



Memo

To: Steven Montagna
Date: December 10, 2009
From: Susan A. Dalton
Subject: SSgA Litigation

In October 2009, the California attorney general's office charged the State Street Corporation (State Street) of fraudulent booking of foreign exchange trades for two of California's largest pension funds. The suit was also filed against State Street's affiliate State Street Bank Trust Company (SSBT), the custodian of the two pension plans.

The City of Los Angeles (the City) asked Mercer what impact, if any, this had on the Deferred Compensation Plan (the Plan) and if any further due diligence would be required.

State Street Global Advisors (SSgA) is the investment management division of SSBT, which is a wholly-owned subsidiary of State Street.

The City currently offers the SSgA Russell 2000 Index Series C fund, which attempts to track the performance of the Russell 2000 Index through a replication strategy and the use of a small amount of unleveraged exchange-traded Russell 2000 Index futures contracts. The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. Because the index has no foreign constituents, there should be no potential for fraud through foreign exchange execution.

SSgA has also had adverse publicity over losses arising in the cash collateral pools backing its securities lending programs. However, because the SSgA Russell 2000 Index series C fund is a non-securities lending vehicle, there is no potential for losses related to securities lending.

Based on the above, there is no potential impact from either foreign exchange trades or securities lending, and no further due diligence is needed.