



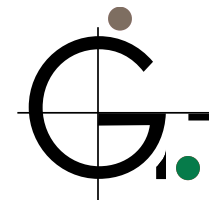
## City of Los Angeles

November 15, 2011

**Presenters:**

Mike Norman  
*Senior Principal*

Robert Crandall  
*Senior Associate*



**GALLIARD**  
CAPITAL MANAGEMENT, INC.

Experience. Performance. Consistency.

# City of Los Angeles Stable Value Fund

Section I:	Galliard Capital Management Update
Section II:	A Brief Refresher: What is Stable Value?
Section III:	Stable Value Market Update Economic Overview
Section IV:	City of Los Angeles 3Q'11 Portfolio Update

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*Section I*

# Galliard Update

Fixed Income and Stable Value Specialists



## Galliard At A Glance

### **One of the nation's leading fixed income and stable value managers**

- Over \$75.8 Billion in assets under management - \$68.1 Billion in stable value\*
- Ranked 12<sup>th</sup> largest active domestic fixed income manager by *Pensions & Investments*\*\*

### **Experienced team focused on managing money and servicing clients**

- 88 professionals on staff\*
- Ability to leverage support services from Wells Fargo

### **Exceptional Stability**

- Founded in 1995 as an independently operated subsidiary of Wells Fargo & Co.
- No changes in ownership, management or philosophy since inception – none contemplated

\*as of 9/30/11

\*\* *Pensions & Investments*, Largest Money Managers Report, May 30, 2011. The ranking is based on U.S. Institutional, tax-exempt assets managed internally in millions, as of December 31, 2010.

**Our client focus and organizational stability have been the key to our long term success**

\*The City of Los Angeles Stable Value Fund and its underlying collective funds are not FDIC, Federal Reserve Board insured and may lose value. No bank guarantee,



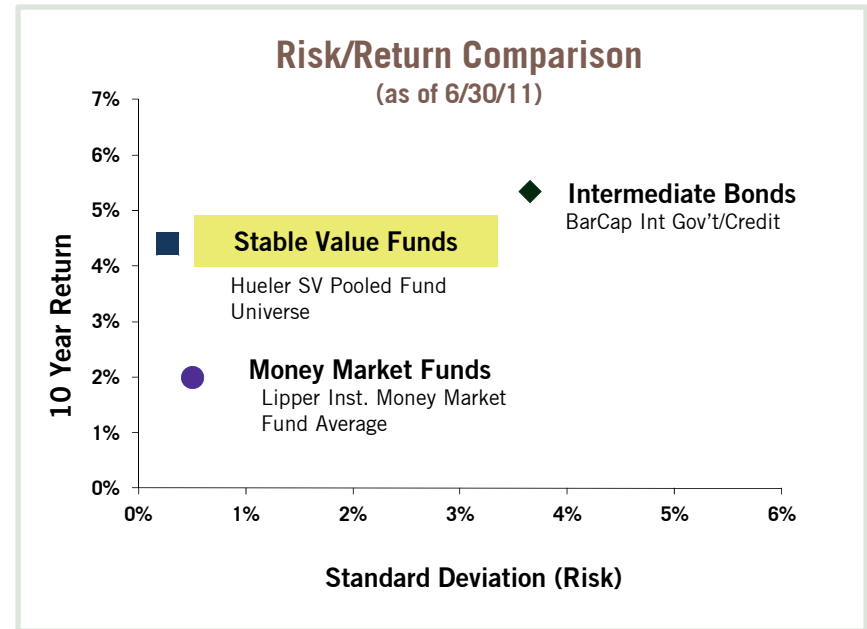
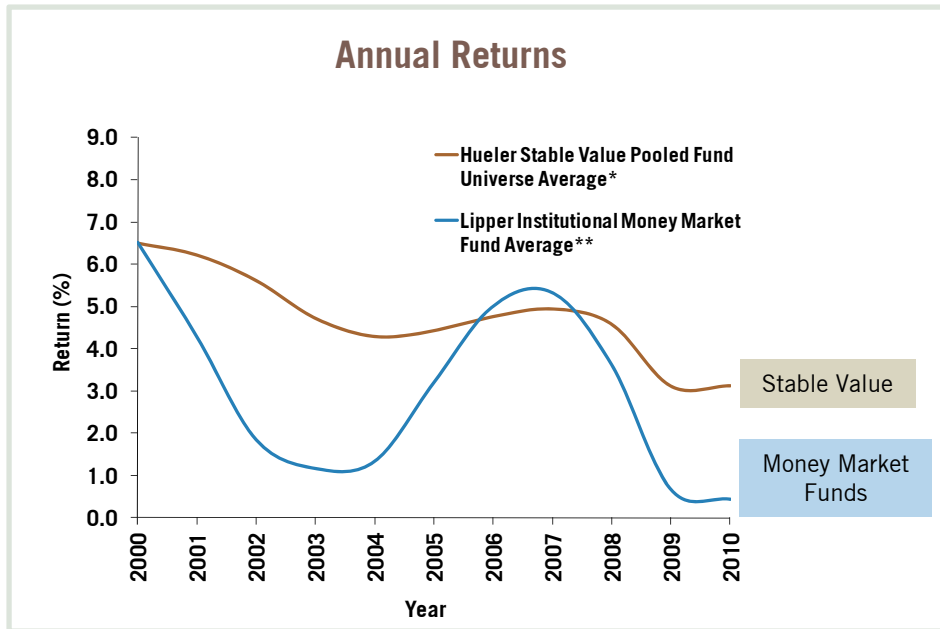
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*Section II*

# Stable Value Overview

## Returns Versus Competing Options

### Investment Performance Comparison



Stable value funds have historically delivered a very attractive return pattern versus money market funds.

Stable Value funds offer bond-like returns with less volatility than money market funds.

\*As of 6/30/11, the Hueler Analytics Stable Value Pooled Fund Universe represented investment strategies of \$102 billion in stable value assets across 20 pooled funds.

