

Annual Report to the Board

Report Period: June 2007
– June 2008

South Coast Air Quality Management District
457 Deferred Compensation Plan

Table of Contents

❑ Executive Summary.....	4
❑ Year in Review.....	6
❑ Plan Assets / Demographics.....	8
❑ Plan Performance	12
❑ Cost Assessment	14
❑ Considerations.....	17
❑ Appendix.....	19
Section I	Committee Charter
Section II	Investment Policy Statement
Section III	Meeting Minutes

EXECUTIVE SUMMARY

Executive Summary

South Coast Air Quality Management District (“District”) sponsors and administers an eligible deferred compensation program for its employees, as covered under section 457 of the Federal Internal Revenue Code. The South Coast Air Quality Management District Deferred Compensation Plan (“Plan”) was adopted on January 1, 1987. Employees are immediately eligible upon hire to participate in the Plan.

The Plan is administered by Hartford Life Insurance Company (“Hartford”), a retirement services, asset management and insurance firm. The Hartford was founded in 1810 and has been providing defined contribution retirement services for almost 40 years. They currently have over 24,000 plans under administration and \$49.5 billion in assets under management. The Hartford currently carries a Standard & Poor rating of AA- (Very Strong).

In addition to the retirement plan vendors, the District utilizes the services of Benefit Funding Services Group (BFSG). BFSG is an independent, third-party consulting firm that provides services to the Plan as fiduciaries under a Registered Investment Advisor agreement. Their consulting services include investment analysis, review and recommendation of investment options offered in the Plan; fiduciary compliance assistance to Committee members and annual Plan cost benchmarking. BFSG has been providing services to the Plan since 2007.

The Plan was established to provide a retirement savings program for the employees of the District, and is maintained for the exclusive purpose of benefiting the Plan participants and their beneficiaries. The Plan also is intended to operate in accordance with all applicable state and federal laws and regulations.

While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide an appropriate range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance, and retirement goals.

The AQMD Deferred Compensation Plan Committee, as appointed by the AQMD Governing Board, meets on a regular basis to review the Plan’s design, investment options, asset allocation/demographics, and to make changes as necessary.

YEAR IN REVIEW

2007/2008 Year in Review

The AQMD 457 Deferred Compensation Plan Committee was officially chartered in May 2008. Prior to that, the Committee met on a regular basis to discuss and review the Plan. Items addressed and adopted during the year are as follows:

Investments

Date	Item	Update
May 2008	Investment Policy Statement	The Committee reviewed an updated Investment Policy Statement for possible adoption in the near future.

Committee Structure

Date	Item	Update
May 2008	Committee Charter	The AQMD Governing Board adopted the Deferred Compensation Plan Committee Charter which officially delegates retirement plan fiduciary responsibility from the Board to the Committee.

Plan

Date	Item	Update
June 2007	Fiduciary Structure & Cost Assessment	The Committee engaged a third party investment consultant, Benefit Funding Services Group (BFSG), to conduct a review of the fiduciary structure and all Plan-related costs. Plan costs were determined to be in line with industry averages; however, BFSG identified potential excess revenues being generated by the Plan and began negotiations with Hartford to recapture revenues in an Plan Expense Reimbursement Account.
August 2007	Contract Review	The Committee engaged BFSG to assist in reviewing a renewal contract with the Plan's current service provider, The Hartford. An updated contract was executed effective November 1, 2007 and included a Plan Expense Reimbursement of \$11,875 to be credited to the Plan on a quarterly basis.

PLAN ASSETS / DEMOGRAPHICS

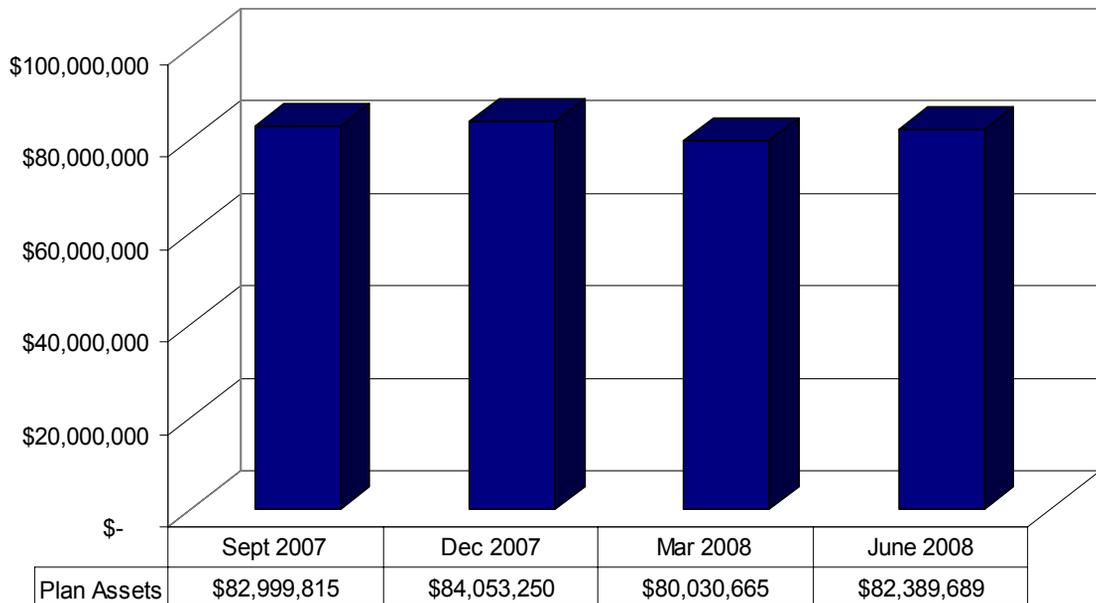
As of 6/30/2008

Plan Assets / Demographics – 2nd Quarter 2008

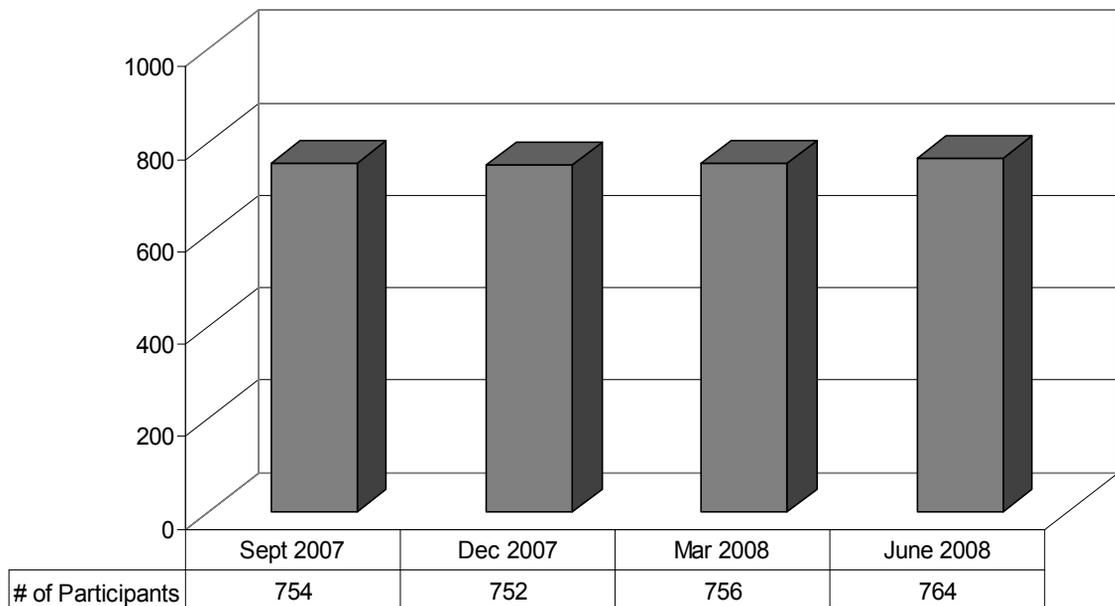
Fund Name	% of		# of	% of Plan	
	Employee Deferrals	Employee Deferrals		Balances	Assets
General Account	45.99%	\$4,956,580	461	42.10%	\$34,480,784
Hartford Capital Appreciation HLS	4.14%	\$446,496	345	12.33%	\$10,097,905
Janus Twenty	5.11%	\$550,275	231	7.95%	\$6,509,180
Janus Adv Intl Growth A	25.37%	\$2,734,676	217	6.53%	\$5,348,211
Oakmark Equity & Income II	1.36%	\$146,308	160	4.04%	\$3,308,758
Hartford Mid Cap HLS	0.72%	\$77,149	123	2.48%	\$2,029,748
MFS Utilities A	1.58%	\$170,361	131	2.45%	\$2,007,416
SSgA S&P 500 Index	1.58%	\$170,482	121	2.32%	\$1,903,294
Davis NY Venture A	0.32%	\$34,090	106	2.16%	\$1,765,609
American Century Ultra Inv	0.66%	\$71,486	102	1.77%	\$1,445,836
Hartford Small Company HLS	0.61%	\$65,985	97	1.48%	\$1,210,691
Van Kampen Equity & Income A	0.24%	\$25,563	83	1.40%	\$1,148,712
Hartford Dividend & Growth HLS	0.18%	\$19,415	83	1.22%	\$1,003,069
American Century Equity Income Inv	0.34%	\$36,385	91	1.21%	\$988,475
Hartford Intl Opportunities HLS	0.57%	\$61,802	68	1.14%	\$937,682
Hartford Total Return Bond HLS	0.22%	\$23,738	71	1.09%	\$896,395
Managers AMG Skyline Special Equities	0.24%	\$26,375	80	0.99%	\$811,253
Templeton Growth A	0.12%	\$12,518	82	0.76%	\$619,411
Hartford Global Technology HLS	1.39%	\$150,060	49	0.63%	\$517,980
Munder Mid Cap Core Growth A	0.44%	\$47,849	61	0.55%	\$449,514
Hotchkis & Wiley Large Cap Value A	0.10%	\$11,134	42	0.45%	\$369,625
SSgA Dow Jones Target 2025	0.07%	\$7,690	12	0.42%	\$342,615
Hartford Global Health HLS	0.10%	\$11,181	32	0.40%	\$331,615
Hartford Mortgage Securities HLS	0.41%	\$43,896	28	0.39%	\$315,610
PIMCO Real Return Admin	3.40%	\$366,408	26	0.35%	\$289,791
MFS Intl New Discovery	0.13%	\$14,383	46	0.35%	\$287,214
Victory Diversified Stock A	0.06%	\$6,235	19	0.27%	\$217,459
Alliance Bernstein Intl Value A	0.19%	\$20,060	23	0.23%	\$188,722
Artisan Mid Cap Value	0.36%	\$38,924	29	0.22%	\$177,886
Putnam High Yield Advantage A	1.76%	\$189,151	24	0.22%	\$177,853
SSgA Dow Jones Target 2015	0.08%	\$9,020	7	0.19%	\$156,910
AIM Leisure A	0.04%	\$3,886	26	0.19%	\$151,791
SSgA Intermediate Bond Index	0.71%	\$76,130	6	0.18%	\$146,937
Franklin Small / Mid Cap Growth A	0.05%	\$4,892	18	0.18%	\$145,138
SSgA Dow Jones Target 2035	0.04%	\$4,012	5	0.17%	\$141,627
Baron Small Cap	0.03%	\$3,601	11	0.15%	\$120,476
AIM Real Estate	0.41%	\$43,654	17	0.15%	\$119,872
SSgA EAFE Index	0.02%	\$1,627	18	0.14%	\$111,072
SSgA Dow Jones Target 2045	0.01%	\$1,322	11	0.13%	\$109,243
American Century Small Cap Value Inv	0.00%	\$420	4	0.10%	\$81,465
Neuberger Berman Socially Responsive Tr	0.08%	\$8,276	24	0.10%	\$81,301
Lord Abbett Small Cap Blend P	0.37%	\$39,362	12	0.08%	\$68,532
Hartford Large Cap Growth HLS	0.11%	\$11,421	13	0.08%	\$64,044
SSgA Russell 2000 Index	0.03%	\$3,230	13	0.07%	\$60,141
Van Kampen Comstock A	0.01%	\$851	6	0.07%	\$53,242
SSgA Mid Cap Index	0.02%	\$1,685	7	0.06%	\$48,767
GE Premier Growth Equity A	0.01%	\$1,020	4	0.06%	\$46,435
SSgA Dow Jones Target Today	0.25%	\$26,443	2	0.03%	\$23,438
Subtotal	100.00%	\$10,777,508		100.00%	\$81,908,747
Self-Directed Brokerage Account		\$0	3		\$480,942
Total	100.00%	\$10,777,508	764	100.00%	\$82,389,689

