



Galliard Capital Management

Galliard
Update

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City of Long Beach Stable Value Fund Update

Through all the recent financial turmoil, your stable value fund continues to meet its investment objectives of providing principal preservation and a consistent investment return. As expected, the Fund continues to produce positive daily investment returns, reflecting the conservative management philosophy underpinning stable value investing. Now more than ever, stable value is fulfilling its role as the conservative option within your plan.

Strong Portfolio Structure

Your stable value portfolio invests primarily in high quality security backed investment contracts issued by some of the world's leading financial institutions. These contracts are backed by a high quality, broadly diversified portfolio of fixed income securities, with a significant percentage in obligations of the U.S. Government and its Agencies. In addition, these contracts provide plan participants with a guarantee of principal balance and therefore no fluctuation in value. This "belt and suspenders" approach provides added safety of your principal as well as a competitive yield.

Due to the fact these investment contracts are backed by an underlying high quality fixed income portfolio, the actual direct exposure you have to an investment contract provider is minimal. The financial institutions that provide these investment contracts are in place to assure that participants can come and go from the fund at book value (principal plus accrued interest). In the event there were large cash needs from participants and all available cash reserves were expended, the underlying securities would be sold to raise funds. The investment contract providers would then make up any difference between what the market value the fixed income securities were sold at and the stated book value (if any). Galliard manages your portfolio to provide ample liquidity for participant transactions outside of these contracts. In our 20 plus years of managing stable value portfolios, we have never had to call on a contract to provide any funds to meet participant withdrawals.

Now, let's talk about what's making the news.

AIG and Lehman

First, the Fund does not have any exposure to the American International Group (AIG) either at the investment contract or underlying asset level.

With respect to Lehman Brothers, the Fund has no investment contract exposure. The Fund at the underlying asset level does have a small exposure to Lehman. Again, because the Fund's investment contracts provide for a guaranteed return of principal, there is no risk of principal loss and, we do not believe the Fund's crediting rate will be materially impacted.

High Credit Quality and Broad Diversification

The Fund remains very well diversified with in excess of 1,600 underlying holdings. Overall credit quality is strong with a weighted average quality of AA. Of the Fund's underlying assets, 81% are either obligations of the US Government/Agency or rated AAA.

Outlook

While market risk has risen and it is unclear when this crisis will abate, our investment philosophy - which stresses broad diversification and high credit quality - continues to serve us well. We remain confident our disciplined approach will allow us to navigate this difficult period as well as meet the Fund's objective of principal preservation.