

# City of Los Angeles

City of Los Angeles Deferred Compensation Plan

## Defined Contribution Performance Evaluation

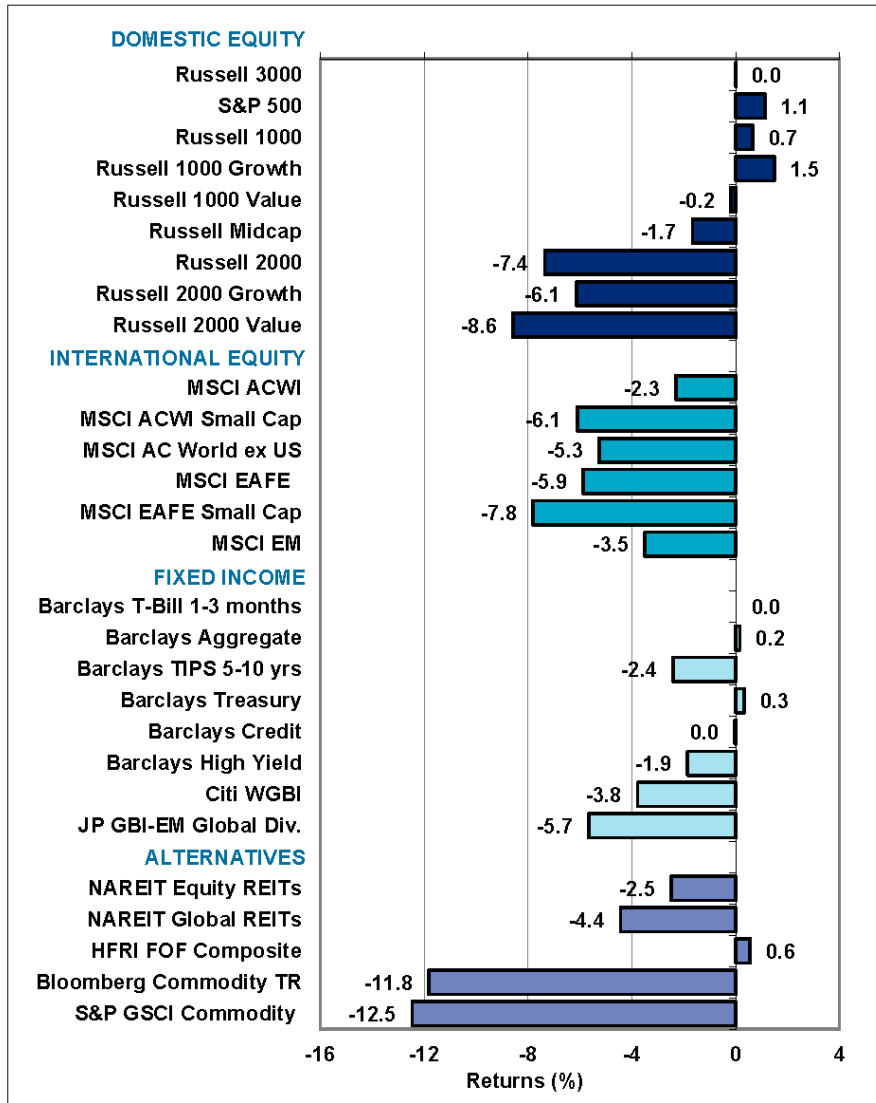
Third Quarter 2014

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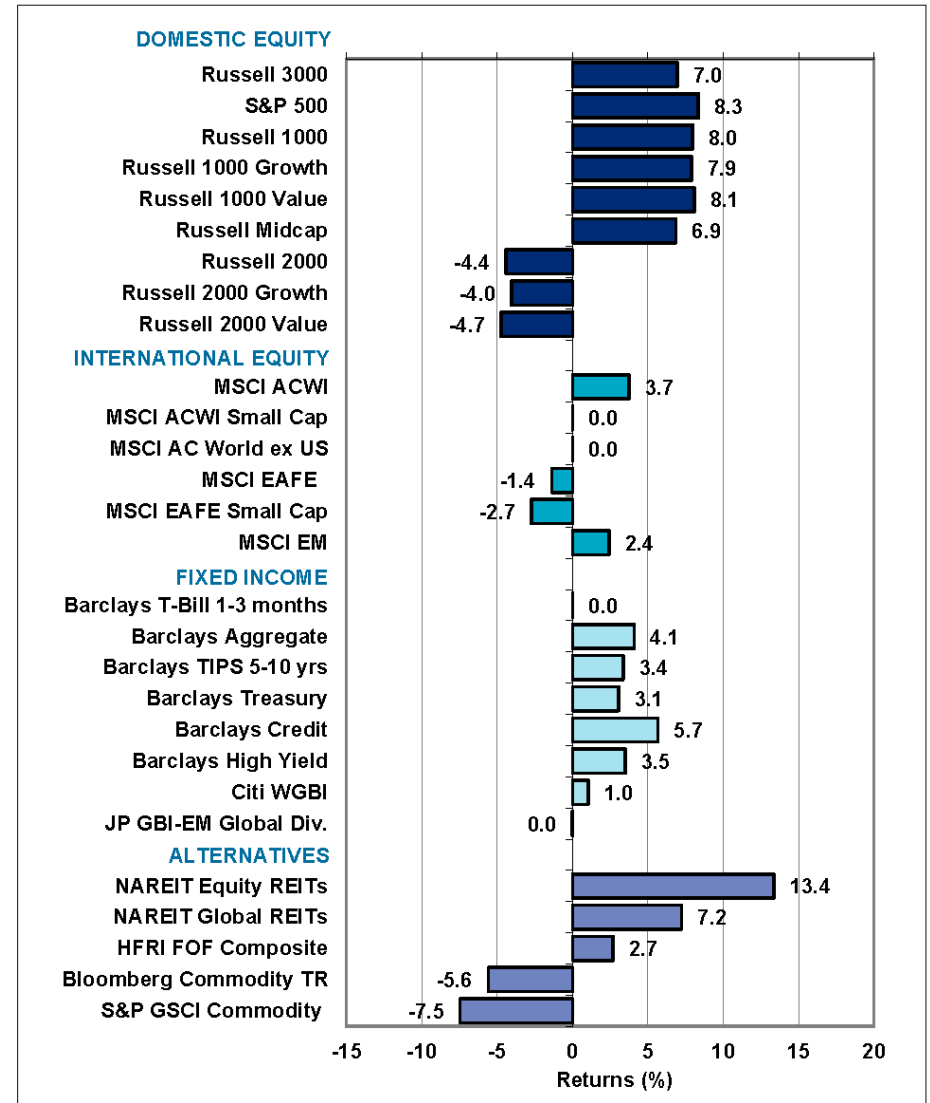
# Performance Summary: Quarter in Review

**Market Performance**  
Third Quarter 2014



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

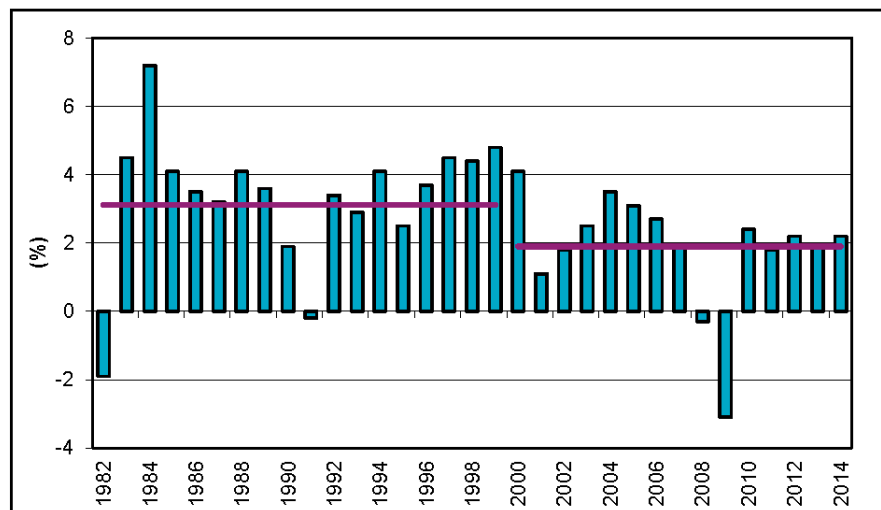
**Market Performance**  
YTD



Source: Standard & Poor's, Russell, MSCI Barra, NAREIT, Bloomberg

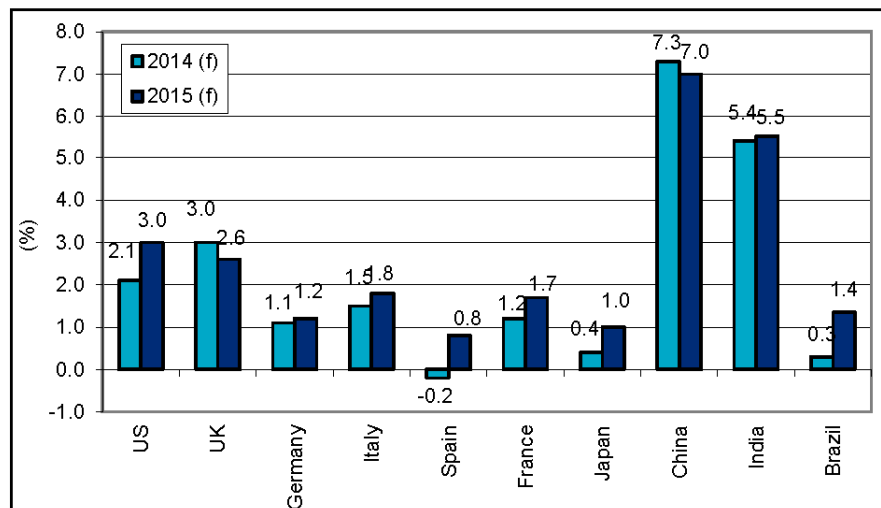
# Macro Environment: Economic Review

Annual GDP Growth



Source: Bureau of Economic Analysis

World Economic Growth  
(Projections as of September 2014)

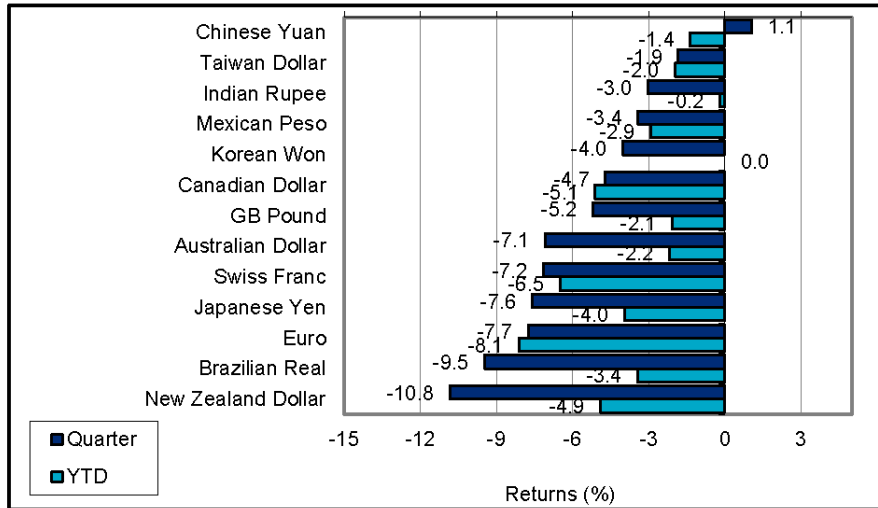


Source: Bloomberg

- The economic outlook for the developed world is mixed. While US growth is accelerating, growth in the Eurozone and Japan is faltering. US GDP expanded by 4.6% in the second quarter and is forecasted to grow by 3% in the third and fourth. The economy added an average of 242,000 jobs per month in third quarter and the headline unemployment rate has declined to 5.9%, essentially in-line with the historical average of 5.6%. However, while business investment has started to improve, it remains low by historical standards.
- The Eurozone economy weakened in the third quarter. The slowdown may partly be due to a lagging response to the earlier strength of the euro as well as tensions over Ukraine. Recent currency declines and a new round of ECB asset purchases may improve the macro outlook. Still, the debt overhang and poor policy responses could result in a prolonged period of economic weakness. The increase in consumption taxes weighed on the Japanese economy earlier in the year. However, business confidence is starting to improve. Implementing the third pillar of Abenomics, structural reforms aimed at improving productivity and corporate governance, would improve the growth outlook.
- Similar to developed markets, there is a growth dichotomy across the emerging world. Asian economies saw a pick-up in export growth, while Latin America continued to flounder due to stagnant commodity prices and a stalled political environment. Chinese growth has continued to slow, but policy makers are likely to resist further aggressive easing in order to avoid worsening credit and investment excesses. China should be able to avoid a hard landing since it is not reliant on external financing and has the capital to shore up its banking system. The outlook for EM economies in 2015 is mixed. Faster US GDP growth should help lift exports, but the risk of higher US interest rates leading to capital outflows is a concern. EM growth is expected to improve to 5.0% in 2015. From a longer-term perspective, implementing structural reform could lift the secular growth trajectory.

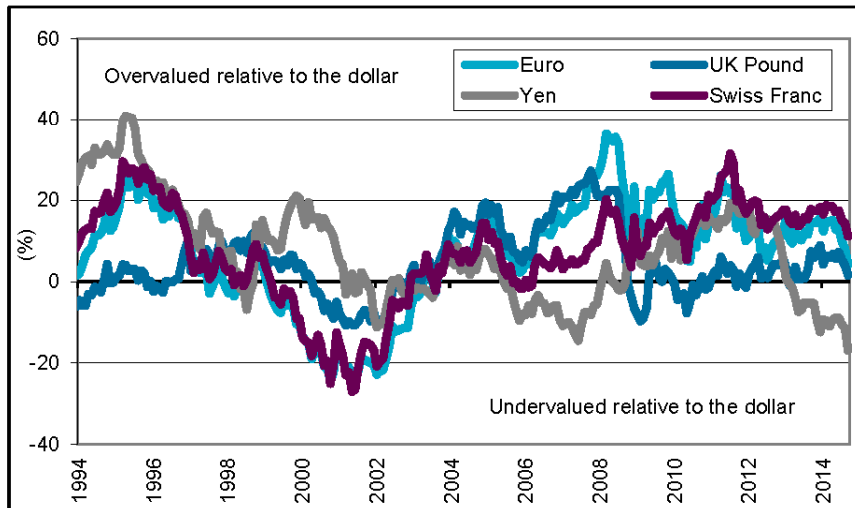
# Macro Environment: Currencies

Performance of Foreign Currencies versus the US Dollar



Source: Bloomberg

Currency Valuation versus US Dollar (Based on Relative PPP)

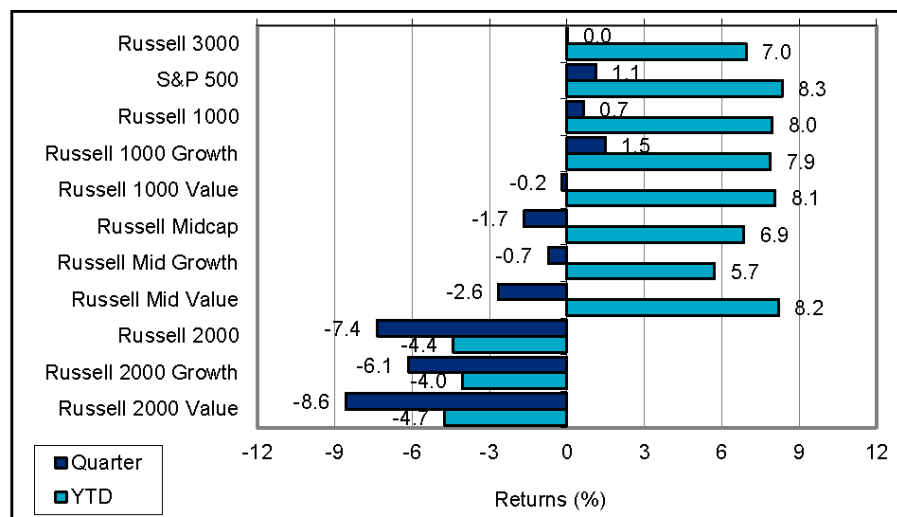


Source: Bloomberg

- On a trade-weighted basis, the US dollar gained 3.9% in the third quarter. The euro and yen both plummeted, declining by 7.7% and 7.6%, respectively. Emerging market currencies and commodity sensitive currencies were also hit hard. While foreign currencies may rebound in the short term, we expect the dollar to strengthen over the intermediate-term.
- The US economy has re-emerged as a global growth leader, which suggests the Fed will lead other central banks in hiking rates. US short-term rates relative to other countries have been on the rise as foreign central banks have been reducing rates. The rate disparity should widen further as the Fed prepares to hike rates in 2015. While the sharp upward move in the dollar decreased its attractiveness based on PPP, tighter relative monetary policy may trump valuations over the intermediate term. A risk to this outlook is that a stronger dollar could weaken growth and lower inflation, prompting the Fed to delay rate increases.
- Even after the steep third quarter decline, the yen is down just 4% year to date. Absent substantial supply side reforms, further stimulus and another downturn in the yen are likely needed to sustain growth and reflationary momentum. In the face of stagnant growth and deflationary risks, European monetary policy remains easy. While the Fed is winding down QE and is on course to hike rates, the ECB announced it will purchase covered bonds for two years. The intermediate-term implications for the euro are negative. However, short speculative positioning in the euro has reached elevated levels, suggesting the possibility of a near-term rebound.
- The large depreciation of EM currencies in the third quarter is reminiscent of 2013, when the QE taper drove currencies lower. This time around, currency declines were likely influenced by lower commodity prices. The prospect for higher US rates may have also contributed to the weakness. Higher US interest rates could divert capital away from EMD. However, the recent selloff has improved EM currency valuations and has most likely priced in tighter Fed policy.

