

# City of Los Angeles

City of Los Angeles Deferred Compensation Plan

## Defined Contribution Performance Evaluation

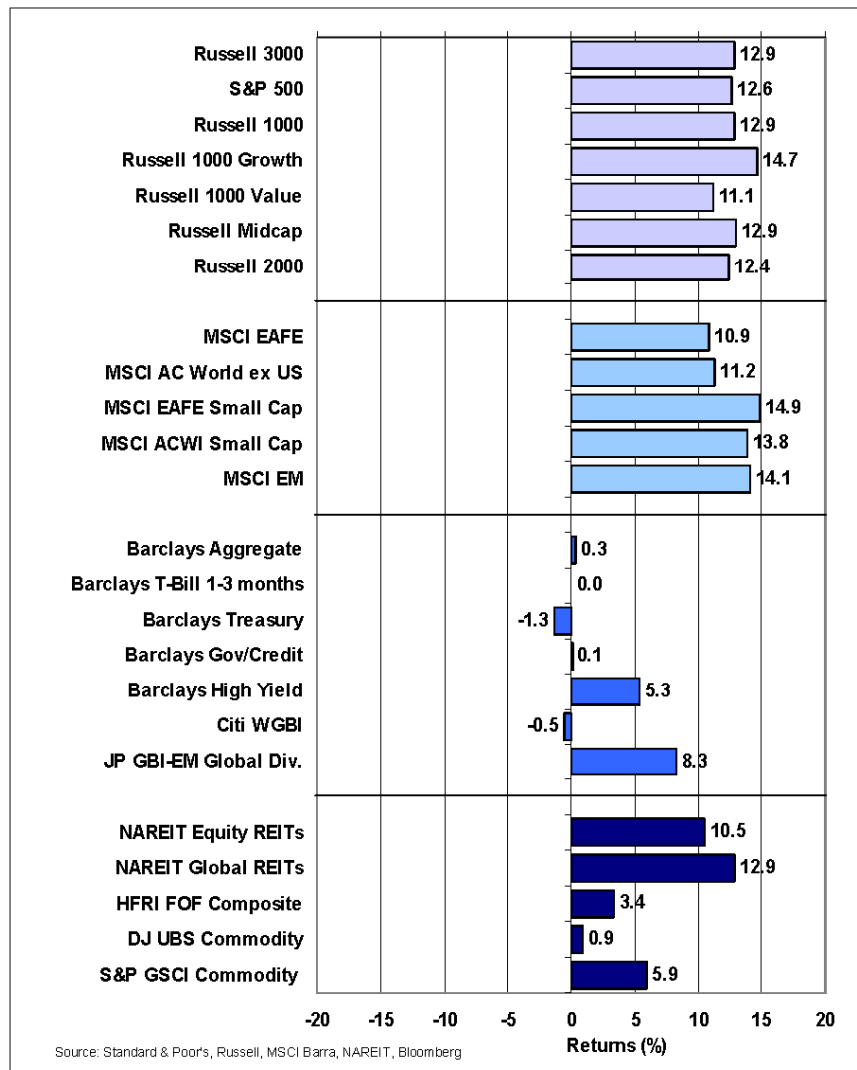
First Quarter 2012

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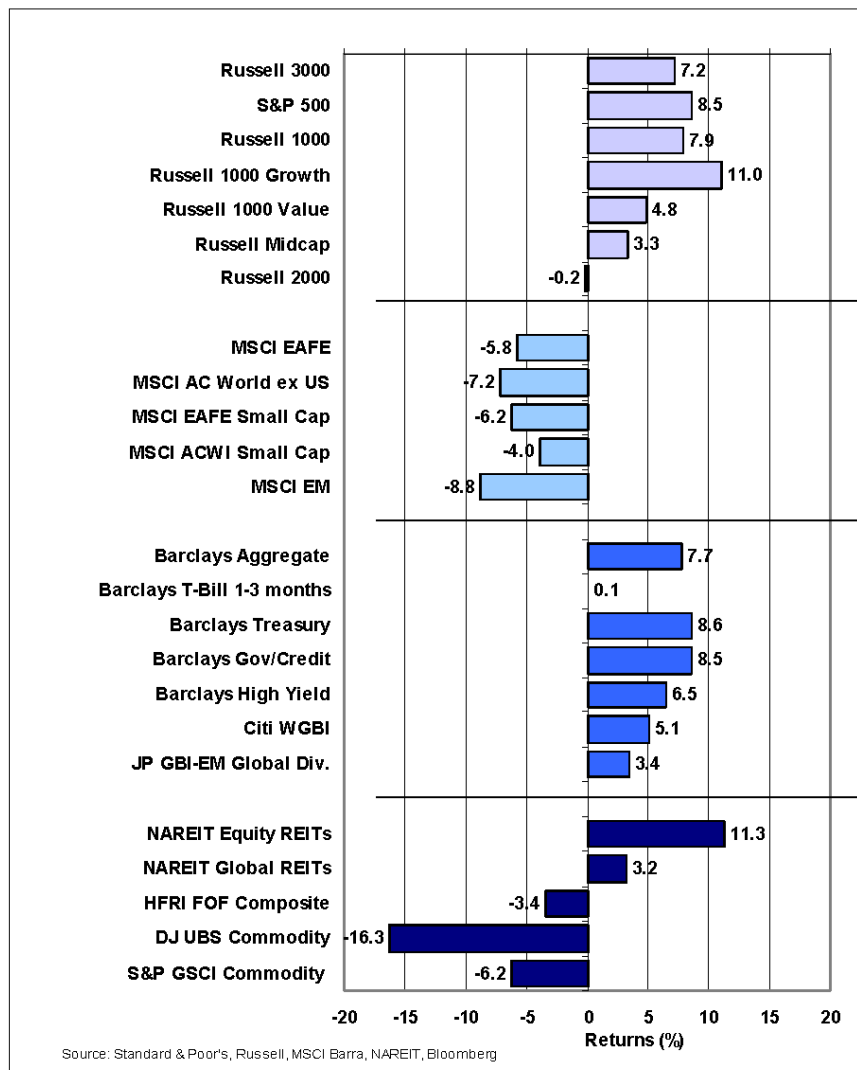
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# Performance Summary: Quarter in Review

**Market Performance**  
First Quarter 2012



**Market Performance**  
1 Year



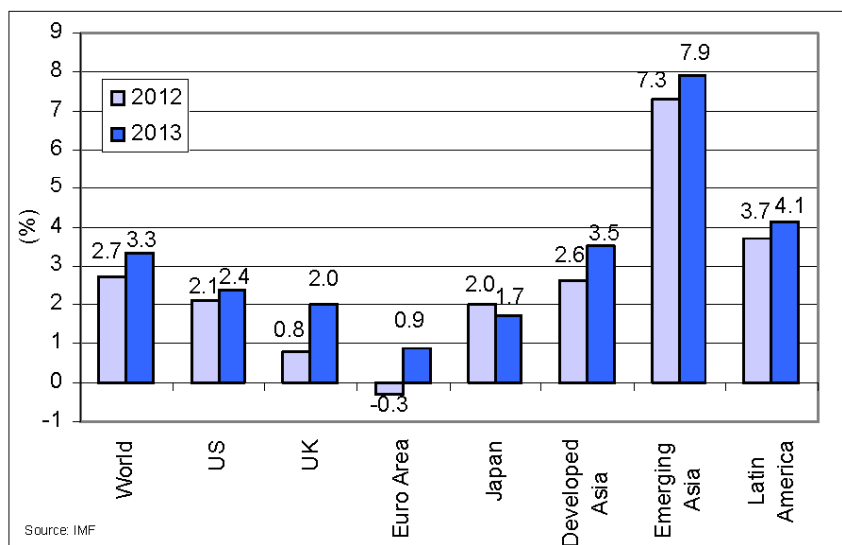
# Macro Environment: Economic Review

## US GDP Growth

	Q1 2012 Growth (%)	Contribution to Q1 2012 Growth (%)
Personal Consumption Expenditures	2.9	2.0
Residential Fixed Investment	19.1	0.4
Non-Residential Fixed Investment	(2.1)	(0.2)
Government Consumption	(3.0)	(0.6)
Change in Inventories	-	0.6
Trade Balance	-	(0.0)
<b>GDP</b>		<b>2.2</b>

Source: Bureau of Economic Analysis

## World Economic Growth (Projections as of April 2012)

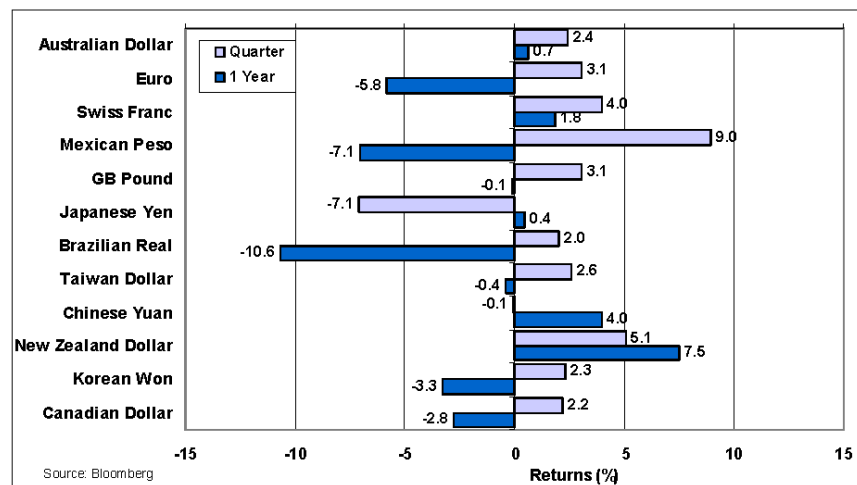


Source: IMF

- The US economy expanded at an annualized rate of 2.2% in the first quarter. While US growth is enviable relative to much of the developed world, it is modest and below trend and is likely insufficient to trigger a significant improvement in the unemployment rate. Global macroeconomic uncertainty, fiscal policy and household deleveraging are likely to continue to act as constraints on growth.
- Job growth picked up during the first quarter as the economy added an average of 212,000 jobs per month compared to the 164,000 average in the fourth quarter of last year. Additionally, the unemployment rate declined from 8.5% to 8.2%. However, at the current pace of job creation, it will likely take years to restore the economy to full employment.
- The risk of a recession in 2012 is probably low. The probability of a recession is likely higher in 2013 due to the potential fiscal drags of higher taxes and spending cuts.
- The Eurozone debt crisis stabilized further during the quarter as the ECB's LTRO program reduced financial strains and contributed to a drop in sovereign bond yields. However, these measures did not solve the underlying challenges. The Eurozone crisis will probably continue to be the dominant macro risk in 2012.
- Growth in China is likely to slow to 8.2% this year from 9.2% in 2011. It seems likely that policymakers will be able to prevent a hard landing over the short-term, resulting in an orderly slowdown in growth. However, the lack of transparency makes it hard to assess the true extent of the problems.

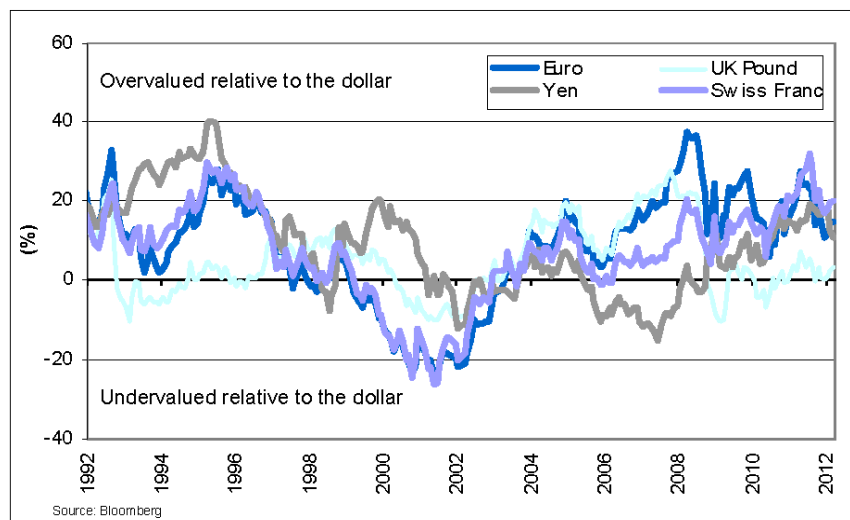
# Macro Environment: Currencies

Performance of Foreign Currencies versus the US Dollar



- The dollar rally that took place in the second half of 2011 came to a halt in the first quarter. Major developed currencies fared well against the dollar, with Japanese yen being the exception. Aside from the Chinese yuan, which was relatively flat, emerging currencies generally appreciated.

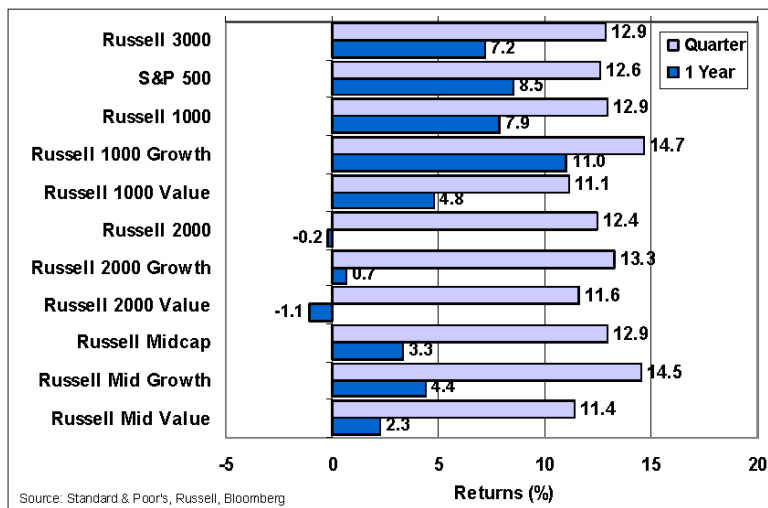
Currency Valuation versus US Dollar (Based on Relative PPP)



- The outlook for the dollar against developed currencies is difficult to predict. The Fed has expressed its intent to keep its target rate at zero through 2014, which should limit foreign inflows seeking yield. However, the ongoing European debt crisis will give the dollar a safe haven appeal.
- The outlook for emerging market currencies is positive over the intermediate-term, as they are experiencing faster economic growth and have lower levels of debt; however, they tend to be correlated to other risky assets and could suffer in the event of a renewed downturn.

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

Style and Capitalization Market Performance



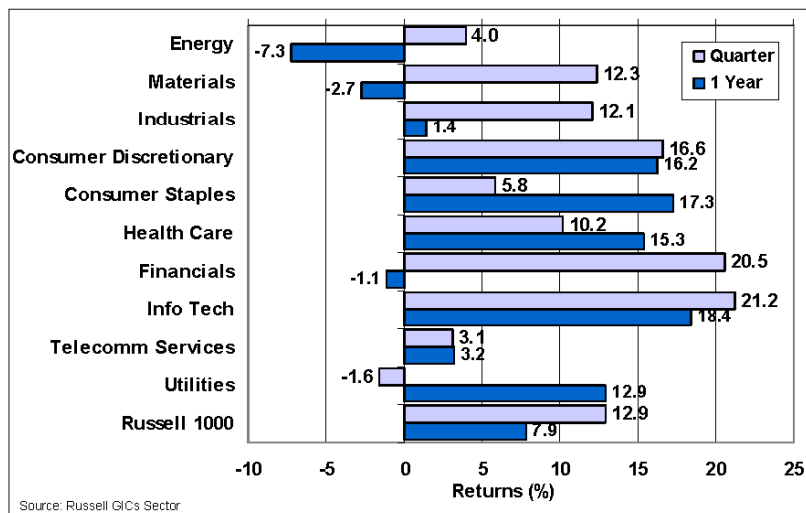
## Broad Market

- Domestic equity markets rose sharply during the first quarter with the Russell 3000 index gaining 12.9%. For the 12-month period ended March 2012, the Russell 3000 returned 7.2%.

## Market Cap

- Large Caps:** The S&P 500 gained 12.6% during the first quarter. Large caps marginally outperformed small caps and slightly trailed mid caps. Over the last 12 months, large caps outperformed small caps by 870 basis points.
- Mid Caps:** The Russell Midcap index rose 12.9% for the quarter.
- Small Caps:** The Russell 2000 index returned 12.4% during the quarter, but declined 0.2% over the last 12 months.

Sector Performance



## Style

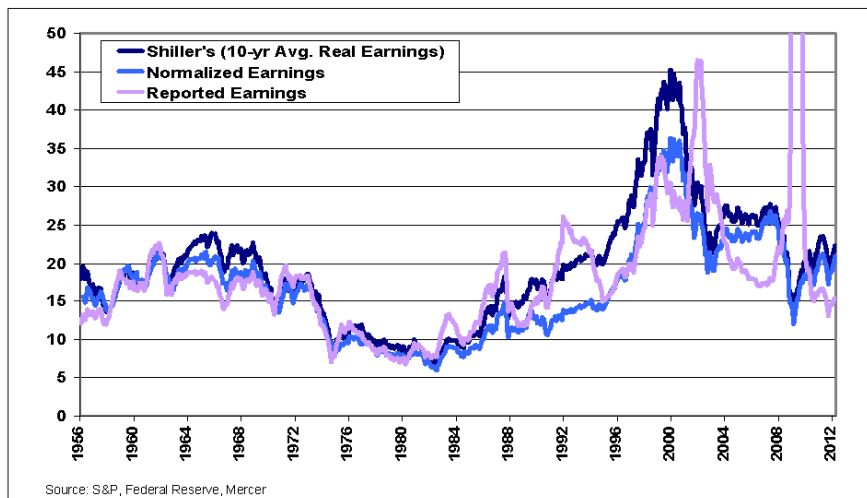
- Value vs. Growth:** Growth stocks outperformed value stocks across all capitalization segments in the first quarter. Although financial stocks posted strong gains, energy stocks and utility stocks lagged, weighing on value indexes.

