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# City of Los Angeles

## City of Los Angeles Deferred Compensation Plan

# Defined Contribution Performance Evaluation

## First Quarter 2013

Services provided by Mercer Investment Consulting, Inc.

MARSH & McLENNAN COMPANIES

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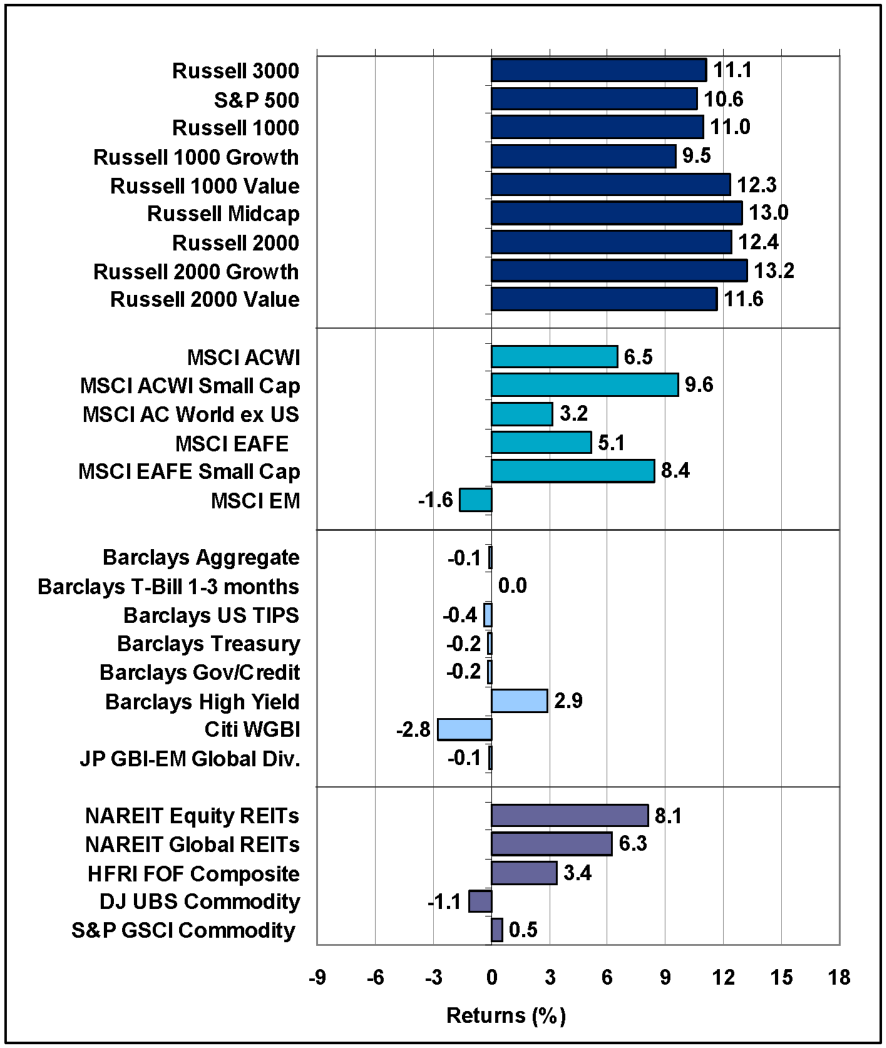
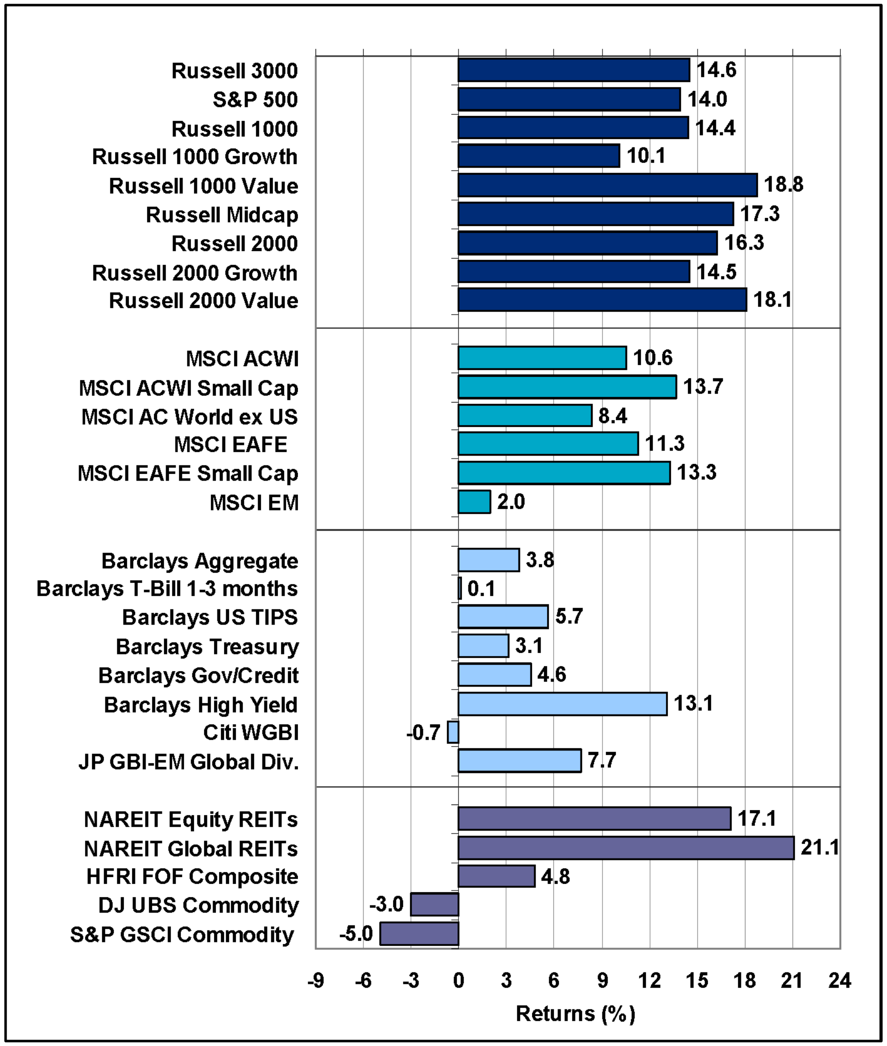
# Performance Summary: Quarter in Review

**Market Performance**
First Quarter 2013




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

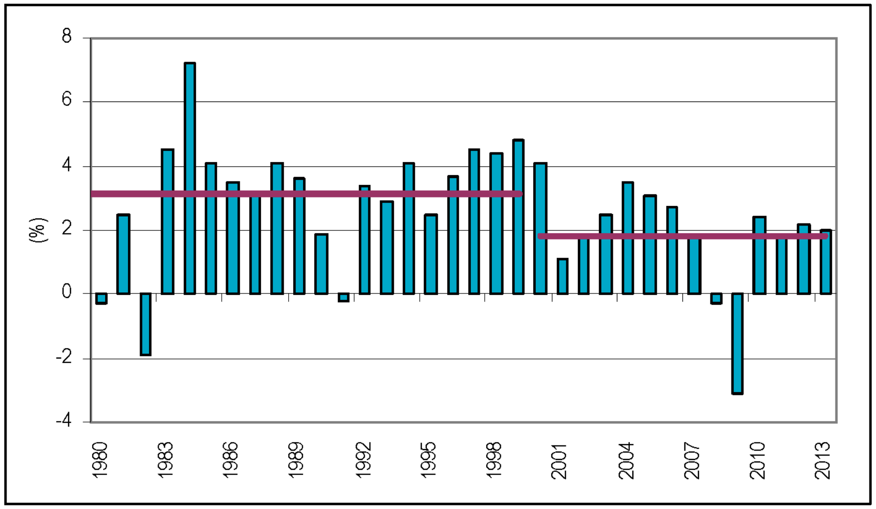
**Market Performance**
1 Year




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

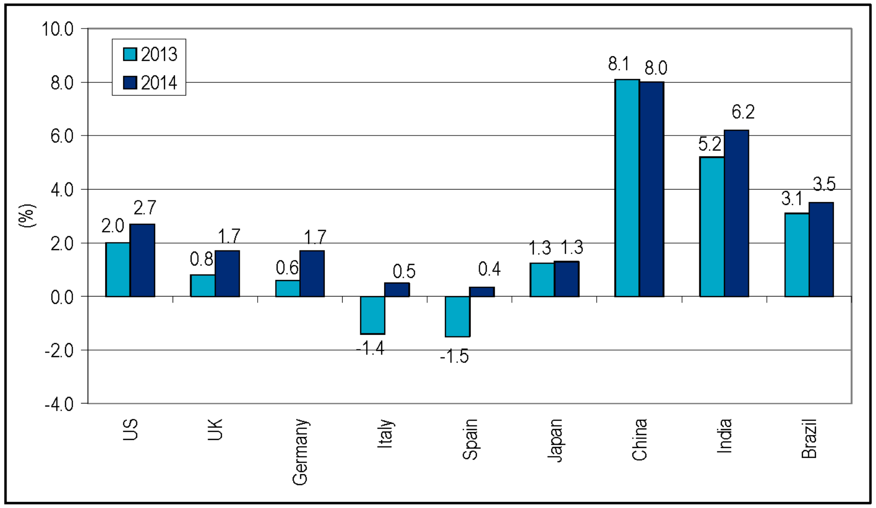
# Macro Environment: Economic Review

**Annual GDP Growth**




Source: Bureau of Economic Analysis

**World Economic Growth**
(Projections as of March 2013)

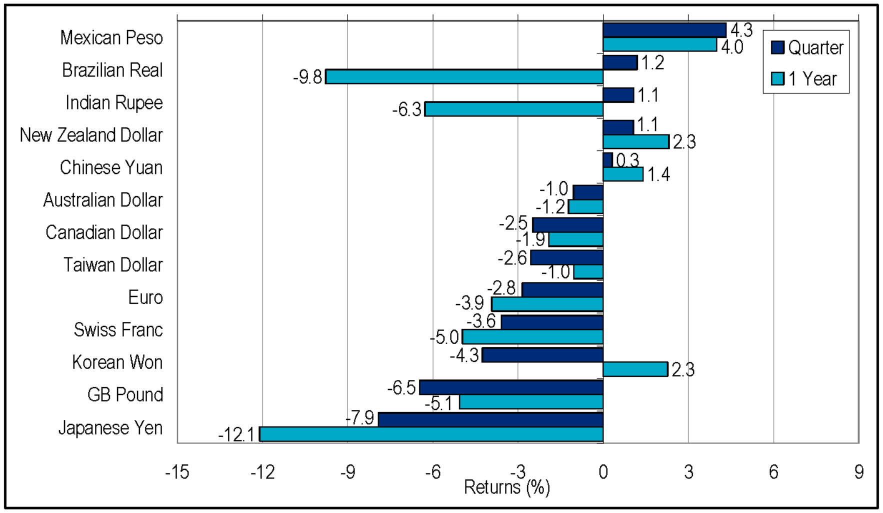



Source: Bloomberg

- The economy added an average of only 168k jobs per month in the first quarter. The unemployment rate fell from 7.8% to 7.6%, but a decline in the labor force accounted for a significant portion of the improvement.
- The consensus forecast for 2013 growth is just 2.0%. Positive catalysts include the housing market, improved household finances, and the further development of domestic energy sources. Although recent data suggests the possibility of another spring slowdown, the risk of a recession in 2013 still appears relatively low. The economy appears to be handling the fiscal drag of higher taxes and lower spending relatively well so far.
- Despite negative headlines in Cyprus and Italy, European bond markets were relatively calm in the first quarter. The ECB's willingness to act as a lender of last resort to governments and banks to prevent a major financial disaster or disorderly collapse has lowered market stress and volatility. However, ongoing economic weakness is intensifying political pressures, increasing the risk that the crisis could resurface due to austerity or bailout fatigue.
- Weak growth in the developed world is weighing on emerging economies through financial and trade links. Foreign direct investment in emerging market economies tumbled 15% last year and imports to the developed world shrunk for the first time since the financial crisis. Despite concerns regarding the ability of countries to transition to the next stage of growth, the prospects for emerging economies are bright, although growth is unlikely to return to heady pre-financial crisis levels for the foreseeable future.

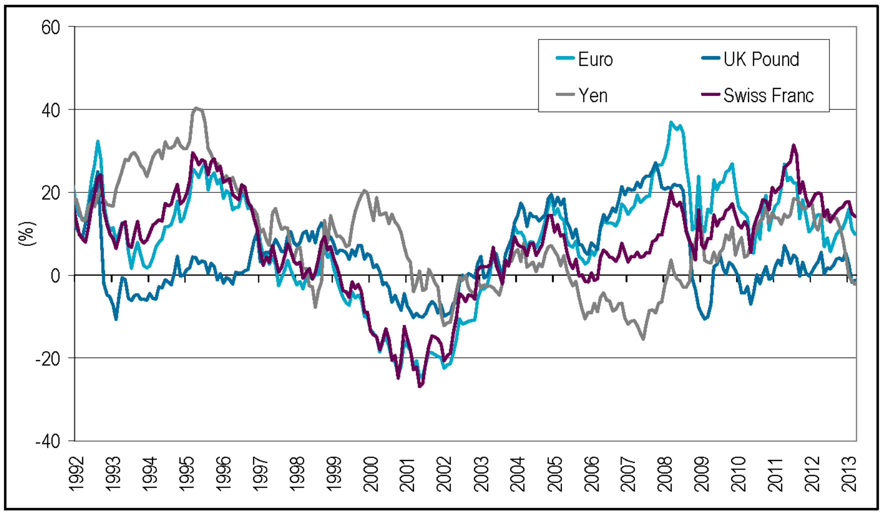
# Macro Environment: Currencies

**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 dollar advanced 1.8% in the first quarter. The dollar benefitted from a continued plunge in the yen, which lost 7.9% as the markets anticipated further BoJ policy easing. Uncertainty surrounding the Italian elections and the Cyprus banking system contributed to a 2.8% decline in the euro. Emerging market currencies were generally flat to slightly positive.