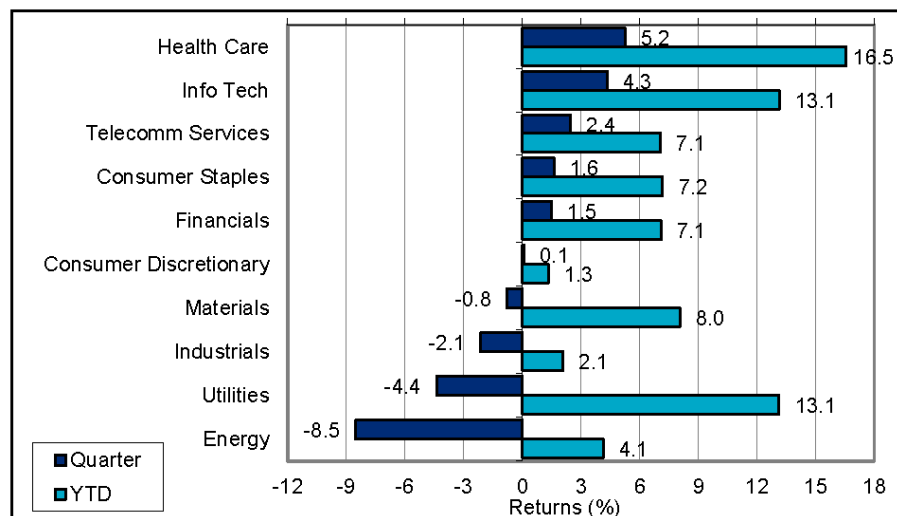
# Asset Class: US Equities – Style, Sector, Cap Performance

## Style and Capitalization Market Performance



Source: Standard & Poor's, Russell, Bloomberg

## Sector Performance



Source: Russell 1000 GICs Sector

### Broad Market

It was a mixed quarter for US stocks as returns varied significantly by sector, style and capitalization. The Russell 3000 Index finished the quarter flat and is still up 7.0% for the year.

### Market Cap

- **Large Caps:** The S&P 500 rose by 1.1% during the third quarter and has gained 8.3% year to date. In the third quarter, large cap stocks outperformed mid cap and small cap stocks by 280 bps and 850 bps, respectively.
- **Mid Caps:** The Russell Midcap Index fell by 1.7% in the third quarter, but is still up 6.9% year to date. For both periods, mid caps have lagged large caps, but outpaced small cap stocks.
- **Small Caps:** Small cap stocks struggled in the third quarter, shedding 7.4% year to date, small cap stocks have fallen by 4.4%, underperforming the S&P 500 by 1,270 bps.

### Style

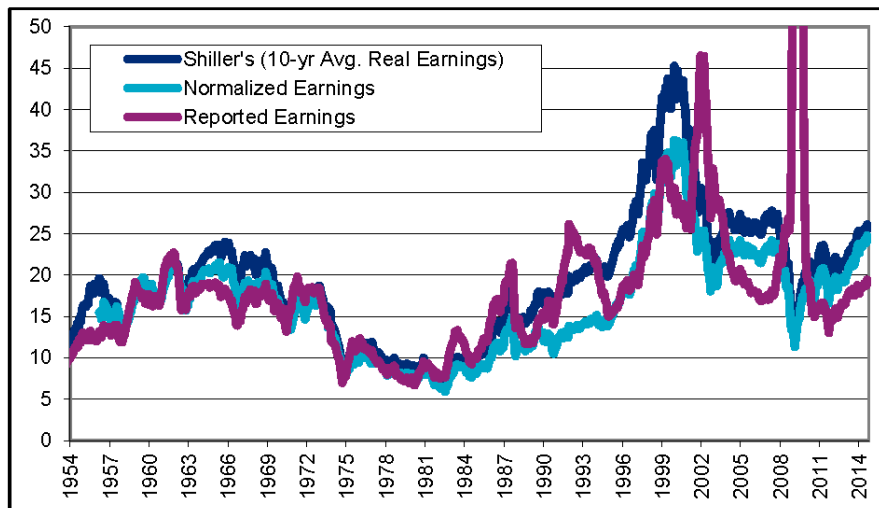
- **Value vs. Growth:** Growth surpassed value stocks across market capitalizations in the third quarter. Large cap growth stocks returned 1.5%, while large cap value stocks lost 0.2%. Small cap value stocks were the worst performers, dropping 8.6% for the quarter.

### Sector

- There was also significant dispersion between sectors in the third quarter. For example, health care stocks spiked 5.2%, while energy stocks tumbled 8.5%. Year to date, the health care, technology and utilities sectors have posted the best gains, while the consumer discretionary and industrial sectors have lagged.

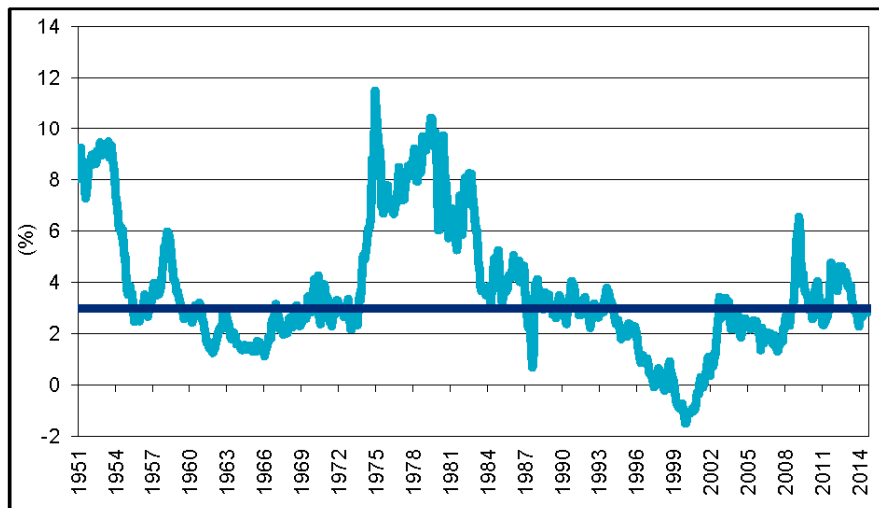
# Asset Class: US Equities – Valuation Review

**S&P500 – P/E Ratio**



Source: S&P, Bloomberg, Mercer

**S&P500 – Estimated Equity Risk Premium<sup>1</sup>  
Versus Long-Term Treasuries**



Source: S&P, Bloomberg, Mercer

- Given modest price gains and an uptick in earnings, valuations moved slightly lower during the quarter. The P/E ratio on trailing earnings moved from 19.4 to 19.1, which is above the median of 17.3 since 1956. Valuations are much higher based on measures that adjust for record high profit margins.
- The P/E ratio based on average 10-year real earnings (Shiller's methodology) finished the quarter at 25.6, compared to a median of 19.0 since 1956. Shiller's P/E probably overstates the bearish valuation case on equities due to accounting changes and the trend towards companies buying back shares rather than paying dividends.
- Profit margins on the S&P 500 remain elevated at close to 9% compared to a historical average of about 6%. However, margins have been trending upwards over the past two decades and have averaged close to 7% over the last 10-years. While margins tend to be mean reverting, they should remain above normal over the intermediate-term. High profit margins have mostly come at the expense of employees. While the unemployment rate is declining, reducing the slack in the labor market, it will take some time for the employees share of corporate revenues to return to pre-crisis norms.
- Valuations still look reasonable against bonds. We estimate that the equity risk premium over long-term Treasuries increased slightly from 2.8% to 2.9% during the third quarter, as real bond yields moved marginally lower. We expect stocks to outperform bonds, but current valuations suggest long-term returns will be below normal, especially if profit margins decline from current high levels.

<sup>1</sup> Definitions:

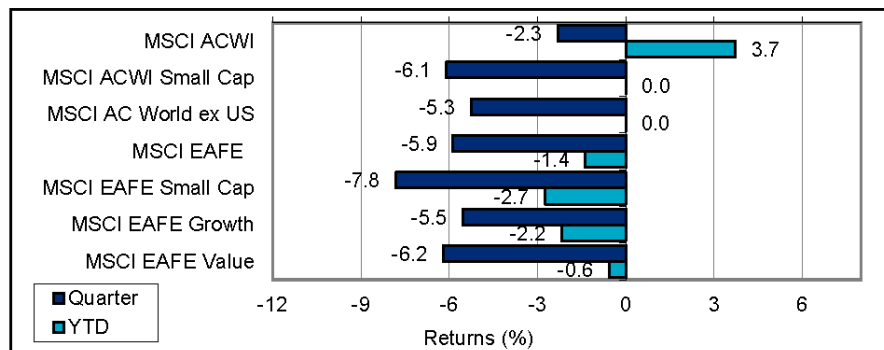
Shiller's P/E= Current S&P 500 price/average 10-year real earnings

Normalized P/E= Current S&P 500 price/(current trailing twelve month sales \* 6.6% profit margin)

Equity Risk Premium= Earnings yield (1/PE) minus the real yield on long-term Treasuries

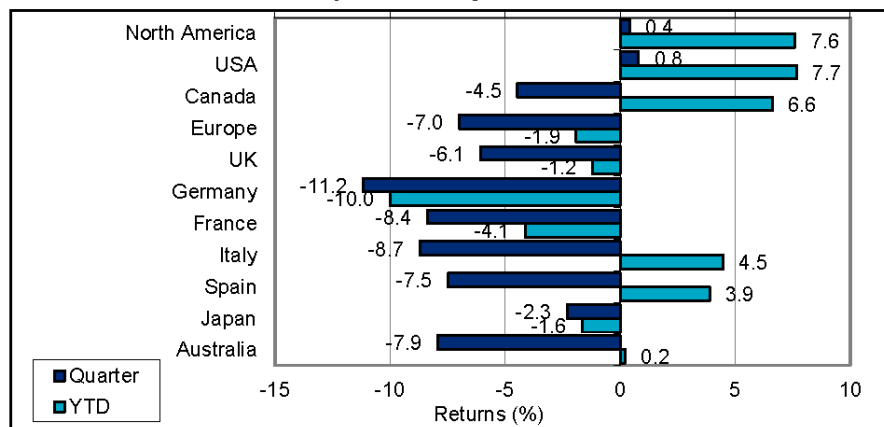
# Asset Class: International Equities – Performance Review

## Global and International Equity Performance



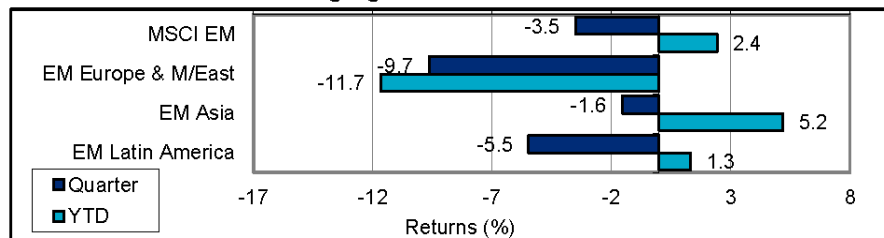
Source: MSCI, Bloomberg

## Developed Country Performance



Source: MSCI, Bloomberg

## Emerging Market Performance



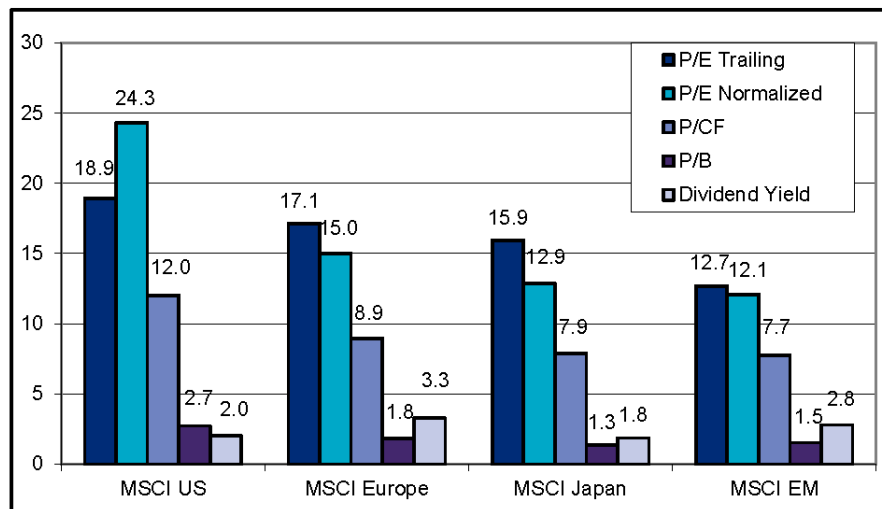
Source: MSCI, Bloomberg

- Global equities** were mixed in the third quarter. US equities rose, while currency declines and economic concerns weighed on the performance of international developed and emerging market equities. The MSCI ACWI index declined by 2.3% in the third quarter, but is still up 3.7% year to date. The MSCI ACWI-ex US index tumbled 5.3% during the quarter and is flat year to date.
- Global and international small cap equities** have lagged large cap equities for the third quarter and year to date periods. The MSCI EAFE Small Cap index fell 7.8% in the third quarter and has trailed large caps by 130 bps year to date. After falling 6.1% in the third quarter, MSCI ACWI small cap index is flat year to date.
- International developed stocks** fell 5.9% in the third quarter. The losses were entirely attributable to currency declines. In local terms, EAFE actually rose 0.3%. Year to date, EAFE has underperformed the S&P 500 by 970 bps in \$US terms and 420 bps in local terms. European stocks tumbled 7.0% in the third quarter as the euro experienced further losses. In local terms, European stocks lost 0.2% as the region experienced subpar economic growth. Year to date, Europe is up 4.7% in local terms, but down 1.9% in \$US terms. Japanese stocks contracted by 2.3% in the third quarter as the yen fell relative to the US dollar. In local terms, Japanese stocks rose a solid 5.8%. Year to date, Japanese stocks have risen 2.7% in local currency terms, but stumbled 1.6% in \$US terms.
- Emerging market stocks** struggled in the third quarter due to geopolitical and economic growth concerns. In local terms, the MSCI EM index rose 0.6%; however, it fell 3.5% in \$US terms due to currency losses. Year to date, EM stocks have lagged the S&P 500 by 590 bps. Political stress weighed on Eastern European stocks, which fell 9.7%. Weak growth and falling commodity prices caused Latin American stock to drop by 5.5%.



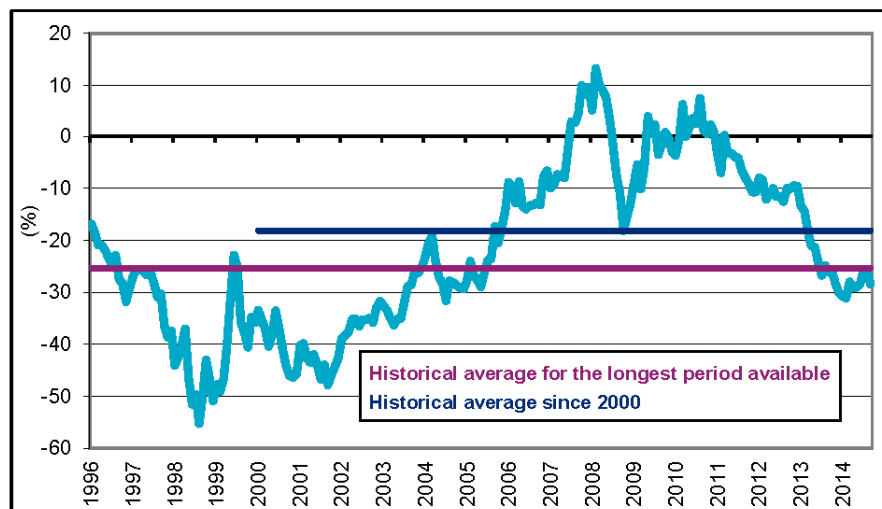
## Asset Class: International Equities – Valuation Review

Global Valuations



Source: MSCI, Bloomberg

Valuation of MSCI Emerging Markets to MSCI World  
(Based on Average of P/E, P/B and P/CF)

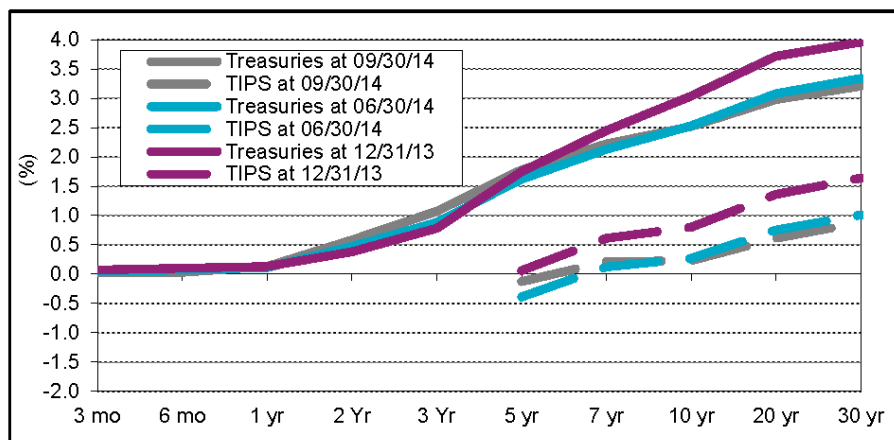


Source: MSCI, Bloomberg

- The weak growth environment in Europe has continued to weigh on profit growth as earnings rose only an estimated 2.0% over the last 12 months. Corporate profitability remains depressed with profit margins 13% below their historical average. While the weak economic environment is likely to weigh on earnings, recent currency declines and limited wage increases should provide support to margins. Valuations on European stocks are mixed. Based on trailing earnings, Europe is trading at a P/E of 17.1, which is a 20% premium relative to their historical average since 1970. However, if margins return to historical averages, valuations look more attractive, with European stocks trading at a normalized P/E of 15.0.
- Japanese earnings have continued to improve, rising an estimated 11% year to date. Profitability remains soft, with ROE nearly 20% below the pre-financial crisis peak. Faster US growth and a weaker yen could help lift exports, although a further slowdown in China represents a risk. Analysts project that earnings will rise 12% over the next year, which appears reasonable, but will likely hinge on a continued recovery in the domestic economy. From a structural standpoint, the push for corporate governance reforms has the potential to narrow the profitability gap between Japan and the rest of the world.
- The outlook for emerging market equities remains mixed. Currency declines and improved US growth has the potential to lift exports and earnings. However, the fall in commodity prices could place downward pressure on profitability, particularly in Latin America. Higher US interest rates could also lead to capital outflows, placing downward pressure on EM currencies. Valuations seem to reflect these risks. EM stocks are trading at only 12.7x trailing earnings, a 13% discount to their historical average since 1995. They are also trading at a 28% discount to developed stocks. However, these discounts are narrowly based and are largely driven by sector differences. On a sector-neutral basis, absolute and relative valuations are less compelling.

