SCOTT CAMERON, CFA

Scott is the Chief Investment Officer for the Multnomah Group and a Founding Principal of the firm. In that role, Scott leads Multnomah Group’s Investment Committee, is responsible for the development of the firm’s investment research methodology, and conducts investment manager due diligence. Scott also consults with plan sponsors on investment menu design, investment manager selection, fiduciary governance, and vendor fees/services.

Scott is a member of the CFA Institute, the CFA Society of Portland, the Investment Management Consultants Association, and the Portland Chapter of the Western Pension Benefit Conference. Scott holds a B.S. in Management from Purdue University.
AGENDA

• The impact of the U.S. downgrade on investment markets
• How to select appropriate asset classes for participants
• Prudent steps for selecting investment managers
• Education strategies for wary participants
• The efficacy of target date funds
**S&P DOWNGRADE OF U.S. DEBT**

- S&P announces a downgrade of U.S. debt to AA+ on August 5, 2011 with a negative outlook
- Moody’s and Fitch have maintained their AAA rating
- **Short term impact**
  - Increased market volatility
  - Increased pessimism
  - Equity market declines
  - No material impact on role of Treasuries within the financial system
  - Cascading impact on ratings
- **Long term impact**
  - Potential for higher borrowing costs
  - Unknown impact on role of Treasuries within global financial system

**U.S. Treasury Yield Curve**

- Source: U.S. Department of the Treasury
ASSET CLASS SELECTION

• Traditional DC Investment Lineup
  – Stable principal (money market/stable value)
  – Investment-grade U.S. bond fund
  – U.S. equities
    • Coverage of Morningstar’s 9 style boxes
  – International equity

• Recent additions
  – Real estate (2005)
  – Emerging markets (2007)
  – Commodities (2010-2011)
# Tiered Investment Menus

**Tier 1: Age-based or risk-based life cycle funds/model portfolios**

**Tier 2: Core array of funds**

<table>
<thead>
<tr>
<th>Stable Principal</th>
<th>Fixed Income</th>
<th>U.S. Equity</th>
<th>International Equity</th>
<th>Specialty Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>Short Govt. Bonds</td>
<td>Short Bond</td>
<td>Large Value</td>
<td>Large Value</td>
</tr>
<tr>
<td>Stable Value</td>
<td>Intm. Govt. Bonds</td>
<td>Intm. Bond</td>
<td>Mid Value</td>
<td>Mid Blend</td>
</tr>
<tr>
<td>General Investment Account</td>
<td>Inflation Protected Securities</td>
<td>High Yield Bond</td>
<td>Small Value</td>
<td>Small Blend</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Emerging Market Stocks</td>
</tr>
</tbody>
</table>

**Tier 3 (Optional): Self-directed brokerage account (SDBA) or mutual fund window**
CORE ARRAY OBJECTIVES

- Provide participants with the ability to create a diversified portfolio tailored to their specific risk tolerance and time horizon
- Allow participants to diversify their holdings among a number of different asset classes with different risk and return profiles
- Utilize low correlated asset classes to minimize the amount of risk at any given return profile
- Minimize the opportunity for participants to select undiversified portfolios based on unrealistic return and risk expectations

### Correlation (Last 15 Years)

<table>
<thead>
<tr>
<th></th>
<th>3-Month T-Bills</th>
<th>Aggregate Bonds</th>
<th>Large Core</th>
<th>Small Core</th>
<th>Real Estate</th>
<th>Intl Large/Mid Cap</th>
<th>Intl Small Cap</th>
<th>Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-Month T-Bills</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Aggregate Bonds</td>
<td>0.10</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large Core</td>
<td>0.01</td>
<td>0.01</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Small Core</td>
<td>-0.07</td>
<td>-0.05</td>
<td>0.80</td>
<td>1.00</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>-0.06</td>
<td>0.11</td>
<td>0.57</td>
<td>0.65</td>
<td>1.00</td>
<td></td>
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</tr>
<tr>
<td>Intl Large/Mid Cap</td>
<td>-0.08</td>
<td>0.03</td>
<td>0.85</td>
<td>0.76</td>
<td>0.57</td>
<td>1.00</td>
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<tr>
<td>Intl Small Cap</td>
<td>-0.16</td>
<td>0.04</td>
<td>0.76</td>
<td>0.77</td>
<td>0.58</td>
<td>0.94</td>
<td>1.00</td>
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<tr>
<td>Emerging Markets</td>
<td>-0.13</td>
<td>-0.04</td>
<td>0.74</td>
<td>0.72</td>
<td>0.48</td>
<td>0.82</td>
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<td>1.00</td>
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</table>
## Domestic Equity Correlations (Last 15 Yrs)

