

MEMO

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DATE: November 19, 2012
FROM: Mercer
SUBJECT: Diversified Inflation Search Selection - PIMCO Inflation Response Multi-Asset Fund
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Mercer performed a search to identify appropriate candidates to manage the fund. This report was presented to the Investment sub-Committee on August 15. The Investment sub-Committee reviewed the report and discussed the candidates with Mercer. The Committee decided to recommend the PIMCO Inflation Response Multi-Asset Fund to the Board to be hired.

Below is a summary of the search and the recommended candidate.

Five DIH strategies were reviewed in depth:

1. JP Morgan Diversified Real Return
2. PIMCO Inflation Response Multi-Asset
3. PIMCO Diversified Real Asset
4. Wellington Balanced Real Asset
5. BlackRock Strategic Completion

PIMCO Inflation Response Multi-Asset Fund Summary:

- The Fund seeks to hedge global inflation risks while targeting enhanced return opportunities that inflation dynamics may present by providing diversified exposure to a broad opportunity set of inflation factors – or assets that will likely respond to different types of inflation – including TIPS, commodities, emerging market (EM) currencies, REITs and gold, as well as tactical use of floating rate securities in the event of deflation or an extreme market shock.
- Tail risk hedging strategies are used to limit the impact of periodic market stresses that may affect inflation-related assets.
- The Fund is invested in 4 underlying PIMCO strategies – the PIMCO Real Return Strategy, the PIMCO CommoditiesPLUS Strategy, the PIMCO Emerging Markets Currency Strategy, and the PIMCO Real Estate Real Return Strategy.

Rationale for Recommendation

- The strategy has a greater focus on fixed income, which will help to balance the many equity offerings in the Supplemental Retirement Plans.

- The strategy benefits from PIMCO's highly regarded research capabilities. The firm's investment committee demonstrates a strong ability to generate tactical and secular macroeconomic and risk factor forecasts.
- PIMCO's risk factor-based investment process links the fund's exposure to the firm's global secular and cyclical views.

Key Fund Information

Fund Name	Total Fund Assets (\$MM)	Strategy Inception	Expense Ratio
PIMCO Inflation Response Multi-Asset Fund Inst'l	\$40	Aug 2011	0.80%

Target Asset Allocation

Fund Name	TIPS / Inflation Managed Bonds	Non-Dollar Bonds & Currencies	Commodities	Real Estate	Gold	Natural Resources Equity	Master Limited Partnerships / Infrastructure	Cash
PIMCO Inflation Response Multi-Asset	45% (20%-70%)	15% (5%-25%)	20% (5%-35%)	10% (5-15%)	10% (5%-15%)	0% N/A	0% N/A	0% N/A

Historical / Expected Statistics

	Fund Name	Total Fund Assets (\$MM)	Fees	Expected Equity Beta	Historical Equity Beta (5 Yr Period)	Expected Inflation Hedge	Historical Volatility (5 Yr Period)	Geometric Expected Return	Active / Passive
	PIMCO Inflation Response Multi-Asset Fund Institutional	\$40	0.80%	0.15	0.34	72.8	10.3	5.0%	Active

Historical statistics are based on a blend of the fund's target allocation indices. The fund does not have sufficient performance history to calculate actual fund statistics.

Underlying Strategy Characteristics

Product	Strategy Assets (\$MM) ¹	Vehicle	Current Allocation (%)	Fees
PIMCO Inflation Response Multi-Asset Fund	40	Mutual Fund	--	0.80%
TIPS	56,738	Direct Holdings	50.6%	N/A
Inflation-Managed Bonds	21,637	Direct Holdings	0.0%	N/A
Commodities	24,713	Direct Holdings	18.4%	N/A
EM Currencies	3,042	Mutual Fund	14.7%	0.85%
REITs	418	Direct Holdings	10.4%	N/A
Gold	N/A	Direct Holdings	10.8%	N/A
Cash + Tail Risk Hedging	N/A	Direct Holdings	-4.9%	N/A

¹ AUM shown for flagship fund referenced above.