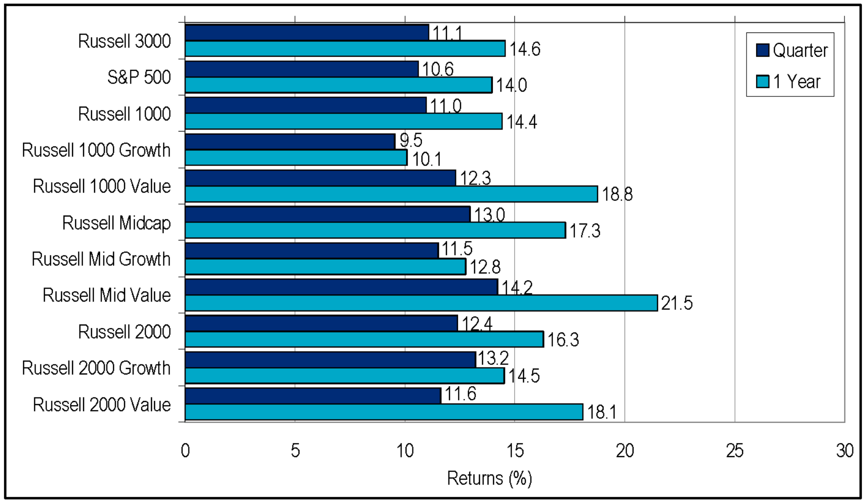
- Most currencies look expensive to the dollar based on relative purchasing power parity, but large scale QE and the US current account deficit suggest that this may be warranted. While the Fed continues to expand its balance sheet, US economic growth has been better than most of the rest of the developed world, which could boost the dollar.

- In early April, the BoJ announced a stimulus program in an attempt to hit a 2% inflation target. While new bond purchases were largely anticipated, the scope exceeded market expectations and could further weaken the yen. However, we note that shorting the yen has been a favorite play among currency speculators, hinting the potential for a reversal.

- The ECB has resisted monetary stimulus, which has been a positive for the euro. Nevertheless, the Eurozone still faces daunting economic challenges and a refocus on macro risks leaves the euro susceptible to declines.

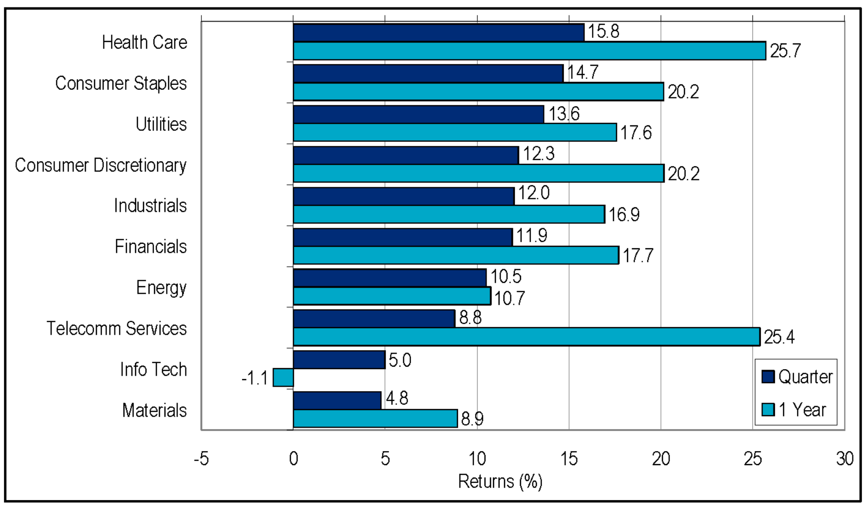
# Asset Class: US Equities – Style, Sector, Cap Performance

**Style and Capitalization Market Performance**




Source: Standard & Poor's, Russell, Bloomberg

**Sector Performance**




Source: Russell 1000 GICs Sector

## Broad Market

- Stocks posted strong gains in the first quarter with the Russell 3000 Index returning 11.1%.

## Market Cap

- **Large Caps:** The Russell 1000 Index gained 11.0% in the first quarter and the S&P 500 returned 10.6%. Given the significant spike in the markets, it was not surprising that large cap stocks lagged mid cap and small cap stocks.
- **Mid Caps:** The Russell Midcap Index surged 13.0% and was the best performing index for quarter.
- **Small Caps:** Small cap stocks outperformed large cap stocks with the Russell 2000 Index returning 12.4%. Over the last year, small cap stocks have outperformed large cap stocks (S&P 500) by 230 basis points.

## Style

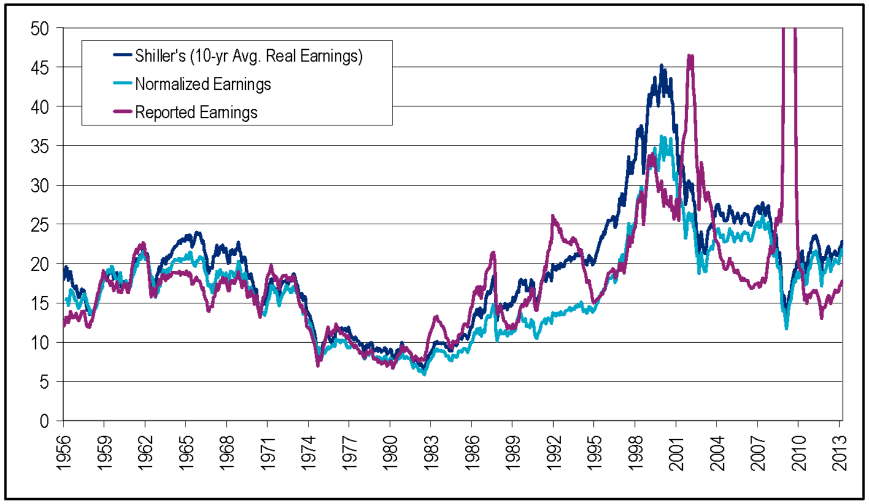
- **Value vs. Growth:** Value stocks outperformed growth stocks in the large cap and mid cap segments, while small cap growth surpassed small cap value stocks. Mid cap value was the best performing style, gaining 14.2%.

## Sector

- The materials, information technology, and telecommunication services sectors were the laggards for the quarter, while defensive sectors such as health care and consumer staples outperformed the broad market.

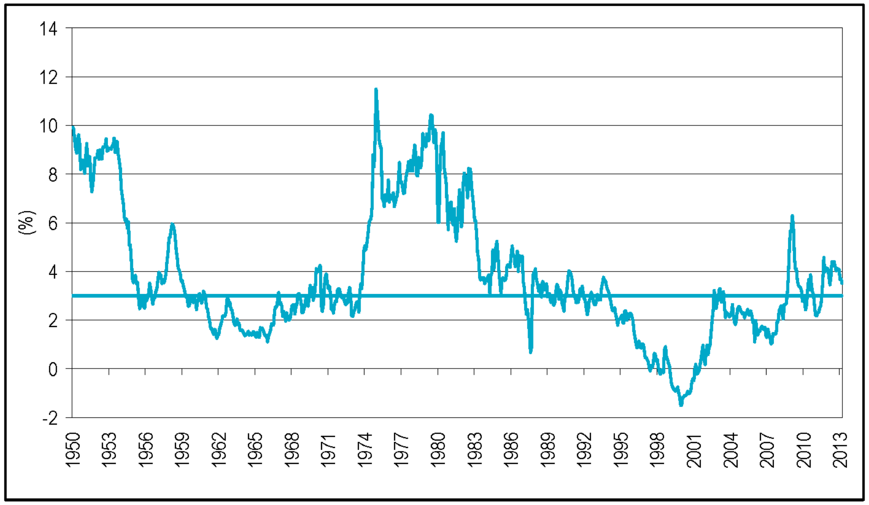
# Asset Class: US Equities – Valuation Review

**S&P500 – P/E Ratio**




Source: S&P, Bloomberg, Mercer

**S&P500 – Estimated Equity Risk Premium[1]**
Versus Long-Term Treasuries



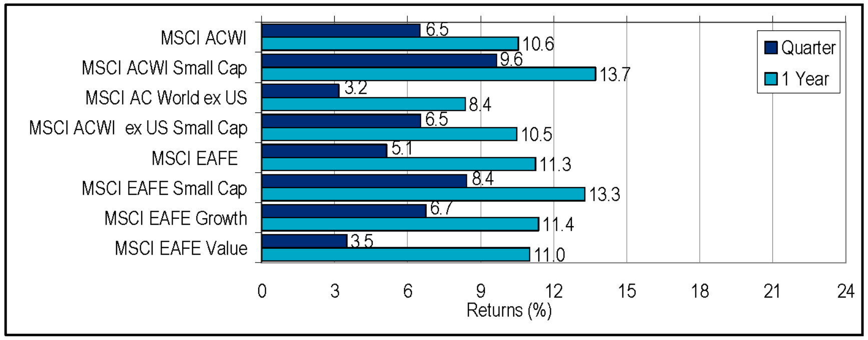

Source: S&P, Bloomberg, Mercer

- Stock valuations show a less favorable picture than a quarter ago. The P/E ratio on trailing reported earnings advanced from 16.5 to 17.7, which is slightly above the median since 1956. The reported P/E ratio continues to be supported by historically high corporate profitability; however, there are signs that profit margins are topping out. Productivity growth has waned in recent quarters and it appears US corporations have exhausted slashing labor costs as a mean of increasing profits. Corporate capital investments will need to rebound from current below trend levels to generate top-line growth, which may take a short-term toll on profits.
- While profit margins are unlikely to expand further, they could remain above average in the near term. Interest rates on corporate bonds are at historical lows. Additionally, many companies can borrow below their cost of equity, effectively allowing cheap share buybacks, which can increase earnings per share growth without aggregate profit growth.
- Cyclically-adjusted valuations, which adjust for abnormally high profit margins remain elevated. The P/E ratio based on normalized earnings stood at 21.8, which is above the historical median of 16.6 (since 1956), while the P/E based on average 10-year real earnings (Shiller's methodology) finished the quarter at 22.8, compared to a median of 18.8 (since 1956).
- While less appealing in absolute terms, equities appear attractive when viewed against bonds. Based on the normalized P/E ratio of 21.8, the S&P 500 is priced to provide a real return of 4% to 4.5%. This compares favorably to Treasury and corporate bond yields. We estimate that the equity risk premium stood at 3.5% at quarter-end, 0.5% above the historical average.

[1] 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

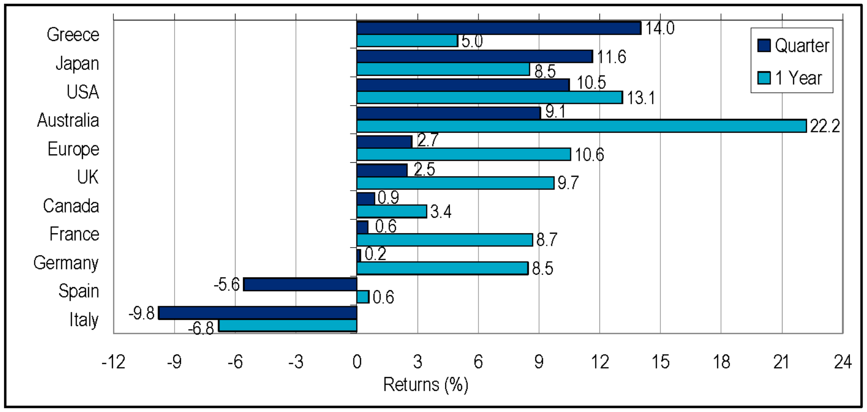
# Asset Class: International Equities – Performance Review

International Equity Performance



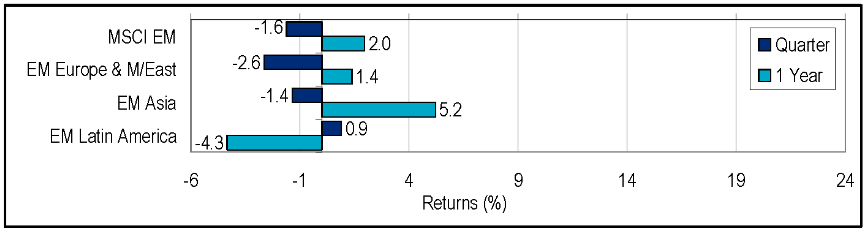

Source: MSCI, Bloomberg

Developed Country Performance




Source: MSCI, Bloomberg

Emerging Market Performance

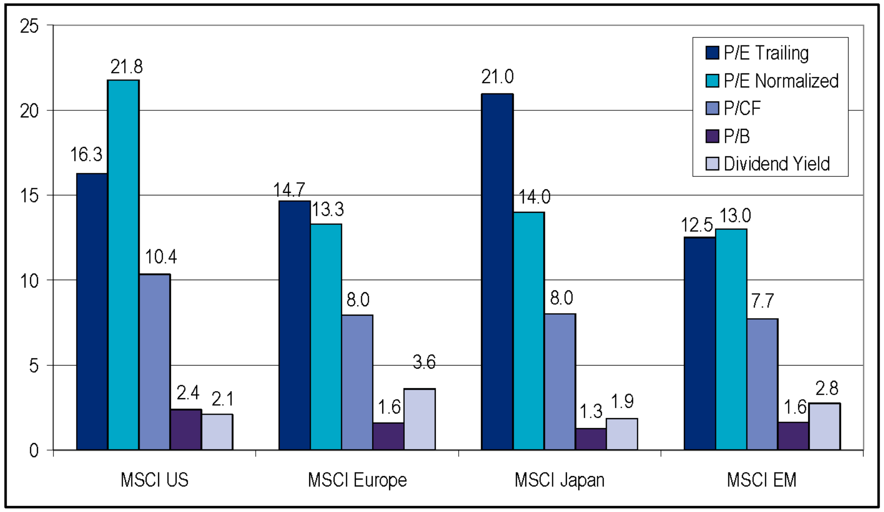



Source: MSCI, Bloomberg

- **International equities** substantially lagged US equities for the quarter. The MSCI ACWI-ex US Index returned just 3.2%, trailing the Russell 3000 by 790 basis points.
- **International developed stocks** rose 5.1% in the first quarter, lagging the S&P 500 by 550 basis points. European stocks returned 2.7% as economic concerns weighed on markets. Japanese stocks soared as the BoJ announced a massive expansion of its balance sheet to hit a 2% inflation target. Japan rose 21.4% in local currency terms as the yen declined sharply. In $US terms, Japan returned 11.6%.
- **International small cap stocks** outperformed international developed large cap stocks by 330 basis points as the MSCI EAFE Small Cap Index returned 8.4%.
- **Emerging markets** bucked the global trend and declined during the quarter. Concerns regarding their growth outlook and lower commodity prices weighed on emerging market stocks. The MSCI Emerging Markets Index fell 1.6% during the quarter. Regionally, Asian stocks shed 1.4%, with Chinese equities losing 4.5%. Eastern European markets slid 5.3%. Latin American equities rose 0.9%, although Brazil dropped 0.8%. All emerging market sectors lagged their developed market counterparts with the consumer and health care sectors experiencing the worst relative performance.