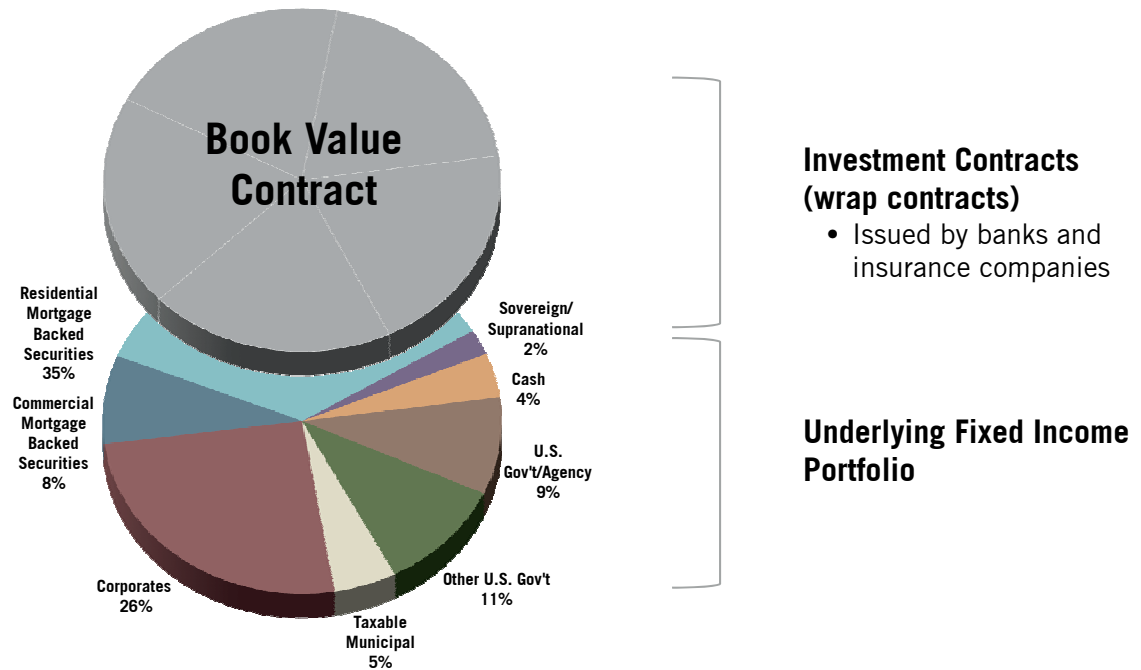
\*\*Lipper Institutional Money Market Fund performance has been increased by the average stable value fund fee of 35 basis points.

# Stable Value Overview

## What Does the Fund Invest In?

### Security Backed Contract (Wrap Contract)

A fixed income (bond) portfolio combined with an investment contract issued from a bank or insurance company



Underlying fixed income portfolio managed by a company different than the bank or insurance company providing the investment (wrap) contract

**The wrap contract is designed to facilitate participants' ability to transact at book value (principal plus accrued interest)**

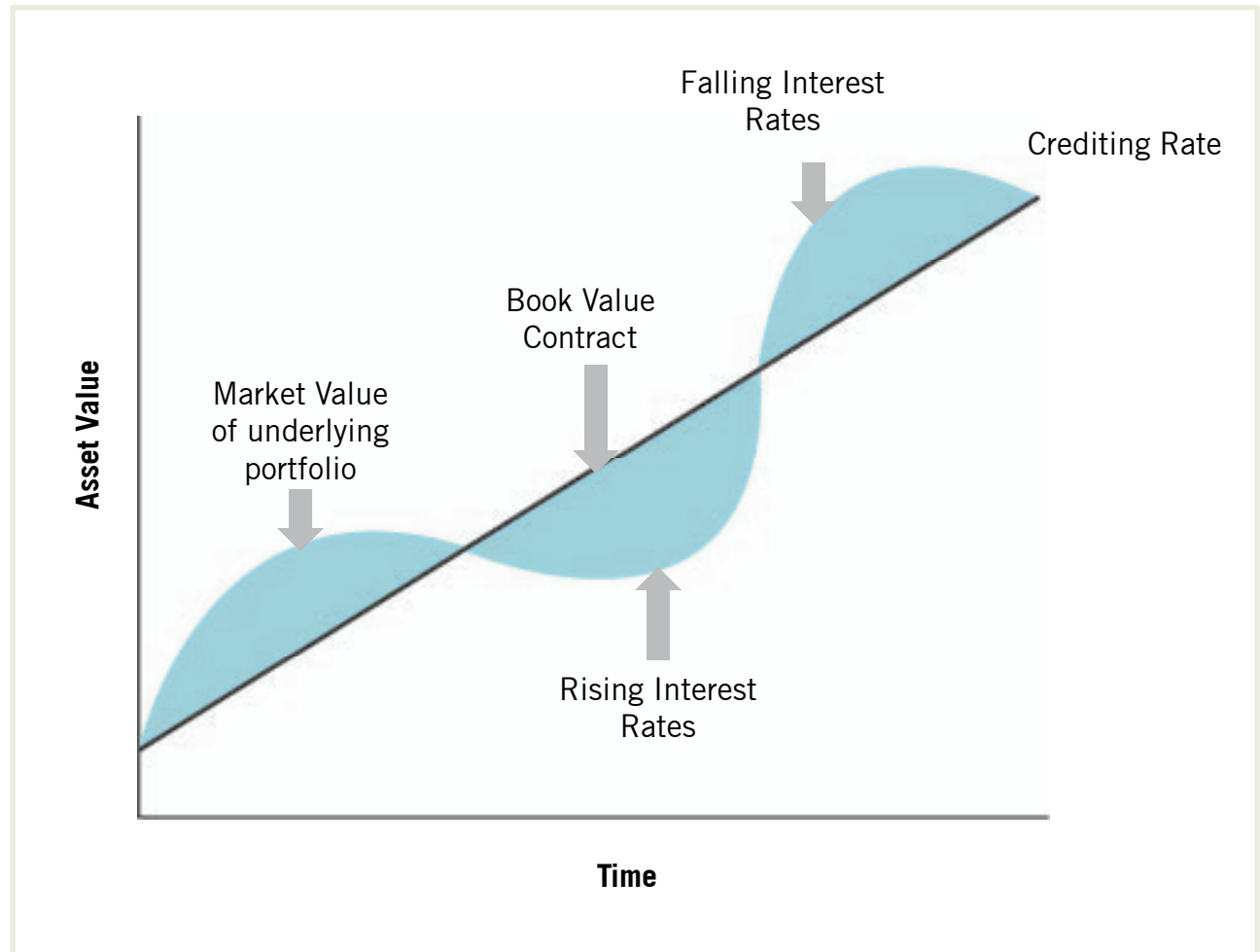
# Mechanics of Stable Value Investing

## The Role of the Crediting Rate

Wrap contracts are designed to help preserve principal and provide a stable crediting rate as identified by the solid, bold line.

A wrap contract's crediting rate formula is designed to provide a relatively consistent return profile during periods of rising or falling interest rates. The contracts tend to smooth the impact of fluctuating interest rates and their effect on bond prices by amortizing the gains or losses over the duration of the portfolio.

Stable value portfolio yields tend to track the general direction of interest rates, but with a lag. On a day-to-day basis, stable value portfolios daily price (NAV) should not vary much due to the smoothing of changes in the markets by the wrap contracts.



