REVIEW OF OPEB FUNDING VEHICLE SERVICE PROVIDERS

for

THE STATE BAR OF CALIFORNIA

May 15, 2008

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SUMMARY

On March 18, 2008, the State Bar of California engaged the services of Milliman's San Francisco Investment Consulting Group to evaluate funding vehicle service providers for its Post Employment Benefits Other than Pensions (OPEB) obligations. These obligations were most recently valued in the GASB 45 Actuarial Valuation of Post Employment Benefits Other than Pensions As of January 1, 2005 (actuarial report), prepared by John Botsford, FSA MAAA, Principal and Senior Consulting Actuary at Milliman.

Under GASB 45, the State Bar of California is required to account for any unfunded earned retiree medical costs incurred for both retired and current employees in its financial statements beginning in fiscal year 2008-09. The dramatic rise in health care insurance premiums along with the issuance of GASB 45 has forced OPEB funding into the forefront of retiree benefit funding discussion across the nation.

Options for funding the State Bar's OPEB liability have been reviewed by Committee and Staff members and it was determined that an Internal Revenue Code (IRC) Section 115 trust is an appropriate type of funding vehicle. It is expected that funds allocated to the Section 115 trust account will achieve full funding of the State Bar's retiree medical obligation at a higher discount rate than could be achieved in the State Bar's shorter-term portfolio.

Milliman supports Staff's recommendation that the State Bar of California utilize the California Employers' Retiree Benefits Trust (CERBT) as its initial funding vehicle.

BACKGROUND

John Botsford, FSA, MAAA, Principal and Consulting Actuary at Milliman prepared an actuarial valuation report ***The State Bar of California – GASB 45 Actuarial Valuation of Post Employment Benefits as of January 1, 2005***, which showed the post-retirement medical liability and annual expense for the 2005 fiscal year if the State Bar elected to adopt accounting rules described under Government Accounting Standards Board (GASB) Statement 45 (GASB 45).

As stated in that report report, an employer's decision to fund its benefits in advance can have a significant impact on the annual expense depending on how assets set aside are invested. This is because GASB 45 requires that the discount rate used to value OPEB liabilities be based on the expected return on investments used to pay benefits. If benefits are paid from an employer's general funds, the investment returns on such funds would likely be low due to statutory restrictions on such investments. If an employer sets aside funds in a separate trust (for the purpose of paying future benefits) that is not subject to the same statutory restrictions, the expected return on assets may be considerably higher depending on how funds are invested.

Summary of Results (excerpt from The State Bar of California – GASB 45 Actuarial Valuation of Post Employment Benefits as of January 1, 2005)

The valuation results are summarized in the following exhibit and use the following terms:

The Present Value of Benefits is the present value of projected benefits (projected claims less retiree contributions) discounted at the valuation interest rate (4.0%).

The Actuarial Accrued Liability (AAL) is the present value of benefits that are attributed to past service only. The portion attributed to future employee service is excluded. For retirees, this is equal to the present value of benefits. For active employees, this is equal to the present value of benefits prorated by service to date over service at the expected retirement age.

The Normal Cost is that portion of The State Bar's provided benefit attributable to employee service in the current year. Employees who are not eligible for benefits are assumed to have an equal portion of the present value of benefits attributed to each year of service from date of hire to expected retirement age.

The Annual Required Contribution (ARC) was the amount The State Bar would be required to report as an expense for the 2005 fiscal year under GASB 45. The ARC is equal to the Normal Cost plus an amount to amortize the unfunded AAL over 30 years. Note, the ARC represents an accounting expense, but The State Bar is not required to contribute the ARC to a separate trust. If The State Bar does not set aside funds equal to the ARC each year, then the ARC (less actual benefit payments) will accumulate as a liability (Net OPEB Obligation) on The State Bar's balance sheet.

	January 1, 2005
Active Employees	69
Retirees	26
Total Participants	95
Covered Retired Spouses	16
Present Value of Benefits	$ 23,724,689
Actuarial Accrued Liability	$ 18,241,578
Assets	0
Unfunded Actuarial Accrued Liability	$ 18,241,578
Normal Cost (as of end of year)	$ 663,422
Annual Required Contribution (ARC)	$ 1,388,359
Annual benefit payments	$ 331,412

Variability of Results

The results contained in the above mentioned report represented our best estimates. However, variation from these or any other estimates of future retiree medical costs is not only possible but probable. Actual future costs may vary significantly from estimates in this report. Valuation results are particularly sensitive to the assumptions used to project future health plan cost increases (medical inflation trend) and to discount projected benefits to the present (discount rate).

ANALYSIS

Staff and outside counsel have reviewed the documents required to participate in the California Employees' Retirement System (CalPERS) Employer Benefit Trust (CERBT), which was established by CalPERS at the beginning of 2007. It was determined that this trust met all of the requirements outlined in GASB 45 rules, but that it would be prudent to examine some other service providers that were offering OPEB funding vehicles.

The purpose of this report is to compare appropriate OPEB trust service providers and to discuss the advantages and disadvantages of moving forward with Staff's recommendation to invest in the CalPERS CERBT.

GASB 45 has forced public retirement plan sponsors to address their OPEB liabilities and to identify an appropriate funding solution. Funding OPEB liabilities requires selecting a funding vehicle that meets the requirements of GASB 45 and at the same time does not over burden staff in the administration of the trust. The State Bar of California has elected to establish a qualified irrevocable trust under IRC Section 115 to fund OPEB liabilities. The understanding in selecting this approach is that the selected trust fund vehicle's investment program will provide a higher long-term investment return than could be achieved in a general account short-term investment portfolio. A higher expected return on the assets in the trust would result in a lower Annual Required Contribution (ARC) amount.

It is important to ensure that the Section 115 trust is established in such a way that it qualifies as a funding vehicle for OPEB liabilities. One of the issues to consider is that the trust must be irrevocable to ensure that assets have been set aside for the purpose of funding OPEB expenses, and another is that assets are legally protected from the employer's creditors.

Another important issue is to structure the trust to avoid any negative tax consequences to the beneficiaries. The best way to ensure this is to obtain an opinion letter from the IRS. The Section 115 trust has been selected by many plans sponsors since it provides some flexibility to accommodate future changes in health care programs, which may have an impact on the levels of funding required for OPEB.

It is recognized that there is a fiduciary responsibility to invest OPEB funds in a prudent manner, similar to a defined benefit plan where the goal is to minimize risk while maximizing return. If the sponsor does not have a qualified internal investment staff, it is important to select a provider that has investment options or an investment program that is consistent with that responsibility.

ESTABLISHING A TRUST

Establishing a Section 115 trust requires the following roles and services areas to be addressed.

Benefits Administration
Some OPEB programs do not provide benefit administration, which would require the State Bar's current benefits administrators to ensure that appropriate and timely contributions and distributions are made, and other associated administrative tasks including reviewing trust account activity reports.

Trust Administration
The role of the Trust Administrator is to coordinate the operational services of the trust program, including the selection of funding options, monitoring and compliance with legal regulations and issues, financial reporting, and oversight of the program's overall effectiveness. Some providers have internal staff or team with third parties to provide investment consulting and actuarial services as part of their OPEB program package.

Trustee/Custodial Services
OPEB trust investments must be held for safe-keeping by a third-party trustee, usually a custodian bank and/or trust company. The custodian may also provide performance reporting.

Investment Management
As discussed previously, the investment structure of the trust should reflect the long-term nature of its liabilities, and should employ a diversified asset mix with the goal of minimizing risk while maximizing returns. Unless there are internal, qualified investment staff members available to manage these assets, it is advisable to utilize the services of investment professionals offered by the OPEB trust providers and/or affiliated investment managers who are registered investment advisors in compliance with Securities and Exchange Commission (SEC) regulations, as well as Federal, state and local laws. The same level of qualification requirements and oversight applied to retirement plan asset managers should be applied to OPEB trust fund managers.

Individual Versus Group (Commingled) Trusts

The State Bar of California is in a position to decide whether or not to establish its own fund, or to pool its assets with those of other agencies. When funds are initially being established, and a minimal amount of assets are available for investment, the best choice may be to pool assets in a qualified trust. The larger pool of assets offers the opportunity for better diversification from an investment standpoint, and diminished costs and administrative responsibilities due to the sharing of these expense and administrative support offered by trust providers.

Unless the State Bar of California has identified specific issues which would require that an individual trust be established, we feel that selecting a commingled trust that is clearly designated for funding OPEB obligations would be an appropriate vehicle to utilize. Large public entities such as state retirement systems are establishing OPEB trusts that may allow other agencies/organizations to participate. In California, recent legislation has provided outside agencies (agencies who are not utilizing CalPERS' services for their retirement plans) with the opportunity to participate in the CalPERS CERBT.

Investment advisory firms and other financial services companies are gearing up to provide products and services to the OPEB trusts. These providers face tough competition with public agency providers that have large economies of scale to negotiate with service providers such as CalPERS. The costs associated with investment management tend to be lower at a public agency that has internal staff capable of investing assets.

Staff has determined that the State Bar of California has no need for customized investment services at this time, therefore our review focused on commingled trusts as the preferred structure due to the availability of all of the services required to administer and invest a qualified trust under GASB 45 rules at a reduced cost and relief of some of the administrative burden. We would recommend reviewing this approach on a periodic basis as the assets in the fund grow, to reassess whether the commingled approach still makes sense based upon the size of the assets.

EVALUATION PROCESS

Research was conducted using Milliman data, online publications, periodicals, and review of OPEB trust providers selected by various public agencies to identify OPEB trust services providers that met the criteria outlined for the State Bar of California. Based upon the criteria discussed at the April 15th meeting, four leading OPEB trust service providers are profiled in this report: CalPERS, ICMA, PARS and PFM.

Milliman has evaluated these providers to compare how well each candidate provided the necessary services previously discussed in this report. A summary profile of each provider is included at the end of the report.

We specifically focused on those firms whose OPEB trust services met the following criteria:

- Experience of team
- Number of years in business
- Profitability of the firm
- Minimum total assets for which services are being provided
- Reasonable number of comparable clients
- Structure of support team (dedicated vs. non-dedicated)
- Innovativeness of products/service
- Understanding State Bar of California's unique attributes
- Ability to satisfy State Bar of California's requirements

CANDIDATE SERVICE PROVIDERS

Growth in the number OPEB trust services providers is expected to continue over the next few years due to the implementation of GASB 45 in the public sector. Similar to providers to defined contribution plans, many of the OPEB trust service providers are offering a "one-stop shop" approach where the bundled service provider wraps together all of the services in a packaged offering. This packaged service is appealing to plan sponsors of start up plans where asset are minimal.

The primary strength of bundled service providers is that they provide a single source of contact for the plan sponsor for administrative, investment, reporting and in some cases, other related services such as investment consulting and actuarial services. There may be financial revenue sharing in the form of revenue offsets from the investment funds to the administration group to lower the published costs of administration. The primary weakness of the bundled approach is that it is challenging to provide a number of different services where each one is the best in class. It is difficult, if not impossible to find the best administrator, investment group, investment consulting and actuary under one roof. Further, the proliferation of institutional share class mutual funds with lower fees and Exchange Traded Funds (ETFs) allow a broad exposure to global investment markets for smaller asset pools, so it is possible for agencies and organizations with smaller asset pools to choose individual service providers.

The four service providers profiled offer a range of services from investment management to full bundled services. Profiles and supplementary information on the programs offered by CalPERS, ICMA, PARS and PFM are included at the end of the report.

CONCLUSION

Placing the funds in a separate trust will significantly decrease both the State Bar of California's unfunded liability and its ongoing normal (annual) costs by increasing the yield assumption earned within the fund. Pre-funding of its OPEB obligation complements the State Bar's efforts to minimize unfunded liabilities from its financial statements.

All of the providers profiled offer qualified services, however costs of providing services vary, depending upon the level of customization and support required. Staff at the State Bar have determined there is no need at this time to require a customized program or to pay the higher costs associated with establishing an individual trust.

Several states and municipal agencies have established programs that are designed to serve public agencies in their state or region. These trusts have been established in accordance with the laws of each state and have not been designed to serve public agencies on a national basis.