# Asset Class: Fixed Income – Interest Rates and Yield Curve

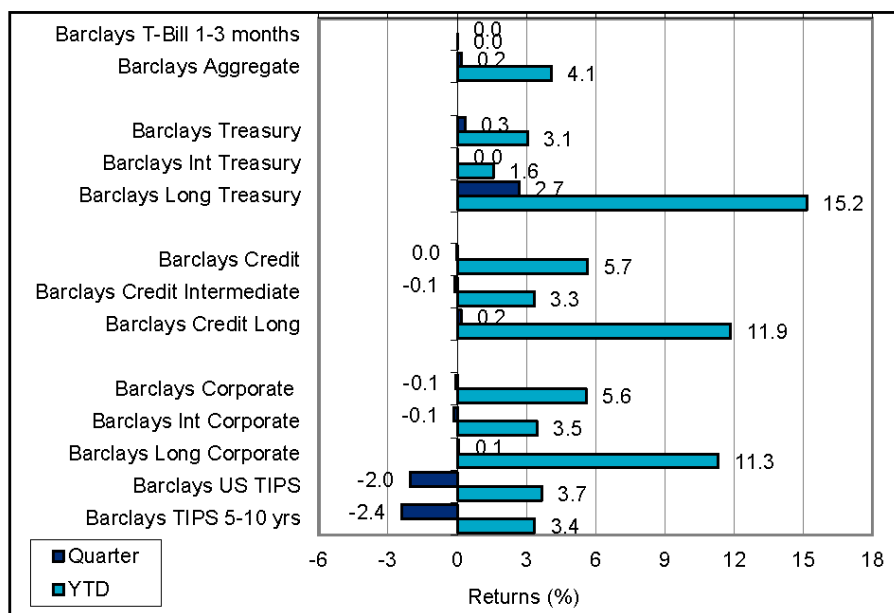
Treasury Yield Curve



Source: Federal Reserve

- The yield curve continued to flatten during the third quarter. The yield on the 3-year Treasury rose from 16 bps to 1.78%, while the yield on the 10-year Treasury was relatively unchanged, declining just 1 bps to 2.52%. The 30-year Treasury yield declined by 13 bps to 3.21%
- Market expectations on the timing and pace of interest rate increases as well as the ultimate endpoint for the Target Rate are likely to be the key drivers of yield movements. Fed Fund futures suggests that the FOMC will begin to raise short-term interest rates in mid-2015 and the Target Rate will not hit 3% until 2018. Given the current outlook for inflation and job growth, the process of interest rate normalization is likely to be gradual.

Bond Performance by Duration

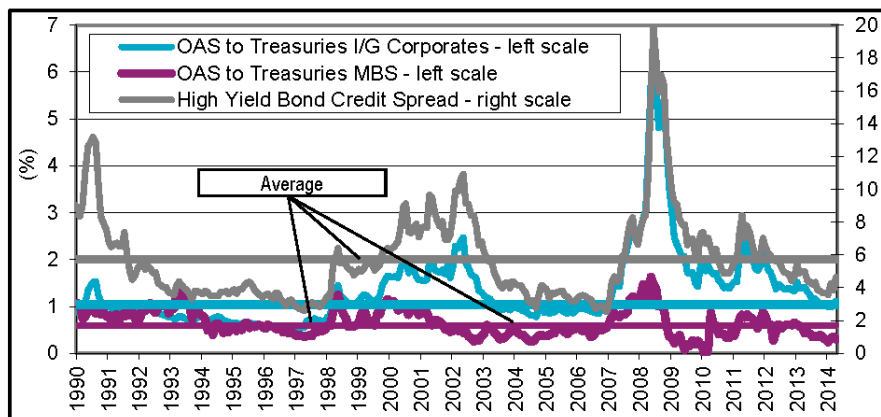


Source: Barclays, Bloomberg

- **US Bonds** rose in the third quarter as yields declined. The Barclays Aggregate bond Index returned 0.2% and is now up 4.1% year to date. For the quarter, Treasuries outperformed credit as spreads widened.
- **Long-Duration Bonds** advanced in the third quarter as the yield on 30-year Treasury decreased by 13 bps. The Barclays Long Treasury, Credit and Corporate Indexes returned 2.7% and 0.2% respectively during the third quarter.
- **TIPS** underperformed Treasuries in the third quarter, falling by 2.0%. The real yield on 5-year TIPS rose by 26 bps to -0.13%. The inflation breakeven rate on 10-Year TIPS has fallen from 2.59% to 2.29% year to date.

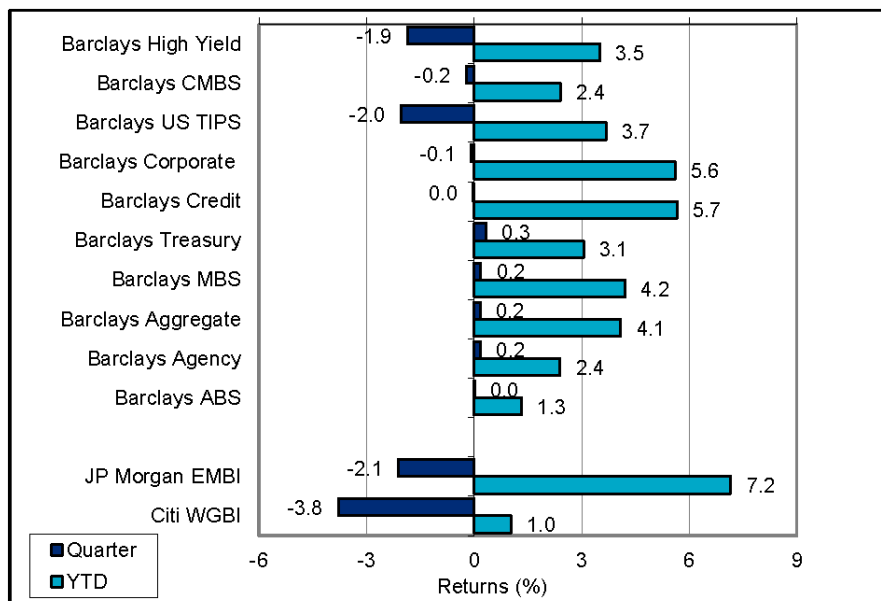
# Asset Class: Fixed Income – Credit and Non-US Bonds

Credit Spreads



Source: Barclays

Sector, Credit, and Global Bond Performance

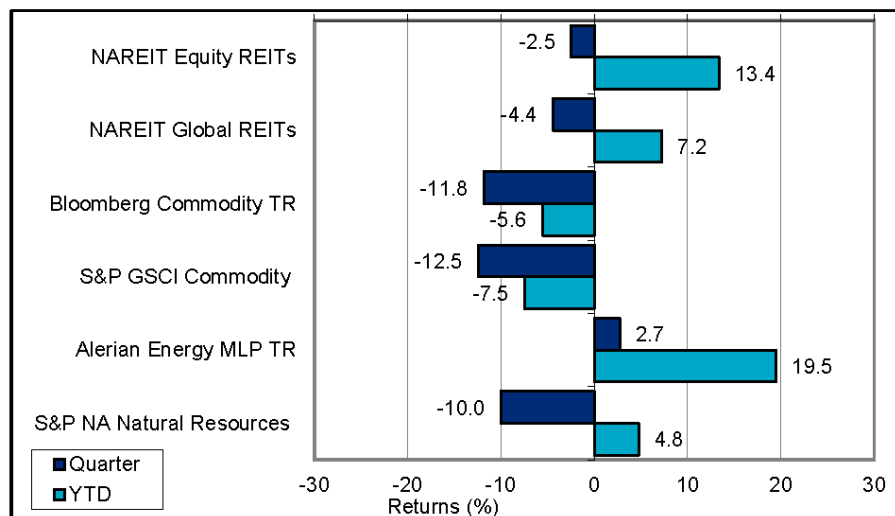


Source: Barclays, Citigroup, JP Morgan, Bloomberg

- The yield on the Corporate index increased 20 bps to 3.1%, and the option-adjusted spread to Treasuries moved up by 12 bps to 1.1%, which is in-line with long-term norms. Downside risk for corporates relative to Treasuries is limited over the short-term. However, tight spreads leave limited upside from this point.
- The yield on the Barclays High Yield index increased from 4.9% to 6.1% during the third quarter. While the option adjusted spread widened by 87 bps to 4.2%, it still remains below the historical median. Although leverage ratios have been on the rise, balance sheets and cash flows still remain strong. Favorable economic conditions in the US should also be supportive of fundamentals, keeping default rates low.
- **US Treasuries** rose as yields on longer-term maturities declined. year to date, the yield on the 10-Year Treasury has fallen by 52 bps to 2.52%. The Barclays Treasury Index returned 0.3% in the third quarter and is up 3.1% year to date.
- **US Corporate** bonds underperformed Treasuries by 40 bps in the third quarter as spreads widened. Year to date, investment grade corporate bonds have returned 5.6%, outperforming Treasuries by 250 bps.
- **US MBS, Agency, CMBS, and ABS** bonds suffered from credit spread tightening and a flatter yield curve as all these sectors lagged Treasuries in the third quarter.
- **High Yield** bonds shed 1.9% in the third quarter as yields increased and credit spreads widened. High yield bonds underperformed the Treasury index by 220 bps in the third quarter, but have outperformed by 40 bps year to date.
- **Global Bonds** were hurt as the dollar appreciated relative to foreign currencies. The Citigroup World Government Bond index fell 3.8% in the third quarter, but is still up 1.0% year to date.
- **Local Currency Emerging Market Debt** lost 5.7% for the quarter due to large currency depreciation, particularly in September. Local currency EMD is flat for the year.

## Asset Class: Alternatives – Performance Review

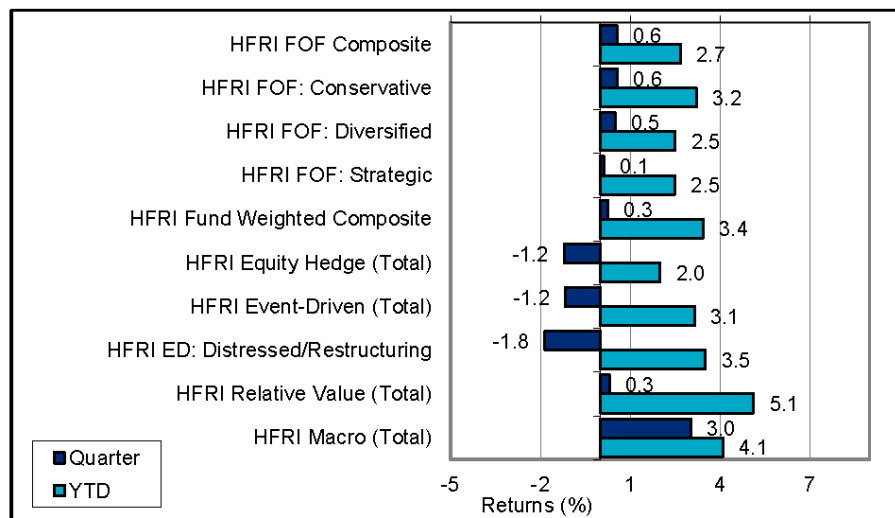
### Real Asset Performance



Source: NAREIT, Dow-Jones, UBS, Goldman Sachs

- **REITs** – After posting strong gains in the first half of the year, global and US REITs fell back by 4.4% and 2.5%, respectively, in the third quarter. Year to date, they have returned 7.2% and 13.4%, respectively, benefiting from the decline in interest rates and improving property prices.
- **Commodities** suffered as oil prices dropped 13.5% during the quarter. The S&P NA Natural Resources Index declined 10.0%, while the Bloomberg Commodity Index lost 11.8%.

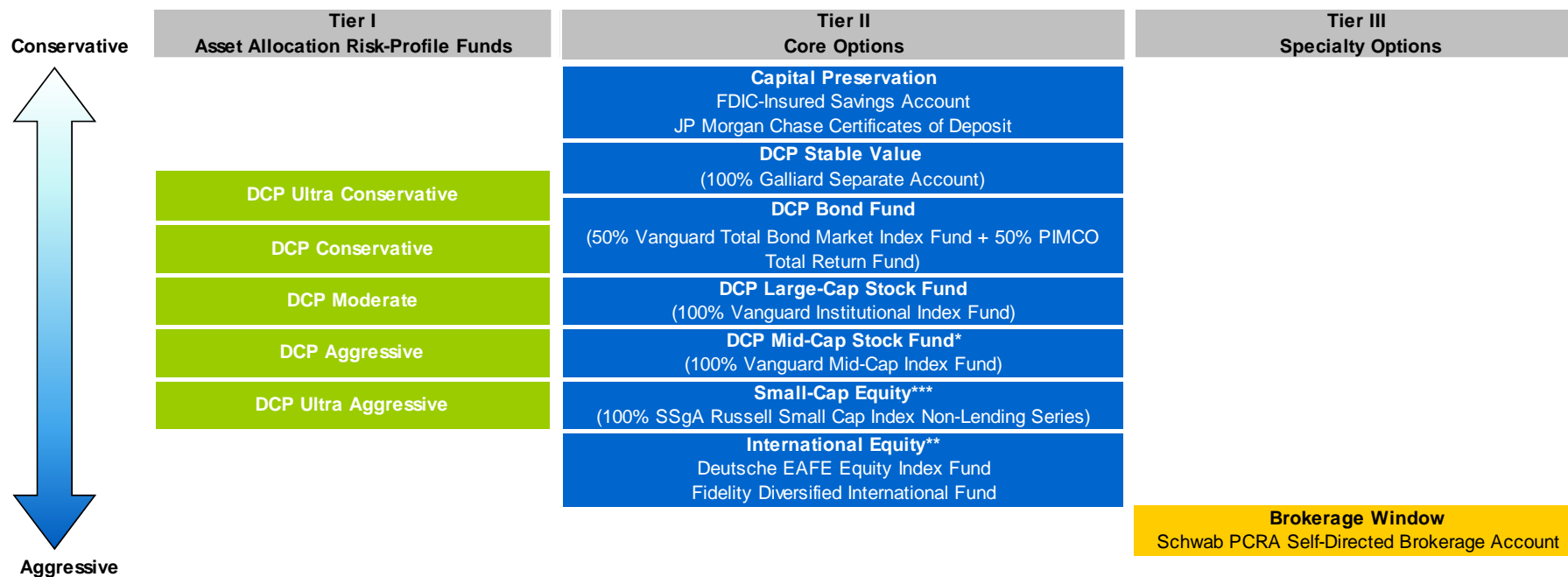
### Hedge Fund Performance



Source: HFR

- **Hedge funds** held up relatively well, outperforming global equities in the third quarter. The HFRI Fund of Funds Composite Index gained 0.6%, while the MSCI ACWI index lost 2.3%. Macro strategies returned a healthy 3.0%, while distressed, event driven and equity hedge strategies posted negative returns.

# Summary – Investment Option Array



\* DCP Mid-Cap Stock approved structure is 50% Mid Cap Core + 25% Mid Cap Value + 25% Mid Cap Growth upon completion of Phase II implementation

\*\* Upon completion of Phase II new DCP International Stock Fund with approved structure of 65% International Developed + 17.5% Emerging Markets + 17.5% International Small Cap

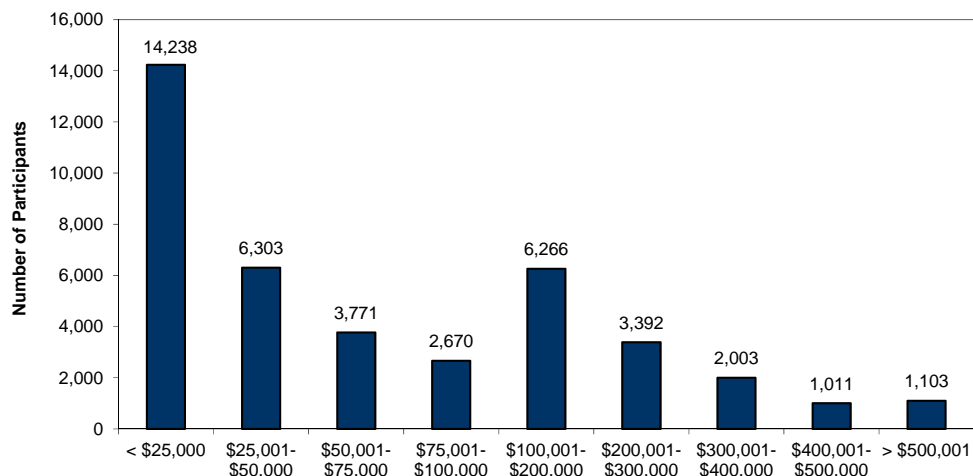
\*\*\* Upon completion of Phase II new DCP Small Cap Stock with approved structure is 33.3% Small Cap Core + 33.3% Small Cap Value + 33.3% Small Cap Growth

# Summary – Plan Highlights, Key Observations and Recommendations

## Deferred Compensation Plan Assets

- At quarter-end, assets (including loans) in the Deferred Compensation Plan totaled \$4,659.1 million, decreasing \$10.1 million (-0.2%) from \$4,669.2 million at the previous quarter-end. The decrease is a result of investment losses. Contributions (including other deposits) for the quarter totaled \$82.4 million compared to withdrawals (including fees) of \$66.6 million. Investment losses totaled \$30.0 million.
- As of September 30, 2014, there were 40,757 participants with account balances. The average account balance was \$109,868, while the median account balance was \$49,134. The distribution of participant balances is shown to the right; 34.9% of participants had a balance less than \$25,000 and 2.7% had a balance greater than \$500,000.

Distribution of Participant Account Balances



- The Deferred Compensation Plan (DCP) Large Cap Stock Fund held the highest percentage of Plan assets (32.1%), followed by the DCP Stable Value Fund (19.3%), Schwab PCRA Self-Directed Brokerage Account (6.4%), and FDIC-Insured Savings Account (6.3%). All other funds held less than 6.0% of Plan assets.
- Assets in the Profile funds (5 customized risk-based Profile funds ranging from Ultra Conservative to Ultra Aggressive) totaled \$723.5 million (15.5%) at quarter end; this was an increase of \$5.4 million from \$718.1 million at the prior quarter end.

## Performance

- The Plan's investments are generally meeting performance objectives.
- The DCP Bond fund underperformed its index during the quarter by 30 basis points; the underlying allocation to the PIMCO Total Return Fund hurt relative performance. Exposure to TIPS and Mexican and Brazilian local rates, as well as yield curve positioning detracted from performance for the quarter.
- The Fidelity Diversified International Fund outperformed its index by 90 basis points during the quarter. This was due in part to stock selection within the information technology, consumer staples, and health care sectors, as well as stock selection within Europe and exposure to Emerging Markets.