Objective of Stable Value Investing: Minimize volatility (changes) in the Fund's yield, while protecting principal



# Stable Value Performance Characteristics

## Interest Rate Responsiveness

Stable Value returns have tracked changes in market rates but with a lag, as indicated by the graph





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*Section III*

# Stable Value Market Update

## Wrap Capacity

### Wrap Market Update

- Existing providers are increasing capacity
- New providers entering market
- Shift in market providers from banking and insurance entities to predominantly insurance providers
- JP Morgan indication of exit
- Contract terms predominantly redefined
- Fees settling in 20-25 bps range
- Overall cooperation on S&P downgrade and guidelines being adjusted as necessary

### Galliard continues to successfully transition Stable Value Portfolios in this environment:

- Since 1/1/08, transitioned \$31.5 billion in new assets for 84 clients\*
- In 2010, \$11 billion transitioned for 30 clients

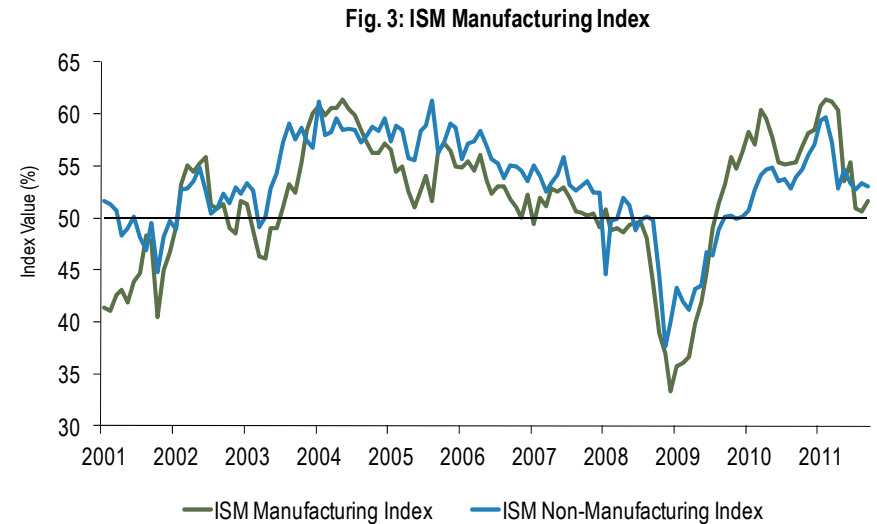
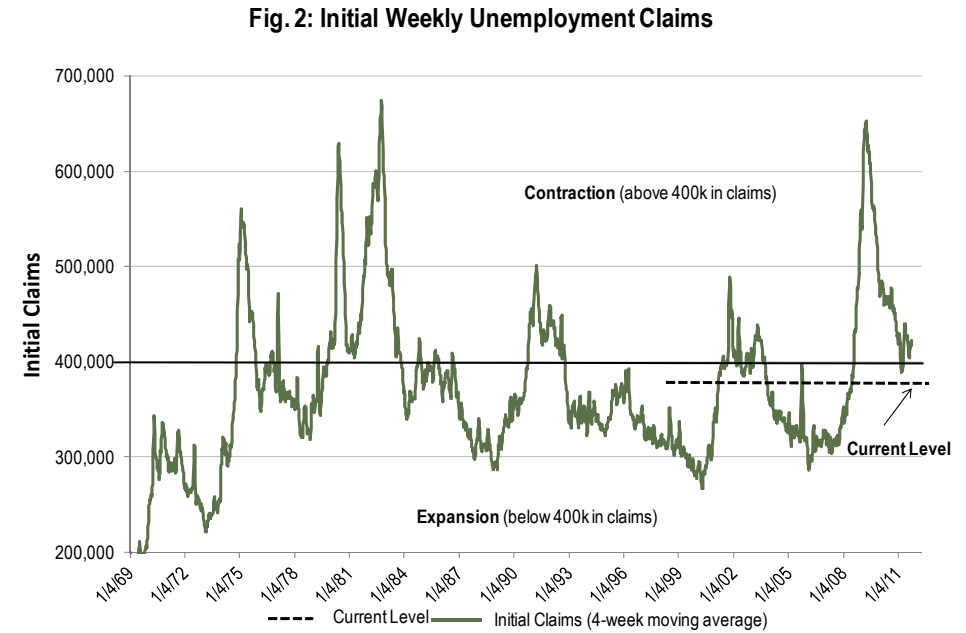
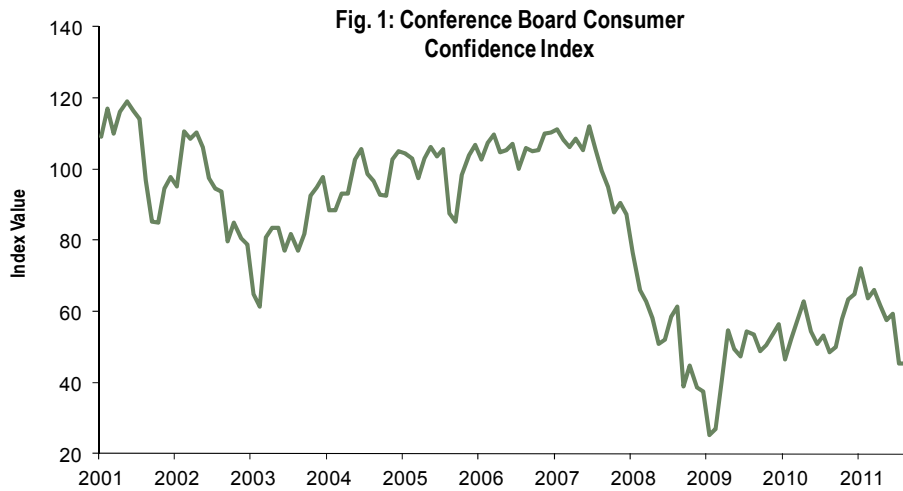
**Galliard's conservative approach, proven track record and strong relationships within the wrap market have allowed us to deliver client solutions in a challenging market**

# Economic Overview

Third Quarter 2011

## Confidence Crisis Threatens Economic Recovery!

- Consumer Confidence continued to erode during the third quarter, falling to its lowest level since 2009 (Fig.1). Consumers and businesses are leery about spending in the wake of political gridlock in the United States and the looming European debt crisis.
- Initial unemployment claims fell below 400,000 at the end of the quarter (Fig. 2), signaling potential economic expansion. However, job creation remains stagnant and national unemployment remains above 9.0%.
- Tepid ISM data suggest that manufacturing and non-manufacturing businesses alike are signaling weak expansion despite better-than-expected data for September (Fig. 3).



# Economic Overview

Third Quarter 2011

## Economic Growth is Driven by the U.S. Consumer

- Real GDP managed 1.3% annualized growth from April through June despite supply shocks from high oil prices and the Japanese tsunami.
- The U.S. consumer has improved capacity to spend given the recovery in accumulated wealth since 2009 (Fig. 2). However, propensity to spend has been stifled by concerns over jobs and declining real income (Fig. 3).
- Stronger economic growth overall will depend on improved consumer confidence.