Among the multi-employer trusts options, the California Employers' Retiree Benefit Trust (CERBT) sponsored by CalPERS offers several advantages that the other providers cannot offer. As the sponsor of one of the world's largest public pension plans, there is an extremely high level of scrutiny of all of CalPERS investment and benefit programs, including the CERBT, which is managed by the CalPERS Investment Office. There are also additional levels of risk management and review of the investment program, including a dedicated risk management group, the use of an external investment consultant, as well as the CalPERS Board of Trustees.

From an investment standpoint, the CalPERS Public Employees' Retirement Fund (PERF) would serve as the investment vehicle. The Investment Office of CalPERS has a well-qualified staff of over 100 employees who oversee the management of this Fund. Investments are managed using internal staff and external investment managers. Given the multiple billions of dollars of assets under management, the best and the brightest professionals in the investment community participate in this process. External third-party investment consultants review the investments and report directly to the Board of Trustees, which provides an additional level of oversight that is built into the CERBT.

Further, from an administrative standpoint, the CalPERS Board of Trustees provides a Board level review of the program and its selection of investment managers. The CERBT program also provides an investment policy and has established draft copies of all of the required documentation, including detailed information regarding their requirements for joining the program.

CalPERS determined that a private ruling letter was not necessary due to the simple and straightforward design of the CERBT, and its rigorous process of defining the documentation and procedures that employers are required to follow in order participate in the trust. It was felt that a private ruling letter from the IRS would not protect participants from a poorly administered trust, once it is established, therefore they have taken great pains to structure and administer the CERBT to be in compliance with IRS regulations. While many private sector trust providers tout having a private ruling letter, CERBT staff have pointed out that it does not provide a blanket guarantee, and may serve more as a marketing tool.

Although there is a minimum three-year commitment to the program, which is designed to protect current investors from the impact of excessive cash flows, we feel this does not create a disadvantage at this point in time, based upon the current state of the OPEB funding marketplace. We would recommend reviewing the program on a regular basis (at least annually), and reassessing whether the State Bar of California's OPEB funding obligations are being met by this program.

EXHIBIT I

	CalPERS	ICMA	PARS	PFM
Trust/Program Name	California Employers' Retiree Benefit Trust Fund (CERBT)	VantageCare Retirement Health Savings (RHS) Plan and the Employer Investment Programs (EIP)	Public Agency Retirement Services (PARS) GASB 45 Post Retirement Healthcare Funding Plans	Managed Account Program (MAP) offered by PFM Asset Management,LLC
Address	Actuarial & Employer Services Branch P.O. Box 942709 Sacramento, CA, 94229-2709 Investment Office Located At: 400 Q Street, Sacramento, CA	777 North Capitol St., NE Washington, DC 20002	5141 California Avenue, Ste. 150 Irvine, CA 92617	Two Logan Square, Ste. 1600 18th & Arch Streets Philadelphia, PA 19103
Contact	Bruce Eastes, CERBT Program Manager (916) 795-0790 Rand Anderson (916) 795-3859	Erika Armstrong, Managing Director, Institutional Sales, Retirement Health Savings (866) 731-1067 earmstrong@icmarc.org	Kevin Murphy/Mitch Barker (800) 540-6369 - x128/x116 kmurphy@pars.org mbarker@pars.org	Jim Link, Managing Director (215) 567-6100 linkj@pfm.com
Type of Trust	Multi-employer trust. No trust document. Established under Govt. Code Section 22940 to satisfy Section 115 trust requirements	501(c) (4) Integral Part Trust	Section 115 multi-employer trust - Union Bank of California (UBOC)	Individual Trust would be established. Employer selects type: Section 115, VEBA, or 401(h) trust may be established at U.S. Bank.
Key Professionals	CalPERS Board (13 members) and Investment OfficeStaff	Board consisting of 10 members from public and private sector	Board of 5 investment professionals	PFM Asset Management LLC is an investment advisor registered un the Investment Advisers Act of 1940.
Services Offered	Trustee/Custodian and Investment Management.	Trustee/Custodian and Investment Management.	Trustee/Custodian and Investment Management.	Bundled services: Trustee/Custodian, Investment Management and Consulting.
Investment Structure	Funds in the trust are managed in accordance with the CalPERS defined benefit plan assets, with the exclusion of real estate and alternative asset class investments.	Employer-directed investment options. Discretionary option to be added in third quarter of 2008.	Employer directed and discretionary options. Employer may choose from eight asset allocation strategies.	Fully discretionary services. Investment advisors works with clients on a custom basis to provide full consulting, investment management and report services.
Minimum Deposits	$5,000	None	None	None
Maximum Deposits	PV of employer's total projected benefits	None	None	None
Frequency of Disbursements	Monthly	Anytime	Anytime	Anytime

	CalPERS	ICMA	PARS	PFM
Other Restrictions/ Termination	No termination before 36 months. After 36 months, assets may be transferred to other qualified trust.	Assets may be transferred to other qualified trust.	Assets may be transferred to other qualified trust.	Assets may be transferred to other qualified trust.
Administrative Fees	Calculated annually and allocated to each participant based upon their average daily market value	No separate fees for administration charged, only investment fund fees. Administrative fees estimated to be between 7bps and 13 bps.	0.25% for assets up to $10 million 0.20% for assets $10-15 million 0.15% for assets $15-50 million 0.10% for assets over $50 million ($400 monthly minimum)	One-time flat fee of $20,000 includes analysis an reporting, presentations needed to approve various Board Resolutions, a funding plan and other account and financial matters relating to the OPEB plan. Together with investment fees, total fees include investment consulting (asset allocation and policy development, selection of asset managers and/or mutual funds, and custodian(s).
Investment Mgmt. Fees	40 bps to 60 bps, depending upon assets in the trust[1]	44 bps to 111 bps, depending upon funds selected	Discretionary – 0.35% for assets under $5 million 0.25% for assets $5-$10 million 0.20% for assets $10-$15 million 0.15% for assets $15-50 million 0.10% for assets over $50 million (Waived for HighMark Funds[2]) 0.10% trustee/custodial fee for directed assets	For all services (Advisory, Asset Management, and Custody)[3] First $5 million in assets…………1.00% Second $5 million in assets………0.85% Next $10 million in assets………..0.75% Thereafter…………………........0.60%
Other Fees	N/A	N/A	N/A	Corporate Trustee (US Bank)…………. $1,000 annually Payment Services (if individual retirees receive checks): o Checks - $2.50 per check o ACH - $2.00 per ACH o Wires - $10.00 per wire

Key: PV = Present Value
bps = basis points

[1]CERBT fees are dependent upon participation level. Fees are expected to be adjusted downward, based upon the current flow of assets into the program.

[2]HighMark Capital Management is a wholly owned subsidiary of Union Bank of California (UBOC) and may be selected as the investment provider.

[3]Includes investment policy development, asset allocation, regular monitoring and rebalancing, manager selection and monitoring, asset managed fees (expense ratios). Does not include taxes, other expenses including front- or back-end charges of an investment fund, fees and expenses of the client's independent auditors, actuaries and legal counsel, if any, insurance premiums and the keeping of books and records.

EXHIBIT I. EVALUATION CRITERIA

General Criteria

- Experience of team
- Number of years in business
- Profitability of the firm
- Minimum total assets for which services are being provided
- Reasonable number of comparable clients
- Structure of support team (dedicated vs. non-dedicated)
- Innovativeness of products/service
- Understands State Bar of California's unique attributes
- Ability to satisfy State Bar of California's requirements

Weighting

20 pts Plan Administration

- Ability to meet administration, reporting and communication requirements

40 pts Investments

- Full range of investment options
- Competitive returns
- Manager tenure - (Are current management teams responsible for track record?)
- Assets in each investment vehicle (Are current assets at least $100 million?)
- Assets under management for the funding vehicle and organization/firm;
- Proposed investment structure
- Product specific criteria such as active or passive investment process;
- Criteria relevant to the investment process, such as typical market capitalization ranges for domestic equities or investment grade securities for fixed income.
- Performance (both absolute and risk-adjusted) relative to a benchmark & peers;
- Return-based style analysis to identify or confirm a firm's specific style

20 pts Fees

15 pts Plan Sponsor Administrative Support

- Access to Staff
- Responsiveness to requests
- Reference checks

5 pts Additional Services/Education/Information

- Programs available (online and in-person delivery)
- Publications
- Training
- General market/retirement planning information

EXHIBIT II

CalPERS California Employers' Retiree Benefit Trust Fund (CERBT)
Actuarial & Employer Services Branch
P.O. Box 942709
Sacramento, CA, 94229-2709
Investment Office Located At:
400 Q Street, Sacramento, CA

Years in Business/Trust Founded
CalPERS was established in 1932, and has served other public agencies since 1939. The CERBT was launched in March 2007.

Firm Size (Assets in program/under management)
CalPERS Public Employees' Retirement Fund (PERF) assets are approximately $250 billion. Assets in the CERBT are in excess of $80 million with over 45 participating agencies.

Description of services
CalPERS established the CERBT to serve as a funding vehicle for post retirement benefits for public agencies participating in the PERF. Subsequent legislation authorized the CERBT to accept other California public agencies at the beginning of 2008. Administrative, investment and reporting services are offered. Actuarial valuations must be conducted separately by each participating agency.

Innovativeness of products/service
CalPERS Investment Office is recognized as one of the world's most sophisticated investment organizations. Those resources are being applied to the CERBT. Currently, no private equity or real estate allocations are being included in the CERBT, but staff is working toward making those asset classes available.

Understands State Bar of California's unique attributes
Yes. CalPERS is a public agency and part of its mission is to serve other public agencies within California.

Ability to satisfy State Bar of California's requirements
The CERBT meets the requirements of the State Bar. It is important to note the 36 month minimum participation period and the decision not to pursue a private ruling letter from the IRS.

Private Letter Ruling
No. CalPERS CERBT staff stated their belief that a private letter ruling is not necessary due to the simple, straightforward, and dedicated structure of its trust, and the review of CalPERS Board, staff and legal counsel.

List of Agencies Participating in the CERBT Fund

As of April 7, 2008, these 45 agencies have contracted with CalPERS to participate in the California Employers' Retiree Benefit Trust (CERBT) Fund. This list includes 19 cities or towns, 4 counties, as well as a number of special districts, offices of education, and other public agencies. Many more agencies are in the process of joining the CERBT, so we expect this list to grow rapidly.

Alameda Corridor Transportation Authority
Alameda County Congestion Management Agency
Alameda County Waste Management Authority
Apots/La Selva Fire Protection District
Bay Area Air Quality Management District
City of Bellflower
City of Burbank
City of Cerritos
City of Dublin
City of El Cajon
City of Huntington Beach
City of Huntington Park
City of Milpitas
City of Mission Viejo
City of Palm Desert
City of Palo Alto
City of Ridgecrest
City of San Diego
City of Seal Beach
City of Temecula
City of Thousand Oaks
City of West Sacramento
Contra Costa Transportation Authority
County of Napa
County of Nevada
County of Placer
County of Riverside
Grossmont Healthcare District
Ironhouse Sanitary District
Metropolitan Transportation Commission
Napa County Mosquito Abatement District
Northern California Power Agency
Oro Loma Sanitary District
Padre Dam Municipal Water District
Riverside County Transportation Commission
Riverside Transit Agency
Sacramento City Housing Authority
Sacramento County Office of Education
Sacramento County Municipal Utility District
Santa Ana Watershed Project Authority
Southern California Association of Governments
Stanislaus County Housing Authority
Town of Los Altos Hills
Truckee Donner Public Utilities District

California Public Employees'
Retirement System
Office of Public Affairs
400 Q Street, Sacramento, CA 95811
(916) 795-3991 phone
(916) 795-3507 fax
www.calpers.ca.gov

FACTS AT A GLANCE: GENERAL

MARCH 2008

Facts at a Glance is a monthly compilation of information of interest to Board Members, staff, and the general public. Information is current as of February 29, 2008, unless otherwise noted. Every effort has been made to verify the accuracy of the information, which is intended for general use only. Please direct any questions and comments to the Public Affairs Office at (916) 795-3991.

VISION STATEMENT

Pride in our service; providing confidence for your future.

MISSION

Our mission is to advance the financial and health security for all who participate in the System. We will fulfill this mission by creating and maintaining an environment that produces responsiveness to all those we serve.