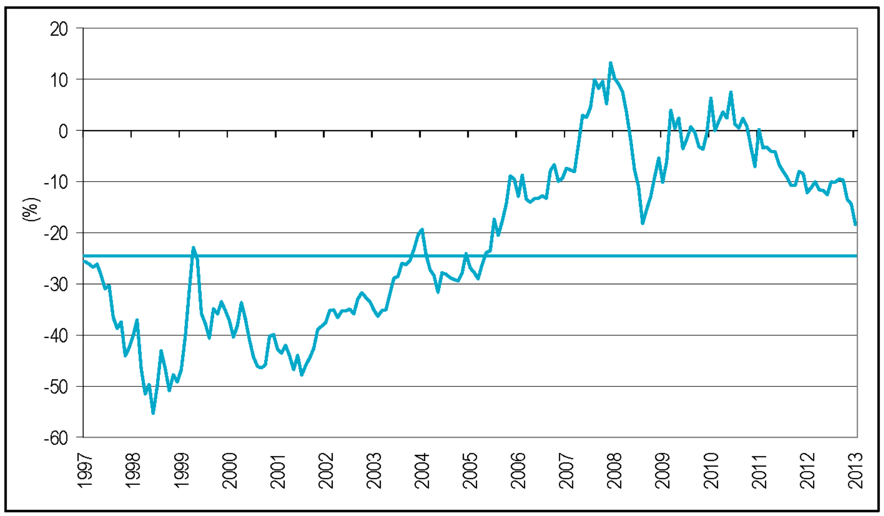
# Asset Class: International Equities – Valuation Review

**Global Valuations**




Source: MSCI, Bloomberg

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

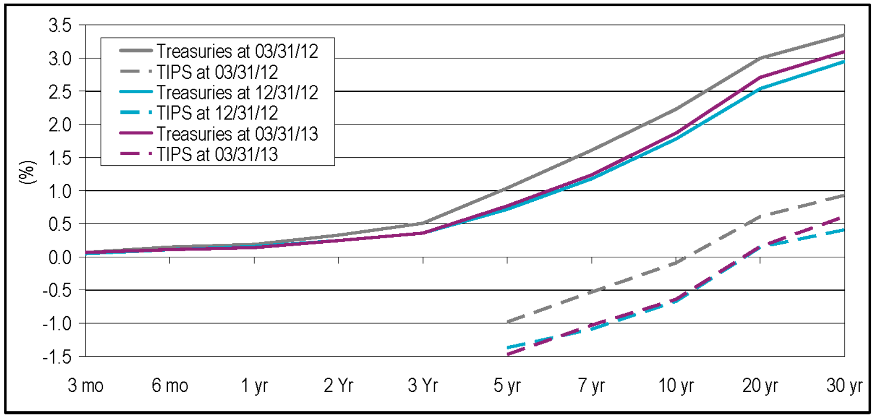



Source: MSCI, Bloomberg

- Tight credit standards and the recession have pressured profitability for European companies and earnings have fallen by 8.3% over the last 12 months. However, sales have grown by 7% over the last year. Elevated unemployment levels are likely to limit labor costs pressures, which would improve profitability. The ECB's measures have reduced financial stress. However, economic weakness is causing political tensions, which could lead to a resurgence in volatility. European equities appear to be pricing in potential risks. Based on 10-year average real earnings, Europe traded at a P/E of just 13.3, a 28% discount to their historical median and a nearly 40% discount to US stocks (13% average). Based on P/B, they traded at a 5% discount to their historical median, although based on P/CF, they traded at an 18% premium.
- The recent performance of Japanese stocks has been driven by the BoJ's policies. The decline in the yen since last fall should help improve the profitability of the export dependent corporate sector. However, the economy faces well known debt and demographic issues and it remains to be seen if the BoJ will be successful in its efforts. Assuming profitability returns to pre-2008 levels, Japan looks attractively valued at a P/E of just 14. However, based on trailing 10-year average earnings, Japan appeared expensive in absolute terms, trading at a P/E of 22, although profitability is likely to be higher going forward.
- Economic growth in emerging market countries is likely to remain robust, although below heady pre-financial crisis levels. As a result of the recent underperformance, emerging market stocks appear attractively valued in absolute and relative terms. They traded at just 7.7x cash flows, which represents a 9% discount to their historical median and a 23% discount to MSCI World. Based on our measure of normalized earnings emerging market equities traded at a P/E of only 13, which represents a 17% discount to our estimate of fair value and nearly a 40% discount to US equities.

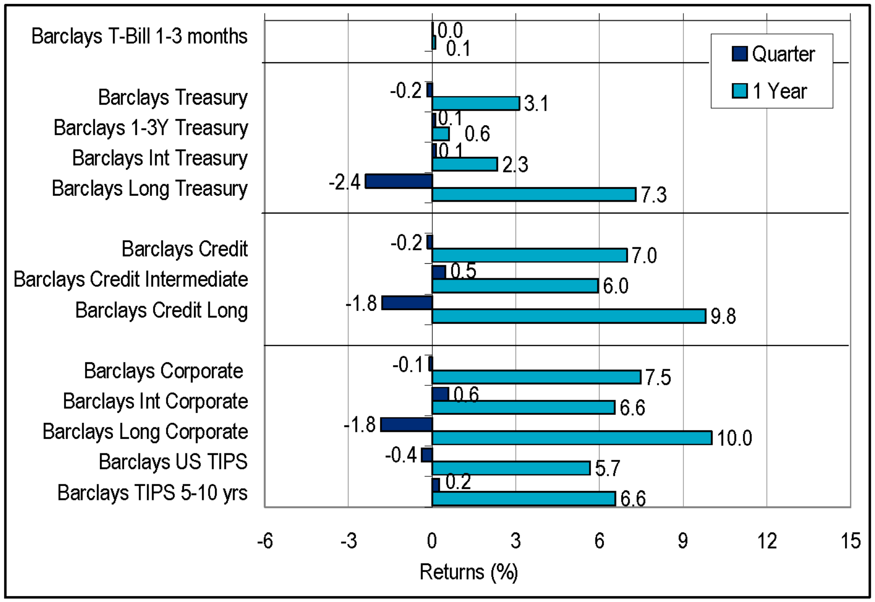
# Asset Class: Fixed Income – Interest Rates and Yield Curve

**Treasury Yield Curve**




Source: Federal Reserve

**Bond Performance by Duration**



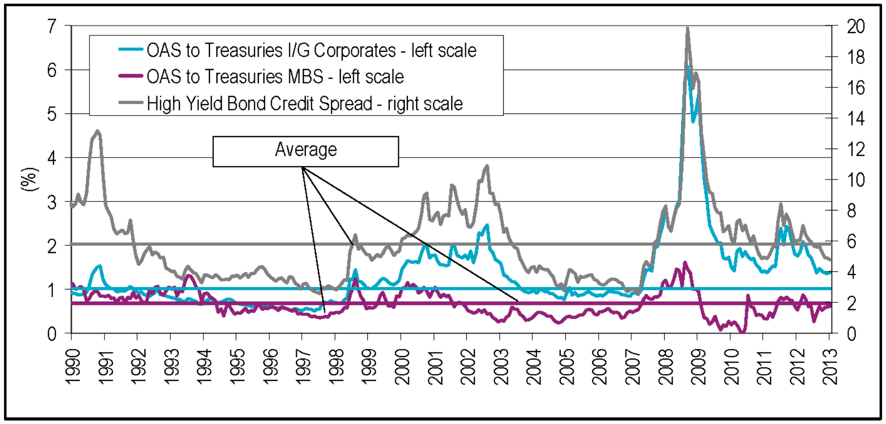

Source: Barclays, Bloomberg

- For the quarter, Treasuries experienced modest losses. The 10-year Treasury yield exceeded 2% for the first time since April of 2012. However, as the Cyprus banking system made headlines, the 10-year yield declined and finished the first quarter at 1.87%, 9 basis points higher than at the end of 2012. Five-year TIPS ended the quarter yielding -1.5% annualized, and 10-year TIPS yielded -0.6%, emphasizing that Treasury investors are all but certain to lose purchasing power parity over the intermediate-term. The inflation breakeven rate on TIPS stood at 2.5% over 10 years.
- The yield curve steepened modestly during the quarter. Fed policy successfully kept short term rates relatively unchanged; however, longer term yields, which are more heavily influenced by market factors, crept upwards. The 20-year Treasury yield increased 17 basis points in the first quarter.

- **US Bonds** declined during the quarter with the Barclays Aggregate Index falling 0.1%.
- **Long-Duration Bonds** suffered as the yield on the 30-year Treasury rose from 2.95% to 3.10%. The Barclays Long Treasury Index lost 2.4% for the quarter.
- **Corporate bonds** outperformed **Treasuries** by 10 basis points in the first quarter.
- **TIPS** fell 0.4% as the real yield on 10-year TIPS rose from -0.70% to -0.64%. TIPS underperformed Treasuries due to their longer duration.

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

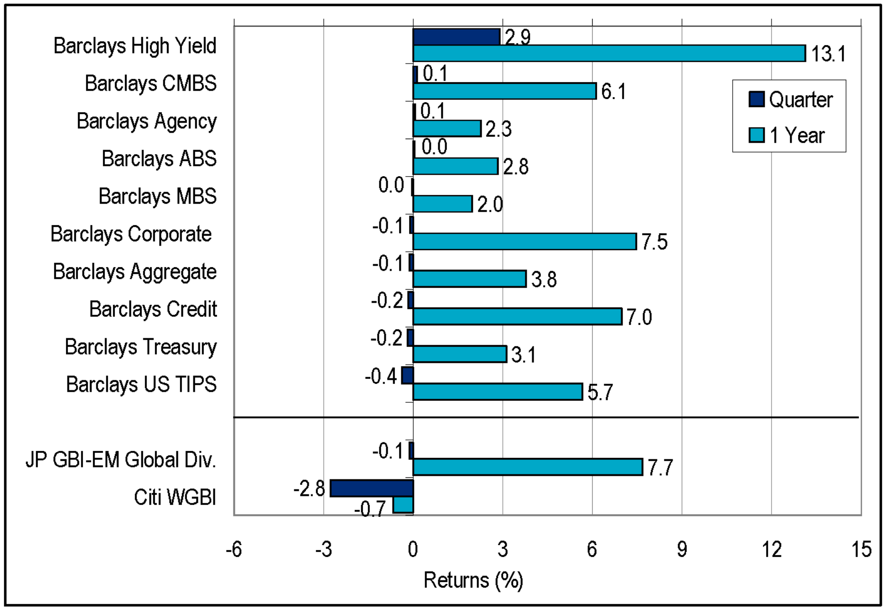
**Credit Spreads**




Source: Barclays

- Credit spreads narrowed in the first quarter as investors sought out risky assets. The yield on the Barclays I/G Corporate Index remains near a record low at 2.8%, suggesting flat to negative real returns after defaults and downgrades. The option-adjusted spread of 1.4% is above the 1% historical median. I/G corporate bonds offer reasonable value relative to Treasuries. The yield on high yield bonds declined by 47 basis points to reach a new record low of 5.7%. The option-adjusted spread dropped to 4.6%, below the historical median of 4.9%, but in line with our estimate at equilibrium.

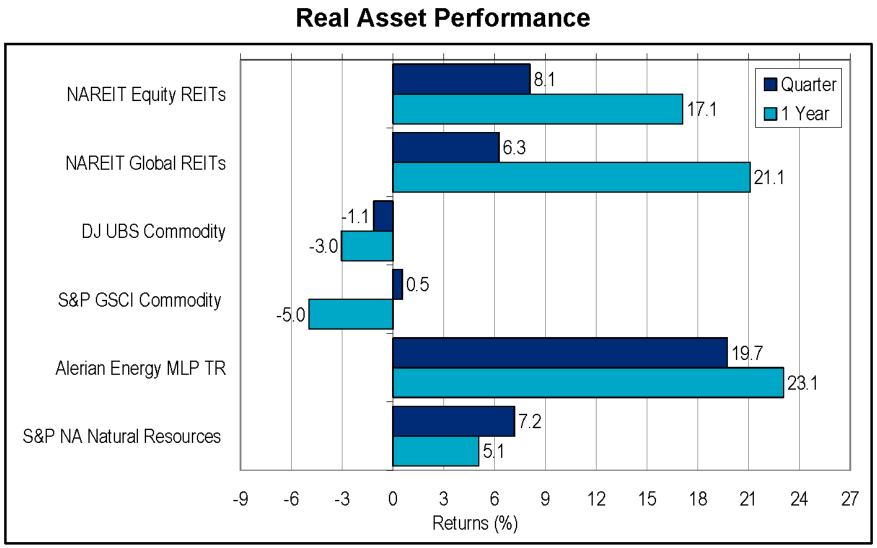
**Sector, Credit, and Global Bond Performance**




Source: Barclays, Citigroup, JP Morgan, Bloomberg

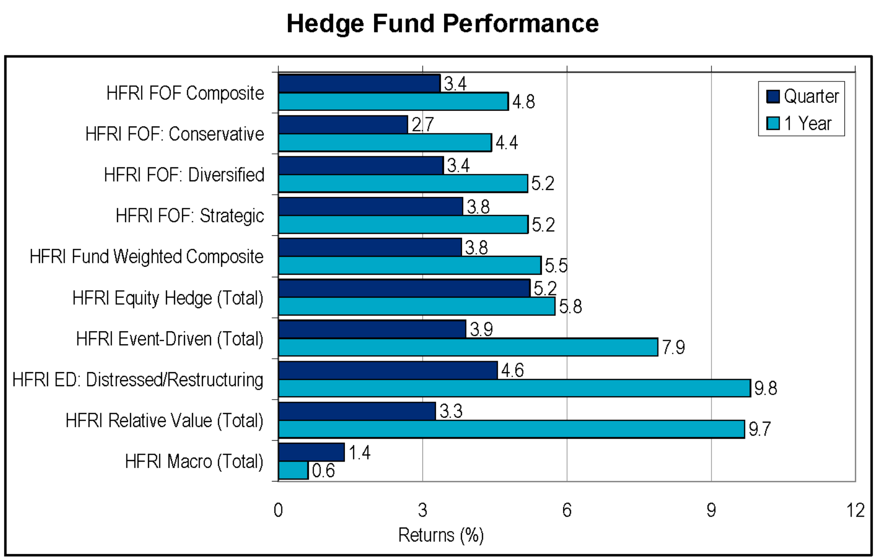
- **US Treasuries** experienced modest losses as Treasury yields rose slightly. The Barclays Treasury Index lost 0.2%, while TIPS shed 0.4%.
- **US Corporate** bonds slightly edged Treasuries, falling 0.1%.
- **US MBS, ABS, CMBS, and Agency** bonds were flat to slightly positive in the first quarter.
- **High Yield** bonds jumped 2.9% as yields declined by 47 basis points to 5.7%.
- **Global Bonds** fell as the yen and the euro declined against the dollar. The Citigroup World Government Bond Index lost 2.8%
- **Local Currency Emerging Market Debt** lost 0.1% in the first quarter. Yields increased by 12 basis points to 5.6%.