Fig. 1 U.S. Real GDP Growth (QOQ % Chg)

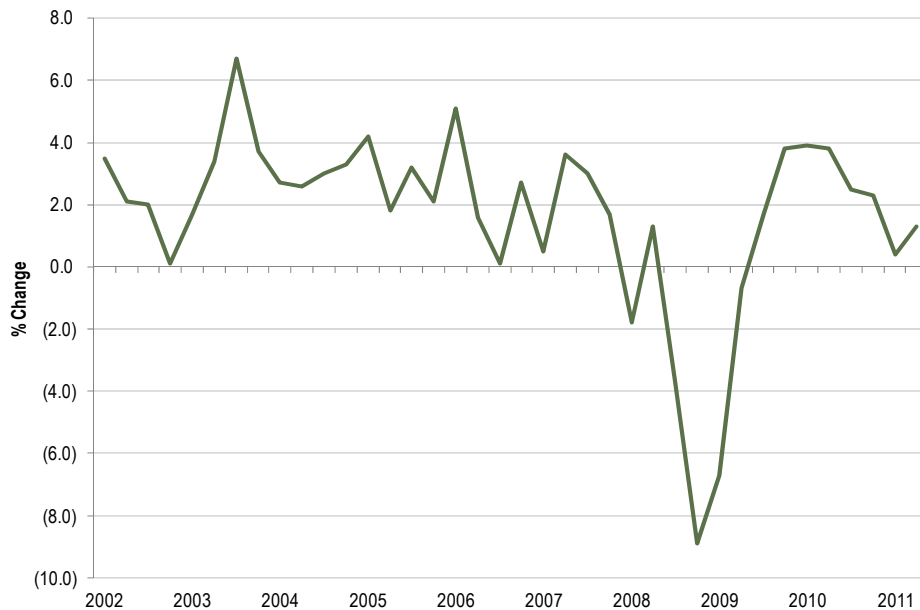


Fig. 2: U.S. Household Net Worth (in \$Trillion)

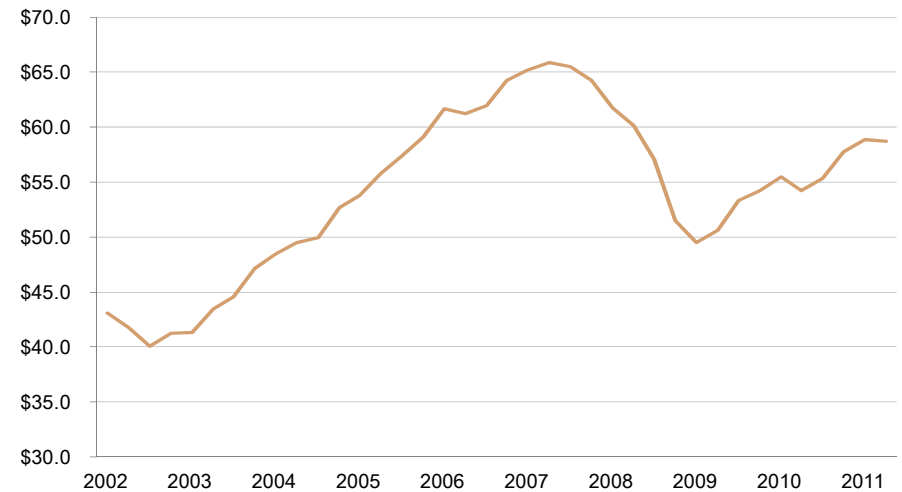
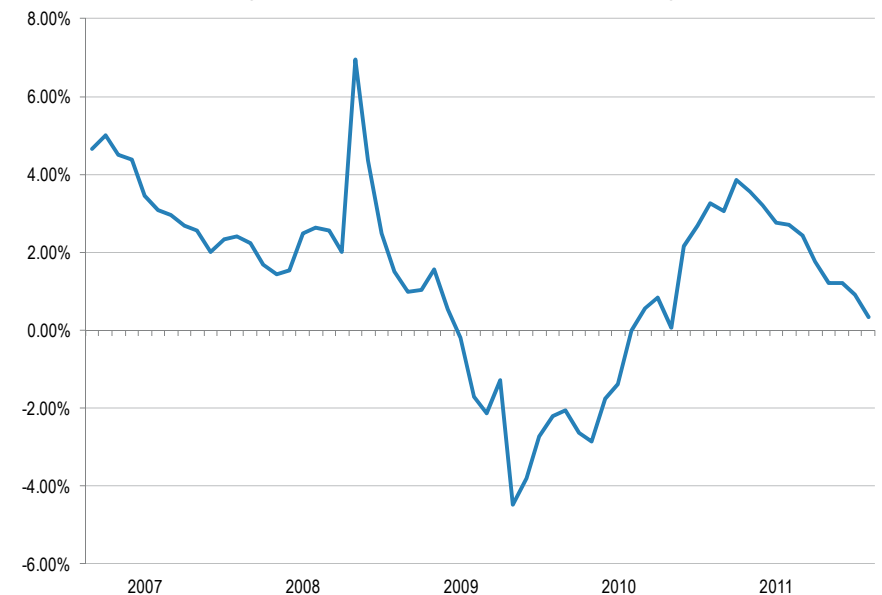


Fig. 3: Real Personal Income Growth (YOY % Chg)



# Economic Overview

Third Quarter 2011

## Economic Outlook – Slow Growth Recovery Continues

- We expect final real GDP growth in the 1% to 2% range for 2011 and a slow growth environment to begin 2012 in the face of mixed economic conditions. Businesses and consumers have taken a continued wait-and-see approach while politicians work to resolve economic and debt concerns in the United States and Europe. The consequence has been apathetic spending, despite improving capacity to do so.
- The Federal Reserve remains committed to keeping interest rates low and liquidity abundant, as it instituted Operation Twist at the end of the third quarter. The result has been a flattening yield curve, as longer interest rates declined. The program's desired outcome is to encourage consumer-based loans and spending. However, the program's effectiveness remains to be seen.
- The effects of QE2, which wrapped up in June, and Operation Twist, which began in September, will ideally stimulate economic growth in the near term. Looking forward, and presuming economic growth materializes, the Fed may consider interest rate increases as keeping interest rates at historic lows risks a deflationary spiral.
- In the meantime, economic growth will depend on job creation and income growth, the key determinants of consumer spending.