## Sector

- Technology, financial and the consumer discretionary sectors led markets in the first quarter, while the utilities, telecommunication services, energy, and consumer staples sectors lagged.
- Over the last 12 months, energy, financial and material stocks declined, while the technology, consumer staples, consumer discretionary and health care sectors posted strong gains.

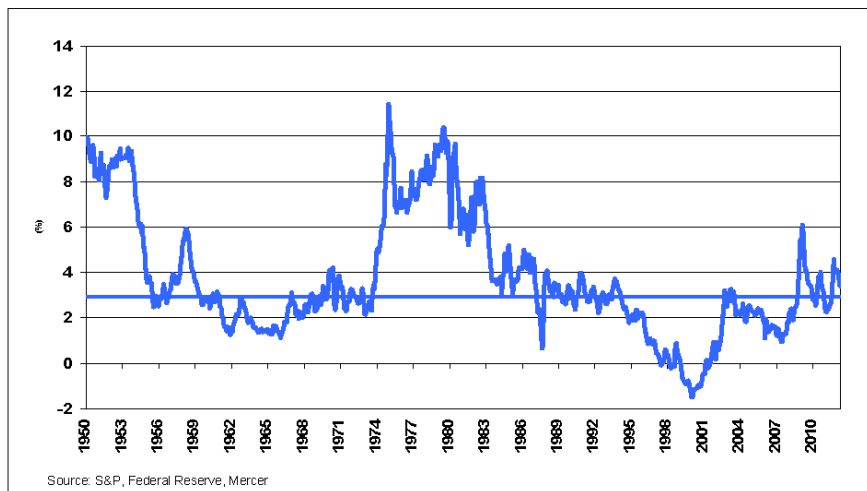
# Asset Class: US Equities – Valuation Review

S&P500 – P/E Ratio



- Based on current earnings measures, the S&P 500 looked fairly attractive at quarter-end. It traded at 15x trailing twelve-month earnings and just 13x forward operating earnings.
- Cheap borrowing costs, low tax rates and high productivity have pushed profitability to near record highs. At quarter-end, profit margins on the S&P 500 stood at 8.8% vs. a historical average of 5.8%.
- While high unemployment is likely to keep a lid on labor costs in the near-term, boosting profitability, profit margins are unlikely to stay at an elevated level over a full economic cycle.
- Based on normalized earnings<sup>1</sup>, which assume profit margins decline, the P/E ratio on the S&P 500 stood at 21 at the end of March, which is above the historical median of 16 (since 1956). Using Shiller's<sup>1</sup> methodology, it finished the quarter at a P/E of 22, an 18% premium relative to its median since 1956. Based on these normalized measures, the S&P 500 looks slightly expensive.
- While domestic equities were not particularly attractive in absolute terms, with real interest rates at ultra-low levels, equities offered a compelling prospective risk premium relative to Treasuries.

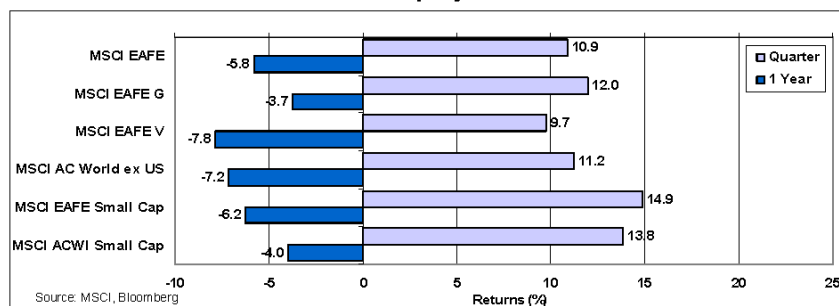
S&P500 – Estimated Equity Risk Premium<sup>1</sup>  
Versus Long-Term Treasuries



<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

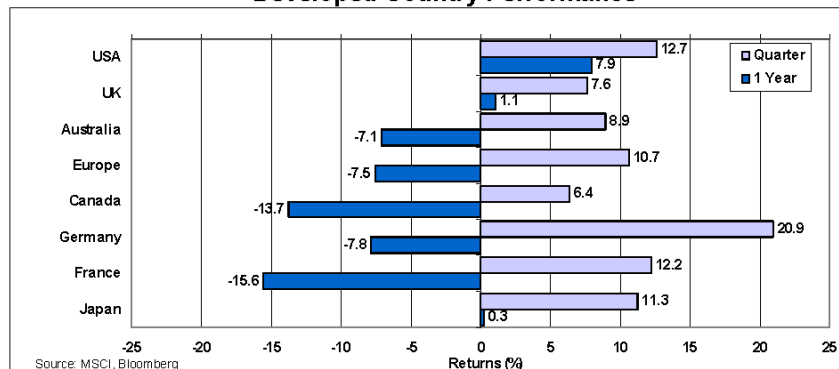
## Asset Class: International Equities – Performance Review

International Equity Performance



- **International** equities rallied during the quarter. The MSCI ACWI-ex US index gained 11.2% in the first quarter, but declined 7.2% over the last year.
- **International small cap** stocks outperformed international large cap stocks during the first quarter, but trailed over the last 12 months.

Developed Country Performance



- **International developed** markets posted strong gains for the quarter, but still trailed domestic stocks. The MSCI EAFE index returned 10.9%, trailing the S&P 500 by 180 basis points. European stocks rose 10.7% and Japanese stocks jumped 11.3%.

Emerging Market Performance

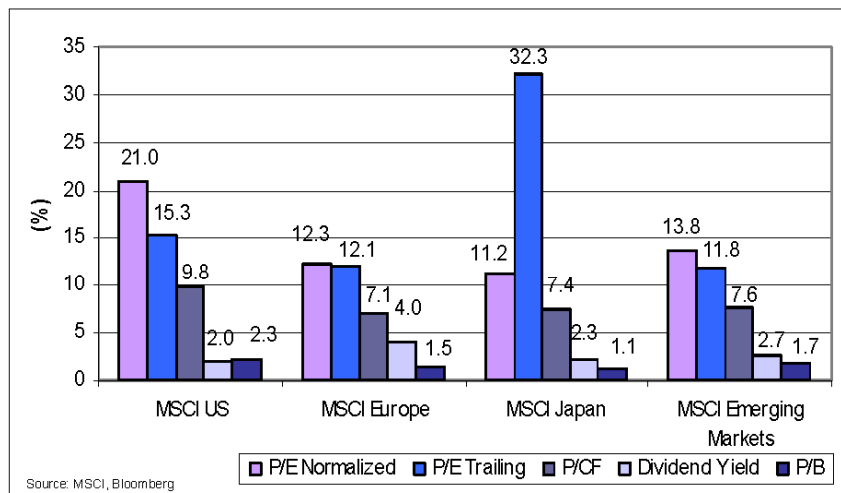


- **Emerging market (EM)** stocks outperformed developed stocks as markets rallied. EM stocks returned 14.1% for the quarter, but declined 8.8% over the last year.

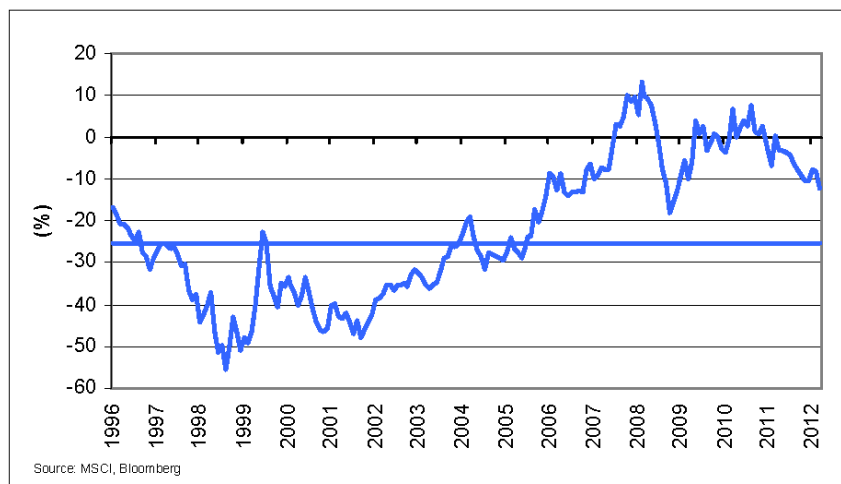


## Asset Class: International Equities – Valuation Review

### Global Valuations



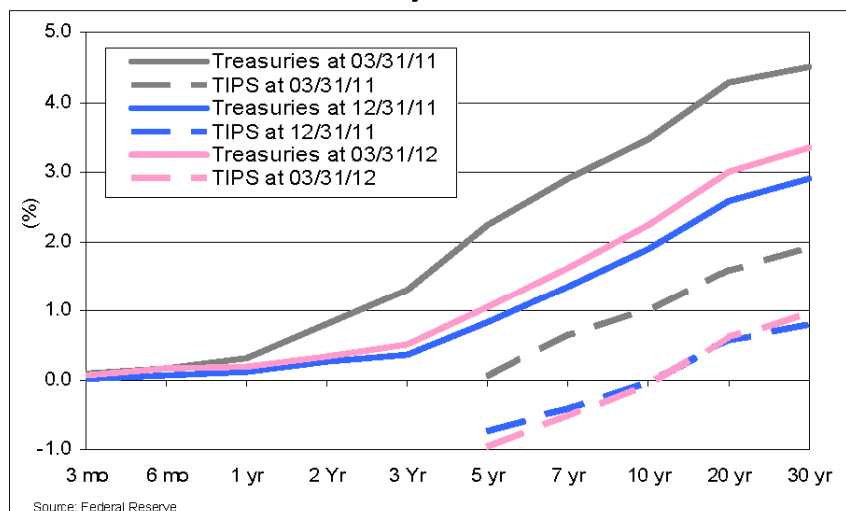
### Valuation of MSCI Emerging Markets to MSCI World (Based on Average of P/E, P/B and P/CF)



- International equities traded at fairly attractive valuations in absolute terms and relative to the US at quarter-end, but macro risk remained elevated overseas as the European debt crisis remains unresolved.
- European stocks traded at a normalized P/E of just 12. While the ECB programs reduced short-term left-tail risks by providing the financial system with unlimited liquidity, the problems of excess debt and uncompetitive economies in the periphery will not be resolved quickly. The debt crisis is likely to continue to be the key driver of performance in Europe. Additionally, the Eurozone is likely to experience a recession in 2012, which will weigh on profits. However, cheaper valuations in Europe seemed to compensate investors for these higher risks.
- Last March's natural disaster sent Japanese earnings spiraling downward, causing the trailing P/E to spike to 32. Assuming profitability can return to pre-crisis levels, Japan looks reasonably attractive at a normalized P/E of 11. While a massive debt burden and poor demographics are structural headwinds, Japanese stocks trade at just 1.1x book value.
- Valuations on emerging markets looked attractive in both absolute and relative terms even though they outperformed during the quarter. They traded at a normalized P/E of 14 at the end of March and remained at a sizable discount to the developed world on most measures. Additionally, the structural case for EM outperformance (growth potential, attractive demographics, and better financial management) remains strong.

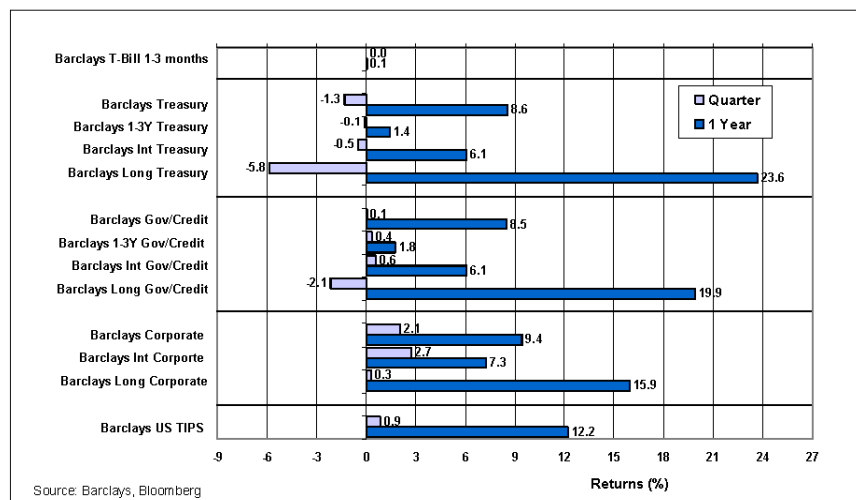
## Asset Class: Fixed Income – Interest Rates and Yield Curve

Treasury Yield Curve



- Interest rates rose in the first quarter as the yield on the 10-year Treasury rose from 1.9% to 2.2%. The increase was driven by larger inflation breakeven rates as real yields declined slightly. The inflation breakeven rate on 10-year Treasuries rose from 2.0% to 2.3%. The real yield on 10-year TIPS fell from -0.07% to -0.09%. The 30-year Treasury yield rose by 46 basis points to 3.35%.

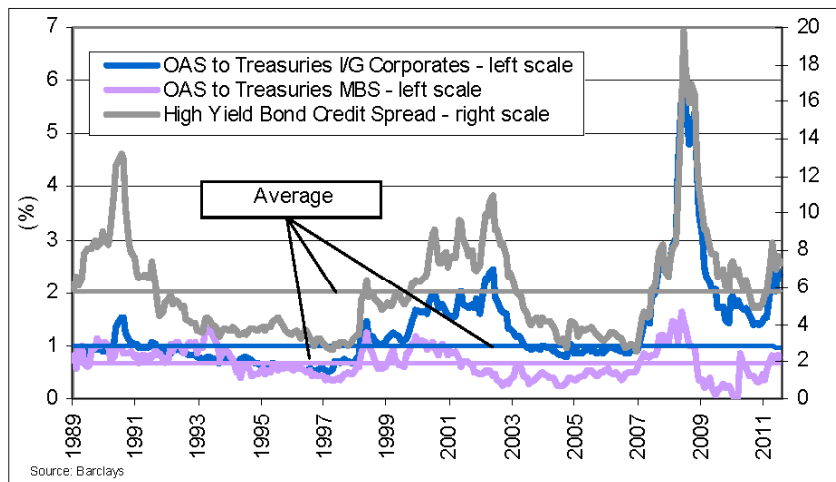
Bond Performance by Duration



- Treasuries declined during the quarter as bond yields rose, with long-duration bonds experiencing the largest losses.
- The **Barclays Long Treasury** index fell 5.8% in the quarter, but rose 23.6% over the last 12 months. The **Barclays Long Corporate** index returned 0.3% for the quarter as credit spreads narrowed.
- The **Barclays Intermediate Treasury** index declined 0.5% in the first quarter, but is up 6.1% over the last year.
- Short-Duration Treasuries** (Barclays 1-3 Year Treasury index) declined slightly during the quarter.
- TIPS** managed to post a gain during the quarter as real yields declined and inflation breakeven rates rose. The Barclays TIPS index gained 0.9%, outperforming nominal Treasuries by 220 basis points.

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

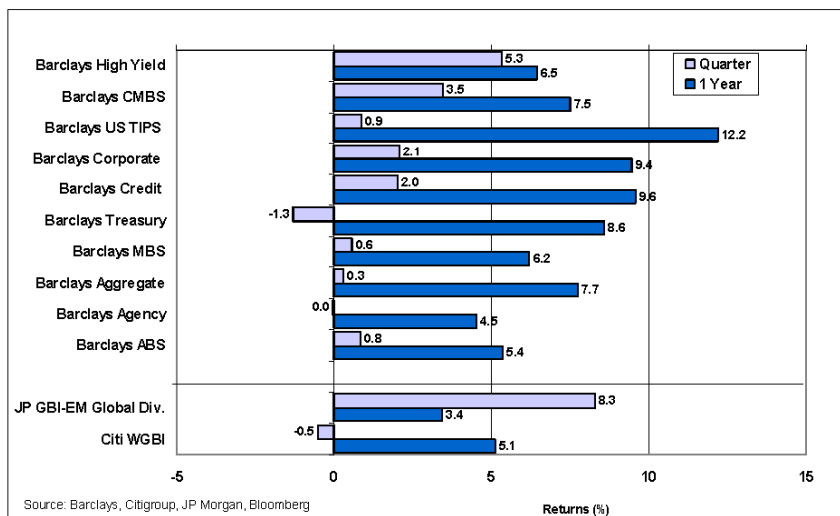
### Credit Spreads



- Credit spreads narrowed during the quarter. The credit spread on high yield bonds fell by 130 basis points to 6.0%.
- For the quarter, credit outperformed Treasuries as spreads tightened.

- **US High Yield:** HY bonds returned 5.3% for the quarter as the yield on junk bonds fell from 8.7% to 7.7%.
- **US CMBS and MBS:** The Barclays CMBS and MBS indexes rose 3.5% and 0.6%, respectively, in the first quarter. The MBS index gained 6.2% over the last 12 months.

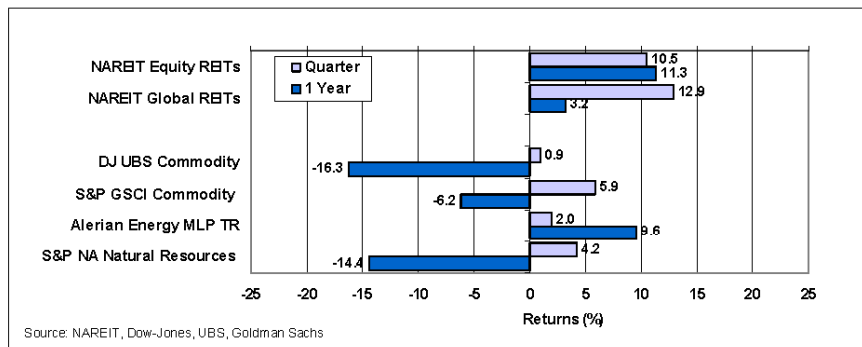
### Sector, Credit, and Global Bond Performance



- **US TIPS and Treasuries:** The Barclays Treasury index declined 1.3% for the quarter, while TIPS rose 0.9%
- **U.S. Credit:** The Barclays Corporate index gained 2.1% during the first quarter. The option-adjusted spread on financial bonds remained above historical averages, while the spread on non-financial debt narrowed to historical averages.
- **Global Bonds:** The Citigroup World Government Bond index declined by 0.5% for the quarter, but rose 5.1% over the last 12 months.
- **Local Currency EMD:** Local currency EMD rose 8.3% during the first quarter as EM currencies appreciated against the dollar.