# Asset Class: Alternatives – Performance Review




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

- **Global REITs** rose 6.3% for the quarter. US REITS outperformed international REITs, rising 8.1%.
- **Commodities:** Commodity returns were relatively flat in the first quarter. Higher energy prices were offset by large declines in metals, agriculture, and livestock. The DJ Commodity Index declined 1.1% while the S&P GSCI Index, which has a larger weighting to energy, advanced 0.5%.




Source: HFR

- **Hedge funds** posted relatively decent gains for the quarter. As expected, they lagged equities, but outperformed bonds. The HFRI Fund of Funds Composite Index returned a healthy 3.4% in the first quarter.

  Macro strategies were the laggard for the quarter, while equity hedged, event driven, and distressed/restructuring strategies posted better returns, benefiting from tightening credit spreads and fairly wide sector dispersion.

# Summary – Investment Option Array

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

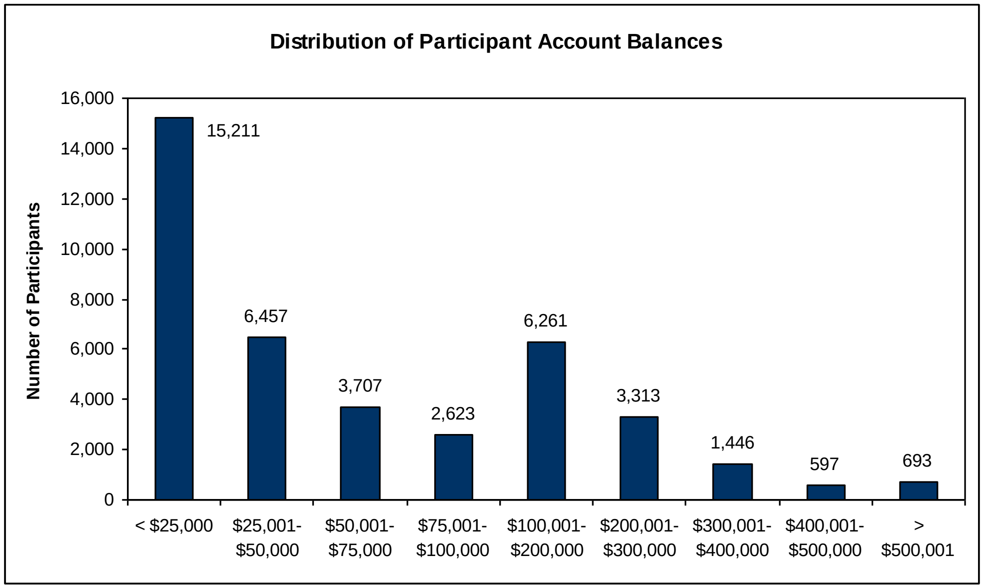
* DCP Mid-Cap Stock approved structure is 50% Mid Cap Core + 25% Mid Cap Value + 25% Mid Cap Growth upon completion of Phase II implementation
** Upon completion of Phase II new DCP International Equity Fund with approved structure of 65% International Developed + 17.5% Emerging Markets + 17.5% International 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 $3,793.4 million, increasing $214.7 million (6.0%) from $3,578.7 million at the previous quarter-end as a result of investment gains and net cash inflows. Contributions (including other deposits) for the quarter totaled $87.7 million compared to withdrawals (including fees) of $69.6 million. Investment gains totaled $196.6 million.

- As of March 31, 2013, there were 40,308 participants with ending account balances. The average account balance was $94,110, while the median account balance was $40,266. The distribution of participant balances is shown to the right; 37.7% of participants had a balance less than $25,000 and 1.7% had a balance greater than $500,000.




- The Deferred Compensation Plan (DCP) Large Cap Stock Fund held the highest percentage of Plan assets (31.8%), followed by the DCP Stable Value Fund (22.5%), FDIC-Insured Savings Account (7.8%), Schwab PCRA Self-Directed Brokerage Account (6.0%), and the DCP Bond Fund (5.5%). With the exception of the Profile funds, all other funds 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 $541.1 million (14.3%) at quarter end; this was an increase of $62.3 million from $478.8 million at the prior quarter end.

## Performance

- The Plan's investments are generally meeting performance objectives, and we are recommending no changes at this time.

- The Fidelity Diversified International Fund trailed its index by 70 basis points during the quarter. Unfavorable stock selection in the health care, financials, and information technology sectors, and an underweight allocation to Japan detracted from performance. However, the fund continues to outperform its peer universe median for the quarter and 1-year periods.

# Summary – Plan Highlights, Key Observations and Recommendations

## Key Observations and Recommendations

- On April 20, 2012, 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 is 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 phase of the new line-up configuration will be the procurement process for new managers to build out the DCP Mid-Cap, Small-Cap, and International Stock Funds.

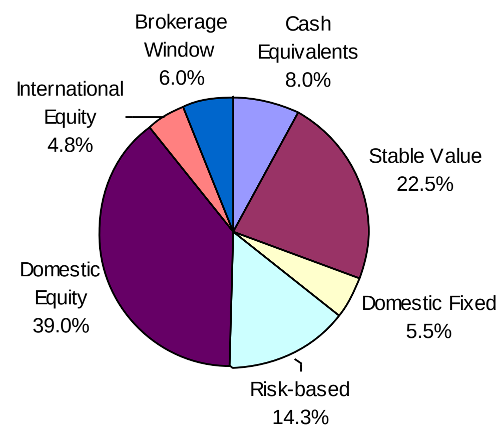
- On November 1, 2012 Bank of the West reduced its declared rate to 0.75% from 1.00%. Bank of the West, Bank of America, and City National Bank have weightings of 50%, 25%, and 25%, respectively. For the quarter ending March 31, 2013 their declared rates were as follows: Bank of America = 0.14%, Bank of the West = 0.75% and City National Bank = 0.15% yielding a 0.45% APR.

- On January 31, 2013, the Vanguard Mid-cap Index Fund (currently 100% of the DCP Mid-Cap Stock Fund) changed its benchmark from the MSCI US Mid Cap 450 Index to CRSP US Mid Cap Index.

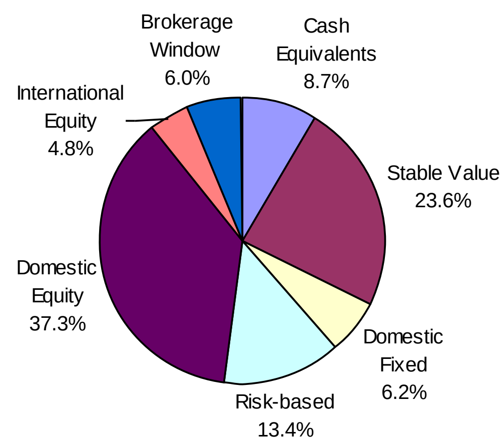
# Summary – Asset Allocation

| Investment Option | Current Balance | Prior Balance | % of Plan | % Chg vs. Prior |
|---|---|---|---|---|
| **Cash Equivalents** | **$302,818,021** | **$311,862,880** | **8.0%** | **-0.7%** |
| FDIC-Insured Savings Account | $296,880,462 | $305,937,996 | 7.8% | -0.7% |
| JPMorgan Chase Certificates of Deposit | $5,937,558 | $5,924,884 | 0.2% | 0.0% |
| **Stable Value** | **$853,616,283** | **$843,972,051** | **22.5%** | **-1.1%** |
| Deferred Compensation Stable Value Fund (Net) | $853,616,283 | $843,972,051 | 22.5% | -1.1% |
| **Domestic Fixed** | **$206,972,806** | **$221,796,739** | **5.5%** | **-0.7%** |
| DCP Bond Fund | $206,972,806 | $221,796,739 | 5.5% | -0.7% |
| **Risk-based** | **$541,089,819** | **$478,781,878** | **14.3%** | **0.9%** |
| Ultra Conservative | $38,050,340 | $35,155,868 | 1.0% | 0.0% |
| Conservative Profile | $80,229,404 | $68,440,050 | 2.1% | 0.2% |
| Moderate Profile | $195,682,815 | $174,157,130 | 5.2% | 0.3% |
| Aggressive Profile | $174,681,674 | $156,399,799 | 4.6% | 0.2% |
| Ultra Aggressive Profile | $52,445,585 | $44,629,032 | 1.4% | 0.1% |
| **Domestic Equity** | **$1,477,895,450** | **$1,334,780,236** | **39.0%** | **1.7%** |
| DCP Large Cap Stock Fund | $1,207,175,606 | $1,107,862,635 | 31.8% | 0.9% |
| DCP Mid Cap Stock Fund | $109,258,000 | $88,678,741 | 2.9% | 0.4% |
| SSgA Russell Small Cap Index Non-Lending Series Fund | $161,461,844 | $138,238,861 | 4.3% | 0.4% |
| **International Equity** | **$182,305,814** | **$172,756,851** | **4.8%** | **0.0%** |
| DWS EAFE Equity Index Fund Institutional | $35,145,884 | $33,176,947 | 0.9% | 0.0% |
| Fidelity Diversified International Fund | $147,159,931 | $139,579,904 | 3.9% | 0.0% |
| **Brokerage Window** | **$228,701,894** | **$214,734,272** | **6.0%** | **0.0%** |
| Schwab PCRA Self-Directed Brokerage Account | $228,701,894 | $214,734,272 | 6.0% | 0.0% |
| **Total Plan** | **$3,793,400,087** | **$3,578,684,906** | **100%** | |

**Current Asset Allocation - March 31, 2013**




**Prior Asset Allocation - December 31, 2012**



# Summary – Investment Expense Analysis

**Analysis reflects investment expenses only and does not include an evaluation of plan recordkeeping costs.**

| Fund | Style | Fund Balance | Estimated Fund Expense | Fund Net Expense Ratio | Median Net Expense Ratio[1] | Net Expense Diff. | Expense Reimbursement | Investment Management Fee |
|---|---|---|---|---|---|---|---|---|
| FDIC-Insured Savings Account | Cash Equivalents | $296,880,462 | N/A | N/A | N/A | N/A | N/A | N/A |
| JPMorgan Chase Certificates of Deposit | Cash Equivalents | $5,937,558 | N/A | N/A | N/A | N/A | N/A | N/A |
| Deferred Compensation Stable Value Fund (Net) | Stable Value | $853,616,283 | $2,390,126 | 0.28% | 0.48% | -0.20% | 0.00% | 0.28% |
| DCP Bond Fund | US Fixed | $206,972,806 | $538,129 | 0.26% | 0.53% | -0.27% | 0.00% | 0.26% |
| Ultra Conservative | Risk-based | $38,050,340 | $96,838 | 0.25% | 0.82% | -0.57% | 0.00% | 0.25% |
| Conservative Profile | Risk-based | $80,229,404 | $192,952 | 0.24% | 0.82% | -0.58% | 0.00% | 0.24% |
| Moderate Profile | Risk-based | $195,682,815 | $384,517 | 0.20% | 0.89% | -0.69% | 0.00% | 0.20% |
| Aggressive Profile | Risk-based | $174,681,674 | $328,402 | 0.19% | 0.94% | -0.75% | 0.00% | 0.19% |
| Ultra Aggressive Profile | Risk-based | $52,445,585 | $94,140 | 0.18% | 0.94% | -0.76% | 0.00% | 0.18% |
| DCP Large Cap Stock Fund | US Large Cap Equity | $1,207,175,606 | $241,435 | 0.02% | 0.20% | -0.18% | 0.00% | 0.02% |
| DCP Mid Cap Stock Fund | US Mid Cap Equity | $109,258,000 | $65,555 | 0.06% | 0.28% | -0.22% | 0.00% | 0.08% |
| SSgA Russell Small Cap Index Non-Lending Series Fund | US Small Cap Equity | $161,461,844 | $96,877 | 0.06% | 0.30% | -0.24% | 0.00% | 0.06% |
| DWS EAFE Equity Index Fund Institutional | International Equity | $35,145,884 | $175,729 | 0.50% | 0.40% | 0.10% | 0.00% | 0.50% |
| Fidelity Diversified International Fund | International Equity | $147,159,931 | $1,486,315 | 1.01% | 1.04% | -0.03% | 0.25% | 0.76% |
| Schwab PCRA Self-Directed Brokerage Account | Brokerage Window | $228,701,894 | N/A | N/A | N/A | N/A | N/A | N/A |
| **Total** | | **$3,793,400,087** | **$6,091,015** | **0.19%[2]** | | | **0.01%** | **0.18%[2]** |
| **Total with Fixed Per Participant Fee** | | **$3,793,400,087** | **$8,446,878** | **0.26%[3]** | | | | |

[1] 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.
[2] Total excludes assets in the FDIC-Insured Savings Account, JPMorgan Chase Certificates of Deposit, and Schwab Self-Directed Brokerage Account.
[3] Total estimated annual asset-based fee is $2,355,864, reflecting a quarterly per participant fee of 0.025% on the first $125,000 of balance. The number of participants with less than a $125k balance during the quarter was 30,042, and total assets for this group amounted to $1,072,613,564. There were 10,266 participants with balances in excess of $125k with an aggregate balance of $1,283,250,000. The total participant count is 40,308.