# Fixed Income Market Review

Third Quarter 2011

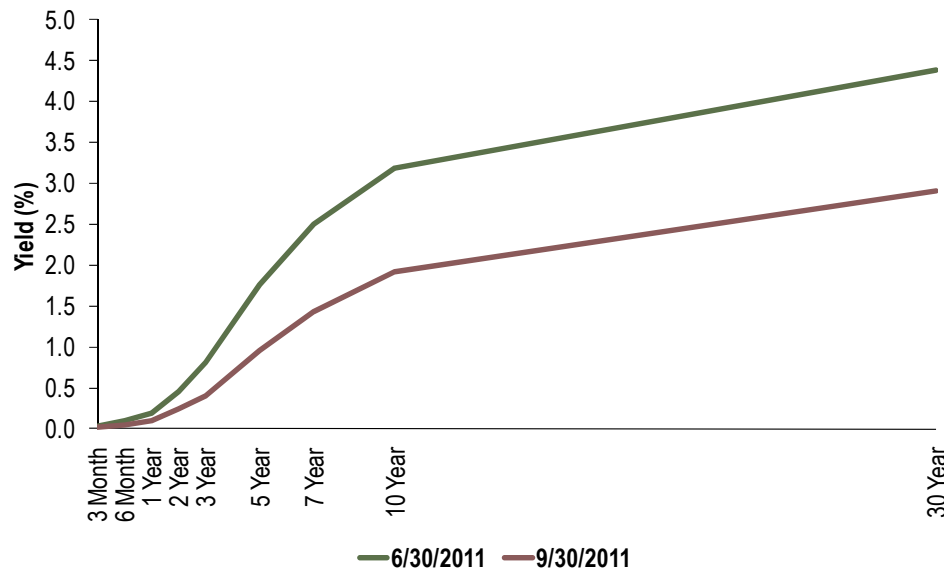
## Interest Rates Moved Lower In the Quarter

- Interest rates fell across the yield curve in the third quarter (Fig.1). Paradoxically, Treasury yields plummeted despite a rating downgrade of the U.S. Government from AAA to AA+ by Standard and Poor's, as a "flight to quality" buoyed Treasury prices.
- Credit spreads widened notably during the third quarter creating negative returns in the high yield sector (Fig. 2).
- Over the previous twelve months, most securitized products have modestly outperformed Treasuries despite the recent flight to quality (Fig. 3).

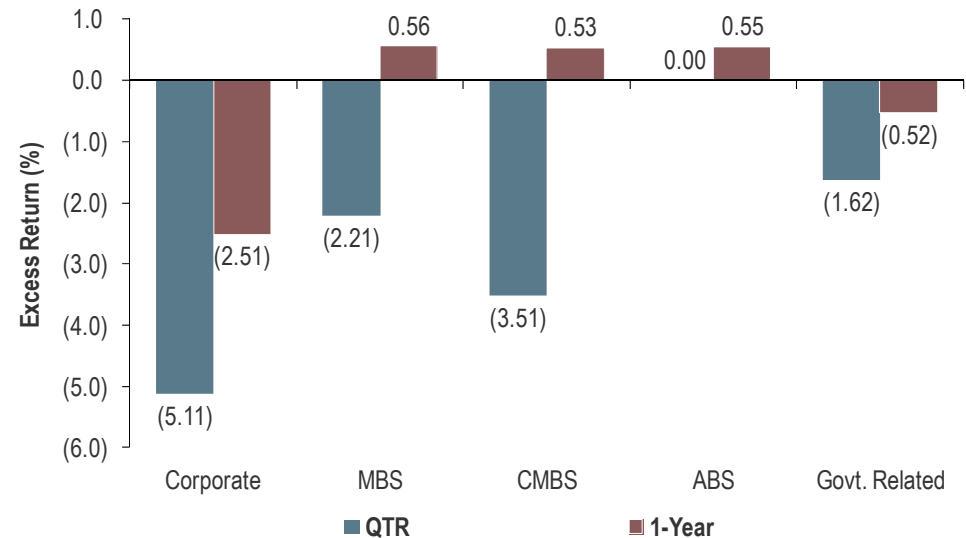
**Fig. 2: Fixed Income Total Return By Sector (%) (Barclays Capital Intermediate & Long Indices)**

	U.S. Treasury		Govt. Related		Corporate		High Yield	
	QTR	1 YR	QTR	1 YR	QTR	1 YR	QTR	1 YR
Intermediate	3.54	3.94	1.50	2.66	0.78	2.92	-6.05	1.56
Long	24.66	17.14	11.20	11.48	8.95	8.73	-6.18	4.21
	MBS		ABS		CMBS			
	QTR	1 YR	QTR	1 YR	QTR	1 YR		
Securitized	2.36	5.56		2.42	3.34		-0.86	3.76

**Fig. 1: U.S. Treasury Yield Curve**



**Fig. 3: Barclays Capital Excess Returns versus Treasuries**





*Section IV*



# **Stable Value Philosophy**

## Investment Approach and Objectives

**Consistent with the role of stable value as the “safe option,” we manage stable value portfolios conservatively, seeking to consistently outperform our benchmarks while minimizing crediting rate volatility**

### **Key Investment Objectives:**

- Capital preservation
- Maintain sufficient liquidity
- Consistently outperform benchmarks and peer group

### **Hallmarks of Our Investment Approach:**

- High quality and broad diversification
- Disciplined value investing
- Stringent risk control
- Minimal crediting rate volatility

**Our investment approach is ideally suited to stable value**

# City of Los Angeles Stable Value Fund

Third Quarter 2011

Galliard Inception Date	July 1, 1999						
Investment Objective	To provide safety of principal and consistency of returns with minimal volatility, while maintaining a stable credited rate of interest.						
Benchmark	3 Year Constant Maturity Treasury Yield + 50 basis points						
Stable Value Portfolio Components	<table><thead><tr><th><u>Components</u></th><th><u>Allocation Range</u></th></tr></thead><tbody><tr><td>Cash Equivalents</td><td>2-50%</td></tr><tr><td>Security Backed Contracts</td><td>50-98%</td></tr></tbody></table>	<u>Components</u>	<u>Allocation Range</u>	Cash Equivalents	2-50%	Security Backed Contracts	50-98%
<u>Components</u>	<u>Allocation Range</u>						
Cash Equivalents	2-50%						
Security Backed Contracts	50-98%						
Key Portfolio Guidelines							
Portfolio Duration	2.0 - 3.5 Years, Target of 3.0 Years						
Minimum Portfolio Quality	AA/Aa2 (underlying asset level)						
Minimum Portfolio Issue Quality	Investment grade at the time of purchase						

# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

Third Quarter 2011

## Annualized Investment Performance\*

*Periods Ending September 30, 2011*

	<u>3Q'11</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>Since Inception**</u>
Portfolio (before inv. Mgmt. fees)	0.84	2.47	3.43	3.95	---	---	4.04
Portfolio (net of inv. Mgmt. fees)	0.81	2.40	3.34	3.85	4.23	4.49	3.94
Benchmark***	0.24	1.02	1.34	1.69	2.90	2.71	1.79

## Calendar Year Performance

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Portfolio (before inv. Mgmt. fees)	3.77	4.30	---	---	---
Portfolio (net of inv. Mgmt. fees)	3.67	4.19	4.82	4.84	4.64
Benchmark***	1.61	1.93	2.88	6.04	4.35

### *Market Indices*

Merrill Lynch 3 Mo. T-Bill	0.13	0.21	2.06	5.03	4.83
Consumer Price Index	1.41	2.72	0.09	4.08	2.54

\* Returns for periods of less than one year are not annualized.

\*\* Prior to July 1, 2008, the portfolio was invested exclusively in the Wells Fargo Stable Return Fund, a stable value collective fund. Since inception returns only include separate account returns.

