Fourth Quarter 2010

Defined Contribution Performance Evaluation

City of Los Angeles

City of Los Angeles Deferred Compensation Plan

MERCER

All services provided by Mercer Investment Consulting, Inc.

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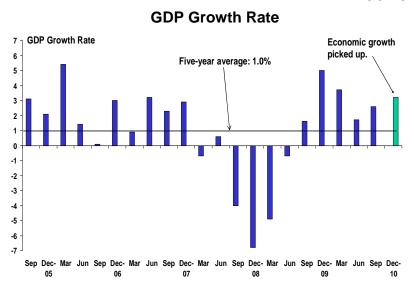
Appendix

- A. Manager Updates
- B. Disclosures

Economic Environment

For Periods Ending December 2010

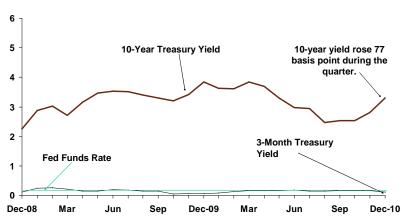
Economic Profile



- Ending fears of a double dip recession, economic growth accelerated during the quarter as the manufacturing, retail and service industries improved sharply. The initial government estimate shows that GDP grew during the fourth quarter at an annual rate of 3.2%.
- However, unemployment remained high as private sector hiring continued at a modest pace. The unemployment rate fell to 9.4%, but the decline was in part a result of people dropping out of the workforce.
- Retail sales were solidly higher in November and December as stores reported strong holiday season sales. For the full year, retail sales jumped 6.6%, the largest annual gain since 1999.
- The housing market remained bleak as home prices dropped in October, with some markets reaching their lowest levels since 2006. Home sales continued to lag and inventories remain high. Banks repossessed 1 million homes in 2010, and the number is expected to increase in 2011.

Interest Rates and Inflation

Treasury Yields



- The Fed implemented a second round of quantitative easing in November, promising to purchase over \$600 billion of Treasury bonds by June 2011. The target range for the federal funds rate remained at 0% to 0.25%.
- Short-term rates edged down as the 3-month T-bill yield decreased four basis points, ending the quarter at 0.12%.
- The yield on 10-year Treasuries ended the quarter at 3.30%, up 77 basis points since September. The 2-year yield increased 19 basis points to 0.61%. The 2- to 10-year yield spread reached 269 basis points, near a ten-year high.
- The yield on 30-year Treasuries increased 65 basis points to 4.34%.
- Consumer prices remained subdued, increasing 1.5% on a year-over-year basis. Core prices rose a record low 0.8% in 2010.

Equity Market Performance

For Periods Ending December 2010

Domestic Equity Market Performance





- The stock market rallied during the quarter as investors were encouraged by signs of economic improvement and robust corporate earnings. The S&P 500 Index gained 10.8% during the quarter, ending the year up 15.1%. The Russell 1000 Index gained 11.2% and 16.1% for the same periods.
- Small cap stocks, up 16.3%, outperformed mid and large cap stocks during the guarter and posted the strongest performance in 2010, gaining 26.9%.
- Growth outperformed value across all market capitalizations during the guarter and year, particularly in the small cap space.
- Economically sensitive sectors performed best within the Russell 1000 Index during the quarter. Energy was the strongestperforming sector, helped by a jump in oil prices and strong company profits. Cyclical stocks performed well as the materials sector benefited from rising prices for metals and agricultural commodities, and increased consumer spending boosted consumer discretionary stocks.

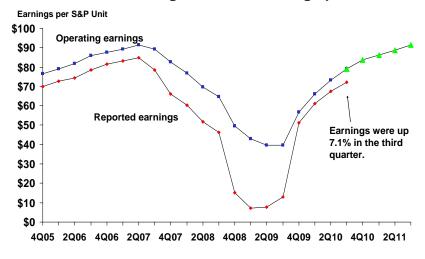
Russell 1000 Sector Returns

Sector	Qtr Return	Weight*
Consumer Discretionary	13.3	11.2
Consumer Staples	6.3	9.7
Energy	21.9	11.7
Financials	11.0	16.1
Health Care	4.4	11.2
Industrials	12.9	11.2
Information Technology	10.8	18.3
Materials	19.2	4.2
Telecommunication Services	6.8	3.0
Utilities	1.9	3.4

Source: Returns and security data for the Russell indices are provided by Russell/Mellon Analytical Services. Russell indices are trademarks/service marks of the Frank Russell Company. Russell® is a trademark of the Frank Russell Company. *May not add to 100% due to rounding.

Mercer

S&P 500 Trailing 4-Quarter Earnings per Unit



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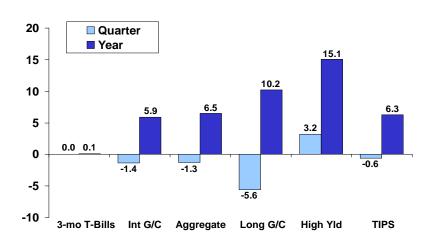
Source: Standard & Poor's

Fixed Income Market Performance

For Periods Ending December 2010

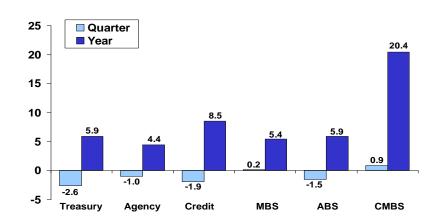
Fixed Income Market Performance

Performance by Maturity and Sector

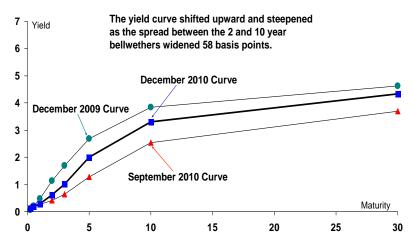


- Yields rose during the fourth quarter, resulting in negative returns for most segments of the bond market The Barclays Capital Aggregate Bond Index fell 1.3%, resulting in a 6.5% gain for the year.
- Treasuries were down 2.6% for the quarter, resulting in a 5.9% gain for the year.
- The Barclays Capital Credit Index was down 1.9% for the quarter and returned 8.5% for the year. Long-term bonds suffered the steepest losses during the quarter, but offered the best results for the year. By quality, BAA-rated securities were the strongest performers during the quarter and year. On average, credit spreads narrowed 3 basis points during the quarter and 96 basis points during the year.
- Within the securitized sector, CMBS issues posted the strongest results during the quarter and year, surging 20.4% in 2010. The Barclays Capital MBS Index edged up 0.2% during the quarter and returned 5.4% for the year.

Performance by Issuer



Treasury Yield Curves

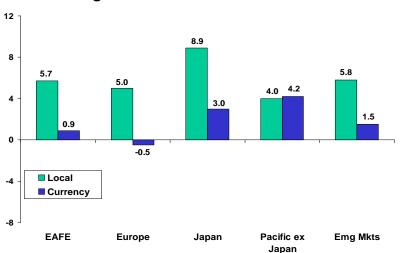


Other Markets

For Periods Ending December 2010

International Equity Market Performance

Regional Performance for the Quarter



- International equity markets underperformed US markets as the MSCI EAFE Index gained 6.7% in US dollar terms, resulting in an 8.2% gain for the year. The Index was up 5.7% and 5.3% in local currency terms for the same periods.
- Led by Japan, the Pacific region posted strong results, gaining 10.7% during the quarter. For the year, the region was up 16.1% as all countries except New Zealand saw double-digit gains.
- The European region delivered positive returns despite renewed concerns over the sovereign debt crisis. The region was up 4.6% for the quarter and 4.5% for the year. Performance across the region was mixed as countries with financial problems, including Spain, Portugal, Greece and Italy posted negative results.
- Emerging market stocks delivered solid results, gaining 7.4% for the quarter and 19.2% for the year. Country returns varied widely during the quarter, but all the major regions produced double-digit gains in 2010.

Other Asset Classes

High Yield Bonds

- The high yield market continued to perform well as the Barclays Capital High Yield Bond Index posted a 3.2% gain for the quarter, ending the year up 15.1%. New bond issuance was very strong and default rates declined significantly in 2010.
- In 2010, long-term bonds outperformed intermediate-term issues, and lower-quality bonds outperformed higher-rated bonds.

Real Estate

- Equity REITS, as measured by the FTSE NAREIT Index, returned 7.4% for the quarter, resulting in a 27.9% gain for the year.
- The latest data available for the private real estate market showed a third-quarter gain of 3.9% for the NCREIF Property Index.

Inflation Indexed Bonds

 Treasury Inflation-Protected Securities (TIPS) were down 0.6% for the quarter. For the year, TIPS gained 6.3%, outperforming Treasuries by 44 basis points.

Commodities

The S&P GSCI Index was up 13.4% during the quarter, ending the year with a gain of 9.0%. In 2010, precious metals and agriculture were the leading sectors, gaining 34.5% and 34.2% respectively.

International Bonds

- The Citigroup Non–U.S. Government Bond Index declined 1.5% during the quarter amid concerns over Europe's sovereign debt crisis, resulting in 5.2% gain for the year.
- The Barclays Capital Emerging Markets Bond Index declined 1.2% during the quarter, but ended the year up 12.8%.

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Market Returns Summary

For Periods Ending December 2010

Market Returns (%) for Periods Ending December 31, 2010

		QTR	YTD	1 YR	3 YRS*	5 YRS*	10 YRS*
Equity	S&P 500	10.8	15.1	15.1	-2.9	2.3	1.4
	Russell 1000 Value	10.5	15.5	15.5	-4.4	1.3	3.3
	Russell 1000 Growth	11.8	16.7	16.7	-0.5	3.8	0.0
	Russell MidCap	13.1	25.5	25.5	1.1	4.7	6.5
	Russell MidCap Value	12.2	24.8	24.8	1.0	4.1	8.1
	Russell MidCap Growth	14.0	26.4	26.4	1.0	4.9	3.1
	Russell 2000	16.3	26.9	26.9	2.2	4.5	6.3
	Russell 2000 Value	15.4	24.5	24.5	2.2	3.5	8.4
	Russell 2000 Growth	17.1	29.1	29.1	2.2	5.3	3.8
	Russell 3000	11.6	16.9	16.9	-2.0	2.7	2.2
	Mercer Large Cap Value Equity Peer Group median**	10.6	14.3	14.3	-2.7	2.6	4.5
	Mercer Large Cap Growth Equity Peer Group median**	12.0	16.2	16.2	-1.2	3.8	1.4
	Mercer Small Cap Value Equity Peer Group median**	16.1	27.1	27.1	5.3	6.2	11.2
	Mercer Small Cap Growth Equity Peer Group median**	17.0	28.7	28.7	0.9	5.3	5.7
Fixed Income	Citigroup 3-Month T-Bill	0.0	0.1	0.1	0.7	2.3	2.3
	Barclays Capital Int. Gov't/Credit	-1.4	5.9	5.9	5.4	5.5	5.5
	Barclays Capital Gov't/Credit	-2.2	6.6	6.6	5.6	5.6	5.8
	Barclays Capital Aggregate	-1.3	6.5	6.5	5.9	5.8	5.8
	Barclays Capital Intermediate Government	-1.6	5.0	5.0	4.9	5.4	5.1
	Barclays Capital Long Gov't/Credit	-5.6	10.2	10.2	6.8	5.9	7.1
	Barclays Capital MBS	0.2	5.4	5.4	6.5	6.3	5.9
	Barclays Capital TIPS	-0.6	6.3	6.3	5.0	5.3	7.0
	Barclays Capital High Yield	3.2	15.1	15.1	10.4	8.9	8.9
	Mercer Core Fixed Income Peer Group median**	-0.9	7.9	7.9	6.9	6.4	6.3
International	MSCI EAFE	6.7	8.2	8.2	-6.5	2.9	3.9
	MSCI Emerging Markets	7.4	19.2	19.2	0.0	13.1	16.2
	Citigroup Non-US Gov't Bond	-1.5	5.2	5.2	6.5	7.6	7.4
	Citigroup Non-US Gov't Bond - Hedged	-2.1	2.5	2.5	4.3	4.1	4.6
	Mercer International Equity Universe median**	7.7	11.7	11.7	-5.0	4.3	5.8
Miscellaneous	NCREIF Property Index***	3.9	5.8	5.8	-4.6	3.7	7.2
	FTSE NAREIT (Equity REITS)	7.4	27.9	27.9	0.7	3.0	10.8
	BofA Merrill Lynch Inv. Grade Convertible	4.4	7.4	7.4	5.4	6.3	4.3
	Goldman Sachs Commodity Index	13.4	9.0	9.0	-12.8	-5.7	1.8
Inflation	CPI	0.3	1.5	1.5	1.4	2.2	2.3
Index at 9/30/10	Dow Jones	NASDAQ	S&P 500		Russell 2000	,	Wilshire 5000
	10,788.05	2,368.62	1,141.20		676.14		12,020.91
Index at 12/31/10	Dow Jones	NASDAQ	S&P 500		Russell 2000	,	Wilshire 5000
	11,577.51	2,652.87	1,257.64		783.65		13,360.12

^{*} Annualized

^{**} Preliminary

^{***} The NCREIF Property returns are one quarter in arrears.