<table>
<thead>
<tr>
<th></th>
<th>Large Value</th>
<th>Large Core</th>
<th>Large Growth</th>
<th>Mid Value</th>
<th>Mid Core</th>
<th>Mid Growth</th>
<th>Small Value</th>
<th>Small Core</th>
<th>Small Growth</th>
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</thead>
<tbody>
<tr>
<td>Large Value</td>
<td>1.00</td>
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<tr>
<td>Large Core</td>
<td>0.93</td>
<td>1.00</td>
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<tr>
<td>Large Growth</td>
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<tr>
<td>Mid Value</td>
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<td>0.95</td>
<td>0.87</td>
<td>0.74</td>
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<tr>
<td>Mid Core</td>
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<td>0.89</td>
<td>0.92</td>
<td>0.89</td>
<td>0.93</td>
<td>1.00</td>
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<tr>
<td>Mid Growth</td>
<td></td>
<td></td>
<td></td>
<td>0.70</td>
<td>0.85</td>
<td>0.93</td>
<td>0.72</td>
<td>0.92</td>
<td>1.00</td>
</tr>
<tr>
<td>Small Value</td>
<td></td>
<td></td>
<td></td>
<td>0.83</td>
<td>0.78</td>
<td>0.68</td>
<td>0.91</td>
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<td>0.74</td>
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<tr>
<td>Small Core</td>
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<td></td>
<td></td>
<td>0.75</td>
<td>0.80</td>
<td>0.80</td>
<td>0.81</td>
<td>0.93</td>
<td>0.90</td>
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<tr>
<td>Small Growth</td>
<td></td>
<td></td>
<td></td>
<td>0.65</td>
<td>0.77</td>
<td>0.83</td>
<td>0.70</td>
<td>0.89</td>
<td>0.95</td>
</tr>
</tbody>
</table>

As of 6/30/2011
MANAGER SELECTION BAD HABITS

- Primarily rely on past performance
- Too focused on short term performance metrics
- Utilize inappropriate peer group measures
- Failure to understand manager’s beta exposures
PAST PERFORMANCE IS A POOR PREDICTOR OF FUTURE PERFORMANCE

Source: Morningstar Large Blend funds (distinct portfolios)
VARIANCE IN PEER GROUP PERFORMANCE

Multisector Bond Peer Group

Jan-08 - Dec-08

-30 -25 -20 -15 -10 -5 0 5 10

Total Return, %

5th to 25th Percentile
25th Percentile to Median
Median to 75th Percentile
75th to 95th Percentile

Total
INVESTMENT RISK – BOND STRATEGIES

Investment Performance (2008-2009)

Return (%)

-40.00 -30.00 -20.00 -10.00 0.00 10.00 20.00 30.00 40.00 50.00 60.00 70.00

BofA ML 3-Month T-bill  BC Govt  BC Mortgage  BC U.S. Corporate Investment Grade  BC TIPS  BC High Yield

2008  2009
MANAGER SELECTION BEST PRACTICES

• Focus on qualitative analysis
  – Firm structure
  – Firm history
  – People
  – Organization
  – Investment Philosophy
  – Investment Strategy
  – Buy/Sell Discipline

• Use quantitative analysis to inform the qualitative review
  – Performance consistent with investment strategy
  – Market risk factor exposure
EXPOSURE DRIVES PERFORMANCE

Asset Loadings (As of 12/31/2007)

- BC High Yield, 3.74%
- BC TIPS, 7.85%
- BC Govt, 0%
- Cash, 25.21%
- BC U.S. Corporate Investment Grade, 63.2%
- BC Mortgage Backed Securities, 0%

Performance (2008-2010)

- Bond Fund
- BC Aggregate Bond Index

2008 2009 2010
EDUCATION STRATEGIES FOR WARY PARTICIPANTS

- Customize communication strategies
  - Understand plan demographics
  - Evaluate behavior
    - Changes in participation/deferral rates
    - Increased use of loans/hardships
    - Portfolio changes

- Customize delivery methods

- Focus on tangible benefits
  - Tax savings
  - Employer contributions

- Provide context
  - Retirement time horizon
  - Cyclical nature of markets

- Focus on fundamentals
TARGET DATE STOCK ALLOCATIONS

Widest variance in glide paths is near retirement

Source: Morningstar
TARGET DATE FUNDS – CALENDAR YEAR PERFORMANCE

12 Month Rolling Performance

2008 - 2009

-40 -30 -20 -10 0 10 20 30

Total Return, %

-40 -30 -20 -10 0 10 20 30

2008 2009

Fidelity Freedom 2010  Vanguard Target Retirement 2010 Inv  T. Rowe Price Retirement 2010
TARGET DATE FUND PERFORMANCE – LEADING INTO RETIREMENT
<table>
<thead>
<tr>
<th>Category</th>
<th>Asset Wgt 3 Yr Investor Return</th>
<th>Average 3 Yr Total Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Funds</td>
<td>-5.18%</td>
<td>-4.96%</td>
</tr>
<tr>
<td>Intl Equity Funds</td>
<td>-5.17%</td>
<td>-4.55%</td>
</tr>
<tr>
<td>Balanced</td>
<td>-2.15%</td>
<td>-1.72%</td>
</tr>
<tr>
<td>Taxable Bond</td>
<td>3.82%</td>
<td>4.13%</td>
</tr>
<tr>
<td>All Funds</td>
<td>-2.71%</td>
<td>-2.14%</td>
</tr>
</tbody>
</table>
DISCLOSURES

Investment advisory services provided by Multnomah Group, Inc., an Oregon corporation.

This presentation is not intended to be completely comprehensive or provide complete information on each subject included. You should contact your legal and/or financial advisor for further and additional information if necessary.

Investment performance and returns are based on historical information and should not be construed as a guarantee of future performance. Investing contains risk. Some of the asset classes involve significantly higher risk because of the nature of the investments and the low liquidity/high volatility of the securities.

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