Plan Assets / Demographics

Growth of Plan Assets

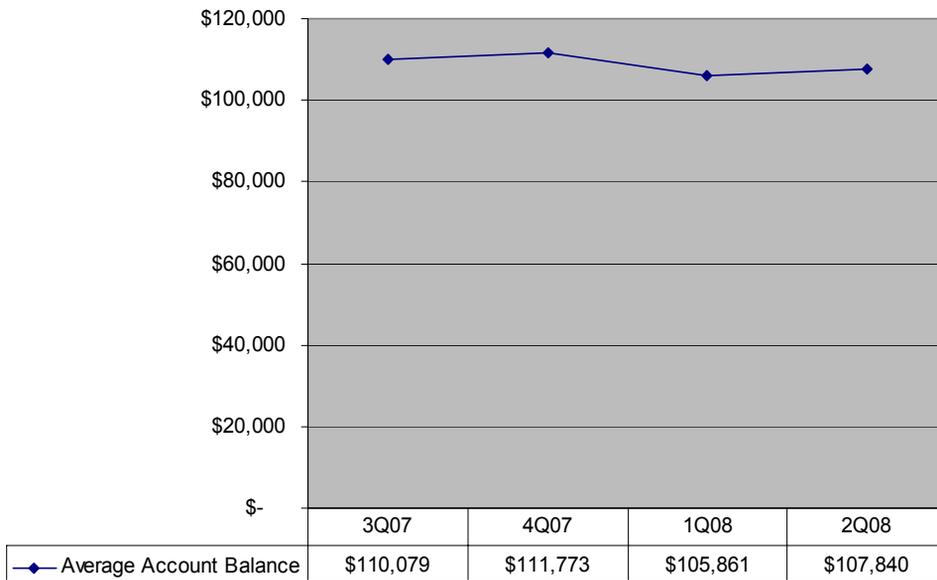


Number of Plan Participants

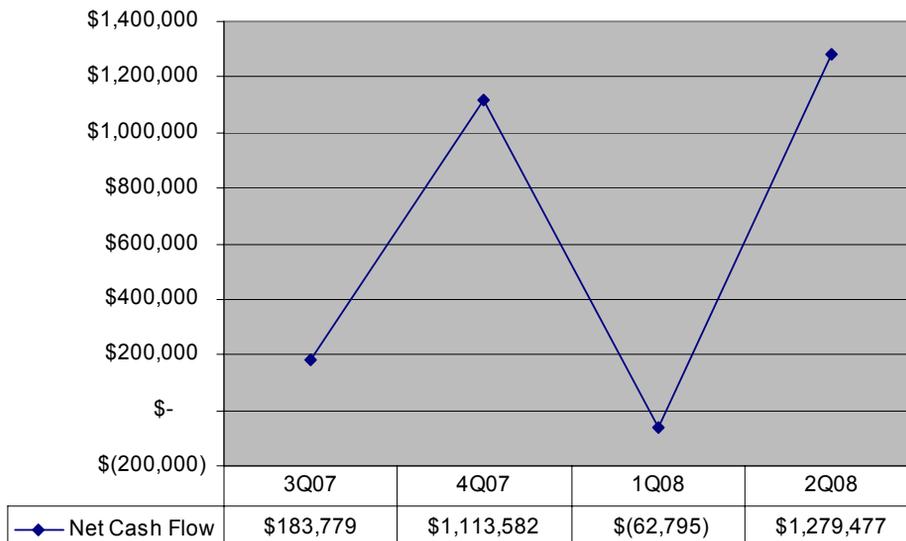


Plan Assets / Demographics

Average Account Balance



Annual Net Cash Flow



PLAN
PERFORMANCE
As of 6/30/2008

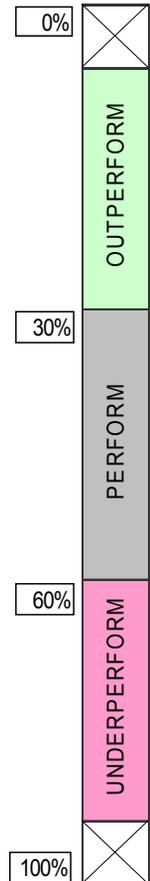
Weighted Portfolio Return versus Custom Benchmark

Performance as of June 30, 2008	3 Month	1 Year	Annualized Returns			3 YR Std Dev	3 YR Mean	3 Yr Sharpe	Expense Ratio
			3 Year	5 Year	10 Year				
AQMD 457(f) Plan	1.15%	1.15%	9.38%	10.17%	7.38%	6.21	9.38	0.81	0.74
Custom Benchmark - Index (Passive)	-0.20%	-4.03%	5.55%	7.12%	3.97%	N/A	N/A	N/A	N/A
Custom Benchmark - Category (Active)	-0.31%	-4.54%	4.98%	6.39%	4.35%	5.71	4.98	0.15	0.80*

*Custom expense ratio represents the weighted expense (based upon current allocation) of Institutional and Retirement share classes in each asset category.

Individual Fund Ranking (Per Investment Policy Statement Evaluation Criteria)

Fund Name	Fund Category	Fund Wgt*	2Q08
PIMCO Real Return Admin	Inflation Protected	0.35%	18.79
Hartford Mortgage Securities HLS	Intermediate Govt	0.39%	45.06
Hartford Total Return Bond HLS	Intermediate Bond	1.09%	23.34
Putnam High Yield Advantage A	High Yield Bond	0.22%	30.52
Van Kampen Equity & Income A	Moderate Allocation	1.40%	28.05
Oakmark Equity & Income II		4.04%	12.15
American Century Equity Income Inv	Large Cap Value	1.21%	32.63
Hartford Dividend & Growth HLS		1.22%	23.03
Hotchkis & Wiley Large Cap Value A		0.45%	53.61
Van Kampen Comstock A		0.70%	44.50
Davis NY Venture A	Large Cap Blend	2.16%	23.91
Hartford Capital Appreciation HLS		12.33%	16.26
Neuberger Berman Socially Responsive Tr		0.10%	28.07
Victory Diversified Stock A		0.27%	21.85
AIM Leisure A	Large Cap Growth	0.19%	42.19
American Century Ultra Inv		1.77%	56.79
GE Premier Growth Equity A		0.06%	47.97
Hartford Large Cap Growth HLS		0.08%	49.94
Janus Twenty		7.95%	19.83
Artisan Mid Cap Value	Mid Cap Value	0.22%	18.49
Franklin Small / Mid Cap Growth A	Mid Cap Growth	0.18%	46.42
Hartford Mid Cap HLS		2.48%	16.44
Munder Mid Cap Core Growth A		0.55%	28.10
American Century Small Cap Value Inv	Small Cap Value	0.10%	31.60
Managers AMG Skyline Special Equities		0.99%	61.28
Baron Small Cap	Small Cap Growth	0.15%	38.10
Hartford Small Company HLS		1.48%	22.10
Lord Abbett Small Cap Blend P		0.08%	23.60
Templeton Growth A	World Stock	0.76%	51.40
Alliance Bernstein Intl Value A	Foreign Large Equity	0.23%	29.63
Hartford Intl Opportunities HLS		1.14%	32.43
Janus Adv Intl Growth A		6.53%	21.60
MFS Intl New Discovery R4	Foreign Sm / Mid Equity	0.35%	31.08
Hartford Global Health HLS	Specialty - Health Care	0.40%	23.56
AIM Real Estate A	Specialty - Real Estate	0.15%	20.41
Hartford Global Technology HLS	Specialty - Technology	0.63%	25.24
MFS Utilities A	Specialty - Utilities	2.45%	18.46



PLAN WEIGHTED SCORE: 23.38

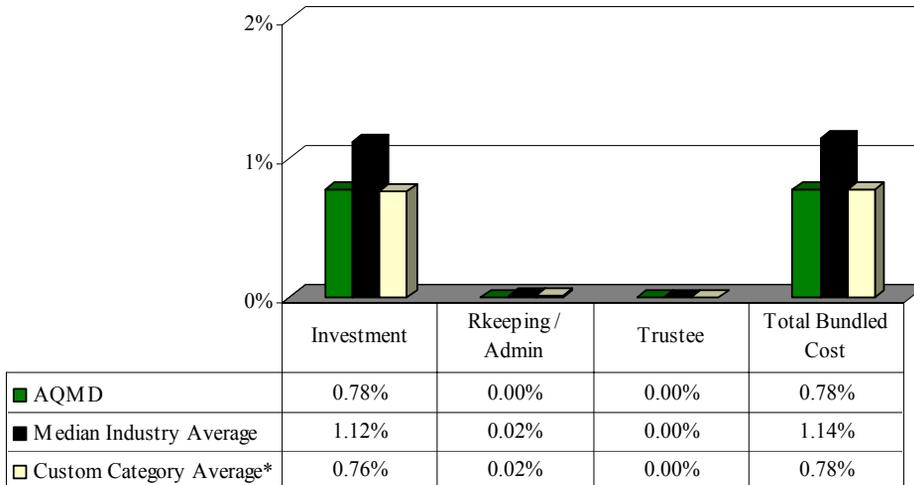
*Fund weightings are remeasured by assigning a proportionate weighting to each fund included in the Evaluation Methodology Score.

COST ASSESSMENT

As of June 2007

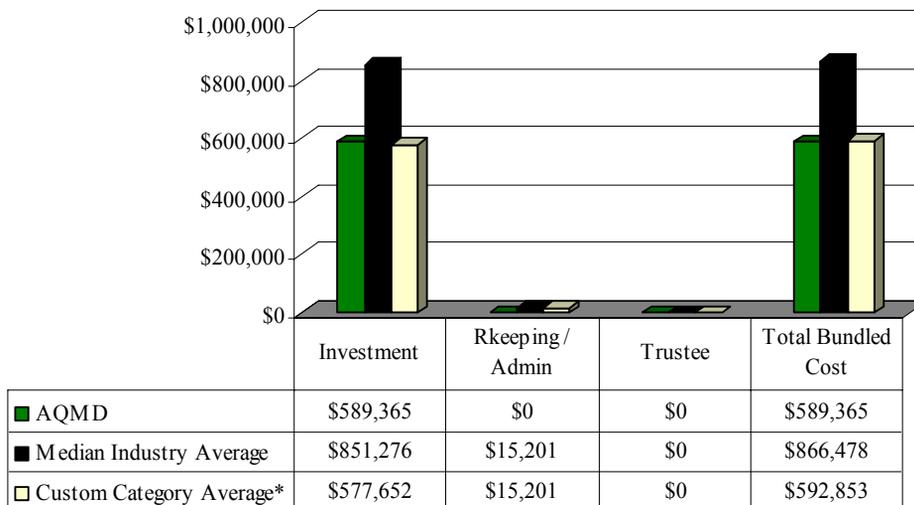
Plan Costs

Average Plan Costs as a % of Assets vs. Industry



**Custom Average represents the weighted average expense ratio (based upon current allocation) of average category expenses using Institutional and Retirement share classes.*