# Summary – Compliance with Investment Policy Performance Standards

**Periods ending March 31, 2013**

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

| **I – Index**<br>**U – Universe Median** | **3 Years** | | | | **5 Years** | | | | **Comments** |
|---|---|---|---|---|---|---|---|---|---|
| | **I** | **U** | **I** | **U** | **I** | **U** | **I** | **U** | |
| 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. |
| Ultra Conservative Profile | ✓ | N/A | ✓ | N/A | ✓ | N/A | N/A | N/A | No changes to allocations. |
| Conservative Profile | ✓ | N/A | ✓ | N/A | ✓ | N/A | ✓ | N/A | No changes to allocations. |
| Moderate Profile | T | N/A | T | N/A | T | N/A | T | N/A | No changes to allocations. |
| Aggressive Profile | T | N/A | T | N/A | T | N/A | T | N/A | No changes to allocations. |
| Ultra Aggressive Profile | T | N/A | T | N/A | T | N/A | N/A | N/A | No changes to allocations. |
| DCP Large Cap Stock Fund | T | N/A | T | N/A | T | N/A | T | N/A | Retain. |
| DCP Mid Cap Stock Fund | T | N/A | T | N/A | T | N/A | T | N/A | Retain. |
| SSgA Russell Small Cap Index Non-Lending Series Fund | T | N/A | T | N/A | T | N/A | T | N/A | Retain. |
| 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 | ✓ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | Fund under-performing but this investment category will be addressed once investment procurements and restructuring are completed. |

# Summary – Performance

## Periods ending March 31, 2013

| | % of Plan | 3 Months | 1 Year | 3 Years | 5 Years | Recommendation |
|---|---|---|---|---|---|---|
| **Cash Equivalents** | | | | | | |
| **FDIC-Insured Savings Account (Blended Rate – 0.45%)[1]** | **7.8%** | **0.1%** | **0.4%** | **0.4%** | **NA** | **Retention** |
| **JPMorgan Chase Certificates of Deposit** | **0.2%** | **NA** | **NA** | **NA** | **NA** | **Retention** |
| **Stable Value** | | | | | | |
| **Deferred Compensation Stable Value Fund (Net)[2]** | **22.5%** | **0.6%** | **2.7%** | **3.2%** | **3.6%** | **Retention** |
| 3 Yr Constant Maturity Treasury +50bps | | 0.2% | 0.9% | 1.2% | 1.6% | |
| iMoneyNet All Taxable+100bps | | 0.3% | 1.0% | 1.0% | 1.3% | |
| *Mercer Stable Value Universe Median* | | *0.5%* | *2.2%* | *3.0%* | *3.4%* | |
| *Fund Rank in Universe* | | *13* | *14* | *37* | *33* | |
| **Domestic Fixed** | | | | | | |
| **DCP Bond Fund[3]** | **5.5%** | **0.3%** | **5.9%** | **6.2%** | **6.6%** | **Retention** |
| Barclays US Aggregate | | -0.1% | 3.8% | 5.5% | 5.5% | |
| *Mercer MF US Fixed Core Universe Median* | | *0.3%* | *5.2%* | *6.0%* | *5.7%* | |
| *Fund Rank in Universe* | | *52* | *40* | *40* | *31* | |
| **Vanguard Total Bond Market Index Fund Inst Plus[4]** | | **-0.1%** | **3.8%** | **5.5%** | **5.5%** | **Retention** |
| Barclays US Aggregate | | -0.1% | 3.8% | 5.5% | 5.5% | |
| **PIMCO Total Return Fund Institutional** | | **0.6%** | **7.9%** | **6.9%** | **7.8%** | **Retention** |
| Barclays US Aggregate | | -0.1% | 3.8% | 5.5% | 5.5% | |
| *Mercer MF US Fixed Core Universe Median* | | *0.3%* | *5.2%* | *6.0%* | *5.7%* | |
| *Fund Rank in Universe* | | *24* | *17* | *26* | *12* | |
| **Risk-based[5]** | | | | | | |
| **Ultra Conservative** | **1.0%** | **1.7%** | **6.0%** | **5.9%** | **5.2%** | **No changes to allocations** |
| Ultra Conservative Profile Custom Index[6] | | 1.4% | 4.3% | 4.9% | 4.3% | |

[1] The blended rate is as of 3/31/2013. 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 America = 0.14%, Bank of the West = 0.75% and City National Bank = 0.15%. On November 1, 2012 Bank of the West reduced the declared rate to 0.75% from 1.00%.
[2] 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.
[3] Performance prior to April 2012 is simulated, with a weighting of 50% PIMCO Total Return Fund and 50% Vanguard Total Bond Market Index Fund.
[4] Returns shown are comprised of the Institutional share class prior to February 5, 2010 and the Institutional Plus share class thereafter.
[5] Allocation to the profile funds changed June 1, 2009 with the inclusion of a US mid cap equity component.
[6] 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 | 1 Year | 3 Years | 5 Years | Recommendation |
|---|---|---|---|---|---|---|
| **Conservative Profile** | **2.1%** | **3.3%** | **8.1%** | **7.4%** | **5.5%** | **No changes to allocations** |
| Conservative Profile Custom Index[7] | | 3.2% | 6.9% | 6.9% | 5.0% | |
| **Moderate Profile** | **5.2%** | **5.9%** | **10.4%** | **9.1%** | **5.7%** | **No changes to allocations** |
| Moderate Profile Custom Index[8] | | 5.9% | 9.8% | 8.9% | 5.4% | |
| **Aggressive Profile** | **4.6%** | **7.3%** | **11.8%** | **9.9%** | **5.2%** | **No changes to allocations** |
| Aggressive Profile Custom Index[9] | | 7.5% | 11.5% | 9.8% | 5.1% | |
| **Ultra Aggressive Profile** | **1.4%** | **8.7%** | **13.2%** | **10.7%** | **4.5%** | **No changes to allocations** |
| Ultra Aggressive Profile Custom Index[10] | | 9.0% | 13.3% | 10.7% | 4.6% | |
| **Domestic Equity** | | | | | | |
| **DCP Large Cap Stock Fund[11]** | **31.8%** | **10.6%** | **14.0%** | **12.7%** | **5.9%** | **Retention** |
| S&P 500 | | 10.6% | 14.0% | 12.7% | 5.8% | |
| **DCP Mid Cap Stock Fund[12]** | **2.9%** | **12.9%** | **15.5%** | **14.1%** | **8.1%** | **Retention** |
| Vanguard Spliced Mid Cap Index | | 12.8% | 15.5% | 14.1% | 8.1% | |
| **SSgA Russell Small Cap Index Non-Lending Series Fund** | **4.3%** | **12.3%** | **16.2%** | **13.4%** | **8.1%** | **Retention** |
| Russell 2000 | | 12.4% | 16.3% | 13.5% | 8.2% | |
| **International Equity** | | | | | | |
| **DWS EAFE Equity Index Fund Institutional** | **0.9%** | **4.2%** | **10.7%** | **4.8%** | **-1.0%** | **Retention; Fund will be eliminated upon completion of investment menu consolidation** |
| MSCI EAFE NET WHT | | 5.1% | 11.3% | 5.0% | -0.9% | |
| **Fidelity Diversified International Fund** | **3.9%** | **4.4%** | **10.7%** | **5.4%** | **-1.2%** | **Investment category will be addressed once investment procurements and restructuring are completed.** |
| MSCI EAFE NET WHT | | 5.1% | 11.3% | 5.0% | -0.9% | |
| *Mercer MF Intl Equity Universe Median* | | *4.0%* | *9.6%* | *5.5%* | *-0.2%* | |
| *Fund Rank in Universe* | | *40* | *39* | *51* | *65* | |

[7] 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.

[8] 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.

[9] 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.

[10] 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.

[11] The fund is 100% allocated to the Vanguard Institutional Index Fund Inst Pl. Performance is shown and will be updated accordingly with the addition of underlying funds.

[12] The fund is 100% allocated to the Vanguard Mid Cap Index Fund Instl. Performance is shown and will be updated accordingly with the addition of underlying funds. For the Composite Index, the S&P MidCap 400 Index used through May 16, 2003; MSCI US Mid Cap 450 Index through January 31, 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 March 31, 2013

| | 3 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|
| **DCP Stable Value Index** (100% 3-Yr CMT + 50bps) | **0.2%** | **0.9%** | **1.2%** | **1.6%** |
| **DCP Bond Fund Index** (100% BC Aggregate Bond Index) | **-0.1%** | **3.8%** | **5.5%** | **5.5%** |
| **DCP Large-Cap Stock Fund Index** (100% S&P 500 Index) | **10.6%** | **14.0%** | **12.7%** | **5.8%** |
| **DCP Mid-Cap Stock Fund Composite Index** | **12.9%** | **17.2%** | **14.6%** | **8.4%** |
| *Russell Midcap Index (50%)* | *13.0%* | *17.3%* | *14.6%* | *8.4%* |
| *Russell Midcap Value Index (25%)* | *14.2%* | *21.5%* | *15.0%* | *8.5%* |
| *Russell Midcap Growth Index (25%)* | *11.5%* | *12.8%* | *14.2%* | *8.0%* |
| **DCP Small-Cap Stock Fund Composite Index** | **12.4%** | **16.3%** | **13.4%** | **8.3%** |
| *Russell 2000 Index (34%)* | *12.4%* | *16.3%* | *13.5%* | *8.2%* |
| *Russell 2000 Value Index (33%)* | *11.6%* | *18.1%* | *12.1%* | *7.3%* |
| *Russell 2000 Growth Index (33%)* | *13.2%* | *14.5%* | *14.7%* | *9.0%* |
| **DCP International Fund Composite Index** | **4.5%** | **10.0%** | **5.3%** | **0.1%** |
| *MSCI EAFE Index (65%)* | *5.1%* | *11.3%* | *5.0%* | *-0.9%* |
| *MSCI EM Index (17.5%)* | *-1.6%* | *2.0%* | *3.3%* | *1.1%* |
| *MSCI EAFE Small Cap Index (17.5%)* | *8.4%* | *13.3%* | *8.4%* | *2.1%* |

# Fund Profile

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

**Share Class: Separate Account**

**Benchmark: 3 Yr Constant Maturity Treasury Index + 50 bps**

### Investment Philosophy

Galliard seeks safety of principal and consistency of returns, with minimal volatility while maintaining a stable crediting rate. The fund is 100% 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.

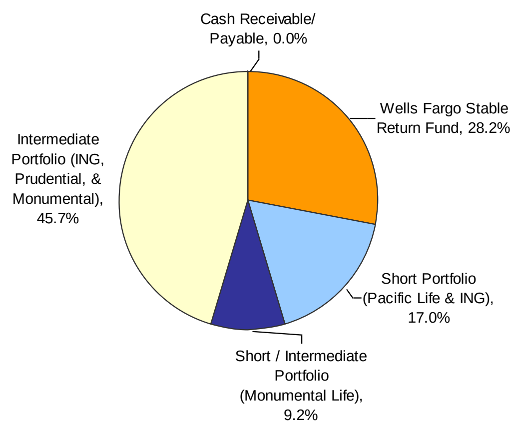
### Fund Characteristics

| | 1Q13 | 4Q12 | 3Q12 | 2Q12 |
|---|---|---|---|---|
| **Mkt/Book Value Ratio** | 103.5% | 103.9% | 104.4% | 104.0% |
| **Avg. Credit Quality** | A1/AA- | A1/AA- | A1/A+ | A1/A+ |
| **Effective Duration (yrs)** | 2.77 | 2.62 | 2.47 | 2.62 |
| **Crediting Rate** | 2.6% | 2.7% | 2.9% | 3.0% |

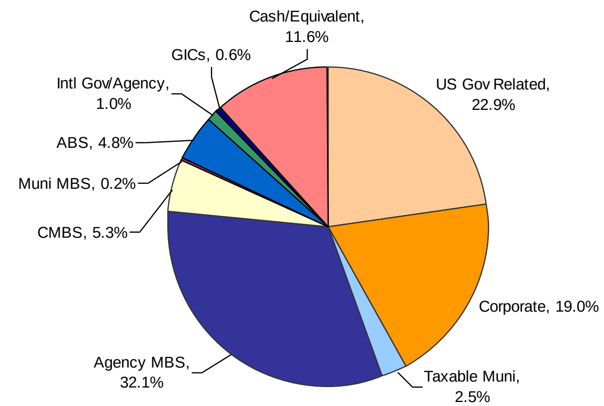
### Fund Observations

- The Fund had net inflows of $15.3 million during the quarter, representing an increase of 1.7% in total stable value assets
- Number of contract issuers: 4
- Credit quality remains strong with 79.0% of fixed income in AAA rated securities and 0.1% in BBB rated or below
- Duration distribution ranged between 2.0 – 3.5 years

### **Fund Composition** as of March 31, 2013




### **Underlying Fixed Income Asset Allocation** as of March 31, 2013 (% of MV)




### Key Facts and Figures

Portfolio Manager: Galliard Capital Management

Inception (in Plan): July 2008

Expense Ratio (Net): 0.28% (0.06% Investment Management Fees / 0.028% Sub-Advisor Fee / 0.138% Wrap Fee / 0.054% Other Fees)

Mercer Median Expense Ratio (Net): 0.48%

# Fund Profile

## Domestic Fixed - DCP Bond Fund

| Share Class: N/A | Benchmark: Barclays US Aggregate |
|---|---|

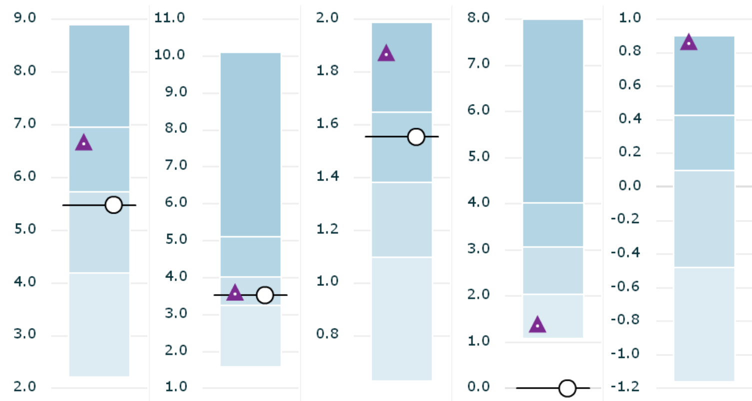
### Investment Philosophy

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 March 31, 2013

Performance characteristics vs. Barclays US Aggregate in $US (after fees) over 5 yrs ending March-13 (monthly calculations)