### Key Observations and Recommendations

- For the FDIC-Insured Savings Account, Bank of the West, Bank of America, and City National Bank have weightings of 50%, 25%, and 25%, respectively. For the quarter ending September 30, 2014 their declared rates were as follows: Bank of the West = 0.75% Bank of America = 0.08% and City National Bank = 0.15% yielding a blended rate of 0.43%. As discussed at the September special Board meeting, the blended crediting rate will decline significantly (projected to be 0.23%) after the option moves to the two bank provider framework discussed at the meeting. Effective October 1, 2014, Bank of America and City National Bank were replaced by East West Bank.
- Within the DCP Stable Value Fund, the current separate account managed by Prudential transitioned to a similarly managed bank collective fund, also managed by Prudential. The in-kind transition occurred on September 1, 2014.
- Searches for the active components of the Plan’s investment options are complete. The Board approved the following funds be added to the Plan. The Natixis Loomis Sayles Core Plus Bond Fund replaced PIMCO Total Return Fund on October 14, 2014. The remaining fund transitions will occur in early 2015.

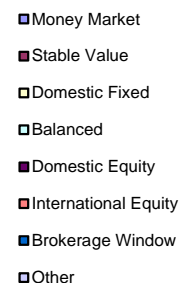
| Investment Menu Option              | Fund Sub-Category                             | New Fund  |
|-------------------------------------|---|---|
| <b>DCP Bond Fund</b>                | Active Bond                                   | Natixis Loomis Sayles Core Plus Bond Fund N     |
| <b>DCP Mid Cap Stock Fund</b>       | Active U.S. Mid Cap Value Equity              | RidgeWorth Mid-Cap Value Equity Fund I          |
|                                     | Active U.S. Mid Cap Growth Equity             | Voya MidCap Opportunities Fund R6               |
| <b>DCP Small Cap Stock Fund</b>     | Active U.S. Small Cap Value Equity            | DFA US Small Cap Value Portfolio Institutional  |
|                                     | Active U.S. Small Cap Growth Equity           | Hartford SmallCap Growth HLS Fund IA            |
| <b>DCP International Stock Fund</b> | Active International Developed Markets Equity | MFS Institutional International Equity Fund     |
|                                     | Active International Small Cap Equity         | Brandes International Small Cap Equity Fund I   |
|                                     | Active Emerging Markets Equity                | DFA Emerging Markets Core Equity Portfolio Inst |

- Effective August 11, 2014, the DWS EAFE Equity Index Fund was renamed Deutsche EAFE Equity Index Fund. There were no changes to the management team or investment process as a result of the rebranding.

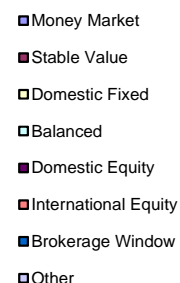
# Summary – Asset Allocation

| Investment Option                             | Current Balance                    | Prior Balance                      | % of Plan    | % Chg vs. Prior |
|---|------------------------------------|------------------------------------|--------------|-----------------|
| <b>Money Market</b>                           | <b>\$293,026,703</b>               | <b>\$293,991,376</b>               | <b>6.3%</b>  | <b>0.0%</b>     |
| FDIC-Insured Savings Account                  | \$293,026,703                      | \$293,991,376                      | 6.3%         | 0.0%            |
| JPMorgan Chase Certificates of Deposit        | \$0                                | \$0                                | 0.0%         | 0.0%            |
| <b>Stable Value</b>                           | <b>\$898,372,574</b>               | <b>\$895,570,759</b>               | <b>19.3%</b> | <b>0.1%</b>     |
| Deferred Compensation Stable Value Fund (Net) | \$898,372,574                      | \$895,570,759                      | 19.3%        | 0.1%            |
| <b>Domestic Fixed</b>                         | <b>\$159,932,558</b>               | <b>\$158,753,008</b>               | <b>3.4%</b>  | <b>0.0%</b>     |
| DCP Bond Fund                                 | \$159,932,558                      | \$158,753,008                      | 3.4%         | 0.0%            |
| <b>Balanced</b>                               | <b>\$723,453,851</b>               | <b>\$718,055,554</b>               | <b>15.5%</b> | <b>0.1%</b>     |
| Ultra Conservative Profile                    | \$40,455,644                       | \$39,512,805                       | 0.9%         | 0.0%            |
| Conservative Profile                          | \$102,562,520                      | \$99,050,250                       | 2.2%         | 0.1%            |
| Moderate Profile                              | \$258,950,787                      | \$256,741,482                      | 5.6%         | 0.1%            |
| Aggressive Profile                            | \$240,213,144                      | \$240,610,628                      | 5.2%         | 0.0%            |
| Ultra Aggressive Profile                      | \$81,271,757                       | \$82,140,389                       | 1.7%         | 0.0%            |
| <b>Domestic Equity</b>                        | <b>\$1,888,910,311</b>             | <b>\$1,898,534,130</b>             | <b>40.5%</b> | <b>-0.1%</b>    |
| DCP Large Cap Stock Fund                      | \$1,494,419,815                    | \$1,482,953,986                    | 32.1%        | 0.3%            |
| DCP Mid Cap Stock Fund                        | \$187,833,654                      | \$185,345,171                      | 4.0%         | 0.1%            |
| SSgA Russell Small Cap Index NL Series Fund   | \$206,656,843                      | \$230,234,973                      | 4.4%         | -0.5%           |
| <b>International Equity</b>                   | <b>\$214,706,302</b>               | <b>\$228,633,905</b>               | <b>4.6%</b>  | <b>-0.3%</b>    |
| Deutsche EAFE Equity Index Fund Institutional | \$44,445,375                       | \$47,948,490                       | 1.0%         | -0.1%           |
| Fidelity Diversified International Fund       | \$170,260,927                      | \$180,685,414                      | 3.7%         | -0.2%           |
| <b>Brokerage Window</b>                       | <b>\$299,470,897</b>               | <b>\$298,537,459</b>               | <b>6.4%</b>  | <b>0.0%</b>     |
| Schwab PCRA Self-Directed Brokerage Account   | \$299,470,897                      | \$298,537,459                      | 6.4%         | 0.0%            |
| <b>Other</b>                                  | <b>\$181,267,017</b>               | <b>\$177,125,976</b>               | <b>3.9%</b>  | <b>0.1%</b>     |
| Loan Account                                  | \$181,267,017                      | \$177,125,976                      | 3.9%         | 0.1%            |
| <b>Total Plan</b>                             | <b>\$4,659,140,213<sup>1</sup></b> | <b>\$4,669,202,167<sup>2</sup></b> | <b>100%</b>  |                 |

Current Asset Allocation - September 30, 2014



Prior Asset Allocation - June 30, 2014



<sup>1</sup> Total Plan Balance as of 9/30/14 excludes \$2.6 million in the Forfeiture/Asset Holding Account (this account is used to pay Plan expenses) and -\$132 in unallocated contributions.

<sup>2</sup> Total Plan Balance as of 6/30/14 excludes \$2.8 million in the Forfeiture/Asset Holding Account (this account is used to pay Plan expenses) and \$19K in unallocated contributions.



## Summary – Asset Allocation of Underlying Core Funds<sup>3</sup>

|  | Ultra Conservative Profile | Conservative Profile | Moderate Profile     | Aggressive Profile   | Ultra Aggressive Profile | Standalone Totals      | TOTAL                  |
|--|----------------------------|----------------------|----------------------|----------------------|--------------------------|------------------------|------------------------|
| <b>FDIC-Insured Savings Account</b>                  | \$0                        | \$0                  | \$0                  | \$0                  | \$0                      | \$293,362,017          | \$293,362,017          |
| <b>JPMorgan Chase Certificates of Deposit</b>        | \$0                        | \$0                  | \$0                  | \$0                  | \$0                      | \$0*                   | \$0                    |
| <b>DCP Stable Value Fund</b>                         | \$14,197,420               | \$15,396,143         | \$25,917,077         | \$12,034,293         | \$0                      | \$898,372,574*         | \$965,917,507          |
| <b>DCP Bond Fund</b>                                 | \$20,208,628               | \$51,146,021         | \$77,485,564         | \$47,975,602         | \$8,162,227              | \$159,281,355          | \$364,259,398          |
| Vanguard Total Bond Market Index Fund                | \$10,119,038               | \$25,610,275         | \$38,799,238         | \$24,022,756         | \$4,087,061              | \$79,756,730           | \$182,395,097          |
| PIMCO Total Return Fund                              | \$10,089,590               | \$25,535,745         | \$38,686,326         | \$23,952,846         | \$4,075,167              | \$79,524,626           | \$181,864,300          |
| <b>DCP Large Cap Stock Fund</b>                      | \$2,073,988                | \$13,139,677         | \$66,350,670         | \$61,613,841         | \$20,942,605             | \$1,494,473,123        | \$1,658,593,904        |
| <b>DCP Mid Cap Stock Fund</b>                        | \$1,024,482                | \$5,194,638          | \$26,227,982         | \$36,539,559         | \$16,557,275             | \$187,846,831          | \$273,390,767          |
| <b>SSgA Russell Sm Cap NL Series S</b>               | \$997,733                  | \$5,061,586          | \$25,552,648         | \$35,610,230         | \$16,133,748             | \$206,656,843*         | \$290,012,788          |
| <b>Deutsche EAFE Equity Index Fund Institutional</b> | \$1,956,894                | \$12,383,674         | \$37,511,345         | \$46,473,690         | \$19,759,493             | \$44,445,375*          | \$162,530,471          |
| <b>Fidelity Diversified International Fund</b>       | \$0                        | \$0                  | \$0                  | \$0                  | \$0                      | \$170,260,927*         | \$170,260,927          |
| <b>Schwab PCRA Self-Directed Brokerage Account</b>   | \$0                        | \$0                  | \$0                  | \$0                  | \$0                      | \$299,470,897*         | \$299,470,897          |
| <b>Loan Account</b>                                  | \$0                        | \$0                  | \$0                  | \$0                  | \$0                      | \$181,267,017*         | \$181,267,017          |
| <b>TOTAL</b>   | <b>\$40,459,145</b>        | <b>\$102,321,739</b> | <b>\$259,045,285</b> | <b>\$240,247,215</b> | <b>\$81,555,349</b>      | <b>\$3,935,436,960</b> | <b>\$4,659,065,693</b> |

<sup>3</sup> Balances will not match figures from the recordkeeping system provided in the quarterly reports (Summary – Asset Allocation in previous page), as the figures shown here unless otherwise noted, are from the Great-West Investment Team reporting system which is based on settlement date and does not include accruals.

\* Figure is not available in the Great-West Investment Team reporting system; therefore it is taken from the Summary – Asset Allocation in previous page (recordkeeping system).

## Summary – Investment Expense Analysis

| Fund  | Style                | Fund Balance           | Estimated Fund Expense | Fund Net Expense Ratio   | Median Net Expense Ratio <sup>4</sup> | Net Expense Diff. | Expense Reimbursement    | Investment Management Fee |
|---|----------------------|------------------------|------------------------|--------------------------|---------------------------------------|-------------------|--------------------------|---------------------------|
| FDIC-Insured Savings Account                  | Cash Equivalents     | \$293,026,703          | N/A                    | N/A                      | N/A                                   | N/A               | N/A                      | N/A                       |
| JPMorgan Chase Certificates of Deposit        | Cash Equivalents     | \$0                    | N/A                    | N/A                      | N/A                                   | N/A               | N/A                      | N/A                       |
| Deferred Compensation Stable Value Fund (Net) | Stable Value         | \$898,372,574          | \$2,515,443            | 0.28%                    | 0.46%                                 | -0.18%            | 0.00%                    | 0.28%                     |
| DCP Bond Fund                                 | US Fixed             | \$159,932,558          | \$415,825              | 0.26%                    | 0.52%                                 | -0.26%            | 0.00%                    | 0.26%                     |
| Ultra Conservative                            | Risk-based           | \$40,455,644           | \$101,139              | 0.25%                    | 0.83%                                 | -0.58%            | 0.00%                    | 0.25%                     |
| Conservative Profile                          | Risk-based           | \$102,562,520          | \$246,150              | 0.24%                    | 0.83%                                 | -0.59%            | 0.00%                    | 0.24%                     |
| Moderate Profile                              | Risk-based           | \$258,950,787          | \$517,902              | 0.20%                    | 0.88%                                 | -0.68%            | 0.00%                    | 0.20%                     |
| Aggressive Profile                            | Risk-based           | \$240,213,144          | \$456,405              | 0.19%                    | 0.95%                                 | -0.76%            | 0.00%                    | 0.19%                     |
| Ultra Aggressive Profile                      | Risk-based           | \$81,271,757           | \$146,289              | 0.18%                    | 0.95%                                 | -0.77%            | 0.00%                    | 0.18%                     |
| DCP Large Cap Stock Fund                      | US Large Cap Equity  | \$1,494,419,815        | \$298,884              | 0.02%                    | 0.20%                                 | -0.18%            | 0.00%                    | 0.02%                     |
| DCP Mid Cap Stock Fund                        | US Mid Cap Equity    | \$187,833,654          | \$112,700              | 0.06%                    | 0.25%                                 | -0.19%            | 0.00%                    | 0.06%                     |
| SSGa Russell Small Cap Index NL Series Fund   | US Small Cap Equity  | \$206,656,843          | \$123,994              | 0.06%                    | 0.30%                                 | -0.24%            | 0.00%                    | 0.06%                     |
| Deutsche EAFE Equity Index Fund Institutional | International Equity | \$44,445,375           | \$222,227              | 0.50%                    | 0.38%                                 | 0.12%             | 0.00%                    | 0.50%                     |
| Fidelity Diversified International Fund       | International Equity | \$170,260,927          | \$1,566,401            | 0.92%                    | 1.00%                                 | -0.08%            | 0.25%                    | 0.67%                     |
| Schwab PCRA Self-Directed Brokerage Account   | Brokerage Window     | \$299,470,897          | N/A                    | N/A                      | N/A                                   | N/A               | N/A                      | N/A                       |
| Loan Account                                  | Other                | \$181,267,017          | N/A                    | N/A                      | N/A                                   | N/A               | N/A                      | N/A                       |
| <b>Total</b>                                  |                      | <b>\$4,659,140,213</b> | <b>\$6,723,358</b>     | <b>0.17%<sup>5</sup></b> |                                       |                   | <b>0.01%<sup>5</sup></b> | <b>0.16%<sup>5</sup></b>  |
| <i>Per Participant Fee<sup>6</sup></i>        |                      | <i>\$4,659,140,213</i> | <i>\$2,530,615</i>     | <i>0.07%</i>             |                                       |                   |                          |                           |
| <b>Total with Fixed Per Participant Fee</b>   |                      | <b>\$4,659,140,213</b> | <b>\$9,253,973</b>     | <b>0.24%</b>             |                                       |                   |                          |                           |

<sup>4</sup> Median institutional share class net expense ratio as defined by the respective Mercer Mutual Fund Universe and Lipper institutional share class categorizations. The median stable value management fee is derived from Mercer's quarterly stable value survey. Profile funds are compared to the median institutional expense ratio of the corresponding Mercer Mutual Fund Target Risk Universe.

<sup>5</sup> Total excludes assets in the FDIC-Insured Savings Account, JPMorgan Chase Certificates of Deposit, Schwab Self-Directed Brokerage Account, and Loan Account.

<sup>6</sup> Total estimated annual asset-based fee is \$2,530,615 reflecting a quarterly per participant fee of 0.025% on the first \$125,000 of balance. The number of participants with a \$125k balance or less during the quarter was 29,005, and total assets for this group amounted to \$1,061,614,770. There were 11,752 participants with balances in excess of \$125k with a billable balance of \$1,469,000,000. The total participant count is 40,757.

# Summary – Compliance with Investment Policy Performance Standards

Periods ending September 30, 2014

|  | 3 Years |     |   |     | 5 Years |     |   |     | Comments  |
|--|---------|-----|---|-----|---------|-----|---|-----|---|
|  | I       | U   | I | U   | I       | U   | I | U   |   |
| <b>I – Index</b><br><b>U – Universe Median</b>       |         |     |   |     |         |     |   |     |   |
| Deferred Compensation Stable Value Fund (Net)        | ✓       | ✓   | ✓ | ✓   | ✓       | ✓   | ✓ | ✓   | Retain.   |
| DCP Bond Fund  | ✓       | ✓   | ✓ | ✗   | ✓       | ✗   | ✓ | ✗   | Retain. Fund inception was on April 20, 2012 with 50% allocated to PIMCO Total Return Fund Institutional and 50% allocated to Vanguard Total Bond Market Index Fund Inst Plus. PIMCO Total Return Fund was replaced with Natixis Loomis Sayles Core Plus Bond Fund on October 14, 2014. A core fixed income passive search will be conducted in 2015. |
| Ultra Conservative Profile                           | ✓       | N/A | ✓ | N/A | ✓       | N/A | ✓ | N/A | Retain. No changes to allocations.  |
| Conservative Profile                                 | T       | N/A | ✓ | N/A | T       | N/A | T | N/A | Retain. No changes to allocations.  |
| Moderate Profile                                     | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. No changes to allocations.  |
| Aggressive Profile                                   | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. No changes to allocations.  |
| Ultra Aggressive Profile                             | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. No changes to allocations.  |
| DCP Large Cap Stock Fund                             | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. However, a large cap equity passive search will be conducted in 2015.   |
| DCP Mid Cap Stock Fund                               | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. However, a mid-cap equity passive search will be conducted in 2015.   |
| SSgA Russell Small Cap Index Non-Lending Series Fund | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. However, a small-cap equity passive search will be conducted in 2015.   |
| Deutsche EAFE Equity Index Fund Institutional        | T       | N/A | T | N/A | T       | N/A | T | N/A | Retain. However, the Fund will be eliminated upon completion of investment menu consolidation.  |
| Fidelity Diversified International Fund              | ✓       | ✓   | ✓ | ✓   | ✓       | ✓   | ✓ | ✓   | Retain. This strategy will be replaced by the MFS Institutional International Equity Fund, which will be a component of the DCP International Stock Fund.   |

✓ = Outperformed or matched performance  
 ✗ = Underperformed  
 T = Index Fund  
 = Prior Quarter