Average Plan Costs in Dollars vs. Industry

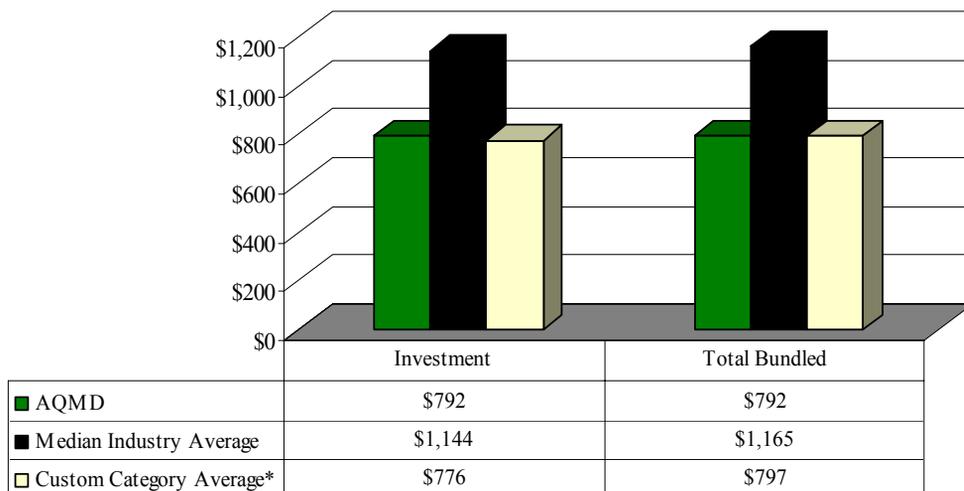


**Custom Average represents the weighted average expense ratio (based upon current allocation) of average category expenses using Institutional and Retirement share classes.*

SOURCES: Median Industry Average: 401(k) Averages Book—8th Edition, Reflects 2006 Data. Published by HR Investment Consultants. Data collected from vendor fee schedules and pricing scenarios. Comparison data is customized to reflect only those vendors who offer services to plans with similar asset and/or participant size. Typically the universe will include 70 to 80 vendors.

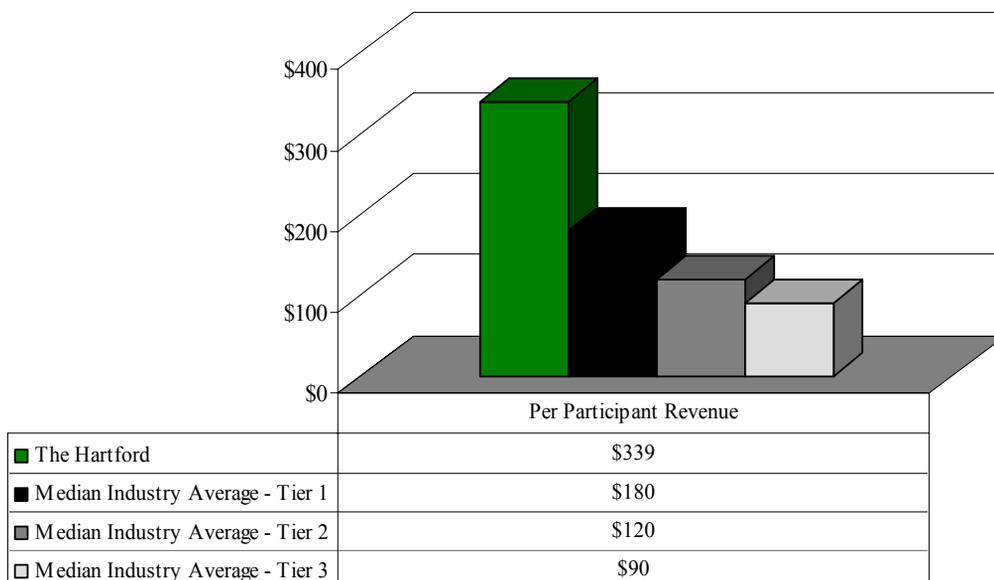
Plan Costs

Per Participant Plan Costs



**Custom Average represents the weighted average expense ratio (based upon current allocation) of average category expenses using Institutional and Retirement share classes.*

Per Participant Plan Revenues



SOURCES: Median Industry Average: *401(k) Averages Book—8th Edition*, Reflects 2006 Data. Published by HR Investment Consultants. Data collected from vendor fee schedules and pricing scenarios. Comparison data is customized to reflect only those vendors who offer services to plans with similar asset and/or participant size. Typically the universe will include 70 to 80 vendors.

Considerations

Considerations

1	Automatic Enrollment / Default Fund	The Committee has initiated discussions with BFSG regarding the implementation of automatic enrollment and the selection of an appropriate default fund other than the General Account.
2	Model Portfolios	The Committee is considering the option of adding customized model portfolios to the Plan as an asset allocation tool for participants. BFSG prepared an analysis of target date funds vs. asset allocation models for the Committee's review.
3	Fund Consolidation	The Committee may consider consolidating investment options in categories with more than 2 selections: <ul style="list-style-type: none">• Large cap value• Large cap blend• Large cap growth• Mid cap growth• Small cap value• Small cap growth• Foreign Equity

APPENDIX



South Coast Air Quality Management District

21865 Copley Drive, Diamond Bar, CA 91765-4178
(909) 396-2000 • www.aqmd.gov

BOARD MEETING DATE: May 2, 2008

AGENDA NO. 13

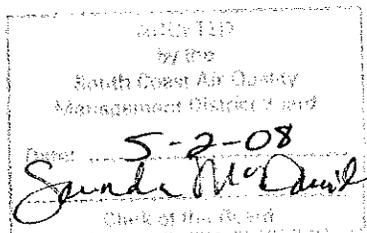
TITLE: Adopt Resolution Approving Charter of Deferred Compensation Plan Committee

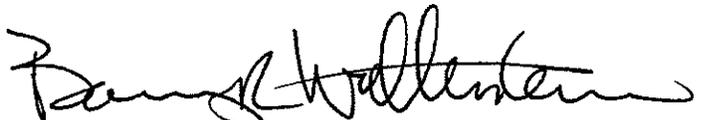
SYNOPSIS: AQMD sponsors an IRS-approved 457 deferred compensation program for its employees. State law governs the fiduciary requirement for the operation and investment of 457 plans sponsored by governmental entities. This action is to adopt a resolution approving the Deferred Compensation Charter formalizing the fiduciary duties and responsibilities of the Committee.

COMMITTEE Administrative, April 11, 2008, Recommended for Approval

RECOMMENDED ACTION:

Adopt the attached resolution approving the Deferred Compensation Plan Committee Charter.




Barry R. Wallerstein, D.Env.
Executive Officer

PHP:lg

Background

AQMD sponsors and administers a deferred compensation program for its employees, as covered under section 457 of the federal Internal Revenue Code. State law governs the fiduciary requirement for the operation and investment of 457 plans sponsored by governmental entities. Subsections (a), (b) and (c) of Article XVI, Section 17, of the California Constitution contain the provisions governing the fiduciary duties for the administration of public pension and retirement systems. Since 457 plans are deferred compensation plans for state and local governments, a 457 plan satisfies the definition of public pension and retirement funds for purposes of the California Constitution. The

AQMD Governing Board serves a fiduciary role subject to the duties and obligations under Article XVI, Section 17.

To meet its fiduciary responsibilities, the Board, at the time it established AQMD's 457 Plan also established a Deferred Compensation Committee to oversee the administration of the Plan. The current committee is composed of the District Counsel, Chief Financial Officer, Assistant Deputy Executive Officer/Administration and Human Resources and a Human Resources Manager. In January 2008, the Board selected Benefit Funding Services Group (BFSG) to provide consulting services to the Deferred Compensation Plan Committee. One of the first tasks of the consultants was to draft the Committee Charter and Investment Policy.

Proposal

Attached is the Charter and adopting Resolution formalizing the Deferred Compensation Plan Committee. The Charter provides that the Board is authorized to designate a committee to function as the named fiduciary of the Plan and to carry out the functions of the Plan administrator.

Attachments

Resolution

Deferred Compensation Plan Committee Charter

**RESOLUTION 08-14 OF THE GOVERNING BOARD
OF
SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT**

I. Adoption of Retirement Plan Committee Charter

WHEREAS, South Coast Air Quality Management District (the "District") currently sponsors the South Coast Air Quality Management District 457 Deferred Compensation Plan (the "Plan");

WHEREAS, pursuant to Section 8 of the Plan, the Governing Board of the District has the authority to appoint a committee (the "Committee") to function as the named fiduciary of the Plan and to carry out the functions of the Plan administrator;

WHEREAS, the Board has determined that it is in the best interests of the District to appoint the Committee to function as the named fiduciary of the Plan and to carry out certain functions of the Plan administrator, in each case subject to the terms and conditions of the Charter for the Committee attached hereto as Attachment 1 (the "Charter");

WHEREAS, pursuant to the Charter, the Committee's authority shall include responsibilities requiring it to act both in a fiduciary capacity and on behalf of the District in a settlor capacity;

WHEREAS, by delegating such responsibility, the Board will have the responsibility for monitoring the activities of the Committee and ensuring that the Committee is carrying out its duties and responsibilities under the Charter.

NOW THEREFORE, BE IT RESOLVED, that the Charter be, and it hereby is, ratified, approved and adopted;

RESOLVED FURTHER, that pursuant to the Charter, the members of the Committee be, and they hereby are, (i) appointed as the named fiduciary of the Plan and (ii) delegated certain functions of the Plan administrator;

RESOLVED FURTHER, that, in order to fully carry out the intent and effectuate the purposes of the foregoing resolutions, any two officers serving on the Committee of the District be and they hereby are authorized to (a) sign, execute, certify to, verify, acknowledge, deliver, accept, file and record any and all such instruments and documents, and (b) take, or cause to be taken, any and all such action in the name and on behalf of the District or otherwise (as in his or her judgment shall be necessary, desirable, or appropriate) in order to effect the purposes of the foregoing resolutions;

RESOLVED FURTHER, that the authority herein conferred shall be deemed retroactive and any and all acts authorized hereunder performed prior to the date hereof on behalf of the District in connection with the Plan or the Charter are hereby approved and ratified; and



RESOLVED FURTHER, that the Clerk of the Boards of the District, by the signature of such Clerk of the Boards, be, and the same hereby is, authorized to attest to the execution by the District of the documents signed pursuant to these resolutions, and to certify adoption of these resolutions.

II. General Implementing Authority

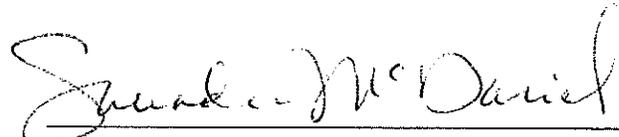
RESOLVED, that the officers of the District are authorized, empowered and directed to do all other things and acts, to execute and deliver all other instruments, documents and certificates, and to pay all costs and fees as may be, in their sole judgment, necessary, proper or advisable in order to carry out and comply with the purposes and intent of the foregoing resolutions; and that all of the acts and deeds of the officers of the District which are consistent with the purposes and intent of such resolutions be and hereby are, in all respects, approved, confirmed and adopted as the acts and deeds of the District.

AYES: Antonovich, Cacciotti, Campbell, Carney, Loveridge, Lyou, Ovitt, Reyes Uranga, Wilson, and Yates.

NOES: None.

ABSENT: Burke, Perry, and Pulido.

DATE: 5-2-08


Saundra McDaniel, Clerk of the Board



Attachment 1

Charter

(Attached hereto)



**CHARTER OF THE DEFERRED COMPENSATION PLAN COMMITTEE
FOR THE
SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
457 DEFERRED COMPENSATION PLAN**

ARTICLE I. PURPOSE

- 1.1 This Charter constitutes the articles governing the operation of the Deferred Compensation Plan Committee (the "Committee") for the South Coast Air Quality Management District 457 Deferred Compensation Plan (the "Plan") established by the Governing Board (the "Governing Board") of South Coast Air Quality Management District (the "District"), the sponsoring employer of the Plan, pursuant to the provisions of Section 8 of the Plan document.

