DEFERRED COMPENSATION PLAN
BOARD REPORT 07-37

Date: September 25, 2007

To: Board of Deferred Compensation Administration

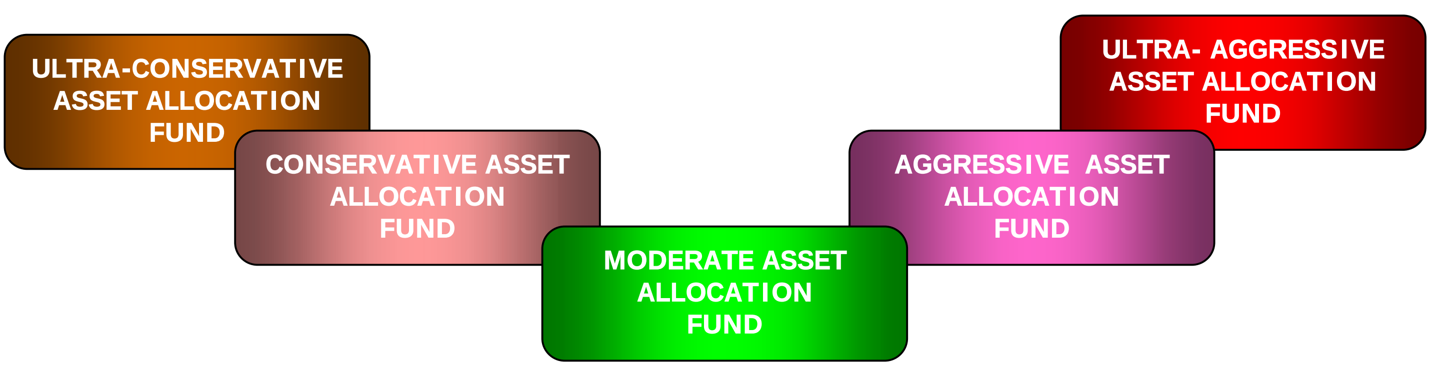
From: Staff

Subject: Asset Allocation Funds

Recommendation:
That the Board of Deferred Compensation Administration approve the addition of Ultra-Conservative and Ultra-Aggressive risk-based asset-allocation funds to the City's Deferred Compensation Plan based on underlying investment structures recommended by the Board's consultant, Mercer Investment Consulting.

Discussion:
The Investments Committee met on August 29th to continue its work on developing a proposed strategy for consolidating the Plan's investment menu. As part of its discussion, the Committee is considering the possibility of utilizing a survey to gauge participant feedback on some of the key features of the consolidation, since some of the features of that consolidation (e.g. eliminating branding from outside managers and replacing it with City branding) may prove controversial.

However, the Committee believes that one of the proposed elements of the redesign effort, expansion of the Plan's risk-based asset allocation funds, would be non-controversial and recommends that the Board implement it immediately. As Board members may recall, one of the concepts previously developed by the Committee included expanding the number of risk-based asset allocation funds from three to five. The options would include the following:



The rationale for expanding the asset allocation funds is two-fold. First, it provides a wider range of options for participants to meet their unique investment goals while maintaining the core value of asset allocation funds, which is diversification.

Second, the expansion of these offerings also serves as an opportunity to re-introduce the concept of the Plan's asset allocation funds to participants In effect, it is a new "marketing opportunity." Although these funds attract most contributions from newly enrolled participants, investor inertia has still left the bulk of Plan assets in the Plan's other options. Many of these "legacy" holdings are not diversified at the participant level, meaning that participants who, for example, have all of their holdings in a single fund or asset class have actually unknowingly assumed a higher level of risk than they would have in even the most aggressive of the asset allocation funds being proposed. By expanding these offerings, some participants with un-diversified holdings might be willing to give the asset allocation funds renewed consideration. Staff will be working with Great-West to develop custom communication pieces to highlight the expanded offerings.

The Board's consultant, Mercer Investment Consulting, has developed recommendations for the asset allocation structure for the two new options (attached) and will be present at the Board meeting to review them. Staff has reviewed the recommended structure and agrees with Mercer's position. Assuming approval at this Board meeting, staff is targeting January 2008 for an introduction date.

Submitted by: ____________________________
Steven Montagna

Approved by: ____________________________
Maryanne Keehn