Domestic Equity – Largest Positive & Negative Contributors to S&P 500

For Fourth Quarter 2010

Domestic Equity - Largest Positive & Negative Contributors to S&P 500 For Periods Ending December 31, 2010

S&P 500 Quarterly Return = 10.76% 25 Largest Positive Contributors

25 Largest Negative Contributors

Stock	Return (%)	End of Quarter Weight	Cap Rank	Stock	Return (%)	End of Quarter Weight	Cap Rank
EXXON MOBIL CORP	19.08%	3.11%	1	CISCO SYSTEMS INC	-7.63%	0.95%	22
APPLE INC	13.68%	2.50%	2	BERKSHIRE HATHAWAY	-3.11%	1.67%	4
WELLS FARGO & CO	23.62%	1.37%	13	ABBOTT LABORATORIES	-7.50%	0.62%	34
MICROSOFT CORP	14.69%	2.01%	3	BEST BUY CO INC	-15.36%	0.12%	202
SCHLUMBERGER LTD	35.90%	0.96%	21	VISA INC	-5.03%	0.30%	77
CITIGROUP INC	20.97%	1.16%	18	APOLLO GROUP INC -CL A	-23.10%	0.05%	399
GENERAL ELECTRIC CO	13.42%	1.64%	5	FIRST SOLAR INC	-11.68%	0.09%	250
ORACLE CORP	16.77%	1.33%	14	DIRECTV	-4.08%	0.28%	80
CHEVRON CORP	13.59%	1.55%	7	AVON PRODUCTS	-8.80%	0.11%	225
COCA-COLA CO	13.17%	1.29%	15	MERCK & CO	-1.06%	0.94%	23
JPMORGAN CHASE & CO	11.60%	1.40%	12	SPRINT NEXTEL CORP	-8.64%	0.11%	224
FREEPORT-MCMORAN COP&GOLD	42.26%	0.48%	42	LILLY (ELI) & CO	-2.68%	0.34%	61
GOOGLE INC	12.97%	1.25%	16	BRISTOL-MYERS SQUIBB CO	-2.32%	0.38%	54
CONOCOPHILLIPS	19.68%	0.84%	27	ARCHER-DANIELS-MIDLAND CO	-5.28%	0.16%	147
INTL BUSINESS MACHINES CORP	9.91%	1.54%	8	INTUITIVE SURGICAL INC	-9.16%	0.09%	268
OCCIDENTAL PETROLEUM CORP	25.77%	0.67%	33	PEPSICO INC	-0.95%	0.87%	25
FORD MOTOR CO	37.17%	0.48%	41	ENTERGY CORP	-6.37%	0.11%	216
PROCTER & GAMBLE CO	8.08%	1.52%	9	NEXTERA ENERGY INC	-3.47%	0.18%	130
AMERICAN INTERNATIONAL GROUP	47.37%	0.33%	67	EXPEDIA INC	-10.89%	0.05%	380
GOLDMAN SACHS GROUP INC	16.57%	0.73%	29	LEXMARK INTL INC -CL A	-21.96%	0.02%	483
MONSANTO CO	45.98%	0.32%	71	BOEING CO	-1.28%	0.40%	49
INTEL CORP	10.35%	0.99%	20	NEWMONT MINING CORP	-1.96%	0.25%	87
COMCAST CORP	22.07%	0.51%	38	AKAMAI TECHNOLOGIES INC	-6.24%	0.07%	311
VERIZON COMMUNICATIONS INC	11.44%	0.85%	26	KIMBERLY-CLARK CORP	-2.08%	0.22%	108
U S BANCORP	24.98%	0.44%	46	TITANIUM METALS CORP	-13.93%	0.03%	474

Data Source: Compustat Report Date: January 14, 2011

Summary - Investment Option Array

Theoretical Risk/Return Chart



Expected Risk (Standard Deviation)

+ According to Mercer's Survey on Savings Plans, Mercer Research and Bernstein Research

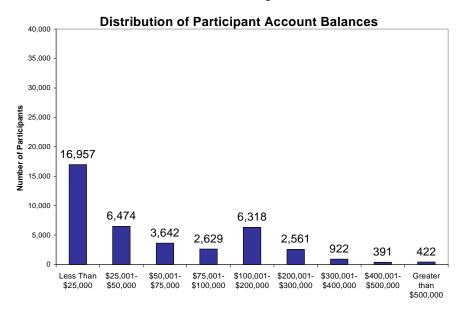
	Performance: 3- Year & 5-Year and/or Qualitative Concerns	Recommended Action	Fund to be retained in the new investment menu
Stable Value Funds		_	
Deferred Compensation Plan Stable Value	Satisfactory	No action	Yes
Bond Funds			
Vanguard Total Bond Market Index	Satisfactory	No action	Yes
PIMCO Total Return	Satisfactory	No action	Yes
Large-Cap Funds			
American Funds Inv. Co. of America	Satisfactory	No action	No
Vanguard Institutional Index	Satisfactory	No action	Yes
Hartford Capital Appreciation	Satisfactory	No action	No
American Funds Growth Fund of America	Unsatisfactory	Place on Monitor due to quantitative (3- and 5-year underperformance) and qualitative issues (asset growth and organizational structure). The recommendation to place on monitor is based on existing policies for fund removal. The Board, however, has already taken action to eliminate this fund based on its investment menu consolidation. In addition, the Board will likely be refining its fund removal policies pursuant to work currently underway in the Investments Committee.	No
Mid-Cap Funds			
Vanguard Mid-Cap Index	Satisfactory	No action	Yes
Lazard Mid Cap	Unsatisfactory	Terminate. On Watch since 3Q09. Performance has been sub-par though the fund met the 3-year objective this period. We are concerned with its inconsistent performance and organizational issues with the firm. The recommendation to terminate is based on existing policies for fund removal. The Board, however, has already taken action to eliminate this fund based on its investment menu consolidation. In addition, the Board will likely be refining its fund removal policies pursuant to work currently underway in the Investments Committee.	No
Small-Cap Fund			
SSgA Russell 2000 Index	Satisfactory	No action	Yes
International Funds			
DWS EAFE Equity Index	Satisfactory	No action	TBD
Fidelity Diversified International	Unsatisfactory	Place on Monitor for quantitative reasons (underperformance over the 3- and 5-year periods). The recommendation to place on monitor is based on existing policies for fund removal. The Board, however, has already taken action to eliminate this fund based on its investment menu consolidation. In addition, the Board will likely be refining its fund removal policies pursuant to work currently underway in the Investments Committee.	TBD

The Board's Policies for Fund Review/Removal

- (A) All variable investment funds will be monitored quarterly. The consultant will evaluate the relative performance of each fund against its peers and benchmark for the following time periods:
 - 1. Quarter
 - 2. Year-to-Date
 - 3. One Year
 - 4. Three Years
 - 5. Five Years
- (B) The consultant will focus primarily on the evaluation of 3-year and 5-year performance for the purpose of assigning a performance designation of Satisfactory or Unsatisfactory.
- (C) A Satisfactory designation will be given to those funds that have met or exceeded their respective mandates. An actively managed fund will generally be found to have exhibited satisfactory performance if it meets or exceeds the return of its benchmark index and universe median over 3-year and 5-year periods. A passively managed index fund will generally be found to have exhibited satisfactory performance if it substantially replicates the performance of the underlying index and does not exhibit significant tracking error as established by the consultant.
- (D) An Unsatisfactory designation will be given to those funds that underperform their respective mandates and/or have significant qualitative concerns. An actively managed fund will generally be found to have exhibited unsatisfactory performance if its returns are below the return of its benchmark index and universe median over 3-year and 5-year periods. A passively managed index fund will generally be found to have exhibited unsatisfactory performance if its returns do not substantially replicate the performance of the underlying index and exhibit significant tracking error as established by the consultant.
- (E) If a fund is determined to be *Unsatisfactory*, the consultant will recommend that it be placed on either "monitor" or "watch" status. The assignment of the category will be based on the severity of deviance found in one or more of the following evaluative factors:
 - 1. Performance against the benchmark, peer group or contracted performance targets falling below the applicable targeted range
 - 2. Style drift or investment guideline violations
 - 3. Organizational changes in ownership or portfolio management personnel that, in the judgment of the consultant, could adversely affect performance
- (F) "Monitor" status means that areas of concern have been identified for one or more of the factors identified under (E), but not to a degree that places the fund in direct danger of elimination. "Watch" status means that areas of significant concern have been identified in one or more of the factors identified under (E), to a degree that places the fund under close scrutiny.
- (G) A fund placed on "watch" status will have a minimum of two and not more than six quarters in which to correct its noted deviance, based on the recommendation by the consultant and adoption of that recommendation by the Board. The specific timeframe for resolution of an issue or issues will be established by the Board and communicated in writing to the investment manager. Based on the fund's ongoing performance, the consultant may, in subsequent reviews, recommend elimination of the fund at the conclusion of the adopted timeframe.
- (H) Removal from "watch" status will occur in one of two ways: (1) by action of the Board and notice to the investment manager that the Board is satisfied with improved performance or corrective measures taken; or (2) by action of the Board and notice of termination given to the investment manager.

Deferred Compensation Plan Assets

- At quarter-end, assets in the Deferred Compensation Plan totaled \$3,154.9 million, increasing \$198.7 million (6.7%) from \$2,956.2 million at the previous quarter-end.
- Contributions (including other deposits) for the quarter totaled \$63.0 million compared to withdrawals of \$47.0 million; the remainder of the increase in assets was attributable mainly to investment gains.
- As of December 31, 2010, there were 40,564 participants (40,316 of these had an ending account balance). The average account balance \$78,253. The median account balance was \$35,534. The distribution of participant balances is shown below; 42.1% of participants had a balance less than \$25,000 and 1.0% had a balance greater than \$500,000.



¹ Based on participants with an ending account balance Mercer

Deferred Compensation Plan Assets

- The Deferred Compensation Plan (DCP) Stable Value portfolio held the highest percentage of Plan assets at 21.7%, followed by Vanguard Institutional Index (13.9%), Hartford Capital Appreciation HLS IA (9.4%), FDIC-Insured Savings Account Option (9.3%), and American Funds Growth Fund of America A (7.6%). All other funds each held less than 5.0% of Plan assets.
- Assets in the Profile funds (5 customized risk-profile funds ranging from Ultra Conservative to Ultra Aggressive) totaled \$323.4 million (10.3%) at quarter end; this was an increase of \$30.3 million from \$293.0 million at the prior quarter end.

Performance for the 3-Month Period

The following funds matched or outperformed their respective indices and universe medians:

DCP Stable Value

PIMCO Total Return Instl

Hartford Capital Appreciation HLS IA

Fidelity Diversified International

Each of the following funds underperformed its index and universe median:

American Funds Investment Company of America A

American Funds Growth Fund of America A

Lazard US Mid Cap Equity Instl

- All index funds tracked their respective indices within an appropriate range.
- Each of the Profile funds likewise tracked its respective custom index within expected ranges.

Performance for the Long-Term Periods (3 and 5 years where applicable)

Each of the following funds outperformed its index and universe median:

DCP Stable Value

PIMCO Total Return Instl

American Funds Investment Company of America A

Hartford Capital Appreciation HLS IA

- The American Funds Growth Fund of America A and Fidelity Diversified International funds underperformed their respective indices and universe medians.
- Lazard Mid Cap Equity Instl outperformed its index and universe median for the 3-year period but underperformed both benchmarks for the 5-year period.
- For the 3- and 5-year periods, the Vanguard Total Bond Market Index Instl Plus, Vanguard Institutional Index Instl Plus, Vanguard Mid-Cap Index Instl, SSgA Russell 2000 Index NL Series and DWS EAFE Equity Index Instl funds tracked their respective indices within an appropriate range.
- Each of the Profile funds exceeded the long-term performance of the respective custom index.