ARTICLE II. PLAN ADMINISTRATION

- 2.1 Authority to control and manage the operation and administration of the Plan shall be vested in the Committee as provided in this Charter, to the extent not reserved to the District, acting through the Governing Board, under the terms of the Plan.
- 2.2 The members of the Committee as of the date of adoption of this Charter have been appointed by the Governing Board. Subsequent members of the Committee shall be appointed and removed as provided in Articles VII and VIII.
- 2.3 By adoption of this Charter, the Governing Board has determined that the members of the Committee shall constitute the Named Fiduciaries of the Plan. Notwithstanding the foregoing, the District shall continue as the administrator of the Plan; provided, however, that the District hereby delegates to the Committee certain of the statutory duties and responsibilities of the administrator as more fully described below.
- 2.4 Notwithstanding the foregoing, the Trustee with whom Plan assets have been placed in trust or an investment manager appointed pursuant to Article IV may be granted exclusive authority and discretion to manage and control all or any portion of the assets of the Plan.

ARTICLE III. DUTIES AND POWERS OF COMMITTEE

- 3.1 In addition to any powers and authority conferred on the Committee elsewhere in the Plan or by law or resolution of the Governing Board, the Committee shall have, by way of illustration but not by way of limitation, the powers and authority to perform the following functions, acting in the capacity of settlor or fiduciary, as described below:
- 3.1.1 Settlor Functions. The Committee shall have the following authority and responsibility to act on behalf of the District, as Plan sponsor and in its settlor capacity:
- (a) To appoint individuals and/or subcommittees, which may or may not include Committee members, with the powers and duties described in this Section 3.1.1 of the Charter, as the Committee shall determine, consistent with the terms of the Plan.

- (b) To employ advisors and counsel to advise the Committee with respect to settlor functions; to monitor their continued performance; and, as the Committee deems appropriate, to terminate the services of such advisors and counsel.
- (c) To perform all other acts required to be performed by the District as plan sponsor and in its settlor capacity that are delegated to it by the Governing Board.

Whenever the Committee (or an individual member of the Committee) exercises its authority and discretion pursuant to the provisions of this Section 3.1.1, it (or he or she) shall be acting on behalf of the District in its settlor capacity and shall not be subject to the fiduciary standards.

3.1.2 Fiduciary Functions. The Committee shall have authority to control and manage the operation and administration of the Plan in accordance with the terms of the instruments and resolutions governing the Plan and any applicable laws, rules or regulations, including, without limitation, the authority and responsibility described below:

- (a) To appoint individuals and/or subcommittees, which may or may not include Committee members, with the powers and duties described in this Section 3.1.2 of the Charter, whether discretionary or otherwise, as the Committee shall determine, consistent with the terms of the Plan.
- (b) Specifically, and without limitation, the Committee may appoint an investment subcommittee to fulfill all the obligations and duties set forth in this Charter that pertain to investment of the assets of the Plan.
- (c) Specifically, and without limitation, the Committee may appoint an administrative subcommittee to fulfill all the obligations and duties set forth in this Charter that pertain to the operation and administration of the Plan.
- (d) To make recommendations to the Governing Board regarding the appointment, removal or replacement of the Plan Trustee and to conduct periodic performance reviews of the Plan Trustee for the Governing Board.
- (e) To appoint, remove or replace any investment manager, investment advisor or any other fiduciary of the Plan, in accordance with the instruments governing the Plan and the provisions of this Charter, and to conduct periodic performance reviews of the investment managers and/or investment advisors for the Plan.
- (f) To develop and maintain an investment policy for the purposes of the following: defining and assigning the responsibilities of all parties associated with the Plan; establishing and communicating to all such

parties the objectives of an investment program suitable to the long-term goals and investment objectives of the Plan; outlining and prescribing a prudent and acceptable investment philosophy and setting out the investment management procedures; formulating policies for selecting investment management; establishing objectives for prudently monitoring and evaluating the performance of the Plan's investments; periodically evaluating the Plan's investment performance and making investment changes.

- (g) To adopt and enforce the rules and procedures and to designate the manner for Participants to make elections, all as are necessary for the operation and administration of the Plan and are consistent with its provisions.
- (h) To determine all questions relating to eligibility, benefits and other rights of Employees, Participants and Beneficiaries under the Plan.
- (i) To interpret the provisions of the Plan. The Committee shall have full discretion in interpreting the provisions of the Plan, and it shall be the sole judge of the standard of proof required in any case and in the application and interpretation of the Plan. Any determination made by the Committee shall be final and binding on all parties and shall be given the maximum possible deference allowed by law.
- (j) All questions or controversies of whatsoever character arising in any manner or between any parties or persons in connection with the Plan or their operation, whether as to any claim for benefits as to the construction of the language of the Plan or any rules and regulations adopted by the Committee, or as to any writing, decision, instrument or account in connection with the operation of the Plan, shall be submitted to the Committee (or to an agent of the Committee) for decision. Any decision by the Committee on review of a denied claim shall be binding on all persons dealing with the Plan or claiming any benefit under the Plan.
- (l) To communicate with the Trustee and other responsible persons with respect to the crediting of Plan contributions, the disbursement of Plan distributions and other relevant matters. Accordingly, the Trustee shall be charged with the responsibility of safekeeping the assets, collection and disbursement of the Plan's assets and periodic accounting statements.
- (m) To authorize and direct all payments made under the Plan and to determine whether to pay Plan expenses with Plan assets, to the extent permitted by the Plan.
- (n) To perform due diligence as necessary and appropriate with respect to transactions involving the Plan.
- (o) To ensure that the Plan is in compliance with all reporting and disclosure obligations.

- (p) The Committee shall have, except as otherwise provided herein or as otherwise required by law, all powers necessary to carry out those provisions of the Plan the responsibility for which have been delegated to the Committee.
- (q) To delegate to or employ agents (who may also be persons employed by the Company), direct them to exercise the fiduciary powers of the Committee, monitor their continued performance, and, as the Committee deems appropriate, terminate the services of such agents. The Committee may employ advisors and/or counsel (who may be counsel to the District) to render advice with regard to any responsibility the Committee has as a fiduciary under the Plan.

Whenever the Committee (or an individual member of the Committee) exercises its authority and discretion pursuant to the provisions of this Section 3.1.2, it (or he or she) shall be acting as a fiduciary of the Plan, and as such, shall be subject to the fiduciary standards under ERISA. The Committee shall constitute the administrative fiduciary, and as such, shall be responsible for the operation and administration of the Plan. The Committee shall constitute the investment fiduciary, and as such shall be responsible for the investment and management of Plan assets. Any action taken by the Committee in the exercise of discretionary authority conferred upon it by the Plan shall be conclusive and binding upon the Participants and their Beneficiaries. All discretionary powers conferred upon the Committee shall be absolute.

ARTICLE IV. INVESTMENT MANAGER AND INVESTMENT ADVISOR

- 4.1 The Committee, by action reflected in the minutes thereof, may appoint one or more investment managers, as defined in Section 3(38) of ERISA, to manage all or a portion of the assets of the Plan in accordance with the terms of the Plan and the investment policy developed by the Committee, and all applicable law.
- 4.2 An investment manager shall discharge its duties in accordance with applicable law.
- 4.3 The investment advisor, if employed, shall be charged with the responsibility of advising the Committee on investment policy, the selection of investment managers and investments, and providing performance analysis and monitoring services. The Committee may rely on the investment manager in carrying out its fiduciary duties.

ARTICLE V. COMMITTEE PROCEDURES

- 5.1 A majority of the Committee as constituted at any time shall constitute a quorum, and any action by a majority of the members present at any meeting, or authorized by a majority of the members in writing without a meeting, shall constitute the action of the Committee. The Committee may hold meetings by telephone or the use of other electronic media so long as all members can be identified to each other and all members participating in the meeting may hear each other.

- 5.2 The Committee may designate certain of its members as authorized to execute any document or documents on behalf of the Committee. The District, Participants, Beneficiaries, and any other party dealing with the Committee may accept and rely upon any document executed by the designated members as representing action by the Committee until the District shall file with the Committee a written revocation of the authorization of the designated members.

ARTICLE VI. COMPENSATION OF COMMITTEE

- 6.1 The Committee shall serve without compensation unless the Governing Board shall otherwise determine. However, in no event shall any Committee member who is an Employee receive compensation from the Plan for his services as a Committee member.
- 6.2 The compensation or fees, as the case may be, of all officers, agents, counsel, or other persons retained or employed by the Committee shall be fixed by the Committee.

ARTICLE VII. RESIGNATION AND REMOVAL OF MEMBERS

- 7.1 Any Committee member may resign at any time by giving written notice to the other members and to the District effective as therein stated. Any Committee member may, at any time, be removed by a unanimous vote of the other Committee members. If a Committee member who is an Employee incurs a severance from employment, such person shall no longer be a Committee member.

ARTICLE VIII. APPOINTMENT OF SUCCESSORS

- 8.1 Upon the death, resignation, or removal of any Committee member, or other termination of a member's status as a Committee member, the Governing Board shall appoint a successor.
- 8.2 Such appointment must be in writing and accepted by the person or persons receiving the appointment.
- 8.3 Upon termination, for any reason, of a Committee member's status as a Committee member, the Committee member's status as a Named Fiduciary shall concurrently be terminated, and upon the appointment of a successor Committee member the successor shall assume the status of a Named Fiduciary as provided in Section 2.3.

ARTICLE IX. RECORDS

- 9.1 The Committee shall keep a record of all its proceedings and shall keep, or cause to be kept, all such books, accounts, records or other data as may be necessary or advisable in its judgment for the administration of the Plan and to properly reflect the affairs thereof.

ARTICLE X. RELIANCE UPON DOCUMENTS AND OPINIONS

- 10.1 The Committee, the Governing Board, the District and any person delegated under the provisions hereof to carry out any fiduciary responsibilities under the Plan ("delegated

fiduciary"), shall be entitled to rely upon any tables, valuations, computations, estimates, certificates and reports furnished by any consultant, or firm or corporation which employs one or more consultants, upon any opinions furnished by legal counsel, and upon any reports furnished by the Committee. The Committee, the Governing Board, the District and any delegated fiduciary shall be fully protected and shall not be liable in any manner whatsoever for anything done or action taken or suffered in reliance upon any such consultant or firm or corporation which employs one or more consultants, Trustee, or counsel.

- 10.2 Any and all such things done or actions taken or suffered by the Committee, the Governing Board, the District and any delegated fiduciary shall be conclusive and binding on all Employees, Participants, Beneficiaries, and any other persons whomsoever, except as otherwise provided by law.
- 10.3 The Committee and any delegated fiduciary may, but are not required to, rely upon all records of the District with respect to any matter or thing whatsoever, and may likewise treat those records as conclusive with respect to all Employees, Participants, Beneficiaries, and any other persons whomsoever, except as otherwise provided by law.

ARTICLE XI. MULTIPLE FIDUCIARY CAPACITIES

- 11.1 Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan.

ARTICLE XII. LIMITATION ON LIABILITY

- 12.1 No person shall be subject to any liability with respect to his duties under the Plan unless he acts fraudulently or in bad faith.
- 12.2 No person shall be liable for any breach of fiduciary responsibility resulting from the act or omission of any other fiduciary or any person to whom fiduciary responsibilities have been allocated or delegated.
- 12.3 No action or responsibility shall be deemed to be a fiduciary action or responsibility except to the extent required by applicable law.

ARTICLE XIII. INDEMNIFICATION

- 13.1 To the extent permitted by law, the District shall indemnify each member of the Governing Board and the Committee, and any other Employee of the District with duties under the Plan, against expenses (including any amount paid in settlement) reasonably incurred by him in connection with any claims against him by reason of his conduct in the performance of his duties under the Plan, except in relation to matters as to which he acted fraudulently or in bad faith in the performance of such duties. The preceding right of indemnification shall pass to the estate of such a person.