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

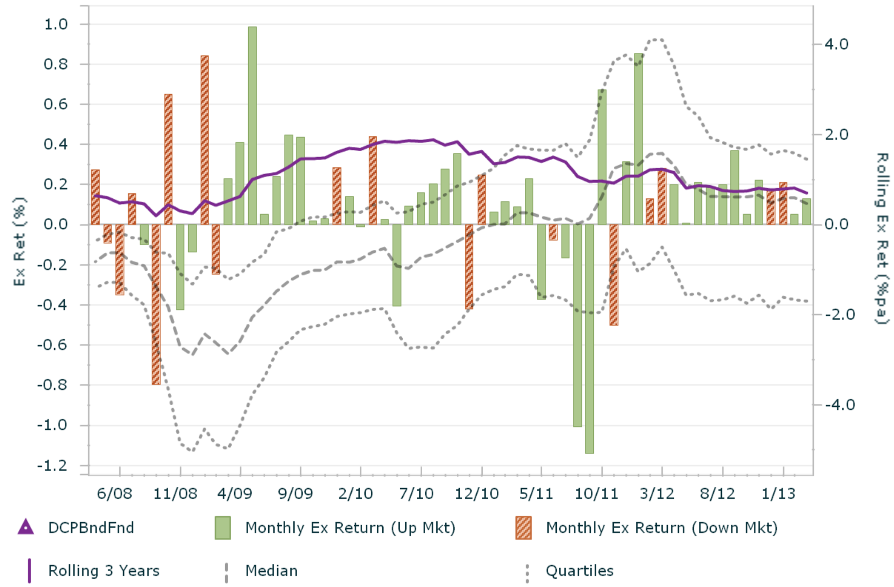


| | Ret (%pa) | Std Dev (%pa) | Ret/SD | TE (%pa) | IR |
|---|---|---|---|---|---|
| DCPBndFnd | 6.6(31) | 3.6(66) | 1.9(9) | 1.4(90) | 0.9(5) |
| BCUSAG | 5.5(57) | 3.5(67) | 1.6(34) | 0.0(100) | - |
| 5th Percentile | 8.9 | 10.1 | 2.0 | 8.0 | 0.9 |
| Upper Quartile | 6.9 | 5.1 | 1.6 | 4.0 | 0.4 |
| Median | 5.7 | 4.0 | 1.4 | 3.1 | 0.1 |
| Lower Quartile | 4.2 | 3.3 | 1.1 | 2.0 | -0.5 |
| 95th Percentile | 2.2 | 1.6 | 0.6 | 1.1 | -1.2 |
| Number | 327 | 327 | 327 | 327 | 327 |

### Excess Return*

Monthly Excess Return vs. Barclays US Aggregate with rolling 3 yr line in $US (after fees) over 5 yrs ending March-13

Comparison with the Mutual Fund US Fixed Core universe




### Key Facts and Figures

Expense Ratio (Net): 0.26%

Mercer Median Expense Ratio (Net): 0.53%

* 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

| **Share Class: Institutional Plus** | **Benchmark: Barclays US Aggregate** |
|---|---|

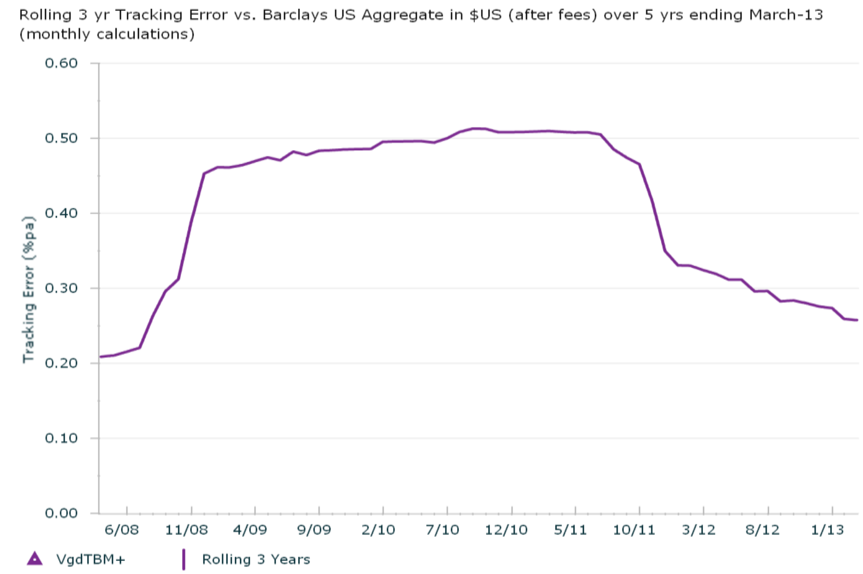
### Investment Philosophy

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. The target index for Vanguard Total Bond Market Index Fund, the Spliced Barclays US Aggregate Float Adjusted Bond Index, provides extensive coverage of the major sectors of the debt market. 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.

### Sector Allocation as of March 31, 2013

| Sector | Vanguard Total Bond Market Index Fund | Barclays US Aggregate Index |
|---|---|---|
| US Treasury/Agency | 44.1% | 41.2% |
| Mortgages | 24.2% | 29.3% |
| Industrials | 12.6% | 12.1% |
| Financials | 7.8% | 7.3% |
| Non-Corporates | 5.7% | 5.5% |
| Utilities | 2.6% | 2.4% |
| CMBS | 2.0% | 1.8% |
| Other | 0.7% | 0.0% |
| ABS | 0.3% | 0.4% |

### Tracking Error




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): Kenneth E. Volpert (1992) and Gregory Davis (2008) | Total Fund Assets: $116,380 Million<br>Total Share Class Assets: $17,581 Million | Expense Ratio (Net): 0.05%<br>Mercer Median Expense Ratio (Net): 0.20% |

# Fund Profile

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

| **Share Class: Institutional** | **Benchmark: Barclays US Aggregate** |
|---|---|

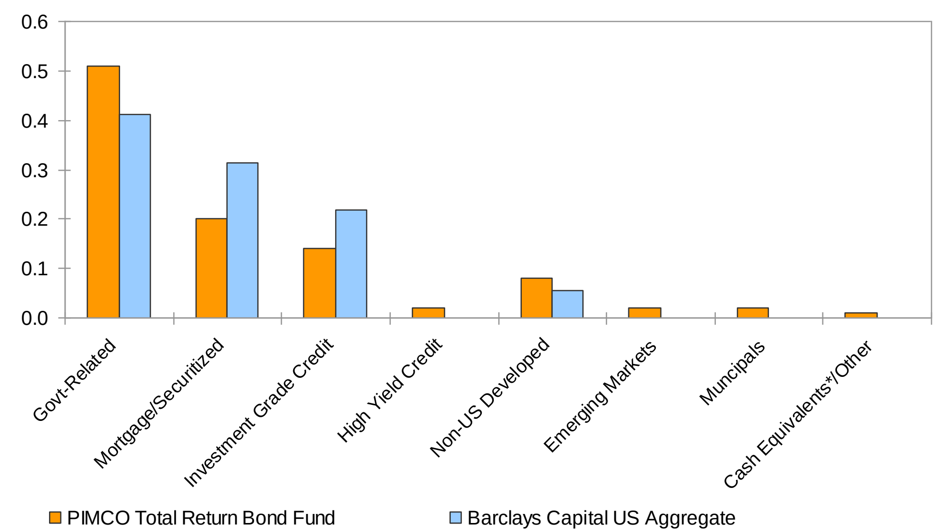
### Investment Philosophy

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.

### **Fund Characteristics** as of March 31, 2013

- Effective Duration: 4.7 years
- Effective Maturity: 6.7 years
- SEC 30-Day Annual Yield: 2.0%
- Distribution Yield: 2.9%
- Average Coupon: 3.4%
- Net Currency Exposure: 0.7%

### **Sector Allocation (Duration Weighted)** as of March 31, 2013




### Key Facts and Figures

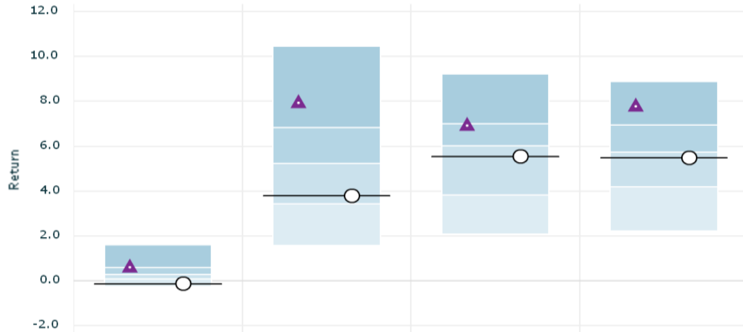
| | | |
|---|---|---|
| Portfolio Manager (Advised Since): William H. Gross (1987) | Total Fund Assets: $289,086 Million<br>Total Share Class Assets: $178,501 Million | Expense Ratio (Net): 0.46%<br>Mercer Median Expense Ratio (Net): 0.53% |

# Fund Profile

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

Return in $US (after fees) over 3 mths, 1 yr, 3 yrs, 5 yrs ending March-13

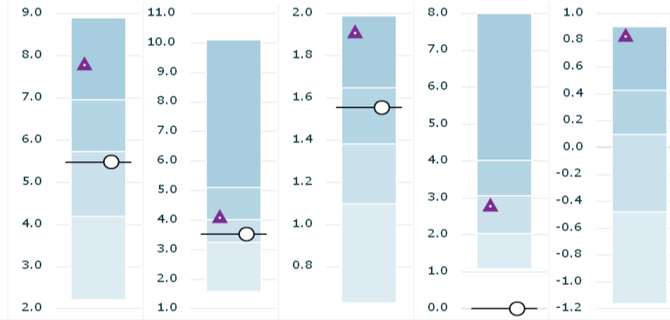
Comparison with the Mutual Fund US Fixed Core universe (Percentile Ranking)




| | 3 mths (%) | 1 yr (%) | 3 yrs (%pa) | 5 yrs (%pa) |
|---|---|---|---|---|
| PimcoTR | 0.6*(24)* | 7.9*(17)* | 6.9*(26)* | 7.8*(12)* |
| BCUSAG | -0.1*(90)* | 3.8*(69)* | 5.5*(58)* | 5.5*(57)* |
| 5th Percentile | 1.6 | 10.5 | 9.2 | 8.9 |
| Upper Quartile | 0.6 | 6.8 | 7.0 | 6.9 |
| Median | 0.3 | 5.2 | 6.0 | 5.7 |
| Lower Quartile | 0.1 | 3.4 | 3.8 | 4.2 |
| 95th Percentile | -0.3 | 1.6 | 2.1 | 2.2 |
| Number | 399 | 385 | 349 | 327 |

Performance characteristics vs. Barclays US Aggregate in $US (after fees) over 5 yrs ending March-13 (monthly calculations)

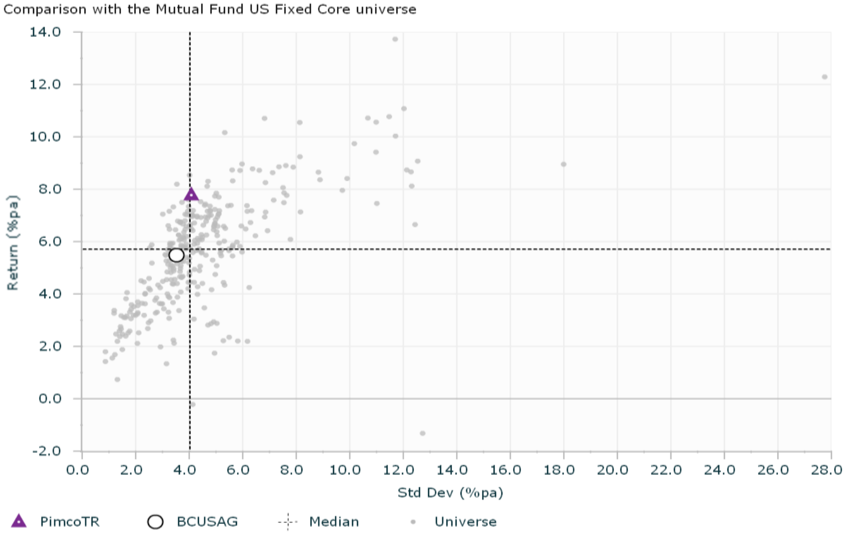
Comparison with the Mutual Fund US Fixed Core universe (Percentile Ranking)



| | Ret (%pa) | Std Dev (%pa) | Ret/SD | TE (%pa) | IR |
|---|---|---|---|---|---|
| PimcoTR | 7.8*(12)* | 4.1*(48)* | 1.9*(8)* | 2.8*(60)* | 0.8*(6)* |
| BCUSAG | 5.5*(57)* | 3.5*(67)* | 1.6*(34)* | 0.0*(100)* | - |
| 5th Percentile | 8.9 | 10.1 | 2.0 | 8.0 | 0.9 |
| Upper Quartile | 6.9 | 5.1 | 1.6 | 4.0 | 0.4 |
| Median | 5.7 | 4.0 | 1.4 | 3.1 | 0.1 |
| Lower Quartile | 4.2 | 3.3 | 1.1 | 2.0 | -0.5 |
| 95th Percentile | 2.2 | 1.6 | 0.6 | 1.1 | -1.2 |
| Number | 327 | 327 | 327 | 327 | 327 |

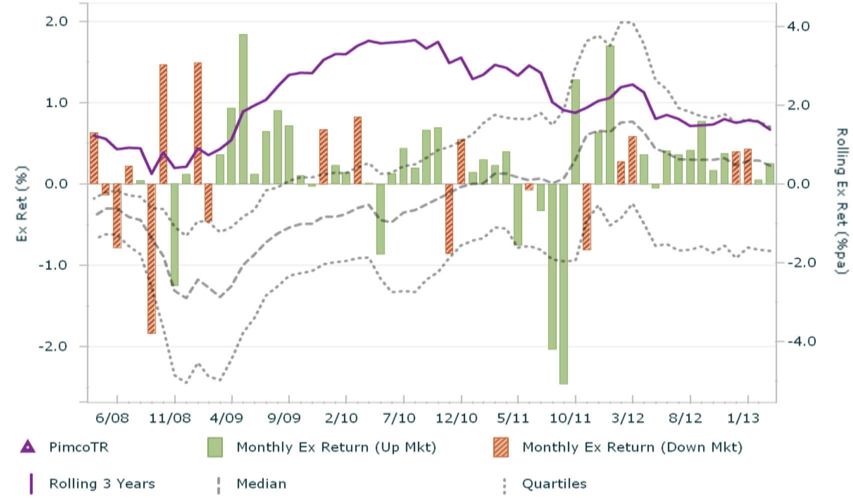
Return and Std Deviation in $US (after fees) over 5 yrs ending March-13 (monthly calculations)

Comparison with the Mutual Fund US Fixed Core universe




Monthly Excess Return vs. Barclays US Aggregate with rolling 3 yr line in $US (after fees) over 5 yrs ending March-13