Key Observations & Recommendations

American Funds Growth Fund of America

- The fund underperformed the index and universe median for all periods evaluated. During the quarter, the fund underperformed the Russell 1000 Growth Index by 150 basis points and placed in the bottom quarter of the universe. Security selection was the main detractor from performance, with poor investments made in the financial services, energy, and consumer discretionary sectors. As of 12/31, the fund held 6% in cash, lower than at previous points in 2010, but sizeable enough to hamper performance in an upward trending market. International equity holdings also detracted from performance for the quarter, as US stocks led the markets.
- The resources that CR&M has dedicated to the research process are impressive and the large team of experienced portfolio managers and research analysts are positives for the strategy. The firm has a history of retaining investment talent and the tenure of portfolio managers at the firm is noteworthy. However, we question the level of cohesion between analysts and portfolio managers which is further complicated by the firm's decision to split the equity team into two units. There is a lack of transparency of what is truly driving performance, as we do not have visibility to the underlying portfolio managers' slices of the portfolio. In addition, the growth of the firm's funds over the years is cause for concern as it has failed to acknowledge that asset size can negatively impact performance. Assets under management in some strategies have reached sizeable levels and without capacity constraints, we believe the fund will be challenged to continue to add value for investors. Given both performance issues and qualitative concerns over the strategy, we recommend placing the fund on Monitor. It bears noting that this fund will not be included in the new investment menu approved by the Board.

Lazard Mid Cap Equity Portfolio

- Performance weakened during the quarter after a period of improvements. It underperformed the index and placed in the 87th percentile of its universe. Longer-term periods remained mixed, with outperformance versus both benchmarks for the 3-year period and underperformance for the 5-year period. Weak stock selection in the health care, consumer staples, industrials and information technology sectors weighed on returns. Overweight to poor performing consumer staples also detracted from results.
- Mercer met with Lazard in September 2010 to discuss the mid cap strategy and reaffirmed its B+(T) rating. Mercer downgraded the fund to a B+(T) rating in 2009. While we were disappointed in the decision to transition Gary Busser from the mid cap investment management team to the accounting validation team, as the firm's accounting specialist, Busser is responsible for keeping current on potential changes to accounting standards and communicating these changes and their significance to the team. Mercer views the use of the accounting validation team as a differentiator in its research process. Additionally, we learned that Peter Nesvold, an industrials analyst was to leave that month. While there are two other analysts covering industrial names, we will need to monitor the turnover within the team.

Key Observations & Recommendations

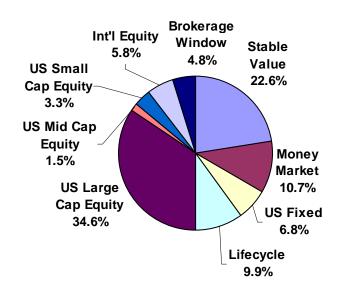
Lazard Mid Cap Equity Portfolio, continued

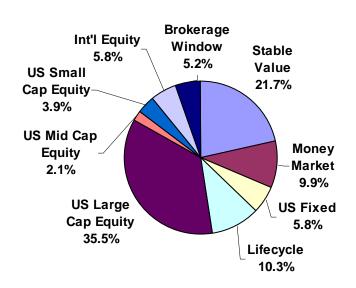
- Our discussion regarding Buesser's transfer, which was a loss to the team, highlighted the lack of transparency regarding the coverage of names. This was in conflict with changes made to the firm's structure under Director of Global Research, Melissa Cook, to improve the communication between centralized research and the analysts, and to tie remuneration to the performance of the individual analysts. A meeting with Lazard's CEO also raised some firm-wide questions, in particular regarding the utilization of analyst resources as well as the impact that differing compensation structures could have on the teams.
- The fund has been on Watch since the third quarter 2009, and given personnel turnover in recent years, organizational challenges (described above), and unsustained performance relative to its index and peers, we recommend terminating the fund upon transition to the new investment menu.

Fidelity Diversified International

- The fund outperformed its index over short-term periods, but it underperformed over longer periods. It placed below the universe median for all periods except the recent quarter, where it ranked in the 32nd percentile. Stock selection and the favorable allocations to consumer discretionary, information technology, energy and financials benefited performance during the quarter. Out-of-index exposure to US stocks (11.2% allocation) also added to results.
- Fidelity employs a fundamental, bottom-up process to uncover international investment opportunities. Although the focus is primarily on large cap stocks in developed countries, Bill Bower also looks for alpha down the market cap spectrum and in the emerging markets. We continue to believe that he is an experienced manager who has demonstrated the ability to institute good buy ideas through the effective use of Fidelity's vast internal resources. Our chief concerns lie in the strategy large asset size and seeming disregard for capacity constraints. We recommend placing this fund on Monitor for these reasons.

Summary - Asset Allocation





Prior Asset Allocation \$2,956,180,543 as of September 30, 2010 Current Asset Allocation \$3,154,860,910 as of December 31, 2010

Summary - Asset Allocation

Investment Option	Current Balance	Prior Balance	% of Plan	% Chg vs. Prior
Cash Equivalents	\$311,127,796	\$315,132,901	9.9%	-0.8%
Washington Mutual (Chase) Liquid Savings Account	\$293,350,557	\$295,470,504	9.3%	-0.7%
Washington Mutual (Chase) CD's	\$17,777,239	\$19,662,397	0.6%	-0.1%
Stable Value	\$683,402,620	\$668,810,478	21.7%	-1.0%
Deferred Compensation Stable Value Fund (Net)	\$683,402,620	\$668,810,478	21.7%	-1.0%
Domestic Fixed	\$182,965,494	\$201,245,971	5.8%	-1.0%
Vanguard Total Bond Market Index Fund Inst Plus	\$71,417,287	\$75,135,766	2.3%	-0.3%
PIMCO Total Return Fund Institutional	\$111,548,207	\$126,110,205	3.5%	-0.7%
Lifecycle	\$323,385,238	\$293,047,064	10.3%	0.3%
Ultra Conservative	\$14,603,031	\$14,750,065	0.5%	0.0%
Conservative Profile	\$38,037,173	\$34,385,282	1.2%	0.0%
Moderate Profile	\$134,761,416	\$124,608,910	4.3%	0.1%
Aggressive Profile	\$113,266,956	\$100,675,466	3.6%	0.2%
Ultra Aggressive Profile	\$22,716,663	\$18,627,340	0.7%	0.1%
US Large Cap Equity	\$1,121,428,981	\$1,021,609,493	35.5%	1.0%
American Funds Investment Co of America A	\$145,219,177	\$136,040,598	4.6%	0.0%
Vanguard Institutional Index Fund Inst Plus	\$439,440,096	\$400,167,692	13.9%	0.4%
Hartford Capital Appreciation HLS IA	\$297,881,205	\$265,167,670	9.4%	0.5%
American Funds Growth Fund of America A	\$238,888,503	\$220,233,533	7.6%	0.1%
US Mid Cap Equity	\$65,352,768	\$44,078,231	2.1%	0.6%
Vanguard Mid-Cap Index Fund Institutional	\$35,099,532	\$20,878,136	1.1%	0.4%
Lazard US Mid Cap Equity Portfolio Institutional	\$30,253,236	\$23,200,095	1.0%	0.2%
US Small Cap Equity	\$122,152,227	\$98,570,150	3.9%	0.5%
SSgA Russell Small Cap Index Non-Lending Series Fund	\$122,152,227	\$98,570,150	3.9%	0.5%
International Equity	\$182,487,100	\$171,657,906	5.8%	0.0%
DWS EAFE Equity Index Fund Institutional	\$33,555,758	\$32,217,911	1.1%	0.0%
Fidelity Diversified International Fund	\$148,931,341	\$139,439,996	4.7%	0.0%
Brokerage Window	\$162,558,687	\$142,028,350	5.2%	0.3%
Schwab PCRA Self-Directed Brokerage Account Option	\$162,558,687	\$142,028,350	5.2%	0.3%
Total Plan	\$3,154,860,910	\$2,956,180,543	100%	

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Summary - Investment Expense Analysis

Fund	Style	Fund Balance	Estimated Fund Expense	Fund Net Expense Ratio	Median Net Expense Ratio	Net Expense Diff.
Deferred Compensation Stable Value Fund (Net)	Stable Value	\$683,402,620	\$615,062	0.09%**	0.30%	-0.21%
Vanguard Total Bond Market Index Fund Inst Plus	US Fixed	\$71,417,287	\$35,709	0.05%	0.24%	-0.19%
PIMCO Total Return Fund Institutional	US Fixed	\$111,548,207	\$524,277	0.47%	0.57%	-0.10%
Ultra Conservative	Lifecycle	\$14,603,031	\$13,143	0.09%	0.85%	-0.76%
Conservative Profile	Lifecycle	\$38,037,173	\$41,841	0.11%	0.85%	-0.74%
Moderate Profile	Lifecycle	\$134,761,416	\$161,714	0.12%	0.92%	-0.80%
Aggressive Profile	Lifecycle	\$113,266,956	\$158,574	0.14%	0.97%	-0.83%
Ultra Aggressive Profile	Lifecycle	\$22,716,663	\$38,618	0.17%	0.97%	-0.80%
American Funds Investment Co of America A	US Large Cap Equity	\$145,219,177	\$958,447	0.66%	0.80%	-0.14%
Vanguard Institutional Index Fund Inst Plus	US Large Cap Equity	\$439,440,096	\$109,860	0.025%	0.21%	-0.19%
Hartford Capital Appreciation HLS IA	US Large Cap Equity	\$297,881,205	\$1,995,804	0.67%	0.82%	-0.15%
American Funds Growth Fund of America A	US Large Cap Equity	\$238,888,503	\$1,648,331	0.69%	0.90%	-0.21%
Vanguard Mid-Cap Index Fund Institutional	US Mid Cap Equity	\$35,099,532	\$28,080	0.08%	0.30%	-0.22%
Lazard US Mid Cap Equity Portfolio Institutional	US Mid Cap Equity	\$30,253,236	\$275,304	0.91%	0.98%	-0.07%
SSgA Russell Small Cap Index Non-Lending Series	US Small Cap Equity	\$122,152,227	\$73,291	0.06%	0.30%	-0.24%
DWS EAFE Equity Index Fund Institutional	International Equity	\$33,555,758	\$174,490	0.52%	0.48%	0.04%
Fidelity Diversified International Fund	International Equity	\$148,931,341	\$1,429,741	0.96%	1.07%	-0.11%
Total ^{***}		\$2,681,174,428	\$8,282,285	0.31%****	0.56%	-0.25%

Median institutional share class net expense ratio as defined by the respective Mercer Mutual Fund Universe and Lipper institutional share class categorizations. Median stable value management fee derived by screening Mercer's proprietary Global Investment Manager Database (GIMD) for stable value fund fees. Profile funds are compared to the median institutional expense ratio of the corresponding Mercer Mutual Fund Target Risk universe.

Management fee.

Total excludes assets in the FDIC Insured Savings Account Option, Washington Mutual (Chase) CD options and Schwab PCRA Self-Directed Brokerage Account. Average weighted expense ratio.

Summary - Compliance Table

Periods ending December 31, 2010

✓ = Outperformed or matched performance

= Underperformed

T = Tracking the index within an appropriate range

■ = Prior Quarter

I – Index		1 Qu	arter			1 Y	ear			3 Y	ears			5 Ye	ears		Comments
U – Universe Median	ı	U	1	U	I	U	I	U	ı	U	ı	U	ı	U	ı	U	Comments
Deferred Compensation Stable Value Fund (Net)	~	✓	✓	✓	1	✓	✓	×	1	~	✓	✓	1	1	✓	✓	Retain.
Vanguard Total Bond Market Index Fund Inst Plus	т	N/A	т	NA	т	N/A	Т	NA	т	N/A	т	NA	т	N/A	т	NA	Retain.
PIMCO Total Return Fund Institutional	~	×	✓	✓	1	✓	✓	✓	1	✓	✓	✓	1	✓	✓	✓	Retain.
Ultra Conservative	✓	N/A	✓	N/A	✓	N/A	✓	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Retain.
Conservative Profile	✓	N/A	×	N/A	✓	N/A	×	N/A	✓	N/A	✓	N/A	1	N/A	✓	N/A	Retain.
Moderate Profile	✓	N/A	×	N/A	×	N/A	x	N/A	✓	N/A	✓	N/A	1	N/A	✓	N/A	Retain.
Aggressive Profile	×	N/A	×	N/A	×	N/A	×	N/A	✓	N/A	✓	N/A	1	N/A	✓	N/A	Retain.
Ultra Aggressive Profile	×	N/A	✓	N/A	×	N/A	x	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Retain.
American Funds Investment Co of America A	×	×	✓	✓	×	×	x	✓	1	✓	✓	✓	1	✓	✓	✓	Retain.
Vanguard Institutional Index Fund Inst Plus	т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	Retain.
Hartford Capital Appreciation HLS IA	~	✓	✓	✓	✓	✓	✓	✓	1	~	✓	✓	1	1	✓	✓	Retain.
American Funds Growth Fund of America A	×	×	×	×	×	×	x	×	×	×	x	×	×	×	✓	✓	Recommend Monitor given performance issues and qualitative concerns.