BACKGROUND

The California Public Employees' Retirement System manages pension and health benefits for approximately 1.5 million California public employees, retirees, and their families. As of June 30, 2007, we provided benefits to 1,086,900 active and inactive members and 455,208 retirees. CalPERS membership is divided approximately in thirds among current and retired employees of the state, schools, and participating public agencies.

CalPERS is a defined benefit retirement plan. It provides benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death, with payments in some cases going to survivors or beneficiaries of eligible members.

The CalPERS health benefits program offers members and contracting employers three health maintenance organization (HMO) plans, three preferred provider organization (PPO) plans, and three special PPOs for members who belong to specific employee associations.

CalPERS was established by state law in 1932 to provide retirement benefits for state employees. In 1939, public agency and classified school employees were allowed to participate. In 1962, state law authorized CalPERS to provide health benefits to state employees. The health benefits program was expanded in 1967 to include public agency and school employees. In 1995, CalPERS began offering a supplemental deferred compensation retirement savings plan to members of public agencies that contract for it, and long-term care insurance on a not-for-profit basis.

INCOME TOTALS OVER THE PAST 10 FISCAL YEARS

YEAR	MEMBER CONTRIBUTIONS	EMPLOYER CONTRIBUTIONS	INVESTMENT AND OTHER INCOME
2006–07	$3,262,699,076	$6,442,383,868	$40,748,261,709
2005–06	3,080,878,521	6,095,029,424	20,842,816,432
2004–05	3,176,781,000	5,774,120,000	21,894,201,000
2003–04	2,266,445,429	4,261,347,422	24,272,572,596
2002–03	1,887,925,497	1,925,043,858	5,482,731,568
2001–02	2,154,742,532	800,964,553	-9,699,792,798
2000–01	1,766,256,113	321,618,826	-12,248,341,399
1999–00	1,751,290,172	362,614,344	16,582,657,910
1998–99	1,522,507,527	1,598,316,666	17,622,526,922
1997–98	1,443,232,566	2,289,526,403	23,518,904,869

NUMBER OF EMPLOYEES

2,154 (budgeted positions as of July 1, 2007)

TOTAL CalPERS ADMINISTRATIVE EXPENDITURES

2002–03 (actual)	$244,718,994
2003–04 (actual)	$230,038,192
2004–05 (actual)	$245,315,739
2005–06 (actual)	$247,347,429
2006–07 (actual)	$277,859,581
2007–08 (budgeted)	$315,095,949

BOARD OF ADMINISTRATION

13 members: 6 elected / 3 appointed / 4 statutory-designated members

*6 Members Elected by:

All members	Charles P. Valdes (2010)
	Kurato Shimada (2010)
Active state members	George Diehr, Vice President (2011)
Active school members	Rob Feckner, President (2011)
Active public agency members	Priya Sara Mathur (2011)
Retired members	Henry Jones (2012)

*3 Appointed Members:

Governor appointees	Tony Oliveira (2011);
	Marjorie Berte (2009)
Speaker & Senate Rules Committee appointee	Louis F. Moret (2012)

4 Statutory Designated Members:

State Treasurer	Bill Lockyer
State Controller	John Chiang
Director of Dept. of Personnel Administration	David Gilb
Member designated by the State Personnel Board	Anne Sheehan

**All board member terms expire in January of specified years.*

CALIFORNIA EMPLOYERS' BENEFIT TRUST FUND

The California Employers' Retiree Benefit Trust Fund was established by CalPERS in March 2007 to provide California public agencies with a cost-efficient, professionally managed investment vehicle for prefunding other post-employment benefits (OPEB) such as retiree health benefits. Prefunding reduces an agency's long-term OPEB liability. Participating agencies can use investment earnings to pay future OPEB liabilities, similar to the CalPERS pension fund in which three out of four dollars paid in retirement benefits come from investment earnings.

ASSETS UNDER MANAGEMENT IN TRUST FUND (AS OF FEBRUARY 29, 2008): $137.8 MILLION

PARTICIPATING PUBLIC AGENCIES: 29

Alameda Corridor Transportation Authority, Alameda County Congestion Management Agency, Alameda County Waste Management Authority, City of Burbank, City of Cerritos, City of Dublin, City of El Cajon, City of Huntington Park, City of Milpitas, City of Palo Alto, City of San Diego, City of Thousand Oaks, City of West Sacramento, County of Nevada, County of Placer, County of Riverside, Grossmont Healthcare District, Ironhouse Sanitary District, Metropolitan Transportation Commission, Napa County Mosquito Abatement District, Northern California Power Agency, Oro Loma Sanitary District, Riverside County Transportation Commission, Riverside Transit Agency, Sacramento City Housing Authority, Sacramento County Office of Education, Sacramento Municipal Utility District, Southern California Association of Governments, Truckee Donner Public Utilities District

ACTUARIAL INFORMATION (AS OF JUNE 30, 2006)

Each year CalPERS actuaries calculate a funded ratio—the ratio of market value of assets in the fund to the liabilities for each retirement plan. The funded ratios vary from year to year but are expected to approach 100 percent in the long run.

Funded Status of Retirement Plans by Member Category

Member Category	6/30/01	6/30/02	6/30/03	6/30/04	6/30/05	6/30/06
State	96.5%	82.1%	76.4%	82.9%	85.5%	88.6%
School	108.4%	88.5%	83.4%	91.4%	96.2%	98.7%
Public Agency	107.1%	89.2%	80.7%	87.6%	90.2%	92.7%

Notes

1. The funded ratios are based on the Market Value of Assets.
2. There were five plans in the state category with funded ratios between 81 percent and 95 percent as of June 30, 2006. The funded ratio for the state is an aggregate of all five plans.
3. As of June 30, 2006, there were 1,974 plans with active members in the public agency category. There were 1,524 plans in one of nine risk pools and 450 public agencies in non-pooled plans. For non-pooled plans: about 3 percent of the plans were below 75 percent funded; about 78 percent of the plans were between 75 and 100 percent funded; and approximately 19 percent of the plans were 100 percent funded or better. All risk pools were between 85 percent and 100 percent funded.

CalPERS E-SUBSCRIPTIONS

CalPERS eNews is a free twice monthly newsletter of significant CalPERS activities that is e-mailed to subscribers in the first and third weeks of each month. Subscribers also receive eAlerts about major developments or upcoming events.

CalPERS ePress delivers CalPERS news releases instantaneously via e-mail directly to subscribers.

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CalPERS Employer eBulletin provides subscribers with the latest developments and information of interest to contracting employers.

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You can sign up for these online services at the eSubcriptions page of the CalPERS On-Line Web site at **www.calpers.ca.gov.**

CalPERS CHRONOLOGY

1931 — CalPERS established by State legislation
1932 — Became operational for retirement benefits for State employees
1939 — Public agencies and classified school employees allowed to contract for retirement benefits
1962 — Public Employees' Medical & Hospital Care Act allows CalPERS to provide health insurance benefits for State employees
1967 — Health Program expanded to include local public employees on a contract basis
1984 — CalPERS initiates corporate governance reform program
1984 — Proposition 21 approved by voters allows CalPERS to invest more than 25 percent of fund portfolio in stocks
1990 — Long-Term Care Act allows CalPERS to offer LTC insurance to CalPERS, STRS, and County Employees' Retirement Law of 1937 members
1992 — Proposition 162 approved by voters; CalPERS Board given absolute and exclusive authority over the administration and investment of pension funds

1996 — CalPERS pension fund reaches $100 billion on May 14, 1996

1996 — Long-Term Care Program expanded to include all California public employees and retirees

1996 — CalPERS launches International Corporate Governance Program

1997 — CalPERS launches CalPERS On-Line Web site

1997 — CalPERS adopts corporate governance principles for United Kingdom

1997 — CalPERS increases public disclosure of decision making

1998 — CalPERS adopts U.S. corporate governance standards

1998 — CalPERS adopts strategy for private equity investments

1998 — CalPERS Board sponsors "retirement equity" legislation

1999 — CalPERS launches corporate governance Web site; draws worldwide interest

2000 — CalPERS designates May "Retirement Planning Month"

2001 — CalPERS earmarks $457 million to 11 California private equity firms; investments to target California's under-served markets

2001 — CalPERS breaks ground on Headquarters Expansion Project

2002 — CalPERS launches financial market reform initiative with principles and action plan to prevent future Enron-type accounting abuses.

2003 — CalPERS calls on "expatriate" firms to return to U.S.

2003 — CalPERS adopts plan to crack down on executive compensation abuses

2003 — CalPERS launches eNews service; also adds "Press Room" to Web site

2003 — CalPERS sues NYSE for trading specialist abuses that hurt investors

2004 — CalPERS launches new improved CalPERS On-Line Web site on March 27

2004 — CalPERS initiates Environmental Technology Investment Program

2004 — CalPERS adopts reduced hospital network, regional health plan pricing

2004 — CalPERS gets AAA rating from Fitch Ratings

2005 — CalPERS adopts employer rate "smoothing" policy to reduce rate volatility

2005 — CalPERS headquarters expansion completed in October

2005 — CalPERS pension fund reaches $200 billion milestone on November 21

2007 — CalPERS launches retiree health benefit (OPEB) prefunding plan on March 1

2007 — CalPERS celebrates 75th anniversary

California Public Employees'
Retirement System
Office of Public Affairs
400 Q Street, Sacramento, CA 95811
(916) 795-3991 phone
(916) 795-3507 fax
www.calpers.ca.gov

FACTS AT A GLANCE: INVESTMENT

MARCH 2008

Facts at a Glance is a monthly compilation of information of interest to Board Members, staff, and the general public. Information is current as of January 31, 2008, unless otherwise noted. Every effort has been made to verify the accuracy of the information, which is intended for general use only. Please direct any questions and comments to the Public Affairs Office at (916) 795-3991.

INVESTMENT PORTFOLIO MARKET VALUE

$244.7 Billion (As of January 31, 2008)

ASSET CLASS BY MARKET VALUE & ALLOCATION

ASSET CLASS	MARKET VALUE ($ BILLION)	CASH MARKET (%)	EFFECTIVE ALLOCATION (%)	CURRENT TARGET* (%)	PREVIOUS TARGET (%)	% PASSIVE VS. ACTIVE	
						PASSIVE	ACTIVE
Cash Equivalents	$2.1	0.9%	0.3%	0.0%	0.0%	0.0%	100.0%
Fixed Income:							
Domestic	$61.2	25.0%	25.0%	17.0%		0.0%	100.0%
International	$7.8	3.3%	3.2%	2.0%		0.0%	100.0%
TOTAL GLOBAL FIXED INCOME	**$69.0**	**28.2%**	**28.2%**	**19.0%**	**26.0%**		
Equities:							
AIM	$22.6	9.3%	9.3%	10.0%	6.0%	0.0%	100.0%
Domestic	$80.4	32.9%	33.2%	28.0%	40.0%	63.7%	36.3 %
International	$47.9	19.6%	19.8%	28.0%	20.0%	45.3%	54.7%
TOTAL EQUITIES	**$150.9**	**61.8%**	**62.3%**	**66.0%**	**66.0%**		
Real Estate	$20.7	8.5%	8.5%	10.0%	8.0%	5.2%	94.8%
Inflation Linked	$1.9	0.8%	0.8%	5.0%		0.0%	100.0%
Total Fund	**$244.7**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**29.8%**	**70.2%**

**Target allocation effective December 2008.*

GROWTH OF FUND

YEAR	YEAR-END 6/30	YEAR-END 12/31
1985	$28.6 billion	$32.7 billion
1990	$58.2 billion	$57.5 billion
1995	$87.8 billion	$96.9 billion
1996	$100.7 billion	$108.0 billion
1997	$119.7 billion	$128.2 billion
1998	$143.3 billion	$150.6 billion
1999	$159.1 billion	$171.9 billion
2000	$172.2 billion	$165.2 billion
2001	$156.0 billion	$151.8 billion
2002	$143.4 billion	$133.8 billion
2003	$144.8 billion	$161.4 billion
2004	$166.3 billion	$182.8 billion
2005	$189.8 billion	$200.9 billion
2006	$208.2 billion	$230.3 billion
2007	$247.7 billion	$253.0 billion

TOTAL AVERAGE ANNUAL RETURNS

Fiscal year to date ended 1/31/08	-0.65%
3 years for period ended 1/31/08	11.49%
5 years for period ended 1/31/08	14.22%

CALIFORNIA INVESTMENTS AND COMMITMENTS

Approximately $25.1 billion—or 9.0 percent of total fund as of January 31, 2008.