- 13.2 The preceding right of indemnification shall be in addition to any other right to which the Board member or Committee member or other person may be entitled as a matter of law or otherwise.

ARTICLE XIV. BONDING

- 14.1 Except as is prescribed by the Governing Board or as may be required under any other applicable law, no bond or other security shall be required by any Committee member, or any other fiduciary under this Plan.
- 14.2 Notwithstanding the foregoing, for purposes of satisfying its indemnity obligations under Article XIII, the District may (but need not) purchase and pay premiums for one or more policies of insurance. However, this insurance shall not release the District of its liability under the indemnification provisions.

ARTICLE XV. PROHIBITION AGAINST CERTAIN ACTIONS

- 15.1 The District shall not cause the Plan to engage in any transaction that constitutes a nonexempt prohibited transaction.
- 15.2 All individuals who are fiduciaries with respect to the Plan shall discharge their fiduciary duties in accordance with applicable law, and within the guidelines of the Uniform Fiduciary Standards of Care.

ARTICLE XVI. PLAN EXPENSES

- 16.1 All expenses incurred in the establishment, administration and operation of the Plan, including but not limited to the expenses incurred by the Committee in exercising its duties, shall be paid by the District if not paid by the Trust.

ARTICLE XVII. CORRECTION OF ADMINISTRATIVE ERROR

- 17.1 Notwithstanding any other provision of this Plan to the contrary, the Committee shall take any and all appropriate actions to correct errors in the administration of the Plan, including, without limitation, errors in the allocation of contributions, forfeitures, and income, expenses, gains and losses to the Accounts of Participants or Beneficiaries under the Plan. Such corrective actions may include debiting or crediting a Participant's or Beneficiary's Accounts or allocating forfeitures or special contributions made by the Employer to the Plan for purposes of correcting any failure to make contributions on a timely basis or properly allocate contributions, forfeitures, or income, expenses, gains and losses. The Committee shall determine the amount of any allocation of forfeitures or special contributions required to be made by the District, which allocation may be made in such approximate amounts as the Committee, acting in its sole discretion, shall determine. In no event shall any corrective action taken by the Committee reduce any Participant's or Beneficiary's accrued benefit.

ARTICLE XVIII. MISCELLANEOUS

- 18.1 Capitalized terms not otherwise defined in this Charter shall have the meaning provided for such terms in the Plan.
- 18.2 If there is any conflict between this Charter and the Plan, the terms and conditions of the Plan will control.

INVESTMENT POLICY STATEMENT

**South Coast Air Quality Management District
457 DEFERRED COMPENSATION PLAN**

May 2008

Purpose of the Investment Policy Statement

This statement establishes the policies and objectives for the South Coast Air Quality Management District 457 Deferred Compensation Plan (the “Plan”). It outlines and prescribes a prudent and acceptable investment philosophy and sets out the investment management procedures that are designed to assist the Plan fiduciary, South Coast Air Quality Management District (the “District”) and the Deferred Compensation Plan Committee (the “Committee”) appointed by the District in the discharge of the fiduciary duties imposed by them under the State of California Constitution, Government Code, and where the California legal provisions are not developed follow the fiduciary duties imposed by Employee Retirement Income Security Act of 1974, as amended (“ERISA”). This statement is not intended to and shall not be deemed to expand the fiduciary duties of the District or the Committee or to create duties that do not exist under the State of California Constitution, Government code and ERISA.

Purpose of the Plan

The Plan was established for the purpose of providing a retirement savings program for certain employees of the District who have adopted the Plan. The assets of the Plan are held for the exclusive purpose of providing benefits to the Plan participants and their beneficiaries and defraying reasonable expenses of administering the Plan. The Plan is intended to operate in accordance with all applicable state and federal laws and regulations.

Pursuant to the election of the Sponsor (“District”), as Administrator of the Plan, assets of the Plan are subject to the investment direction of the participants or their beneficiaries. The Plan is intended to comply with the provisions of the Government Code section 53213.5 as it relates to the Department of Labor regulations issued pursuant to Section 404 (c) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

The goal of the Plan is to provide a framework for participants to establish a savings and investment program for their retirement. While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide a broad range of investment alternatives, allowing participants to invest in accordance with their own time horizons, risk tolerance and retirement goals.

Statement of Responsibilities

The following parties associated with the Plan shall discharge their respective responsibilities in accordance with all applicable fiduciary standards of Article XVI, §17 of the California Constitution, Government Code section 53213.5 and Section 404(a) of ERISA as follows: (1) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; (3) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of the State of California Constitution, Government Code and ERISA.

- A. Deferred Compensation Plan Committee: The members of the Committee have been appointed by the District to act as the “Investment Fiduciary.” The Committee, as the primary Investment Fiduciary, is responsible for investment and management of Plan Assets, and the selection of services related to those functions. The Committee shall be responsible for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual fund performance and does not guarantee positive investment results.
- B. Trustee: The Trustee of the Plan, is a nondiscretionary or “directed” Trustee and is charged with the responsibility of safekeeping the securities, collection and disbursement of the Plan assets, and periodic accounting statements.
- C. Record Keeper: The Record Keeper responsibilities include administrative functions such as: maintaining participant records, administering participant directions, reporting to the plan sponsor, reporting to participants, and allocating contributions, as more fully described in the Services Agreement with the Record Keeper.
- D. Investment Consultant: The Investment Consultant is a co-fiduciary of the Plan charged with the responsibility of advising the Committee on investment policy, advising on the selection of investment managers, providing performance analysis and monitoring services. The Investment Consultant shall provide assistance to the Committee for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual fund performance and does not guarantee investment results.

Disclosures

The District and Deferred Compensation Plan Committee have delegated to the Record Keeper the responsibility to provide the following information to participants automatically in accordance with the provisions of the Government Code Section 53213.5 and/or ERISA Section 404(c):

- A description of the available investment alternatives, including with respect to each alternative, the investment objectives, risk and return characteristics, and information relating to the type and diversification of assets comprising the portfolio;
- A description of the circumstances under which investment instructions may be given, and any restrictions on transfers;
- A description of any fees, expenses, or charges to participants’ accounts in connection with any transaction, including for example sales load, commissions, redemption fees, etc;
- The names, addresses, and telephone number of the Plan fiduciary, or the designated agent responsible for providing information about the investment alternatives under the Plan;
- A copy of the most recent prospectus for investment alternatives subject to the Securities Act of 1933;
- A description of information available on request and the identity of the person or persons responsible for providing that information.

The District and Deferred Compensation Plan Committee have delegated to the Record Keeper the responsibility to provide the following information to Plan participants upon demand:

- A description of the annual operating expenses of each designated investment alternative including the sum of such expenses expressed as a percentage of average net assets in the investment alternatives;
- Copies of any prospectuses, financial statements or reports, or other materials relating to the investment alternatives supplied to the Plan
- Copies of the portfolios or lists of assets of each designated investment alternative, including the value of each asset; if an asset is a fixed rate investment contract issued by a bank, savings and loan or an insurance District, the name and address of the issuer and the rate of return on the contract;
- Information relating to the value of the shares or units in a designated investment alternative and past and current investment performance net of expenses; and
- Information on the value of the share or units in the participant's individual account in a designated investment alternative.

Investment Choices

The Plan intends to comply with the California Constitution, Government Code section 53213.5 and Section 404(c) of ERISA by providing a broad range of investment alternatives. These alternatives shall be sufficient to provide participants and beneficiaries with a reasonable opportunity to:

- a) materially affect the potential return on amounts in their accounts with respect to which they are permitted to exercise control and the degree of risk to which such amounts are subject;
- b) choose from a minimum of three core investment alternatives, (i) each of which is diversified; (ii) each of which has materially different risk and return characteristics; (iii) which in the aggregate enable participants and beneficiaries to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for participants and beneficiaries; and (iv) each of which when combined with investments in the other alternatives tends to minimize through diversification the overall risk of a participant's or beneficiary's portfolio;
- c) diversify the investment of the accounts of participants and beneficiaries so as to minimize the risk of large losses, taking into account the nature of the Plan and the size of participants' or beneficiaries' accounts.

The Committee will endeavor to ensure that there will be at least one investment choice available to participants in each asset class (cash, fixed income, domestic equity and foreign equity), unless under the circumstances the Committee determines that it is not prudent to do so. All investment choices will be publicly available mutual funds or Institutional trust or similar vehicles. All investments being offered will fluctuate in value with market conditions and, when redeemed, may be worth more or less than the amount originally invested. Each of the chosen

investment options is designed to follow a specific stated investment objective as outlined in Appendix A.

Selection and Review of Investment Options

The Committee shall evaluate all Plan investments against appropriate peer groups and index benchmarks using several measures to quantify expenses, returns and risk-adjusted performance as detailed in Appendix B. Each Plan investment option will be reviewed quarterly using the following quantitative and qualitative criteria:

Quantitative Criteria

Quantitative factors used in monitoring the Plan's investment alternatives may include, but are not limited to the following:

- Absolute and relative returns
- Risk-adjusted efficiency ratios
- Fund expenses
- Style consistency

Each fund shall be evaluated and compared to a widely accepted industry benchmark and a relevant peer group. Any fund that is passively managed or categorized as a Lifestyle or Asset Allocation (fund of funds) fund will not be evaluated, nor will any fund lacking sufficient historical data.

Qualitative Criteria

In addition to the above quantitative criteria, qualitative factors may be monitored to determine the potential exposure to risk that may make a fund unsuitable as a retirement plan investment option.

The Committee intends to use independent discretion and judgment in determining whether any investments are prudent and suitable for the Plan and its participants and beneficiaries, and while the evaluation criteria outlined in Appendix B is intended for guidance, it is not determinative.

Committee Review of Investment Performance Reports

Upon receipt of the Report by the Committee, copies will be provided to each of the Committee members to review and comment. While it is anticipated that the Committee will meet on a quarterly basis to discuss the Report, the Committee members may alternatively confer through individual conversations, conference calls, and other forums.

Monitoring of Participant Investment Behavior

The Committee will analyze the use of the investment options by the Participants at least annually. Based on their findings, the Committee will determine what, if any, changes to the Plan's investments or services is appropriate.

Monitoring of Investment Policy and Investment Performance

The Committee will review the Plan's Investment Policy and monitor each investment option on an ongoing basis.

In addition, the Committee shall maintain a "Watch List" for investment funds that are not meeting certain objectives. An investment fund will be placed on the "Watch List" when the Committee determines that the fund selected for the Plan fails to meet the performance benchmarks set forth in the Evaluation Methodology for a period of time to be determined by the Committee, but no less than two consecutive quarters.

The Committee shall have the authority to establish, modify, amend or adjust acceptable performance measurement standards by which each investment alternative is to be evaluated.

Final selection, replacement and/or removal of an investment alternative from the line-up shall be completed only after conducting a thorough review of the identified investment option.

Review and Revisions

The Committee reserves the right to amend the Investment Policy Statement at any time. Ordinarily, it is expected that this Statement will be amended to reflect such changes; however, formal amendment is not required.

ADOPTION

DEFERRED COMPENSATION PLAN COMMITTEE MEMBERS:

(Name)

(Date)

(Name)

(Date)

(Name)

(Date)

(Name)

(Date)

APPENDIX A

Following is a list of the asset classes, investment options, and indices that are currently represented in the Plan.