Defined Contribution Performance Evaluation Report

I – Index		1 Qu	arter			1 Y	ear			3 Y	ears		5 Years				Comments
U – Universe Median	ı	U	ı	U	ı	U	ı	U	ı	U	ı	U	ı	U	1	U	oso.
Vanguard Mid-Cap Index Fund Institutional	Т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	Retain.
Lazard US Mid Cap Equity Portfolio Institutional	×	×	×	✓	×	✓	✓	✓	✓	✓	×	✓	×	×	×	×	On Watch since the second quarter 2009. Mercer downgraded the Fund to B+(T) in July 2009 because of changes in the research structure and investment team. Recommend termination.
SSgA Russell Small Cap Index Non-Lending Series Fund	Т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	Retain.
DWS EAFE Equity Index Fund Institutional	Т	N/A	✓	NA	т	N/A	т	NA	т	N/A	т	NA	т	N/A	т	NA	Retain.
Fidelity Diversified International Fund	✓	✓	✓	×	✓	×	✓	×	×	×	×	×	×	×	×	×	Recommend Monitor due to performance and assets under management.

Summary - Performance Summary

Periods ending December 31, 2010

Cash Equivalents

	Market Value	% of Plan	Recommend
Washington Mutual (Chase) Liquid Savings Account	\$293,350,557	9.3%	Retention
Washington Mutual (Chase) CD's	\$17,777,239	0.6%	Retention

Stable Value

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend
Deferred Compensation Stable Value Fund (Net) ¹	\$683,402,620	21.7%	0.9%	3.7%	3.7%	4.2%	4.4%	
3 Yr Constant Maturity Treasury Index + 50 bps			0.3%	1.6%	1.6%	2.1%	3.3%	
iMoneyNet All Taxable+100bps			0.3%	1.0%	1.0%	1.8%	3.3%	Retention
Mercer Stable Value Universe Median			0.9%	3.5%	3.5%	3.9%	4.3%	
Fund Rank in Universe			39	44	44	29	33	

Domestic Fixed

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend
Vanguard Total Bond Market Index Fund Inst Plus	\$71,417,287	2.3%	-1.3%	6.6%	6.6%	6.0%	5.9%	
Barclays Capital US Aggregate			-1.3%	6.6%	6.6%	5.9%	5.8%	Detention
Mercer Mutual Fund US Fixed Core Universe Median			-0.7%	7.1%	7.1%	5.6%	5.3%	Retention
Fund Rank in Universe			81	66	66	39	32	
PIMCO Total Return Fund Institutional	\$111,548,207	3.5%	-0.9%	8.8%	8.8%	9.1%	8.1%	
Barclays Capital US Aggregate			-1.3%	6.6%	6.6%	5.9%	5.8%	Detention
Mercer Mutual Fund US Fixed Core Universe Median			-0.7%	7.1%	7.1%	5.6%	5.3%	Retention
Fund Rank in Universe			62	24	24	3	2	

¹ The inception date of Galliard Stable Value fund is July 1, 2008. Returns prior to the inception date are linked to the Wells Fargo Stable Return fund.

Fund: Outperformed Index Underperformed Index Matched or Tracked Within Fees Universe Ranking: 0% - 25% 25% - 50% 50% - 75% 75% - 100%

Lifecycle¹

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend
Ultra Conservative	\$14,603,031	0.5%	1.2%	7.1%	7.1%	NA	NA	
Ultra Conservative (Current Allocation – Hypothetical)			1.3%	7.3%	7.3%	4.5%	5.3%	Retention
Ultra Conservative Profile Custom Index ²			1.0%	6.5%	6.5%	3.7%	4.8%	
Conservative Profile	\$38,037,173	1.2%	3.0%	9.4%	9.4%	3.2%	7.1%	
Conservative Profile (Current Allocation – Hypothetical)			3.1%	9.8%	9.8%	3.4%	5.2%	Retention
Conservative Profile Custom Index ³			3.0%	9.4%	9.4%	3.0%	4.8%	
Moderate Profile	\$134,761,416	4.3%	6.3%	12.6%	12.6%	1.5%	7.2%	
Moderate Profile (Current Allocation – Hypothetical)			6.3%	13.0%	13.0%	1.7%	4.7%	Retention
Moderate Profile Custom Index ⁴			6.2%	12.7%	12.7%	1.4%	4.4%	
Aggressive Profile	\$113,266,956	3.6%	8.1%	14.7%	14.7%	-0.4%	6.9%	
Aggressive Profile (Current Allocation – Hypothetical)			8.2%	15.0%	15.0%	0.5%	4.3%	Retention
Aggressive Profile Custom Index ⁵			8.2%	14.9%	14.9%	-0.4%	3.8%	
Ultra Aggressive Profile	\$22,716,663	0.7%	10.0%	16.9%	16.9%	NA	NA	
Ultra Aggressive Profile (Current Allocation – Hypothetical)			10.2%	16.9%	16.9%	-0.8%	3.9%	Retention
Ultra Aggressive Profile Custom Index ⁶			10.2%	17.0%	17.0%	-2.5%	3.0%	

Allocation to the profile funds changed June 1, 2009 with the inclusion of a US mid cap equity component. Hypothetical performance of the profile funds using the allocation adopted June 1, 2009, for periods before June 1, 2009 is shown at the request of the Board for comparison purposes. The hypothetical performance may not match actual historical performance for periods after June 1, 2009 because of rounding differences or changes in performance share class.

Fund: Outperformed Index Underperformed Index Matched or Tracked Within Fees Universe Ranking: 0% - 25% 25% - 50% 50% - 75% 75% - 100%

² For periods after June 1, 2009, the following composite index is used: 35.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays Capital US Aggregate Index / 5% S&P 500 Index / 2.5% MSCI US Mid Cap 450 Index/ 2.5% Russell 2000 Index / 5% MSCI EAFE (NWHT) Index. Prior to June 1, 2009, the following composite index is used: 35.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays Capital US Aggregate Index / 5.0% S&P 500 Index / 5.0% Russell 2000 Index / 5.0% MSCI EAFE (NWHT) Index.

³ For periods after June 1, 2009, the following composite index is used: 15.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays Capital US Aggregate Index / 12.5% S&P 500 Index / 5% MSCI US Mid Cap 450 Index / 5.0% Russell 2000 Index / 12.5% MSCI EAFE (NWHT) Index. Prior to June 1, 2009, the following composite index is used: 15.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50% Barclays Capital US Aggregate Index / 25% S&P 500 Index / 5% Russell 2000 Index / 5% MSCI EAFE (NWHT) Index.

⁴ For periods after June 1, 2009, the following composite index is used: 10.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 30.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 10.0% MSCI US Mid Cap 450 Index/ 10.0% Russell 2000 Index / 15.0% MSCI EAFE (NWHT) Index. Prior to June 1, 2009, the following composite index is used: 5.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 35.0% Barclays Capital US Aggregate Index / 40.0% S&P 500 Index / 10.0% Russell 2000 Index / 10.0% MSCI EAFE (NWHT) Index.

⁵ For periods after June 1, 2009, the following composite index is used: 5.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 20.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 15.0% MSCI US Mid Cap 450 Index/ 15.0% Russell 2000 Index / 20.0% MSCI EAFE (NWHT) Index. For periods prior to June 1, 2009, the following composite index is used: 20% Barclays Capital US Aggregate Index / 50% S&P 500 Index / 15% Russell 2000 Index / 15% MSCI EAFE (NWHT) Index

⁶ For periods after June 1, 2009, the following composite index is used: 10.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 20.0% MSCI US Mid Cap 450 Index/ 20.0% Russell 2000 Index / 25.0% MSCI EAFE (NWHT) Index. For periods prior to June 1, 2009, the following composite index is used: 60.0% S&P 500 Index / 20.0% Russell 2000 Index / 20.0% MSCI EAFE (NWHT) Index.

Domestic Equity

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend
American Funds Investment Co of America A	\$145,219,177	4.6%	8.7%	10.9%	10.9%	-2.7%	2.5%	
Russell 1000 Value			10.5%	15.5%	15.5%	-4.4%	1.3%	Detention
Mercer Mutual Fund US Equity Large Cap Value Universe Median			10.6%	13.2%	13.2%	-3.9%	1.5%	Retention
Fund Rank in Universe			90	84	84	25	25	
Vanguard Institutional Index Fund Inst Plus	\$439,440,096	13.9%	10.8%	15.1%	15.1%	-2.8%	2.3%	
S&P 500			10.8%	15.1%	15.1%	-2.9%	2.3%	Batand'an
Mercer Mutual Fund US Equity Large Cap Core Universe Median			10.5%	13.1%	13.1%	-2.9%	2.2%	Retention
Fund Rank in Universe			42	21	21	48	45	
Hartford Capital Appreciation HLS IA	\$297,881,205	9.4%	13.0%	16.5%	16.5%	-2.6%	4.7%	
S&P 500			10.8%	15.1%	15.1%	-2.9%	2.3%	Detention
Mercer Mutual Fund US Equity Large Cap Core Universe Median			10.5%	13.1%	13.1%	-2.9%	2.2%	Retention
Fund Rank in Universe			6	9	9	46	8	
American Funds Growth Fund of America A	\$238,888,503	7.6%	10.3%	12.3%	12.3%	-2.7%	2.5%	
Russell 1000 Growth			11.8%	16.7%	16.7%	-0.5%	3.8%	Monitor
Mercer Mutual Fund US Eq Large Cap Growth Universe Median			11.8%	15.3%	15.3%	-2.2%	2.5%	Monitor
Fund Rank in Universe			78	73	73	59	52	
Vanguard Mid-Cap Index Fund Institutional ¹	\$35,099,532	1.1%	13.6%	25.7%	25.7%	0.9%	4.4%	
Vanguard Spliced Mid Cap Index			13.6%	25.7%	25.7%	0.9%	4.4%	Retention
Mercer Instl US Equity Mid Cap Core Universe Median			13.1%	24.4%	24.4%	2.1%	5.5%	Retention
Fund Rank in Universe			36	33	33	66	70	
Lazard US Mid Cap Equity Portfolio Institutional	\$30,253,236	1.0%	11.4%	23.4%	23.4%	1.8%	3.3%	
Russell Midcap			13.1%	25.5%	25.5%	1.1%	4.7%	Terminate
Mercer Mutual Fund US Equity Mid Cap Core Universe Median			13.3%	23.4%	23.4%	0.8%	4.0%	reminate
Fund Rank in Universe			87	49	49	36	63	

Fund: Outperformed Index Underperformed Index Matched or Tracked Within Fees Universe Ranking: 0% - 25% 25% - 50% 50% - 75% 75% - 100%

¹ S&P MidCap 400 Index through May 16, 2003; MSCI US Mid Cap 450 Index thereafter.