Fixed Income	$ 5.0 billion
Equities	$ 11.4 billion
Real Estate	$ 8.7 billion

HISTORICAL RATES OF RETURNS[1]

YEAR	YEAR END 6/30 (%)	YEAR END 12/31 (%)
1984	-3.1	12.9
1985	35.4	28.0
1986	24.6	15.9
1987	13.8	4.3
1988	3.9	12.8
1989	15.7	21.3
1990	9.7	-0.8
1991	6.5	23.0
1992	12.5	6.5
1993	14.5	13.4
1994	2.0	-1.0
1995	16.3	25.3
1996	15.3	12.8
1997	20.1	19.0
1998	19.5	18.5
1999	12.5	16.0
2000	10.5	-1.4
2001	-7.2	-6.2
2002	-5.9[1]	-9.5
2003	3.9	23.3
2004	16.7	13.4
2005	12.7	11.1
2006	12.3	15.7
2007	19.1	10.2

Dated: 3/17/2008

[1] *Beginning 6/30/02 performance figures are reported as gross of fees.*

EXHIBIT III

ICMA-RC
777 North Capitol St., NE
Washington, DC 20002

Erika Armstrong, Managing Director, Institutional Sales
Retirement Health Savings
(866) 731-1067
earmstrong@icmarc.org

Years in Business/Trust Founded
Founded in 1972; registered with SEC in 1983.

Description of services

ICMA-RC's primary business is the administration and investment management of deferred compensation, defined contribution and retirement health savings plans. ICMA-RC offers the VantageCare RHS Employer Investment Program, which is a dedicated funding vehicle for retiree health care benefits.

Firm Size
ICMA-RC works with over 7,000 public sector plans and approximately 700,000 plan participants.

Innovativeness of products/service
ICMA is in the process of developing an additional investment program which it expects to launch in the third quarter of 2008. This program would allow the option of directed investments.

Understands State Bar of California's unique attributes
Yes. ICMA provides services to a number of California public agencies and works closely with each client to tailor services to their needs.

Ability to satisfy State Bar of California's requirements
ICMA-RC is capable of providing services that meet the OPEB funding vehicle requirements.

Private Letter Ruling
ICMA-RC has obtained a private ruling letter for this vehicle.

ICMA-RC

The performance data quoted represents past performance. Past performance is no guarantee of future results. Investment returns and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data illustrated. For performance data current to the most recent month end, contact ICMA-RC Investor Services at 800-669-7400.

Stable Value/Money Market Funds

Investment	Fund Code	Performance for period ending March 31, 2008 Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
Vantagepoint Money Market Fund [i, ii]	MW	0.24%	0.85%	0.85%	4.41%	4.11%	2.80%	—	3.20%	Mar 1999	0.64%	0.64%

The 7-Day Yields below more closely reflect the current earnings of the Vantagepoint Money Market Fund than the returns above.

Vantagepoint Money Market Fund for the period ending March 31, 2008 — 7-Day Current Yield: 2.61% — 7-Day Effective Yield: 2.64%

Bond Funds

Investment	Fund Code	Performance for period ending March 31, 2008 Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
Vantagepoint Low Duration Bond Fund [iii, a]	MB	-0.70%	1.34%	1.34%	5.35%	4.07%	3.60%	—	3.92%	Dec 2000	0.65%	0.65%
Vantagepoint Core Bond Index Fund, Class I [a]	WM	0.30%	2.23%	2.23%	7.37%	5.08%	4.15%	5.51%	—	Jun 1997	0.44%	0.44%
Vantagepoint Inflation Protected Securities Fund [i, iv, a]	MT	0.22%	5.51%	5.51%	14.20%	6.80%	4.39%	5.57%	—	Jul 1992	0.70%	0.70%

Balanced Funds

Investment	Fund Code	Performance for period ending March 31, 2008 Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
Vantagepoint Milestone Retirement Income Fund [v]	4E	-0.57%	-1.60%	-1.60%	2.88%	5.32%	—	—	4.67%	Jan 2005	[A]1.27%	0.81%

Balanced Funds

Investment	Fund Code	Performance for period ending March 31, 2008: Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
Vantagepoint Milestone 2010 Fund [v]	**CA**	-0.67%	-2.91%	-2.91%	1.93%	6.04%	—	—	5.17%	Jan 2005	[B]1.08%	0.88%
Vantagepoint Milestone 2015 Fund [v]	**CH**	-0.65%	-4.58%	-4.58%	0.47%	6.73%	—	—	5.71%	Jan 2005	[C]1.02%	0.91%
Vantagepoint Milestone 2020 Fund [vi, v]	**CJ**	-0.83%	-5.71%	-5.71%	-0.59%	6.96%	—	—	5.89%	Jan 2005	[D]1.07%	0.93%
Vantagepoint Milestone 2025 Fund [vi, v]	**CN**	-0.83%	-6.58%	-6.58%	-1.56%	7.19%	—	—	6.03%	Jan 2005	[E]1.13%	0.95%
Vantagepoint Milestone 2030 Fund [vi, v]	**CR**	-0.91%	-7.32%	-7.32%	-2.37%	7.34%	—	—	6.13%	Jan 2005	[F]1.32%	0.97%
Vantagepoint Milestone 2035 Fund [vi, v]	**CU**	-1.00%	-8.03%	-8.03%	-3.06%	7.46%	—	—	6.20%	Jan 2005	[G]1.56%	0.99%
Vantagepoint Milestone 2040 Fund [vi, v]	**CX**	-1.00%	-8.35%	-8.35%	-3.43%	7.37%	—	—	6.12%	Jan 2005	[H]1.91%	0.99%
Vantagepoint Model Portfolio Savings Oriented Fund [i, vii, v]	**SF**	-0.57%	-1.09%	-1.09%	3.48%	5.19%	6.25%	4.85%	—	Feb 1995	0.88%	0.88%
Vantagepoint Model Portfolio Conservative Growth Fund [i, v]	**SG**	-0.58%	-2.92%	-2.92%	1.91%	5.68%	7.69%	4.97%	—	Apr 1996	0.91%	0.91%
Vantagepoint Model Portfolio Traditional Growth Fund [i, v]	**SL**	-0.65%	-5.20%	-5.20%	-0.14%	6.31%	9.61%	5.05%	—	Apr 1996	0.96%	0.96%
Vantagepoint Model Portfolio Long-Term Growth Fund [i, v]	**SM**	-0.84%	-7.09%	-7.09%	-1.58%	7.11%	11.70%	5.45%	—	Apr 1996	1.02%	1.02%
Vantagepoint Model Portfolio All-Equity Growth Fund [i, v]	**SP**	-1.11%	-9.78%	-9.78%	-4.49%	7.29%	13.41%	—	1.78%	Oct 2000	1.11%	1.11%
Vantagepoint Asset Allocation Fund [i]	**MP**	-0.52%	-9.61%	-9.61%	-4.53%	5.74%	10.81%	4.32%	—	Dec 1974	0.75%	0.75%

U.S. Stock Funds

Investment	Fund Code	Performance for period ending March 31, 2008: Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
Vantagepoint Equity Income Fund [i]	**MM**	-1.77%	-9.30%	-9.30%	-7.85%	5.49%	13.75%	6.09%	—	Apr 1994	0.89%	0.89%
Vantagepoint 500 Stock Index Fund, Class I	**WJ**	-0.47%	-9.63%	-9.63%	-5.56%	5.37%	10.82%	3.04%	—	Jun 1997	0.45%	0.45%
Vantagepoint Growth & Income Fund [i]	**MJ**	-1.04%	-10.32%	-10.32%	-5.61%	5.35%	10.77%	—	7.55%	Oct 1998	0.81%	0.81%
Vantagepoint Broad Market Index Fund, Class I	**WG**	-0.72%	-9.39%	-9.39%	-5.99%	6.06%	12.05%	3.52%	—	Oct 1994	0.44%	0.44%
Vantagepoint Growth Fund [i]	**MG**	-0.53%	-10.53%	-10.53%	-1.44%	6.10%	9.21%	3.24%	—	Apr 1983	0.88%	0.88%
Vantagepoint Mid/Small Company Index Fund, Class I [b]	**WD**	-1.54%	-9.55%	-9.55%	-8.58%	7.44%	15.73%	4.98%	—	Jun 1997	0.51%	0.51%
Vantagepoint Aggressive Opportunities Fund [i, b]	**MA**	-2.77%	-12.79%	-12.79%	-11.21%	5.91%	15.68%	4.16%	—	Oct 1994	1.04%	1.04%

International Stock Funds

Investment	Fund Code	Month	Year to Date	Quarter	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	†Gross Expense Ratio	†Net Expense Ratio
		Performance for period ending March 31, 2008										
Vantagepoint Overseas Equity Index Fund, Class I [viii, c]	**WB**	0.07%	-8.38%	-8.38%	-3.40%	12.75%	20.72%	5.53%	—	Jun 1997	0.73%	0.73%
Vantagepoint International Fund [i, viii, c]	**MD**	-0.53%	-8.45%	-8.45%	-0.45%	13.65%	20.07%	5.05%	—	Oct 1994	1.11%	1.11%

Disclosures

Investments listed reflect the investments available at the time this report was created. Performance is for the period ending March 31, 2008. The investments available in the plan change over time and therefore may have been different on March 31, 2008.

Fund performance is available the 5th business day after the end of the month.

To contact ICMA-RC Services, LLC, ICMA-RC, or any of its affiliates call 800-669-7400 (TDD: 800-669-7471) or write to 777 North Capitol Street, NE, Washington, DC 20002-4240. You may also visit us on the Web at www.icmarc.org. Para asistencia en Español llame al 800-669-8216.

A redemption fee may be assessed when you sell shares in a mutual fund. Regardless, all funds are monitored for frequent trading. Please refer to the Fund's prospectus for guidance on redemption fee and frequent trading terms. Also, refer to ICMA-RC's Frequent Trading Policy for more information.

This information is being provided for educational purposes and is not intended to be construed as or relied upon as investment advice. ICMA-RC does not offer specific tax or legal advice. Individuals are advised to consider any new investment strategies carefully prior to implementing.

Please consult both the current applicable prospectus and *MAKING SOUND INVESTMENT DECISIONS: A Retirement Investment Guide* carefully for a complete summary of all fees, expenses, charges, financial highlights, investment objectives, risks and performance information. Investing in mutual funds and other investment vehicles involves risk, including possible loss of the amount invested. Investors should consider the Fund's investment objectives, risks, charges and expenses before investing or sending money. The prospectus contains this and other information about the investment company. Please read the prospectus carefully before investing. All Vantagepoint Funds invested through 401 or 457 plans are held through VantageTrust. Vantagepoint Funds are distributed by ICMA-RC Services LLC, a wholly owned broker-dealer subsidiary of ICMA-RC and member FINRA/SIPC. For a current prospectus, contact ICMA-RC Services, LLC.

Additional Information on Fund Expenses and Waivers of Expenses

†Definitions of Expense Ratio Terms

Gross Expense Ratio — The annuazed amount, expressed as a percentage of your total investment, that you will pay annually for the mutual fund's operating expenses and management fees before any waivers. This amount includes asset based administration fees if applicable.

Net Expense Ratio — The amount shown in the gross expense ratio less any expense waivers. The daily portion of this expense is deducted from the fund prior to the fund company's calculation of the daily price reported to the public. This amount includes asset based administration fees if applicable.

Expense Waiver Amount — The amount a mutual fund has agreed to waive in order to reduce or limit operating expenses for the fund. Fee waivers may not be available to fund shareholders in the future.

A. An expense waiver or discount of 0.46% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

B. An expense waiver or discount of 0.20% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

C. An expense waiver or discount of 0.11% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

D. An expense waiver or discount of 0.14% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

E. An expense waiver or discount of 0.18% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

F. An expense waiver or discount of 0.35% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

G. An expense waiver or discount of 0.57% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

H. An expense waiver or discount of 0.92% for this fund. This reduction is contractual and will expire on April 30, 2008. Some waivers may be renewed or extended.

