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MEMO

TO: Board of Deferred Compensation Administration

DATE: January 9, 2012

FROM: Devon Muir, CFA and Eileen Kwei, CFA

SUBJECT: FDIC Option re-allocation

COPY: Staff

Investment Policy Change: Bank Deposit Account

At the November Board meeting, the Board reviewed the merits of periodically altering the Plan's FDIC-insured Bank Deposit Savings Account (FDIC Option) provider allocation mix in light of significant differences in interest rates that may exist among the banks. The Board directed Mercer and Staff to craft language into the Investment Policy Statement and also conduct the initial allocation analysis, in accordance with this new policy. Our findings follow:

Current FDIC Option provider characteristics

Provider	Moody's/S&P/Fitch long-term deposit rating	Allocation	Current interest rate
Bank of America	A2/ A/ A+	33.3%	0.04%
Bank of the West	A1/ A+/ AA-	33.3%	1.00%[1]
City National	A1/ n/a / A	33.3%	0.15%
FDIC Option		**100.0%**	**0.40%**

As of January 9, 2012

A comparison of the current underlying FDIC Option rates indicates that Bank of the West's rate (and the proposed one of 0.75%) is substantially in excess of those of the other providers.[2] This rate differential also exceeds the new proposed Policy threshold of 0.25%. From a financial standpoint, Bank of the West, like the other providers, continues to have a long-term deposit rating that is classified as upper medium investment grade. In addition, it, like the other providers, meets the Office of the Comptroller of the Currency's standard of being "Well Capitalized" as defined by the Prompt Corrective Action section (Section 38) of the Federal Deposit Insurance Act. Thus, based on the information available, we do not believe shifting assets would increase overall FDIC Option risk materially. Following, we provide detail on the effect of moving from the current allocation to the

[1] Bank of the West requested in December 2011 to lower the minimum floor interest rate to 0.75%
[2] We also believe the rate is significantly greater than competitive rates being offered by other major banks in the market based on an informal market check we performed last quarter

proposed one. In short, we believe this exhibit offers a compelling case from a blended interest rate perspective to shift an additional 16.7% of FDIC option assets (drawn equally from the other providers) to Bank of the West; therefore, we recommend this course of action if the Board is inclined to enhance the blended yield of the FDIC Option.

Potential FDIC Option interest rate scenarios under new allocation weights

Provider	**Allocation**	**Current interest rate**
Bank of America	25.0%	0.04%
Bank of the West	50.0%	1.00%
City National	25.0%	0.15%
FDIC Option with new allocation (current Bank of the West rate)	**100.0%**	**0.55%**
FDIC Option (new allocation and new Bank of the West rate[3])		**0.42%**
FDIC Option (new Bank of the West rate and equal weight allocation)		**0.31%**

Bank of the West Proposal

Subsequent to the November Board meeting, Bank of the West indicated that they are proposing to lower their interest rate floor from 1%, as stated in the current contract, to 0.75%. While we are disappointed with how Bank of the West communicated this change and its reversal from prior representations, we recognize that the rate of 0.75% is significantly greater than competitive rates being offered by other major banks in the market based on an informal market check we performed. Given that contractually Bank of the West has the ability to exit the contract, we believe that it would be reasonable to accept the new interest rate floor of 0.75% proposed by Bank of the West in order to protect what will nevertheless continue to be a significantly higher rate than appears available in the current market environment.

[3] 0.75% proposed by Bank of the West in December 2011