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend
SSgA Russell Small Cap Index Non-Lending Series Fund	\$122,152,227	3.9%	16.2%	26.6%	26.6%	2.0%	4.2%	
Russell 2000			16.3%	26.9%	26.9%	2.2%	4.5%	Retention
Mercer Mutual Fund US Equity Small Cap Core Universe Median			15.8%	25.6%	25.6%	2.0%	4.2%	Retention
Fund Rank in Universe			43	41	41	49	51	

International Equity

	Market Value	% of Plan	3 Months	YTD	1 Year	3 Years	5 Years	Recommend	
DWS EAFE Equity Index Fund Institutional ¹	\$33,555,758	1.1%	6.2%	7.7%	7.7%	-7.1%	2.2%		
MSCI EAFE NET WHT			6.6%	7.8%	7.8%	-7.0%	2.5%	Retention	
Mercer Mutual Fund Intl Equity Universe Median			7.4%	11.5%	11.5%	-6.0%	3.4%		
Fund Rank in Universe			80	78	78	65	69		
Fidelity Diversified International Fund	\$148,931,341	4.7%	8.3%	9.7%	9.7%	-7.5%	2.4%		
MSCI EAFE NET WHT			6.6%	7.8%	7.8%	-7.0%	2.5%	Manitar	
Mercer Mutual Fund Intl Equity Universe Median			7.4%	11.5%	11.5%	-6.0%	3.4%	Monitor	
Fund Rank in Universe			32	64	64	68	65		

Brokerage Window

	Market Value	% of Plan
Schwab PCRA Self-Directed Brokerage Account Option	\$162,558,687	5.2%

Fund: Outperformed Index Underperformed Index Matched or Tracked Within Fees Universe Ranking: 0% - 25% 25% - 50% 50% - 75% 75% - 100%

¹ DWS EAFE Equity Index may not track the index because the manager uses fair-value pricing in the calculation of the fund's NAV, while the MSCI EAFE Index uses the closing prices of the securities in their local markets.

Performance of New DCP Investment Menu Composite Benchmarks

Periods ending December 31, 2010

	3 Months	YTD	1 Year	3 Years	5 Years
DCP Bond Fund Index (100% BC Aggregate Bond Index)	-1.3%	6.6%	6.6%	5.9%	5.8%
DCP Large-Cap Stock Fund Index (100% S&P 500 Index)	10.8%	15.1%	15.1%	-2.9%	2.3%
DCP Mid-Cap Stock Fund Composite Index	13.1%	25.5%	25.5%	1.1%	4.6%
Russell Midcap Index (50%)	13.1%	25.5%	25.5%	1.0%	4.7%
Russell Midcap Value Index (25%)	12.2%	24.8%	24.8%	1.0%	4.1%
Russell Midcap Growth Index (25%)	14.0%	26.4%	26.4%	1.0%	4.9%
DCP Small-Cap Stock Fund Composite Index	16.2%	26.8%	26.8%	2.3%	4.5%
Russell 2000 Index (34%)	16.3%	26.9%	26.9%	2.2%	4.5%
Russell 2000 Value Index (33%)	15.4%	24.5%	24.5%	2.2%	3.5%
Russell 2000 Growth Index (33%)	17.1%	29.1%	29.1%	2.2%	5.3%
DCP International Fund Composite Index	7.8%	12.3%	12.3%	-4.7%	4.5%
MSCI EAFE Index (65%)	6.7%	7.8%	7.8%	-7.0%	2.5%
MSCI EM Index (17.5%)	7.8%	19.6%	19.6%	0.1%	13.2%
MSCI EAFE Small Cap Index (17.5%)	11.8%	22.1%	22.1%	-1.7%	2.8%

Mercer Median Expense Ratio (Net): 0.30%

Fund Profile

Inception: July 2008

Stable Value - Deferred Compensation Stable Value Fund (Net)

Vehicle: Separate Account				Benchmark: 3 Year CMT Index + 50 bps / iMoneyNet + 100 bps				
Investment Philosophy					·			
security-backed contracts (i issuers and underlying secu	i.e., synthetic urities. The fo	cs) and cert und empha	ain money sizes secu	market instrumen rity-backed investr	ty. 100% of the fund is invested in book value investment instruments: GICs, BICs, with a focus on highly rated instruments and broad diversification among contract ent contracts (synthetics) to enhance credit quality, diversification and investmentions. The target weighted average duration of the fund is within a range of 2.5 to 3 to			
Fund Characteristics as o	f September	30, 2010			Observations			
	4Q10	3Q10	2Q10	1Q10	The current blended yield is at 3.66%			
Mkt Value/BV Ratio	102.9%	104.2%	103.2%	102.1%	 Average credit quality of the wrap contracts remained at A1/AA 			
Avg. Credit Quality	A1/AA-	A1/AA-	A1/AA-	A1/AA-	 Ratings remain unchanged since the prior quarter for all 6 contract iss 			
Average Duration	2.69	2.56	2.42	2.75	(ING Life, JPMorgan Chase, Monumental, Pacific Life, Prudential Life, State Street Bank)			
Portfolio Composition as of December 31, 2010					Underlying Asset Allocation as of December 31, 2010			
Intermediate Portfolio 47.9%		Short/Int	Short Portfoli 11.2%		Cash/Equivalents 5.8% Accounts 0.2% Intl Government 3.6% Asset Backed 3.4% CMBS 5.6% Other US Gov 8.3% Taxable Municipals 2.7%			
Key Facts and Figures								
Portfolio Manager: Galliard	Capital Man	agement	Т	otal Fund Assets:	5714.8 Million Expense Ratio (Net): 0.09%			

Mercer 25

(Includes assets in the Profile funds)

Domestic Fixed - Vanguard Total Bond Market Index Fund Inst Plus - VBMPX

Investment Philosophy

The fund seeks to track the performance of the Barclays Capital U.S. Aggregate Float Adjusted Index. The fund maintains a broadly diversified exposure to the investment-grade U.S. bond market. The fund is passively managed using index sampling. This intermediate-duration portfolio provides moderate current income with high credit quality.

Portfolio Analysis & Key Observations

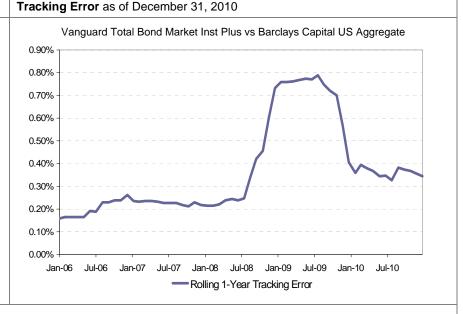
The following comments relate to the performance of the Barclays Capital US Aggregate Bond Index.

Positive Impact on Performance

- Higher quality bonds generally outperformed lower quality bonds
- Strongest performing sectors included CMBS (0.9% return) and MBS Passthroughs (0.2% return)

Negative Impact on Performance

 Weakest performing sectors were treasuries (-2.6% return), government related (-1.7% return), and utilities (-2.5% return) and industrials (-2.1% return) within corporate bonds



Key Facts and Figures

Portfolio Manager: Kenneth E. Volpert; Gregory

Davis

Portfolio Manager Average Tenure: 10.0 Years

Total Fund Assets: \$86,275 Million

Total Share Class Assets: \$6,302 Million

Expense Ratio (Net): 0.05%

Mercer Median Expense Ratio (Net): 0.24%

Domestic Fixed - PIMCO Total Return Fund Institutional - PTTRX

Share Class: Institutional	Benchmark: Barclays Capital US Aggregate

Investment Philosophy

The Fund seeks to achieve its investment objective by investing under normal circumstances at least 65% of its total assets in a diversified portfolio of fixed income instruments of varying maturities. The average portfolio duration of this Fund normally varies within a 3- to 6-year time frame. The Fund invests primarily in investment-grade debt securities, but may invest up to 10% of its total assets in high yield securities ('junk bonds') rated B or higher by Moody's or S&P or, if unrated, determined by PIMCO to be of comparable quality. The Fund may invest up to 20% of its total assets in securities denominated in foreign currencies, and may invest beyond this limit in US dollar-denominated securities of foreign issuers. Currently, the Fund will normally hedge at least 75% of its exposure to foreign currency to reduce the risk of loss due to fluctuations in currency exchange rates.

Portfolio Analysis & Key Observations

Positive Impact on Performance

- Overweight allocation to Agency mortgages and bonds of financial companies
- Security selection within mortgages
- Holdings of real return bonds
- Within emerging markets, overweight exposure to corporates within Russia and Indonesia

Negative Impact on Performance

- Overweight allocation to longer-duration bonds
- Exposure to money market futures and Build America Bonds

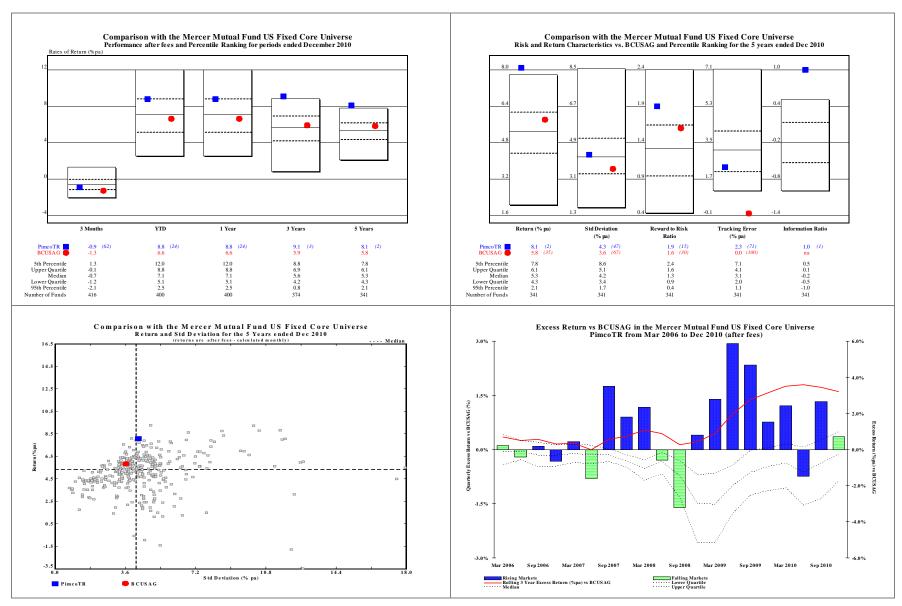
Sector Allocation as of December 31, 2010 50.0 45.0 40.0 35.0 30.0 25.0 20.0 15.0 10.0 5.0 Treasury Agency Corporate Asset Backed Muni Mortgage Related Other PIMCO Total Return Fund Institutional ■ Bardays Capital US Aggregate

Kev Facts and Figures

Portfolio Manager: William H. Gross
Total Fund Assets: \$240,658 Million
Expense Ratio (Net): 0.47%

Portfolio Manager Average Tenure: 23.0 Years
Total Share Class Assets: \$138,794 Million
Mercer Median Expense Ratio (Net): 0.57%

Domestic Fixed - PIMCO Total Return Fund Institutional - PTTRX



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Fund Profile

Lifecycle - Pre-Mixed Funds Target Allocations*

	4Q 2010 Fund Return (%)	4Q 2010 Benchmark Return (%)	Excess Return (%)	Ultra Conservative Profile	Conservative Profile	Moderate Profile	Aggressive Profile	Ultra Aggressive Profile
Stable Value								
DCP Stable Value	0.9%	0.3%	0.6%	35.0%	15.0%	10.0%	5.0%	0.0%
Total Stable Value				35.0%	15.0%	10.0%	5.0%	0.0%
US Fixed Income								
Vanguard Total Bond Market ldx Instl	-1.3%	-1.3%	0.0%	50.0%	50.0%	30.0%	20.0%	10.0%
Total US Fixed Income				50.0%	50.0%	30.0%	20.0%	10.0%
US Equity								
US Large Cap Equity								
Vanguard Instl Index Instl Plus	10.8%	10.8%	0.0%	5.0%	12.5%	25.0%	25.0%	25.0%
Sub-Total US Large Cap Equity				5.0%	12.5%	25.0%	25.0%	25.0%
US Mid/Small Cap Equity								
Vanguard Mid Cap Index Instl	13.6%	13.6%	0.0%	2.5%	5.0%	10.0%	15.0%	20.0%
SSgA Russell Sm Cap NL Series S	16.2%	16.3%	-0.1%	2.5%	5.0%	10.0%	15.0%	20.0%
Sub-Total US Mid/Small Equity				5.0%	10.0%	20.0%	30.0%	40.0%
Total US Equity				10.0%	22.5%	45.0%	55.0%	65.0%
Non-US Equity								
DWS EAFE Equity Index Fund Instl	6.2%	6.6%	-0.4%	5.0%	12.5%	15.0%	20.0%	25.0%
Total Non-US Equity				5.0%	12.5%	15.0%	20.0%	25.0%
Total				100.0%	100.0%	100.0%	100.0%	100.0%

Fund: Outperformed Index Underperformed Index Tracked Within Fees

^{*} Allocations are rebalanced quarterly

Domestic Equity - American Funds Investment Co of America A - AIVSX

Investment Philosophy

CR&M's investment philosophy is that extensive global research and a flat organizational structure encouraging participatory decision-making will produce superior investment portfolios. The goal is for each portfolio manager to invest according to his own convictions in order to produce a portfolio that is diversified by portfolio management style. The fund utilizes a value-oriented, bottom-up approach to investment management.