Risks Associated with Asset Classes

a. A rise/fall in the interest rates or credit quality can have a significant impact on bond prices and the NAV (net asset value) of the fund. Funds that invest in bonds can lose their value as interest rates rise and an investor can lose principal.

b. Funds that invest in small- and/or mid-sized company stocks typically involve greater risks, particularly in the short term, than those investing in more established companies.

c. Foreign investments are subject to additional risks not ordinarily associated with domestic investments (i.e. currency, economic and political risks).

Investment Specific Footnotes

i. The Vantagepoint Actively Managed and Index (Class I) Funds were registered in March 1999. The Vantagepoint Index (Class II) Funds were registered in April 1999. The Vantagepoint Model Portfolio Funds were registered in December 2000. However, all of the Vantagepoint Funds registered prior to 2001 are patterned on, have the same investment objectives, and are operated in substantially the same fashion, as certain funds that have been offered through the VantageTrust ("Trust") Company and its predecessor, ICMA Retirement Trust prior to their registration. The Trust is a series of unregistered commingled funds, which hold and invest the assets of public sector retirement plans. The inception dates of these funds are noted above. Substantially all of the portfolio securities of each Vantagepoint Fund were transferred from the corresponding fund of the Trust. Any performance history before registration of the Vantagepoint Funds is derived from the underlying portfolio of each fund in the Trust. The Trust, in turn, invests in the corresponding Vantagepoint Funds. The performance for the Vantagepoint Funds, prior to their registration, is calculated based on what an investor would have received had the corresponding funds of the Trust been charged the same asset-based fees and expenses as the Vantagepoint Funds upon registration. Those fees and expenses are set forth in the Vantagepoint Funds prospectus.

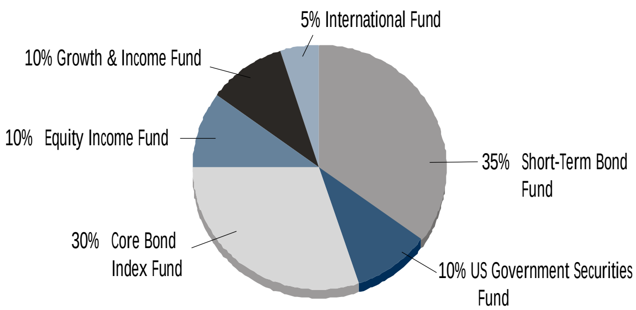
ii. Investments in this Fund are not insured or guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. Although the Fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the Fund.

- **iii.** Before May 1, 2007, the Vantagepoint Low Duration Bond Fund was named the Vantagepoint Short-Term Bond Fund and sought to meet its objective by investing in debt securities of varying maturities and by maintaining a maximum average portfolio maturity (on a dollar weighted basis) of three years. This is no longer the case with respect to the Fund's portfolio maturity. Now the Fund's portfolio seeks to maintain a maximum effective duration of three years. This change may result in an increase in interest rate risk. Before November 8, 2004, the Vantagepoint Short-Term Bond Fund was named the Vantagepoint Income Preservation Fund and had different investment objectives and strategies. There is no assurance that the Fund will be able to achieve long-term investment results similar to those achieved prior to May 1, 2007.
- **iv.** Before May 1, 2007, the Inflation Protected Securities Fund was named the US Government Securities Fund and invested at least 80% of its assets in securities issued by the U.S. Treasury, U.S. Government agencies, and U.S. Government-sponsored enterprises, including mortgage-backed securities. This is no longer the case. Now the fund invests at least 80% of its net assets in inflation adjusted U.S. and non-U.S. debt securities. There is no assurance that the Fund will be able to achieve long-term investment results similar to those achieved prior to May 1, 2007.
- **v.** Please be advised that with "Fund of Funds" arrangements, additional underlying fees may apply. Please consult the prospectus for details.
- **vi.** This VantageTrust fund invests solely in the shares of a single designated Vantagepoint Fund.
- **vii.** Because of its high allocation to fixed income, the Fund may be appropriate for investors with a low risk tolerance and shorter investment horizon. However, because the Fund invests one quarter of its assets in stocks, the Fund may offer higher growth potential and inflation protection than an all-bond portfolio.
- **viii.** Investors who transfer assets out of these Funds must wait at least 91 days before transferring assets back into the same Funds. The policy affects transfers only. It does not affect regular contributions or disbursements.

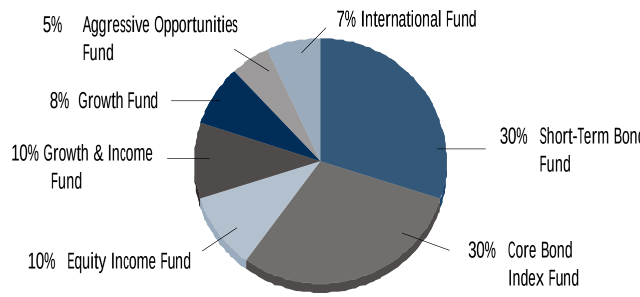
VANTAGECARE RHS EMPLOYER INVESTMENT PROGRAM
VANTAGEPOINT FUNDS OPTION SHEET

Vantagepoint Model Portfolio Funds (Comprised of Vantagepoint Funds)

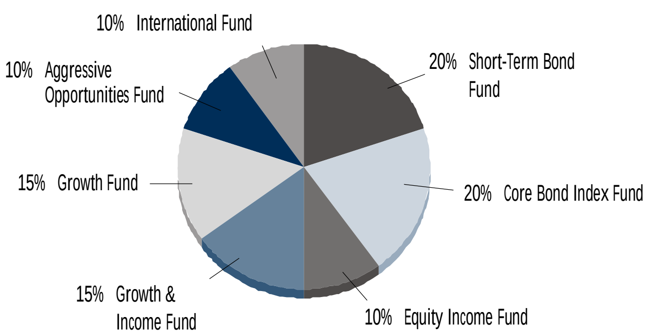
Savings Oriented (Code SF)



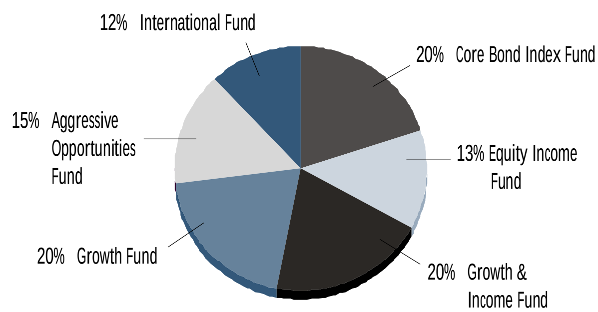
Conservative Growth (Code SG)



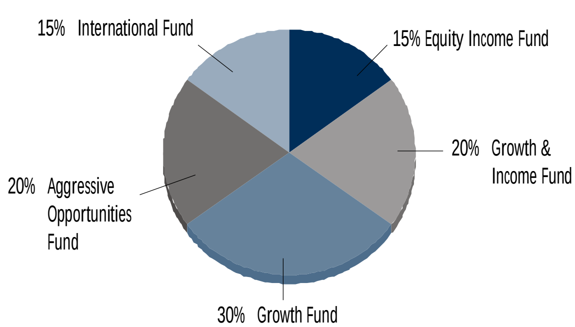
Traditional Growth (Code SL)



Long-Term Growth (Code SM)



All-Equity Growth (Code SP)



Please consult the current Vantagepoint Funds prospectus carefully for a complete summary of all fees, expenses, charges, financial highlights and investment objectives, risks and performance information prior to investing any money. Vantagepoint securities are distributed by ICMA-RC Services LLC, a broker dealer affiliate of ICMA-RC, member NASD/SIPC. For a current prospectus, contact ICMA-RC Services LLC, 777 North Capitol Street NE, Washington, DC 20002-4240. 1-800-326-7272. En Español llame al 1-800-669-8216. www.icmarc.org.

FLY000-131-200601-C848

EXHIBIT IV

PARS
5141 California Avenue, Suite 150
Irvine, CA 92617

Kevin Murphy/Mitch Barker
(800) 540-6369 - x128/x116
kmurphy@pars.org
mbarker@pars.org

Years in Business/Trust Founded

Founded in 1983

Description of services

Public Agency Retirement Services (PARS) offers a full spectrum of retirement programs tailored to public agencies. PARS administers hundreds of retirement programs across the nation, including programs for cities, counties, school districts, community college districts, county offices of education, and special districts.

PARS serves as the trust administrator and consultant, and provides recordkeeping as well as legal/ compliance services and works with client actuaries. Union Bank of California (UBOC) provides trustee services and HighMark Capital Management, a wholly owned subsidiary of UBOC provides investment management services. Clients may choose an outside investment advisor instead of HighMark with Union Bank serving as trustee.

Firm Size
PARS administers over 700 retirement programs for more than 400 client agencies with over 250,000 plan participants. Currently administers three post-retirement health care trusts – two Section 115 trusts (one for City, County and Special Districts and one for Schools) and one VEBA. There is $25 million in the Section 115 for City, Counties and Agencies with 9 participants as of March 31, 2008. Several other participants are pending.

Innovativeness of products/service
PARS has teamed with Union Bank of California and its subsidiary HighMark Capital Management to provide a complete range of services.

Understands State Bar of California's unique attributes
Yes, the firm works with their clients to tailor programs to meet each client's requirements.

Ability to satisfy State Bar of California's requirements
PARS is capable of providing the services requested.

Private Letter Ruling
PARS has obtained a private letter ruling from the IRS on its Section 115 multi-employer trust.

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS—MODERATE

■ As of December 31, 2007

WHY THE PARS DIVERSIFIED MODERATE PORTFOLIO?

■ **Comprehensive Investment Solution**
HighMark's diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

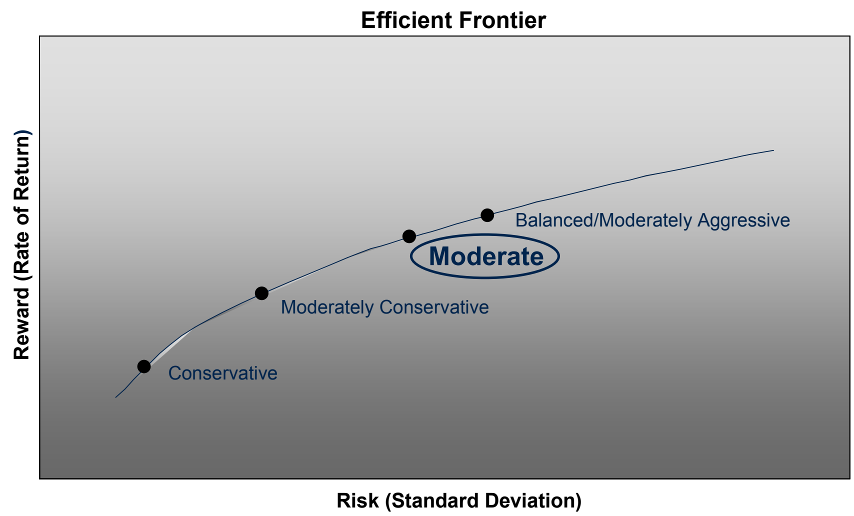
■ **Rigorous Manager Due Diligence**
Our mutual fund research team utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We've set high standards for our investment managers and funds - and we'll replace managers if they slip below these standards. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

■ **Flexible Investment Options**
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

■ **Risk Management**
The portfolio is constructed to control risk through four layers of diversification -- asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

Investment Objective

To provide growth of principal and income. It is expected that dividend and interest income will comprise a significant portion of total return, although growth through capital appreciation is equally important.