Comparison with the Mutual Fund US Fixed Core universe



# Risk-based Profile Funds

## Profile Funds – Target Allocations

| | *1Q 2013 Fund Return (%)* | *1Q 2013 Benchmark Return (%)* | *Excess Return (%)* | *Ultra Conservative Profile* | *Conservative Profile* | *Moderate Profile* | *Aggressive Profile* | *Ultra Aggressive Profile* |
|---|---|---|---|---|---|---|---|---|
| **Stable Value** | | | | | | | | |
| DCP Stable Value | 0.6% | 0.2% | 0.4% | 35.0% | 15.0% | 10.0% | 5.0% | 0.0% |
| **Total Stable Value** | | | | **35.0%** | **15.0%** | **10.0%** | **5.0%** | **0.0%** |
| **US Fixed Income** | | | | | | | | |
| DCP Bond Fund[1] | 0.3% | -0.1% | 0.2% | 50.0% | 50.0% | 30.0% | 20.0% | 10.0% |
| **Total US Fixed Income** | | | | **50.0%** | **50.0%** | **30.0%** | **20.0%** | **10.0%** |
| **US Equity** | | | | | | | | |
| ***Total US Large Cap Equity*** | | | | ***5.0%*** | ***12.5%*** | ***25.0%*** | ***25.0%*** | ***25.0%*** |
| DCP Large Cap Stock Fund[2] | 10.6% | 10.6% | 0.0% | 5.0% | 12.5% | 25.0% | 25.0% | 25.0% |
| ***Total US Mid/Small Cap Equity*** | | | | ***5.0%*** | ***10.0%*** | ***20.0%*** | ***30.0%*** | ***40.0%*** |
| DCP Mid Cap Stock Fund[3] | 12.9% | 12.8% | 0.1% | 2.5% | 5.0% | 10.0% | 15.0% | 20.0% |
| SSgA Russell Sm Cap NL Series S | 12.3% | 12.4% | -0.1% | 2.5% | 5.0% | 10.0% | 15.0% | 20.0% |
| **Total US Equity** | | | | **10.0%** | **22.5%** | **45.0%** | **55.0%** | **65.0%** |
| **Non-US Equity** | | | | | | | | |
| DWS EAFE Equity Index Fund Instl | 4.2% | 5.1% | -0.9% | 5.0% | 12.5% | 15.0% | 20.0% | 25.0% |
| **Total Non-US Equity** | | | | **5.0%** | **12.5%** | **15.0%** | **20.0%** | **25.0%** |
| **Total** | | | | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |

[1] Composed of 50% PIMCO Total Return Fund / 50% Vanguard Total Bond Market Index Fund
[2] Composed of 100% Vanguard Institutional Index Fund
[3] 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)

**Share Class: Institutional Plus** | **Benchmark: S&P 500**

### Investment Philosophy

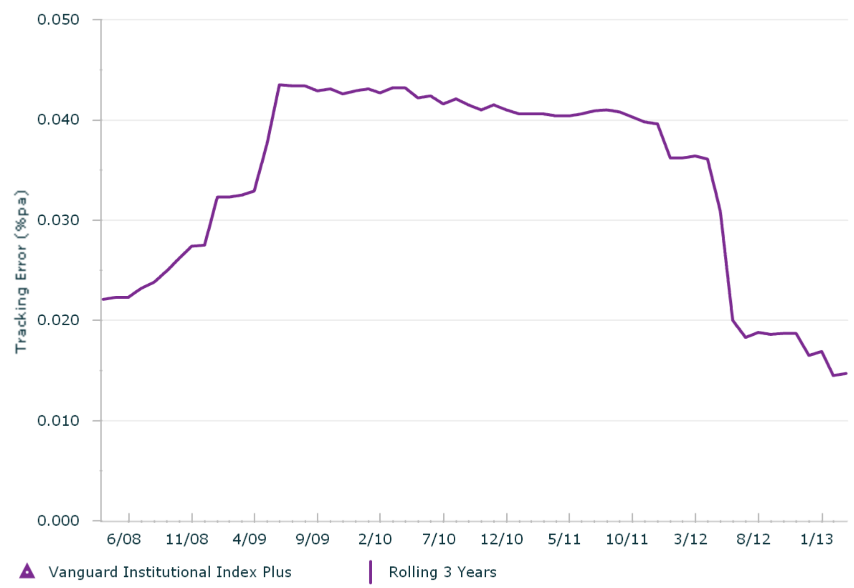
The DCP Large Cap Stock Fund is 100% allocated to the Vanguard Institutional Index Fund which seeks to track the investment performance of the Standard & Poors 500 Index, an unmanaged benchmark representing U.S. large-capitalization stocks. Using full replication, the portfolio holds all stocks in the 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. Vanguards refined indexing process, combined with low management fees and efficient trading, has provided tight tracking net of expenses.

### Sector Allocation as of March 31, 2013

| Sector | Vanguard Institutional Index Fund | S&P 500 Index |
|---|---|---|
| Info Tech | 18.0% | 18.0% |
| Financials | 15.9% | 15.9% |
| Health Care | 12.5% | 12.5% |
| Consumer Disc | 11.7% | 11.6% |
| Consumer Staples | 11.0% | 11.0% |
| Energy | 10.9% | 10.9% |
| Industrials | 10.1% | 10.1% |
| Utilities | 3.5% | 3.5% |
| Materials | 3.4% | 3.4% |
| Telecom | 3.0% | 3.0% |

### Tracking Error

Rolling 3 yr Tracking Error vs. S&P 500 in $US (after fees) over 5 yrs ending March-13 (monthly calculations)




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): Donald M. Butler (2000) | Total Fund Assets: $131,934 Million<br>Total Share Class Assets: $56,766 Million | Expense Ratio (Net): 0.02%<br>Mercer Median Expense Ratio (Net): 0.20% |

# Fund Profile

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

**Share Class: Institutional Plus** | **Benchmark: Vanguard Spliced Mid Cap Index**[1]

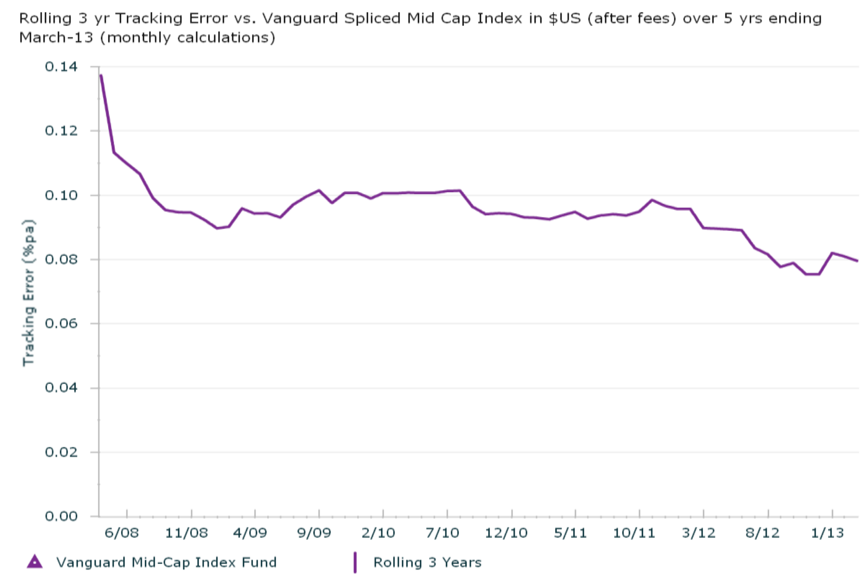
### Investment Philosophy

The DCP Mid Cap Stock Fund is 100% allocated to the Vanguard Mid-Cap Index Fund which 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, 2013

| Sector | Vanguard Mid-Cap Index Fund | CRSP US Mid Cap Index |
|---|---|---|
| Consumer Disc | 18.9% | 18.8% |
| Financials | 16.6% | 16.8% |
| Info Tech | 14.7% | 14.7% |
| Industrials | 12.9% | 12.9% |
| Health Care | 10.5% | 10.5% |
| Energy | 6.8% | 6.8% |
| Consumer Staples | 6.6% | 6.6% |
| Utilities | 6.3% | 6.2% |
| Materials | 5.6% | 5.6% |
| Telecom | 1.1% | 1.1% |

### Tracking Error[2]




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): Donald M. Butler (1998) | Total Fund Assets: $37,296 Million<br>Total Share Class Assets: $6,800 Million | Expense Ratio (Net): 0.06%<br>Mercer Median Expense Ratio (Net): 0.28% |

[1] 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
[2] The chart displayed represents the Institutional share class performance

# Fund Profile

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

**Share Class: S** | **Benchmark: Russell 2000**

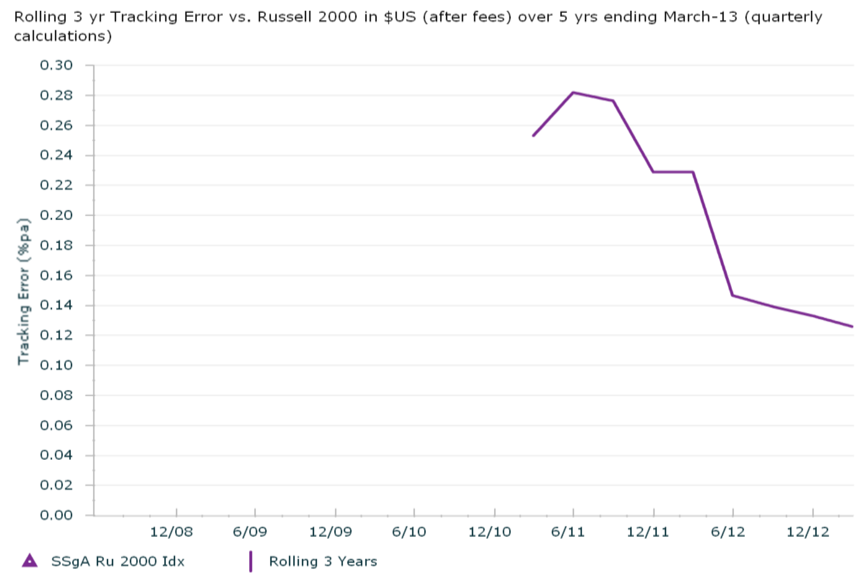
### Investment Philosophy

As a passive manager, 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 the 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.

### Sector Allocation as of March 31, 2013

| Sector | SSgA Russell Small Cap Index Non-Lending Series Fund | Russell 2000 Index |
|---|---|---|
| Financials | 23.3% | 23.3% |
| Info Tech | 16.3% | 16.4% |
| Industrials | 15.6% | 15.4% |
| Consumer Disc | 13.8% | 13.8% |
| Health Care | 12.2% | 12.2% |
| Energy | 6.1% | 6.1% |
| Materials | 5.3% | 5.3% |
| Consumer Staples | 3.5% | 3.5% |
| Utilities | 3.3% | 3.3% |
| Telecom | 0.6% | 0.6% |

### Tracking Error




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): David Chin (1999) | Total Strategy Assets: $12,314 Million | Expense Ratio (Net): 0.06%<br>Mercer Median Expense Ratio (Net): 0.30% |

# Fund Profile

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

**Share Class: Institutional** | **Benchmark: MSCI EAFE NET WHT**

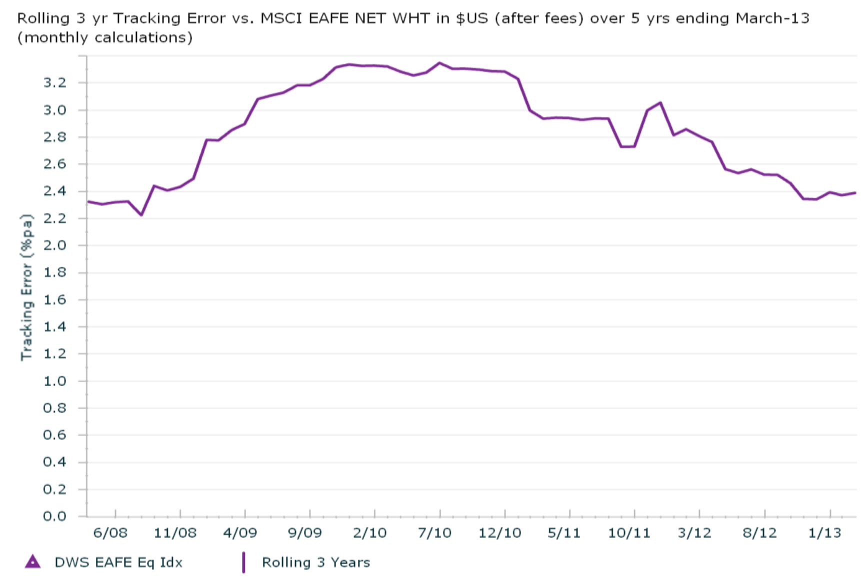
### Investment Philosophy

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.

### **Sector Allocation** as of March 31, 2013

| Sector | MSCI EAFE NET WHT Index Allocation | MSCI EAFE NET WHT Index Returns |
|---|---|---|
| Financials | 24.9% | 5.3% |
| Industrials | 12.6% | 5.6% |
| Consumer Staples | 12.3% | 11.1% |
| Consumer Disc | 10.9% | 7.4% |
| Health Care | 10.3% | 12.0% |
| Materials | 8.9% | -4.8% |
| Energy | 7.2% | -1.7% |
| Telecom | 5.0% | 6.1% |
| Info Tech | 4.3% | 5.2% |
| Utilities | 3.7% | -1.1% |

### Tracking Error




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): Shaun Murphy (2007) | Total Fund Assets: $234 Million<br>Total Share Class Assets: $234 Million | Expense Ratio (Net): 0.50%<br>Mercer Median Expense Ratio (Net): 0.40% |

# Fund Profile

## Tier IIB - International Equity - Fidelity Diversified International Fund - FDIVX

**Share Class: Standard** | **Benchmark: MSCI EAFE NET WHT**

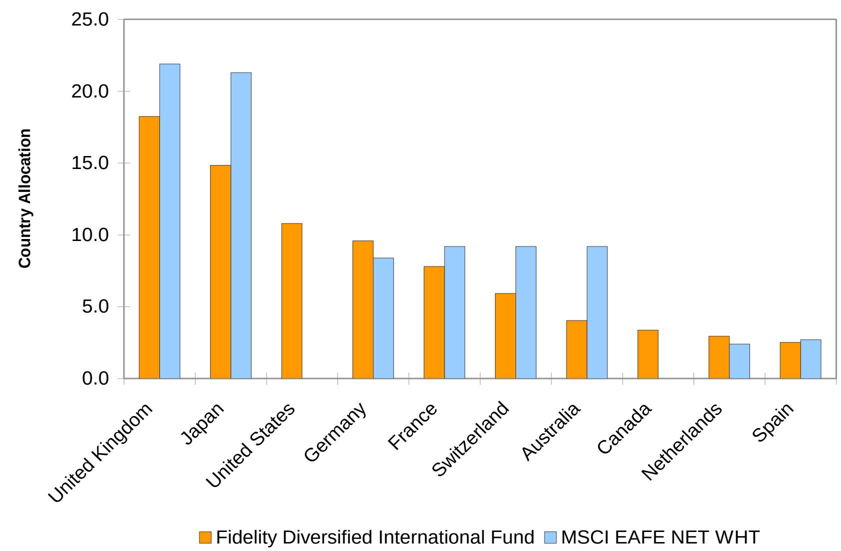
### Investment Philosophy

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. It utilizes a fundamental, bottom-up process to uncover quality growth opportunities and is particularly interested in firms with strong returns on equity. The manager's strategy is benchmark sensitive and is not a top-down thematic approach, but it does identify general themes within sectors that help shape the portfolio. Country and sector weights are strictly a residual of bottom-up decision-making. The portfolio is characterized by a very large number of holdings and a high stock coverage ratio.