Portfolio Analysis & Key Observations

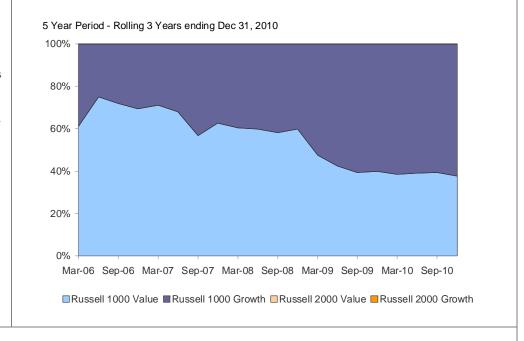
Positive Impact on Performance

- Overweight exposure to the information technology sector (12.1% return for this sector of the Russell 1000 Value Index in comparison to the Index's 10.5% overall return)
- Underweight allocations to the health care (3.2% return) and utilities (1.9% return) sectors
- Security selection within the software (sub-sector of information technology), insurance (financials), semiconductor & semiconductor equipment (information technology) and health care equipment & supplies (health care) industries

Negative Impact on Performance

- Underweight exposure to the energy (22.3% return for this sector of the Index) and financials (11.0% return) sectors
- Security selection within the commercial banks (sub-sector of financials), oil, gas & consumable fuels (energy), tobacco (consumer discretionary), computers & peripherals (information technology) and personal products (consumer staples) industries

Style Analysis



Key Facts and Figures

Portfolio Manager: R. Michael Shanahan; James B. Lovelace; Donald D. O'Neal

Portfolio Manager Average Tenure: 14.8 Years

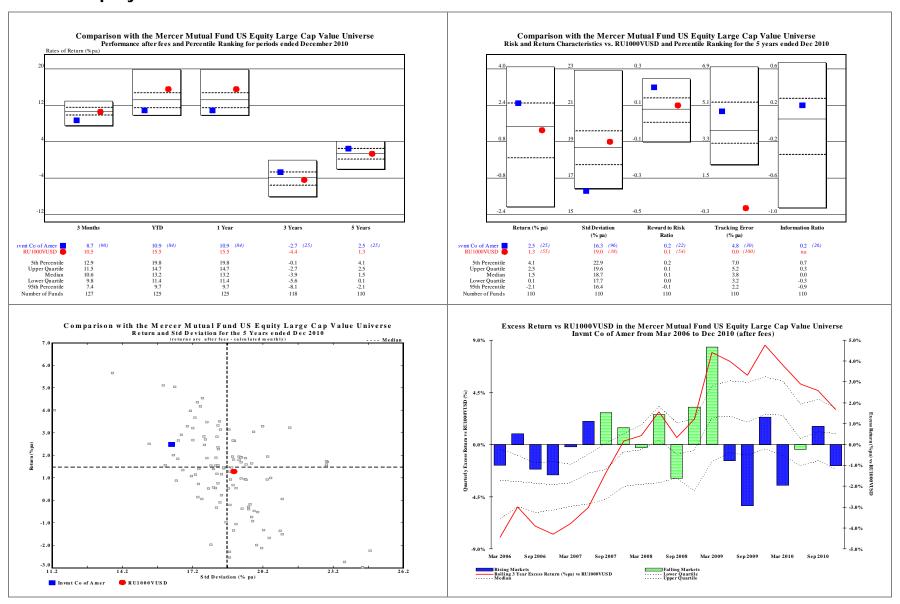
Total Fund Assets: \$62,088 Million

Total Share Class Assets: \$48,789 Million

Expense Ratio (Net): 0.66%

Mercer Median Expense Ratio (Net): 0.80%

Domestic Equity - American Funds Investment Co of America A - AIVSX



Domestic Equity - Vanguard Institutional Index Fund Inst Plus - VIIIX

Share Class: Inst Plus Benchmark: S&P 500

Investment Philosophy

The Fund attempts to provide investment results that parallel the performance of the S&P 500 Index. Given this objective, the portfolio is expected to provide investors with long-term growth of capital and income as well as a reasonable level of current income. The Fund employs a "passive management" - or indexing - investment approach designed to track the performance of the Standard & Poor 500 Index, a widely recognized benchmark of US stock market performance that is dominated by the stocks of large US companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Portfolio Analysis & Key Observations

The following comments relate to the performance of the S&P 500 Index.

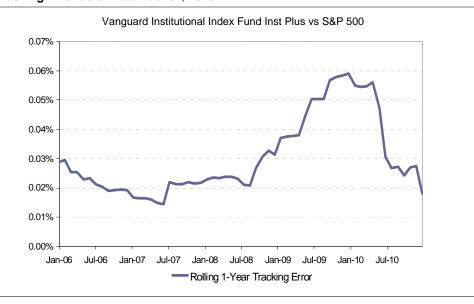
Positive Impact on Performance

- Top performing sectors were energy (21.5% return), materials (19.0% return), and consumer discretionary (12.6% return)
- Individual contributors to performance: Exxon Mobil (19.1% return),
 Apple (13.7% return), and Schlumberger (35.9% return)

Negative Impact on Performance

- Weakest performing sectors were utilities (1.1% return), health care (3.5% return), and consumer staples (6.1% return)
- Individual detractors from performance: Cisco Systems (-7.6% return), Abbott Laboratories (-7.5% return), and Berkshire Hathaway (-3.1% return)

Tracking Error as of December 31, 2010



Key Facts and Figures

Portfolio Manager: Donald M. Butler Total Fund Assets: \$88,329 Million Expense Ratio (Net): 0.025%

Portfolio Manager Average Tenure: 10.0 Years Total Share Class Assets: \$33,643 Million Mercer Median Expense Ratio (Net): 0.21%

Domestic Equity - Hartford Capital Appreciation HLS IA - HIACX

Share Class: Inst

Benchmark: S&P 500

Investment Philosophy

Wellington Management Company, LLP is an independent and unaffiliated sub-adviser to the Hartford Capital Appreciation HLS IA fund. Hartford Capital Appreciation HLS Fund is a total return-oriented strategy; the investment process seeks capital appreciation without regard to market capitalization; for example, smaller company stocks with high earnings growth potential and larger-cap stocks with attractive valuations and catalysts for appreciation. Investment decisions, while based primarily on company-by-company fundamental analysis, may also be shaped by secular and industry themes. The portfolio managers emphasize differences between the firm's outlook and Wall Street consensus. The portfolio typically has international exposure and can hold up to 35% in international securities. The portfolio typically will be reasonably diversified, typically holding between 325 and 400 stocks, with no one holding accounting for more than 5% of the portfolio at the time of purchase.

Portfolio Analysis & Key Observations

Positive Impact on Performance

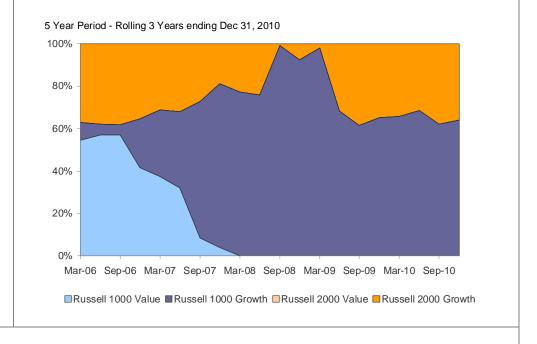
Stock selection in the consumer discretionary, information technology, and financials sectors

- Underweight allocation to utilities and consumer staples
- Holdings such as Ford Motors (37.1% return), Cameco (47.0% return) and Wells Fargo (23.8% return)

Negative Impact on Performance

- Stock selection in the industrials and consumer staples sectors
- Underweight to strong performing energy sector
- Individual detractors were Teva Pharma (-0.8% return),
 Schlumberger (9.3% return), and UnitedHealth Group (3.2% return)

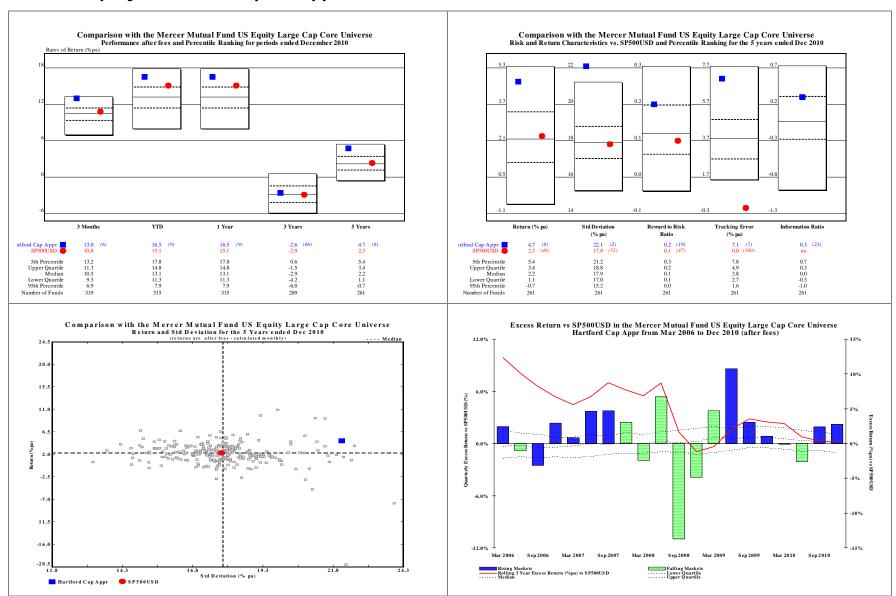
Style Analysis



Key Facts and Figures

Portfolio Manager: Multiple	Total Fund Assets: \$10,400 Million	Expense Ratio (Net): 0.67%
Portfolio Manager Average Tenure: 4.4 Years		Mercer Median Expense Ratio (Net): 0.82%

Domestic Equity - Hartford Capital Appreciation HLS IA - HIACX



Domestic Equity - American Funds Growth Fund of America A - AGTHX

Share Class: A Benchmark: Russell 1000 Growth

Investment Philosophy

The Fund seeks to provide long-term growth of capital through a diversified portfolio of common stocks. The Fund has the flexibility to invest wherever the best growth opportunities may be. It emphasizes companies that appear to offer opportunities for long-term growth, and may invest in cyclical companies, turnarounds and value situations. The Fund may invest up to 25% of assets in securities of issuers domiciled outside the US, and it may invest up to 10% of assets in debt securities rated below investment-grade.