Asset Allocation – Moderate Portfolio

	Strategic Range	Policy	Tactical
Equity	40-60%	50%	57%
Fixed Income	40-60%	45%	41%
Cash	0-20%	5%	2%

ANNUALIZED TOTAL RETURNS

■ **HighMark Plus**

Current Quarter*	-0.82%
[1]*Blended Benchmark**	*-0.33%*
Year To Date	5.86%
Blended Benchmark	*6.19%*
1 Year	5.86%
Blended Benchmark	*6.19%*
2 Year	7.38%
Blended Benchmark	*8.07%*
Inception To Date (42-Mos.)	8.11%
Blended Benchmark	*7.13%*

■ **Index Plus**

Current Quarter*	-1.38%
*Blended Benchmark**	*-0.33%*
Year To Date	5.40%
Blended Benchmark	*6.19%*
1 Year	5.40%
Blended Benchmark	*6.19%*
2 Year	N/A
Blended Benchmark	*8.07%*
Inception To Date (23-Mos.)	6.51%
Blended Benchmark	*7.66%*

** Returns less than 1-year are not annualized.*
[1] 5% 30-day Treasury Bill; 15% ML 1-3 Year Govt/Corp; 30% Lehman Bros. Aggregate Bond; 43% S&P 500, 2% Russell 2000, 5% MSCI EAFE. Prior to April 1, 2007, the blended benchmark was the following: 5% 30-day Treasury Bill; 15% ML 1-3 Year Govt/Corp; 30% Lehman Bros. Aggregate Bond; 50% S&P 500.

ANNUAL RETURNS

■ **HighMark Plus**

2005	5.64%
2006	8.92%
2007	5.86%

■ **Index Plus**

2005	N/A
2006	N/A
2007	5.40%

PARS DIVERSIFIED PORTFOLIOS—MODERATE

■ As of December 31, 2007

ABOUT THE ADVISOR

HighMark Capital Management, Inc. (HCM), the advisor to HighMark Funds, has over 85 years of institutional money management experience with more than $22 billion in assets under management. HCM has a long-term disciplined approach to money management and currently manages assets for a wide array of clients.

SAMPLE HOLDINGS

■ HighMark Plus

Davis NY Venture Fund
Eaton Vance Large Cap Value
HighMark Large Cap Value
Rainier Large Cap Growth
T. Rowe Price Growth Stock
Columbia Small Cap Value
T. Rowe Price New Horizons
Fidelity Adv Diversified Instl
HighMark Bond
Vanguard Short-Term Corp Adm
Lazard Emerging Markets Instl
PIMCO Total Return
MFS International Growth
Dodge & Cox International Stock
Manning & Napier Equity Fund

■ Index Plus

iShares S&P 500
iShares S&P 500/Value
iShares S&P 500/Growth
iShares S&P Small Cap 600 Value
iShares S&P Small Cap 600 Growth
iShares MSCI EAFE
Vanguard Short-Term Corp Adm
iShares MSCI Emerging Markets
iShares Lehman Aggregate Bond

Holdings are subject to change at the discretion of the investment manager.

PORTFOLIO FACTS

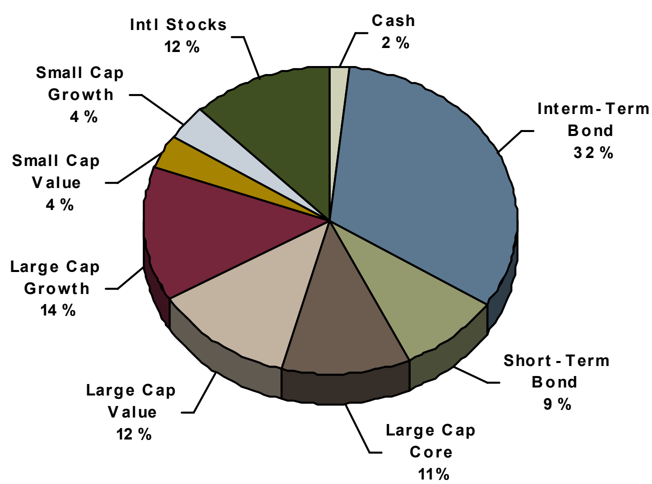
■ HighMark Plus

Inception date 07/2004
No. of Funds in Portfolio 16

■ Index Plus

Inception date 02/2006
No. of Funds in Portfolio 9

STYLE



ABOUT THE PORTFOLIO MANAGEMENT TEAM

Andrew Brown, CFA
Vice President & Senior Portfolio Manager
Investment Experience: 13+ Years
HighMark Tenure: 11 Years
Education: MBA, Finance/Marketing, University of Southern California; BA, International Relations, Asia-Politics/Economy concentration, University of Southern California; Chartered Financial Analyst (CFA), CFA Institute

Cori Seiler, CMFC
Vice President & Institutional Investment Strategist
Investment Experience: 18+ Years
HighMark Tenure: 16 Years
Education: BS, Business Administration/Finance, California State University, Los Angeles; Chartered Mutual Fund Counselor (CMFC), College for Financial Planning

Asset Allocation Committee
Number of Members: 7
Average Years of Experience: 23
Average Tenure (Years): 13

Mutual Fund Review Committee
Number of Members: 8
Average Years of Experience: 13
Average Tenure (Years): 5

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS—BALANCED/MODERATELY AGGRESSIVE

■ **As of December 31, 2007**

WHY THE PARS DIVERSIFIED BALANCED/ MODERATELY AGGRESSIVE PORTFOLIO?

■ **Comprehensive Investment Solution**
HighMark's diversified investment portfolios are designed to balance return expectations with risk tolerance. Key features include: sophisticated asset allocation and optimization techniques, four layers of diversification (asset class, style, manager, and security), access to rigorously screened, top tier money managers, flexible investment options, and experienced investment management.

■ **Rigorous Manager Due Diligence**
Our mutual fund research team utilizes a rigorous screening process that searches for investment managers and styles that have not only produced above-average returns within acceptable risk parameters, but have the resources and commitment to continue to deliver these results. We've set high standards for our investment managers and funds - and we'll replace managers if they slip below these standards. This is a highly specialized, time consuming approach dedicated to one goal: competitive and consistent performance.

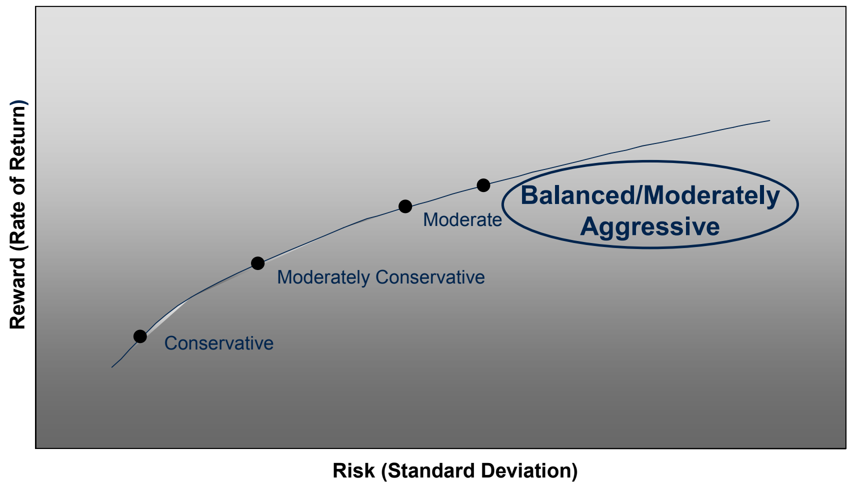
■ **Flexible Investment Options**
In order to meet the unique needs of our clients, we offer access to flexible implementation strategies: HighMark Plus utilizes actively managed mutual funds while Index Plus utilizes index-based securities, including exchange-traded funds. Both investment options leverage HighMark's active asset allocation approach.

■ **Risk Management**
The portfolio is constructed to control risk through four layers of diversification -- asset classes (cash, fixed income, equity), investment styles (large cap, small cap, international, value, growth), managers and securities. Disciplined mutual fund selection and monitoring process helps to drive return potential while reducing portfolio risk.

Investment Objective

To provide growth of principal and income. While dividend and interest income are an important component of the objective's total return, it is expected that capital appreciation will comprise a larger portion of the total return.

Efficient Frontier



Asset Allocation – Balanced/Moderately Aggressive Portfolio

	Strategic Range	Policy	Tactical
Equity	50-70%	60%	67%
Fixed Income	30-50%	35%	31%
Cash	0-20%	5%	2%

ANNUALIZED TOTAL RETURNS

■ **HighMark Plus**

Current Quarter*	-1.41%
*[1]Blended Benchmark**	*-0.88%*
Year To Date	5.46%
Blended Benchmark	*5.99%*
1 Year	5.46%
Blended Benchmark	*5.99%*
2 Year	N/A
Blended Benchmark	*8.53%*
Inception To Date (15-Mos.)	7.68%
Blended Benchmark	*8.50%*

■ **Index Plus**

Current Quarter*	N/A
*Blended Benchmark**	*-0.88%*
Year To Date	N/A
Blended Benchmark	*5.99%*
1 Year	N/A
Blended Benchmark	*5.99%*
2 Year	N/A
Blended Benchmark	*8.53%*
Inception To Date	N/A
Blended Benchmark	*N/A*

** Returns less than 1-year are not annualized.*
[1] 5% 30-day Treasury Bill; 5% ML 1-3 Year Govt/Corp; 30% Lehman Bros. Aggregate Bond; 51% S&P 500, 3% Russell 2000, 6% MSCI EAFE. Prior to April 1, 2007, the blended benchmark was the following: 5% 30-day Treasury Bill; 5% ML 1-3 Year Govt/Corp; 30% Lehman Bros. Aggregate Bond; 60% S&P 500.

ANNUAL RETURNS

■ **HighMark Plus**

2005	N/A
2006	N/A
2007	5.46%

■ **Index Plus**

2005	N/A
2006	N/A
2007	N/A

Past performance is no indication of future results. Total returns are net of underlying mutual fund embedded expense ratios and gross of overall investment management fee charged to the portfolio. Sample holdings may change from time to time, at the discretion of HighMark.

HIGHMARK® CAPITAL MANAGEMENT

PARS DIVERSIFIED PORTFOLIOS—BALANCED/MODERATELY AGGRESSIVE

As of December 31, 2007

ABOUT THE ADVISOR

HighMark Capital Management, Inc. (HCM), the advisor to HighMark Funds, has over 85 years of institutional money management experience with more than $22 billion in assets under management. HCM has a long-term disciplined approach to money management and currently manages assets for a wide array of clients.

SAMPLE HOLDINGS

HighMark Plus
- Davis NY Venture Fund
- Eaton Vance Large Cap Value
- HighMark Large Cap Value
- T. Rowe Price Growth Stock
- T. Rowe Price New Horizons
- Fidelity Adv Diversified Instl
- HighMark Bond
- Vanguard Short-Term Corp Adm
- Lazard Emerging Markets Instl
- Dodge & Cox International Stock
- MFS International Growth
- Manning & Napier Equity Fund
- PIMCO Total Return
- Rainier Large Cape Growth
- Columbia Small Cap Value

Index Plus
- iShares S&P 500
- iShares S&P 500/Value
- iShares S&P 500/Growth
- iShares S&P Small Cap 600 Value
- iShares S&P Small Cap 600 Growth
- iShares MSCI EAFE
- Vanguard Short-Term Corp Adm
- iShares MSCI Emerging Markets
- iShares Lehman Aggregate Bond

Holdings are subject to change at the discretion of the investment manager.

PORTFOLIO FACTS

HighMark Plus

Inception date 10/2006

No. of Funds in Portfolio 16

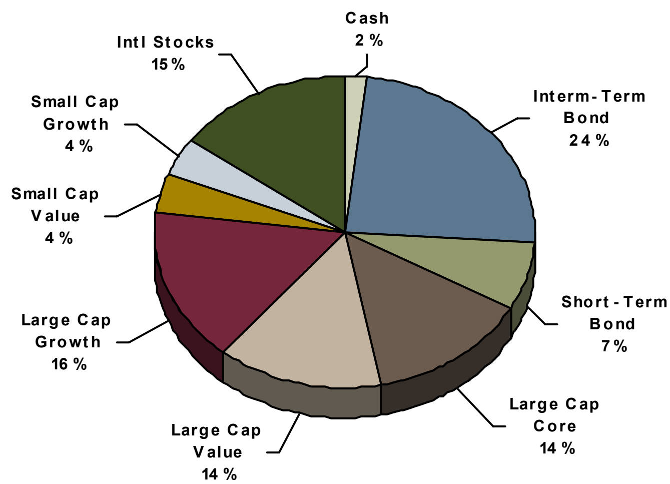
Index Plus

Inception date .... N/A

No. of Funds in Portfolio ....9 (Est.)