# Summary – Performance

Periods ending September 30, 2014

|  | % of Plan    | 3 Months     | YTD         | 1 Year      | 3 Years     | 5 Years     | 10 Years    |
|--|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| <b>Money Market</b>  |              |              |             |             |             |             |             |
| <b>FDIC-Insured Savings Account (Blended Rate – 0.43%)<sup>7</sup></b> | <b>6.3%</b>  | <b>0.1%</b>  | <b>0.3%</b> | <b>0.5%</b> | <b>0.4%</b> | <b>NA</b>   | <b>NA</b>   |
| <b>JPMorgan Chase Certificates of Deposit</b>                          | <b>0.0%</b>  | <b>NA</b>    | <b>NA</b>   | <b>NA</b>   | <b>NA</b>   | <b>NA</b>   | <b>NA</b>   |
| <b>Stable Value</b>  |              |              |             |             |             |             |             |
| <b>Deferred Compensation Stable Value Fund (Net)<sup>8</sup></b>       | <b>19.3%</b> | <b>0.5%</b>  | <b>1.3%</b> | <b>1.8%</b> | <b>2.4%</b> | <b>2.9%</b> | <b>3.7%</b> |
| 3 Yr Constant Maturity Treasury +50bps                                 |              | 0.4%         | 1.0%        | 1.3%        | 1.1%        | 1.3%        | 2.6%        |
| iMoneyNet All Taxable+100bps   |              | 0.3%         | 0.8%        | 1.0%        | 1.0%        | 1.0%        | 2.4%        |
| <i>Mercer Stable Value Universe Median</i>                             |              | 0.4%         | 1.3%        | 1.7%        | 2.1%        | 2.7%        | 3.6%        |
| <i>Fund Rank in Universe</i>   |              | 38           | 38          | 37          | 28          | 41          | 45          |
| <b>Domestic Fixed</b>  |              |              |             |             |             |             |             |
| <b>DCP Bond Fund<sup>9</sup></b>                                       | <b>3.4%</b>  | <b>-0.1%</b> | <b>3.7%</b> | <b>3.6%</b> | <b>3.5%</b> | <b>4.6%</b> | <b>5.3%</b> |
| Barclays US Aggregate  |              | 0.2%         | 4.1%        | 3.9%        | 2.4%        | 4.1%        | 4.6%        |
| <i>Mercer MF US Fixed Core Universe Median</i>                         |              | -0.1%        | 3.8%        | 4.1%        | 3.4%        | 4.6%        | 4.4%        |
| <i>Fund Rank in Universe</i>   |              | 53           | 50          | 56          | 47          | 51          | 20          |
| <b>Vanguard Total Bond Market Index Fund Inst Plus<sup>10</sup></b>    | -----        | <b>0.2%</b>  | <b>4.1%</b> | <b>3.9%</b> | <b>2.3%</b> | <b>4.1%</b> | <b>4.6%</b> |
| Vanguard Spliced Barclays USAgg Float Adj Idx <sup>11</sup>            |              | 0.2%         | 4.0%        | 3.9%        | 2.5%        | 4.1%        | 4.6%        |
| <b>PIMCO Total Return Fund Institutional</b>                           | -----        | <b>-0.4%</b> | <b>3.3%</b> | <b>3.3%</b> | <b>4.6%</b> | <b>5.1%</b> | <b>6.0%</b> |
| Barclays US Aggregate  |              | 0.2%         | 4.1%        | 3.9%        | 2.4%        | 4.1%        | 4.6%        |
| <i>Mercer MF US Fixed Core Universe Median</i>                         |              | -0.1%        | 3.8%        | 4.1%        | 3.4%        | 4.6%        | 4.4%        |
| <i>Fund Rank in Universe</i>   |              | 84           | 54          | 59          | 26          | 38          | 7           |
| <b>Balanced</b>  |              |              |             |             |             |             |             |
| <b>Ultra Conservative Profile</b>                                      | <b>0.9%</b>  | <b>-0.4%</b> | <b>2.7%</b> | <b>4.1%</b> | <b>5.1%</b> | <b>5.1%</b> | <b>NA</b>   |
| Ultra Conservative Profile Custom Index <sup>12</sup>                  |              | -0.3%        | 2.8%        | 4.1%        | 4.5%        | 4.5%        | 4.6%        |

<sup>7</sup> The blended rate is as of 9/30/2014. Bank of the West, Bank of America, and City National Bank have weightings of 50%, 25%, and 25%, respectively; their declared rates at the end of the quarter are as follows: Bank of the West = 0.75%, Bank of America = 0.08%, and City National Bank = 0.15%.

<sup>8</sup> The inception date of the Galliard Stable Value fund is July 1, 2008. Returns prior to the inception date are linked to the Wells Fargo Stable Return fund.

<sup>9</sup> Performance prior to April 2012 is simulated, with a weighting of 50% PIMCO Total Return Fund and 50% Vanguard Total Bond Market Index Fund.

<sup>10</sup> Due to its longer history, performance of Vanguard Total Bond Market Index Fund Inst is shown.

<sup>11</sup> Barclays U.S. Aggregate Bond Index through December 31, 2009; Barclays U.S. Aggregate Float Adjusted Index thereafter.

<sup>12</sup> Effective June 1, 2009, the following composite index is used: 35.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays 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 US Aggregate Index / 5.0% S&P 500 Index / 5.0% Russell 2000 Index / 5.0% MSCI EAFE (NWHT) Index.

**Fund:** ■ Outperformed Benchmark ■ Underperformed Benchmark ■ Tracked Benchmark **Universe Ranking:** ■ 0% - 50% ■ 51% - 75% ■ 76% - 100%

|   | % of Plan | 3 Months | YTD   | 1 Year | 3 Years | 5 Years | 10 Years |
|---|-----------|----------|-------|--------|---------|---------|----------|
| <b>Conservative Profile</b><br>Conservative Profile Custom Index <sup>13</sup>  | 2.2%      | -1.1%    | 3.0%  | 5.9%   | 8.4%    | 7.1%    | NA       |
|   |           | -0.9%    | 3.2%  | 6.2%   | 8.1%    | 6.8%    | 5.8%     |
| <b>Moderate Profile</b><br>Moderate Profile Custom Index <sup>14</sup>  | 5.6%      | -1.5%    | 3.3%  | 8.6%   | 13.1%   | 9.7%    | NA       |
|   |           | -1.4%    | 3.5%  | 8.8%   | 13.0%   | 9.7%    | 6.9%     |
| <b>Aggressive Profile</b><br>Aggressive Profile Custom Index <sup>15</sup>  | 5.2%      | -2.3%    | 2.8%  | 9.3%   | 15.7%   | 11.0%   | NA       |
|   |           | -2.2%    | 3.1%  | 9.6%   | 15.7%   | 11.1%   | 7.0%     |
| <b>Ultra Aggressive Profile</b><br>Ultra Aggressive Profile Custom Index <sup>16</sup>  | 1.7%      | -3.0%    | 2.4%  | 10.0%  | 18.3%   | 12.3%   | NA       |
|   |           | -3.0%    | 2.6%  | 10.4%  | 18.4%   | 12.5%   | 7.3%     |
| <b>Domestic Equity</b>  |           |          |       |        |         |         |          |
| <b>DCP Large Cap Stock Fund<sup>17</sup></b><br>S&P 500   | 32.1%     | 1.1%     | 8.3%  | 19.7%  | 23.0%   | 15.7%   | 8.1%     |
|   |           | 1.1%     | 8.3%  | 19.7%  | 23.0%   | 15.7%   | 8.1%     |
| <b>DCP Mid Cap Stock Fund<sup>18</sup></b><br>Vanguard Spliced Mid Cap Index <sup>19</sup>  | 4.0%      | -1.1%    | 6.7%  | 15.9%  | 23.4%   | 17.0%   | 10.3%    |
|   |           | -1.2%    | 6.7%  | 15.9%  | 23.4%   | 17.1%   | 10.3%    |
| <b>SSgA Russell Small Cap Index Non-Lending Series Fund</b><br>Russell 2000   | 4.4%      | -7.4%    | -4.4% | 3.9%   | 21.2%   | 14.2%   | NA       |
|   |           | -7.4%    | -4.4% | 3.9%   | 21.3%   | 14.3%   | 8.2%     |
| <b>International Equity</b>   |           |          |       |        |         |         |          |
| <b>Deutsche EAFE Equity Index Fund Institutional</b><br>MSCI EAFE NET WHT   | 1.0%      | -6.2%    | -1.8% | 3.7%   | 13.7%   | 6.3%    | 6.1%     |
|   |           | -5.9%    | -1.4% | 4.3%   | 13.6%   | 6.6%    | 6.3%     |
| <b>Fidelity Diversified International Fund</b><br>MSCI EAFE NET WHT<br><i>Mercer MF Intl Equity Universe Median</i><br><i>Fund Rank in Universe</i> | 3.7%      | -5.0%    | -2.1% | 6.0%   | 15.3%   | 7.4%    | 6.6%     |
|   |           | -5.9%    | -1.4% | 4.3%   | 13.6%   | 6.6%    | 6.3%     |
|   |           | -5.8%    | -1.7% | 4.4%   | 13.8%   | 7.1%    | 6.7%     |
|   |           | 27       | 56    | 24     | 21      | 41      | 51       |

<sup>13</sup> Effective June 1, 2009, the following composite index is used: 15.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays 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 US Aggregate Index / 25% S&P 500 Index / 5% Russell 2000 Index / 5% MSCI EAFE (NWHT) Index.

<sup>14</sup> Effective June 1, 2009, the following composite index is used: 10.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 30.0% Barclays 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 US Aggregate Index / 40.0% S&P 500 Index / 10.0% Russell 2000 Index / 10.0% MSCI EAFE (NWHT) Index.

<sup>15</sup> Effective June 1, 2009, the following composite index is used: 5.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 20.0% Barclays 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 US Aggregate Index / 50% S&P 500 Index / 15% Russell 2000 Index / 15% MSCI EAFE (NWHT) Index.

<sup>16</sup> Effective June 1, 2009, the following composite index is used: 10.0% Barclays 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.

<sup>17</sup> The fund is 100% allocated to the Vanguard Institutional Index Fund Instl PI; performance for the Instl share class shown for the 3-year period and longer due to the shorter history of the Instl PI shares. Performance shown will be updated accordingly with the addition of underlying funds.

<sup>18</sup> The fund is 100% allocated to the Vanguard Mid Cap Index Fund Instl PI; performance for the Instl share class shown for the 5-year period and longer due to the shorter history of the Instl PI shares. Performance shown will be updated accordingly with the addition of underlying funds.

<sup>19</sup> S&P MidCap 400 Index through May 16, 2003; MSCI US Mid Cap 450 Index through January 30, 2013; CRSP US Mid Cap Index thereafter.

**Fund:** ■ Outperformed Benchmark ■ Underperformed Benchmark ■ Tracked Benchmark **Universe Ranking:** ■ 0% - 50% ■ 51% - 75% ■ 76% - 100%

# Summary – Performance of DCP Investment Menu Composite Benchmarks

Periods ending September 30, 2014

|  | 3 Months     | YTD          | 1 Year       | 3 Years      | 5 Years      | 10 Years     |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>DCP Stable Value Index</b> (100% 3-Yr CMT + 50bps)      | <b>0.4%</b>  | <b>1.0%</b>  | <b>1.3%</b>  | <b>1.1%</b>  | <b>1.3%</b>  | <b>2.6%</b>  |
| <b>DCP Bond Fund Index</b> (100% BC Aggregate Bond Index)  | <b>0.2%</b>  | <b>4.1%</b>  | <b>4.0%</b>  | <b>2.4%</b>  | <b>4.1%</b>  | <b>4.6%</b>  |
| <b>DCP Large-Cap Stock Fund Index</b> (100% S&P 500 Index) | <b>1.1%</b>  | <b>8.3%</b>  | <b>19.7%</b> | <b>23.0%</b> | <b>15.7%</b> | <b>8.1%</b>  |
| <b>DCP Mid-Cap Stock Fund Composite Index</b>              | <b>-1.7%</b> | <b>6.9%</b>  | <b>15.9%</b> | <b>23.8%</b> | <b>17.2%</b> | <b>10.3%</b> |
| <i>Russell Midcap Index (50%)</i>                          | -1.7%        | 6.9%         | 15.8%        | 23.8%        | 17.2%        | 10.3%        |
| <i>Russell Midcap Value Index (25%)</i>                    | -2.6%        | 8.2%         | 17.5%        | 24.7%        | 17.2%        | 10.2%        |
| <i>Russell Midcap Growth Index (25%)</i>                   | -0.7%        | 5.7%         | 14.4%        | 22.7%        | 17.1%        | 10.2%        |
| <b>DCP Small-Cap Stock Fund Composite Index</b>            | <b>-7.3%</b> | <b>-4.4%</b> | <b>4.0%</b>  | <b>21.3%</b> | <b>14.3%</b> | <b>8.2%</b>  |
| <i>Russell 2000 Index (33.3%)</i>                          | -7.4%        | -4.4%        | 3.9%         | 21.3%        | 14.3%        | 8.2%         |
| <i>Russell 2000 Value Index (33.3%)</i>                    | -8.6%        | -4.7%        | 4.1%         | 20.6%        | 13.0%        | 7.3%         |
| <i>Russell 2000 Growth Index (33.3%)</i>                   | -6.1%        | -4.0%        | 3.8%         | 21.9%        | 15.5%        | 9.0%         |
| <b>DCP International Fund Composite Index</b>              | <b>-5.8%</b> | <b>-0.9%</b> | <b>4.1%</b>  | <b>12.7%</b> | <b>6.7%</b>  | <b>7.5%</b>  |
| <i>MSCI EAFE Index (65%)</i>                               | -5.9%        | -1.4%        | 4.3%         | 13.6%        | 6.6%         | 6.3%         |
| <i>MSCI EM Index (17.5%)</i>                               | -3.5%        | 2.4%         | 4.3%         | 7.2%         | 4.4%         | 10.7%        |
| <i>MSCI EAFE Small Cap Index (17.5%)</i>                   | -7.8%        | -2.7%        | 3.0%         | 14.5%        | 8.9%         | 8.0%         |

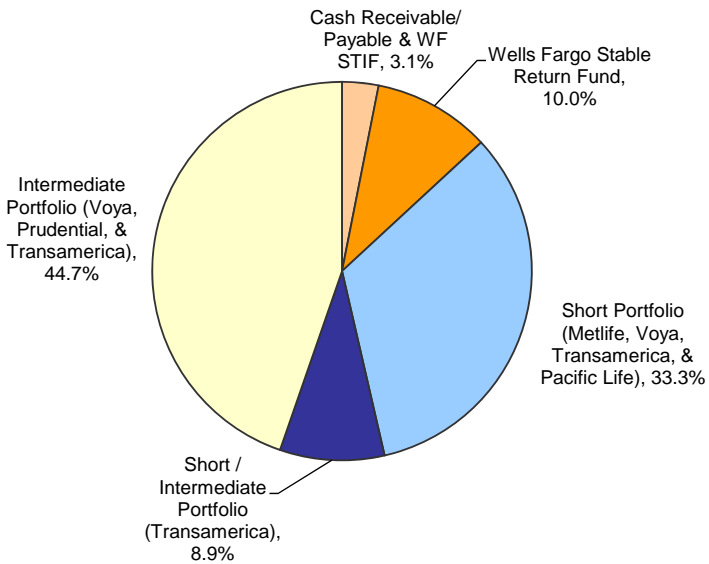
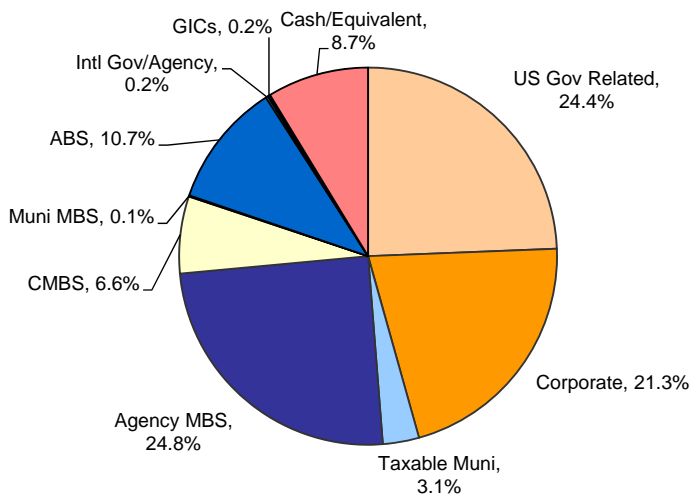
# Fund Profile

## Stable Value - Deferred Compensation Stable Value Fund (Net)

|   |             |  |             |             |   |
|---|-------------|--|-------------|-------------|---|
| <b>Share Class: Separate Account</b>  |             | <b>Benchmark: 3 Yr Constant Maturity Treasury +50bps</b> |             |             |   |
| <b>Investment Philosophy</b>  |             |  |             |             |   |
| <p>Galliard's primary emphasis in managing stable value portfolios is safety of principal. Maintaining appropriate liquidity is another key investment objective, for it must be sufficient to accommodate participant changes and provide plan sponsor flexibility. The optimal amount of liquidity typically results in reduced contract charges (wrap fees), which helps to increase the crediting rate. The process then focuses on security selection to ensure competitive returns for participants. Portfolios follow a traditional fixed income management approach with emphasis on high quality securities, broad diversification, adequate liquidity, controlled market risk (duration) and a disciplined risk management process to identify the best fundamental values across fixed income sectors. The investment decision process is team-based, blending top down and bottom up decisions. Galliard manages individual stable value portfolios on a customized basis, based on specific plan needs and characteristics. The hallmarks of their strategy include high credit quality and diversification through the use of security backed contracts (i.e. Synthetic GICs). In structuring stable value portfolios, the process begins by determining the optimal target duration for the plan. Galliard portfolios utilize a two-tiered liquidity management approach, with the first tier comprised of the liquidity buffer. The second tier consists of the security backed contracts, which are structured to provide liquidity on a pro-rata basis. Most Galliard separate accounts utilize various Galliard advised collective funds as the underlying portfolio although outside sub-advisors may also be utilized. Also, depending on the client mandate, traditional GICs may also be used as a diversification strategy.</p> |             |  |             |             |   |
| <b>Fund Characteristics</b>   |             |  |             |             |   |
|   | <b>3Q14</b> | <b>2Q14</b>  | <b>1Q14</b> | <b>4Q13</b> |   |
| <b>Mkt/Book Value Ratio</b>   | 101.6%      | 102.1%   | 101.5%      | 101.2%      | <ul style="list-style-type: none"> <li>▪ The Fund had net inflows of \$0.5 million during the quarter, which represented an increase of 0.1% in total Fund assets.</li> <li>▪ Number of contract issuers: 5</li> <li>▪ The Fund's market-to-book-value ratio decreased during the quarter to 101.6%, due to continued amortization of the Fund's market value premium. The credit quality of the underlying bond portfolios remains strong with 76.9% of the portfolio's securities rated AAA on average, as rated by S&amp;P, Moody's, and Fitch.</li> <li>▪ The overall duration of the Fund was 2.92 years at the end of the quarter, in line with the duration at the end of the previous quarter. The average credit quality at the contract level remains strong at A1/AA-.</li> <li>▪ Duration distribution guidelines ranged between 2.0 – 3.5 years with a target of 3.0 years.</li> </ul> |
| <b>Avg. Credit Quality</b>  | A1/AA-      | A1/AA-   | A1/AA-      | A1/AA-      |   |
| <b>Effective Duration (yrs)</b>   | 2.92        | 2.90   | 2.95        | 2.93        |   |
| <b>Blended Yield</b>  | 1.9%        | 1.8%   | 1.8%        | 2.0%        |   |