Portfolio Analysis & Key Observations

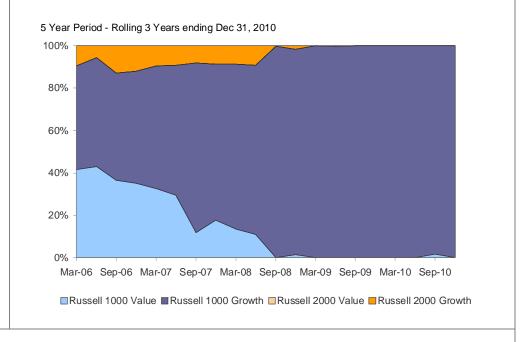
Positive Impact on Performance

- Security selection in the electric utilities (sub-sector of utilities), pharmaceuticals (health care), software (information technology) and insurance (financial services) industries
- An underweight allocation to consumer staples (6.4% return for this sector of the Index in comparison to the Russell 1000 Growth Indexes 11.8% overall return)
- An overweight allocation to materials (19.9% return for this sector of the Index)
- Security selection in Canada, Argentina, the UK, Ireland and Singapore

Negative Impact on Performance

- Security selection in the commercial banks (sub-sector of financial services), oil, gas & consumable fuels (energy), automobiles (consumer discretionary) and media (consumer discretionary) industries
- Security selection in Israel, Brazil, China and Hong Kong

Style Analysis



Key Facts and Figures

Portfolio Manager: James E. Drasdo; James F. Rothenberg; Gordon Crawford

Portfolio Manager Average Tenure: 13.9 Years

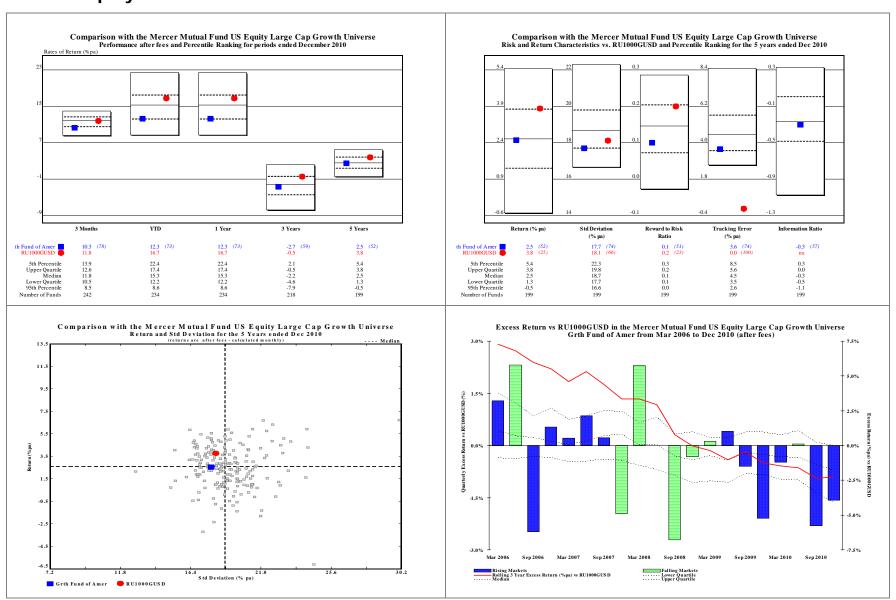
Total Fund Assets: \$161,799 Million

Total Share Class Assets: \$66,101 Million

Expense Ratio (Net): 0.69%

Mercer Median Expense Ratio (Net): 0.90%

Domestic Equity - American Funds Growth Fund of America A - AGTHX



Domestic Equity - Vanguard Mid-Cap Index Fund Institutional - VMCIX

Share Class: Institutional		Benchmark: Vanguard Spliced Mid Cap Index			
Investment Philosophy					
The fund seeks to track the investment performance of the Morepresenting medium-sized U.S. companies. Using full replicate 2003, the fund replicated the S&P 400 Index.					
Portfolio Analysis & Key Observations	Tracking Error as of Dece	ember 31, 2010			
The following comments relate to the performance of the MSC 450 Index.	CI US Mid Cap	Vanguard Mid-Cap In	dex Fund Inst Plus vs Vanguard Spliced Mid-Cap Index		
Positive Impact on Performance		0.14%			
 Strongest performing sectors were energy, industrials materials and consumer discretionary 		0.12%			
■ Top ten holdings: SanDisk (36.0% return), Consor Energy (32.2% return) and FMC Technologies (30.2% return)		0.10%			
Negative Impact on Performance		0.06% \			
 Weakest performing sector was utilities 		0.04%			
■ Top ten holdings: Dover (12.5% return)		0.02% - 0.00% - Mar-06 Sep-06 Mar-07 Sep-07 Mar-08 Sep-08 Mar-09 Sep-09 Mar-10 Sep-10 - Rolling 1-Year Tracking Error			
Key Facts and Figures	'				
Portfolio Manager: Donald M. Butler To	Total Fund Assets: \$25,620 Million		Expense Ratio (Net): 0.08%		
Portfolio Manager Average Tenure: 12.0 Years To	tal Share Class Ass	ets: \$7,795 Million	Mercer Median Expense Ratio (Net): 0.30%		

Domestic Equity - Lazard US Mid Cap Equity Portfolio Institutional - LZMIX

Share Class: Institutional Benchmark: Russell Midcap

Investment Philosophy

The Mid Cap Equity strategy is based on bottom-up stock selection with an emphasis on undervalued sectors and industries. Lazard seeks inexpensively priced companies that are financially productive with a catalyst that should create sustainable returns over the long term. The firm focuses on financial productivity and the long-term sustainability of returns rather than just price to earnings multiples and earnings projections. In-house fundamental research and financial analysis is key to the stock selection process. Macro, political, and economic factors are also considered.

Portfolio Analysis & Key Observations

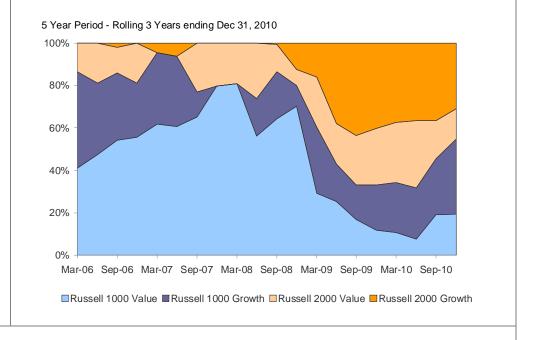
Positive Impact on Performance

- Security selection in the energy and material sectors
- Individual contributors to performance included Holly Corp. (42.3% return) and Ball Corp. (15.8% return)

Negative Impact on Performance

- Security selection in the health care, consumer staples, industrials and information technology sectors
- Overweight position to the consumer staples sector
- Individual detractors to performance included Zimmer Holdings (2.6% return) and Avon Products (-8.8% return)

Style Analysis



Key Facts and Figures

Portfolio Manager: Andrew D. Lacey; Christopher H. Blake; Robert A. Failla

Portfolio Manager Average Tenure: 5.8 Years

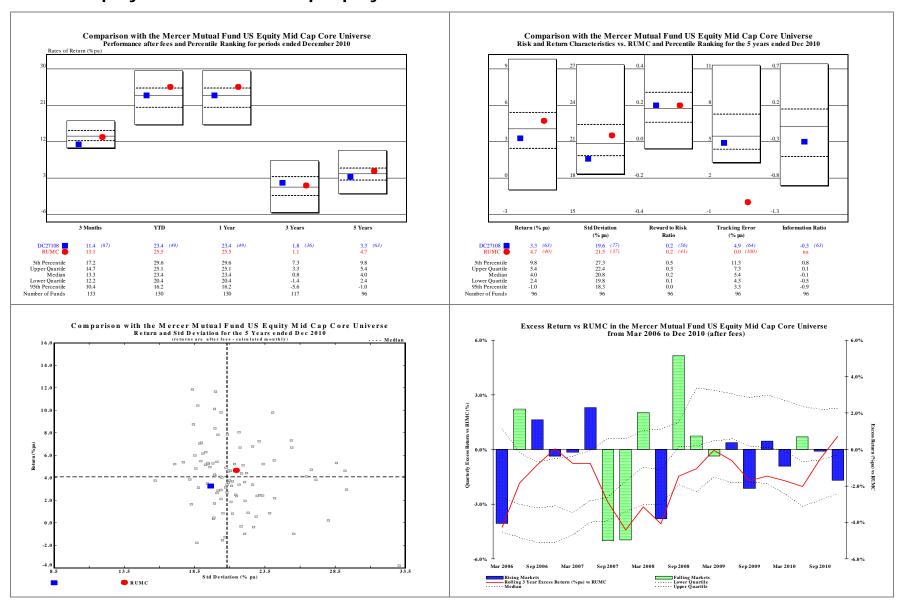
Total Fund Assets: \$196 Million

Total Share Class Assets: \$136 Million

Expense Ratio (Net): 0.91%

Mercer Median Expense Ratio (Net): 0.98%

Domestic Equity - Lazard US Mid Cap Equity Portfolio Institutional - LZMIX



Domestic Equity - SSgA Russell Small Cap Index Non-Lending Series Fund

Share Class: S	Benchmark: Russell 200				
Investment Philosophy	·				
SSgA's passive equity process objective is to remain fully invescenange-traded Russell 2000 index futures contracts to main CFTC-approved index futures contracts. This position in future dividend receivables to achieve closer tracking.	ntain full exposure. The portfolio tends to hold	d approximately 1% to 3% of the strategy's value in suitable			
Portfolio Analysis & Key Observations	Tracking Error as of D	Tracking Error as of December 31, 2010			
The following comments relate to the Russell 2000 Index	Tracking Error	r in Mutual Fund US Equity Small Cap Core from Mar 2006 to Dec 2010 SSgA Ru2000S versus Russell 2000 (after fees)			
Positive Impact on Performance	2.5%]				
 Top-performing sectors included energy (29.8% return), ma return), and industrials (19.6% return) 	aterials (21.5%				
Negative Impact on Performance					
 Weakest-performing sectors included utilities (6.2% return staples (10.5% return), and health care (12.3% return) 	Consumer & & 1.0%				
	0.5% - 0.0%	— 1 Year Rolling Tracking Error			
Key Facts and Figures	·				
Portfolio Manager: SSgA To	otal Fund Assets: \$7,093 Million	Expense Ratio (Net): 0.06%			
Inception: July 1999	otal Share Class Assets: \$1,074 Million	Mercer Median Expense Ratio (Net): 0.30%			

International Equity - DWS EAFE Equity Index Fund Institutional - BTAEX

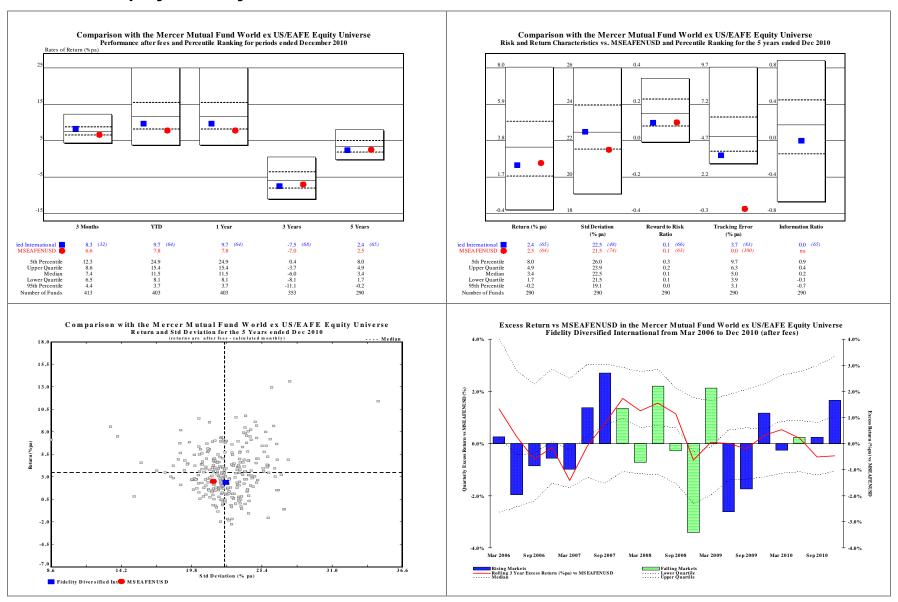
Share Class: Institutional		Benchmark: MSCI EAFE NET WHT			
Investment Philosophy					
Portfolio management invests in a statistically selected sar select derivative instruments relating to the index.	mple of the securities fo	und in the MSCI EAFE Inde	ex, with typically 80% of the Fund in index securities and		
Portfolio Analysis & Key Observations	Tracking Error¹ as of December 31, 2010				
The following comments relate to the performance of the M	ISCI EAFE Index	Tracking Error in Mu	tual Fund World ex US/EAFE Equity Index from Jan 2006 to Dec 2010 M27271 versus MSCI EAFE (after fees)		
Positive Impact on Performance		5.0%]			
■ Top-performing sectors included materials (17.9% return), information technology (10.8% return), industrials (10.6%), energy (10.1% return) and consumer discretionary (9.1% return)		4.0% -			
Negative Impact on Performance		<u> </u>			
 Worst-performing sectors included financials (1.5% return), telecommunications (2.1% return), utilities (2.4% return), health care (2.6% return) and consumer staples (3.9% return) 		[8] 3.0% - 10			
		0.0% Jan 2006 Jun 2006 Nov 2006 Apr 20	07 Sep 2007 Feb 2008 Jul 2008 Dec 2008 May 2009 Oct 2009 Mar 2010 Aug 2010 —— I Year Rolling Tracking Error		
Key Facts and Figures		Created on 3 Mar 2011. Data Source: Lipper, Inc.			
	Total Fund Assets: \$323 Million Expense Ratio (Net): 0.52%				
	Total Share Class Assets: \$323 Million		Mercer Median Expense Ratio (Net): 0.48%		

¹ DWS EAFE Equity Index may not track the index because the manager uses fair-value pricing in the calculation of the fund's NAV, while the MSCI EAFE Index uses the closing prices of the securities in their local markets.