(Note: Index Plus has not funded to date. Portfolio facts represent estimates based on model construction and holdings.)

STYLE



ABOUT THE PORTFOLIO MANAGEMENT TEAM

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Vice President & Senior Portfolio Manager
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Cori Seiler, CMFC
Vice President & Institutional Investment Strategist
Investment Experience: 18+ Years
HighMark Tenure: 16 Years
Education: BS, Business Administration/Finance, California State University, Los Angeles; Chartered Mutual Fund Counselor (CMFC), College for Financial Planning

Asset Allocation Committee
Number of Members: 7
Average Years of Experience: 23
Average Tenure (Years): 13

Mutual Fund Review Committee
Number of Members: 8
Average Years of Experience: 13
Average Tenure (Years): 5

EXHIBIT V

Public Fund Management LLC (PFM)
18th & Arch Streets
Philadelphia, PA 19103

Jim Link, Managing Director
(215) 567-2100
linkj@pfm.com

Years in Business/Trust Founded

Founded in 1975

Description of services

PFM offers a Managed Account Program (MAP) which combines administrative and consulting services with asset management offered by its investment group, Public Fund Management LLC (PFMAM) and trustee/custodial services offered by U.S. Bank. PFMAM is registered under the Investment Advisers Act of 1940 and provides advice and portfolio management for government and not-for-profit organizations, corporations, pension funds and other institutions. PFMAM manages multi-asset class portfolios for pension, endowment and foundation funds and for trusts established to fund other post-employment benefits (OPEB) funds.

Firm Size
PFM managed more than $32 billion in assets as of December 31, 2007 and has over $250 million in OPEB asset with over 10 clients. Additional clients and assets are pending as of April 2008.

Innovativeness of products/service
PFM has created a fully discretionary program that offers all of the services required to establish individual trusts. It offers these services as a bundled program with a combined fee, and offers customized investment services utilizing mutual funds and separate account portfolios, depending upon the size of each client's asset pool and other criteria.

Understands State Bar of California's unique attributes
PFAM will customize their services for each client, and is capable of tailoring its services to meet each of their clients' needs.

Ability to satisfy State Bar of California's requirements
PFM is capable of providing the services requested.

Private Letter Ruling
Private letter rulings may be obtained.

The PFM Group
Public Financial Management, Inc.
PFM Asset Management LLC
PFM Advisors

Two Logan Square
Suite 1600
18th & Arch Streets
Philadelphia, PA
19103-2770

215 567-6100
215 567-4180 fax
www.pfm.com

April 18, 2008

Carolyn Roberts
Milliman
650 California Street, 17th Floor
San Francisco, CA 94108-2702

Re: Request for Proposal for OPEB Advisory Services

Dear Carolyn:

Thank you for giving PFM Asset Management LLC ("PFM") the opportunity to introduce our OPEB advisory services to Milliman for your client. As you will see, we believe that PFM and its affiliates, with more than 30 years experience in serving the public sector are uniquely qualified to help governments manage their OPEB issues.

Our proposal outlines the many services PFM can offer your client to assist you in managing its OPEB liability. In the proposal, you will see that we have a number of pre-funding planning services that assist clients manage or mitigate their OPEB liabilities. We have proposed using our Managed Account Program ("MAP") for the investment of OPEB assets. As part of this Program, we would work with you to develop an investment policy that fits the client's tolerance for risk. Once the investment policy is set, we would then manage the funds on a discretionary basis, taking responsibility for all fund selection, monitoring, rebalancing and account oversight.

While our proposal focuses on our discretionary management approach since that is the most common of the structures being adopted by governments, we have the experience and capability to provide a variety of other services based on the size and needs of the client. Among these different structures are different fees structures, asset allocation and funding models. Our goal is to use our capability as an advisor to meet the client's needs.

PFM is an independent investment advisor so the advice we provide is free from any conflict of interest. By combining discretionary management with independence from conflict and a relatively low cost structure, we have built a program that provides consistently strong results for our clients. In addition, for clients who desire management of operating funds or other fixed income only accounts, as of December 31, 2007, we managed more than $32 billion for governments around the country including a multi-billion dollar asset base in California.

As I mentioned on the phone, our financial advisor affiliate Public Financial Management, Inc. has for many years been among the leaders nationally in advising government clients on general financial, budget and debt issuance matters. In fact, last year we advised on $43 billion in debt issuance which made Public Financial Management, Inc. the #1 financial advisor of municipal debt in the U.S.

I look forward to the opportunity to meet with you and your client to discuss our capabilities. Please feel free to contact me regarding this proposal at 215-567-6100 or linkj@pfm.com.

Sincerely,
PFM Asset Management LLC

Jim Link
Managing Director

Managing Other Post Employment Benefits (OPEB)

The Government Accounting Standards Board (GASB) created Standards 43 and 45 to compel public employers to more accurately account for their long-term benefit promises to employees. The more transparent financial accounting standard also implicitly created the need for a more effective management of the OPEBs and how public employers fund these benefits. Unfortunately, GASB only defined one step in the management process and one alternative among the many funding choices. As a result, public employers are left with the task of defining the process, the alternatives and the choices for managing OPEBs.

PFM Asset Management LLC (PFM), part of The PFM Group[1], has spent more than 30 years serving the needs of public sector financial and management professionals. PFM understands the issues inherent in this multidimensional, interdisciplinary problem. We have experience in providing all of the post-actuarial valuation financial services that a public employer could need. From strategic planning, to budget and funding analysis, to account structure recommendations and asset management, PFM has specific experience and expertise in providing unbiased advice on which you can rely.

PFM: Your OPEB Advisor

Among the many issues facing public employers today, OPEB is significant in that it clearly crosses many boundaries. There are decisions to be made with legal counsel, coordination with actuaries and administrators, and multiple accounting and financial decisions to be made. Without a dedicated, in-house team to tackle these OPEB issues, many public employers are left without a clear direction. To solve this problem, PFM has put together a comprehensive advisory planning and ongoing management service. The service allows public employers to capitalize on our experience in providing solutions to significant public sector financial problems. In addition, our services are independent and unbiased.

Why an Independent Advisor?

PFM works for and is paid only by its clients.

- NO conflicts of interest,
- NO soft dollar arrangements,
- NO commissions paid to PFM, and
- NO revenue arrangements with money managers.

PFM offers a full range of planning, advisory, monitoring, and client services for its OPEB Advisory clients. Typical services include:

- OPEB Management Report
  - Account Structure Analysis
  - Funding Choices
  - Investment Alternatives
  - Implementation Plan
- Discretionary Asset Management
  - Investment Policy Development
  - Asset Allocation Recommendation
  - Investment Manager Selection and Monitoring
  - Comprehensive Reporting

[1] The PFM Group is comprised of Public Financial Management, Inc., a financial advisory firm, and its affiliate PFM Asset Management LLC, an investment advisor registered under the Investment Advisers Act of 1940. PFM Advisors is a division of PFM Asset Management LLC.

Step I: Creating the OPEB Plan

Many of our clients begin their OPEB planning process with merely a GASB 43 & 45 actuarial evaluation and many concerns. PFM assists our clients in navigating through the new GASB rules and regulations and facilitates the evolution of the actuarial report into a solid course of action.

OPEB Management Report
The PFM OPEB Management Report is the first piece of the puzzle for managing OPEBs. It is designed to frame the issue and provide an analysis of the various alternatives in each of the decision-making categories. It helps you to coordinate the disparate data points into a cohesive strategy for implementing your plan. It will help answer questions like:

- What kind of account structure or combination of account structures is best for us?
- What is the best method for amassing assets to offset the liability?
- How will various funding choices impact my balance sheet and/or cash flow statement?
- How likely am I to meet the actuarial discount rate projections?

Finally, it will provide you with a roadmap for implementing the overall strategy and may form a basis for discussing the OPEBs with a governing body, public employees and constituents.

Account Structure Decision
Deciding what account structure to use when funding your OPEB liabilities is a very important decision for our clients. PFM and U.S. Bank can support a variety of GASB 45 qualified investment options. The three most prevalent options are the Voluntary Employees' Beneficiary Association ("VEBA"), 401(h) Trust, and the Section 115 Trust. All of these options offer the benefit of tax-deferred growth of assets and non-taxable distribution of benefits. However, there are also important differences among such vehicles. PFM will guide clients through an inspection of the nuances of such vehicles in order to determine which structure is the most advantageous choice.

Benefits Review
Although facts and figures in the GASB 43 & 45 actuarial reports may represent the current realities faced by our clients, changing future decisions relating to benefit offerings and benefit plan providers may help to cut future OPEB liabilities. It may be possible to cut the actual cost of providing benefits to actives and retirees without actually cutting the benefits itself. We will assist our clients in determining what options are available to them under applicable state and local law, as well as determining which course of action will be the most efficient over time.

Step II: Implementing and Managing the OPEB Plan

Once a course of action has been decided upon, PFM will begin to set-up the structures needed for the proper implementation of the OPEB Plan.

Discretionary Asset Management: The Managed Accounts Program
The notion of discretionary account management at PFM marries two areas of significant expertise for the firm. PFM Asset Management LLC manages more than $32 billion in assets for the public sector through individual accounts and investment pool management[2]. PFM Advisors, a division of PFM Asset Management LLC, has provided independent investment consulting services to the public sector for more than 15 years. Independence means that we do not have any conflicts of interest like using our own funds in our clients' portfolios or receiving remuneration from asset managers or brokers, so we work for and are paid only by our clients.

[2] Represents fully discretionary asset management as of 12/31/06.

As of December 2007, PFM Advisors advises more than $8.2 billion in assets from a mix of pension, foundation/endowment, operating and deferred compensation clients. Since many in the public sector have little or no experience in managing multi-asset class portfolios, the firm saw a need it could fill. As a result, PFM created a discretionary asset management program for OPEB accounts that provides the benefits of the firms' areas of expertise, in an unbiased approach, while still encouraging client-by-client portfolio tailoring and oversight.

Key reasons public sector financial officials like to utilize a discretionary asset manager from an independent consultant include:

- Many institutions do not have the:
  - Time... to spend managing their investment funds
  - Expertise… on staff to manage multi-asset class investment portfolios
- As a result, may struggle with:
  - Cost… finding few cost-effective investment and/or administrative program alternatives
  - Performance… receiving less than satisfactory performance from brokerage, banking, or insurance programs
  - Fiduciary Concerns… requiring assistance in meeting their fiduciary duties regarding their investment plans
  - Risk… time lags in the decision-making and implementation process, leading to reduced performance and/or increased risk
  - Conflict… inherent in their advisor's business practices

Customized Asset Allocation

The asset allocation decision is the most important factor in determining the expected investment return between two different portfolios. The rigorous adherence to a disciplined process is paramount in determining the amounts that will ultimately be allocated to equities, fixed income, and other investments. A diversified portfolio gives your fund the best chance of achieving the highest return for a given level of risk.

PFM is able to achieve these results through a very refined process of asset allocation modeling. First, we do our homework. Through the use of our proprietary Portfolio Planning Survey, we are able to determine your view of the economy and markets, your goals and objectives, and your risk tolerance and ability to withstand losses. Next, we utilize a state of the art modeling program that uses the latest historical data on asset class investment returns, volatility, and correlation to determine an efficient frontier of the "optimal portfolio". Finally, your customized asset allocation is run through a series of simulations to demonstrate the probability of achieving various investment outcomes under different market scenarios. This way you know your investments match your expectations.

Investment Policy Implementation

The best way to avoid confusion or misunderstanding of a fund's investment objectives is to put those objectives in writing. As with any policy, it should be based on a set of definitive goals and objectives that are consistent with current and future resources and needs. This underpinning provides the framework for sound investment policy. PFM has experience with writing as well as helping clients implement written documentation of the policies and procedures in the form of an Investment Policy. As an OPEB Advisory client, each client will complete its own Portfolio Planning Survey and will be provided with its own Investment Policy Statement.

Manager Selection
PFM employs a proactive approach to investment research, portfolio building and manager selection. We consistently look for various ways to diversify risk, enhance returns and add value to our clients' investment plans.