# Fund Profile

## Stable Value - Deferred Compensation Stable Value Fund (Net)

| Fund Composition as of September 30, 2014   | Underlying Fixed Income Asset Allocation as of September 30, 2014 (% of MV)  |
|---|--|
|  <p><b>Fund Composition as of September 30, 2014</b></p> <ul style="list-style-type: none"> <li>Intermediate Portfolio (Voya, Prudential, &amp; Transamerica), 44.7%</li> <li>Short Portfolio (Metlife, Voya, Transamerica, &amp; Pacific Life), 33.3%</li> <li>Wells Fargo Stable Return Fund, 10.0%</li> <li>Short / Intermediate Portfolio (Transamerica), 8.9%</li> <li>Cash Receivable/Payable &amp; WF STIF, 3.1%</li> </ul> |  <p><b>Underlying Fixed Income Asset Allocation as of September 30, 2014 (% of MV)</b></p> <ul style="list-style-type: none"> <li>US Gov Related, 24.4%</li> <li>Agency MBS, 24.8%</li> <li>Corporate, 21.3%</li> <li>Cash/Equivalent, 8.7%</li> <li>ABS, 10.7%</li> <li>CMBS, 6.6%</li> <li>Taxable Muni, 3.1%</li> <li>Intl Gov/Agency, 0.2%</li> <li>GICs, 0.2%</li> <li>Muni MBS, 0.1%</li> </ul> |
| <p><b>Key Facts and Figures</b></p>   |  |
| <p>Portfolio Manager: Galliard Capital Management<br/>Inception (in Plan): July 2008</p>  | <p>Expense Ratio (Net): 0.28% (0.060% Investment Management Fees / 0.176% Wrap Fee / 0.039% Other Fees)<br/>Mercer Median Expense Ratio (Net): 0.46%</p>   |



# Fund Profile

## Domestic Fixed - DCP Bond Fund

Share Class: N/A Benchmark: Barclays US Aggregate

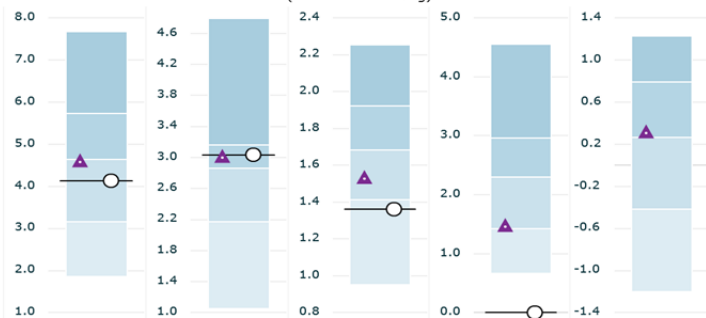
### Investment Philosophy

The DCP Bond Fund is a multi-manager strategy using passive and active management. The fund has a 50% allocation to the Vanguard Total Bond Market Index Fund and 50% to the PIMCO Total Return Fund.

### Performance Characteristics\* as of September 30, 2014

Performance characteristics vs. Barclays US Aggregate in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)

Comparison with the Mutual Fund US Fixed Core universe (Percentile Ranking)

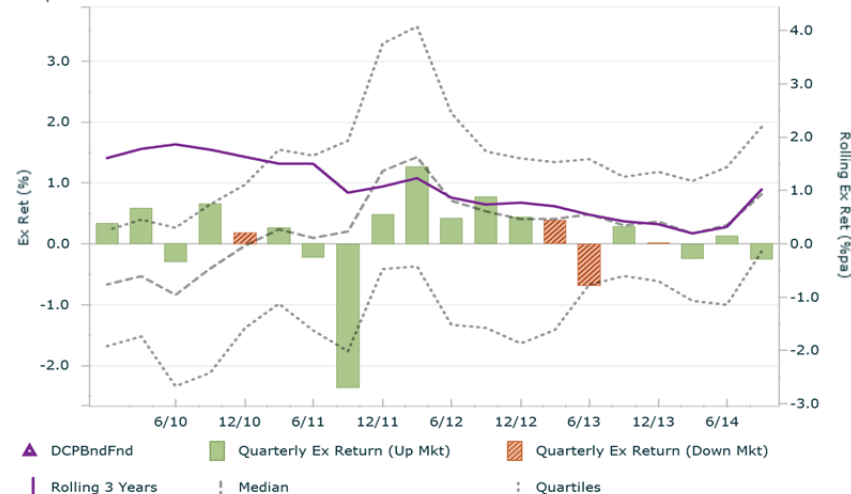


|                 | Ret (%pa) | Std Dev (%pa) | Ret/SD  | TE (%pa) | IR      |
|-----------------|-----------|---------------|---------|----------|---------|
| ▲ DCPBndFnd     | 4.6(51)   | 3.0(40)       | 1.5(68) | 1.5(72)  | 0.3(47) |
| ○ BCUSAG        | 4.1(62)   | 3.0(37)       | 1.4(80) | 0.0(100) | -       |
| 5th Percentile  | 7.7       | 4.8           | 2.3     | 4.6      | 1.2     |
| Upper Quartile  | 5.7       | 3.2           | 1.9     | 3.0      | 0.8     |
| Median          | 4.6       | 2.9           | 1.7     | 2.3      | 0.3     |
| Lower Quartile  | 3.2       | 2.2           | 1.4     | 1.4      | -0.4    |
| 95th Percentile | 1.9       | 1.1           | 1.0     | 0.7      | -1.2    |
| Number          | 333       | 333           | 333     | 333      | 333     |

### Excess Return\*

Quarterly Excess Return vs. Barclays US Aggregate with rolling 3 yr line in \$US (after fees) over 5 yrs ending September-14

Comparison with the Mutual Fund US Fixed Core universe



### Key Facts and Figures

Expense Ratio (Net): 0.26%

Mercer Median Expense Ratio (Net): 0.52%

\* Performance prior to April 2012 is simulated, with a weighting of 50% PIMCO Total Return Fund and 50% Vanguard Total Bond Market Index Fund.

# Fund Profile

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

| <b>Share Class: Inst Plus</b>  |                      | <b>Benchmark: Vanguard Spliced Barclays USAgg Float Adj Idx</b>  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
|--|----------------------|--|--|------|----------------------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|------|
| <b>Investment Philosophy</b>   |                      |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <p>The fund is designed to provide investors with a low-cost method of consistently capturing the return of the U.S. bond market, as defined by the Spliced Barclays US Aggregate Float Adjusted Bond Index. This unmanaged index consists of government, corporate and mortgage-backed securities. The fund is passively-managed using sampling techniques. Securities are selected that will keep the fund's characteristics in-line with those of the index. The key index characteristics that the fund strives to match are sector weightings, coupon, maturity, effective duration, convexity and quality. To ensure good tracking with the index, the fund attempts to remain fully invested, while maintaining characteristics consistent with those of the index.</p> |                      |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <b>Portfolio Analysis &amp; Key Observations</b>   |                      | <b>Tracking Error</b>  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <ul style="list-style-type: none"> <li>For the third quarter, the Vanguard Total Bond Market Index Fund performed in line with the Barclays U.S. Aggregate Float Adjusted Bond Index benchmark (0.18% vs. 0.16%).</li> <li>Government bonds, which account for well over one-third of the index's assets, returned 0.33%. Treasuries edged ahead of agency bonds, while longer-dated securities in both categories significantly outperformed their shorter-dated counterparts. Government mortgage-backed securities returned 0.16%.</li> <li>Investment-grade corporate bonds returned -0.08%. Bonds issued by utilities outperforming those of industrial companies and financial institutions.</li> </ul>  |                      | <p>Rolling 3 yr Tracking Error vs. Vanguard Spliced Barclays USAgg Float Adj Idx in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)</p> <table border="1"> <caption>Rolling 3 yr Tracking Error Data (Estimated)</caption> <thead> <tr> <th>Date</th> <th>Tracking Error (%pa)</th> </tr> </thead> <tbody> <tr><td>6/10</td><td>0.23</td></tr> <tr><td>12/10</td><td>0.26</td></tr> <tr><td>6/11</td><td>0.29</td></tr> <tr><td>12/11</td><td>0.29</td></tr> <tr><td>6/12</td><td>0.25</td></tr> <tr><td>12/12</td><td>0.25</td></tr> <tr><td>6/13</td><td>0.22</td></tr> <tr><td>12/13</td><td>0.19</td></tr> <tr><td>6/14</td><td>0.16</td></tr> </tbody> </table> |  | Date | Tracking Error (%pa) | 6/10 | 0.23 | 12/10 | 0.26 | 6/11 | 0.29 | 12/11 | 0.29 | 6/12 | 0.25 | 12/12 | 0.25 | 6/13 | 0.22 | 12/13 | 0.19 | 6/14 | 0.16 |
| Date   | Tracking Error (%pa) |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/10   | 0.23                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/10  | 0.26                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/11   | 0.29                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/11  | 0.29                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/12   | 0.25                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/12  | 0.25                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/13   | 0.22                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/13  | 0.19                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/14   | 0.16                 |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <b>Key Facts and Figures</b>   |                      |  |  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| Portfolio Manager: Joshua C. Barrickman  |                      | Total Fund Assets: \$124,224 Million   | Expense Ratio (Net): 0.05%               |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| Portfolio Manager Average Tenure: 1.0 Years  |                      | Total Share Class Assets: \$20,766 Million   | Mercer Median Expense Ratio (Net): 0.20% |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |

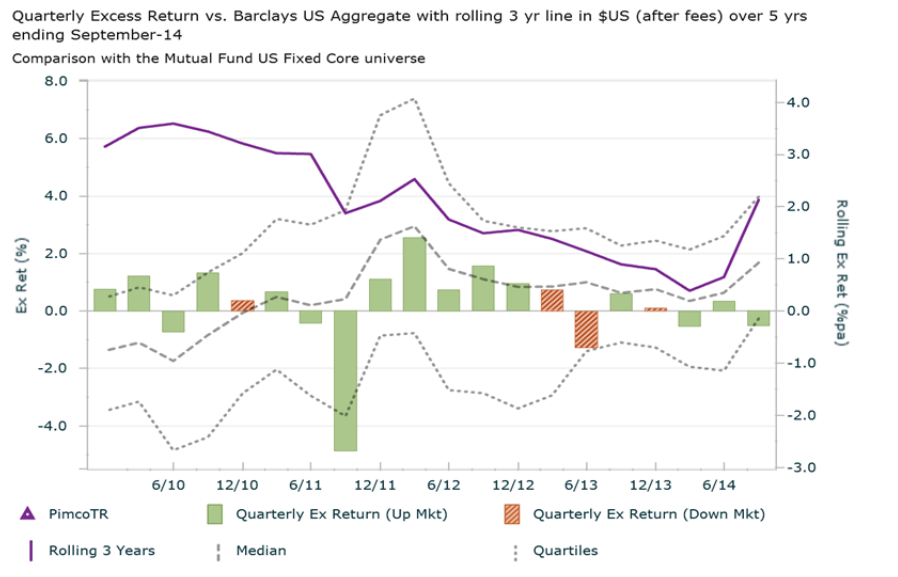
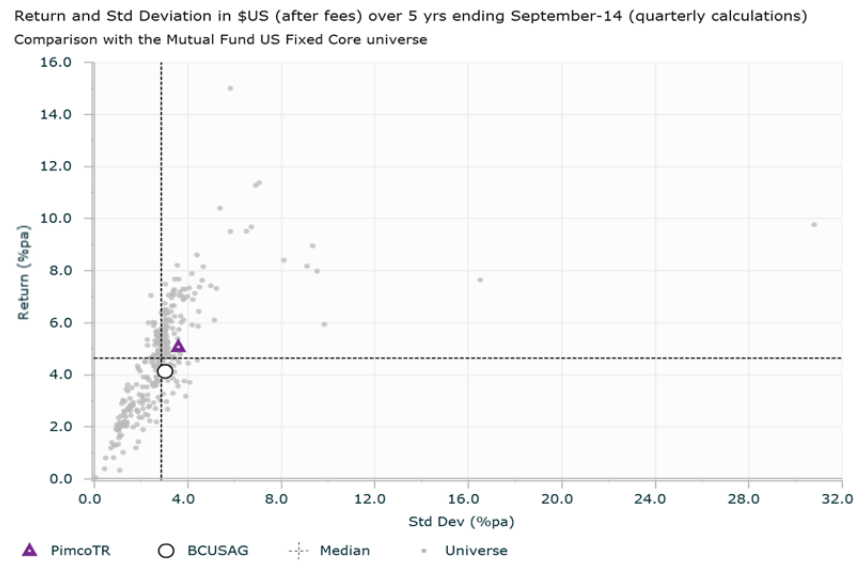
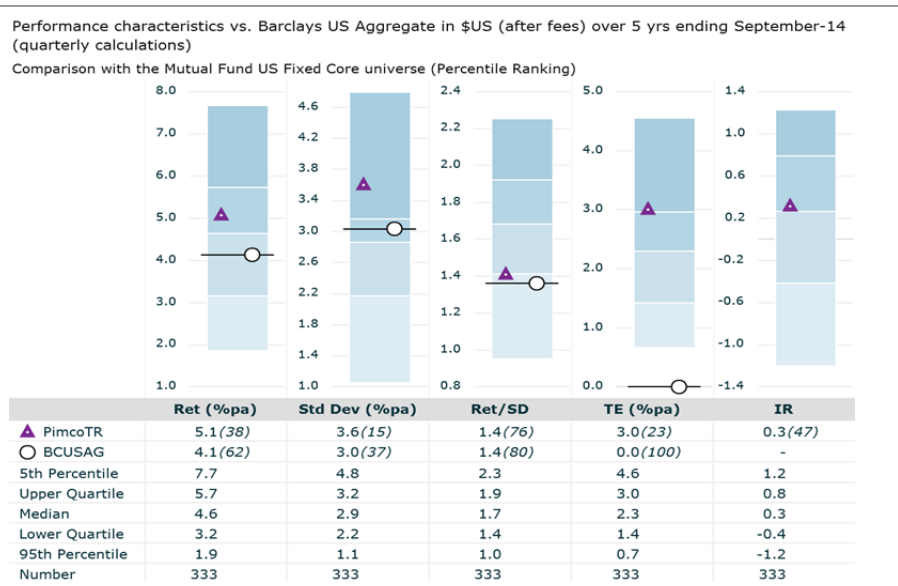
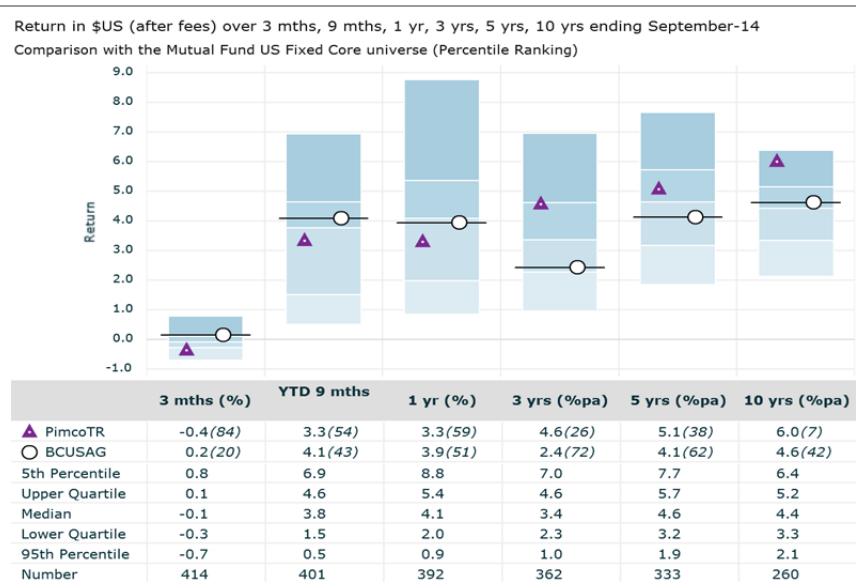
# Fund Profile