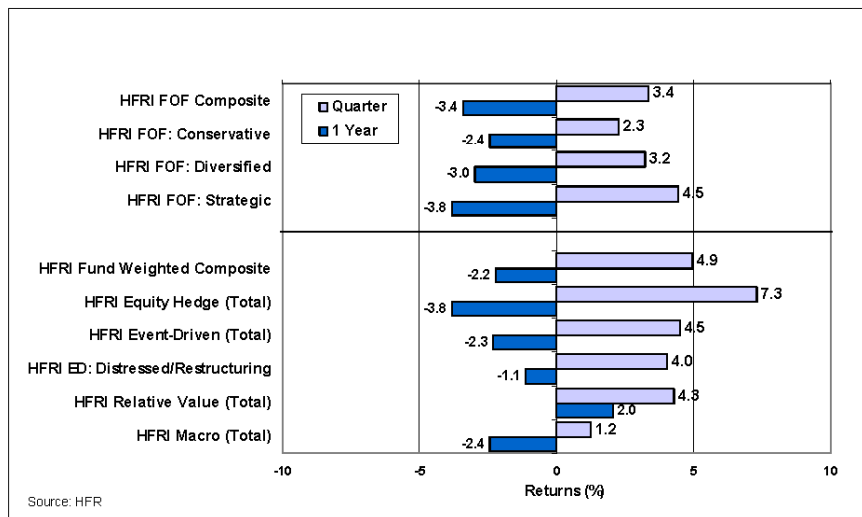
# Asset Class: Alternatives – Performance Review

**Real Asset Performance**



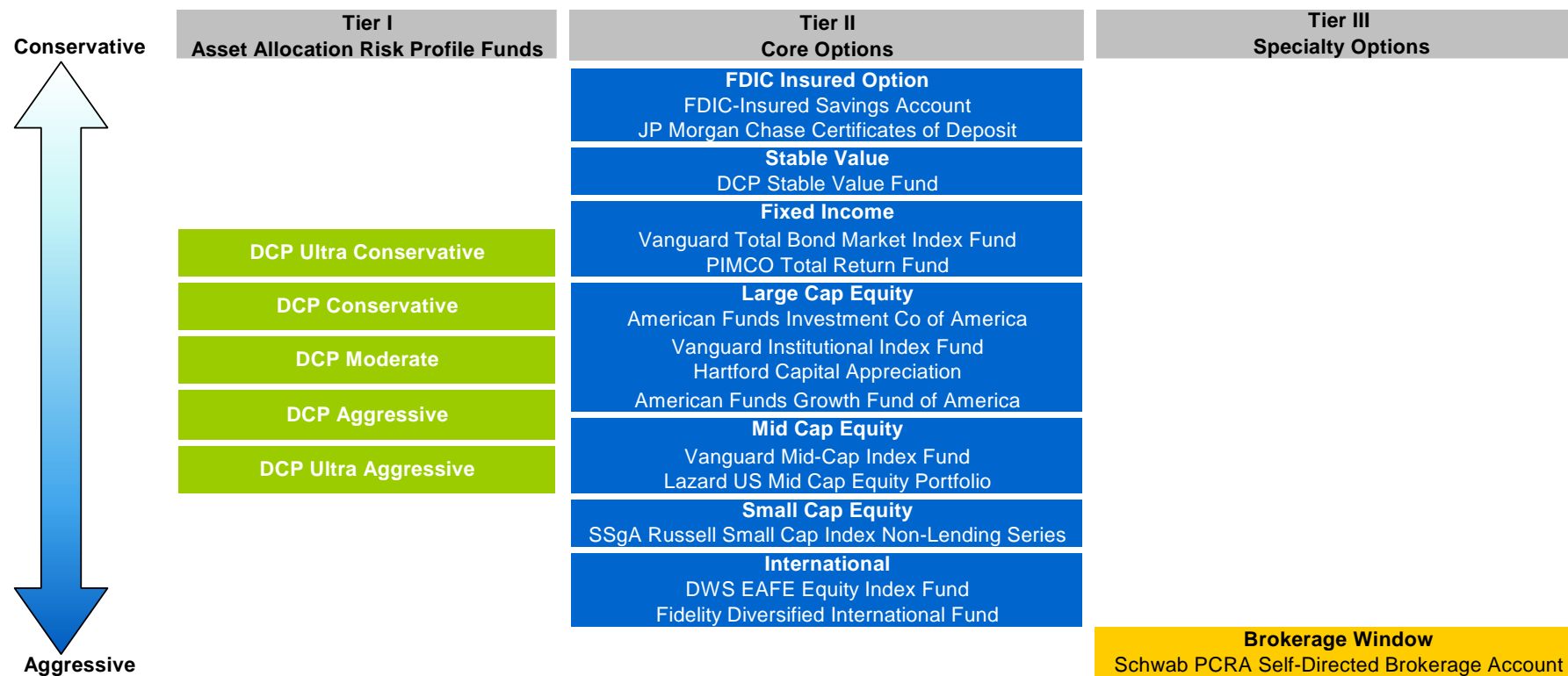
- **REITs** posted strong gains during the first quarter. US REITs rose 10.5%, while global REITs posted a 12.9% gain.
- **Commodities:** Energy prices rose sharply during the quarter, pushing the S&P GSCI to a 5.9% gain. The DJ-UBS Commodity index, which has a lower weighting to energy, rose a more muted 0.9%. Natural resource stocks returned 4.2%.

**Hedge Fund Performance**



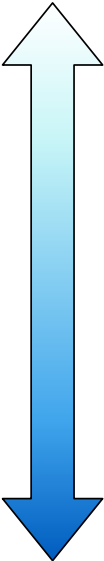
- **Hedge funds** lagged equities, but outperformed bonds in the first quarter. The HFRF Fund of Funds Composite index returned 3.4%, while the S&P 500 increased 12.6% and the Barclays Aggregate index rose 0.3%. Over the last 12 months, hedge funds have trailed both the S&P 500 and the Barclays Aggregate.

## Summary – Investment Option Array as of March 31, 2012



\* Note: Investment Option Array is illustrative of March 31, 2012 structure. This will change in the 3Q 2012 report to reflect the Investment Menu Implementation.  
 Mercer

## Summary – Investment Option Array as of April 20, 2012

	Tier I Asset Allocation Risk-Profile Funds	Tier II Core Options	Tier III Specialty Options	
 <p>Conservative</p> <p>Aggressive</p>		<b>Capital Preservation</b> FDIC-Insured Savings Account JP Morgan Chase Certificates of Deposit		
			<b>DCP Stable Value</b> (100% Galliard Separate Account)	
			<b>DCP Bond Fund</b> (50% Vanguard Total Bond Market Index Fund + 50% PIMCO Total Return Fund)	
	DCP Ultra Conservative		<b>DCP Large-Cap Stock Fund</b> (100% Vanguard Institutional Index Fund)	
	DCP Conservative		<b>DCP Mid-Cap Stock Fund*</b> (100% Vanguard Mid-Cap Index Fund)	
	DCP Moderate		<b>Small-Cap Equity***</b> (100% SSgA Russell Small Cap Index Non-Lending Series)	
DCP Aggressive		<b>International Equity**</b> DWS EAFE Equity Index Fund Fidelity Diversified International Fund		
DCP Ultra Aggressive			<b>Brokerage Window</b> Schwab PCRA Self-Directed Brokerage Account	

\* 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

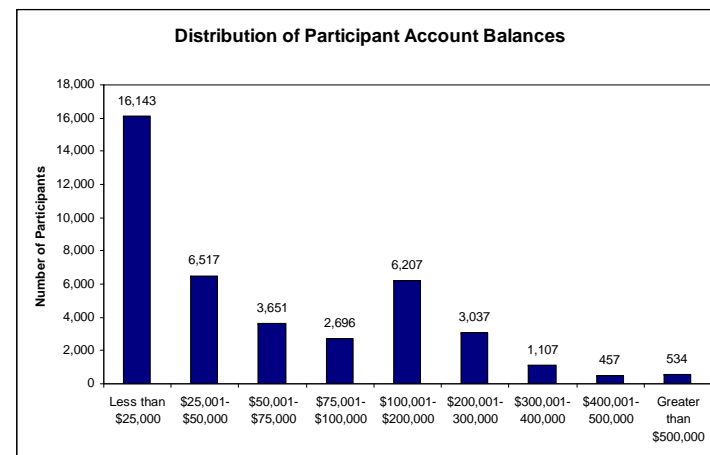
\*\* Upon completion of Phase II new DCP International Equity Fund with approved structure of 65% International Developed + 17.5% Emerging Markets + 17.5% International Small Cap

\*\*\*Upon completion of Phase II new DCP Small-Cap Stock with approved structure is 34% Small Cap Core + 33% Small Cap Value + 33% Small Cap Growth

# Summary – Plan Highlights, Key Observations and Recommendations

## Deferred Compensation Plan Assets

- At quarter-end, assets in the Deferred Compensation Plan totaled \$3,423.0 million, increasing \$248.7 million (7.8%) from \$3,174.3 million at the previous quarter-end. Contributions (including other deposits) for the quarter totaled \$68.9 million compared to withdrawals (including fees) of \$57.3 million. Net Transfers totaled \$298.0 thousand. Investment gains equaled \$237.4 million from total assets.
- As of March 31, 2012, there were 40,349 participants with ending account balances. The average account balance was \$84,835<sup>1</sup>, while the median account balance was \$38,401. The distribution of participant balances is shown to the right; 40.0% of participants had a balance less than \$25,000 and 1.3% had a balance greater than \$500,000.
- The Deferred Compensation Plan (DCP) Stable Value portfolio held the highest percentage of Plan assets at 22.6%, followed by Vanguard Institutional Index (14.5%), FDIC-Insured Savings Account (8.6%), Hartford Capital Appreciation HLS IA (8.2%), American Funds Growth Fund of America (6.9%) and Schwab PCRA Self-Directed Brokerage Account (5.5%). All other funds each held less than 5.0% of Plan assets.
- Assets in the Profile funds (5 customized risk-based Profile funds ranging from Ultra Conservative to Ultra Aggressive) totaled \$405.3 million (11.8%) at quarter end; this was an increase of \$40.3 million from \$365.0 million at the prior quarter end.



## Performance

- Performance for most funds in the Plan was within expectations. The only funds with notable underperformance were:
  - American Funds Growth Fund of America (1-year, 3-year, and 5-year versus the benchmark and universe median)
  - Lazard US Mid Cap Equity Portfolio (3-month, 1-year, 3-year, and 5-year versus the benchmark and universe median)
  - Fidelity Diversified International Fund (3-year versus the benchmark and universe median)
- The Board eliminated Growth Fund of America and Lazard in mid-April. Fidelity’s performance exceeds the benchmark over the 5-year period and is slightly below median over the same period, and therefore, we are not recommending any change.

<sup>1</sup> Based on participants with an ending account balance  
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# Summary – Plan Highlights, Key Observations and Recommendations

## Line-up Changes

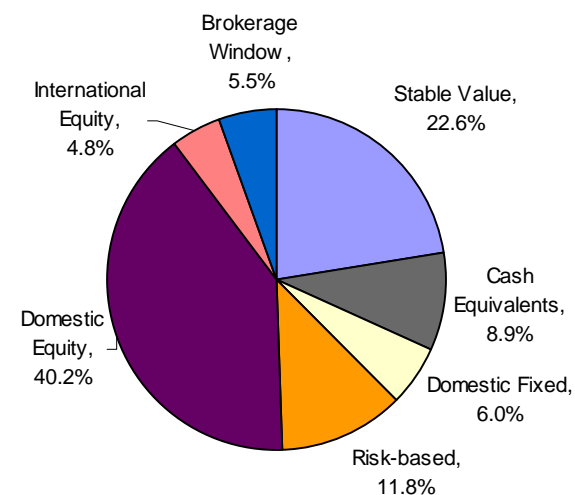
- On April 20, 2012, the consolidation of assets (Phase I of the Investment Menu Implementation) was completed. The following changes took place:
  - DCP Bond Fund was formed, which is 50% Vanguard Total Bond Market Index Fund and 50% PIMCO Total Return Fund
  - The Vanguard Institutional Index Fund was transitioned to the newly formed DCP Large-Cap Stock Fund, which will be 100% passively managed
  - The Hartford Capital Appreciation, American Funds Growth Fund of America, and American Funds Investment Company of America were terminated and assets were mapped to the newly created DCP Large-Cap Stock Fund
  - Investments in the Vanguard Mid-Cap Index Fund were mapped to the newly created DCP Mid-Cap Stock Fund as part of Phase I. Future procurements for active mid value and mid growth managers will occur this year
  - The Lazard US Mid Cap Equity Fund was terminated and assets were mapped to the DCP Mid-Cap Stock Fund
- The next phases of the new line-up configuration will be procurement of new managers to build out the DCP Mid-Cap, Small-Cap, and International Stock Funds



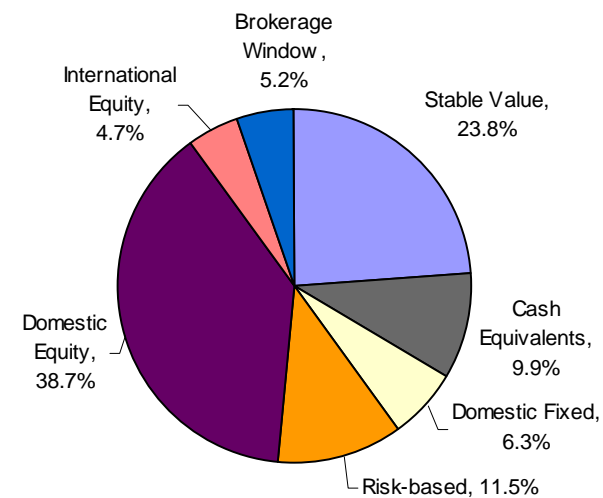
# Summary – Asset Allocation

Investment Option	Current Balance	Prior Balance	% of Plan	% Chg vs. Prior
<b>Stable Value</b>	<b>\$774,298,067</b>	<b>\$754,153,708</b>	<b>22.6%</b>	<b>-1.1%</b>
Deferred Compensation Stable Value Fund (Net)	\$774,298,067	\$754,153,708	22.6%	-1.1%
<b>Cash Equivalents</b>	<b>\$305,412,139</b>	<b>\$314,447,598</b>	<b>8.9%</b>	<b>-1.0%</b>
FDIC-Insured Savings Account	\$294,977,858	\$302,388,361	8.6%	-0.9%
JPMorgan Chase Certificates of Deposit	\$10,434,281	\$12,059,236	0.3%	-0.1%
<b>Domestic Fixed</b>	<b>\$204,623,867</b>	<b>\$198,559,506</b>	<b>6.0%</b>	<b>-0.3%</b>
Vanguard Total Bond Market Index Fund Inst Plus	\$90,616,090	\$89,197,239	2.6%	-0.2%
PIMCO Total Return Fund Institutional	\$114,007,777	\$109,362,267	3.3%	-0.1%
<b>Risk-based</b>	<b>\$405,259,749</b>	<b>\$365,045,798</b>	<b>11.8%</b>	<b>0.3%</b>
Ultra Conservative Profile	\$27,803,212	\$24,217,648	0.8%	0.0%
Conservative Profile	\$53,430,323	\$51,087,721	1.6%	0.0%
Moderate Profile	\$154,834,610	\$140,191,229	4.5%	0.1%
Aggressive Profile	\$135,727,854	\$122,026,142	4.0%	0.1%
Ultra Aggressive Profile	\$33,463,750	\$27,523,059	1.0%	0.1%
<b>Domestic Equity</b>	<b>\$1,377,525,607</b>	<b>\$1,227,326,132</b>	<b>40.2%</b>	<b>1.6%</b>
American Funds Investment Co of America R-6	\$145,201,383	\$134,861,236	4.2%	0.0%
Vanguard Institutional Index Fund Inst Plus	\$495,662,318	\$438,711,880	14.5%	0.7%
Hartford Capital Appreciation HLS IA	\$279,246,005	\$243,871,011	8.2%	0.5%
American Funds Growth Fund of America R-6	\$235,300,502	\$210,675,938	6.9%	0.2%
Vanguard Mid-Cap Index Fund Institutional	\$57,240,940	\$49,719,359	1.7%	0.1%
Lazard US Mid Cap Equity Portfolio Institutional	\$31,018,684	\$29,143,847	0.9%	0.0%
SSgA Russell Small Cap Index Non-Lending Series Fund	\$133,855,775	\$120,342,862	3.9%	0.1%
<b>International Equity</b>	<b>\$165,922,464</b>	<b>\$149,542,911</b>	<b>4.8%</b>	<b>0.1%</b>
DWS EAFE Equity Index Fund Institutional	\$31,576,992	\$28,787,248	0.9%	0.0%
Fidelity Diversified International Fund	\$134,345,472	\$120,755,663	3.9%	0.1%
<b>Brokerage Window</b>	<b>\$189,957,381</b>	<b>\$165,198,458</b>	<b>5.5%</b>	<b>0.3%</b>
Schwab PCRA Self-Directed Brokerage Account	\$189,957,381	\$165,198,458	5.5%	0.3%
<b>Total Plan</b>	<b>\$3,422,999,274</b>	<b>\$3,174,274,110</b>	<b>100%</b>	