Stable Value

Hartford General Account

Index

3 Year Constant Maturity Treasury and Short Term Bond Category Peer Group

Inflation Protected Bond

PIMCO Real Return

Index

Lehman Brothers United States TIPS Index and Inflation Protected Bond Category Peer Group

Intermediate Government Bond

Hartford Mortgage Securities

Index

Lehman Brothers Intermediate Government Bond Index and Intermediate Government Bond Category Peer Group

Intermediate Bond

Hartford Total Return Bond
SSgA Intermediate Bond Index

Index

Lehman Brothers Aggregate Bond Index and Intermediate Term Bond Category Peer Group

High Yield Bond

Putnam High Yield Advantage

Index

Merrill Lynch United States High Yield Master and High Yield Bond Category Peer Group

Balanced (Hybrid)

Van Kampen Equity & Income

Index

40% LB Aggregate / 60% Russ 1000 Value Index and Moderate Allocation Category Peer Group

Balanced (Hybrid)

Oakmark Equity & Income II

Index

40% LB Aggregate / 60% Standard & Poors's 500 Index and Moderate Allocation Category Peer Group

Large Cap Value

American century Equity Income
Hartford Dividend & Growth
Hotchkis & Wiley Large Cap Value
Van Kampen Comstock

Index

Russell 1000 Value Index and Large Cap Value Category Peer Group

Large Cap Blend

Davis NY Venture
Hartford Capital Appreciation
Neuberger Berman Socially Responsive
SSgA S&P 500 Index
Victory Diversified Stock

Index

Standard & Poor's 500 Index and Large Cap Blend Category Peer Group

Large Cap Growth

AIM Leisure
American Century Ultra
GE Premier Growth Equity
Hartford Large Cap Growth
Janus Twenty

Index

Russell 1000 Growth Index and Large Cap Growth Category Peer Group

Mid Cap Value

Artisan Mid Cap Value

Mid Cap Blend

SSgA S&P Mid Cap Index

Mid Cap Growth

Franklin Small / Mid Cap Growth
Hartford Mid Cap
Munder Mid Cap Core Growth

Small Cap Value

American Century Small Cap Value
Managers AMG Skyline Special Equities

Small Cap Blend

SSgA Russell 2000 Index

Small Cap Growth

Baron Small Cap
Hartford Small District
Lord Abbett Small Cap Blend

Global

Templeton Growth

International

Alliance Bernstein International Value
Hartford International Opportunities
Janus Adviser International Growth
SSgA EAFE Index

Healthcare

Hartford Global Health

Real Estate

AIM Real Estate

Technology

Hartford Global Technology

Utilities

MFS Utilities

Lifecycle Funds

SSgA Dow Jones Target Today
SSgA Dow Jones Target 2015
SSgA Dow Jones Target 2025
SSgA Dow Jones Target 2035
SSgA Dow Jones Target 2045

Index

Russell Mid Cap Value Index and Mid Cap Value Category Peer Group

Index

S&P Mid Cap 400 Index and Mid Cap Blend Category Peer Group

Index

Russell Mid Cap Growth Index and Mid Cap Growth Category Peer Group

Index

Russell 2000 Value Index and Small Cap Value Category Peer Group

Index

Russell 2000 Index and Small Cap Blend Category Peer Group

Index

Russell 2000 Growth Index and Small Cap Growth Category Peer Group

Index

MSCI World and World Stock Category Peer Group

Index

MSCI EAFE Index and Foreign Large Cap Category Peer Group

Index

Specialty – Healthcare Category Index and Peer Group

Index

Dow Jones Wilshire REIT Index and Specialty – Real Estate Category Peer Group

Index

Specialty – Technology Category Index and Peer Group.

Index

Specialty – Utilities Category Index and Peer Group

Index

Target Date 200-2014, 2015-2029, and 2030+ Category Index and Peer Group

APPENDIX B

Investment Option Evaluation Methodology

Quantitative Criteria

1. Trailing 3, 5 and 10 year returns – Total returns are evaluated over different periods of time to analyze performance over various business cycles. .
2. Rolling 12-month returns (10 years) – Returns shall be evaluated over a rolling 12-month period to determine how consistently the fund manager out-performed his peers in a variety of market cycles.
3. Rolling 36 month returns (10 years) – Returns shall also be evaluated over a 36-month rolling period, thus putting more emphasis on performance across different cycles of the market.
4. Sharpe Ratio (3, 5 and 10 year weighted average) – Sharpe Ratio shall be evaluated to determine the funds overall efficiency. The Sharpe Ratio is calculated by dividing the annualized return in excess of the risk free Treasury Bill by the standard deviation for that same time frame.
5. Information Ratio (3, 5 and 10 year weighted average) – The Information Ratio shall be evaluated by taking the excess return over the fund’s appropriate index and dividing it by the standard deviation.
6. Up Capture Ratio – The percentage of an index return captured during up market cycles, referred to as Up Capture Ratio, shall be evaluated.
7. Down Capture Ratio – The percentage of an index return captured during down market cycles, referred to as Down Capture Ratio, shall be evaluated.
8. Style Consistency to the appropriate category – The use of three, weighted analyses ensures that the funds that are selected for the plan continue to operate and perform as expected within their appropriate asset class. R-Squared, style return consistency, and holdings consistency shall be evaluated.
9. Expense Ratio – The expense ratio shall be compared as a percentage to the appropriate category average.

Qualitative Criteria

In addition to the above quantitative criteria, many additional qualitative factors will be monitored to determine the potential exposure to risk that may make a fund unsuitable as a retirement plan investment option. The additional factors to be monitored include, but are not limited to, the following:

- Change in fund philosophy
- Change in fund manager
- Individual holding concentrations
- Economic sector concentrations
- Performance volatility as measured by standard deviation
- Portfolio turnover
- Manager tenure
- Asset base
- Median market capitalization
- Average credit quality for bond funds
- Average duration for bond funds

INDEX DEFINITIONS:

- ◆ 3 Year Constant Maturity Treasury. The 3 Year Constant Maturity Treasury is derived by the Treasury from the daily yield curve. The daily yield curve relates the yield on a security to its time to maturity and is based on the closing market bid yields on actively traded Treasury Securities. These market yields are calculated from composites of quotations obtained by the Federal Reserve Bank of New York.
- ◆ Category: Short Term Bond. Short-term bond portfolios invest primarily in corporate and other investment-grade U.S. fixed-income issues and have durations of one to 3.5 years (or, if duration is unavailable, average effective maturities of one to four years). These portfolios are attractive to fairly conservative investors, because they are less sensitive to interest rates than portfolios with longer durations.
- ◆ Lehman Brothers United States TIPS Index. This index consists of Inflation-Protection securities issued by the United States Treasury. The holdings have at least one year to final maturity, are fixed rate, and are at least investment grade.
- ◆ Category: Inflation Protected Bond. Inflation Protected Bond portfolios invest in fixed income securities that increase coupon and/or principal payments at the rate of inflation. Any organization may issue these securities but the United States treasury is currently the largest issuer.
- ◆ Lehman Brothers Intermediate Government Bond Index. Composed of those indexes found in the Lehman Brothers Government Index which have a maturity of one to three years. The returns for the index are total returns, which include reinvestment of dividends.
- ◆ Category Intermediate Government. This category is comprised of portfolios that have at least 90% of their bond holdings in bonds backed by the US government or by government-linked agencies. This backing minimizes the credit risk of these portfolios, as the US government is unlikely to default on its debt. These portfolios have durations between 3.5 and six years (or, if duration is unavailable, average maturities between four and 10 years). Consequently, the groups performance, and its level of volatility, tends to fall between that of the short government and long government bond categories.
- ◆ Lehman Brothers Aggregate Index. Composed of the Lehman Brothers Government/Corporate Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which include reinvestment of dividends.
- ◆ Category: Intermediate-Term Bond. This benchmark measures the average performance of funds that invest primarily in corporate and other investment-grade US fixed-income issues and have durations of 3.5 to 6 years (or, if duration is unavailable, average effective maturities of 4 to 10 years).

- ◆ Merrill Lynch High Yield Master. The Merrill Lynch High Yield Master measures performance of a broad-based group of non-investment grade US domestic market issues rated below investment grade but not in default
- ◆ Category: High Yield Bond. This benchmark measures the performance of funds that fall within the high yield category, which includes any fund with a majority of assets in BB-rated bonds or lower.
- ◆ Category: Moderate Allocation. This benchmark measures the average performance of funds that seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than conservative allocation portfolios. These portfolios typically have 50% to 70% of assets in equities and the remainder in fixed income and cash.
- ◆ Russell 1000 Value Index. Market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable US equity market.
- ◆ Category: Large Cap Value. This benchmark measures the average performance of funds that invest primarily in big U.S. companies that are less expensive or growing more slowly than other large-cap stocks. Stocks in the top 70% of the capitalization of the US equity market are defined as large-cap. Value is defined based on low valuations and slow growth.
- ◆ Standard & Poor's 500 Index. The S&P 500 Index consists of 500 widely held common stocks, consisting of four broad sectors (industrials, utilities, financial, and transportation). It is a market-value weighted index (stock price times shares outstanding), with each stock affecting the index in proportion to its market value. This index, calculated by Standard & Poor's, is a total return index with dividends reinvested.
- ◆ Category: Large Cap Blend. This benchmark measures the average performance of funds that are fairly representative of the overall U.S. stock market in size, growth rates, and price. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios tend to invest across the spectrum of U.S. industries.
- ◆ Russell 1000 Growth Index. Market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 includes the largest 1000 firms in the Russell 3000, which represents approximately 98% of the investable U.S. equity market.
- ◆ Category: Large Cap Growth. This benchmark measures the average performance of funds that invest in big US companies that are projected to grow faster than other large cap stocks. Stocks in the top 70% of the capitalization of the U.S. equity market are defined as large-cap. Growth is defined based on fast growth and high valuations. Most of these portfolios focus on companies in rapidly expanding industries.

- ◆ *Russell Mid Cap Value Index.* Market-weighted total return index that measures the performance of companies within the Russell Mid Cap Index having lower price-to-book ratios and lower forecasted growth values. The Russell Mid Cap Index includes firms 201 through 1000, based on market capitalizations, from the Russell 3000 Index. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ◆ *Category: Mid Cap Value.* This benchmark measures the average performance of funds that focus on medium-size companies. They look for U.S. stocks that are less expensive or growing more slowly than the market. The U.S. mid-cap range for market capitalization typically falls between \$1 billion - \$8 billion and represents 20% of the total capitalization of the U.S. equity market.
- ◆ *Standard & Poor's Mid Cap 400 Index.* This index consists of approximately 10% of the capitalization of United States equity securities and is comprised of stocks in the middle of the capitalization range. At the original screening stocks were between \$200 million and \$5 billion. Any mid cap stocks already included in the S&P 500 are excluded from this index.
- ◆ *Category: Mid Cap Blend.* The typical mid-cap blend portfolio invests in U.S. stocks of various sizes and styles, giving it a middle-of-the-road profile. Most shy away from high-priced growth stocks, but aren't so price-conscious that they land in value territory. The U.S. mid-cap range for market capitalization typically falls between \$1 billion-\$8 billion and represents 20% of the total capitalization of the U.S. equity market. The blend style is assigned to portfolios where neither growth nor value characteristics predominate.
- ◆ *Russell Mid Cap Growth Index.* Market-weighted total return index that measures the performance of companies within the Russell Mid Cap Index having higher price-to-book ratios and higher forecasted growth values. The Russell Mid Cap Index includes firms 201 through 1000, based on market capitalizations, from the Russell 3000 Index. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ◆ *Category: Mid Cap Growth.* This benchmark measures the average performance of funds that focus on medium-size companies. They look for U.S. stocks that are projected to grow faster than other mid-cap stocks, therefore commanding higher prices. The US mid-cap range for market capitalization typically falls between \$1 billion - \$8 billion and represents 20% of the total capitalization of the U.S. equity market.
- ◆ *Russell 2000 Value Index.* Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the of the investable U.S. equity market.
- ◆ *Category: Small Cap Value.* This benchmark measures the average performance of funds that invest in small U.S. companies with valuations and growth rates below other small-cap peers. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.