### **Sector Allocation*** as of March 31, 2013

| Sector | Fidelity Diversified International Fund | MSCI EAFE NET WHT Index |
|---|---|---|
| Financials | 19.0% | 24.9% |
| Consumer Disc | 15.9% | 10.9% |
| Consumer Staples | 15.2% | 12.3% |
| Health Care | 13.3% | 10.3% |
| Info Tech | 8.6% | 4.3% |
| Materials | 7.3% | 8.9% |
| Industrials | 7.2% | 12.6% |
| Energy | 4.7% | 7.2% |
| Telecom | 3.6% | 5.0% |
| Utilities | 0.0% | 3.7% |

### **Country Analysis** as of March 31, 2013




### Key Facts and Figures

| | | |
|---|---|---|
| Portfolio Manager (Advised Since): William Bower (2001) | Total Fund Assets: $23,287 Million<br>Total Share Class Assets: $13,331 Million | Expense Ratio (Net): 1.01%<br>Mercer Median Expense Ratio (Net): 1.04% |

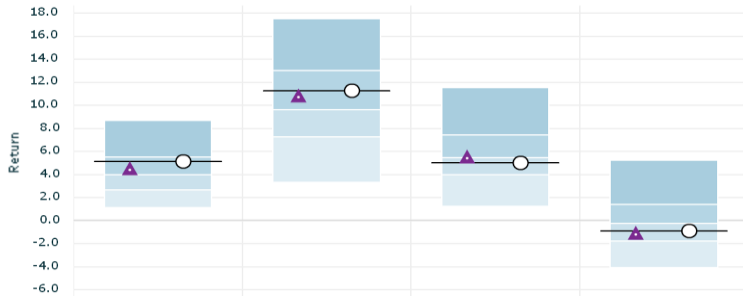
* Does not sum to 100% due to rounding and exclusion of 4.7% cash and other

# Fund Profile

## International Equity - Fidelity Diversified International Fund - FDIVX

Return in $US (after fees) over 3 mths, 1 yr, 3 yrs, 5 yrs ending March-13

Comparison with the Mutual Fund World ex US/EAFE Equity universe (Percentile Ranking)




| | 3 mths (%) | 1 yr (%) | 3 yrs (%pa) | 5 yrs (%pa) |
|---|---|---|---|---|
| ▲ | 4.4 *(40)* | 10.7 *(39)* | 5.4 *(51)* | -1.2 *(65)* |
| ○ | 5.1 *(30)* | 11.3 *(35)* | 5.0 *(57)* | -0.9 *(61)* |
| 5th Percentile | 8.7 | 17.5 | 11.5 | 5.2 |
| Upper Quartile | 5.5 | 13.0 | 7.4 | 1.4 |
| Median | 4.0 | 9.6 | 5.5 | -0.2 |
| Lower Quartile | 2.7 | 7.3 | 4.0 | -1.8 |
| 95th Percentile | 1.2 | 3.3 | 1.2 | -4.1 |
| Number | 424 | 405 | 353 | 312 |

▲ Fidelity Diversified International ○ MSEAFENUSD

Performance characteristics vs. MSCI EAFE NET WHT in $US (after fees) over 5 yrs ending March-13 (monthly calculations)

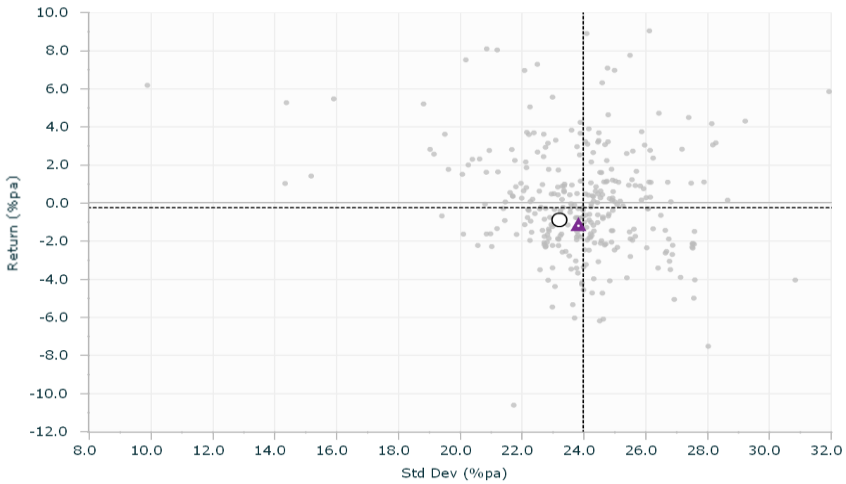
Comparison with the Mutual Fund World ex US/EAFE Equity universe (Percentile Ranking)


| | Ret (%pa) | Std Dev (%pa) | Ret/SD | TE (%pa) | IR |
|---|---|---|---|---|---|
| ▲ | -1.2 *(65)* | 23.8 *(54)* | -0.1 *(64)* | 4.2 *(76)* | -0.1 *(65)* |
| ○ | -0.9 *(61)* | 23.2 *(66)* | 0.0 *(61)* | 0.0 *(100)* | - |
| 5th Percentile | 5.2 | 27.5 | 0.2 | 10.1 | 0.9 |
| Upper Quartile | 1.4 | 24.9 | 0.1 | 6.4 | 0.4 |
| Median | -0.2 | 24.0 | 0.0 | 5.4 | 0.1 |
| Lower Quartile | -1.8 | 22.8 | -0.1 | 4.2 | -0.2 |
| 95th Percentile | -4.1 | 20.5 | -0.2 | 3.3 | -0.7 |
| Number | 312 | 312 | 312 | 312 | 312 |

▲ Fidelity Diversified International ○ MSEAFENUSD

Return and Std Deviation in $US (after fees) over 5 yrs ending March-13 (monthly calculations)

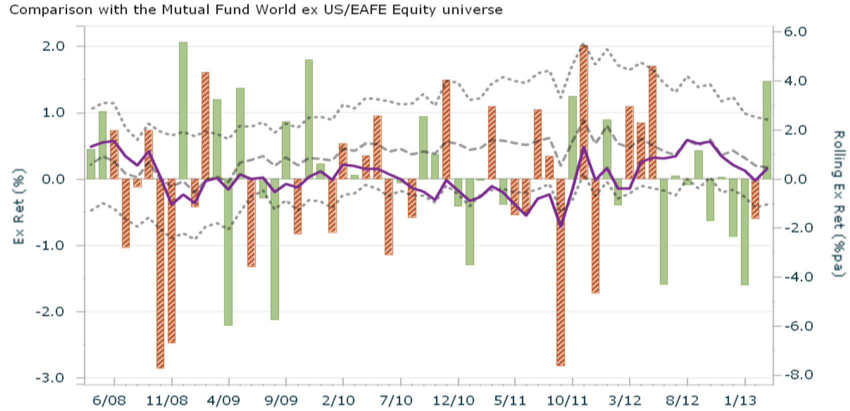
Comparison with the Mutual Fund World ex US/EAFE Equity universe




▲ Fidelity Diversified International ○ MSEAFENUSD Median Universe

Monthly Excess Return vs. MSCI EAFE NET WHT with rolling 3 yr line in $US (after fees) over 5 yrs ending March-13

Comparison with the Mutual Fund World ex US/EAFE Equity universe




▲ Fidelity Diversified International

Monthly Ex Return (Up Mkt)

Monthly Ex Return (Down Mkt)

Rolling 3 Years

Median

Quartiles

# Appendix A – Investment Manager Updates

## *Fidelity Management and Research Company (FMRCo)*

### Update on Use of Global Research Platforms (Pyramis and FMRCo) – May 7, 2013

- Pyramis and FMRCo are affiliated companies under the Fidelity Investments organization. Pyramis targets the institutional market; FMRCo targets the US mutual fund market. Each affiliate sponsors its own equity research team. The research teams operate independently with some overlap in coverage but also share research between affiliates. Fidelity Investments is a sister organization to Fidelity Worldwide Investments (FWI), which has traditionally targeted the retail market outside North America. FWI also supports a dedicated equity research team. Research sharing agreements between Fidelity Investments and FWI allow the exchange of research between the two organizations.
- The firms have now reported their research sharing agreement will terminate on 2 December 2013. Thereafter, Pyramis and FMRCo portfolio managers will rely exclusively on equity research produced by the Pyramis and FMRCo research teams. In addition to the separation of the research resources, the trading function will change. Historically, trading outside North America for all FMRCo managers was conducted on FWI trading desks, although FMRCo now supports its own research desks in London and Hong Kong. As of 2 December 2013, all FMRCo managers will trade exclusively on FMRCo trading desks, which will include all non-North America trading. There is no change to trading within North America, which has always been conducted on FMRCo trading desks.
- Pyramis portfolio managers, with the exception of Cesar Hernandez, who manages the Select suite of strategies, trade on the Pyramis trading desk located in Smithfield, Rhode Island, and there will be no change to this arrangement. Hernandez has always traded on the FMRCo/FWI desks. After 2 December 2013, Hernandez will trade exclusively on the FMRCo trading desks.
- *Mercer View:*
  - The separation of research and trading represents the desire for each of the Pyramis, FMRCo and FWI entities to chart its own course in expanding its business globally. This approach frees up capacity on all sides to grow their asset base independently. Despite the separation of Fidelity Investments and FWI research and trading services, there will still be a certain degree of co-operation between the entities in terms of product distribution and sub-advisory relationships.
  - For FMRCo and most Pyramis portfolio managers, we have no material concerns about the change in research and trading platforms. Pyramis and FMRCo will continue to share research, and their research and portfolio teams have been working towards independence from FWI for some time. We are told coverage by the Pyramis/FMRCo equity research teams now extends to approximately 83% of the MSCI ACWI universe.
  - The team most impacted by this change is the Pyramis Select group led by Cesar Hernandez (excluding Select Small Cap strategies managed by Robert Feldman). For the Select strategies managed by Hernandez' team, stock selection outside the US has been closely linked to the FWI analyst ratings. Hernandez has been running paper portfolios for the Select suite using only Pyramis and FMRCo research, and Pyramis tells us Hernandez has been happy with the results. Therefore, he is confident in his ability to meet portfolio investment objectives without FWI research. We understand Hernandez will rely primarily on the FMRCo research, which is more comprehensive. In comparison, Pyramis analysts take a more opportunistic approach to research. For this reason, Hernandez will trade on the FMRCo, rather than Pyramis, trading desks.
  - We have a previously-scheduled meeting with the Pyramis Select team in July 2013 and plan to discuss the research and trading transition in greater detail at that time. We are also planning similar discussions with FMRCo in the third quarter of 2013. In the interim, we are comfortable the current strategy ratings adequately capture uncertainty relating to the change in research inputs.

## *Pacific Investment Management Company (PIMCO)*

### Q1 2013 Fixed Income Performance Review – May 10, 2013

- PIMCO enjoyed a good quarter, with strong relative performance recorded across all portfolio categories. Performance was driven by a number of factors, including good positioning in peripheral Europe, positive off benchmark allocations to some EM countries, sector positioning in credit and overweighting higher yield credit.
- *Credit*: portfolios benefited from good security selection, from being underweight Utilities, and from an overweight to High Yield debt. Where applicable, portfolios also benefited from an overweight in Italy and Spain (as peripheral Eurozone credit markets performed well on the back of an ongoing improvement in market sentiment). Sterling portfolios also gained from some defensive hedging activity on credit portfolios that produced a basis gain, in that the hedging instrument outperformed the cash holdings since the hedging index contained subordinated financials which were not held in the cash portfolio. There was some attrition on credit portfolios during the quarter due to positioning in senior bank debt, which had a difficult quarter due to the SNS Bank decision in the Netherlands in February and then the Cyprus bailout in March. Aggregate portfolios were generally light credit in Q1 (typically c. 1 year in duration terms), and this was a modest drag on performance.
- *Rates*: Performance in Q1 was boosted by overweight exposure to Italy and Spain (this has generally been closed out now, and an underweight position in Portugal has been put in place). Portfolios also benefited from exposures to Mexico and Brazil. These exposures are unhedged, and in Q1 they produced excess returns from both a bond market and an FX perspective, as these countries enjoy solid economic progress and also improving competitiveness. UK portfolios enjoyed significant gains from positioning in the index-linked market. PIMCo were long real duration (c. ¾ of a year) and short nominal duration (c. 1/3 year), and hence were long breakeven inflation which rose strongly during the quarter (due to the outcome of the CPAC consultation on RPI calculation methodology). European portfolios benefited from exposure to UK gilts. The long duration Euro fund is benchmarked against a AAA index, and so peripheral exposures tend to represent a greater off-benchmark position. This, along with a great UK exposure, explains the higher alpha number this quarter. Aggregate funds were overweight non-Agency debt and this was a positive contributor in Q1. This contribution was more pronounced in global and US mandates than European mandates, since they hold more US non-Agency debt (and European mandates hold more European non-Agency debt). Whilst both sectors performed well in Q1, US non-Agency debt performed better as the Eurozone situation continued to act as a drag on the market in Europe. Global funds had a negative impact from Japanese bonds, since PIMCo are short Japan (over 1 year) but the Japanese market rallied strongly after the announcement of new monetary policy which aims to increase the Bank of Japan's balance sheet from approximately 33% of Japan's GDP (end-2012) to 60% by end-2014, with an associated substantial bond-buying program.
- *Outlook*: In PIMCO's view, sovereign yields are trading at very low levels, but are only likely to rise in a slow fashion. In this regard, they feel that it is possible; that further rate cuts are possible, particularly in the UK, with the arrival of new BoE Governor Carney. That said, they also expect the Sterling to remain weak. PIMCO's global view has a theme of a healthier economic picture in the US compared to Europe, and this frames much of their regional thinking in many asset classes (e.g. sovereign bonds, credit, mortgage-backed etc). They also believe credit spreads to be very tights, which in their view reduces the opportunity for stock selection as a driver of added value. This leads them towards a tendency to take off benchmark positions in higher yielding areas of the credit market, but doing so in on a case by case basis rather than unilaterally (since high yield spreads have also come down in recent years). Credit issuance is low in the UK and Europe, which does lead to over-subscription and hence higher prices, but PIMCo feel that such a situation does not pertain in the US, where the supply pattern is better.

# Appendix B – Disclosures

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