Current Asset Allocation - March 31, 2012



Prior Asset Allocation - December 31, 2011



## Summary – Investment Expense Analysis

Fund	Style	Fund Balance	Estimated Fund Expense	Fund Net Expense Ratio	Median Net Expense Ratio <sup>1</sup>	Net Expense Diff.	Revenue Sharing	Investment Management Fee
FDIC-Insured Savings Account	Cash Equivalents	\$294,977,858	N/A	N/A	N/A	N/A	N/A	N/A
JPMorgan Chase Certificates of Deposit	Cash Equivalents	\$10,434,281	N/A	N/A	N/A	N/A	N/A	N/A
Deferred Compensation Stable Value Fund (Net)	Stable Value	\$774,298,067	\$696,868	0.09%	0.35%	-0.26%	0.00%	0.09%
Vanguard Total Bond Market Index Fund Inst Plus	US Fixed	\$90,616,090	\$45,308	0.05%	0.20%	-0.15%	0.00%	0.05%
PIMCO Total Return Fund Institutional	US Fixed	\$114,007,777	\$524,436	0.46%	0.55%	-0.09%	0.00%	0.46%
Ultra Conservative Profile	Risk-based	\$27,803,212	\$25,023	0.09%	0.85%	-0.76%	0.00%	0.09%
Conservative Profile	Risk-based	\$53,430,323	\$58,773	0.11%	0.85%	-0.74%	0.00%	0.11%
Moderate Profile	Risk-based	\$154,834,610	\$185,802	0.12%	0.90%	-0.78%	0.00%	0.12%
Aggressive Profile	Risk-based	\$135,727,854	\$190,019	0.14%	0.97%	-0.83%	0.00%	0.14%
Ultra Aggressive Profile	Risk-based	\$33,463,750	\$56,888	0.17%	0.97%	-0.80%	0.00%	0.17%
American Funds Investment Co of America R-6	US Large Cap Equity	\$145,201,383	\$435,604	0.30%	0.77%	-0.47%	0.00%	0.30%
Vanguard Institutional Index Fund Inst Plus	US Large Cap Equity	\$495,662,318	\$99,132	0.02%	0.20%	-0.18%	0.00%	0.02%
Hartford Capital Appreciation HLS IA	US Large Cap Equity	\$279,246,005	\$1,870,948	0.67%	0.81%	-0.14%	0.10%	0.57%
American Funds Growth Fund of America R-6	US Large Cap Equity	\$235,300,502	\$776,492	0.33%	0.89%	-0.56%	0.00%	0.33%
Vanguard Mid-Cap Index Fund Institutional	US Mid Cap Equity	\$57,240,940	\$45,793	0.08%	0.27%	-0.19%	0.00%	0.08%
Lazard US Mid Cap Equity Portfolio Institutional	US Mid Cap Equity	\$31,018,684	\$282,270	0.91%	0.96%	-0.05%	0.10%	0.81%
SSgA Russell Small Cap Index Non-Lending Series	US Small Cap Equity	\$133,855,775	\$80,313	0.06%	0.30%	-0.24%	0.00%	0.06%
DWS EAFE Equity Index Fund Institutional	International Equity	\$31,576,992	\$161,043	0.51%	0.50%	0.01%	0.00%	0.51%
Fidelity Diversified International Fund	International Equity	\$134,345,472	\$1,209,109	0.90%	1.05%	-0.15%	0.25%	0.65%
Schwab PCRA Self-Directed Brokerage Account	Brokerage Window	\$189,957,381	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total</b>		<b>\$3,422,999,274</b>	<b>\$6,743,822</b>	<b>0.23%</b> <sup>2</sup>			<b>0.02%</b>	<b>0.21%</b> <sup>3</sup>
<b>Total with Fixed Per Participant Fee</b>		<b>\$3,422,999,274</b>	<b>\$7,589,396</b>	<b>0.26%</b> <sup>2</sup>			<b>0.02%</b>	<b>0.24%</b> <sup>3</sup>

<sup>1</sup> Median institutional share class net expense ratio as defined by the respective Mercer Mutual Fund Universe and Lipper institutional share class categorizations. Median stable value management fee derived by screening Mercer's proprietary Global Investment Manager Database (GIMD) for stable value fund fees. Profile funds are compared to the median institutional expense ratio of the corresponding Mercer Mutual Fund Target Risk Universe.

<sup>2</sup> Total Net Expense Ratio excludes assets in the FDIC-Insured Savings Account, JPMorgan Chase Certificates of Deposit, and Schwab Self-Directed Brokerage Account.

<sup>3</sup> Total includes a \$36.97 per participant fee (approx. \$1.5 million or 0.04%) charged by Great-West. Assumed participant count is 40,349.

# Compliance with Investment Policy Performance Standards

Periods ending March 31, 2012

✓ = Outperformed or matched performance  
✗ = Underperformed  
T = Tracking the index within an appropriate range  
□ = Prior Quarter

I – Index U – Universe Median	3 Years				5 Years				Comments
	I	U	I	U	I	U	I	U	
Deferred Compensation Stable Value Fund (Net)	✓	✓	✓	✓	✓	✓	✓	✓	Retained in new investment menu.
Vanguard Total Bond Market Index Fund Inst Plus	T	N/A	T	N/A	T	N/A	T	N/A	Retained in new investment menu. As of April 20, 2012 fund became half of the new DCP Bond Fund.
PIMCO Total Return Fund Institutional	✓	✓	✓	✓	✓	✓	✓	✓	Retained in new investment menu. As of April 20, 2012 fund became half of the new DCP Bond Fund.
Ultra Conservative	✓	N/A	✓	N/A	N/A	N/A	N/A	N/A	Retained in new investment menu.
Conservative Profile	✗	N/A	✓	N/A	✓	N/A	✓	N/A	Retained in new investment menu; slight underperformance due to fees and rebalancing effects.
Moderate Profile	✗	N/A	✗	N/A	✓	N/A	✓	N/A	Retained in new investment menu; slight underperformance due to fees and rebalancing effects.
Aggressive Profile	✗	N/A	✗	N/A	✗	N/A	✗	N/A	Retained in new investment menu; slight underperformance due to fees and rebalancing effects.
Ultra Aggressive Profile	✓	N/A	✗	N/A	N/A	N/A	N/A	N/A	Retained in new investment menu.
American Funds Investment Co of America R6 <sup>6</sup>	✗	✗	✓	✓	✓	✓	✓	✓	Terminated and assets mapped to DCP Large-Cap Stock Fund on April 20, 2012.
Vanguard Institutional Index Fund Inst Plus	T	N/A	T	N/A	T	N/A	T	N/A	Retained in new investment menu and renamed DCP Large-Cap Stock Fund on April 20, 2012.
Hartford Capital Appreciation HLS IA	✓	✓	✓	✓	✗	✓	✗	✗	Terminated and assets mapped to DCP Large-Cap Stock Fund on April 20, 2012.

<sup>6</sup>The 3- and 5-year periods reflect the A share class due to its longer performance history  
Mercer

Defined Contribution Performance Evaluation Report

I – Index U – Universe Median	3 Years				5 Years				Comments
	I	U	I	U	I	U	I	U	
American Funds Growth Fund of America R6 <sup>*</sup>	x	x	x	x	x	x	x	x	Terminated and assets mapped to DCP Large-Cap Stock Fund on April 20, 2012.
Vanguard Mid-Cap Index Fund Institutional	T	N/A	T	N/A	T	N/A	T	N/A	Retained in new investment menu and renamed DCP Mid-Cap Stock Fund as of April 20, 2012.
Lazard US Mid Cap Equity Portfolio Institutional	x	x	x	x	x	x	x	x	Terminated and proceeds mapped to DCP Mid-Cap Stock Fund on April 20, 2012.
SSgA Russell Small Cap Index Non-Lending Series Fund	T	N/A	T	N/A	T	N/A	T	N/A	Retained in new investment menu.
DWS EAFE Equity Index Fund Institutional	T	N/A	T	N/A	T	N/A	T	N/A	Fund will be eliminated upon completion of investment menu consolidation.
Fidelity Diversified International Fund	x	x	x	x	✓	x	x	x	On Monitor due to performance and capacity concerns. May be eligible to compete in DCP international equity procurement process.

<sup>\*</sup> The 5-year period reflects the A share class due to its longer performance history  
Mercer

# Management Summary – Performance Summary

Periods ending March 31, 2012

	% of Plan	3 Months	1 Year	3 Years	5 Years	Recommend
<b>Cash Equivalents</b>						
<b>FDIC-Insured Savings Account (Blended Rate – 0.423% APY)<sup>1</sup></b>	<b>8.6%</b>	<b>0.1%</b>	<b>0.4%</b>	<b>NA</b>	<b>NA</b>	<b>Retention</b>
<b>JPMorgan Chase Certificates of Deposit</b>	<b>0.3%</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>NA</b>	<b>Retention</b>
<b>Stable Value</b>						
<b>Deferred Compensation Stable Value Fund (Net)<sup>2</sup></b>	<b>22.6%</b>	<b>0.7%</b>	<b>3.2%</b>	<b>3.6%</b>	<b>4.1%</b>	<b>Retention</b>
3 Yr Constant Maturity Treasury Index + 50 bps		0.2%	1.1%	1.5%	2.3%	
iMoneyNet All Taxable+100bps		0.3%	1.0%	1.0%	2.2%	
<i> Mercer Stable Value Universe Median</i>		0.6%	2.6%	3.3%	3.9%	
<i> Fund Rank in Universe</i>		14	28	35	32	
<b>Domestic Fixed</b>						
<b>Vanguard Total Bond Market Index Fund Inst Plus<sup>3</sup></b>	<b>2.6%</b>	<b>0.3%</b>	<b>7.7%</b>	<b>6.8%</b>	<b>6.3%</b>	<b>Retention</b>
Barclays Capital US Aggregate		0.3%	7.7%	6.9%	6.3%	
<b>PIMCO Total Return Fund Institutional</b>	<b>3.3%</b>	<b>2.9%</b>	<b>6.0%</b>	<b>9.4%</b>	<b>8.3%</b>	<b>Retention</b>
Barclays Capital US Aggregate		0.3%	7.7%	6.9%	6.3%	
<i> Mercer MF US Fixed Core Universe Median</i>		1.5%	6.4%	8.3%	5.7%	
<i> Fund Rank in Universe</i>		12	59	39	6	

<sup>1</sup> The blended rate is as of 3/31/2012. The banks have an equal 1/3 weighting each in the fund; their declared rates are as follows: Bank of America = 0.12%, Bank of the West = 1.00% and City National Bank = 0.15%

<sup>2</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>3</sup> Due to its longer history, performance of Vanguard Total Bond Market Index Fund Inst is shown.

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

	% of Plan	3 Months	1 Year	3 Years	5 Years	Recommend
<b>Risk-based<sup>4</sup></b>						
<b>Ultra Conservative</b> <i>Ultra Conservative Profile Custom Index<sup>5</sup></i>	<b>0.8%</b>	<b>2.2%</b> 2.0%	<b>5.3%</b> 4.6%	<b>8.1%</b> 7.5%	<b>NA</b> 4.3%	<b>Retention</b>
<b>Conservative Profile</b> <i>Conservative Profile Custom Index<sup>6</sup></i>	<b>1.6%</b>	<b>4.5%</b> 4.3%	<b>5.1%</b> 4.9%	<b>11.5%</b> 11.7%	<b>4.4%</b> 4.1%	<b>Retention</b>
<b>Moderate Profile</b> <i>Moderate Profile Custom Index<sup>7</sup></i>	<b>4.5%</b>	<b>7.6%</b> 7.4%	<b>4.5%</b> 4.4%	<b>16.1%</b> 16.4%	<b>3.4%</b> 3.2%	<b>Retention</b>
<b>Aggressive Profile</b> <i>Aggressive Profile Custom Index<sup>8</sup></i>	<b>4.0%</b>	<b>9.4%</b> 9.2%	<b>3.3%</b> 3.3%	<b>19.1%</b> 19.3%	<b>2.1%</b> 2.5%	<b>Retention</b>
<b>Ultra Aggressive Profile</b> <i>Ultra Aggressive Profile Custom Index<sup>9</sup></i>	<b>1.0%</b>	<b>11.2%</b> 11.0%	<b>2.1%</b> 2.1%	<b>22.2%</b> 22.2%	<b>NA</b> 1.6%	<b>Retention</b>

<sup>4</sup> Allocation to the profile funds changed June 1, 2009 with the inclusion of a US mid cap equity component.

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

<sup>6</sup> For periods after June 1, 2009, the following composite index is used: 15.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays Capital US Aggregate Index / 12.5% S&P 500 Index / 5% MSCI US Mid Cap 450 Index/ 5.0% Russell 2000 Index / 12.5% MSCI EAFE (NWHT) Index. Prior to June 1, 2009, the following composite index is used: 15.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 50.0% Barclays Capital US Aggregate Index / 25% S&P 500 Index / 5% Russell 2000 Index / 5% MSCI EAFE (NWHT) Index.

<sup>7</sup> For periods after June 1, 2009, the following composite index is used: 10.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 30.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 10.0% MSCI US Mid Cap 450 Index/ 10.0% Russell 2000 Index / 15.0% MSCI EAFE (NWHT) Index. Prior to June 1, 2009, the following composite index is used: 5.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 35.0% Barclays Capital US Aggregate Index / 40.0% S&P 500 Index / 10.0% Russell 2000 Index / 10.0% MSCI EAFE (NWHT) Index.

<sup>8</sup> For periods after June 1, 2009, the following composite index is used: 5.0% 3 Yr Constant Maturity Treasury Index + 50 bps/ 20.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 15.0% MSCI US Mid Cap 450 Index/ 15.0% Russell 2000 Index / 20.0% MSCI EAFE (NWHT) Index. For periods prior to June 1, 2009, the following composite index is used: 20% Barclays Capital US Aggregate Index / 50% S&P 500 Index / 15% Russell 2000 Index / 15% MSCI EAFE (NWHT) Index.

<sup>9</sup> For periods after June 1, 2009, the following composite index is used: 10.0% Barclays Capital US Aggregate Index / 25.0% S&P 500 Index / 20.0% MSCI US Mid Cap 450 Index/ 20.0% Russell 2000 Index / 25.0% MSCI EAFE (NWHT) Index. For periods prior to June 1, 2009, the following composite index is used: 60.0% S&P 500 Index / 20.0% Russell 2000 Index / 20.0% MSCI EAFE (NWHT) Index.

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

	% of Plan	3 Months	1 Year	3 Years	5 Years	Recommend
<b>Domestic Equity</b>						
<b>American Funds Investment Co of America R-6</b> <b>American Funds Investment Co of America A</b> Russell 1000 Value <i>Mercer MF US Equity Large Cap Value Universe Median</i> <i>Fund Rank in Universe – R-6 Shares</i> <i>Fund Rank in Universe – A Shares</i>	4.2%	11.2% 11.1% 11.1% 12.2% 68 71	5.0% 4.6% 4.8% 4.0% 35 40	NA 18.9% 22.8% 21.0% NA 84	NA 1.0% -0.8% -0.4% NA 20	Assets mapped to DCP Large-Cap Fund on April 20, 2012
<b>Vanguard Institutional Index Fund Inst Plus</b> S&P 500	14.5%	12.6% 12.6%	8.5% 8.5%	23.5% 23.4%	2.1% 2.0%	Retention; renamed DCP Large-Cap Fund on April 20, 2012
<b>Hartford Capital Appreciation HLS IA</b> S&P 500 <i>Mercer MF US Equity Large Cap Core Universe Median</i> <i>Fund Rank in Universe</i>	8.2%	16.1% 12.6% 12.6% 3	-1.8% 8.5% 6.7% 96	23.5% 23.4% 21.4% 20	1.8% 2.0% 1.8% 47	Assets mapped to DCP Large-Cap Fund on April 20, 2012
<b>American Funds Growth Fund of America R-6</b> <b>American Funds Growth Fund of America A</b> Russell 1000 Growth <i>Mercer MF US Equity Large Cap Growth Universe Median</i> <i>Fund Rank in Universe – R-6 Shares</i> <i>Fund Rank in Universe – A Shares</i>	6.9%	14.7% 14.6% 14.7% 16.3% 77 79	3.9% 3.5% 11.0% 8.2% 87 90	20.1% 19.7% 25.3% 23.1% 81 84	NA 1.9% 5.1% 4.0% NA 84	Assets mapped to DCP Large-Cap Fund on April 20, 2012
<b>Vanguard Mid-Cap Index Fund Institutional</b> Vanguard Spliced Mid Cap Index <sup>10</sup>	1.7%	13.4% 13.4%	2.8% 2.8%	28.9% 29.0%	3.0% 3.0%	Retention; renamed DCP Mid-Cap Fund on April 20, 2012
<b>Lazard US Mid Cap Equity Portfolio Institutional</b> Russell Midcap <i>Mercer MF US Equity Mid Cap Core Universe Median</i> <i>Fund Rank in Universe</i>	0.9%	11.4% 12.9% 12.7% 71	-1.1% 3.3% 0.6% 67	25.6% 29.1% 25.7% 51	0.6% 3.0% 2.4% 81	Terminated; assets mapped to DCP Mid-Cap Fund on April 20, 2012
<b>SSgA Russell Small Cap Index Non-Lending Series Fund</b> Russell 2000	3.9%	12.4% 12.4%	-0.1% -0.2%	26.7% 26.9%	1.9% 2.1%	Retention

<sup>10</sup> S&P MidCap 400 Index through May 16, 2003; MSCI US Mid Cap 450 Index thereafter.