\*\*\* 50% Citigroup 3 Month T-Bill/50% Merrill Lynch 1-3 Year Treasury Index through 6/30/2008 linked with 3 Year Constant Maturity Treasury Yield + 50 basis points from 7/1/2008.

# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

Third Quarter 2011

## Portfolio Characteristics

Total Assets	\$774,060,426	Blended Yield (Before fees)*	3.29%
Average Holdings Quality**	Aa3/AA-	Effective Duration	2.81 years
Number of Contract Issuers	6	Market/Book Value Ratio	103.92%

\*Gross yield is before investment management fees and after wrap fees.

\*\*The Weighted Average Quality of the portfolio has NOT been assessed by a nationally recognized statistical rating organization. The Weighted Average Quality shown represents an average quality of the individual holdings as rated by S&P and Moody's.

## Sector Distribution

<u>Portfolio Distribution</u>	<u>Contract Value (\$)</u>	<u>% of Portfolio</u> <u>09/30/2011</u>	<u>% of Portfolio</u> <u>06/30/2011</u>
Stable Value Funds*	192,434,103	24.9	24.9
Security Backed Contracts	581,626,323	75.1	75.1
Short Portfolio	81,633,736	10.5	10.8
Short / Intermediate Portfolio	133,077,080	17.2	17.6
Intermediate Portfolio	366,915,507	47.4	46.7
<b>Total</b>	<b>\$774,060,426</b>	<b>100.0%**</b>	<b>100.0%**</b>

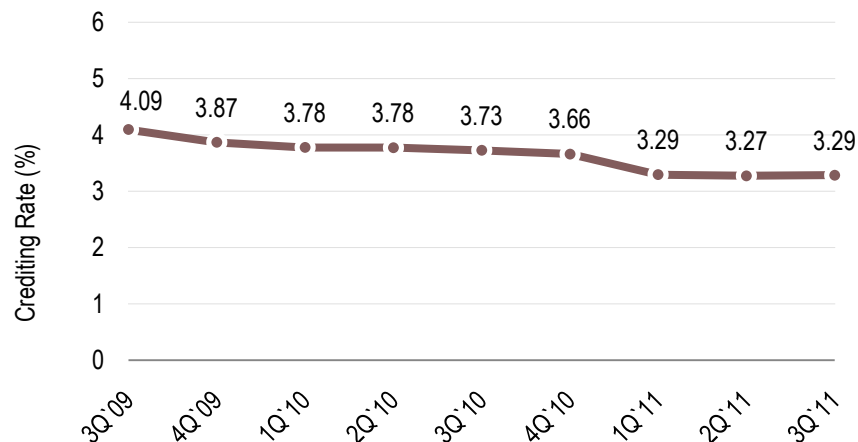
\*Includes Stable Value Collective Funds, Receivables, and Payables

\*\*Total % of portfolio may not add to 100% due to rounding

# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

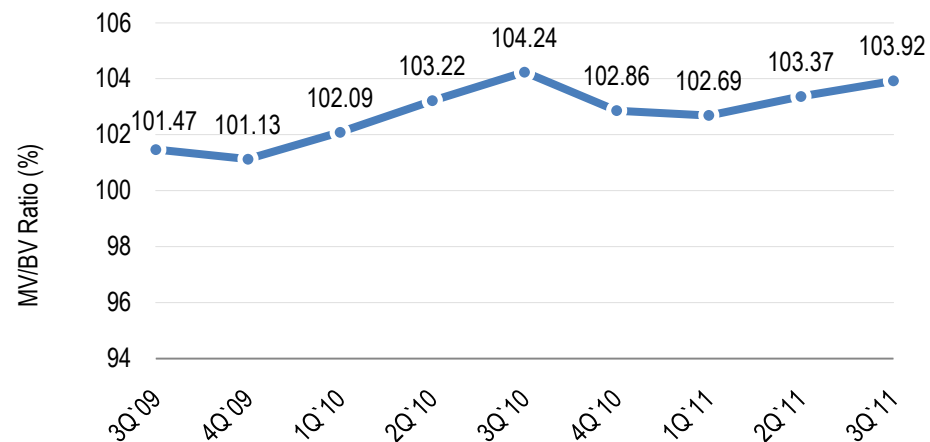
Third Quarter 2011

## Historical Crediting Rates\*

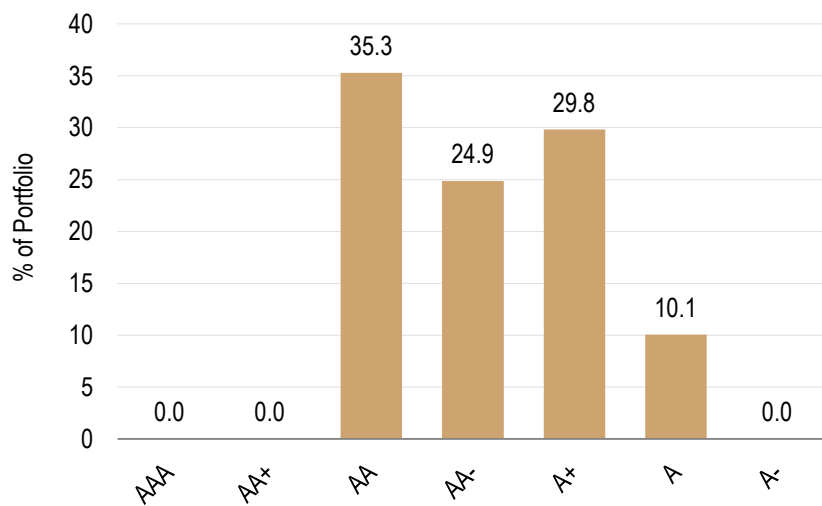


\*As of quarter end. Before fees.

## Market Value to Book Value Ratio\*



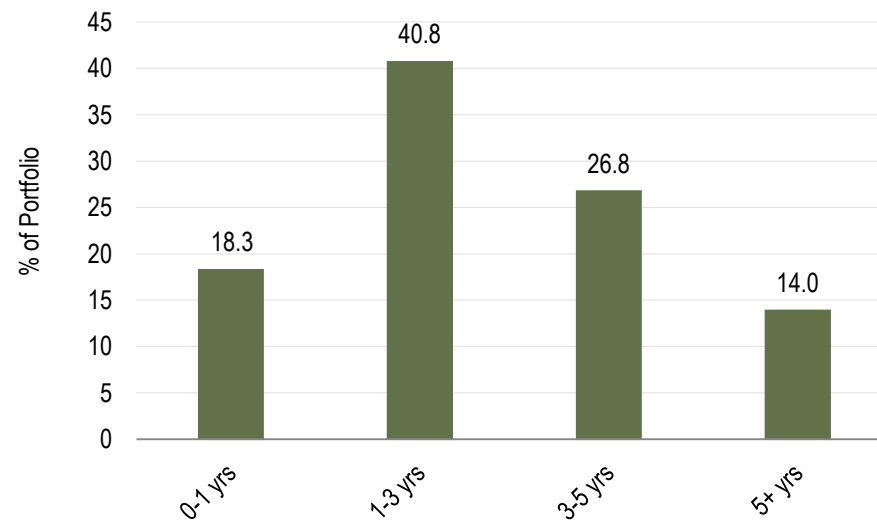
## Contract Quality Distribution\*



\*Total % of portfolio may not add to 100% due to rounding. The Weighted Average Quality shown represents an average quality of the individual holdings as rated by S&P, Moody's and Fitch.