## Domestic Fixed - PIMCO Total Return Fund Institutional - PTTRX

| <b>Share Class: Institutional</b>   |  | <b>Benchmark: Barclays US Aggregate</b>  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
|---|--|--|--------|---|---------------------------|------|------|-----|-----------------|-------|-------|-----------|-------|-------|--------------|-----|------|------|------|-----|------------------|-------|-------|-------|-------|------|
| <b>Investment Philosophy</b>  |  |  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| <p>PIMCO's philosophy emphasizes diversity through multiple strategies, an emphasis on structuring for a long investment horizon and an opportunity set that includes both traditional and non-traditional sectors. PIMCO's investment process starts with an annual Secular Forum at which the firm's investment professionals from around the globe gather to analyze longer-term economic, political and demographic trends. Leading external analysts and scholars are invited to the Forum to augment the firm's internal research. The goal is to look beyond the current business cycle and determine how secular forces will influence the global economy and financial markets over the next three to five years. Quarterly, PIMCO holds Economic Forums to forecast shorter-term economic performance in individual economies. Following PIMCO's Secular and Economic Forums, the PIMCO Investment Committee (IC), establishes the key themes that anchor many of the firm's investment decisions. PIMCO consider both the "top-down" conclusions from PIMCO's Forums, as well as the "bottom-up" market intelligence provided by the firm's teams of sector specialist portfolio managers. Through an iterative series of meetings, the IC defines a set of consistent strategies that are then implemented across the firm's account base, after being tailored to reflect individual client requirements. A team of seasoned investment professionals, including a portfolio manager and account manager, is assigned to each portfolio.</p> |  |  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| <b>Portfolio Analysis &amp; Key Observations</b>  |  | <b>Sector Allocation as of September 30, 2014</b>  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| <p>Positive Impact on Performance:</p> <ul style="list-style-type: none"> <li>▪ Currency positioning, particularly a short exposure to the euro and yen which weakened relative to the U.S. dollar</li> <li>▪ Underweight allocation to investment-grade corporate bonds which underperformed like-duration Treasuries</li> <li>▪ Exposure to non-Agency mortgages</li> <li>▪ Tactical exposure to Italian and Spanish debt</li> </ul> <p>Negative Impact on Performance:</p> <ul style="list-style-type: none"> <li>▪ Allocation to Treasury Inflation-Protected Securities as inflation expectations declined</li> <li>▪ Yield curve positioning focusing on short-to-intermediate maturities</li> <li>▪ Underweight allocation to the long-end of the yield curve</li> <li>▪ Exposure to Mexican and Brazilian local rates</li> </ul>  |  | <table border="1"> <caption>Sector Allocation as of September 30, 2014</caption> <thead> <tr> <th>Sector</th> <th>PIMCO Total Return Fund Institutional (%)</th> <th>Barclays US Aggregate (%)</th> </tr> </thead> <tbody> <tr> <td>Cash</td> <td>~2.0</td> <td>0.0</td> </tr> <tr> <td>Treasury Agency</td> <td>~38.0</td> <td>~39.0</td> </tr> <tr> <td>Corporate</td> <td>~13.0</td> <td>~23.0</td> </tr> <tr> <td>Asset Backed</td> <td>0.0</td> <td>~1.0</td> </tr> <tr> <td>Muni</td> <td>~5.0</td> <td>0.0</td> </tr> <tr> <td>Mortgage Related</td> <td>~20.0</td> <td>~31.0</td> </tr> <tr> <td>Other</td> <td>~22.0</td> <td>~6.0</td> </tr> </tbody> </table> | Sector | PIMCO Total Return Fund Institutional (%) | Barclays US Aggregate (%) | Cash | ~2.0 | 0.0 | Treasury Agency | ~38.0 | ~39.0 | Corporate | ~13.0 | ~23.0 | Asset Backed | 0.0 | ~1.0 | Muni | ~5.0 | 0.0 | Mortgage Related | ~20.0 | ~31.0 | Other | ~22.0 | ~6.0 |
| Sector  | PIMCO Total Return Fund Institutional (%)  | Barclays US Aggregate (%)  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Cash  | ~2.0   | 0.0  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Treasury Agency   | ~38.0  | ~39.0  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Corporate   | ~13.0  | ~23.0  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Asset Backed  | 0.0  | ~1.0   |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Muni  | ~5.0   | 0.0  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Mortgage Related  | ~20.0  | ~31.0  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| Other   | ~22.0  | ~6.0   |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| <b>Key Facts and Figures</b>  |  |  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |
| <p>Portfolio Manager: Scott Mather, Mark Kiesel, Mihir Worah</p> <p>Portfolio Manager Average Tenure: 0 Years</p>   | <p>Total Fund Assets: \$201,585 Million</p> <p>Total Share Class Assets: \$127,756 Million</p> | <p>Expense Ratio (Net): 0.46%</p> <p>Mercer Median Expense Ratio (Net): 0.52%</p>  |        |   |                           |      |      |     |                 |       |       |           |       |       |              |     |      |      |      |     |                  |       |       |       |       |      |

# Fund Profile

## Domestic Fixed - PIMCO Total Return Fund Institutional - PTTRX



# Risk-based Profile Funds

## Profile Funds – Target Allocations

|                                       | 3Q 2014 Fund Return (%) | 3Q 2014 Benchmark Return (%) | Excess Return (%) | Ultra Conservative Profile | Conservative Profile | Moderate Profile | Aggressive Profile | Ultra Aggressive Profile |
|---------------------------------------|-------------------------|------------------------------|-------------------|----------------------------|----------------------|------------------|--------------------|--------------------------|
| <b>Stable Value</b>                   |                         |                              |                   |                            |                      |                  |                    |                          |
| DCP Stable Value                      | 0.5%                    | 0.4%                         | 0.1%              | 35.0%                      | 15.0%                | 10.0%            | 5.0%               | 0.0%                     |
| <b>Total Stable Value</b>             |                         |                              |                   | <b>35.0%</b>               | <b>15.0%</b>         | <b>10.0%</b>     | <b>5.0%</b>        | <b>0.0%</b>              |
| <b>US Fixed Income</b>                |                         |                              |                   |                            |                      |                  |                    |                          |
| DCP Bond Fund <sup>1</sup>            | -0.1%                   | 0.2%                         | -0.3%             | 50.0%                      | 50.0%                | 30.0%            | 20.0%              | 10.0%                    |
| <b>Total US Fixed Income</b>          |                         |                              |                   | <b>50.0%</b>               | <b>50.0%</b>         | <b>30.0%</b>     | <b>20.0%</b>       | <b>10.0%</b>             |
| <b>US Equity</b>                      |                         |                              |                   |                            |                      |                  |                    |                          |
| <b>Total US Large Cap Equity</b>      |                         |                              |                   | <b>5.0%</b>                | <b>12.5%</b>         | <b>25.0%</b>     | <b>25.0%</b>       | <b>25.0%</b>             |
| DCP Large Cap Stock Fund <sup>2</sup> | 1.1%                    | 1.1%                         | 0.0%              | 5.0%                       | 12.5%                | 25.0%            | 25.0%              | 25.0%                    |
| <b>Total US Mid/Small Cap Equity</b>  |                         |                              |                   | <b>5.0%</b>                | <b>10.0%</b>         | <b>20.0%</b>     | <b>30.0%</b>       | <b>40.0%</b>             |
| DCP Mid Cap Stock Fund <sup>3</sup>   | -1.1%                   | -1.2%                        | 0.1%              | 2.5%                       | 5.0%                 | 10.0%            | 15.0%              | 20.0%                    |
| SSgA Russell Sm Cap NL Series S       | -7.4%                   | -7.4%                        | 0.0%              | 2.5%                       | 5.0%                 | 10.0%            | 15.0%              | 20.0%                    |
| <b>Total US Equity</b>                |                         |                              |                   | <b>10.0%</b>               | <b>22.5%</b>         | <b>45.0%</b>     | <b>55.0%</b>       | <b>65.0%</b>             |
| <b>Non-US Equity</b>                  |                         |                              |                   |                            |                      |                  |                    |                          |
| Deutsche EAFE Equity Index Fund Instl | -6.2%                   | -5.9%                        | -0.3%             | 5.0%                       | 12.5%                | 15.0%            | 20.0%              | 25.0%                    |
| <b>Total Non-US Equity</b>            |                         |                              |                   | <b>5.0%</b>                | <b>12.5%</b>         | <b>15.0%</b>     | <b>20.0%</b>       | <b>25.0%</b>             |
| <b>Total</b>                          |                         |                              |                   | <b>100.0%</b>              | <b>100.0%</b>        | <b>100.0%</b>    | <b>100.0%</b>      | <b>100.0%</b>            |

<sup>1</sup> Composed of 50% PIMCO Total Return Fund / 50% Vanguard Total Bond Market Index Fund

<sup>2</sup> Composed of 100% Vanguard Institutional Index Fund

<sup>3</sup> Composed of 100% Vanguard Mid-Cap Index Fund

# Fund Profile

## Domestic Equity - DCP Large Cap Stock Fund - (100% Vanguard Institutional Index Fund Inst Plus – VIIIX)

| <b>Share Class: Institutional Plus</b>   |  | <b>Benchmark: S&amp;P 500</b>  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
|--|--|--|------|----------------------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|-------|
| <b>Investment Philosophy</b>   |  |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| <p>The Fund employs an indexing investment approach designed to track the performance of the Standard &amp; Poor’s 500 Index. 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.</p> |  |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| <b>Portfolio Analysis &amp; Key Observations</b>   |  | <b>Tracking Error</b>  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| <p>Top performing index sectors:</p> <ul style="list-style-type: none"> <li>Health care (+5.5%), information technology (+4.8%), and financials (+2.3%)</li> </ul> <p>Bottom performing index sectors:</p> <ul style="list-style-type: none"> <li>Energy (-8.6%), utilities (-4.0%), and industrials (-1.1%)</li> </ul>  |  | <p>Rolling 3 yr Tracking Error vs. S&amp;P 500 in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)</p> <table border="1"> <caption>Tracking Error Data (Estimated from Chart)</caption> <thead> <tr> <th>Date</th> <th>Tracking Error (%pa)</th> </tr> </thead> <tbody> <tr><td>6/10</td><td>0.052</td></tr> <tr><td>12/10</td><td>0.050</td></tr> <tr><td>6/11</td><td>0.051</td></tr> <tr><td>12/11</td><td>0.050</td></tr> <tr><td>6/12</td><td>0.050</td></tr> <tr><td>12/12</td><td>0.010</td></tr> <tr><td>6/13</td><td>0.011</td></tr> <tr><td>12/13</td><td>0.011</td></tr> <tr><td>6/14</td><td>0.011</td></tr> </tbody> </table> <p>▲ Vanguard Institutional Index Plus   Rolling 3 Years</p> | Date | Tracking Error (%pa) | 6/10 | 0.052 | 12/10 | 0.050 | 6/11 | 0.051 | 12/11 | 0.050 | 6/12 | 0.050 | 12/12 | 0.010 | 6/13 | 0.011 | 12/13 | 0.011 | 6/14 | 0.011 |
| Date   | Tracking Error (%pa)                       |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 6/10   | 0.052                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 12/10  | 0.050                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 6/11   | 0.051                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 12/11  | 0.050                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 6/12   | 0.050                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 12/12  | 0.010                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 6/13   | 0.011                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 12/13  | 0.011                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| 6/14   | 0.011                                      |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| <b>Key Facts and Figures</b>   |  |  |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| Portfolio Manager: Donald M. Butler  | Total Fund Assets: \$178,173 Million       | Expense Ratio (Net): 0.02%   |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |
| Portfolio Manager Average Tenure: 14.0 Years   | Total Share Class Assets: \$81,815 Million | Mercer Median Expense Ratio (Net): 0.20%   |      |                      |      |       |       |       |      |       |       |       |      |       |       |       |      |       |       |       |      |       |

# Fund Profile

## Domestic Equity - DCP Mid Cap Stock Fund - (100% Vanguard Mid-Cap Index Fund Inst Plus – VMCPX)

|  |   |  |
|--|---|--|
| <b>Share Class: Institutional Plus</b>   |   | <b>Benchmark: Vanguard Spliced Mid Cap Index*</b>  |
| <b>Investment Philosophy</b>   |   |  |
| <p>Vanguard Mid-Cap Index Fund seeks to track the investment performance of the CRSP US Mid Cap Index, an unmanaged benchmark representing medium-size U.S. firms. The experience and stability of Vanguard's Quantitative Equity Group have permitted continuous refinement of techniques for reducing tracking error. The group uses proprietary software to implement trading decisions that accommodate cash flow and maintain close correlation with index characteristics. The Fund is managed internally by Vanguard Quantitative Equity Group. Donald Butler is the Portfolio Manager and has been advising the fund since 2004. Vanguard equity funds participate in securities lending program. The Vanguard equity funds and commingled trusts are permitted to lend stocks only to broker/dealers who are approved by an independent internal credit team. Vanguard does not lend securities to its own funds or any affiliated party. Vanguard's securities lending program can be described as "high value" rather than "high volume." The funds only engage "special" loans, and do not engage general collateral (GC) loans. The Fund employs a passively managed, full-replication approach. The Fund holds all stocks in the same capitalization weighting as the index.</p> |   |  |
| <b>Portfolio Analysis &amp; Key Observations</b>   |   | <b>Tracking Error</b>  |
| <p>Top performing index sectors:</p> <ul style="list-style-type: none"> <li>▪ Telecommunication services (+8.7%), health care (+2.9%) and consumer staples (+2.2%)</li> </ul> <p>Bottom performing index sectors:</p> <ul style="list-style-type: none"> <li>▪ Energy (-10.6%), utilities (-6.1%) and industrials (-1.8%)</li> </ul>   |   | <p>Rolling 3 yr Tracking Error vs. Vanguard Spliced Mid Cap Index in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)</p> <p>▲ Vanguard Mid-Cap Index Fund        Rolling 3 Years</p> |
| <b>Key Facts and Figures</b>   |   |  |
| Portfolio Manager: Donald M. Butler  | Total Fund Assets: \$53,314 Million       | Expense Ratio (Net): 0.06%   |
| Portfolio Manager Average Tenure: 16.0 Years   | Total Share Class Assets: \$9,942 Million | Mercer Median Expense Ratio (Net): 0.25%   |

\* S&P MidCap 400 Index through May 16, 2003; the MSCI US Mid Cap 450 Index through January 30, 2013; and the CRSP US Mid Cap Index thereafter  
Mercer

# Fund Profile

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

| <b>Share Class: S</b>   |                                  | <b>Benchmark: Russell 2000</b>  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
|---|----------------------------------|---|------|----------------------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|------|-------|------|------|------|
| <b>Investment Philosophy</b>  |                                  |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <p>SSgA's aim is to achieve returns as close to the index as possible, but in a cost effective manner. Market anomalies will be exploited where they can be, at very low risk levels. SSgA manages the Russell 2000 Index strategy using a full replication process. With regard to the replication approach, securities in the benchmark are purchased in the weights they represent in the benchmark. However, SSgA does allow for small mis-weights in the portfolio, recognizing that the cost of trading to avoid small mis-weights may be greater than any potential improvement in tracking error.</p> |                                  |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <b>Portfolio Analysis &amp; Key Observations</b>  |                                  | <b>Tracking Error</b>   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <p>Top performing index sectors:</p> <ul style="list-style-type: none"> <li>Health Care (+5.5%), information technology (+4.8%), and telecommunication services (+3.1%)</li> </ul> <p>Bottom performing index sectors:</p> <ul style="list-style-type: none"> <li>Energy (-8.6%), utilities (-4.0%), and industrials (-1.1%)</li> </ul>   |                                  | <p>Rolling 3 yr Tracking Error vs. Russell 2000 in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)</p> <table border="1"> <caption>Tracking Error Data (Estimated from Chart)</caption> <thead> <tr> <th>Date</th> <th>Tracking Error (%pa)</th> </tr> </thead> <tbody> <tr><td>6/10</td><td>0.25</td></tr> <tr><td>12/10</td><td>0.27</td></tr> <tr><td>6/11</td><td>0.28</td></tr> <tr><td>12/11</td><td>0.23</td></tr> <tr><td>6/12</td><td>0.15</td></tr> <tr><td>12/12</td><td>0.13</td></tr> <tr><td>6/13</td><td>0.12</td></tr> <tr><td>12/13</td><td>0.11</td></tr> <tr><td>6/14</td><td>0.05</td></tr> </tbody> </table> <p>▲ SSgA Ru 2000 Idx       Rolling 3 Years</p> | Date | Tracking Error (%pa) | 6/10 | 0.25 | 12/10 | 0.27 | 6/11 | 0.28 | 12/11 | 0.23 | 6/12 | 0.15 | 12/12 | 0.13 | 6/13 | 0.12 | 12/13 | 0.11 | 6/14 | 0.05 |
| Date  | Tracking Error (%pa)             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/10  | 0.25                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/10   | 0.27                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/11  | 0.28                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/11   | 0.23                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/12  | 0.15                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/12   | 0.13                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/13  | 0.12                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 12/13   | 0.11                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| 6/14  | 0.05                             |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| <b>Key Facts and Figures</b>  |                                  |   |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |
| Portfolio Manager (Advised Since): David Chin (1999)  | Total Fund Assets: \$290 Million | Expense Ratio (Net): 0.06%<br>Mercer Median Expense Ratio (Net): 0.30%  |      |                      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |       |      |      |      |



# Fund Profile

## International Equity - Passive - Deutsche EAFE Equity Index Fund Institutional - BTAEX

|   |   |  |
|---|---|--|
| <b>Share Class: Institutional</b>   |   | <b>Benchmark: MSCI EAFE NET WHT</b>  |
| <b>Investment Philosophy</b>  |   |  |
| <p>The fund seeks to replicate, as closely as possible, the performance of the MSCI EAFE Index, which emphasizes stocks of companies in major markets in Europe, Australasia and the Far East. The fund invests for capital appreciation, not income. The fund may lend securities up to 33.3% of total assets to approved institutions. The strategy invests typically 80% of the fund in index securities and selects derivative instruments relating to the index.</p>   |   |  |
| <b>Portfolio Analysis &amp; Key Observations</b>  |   | <b>Tracking Error</b>  |
| <p>Positive Impact on Performance:</p> <ul style="list-style-type: none"> <li>Top performing sectors were health care (+0.4%), information technology (-0.8%), and financials (-4.7%)</li> <li>Top performing countries were USA (+0.8%), Israel (+0.2%), and Singapore (-1.2%)</li> </ul> <p>Negative Impact to Performance:</p> <ul style="list-style-type: none"> <li>Bottom performing sectors were energy (-11.3%), materials (-9.4%), and consumer discretionary (-8.5%)</li> <li>Bottom performing countries were Portugal (-25.0%), Austria (-21.6%), and Germany (-11.2%)</li> </ul> |   | <p>Rolling 3 yr Tracking Error vs. MSCI EAFE NET WHT in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)</p> <p>▲ DWS EAFE Eq Idx         Rolling 3 Years</p> |
| <b>Key Facts and Figures</b>  |   |  |
| Portfolio Manager: Thomas O'Brien; Joseph LaPorta<br>Portfolio Manager Average Tenure: 1.0 Years  | Total Fund Assets: \$264 Million<br>Total Share Class Assets: \$264 Million | Expense Ratio (Net): 0.50%<br>Mercer Median Expense Ratio (Net): 0.38%   |

# Fund Profile

## International Equity - Fidelity Diversified International Fund - FDIVX

|                            |                                     |
|----------------------------|-------------------------------------|
| <b>Share Class: Retail</b> | <b>Benchmark: MSCI EAFE NET WHT</b> |
|----------------------------|-------------------------------------|

### Investment Philosophy

The Diversified International Fund is constructed in a bottom-up fashion by which sector and country weights are driven from individual stock selection. The Fund is constructed with concern for diversification and industry risks, and is highly diversified holding between 200 and 300 companies. The Fund has the flexibility to invest in developed and emerging markets; however, emerging market exposure is generally less than 15% of the Fund. While the process is based on fundamental research and stock selection, thoughtful portfolio construction is important in creating a Fund that strives to be consistent and risk aware. Bill Bower, along with Fidelity's domestic and international equity analysts based in Boston, Tokyo, London, and Hong Kong are actively involved in this research process. While the domestic and international research departments play an integral role in both the buy and sell decisions for the portfolio, the Portfolio Manager has ultimate responsibility for all investment decisions. When analyzing equity securities for inclusion in the portfolio, the fund manager evaluates cash flow multiples, balance sheet leverage relative to potential earnings growth, and valuation relative to historic levels. The fund manager also scrutinizes the quality of management, the alignment of management and shareholders' interests, and the stability of the underlying business. Finally, the manager pays close attention to the differences in accounting standards between countries, and takes these differences into account when selecting securities.