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

	% of Plan	3 Months	1 Year	3 Years	5 Years	Recommend
<b>International Equity</b>						
<b>DWS EAFE Equity Index Fund Institutional<sup>11</sup></b> MSCI EAFE NET WHT	<b>0.9%</b>	<b>11.4%</b> 10.9%	<b>-5.7%</b> -5.8%	<b>17.0%</b> 17.1%	<b>-3.7%</b> -3.5%	<b>Retention; will be terminated upon investment menu consolidation</b>
<b>Fidelity Diversified International Fund</b> MSCI EAFE NET WHT <i> Mercer MF Intl Equity Universe Median Fund Rank in Universe</i>	<b>3.9%</b>	<b>12.6%</b> 10.9% 12.2% 42	<b>-5.9%</b> -5.8% -5.9% 50	<b>16.7%</b> 17.1% 18.3% 70	<b>-2.9%</b> -3.5% -2.4% 58	<b>Monitor; may be eligible to compete in procurement process</b>

<sup>11</sup> DWS EAFE Equity Index may not track the index because the manager uses fair-value pricing in the calculation of the fund's NAV, while the MSCI EAFE Index uses the closing prices of the securities in their local markets.

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



# Performance of New DCP Investment Menu Composite Benchmarks

Periods ending March 31, 2012

	<b>3 Months</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>
<b>DCP Stable Value Index</b> (100% 3-Yr CMT + 50bps)	<b>0.2%</b>	<b>1.1%</b>	<b>1.5%</b>	<b>2.3%</b>
<b>DCP Bond Fund Index</b> (100% BC Aggregate Bond Index)	<b>0.3%</b>	<b>7.7%</b>	<b>6.9%</b>	<b>6.3%</b>
<b>DCP Large-Cap Stock Fund Index</b> (100% S&P 500 Index)	<b>12.6%</b>	<b>8.5%</b>	<b>23.4%</b>	<b>2.0%</b>
<b>DCP Mid-Cap Stock Fund Composite Index</b>	<b>13.0%</b>	<b>3.3%</b>	<b>29.2%</b>	<b>3.0%</b>
<i>Russell Midcap Index (50%)</i>	12.9%	3.3%	29.1%	3.0%
<i>Russell Midcap Value Index (25%)</i>	11.4%	2.3%	29.2%	1.3%
<i>Russell Midcap Growth Index (25%)</i>	14.5%	4.4%	29.2%	4.4%
<b>DCP Small-Cap Stock Fund Composite Index</b>	<b>12.4%</b>	<b>-0.2%</b>	<b>26.9%</b>	<b>2.2%</b>
<i>Russell 2000 Index (34%)</i>	12.4%	-0.2%	26.9%	2.1%
<i>Russell 2000 Value Index (33%)</i>	11.6%	-1.1%	25.4%	0.0%
<i>Russell 2000 Growth Index (33%)</i>	13.3%	0.7%	28.4%	4.2%
<b>DCP International Fund Composite Index</b>	<b>12.1%</b>	<b>-6.3%</b>	<b>19.8%</b>	<b>-1.8%</b>
<i>MSCI EAFE Index (65%)</i>	10.9%	-5.8%	17.1%	-3.5%
<i>MSCI EM Index (17.5%)</i>	14.1%	-8.8%	25.1%	4.7%
<i>MSCI EAFE Small Cap Index (17.5%)</i>	14.9%	-6.2%	24.1%	-2.8%

# Fund Profile

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

<b>Share Class: Separate Account</b>		<b>Benchmark: 3 Yr Constant Maturity Treasury Index</b>																																	
<b>Investment Philosophy</b>																																			
<p>Galliard seeks safety of principal and consistency of returns, with minimal volatility. 100% of the fund is invested in book value investment instruments: GICs, BICs, security-backed contracts (i.e., synthetics) and certain money market instruments, with a focus on highly rated instruments and broad diversification among contract issuers and underlying securities. The fund emphasizes security-backed investment contracts (synthetics) to enhance credit quality, diversification and investment returns, while structuring portfolio liquidity to provide for daily participant transactions. The target weighted average duration of the fund is within a range of 2.5 to 3.5 years with a target of 3 years.</p>																																			
<b>Fund Characteristics</b>		<b>Observations</b>																																	
<table border="1"> <thead> <tr> <th></th> <th>1Q12</th> <th>4Q11</th> <th>3Q11</th> <th>2Q11</th> </tr> </thead> <tbody> <tr> <td><b>Mkt/Book Value Ratio</b></td> <td>103.9%</td> <td>103.8%</td> <td>103.9%</td> <td>103.4%</td> </tr> <tr> <td><b>Avg. Credit Quality</b></td> <td>A1/A+</td> <td>A1/A+</td> <td>Aa3/AA-</td> <td>A1/AA-</td> </tr> <tr> <td><b>Effective Duration</b></td> <td>2.75</td> <td>2.65</td> <td>2.81</td> <td>2.59</td> </tr> <tr> <td><b>Crediting Rate</b></td> <td>3.1%</td> <td>3.2%</td> <td>3.3%</td> <td>3.3%</td> </tr> </tbody> </table>		1Q12	4Q11	3Q11	2Q11	<b>Mkt/Book Value Ratio</b>	103.9%	103.8%	103.9%	103.4%	<b>Avg. Credit Quality</b>	A1/A+	A1/A+	Aa3/AA-	A1/AA-	<b>Effective Duration</b>	2.75	2.65	2.81	2.59	<b>Crediting Rate</b>	3.1%	3.2%	3.3%	3.3%	<ul style="list-style-type: none"> <li>▪ The Fund had net inflows of \$17.2 million during the quarter, representing an increase of 2.2% in total Fund assets</li> <li>▪ The fund was able to terminate the State Street wrap contract and reallocated its book value to the ING Life contract</li> <li>▪ Number of contract issuers: 5</li> <li>▪ Credit quality remains strong with 76.5% of fixed income portfolio in AAA rated securities</li> </ul>									
	1Q12	4Q11	3Q11	2Q11																															
<b>Mkt/Book Value Ratio</b>	103.9%	103.8%	103.9%	103.4%																															
<b>Avg. Credit Quality</b>	A1/A+	A1/A+	Aa3/AA-	A1/AA-																															
<b>Effective Duration</b>	2.75	2.65	2.81	2.59																															
<b>Crediting Rate</b>	3.1%	3.2%	3.3%	3.3%																															
<b>Fund Composition as of March 31, 2012</b>		<b>Underlying Fixed Income Asset Allocation as of March 31, 2012 (% of MV)</b>																																	
<table border="1"> <caption>Fund Composition as of March 31, 2012</caption> <thead> <tr> <th>Component</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Intermediate Portfolio (ING, Prudential, &amp; Monumental)</td> <td>52.4%</td> </tr> <tr> <td>Wells Fargo Stable Return Fund</td> <td>27.5%</td> </tr> <tr> <td>Short Portfolio (Pacific Life Ins. Co.)</td> <td>10.1%</td> </tr> <tr> <td>Short / Intermediate Portfolio (JP Morgan Chase)</td> <td>10.0%</td> </tr> <tr> <td>Cash Receivable / (Payable)</td> <td>0.0%</td> </tr> </tbody> </table>		Component	Percentage	Intermediate Portfolio (ING, Prudential, & Monumental)	52.4%	Wells Fargo Stable Return Fund	27.5%	Short Portfolio (Pacific Life Ins. Co.)	10.1%	Short / Intermediate Portfolio (JP Morgan Chase)	10.0%	Cash Receivable / (Payable)	0.0%	<table border="1"> <caption>Underlying Fixed Income Asset Allocation as of March 31, 2012 (% of MV)</caption> <thead> <tr> <th>Asset Class</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>MBS</td> <td>31.5%</td> </tr> <tr> <td>US Gov Related</td> <td>22.6%</td> </tr> <tr> <td>Corporate</td> <td>20.9%</td> </tr> <tr> <td>Cash/Equivalent</td> <td>8.6%</td> </tr> <tr> <td>CMBS</td> <td>5.8%</td> </tr> <tr> <td>ABS</td> <td>5.0%</td> </tr> <tr> <td>Intl Gov/Agency</td> <td>2.4%</td> </tr> <tr> <td>Taxable Muni</td> <td>2.5%</td> </tr> <tr> <td>GICs</td> <td>0.8%</td> </tr> </tbody> </table>		Asset Class	Percentage	MBS	31.5%	US Gov Related	22.6%	Corporate	20.9%	Cash/Equivalent	8.6%	CMBS	5.8%	ABS	5.0%	Intl Gov/Agency	2.4%	Taxable Muni	2.5%	GICs	0.8%
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<b>Key Facts and Figures</b>																																			
Portfolio Manager: Galliard Capital Management Inception (in Plan): July 2008		Expense Ratio (Net): 0.09% Mercer Median Expense Ratio (Net): 0.35%																																	

# Fund Profile

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

<b>Share Class: Inst Plus</b>		<b>Benchmark: Barclays Capital US Aggregate</b>																															
<b>Investment Philosophy</b>																																	
The Vanguard Total Bond Market Index Fund seeks to provide investment results that parallel the performance of the Barclays Capital US Aggregate Float Adjusted Index.																																	
<b>Sector Allocation as of March 31, 2012</b>		<b>Tracking Error</b>																															
<table border="1"> <thead> <tr> <th>Barclays Aggregate Index</th> <th>Allocation (%)</th> <th>Quarterly Return (%)</th> </tr> </thead> <tbody> <tr> <td>US Treasuries</td> <td>35.1%</td> <td>-1.3%</td> </tr> <tr> <td>Mortgages</td> <td>31.3%</td> <td>0.6%</td> </tr> <tr> <td>Industrials</td> <td>11.2%</td> <td>0.8%</td> </tr> <tr> <td>Financials</td> <td>6.9%</td> <td>5.1%</td> </tr> <tr> <td>Non-Corporate</td> <td>5.5%</td> <td>1.9%</td> </tr> <tr> <td>US Agencies</td> <td>5.5%</td> <td>0.0%</td> </tr> <tr> <td>Utilities</td> <td>2.3%</td> <td>-0.1%</td> </tr> <tr> <td>CMBS</td> <td>2.0%</td> <td>3.5%</td> </tr> <tr> <td>ABS</td> <td>0.2%</td> <td>0.8%</td> </tr> </tbody> </table>		Barclays Aggregate Index	Allocation (%)	Quarterly Return (%)	US Treasuries	35.1%	-1.3%	Mortgages	31.3%	0.6%	Industrials	11.2%	0.8%	Financials	6.9%	5.1%	Non-Corporate	5.5%	1.9%	US Agencies	5.5%	0.0%	Utilities	2.3%	-0.1%	CMBS	2.0%	3.5%	ABS	0.2%	0.8%	<p>Rolling 1 yr Tracking Error vs. Barclays Capital US Aggregate in \$US (after fees) over 5 yrs ending March-12 (quarterly calculations)</p> <p>▲ VgdTBM+   Rolling 1 Year</p>	
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<b>Key Facts and Figures</b>																																	
Portfolio Manager (Advised Since): Kenneth E. Volpert (1992) and Gregory Davis (2008)		Total Fund Assets: \$105,701 Million Total Share Class Assets: \$10,094 Million	Expense Ratio (Net): 0.05% Mercer Median Expense Ratio (Net): 0.20%																														

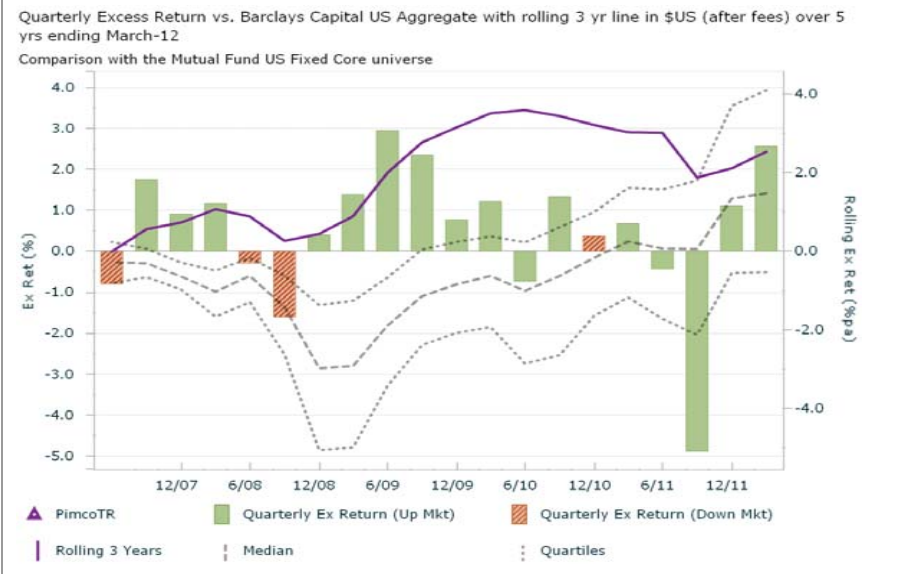
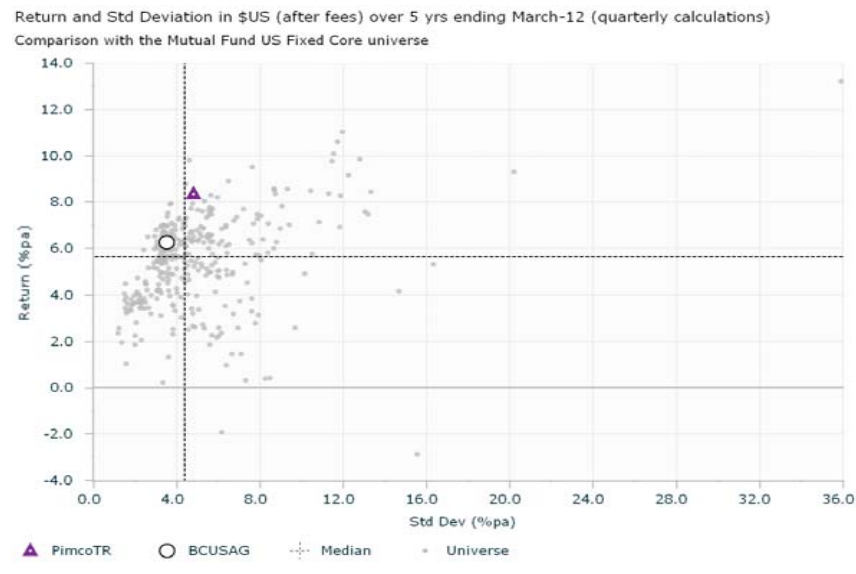
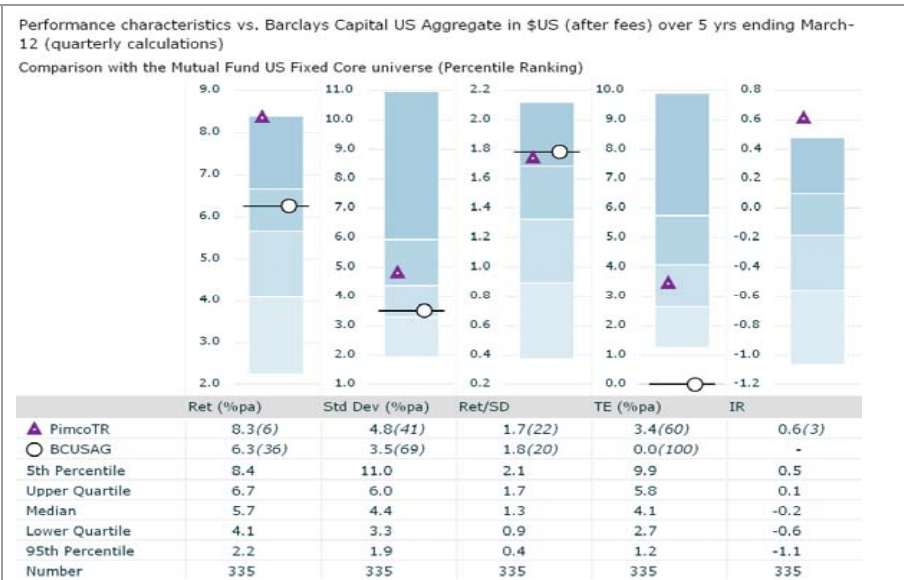
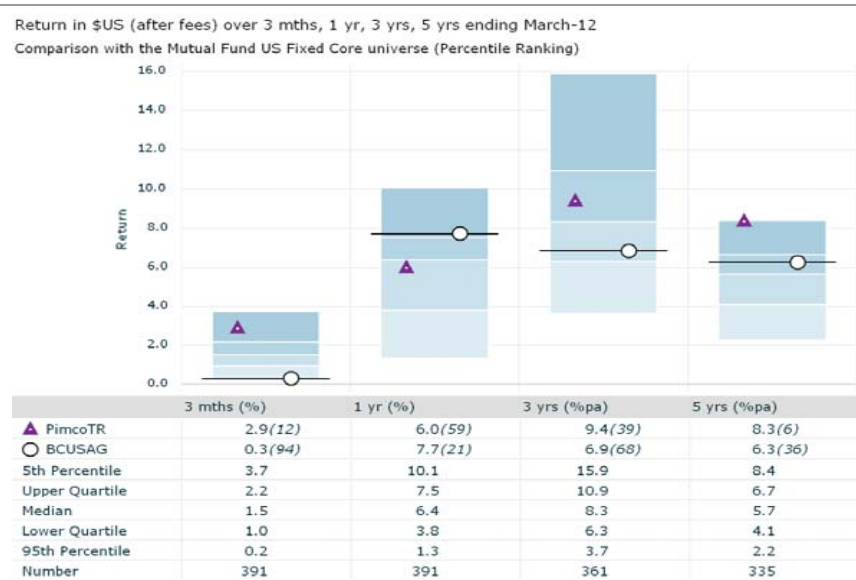
# Fund Profile