- ◆ *Russell 2000 Index*. Market-weighted total return index that measures the performance of the smallest 2000 companies in the Russell 3000 index, which represents approximately 7% of the Russell 3000 total market capitalization.
- ◆ *Category: Small Cap Blend*. This benchmark measures the average performance of funds that favor U.S. firms at the smaller end of the market-capitalization range. Some of the funds measured aim to own an array of value and growth stocks, while others employ a discipline that leads to holdings with valuations and growth rates close to the small-cap averages. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.
- ◆ *Russell 2000 Growth Index*. Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values. The Russell 2000 Index includes the 2000 firms from the Russell 3000 Index with the smallest market capitalizations. The Russell 3000 Index represents 98% of the investable U.S. equity market.
- ◆ *Category: Small Cap Growth*. This benchmark measures the average performance of funds that focus on faster-growing companies whose shares are at the lower end of the market-capitalization range. These portfolios tend to favor companies in up-and-coming industries or young firms in their early growth stages. Because these businesses are fast-growing and often richly valued, their stocks tend to be volatile. Stocks in the bottom 10% of the capitalization of the U.S. equity market are defined as small-cap.
- ◆ *MSCI World Index*. A capitalization-weighted index of stocks from Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Columbia, Denmark, Finland, France, Germany, Greece, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, Jordan, Korea, Luxembourg, Malaysia, Mexico, Netherlands, New Zealand, Norway, Pakistan, Peru, Philippines, Poland, Portugal, Singapore, South Africa, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Kingdom, USA, and Venezuela. Includes all 23 MSCI developed market countries. Indexes are calculated daily and take into account actual dividends reinvested daily before withholding taxes, but exclude special tax credits declared by companies.
- ◆ *Category: World Stock*. This category is comprised of portfolios that have few geographical limitations. It is common for these portfolios to invest the majority of their assets in the U.S., Europe, and Japan, with the remainder divided among the globe's smaller markets. These portfolios typically have 20% - 60% of assets in U.S. stocks.
- ◆ *MSCI EAFE Index*. This index is listed for foreign stock funds (EAFE refers to Europe, Australasia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the major markets of the world. The returns published for the index are total returns, which include reinvestment of dividends.

- ◆ Category: Foreign Large Cap Equity. This benchmark measures the average performance of funds that invest in a variety of international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe and Asia ex-Japan). The category is weighted as follows:
 - 60% Blend: The blend style is assigned to portfolios where neither growth nor value characteristics predominate.
 - 20% Value: Value is defined based on low valuations (low price ratios and high dividend yields) and slow growth (low growth rates for earnings, sales, book value, and cash flow).
 - 20% Growth: Growth is defined based on fast growth (high growth rates for earnings, sales, book value, and cash flow) and high valuations (high price ratios and low dividend yields).
- ◆ Category: Specialty Healthcare. This category consists of offerings focusing on the medical and healthcare industries. Most invest in a range of companies, buying everything from pharmaceutical and medical device makers to HMOs, nursing homes.
- ◆ Dow Jones Wilshire REIT. This index is intended to be a broad measure of the performance of publicly traded real estate equity. The index is market-capitalization weighted of Real Estate Investment Trusts, Operating Companies, and partnerships.
- ◆ Category: Specialty Real Estate. This category is comprised of offerings that seek capital appreciation from real-estate-related equity securities as their primary objective.
- ◆ Category: Specialty Technology. This category is comprised of offerings that seek capital appreciation by investing primarily in equity securities of companies engaged in the development, distribution, or servicing of technology-related equipment or processes.
- ◆ Category: Specialty Utilities. This category is comprised of offerings that seek capital appreciation by investing in equity securities of public utilities including electric, gas, and telephone-service providers. Includes funds that invest primarily in global communications.
- ◆ Category: Target Date 2000-2014, 2015-2029, 2030+. Target date portfolios provide diversified exposure to stocks, bonds and cash for investors with a specific time horizon for retirement. These portfolios aim to provide the investor with the optimal level of return and risk, based solely on the target date. As the target date approaches, these portfolios get more conservative by investing more in bonds and cash.

AQMD Deferred Compensation Plan Committee Meeting Minutes

DATE: March 6, 2008
2:00 - 3:30 pm

ATTENDEES: Mr. Patrick Pearce - Chief Financial Officer
Mr. Ron Portnoy - Human Resources Manager
Ms. Eudora Tharp - Assistant Deputy Executive Office

ABSENT: Kirk Wiese - District Counsel

GUESTS: John Campbell, Benefit Funding Services Group
Tina Schackman, Benefit Funding Services Group
Chris Rowey, Benefit Funding Services Group

SUBJECT: South Coast Air Quality Management District 457 Deferred Compensation Plan
Investment Review - 4th Quarter 2007

The meeting was called to order at 2:00 pm and the minutes were documented as follows.

Additions to the Agenda: Mr. Campbell briefly introduced the concept of utilizing asset allocation or target date models in the plan and briefly explained how they would work within the 457 Deferred Compensation Plan by developing allocations based on participant's risk tolerance and time horizon to retirement. Mr. Portnoy commented the plan already has target date funds and Mr. Campbell explained the difference between using target date funds versus models. Target date funds are not always used properly by participants because they only see one investment option on their statement and may compare its performance with other funds in the plan. Target date funds tend to have a low utilization rate (typically 5-7% of plan assets) among participants mainly due to participants viewing them as another investment option rather than a one-stop asset allocation tool. Ms. Tharp stated the Hartford rep that conducts one-on-one meetings with participants assists participants with allocating their accounts; however, he only provides investment education, not advice. Mr. Campbell replied that the models could be incorporated with Hartford's education efforts because they would be integrated with the plans enrollment process and offered as an investment tool. Mr. Campbell also commented that BFSG has had much success with plans that adopt asset allocation models and plans using models for more than 3 years have at least a 50% participation rate. The Committee agreed to continue discussions around the use of models and requested to have the topic added to the next meeting agenda.

Trust Reimbursement Account: Mr. Pearce summarized the trust reimbursement account had been established at Hartford where they will credit \$47,500 annually and AQMD will provide invoices to Hartford for payment of plan-related expenses that were already incurred by the Plan.

Fiduciary Best Practices: Mr. Campbell outlined the obligations of retirement plan fiduciaries; such as, Committee chartering, selection and monitoring of investment options, and documentation procedures.

Chartering: A common practice among committees is to have the governing Board appoint and delegate authority to the Committee for fiduciary and administrative duties through chartering. This process provides a disciplined approach to plan operations and clearly delineates the duties of the Committee. It was noted the Committee members have been identified and they acknowledge they understand their fiduciary responsibilities. The name of the Committee is the Deferred Compensation Plan Committee. Mr. Campbell reviewed some of the salient provisions in a Committee charter and noted an Annual Report to the Board would be prepared by BFSG to ensure the Board is meeting their requirement to monitor the Committee. Mr. Pearce requested to receive an electronic version that he can forward to internal counsel for review. The Committee agreed to have the charter completed by June 30, 2008 in order to have it added to the Board's year end meeting agenda and BFSG agreed to have the Annual Report to the Board completed at the 2nd quarter 2008 meeting to coincide with AQMD's fiscal year.

Fiduciary Services: Mr. Campbell introduced a concept to the Committee where they could delegate the responsibility of investment selection and monitoring to a designated person, such as an investment consultant, and remove their liability for the investment management process. AQMD would still be

responsible for qualifying and monitoring the consultant. Mr. Campbell suggested this topic be discussed at a later date once the Committee has had a chance to become comfortable with BFSG's processes and gain a better understanding of how the fiduciary services would be implemented. Language is included in the Charter allowing them to delegate authority for the investment selection and monitoring process if the Committee decides to use this service at a later date.

Investment Policy Statement: Although a written investment policy is not required, it is highly recommended a Committee develop and maintain an investment policy statement that clearly outlines the purpose of the plan, roles and responsibilities of the Committee, investment selection and monitoring procedures and review procedures including watch lists. BFSG prepared an investment policy statement for the Committee to review that addresses the above items, and in addition, includes an evaluation methodology and current list of the plan's fund options in an Appendix. Mr. Campbell provided an overview of BFSG's proprietary evaluation methodology which analyzes nine different criteria and results in a scorecard for each fund in the plan, with the exception of stable value and index funds. The Committee agreed to review the IPS and forward any comments or questions to Ms. Schackman prior to the next meeting.

Documentation Procedures: An important aspect of ensuring a Committee is carrying out its fiduciary duties is to maintain thorough and accurate documentation. Mr. Campbell commented that BFSG will provide quarterly investment reports that is aligned with the criteria outlined in the IPS to document their investment management process and will take meeting minutes to document discussions and decisions made by the Committee. A Committee should also maintain plan-related documents in a centralized location for easy access and maintain any fiduciary checklists or disclosures received by the Plan's service providers. Ms. Schackman will prepare a binder to organize required Plan documentation and bring to the next meeting.

Quarterly Investment Review: Mr. Campbell provided a high level summary of the components of BFSG's quarterly investment reviews which include a market commentary, fund performance comparison against relative benchmarks, evaluation methodology scorecards, overlap analysis, range of investments and plan level performance benchmarking. On a quantitative basis, all funds in the Plan are ranked as either an Outperform or Perform based upon BFSG's evaluation methodology; however, on a qualitative basis, Mr. Campbell pointed out some of the funds in the plan have a concentrated portfolio (ie: Janus Twenty) or take large sector bets (ie: Victory Diversified Stock). Overall, the funds have been performing well, but there may be some overlap that exists among some of the funds, particularly in the large cap growth and large cap value categories. Mr. Campbell suggested the Committee consider looking at possible consolidation opportunities in one or two more quarters if it is determined that some of the funds have similar strategies. Ms. Tharp commented there are several savvy participants that may like to have more options to choose from but the Committee agreed there may be some funds that are not heavily utilized and there could be opportunities to consolidate the fund line-up in the future.

Meeting adjourned at 3:30 pm.

Action Items:

- 1) Email Rick the IPS and charter for committee review
- 2) Prepare binder with index for plan-related documents and disclosures
- 3) Prepare Annual Report to the Board for 2nd quarter meeting
- 4) Contact Hartford to determine whether model portfolios can be administered for AQMD

AQMD Deferred Compensation Plan Committee Meeting Minutes

DATE: May 23, 2008
1:00 - 3:30 pm

ATTENDEES: Mr. Patrick Pearce - Chief Financial Officer
Mr. Ron Portnoy - Human Resources Manager
Ms. Eudora Tharp - Assistant Deputy Executive Officer/Administration and Human Resources
Ms. Barbara Baird - Principal Deputy District Counsel

ABSENT: Mr. Kurt Wiese - District Counsel

GUESTS: Mr. John Campbell - Benefit Funding Services Group
Ms. Tina Schackman - Benefit Funding Services Group

SUBJECT: South Coast Air Quality Management District 457 Deferred Compensation Plan
Investment Review - 1st Quarter 2008

The meeting was called to order at 1:00 pm and the minutes were documented as follows.

Additions to the Agenda: The Committee invited Barbara Baird, District Counsel to sit as replacement for Kurt Wiese who was unable to attend the meeting. The Committee commented they would be interested in having future meetings conducted using a PowerPoint presentation and only print the summary pages that will be presented during the meeting. BFSG will continue to email the complete report to the Committee members so they will have a soft copy available for reference. Ms. Schackman provided a fiduciary binder to the Committee to maintain all required documentation for the Plan.

Approval of Prior Meeting Minutes: The Committee unanimously approved the minutes from the prior meeting dated March 6, 2008.

Investment Policy Statement: Ms. Schackman distributed an updated Investment Policy Statement for the Committee's review. The Committee will review the policy statement and inform BFSG of any changes. The IPS is expected to be adopted at the next Committee meeting.

Committee Charter: The Committee noted the Charter was adopted by the Board during their May meeting. Mr. Portnoy provided a copy to BFSG for their records.