### Portfolio Analysis & Key Observations

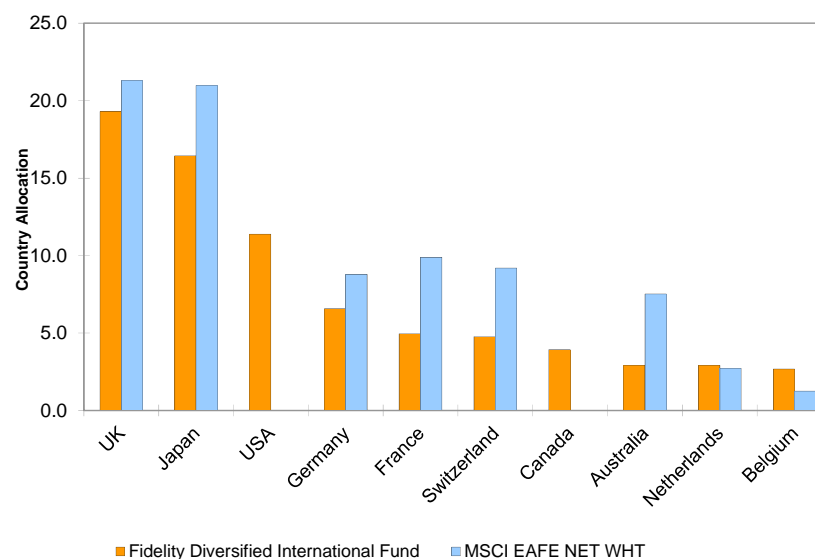
#### Positive Impact on Performance

- Stock selection within the information technology and consumer staples sectors
- Stock selection within, and an overweight allocation to, the health care sector
- Stock selection within Europe and exposure to Emerging Markets
- Individual contributors to performance: Gilead Sciences, Alimentation Couche-Tard, and Alibaba Group Holding

#### Negative Impact on Performance

- Stock selection within the industrials and consumer discretionary sectors
- Stock selection and an underweighting in Japan
- Individual detractors from performance: ORIX and Sands China

### Country Analysis as of September 30, 2014



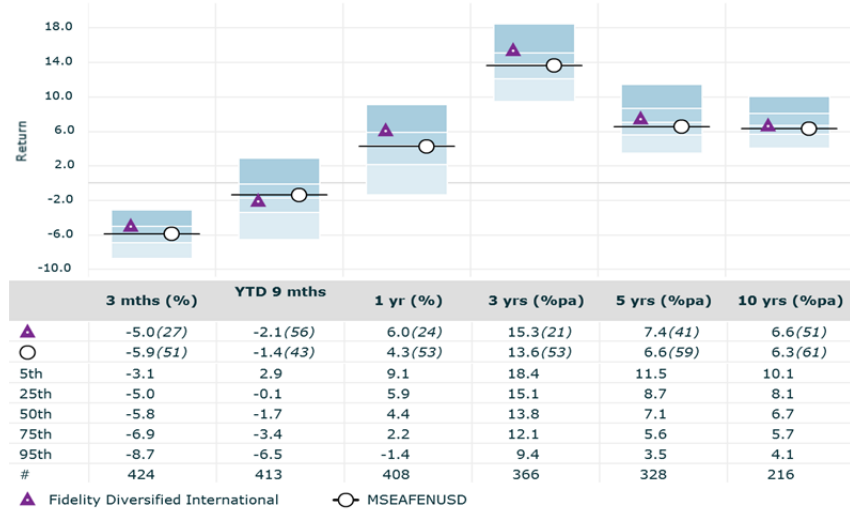
### Key Facts and Figures

|  |  |  |
|--|--|--|
| Portfolio Manager: William Bower             | Total Fund Assets: \$25,020 Million        | Expense Ratio (Net): 0.92%               |
| Portfolio Manager Average Tenure: 13.0 Years | Total Share Class Assets: \$14,009 Million | Mercer Median Expense Ratio (Net): 1.00% |

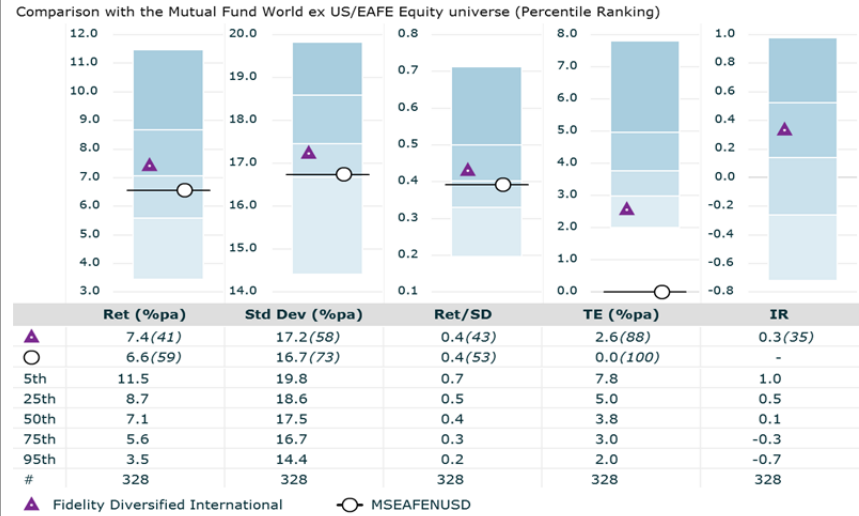
# Fund Profile

## International Equity - Fidelity Diversified International Fund - FDIVX

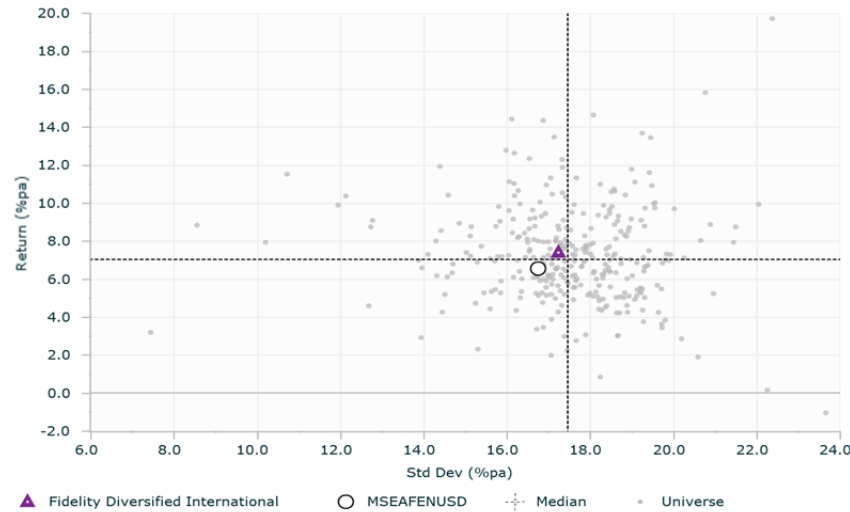
Return in \$US (after fees) over 3 mths, 9 mths, 1 yr, 3 yrs, 5 yrs, 10 yrs ending September-14  
Comparison with the Mutual Fund World ex US/EAFE Equity universe (Percentile Ranking)



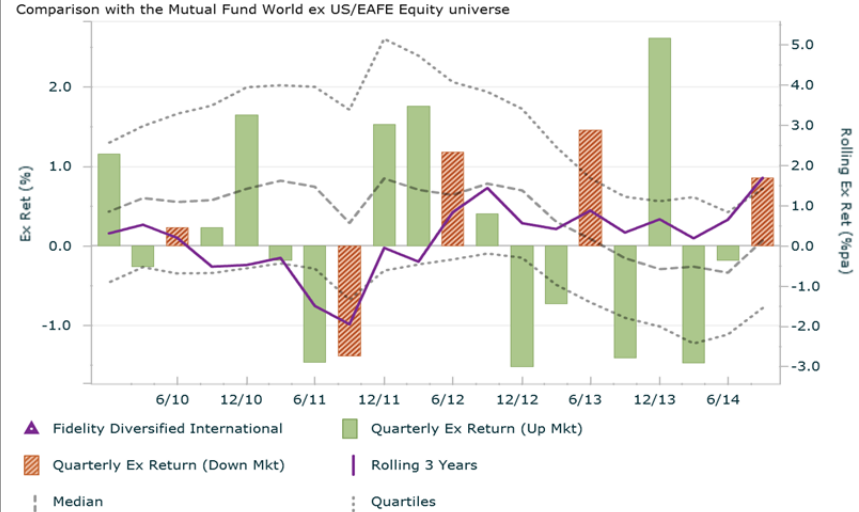
Performance characteristics vs. MSCI EAFE NET WHT in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)  
Comparison with the Mutual Fund World ex US/EAFE Equity universe (Percentile Ranking)



Return and Std Deviation in \$US (after fees) over 5 yrs ending September-14 (quarterly calculations)  
Comparison with the Mutual Fund World ex US/EAFE Equity universe



Quarterly Excess Return vs. MSCI EAFE NET WHT with rolling 3 yr line in \$US (after fees) over 5 yrs ending September-14  
Comparison with the Mutual Fund World ex US/EAFE Equity universe



## Appendix A – Investment Manager Updates

### ***Pacific Investment Management Company (PIMCO)***

#### **CIO Bill Gross Resigns to Join Competitor – September 26, 2014**

- We have learned that Bill Gross, co-founder and CIO of PIMCO, has resigned to join Janus Capital Management (Janus). We are awaiting official statements from both firms, and expect to meet with PIMCO today to discuss transition plans.
- It goes without saying that this is significant news. Gross is the face of PIMCO internally and externally. As such, significant outflows can be expected, namely from the US Total Return Fund, and personnel turnover cannot be ruled out either. We are continuing to sort this information out. As a first step, we are adding the (P)rovisional designation to all PIMCO ratings, and urge clients to hold off on adding assets to any PIMCO strategies. Further ratings action on Mercer's part is imminent. We are especially concerned with clients in mutual funds and commingled vehicles, as an accelerated pace of outflows could cause a "run on the bank" that will be difficult for PIMCO to manage in the current market, which is less liquid than years past. This is applicable to all fixed income clients that invest through pooled vehicles, regardless of strategy and domicile.
- For clients with separate accounts, this is a less urgent event; PIMCO continues to be among the best resourced firms in the world, and this is unlikely to change in the coming months. Going forward, separate account clients may consider an in-kind transfer to a replacement manager with adequate resources and experience in the global fixed income markets.

#### **Dan Ivascyn Named CIO of PIMCO – September 26, 2014**

- Following earlier news that CIO Bill Gross resigned, PIMCO has named Dan Ivascyn as the successor, holding the newly created title of Group CIO. Ivascyn was elevated from the pool of Deputy CIOs that PIMCO appointed following Mohammed El-Erian's resignation. In addition to responsibilities as Group CIO, Ivascyn continues to oversee the firm's mortgage credit, alternatives and income strategies.
- Changes to the Deputy CIO group include: Andrew Balls to CIO, Global; Mark Kiesel to CIO, Global Credit; Virginie Maisonneuve to CIO, Equities; Scott Mather to CIO, US Core Strategies; and Mihir Worah to CIO, Real Return and Asset Allocation. From the previous structure, notable changes include Balls becoming the sole head of global portfolios, and Mather the head of US core portfolios. Otherwise, PIMCO simply removed the word "Deputy" from the CIOs' titles.
- Other changes include Scott Mather, Mark Kiesel and Mihir Worah being appointed as portfolio managers for the Total Return Fund. Dan Ivascyn, Mohsen Fahmi and Saumil Parikh have been appointed as portfolio managers for the Unconstrained Bond Fund. Lastly, Chris Dialynas, Managing Director and portfolio manager will return to the firm from sabbatical during the fourth quarter of 2014.
- Otherwise, from a personnel perspective Gross' resignation can be argued either way. On the negative side he was clearly the face of organization from an internal and external perspective. Regardless of his personality, he was a savvy investor with a successful long term track record. As such, his resignation is clearly a loss to PIMCO. Additionally, we are not sure who Gross' closest followers are, so defections from the team can't be ruled out.
- On the positive side, it's possible that the team remains perfectly stable going forward because Gross was overbearing and generally wearing his colleagues thin. If he was keeping others from being heard, this could be the change the team was awaiting.

#### **Total Return Fund Update – October 30, 2014**

- We downgraded the strategies in September 2014 due to significant shifts in key decision makers following Bill Gross' resignation, and a relatively high level of organizational instability over the last year. Additionally, we think there has been a change to the risk/reward profile of these strategies – specifically commingled vehicles - for the near to mid-term given a greater need for liquidity. The firm confirmed that it has raised liquidity in anticipation of outflows, but it still has not qualified the level of outflows that it expects.

Net Flows & Liquidity

- In the US, PIMCO discloses its net asset flows across its platform on a monthly basis. Employees are strictly prohibited from disclosing specific information about net flows intra-month. As such, the next report on net flows is expected to be available early in the first week of November.
- Broadly speaking, PIMCO continues to say that the most significant redemptions from its Total Return and Unconstrained Bond mutual funds took place in the first days following Gross' resignation. They expect the net outflow trend to continue for the near to mid term for Total Return and Unconstrained Bond funds. However, other mutual funds, such as high yield and credit, have seen net inflows.
- PIMCO did not comment on institutional client redemptions. We will likely need to wait until the end of the quarter for total assets under management by strategy, across the firm.
- Worah did not disclose the precise cash position of the Total Return Fund (PTTRX), but did say that the team is managing the portfolio with a cash balance that is a "multiple" of what PIMCO's risk management team suggests in light of expected outflows.
- PIMCO estimated that around 70% of separate account client redemptions have taken place in-kind. With regard to accounts that are being liquidated, PIMCO believes approximately 80% of portfolios trade at or inside a bid-ask spread of three basis points. We don't object to this assumption, but note that such an estimate may not be reliable if/as market volatility increases.

Team Update & Dynamics

- PIMCO recently made two hires. Firstly, Jeremie Banet is joining the firm. Before resigning to launch a food-truck business, he worked for PIMCO as a portfolio manager for TIPS and real return strategies. Banet's first day back at PIMCO is Monday, November 3rd. He will again report to Worah and work with the Real Return team.
- PIMCO previously framed Banet's resignation as an isolated incident, but subsequent to his departure some rumors surfaced that he did not get along with Gross. Banet's abrupt resignation and abrupt decision to rejoin the firm appear to support the rumors. In any case, we did not view Banet as material to the firm's real return capabilities.
- Nobel laureate Michael Spence will again work with PIMCO as a consultant on macroeconomic and global policy issues. Spence served in this role with PIMCO until February 2014, and rejoins in a similar capacity. He will participate in PIMCO's economic forums and other projects with the Investment Committee. Spence is an economics professor at NYU and will continue in that role while consulting to PIMCO.
- Chris Dialynis has officially returned to the Newport Beach office from a one-year sabbatical, now working with the absolute return team. Dialynis hasn't been named PM1 or PM2 to any accounts yet, but it sounds as though he will eventually manage unconstrained separate accounts.
- While PIMCO employs portfolio managers with economics backgrounds, the firm has never had a full time economist that didn't have some direct portfolio responsibilities. The rationale has been that Gross and Mohamed El-Erian believed that all investment professionals should also act as economists by nature. With both gone, PIMCO is now likely to reverse course on this idea and hire a full time economist, and has begun discussions with several candidates along these lines.
- Worah provided examples of how the trio of Total Return portfolio managers (Scott Mather, Mark Kiesel, and Worah) have introduced greater continuity of ideas between sector and multi-sector portfolios. That Gross did not implement sector ideas verbatim is not surprising, and the greater alignment was one of the firm's intentions when they named the three as co-heads of the US Total Return strategies.
- Worah also commented that members of the risk management team are now present at all portfolio management team meetings. As previously mentioned, the risk management team is keeping a close eye on liquidity, in addition to risk limits in portfolios. Worah commented that risk management is "more rigorous" than historically; this is a point to follow up in future meetings with the firm.
- In terms of retention, PIMCO is offering special bonus awards to "key" employees at every level. The awards are designed to ensure PIMCO meets client needs, through deferred vesting and cash payments in 12, 18 and 30 months, depending on the employee's role and responsibility. These

awards are above and beyond the annual base and bonus compensation process.

- It is unclear how long Paul McCulley will remain with PIMCO. McCulley is a long-time friend and colleague of Gross, and returned to the firm mid-year in somewhat of a consulting role. If McCulley leaves in the near term, it will undoubtedly be a headline topic, although it likely would not change our views of the firm's strategies, as his role is not critical.

#### **Marc Seidner to re-join PIMCO; Update on Total Return Fund Flows – November 4, 2014**

- PIMCO announced that Marc Seidner, formerly the head of GMO's Fixed Income team, rejoined PIMCO on November 12, 2014 as a Managing Director and CIO of Non-Traditional Assets. Seidner will be based in PIMCO's New York office. Seidner initially joined PIMCO in 2009 from Harvard University Endowment, where he was head of fixed income, reporting to Mohammad El-Erian. After El-Erian resigned in early 2014, Seidner was asked to become a deputy CIO, requiring a five year commitment from PIMCO. Shortly after Seidner declined, he resigned and joined GMO.
- PIMCO has also announced that Curtis Mewbourne will be returning to Newport Beach in mid-2015. Throughout his PIMCO career, Mewbourne has worked in multiple offices globally. He will retain his current portfolio management responsibilities, which include different types of corporate mandates, as well as various accounts for insurance clients.
- Finally, PIMCO has disclosed assets under management for the flagship Total Return Fund (PTTRX). As of end-October, PTTRX had \$170.9 billion in assets under management. While outflows decreased throughout the month, the \$27.5 billion net outflow is significant as the firm has now posted more than \$50 billion in outflows from the fund since PIMCO founder and former CIO Bill Gross resigned.
- *Mercer View:* We are not suggesting rating changes as a result of Seidner re-joining PIMCO. Turnover – most notably, Gross and El-Erian - led us to downgrade many strategies at PIMCO. While the firm is addressing turnover in constructive ways, including re-hiring former senior team members like Seidner and offering near and mid-term retention bonuses, we note that other concerns with the firm remain. In particular, we continue to be concerned with the level of PTTRX redemptions, which were significant in October. Given that many institutional clients may take longer to make retention/redemption decisions, we cannot rule out further declines of a material nature. We continue to believe that uncertainty surrounding redemptions may have a negative impact on portfolio construction, as the team needs to maintain a more liquid profile than it otherwise would.

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