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

<b>Share Class: Institutional</b>		<b>Benchmark: Barclays Capital US Aggregate</b>																														
<b>Investment Philosophy</b>																																
<p>PIMCO's approach to fixed income management is to position the portfolio with exposure to a series of moderate risks, ensuring that no single strategy overwhelms the portfolio. The firm continually evaluates new techniques for adding value. Emphasis is on long-term secular trends and the avoidance of extreme swings in portfolio duration. The Total Return strategy invests opportunistically in non-investment grade and non-dollar bonds, with up to 10% of total assets in high yield securities and 30% in securities denominated in foreign currencies. The Fund may invest beyond this limited in U.S. dollar-denominated securities of foreign issuers, but limits itself to no more than 15% in securities that are economically tied to emerging market countries.</p>																																
<b>Fund Characteristics as of March 31, 2012</b>		<b>Duration Weighted Sector Allocation as of March 31, 2012</b>																														
<ul style="list-style-type: none"> <li>▪ Number of Bonds: 6142</li> <li>▪ Yield to maturity: 3.0%</li> <li>▪ Modified effective duration: 5.4 Years</li> <li>▪ Average maturity: 6.7 Years</li> <li>▪ Average coupon: 4.0%</li> </ul>		<table border="1"> <caption>Duration Weighted Sector Allocation Data (Estimated from Chart)</caption> <thead> <tr> <th>Sector</th> <th>PIMCO Total Return Fund Institutional (%)</th> <th>Barclays Capital US Aggregate (%)</th> </tr> </thead> <tbody> <tr> <td>Treasury Agency</td> <td>36.0</td> <td>41.0</td> </tr> <tr> <td>Mortgage Related</td> <td>28.0</td> <td>33.0</td> </tr> <tr> <td>Investment Grade Credit</td> <td>11.0</td> <td>20.0</td> </tr> <tr> <td>ABS</td> <td>0.5</td> <td>0.5</td> </tr> <tr> <td>Muni</td> <td>9.0</td> <td>0.0</td> </tr> <tr> <td>High Yield</td> <td>2.0</td> <td>0.0</td> </tr> <tr> <td>Non US Developed</td> <td>7.0</td> <td>5.0</td> </tr> <tr> <td>Emerging Markets</td> <td>5.0</td> <td>0.0</td> </tr> <tr> <td>Cash/Other</td> <td>2.0</td> <td>0.0</td> </tr> </tbody> </table>	Sector	PIMCO Total Return Fund Institutional (%)	Barclays Capital US Aggregate (%)	Treasury Agency	36.0	41.0	Mortgage Related	28.0	33.0	Investment Grade Credit	11.0	20.0	ABS	0.5	0.5	Muni	9.0	0.0	High Yield	2.0	0.0	Non US Developed	7.0	5.0	Emerging Markets	5.0	0.0	Cash/Other	2.0	0.0
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<b>Key Facts and Figures</b>																																
Portfolio Manager (Advised Since): William H. Gross (1987)	Total Fund Assets: \$251,388 Million Total Share Class Assets: \$149,955 Million	Expense Ratio (Net): 0.46% Mercer Median Expense Ratio (Net): 0.55%																														

# Fund Profile

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



# Risk-based Profile Funds

## Profile Funds – Target Allocations

	1Q 2012 Fund Return (%)	1Q 2012 Benchmark Return (%)	Excess Return (%)	Ultra Conservative Profile	Conservative Profile	Moderate Profile	Aggressive Profile	Ultra Aggressive Profile
<b>Stable Value</b>								
DCP Stable Value	0.7%	0.2%	0.5%	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>								
Vanguard Total Bond Mkt Idx Instl Plus	0.3%	0.3%	0.0%	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>
Vanguard Instl Index Instl Plus	12.6%	12.6%	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>
Vanguard Mid Cap Index Instl	13.4%	13.4%	0.0%	2.5%	5.0%	10.0%	15.0%	20.0%
SSgA Russell Sm Cap NL Series S	12.4%	12.4%	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>								
DWS EAFE Equity Index Fund Instl	11.4%	10.9%	0.5%	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>

# Fund Profile

## Domestic Equity - American Funds Investment Co of America R-6 - RICGX

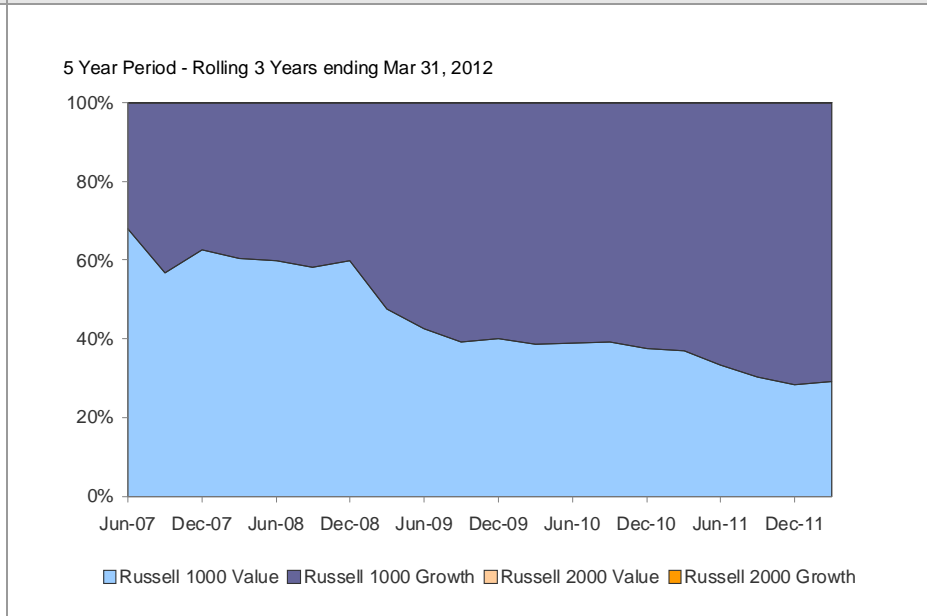
<b>Share Class: R-6</b>	<b>Benchmark: Russell 1000 Value</b>
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**Investment Philosophy**

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

<b>Sector Allocation as of March 31, 2012</b>	<b>Style Analysis</b>
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	American Funds Investment Co of America (%)	Russell 1000 Value (%)
Info Tech	17.2%	9.1%
Energy	13.9%	11.6%
Consumer Disc	13.2%	9.3%
Consumer Staples	11.7%	7.7%
Industrials	11.5%	9.2%
Financials	7.4%	26.8%
Health Care	7.1%	12.3%
Telecom	4.6%	4.4%
Materials	4.0%	2.6%
Utilities	3.1%	6.9%
Cash/Other	6.4%	0.0%

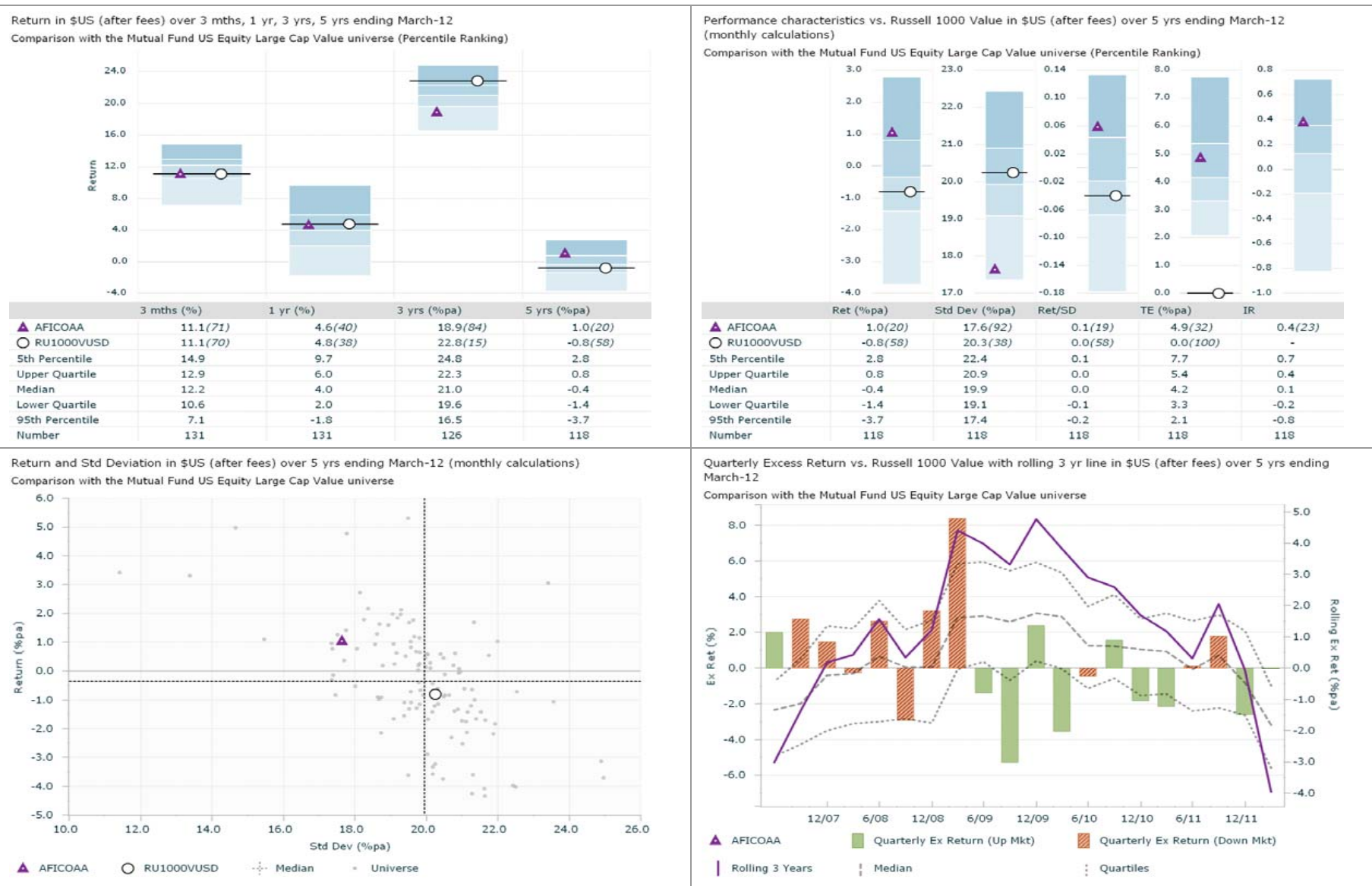


**Key Facts and Figures**

Portfolio Manager (Advised Since): James B. Lovelace (1992); Donald D. O'Neal (1992); C. Ross Sappenfield (2000); Joyce E. Gordon (2001); William L. Robbins (2007); Chris Buchbinder (2011); Eric S. Richter (2011)	Total Fund Assets: \$59,390 Million Total Share Class Assets: \$2,722 Million	Expense Ratio (Net): 0.30% Mercer Median Expense Ratio (Net): 0.77%
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# Fund Profile

## Domestic Equity - American Funds Investment Co of America R-6 - RICGX\*



\* A shares used for above charts due to lack of performance history for R-6 shares  
Mercer



# Fund Profile

## Domestic Equity - Passive - Vanguard Institutional Index Fund Inst Plus - VIIIIX

**Share Class: Inst Plus** **Benchmark: S&P 500**

### Investment Philosophy

The Fund seeks to track the investment performance of the Standard & Poors 500 Index, an unmanaged benchmark representing U.S. large-capitalization stocks. Using full replication, the portfolio holds all stocks in the same capitalization weighting as the index. The Fund uses proprietary software to implement trading decisions that accommodate cash flow and maintain close correlation with index characteristics. Vanguard's refined indexing process, combined with low management fees and efficient trading, has provided tight tracking net of expenses.

### Sector Allocation as of March 31, 2012

S&P 500 Index	Allocation (%)	Quarterly Return (%)
Info Tech	20.5%	21.5%
Financials	14.9%	22.0%
Health Care	11.4%	9.1%
Energy	11.2%	3.9%
Consumer Disc	10.9%	16.0%
Consumer Staples	10.8%	5.5%
Industrials	10.6%	11.3%
Materials	3.5%	11.2%
Utilities	3.4%	-1.6%
Telecom	2.8%	2.1%

### Tracking Error

Rolling 1 yr Tracking Error vs. S&P 500 in \$US (after fees) over 5 yrs ending March-12 (quarterly calculations)



### Key Facts and Figures

Portfolio Manager (Advised Since): Donald M. Butler (2000)

Total Fund Assets: \$234,100 Million  
Total Share Class Assets: \$43,246 Million

Expense Ratio (Net): 0.02%  
Mercer Median Expense Ratio (Net): 0.20%

# Fund Profile

## Domestic Equity - Hartford Capital Appreciation HLS IA - HIACX

Share Class: Inst Benchmark: S&P 500

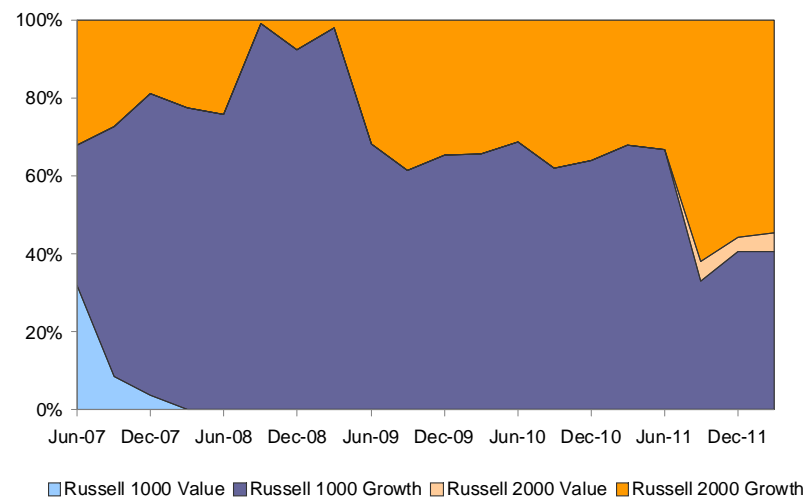
### Investment Philosophy

The fund seeks growth of capital by investing in companies of all sizes solely on the basis of potential for capital appreciation, employing a bottom-up investing approach.

### Sector Allocation as of March 31, 2012 Style Analysis

	Hartford Capital Appreciation HLS IA (%)	S&P 500 (%)
Info Tech	20.0%	20.5%
Consumer Disc	19.0%	10.9%
Financials	15.0%	14.9%
Industrials	14.0%	10.6%
Health Care	11.0%	11.4%
Energy	10.0%	11.2%
Materials	5.0%	3.5%
Consumer Staples	3.0%	10.8%
Utilities	1.0%	3.4%
Telecom	1.0%	2.8%
Cash/Other	1.0%	0.0%

5 Year Period - Rolling 3 Years ending Mar 31, 2012

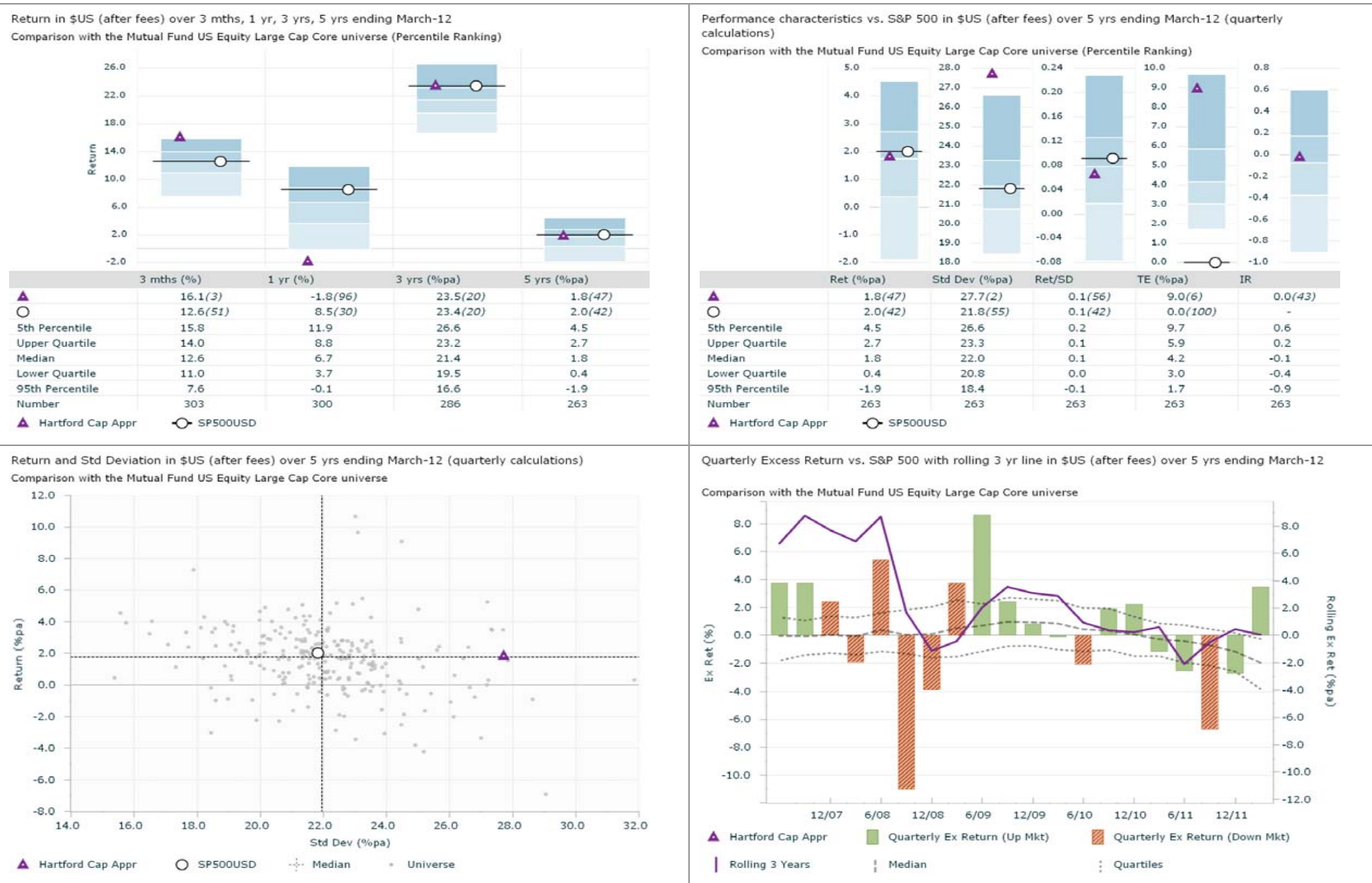


### Key Facts and Figures

Portfolio Manager (Advised Since): Saul J. Pannell (1991)	Total Fund Assets: \$10,200 Million	Expense Ratio (Net): 0.67% Mercer Median Expense Ratio (Net): 0.81%
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# Fund Profile