Model Portfolios: Ms. Schackman commented that Hartford has the ability to administer model portfolios. Hartford's basic program offers five portfolios developed by Mesirow Financial Investment Management. Under the basic program, AQMD would be responsible for selecting the underlying funds to include in the portfolios and determine the rebalancing frequency. Hartford also offers a custom program where AQMD can develop up to nine portfolios. Under the custom program, AQMD would be responsible for the asset allocation of the models, selection of the asset categories and investment options to include for each model and the rebalancing frequency. Mr. Campbell commented that BFSG can act as fiduciary on the custom models and be responsible for the asset allocation, investment selection and de-selection from the models and determine the rebalancing frequency. There are no additional costs to AQMD under either program and there would be no additional fees from BFSG to act as fiduciary on the custom models. In the event the Committee delegated the fiduciary responsibility of developing and monitoring the model portfolios, the Committee would be required to qualify and monitor BFSG as an investment manager.

The Committee further discussed the characteristics of target date funds vs. model. Target date funds are offered as another investment option in the Plan and recent studies have shown that participants are not using the funds as a one-stop solution to allocate their accounts, but rather, are treating them as another investment option so the participation remains very low. Model portfolios are not treated as an investment option, but rather an asset allocation tool; therefore, participants will be automatically diversified among the existing investment options in the plan and will be more likely to maintain an appropriate diversified portfolio. Mr. Campbell provided a detailed explanation comparing target date models that provide an extended allocation after retirement age and asset allocation models that take into consideration the participant's risk tolerance and time horizon to retirement. Mr. Pearce expressed interest in having a model portfolio that would extend after retirement age which can be found in

the target date models, but Hartford may implement an “age migration” feature in the future that will automatically move participants in asset allocation models to a more conservative allocation as they near retirement.

Ms. Tharp inquired about the usage of these types of model portfolios and whether or not they would be a useful tool to move participants towards a more balanced approach. Mr. Campbell stated that BFSG clients that have implemented model portfolios have on average a 50% participation rate after three years. He also commented on the importance of continually communicating the merits of diversification to Plan participants and how they could become an enhancement to Hartford’s communication efforts that are already in place.

The Committee agreed to hold an interim meeting with Mr. Wiese to present the model portfolio concept and make a final decision. Ms. Schackman will contact Mr. Pearce to schedule an interim meeting where we will present the model portfolios and provide participant communication materials for the Committee’s review.

1st Quarter 2008 Investment Review: Mr. Campbell provided an overview of the economic and market conditions during the first quarter highlighting economic growth as measured by GDP, inflation, interest rates, unemployment and market sector performance. Fixed income, as measured by the Lehman Bros Aggregate Bond Index, was up 2.2% for the quarter with treasury inflation-protected securities (TIPS) leading the sector with a 5.2% return. All equity sectors produced negative returns for the quarter with the S&P 500 Index down 9.5%. The leading sectors were consumer staples and materials and the laggards were technology and financials. Foreign equity markets began to taper off after an 11% return in 2007 to finish the quarter down 8.8%.

Ms. Schackman reviewed the performance of each of the investment options in the Plan and provided the following qualitative commentary:

General (Declared Rate) Account: Hartford’s General Account currently has a declared rate of 4.0% which is currently a competitive rate amongst other stable value funds. There is more credit risk by owning a general account vs. a stable value fund due to the fact there is only one guarantor of the general account, Hartford, whereas, a stable value fund would spread credit risk among a number of different issuers.

PIMCO Real Return: Treasury Inflation-Protected Securities (TIPS) were the leading fixed income sector for the 1st quarter and the PIMCO Real Return fund benefited from rising concerns about inflation.

Hartford Mortgage Securities: This intermediate term government securities funds experienced some collateral damage from the sub-prime mortgage crisis even though the fund primarily owns government-backed mortgages. The fund owns very few Treasuries, unlike other funds in this category, so it did not benefit from the “flight to quality” and has underperformed the peer group on a 1, 3, 5 and 10 year basis.

Hartford Total Return Bond: The fund has sizable positions in high yield bonds, corporate bonds and bank loans which have been underperforming sectors in the near term; however, the fund maintains a good long-term track record.

SSgA Intermediate Bond Index: This fund attempts to replicate the performance of the Lehman Brothers Intermediate Government/Credit Index.

Putnam High Yield Advantage: The fund is very well diversified with no more than 1% of assets allocated to any single holding. The fund has been a market performer over the past six years and has recently benefited from its bond holdings in steel and energy companies.

Van Kampen Equity & Income: The fund has been hurt recently due to stock selection in the technology sector and an overweight in healthcare. Management looks for large, solid companies and typically maintains a mix of 60% stock and 40% bonds and cash.

Oakmark Equity & Income: This fund is very different from the other balanced fund in the line-up, Van Kampen Equity & Income. The fund looks for much smaller companies with an average market cap of approximately \$19 billion (compared to the Van Kampen fund at \$59 billion) and is currently overweighted in energy which has given this fund’s performance a slight tailwind.

Large Cap Value Category: The Plan currently has four large cap value funds with some having similar strategies to one another. American Century Equity Income and Hartford Dividend Growth both have a dividend mandate that seek companies with a dividend yield 100-200 bps above the S&P 500 Index; however, their investment strategies

are very different. The American Century fund has a “cut & run” strategy where it establishes price targets and sells the stock as soon as it hits the target, which creates high turnover in the fund. Also, the fund will typically only hold 50-60 stocks. The Hartford fund is much more diversified with about 100 funds and maintains a “buy and hold” strategy.

Hotchkis & Wiley Large Cap Value and Van Kampen Comstock both have management teams that employ a contrarian strategy where they look for out-of-favor companies trading at inexpensive prices; however, the similarity ends there. H&W maintains a compact portfolio with 50 stocks and tends to take large sector bets, which hurt the fund over the past year as bets in homebuilding and the financial sectors hindered performance. The Van Kampen fund takes a more diversified, disciplined approach.

Ms. Schackman commented there may be an opportunity to consolidate some of the offerings in the large cap value category based on the funds with similar styles and strategies.

Large Cap Blend Category: The Plan currently has four large cap blend funds, Davis NY Venture, Hartford Capital Appreciation, Neuberger Berman Socially Responsive Trust and Victory Diversified Stock. All of these funds are adding value above the S&P 500 Index over the short and long term. The funds employ very different strategies; such as Davis NY Venture typically overweighting the financial sector, Hartford Capital Appreciation owning 31% in foreign equities, Neuberger Berman Socially Responsive utilizing social screens and only holding 30-40 stocks in the portfolio, and Victory Diversified Stock trending to the large growth investment style due to its top down sector analysis which can lead to overweighting strong performing sectors. The category also includes a passive strategy, the SSgA S&P 500 Index.

Ms. Schackman commented that even though all of these funds have different strategies, the Committee may want to consider consolidation in this category to avoid confusion among the participants with too many choices.

Large Cap Growth Category: The Plan currently offers five large cap growth categories. Two of the funds, GE Premier Growth Equity and Janus Twenty maintain concentrated portfolios only holding 25-40 stocks. The AIM Leisure fund has a very narrow focus that typically leads to over-weightings in media and consumer stocks, which are currently both underperforming sectors. The American Century Ultra funds looks for companies with accelerated earnings and price momentum which can be a very risky strategy in volatile markets. The Hartford Large Cap Growth fund takes a more fundamental approach to selecting stocks and maintains a diversified portfolio of over 100 stocks.

Ms. Schackman suggested the Committee consider consolidating this category to remove duplication in funds that maintain concentrated portfolios or have too narrow of a focus.

Artisan Mid Cap Value: Manager, Andy Stephens, looks for distressed companies that have strong fundamentals in place. He uses a very sensible approach to investing and maintains a very solid, long-term track record.

SSgA Mid Cap Index: This passive index funds attempts to track the performance of the S&P 400 Mid Cap Index.

Mid Cap Growth Category: The Plan offers three investment options in the mid cap growth category. The Franklin Small/Mid Cap Growth fund is managed by veteran manager, Ed Jamieson. The fund has experienced some very tough times over the past several years due to poor stock selection and underweighting strong performing sectors. The Hartford Mid Cap and Munder Mid Cap Core Growth employ similar strategies in that they are sector neutral to the S&P 400 Mid Cap Index and are sensitive to price valuations.

Ms. Schackman commented that the Committee may want to consider consolidation in this category based on funds with similar strategies and possibly remove the Franklin fund from the line-up.

Small Cap Value Category: The American Century Small Cap Value uses the same strategy as other American Century funds in the line-up by setting price targets and selling stocks as soon as they hit their target price. The fund has been very style consistent but has only produced average returns over the short and long-term. The Managers AMG Skyline Special Equities fund also sets price targets selling firms when their P/E ratios equal the Russell 2000 Index which can cause the fund to lag during market rallies. The fund has underperformed its respective benchmarks over 1, 3, 5 and 10 year periods

Ms. Schackman suggested the Committee consider consolidating this category or placing Skyline Special Equities on a “Watch List”.

SSgA Russell 2000 Index: This passive index funds attempts to track the performance of the Russell 2000 Index.

Small Cap Growth Category: The Plan offers three investment options in the small cap growth category. All of the funds have outperformed their respective benchmarks over 1, 3, 5 and 10 year periods; however, Baron and Lord Abbett use similar strategies in that they look for companies with strong growth prospects and are industry leaders, but pay close attention to valuations. The Hartford fund employs a multi-manager approach that looks for emerging companies and maintains sector weightings in line with the Russell 2000 Growth Index

Ms. Schackman suggested the Committee consider consolidation in this category due to some of the funds having similar strategies.

Templeton Growth: The fund looks for out-of-favor, cheap stocks with an asset mix of 40% domestic equities and 60% foreign equities. The fund employs a conservative investment strategy which has produced below average returns on a 3, 5 and 10 year basis. Ms. Schackman commented that most of BFSG's clients have removed a global fund from the fund line-up to reduce confusion among participants who may not understand there is domestic equity exposure in the fund and suggested to include this fund in the consolidation strategy to be reviewed next quarter.

Foreign Equity Category: The Plan offers four active investment options and one passive strategy in the foreign equity category. The AllianceBernstein International Value fund recently changed the fund's investment strategy which will increase the number of companies in the portfolio and become more sector neutral to the MSCI EAFE Index. Previously, this fund maintained a compact portfolio and would take concentrated holding and sector bets, but AllianceBernstein conducted a study that showed the average investor in the fund was only earning half of the returns of the fund over the past five years because they would not stay in the fund due to its high volatility. The Hartford International Opportunities uses a disciplined approach to selecting companies and has found a majority of its opportunities in Europe with 64% allocated to that region. The Janus Advisor International Growth fund has a large stake in emerging markets which explains this funds strong absolute and relative long-term performance. The MFS International New Discovery fund can buy companies of any market cap and has recently been finding opportunities in the large cap arena. The fund employs a contrarian approach by looking for out-of-favor companies, but is also valuation sensitive so it has very little exposure to emerging markets. The passive strategy, SSgA EAFE Index, attempts to track the performance of the MSCI EAFE Index.

Specialty Funds: The Plan offers four specialty funds, Hartford Global Health, AIM Real Estate, Hartford Global Technology, and MFS Utilities. All of the managers have above average performance on a 3, 5 and 10 year basis. However, participation in these funds is less than 4% of combined plan assets. The Committee agreed to discuss the merits of maintaining specialty funds in the Plan at the next meeting.

Target Date Funds: The Plan offers SSgA Dow Jones target date funds that are comprised of global exchange traded-funds (ETF's). Currently, participation is less than 1% of Plan assets; however, these funds were recently added to the Plan.

Overall, most of the funds are performing well against their respective benchmarks with the exception of one underperforming fund, Managers AMG Skyline Special Equities. Ms. Schackman suggested BFSG prepare a fund search for the Committee's review at the next meeting to consider consolidation in the large cap value, large cap blend, large cap growth, mid cap growth, small cap value, small cap growth and global stock categories.

Closing: The Committee stated they would like to schedule the next quarterly meeting in early September and would like to review the Annual Report to the Board at that meeting.

Meeting adjourned at 3:30 pm.

Action Items:

- 1) Prepare a fund search for next meeting
- 2) Prepare Annual Report to the Board for next meeting
- 3) Schedule an interim meeting with Committee to discuss model portfolios