Once the proper allocation of funds is determined, we can further enhance risk /return measures by selecting topnotch money managers, either active or passive, that meet our stringent criteria. With a universe of over 19,500 investment products available, zeroing in on those managers which can provide excess return and added diversification for your portfolio is based on both qualitative and quantitative data. Our experience has showed that, as much as the numbers are important, it is the people and processes that are the keys to future success of money managers. That is why we also interview the portfolio managers (not just a marketing representative) to get a true sense of people and processes managing your money.

Plan Monitoring
Once managers are selected, PFM Advisors will continue to monitor your plan's asset allocation, as well as the fund's investment managers/mutual funds. Our monitoring begins with a daily review of plan assets and asset allocation to ensure that any necessary trades happen in a timely manner. It continues with a bi-monthly Investment Committee meeting where strategic asset allocation decisions, rebalancing, investment manager allocations and performance are reviewed. On a quarterly basis the Investment Committee meets to specifically review investment managers using PFM Advisors' proprietary manager ranking system. Finally, with each new actuarial valuation, we will coordinate with your actuary to ensure that we understand the assumptions and can make well reasoned asset allocation recommendations.

On-going Reporting

Transaction Reporting[3]
Clients receive monthly transaction reporting directly from the custodian. In addition, the custodian will provide online access to these reports, as well as other important account information, so you can view up-to-date information on your plan as frequently as you would like. Support staff is also available to help you with any questions you may have about your custodian account or accessing information via the internet.

Performance Reporting
Performance reporting is provided on a quarterly basis. Each plan will receive a report containing its own performance measures allowing you to review your plan and its investment managers' performance versus the established benchmark while monitoring cash flows and other financial indicators. A review of the economy, financial markets, and our investment strategy is also included in this report to give you insight into the economy, financial markets, and how your investments are being managed. PFM Advisors will also host quarterly conference calls to give you a better understanding by hearing from the people who are making the asset allocation and investment manager decisions.

[3] U.S. Bank National Association acts as the program's custodian and provides all transactional reporting. Each client will execute appropriate account opening forms to establish accounts at U.S. Bank.

Your OPEB Team

OPEB services will be delivered from and through a variety of people at PFM. The key members of the team will be Nancy Jones and Jim Link, who is the leader of PFM's OPEB Practice. They will be the primary contacts along Dana Davenport who will be involved in the initial implementation of the program. As Managing Director of PFM's OPEB Practice, Jim and his team, including Dana, will provide the technical analysis, documentation and asset management services related to the project from our Philadelphia Office. Nancy and the San Francisco team will provide local, day-to-day relationship management and coordinate our OPEB service delivery.

At U.S. Bank, N.A., John Olson manages a team of trust administrator. He and his team, including Kate O'Connor, confer with PFM and the client regularly with regard to client account oversight.

Nancy Jones, Managing Director
Over 25 Years Financial Industry Experience
19th Year with PFM

West Coast Asset Management Leader

Nancy Jones joined PFM in January 1989. A Managing Director in our San Francisco office, she is responsible for investment advisory services for selected accounts in the Mid-West and Western Regions. In August of 2001, Ms. Jones became an employee of PFM Asset Management LLC, an investment advisory firm owned by the shareholders of Public Financial Management, Inc.

Ms. Jones is the client liaison for all municipal investment portfolios in the Western Region. She works with each client to develop a customized investment policy that meets the particular needs of that public agency. She has conducted numerous workshops and seminars for clients' staff and board members on such subjects as permitted investments, developing investment policies and internal controls, and oversight to ensure safety of principal invested. She is invited frequently to make presentations to annual conferences for public agencies' financial officials.

Ms. Jones has over 25 years experience working with public agency clients throughout the mid-western and western states. Before joining PFM, Ms. Jones worked as Vice-President in the Trading and Investment Group of Wells Fargo Bank selling fixed income securities to public agencies and other institutional customers in the western states. For 10 years before joining Wells Fargo, Ms. Jones worked for Crocker National Bank, most recently as Vice-President in the Capital Markets Division, responsible for business development and account relationship management in the California public sector. Before that she managed the commercial banking unit responsible for the development of new liability products and services for institutional customers.

Ms. Jones is a Phi Beta Kappa graduate of the University of California, Berkeley, and attended business school at San Francisco State University.

She is a member of the California Association of County Treasurers and Tax Collectors, the California Municipal Treasurers Association, the California Society of Municipal Finance Officers and the California Association of Joint Powers Authorities.

NASD Exams: Series 7.

Valentine J. Link, Jr. (Jim), Managing Director
20 Years Financial Industry Experience
3rd Year with PFM

Leader of PFM OPEB Practice, active in planning and ongoing servicing

Jim Link joined PFM as a Senior Managing Consultant in 2006. He leads the OPEB Practice at PFM and was recently promoted to Managing Director of the firm. Mr. Link has more than 19 years of experience in the institutional retirement plan, asset management and institutional trust and custody markets.

Prior to joining PFM, Mr. Link was the National Sales Manager for Wachovia Bank, N.A. in their Institutional Trust division and in their Retirement Services division where he led sales efforts and sales teams selling a variety of custody, trust, securities clearance and settlement, agent securities lending services and retirement plan products to mid- to large-size corporations, state, local, and quasi-government entities, and to multi-lateral entities (e.g. the UN, World Bank).

Prior to his time at Wachovia, Mr. Link has been a leader in retirement services groups for asset management firms including Manning & Napier Advisors, where he led the defined contribution and institutional trust groups and T. Rowe Price, where he had responsibility for growing and leading the 401(k) Century Plan program. He has also been employed with insurance companies including Prudential where he sold insurance and investment products and VALIC where he was responsible for program integration between the systems and customer service departments. Mr. Link's functional experience includes sales and client relationship management, operations and transaction processing, technology assessment and implementation, process reengineering, and vendor negotiation and management.

Apart from his work experience, Mr. Link has lectured at the Fels Institute of Government at the University of Pennsylvania. His work on OPEB planning has been published in industry publications. In addition, he has spoken at numerous conferences around the country regarding OPEB planning and management.

Mr. Link is a graduate of Texas A&M University in College Station, Texas where he earned his Bachelor of Science Degree in Economics with a minor in Management.

Dana Davenport, Consultant
15 Years Financial Industry Experience
1st Year with PFM

Investment and OPEB Operations Lead, active in planning and ongoing servicing

Dana M. Davenport joined PFM Advisors in February 2008 as a Consultant and is currently staffed in the Philadelphia office. Dana's focus will primarily be providing investment management consulting services on Other Post Employment Benefits (OPEB) and the Manager Account Program (MAP) at PFM.

Prior to joining PFM Advisors, Ms. Davenport was Vice President/Senior Account Manager at Pitcairn Financial Group for more than seven years. In her role at Pitcairn, Ms. Davenport supervised and managed Pitcairn's wholesale separate account management department, sales/business development and client servicing needs within Pitcairn's investment department. She was also responsible for establishing new wholesale and direct investment business opportunities with distribution platforms in addition to overseeing the execution, delivery and nurturing of RFP's with consultants and other interested parties. Ms. Davenport also specialized in providing tax efficient management of cash-funded and security-funded accounts to specified Pitcairn strategic models. Dana also concentrated much of her time developing and providing tax-transition alternatives/derivatives and comparing the risk/return of each alternative for security-funded portfolios for her key RIA clients. She was also the key resource for providing analytical resources (risk analysis, portfolio overviews, etc.) for prospective and existing Investment Advisor relationships/clients.

Prior to her role at Pitcairn, Ms. Davenport was a Registered Representative/Financial Consultant at The Niemeyer Group where she provided financial planning services for high-net worth investors. Prior to The Niemeyer Group, she was an Associate at Hamilton Lane Advisor where she provided private equity client services. During the mid-late 1990's, Ms. Davenport also worked at Lehman Brothers Private Client Services Group in New York, NY where she provided high-end product and client services.

Ms. Davenport graduated from Rutgers University, New Brunswick, NJ with BA's in both Criminology and Sociology. She was also a Registered Rep with her Series 7 & 63, Variable Life & Health licenses for more than 13 years.

John Olson, CFA, Vice President and Relationship Manager
Over 20 Years Financial Industry Experience
11th Year with U.S. Bank

Trust and Custody Oversight

John has been with U.S. Bank since 1997. In his current role as Vice President and Relationship Manager, John is responsible for managing client relationships and advising clients on employee benefit plans, investment management and custody.

Before joining U.S. Bank, John supervised the employee benefit counseling staff at the University of Minnesota. He also taught finance and accounting as an assistant professor of finance at the College of St. Catherine and a lecturer at the University of Wisconsin, Parkside. Prior to his teaching tenure, John was employed by the U.S. Maritime Administration for more than 12 years, most recently serving as a supervisory economist and Chief, Division of Marine Plans.

Kate O'Connor, Assistant Vice President and Account Manager
11 Years Financial Industry Experience
11th Year with U.S. Bank

Day-to-Day Trust and Custody Contact

Kate has worked at U.S. Bank since 1997. Kate's vast client service experience includes account management, client relations, compliance documentation, account and asset conversions and investment management operations. She specializes in custody accounts including Registered Investment Advisors, mortgage companies, pension trusts, public entities, and insurance companies. She has implemented efficient communications and execution of client relations establishing a strong client advocacy reputation. Prior to joining U.S. Bank, Kate worked in the social service field. Kate obtained her B.A. in 1993.

Additional Benefits of the PFM OPEB Program

Continuing Education

PFM understands that turnover at the staff and Trustee level can disrupt the continuity that is required in overseeing invested assets. For this reason, PFM offers one-on-one or group education sessions with new Trustees or staff members to educate them on investment issues and how they relate to prior decisions that were made by the Trustees.

PFM also provides ongoing educational seminars for our clients on important and pertinent investment topics. Throughout the past few years PFM has hosted several conferences for its clients. Topics have included hedge funds, private equity, real estate and interest rate SWAPS. Conferences typically are attended by over fifty Trustees of funds looking for ways to reduce the risk of their portfolios to traditional equity markets. We will continue to offer educational programs that we believe will be beneficial to our clients and help them better serve the plans they represent.

Our consultants have attended and/or presented at numerous industry conferences including GFOA, NAST, and other well known conferences. Our consultants have various advanced degrees, charters, designations, and numerous years of industry experience. Our clients' needs force us to stretch our limits in terms of researching new alternatives to the more traditional ways of investing. We can then educate our clients on the fundamentals of a new strategy and advise them as to the growing acceptance of this strategy by other similar funds. Ten years ago, education may have included using convertible bonds or emerging markets equity, whereas today Trustees must be educated on strategies such as portable alpha, structured products, multi-strategy hedge funds, commodities and buyout private equity. PFM views its role as central to the continuing education of the Trustees so that they can make informed decisions that they fully understand and can articulate these decisions to their constituents

Program Fees

For the detailed analysis and reporting included in the OPEB Management Planning and Reporting, there is a one-time flat fee of $20,000. This all- inclusive fee would include the development of presentations needed to approve various Board Resolutions, a funding plan and other account and financial matters relating to the OPEB plan.

For the investment management service that is inclusive of the fees you would also normally pay to your investment consultant including asset allocation and policy development, asset managers and/or mutual funds, and custodian(s), PFM will send you an invoice on a monthly basis for all services based on the fee schedule below. The invoiced amount can even be deducted automatically from your custody account.

For all services (Advisory, Asset Management, and Custody)[4]:

First $5 million in assets………………………...1.00%

Second $5 million in assets……………………..0.85%

Next $10 million in assets………………………0.75%

Thereafter…………………………….................0.60%

Additional services available:

Corporate Trustee (US Bank)…………. $1,000 annually

Payment Services (if individual retirees receive checks):

- Checks - $2.50 per check
- ACH - $2.00 per ACH
- Wires - $10.00 per wire

[4] Includes investment policy development, asset allocation, regular monitoring and rebalancing, manager selection and monitoring, asset managed fees (expense ratios). Does not include taxes, other expenses including front- or back-end charges of an investment fund, fees and expenses of the client's independent auditors, actuaries and legal counsel, if any, insurance premiums and the keeping of books and records.