## Domestic Equity - Hartford Capital Appreciation HLS IA - HIACX



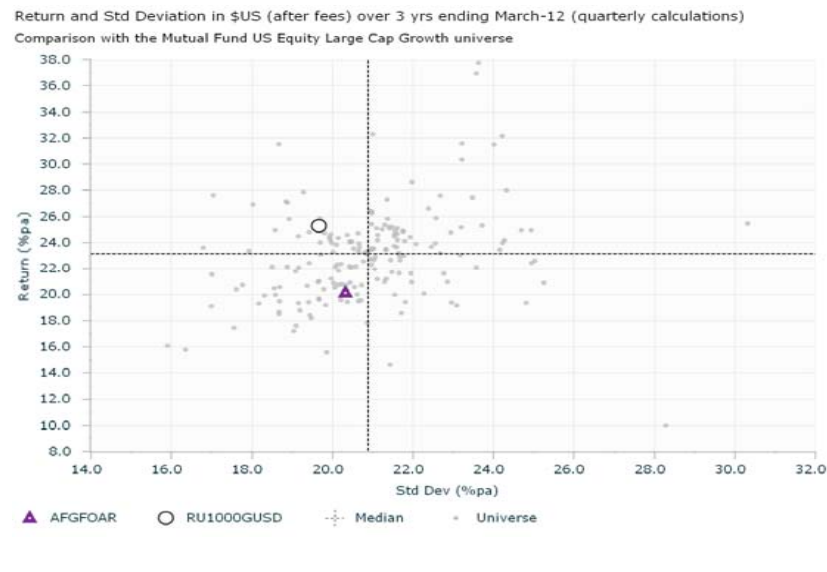
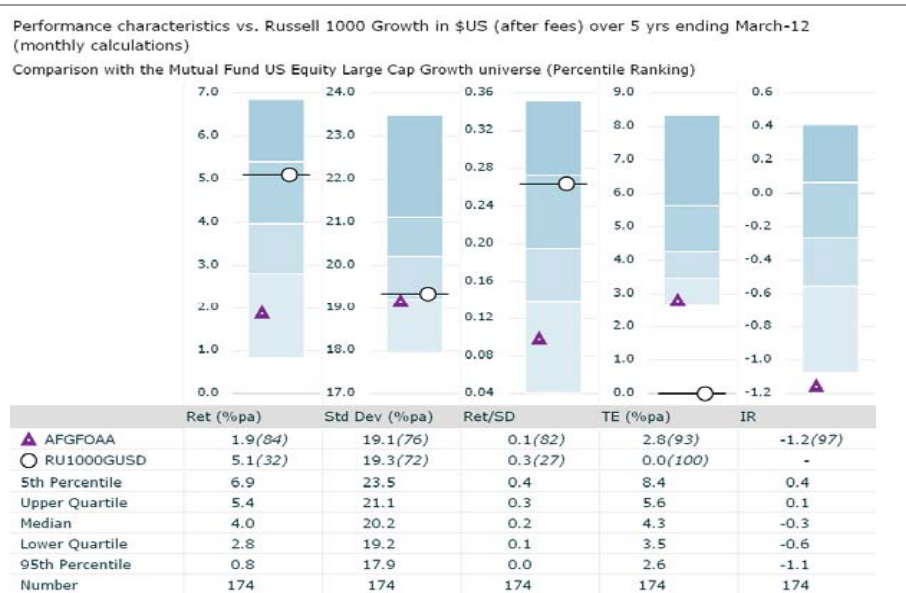
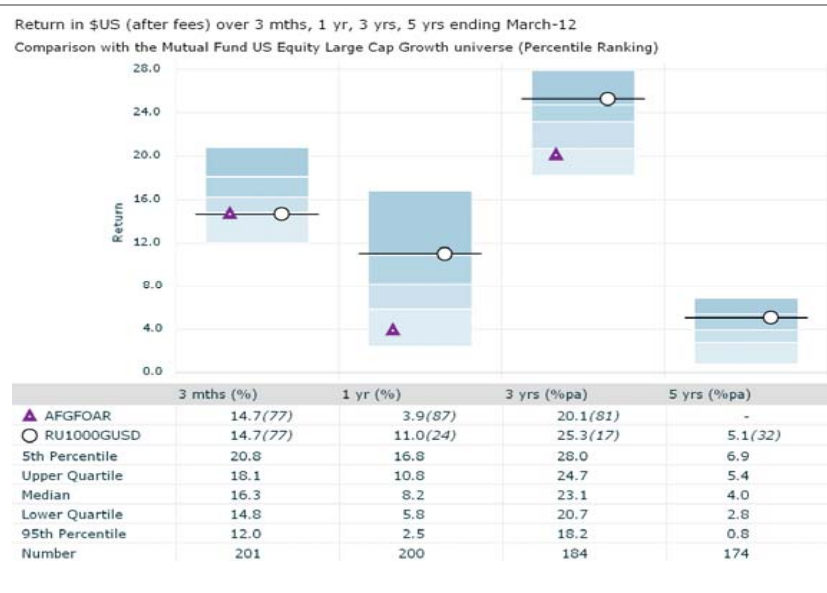
# Fund Profile

## Domestic Equity - American Funds Growth Fund of America R-6 - RGAGX

<b>Share Class: R-6</b>		<b>Benchmark: Russell 1000 Growth</b>																																					
<b>Investment Philosophy</b>																																							
<p>The Fund seeks to provide long-term growth of capital through a diversified portfolio of common stocks. The Fund has the flexibility to invest wherever the best growth opportunities may be. It emphasizes companies that appear to offer opportunities for long-term growth, and may invest in cyclical companies, turnarounds and value situations. The Fund may invest up to 25% of assets in securities of issuers domiciled outside the US, and it may invest up to 10% of assets in debt securities rated below investment-grade.</p>																																							
<b>Sector Allocation as of March 31, 2012</b>		<b>Style Analysis</b>																																					
			<p>5 Year Period - Rolling 3 Years ending Mar 31, 2012</p>																																				
	<table border="1"> <thead> <tr> <th></th> <th>American Funds Growth Fund of America (%)</th> <th>Russell 1000 Growth Index (%)</th> </tr> </thead> <tbody> <tr> <td>Info Tech</td> <td>20.6%</td> <td>30.4%</td> </tr> <tr> <td>Consumer Disc</td> <td>19.1%</td> <td>14.4%</td> </tr> <tr> <td>Health Care</td> <td>12.2%</td> <td>10.5%</td> </tr> <tr> <td>Energy</td> <td>11.4%</td> <td>10.0%</td> </tr> <tr> <td>Financials</td> <td>8.4%</td> <td>4.3%</td> </tr> <tr> <td>Industrials</td> <td>8.4%</td> <td>12.5%</td> </tr> <tr> <td>Materials</td> <td>5.9%</td> <td>5.2%</td> </tr> <tr> <td>Consumer Staples</td> <td>5.9%</td> <td>11.9%</td> </tr> <tr> <td>Telecom</td> <td>1.7%</td> <td>0.8%</td> </tr> <tr> <td>Utilities</td> <td>0.1%</td> <td>0.1%</td> </tr> <tr> <td>Cash/Other</td> <td>6.2%</td> <td>0.0%</td> </tr> </tbody> </table>		American Funds Growth Fund of America (%)	Russell 1000 Growth Index (%)	Info Tech	20.6%	30.4%	Consumer Disc	19.1%	14.4%	Health Care	12.2%	10.5%	Energy	11.4%	10.0%	Financials	8.4%	4.3%	Industrials	8.4%	12.5%	Materials	5.9%	5.2%	Consumer Staples	5.9%	11.9%	Telecom	1.7%	0.8%	Utilities	0.1%	0.1%	Cash/Other	6.2%	0.0%		
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<b>Key Facts and Figures</b>																																							
Portfolio Manager (Advised Since): Team Managed		Total Fund Assets: \$129,001 Million Total Share Class Assets: \$9,593 Million	Expense Ratio (Net): 0.33% Mercer Median Expense Ratio (Net): 0.89%																																				

# Fund Profile

## Domestic Equity - American Funds Growth Fund of America R-6 - RGAGX\*



\* A shares used for Performance Characteristics and Monthly Excess Return charts due to lack of performance history for R-6 shares  
Mercer

# Fund Profile

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

<b>Share Class: Institutional</b>	<b>Benchmark: Vanguard Spliced Mid Cap Index</b>
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### Investment Philosophy

The fund seeks to track the investment performance of the Morgan Stanley Capital International (MSCI) US Mid Cap 450 Index, an unmanaged benchmark representing medium-sized US companies. Using full replication, the portfolio holds all stocks in the same capitalization weighting as the Index. Prior to May 16, 2003, the fund replicated the S&P 400 Index.

### Sector Allocation as of March 31, 2012

	Vanguard Mid-Cap Index Fund (%)	MSCI US Mid Cap 450 Index (%)
Consumer Disc	18.3%	18.2%
Financials	17.2%	17.2%
Info Tech	15.8%	15.8%
Industrials	11.9%	12.0%
Health Care	9.7%	9.7%
Energy	8.1%	8.1%
Materials	6.8%	6.8%
Utilities	5.6%	5.6%
Consumer Staples	5.4%	5.4%
Telecom	1.2%	1.2%

### Tracking Error

Rolling 1 yr Tracking Error vs. Vanguard Spliced Mid Cap Index in \$US (after fees) over 5 yrs ending March-12 (quarterly calculations)



### Key Facts and Figures

Portfolio Manager (Advised Since): Donald M. Butler (1998)	Total Fund Assets: \$30,505 Million Total Share Class Assets: \$6,869 Million	Expense Ratio (Net): 0.08% Mercer Median Expense Ratio (Net): 0.27%
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# Fund Profile

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

<b>Share Class: Institutional</b>		<b>Benchmark: Russell Midcap</b>	
<b>Investment Philosophy</b>			
<p>The Mid Cap Equity strategy is based on bottom-up stock selection with an emphasis on undervalued sectors and industries. Lazard seeks inexpensively priced companies that are financially productive with a catalyst that should create sustainable returns over the long term. The firm focuses on financial productivity and the long-term sustainability of returns rather than just price to earnings multiples and earnings projections. In-house fundamental research and financial analysis is key to the stock selection process. Macro, political, and economic factors are also considered.</p>			
<b>Sector Allocation as of March 31, 2012</b>		<b>Style Analysis</b>	
	<b>Lazard US Mid Cap Equity Portfolio (%)</b>	<b>Russell Midcap (%)</b>	
Info Tech	20.5%	13.7%	
Consumer Disc	18.8%	16.2%	
Financials	15.6%	19.5%	
Industrials	11.2%	12.9%	
Health Care	10.4%	9.7%	
Energy	6.8%	7.5%	
Materials	6.6%	6.6%	
Consumer Staples	5.7%	6.3%	
Telecom	0.0%	1.2%	
Utilities	0.0%	6.5%	
Cash/Other	4.4%	0.0%	

5 Year Period - Rolling 3 Years ending Mar 31, 2012

Legend:   
■ Russell 1000 Value   
■ Russell 1000 Growth   
■ Russell 2000 Value   
■ Russell 2000 Growth

### Key Facts and Figures

Portfolio Manager (Advised Since): Andrew D. Lacey (2001); Christopher H. Blake (2001); Robert A. Failla (2005)

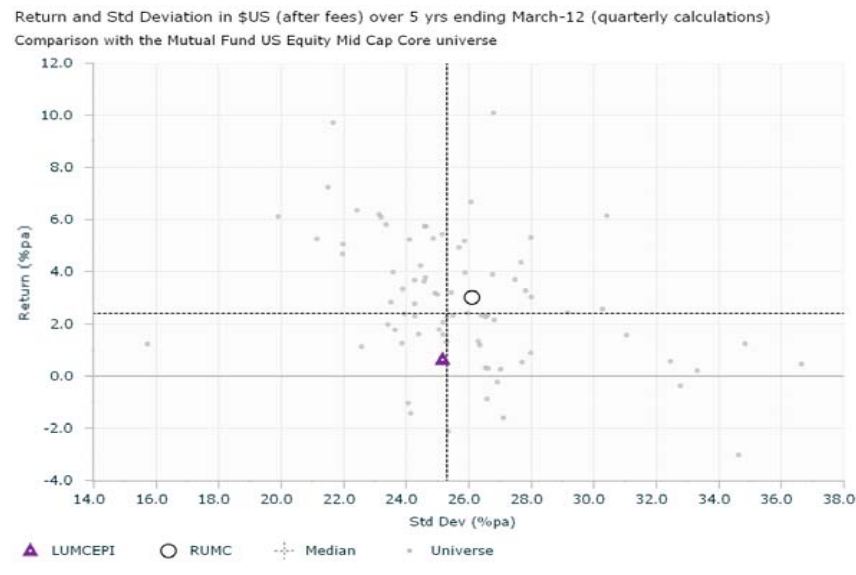
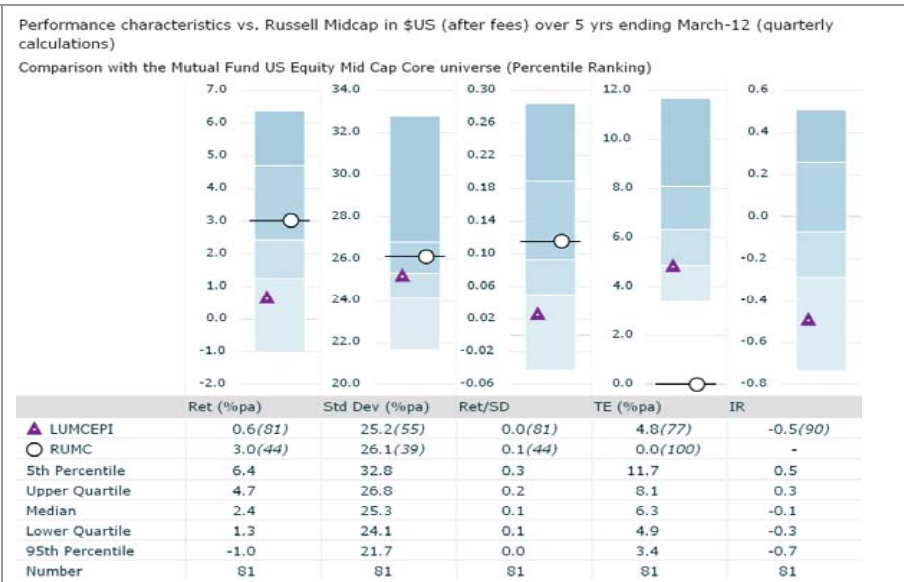
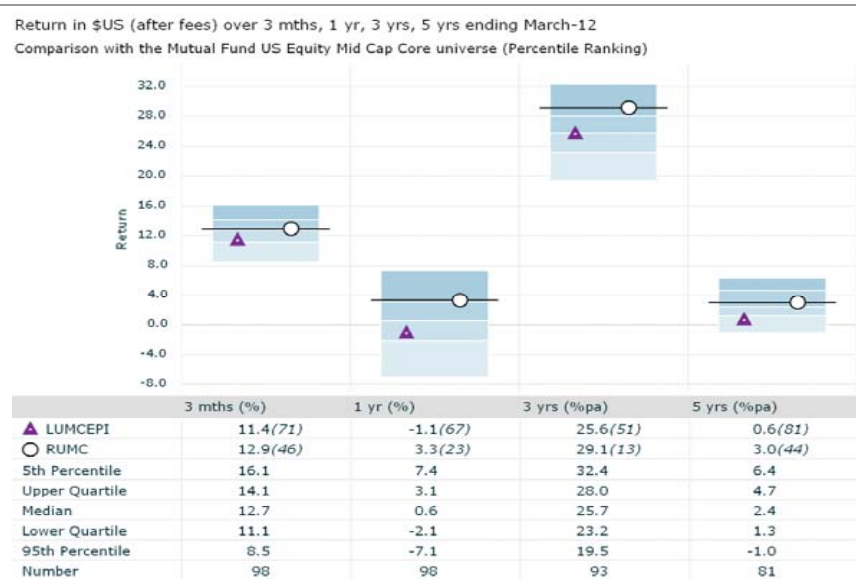
Total Fund Assets: \$144 Million  
 Total Share Class Assets: \$91 Million

Expense Ratio (Net): 0.91%  
 Mercer Median Expense Ratio (Net): 0.96%



# Fund Profile

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





# Fund Profile

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

<b>Share Class: S</b>	<b>Benchmark: Russell 2000</b>
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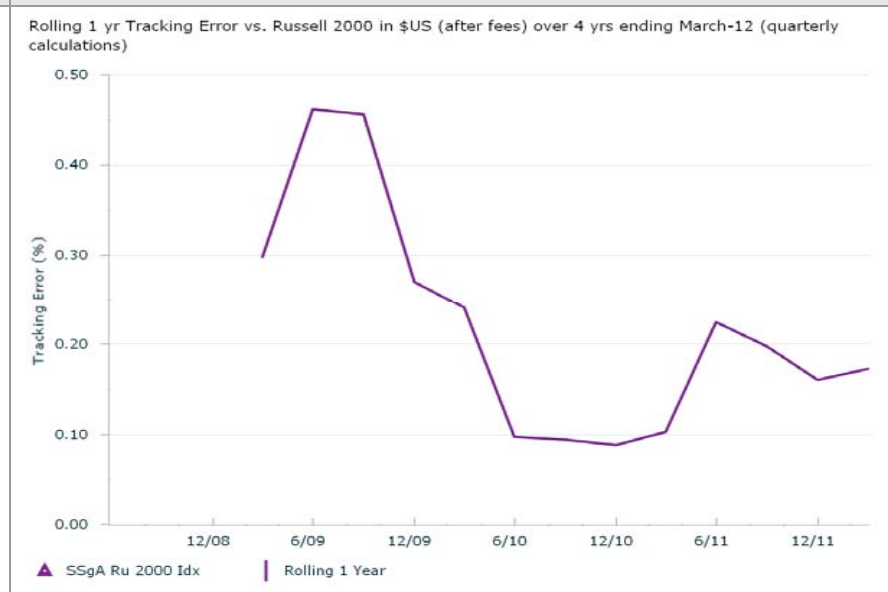
### Investment Philosophy

SSgA's passive equity process objective is to remain fully invested in the equity market at all times. To accomplish this, SSgA holds a small amount of unleveraged exchange-traded Russell 2000 index futures contracts to maintain full exposure. The portfolio tends to hold approximately 1% to 3% of the strategy's value in suitable CFTC-approved index futures contracts. This position in futures allows SSgA to accommodate cash flows into and out of the portfolio on a daily basis and to equitize dividend receivables to achieve closer tracking.

