Christie L. Porter, CEBS, PMP
Chief, Fiscal Services – Michael B. O'Kelly, CPA
Chief, Information Services – Mark Jolicoeur
Chief Counsel – Lance Kjeldgaard
Investment Officer – Brian Long, CFA
Investment Officer – James Perry, CAIA
Investment Officer – Donald Pierce, CFA

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>

Quarterly Review is published for members and retirees of the San Bernardino County Employees' Retirement Association. It is written by SBCERA staff and designed by the Spencer Lewis Group.

348 W. Hospitality Lane, Third Floor
San Bernardino, CA 92415-0014
ADDRESS SERVICE REQUESTED