\*\*Total % of portfolio may not add to 100% due to rounding.

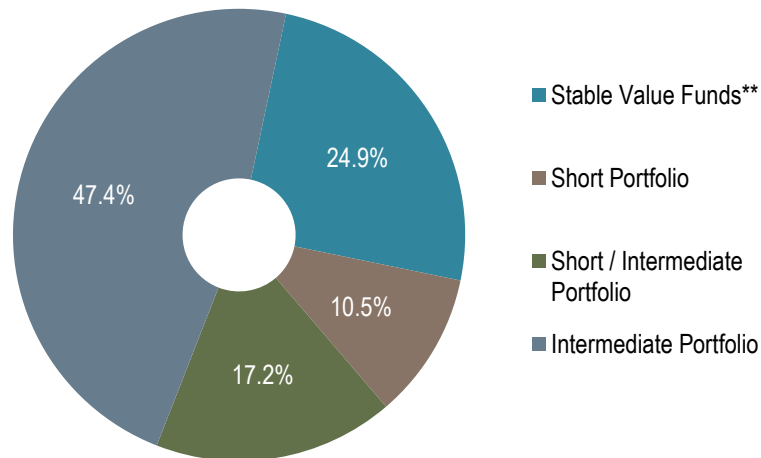
## Underlying Duration Distribution\*\*



# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

Third Quarter 2011

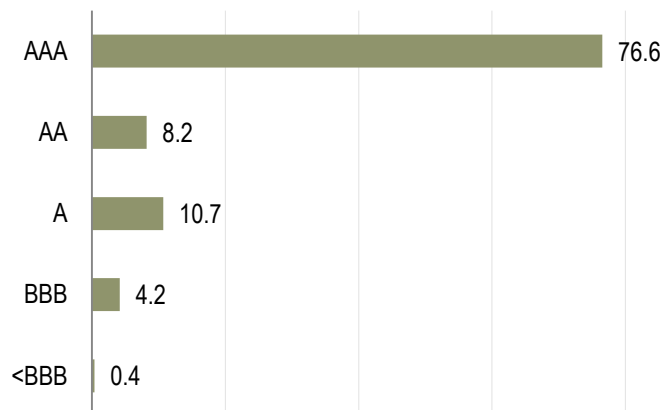
## Portfolio Distribution\*



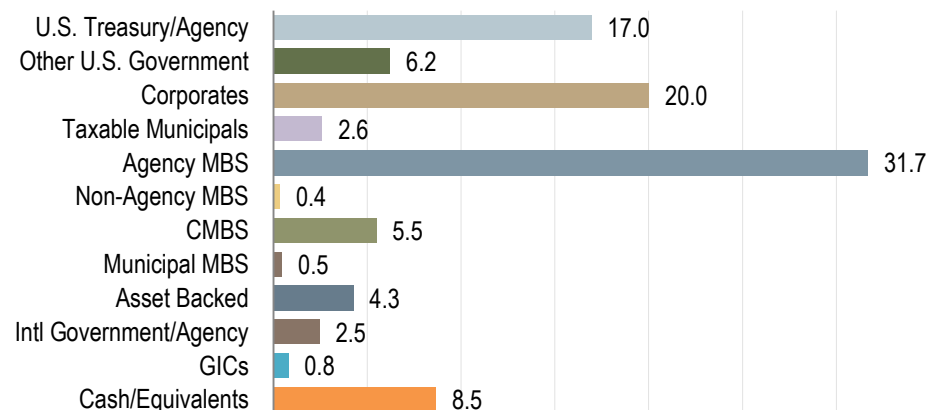
\*Book value

\*\*Includes Stable Value Collective Funds, Receivables, and Payables

## Underlying Fixed Income Credit Quality\*



## Underlying Fixed Income Asset Allocation\*\*



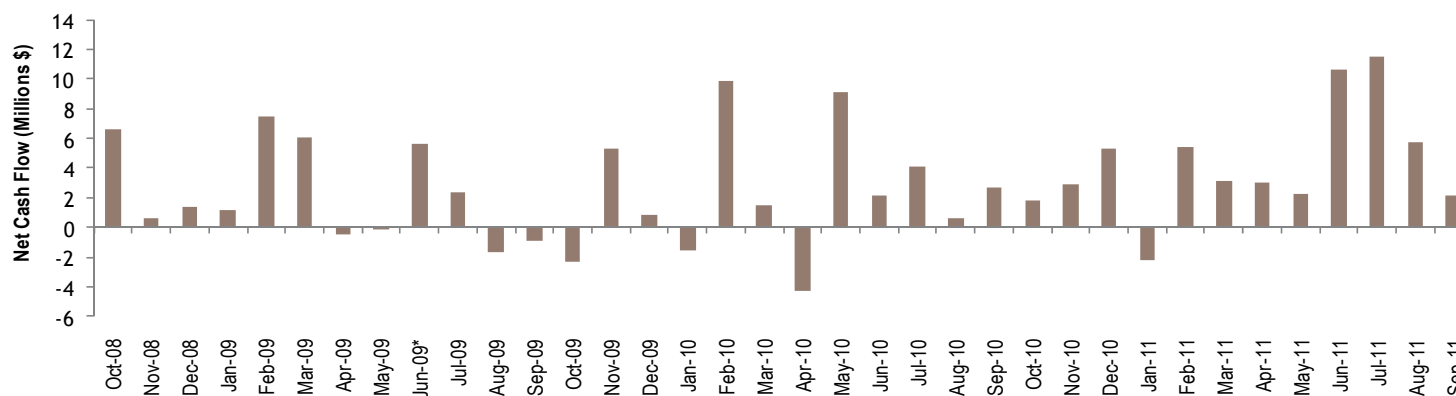
\*Market value. Total % of portfolio may not add to 100% due to rounding. The Weighted Average Quality shown represents an average quality of the individual holdings as rated by S&P, Moody's and Fitch.

\*\*Market value. Total % of portfolio may not add to 100% due to rounding.

# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

Third Quarter 2011

## Historical Cashflows



\*Participant cashflows only

	YTD	2010	2009	2008	2007	2006
<b>Beginning Assets</b>	\$714.8	\$655.7	\$161.6	\$121.7	\$118.7	\$115.6
<b>Net Cash Flow (\$)*</b>	\$41.7	\$34.4	\$477.8***	\$33.3	-\$2.7	-\$2.4
<b>Net Cash Flow (%)</b>	5.83%	5.25%	295.67%	27.36%	-2.27%	-2.08%
<b>Estimated Investment Earnings</b>	\$17.6	\$24.7	\$16.2	\$6.6	\$5.7	\$5.4
<b>Ending Assets**</b>	\$774.1	\$714.8	\$655.7	\$161.6	\$121.7	\$118.7

\*Contributions, Withdrawals and Investment Transfers

\*\*Cashflows may not net to final assets due to rounding

\*\*\*Includes cashflows due to merger of investment options

# Stable Value Portfolio Review - City of Los Angeles Stable Value Fund

Third Quarter 2011

## Issuer Rating Summary

	<u>S &amp; P Rating</u>		<u>Moody's Rating</u>	
	<u>9/30/2011</u>	<u>6/30/2011</u>	<u>9/30/2011</u>	<u>6/30/2011</u>
ING Life Ins. and Annuity Co.	A	A	A2	A2
J.P. Morgan Chase Bank N.A.	AA-	AA-	Aa1	Aa1
Monumental Life Ins. Co.	AA-	AA-	A1	A1
Pacific Life Ins. Co.	A+	A+	A1	A1
Prudential Life Ins. Co.	AA-	AA-	A2	A2
State Street Bank and Trust Co.	AA-	AA-	Aa2	Aa2

### ING Life Ins. and Annuity Co.

- Capital levels remain modestly below industry average
- Longer-term uncertainty due to parent's plan for IPO of US operations in the next 2 years
- Expect stability in the operating results and credit quality ratings over the near term

### J.P. Morgan Chase Bank N.A.

- Stability resulting from strong capital and liquidity levels
- Credit quality showing improvement with better NPAs and NCOs
- Dodd-Frank and Basel 3 introduce some uncertainty for the banking industry

### Monumental Life Ins. Co.

- Parent (AEGON) fully repaid Dutch government aid in 2Q11
- Capital levels remain below average, but are improving
- Strong operating earnings through the first half of the year after a flat 2010

### Pacific Life Ins. Co.

- Slightly above average exposure to riskier assets is more than offset by surplus levels that are well above average
- Earnings remain solid and continue to boost surplus
- Conservative leverage profile relative to peers

### Prudential Life Ins. Co.

- A leading diversified U.S. life insurer
- Recent large dividend to parent put some pressure on capital levels
- Higher than industry average investment risk with exposure to commercial real estate, non-Agency CMOs, equities and high yield bonds

### State Street Bank and Trust Co.

- Operating earnings have been more resilient than most commercial banks
- Strong capital and liquidity levels and fee-based revenue stream
- Off balance sheet conduit issues are behind them - unrealized losses in their investment portfolio are down



# City of Los Angeles Stable Value Fund Portfolio Review

## Transaction Report

Period: 7/1/2011 - 9/30/2011

CUSIP	Issuer	Par Amount	Maturity*	Trade Date	Settle Date	S&P Rating	Moody's Rating
<b>Purchases</b>							
Security Backed Contracts							
Intermediate Portfolio							
744999AR4	Prudential Life Ins. Co.	14,000,000	N.S.M.	09/01/2011	09/01/2011	AA-	A2
<b>Total Intermediate Portfolio</b>		<b>14,000,000</b>					
<b>Total Security Backed Contracts</b>		<b>14,000,000</b>					
<b>Total Purchases</b>		<b>14,000,000</b>					

\* N.S.M. = No Stated Maturity

# City of Los Angeles Stable Value Fund Portfolio Review

## Portfolio Holdings

September 30, 2011

Portfolio Distribution	Contract Value (\$)	% of Portfolio	Crediting Rate / Yield (%)	Maturity*	Effective Duration (yrs)	S&P Rating	Moody's Rating
<b>Money Market</b>							
Cash Receivable / (Payable)	-324,955	0.0	2.37		0.10	AAA	Aaa
<b>Total Money Market</b>	<b>-324,955</b>	<b>0.0</b>	<b>2.37</b>		<b>0.10</b>	<b>AAA</b>	<b>Aaa</b>
<b>Stable Value Funds</b>							
Wells Fargo Stable Return Fund G	192,759,059	24.9	2.37		2.10	AA-	Aa2
<b>Total Stable Value Funds</b>	<b>192,759,059</b>	<b>24.9</b>	<b>2.37</b>		<b>2.10</b>	<b>AA-</b>	<b>Aa2</b>
<b>Security Backed Contracts</b>							
<b>Short Portfolio</b>							
Pacific Life Ins. Co.	81,633,736	10.5	2.81	N.S.M.	1.93	A+	A1
<b>Total Short Portfolio</b>	<b>81,633,736</b>	<b>10.5</b>	<b>2.81</b>		<b>1.93</b>	<b>A+</b>	<b>A1</b>
<b>Short / Intermediate Portfolio</b>							
State Street Bank and Trust Co.	52,782,500	6.8	3.53	N.S.M.	2.95	AA-	Aa2
J.P. Morgan Chase Bank N.A.	80,294,580	10.4	3.14	N.S.M.	2.95	AA-	Aa1
<b>Total Short / Intermediate Portfolio</b>	<b>133,077,080</b>	<b>17.2</b>	<b>3.29</b>		<b>2.95</b>	<b>AA-</b>	<b>Aa1</b>
<b>Intermediate Portfolio</b>							
ING Life Ins. and Annuity Co.	77,945,713	10.1	4.48	N.S.M.	3.74	A	A2
Prudential Life Ins. Co.	149,318,952	19.3	3.20	N.S.M.	3.14	AA-	A2
Monumental Life Ins. Co.	60,153,593	7.8	4.08	N.S.M.	3.15	AA-	A1
Monumental Life Ins. Co.	79,497,249	10.3	4.37	N.S.M.	3.40	AA-	A1
<b>Total Intermediate Portfolio</b>	<b>366,915,507</b>	<b>47.4</b>	<b>3.87</b>		<b>3.32</b>	<b>AA-</b>	<b>A2</b>
<b>Total Security Backed Contracts</b>	<b>581,626,323</b>	<b>75.1</b>	<b>3.59</b>		<b>3.04</b>	<b>AA-</b>	<b>A1</b>
<b>Total Fund</b>	<b>774,060,426</b>	<b>100.0</b>	<b>3.29</b>		<b>2.81</b>	<b>AA-</b>	<b>Aa3</b>

\* N.S.M. = No Stated Maturity

# City of Los Angeles

## Account Overview

### 2010

- Migrated underlying broad market portfolio to an intermediate strategy to improve risk/return profile and address wrap provider requirements
- As wrap capacity improves, we will look to add additional external managers

### 2011

- Working with wrap providers on equity wash needs due to brokerage window
- Looking to add new external manager to enhance diversification in the near future
- Working with staff and Mercer on scenario analysis on the “what ifs” of various Europe events
- Will be working with staff and Mercer on potential guideline updates