### Sector Allocation as of March 31, 2012

Russell 2000 Index (%)	Allocation (%)	Quarterly Return (%)
Financials	22.5%	11.7%
Info Tech	16.7%	14.0%
Industrials	15.8%	11.3%
Consumer Disc	13.8%	17.9%
Health Care	12.7%	15.3%
Energy	6.4%	7.2%
Materials	4.6%	13.0%
Consumer Staples	3.5%	8.5%
Utilities	3.2%	-2.1%
Telecom	0.8%	12.6%

### Tracking Error



### Key Facts and Figures

Portfolio Manager: SSgA Portfolio Inception: August 1999	Total Strategy Assets: \$13,100 Million	Expense Ratio (Net): 0.06% Mercer Median Expense Ratio (Net): 0.30%
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# Fund Profile

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

<b>Share Class: Institutional</b>		<b>Benchmark: MSCI EAFE NET WHT</b>																																		
<b>Investment Philosophy</b>																																				
The fund seeks to replicate as closely as possible, before the deduction of expenses, the performance of the Morgan Stanley Capital International EAFE Index, which emphasizes stocks of companies in major markets in Europe, Australasia and the Far East. The manager invests in a statistically selected sample of the securities found in the MSCI EAFE Index, with typically 80% of the fund in index securities and select derivative instruments relating to the index.																																				
<b>Portfolio Analysis &amp; Key Observations</b>		<b>Tracking Error</b>																																		
<table border="1"> <thead> <tr> <th>MSCI EAFE Net WHT Index</th> <th>Allocation (%)</th> <th>Quarterly Return (%)</th> </tr> </thead> <tbody> <tr> <td>Financials</td> <td>22.6%</td> <td>16.5%</td> </tr> <tr> <td>Industrials</td> <td>12.7%</td> <td>12.8%</td> </tr> <tr> <td>Consumer Staples</td> <td>11.2%</td> <td>7.9%</td> </tr> <tr> <td>Consumer Disc</td> <td>10.8%</td> <td>19.6%</td> </tr> <tr> <td>Materials</td> <td>10.2%</td> <td>11.7%</td> </tr> <tr> <td>Health Care</td> <td>9.3%</td> <td>4.8%</td> </tr> <tr> <td>Energy</td> <td>8.5%</td> <td>4.1%</td> </tr> <tr> <td>Telecom</td> <td>5.4%</td> <td>-0.5%</td> </tr> <tr> <td>Info Tech</td> <td>4.8%</td> <td>13.6%</td> </tr> <tr> <td>Utilities</td> <td>4.3%</td> <td>4.9%</td> </tr> </tbody> </table>		MSCI EAFE Net WHT Index	Allocation (%)	Quarterly Return (%)	Financials	22.6%	16.5%	Industrials	12.7%	12.8%	Consumer Staples	11.2%	7.9%	Consumer Disc	10.8%	19.6%	Materials	10.2%	11.7%	Health Care	9.3%	4.8%	Energy	8.5%	4.1%	Telecom	5.4%	-0.5%	Info Tech	4.8%	13.6%	Utilities	4.3%	4.9%	<p>Rolling 1 yr Tracking Error vs. MSCI EAFE NET WHT in \$US (after fees) over 5 yrs ending March-12 (quarterly calculations)</p> <p>▲ DWS EAFE Eq Idx   Rolling 1 Year</p>	
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<b>Key Facts and Figures</b>																																				
Portfolio Manager (Advised Since): Shaun Murphy (2007)		Total Fund Assets: \$265 Million Total Share Class Assets: \$265 Million	Expense Ratio (Net): 0.51% Mercer Median Expense Ratio (Net): 0.50%																																	

# Fund Profile

## International Equity - Fidelity Diversified International Fund - FDIVX

<b>Share Class:</b>	<b>Benchmark: MSCI EAFE NET WHT</b>
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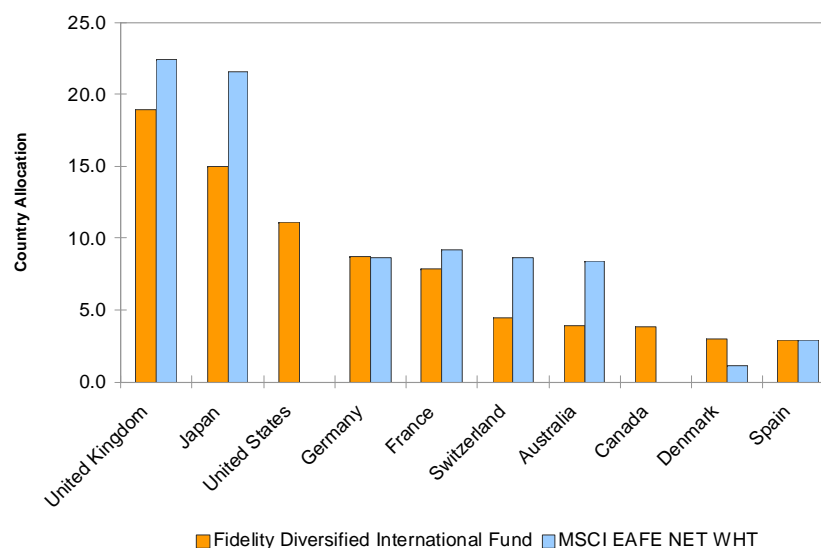
### Investment Philosophy

The Fund seeks capital growth by typically investing in non-U.S. securities, allocating investments across countries and regions by considering the size of the market in each country and region relative to the size of the international market as a whole.

### Portfolio Analysis & Key Observations

	Fidelity Diversified International Fund (%)	MSCI EAFE Net WHT Index (%)
Consumer Disc	15.8%	10.8%
Financials	15.8%	22.6%
Consumer Staples	11.5%	11.2%
Info Tech	11.0%	4.8%
Health Care	10.0%	9.3%
Materials	9.7%	10.2%
Energy	9.3%	8.5%
Industrials	8.0%	12.7%
Telecom	4.8%	5.4%
Utilities	0.3%	4.3%
Cash/Other	3.8%	0.0%

### Country Analysis as of March 31, 2012

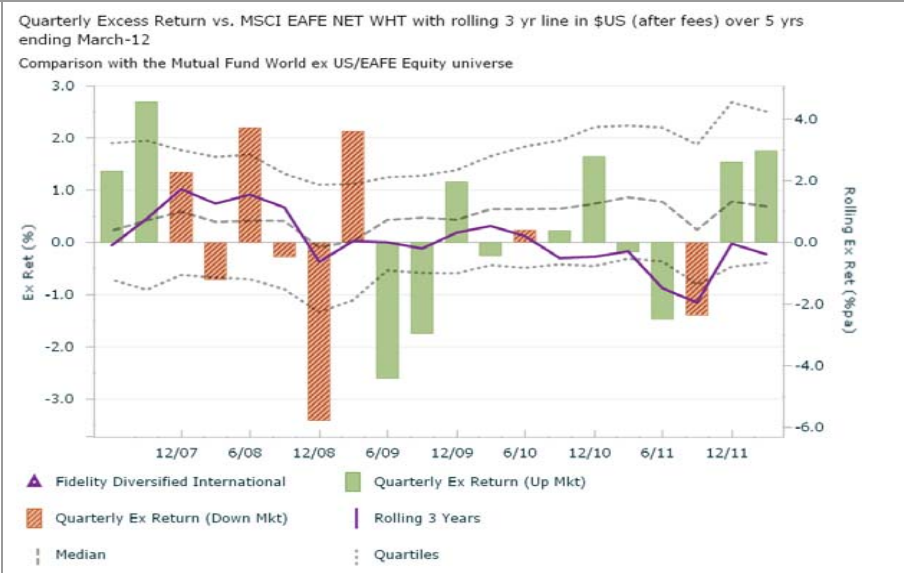
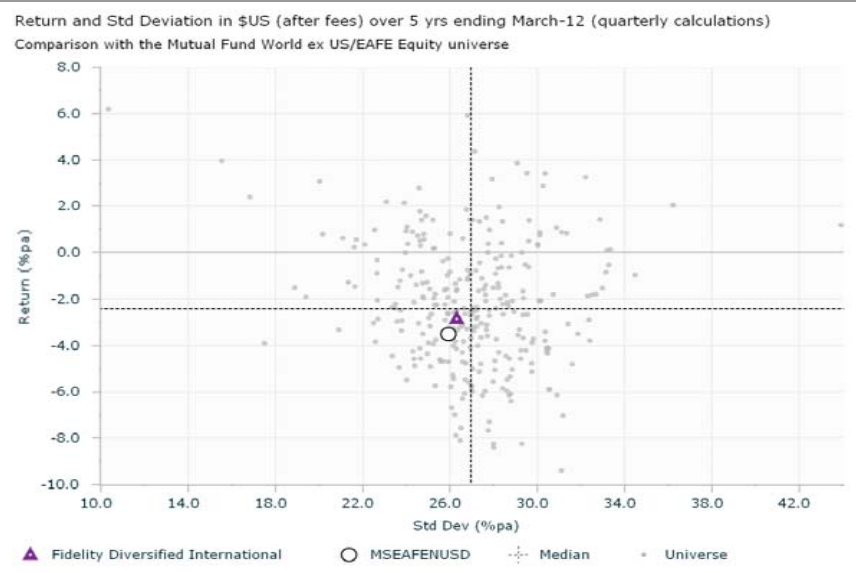
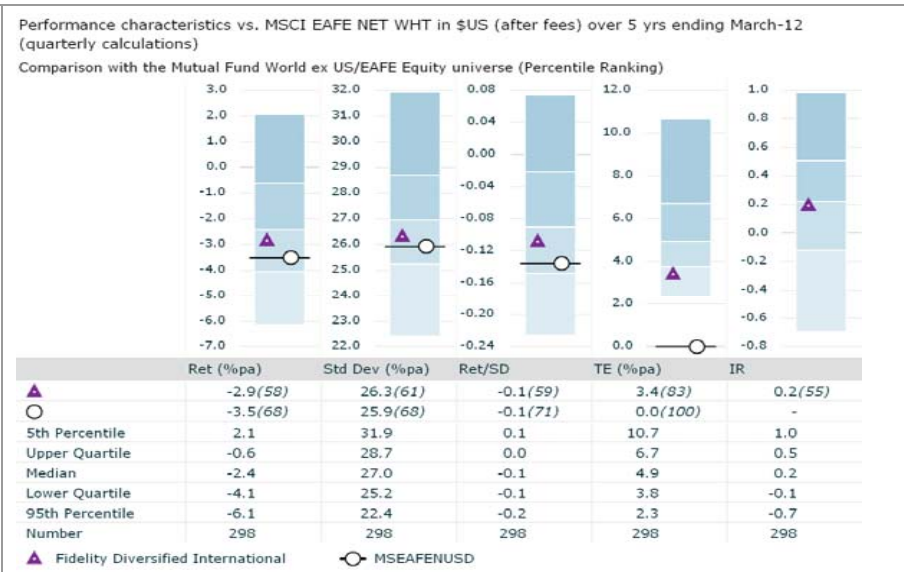
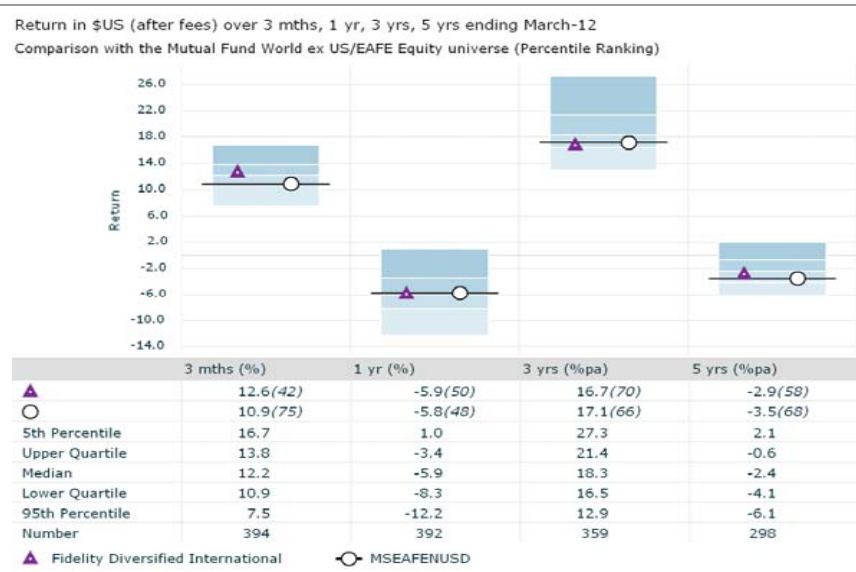


### Key Facts and Figures

Portfolio Manager (Advised Since): William Bower (2001)	Total Fund Assets: \$23,783 Million Total Share Class Assets: \$14,895 Million	Expense Ratio (Net): 0.90% Mercer Median Expense Ratio (Net): 1.05%
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# Fund Profile

## International Equity - Fidelity Diversified International Fund - FDIVX



## Appendix A – Investment Manager Updates

### ***DWS Investments***

#### **Deutsche Bank and Guggenheim Partners Focus Potential Sale Solely on RREEF – May 11, 2012**

- Deutsche Bank (DB) has announced that its Management Board, which initiated a strategic review of its global group, Deutsche Bank Asset Management (DBAM), division in November 2012, has decided to focus its negotiations with Guggenheim Partners (Guggenheim) on a potential sale of RREEF, its global alternative asset management business.
- DB and Guggenheim mutually agreed to end exclusive negotiations about a potential sale of DWS Americas, the mutual fund business in the Americas; DB Advisors, the global institutional asset management business; and Deutsche Insurance Asset Management, the global insurance asset management business.
- In February, Guggenheim had emerged as the final bidder for the bank's asset management business and the deal was expected to close during the third quarter of 2012. A timeline for the negotiations with DB and Guggenheim regarding RREEF has not been provided.
- Mercer View:
  - DB had initially indicated its desire to sell DBAM as one unit, so the news that RREEF may be sold individually is surprising. It also creates additional uncertainty about the future of the other DBAM units (DWS Americas, DB Advisors, and Deutsche Insurance Asset Management) since it is unclear whether DB will continue to move forward with the divestiture of these units.
  - With continued uncertainty surrounding the potential for wide-scale restructuring within DBAM, we recommend that the Watch (W) provision initially applied to the ratings in November 2011 be upheld. Further, until there is clarity surrounding the direction of DBAM and its subsidiaries (RREEF included), we caution against any new business with the firm. We are not recommending any further action at this time.

### ***Pacific Investment Management Company***

#### **Discussion on Capacity Issues – March 11, 2012**

- We had an opportunity to meet with Stracke the head of credit research at PIMCO to discuss potential capacity constraints that PIMCO might face in some of their credit and high yield portfolios. In the meeting we put forward our opinion that in some areas of the credit market PIMCO has such a large AUM that it might affect their ability to add alpha.
- He told us how currently PIMCO were in a defensive phase and that they were selling risk across their portfolios. This has meant selling a lot of credit bonds and covering positions with CDS indices. Although we are not allowed to discuss the exact size of these trades, they were substantial and Stracke used this as an example of how PIMCO could move large amounts of risk in a relatively short time. He went on to tell us how, with PIMCO's size in the market, they were a key counterparty to nearly all of the investment banks and that the investment banks were very keen to do business with them. By being so important a counterparty, Stracke believed that it enabled PIMCO to get very good access to the market and excellent pricing.
- If counterparty banks do not give good liquidity to PIMCO in one area, they will stop dealing with them across their whole range of products. This means that the bank will not just lose business in plain vanilla, low margin business, where they were initially unwilling to trade. Across the bank, higher margin businesses such as derivatives and commodities will not get access to PIMCO. This normally makes the bank come back to PIMCO with improved conditions as they look at the profitability of their entire book of business.
- Although PIMCO have adapted to their growing asset size and have continued to be successful in some areas, we feel that their process has had to alter to accommodate this. Nowhere is this clearer than in the high yield product. Although this is not necessarily a bad thing, it does mean that clients, who purchased a product expecting a certain style of management, end up with something different.
- We are still of the belief that PIMCO should be clearer on where they believe that capacity constraints might be and would be happy to see them start closing certain products if they thought they were too big. Until they do this we believe that they are open to the criticism that they are raising assets at the expense of future alpha potential.

## Appendix B— Disclosures

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