International Equity - Fidelity Diversified International Fund - FDIVX

Share Class:		Benchmark: MSCI EAFE NET WHT					
Investment Philosophy							
The Fund seeks capital growth by typically investing in noi in each country and region relative to the size of the intern			estments	across c	ountries and regions by considering the size of the market		
Portfolio Analysis & Key Observations		Country Analysis as of December 31, 2010					
Positive Impact on Performance		25.0					
 Strong stock selection in the information technology, endiscretionary and financials sectors 	ergy, consumer				1		
 Overweight to the consumer discretionary, energy and information technology sectors 		20.0 +					
 Underweight to the financials and utilities sector 		ry Allo	15.0 +				
 Individual holdings in Anadarko Petroleum (+33.7% return), Orix Corp. (+26.7% return) and Volkswagen (+29.2% return) 			10.0				
 Out-of-index exposure to US securities (11.2% allocation) 		Julied Kindlori. Japan. Julied States Contains Switzenend France Canada Krestalia Spain.					
Negative Impact on Performance Underweight to the industrials sector Underweight to Japan and Australia							
				■Fic	elity Diversified International Fund ■MSCI EAFE NET WHT		
Key Facts and Figures							
Portfolio Manager: William Bower	Total Fund Assets: \$35,050 Million			Expense Ratio (Net): 0.96%			
Portfolio Manager Average Tenure: 9.0 Years	Total Share Class Assets:		ets: \$26,013 Million		Mercer Median Expense Ratio (Net): 1.07%		

International Equity - Fidelity Diversified International Fund - FDIVX



Appendix A

Investment Manager Updates

PIMCO Total Return Fund

Paul McCulley to Retire - December 6, 2010

PIMCO has announced that Paul McCulley, Managing Director, is retiring from the firm at year-end. After year end, McCulley is taking some personal vacation time before joining a think tank in a role that is not directly related to asset management.

McCulley served PIMCO for the last 13 years and he had many key responsibilities, for which transition to existing PIMCO team members is underway. Firstly, McCulley acted as an advisor on Federal Reserve Bank policy. He was highly visible in this role, writing PIMCO's Fed Watch piece on a regular basis. Additionally he appeared frequently on CNBC and spoke in other high profile forums to promote PIMCO and its views on interest rate policy and other issues. Anthony Crescenzi has accepted these responsibilities going forward. Crescenzi joined PIMCO in 2009 as a portfolio manager and strategist. He has over 20 years of fixed income experience, comprised of research (including writing and lecturing) and asset management.

McCulley was also a member of the firm's Investment Committee (IC), which drives the firm's top-down decision making. A replacement has not been named for McCulley in this role. Also, McCulley chaired PIMCO's economic forums, which are information gathering meetings that provide the basis for top-down idea generation. In this leadership role, McCulley set the agenda, external participation, and directed the debate during the forums. Parikh has been appointed as replacement for McCulley in this role.

Mercer View

McCulley's retirement undoubtedly poses a loss to PIMCO. He was a key idea generator and he held many high profile roles within the firm; as such McCulley has been instrumental in the growth and success of the firm. However, we believe the firm has taken the appropriate steps over the last several years, in terms of retaining and recruiting experienced investment professionals, and in designing a credible succession plan, that the impact of McCulley's departure on all facets of the business has been minimized. We therefore do not suggest a change to any of PIMCO's ratings at this time.

PIMCO's IC, which is the foremost decision making body, includes Andrew Balls, Chris Dialynas, Mohammed El-Erian, Bill Gross (Chairman), and Christian Stracke. The IC has never been managed to include a certain number of participants, or representation of a certain level of specific sector expertise. That said we are not surprised to hear that a replacement for McCulley on the IC is not imminent.

New Equity Linked Parameters Established for Total Return Fund – December 20, 2010

PIMCO has announced that it has approved a change in the guidelines for the Total Return Fund that enables it to invest in equity-related securities effective March 31, 2011. The removal of the restriction will allow the Fund to invest up to 10% of its total assets in securities that share characteristics of debt and equity securities (such as convertible bonds and preferred equities). We note that a number of other PIMCO Funds including the Total Return II/III Funds already allow such investments (Total Return II is a less discretionary version of Total Return that does not allow non-dollar investments, and the Total Return III Fund is an SRI version of the Total Return Fund). The removal of the restriction does not mean that the Total Return Fund can purchase common stock. However, the Fund will not be forced to sell equities that it may acquire through means such as the exercise of a convertible security.

Mercer View

Clients should not be concerned about the change to investment permissions for the Total Return Fund. Importantly, PIMCO's intent is not to invest directly in common stock, which would not be consistent with the Fund's profile as a core plus fixed income product. Rather, PIMCO seeks the permission given the perception of an attractive opportunity set in the equity-related space, specifically with regard to the Financial industry. The firm has held an overweight position in Financials since 2008, believing that select, large money center banks are too big to fail. The position has ultimately proved profitable, and the permission to invest in convertible bonds and preferred securities allows the investment team to exhibit greater conviction in this view as these securities are lower in the capital structure and typically offer greater potential for total return. PIMCO also believes that issuance of hybrid (having the characteristics of debt and equity) securities will pick up in other industries and, in general, it can leverage its depth of credit analysis to take advantage of the broader opportunity set for all of its portfolios.

SSgA Russell Small Cap Index NL Series

Update on Passive Strategies – February 4, 2011

Issues to Watch

It appears that SSgA (particularly in the passive equity business) is attempting to be a 'one stop shop' for clients looking for passive market exposure as it is continuously expanding its passive product platform. When asked about product expansion, Lynn Blake indicated each portfolio manager can effectively manage about 30 to 40 portfolios; however, she then proceeded to state that the team was looking to hire. While its breadth of products can be viewed as a competitive advantage, it is important product proliferation does not impact the firm's ongoing ability to manage its core competencies.

We will continue to review changes within the team, particularly the transition from Paul Brakke to Blake as the Global Head of Index Equity.

Highlights

At the management level, SSgA is currently undergoing some organizational changes. On December 31, 2010, Paul Brakke retired from his position as Senior Managing Director and head of SSgA Global Structured Products Group (GSPG). Blake, who was previously responsible for overseeing non-U.S. indexing, succeeded Brakke as the Global Head of Index Equity. Brakke will continue to serve in an advisory role at the firm. As a result of the restructuring, John Tucker and Mike Feehily have assumed the roles of co-heads of the North American region. In addition, the team in Boston has recently appointed three strategy heads to manage day-to-day operations and the various equity asset classes. While we do not anticipate these changes will significantly affect the overall investment process, we will continue to monitor the transition between all of these roles.

SSgA offers a breadth of products to its clients. The firm recently launched a few strategies in the ESG and alternative forms of beta spaces. The team now offers socially screened portfolios as well as specialty indexes which allow investors' to "tilt" their portfolios to express their own views (e.g., quality tilt). SSgA has also seen client demand in broader indexes such as the Russell 3000 Index over the S&P 500 Index or ACWI instead of EAFE, and as a result, has also been moving toward opening funds which track broader benchmarks. In addition, it is continuously expanding its ETF offerings on a global basis as institutional demand for more focused ETF products has recently increased. The firm is focused on meeting all of a client's passive needs; however, we expect a similar amount of growth in resources. The firm's commitment to the passive equity business alleviates concerns the team will not have access to all of the resources it needs to grow.

With respect to its process, State Street employs a variety of techniques, ranging from full replication to stratified sampling and optimization, in order to closely track the different indices. The scale of its operations allows it to take advantage of both internal and external crossing opportunities, enabling the firm to save considerably on transaction costs. SSgA also maintains three regional equity trading desks located in Boston, London, and Hong Kong which

allows the team to trade around the clock seven days a week. Adequate risk controls are in place to monitor the fund's tracking error and various elements of risk in the portfolio.

With regard to securities lending, State Street had to impose gates and withdrawal restrictions on some of its lending funds in recent years. Blake reassured us that the withdrawal limits have been terminated, and all gates have been lifted. For more information on SSgA's securities lending program, please contact a member of Mercer's Sentinel team.

Vanguard Index Funds

Update on Passive Strategies – February 3, 2011

Issues to Watch

Expansion: Vanguard is beginning a long-term initiative to grow its business globally, which includes expansion outside the US. It expects a three-year transition period. How realistic is Vanguard's goal? Will it be successful recruiting and/or transitioning existing staff with minimal internal disruption? How much disruption will this effort create for clients, particularly in terms of client service?

Highlights

Vanguard has offered passive equity products for over 30 years. Its list of offerings has expanded to several asset classes and styles within the S&P, MSCI, Russell, and FTSE Indices. Vanguard also stated that it will continually seek to improve, and potentially expand, its product lines. As noted in the Global, International, and Emerging Markets Passive Equity Research Note, the firm intends to build a business structure that offers an effective balance between centralization and regional autonomy. Because the firm is in the very early stages of this venture, few details are available at this time.

The passive equity products are managed by the Quantitative Equity Group (QEG) located in Malvern, PA. Gus Sauter has been with the firm for over 20 years and serves as the CIO and Managing Director. He oversees the Equity and Fixed Income Groups at Vanguard. Sandhip Bhagat joined Vanguard in 2009 and is Head of the QEG. Prior to assuming this position, he was head of asset allocation and systematic strategies at Morgan Stanley Investment Management. Duane Kelly oversees the portfolio management and daily trading of the passive equity strategies. Michael Buek is also involved with the daily trading and portfolio management of the funds. Both Kelly and Buek report to Bhagat. John Hollyer heads Vanguard's Risk Management and Strategic Analysis team (RMSA). These four individuals are assisted by teams of portfolio managers, traders, and risk managers that, in many instances, have cross trained in the three areas. The team is deep and Vanguard has the necessary resources to support them.

Vanguard commonly employs two techniques for passive equity fund management: Full replication or a combination of replication and optimization. QEG utilizes a proprietary software program that supports its index replication process. The index data is updated daily to reflect any changes, such as constituent changes, index reconstitutions, or corporate actions. After the team determines a portfolio's net cash flow, the portfolio manager/trader uses the software to generate a buy or sell list. The software helps minimize portfolio imbalances relative to target index weights by constituent, and factors in a minimum transaction size to avoid excessive transaction costs. For additional oversight and control, analysts independent of the portfolio management/trading process monitor constituent imbalances. The QEG monitors portfolio management strategy effectiveness continuously.

The QEG also uses proprietary software for the optimization process. The team produces buy or sell lists for each portfolio so that industry weights; market capitalization, fundamental characteristics, including price/earnings ratio, projected earnings growth, and dividend yield; and country weights for international funds approximate those of the index closely. To protect against excess concentration and to ensure optimal diversification, the optimization technique uses stratified sampling and factors in trading efficiency. The team isolates the optimization component from the rest of the portfolio, and reviews it separately to ensure tight tracking to its target-index component. Optimization portfolios receive the same independent oversight and controls as

replication portfolios. Each portfolio remains invested fully at all times, regardless of the approach. To maintain daily liquidity, Vanguard keeps a small portion of each portfolio's assets in cash, but invests it in representative futures contracts to equitize it. The team does not use futures or any other investment techniques to leverage portfolio assets.

Vanguard Risk Management and Strategic Analysis (RMSA) team is an independent unit headed by John Hollyer and reports directly to Vanguard's CIO. The team enforces the day-to-day portfolio risk management controls. The RMSA team works closely with the portfolio management team, understanding and managing both investment and operational risk, including: portfolio construction, liquidity, corporate actions, trading, use of derivatives, counterparty risk, cash management, reinvestment of dividends, index rebalancing, and regulatory factors.

QEG uses several systems for risk management purposes. Charles River Development (CRD) software is used to oversee the order management, and perform real-time pre-trade and post-execution compliance checks (such as regulatory rules, internal investment guidelines and client specific guidelines). VQUEST is a proprietary risk management and portfolio construction tool. VQUEST offers a wide range of reporting tools, such as threshold reports, which compare fund positions by security with index weights to ensure that portfolios are in line with their respective index. Deviations permitted are very small to ensure minimal tracking error. These reports include a summary of portfolio securities, index securities, securities outside the tolerance level, and other relevant information. The RMSA team also uses a risk optimizer licensed from Axioma for risk measurement and decomposition, as well as the Wilshire Atlas system for performance attribution and risk analysis.

Appendix B Disclosures

Important notices

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