



# The Retirement CHRONICLES

A quarterly publication of the Kern County Employees' Retirement Association

## The Value of Diversification

The old adage about diversification, “Don’t put all your eggs in one basket,” rings as true in the world of investments as it does elsewhere.

*Diversification* means dividing up and spreading out money among different investment alternatives. Also called *asset classes*, these various investment vehicles all have inherent strengths and weaknesses.

For example, investing only in a higher-risk asset class like domestic equities (U.S. stocks) might yield excellent returns in a “bull market” but poor returns in a “bear market.” In contrast, a lower-risk asset class like government bonds can produce consistent returns, but historically they are very low returns that inflation largely offsets.

The challenge for any investor is to determine a comfortable balance, or *asset allocation*, that produces the highest returns at the lowest risk. This is precisely what KCERA has done in diversifying its \$2.9 billion investment portfolio.

### Why Diversify?

KCERA’s Retirement Board diversifies its assets to reduce risk. Rather than tie itself to the fortune of one asset class, KCERA has allocated its funds into several proven investment vehicles. Even if one asset class underperforms in a given year, the remaining classes can buoy KCERA’s overall returns.

Moreover, diversification better fits KCERA’s long-term investment model, which relies heavily on investments to fund the retirement benefits of its current and future members.

Consequently, the Board must embrace a long-range investment policy to meet future needs. A sound asset allocation strategy reduces investment risk and investor anxiety, because diversification insulates against short-term downturns in individual markets.

### KCERA’s Asset Allocation

The Retirement Board has adopted the following target asset allocation: domestic equities (25%), non-U.S. equities (25%), fixed income (28%), real return assets (10%), private equity (6%), absolute return (6%) and cash (0%).

By holding to this allocation, KCERA taps the potential profits available in the equities markets while ensuring a reliable source of revenue in fixed-income vehicles. Other investments, each with a unique risk-reward profile, provide greater diversification for the KCERA portfolio. The Board reviews its asset allocation annually.

Always mindful of meeting its 8% assumed rate of return, KCERA’s diversification policy is integral to the Board’s goal of making prudent investments for its members. ■

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# 2007 Investment Performance

Despite a broad collapse in residential real estate, a falling dollar and stock market volatility, KCERA posted modest gains last year. The pension fund, which began 2007 at \$2.77 billion, ended the year at \$2.94 billion.

In the 12-month period ending December 31, 2007, KCERA's investment portfolio netted 6.58%, which contributed to a \$167 million improvement in the fund's value.

In spite of missing its 8% target rate of return in 2007, the KCERA fund has outperformed the policy indices of all its asset classes and the TUCS Public Fund median for periods of time five years and longer. The median compares investment returns among U.S. public pension funds.

At the end of 2007, KCERA reported a total fund return of 10.28% over three years, 13.77% over five years and 8.01% over ten years.

Eileen L. Neill, CFA, managing director at Wilshire Associates Inc.,



KCERA's investment consultant, said: "Last year was a bad year for quantitative equity managers and sector rotational fixed income managers, both of which are employed by KCERA.

"Over the longer term, however, these managers have outperformed for KCERA. Plan sponsors should not focus too much on short-term relative performance."

## Fund Performance (net of fees) as of December 31, 2007

1 Year	3 Years	5 Years	10 Years
6.58%	10.28%	13.77%	8.01%



## UPCOMING EVENTS & IMPORTANT DATES

### Investment Board Meetings

July 9  
August 13  
September 10

### Regular Board Meetings

July 23  
August 27  
September 24

### Benefit Payment Mailings

July 28  
August 26  
September 25

### Retirement Planning Seminar

Thursday, December 4  
Board Chambers  
1115 Truxtun Ave., 1st Floor

*The Board of Retirement meets at 1115 Truxtun Ave. in the multi-purpose room located on the third floor.*

## Frequently Asked Questions

**Q:** Do I have to purchase my prior public service (PPS) credit in full?

**A:** If you have PPS credit that you want to purchase, you have the option of buying the time in full or in part. Many members request service credit purchase estimates but

do not initiate the purchase because they think the cost is too high.

However, KCERA allows you to buy PPS credit in small increments, which is less costly. In fact, your purchase can be for a time period as short as one biweekly. And don't

forget there are several payment methods that may be available to make the buyback more financially feasible: lump sum payment, vacation rollover, tax-deferred rollover from an eligible retirement plan, and up to five years of payroll deductions.

## INTRODUCING INTERACTIVE FORMS

*Have you visited the KCERA website lately? If so, you might have noticed a new feature that was recently added to our online forms: interactivity.*

KCERA is delighted to introduce a convenient method for members to request services that require a completed form.

Beginning July 1, 2008, all member forms available on the KCERA website are interactive.

What this means is that you can type your information directly onto the form, print it, and then sign and submit it to KCERA. It's as simple as that!

So whether you're applying for retirement, changing beneficiaries or signing up for the next seminar, you can now fill out all your forms electronically.

### Did You Know...?

**KCERA is proud to be the *only* 1937 Act retirement system to make all its online forms interactive.**

### THANK YOU RETIREES!

KCERA would like to sincerely thank those retirees who completed a *Retiree Satisfaction Survey*. We care very much about your thoughts, and our goal is to use your feedback to further enhance our member services. Again, thank you for your participation!

## KCERA Welcomes New Staff

Doug Tran joined KCERA's information technology (IT) division in March 2008 as an information systems specialist. He brings extensive experience in the area of computers and networking. Before joining KCERA, Doug spent 17 years at FedEx before earning an A+ certification, which led him to a 9-year career as a field service technician at Getronics. He later earned a CCNA certification for networking. Doug attended Bakersfield College and Cal State University, Bakersfield.



## RETIREES' CORNER

### SRBR 3 Letters

KCERA has completed calculations for the Supplemental Retiree Benefit Reserve 3 (SRBR 3), a non-vested supplemental benefit that provides 80% purchasing power protection for KCERA retirees and beneficiaries.

To determine loss of purchasing power, KCERA annually reviews monthly benefits paid to each retiree and beneficiary using the Consumer Price Index for the Los Angeles area as well as all previous cost-of-living adjustments (COLAs). If KCERA finds that your benefit has lost more than 20% purchasing power, your monthly benefit will be increased to bring it back to 80%.

*Only retirees and beneficiaries who are eligible to receive the SRBR 3 benefit in 2008 will receive a letter advising them of the increase. Even if you do not receive an increase this year, you will still be eligible for a COLA in April 2009.*

The SRBR 3 benefit will be paid on July 31.

## BOARD OF RETIREMENT

Brad Barnes, *Chair*

Joseph Hughes, *Vice-Chair*

Norman Briggs

Jackie Denney

Jeff Frapwell

Robert Jefferson

Mike Maggard

Mark Ratekin


Bart Camps, *Alt.*

Phil Franey, *Alt.*

# Sign Up for Retirement Seminar

Use this form to reserve a seat at the next retirement planning seminar.

Name		SSN (Last 4 Numbers)	
Address			
City		State	Zip Code
Home Phone	Work Phone	Dept. Name/Number	
Please add my name to the reservation list for the retirement planning seminar to be held: <input type="checkbox"/> December 4, 2008 <input type="checkbox"/> June 2009			
Mail reservation form to: KCERA 1115 Truxtun Avenue Bakersfield, CA 93301	You can also e-mail your reservation to servicerep@kcera.org or fax your reservation to (661) 868-3779.	Retirement planning seminars are designed for members within <i>five years</i> of retirement. Attendance at seminars is limited to about 130 people. Make your reservations early to ensure a seat at the next seminar.	

  
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